

Delegation of Azerbaijan

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Session B 1  
Supporting Entrepreneurship as a  
Means of Economic Empowerment

## INVESTMENT OPPORTUNITIES IN AZERBAIJAN: OIL AND NON-OIL SECTORS DEVELOPMENT PROSPECTS

In the history of Azerbaijan the 20<sup>th</sup> century is the period of radical change in the cultural, political, social and economic life. Azerbaijan had declared its first independence on May 1918 but this independence was short-lived. The collapse of the Soviet Union in 1991 marked a new stage in the history of Azerbaijan: the country restored its independence and embarked upon a challenging process of democracy building and social-economic transformation.

Azerbaijan is on the way to become a full-fledged member of the world economy regardless of problems related to transition from the centrally-planned to a market economy and from the totalitarian communist system to a democratic society. These problems, encompassing all spheres of social life, are typical for all countries of the former Socialist Bloc.

Despite difficulties of transitional nature and serious consequences of the continued Armenian occupation, as a result of which more than million of Azerbaijanis became refugees and internally displaced persons (IDPs), Azerbaijan has achieved to become one of the most successful among the NIS countries in terms of political and economic stability.

Since restoration of its independence in 1991 Azerbaijan has been steadily moving towards creation of a market economy and society based on democratic principles. As a result of market reforms that have been introduced over the past few years, Azerbaijan has achieved considerable progress in economic performance and attraction of foreign investments.

**MACROECONOMIC DEVELOPMENT.** Since 1996, the economic decline has been stopped and an upward trend of the GDP growth is currently under way. In 1996 the real GDP growth was 1.3 %; it reached 5.8% in 1997, 10 % in 1998, 7.4 % in 1999, 11.4 % in 2000, 9.9 % in 2001, 10.6% in 2002 and 11.2% in 2003. GDP per capita equalled \$714.3 in 2001, \$756 in 2002 and \$879 in 2003. The share of private sector in GDP has considerably increased and reached 75% in 2003.

During previous years the government was successful in retaining a relatively low rate of inflation. Constituting 1600 % in 1994 it was decreased to 3% and currently remains stable. Currently, the ratio of the country's budget deficit to GDP is **1.8 %**.

Foreign currency reserves, including the assets of the recently established Oil Fund, exceed \$1.3 bln, which in its turn equals to the country's import for a term of 6-7 months.

**INVESTMENT OPPORTUNITIES.** Azerbaijan's economy is diversified and offers promising prospects for future investors in oil and gas production, oil-refining, engineering, metallurgy, chemical, petrochemical, light and food industries, construction, agriculture (cotton, tea, tobacco, silk worms, vine-growing, vegetables, fruits) and other sectors. Besides, rich reserves of iron ore, zinc ore, molybdenum ore, alunite, rock salt, gypsum, limestone, bitumen, clay and marble are used in industrial exploitation.

In the international division of labour, Azerbaijan has a proven track record of oil extraction and refining, chemical, electro-mechanical industries, oil engineering and machine building, ferrous and non-ferrous metallurgy industries, production of building materials, light and food industries. More than half of the **GDP** derives from industry, 70% of which is concentrated on the Apsheron peninsula and consists of oil and oil refining industries, chemical, electro-technical, engineering, ferrous metallurgy.

Azerbaijan has been steadily moving towards creation of a market economy with a strong emphasis on economic liberalisation and private sector development. A legal framework existing in the country provides good incentives for foreign investors. From 1992 to present the Parliament (Milli Mejlis) of Azerbaijan adopted a great number of top-priority laws, which regulate the reforms in economy and include Law on *Protection of Foreign Investments, Property Law, Law on Land Reform, Law on Privatization of State Property, Law on Joint-Stock Companies, Law on Entrepreneurial Activity, Law on Bankruptcy, Law on Securities and Stock Exchange, Tau Code, Customs Code* etc. The next State Investment Program is being elaborated, with two similar programs successfully implemented for a period of 1997-1999 and 1998-2000.

In addition to this, in order to stimulate the growth in banking sector in terms of foreign commercial presence, the Government went as far as deciding to eliminate the 50% foreign capital limit in bank stake. The Government has already made it clear to foreign investors that International Bank of Azerbaijan and BUSBank would soon be opened for privatisation. Also important is the fact that our banking sector has recently started to experience a series of mergers, All these made to facilitate foreign investment activity in Azerbaijan.

The most recent development on the side of the government in creating a reliable investment climate is the so-called "Package of Four Presidential Decrees", which calls for the establishment of the Council of (both local and foreign) Entrepreneurs, the National Fund for Entrepreneurship Development, the State Programme on Small & Medium Enterprises Development, the Additional Measures in the Area of State Support to Business Development, and the Prevention of Interferences Impeding the Development of Entrepreneurship.

A considerable step towards a progressive administrative reform and separation of policy from commercial functions have been made with a number of ministries amalgamated and new ministries established.

The Government of Azerbaijan continues to make every effort to ensure the environment conducive to acceleration of the investment process in the country. According to the 1994-2003 figures, approximately \$17 bln. were invested in the country's economy, \$12 bln. of them being foreign investments. These figures suggest a good economic performance of a country with a relatively small population. Main part of foreign investments is concentrated in the energy sector.

**ENERGY SECTOR.** Azerbaijan has a unique history of the petroleum industry. It is a well-known fact that oil has been produced by industrial methods in Azerbaijan for about 150 years. By 1911, a half of the world oil had been produced in Azerbaijan. The most critical factor that accelerated a dynamic development of the petroleum industry was an active involvement of both local and foreign manufactures and investors in all phases of exploration, recovery, transportation, refinery and marketing of oil and oil products. It is worth recollecting the names of oil producers and oil companies *that* operated in the Azerbaijan market, such as Nobel Brothers and their famous "The Nobel Brother's Partnership", Shell Transport and then Royal Dutch Shell, the Rotshields's Bank House and some others. The contribution of Azeri oil producers such as Tagiyev, Assadullayev, Nagiyev, Mukhtarov and many others was also of great importance for the development of the petroleum industry in Azerbaijan. Natural

course of historical development was broken of by the 1917-1920 events crowned with the establishment of the Soviet regime in Azerbaijan and continued until the state independence was regained in early 1990.

Today, Azerbaijan is open again for a mutually beneficial collaboration. The attraction of foreign investments in energy sector that constitutes the cornerstone of the country's economy has a special importance. Since 1994, the Republic of Azerbaijan has concluded 21 agreements on development of hydrocarbon resources of the country with participation of 33 companies from 15 states; in 30 years to come, foreign investments in the oil and gas sector will total approximately \$60 bln. The volume of the extracted oil will reach 40-45 mln. tons in 2010-2015. In the coming 5 years only, some \$10 bln. will be invested in the energy sector.

Azerbaijan is an important link in growing business of a number of the world's leading energy companies (BP Amoco plc., ExxonMobil, ChevronTexaco, ElfTotalFina and etc.) in the Caspian region. On September 20, 1994 the "Contract of the Century" was signed, marking the wide-scaled opening up of the Caspian depths in the oil fields of "Azeri", "Chirag" and "Guneshli". Henceforth, the anniversary of this event has been celebrated as the oil industry workers' day each year.

Construction of Main Export Pipeline (MEP) of Baku-Tbilisi-Ceyhan which will bind the country with partnership ties with Georgia and Turkey, will open the access of the Caspian oil to the Black and Mediterranean Seas. This project received the exotic name of "the Legend of Three Seas". Nevertheless, today this legend is by right becoming reality. Azerbaijan, along with partners, also exports crude oil through other three channels — namely, the Baku-Novorossiysk (Russia) pipeline, the Baku-Supsa (Georgia) pipeline, and the Baku-Batumi (Georgia) railway.

Likewise, the Government also pushes towards another mega-project of the South Caucasian Gas Pipeline, which, once in full operation, will enable Azerbaijan and its partners to market the Caspian natural gas in Turkish and other European markets. All in one would constitute a healthy regional energy infrastructure, which in its most candid manner will propel the regional economy into further integration with international economy.

The length of the Baku-Tbilisi-Ceyhan MEP makes up 1760 kilometres, 1070 km of which will be laid in the territory of Turkey. The cost of MEP is estimated about \$3 bln. The energy corridor of the East-West will act a catalyst for new investments in the region, will strengthen the energy security in the world as a whole, and will assist the integration of the countries of the Caspian in the world economy. The measures of overall safety, a peaceful way of development, the ideology of friendship and cooperation, undoubtedly, will raise the prestige of the Republic of Azerbaijan in a global scale. In the process of development of hydrocarbon resources of the country actively participate the United States of America, Great Britain, Norway, France, Italy and other countries.

AGRICULTURE constitutes an important part of the country's economy and accounts for 20% of the GDP. Azerbaijan is specialized in the cultivation of vegetables, fruit, cotton, tobacco, subtropical cultures, silkworm and sheep breeding. Land privatization has fostered establishment of farms throughout the country. Presently, 34129 rural farms, 182 production co-operative societies, 458 small enterprises and 1757 collective enterprises operate in the country. As a result of these reforms the crisis in the agrarian sector has been overcome. This process ensures the speed-up of the growth of agricultural output. The Government closely cooperates with the UN Food and Agricultural Organization (FAO), the World Bank's International Fund on Agricultural Development (IFAD) and the EU's TACIS Program on the issues of agricultural restructuring.

Equally important is the progress achieved in the development of **INFORMATION COMMUNICATION TECHNOLOGIES (ICT)** deemed to be one of the core priorities of Azerbaijan's economic development agenda.

The level of application of ICT is known to be one of main indicators of a country's intellectual and scientific potential as well as democracy and transparency of state governance. The importance of electronic commerce in the world markets is predetermined by increasing dependence of competitiveness of countries on their efficient use of ICT. Global experience shows that broad use of ICT serves for the purpose of fostering overall development of countries and these technologies are effective means in attaining poverty reduction and addressing socio-economic problems.

Concrete steps in use of ICT have been recently taken in the Republic of Azerbaijan. The **National Information and Communication Technologies Strategy for Development of the Republic of Azerbaijan for 2003-2012** was adopted early in 2003. Azerbaijan closely cooperates with a number of international organizations, including UNDP and International Trade Centre, jointly established by UNCTAD and WTO, on successful implementation of the Strategy.

Furthermore, highly skilled human resources of Azerbaijan, combined with the country's good economic performance, offer high prospects for the development ICT sector in the country.

Azerbaijan has also a great potential for developing the **TOURISM INDUSTRY**. Favourably located between Europe and Asia, in the heart of the Trans-Caucasian transport corridor, Azerbaijan has unique natural and climatic features. Due to relief diversity and sea factor, 9 of 11 climatic zones with rich flora and fauna are represented here: from subtropical to alpine meadows.

More than 1000 rivers flow through the country. Kura is the longest river. All rivers of the country flow into the Caspian Sea. River water is used for irrigation and fishery. Azerbaijan is renowned for its numerous mineral waters. The most well-known springs are Istisu, Turshsu and Badamly. There are no big lakes in Azerbaijan but the number of small lakes reaches 250. The mountainous lakes are of tectonic, glacier origin or man made. The most famous among them are Göygöl (at 1556m height.), Major and Minor Alagöl lakes (at 2730m. height). Recreation centres such as Hajikend, Azad, Chaykend, Aghsu and resorts such as Chukhuryurd attract tourists from abroad.

There are more than 6 thousand architectural monuments of historical importance preserved in the territory of Azerbaijan among which one can name a unique museum-reservation "Gobustan", the fire-worshippers' temple "Ateshgah", the Palace of Shirvanshakhs, the Maiden's Tower. Furthermore, ancient cities, fortresses, palaces, mausoleums, mosques, "karavansarays" (guest houses) represent interest form both scientific and tourist point of view. Cultural traditions and delicious national cuisine of Azerbaijan are famous among foreigners.

The development of tourism in Azerbaijan takes on special significance. Participation of Azerbaijani companies in international and domestic tourist fairs, reconstruction and restoration of tourist infrastructure, development of hotels industry etc. are important tools for fostering development of the sector.

Azerbaijan actively contributes to development of international cooperation in the field of tourism and has become a member of the World Tourism Organization.

Given the country's potential in development of tourism, the **State Program on Development of Tourism for 2002-2005** was adopted in 2002. Furthermore, the elaboration of the Strategy of Tourism Development in Azerbaijan for 2003 – 2020 is envisaged.

Recent adoption of the **State Program on Poverty Reduction and Economic Development for 2003-2005** and **State Programme on Social-Economic Development of Regions of Azerbaijan for 2004-2008** are a challenging endeavour undertaken by the Government in order to ensure social protection of population and stimulate economic growth.

**PRIVATIZATION PROCESS**, Another important step of the Government geared towards establishment of self-regulated market economy based on private ownership and free competition is the Program of State Property Privatization.

The first stage of the Program was carried out guided with the principles of transforming the state-owned small and medium-sized enterprises into joint-stock companies and their subsequent privatization. The second stage of the Program became effective since August 10, 2000. There are 7 sale methods envisaged by the Program. The Decree on privatization of enterprises in industries such as telecommunications, airways, fuel and energy, machinery, chemical industry and other legal acts signed by the President of the Republic of Azerbaijan for the last several years, stipulate privatization of state shares of nearly 450 enterprises and 21 joint ventures. These decrees are aimed at attraction of investments to achieve efficiency of the privatised enterprises, produce competitive goods and create new jobs.

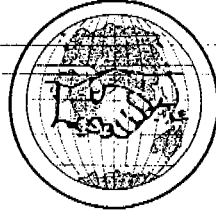
The decision to authorize public offering of enterprises by means of individual projects and investment bids as well as to ensure equal opportunities for participation of foreign and local investors in privatization is therefore crucial.

**INTERNATIONAL ECONOMIC COOPERATION**. The present stage of the world development is increasingly characterised by globalization and regionalization trends. Azerbaijan exerts all efforts to make its contribution to these processes.

Azerbaijan is a member of more than twenty international economic organisations and has observer status at the World Trade Organization. The Republic of Azerbaijan is striving to become a full-fledged member of the WTO and is convinced that this membership under the favourable conditions will give a strong impetus to efficient integration into the world economy and will promote further economic growth.

Using its advantageous geo-strategic location, rich natural potential and human resources, Azerbaijan is actively engaged in a number of international undertakings such as restoration of the Great Silk Road, creation of the EU-sponsored Europe-Caucasus-Asia transport corridor (TRACECA), the Secretariat of which is based in Baku, and the further development and transportation of hydrocarbon resources of the Caspian Sea to the world markets.

Strong efforts of the Government of the Republic of Azerbaijan to ensure the environment favourable for investors, both foreign and domestic, continue. Hence, the doors of Azerbaijan are open both to local entrepreneurs and foreign investors to reap the full benefits of FDI for both sides.



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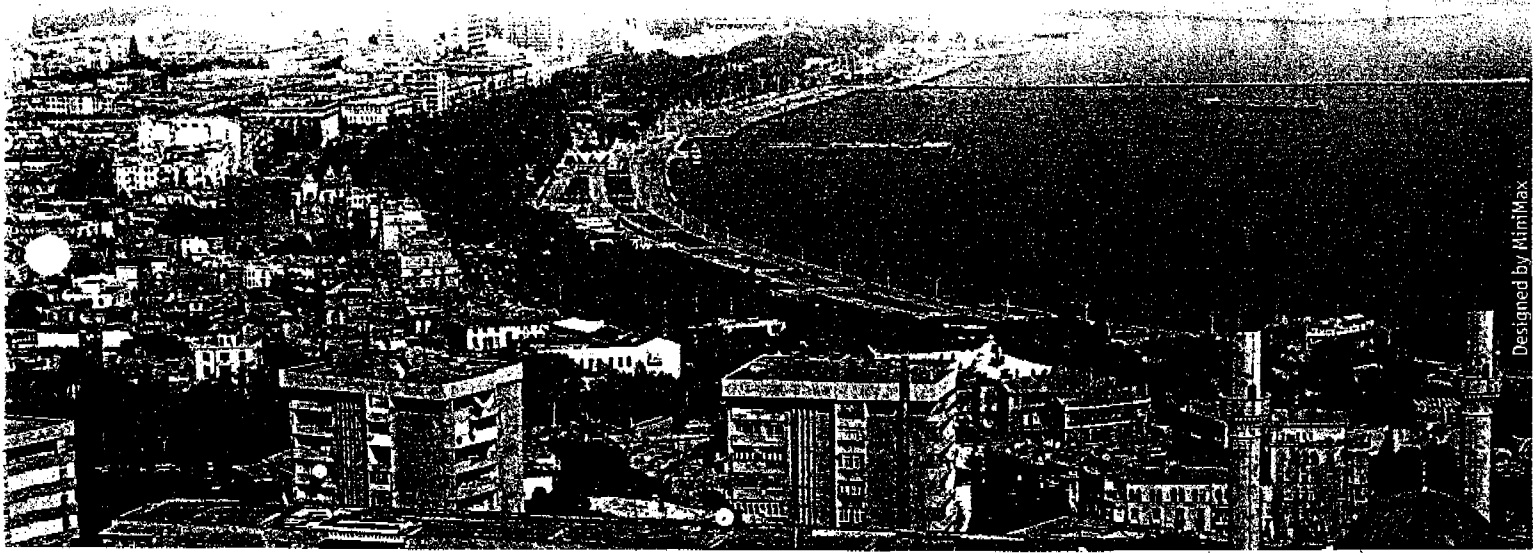
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