

**STATE PROGRAM ON  
SOCIAL-ECONOMIC DEVELOPMENT OF  
REGIONS**

**OF AZERBAIJAN REPUBLIC  
FOR THE YEARS of 2004 - 2008**

**BAKU - 2004**

## INTRODUCTION

At the end of the XX century, after regaining independence, fundamental changes have taken place in the public and political, as well as social-economic life of our country. Targeted policy implemented since 1993 under the leadership of the President of Azerbaijan Republic Haydar Aliyev have put an end to a social-economic crisis lasting during the first stages of the independence, paved the way for building democratic statehood and market economy in Azerbaijan. Reforms systematically implemented in the country eliminated the lag of economy in the beginning of 90s and ensured transition to the new era of development.

Policies implemented resulted in substantial qualitative changes in the economy in a very short period of time: inflation was brought under control (since 1996, inflation rate in Azerbaijan has not exceeded 2-3%), National Bank stopped the practice of financing budget deficit, the share of budget deficit was brought below 1-2% of GDP. As a result of these changes, already in 1996, macroeconomic stability was achieved in a country experiencing deep economic crisis, starting next year, in 1997, it was possible to provide for dynamic economic development. As such, GDP growth rate in 1996 was 1.3%, in 1997 it was 5.8%, while the average growth rate during 1998-2002 comprised 10.0%.

One of the most important results of consistent and systematic economic reforms have also been the accomplishments achieved in the area of privatization of state property and creation of enabling conditions for the development of free entrepreneurship. As such, land and rural reforms have actually already been completed, more than 1390 thousand hectare of land area was distributed freely among the villagers. Currently, 99.0% of agricultural output is generated in the private sector.

Privatization of the state-owned enterprises in other sectors of economy has

been also successfully completed. Since the start of the privatization process up to the end of 2002, 36200 small enterprises and units were privatized, while the privatization of enterprises of communications, transport, chemical, machinery and fuel-energy complexes have been launched in the framework of the II privatization program.

The share of non-state sector in the GDP increased from 30% in 1995 to 73.0% in 2003 as a result of actions taken in relation with the development of entrepreneurship and implementation of privatization.

Increase of wages, pensions and allowances, consistent policy implemented in direction of social assistance during recent years ensured considerable improvement in living standards of the country. Average wages and pensions have increased more than 6 folds during 1995-2003.

Beside the achievements mentioned above there still remains unsolved problems in social-economic life of the country, especially in the area of development and population employment of regions. Concentration of the country's industrial potential and a large part of infrastructure objects in Baku city, and at the same time, weakness or complete stay of the most production and service enterprises in the regions accelerated population's migration to the capital. This, in turn, negatively affected regional development of economy, led to emergence of regional differences, exacerbation of a difficult social-economic, demographic and ecological situation in many localities.

Situation observed in the development of regions of Azerbaijan Republic requires increase of social-economic development level and reduction to minimum of difference among the regions, while effectively using existing potential.

Main directions of state support and policy regarding factors accelerating economic development of different regions in the years of 2004-2008 has been determined within the State Program on socio-economic development of regions of Azerbaijan Republic. The main objective of the program is implementation in a consistent and coordinated manner of measures directed

at ensuring efficient use of internal resources of economic regions of Azerbaijan Republic, development of sectors bearing particular importance for the economic regions, further expansion of production activity of enterprises, stimulation of export-oriented production of goods, increase of employment levels through development of local entrepreneurship, further improvements in the living standards of population and dynamic development of the economy.

In order to reach existing objectives the implementation of following duties is considered:

- Renewal and development of economic operation in enterprises , creation of new production enterprises;
- Increase of effective use of local resources;
- Creation and development of necessary infrastructure for the development of regions;
- Acceleration of the second phase of reforms in agriculture, in this order to render assistance to farmers and other farming workers, such as organization of different service senters, development of seed production, better supply of agricultural machines to farmers, and other necessary measures;
- Creation of enabling conditions for attraction of national and foreign investors to the regions;
- Creation of new jobs;
- Improved provision of regions' population with utility services.

State Program is formulated by the following economic regions:

1. Absheron economic region <sup>1)</sup>

(Absheron, Khizi rayons

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<sup>1)</sup> This Program does not cover Baku city for the reason of its high development level relative to other regions of Azerbaijan and from this point of view Baku city has not been included into Absheron economic region.

Sumgait city of republican importance)

2. Ganja-Gazakh economic region

(Aghstafa, Dashkesen, Gedebey, Goranboy, Khanlar, Gazakh, Samukh, Shamkir, Tovuz rayons

Ganja and Naftalan cities of republican importance)

3. Sheki-Zagatala economic region

(Balaken, Gakh, Gabala, Oghuz, Sheki, Zagatala rayons)

4. Lankaran economic region

(Astara, Jalilabad, Lerik, Masalli, Yardimli rayons)

5. Guba-Khachmaz economic region

(Devechi, Khachmaz, Guba, Gusar, Siyazan rayons)

6. Aran economic region

(Aghjabedi, Beylagan, Barda, Bilasuvar, Hajigabul, Imishli, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zardab, Aghdash, Kurdemir, Goychay rayons

Ali-Bayramly, Mingechevir, Yevlakh cities of republican importance)

7. Upper Karabakh economic region

(Aghdam, Terter, Khocavend, Khojali, Shusha, Jabrayil, Fuzuli, rayons, Khankendi town)

8. Kelbejer-Lachin economic region

(Kelbejer, Lachin, Zangelan, Gubadli rayons)

9. Mountainous Shirvan economic region  
(Aghsu, İsmayilli, Gobustan, Shamaxi rayons)

10. Nakhchivan economic region  
( Babek, Julfa, Ordubad, Sadarak, Shahbuz, Sharur rayons  
Nakhchivan city of republican importance)

It is considered to finance measures to be implemented within State Program on account of following sources:

- Local and foreign investments;
- State Budget of Azerbaijan Republic;
- National Fund for Support of Entrepreneurship in Azerbaijan Republic;
- Extra-budgetary funds;
- Credits given by commercial banks and non-bank credit organizations;
- Financial resources of international organizations and foreign countries;
- Other lawful resources.

Program's implementing agencies are the relevant central and local executive power bodies. The coordination of program implementation is carried out by the Ministry of Economic Development of Azerbaijan Republic.

## **1. General characteristics of economic regions of Azerbaijan Republic**

In order to increase success gained in Azerbaijan economy as a result of measures implemented in recent years, ensure socio-economic development of all regions, further improve of population living conditions increase of effective use of existing potential of regions, opening of new vacancies, development of different branches of industry and agriculture, extend of agroprocessing is necessary.

Carried out in this order regionalization of Azerbaijan Republic within State Program considers improvement of specialization level and structure by economic branches of different regions effectively using existing potential.

There are differences among the regions of Azerbaijan Republic related to potential, scale and kinds of local resources, employment level.

Different regions of the republic are distinguished mainly by the following key factors:

- Economic and geographical position
- Natural conditions and resources
- Population density
- Sectorial and territorial structure of the region
- Historical development characteristics

In addition to above-mentioned factors stipulating social-economic development difference among regions and insufficient development of main part of regions is caused by followings:

- 1) Non-proportional distribution of productive resources amongst regions caused strong regional differences emerging in the level of social-economic development. On this direction, much more intensive development of a center relative to regions as a result of concentration of a large part of the country's productive resources in Baku city complicates the social-economic

situation in regions and causes population's migration from regions to Baku.

- 2) As a result of undeclared aggressive war led by Armenia against our country 20% of area is under occupation, economic potential of occupied regions is devastated, economic-technical and infrastructure facilities are distructed, Azerbaijan lost much people, approximately one million citizens from these regions became refugees as they lost places of settlements, savings and wealth, as well as workplaces.
- 3) Despite implemented land and agricultural reforms the insufficiency of primary capital, and at the same time, of climate ensuring agriculture sector development, as well as of technical, service supply, consulting service, infrastructure, processing enterprises etc. limites effective use of available opportunities.

### **1.1. Absheron economic region**

Absheron economic region covering Absheron and Khizi administrative rayons and Sumgait city has a very convenient economic-geographical position. Total area of the economic region is 3.34 thousand sq.km, which is 3.9% of the territory of the republic (excluding Baku city). The topography of the economic region consists of mountainous and highland plains, as well as small mountains. Dry sub-tropical climate is characteristic for the region.

The convenient economic-geographical position of the economic region has played an important role in settlement of population. Total population of the economic region is 387.9 thousand persons, which is 4.8% of the population of the republic (excluding Baku city). Majority of population lives in the city. Average population density in the economic region is 116 persons

for each sq km.

Absheron economic region is one of the regions abundant with the natural resources. Economic region possesses resources of limestone, raw material for cement, quars and construction sand. There are rich balneological resources in the Absheron peninsula. Absheron is the only economic region in the republic that does not have a drinking water locally. Economic region is provided with the drinking water through constructed water pipelines.

Being a strong industrial region, the economy of Absheron economic region is dominated by oil and gas production, petro-chemical and chemical industry, ferrous and non-ferrous metallurgy, power industry, light and food industry. A strong construction complex, as well as transport and service sectors function to provide service for the industry of the Absheron economic region. Economic region has a strong fuel-energy base. The large part of the oil and gas produced in the republic, and the electricity generated in the republic fall on this region.

Chemical and petro-chemical industry takes a central place in the industrial structure of the economic region. Ferrous and non-ferrous metallurgy has a great deal of importance in the economic region as well. Polymer construction materials, glasses, etc., are produced in the enterprises of construction industry of economic region.

The core of the agriculture of Absheron economic region is comprised of the items included in the suburban economic complex, such as livestock, poultry, sheeps, vegetables, horticulture, viniculture, flowers and dry subtropical fruits. Agricultural climatic conditions of economic region allow production of olives, saffron, pistachio and other agricultural products.

Absheron economic region has a developed infrastructure. The most important railroad, highroad, water and air lines cross the territory of this region. The fact that territory is surrounded by Caspian Sea significantly increases its transport connections. There are majority of transport means kinds operating in the economic region.

Economic region is also one of the important cultural centers of the republic. There are scientific-research institutes, high education colleges, large sports centers, health facilities of republican importance and other social infrastructure facilities operating in the economic region.

The climatic-balneological conditions of the economic region allowed constructing beach zones along the Caspian seashore.

## **1.2. Ganja-Gazakh economic region**

Ganja-Gazakh economic region is located in the western part of Azerbaijan covering Aghstafa, Dashkesen, Gedebey, Goranboy, Khanlar, Gazakh, Samukh, Shamkir, Tovuz administrative rayons and Ganja and Naftalan cities which are under the republican jurisdiction. Economic region has a convenient economic-geographical position. The territory of economic region is 12.49 thousand sq.km, which is 14.4% of the territory of the republic. The area of the region can be divided into four zones by topographic characteristics: heely plains, highlands, mid-mountainous (1000-2000 meters above the sea level), high mountainous (more than 2000 m above the sea level). Region's climatic condition is also different with respect to these zones.

The convenient economic-geographical position of the economic region has played an important role in settlement of population. Total population of the economic region is 1103.3 thousand persons, which is 13.6% of the population of the republic. 47% of population lives in cities, while 53% in rural areas. Average population density in the economic region is 88 persons for each sq km, which is a bit lower than republican average (94 persons). Population density is higher in plains zone (100-120 persons).

Ganja-Gazakh economic region is one of the economic regions of the republic with abundant natural resources. The main natural resources of the region is in the highland zone. Iron ore, alunit, limestone, marble, gipsum,

zeolit, raw material for cement are the main underground reserves of the economic region. Dashkesen iron ore, Zeylik alunite, Khachbulag limestone reserves are of industrial importance. The part of Kura flowing through the territory of the region is abundant with hydroenergy reserves. Ganja-Gazakh economic region has natural-recreation resources as well.

Ganja-Gazakh economic region takes a second place in the republic by its economic importance. The second industrial region of Azerbaijan contributes 12-13% of total industrial production. The industry of the economic region consists of extraction and processing industries. There are enterprises of extraction and preliminary processing of raw materials for ferrous and non-ferrous metallurgy in Ganja and Dashkesen. Heavy industry has an important role in the region's economy. There are enterprises of production of electrical devices, production of communications equipment, enterprises for repairing cars and agricultural machinery operating within the machinery industrial sector. Light industry of the economic region (semi-processed cotton in Delimemmedli, cotton cloth, wool cloth, production of textile goods in Ganja, carpet making enterprises in Ganja, Gazakh and Dashkesen) relies on the processing of local raw material. The production of food industry based on the processing of agricultural products – wine, meat-diary products, confetionery, canned goods production basically meet the local demand. The main enterprises of the construction industry are large panel household building construction company, metal-concrete, brick-ceramicks and marble plants.

13-14% of agricultural output in the republic, including 80-85% of potatoes, 28% of grapes, 15% of livestock goods fall on this region's share. The main agricultural specialization areas of Ganja-Gazakh economic region are potatoes, viniculture, and wheat production. Cotton is only planted in Goranboy rayon. Gazakh, Aghstafa, Shamkir and Samukh rayons are specialized in viniculture, Gedebey, Shamkir and Tovuz rayons are specialized in potatoes, while Goranboy rayon is specialized in wheat

production. Also, horticulture, gardening and fruit-growing areas are developed in the economic region.

Transport plays an important role in the complex development Ganja-Gazakh economic region. Region is located on the railroad and high road lines connecting Azerbaijan with Georgia and the sea coast of the Black Sea. Ganja, Gazakh and Aghstafa are the main transport networks. The pipeline that is being constructed to transport the oil and gas extracted from the Caspian Sea to the world market, passes through the territory of the economic region.

The convenient natural conditions, clean climate, picturesque mountainous-forest type landscape and the medically important mineral waters allow creation of recreation-sanatorium enterprises of international caliber. There are Goy-Gol and Hacikend recreation areas constructed at 1566 m. above the sea level. Naftalan recreation-treatment sanatorium is internationally well-known.

Social infrastructure of the region plays an important role in social-economic development of the north-western part of Azerbaijan and in meeting many social-cultural (health, scientific-cultural, education) needs of the population living there. There is a branch of Azerbaijan Academy of Sciences and scientific-research institutes operating in Ganja. Highly qualified agricultural specialists are trained in Ganja (in Ganja Agricultural Academy, Technology University, State University). There are public libraries, museums, theatres, hospitals and other social infrastructure facilities in the region.

### **1.3. Sheki-Zagatala economic region**

Being one of the richest economic regions of Azerbaijan Republic, Sheki-Zagatala economic region is located in the north-west of Azerbaijan, at the southern plain of Great Caucasus mountains covering Balaken, Gakh,

Gabala, Oghuz, Sheki, Zagatala administrative rayons. Total area of the economic region is 8.96 thousand sq.km, which is 10.3% of the republican territory. The region's topography is divided into high mountainous and highland parts. Economic region has limited land resources. The fact that the region's height difference is great caused the diversity of natural condition. Zone has a warm climatic condition.

Total population of the economic region is 531.9 thousand persons, which is 6.5% of the population of the republic. The population is mostly settled in the highland part. 27% of population lives in cities, while 73% in rural areas. Average annual natural growth rate of the population in the last decade comprised 1.5%. Average population density in the economic region is low with 59 persons for each sq km.

Region is abundant with natural resources. All of the copper resources, 90% of sulphure pyrites, 97% of lead, 99% of zinc in the republic is in this region. One of the polymetal fields of Caucasus region, a Filizchay field is located in the territory of this region. There are gravel, sand and other construction materials in the mountainous and highland locations. 27% of the territory of Sheki-Zagatala economic region is covered by the forests. The most part of these are in the territory of Balaken and Zagatala rayons. Economic region has substantial water resources.

The core of the economy of the economic region is represented by the agriculture. Region is represented in the agricultural labor division of the republic by tobacco, mulberry, fruit-growing, wheat production, viniculture, meat, milk and wool oriented sheep husbandry. More than 75% of tobacco, 17% of wheat, 35% of mulberry, up to 2% of green tea leaves produced in the republic are contributed from this region. The livestock products supply in Sheki-Zagatala region is more than 10% of the total republican supply.

The industry of Sheki-Zagatala economic region is relatively one-sided and weakly developed. This region contributes a bit over 3% of industrial production in the republic. Sheki rayon, which takes 27% of the territory and

30% of the population of the economic region contributes the half of all industrial products of the region. The industry of economic region is basically specialized in light and food industries processing agricultural goods. These areas provide more than 95% of industrial products of the the economic region. Food industry is based on processing of gardening, tobacco, and livestock products. The main enterprises of the food industry are Sheki food company and wineries, Gabala, Gakh, Balaken, Nij fruit-vegetable canning plant, Zagatala hazelnuts plant and tea factory, Sheki meat company. In addition, there are also small enterprises producing bread, eastern sweets, soft drinks that are aimed at meeting the local demand. The core of the light industry is silk production. There are different sized textile industry enterprises operating in all regional centers. In relation with the development of tobacco production, there are tobacco-fermenting plants operating in Sheki, Gabala, Balakan and Zagatala.

A beautiful nature of Sheki-Zagatala economic region has made it an important recreation-tourism region of the republic. There are recreation-tourism enterprises operating in Gabala, Sheki, Zagatala. There is an international tourism route going through the region's territory to Georgia.

Economic region has a developed network of transport. High road transport is developed. The main roads are Yevlakh-Balaken highroad and the railroad launched in the second part of the 80s.

The social infrastructure of the economic region includes general education and secondary schools, the branches of the high education colleges, cultural-educational and health centers, museums and theatres.

#### **1.4. Lankaran economic region**

Lankaran economic region of Azerbaijan Republic is located in the south-east of Azerbaijan covering Astara, Jalilabad, Lankaran, Lerik, Masalli, Yardimli administrative rayons. The economic region is surrounded by

Caspian Sea in the east, and Islamic Republic of Iran in the west and south. Total area of the economic region is 6.08 thousand sq. km, which is 7% of the republican territory. Based on topographic characteristics, the area of the region is divided in two parts by Lankaran lowland and Talish mountains. 26% of region's territory is covered by forests. Region is distinguished from other regions of the republic by its distinct natural conditions. 7 out of 11 climatic layers existing in the world can be found in this region. Has a humid subtropical climate.

The convenient economic-geographical position of the economic region has played an important role in settlement of population. Total population of the economic region is 753.7 thousand persons, which is 9.3% of the population of the republic. Of them 365.6 thousand are the able to work. This is 8.8% of republican total. 25% of population lives in city, while 53% in rural areas. Average population density in the rural area is 124 persons for each sq km. This figure is 170 persons in the most densely populated Lankaran lowland, while in Mountainous areas the density is 60-80 persons. The population of the economic region has high natural growth rate.

There are few natural resources in the Lankaran-Astara economic region. Among the non-ore fields construction sand, glue, boulder, gipsum and other resources play an important role in the region's economic development. Economic region is abundant with thermal waters.

The core of the economy of the economic region is agro-industrial complex. Humid subtropical climate, productive land, water and sufficient labor resources provide for great opportunities for agricultural development. The structure of agriculture is dominated by fresh vegetable, tea production, viticulture, wheat production. 99% of the tea, 27% of vegetables, 15% of wheat, 24% of potatoes, 13% of grapes and 10% of fruits produced in the republic are contributed by the region. The lowland part of Masalli, Lankaran, Astara rayons are specialized in production of tea leaves, and horticulture. Viticulture is mostly developed in Jalilabad rayon. The main areas in Lerik

and Yardimli rayons are wheat production, livestock and tobacco. This economic region is the most important region of the republic in terms of citrus fruits. Fishing takes place in the coastal area.

The industry of Lankaran-Astara economic region is developed based on the local agricultural raw material and mostly relies on processing of plants and fishery products. 90% of the industrial output is contributed by the food industry. Processing of fish (Narimanabad fishery plant, Lankaran fish cannery), tea, fruit-vegetables canning, wine production tobacco processing are among the most important in the food industry. In addition, there are meat, dairy, cheese and bread factories operating. There are enterprises of construction materials, furniture production, car repairshop, electrical devices, mechanical repairshop and the agricultural machinery repairshop in the territory of the economic region. Poultry industry is also developed in the Lankaran-Astara economic region.

Transport system plays an important role in the complex development of the Lankaran economic region. Baku-Astara railroad and parallelly running Baku-Astara high road play an important role in cargo and passenger transportation, as well as developing economic relations between Azerbaijan and Iran. There is a functioning Baku-Lankaran air line.

Beautiful natural land scale, hot and cold mineral waters, convenient climatic conditions and the developed transport network provides for a suitable condition for the development of sanatorium-tourism in the region. Currently, there are Lankaran tourism base, and Meshesu treatment center functioning in the region. There are high education college (Lankaran State University), network of secondary schools, hospitals, drama theatre, regional museum and other social infrastructure facilities functioning in the territory of the region.

### **1.5. Guba-Khachmaz economic region**

Guba-Khachmaz economic region is located in north-east of Azerbaijan covering Devechi, Khachmaz, Guba, Gusar and Siyazan administrative rayons. Total area of the economic region is 7.66 thousand sq.km, which is 8.8% of the republican territory. Economic region has specific topographic characteristics. Region's territory is divided in completely distinct four heights zones (from 26 meters to 4466 meters): lowland, highland, mid-Mountainous and high mountainous zones. The climatic condition of the region is also different with respect to these zones. For lowland zone, hot climate is typical, while for mountainous zone it is cold-humid, and cold climatic conditions.

Total population of the region is 453.1 thousand persons, which is 5.6% of the republican population. Depending on the topographical-climatic characteristics, population is mostly settled in the lowland areas located at the coast of Caspian Sea. 32% of population lives in urban areas, while 68% lives in rural areas. Average population density in the economic region is 59 persons for each sq km.

The most important natural resources of the Guba-Khachmaz economic region are oil, natural gas, combustible shale, sand, gravel, glue. Economic region has quite a dense river network and rich water resources. Forests cover 10-11% of the territory of the economic region. Being an important sanatorium regions of the republic, Guba-Khachmaz economic region has rich natural-recreational resources. In Siyazan rayon, there is a sanatorium of republican importance operating based on Galaalti mineral water.

Agriculture is at the core of the region's economy. Agriculture is specialized in the vegetable and fruit production. In addition, grapes are grown in Devechi, Siyazan, Khachmaz rayons, while potatoes are in Gusar. Wheat is planted in every part of the region settled by population. In the

lowland area of the region milk-meat oriented livestock is developed, while in the highland and mountainous zones sheep husbandry is the main activity. There are poultry facilities in Siyazan and Devechi.

A prevailing development of agriculture in the sectoral structure of the region's economy has enabled the development of processing industrial sectors – light and food industries. The most of the region's agro-industrial output consists of production of fruit-vegetable canning (Khachmaz, Guba), fishery processing products (Khudat), carpet-making (Guba, Gusar, Khachmaz) sectors. Wheat and milk products are processed in Khachmaz and Devechi. Oil and gas extraction (Siyazan), electrical plant (Guba), processing of scrap metals (Khachmaz) are the large part of the heavy industry of the economic region.

Guba-Khachmaz economic region has a very convenient transport-geographical position. Railroad, high roads, oil, gas and water pipelines, telecommunications lines going through the territory of the economic region play an important role in development of the transport-economic relationships of the republic. Communications lines connecting Azerbaijan with Russia go through this region.

Social infrastructure of the region plays an important role in social-economic development of the region and in meeting many social-cultural (health, scientific-cultural, education) needs of the population living there. There are public library, theatre, hospital and other social infrastructure facilities in the economic region.

## **1.6. Aran economic region**

Aran economic region covers administrative rayons of Aghjabedi, Aghdash, Beylagan, Barda, Bilasuvar, Goychay, Hajigabul, Imishli, Kurdamir, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zardab, as well as republican cities of Ali-Bayramli, Mingchevir, Yevlakh.

Aran economic region has a convenient economic-geographical position. Total area of the economic region is 21.43 thousand sq.km, which is 24.7% of the republican territory. More than half of the area of the Aran economic region consists of plains below the sea level. The surface of only the areas of economic region that are close to the surrounding mountains are hilly. A dry subtropical climate is typical for the region.

The convenient natural conditions and economic-geographical position of the economic region has played an important role in settlement of population. Total population of economic region is 1667.1 thousand or 20.5% of republican population. The average population density in the economic region is 83 persons for each sq.km, which is a bit lower than the republican average (94 persons).

The main underground natural resources of the Aran economic region are oil, natural gas, mineral waters with iodine and bromide, different construction materials. These resources are mainly concentrated in the central and south-eastern parts of the region. Abundant solar energy, water resources of Kura and Araz rivers, extensive stock of land suitable for agriculture are among the most important natural resources of the region. Aran economic region has both underground and above-ground fuel-energy sources.

Industry is well-developed in the Aran economic region. The industry of the region is mostly concentrated in the south-west (Ali-Bayramli, Salyan, Neftchala) and north-west (Mingechevir and Yevlakh cities) of the region. Power industry is one of the region's developed and specialized sectors. The electricity generated by the two power stations in Mingechevir city is about 60% of whole the electricity generated in the republic.

The core of the industry of the economic region consists of chemical, machinery, light, food industries, as well as production of construction materials. Enterprises of chemical industry operate in Mingechevir, Salyan, Neftchala cities. There is a plastic mass plant in Salyan, while in Neftchala, there is iodine-bromide plant. Mingechevir, Ali-Bayramli and Salyan are

centers of machinery. There are light industry enterprises in all administrative rayon centers of the economic region. Among the enterprises in this sphere, cotton ginneries carrying out preliminary processing of cotton have quite a high share in terms of output. In addition, cotton clothing (in Mingechevir), preliminary processing of wool (in Yevlakh), artificial leather production (in Ali-Bayramli), carpet-making (in Gazi Mammad) are the important areas of the light industry. Region's food industry is based on processing of fruit-vegetables (Sabirabad), fishery canned products (Banka), meat-milk and livestock products.

With its developed industry, Aran economic region is an important agricultural region of the republic. The agriculture of the region is based on the irrigated planting. Cotton, wheat production, viniculture, dry-subtropical fruit-growing, horticulture are the specialized areas of agriculture. Over 90% of the cotton produced in Azerbaijan is contributed from this region. Also, potatoes and sugar-cane are planted.

Aran economic region is located on the high transport lines (railroad and high roads) of republican importance. Transport lines connecting Baku city with the main economic regions of the republic, as well as with Georgia, Iran, and Turkey go through the territory of this region. The increase international transit has increased the importance of these roads recently. Yevlakh-Baku air line is in place and operating.

### **1.7. Upper Karabakh economic region**

Upper Karabakh economic region covers Aghdam, fuzuli, Jabrail, Khojaly, Khojavend, Shusha, Terter administrative rayons and Khankendi city. As main area of the region is under Armenian occupation, implementation of measures for development of unoccupied areas of Aghdam and Fuzuli rayons and Terter rayon is considered within State

Program. Currently population of these three rayons with total area of 1482 sq. km is 211.8 thsd. persons .

The basis of industry is agriculture. The main branches of agriculture are viniculture, wheat production, fruits and tobacco growing. Region is distinguished for grapes productivity.

Meat-milk, in high mountaneous areas meat-wool oriented husbandry has developed in the region. At the same time, apiculture and mulberry is being developed in the region.

The industry of region is based on processing of local farming products.

According to Decrees № 577 dated September 7 2001 and № 700 dated May 13 2002 of the President of the Republic of Azerbaijan considerable works have been done for the improvement social-living level of the population from occupied lands and for the solution their housing problems, 5 tent camps demolished and thousands of IDP families used to live there have been resettled in settlements built in freed lands and other areas, employment of them has been secured. For the time being, according to the Decree № 80 dated February 4 2004 of the President of the Republic of Azerbaijan additional measures are being taken for the improvement of social-housing level of IDPs from Agdam and other regions and maintenance of their employment. At the result of this, 3674 IDP families from Agdam region will be resettled in settlements having necessary infrastructure at the territory of the same region.

For the Upper Qarabag economic region, special program will be implemented covering social-economic development of occupied lands after their liberation.

### **1.8. Kalbajar-Lachin economic region**

Kalbajar-Lachin economic region covers Kalbajar, Lachin, Zangilan and Qubadli regions. This area shares 7.5% of the territory and 2% of the population of Azerbaijan. Basic fields of economy of the regions are agriculture and cattle-breeding in particular. Sheep breeding, livestock, bee-keeping were one of the developed fields of cattle-breeding. The main part of the industry of the economic region was food and partly light industry. In the territory of economic region there are gold, mercury, marble, cover construction stones, copal, pearlite and et c. minerals. Cause of the fact that, all administrative regions included in this economic region are under Armenian occupation this Program does not cover development measures of them.

According to Decrees № 577 dated September 7 2001 and № 700 dated May 13 2002 of the President of the Republic of Azerbaijan some part of IDP families from Kalbajar, Lachin, Zangilan and Qubadli regions have been resettled in newly built settlements. According to Decree № 80 dated February 4 2001 of the President of the Republic of Azerbaijan, 149 IDP families from Kalbajar, 37 from Lachin regions will be resettled in new settlements in recent future.

After liberation of administrative regions included to Kalbajar-Lachin economic region a special program will be drafted and implemented for the social-economic development of these regions.

### **1.9. Mountainous Shirvan economic region**

Mountainous Shirvan economic region is located in the central part of Azerbaijan – in Shirvan plain covering Aghsu, Ismayilli, Gobustan and Shamaxi rayons. Total area of the economic region is 6.06 thousand sq.km or 7% of republican territory.

The topography of the economic region is divided into mountainous and lowland zones. Region's climate is very diverse with high mountainous parts being humid, the region has a warm cold climatic condition. The climate of the lowland part is hot and dry.

Mountainous Shirvan economic region is relatively less populated than other regions. Total population of the region is 257.4 thousand persons, or 3.2% of the republican population. The average population density in the economic region is 43 persons for each sq km.

Shirvan economic region is not abundant with natural resources. There are resources of stone, gravel, sand, lime and other construction materials in the region. Glue fields of Shamakhi, Aghsu, Ismayilli rayons are important for construction. Mountainous zone of the economic region is abundant with mineral waters of sanatorial importance and for treatment. Spring waters abundant in content with mostly sulphure, hydrocarbonate are used for treatment and drinking.

Economic region is mostly specialized in planting, viniculture, winery and livestock. The leading role in planting is with the wheat production. Other planting areas are for local consumption. The main husbandry areas are livestock and sheep husbandry.

Although Shirvan economic region is an anciently populated area, industrial development is relatively weak. The main areas of the economic region's industry are food and light industries processing the products of the local agriculture. The light industry of the economic region is mostly represented by the winery, fruit-growing, textile, and carpet-making sectors. In the food industry, the winery processing the local grape yield takes the main place. In addition, there are enterprises of forest and wood processing, production construction materials (wood processing enterprise in Ismayilli rayon, stone mines, and the brick plant in Shamakhi and Gobustan rayons), repairshop for agricultural machinery in the economy of the region.

Shirvan region has historically been handicraft and textile center. Lahij

district is famous with its coppersmith products, and the Basgal village is famous in the country with its kelaghayi (traditional women headwear). There are silk kelaghayi workshops operating in Shamakhi. Carpet-making is the traditional handicraft kind for the most villages.

Shirvan economic region has an extensive transport network. All transport kinds are used here. Baku-Tbilisi railroad allows for developing economic relations with CIS countries. Railroad is complemented by highroads and high roads of local importance. Baku-Gazakh highroad connecting the capital of the republic with western rayons go through the territory of this region. To create enabling conditions for the development of the winery the railroad of local importance has been constructed between Padar station and Chol Goyler village.

The social infrastructure of the region includes secondary schools, branches of the high education colleges (Shamakhi branches of Pedagogical and “Odlar Yurdu” universities), cultural-education and health centers, theatres and museums.

### **1.9. Nakhchivan economic region**

Nakhchivan economic region of Azerbaijan Republic is located apart from Azerbaijan's mainland as an enclave surrounded by Turkey, Iran and Armenia, covering the territory of the Autonomous Republic with the same name. As a result of occupant policy of the Republic of Armenia, Nakhchivan economic region is under blockade and currently suffers from an extremely unfavorable economic-geographical position. Nakhchivan economic region covers Babek, Julfa, Ordubad, Sederek, Shahbuz, Sharur administrative rayons and Nakhchivan city. Total area of the economic region is 5.5 thousand sq.km, or 6.3% of the republican area. By topographic characteristics the area of the region consists of Zengezur and Dereleyez

mountains and heely plains lying along with Araz river. 0.5% of the territory of the economic region is covered by the forests.

Total population of the economic region is 364.5 thousand persons, or 4.5% of the republican population. Of them 198 thousand are able to work. Average population density in the economic region is 66 persons for each sq.km.

There are rich natural resources in the Nakhchivan economic region: molybdenum, polymetal ores, rocksalt, dolomite, marble, construction materials fields. In addition, economic region has over 200 most valuable mineral water springs, such as Badamli, Sirab, Vaykhir etc. All of the republic's molybdenum and dolomite reserves, and 60% of mineral water reserves are in the Nakhchivan economic region.

Nakhcivan economic region has a developing industry and multi-faceted agriculture. 2.6% of total industrial output and 3.6% of the agricultural output of the republic is contributed by the economic region. More than half of the industrial output, and up to 35% of industrial-production labor force is concentrated in Nakhchivan industrial network. The leading sectors of the industry are power industry (Araz PS), electrical engineering (Nakhchivan), aluminium plates, furniture (Nakhchivan), car repairshop (Shahbuz) enterprises. Within the construction materials industry, there are steel-concrete constructions (Nakhchivan, Sharur), wallboard materials plant, sand –gravel stonemine enterprises. Light and food industry sectors play an important role in the region's economy. Over 70% of city of Nakhchivan's industrial output is provided by food industry, while 10% is from the light industry. Economic region's light industry is represented by textiles (Nakhchivan, Julfa), silk processing (Ordubad), carpet-making, knitwear (Nakhchivan) enterprises, while the food industry is represented by canning (Ordubad, Sharur), tobacco processing, mineral water bottling, meat processing, fishery (Nakhchivan, Shahbuz, Sharur) enterprises.

The diversity of agroclimatic conditions of the economic region has

caused multi-directional specialization of the agriculture. Planting is developed using artificial irrigation. The main planting areas are viniculture, tobacco, fruit-growing and wheat production. Nakhchivan economic region is the second tobacco producing region of the republic. There are also sugar-canes, henna, vegetables, and flowers planted in the economic region. Meat-milk oriented livestock, meat-wool and milk oriented sheep husbandry, apiculture are the main directions of the husbandry.

Currently, railroad connection of Nakhchivan economic region with Azerbaijan Republic is completely broken. The only connection is through air and the high road from the Iran's territory. Nakhchivan's energy supply is provided from Iran and Turkey.

Being as one of the ancient cultural centers, Nakhchivan AR has an extensive social-cultural infrastructure. Autonomous Republic has scientific divisions of National Academy of Sciences, general education, vocational, musical schools, cultural-educational and health centers and museums, as well as great number of historical monuments.

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The overview of social-economic development status of economic regions given above once again confirms the fact that starting from the end-80s of the previous century, economic and social instability in our republic affected negatively the development of all regions. The break up of economic relations with the former Soviet Union republics led to a critical state of the industry of the regions. Depression in the traditional agricultural sectors due to the loss of equity in the process of exchange among the main sectors of economy and other reasons led the economies of the regions consisting of processing of agricultural products to be deprived of the raw material.

Starting from the 1995, as a result of established political stability and ongoing consistent economic reforms, the macroeconomic stability was

regained in the country's economy. The actions taken has enabled the development of entrepreneurship in regions. The role of small and medium entrepreneurship starts increasing in the region's economy. Currently, there are over 300 small enterprises in Nakhchivan (1.5% of the republican total), over 900 in Absheron (5%), about 1200 in Ganja-Gazakh (6.3%), over 400 in Sheki-Zagatala (2.2%), about 800 in Lankaran (4.2%), about 350 in Guba-Khachmaz (1.9%), over 2000 in Aran (10%). SME sector started to play a sensible role in ensuring employment among population. The number of individuals engaged in entrepreneurship has increased significantly.

The level of development of production-oriented entrepreneurship remains weak. In Nakhchivan 8.6%, in Absheron 8%, in Ganja-Gazakh 8.9%, in Sheki-Zagatala 12.5%, in Lankaran 5.5%, in Guba-Khachmaz 13.4%, in Arana 6.5% of existing small enterprises operate in the industrial sector.

In addition, the opportunities for the entrepreneurship development in the regions are not fully realized. Despite the formation of new economic forms, access to finance to establish the work of privatized enterprises and units in conformity with the requirements of new era, remains problematic for the most of the economic units. A weak development of market infrastructure significantly constrains producers' efficient operational possibilities. There is a huge need for providing information and consulting services for enterprises in the area economic management in the new circumstances. The development of regions requires large investments and the issue of developing a system for promoting such investments remain unresolved.

Since the mentioned problems of development of regions are closely inter-related, their systematic resolution is required. This is a main condition of regional development. Therefore, a need to use more fully and efficiently coordinate the regions' potential at this stage of development has necessitated the implementation complex measures aimed at social-economic development of regions.

## **2. Main directions of social-economic development of regions in the years of 2004-2008**

Large-scale economic reforms carried out during 1995-2003 have created suitable grounds for significantly improving population's living standards and resolving economic problems of regions.

Macroeconomic stability ensured as a result of policy implemented during recent years plays an important role in providing comprehensive development of regions of Azerbaijan Republic, improving territorial structure of economy, complete establishment of entrepreneurship in localities, reducing and gradual removing of poverty in the country.

Taking into account this factor as one of the main pre-requisites of the development of the economy, including the economy of regions, macroeconomic stability will be strengthened during the following years. For this purpose, the following policies will be continued in the years of 2004-2008: efficient external debt management, maintaining average annual inflation rate and the exchange rate of the national currency at an acceptable level, reducing the number and the rates of taxes to the optimal level, extending the concessional period applied to the producers of agricultural goods, promoting creation of new jobs, regulating customs tariffs taking into account of the domestic production interests.

Within the monetary policy, due to increase of oil revenues, a special emphasis will be put on exchange rate policy ensuring protection of manat's competitiveness and optimization of money offer canals.

In investment policy, the main objective will be direction of state investments to improvement of infrastructure and utility service supply of regions and construction of social buildings. Tariff policy will be developed taking into account living standards and purchasing ability of population.

The process of harmonization of legislation and standards to international requirements to enable Azerbaijan to become in future a member

of reputable international organizations and economic unions will be accelerated. Foreign economic policy will be aimed at creation of an enabling environment for exports of produced goods, while at the same time, protection of domestic market from unfair competition.

One of the main objectives in the industrial sector will focus on reviving the operations of industrial enterprises, as well as creation of new enterprises in the regions. Here, a particular emphasis will be put on rehabilitation of agroprocessing enterprises and, thus, increasing opportunities for sales of goods by farmers related to such production.

In the agricultural sector, second stage of reforms will be accelerated, main objective of the state policy will consist of improving significantly welfare and social livelihood of rural population. A particular focus will be on the development of mountaneous regions.

In this order following actions will be implemented:

- Developing agro-processing enterprises;
- Directing state investments to the rehabilitation of production enterprises, improvement of infrastructure and utility supply of regions, construction of social buildings;
- Introducing tax holidays for the producers of agricultural products;
- Continuing state financial support programs to agroindustrial complex enterprises and farm units, creation of microcredit banks, credit bureaus to finance projects in this sector, establishing insurance system based on market principles in agriculture;
- A comprehensive state support of both domestic and foreign sales of goods by farmers, establishment of Export Supporting Funds, merchandise exchanges, bonded warehouses and auctions;
- State support and financing of veterinary, technical control, sanitary and phyto-sanitary, seed and breeding works;
- Supporting creation of a network of agricultural technical services;

- Restoring and reconstructing current melioration and irrigation systems, constructing new systems in order to improve water supply of irrigated lands, implementing measures against salination of land, pouring out salt waters through main collectors to the Khazar Sea;
- Constructing new water reservoirs, main canals and other objects in order to remove water shortage;
- Implementing measures against soil erosion;
- Developing land recultivation projects;
- Establishment of a land cadastre;
- Creation of a land market in the country.
- Streamlining procedures for execution of property, use and leasing rights on land areas.

The development of traditional wheat, viticulture, cotton, tobacco, tea leaves, silk production and other sub-sectors will be a priority in the agriculture of Azerbaijan.

Taking into account the fact that infrastructure and utility services are one of the main factors in ensuring economic development of regions and increasing populations living standards, main directions of public policy in this area during the period of 2004-2008 will be as follows:

- Implementing projects for construction, restructuring and development of modern type of power stations, roads, communications lines and other infrastructure facilities;
- Developing transport, high roads, and road infrastructure, especially in rural areas and small districts;
- Developing financial infrastructure;
- Increasing the provision of population, and especially of rural population with utility services, including electricity, water, gas, communications etc., up to a level of modern requirements, for this purpose continue restructuring measures in these sectors;

- Increasing municipalities' role in managing the infrastructure and utility service facilities.

Structural public policy will be aimed at the development of non-oil sector along with the oil sector development, wider application of innovative technologies, privatization of large enterprises, development of entrepreneurship, increasing export potential.

One of the main objectives of the privatization process will be to renew the operations of not functioning enterprises and opening up new jobs in the regions.

For this purpose, the following will be ensured:

- Transparency of privatization process;
- Opening up of new areas for privatization and intensification of process of enterprise privatization in accordance with the State Program;
- Maximum use of privatization vouchers;
- Protection of private property, property and shareholders;
- Creation of a State Registry of non-movable property and ensuring its operation meets international requirements.

In the years ahead, complex measures aimed at improving business climate in Azerbaijan will be continued and the main directions of such measures would be the following:

- Increasing state financial support to the development of entrepreneurship in the regions;
- Creating a database on potential opportunities existing in the regions;
- Creating local centers providing consulting, information provision, marketing and other services in the regions;
- Developing tourism in the regions;
- Creating trade fairs in the regions;
- Strengthening laboratory control over the quality produced goods;

- Creating local labor training centers for unemployed in the regions taking into account the local specialization;
- Implementing tax-customs policy aimed at promoting entrepreneurship;
- Regularly regulating natural monopolies' tariffs;
- Radically preventing interventions into the business activities;
- Supporting and developing such types of internationally successful business activities as mortgage, leasing, franchizing;
- Expanding public-private dialogue.

During the next 5 years, the main objectives of the social policy in the regions will be consisting of meeting social needs of population, as well as citizens living in the regions, improving their living conditions.

One of the main directions of the state policy in the area of social assistance will be consisting of regular increase of pensions, ensuring targeting of pensions, paying special attention to invalids, war veterans, young families and vulnerable sections of population.

Education reforms will be aimed at renovation of structure and content of education system.

In order to reach these goals following measures will be implemented:

- Modernizing content of education, increasing its quality;
- Ensuring equal education opportunities for all sections of population;
- Supply of pupils with free manuals;
- Increase student grants;
- Improving pre-school education system;
- Constructing new schools in the regions, improving technical and personnel supply of village schools.

One of the main duties in science consist of the development of science branches, as well as agricultural science branches, coordination of activities of scientific-research institutes and economic structures.

The main goals of the Government in health sector consist of improvement of population health, extension of average living period, supply of all sections of population with qualified medical service.

The main directions of state policy in health sector are following:

- Extension of free health service and increase of its quality within financial opportunities of the Government;
- Establishment of medical insurance system in the country;
- Supporting establishment and activities of medical industry enterprises in order to improve supply of health service enterprises with medicines and equipment;
- Considerable extent of comprehensiveness and quality of medical prophylaxis;
- Develop and implement system of measures regarding health service provided to the vulnerable population;
- Construction of new health service enterprises in regions.

The strategic objectives of the Government in culture sector will be consisting of protection and development of cultural potential, resources and traditions of the country, systematic increase of budgetary finance of culture, development of physical, technical and information infrastructure in culture sector.

The strategic objectives in physical education and sport sector will be consisting of improvement of population health, bringing up high moral qualities in people, ensuring readiness for protection of motherland.

Development of regions in the directions mentioned above and implementation of measures considered in the State Program is important stage in the socio-economic development and improvement of well-being of population.

According to projections, in 2008, GDP will increase 2.3 times from its 2003 level and would comprise 76.3 trillion manat, while GDP per capita would comprise US\$ 1578 and the share of the non-state sector in GDP

would be 85%. In the years of 2004-2008 average growth rate of all sectors in the GDP structure, including the agricultural growth rate would be in the range of 10-15%. Real growth of agricultural output in 5 years would represent 62.5%. The volume of investments from all financing sources would reach US\$ 16.8 billion, about 60% of which would go to regions.

In the next 5 years, overall 600 thousand new jobs will be created, average monthly wages will increase 3.1 times in the non-state sector.