

Azerbaijan's Sovereign Wealth Fund – State Oil Fund of the Republic of Azerbaijan

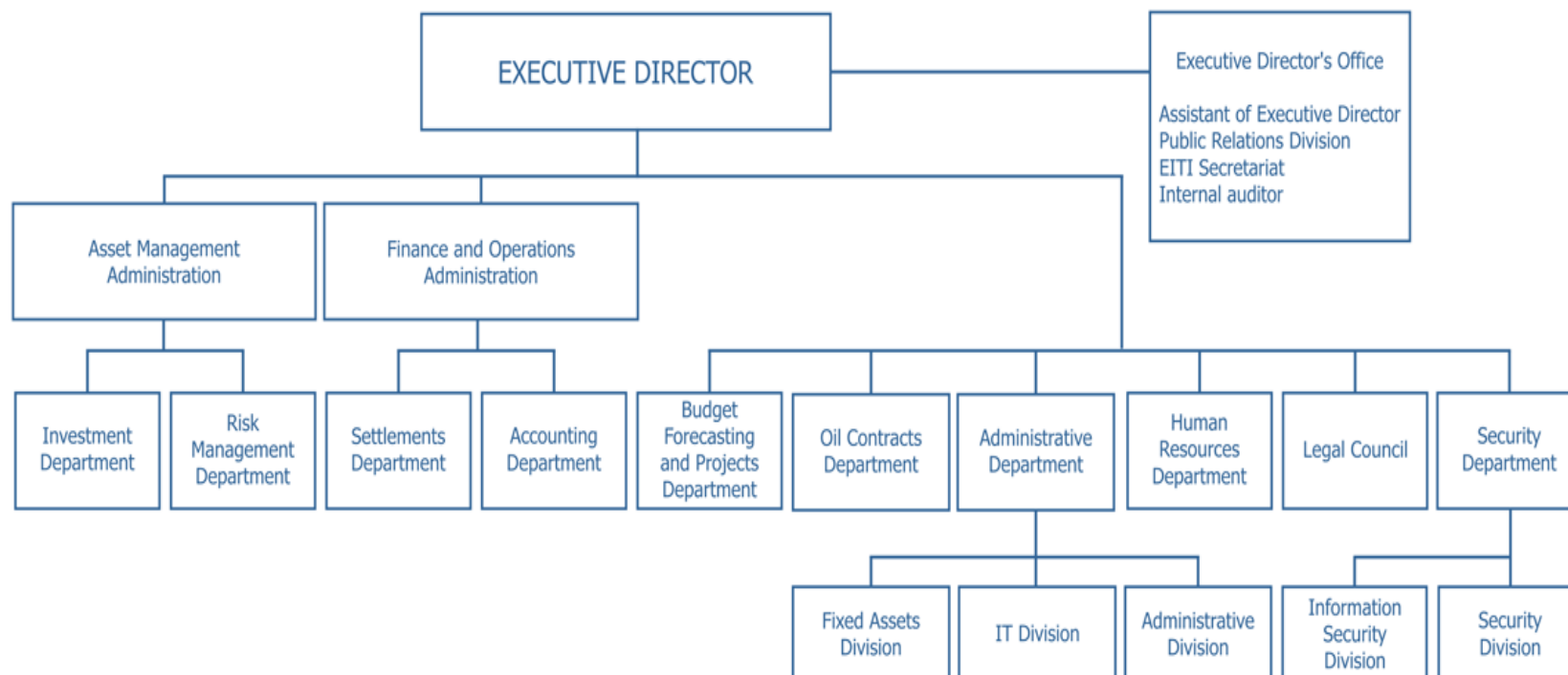
Israfil Mammadov
Chief Investment Officer
State Oil Fund of Azerbaijan

Establishment of State Oil Fund of Azerbaijan (SOFAZ)

- *December 1999 - Decree of President Heydar Aliyev*
- *Main features:*
 - *Sovereign Wealth Fund*
 - *Extra budgetary government institution*
 - *Separate legal entity*
 - *Present & future generations' Fund*

Organizational Structure

Organizational Structure of the State Oil Fund of the Republic of Azerbaijan



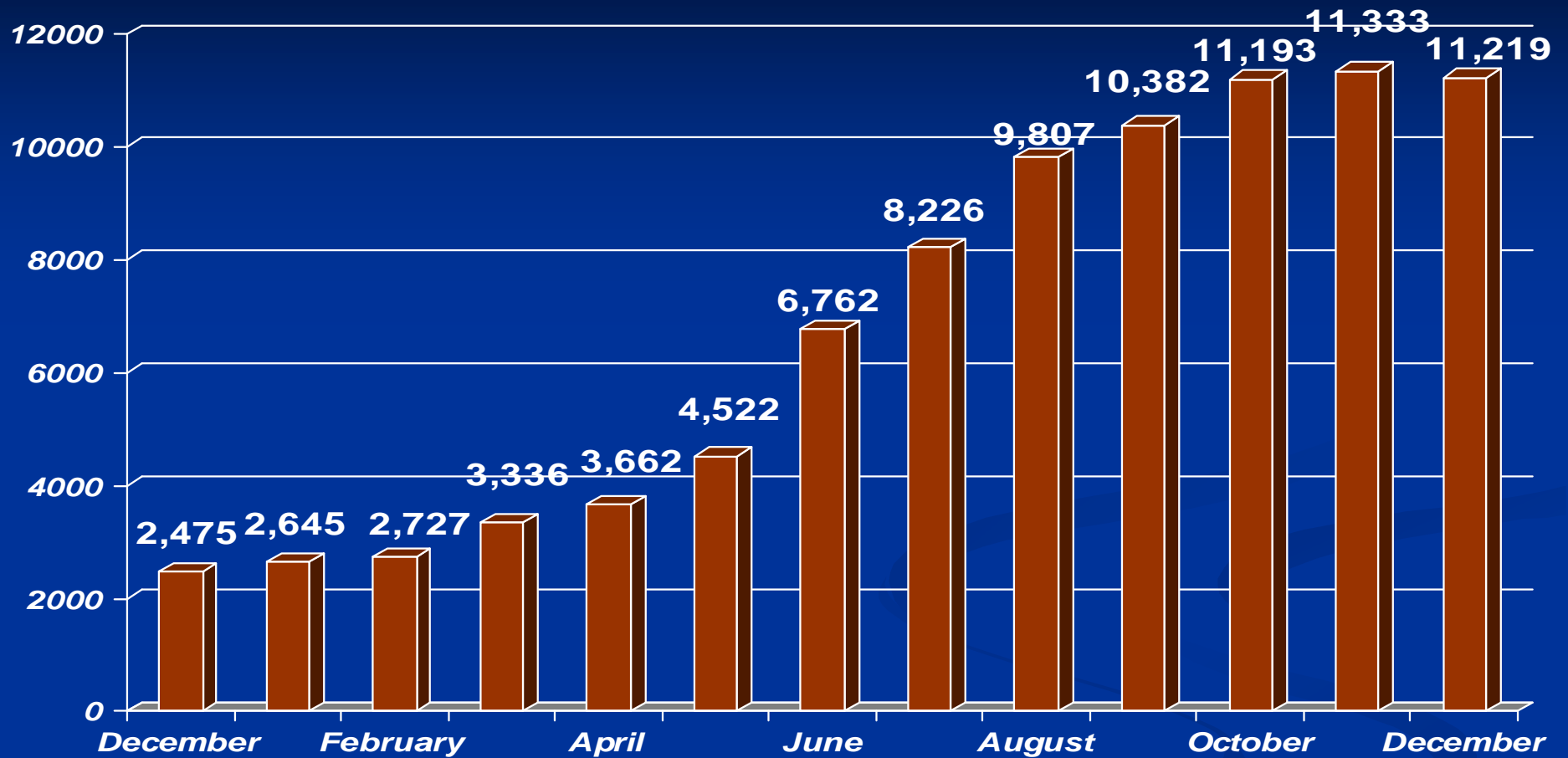
SOFAZ's objectives

- *Protecting macroeconomic stability by sterilizing huge inflows*
- *Saving and managing oil wealth for future generations*
- *Transforming natural wealth in a stream of permanent financial income*
- *Directly and transparently financing significant projects*

Inflow sources of SOFAZ

- *revenue from the sales of oil and gas*
- *bonus payments*
- *royalties (acreage fees)*
- *transit fees*
- *revenue generated from investment of the Fund's assets*

SOFAZ's assets in 2008 (in mln USD)



SOFAZ Expenditures

- *Budgetary procedures based on Budget Systems Law*
- *SOFAZ expenditures are part of consolidated government budget*
- *“Financing of strategically important infrastructure projects and resolution of most crucial problems of national dimension”*

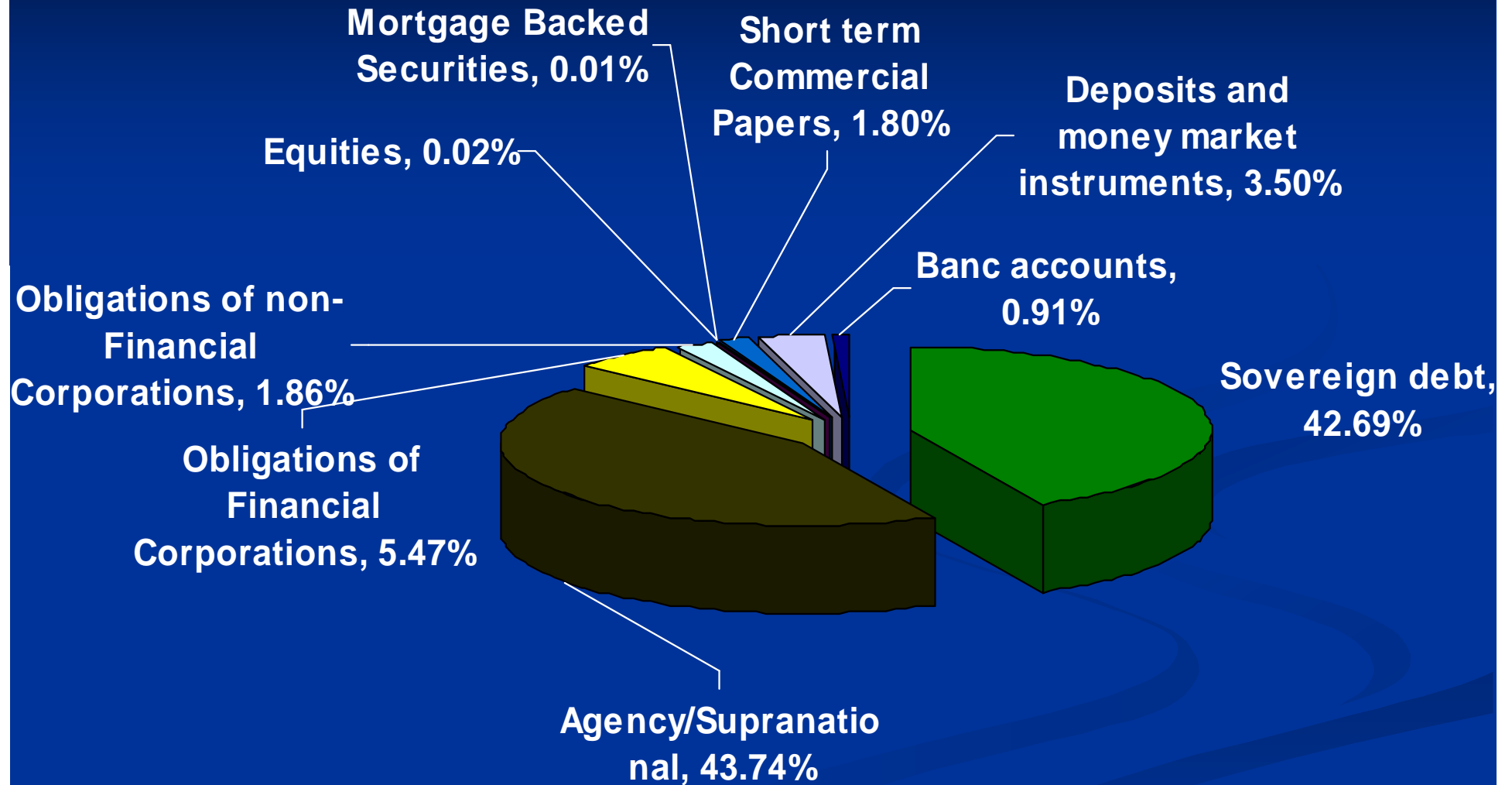
Projects financed by SOFAZ

1. Heydar Aliyev (BTC) pipeline
2. Improvement of social condition of refugees and IDPs
3. Baku-Tbilisi-Kars railway
4. Oguz-Qabala-Baku water pipeline
5. Samur-Absheron irrigation system
6. Education of Azeri youth abroad
7. Statutory capital of the Azerbaijan Investment Company

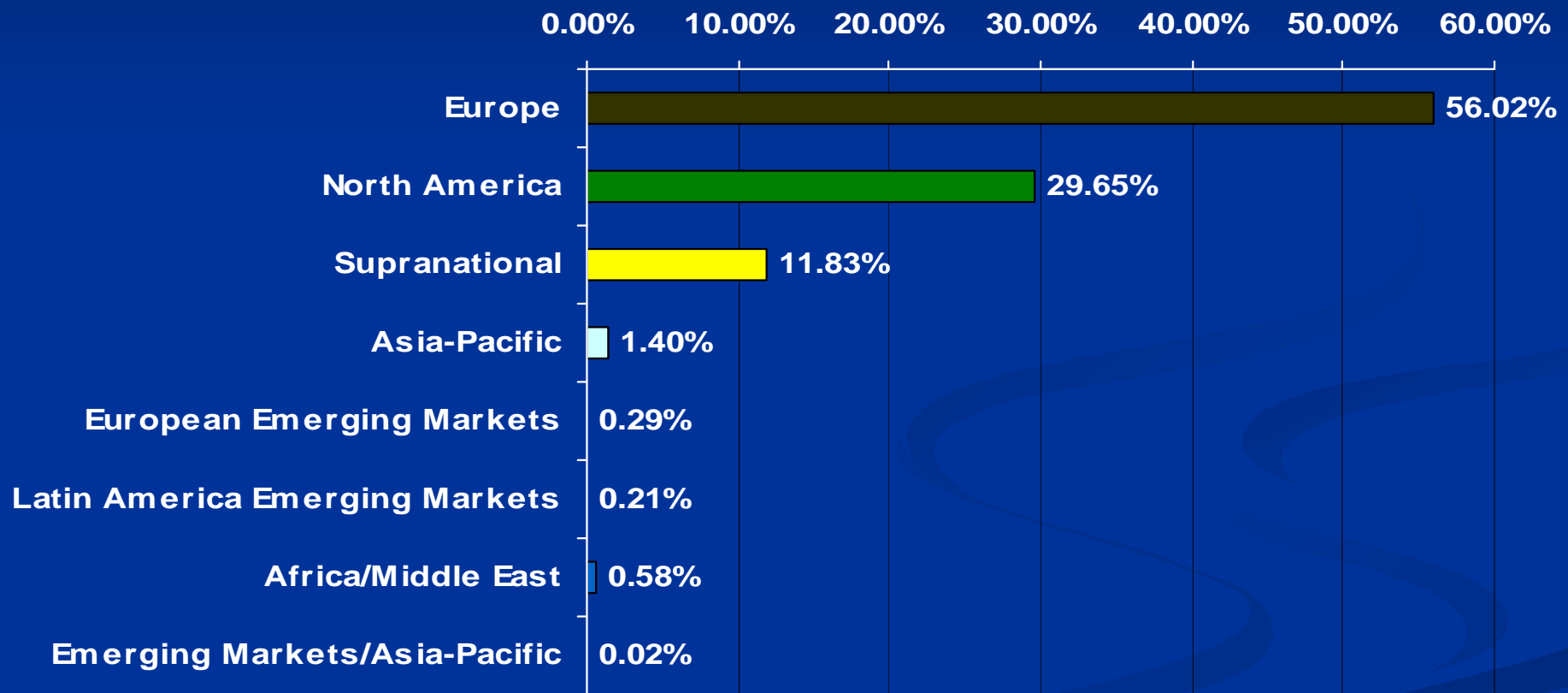
SOFAZ Investments

- *World-class investment management platform*
- *Fully segregated Risk management, Trading, Back Office functions*
- *State-of-the-art Portfolio management system*
- *Highly educated staff*
- *Result oriented, conservative and cautious strategy*

Asset Allocation of SOFAZ's investment portfolio (as of December 31, 2008)



Geographical Allocation of SOFAZ's investment portfolio (as of Dec 31, 2008)



Disclosure & Transparency

- Reports on revenues & expenditures published on quarterly basis (www.oilfund.az)
- Regular press-conferences & public disclosures
- Published annual audit results & annual report

Disclosure & Transparency

- Role of SOFAZ in the Extractive Industries Transparency Initiative (EITI)
- SOFAZ – winner of the 2007 UN Public Service Award for improving Transparency, Accountability and Responsiveness in Public Service.

Scoreboard for Sovereign Wealth Funds

Peterson Institute for International Economics

Table 3: Summary Scoreboard for Sovereign Wealth Funds

		Structure	Governance	Transparency & Accountability	Behavior	Total
New Zealand	Superannuation Fund	8.00	4.00	12.00	0.00	24.00
Norway	Government Pension Fund – Global	7.50	4.00	10.50	1.00	23.00
Timor-Leste	Petroleum Fund	8.00	2.00	11.75	0.00	21.75
Canada	Alberta Heritage Savings Trust Fund	7.50	3.00	9.00	0.00	19.50
United States	Alaska Permanent Fund	7.50	2.00	8.50	0.00	18.00
Australia	Future Fund	8.00	2.00	7.00	0.00	17.00
Azerbaijan	State Oil Fund of the Republic of Azerbaijan	5.00	2.00	9.50	0.00	16.50
Chile	Economic and Social Stabilization Fund	7.00	2.00	6.50	0.00	15.50
Botswana	Pula Fund	5.50	2.00	7.00	0.00	14.50
Kazakhstan	National Oil Fund	6.00	2.00	6.50	0.00	14.50
Singapore	Temasek Holdings	4.00	1.50	8.00	0.00	13.50
São Tomé and Príncipe	National Oil Account	8.00	2.00	2.25	0.00	12.25
Trinidad and Tobago	Heritage and Stabilization Fund	6.50	2.00	3.75	0.00	12.25
Kuwait	Kuwait Investment Authority	6.00	3.00	3.00	0.00	12.00
Malaysia	Khazanah Nasional	4.00	1.50	4.00	0.00	9.50
Russia	Stabilization Fund of the Russian Federation	4.00	2.00	3.50	0.00	9.50
Korea	Korea Investment Corporation	6.00	2.00	1.00	0.00	9.00
Kiribati	Revenue Equalization Reserve Fund	5.00	2.00	0.50	0.00	7.50
Mexico	Oil Income Stabilization Fund	5.00	0.00	2.00	0.00	7.00
China	Central Huijin Investment Company	5.50	0.00	0.50	0.00	6.00
Venezuela	National Development Fund	1.50	0.50	4.00	0.00	6.00
Iran	Oil Stabilization Fund	4.00	1.00	0.50	0.00	5.50
Venezuela	Macroeconomic Stabilization Fund	3.00	0.50	2.00	0.00	5.50
Oman	State General Reserve Fund	3.00	0.00	2.00	0.00	5.00
Sudan	Oil Revenue Stabilization Account	4.00	0.00	1.00	0.00	5.00
Algeria	Revenue Regulation Fund	3.00	1.00	0.50	0.00	4.50
United Arab Emirates	Istithmar	3.00	0.50	0.25	0.00	3.75
United Arab Emirates	Mubadala Development Company	3.00	0.50	0.00	0.00	3.50
Brunei	Brunei Investment Agency	1.00	0.50	1.00	0.00	2.50
Singapore	Government of Singapore Investment Corporation	1.50	0.00	0.75	0.00	2.25
Qatar	Qatar Investment Authority	2.00	0.00	0.00	0.00	2.00
United Arab Emirates	Abu Dhabi Investment Authority and Corporation	0.50	0.00	0.00	0.00	0.50
Total Possible Points		8.00	4.00	12.00	1.00	25.00
Average Number of Points		4.80	1.42	4.02	0.03	10.27
United States	California Public Employees' Retirement System	8.00	3.00	10.25	0.50	21.75

Santiago Principles

- In May 2008 SWFs establish IWG to work on Generally Accepted Principles and Practices (GAAP) – “Santiago Principles”
- Guiding principles for SWFs:
 - ensure free flow of capital and investment
 - comply with regulatory requirements in recipient countries
 - invest on economic and return-related basis
 - ensure transparent and sound governance structures
- IWG members are from 26 countries with SWFs. Development of Principles facilitated by the IMF in close coordination with recipient countries.
- On October 11 2008: Santiago Principles presented to the IMFC and published

Q&A