

Azerbaijan

▶▶▶ QUICK LEARNERS, THOSE AZERI BANKS. FUNCTIONING IN A STATE-CONTROLLED ECONOMY FOR MOST OF THE LAST CENTURY, IT HAS TAKEN THEM JUST A DECADE TO REGISTER TYPICAL ASSET GROWTH OF OVER 30%. THAT IS 5% LESS THAN THE COUNTRY'S GROWTH AS A WHOLE AS AZERI OIL REVENUES DRIVE THE NON-OIL ECONOMY

Banking vision for the oil boom

IT HAS GDP growth rates of 35 percent and its Caspian petrodollars are going straight into the coffers of the banking system. After 15 years of economic transition, its non-oil sector has grown to represent almost half of the country's output. Suddenly, SMEs have found an ideal business ally in domestic banks. What country is it? Azerbaijan.

In Azerbaijan, the state was sole economic agent for much of the 20th century. To a large extent, it continued to regulate the market well into the 1990s. In order to further economic diversification, the banking system has had to

change old habits. Muslum Mursalov, the Chairman of the Board at the Bank of Azerbaijan has not had an easy ride since taking over in 2007. Set up in 1993, his institution has had to break with the 70-year cycle of command economies. But then, it took Western Europe 300 years for laissez-faire principles to go mainstream.

"Banking legislation was changed twice, first in 1996 and later in 2004. The participation of foreign capital was limited, in part as a measure against inflation," says Mursalov. Initially, strict banking policies in Azerbaijan were meant to preserve local competitiveness. By 2007, Mursalov says sound management and robust shareholders had managed to keep domestic banks afloat. Assets at the Bank of Azerbaijan, for example, grew \$80 million in 2006, or 30 percent year-on-year. "We work closely with the Entrepreneurs' Association, the Mortgage Fund and the Agriculture Department. Also, thanks to

advertising and the sponsorship of a television show, our deposits grew by 3 million," says Mursalov.

Today, the Bank of Azerbaijan is a proven economic agent in its own right. Mursalov says the millions invested in factories serve to open up new areas of activity. The Bank of Azerbaijan has sunk money into canneries, bus stations and infrastructure. With 16 branches, 5 of which are located in the regions, Mursalov reaches deep into the local SME tissue. "These branches play an important role in the development of regional economies. In Nakhichevan, we've invested more than \$11 million in tobacco factories. Cigarettes are then exported to countries like Turkey and Iran," says Mursalov.

Armed with ISO quality certification, the Bank of Azerbaijan has begun to strategize for the future. The plan involves selling shares to foreign banks which will help send staff abroad for training. Strengthening its foreign exchange operations is crucial for Mursalov. So far, BNP Paribas is eyeing the possibility of a link-up. "Foreigners don't know the country very well and perceive the region as underdeveloped. Selling shares to a foreign bank makes local banking easier. Initially, BNP Paribas will be opening credit lines valued at \$5 million," comments Mursalov. That may not be enough for large-scale projects



MUSLUM MURSALOV
Chairman of the Board,
Bank of Azerbaijan

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The Bank of Azerbaijan grew \$80 million in 2006, and is investing heavily in the Azeri economy.

like the Baku-Tbilisi-Kars railway. "We need to raise our capital by \$50 million by end-2007," he adds.

Led by the Bank of Azerbaijan, the number of deposit-taking institutions has shrunk by 5 to a little over 40. Officials now think the figure will drop to 20 institutions in a few years. In terms of territorial coverage, Kapital Bank is the uncontested leader. Since its well-pub-

licized restructuring of 2004, assets and equity have grown 350 percent. Kapital Bank is one of three banks in Azerbaijan with international ratings. According to Moody's, it is just one notch down from Azerbaijan's sovereign ratings. Behind the robust figures is a dedicated team of professionals. Rauf Rzayev, the Chairman of the Board, thinks his bank has great potential.

"Kapital Bank had all the prerequisites to succeed. We had to change practically every aspect of the way we worked, bringing our standards up to international best practices. We now have more than 18,000 corporate customers and 4 million depositors," says Rzayev. The World Bank opened a credit line for the implementation of Flex-Cube software. Introducing the new IT system took less than a year, when the usual time period is between two and four years. "We couldn't afford a lengthy period of implementation as we needed to catch up with increased market demand," says Rzayev.

As Azeri banks go global, the non-oil economy will gain more traction. Modernization has many paths. Kapital Bank is still proud about its quick upgrading of the state pension payment system, switching to plastic cards in less than two years. "Our mission is to be a bank of national importance and our credo states that we will play an active role in the execution of state projects," says Rzayev.

Sinam: "It's our business"

DIGITAL networks can help reposition Azerbaijan globally. Innovating in the ICT sector is thus a priority for the government in Baku. Like in other emerging markets in the region, ICT represents a major segment of the non-oil economy. Annual growth in Azerbaijan, according to the Ministry of Communications and IT, has been about 35 percent.

"This is an ideal location for ICT firms that are interested in expanding their business in the Caspian," says Ali Abbasov, Minister of Communications. The creation of a Caspian International University of IT will help consolidate the trend. Abbasov also plans to open high-tech parks and R&D centers. Most projects are implemented according to public-private partnerships, a model supported by the World Bank. But is Azerbaijan a profitable market for telecom investments?

The engineering team at Sinam Ltd. seems to think so. Founded in 1994, Azerbaijan's leading ICT firm is a specialist in turnkey solutions. Sinam develops its own software, creates the architecture for corporate data networks and maintains databases. As part of its general consulting services, it also provides companies with broadband Internet. So far, clients in the public sector include the State Customs Committee, the National Bank, the State Pension Fund and the Ministry of ICT itself.

"We're now preparing an electronic brokerage system that will allow companies to declare their goods without going through customs," says company



ELCHIN ALIYEV
President of Sinam

president Elchin Aliyev. In a country with a long legacy of Soviet bureaucracy, the developers at Sinam have managed to shake things up. "Once people see the first results, they will go for it," he adds.

Not surprisingly, the corporate slogan is "IT is our business." Sinam uses local university labs and institutes to test its applications, illustrating an important cross-fertilization between business and science. "Our company has helped design an efficient model for high-tech parks and business incubators. We are hoping to go ahead with these projects together with the National Academy of Sciences and the Institute of Cybernetics," comments Aliyev.

EVSEN GROUP OF COMPANIES

Assembly lines for Azerbaijan

Evsen's dynamic president, Ali Evsen, is taking the country by storm, manufacturing everything from cars to TVs and carpets

TIMES have indeed changed in Azerbaijan if mobile phones are considered indispensable. With the Caspian's oil boom, regional demand for consumer products has skyrocketed. By negotiating agreements with multinationals, Ali Evsen has single-handedly jumpstarted a new brand of domestic assembly plants. The president of the Evsen Group is in charge of factories that assemble everything from mobile handsets to refrigerators, vacuum cleaners, TV sets and air conditioners. Eventually, he will capture a piece of the GDP pie and shift attention away from oil.

Evsen is a native of Adana, in southern Turkey. But he implanted his trading business in Azerbaijan in 1990. A graduate of Baku State University, he has a strong affinity with his adopted country—and especially with its private sector. Part of the corporate ethos at the Evsen Group is having fun at the workplace. The staff of 3,000 is taught core values like career growth, continuing education, creativity and risk-taking behavior for upper management. The ultimate goal, according to Evsen, is to realign the interests of Azeri producers and consumers. Eventually, ICT and automotive industries will take

advantage of Azerbaijan's fiscal incentives, he says.

Since 1993, the Evsen Group imports technological inputs from China, Japan, Italy and the US. Then it reassembles a full range of consumer goods and electronics on Azeri soil. The Star plant in Shamakhi, for example, consists of 35,500 square meters of factory space and provides 200 local jobs.

The Group's AzSamand automobile plant, also based in Shamakhi, sells to emerging markets in nearby CIS countries and Iran. Outfitted with a Peugeot 405 engine, the AzSamand brand is one of the fastest-growing Azeri exports. Evsen has also worked out a partnership with Lenovo Computers to assemble CPUs in Azerbaijan.

By taking industry to rural areas, Evsen has come up with his own economic model. Traditional carpet weaving is not left by the wayside either. The Evsen factory employs 100 workers, most of whom are women, to revive a craft that has almost been forgotten. Aside from its industrial assets, the Group also operates the Elite Shopping and Entertainment Complex in Baku, a mall that includes supermarkets, fitness centers and high-end stores. Since 1998, the Evsen Group has a license from the Ministry of Finance to operate the StarAl-

liance insurance company. The Baku-based insurer has hired internationally, claims Evsen.

"The world is changing and people are getting closer to one another. At the Group, we have a development program through 2020. Each consecutive year has been planned out," comments Evsen. The masterplan is to keep expanding into high-tech, car-making and trade services. By end-2007, operations will begin at an electricity plant built by MIDEA, a joint-venture between US and Japanese firms. No matter what industry it is involved in, the Evsen Group is careful to add a social component. "It's like driving a car on or off the road. If you feel responsible toward your country, there is hope for the future," says Evsen.

Aside from Azerbaijan's stability, the Group's competitive advantages include the potential for expansion in the sub-region. From 1995 to 1999, the partnership with Renault led to additional contracts in neighboring countries. The Evsen Group is particularly proud of its modern outlook. The company structure is a reassuring factor for first time foreign investors. "We believe we are being useful to Azerbaijan by guiding and advising foreign companies willing to invest here," says Evsen.



ALI EVSEN
President of Evsen Group
of Companies



A Bank for Azerbaijan and Its People

Kapital Bank is Azerbaijan's second largest bank and it is the oldest. It is leading the way in modernization among the banking and financial sectors. At Kapital Bank, we aim to offer our customers the best and the most convenient services. Both Moody's and Fitch Ratings have assigned Kapital Bank positive and stable ratings, giving us the recognition in the international arena. In our attempt to serve not only our customers but also Azerbaijan, we strongly support programs for regional development through the consolidation of our internal resources and branches as well as through financing nationwide projects. Kapital Bank is a modern and solid financial institution that is helping launch Azerbaijan into a brighter and more stable future. We will become your reliable partner in Azerbaijan.



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AZERSUN HOLDING

Seeding the non-oil economy

The rich Azeri countryside boasts a bountiful harvest that has righted the country's economy

LONG considered a purveyor of fruits and vegetables, Azerbaijan had never taken agribusiness seriously. That changed dramatically with the collapse of the Soviet Union in 1991. During the worst of the post-Soviet crisis, Azersun Holding helped instill new confidence in the Azeri countryside. Today, with over 3,000 employees, it is one of the main players in the non-oil economy—even though vegetable oil is one of its star products.

"When I came to Azerbaijan, the entire system had broken down and there was no economy," says Abdolbari Goozal, the group's president. During the first half of the 1990s, Azeri GDP contracted by 58 percent. Paying for factories in cash, Goozal opened the country's first food processing factories. By branching into tea and vegetable oils, he gradually helped dismantle psy-

chological barriers. The Azersun manufacturing units were some of the first to obtain ISO 9000, ISO 14001 and ISO 18001 certification. "My character is that I always seek the best. I believe quality is our life-line," says Goozal.

Azersun currently runs two cannery operations and opened its first sugar mill at Imishli. A US-based company, Valmont, provided it with machinery and know-how. Part of the 7,000-hectare Imishli operation involves changing local mindsets. Tractors and seeds are provided for free to entrepreneurial smallholders in exchange for future profits. Together with foreign partners like Unilever, Goozal is convinced that Azerbaijan will become a regional powerhouse in foodstuffs. "As a businessman, you need to understand the responsibility to your country and the environment," says Goozal.

But reviving agribusiness at a time of sky-high oil prices is no easy task. Minister of Agriculture Ismat Abasov likes to think of it as a key tool in economic diversification. There are 22 international programs involved in refloating agribusiness, including

the World Bank and the European Commission. After all, about 48.5 percent of the population lives in rural areas and the sector employs 39 percent of the labor force. "More than 100 laws, decrees and regulations related to agriculture were adopted between 1995 and 2004," says Abasov. Today, farmers are tax-exempt through January 2009. Technological inputs, as well as seeds, can be imported duty-free.

With land reform, about 99.7 percent of agricultural production is now in private hands. As prices become liberalized, Azersun Holding will begin to carve a niche in global markets. Goozal's tea products have so far garnered 16 medals at international competitions, finishing far ahead of traditional tea exporters like India and Sri Lanka. Because of his focus on quality, technology underlies the group's success. Setting up a consortium with multinational food companies is Goozal's next ambition. "We've already started working with companies in Singapore and Malaysia. In the future, we hope to work with European and North American firms," he says.



AZERSUN HOLDING
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Responsible Business in Action

Sugar production - Trade and distribution - Cardboard production - Tea processing and packaging - Preserved meat and vegetable production - Vegetable oil production and packaging - Metal packaging production - Hazelnut processing - Cube sugar production