

## AZERBAIJAN

## Model of sustainability

**AS** a fast-growing economy that once supplied more than half the world's oil, Azerbaijan is building on recent macroeconomic reforms to actively pursue a sustainability agenda. Heralded as a "Top Reformer" in the World Bank's *Doing Business 2009* report, the former Soviet state has enjoyed unprecedented growth in recent years and is still considered one of the most important areas in the world for oil exploration and development.

Situated between Iran and Russia on the Caspian Sea, Azerbaijan has been ruled by President Ilham Aliyev since 2003. Boasting estimated reserves of some 7 billion barrels of crude, Azerbaijan is seen as one of the few non-OPEC countries capable of increasing its output significantly over the next few years.

**"Directing gas flow routes toward Europe will allow us to reach several goals, such as European integration and participation in the E.U."** Natiq Aliyev, Minister of Industry & Energy

According to the International Energy Agency, oil production more than quadrupled between 1997 and 2008 to 875,000 barrels per day and is slated to pump 1.2 million bpd in 2010.

Natural gas is also abundant, with estimated reserves of 30 trillion cubic feet, and the country has been in negotiations with both Turkey and Russia to build export pipelines for the output from its Shah Deniz natural gas field. "Azerbaijan is enjoying rapid growth in revenues from oil and gas, and this



Samir Sharifov  
Minister of Finance



Natiq Aliyev  
Minister of Industry  
and Energy



Misir Mardanov  
Minister of Education

will continue," says Natiq Aliyev, Minister of Industry and Energy. "Directing gas-flow routes toward Europe will enable Azerbaijan to reach several goals, such as European integration, participation in the European Union and getting access to political, economic and commercial issues."

The State Oil Company of Azerbaijan Republic (SOCAR) is responsible for producing oil and natural gas in the country, operating its two refineries, running the pipeline system, and managing oil and natural gas imports and exports.

SOCAR-AQS LLC. is a joint-venture company between SOCAR and the Absheron Drilling Company. The venture combines 160 years of drilling experience with access to advanced Western technology and management methods.

Now ready to internationalize, SOCAR-AQS is looking to integrate within this advanced industry using innovation. "When I arrived, the major challenge was building the right team where people share the same values and understand each other," says general director Ramin Isayev.

"We have learned a lot from Western countries coming to Azerbaijan, in terms of new technologies and methodologies. After undertaking several management-training courses in

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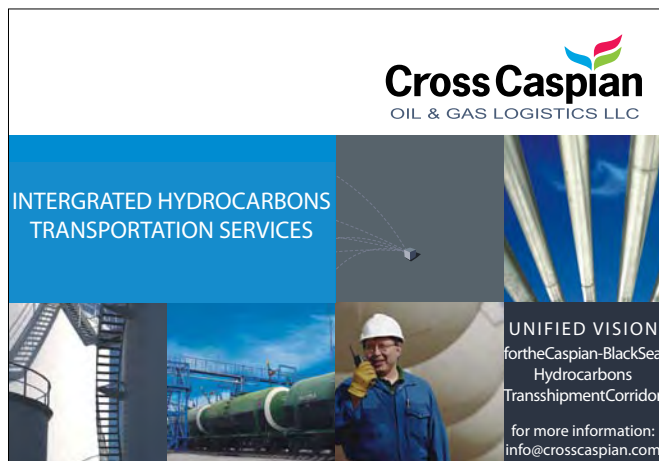
the U.K. and Norway, I understand that modernization is a must for staff qualifications, industrial safety and technologies. So, with a consulting group from the U.K., we have implemented three new international standards: for quality, and environmental and safety management systems."

SOCAR-AQS's vision is to create an advanced and technologically developed drilling entity in Azerbaijan. "Potential clients can feel secure choosing us as their drilling subcontractor," says Isayev. "SOCAR-AQS is ready to move toward the market in Azerbaijan and beyond its borders."

**"Potential clients can feel secure choosing us as their drilling subcontractor. SOCAR-AQS is ready to move toward the market in Azerbaijan and beyond."** Ramin Isayev, SOCAR-AQS

Meanwhile, privately owned Azerbaijan Methanol Company (AzMeCo) is leading the way in the development, implementation and financing of large projects in Azerbaijan. A dynamic company formed in 2007, AzMeCo boasts a portfolio of international hydrocarbon investments in the Caspian Basin, and is looking to invest in two major plants, one for methanol, and the other for ammonia, urea and formaldehyde.

With a business background earned in the U.S. and the Middle East, as well as in other CIS countries, AzMeCo's CEO Nasib Piriyev returned to his native Azerbaijan to develop a project that would help the local population and boost the economy. "After some preliminary monitoring, we found that metal production covers several industries, so project development in this field would help us keep all the methanol in the country and involve different regions," he says.



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CEO  
Bakcell



Abdolbari Goozal  
Chairman of the Board  
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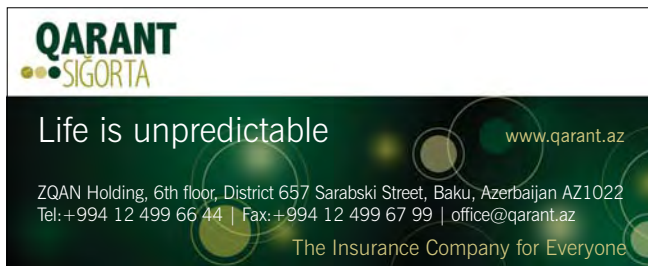
Elmar Mammadov  
Chairman of the Board  
Kapital Bank

A collaboration with the European Bank for Reconstruction and Development (EBRD) created a strong corporate culture for AzMeCo, whose business model has spread all over the country as an example to follow. "For the EBRD, it was the perfect opportunity to invest in a transparent company with social responsibility and personal development as part of its philosophy," the entrepreneur says.

Another SOCAR joint venture, the Cross Caspian Oil and Gas Logistics LLC, coordinates and provides integrated hydrocarbon transport services across the Caspian Sea to the Black Sea and the Baku-Tbilisi-Ceyhan (BTC) pipeline entry point via marine, pipeline and railway shipments. Capable of moving 1.2 million tons of crude and oil products a month, the company has played a crucial role in unifying the Kazakhstan-Georgian hydrocarbons transportation corridor.

"We take great pride in being actively involved in one of the most important business sectors for the local economy, with a leading role in facilitating large-scale investment in shipping and transshipment facilities in the region, thereby creating a secure future and job opportunities for the local communities," says general director Naila Mehrabova.

The Caspian Drilling Company Ltd. (CDC) began operating in 1996 through an agreement between SOCAR and Santa Fe Inc. and was the first joint venture to perform drilling services in the Caspian region. On June 30 last year, CDC acquired 45% of Santa Fe Inc. Operating to international standards, CDC is the main drilling contractor in 16 production-sharing agreements executed for the Azerbaijani oil and gas sector.



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"We are proud to be a national company in a highly competitive sector," says general manager Farid Akhundov.

Founded a decade ago, engineering firm ENCOTEC is a 100% Azeri company providing diverse services for the oil and gas sector, including design, consultancy, project management, installation, construction supervision and commissioning. Committed to strict safety and quality standards, the company's profile has risen exponentially in a country where professional engineering did not exist in 2000.

"To work successfully with foreign companies, we make sure our employees understand English and we keep learning," says Faik Rzayev, general director. "Our biggest advantage is diversification. We are very market-focused and understand the client's needs."

### ICT plays major role

Information and communication technology (ICT)—the country's second-largest sector after oil—has recently rocketed in Azerbaijan, boosting both the economy and the process of establishing an information society, according to the International Telecommunications Union.

Established in 1994, Bakcell is Azerbaijan's fastest-growing mobile operator in the country and a truly modern player in the telecommunications market. The first operator to provide mobile communications services in the country, and one of its largest investors, Bakcell's sophisticated network covers more than 95% of the population and 81% of the land area. Having invested more than U.S.\$200 million in the past 16 months alone, Bakcell aims to continue to deliver superior coverage, better customer care and the latest new mobile services.

The entrance of a new CEO in January 2009, followed by a highly successful new brand strategy based on the values

of national identity, customer care, value for money and constant innovation, and a new, eye-catching image, have seen Bakcell's market share grow from 23% to 34% in one and a half years.

"I have seen enormous growth in the company since I was appointed and am obviously very proud," says Bakcell CEO Ineke Botter from the Netherlands. "Our customer base has increased from 1.3 million active subscribers to more than 2 million that use our services daily. To make this happen, I had to reorganize the company and introduce a new way of working. We now have a large training center for employees where we can train up to 120 staff per day. And we have set ourselves a new target of 2.5 million active subscribers in 2011."

With its "Get Closer" philosophy, Bakcell's 1,000 employees are providing exceptional customer services that drive its formidable reputation for the corporate social responsibility programs. As well as developing the Bakcell Stars charity to help children in need, Bakcell has signed agreements with international organizations such as Save the Children, SOS Children's Villages, United Aid for Azerbaijan and social services initiatives to support educational projects throughout the year. "We are currently developing convergent service platforms in various areas to become the nation's top telecoms provider," Ms. Botter says.

Exciting things are happening in manufacturing too. Azersun Holding, a market leader in food production, retail and farming, has flourished in recent years, demonstrating the country's successful shift toward a sustainable economy.

Owned by chairman Abdolbari Goozal, the group is committed to consistent investment, expansion and improvement of its installations. "Azersun is present in all growth sectors,"



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Goozal says. "We conform to the highest international standards and are committed to excellence and superior quality. We know how to do business locally. Azerbaijan is transforming itself from an importer into an exporter. As a good example of this, our Imishli Sugar Factory will reduce the country's need for [imported] sugar and export the excess production."

Goozal, a philanthropist who came to Azerbaijan in the early '90s from Turkey, where he set up the Intersun Group of

country moving, with activities in construction and the repair of motorways and runways, as well as the production of road-construction materials. Since its first day of operation in 1995, Az Virt has maintained a reputation as one of Azerbaijan's most reliable companies through its professionalism, experience and use of technology. Director Kamil Aliyev says: "We employ around 800 people, among them specialists in road building from Germany and Turkey."

**"Foreign investors need to come with a long-term perspective, high technology and innovation in their business."** Abdolbari Goozal, Chairman, Azersun

Companies, says: "[Former president of Azerbaijan] Heydar Aliyev asked me personally to build factories and create work for the people, as he knew my business was socially oriented. I brought new technologies and introduced social support to the employees. We are building up the Made in Azerbaijan brand and will soon be growing sustainable products only."

His advice to foreign investors is to think about the long-term perspective. "They need to come with high-technology, and they need to bring innovation to their business," he says.

Meanwhile, infrastructure expert Az Virt is keeping the

**Finance sector grows exponentially**

Azerbaijan's financial sector is also growing exponentially. In January 2009, the government embarked on an ambitious reform program with the World Bank and the International Monetary Fund to privatize state banks and consolidate the private sector, while enhancing the regulatory and supervisory role of the National Bank of Azerbaijan.

Nowadays, international financial organizations are participating in the sector's expansion, with new banking laws in place that are pertinent to the European Union Directives on Banking Activity and the Basel supervision standards.

"Azerbaijan needs to strengthen its relations with the U.K.," says Minister of Finance Samir Sharifov. "The adoption of new banking laws means we now have a legal basis established for corporate governance of banks in line with international



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standards."

Having demonstrated unprecedented growth since it was fully privatized in 2008, Kapital Bank is leading the way in the modernization process, with state-of-the-art banking software and SMS payment services. Internet banking will be coming on stream any day.

"Being the largest bank in regards to the international plastic-cards business, and holding more than 50% of the market share in this field, we installed our own in-house processing center this year, which has allowed us to bring new, innovative products to the market," says Elmar Mammadov, chairman of the board of Kapital Bank.

"We maintain the highest liquidity in the market of more than 50% against the 30% norm set by Central Bank. We pay special attention to risk-management practices. We have a wide network of correspondent banks and actively develop trade-financing operations, with credit lines extended by foreign banks for these purposes.

"What makes our bank a reliable and attractive business partner for foreign companies is our strong financial posi-

skilled and well-trained work base, Minister of Education Misir Mardanov is keen to improve international partnerships between Azeri institutions and those abroad, especially in London.

One of the first universities to incorporate English as its main language, Khazar University was established in 1991 and prides itself on close links with industry, having established effective relations with the leading local and international companies. "Khazar University was a pioneer of change in the country, not only for the education sector, but also for the democratization of Azerbaijan," says the esteemed founder and president Hamlet Isaxanli.

And celebrating its 90th anniversary this year, Azerbaijan State Oil Academy was the first higher-education facility dedicated to oil in both Europe and Asia. It has been credited with pioneering developments in oil-exploration and -drilling methods, and enjoys bilateral cooperation with 28 similar establishments worldwide. Rector Siyavush Garayev says: "We are actively working to adapt our curriculum to Western standards."

**"What makes our bank a reliable and attractive business partner for foreign companies is our strong financial position, prudent banking practices and a well established banking infrastructure."** Elmar Mammadov, Chairman, Kapital Bank

tion, prudent banking practices and a well-established infrastructure."

Specializing in retail and SME lending, the Bank of Baku conducts transactions with around 50 banks worldwide. "We remain flexible, and every quarter monitor the market and create another new product to meet the customer's needs," says Jalal Gasimov, chairman of the executive board.

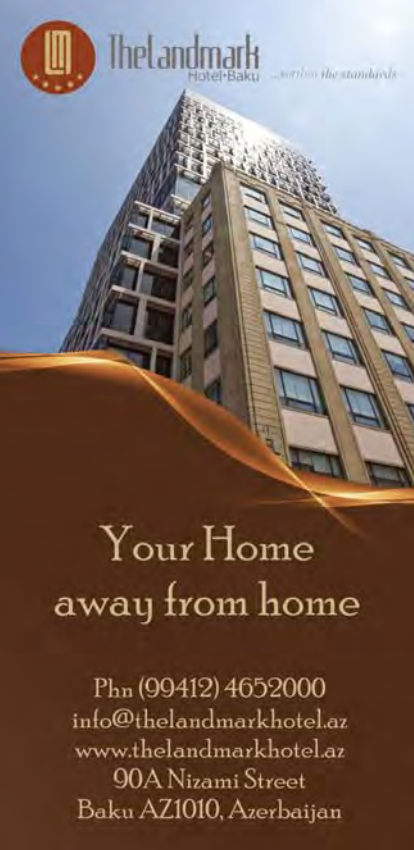
Operating since November 2007, universal insurance provider Qarant Sigorta is a young company with mature ambitions. "With the support of our holding company, ZQAN Holding, and the experience of our team, we will soon be one of the leading insurance companies," says chairman of the supervisory board, Elnur Abdullayev.

Placing an emphasis on growing a

Founded in 1930, Azerbaijan State Economic University (ASEU) is one of the biggest educational institutions in the region, with more than 14 faculties and over 16,000 students, including about 650 foreign nationals.

According to rector Shamsaddin Hajiev, ASEU, which offers around 60 specialties, has worked hard to bring standards up to world-class levels and would like to be known as one of the best universities in Europe.

"European standards are the best in the world education system, and ours is the most important education system in the country," he says. "Our main strategic plan is to be innovative in the research of education. The formation of human capital is very important."



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