

## **Bad Business Days In Baku**

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Several foreign companies in Azerbaijan have decided that it's not worth waiting for the next oil boom.

The atmosphere at a meeting scheduled next week between foreign businessmen based in Baku and President Heidar Aliev is likely to be strained. In recent months, as complaints about corruption and bureaucracy have mounted, foreign investors have been leaving town.

While in public they cite the main problem as delays in anticipated oil revenues and the small size of the local market, privately some say that investing in Azerbaijan is extremely difficult, when the rules of the game are not the same for everyone.

Two prominent banks have recently shut their operations in Azerbaijan, following the lead of several other Western companies. These blows to the country's foreign investment prospects are all the more striking because they come, just as work is scheduled to begin on the Baku-Ceyhan oil pipeline - a project that could make Azerbaijan extremely wealthy in five years' time.

The biggest casualty has been the international bank HSBC. The bank said the recent crisis in Argentina, which caused it to lose almost one billion US dollars, had been a major reason for closing a number of its smaller branches, including its Baku office, which was shut down in March.

However, Charles Mason, manager of HSBC's Baku branch, also listed local reasons for the closure, saying that the bank's early expectations for Azerbaijan had not been borne out. "We analysed the business possibilities for commercial banks in Azerbaijan and it turned out that the volume was too small for our bank," he said.

HSBC in Baku had customer deposits worth 50 US million dollars. The bank lent only 13 million dollars in its six years in the country. Real development in the non-oil sector could be anticipated only in seven to ten years, Mason said, and the bank had decided it could not wait that long.

The next closure was that of Rota Bank, which had a different set of complaints. It said it was finding it impossible to keep up with the growing demands of the Azerbaijani national bank to increase Rota's authorized reserves. It said that it would not be able to function effectively, since all its efforts would have to be directed to increasing its capital.

Despite their different size and character, the two banks' decisions reflect a common trend in the bank sector. According to the chairman of the Association of Banks of Azerbaijan, Zakir Nukayev, "this is a reduction in the number of narrowly specialized banks, banks with one client or one form of activity."

HSBC arrived in Azerbaijan during the oil boom of 1996-8. The bank counted on three years of working without profit; however its main client, BP moved its main contract work out of Azerbaijan, leaving HSBC to handle only less important office work. The main reason for Rota Bank shutting down is the contraction by Caspian Trans Co., the oil transit company, which virtually set up the bank.

Over-optimistic expectations for the oil sector caused another veteran of Baku business, the British oil company Ramco, to pull out of Azerbaijan last year. The company decided to cut short its work developing the Muradkhanly oil field because not enough oil was found there. It also sold its 2.0825 per cent stake in the Azeri-Chirag-Guneshli field for 150 million US dollars.

Two other oil-sector companies, Flour Daniel and Consafe, have also left Azerbaijan because of a lack of orders.

The business downturn was a hot topic of discussion at a conference hosted by the United Nations Development Programme in Baku in April. The head of Azerbaijan's economic development ministry, Farhad Aliev, named low profit margins and a narrow local market as the main reasons why companies were leaving the country.

The deputy prime minister, Ali Hasanov, told the German and British ambassadors that, "according to official data, the number of companies leaving is not great and none of them have declared the real reasons they are cutting short their activity."

Hasanov brushed aside hints about what is the most common complaint of Western businessmen in Azerbaijan - its high levels of corruption and excessive bureaucratic obstacles.

Yet many experts say the business shutdowns have little to do with economics. Gubad Ibadoglu, chairman of the commission on economic and social issues for the opposition Musavat party, cited the lack of a normal climate for business and investment and protectionist policies by the government towards "selected companies" as reasons for investors' coolness.

Ibadoglu said that foreign companies were frightened off by a process whereby some companies divided up the market, with the support of "interested" government officials. Western firms also have to compete with local businesses from the black economy, which, according to some estimates, cover 40 per cent of production in Azerbaijan and have an annual turnover of 500 million US dollars.

It was this shadow economy which forced the international cigarette company RJ Reynolds Tobacco out of the Azerbaijani market, according to one of its managers, who asked not to be named.

The banking sector has had problems attracting deposits from a country where the local currency, the manta, enjoys low levels of trust and the industrial sector is weak. According to Ogtai Akhverdiev, head of the economics and investments department in the Azerbaijani government, short-term bank loans made this year comprised 80 per cent of the total, while long-term credits for industry were only 20 per cent. Gubad Ibadoglu estimates the proportions as being 97 and three per cent respectively.

Two other economists, Ali Masimov and Nazim Imanov, say that for the investment climate to improve there have to be changes in customs regulation, a lowering of tax rates and much greater transparency in the privatisation process.

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**Location:** [Azerbaijan](#)

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