

ECONOMY *of* AZERBAIJAN



Prof. Dr. Osman Nuri Aras
Assoc. Prof. Dr. Elchin Suleymanov
Assoc. Prof. Dr. Karim Mammadov

Baki – 2016

ECONOMY OF AZERBAIJAN

25 Years of Independence

Prof. Dr. Osman Nuri Aras
Fatih University,
Istanbul, Turkey

Assoc. Prof. Dr. Elchin Suleymanov
Qafqaz University,
Baku, Azerbaijan

Assoc. Prof. Dr. Karim Mammadov
Western University,
Baku, Azerbaijan

DESIGN
Sahib Kazimov

PRINTING AND BINDERING
“Sharg-Garb” Publishing House
Aşiq aiesgar kiig., No: 17, Xatai rayonu, Baki, Azarbaycan;
Tel: (+99412) 374 83 43

ISBN: 978-9952*468-57-1

© Prof. Dr. Osman Nuri Aras. Baki, 2016 ©
Assoc. Prof. Dr. Elchin Suleymanov. Baki. 2016
© Assoc. Prof. Dr. Karim Mammadov. Baki. 2016

Foreword

During every work, whether it is academic or professional, we interact, get assistance and are guided by certain group of people who value and assist us to achieve our targets. We are sure that the people who support us and provide valuable contribution to the English version of this book will not be limited in a short list, but we would like to mention, and in certain ways, express our acknowledgement to the people who enabled us to get on a track and deliver the book in a few months. Thanks to Turan Agayeva, Ulker Gurbaneliyeva, Khayala Mahmudiu and especially to Tural Hasanov for their help in preparing and delivering this book to your valuable consideration.

GENERAL INFORMATION ABOUT AZERBAIJAN

The Establishment of the Republic of Azerbaijan	28 May 1918
The independence Day	18 October 1991
Joining to the Organization for Security and Cooperation in Europe	30 January 1992
Joining to the United Nations	2 March 1992
Joining to the Commonwealth of independent States	19 September 1995
Joining to the Council of Europe	17 January 2001
Area (thousand km ²)	86.6
Population, (thousand person) (According to the beginning of 2015)	9593.0
Density of population in 1km ² (person)	111
Capital	Baku
Official Language	Azerbaijani
Currency	Manat
The course of Manat to Dollar (07.02.2016)	0.6389

The Head of State	President

Autonomous Republic	1
Districts	66
Cities	78
City based Districts	14
Settlements	261
Villages	1727
Village-settlements	4249

Geographical Information:	
Area:	86600 km ² (12% forests, 1.7% water basin, suitable lands, 31.1% pastures and hay fields, 31.4 other lands). Azerbaijan lies between latitudes 38° and 42° N, and longitudes 44° and 51° E. The distance from Baku to North Pole is 5550 km, and the distance from Baku to equator is 4440 km.
Neighbours:	The total length of Azerbaijan's land borders is 2,650 km, of which 1007 kilometers are with Armenia, 765 kilometers with Iran, 471 kilometers with Georgia, 392 kilometers with Russia and 15 kilometers with Turkey.
The biggest lakes:	Sarisu: 67.0 km ² Aggol: 56.2 km ² Agzibirchala: 37.0 km ² Mehman: 35.0 km ² Boyukshor: 9.2 km ² Hacigabul; 8.4 km ²
The biggest lake in the world:	Caspian Sea (Area: 400000 km ² ; Depth: 1025 m)
The highest mountain:	Bazarduzu - 4466 m
The biggest islands:	Pirallahi-14.4 km ² Chilov-11.5 km ² Khere-Zire- 3.5 km ² BoyukZire-1.4 km ²
The longest rivers:	Kur-1515km Araz-1072km Alazan (Ganix)- 413 km Iorri (Gibirri)- 389 km Samur-216km Tartar- 200 km

Table of Contents

INTRODUCTION	1
CHAPTER ONE	
THE TRANSITION PERIOD IN AZERBAIJAN ECONOMY.....	3
1.1. AZERBAIJAN BEFORE THE INDEPENDENCE	4
1.1.1.	
SOVIET UNION AND THE COLLAPSE OF THE USSR	4
1.1.2. AZERBAIJAN IN SOVIET UNION	5
1.2. FIRST PERIOD AFTER THE INDEPENDENCE	7
1.2.1. THE FIRST PERIOD REFORMS	8
1.3. SECOND PERIOD AFTER THE INDEPENDENCE (1995-2003)	9
1.3.1. THE SECOND PERIOD REFORMS	14
1.4. THE THIRD PERIOD AFTER THE INDEPENDENCE (FROM 2003)	16
1.5. GENERAL ASSESSMENT OF THE TRANSITION PERIOD.....	17
CHAPTER TWO	
MACRO-ECONOMIC ANALYSIS OF AZERBAIJAN ECONOMY	21
2.1. GROSS DOMESTIC PRODUCT	22
2.2. INFLATION.....	27
2.3. EMPLOYMENT	30
2.4. PRIVATIZATION	33
2.4.1. THE COMPARISON BETWEEN PUBLIC AND PRIVATE SECTOR	37
2.5. STATE BUDGET.....	38
2.6. MONETARY POLICY.....	40
2.7. FOREIGN TRADE.....	42
2.7.1. THE MAIN COUNTRIES IN FOREIGN TRADE	45
2.7.2. FOREIGN TRADE RELATIONS WITH CIS COUNTRIES	46
2.8. FOREIGN DEBTS	47
2.9. ENVIRONMENT AND ECOLOGY	51
2.10. POPULATION	53

CHAPTER THREE	
SECTORIAL ANALYSIS	55
3.1. INDUSTRY.....	55
3.1.1. MINING INDUSTRY	58
3.1.2. ELECTRICITY	58
3.2. AGRICULTURE AND CAHLE-BREEDING.....	60
3.2.1. STOCK-BREEDING.....	72
3.2.2. FISHING.....	77
3.2.3. BEEKEEPING.....	80
3.3. SERVICE SECTOR	81
3.3.1. EDUCATION	81
3.3.2. HEALTH	84
3.3.3. TOURISM	85
3.3.4. FINANCE.....	90
3.3.4.1. Bank	90
3.3.4.2. Insurance.....	100
3.3.4.3. Securities Exchange	104
3.3.5. TRANSPORT AND COMMUNICATIONS	106
3.3.5.1. Sea transport.....	107
3.3.5.2. Road transport.....	110
3.3.5.3. Railway Transport	113
3.3.5.4. Airport Road Transport.....	115
3.3.5.5. The pipeline transport.....	116
3.3.5.6. Communication.....	117
3.3.5.7. New Silk Road Project.....	120
3.3.5.8. North-South transport corridor	123
3.3.6. CONSTRUCTION.....	123

CHAPTER FOUR	
REGIONAL ANALYSIS	127
4.1. ECONOMIC REGIONS.....	128
4.1.1. ABSHERON ECONOMIC REGION.....	128
4.1.2. GANJA-GAZAKH ECONOMIC REGION	130
4.1.3. SHEKI-ZAGATALA ECONOMICAL REGION.....	132
4.1.4. MOUNTAINOUS SHIRVAN ECONOMICAL REGION	134
4.1.5. ARAN ECONOMICAL REGION	136
4.1.6. NAKHCHIVAN ECONOMICAL REGION	137
4.1.7. LANKARAN ECONOMIC REGION.....	139
4.1.8. GUBA-KHACHMAZ ECONOMIC REGION.....	141
4.1.9. UPPER KARABAKH ECONOMIC REGION	143
4.1.10. KALBAJAR-LACHIN ECONOMIC REGION	143
4.2. IMPORTANCE OF REGIONAL DEVELOPMENT PROGRAMS.....	144
4.3. REGIONAL DEVELOPMENT PROGRAM (2004-2008)	147

4.3.1.	GENERAL OBJECTIVES OF THE PROGRAM.....	148
4.3.2.	REGIONAL TARGETS OF PROGRAM	150
4.3.3.	DEVELOPMENT AFTER THE PROGRAM.....	151
4.3.5.	EXPECTATIONS FROM APPLICATION	154
4.4.	THE PROGRAM OF SOCIO-ECONOMIC DEVELOPMENT OF AZERBAIJAN REPUBLIC REGIONS IN 2009-2013.....	156
4.4.1.	THE GOAL OF OF THE STATE PROGRAM, OBJECTIVES AND PRIORITIES OF REGIONAL DEVELOPMENT	157
4.4.2.	SOURCES OF FUNDING MEASURES ENVISAGED IN THE STATE PROGRAM.....	170
4.5.	SOCIO-ECONOMIC DEVELOPMENT PROGRAM OF REGIONS OF AZERBAIJAN REPUBLIC FOR 2014-2018.....	171
4.5.1.	SOURCES OF FUNDING MEASURES ENVISAGED IN THE STATE PROGRAM.....	184

CHAPTER FIVE

	CASPIAN ENERGY RESOURCES AND ECONOMIC IMPORTANCE	185
5.1.	POTENTIAL OF OIL AND NATURAL GAS	185
5.2.1.	THE CONTRACT OF THE CENTURY: "AZERI-CHIRAG-GUNESLI" FIELDS AGREEMENT	191
5.2.2.	"SHAHDENIZ" FIELD CONTRACT	195
5.2.3.	OTHER CONTRACTS	197
5.2.3.1.	The contracts on offshore fields	197
5.2.3.2.	Contracts on Onshore Fields.....	201
5.3.	OIL AND NATURAL GAS PRODUCTION	204
5.4.	FOREIGN INVESTMENTS IN OIL AND NATURAL GAS SECTOR	207
5.5.	OIL EXPORT LEVEL AND INCOMES.....	208
5.6.	THE PIPELINES.....	212
5.6.1.	BAKU-NOVOROSIYSK OIL PIPELINE.....	212
5.6.2.	BAKU-SUPSA OIL PIPELINE.....	213
5.6.3.	BAKU-TBILISI-CEYHAN OIL PIPELINE	213
5.6.4.	BAKU-TBILISI-ERZURUM NATURAL GAS PIPELINE	215
5.6.5.	TANAP PROJECT AND ITS PERSPECTIVE	216

CHAPTER SIX

	"DUTCH DISEASE" IN ECONOMY AND THE MEASURES AGAINST IT	223
6.1.	DUTCH DISEASE	223
6.2.	DUTCH SYNDROME IN AZERBAIJAN AND ITS COMPLICATIONS	225
6.3.	THE MEASURES TAKEN AGAINST DUTCH DISEASE.....	227
6.3.1.	THE STATE OIL FUND	227
6.3.1.2.	The Independence or Privatization of the State Oil Company	232
6.3.2.	THE ACTIVITIES ON THE ESTABLISHMENT OF FREE ECONOMIC ZONES	233

CHAPTER SEVEN

THE ECONOMIC POLICY OF AZERBAIJAN	235
7.1. MONETARY POLICY	235
7.2. FINANCIAL POLICY.....	243
7.3. EXCHANGE RATE POLICY	251

CHAPTER EIGHT

THE PROCESS OF AZERBAIJAN'S INTEGRATION

TO THE WORLD ECONOMY	263
8.1. THE	264
LEVEL OF INTEGRATION	264
8.2. THE TIES WITH INTERNATIONAL ECONOMIC ORGANISATIONS.....	264
8.2.1. RELATIONS WITH THE IMF	266
8.2.2. RELATIONS WITH THE WORLD BANK.....	268
8.2.2.1. Cooperation with the Multilateral Investment Guarantee Agency (MIGA)	271
8.2.2.2. Cooperation with the International Finance Corporation (IFC).....	272
8.2.3. RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION	
AND DEVELOPMENT (EBRD)	272
8.2.4. RELATIONS WITH THE JAPAN BANK FOR INTERNATIONAL	
COOPERATION (JBIC).....	273
8.2.5. TIES WITH THE ASIAN DEVELOPMENT BANK	274
8.2.6. TIES WITH THE ISLAMIC DEVELOPMENT BANK (IDB)	274
8.2.7. RELATIONS WITH THE GERMAN DEVELOPMENT BANK.....	275
8.2.8. RELATIONS WITH THE BLACK SEA TRADE AND	
DEVELOPMENT BANK (BSTDB)	276
8.3. STRUCTURE OF FOREIGN DEBT ON RESOURCES	276
8.4. TIES WITH THE EUROPEAN UNION	276
8.4.1. TRACECA	277
8.4.2. TACIS	279
8.4.3. INOGATE	280
8.5.	
REGIONAL ECONOMIC REUTIONS	280
8.5.1. THE COMMONWEALTH OF INDEPENDENT STATES	280
8.5.2. ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION	291
8.5.3. ECONOMIC COOPERATION ORGANIZATION	292
8.5.4. GU(U)AM.....	292
8.6. NEW	
GOALS OF INTEGRATION	293
8.6.1. MEMBERSHIP IN WORLD TRADE ORGANIZATION	294
8 6 2 "TURKISH ECONOMIC UNION" OR IDEA OF	

CHAPTER NINE

FOREIGN INVESTMENTS IN AZERBAIJAN AND INVESTMENT POTENTIAL ..299

9.1.	FOREIGN INVESTMENTS	299
9.2.	INVESTMENT ENVIRONMENT	305
9.2.1.	NEGATIVE CASES IN INVESTMENT ENVIRONMENT	306
9.2.2.	LEGAL REGULATIONS.....	307
9.2.3.	LEGAL ENTERPRISES REGISTRATION PERIOD	308
9.2.4.	PROPERTY RIGHTS PROTECTION AND RESPECT FOR CONTRACTS	309
9.2.5.	PROTECTION OF INTELLECTUAL PROPERTY RIGHTS.....	310
9.2.6.	STATE FINANCIAL AID TO PRIVATE SECTOR	310
9.2.7.	TRANSPARENCY OF REGULATORY SYSTEM. GENERAL STANDARDS MANAGEMENT AND COMBATING CORRUPTION	310
9.2.8.	NATIONAL REGULATIONS	311
9.2.9.	NATIONALIZATION	311
9.2.10.	THE TRANSFER AND REPLACEMENT OF THE INCOME	311
9.2.11.	RESOLUTION OF CONFLICTS	312
9.2.12.	BILATERAL INVESTMENT TREATIES	312
9.2.13.	CAPITAL PARTICIPATIONS AND SUPPORT	312
9.2.14.	TAXES AND TAX RATES	312
9.3.	
	INVESTMENT POTENTIAL	315
9.4.	
	INVESTMENT AND TRADE SPHERES	316
9.4.1.	AGRICULTURE AND FOOD.....	316
9.4.2.	CHEMICAL INDUSTRY.....	317
9.4.3.	LIGHT PROCESSING INDUSTRY	317
9.4.4.	CONSTRUCTION AND TOURISM.....	318
9.4.5.	TRANSPORT.....	318

CHAPTER TEN

SWOT ANALYSIS OF COUNTRY'S ECONOMY 319

10.1.	THE STRENGTHS	320
10.1.1.	THE STRENGTHS FROM MACROECONOMIC PERSPECTIVES.....	320
10.1.2.	THE STRENGTHS FROM SECTORIAL AND REGIONAL PERSPECTIVES	321
10.1.3.	NON-ECONOMIC STRENGTHS.....	323
10.2.	THE WEAKNESSES	323
10.2.1.	THE WEAKNESSES IN MACROECONOMIC PERSPECTIVES	323
10.2.2.	WEAKNESSES IN SECTORIAL AND REGIONAL PERSPECTIVES	325
10.2.3.	NON-ECONOMIC WEAKNESSES	326
10.3.	THREATS.....	327
10.3.1.	ECONOMIC THREATS.....	327
10.3.2.	NON-ECONOMIC THREATS.....	327
10.4.	OPPORTUNITIES	328

10.4.1.	ECONOMIC OPPORTUNITIES	328
10.4.2.	NON-ECONOMIC OPPORTUNITIES.....	329
10.5.	PROPOSALS.....	330

CHAPTER ELEVEN.....	333
ECONOMIC RELATIONS BETWEEN AZERBAIJAN AND TURKEY	333
11.1. LEGAL BASICS OF ECONOMIC RELATIONS	333
11.1.1. COOPERATION IN THE AGRICULTURE FIELD.....	334
11.1.2. COOPERATION IN THE INDUSTRIAL FIELD	334
11.1.3. COOPERATION IN THE FIELD OF STANDARDS	335
11.1.4. COOPERATION IN ENERGY SECTOR	335
11.1.4.1. Baku-Tbilisi-Ceyhan Oil Pipeline Project	336
11.1.4.2. Baku-Tbilisi-Erzurum Natural Gas Pipeline Project.....	336
11.1.5. COOPERATION IN TOURISM SECTOR	336
11.1.6. COOPERATION IN MINING SECTOR.....	336
11.1.7. COOPERATION IN EDUCATION SECTOR	337
11.1.8. COOPERATION IN TRANSPORT SECTOR	337
11.1.9. CUSTOMS PARTNERSHIP	337
11.1.10. COLLABORATION IN SOCIAL SECURITY SPHERE.....	337
11.1.11. EXIMBANK LOANS.....	338
11.1.12. TURKISH COOPERATION AND DEVELOPMENT AGENCY (TIKA) CONTRIBUTIONS	338
11.2. TRADE RELATIONS	339
11.3.	THE
ADVANTAGE OF TURKISH INVESTMENTS IN AZERBAIJAN	341
11.3.1. THE SECTORAL DISTRIBUTION OF TURKISH INVESTMENTS.....	342
11.3.2. AZERBAIJAN INTERNATIONAL SOCIETY OF TURKISH INDUSTRIALISTS AND BUSINESSMEN (TUSIAB).....	344
11.4. AZERBAIJAN INVESTMENTS IN TURKEY	344
11.5. THE NEW ERA	345

CHAPTER TWELVE	
THE IMPACT OF GLOBAL FINANCIAL CRISIS ON AZERBAIJAN'S ECONOMY	351
12.1 .THE GLOBAL FINANCIAL CRISIS AND ITS REASONS	351
12.2. THE IMPACT OF FINANCIAL CRISIS ON THE ECONOMY OF AZERBAIJAN	352
12.2.1. THE IMPACT ON ECONOMIC DEVELOPMENT	352
12.2.2. THE IMPACT ON OIL AND NON-OIL SECTOR.....	353

12.2.3.	THE IMPACT ON AGRICULTURAL SECTOR.....	353
12.2.4.	THE IMPACT ON TRADE SECTOR	354
12.2.5.	THE IMPACT OF AZERBAIJAN ON FOREIGN STATE DEBT	355
12.2.6.	THE IMPACT ON CONSTRUCTION SECTOR	356
12.2.7.	THE IMPACT OF DIRECT INVESTMENT	356
12.2.8.	THE IMPACT ON STATE BUDGET	358
12.2.9.	THE IMPACTS ON MACROECONOMICS	359
12.2.10.	THE IMPACTS ON MICROECONOMIC SYSTEM	360

THE RESULTS AND PROPOSES.....	363
-------------------------------	-----

LIST OF REFERENCES	373
--------------------------	-----

BY SPONSOR.....	386
-----------------	-----

INTRODUCTION

The social and political processes, started in 1980s, resulted with the collapse of the USSR, and all union republics became independent. Azerbaijan was one of the first countries, which gained independence in those years.

Azerbaijan declared independence on 18th of October 1991. Thus Azerbaijan became one of the countries, which balances economic and political relationships in the region. This characteristic comes from the geopolitical position of Azerbaijan. Located in the region of the Southern Caucasus, Azerbaijan has borders with the Caspian Sea to the east, Georgia and Russia to the north, Iran to the South, and Armenia to the southwest and west. A small part of Nakhchivan Autonomous Republic also has borders with Turkey to the northwest.

The transition period in Azerbaijan was observed some problems. However the country could maintain independence. To do so, several economic, social and political problems were resolved.

The main problem, which Azerbaijan confronted, was structural. Therefore, it was important to create economy, which can manage itself independently. Throughout the years, some important steps have been taken in order to liberalize the economy.

Azerbaijan has huge natural resources, which triggered the development of economy. Oil and gas resources are the most important wealth of Azerbaijan. In 2015, 90% of the export belongs to the energy carriers. This figure also shows the importance of the energy sector in Azerbaijan economy. For this reason, energy resources should be used relevantly.

It was not possible to have investment and then divert it to the relevant sectors, without the interference of the government in the transition period. Therefore regulator also should play role, with the invisible hand in order to stabilize free market economy.

The political stability was obtained during Heydar Aliyev's government. The strong political power triggered economic development. Ilham Aliyev, the successor of nationwide leader Heydar Aliyev continues to realize the political program of his father.

CHAPTER ONE

THE TRANSITION PERIOD IN AZERBAIJAN ECONOMY

The most important trade relationships were realized via the Mediterranean and Black Seas in ancient times and medieval. The caravan routes, especially Great Silk Way were extended from China and India to Mediterranean and Black Seas and passed through Azerbaijan. Well-known caravan route which made connection between Eastern Europe and South Caucasus, Iran, and Central Asia via Darband passage also crossed Azerbaijan. Thus, abovementioned international caravan routes attracted the other countries from ancient times. Azerbaijan played "*Golden Bridge*" role in the region.

However this geopolitical position caused deep problems throughout the history. Thus, Azerbaijan was separated between Russia and Iran in 1813 and 1828 according to the Gulustan and Turkmenchay contracts, relevantly. Therefore Azerbaijan territories started to be named Southern and Northern Azerbaijan. After the Bolshevik revolution, Azerbaijan Democratic Republic was established in 28 May 1918. However Azerbaijan was invaded by the Russian troops in 27 April 1920. Azerbaijan became the part of USSR in 1922 and named "*Azerbaijan Soviet Socialist Republic*" from 1936. Eventually northern Azerbaijan, which was the colony of USSR, declared independence in 1991, after the collapse of the Soviet Union.

In 1980s, "glasnost policy" which was implemented by Michael Gorbachev caused the collapse of the USSR and Azerbaijan regained independence in 1991. "Milli Majlis", the Parliament of the Republic of Azerbaijan declared 18th October as a National Independence Day. Azerbaijan got rid of soviet imperialism, totalitarian soviet regime, and utopic communist ideology via the independence.

Azerbaijan becomes the independent state now. There is no any foreign army in the territories of Azerbaijan. Furthermore Independent government organizations resolve the problems of the citizens in the country. Naturally, the political independence plays much more important role in the forming of national economy.

The second important aspect in terms of economic development and integration to the world economy is characterized by the climate and suitable geographical position. 9 climate zones of 11 are observed in Azerbaijan. Azerbaijan has suitable geography for the development of agriculture and tourism, fertile lands, long coastlines, large pastures, forests, and nice climate.

Great Silk Way, the oil and gas pipelines, which carry Central Asian energy resources to the world market also cross Azerbaijan. The relevant geographical position of Azerbaijan plays more important role between Asia and Europe. Azerbaijan became the member of the United Nations Organization after the independence and continued to make good relationships with foreign countries.

Azerbaijan, which is located on the crossroad of Europe and Asia, has a potential to be strong communication center in the region. Therefore Azerbaijan is very interested in the establishment of Europe-Caucasus-Asia corridor. One of the most important aspects due to realize the economic development is the natural resources. Azerbaijan has several significant natural resources such as lead, zinc, copper, iron, gunpowder, cobalt, marble, lime, mineral water, salt mine, rock salt and etc. Azerbaijan also has golden and silver mines.

The most significant natural resources of Azerbaijan are oil and gas. The oil reserves can be found in the Caspian Sea, Absheron peninsula, and coastline of Kur River, Gobustan, and Ganja. Oil revenues are huge part of the Azerbaijan's budget.

The economic development of Azerbaijan is consisted of three important periods after the independence. The period before the independence, and the transition period will be analyzed.

1.1. AZERBAIJAN BEFORE THE INDEPENDENCE

1.1.1. SOVIET UNION AND THE COLLAPSE OF THE USSR

Soviet nations have lived in three different socio-economic periods since 18th century, which is symbolized by Peter the Great, Lenin and Gorbachev. The first transition period with the Peter the Great was followed by the revolution of 1917. The revolution initially happened in 1905, destroyed the Tsarist Empire in 1917. Bolsheviks also supported the revolution and Russians rejected the

democracy and market economy. Socialism, economic model based on the central planning was started to be implemented in Soviet Union. Thus Russians started to control themselves and 1/6 of the world population via totalitarian dictatorship and central planning system. Furthermore the nationality was formed according to the Leninist ideology.

Soviet Union entered new era from 1985. Thus the collapse of the Marxist- Leninist ideology was observed in those times! The natural development of the humanity and dialectic theory injured the socialism and rejected the Marxist- Leninist doctrine as utopist system. This was observed in the totalitarian Soviet Union, which includes 1/6 of the world.

Socialist system was successful only in industrialization period in Soviet Union. Unreasonable employment, no more equipment production, no more import of the new technologies, lack of the organization caused the stagnation in the economy.

1.1.2. AZERBAIJAN IN SOVIET UNION

The management mechanism of the economy of Azerbaijan was formed based on the USSR during the Soviet period. The industrial structures were formed according to the demands of the Soviet Union. In Soviet Union, the countries were specialized in line with the central planning. In this frame, the driving force of Azerbaijan economy was oil. The huge amount of the export was realized to Russia and Ukraine and oil products, machine building, weaving and winemaking were the main part of it. The huge amount of the import was based on the oil products, which come from the abovementioned countries as a crude material.

The specialists claimed that Azerbaijan is one of the two countries that were ready for the independence during the last years of the Soviet Union. Certainly that was based on not only the oil resources of the country, but also the development perspective of the country's economy. Thus the budget revenues of Azerbaijan were more than the budget expenditures. The produced national income was more than the used national income.

Azerbaijan reached certain development level during the soviet period, if the economic indicators were considered. However the loss of Azerbaijan was more than the profits, which were attained. Thus the economic conditions of the

country are not considered because of the central planning^ Several products and crude materials were sold to the union countries for cheap price and again imported as a finished product for an expensive price. Azerbaijan did not have a property rights on its own resources, so, the incomes came from the oil products, cotton, tobacco and winemaking industries were collected in the central government.

Azerbaijan economy reached high level within the economy of the USSR. However that was not evaluated relevantly. The economy of Azerbaijan was not stable during the last 20 years of the soviet period. For instance the average economic growth rate was 5.2% in 1960-1970, while Increased 7.4% in 1970- 1980. From 1980 until 1990, this figure decreased sharply.

If the abovementioned analyses are considered, it can be clear that the collapse of the USSR was not political but economic. The administration of the union, which was consisted of the several countries, caused problems in terms of the realization of the socio-economic development. The current position of the Soviet Union was behind of the developed and some developing countries. The most important problems of the planned economy remaining from the Soviet Union are listed below^:

1. The economic structure was not suitable.
2. The production power was not same in terms of the regional and sectorial division.
3. The quality of the products was low. Furthermore the amount of the products two times less than the other union states. Only 50% of the consumption was met by the domestic production at the beginning of the 1990s in Azerbaijan.
4. As a result of the irrelevant economic stmcture the export was more than the import about 30-40% at the end of the 1980s. In fact, this should be explained as a positive indicator. However that was undesirable because of the landscape and the geographical structure of the country. Thus 55-60% of the export belonged to crude materials and intermediate products. Generally 45- 50% of the export and import were realized with Russia and this trend caused the lagging of the economy in the next years^

Ismail Ozsoy, *Dağıstan'ın Sosyo-İktisadi Tarih* Kaynak Yayınlan, İzmir, 1997, p.246;

Marc F Plattner, "Demokrasi Ani", (Transl: Ergun Ozbudun), *Demokrasinin Küresel Yükselişi*, (Edt: Larry Diamond - Marc F, Plattner), Yetkin Yayınlan, Ankara, 1995, p.55.

İlhan Uludağ^Salih Mehmedov, *Sovyet Birliği Sonrası Başmız Türk Cumhuriyetleri ve Türk Gruplarının Sosyo-İktisadi Analizi* 7w^6//i^fe/z^T0BB Yayınlan, İstanbul, 1992, p.28.

1.2. FIRST PERIOD AFTER THE INDEPENDENCE

The developments which happened during the first years of the independence should be assessed in order to understand the economic development period after the independence. Therefore the first years of the independence as well as the processes which happened in those years will be explained in this subchapter®.

The period from 1989 to 1991 was the years that Azerbaijan intended to attain the independence. In this period the main struggle was the issues which made barrier against the independence. The period from 1991 to 1994 could be considered as a first period after the independence. On 18th October, 1991 the Azerbaijan declared the Independence and 25 years have been passed on that event. 18th October takes very important place in the economic process of Azerbaijan. Certainly the maintenance of the independence was more difficult than the attaining of it. The processes which happened after the independence proved it. The economic structure based on the specialization and the division of labor ended as a result of the collapse of the USSR and Azerbaijan lost the common market. The production was suspended because of the crude material, semi-products, supply of equipment, market, finance and the management based on the old central planning^ The economic relations were abolished between the former union states and the production decreased. Armenian war and Chechnya problem caused the closing of the trade routes.

There were some important problems at the end of the 1980s. However those problems were not resolved because of the irrelevant management. As a result of it the stagnation period was observed in Azerbaijan. The political instability and the transition to the market economy caused deep crises. High unemployment and hyper-inflation was observed in the country those years. High inflation and unstable socio-political environment deterred the economic growth, especially the development of the industry and the agriculture.

Decrease of the production and high inflation rate caused the increase of the economic crisis and socio-economic tensions. Azerbaijan confronted with the armed aggression of the Armenian armed forces and lost 20% of its territories until 12th May, the signing of the cease-fire.

Rasim Hasanov, "Azərbaycanın İqtisadi İnkişaf Paradiqması və İqtisadi Təhlükəsizlik Konsepsiyası -sinin Segimi", *Məşvərət Bülleteni*, No:7(43), Baku, October-2001, pp. 6-8

Azar Əmiraslanov, "Dövlət Müstəqilliyi və Milli İqtisadiyyatın Formalaşması Problemləri", *Məşvərət Bülleteni*, No; 7(43), October 2001, pp.50-52.

The lack of the relevant economic reforms, the budget expenditures for Karabakh war, the loss of the 20% of the country's territories, the refugee more than 1 million people and lack of the foreign investment and poor implementation of privatization caused deep crises in Azerbaijan economy. The strategy in line with the transition to the market economy was not identified and the economic decisions were not irrelevant during that period®.

The war with Armenia, the transportation embargo of Russia on Azerbaijan and the inactivity of two oil pipeline and military challenges negatively influenced crisis®.

The worst situation in Azerbaijan economy was observed in 1992. The GDP decreased twice in 1992-1994 and became the 48% of the indicator of 1991. From 1990 to 1994 the GDP decreased 13-20% annually and became \$1629.3 million dollars in 1994. The GDP decreased 53% and industry, agriculture, the consumption and the extraction of the tax decreased 62%, 44%, 75% and 45% respectively in comparison with 1990. Wrong economic policies caused problems in finance and foreign trade sectors.

The inflation increased to four-digit numbers in 1992-1994. The shortcomings in the monetary policies caused economic crisis. The loans were given in accordance with the wishes of the bank managers.

The economic crisis resulted with the decrease in production, price increase and the deficits in the state budget. The shortcomings in the tax collection also resulted with budget discharging. The inefficient use of the loans aggravated the economic crisis. One of the other negative of the economic crisis was the devaluation of the national currency.

1.2.1. THE FIRST PERIOD REFORMS

The Law on Private Property” was enacted in June, 1991. The price liberalization was realized at the beginning of 1992. In January 1992, the value-added tax started to be implemented. The law on Foreign Investment” was enacted in April and National Bank Law was enacted in August, 1992. Manat became a national currency for the local market.

Heyder Əliyev, "Azərbaycan Respublikasının dövlət rəhbərliyinin onuncu illərinə haqqında", *Azərbaycan Respublikası Prezidentinin 20 Mart 2001 Təqdimnaməsi*, Bakı, 20 Mart 2001;

Asef Nədirov, "İqtisadiyyatın Yeni İnkişaf Marhaləsi", *Azərbaycan Qəzeti*, 15 Sentyabr 2001, p.2.

The slowdown was happened in the economy because of the ongoing war in 1993-1994. The “Law on the Privatization of the small-sized organizations came to force in January, 1993. Manat became the only acceptable currency in Azerbaijan in 1994. The transition to the market economy accelerated as a result of the signing of the cease-fire with Armenia. In June, “Execution-Bankruptcy Law” was enacted and the consolidation processes of the banks were started’®. Banking, privatization, the liberalization of the foreign trade and some structural changes were realized during 1995-2000.

1.3. SECOND PERIOD AFTER THE INDEPENDENCE (1995-2003)

Heydar Aliyev, who had 30 years’ political management experience, came to power via the elections in summer, 1993. Some improvements were observed after he came to government. The reforms in accordance with law system were realized after he took the post in the government.

The program in accordance with economic reforms and new economic models were prepared that time. Some significant laws were enacted in order to form free market economy. Those laws included the privatization, the development of the private ownership, the reconstruction of the economic structure, customs, tax and finance systems, the liberalization of the trade, the realization of the land and agricultural reforms, the improvement of the social welfare, and the improvement of the education and health systems.

The attempts to create free market economy, the steps towards the liberalization of foreign trade and rate of the exchange reduced the inflation rate, and minimized the budget deficits.

The privatization of the small organizations concluded, the service sector was given to the private owners, the privatization of the medium and large-sized organizations was started, macroeconomic stability was attained, and collective- farms were given to the private owners as a result of the reforms. Furthermore except land tax, no any tax was collected from the agriculture sector for 5 years. 93.2% of the agricultural assets were privatized according to the plan. 7% increase was observed in farming and cattle-breeding products in 1997.

International economic and financial systems were started to be applied in Azerbaijan in order to attract foreign investments. The social, political and economic reforms, which were realized after the second half of 1993, caused stability and economic prosperity in Azerbaijan. Some significant steps were taken in order to reorganizing of the bank and finance systems. The steps towards free market economy increased the relationships between Azerbaijan and international organizations.

The "Contract of the Century", includes several oil agreements, was signed in this period. The huge amount of investments were started to enter Azerbaijan economy as a result of signing "Contract of the Century" into Adoption of the Constitution of the Republic of Azerbaijan on 12th November 1995.

One of the most important steps towards the reconstruction of the economic system was the adoption of the first Constitution of the Republic of Azerbaijan. The new constitution considered the formation of the public administration, identification of the rights and duties of citizens and the state, as well as the establishment of the liberal market based on the democratic values.

The legal framework for integration of the private ownership with the world economy was identified via the Constitution. In terms of it, 1995 is considered as a beginning of the economic regulation.

Consequently, it's time of the reforms, after attaining cease-fire in frontline and stability domestic policy. Strict economic regulations were realized from 1994". The inflation rate reduced, the GDP rate started to increase as a result of the cooperation with the International Monetary Fund (IMF). The stagnancy in Azerbaijan economy ended in 1996. The new economic models yielded results. Thus GDP increased 26.3% last 5 years, the welfare of the people increased two times, share of the private sector increased from 29% to 68% in the economy.

Approximately \$3.4 billion dollars were invested to Azerbaijan economy from 1994 until 2000, by the companies which participated in the oil agreements. The total amount of the foreign investments was \$15.9 billion dollars from 1994 until 2000. 22.8% of this amount was diverted to finance sector, while 53.6% was invested in oil sector. The rest (approximately 20.9%) was diverted into the other areas^{^^}

"Imran Cefatiade, "9sasli Inkişaf Illeri", *İqtisadiyyat Qəzet*, 18 October-1 November 2001, p.3 §.E.Yaqubov, A.M.Mahmudzada, "Azərbaycan Respublikasında Aparılan Aqrar İslahatların Qiymətləndirilməsi, *Azərbaycanda İqtisadi İslahatların Hədəf Keçirilməsi Xüsusiyyətləri və Fəndləri*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Markazi, Baku, 2001, ss.60-63; Cafarzada, p.3

Azerbaijan was the fastest growing economy among the former USSR countries because of the oil investments. The increase in GDP was 10% and 7.2% in 1998 and 1999 respectively. The reasons of the growth were the incomes from oil, construction and agriculture sectors.

In comparison with the figures of 1990, the GDP was 2 times less in 2000. Furthermore the production in industry and agriculture was 3.3 and 2.4 times less than the figures of 1990 respectively. The total amount of the investments decreased until 1996. However it was increased until 2000 and became 55% more than the figures of 1989.

On the other hand newly applied monetary and exchange rate policies deterred the price increase, and new currency *manat* became stable against foreign currencies. In fact the inflation increased by 1763% in 1994. However the inflation dropped to 1.8% in 2000^{^^}

Direct foreign investments played key role in the economic recovery of Azerbaijan. The most important part of the direct foreign investments was spent to the oil production sector. From 1995 until 1998, 59.1% increase was observed in the amount of the foreign investments. The share of the stable investment in the GDP was 40.6% in 1998, and this figure two times more than the statistics of 1995. However only 0.5% of the foreign investments were spent for the Agriculture sector, which was the second employment source in the country. Foreign Investors avoided investing for the manufacturing industry. As a result, the production in the sector decreased sharply.

From 2000, Azerbaijan made economic relations with 122 countries, and total amount of the trade relationships was more than \$2.9 billion dollars^{^^} This amount was 2.2 times more than the figures of 1993.

The occupation of Azerbaijan territories by Armenian armed forces was another important factor in Azerbaijan economy. Thus, Azerbaijan lost 20% of its territories: as a result the country lost 1/5 part of production potential, and 300.000 workplaces. Furthermore 12% of the inhabitants immigrated. Approximately 290.0 family or 1.000.000 people left their ancestral homelands. The total area of the occupied lands was 22700 km[^]. The borderlines of Nakhchivan were also affected by the invasion of Armenian armed forces, at the same time with the Mountainous Karabakh. 17100 km[^] territories of Azerbaijan lands (approximately

^{^^} Akil Musayev, "Azərbaycan Respublikasının İqtisadi İnkişaf Strategiyası və Vergi Siyasəti", *İqtisadiyyat və Audit Jurnali*, No: 10, October-2001, p.12
Mazaddin Eyyubov, "Bazar İqtisadiyyatına Kəçid və Sənaye Kompleksi" *Məqalələr Bületeni*, No:7(43), October-2001. pp. 66-67.

20%) are under occupation currently. Furthermore, 87 settlements, 7 administrative districts, 11 cities, 1.3 million ha sown area 600.000 large and small cattle, 7000 agriculture organizations, 850 education organizations, 650 health center, as well as 120.000 habitation were left in the occupied lands.

Furthermore there were 160 bridges, 2300 km irrigation channels, 1500 km electricity lines, 2500 transformers, 23000 km water channels, 2000 km gas pipelines, 20 km sewer lines, 160 water tanks, 34 km gas distribution system, communication stations for 35000 users, 4 airport, and *Baku - Aghdam*, and *Baku - Nakhchivan - Yerevan railways* in the region.

Additionally, there were 800 health center, hospital and polyclinics, 179 culture houses, 825 libraries, 6 parks, 47 musical and art schools, 3 theatres, 3 galleries, and more than 300 historical memorials in the region.

More than 180 industrial organizations, such as food industry, engineering- industry, and electrical industry were existed in the occupied territories of Azerbaijan. And more than 18000 workers were working for those organizations.

The climate and land resources of the region were suitable for the agriculture. Therefore, there were 320 collective farms, more than 90 state farms, state farms and some agricultural associations in Mountainous Karabakh. This region provided 24% of wheat production, 41% of grapes production, 46% of potato production, 18% of meat production and 34% of the daily animal products. Furthermore there were 649.000 hectares lands suitable for the plantation.

The occupied lands are rich with the iron, mercury, chrome, marble, limestone, gold, and mineral waters. For that reason, Azerbaijan deprived from 39.6 thousand tons of gold reserves in 3 gold mines. The occupied region was rich of animals and plants.

Approximately 20000 Azerbaijan citizens were killed, 5000 citizens were missed and 1050 became invalid from 1988 as a result of the Armenian barbarism. 210000 students deprived from education and 23000 people lost their job in education institutions. 100 km highway, electricity, water, gas lines and other infrastructures were destroyed.

The connection with the Nakhchivan Autonomous Republic was cut, and this region was surrounded by Armenian forces. Furthermore 130 km railway was invaded. For that reason, the only connection in terms of passenger and cargo transportation is possible via Iran^^

The huge amount of cargo from Europe to Asia, and vice-versa was passed from the Azerbaijan territory before the invasion. Approximately 300 wagons were passing from Azerbaijan territory in a month. Naturally Azerbaijan deprived from the transit revenues after the occupation.

Generally, 150000 civilian residential houses, 7000 industrial and agriculture institutions and 4400 education, culture, health and public institution were destroyed in Mountainous Karabakh region. It is possible to mention that, Azerbaijan lost more than \$100 billion dollars in Karabakh war.

Armenian terrorists continued their terror actions in other parts of Azerbaijan, in metro, sea transport, and highways. As a result more than 2000 people were killed, and 10000 people injured. Terror actions only in two metro stations amounted millions of dollars.

Drug plants are bred in the occupied lands and transported to Iran, Russia and other countries. Armenian armed forces controls 128 km territory from Horadiz (*Fizuli*) to Nakhchivan and so the traffic of drug plants in the region increased in the region. The gold mines in Kalbajar and Zangilan territories are used by Armenian invaders. The raw materials of abovementioned mines are transported to Zod gold mine in Vardenis district of Armenia. The prepared products are sold to Russia and other countries. The revenues come from the abovementioned mines are the 51% of Armenian budget. The occupied lands are polluted also. The nuclear wastes are transported to the Mountainous Karabakh region. Furthermore the flora and fauna of the region are destroyed in the region. According to the calculations 8-10% of the forest resources are ruined in the occupied region[®]. The economic loss is estimated about \$30 billion dollars. 500 m³ polluted waters are fluid the Armenia and Georgia to the Caspian basin.

The war with Armenia injured Azerbaijan's international relations also in the economic transition period. The most important problems which the refugees confronted with are education, health, and employment. The refugees live in the 70 various cities and districts of Azerbaijan now. "The State Commission for Refugees and IDPs" as well as the international and domestic organizations are responsible for the problems of the refugees and IDPs. The most significant problem is education. Thus the parents cannot provide their children with the school uniform and healthy food. As a result the children could not access to the education facilities. The schools which are established in refugee camps are lack of technical capabilities. Furthermore these schools are part of the any other schools. The death rate, especially child mortality increased in the refugee

camps recent years. The diseases such as tuberculosis, jaundice, and malaria also increased in the tent camps and refugee dormitories. Additionally the people suffer from the rheumatism and skin diseases.

Poor nutrition of the people, who live in the tent camps, also caused the diseases. The number of the disabled people increased among the refugees last 25 years. These cases are observed with the newborn children. According to the researches, the children who were bom at home confronted with some problems. The people could not access the health facilities because of the unemployment problem^T Heydar Aliyev Fund and the State Oil Fund of the Republic of Azerbaijan allocated \$10 billion dollars in order to abolish the tent camps and increase the social welfare of the refugees.

1.3.1 .THE SECOND PERIOD REFORMS

The stability in the economy was attained after Heydar Aliyev came to power^®. Azerbaijan economy re-entered economic growth period after aids of IMF and other international organizations.

!liws .1 '/J" ' ■; j	
The Law on Unfair Competition	January, 1995
IMF Stabilization Program	April, 1995
The Law on the Privatization of the Smail-sized Enterprises	September, 1995
The Amendments on National Bank	June, 1996.
The Law on the Land Reform	August, 1996
The Law on Pubiic Procurement	February, 1997
Executive Bankruptcy Law	June, 1997
Customs Law	June, 1997
The Law on Telecommunication	July. 1997
The Law on Electro-energy	1998
Bail Law	August, 1998
Securities Law	September, 1998
Employment Law	February, 1999
The Decree on the Establishment of the Oil Fund	December, 1999
The Abolishment of the Estate Committee	December, 1999
The Law on the Establishment of the Estate Department	February, 2000
New Privatization Law	May. 2000
The Tax Code	June, 2000

Azerbaijan Economic Damages and Heavy Tolls Caused By Armenian Aggression',
www.economy.QOv.azAiTMLyaQQRssinn.html (09.04.2015)
 " Ayhan Karaca, "Azarbaycanda Iqtisadi Kegid Ddvij ve Islahatlari 10 Hi".
[httpD://www.foreiQnlrade.QOv.tr/ead/DTDERGI/ocakozel2002/avhan.htm](http://www.foreiQnlrade.QOv.tr/ead/DTDERGI/ocakozel2002/avhan.htm). (12.03.2015)

Three important issues were intended to be realized in this phase of the transition period.

1. The use of the natural resources of the country
2. The establishment of the relevant economic structure according to the liberal-democratic market principles
3. Integration with the world economy in global and regional level

The progresses attained in this period can be listed as follows;

1. The stability was attained in the economy
2. The significant improvements were attained in accordance with the activation of the natural resources of the country
3. The new socio-economic situation was established via the privatization of the lands
4. The liberal economy, the improvement of the foreign relations, and the foreign investments caused economic development

President Heydar Aliyev signed the "State Program on Poverty Reduction and Economic Development" in March, 2001 in order to improve the welfare of the people, via attaining economic development, and the establishment of the new workplaces. The Board of Directors of the International Monetary Fund approved the "State Program on Poverty Reduction and Economic Development" on 2nd July, 2001.

There are some obligatory reasons in order to reduce poverty in Azerbaijan. According to the information of World Bank, the income of 40-50% of people was less than \$1 dollar per day, those years. Furthermore, according to another survey, \$86 dollars were demanded per month for minimum living conditions. The average monthly salary was \$64.4 dollars. These figures show that most of the people were under the poverty level (*Approximately 40-45%*). As a result of the successful economic programs, the number of the people under poverty level dropped to 4-5% in 2015.

President Heydar Aliyev met with the local and foreign entrepreneurs in April and May, 2002. He supported local and foreign investors, via the decree on tax, customs, and licensing, which he signed in August and September, 2002. The new era was started via these regulations. The newly established investment environment started to catch the attention of the foreign investors.

The number of the taxes reduced and the programs were made in order to improve the small and medium-sized enterprises as a result of the meetings between the president and the entrepreneurs.

1.4. THE THIRD PERIOD AFTER THE INDEPENDENCE (FROM 2003)

The period after 2003 is considered as a third period after the independence, ilham Aliyev, the successor of the President Heydar Aliyev came to power in 2003 and continued his father's successful economic and political reforms. The main objectives of this period are;

1. To contribute economic growth and the strengthening of the economic policies,
2. The reconstruction of the energy sector via the programs in accordance with the second state privatization,
3. The strengthening of the social directions of the economic policies,
4. Enhancing the social welfare,
5. The diversification of the economy.

Azerbaijan's government intended to increase the social welfare, via the establishment of the relationships with the international organizations. Therefore, the main target of the economic policies applied in this period was the development of the non-oil sector.

The oil refining, chemical industry, petrochemical and electricity industry increase the importance of the oil in the economy, if necessary conditions provided, Azerbaijan has a potential to create oil products market in global level. Such kind of strategic industries were invested by the foreign investors recently. The modernization and reconstruction processes are realized in industrial sector.

Electricity industry increases the profitability of the usage of the oil and gas products. This area attracted much more foreign investments. The main goal of the economic development strategy is the attaining of the new development stage according to the modern market relationships. This strategy considers; the conversion of the oil and gas resources of the Caspian Sea to the economic growth, the development of the transportation system and the human resources of the country.

The economic development strategy which was started in 1994 continued until 2015. The GDP reached \$9,000 dollars. "The State Program on the Socioeconomic Development of Regions" was approved by President Ilham Aliyev on 11th February 2004. The socio-economic development program included three various periods; 2004-2005, 2009-2013 and 2014-2018. The program intended

to revive the non-oil sector, as well as agriculture sector via assessing the economic potentials of the regions. To do this, the government planned to increase employment and social welfare.

Some significant achievements were attained in accordance with the development of the non-oil sector in recent years. Thus, the development of non-oil sector is observed in the regions of the country.

1.5. GENERAL ASSESSMENT OF THE TRANSITION PERIOD

The integration of Azerbaijan economy with the world economy and transition to free market economy were the choice of Azerbaijan. On the other hand, Azerbaijan attained progress in accordance with financing its existence and development. All natural resources, investments and economic potentials belong to Azerbaijan. The country has internationally recognized currency. *Manat* Manat is on the way to be the strongest currency in South Caucasus. The macro-economic advancements, which were attained in transition period, can be listed as follows;

- The GDP increased 4 times or 400%
- Industrial production increased 30%
- The production in agriculture and livestock sector increased 61 %
- The volume of the Investments increased 18.8 times
- The volume of the foreign trade increased 5.5 times
- The budget revenues increased 8.6 times

Furthermore 17 short-term and long-term state programs were approved during this period. The recently approved regional socio-economic program was the most important one, in terms of the regional and sectorial development.

Although the natural resources belonged to Azerbaijan, there were some problems in terms of economic aspects. The existence of such kind of problems should be assessed as the strengthening of the independence and transition to the free market economy.

The significant changes were realized from the beginning of the transition period. The instable foreign exchange regime was approved. The quantity restrictions, which are implemented in foreign trade, were at (K)lisl}jecLDn-thfi,QtoeLJ^ the

economic stability was attained in last 25 years. The value of the Manat is stable. Furthermore the inflation and budget become very low, the GDP stabilized.

The Organizations such as World Bank, International Monetary Fund, United Nations Development Program and Asian Development Bank supported the government's policy on the security of the macro-economic area. These Organizations also emphasize that the monopoly and illegality continue in the country.

According to the Human Development Index, published by United Nations, the human development index stabilized from 1996. Human Development Index has been published by United Nations since 1990. This index shows the welfare of the people better than the GDP. Human Development Index (HDI) includes 3 important characteristics of human being.

- Long and healthy life (*calculated according to the average life expectancy*)
- Education level (*calculated according to the ratio of the people according to their education level; primary, secondary and high school, university*)
- Living standards (*Purchasing Power Parity/PPP, calculated according to the income*)

However this index is not the detailed indicator of human development. For instance, income and gender inequality and ensuring political freedoms are not included in human development index. The rating is divided into 3 categories until 2009. According to the previous system;

	of GollilHes 3^ j;rfufiiffjMM
1-63	High Human Development
64-146	Medium Human Development
146-	Low Human Development

"Very High Human Development" category has been added to the index since 2009.

	^iHuitiafDeviilDpiW
1-49	Very High Human Development
50-105	High Human Development
106-143	Medium Human Development
144-	Low Human Development

According to the Human Development Report of 2014, which was prepared according to the results of 2013, the human development index in Azerbaijan is equal to 0.747. Azerbaijan takes 76th place with this result and enters "High Human Development" category.

“Converting Black Gold Into Human Gold Initiative” was planned to be started Incorporation with the United Nations Development Program In 2005. The Program on “Converting Black Gold Into Human Gold” was approved by President Ilham Aliyev on 27th September, 2004. The abovementioned project was signed between the Ministry of Economic Development of Azerbaijan Republic and United Nations Development Program. The project included the provision of the sustainable development via investing into the education system.

The political stability should be provided in order to attain macro-economic stability in any country. The political stability was attained after Heydar Aliyev came to power and continued during the presidency of Ilham Aliyev. Public policies and economic reforms, as well as the operation of Baku-Tbilisi-Ceyhan pipeline resulted with the growth in economy.

As a result of the macro-economic stability In last two decades, successful oil strategies, reviving of the economic potential, radical economic reforms and reconstruction processes, the transition period was ended. The President Ilham Aliyev emphasized that, the transition period is ended and Azerbaijan entered new development era.

CHAPTER TWO

MACRO-ECONOMIC ANALYSIS OF AZERBAIJAN ECONOMY

Azerbaijan economy attained more achievements in comparison with the other former soviet republics during the transition period. The existence of rich natural resources caught the attention of foreign investors. Foreign investments were one of the most important factors which stipulate economic growth. The economic development continued in the stable environment in terms of the macro-economy. According to the information of International Monetary Fund, the growth rate of the world economy was equal to 3.4% in 2015.

The growth rate in developing countries was equal to 4.6% in 2014. This figure is 0.4% less than the result of 2013. The reasons for the reduction of the growth rate are listed as follows;

- The low commodity prices in world markets
- The reduction of the growth rate in China economy
- The political situation in CIS (Commonwealth Independent States), and MENA (Middle East and North Africa) regions.

The growth rate in developed countries is equal to 1.8% in 2014. The acceleration of the growth rate in these countries is related to the growth of demands and investments in the United States and reviving of the economy in Eurozone. Thus there was 0.4% reduction in growth rate in 2013 and then 0.8% increase in 2014. According to the Information of International Monetary Fund, the growth rate in the world market should be reduced 3.3% in 2015. On the other hand 3.8% increase should be observed in 2016. According to the predictions of World Bank the growth rate will be 2.0% and 2.4% respectively. According to the calculations of International Monetary Fund the growth rate was supposed to be 4.2% and 4.7% respectively in 2015-2016 in Developing Countries. These figures will be 2.1% and 2.4% respectively in Developed Countries. The socio-economic development strategy of the government triggered the dynamic progress, the diversification of the economy, entrepreneurship and the regional development.

Table 1. The Macroeconomic Forecast For 2016-2019 Of The Republic of Azerbaijan

Indicators	Measurements	Forecast						
		2013	2014	2015	2016	2017	2018	2019
Total								
GDP (market price)	min AZN	58182,0	58977,8	57151,7	57735,1	60190,4	63143,2	67511,7
Real Growth Rate	%	5,8	2,8	3,3	1,8	2,6	3,6	5,0
Deflator	%	0,4	-1,4	-6,2	-0,8	1,6	1,2	1,8
Oil sector								
Oil sector, GDP (market prices)	min AZN	24968,4	23009,2	17829,0	16285,3	15940,5	16103,2	17348,5
Real Growth Rate	%	1,0	-2,9	-0,6	-1,7	-2,4	0,3	4,9
Deflator	%	-3,0	-5,1	-22,0	-7,1	0,3	0,7	2,7
Share (in GDP)	%	42,9	39,0	31,2	28,2	26,5	25,5	25,7
Non-Oil sector								
Non-Oil sector, GDP (market prices)	min AZN	33213,6	35968,6	39322,7	41449,8	44249,9	47040,0	50163,2
Real Growth Rate	%	10,0	7,0	5,9	3,4	4,6	4,8	5,0
Deflator	%	3,2	1,2	3,3	2,0	2,1	1,4	1,5
Share (in GDP)	%	57,1	61,0	68,8	71,8	73,5	74,5	74,3

Source: <http://www.economyv.aov.az/imaQes/Dclf/konseDsiva> 2016.doc

2.1. GROSS DOMESTIC PRODUCT

The reduction was observed in the national income in the first years of the independence because of the lack of modern tax system, the limitations in foreign trade, and the war. Approximately 60% reduction was observed in the economy of Azerbaijan from 1991 to 1995. In those years, significant lagging was observed in GDP rate. Azerbaijan started cooperation with International Monetary Fund and World Bank in 1995. The cooperation included the reformation of the economy and privatization programs. Since 1996, the stagnation in the economy has been replaced by progression. Azerbaijani economy was one of the fastest growing economies in the former USSR republics in the transition period¹. The most important growth was observed in the hydrocarbon sector because of the huge amount of foreign investments.

¹ Saleh Memmadoy, *İhtiyas və Maliyyə Bazarı*, Baku 1998, p.48.

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Table 2. Gross Domestic Product

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	2133.8	2732.6	3158.3	3440.6	3775.1	4718.1	5315.6	6062.5	7146.5	8530.2	12522.5	18746.2	28360.5	38005.7	34060.8	42465.0	52082.0	54743.7	58182.0	58977.8	54352.1
	2415.2	3180.8	3960.7	4446.4	4583.7	5272.8	5707.7	6235.9	7276	8680.4	13238.7	20983	33050.3	46258.2	42575.7	52909.3	65951.6	69683.9	74164.4	75188.4	51471.7
	282.1	357.5	409.2	441.5	480.1	595.1	665.2	752.9	880.8	1042	1513.9	2241.1	3351.8	4439.9	3917.3	4753.0	5752.9	5966.1	6258.3	6264.1	5661.2
	319.3	416.1	513.2	570.6	582.9	665.1	714.3	774.4	896.8	1060.3	1600.4	2508.5	3906.1	5403.9	4874.1	5922.0	7285.0	7594.3	7977.4	7985.9	5361.2

Source: The Publications of the State Statistical Committee of the Republic of Azerbaijan, 2016

The Gross Domestic Product of Azerbaijan was 11.8% in 1995. From 1996, the GDP rate started to increase. Azerbaijan was affected by the Russian crisis in 1998. However, later the economy increased 10%. The reasons of the growth were the increase oil prices and foreign investments connected in terms of the oil contracts. The stability was observed in the economy of Azerbaijan in 1999. However the amount of the investments in oil and gas sectors increased significantly[^]®.

E. S. Imanov - E. M. Babaşov-R. H. Dayiyev, "İqtisadi İslahatlar Şəraitində Qhalinin Sosial Müdafiəsinin Təşkili Məsələləri", *Azərbaycanda İqtisadi İslahatların Hayata Kəçirilməsi Xüsusiyyətləri və Problemləri*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Markazi, Bakı, 2001, p.102

In 2000, Azerbaijan was the first place, in terms of the economic growth in United Nations states. In 2001-2002, 10% economic growth was attained. This growth mostly based on construction and manufacturing industries. The value-added growth was 61% and 17.7% respectively in these sectors. The volume of the domestic production increased from 60.1% to 63.1% in 2003. The volume of the service sector decreased from 31.9% to 30%.

The growth in production was observed in all sectors in 2008. As a result 5.8% growth rate of GDP in 1997 increased to 24% in 1998-2008. The GDP of Azerbaijan reached 75 billion dollars in 2014 as a result of the oil revenues. Gross Domestic Product per capita dropped sharply because of the economic crises in the first half of 1990s. The living conditions decreased 7 times in 1990-1993. The GDP continues to grow since 1995. Eventually the GDP reached 7986 dollars in 2014. The income growth caused the strengthening of the purchasing power and the development of the real sector.

The President approved the "State Program on Poverty Reduction and Economic Development on 20th February 2003. The "State Program on Poverty Reduction" focused on the strengthening of the macro-economic stability, the increasing of incomes, the increasing of the investments on health and education systems, the provision of the social security and improvement of the life standards. The government plans to resolve the unemployment problem via;

- Social policy and the development of human resources
- Regional policy
- Structural development
- Improvement of existence potential

Azerbaijan government realized new program that includes period from 2006 to 2015, after the "State Program on Poverty Reduction and Economic Development" which includes the period from 2003 to 2005. When the first program was approved in 2003, the poverty rate was 44.7%. However this figure dropped to 11.5% in 2010. The program of 2006-2015 is called "Long-term Strategy for Sustainable Human Development" and plans to reduce the poverty to 5-6%.

The minimum wages and living costs have been increased in last 10 years. The average limit in accordance with the minimum wages is listed as follows:

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

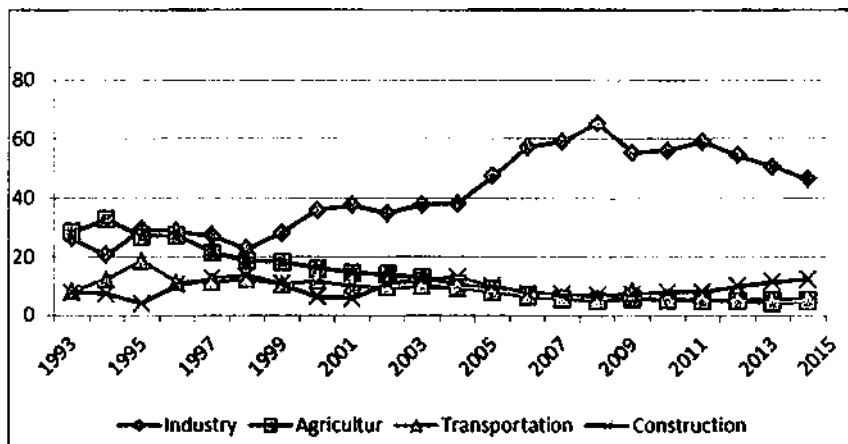
Table 3. Minimum wages (AZN)

2004	25
2005	52
2006	58
2007	64
2008	70
2009	84
2010	87
2011	102
2012	108
2013	116
2014	125

Source: <http://www.tradingeconomics.com/azerbaijan/minimum-wages>

The government planned to increase the economic welfare of people, and reduce the poverty via increasing the minimum salary. From 2001 to 2015, the minimum salaries increased 200%. The activities based on private property and private initiatives take an important place in the incomes of the people.

Figure 1. Sectorial Distribution of GDP (%)



Source: <http://www.stat.gov.az>

The wages are in the second place among the incomes. According to the statistics, the average monthly salary was \$14 dollars in 1995 and \$50 dollars in 2000. In 2003 the minimum salary was 78 dollars and this figure was 21.4% more than the indicators of 2002. Azerbaijan is ahead of Armenia and Georgia in terms of the average monthly salary. However the country stays behind of Russia and Kazakhstan in this area. If we consider the minimum living costs.

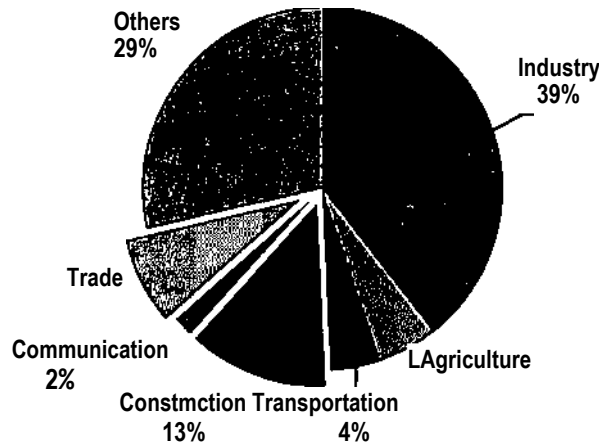
Azerbaijan (\$136) took the second place after Russia (\$217) among the CIS countries in 2011. The government plans to increase average monthly salaries 3.9% about in 2015. Furthermore it's expected that, the average monthly salary be 562.7 manat in 2016.

The salaries of people who work in industry, energy, construction and finance sector are more than the others'.

The implementation of tight monetary and budget policies with the recommendation of the International Monetary Fund has negative effects on people. Furthermore the cut of subsidies which were provided in gas, fuel and bread caused some problems in the transition period. Abovementioned subsidies were available for only refugees and IDPs. On the other hand income level in Baku was twice more than the regions.

There were significant changes in the sectorial distribution of the GDP and the volume of private sector In economy as a result of the implementation of the reforms. The volume of the private sector In GDP was 34% in 1995. This figure increases gradually and reached 79% in 2015. Industry and agriculture sectors have more shares In GDP. The volume of oil production in GDP increased as a result of the investments^V Furthermore there were significant achievements in transportation and constmction sector.

Figure 2. Sectorial Distribution of GDP in 2015 (%)



Source: <http://www.stat.gov.az>

Faruk Arslan, "Azərbaycan Ekonomiyasında Gəziş Dərnemi", *Həzar Bəhim Sənə və Kəltür Dərgisi*, S.1, Bahar-2000, p.17.

Azerbaijan needed high economic growth rate for completion of industrialization, modernization of the agriculture sector and attaining of full working capacity. High economic growth rate demanded reforms. Therefore the resolution of the problem should be considered as long-term goal¹. The regulation of income distribution is the first request of the high growth rate.

2.2. INFLATION

The people in Azerbaijan were acquainted with the inflation concept of the first years of last decade of the 20th century. The closing of the companies caused the reduction of the total supply. The inflation rate increased as a result of it. The total supply was demanded by the goods, which people had previously. Therefore, the inflation rate in 1990-1991 was less than the indicators of the next years'. The price increase was accelerated as a result of the abolishment of price regulation, and government spending in line with the war. The lack of indicators in line with the money supply until 1994, constant application to the emission of money in order to meet the budget deficits caused the hyper-inflation via devaluation of *Manat*². Furthermore the closing of the northern railway line, in line with the Russia-Chechen war caused the reduction of import and that was another factor in accordance with the increase of inflation rate. On the other hand, the methods of international organizations in foreign trade also triggered the increase of inflation. Despite of the intervention of National Bank, Azerbaijan Manat was devalued against the United States Dollar and consumer preferences were diverted to the import. The last two also played important role in line with the increase of inflation.

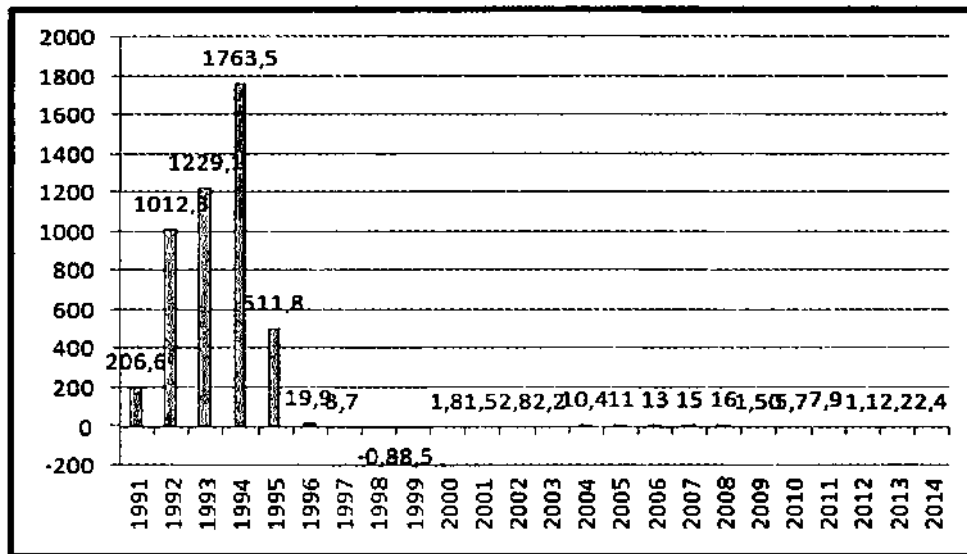
Briefly, as a result of the economic problems remained from the former USSR as well as the war In the first years of independence, the inflation increased to four digits. In 1994, the inflation has reached the peak with 1763.5%. Despite the attaining of cease-fire in May, 1994, and reduction of inflation as a result of the reforms, the inflation rate was identified as 511.8. Due to tight monetary policy, Azerbaijan economy started to get rid of the high inflation rate from 1996. Consequently, stability program was implemented by the government after the cease-fire agreement ended high inflation rate. As a result the inflation was single-digit in 1997.

E. O. Huseynov, "Reformatika ve Onun Hiper dovra Uygunlaşdırmanın Zaruriliyi", *Azərbaycanda İqtisadi İslahatların Hayata Keçirilməsi Xüsusiyyətli Problemlər*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Markazi, Baku, 2001, p.92. Nasimi Kamalov, "1990-2000 ci illər Arasında Azərbaycan'da İnflyasiya", *Journal of Qafqaz University*, Number 6, Fall- 2000, pp.67-70.

The prices reductions were observed in 1998-1999. The prices reduced approximately 8.5% in 1999. As a result of the softening of tight monetary policy in 1999, the price increase was started to be observed again from 2000. The inflation reached 12.4% as a result of the price increase in 2005.

1/3 of the inflation of 2008 was the result of the increase of the volume of national currency. Inflation is explained by the increase of oil and euro in the region. The supply factors, 30% increase in incomes of people and investment played significant role in the inflation, which happened in 2008. Furthermore the increase in government expenditures also affected the inflation. In 2008, prices of the production of industrial materials increased by 10.9%.

Figure 3. Annual inflation rates over period 1991-2014 years



Source: <http://www.stat.gov.az>

The traditional factors such as increase of the demanding, utility reforms and the increase of the prices of the import products (sugar, wheat and etc.) in world market caused inflation in 2007. The inflation rate was 16.7% in comparison with the previous year. The prices of the food, non-food products, and services increased 16.2%, 10.5%, and 25.3% respectively. The inflation rate was 15.4% less than the predictions (20-22%) of international organizations. In 2009, the average annual inflation rate decreased to 1.5%. It was 10 times less than previous year's result. The maintenance of the average annual inflation in low level caused the increasing of all social indicators. The abundance of food and price dynamics affected the inflation rate in 2010. The annual inflation was 7.9% and average

annual inflation was 5.7% that year. The average annual inflation forms from the increasing of the food prices 3.9%, non-food prices 0.6% and service prices 1.2% respectively. The monthly seasonal deflation observed in May-July, was substituted by price increase from August. The main factor in line with the price increase of the non-food sector was the forest fires happened in Russia. Thus the prices of the imported construction materials increased that time in line with the fires.

The inflation was completely affected by the external factors in 2011. The inflation was 7.9% that year. As happened in previous year, the increase of the food prices affected inflation in 2011. Generally, the country's average annual inflation was less than all CIS and oil exporter developing countries for last three years. The average annual inflation was 1.1% in 2012 and that was the lowest figure for last three years. The inflation was observed 7.9% in the food prices. The stability in prices was secured and the average annual inflation was 2.4% in 2013. The prices of the services were more than the previous years in the inflation rate in 2013. As a result of the implemented policy, the price stability was secured again in 2014 and inflation was observed at low level. The price for products in Azerbaijan was less in comparison with the trade partners and this influenced competitiveness positively. In 2014, the average annual inflation rate dropped to 1.4%. The inflation was observed 0.4% in food products, 0.8% in non-food products and 0.2% in the service prices.

The increase of oil prices in world market, the increase of the production costs in the trade partner countries, and the strong euro were most significant factors in line with price increase. Furthermore problems which happened in the Russian borders, as well as the abolishment of the discounts on value-added taxes in line with the wheat import were another significant inflation factors.

Inflation environment in the economy of the country is inevitable, in terms of the price increase. The increase in prices of the energy products will accelerate it. The hidden increase of the prices, lack of real numbers in statistics will negatively affect the budget in the future. The price increase will negatively affect the socio-economic situation of the people. The price increase will also increase the poverty in the country.

The inflation had a structural character in Azerbaijan during the transition period. It is very difficult to balance supply and demand during the dynamic development period. In Azerbaijan, the inflation rate about 10-15% is considered normal, if it is regulated.

2»3. EMPLOYMENT

The great amount of able-bodied people was unemployed during the transition and stagnation period in Azerbaijan. As a result of the Armenian invasion, there were more than 1.000.000 refugees in Azerbaijan and that was one of the most significant factors which increased the unemployment rate. The international turnover of the employment potential created some problems in Azerbaijan. The turnover level of the employment is very fast in Azerbaijan. This influences the demographic situation in Azerbaijan. On the other hand, the experienced people are not used in relevant jobs, so they leave the country. The unemployed people go to the neighbor countries such as Russia, Iran and Turkey. The young and middle-aged men leave the country mostly. It is possible to see such kind of *brain drain* in recent years. The government started to realize social reforms in order to provide their returning to the country from 2005.

The 60% of the people who left Armenia and occupied lands were considered active people in terms of economy, however great amount of them were jobless. The government enacted some important laws in order to reduce the unemployment rate. The opening of the new workplaces, the establishment of the relevant market system and social security initiatives are the main activities of the government in this direction. The development of the private sector triggered the reduction of the unemployment.

The total employment level is increased very slowly. The provision of people with the job was 53.4% in 1998, 56.9 in 2001 and 80% in 2015 respectively.

The distribution of the employment within the sectors is continuously changing. The employment rate in Industry and construction sector is decreasing, while the employment rate in service sector is increasing^{^^} The ratio of the people who work in agriculture sector was stable until 1998, and started to increase after that date. The employment rate has been increased in transportation, communication, agriculture, tourism and construction sectors. The distribution of the employment is listed below in the table 6.

^{^^}“AzOf Mehdiyev, "Azerbaycan"ın Dunya İqtisadiyyatına İnteqrasiyasının Reallıqları", *Ekspertiza Duma*, No.7-8,2001, p.26

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Table 4. The Sectorial Distribution of Employment (thousand people)

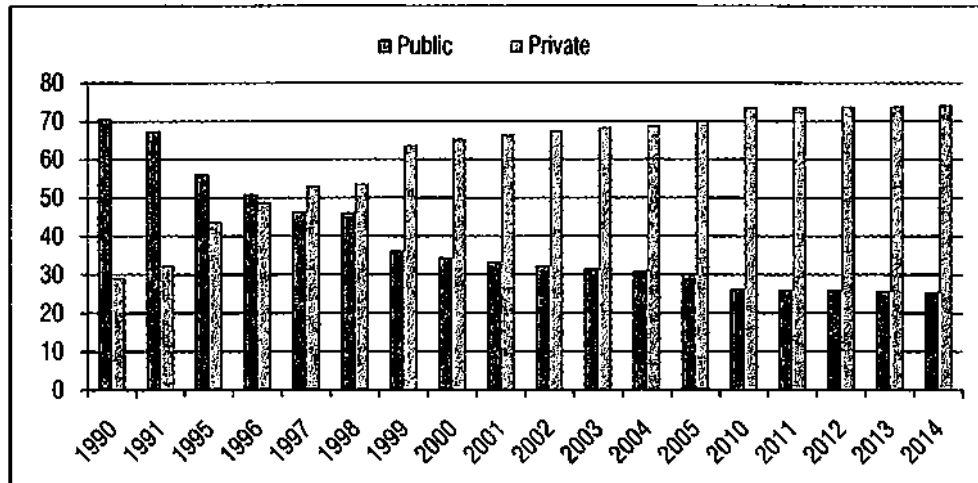
	2005	2006	2007	2012	2013	2014
Economy - Total	4062.3	4329.1	4375.2	4445.3	4521.2	4602.9
Agriculture, Forestry, and Fishing	1573.6	1655.0	1657.4	1673.8	1677.4	1691.7
Mining Industry	42.3	41.5	41.2	41.8	42.3	41.5
Processing industry	198.4	208.9	210.3	215.6	224.1	227.1
Electric energy, gas and steam production, distribution and supply	27.9	30.6	30.8	31.2	32.3	29.8
Water supply, Waste treatment and processing	23.9	25.2	24.6	24.7	25.7	25.8
Construction	211.9	287.5	308.9	321.8	325.5	334.1
Trade; repair of motor vehicles	634.8	626.7	635.4	646.8	664.0	681.9
Transportation and storage	174.6	179.1	181.8	182.7	183.8	185.1
The placement of the tourists and public catering	25.1	46.9	48.1	48.9	49.2	55.7
Information and communication	32.3	55.8	58.0	58.7	58.1	59.2
Finance and Insurance	18.1	24.4	26.3	26.9	30.6	32.8
Operations linked to real estate	82.1	69.6	71.2	74.8	79.4	85.6
Scientific and technical activities	43.4	45.6	46.7	54.6	56.3	58.5
Administrative and subsidiary activities	38.7	46.5	47.4	49.2	52.4	53.7
Public administration and defense, social security	256.6	279.1	281.0	281.7	282.3	285.2
Education	345.1	349.8	349.9	349.0	366.2	367.3
Health and social services	188.8	170.3	165.2	165.4	171.8	176.5
Entertainment and art	52.4	59.6	60.3	61.1	61.8	67.8
Other sectors	92.3	127.0	130.7	136.6	138.0	143.6

Source: <http://www.stat.gov.az>

The average monthly income is high for the jobs in line with the oil and gas industry. The lowest average monthly income is observed in the health sector. The numbers of people who work for the public sector have been decreased since 1990^{^^} Thus, the share of the public sector in employment was 70%, however this figure decreased to 25.6% in 2014.

^{^^}Investment Possibilities of Azerbaijan", *Ekspertisa Juma*, No.7-8, 2001, p.20;

Figure 4. The share of the public and private sector in employment (%)



Source: <http://www.stat.gov.az>

The number of the economically active population in Azerbaijan was 4.840.700 in 2014. According to the official statistics 4.602.900 of them are occupied. The economically active people are 50.04% of the total population of Azerbaijan. The great amount of the jobless people is middle-aged ones. According to the official statistics 15077 people between 25-30 years, 30033 people are over 35 years intended to find job. However they cannot manage it.

In 1995, 59.7% of the women were jobless. This figure decreased to 42% in 2008 and increased to 44.7% in 2015.

If the statistics reflects the real numbers, the unemployment rate is less than the figures of the developed countries. However the real unemployment level is quiet more than the numbers, which are displayed in statistics.

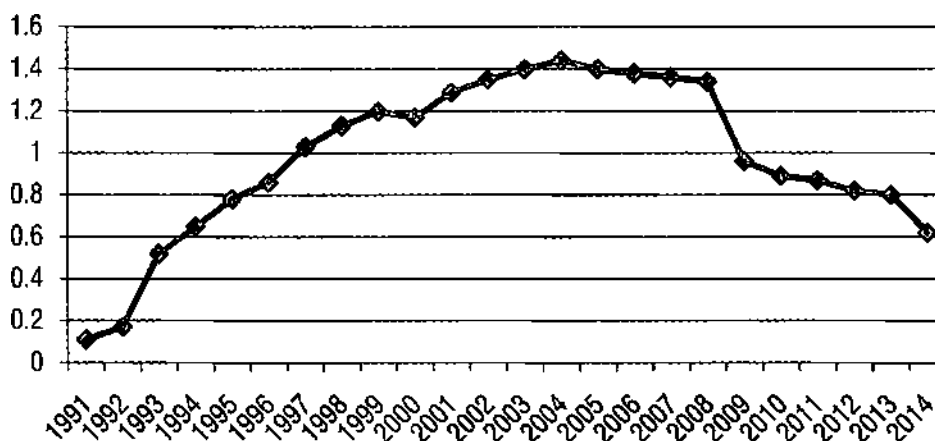
Though, the unemployment is increased day after day officially. The statistics of the state organizations show that the unemployment rate is 1.5%, however, the calculations of the international organizations shows that this figure is between 16-25%.

There are several reasons of the unemployment. The main factors in line with the unemployment are socio-economic situation, transition from one socio-economic system to other, and potential war. The number of the unemployed people, whose workplaces were closed as a result of the wrong management, should be noted

especially. On the other hand, the technological development also caused unemployment in terms of middle-aged people. In fact, such kind of problem is emerged in the market economies.

Unemployment is one of the most actual problems in Azerbaijan, which is waiting for its solution. The life conditions of 6-7% of the people are under the poverty level from the beginning of 2015. According to the calculations of the World Bank, the daily income of such people is \$1.20 dollars.

Figure 5. Official Unemployment Rate (%)



Source: <http://www.stat.gov.az>

Unemployment problem is one of the most important problems for the government also. The development of the economy in regions and offers to in open 600.000 new workplaces can be example for this.

2.4. PRIVATIZATION

Azerbaijan decided to practice market economy after the attaining of the independence. First of all, Azerbaijan government enacted the Privatization Law in 1993, however it is started to be realized after 1995.

One of the most important steps towards the realization of the market economy was the enacting the “Law on the Privatization of State Property” on 1st January, 1993 by Azerbaijani Parliament. The principles of Azerbaijani economy should be

based on the state property, private property and municipal property according to abovementioned law[®].

The basis of the market economy was formed via the enacting the “Law on the Privatization of State Property” In 1993, and the first phase of the privatization was started after it. However the program was not ratified by the Parliament of the Republic of Azerbaijan. “The State Program on Privatization” was ratified by the Parliament in 1995, after the long-term discussions. The privatization was the agenda of the government with the recommendations of the International Monetary Fund and the World Bank. Systematic privatization and the liberalization of the economy accelerated the transition from planned economy to free market economy. The 2.3% of the state property in the production level was privatized in the first phase. The privatization of the trade organizations such as restaurants, cafes, hairdressing salons, shops and tailor’s shops should be realized in the first phase of the privatization program. The organizations in line with the oil, gas, telecommunication and cultural centers as well as mines are not privatized. Yet such kind of organizations can be privatized with the decision of the President or the Prime Minister of Azerbaijan Republic.

The privatization was realized by the State Property Committee, which was established in 1992. From 1993 to 1996, only apartments and taxis were privatized. 7.183.803 of 8 million privatization vouchers was given to the people by the state, according to the decree of President on 8th February, 1997. Those privatization vouchers were distributed to the people without any payment. The citizens can take part in the privatizations with these vouchers, and the foreigners can participate with the privatization vouchers which are called “option”.

The first privatization program which included 1995-1998, was completed only in 2000. The great amount of the small and medium-sized enterprises was privatized during the first phase of the privatization. Almost 15.000 small enterprises were privatized until the end of 1997.

The second privatization program was started only 10.08.2000, because of the delays with the first phase of the privatization^{^^} Thus the second privatization program was started to be realized with two years delay. The privatization of the medium and large-sized enterprises was planned in the second phase of the

Process of Privatization', www.msD.Qov.az/html/enQ/xQd.html. (18.04.2015)

N. O. Hacıyev, "Sahibkarliq Sektorunun Inkişafinin Suretlendirilmesi İla Bagli Problemler", *Azərbaycanda İqtisadi İslahatların Hayata Keçirilməsi Xüsusiyyətləri və Problemləri*, İqtisadi inkişaf Nazirliyi İqtisadi İslahatlar Merkezi, Bakı, 2001, p. 117

privatization program. Mr. Heydar Aliyev, the President of the Republic of Azerbaijan accelerated the privatization on the onset of 2001.100 large companies In the processing, energy and chemical Industries were privatized this year. Almost 450 large companies are included In the second privatization phase.

The organizations and enterprises which should be privatized in the second phase of the privatization program are categorized in 3 groups; small, medium and large enterprises. 15% of the small enterprises were given to the employees and 85% was sold in the voucher auctions. Medium and large-sized companies were changed to the joint stock company firstly and then privatized. These enterprises; 50% of their shares are privatized via voucher auctions, 15% of their shares are privatized via giving to the employees in exchange with vouchers, 10% is privatized via auctions in exchange with cash money. The other 25% of the shares was privatized via giving to the government based investment fund.

The privatization of the communication, transportation, chemical industry, and energy sectors were realized in the second phase of the program[®]. From the first date of privatization until 2005, 40700 small-sized companies were privatized. Furthermore 1537 state companies and 356 medium and large-sized companies are changed to joint stock companies. As a result more than 150.000 thousand people became private property owner. The total economy of the country after the second privatization program is consisted of;

- State property: 56.9% (4.913.639 hectares)
- Municipal property: 23.5% (2.032.744 hectares)
- Private property: 19.6% (1.695.123 hectares)

The small and medium-sized enterprises, which were privatized during the first phase of the program, are currently developing in the economy[®]. Almost 47.000 small and medium-sized companies were existed in Azerbaijan at the beginning of 2005. Supporting of small and medium-sized companies was one of the priorities of the government. National Fund for Entrepreneurship Support was established in order to assist to small and middle-sized companies with financial resources.

The privatization was realized much more rapidly in Nakhchivan Autonomous Republic, Baku, Ganja, Minghachevir, Sumgayit, Absheron, Barda, Goygol, Khachmaz, Sheki, Goychay, Masalli, Qusar, Ucar, Qax and Balakan.

From the first date of the privatization until 2005, approximately 361.900 buildings were privatized and this number was the 59.5% of the planned buildings. One of the main goals of the "State Program on Socio-economic Development of Regions of Azerbaijan Republic" (11[^] February, 2004) was the acceleration of the privatization of the state enterprises and organizations.

Though the second phase of the privatization program considered the privatization of the medium and large-sized enterprises, the completion of the privatization of the small enterprises was much more significant

As a result of the reforms, almost all small enterprises were privatized. Significant steps were taken in the economy. The total value of the all privatized small enterprises was the 6.5% of the GDP. However the same success was not attained during the privatization of big companies. From the beginning of the reformation period, approximately 1065 medium and large-sized companies were privatized via the auctions after transformation into the joint stock companies.

The privatization process of the large-sized companies was slowly in comparison with the small and medium-sized enterprises. The investments of the foreign investors, who joined the privatization processes later, are increased day after day.

Despite of the successes, the privatization and formal reforms are realized very slowly. Unfortunately, the reforms (privatization), which were started since 1995 was not successful. Some reforms caused the economic contraction in some sectors of the economy. Furthermore, the unemployment which was emerged after the privatization was another problem.

On the other hand the privatization process, which is realized via the vouchers, was another disappointment. The citizens could not participate actively, because of almost hardly of the joint stock companies. The joint stock companies were established at the beginning. However lack of government control caused problems with these enterprises. As a result, the people started to sell privatization vouchers. The number of the joint stock companies was 100.000. However, there are only 50.000 joint stock companies in Azerbaijan, now. The privatization on markets negatively affected the amount of resources in the state budget.

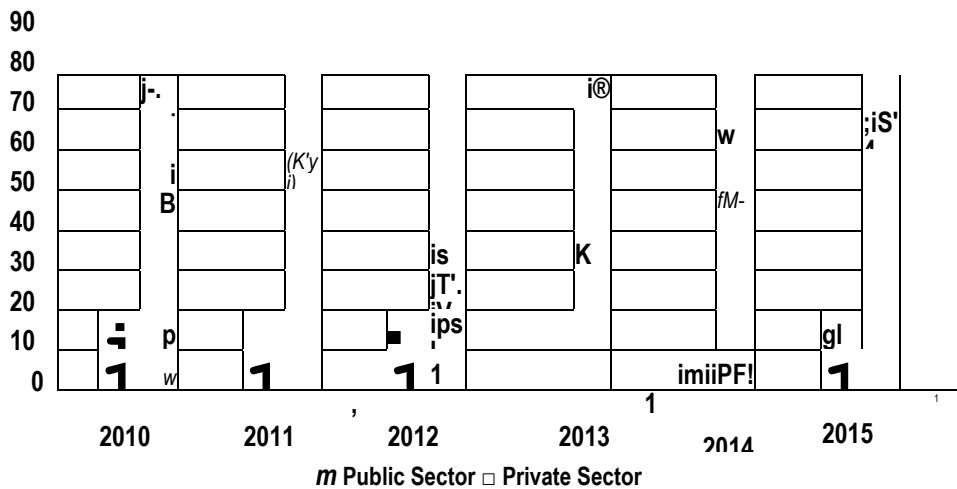
2.4.1. THE COMPARISON BETWEEN PUBLIC AND PRIVATE SECTOR

As a result of the privatization of the state property and the establishment of the private enterprises via the private initiatives of the people, the private sector is the basement of the economy. The private sector is much more in several sectors of the economy, especially agriculture. The share of the private sector as a macroeconomic indicator increased as a result of the reforms. The share of the private sector in GDP was 46% in 1997, 68% in 2000 and 79% in 2015 respectively. This shows that, the role of the state in GDP is gradually decreasing.

The taxes collected from the private sector plays significant role in the formation of the state budget. In fact, the privatization of the state property is the most important factor in line with the private sector's growth for the economy.

In 2015, 60% of the industrial production, 99% of the agriculture, 80% of the transport sector, 75% of the communication sector belonged to the private sector. However the monopoly of the state played important role in the strategic sectors. The state monopoly, which is the legacy of the former USSR prevent the economic development. The only way in order to get rid of the state's monopoly is the privatization of the big companies. However this process is realized very slowly in Azerbaijan.

Figure 6. The Predominance of the Private Sector in GOP (%)



Source: <http://www.v.stat.gov.az>

The role of the private sector in the GDP has been increased in recent years as well. If all information is considered, the private sector plays important role. State companies are inactive in economy of modern Azerbaijan (*especially industrial companies*). Furthermore some companies in private sector should not be considered as a private company. For instance, most of the anonymous companies (joint-stock companies) are considered as a state company. On the other hand the private sector is formal in energy production.

2.5. STATE

The defense spending of Azerbaijan increased because of the Karabakh War. Therefore the balance sheet of the state budget was out of order from 1993. The budget deficits which was very high at the beginning of the last decade of the 20th century, has started to decrease since 1995. The budget deficit was 9.4% of the GDP in 1994. However this figure was changed in next years and became 2.4% in 1999 and 1% in 2000 respectively. The budget deficit was started to decrease from 2001 and substituted by budget surplus in 2007-2008. The budget expenditures are increased simultaneously with the budget revenues. The share of the social defense and security expenditures are increased from year to year.

The share of the revenues comes from the oil resources are listed below: The share of the State Oil Company of Azerbaijan Republic (SOCAR) in the budget was 36.5% in 2002, and 31% in 2003. If the transfers from the State Oil Fund are considered, the share of the revenues comes from the oil resources was 39.1% in the budget. In 2009, this figure was 47.9% in 2009 (*38.6% for SOCAR and 9.3% for SOFAZ*).

The oil plays important role in line with the growth in the budget revenues. Statistics display that oil revenues increased within the budget revenues. The share of the revenues come from the oil export have been increased since 2010. The oil transfer from the Oil Fund was at peak level (*54%*) in 2012.

The budget of 2015 mainly focused on the salaries, education and defense expenditures. In this frame, the salaries were increased 30% in comparison with the previous year. To do this, the government planned to deter the corruption and bribery. Generally the budget of 2012 was \$20 billion dollars and the budget of 2013 was \$24 billion dollars respectively. The 14 billion dollars of the 2013's budget were transferred from the SOFAZ (State Oil Fund of Azerbaijan Republic). The price of the oil has started to decrease since 2014. As a result of the decreasing of the oil price in the world market influenced budget negatively.

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Table 5. State budget revenues and expenditures (million manats)

	2010	2011	2012	2013	2014	2015	2016 (Prog)
Total Revenues	11403,0	15700,7	17281,5	19496,3	18400,6	19438	16822
Including:							
Income tax of physical person	590,2	715,7	813,0	859,7	980,3	982,0	957
Income tax of legal entity	1429,9	2134,0	2252,0	2374,8	2302,7	2211	1806
Land tax	35,3	35,3	30,6	33,1	35,4	48	50
Property tax	101,8	103,9	105,1	125,1	141,3	148	174,2
Value-added tax	2082,5	2222,7	2366,9	2710,0	3119,6	3 456	3336
Excise tax	514,9	480,2	531,5	593,3	797,3	684 ,0	637
The Mining tax	130,1	129,8	125,8	121,5	116,2	116	107
Taxes in line with the foreign relations	291,8	433,1	592,5	675,2	684,7	684,7	1120
Other taxes	90,3	140,6	157,6	161,5	192,7	180	458
Other receipts	6136,2	9305,4	10306,5	11842,1	10030,4	9559	7 010
Total costs	11765,9	15397,5	17416,5	19143,5	18709,0	21100	18495
Including:							
Economy	4889,9	6803,2	6960,7	8207,5	7598,7	7598,7	3554,2
Socio-cultural ceremonies	2901,4	3447,2	4072,9	4081,8	4484,4	4484,4	4564
From them:							
Education	1180,8	1268,5	1453,2	1437,7	1553,9	1711	1713
Health	429,2	493,4	609,4	618,9	665,3	777	744,8
Social security and social defense	1123,0	1495,4	1769,5	1750,3	1971,2	2040	1896,5
The activities in culture, art, information and physical education	168,4	189,9	240,8	274,9	294,0	348,3	652,7
Science	92,8	106,1	116,7	117,0	124,2	124,0	131,7
Judiciary, law enforcement and prosecution	668,5	710,3	929,2	1049,3	1103,6	1240,2	1138,7
Legislation and execution, local governments	303,0	281,9	342,3	349,3	449,7	2047,6	542,3
Other expenditures	2910,3	4048,8	4994,7	5338,6	4948,4	4498,7	4328,7

Source: <http://www.finance.gov.az>

2.6. MONETARY POLICY

Manat became the national currency of Azerbaijan Republic in 1992, after the enacting of "Law on the Circulation of the National Currency". The national currency of the Republic of Azerbaijan was used with the Russian currency Ruble simultaneously. The government declared that, the economy will be diverted to free market economy, and the privatization will be realized by ManaP.

From 1994, Manat became the only currency in the country. As a result of the enacting of "Law on the Currency Regulation" and implementation of monetary and loan policies, Manat started to be valued from 1996. Manat was devalued against the United States Dollar in the first years. As a result of the economic reforms and strict monetary policies, which were realized from 1995, no any other waving was observed in the national currency of the country. Because of the high Inflation rate in the neighboring countries, Azerbaijan Manat was valued against them.

As a result of the policies of the National Bank and signed oil contracts which support those policies, the increase was observed in the import of the foreign currencies in 1997-1998. Therefore Azerbaijani Manat was valued against the United States Dollar. In 1998, the decrease was observed in the export revenues in line with the inconvenient use of the Manat and Russian economic crisis. However the value of the Manat has been decreased and its competitiveness has been increased in the effective monetary markets since 1999. The value of the national currency increased from 1999, after the strict monetary policies started to be softened. In 1999, new fluctuating exchange rate started to be applied and the Manat devalued about 7% against the United States Dollar. This gives competitive advantage to the local product's export. Consequently, Manat was strengthened via the financial stability, strict monetary policy and the devaluation in 1999.

The export products were consumed for low prices in the country, and high prices in the foreign countries because of the devaluation of Manat. Furthermore the costs of the export products based on the imported raw materials were increased. In other words, the export revenues went to the countries, whose currencies' were valued against Azerbaijan Manat, because of the expensiveness in the import.

Manat, which was devalued against the foreign currencies in 2000-2003, was revalued in 2004. The main reasons of the valuation of Manat; the money supply

C. Şarifov, "Azərbaycanla Valyuta Bazarının Muasir Vəziyyəti və Onun İnkişaf Perspektivləri", *Azərbaycan 21. əsrin Aste-nəsmədə*, Azərbaycan Elmlər Akademiyası Nəşriyyatı, Bakı, 1998, pp.551-552; Sancak, pp.51-54.

in circulation increased 31%, and that influenced currencies which are entered to the country. The increase was happened in line with the production of oil and gas resources, and the revenues increased as a result of it.

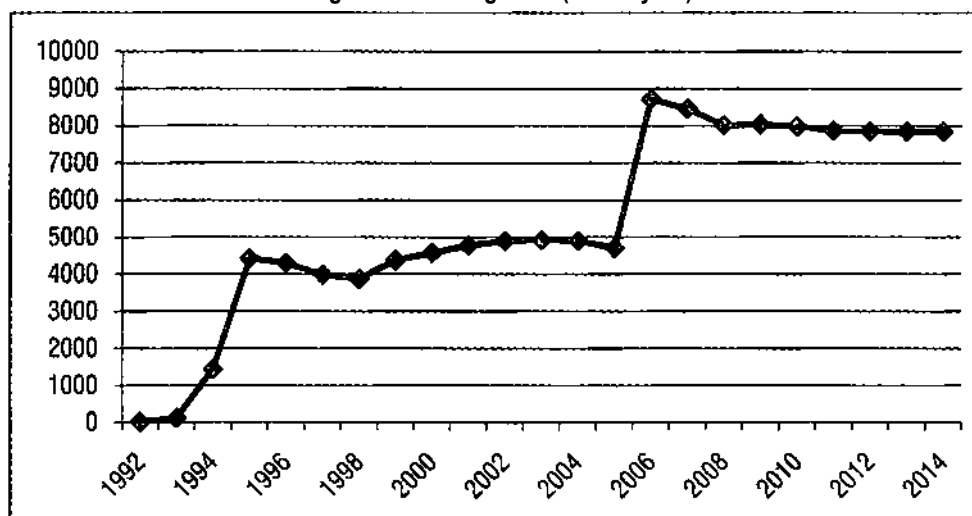
The value of the national currency of Azerbaijan- Manat, is identified in Baku Interbank Currency Exchange on daily basis.

There is a huge differences between real and nominal currency prices. Currency Exchanges and banks can buy and sell currencies (+,-) by 5 manat differences.

The currency reserves were \$876.86 million dollars according to the statistics of 2004. \$62.6 million dollars were spent from the reserves of the National Bank in order to pay the loans to the International Monetary Fund. The increase in the currency reserves based on the purchasing form the domestic exchange markets.

Azerbaijan has enough currency reserves. However more than half of the reserves was spent in order to preserve the value of Manat as a result of the devaluation accompanied by the decrease in oil prices. It should be noted that, the reserves of the National Bank were \$14 billion dollars before the devaluation. In 2015, there were \$7 billion dollars in the reserves of the National Bank. This amount is equal to the 3 months' product and service import. Therefore the National Bank gave a permission for the next devaluation on 21st of December. As a result of the 50% devaluation, the equivalent of 1 Dollar became 1.55 Manat. Generally, if the reserves of the Oil Fund and other reserves will be added to the reserves of National Bank, the currency reserves of the country will be approximately \$40,000,000,000 USD.

Figure 7. Exchange rate (end of year)



Source: <http://www.stat.gov.az>

Furthermore, the denomination process has been realized since 1st of January, 2006. The nominal value of the Manat was diminished 5000 times and New Azerbaijan Manat was created. The New Azerbaijan Manat was released to circulation and this process continued until 1st of January, 2007. New Azerbaijan Manat was similar to Euro in terms of the physical characteristics and value. Therefore this process blew the dollar hegemony in the country. Because the most important part of the cash transactions were realized by dollar and this limited the circulation market of the Manat. However this situation was changed in line with the severe dropping in the oil prices in 2015. In February, the equivalent of \$1 dollar increased from 0.79 AZN to 1.05 AZN. In December new devaluation was realized and the equivalent of \$1 dollar increased from 1.05 AZN to 1.55 AZN. The second one planned the fluctuating exchange rate. According to that, the rate of the Manat will be formed according to the real aspects of exchange market.

Azerbaijan has enough cash reserves, and this is very significant. However national resources does not include state property only, but also the property of the citizens. The existence of the world is not measured by its cash reserves only. It is measured by the social welfare of the people, who live in it. From this point of view, Azerbaijan has significant problems. The income level of the population is very low, there is a severe social stratification and there is no middle class in the country. The revenues collected in the Oil Fund, as well as foreign loans should be used relevantly in order to solve this problem.

2.7. FOREIGN TRADE

The liberalization of the foreign trade in order to attain the integration of the economy without any significant regulations could result in the domestic production decreased and the internal market could completely depend on the Import. But the government intended to increase domestic production. However the steps of the government in line with the increase of the domestic production confronted with the protests of the international companies and organizations such as International Monetary Fund and the World Bank. The new Customs Code of Azerbaijan Republic was enacted in April, 2001. The government tried to increase the custom taxes of the products, which have a potential production power in Azerbaijan. However it was supposed that, it would be increased because of the international contracts. The custom rates of some products were increased to 15%, and that will not meet the expectations.

There was a deficit in the foreign trade balance of Azerbaijan during the first years of the independence (1994-1999). However the increase in the oil exportation caused the abolishment of the deficit.

As a result of the economic policy, which was started to be implemented after the attaining of the independence, the total volume of the foreign trade increased. The total volume of the foreign trade increased 16.4% in 1997, 50% in 2000, and 500% in 2004 respectively in comparison with 1993. The foreign trade increased 37% in 2005 in comparison with 2004 (30% import; 40% export).

The export revenues decreased as a result of the severe valuation of Manat. The increase of the import, high investments in hydrocarbon sector caused the increase of the foreign trade deficit to \$470.3 million dollars. The deficit in foreign trade was \$106.2 million dollars in 1999. The export numbers have been increased since 2000, except 2003. The main reason of this was the implementation of the new phase of the international oil contracts.

The export have been played important role in the GDP since 2000, when oil exportations were started to increase. Oil plays important role in the export. The share of the oil and oil products in export was 64.8% in 1998, 84% in 2001, and 95% in 2008 respectively. The most important part of it comes from the export of crude oil. The price of the oil exported from Azerbaijan increased in accordance with the increase in world market. On the other hand the volume of exported oil also increased. However, as a result of all abovementioned, Azerbaijan became dependent on the oil prices. Food and metal are the other important export products.

The predominance of oil and oil products in the exported products will cause an increase as a result of the oil production. This can be a problem such as dependence on one sector. The oil revenues should be diverted to non-oil sector in order to solve this problem.

The structure of the export is different from the structure of the import. The increase has been also observed in the import since 1996. The share of the private sector in the foreign trade of Azerbaijan; 72.93% import, 49.15% export. Furthermore, It should be noted that, the decrease will be observed in the import because of the growth of the domestic production.

The lack of the domestic production as well as the devaluation of Manat against the United States dollar in 1997-2000, the import became much more attractive.

Table 6. Foreign Trade of Azerbaijan (Million Manat)

Year	Exports	Imports	Exports	Imports
1991	1881.2		2120.9	
1992	939.8	-50.04	1483.9	-30.03
1993	628.8	-33.09	724.6	-51.17
1994	777.9	23.71	652.7	-9.92
1995	667.6	-14.17	637.1	-2.39
1996	960.6	43.88	631.2	-0.92
1997	794.3	-17.32	781.3	23.78
1998	1076.4	35.51	606.2	-22.41
1999	1035.8	-3.77	929.6	53.34
2000	1172.0	13.15	1745.2	87.73
2001	1431.1	22.10	2314.2	32.60
2002	1665.5	16.38	2167.4	-6.34
2003	2626.4	57.69	2591.7	19.57
2004	3504.6	33.43	3614.4	39.46
2005	4 211.2	120.1	4 347.2	20.2
2006	5 266.7	125.0	6 372.2	46.5
2007	5 713.5	8.4	6 058.2	-5.2
2008	7 169.5	25.5	47 756	788
2009	6119.70	-108.5	14 698	-307
2010	6600.61	107	21360.2	145.3
2011	9755.96	147	26570.8	124.3
2012	9652.87	-98.9	23907.9	-89
2013	10712.50	110.9	23975.4	100
2014	9187.69	-85	21828.6	-91
2015	9 221,4	-3.6	11 424,5	-47

Source: <http://www.stat.gov.az>

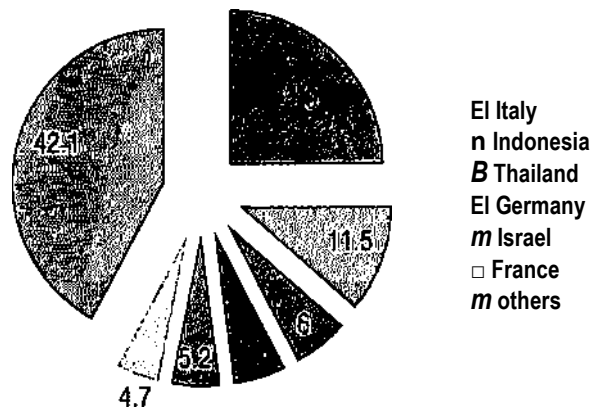
Azerbaijan needs to have a foreign currency and makes it constantly in order to import products and services. Nevertheless the lack of the structural reforms, incomplete industrialization, and the deficits in trade were compensated by the oil revenues. However this situation is not good for the country, even it's the illness. The structural changes such as increase in the level of industrialization decrease in import and increase in the export should be realized in order to get rid of the illness.

2.7.1. THE MAIN COUNTRIES IN FOREIGN TRADE

Azerbaijan has business relationship with more than 150 countries. Russia, the United Kingdom, Kazakhstan, Turkey, Germany, Ukraine, the Netherlands, China, the United States and Japan provide the 70% of the import. Italy, Israel, Russia, Georgia, Turkey, Iran, Turkmenistan, Indonesia, Croatia and France provide 87% of the export. The volume of the foreign trade In recent years: *Italy (25%), Russia (12%), the United Kingdom (6%), Turkey (6%), Turkmenistan (3.6%), Israel (4.65), Kazakhstan (3.5%), Germany (3.3%), Iran (3%), Georgia (3%), France (2.6%), China (2.5%), and the Netherlands (2.3%).*

Italy is in the first place in terms of export because of the oil transportation via Trieste port. As a result of the financial crisis in Russian Federation in 1998, and the devaluation, the Russian goods attained price advancement in Azerbaijan market. Russia attained one of the first places in terms of the foreign trade of Azerbaijan.

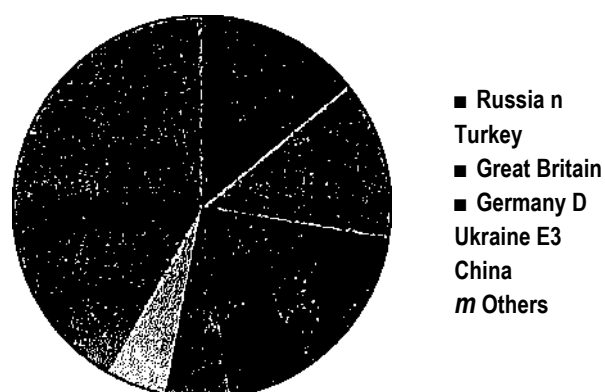
Figure 8. Main Countries in Export (2015)



Source: <http://www.stat.gov.az>

In terms of the foreign trade, Azerbaijan prefers to do trade with the western countries much. Because of the low quality, Iran's export products are not one of the favorites for Azerbaijan. Nevertheless Iran plays important role in the foreign trade of Azerbaijan. Iran was in the first place with 38% share In the foreign trade of Azerbaijan in terms of the export market In 2002, the weight of Iran in Azerbaijan's import and export were 3.5% and 1.4% respectively. The total trade turnover between these countries was \$900 million dollars In 2015. The share of Iran in the Import of Azerbaijan was 4.25% In 2015.

Figure 9. Main Countries in Import (2015)



Source: <http://www.stat.gov.az>

There are also some changes in the country's foreign trade priority. It is possible to note that, Azerbaijan makes trade relationships with highly developed and developing countries.

2.7.2. FOREIGN TRADE RELATIONS WITH CIS COUNTRIES

After the independence, Azerbaijan has been preferred to make trade relations with the countries out of CIS. However there were some trade relations between Azerbaijan and former union states. The dependence from Russia in terms of the economic issues, created some artificial problems for realization of the independent economic policy and formation of the national economy. The weight of the CIS countries in the export of Azerbaijan was 27.7% in 1998, and 22.6% in 1999 respectively. In 2000, this indicator was 20.9%.

The amount of the foreign trade was realized with the CIS countries in 1991-1993. The volume of the foreign trade with the CIS countries started to decrease gradually from 1994.

The import from the CIS countries was 80% of the total import in 1991. This figure was 31.4% in 1999, 32% in 2000 and 23.9% in 2015 relevantly. The export of Azerbaijan to the CIS countries was 94% of the total export and this figure was 22.7% in 1999, 13.5% in 2000, and 9.3% in 2015 relevantly.

The decrease in the import with the CIS countries and Russia is slower than the export. The Import from Ukraine decreased much.

2.8. FOREIGN DEBTS

The amount of foreign debt and the ratio of external debt to GDP have grown by years on a regular basis. That emerged at the beginning of the transition period and the lack of an annual direct investment with the purpose of entering into financial capital is observed. For example the usage of foreign funds to finance state deficits could be understood from the growth rate of foreign debts against GDP.

Table 7. Azerbaijan's foreign state debt

Information on January 1,2015 year about the Foreign credits involved in Azerbaijan and their structure (mln.USD)		
	On used and considered public debt loans	
1. The total amount of loans	6 380,7	
Percentage of GDP	8,5%	
Per capital external debt	671,6	USD dol.
II. The structure of loans		
1. Credits attracted for economic reforms	325,8	11,2%
The International Monetary Fund	220.2	5,4%
World Bank	2255.7	32,8%
2. The credits involved for investment projects	3591,0	88,8%
Electric power Sector	1135.4	38.9%
Agriculture and Land Reclamation	227.6	7.8%
Road construction and transport	676,9	23,2%
The field of chemistry	18.5	0.6%
Oil and gas sector	169.5	5.8%
Rehabilitation of territories liberated from occupation	56.1	1.9%
Social areas	221.3	7.6%
Other areas	80.5	2.8%
Rates	14,6 mln. USD dollar	
Including		
From budget	19,4 mln. USD dollar	
The main return of loan to the International Monetary Fund	8,7 mln. USD dollar	

Source: www.finance.gov.az

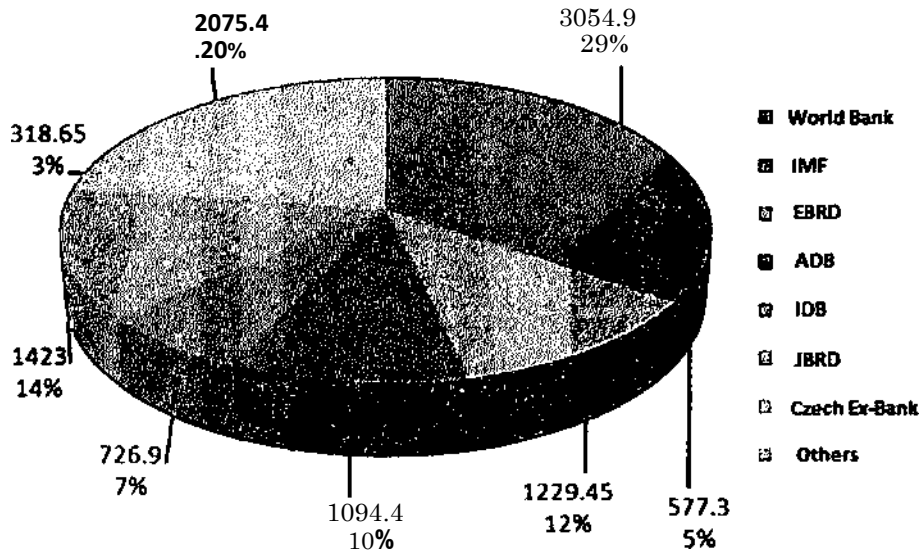
Despite the decline in foreign investment in 1999, the increase in foreign debt shows that the annual deficit is financed by foreign borrowing.

Slowly increased export revenues in comparison with the rapidly increased foreign debts caused the growth in the ratio of foreign debt to export.

Foreign debt/export ratio increased from 7.3% in 1993, to 77.1% in 1999. This rate was 66% in 2000, 54% in 2001 and 63% in 2002. In this case, the decline in the rate of increase in exports mustn't consider the collapse wandered the country's

foreign debt, however a limited maneuver that may cause there turn of the debt owned. The ratio of external debt to GDP from was 4% in 1993.18.6% increase In 2004 will continue to grow, which shouldbe alarm. On the other hand the lack of funding from foreign sources caused increases In external debt. Despite the increase in debt, increasing investments in oil production and exports not allowed the emergence of any problems with the repayment of loans borrowed.

Figure 10. The structure of donors of signed loan agreements as of 1 January 2016, min. USD dollar

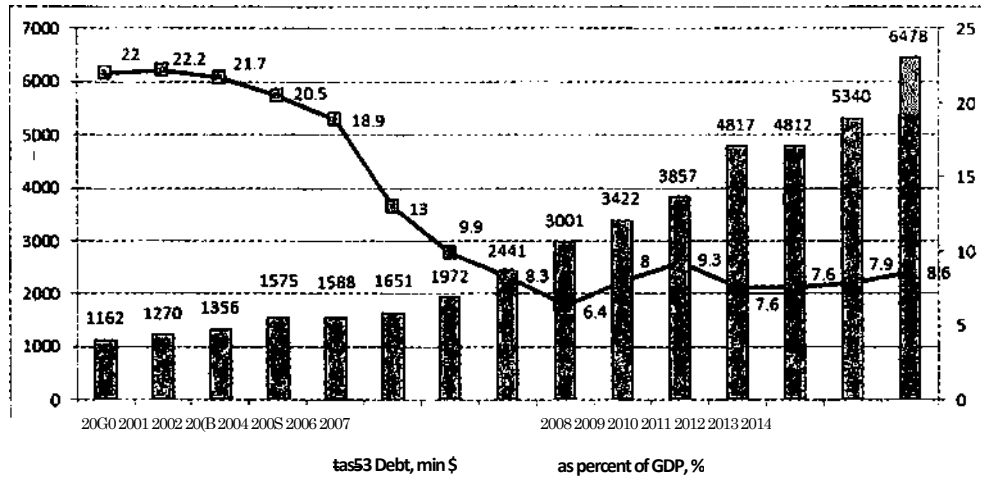


Source: <http://www.stat.gov.az>

In addition to regulation of foreign financial sources in Azerbaijan attaches great importance to the policy of borrowing. On October 01, 2015 Azerbaijan's foreign public debt was 6,730.9 million \$ (10,934.0 million manat), external public debt of the Gross Domestic Product (GDP) ratio is 12.4 percent. Debt statistics from the government's direct liabilities and contingent liabilities on loans borrowed under the state guarantee are included.

There is inequality in the distribution of debts. For example, most of the credits have been allocated In the energy sector (33%) in 2008. Transportation sector allocated 9 %, social sector 8%, and agriculture and land reclamation 6%.

Figure 11. Azerbaijan's foreign debt and its dynamics to GDP ratio



Source: <http://www.statgov.az>

As a result of the development, the budget and foreign currency reserves are growing from year to year. Azerbaijan's currency reserves reached \$40 billion. Meanwhile the amount of the State Oil Fund is \$30 billion. All of these implemented projects will allow to balance domestic sources. Only one fact should be emphasized that, Azerbaijan government has allocated \$200 million loan to Georgian government for the construction of the Baku-Tbilisi-Kars railway. This fact shows that Azerbaijan is a leader in the region. The foreign debt of Azerbaijan was \$3,372 billion Dollar in 2010.

The foreign debt situation of the currency composition of the loans of October, 2015 are as follows: SDR (Special Drawing Rights of the International Monetary Fund) - 9.4%, currency in US dollars - 66.0%, EUR- 20.3%, Japanese Yen - 2.6%, Islamic dinar-0.6%, UAE dirham - 0.5%, Saudi rial - 0.4%, Kuwaiti dinar - 0.2%.

It should be noted that, no any country can be developed without integration to the world market and foreign debts. Therefore all countries in the world have foreign debts. The rapid integration to the world economic system created mutual responsibilities and debts between the countries and the international organizations. Even the super powers of the world economic system received long-term loans from international organizations in order to realize big projects. The increase of the foreign debts can be dangerous for the development, when it will pass 30% of the GDP. For the comparison it should be noted that the foreign debts of the developed countries are 40-60% of their GDPs. In Azerbaijan this number is only 7.3%. Therefore It is not a danger for our country.

For instance, the foreign debt of Russia is \$47.1 billion Dollars, and this is 8% of the GDP. The foreign debt of other Southern Caucasus republic, Georgia is \$1.666 billion Dollars and this should be considered as a huge amount.

The weight of foreign debts in GDP in developed countries is listed as follows: France-66%, Germany-68%, USA-53%, Great Britain-43% and Norway-36%. It is possible to mention that the foreign debt of Azerbaijan is less than debts of before mentioned countries. The great amount of petrol revenues entered to Azerbaijan. Furthermore the government receives loans from the international organizations and foreign countries. The incomprehensible situation is that, the oil revenues and loans are invested to the investment projects. This field is considered as a suitable area for corruption. The foreign debt of the country is already \$3 billion Dollars.

If the recently signed contract between Azerbaijan and International Monetary Fund is considered, the foreign debt of Azerbaijan per capita is \$300 Dollars. However that number was only \$283.9 Dollars in 2008. The loans are spent to the investment projects (85%) and the acceleration of the economic reforms (15%). The loans of International Monetary Fund and World Bank are considered for the acceleration of the economic reforms. The loans from International Monetary Fund, World Bank, European Reconstruction and Development Bank and Japan International Cooperation Agency are allocated for investment projects. Most of the loans are diverted to the energy sector. There are some doubts in accordance with the transparently usage of the loans.

Azerbaijan and Turkey come to an agreement on the disputable debt issues. However, there are some problems between Azerbaijan and Turkmenistan in debt issues. Only Georgia has debts to Azerbaijan (16 million Dollars). 3% of the budget is allocated in order to repay the foreign debts. This ratio is less than the indicators of other CIS countries. At the end of 2008, the foreign debts were 6.4% of the GDP. If the reserves of the Oil Fund considered the financial resources of the country are secured. According to the international standards, foreign debts become dangerous. If only foreign debts are 40% of GDP. If foreign debts passed 200-250% of the export, that would be dangerous for the country also. Furthermore, the most important part of the foreign debts includes 10 years.

Additionally, foreign countries assist financial aids to Azerbaijan. Japan, Germany, Switzerland, Turkey, Italy and Finland are the main countries that support the refugees. The cooperation between Azerbaijan and Japan is high level. Japan helped to the refugee of Azerbaijan after the Karabakh war. Japan allocated

\$11,470 million Dollars to the refugee of Azerbaijan via the international organizations. The Japanese government launched 8 projects amounted 480 thousand Dollars through "Grassroots and Human Security" grant program via their Embassy in Azerbaijan.

Technical partnership with Germany and Azerbaijan began after the independence. Germany is in third place in terms assistance after the USA and Japan. Relations between Germany and Azerbaijan are realized in the field of ecology and medicine in addition to economic cooperation.

2.9. ENVIRONMENT AND ECOLOGY

With an area of 86.600 km² of Azerbaijani territory agricultural area is 50%, urban areas are 25%. Azerbaijan has a rich flora also. The number of plants that are known is more than 1,400. 12% of Azerbaijan's territory is covered by forests. 950 000 hectares of forest is considered to be the country's territory. In general, the country has reserves of 127 million m³ of wood. The government banned the cutting of the forest for industrial and other purposes. Such kind of activities prevent, care and plant tree striving for the development of forests. The country's forests are organized out of the shed leaves and pine trees. The flora of southern region is in serious danger. Thus in the region, the problems that arise due to lack of natural gas are important for the forest protection.

The illegal cut of trees is going in two directions: 1) *heat*, and 2) *trade*. Most of the trees were cut down in the Lerik, Guba, Balakan and Khanlar regions. In 2009, 4,600 hectares of new trees were planted as part of reconstruction. These areas are mostly situated in Gobustan, Gilazi and Garadagh regions. Furthermore some works are realized in order to plant trees in 500 hectares area. The Ministry of Ecology and Natural Resources considers that the lack of natural gas resources is serious threat to the forests. Therefore it is supposed to be that, the deforestation process will be accelerated in the future.

The most important natural resources of Azerbaijan are oil and natural gas. However, country has rich mineral resources such as the Iron, aluminum, zinc, copper, arsenic, molybdenum, marble and volcanic sludge. Azerbaijan is a country with the highest rate of pollution problem in Transcaucasia. As a result of industrial activities in last 100-150 years created complicated environmental situation. The country has sufficient water resources, but these reserves are polluted as well. The proportion of heavy metals is 10-15 higher than proportion

Of normal drinking water. Despite serious water problem in the country, 29% of water is lost during distribution.

Despite the decrease in industrial production, air pollution continues to be high. One of the main reasons of air pollution is transportation vehicles. The harmful substances in the atmosphere, approximately 41% of the total volume of waste arising from the road transports. The large part of cars produced in Russia has higher rates of pollution and do not care about the pollution norms and standards. According to the information of 2015, the toxic substances violated the ecological balance of the country. The weight of the toxic wastes among the industrial cities is listed below; *Sumgayit 4 million tons, Baku 340.000 tons, and other places 37.000 tons*. Toxic waste is considered to be very dangerous for the organism in the production processes.

Usefulness of the soil due to poor irrigation has been reduced. Economic problems that emerged in the Caspian Sea are also important. In recent years, there have been more and more cases of high pollution in sea water. Polluted rivers flow into the Caspian Sea. Sea pollution accounts for 70-75% from the Volga River. Additionally lack of central sewer system of the houses caused the pollution also. Besides oil extraction and waste from other industrial facilities elements causing pollution in the Caspian Sea.

Another environmental problem is the rise of the level of Caspian Sea. As a result important fishing zone is jeopardized. From 1977 to 1995 as a result of the rise of sea level, 50.000 hectares of land were left under the water. If the sea level continues to increase the flooded area is projected to reach 100 000 hectares in 2016. The lifting of level of the Caspian Sea, the largest loss of 70-75% of the industrial potential of Azerbaijan, which is close to the shore. In the country problems associated with soil contamination have been increasing since 1970s. Serious contamination occurs in the territory of Absheron peninsula. Cleaned land can be used for agricultural, setting up parks and other useful purposes.

2.10. POPULATION

At the beginning of 2016, the total population of Azerbaijan was 9.593.000 people. 5.098.000 people or 53.1% of the total population live in cities. 4.495.000 or 46.9% of the total population live in the village. 4.776.000 people (49.8%) of total population are male, and 4.817.000 people (50.2%) are female. The ratio of male/female is 1000 men against 1009 women. Azerbaijan is in the 92nd place among 240 countries in terms of the total amount of population in the world. 22.4% of the total population is 0-14 years old, 71.6% is 15-64 years old and 6% is 65 years and more. The young people between 14-29 years are 28% of the total population and most of them live in the cities. Each year approximately 172.000 children are born. In average 471 children are born everyday in Azerbaijan according to the last 5 years' statistics. According to the information of the Ministry of Internal Affairs and the State Migration Service 1900 people come to Azerbaijan for permanent residence. Furthermore 800 people left country in order to live in foreign countries permanently.

Approximately 40% of the population live in the capital city, Baku. Generally 51.5% of population live in the cities. The other 48.5% live in the villages. The average life expectancy is 72.4 years. However the average life expectancy is 75.2 years for women and 69.6 years for men respectively^^

During the Karabakh War, Azerbaijan lost its 20% territories including Mountainous Karabakh in the first years of 1990s. Approximately 1 million citizen, 12% of the population left their motherlands. In 2009 the tent camps, where the refugees and IDPs live were abolished and they were provided by houses. This process will apply to the refugees, who settled in the schools currently.

CHAPTER THREE

SECTORIAL ANALYSIS

Azerbaijan economy will be analyzed under the subchapters of industry, agriculture and services sectors in this chapter.

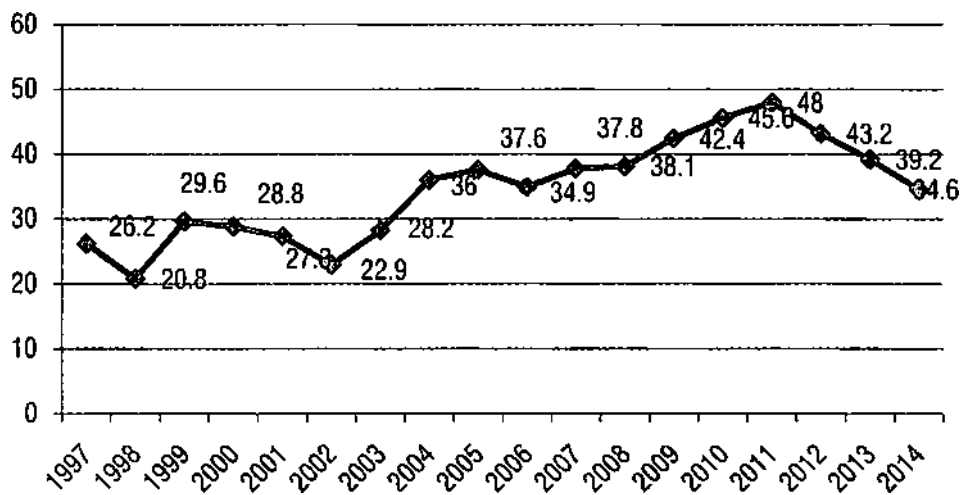
3.1. INDUSTRY

The industrial sector was the predominant sector in the Azerbaijan economy before the independence. 42.1 % of the national income belonged to the Industrial sector in 1988. Thus there were 1005 industrial organization In Azerbaijan in 1988. There were 529 heavy industry organizations, 206 light industry organizations and 263 agriculture organizations in Azerbaijan before the independence. The first years of the independence can be characterized as an adaptation to the free market economy. More than 3800 organization was closed in 1995. Several companies continued their operations that time. On the other hand the production of the industrial products decreased In 1990-95. Even the increase of the industrial organizations (from 1005 to 2984) could not stop the decrease in the volume of the productions[^] The main reasons of the decrease in the production of the industrial products were the weakening of the state regulation, lack of the relevant stabilization programs and the low-quality market control. However, it should be noted that, the same situation was observed in all former Soviet states also. 20% of the industrial potential of Azerbaijan economy was oil refining equipment production, machine building and construction sectors. The production of the oil refining equipment is the oldest and the most important sector for the country. This sector met the 70% demand of the USSR. However the old equipment and instruments were triggers of the end of such kind of organizations.

All industrial institutions connected with the other countries of the former USSR. Therefore the stagnation was observed in the industry after the Independence. On the other hand, lack of the supply injured the sector. The sectors depend on

the oil and oil products were the strategic sectors according to the government and these sectors were added to the privatization plan. On the other hand, the government initiated a program in order to attract foreign investors. However some limitations were implemented for the international investments. The industry started to develop after 1995. The ratio of the industry in GDP increased to 29.6% from 20.8 in 1995. The share of the industry in GDP was 37.6% in 2001, and 45% in 2015. Consequently from 1996, new industrial organizations were opened as a result of the establishment of macroeconomic stability. 27% of the population works in the industry. Despite of the economic reviving, the unemployment problem has not been resolved yet. Most of the industrial institutions (90%), which were established in the country, are the small and medium-sized organizations. The productivity of the previously existed organizations is low. Therefore oil and oil products of Azerbaijan are exported as a crude material and semifinished goods.

Figure 11. The Share of the Industry in GDP(%)



Source: <http://www.stat.gov.az/>

The oil production technologies, the processing industry, machine building and construction sectors provide 1/5 of the industry in Azerbaijan. The processing of energy, electronics, metal working, machine building, shipbuilding and weaving are also important industries in Azerbaijan. There are several organizations in the processing sector. However the dependence from the foreign countries in the industry (*especially former USSR countries*) stagnated most of the organizations in the country. The lagging was observed in manufacturing industry until 1999.

The same situation can be observed in the production of the steel, paper and other industrial products. The increase has been observed in the manufacturing since 2000. The wine production is in the first place in the food industry.

The weaving, carpet-weaving, leather products and the furniture production are the main industry fields within the light industry. There are many small, medium and large-sized organizations in the weaving sector. Furthermore there are several cotton manufacturing organizations in this industry.

There was a huge breakthrough in the weaving sector especially. This sector provided 10-15% of the Azerbaijan industry in the soviet period. There were 50- 60 thousand workers in this sector. In 2007, the weaving was only 3-5% of the country's industry. There was a huge decrease in the numbers of employees in this sector.

Generally intermediate goods and semifinished goods are produced in the heavy industry. The main part of the heavy industry is provided by oil industry. Sumgayit is the predominant city in terms of the heavy industry. There are 88 industrial institutions in Sumgayit. The Azerbaijan government made 25 years' plan, which considered the reconstruction of the industrial organizations in the region. The government needs \$30 billion dollars of investment in order to realize this plan.

It is obviously known that, the main reason of the decrease in the industrial production connected to the collapse of the USSR and disconnection of the former union states. This shows itself especially in the heavy industry. However this cannot be said about light industry. In 2000, the industrial production increased in comparison with the previous year. The organizations in line with the energy, petrochemical and private sectors played much more important role in this growth. The increase rate from 2001 to 2004 was less than the figures of 2000. The growth was 8.6% in industrial production in 2007, excluded oil sector. Despite of the growth in industrial production, the total production for 2008 was less than the figures of 1990. Energy production industry, electronics and metal manufacture, machine building and shipbuilding as well as the weaving are the predominant industry fields. After the Independence, the growth is observed in metal manufacturing and chemical industries. The huge breakthrough was attained in line with the production of oil equipment and metallurgy. The Customs Tax and Value-Added Tax came into force since 1st January 1997; protection measures were enlarged. The role of the private sector in the industry sector has been increased every year (for instance: 26.4% in 1998, 37.3% in 1999, 43.7% in 2000, 53.7% in 2002, and 71% in 2015).

3.1.1. MINING INDUSTRY

Azerbaijan has rich underground resources. The most important resources are; oil, natural gas, copper, zinc, lead, sulfate, gunpowder, ore, mercury, molybdenum, cobalt, arsenic, marble, limestone, salt mine and rock-salt. The use of the natural resources was planned according to the short and long term demands. Several important mineral deposits were not used conveniently. Azerbaijan has 200-250 million tons Iron reserves. The extraction of the Iron ore was suspended after the collapse of the Soviet Union. The reason was the refusal to buy and general decrease in world market consumption of ore products, which stipulated by switch of industry to aluminium and plastics. However the German and English companies are interested in the restoration of the deposits.

The agreement with the "RV Investment company of the United States was attained in accordance with the using the gold resources. The agreement was signed for 25 years. According to the agreement the U.S. Company will invest \$620 million dollars for 6 gold reserves (\$500 million dollars for operation and 120 million dollars for development).

The gold reserves are located in Gedebe, Dashkesen and Kalbajar, which is invaded by the Armenian troops. "RV" company is planning to start operations based on the price of the gold in the world market[^]

The mining sector needs urgent modernization. Consequently the mining sector is confronted with the significant problems. The lack of the modern technology is the most important problem of this area.

3.1.2. ELECTRICITY

There are 8 thermal power stations and 6 hydroelectric power stations in Azerbaijan, which utilized for 85% of their capabilities. These electricity power centers were built during the soviet period, and they have not been used relevantly after the independence. 82% of the electricity is produced in thermal power stations, and the other 18% is produced in hydroelectric power stations. The liberalization of the prices also affected the price of the electricity. The electricity which is produced in Azerbaijan was not enough to meet the domestic demands. The problem displayed itself in the winter months especially. The reason of the problem was the old technology, which was used in the electricity production.

[^] Azərbaycanın qızıl yataqlarının "İnşasına başlanacaq", *Oğ Nöqtə Qəzet*, No:41(521), 4 Mart 2003: 'US Company to Develop Azerbaijan's Gold Deposits in 2005', *azernews*, <http://www.azernews.net/view.DhD?d=5692> (19.03.2005).

On the other hands the production loss increases gradually because of the Inconvenient distribution of the electricity. Azerbaijan imports energy from Russia, Turkey and Iran. Azerbaijan joined European Union program in order to establish united energy system with Azerbaijan, Turkey and Georgia.

On the other hand Azerbaijan implements privatization program in order to abolish the loss in energy sector. In 1996 the president Heydar Aliyev signed decree on the privatization of the "Azsrenerji" for 5 years. Azerbaijan was consisted of 5 regions In 2000, in terms of the energy issues; Baku, Nakhchivan, North (Sumgayit), South (Shirvan) and West (Ganja). The establishment of the joint-stock companies was planned in for those regions.

There is a fuel problem in line with the electricity production in Azerbaijan. The electricity networks of Baku, Sumgayit, Shirvan and Minghachevir were given to private sector in order to meet the oil and gas demands of the country^^ The distribution of the electricity was given to Turkish company "Barmek Holding" with the decree of the president in the January, 2002. The electric networks of Baku and North were managed by "Barmek holding" while other regions were managed by the "Bayva" company. Then the BayvaCompany rejected the management of these regions. As a result the authority was given to "Azsrenerji" back.

The electricity systems of Baku have been managed by "Baki Elektrik Ş3b9k9" and the electricity systems of Sumgayit has been managed by "Sumgayit Elektrik ^sbaka" since 2007. The reconstruction of the electricity system of Azerbaijan was discussed in several projects. Recently Presidentllham Aliyev signed decree on the *"Establishment of Azerisig Open Joints Stock Company"* and this company took the rights of *"Baki Elektrik Shebeke"* and partly electricity producer Azerenerji for Absheron peninsula. The foreign investors are interested in electricity, but no more than the oil sector. In 2002 the construction of the Yeniksnd Hydroelectric Power Station was completed. The completion of the reconstruction of the Minghachevir Hydroelectric Power Station increased energy potential of Azerbaijan. In 2000, the construction of the "North" electricity station was started near Baku (*The value of it was \$201 million dollars*). The Japanese cortpanies such as Mitsui and Mitsubishi, the Turkish companies TML Borova and the Swedish company ABB were the subcontractors in this project in order to increase the operational capability of the station.

German KWF allocated 15 million dollars' loan in order to establish substation. In this area \$2.5 billion dollars are needed in order fully reconstruct Azerbaijan's energy sector.

Japan Bank for International Cooperation is one of the other significant financial supporter to this industry. The Organization allocated \$339 million dollars for the development of the energy sector. Furthermore \$100 million dollars were allocated to the construction of the petrochemical centers of Sumgayit city. Japan Bank also allocated money for the construction of the gas pipeline from Garadagh to neighboring areas.

President Aliyev signed 4 important agreement in line with the management of the electricity system. The president signed a state program on "The Use of the Alternative Energy Resources" in 2004. The president also signed a state program on "The Development Fuel-Energetics Complex of Azerbaijan Republic" including 2005-2015. Approximately \$1 billion dollar is needed in order to reach the goals within the state program^^ According to the program the electricity production will be increased 4.5%. As a result the electric energy will be 38 billion kWt in 2015. The power of the energy system will be 6.5 thousand MVt.

3.2. AGRICULTURE AND CATTLE-BREEDING

Agriculture and cattle breeding are the most important sectors among the non-oil sectors in socio-economic development of Azerbaijan. Azerbaijan's rich agriculture areas and regions with different climate zones make possible to grow quality and wide range products. 9 out of 11 climatic zones of the world are available in Azerbaijan. This diversity extends from subtropical climate to tundra climate. It is possible to get a product more than once in a season. The variety of climate makes possible to grow various sorts of harvest. In short, being favorable for agriculture Azerbaijan's main agricultural products are wheat, tobacco, tea, olive oil, fruit and vegetables. The country has enough potential to produce grain and satisfy internal demand.

Areas of private property came to an end in the agricultural sector after invasion of the Soviet Union in 1920 and managed by cooperatives named collective farms and state farms which were state properties. During this period, the central government was planning where any product should be manufactured and where should be sold.

Table 8. Agriculture Areas

Areas	Soil Resources (ha)	%
Total area	8641	100
Area favorable for agriculture	4588	53.1
Area feasible for irrigation	3200	37
Planting area	1622	18.8
Forest	1037	12
Area exposed to erosion	3610	41.8

Source: <http://www.stat.gov.az/>

Lenkaran region, which is located in the country's southern border next to Iran is specifically suitable for cultivation of cabbage, tomato and pepper, was called the Garden of the Union. Moreover, in the collective and state farms of Guba, Khachmaz and Masalli regions vegetable growing had a special importance. In general, Azerbaijan, was deliver 500.000-600.000 tons of vegetables to the Union fund.

For Azerbaijan, cotton production has another importance. In 1970-1980, about 1 million tons of cotton was produced annually. However, the problems arising from the transition period, with the decrease in the price of cotton on the world market, cotton production resulted in decrease of large quantities.

During Soviet times, grain production showing a large increase in the 1970s and 1980s and was up to 1 million tons per year. In addition, the amount of output per hectare increased from more than three times between the years of 1913- 1970. Soviet authorities, preferred increase of wine production industry instead of increasing grain production in Azerbaijan.

Rice production is one of the declining agriculture products in Azerbaijan. For many years it was grown in some southern regions and In the foothills of the Caucasus Mountains in the north. During the Soviet Union because of a large amount of rice production in other countries of Union, rice production in Azerbaijan was stopped.

In 1970s the development becomes vital for the Union cultivation in Azerbaijan especially in grape production. Approximately 70,000 - 80,000 hectares of land were used for grape production. The goal was to provide an annual production of 3 million tons of grapes since 1990. During the Soviet regime, in the light of the above-mentioned policy 3 areas of agriculture were developed in Azerbaijan: cotton, grapes and vegetables.

A small proportion of these products remained in Azerbaijan. For example, the produced cotton was sent to Russia.

Moscow, keeping Azerbaijan always dependent from the empire, formed pro- industrial environment under its own power. Every year, Azerbaijan was getting about 1,200,000 tons of miik and dairy products and 35.000-40.000 tons of meat and meat products from the Union Fund. So the production of animai feed was not aliowed by the Soviet authority that was responsible for the development of animal husbandry. As a result, in comparison with the other Soviet states in Azerbaijan meat and dairy products consumed less. For example, the average per capita consumption of meat was 65 kg in the Soviet Union, while the figure was only about 37 kg in Azerbaijani^

Along with the collapse of Soviet Union, collective farms and state farms began to fail apart. With the acquisition of macroeconomic and political stability, the state accelerated reforms in the agricultural sector. In 1995, along with the Implementation of the Agrarian Reform Law and the legal regulations on land reform (Land Law, Property Law, the Law on the Establishment of farms. Entrepreneurship Law, etc.), the number of collective and state farms decreased, the number of privately owned farms began to grow. After Azerbaijan gained independence, it has been the only country in the Commonwealth Independent States where agricultural land was given to the private property in conjunction with the launch of the privatization. In Kazakhstan, Uzbekistan and other countries the areas were temporarily assigned for use by renting or leasing.

Transition from state property to private property and collective property was carried out In large amounts. According to the Ministry of Agriculture, more than 1 million people have been owned plating areas and the number of farms has reached to 40,000.

After the collapse of the USSR, Azerbaijan lost the majority of CIS markets and fell into a shortage of production that led to decrease of agricultural production by 48% between the years 1990-1995. However, later this decrease stopped. The new public policy revived agriculture sector in accordance with its internal structure in Azerbaijan. The increase of production of agricultural products was observed during Soviet regime and the subsequent transition period. After the land reform carried out in 1996, the production increased in agriculture sector.

As a result of the Privatizations, 99.8% of the country's agricultural products are produced by the private sector.

production establishes cattle-breeding products and 46.9% are plant-raising products. In terms of economic categories, 92.3% of agricultural products produced by individual entrepreneurs, family and households, 7.7% of them were produced by agricultural enterprises and other organizations. Although the share of agriculture in GDP is little, it plays an important role in ensuring employment in the country. According to official statistics, 37.1% of the employed population works in the agricultural sector.

Out of the major factors of production, the small number of officially registered, specialized individuals and legal entities who can act as a coordinator or direct executor in export and foreign trade are one of the main obstacles in front of the growth of international trade of agricultural products. In general, the country's total exports in 2014 was \$ 21.83 billion, and imports - \$ 9.19 billion, for the period from January to June 2015, export outputs were \$ 6.23 billion and \$4.52 billion, respectively. The following table shows foreign trade statistics for agricultural products of the Republic of Azerbaijan for 2014. The main agricultural goods groups in the country's export are vegetables, roots and tubers, edible fruits and nuts, citrus fruits, animal or vegetable fats and oils make \$ 481.4 million together (89.3%). Cereals (52.7%), animal and vegetable fats and oils (13.7%), live cattle (8.1%) and dairy products, poultry, eggs, natural honey and other food products of animal origin (10.7%) goods groups have more weight in import.

Table 9. Agricultural trade in 2014

According to the products group	Export	Import
Live animals	124.3	52367.9
Meat and additional meat food products	172.4	19460.5
Dairy products, bird eggs, natural honey and other food products of animal origin	2215	69068.0
other products of animal origin	794.3	187.3
Live trees and other plants, cut flowers	74.4	14163.5
Vegetables, roots and tubers	98919.2	14565.6
Edible fruits and nuts, citrus fruits	192165.3	10614.7
Coffee, tea, mate (Paraguay tea) and spices	31263.4	20137.8
Grains	20.5	339287.4
Oil seeds and fruits, other seeds, pesticides	5363.0	11966.7
The plant blends and extracts	3069.1	353.2
other herbal products	95.3	392.3
Fats and oils of animal or vegetable origin	190334.7	88110.0
Cotton	14498.8	2861.0
Total	539109.7	643535.9

Source: <http://www.stat.gov.az/>

Overall, in 2014, the trade of agricultural products accounted for 2.5% of exports and 7% of imports.

According to the geographical structure of trade in agricultural products, Russian Federation, the Commonwealth of Independent States (CIS) countries, Iraq, Iran, Indonesia, Turkey, European Union countries occupy an important place. In exports Russian Federation with \$ 249.73 million (46.32%), Iraq with \$ 94.62 million (17.5%), in import Russian Federation (28.7%) with \$ 185 million in the Kazakhstan \$135.8 million (21.1%) are the largest partner countries of Azerbaijan. During the 2015-2016 periods, the most significant impact on trade in agricultural products was economic problems in Russia that began with the fall in value of the ruble. As a major partner in this area, it will have negative effects on exports in 2015-2016. A bill regulating trade of agricultural products in the country is also missing. In general, trade is regulated by Customs Code of the Azerbaijan Republic and by the Law on Customs Tariff. In addition, the laws which consider the regulation of sales, production and quality control of "tobacco and tobacco products", "viticulture and winemaking", "organic agriculture", "livestock breeding", "cotton", "tea" and "grain" were also enacted.

The agricultural sector in the Republic of Azerbaijan is strongly supported by the government. Apart from the tax incentives, support covers financial and technical assistance. The law of providing tax incentives to producers of agricultural products has been applied since 2001. As a result of the implementation of this law, legal entities which engaged in the production of agricultural products (including industrial), according to the Tax Code of Azerbaijan Republic are exempted from corporate profit taxes, value added taxes, taxes on property and individual entities are exempted from value added taxes and property taxes. According to Article 102.1.11 of the Tax Code, individual entities are exempted from income tax revenues from the production of agricultural products. In 22 November, 2013 implementation of tax incentives in agriculture were extended for 5 years and has been launched since January 1, 2014. As a result of tax incentives in agriculture costs reduced up to 10%. In general, those engaged in agriculture are exempted from 7 out of 9 types of taxes. According to Tax administration the amount of taxes granted to the public by concession establishes 25-30% percent of collected taxes. In order to pay an average of 50% of the cost of fuel and motor oils used in agricultural production regardless of type of harvest per hectare of not genetically modified crops and the cultivation of perennial crops producers are provided financial assistance to the amount of 40 AZN. "Agroleasing" Open Joint-Stock Company and other legal entities and individuals

In order to ensure the sale of the mineral fertilizers with 70% discount gives for each hectare of not genetically modified plants a subsidy of up to 80 AZN. In addition 40 manats are paid per hectare of sown wheat. It is sufficient to recall the discount of 40% for the purchase of irrigation systems and equipment, and order to increase the aid from the state budget for purchasing of fuel and engine oil used by agricultural producers of 25%. In addition, 30-40% of the costs of the products which are grown in research institutes are paid by the state. Farmers will purchase fuel with 50% discount, fertilizers with 50-75% discount from 2015. The state also supports seed provision in agricultural production, in cereals and legumes, for the first seeds reproduction 40% of the sale price, for the second seeds reproduction 30% of the sale price is paid by state. In addition, by the resolution 58 of the Cabinet of Ministers of the Republic of Azerbaijan dated March 31, 2005, agricultural machinery which belongs to "Agroleasing" Open Joint Stock Company is sold through leasing to legal entities and individuals. In general the amount of subsidy given to agricultural producers from state budget in 2014 was 51.83 million for fuel and motor oil, for wheat and rice sowing 17.05 million manats, 32.5 million manats for mineral fertilizers, for I and II reproductions of seeds 5.05 million manats. The amount of subsidy for research organizations for the original, superelite and elite seeds was 908.1 thousand manats. The total amount of expenses was 107.3 million manats. From 2007 to 2014, the total amounts of expenses were 793.6 million manats.

For example, taking into account the high demand for fresh vegetables and fresh fruit in the CIS, especially in Russia, it is crucial to take comprehensive and consistent incentive measures for these two product groups, in terms of increasing non-oil exports potential of Azerbaijan.

A comprehensive view to the exports potential of fresh vegetables and fresh fruits, significantly may accelerate socio-economic development of the regions, primarily regions engaged in fruit growing. Agricultural parks established by initiatives of President will enable to succeed in these fields. As a new field, sugar beet growing and sugar production, as well as sugar export potential continues to grow. There are sufficient planting-soil and labor resources, financial and technical resources. In the recent years, the export potential of vegetable oil is seen demonstrably. In addition, while the grape-wine exports increased by 2.2 times during the period of 2008-2015, in terms of the raw material base and exports the current export volume establishes a part of the strong potential of the field. This means more efficient use of the existing potential in this direction could be made.

The World Bank's "Comparative advantages in the implementation of the agricultural sector" study states that it is a great advantage to have favorable conditions for high-value agricultural products such as fruits, vegetables and dairy products. From this point of view planning, procurement, storage, sales network, export, strengthening In markets of our agricultural products are one of actual problems should come to the fore. In the near term. In order to improve the quality of agricultural products and increase the export potential based on progressive international standards, developing national standards. Improvement of existing standards, expand the use of new technologies in agriculture, taking into account features, natural and climatic conditions of each region agricultural production specialization, strengthening control over security while production an export will increase the competitiveness of products in the industry and export to international markets.

Accordingly, to coordinate the expansion of exports, several institutions such as The National Fund for Entrepreneurship Support, Azerbaijan Export and Investment Promotion Foundation (AZPROMO), "Azerbaijan Investment Company" OJSC. They support the establishment of logistics centers and transit centers in order to facilitate the export of perishable food products abroad. For instance, with the support of AZPROMO and private entrepreneurs the new agro-logistics complexes were established in port of Aktau in Kazakhstan.

Three transit centers those estimated production of 110 thousand tons of agriculture products are being built in the Absheron peninsula. The major food logistics center that called "Fruit" is opened in Garadagh district of Baku. It is fully specializing in wholesale and export of fruits and vegetables. The first agropark - Shamkir Agropark producer and intermediary company is built in November of the 2014. In addition, convenient storage for fruits and vegetables in all regions were established. They were built by the discounted loans from the National Fund Support for Entrepreneurship.

However, in order to conquer markets in the near and far abroad, as well as to export local entrepreneurs to produce a valuable product is extremely important, and it is urgent to increase brand development, packaging design, and advertising companies until the end of 2015 in agricultural area. The export of agriculture products were not considered for subsidization.

April 12, 2001 the Cabinet of Ministers Decision No. 80 of 2003 on the amendments changed by Resolution No. 161 dated December 22, "The rates of import customs duties on goods imported into the territory of the Republic of Azerbaijan"

at different times of the year based on what it has been for sowing seed commissioner of agriculture tariff concessions are applied. In January 2011, the decision Ns17 from March 1 to 3 years, a number of government goods were exempted from import duties and import VAT. Now the government has extended the period for 3 years. Recall that, breed of cattle, goats and poultry which is not heavy than 185 g, soy and bean seeds were released from the import duties and import VAT. Moreover, sunflower, sugar beet, forage crops in a variety of seeds, fertilizers, chemicals used in agriculture were released from import duties.

Despite all this support in the organization of marketing and export of agricultural products has not been achieved serious success. The main reason for this is the lack of medium and large-sized enterprises in agriculture and the main production is realized by family farms where productivity is low. The country is still talking on membership for the World Trade Organization (WTO). The main priority in bilateral and multilateral negotiations is to protect agricultural producers, stable or high tariffs on import and gain further concessions on agriculture to achieve maximum support. Another important factor is associated with the World Trade Organization. When Azerbaijan became a member of this organization, it will be difficult for farmers to be exempt from taxes. In general, Azerbaijan is interested in becoming a member of the World Trade Organization. Despite the fact that Azerbaijan applied for membership in 1997, the process of negotiating on the WTO membership did not allow our country to be its member.

In all cases, the negotiations between the WTO and Azerbaijan are observed to get its intensity in recent years. However, the bilateral and multilateral talks were failed. They didn't reach a fully agreement on before mentioned. One of the problematic aspects of the WTO negotiations between Azerbaijan and the WTO is its intention to enter as a developing country. It should be noted that conditions of accession to the WTO are the same for both the developing and developed countries.

Naturally, another key issue is related to the amount of subsidies in the agricultural sector. Subsidies restrictions on the agricultural sector are 10%.

The limit of subsidies restrictions for the World Trade Organization is 5% and it is very dangerous for the development of the agrarian sector in Azerbaijan.

After joining the World Trade Organization, farmers will be forced to be taxpayers.

Meanwhile, manufacturers of agricultural products are among the countries that are exempt from tax in Azerbaijan. Currently, it is an important step for the promotion of agricultural producers.

Grapes: Once upon a time, one of the most dynamically developing areas of agriculture has been viticulture. Viticulture and winemaking has had a special place in the agricultural sector in the Soviet period. In 1990, there were existing 275 thousand hectares of vineyards in the country. About 2 million tons of grapes were produced every year. During Gorbachev's period, the fight against alcoholism has led to the destruction of 150 hectares of vineyards in Azerbaijan. During this period, vineyards began to be broken. Thus, vineyards have been turned into wheat fields to increase production of grain.

Grapes and wine sales have not become profitable due to the necessary decreased interest in viticulture. As a result, the country got a decrease to only 7,700 hectares of vineyards.

Due to the fact of the Armenian occupation of a part of agricultural land, vegetable production has dropped by half, grape production and wine export decreased significantly. Vast majority out of 117 grape processing factories stopped production. A large part of the occupied areas by Armenians are fertile lands. For example, 100,000 tons of grapes were produced in the Fizuli region. Zangllan region had 3 big grape plants 3000 hectares of vineyard. Agdam region was famous for its cotton and Qubadli was popular for its farming. Because of the Armenian occupation people forced to move from these lands and as a result nearly 145,000 horned animals left in the area.

Even nowadays viticulture and winemaking have the potential to become one of the most invested agricultural sectors in Azerbaijan. In recent years, Jalilabad, Tovuz, Shamkir, Agstafa, Gazakh, Shamakhi, Ganja and other regions have begun to reduce the vineyards. The development of viticulture takes place in a state program on development of regions.

Nuts: One of agricultural products that has the opportunity of investment is nuts. Especially, together with the Zaqatala, it is produced in Baku, Guba and Khachmaz. 65% of shelled hazelnuts are exported to the ELI.

Sugar cane: Production of sugar beet is another product that is on the agenda again. Before the period of the Soviet regime, Azerbaijan was producing significant quantities of sugar beet. However, when Ukraine started to produce it and meet all needs of the USSR, there was no need in the sugar beet production in Azerbaijan.

After independence, Nakhchivan, Beylagan, Sabirabad, Imishli and Salyan regions began to produce it again. However, the country does not have beet processing

factories. While sugar beet is planted, due to the lack of sugar factory, sugar beet is sent from Bilasuvar to the city of Ardabil. Iran is against the country that's why there are some innovations in sugar production. Having demand of 360.000 tons of sugar the country needs factories for the production of sugar beet and sugar mills. Regarding this demand, a sugar factory was built under Azersun Holding in Imishli. Within the framework of the State Program on socio-economic development of regions establishment of sugar factories in Nakhchivan, Sheki, Jalilabad and Bilasuvar regions is planned.

Table 10. Agriculture Production (thousand tons)

	İSEMLİ fi:			İİMB	
1990	1413.6	542.9	52.9	1196.4	30.7
1991	1346.4	539.7	57.3	1125.6	26.6
1992	1337.2	336.3	52.3	607.0	22.6
1993	1147.9	284.5	44.9	411.3	24.0
1994	1039.2	283.7	20.8	313.8	19.4
1995	921.4	274.1	11.7	308.7	9.4
1996	1018.3	274.4	11.2	275.0	3.0
1997	1127.1	124.6	15.1	145.3	1.6
1998	950.3	112.9	14.6	144.2	0.9
1999	1098.3	96.8	8.6	112.5	2.7
2000	1540.2	91.5	17.3	76.9	1.1
2001	2016.1	83.6	12.7	68.1	1.4
2002	2195.7	80.4	3.3	62.1	1.4
2003	2057.8	99.6	4.7	65.0	0.9
2004	2158.2	135.7	6.5	54.9	1.1
2005	2254.3	191.2	7.2	79.7	0.7
2006	2564.2	125.9	4.8	94.1	0.7
2007	2725.5	95.5	2.9	103.4	0.5
2008	2848.3	55.4	2.5	115.8	0.3
2009	2988.3	31.9	2.6	129.2	0.5
2010	2000.5	38.2	3.2	129.5	0.5
2011	2458.4	66.4	3.6	137.0	0.5
2012	2802.2	57.0	4.3	151.0	0.6
2013	2955.3	45.2	3.5	148.5	0.6
2014	2383.3	41.0	2.9	147.7	0.5

Source: www.stat.gov.az 2015

There are produced different kinds of jams and jellies in small packages in the factories of Guba and Saatii. There is also the tomato production in another factory of Lankaran. The products of these 3 new factories exported to countries as Japan, Russia, Belgium and Switzerland.

Tea: The basis of tea production was established in 1930s, in Lankaran-Astara region, which has favorable conditions for the growth of this plant. Tea production by the end of the 1960s and early 1970s reached its highest level. The tea production in 1970 was 34,000 tons; this amount has been reduced down to 1900 tons over the years. This situation is partly due to the lack of a running tea processing factory.

There is a need in the privatization of the tea processing factories. Tea factories located in Baku were purchased by Turkish companies and tea farmers started tea producing again. Tea processed in these factories is mixed with Turkish and Indian tea and then purchased.

Within the framework of the State Program on Socio-Economic Development of regions in the southern regions including Lankaran and Astara some measures and incentives are carried out for the development of tea production. Measures are being taken to repair tea production areas fallen into disrepair after the independence of country. According to the plan only in Lankaran region 1,000 hectares of tea plantation will be repaired.

It is supposed that Lankaran region will profit 19 billion manats from the development of tea production. Lankaran and Astara tea factories have been invested enough for the start of production. "Azersun Holding" has a special role in the development of tea growing in the southern regions.

Cotton: Azerbaijan has a big experience cotton production. The crude materials and combine harvesters were brought to Azerbaijan from Uzbekistan and Russia. However the lack of this import in recent years caused the decrease in cotton production.

The cotton production potential of the country is 830 thousand tons per year. 70% of the produced cotton is exported as a crude material. Despite of the huge amount of production, the numbers of the cotton factories are very few. The most important problem in cotton production are the pests.

Potato: The production of the potato increased in 2014 in comparison with the previous year. The potato is mainly exported to Russia.

Table 11. The Production of the Agricultural Products (thousand tons)

Years	Sugar beet	Potato	Vegetable	Fruit
1990		185.2	856.2	367.4
1991		179.9	805.3	498.3
1992	19.8	156.0	555.1	400.9
1993	11.6	152.2	487.8	346.4
1994	17.8	150.3	482.9	323.5
1995	28.1	155.5	424.1	324.4
1996	40.1	214.6	570.0	321.2
1997	33.7	223.4	495.4	330.9
1998	41.4	312.5	502.3	390.6
1999	42.2	394.1	670.8	436.5
2000	46.7	469.0	780.8	477.0
2001	41.3	605.8	916.4	497.5
2002	115.8	694.9	974.6	516.8
2003	84.6	769.0	1046.3	572.1
2004	56.8	930.4	1076.2	424.6
2005	36.6	1083.1	1127.3	625.7
2006	167.2	999.3	1186.4	662.4
2007	141.9	1037.3	1227.3	677.8
2008	190.7	1077.1	1228.3	712.8
2009	188.7	983.0	1178.6	718.2
2010	251.9	953.7	1189.5	729.5
2011	252.9	938.5	1214.8	765.8
2012	173.8	968.5	1216.2	810.0
2013	187.9	992.8	1236.3	853.8
2014	177.3	819.3	1187.7	850.8

Source: SSCAR publications 2015, www.stat.gov.az

3.2.1. STOCK-BREEDING

The animals {99.8% cattle, and 98% small animals) belonged to the state and after 1996 distributed to the private sector. Other animals are used by government as a pedigree. One of the most profitable businesses was the cattle-breeding after the independence. The cattle-breeding met the domestic demand after, the independence. However some decreasing was observed in the cattle-breeding until 1998.

On the Other hand, the increase was observed in the meat and milk production in comparison with the previous years. The huge amount of the production was provided by the farmers. As a result of the privatization policy which realized in 1998, the cattle-breeding increased. Furthermore the quality of the milk products improved. Azerbaijan companies produced more than 15 types of the products (sour clotted milk, cheese, milk and etc.,).

Table 12. The Production of Animal products

	f Meit #ousand ton);	' Milk (thdiisaiiditon).	Eggi (million)
1990	175.5	970.4	985.3
1991	153.5	947.7	958.2
1992	112.7	850.4	812.2
1993	92.5	798.5	584.5
1994	84.4	783.7	494.0
1995	82.0	826.5	455.8
1996	85.7	843.3	477.3
1997	90.5	881.5	492.4
1998	99.9	946.5	509.0
1999	104.6	993.4	526.3
2000	108.7	1031.1	542.6
2001	114.1	1073.7	555.5
< 2002	124.6	1119.9	561.6
2003	134.4	1167.8	670.6
2004	196.8	1213.7	829.4
2005	198.0	1251.8	874.6
2006	204.7	1299.3	760.9
2007	218.7	1341.0	953.6
2008	228.0	1381.3	1101.2
2009	231.5	1432.8	1209.4
2010	244.9	1535.8	1178.6
2011	254.9	1597.5	1011.0
2012	276.0	1695.6	1226.7
2013	286.9	1796.7	1401.5
2014	291.2	1855.8	1562.7

Source: SSCAR publications 2015, www.stat.gov.az

The Information about the stock-breeding is displayed In Table 22. The production in stock-breeding and the number of the animals are increased. Azerbaijan does not import beef, but imports poultry. 24% of the meat products as well as 35% of

the eggs are imported. One of the most important points in table is the increase of the meat production from 1998. The meat production was 291.2 tons in 2014.

The milk production decreased until 1997. From 1997 until 2005 the milk production increased every year. The production level passed the indicators of the 1990. From 2006 until 2015 the huge breakthrough was observed in the milk production and reached 1855.8 thousand tons in 2014. The egg production also dropped until 1998. However the increased was happened in the egg production from that date. As a result In 2004, the egg production passed the indicators of the 1990 also. From 2005 until 2014, the egg production increased sharply and reached its peak level.

Main Problems in the Sector

Only 53.1% of the lands are suitable for the agriculture in Azerbaijan. According to the surveys, the arable lands per person are decreased each year in Azerbaijan. The arable lands per person 0.20 hectares. Arable lands per person are changed 0.04-0.12 hectares per person In some regions such as Lankaran, Astara, Absheron and Nakhchivan Autonomous Republic.

The irrigation and drainage systems should be established in order to support improvements in agriculture sector. The modern technologies should applied and modernize the processes of area and should be earned in a very close period. On the other hand the salinity level of the lands increases and the erosion is happened in these lands. Especially the changes in the level of Caspian Sea caused salinization. Furthermore the lands between Kur and Araz rivers are silted and stayed under the water.

As a result of the rising of the Caspian Sea's level 47% of the lands that can be irrigated were damaged. 385 thousand hectares of 1450 thousand hectares lands that damaged were spoiled as a result of the correction. The level of the Caspian Sea rose 8 cm only in 2004. This equals to 150 thousand hectares lands. According to the specialists, the level of the According to the recent data of 2014, Caspian Sea will rise approximately 70 cm, if natural conditions will remain in the same trend. Furthermore 115.000 hectares soil are salinized.

One of the most important factors which deter the agriculture sector is the weakening of the material and technical infrastructure. The number of the techniques such as trucks, combine harvester were decreased in comparison with the indicators of 1990.

The main problem in line with the stock-breeding is the low feed production and high cost of it. The country has a suitable climate for the production of the daily

products. However there are some problems such as old technology, low quality seeds and misusing of the fertilizers.

The financial resources should be allocated to the farmers in order to get rid of this situation. The government should help them in production, manufacturing and sales. Certainly the experience of the developed countries should be implemented in Azerbaijan in order to improve the agriculture and the stock-breeding.

The Reforms in the Sector

The reforms in the agriculture sector; the realization of the land reform, the closing of the collective-farms and distribution of them to the peasants, the privatization of the agricultural institutions, easing the product prices and etc. This reforms triggered the improvement of the agriculture sector.

The share of the agriculture and stock-raising increases in the budget each year. This growth is one of the most important indicators in line with the development of the sector.

“The Privatization of Agricultural Institutions in 6 region” project was approved in 1996 and completed in 2003. The value of the project is 28.82 million dollars. The financial supporters of the project were World Bank and the International Fund for Agricultural Development. The loans were given to the Individuals in 113 villages.

“The Program on the Development of the Agriculture Sector” was enacted in 2002-2006 by the Association of Banks in Azerbaijan. The realization of this program strengthened the development of the agriculture and stock-breeding in the future. Azerbaijan government and World Bank signed “Investments in Agrarian Sector” project in August, 2004. This project supported the households in the regions.

Some Improvements were attained in line with the financial services to the regions on the agriculture. 78 new bank branches were opened in these regions with special focus on this area. Meanwhile other organizations also assisted to these regions. Despite of the positive growth, the current situation of the production In agricultural sector is under its potential.

The artificial insemination techniques were brought to Azerbaijan from the Netherlands in order to improve the stock-breeding. The animals were vaccinated and they were categorized according to the races. This triggered the development of the stock-breeding in Azerbaijan. Futhermore the government strengthened observations on the state laboratories and customs checkpoints.

The main targets of the state program in agriculture sector in 2004-2008 are listed below:

- The provision of the wholesale of the agricultural products in Baku and Ganja and the attraction of the foreign investment to it.
- The attraction of the foreign investment to the production of the spare parts and essential mechanisms.
- The attraction of the foreign investment to the reconstruction of the Irrigation systems and building of 11 Institutions.
- The establishment of the organizations which produce agricultural and animal products.
- The establishment of the organizations which produce plastic and glass for the manufacturing industry.
- The attraction of the foreign investment to the establishment of the sugar factory in order to meet the demands of the people.
- The modernization of the agricultural education centers, research institutions and cattle-breeding organizations.
- The provision of the investment to the socio-economic development of the regions and the reconstruction of the social infrastructure.
- The establishment of the vineyards and the institution which produces wine.
- The establishment of the veterinary system.
- The establishment of the small agriculture service system.
- The establishment of the organizations which produce potato starch.
- The attraction of the investment to the establishment of the feed mills.

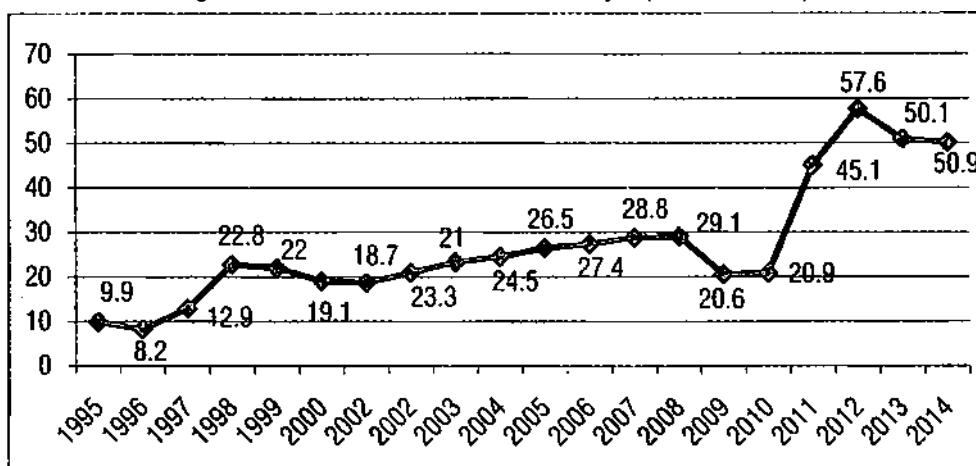
The producers of the agricultural products were exempted from the ail taxes in order to improve the agriculture sector. Various projects were implemented in order to provide the farmers with the modern technologies. The production and manufacturing organizations were established in order to increase the level of the production. In this frame the "Agrollzing" company was established within the State Program of 2004-2008. The company belongs to state. The company was established on 25th October, 2004. The government allocated 200 million Manat to the company in order to buy machinery and techniques in 2009. In 2010, 250 million Manat allocated for the same purpose.

3.2.2. FISHING

One of the sectors enhancing the value of the Caspian Sea in the world market is fishing. The Caspian Sea is an enclosed inland body of water which is rich in oil and gas fields as well as high quality fish reserves. The Caspian Sea is the habitat of sturgeons- the most valuable fish type. The production of sturgeon and its product caviar in the Caspian Sea have economic values[^]®.

Among the CIS countries, the Caspian basin makes up 55-60% of fish hunting, 40-42% of edible fish products, 50% of canned fish products.

Figure 13. The Fish Production in Azerbaijan (thousand tons)



Source: SSCAR publications 2015 ,www.stat.gov.az

Until the beginning of 1980s, the Caspian Sea was very famous for its fish population. In particular, once the caviar obtained from sturgeon accounted for 90% of Soviet's caviar production to the west. Although previously 65 thousand tons of sturgeon was extracted, this figure dropped to 25 thousand tons at the beginning of 1980s. This number fell to 7 thousand tons in early 1994. In Volga delta 120.000 fishermen based on this job, however, within a certain time it dropped to 2000 fishermen. The sturgeon hunting in the Azerbaijani sector of the Caspian Sea was 550 tons in 1992, in recent years, it has become 90 tons.

Lately, the number of important fish species have declined in the Caspian Sea where especially small fish are hunted. This amount decreases by 10% every year. According to the information of the Russian Interior Ministry, even though

^T^ising Caspian Waters Pose Flood Threat', //zgfllgr^httpD://www.azernews.net/view.DhD?d=5705

700 million dollars worth of sturgeon was captured in the Caspian Sea in 2007, official figures seem to be 60 million dollars. According to some international sources, 1 billion dollars of illegal caviar is sold to western countries from the Caspian countries.

In accordance with the researches conducted by the World Bank, 1 million tones of oil is thrown into the Caspian Sea every year. Considering the fish poisoned by dioxin, oil waste seems to be the main reason for the Caspian Sea's pollution.

Starting from 1929-30, the hydro-technical facilities built over the rivers flowing into the Caspian Sea, expansion of cities and industrial centers by the areas of construction and industry constructed on the shores of the Sea, have had a negative effect on the environmental and biological conditions. The irrigation over Volga and Kur rivers and energy-purpose dams have brought about the reduction of the water fields for valuable fish breeding. The fish hunting in the Caspian Sea have declined significantly over the last 60 years due to hydro-technical complexes, dams, hydroelectric power stations built on the tributaries of Volga. In the postwar years, many industrial complexes, oil and natural gas extracted in open sea and permanent maritime transport.

Specifically, the days when 90% of black caviar production was obtained from here, are left behind.

As a result of the decrease in fish species used for caviar production, in early 1952, up to 20 factories of Russia, Kazakhstan, Iran and Azerbaijan were multiplying these fish species. However, due to the rise of sea level in Caspian Sea, these factories were submerged which caused a decline in fish production. This issue even led to the extinction of fish species used to produce caviar.

Between 1959-1985, the fish loss was more than 5 million tons because of the pollution of Volga river and dams. 750 thousand tons of it was sturgeon which is famous for its caviar.

In Azerbaijan, fishing is especially done in the Caspian Sea. There are approximately 120 species of fish in the Azerbaijani sector of the Caspian Sea, 7 of which are utilized in consumer and pharmaceutical industry. Another important species of fish is salmon.

The management, production, sale and export right of sturgeon and caviar in Azerbaijan belonged to a company named "Azerbalig". After the opening of "Caspian Fish Co.-Azerbaijan" company in 2000 and closure of a state institution "Azerbalig" in 2001, fish hunting and import dropped significantly.

The entire fishing sector has been in the hands of the few company starting from the same date. Imported fish are formalized on behalf of "Caspian Fish Co.- Azerbaijan" by consumers. Importers sell 20-30% of fish they brought, to this company.

Despite the sufficient conditions in the country for the development of fishing, the provision of the population with fish and fish products are at a minimum level. Taking the population growth into consideration, demand for fish and fish products is 100 thousand tons. However, in real terms, the obtained fish and fish products per year are 10-20% of this figure.

Statistical figures demonstrate that the level of valuable fish species caught by years is decreasing.

From 1990 to 1997, fishery and marine products went down 6 times. Between 1997-2009, there was a rise in fish hunting and it reached 50 thousand tons in 2014.

In recent years, fish production and processing potential are tried to be raised with the projects realized by the support of financial institutions like the World Bank and foreign entrepreneurs. For example, only in 2008, 15.5 million sturgeons were released to the Caspian Sea from Neftchala and All-Bayramli fish factories that belong to the Ministry of Ecology and Natural Resources.

In total, 456.3 million different fish species bred in various fish factories were released to the Caspian Sea, Kur river and inland water bodies in 2008. The allocation of necessary amount of money for fish and caviar production will have a significant influence on the economy.

Reasons Reducing Fish Production

The existence of status problem has brought the fish species, whose caviars are used, to the brink of extinction. Before the collapse of the Soviet Union, Iran and the USSR strictly controlled illegal fish hunting.

In post-Soviet period, it was observed that the countries were in a serious gap in terms of fish hunting which brought together illegal hunting. After the collapse of the Soviet Union, though the countries agreed on defining the yearly amount of fish hunting, they still failed to impede illegal hunting.

In the same way, depending on the economic power of the states, the volume and number of fish producing factories fell and they tried to eliminate this rapidly emerging poaching which made it difficult for the region countries to protect the determined amount according to their agreement.

In addition to hydro-carbonate reserves, the Caspian Sea is very important for the development of Azerbaijan's economy in terms of its biological resources. The Caspian Sea has been the source of more than 90% of the world's sturgeon and caviar production along with its oil and natural gas reserves. However, both pollution and illegal fish hunting have brought about a drop in sturgeon resources within a short period.

As a result of production activities, the commercially important fish number was exposed to a huge loss. Starting from the 1950s, the construction of water and power plants on the rivers flowing into the Caspian Sea caused a grave damage to the breeding places of sturgeons, while the rise of Caspian Sea's level even made those places to remain under water. As a result, sturgeon fishing declined significantly. Besides, the annual fishing of another valuable species - salmon went down. Commercially important Caspian Sea, Shamai and Aggoz were annihilated.

The increase of the Caspian Sea's biological, especially fish resources will only be possible with the cooperation of the coastal states.

In addition, it has been inevitable for the regional countries to pay attention to this problem together due to the emerged food shortage, especially when marine products on export have such a potential.

In case no necessary measures are taken against pollution, the Caspian Sea will be deprived of many biological resources. As a result, over the next 15 years fishing in 50 meters depth of the Sea will lose its importance and 30-thousand- m² area will be divested of fishing in Azerbaijan and Turkmenistan shores that have been exposed to the highest level of pollution. In order to raise fish production, there is a need to use waste treatment systems in oil and gas extraction industry, other industrial facilities located in the Caspian basin and shores. Beyond that, the waste of more than 150 million people living in the Caspian basin or its coastal cities, floating sea tankers and oil waste of ships carrying oil and natural gas need to be cleaned.

3.2.3. BEEKEEPING

The most common beekeeping product is honey. However, the production of pollen, royal jelly, wax is also possible. In the country, bee protection methods and breeding technology are in low level.

There is a need to increase beekeeping 8 times compared to the current situation in order to meet the country's demand for honey with local production. It can be

enabled by the country's climate conditions, rich vegetation and bee species. Moreover, in comparison with other sectors, repayment of the funds needed for the development of beekeeping and job opportunities are more fitting^{^®}.

The improvement of beekeeping is given special attention in the State Program on the Socio-Economic Development of Regions. Therefore, the number of the families engaged in beekeeping is planned to be increased 5 times.

3.3. SERVICE SECTOR

The share of the service sector in GDP was 52.4% in 1998, 48.0% in 1999, 41.7% in 2004, 40.8% in 2006, 36% in 2008 and finally 33% in 2015. Important sub-sectors of the service sector will be elaborated on below.

3.3.1. EDUCATION

Due to the fall in living standards and war condition, a setback in the education level started in early 1990s. Thus the economic conditions of the transition period had a negative impact on the development of the education level. This downward trend in education went on until the second half of the independence's first decade. After this date, the education level began to rise. In Azerbaijan, there are 1680 preschool education institutions and 4575 secondary schools. In addition, there are 112 technical vocational schools and high schools, 61 colleges and 41 universities.

In 1990 and 1991, a large amount of educational institutions were put into operation. In 1994-2002, very few educational institutions were opened. The number of the institutions constructed in 1990-2002 was 257.

There are 1 million 322 thousand pupils and 158 thousand 212 students studying at primary & secondary schools and higher education institutions, respectively. 183 thousand teaching staff are engaged in the teaching and training of students. 160.6 thousand of them work in primary and secondary schools.

In order to establish the integration of Azerbaijan's education system with that of the world, more than 3000 Azerbaijani youth study in over 40 developed countries of the world. In addition, 2000 Azerbaijanis study in up to 50 countries of the world.

"Aqrar Bolmada Lizaqin Geniřtanc Jiriimasi Sahasinda 9lava Tadbirlar Haqqmda Azarbaycan Respublikasi Prezidentinin Sarancarm", <http://www.azerbaijanleasinQ.com/azerbaijanleasina/docs/AQro-leasinn.doc>.

The role of the private sector in education is going up. In private educational institutions, teaching is more about the fields needed in market economy. For instance, 25% of the students at private institutions study economy and 18% of them were studied in the faculty of law.

In spite of some reforms carried out in the education sector, there are still remain problems. The education problem of Karabakh refugees has not been settled yet. The children of Karabakh refugees are educated in 695 schools. Some of them serve in tent camps and homes. 90 thousand students study at these schools. Economic problems constantly affect education reducing its quality. The insufficiency of technical provision in educational institutions is another problem that needs to be addressed.

The annual rise of the number of students has led to the problem of school scarcity. These problems are not only confined to remote regions, but they have emerged in the capital as well. Many schools in the city are forced to take more students than norms.

1700 million manats were earmarked from the budget of 2015 for education which is 2.1 times less than a university's budget in Japan. The funds allocated for education, health, defense and others only meet 25-30% of the respective sector's minimum needs.

The share of funds allocated from public spending for education has been 3-4% which shows that the portion allocated for education is not only little, but also prone to decline. The insufficiency of what has been allotted from GDP for education brings about serious problems in this area.

In 2003-2007, 149 new educational institutions were built. Furthermore, the construction of 28 and repair of 200 educational institutions have been planned within "The Poverty Reduction and Economic Development Program". In addition, it has been scheduled to build 13 new educational institutions within the State Oil Fund's assistance for Karabakh refugees. Thus, within the next 5 years, the construction, repair of 190 new institutions and provision of education under normal conditions in 1050 educational institutions have been plotted.

The national average is 1 computer per 1047 students. The computer provision program of Azerbaijan's all educational institutions were made in 2005-2007 in which the average was 1 computer per 33 persons.

Despite the strong scientific potential of the country, it is not benefited properly. It is observed that the allocated part from the national income for scientific

research is less than the world average. The share of national income for scientific researches is 2.2% on average worldwide, while this figure is 0.2% in Azerbaijan which seems to decrease further over time. This rate was 0.5% in 1990. The number of those doing scientific researches (2791 per 100 thousand) is higher than the world average (959 per 100 thousand). This situation signifies that income level of scholars engaged in scientific researches is low and technical provision is insufficient. As a result, the level of conducted researches becomes low. However, educational and scientific researches should be one of the strategic directions of a country.

Within the second reform program covered the period of from 2003 to the next 10 years, the World Bank will provide 63 million dollars of loan for the education sector of the country. This program implemented in three phases. The first phase covered 4 years and the World Bank lent 18 million dollars over this period. The other 2 phases cover 3 years. In the second phase, the World Bank provide 25- million-dollar loan.

In the program of development in education prepared by the government covering 2004-2007, the problems of Azerbaijan's education system and their solutions have been evaluated¹⁰.

In the program, some problems have been reflected such as the low level of education in primary and secondary schools, weak material and technical infrastructure, lack of teachers in villages, lack of classrooms and teaching materials, incompatibility of teaching programs with the requirements of market economy, weak development of education system and labor market, low-level technical and vocational education of youth.

Specific measures for resolving the problems are taken into consideration in the program. For the realization of the targets, within 4 years, up to 123 million dollars of financial resources have been directed to the education sector. More than half of these funds are thought to be spent for reinforcing material and technical infrastructure of education.

Based on the decree signed by President Ilham Aliyev for the approval of "The State Program of Azerbaijani youth abroad in years 2007-2015", the education of 5 thousand Azerbaijani youth for 8 years' period in foreign countries were planned and in accordance with the program thousands of students have already studied and returned to the country. As end of 2015, 3185 students sent to 542

¹⁰Misir Mardanov . "Heydar Bliyev va A/arhaycan Tahsili", Azarbaycan Mualimi Qazeti, 7-13 Marl 2003, s.3

universities around 33 countries to get education under State Program of SOFAZ scholarship, whereas 794 of them successfully graduated already. For Increasing number of ICT devices, 6000 computers, 3000 notebooks, 700 projectors, and 1377 smart boards has been bought for schools in 2014. As a result, the ratio of students per computer reached to 18 In secondary education level. So, overall schools joined Azerbaijan Education Network (through intranet and internet) has reached to 1765, which equals to 40% of education system[^]

Furthermore, it was envisaged in the program to raise the social status of those who work in the education sector and increase pensions.

3.3.2. HEALTH

As a way to evaluate the success of the Soviet Union system, Azerbaijan has inherited a health care system improved in conditions of those days. However, as necessary amount is not allocated from the budget and income level of the people has fallen, the health services are not at a satisfied level. Healthcare enterprises operating in Azerbaijan don't meet modern requirements and unsuitable in terms of old, useless buildings and supplies.

The share of the health spending in national income have been 1 % which shows that this amount allocated for health costs is not enough.

In Azerbaijan, per 10 thousand people, the number of doctors is 34.6, amount of health workers is 59.3, and number of hospital beds is approximately 49. If calculated only for Baku, this figure seems to be over the average. In Baku, there are 85 doctors, 110 health workers, 115 hospital beds per 10 thousand people. This situation indicates that there are fewer health care services outside Baku.

Lack of healthcare services leads to an increase in the number of some diseases every year. The most commonly seen diseases recorded are upper respiratory tract, nervous system, ear-nose-throat disorders.

Some reasons like the transition of hospitals to formal or informal paid service, lack of medicines, technical equipment and funds, high prices of services and medicines have lessened the people's use of health care services.

The newly opened private health centers play an essential role in raising the quality of health services.

[^]<http://edu.gov.az/upload/file/HESABAT/2014/hesabat-xulase-2014.pdf>

Table 13. Information on the Health

Years	Hospital	Polyclinic	Doctor	Health Care Workers
1995	768	1779	29217	67000
1996	759	1694	28873	63200
1997	746	1630	28477	60700
1998	739	1611	28485	60600
1999	735	1614	29033	60000
2000	735	1618	29084	59900
2001	738	1603	29090	59100
2004	734	1591	29700	59500
2005	732	1594	30100	59700
2006	729	1595	30600	60800
2007	726	1589	30800	61600
2008	748	1692	32400	62200
2009	752	1695	32500	62500
2010	756	1692	32800	62900
2011	516	1688	33100	60100
2012	523	1690	31400	57800
2013	539	1725	32300	57500
2014	553	1744	32400	56900
2015	566	1746	32800	56100

Source: SSCAR Publications.2015

Despite a lot of problems in the health sector, it seems that these problems are declining with the economic growth and rise of income level.

In the State Program on Socio-Economic Development of Regions, new health care facilities were already opened.

3.3.3. TOURISM

For the tourism sector, there is natural, historical and cultural resources, namely, climate, natural beauty, historical and archeological potential available in the country. 9 out of 11 climate zones exist in Azerbaijan, as well as the coasts of the Caspian Sea, wooded area in Khachmaz-Lankaran-Astara regions and springs for treatment purposes attract attention. All-union and international tourist routes functioned in Azerbaijan were cancelled since 1st quarter of 1990. The war and instable situation on borders led to occurrence of other problems in the system of tourism. For example, 2 of 10 tourism centers in the system of the trade unions left in the occupied territories and other places were accommodated with internally displaced persons. In September 1991 the department on foreign tourism was

liquated and Foreign Tourism Council was established in its place under the auspices of the Cabinet of Ministers of the Republic of Azerbaijan. Only at the end of the 90-es the trends of tourism development were reflected in the legislative acts of the country.

Already at the beginning of the XXI century in Baku, Ganja, Nakhchivan and other regions of the country modern hotels that can accommodate foreign guests operated. More than 500 tourism companies covering ail regions of the republic are engaged in accommodation of foreign tourists and servicing local population with tourist services, and 540 hotels have been officially registered. The total amount of beds in those hotels is more than 50000. Private treatment and resort centers with modern level were given for use in the regions suitable for tourism and recreation. The number of foreign tourists visited the republic passed the 2,5 million people.

Owing to the favorable climatic conditions, significant number of tourists was attracted to the country during the Soviet Union. Hotels and beaches back at those years indicated thaf^.

The areas forming the tourism sector in Azerbaijan can be focused on under the following subheadings;

Holiday Tourism: The most appropriate regions to rest, especially, during summer months are Zagatala, Sheki, Guba, Ganja, Gazakh and Lankaran.

Plateau and Mountain tourism: The suitable areas in Azerbaijan for plateau and mountain tourism are Zagatala forests, Shaki Gelsen Gorersen tower, Basdasagil, Guba, Ismayilli, Lahij, Gabala, Agdas forests, Ganja, Hajikend, Goygol.

Bath and Health Tourism: Azerbaijan is rich in drinkable and treatment-purpose mineral water resources. There are nearly 2000 mineral water sources providing 200 million liters of water.

In addition, the muddy water with mixture of oil in "Naftalan" is good for nervous system, skin, and gynecological and other diseases. Many of the specific therapeutic sanatoriums are located in the Absheron peninsula.

Beach Tourism: Azerbaijan surrounded by the Caspian Sea, is favorable in terms of beach tourism. Bilgah and its surrounding have beaches stretching kilometers.

Hunting Tourism: There are 97 species of mammals, 346 species of birds and 95 species of fish in Azerbaijan, in the country, different regions of which have

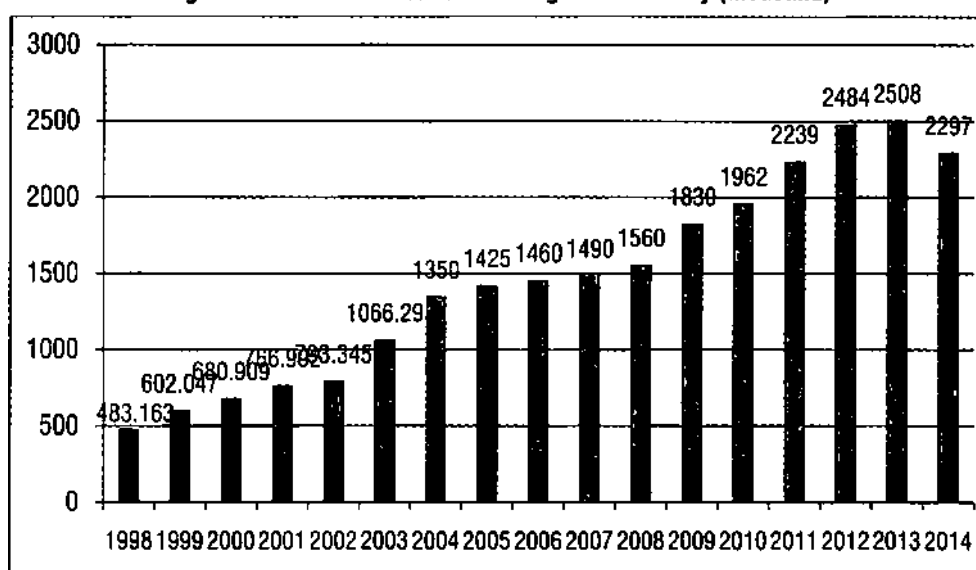
favorable conditions for hunting tourism, permission should be given to use shotgun. At the same time, membership of every gun owner is mandatory in the society of hunters.

Cultural Tourism: Azerbaijan owns very rich cultural and historical treasure. Various organizations have been set up to protect and restore ancient monuments, graves, tombs, building and other historical works.

Owing to natural wealth, the development of tourism in Guba-Khachmaz, Astara-Lankaran, Shaki-Zagatala, Ganja-Khanlar, Shamkir-Ismayill, and Siyazan-Khizi is more appropriate.

Considering the number of tourists entering the country, it is observed that very few of them come from developed countries. Tourists from the CIS countries are prevalent.

Figure 14. Number of tourists coming to the country (thousand)



Source; SSCAR Publications.

In fact, the number of tourists entering the country is much higher than the figures reflected in statistics. According to the explanations, due to the problem in the registration system, the information doesn't reflect the truth. Government tries to resolve this issue with new measures and decisions"[^]

Obi)Ifez Qarayev, "Azerbaycan Bu Giin B^alxalq Olimpiyada Oyunlanna Muvaffa-qiyatli imza Alan Dbviatlar Sirasindadir", *Dialoq Azerbaycan I§ Dunyası Dergisi*, TUSIAB Cemiyeli, Mart-2003. p.16.

The low level of income in terms of domestic tourism, insufficiency of promoting the country abroad in terms of foreign tourism, assessment of the country as a dangerous region due to the conflict with Armenia are negative factors that affect tourism of Azerbaijan.

The absence of a single state policy and program related to the tourism sector for a long period had a negative influence on the sector.

One of the important losses in terms of the tourism sector is the occupation of Karabakh which is one of the most favorable regions of Azerbaijan. After the occupation, the ecological balance of the region was disrupted seriously by the Armenian side in a way to affect the tourism in Karabagh.

Although the share allocated from the budget for the development of the sector is higher in each passing year, it is still not enough for the sector to reach the desired progress trend.

Other reasons hindering the improvement of the tourism sector are as follows:

- Lack of necessary conditions for recreation facilities,
- Unfavorable roads to touristic areas,
- Untoward health conditions at hotels where tourists may stay,
- The effect of the war with Armenia on the country for more than 25 years.

Since 1994, Azerbaijan has signed many alliance agreements with various countries in tourism field. After September 27, 2001 when Azerbaijan Youth, Sports and Tourism Ministry became the member of the International Tourism Organization, a special investment program was made in order to develop the tourism sector, encourage financial support of international organizations and inspire tourism companies functioning in other countries to invest on Azerbaijan. The documents have been prepared both to promote the country's development of the tourism sector and encourage making investments on the sector. For the purpose of training necessary staff, some activities are being done at the level of high education. Furthermore, to ensure the professional development of those working in the sector, they are provided to take vocational education courses in touristic regions of some countries including Turkey.

To have newly created Guba-Khachmaz, Sheki-Zagatala, Lankaran-Astara and Tovuz-Gazakh tourism roads meeting modern standards, projects worth between 100 thousand-50 million dollars have been submitted to international tourism companies by the Azerbaijan Ministry of Tourism.

Moreover, 'The State Program on the Development of Tourism for the years of 2002-2005' was approved with the decree numbered 1029 which was signed on August 27,2002. With the decree signed by the President Haydar Aliyev, the term of license for companies involved in tourism activities was extended from 2 to 5 years. State duty was reduced from 8 million manats to 2 million 750 thousand manats (*manat before denomination*) which increased the number of companies in the tourism sector to 200.

There are more than 500 hotels in the country. Much work is being done to improve the quality of service in hotels. In addition, some touristic hotels are building and tourist information centers are being established in regions.

Entry visa fee for tourists has been decreased from 40 to 20 dollars. In airports and border gates, the citizens of the Republic of Turkey can receive a monthly entry and visa to settle by paying 10 dollars.

The development of the tourism sector is observed year by year. For example, the income obtained from the activity of hotels and motels only in 2003 was 208 billion 214 million 400 thousand manats. In 2003, 74 companies were licensed and the state budget attained 203 million 500 thousand manats from this.

In 2008, the growth of the sector was 37%. The number of tourists coming to the country goes up 20-30% every year. In 2002-2015,250 new tourism facilities were put into use.

The tourism sector was within the main targets included in the development program of regions covering 2004-2008, 2009-2013, 2014-2018, so projects and business plans prepared in relation to the improvement of eco-tourism were submitted to foreign investors interested in this field.

The Ministry of Culture and Tourism of the Republic of Azerbaijan is responsible for an ambitious tourism development programme, it would be noteworthy to mention about some of the successful projects held in recent years. The creation of the Shahdag Mountain Resort in Kusar district is one project in this programme, offering all year winter tourism activities in world-class quality and service. Similar project of Tufandaq in Qabala district is also major tourist complex.

Azerbaijan will be a development perspective of tourism with such various projects, cultural measures and will possess a wide tourism potential with the regulation of the infrastructure. All the regions with its cultural and art centers will have an irreplaceable position in the developing tourism sector.

Besides, in recent years there have been two major organization great supports to the promotion of Azerbaijan.

The Eurovision Song Contest of 2012 took place in May, 2012 in capital Baku, Azerbaijan, following Ell & Nikki's victory at the 2011 contest marking the first time that the country had won the contest.

The 2015 European Games, also known as "Baku 2015 European Games", were the inaugural edition of the European Games, an international multi-sport event for athletes representing the National Olympic Committees (NOCs) of Europe. It took place in Baku, Azerbaijan, from 12 to 28 June 2015, and featured almost 6,000 athletes from 50 countries competing in 20 sports.

3.3.4. FINANCE

The following financial sector will review under the banking, insurance and securities exchange sub-headings.

3.3.4.1. Bank

The activities of the ongoing transition to a new system, is continuing a new structure of the financial system, at the same time including a bank. In the country operates National Central Bank, shares in state-owned banks, private investment local banks and foreign-owned banks.

Central Bank, the legal person which is all part of the capital is the state-owned, has a lot tougher controls on financial markets. The process can be divided into three stages in the development of the banking system. In the first stage, was between the 1990-92 years the National Banking system was formed. In 1992- 94 years in hyper-inflation conditions the banking system has evolved in an environment of instability. In 1994 and after that, Central Bank tried to develop a re-drafting of the banking system stable macroeconomic environment.

Legal principles of the banking system in Azerbaijan have been taken with Article 14 named "The banking system and the money supply of "Fundamentals of Economic Independence" Constitutional Law dated 25 May 1991. With this article in Azerbaijan determined the legal foundations of an independent banking system, the national currency unit, the status and powers of the National Bank. National Bank was established on February 11, 1992.

"Law on Banks and Bank Activities" entered into force with sequence "Law on the National Bank" on August 7, 1992, in relation to the regulations on Bank and National Bank. In December 1992, the charter of the National Bank of Azerbaijan was adopted. In the country targeted banking system establishment consisting of the National Bank and other banks: In money and banking sector identification

of policies, monitoring and control authority refers to the National Bank. Bank law covers all banking activities in the modern meaning, however, those targets can not be carried out by reason of the lack of a free market economy system with literally intact and there is no banking system modern meaning.

In the early years of the transition to a free market economy in Azerbaijan there was a strong control over banks due to the establishing of a banking system. Commercial banks, which benefiting from the legal loopholes developed rapidly. Established banks concentrated mainly in speculative activities.

Law on "The National Bank of the Republic of Azerbaijan" was adopted June 10, 1996. In connection with the related laws some changes and amendments have been made in 1997, 1998, 2001, 2002, 2004 and finally in 2015 years.

"The Law on Banks in the Republic of Azerbaijan" was approved by the head of state on January 16, 2004, with the final version.

In Azerbaijan the financial market instruments and banking services has not been developed. However, locally-owned banks trying to increase the diversity and quality of service in order to compete with the subsidiaries of foreign bank's subsidiaries.

At the beginning of 2001 the number of bank and non-bank credit organizations which were 158 dropped to 116 in 2002. As of the beginning of 2005, 114 licensed credit organizations operated. By collecting funds from the public in 2009, 42, to perform the activities carried out by the bank with the foreign exchange unit 43, safeguards and to guarantee 41, to operate with plastic cards 30 credit organizations has licensed.

In Azerbaijan trend of an increase in the number of bank continued until 1995. Since 1996, the number of banks has started to decline.

Especially in the first years of independence, there was an increase in the number of banks due to the keeping low of the capital structure of banks. Then after the happened banker disaster was a gradual decrease in the number of banks while entering the trend of gradual increase in the amount of investment in the establishment of the National Bank. With the new regulations on October 1, 1997 the adequacy of the authorized capital for the newly opened banks increased to \$1,250,000, for the operating banks to \$800,000. After the regulation began to stop the activities of small banks.

On 01.01.2000 date in accordance with the policy of improving of the banking system the minimum capitals of banks increased to \$ 2 million and for the 2016

established banks to \$ 50 million. The number of banks, which is higher than before decreased as a result of the merge of some of the commercial banks the activities of some banks to putting an end because of the inability to raise capital building to \$ 2.5 million. In 2016, unable to raise the authorized capital of \$50 million 8 bank's license has been cancelled**'.

As a result of the decision to direction of increasing the capital structure of the banking sector in the country, 50 banks have been disqualified since 2001. The number of the banks decreased to 59 at the beginning of 2001, to 53 at the beginning of 2002, and to 43 at the beginning of 2005 while operating 240 bank credit organizations in the beginning of 1990. Two of the banks are state-owned banks, 38 private banks. 15 banks have foreign capital or foreign capital participation.

At the end of 1995, 4 state-owned bank Agrobank, Industrial Bank, Deposits Bank and the International Bank had 80% of bank assets, 85% of unpaid back credits, 75% of deposits, 65% of branches and 70% of employees in the banking sector.

There were 2 state-owned banks (*International Bank of Azerbaijan and Kapital Bank*) as of the beginning of 2005.

Even in Soviet times, in 1988, United Universal Bank was established as a joint-stock company joining of Agroprombank, Promstroibank and Sberbank (Agrar Industry, Industrial Investment and Deposits Bank) of opened specialty banks in Azerbaijan in 2000. In 2004, the bank's name was changed to Kapital Bank. Kapital Bank was privatized at the end of 2000's and became the biggest privately owned bank in Azerbaijan. The International Bank of Azerbaijan is another state bank which was founded in 1992 on the basis of Soviet's Vnesheconombank's department.

Most of the state-controlled banking sector, in particular, was under the influence of the International Bank of Azerbaijan. Assets of International Bank of Azerbaijan was compatible with 54% of the total assets of the banking sector. 7 points increase is remarkable of this ratio over the previous year.

While the number of operating banks branches were 191 in the beginning of 2002, this number increased to 226 at the beginning of 2003, to 350 at the beginning of 2005. The number of non-resident banks' branches is just 3. Department of credit institutions, representation and so on activities are poor aboard. This enterprises functions in the form of 1 department, 1 representation and 1 closed bank in aboard.

According to a review of the number of branches of banks operating in the country, the numbers of branches of private banks seem to be more than the number of department of state banks.

There are also some subbranches of foreign banks in addition to Turkish banks established in Azerbaijan. Foreign-owned bank in Azerbaijan can be established both 100% of the foreign investment, as well as the joint. The share of foreign capital in banks limited to 30%.

The share of foreign banks in the sector when compared with many countries, this ratio is high. Lack of investment by local banks caused being weak competition with foreign banks.

Furthermore domestic and foreign banks carry out financial transactions with many countries via the established "correspondent" banking relations.

By the end of 2008 the total amounts of the charter capital of banks were 3051.0 million Manats an increasing of 41.3% over the previous year. As of January 2009 the total share capital of state banks are accounted for 340 million manat, 1411 million manat of private banks. The fund which was established with participation of foreign capital in banks' charter was 352.8 million manat was equal to 32.6% of the total share of the fund. Surely implemented tighter monetary policies had a big impact in the reduction of number of banks. In 2015 National Bank's President Mr. Elman Rustamov was re-elected to his post, country's biggest state bank changes its management and national currency devaluation occurred. The bank renamed as Central Bank of Azerbaijan. Recent devaluation forced Central Bank to renew bank system, tighten the control. As a result approximately 10 banks lost their licenses and numbers of the banks reduced up to 30's at the beginning of 2016.

Credit and Loan Interest Rates

The advantage of the banking sector in the economy has increased steadily and with the increase of confidence in the banks have increased deposit and loan volume. The share of the private sector began to increase with each passing year seen in given loans. While given by private banks 35% of the total loans in 2002, in 2014 this ratio realized as 76%. The advantage of state-owned banks seems to be 45% between the years of 2002-2015.

The share of bank loans in foreign credit institutions while was 15% in 2002, backs liding in 8% in 2008. In 2002-2008 years 47% of credits were given as a manat, 53% as a foreign currency. Significant increases were in the amount of

directed credit to the private sector. These important developments such as the introduction of the monetary and credit policy allowed more success.

While directing 70 % of the more short - term total loans to the private sector in 2002, it was directed 75.6% in 2008. While being 30% of all loans of the volume of credits directed to the public sector in 2002, it was directed 24.4% in 2008. In addition, trade-service and transport-communication sectors have been given more loans.

Interest rates are determined by the market, tried to get the development of the financial sector while deliveries the treasure operation passing through a market activity.

Table 14. Credits (million manat)

Years	Short-term	Short-term (%)	Long-term	Long-term (%)
1995	1264.8	87.3	184.2	12.7
1997	1901.1	93.1	140.9	6.9
1998	2087.7	97.8	45.9	2.2
1999	2160.5	97.5	55.0	2.5
2002	1672.0	72.0	649.8	28.0
2004	1769.9	72.8	661.4	27.2
2006	1871.2	71.9	1129.6	28.1
2007	1649.5	35.2	3032.3	64.8
2008	2295.9	31.9	4895.4	68.1
2009	2359.9	28.1	6047.5	71.9
2010	2567.1	28.0	6596.3	72.0
2011	3051.2	30.7	6899.1	69.3
2012	3885.1	30.5	8835.4	69.5
2013	2297,4	20.8	8779,3	79.2
2014	2494,2	18.4	11011,5	81.6
2015	1777,3	16.2	9235,7	83.8

Source: The Central Bank of the Republic of Azerbaijan, www.cbar.az

Short-term loan interest rate was 19.53% at the beginning of 2001,19.74% at the beginning of 2002, and 18.17% at the beginning of 2003. Long-term loan Interestrate was 21.60% at the beginning of 2001, 20.70% at the beginning of 2002, and 18.86% at the beginning of 2003. The three-monthloan interestrate in the interbank market was 20.3% at the beginning of 2001, 19.75% at the beginning of 2002, and 19.67% at the beginning of 2003. In 2008, the average nominal interest rate for loans increased. At the end of 2007,15.91% of the loan interest rate with manat was 15.55% by the end of 2015. However, considering

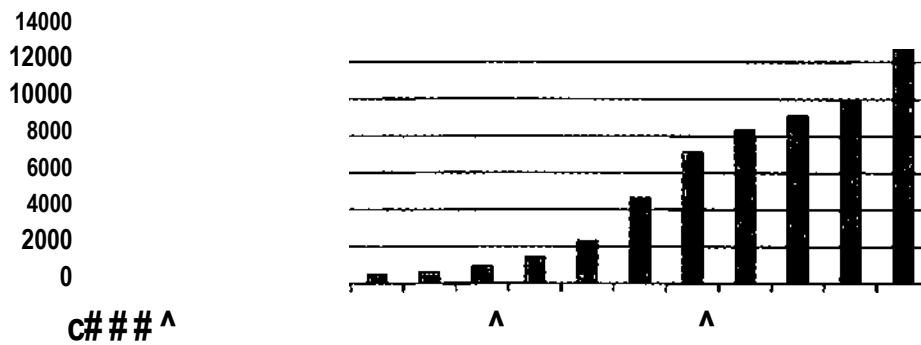
the last 12 months, the Inflation rate was 10.4%. It can be expressed 9.76% decrease in real interest rate. The situation has significantly changed in 2015- 2016 and still volatile.

Deposit and the Deposit Interest rates

It is seen a large portion of deposits placed as a foreign currency. In 2002, 5% increment compared to 2001, in a large part of 85% of deposits, in 2004, 80% was realized in foreign currencies. The rate of manat deposits was 15% in 2002, 20% in 2004. In addition, a large part of deposits collected in state banks. In recent years, the volume of deposits increased, especially to state banks by the people. This condition as the first time may be considered as an increasing confidence to the banks.

In 2008, the volume of deposits was 5126.3 million manats increased by 77.9% in banks. 1029.1 billion of deposits was in manats, 4097.2 million manat was in foreign currency. 2015.6 million manat deposits in banks that have been provided by private individuals, this amount is more than 60% over the previous year. 3110.7 million manat deposits in banks that have been provided by legal entities, this amount is more than 73.5% over the previous year. 47.6% of deposits belonging to private banks. Increasing 53.5% of private short-term deposits, 66.5% of long-term deposits can be considered of starting to increasing public confidence in the banking system. On the other hand, while increasing 63.8% of the volume of deposits by foreign currency, 86.6% increasing of the volume of deposits in manats can be considered to beginning of a growth in confidence as the local currency which was eliminated in 2015.

Figure 15. The volume of loans (million manat)



Source: SSCAR Publications.

In 2009, deposit interest rates remained stable. While increasing the average interest rate on deposits in manat from 6.5% to 6.73% compared to the previous year at the end of 2015, the average interest rate for foreign currency deposits fell from 80.08%.

Foreign Loan Institutions

While the number of foreign credit institutions was 99 at the beginning of 2001, it had fallen to 63 at the beginning of 2002, to 45 at the beginning of 2009. The number of bank foreign credit organization has risen to 70 at the beginning of 2009.25 branches of foreign banking organizations operate.

Some problems existed in connection with the development of foreign banking credit organizations. First of them is the absence of adequate institutional arrangements. In addition, giving small loans has not yet fully comprehended in Azerbaijan. 100-1000 dollars given loans of these organizations, has been accepted as a temporary situation in connection with the transition process, regarded as humanitarian aid. In fact, giving the small loans, in the absence of an effective banking sector and due to the low level of life, makes sense for the development of small-scale entrepreneurship in Azerbaijan. Another problem is that, these short-term loans provided by institutions do not mean anything on the evaluation form in economic development.

A variety of international credit organizations as "ACDI/VOCA", "ADRA", "FINCA", "NNE", "NRC", "MC", "OXFAM", "IOM", "SCF" and "WVI" operated in Azerbaijan.

In order to give the micro-loan 15 non-bank credit organizations operate in the country. Azerbaijan Micro-Finance Association (AMFA) was founded by micro-finance Institutions on December, 2001.

By the end of 2004 there were several credit institutions created by international organization: Azerbaijan Micro-Finance Bank, German-Azerbaijan Fund and other non-bank credit organizations officially registered under the Azerbaijan Micro-Finance Association.

Micro-finance institutions operating in the country due to finance some of the projects gave small micro-loans in 54 different regions, 47 thousand small and medium-sized entrepreneurs (40% women). The amount of each given loan varies from \$100 to \$125,000 Dollars. These organizations gave the small loans to the businessmen total amount more than \$117million, 787 thousand by the end of 2004. At the end of 2005, this figure is calculated to exceed \$ 200 million\$.

Micro-finance is seen as one of the ways most appropriate for the reduction of poverty in the country. In Azerbaijan there area wide range of potential and great opportunities for the provision of micro-loans.

One of the micro-loan organizations is Azerbaijan Micro-Finance Bank. Azerbaijan Micro-Finance Bank (*the new name Access Bank*) founded by (EBRD, IFC, Black Sea Trade and Development Bank, the LSF Financial Systems) (AMFB International Finance Corporation, the European Bank for Reconstruction and Development, Black Sea Trade and Development Bank, "Kredit tanstalt fur Wiederaufbau (KfW)" and "LFS Financial Systems") international anonymous group of companies. AMFB is supported by the EU technical assistance program and German government.

AMFB started to participate in the retail market with its micro and small loans in September 2003. The total amount of more than \$1 million 170 thousand Dollar loan was given by AMFB. The bank was able to increase its loan portfolio during 2003. Bank gave more than 3,500 loans in the amount of \$7.3 million Dollars in 2003.

Micro-Finance Bank gave about 10 thousand micro-loans cost of \$23 million since its inception until April 2005. The annual interest rate son ioans between \$100-125000 varies between 18-36%.

On the other hand, the National Entrepreneurship Support Fund gave loans through 19 representative banks and 5 other credit institutions. The loan limit given by fund was raised from \$500,000 Dollars to million Dollars with final regulation. On the other hand the term of the 7% loan interest rate increased from 5 to 8 years. 63 million Manat loan was given to the sources of the fund's via different banks. As in 2014, in 2015, it was pointed out in the budget, 900 million of dollar budget source lending to entrepreneurs.

Problems in the banking sector

In Azerbaijan's financial sector the structure is still not very strong. People are more inclined to trade In Azerbaijan. However, it does not have the necessary financial resources. There is no public confidence in the banks because of the "Tragedies of banker" that happened in country previously. Therefore, those who have the financial reserves realized it without banks. Some people take responsibility on the task of making the loan. Income problem seems at the beginning of the problems that arise in the banking sector.

There are too many commercial banks in the sector and basically, stmctural feature with a single branch banks, have limited capital resources.

There form of the financial sector is progressing very slowly.

Specifically, the great advantage of the local state-owned banks in the economy taken part in the privatization and privatization continues. Creation on the progress of its banking system in Azerbaijan, also work has been done on the reshaped in state banks. In 2016 Central Bank canceled several banks licenses due to not compelling with the requirement of a minimum amount of capital 50 million. After two devaluation in 2015, failed to fulfill its obligations to creditors, for failing to manage current activities in a safe and prudent manner. For example, the "Caucasus Development Bank" JSC, "Atrabank", OJSC "United Credit Bank", "Ganja Bank", "Bank of Azerbaijan" has already suspended operations. Also, "AGBank" and "Bank" JSC was signed between the initial consolidation.

As of January 01, 2016 overall assets realized 34906,0 min. AZN, loans 21152,0 (min. AZN) and households savings 9473,9mln. AZN.

Growth varies throughout the world, although economic growth prospects are higher for 2015 and upcoming years (3.5% in 2015 and 3.8% in 2016). Economic growth in DDCs is expected to prevail over that of 2014, while it will be weak in DGCs. The Management Board of the CBA decided to set the exchange rate of US dollar against AZN at AZN 1.05 as of 21 February 2015 in light of the situation on the FX market. The decision was taken to create additional impetus for the diversification of the economy, further enhance its international competitiveness and export capacity, and ensure strategic sustainability of the balance of payments and country's international solvency**®.

The loan portfolio of the banking sector rose 21.2% in 2014 and reached AZN 17 175 million as of the endperiod. Credit growth sourced primarily from systemically important banks. Thus, systemically important banks made 8.3 p.p. contributions to the growth of the credit portfolio in 2014. The credit portfolio rose 11.3% in nominal terms and equaled 20.6 billion AZN in Quarter 1, 2015. If not taking into account the difference in the real exchange rate, the real size of the portfolio remained unchanged over the quarter. Net profit of the banking sector constituted AZN 370.5 million as of the end of 2014, roughly 38% higher relative to the previous year. The number of profitable banks and their share in the banking system increased regularly over the years 2011-2014. Thus, the number of profitable banks rose from 30 to 35, with their share in the banking system

http://www.cbar.az/assets/3753/illik_hesabat_az2014- web.pdf

increasing from 47% to 96%. Aggregate loss of banks operating with loss declined to a considerable extent and totaled only AZN 4.79 million (AZN 322.5 million in 2011). Non-satisfactory and doubtful loans made up 5.9% (AZN 1 174 million) of the credit portfolio of the banking sector as of 31.03.2015. According to CBA requirements, respectively 30% and 60% reserves should be established on such loans. Establishment of a 100% reserve as a sign of default on non-satisfactory and doubtful loans was simulated in order to assess the impact of possible shocks on the quality of bank loans. Assessment results suggest that the banking sector, overall, is resistant to this shock: the capital adequacy ratio of the sector may decrease down to 14.7% from 17.3%. As of 31 March 2015, the foreign debt balance of the Azerbaijani banking sector was AZN 6.4 million, 22% of the total liabilities. The refinancing ratio (rollover ratio) of the banking sector was 89% in March, 2015. The refinancing ratio of the banking sector constituted 150% in the medium term (2009-2014), which reflects high potential of banks to attract funds from foreign markets^{*@}.

Reforms in Banking Sector

Reforms carried out on state banks; the development of the management, new services and markets, organization banks carried out SAC program according to the World Bank. AZIPS system established by National Bank on February 16, in 2001, ensures quickly procession of the payments led by banks and provision online information system. This system is based on SWIFT respond to International standards. In order to eliminate deficits in banking sector, the government prepared reform programs under the supervision of the World Bank and the International Monetary Fund in 1999. The main objectives of the strategy was reorganization and privatization government banks, the combination of private banks, improvement the quality of regulatory, supervisory body of National Bank of Azerbaijan and the ability to create robust, effective and competitive technology, development of infrastructure including periodical audits.

In 2002, banking reform has continued to increase financial assistance on small and medium-sized enterprises in order to strengthen the national banking system. Important works has been done in area of lending to private sector from the state banks. In order to increase competition the process of promoting foreign investment in the banking sector eased further. The banking sector has been

^{*}http://www.cbar.az/assets/3753/iilik_hesabaLaz2014- web. pdf

accelerating its activities in the field of infrastructure. Preparation the new laws, norms and acts for the banks is started.

In order to create favorable conditions for the development of the banking system, obtain a good work experience and techniques in the sector speeding up the investments planned to sell 20% of the initial capital of the International Bank of Azerbaijan to the European Development Bank.

The process of transition to non-cash payments in Azerbaijan's banking market accelerates. Experience of the world of the transition of non-cash payments; with drawal of the nation's financial resources to the banks improved economic situation in the country in terms of quality and it also raise the social life standards of the people.

Implementation of "Internet Banking" and "Mobile Banking" payment systems in Azerbaijan started January 2005. These activities have been implemented according to the recommendations of the World Bank (WB) and International Monetary Fund (IMF).

Today the opportunities are expanded in order to serve customers in the banking market of Azerbaijan and world-class services are provided in maximum extent compatible with their requirements.

The development of the banking sector in the country and so to restore public confidence in the banks, establish a deposit insurance fund and the law on deposit insurance should be considered. For problems that may arise due to the revision of the deposit insurance fund the banks must follow the policy of National Bank to show true financial accounts.

Some works has been done within the framework of reforms to insure the deposits. Deposit Insurance Fund regulations on the establishment and activities regulated by a separate law in 2011.

Infrastructure works, payment systems, accounting systems, such as banking supervision and legal infrastructure works will continue in banking sector. In terms of private sector development in the banking sector, in particular, will allow easier access to credit opportunities.

3.S.4.2. Insurance

After the collapse of the Soviet Union one of the works in the first period was reorganization of the Azerbaijan State Insurance Company which was available in the previous system as State Insurance Agency of Azerbaijan.

On September 20, 1991 a decree on the establishment of "The Azerbaijani Republic State Insurance Commercial Company" was approved. According to the decree, State Insurance Commercial Company is an independent, released by control of the Ministry of Finance, can work on their own terms, as a selffinancing company began operating by approving the charter on November 22, 1991. On January 24, 1994 the company's charter has been changed by the Cabinet of Ministers and came into force. From 2000 to 2008, the efforts were realized due to create legal infrastructure of the insurance sector for working conditions¹

State Insurance Commercial Company in reinsurance field cooperated with "SEDJWICK", "WILLS FABER & DUMAS" insurance broker teams of "LLOYD" (England) group of insurance companies, "Munich Re" (Germany) Reinsurance Company, "Asia" (Iran) Company and "Lukoil" (Russia) Inc. insurance.

The second step was to put an end to a monopoly, in order to develop the country's insurance sector. For this purpose, after a short time companies operating effectively as opponents to State Insurance Company, insurance companies started to prove themselves in the sector.

Insurance companies were established along with foreign allies from 1992, and totally based on local capital from 1995.

There were 28 insurance companies in the country as of the beginning of 2009. 22 of them were national and 7 of them were the foreign-owned joint insurance companies (*England, Turkey, Russia, Iran, the US, Italy*).

Foreign insurance companies are more interested in the insurance sector, with each passing day in Azerbaijan. However, in order to avoid the monopoly of foreign investors in the insurance sector has some limitations. For example, foreign investors can have only maximum 49% of the insurance sector. Therefore, foreign investors prefer to have their shares instead of buying insurance companies operating in the country. Currently insurance market is dominated by giants such as AXA Insurance. However due to the loopholes in legislation, this area is not developing as it would be.

As of the beginning of 2009 the total amount of authorized capital of the insurance companies operating in the country increased 46.7% over the previous year. In this context, while increasing 39.7% the authorized capital of 22 local

¹Qocayev, "Azerbaycan iqtisadiyyatında sigortanın rolu", *Diaq Azərbaycan İş Dünyası Dergisi*, Sayı:15, TUSIAB Cemiyeti, Bakı, 2004, 55.40-41.

Insurance companies, the authorized capital of the 7 joint foreign-owned insurance company increased 26%. 82% of the authorized capital accounts for the local insurance companies, 18% accounts for joint foreign-owned insurance companies. A large part of the total investment in the insurance sector companies concern to International Insurance Company founded on February 5, 2002 and got license on April 1, 2002.

"Insurance Law of the Republic of Azerbaijan" No. 436 entered into force on January 5, 1993. Later in order to adapt to the requirements of the law the new "Insurance Law" was passed by parliament on June 25, 1999 and entered into force signed by the President on August 19, 1999.

The signing of oil contracts since the beginning of 1994 has led to the entrance of large amounts of capital in Azerbaijan. As a result, large part of the insurance companies was directed in the oil sector. Foreign citizens living in Azerbaijan, stateless people and foreign legal entities have the insurance right along with citizens of the country and companies.

Within the insurance sector reforms, investment structure of insurance companies operating in Azerbaijan gradually increased. The decision of the Cabinet of Ministers, signed a decree by President of Azerbaijan on insurance on May 4, 2000 as for the insurance companies agreed to a phased capital structure is as follows: *until 01.01.2002 500 million Manat, until 01.07.2002 750 million Manat, until 01.01.2003 1 million Manat, until 01.07.2003 1.5 million Manat, until 01.01.2004 2 million Manat (\$ 404,000)*. Since January 2005, each insurance company's authorized capital is decided to be to a minimum of 2.5 million Manat (\$510,000).

According to the decision taken by the Cabinet of Ministers of Azerbaijan in 2004, the minimum investment amount of the authorized insurance companies operating in the country should raise until 2010, 5 billion manat (about \$1,000,000), in reinsurance companies should raise 10 million Manat. Starting in 2004, insurance companies should increase their investments 500 million manat each year. Reinsurance companies must add 1 million manat annually to their investments. According to the decision of Cabinet of Ministers "The minimum amount of insurance and the determination of the authorized capital" companies operating in the insurance market should increase the authorized capital 3 billion manat in 2006, 3.5 million Manat in 2007, 4 million Manat in 2008, 4.5 million Manat in 2009, 5 million in 2010. As a result at the beginning of 2010 the authorized capital of the insurance companies at least should be \$ 5 million Manat, reinsurance companies should be 10 million Manat.

The authorized capital of newly established insurance companies should be minimum \$5 million Dollar, and re-insurance companies should be 10 million Manat. Considering investments most of the insurance companies seem to be small and medium-sized companies. While performing 90% of the volume of insurance activities 10 insurance company in the country, part of the remaining 10% was the share of other insurance companies.

Foreign insurance companies have more impact on the insurance sector. Foreign companies operating in Azerbaijan basically have insurance in their own countries insurance companies. Besides because of weakness of the ability of local insurance companies' payment re-insurance the large-scale insurance contracts outside the country.

Insurance Services

Insurance companies take guaranteed many risks by offering variety of insurance services to domestic and foreign companies and businessmen. There are 35 different types of insurance in the insurance sector. 9 are compulsory from this types of insurance, 26 are voluntary insurances. The most common types of insurance are accident, fire, medical, personal accident, cargo, automotive, financial risk, life, engineering, agriculture and live stock insurance.

Insurance companies are uniting much more in small-scale enterprises. However, after passing the free market system the number of insurance services grows with each passing year with the development of the insurance sector. Having more type so voluntary insurance from compulsory insurance is an indication of the development of the insurance market in Azerbaijan.

Land slides, floods and water disasters such as the flooding takes place In Azerbaijan in recent years. While insured entities operating in Azerbaijan and people property, they have the ability to prevent the loss of a large volume will be revealed as a result of any natural disaster or the personal intervention.

Insurance Rights

Insurance premiums collected by insurance companies increases every year. The amount of fees in 2004, an increase of 14.5% compared to 2003 was 287.3 million manat. 92.5% of the collected insurance premiums are the types of voluntary insurance. The insurance premiums accounted for 91.9% of the local Insurance companies. 70.7 million manat paid for the insurance events correspond to 21.6% of total insurance premiums.

The insurance sector is still under development and the benefit to the economy is very few compared to their financial institutions. The turn over of the country's insurance market Gross Domestic Product (GDP) is less than 1%.

Basic Problems in the Insurance Industry

In the slow development of the insurance sector, among the causes of relatively little benefit from insurance services of local people and businesses is paramount importance the low level of income and the inability of the people for seen the benefits of insurance.

One of the main reasons for the lack of interest and confidence of people's in insurance sector in Azerbaijan awareness and promotional activities of the companies which are not sufficient.

The development of the insurance sector and trust to the sector which is the basic elements of the dynamic development, is one of the factors that will increase the flow of foreign investment into the country.

S.3.4.3. Securities Exchange

In connection with the formation of the stock market regulations started with the adoption of the law "on the Securities and Market". The stock market has become even more with the start of the development phase of privatization in Azerbaijan. December 30, 1998 signed a decree by the President of Azerbaijan on "Establishment of the State Commission on Securities under the President of the Republic of Azerbaijan". The most important information about the Securities Market reflected in chapter 2 of Article 3 of the Law on "Financial Markets" National Depository System. Providing information about the state regulation in the relevant article of the Law in connection with the Securities Market is given information about participations to be carried out how and by whom. Special attention is paid to the establishment of the securities market since 1998. Securities market principles of operation determined according to the law on the State Short-Term Bonds Issuance".

The Securities Market established by 18 companies, actually established on February 15, 2000 and the official opening took place in 2004. Stock trading hall which has 30 employees is suitable for all kinds of securities to commercial activities, in terms of technical procurement. Stock partners are The European Securities Market, Istanbul Securities Market, Fessaloniki Securities Market, INISIT, Interfax, and National Bank of Azerbaijan, International Bank of Azerbaijan and Azerbaijan Investment Promotion and Advisory Foundation.

In exchange in the first years not with standing the fact that the prices of securities issued by the government, in later years securities of companies began to see the co-operative and anonymous.

The securities market is not formed yet all means to achieve a certain amount of activity is too early to say that. Especially, limited financial actions, distrust of the problems in the economy and financial markets, lack of information, significantly hinders the development of the stock market. In the future, foreign companies investing in the oil sector is projected to produce to the market price of its securities that, important legal arrangements have been carried out on them. For the development of securities market, a little bit of the volume, repo and reverse- repo operations take an important step.

Corporate documents markets not been formed yet As well as in local firms, International bond markets of Azerbaijani government did not witness any activity yet. With the acceleration of the privatization, the bond market is projected to develop.

Another problem of the securities market in Azerbaijan is a limit of market for foreign companies. One of the main reasons for this is much less values used in the portable market. Foreign Investors do not want to invest in the securities market. Because the foreign Investors can not be profitable in order to receive interest income in the rate of 4-5% with the national currency in financial market of developing countries. Expectations of foreign investors are higher than these rates, especially for developing countries.

The new relations with investors are established, in order to increase the Authorized Capital of the Securities Market. As a result, the authorized capital stock reaches a volume of 5.4 million Manat.

Since the beginning of the activities of the organization until 2005, the structure of the securities market in the country is trying to be formalized. This structure covers Securities Market, loan institutions and broker age firms.

In recent years, increase in the volume of cargo turnover prices and the development of new securities values is observed. In 2003, the main securities were government bonds and shares of stock companies. Stock prices become one of the most organized sectors of company bonds as a result of privatization.

At the beginning of 2004, the first bank bonds were in offered. One of the new financial documents was short-term notes of National Bank. The above mentioned securities have been introduced to financial markets on September 2004. Referred

to as "Not" these securities will take responsibility for any kind of request for money. Notes circulation in the country is explained by the increase in the demand for money. National Bank prefers these type of securities, referring to in addition to the removal of the money supply in circulation will lead to inflation. They would prefer to use notes, while consumers demand increases for money.

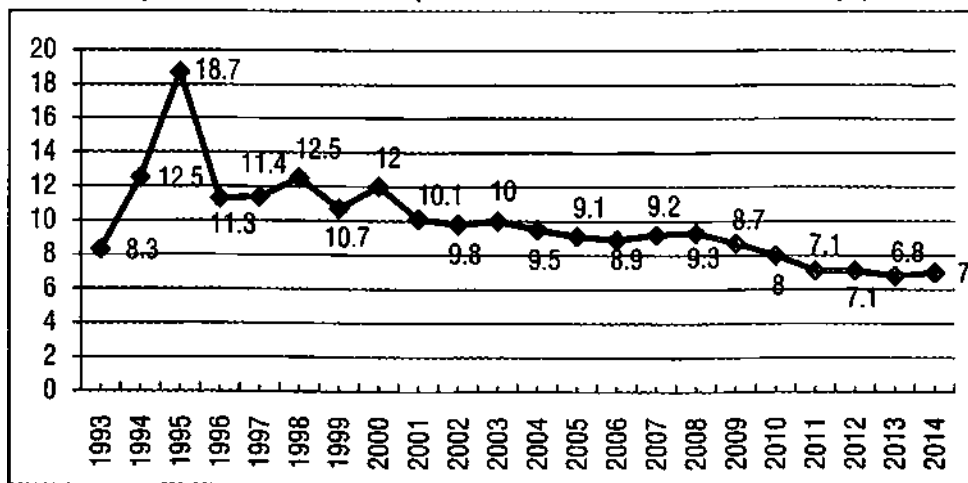
Such practices are common in many countries around the world. The purpose is to pay for the need for new financial bank note was in circulation in the act, as well as the process to prevent inflation. The new notes put into operation via licensed 38 commercial banks in the country.

The first phase of development of the securities market is the creation of stocks in Azerbaijan. In the process mainly investors should be focused trade portfolio equity. For this the privatization of large enterprises seems to be one of the most important steps. Thus investors do not pay serious attention to the small-sized enterprises. Secondly it is necessary to achieve transparency in the market.

3.3.5. TRANSPORT AND COMMUNICATIONS

Transport and communication sector has a share of over 7% of GDP. In 2014, the volume of transport services declined 1.6% compared with a previous, communication services increased 4.4%. A portion of the oil transported from Turkmenistan and Kazakhstan through Iran and Russia, has a negative impact on the volume of cargo transit through Azerbaijan.

Figure 16. Location of Transport and Communication Sector in GDP (%)



Source: SSCAR Publications.

In 2008, 56.5% of the cargo carried as transported by road. 15.4% of cargos are transported by pipelines, 17.8% by rail, and 11.2% by sea. 57.8% of cargo, 84.7% of passengers was carried out by privately owned vehicles. 57.9% of cargo was transported by road in 2015. 27.7% of the cargo transported pipeline, 9.8% by railway and 4.5% by sea. The private sector share in the area of communication services has grown annually. Finally, the share of private sector in 2009 was 71.3%. 74.2% of communication services were carried out by the private sector. In the coming years, the share of the private sector will continue to rise in the area of communication services.

The limited access to open seas and roads do not meet the demands of international standards are the most important problems. Communication sector is growing as a result of integration with the world. Sea, air, road, railway pipeline transport and communication will be examined separately in the chapters below.

3.3.5.1. Sea transport

Azerbaijan, in terms of sea transport in the region has significant potential as a transit country. Being one of the largest in the country there are 15 ports, although there are hundreds of kilometers of coastline on the Caspian Sea. Baku International Sea Trade Port is the largest port in the country.

When there is no railway in Azerbaijan transport has played a major role by sea. Sea travels were carried out directly and regularly between the Azerbaijan and the Caspian littoral states. Trade relationship has been established with Iran, Turkmenistan, Dagestan, Kazakhstan and Russia through the Caspian Sea.

Baku International Sea Trade Port, In addition to appearing as part of the strategic logistic infrastructure, also transportation of mineral products and other raw materials from Central Asia to western markets as a logistics corridor in geostrategic point. Baku port is not only deep, also does not freeze in winter. The port is not very favorable for passenger transport.

The nature of the world that is not conducive to the integration of infrastructure in Azerbaijan, sea transport is old and uncomfortable. Overall, the main reason for the decline in the transport sector has emerged sector's ties with the countries of the former Soviet Union.

The total number of passengers using the transport sector declines gradually in marine transportation. In 1990, 500,000 passengers used marine transport, in 1991 400,000, in 1992 and 1993 100,000, in 1994 60,000, in 1996, 39,000 and in 1997 43,000. Stagnated until 2002, passenger increased by 27.3% over the previous year. In 2003, decline in the number of passenger transport

continued, however in 2004, 46.3% a significant increase was observed. In 2015 25% increase was observed in comparison with the indicators of 2014.

Development of freight transport: in 1960, 9.163, in 1970, 13.138, in 1980, 11.354, in 1990 3.870, and in 1997, 5.008 million tons of cargo was carried out by sea. According to 1970 to 2005, the volume of cargo transported by sea is reduced until the mid-90s. With the exception of 1999, since 1998 the volume of marine cargo transportation displayed an increase in the trend. According to 2014 data there was 6.7% decline in cargo transportation compared to 2013. At the end of 2015 because of the Turkey-Russia crisis Central Asian Turkish trucks passing through Azerbaijan being the Caspian Sea as an alternative direction will increase sea freight transportation. Another reason for the increase is start of operations in the the international sea port in Alat settlement. According to the President Ilham Aliyev's Decree on October 18 2007, construction of the Alat the project of new Baku International Sea Trade Port Complex program was prepared by the winner of the international bid in the Netherlands, "Royal Haskoning" company. The first stage is provided 10 million tons of cargo, TEU containers up to 40 thousand, the second stage 17 million tons of cargo, and TEU containers up to 150 thousand, the third stage 25 million tons of cargo, TEU containers up to 1 million.

First stage of the project building process is continued 3 years and 6 months. At this stage, it is planned area of 104 hectares was built. The number of bridges are 9 (*including ferry-2, dry cargo-4, Ro-Ro-1, the service fleet-1*). 100 ha area of 400 hectares for the port complex (*being 50 ha in the first stage*) has been designed the construction of the international transport logistics center. In the framework of the TRACECA, location at the crossroads of port complex at the East-West and North-South corridors was considered for international transport and logistics center construction carrying out "The international transport and logistic centers" project by experts of the European Commissioner for Transport.

As the 2nd stage of the development of the port, it is intended to build building 1 ferry and 4 bridges for dry cargo. This, in its turn, will add to the port's cargo transportation capacity 7 000 000 tons and thus as a result of the port's cargo capacity will increase to 17 000 000 tons, the volume of cargo transportation will increase to 150 000 TEU containers.

At the 3rd stage, along with the construction of a new ferry terminal, it is planned commissioning the container terminal in length 650 m. This will allow the ability of the port's cargo transshipment for 25 million tons per year and 1 million TEU containers loading and discharge.

In 2015, the volume of cargo transported by sea was more than ten million tons. A large proportion of cargos transported by sea were oil and oil products. This volume was 72.7% in 2014. Among the different geographical areas in which it operates marine transportation the Caspian Basin is considered to be one of the most important means for transportation in region due to the new infrastructures.

In the mid-1990s until 2015, the development of the transport sector played an important role in the transportation to the Black Sea of the Kazakh oil through the Caspian Sea.

Table 15. Sea Transport

Years	Freight (thousand tons)	Freight Growth Ratio (%)	Passenger transportation (thousands person)	Passenger transportation Growth Ratio (%)
1995	5713	-13	60	-7.7
1998	8178	9.0	20	-53.5
1999	7382	-9.7	14	-30.5
2000	8779	18.9	12	-15.1
2001	10247	16.7	11	-8.3
2002	11381	11.1	14	27.3
2003	13272	16.6	13	-7.1
2004	13208	-0.48	19	46.3
2005	13726	3.9	21	10.5
2006	13890	1.1	23	9.5
2007	14586	5.0	25	8.6
2008	15654	7.3	27	8.0
2009	13190	-6.1	10.4	-19
2010	11714	-22.1	12	40
2011	12499	13.9	17.3	29
2012	12371	-7.7	17.1	-42
2013	11509	-6	13.7	-16
2014	9934	-6.7	14.7	25

Source: SSCAR Publications.

One of the representatives of maritime transport fleet, ship named "Heydar Aliyev", which became operational in 2004, was developed "Krasnoye Sormova" shipyard in Nizhny Novgorod. The ship's value is estimated at \$ 13.5 million. The ship is equipped with the most modern technology. The ship will estimated to bring Kazakh oil to world markets via the Baku port.

Baku Port can play affordable "transit" role for Middle East, Europe and South East Asian countries. As well Baku port needs \$ 2 billion. Feasibility and design

studies of project have been considered and project could be implemented in a very short period.

In addition to Baku port, construction of a new port at Lankaran city will be useful in terms of production and trade development of east of Mugan plain.

Material and technical infrastructure, which has special importance on maritime transport, needs rehabilitation and development. For this transport sector, which is important in Azerbaijan, there is a need to the ships used to transport heavy cargo, the liquid cargo especially oil and chemical tankers and frigorific ships, ferries rail cars used to transport cargo, liquid cargo, cargo floor and casting to be used as a new type of ship cargo ships.

3.3.S.2. Road transport

The length of Azerbaijan roads is 25,000 km. Most of these roads are asphalted roads. At the road transport passenger transportation are carried out more by buses and mini buses. 80-85% of passenger transport takes place by means of buses with roads. Transport number of cars is increasing every year. There are 3 highways to reach the open seas. These are the routes through Georgia to the Black Sea, via Russia to the Black Sea and to the Persian Gulf through Iran.

Table 16. Car Road Vehicles

years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of cars (thousand)	399	392	409	441	452	612	690	773	926	982	1037	1136	1232	1291
The number of cars per 1,000 person	55	51	52	55	56	59	69	77	92	98	100	113	123	129
Transportation cars (thousand units)	260	278	307	332	343	480	549	616	759	815	871	958	1048	1100
The number of cars per 1,000 passenger	36	36	39	41	42	45	52	58	75	81	87	95	104	110
Individual small cars per 100 families	16	19	19	19	19	26	29	32	38	40	42	46	50	52

Source: SSCAR Publications

The location on the crossroads of the historic Silk Road creates strategic position to carry out a number of road projects. As a part of the TRACECA project, Azerbaijan-Georgia highway was rebuilt according to the international standards. Only by 2009, Azerbaijan has spent as much as \$ 200 million in road projects. For the purpose of the construction and repair of roads EBRD and the World Bank, Asian Development Bank and The Islamic Development Bank provide financial assistance. Azerbaijan needs more than \$ 800 million funds for the repair of roads and reconstruction. A comprehensive action plan has been prepared the construction and renovation of roads in terms of the program on "Social and Economic Development of Regions". With the aim of repair and reconstruction of roads throughout the country in order to fund these projects in connection with the allocation of credits has been addressed to the some international financial Institutions by the government.

Table 17a. Length of contact roads (2000-2007)

Sf	2000	2001	2002	2003	2004	2005	2006	2007
General use railways, km	2116	2122	2122	2122	2122	2122	2122	2099
Tram tracks (with a double-line account), km	35.9	27	22	-	-	-	-	-
Trolleybus routes (with a double-line account), km	165.3	119.4	53.7	48.2	48.2	-	-	-
Metropolitan ways (with a double-line account), km	28.5	28.5	29.9	29.9	29.9	29.9	29.9	29.9
Main pipelines, thousand km	4.4	4.2	4.2	4.5	4.1	4.6	5.3	
Main oil pipelines	1.4	1.4	1.4	1.4	1.4	1.9	1.9	
Main gas pipelines	3.0	2.8	2.9	3.1	2.7	2.7	3.4	

Source: SSCAR Publications

Table 17b. Length of contact roads (2008-2014)

	2008	2009	2010	2011	2012	2013	2014
General use of the railways, km	2099	2079	2079	2079	2068	2068	2068
Tram tracks (with a double-line account), km	-	-	-	-	-	-	-
Trolleybus routes (with a double-line account), km	-	-	-	-	-	-	-
Metropolitan ways (with a double-line account), km	31.5	31.5	31.5	29.9	34.6	34.6	34.6
Main pipelines, thousand km	5.8	6.3	6.4	6.5	6.1	5.7	5.4
Main oil pipelines	1.7	1.7	1.7	1.7	1.6	1.5	1.5
Main gas pipelines	4.1	4.7	3.8	4.8	4.6	4.1	3.8

Source: SSCAR Publications

Table 18a. Cargo in transportation sector, 2000-2007 (thousand ton)

2000^2007	2000	2002	2003	2004	2005	2006	2007
TiiW	80180	9844S	110001	117314	128328	145596	t67264
including:							
railway	15876	17464	20345	20671	26522	30205	28007
sea	8779	11381	13272	13209	13680	13506	10174
aviation	37	31	52	75	74	75	52
pipeline	15054	15831	17262	18145	18534	27426	47408
oil pipeline	11774	9977	11283	11589	11692	19947	39999
gas pipeline	3280	5854	5979	6556	6842	7479	7409
automobile	40434	53738	59070	65214	69518	74384	81623

Source: SSCAR Publications

Table 18b. Cargo in transportation sector, 2008-2014 (thousand ton)

2008-2014	2008	2009	2040.	2011	2012	2013	2014
lbial '	1830^	mm		203586	210862	217926	221991
including:							
railway	27432	20799	22349	22203	23116	23127	21795
sea	11898	13190	11714	12499	12371	11510	9934
aviation	43	32	40	51	82	126	125
pipeline	55731	62115	62458	59053	57170	57941	61534
oil pipeline	44383	50480	49982	45602	43316	43549	45784
gas pipeline	11348	11635	12476	13451	13854	14392	15750
automobile	87989	94236	99891	109780	118123	125222	128603

Source: SSCAR Publications

The international transportation will be rebuilt until 2015.1225 kilometers inter urban road, on 1807 kilometers local roads were renovated and reconstructed in the period of 2004-2015. in this context, the activities are successfully completed for the following projects:

1. At the Baku-Aiat (47km) section 508km highway, along the border of Baku- Alat - Gazakh - Georgian reconstruction activities iaunched and completed by the end of 2005;
2. The length of 132 km of Ganja-Gazakh-Georgian border road project costs \$60 million were completed in 2009;
3. Gazimammad-Kurdamir highway construction completed at the end of 2006 and costed \$41 million, 85 km length of project financed by the European Bank for reconstruction and development;
4. Along the Kurdamir-Ujar-Yevlakh-Ganja road, the length of 188 km, and costed 102 million dollars;

5. The reconstruction of the road 132km length in Ganja-Gazakh-Georgian border costed \$60 million were completed in 2009;
6. 208 km of Baku-Guba-Russian borderthe, project cost 280 million dollars construction of the road In the first degree completed In 2009;
7. The 21km length project, which costed \$30 million, Baku circle road has been completed at the end of 2010.
8. In addition, 243km of Alat-Astara road, which costed about \$300 million completed in 2010.
9. 19.5 km length road at Bilasuvar-Iran border completed in 2009 and costed \$30 million Dollars.
10. 162 km long Baku-Shamakhi-Ismayilli road costed 270 million Manat reconstructed in 2006-2010.
11. 71 kilometers long road, of Shamkir-Gazakh highway, the World Bank has provided a loan of \$ 40 million.

In the framework of the projects in Baku Georgian border, from the part the road Alat-Gazimammad and 23-kilometer part of Ganja-Shamkir of Ganja-Gazakh road asphalt cover renovated which respond to the international standards.

Rapid economic development in Azerbaijan is increased the number of vehicles. The number of cars is increasing annually. Just in 2005, nearly 40 000 cars have been imported to the country. This figure was 104 thousand 385 in 2013, 63 thousand 368 was in 2014. In recent years, traffic jam problems are observed in Baku. To overcome this problem of conflict of interests on the roads of the city in 2008-2012, overpasses, bridges and multi-storey roads have been built.

3.3.S.3. Railway Transport

The railway transportation has an important place on domestic and international cargo transportation. Capacity is an important part of the railway transport. Approximately 70% of cargo and 30% of passengers' transportation are performed by railways. 2068 km of railways are in use. Oil and oil products are shipped by railways. Subway lines started to operate in 1967. The current length of it is 34.6 kilometers. Linder the terms of cleanliness and service of the Baku metro are chosen "the cleanest metro" in the world by the International Transport. Metro is mainly used in the transportation of passengers, while railways used to carry cargo more.

As a result of the transportation of Kazakh oil through the territory of Azerbaijan within the framework of agreements related to oil cargo transportation volume

Increased by 20% in 2004. In 2003, oil shipments were 2.8 million tons. Azerbaijan's state oil transportation by rail is expected to be 8 million tons annually. Freight transport by rail to the main location, with 74.5% of oil and oil products are a part. 74.5% of railway transportation is accounted for oil and oil products. However, railway modernization is essential for country transportation.

Table 19a. Cargo turnover in transportation sector, 2000-2007 (million tons/km)

	2000	2001	2002	2003	2004	2005	2006	2007
including:								
railway	5770	6980	7719	7536	9628	11059	10287	
Sea	5192	6077	6555	6771	7521	8043	6013	
Aviation	102	84	204	315	310	291	203	
Pipeline	1371	1602	1572	1696	1539	15679	52305	
oil pipeline	646	648	649	655	624	14690	50892	
gas pipeline	725	954	923	1041	914	989	1413	
Automobile	3513	5534	6241	6965	7536	8222	9135	

Table 19b. Cargo turnover in transportation sector, 2008-2014 (million tons/km)

	2008	2009	2010	2011	2012	2013	2014
including:							
railway	10021	7592	8250	7845	8212	7958	7371
sea	6076	6173	4859	5186	5062	4632	4124
aviation	129	110	139	224	357	443	481
pipeline	62434	73195	72931	65850	63172	63734	67039
oil pipeline	58759	68575	68804	61960	59171	59274	62030
gas pipeline	3675	4620	4127	3890	4001	4460	5009
automobile	9947	10634	11325	12356	13307	14120	14516

Table 20a. Passenger transportation in transport sector, 2000-2007 (thousand passengers)

	2000	2001	2002	2003	2004	2005	2006	2007
including:								
railway	4250	4442	4736	5241	5492	5824	6661	
sea	12	14	13	20	17	17	14	
aviation	701	732	867	1094	1211	1332	1537	
pipeline	2427	1135	453					
oil pipeline	3431	3104	2301	1102	696	105		
gas pipeline	117364	115639	127052	136898	146952	161096	175689	
automobile	743301	768159	785566	809725	845910	894973	964502	
bus	720881	746633	763608	786515	821122	867926	933889	
taxi	22420	21526	21958	23210	24788	27047	30613	

Table 20b. Passenger transportation in transport sector, 2008-2014 (thousand passengers)

Year	2008	2009	2010	2011	2012	2013	2014
including:							
railway	6598	6394	6389	4803	3451	2668	2517
sea	14	10	12	17	17	14	15
aviation	1396	941	1017	1394	1599	1664	1788
pipeline	-	-	-	-	-	-	-
oil pipeline	-	-	-	-	-	-	-
gas pipeline	200412	206140	181146	182602	195642	206673	215472
automobile	964501	103945	114593	1200330	1304441	1535247	1608532
bus	1000194	1076509	1158324	1257940	1366123	1478828	154833
taxi	33751	38084	42006	46501	51290	56419	60199

Source: SSCAR Publications.

As a result of political events and changes in government that occurred in Georgia, the inability to use the port of Batumi and increasing control of the Azerbaijani- Georgian border.

3.3.S.4. Airport Road Transport

In 1924, with the launch of the Baku-Tbilisi air transport flights, air transport has started in Azerbaijan.

There are 27 airports in Azerbaijan. However, only 5 of them are able to receive the normal passenger airplanes. Baku, Nakhchivan, Lankaran, and Ganja airport reconstructed to meet international standards and Azerbaijan was the only country in the Caucasus region, which obtained International status for all of its airports.

The country's fleet is quite old. In recent years, 12 new aircrafts were included into the fleet after the independence. The new aircraft purchased in 2005-2006, increased the quality of "Azal" aircraft.

Azerbaijan flights to more than 60 countries on a regular basis. The airline transport develops after the country's independence in line with the increase in international political and economic cooperation.

Since 2002, the increase in passenger transportation by air, while there has been a decline in cargo transportation. However, in 2004, significant increase in the amount of cargo transportation was 42.9%. In 2015, 1 million 788 thousand passengers were transported by the airlines which the remarkable high number for this area. Cargo decreased compared with 2014, but the total notice increased

in recent years. In 2009, 32 thousand tons of cargo was transported by airlines and 2015 this figures reached to 126 thousand tons.

Construction of the new airport in 1999 with the purchase of new aircraft provides better service and increase the number of the customers.

Table 21. Airline Transport Passenger and Cargo Transportation

2002-2008		2009	2010	2011	2012	2013	2014 /
Passenger transportation (thousand person)	732	867	1094	1211	1332	1537	1624
Cargo transportation (thousand ton)	31	52	75	74	75	52	64
2009-2014	2009	2010				2014 /	
Passenger transportation (thousand person)	941	1017	1394	1599	1664	1788	
Cargo transportation (thousand ton)	32	40	51	82	126	125	

Source: SSCAR Publications.

Nakhchivan International Airport was renovated started to operate from 2004. In Ganja airport the renovation work was completed in 2006, in order to meet the international standards. Lankaran airport renovated within the framework of the Regional Socio-Economic Development on the State Program which covers 2004-2008. Located in the city of Gabala, Gabala International Airport opened in 2011 and the first international flight was carried out in November 2012.

Airports in Yevlakh, Naftalan, Shaki, Zagatala and other cities were reconstructed. Thus, each region obtained airline transportation in Azerbaijan.

3.S.5.5. The pipeline transport

After the initial construction of pipeline in Azerbaijan, transportation pipelines started to have a special significance in transport sector. The transportation of oil and natural gas by pipelines become more important and actual.

Distribution of goods transported by pipelines is given in the 34th table.

In transportation sector, freight transportation pipelines were 9.5% in 1990 and increased to 31.5% in 1995.

The role in the transport sector, started to increase oil production, pipelines, along with the launch of the Baku-Tbilisi-Ceyhan oil pipeline being the main export pipeline, in connection with the export of natural gas has become even

more important with the construction of the Baku-Tbilisi-Erzurum natural gas pipeline. Information about pipelines, the economic importance of the Caspian energy resources will be introduced in the chapter.

3.3.S.6. Communication

One of the advanced sectors in Azerbaijan is the communications industry. A large part of the country, almost equipped with digital telephone. Since December 1996, Azerbaijan communication system connected to the GSM operator.

Wireless communication is the most active sector in telecommunications industry in Azerbaijan.

In 2004 the number of cellphone service increased by 47.9% compared to 2003. The number of mobile phones used in the country reached 9.7 million in 2015. The number of mobile phones per 1000 person was 1046 in 2015.

The ratio of mobile phone usage varies from region to region. This ratio was around 50% in big cities. However it did not exceed 10-15% in some small towns. In many cases, mobile phone service is outdated and ineffective alternative to cable telephone connections.

"Azercell", "Bakcell" and "Nar Mobile" are three mobile operators in Azerbaijan market. In mobile communications market, 55% is share of "Azercell", 36% is the share of "Bakcell". Other 9% is for "Nar Mobile" in mobile operator market. 93% of Azerbaijani territory is under coverage of mobile communication. Azerbaijan's occupied territories are just not within the scope of mobile communication.

Since the first months of 2006, number of subscribers and coverage of "Bakcell" have been increased. As a logical result of this, "Bakcell" is operating throughout the country in 2015.

Additionally, the funds have a significant state budget while "Azercell" sold shares of the state. At the same time \$15 million investment was put in the postal system and at the end of 2006, all post offices are connected to a common information network.

Nearly half of the country's population settled in capital city, Baku. Therefore the development of the telecommunication system is mainly observed in Baku. The number of the internet subscribers increased 90% recently.

The Ministry of Communications and Technology have lots of problems in terms of qualified personnel and technology. The Ministry has problems due to meet the demands of population because of the high economic growth and rapidly increased internet market.

Language is one of the other important breakthroughs in telecommunication sector. According to the decree of former President Heydar Aliyev in August 2001, the print media and internet service have to be realized in Latin alphabet, not in Russian. That decree speeded up the Integration of Azerbaijan with world countries.

A large internet and information market formed in Azerbaijan. This market is considered to be beneficial area for a number of investments both across the country, as well as at the international level. However, taking into account this investment and the establishment of enterprises, the economic potential of the country, the legal framework will be effective in the presence of modern technology and skilled personnel patronage and supervision of the Ministry of Communications and Information Technology.

In addition to being satisfactory the field of telecommunications infrastructure in Azerbaijan, internet access has not yet been laid for the necessary investments, in connection with the economic situation, due to financial difficulties. In addition, the transfer of information via the Internet for getting superiority in fiberoptic infrastructure is available. This infrastructure can be used for a long-distance communication and as a result, more widely spread of the Internet.

All of the satellites are combined with Russia. This is a continuation of the dominance of the current situation in Russia and the Russian language, also reveals as the future of e-commerce economic activities, Moscow-based management will be implemented. Turkey plays an important role in the internet access of Turkey, Azerbaijan and other Turkic republics.

In 1969, the US military discovered the Internet. Azerbaijan has started to use Internet since 1994. Turkey's Middle East Technical University, Turkey's Scientific Research Center carried out a joint project with Azerbaijan National Academy of Sciences in order to use the Internet for the first time in 1994 over Middle East Technical University. This project was funded by TICA.

78% of the country's population is Internet users in 2016. Organizations and educational institutions contain a large portion of members of the Internet. The number of Internet users In Azerbaijan is under the world average.

Internet service may be provided under the license issued from the Ministry of Communications and Information Technology. Internet service is a kind of enterprises of the Ministry of Communications and Information Technologies operates as a partner.

Azerbaijan's first satellite "Azerspace-1" satellite was released into orbit in French Guiana, on February 7, 2013 (*South America, the French administered island*) from the Kourou spaceport in Guiana Space Center, at local time, 18:36 (*Baku time on February 8, 2013 at 01:36*). Produced by US "Orbital Sciences Corporation" and French "Arianespace" company, "Azerspace-1" is distinguished by its high reliability. "Ariane-5" rocket had been launched with "Azerspace-1" satellite separated from the rocket body after about 35 minutes the rocket taking off from cosmodrome. Azerspace-1" satellite is based on the accumulated "STAR-2" satellite platform developed by "Orbital Sciences Corporation" successfully. Currently there are 22 active satellites. Constantly negotiating with television channels in many countries around the world in order to be involved in watch over "Azerspace-1" satellite by "Azerkosmos" OJSC. According to the information on July 1, 2014, 100 television and 20 radio channels were broadcasted over the satellite. For the purpose of the development of national space industry, several countries' satellite launching is intended to prepare in the coming years. Thus, in the country space observed by the community in the creation and development of geo-information services to create the first low-orbit satellite observations of Earth from space in order to conduct intensive negotiations with companies in the world specializing in this field. In addition, Azerbaijan's second telecommunications satellite "Azerspace-2" is going to work on the project. According to forecasts, that will be released into orbit of both satellites respectively in 2016 and 2017. Azerbaijan's "Azerspace-1" satellite in orbit means the success of the satellite operator in the market. A truck equipped with 36 active transponders and weighing approximately 3.2 tons, "Azerspace-1" satellite will be located at 46 degrees East geostationary orbit and will cover in Europe, Africa, Central Asia, the Caucasus and the Middle East. That will have at least 15 years of service life in orbit. "Azerspace-1" satellite broadcasting and telecommunications services, corporate and government clients as well as meeting the requirements intended to ensure quality and reliable communications platforms (<http://www.mincom.aov.az/1>).

In recent years. Information and communication technology (ICT) is developing. The basis for the development of ICT and the state programs are prepared. ICT's investment is needed in large quantities for further development. This is possible to attract funding through the private sector simply. In the near future, the privatization of the telecommunications offices and formation of favorable market conditions are planned. E-government, e-mail systems development and the implementation of regional television and radio broadcasts can be displayed among the major projects.

3.3.S.7. New Silk Road Project

Silk industry, has an important place in the lives of many people since ancient times; the transportation of silk and spices from Far East to the western world has played an important role in international relations. Besides, silk played a of role recognition of eastern culture in western world. Transporting of east spices and silk by caravans to west, established trade routes from China to Europe. In medievals, trade caravans, starting from the city of Xian of China, came to the province of Kashgar of Uzbekistan: the first of the two routes from the Caspian Sea to Afghanistan hamlets with other way surpassing Karakum mountains went Iran through Anatolia. Heading to Europe from Anatolia by sea or from the land of Thrace. The trade movements from east to west, used in previous centuries were used for a road network. The thousands of kilometers long caravan routes allowing the exchange of culture between the two continents, in addition to transporting intensively silk, porcelain, paper, spices and valuables in time, has been called "Silk Road". Silk Way, at the end of the medievals, after the discovery of new continents and trade routes lost its importance. Next periods under the rule of the Soviet Union of Central Asia East (Iran, Afghanistan and Pakistan) closed the doors to the west from the Caucasus. The fate of the people of the region has changed suddenly in the 90s. The region will be one of the most important regions from the states of Central Asia gained independence in Turkish in 21st century. Thus, the region's groundwater resources is important for the whole world appeared to have a chance to get rid of the monopoly of the Soviet Union. However, due to the closure of the region to the outside world through Russia and the Soviet Union, products manufactured, produced and owned cmde oil and natural gas transporting are another important trade routes to world markets.

The region's relationship with the outside world, a geographical surveillance can be realized through Russia. These roads;

- First extends to Far Eastern countries and into the ocean from China's territory (*distances from the road because it is currentiy impossibie to finance projects because it is not possibie to remain in the background*)
- Secondly, through Pakistan and Iran (*in transit through Afghanistan*) in the Indian Ocean,
- Thirdly, the Caucasus and the Caspian Sea to Europe via Turkey and the Black Sea.

The richness of the East to the West during the past two thousand years, caravans were passed along with five of the Turkish Republic, Tajikistan, Georgia and Armenia, covering the history of the Black Sea, Silk Road to China in the twenty-first century in communication, transport and energy corridor for the transportation of the TRACECA (*Transport Corridor Europe-Caucasus-Asia / Europe-Caucasus-Asia Transport Corridor*) project. On September 7-8, 1998 at the Gulistan Palace century's most extensive communication and transport agreement signed at the summit, with a ring in a new chain of global economic relations have been added. Linking the two continents and three offshore basin restoration project on the basis of the Silk Road in Central Asia and the Caucasus in 1993, five countries met with the participation of the Ministry of Transport and Commerce put forward at a conference in Brussels

This project is intended to open transport corridors which were landlocked in the republics of the Caucasus and Central Asia. That will be an important stage in the integration of international markets with significant economic growth in the region. In this context, as well as being a help, it will further strengthen the political and economic independence has great importance in terms of being a serious catalyst.

Silk Road is a trade route, linking Asia and Europe, as well as the fact that, since 2000, the regional cultures, religions, races, and the traces of a great historical and cultural wealth gives transports. After gaining independence of Turkic republics of Central Asia, the Silk Road, was built along the roadboth trade route, as well as a wealth of historical and cultural revitalization of the day-profile, and the protection and restoration of the buildings.

In ancient times, the wealth of the east-west transport caravans is operated as a Eurasian corridor, which will bring peace the Caucasus and Central Asia, and the development of dialogue among civilizations will be achieved.

Globalization of the world's in these days economic, political and technical conditions of the TRACECA project will play an important role in achieving of regional peace and stability.

In this sense, an important place on the historical Silk Road, which for the centuries, but more importantly, in the light of events in the post-cold war, the economic, social and political point of view as well as the geography of the twenty-first century will organize the dynamic force of gravity as a candidate standing in the center of Eurasia. Turkey stays out of such an important project, it is impossible to think. TRACECA is an important ideal to support Turkey in this issue important.

Reconstruction of the Silk Road in Azerbaijan since independence, is one of the most important and positive steps.

Azerbaijan played an important role between Central Asia and Europe. The road to Europe through Central Asia, the Caspian Sea, Azerbaijan, Georgia and the Black Sea is the most convenient transportation route. Acting in this way, means to revive the old Silk Road. In this way the outskirts of Europe, Central Asia and Europe to Central Asia, cheerful and reliable transportation will be the most favorable both Europe and Central Asia, as well as cargo transported from Europe to Central Asia. Small cargo ships that belong to Azerbaijan in Caspian Sea are transported.

Since 1996, the steps were taken for the construction of this road. It can compete with the regional transport corridors. The development of the country's economy is one of the important factors that influence the formation of ground transportation. In 2001 compared to 1998, the cargo transportation of the Silk Road increased 1.5 times, transit cargo transportation by 1.9 times, the income 1.6 times.

In addition, the oil company Chevron Tengiz oil field in Kazakhstan's Tengiz oil from the Caspian Sea to world markets is reflected in the use of a route. The direction of the Euro-Asian transportation of Kazakh oil via TRACECA from Azerbaijan to the Georgian Black Sea port of transportation is continuing since 1996. Crude oil tankers from Aktau to Baku, where it is transported by rail to the port of Batumi.

New Silk Road on the way to the Turkey-Georgia-Azerbaijan line increases regional trade and investment opportunities; social and cultural rapprochement between these countries will increase further. The launch of the necessary studies for this railway project was launched in 2005. Carrying out the above mentioned project Azerbaijan's transport sector will give an impetus to the development dynamically.

Gars-Akhalkalaki-Tbilisi-Baku railway is a line, links Azerbaijan to Europe directly. The project costs about 700 million dollars. The project is scheduled for completion in 2016. The launch of the first line of the project is completed, the volume of freight transport will be between 2-3 million tons. Later, this figure will reach 5-8 million tons.

BTC pipeline pumping oil from Azerbaijan in connection with the May 25 ceremony in 2005 regulated the Gars-Akhalkalaki-Tbilisi-Baku railway project, also signed an agreement on the interstate.

At the end of 2016 Gars-Akhalkalaki-Tbilisi-Baku railway will be completed by the start of the line from Iran to India, carrying cargo from Europe and the CIS countries, "North-East" in combination with the transport corridor, rail freight transport volume will reach 15-20 million tons. As a result, the Silk Road, at least until the oil pipeline will have strategic importance.

3.3.S.8. North-South transport corridor

At the beginning of 2005 "North-South" transport corridor project was signed in Baku between Iran, Russia and Azerbaijan.

Under the project of "North-South" transport corridor signed a memorandum on the establishment of a joint company between Russia, Azerbaijan, Iran Qazvin- Rasht railway's design, construction and use, at the same time on the design of the railway of Astara (*Azerbaijan*) and Astara (*Iran*). Protocol aims to establish a joint-stock company (*joint stock Company*) and attract investors to project with the aim of railway project construction.

The length of the North-South transport corridor is 505 km. The project in the Caspian Sea ports, waterways and railways of Russia, Iran, the Gulf and East Asia to Europe by means of cargo transportation has to be the goal.

Implementation of the project will become a center for the transit of goods to be transported to the north and east. When fully operational start of international transport corridor will allow access to the Persian Gulf and India the European countries, Russia, Central Asia and the Caucasus, will increase trade relations littoral states of the Caspian Sea with the Black Sea ports.

The same hallway will allow increasing revenues for transit cargo transportation of Azerbaijan.

3.3.6. CONSTRUCTION

In 1990-2015 there is a close relationship between economic and social development and the development of the construction sector. During these years many new buildings and complexes have been built in the country.

Besides, some acting buildings have been expanded and restored. The construction sector's share in GDP was 8.1% in 1991 and 10.9% in 1999. The ratio did not change much in 2000-2001, and again increased in 2002. The increase reached 13% in 2004. The construction sector's share in GDP declined to 8.1% again in 2010, and increased by 12.5% in 2015. According to the

assessment conducted by the IMF, the industry's impact on the economy is greater than the official statistics seen. Construction activities are a very important part of the economy. The flow of foreign investment in the oil sector since the beginning of 1995 displayed a significant increase in construction activities.

Investment in the construction sector has driven part of the fluctuation between the years of 1990-2004, with the exception of 1990. The share of investments in the construction sector was less than 1 %. Every year, part of a larger investment is directed to the areas of production purposes.

In 2002, the volume of investments in the construction sector to orient 82.2% over the previous year, an increase was 10.3 trillion manats. Of this amount, 7.8 trillion manats (1.6 billion dollars), the amount of investment accounted for 75.5% of the foreign investments.

In 2004, the volume of investments referred to the construction sector compared to 2003 growth 39.8% was 24.2 trillion manats (before denomination). That referred to investments in the construction sector accounted for 73.7% of the foreign investment. This interest in the development of construction sector in Azerbaijan is further enhanced by the effect of foreign businessmen.

Construction sector growth, has led to the establishment of the first phase of the new production. In 2004 thousands of jobs played a key role in opening new businesses.

Construction companies of specialized firms like Azersenayetikinti, Azersutikinti, Azsrenerjitikinti and SOCAR (*the State Oil Company of the Azerbaijan Republic*), Caspian Maritime Administration, the State Railway departments are the largest construction companies.

Turkish companies dominate in the sector in large extent. Turkish companies operating in Azerbaijan under construction companies, approximately with 20.1% has a very important role. The agenda of oil pipelines, the construction of housing and housing repair, again of war-damaged buildings and a number of border areas, infrastructural renewal, restoration and construction of industrial facilities, recreation of entertainment venues, such as hotels and construction projects of Turkish companies to enter the market are allowed.

Housing and business center of the Turkish companies involved in the construction, the market is very active.

However, Turkish construction companies in the construction sector are competitive with a strong construction companies in the US and Europe.

Every last day Baku is changing with the establishment of new buildings. However, modern construction designs and construction materials, at the same time as a result of geological and geodetic surveys the construction of the 15- storey high building is not allowed. At the same time the newly built multi-storey buildings and unplanned construction of Baku, contrary to the image of the amphitheater alarm ringing. Also, some of these structures are a number of problems in terms of parking and courtyard areas. Construction of pipelines, construction of modern industrial facilities, reconstruction and restoration projects, especially for tourism and entertainment sector, hotels, restaurants, and a variety of other objects, significant investment opportunities in the construction sector.

New construction projects, increases demand for high-quality construction products. Quality and quantity meets the needs of the domestic production does not amount. Construction materials and raw materials industry are plentiful and cheap, and because of the inability to meet the needs and requirements of the proposal in terms of the construction sector for foreign investors, strengthens its position as an industry that attracted attention.

In addition to the oil sector, the construction sector is rapidly developing pararell to the oil sector. In parallel with the increase in the income level taking into account trends in the construction of new residential areas and shopping centers. Construction sector to grows several times faster than the rate of population growth. At the same time the price of goods is rising rapidly. The lack of housing is one of the factors influencing the increase in divorces. At the same time causes people to marry late. In this regard, housing construction in oil revenues could be directed in the right way. Taking into account the housing needs of the population since 2005 government "Mortgage Fund" formed and since 2006, long-term mortgage loans started.

Azerbaijan Mortgage Fund (*AMF*) created under the Central Bank of Azerbaijan in accordance with decree by the President of the Republic of Azerbaijan "On the establishment of the system of mortgage loans in the Republic of Azerbaijan," No. 299 dated September 16, 2005. The main objective of the AMF is create mechanisms to ensure the long-term mortgage lending to the population of the Republic of Azerbaijan, helps to attract domestic and foreign financial resources to mortgage lending.

Azerbaijan Mortgage Fund's primary functions include:

1. Commissioner refinances mortgage loans issued by credit institutions;

2. Identifies again requirements on mortgage loans;
3. In order to attract the financial resources is provided by mortgage securities issued;
4. His mission is to manage financial risks in order to ensure stability and liquidity;
5. Mortgage lending in the provision of liquidity and financial resources in the Fund is taking measures within its power to attract.

As of 2016, the maximum credit limit of 8% of the normal loans and it is planned to 4% of the preferential categories.

This is possible to say a significant positive impact on the development process continuing in construction sector. However, cannot be say this process has yet to be implemented successfully. Because of the low level of income, but also the complexity of credit conditions still do not allow the use of the broad masses of the fund's resources. In the near future the use of the fund for the provision of social groups is planned to be implemented a number of projects.

CHAPTER FOUR

REGIONAL ANALYSIS

Azerbaijan economically could be analyzed in 10 different regions. This division, have been developed in the context of the state programs on socio-economic development of regions of Azerbaijan, covering the period of 2004-2008, later 2009-2013 and 2014-2018 and first program out of this package have been approved by the President Ilham Aliyev 11 February 2004. State programs were implemented in order to ensure continue diversification of the economy, non-oil sector and enhance regional development, further Improve infrastructure and social services. As a result of Implementation of state programs, over the last 10 years since implementation, gross domestic product of Azerbaijan increased in 3.2 times, non-oil sector In 2.6 times, industry in 2.7 times, agriculture in 1.5 times, investments in 6.5 times, income of the population in 6.5 times and average of monthly salary in 5.5 times.

Thus specific activities earned out in Azerbaijan, enable to establish 900 thousand permanent jobs out of more than 1.2 million new jobs, 55.6 thousand enterprises, decline unemployment to 5 percent and reduce the poverty rate to 5.3 percent. These important works conducted in terms of the before-mentioned programs created a solid foundation for the development of the regions in the next years.

The division and classification of economic regions have done on the basis of structural, economic and geographical position, natural wealth and resources, density of the active population, regional area and soil structure, and on region's history respectively. According to the significance country's economic regions are as follows:

Before characterization of the regions,

- a- Because of the suitable climatic conditions of the country large and small horned cattle, poultry production is possible almost in every region,
- b- Further diversification of investments in agriculture is possible in almost every region of Azerbaijan because of the suitable agriculture, wide variety of arable areas and climate,

- c- Big potential of the tourism sector lays in undiscovered regions of the country in terms of natural beauty of regions,
- d- Inevitable role of food Industries development should be considered in terms of the regions socio-economic development.

4.1. ECONOMIC REGIONS

In economic terms country is consists of the ten regions which are Absheron, Ganja, Nakhchivan, Sheki-Zagataia, Lankaran, Guba-Khachmaz, Aran, Upper Karabakh, Kalbajar-Lachin and Shirvan"®.

4.1.1. ABSHERON ECONOMIC REGION

Region currently serves as a representative of the country's economy. The region accounts for the largest share of production. In comparison to other regions of the country, It has a developed infrastructure. The most important highways, air, water and train hubs passes through Absheron. Being surrounded by the Caspian Sea enables region to have an easy access to foreign countries.

Absheron economic region is one of the country's most important cultural centers. In the region operates Scientific Research Institutes, high schools, big sports facilities, health centers and other social security funds.

Baku

Economic development program of the regions prepared by the government, does not cover Baku because of its high level of development. Therefore, in the information below provided about the Absheron economic region, Baku is not considered. Baku will be shortly and separately evaluated in context of this chapter.

The country's capital Baku, clearly distinguished itself from other cities of the country with the level of economic development.

Baku along with the highest population density of 3 million people, during the last 25 years was the most concentrated destination of foreign investments in Azerbaijan. Since 2003, Baku, with its multi-storey buildings becomes a megapolls that combines both the opportunities and the dangers on the way of urbanization.

http://senaye.gov.az/az/normative_programs/region_development

Baku by being kept aside from the regional economic development program may be attractive for the following areas of investment: complementary Industries for oil and gas sectors, electricity, electronics, laboratories for the petroleum products, iron and non-iron metals, automatization and auto-industry complexes, building materials, manufacturing facilities, textile sector, maritime transport and shipping, land, air, sea, subway and rail businesses for the ground and underground, alcohol and alcoholic beverages, health, education, tourism complexes, environmental protection facilities, land reclamation and irrigation facilities.

a. Geography

Region consists of Absheron and Khizi administrative regions, including one of the main cities of country - Sumgait. In particular, the Sumgait city has a very favorable economic and geographical position.

b. Area

Absheron economic region is (excluding Baku) 3.34 thousand km². It covers 3.9% of the country's territory.

c. Population and Density

Region with its 551,800 people population encounters 4,8% of the population of the country. The density in the region is 148 people per square kilometer. The active population is 163 thousand people.

Suitable geo-economic position of the region plays an important role in the settlement. Most of the population lives in cities.

d. Climate

The climate in the economic region is dry-subtropical.

e. Natural Resources

Absheron is one of the rich economic regions in terms of natural resources. Saw stone, cement raw material, quartz and construction sand are among the region's natural resources.

There are rich bath treatment and hot water sources in Absheron Peninsula. During the summer months bath treatment facilities allow the beach tourism along the Caspian coast. Despite this it is the only region with non-drinking water in its territory. Region meets drinking water needs from the other regions - Samur and Kur rivers, through water pipelines.

f. Industrial Areas

Industrial areas of the region are oil, natural gas, electricity, organic and Inorganic chemical products, medications, metallurgy, energy. Iron and steel, other metal companies, oil and gas related industries, textiles, light and food industry.

Transportation and services sectors play a vital role for the region's industry.

This economic region has a powerful source of fuel energy. A large part oil, natural gas and electricity produced in the country accounts for this region. Chemical and petrochemical industries are leading industries of the region. Iron and non-metals production, also, has an important place in the industry. Polymeric materials, glass and others products such as, industrial products, are produced in the region.

g. Agriculture

Dry subtropical fruit cultivation, vegetable, floriculture, viticulture, dairy, poultrybreeding and big and small horn livestock are main agricultural areas of the region.

Favorable climatic conditions of the region allow production of products such as olive, saffron and peanuts.

h. Developing Areas

Construction, telecommunications and other service industries are the growing areas of the region.

4.1.2. GANJA-GAZAKH ECONOMIC REGION

Connecting Azerbaijan with Georgia and the Black Sea and located in the western part of the country Ganja-Gazakh economic region's characteristics are unique in nature and will be elaborated in the further paragraphs.

The region's social infrastructure has an important role on socio-economic development of the north-western part of the country and meets region's sociocultural needs. Scientific Research Centers, institutions of high education, professional training in the field of agriculture, public libraries, museums, theaters, hospitals and other social infrastructure facilities are available in the region.

a. Geography

This region, which has significant economic and geographic position covers Agstafa, Dashkasan, Gadabay, Goranboy, Khanlar, Gazakh, Samukh, Shamkir, Tovuz administrative regions, as well cities of Ganja and Naftalan.

b. Area

1249 thousand km² area in the region makes 14.4% of the country's territory.

c. Population and Density

1,240,800 people of the region are 13.6% of the country's total population. Region's density is 101 inhabitants for each km². Region's population more and more concentrates into the centre. 47% of the population lives in the cities, whereas 53% live in the rural areas. The active population is 633 thousand people.

d. Climate

As the nature of the topography, the region is divided into four areas. This division varies in line with the climatic conditions of the region.

e. Natural Resources

Ganja-Gazakh economic region is one of the regions with rich natural resources. Iron ore, aluminum, copper, saw stone, marble, zeolite, gypsum and cement raw material are the main resources of the region. Kur River is passing through the region and creates a huge potential for hydro-power sources.

There are lots of natural recreation areas in the region. The favorable natural conditions, clean air and climate, forests and mountain scenery in the mineral waters allows the creation of international level resorts and sanatoriums. Goygol and Hajikend recreation areas located at an altitude of 1566 meters above sea level are part of the region. Region's Naftalan sanatorium already has an international reputation.

f. Industrial Areas

Ganja-Gazakh with its economic potential is the second most important region of the country. It is considered as the second industrial region of the country, due to its contribution of approximately 12-13% to the industrial production of Azerbaijan. The main industrial areas of Ganja-Gazakh economic region are electric tools, telecom equipment, agricultural machinery, metallurgy, automobiles, cotton, wool, textiles, carpets, cement, ceramics, glass production; various supplies, heavy industry and food industry.

The main companies in the construction industry are embroidery house-building companies, metal - concrete, brick -ceramics and marble factories.

g. Agriculture

Sugar, potatoes, wheat, grapes, wine, candy, canned food, meat and dairy products, large and small horn animals are important agricultural areas of the region.

13-14% of agricultural products of the country's accounts for this region, which are mainly forms from potatoes, grapes and wheat. About 80% of the country's potato production, 28% of the grapes comes from this region. Cotton is produced only in Goranboy administrative region in Ganja-Gazakh area. Vegetable and fruit growing are well developed in the region. 15% of animal products of the country are obtained from this region.

h. Developing sectors

One of the developing of the region is tourism industry. 6.2% of the railway and 6.1% of roads of the country are accounted for this economic region. Highway, rail, pipeline and air routes which are passing through economical region have significant impact on development of the economic relations on domestic and international levels. Ganja, Gazakh and Agstafa are main transport networks.

Europe-Caucasus-Asia corridor which correspondence to this region is required construction of modern roads, which should corresponds to the International standards. Within the framework of the State Program on socio-economic development of regions various roads and bridges construction and rehabilitation activities continue.

The historical "Silk Road" which passes through this territory of the region has increased the demand for railway. At the same time, the second railway bridge over the Kur River is included into the state program.

Baku-Tbilisi-Ceyhan pipeline, passing through the region Ganja, Khanlar, Shamkir, Tovuz, Agstafa, Gazakh regions, has caused significant changes in the socioeconomic development of region. Region has several state protected areas which are: Korchay, Garayazi-Agstafa and Garayazi State Reserve.

Ganja airport which is inside of thus economical region has flights within the country and to the Commonwealth of Independent States. At the same time Naftalan and Agstafa airports operates in this region.

In summary, transport sector is one of the important sectors on socio-economic development of Ganja-Gazakh economic region.

4.1.3. SHEKI-ZAGATALA ECONOMICAL REGION

Located in the northwest of the country, Shaki-Zagatala is one of the richest regions of Azerbaijan.

Major roads in the region of the developed transport network are Yevlakh- Balaken road and rail way.

Social infrastructure of the region, are the educational institutions, cultural and health centers, museums and theaters.

a Geography

Region covers Baiaken, Gakh. Gabala, Oguz, Zagatala and Sheki administrative regions.

b. Area

The total area of region is 8.96 million km² which is 10.3% of the country area. Since region is covered by mountains and mountainous areas, land resources are limited in Sheki-Zagatala. This situation is caused by the region's natural diversity.

c. Population and density

The region has a population of 599,900 people. This is 6.5% of the country's population. Active population is 632 thousand people in the region. The region accounted for 68 persons per 1 square kilometer. 27% of the people live in the cities, 73% live in mountainous areas, a large part of the population living on the rural areas.

d. Climate

Despite the fact that different climates exist in the region, it has more temperate climate.

e. Natural Resources

Economical region is rich in terms of natural resources. Among the region's natural resources, copper, sulfur, lead, zinc, sand and other building products, drinking water, can show an example. 90% sulfur, 97% lead, 99% zinc are produced from the mines of this region. Copper is extracted from this region entirely. Gravel, sand and other construction materials are located in mountainous and hilly areas.

In addition, the region has lots of forests. 27% of the region, an important part of the territory of Balakan and Zagatala are covered with forests.

Due to natural beauty the region is one of the country's tourist resorts. Tourism facilities in Gabala, Balakan, Gakh, Shaki and Zagatala regions of Sheki-Zagatala economic region are not enough to accommodate tourist traffic of the region.

Highway which connects country with the Georgia passes through this region.

At the same time the region has important water resources.

f. Industrial areas

Region has a weak industry which is made of the light and food industry only and considered as the most developed area in Sheki-Zagatala. These areas account for 95% of industrial production in the region. Just a little over 3% of the country's industrial production fell to a part of the region. 27% of region's territory and 30% of the population lived in Sheki, where half of Industrial production of the region comes from. Light industry is mostly comprised of silk production. Different numbers of textile enterprises are operating in region's center.

g. Agriculture

The region's main economy comes from its agriculture. In agriculture tobacco, silkworm breeding, fruits, grain products, viticulture, meat and milk, cotton and small cattle and livestock are main developed areas of the region. In this context, the economic region is favorable the development of industry based on agriculture, silk worm, crushing nuts, tobacco, wine, water supply facilities, wood and wood materials.

75% of tobacco, 17% of wheat, 35% of mulberry, more than 2% of green tea produced in the country accounts for this region. Production of livestock products of the farm country of more than 10% is produced in Sheki-Zagatala economic region.

h. Developing Sectors

In Sheki-Zagatala region special attentions is paid to silk and tourism sector as potential areas.

Part of the economical structure of the region, Gakh administrative district is located in the north-west of Azerbaijan, it has very favorable conditions in terms of geography, it is one of regions for tourism of Azerbaijan. With the implementation of development program migration from the region to Baku has stopped and existing plants and factories began to function again.

4.1.4. MOUNTAINOUS SHIRVAN ECONOMICAL REGION

Located in the center of Azerbaijan and being a part of the ancient settlements, Shirvan economic region has a large transport hub to utilize all types of production.

Socio-economic infrastructure of the region includes high and secondary education institutions, cultural and health centers, theaters and museums.

a. Geography

Mountainous Shirvan economic region covers Agsu, Ismayilli, Shamakhi, and Gobustan administrative regions.

b. Area

The total area is 6.06 million km² the region holds 7% of the country's territory.

c. Population and density

Consisting of 304,000 people, region inhabits 3.2% of the country's population. Active population is 141 thousand people. Population density is less than in other regions; for 1 sq kilometer accounts 50 people.

d. Climate

In terms of topography mountainous and lowland areas separating region into two climates. Due to topographical characteristics moist, warm and cold or hot and dry climatic conditions dominated in the region.

e. Natural Resources

In terms of natural resources it is not a rich region. Region has stone, sand, lime, gravel and other construction materials resources. Mountainous areas are rich in healing mineral waters. Sulfur and hydrocarbon-rich springs are used for drinking water and treatment.

f. Industrial Areas

Weakness of the industrial sector in the region is obvious after initial review of economic data of the region. The main industries of regional agricultural production are food and light industry. Light industry areas are: fruit juice, textiles and carpet-weaving. The main field of food industry is the production of wine grapes of the region. Besides there are forestry and wood processing enterprises, building materials, agricultural machinery repair factories.

Shirvan region is the center of the history of handicrafts and textiles. Lahi is famous for the copper production and Shamakhi is famous for the production of silk shawl.

g. Agriculture

The main areas of agriculture are: wheat, grape growing, winemaking, large and small horn cattle breeding. Grain is very important in production of wheat. Other grain products meet the regional consumption only.

h. Advanced Sectors

In the region among the emerging sectors silk and tourism sector are the leading areas.

4.1.5. ARAN ECONOMICAL REGION

Located in the center of the country, the region is located on important transport routes. These transport routes conclude Baku in the main economic regions of the country. At the same time, by these ways transport arrives to Georgia, Iran and Turkey. The importance of these roads has increased along with the increasing importance of international transport of the region. On the other hand, air transport between Baku and Yevlakh is available as well.

70% of energy resources produced in Azerbaijan is obtained from Aran economic region.

a. Geography

Aran Economical region covers Agjabedi, Beylagan, Barda, Bilasuvar, Goychay, Hacigabul, Imishli, Kurdamir, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zardab administrative regions along with, Shirvan, Mingachevir, Yevlakh cities.

b. Area

Region has an area of 21.43 million km², it covers 24.7% of the country's territory. An important part of region (more than half) consists of the plain areas below the sea level.

c. Population and density

The favorable economic climate and geographical location has the main role in the allocation of the population. Region population is 1,936,000 people, thus, equivalent to 20.5% of the population of the country. The active population is 918 thousand people. Region's population density is 82 people / km².

d. Climate

Aran economic region has a subtropical dry climate.

e. Natural Resources

Among the natural resources there are underground and surface energy resources and mineral water mines. These resources are mainly located in the center of the region and the south-east.

Rich solar energy, Kur and Araz rivers' water resources, land suitable for farming and other natural resources are the main resources of the region.

f. Industrial areas

The industry of Aran economic region is well developed. The main industrial areas are the oil, natural gas, iodine, bromine, chemicals, knitting, leather processing, building materials, light and food industry. Industrial areas are concentrated in south-west in Shirvan, Salyan, Neftchala cities and Mingachevir, Yevlakh cities in the north-west.

g. Agriculture

Fruits and vegetables, fishing, meat, milk, large and small horned cattle, cotton, sugar beet, wheat, potato and grapes are the main agricultural areas of the region.

This region accounted for 90% of the country's cotton production.

4.1.6. NAKHCHIVAN ECONOMICAL REGION

As a result of Armenia's occupation, this economic region is blockaded and currently, surrounded by Turkey, Iran and as well as Armenia. For this reason, being in disadvantages situation in economic and geographical areas, this region maintains his relationship with the other regions of Azerbaijan by airlines. Railway transport is still completely inappropriate. Road transport is only possible through Iran.

Nakhchivan as one of the cultural centers of the region has a wide range of social and cultural infrastructure. High, technical and secondary education institutions, cultural and health centers, museums and historical monuments form the social base of the region.

a. Geography

Nakhchivan Autonomous Republic forms the economic region of Nakhchivan. Region covers Babak, Julfa, Ordubad, Sadarak, Shahbuz, Sharur administrative regions and Nakhchivan city.

Sadarak, despite of being the smallest region of Nakhchivan in terms of demography and population has special geographical significance. Azerbaijan's 11 kilometer border with the Republic of Turkey is located in the area along Araz River.

In the 1990s, Sadarak resembled a war front. Armenian continually attacks. On the initiative of Heydar Aliyev bridge construction of Sadarak-Diluju, referred to as "Umid Bridge", established relations between Nakhchivan Autonomous Republic which is an integral part of Azerbaijan with the nearby regions of the Republic of Turkey and has strengthened Sadarak stability.

b. Area

The territory of the Nakhchivan Autonomous Republic is 5.5 thousand km² covers 6.3% of the country's territory.

c. Population and density

439,800 people of the region are made 4.5% of the country's population that live in the region. 198 thousand people are active in the region. For 1 square kilometer are 80 people.

d. Climate

There are different climate types in Nakhchivan.

e. Natural Resources

The region is rich in natural resources. Regions natural resources are molybdenum, polymetallic ore, rock salt, dolomite, marble, construction materials, reinforced concrete, sand, gravel, mineral water. There are more than two hundred mineral water reserves in the region.

All of molybdenum and dolomite reserves produced in the country, 60% of mineral water reserves are achieved from Nakhchivan economic region. Only 0.5% of the region is covered by forests.

f. Industrial Areas

Energy, electronic products, cement, sugar, food, aluminum plates, furniture production, silk, carpets and tissue-knitted are major industrial areas of the region.

The region's industrial production accounted for approximately 2.6% of the country. Nakhchivan city is accounted for half of industrial production and 35% of labor force of the region.

Energy, aluminum factories, furniture, car repair enterprises are leading areas of the industry. Reinforced concrete, wall cladding, sand and gravel production enterprises are considered to deliver construction materials of the industry.

Light and food industries have particular importance for the region. Light industry consist of silk processing, carpet weaving, knitting enterprises whereas, food industry is represented as canning, tobacco processing, mineral water bottling, meat processing and fish products producing enterprises.

g. Agriculture

Tobacco, grapes, fruits, vegetables, wheat, henna, sugar beet, meat, milk and wool production, beekeeping and fishing are agriculture sectors of the region. Agriculture products accounts for 3.6% of the country's production.

Favorable climatic conditions contributed to the specialization of different areas in the agricultural sector. Nakhchivan is the country's second major economic region in tobacco production.

The agricultural reforms started in Nakhchivan in 1992, and accelerated since 1996.

These reforms provide necessary assistance to farmers to increase agricultural production. Irrigation problems are major problems which is tried to be eliminated with reconstruction and repairs. As a result, there is an annual increase in the production of agricultural products.

Livestock of the region started to increase from 1996.

4.1.7. LANKARAN ECONOMIC REGION

Located in the southeast region of Azerbaijan, has economically developed transport system and plays a special role in the development of economic relations between Azerbaijan and Iran. There is also the air transport between Baku and Lankaran.

Social Infrastructures in the region are: high and secondary education Institutions, hospitals, theaters, regional museums and other social facilities.

Country's almost all tea production comes from the Lankaran economic region.

a. Geography

Region covers Astara, Jalilabad, Lerik, Masalli, Yardimli administrative regions. This region borders with Caspian Sea to the east, Iran to the west and south.

b. Area

Total area of 6.08 million km² represents 7% of the country's territory. Division by Lankaran lowland and Talysh Mountains creates a different topographical character for the region.

c. Population and density

The regions population is 893,000 people, which is 9.3% of the country's population. Favorable economic - geographical position has a special role on

population density. The number of active population in the region is 366 thousand people. The economic region density is 147 people per square kilometer. In Lenkoran lowland, the population density is 170 people per sq km.

d. Climate

Region differs from other economic regions of the country in terms of natural conditions. In Lankaran economic region there are 7 climate zones of 11 different climate zones of the world. Basically, it has a humid subtropical climate.

e. Natural Resources

There are very few natural resources in the region. Plaster, river stone and construction sand can be considered as the main natural resources of the region.

Region is rich in thermal water. The beautiful natural areas, hot and cold mineral water, favorable climatic conditions and developed transport hub of the region creates the necessary conditions for the development of health tourism. Lankaran tourist center in Istisu operates as the treatment center.

26% of the territory is covered with forests.

f. Industrial Areas

Regional economy is based on agricultural complexes. Sector is made up from the food industry and fishery products production. Forest products Industry with its importance could be a good sample of the light industry of the region.

90% of industrial production accounts for the food industry. In food industry, fish, tea, fruits and vegetables cans, wine production, tobacco are major produced goods.

g. Agriculture

Fruit and vegetables, tea, grapes, grain products and potatoes are the main agricultural areas in the region. Humid subtropical climate, great lands, water and labor resources stipulates the development of agriculture in the region. The region's most important production is citrus fruits.

There are fishing in coastal areas. Also, poultry developed in the region.

99% of the tea, 27% vegetables, wheat 15%, potatoes 24%, 13% of the grapes and 10% of the fruit production of the country are accounts for this region.

h. Developing Sectors

Tea-growing sectors are important for the region, since in tea production in the USSR it was in the second place after Georgia.

In the frame of development programs tea plantations and enterprises were privatized.

To develop the country's tea production loans and other assistance are given to Lankaran-Astara region farmers. The purpose of the development programs is to make the country a tea exporter.

4.1.8. GUBA-KHACHMAZ ECONOMIC REGION

Because of the regions border countries, Guba-Khachmaz economic region has strategic importance. Located in the northeast of the country, region has a long coastline with the Caspian Sea.

Region has favorable geographical and transportation position. Highways, railway, oil, natural gas and water pipelines, telecommunications lines passing through the region play an important role in the development of the regional economy. Azerbaijan and Russia are connected to each other with communications lines via this region.

Social infrastructures are paramount importance in development of the region which meets socio-economic current requirements. Public libraries, theaters, hospitals and other social infrastructure facilities functions in the region.

a. Geography

Guba-Khachmaz Economic Region, have been organized from Devechi, Khachmaz, Guba, Siyazan administrative regions.

b. Area

The total area is 7.66 million km² and region covers 8.8% of the country's territory.

c. Population and density

Population of the region is 525,700 people, where 5.6% is the population of the country. 257 thousand people are active population. There are 76 people per square kilometer. Due to the topographic structure the population of the region lives more on the coast of the Caspian Sea. 32% of the population lives in the city, 68% in rural areas.

d. Climate

Regions specific topography character divided it into the four distinct zones. Therefore has a different climate types like: hot, cold-moist and cold.

e. Natural Resources

Oil, natural gas, combustible shale, sand, gravel and water take place among the region's natural resources. Forests cover 10-11% of the region area. Region is rich with the natural recreational resources. The most important health centers are located in this region. Galaalti mineral water resources, located in Slyazan, function as the country's major sanatorium center.

f. Industrial Areas

Regional industry depends on oil and natural gas. Oil and natural resources of the region concentrated in Slyazan region (Keshchay, Slayazan - Nardaran, Amirjan, Zoghiu - Zeyva, Tangi, Saadan, Vaylmdagh - Toghchay and etc.).

Light and food industries developed as a result of wide spread agriculture in the region's economy. Fruits and vegetables canning, carpet weaving and fish products have an important place in agriculture industry area.

g. Agriculture

Agriculture has an economic advantage in the region.

Agriculture is concentrated on fruit and vegetable production. Along with these, grape, potatoes and wheat are produced in Guba-Khachmaz. To increase milk and meat production big and small horn animals has been developed in the plain areas of the region. Poultry developed in the Slyazan and Davachi regions.

h. Developing Sectors

Tourism is leading among the most developed sectors of the region.

Yalama-Khudat seashore, Galaalti for kidney disease treatment center, Gusar, Guba, Khachmaz and Devechi in terms of hunting and fishing are places of importance to the region's tourism.

In addition to tourism, region's canning, alcoholic and non-alcoholic drinks, flour, meat and dairy products, packing, construction materials and carpet weaving can be considered more favorable areas in terms of investment.

In addition to oil industry of Slyazan region, as in other regions canning, poultry, soft drinks, flour, meat and dairy products manufacture are also among the leading areas of investments.

4.1.9. UPPER KARABAKH ECONOMIC REGION

A large part of the region has been occupied by Armenians. After the independence of the occupied territories of the region according to the government declaration it will prepare and implement special program on the regions' development

The region is rich in natural resources and therefore is a destination which attracts tourists.

a. *Geography*

Upper Karabakh which consists of Agdam, Tartar, Khojavand, Khojaly, Shusha, Jabrail, Fizuli administrative regions lost its of Khankendi city, Khojavand, Khojali, Shusha, Jabrail administrative regions, all of the Khankendi city, part of the Agdam and Fizuli regions as a result of Armenian occupation.

b. *Area*

With parts of Agdam, Fizuli regions that are not occupied and with the total area of Tartar, region is 1482 km²

c. *Population and density*

211,800 people living in the areas that are not under occupation. Density in this area is 143 people are per square kilometer.

d. *Industrial Areas*

Industry of the region is mostly depends on the agricultural products.

e. *Agriculture*

The region's main agricultural products are grapes, wheat, fruits, tobacco and cattle-breeding. Region draws attention to the production of grape. Population in high mountain areas is engaged in big horn animal breeding to produce meat, milk and wool. At the same time in the economic region have developed beekeeping and production of mulberry.

4.1.10. KALBAJAR-LACHIN ECONOMIC REGION

The entire of region has been occupied by Armenians. After the independence of the occupied territories of the region according to the government declaration it will prepare and implement special program on the regions' development.

a. *Geography*

The *economic* region covers Kalbajar, Lachin, Zangilan and Lachin regions.

b. *Area*

The area of the region is 6,500 km² and by this it makes 7.5% of the country's territory.

c. *Natural Resources*

Gold, mercury, marble, cobalt, perlite, packing building blocks are among the region's natural resources.

cf. *Industrial Areas*

The main part of the industry is consists of food and a small proportion of the light industry.

e. *Agriculture*

Region's key areas of economy are agriculture and cattle-breeding. In particular, it is important to mention that the region suitable for cattle breeding and beekeeping.

4.2. IMPORTANCE OF REGIONAL DEVELOPMENT PROGRAMS

Azerbaijan, which gained independence in the late twentieth century, has faced many challenges. Despite the fact that socio-economic issues were in the focus of the Soviet state on a regular basis, Azerbaijan was not successful in achieving results in this sphere. In 1996, as a result of the implemented economic reforms decline in the country's socio-economic life stopped and as a result, GDP per capita has increased, important and positive steps have been taken and stability of the foreign exchange currency obtained, budget deficit reduced to a minimum level.

In summary, with the last 20 years of Implemented economic regulations macro-economic stability has been achieved in the country, which pushes the dynamic development of the economy and significantly improved people's living standards. However, during the last period. In terms of economic changes and rebirth of Azerbaijan, which was still at the beginning of the road, the country was not In the condition to start the division of the regions, develop policies in this direction. Circumstances required providing more attention to the oil and natural gas production and export before the division of the region and the sectors to attract foreign investment into the country.

Since 2004, In terms of socio-economic development Azerbaijan has stepped into a new era and started to concentrate on the solution of one of the most important issues - development of private enterprise In the regions by effective usage of increasing labor force, natural and economic potential to achieve sustainable development, increase the use of the labor force, and by thus, reduce the poverty in the country. Implementation of the programs in this direction will eliminate differences in the economic development level of the regions and result in regional balance of the country.

According to international as a result of interregional development higher economic results are be possible to be achieved. In this regard, the full meaning of Azerbaijan development depends on increasing the economic level of the each region. One of the most important problems of different regions' economy's development is that it should be based on the principles of free market economy.

Baku and Sumgait's economy is growing fast. However, two of the country's socio-economic level of the city simply can not be determined by economic power. In absolute terms in order to ensure economic development in other regions, particular importance is given to economic development and need to take certain measures. In comparison with the neighboring countries - Armenia and Georgia, Azerbaijan has favorable economic and geographical conditions that allow the formation of an effective regional structure of the economy. One of the main indicators of regional development is to attract foreign investment that corresponds to the desired goal.

The current state of the state budget allows the socio-economic development of the regions. Thus, the private business environment in the regions where foreign investment is necessary is developing.

Energy, human, and natural resources of the region have a potential to stipulate regions development in case if government will create necessary conditions to utilize these resources on the maximum level. Country has rich cotton, grape, tobacco, fruits and vegetables and underground water resources. The amount of raw materials in the regions allows the development of the industrial sector in the regions, especially, of the manufacturing industry.

Farmer facing many challenges alone despite the fact that they get assistance and subsidies from the government. The farmers do not have enough financial opportunity, to benefit from available loans opportunities. In some regions, even small problems related with this issue could not be solved without serious interaption. The lack of natural gas, electricity and the need for agricultural

supplies and technical information are other main problems. In such environment the importance of government support to the entrepreneurs in the agricultural sector is inevitable.

Tourism regions abandoned and ruined as a result of indifference and lack of attention. City of Naftalan, which attracted tourists not only from the country but also from other Soviet countries were left alone and lost all its attraction and almost all facilities due to lack of maintenance and support from the side of government. However it is possible to attract investors to regions for revive agriculture and tourism and to improve the socio-economic conditions. USA, Germany, France, Japan and other developed countries had gained social rebirth in their countries as a result of a comprehensive approach to the economic development and increasing attention to the development of their regions.

80% of the capital invested into the country flows to the capital. Industrial sector in other regions of the country is negligibly weak, existing businesses do not work at full capacity. The main part of the industrial potential of the country is located in Baku and the surrounding area. Increased flow of people from the regions. For this, population of other cities after independence moves to the capital city. Those who could not find jobs that come from the regions to Baku as a result of the increased population density in the capital has led to the emergence of many problems. Both in Baku and in other regions of the country, people left the country because of chronic unemployment.

Influx caused by the people of the regions who are trying to find work in different cities of the country created very serious problems.

According to the State Statistics Committee 67 cities are dependent on the income from the capital. In country-wide, dependence on the central regions comes to 60%. While the ratio comes to 46.4% compared to the development of the industry in the city of Sumgait, in Ganja 51.8%, in Mingachevir 66.8%, the industry is very weak or at non-existent level. Dependence on the capital of Gabala is 90.7%, Dashkasan 90.2%, Yardimli 93.5% and Khachmaz 80.6%. The dependency ratio will be reduced only as a result of the complex steps for the regional growth.

i.3. REGIONAL DEVELOPMENT PROGRAM

After the "Contract of the Century" economic development process started in Azerbaijan economy. However, investments, infrastructure improvements and reconstruction works carried more in Baku. On the other hand, other regions of the country remained outside the attention of government. This created the crucial difference in the socio-economic level of the capital and other cities. This, in turn, meant a dangerous situation for the country. The weight, amount allocated from the state budget to the regions was about 10-12% of the total state budget. Amount of investment to the regions hardly reached to 15-17% of total investments to the country. Unemployment in the regions, as stated above. Increased flow of the work force to Baku. There were serious problems in exploitation of the electricity, water and natural gas services.

To use the regions resources efficiently, increase production of non-oil and agricultural products, to develop service and tourism sectors, decrease unemployment and increase life standards of the population a separate program on regions development was inevitable.

In this context, on 24 November of 2003, the decree on acceleration of the socio-economic development and determination of the main directions of the country's socio-economic development was signed. Almost at the same time, preparation of special state program on regions development was initiated.

On 11 February, 2004, President Ilham Aliyev signed a decree on "State program on socio-economic development of regions of Azerbaijan in 2004-2008". Approved state program, was an important document which determines the balanced and sequential development of the state economy. This program includes issues related to infrastructure, agriculture, industrial and social spheres development of the regions.

More than 15 state programs have been implemented in Azerbaijan. Each of these programs is to re-formation of the national economy to a free market economy and aims to acceleration of international economic integration, improvement of the welfare of the people, reduction of poverty and unemployment. State Program signed on 11 February, 2004 was in a time to solve social problems of the regions, reduce unemployment, in short, and improve the welfare of the people. However, program on regional development is of great importance than the other programs.

The State program approved by the head of state can be considered as the care of the state to regions and the most important step taken for the solution of regional problems. For this reason, the state program is one of the most important steps taken in order to revive and develop the non-oil sector, particularly agricultural sector with the efficient use of the economic potential of the Azerbaijan regions and natural resources, by increasing the level of employment, people income and standard of living in the country.

To effectively use natural and human potential every country should have modern Infrastructure which could be used for this purpose. In this respect, the program had great importance.

Determination of activities carried inside of the program increased the efficiency of the program.

Main activities to accelerate regions economy and policies were defined in the state program of the regional development. The program consists of three parts. In the first half, the information is provided on general structure of economy of the regions of Azerbaijan, in the second part, main targets for socio-economic development for 2004-2008 are listed, and in the third part, activities and time frame of these activities are elaborated in details.

Dedication of the problems to a certain organizations that will be responsible for the solution of the regions problem is one of the characteristics that differentiated this program from the previous ones.

In the frame of the State Program financing sources of activities to be implemented defined as: state budget. National Entrepreneurship Support Fund, other funds, commercial banks and non-bank credit organizations loans, financial resources of international organizations and foreign states, foreign investment, other sources not prohibited by law. Program also utilized the resources of the State Oil Fund. For the implementation of the program, local financial sources determined in the amount of 5-6 million manat.

4.3.1. GENERAL OBJECTIVES OF THE PROGRAM

The State Program on Socio-Economic Development included;

- The continuation of macroeconomic stability,
- The continuation of small inflation rate,
- The optimal state regulation directed to areas which have strategic importance,
- Carry out second reforms in the agricultural sector.

- The development of private enterprise in the regions due to speed up privatization,
- The implementation of structural policies in order increase export potential and non-oil sector,
- Improve the investment climate for private business,
- Improve the quality of social services, which have been Identified as key areas.

The purpose of the program is identified in order to develop regions in terms of economy via using current potential. Furthermore the continuation of the activities of the production companies is also one of the main goals of the state program. To do so, the program expects the improvement of the income level, the development of the entrepreneurship, the reduction of the unemployment.

The reconstruction of the traditional production institutions in the regions, the establishment of new production areas, the increase of the productivity via using local resources, the establishment of the necessary infrastructure, the promotion of the opening of the new jobs are the other objectives of the State Program.

The State Program on Socio-Economic Development of Regions 30 various projects will be realized in 10 various geographical regions of the country. Most of them are connected to the construction and tourism areas. The program includes education, health, agriculture and other socio-economic reforms.

The private sector's share in GDP is planned to be 85% as a result of the realization of the State Program. According to the program the volume of the investment reached 16.8 billion US Dollars and 60% of it directed to the regions. The program was implemented within 5 years and 600.000 jobs were created. The average monthly salaries increased by 3.1 times.

The program continued until 2008. The second phase of the program was realized from 2008 to 2012. The second phase of the program included; the taken of the steps in order to achieve balanced growth, the establishment of the necessary infrastructure, the continuation of the work on the privatization of the enterprises, the strengthen of the investment allocation in the regions. Additionally the program planned the development of agriculture, the establishment of manufacturing facilities, the improvement social services in the regions.

4.3.2. REGIONAL TARGETS OF PROGRAM

The State Program Identified regional targets. The water problem of Shaki- Zagatala, Guba-Khachmaz, Ganja-Gazakh and Lankaran regions is less than the others'. Karabakh, Mil, Mugan and Absheron regions have water problems and it continues almost throughout the year. Regional economic program identified targets in order to solve the water problems important steps have been taken within the defined targets.

There is great potential for the development of agriculture and tourism In the southern region of the country- Lankaran, Astara, Masalli, Jalilabad, Bilasuvar, Lerik and Yardimli. Meanwhile there is great opportunity for the development of the tea, grain, livestock, and manufacturing industry in the region.

The strengthening of the agricultural and manufacturing facilities, the development of tourism is taken into account in Absheron. Lankaran, Mountainous Shirvan, Guba-Khachmaz economic regions attract attention in line the development of agriculture and manufacturing facilities.

Ganja-Gazakh Region: Another important point is the development of production and processing industries in Ganja-Gazakh economic region. In Ganja city 3.5 million Manat was allocated for 64 projects. In Shamkir city 1.2 million Manat was allocated for 22 projects. Most of them are medium and large-sized projects. 565 million Manat will be allocated other projects in the future. The loans will include 200 micro-loans. Effective use of these million manat loan will be created more than 550 new jobs. 950 people will have the opportunity to work as a result of the use of loans.

Shaki-Zagatala Region: The most important areas are agriculture and manufacturing sectors in Sheki-Zagatala region. Great amount of money will be allocated to the development of agriculture and manufacturing industries. In Zagatala city 2,312 million Manat loan will be allocated to 5 projects. As a result of this about 300 new jobs will be created In the city. The total amount of 1,063 million Manat loan has been decided for Shaki city for 4 projects. In Gabala city 1 project has been decided in the total amount of the 490 thousand manat. In Balakan city 490 thousand Manat allocated for the projects. Lankaran, Shirvan, Guba-Khachmaz and Ganja-Gazakh economic regions are convenient for the development of ecotourism.

In Absheron economic region the new recreation centers will be built until 2010. With the opening of the tourist complex In Gizilgazma village of the region

is planned to increase the flow of tourists to the Khizi region. The construction of tourist facilities is supposed in "Gulistan" area of Goranboy administrative region in Ganja-Gazakh economic region.

Guba, Devechi, Khachmaz regions on Guba-Khachmaz economic regions are popular as recreation centers. Nabran settlement has become an international tourist center. In order to develop this process the modernization is planned in Nabran in terms of tourism center, Olympic sports lyceum, sports and health infrastructure.

Implementation of road and railway projects between Azerbaijan and Iran will significantly contribute the development of the tourism sector in Lankaran economic region. The region with the new complexes will be established and modernized will create a wide range of opportunities in terms of tourism infrastructure.

The development of tourism sector in Shirvan economic region, especially infrastructure activities will be carried out in Ismayilli city and Shamakhi region.

In Nakhchivan economic region, the development of the tourism sector is available in terms of historical sites and Batabat and Ganligol areas in Shahbuz region.

4.3.3. DEVELOPMENT AFTER THE PROGRAM

In line with the implementation of "State Program on Socio-Economic Development of Regions" some organizations have begun to take certain steps. Under the regional development program, foreign, and local businessmen, who will invest regions will be assisted.

The companies on producing, manufacturing, tourism, trade, service and other areas were established in order to take the advantage of local resources.

The loans were given to farmers in order to operate this program successfully. The program was launched in separate stages. For example, in accordance with the decision made by the Cabinet of Ministers, 25% of insurance reserves of grain fields are intended to be financed by the state budget. In this step, the insurance of arable lands have been taken at the request of its traditional appearance. The Cabinet of Ministers took into the consideration the international experience proposals which have been prepared for the service on the agricultural sector in the regions.

One of the most Important steps is the attracting of the foreign organizations to the regions. Economic fomms were held in eight cities of Azerbaijan. The fomms Included several projects.

Increased purchasing power of people in the regions is a positive indicator. Education and health care facilities in many regions have been renovated and built. The implementation of activities supported by private enterprise.

Between October 1, 2003-January 1, 2005 more than 177 thousand new jobs were created in Azerbaijan. 53.1% of the new jobs are permanent jobs. Just in 2004,167 thousand jobs were created. 83.7 thousand of them were permanent. 87% of them are in private sector and 13% are in the public sector. Distribution of new jobs In the sector are as follows; construction 13.6%, wholesale, retail sales and auto services 10.8%, processing industry 14.2%, agriculture 8.1%, real estate 3.9%, state management and compulsory social insurance is 3.2%.

In 2004, 84% of new jobs were created in the regions and 12 % in Baku. The advantage of detection of non-oil sector refers to the private sector. This information created investment opportunities in the region was an indication for the private sector.

The distribution of newly created jobs in terms of economic regions is as follows; *Aran region 61000, Absheron Region 11360, Ganja-Gazakh Region 17350, Guba-Khachmaz Region 11300, ShakhZagataia Region 10600, Lankaran Region 10000, Nakhchivan region 7300, Upper Karabakh region 3700, Shirvan region 900.*

The newly created jobs, which were established in large companies is distributed as follows in terms of the economic regions; 59.3% in Baku, 6.5% in Absheron, 6.3 in Ganja-Gazakh, 5.4 in Nakhchivan and 4.1% in Lankaran.

In this framework, "Oka" brand automobile manufacturing started In Ganja. Furthermore "Azbentonit" factory opened in Absheron, while Nakhclvan International airport was established in Nakhchivan. Additioanlly, the establishment of beer and tomato plants In Lankaran, macaroni factory in Khachmaz, mills In Shaki, Sadarak, and Ordubad, swimming pools in Baku, Sumgait, Ganja, Tovuz, Gabala, Dashkesen, Khachmaz, Baku, Absheron, Gobustan, Guba and power generation facilities in Imishli and Julfa regions were realized in 2004.

Only in 2004, nearly 4.000 jobs have been created in Guba-Khachmaz economic region. In addition, nearly 2,000 are direct jobs, more than 100 jobs have been rebuilt, and the rest is a temporary job. Including economic region Khachmaz,

agricultural sector is more developed. More than 100 people are employed here with the start of the service the flour and feed mills, horned animal farms, greenhouse and some commercial enterprises. In previous years reconstruction of "Khachmaz-Carpef OJSC and provision of different services in the public Air conditioner factory in Khachmaz has played an important role in the exploitation of labor.

In Gusar significant improvements were attained in line with the execution of the program. The production of carpets is the most important industry in the city. The new school buildings, recreational and commercial facilities have been built. More than 100 jobs have been created as a result of the taken measures. Besides, in Guba carpets venture and Food Products Factory which produces marmalat and jam were renovated. On the other hand, small and medium-sized enterprises for the development of mountain regions surrounding Guba, Gadabay, Gabala, Lerik and Shakhbuz "Development Program on Mountain and Highland Areas" \$ 350 million Dollars were allocated within a few years to entrepreneurs. As a result of the measures mentioned more than two thousand new jobs have been created in the regions. In addition to these 2 million 650 thousand dollars will be allocated regions in the future.

In Lerik a non-governmental organization "IFAD" (About the International Fund for Agricultural Revival) began operations in 2004 under the program on "Development of Mountain and Highland Areas" and increased activities development in agricultural sector, poverty reduction and infrastructure improvement. 30 groups were created in region in terms of agricultural production, sale and trafficking. In 2004 IFAD spent 300 million Manats for the improvement of infrastructure in the area, the construction and renovation of social facilities.

In Nakhchivan Autonomous Republic, socio-economic point of view important progress has been achieved in 2008. It is progress in social and economic infrastructure and economic indicators. Decree on Nakhchivan Autonomous Republic on 15th March 2000 on "Sadarak Region Socio-Economic Development' has become effective. As a result of this program, the border region in Sederek has been achieved to the development on education, health and cultural fields, the strengthening of stability in the economy. In region center and villages, renovation in different areas and reconstruction activities, the building of road and bridges were realized.

Sadarak, the only gateway between Turkey and Azerbaijan was able to offer 24- hour service trying to build new construction and technical infrastructure. In 2004-2008 important actions were realized in Sadarak which covers the "Socio- Economic Development of Regions of Azerbaijan Republic on the State Program" in Nakhchivan. With the establishment of new enterprises in the region increased the volume of employment

In order to revive the activities of the National Endowment for Private Enterprise increased fund resources in 2009. Provision of resources for entrepreneurs selected banks and increased their numbers. In order to improve water and sanitation services organizational steps have been taken.

In 2004 different legal arrangements carried out. In the country the provisions of the law on the establishment of economic regions, the expansion of investment, and other economic relations of monopoly regulation have been prepared to promote regional development. The transformation activities to joint-stock company of medium and large businesses has continued. Accelerated privatization of the enterprises of small and rental. According to the investment made by the state activities are carried out on reconstruction of production facilities. The improvement of regional infrastructure and public services, in order to divert the construction of social facilities in connection with the financial resources necessary for the period 2005-2006. Activities started in accordance with the withdrawal of optimal tax rates.

In short, covering five years time started since the adoption of the package on "Socio-Economic Development of Regions of Azerbaijan State Program (2004- 2008)", there was a great revival in all regions of the country.

4.3.5. EXPECTATIONS FROM APPLICATION

The development of the oil industry is the country's foremost concern. However, there was need to develop of non-oil sectors. Because of this, the competitiveness and increasing of the national economy, modernization of production, application of many protective technologies, increasing industrial production in the regions are among the main objectives of development policy.

If State Programme on "Socio-Economic Development of Regions In Azerbaijan" well executed, the oil sector will be developed in conjunction with the non-oil sector. To do so the effective use of the economic potential of the regions will reduce the poverty rate, create new jobs, increase the living standards of the

people. Besides, through the program the rapid growth of private enterprise will be possible in the regions. The expansion of local production and the manufacturing facilities, reconstruction of economic, social and cultural infrastructure facilities and development was realized.

In accordance with the State Program, the establishment of workshops is considered for people of the rural regions of the country, with Export Promotion Fund and also public investment enthusiasm. However, 62.5% of such measures will allow an increase in agricultural production.

On the other hand, 600 thousand new jobs will be possible to improve the business and investment sector. There is a need for \$ 10 thousand Dollars in order to establish a place of business. If necessary for job modern technology and infrastructure, then such a case, millions of dollars are needed. In this regard Azerbaijan needs the creation of jobs on competition, which has the power to make goods exported from work on paper. However, in Azerbaijan lags behind the pace of GDP growth increasing speed of the production sectors, industry and agricultural production. Foreign trade increase rate is low. It is also important to establish balance in the Azerbaijan economic structure.

The elimination of bureaucratic obstacles, control over and improving relations with law enforcement authorities in regions will emerge favorable business and investment climate for private business in terms of legal, economic as well as technical aspects.

Regional development can be realized via investment to the regions, the opening of new work places and the start of production again available in the workplace of private ownership. For this reason, to achieve regional development more depends on continuation will be given the opportunity and incentives to increase private enterprise.

Continuations of the policy of regional development via achieving a healthy foundation to monitor the effects of these policies are essential. Therefore, after the first regional development evaluation, basic economic indicator will be carried out especially with per capita GDP of the country's various regional developments. With a different evaluation criteria encourage and support system will become richer. The regional geography, structural and regional issues listed for the importance of regional support system and incentives should be established.

Regional development policy may have its own structural problems in each region. In development, the region should rank even given the importance of the

city level. Thus, the differences in growth and development in the regions outside of Baku in Azerbaijan is taking into consideration the situation of the beginning of the incentives. This will be implemented in phases. Cities in terms of GDP per capita, the national average of determination, incentives can be increased in stages.

4.4. THE PROGRAM OF SOCIO-ECONOMIC DEVELOPMENT OF AZERBAIJAN REPUBLIC REGIONS IN 2009-2013

In Azerbaijan significant achievements have been attained on sustainable development of non-oil sector, creation of new businesses and job, in regions, as well as, in the country capital increasing the volume and quality of utilities and social infrastructure provision, further improvement of the business environment, increasing the employment rate of the population, poverty reduction. Therefore, within "The State Program on socio-economic development of Azerbaijan Republic regions the Azerbaijan Republic (2004-2008-years)", as well as "A program of measures to accelerate socio-economic development Baku suburbs for 2006- 2007" prepared "Azerbaijan's socio-economic development of regions in 2009- 2013" State Program in order to continue the work started. The Action Plan of the State Program has been compiled by the following sections:

1. Events of national importance.
2. The measures in the districts and suburbs of Baku city.
3. Measures on economic regions of the country:
 - 3.1. Absheron economic region (Absheron and Khizi regions, Sumgait city);
 - 3.2. Aran economic region (Agjabadi, Beylagan, Barda, Bllasovar, Goychay, Hajigabul, Imishli, Kurdamir, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zardab regions, Shirvan, Mingachevir, Yevlakh cities);
 - 3.3. Mountainous Shirvan economic region (Agsu, Ismayilli, Gobustan, Shamakhi regions);
 - 3.4. Ganja-Gazakh economic region (Aghstafa, Dashkasan, Gadabay, Goranboy, Goygol, Gazakh, Samukh, Shamkir, Tovuz regions, Ganca and Naftalan cities);
 - 3.5. Guba-Khachmaz economic region (Davachi, Khachmaz, Guba, Gusar, Siyazan regions);

- 3.6. Lankaran economic region (Astara, Jslilabad, Lerik, Masalli, Yardimli, Lankaran regions);
- 3.7. Nakhchivan economic region (Nakhchivan city, Babak, Juifa, Ordubad, Sadarak, Shahbuz, Kangarli, Sharur regions);
- 3.8. Kalbajar-Lachin economic region (Kalbajar, Lachin, Zangilan, Gubadli regions);
- 3.9. Shaki-Zagatala economic region (Balakan, Gakh, Gabala, Oghuz, Zagatala, Shaki regions);
- 3.10. Yuxari Qarabag economic region (1) (Aghdam, Tartar, Khojav^nd, Khojali, Shusha, Jabrayil, Fuzuli regions, Khankandi city).

4.4.1. THE GOAL OF OF THE STATE PROGRAM, OBJECTIVES AND PRIORITIES OF REGIONAL DEVELOPMENT

The main objectives of the "Regions of the Republic of Azerbaijan in 2009-2013 State Programs on Socio-Economic Development" are to achieve the development of non-oil sector in the country, economic diversification, balanced regional and sustainable socio-economic development, the improvement of people's life standards.

As defined by the state program is intended to achieve the following tasks:

- To ensure the rapid development of non-oil sector make effective use of natural and labor resources of the country;
- The continuation of measures aimed at improving infrastructure;
- Implementation of the measures to improve the business environment and the accelerated development of entrepreneurship;
- To continue attracting investment for development of the economy;
- To stimulate production of export-oriented;
- The creation of modern infrastructure facilities and existing facilities in international standards;
- Improve the provision of public utilities;
- The continuation of measures aimed at improving employment;
- Poverty reduction.

Achieving the goals set in the State Program, as well as for the implementation of these tasks is important to maintain macroeconomic stability. Successful implementation of the oil strategy of Azerbaijan's integration into the international economic system, as a result of efficient use of oil and gas revenues, which led to the maintenance of macroeconomic stability, and created favorable conditions for the implementation of the measures in this sphere.

Given the macroeconomic stability of the economy as a whole in the coming years, including in the regions, which is one of the preconditions for the development of separate areas, the average annual inflation rate and the exchange rate of the national currency, maintaining a reasonable level of tax rates to determine the optimal level, the extension of the concessions applied to agricultural producers, new promoting job creation, maintaining the optimal level of customs rates, external debt management policy will be effective. Increasing foreign currency earnings, reducing the risk of inflation, strengthen the coordination of monetary and fiscal policy, government spending and other measures to control expense growth, the macroeconomic situation, as well as the prevention of adverse effects on the development of non-oil sector, the main issues are considered to be the economic policy in the coming years.

In order to speed up the integration of the national economy to the world economic system accelerated the process of adapting legislation, standards to International requirements, including World Trade Organization (WTO) for the expansion of cooperation with Azerbaijan authoritative international organizations, economic communities in the future. Foreign economic policy will be directed for the creation of favorable conditions export of manufactured products, at the same time, protection from unfair competition of the internal market. One of the main objectives of fiscal policy is to achieve sustainable development of non-oil sector, the maintenance of a stable macro-economic situation of the country, effective regulation of the economy and stimulate its dynamic growth. In this regard in the future it is necessary to achieve expansion of production in the country, the creation of competitive economy, infrastructure, a favorable investment climate and increasing the share of the country's internal resources attracted investment to the economy. At the same time, state support for agriculture and increase direct subsidies to this sector, attracting investments for the establishment processing enterprises, to ensure non-oil, non-raw material sectors of the economy, the development of tourism are considered as priority directions for 2009-2013.

In order to improve the tax system in coming years it is designed to implement the following measures:

- optimize of tax rates;
- tax and customs policy aimed at promoting entrepreneurship:
- The extension of tax benefits to the producers of agricultural products:
- improving and expanding the scope of tax services provided to entrepreneurs for the creation of computer terminals and private tax advice.

In coming years, in monetary policy special attention will be paid to implementation of exchange rate policy that ensure favorable competitive level of Manat and optimization of money supply channels. Monetary policy will be directed to macroeconomic strengthening stability, including, stimulating employment and production in the non-oil sector, in the regions, on this basis, its fast and intensive development, an increase in investment activity in the real sector, economic diversification, poverty reduction and the continuously increasing of life standards. In the Republic of Azerbaijan monetary and loan policy for the development of financial services, including the regions of the single state policy will consist the following purposes:

- Increasing the country's foreign exchange reserves;
- To improve and streamline monetary policy and monetary regulation instruments and mechanisms:
- To ensure the stability and the internal convertibility of manat;
- To preserve financial stability in the banking system, expanding regional bank branch network;
- Taking incentive measures for speeding installation of cashless payment instruments (POS terminals, ATMs, info-kiosks);
- Expanding the scope of insurance and leasing services;
- New economic application of methods based on international experience in order to stimulate and develop agriculture insurance.

To ensure long-term economic and social development of the country's investment policy is one of the most important tools. In this area the main task will consist of the creation of an atmosphere of free competition and improvement of the existing legal framework for all investors in order to expand investment opportunities in all sectors of the economy and provide a more favorable investment climate.

In the coming years, transparent and effective implementation of the privatization process of enterprises open for privatization will continue. In the non-oil sector the work will be carried out purposefully for supporting investment activities of enterprises, will be encouraged the import of modern production equipment.

State investment policy directed to the implementation of priorities as the creation of new jobs, to ensure reliable operation of infrastructure facilities, the development of human capital and to strengthen social protection of citizens in the regions. One of the most important areas of employment policy is elimination of the factors limiting the creation of new jobs and to create conditions to stimulate an increase in the level of employment. In this regard it is particular importance measures aimed at the development of entrepreneurship, especially, small and medium-sized enterprises. In coming years, the main purpose of employment policy will consist of ensuring the effective employment of the population through the better use of labor resources. To achieve this goal, it is planned to carry out the following tasks:

- To create favorable conditions for the development of enterprises, especially small and medium-sized enterprises;
- To ensure the efficient development of employment support investment activity:
- Implementation of measures on strengthen social protection of the jobseekers and unemployed, legalization of informal labor relations;
- Improve infrastructure aimed at strengthening of dynamic between supply and demand in the labor market;
- Adapting to the demands of a rapidly growing labor market on personnel training system, including vocational training and performance of networks.

While the country's economy develops, the number of foreigners in the domestic labor market is increasing. The favorable geopolitical location of Republic of Azerbaijan has caused an increase in labor migration flows the implementing of economic reforms in the country, development of entrepreneurship, international communication projects and so on. The main directions of migration policy in coming years will be as follows:

- Migration processes for the effective use of the country's development;
- The implementation of migration programs, taking into account the Interests of the state and society;

- Creating conditions that enhance adaptation of migrants to the current socioeconomic situation:
- The protection of migrants' rights;
- The prevention of illegal migration.

Enterprise Development will lead to one of the directions carrying out state policy in terms of diversification in the economy. This policy will be directed raising the level of regulatory, organizational and financial support for business activity in all sectors of the economy, especially in the priority development areas. In terms of sustainable economic development in the field of entrepreneurship will be implemented the following measures:

- to speed up the integration of the small and medium-sized enterprises (SMEs) to the world economy, increasing export potential and to strengthen the role of SMEs in the solution of social problems of society;
- optimization of the entrepreneurial activity area, regional and technological efficiency structure;
- across the mutually beneficial cooperation of small, medium and large enterprises, including the expansion of production and cooperation relations;
- the creation of modern organizational models for entrepreneurship support, including continuation of the establishment in advice for entrepreneurs, information provision, marketing services and other structures;
- Creating of trade fairs;
- orientation of the local economy, taking into account the improvement of vocational training centers for unemployed in the regions;
- prevent interference in business activities.

In Azerbaijan comprehensively implementation of events to the development of non-oil sector will be possible to accelerate the production of exportable products based on the implementation of economic mechanisms. In order to the development of the export potential of the country, delivered to foreign markets Azerbaijan goods and services, creating favorable conditions for it, ensure the effective integration of the world economy of the country. Implementation of measures will be a priority in coming years.

The effective implementation of the country's export potential, the formation of healthy competition in the domestic market, ensuring the protection of consumer rights, standardization and metrology sectors following measures will be implemented in order to adapt to international requirements:

- to Stimulate exports In the private sector and Increase the range of export goods;
- strengthening the position of national producers in foreign markets, the implementation of relevant measures on strengthening the protection of interests:
- to improve the level of trade, catering and domestic sectors service and implementation of measures to protect the domestic market under the principles of the WTO;
- involvement of entrepreneurs and consumers on strengthening the fight against unfair competition and implementation of measures on development of competition;
- strengthening control over the quality and safety of consumer goods.

One of the main objectives in the industry will consist of restoration of existing industrial enterprises in the regions and reconstruction, the creation of new businesses. Here will be paid special attention on restoration of agricultural products processing enterprises and increasing export potential. Industrial sector is envisaged to implement following measures to achieve the goal:

- Identification of areas of non-oil sector for development of industry;
- Support for competitive industrial production and promote creation of export-oriented production:
- rehabilitation and privatization of controlling stock of state-owned or state- owned industrial enterprises:
- support the activities of the enterprises after privatization;
- the reconstruction of production:
- prepare skilled personal.

During the past period the successful completion of an institutional point of view, land and agrarian reforms and the creation of new opportunities for agricultural producers, based on free market relations in coming years and are capable of self-development of the entire economic system - characterized by the process of forming an independent national economy will take place. Various economic forms of agricultural production, including the development of a form of collective economic cooperation in the region and expansion of the labor force led to the formation of the public will be more productive. In coming years, which is the traditional areas of agriculture, grain, grape, fruit, cotton, tobacco, tea, silk and other areas will continue to be a priority. Continuing reforms In the

agricultural sector, special attention will be paid to the development of mountain regions. The development of agriculture sector consists of the following areas:

- improvements of agrarian sector legal and regulatory framework, scientific and methodological support and personnel training system;
- raw material production in agriculture sector and the development of processing areas, stimulation to increase competitive production;
- increase financial support to the agricultural sector;
- strengthening the material-technical base of the agricultural sector;
- serve agrarian sector and operate on market principles to support new structures;
- in agriculture sector Improvement of irrigation and reclamation;
- ensuring the efficient use of land and water resources.

The development of tourism In Azerbaijan Republic, expansion of International cooperation In this field is priority in the coming years. Turn tourism to a high- income economy, create efficient and competitive modern tourist complexes to respond to social and environmental requirements, and to ensure the creation of new jobs are important tasks standing in front of the development of non-oil sector. Tourism industry consists of the following areas of development:

- creating competitive tourism infrastructure and tourism industry;
- existing tourism facilities in international standards;
- the development and application of advanced methods and standards for tourism services;
- determination of the legal status of the country's tourism-recreation zones, identification of tourism zones and routes in the country;
- countries, which have rich experience in the field of tourism expansion of international cooperation in the field of personnel training.

Efficient use of energy has a paramount importance in ensuring the economic security of the Republic of Azerbaijan. Ensuring long-term investment in the energy sector of the International oil companies by signing "Contract of the Century" leading, role of Azerbaijan in the world energy sector. The main task of the country's fuel and energy complex is to provide more comprehensive satisfaction of the economy and the population's energy needs. The main directions of the state policy in this area for 2009-2013 will include:

- reconstruction and modernization of oil and gas production, transportation and processing infrastructure;
- accelerate the exploration of new deposits and ambitious structures and prepare them for exploitation;
- to ensure gas supply for settlements of natural gas provision;
- regional development, taking into account the growth rate of demand for electricity and the creation of new power as a result of expanding the use of alternative and renewable energy sources to improve the country's energy security;
- to support business activity in the energy sector;
- construction of modern power plants, to continue Implementation of reconstruction and development projects;
- renewal of power transmission lines and substations, and to be completely replaced.

Last years, as a result of the favorable environment for investment in the country's economy the number of newly-built buildings and public facilities increased significantly. This, according to the urban legislation is Indispensable on the reconstruction of public infrastructure and the organization of services in accordance with the requirements of the market economy. Based on purposeful reforms to be implemented in the area of housing and communal services designed to international standards in the areas of quality of services provided to consumers:

- In the event of an accident reconstruction-reinforcement works in buildings and structures;
- Acceleration of restructuring measures in the field of public utilities;
- Rehabilitation of existing heating systems, modernization and reconstruction;
- Household waste collection, transportation, disposal and processing of new ventures, involving the private sector in this area;
- Continuation of restructuring measures in the water sector in line with international standards and ensuring a reliable water supply;
- The country's cities, regional centers, rehabilitation of water and sanitation systems, especially in rural areas, and the new lines, the construction of facilities to attract the private sector and municipalities.

The integration of the world economy and the expansion of foreign trade of Azerbaijan Republic is required reconstruction of transport Infrastructure, use of

the existing opportunities as a transit country, increase competitiveness of local cargo carriers and development of export of transport services. In coming years, it is designed the establishment of effective development of the transport system in the country, the new modern roads and road facilities, bridges, underground and surface passages and parking areas, improving the regulatory framework governing the operation of public transport and the development of other necessary measures in this direction. In 2009-2013, to achieve comprehensive development of the industry and to further improve transport services planned to implement measures in the following areas:

- harmonious development of the way in which different transport- communication complex;
- balanced development of the international and transit corridors and roads throughout the country, as well as regional, road infrastructure in cities and districts;
- speedy integration of the transport and communication system in the world of transport-communication traffic passing through the country and the main vehicle accordance with international standards on the basis of the modernization;
- to continue implementation of roads, communication lines and other infrastructure facilities construction, the reconstruction and development projects;
- economy that realizes the exchange of goods and freight transport and passenger transport to ensure the balanced development of the social needs.

In recent years, communication and information technologies fields in the Republic of Azerbaijan are developing rapidly, in XXI century passages to the information society in the country, formation of e-government and the development of intellectual capacity became one of the important issues to improve the socio-economic development. At the same time, with the development of information and communication technologies in the country, to achieve allround progress of the country, especially to implement the National Strategy on information and communication technologies (ICT) for development, operate and ensure the implementation of planned projects in accordance with the objectives set are the priority directions of development in coming years. By using the existing potential various events are planned aimed its development, modernization in terms of organizational, legal, technical, personnel of communication and information technologies fields, formation of ICT industry, attracting new investments in this area and as a result of the expansion of business to ensure the country's transition to an information society.

To achieve the set of goals in this area will be taken on the following areas;

- creation of advanced information and communication infrastructure, the formation of a unified national information space;
- creation of electronic government for the efficient, transparent and controllable state administration and realization of local self-government;
- efficient use of world information resources in education, the acceleration of the use of Interactive educational opportunities;
- the provision of universal communication services (telecommunications, IT and mail) in the regions;
- expanding access to internet in all areas.

In the country should be done a number of important measures for prevention of factors that have a negative impact on the environment and to improve the environmental situation, as well as, in the coastal strip of the Caspian Sea, in Absheron peninsula and in other regions of the country waste water must be cleaned, should be remediation of contaminated soils, the settlement, forests and vegetation in wide range fields, to carry out Improvement works and other necessary measures should be implemented to restore the natural quality of water basins, air, land. The rapid development of the national economy, environmental protection and rational use of natural resources in solving problems in the coming years will require the implementation of following measures:

- To Improve the hydrological monitoring system on Kura, Araz and other rivers;
- Expanding the greening of cities and towns, streets and avenues;
- to continue reforestation and afforestation measures in the regions;
- Identify recreational forests and service infrastructure for the development of : eco-tourism;
- The continuation of the measures to prevent pollution of water resources, waste water, including cross-border pollution;
- implementation of measures on the prevention of air pollution from Industries and vehicles;
- strengthening of environmental awareness raising activities, the allocation of a wider range to environmental education in educational institutions.

As in previous years; the main aim of social policy in the next five years in the country will provide further improvement of the living conditions of population, as

well as, the citizens living in the regions. One of the priority directions in the field of social protection of population will consist of the increase social benefits for the low-income population groups, improve the social status, living conditions of persons in need of social protection and reduction of poverty in the country. In order to ensure social protection and decent living standards of citizens intended continuation of the measures for improving pension provision and to increase its effectiveness.

In social security one of the most important areas of public policy will consist of ensuring targeting of social benefits, paying special attention to the disabled, war veterans, young families, vulnerable sections of the population: Strengthening social protection of the population will be implemented following measures;

- to continue appropriate measures for providing social assistance to low- income families;
- improve mortgage loans in order to better meet needs housing of population, especially young families;
- To improve the living conditions of the Karabakh war veterans and martyrs' families;
- strengthening of social protection and safety of mothers and children;
- creation of child and family centers, including, special leisure facilities and specialized services institutions for children; "
- the improvement of population health (improving the quality of food products. Infectious and sexually transmitted disease prevention, etc.);
- the improvement of reproductive health and the development of family planning services.

In coming years, the work will be done in the field of education will target its structure and content updating. For all population groups in the country the provision of education services, which can provide up to modern standards, creating the conditions of material-technical and methodical and in this basis achieving the highest socio-economic efficiency of the education system takes essential place in the state's social policy. At the same time, in terms of the formation of competitive economic system in region and sustainable development will be a priority need payment to meeting modern requirements workers, creation of necessary conditions to enroll in a higher education based on universal values of young people, to ensure expansion and efficiency of the process discipline access to education in the leading countries of the world. To achieve these objectives, the following measures will be implemented in the coming years;

- Modernization of the content of education and Improve Its quality;
- construction of new schools, the improvement of technical and human resources in schools;
- improvement of material and technical base of educational institutions on information and communication, improve the provision of computer equipment and other necessary digital equipment;
- Providing pupils with free textbooks and improving the performance of school libraries;
- ensure equal access to education for all sections of the population;
- the improvement the education of children with special needs (disabled);
- to speed up reforms in the field of school education, optimization of such education facilities, strengthening the material-technical base and establishment of the new pre-school in modern level needed in the towns, villages and towns;
- strengthening of vocational and higher education reforms, including adjusting the staff training to labor market One of the most important tasks in the field of science occurs the practical significance of the research, ensuring the establishment of closer ties between economic subjects in scientific research and design institutes. In the coming years, the following measures will be implemented in the field of science:
 - To protect and develop the scientific and technical capacity;
 - To increase the research capacity of the country and its social protection;
 - Increase the state's information resources and accelerate the innovation process;
 - By further strengthening the case on linking and directing the scientific institutions of higher education and scientific research activities;
 - Making effective use of scientific potential on the protection of population health and ensuring environmental safety;
 - Preparing highly qualified personnel by study abroad and through internships.

Measures to be implemented in the health sector for 2009-2013 must guarantee the protection of public health, improve the quality of medical services, the establishment of a modern healthcare system in Azerbaijan Republic. The ultimate goal of the state policy in the field of health occurs improvement of population health, prolongation of life expectancy, to provide quality medical care to all

segments of the population. To achieve the goals of the main directions of the state policy in the field of health are as follows:

- As part of the state's financial resources to expand and improve the quality of health care services for free;
- Development and implementation of measures to provide medical assistance to underprivileged layer of population:
- Malnutrition among mothers and children, and the improvement provision of micro-nutrients;
- Improve the scope and quality of medical preventive measures:
- Preparation of medical staff in the planning and preparation of family doctors in accordance with the requirements of the health sector;
- Creation and operation of the medical industry enterprises supported by the state in order to improve the provision of medicines and equipment to health care facilities;
- Construction of new health care facilities in the regions;
- Creation of the geographical information system in the field of health care over the country.

In order to ensure a healthy lifestyle of the population in Azerbaijan Republic, the work will continue to engage in physical education and sport of every citizen. In order to ensure comprehensive development of the population, especially, growing younger generation will consist of the implementation of the measures improving the health of the population in physical education and sport, to nurture high moral values, the country's defense preparedness. To this end, in the coming years will focus on the following works:

- Continuing the development of the material-technical base of physical culture and sport, strengthening and compliance with international standards in cities and regions of the country;
- Building on scientific grounds the development of physical culture and sport;
- To ensure medical control and services those engaged in physical education and sports.

The strategic objectives of the state policy in the field of culture occurs protecting and development of cultural potential of the country, riches and traditions and improvement of the education system. To this end, following measures will be implemented:

- Strengthening inter-regional cultural relations, the integration of the world cultural process of national culture;
- ensure the protection of cultural heritage of Azerbaijan Republic, including increasing the number of the movable cultural heritage and museum;
- protecting the country's historical and cultural heritage and cultural potential and for this purpose, to carry out comprehensive reforms in the museum;
- creation of modern sorting mechanism in library funds, the provision of information libraries and creation and development of library-information computer network in the country;
- the creation of collaboration and cooperation between cultural facilities and other area organizations.

In recent years, there was active participation of the municipalities in the implementation of infrastructure projects implemented and a number of important measures to improve the social situation of the population, their presence were necessary in the effective use of local natural and human resources. In the coming years local self-government bodies will actively participate in the resolution of social problems and the realization of works in the development of the regions, as well as the formation of new economic relations, development of entrepreneurship, the establishment of quality and mutual relations. Implementation of the measures envisaged in the State Program directions play an important role in economic development of the country being important stage in socio-economic development of the Republic of Azerbaijan and achieving the objectives set within the "State Program on Poverty Reduction and Sustainable Development in Azerbaijan Republic in 2008-2015" as well as improving the welfare of the country's population.

4.4.2. SOURCES OF FUNDING MEASURES ENVISAGED IN THE STATE PROGRAM

Within the "State Program on the Socio-Economic Development for 2009-2013 of regions of the Republic of Azerbaijan" measures will be implemented is expected to be financed from the following sources;

- Azerbaijan Republic state budget;
- extra-budgetary funds;

http://senaye.gov.az^az/normative_programs/region_development

manage, enterprise and organizations funds regardless of ownership;
Funds of National Entrepreneurship Support Fund of Azerbaijan and "Azerbaijan Investment Company" OJSC;
funds of local and foreign entrepreneurs;
Financial resources of international organizations and foreign countries; other sources not prohibited by the legislation.

4.5. SOCIO-ECONOMIC DEVELOPMENT PROGRAM OF REGIONS OF AZERBAIJAN REPUBLIC FOR 2014-2018

Adopting the implementation of state programs on socio-economic development is great importance in the last decade on the rise of a new stage of development of regions. All-round development of the regions as a continuation of the policies instituted since 2004 developed "State Program on socio-economic development of regions of Azerbaijan Republic for 2014-2018"⁴. Execution of "Socio-economic development state program of regions of Azerbaijan Republic in 2014-2018" will play a crucial role in ensuring macroeconomic stability, the expansion of business activity in the region, the creation of new businesses and jobs, the implementation of large-scale infrastructure projects, the improvement of public services, resulting in further improvement of people's welfare and reducing poverty by playing an important role in the development of the national economy. The Action Plan of the State Program consists of the following sections:

- Country significant events,
- measures for the economic regions of the country:
- Nakhchivan economic region (Nakhchivan, Babak, Juifa, Ordubad, Sadarak, Shahbuz, Kangarli, Sharur regions);
- Absheron economic region (Absheron, Khizi regions, Sumgayit city);
- Aran economic region (Agjabadi, Agdash, Beylagan, Barda, Bilasuvar, Goychay, Hajigabul, Imishli, Kurdamir, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zardab regions, Shirvan, Mingachevir, Yevlakh cities);
- Mountainous Shirvan economic region (Agsu, Ismayilli, Gobustan, Shamakhi regions);

⁴ http://senaye.gov.az/az/normative_programs/region_development

- Ganja-Gazakh economic region (Agstafa, Dashkasan, Gadabay, Goranboy, Goygol, Gazakh, Samukh, Shamkir, Tovuz regions, Ganja and Naftalan cities);
- Guba-Khachmaz economic region (Shabran, Khachmaz, Guba, Gusar, Siyazan regions);
- Lankaran economic region (Astara, Jallabadi, Lerik, Masalli, Yardimli, Lankaran regions);
- Kalbajar-Lachin economic region (Kalbajar, Lachin, Zangilan, Gubadli regions);
- Sheki-Zagatala economic region (Balakan, Gakh, Gabala, Oguz, Zagatala, Sheki regions);
- Upper Karabakh economic region 1 (Aghdam, Tartar, Khojavand, Khojaly, Shusha, Jabrail, Fizuli, Khankendi city).

The State Program implementors are relevant central and local executive bodies. Coordination of program implementation is carried out by the Ministry of Economy and Industry of the Republic of Azerbaijan. The implementation of measures envisaged in the State Program for the years will be provided when preparing for the annual Public Investment Program.

In this regard, the main objective of "The State Program socio-economic development of regions of the Azerbaijan Republic (2004-2008-years)" decree approved by President of Azerbaijan Republic on February 11, 2004, No. 24 was composed on sustainable development of non-oil sector, to ensure balanced development of regions of the country, improve the provision of public utilities and social infrastructure in the regions, as a result of the creation of new jobs and businesses, increasing the level of employment and improving quality of life.

In order to achieve the development of non-oil sector, economic diversification, balanced regional and sustainable socio-economic development, further improvement of the living standards in the country for the continuation of the measures launched since 2004 approved decree on "The State Program on socio-economic development of regions of Azerbaijan Republic for 2009-2013 " by President of Azerbaijan Republic on April 14, 2009, No. 80. As a result of successful implementation of "The State Program on socio-economic development of regions of Azerbaijan Republic for 2009-2013" was achieved macro- economic indicators of the country's high growth rate played an important role on further improvement of the living standards in the implementation of measures envisaged in the sphere of socio-economic development.

Overall, over the past 10 years implementations in the field of socio-economic development policy caused the rapid improvement of the country's macroeconomic indicators, increased Gross Domestic Product (GDP) 3.2 times, GDP per capita 2.8 times, the non-oil sector by 2.6 times and the average annual economic growth organized 12.9%. The last 10 years, strategic currency reserves increased 31 times, the foreign trade turnover 6.6 times, export by 9.3 times, import by 4.1 times, non-oil exports by 4.7 times.

In 2004-2013 years, domestic investment increased by 14.6 times, the non-oil sector 12.9 times, 50.7 billion manat were allocated to the regions from all sources. Over the past 10 years as a result carried out measures opened more than 1.2 million new, as well as, 900 thousand permanent jobs, 55.6 thousand new businesses have been created. 80 percent of new jobs accounted for the regions.

Expanded Direct transport links with world countries, especially, the countries of the European Union, Baku-Tbilisi-Jeyhan (BTC) oil pipeline and Baku-Tbilisi- Erzurum gas pipeline made a significant contribution ensuring world energy security. Ensuring energy security of the region and Europe exceptional importance projects of TANAP and TAP, also the signing of the final investment decision of "Shah Deniz-2" project is paramount importance with the development of economy, social welfare and improvement of socio-economic development. In addition, actions towards the realization of the country's transit potential, as well as Europe-Caucasus-Asia transport corridor activities, construction projects on Baku-Tbilisi-Gars railway. International Sea Trade Port in Alat, North-South, East- West transport corridor, highways continued successfully.

The last 10 years In the development of education infrastructure 2708 school was built in or were renovated, aimed at improving the quality of medical services rendered to the population were built more than 500 health facilities. In order to Improving the welfare of citizens, strengthen the social protection of the poor people, every year beginning since 2007, increased the basic part of labor pensions according to age and social benefits, the minimum amount of pension has been reached from 20 manat to 100 manats. The last 10 years all tent camps were abolished, 77 modern settlements established for refugees and internally displaced persons, 37 thousand families - 166 thousand internally displaced persons have been provided with housing. At the same time, continued strengthening of social protection of the disabled and families of martyrs, have been built 2788, as well as, 2041 apartment buildings In the region and more than 450 houses.

The aim, objectives and priorities of regional development of the State Program, the main objective of the " State Program on socio-economic development regions of Azerbaijan Republic for 2014-2018" is the non-oil sector development, economic diversification, continuation of the measures on the rapid development of the regions, will consist of especially, on the development of moral infrastructure and further improvement of social services. To achieve the set goals of state Program it is planned to carry out important tasks as a continuation of the measures such as infrastructure provision in the regions, as well as, further improvement of the provision of public utilities, accelerate business development in the production of export-oriented and competitive products, increasing employment of the population, especially, rural population and to reduce poverty. Achievement of the objectives as well as for the implementation of the above- mentioned tasks it is important to preserve macroeconomic stability set in the State Program. Taking into account the macro-economic stability the modernization of the state's budget policy priority sectors of the economy and the creation of conditions in order to ensure its effectiveness, long-term sustainability further improvement of the investment climate will be a priority. As the main source of economic growth, employment, budget and foreign exchange revenues will continue to serve as a strategic factor achieving balanced and sustainable economic growth in the non-oil sector and formation of high-income economy. In this direction, such as the main terms of the whole economy, including the development of the individual sectors in the regions for 2014-2018:

- Maintaining an acceptable level of the average annual inflation rate and the exchange rate of the national currency;
- Determination of the extent of tax and customs tariffs;
- To continue measures to the stimulation of agricultural producers;
- Increasing grain production and strengthening of competitiveness;
- Stimulation of the activity of export-oriented manufacturers;
- The stimulation of creation of new jobs;
- Increasing of non-oil budget revenues special weight in Gross Domestic Product;
- Will be continued development of the agricultural sector in order to ensure food safety.

The investment climate in the state, affecting the development of employment policies, employment creation, tax, customs, education and other relevant fields of politics, further improvement of the new jobs will be to implement measures

to Stimulate the development of the institutional environment. Following measures will be implemented in the area of employment in the coming years:

- Expansion of regional economic cooperation;
- Establishment and development of a fair competitive environment, ensuring control over compliance with labor legislation;
- Directing the development of human capital In a part of the revenues from oil exports and the application of advanced technologies and innovations on the development of scientific fields;
- Create conditions that ensure a balance between the number of jobs available of the proposed workforce;
- Through the development of social and communal infrastructure reduce migration of the population in rural areas;
- Increase the level of employment of women and young people. In the coming years, the main directions of of the Azerbaijan Republic tax policy shall be as follows:
- Expansion of partnership relations between taxpayers and tax authorities;
- Expansion and improvement of e-services through the use of modem information and communications;
- The stimulation of investment in regional economy and innovation activity;
- The creation of a more favorable tax environment for business activity In the regions.

Azerbaijan's economy in the global economic integration, the role of customs policy in protecting the economic security of the country and the domestic market is growing significantly and as one of the main tools in ensuring socioeconomic development of the country the development of a system based on transparency, strengthening the protection of the rights of employers and individuals, modernization of customs infrastructure and continuing to strengthen the material-technical base will be the main priorities of customs policy for 2014-2018. Financial intermediary role In the economy in order to support the liquidity of the banking system will continue to keep an adequate level and at the expense of the sustainable development of non-oil sector, the role of the banking system on ensuring the diversification of the economy, accelerating regional development, expanding business initiative and on this basis the reduction of poverty is significantly increased. A healthy competitive environment in the banking system will be formed in the coming years, the regions will be provided with high quality and wide range of banking services, banks will increase credit and

investment opportunities, equal competitive environment in the banking services market will be achieved for the organization. The necessary measures will be continued which provides an efficient and stable functioning of a market economy, protecting the business activity from the potential risks, creating a cost-effective sources of long-term investment for the development of the economy associated with the formation of the national insurance system. In order to ensure long-term economic and social development of the country's economy will play a special role in attracting Investments, the investments in order to ensure the required quantity and quality of the major challenges facing the improvement of the investment climate. For this purpose the main directions of the state's investment policy will be the following priorities for the period of 2014- 2018:

- directing the Investments on the non-oil sector and regional development;
- prioritization of regional Investment policy in accordance with modern tendencies of development;
- strengthen the social dimension of investment activity in the country, provision of priority in the human capital and infrastructure investments;
- prioritizing investment in public investment in the field of nanotechnology and low-carbon production;
- Speed stimulating measures to the priority areas of the economy, as well as in order to attract local and foreign investments to the specific weight of export-oriented and high added value sectors;
- be established in industrial parks to attract local and foreign investment.

To improve the business environment for the development of entrepreneurship in the country as a result of constantly high quality and competitive products for export and the production of the main priorities of the state's economic development strategy. The activities carried out in the environment for entrepreneurship and improving public policy, state support will be directed to an improvement in relations between the state and entrepreneurs improvement. A number of measures will be implemented in the coming years in the development of entrepreneurship:

- Continuing further improvements of the legal framework regulating entrepreneurial activity;
- other Institutional mechanisms for improvement of relations between the state and entrepreneurs;
- In the regions to further improve entrepreneurs financial security;
- improvement of entrepreneurship production, market and social infrastructure

including, mechanisms for the acceleration of development of modern market infrastructure (as a financial, banking and insurance system, stock market, audit, mortgage, leasing, franchising service);

- In regions supporting efforts to strengthen and expansion of mutually beneficial cooperation between small, medium and large enterprises, including production - cooperation.

In accordance with the policy of industrialization, measures undertaken for the establishment of a qualitatively new level of industrial enterprises activities based on local raw materials, and creation of new businesses, industrial districts, will be stimulated the introduction of innovative technologies, the work will be continued towards the creation of specialized and general-purpose industrial parks. Establishment of industrial parks will have a significant impact the country's economic development, modernization, competitive industrial production of high- tech and further expansion of the country's export capacity, as well as an increase in the level of employment. The following measures will be implemented as part of the industrialization policy:

- In the region promotion of the establishment of competitive and export- oriented industrial production sectors on the basis of innovative and high- tech:
- The development of non-oil sector in traditional production areas (Chemical industry, metallurgy, mechanical engineering, electrical engineering, electronics, light industry, food industry, etc.);
- The successful implementation production organizational models in the world for the support of entrepreneurship, including the continuation of the creation of industrial parks and business incubators;
- implementation more transparent and effective privatization process on privatization of industrial enterprises started, support the post-privatization activities of enterprises;
- Reconstmction of the existing industrial enterprises in terms of production and preparing with qualified staff the mechanisms of ensuring.

In the region the main priority is the development of non-oil sector In the area of the successive reforms aimed at the development of agriculture and attraction of new technologies. The combination of farmers in agriculture and creation of cooperatives will give an impetus to increase competitiveness of incomes in the agricultural sector and agricultural products and compliance with international standards. The development of the agricultural sector and ensuring food security

of the population is considered as one of the main directions of the State Program. The development of the agrarian sector consists of the following areas:

- associated development of production of raw materials and processing areas of agrarian sector and stimulation of increase of competitive and export- oriented production, primary the continuation of the measures related to food self-sufficiency;
- Increase financial support to the agricultural sector and the continuation of measures to promote the development of traditional agricultural areas;
- application of environmentally clear technologies in plant growing and animal husbandry and stimulating the activity of economic entities in this area;
- creation of large grain or seeding, saplings, vine, intensive gardening farms;
- Continuation of the establishment of hothouse, refrigerators and grain storage complexes (logistics centers) in regions with the aim of agricultural production, deliveries, keeping and sales;
- taking into account the nature of each region, naturally and the climatic conditions implementation of appropriate measures by specialization in agricultural production;
- formation of ecologically clean agricultural and food markets;
- strengthening the material-technical base of agrarian sector and the new structures will operate on market principles;
- The continuation measures to improve the supply of agriculture, irrigation and land reclamation, efficient use of land and water resources;
- Undertaking relevant measures towards the lands electronic technical registration and creation of an electronic registration system for farmers.

In order to ensure the effective integration of the national economy into the world economy the expansion of foreign trade policy are priority directions of export of non-oil products. In this connection, the following actions in 2014-2018 will be important tasks:

- implementation of appropriate measures on research and to increase the access to target markets of agriculture and processing products which have a major role in regional development;
- continuation of regular activities on expansion of export opportunities for entrepreneurs in the regions;
- implementation of appropriate measures on strengthen the protection of the interests of strengthening the position of national producers in foreign markets;

- implementation of appropriate measures to improve the infrastructure for the development of foreign trade;
- Stimulation of exporting enterprises to participate in international exhibitions and fairs in order to increase their access to world markets of products originating in Azerbaijan;
- Undertaking relevant measures explore and to develop the possibilities for exports to the widespread use of e-commerce services;
- To improve the quality standards of the products are exported and export potential and encourage businesses that produce products of international standards in this regard and support for the creation of national brands.

For 2014-2018, information and communication technology (ICT) infrastructure will be developed, further expanded the capabilities of modern electronic services to the population, including the village residential areas, in the country broadband, low-cost and high-quality Internet access will be provided. To achieve the set goals in this area will be carried out on the following areas:

- Raising the level of knowledge and training of personnel in the ICT sector of the population in the regions;
- Enhancing the quality of television broadcasting in the regions.

In the development of non-oil sector the development of tourism in the region will remain a priority in the coming years, continued the expansion of tourism resources, tourists visit, to meet the needs of tourism services which is necessary and expand the range of other cultural events and modern standards, the implementation of projects related to the construction of tourism facilities. Tourism industry consists of the following areas of development:

- The implementation of targeted projects aimed at the establishment of the highest international standards of tourism infrastructure in regions;
- Promotion of tourism activities in all regions of the country and the expansion of promoting in order to attract investments in this sector by means of modern information and communication technologies;
- The creation of appropriate infrastructure in tourism and recreation zones in the regions, development different types of tourism , the creation of new tourism routes;
- Implementation of appropriate measures to improve the quality of tourism services in the regions through the increasing the level training of personnel working in the tourism sector;

- Support for the creation of new hotels of different categories, and other placement means, tourist service facilities in regions.

Work to be done In the sphere of fuel and energy complex of of the country in the coming years will consist of to provide more comprehensive satisfaction of the economy and the population's energy needs, the development of the energy industry, including to increase its effectiveness. The main directions of the state policy in this area in 2014-2018 will include as follows:

- continuation of the country's energy system and the creation of new powers, construction and reconstruction of new power plants and transmission systems;
- expand the use of alternative and renewable energy sources;
- construction new thermal and hydroelectric power station in the region, continuation of the modernization of the existing power units;
- To continue to improve the region's gas supply;
- The continuation of modern heating systems, rehabilitation of existing heating systems, modernization and reconstruction in regions.

The development of human capital and effectively continuation of the work done in the field of social protection system and expansion was identified as a key priority, for this purpose the country's population, in particular, to improve the housing conditions of socially vulnerable sections of the population and the development of this sector are set out as one of the key issues. In order to housing and community economic development, exploitation of housing stock and increasing the level of maintenance are the main priorities of housing policy for 2014-2018:

- Continuation of the housing and communal sector reform in regions, supporting the development of the real estate market;
- The continuation of the measures in order to provide living space for low- income citizens regions in need of housing, including young families;
- In regions the continuation of the measures for water supply and reconstrction of sewer system and to improve;
- In regions continue measures on landscaping and planting of greenery;
- In the regions will take appropriate measures on waste management area.

Make effective use of the country's strategic geographical position the development of transit and transport services, domestic and international transportation management mechanism, improving the quality of public transport services will

be the main tasks For 2014-2018 years. In this connection, the following measures will be implemented:

- In regions the development a sustainable transport system, improving the competitive environment the transport sector, including transport services market;
- The development of road transport infrastructure of interregional, city and intraregional of the country:
- In regions the continuation of the measures on the overhaul on construction and reconstruction of highways, in particular, construction of rural roads.

For 2014-2018 years one of the main goals are to achieve ecological balance. The necessary measures will be continued in the coming years on biodiversity protection, neutralize the negative environmental impact of the fuel and energy complex, the elimination of pollution of the sea and its waters and protection, restore green areas and the effective protection of the resources available. The main objective of environmental policy will be to ensure sustainable development for the sake of present and future generations, with protection of ecological systems and the efficient use of natural resources. The main events will be carried out in this area consist of the following:

- In regions implementation of appropriate measures by activity based on the principle "green economy" of industrial enterprises;
- The discovery of new deposits of raw materials for the supply of raw material base for economic development:
- In regions to continue reforestation and afforestation, increasing green areas;
- In regions the development of specially protected natural territories and to ensure the sustainability of biodiversity;
- in regions management the resulting solid and industrial waste;
- Expanding the use of alternative and renewable energy sources. The main priorities of the state policy in the field of social protection of population for 2014-2018:
- By the development of effective social protection system the continuation of the work on area of reducing the risk of social on the elderly population, low- income families and in particular, socially vulnerable groups in the regions;
- In regions strengthening of the material-technical base of state-owned enterprises providing social services, expanding their types and the network;
- The continuation of the work to improve the housing conditions of Karabakh veterans and families of martyrs;

- In regions will be continuation of the measures In order to develop the skills and abilities of people with disabilities, to increase employment opportunities for them.

In the coming years, the work will be done In the field of education in accordance with "National Strategy for the Development of Education In the Republic of Azerbaijan" provides for large-scale events among countries In the world Quality Results and holding leading positions in the coverage, based on cutting-edge technology infrastructure for the creation of the education system. The education system in accordance with economically sustainable and the standards of the world's leading education systems allowing the training of personnel in the country, education management system and advanced international experience in education infrastructure and reconstruction of Azerbaijan concept of development, will ensure sustainable development knowledge-based economy in the country. To achieve these objectives, the following measures will be implemented in the coming years:

- construction of educational institutions In the regions and continuation of the capital repair works:
- implementation of appropriate measures carrying out measures for rationalization of the education network, for equalize the quality of education between regions;
- systematic study of the regions of the labor market system;
- creation for distance education, gifted and special education for children with special needs and development, adult education, vocational and educational issues, regional universal advice centers.

For 2014-2018 years the main objectives in the field of health strengthening primary health care services in the regions, will improve the quality of medical services provided to the population. In the regions in order to strengthen the material-technical base of public health continued, construction of medical facilities, repair and reconstruction, work to equip them with modern medical equipment. To achieve the set goals the main directions of the state policy in the field of health are as follows:

- in regions the continuation of appropriate measures to the protection of public health, to improve the quality of medical services, knowledge experts and the ever-increasing skills;
- in regions medical assistance to underprivileged social groups, to improve the scope and quality of medical preventive measures;

- In order to improve the supply of medicines and equipment of health facilities supports for the creation of medical industry enterprises;
- In the regions continue construction and refurbishment of new health care facilities;
- The continuation of the establishment of resort in the regions, reconstruction and improving infrastructure provision work on their area.

Will be continued the work carried out in 2014-2018 in order to support youth, as well as the development of physical culture and sport. Events will be continued information for young people living in remote rural areas will be expanded network of advisory services, strengthening the health of young people, to increase the role of physical culture and sports in accordance with the relevant conditions in the field of leisure:

- Further improvement of conditions for the development of young people in the regions;
- Further increasing youth employment and entrepreneurship development among young people;
- To encourage young professionals to work in regions;
- Promoting physical education and sport among the children, adolescents and youth in regions;
- strengthening the material-technical base of sports facilities in in regions, and continue to develop.

In the coming years, continued appropriate measures on protection of cultural heritage in the region, further development of cultural diversity in the context of globalization, the restoration and preservation of historical and cultural monuments. Improve the functioning and development of the historical and cultural reserves, repair and construction of cultural facilities in the regions. Mentioned directions of the State Program implementation of the measures envisaged being an important stage on socio-economic development of the Republic of Azerbaijan play an Important role sustainable development of the country's regions and under the achieving the intended objectives on "Azerbaijan 2020: Vision of the Future" concept, as well as, improving the welfare of the country's populatio.

4.5.1. SOURCES OF FUNDING MEASURES ENVISAGED IN THE STATE PROGRAM

Within the measures to be implemented "Regions of the Republic of Azerbaijan in 2014-2018 State Program on socio-economic development" is intended financing from the following sources:

- the state budget of Azerbaijan Republic;
- extra-budgetary state funds;
- regardless of ownership, management, funds of enterprises and organizations;
- National Entrepreneurship Support Fund of Azerbaijan Republic and "Azerbaijan Investment Company" JSC funds;
- funds from local and foreign entrepreneurs;
- Financial resources of international organizations and foreign countries;
- other sources not prohibited by the legislation.

CHAPTER FIVE

CASPIAN ENERGY RESOURCES AND ECONOMIC IMPORTANCE

Oil is the most precious wealth of Azerbaijan. Since the start of production over the last 150 years, oil playing an important role in economy currently, is considered to be the country's main source of income and the main source of export goods.

Medium and long term prospects for the country's development directly dependent on the oil sector strengthening. Proceeds from the sale of oil plays a key role in addressing some of the social and economic problems.

In terms of the contracts signed by the discovery and development of Azerbaijan energy resources, a historic opportunity both politically and in terms of economic independence, has had an excellent opportunity. The signed oil contracts speed up the entry of foreign capital into the country, in parallel, increased foreign aid and loans from international financial organizations.

5.1. POTENTIAL OF OIL AND NATURAL GAS

The Caspian region (Azerbaijan, Turkmenistan, Kazakhstan, Russia and Iran) has proven oil reserves of 10 billion barrels. Estimated oil reserves are 233 billion barrels. Proven natural gas reserves of the Caspian region is an estimated 170 Tcf (trillion cubic feet). Estimated natural gas reserves in the region, including Uzbekistan is 293 Tcf.

It should be noted that; with hydrocarbon resources of the Caspian region, as a result, with respect to oil and natural gas potential of Azerbaijan it is very different from the estimates.

According to the Ministry of Energy, signed contracts covering the regions of Azerbaijan have 6-8 billion barrels (1 billion tons) of oil reserves. Just Azeri-

Chirag-Guneshli oil reserves are 730 million tons. The information provided above is based on 0.7% of the world's oil reserves, we can say that it has.

According to Mondros Armistice Agreement, the Turkish troops had to retreat from Baku and the Allied troops had to enter the city. The Allies troop under the command of General Thompson entered Baku on November 17th of 1918 and founded an organization called "British Petroleum Management" and exported 114 million mbies worth of oil from Azerbaijan through Batumi.

After the war, the economic and strategical importance of oil became more vivid. Countries started to feel the need for huge amount of oil in order to increase their national power and realize economic development.

In the spring of 1919 after the Allied troops left Baku, Azerbaijani authorities tried to rebuild the gravely damaged oil industry.

Owing to the balance of the political situation in Azerbaijan in 1919 and the return of the oil industry to its former owners, certain increase happened in the oil production. Over the next 2 years, the oil industry showed a further decrease due to the nationalization of the oil industry. Thus the oil production in 1921 was 70 % of what was produced in 1919.

On the other side, the Genoa and Hague conferences took place in 1922. Although the announced reasons of the conferences were political, in fact the real target was only petrol and most importantly Baku's oil. The aim of those conferences were not about recognising the independence of Azerbaijan, but rather dividing its oil resources among the countries hiding big oil resources behind. The only thing spoken in the conferences was oil. As a result of the Genoa and Hague conferences Azerbaijan's fate was determined; Azerbaijanians lost their young independence for the sake of oil and one Turkic country was cleaned out for petrol.

The fundamental reason for the dramatic decline in oil drilling in Azerbaijan can be explained by the political changes in Russia and Azerbaijan.

During the period of the Soviet Union, Azerbaijan was deprived of the benefit of its own oil and met a significant portion of oil needs of the Union. In comparison with the unbalanced growth of investments made in the oil industry to boost oil production and export, capitals in other industrial sectors dwindled.

The years between 1920-45 during the reign of the Soviet Union are considered as the second phase of oil. Over this period, while the oil and gas industry improving significantly, the material and technical infrastructures advanced

considerably. The period between 1945-90 is regarded as the third phase of Azerbaijan's oil production.

In 1918, In accordance with the decision taken by the Bolshevik government In Moscow, 165 independent oil companies were nationalised. In the same year when Independent Azerbaijan Democratic Republic was proclaimed (1918-1920), the government decided to cancel the nationalisation of the oil industry giving those businesses back to the owners. Unfortunately, Azerbaijan Democratic Republic was invaded by the Russian Army on April 28, 1920 preventing the elimination of oil crisis. After the occupation of Azerbaijan by Russia's Red Army, the Azerbaijan oil industry was renationalized. Starting from April 30, 1920 Baku oil was transported to Russia.

After the invasion, oil production kept shrinking. As in 1921 , only 2,411 million tons of oil was produced.

The nationalisation of oil industry and political change played an important role in that period. The already increasing oil production reached 11.6 million tons in 1928.

During this period, there was a great competition between America's Standart Oil and the UK's Shell companies. Taking benefit from this competition, Azerbaijan was selling oil to foreign countries through Turkey and buying goods for the Sovet Union in return. Although Lenin gave some freedom to Azerbaijan in foreign trade and it caused complaints of some circles, he supported the continuation of foreign trade provided that information would be given about every action. Slowly growing Baku oil exports reached 1 million 650 thousand tons in 1925, this figure became 50 times more than the export in 1921.

After the First World War, In spite of the big efforts made for the development of Azerbaijan oil production and processing industry, while great success was achieved in petro-chemical, oil industry and mechanical engineering, but large declines occurred in the oil production. Despite this fact, in 1930, 57% of oil production in USSR was provided by Azerbaijan. This figure rose to 71% in 1940.

Azerbaijan's oil in the Second World War - During the Second World War Hitler, who read, spoke and knew a lot about the history of major oil fields around the world, tried to capture the oil fields in the Caucasus, particularly in Baku according to a plan named "Edelweiss". Because he regarded the oil in the Caucasus as the fundamental element in the way of self-sufficient and thus invincible German Empire.

Baku oil fields were the focal point of England, France and the USA. The mentioned states had plans of bombing Baku to prevent Germany's access to Baku's oil fields and weaken the Soviet Union. However after Hitler's invasion of Holland, France and Belgium on June 22, 1940, Baku oil fields stopped being the main target. Though Hitler struggled hard to take over Baku's oil, he failed to achieve his aim. The Soviet Union won the Second World War by defeating Germany thanks to Azerbaijan's oil.

Azerbaijan oil played a significant role in the development of the Soviet Union and during the Second World War 20 million tons of oil was sent to the front. That is why, Azerbaijan oil had a huge impact in winning the War. Over the Second World War oil production in Azerbaijan was realized like this: 25.4 in 1941, 15.8 in 1942, 12.6 in 1943, 11.8 in 1944 and 10.4 million tons in 1945. The steadily rising oil production since 1923 reached the record level in 1941.

During this period, the oil drilled in Baku and the surrounding area accounted for 75% of the oil produced in the Soviet Union. Given the fact that during the War remarkable part of the USSR's oil needs were met by Azerbaijan, the geo-strategic importance of Azerbaijan becomes much clearer.

The period of the Second World War caused a grave harm to the development process of Azerbaijan's oil. Because oil wells were damaged in the transportation of oil.

On November 7, 1949 the first oil production from the discovery well in Caspian Sea "Oil Rocks" started.

Furthermore, Baku oil and industry had an important contribution in discovering and producing oil fields in Tatarstan, Bashkiria and Kazakhstan. That is why new oil fields discovered in the Soviet Union were named "Second Baku", "Third Baku", "Fourth Baku". The start of oil production, in particular, in Siberian fields as well as along the Volga, Tatarstan, Bashkiria, Western Siberia, Kazakhstan led to a significant reduction in Baku oil production after 1950s.

Azerbaijan's part in Soviet oil production decreased from 39.1% in 1950 to 12.9% in 1960 and to 6% in 1970, 3% in 1975, 2.40% in 1980, 1.7% in 1990.

The reduction during that time can be explained by following factors.

First of all, the continued production in the offshore fields caused the reserves to dwindle, even newly discovered fields could not prevent this process. At the same time, oil production in defined areas were expensive.

Secondly, as mentioned above, very large oil fields were discovered in western Siberia, western Kazakhstan and other places.

In 1985, the share of offshore oil made up 66% of total production in Azerbaijan.

In 1970s and at the beginning of 1980s, "Kaspmorneftegaz" organisation's technical capabilities were insufficient for the exploration of oil and natural gas deposits at more than 60 metres depth in Azerbaijani sector of the Caspian Sea.

With the help of Gipromorneftegaz, "Gunesli" with large reserves was discovered and it brought about further research in other fields.

Like the other republics of the Soviet Union, Azerbaijan was controlled and directed with the central planning, thus depending on the central government it was unable to utilize its own aboveground and belowground resources to meet its needs. The amount of the money paid to Azerbaijan for the oil was 3-4 times lower than the price of mineral water. At first, 35 rubles, then 65 rubles and in 1991, 120 mbies were paid, the cost of one ton oil was 131 mbies. In addition, during the last years of the Soviet era, 85% of the investments made by the central government was allocated to the oil in western Siberia, the Urals and the Volga.

Towards the end of 19th century, a great competition began among the regional powers, world powers and oil companies. Russia was afraid of losing its influence in the oil market and it boycotted a contract signed in 1895 among American Standard Oil, the Rothschilds and the Nobels. The competition in the region, the ethnic conflicts were inflamed increasingly by bureaucracy and relatively less developed legal and commercial performances.

In 19th century, the improvement of the technology made it possible to use oil reserves in higher level and this increased control in the region as well. The competition was mainly centralised around the Caucasus and Caspian Sea. The crude oil extracted from the region played an essential role in both world wars in 20th century. The protection of the oil fields of the Caucasus became the main job of the allies^{^V}

On the eve of the Second World War, the oil in Caucasus was the primary target of Hitler's scouts. After Germany-Russia Pact in 1939, the Soviet oil drilled in the Caucasus comprised one third of Germany's oil import. In 1942, Germany organised regular attacks to seize power in natural resources of the region.

It is clear that Azerbaijan was unable to use its own natural resources much and met the large proportion of needs of the region. To increase oil production and exports, the investments made in the oil industry went up, while the capitals put in other industrial sectors declined steadily.

After the collapse of the USSR, almost all the world's attention turned to the Turkic countries that gained independence. Although these countries possessed rich oil and natural gas reserves, they did not have the financial and technical capacity to use the oil and natural gas reserves alone.

Azerbaijan's oil production and development in the Caspian Sea were gathered in 4 fields including Gunesli, Chirag, Azeri and Kepez. However, due to the usage of the simple technology, decreases occurred not only in the production, but also in the potential reserves that could be produced. If the oil production was 14.7 million tons in 1980, this number declined gradually and dropped to 12.5 million tons in 1990, 9.2 million tons in 1995, 9.1 million in 1996. This reduction in oil production stemmed from the decrease of productivity as a result of the use of old technology and faults in the renovation of oil drilling equipment. In order to utilise rich oil reserves of Azerbaijan, in September, 1992 the State Oil Company of Azerbaijan Republic was established by combining Azerineft and Azneftkimya.

Increase oil production and improvement of available resources might only be possible by making use of modern technology and conducting new projects. Azerbaijan's economic strength and technology were insufficient for the use and development of available resources. Those problems made Azerbaijan's alliance with big companies indispensable.

The oil is extracted both onshore and offshore in the country. The onshore oil is exported in Absheron Peninsula. Azerbaijan's oil agreements have mainly focused on offshore reserves. By the agreements signed with big oil companies, Azerbaijan has targeted to use its oil resources for the country's economy. Towards this goal, including onshore fields since September 20, 1994, 23 international oil agreements have been signed in Azerbaijan with the participation of 33 companies from 19 different countries. Production Sharing Contracts covers a period of 25- 30 years. The total volume of the investments is more than 60 billion dollars.

In total, 400 companies including 72 local ones take part in the implementation of oil projects. The activities of the companies range from construction to environmental services. The alliance between local and foreign companies allows the utilisation of modern technologies, materials and management techniques which plays an important role in the transition from central management type to market economy.

There are 75 thousand people working in the oil sector in Azerbaijan. People who work in the oil sector get higher salaries than the ones working in other sectors.

In general, the economic benefits of partnership with foreign oil companies are as follows:

- It has given Azerbaijan the opportunity to renovate the assets of oil production by modern research, oil extraction, use and entry of the transport technologies to the country as well as to set up businesses to help the development of the oil and gas industry.
- As a result of the contracts signed, growing oil production has led to a significant increase in the budget revenues.
- Azerbaijan has afforded global work force and access to the international raw materials market, as well as get the possibility to take advantage of its privilege in raw materials field as a source of income for the improvement of the country's economy.
- As the rising oil and natural gas production promotes the employment, Azerbaijan will implement new infrastructure projects. The oil and natural gas contracts have been signed in a way to guarantee the employment for local labor force. It has helped reduce unemployment by opening new workplaces.
- With the signed contracts, in particular with "Contract of the Century" Azerbaijan has proven to the world that it is possible for the investors to operate and make partnership equally.

In addition to the above mentioned, concerns are frequently voiced about the oil contracts which include some conditions against the national interests of Azerbaijan. It is not only oil production mentioned in the contracts, but also providing large volume orders for the goods and services of local manufacturers, opening many new workplaces are reflected, thus necessary supplies and services for the existing contracts are mainly brought from abroad, in terms of orders, the volume of goods and services of local manufacturers remain far behind in comparison with foreign orders.

Among the contracts about the production of energy resources, "The Contract of the Century: Azeri-Chirag-Gunesli fields agreement" which is an important one in terms of the country's oil reserves and "Shah Deniz" which plays an essential role in terms of natural gas reserves, will be discussed below. Other contracts will also be mentioned comprehensively later on.

5.2.1. THE CONTRACT OF THE CENTURY: "AZERI-CHIRAG-GUNESLI" FIELDS AGREEMENT

"The Contract of the Century", which is the most important one among the others, has given a new breath to the sector that lag behind during the Soviet era and carries great economic importance for Azerbaijan.

The contract that covers ACG fields is the most significant historical event that roots from Azerbaijan's independence and the efforts to change its position. The negotiations made in very difficult situation began between Azerbaijan and western companies during the Soviet Union.

The period of liberalisation that weakened the Soviet economy attracted western companies because of the discovery of rich mineral resources in Azeri-Chirag- Gunesli offshore area and well-developed oil industry of Azerbaijan.

Azerbaijani government decided to accept western capital to the country for the implementation of the projects due to the faults in necessary equipment to explore, develop and consume reserves. In January, 1991 the country's projects were opened to tender. BP, Statoil, Amoco, Unocal and other companies participated in this tender.

In 1991, several foreign companies including Amoco, BP, McDermott, Pennzoil, Ramco, Unocal, Turkish Petroleum Corporation (TPIC) and Statoil started the work with Azerbaijan that would last 3 years in the direction of improving research in Chirag and Guneshli fields located in the Azerbaijani sector of the Caspian Sea.

In 1992, the companies wishing to operate in Caspian Sea oil fields built a consortium and signed contracts. On condition that SOCAR would buy 30% of the project, Azerbaijan International Oil Consortium-AIOC led by Abulfaz Elchibey signed an agreement for the development of oil sector.

According to the agreement, the discussions had to continue in London in June, 1993. However, owing to the change of power in Azerbaijan discussions did not yield result. Abulfaz Elchibey was removed from power by Suret Huseynov without concluding the discussions. At the same year, the new president of Azerbaijan, Heydar Aliyev cancelled this contract. Meanwhile, the immediate overthrow of Elchibey brought the companies around the table for discussions with Heydar Aliyev. On February 4, the discussions resumed. In April, 1994 SOCAR officially declared it to consortium partners that Russian company Lukoil would buy 10% share. The firms in the consortium took into account the effects that could be made by Russia in the future. Because of the control in the Volga river, Russia might pose obstacles to the pass of heavy cargo ships from the Internal waters of the Caspian Sea in the future. As a result of these discussions continued in Baku, Istanbul and Houston, Russia was also incorporated into the consortium and the contract was reviewed again, SOCAR's 10% share was given to Russia. On September 20, 1994 after the discussions that lasted about 3 years, the Contract of the Century namely "The joint use and sharing of oil in Azeri, Chirag,

Guneshli located in the Azerbaijani sector of the Caspian Sea” was signed between SOCAR and the consortium in Gulustan Palace giving the right to explore and extract the oil in those regions to AIOC.

As a result, despite many impacts the contract was signed and a vital step was taken in favor of Azerbaijan.

Under the terms of the contract, Azerbaijan protects the right of ownership in the three oil fields.

The contract came into force on December 12, 1994 after being discussed by Majlis of Azerbaijan on December 2, 1994.

This project which is also known as mega-project has the total investment volume of up to 11 billion dollars and it is estimated that total producible oil reserves may be 5.4 billion barrels (730 million tons) and natural gas reserves may be 96 billion m³. Besides, the fields own 6 million tons of condensate reserves. The approximate numbers above change frequently. The contract covers a period of 30 years.

Guneshli field is 82 km, Chirag field is 94 km and Azeri field is located 113 km away from the coast.

In December 1994, the consortium set up Azerbaijan International Operating Company (AIOC). Building Azerbaijan's oil industry infrastructure according to western standards and by taking these measures into consideration is the key part of the program of AIOC, whose main task is to follow the work on a daily basis.

The problems faced during the discussion of the contract covered the topics explaining that companies could cancel the contract under certain conditions. They are these: The start of the war in Nagorno-Karabakh, the rapid deterioration of the economic and political relations between Russia and Azerbaijan, the internal instability in Azerbaijan, the failure of Azerbaijani government to have a stable export line and any misunderstanding occurred in the regime to define the status of the Caspian Sea.

In the early years, Japan was not in the consortium, but it joined later. The Japanese "Itochu" company, that had not taken part in the contract earlier, later bought 2.45 % share from "McDermott International" selling all its shares and joined "ACG" consortium. The Japanese company later purchased 1.5% out of 5 % share sold by AMOCO, so its share reached 3.9%.

EXXON bought 3% of AMOCO's shares, while UNOCAL purchased 0.5%. Earlier SOCAR's share was decided to be 30% which delivered 10% of it to Russian

Lukoil before the contract and in April of 1995, after the contract was signed It gave 5% to EXXON confipany and 5% to TRIG on the same date. Although it wanted to give a share of 5% to Iran, this plan failed to be realised due to the pressure from the West.

“The Contract About the Agreement on Carrying Out the Operations Together” was signed among the members of the consortium and Azerbaijan International Operating Company was created as a result of this contract. This company, that was established with the participation of 11 companies from other countries beyond SOCAR, serves the use of the fields[^]

The final version of the existing distribution in the Contract of the Century is as follows:

<i>BP (operator)</i>	34.13%
<i>Unocal</i>	10.3%
<i>SOCAR</i>	10%
<i>INPEX</i>	10%
<i>Statoil</i>	8.56%
<i>ExxonMobil</i>	8%
<i>TPAO</i>	6.75%
<i>Devon</i>	5.62%
<i>Itochu</i>	3.72%
<i>AmeradaHess</i>	2.72%

“The Contract of the Century” Is something like “Production Sharing Agreement” and if we look at the distribution of the shares, it is obvious that the USA has the largest share. The total share of American companies Is 40%.The USA produces approximately 340 million tons and imports 600 million tons of oil in a year. So the USA needs new energy reserves to import.In this respect, the Caspian Sea is among the regions in the USA’s economic interests. The total share of English companies Is 19%. The biggest share in the consortium after American and English companies belong to Russian and Azerbaijani companies.

The role of “The Contract of The Century” for the Republic of Azerbaijan has to be the fulfilment of the 90% of the investments, that are important for the use of the fields, by the consortium. Azerbaijan keeps the management and the right to control over oil and natural gas fields. Without any doubt, large amount of investments should be made on the offshore oil reserves in a quick and beneficial way, also new technologies should be bought, as well as the most experienced

Aras, Osman Nuri. “Azerbaycan Ekonomisi ve Yatirim Imkanlan.” *Baku: TOSIAB Yayin* 2005-001 (2005).

oil companies from foreign countries should be attracted to the fields and allied with. Because, with the aim of the use of the fields, there is a need to make huge amounts of investments in drilling and manufacturing platforms and building provision systems of the pipelines in the land.

With “the Contract of the Century” on energy resources which is not only an important factor in the national economy, but also an essential key in foreign market, Azerbaijan took the first step in the direction of actively integrating into the world economy.

All the envisaged activities were carried out in Azeri-Chirag-Gunesli fields which was the first oil project, the areas were provided with the latest technology for oil production, the foundation of the oil industry modernized very much. The construction of “Chirag 1” offshore platform finished and the first oil well was drilled, the underwater pipelines were laid from the platform to the coastal terminal in Sangachal and compressor station. In the oil rocks, a coastal terminal was built in Sangachal, the maintenance activities were implemented in Baku- Novorossiyski oil pipeline and this pipeline started operating on November 12, 1997.

After the production in Chirag-1, the oil-production related activities in the fields whose names are shown in “The Contract of The Century” consist of 3 phases. The first phase started in August of 2001 in Central Azeri field. The second phase began with the activities in West and East Azeri fields in July of 2002. The contract on the start of the third phase was signed on October 20, 2004. In the contract the production in Guneshli field was meant to start. The first production of the oil in the third phase was planned in 2011. The oil production was

400.0 barrels in a day in 2011. After several years, within “The Contract of The Century” the oil production will rise to 1 million barrels daily.

5.2.2. “SHAHDENIZ” FIELD CONTRACT

The contract of Shahdeniz field was signed on July 4, 1996 and approved on the 4th of October, 1997, came into force on October 17, 1997. The contract signed in the form of “Production Sharing Agreement” has 30 years’ term. According to this contract the responsibility was given to the Shahdeniz consortium. BP Exploration Ltd. was assigned to utilise the area. Shahdeniz field located in the south-east of the Azerbaijani sector of the Caspian Sea is 70 km away from Baku. The field covers an area of 800 km²

BP Exploration began operating at the end of October, 1996. The project investment is estimated to be 4.1 billion dollars.

There are nearly one trillion m³ gas resources in Shahdeniz field. 400 billion m³ of natural gas has been approved. It is assumed that 60 billion m³ gas will be extracted per year. Thus, Shahdeniz field has increased the natural gas potential of Azerbaijan roughly 1 trillion m³

The requirements of joining the consortium of the project, the main indicators of which are mentioned above, turned the contract into a zone of political war. After the contract of Karabakh field, "Liberation" newspaper gave information that a new agreement would be signed within six months and French oil company "Elf Aquitaine" would join it. Aliyev's official working visit to France in December of 1993 had a big influence in the joining of France to the new oil contract.

Moreover, it was confirmed that Lukoil and another Russian company Yukos would join the consortium as partners. However, problems over the participation of Iran occurred. In Ashgabad meeting of the economic alliance organisation held in May of 1996, a contract was signed between Aliyev and Rovshengani on giving 10% of Azerbaijan's 20% share in Shahdeniz to Iran. Therefore, Iran's some negative impacts on Caspian Sea oil issues was eliminated. On the other hand, Washington did not allow the participation of USA companies in the contract in case of Iran's attendance, though earlier they were permitted to join the contract in the consortium. Consequently, when an Iranian company, OIEC took part in the consortium, no other American company participated there.

The distribution in Shahdeniz among the companies is as follows:

<i>England BP</i>	25.5%
<i>Norway Statoil Alliance</i>	25.5%
<i>Azerbaijan SOCAR</i>	10%
<i>Russia Lukoil</i>	10%
<i>France TotalFinaElf</i>	10%
<i>Iran OIEC</i>	10%
<i>Turkey TPIC</i>	9%

Shahdeniz field enabled Azerbaijan to be among the countries of natural gas producers and exporters. That's why before Baku-Tbilisi-Ceyhan pipeline was decided, the discussions on pipeline to export natural gas started to be made.

In connection with the sale of the gas from Shahdeniz, 4 contracts were signed in 2004. The first contract was signed with "Betas" for selling 6.3 billion m³ of gas.

One contract with Azerbaijan and 2 with Georgia were signed. According to them, per year 1.5 billion of natural gas would be sold to Azerbaijan and 800 million m³ to Georgia.

During Ilham Aliyev's official visit to England in December of 2004, loan agreement was signed with European Bank for Reconstruction and Development (EBRD) in connection with the 10% share that needed to be sponsored by Azerbaijan. According to the loan agreement, EBRD, that was to fund Azerbaijan's share in Shahdeniz project, gave one hundred and seventy million dollars of loan to SDCAR.

So, the funding by foreign financial institutions to transport Shahdeniz gas to the world has been an essential step forward in the realisation of the project.

Within Shahdeniz project, 100 million dollars are spent each month. Shahdeniz is one of the world's biggest 10 oil-gas projects. Natural gas started to be exported from the field at the end of 2006.

5.2.3. OTHER CONTRACTS

5.2.3.1. The contracts on offshore fields

1. "Lenkeran-Deniz Talish-Deniz" Fields Contracts

Date of the contract: January 13, 1997

Date of approval: June 13, 1997

The companies involved: TotalFinalElf (35%, operator)

Wintershall (30%)

SDCAR (25%)

DIEC (Iran) (10%)

700 million barrels of oil

Estimated resources: 2 billion dollars

investment volume: the first well checked in 2001

Status:

2. Yalama-D222 Field Contracts

Date of the contract: July 4, 1997

Date of approval: November 4, 1997

The companies involved: Lukoil (80%, operator)
SDCAR (20%)

Estimated resources: 750 million barrels of oil
Investment volume: 4 billion dollars
Status: 2-D V3 3-D seismic studies conducted

3. Absheron Field Contract

Date of the contract: August 1,1997
Date of approval: November 11,1997

The companies involved: **SOCAR (50%)**

Chevron (30%, operator)

TotalFinalElf(20%)

Estimated resources: 13 billion barrels of oil,100 tcf of natural gas
Investment volume: 3.5 billion dollars *Status:* The drilling of the first well in 2001 did not yield a positive resultThe second well was drilled in 2004.70 barrels of oil are estimated per day.

4. Oghuz Field Contract

Date of the contract: August 1,1997
Date of approval: November 5,1997
The companies involved: ExxonMobil (50%, operator)

SOCAR (50%)

Estimated resources: 290 million barrels of oil and va 685 tcf (trilyon kub feet) of natural gas

Investment volume: 2 billion dollars

Status: The well was digged in April of 2001. ExxonMobil left the project in April of 2002.

5. Nakhchivan Field Contract

Date of the contract: August 1,1997
Date of approval: November 14,1997
The companies Involved: ExxonMobil (50%, operator),

SOCAR (50%)

Estimated resources: 750million barrel of oil

Investment volume: 2 billion dollars

Status: ExxonMobil drilled a well successfully. Activities will go on.

6. Kurdashi-Arazdashi-Kirgan Offshore Fields Contract

Date of the contract: June 2,1998
Date of approval: July 7,1998
The companies involved: **SOCAR (50%)**
Agip(25%, operator)
Mitsui(15%)
TRIG (5%)
Repsol (5%)
Estimated resources: 730 million barrels of oil
Investment volume: 2.5 billion dollars
Status: 2 wells were drilled.None succeeded.

7. Inam Field Contract

Date of the contract: July 21,1998
Date of approval: December 1,1998
The companies involved: **SOCAR (50%)**
BP (25%, operator)
RoyalDutch/Shell (25%)
Estimated resources: 2.2 billion barrels of oil
Investment volume: 2 billion dollars
Status: In the first evaluation of BP, the drilling was cut short. New drilling was planned until 2005.

8. Araz-Alov-Shark Fields Contract

Date of the contract: July 21,1998
Date of approval: December 18,1998
The companies involved: **SOCAR (40%)**
BP (15%, operator)
Statoil (15%)
ExxonMobil (15%)
TPIC (10%)
Alberta Energy(5%)
Estimated resources 4 billion barrels of oil
Investment volume: 10 billion dollars
Status: In December, 2001 the contract was suspended due to the lack of compatibility in Iran and Azerbaijan Caspian Sea borders.

9. Yanan Tava - Ateshgah - Mugan Offshore Field Contract

Date of the contract: December 25,1998
Date of approval: June 11,1999
The companies involved: SOCAR (50%)
JAOC consortium (50%)
Shares of JAOC internal companies are like this: Japex (22.5% operator), Inpex (12.5%), Telikoku (7.5%), Itochu (7.5%)
Estimated resources: 600 million barrels of oil
investment volume: 2.3 billion dollars
Status: Seismic work is being conducted

10. Lerik-Cenab-Savalan-Dalga Fields Contract

Date of the contract: April 27,1999
The companies involved: SOCAR (50%)
ExonnMobil (30% operator)
Not assigned (20%)
Estimated resources: 1 billion barrels of oil
Investment volume: 3 billion dollars
Status: Searches are carried out in the blocks of D-43, D-44vaD-73.

11. Zafar-Mashal Fields Contract

Date of the contract: April 27,1999
Date of approval: April 21,2000
The companies involved: SOCAR (50%)
ExonnMobil(30%, operator)
Conoco (20%)
Estimated resources: 1-2 billion barrels of oil, 1.8 tcf of natural gas
Investment volume: 3 billion dollars
Status: Searches were carried out in the blocks D-9, D-38. Recent drilling operation was conducted in September, 2004.

S.2.3.2. Contracts on Onshore Fields

1. Kemaleddin-Mishovdag Fields Contract

Date of the contract: It was signed as Joint Venture in 1992 and became PSA in 2000.

The companies involved: National Energy (85%), SOCAR (15%) *Estimated resources:* 200 million barrels of oil

Investment volume: 50 million dollars

Status: In 2004, production capacity was scheduled to increase from 2700 bpd to 3200 bpd.

2. Anshad Oil Contract

Date of the contract: It was signed as Joint Venture In 1993 and became PSA in 2000 *The companies involved:* SOCAR (51 %)
Atilla Dogan (31.5%)
Land and General Berhard(17.5%)

Estimated resources: 219 million barrels of oil (Neftchala, Killi, Babazanan Fields)

Status: 4 wells were drilled in 1998-1999. The oil production volume was about 77000 bpd. The average natural gas production volume was 1.1 mcf per day in 2004.

3. AzGeroil Contract

Date of the contract: It was signed as Joint Venture in 1993 and became PSA in 2000

The companies involved: SOCAR (51 %), Grunewald (49%) *Estimated resources:* 140 million barrels of oil (Rehmani, Balakhani, Sabunchu Fields)

Status: The average production volume is 1000 bbl/d since 1999.

4. South-West Gobustan Field Contract

Date of the contract: 2 June 1998

Date of approval: November 1998

The companies involved: SOCAR (20%)
CNPC of China (62.83%)
Arawak Energy of Canada (37.17%)

Estimated resources: 180-200 million barrels of oil

Investment volume: 900 million dollars

Status: 2-D seismic searches continue.

5. Zigh-Hovsan Fields Contract

Date of the contract: June 5,2000
Date of approval: June, 2001
The companies involved: **SOCAR (20%)**
Lukoll(50%)
Estimated resources: 66-150 million barrels of oil
Investment volume: 250 million dollars
Status: The fields have been rehabilitated. Due to ecological reasons, the start date of the contract was postponed.

6. Kursengi-Karabaghli Fields Contract

Date of the contract: December 15,1998
Date of approval: April 16,1999
The companies involved: **SOCAR (50%)**
CNPC(30%)
Amerada Delta-Hess (20%)
Estimated resources: 730 million barrels of oil
Investment volume: 1 billion dollars
Status: In order to increase the production, 10 new wells were drilled. The oil production is 6600 bbl/d since 2004.

7. Muradkhanli-Jafarlii-Zardab Fields Contract

Date of the contract: July 21,1998
Date of approval: November 20,1998
The companies involved: **SOCAR (50%), Ramco (50%, operator)**
Estimated resources: 730 million barrels of oil
Investment volume: 1 billion dollars
Status: The first oil in Muradkhanli was drilled in April,2001.

8. Padar-Harami Fields Contract

Date of the contract: April 27,1998
Date of approval: June 9,2000
The companies involved: **Nations Energy (85%, operator)**
SOCAR (15%)
Estimated resources: 580-750 million barrels of oil
Investment volume: 140 million dollars
Status: Seismic searches continue.

9. Shirvan-Kurovdagh Fields Contract

Date of the contract: It was signed as JV in 1997 and became PSA in 2000.

The companies involved: SOCAR (49%)
Caspian Energy Group (UK) (51%)

Estimated resources: 650 million barrels of oil (Kurovdagh Field)

Status: The rehabilitation of the wells continues since 1997. In 2004 the average oil production volume was 57000 bpd, natural gas production volume became 1.5 mcf/d.

10. Western Absheron (Karadagh-Kepzz-Umbaki) Fields Contract

Date of the contract: August 10, 1994

The companies involved: BMB (100%)

Estimated resources: 200 million barrels

Investment volume: 700 million dollars

Status: With the request of suspending BMB's activities, SOCAR took over the right of privilege of the fields in December 1999.

11. Pirsaat Fields Contract

Date of the contract: June 5, 2003

The companies involved: SOCAR (25%)

Sheng Lee Oil (50%)

Middle East (25%)

7 million tons

Estimated resources: 147 million dollars

Investment volume: Reproduction was planned in the field with the drilling of 7 new wells and reconstruction of 27 wells.

Status:

12. Qarachukur Field Contract

Date of the contract: June 18, 2004

The companies involved: SOCAR (25%)

Investment volume: 2.3 billion dollars

Status: Seismic studies are conducted.

13. Lerik-Cenab-Savalan-Dalga Fields Contract

Date of the contract: April 27,1999
The companies involved: SOCAR (50%)
ExonnMobil (30% operator)
Not assigned (20%)
Estimated resources: 1 billion barrels of oil
Investment volume: 3 billion dollars
Status: Searches are carried out in the blocks of D-43, D-44 V3 D-73.

14. Zafar-Meshel Fields Contract

Date of the contract: Date of approval: April 27,1999
April 21,2000
The companies involved: SOCAR (50%)
ExonnMobil (30%, operator)
Conoco (20%)
Estimated resources: 1 -2 billion barrels of oil, 1.8 tcf of natural gas
Investment volume: 3 billion dollars
Status: Searches are conducted in the blocks of D-9, D-38. The last drilling operation was done in September of 2004.

5.3. OIL AND NATURAL GAS PRODUCTION

It is calculated that in Azerbaijan- the most experienced country in the Caspian Sea -1.4 billion tons of oil and 445 billion m[^] natural gas have been extracted in the past 100 years. Since the start of the production until 2005, the highest oil production in Azerbaijan was recorded in 1941 with 23.4 million tons[®]".

Although oil production declined in Azerbaijan with the start of the transition period, the signed contracts became the turning point in the production and it began to rise again after the activities. In November,1997 with the beginning of the oil extraction from the first well in Chirag field, the declining oil production till 1997 started to grow from 1998. However natural gas extraction showed a decline except for 1999.

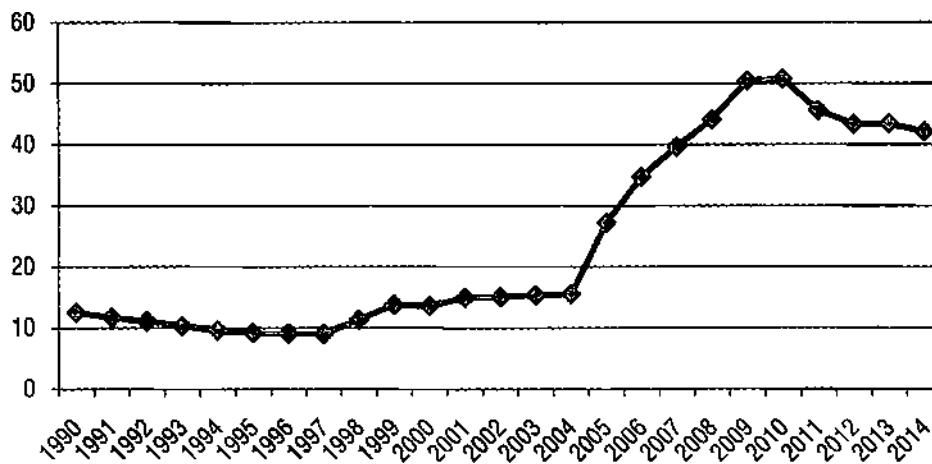
[^] Aras, Osman Nuri. *Azerbaycan'in bazar ekonomisi ve stratejisi*. Der, 2007.

The Caspian Sea portion of the total oil production was 82.3%, but this ratio inclined to 89% in 1999 and between 2000-2004. Thus, the Caspian Sea portion of the oil production is rising over years. Since 2005, this ratio is higher than 90%.

By comparing the oil production level in 2002 with 1990, we can observe that it was 2.5 million tons more. This production scale is equal to the level of oil extracted in 1979 in Azerbaijan. Consequently, the ongoing instability in oil production since the late 1960s ended and rose again. Oil production was resulted in 15.3% in 2003 and became 15.5 million tons with 1.3% increase in 2004.

In 2010, 50 million 838 thousand tons of oil was produced. There was a decrease in the oil production level in 2014 in comparison with 2010. Because it declined to 42 million tons.

Figure 17. Oil Production (million tons)



Source: SSCAR Publications

As can be seen from the chart above, the highest oil production was recorded in 2009 and 2010 with 50.4 and 50.8 million tons, respectively.

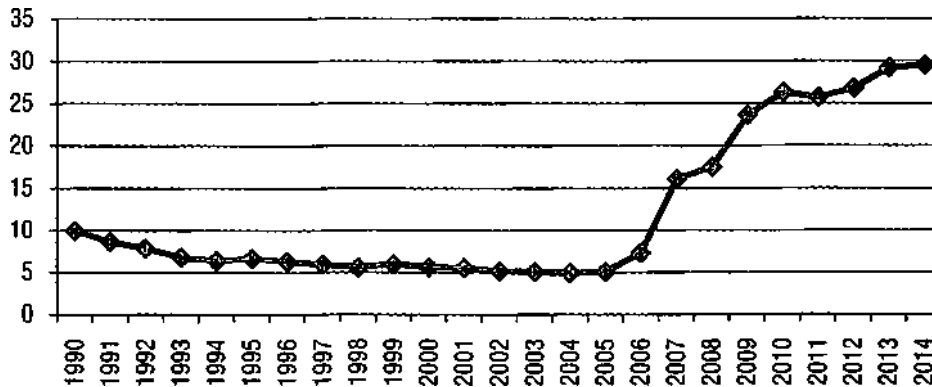
Natural gas production in Azerbaijan commenced in 1902. Since the start date of the production the highest natural gas production in the country was carried out in 1981 with 17 billion m³. In 1980s natural gas output reached 14 billion m³ on an annual basis. However, as a result of a significant decline in the production since 1990, it fell to the volume of the output in 1960s.

There are 2 big pipelines in Azerbaijan. They are Baku and Novo-Baku lines. The daily volume of Baku line is 230 thousand barrels and Novo-Baku is 200 thousand barrels. There is a need for nearly 700 million dollars to restore and repair both lines which have very low production and old technology. US Trade and Development Agency has provided financial support of 500 thousand and 400 thousand dollars alternately for feasibility studies of modernizing Baku line and Sumgait petrochemical plants. 96% of natural gas output is achieved from the Caspian Sea.

In 1995-2001, the volume of natural gas production decreased 16.3%. In 2002, it showed 7.4% fall becoming 5.150 billion m³. With the ongoing decline of the natural gas production in 2003-2004 it became 5 billion m³ in 2004 with 3.1% decrease. In comparison with the previous year.

The produced natural gas met only 40% of the domestic demand of the country. It meant natural gas output failed to address the domestic demand. For that reason, natural gas import became a necessity. Since 2006, natural gas production in Azerbaijan reached the level of 20 billion m³ increasing year after year which enabled Azerbaijan not only to pay the demand of its own domestic market, but also to export natural gas to Turkey, Georgia and Russia.

Figure 18. Natural Gas Production (billion cubic meters)



Source: SSCAR Publications

As can be seen from the chart above. In recent years natural gas production has grown significantly. That is, if only 5 billion m³ of natural gas was produced in 2005, it reached 29.5 billion m³ in 2014. The primary reason of the rise in natural gas output can be explained by the renewal of technical equipment as well as the start of production in new gas wells.

As a result of the fall of natural gas production to 5-6 billion m³ though Azerbaijan exported gas to Armenia and Georgia earlier, it began to import gas from Turkmenistan and Iran from 1990. But natural gas import stopped in 1995. A contract was signed in 2000 to import gas from Russia and in November of the same year natural gas was started to be supplied for the trial.

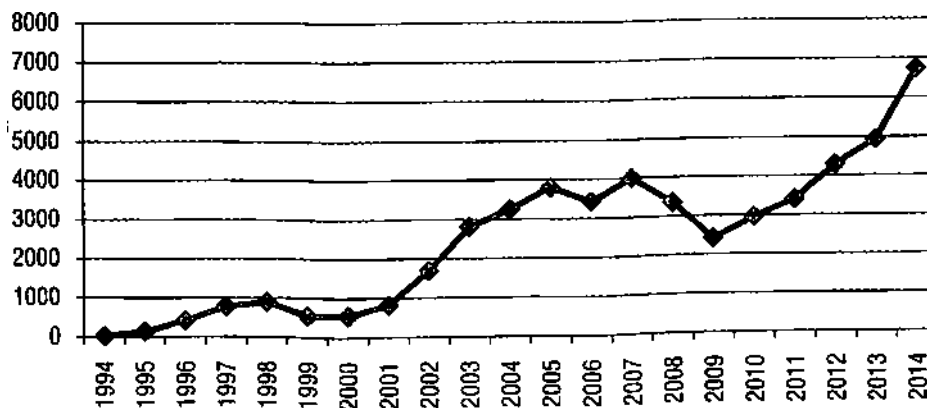
Natural gas sales do not play an important role in trade volume between Azerbaijan and Russia. Azerbaijan imported 5.5 billion m³ of gas from Russia in 2005. For the imported gas Azerbaijan paid 256 million 412 thousand dollars. The amount paid for the same volume of gas meant to be purchased in 2005 was 330 million dollars. Since 2006, Azerbaijan has stopped its gas import from abroad and turned into a gas exporter. Especially Turkey, Georgia and Russia have become the main customer of Azerbaijan's gas.

It is projected that the annual volume of natural gas production between 2010- 2020 in Azerbaijan will be 60 billion m³ 15-20 billion m³ of it will meet the domestic demand. For the export of the rest of the gas, a number of alternative projects including Nabucco are available.

5.4. FOREIGN INVESTMENTS IN OIL AND NATURAL GAS SECTOR

Azerbaijan's energy resources and foreign capital entering the country in connection with that have had an important role in the improvement of Azerbaijan's economy since mid- 1990s

Figure 19. Foreign Investment made in Oil Sector (million \$)



Source: SSCAR Publications

3.34 million dollars of investment was made in oil industry between 1994- 2000. Since 2001 there has been a significant increase in foreign investments in oil sector. As a result, it is observed that the capital put in oil sector reached 80 billion dollars at the end of 2015.

The total volume of the investment concluded by 23 contracts on the energy resources production is approximately 80 billion dollars.

5.5. OIL EXPORT LEVEL AND INCOMES

Oil and oil products take the main place with a rate of 85-90% in Azerbaijan's export. Towards the end of 2005, with the launch of BTC, the amount of oil in export grew even further.

Until 2004, the export volume of Azerbaijan exporting oil through Baku- Novorossoysk and Baku-Supsa became 25 million tons right after BTC pipeline started functioning in October, 2005. In 2014, Azerbaijan's oil export was 35 million tons which is less in comparison with 2009. As in 2009 Azerbaijan's total oil export was 44 million tons.

In 2010, Azerbaijan's crude oil export was 1 billion barrels/day which is projected to reach 20 billion barrels/day in 20 years' period.

Azerbaijan imported 579 million m³ in 1995, 274 million m³ in 2000, 3337 million m³ in 2001, 3935.3 million m³ in 2002 (216 million dollars), 5.5 billion m³ of natural gas in 2004. With the commencement of the production in Shahdeniz field in 2006, natural gas export started as well.

Since the export products were mainly oil and oil products, Azerbaijan's economy became dependent on oil prices. In 1997, the indirect taxes associated with oil accounted for 57% of the total taxes. Oil related taxes making up the main increasing part of the budget revenues constituted roughly 50% of the total revenue in 1996-1997. In 1997-1998 when oil prices dropped. It affected the state revenues and overall economic power negatively.

Although Azerbaijan got three fourths of the revenues from oil and oil products in 1997, due to the fall in oil prices the country faced large amount of income losses. The decrease in the taxes taken from the oil which is an essential part of export and tax incomes increased the budget deficit. In 1999, as a result of the rise in oil prices in the middle of the year and beginning of the production in new fields, the revenues grew again. In the second half of 1999, due to the oil

price increase, there was a growth in oil production too. This escalation had positive effect on the oil income and state budget.

In 2000, on one hand, owing to the rise of oil price in the world market, the price of each ton of the exported crude oil went up 90 dollars in comparison with 1999, on the other hand, the volume of exported crude oil became 850 thousand tons more. In 2000, the crude oil of 1097.4 million dollars was exported which was 6061.1 million dollars more than in 1999. Consequently, the escalation of oil prices had a plus effect on the budget revenues. Because oil related income constitutes more than half of the budget revenues.

In 2002, Azerbaijan's export of oil and oil products was 1.927.4 million dollars. The crude oil export was 8.793.6 tons (1.159.5 million dollars). In return, the import of mineral fuel, oil and oil products became 292.6 million dollars (17.5% of total import).

In 2002 the possibility of US invasion of Iraq increased and the price of a barrel of oil went up to 32 dollars which caused the rise of Azerbaijan's oil income. In the budget of 2002, the price of a barrel of oil was calculated to be 19 dollars. If we take into consideration the fact that a dollar increase in the price of barrel brought 18-20 million dollars of revenue to Azerbaijan, as a result of the escalation of oil prices Azerbaijan gained more than 100 million dollars. In the state budget of 2003, the price of a barrel of oil was defined as 19.5 dollars.

In 2008, the sale price of oil in the world market hit the peak after 1994, however as a result of the crisis that started in the USA and spread across the world, in the first quarter of 2009, a barrel of oil was sold for 35-45 USA dollars in the global markets and it made the Government of Azerbaijan give up large-scale projects.

The reasons of the increase in those years: Many experts explain the reason for the rapid increase of the prices with rising demand for oil. The volume of oil declined in some countries like Mexico, the North Sea. At the same time, oil export in many countries was stopped. Very few production could only meet domestic demand. Britain, that was known as an oil exporter in previous years, was importing oil. With the economic development of the USA and China, their needs for oil escalated too. The world market had to fulfill the oil needs of large countries like China and India. In addition, the decline in the oil and natural gas resources of the USA multiplied the demand for oil. As a result of all these reasons, oil price went up in the world market.

The events happened in the Middle East have also affected the rise of the world oil prices. The war period and all the conflicts in Iraq, the weakness of the oil-

producing companies there and terrorist attacks that might happen at any moment bring about oil scarcity which causes a rise of oil price in accordance with the rules of market economy.

The creation of a monopoly in oil sector by OPEC is another thing that leads to the increase in the prices.

The impact of the price increase on the budget: In parallel with the price increase in the international market, the escalation of the price of Azerbaijan's oil influences the country's export in a positive way.

Azerbaijan's budget revenues are not only about customs and taxes. The rise in the income of Azerbaijan's oil, which is sold in the world markets, also affects the growth of the budget revenues. Although in the budgets of 2003-2004, the sale of oil in the world markets per barrel was calculated to be 20 dollars, the cost of oil was much higher than this figure in the international markets. The cost of a barrel of oil exported by Azerbaijan surpassed 38 dollars.

In such case, the allocated part of oil revenues to the budget seemed to be less. Since the oil incomes are one of the main sources in the formation of the state budget, the government might need to change the price of a barrel of oil by taking budget calculations into account again. When the budget of 2008 was prepared, the cost of oil in the world market was high enough and it was expected to rise further. But again the oil price in the budget project of 2009 was defined to be 60-70 dollars. In reference to the world experience, on the basis of the estimates made by international companies, it will be more correct to consider the real oil cost in the preparation of a budget. Azerbaijan makes 1 million 400 thousand dollars of additional profit thanks to a dollar's increase in a barrel cost of oil. Even though the additional income gained as a result of the price change goes into the oil fund, its spending should still be monitored.

Although Azerbaijan made more than about 120 billion dollars of profit after the process, 70-75 billion dollars of it were spent in the form of transfer to the oil fund and budget. In the background of a serious oil price fall in the world markets, Azerbaijan's economy faced a loss of 20-25 billion dollars which was a quite rigorous circumstance. In the past 2 years, the Central Bank's reserves fell twice to 7 billion dollars and even 30% devaluation of manat at the beginning of 2015 could not inhibit this process. Considering this condition, for the first time in the last 5 years the government of Azerbaijan reduced the transfer from the Oil Fund from 10 billion to 6 billion dollars.

Managing oil revenues: The use of the wealth achieved from oil is essential. In this regard, the main problem in Azerbaijan's experience is the emergence of

“Crony Capitalism” as well as the existence of high-level bribery and corruption. The flow of oil-money to the country overburdens the realization of proper reforms. The ease of getting oil revenues leads to the weakening of state expenditure policy, the immediate change in oil prices can cause the increase of long-term foreign debt and interest payments affecting the state budget.

Thus, it is an inevitable necessity for the government, which directs the country's economy, to pay attention to the division with a mechanism of resources division that will be able to continue oil revenues in a way to form a growth (in between oil & non-oil trade sectors and the sectors that are not included in foreign trade). Diverting the revenues and benefits coming from oil to productive areas is one of the major problems in an economy where financial institutions and markets are not formed fully. The solution to this problem reveals the need for the planning role of the state in the economy.

The foreign exchange that Azerbaijan will gain from oil export should be directed to other areas, especially to the development of export fields and the ones that substitute import. If currently Azerbaijan is obliged to export only energy and raw materials to the world market, it should not confine itself to these in the future. Beyond this, conclusions should be drawn from “bitter” experiences of oil exporting countries by learning them deeply. With the incomes from oil, more investments should be made. Investment-oriented policy is more important. However, the government should carry out social tasks as well.

The long-term strategy of managing Azerbaijan's oil and natural gas revenues was identified in 2008. For the development of energy sector and infrastructure, this strategy reflects government plans, which emerged in a time when high amount of oil and gas revenues were obtained, on providing the transformation of the economy without loss. The strategic program approved by the country's president involves the management of oil and natural gas revenues to be obtained in 2005-2020. 25% of the attained revenues will not be spent but rather protected.

It is calculated that Azerbaijan will gain 240-265 billion dollars' revenue from oil and natural gas over 30 years. The revenues coming from Azeri, Chirag and Guneshli fields will reach its peak in 2008-2015. Over this period, yearly around 5-6 billion dollars and as a result 35-42 billion dollars will enter the country. After the use of Shahdeniz field, revenues that might be obtained will become more than 7 billion dollars.

According to the calculations made by the State Oil Fund, oil and natural gas revenues reached the highest level in 2009-2014. Over the course of the next 20

years, the country's revenues from oil and natural gas will vary between 15-35 billion dollars.

According to the researches conducted by the State Oil Company of Azerbaijan, in case a barrel of oil price becomes 35 dollars, the country's oil revenues be 104 billion dollars till 2024.

5.6. THE PIPELINES

The pipelines assume economic importance. One of the main issues in the usage of the energy resources is the creation of necessary transportation line in order to transfer the resources to the world market. Owning transportation lines outside Russia will be the main step taken economically.

Until 1880, Azerbaijani oil was being transported to foreign countries such as Dagestan, Georgia, Iran in the form of freight through ships. Then, Baku oil started to be carried to Russia, Georgia and other countries through the 720 km- long pipelines from Grozny. They were Baku-Novorossiysk and Baku-Supsa lines. The discovery of the Caspian oil and after the independence of Azerbaijan Baku-Tbilisi-Ceyhan became attractive.

Over the days when Azerbaijan's oil became a subject of discussion worldwide, though 7-8 pipelines appeared on the agenda, the number of the pipelines was reduced to 3 namely, Baku-Novorossiysk, Baku-Supsa and Baku-Tbilisi-Ceyhan. In the report of Azerbaijan International Oil Consortium created in order to transfer Azerbaijan's oil.

5.6.1. BAKU-NOVOROSSIYSK OIL PIPELINE

During the times, while the issue of transporting first oil through which pipelines was under discussion, Russia suggested that there was already a pipeline between Baku-Novorossiysk port which might be the only cheap and fast way. Even Russia came to an agreement with Chechnya since the pipeline would go through there. Then a contract was signed among Azerbaijan, Russia and Chechnya in relation to the pipeline of Baku-Grozny-Tikhoretsk-Novorossiysk.

With the signed contract on January 16, 1996 between AIOC and Russia's Trans Oil company, the initial oil export was decided via Baku-Grozny-Novorossiysk.

Since November, 1997 the oil is being exported through this line. The first of the tankers carrying the oil, which was delivered to Russia's Novorossiysk port from Baku via the pipeline, went through Istanbul Strait on December 12, 1997.

Via Baku-Novorossiysk oil pipeline, 2.5 million tons of Azerbaijani oil are exported per year. SOCAR pays 15.67 dollars to Russia per ton. It is higher than than the amount paid for every ton of oil through Baku-Supsa pipeline.

5.6.2. BAKU-SUPSA OIL PIPELINE

Along with Baku-Novorossiysk pipeline, the other terminal agreed on October 9, 1995 to sell the produced Baku oil in the international markets is the Western pipeline ranging from Baku to the Supsa port of Georgia. With the participation of Aliyev and Shevernadze, On March 8, 1996 the contract determining the transportation of the initial oil from Azerbaijan to Georgia was signed among AIOC, Georgian government and SOCAR. In the contract the oil extracted from Azeri, Chirag and Guneshli fields was planned to be transported to the international markets

As the Chechnya problem put Baku-Novorossiysk pipeline at risk, Baku-Supsa line was built. As planned, this line started operating in 1999.

From the pipeline that was used to export oil right after its inception, 10 million tons of oil have been exported since 2004.

5.6.3. BAKU-TBILISI-CEYHAN OIL PIPELINE

In case of an increase in the oil production, operating Baku-Novorossiysk and Baku-Supsa would not suffice, so many alternatives emerged on the subject of the main pipeline to export to Western markets. Baku-Tbilisi-Ceyhan was chosen among the these alternatives.

1768 km-long Baku-Tbilisi-Ceyhan pipeline passes from the Sangachal port near Baku via overland pass to the Georgian capital, Tbilisi and enters Anatolia after going between 42 degrees 49 minutes north of Turkish borders and 43 degrees 18 minutes east coordinates. 443 km of the line passes through Azerbaijan, 249 km from Georgia, 1076 km from Turkey. The line joins the terminal constructed in Ceyhan after going alongside the borders of Ardahan, Kars, Erzurum, Erzincan, Sivas, Kayseri, Kahraman Maras, Osmaniye and Adana cities.

Along with Azerbaijan, the transportation of Kazakhstan oil and Turkmenistan natural gas through the same line is thought over for a long while. That's why the Transcaucasus line which is thought to be laid under the Caspian Sea will be used to transfer Kazakh oil and Turkmen natural gas to Baku, then from here to Turkey through Baku-Tbilisi-Ceyhan pipeline.

On September 18, 2002 with the participation of the presidents of Azerbaijan, Turkey and Georgia, the foundation ceremony of Baku-Tbilisi-Ceyhan pipeline was held.

An export and import bank of the USA, "Exim Bank" decided to allocate 160 million dollars of long-term credit for the export of American equipment and services in order to construct Baku-Tbilisi-Ceyhan oil pipeline. After the information on the project was presented to the Congress, this decision was made. Eventually, on February 3, 2004 an important step was taken in the realization of Baku-Tbilisi - Ceyhan pipeline. On that very date, the financial package of the project was completed together with the world's famous and essential financial institutions.

the decree of March 10, 2004 - "To perpetuate the memory of the national leader, Heydar Aliyev Alirza" signed by Ilham Aliyev, Baku-Tbilisi-Ceyhan main export pipeline was decided to be named after Heydar Aliyev.

Together with the costs of filling the pipeline with oil, 3.6 billion dollars were spent on BTC oil pipeline.

The benefit of BTC oil pipeline on Azerbaijan's economy in a positive way has started to show itself since its inception in 2006.

In the first year when the BTC pipeline started operating 25 million tons of oil were transported, since 2007, 45-50 million tons of oil per year are transported to Ceyhan port.

Ceyhan crude oil export terminal has the volume of 120 million tons/year and by considering approximately 71 million tons' volume of Iraq-Turkey crude oil pipeline, 49 million tons/year volume is sufficient to meet BTC's capacity to be transported.

As a result of the implementation of BTC pipeline and the transportation of Kazakhstan's oil through this line to the world markets together with the oil that will be produced in Azerbaijan, the effect of the oil on economic development and independence will be observed more clearly. The discussions on the transportation of Kazakhstan's oil through this pipeline is on the agenda regularly. All the documents have been prepared for the transportation of oil with Kazakhstan side. "Chevron Texaco" company is thinking of transporting 12 million tons of Kazakhstan's oil through Baku-Tbilisi-Ceyhan. "Total" (France), "ENI" (Italy), "Inpex" (Japan) and "ConocoPHILIPS" (USA) companies want to export the oil from "Kashagan" field in the Kazakh section of the Caspian Sea to the world market through BTC.

5.6.4. BAKU-TBILISI-ERZURUM NATURAL GAS PIPELINE

After the discovery of rich gas fields in Shahdeniz located in the Azerbaijani sector of the Caspian Sea 100km away from the coast, the discussions on how to export the natural gas began. In the phone talks between Aliyev and Turkmenbashi, in return for the agreement on Azerbaijan's 5 billion m³ of natural gas export through Transcaspian line, the extension of the contract term by the company to take part in Transcaspian project put the realization of the line in danger. Beyond that, the yearly sale of 50 billion m³ of natural gas by Turkmenistan to Russia was another reason making Turkmenistan lose interest in Transcaspian pipeline. All of these caused Azerbaijan to look for new ways to sell its natural gas.

During Aliyev's visit to Turkey in March of 2001, a contract was signed between Turkey and Azerbaijan in Ankara on the export of natural gas. According to it, it was planned to export 23.2 billion m³ of natural gas over a 5-year period including 2 billion m³ in 2004, 3 billion m³ in 2005, 5 billion m³ in 2006, 6.6 billion m³ in 2007-2008, however due to some price dispute and technical problems in later years brought about certain delays. Although under the contract it was decided to start the export in 2004, in course of the events, the construction of Baku-Tbilisi-Erzurum natural gas pipeline with the aim of transporting Shahdeniz natural gas to Turkey later on commenced in 2004. The very pipeline was thought to be parallel to BTC oil pipeline. The 12 metres' calculation of the distance between 2 pipelines will allow to save time and reduce financial costs in the realization of the project.

In 2004, BP launched the construction of South Caucasus natural gas pipeline in connection with the gas export of "Shahdeniz" field. The construction was completed in the 4th quarter of 2005 and the produced natural gas export began in the winter of 2006. With a signed agreement, for the first year 1 billion of natural gas will be exported to Greece and Europe. The export level will be raised to 14.3 billion m³. Within this framework, the construction of the pipeline between Greece and Turkey has started. The joining of Greece to the project by purchasing natural gas will contribute to the deepening of the relations between Greece and its strategic ally in "Shahdeniz" project, Turkey. The participation of Greece in the project will create a balance in its policy towards Azerbaijan and Armenia.

In case of activating Transcaspian natural gas pipeline, the effect of energy resources on the economic development will be seen more clearly.

Unlike Iran and Iraq, oil and natural gas fields in Azerbaijan are limited. However, these resources will serve the integration of Azerbaijan to Europe and implementation of the European Union's neighborhood strategy. Certainly, the realization of oil and natural gas projects will give an impetus to the economic development of other countries in the region.

5.6.5. TANAP PROJECT AND ITS PERSPECTIVE

Following the successful implementation of the oil strategy, Azerbaijan began to define strategic objectives in relation to gas export policy. Currently, Azerbaijan is the only country in the region exporting gas to the international markets (Turkey, Russia, Georgia). For this reason, it is seen as "the provider and participant" of Southern Gas Corridor by EU. In this direction, Azerbaijan aims to be the country of an important and strategic natural gas exporter. From Shahdeniz field to the end European user, it targets to take part in the every ring of the value chain[®]

Gas is a strategic product and if it is used effectively, Azerbaijan can reach a substantial geostrategic and financial position with SOCAR. Managing possible future relations assumes great importance day after day. With the growth of South Caucasus Pipeline Project, Azerbaijan will be able to maintain its interests by controlling the gas volume from its source to the end user. However, this arrangement will not provide a country aiming to popularize gas export. Such a step taken by SOCAR can be explained by 2 reasons. The first one is the transportation of Shahdeniz gas after 2017, the second one is to increase Azerbaijan's oil production to 50 billion cubic meters per year together with the gas that will be produced by new discoveries after 2025^{^^} In case of the implementation of these projects, in order for SOCAR to maintain its interest in the lower rows of the value chain in Turkish territory, the development of the above mentioned strategy has become a necessity. Trans Anatolian Pipeline (TANAP) "suddenly came up" for the first time in October, 2011 during Turkey Azerbaijan transit discussions and was guaranteed by "an additional item" of Intergovernmental Agreement (IGA) on October 25, 2011. Later on, Memorandum of Understanding (MOU) on December 24, 2011 and a special IGA on June 26, 2012 were signed for TANAP. As accepted by both parties, adding the condition

Stileymanov, Elgin, and Ruslan Huseynov. "The Importance of Azerbaijan's Energy Revenues in its Exports Volume and the Effects on the National Economy." *International Journal of Business and Social Science* 4.6 (2013).

" TANAP Projesinin Ekonomik Ve Stratejik Sonuclari (Economic and Strategic Expectations of Trans- Anatolian Natural Gas Pipeline Project) ON Aras, E Suleymanov, H Fakhri - International Conference on Eurasian Economies, 2013

of 6 billion cubic metres of gas export to the Turkish market via TANAP to the text was significant for SOCAR. Without 6 billion cubic metres of gas, it is not possible to conduct TANAP, because the pipeline in the capacity of 56 inches and 31 billion cubic metres can be economically effective with only the start volume of 10 billion cubic metres. That's why, IGA's part of "transit" title approved by the Turkish Parliament on October 25, 2011 and Gas Transit Agreement (GTA) signed between SOCAR and BOTAS on the same date has the authority of "application" for TANAP project in an informal sense. TANAP is being supported by the governments of Azerbaijan and Turkey. TANAP is also seconded by England, the USA, the EU and even Nabucco with Trans Adriatic Pipeline (TAP). BP backs up both TANAP and BOTAS for different approaches. There are 4 stages in the period of decision-making on TANAP and the start of its construction. These 4 stages will be discussed separately below^{^T}

The Agreement, which was signed in Izmir between Turkey and Azerbaijan on October 25, 2011, envisages both the transit transportation of natural gas to be obtained from Azerbaijani sector of the Caspian Sea-Shahdeniz field over Turkey to the world markets and its purchase by Turkey.

About the transit transportation of natural gas to Europe, 2 different alternatives were taken into consideration in the contract signed after the meeting held with the participation of Turkey's Prime Minister Erdogan and Azerbaijan's President Aliyev in Izmir-Aliaga. The first one of the mentioned alternatives was about Turkey's transmission system of national natural gas, the second alternative was the construction of an exceptional pipeline. The contract between the governments laid the foundations of the way to TANAP.

Trans-Anatolian Natural Gas Pipeline was first announced as a project by SOCAR (State Oil Company of Azerbaijan Republic) in the Third Black Sea Energy and Economic Forum organised in Istanbul, on November 17, 2011. In the statement made by the president of SOCAR, he expressed that the operation on Trans-Anatolian Pipeline Project extending from the eastern borders of Turkey to the western borders had started in order to transport Azerbaijan's natural gas potential to the long-term promising markets of Turkey and Europe.

Nearly 2 months after the pre-agreement, the memorandum of agreement on the "Trans-Anatolian Natural Gas Pipeline" was signed between the Ministry of

Energy and Natural Resources of the Republic of Turkey and Azerbaijan's Ministry of Industry and Energy in Ankara, on December 26, 2011.

The consensus on the urgent start of the work towards the exceptional pipeline named Trans-Anatolian and the establishment of a joint consortium of the companies appointed by the 2 countries was reached.

In the consortium that will be organised for the construction of the pipeline,

SOCAR, BOTAS and TRIG were decided to take part as the first partners. It was also considered that other international oil and natural gas companies might join the consortium within the period of the agreement.

Thus, with the memorandum of agreement, the contract signed on October 26, 2011 was made more definite.

In order to construct the new exceptional pipeline under the name of Trans- Anatolian for transporting Azerbaijan's Shahdeniz-2 gas to Turkey and Europe, the historical cooperation between Azerbaijan and Turkey started with the 3 agreements made in Istanbul on June 27, 2012. They consist of the intergovernmental deal on the project, the agreement of the host country and pipeline.

The recent TANAP Intergovernmental Agreement was signed on June 27, 2012 in Istanbul and it envisages to convey the natural gas to be obtained from Shahdeniz-2 field, which is one of the world's most important gas fields in terms of the reserve amount, to Europe via Turkey.

TANAP pipeline that passes through Georgia aims to sell and transport Azerbaijan's natural gas via Turkey. The entry point of the line is Turkgozu of Turkish border, the exit points will be Eskishehir and Trakya areas. The borders of Greece and Bulgaria will become the entry point to Europe from Turkey. This part of the new line has not been decided fully, also the one side of it is thought to reach Greece, while the other to Bulgaria.

The investment made on the Trans Anatolian Natural Gas Pipeline Project is presumed to be 7 billion dollars. The first stage of the project, annual capacity of which is planned to reach 31 billion cubic metres, is meant to be completed in 6 years.

In the consortium created for TANAP, SOCAR from Azerbaijan, BOTAS and TRIG from Turkey take part as the first partners. In the consortium BOTAS of Turkey owns 20% share, while SOCAR of Azerbaijan has 80% share. In 2015, Azerbaijan sold 12% of its share to BP making the environment more multinational and adding the world's energy giant to this project. Currently the shares of Azerbaijan, TPIC and BP in the project are 68%, 20%, 12% respectively.

The project is planned to be implemented in 4 stages.

1. The operation stage of the pipeline

The first of the 4 stages meant for the project will be conducted in 2018 with the flow of the first natural gas. In the first stage, Shahdeniz gas is planned to be sold to Turkey after passing through Georgia. It means in the first stage of the operation of the pipeline in 2018, Turkey will buy 6 billion cubic metres of natural gas per year.

2. The stage of the first increase in the pipeline's capacity

In the second stage that is in 2020, the capacity of the line is considered to reach 16 billion cubic metres annually. In this stage, 6 billion cubic metres' part of yearly 16 billion cubic metres of natural gas to be extracted by Shahdeniz-2 consortium will be sold to Turkey, while the portion of 10 billion cubic metres will be exported to Europe.

3. The stage of the second increase in the pipeline's capacity

In the third stage, the yearly capacity of the line is planned to reach 23 billion cubic metres in 2023.

4. The final stage

Eventually, in the final stage the annual capacity of the pipeline is scheduled to be 31 billion cubic metres.

In the following stages, the natural gas export of the TANAP project is aimed to reach 50 billion cubic metres due to the changes in the resources and need for the natural gas.

The economic results of TANAP

4 different alternative projects on the transportation of Shahdeniz-2 oil to European markets were set on the agenda. They were "Great Nabucco", "Trans- Adriatic", ITGI (Turkey-Greece-Italy) and SEEP (South East Europe) projects. The project supported by the European Union and USA was Great Nabucco. However the financial problems related to the project, some uncertainties, the objection of several countries due to the strategic effects it might have, as well as the situation of some countries failing to express opinions on whether they supported the project or not, prevented the realization of it. Even the leading source supplier country - Azerbaijan's position was indefinite because of economic and strategic reasons. After the latest agreement between Turkey and Azerbaijan on TANAP, the Nabucco consortium was forced to revise Great Nabucco as the Nabucco West

Project. As a result of the conversion of Great Nabucco's Turkish section, that was meant as 3440 kilometres, to TANAP, the Nabucco West Project became shortened. The intended length of the Nabucco West Natural Gas Pipeline is 1300 kilometres. The positive approach of the Nabucco consortium to TANAP and proposed Nabucco West Project as an addition to TANAP in order to export Shahdeniz-2 natural gas to the European markets, were accepted by Azerbaijan.

In terms of Azerbaijan, this project brings huge economic gains in the export of the available natural gas resources to new markets. According to the latest circumstance in TANAP, 68% of which belongs to Azerbaijan, it will be like Azerbaijan will be transporting its own gas via Turkey's territory. Because Azerbaijan wanted to get the revenue of the export of the natural gas to the European markets itself. Thus, one more economic obstacle in the way of Azerbaijan's long-term negative approach to Great Nabucco was eliminated. That is, Azerbaijan will get revenue both from the sale and transportation of Shahdeniz -2 gas to the European markets.

The work on the implementation of this project assumes great importance in terms of new employment opportunities in Turkey. With cooperation, Azerbaijan and Turkey laid the foundation of a big refinery project in Petkim. Given the 2 major projects, the amount of the investment made by Azerbaijan's SOCAR in Turkey will reach 17 billion dollars. It means the biggest country investing in Turkey's industry will be Azerbaijan and the biggest company will be SOCAR. After Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, with the agreements on TANAP and refinery project in Petkim, Azerbaijan will be an important strategic and economic partner in the direction of Turkey's being both an energy corridor and and main energy supplier.

In case this project of various economic importance is carried out, a part of the natural gas (6-10 billion cubic metres) of this line will be sold in Turkish market, while a significant portion (10-25 billion cubic metres) to European countries. Considering the exit points in Turkey, the Trans Anatolian line will feed Turkey's National Transmission line and this line is seen as an important one in strengthening energy supply in western region.

Besides the economic reasons of splitting Great Nabucco project into TANAP and Nabucco West, its some strategic results are point in question. TANAP is assumes great strategic importance for both the region countries including Turkey and Azerbaijan as well as European countries.

Azerbaijan's natural gas potential in the Shahdeniz field is 1.2 trillion cubic metres and in other sources it is more than roughly 2.6 trillion cubic metres. Given the

potential in the other natural gas fields beyond Shahdeniz, Azerbaijan's gas production is projected to reach 50 billion cubic metres in between 2020-2025. These assumptions bring Azerbaijan to the position of a remarkable natural gas supplier for the export of large amount of gas to the European markets through Nabucco West.

The implementation of the project with financial and technical capabilities of Azerbaijan and Turkey has made it a project to be realized between Turkey- Azerbaijan. TANAP means Turkey and Azerbaijan will emerge together in the European market for energy transportation.

Along with Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum, TANAP has reinforced Turkey's position as a necessary energy corridor in delivering the energy resources of the Caspian Sea to the Western markets.

CHAPTER SIX

it "DUTCH DISEASE" IN ECONOMY AND THE MEASURES AGAINST IT

Putting Azerbaijan's investments in oil sector mostly and the major role of the oil revenues in GDP's formation are dangerous. Directing all the attention to energy resources simply means a risk for the economy. This creates a possibility that the economy may be exposed to some financial fluctuations. Price changes in the world market due to the one-sided development of the oil sector brings about fluctuations in GDP, the budget and foreign trade.

6.1. DUTCH DISEASE

In general, "Dutch Disease" can be expressed as the rapid development of a sector in a country's economy in contrast with setback and collapse of other sectors.

In a narrow sense, it is the prevention of economic structure created by growth of oil industry based on natural resources in the healthy development of other industries. In scientific literature, this situation known as Dutch syndrome or disease refers to the disproportionate economic growth of a country it exists.

Dutch disease affects the destruction of macro-economic stability from 3 different sides. First of all, during the time of an increase in demand for the

Dutch Disease means making an economy nonindustrial as a result of the discovery of a natural resource or its excessive use. It is called like this since it emerged in the Netherlands after the discovery of natural gas fields in North Sea in 1960s. Dutch syndrome was experienced by England, Norway, Mexico, Nigeria due to oil production, Colombia in relation to coffee output, Ivory Coast because of coffee, cocoa and timber production, Zambia and Zaire for iron ore output. Y. Hesenli, "Efficiency Issues Of The Impact Of The Oil Revenues On Azerbaijan's Economy" - Currency Crisis: 'Devastating Growth', 'Dutch Disease' and 'Asia Financial Virus', *The Materials of the International Conference Of the Caucasus and Central Asia In Globalisation Process*, Baku, 2003, p.217; V. A. Huseynov, *The Rise Of Manat and Economic Development: The Study of the Content And Symptoms of "Dutch Disease"*, Sada Press, Baku 2005, p.7-8.

C. B. Rosenberg and T. O. Saavalainen. "Dealing with Azerbaijan's Oil Boom", *Finance and Development*, Vol.35, No.3, September-1998, p.35-36; Osman Nuri Aras, " 'Dutch Syndrome' Experienced in Azerbaijan In

domestic currency in conjunction with “oil boom”, central bank can turn a blind eye to the extreme upsurge of real exchange rate (the value of the national currency against foreign currencies) acting involuntarily in sterilization policies in order to keep inflation under control. Secondly, the uncertainties in the amount of oil revenues and its collection can lead to the risk in the sustainability of balance of payment, the signing of external debts contracts having no special importance and the rise of external debts burden. Thirdly, unintended revenue flow can bring about “ratchet effect” on government spendings and improvement of the country’s financial policy. The availability of oil revenues can weaken the country’s spending policy. For instance, in parallel with additional oil revenues, the increase of government spending rate will affect state budget negatively as a result of a fall in oil prices, also long-term budget deficits will cause the escalation of external debts and interest payments™.

The classic Dutch Disease argument focuses on the disproportionate growth between oil & non-oil sectors and other sectors not related to foreign trade. According to Dutch Disease, the minus effect of heavy usage of natural resources on economy’s other foreign-trade related areas shows itself in 2 ways. The first one is the effect of costs increase: if the revenue attained from energy resources is not kept abroad and spent on goods having no direct or indirect relation with foreign trade, the price of these goods will go up in comparison with the ones associated with foreign trade and the real impact will emerge as a rise of exchange rate. This will damage traditional areas related to foreign trade. As a result, the external balance of payment will be disrupted. In spite of the price rise in the next round of energy resources export, the expectation for the revenue increase of energy reserves will maximize domestic import and export and decrease the export volume of non-oil sectors.

Looking at the example of Azerbaijan, more rapid development of GDP shares of the sectors not related to foreign trade (retail trade, restaurants and hotels, etc) can be observed in comparison with transitional and non-oil producing countries.

The second effect will be with the distribution of labour, which is one of the most important factors, among sectors. Due to the rise of salaries in an emerging sector, it will attract experienced staff to itself from other sectors of economy. The reduction in the level of experienced staff in other sectors will result in the decline of the production.

Transition Period and ‘Its Solutions’”, *The Materials of Scientific Conference Dedicated To the 800th Anniversary of Nasreddin Tusi*, Baku, 2-3 April 2001, p.130-133.

Aras, O.N., 2005. *Azerbaycan Ekonomisi ve Yatmm Imkanlan*. Baku: *TUSfAB Yaym*, (2005-001).

The flow of skilled workforce and equipment into energy sector will have a negative impact on the development potential of other sectors. The escalation of the emerged break-up between oil and non-oil sectors impedes the functioning of free market mechanism in the mentioned sectors^{AV}

The dependence of economy only on energy sector can create some negative results in socio-economic sphere.

Spending oil revenues to purchase imported goods, in particular importing consumer goods instead of investment commodity will create cuts in the country's trade balance.

In order to prevent the economy from falling into Dutch Syndrome, the production level in non-oil sector should be raised and necessary environment for the opening of new workplaces should be established.

Because of the unstable oil prices, the government should raise the usage of resources when the prices rise by pursuing a more cautious policy and should determine it according to the demand when the prices fall. The creation of the reserve fund will act as depreciation.

In a nutshell, "Dutch Syndrome" expresses the negative effects when energy resources increase is pursued by an unfit policy. As a result of paying less attention to other sectors besides oil sector, a disproportionate growth will appear. The rise of real exchange rate will influence the ability of sectors with the potential of foreign trade to compete. The imbalance between wage and price in connection with the growth of the oil sector can grow compared to non-oil sector and the balance between labor market and prices can be disrupted. For example, the rise of real exchange rate in Azerbaijan since 1994 has been higher than the other countries of Commonwealth of Independent States (CIS).

6.2. DUTCH SYNDROME IN AZERBAIJAN AND ITS COMPLICATIONS

As can be seen in a study conducted, 7 main indicators of Dutch Disease are observed in Azerbaijan. Among them are the excessive value gain of national currency against foreign currencies in some years, a reduction in the competitiveness of export goods, the one-sided development of oil industry thus the economy, the dependence of demand on import and budget on oil revenues.

Although the growth in the export of other sectors are observed, given the country's economic setback in the transition period and its new progress process, it can be concluded falsely if it owns an advantage of competitiveness truly in export products.

It can be expressed that Azerbaijan can not benefit enough from the investments made on non-oil sectors¹

While deciding about the transparency, prudence and rational distribution of resources, it should be taken into consideration to make maximum use of rapid development of oil sector during the transition to free market mechanism. The increase of foreign investment on Azerbaijan's economy and realisation of all the conditions to protect it should be priority in the economic policy of the country. It should always be in the center of the country's attention as an important point.

Concisely, it is wrong to cite only the oil sector in Azerbaijan's integration into the world economy and attracting foreign investment to the country. Oil and oil products make up 90% of the country's annual export; if the products much of which consist of production technology within the oil contracts are not taken into account, agricultural products account for almost half of the imports. In fact, Azerbaijan's natural climate and soil condition allow the growth of the production of agricultural outputs, meeting domestic demand as well as producing for export. That's why it is important to fulfil necessary conditions for attracting foreign investment to non-oil sectors.

In the country's economy Dutch Syndrome, its first indicators and measures to be taken, have gained more and more importance especially since the end of 2005 when oil export began.

Along with the danger of Dutch Disease, almost all of the investments are assembled in Absheron region and even in Baku, so the investment level in other regions is almost none which is a serious threat for Azerbaijan's economy. However a lot of regions in the country have many favorable conditions for foreign investment activity, creation of strong production and scientific-technical potential, having qualified staff and their organisation, supply products related to production and consumption that own a wide market, suitable geo-political condition, benefits in transportation and geographical position and reconstruction of the Silk Way.

Baku accounts for approximately 90% of the taxes collected. The rest of the taxes that is nearly 10% is collected from cities other than Baku including

Nuri, Aras Osman, and Elgin Suleymanov. "Azerbaycan Ekonomisi." *Şark-Garb Matbaasi, Baku* (2010).

Nakhchivan, Ganja, Mingechevir and Sumgait. If these indicators are evaluated differently, the regions other than Baku seem to be in hard economic situation.

In fact, Azerbaijan's economy possesses enough potential in terms of domestic market. It paves the way for the production increase in different sectors.

Beyond this, the full recognition of Azerbaijan's rich resources in the world in accordance with the necessary requirements of economic development especially in European countries, will be considered as acceptable at the international level for a long term. Moreover, as a result of economic recession happening in some countries, the use of the investment has been limited which will let it to be directed to Azerbaijan's economy.

6.3. THE MEASURES TAKEN AGAINST DUTCH DISEASE

Different measures are being and tried to be taken in the country against Dutch Disease in political, theoretical, macroeconomic, sectoral and regional levels. The regional socio-economic development program, activities on the progress of non-oil sectors and other regions beyond Baku are mentioned in the regional analysis chapter. Below, of other measures, the State Oil Fund and Free Zones which is still in a draft form will be talked about.

6.3.1. THE STATE OIL FUND

As a result of the rise in oil revenues, the desired positive changes in the life of the people are not observed. For this reason, the Azerbaijan's government and International Monetary Fund (IMF) have exchanged views at different times on the effective use of oil revenues[^].

Considering the influence of oil revenues on a country's socio-economic development and people's quality of life, the situation of the countries specialized in oil industry is not heartwarming. In the countries where oil revenues are not used effectively, the country's standard of living has dropped rapidly. In 1971-89, the economic development in the world's 97 countries and comparative analysis conducted among natural resources were at odds. Among 18 relatively high developing countries, the number of the countries rich in natural resources is only 2. These countries are Malaysia and Mauritius. According to the statistics of

Nuri, Aras Osman, and Elgin Suleymanov. "Azerbaycan Ekonomisi" *Şark-Garb Matbaasi, Baku* (2010).

the World Bank, the annual rate of decline of per capita GDP from 1965 to 1998 was 1% in Iran and Venezuela, 3% in Kuwait and Iraq. However in Qatar, it was 6% between 1970-1995. In OPEC member countries, the level of per capita GDP has not gone up in the last 30 years, but rather it has decreased by 1.3%. This condition is not only observed in OPEC countries. In the past 20 years, the investment volume, that main capital was directed to, reached 25% of GDP in 4 out of 65 countries rich in natural resources.

The annual per capita GDP growth rate of these countries is carried out with the condition of not less than 4%. They are Indonesia, Malaysia and Thailand. Among these countries, only Indonesia possesses relatively rich oil reserves. The places like Hong Kong, Singapore, South Korea and Taiwan in which there are limited natural resources have shown a higher growth. The inverse proportion observed by the volume of natural resources is explained by different reasons. One of the main causes of it is "Dutch Syndrome".

Although some features of Dutch Disease are observed in Azerbaijan, it shows some difference due to the experienced transition period as well as the country's transition to the free-market economy. The advance of one sector in Azerbaijan attracts the financial source of others. According to the statistical figures, 90% of Azerbaijan's export is constituted by oil and oil products. The economic problems emerged after the fall of the country's oil revenues as a result of the drop in oil prices from 140-150 dollars and 40-50 dollars since 2014, proved it once again. The decline in oil revenues impacted negatively, particularly, financial- bank sector, as well as construction, service and others.

Another mechanism of the inverse proportion between the rich natural resources and economic development is the minus effect of manufacturing sector criteria on people's education level and human capital. The large proportion of income gained from the consumption of these resources is not associated with employment profit and production areas are not accepted as productive. The demand for highly specialized workforce is less here. The education of the people qualified in this field is not at a desired level, also their labor can not be used in non-oil sector. However it does not mean that rich natural resources are obstacles in the way of economic stability and progress. The existence of natural resources is simply a risk, so governments have to determine their economic policies carefully. Some countries are trying to solve this issue by organizing stability funds. Such funds are formed as the ones that enable the gain of additional income in certain periods. Among these funds, the experience of the State Fund of Norway and Venezuela's Macro-Economic Stability Fund assumes importance for Azerbaijan.

The experience of the Norway Oil Fund deserve attention for the function of longterm stability as well as collection, while Venesuela's Macro-Economic Stability Fund's example is important in terms of its feature of insurance against oil price change. The control of councils on these funds are also essential.

Within the contracts signed with foreign companies, in Azerbaijan the oil revenues from the produced oil are assembled in the State Oil Fund (SOFAZ).

The fund was established by the decree of the late President Heydar Aliyev on December 29.1999. The management guidelines of the fund were developed in cooperation with IMF. The SOFAZ is a fund set up to collect the revenues Azerbaijan will get from the fulfilment of the contracts signed between SOCAR and foreign oil companies on oil and natural gas search, their extraction and production sharing, as well as from the realisation of the agreements on searching oil and natural gas reserves in Azerbaijan, particularly in the Azerbaijani sector of the Caspian Sea. That's why the collected money by the State Oil Fund is planned to be used in Azerbaijan's industry, agriculture and social investment areas.

Since its inception in January of 2001, the State Oil Fund provides information on income and expenses every three months. The income of the Oil Fund was 1614.3 billion manats in 2004 and its expenses were 871.2 billion manats (before the denomination). Thus, at the beginning of 2016, more than 120 billion manats are collected in Azerbaijan's State Oil Fund. Since its foundation, about 85 billion manats have been spent from the Fund, 80 billion manats of which have been transfers to the state budget.

Transfers to the state budge. In 2004, the transfer to the state budget accounted for the major part (92%) of the State Oil Fund's budget spendings. In 2014, the amount of 9337.0 billion manats were transferred to the state budget from the Oil Fund. The total amount of the transfers made to the state budget from the Oil Fund have been over eighty billion manats during 2003-2016. In general, the volume of this transfer have been more than half the budget until 2016. In the budget of 2016, the level of this transfer has been 6 billion manats decreasing by 40% compared to previous years because of the fall of oil prices^{®^}

Financing the measures to improve the social weifare of refugees and internaiiy displaced persons. The allocation of the funds from th Oil Fund with the aim of improving the social welfare of the refugees and Internally displaced persons has started since 2001 and will continue in 2017. In the towns created for the settlement of the refugee and IDP families, 1757.8 billion manats were

[^] www.oilfund.az

allocated in 2001-2015 in order to build private houses, high-rise buildings, sociocultural, infrastructural and other facilities. During this period, 25403 internally displaced families are accommodated in private houses built in 62 towns.

Financing the reconstruction project of Samur-Absheron irrigation system.

The main objective of the project was to create durable water source for Baku and Sumgait's water supply systems, to overcome the existing energy consumption and in return, to finance "The reconstruction project of Samur-Absheron irrigation system" which had the capacity of producing 25 MW energy. Financing of the project started in 2006 and it was continued in 2014. During 2006-2014, 1149.6 billion manats were allocated for the project. The project was ordered by Azerbaijan Irrigation and Water Management Joint Stock Company and the Oil Fund earmarked 0.5 million manats for "the construction of approach roads", 21.48 million manats for "the joint construction of Takhtakorpu and Flydroelectric Power Station", 3.27 million manats for "building Takhtakorpu-Jeyranbatan canal", 2.59 million manats for "building Valvalachay-Takhtakorpu canal", 2.7 million manats for "constmcting water-taking facilities and transmitting canals in northern rivers", 0.68 million manats for the maintenance of the project's working group. The total volume of the earmarked fund was 80.2 million manats in 2014. By the act in 2014, Takhtakorpu hydroelectric station along with its construction facility, the construction of approach roads to Takhtakorpu water reservoir, Valvalachay- Takhtakorpu, Takhtakorpu-Jeyranbatan canals were taken into operation.

Funding Azerbaijan's share in the construction project of "STAR" oil refinery complex in the Republic of Turkey. In 2013, the Oil Fund allotted some amount of money in order to sponsor the projects in previous years as well as provide the implementation of new projects. The constmction project of "STAR" oil refinejy complex is among the new projects started in 2013. 40% of the shares of the project (760 million US dollars), the authorized capital of which accounts for 1.9 billion US dollars, is funded by the Oil Fund. In 2004, 223.5 million manats or 284.71 million US dollars were directed to finance the share of the Republic of Azerbaijan in the project of "SOCAR Turkey Aegean" Oil Refinery.

Funding human capital development -"The State Program on the education of Azerbaijan youth abroad in the years 2007-2015"

Within "The State Program on the education of Azerbaijan youth abroad in the years 2007-2015", the education of young people in world's leading universities. Under this program, tuition fees, accommodation, food, travel, insurance and other costs of the students studying abroad are sponsored. During 2008-2015,

at the expense of the Oil Fund, 2867 students were sent to foreign countries to study at universities.

An important part of the resources of the State Oil Fund were spent on funding SOCAR's share in the construction of "Baku-Tbilisi-Ceyhan" (298 million manats) and improving the social living conditions of internally displaced persons (647 million manats). Initial costs set aside from the Oil Fund were oriented to the resolution of the social problems of internally displaced persons living in the most difficult and challenging situation. IDPs' problems are the most important issue for Azerbaijan. The people who became away from the lands they were born and raised are always in the public administrators' focus of attention. New settlements, hospitals, schools and other institutions for refugees and IDPs are financed by the reserves of the Oil Fund[®]

In the new model accepted for the effective use of oil revenues, it is thought that a certain part of the State Oil Fund's reserves should be kept as bank deposit, while some part can be given to agriculture and manufacturing sector in the form of low-interest loans. The division of the Oil Fund into reserve and consumer funds are also meant here.

Of course, in ideal conditions, the oil fund reserves should be directed to investments rather than current expenditures in order for the income attained from the investment to be regulatory in case of oil prices fall. Foreign influences also make it important to manage the rapid advance of the oil sector carefully. Considering the effect on the state budget, some portion of oil fund can be directed to unexpected costs that are likely to appear as a result of the rapid increase of oil production.

It should be decided that channelling the fund reserves to expand the investments should be more frequent. Although it is said that the Oil Fund works better through private sector, considering the whole territory of the country, in order to gain more benefit, state investments should be preferred.

As a result of the adjustments, the income collected in the fund is kept as deposit in highly rated credit institutions for investment. In Azerbaijan, the oil revenues are kept in foreign financial institutions and are not spent on the goods not related to foreign trade through direct and indirect financial channels. Thus, the minus effect that may arise for other sectors associated with foreign trade is tried to be prevented from emerging.

Along the the importance of using the revenues in the State Oil Fund for the development of agricultural sector, the allocation of subsidies from the fund will not suffice for the country to shake off "Dutch Syndrome". Surviving these problems can only be possible by conducting projects inclined to the advance of industrial areas having export potential. In the policy to be conducted, it is essential to encourage the investments on necessary fields.

Since the end of 2005, the amount of the income attained from oil has risen remarkably. The government has planned the rapid development of non-oil sectors with these incomes. According to the calculations made by the State Oil Fund along with local and foreign experts, after 2015 Azerbaijan's revenue to be obtained from oil will decrease substantially. These estimates of the experts make Azerbaijan to take serious measures. In this sense, attaining the social- economic progress of the regions is very important. Since 2005, the government of Azerbaijan has started to prefer a strategy based on saving the economy's dependence on oil. In order to gain a long-term benefit from the allocation of oil revenues, the economic development of the regions are given special attention in the accepted strategy. As part of this strategy, 20-25% of the State Oil Fund reserves will be spent on the progress of small and medium-sized enterprises. The advance of production and manufacturing industries are among the ones preferred by the government. On the other hand, it is planned to increase the spendings on science and research to enhance human capital.

6.3.1.2. The Independence or Privatization of the State Oil Company

Ideas on the privatization of the State Oil Company of Azerbaijan are expressed frequently. Doing this is thought to be an important step for the company's transparency and independent trade activity. SOCAR's independent trade operation might make the state's control on oil policy more transparent beyond its being an essential milestone in the usage of oil revenues. Of course, the privatization is as necessary as how it will be realized.

However, in the country where the economic development in non-oil sectors and regions is still in its inception, the privatization of big institutions is not completed, and there is a need for the state's superiority in the economy, it is not possible to set the agenda on the privatization of SOCAR which assumes great importance in terms of the country's economy. It will be more interesting if the independence instead of privatization is the subject of controversy and the proposals are made on the effective use of the funds collected in the Oil Fund.

6.3.2. THE ACTIVITIES ON THE ESTABLISHMENT OF FREE ECONOMIC ZONES

One of the factors that will contribute to the economic development and deter Dutch Syndrome in Azerbaijan is the establishment of free economic zones. Particularly, free economic zones will play a necessary role in the improvement of non-oil sectors.

Today, the targets of creating many free economic zones in the world are to increase foreign trade level, to ease export and import, to multiply foreign exchange revenues and employment level, to give impetus to the progress of industry, to bring modern technology to countries. Free economic zones have acted as a contributing factor in industry growth of many countries.

For instance, in Turkey there are over 20 free economic zones. They help keep the balance among the regions in Turkey in terms of economy.

One of the most productive sources of regional economic development is the establishment of free economic zones. The limited financial opportunities of the local investors make it a necessity to create free economic zones in some regions of Azerbaijan. In the past few years, this problem has brought about various ideas and disputes at the governmental level. Although it has been emphasized that there is enough favorable conditions for establishing free economic zones in the regions like Baku, Sheki-Zagatala, Guba-Khachmaz, Lankaran-Astara, Nakhchivan, the steps taken and work done in this direction is considerably weak.

It is possible to form free economic zones in Sumgait, Lankaran and Nakhchivan. The available railway lines in these cities, the egress of Sumgait and Lankaran to the sea, the existence of Lankaran and Nakhchivan airports and at the same time the borders of Nakhchivan with several countries are other factors making them favorable in terms of creation of free economic zones.

The main essence of free economic zones is building trade, service and export-production fields in places located on internationally important ways, as a result that zone become exempt from customs duties, taxes are lowered, loans are given with low-interest. It will give a rise to the revival of the economy in economically weak regions, the removal of differences between regions in terms of economic development. However, as the regions in Azerbaijan are not provided with energy and other resources, it makes the creation of free economic zones difficult.

CHAPTER SEVEN

THE ECONOMIC POLICY OF AZERBAIJAN

In every country, during the different periods of economic crisis and social change, the government intervention into economic trend has been compulsory.

In transitional countries, government's role in economy turns into necessary regulation, planning and control instead of being efficient over production in order for economic situation to be favorable. In parallel with the increase in the number of private enterprises, the regulatory and supervisory role of government rises too.

Preserving macro-economic stability, keeping on reforms, persisting successful economic policies, "State Program on Poverty Reduction and Economic Development", "State Program on Socio-economic Development of Regions" will provide enhance of competitive circumstance in Azerbaijan.

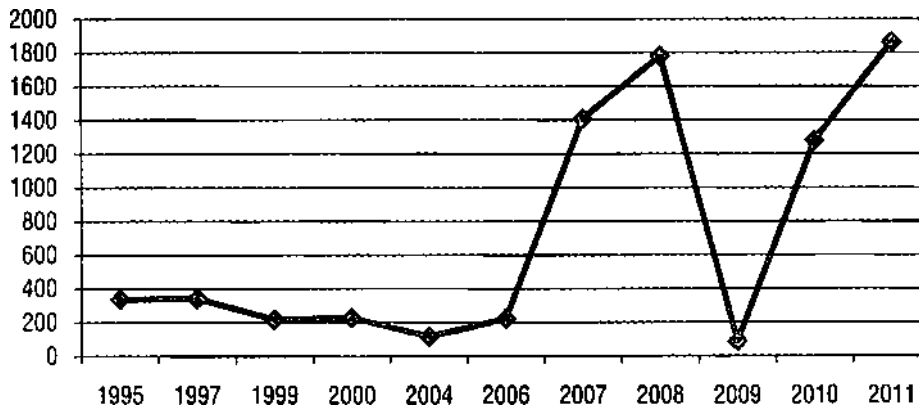
7.1. MONETARY POLICY

In the early years of the transition period in all post-Soviet countries, high inflation was observed. Taking steps towards liberalization in prices, foreign trade activities and financial sector has naturally brought increases in the general level of costs. In such a condition, the only way out is to balance the amount of money in circulation through monetary policy and thus, to cease the rise seen in general price level. However the most important things are to provide high-level development of money amount beyond the general level of prices following the example of balanced, stably growing, developing countries and use it efficiently to eliminate unemployment.

Since 1995, in order to avoid existing hyper-inflation in the country, the Central Bank introduced tough monetary policy. The power of the Central Bank on monetary policy is implicit. The Bank applies tight monetary policy. The emission level of manat in 1994 fell from 500% to 175% in 1995, increased by 28% in 1997.

The amount of the money in circulation at the beginning of 1998 decreased as a result of rigid monetary policies. However, after the second half of 1999, the volume of the money in circulation began to rise. In 2000, the cash in circulation (Mo) increased by 19.9% and money supply (M2) 18.3%. The main reason for the rise in money amount was the increase in demand for mandatory reserves due to the growth of foreign currency and deposits. In 2000, the cash in circulation (Mo) went up by 11.5% and money supply (M₂) by 15.7%.

Figure 20. Emission level (million Manats)



Source: The Publications of the Central Bank of Azerbaijan. 2015

Starting from mid-1990s, obviously the difference between the rate of real GDP growth, which is one of the main macroeconomic indicators, and rate of money supply increase seem to be against the money amount.

Table 22. Money Supply (Million Manats)

II	MO	M1	M2	M3
2006	1311,4	1839,6	2135,5	3435,0
2007	2713,5	3621,71	4401,6	5897,3
2008	4145,9	5105,19	6081,24	8494,5
2009	4175,0	5231,46	6169,41	8469,4
2010	5455,9	6838,46	8297,57	10527,6
2011	7158,4	8796,28	10997,43	13903,5
2012	9256,8	11122,31	13806,58	16775,5
2013	10458,7	12736,9	16434,8	19289,4
2014	10152,5	12830,4	17435,8	21566,4
2015	5176,9	6980,3	9050,0	17444,5

Source: www.cbar.az 2016

In 1996-2000, in other words, during a total of 6 years, the growth of GDP in the country was 36%, while Mj money supply was a little more than in 1996. In 2004, the money supply growth rate attracts attention since it was higher compared to previous years.

The difference between GDP growth rate and money supply increase is eliminated in 2 ways. Firstly, the use of another currency in economy, that is, to replace money. The second one is payment problems that lead to big problems in economy. Taking this situation into consideration, it can be said that national money can reduce the impact of reforms conducted due to its weak role in economy.

The tough monetary policy which was applied in mid-1990s and yielded successful results to prevent inflation, unfortunately led to the decrease of money amount in circulation in terms of the formation of demand necessary for investment volume and offer front (production) in economy. While the conducted rough monetary policy kept hiper-inflation under control in 1995-96, after 1997, it gave a rise to some negative effects. The emergence of the deflation after the implementation of the tight monetary policy affected real sector negatively. Importers taking benefit from the stability of US dollar were able to fill the country's markets with imported goods without encountering any limit. Thereby, the consumer goods market in Azerbaijan almost consist of imported commodity. It goes without saying that the prices in consumer sector are connected to US dollar. Consequently, the change in dollar's rate does not make sense alone, but as all the imported goods are estimated with dollars, the costs of them change in connection with the variation in the rate of dollar.

On the other hand, preventing the loans directed to demand is in parallel with tough monetary policy. However this policy should not deter lending medium- term loans for the increase of production. Due to the lack of necessary resources, if the Central Bank does not consent to give such credits and demanded collateral is not given by the state, it impedes the foreign banks to give such loans.

Under the influence of the deflation in 1998-99, rediscount interest rate went up and in March this rate rose to 28%. In March of 2000, it fell to 8%. The shortterm lending interest rates of commercial banks levelled off at 20% at the beginning of 1999, in 2000 it became 22.2%. This brought about estimations about the likelihood of manat's losing value and movement in the rate of inflation. The variation in the short and long-term loans between manat and dollar started to decline with cheapening manat, but the big difference was not eliminated.

Dollar was chosen as the major currency among bank deposits. Between the years 2006-2008, the inclination to dollar fell to some extent, while the rate of currency accounts continued at a high level.

At the end of a time period of over 23 years, it can be observed that as a national currency, manat fails to fulfil the basic function of money wholly. Although the prices exist as manat, the costs of goods are considered with dollar. This has confined the function of manat as a technical feature.

Replacing the scarcity of money amount with foreign currency is certainly a very big threat to economy. As substitute currency can not be kept under control either by the Central Bank or other government organisations. The substitution of money which can not be controlled reduce the impact of monetary policy. In order to limit the movement of dollar in circulation, the Central Bank chose to restrict the money amount in circulation as the sole method of control. It even magnified the problem, as a result the Central Bank had to struggle against the result instead of the reason.

In summary, this condition shows that the power of control over monetary policy in Azerbaijan may disappear over certain time. As a way of solution, taking the growth rate of GD into account, it was taken a step back in tight monetary policy.

Money substitution is the foothold of foreign currency amount, as a result available illegal money in the country. That is why, currency substitution plays special role in the development of shadow economy.

An estimated 80% M₀, 20% M₁. Composition of money amount indicates the existence of more cash in circulation. This leads to major obstacles in terms of bank sector and management. The dominance of cash over general money supply paves the way for avoiding supervision, circuitously tax control^{@@}.

The main objectives of the implemented monetary policy in 2015 were obtaining stability in prices and rate of exchange, protecting currency reserves, improving bank system and eliminating the lack of money in the economy. The Central Bank utilized the means in its own control to attain the pre-planned goals related to monetary policy. In 2002, some efforts were made in order for open market operations to be means of monetary policy, the purchase and sale of securities went up significantly. The Central Bank obtained the stability in manat rate by intervening in the market and regulating the volume of manat. Furthermore, thanks to the President's decision on the development of private sector, the percentage

["http://www.cbar.az/assets/3574/Bulleten-2015_noyabr_1_.pdf](http://www.cbar.az/assets/3574/Bulleten-2015_noyabr_1_.pdf) (01.02.2016).

of loans given to this sector was lowered from 10% to 7%. The loan interest rate in Azerbaijan is the lowest among the CIS countries.

By applying the monetary policy, the Central Bank reached its objectives of having the reasonable level of inflation, preserving the stability of national currency's level, keeping proper foreign currency reserves, reinforcing the bank system further, providing the monetarisation in the economy. The changes occurred in currency rate have become stable. The economic growth rate has been 11%. Thanks to the implemented economic reforms, the private sector has developed and its share in GDP has surpassed 70%. The export level has risen and reached 5-6 billion dollars. Half of these investments originated from direct investments. Over this period, in order to provide the flow of foreign investments to non-oil sector, some work has been done and as a result, the flow to this sector has grown 90.4 % and become 9 billion manats. In general, from 1995 to 2015, 130 billion manats of investments were made on the country's economy, half of which were invested in non-oil sector. The drop of oil prices in 2015 resulted in the decline of exchange reserves which became 7 billion dollars. The Central Bank took this into account and realized 2 devaluations, the first one in February, the second at the end of December, as a result US dollar has risen twice against manat. In 2016, it is intended to continue the monetary policy applied in 2015. The Central Bank also put the monetary policy into practice in 2015, this policy is thought to help the rapid growth in the economy, preserve macro-economic stability and management. In particular, the implementation of the inflation rate of 3-4% in 2015 was in the top of the goals and it was achieved. Some necessary measures were taken to minimize the negative effect of the money to enter the country through oil and foreign investment on exchange rate.

To attain the goals mentioned above, the Central Bank made successful use of means of monetary policy such as credit policy, interest rate policy, legal response rate, free market operations and intervention in foreign exchange market.

In 2015, the monetary policy, which was directed to support the rapid economic growth, the prices -one of the main indicators of macro-economic stability, form the competitiveness of non-oil sector, provide financial need of the economy, was applied and the defined objectives were achieved.

In 2014, the decline in oil prices, as a result the decrease of foreign currency revenues led to the reduction of Azerbaijan's volume of money in money market.

http://www.cbar.az/assets/3574/Bulleten-2015_noyabr_1_.pdf (01.02.2016).

Since one of the primary reasons of inflation is the increase in the volume of money, the Central Bank will do its best in this direction. The growth of the volume of money may cause the decline of interest rates in credit and bank markets. It will enable the significant escalation of the loan amount necessary for the acceleration of economic growth. The rise of banks' loan opportunities is expected in credit market.

The targeted macro-economic situation will cause the national currency to strengthen. It is possible to say that this factor will contribute to reinforce the country's international competitiveness. How is this affordable? The Central Bank is thinking of offering securities and other exchange tools to the market in accordance with the objectives of the monetary policy. To advance the financial markets, the Bank is planning to cooperate with the Ministry of Finance for longterm securities proposals. Taking such a step may inhibit the existing proposal in the financial market, as well as the growth of inflation rate.

For the Central Bank, 2016 is the year of comprehensive measures in accordance with the reliable and efficient development strategy of banking system. These measures include to increase the role of banks in the economy, enhance the financial services for the progress of activity, small and medium enterprises, regions in credit planning. The Bank takes drastic action on the banks that are not in compliance with the norms in order to shape a strong competitive environment. That is, since January of 2015, the commercial banks that will not

increase their authorized capital to 50 billion dollars and private banks that will not apply international management mechanisms to create reliable banking system, will be in the focus of the Bank's attention. In order to improve the reliability of people on the banks, the foundation of "Deposit Insurance Fund" was one of the major goals taken into account in 2005.

The amendments in connection with mortgage lending were completed and the "Law on Mortgage" was adopted on April 15,2005. With this law, It became possible to lend mortgage loans. Within the law, credits started to be given by making legal, administrative and practical arrangements.

To sum up, the Central Bank began to put into practise the monetary policy supporting the realization of the comprehensive action program directed to speed up social-economic development in the country.

In addition, a decree on "Changing the value size and nominal value of the currency of Azerbaijan" was signed by the President. According to the decree, starting from January 1,2006, the country's currency was changed to new manat in the

form of one new manat equal to 5000 old manat. The alteration of “1 new manat = 5000 old manat” is different from the one made in Turkey by only removing zeros in terms of the goal and content.

In the early years of the country’s Independence, the value of the currency in circulation had fallen rapidly against other countries’ currencies within a short period with the effect of military, political, social and economic crisis appeared at that time and as a result, the country went through hiper-inflation. In spite of the progress period in the country since 1996 originating from the social-economic stability, low nominal exchange rate of manat due to high inflation obstructed the processes in accounting system, statistics, institutions and banks.

Most importantly, the distrust of the country’s currency, running away from it initiated the process of dollarization. The local currency became the exchange tool mainly in small-scale trade. The positive movement in the economy created favorable condition for the country’s currency to gain a close value to the commonly accepted currencies.

Over the period from the independence to 2005, altering the national currency with the courage taken from the favorable situation following the change emerged in the value of the country’s currency had 3 main objectives:

1. *Economic Objective:* To alter the negative view of manat stemming from the devaluation and change of exchange rates against manat
2. *Technical Objective:* To prevent the cause to work more labor force in accounting and occurred errors
3. *Aesthetic Objective:* To prepare more modern and resistant currency against wear and tear

As the impact of money-related elements among inflation indicators is approximately 30%, it is expected that changes in the movement of money will cause low-level inflation and a big increase in the prices of goods and services less than 5000 manats. Given this, it has been planned to carry out a monetary policy that will prevent denomination from leading to inflation.

the denomination It is targeted to bring closer the value of the local currency to Euro and Dollar. This will lead to have a national currency owning a purchasing power equal to that of dollar. It is the goal of fighting against dollarization. However, it is not a correct to think that such a step is the indexation of the country’s currency to dollar.

No matter how surprising it is, but the major problem with the monetary policy decisions is that manat is too strong. So it is becoming attractive for import and export in a way against domestic production.

According to the information by the State Statistics Committee, the average annual inflation was 3.7% in 2015 which is 3.8 percentage points lower than the changes of the average annual consumer price index of the last 10 years.

The decrease of foreign currency proposal and increase of the demand in the background, the Central Bank's exchange rate policy in 2015 was conducted under the objectives of strengthening the country's international competitiveness and macro-economic stability. Since the end of 2014, the plummeting prices in the world oil market and devaluation waves in the main trade partners resulted in the growing demand for foreign currency, especially US dollar in the internal currency market. The total volume of foreign exchange market in 2015 increased by 1.8 times compared to the respective period of the previous year. 91% of transactions in the currency market were done in US dollar, while the remaining 9% were in other currencies. In comparison with the same period of 2014, the volume of transactions in US dollar extended by 1.8 times and that of Euro by 2.1 times. The net cash provided in US dollar to the people by banks went up by 61.7% compared to the same period of last year. The growth of demand for foreign currency cash occurred mostly in the first quarter. Since, in 9 months, 63% of the net US dollar and 38% of Euro were sold in the first quarter. During 2015 when the monetary policy decisions were being accepted, the condition of realizing that policy and succeeding the inflation goals were taken into account. Over that period, the monetary policy was conducted considering the trends in economic cycle and dynamics of money supply as well as price and financial stability targets. In order to fortify the financial support for the economic growth in non-oil sector, stimulate investments by accelerating the drop of interest rates, create monetary basis for funding small and medium-sized businesses and optimizing the cost of mortgage lending of people, the Central Bank's discount rate was reduced from 3.5% to 3% starting from July 13, 2015. Given the latest trends in money supply change, the reserve requirement set by the Central Bank was cut down from 2% to 0.5% with the aim of seconding the economic growth by creating the reduction of interest rates.

The money supply was formed under the impact of the ongoing processes in currency market owing to the dynamics of manat and monetary supply in 2015. The monetary base of 2015 with manat declined 38.9% and became 7050.4 million manats by the end of the period. The dollarization had a reducing and

Other factors (the Central Bank's market operations, etc) had an increasing influence on the alteration of monetary base. Significant changes did not occur in the level of money multiplier which expresses the ability of the banking system. During this period, broad money supply (M2) fell 46.3% becoming 9369 million manats at the end of the period. In a broad sense, the money supply with manat decreased on account of the money supply in cash. Broad money supply (M3) decreased by 18% and it was 17684 million manats from 01.10.2015. Compared to the respective period of 2014, M3 monetary aggregate dropped by 16.3%.

The decline in M3 monetary aggregate in 2015 happened in connection with the reduction of net foreign assets. The share of net foreign assets in broad money supply reduction was 59.5%. The share of deposits and savings in M3 money supply. In foreign currency had been 47% towards the end of the period.

7.2. FINANCIAL POLICY

One of the main targets of macroeconomic policy is fiscal policy. It is a government's regulatory policy of budget spendings and tax system which ultimately affects the structure and redistribution of national income and expenditure. As the content of fiscal policy, government's intended or implemented reforms both in social and economic spheres in connection with budget, economic laws, actions can be mentioned. Fiscal policy can be used as a tool to reach the goals like excess of budget income and expenditure, balance, nonbalance, deficit financing. Fiscal policy is an integral part of the financial policy of a government which covers its financial actions on the creation and usage of budget funds and plays the role of powerful regulatory tool. For the first time, fiscal policy was put forward by J.M.Keynes as a means of avoiding global financial crisis happened in the world economy during 1930s. According to Keynes and his followers, aggregate demand can be stimulated and economic processes can be activated by making relevant changes in tax rates and budget spendings. Keynesian theory says, the change made by government in fiscal policy will impact aggregate demand and indirectly aggregate supply. Hence, fiscal policy along with aggregate demand has the ability to influence the level of employment and people's income.

The basic tools of fiscal policy

The fundamental tools of fiscal policy are taxes and government spendings.

Government spendings are expenses of government to carry out its functions. In order to remove public needs, government should benefit from some goods and

services which makes the very government to spend certain funds. Along with the fulfillment of public services, the economic obligations undertaken by government emerge in the form of expenses. It is a reality that the goals such as arrangement of fair income distribution, realisation of full employment, formation of condition for economic development direct government to the purchase of goods and services. At the same time, sometimes these objectives channel the government to aid the private sector gratuitously. In a narrow sense, the costs of central state organisations and local institutions are meant as public spendings. In a broad sense, it refers to tax expenditures as well. Tax expenses are the amount refused by government, who has to take it as tax, for various reasons. Government renounces some portion or all of the tax amount to be taken with names like tax exemptions, tax cuts. Thus, we can evaluate public spending as a reduction in government's net financial worth.

According to the Tax Code of the Republic of Azerbaijan, tax is the mandatory, individual and non-refundable payment made in the form of alienation of funds owned by taxpayers with the aim of supporting the state and municipal activities financially®®.

Stances of fiscal policy

There are 3 main stances of fiscal policy: neutral, expansionary and contractionary.

Neutral fiscal policy is usually applicable when there is prevailing balance in economy. By this, government spending is fully funded by state revenues and it has a neutral effect on economy.

Expansionary fiscal policy involves government spending exceeding revenues. This policy is utilised to annihilate periodic crisis by decreasing taxes and increasing budget expenses. This policy may have both positive and negative effects on economy. As a result of implementing this policy, we can evaluate the annihilation of cyclical crisis as positive, however budget deficit and inflation as negative. The growth in government spending during carrying out expansionary fiscal policy leads to the increase in aggregate demand and the country's gross domestic product.

Contractionary fiscal policy occurs when only a part of state revenues is directed to expenditures. The main objective of this policy is restricting economy's periodic growth by budget sequestration and increase of taxes. This policy might also affect economy positively and negatively. As a result of the implementation of

“ www.finance.gov.az”

this policy, we can evaluate the decline of the budget deficit and inflation as positive, the rise of unemployment in a shortterm and creation of stagflation in a long term as negative.

Types of fiscal policy

The role of fiscal policy in economy is associated with its character and types, namely, the type of adopted fiscal policy determines the mechanisms of its implementation. There are 2 basic types of fiscal policy which are discretionary and automatic:

Discretionary fiscal policy is also called active fiscal policy. While the active fiscal policy is conducted, state intervenes in economic processes by manipulating taxes and budget expenses deliberately. In other words, by *realising discretionary fiscal policy*, state tries to find effective ways out of the situation by maneuvering between taxes and government spending for the increase & decrease of gross domestic production volume, optimization of employment level, change of prices and regulation of inflation. During the implementation of discretionary fiscal policy, government regulates taxation and budget expenditures purposefully to improve the economic situation of country. The level of this regulation is diverse in the different phases of economic cycle. As state increases its expenses and reduces the level of taxes during economic crisis, all of which lead to the expansion of purchasing needs. When the rise in production is accompanied by inflation, state prevents business activity by reducing its own expenditures and raising the level of taxes. During economic setback, in order to stimulate aggregate demand, through discretionary fiscal policy, government creates budget deficit purposefully by escalating its volume of expenses or mitigating the level of taxes. In order for government spendings to show stimulating effect, they shouldn't be financed at the expense of tax revenues. The expansion of tax rates reduces the incentive for business activity which brings about a decline in the volume of production. Therefore, the escalation of government spending is usually followed by budget deficit. Thus, government eases economic crisis and achieves the rise of domestic production volume by increasing its expenditure during the setback of production and decreasing its expenses during the period of economic growth accompanied by inflation.

While carrying out automatic or passive fiscal policy, the changes related to taxes and budget expenses are regulated automatically. Automatic fiscal policy envisages the automatic increase of the volume of net tax revenues to state

budget during the period of economic growth and the automatic decrease of the volume of net tax revenues to state budget during economic setback. These alterations happen with the effect of «Installed self-regulators». Installed selfregulator is a mechanism which allows to reduce the fluctuations In the level of production and employment without making any change in the economic policy of state. Such automatic regulators are as follows:

- the progressive tax system preventing aggregate demand during economic growth. As the income of people grow, they are taxed at a hihger rate which Impedes aggregate demand. When revenues decrease following economic downturn, lowering tax rate causes the increase of revenue obtained. It results in the stimulation of aggregate demand.
- as a result of the rising number of the unemployed during economic downturn, the size of unemployment benefits and other welfare payments grow. During economic boom, the level of unemployment falls which automatically leads to the decline in the volume of those payments.

The main advantage of automatic fiscal policy is that, as a result of a little change In economic conditlonsg installed self-regulators are set to work Immediately. The disadvantage of this policy Is that, it only smoothes out periodic fluctuations and can not eliminate them completely. Hence, fiscal policy Is the regulatory system of national economy as a whole or its various strategic areas and regions by making changes related to taxes, their types and rates, as well as budget spendings by government actively or passively.

The fiscal policy of the Republic of Azerbaijan for 2016

Azerbaijan's fiscal policy for 2016 is aimed at maintaining economic stability, the modernization and diversification of its leading areas, continuation of the measures on social security of the population observing social priority, as well as providing people's living standarts, social security of refugees and IDPs.

The primary targets for 2016 involve stimulating non-oil sector further, fulfilling complete and timely tax obligations for increasing revenues more, as a whole reinforcing tax and customs discipline.

Given the expected decline in the world market price of crude oil to 40-60 dollars, optimlstic(if it becomes 60 dollars), base(if it becomes 50 dollars), pessimistic (if it becomes 40 dollars) scenarios are prepared in accordance with the main directions and priorities of the state and consolidated budget for 2016- 2019.

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Table 23. Structure of Taxes (2005-2014)

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Value-added tax	600	737,8	1179	1911	2013	2083	2223	2367	2710	3120
Excise tax	141	187,4	402,9	486,9	485,1	514,9	480,2	531,5	593,3	797,3
Income tax	355	1361	2458	2862	1329	1430	2134	2252	2375	2303

Source: www.taxes.gov.az

Within the “Law on the Budget System” that was adopted in December 1992, the budget system consists of the budgets of the Republic of Azerbaijan and Nakhchivan Autonomous Republic, as well as local budgets.

Budget revenues comprise income tax, VAT, customs duties, land tax and excises (taxes on smoking, drinking, imported cars and mines). Social security costs, defense expenses and allocated costs on state institutions have a special place in budget expenditure.

With the declaration of ceasefire in connection with Karabagh War and political stability, procedures on creating economic stability started to be applied. Within this framework, a reform of tax was conducted.

Between 1991-1994, the war with Armenia had a negative impact on the state budget. During this period, the ratio of government spendings to GDP rose to 55%, while the ratio of the state budget deficit to GDP increased to be 15%. On one hand, oil and privatization incomes were continued to be used for financing the state budget deficit, on the other hand, the measures to raise government revenues and reduce spendings were tried to be carried out. In 1999, although the ratio of the state budget deficit to GDP went up by 5.4%, with the actions taken it was targeted to keep it at a lower level.

Within the framework of the policies backed by the IMF, it is aimed to reduce government spendings and thus to control the budget deficit. According to the tight monetary policy, the target is the continuation of low inflation and to be affected the least by the crisis in neighboring countries. For this purpose, with the application of rigid administrative control, it was tried to gain the trust on manat again. Thus, it was targeted to reduce the real and nominal interest rates.

Despite the changes in government spendings after the IMF backed financial policies, the fall of the state revenues led to the growing usage of outsourcing in the elimination of the state budget deficit. Along with that, the income obtained

from privatization and other similar internal sources were utilized in funding budget deficit. In 2000, VAT incomes made up the most important source of income in state revenues.

As part of the conducted reforms, the actions were started to be taken to raise tax revenues and strengthen the areas of tax. The recent rise of government spending stems from the increase observed in salary, social transfers and investments. The decline has been made in the units allocated for the different areas among government spendings. The government is trying to improve the situation in the state budget balance in this way.

The tax system in Azerbaijan is defined with the country's constitution and other legal regulations. The tax is determined and received in accordance with these legal regulations. In particular, forming a large portion of the budget incomes with taxes increases the essence of this issue. In this regard, the importance of the tax-related organisations rises day by day. The most essential of these organisations is the Ministry of Taxes which was established in 1990 as a part of the Ministry of Finance, in 1991 it became independent tax inspectorate and finally In 2000, with the decision of the head of the state it was turned into a Ministry. Afterwards, other departments of this ministry were founded. In addition, the departments were opened in various regions. Tax policy and its collection is conducted by the Ministry of Taxes.

In general, there are three types of taxes in the country. They are state taxes, the Autonomous Republic taxes and local taxes. Tax collection is done in 2 ways. The first is taken directly from the source, while the other is carried out on the basis of the declaration. There are 9 types of state taxes, 8 types of the Autonomous Republic taxes (relates to Nakhichevan Autonomous Republic), 4 local (municipal) tax types. Some people are either completely exempt from taxes or have obtained some concessions. At the same time, the tax system is constantly being developed as a part of a plan to set up a system in accordance with that of developed countries.

While renewing the Tax Laws, some efforts were made to strengthen tax officials. In 2000, it was tried to raise the level of state revenues by making concessions in the payments cut from entrepreneurs in VAT, the Legal Person Tax, Social Protection Fund. Within the agreement signed with the IMF, government spendings were tried to be controlled.

Though many new adjustments were made in order to strengthen the organisational structure of the public sector, it is still not possible to say that the public sector works efficiently.

Furthermore, in many ministries including the Cabinet of Ministers, a structural reform that needs to reshape the public sector completely and actions to increase the judicial power and independence are continued.

One of the main objectives of the policy applied is to provide the development of non-oil sector that will revive the market. Poverty reduction and revival of the real economy are among these aims. The acceleration of the financial policy will have a positive impact on the economic conditions of small and medium-sized enterprises.

Some steps directed to the simplification of the tax system, reduction of VAT rate and tax burden, need to be taken. Such steps will enable the progress of non-oil sectors and affect price stability positively. International experience shows that the development of an economy where the rate of VAT is between 5-10% can be expected. If this rate is higher, some serious problems like in the South American countries can arise.

Until the beginning of 2016, more than 200 changes have been made in the Tax Code. They were made in order to achieve the aims like increasing the benefits in tax control, protecting the rights of taxpayers, preventing tax evasion⁷⁷.

With those changes, certain time limit was set in some tax procedures. Some alterations were also made in the Tax Code for those who want to hire their properties. In addition, customs system was simplified. Agricultural production was decided not to pay tax except for land tax. As a part of new regulations, the application area of simplified tax system was extended.

The main directions of the fiscal policy

In accordance with the country's medium-term economic and social prediction, in order for the implementation of the financial policy, the realization of the following measures in 2016 are envisaged in the fiscal policy⁷⁸:

On revenues:

- > To increase the share of non-oil revenues in the budget revenues;
- > To reduce the transfers from the State Oil Fund of the Republic of Azerbaijan to the state budget gradually;
- > To improve the simplified tax system by making amendments to the existing legislation and grant the right to choose to taxpayers operating in some areas of the economy according to the rules on tax payment;

www.taxes.gov.az
www.taxes.gov.az

- > To review the tax exemptions on tax and customs payments implemented in various areas of the economy, their restriction or repeal;
- > To obtain dividends to the state from the enterprises that has state share in charter fund or stocks according to those shares;
- > To raise the receipt percentage of tax revenues to the state budget;
- > To continue the work in the course of raising receipt percentages of the estimated mandatory state social insurance;
- > To continue the activities directed to reduce subsidies thanks to the tax payers with tax registration, in order to balance local revenues and spendings in the country's cities and regions;
- > To continue the work to provide the transition of customs tariffs system to less-tier system;
- > To multiply the access rate of the revenues obtained from leasing state lands to the budget;
- > To take effective measures in the course of increasing the revenues from privatization of state property to the state budget.

On expenses:

- > To maintain the fiscal policy In non-favorable external environment, as well as in the background of the reduction of state and consolidated budget revenue and spendings, to amplify the efficiency of spendings in public sector, to improve the management of the current and capital expenditures;
- > To generate financial support for all the social obligations of the state budget, the main state programs, as well as education, health, social, cultural, sports and physical infmctmcture projects by keeping up the social policy;
- > To intensify the financial stability for pension provision, to strengthen principals of insurance, to establish financial provision in connection with the implementation of the Concept of the Reform of Pension Provision System in Azerbaijan approved for the application of the balancing mechanism between the attained pension rights and compulsory state pension rights;
- > To create financial support in order to ensure the country's defense capability and safety;
- > To continue state care to agricultural sector for the solution of self-sufficiency of the population with basic food products, government support for farmers, development of leading areas of agriculture and giving subsidies to these areas;

- > To form financial support by using the budget revenues in the development of non-oil sector, also direct funding of production projects with large financial capacity;
- > To raise the efficiency further in managing public debts, to bolster the state control over the financial activities of the Institutions taking loans with state guarantee, to keep on the realization of loan service costs by the funds of the same institutions.
- > To provide the consistency of the state program and measures with budget expenditures, the funding of new state programs and measures intended to be carried out by the state budget;
- > To maintain the reforms in the systems of education, health, social insurance and social assistance, alongside sports and cultural areas, to increase the focus on their priority directions of development;
- > To continue the joint financing with international financial institutions for the implementation of infrastructure projects;
- > To carry on the activities for further intensification of attracting private investments by restricting the participation of public finance in many areas of the country's economy gradually.

On budget deficit:

To succeed keeping the budget deficit in a manageable level.

7.3. EXCHANGE RATE POLICY

There is a close relationship between the exchange rate policy applied in Azerbaijan and the balance of foreign trade and payments. In the conducted researches it was observed that exchange rate plays a role in foreign trade indicator, real sector opportunities and regulations against inflation. To maintain the value of foreign debts at the request of the IMF, fixed exchange rates will affect both domestic production and export negatively. This situation has impacted the difference between imports and exports to be in favor of imports.

With the effect of rising inflation rate, Azerbaijan's manat depreciated sharply from 1992 when it was first distributed into circulation, to 1994 when it was adopted as the single currency and especially, in 1994, excessive fluctuations occurred.

With the capital revenues obtained as a result of the macroeconomic stability policies put into practice since 1995 and the policy of floating exchange rate, money supply was kept under control to prevent further rise of prices, however

the nominal value of manat against dollar began to ascend. The Central Bank did not change its exchange rate policy from this year and until 1998, manat's nominal and real value gaining was observed. Along with attaining price stability, foreign capital into oil industry also has big impact on this. The crisis in 1998 and decline in export level resulted in the transition to floating exchange rate mode from the middle of 1999, then it was tried to gain competitive advantage in export products by reducing the value of national currency against dollar. After the transition to floating exchange rate in 1999, manat started to lose value against dollar which influenced export.

The depreciation of manat against dollar continued in 1999 and 2000. Traditionally, Azerbaijan is a country that is significantly dependent on foreign trade. Competitiveness in foreign trade refers to price advantages. In particular, applied exchange rate policies become important at this point. On the other hand, oil and oil products that are main export areas show a remarkable growth with the launch of new oil fields of the consortiums.

In spite of the spending of exchange reserves owing to the Implementation of Baku-Tbilisi-Ceyhan project and foreign debt payments, the Central Bank aimed to maintain the same level of exchange reserves.

As a part of this policy, during 2003-2009, there was not a big change in the value of manat.

After a rapid decline of oil prices and exchange revenues in the world market, in 2009, currency demand was higher than its supply in currency market of the country. The Central Bank inhibited the fluctuations in exchange rate by its currency policy. Manat strengthened by the applied policy reduced the effect of the price increase in imported goods to some extent due to its being more functional.

Inflation In the countries like Turkey, Russia, Ukraine and Iran, with whom Azerbaijan is in a close relationship in terms of trade among countries, was between 8-14%. The average rate of manat against the currencies of these countries decreased by 2.8%. Therefore, the real effective rate of manat went up by 1.6% and international competitiveness of the country's products grew.

The implementation of the monetary policy

Inflation. In 2015, prices in the country remained stable, inflation was provided in the low single-digit level. According to the latest report of the World Economic Forum, Azerbaijan is one of the countries with the lowest inflation level. The average annual inflation in 2015 accounted for 3.5% falling by 0.8% compared to

the same period of last year. This figure is substantially less than the average inflation in trading partner countries. Over the year, the Central Bank kept the factors affecting inflation under control. Targeted monetary regulation, the expansion of the supply compared to domestic demand, cheapening prices of food in the world markets had a downward effect on inflation. The opportunistic surveys conducted by the Central Bank between real sector enterprises and households, indicates the decline in inflation expectations. During the period, the growth in the income of the people exceeded the inflation pace.

Exchange Rate Policy. In 2014, the Central Bank carried out a purposeful exchange rate policy on the basis of favorable foreign economic position and conserved the stability of national currency-manat. The Bank provided the balance in currency market reacting rapidly to the processes in here. Exchange rate policy was implemented by taking into account aims to protect macro-economic and financial stability, as well as competitiveness of non-oil sector. The realization mechanism of the exchange rate policy was kept unchanged, US dollar/manat bilateral exchange rate was the operation target of this policy. Despite the substantial devaluation of national currencies in many foreign trading partner countries, in 2014 the exchange rate of manat against dollar remained almost unchanged. Lower level of the domestic inflation in comparison with that of the partner countries had a downward impact on the real effective exchange rate. The psychological factors associated with currency demand, motives and sources to buy foreign currency in cash and non-cash markets, supply sources, impairment of currencies of some partner countries were closely followed by the Central Bank. Relevant regulatory measures were taken on this basis, as a result the stability in currency market was preserved and fluctuations in manat exchange rate did not happen. The stability of manat exchange rate in the condition of available features of Azerbaijan's economy once again confirms its macro-economic importance. Fixed exchange rate is an essential factor in the management of inflation and its expectations, the protection of the people's and real sector's assets, financial stability of banking sector. At the same time, structural policies and economic policy coordination aimed at fortifying macro-economic durability play an important role in the stability of the exchange rate.

Given the situation in the currency market, on February 21, 2015 the Central Bank's Board of Directors reached a decision on defining the exchange rate of US dollar against manat in the level of 1.05 manat. The main purpose of the decision was to create incentives to diversify the national economy, to further

Strengthen its international competitiveness and export potential, to ensure the strategical stability of the balance of payments and the country's international solvency on this basis. During the CBA reporting period, the Central Bank adopted a decision on improving the operational framework of exchange rate policy. As the exchange rate policy started to be conducted based on two-currency basket mechanism including US dollar and Euro. Quantitative parameters (basket structure, value, etc.) of the new operation framework that began to be applied in the first quarter were optimized in the second quarter (more details about the essence of this mechanism are reflected in the Monetary policy review for the first quarter). The operations of the Central Bank were implemented within intervention corridor (range between selling and buying rates). In 2015, Azerbaijani manat depreciated against the currencies of all partner countries except for Russian rubles, Kazakhstan tenge, Ukraine hryvnia and Belarusian ruble. The dynamics of manat's nominal bilateral exchange rates led to the change of real bilateral exchange rate, thus real effective exchange rate. During the reporting period, real effective exchange rate (non-oil trade weighted) dropped by 15%. This mainly happened thanks to 12.1% depreciation of nominal effective exchange rate.

On December 21, 2015, the Central Bank announced the transition to floating exchange rate and dollar rose again becoming 1.55 manats which was the second official devaluation by 50%. The Central Bank announced that this step was taken due to the plunge in oil prices and increased interest by US Federal Reserve.

Interest Policy and Money Supply. In 2015, under the condition of low inflation the Central Bank took the advantage of the monetary policy's promotional opportunities. Taking into consideration the internal and external factors of economic growth, in general tendencies in economic cycle, The Central Bank loosened the monetary policy. In 2014 The Central Bank made 2 changes in the parameters of interest rate corridor in order to create condition for a further rise of investment activity in non-oil sector and reduction of interest rates. As a result, discount rate was lowered from 4.75% to 3.5%. At the same time, the obligatory reserve norms for banks' foreign and domestic liabilities were reduced from 3% to 2%. These actions had a downward impact on interest rates for deposits and loans. In the 11 months of 2015, money supply with manat went up by 6.6% in accordance with the demand for money, the improvement of its structure went on. The increase in non-cash money supply exceeded the growth of cash money supply by 22 percentage points.

Preserving financial stability-macroprudential framework

The increased stability of banking system against internal and external shocks, preservation of financial stability, efficient mobilization and allocation of financial resources have been provided. Necessary measures have been taken to hinder the accumulation of risks in banking system. The capitalization of banks has been continued and prudential control framework focusing on the regulation of major risks has been applied. The risks of systematic importance have been restricted in a preventive manner based on the diagnosis of main trends in banking sector. "Countercyclical" management and early warning systems have been strengthened. With the aim of protecting the sector's asset quality and regulating credit risks, multi-vector destimulation measures have been taken in the course of rebalancing the portfolio structure, macro-prudential supervision framework has been tightened. The capitalization of banks have been maintained, an intensive supervisory regime on banks with a low capitalization potential has been applied. During the period after the adoption of the decision on capitalization (August, 2012), the total capital of banks has reached 4.2 billion manats increasing by 95% or 2 billion manats. The capital volume of the banks owning 99% of the sector's assets has been higher than 50 billion manats. The risk-based new methodological framework of banking supervision has been developed. In order to define the standards for banking behavior and eliminate undesirable business practices, new methodological framework on "responsible" lending, which envisages to increase social responsibility of credit institutions, has been set. Within the measures to build confidence on banks, forming protection mechanisms of consumers of financial services, efficient settlement of disputes, institutionalization of consumer rights protection in banks have been continued. The series of actions together with banks, international organisations and government agencies have been maintained in 5 financial literacy areas. Educative events in more than 40 educational institutions have been held. The establishment of "Financial Education Portal" with various intellectual resources has been completed to improve financial literacy.

Financial Stability. All the measures have resulted in the improvement of major stability indicators in banking system, as well as the reinforcement of the system's financial resources against possible risks. Currently, the primary indicator of the stability of banking sector - capital adequacy is 18.7% against 12% norm. The total capital of banking system rose by 21.3% over 11 months of this year. The liquidity in banking sector is high, the implementation of commitments and payments are performed continuously. The instant liquidity ratio exceeds the

minimum requirement twice. Bank assets' quality indicators are satisfactory. The portfolio share of real sector and people's overdue loans to banking system accounts for 5.5% which is covered fully by the banks' reserves. The share of foreign debt liabilities in bank resources is only 22% and this is a safe level in terms of stability. This year, the profit of banks has increased by 23% compared to last year. The profitability of the system's assets has been 2%, while that of capital has become 13.8%.

I. Financial mediation and development of the banking and financial infrastructures

Financial Mediation. In 2015, the banking sector's role in economic development was observed to rise further. In accordance with the strategic development objectives of the country, the Central Bank has performed relevant actions on expanding business lending. Necessary measures have been taken to reduce the cost of banks' funding sources, optimize the cost of business loans. The financial depth of the banking sector possessing 90% of the country's financial system assets has kept growing. The sector's assets went up by 21.2% reaching 78% of non-oil GDP. For the time being, the financial depth of Azerbaijan's banking sector is in line with countries having moderately developed banking system. Bank loans increased by 18%, long term loans went up by 19.2%. At present, more than 81% of loan portfolio is made up by long-term loans. Over 11 months of this year, business loans increased by 18%, including 36.3% in industry and production, 14.1% in agriculture and manufacturing. The share of business loans has been 73% in total loan portfolio. Credit investments in the regions has risen by 39.4%. Given the current trend and potential risks in consumer loans, a series of regulatory measures have been taken in the current year. As a result, the growth rate of consumer loans fell by 1.9 times to 19% compared to last 6 years and with the exception of mortgage loans it declined to 11 %, the volume of car loans decreased by 31%. In Azerbaijan, the share of consumer loans in the loan portfolio is less than the average figure of the countries of the European Bank for Reconstruction and Development. In developed countries the share of consumer loans in the portfolio is 50% or higher. In the past period of 2014, mortgage loans in the amount of 92 million manats were given. As a result, the loan portfolio of the Mortgage Fund reached 628 million manats, the number of people taking mortgage loans exceeded 157000. The implementation of "electronic mortgage" among authorised banks, insurance companies, appraisers and the Mortgage Fund started. The total volume of mortgage loans increased by 25% going over 1 billion manats (3% of non-oil GDP).

Access to financial services. During the reporting year, expanding the access opportunities of economic entities to financial services continued, the level of using financial infrastructure rose. The number of bank service points per every 100 thousand reached 10. Considering the affiliates of “Azarpogt” providing financial services to the population, this figure is 20. In 2014, 47 new bank branches were opened, 34 of which are in regions. More than half of bank branches are in regions. To revive the sources of alternative lending, the Central Bank has supported the non-bank credit organisations in the current year. The number of non-bank credit organisation is 157, while their branches are 222. From the beginning of the year, the assets of non-bank credit institutions and volume of loans have increased by 13.3% and 12.3% respectively. The actions have been taken for the development of electronic banking services playing an important role in the expansion of the people’s access opportunities to financial services. At present, 23 banks function on internet banking and 15 banks on mobile banking. In order to improve the service, 2 departments by the Central Credit Register (CCR) started operating in “Asan service” centers. The number of the requests into the registry by credit institutions exceeded 2.8 million.

Sources of resources. In 2014, the confidence in banks increased further which resulted in the enhancement of resource base of banking sector and reinforcement of the stability of the sources. Over the past period of 2014, corporate deposits reached 8.2 billion manats rising by 35.3%, while people’s deposits became 7.1 billion manats increasing by 10.8%. People’s manat deposits grew by 15% during 11 months. Deposits in regions multiplied 12.4%. Currently, 473 of every 1000 people are depositors. The amount of deposit per capita is 745 manats, the number of individuals’ bank accounts is 6.4 million. Population is the net creditor with respect to banking sector. The volume of people’s deposits exceeds their credits 2.3 billion manats. During the past period of the current year, interest income of people on deposits became 450 million manats.

Interest Rates. The interest rates have continued to decline, additional measures by the Central Bank have been taken to speed up this process. Since the beginning of the year, the average interest rate on deposits has decreased by 0.4 percentage points to be 9.4%. In addition to the discount rate of the Central Bank, since May the maximum interest rate on the deposits insured by the Council of Trustees of the Deposit Insurance Fund has been reduced from 10% to 9% which has had a downward effect on interest rates. Interest rates on loans also tend to fall. This trend has strengthened over the last 5 years, currently the average interest rates on credits is 14.3%, including 10.8% on consumer loans.

The average interest rates on consumer loans varies depending on the type and guarante degree of credits. Generally, the interest rates on consumer loanss are close to that of many countries.

PAYMENT SYSTEMS. Maintaining the stability In payment systems, extending the application scope of modern infrastructure established in this field and promoting innovations were among the main activity areas of the Central Bank in 2014. The amount of payments made through the National Payment System in 2014 was 2 times of GDP. The enhancement of “Government Payment Portal” founded within the framework of “E-government” continued. As a result, 19 institutions providing mass service were integrated into the portal. The payments are performed on more than 285 types of services of these institutions. For the time being, the work is about to be completed on receiving payment on the services of government agencies in “ASAN service” centers through portals, as well as the integration of “ASAN payment” system to the Infrastmcture. In 2014, the progress of card infrastructure was kept on. The number of payment cards Issued in the country has reached 5.9 million, while the amount of ATMs to 2586 and POS terminals to 68676. The number of payment cards has increased by 5% , that of ATMs has gone up 6.8%, while the amount of POS terminals has doubled.

II. The monetary policy, financial stability and banking sector in 2015.

The monetary and exchange rate policy of 2015 will be Implemented taking Into account global economic risks, strategic development challenges of the national economy. Keeping inflation at a low single-digit level will be the main target of the monetary policy .The stability of manat exchange rate will be one of the top priorities in the coming year. Depending on the economic situation , the flexibility of the monetary policy will be increased to provide efficient support for the economic growth. For ensuring financial stability in banking sector, prudential supervision will be strengthened, counter-cyclical regulation will be maintained. Expanding access to business loans, stimulating real sector lending, improving banking and financial infrastmcture will be main priorities. The actions on reducing interest rates will be continued.

The Objectives of the Monetary Policy. In 2015, the main goal of the Central Bank’s monetary policy is to ensure price stability under its authority. Given the recent global and domestic economic trends, inflation is expected to remain at a low level in the medium term, inflation level is targeted to be 2-3% for the next year. The flexible reaction of the monetary policy both to inflation and deflation

will be provided. The character and scale of this reaction will change depending on the demand and supply factors affecting inflation. Next year, the Central Bank will pay special attention to the analysis of various price indexes and overall assessment of the risks of deviation of inflation forecast. The dynamics of the base inflation will be watched constantly in order to differentiate the temporary and long-term factors of inflation (deflation) pressures. The Central Bank will consider the results of the economic cycle model in the formation of an adequate reaction of the monetary policy.

EXCHANGE RATE POLICY. While conducting the exchange rate policy in 2015, the Central Bank will focus on the targets to ensure macro-economic stability, financial stability and protect competitiveness of non-oil economy. A stable exchange rate of manat plays an essential role in attaining a low single-digit inflation, preserving social welfare and investment activity. Taking this into account, the stability of manat exchange rate in 2015 is an important priority. Exchange rate regime will be kept unchanged, targetting US dollar/manat exchange rate will be the operational framework of the exchange rate policy for the next year. The following year, besides the bilateral exchange rate, manat's nominal and real effective exchange rates will be monitored.

Monetary Policy Tools. In order to achieve a reasonable growth of money supply, in 2015, the Central Bank will utilize the tools of providing liquidity in money market and sterilization. Macro-economic forecasts show that the tendency of the stability of demand for money will continue in 2016.

Depending on the situation in money market, the regulation of liquidity, also the use of injection operation will be focus of attention. Along with the objectives of the monetary policy, market operations will serve the protection of stability in banking sector, stimulation of financial mediation and implementation of timely payments. In addition to the classic tools, the usage of unconventional monetary policy will be provided in necessary cases, also the Instruments of crediting business through banks will be improved. Interest rates on liquidity instruments will be determined according to "interest rate corridor concept". In 2015, the parameters of the interest rate corridor will be adjusted to economic environment in a flexible way. While identifying interest rates on its operations, the Central Bank will take into account the priority of reducing interest rates on loans. The transmission characteristics of the monetary policy to the economy will be considered too while determining quantitative parameters of the monetary policy instruments. The measures on improving the tools of the monetary policy and strengthening their impact on the economy will continue. In particular, reinforcing the activity of

interbank money market will remain in focus, the integration of the interest rates here into the interest rate corridor will be considered.

Monetary Policy Framework. The Central Bank will continue to improve the strategic framework of the monetary policy in 2015.

This improvement will be conducted in the directions of both realizing conditions of transition to direct inflation targeting regime and expanding the regulatory arsenal of the Central Bank. According to international practise, targeting inflation directly is the most effective framework of providing price stability. This policy framework ,that envisages high-impact opportunities to aggregate demand, economic growth and inflation through the interest rates of the Bank, stabilizes inflation expectations and allows to neutralize the effects of macro-economic shocks quickly. As an appropriate condition is formed for this (diversification of sources of foreign currency,deepening of financial and capital markets, increase of financial depth of banking sector, etc.), the opportunities to use interest rate as an immediate target affecting aggregate demand will emerge.While improving the monetary policy framework, changes happening in the design of monetary policy recently will be considered as well. The recent global crisis indicated that, central banks should not be satisfied only with supporting price stability for sustainable economic development. Currently, the matter of expanding target perimeter (along with price stability, economic growth and financial stability) and arsenal of tools of central banks are topical in the world. Given the possibility that risky increase in financial sector may cause macro-economic imbalance, monetary policy will be closely coordinated with macro-pmdential policy. The macro-economic stability provided by monetary policy tools will be strengthened with the application of counter-cyclical macro-prudential instruments which prevent overheating in financial sector.

Financial stability policy. In 2015, the Central Bank will continue its activities focused on improving the stability of banking sector against potenrial risks, restricting risks in preventive regime. In 2015, the improvement of banking supervision framework will be maintained by considering Basel III principles, as well as the local environment of banking activities. Activities of building a policy model which allows the implementation of a risk-based and countercyclical prudential regulation, the prudential requirements scope of each type of risk. In order to protect the quality of the sector's assets, banks' restrained lending activity and rebalancing the structure of loan portfolio will be ensured. The regulation of growth on consumer loans will be kept on to provide the compatibility of dynamics of investments with economic development strategy. The implementation

of “responsible lending” philosophy in banks will be improved, new initiatives on deposits’ realization mechanism will be taken. To inhibit a risky growth in banking sector, possibilities of introducing new instruments of prudential supervision will be explored. In 2015, it is planned to establish regulatory framework on operational risks and consider capital adequacy in the calculation of these risks. Consolidation process will be continued in the banking system. Electing a supervisory framework in line with the risk profile of banks will be kept in focus, restructuring measures will be taken if necessary. In order to develop the internal potential on management of risks in banks, complex application of corporate governance standarts, the activities on raising the demand for governance quality, management competencies, technology and human resources will be kept on.

Within the events directed to build confidence of people and corporate sector on banking system, reinforcing the sytem of protecting consumers’ interests of financial services will be one of the major priorities . The activities on raising the level of people’s financial literacy will be bolstered. Financial Education Portal is expected to play a special role in this regard. Joint mass events in the field of financial literacy will go on. The development of new educational tools and products towards this will be ensured.

Financial Depth and Access to Credit. In 2015, the Central Bank will keep acting towards raising the role of banking and financial sector in diversification of the economy. The formation of a financial system focusing on the diversification of financial resources, providing effective support for economic growth leading to more efficient distribution of incomes and improvement of social welfare, will be promoted. Possibilities of creating new financing mechanisms to multiply chances of long-term business loans will be explored, offering new products and services to real sector by banks will be encouraged. Introduction of effective business projects by real sector in the expansion of business lending will be an essential factor. Making financial reporting of real sector institutions relevant to international standarts, strengthening the mechanism of protecting creditor rights are significant factors increasing possibilities of access to business loans. The actions of reducing interest rates will be maintained. Stimulation of attracting long-term savings of people, corporate sector, institutional investors to banking sector will be focused on with the aim of increasing the resource base of banking sector In this direction. Moreover, the activities towards stimulating non-cash payments and expanding sources of resource will be fortlfied.The possibilities of extending the scope of deposits and depositors protected within the framework

of improving deposit insurance mechanism, will be considered. The continuation of restructuring in banking sector, development of interbank market, reinforcing internal potential in banks and raising operational efficiency of banking services, as well as Introduction of electronic and distant banking services will be the factors having a downward impact on interest rates. The development of regional banking will be focus of attention, in 2015 as well and enhancement of regional network of credit institutions will be promoted. The development of the physical branch network along with remote banking mechanisms, as well as banking Instruments will become important priorities. Given the role of microfinance in rising social welfare in regions, non-bank credit institutions will be paid attention to. Through microfinance institutions including the regional service network of "Azarpogt" LLC, additional actions will be taken to Increase the access to banking services. The activities of developing mortgage lending system will be kept on in 2015. Based on the world experience, the opportunities of taking new initiatives together with the government will be considered. An important priority is to expand the scope of social mortgage. In order to simplify the process of mortgage lending, "electronic mortgage" system will be benefited from. Citizens will have the opportunity to apply for mortgage lending electronically. For the expansion of mortgage lending, the actions on the attraction of additional market sources, creation of new mortgage products, formation of guarantee mechanism of mortgage lending, will be taken.

Payment Infrastructure. Expanding the scale of non-cash payments in the coming year will be one of the priorities, sustainable development of the key components of the National Payment System will be provided. The integration of state institutions into the portal will be maintained towards expanding the use of the Government Payment Portal Infrastructure. Receiving the payments through the portal on the services of government agencies in "ASAN service" centers will be provided. The integration of "ASAN payment" system into the established infrastructure will be concluded. The improvement of relevant regulatory and legal framework is intended for managing risks to enhance the usage of electronic banking services in banks, equating customers, regulating the relationship between customer and bank.

CHAPTER EIGHT

THE PROCESS OF AZERBAIJAN'S INTEGRATION TO THE WORLD ECONOMY

One of the main goals of the government of Azerbaijan, which regained independence at the end of twentieth century, in economic field was to ensure the integration of the country's economy into the world economy.

International economic integration is performed by foreign trade, international circulation of investment and employment, membership at international economic organisations, participation at regional unions.

Foreign economic relations are one of the factors defining the position and reputation of every country among world countries. The establishment and expansion of these relations on a solid foundation is of great importance for the countries gaining independence newly.

Foreign economic relations in Azerbaijan, which was surrounded by "iron curtains" during the period of Soviet Union, existed as an independent area of the economy. The country, that was unable to build relations with the outside world without the permission of the center, tried to found a new system after the independence.

The structure of Azerbaijan's economy inherited from the former Union did not only meet the national economic requirements of an independent country, but also failed to allow the appropriate way of integrating into the world economy and to ensure economic independence of the country.

In particular, after the late President Heydar Aliyev became the leader of the country, within the framework of delicate equilibrium policies, Azerbaijan was seemed to form its international relations and start to integrate into the world economy.

Despite the favorable condition in Azerbaijan in terms of its geographical location, large energy facilities, oil and petroleum equipment industry, chemical electronic and wine industry, transport infrastructure and rich raw materials, the main factors shaping foreign economic relations were weakness of technological potential, lack of production, cheap labor force.

8.1. THE LEVEL OF INTEGRATION

The relations, that were close only with CIS countries over the first years of the independence, involved other foreign countries later on and currently it has turned into a developing system together with trade agreements, foreign investment and credits from international financial institutions. This system is being realized by state institutions such as the Ministry of Foreign Economic Relations changed to the Ministry of Commerce, the State Customs Committee, the Foreign Investment Department under the Ministry of Economic Development and the Agency of Foreign Credit and Welfare under the Cabinet of Ministers.

After passing to liberal economic model, the process of the country's being part of the world markets continues rapidly with important charter changes to liberalize foreign trade.

In the process of integration into the world economy, recently Azerbaijan has established trade relations with 154 countries which is an essential indicator of the countries progress in this process. Since the enterprises fail to produce at a level to compete in the world markets, it confines Azerbaijan's integration opportunities by exporting the finished product.

8.2. THE TIES WITH INTERNATIONAL ECONOMIC ORGANISATIONS

One of the new cases of in Azerbaijan's foreign economic relations is the membership at some economic organisations and loans taken from them. Azerbaijan's foreign trade regime constitutes the basis of the system of foreign economic relations.

Azerbaijan is a member of the following organisations:

The International Bank for Reconstruction and Development (IBRD), the International Monetary Fund (IMF), the Organisation of Black Sea Economic

Cooperation (BSEC), CCC (Commodity Credit Corporation), The Council of Europe (CE-observer), Citizenship and Immigration Services (CIS), Euro Atlantic Partnership Council (EAPC), the European Bank for Reconstruction and Development (EBRD), the Economic Commission for Europe (ECE), the Economic Cooperation Organisation (ECO), the Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Food and Agriculture Organisation (FAO), the International Civil Aviation Organisation (ICAO), ICRM, the International Development Association (IDA), the Islamic Development Bank (IDB), the International Fund for Agricultural Development (IFAD), the International Finance Corporation (IFC), the International Labour Organisation (ILO), Intelsat, Interpol, Non-Aligned Movement (NAM-observer), the United Nations (UN), UN Conference on Trade and Development (UNCTAD), the United Nations Educational, Scientific and Cultural Organisation (UNESCO), Industrial Development Organisation (UNIDO), the World Health Organisation (WHO), the World Trade Organisation (WTO-observer).

Due to the lack of domestic financial resources within the country, Azerbaijan allied with these organisations in order to benefit maximally from extensive financial resources of international financial organisations in reconstructing the country's production and social structure. The major organisations giving loans to Azerbaijan are the European Union (TACIS, TRACECA, INOGATE), the IMF, the International Bank for Reconstruction and Development (IBRD), the US Export and Import Bank, the International Development Association, the European Bank for Reconstruction and Development (EBRD), the Turkish Eximbank, the Islamic Development Bank (IDB), Japan Bank for International Cooperation (JBIC), Black Sea Trade and Development Bank (BSTDB), IFC, Kreditanstalt fur Wiederaufbau (KfW-Germany). In order to decrease investment risk in terms of warranty, the Multilateral Investment Guarantee Agency (MIGA) is operating in Azerbaijan. Loans offered by these organisations are project loans to facilitate the transition to a market economy. Along with foreign loans, the amount of international aid to Azerbaijan by international organisations has increased significantly. Among them, the aids by the European Union has a special place. Azerbaijan, who has ties with a lot of international economic organisations, is the member of necessary organisations in terms of regional economic and trade relations. In addition, there is a close collaboration with the European Union.

In spite of the loans given by the European Bank for Reconstruction and Development, the Japan International Economic Alliance Fund, it is worth noting that preference in foreign loans was given to the IMF and the World Bank.

The first major decision taken by Haydar Aliyev after he came to power was the acceptance of Manat as a national currency unit and the only means of payment. The second step was choosing the strategy of benefiting from the energy resources. After this, the relationship with the IMF and the World Bank began to be built in order to step towards the integration into the world economy. In September of 1992, Azerbaijan became a member of the IMF, the World Bank and International Development Association. Although the membership to the World Bank and IMF was accepted in 1992, loan agreement with these organisations was signed in 1995.

In order to adapt developing countries to the world market structure and make them a part of it, the IMF and World Bank recommends these countries stability and structural compatibility programs to guarantee this process in using foreign debt and charge mechanisms

Azerbaijan's relations with international economic organisations will be dealt with separately below.

8.2.1. RELATIONS WITH THE IMF

The IMF, that took the role of managing the transition of these countries to market economy after the collapse of the Soviet Union, had the chance of applying its policy in many of them.

Azerbaijan's transition to a market economy and efforts to attain economic stability is supported by international organisations. Within this framework, aid contracts were signed between Azerbaijan and the IMF to support macro-economic stability and development, as well as prepare the country for oil revenues.

Azerbaijan took a positive approach to foreign aid in order to get out of the economic crisis and became a member of the IMF with 117 million SDR on September 18, 1992, then the country took its first loan on April 19, 1995. The volume of this loan was 46 million dollars.

The IMF supported the economic reform program introduced in 1995-1996 with 132 million dollars of loan in November, 1995. This economic reform program covered the structural reforms such as reducing inflation with proper monetary and financial policies, as well as reconstruction of the financial sector, rationalizing the price structure and achieving a rapid development in privatization.

To second the program of 1998, in December, 1997 the IMF confirmed 2 new loan tranches, a total amount of which was 64 million dollars. These loans targeted macro-economic stability by reducing inflation and resuming the growth.

The loan of 112 million dollars which was approved in January, 1999, was aimed at supporting the financial and economic program of 1999 and eliminating the negative effects of the decline in world oil prices in 1998 on export. Thus, with this loan the IMF kept supporting structural reforms towards the reconstruction of the public sector.

The government of Azerbaijan was given a 100-million-dollar loan in July, 2001 under the name of "Poverty Reduction and Growth Facility" in order for the government to continue supporting economic reforms. The primary aim of this loan was to regain macro-economic stability, encourage the growth of non-oil sectors of the economy.

In mid-2002, Azerbaijan received 16.1 million SDRs in 2 slices. However because of the misunderstanding between the parties, the program was frozen for a year. In May, 2003 the IMF decided to allocate the third slice of 12.8 million SDRs.

Azerbaijan gets credit from the IMF within the framework of the "State Program on Poverty Reduction and Economic Development". The IMF has allocated 80.45 million SDRs to Azerbaijan within the program of Poverty Reduction and Growth Facility (PRGF). As a part of the program that started in July, 2001, the loan was given for 10 years, at an annual interest rate of 0.5%, to be paid back after 5.5 years.

The Loan Mechanism on Poverty Reduction and Ensuring Economic Development is a low-interest credit mechanism that the IMF has designed for low-income countries. The programs performed through PRGF, are based on the strategy of poverty reduction which impacts the strategy document that belongs to the country of origin, made and confirmed with the wide participation of its citizens and prepared to reduce poverty. The aim is to ensure that each program conducted through PRGF is in connection with the macro-economic structure and social policy of that country and this mechanism serves to reduce poverty and contributes to development. Currently, Azerbaijan receives only technical aid from the fund without the loan resources of the IMF. The International Monetary Fund has an exceptional place among other international organizations Azerbaijan is a member of. Azerbaijan is the member of the IMF since September 18, 1992. Back at that time, the first quota was 168,000 \$, in January, 1999 this quota was reviewed and increased to 220,000\$. It should be noted that, after being the member of the IMF, the Republic of Azerbaijan attracted a total of 577,3 million \$ for the implementation of 6 different programs, that were directed to the

realisation of economic reforms, with the help of the organisation. Azerbaijan has paid back 552 million \$ of the received loans from the International Monetary Fund, only 15.3 million \$ of debt has been left to January 1,2016^^

8.2.2. RELATIONS WITH THE WORLD BANK

The World Bank supports Azerbaijan with various programs and projects to resolve the problems encountered in the period of transition to a new economic system and protect from economic crisis. These projects can be splitted into 2 as the ones directly related to economic reforms and others indirectly helping the economic development. The World Bank does not only help Azerbaijan by giving recommendations on economic development policy, but also on the coordination of foreign aid for the investments and state budget finances^^

Azerbaijan has been cooperating extensively with the World Bank and its branches. It should be noted that Azerbaijan became a member of the World Bank in 1992 and started to take credits from 1995, as a result, until the first quarter of 2015 the credit total amount of which was over 3 billion US dollars was allocated to 75 projects. Forty of these projects have already been completed and others are currently active. Thus, in Europe and Central Asia regions, Azerbaijan has become the third country owning the largest loan portfolio after Turkey and Kazakhstan.

Through the strategical policy and provision of investments, providing necessary aid to the country during the time of transition by funding the government's budget and regulating aids is the basis of the World Bank's activities on Azerbaijan. The main objective of the World Bank's aid program to Azerbaijan is to organise technical aid in order to strengthen the structural opportunity of the government for managing oil funds and define main laws to speed up reforms.

The World Bank operates together with the government of Azerbaijan in order to bolster organisational opportunities in managing oil resources, form the major policy of changes, accelerate reforms.

The World Bank focuses on privatization and making investment environment favorable, improvement of water, natural gas and electricity systems, progress of health and education sectors, preparation of poverty reduction strategy.

Firstly, the World Bank allocated funds for reconstruction, assisting refugees and IDPs and it has also conducted a number of big projects. For example, reforms on

<http://www.imf.org/external/country/AZE/>

<http://www.worldbank.org/en/country/azerbaijan>

budget activities and social sphere are performed thanks to the allocated credits, as well as necessary steps are taken in the fields of health and water supply. From now on, the World Bank will pay attention mainly to 3 directions. Firstly, to develop non-oil sectors and open new workplaces in these sectors, make public administration transparent and work more with the principle of responsibility, serve the improvement of social services, education and health indicators. Making amendments to the laws related to fighting against corruption and developing the accounting system is also the focus area of the World Bank. The discounted and unpaid loans of the World Bank will be given until the per capita volume of GDP is at a desired level.

The first loan of the World Bank to Azerbaijan was directed to the oil sector. Considering the weight and place of oil in Azerbaijan's economy, the importance of that credit for the economy becomes vivid. The loans allocated by the World Bank positively contribute to the economy just like foreign investments.

Another feature of bank loans is that they are long-term and with very little interest. The World Bank gives Azerbaijan 35-year and interest-free loans, the government pays a service charge of 0.75% to the Bank every year.

However, in order to get the expected effects of the loans, they should be spent for intended reasons and necessary expenses should be avoided. If the economic funds and increases earned after the use of the loans don't meet the interest on those loans, they will be a financial burden for future generations.

A project of "Development and Crediting of Agriculture" was signed with the World Bank in May, 2000. The volume of that project is 33,7 million dollars. Under the project, 9.4 million manats of loans were given to the 329 common group of debtors joining more than 6 thousand members by CIA (Credit Implementing Agency) that was founded by "G&G Consulting" consortium (Turkey-Australia). Additionally, within the project, 20 credit unions (6 in both Beylagan and Nakchivan, 5 in Sheki and 3 in Masalli region) were established by 566 people.

As a part of the project, the registration system of real estate in regions was improved and the development strategy of agricultural sector was prepared.

The World Bank has planned to carry out 19 projects in Azerbaijan between 2003- 2016. The amount of the financial assistance for the projects is estimated at 1 billion dollars^^ Those projects and their financial volume are as follows:

<http://www.worldbank.org/en/country/azerbaijan>

- 12 million dollars in order to realize an additional project for the reconstruction of water supply system,
- 18 million dollars for the project meant for the development of the education system,
- 30 million dollars for the project on renewing the irrigation system,
- 17 million dollars in 2003 as a part of "State Program on Poverty Reduction and Economic Development,
- 22 million dollars for the progress of villages,
- 10 million dollars to reconstruct the pension system,
- 40 million dollars for the electricity distribution system,
- 8 million dollars for the reconstruction of "Shahdagh" national park,
- 20 million dollars to conduct "PRSC-2"(Poverty Reduction Support Credit 2).

At the same time, the World Bank allocated 300 million dollars for "Baku-Tbilisi-Ceyhan" oil pipeline construction project

In this context, the World Bank gave low-interest 1.2 million dollars of loans to about 3000 farmers of Ganja-Gazakh region, in 2003-2004 to support private enterprise in the country's western regions. The Bank has allocated 10.3 million dollars for Greater Baku Water Supply Project II, 13.9 million dollars for the Rehabilitation of gas system Project, 10.2 million dollars for the privatization of the agricultural sector.

As stated above, the total amount of the project of the World Bank on pension and social security is 10 million dollars. The aim of this fund is to reconstruct the pension system and provide transparency in there, as well as to form necessary conditions for delivering social aids directly to those in need. This one is the 16th project funded by the World Bank for Azerbaijan.

The World Bank's project related to the development of the regions which has the volume of 22 million dollars will be conducted during a period of 4 years.

Since 2005, Azerbaijan has started to pay down the credits taken from the World Bank for various projects. The first loan project between Azerbaijan and the World Bank was signed in 1995 and it expired in 2005. In principle, payment of all the credits back to the World Bank by Azerbaijan starts after the first 10 year. Recently, the Bank attaches great importance to the advance of the country's agricultural sector.

The World Bank's loans and projects are based on the Bank's activity principle and they focus on necessary fields such as health, education, human development

and reconstruction. A part of these projects was in the context of structural reforms which showed that the relationship between Azerbaijan and the World Bank develops steadily.

Table 24. Share and quota of Post-socialist countries in the World Bank

Situations in IBRD	Country name	Number of shares in the authorized capital of the Bank	Weight according to number of common shares with %	Quota	Weight according to number of common votes with %
7	Russia	44795	2.99	45045	2.92
27	Ukraine	10900	0.73	10158	0.72
60	Belarus	3323	0.22	3570	0.23
61	Kazakhstan	2905	0.20	3235	0.21
69	Uzbekistan	2493	0.17	2743	0.18
81	Azerbaijan	1646	0.11	1896	0.12
82	Georgia	1584	0.11	1834	0.12
88	Lithuania	1507	0.10	1757	0.11
92	Latvia	1304	0.09	1630	0.11
93	Moldova	1368	0.09	1618	0.11
102	Armenia	1130	0.08	1380	0.09
103	Kyrgyzstan	1107	0.07	1357	0.09
111	Tajikistan	1060	0.07	1310	0.09
121	Turkmenistan	937	0.06	1187	0.08
124	Estonia	923	0.06	1173	0.08

Source: Prepared by the author according to the website <http://www.worldbank.org/en/country>

8.2.2.1. Cooperation with the Multilateral Investment Guarantee Agency (MIGA)

As a member of the World Bank, the Multilateral Investment Guarantee Agency was established in 1988 in order to reduce non-trade political risk factor in developing countries and help foreign investors to be guaranteed. The total capital of MIGA, which has 154 members, is roughly 1.2 billion dollars.

MIGA has given guarantee at the amount of 77.1 million dollars to foreign companies functioning in Azerbaijan 6 times. The first one was given Efes company of Turkey that invested 18.3 million dollars on Coca-Cola company in Baku. The second guarantee was for the investment at the amount of 2.7 million dollars of Koc Bank from Turkey. The third guarantee was provided to Germany's Bank Krels, Turkey's Pamukbank and Azertel companies for their investments on Azercell and Azerbaijan's digital contact sector.

In February, 2003 MIGA guaranteed Fatoglu Food Industry and Trade Company from Turkey with 529.920 dollars in order to expand and modernize mills. These investments have been insured against political risks considering restriction of property rights, confiscation of private property, war and conflicts.

S.2.2.2. Cooperation with the International Finance Corporation (IFC)

The International Finance Corporation (IFC) was founded within the World Bank Group in 1956 to give project loans to the private sectors of developing countries. It has 2.4 billion dollars of capital and 175 members.

IFC does not only give loans to different projects of private sectors in a member country, but also takes part in syndications. IFC's participation in investment partnership is also possible.

IFC's strategy in Azerbaijan is applied towards strengthening financial sector, multiplying small-scale enterprises, increasing aid to the country's industrial and agricultural sectors, directing financial assistance to areas other than oil sector and helping investments for energy sector.

8.2.3. RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

One of the economic institutions Azerbaijan is in an all-round cooperation is the European Bank for Reconstruction and Development. EBRD was set up in 1991 in order to give financial assistance in transition to free market economy and democracy to the countries declared independence after the collapse of socialist system in former Soviet region along with Central and Eastern Europe. Azerbaijan became the member of this organisation on September 25, 1992.

EBRD actively provides support to the progress of oil, transportation and banking sectors which promotes the development of non-oil sectors in Azerbaijan. To shape the investment environment in the country, in particular, EBRD helps small and medium-sized enterprises, private sector. Besides, the Bank maintains its aid for oil and natural gas sector.

Azerbaijan has also been included into EBRD's initiative of "The countries with Initial transitional economy". Starting from April, 2004, the purpose of this initiative is to raise the level of the investments earmarked for 7 underdeveloped countries.

It was formed by international effort to reduce poverty in CIS countries. Within this initiative, EBRD has focused its attention to improve business in private sector, conduct economic reforms in this field, finance small projects, etc.

It should be noted that, the Bank's activities in Azerbaijan are performed in this way - 50% in energy sector, 25% in financial sector, 6% in microfinance, 3% in non-banking organisations and 5% in cooperation sector. EBRD provides financial and technical assistance to increase the institutional development and competitiveness of a number of banks. By the way, the Bank gives credit lines, syndicated and subordinated loans to existing and new partner banks in order to improve bigger, more diversified and sustainable banks. Beyond this, EBRD supports non-bank microfinance institutions, as well as leasing and insurance companies. In general, over the period of EBRD's cooperation with Azerbaijan, 1.6 billion dollars have been allotted for 110 projects, 70 of which have been performed in financial sector. Generally, 44% of the funds on the projects carried out by the financial assistance of EBRD has been directed to energy sector.

Until 2016, EBRD has signed different contracts with Azerbaijan related to 24 projects. Within this framework, 1500 million dollars of loan was given to Azerbaijan which was mainly earmarked for oil sector. 200 million dollars of the loans were spent on the progress of oil and gas sector. In 2010, EBRD planned to give credits with the aim of improving small-scale institutions including electric power, mining industry and non-oil sectors in regions. EBRD shows interest for bank construction sector, as well. Due to the increase in demand for construction materials in construction industry, it wants to help the companies producing this kind of materials and assist them to raise their capitals. At the same time, EBRD is interested in the development of alternative energy resources.

8.2.4. RELATIONS WITH THE JAPAN BANK FOR INTERNATIONAL COOPERATION (JBIG)

The cooperation with JBIG seems to be concentrated mainly in energy sector. Japan Bank for International Cooperation has been one of the most essential financial donors in the realization of reconstruction in energy sector. Until 2010, the Bank gave 100 million dollars of loan to construct blocks for petrochemical industry beyond 339 million dollars allocated for another sector. The organisation has also carried out the construction of gas pipeline for electric station in Garadagh region (south of Baku).

8.2.5. TIES WITH THE ASIAN DEVELOPMENT BANK

The Asian Development Banks started operating in Azerbaijan in 2001, is functioning to meet the people's need for goods and services, build infrastructure and workplaces for the development of private sector.

In 2004, the Asian Development Bank performed a 2.5-million-dollar aid project for the improvement of living conditions of IDPs residing in Mingachevir. 850 000 dollars were earmarked for the project of nutrition of small children and lack of iodine together with the Ministry of Health. The Bank has helped the State Program on Poverty Reduction. One of the Bank's projects is about the assistance to the victims of floods. The opening of the Asian Development Bank's permanent agency is measured as an increase in its interest for Azerbaijan.

The total amount of the loans allotted by the Bank in 2001-2009 and directed to reduce poverty, improve private sector, became 190 million dollars. Until the beginning of 2009, the Bank allocated 20.5 million dollars of grant to the country within the framework of 28 technical assistance projects.

Between the years of 2009-2018, the Asian Development Bank has planned to earmark 27 credits to Azerbaijan. In 2011, the Bank provided Azerbaijan with a loan of approximately 300 million dollars. The funds to be allocated by the Asian Development Bank will be given as small loans.

In 2015, the Asian Development Bank earmarked 120 million dollars to Access Bank, Finca Azerbaijan and Demirbank to develop agriculture and support medium-sized enterprises.

8.2.6. TIES WITH THE ISLAMIC DEVELOPMENT BANK (IDB)

Furthermore, Azerbaijan is a member of the Islamic Development Bank since 1992.

In 2004, contract was signed with IDB on the allocation of a loan worth of 22 million dollars for the construction of Ujar-Yevlakh highway. With this loan, it was intended to reconstruct the way with a length of 55 kilometers. This project was realized in 2006.

Moreover, a memorandum was signed with IDB on the construction of Khachmaz power production center, joining it to the power line transceiver of Yashma- Derbent, evaluating the construction projects of Valcalachay-Takhtakorpu part of Samur-Absheron canal. IDB will allot about 10 million dollars for the construction of Valcalachay-Takhtakorpu part of Samur-Absheron canal which has the volume

of 42,5 million dollars. In addition, IDB will allocate 13.5 million dollars to build Khachmaz power production center and joining it to the power line of Yashma- Derbent. At the end of 2004, IDB gave Azerbaijan a credit at the amount of 152 million dollars. The allotted credits were directed to realize the projects related to energy sector, reconstruct roads, improve water and sewage systems. Besides, IDB is interested in the cooperation with Azerbaijan's institutions including small and medium-sized ones to credit export-import activities.

IDB set aside 58 million dollars of loan in 2005 in order to realize communication and energy projects and help the development of private sector. At the same time it is intended by the Bank to allot 1.5 million dollars of grant to improve IDPs' living conditions.

Azerbaijan's being a newly independent muslim country encouraged IDB to designate investments for the country. The primary target of the Bank is to assist the social and economic advance of member and muslim countries, as well as to achieve social economic progress. IDB has made different credit, grant and technical assistances to the country in order to fund a number of economic projects. For instance: projects such as the constructions of "Mil-Mugan collector canal", "Khanarkhi canal", "Alat-Gazmammad" and the restoration of "Mingachevir HPP", etc. can be shown.

In 1992, IDB gave Azerbaijan a total of 1 billion 200 million dollars of debt.

8.2.7. RELATIONS WITH THE GERMAN DEVELOPMENT BANK

German-Azerbaijan Fund (GAF) was founded by German Development Bank and the Ministry of Finance (Azerbaijan) in 1999. This Fund is functioning to earmark funds in order to meet credit needs of small and medium-sized enterprises.

In 2003, the banks in cooperation with GAF gave 751 loans at the amount of 5.96 million euros. At the end of 2003, a contract between the governments of Azerbaijan and Germany was signed to increase the funds of GAF from 3.6 million to 8.7 million euros.

The budget of GAF in Azerbaijan is 3.3 million euros on 666 credits. Since the launch of the Fund in 2001, 927 loans worth of 9 million euros have been given to small and medium-sized enterprises. The main objective of GAF in 2004 was

to speed up regional crediting and help increase the function of the banks which it cooperated with.

The loans of German Development Bank (KfW) allocated for financial sector is used to support private sector and for the project of “deposits insurance fund”.

Thanks to the loan from Germany’s KfW Bank. Ganja and Shaki water supply and sewage systems were reconstructed.

8.2.8. RELATIONS WITH THE BLACK SEA TRADE AND DEVELOPMENT BANK (BSTDB)

Azerbaijan became a member of BSTDB in 1997. In general, the organisation is specialized in giving financial assistance to the projects in non-oil sectors, reconstruction and development of private enterprises. BSTDB has intended to finance the projects related to the sectors of telecommunication, transportation, production, agriculture.

In 2013, BSTDB allotted a total amount of 34-million-dollar loan for 4 financial organisations.

8.3. STRUCTURE OF FOREIGN DEBT ON RESOURCES

Japan is in the first place in terms of loans designated for global sectors like energy, water and others. According to the structure of the total loan, the share of Japan Bank for International Cooperation makes up 27%, the World Bank’s share is 26%, the IMF has a share of 17%, EBRD, Turkish Eximbank and others have a share of 5.1%, 5% and 14% respectively.

8.4. TIES WITH THE EUROPEAN UNION

By the increase in the aids of European companies to Azerbaijan, the relationship of these countries with Azerbaijan has developed.

With the TRACECA, INOGATE projects and TACIS program, the relations between the EU and Azerbaijan has improved.

Since 1996, the EU carries out “Food Security” program to support the state budget. As a part of the program named “Exercitional Assistance”, in 1997-98,

30 million euros were set aside for Azerbaijan. This fund was for the reconstruction of hydroelectric power plants, canals and other infrastructures.

“Rehabilitation” program is about reconstructing the areas released from Armenian occupation, while “Demining” program intends to clear these areas from mines.

Since 1992, the EU has provided Azerbaijan with an assistance at the amount of 400 million euros.

TRACECA project assuming great importance in the ties of Azerbaijan with the EU will be reviewed below under the subheadings of INOGATE project and TACIS program.

8.4.1. TRACECA

In April, 1996, the EU and Azerbaijan signed the Alliance and Cooperation Agreement which came into force in 1999. Among the countries of the EU, England prefers to strengthen its diplomatic ties with Azerbaijan due to the oil companies operating in the country.

Azerbaijan is the largest country in the Caucasus in terms of the commercial relationship the EU has. The most basic products of this relationship are oil, natural gas and cotton. Since 1993, there has been a rise in the level of trade between Azerbaijan and the EU.

Much work is being performed to reconstruct the Silk Road which will have a positive effect on the economic development of the countries taking part in its reconstruction along with its geo-political importance. The Silk Road will be a bridge between East and West and impact the expansion of the market of Azerbaijani goods, protection of the internal market and growth of income level. In the reconstruction of this road, “TRACECA” project realized with the help of the EU will play an exceptional role.

TRACECA aims to build a road with 2 movement directions that will cost less and be completed quickly from Europe to the Black Sea and via the Caucasus to the Central Asia. For the refunctioning of the Silk Road, the first step was taken in 1991 with TACIS program of the

The biggest communication and transportation contract of the century, which was first dealt with in May of 1993, in Brussel with the participation of Ministers of Economy and Transport from Azerbaijan, Armenia, Georgia, Kazakhstan,

[^]<http://www.traceca-org.org/Ar/counties/azerbaijan/>

Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, was signed in 1998, in Baku.

In the conference where besides Azerbaijan, Turkey, Georgia, Uzbekistan, Moldova, Kyrgyzstan, Ukraine, Romania and Bulgaria presidents took part, a number of agreements were signed towards the development of international transport in Europe-Caucasus-Asia Corridor.

With the decision of the EU in 1991, representatives of 32 countries including the ones from Europe and Asia attended the summit supported within the framework of Technical Aid to the Commonwealth of Independent States (TACIS).

Besides 32 countries, 150 representatives from 12 international organisation participated in TRACECA (Transport Corridor Europe Caucasus Asia) conference as a result of which a contract was signed to officially commence the new transport corridor from England to Japan.

At the end of the conference, a document named "Baku Declaration" was signed by the parties. In the document which drew attention to the essence of developing good relations among participating countries, it was emphasized that the transport line to be constructed among Europe-Black Sea-Caucasus-Caspian Sea-Asia would be within the framework of the agreement made on May7, 1993, in BrusseP. These articles were included in the document:

"All the countries taking part in the summit declare that they will comply with all the grounds in Brussel Declaration. The European Union's activities to conduct TRACECA shout be applauded. The implementation of TRACECA gives hope to bring tranquility and stability to the region. The parties will use the Black Sea and Caspian ports more easily with the realization of the Silk Road.

The environmental balance in the region will be controlled, the parties will provide necessary support in cargo and passenger transportation in order not to harm the ecological balance of the region. Hoping this program will bear large partnerships, the development of more large-scale cooperation with the UN and other organisations was decided. Concerned countries will perform all legal regulations as soon as possible for the full implementation of the project.

It will be achieved to build am intergovernmental commission and a general secretariat to carry out its activities.

The coordination will be much easier with both any EU countries and others Within TRACECA, the construction of new highways and railways will be accomplished".

<http://www.traceca-org.org/tr/countries/azerbaijan/>

The phase of globalisation and development of economic relations make it a necessity to reconsider transport sector. According to the evaluations and estimates on the advance of the world economy, economic relations will gather in Europe-Asia. It brings about the necessity of utter usage of the geographic location of the Silk Road which will realize a favorable transit in this region.

The virtues of this road are international organisations' support of TRACECA program, the number of the countries involved in the project, rich natural resources in the region where the transport corridor goes through, the shortest and potentially quick features of the TRACECA road's length between the ports of Central Asia and the world markets compared to other roads.

8.4.2. TACIS

In the EU's summit meeting in Rome (December, 1990), TACIS technical assistance program was decided to support post-soviet states on economic reforms. The most significant feature of the program is that the EU became a mediator in economic partnership with the CIS countries and took the responsibility of the function to help ally and cooperation agreements[®].

In 1992-93, the EU began to implement the TACIS program. The project envisages the technical aid to realize legal, structural and economic reforms.

Through TACIS program, the EU encourages the establishment of free market economy and democratic society in Azerbaijan by funding the projects that bring new technologies from Europe to Azerbaijan. The European Commission, Azerbaijani government and other organisations act together in order to investigate the sectors in need of finance within TACIS program. TACIS, which plays a major role in the reconstruction of bridges and roads, helps reconstruct the transport and communication infrastructure. TACIS performs educational programs for the development of small and medium-sized enterprises, as well as it helps to identify alternative ways related to the transportation of energy resources from the Caspian region and Central Asia to the European markets by expressing view on the resolution of ecological pollution and general environmental problems resulting from the production in the energy field[®].

<http://www.azerweb.com/en/program.php?id=136>

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar17003>

8.4.3. INOGATE

Interstate Oil and Gas Transport to Europe (INOGATE) is being carried out as a primary regional program within the framework of the technical aid intended by the EU for the former Soviet Union. The fundamental objectives of the project are the reconstruction and development of the systems of regional gas, oil and oil products transportation and finding alternative ways to transport energy resources to the European markets.

Azerbaijan, Kazakhstan and Turkmenistan's energy resources have a pivotal role in the project of INOGATE. In this context, both legislative and technical issues have been helped with. In December, 1998, the meeting of the countries involved in INOGATE program took place in Brussels where supportive decisions were made about both Baku-Supsa and Baku-Tbilisi-Ceyhan oil pipelines[^].

8.5. REGIONAL ECONOMIC RELATIONS

Azerbaijan is also a member of some regional organisations and the most important ones are the Black Sea Economic Cooperation Organisation, the Commonwealth of Independent States, the Organisation of Economic Cooperation and GU(U)AM (Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova).

8.5.1. THE COMMONWEALTH OF INDEPENDENT STATES

The three Slavic countries of the Soviet Union - the Russian Federation, Belarus and Ukraine's leaders gathered on December 8, 1991 announcing that the USSR officially was dissolved and replaced by a new union called "The Commonwealth of Independent States (CIS)". Shortly after this announcement, on December 21, 1991, the foundational declaration of the CIS which is known as "Alma-ata Declaration" was signed in Alma-ata city of Kazakhstan. Thus, the official status of the USSR came to an end.

The CIS was established with the agreement signed among the Russian Federation, Belarus and Ukraine in Minsk, on December 8, 1991. According to the Protocol adopted as an addition to the agreement on the creation of the CIS, on December 21, 1991, 8 more countries were included in the CIS: Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan. In December, 1993, Georgia also joined the CIS and currently, 12 countries are members of this organisation.

<http://www.inogate.org/?lang=en>

In the first phase (1992 and the beginning of 1993), “civilized divorce” of former soviet republics was ensured, as well as some activities were done towards creating the base of relationship among them which started to assume interstate importance^{®^}

Starting from 1993, the legal basis of the existing relations within the CIS began to be established:

- On January 22, 1993 the Charter of the CIS was adopted by the Heads of States Council of the CIS and thus, its functional and organisational bases were defined;
- In September of 1993, a treaty on creating the Economic Union was signed which accompanied by signing of other documents improving the treaty (an agreement on the establishment of free trade zone; an agreement on the foundation and development of production, commercial, credit and finance, insurance and mixed transnational unions; a contract about the realization of negotiated anti-monopoly policy; a treaty on the cooperation in the field of investment activity and so on);
- On December 1994, the Interstate Economic Committee was established to strengthen the coordination of economic cooperation among the CIS countries;
- In October, 1994, an agreement was signed to create the Monetary Union.

The common directions of the economic policy agreed in the section of the CIS's Charter dedicated to the cooperation in economic, social and legal, areas are as follows:

- the formation of a common economic space on the basis of market relations and free movement of goods, services, capital and workforce;
- the preparation of social programs and events to reduce social tensions stemmed from the implementation of the social policy coordination and economic reforms;
- the advance of transportation, communication and energy systems;
- the coordination of credit and financial policy;
- assisting the development of trade and economic relations among the member states;
- the promotion and mutual protection of investments;
- helping the standardization and certification of industrial products and goods;

- the legal protection of Intellectual property;
- helping the progress of a common information space;
- providing mutual assistance in implementation of joint environmental events, elimination of the consequences of economic accidents and other emergency situations;
- the realization of joint projects and programs in science and technology, education, health, cultura and sports fields.

The structure of the CIS was formed in a short period of time: the Council of CIS Heads of States, Council of CIS Heads of Governments, CIS Interparliamentary Assembly. Since 1993, the Executive Secretariat has been functioning in Minsk which serves as the headquarter of the CIS. A number of organisations have been created like the Council of CIS Foreign Ministers, the Council of Defense Ministers, as well as some sectoral ones. The Council of CIS Heads of Foreign Economic Organisation, the Intergovernmental Council on Oil and Gas, etc. Are schematically shown in Chart 20.1.

One of the essential moments in the development of the mutual relations among the CIS states was an agreement on the establishment of the Economic Union signed in 1993. With this agreement, the gradual movement of the CIS countries towards economic integration and long-term goals were identified: the creation of common goods, service, capital and labor markets in stages, formation of free trade zone, customs union and later on, currency union. A collective body named the Interstate Economic Committee was founded to carry out these tasks.

Over several years, hundreds of multilateral and bilateral agreements determining the principles and directions of mutual cooperation of the CIS countries in economic, social, defence and other spheres, were made and signed.

Azerbaijan was accepted to the CIS in September, 1993.

The CIS which was set up with the participation of 12 out of 15 countries of former Soviet Union, had the aim of "development of professional unity among independent states that are independent in many fields beyond economic areas. All the republics will be independent on the subjects of mother tongue, national currency, cultural values, however, they will follow the targets of this "union" on other subjects.

During the past period, considering the relations between the CIS countries, it is possible to make such an assessment: When the Soviet Union model collapsed which was maintained by force in all Euroasian countries during Cold War years,

the Russian Federation focused on the development of a new model to control these countries under the CIS, but failed to accomplish this goal. Because, a number of factors such as democratic revolutions in Ukraine, Georgia and Kyrgyzstan, Azerbaijan-Armenia conflict were undermining the strength of this community.

Georgia left the CIS, after the Russian Army entered the country in 2008. Ukraine left the CIS for the same reason in 2014.

The CIS has more advantageous conditions to move fast in “the way of integration” compared to other economic groups. It stems from the comprehensive relations of national economy complexes arisen in the period of interbranch and domestic division of labor. Since, in 1989 10 out of 15 republics of the USSR met from 19.8% to 24.4% of their domestic needs thanks to the goods coming from other republics. The goods and services coming from outside the USSR made up 3-6% of common need. 9 republics were exporting 19.7-25.4% of the produced commodities and services to other republics, while they exported only 2-3% of the products and services abroad.

Despite such advantages, processes completely against the integration are being observed in the economic space of the CIS: quantitative restrictions are applied in mutual trade, additional customs and border posts are identified, etc.

It should be noted that about 1500 contracts and agreements, which can give impetus to the economic integration, have been signed in the CIS. However, up to 300 of these documents are being implemented.

Even though a concept on economic integration has been made in order to coordinate the forms and methods of integration, this document has not provided the common position in the countries integration.

The integration process in CIS is obstructed by unequal economic development of member countries. Such an inequality can be explained by following reasons:

- the negative impact of former soviet economic space on the national economies of the independent countries has not been the same;
- the inequality in the adaptation of participating countries' national economies to the world market has been observed;
- economic reforms have not been implemented at the same speed by the member states;
- initially, turning economy to an uncontrollable course, lack of efficient regulation mechanisms for foreign relations, socio-economic instability have created an uneven start condition for the integration with new basis;

- the economic potential of the participating countries sharply differ from each other.

Along with trade and customs barriers, the differentiation of economic legislation in the CIS countries has an effect on the economic integration. In many cases, the harmonization of the legislation in the fields of trade, taxation, and customs is not carried out.

The existence of such conflicts resulted in the establishment of sub-regional integration within the CIS. Although the CIS itself is a regional community, there are different associations in its composition, too. They are the following:

The Customs Union: Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan;

The Economic Community of Centrai Asia: Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan

UGUAM: Uzbekistan, Georgia, Ukraine, Azerbaijan, Moldova;

The Union State: Belarus and Russia;

The single economic space: Russia, Kazakhstan, Ukraine, Belarus.

The first real stage in the direction of forming a single economic space has been the agreement on the creation of the Customs Union. It was signed among Belams, Kazakhstan and Russia in January, 1995 and it envisages the establishment of a single customs territory. Kyrgyzstan and Tajikistan joined this agreement in March, 1996 and February, 1999, respectively.

Numerous documents were adopted during the existence of the Customs Union including the agreement on deepening the integration in economic and humanitarian spheres signed on March 29,1996 and its logical development the agreement on the Customs Union and Common Economic Space signed on February 26,1999. The main directions of the cooperation (the formation of free trade zone, mutual relations of the Customs Union with third countries, forming a single customs territory, common service and labor market, a common agricultural market, a single scientific-technical and information space) were determined with these documents.

During the formation of the Customs Union, although certain success was achieved, a number of serious problems and difficulties which questioned the realization of the goals set, appeared.

The real results have not been attained in economic activity without solving the major principal issues of the formation of Customs Union. The slow process of the integration among the participants of the Customs Union is explained by

several important factors (differences in the level of social-economic development, differing sectoral structure of economy, features of the countries geographical location, slow advance of infrastructure, significant differences in national transport tariffs).

The formation of a common customs tariff is still carried out on a tripartite basis (Russia, Belarus Kazakhstan).

In 2000, the Eurasian Economic Committee was founded on the basis of the Customs Union which includes Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. The relevant agreement on this was signed in Astana on October 10, 2000. The objective of the new organization is to shape a single economic space in the territories of the 5 countries. The primary duties in near future are identified as follows: agreeing on structural reforms to be conducted in the economies of the member countries, the creation of a single transport structure and market, applying a single customs tariff, the harmonization of national legislations, the use of common rate in relations with international organisations.

On April 30, 1994, an agreement on the establishment of a single economic space was signed among Kazakhstan, Kyrgyzstan and Uzbekistan. On March 30, 1998, Tajikistan joined this agreement. Since July of 1998, this regional union is called the Economic Community of Central Asia.

According to Article 3 and 4 of the agreement, the major goals in the formation of a single economic space consists of the below-mentioned factors:

- creating necessary legal, economic and organizational conditions for the free movement of capital and labor force;
- performing the agreed policy in the field of transport and communication development which will provide an efficient transportation of goods and passengers;
- forming an appropriate condition for fair competition including the mechanism of anti-monopoly regulation;
- avoiding unilateral actions related to the limitation of applying free (agreed) prices in mutual trade and access of goods (services) to local markets by taking the integration of domestic markets into account;
- establishing favorable condition to provide the development of direct economic ties among the subjects having economic relations and strengthen industrial cooperation;
- Introducing the network of joint ventures, production units, commercial and financial-credit institutions and organisations;

- ensuring equal economic circumstances for mutual investments and coordinating the investment policy, attracting foreign investments and credits to the areas of mutual interest, creating a real mechanism for the protection of investors' rights and interests;
- eliminating customs duties and removing taxes, fees, other restrictions consecutively;
- simplifying customs procedures;
- harmonizing customs legislation;
- gradually bringing closer the tariffs applied in the transportation of cargo and passengers to one another by keeping the principle of transit freedom and so on.

On October 10, 1997, during the meeting of Georgia, Ukraine, Azerbaijan and Moldova presidents in Strasbourg, the idea of founding an intergovernmental organization was approved and the relevant agreement was signed. On April 24, 1999 Uzbekistan officially declared to join this organization. Currently, it is called UGUAM (Uzbekistan, Georgia, Ukraine, Azerbaijan, Moldova) based on the Initials of its member countries.

The fundamental objective of establishing this organization is reflected in both political and economic aspects of the member countries' cooperation; political issues, fight against intolerance, separatism, religious extremism and terrorism, peacekeeping activities, the Europe-Caucasus-Asia transport corridor development, integration into European structures and cooperation with NATO within the program of "Partnership for Peace".

On April 2, 1996, as the treaty signed between Russia and Belarus on establishing the Union between these 2 countries targeted a higher level of integration, right after a year, an agreement on Russia and Belarus Union was signed. This Union has a special place in the integration process taking place in the CIS. During the formation of Russia and Belarus Union as a big regional unity, from the very beginning the intention of developing a comprehensive integration and eventually, the target of joining the 2 countries in one Union state were declared.

On January 26, 2000 "The treaty on the establishment of the Russian Federation and Belarus Republic union state" came into force. According to Article 2 of the agreement, the objectives of the Union state are as follows:

- providing peace and democratic progress of the participating states, fraternal peoples, reinforcing the friendship, improving the level of welfare and the quality of life;

- building a single economic space by combining financial and intellectual potentials and utilizing market mechanisms of economy for providing socioeconomic progress;
- observing fundamental rights and freedoms of people and citizens all the time in accordance with universally accepted principles and norms of international law;
- carrying out the coordinated foreign and defence policies;
- shaping a unified legal system of a democratic state;
- conducting the agreed social policy focusing on creating the conditions that provide a decent life and development of a human;
- ensuring security and mutually beneficial cooperation in Europe and the world and the development of the CIS.

With the aim of establishing a common economic space, the participating states have identified the fundamental principles that will be taken as a basis during the formation of the Union state:

- functioning of a unified and later on a single legislation in the field of economic activity, including the regulation of civil and tax relations (Article 20);
- bringing the main social and macroeconomic indicators closer stage by stage and adopting agreed measures for realizing a unified structure policy (Article 21);
- gradual application of a single currency with the creation of a single emission center (Article 22);
- performing common principles in taxation (Article 27);
- conducting a single policy in pricing sphere including the regulation of prices and tariffs (Article 23);
- forming a single securities market (Article 24);
- Introducing a unified refinancing rates and mandatory reserve norms (Article 25);
- establishing the mies of conducting a single legal framework,foreign debt and investments In the spehere of external and domestic debt service and payment (Article 26);
- carrying out a common trade policy in relation with third countries, international economic organiations and economic association, implementing a unified customs duties, customs regimes, customs clearance and control, unifying the legislation on the protection of economic interests of participating countries

during the state regulation of foreign trade activity and implementation of foreign trade (Article 28);

- functioning of common customs area in union states: non-tariff regulation measures considering the application of quantitative restrictions; common rules for the mutual recognition of licenses, certificates, permits (Article 29);
- functioning of combined energy, transport, telecommunication and communication systems within the borders of the Union state (Article 30);
- performing a unified labor law and legislation in the field of people's social protection and pension provision (Article 31).

The Union of Russia and Belarus addresses the interests of these 2 states. In this case, production and economic relations will be restored and a single economic space will be created. Both Russia and Belarus understand that, bringing macroeconomic and social indicators closer, implementing a common structural policy, transition to a single currency and solution of numerous other issues are complicated and labor-intensive.

The last regional union was qualified to perform by signing "the contract on the creation of the Single Economic Space" in Yalta summit of Russia, Kazakhstan and Belarus presidents on September 18, 2002.

If an efficient economic integration was ensured in the CIS, the initiatives would not be taken to establish a common economic space or other regional organizations. Within the CIS, the alternative integration form is preferred by the countries whose political, economic and strategic interests overlap.

The existence of this integration form is not a coincidence. The inefficiency of the integration within the CIS has given an impetus to this.

Giving priority to the subregional cooperation doesn't characterize its superiority or efficiency compared to the integration in the CIS. Experience shows that, a subregional integration process built in a new level has its own inefficiency and declarative nature.

Deepening the integration process within the CIS can be implemented in various organisational and legal forms. This integration can be based on multilateral and bilateral agreements. For example, the agreement on the establishment of the Economic Union involves the principle of multilateralism. In fact, such an integration form is based on the EU model.

Although the agreement on the Economic Union is based on the principle of multilateralism, many of the CIS members prefer bilateral treaties. Experience

shows that, bilateral cooperation agreements are more effective and their implementations doesn't cause a problem. Such a cooperation form shouldn't be regarded as a negative case that brings about disintegration. The main issues is deepening the integration in various forms. The economic integration in the CIS should take the demands of the new era into consideration

In general, the economic integration in the CIS can succeed by considering the sovereignty of the independent states which means each participating country respect political independence and sovereignty of each other. The priority for each of the CIS members in building and regulating economic relations is national and state interests. Putting these interests in shade can not allow to deepen the economic integration. In this regard, the expansion of the Integration framework can be conducted on the basis of mutual agreement and compromise stage by stage. In addition, it is absurd to talk about economic cooperation and large-scale integration perspectives in a union where separatist tendencies are observed and inviolability of territories is violated.

On the other hand, integration should be on a voluntary basis and an objective condition should form for that. Another condition is about taking existing realities of market economy into consideration. It shouldn't be forgotten that economic integration is only based on economic interests.

Economic integration also demands macro-economic indicators to be close to each other. However observations indicate that the macro-economic indicators of the CIS members including budget deficit, inflation, investment, economic growth rate and regulation mechanisms differ from one another. Under such conditions, identifying a single set of rules in economic field for the member countries is impossible.

The efficient results of the economic integration will depend on market subjects rather than that of the CIS. Because market subjects, namely entrepreneurs, companies will build horizontal relationship with each other which will lead to deepening integration. In this regard, not only macro, but also micro-level condition should be generated. As there is no political framework for a specific company and entrepreneur, they build their mutual relations with the partners based on the principle of purpose and mutual benefit. We think that the CIS countries can contribute to the horizontal development of the economic integration by stimulating the establishment of transnational companies and supporting their activities.

Sometimes the integration process in the CIS is regarded as the restoration of former economic ties which is not a true approach to this issue. Actually, the

integration process within the CIS should ensure the rationalization of economic relations and pave the way for new contacts to create a condition for scientific-technological, institutional and social progress. Such a system of economic ties should result in the increased investment activity, improvement of industrial structure and quality of manufactured product and provision of its competitiveness. Otherwise, it will not be possible to turn the CIS into a regional cooperation built on a solid foundation.

Among the duties to ensure the joining of the CIS as an integrated group and its long-term functioning, the following can also be shown:

- determining the place of the CIS Economic Union in world economic relations, as well as in mutual relations with other integrated groups, collectively eliminating discrimination, unfair competition, legal & economic restrictions and other threats against it by third countries and other interstate unions;
- realizing a coordinated restructuring of production structure that will enable to minimize the loss during implementing production and extending economic potential of member countries as a whole or separately;
- providing the progress of technical and technological basis in goods and services' production, increasing collective scientific-technical and educational potential, conducting complex scientific-technical projects;
- developing and implementing large-scale ecological programs.

Summarizing the above mentioned statements, we can note that, a new integration should not be build on ideological and political dogmas, but rather it should be based on the principles of market economy and mutual benefit. Moreover, there must be a balance between the interests of small and large states. The integration within the CIS can be based neither on the experience during the USSR nor the mechanical application of international & regional communities' experience. There should be a completely different mechanism for the economic integration of the CIS countries.

Currently, the economic integration in the CIS is based more on bilateral relations and regulation of economy is exposed to restriction by various types of market mechanisms, different currency-finance, price, tax legislation and so on. The CIS countries need a real integration mechanism enabling to turn statement documents into real achievements.

8.5.2. ORGANIZATION OF THE BLACK SEA ECONOMIC COOPERATION

Organization of the Black Sea Economic Cooperation (BSEC) was established as a result of political and economic restructuring period encircled political and economic field within the course of worldwide globalization and international integration on the regional level. BSEC is the outcome of the process of the transition to democracy in the political terms and changeover to a free-market economics in Eastern Europe that took place in the late 1980s. It represents regional economic cooperation initiative[^].

Organization of the Black Sea Economic Cooperation (BSEC) was founded in the summit with the participation of heads of 11 states and governments on 25th of June 1992, in Istanbul under the leadership of Turkey. Along with Azerbaijan these countries are the members of the organization: Albania, Bulgaria, Armenia, Georgia, Moldova, Romania, Russian Federation, Turkey, Ukraine and Greece. These countries are different one from another but their aim is to make world economy stronger by determining prosperity, peace and stability in the region.

Theoretically and basically BSEC interconnects three sub-political geography (Caucasus, the Middle East, the Balkans) and three seas (Black Sea, Aegean Sea and Caspian Sea). In the current situation, when there is no any free trade area, neither customs union, BSEC region is in the spotlight when it comes to future of building of global economy.

Azerbaijan attaches great importance to expansion of relations with Organization of the Black Sea Economic Cooperation. Also, Azerbaijan plays active role in the implementation of economic projects within the organization. To improve the efficiency of the organization new financial mechanisms should be established. The member countries of Black Sea Economic Cooperation Organization are spread through the wide geography and they have great economic potential.

In order to make BSEC one of the major regional initiatives in the international platform, it needs settlement of the regulations that will ensure a transition to a further level of globalization within the goals of the future perspectives. It all can be achieved by overpassing of the member countries to a free-market economics in short terms, resolving fundamental issues among the member countries and accession of the countries to other attempts to economic unions or overcoming the obstacles to implementation of commitments coming out from such unions.

<http://www.bsec-organization.org/Pages/homepage.aspx>
“<http://www.bsec-organization.org/Pages/homepage.aspx>”

8.5.3. ECONOMIC COOPERATION ORGANIZATION

Regional Cooperation for Development, established in 1964 for strengthening and improve economic cooperation among Turkey Iran and Pakistan, after alterations in structure and essence in 1985 became to Economic Cooperation Organization (ECO). Economic Cooperation Organization used the radical historical changes in Eurasia took place in the beginning of 1990s: for enlargement. In 1992 Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan joined the Economic Cooperation Organization. As a result of this ECO became to a ten-member organization with abundant natural resources and 300 million populations, spread over the area 7 million km².

Due to the cooperation among member countries ECO adopted strategy that gives priority to trade, transportation, communication and energy sectors. In the frames of importance given to transportation and communication fields. Economic Cooperation Organization implies to improve infrastructure in the region, especially by providing the opportunity to those member countries that have not got access to international ports and markets, and therefore meeting theirs needs, also close the gaps, expand and develop communication networks, so they will meet the modern standards. On the other hand, the correct exploitation of rich energy resources and delivery of them to international markets has particular importance. We can see that the Organization took some steps in the direction of the chosen objectives.

We can say that, nowadays when influence of globalization can be easily felt among developing countries, Economic Cooperation Organization can help to reduce the negative impacts of globalization.

8.5.4. GU(U)AM

Azerbaijan was against to the strengthening predominant course of Russia on the member countries of Commonwealth of Independent States and therefore Azerbaijan attempted an initiative of establishing an alternative regional institute known as GU(U)AM (Georgia - Ukraine - Uzbekistan - Azerbaijan - Moldova). The Organization, aimed to establish political, economic and strategic cooperation among the member-countries and to exacerbate principles of independence and territorial integrity within the frames of collaboration was founded in 1997. P

These are the objectives of the organization of GU(U)AM:

<http://www.ecosecretariat.org/>

1. After the collapse of Soviet Union socialist bloc states faced different uncertainties. Due to the political gap the region began to attract the attention of other powerful countries. Soon the post-Soviet space, especially in the case of the Black Sea and Caspian Sea countries became to the point of intersection of interests of those countries who were professing to be centres of world power. This situation instigated countries to come together in order to protect their independence.
2. The other issue that brought the Region to the agenda was the "Contract of the Century" - the project on the production of energy resources in the Region and also debates and concerns about the way of exportation of those resources. The fact that pipelines were under the control of Russia was a source of suspicion. In this case, the organization of regional union was necessary for the establishment of economic and political relations between countries in the region and therefore, the selection of reliable exportation route.

In 1999 Uzbekistan also joined this new organization build to develop economic cooperation capability among Azerbaijan, Georgia, Ukraine and Moldova. However, in 2002 Uzbekistan declared about freezing it's membership of GU(U)AM and substantiated it with non-comprehensive functioning of the organization. Turkey and Latvia are observer states.

Delivery of Azerbaijan oil by pipelines across Georgia and shipping of it by tankers from to Black Sea port to Ukraine and Moldova is an important factor for this alliance.

In course of time member states held discussions regarding structural changes in GUAM. Such countries like Turkey, Bulgaria and Romania were candidates for membership of organization. Unfortunately these processes were driven out especially after political development and changes in Georgia and Ukraine. US support, bodes a bright future of this organization.

8.6. NEW GOALS OF INTEGRATION

Following, we will touch on the topic new target of Azerbaijan's relations with international organizations within the frames of International economic integration of Azerbaijan, in other words, in joining to World Trade Organization, and from regional economic relations' perspective, and subheadings «Turkish Economic Union" or "Eurasian Economic Union".

8.6.1. MEMBERSHIP IN WORLD TRADE ORGANIZATION

One of the main targets of Azerbaijan in point of international economic integration is become a member of World Trade Organization.

Since the 1947 decisions adopted by GATT in assemblies was directed to the elimination of impediments that restrict the freedom of the global trade. During the S^{III} assembly, held in Uruguay in 1986, it was decided to create World Trade Organization the main objective of which was to regulate International trade relations. The WTO officially commenced on 1 January 1995. More than 145 countries are the members of this organization. Nowadays WTO regulates 95% of global trade.

The World Trade Organization along with, the International Monetary Fund (IMF) and the World Bank for the foreseeable future will be one of the most important organizations for the development of International economic relations.

WTO membership has great importance for developing countries, even since the very beginning of organization's history: thus, Venezuela and Brasilia complaints against USA, regarding violation of rules of trade in petroleum products. On 29th of January 1996 WTO made decision justifying the complaint.

On July 19th 1996 US announced that they will obey this decision. On 14th of March 1996, India claimed that preservation measures took by the USA regarding the knitwear goods contradicts knitwear products and knitwear clothing trade rules and requested WTO to open a discussion. The complaint was adopted on April 17th 1996 and on 24th of April India took it back, after US cancelled controversial measures.

Considering both situations it can be concluded that, membership in WTO is not salvation for developing countries, yet it's not lethal too.

Approximately 90% of Azerbaijan's export consists of oil and oil products. WTO doesn't regulate market and prices for such products. Therefore, membership in this organization doesn't affect the increase in the volume and variety of exports. However, in accordance with WTO rules opening up a wide range of domestic market for foreign products might lead to a drop in the situation even worse for Azerbaijan's hardly existing industry and agriculture and livestock sectors which are still not able to compete foreign manufacturers. In this point of view, the period and terms of membership in WTO should be determined accurately in order to get maximum of advantage for country's economy[®]

The first phase of industrialization based on import substitution results in the development of the consumer goods industry.

Now after there are two models for states to improve their industrialization policy. First, open to external market. The countries with small domestic market such as South Korea, Taiwan and East Asia countries could develop after they chose this policy, because it's impossible for those states to reach a high level of development by fulfilling domestic market's needs only. The other model is targeting increase the production of raw materials and capital goods industrialization policy. Turkey and the other countries with large market developed by this way. Russia the owner of quite large domestic market is also trying second way of industrialization policy in order to save its market.

What about Azerbaijan, likewise lots of other Eastern Asia countries with small domestic market, it should run industrialization policy through first model, in other words, giving superiority to export. Therefore, adopting in time to a new world trade system, organized by WTO and use the advantages, presented by this system, can play significant role for economic development of Azerbaijan®^.

An adequate building of relationship with an international organization is one of the basic conditions of integration. As it was expressed above, Azerbaijan entered IMF and IBRD in 1992 and holds observer status in GATT since 1993 and now Azerbaijan is planning to become member of World Trade Organization.

At the same time, membership in WTO creates more serious discussion In comparison with membership in IMF and IBRD as membership in WTO is considering as voluntarily limiting the economic Independence.

Azerbaijan started its relations with WTO in 1993 as a observer. In 1997 Azerbaijan commenced discussions and In 2002 launched first committee assembly on membership in WTO.

In accordance with decision, made in Geneva in December 2002 and after the lengthy negotiations made in 2003 Armenia was admitted as a full member of WTO. Before Armenia, Georgia and Moldova also accepted as a member of this organization.

Along with Azerbaijan the other members of CIS as Russia, Ukraine, Belarus, Kazakhstan, Kirgizstan and Uzbekistan also have applied to become a member of WTO.

Among the reasons that delays Azerbaijan's membership in WTO, we can especially highlight problems that arise in relation to customs duties. WTO requires the removal or reduction of the applicable taxes. The other condition set forth for WTO membership is the suspension of aid for agricultural sector.

It is essential for Azerbaijan to focus on three main global organizations IMF, IDRD and WTO. Azerbaijan will have to build its international economic relations within the frames of rules, regulated by these organizations.

The instructing position that international organizations adhere in global integration process can damage country's national interests. The decision should be made after comparing profits and loss of country that were generated from membership in different international organizations and according to national interests.

One of conditions, accelerating integration of Azerbaijan to the world is its membership in significant international organizations. In this perspective, we can evaluate admission of Azerbaijan to World Trade Organization as its economic integration to the world. As it was mentioned above, despite Azerbaijan Government applied for membership in this organization earlier, it still haven't been accepted to WTO.

Membership in WTO means production diversity in domestic market, attraction of developed technologies to country in one hand and importance of reduction in customs duties, refusal of state aid in other. In this term, Azerbaijan should accurately discuss its benefits and loss in this situation. At the same time, Azerbaijan should make decisions that consider its profit on different types of products.

Membership in WTO doesn't guarantee a great speed of economic development of country. Because country industry doesn't have enough power to produce a product able to compete with agriculture. In this regard, the fact that country has a product that may be brought to world market might not be enough encouraging for exporters. In addition, membership in the WTO will be an important step for the future economic development of the country. Being a member of WTO enables domestic manufacturers to get access to the big platform of information. They will receive guaranteed access to international markets and secured terms and conditions of carriage of transit cargo. Membership in this organization can also bring some problems to local manufacturers. Along with the issue of mixed domestic producers, the membership in WTO will made country to open liberal

https://www.wto.org/english/thewto_e/acc_e/a1_azerbaidjan_e.htm

limits wider. It means reduction of customs duties, dispense of allowance in customs points, which will led to increase the flow of qualitative world products into domestic market. Respectively, it can cause to collapse of domestic market, which is unable to compete with foreign products. Delay of measures, required for industrial improvement will cause to lots of problems after acceptance to a membership in WTO. For this reason, there is a need for a certain time.

8.6.2. ‘TURKISH ECONOMIC UNION’ OR IDEA OF “EURASIAN ECONOMIC UNION”

After the collapse of the USSR Turkish republics started to use their energy export potential, thus was a great chance for Turkey, which was heavily depended on foreign countries, to release from energy reserves dependence. With the influence of development of relations in economic, political and cultural spheres among Turkish republics, by the convey of oil and natural gas through Turkey to western markets Turkish republics would enforce their economic independence and improvement and respectively it will help to develop their political independence and also to earn crucial energy resources. The transportation of energy resources through Turkey, undoubtedly will increase the importance of Turkey's geo-political futures.

But denomination of economic relations between Turkey and new Turkish republics “Turkish Economic Union”, “Common Turkish Market” or emotionally “Turkish Union” will be incorrect. These kind of targets are assuming as main reason for different obstmctions In process of development of economic relations between Turkey and new Turkish republics and identification of routes for transportation of energy resources to western markets and etc.

Turkey can evaluate opportunities and become a transit country for export lines for energy resources and thereby achieve the economic improvement and also develop relations with new Turkish republics only if this process will coincide with understanding profit which western countries rely on, as well as won't reveal the intentions to find alternatives to the West. Especially to eliminate the obstacles for the faster development of economic relations with new Turkish republics and suspicions regarding realization of energy resources transit lines project exactly across its are Turkey should firstly estimate the chance to be country of common culture and take more active role in cultural dialog initiatives started by volunteer organizations and assimilated by official organizations.

In addition to this, they should pay attention to “partnerships” that will be able to achieve Improvement of economic relations by avoiding such expressions as “Union” and “Common market” among Turkey and new Turkish republics. It also requires attention to ensure that this relations will also cover other countries in the region. In this point of view creation of organization with a large probability of participants as “Eurasian Economic Union” makes sense in future perspectives.

CHAPTER NINE

FOREIGN INVESTMENTS IN AZERBAIJAN AND INVESTMENT POTENTIAL

In this chapter we will review in Azerbaijan, the investment environment, formed in as a result of external investment processes implemented in Azerbaijan and changes made in the country for attraction of those, also fields that may be profitable for foreign proprietaries in perspectives of investment potential.

9.1. FOREIGN INVESTMENTS

After the restoration of independence Azerbaijan acquire a chance open not only oil, but also non-oil sectors for western investments. For this occasion, it was decided to firstly establish legal base of transition to free market economy. First important step after the adoption of Constitutional Article on State Independence of the Republic of Azerbaijan on October 18,1991 was made in 1992. In 1992 some measures were taken for preservation of foreign investments. Likewise, on 15th of January 1992 government of Azerbaijan adopted a bill on "Foreign investment protection", which identified legal and economic basis of foreign investments and this was guaranteed by state. By the time some changes was made in this law and Azerbaijan state vouched for nationalization, inventory, compensation, payment of damages, a state security issues such as the transfer of profit®^

Azerbaijan who decided to transmit its economy to free market system and opened itself to foreign investments after the restoration of independence in short period of time started to attract external capital. However, it can be seen that in general, in 1991-1993 the country couldn't execute the flow of foreign investments. The bill on "Investment Activities" was adopted and implemented in 1995 and in

<http://www.worldbank.org/en/country/azerbaijan/overview>

2005 Azerbaijan Parliament approved this bill again after some modifications. This bill encompassed attraction of external capital to the country, development International economic relations and independence and guarantee for all foreign investments.

Since 1994 the flow of external capital into the country started to grow. As a result of administrative and legislative changes, made in 1994-97 to ensure the flow of foreign capital into the country Azerbaijan could extend the amount of foreign investments. At first they were companies with external capital and mainly interested in exploitation of rich oil and natural gas resources. Soon country could attract companies specialized in other sectors.

State policy realized in Azerbaijan in 1996-997 and aimed to encourage real economy could achieve economic stability but due to lack of governmental support and rejection of the cancellation of taxes implemented for attraction of external capital and lack of sensitivity by state authorities in 1997 country didn't receive any investments.

In 1998 flow of the foreign investments reached its maximum level and amounted to 1472 US dollars. However, in a result of Tight Monetary Policy, applied by government, the economic recession, delay in privatization and the expected implementation of economic reforms country economy the pressure of deflation besides, there has been a decline in the economy of Azerbaijan since 1998, especially in sphere of foreign investment. This situation was also incited by crisis with Russia in 1998 and bureaucracy, corruption and illegal monopolies in certain spheres. It all led to significant reduction in the number of foreign firms and descending of general amount of foreign investments. The abolition of tax privileges to foreign capital impressed the negative trend in non-oil sectors even more. In 1994-2016 approximately 180 billion US dollars were invested in Azerbaijan. 77.2% of them were sourced directly, other 22.8% by credits. 73% of direct capital was invested in oil industry. Azerbaijan holds leading position among CIS for the volume of direct foreign investment per person. Big part of GDP in Azerbaijan economy consists of foreign investments. In 1996-2000 the ratio of volume of the external capital to GDP rose from 30% to 35-40%. In 1999 and 2000 flow of investments declined in comparison with 1998, but In the end of 2000 this indicator started to rise again. Some amendments in legislation, partial reduction of customs and tax rates, and protection of foreign investment and the steps taken by the government in this way contributed to an increase in foreign investment. Attain stability in macroeconomic structure, changes made to strengthening the private sector and further development of oil sector creates new opportunities for the realization of the flow of large amounts of capital from

the world's financial centers to Azerbaijan. In 2001, 70% of investments in Azerbaijan's economy was external capital and 30% the domestic capital. In 2002, 80.9% of the foreign investment sourced from external and 19.1% were carried out by local entrepreneurs. The distribution of capital investments per sector were as follows: 77% for the industry, in this context, 68.5% of the oil and natural gas, 11.3% in construction, 9.4% in building construction, 38% in transport, 2.4% of the telecommunication, trade and services accounted for 1.8%, 0.8% in agriculture, 2.9% were in other areas®®.

Table 25. Amount of investments to Azerbaijan (Billion \$)

	2000	2003	2004	2005	2006	2007	2008
All sources of investments (taking into account external capitals):							
Million manat	1289.8	4249.2	5820.4	6733.4	7415.6	10353.9	12481.8
Million US dollar	1441.4	4326.4	5922.7	7118.5	8300.4	12066.1	15192.1
Foreign investments:							
Million manat	829.5	3310.9	4496.4	4628.5	4514.2	5727.2	5625.8
Million US dollar	927	3371	4575.5	4893.2	5052.8	6674.3	6847.4
Local investments:							
Million manat	460.3	938.3	1324	2104.9	2901.4	4626.7	6856
Million US dollar	514.4	955.4	1347.2	2225.3	3247.6	5391.8	8344.7

initial data

	2009	2010	2011	2012	2013	2014
All sources of investments (taking into account external capitals):						
Million manat	10475.0	14118.9	17048.8	20251.1	21448.2	21890.6
Million US dollar	13033.5	17591.4	21558.9	25777.8	27340.0	27907.5
Foreign investments						
Million manat	4395.1	6619.7	6849.8	8102.7	8269.3	9175.7
Million US dollar	5468.6	8247.8	8673.9	10314.0	10540.9	11697.7
Local investments						
Million manat	6079.9	7499.2	10199.0	12148.4	13178.9	12715.0
Million US dollar	7564.9	9343.6	12915.0	15463.8	16799.1	16209.8

In 2003, 80.5% of investments made in Azerbaijan's economy, were carried out by foreign investors and 19.5% by the domestic investors. The share of investment industrial sector reached 79.7%. 76.2% of investments were made to the oil and gas production, 1.6% of the electricity and water consumption, while

<http://www.worldbank.org/en/country/azerbaijan/overview>

to the manufacturing sector there were dropped only 1.9%. Also, allocation of investments to other areas was as following: 1% share of the agricultural sector, 0.2% - the construction sector, 0.8% share of trade and services, 8.7% to transport, share, 1.4% share of the telecommunications, house building - 5.5%, and other areas of interest shared only 2.7%.

In 2004, in total 24.2 billion pounds (4.9 billion US dollars) has been invested in Azerbaijan. This ratio is 36.1% more in comparison with 2003. The 73.7% of the investment, in other words, 17.8 trillion manat (3.6 billion US dollars) accounted from foreign investment, the 26.3% of investment which are 6.4 trillion manat (1.3 billion US dollars) sourced from local capital. The 86.4% of total investments which consists of foreign and local firms and businesses-relevant investments ascended to 28.4%, while investments in the state budget increased by 10.5% over the previous year and reached 537 billion manat.

Table 26. Foreign investments (million USD)

Total foreign investments	2000	2003	2004	2005	2006	2007	2008
including:	927	3371	4575.5	4893.2	5052.8	6674.3	6847.4
Financial credits							
Oil industry	262.9	238.3	293	698.4	983.5	1576.6	2357.9
Oil bonus	546.1	2972.4	4088.1	3799.9	3422.3	4003.3	3350.7
Joint ventures and foreign-invested enterprises		58.6	21.6	1	17	68.2	3.5
from:	118	45.4	104.2	230.5	368.4	439.1	494.1
Turkey							
US	31.6	17.1	80.1	96.2	136.6	109.2	145.2
Iran	11.2	4.9	8.4	24.8	70	78	87.9
Germany	2.9			1.2	17.5	4.6	
Russia	1.7		2.1	21.5	17.4	22.9	48.2
Great Britain		1.2	1.8	5.1	4.6	10.7	5.8
United Arab Emirates	6.8	9	4.2	39.5	39.1	80	89.9
Switzerland	2.8	4.4	4.4	5.7	18.3	12.3	38.5
France				0.5	2.7	3.5	3.7
Cyprus	39.3	2.2	2.2	2.6	11.1	4.4	
Chinese				0.2	5.4	13.2	2.2
Italia				0.2	1.3	1.2	8.1
Pakistan				4.6	2.8	14	2
Japan					3.1		
Other countries	16.4						0.4
Other investments	5.3	6.6	1	28.4	38.5	85.1	62.2
Total foreign investments		56.3	68.6	163.4	261.6	587.1	641.2

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Total foreign investments	2009	2010	2011	2012	2013	2014
including:	5468.6	8247.8	8673.9	10314.0	10540.9	11697.7
Financial credits						
Oil industry	1 438.3	3 405.9	3,692.5	3,135.5	2,655.8	1,880.6
Oil bonus	2 412.7	2 955.3	3.407.8	4.287.8	4,935.2	6,730.7
Joint ventures and foreign-invested enterprises	1	2	19.9	2	2.4	17.0
from:	624.4	659.6	886.0	1094.5	1041.0	1318.5
Turkey						
us	76.8	147.5	89.1	185.9	401.3	481.4
Iran	117.6	40.0	73.8	92.5	24.4	89.3
Germany	6.8	3.2	11.2			40.5
Russia	38.8	17.0	32.5	45.6	15.1	51.0
Great Britain	50.3	11.7	35.0	21.8	36.1	13.6
United Arab Emirates	160	144	148.8	149.3	136.0	153.5
Switzerland	43.2	30.3	75.3	92.4	109.3	90.2
France	16	11.7	26.7	79.4	18.2	18.9
Cyprus	4.5	6.2	14.3	14.4	6.1	7.2
Chinese		1.6		6.6	5.4	0.2
Italia	25.9	33.5		6.7	5.7	9.7
Pakistan	9.8	10.3		22.1	21.3	21.2
Japan					3.1	
Other countries	2.8	1.4	2.5	5.4	3.0	2.9
Other investments	28	163.5	173.3	186.4	141.6	103.8
Total foreign investments	43.9	37.7	203.5	186.0	117.5	235.1
including:	992.2	1225.0	667.7	1794.2	1906.5	1750.9

Source; www.azstat.gov.az

Firsthand foreign investments played main role in exhilaration of Azerbaijan economy. Economic development was supported by extremely huge capital, invested in oil sector. In the beginning of 2015, the capacity of external capital, invested in Azerbaijan economy succeeded 80 billion US dollars, thus Azerbaijan get the leading position among Eastern Europe and CIS states. Nowadays, Azerbaijan took important steps to expand international economic relations in order to ensure the socioeconomic development, reducing unemployment and improving the welfare of the population[®]. Among the states made investments in Azerbaijan between 1993-2016, the United States and Great Britain holds first places with 25% shares of total sum of investments. Turkey ranks to third place with 15% of shares. Iranian investors

entrusted 166 million US dollars to Azerbaijan economy and 110 million of them was made in oil sector.

The most part of external capital, coming in Azerbaijan accounts for loans from international financial organizations, direct investments, oil rates, and other credit investments. A big amount of them are the loans and in future they'll have to be returned with additional rates. The same case in investments in oil sector - they are also loans and in time the interest rates will be paid by the expense of oil. The extending investments made outside of Azerbaijan during last three years, may be interpreted as a result of mentioned above facts.

In one hand Azerbaijan returns capital given by international financial organizations, in the other hand it pays membership fee to international organizations. Besides, lately Azerbaijan started repayment to stakeholders of "Contract of Century".

According to calculations made by The World Bank and the "Oxford Analytical" company of UK, Azerbaijan ranks fifth place among Middle and East Europe and 26 ex-socialist countries of Middle Asia for amount of foreign Investments and exceed capital invested into such countries as Poland, Russia, Hungary and the Czech Republic.

There is an increment in investments into energy sector and petrochemical sphere. However, investments in other areas, especially the food and the silk industry didn't reach the desired level. Though this may seem to some Investors as negative case, from perspective of market share and access to the market, this can be seen as a positive development. Azerbaijan invites foreign investor and guarantees them all kinds of comfort and all in all, external capital is encouraged in the country.

In a result of substantial investment in oil sector Azerbaijan became the most economically developed post-Soviet country. The growth of Azerbaijan economy sources mainly from oil sector and related to this construction activities, transport sector and little from agriculture sector.

We can observe stillness in other fields of economy. In order to eliminate this stillness and increase investments into oil sector 3 social-economic programs were created for 2004-2018.

Prepared by the Ministry of Economic Development and Industry "Azerbaijan Investment Map" is aimed to help foreign investors by giving them information regarding the region sphere and amount of the capital they can invest in country.

According to the estimations more than 60 billion US dollars have been invested for the yield of Caspian energy resources until 2012. In accordance with the

results of research made by English company in Baku "MAI Consulting", by 2030 total sum of investments made into country will reach 200 billion US dollars.

The development of existing reserves of Azerbaijan, renovation of the technological structure of economy, increase the range of industrial structures, the need for the creation of new communications and transportation networks requires the increase of the external capital supply.

There are reasonable concerns regarding the fact that very big part of investments is made into oil sector and in this occasion the most share of GDP comes from oil sector. Due to the unilateral development of the oil sector changes on the world market's prices cause the fluctuations in the GDP. It can be easily seen in the case of the Russian crisis in 1998.

Shortly, in economic terms Azerbaijan is facing the risky case called "Dutch disease" which is the apparent causal relationship between the increase in the economic development of a specific sector and a decline in other sectors. In addition, we can observe that Azerbaijan is in the edge of not only the dependence on one sector, but also dependence on specific region.

Besides the Dutch disease, here are the main problems for Azerbaijan, sourced from foreign investments:

- The growth of country's foreign debt,
- Direction of external capital and the activities of joint ventures mostly into easily profitable industry of raw production and services,
- The minor share of investments in country's many sectors of the manufacturing industry,
- As a result of gathering all the investments in Absheron district, other district literally suffers from lack of the foreign investments,
- Against the macroeconomic stability promised by credits and counsels took from international financial structures the increase the level of production and productivity in real sector can provide the prominent strengthening of social safety of population and other social-economic problems.

9.2. INVESTMENT ENVIRONMENT

Cheap labor and opulent subsurface resources are the main factors, attracting investors to non-oil sector. The other positive parameter for drawing especially external capital is affordable investment environment. This makes necessary the analysis of investment environment from different aspects.

Below we will review the negative cases in country's investment environment firstly, then we will look through the legal and administrative measures, taken for elimination of those.

9.2.1. NEGATIVE CASES IN INVESTMENT ENVIRONMENT

The high rates of taxes, impacts which are contrary to free market environment, lack of required legal structure and etc. negative factors are the main risks for affordable environment.

The high rates of taxes cause to informal activity of private sector. Most of private institutions pay big part of employees' salary informally. The shadow market mainly operates in production and trade of weapons, drugs and pornographic commodities. In contrary. In Azerbaijan Informal activities occupies the most ordinary production, trade and service spheres. According to some estimations, capacity of shadow market is much bigger than official market activities. Some international organizations elucidates different numbers regarding level of shadow market in the country. According to specialist of World Bank, the extent of the shadow market exceeds GDP 60% which means more than 15 billion US dollars. Other specialists claims this indicator reach even 80%. In accordance with estimations made by Azerbaijani State Statistics Committee, the shadow economy occupies only 18-20% of GDP. The other problem for the private sector, compelled to choose the shadow economy is bribe.

During the last period of Soviet Union's existence exploitation and the distribution of state property and national wealth for personal purposes became to a normal case. In this point of view, corruption and bribery is the social disease inherited from Soviet system. Recent survey, done by one of the international organizations ("Transparency International"), shows that Azerbaijan ranks leading positions for corruption and bribery^{^@@}. According to this survey, in 2013, Azerbaijan with 28 balls ranked 127^{'^} place among 177 countries.

According to "Transparency International", anticorruption measures, held in Azerbaijan isn't sufficient enough.

"Anti-Corruption Law" which came into force in January 2005, has a definite impact on reducing the level of corruption in the country. These kind of changes may result in democratization, economic liberalization and ensuring greater transparency of governmental bodies. In war against bribery and corruption firstly needed to prevent the expansion and deepening of this problem in governmental enterprises and social-economic system.

Competition is one of the basic elements of policy in countries that is getting through transition period. Domination of one or the same conditions in the economy hinders businessmen actions and delays economic development Azerbaijan government is taking some actions to overcome the inequality in economy and the adoption of "Anti-Corruption Law" is example for this.

Azerbaijan's credit rating (loan return confidence) is very low in comparison with Russia and Kazakhstan. Therefore, now the country's private sector doesn't government guarantees it seems risky to crediting the private sector. Azerbaijan is a country with the least crediting with state guarantee. If Azerbaijan will equal its rates with Kazakhstan and Russia, it can get additional 300-500 million US dollar with very low loan interest rates each year.

In previous years the load rating of Azerbaijan was made by International organization called "Fitch" Azerbaijani government tries to get the rating process be done by such companies as "Standart&Poors" and "Moody's".

9.2.2. LEGAL REGULATIONS

In all countries who is going through a transition period, business suffers from lack of legal regulations, which primarily affects investment environment.

Taking this into consideration, Azerbaijan took reasonable measures in terms of legal regulations, especially since 1995. A lot of reformations have been done by adoption of laws on customs, tax, labor, land, and public service and anti-monopoly.

In a result of new laws, adopted with consideration of specific conditions of Azerbaijan economy during 1995-2010, the new legal infrastructure was created for shaping country's economy for transition into free market economy, in other words, market get environment profitable for both internal and external terms.

The European Bank for Reconstruction and Development (EBRD) revealed that rules controlling trade relations in Azerbaijan are acceptable enough.

With no doubt, there are lots of aspects that need to be examined and steps that need to be taken. In this perspective the decrees, adopted by Azerbaijani president have got significant importance. Verdict adopted by president in 2002 predetermined the open gates principles on foreign investments and convenient environment has been created.

Counting exceptions as national defense, the foreign proprietors have almost the same rights with locals. Enterprises set by foreign investors in Azerbaijan are considered as state ones. The local and foreign holders are affected by the same principles. The only exceptions are departments and representatives.

Amendments made in taxes law and procedure for taxes improved assuredness of employers regarding the transparency of taxes system.

According to these changes, since 2004 the mechanism of implementation of fines was simplified. By this means, fines, applied for repeating violations of the law, will be eliminated. The aim of this change is help to overcome obstacles that hinder development of small and middle entrepreneurs.

Foreign physical and legal individuals have no right to privatize the land but they have right to rent it by signing a contract. Besides this, foreigners were given lots of new privileges.

Since 2005, it was planned to implement new projects within the frames of State Investment Program together with The social-economic development of regions program. In addition to that, government adopted the new bill "On Investment rules", which came instead of those, adopted in 1992 and 1995. This bill aimed to improve the transparency of investment environment for extending the external capital flow into country. In the beginning of 2005 about 24 billion US dollars invested in Azerbaijan. Now government tries to direct businessmen to invest capital in tourism food industry and etc. new law doesn't imply any restrictions for investors' income.

One of the advantages of the law "On Investment Activities" consists of its exemption from taxation those foreign businessmen who bring provision for production and/or service and agricultural equipment. It's essential for creation of complex production and service field. It's also expecting that foreign investors and holders will get the advantages in creation of free trade zones and industrial cities. All in all, the implementation of this law will enable flow of foreign capital to the regions of Azerbaijan.

The codex of anti-monopoly will help to prepare the free competition environment.

9.2.3. LEGAL ENTERPRISES REGISTRATION PERIOD

For building in Azerbaijan, both local and foreign-owned enterprises first should register at the Ministry of Justice. Presentation of any documents and/or references is mandatory for registration process. In average this process can take for 10 up to 30 days. After the Ministry of Justice individual should register in tax authorities of the, the State Statistics Committee, the Social Insurance Institution. In September 2002, after the declaration of new presidential decree lot of simplifications were made in company's registration process.

The number of documents required for issuance of a license required depending on the characteristics of the operations minimized, the amount of state fees to be paid for the issuance of licenses in large quantities reduced and the extended term of the license or a license in one state-formation of the procedure is provided. The transactions necessary for companies have been reduced, the number of licenses reduced from 240 to 30 and their validity period extended from 2 to 5 years in duration.

Foreign investor can start his business in Azerbaijan with 100% external capital or as a "joint-venture". It is impossible for foreigners to have any specific legal equity ratio or limit in company or investment. The licensing process takes approximately 40 days.

Legally, businesses are divided into four different categories: unlimited liability partnership (general partnership), a limited partnership, a limited liability company (LLC) and the open joint stock company (JSC). Especially two last categories are the most popular among legal entities.

When building an enterprise foreign investors must take the opinion of experts on the protection of nature in cases and situations, appointed in accordance with the laws of Azerbaijan Republic. Taking the opinion is obligatory even during the functioning or closing of complexes, established on external capital. Commissioning of natural resources, a large building or reconstruction of facilities requires additional mandatory expert opinion presence related business plan.

9.2.4. PROPERTY RIGHTS PROTECTION AND RESPECT FOR CONTRACTS

One of the conditions perplexing investors in countries in transition period, is protection of property rights and respect of contracts. According to research, made by EBRD, Azerbaijan is one of the countries with most positive indicators in these terms. The protection of property rights is considered by the Constitution of Azerbaijan Republic. The Civil Code which entered into force in 2001 also covers structural conditions of contracts, trade relations, property rights and securities. In the other hand, in accordance with presidential decree, issued by deceased president Heydar Aliyev in September 2002, the actions will be taken in order to overcome to illegal obstacles in property rights, guaranteed by government and illegal pressures on property owners.

9.2.5. PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

Copyright, trademark and patent are governed by the law. Since the middle of 1990's, Azerbaijan has developed its own national system for registration and protection of intellectual property. Copyright, trademark and patent shall be governed by the laws in force. Of the mid-1990s, in connection with the registration of intellectual property rights protection and has developed its own national system. This system includes copyright law (the Law on Copyright and Related Rights, 1996), (Patent-related law 1997), and law on the protection of the trade mark (Trade Marks and Geographical Sciences Law on Earth-1998). In addition, Azerbaijan joined international treaties such as the Treaty of Paris on the Protection of Industrial Property; the Convention for the Protection of Literary and Art Works.

9.2.6. STATE FINANCIAL AID TO PRIVATE SECTOR

Azerbaijani government established the "The Business Support Fund". In 2003- 2005, 250 billion US dollars were intended to provide financial assistance to private entrepreneurs by the fund. In this regard, the loans were granted also in 2003 and 2004. In 2015, the "Entrepreneurship Support Fund» contributed financial support in the field of agriculture and other fields of the economy.

9.2.7. TRANSPARENCY OF REGULATORY SYSTEM, GENERAL STANDARDS MANAGEMENT AND COMBATING CORRUPTION

International organizations reinforcing investors and economy evaluates regulations in legal field by government positively and accept the laws and regulations in business as appropriate and useful. Despite some gaps in legislation on these issues, the improvements are remarkable for the country that makes first steps in market economy. In 2000, late president Haydar Aliyev signed a statute regarding the fight against corruption. In 2001, the decree on public service was adopted. The decree determined the Code of conduct for state officials and reflected the guidelines of appointment of officials, their promotion, and payment of wages. This law considers the Improvement of public service and decrease of factors sourcing for corruption.

The government, also started reforms on development of effectiveness and independence of the judiciary and judicial bodies. New regulations brought to Civil and criminal proceedings contributed to the emergence of new methods in assignment of new judges. In September 2002, in accordance with the decision of the head of state, the number of documents and special permits reduced from 240 to 30. It eliminated the needless bureaucratic obstacles facing entrepreneurs and reduce additional payments in order to accelerate the process of getting a permit.

9.2.8. NATIONAL REGULATIONS

The Law on the protection of foreign investment implies at least the creation of environment for equal business terms for local and foreign entrepreneurs. The only exceptions in the law, foreign investors will have privileges only if the importance of foreign entrepreneurs to invest in the areas will not adversely affect the income of local entrepreneurs.

9.2.9. NATIONALIZATION

Law on Protection of Foreign Investment nationalizes foreign Investors' properties and protects them from expropriation. Only in cases if it will contradict the country's national interests or the possibility of damage occurs to the local people or in case of natural disasters and other necessary situations investments can be nationalized fastly and with compensation on the value of the investment.

Decisions on nationalization can only be given by the Parliament of Azerbaijan Republic (Milli Majlis). The decree of exportation can be made by the Cabinet of Ministers.

In recent years, there hasn't been any nationalization of the country.

The compensation of losses, occurred due to illegal actions of State power also guaranteed by government.

9.2.10. THE TRANSFER AND REPLACEMENT OF THE INCOME

Additionally, there is a guarantee for investors of transfer of income to their own country. Foreign investors can transfer their income, other cash income and legitimate investment earnings to foreign banks only after payment of related taxes.

Foreign investors may reinvest the income obtained in Azerbaijan into the country, or keep them in the banks and also can buy currency according to the course and the rates set by the National Bank of Azerbaijan.

9.2.11. RESOLUTION OF CONFLICTS

Although there are some gaps in judicial resolution of disputes, recent years significant reforms have been made in Azerbaijan in these fields. The International Arbitration Law came into force in 2000. According to the law, parties can apply to any court according to what they want to. Foreign court decision will be carried out only if it does not disrupt the political stability in the country. Milli Majlis approved The New York Convention of 1958 on the Convention on the Recognition and Enforcement of Foreign Arbitral Award, which is responsible for direct transition of any problem, arose between foreign investor and Azerbaijani government, to International Court of Arbitration. Also, some agreements between Azerbaijani government and third parties allow foreign investors an opportunity to address to International Centre for Settlement of Investment Disputes (ICSID). Azerbaijan joined to International Agreement on the Settlement of Investment Disputes between States and Nationals of Other States.

9.2.12. BILATERAL INVESTMENT TREATIES

Azerbaijan, China, France, Georgia, Germany, Great Britain, Iran, Italy, Kazakhstan, Kyrgyzstan, Pakistan, Poland, Turkey, Ukraine, United States and Uzbekistan signed a bilateral agreement on investment protection.

Since they relate to the life in Azerbaijan, Bilateral Investment Treaties, can provide a positive environment for confidence of some investors in the country.

9.2.13. CAPITAL PARTICIPATIONS AND SUPPORT

In the frames of presidential decree issued in September 2003 to support the development of entrepreneurs, the Business Alliance has been established. Alliance will be engaged on a regular basis in activities to solve detection and analysis of the existing problems. It also will be dealing with foreign investors' problems and contribute to their solution.

9.2.14. TAXES AND TAX RATES

Taxation system of Azerbaijan Republic were formed after the rebuilding of independence in 1991-1992. This process can be divided into 3 periods:

During the first period, which surrounds 1991-1992 years, some essential decrees on incomes and expenses were adopted. In December 1991, the laws on "Value Added Tax" and "Excise", on June 1992, legal entities "to separate the types of profits and income taxes" and "income tax for individuals," laws were passed. Since the middle of 1992, began to take shape the Independent of the tax authority of the country.

During the second period, which lasted from 1993 till 1996, there were adoption and formation legal base of some statutes regarding new forms of taxes that entered country's system due to transition to market economy. In these terms some of essential laws were adopted: in February 1993, "Land Tax", in March 1995, "Property Tax" and "Mining Tax", in December 1996, "the State Road Fund tax", tax laws related to the use of guides, regulations have been developed. Third period continued from the end of 1996 to 2000 and covered measures took for improvement of the laws adopted in the previous stage due to qualitative changes in society and the economy and in January 1999 president signed a statute on "Improve the system of state control and the removal of artificial barriers to the development of entrepreneurship" that was directly related to tax authorities. As a result of this phase, we can mention "Tax Code" which was accepted in July 2000.

Nowadays taxation system of Azerbaijan Republic provides functioning of country's production mechanism, financing immediate needs of the country, prevents the growth of budget deficit and in general it responds to all demands of the transition to market economy system. State tax system of Azerbaijan Republic consists of a single centralized system, which includes Ministry of Taxes and the State Tax Service. Ministry of Taxes of Nakhchivan Autonomous Republic the Ministry Training Center, Department for work with large taxpayers and enterprises with special tax regime, the Department of preliminary investigation of tax crimes, the General Department of Taxation of Baku, Regional Tax Offices, taxes offices departments in cities and regions of the republic are also the integral parts of this system.

The Ministry of Taxes is included to Public administration bodies system and is subject to the President and Government of Azerbaijan Republic. The establishment of a centralized system, such as the tax on the entire territory of the country allows the implementation of fiscal policy. The ministry and all of its subordinate tax authorities are the juridical persons, they have independent estimate of expenditures, the current account at the bank, treasury account in warning body, consonant seals with the emblem of the state seal and stamps and TIN. Minister

personally responsible for the fulfillment of the requirements for tax bodies and Ministry. Minister is appointed to the post of President of the Republic of Azerbaijan. State tax authorities operate on the principle of vertical subordination. Vertical command accelerates the exchange of information and guidance on the distribution of legislation materials stipulates to the tax authorities. The tax amounts are as follows; directly from the source (tax collection before obtaining income or profit): by declaration (tax collection after obtaining income or profit); notification of the (object value and the area of taxation, calculated based on the amount of the tax authority or municipality on the basis of payment notice, issued for the payment of the tax by the taxpayer).

The state taxes include:

- 1) the income tax;
- 2) the income tax (municipal-owned enterprises and other organizations);
- 3) value-added tax;
- 4) excise tax;
- 5) the property tax;
- 6) the land tax;
- 7) road tax;
- 8) mining tax;
- 9) simplified tax.

The property brought to Azerbaijan to Invest into enterprises or enterprises established with the participation of foreign capital investment can be imported free from the customs duty and VAT exemption. Further Investments with some exceptions will be subject to a 5% customs duties. They are exempt from VAT.

There are two types of tax regime. Oil companies, operating mostly in oil and natural gas sector in the frames of Production Sharing Agreements (PSA), are bound to the oil consortium tax regime. The official tax regime is acceptable to all the other legal entities.

The income tax for local and foreign entrepreneurs is 20% of the company's profits. Revenue of social support organizations, grants, membership fees and donations from non-trade organizations have taxes besides income tax.

The income tax is fluctuating between 14%-25%. The incomes of foreigners, working in Azerbaijan for less that 182 days and salaries of council employees are exceptional.

The VAT rate is 18%. Consumption tax is unstable. Taxes for resources (machines, buildings, etc.) is taken according to the type of property. However, of foreigners, working in Azerbaijan for less than 182, property of diplomats and consular officers are free from tax.

Tax for areas are determined according to its type and location. The mining tax is between 3-26%.

Tax for Cars belonging to foreign citizens who have entered the territory of Azerbaijan, is determined according to the type and size and length. In addition, entrepreneurs and individuals, which operates under the name of the simplified tax system, have to pay VAT 4% in Baku 2% rate for the sale of goods and services are not related to sales activities. Property and income shall be exempt from paying taxes.

9.3. INVESTMENT POTENTIAL

Considering only market potential of country's economy in planning of investment process in Azerbaijan won't be right. Taking into consideration the geographical position of Azerbaijan, it's clear that country along with regional neighbors have significant market potential. Azerbaijan is "economic windpipe" for Caucasus and Middle Asia. Such importance will get more obvious when Baku-Tbilisi- Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline will start their functioning. It will also extend its value and importance after the export of Kazakhstan oil and Turkmenistan gas through the pipeline across Caspian Sea to the world market. In the other hand, this potential will grow every day by vitality of the Silk Road. When making an investment in Azerbaijan, main attention should be paid to region's potential and future of the region.

When taking into account the market potential of the region, it is possible to make investments into quite big amount of spheres but with the condition that it will be made in amount and way that will be able to compete the world market's production. Climatic conditions and fertile soil of the agricultural industry makes investments possible. The impact of investments in the oil sector, banking and financial services sector and other investments in the sector will become more attractive.

In a result of discussions held by the late national leader Heydar Aliyev with local and foreign businessmen in 2002 and the new decisions taken after these discussions, entrepreneurs were encouraged to open and prevention, legal and

institutional structures necessary for the transition to a free market economy, combined with the positive developments in the demand for employment rapid growth, investment and economic relations with Azerbaijan to carry out the investment climate and the market has become more favorable.

Modern world, which doesn't recognize the borders for financing along with the globalization, when investors, came from such the far regions as Germany, France, England, Japan are interested in privatizing of large-scale enterprises that are going to be realized in Azerbaijan, Turkish investors have to get out into foreign markets due to economic problems in their country and Turkish government supported them in that. They got interested in privatizing in Azerbaijan and made investments in different sectors of Azerbaijan economy and this was useful for both, the investors and the country economy.

9.4. INVESTMENT AND TRADE SPHERES

Below we have mentioned different sectors that are leading in attraction of investments and trade spheres.

9.4.1. AGRICULTURE AND FOOD

- Agriculture Engineering Production Complex,
- Milk and Milk Products Production and Processing,
- Children's food products,
- Vegetable oils (corn and sunflower oil) production,
- Food Concentrate Production,
- Olive and Olive Oil Production,
- Chocolate and Confectionery Product Manufacturing,
- Cookies Production,
- Pomegranate Juice Pomegranate juice concentrates and Production,
- Tomato Production,
- Rose oil production,
- Flour and flour products,
- Livestock and Poultry Feed Production,
- Canned Goods Production,
- Canning factory modernization,
- Storage and packing of agricultural products,
- Construction of modern greenhouses,
- Construction refrigerator warehouses,

- Construction of sugar factories,
- Wine factories construction,
- Beekeeping,
- Caviar and fishing enterprises,
- Floriculture,
- Poultry,
- Meat Products Production facilities, etc.

9.4.2. CHEMICAL INDUSTRY

- Powdered detergent, soap, shampoo VS Consumer Goods Production,
- Ethylene-propylene factory modernization,
- Fertilizer Production,
- Bromine Iodine and Processing,
- Polyethylene Processing,
- Made of polypropylene,
- Paint Production,
- Soda and Chlorine Production facilities,
- Glass Production.

9.4.3. LIGHT PROCESSING INDUSTRY

- Air Conditioner Processing,
- Compression Processing,
- Electric and Electronic Processing Tools,
- Repair of transformers and Processing,
- Flome Appliances Processing,
- Farm Products Processing,
- Paper and Paper napkin Processing,
- Pipe and Plastic Products Processing,
- Processing the refrigerator and freezer,
- Soap modernization of production facilities,
- Rubber Processing,
- Cable Processing,
- Production of pieces of natural and synthetic,
- Phosphate production facilities modernization,
- Silk Production,
- Restructuring of the textile factory,
- Cotton and Wool Spinning Construction of factories.

- Refinery gas meters smart card type,
- Natural gas consumption in connection with the production of goods
- Children glands Production,
- Clothing and Footwear Leather Processing,
- Carpet weaving.

9.4.4. CONSTRUCTION AND TOURISM

- Construction Materials Production,
- Production of iron ore,
- Mountain Sports, Tourism and Entertainment Center, Construction,
- Constmction of hotels,
- Tourism Complex Building,
- Construction of Therapeutic Recreation Center,
- Construction and reconstruction,
- Construction of industrial zones,
- Mosaic and Marble Works
- Production Medical Complex and ceramic materials.

9.4.5. TRANSPORT

- Restructuring of the locomotive depot,
- Construction of Freight Wagons repair factory by the Wagon depot,
- Construction 3rd North Area of the Baku Metro,
- Public Transport Services in auto and motor ways.

CHAPTER TEN

SWOT ANALYSIS OF COUNTRY'S ECONOMY

SWOT analysis method is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats, which may also source from external environment, of a country, sector, structure, method and process.

The goal of SWOT analysis is to develop plans and strategies, that will focused on strong and profitable spheres and consider risks and weak sides of them and at the same time evaluate internal and external influences on those in order to get maximum advantage.

SWOT analysis is used on the stage of strategic development of a plan or to define and resolution of a problem.

SWOT analysis is necessary for government, local and foreign investors and those who want to have a general information about country's economy.

This method has strategic importance for government that determines development policy programs for achievement of economic improvement of Azerbaijan and transition to market economy using economically potential resources of country and improvement of strategies by making systematic analysis.

For domestic and foreign investors the non-empirical analysis of economy, excepting macro and sectorial economy, is needed as a first step for making investments in non-oil sectors.

In this chapter we will make the SWOT analysis of economy of Azerbaijan. As method of analysis the strengths and weaknesses of the country's economy will be analyzed separated from macro economy, sectorial-regional economy, risks and opportunities will be analyzed as economy and non-economy.

The strengths and weaknesses, the risks and opportunities of SWOT analysis will be given as a paragraphs. In these terms, this analysis will create a general picture of macroeconomic, regional and sectorial analysis and level of integration into a world economy.

10.1. THE STRENGTHS

10.1.1. THE STRENGTHS FROM MACROECONOMIC PERSPECTIVES

- *The existence of stable macroeconomic environment led by stability in prices:*

Due to political and economic instability in the early years of country's Independence, which was incited also by Nagorno-Karabakh war between Azerbaijan and Armenia in 1995, there has been instability in the macroeconomic indicators. However, after the establishment of political stability and implementation of economic policy, the economic stability were brought in since 1996. In this regard, the macroeconomic indicators are stable for more than 20 years.

- *The external debts aren't high in relation to GDP:*

The amount of Azerbaijan's foreign debt as of the beginning of 2005, is 1,588 billion US dollars. This amount is equal to 18.6% of GDP. The amount of foreign debt per capita, in comparison to CIS countries Azerbaijan is ranked in the middle positions.

In the middle of 2016, the amount of Azerbaijan's foreign debts. reached 6 billion 778 million 200 thousand US dollars. It equals to 12.6% of GDP.

- *The stability of monetary course*

In 1992 Azerbaijan left the "Ruble Region" and started the circulation of national currency - the manat. In the beginning it circulated with ruble, but since 1994, manat became the only official currency in country. With the implementation of imports and exports in rubles in an important part of the countries, particularly in Russia, in line with the liberalization of prices rise, the manat began to lose value against the ruble in 1993. At the same time, the crisis in the bank sector in 1993-94 and negative projections related to the value of the manat caused to the depreciation of manat in comparison to other currencies.

After the restoration of political and economic stability in the country the currency exchange rate also became more stable.

- *The cheap labor*

Due to the high rate of unemployment, the level of wages in the country is low. The minimum wage in the country is 105 manat. As a factor of production labor payments is making advantage in terms of the total sum of cost. As a result the cheap labor becomes to one of the factors that encourage investments.

10.1.2. THE STRENGTHS FROM SECTORIAL AND REGIONAL PERSPECTIVES

- *Agricultural and livestock sector to have a favorable climate and terrain conditions:*

Azerbaijan is located on a strip which is ranging from tundra climate to subtropical climate and has 9 of 11 existing climate types. The diversity allows to produce the harvest more than one time in a year to produce different types of products. 53% of the country is suitable for agriculture.

The climate type and landscape also enables the engagement in animal husbandry.

- *Suitable conditions for production of agriculture and livestock products, which is an important raw material for food industry:*

The fact that country has climate and landscape conditions favorable for agriculture means that the most suitable conditions will be given for raw materials and respectively for investments in food industry.

- *Azerbaijan has ecological, natural, historical and cultural resources profitable for development of tourism:*

Azerbaijan has climate, natural beauty, historical and archaeological monuments necessary for the development of the tourism sector. Favorable climatic conditions at the Caspian Sea coast, forest areas and different regions treatment benefit show organized-known water source capacity is remarkable.

- *Existence of powerful oil and natural gas resources:*

After the discovery of oil and natural gas reserves in the Caspian Sea, country become attractive with its potential to export the oil and natural gas. A part of investments made in 2005 was spent to production of energy sources. The total sum of capital which is going to be invested in this sector is about 65-70 billion US US dollars.

the start exportation of oil in 2005, and natural gas exportation in 2006 country began to earn big amount of income.

- *A sufficient level of raw material and information collection in the country, necessary for development of petrochemical industry.*

Due to the oil industry focused economy, chemical, petrochemical, equipment and the manufacturing sectors create the basis of industrial sector. After

independence, agreements signed on oil and natural gas production we can observe that, more investments made into industrial sector, are beginning to dominate the field of petrochemicals. Since 2005, a significant amount of oil and natural gas production in the country, the situation in this area allow the development of investment making in this sector of industry.

- *Development potential of transport and communication sectors:*

Due to rebuilding of transport and communications sector during the transition period, these sectors now have the potential, allowing the investments.

- *The existence of the State promoting policy:*

The existence of promoting State policy, regional development programs and governmental programs necessary for development of different regions (not only Baku) and non-oil sectors in 2004-2018 years, tax free and governmental support.

- *Development potential of financial sector:*

Together with the receipt of income from oil, the financial sector will earn fast developing potential. The country is close to be one of the most important financial center in the region.

- *Development potential of construction sector and production of construction materials:*

The revival process gives chance also for significant development potential of construction sector. During last 2 years, this sector has got essential improvement especially in Baku. And it has serious development potential not only in Baku, but also in other regions. In regard the construction materials production sector is remarkable for investments.

- *Fishing and caviar production in the Caspian Sea:*

Along with the essential oil and gas resources, Caspian Sea has also qualitative and rich fish resources. Caspian is considered as the homeland of the most valuable fish species myrtle (Sturgeon) fish.

Sturgeon also has very valuable caviar. The production of sturgeon and its caviar appears as significant economical income. Taking into consideration, that 80- 90% of black caviar is producing in Caspian Sea, we can assume, that fishing also has profitable and strong developing potential.

10.1.3. NON-ECONOMIC STRENGTHS

- *Education level of population*

Notwithstanding the setback in economic situation and difficult conditions, Azerbaijani population are still interested in education. 98% percent of the population in the country can read and write, approximately 60% of them has lyceum or high school level of education.

Educated population allows to solve in short time practical and specialization tasks among the staff that investor can face in new opened enterprise.

- *Existence of political stability and the will*

Economic development in any country mainly requires political stability and leaders that have the will of continuing this stability. Political stability guarantees market the implementation of economic programs without mistakes.

After Heydar Aliyev became president of Azerbaijan political stability was established in Azerbaijan and after Ilham Aliyev was selected as a next president, all uncertainties were eliminated.

10.2. THE WEAKNESSES

10.2.1. THE WEAKNESSES IN MACROECONOMIC PERSPECTIVES

- *Unemployment problem:*

According to official statistics made by state bodies, the rate of unemployment in the country is approximately 1.5%. However, the results of researches and statistic made by different international organizations showed that this indicator fluctuates between 16-25%, which is indeed quite high.

One of the reasons of such a high rate of unemployment is occupation of Karabakh by Armenian aggressors, after which nearly 1 million people remained displaced. On the other hand, after the close of the work places, which weren't able to compete with the army of modern industry of the transition period the percentage of those who lost their jobs has significantly rose.

- *The migration of skilled personnel to foreign countries:*

Due to the lack of sufficient job opportunities, educated and skilled people had to leave the country. Most of them moved to Russia, Turkey, Iran and other neighbor

countries. A very big part of these emigrants are young and middle-aged people. The process which can be expressed as "Brain drain", has significantly increased in recent years.

- *Slow privatization of large enterprises:*

In the frames of second privatization program, started in country in 2000, the privatization of medium and large-sized enterprises such as, communications, transportation, chemical and energy sector are planned. But we can observe slowdown in privatization of large institutions.

- *Corruption and the level of bribery:*

According to numbers, revealed in "Corruption Perceptions Index", prepared by Transparency International and including results from 133 countries, Azerbaijan ranked to 124. This survey shows, that in almost each sphere, especially trade and investments sectors the level of corruption is high. In the other hands, Transparency International endorses the measures to combat corruption in country.

- *Dependence of export and the state budget on oil revenues:*

The share of oil and oil revenues in exports is about 90%. On the other hand, 50% of the budget revenues are derived from petroleum and petroleum-related industries. Thereby dependence of the budget from oil revenues, dependence of thus on the world markets indicators brought Azerbaijan face to face with danger of "Dutch Disease".

- *Customs problems:*

Problems and difficulties emerging in customs impedes the healthy implementation of a foreign trade.

- *Low level of income, uneven distribution income:*

Despite per capita income level is increasing each passing year, it is still remains in the middle-level. This means that the purchasing capacity of people is quite average.

At the same time there is an uneven in distribution of income. Especially, when those who work in oil and oil related sectors can be called prosperous, the wages of employees in all remained sectors is quite low. This leads population to luxury consumption. There is not the Middle class in the country yet.

- *Monopoly and unfair environment for competition:*

One of the main problem faced by entrepreneurs is monopoly and unfair environment for competition. The existence of monopoly in certain sectors creates a hindrance for development of private ownership and efficient use of resources. It also leads to frequent chaotic increase of costs.

- *Distrust of the national currency because of probability of fluctuations in currency policy:*

Inflation and devaluation emerged in a result of political and economic crisis during the first years of independence caused to distrust of the national currency among the population.

- *The Shadow economy*

The Shadow economy in the country is higher than GDP. Among the CIS countries, Azerbaijan is at the forefront in terms of the shadow economy as well as the comparison with the level of corruption.

According to official data, the share of shadow economy is compatible with the 18-20% of GDP. However, some evaluations show that the shadow economy is estimated to be greater than the registered economic activities. In accordance with World Bank's specialists, the size of the shadow economy exceeds 60% of GDP, which equal to 5 billion US dollars. Some experts claim that this ratio is 80%. Although the difference in numbers, we can assume that shadow economy activities are very high in the country.

10.2.2. WEAKNESSES IN SECTORIAL AND REGIONAL PERSPECTIVES

- *Lack of infrastructure and obsolete technologies:*

Agriculture and livestock suffers from lack of infrastructure as irrigation, etc. Technologies that are used in this sectors are also obsolete and there are few of them. The same can be told regarding road, transport and hotel complex infrastructure, required for tourism sector.

The infrastructure in the Industrial sector seems to be less and technologies are also outdated, does not allow us to produce a product that is able to compete with high-quality and modern and more cheaper production in the world market.

- *Due to reliance of economic structure on oil and gas production, the other sectors are left neglected:*

After the restoration of independence, due to the oil and natural gas production energy sector was in the spotlight of foreign and local investors. And the

specialized employees tried to find job especially in this sphere. In a result of concertation of investments and specialized staff only in one sector, others couldn't developed as well as that one.

- *Insufficient development of financial sector:*

After the bank crisis, happened in the beginning of independence period, bank sector settled in the center of financial sector. Though, it couldn't develop yet.

One of the reasons that has essential influence on securities market is delay of privatization of large enterprises.

The low level of income hindered the development of insurance sector.

- *The Dutch Syndrome threat:*

The focusing of investments and export on oil and natural production, predominance of oil and natural gas in export sector, dependence of state budget on again oil and natural gas resulted in reliance of sectoral economy on these resources. After the increase of export of oil and natural gas this reliance will grow even more.

- *Existence of sectorial monopoly:*

Existence of monopoly In number of sectors has a negative influence on quality of producing goods and their costs and hinders the efficient use of producing resources.

- *Inequality in regional development:*

In a result of gathering economic enterprises mostly in Baku and nearby areas and centralized flow of tax incomes also from there, country regionally has an economic stmcture which depends on Baku and nearby areas.

10.2.3. NON-ECONOMIC WEAKNESSES

- *Transportation obstacles between regions:*

In a result of Armenian aggression, the 130-km-long railway, allowing link between Nakhchivan and other regions of the country has been occupied. Due to occupation of Nagorno-Karabakh areas by Armenians, road and rail transport among Nakhchivan Autonomous Republic of Azerbaijan and other regions of the country is not available.

Today, the only possible way of transportation of passengers and cargo to Nakhchivan is available through territory of Iran. This problem coupes to 2.5

million US US dollars to state budget each year. The additional burden bringing to state budget by transfer costs of Baku-Nakhchivan airline traffic, which was arranged in order to sole the transportation problem, equals to approximately 10 million US dollars.

- *Changing ideas:*

The change of thoughts during the transition to market economy and democracy hasn't finished yet. The problems are still being estimated and solved from the point of view identical to Soviet regime. This delays the establishment of market economy in the country. Surely, the change of ideas is process requiring a time.

10.3. THREATS

10.3.1. ECONOMIC THREATS

- *Fluctuations in oil prices:*

Fluctuation in oil prices is the main threat In economic terms. Thought for the last decade there was some increase in oil prices, there is a danger for economy, related to decrease of oil expenses since 2014. Unexpected drop of costs for oil may cause to essential problems for country income.

As the matter of fact, high prices can turn to economic weakness and lead to neglecting with attention demanded for development of non-oil sectors.

10.3.2. NON-ECONOMIC THREATS

- *The ongoing Nagorno-Karabakh conflict:*

The Nagorno-Karabakh is still under the occupation of Armenia and it causes to periodic conflicts nearby this region. In case If conflict won't be resolved through dialog, country is determined to switch to use more severe measures, which puts the country in the face of a possible war. This prevents the flow of external capital, especially in non-oil sectors.

The 70% of 150-160 billion US US dollars investment, flew into country was made by foreign investors. Only 27% of them direct foreign investments were made in non-oil sectors. Local investors also aren't willing to made Investments in this sector. Starting with 2007, we can observe that domestic investments exceed the external ones.

- *Situation in neighbor countries:*

Among the neighbor countries; political and social problems occurring in Georgia at certain times, the processes related to problem between Chechnya and Dagestan Autonomous Republic of Russia and weak relations among Iran and world countries because of political structure of first one and etc. processes has the negative effect on local and foreign investors. Investment in Azerbaijan, especially in large-scale investments, won't be realized based only on the domestic market potential. Investors will want to invest in the region, taking into account other countries. The processes taking place in the neighbor countries at certain times causes problems, negatively affecting foreign trade. Or sensitive relationship between countries has negative impact on foreign trade and again it will negatively affect the foreign investor.

- *Caspian Sea's status problem:*

Problems, sourcing out from the unsuccessful attempts to determine the Caspian Sea's status is also case that negatively affects the economic development of country. Due to the disputable position of some oil deposits, oil companies avoiding the oil production there.

Also, because of this situation, countries cannot exploit the essential fish and caviar resources of Caspian Sea's. In the other hand, the pollution of Caspian Sea one of the negative cases in the development of economy of the region.

- *Absence of access to the sea and the ocean:*

The absence of access to the sea and oceans doesn't allow the country to benefit the sea transport opportunities among continents.

10.4. OPPORTUNITIES

10.4.1. ECONOMIC OPPORTUNITIES

- *Level of integration into global economy:*

It is easily seen that Azerbaijan is much faster adapting to globalization process and it achieved bigger results in integration into global economy, by attraction of external capital, relations with the global economic organizations and membership in regional alliances in comparison with the countries in the same region.

Country's favorable geographical location, large energy facilities, oil and petroleum equipment industry, chemical, electronic and wine sector, transport infrastructure

and positivity rich reserves of raw materials, lack of production, factors such as cheap labor has been a major factors influencing foreign economic relations of the country.

Azerbaijan has cooperative economic relations with more than 150 countries and it's a member of numerous international and regional organizations.

There is also confidence environment due to signed oil contracts, which are being supported by the countries and invested by the oil companies.

- *The level of transition to free market economy is higher than other regional countries:*

In comparison with other new republics in the region, that got independence recently, the legislation and infrastructural realization of transition to free market economy is very high in Azerbaijan.

- *Azerbaijan is leading among the countries restored the indecency in attraction of investments:*

It's observed that the biggest share of extremal capital invested in region came to part of Azerbaijan. This will turn into positive indicator for the investment making in other sectors after the start of oil exportation process.

- *Having its place among the oil natural gas exporting countries:*

In a result of all that work that have been done after the discovery and exploitation of oil resources and natural gas exportation since the 2005 and 2006, Azerbaijan have got its place among the oil and natural gas exporting countries. These are the essential opportunities for attraction of foreign investments and integration into global economy.

10.4.2. NON-ECONOMIC OPPORTUNITIES

- *Location at trade and historical transition roads:*

The geographical position of Azerbaijan, linking the two continents and three offshore basin and it's located also on a very important date as the New Silk Road trade route.

With the agreement related to renovation of Great Silk Road, signed in 1998, Azerbaijan became to a brand new ring in worldwide economic chain.

- *Strategical position:*

Due to strategical location nearby Russia and Iran also makes Azerbaijan very interesting for USA and European countries.

10.5. PROPOSALS

In the frames of SWOT analysis of Azerbaijan economy we looked through the strengths and weaknesses of country's economic capabilities In internal terms and opportunities and risks that may occur from outside world.

The strategically primary measures that should be taken to provide continuing flow of local and foreign investments is to accurately estimate the strengths and weaknesses of country's economic capabilities in internal terms and opportunities and risks that may occur from global environment. It will be right to plan the making of investments in spheres where strengths match the opportunities only after this investors can make some right and profitable decisions regarding the potential of sector, product and region. Afterwards, detailed attention should be given to legislative and diplomatic support and individual relations.

The strengths and weaknesses, revealed in the analysis below, has necessary importance regarding decisions that should be made, programs and projects, that should be held and realized for integration in global world in terms of strengths and weaknesses of internal economy and risks and opportunities for external economy.

The country government have to determinate and implement decisions that will help to use the opportunities of strong spheres of economy. In the other hand, strategic decisions and policies should be adopted in order to transform risks and threats of economy into opportunity for its development.

The more realistic, stable and confidence steps should be taken by the government for creation of the investment climate in the country, to promote political and social policies within the framework of the policies defined by the determination which adversely affect the investment climate weaknesses and relieving elements that threaten the economics of country.

Evaluation Schedule Related to SWOT Analysis

POSITIVE	NEGATIVE
STRENGTHS	WEAKNESSES
Macro economic	Macro economic
Stable costs in the country and general stability in macro economic environment	Unemployment problem
Few share of external debts in GDP (14%)	The mass migration of skilled and qualitative personnel to foreign countries
Stability in the foreign monetary courses	Slow privatization of large enterprises
The cheap labor	Corruption and the level of bribery
Sectorial and Regional	Dependence of export and the state budget on oil revenues
Agricultural and livestock sector to have a favorable climate and terrain conditions	Customs problems
Ecological, natural, historical and cultural resources profitable for development of tourism	Low level of income, uneven distribution income
Suitable conditions for production of agriculture and livestock products, which is an important raw material for food industry	Distrust of the national currency because of probability of fluctuations in currency policy
Existence of powerful oil and natural gas resources	The Shadow economy
A sufficient level of raw material and information collection in the country, necessary for development of petrochemical industry	Monopoly and unfair environment for competition:
The existence of the State promoting policy	Sectorial and Regional
Development potential of transport and communication sectors	Lack of infrastructure and obsolete technologies
Development potential of financial sector	Due to reliance of economic structure on oil and gas production, the other sectors are left neglected
Development potential of construction sector and production of construction materials	Insufficient development of financial sector
Fishing and caviar production in the Caspian Sea	Existence of sectorial monopoly
Non-economic	The Dutch Syndrome threat
Educational level of population	Inequality in regional development
Existence of political stability and the will	Non-economic
	Transportation obstacles between regions
	Changing ideas

OPPORTUNITIES	THREATS
Economic Level of transition to free market economy is higher than other regional countries Azerbaijan is leading among the countries restored the inefficiency in attraction of investments Level of integration into global economy Having its place among the oil/natural gas exporting countries	Economic Fluctuations in oil prices
Non-economic Location at trade and historical transition roads Strategical position	Non-economic The ongoing Nagorno-Karabakh conflict Situation in neighbor countries Caspian Sea's status problem Absence of access to the sea and the ocean
POSITIVE	NEGATIVE

CHAPTER ELEVEN

ECONOMIC RELATIONS BETWEEN AZERBAIJAN AND TURKEY

On October 18,1991, when Azerbaijan declared its independence, Turkey was the first to recognize the country's independence, admitted that the only way for Azerbaijan to really strengthen its independency is through getting true economic independence and achieve economic development and therefore, Turkey launched share of its economic experience and capabilities through state and private ownership. Since 14.01.1992 Turkish consulate and since 25.05. Turkish embassy began functioning in Azerbaijan. Thus, the practical cooperation between Azerbaijan and Turkey driven to an alliance in many sectors such as transport, communications, construction, oil, education@@.

Below the economic and trade relations between Azerbaijan and Turkey, the perspectives of their development and capital movements between the two countries have been captured.

11.1. LEGAL BASICS OF ECONOMIC RELATIONS

After the restoration of independency in Azerbaijan two countries which have always shared historical, geographical and cultural values, there have been signed more than 150 different contracts, protocols and agreements on cooperation in lots of various spheres, such as economic and trade relations.

The economic and trade relations between Azerbaijan and Turkey are running in the frames of "Agreement on Trade and Economic Cooperation" by 01.11.1992. On the other hand, countries have adopted agreement that have essential importance for investors such as, "Double Tax Avoidance Agreement between Azerbaijan and Turkey," by 09.02.1994, "Reciprocal Investment Promotion and Protection Agreement" by 09.02.1995.

One of the essential tool of development of trade and economic relations, Joint Economic Commission (JEC) has adopted the First Period Assembly Protocol on 20.02.1997. The Second Period Joint Economic Commission Assembly Protocol was signed on 30.01.2002. This protocol has importance in the perspectives of realization of measures, took in the direction of cooperation of such organizations as KOSGEB, OSTIM and MKE.

11.1.1. COOPERATION IN THE AGRICULTURE FIELD

The alliance between two countries established on the "Protocol on Scientific, Technical and Economic union in the field of Agriculture", which was signed on 09.02.1994. During the Second Assembly of Executive Committee in Agrarian sector on 17-21 July 2001 in Baku there has been signed a protocol.

Turkey's Agriculture Ministry and the United Nations Food and Agriculture Organization (FAO) have developed a project for the acquisition of the food safety in Azerbaijan.

The Ministry of Agriculture of Turkey Republic and the General Directorate of Agricultural Enterprises sent 25 tons of wheat seeds and provided consulting services during the transplant for Akhiska Turks living in Azerbaijan. The costs were covered by the Turkish ally and Development Agency Department (TIKA).

In Khachmaz region of Azerbaijan the Azerbaijan-Turkey joint seed venture was established. Until 2005, company was producing the seeds of barley and wheat. Since 2005, it was planned to launch the production of corn, sunflower, olive and other plants' seeds.

Within the frames of "Eurasian country seminars Agriculture Research and Development Project" which is being continued by alliance of Azerbaijani government. The Ministry of Agriculture of Turkey Republic and TiKA, the project on reconstruction and modernization Plant protection and quarantine laboratories was launched.

11.1.2. COOPERATION IN THE INDUSTRIAL FIELD

On 12 November 1998, Azerbaijan, Georgia, Kazakhstan, Kirgizstan, Mongolia and Tajikistan signed the protocol of intent for establishment and development of cooperation between Patent organizations of Turk Republics in the frames of Industrial Ownership Rights, which are the part of duties of Turk Patent Institute by the Ministry of Industry and trade of Turkey Republic.

The educational program on education in economic, trade and technical spheres for the development of technical cooperation among Turk Republics was signed in 22-28 May 2000 with the participation of Turk Republics, also Azerbaijan.

11.1.3. COOPERATION IN THE FIELD OF STANDARDS

The first partnership protocol between Azerbaijani State Committee on Standardization and Meteorological Center (AZS Standardization Institute) and the Turkish Standards Institute (TSE), signed in December 1990. This protocol and other protocols that are subject to agreement between the parties recognize international organization, brands and documents that control quality of goods and services, that are the subject of trade.

The essential improvement on this way is the execution protocol, which were signed 13 June 1996. Thus, two countries agreed that the goods, coming from these two countries and/or from third one and have documents of related organization of both countries won't be incurred to the control by Standard Organizations.

In accordance with Azerbaijani legislation, all goods, imported in country should have documents. When the goods with TSI documents is entering in Azerbaijan from CIS and Turkey Azerbaijan State Agency of Standardization, Meteorology and Patent takes the certificate of TSI and gives the certificate of AZS. These goods won't pass the laboratory testing, which makes them more desirable for domestic market.

TSI has its representative in Azerbaijan since 1997. In Azerbaijan it gives ISO certificates for all sorts of goods. Besides, Azerbaijan is the member of Regional Union of Standardization (BASN).

11.1.4. COOPERATION IN ENERGY SECTOR

Energy sector has main place in strategic cooperation relations between Azerbaijan and Turkey. Baku-Tbilisi-Ceyhan Oil Pipeline project and Baku-Tbilisi-Erzurum Natural Gas Pipeline project are the strategically and economically most important projects in energy sector.

The other example of collaboration relations between two countries: Turkey rented underground warehouses in 50 km distance from Baku for period until Turkey which is the member of Pipeline Petroleum Transport Joint Stock Company

(BOTAŞ), will finish the construction of underground warehouses on its own territory[®].

11.1.4.1. Baku-Tbilisi-Ceyhan Oil Pipeline Project

Baku-Tbilisi-Ceyhan Oil Pipeline project was realized in a result of “The Intergovernmental Contract”, signed among governments of Azerbaijan, Turkey and Georgia during OSCE Summit on 18 November 1999.

On 3 October 2000, Azerbaijan founded “Sponsor Group”, aimed to support the project. This group got the official status after the adoption of “Sponsor Group Finance and Cooperation Agreement” on 17 October 2000. All of the AIOC members, except ExxonMobil, Lukoil and Devon were participants of this group.

11.1.4.2. Baku-Tbilisi-Erzurum Natural Gas Pipeline Project

The first step on the way to Baku-Tbilisi-Erzurum Natural Gas Pipeline project was taken during OSCE Summit on 18 November 1999, during the meeting of ministers of Energy of Azerbaijan, Turkey and Georgia and as a result of this meeting the primary agreement protocol was signed.

In the frames of agreement, Azerbaijan and Turkey governments signed “The Intergovernmental Contract” on 12 March 2000, regarding transportation of natural gas from Azerbaijan to Turkey and cooperation between BOTAŞ and SOCAR on natural gas trade for a period of 15 years.

11.1.5. COOPERATION IN TOURISM SECTOR

Azerbaijan and Turkey signed an Agreement on Cooperation in Tourism in 1992.

Azeri personnel, who work in tourism sector have an opportunity to get an education in Turkey. Besides, in the frames of signed contracts, mutual touristic tours have been organized by private touristic companies of these countries.

11.1.6. COOPERATION IN MINING SECTOR

In 1994-1995 Turkey Mineral Research and Search Institute management organized “The Conference on the Earth Sciences and Mining in Turkish-speaking countries”. The potential of natural resources and mining activities in all the countries discussed in connection with the media. In addition, the 1/500,000 scale map of mineral deposits, “Azerbaijan State Reserves Committee” was published by Turkey Mineral Research and Search Institute management.

11.1.7. COOPERATION IN EDUCATION SECTOR

Within the framework of Great Student Project likewise the other Turk Republics, Azerbaijani students have an opportunity to get bachelors, masters and doctoral education in Turkey. 11% of Turk Republics' students, coming to Turkey to get an education are from Azerbaijan.

In 1993-2001, Turkey has sent financial assistance in the amount of 102.570 US dollars for reconstruction of schools in Azerbaijan, inventarization and providing of textbooks and school supplies. Moreover, Turkey Religious Foundation has opened the Theology faculty in Baku State University. Besides, this Foundation has also opened in Baku the Baku Turkish Lyceum for Azeri and Turkish students, living in capital of Azerbaijan.

Educational institutions, founded by Qag Educational Company has important place in education sector. In addition to that, Turk World Research Foundation organized the opening of Faculty of Business Administration in Azerbaijan Economic University.

11.1.8. COOPERATION IN TRANSPORT SECTOR

On 1 November 1992, Azerbaijan and Turkey signed the comprehensive Agreement on Automobile Transport. Unfortunately it only connects Nakhchivan with Turkey. The other roadway from Azerbaijan to Turkey is possible from Georgia and Iran.

11.1.9. CUSTOMS PARTNERSHIP

On 09.02.1994, two countries signed Administrative Assistance Contract. In this framework, Azerbaijani government representatives took a part in the numerous seminars, held by Turkey's Customs Laws and Proceedings in 1992, 1995 and 2000.

11.1.10. COLLABORATION IN SOCIAL SECURITY SPHERE

The agreement on collaboration between Turkey Republic Ministry of Labour and Social Protection and Ministry of Labour and Social Protection of Azerbaijan Republic was signed in 1993. In 1995, the governments of two states adopted cooperation protocol in social security field and in 1997 the Partnership Contract was signed. On 17 July 1998 the Agreement on Social Defence was signed. This agreement was aimed to guarantee the social security of nations of these two countries and it came into force on 9 August 2001. The Administrative Agreement,

which was concluding the above mentioned one was signed on 6 May 2004. Thus, two states got the reciprocal guarantee of social security for their citizens.

11.1.11. EXIMBANK LOANS

In the framework of agreement protocol made on November 1992 between two states, Turkish Eximbank opened a loan in amount of 250 million US dollar for Azerbaijan state International Bank, which is the state bank. But there were some problems with payment of the loan. In this occasion, July 7 1995 and June 14 1996 two protocols was signed regarding the prolongation of period of returning of loan. Azerbaijan and Turkey governments became to an agreement about debt problem in 2004-2005.

11.1.12. TURKISH COOPERATION AND DEVELOPMENT AGENCY (TIKA) CONTRIBUTIONS

As a result of appreciation given by Turkey to Turk Republics, in 1992 Turkish Cooperation and Development Agency was founded by Ministry of Foreign Affairs. Since 1999 this organization is directly subjected to the Ministry.

During the first years of its operations TIKA was mainly focused on providing of humanitarian and financial aids, but in further, it extends activities to technical aid and cooperation projects. Themes of these projects were energy, environment, industry, agriculture, urbanization, tourism, education, health, culture, art and etc.

TIKA has organized in Azerbaijan different projects in following spheres:

- Programs on Development of Organizational and Administrating Structures
- Programs on Research and Development of Agricultural Systems In Eurasian Countries
- Programs on Research and Development of Ownership, Small and Middle Industry in Eurasian Countries
- Programs on Development of Tourism and Service Sector
- Social Partnership Programs
- Educational and Cultural Collaboration Programs.

TIKA has organized especially important projects In agricultural sector of Azerbaijan:

- In Khachmaz region of Azerbaijan the Azerbaijan-Turkey joint seed venture was established. Until 2005, company was producing the seeds of barley and wheat. Since 2005, it was planned to launch the production of com, sunflower, olive and other plants' seeds.

- The enterprise for identification and destruction of harmful plants was established in Samukh and Astara regions. The 120 thousand US dollars were invested to this project.
- The construction of new institute for examining the composition of the soil in Gandja and Quba has been planned.

Within the context of social assistance activities TIKA has undertaken the renovation of various buildings for disabled children in Shaki and unprivileged children in Gandja.

TIKA also financed the first project about usage of Internet in Azerbaijan. In 2004 there were held educational courses on tourism, insurance and tax.

11.2. TRADE RELATIONS

Azerbaijani and Turkish economics from the perspective of structure and geographical positions are in the complementary characteristics. While Turkish economy shows a picture of the export-oriented and manufacturing advantageous structure, Azerbaijani economy is more advantageous with a raw material.

On the stage of the integration to the world economy Turkey takes enormous place in the volume of the foreign trade in 2016 of Azerbaijan that has the economic cooperation with 154 countries proving the fact that it has the important positions.

According to the official statistics, the annual volume of trade in 2009 between Azerbaijan and Turkey was about 700 millions of dollars. However, taking into account the informal trade activities led by the small size trade, the volume of foreign trade between these two countries was much more higher than the official figures.

According to the unofficial calculations, this number is higher than 1 billion of dollars. If taking into account that the trading volume of Azerbaijan is about 5 billions of dollars, the volume of trade relations between Azerbaijan and Turkey can be considered as quite high. It means that approximately 20 % of Azerbaijani trade volume is taken by Turkey. Of course, the trade volume between two brotherhood countries can still be increased. It is planned to reach the point of 5 billions of dollars of trade volume between two countries. It is predicted that the trade volume between two countries can reach 5-7 billions of dollars after resolving some problems between the countries.

The first rows of the product groups imported from Turkey into Azerbaijan are taken by the food products. These are the main products imported from Turkey: butter, fresh and frozen chicken, sugar, chocolate and confectionery, fruit juices, milk and milky products, eggs, pasta, potato, other food products, stationery, salt, sulfur, plaster, cement, electricity, paint, paint additives, washing powder, various chemical products, paper, cardboard and cardboard products, wallpaper, iron and steel items, knitting machines, cars and trucks, automotive spare parts, furniture, leather products, knitwear products, bath and kitchen equipment, wheel, plastic goods, electronic and household equipment, telecommunications equipment and etc.

Following there are the main products exported to Turkey from Azerbaijan: oil and oil products, cotton and cotton products, polyethylene, sugar beet, raw leather, wool, spirits, licorice, apple juice, silk, carpets and other textile products, copper, aluminum, titanium, fire extinguishers and so on.

Since 1991, in line with the evolving political and economic relations with Azerbaijan, as a result of high interest of Turkish businessmen and opening of the branches of Turkish companies in the Azerbaijani market and import from Turkey the trade between two countries shows a preference in favor of Turkey.

In the early years of independence, the advantages in the economic and trade relations between Turkey and Azerbaijan started to decline due to the reason of entry of other countries' to the market and development of the domestic enterprises.

One of the main reasons of the decline in export from Turkey to Azerbaijan is that the Turkish construction companies completed the construction works and they are not involved in new projects yet.

The absence of a direct highway connection between Azerbaijan and Turkey causes the hardships of the relations, especially economic and trade relations between the two countries and brings Turkey to non-profitable situation due to other countries (Russia and Iran). Thus, this situation in the Turkish-Azerbaijani relations brings up on a regular basis the impact of the third countries on economic and political relations. The high taxes implemented by Georgia towards the highway connection and the car tonnage restrictions by Iran, at the same time the membership of Azerbaijan in the CIS and the customs agreements with the CIS countries caused some difficulties in the economic and trade relations between Azerbaijan and Turkey. The high taxes applicate to the Turkish tracks, customs problems, the high level of the bureaucracy, the legislative base

deficiency, the unfair competition brought by "shadow economy", secret monopolization, the pressure abilities of some state officials in their own interests in the private sector, and some laws and regulations that do not comply with the logic of market economy makes the ability of Turkish businessmen to compete more difficult and reduces the interest towards the country.

11.3. THE ADVANTAGE OF TURKISH INVESTMENTS IN AZERBAIJAN

Since the early years of Independence, Turkish businesspersons investing in Azerbaijan, contribute to the economic development of both countries.

The help of Turkish capital is very essential for Azerbaijan, which is in transition period and in need of investments. Turkish businessmen draw attention with the investments mostly made into the non-oil sector. Turkish investments in Azerbaijan are in the first place among the investments in non-oil sector in the country. A large part of Turkish companies operating in Azerbaijan is engaged in trade or prefers small and medium-scale investments. These companies are operating in the following fields; oil, telecommunications, banking and insurance sector, food production, education, publishing, textile and clothing industry, transport, automation industry, lumber, iron and steel, other metals, construction, construction materials and services and housing construction services.

Turkish businesspersons established more than a thousand of 2,500 foreign companies operating in Azerbaijan. 380 of them are completely in the Turkish capital, 370 - the Azerbaijani-Turkish alliance, and 60 - the representations. More than 300 Turkish companies operating in the country are very active.

Turkish businessmen were the first who helped Azerbaijan to gain modern hotels, banks, insurance companies and educational institutions. The companies based on Turkish capital which make 7% of the Gross Domestic Product of Azerbaijan, bring essential help for Azerbaijani economy in opening of new job places from the perspective of employment.

Turkish capital has a part of 6% of Azerbaijan's state budget.

There are 40-45 thousands of Azerbaijani citizens and 5 thousands of Turkish citizens working at the facilities opened by the Turkish investors.

Established in partnership with the Ziraat Bank "Azer-Turk Bank" is the first example of cooperation in the banking sector. Koch Bank and Cibank based on

the Turkish capital, Gunay Anadolu Insurance and Bashak-Inam Insurance are the enterprises serving the financial system.

At the same time, Turkish companies play an essential role in the reconstruction of the road from Baku up to the Georgian board.

However, in recent years, while the decline in the volume of trade between Azerbaijan and Turkey has occurred, the reduction in the volume of Turkish investments and the reduction in the number of companies based on the Turkish capital also becomes visible. For example, in 1997, Turkey's share of 14% in investments in Azerbaijan's economy, although in 2007 the figure was 7.1%.

In short, the Turkish capital, complying with the expression of "one nation, two states" as a friendly and brotherly investment rather than foreign investment gives a positive impetus to the development of Azerbaijani economy and its integration to the world economy.

11.3.1. THE SECTORAL DISTRIBUTION OF TURKISH INVESTMENTS

The Turkish Petroleum Corporation (TPAO) participates in the four international consortia established in the oil and gas sector opened to the foreign investments. TPAO has got a share of the country's oil and natural gas reserves of 6.5% of the (Azeri, Chirag and Guneshli) project with the total cost of 11 billion dollars, 9% in the Shah Deniz project with the cost of \$ 4.1 billion, 5% from Kurdaşy project with the cost of \$ 2.5 billion and 10% of Araz-Alov-Sharq project which costs \$ 10 billion. The volume of Turkish investments in the frame of above-mentioned projects by the end of 2007 was more than \$ 2 billion. At the same time, two private Turkish companies - Pet Holding and Atilla Dogan are producing oil onshore (Mishovdag and Khilli Babazanan areas) by the companies (Joint Venture) established together with the State Oil Company of Azerbaijan (SOCAR).

The volume of investments in the non-oil sectors of Turkish businessmen predicted to take the important place in the development of Azerbaijani economy has become 4 billions of dollars with the beginning of the operation of Baku- Ceyhan oil pipeline supporting the signed oil contracts and delivering oil to the World markets.

Turkish businesspersons with their investments are foreign investors who invest more in non-oil sectors. Turkey's share in investments in non-oil sector amounted to 40%. A large part of the Turkish investments is directed to construction, communications and transport and food industry.

The distribution of the Turkish investments outside of the oil and natural gas production in Azerbaijan is as following:

1. Industry Sector:

The ratio of the Turkish investments in the manufacturing and assembly operations of different areas in the industry sector in Azerbaijan including paint, aluminum, steel, cable, rechargeable battery, and etc. according to the number of companies is 19%. The volume of investments is about 410 million dollars. The number of workers in companies is in the amount of 10,000 people.

2. Trade Sector:

Turkish investments in this sector are specialized more in the sale of food, textile, furniture and household goods. Trade sector due to the number of companies has a share of 30%. The number of workers in companies with the volume of investments of approximately \$ 370 is close to 16,000.

3. Service Sector:

The share of Turkish investments in service sector due to the number of companies is 26%. The volume of investments into the health, education, hotels, restaurants, banking and insurance services' companies in the service sector is about 310 million dollars. The number of workers employed in the service sector is close to 10,000 people.

4. Transport and Communications Sector:

The volume of Turkish investments in the transport and communication sector according to the number of the companies has a share of 10%. The volume of investments of companies operating with the Turkish capital in the spheres of telecommunications, automation, transportation, and publishing is about 470 million dollars. The number of workers employed is up to 6,000.

5. Construction Sector:

The volume of Turkish investments in the housing construction, construction and decoration materials sector according to the number of the companies has a share of 11%. The volume of investments is around \$ 360 million, approximately 6,000 people work at the Turkish-owned enterprises.

6. Agriculture and Livestock Sector:

The volume of this sector according to the number of companies operating is 4%. Turkish capital in agriculture and livestock sectors is about 70 million dollars. The number of workers in the sector is approximately 3,000 people.

11.3.2. AZERBAIJAN INTERNATIONAL SOCIETY OF TURKISH INDUSTRIALISTS AND BUSINESSMEN (TUSIAB)

In 1994, the Turkish business executives have become more organized and established the Azerbaijan International Society of Turkish Industrialists and Businessmen (TUSIAB).

TUSIAB created by Turkish businessmen in the framework of relations between Azerbaijan and Turkey in the light of reality of "one nation, two states" and in the light of the reality of "globalization" aimed to help to encourage the investments, increase the cooperation and to develop economic and trade relations between the two countries.

The society that is operating in a period of more than 20 years for the reason of staging, has become a very good model for Turkish businessmen organizations of the development of economic relations and the elimination of obstacles to the development of relations as well as the example of the formation of market economy and business activities in Azerbaijan.

Generally, despite the economic crises that are going on around the world and especially in Azerbaijan and Turkey, Turkish businessmen are setting up longterm plans in the different sector of developing economy of Azerbaijan and continuing to operate successfully.

11.4. AZERBAIJAN INVESTMENTS IN TURKEY

There are more than 100 companies registered officially and investing the Turkish economy from Azerbaijan. Most of these companies are operating in the service sector. The percentage of Azerbaijani share of these companies with the total amount of investments of 7 billion of dollars is about 86 %. The purchase of the half of the biggest petrochemical complex PETKIM by the SOCAR in 2009 is a second essential step after the Baku-Jeyhan pipeline towards the investments into Turkey, Turkey to build the oil terminal and the refinery complexes in the future.

If to rank the Azerbaijani businesspersons operating in Turkey according to the number of companies and the volume of investments, they are the investors with the biggest part of investments among the Caucasus and Central Asian countries. In the framework of the CIS, the volume of investments of Azerbaijan is on the second place after Russia.

11.5. THE NEW ERA

starting from 2015 Azerbaijani Ministry of Agriculture is planning to put the limitations to the import of food products from abroad. The biggest part of the products exported from Turkey to Azerbaijan are food products. It shows that the volume of foreign trade between two countries will decrease after the certain period. Therefore, it's very important to pay attention to the development of cooperation in industry sector, as well as the construction, tourism, textile and processing industries in order not to decrease the volume of trade between two countries.

However, despite the fact that the problems of the transition period, the bureaucracy and corruption have a slightly negative impact on the investment climate, the President Ilham Aliyev's political will and commitment to improve the investment climate formulates every day a a little more favorable investment climate for the Turkish businessmen and other foreign countries.

In general, it's forecasted that the rule of Turkish businessmen in Azerbaijan's economy In future periods will Increase in forms of small, medium and big-sized investments.

At the same time, with the start of operation of the "Baku-Tbilisi-Ceyhan" oil and "Baku-Tbilisi-Erzurum" natural gas pipelines, as well as the development of Azerbaijan's economy, the economic relations between Azerbaijan and Turkey will be intensified.

It was planned that The Baku-Ceyhan oil pipeline should be commissioned in June 2006, and the Baku-Erzurum gas pipeline - in mid-2007. At the same time, it's forecasted that Turkey's stability in political life together with the observed development phase in the economy, will make a positive impact on trade relations between Azerbaijan and Turkey and the flow of Turkish capital to Azerbaijan. Indeed, Erdogan's government gives its support on the regular basis to the development and increase of any kind of cooperation both on political and economic level.

The first step in this direction has been taken in the end of 2002 within the framework of the summit of ECO when national leader Heydar Aliyev had met with Turkish businessmen and Turkish businessmen came to Azerbaijan afterwards. The second and more important step had been taken in the beginning of 2003, when Rajap Tayyip Erdogan together with large group of business persons visited Azerbaijan. Taking into consideration that during both of the

visits businessmen from Turkey were acquainted with the very important projects, the increase in the flow of capital in the future is certain. At the same time, it's very important to emphasize the important steps by the young Azerbaijani leader Ilham Aliyev in this direction in particular. The business forum in Istanbul held in April 2006, is a clear proof of this.

Europe-Caucasus-Asia transport corridor will play a significant role in the development of economic relations between the two countries. It is planned that in the coming years, the Azerbaijani railway will be connected with Turkish. The construction of the Kars-Akhalkalaki railway will help to achieve this goal. Both countries are interested in the realization of this project. The estimation of this project started in 2005 and expected to be completed in the coming years.

Turkish businessmen have very important responsibilities particularly in the agricultural sector, tourism, industry, financial sector, transport, communications, construction and the development of various sectors in Azerbaijan. If to take into account that Azerbaijan also plays a role of the bridge for other Central Asian countries, Azerbaijan becomes more important from Turkish perspectives.

Developing political and economic cooperation between Azerbaijan and Turkey, "Shahdaniz-2", TAP and TANAP projects carried out successful cooperation between the two countries. At present, about 2,500 Turkish companies operate in agriculture, services, industry, trade, construction, transport and others sectors. 36% of foreign companies in Azerbaijan are Turkish companies, in Turkey, nearly 1,100 Azerbaijan companies successfully operate.

In 2013, a new project - 'STAR' an oil refinery factory construction has been started in Turkey, the project has been laid the foundation by the President of Azerbaijan Republic Ilham Aliyev and The Prime Minister of The Republic of Turkey Recep Tayyip Erdogan in October 25, 2011. "STAR" oil refinery will be directed to supply the demand of the interior market in Izmir and Istanbul territories by constructing in Aliaga port zone near Izmir city, in the west of Turkey which is considered powerful enough economically. The construction of the factory near the huge petrochemical complex Petkim will cause high efficiency by creating vertical integration. The total capacity of the oil refinery will be 10 million tons and The State Oil Company of the Azerbaijan Republic will perform as the main supplier of raw materials of the factory. The factory will produce approximately 1.6 million tons of naphtha will reduce its dependence on raw materials from foreign countries in the petrochemical industry in Turkey, will help to decrease the current account deficit of diesel and aviation fuel and play the role of raw materials for petrochemical industry products. The total cost of

the project is 5.6 billion USD, in 2014 to finance the construction project of "STAR" Oil refinery complex has been taken into account to allocate in the amount of 224 million manat by Fund. Until the date 30.09.2014 generally 596.1 million manat, including 223.5-million manat allowance for 9 months of the year 2014 has been directed to finance this project by Oil Fund.

In accordance with the project of "STAR" oil refinery complex has been allocated 596.1 million manat allowance in general by Oil Fund and financing of the project has finished. According to The President of The Republic of Azerbaijan's Decree No.1974 of February 21, 2007 The State Oil Fund of Azerbaijan Republic fulfill the financing of the project "Baku-Tbilisi-Kars new railway". With this Decree, "International Bank of Azerbaijan" Open Joint Stock Company has been assigned the agent bank for the implementation of credit and banking services on behalf of the Government of the Azerbaijan Republic. According to The President of The Republic of Azerbaijan's Order No.2222 of June 13, 2007, The Ministry of Transport of Azerbaijan Republic has been determined the competent authority in the bilateral agreement by the Government of the Azerbaijan Republic. Since the beginning of financing of projects, until the date 01.10.2015 generally 559.3 million USD, including 22.5 million USD allowance for the first nine months of the year 2015 has been allocated to The Ministry of Transport with treasury by the State Oil Fund. This allowance, In accordance with the bilateral agreement signed between the governments of Azerbaijan and Georgia with The International Bank of Azerbaijan, has been transferred to the account of the Limited Liability Company "Marabda-Kartsakhi Railway" which has been created for; projecting, constructing, rehabilitation-reconstruction and exploitation of the railway area and appropriate infrastructure institution up to the border of the Republic of Turkey.

At the auction held on 30th of May, 2008 the 51% of "Petkim Petrokimya Holding" company's shares have been acquired by the SOCAR&Turcas Energy Inc. for the price of 2 billion and 40 million dollars. At present, there are some factories on low-density polyethylene, high-density polyethylene, polypropylene, polyvinyl chloride, acrylonitrile, ethylene glycol, purified acid, aromatic hydrocarbons, ethylene-propylene, chlorine, vinyl chloride monomer, plastic works and phthalic anhydride operating under the "Petkim". The petrochemical products produced by the "Petkim" that supplies the Turkish industry with the raw materials are widely used in the in the construction, agriculture, electricity, electronics, textile industries, as well as in the production of pharmaceutical, paint, cleaning products, cosmetics and other areas. In 2010, "Petkim Petrochemical Holding" Inc. set a record in production, export and production capacity percentages for

the 46-year history. "Petkim " took the 12th place in the " Top 500 largest industrial entities" of " Istanbul Chamber of Industry", the 20th place among the "1000 Most exporting companies" of "Turkish Exporters Assembly" and 3rd place in the ranking released by the "Aegean Region Chamber of Industry" among the "100 largest industrial structures of the Aegean "and "The most exporting companies".

Bilateral economic co-operation between Azerbaijan and Turkey, as well as their great contribution to the investment are the main factors for the development of our countries. The turnover for the trade between Azerbaijan and Turkey is more than 5 billion dollar. The volume of the investments allocated to the economy of Turkey will have reached 20 billion dollar by 2020, whereas 15 billion of this will go to the State Oil Company. The significant projects, such as Baku-Tbilisi-Ceyhan pipeline, Baku-Tbilisi-Erzurum pipeline, Baku-Tbilisi-Kars railway have the great importance in the future co-operation between two countries.

After the projects mentioned above, Trans-Anatolian Natural Gas Pipeline Project (TANAP), which was signed on, 26 June 2012 by the President Ilham Aliyev and Prime Minister Recep Tayyip Erdogan, has increased the influence of our countries in a global world and region. Thus, TANAP project will be implemented within 5 years. Azerbaijan will be not only a vital gas supplier for Turkey, but also Azerbaijani gas will be transported to Europe via Turkey at the same time.

Today, Azerbaijan plays a critical role in a global energy market, as well as ensuring energy security of region and Europe. The share of Azerbaijan just increased to nearly 40 percent in some of the gas market of European countries. Furthermore, an agreement reached as a result of the activities of political leaders of both countries for the construction of Trans-Anatolian Gas Pipeline In 2012. The role of Azerbaijan will be widened in European gas market after the implementation of TANAP in 2017. This project will be a strong instrument for ensuring our long-term development, as well as economic and other interests in a decade. Current gas reserves of Azerbaijan will let meet the republic and other countries need for gas in 100 years. Moreover, choosing the TAP project-Trans- Adriatic pipeline as an export route in 2013 has been a historic page.

On 17 March, 2015 a solemn ceremony was held in Selim, the Turkish province of Kars, on the occasion of the groundbreaking of the Trans-Anatolian Natural Gas Pipeline with the participation of the President of the Republic of Azerbaijan Ilham Aliyev, President of the Republic of Turkey Recep Tayyip Erdogan and President of Georgia Giorgi Margvelashvili.

It was noted in this historic event that the project will link the expanded South Caucasus Pipeline, which starts in Azerbaijan, with several pipelines in the European Union. The project that intended to impalement within 5 years will be carried out in several stages, with the first ending in 2018.

The planned capacity of the pipeline will be 16 billion cubic meters of natural gas per year by 2020, and will be increased to around 23 billion cubic meters by 2023 and 31 billion cubic meters by 2026. Ten billion cubic meters of the initial 16 billion cubic meters volume will be transported to Europe, while 6 billion cubic meters to Turkey. The intended gas for the Europe will go from Turkey- Bulgaria and Turkey-Greece border. This historic event could be evaluated as the new and dynamic development stage of the strategic cooperation of Azerbaijan- Turkey.

Turkey pays attention to the following points in the Caucasus and Central Asia policy, including Azerbaijan:

1. To give a priority to the strategy of the common cooperation and development of the countries in the region,
2. To the establishment of the insurance union of the region,
3. To the establishment of the international arbitration system to operate in the region,
4. To the acceptance of the properties of investors in the region as the mortgages while giving the Eximbank credits,
5. To the completion of Kars-Tbilisi railway in the nearest future,
6. To the volume of trade between Azerbaijan and Turkey as well as to increase of the information and technology flow,
7. To support the development of commercial law, tax law, execution- bankruptcy law, competition law and the infrastructure of the capital market legislation,
8. To accelerate the cooperation for the establishment of the economic system that can be able to compete in the regional market,
9. To mediate the cooperation between this region and Europe at the stage of acceptance of Turkey into the EU,
10. To work towards the softening of the fright traffic and customs checkpoints conditions and establishment of the comfortable movement between Azerbaijan and Central Asian states as between the European countries,

11. To mediate in the work towards the establishment of Turkish Economic Union between the Turkic states as the alternative of the European Union. As the CIS doesn't give the expected effect, to formulate a strong region in the fast developing world market with more effective and strong economic systems.

CHAPTER TWELVE

THE IMPACT OF GLOBAL FINANCIAL CRISIS ON AZERBAIJAN'S ECONOMY

12.1. THE GLOBAL FINANCIAL CRISIS AND ITS REASONS

Financial problems that started with chaos and swelling in mortgage credit system continue to deepen in the USA. After taking Freddie Mac and Fannie Mae, which were organized to improve the market in housing loans, to state control the big Investment bank Lehman Brothers went bankrupt, Merrill Lynch was sold at a very low price to the Bank of America and AIG, the giant insurance company, was forced to use a large amount of credit from Fed (Central bank of the USA) In order to be able to operate. When the crisis was noticed and won global size in UK, Europe and other developed countries the US congress confirmed about 700 billion dollars as bailout bills.

In 2008 in the world economy development and growth of previous years began to decline. None of the countries that play main role in world economics (USA, Japan, China, UK, India, Germany, France, Italy and Russia) could escape the impact of crisis. These countries form about 80 % of world GDP. Nearly the half of world's population belong to these countries. The world's annual average growth after decreasing by 2 times went down to 2.5 % from 5 % in 2007.

From the early months of 2008, banks put up for sale the houses under the mortgage. Houses that cost over 1 trillion US dollars were offered to customers in market in June already. As a result of decreasing prices in real estate market was registered that the US house market lost 4 trillion US dollars. Contrary to predictions, in most countries the economic development decreased even more. According to experts, financial crisis followed up by the lack of benefits subsidies and more severe industrial crisis replaces it. In another word, crisis proceeded from financial sector to industrial. This stage of crisis causes more problems.

Lately, in the most world countries bankruptcy of car, electrical, light industrial enterprises and standstill in realty market have been the factors that led to unemployment. In a fact, crisis affects able-bodied fields the most and it brings to massive unemployment. It decreases consumption the world wide even more.

Nowadays, banks as in the capacity of weakest points of global crisis, could not deal with yearly increasing deposits from different countries. In the recent past, they directed money for a short time to the trade and service sector in a high percent. Widely has been distributed borrowing money in relatively favorable terms to repay old debts. Recently the flow of loans were directed to big cities such as Shanghai, New -York, London, Frankfurt for sale of under mortgage houses. Even conservative bank systems of England and Switzerland were caught in financial pyramid trap - they forwarded to mortgage more than 10 billion dollars without finding out the reliability of customers. In these conditions, investors directed their funds to real estate -to houses, and to other types of realty. Financial surplus was making realty prices go up. Formerly, when buying house under the mortgage you were not paid more than 70% of house worth. Customer was paying the rest 30%. Afterwards, you could get 80% for the first payment, later 90%, and In a little while- 100%.It achieved 105-110%. It was a method to attract customers, extra 5-6 % were planned to provide the house with furniture.

During the mortgage boom, wages and income were also high. But no one did take into account that in the major states, especially in the US and the UK, the cost of budgetary expenses coming over the revenues and import's exceed over the export on a continuous basis will lead to the stop of the development one day. After the crisis in the US and Europe more than 1000 leading banking and financial institutions has declared bankruptcy or partially self-insured with the help of the states.

12.2. THE IMPACT OF FINANCIAL CRISIS ON THE ECONOMY OF AZERBAIJAN

12.2.1. THE IMPACT ON ECONOMIC DEVELOPMENT

Considering the state economics we can notice the Increase of GDP, decrease of inflation rate, lessening of unemployment and expansion of other positive economical development. As known, in Azerbaijan increase of GDP mostly depends on oil and rising oil prices. Before global financial crisis, according to increase rate

of GDP, in 2005- 26,4%, In 2006-34,5%, and in 2007 despite the fact that the economic increase was coincided to 25%, in 2008 in Azerbaijan was noted 10,8% of increase. As International Currency Fund notices, there was no increase rate of GDP in Azerbaijan in 2009 for the first time, it regressed in a range of -11,5%, If analyzing economic growth after 2005, although the public produces the previous extent of oil against the background of decreasing oil prices there have been lessening in the production of goods and servicing. It proves that profits of Azerbaijan directly depend on oil and oil profits on world's price conjuncture. In order to increase the growth of GDP the dependence of economic development on oil profits needed to be lowered to the minimum. In 2009 in a contrast with previous years, the GDP decreased for the first time. It mainly occurred because of reduction of oil prices and decline in the construction sector^{®^}

12.2.2. THE IMPACT ON OIL AND NON-OIL SECTOR

As reproducing country, Azerbaijan has suffered injury due to the decline in oil prices. Before the crisis barrel of oil that cost 150 dollars after the crisis fell down to 30-40 dollars. This cheapness affected in the negative way oil profits of Azerbaijan. Generally, cheapness of oil prices, oil sector that forms 75% of state budget, oil and oil products that make up 90% of export bring many problems within development of state economy. The decrease on energy carrier prices can reveal not only in economical, but also in social way negative results.

After global financial crisis, Azerbaijan government had to delay realization of many large projects for several years. Especially, projects for construction of new metro, for the bridge in the Caspian Sea and construction of certain facilities were postponed until the subsidence of crisis results.

12.2.3. THE IMPACT ON AGRICULTURAL SECTOR

The role of agriculture in the reducing the impact of the global financial crisis and particularly in maintaining food security in the country is indispensable. The effective functioning of Azerbaijan's agricultural sector, especially in rural economy at the expense of their own financial resources is almost impossible. Even in some developed countries in recent decades, the targeted impact on the agrarian sector mainly has been directed to emerge from crises, but now in these countries

Suleymanov, Elgin, Elvin Alirzayev, and Ayaz Zeynalov. "2008 KQresel Mali Krizinin Azerbaycan Ekonomik Kalkinmasina Etkisinin Analizi." *Journal of Qafqaz University* 1.1 (2013): 114-123.

the impact is directed to ensure sustainable development of the agricultural sector to a large extent.

The payment of the agricultural product demand through domestic production is very essential not only in terms of the country's agricultural safety, but also important in terms of reducing dependence on imports. Rationale The financing of agriculture from state's budget depends on the level of investment policy in the field of agriculture, its implementation and the promotion of innovations. In 2008, the mineral products exports accounted for 97% of the foreign trade turnover of commodity groups, but the agriculture doesn't exceed 1.1%. It is essential to increase their ability to export agricultural enterprises.

The need for financial resources involved in agriculture, especially in rural economy is compared to the solvent depends on the costs and revenues. In the process of the determining of this ratio, the level of development of the modern sector is still in the process of emerging problem of incomplete initial information. The fact that the available statistics (exception for the sample survey of households) is not enough to calculate with precision the financial results of enterprises and households. Therefore, it should be satisfied with the data coming from the individual agricultural businesses and agricultural enterprises in determining the costs of production, income and profitability indicators.

Thus, the share of GDP of the sector employed 40% of total employment, has decreased since 2000 and reached 5.7% in 2008. The financial crisis has shown once again that Azerbaijan's crude oil, natural gas production is not enough for the sustainable development of the industrial sector, and there is a need to pay more attention to the development of agriculture⁶

12.2.4. THE IMPACT ON TRADE SECTOR

In 2008, the volume of trade operations conducted by the residents and nonresidents with 141 countries was \$ 54.9 billion. During this period the country exported 2127 kinds of goods with worth of 47.8 billion dollars and imported 5893 kinds of goods with worth of 7.2 billion dollars and the positive balance on export-import operations amounted to \$ 40.6 billion. In the trade sector of Azerbaijan during 10 months of 2009 import-export operations conducted with 136 countries amounted to \$ 16.5 billion. In January-October, 2009 foreign trade turnover consisted of \$ 11.5 billion of exports and \$ 5 billion of imports. The positive surplus in foreign trade sector was \$ 6.5 billion.

Siileymanov, Elgin, Elvin Alirzayev, and Ayaz Zeynalov. "2008 Kiiresele Mali Krizinin Azerbaycan Ekonomik Kalkinmasina Etkisinin Analizi." *Journal of Qafqaz University* 1.1 (2013): 114-123.

12.2.5. THE IMPACT OF AZERBAIJAN ON FOREIGN STATE DEBT

The amount of foreign debt of Azerbaijan has increased 22.9 percent, in other words 3 billion dollars according to reports till 1st January of 2009 during crisis in 2008. The ratio of foreign debt to GDP has decreased from 8.2 to 6.4. However, the foreign debt per person has raised from 283.8 to 344.9 dollars. The main part of the credits received by governmental and state organizations has been spent on investment projects.

To the date of 1st of October of 2015 the foreign debt of Azerbaijan has been 6.730,9 million US dollars, and the ratio of foreign debt to GDP has been 12.4 percent. The amount of credits received for economic reforms has been 644.9 million dollars. The credits taken mainly from World Bank, Asia Development Bank, Islam Development Bank, European Reconstmction and Development Bank, Japanese International Cooperation Agency and other organizations has been spent to support to economic reforms peojcts, restoration and reconstruction of infrastructure, and also road construction, improvement of water supply of regions and also improvement of rail way services, industry and etc.

286.3 million dollars has been spent to the payments of foreign debts. The amount of payment has Increased 67.9 percent and one of fourth has been spent to the payment of the debt percentages. We have to note that 117.9 million dollars has been paid with the help of state budget. The World Bank assumes the ratio of current account balance to GDP will raise to 41.6 percent according to the summary of 2008 and will be 30.7 percent in 2009.

Note that for this indicator among the countries of the Eastern Europe and Central Asia Azerbaijan is in the first place. At the same time, Azerbaijan maintained its leading position in the years of 2009 and 2010. In general, the majority of countries in the mentioned region have had a negative current account balance and the percentage of GDP was also negative.

Even if the share of foreign public debt to GDP is not at a dangerous level, the trend of rapid growth of external debt is still under concern. In addition, such a dramatic increase rate coincides to the period when Azerbaijani financial viability is in the phase of contraction compared to previous years. The repayment of the highest amount loans taken and being used recently will take place in the period of the reduction of oil revenues - after 15-20 years.

12.2.6. THE IMPACT ON CONSTRUCTION SECTOR

The volume of construction work carried out by construction enterprises in 2009 was about 3 158,9 millions of manats and decreased by 12.2% In comparison to the amount of work in 2008. Thus, 2,163 billion of manats of the work done in the reporting year (68.5% of total volume) have been spent on new construction, reconstruction and expansion works, 610 millions of manats (19.3% respectively) on overhaul, 132.4 millions of manats (4.2%) on maintenance and 253.5 millions of manats (8%) on other construction works. The non-government-owned construction companies have spent 2 363,6 million AZN and state construction companies - 795.3 million AZN on construction works. Besides that, during eleven months of 2009, the average monthly wage of 62.1 thousand people worked in the construction sector amounted to AZN 449.8, and increased up to 10.7% in comparison with the same period of the previous year. The average monthly salary of large and medium-sized construction workers was AZN 500.4. The average monthly nominal wage of employees owned by construction companies amounted to AZN 365.9. The amount of salary in the construction area increased up to 43%, and up to 11.4% in the area of construction of buildings, and in the area of installation of engineering equipment of buildings and covers and decoration works field have increased and become AZN 443.6 and 264.9, respectively In comparison with the previous years level.

Despite of all of these indicators, in real terms the global financial crisis has made the most significant impact on the construction sector. The construction sector flourishing in the previous years, due to the customer and capital shortage has become a sector that has been tangible in the level that it was easy to notice.

12.2.7. THE IMPACT OF DIRECT INVESTMENT

One of the most significant impact channels of the global crisis on the developing countries is decrease of the flow of direct foreign investments. Under the framework of the program of public investment in infrastructure projects with the increase in domestic investment, the foreign direct investment into the country's economy slightly decreased in 2008. The volume of foreign investments directed to the main capital from foreign sources in 2008 was about 2.2 billion manats (2.75 billion dollars), making up 16.3% less than the same period of the previous year. If in the previous years (the trend has been observed since 2006) the reason of decline has been associated with the transition phase of repatriation of more investment in oil and gas projects, in 2008 the effects of the global economic crisis should also be added.

ECONOMY OF AZERBAIJAN 25 YEARS OF INDEPENDENCE

Table 27. Investments in economy

	2000	2003	2004	2005	2006	2007	2008
Investments							
Millions of manats	1289.8	4249.2	5820.4	6733.4	7415.6	10353.9	12481.8
Millions of dollars	1441.4	4326.4	5922.7	7118.5	8300.4	12066.1	15192.1
Foreign investments:							
Millions of manats	829.5	3310.9	4496.4	4628.5	4514.2	5727.2	5625.8
Millions of dollars	927	3371	4575.5	4893.2	5052.8	6674.3	6847.4
Domestic investments:							
Millions of manats	460.3	938.3	1324	2104.9	2901.4	4626.7	6856
Millions of dollars	514.4	955.4	1347.2	2225.3	3247.6	5391.8	8344.7
*initial information							

Source: State Statistics Committee of the Republic of Azerbaijan

	2009	2010	2011	2012	2013	2014
investments						
Millions of manats	10475.0	14118.9	17048.8	20251.1	21448.2	21890.6
Millions of dollars	13033.5	17591.4	21558.9	25777.8	27340.0	27907.5
Foreign investments:						
Millions of manats	4395.1	6619.7	6849.8	8102.7	8269.3	9175.7
Millions of dollars	5468.6	8247.8	8673.9	10314.0	10540.9	11697.7
Domestic investments:						
Millions of manats	6079.9	7499.2	10199.0	12148.4	13178.9	12715.0
Millions of dollars	7564.9	9343.6	12915.0	15463.8	16799.1	16209.8

Source: State Statistics Committee of the Republic of Azerbaijan

In 2008, the UK had the biggest share in the Investment made from foreign countries and International organizations. The volume of Investments directed to the main capital by the British residents was about 1.27 billion dollars, or the equivalent of nearly 1 billion manat. Compared to the same period of the previous year, the capital Investment of the British Investors declined for 202 millions of manats or 16.5%. Along with the UK the first five of the main foreign Investors In Azerbaijani economy consists from the US, Japan, Turkey and Norway residents. The total sum of the capital investment of the investors representing these four countries is 941.3 millions of manats, while their share is equal to 42.3%. It should be noted that the total amount of investments from all of the financial sources into the development of economic and social spheres in Azerbaijan in 2008 was 9 billions of manats, or 34.3% more investments than in 2007. There is also a decrease in sales of various Imported goods In the country. For example, the volume of sales of some car brands In 2008 decreased by 40%.

Table 28a. Foreign investments, 2000-2008 (Millions of dollars)

	2000	2003	2004	2005	2006	2007	2008
Total foreign investments	927	3371	4575.5	4893.2	5052.8	6674.3	6847.4
Including:							
Financial credits	262.9	238.3	293	698.4	983.5	1576.6	2357.9
In oil industry	546.1	2972.4	4088.1	3799.9	3422.3	4003.3	3350.7
Oil bonus		58.6	21.6	1	17	68.2	3.5
Joint ventures and foreign-invested enterprises	118	45.4	104.2	230.5	368.4	439.1	494.1

Table 28b. Foreign investments, 2009-2014 (Millions of dollars)

	2009	2010	2011	2012	2013	2014
Total foreign investments	5468.6	8247.8	8673.9	10314.0	10540.9	11697.7
including:						
Financial credits	1 438.3	3 405.9	3,692.5	3,135.5	2,655.8	1,880.6
In oil Industry	2 412.7	2 955.3	3,407.8	4,287.8	4,935.2	6,730.7
Oil bonus	1	2	19.9	2	2.4	17.0
Joint ventures and foreign-invested enterprises	624.4	659.6	886.0	1094.5	1041.0	1318.5

Source: State Statistics Committee of the Republic of Azerbaijan

12.2.8. THE IMPACT ON STATE BUDGET

The expenses of state budget of Azerbaijan Republic for 2009 were expected to be 12 billions and 177 millions manats and the revenues were expected in the amount of 12 billions and 355 millions manats. In comparison with 2008, the state budget's dependence on oil also slightly increased. In 2008, the share of the oil revenues of the state budget revenues were expected to reach 62.4%, however, in 2009 this figure reached 65.4%. The direct investments from oil sector in 2009 was 7595 millions of manats, including the direct tax payments from oil sector - 2680 min. of manats and SOCAR transfers of 4915 millions of manats (40.4% of budget revenues).

The 74% (1264.5 min. AZN) of growth of budget revenues in 2009 (1693 min. AZN) stemmed from the increase in the oil sector payments. At the same time, the budgets dependence on oil revenues had an effect of the increase in non-oil budget deficit. If the ratio to GDP formulated in the non-oil budget deficit in the non-oil sector of state budget in 2007 was 32%, in 2009 this figure increased up to 42.5%.

In connection with the economic crisis in 2008, the annual amplitude of the price of oil was higher as well. Thus, the price of Brent crude oil has changed over the

year from US \$ 144.9 to US \$ 38.1. The decline of the price of each barrel of oil for 10 dollars means a loss of \$ 2.2 billion for Azerbaijan.

But even if the price per barrel of crude oil decreases to \$ 40, no problems with the implementation of the state budget are expected. It should be noted that three-quarters of the oil revenues in the budget consist of the State Oil Fund's transfers. Even if the price limit used as a calculation base rate by the government while forecasting the budget revenues for the year 2016 mentioned in the speeches of representatives of the competent state bodies throughout the budget estimate was taken as \$ 50 per barrel of crude oil, the State Oil Fund's transfers for the first time in the past five years have been reduced for more than 40% and was about 6 billion manats. In this case, the projected budget allocations from the Fund for the current year will make a total of 90% of the Fund's income. As noted above, in case of the worst price scenario (for example, 40 USD per each barrel) the reduction in the Fund's projected revenues will be available.

As you can see, even in the context of such a sharp decline, the State's Oil Fund will be able to implement not only Fund's obligations on the state budget, but also the obligations of the Fund's own expenses. In this case, 50-70% of the Fund's total income can be transferred to the state budget.

12.2.9. THE IMPACTS ON MACROECONOMICS

The major aspect that can cause a serious problem is that crisis affects the State Oil Company of Azerbaijan Republic's (SOCAR) income. The fall in "Azeri Light" brand oil prices in last 3 years reached the most critical psychological threshold

- less than 50 US dollars. Taking into consideration, that in 2009, the price of oil was lower than projected in the budget (in the budget it was estimated as 70\$ for a barrel), the assumption that world economic crisis will affect the Azerbaijan's trade turnover was very realistic. According to official statistics, crude oil has a special weight as most of the country's exported item (93,80 percent). At the same time, crisis leads to postponement of investments in the country's economy, which caused a delay in economic development and will lead to lower economic growth expected for the end of the year.

- A reduction in oil revenues that form the basis of our economy;
- Has been postponed a number of major socio-economic investment projects;
- Economic growth will be lower than expected for the end of the year;
- A decrease in demand will result in the weakening of activity of economic subjects.

12.2.10. THE IMPACTS ON MICROECONOMIC SYSTEM

At the end of 2008 and by the beginning of 2009, the Central Bank softened monetary policy as a preventive monetary measure. With a resolution of the CB Board of Directors on February 2, 2009, 5% discount rate has been reduced to 3% and reached 5%. The upper limit of the interest rate corridor was reduced from 13% to 10%. Manat and foreign currency reserve requirement was reduced from 6% to 3%. In conditions of the deepening of the global economy crisis, 2009, in accordance with the direction of the monetary policy of the National Bank of macroeconomic stability, financial stability and supporting economic activity in the country continues to maintain its mitigation.

As one of the anti-crisis measures is the abolishment of tax for Insurance companies directing for increasing of capitalization of income for 3 years, as a evidence of state financial support. For decreasing of impact of crisis on insurance companies during this period all unnecessary expenses should be reduced, increase the number of clients and create new products for market. Government, on its turn, has made an essential step by exemption of income tax for insurance companies and banks in 2008.

The most weak in terms of this crisis, sector of Azerbaijan economy is bank sector. National Bank of Azerbaijan urged to reduce interest rates by 2 times and run accurate policy by estimating all elements of situation reigning in the market. For now, private banks reduced the issuing of loans. Azerbaijan banks have attracted 2 million US dollars investment from foreign finance resources. At the moment the process of alluring of independent finances has stopped, due to the decrease of margin loans in global market and sharp increase of interest rates. It all resulted in lack of foreign credits that Azerbaijan commercial banks alluring and respectively, these banks aren't able to give consumer and corporate loans to population and entrepreneurs.

Financial and banking sector problems will spread to the real sector. Because the entrepreneurs who cannot get loans from banks will reduce their operations and the volume of turnover in the majority construction and production facilities will descend and service and sales areas will begin to decline. All of these will result in thousands of people will become unemployed. On the other hand, the conservative characteristics of Azerbaijan bank to the world market were in our favor. Very serious reductions have started in private structures and companies in the country. Some experts deny the impact of the financial crisis, but the country's economy, in the largest 12 companies of Azerbaijan in total 3400 people were diminuend.

The large surplus in the country's currency balance of payments increased by 2 times (9.7 bln. \$). The volume of exports increased significantly in comparison to previous years and is more than imports by 5 times.

The strategic reserves are enough to finance continuous import of non-oil sector for 28 months. In international practice the norm for this is 3 months. As we mentioned, the amount of external debt of the banking sector is 2 billion US dollars. It contains total of 18% of the liabilities.

The National Bank controls monetary market of the country and this is the reason why the currency is relatively stable. In this term, the efficiency of economy is considerably extending.

Among the CIS countries Azerbaijan was the one who has had the less impact of Global Financial Crisis and considering of the following proposes can help to maximum reduce the impact.

- To increase agricultural investment and allocation of loans;

Taking into consideration, that 46% of the Azerbaijani population lives in villages, and their economy is mainly based on agriculture and agricultural products are the raw material for industries, ultimately it will give impetus to the development of the industry.

- Reduce dependence on oil revenues and prepare economic fields to the development of non-oil sector of the economy by high growth rates of producing;
- In order to reduce the deficit of the state budget the implementation of the budget should be overestimated and some of the expense items have to be reduced;
- Increase state control and public scrutiny on funds, allocated for social and development construction projects at the expense of Oil fund in order to avoid the embezzlement of these funds;
- Replace the short-term investments with the long-term investments;
- Strengthen state control measures to fight the artificial price increases, monopoly and unfair competition;
- Grant a share of the exchange reserves held abroad in foreign banks to the use of local banks with preferential terms, in general, the promotion of soft loans among the banks and the population oriented loans;

- Increase state aid for farmers and other stakeholders (especially those who decrease the sale or turnover), and implementation of regional and sectoral tax incentives;
- Promotion of exports in non-oil sectors;
- Revision of the priorities of the investment program, strengthening financial discipline and efficient use of state budget funds;
- Implementation of state guarantee for some problematic debts that was carefully elected, for and the registration of non-formal economy;
- Sponsoring of the projects that provides secondary professional training for unemployed population, number of which is continuously increasing the benefits and vocations provided to them;
- Organization of campaigns to encourage savings in households and institutions of all kinds, regardless of their property facilities;
- Promote economic way of development corporate debt securities sector in the securities market; avoid the preference of Monetary or fiscal measures separately as a anti-inflation instruments and give a preference only to their combined work.

Thus, we can conclude that such an analysis of the recent global economic crisis is distinguished by its uniqueness and the serious impact on all the major financial and trade channels of Azerbaijan. Though the full official diagnosis of the impact isn't systematic, some of the steps taken convincing us that the government and the business sector is aware of the possible risks

THE RESULTS AND PROPOSES

Azerbaijan, which has rich natural resources, natural beauty and strategic geographical position and growth prospects in among South Caucasus counties, during the early years of independence, due to the impact of the occupation of Karabakh by Armenia's and political, economic and social problems, which occurred because of this occupation has had not very bright position in the international arena. However, regarding the promising economic resources it was known as a country that has been the focus of the world's leading media in the country.

By the coming to force of the National Leader Heydar Aliyev, country gained the political stability. Azerbaijan could manage the economically hard situation and developed as a country exporting oil in global scale.

With the policy, running by Heydar Aliyev, the stability in economic and political environment were achieved and as a result of tighter monetary and credit policy the 1760% rated Inflation has been decreasing since 1995 and the stability in common consumer costs was provided.

After the international oil companies signed "Contract of the Century" in 1994, dedicated to the receipts of energy resources in the Caspian Sea, foreign investment in the country especially in the energy sector continues to be successful. Oil and natural gas reserves are the backbone and engine of the economy. With the delivery of energy resources to Western markets Azerbaijan will become to the richest country in the region with the most important position in the future.

In the other hand, Azerbaijan is one of the most invested countries, especially by Western companies, who prefer to make big scale investments in energy sector and it somehow gives an international guarantee for the future Investments in other sectors also.

The 85-90% of the share of exported products comes from oil and oil industry production. This rate increased after launch of oil export through the Baku-Tbilisi-Ceyhan oil pipeline in 2005 and start of transportation of natural gas through Baku-Tbilisi-Erzurum pipeline in 2006. However, it means that economy is

indexed on oil and fluctuations in oil prices. Thus, the balance of payments deficits is removed in line with the increase in oil prices and revenues from the oil.

The first period of privatization, which covered mostly small-scale enterprises finished in 1997. The second period of privatization was launched in 2001 and in was manly focused on privatization of several middle and large scale institutions, which had strategic importance.

The economic crisis in Russia in 1998 and decline in oil prices have made negative impact on country's economy, but after the increase in oil prices in 2000, the economy become more stable.

Azerbaijan is trying to organize foreign trade policy in terms of the market economy. There are no any restrictions, especially in the food sector, except customs duties on certain strategic products.

The turmoil, happened in bank and financial sector in the early years of independence, was removed and this sector has been moved under the strict control of the National Bank. Thought legislative regulations haven't been accomplished yet, there are main laws that provides general balance of economy. However in Azerbaijan, state has serious intervention In the financial system. This doesn't allow for the liberalization of the financial system. Along with the rapid development of the financial sector, the sector is still very weak and vulnerable.

As a result of permission to have a private property and launch of privatization in agriculture, industry and service sectors, private sector's share in GDP was 13% in 1990, and increased to 62% in 1999, then rose to 74% at the beginning of 2005. In 2014, the private sector share in the GDP was even 83.2%.

Surely, there are a lot of steps and actions that should be held in economic development process. These problems, which Azerbaijan is facing with, aren't sourced from free market. They are transition period problems. It needs to be outlined, that the legislative and administrative base for the implementation of further measures has been established. The macroeconomic, regional and sectorial goals have been determined and some actions were held towards them.

There has been a significant revival in the economy of Azerbaijan, in general, after the launch of the Baku-Tbilisi-Ceyhan oil pipeline, there. The project-based programs are observed to be carried out.

It's observed that, along the economic, also strategic profits have been taken into consideration when Azerbaijan chose the way of production of Caspian

energy resources and their exportation to global market. This case has a significant role for Azerbaijan which has had to continue its political independence and develop the economic freedom against Russia, which tried to save its impact on region as it was during the Soviet regime.

Despite this all, the existence of rich natural resources, the big personnel potential, the level of economy In the period of beginning of the transition, location right on the intersection of essential transport roads creates a positive opinion regarding the future of Azerbaijan economy.

The resolution of main political problem - the occupation of Nagorno-Karabakh by Armenia, will have a significant impact on the economic development and stability.

For the solution of some problems and further development of economy Azerbaijan government should evaluate and take into consideration some proposals and made implement some amendments:

- The actions, required for re-establishment of economy should be taken as soon as possible and it also has to provide the bigger and wider in scale flow of investments in the country.
- Along with measures, that will provide the flow of investments in Azerbaijan and guarantee their safety, one of the main targets for economy should be to get rid of the "Dutch Disease". The focusing of external trade only on natural resources is resulting in the exhausting of those resources and contravention of social justice, which in this term means the enrichment of small part of population. This also can lead to loss of independence in internal and external relations. Therefore, the income from oil and energy sector should be directed to other sectors and human resources.
- The implementation of state subsidies is essential for the development of some important sectors and exports. In particular, in order to avoid the threat in the future in perspective of sectorial dependence, the non-oil sectors are often more sensitive and should be supported. The key sectors requires the support are the agriculture, livestock, food and industrial sectors. Be the first to attract foreign investment in this sector, in addition to these sectors, increasing productivity and quality. While simplifying the use of its lending to the sector, the manufacturing sector to exports, the decline in unemployment
lead to an increase in employment and the hidden.

The resolution of environmental problems in national level, regulations regarding chemical pollution, re-organization of sewage cleaning system, biological diversity

works to protect the Caspian Sea, the prevention of soil pollution, improve the management of the forest, with tree-planting projects, expansion of agriculture, animal husbandry and food industries will achieve significant progress.

- The social disease, inherited from Soviet system - the bribe and corruption haven't been defeated yet and it can cause to the widening and deepening of the problem. Also, it's very important to increase the minimum standard of living and the average monthly income of employees in the public sector.
- Nowadays, globalization dominates in the formulation of economy. New economic term expresses the world where ideas and innovations come over to equipment and technics.

The new economy is the new type of economy, which "stands on the knowledge", as it was pointed out in "Third wave" by Alvin Toffler. During the first wave the agricultural society, owned such factors of production at the economic development and prosperity as the land and farming techniques, while during the second wave of the industrial society these factors have been transformed into the mining, energy resources elements. In the third wave or for so-called the knowledge society, economic development and prosperity elements weren't associated with the land neither energy resources. For Knowledge societies, development and prosperity will be determined by way of intellectual production and the transformation of science to investment.

Thus, the struggle for the economic development has earned different perspectives and now infrastructure for economy is not the physical goods, they are now more information based. In a result of ongoing growth of position of information in production, we can even say that industrial goods have lost their leading position. If we will compare the prices for car, mobile phone, satellite and genetic vaccine, we can easily see that nowadays knowledge has become to very important and valuable. Most of the added value of the new economy are produced by the brain.

In this context, in order to reduce the gap of information; the acquisition of more knowledge, understanding and have spread.

in this case, for earning of real economic independence for Azerbaijan, economic independence, development and integration the science and scientist are needed. It's impossible to guarantee everlasting economic independence based only on oil and natural gas resources. Azerbaijan has essential personnel potential. And now it has to for an educational structure that will develop this potential in accordance with conditions of new economic world.

The decision to direct the revenue from energy resources, for getting access to information, and more importantly, to the sources of revealing the information and development of educational institutions to train people to be the right decision. In this regard, the example of India will be most appropriate due to the use of works and the need to support the work done.

Due to the global process of globalization of the World, investments also has been got the global characteristics and therefore, it became to the main object of fluctuations in economic conditions. This fluctuations have appeared, especially starting from 1980s', in the shape of financial crisis and transformed into common economic crisis.

In order to minimize the impacts of these kind of crises, the international investments should be directed to productive spheres inside the country, and this should give the benefits of direct investments.

The developing countries, which are in the transition period, generally run the policy of increasing the production capacity of the economy. Known as a Proposal Economy, this policy assumes the importance of tax concession. This policy was theoretically formed in 1970s' and it's mainly focused on the necessity of promotion of proposals of production factors and therefore defends the importance of tax reductions. For the developing or transitioning economics, which has lack of proposals more that lack of demand, this theory should activate the production factors by reduction of taxes, which will lead to increase of production.

In this occasion, there is a keen demand for supporting policy that will rescue Azerbaijan, which was shaken by the Financial crisis in Russia in 1998, from the "Dutch Disease", and therefore prevent the outbreak of the country's income and foreign investment from the country and launch the new wave of huge investments, especially, direct big amounted investments in country instead of portfolio investments. These policies, based on the development of investment environment, necessary for improvement of level of production and employment not related to the oil and natural gas sectors. In its turn, good investment environment required political and macroeconomic stability in the country, for achievement of which, the elimination of non-trade risks, the existence of tax rates, tax system and culture and legislative and administrative regulations for protection of foreign capital is needed. Also the optimization systems should be carried out in connection with the customs regulations. To increase the volume of foreign trade, we need to liberalize and modernize the customs department. In addition, in order to increase the export potential of the country, we have to create the free regions.

- The foreign investment attracting organizations should be coordinating more actively by state. The power of promotion and commercials can be used in this term. There is a requirement for more strong cooperation between international financial organizations and investments.
- The measures for renovation of transport infrastructure and telecommunication system should be fastened and have more primary position.
- The regulations, necessary for bringing the bank and financial sectors to the standard, should be implemented as soon as possible. The more accurate registration of economy with the help of new legislative and administrative regulations along with the extending of capital resources, will strengthen the development of financial system and priority of private sector in this market.
- There is a requirement to overcome the grown of foreign debt amount and reduction of budget deficits.
- There is a sharp need for a foreign capital for the realization of number of big projects. The external capital sources demand the state guarantee for investments and project loans. For the state guarantee there should be legislative regulations, which in its turn requires applicable tax and customs, re-estimation of VAT, tax regulations for trade enterprises and etc.
- The forming of investment insurance system as a new step in investments policy. We have to achieve the attraction of portfolio investments by the fastening of establishment of investments funds and securities markets.
- Bureaucracy should be decreased to minimum and artificial obstacles should be eliminated. It requires the forming of mechanism that will secure the local enterprises by independent competitive and ownership. In these terms ASAN Xidmst is an admirable project. At the same time, the progressive projects such as "electronic government" and "System of One Window" should be increased. The monopoly should be defeated and restricted by legislative measures.

The optimum device of production factors is one of the essential conditions of reaching the maximum level of production. For this reason, the use of factors of production in each of the areas and sectors supposed to be equal to the marginal productivity of each other. The situation, called «Alternative theory of equality of marginal productivity" can be carried out only in the country with a fully competitive conditions. One of the features to prevent monopolies in the developing countries be obtained by taking the competitive environment necessary for economic development is one of the main conditions. Considering that the scarce resources, the optimum use of resources becomes more important. Of course,

regional and sectoral factors of production flexibility necessary to create the conditions essential for the acquisition.

Creation of a competitive environment in the economy will be beneficial for attraction of foreign and local capital in country, equal distribution of production factors across sectors and for the overall level of prices that would be acceptable for everybody.

- The policies, which will be applied, should be complex and therefore, investments that low in country should be kept here and used inside the country.
- The uncertainty of Caspian's status has negative influences on foreign investors. The neighbor countries have to come to a positive decision in the nearest future in order to attract foreign capital to the region.
- Government have to reduce state impact on privatization as soon as possible. Diminishing state role in economy and privatization of state property should be estimated as a tool of creation of new economic relations.

The fastening of establishment of property relations, based on free market principles makes necessary measures for fighting the "Hidden economy" and the "criminal economy" and tax avoidance and illegal capital flow cases.

For achievement of civilian character of property relations, firstly exploitation mechanism and transparency of financial and monetary policies must be obtained, bureaucratic barriers must be eliminated.

- The directing role of government in the development of economy should be increased. The share of social investments in state budget should be promoted.
- The integration of country's economy in global economy should get deeper, faster and wider. Nowadays the global economic integration is getting more and bigger in scale, which increase the importance of foreign trade. Economic operations require implementation of modern rules of world market, strengthen of cooperation with International financial and economic organizations.

The competition among the countries to have the place of its own is getting more and more keen shape. Any delay in this process may have a negative impact for each of countries. Therefore, Azerbaijan should determine its potential to integrate to global economy and must get maximum use of it. The geopolitical, geographical location of the country, rich natural resources, great science-technological and personnel potential and high working abilities of nation should be taken into

consideration and these capabilities must be mobilized for effective and useful integration into the global economy.

Even the biggest countries wouldn't be able to develop their economies aside from the global integration process. The global integration can be strengthened by regional integration, which enables to build more tight relations with neighbors and open to new markets, third countries and superiority in these relations. At the same time, global integration can have negative impacts such as total dependence of economy on export. So these details should also be taken into consideration.

- Government should support local production. The dynamic improvement of leading industrial fields, and main sectors, which exploit the local raw materials and produce the goods with strong competitive standards must be provided by implementation of high technologies. The experience of the newly industrialized countries of Asia shows that strict measures should be taken in the direction of defense of internal market and protection of local production in its time in order to development and strengthen of domestic production. The same measures were taken by developed countries also. In Azerbaijan there is a requirement to develop competitive capability of local production and provide acceptable conditions for them.
- Oil-chemical industry is on the top of essential sectors, which can prevent Azerbaijan from the "Dutch Disease".
- The other important sector is Metallurgical Industry, which has rich raw material resources and production with high liquidity in global market.
- When prioritizing the production fields with high demand potential in global market, it needs to give priority to those, which profitable in perspectives of natural resources, which exist in country.
- While waiting for final decision regarding the status of Caspian Sea, that will create regulations on exploitation of oil and natural gas resources and also fish and caviar production, Azerbaijan should take the complex measures about water pollution and fish poaching.
- The strict attention should be drawn to regional development programs. For successful and balanced development of all regions enterprises must exploit local natural resources.
- GDP growth should exceed 10% in a year. In this case the ongoing economic development and efficient work of government and political mechanisms are possible.

Along with the increase of the level of income, the justice divide of income and strengthening of middle class is needed.

One of the sectors, which also requires the improvement is social defense system. It should be established in line with modern standards and the improvement of the welfare of the people must be achieved. In this perspective, the priority should be given to social aspects of economic development and state budget, in Azerbaijan we are observing the continuing decrease of middle class. For preventing this decrease to reach dangerous limit, economic decisions should be made with the mandatory of social interests.

Due to active oil and natural gas production, utilization of metallurgic, energetic, chemical and water resources and occupation of 20% of territory by Armenia, Azerbaijan have become to one of the most ecologically dangerous regions in the world. Government should focus on the re-establishment of social- economic system, where ecological safety will be provided.

In order to protect the purchasing power of national currency (manat) the real income of the population and poverty must be increased.

The economic policies, implemented by the government need to be adapted in line with requirements of the time. For the normal functioning of real economy we have to try to adapt the transparency of monetary policy and harmonization with the economic conditions.

For 2016 Azerbaijan has got more than 40 billion US dollars currency reserves in Oil Fund and Central Bank. However, it doesn't hinder the active cooperation Azerbaijan with international financial organizations. The increasing of financial abilities of Azerbaijan requires new projects, especially for management of oil incomes. A part of this income Azerbaijan invests in realization of different projects abroad. In case of any misunderstanding, The World Bank's International Centre for Settlement of Investment or MIGA help to regulate this process.

According to the International Financial Organizations, Azerbaijan has achieved very positive results in some areas. In 2005 the indicator of per capita annual income was 1.270 US dollars, in 2015 it has raised to 7.850 USD (calculated with the Atlas method). In a result of investment of oil income in Oil Fund (by government), Azerbaijan was the first country which complied the Extractive Industries Transparency Initiative in 2009. Besides, significant progress in building of business has been achieved. Thus, in 2007, the period of registration of business was 51 day, but in 2015, this indicator fell to 8 days (Report on Business Building).

As a result of taking essential steps in field of renewable resources and understanding the importance of exploitation of foreign investments in non-oil sectors, Azerbaijan stated to improve the investment environment and now quite big investments are being made in non-oil sectors.

Taking into consideration the tree Programs on Social-economic development of Regions (2004-2018) and opening of Baku-Tbilisi-Ceyhan oil pipeline in 2005 and Baku-Tbilisi-Erzurum natural gas pipeline in 2006, we can say that Turk businessmen should maximum use the chance of taking part in investments and entrepreneurs activities in Azerbaijan. At the same time, investment of big amount of oil income of Azerbaijan in Turkey makes relations between two countries stronger. New age of these relations should consider also common exploitation of alternative energy resources. In this perspective Turkey needs Azerbaijan's energy resources, while Azerbaijan needs rich market economy experience and technology of Turkey.

LIST OF REFERENCES

1. A. V. Veliyev, "Azərbaycanın İstehlak Bazasının Formalaşmasında MDB Ölkələri ilə İqtisadi Əlaqələrin Rolu", *Azərbaycanda İqtisadi İslahatların Həyata Keçirilməsi Xüsusiyyətləri və Problemlər*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı, 2001, p. 185-186.
2. A. A. Səlmanov, "Azərbaycan Nəqliyyat Tranzit Potensialı-İqtisadi Əlaqələri Stimullaşdıran Amil Kimi", *Azərbaycan İqtisadi İslahatlarının Həyata Keçirilməsi Xüsusiyyətləri və Problemləri*, Azərbaycan Respublikası İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı, 2001, p. 54.
3. A. Nadirov – Pəgə Muradov – v.d., *Azərbaycan İqtisadiyyatı*, Science Publishing, Bakı, 2003.
4. Ahmet Ünal Çeviköz, "Türkiye Azərbaycan Ekonomik İlişkileri - İşbirliğinde Yeni Ufuklar", *Diyalog Azərbaycan Dünyası Dergisi*, TÜSIAB Society, Bakü, Mart-2003, p. 6-7.
5. Ağajan Ahmedov, "Regions Develop Dynamically", (Interview), *Media News*, March 31 – April 08, 2005, p. 4.
6. Akif Musayev, "Azərbaycan Respublikasının İqtisadi İnkişaf Strategiyası və Vergi Siyasəti", *İqtisadiyyat və Audit Magazine*, No: 10, Oktyabr-2001, p. 12.
7. Alkan Soyak–Zənfira Nesirova, "Küreselleşmə Sürecində IMF Politikalarının Sonuçları: Azərbaycan Deneyimi", *Articles of The International Conference On A Theme Caucasus and Central Asia in The Globalization Process*, Bakı, 2003, p. 14-20.
8. Aftan Turker, "Tükenmiş Bir Çevresel Miras Orta Asyada Sınır Ötesi Çevre Sorunları ve Doğal Kaynakların Tahribi", *Avrasya Etüdləri*, C.1, PAGE1, İlbahar 1995, p. 42.
9. Ariel Cohen, "Caspian Basin Confronts Boom and Bust Energy Cycle", <http://www.sibnet.tm/article.php?sid=7334&mode=thread&order=0&thold=0> (04.04.2005).
10. Asaf Nadirov, "İqtisadiyyatın Yeni İnkişaf Mərhələsi", *Azərbaycan*, 15 Sentyabr 2001, p. 2.
11. Atilla Artam, *Türk Cumhuriyetlerinin Sosyo Ekonomik Analizleri ve Türkiye İlişkileri*, Sabri Artam Vakfı Yayınları, İstanbul, 1993.
12. *Avrasya Dosyası*, TİKA bulletins, Different issues.
13. Ayhan Erdal, "Dünya Ticaret Örgütü ve Azərbaycanın Üyelik Süreci", Materials from International Conferences after Independency of Azerbaijan, Bakı, 3-4 March 2003, p. 110-112.
14. Ayhan Karaca, "Azərbaycanda Ekonomik Dönüşüm Süreci ve Reformların 10 Yılı", <http://www.foreigntrade.gov.tr/ead/DTDERGI/ocakozel2002/ayhan.htm>. (13.03.2003)
15. Azad M. Cavadov, "Banking System and Real Business", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Bakı, 2004, p. 368-369.
16. Azer Amiraslanov, "Dövlət Müstəqilliyi və Milli İqtisadiyyatın Formalaşması Problemləri", *Advisory Bulletin*, No:7(43), October 2001, p. 50-57.

17. Azer Mehdiyev, "Azərbaycanın Dünya İqtisadiyyatına İnteqrasiyasının Reallıqları", *Ekspert Economic Magazine*, No.7-8, 2001, p. 26.
18. *Azerbaijan International Magazine*, Different issues.
19. Azerbaijan, *IMF Economic Review*, Washington DC, May-2015.
20. *Azərbaycan Cumhuriyyəti*, <http://www.yesevi.org/tdbm/azerbaycan.html>. 13.03.2003.
21. *Azərbaycan Rəqəmlərində*, ARDSK Publications, Baku, 2014.
22. *Azərbaycan Respublikası Bank Sistemi Haqqında Məlumat Məcmusu*, Azerbaijan Association of Banks, Baku, 2015.
23. Azerbaijan Republic State Statistics Committee , 2015, www.azstat.org. (8.4.2015).
24. *Azərbaycan Respublikasının Konstitusiyası*, Azərbaycan Nəşriyyatı, Baku, 1996.
25. *Azərbaycan Ülke Raporu*, DPT Müsteşarlığı Dış Ekonomik İlişkiler Genel Müdürlüğü, Ankara, Mayıs-2002.
26. *Azərbaycanın İqtisadi İcmalı*, Rübük Bülleten, TESIS European Expertize Service, Baku, April-June 2000.
27. *Azərbaycanın İqtisadi İcmalı*, Rübük Bülleten, TESIS European Expertize Service, Baku, June-December 1999.
28. Azim Abbasov, Azərbaycanca Maliyyə Bazasının Formalaşması və bazar İqtisadiyyatında Maliyyə-Kredit Sisteminin Problemləri, polygraph Press, Baku, 2003.
29. *BP Statistical Review of World Energy 2004*, <http://www.bp.com/centres/energy> (07.04.2015).
30. Bahri Ozdemir, "Azərbaycan Ekonomisi və Azərbaycan-Türkiye Ticari İlişki-ləri", *Diyalog Azərbaycan İş Dünyası Dergisi*, TÜSIAB Society, Macrh-2003, p. 24-25.
31. *Brief Overview of Business Practices, New Investment Opportunities and Legal Environment*, Azerbaijan Investment Promotion and Advisory Foundation, Baku, 2005.
32. Budaq Budaqov-Yaqub Qarbli, *Azərbaycan Respublikasının Fiziki Coğrafiyası*, Öyretmen Press, Baku, 1996.
33. C. B. Rosenberg-T. O. Saavalainen, "Dealing with Azerbaijan's Oil Boom", *Finance and Development*, Vol.35, No.3, September-1998, p. 35-38.
34. C. Sharifov, "Azərbaycanda Valyuta Bazasının Müasir Vəziyyəti və Onun İnkişaf Perspektivləri", *Azərbaycan XXI Əsrin Astanasında*, Azərbaycan Elmlər Akademiyası Publication, Baku, 1998, p. 551-552.
35. Charles PAGE Fairbanks, "Moskova Darbesindən Sonra", (Çev: Levent Köker), *Demokrasinin Küresel Yükselişi*, (Der: Lary Diamond – Marc F. Plattner), Yetkin Yayınları, Ankara, 1995, p. 333-341.
36. Cihan Bulut, "Non-Oil Sectors in Azerbaijan", *Journal of Caucasian Studies*, Number:1, Fall-2004, p. 20-25.
37. Cihan Bulut, Bilgi Toplumunda Yeni Ekonomi Anlayışı ve Bu Çerçevde Azərbaycan Değer-lendirmesi, *Diyalog Azərbaycan İş Dünyası Dergisi*, TÜSIAB Cemiyeti, Sayı:15, Baku, Şubat-2004, p. 38-39.
38. Cihan Bulut, "Azerbaijan Valuation in The Light of Model of Indian Information Technologies", *Articles of The International Conference On A Theme Caucasus and Central Asia in The Globalization Process*, Baku, 2003, p. 58-63.
39. Chingiz Abbasov, *Azərbaycanın Dünya İqtisadiyyatına İnteqrasiya Yolları*, Science press, Baku, 2005.

40. D. A. Mamedov, O. A. Aliyev, "Kontrakt Veka i Ago Vliyaniye Na Ekonomicheskoye Razvitiye Azerbaicanskoy Respublika" (Əsrin Müqaviləsi və Azərbaycanın İqtisadi İnkişafına Təsiri), *Azərbaycan XXI Əsrin Astanasında*, (Ziyad Samadzada), Azərbaycan Elmlər Akademiyası Nəşri, Bakı, 1998, p. 87.
41. Daniel Yergin–Thane Gustafson, *Fusya 2011 və Dünyadakı Yeri*, (Çev: Özden Ankan), Sabah Yayınları, İstanbul, 1994.
42. Dilara Elma, "Azərbaycan Bank Sektöründə Elektronik Ödəmə Uygulamaları", *Journal of Caucasian Studies*, Number:1, Fall-2004, p. 29-33.
43. *Diyalog Azərbaycan İş Dünyası Dergisi*, TÜSIAB Society, Sayı:10, Bakı, Ekim-2001.
44. *Diyalog Azərbaycan İş Dünyası Dergisi*, TÜSIAB Society, Bakı, March-2003.
45. *Doing Business in Azerbaijan*, Baker&McKenzie, May-2000.
46. "Dövlət Statistika Komitəsi Məlumatları", *Azərbaycan Zaman Newspaper*, 13-14 February 2003, p. 6.
47. E. Ahmadov - M. Hacıyev, *Azərbaycan İqtisadiyyatı*, Səda Press, Bakı, 2004.
48. E. O. Hüseynov, "Reformatika və Onun Hiper dövrə Uyğunlaşdırmağın Zəruriliyi", *Azərbaycanda İqtisadi İslahatların Həyata Keçirilməsi Xüsusiyyətləri və Problemlər*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı, 2001, p. 92-99.
49. E.Samadzada, "Ekoloji Təhlükəsizlik – Menecement və Audit Obyekti Kimi", *Azərbaycan İqtisadi İslahatlarının Həyata Keçirilməsi Xüsusiyyətləri və Problemləri*, Azərbaycan Respublikası İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı, 2001, p. 164-165.
50. E. İmanov - E. M. Babashov - R. H. Dayıyev, "İqtisadi İslahatlar Şəraitində Əhalinin Sosial Müdafiəsinin Təşkili Məsələləri", *Azərbaycanda İqtisadi İslahatların Həyata Keçirilməsi Xüsusiyyətləri və Problemlər*, İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı-2001, p. 102.
51. E. V. Aliyev, "Azərbaycanın Vergi Siyasəti və Onun GUÖAM Təşkilatı Çərçivəsindəki İqtisadi Əməkdaşlığa Təsiri", *İqtisadiyyat və Həyat Magazine*, No: 3-4, March-April-2004, p. 87-91.
52. Abulfəz Xarayev, "Azərbaycan Bu Gün Beynəlxalq Olimpiada Oyunlarına Müvəffəqiyyətli İmza Atan Dövlətlər Sırasındadır", *Diyalog Azərbaycan İş Dünyası Jurnalı*, TÜSIAB Society, Bakı, March-2003, p. 16.
53. Akbar Eldaroglu, "Azərbaycan Hökuməti Yoxsulluq Problemini Həll Etməyə Çalışır", *Azərbaycan Milli Demokratiya Fondu "Azərbaycan" Bulletin*, No:32 (152), 09 August 2001.
54. Akbar Eldaroglu, "Dünya Ticarət Təşkilatı və Azərbaycan", *Azərbaycan Milli Demokratiya Fondu "Azərbaycan" Bulletin*, No:22 (142), 31 May 2001.
55. Akbar Eldaroglu, "Neft Fondunun Vəsaitləri Hansı İstiqamətə İstiqamətləndirilməlidir?", *Azərbaycan Milli Demokratiya Fondu "Azərbaycan" Bulletin*, No:25 (145), 21 June 2001.
56. Akbar Eldaroglu, "Qeyri-Neft Sektorunun İnkişafında Azad İqtisadi Zonalar Mühüm Rol Oynaya Bilərdi", *Azərbaycan Milli Demokratiya Fondu "Azərbaycan" Bulletin*, No: 30 (150), 26 July 2001.
57. Elchin Suleymanov, "Azərbaycan və Avropa Yenidən Qurma və İnkişaf Bankı Münasibətləri", *Materials from International Conferences after Independency of Azerbaijan*, Bakı, 3-4 March 2003, p. 101-102.

58. Elchin Suleymanov, "Müstəqillik Sonrası Azərbaycan və Dünya Bankı Münasibətləri", Materials from International Conferences after Independency of Azerbaijan, Baku, 3-4 March 2003, p. 102-103.
59. Eldar Shahbazov, "XXI Əsrin Əvvəllərində Azərbaycan Respublikasının Neft və Qaz Sənayesi", *Dirçəliş - XXI Əsr Magazine*, No 5 (63), May-2003, p. 104-109.
60. Elman Nasirov, "Azərbaycan Neftinin Dünəni Bugünü və Sabahı", *Azərbaycan Neftinin Dünəni Bugünü və Sabahı*, (Ed. M Mərdanov v.d.), Baku, 1997, p. 141.
61. Elman Rustamov, "Development Strategies in the Banking Sector of Azerbaijan", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 270-288.
62. Elmar Daigov, "Banking Development in Azerbaijan", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 226-237.
63. Elnur Mustafayev, "Banking Development in Azerbaijan Republic", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 270-288.
64. Elovsat Qocayev, "Azərbaycan İqtisadiyyatında Sığortanın Rolü", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:15, TUSIAB Cəmiyyəti, Baka, February-2004, p. 40-41.
65. Elshan Memmedov, "Asrın Müqaviləsi Azərbaycan Neft Sənayisinin İnkişafında Mühüm Merheledir", *Azərbaycan Neftinin Dünəni Bugünü və Sabahı*, (Ed. M Merdanov v.d.), Baku, 1997, p. 48-50.
66. Ercan Sancak, *Azərbaycan İqtisadiyyatı*, Qafqaz Universiteti Yayınları, Baku, 1999.
67. Ersan Bocutoğlu, *Orta Asya və Kafkasyadakı Durum və Avropa Güvenliyi*, Karadeniz Teknik Üniversitesi Matbaası, Trabzon, 1998.
68. *Ətraf Mühitin Mühafəzəsi Üzrə Milli Fəaliyyət Planı*, The State Committee on Control of Ecology and Natural Resources Baku, 1998.
69. Eyup Zengin-Nesimi Kamalov, Azərbaycan Ekonomisinin Gelişimi İçerisinde KOBİler, Hasan Selçuk (Ed.), *Yeni Yüzyılda Azərbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 99-120.
70. F. K. Hashimov, "Milli İqtisadiyyatın Krediləşməsində Əhalinin Maliyyə Potensialının Rolü", *İqtisadiyyat və Həyat Magazine*, No:7-8, July-August-2004, p. 89-91.
71. F. S. Aliyev, *Azərbaycan Respublikasının Yeraltı Suları və Ehtiyatlarından İstifadə və Geokoloji Problemləri*, Çapaşoğlu Press, Baku, 2000.
72. F.V. Quliyev, "Ərzaq Bazarının Qorunmasında Maliyyə-Kredit Mexanizminin Rolü", *İqtisadiyyat və Həyat Magazine*, No:7-8, July-August-2004, p. 92-95.
73. F. Y. Bayramov-S. E. Nəcəfov, "Dövlət Bütçəsinin Kəsiri və İnflasiya", *Azərbaycanda İqtisadi İslahatların Həyata Keçirilməsi Xüsusiyyətləri və Problemlər*, Center for Economic Reforms Ministry of Economic Development, Baku, 2001, p. 148.
74. Fəruk Arslan, "Azərbaycan Ekonomisində Geçiş Dönemi", *Hazar Bilim Sanat və Kültür Dergisi*, PAGE1, Bahar-2000, p. 17.
75. Fazil Memmedov, "Azərbaycanda Vergi Oranları", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:10, Ekim-2001, p. 12.
76. Fazıl Mammadov, "Vergi Sistemində İslahatlar Əlverişli Vergi Mühitinin Yaradılmasına Yönelib", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:16, August-2004, p. 10-11.

77. Ferhan Erkmenoğlu, "Ekonomik İşbirliği Teşkilatı (EIT) Devlet veya Hükümet Başkanları Yedinci Doruk Toplantısı (İstanbul; Ekim 2002)"
78. <http://www.mfa.gov.tr/turkce/grupe/ues-8/ECO.htm>, (09.04.2003).
79. Fikret Aliyev, "Kontrakt Veka: 5 Let Spustya". *Consulting & Business*, PAGE9, 1999, p. 40-41.
80. Fikret Sucayev, "Azərbaycanda Qaz Hasilatı və Ona Olan Tələbatın Ödənilməsinin Başlıca İstiqamətləri", *Materials from International Conferences after Independency of Azerbaijan*, Baku, 3-4 March 2003, p. 36-37.
81. Fuad Aliyev, *The International Monetary Fund and Reforms in Azerbaijan*, Budapest, Hungary, February-2002.
82. Fuad Hüseynov, "Azərbaycanın Jeopolitik Konumu, Enerji Kaynakları və Dış Ekonomik İlişkiler Sistemi"
83. <http://www.foreigntrade.gov.tr/ead/DTDERGI/OCAK2001/azerbaycan.htm>, (9.2.2015).
84. Gahir Mikailov-Eyüp Zengin, Azərbaycanca Azgelişmişlik Sorunu, Hasan Selçuk (Ed.), *Yeni Yüzyılda Azərbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 71-98.
85. <http://www.geocities.com/ganigonullu/kafkasyaortaasya.html>, 7.4.2015.
86. Qubad İbadoghlu, "Azərbaycanın İnkişaf Strategiyasında Neftin Rolü: Ortodoks Bakış Açısıyla", *2023 Dergisi*, PAGE18, 15 Ekim-2002, p. 72-75.
87. Gulgaz Aliyeva, "Azərbaycan Respublikasının Avropa İttifaqı İla Münasibətləri", *Advisory Bulletin*, No:11(47), February-2002, p. 20.
88. Güner Gücük, "Azərbaycanın Ekonomik Gelişimi ve Girişimcilik", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:16, Ağustos-2004, p. 44.
89. H. Mammadov - R. Axundov, "Qədim İpək Yolunun Nəqliyyat Marşutları", *İpək Yolu II. Respublika Elmi-Praktiki Konfransının Materialları*, Baku, 2001, p. 11-14.
90. Hasan Selçuk, "Azərbaycan Bankacılığı", Hasan Selçuk (Ed.), *Yeni Yüzyılda Azərbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 43-70.
91. Haydar Aliyev, *Dünya Siyasətində Azərbaycan Petrolü*, (Der. İlham Aliyev - Akif Muradverdiyev, Çev. Abdullah Çiftçi - Ergun Kocabıyık), Sabah Kitapları No.77, İstanbul, 1988, p. 101-102.
92. Heydər Əliyev, "Azərbaycan Respublikasının Dövlət Müstəqilliyinin Onuncu İldönümü Haqqında", *Azərbaycan Respublikası Prezidentinin 20 March 2001 Tarixli Fərmanı*, Baku, 20 March 2001.
93. Hüseyn Mamedov, "Banking Legislation and Improvement Aspects", *Conference Report, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004*, Baku, 2004, p. 292-295.
94. İbrahim Kuluöztürk, "Türkiye-Azərbaycan Sosyal Güvenlik Sözlüşmesi", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:16, Ağustos-2004, p. 24-26.
95. *Investors Handbook*, International Conference Investing in Azerbaijan-Gateway to the Newly Independent States, Baku, May 7-9 2003.
96. *Investment Guide to Azerbaijan 1998*, USACC, Washington, 1998, p. 70.
97. İlhan Uludağ - Salih Mehmedov, *Sovyetler Birliğı Sonrası Bağımsız Türk Cumhuriyetleri ve Türk Gruplarının Sosyo-Ekonomik Analizi Türkiye İlişkileri*, TOBB Yayınları, İstanbul, 1992.

98. İlkin Sabiroğlu, "Neft Böhranları və Holland Sındromu", *Azərbaycan Milli Demokratiya Fondu Azərbaycan Bülleten*, No: 19 (139), 10 May 2001.
99. İmran Cəfərzadə, "Əsaslı İnkişaf İlləri", *İqtisadiyyat*, 18 October-1 November 2001, p. 3.
100. İnqilab Ahmədov, "İqtisadi İslahatlarda Pul-Kredit Siyasətinin Rolu", *Advisory Bulletin*, No:7(43), October 2001, p. 43-48.
101. İrfan Kalaycı, "Karadeniz Ekonomik İşbirliyi: Dünya Ekonomisi Açısından Geleceği", *Articles of The International Conference On A Theme Caucasus and Central Asia in The Globalization Process*, Baku, 2003, p. 52-57.
102. İrşad Aliyev, "Aqrar Sahəyə Investisiya İmkanları", *Diyalog Azərbaycan İş Dünyası Dergisi*, Say: 16, Ağustos-2004, p. 12-13.
103. İsmail Özsoy, *Dağıstanın Sosyo-Ekonomik Tarihi*, Kaynak Yayınları, İzmir, 1997.
104. İsmet Ergün, "Kollektivist Bir Sistemde Piyasa Ekonomisine Geçiş Sorunları", *Türkiye Modeli ve Türk Kökenli Cumhuriyetlerde Eski Sovyet Halkları*, Yeni Forum Yayınları, Ankara, 1992, p. 109-113.
105. İ. T.Akbarov, "The Role and Economic Importance of Caspian Sea Region", *Materials of The International Conference on a Theme Caucasus and Central Asia During Globalization*, Baku, 2003, p. 66-67
106. Javid Ahmadi, "Development Perspectives of Azerbaijan Agriculture", *Ekspert İqtisad Magazine*, No.7-8, 2001, p. 8-9.
107. Karim Məmmədov, "The main factors of production in the firms: Manager and Management." (in Azerbaijani - Menecer ve Menecment - şirkətlərdə əsas istehsal faktorları), Research Paper for www.gundelik.cjb.net, First Virtual Azeri Academic Newspaper, 2001.
108. Karim Məmmədov "Conflict, not corruption, is the greatest inhibitor of economic growth in the Caucasus". Paper presented at the "First Annual Caucasus Debate Forum", CEP (Civic Education Project), 15-18 March, 2001, Tbilisi, Georgia.
109. Karim Məmmədov "Traditionalism or Modernism." (in Russian – Традиционализм или же Модернизм), Paper presented at the "IDEA (International Debate Education Associations Parliamentary Trainings)", April-May, 2001, in Baku, Azerbaijan.
110. Karim Məmmədov and Yavuz Kahraman: Strategic Management and Application (Azersun Holding) (in Turkish – Stratejik Yönetim ve Uygulama (Azersun holding)), Baku, 2003, Adiloglu publications, 132 p.
111. Karim Məmmədov "International Experience: Public sectors market orientation. US Public sector case." (in Azerbaijani – Beynəlxalq təcrübə: Dövlət sektorunun müasir bazaar istiqamətlənməsi), Azerbaijani Quality Associations technique-economical journal - Quality & Management, Issue 1, CBS publication, June 2007.
112. Karim Məmmədov "Behavioral Effects - National Culture and Knowledge Management in SME's", 4th Global Islamic Marketing Conference, May, 2013, Istanbul, Turkey
113. Karim Məmmədov "Behavior and Innovation on sample of local company reorganization", Economic Forum, April, 2014, Baku, Azerbaijan
114. Karin Dalva, "Global payment Cards in Azerbaijan", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 212-225.
115. Ken Jowitt, "Yeni Dünya Düzensizliyi", (Çev: Levent Köker), *Demokrasinin Küresel Yükselişi*, (Der: Larry Diamond – Marc F. Plattner), Yetkin Yayınları, Ankara, 1995, p. 303-313.

116. Kenan Çelik – Cemalettin Kalaycı, "Azəri Petrolünün Dünü və Bugünü", *Journal of Qafqaz University*, V.2, No.2, 1999, p. 63.
117. M. F. Gadcizade, "Nekatoriye Vaprosı Organı Akrujayuşey Sredı na Ploşadyah Ekspulutatsiyı Neftgazovıh Mestaraıdeniy Mejdunarodhıh Kampaniy", *Azerbaycan 21. Əsrin Astanasında*, Azərbaycan Elmler Akademiyası Neşriyyatı, Bakı, 1998, p. 235.
118. M. V. Aliyev, "Qaradeniz Regionunun İqtisadi İntegrasiya Prosesi və Bu Prosesdə Azərbaycan Amili", *İqtisadiyyat və Həyat Magazine*, No.3-4, March-April-2004, p. 99-102.
119. Marc F Plattner, "Demokrasi Anı", (Çev: Ergun Özbudun), *Demokrasinin Küresel Yükselişi*, (Der: Larry Diamond – Marc F. Plattner), Yetkin Yayınları, Ankara, 1995, p. 53-65.
120. Marchin Czurda, "Raising Finance for Azerbaijani Borrowers from the International Markets", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Bakı, 2004, p. 298-313.
121. Mahammadhasan Valili, *Azərbaycan*, Azerbaijan State Press, Bakı, 1993.
122. <http://www.turkiye.net/mbinay/news/analiz1.htm>, 7.4.2003.
123. Mehmet Dikkaya, "Türk Cumhuriyetleri Enerji Kaynakları: Yeni Büyük Oyunun Temel Dinamikleri", *Akademik Araştırmalar Dergisi*, Y.1, PAGE3, Kasım-Aralık 1999 Ocak 2000, p. 33-64.
124. Mazaddin Ayyubov, "Bazar İqtisadiyyatına Keçid və Sənaye Kompleksi" *Advisory Bulletin*, No:7(43), October 2001, p. 66-67.
125. Michael Gerlic, "Role of Banks in the Development of Leasing in Azerbaijan", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Bakı, 2004, p. 338-347.
126. Mikhail Gorbachev, *Perestroika: New Thinking for Our Country and the World*, New York, 1987.
127. Misir Mardanov, "Heydər Əliyev və Azərbaycan Təhsili", *Azərbaycan Mədəniyyət və Sənaye Qəzetləri*, 7-13 March 2003, p. 2-3.
128. Murad Iskender, "Azərbaycanda Ekonomik Sistemin Dönüşümü", Hasan Selçuk (Ed.), *Yeni Yüzyılda Azərbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 15-42.
129. Murad Iskender-Halkan Kitapçı, *Değişim, Dönüşüm ve Dünya Ekonomisine Entegrasyon Süre-cinde Azerbaycan Ekonomisi*, Türk Dünyası İşletme Fakültesi Yayınları, No:001, Bakı, 2003.
130. Mustafa Özel, *Değişim ve Kriz*, İz Yayıncılık, İstanbul, 1994. p. 120.
131. Mübariz Bağirov, *Banklar və Bank Əməliyyatları*, Nurlan Press, Bakı, 2003.
132. *Müstəqil Azərbaycan*, State Statistics Committee of Azerbaijan Republic, Bakı, 2001.
133. N. Aliyev, E. Shahbazov, *Heydər Əliyev və Azərbaycan Neft Sənayesinin İnkişafı*, Azərbaycan International Publishing, Bakı, 1998.
134. N. E. Cavadov, "Azərbaycanın Aqrar İqtisadiyyatı Müstəqillik Dövründə", *Materials from International Conferences after Independency of Azerbaijan*, Bakı, 3-4 March 2003, p. 58-60.
135. N. E. Farruxov, "Əsrin Mükəmməli - XX Əsrin ən Əhəmiyyətli Hadisəsi", *Azərbaycan 21. Əsrin Astanasında*, (Redaktor. Ziyad Səmədzadə), Azərbaycan Elmler Akademiyası Press, Bakı, 1998, PAGE196.
136. N. İbrahimov - İ. Şükürov, *Geydar Aliyev Otkrıvaet Miru Azerbaydjan*, Bakı, 1994, p. 32.

137. N. O. Hacıyev, "Sahibkarlıq Sektorunun İnkişafının Sürətləndirilməsi ilə Bağlı Problemlər", *Azərbaycanda İqtisadi İslahatların Heyata Keçirilməsi Xüsusiyyətləri və Problemlər*, Center for Economic Reforms Ministry of Economic Development, Baku, 2001, p. 117.
138. Nail Fətəliyev-Aygül Şamçiyeva, "Qara Dəniz İqtisadi Əməkdaşlığı", *Advisory Bulletin*, No:12 (48), March-2002, p. 19-38.
139. Nail Fətəliyev - Aygül Şamçiyeva -Ruqiyyət Məmmədova, "Dünya Bankı və Onun Azərbaycandakı Fəaliyyəti", *Advisory Bulletin*, No:3(39), p. 20-34.
140. Nail Fətəliyev -Rəfiq Əhmədov, "Beynəlxalq Maliyyə-Kredit Təşkilatları və Onların Azərbaycan Respublikası ilə Əlaqələri Haqqında", *Advisory Bulletin*, No:10(46), January-2002, p. 24-43.
141. *Narodnoye Hozyaistvo Azerbaicanskoi SSR V 1983 Godı* Stat. Ejeqodnik, Baku, 1983.
142. Nasser Sagheb-Masoud Cavadi, "Azerbaijans 'Contract of the Century' Finally Signed With Western Oil Consortium", *Azerbaijan International Magazine*, Winter 1994, p. 27.
143. Nətik Əliyev, "Petrol Azərbaycanın Milli Serveti (Eyvaz Gəsanovun Rəportajı)", *Diyalog Avrasya Dergisi*, Şubat-2001, p. 82.
144. Nətiq Əliyev, The Azerbaijan Oil and Gas Industry in the 1949-1999 Period, <http://www.caspenergy.com/no3rus21.html>. 04.04.2005.
145. Nətiq Ələsgərov, "Tarixi İpək Yolu və Azərbaycan Neft Sənayesi Müasir Mərhələdə", *Böyük İpək Yolu və Azərbaycan Nefti*, Mars-Print, Baku, 1999, p. 32-33.
146. Nəzim İmanov, "İlk On İlin Yekunları: İqtisadiyyat", *Advisory Bulletin*, No:7 (43), October 2001, p. 32.
147. Nəbi Nəbiyev, *İqtisadiyyat Cəmiyyət və Ekoloji Mühiti*, Ağdağ Press, Baku, 2000.
148. Nəsimi Kamalov, "1990-2000 Yılları Arasında Azərbaycanda Enflasyon", *Journal of Qafqaz University*, Number 6, Fall-2000, p. 65-74.
149. Nəsimi Kamalov, Arz Yönlü İktisat Teorisi və Azərbaycanda Uygulanabilirliyi, Hasan Səlcuk (Ed.), *Yeni Yüzyılda Azərbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 143-158.
150. Niko Həbdari, "Impact of Banking Sector and Structural Reforms in Financial Intermediation", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 60-63.
151. Nizami Suleymanov, *Azərbaycanın İqtisadi Tarixi*, Baku, 2001.
152. Nuray Altuğ, *İstikrar Politikaları və Ülke Örnəkləri*, Türkmen Kitabevi, İstanbul, 2001.
153. Osman Nuri Aras, "Azərbaycan İqtisadiyyatında SerMaye Strategiyasının Nezeri İnfrastrukturunu", *Azərbaycan İqtisadiyyatında Strateji Problemləri Konfrans Materialları*, Baku, 14-15 March 2002, p. 209-212.
154. Osman Nuri Aras, "Geçiş Sürecinde Azərbaycanda Yaşanan "Hollanda Sendro-mu" və Çözüm Önerileri", *Nesreddin Tusinin 800 İllik Yubileyine Həsrd Edilmiş Respublika Elmi Konferansda Sunulan Tebliğler*, Baku, 2-3 Nisan 2001, p. 130-133.
155. Osman Nuri Aras, "Azərbaycan İqtisadiyyatında Ehtimal Olunan Problem: Pul Evezi", *Azərbaycan İqtisadiyyatında Strateji Problemləri adlı Konfrans Materialları*, Baku, 14-15 March 2002, p. 315-318.
156. Osman Nuri Aras, *Azərbaycanın Hazar Ekonomisi və Stratejisi*, Der Yayınları, İstanbul, 2001.
157. Osman Nuri Aras, *Para Talebi Para İkaməsi və Finansal Gelişme*, Qafqaz Üniversitesi Yayınları, Bakü, 2000.

158. Osman Nuri Aras, *Rusyada Tikanan Sosyo-Ekonomik Değişim Dalgası*, Qafqaz Üniversitesi Yayınları, Bakı 2000.
159. Osman Nuri Aras, "Türkiye-Azerbaycan İlişkileri", Hasan Selçuk (Ed.), *Yeni Yüzyılda Azerbaycanın Sosyo-Ekonomik Yapısı*, Tasam Yayınları, İstanbul, 2004, p. 173-203.
160. Osman Nuri Aras, Elçin Süleymanov "Azerbaycan İqtisadiyyatı` Şerq Qerb` nəşriyyatı, Bakı 2010, p 316
161. *Poverty Reduction Strategy Paper (Interim Report)*, Bakı, May-2001
162. P. Mammadov, "Xəzərin Ekoloji Problemlərinin Həllində Ölkələrarası Əməkdaşlığın Əhəmiyyəti", *Azerbaycan XXI. Əsrin Astanasında*, (Ed. Ziyad Səmədzadə), C.II, Azerbaycan Elmlər Akademiyası Press, Bakı, 1998., Bakı, 1998, p. 208.
163. R. Abbasov, "Azerbaycan Turizm Üçün Əhəmiyyətli Bölgədir", *Hərbi And Newspaper*, 1-15 April, 2003, p. 2.
164. R. T. Həsənov, "Azerbaycan İqtisadiyyatının İnkişaf Strategiyasının Perspektivləri", *Azerbaycan İqtisadi İslahatlarının Həyata Keçirilməsi Xüsusiyyətləri və Problemləri*, Azerbaycan Respublikası İqtisadi İnkişaf Nazirliyi İqtisadi İslahatlar Mərkəzi, Bakı, 2001, p. 10-11.
165. R. X. SHaulov, "Mütəqillik Şəraitində Regional İnkişafın Strategiyası", *Azerbaycan İqtisadi İslahatlarının Həyata Keçirilməsi Xüsusiyyətləri və Problemləri*, Center of Economic Reforms of The Ministry of Economic Development , Bakı, 2001, p. 84-86.
166. Rasim Hasanov, "Azerbaycanın İqtisadi İnkişaf Paradigması və İqtisadi Təhlükəsizlik Konsepsiyasının Seçimi", *Advisory Bulletin*, No:7(43), Bakı, October-2001, p. 6-8.
167. Rasim Musabeyov, "Qloballaşma və Azerbaycan", *Advisory Bulletin*, No:11 (47), February-2002, p. 31-45.
168. Raif Kutluk, "Azerbaycan Tarım Sektörünə Genel Bakış", *Diyalog Azerbaycan İş Dünyası Dergisi*, Sayı:16, Ağustos-2004, p. 28-34.
169. Rauf Husseyinov, "CIPCO Clinging to Life Support", *Baku Sun Newspaper*, 17 December 1998, p. 21.
170. Rəhimə Nureliyeva, "Azerbaycan İqtisadiyyatında Böyük İpək Yolunun Rolu və Əhəmiyyəti", *Böyük İpək Yolu və Azerbaycan Nefti*, Mars-Print, Bakı, 1999, p. 50.
171. Rashad Suleymanov, "Xəzərin Səviyyəsinin Qalxmasından Ən Çox Zıyan Gören Azerbaycandır", *525 Newspaper*, No:56 (1913), 26 March 2005.
172. Rashad Suleymanov, "Azerbaycan Mikro Maliyyə Assosiasiyası Daşınmaz Əmlakın Təmirinə də Kredit Verir", *525 Newspaper*, No:43 (1900), 5 March 2005.
173. Rovshan İbrahimov, "Böyük İpək Yolu Proqramı və Gözlənilən Nəticələri", *İpək Yolu II. Respublika Elmi-Praktiki Konfransının Materialları*, Bakı, 2001, p. 22-24.
174. Rovşen İbrahimov, "GUÖAM Örgütünün Kurulma Səbəplerinin Uluslararası İlişkilər Karar Verme Süreci Teorisi Açısından Değerlendirilməsi", *Azerbaycan Müstəqillikdən Sonra Beynəlxalq Konfransın Materialları*, Bakı, 3-4 March 2003, p. 55-58.
175. Rovshan Guliyev, "Aqrar Bazarların Tənzimlənməsi Üzrə Dünya Təcrübəsi", *Advisory Bulletin*, No:12(48), March-2002, p. 39-56.
176. Sevil Yıldırım, *Dünyada və Türkiyede Petrol*, T.C. Başbakanlık Dış Ticaret Müsteşarlığı Ekonomik Araştırmalar ve Değerlendirme Genel Müdürlüğü, Ankara, Ağustos- 2003.
177. S. Bölükbaşı, "Ankara's Bakü-Netred Transcaucassa Policy", *The Middle East Journal*, winter 1999, p. 87.

178. S. Eyyuboghlu, "Qeyri-Bank Kredit Təşkilatları Bazarda Hökümranlıq Edir", *525 Newspaper*, 04.01.2003.
179. S. Eyyuboghlu, "Türkiyə Azərbaycanla İqtisadi Əlaqələrini İnkişaf Etdirmək Niyətindədir", *525 Newspaper*, 11.01.2003.
180. PAGE Eyyuboğlu, "Xəzər Bölgəsi Neft Qiymətlərinə On İldən Sonra Təsir Edə biləcəkdir", *525 Newspaper*, 08.01.2003.
181. Sahila Allahverdiyeva, "Baku Dəniz Limanının Böyük İpək Yolunun Bərpasında Əhəmiyyəti", *Böyük İpək Yolu və Azərbaycan Nefti*, Mars-Print, Baku, 1999, p. 10-12.
182. Sakit Huseynov, *Davamlı İnsan İnkişafının Stratejik İstiqamətləri*, Adiloğlu Nəşriyyat, Baku, 2003.
183. Saleh Mammadov, *İnflyasiya və Maliyyə Bazarı*, Baku, 1998.
184. Samir Veliyev, "Main Objectives and Nature of State Policy in Privatization Program", *Conference Report*, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004, Baku, 2004, p. 100-102.
185. Sattar Safarov, "Əvəzsiz Milli Sərvətimiz: Müstəqillik", *İqtisadiyyat və Audit Magazine*, No: 10, October-2001, p. 5-6.
186. Sevil Yıldırım, *Dünyada və Türkiyədə Petrol*, T.C. Başbakanlık Dış Ticaret Müsteşarlığı Ekonomik Araştırmalar ve Değerlendirme Genel Müdürlüğü, Ankara, Ağustos-2003.
187. Sinan Oğan, "Bağımsızlığının Onuncu Yılında Azərbaycan Ekonomisi və Türkiyə ilə Ekonomik İlişkileri", www.ceterisparibup.net/arsiv/s_ogan.pdf, 12.03.2003
188. Sinan Oğan, *Türkiyə-Azərbaycan Ekonomik İlişkilerinin Geliştirilmesi Konferansı*, IAV-TİKA, Bakü, 1996.
189. Stanislav Zhukov, "The Macroeconomic Situation in Azerbaijan: At the End of the First Post-Soviet Decade", *Ekspert İqtisad Magazine*, No.7-8, 2001, p. 6-7.
190. *Statisticeskiye Pokazateli Azerbaicana V 1997 Godı Stat. Ejegodnik*, Baku, 1998.
191. *State Programme on Poverty Reduction and Economic Development 2003-2005*, Baku, 2003.
192. Sh. E. Yaqubov – A. M. Mahmudzada, "Azərbaycan Respublikasında Aparılan Aqrar İslahatların Qiymətləndirilməsi", *Azərbaycanda İqtisadi İslahatların Heyata Keçirilməsi Xüsusiyyətləri və Problemlər*, Center of Economic Reforms of The Ministry of Economic Development, Baku, 2001, p. 60-63.
193. Shafa Aliyev, "Kimya və Neft-Kimya Kompleksinin İnkişaf Merhələləri, Mövcud Problemləri və Perspektivləri", *İqtisadiyyat və Həyat Magazine*, No:7-8, July-August-2004, p. 61-70.
194. T. A. Abbasov, "Aqrar Bazarın İnkişafında Tələbatın Təkmilləşdirilməsi Problemləri", *İqtisadiyyat və Həyat Magazine*, No:7-8, July-August-2004, p. 110-115.
195. Tarık Aydın, "Azərbaycan və Dünya Bankası", *Mütasyon.Net*,
196. <http://www.mutasyon.net/makaleler/taaydin/default.asp>, 15.9.2002
197. Tabriz Vafalı, "Qarabağın İqtisadiyyatında İzi", *Herbi And Qezeti*, 1-15 April 2003, p. 3.
198. *Diyalog Azərbaycan İş Düntası Dergisi*, TÜSIAB Society Bulletin, No:03/91, 4 Şubat 2003, p. 2.
199. V. A. Huseynov, v.d., *Manatın Bahalaşması və İqtisadi İnkişaf: Hollandiya Xəstəliyinin Məzmunu və Əlamətlərinin Tədqiqi*, Seda Press, Baku, 2005.

200. V. E. Rustamov, "Azərbaycan İqtisadiyyatının Struktur Yenidən qurulmasında Xarici Kapitalin Rolu", *Azərbaycan İqtisadi İslahatlarının Hayata Keçirilməsi Xüsusiyyətləri və Problemləri*, Azerbaijan Republic Center of Economic Reforms of The Ministry of Economic Development, Baku, 2001, p. 27-28.
201. Vugar Dargahov, "Neft Siyasəti və İpək Yolunun Xarici Turizmin İnkişafında Rolü", *Böyük İpək Yolu və Azərbaycan Nefti*, Mars-Print, Baku, 1999, p. 21-24.
202. Yasin Aslan, *Hazar Petrolleri, Kafkas Kördüğüümü və Türkiyə*, Ankara, 1997, p. 75-76.
203. Yavuz Selim Çelebi, "Türk Standartları Enstitüsü və Azərbaycan", *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:16, Ağustos-2004, p. 22.
204. Yavuz Kahraman, Globalleşme Sürecinde Ulus Ötesi İşletmeler, Tüketici Davranışları ve Azerbaijan, *Articles of The International Conference On A Theme Caucasus and Central Asia in The Globalization Process*, Baku, 2003, p. 80-84.
205. Yavuz Kahraman, Yabancı Girişimci Açısından Azerbaijan Ekonomisinin SWOT Analizi, *Diyalog Azərbaycan İş Dünyası Dergisi*, Sayı:16, Ağustos-2004, p. 48.
206. Yusif Vazir Chamanzaminli, *Tarixi Coğrafi və İqtisadi Azərbaycan*, Baku Universiteti Neşriyyatı, Baku, 1993.
207. Z. N. Eminov, *Azərbaycan Fiziki və İqtisadi Coğrafiyası*, Azərbaycan Coğrafiya İnstitutu Press, Baku, 2000, p. 153-156.
208. Zahid Mammadov, *Azərbaycan Respublikasının Xarici İqtisadi Əlaqələri*, Kooperasiya Press, Baku, 2004.
209. Zakir Nuriyev, "Azerbaijan Banking Sistem in 2002-2003 Years", *Conference Report, 1st International Conference Banking Development in Azerbaijan 12-14 November 2004*, Baku, 2004, p. 64-69.
210. Zəfirə Nesirova, *Sovyetlər Birliyi Dağıldıktan Sonra Azərbaycanda Ekonomik Gelişmə*, Yayımlanmamış Yüksək Lisans Tezi, M.Ü, Sosial Bilimler Enstitüsü, İstanbul, 2002.
211. Zərifə Musayeva, "Böyük İpək Yolu və Azərbaycan Nefti", *Böyük İpək Yolu və Azərbaycan Nefti*, Mars-Print, Baku, 1999, p. 34-46.
212. Y. Hasanli, Neft Gəlirlərinin Azərbaycanın İqtisadiyyatına Təsirinin Səmərəlilik Problemləri – Valyuta Böhranı: "Dağıdıcı Artım", "Holland Xəstəliyi", və Asiya Maliyyə Virusunu", *Materials from the International Conference on Globalization in the Caucasus and Central Asia*, Baku, 2003, p. 217-219.
213. "Azerbaijan", *Eurasian File*, TICA, PAGE103, July 1998/2, p. 2.
214. "Azerbaijan", *Avrasya Dosyası*, TİKA Bulletin, PAGE128, March 2000, p. 2.
215. "Azerbaijan'ın Petrol Anlaşmaları", *Avrasya Dosyası*, PAGE85, Ekim-97/2, p. 4-5.
216. "Yaponskie Kompanii v Azerbaydjane - Tam Gde Net Riska, Net i Bolşoy Pribli", *Capital Magazine*, April-May 1997, p. 48-49.
217. <http://www.exprep.com.az/second.asp?id=2909>. (09.04.2003).
218. "Azerbaijan.: Financial Position in the Fund",
219. <http://www.imf.org/external/np/tre/tad/exfin2.cfm?memberKey1=51>, (04.04.2005).
220. "Azərbaycan Respublikası Milli Bankının 2003-cü İl Üçün Pul-Kredit Siyasətinin Başlıca İstiqamətləri Barədə Bəyanatı",
221. <http://www.nba.az/az/analitic/bayanat2003-10.shtml>, (18.04.2003).
222. "Azərbaycan Respublikasının Sosial-İqtisadi Vəziyyəti", *Milli Bank İllik Hesabat-2000*, Azərbaycan Respublikası Milli Bankı, Baku, 2001, p. 6.

223. "Azərbaycan Təhsil Nazirliyinin Bəyanatı", *Azərbaycan Zaman Newspaper*, 15-17 March 2003, p. 2.
224. "Azərbaycanın Qızıl Yataqlarının Çıxarılmasına Başlanılacaq", *Üç Nöqtə Newspaper*, No:41(521), 4 March 2003.
225. "Azərbaycan-Türkiyə Tohum Üretim ve Araştırma İşletmesi Projesi ile İlgili Görüntüler", <http://www.tika.gov.tr/tur/projeler/tarim/main.htm>, 12.03.2003.
226. "Baku-Tblisi-Ceyhan Pipeline", *Energy Ecology Economy Popular – Science Magazine*, 13/2003, p. 2-15.
227. "Banki i Biznes", *Zerkalo Newspaper*, 28 February, 2001.
228. "Caspian Staging a Comeback", *Offshore Engineer*, June-2000, p. 38.
229. Consultation With the Azerbaijan Republic, *Public Information Notice (PIN)*, No.05/6, January 21 2005, <http://www.imf.org/external/np/sec/pn/2005/pn0506.htm> (10.04.2005).
230. "Country Assistance Strategy For The Azerbaijan Republic", *The World Bank Report*, No:19892-AZ, 29 November 1999. p. 11.
231. "Dünya Bankı 2003-2005-ci illərdə Azərbaycanda 9 Layihə Həyata Keçirdəcək", *525 Newspaper*, 17.04.2003.
232. "Dünya Bankı Təhsilin İnkişafına 63 Milyon Dollar Kredit Ayıracaq", *525 Newspaper*, 18.03.2003.
233. "Doğu ile Batı Arasında İpek Köprü", *Zaman Gazetesi*, 9 Eylül 1998.
234. EBRD and Azerbaijan, <http://www.ebrd.org/country/azer/index.htm>. (10.04.2005).
235. Enerji Sektorunun Vəziyyətini Yaxşılaşdırmaq Üçün 1 Milyard Dollar Lazımdır, *525 Newspaper*, No:53 (1910), 23 March 2005.
236. EU-Relations with Azerbaijan, http://europa.eu.int/comm/external_relations/azerbaidjan/intro/ (04.05.2005).
237. Gov't Says New Program Will Halve Poverty Level, *Azernews*, No:10(400), March 8–March 15, 2005, p. 3.
238. "Investment Possibilities of Azerbaijan", *Ekspert İqtisad Magazine*, No.7-8, 2001.
239. www.byeqm.gov.tr/yayinlarimiz/anadolununesi/147/AND11.html, (7.4.2009).
240. "İqtisadiyyatımız Dirçəlir", *Azərbaycan Zaman Newspaper*, 12-14 November 2002, p. 2.
241. www.foreigntrade.gov.tr/ead/ekonomi/sayi10/kei.htm 5 Haziran 1999. (09.06.2009).
242. "Kommersiya Banklarının Sayı Azalıb", *525 Newspaper*, 14.01.2003.
243. Mikromaliyyələşdirmə Bankı On Mininci Kreditini Verdi, *525 Newspaper*, No: 57 (1914), 29 March 2005.
244. "Milli Bank HiMəyədarlıq Siyasəti Yeridir", *Azadlıq Newspaper*, No:2(2665), 5 January 2005.
245. "Minfin Podvodit Itogi Strahovogo Goda", *Zerkalo*, No. 15(108), Baku, 2002, p. 16-18.
246. "Neft Fondunun Vəsaiti 727 Milyon Dollara Çatıb", *525 Newspaper*, 17.04.2003.
247. Oil and Gas Investment Projects: Azerbaijan and Georgia, *Bisnis Home Page*, <http://www.worldbank.org/ogmc/ifcoqinvestmentsprojectsazerbaijan.htm>. (12.04.2005).
248. "Orta Asya Türk Cumhuriyetleri Telekomünikasyon ve İnternet Altyapısı İle İlgili Olarak Hazırlanan Teknik Rapor", http://www.foreigntrade.gov.tr/turcumhuriyetleri/teknik_rapor.htm. (19.04.2015).

249. Process of Privatization, www.msp.gov.az/html/eng/xod.html, (18.04.2015).
250. Sektörel Bazda Azərbaycandakı Türk Yatırımları, *TÜSIAB 10. Yıl Tanıtım Kataloğu*, Aralık-2004, p. 110-112.
251. Sektörel Bazda Azərbaycandakı Türk Yatırımları, *TÜSIAB Ekonomi ve Haber Bulletin*, No:19/136, 29 Haziran 2004. p. 1.
252. "Sığortacıların Nizamnamə Kapitalı Artırılır", *Ekspert İqtisad Magazine*, No:5-6 (17-18), 2001, p. 4.
253. "Son Beş İldə Kənd Təsərrüfatına 300 Milyon Dollar Xarici SərMayə Qoyulub", *525 Newspaper*, 20.03.2003.
254. State Program on Social-Economic Development of Regions of Azerbaijan Republic for the Years of 2004-2008,
255. <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN016803.pdf>, (05.04.2009)
256. "Türkiyə Azərbaycanla İqtisadi Əlaqələrini İnkişaf Etdirmək Niyətindədir", *525-ci Qəzet*, 11.01.2003.
257. "World Bank Lending to Azerbaijan", <http://lnweb18.worldbank.org/ECA/Azerbaijan.nsf/ECADocbyUnid/EB90853C3B704B85C4256C3A001980A7?Opendocument>, (01.04.2015).
258. <http://www.eia.doe.gov/emeu/cabs/azerproj.html>, (04.04.2015).
259. http://www.invest-in-azerbaijan.com/docs/facts_azerbaijan.shtml, (21.05.2009).
260. Azərbaycan Respublikasının Maliyyə Nazirliyi, Azərbaycan Respublikasının 2016-cı il üçün dövlət və icmal bütçə layihələrinin təqdimatı, Baku, 2015
261. www.cbar.az
262. www.finance.gov.az

By Sponsor...

With more than a decade and a half of experience in commercial cleaning services, BG Cleaning Systems is now bringing its expertise to Azerbaijan.

Due to our commitment to excellence and high quality standards, BGCS has grown significantly in the past few years. We currently provide a diverse range of janitorial and maintenance services that cater to all types of facilities, in both the private and public sectors.

Our ongoing business relationships with clients in every sector have allowed us to create an extensive selection of services designed to accommodate the needs of every facility.

We offer a variety of solutions ranging from standard janitorial maintenance to specialised services, which include but are not limited to: floor care/maintenance, carpet cleaning/ maintenance, window washing, pantry services, messenger services, and industrial cleaning.

Through years of commendable service, we've earned a reputation for being courteous, honest, and fair. All of our employees are taught the importance of good character and are urged to portray the utmost in integrity, professionalism, dignity, and reliability.

About BG Cleaning Systems Azerbaijan

BGCS just recently opened its first franchise in Baku Azerbaijan.

Through the able leadership and management of the Master Franchisee of BG Cleaning Systems Azerbaijan, we've been able to bring our services to Baku and its surrounding regions. At BG Cleaning Systems, we use only the best equipment and we require our professional staff to uphold high operating standards while completing jobs in a timely and efficient manner.

We take pride in the fact that our team members are trained to provide fully satisfactory service on a consistent basis, exercising effective cleaning protocol and maintaining complete confidentiality while performing their duties.

Our goal is to continually improve our portfolio of services and be the best cleaning company in the industry.



CLEANING SYSTEMS

To find out more about the cleaning services we offer in Pune, feel free to contact us today:

BG Cleaning Systems Azerbaijan (TIS AZERBAIJAN LLC)

Samad Vurgun / Suleyman Rahimov str. 309 rossroad

"World Business Centre" 16" Floor No; 3

AZ1009, Nasimi district, Baiai/Azerbaijan

Tel: -1-994 (12) 555 66 54

azerbaijan@bgcleaning.com

www.bgcleaning.com