

## **Azerbaijan Prolongs Privatisation**

By Gulnaz Gulieva in Baku (CRS No. 243, 21-Jul-04)

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Amidst accusations of failure, the Azerbaijan government decides to keep its privatisation programme going.

The Azerbaijani government has extended the lifespan of “privatisation vouchers” issued in 1997, as private and corporate investors complain that they have been unable to take part in the privatisation process.

“Privatisation packets”, each containing four vouchers, were originally slated to expire on July 1, 2004, but President Ilham Aliev signed a decree last month to keep them valid until January 2008.

Farhad Aliev, Azerbaijan’s minister of economic development, told journalists that, “The extension of the deadline for use of the vouchers will reassure investors who have acquired them in large quantities. American companies have already expressed concern about the uncertain fate of privatisation vouchers, because of their desire to take part in the privatisation of state property.”

Because of the four-year extension, Aliev has promised to extend the privatisation process and to issue six new privatisation tenders for potential investors.

Economist Gubad Ibadoglu, chairman of the Centre for Economic Studies in Baku, argues that the decision on vouchers will not tackle the real problem and is “counterproductive”.

“Extending the expiry deadline of the vouchers simply enables bureaucrats to keep on playing their tricks with vouchers,” he told IWPR.

Ibadoglu believes officials were forced to set a longer deadline because up to 40 per cent of the unused packages are still held by individuals and corporations abroad, most of them based in the United States.

The Azerbaijani privatisation process has come under the spotlight over the last year because of the notorious case of billionaire Czech businessman Viktor Kozeny, charged by a New York district court with grand larceny for allegedly defrauding clients of US hedge fund company Omega Advisors Inc. of 182 million US dollars.

Kozeny allegedly promised clients a lucrative stake in Azerbaijani privatisation deals, the most profitable of which was to be the state oil company SOCAR. However SOCAR was never privatised. Kozeny rejects the charges made against him.

Prosecutors in the Southern District of New York have also indicted Hans Bodmer, Kozeny’s lawyer, over an alleged conspiracy to bribe Azerbaijani government officials. Bribing foreign officials is a criminal offence in the United States.

Economists have given a rather cool assessment of the success of Azerbaijan’s privatisation drive since it was launched seven years ago. Only 11.4 million of the more than 30 million vouchers issued have been used.

Ibadoglu says the privatisation programme has achieved only one of the four goals originally set out for it: it has succeeded in helping give birth to a class of private property owners. At present, the private sector produces 74 per cent of Azerbaijan’s goods and services.

But the three other goals were never achieved. “The authorities have failed to divide government property fairly among citizens, which was the rationale behind the vouchers,” said Ibadoglu. “The fiscal objective, by which I mean cashing in on property sales, was barely attained, while the ambition to revive production in most factories has not been achieved.

The majority of citizens have only been able to sell their vouchers for around ten dollars a packet. Only a few hundred individuals have succeeded in becoming small shareholders in some of the 1,300 companies privatised so far. In the main, it is the former bosses of factories, or politically well-connected groups, who become majority shareholders.

The economic development ministry has held only two voucher-based privatisation auctions this year.

During the most recent, which took place from June 7 to 11, Emin Huseinov, a reporter for the Turan news agency, tried to exercise his entitlement to exchange privatisation vouchers for company shares, but was prevented from doing so. He is now considering taking officials from the economic development ministry to court.

Huseinov sought to exchange 45 privatisation packets that he had bought only days earlier. He tried to place his bids from the very beginning, but auction officials would not let him invest in shares offered for bidding.

The reporter told IWPR that officials asked bidders how many vouchers they had to invest, and tried to “negotiate” with him. At first, they restricted bids to only five packets per bidder. Then, he said, Agali Ahmedov, head of the Azerbaijani Auction Centre, instructed his staff to reject all vouchers and “told security guards to throw those bidders who tried to complain onto the street”. “No one knew that the voucher expiry deadline was going to be extended, so people thought it was their last chance to invest,” Huseinov said. “It was my first time at an auction. I saw auction staff humiliate bidders and even physically abuse them.”

Huseinov said he eventually received an assurance from the auction house that he would in future be free to exercise his rights.

Officials involved in the privatisation process say that Huseinov is trying to create a fuss out of nothing and that they have not had any problems with auctions before him.

But Huseinov alleges that “prior to the auction, auction staff or economic development ministry officials talk to major prospective investors about buying and selling shares for cash, and then use the voucher auction as a tool to seal the deal. The result is that up to 60 per cent of shares in a company can end up in the hands of a single buyer.”

Huseinov said that the officials involved also buy vouchers themselves, making sure majority stakes go to major investors, while excluding small-time investors. “They don’t want the masses to enjoy privatisation opportunities as this could prevent [officials] from buying the requisite number of vouchers for a deal they have sealed in advance,” he said.

Gulu Khalilov, spokesman for the Azerbaijani government’s privatisation department, told the Markaz newspaper that the auctions were open to anyone.

Khalilov conceded that the auction house may have broken the rules, but defended them by saying the reporter was intent on causing a “scandal”. He said that Huseinov and others like him “are not regular investors”.

Critics say the voucher privatisation has had the effect of devaluing government property, and funnelling privatised assets cheaply into the hands of people who, instead of investing, break them up and sell them off.

One of the recent trends in downtown Baku is for new residential properties to rise up where factories used to stand before privatisation. Ibadoglu said this happens when three quarters of shareholders vote to dissolve a company and use its land to build housing or corporate centres. Construction is already under way at what used to be the central farmers’ market, as well as at the former ice-cream factory next to the Baku docks.

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