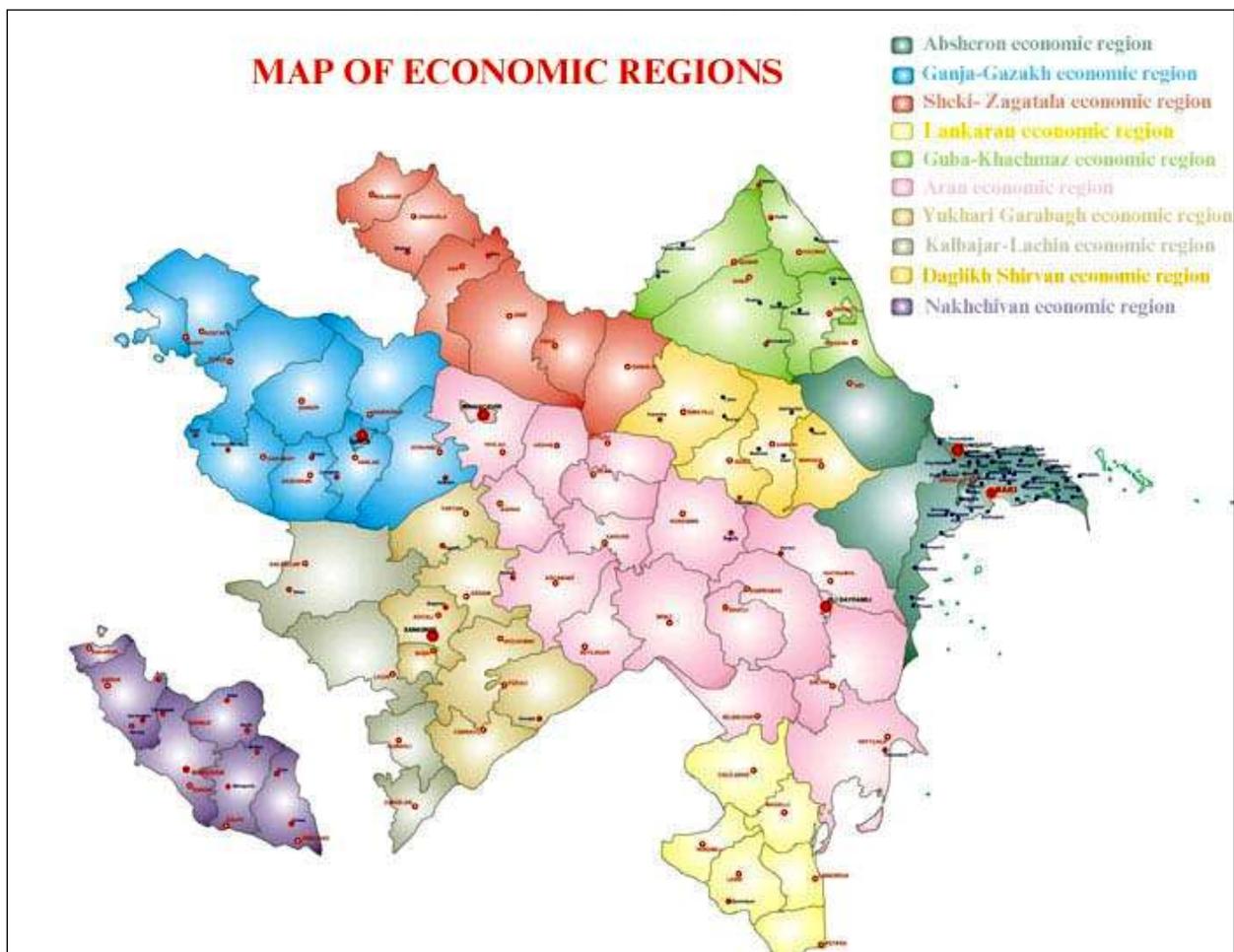


Socio-economic development of the regions

Economic and political stability has been achieved in the country, image of the Republic of Azerbaijan has been significantly increased and basis for dynamic development has been founded as a result of large-scale reforms launched by national leader of Azerbaijani people Heydar Aliyev in the mid of 90s of the last century. The main objective of implemented reforms was to establish democratic state with strong economy. Measures undertaken in the economic sphere were aimed at expanding business activities based on market economy principles, creating new job places and enterprises producing competitive goods through attraction of local and foreign investment, modern technology, and consequently boosting economic power of the country.

Start of implementation of the "Agreement of century" signed in 1994 that marked a new stage in the history of the Republic of Azerbaijan, contributed to significant inflow of foreign investment into the country. One of the priority tasks of the Azerbaijani Government over recent years was to achieve a balanced development of the economy through directing oil and gas revenues, that was increasing on annual basis as a result of successful oil strategy, to the non-oil sector. In this regard, acceleration of development of regions was defined as one of the main targets of economic policy of the Government.



The State Program on "Socio-Economic Development of Regions of the Republic of Azerbaijan for 2004-2008 years" was *executed* by the Decree of the President of the Republic of Azerbaijan dated February 11, 2004 in order to implement comprehensive measures on efficiently using labor, natural and economic resources in regions, accelerating development of the non-oil sector, expanding reforms in agrarian sector, increasing employment of population, decreasing the level of poverty, renewing the infrastructure, creating favorable investment climate, modern enterprises and new job places. At the same time, 17 additional Decrees were signed aimed at speeding up socio-economic development of cities and districts included in Guba-Khachmaz, Sheki-Zagatala, Upper Shirvan, Lenkeran, Aran, Ganja-Gazakh and Upper Garabagh economic regions.

In addition to socio-economic development of regions, the "Action Program on acceleration of socio-economic development of settlements of Baku city for 2006-2007 years" was approved by the Presidential Decree #1338 dated February 27, 2006 in order to upgrade and more effectively use of resources of adjacent settlements of Baku city. This Program defined concrete measures covering different areas on each settlement.

As a result of successful implementation of tasks set in both programs, tangible progress was achieved in sustainable development of the non-oil sector, in creation of new enterprises and job places, in rise of quality and quantity of provision of public utilities and social infrastructure in regions, as well as, in Baku city, in further improvement of business climate, in increase of employment of population and in decrease of poverty level.

High growth rate was achieved in macro-economic indicators of the country as a result of successful implementation of "The State Program on Socio-Economic Development of Regions for 2004-2008 years" and execution of actions related to socio-economic development played an important role in improvement of living condition of population. Over the past 5 years, real volume of GDP increased by 2.6 times to reach 38 bln. manats and nominal per capital GDP rose by 5 times to amount to 4440 manats. Moreover, the non-oil sector grew by 1.8 times and share of private sector in GDP was 84.5% according to results of 2008. Over the last 5 years capital investment in the non-oil sector increased by 6.2 times and its share in the structure of overall investment rose from 26.8% in 2003 to 69% in 2008. National industrial and agricultural production increased by 2.5 times and 25.2% respectively.

In addition to speedy development of economy, high growth rate has been observed in indicators reflecting welfare of population. In 2008 income of population increased by 4 times compared to 2003. During that period of time, monthly wages of employees rose by 3.5 times to exceeded inflation level by 1.7 times and reached 268 manats. Beginning from September 2008, minimum level of wages and pensions amounted to 75 manats. Only 13.2% of population lived in poverty as of end of 2008, while that figure was about 45% in 2003.

Flexible economic policy pursued in Azerbaijan contributed to the State budget, dynamics of its revenues and expenses, as well as, structure. Successful reforms and consequent economic policy led to annual changes in ratio of revenues and expenses of the State budget to GDP. Budgetary-tax policy was mainly directed at strengthening macroeconomic stability, speeding up economic development, further improving social welfare of population and minimizing budgetary deficit. Flexible budgetary-tax policy paved the way for continuation of measures aimed at further strengthening economic power of the state, developing regions, non-oil sector and entrepreneurship, restructuring production and infrastructure facilities in line with modern standards, improving welfare of population and the State budget became social, investment, development and upgrading oriented budget while being the financial source of economic reforms and state programs.

The amount of capital investment in national economy from all sources was 33.5 bln. manats over the last 5 years, of which 53.2% was local and 46.8% foreign investment. The volume of investment used in 2008 was 3 times as much as it was in 2003 and per capita investment was 605.8 manats higher than in 2003. The share of local investment in overall investment in 2008 was 78.6%, while that figure amounted to 24.8% in 2003.

Over the past 5 years more than 766,000 new, including, 547,500 permanent work places were created as a result of purposeful measures. More than 27500 new enterprises have been established in the country of which about 40% are situated in regions. Enterprises with special property type account for majority of newly established entities.

Maximum level of taxes deducted from revenues of individuals were decreased down to 35%, income taxes and social insurance contributions fell to 22%, total number of taxes brought down to 9 and agricultural producers were exempted from all taxes, except for land tax in order to further improve investment climate in the Republic of Azerbaijan, develop entrepreneurship, as well as, speed up growth of non-oil sector and creation of new job places. Existing licensing system in the country was totally changed, number of businesses subject to licensing was significantly decreased and period of licenses prolonged. Application of new licensing system contributed to promotion of free competition and increase of quality of produced goods and provided services. Besides, export duties were lifted and 15% of maximum level was set for import duties.

Provision of entrepreneurs with soft credits was one of the main directions of state support for entrepreneurship during implementation period of the State Program. 323.4 mln. manats worth loans were allocated to 6991 business entities through funds of the National Fund for Entrepreneurship Support within the Ministry of Economic Development over 2004-2008 in order to boost entrepreneurship activities and increase state care in this sphere.

With a view to facilitating access of entrepreneurs to financial resources 567 branches and 99 bank departments were operational in different regions of the country over past years. Regions account for 47% of bank branches and 57% of bank departments. Regular business forums contributed to arrangement of awareness raising events among entrepreneurs and expansion of their ability to get information, as well as, support towards efficient use of existing natural and labour resources of regions and attraction of foreign investment, while bringing together businessmen from different countries and authorities. The Decree of #2458 of the President of the Republic of Azerbaijan on "Measures to ensure organization of activities of business entities based on "single window" principle" was approved on October 25, 2007 in order to further accelerate development of business activities. The Decree envisaged application of the "single window" principle in order to take necessary steps aimed at further improving business climate in the country.

International organizations also highly evaluated reforms aimed at development of entrepreneurship and improvement of business climate. Azerbaijan was declared as the Leading Reformist Country in the sphere of improvement of business climate according to the "Doing Business" report of 2008 prepared by the World Bank and International Finance Corporation that covers evaluation of favorableness of business climate.

Deep reforms carried out in agrarian sector aimed at providing population of the Republic of Azerbaijan with necessary food stuff paved the way for speeder development of this sector. Large-scale technical and financial assistance provided by the state to agricultural producers played an important role in development of this sector. According to the Decree #23 of the President of The Republic of Azerbaijan on " State support to agricultural producers", about 50% of cost of fuel, motor oil and mineral

fertilizers used in agricultural production is reimbursed by the State. This Decree significantly boosted agricultural production. In 2008, wheat production increased by 21.4%, potato production by 40.1%, vegetable production 17.4%, water-melon production by 14.3%, fruit and berry production by 24.6%, grape production by 78.1% compared to 2003.

As a part of the agrarian policy pursued in the country, "Agro-leasing" JSC was established in order to develop leasing relations and 20 different agro-technical services were proved to agricultural producers at their requests. Since 2005, the "Agro-leasing" JSC has brought into the country 7299 agricultural machinery, 27 sets of technological equipment, 236900 tons of mineral fertilizers and 7 types of pesticides with total weight of 294300 tons.

In the framework of the State Program, important measures have been taken aimed at rehabilitating and developing infrastructure in regions, improving access of population to public utilities, including, power, gas and water supply, constructing education and health care facilities, further improving welfare of population, and large-scale investment was directed in this sphere. Large capital investment in the national economy will ensure sustainability of high economic growth rate in the non-oil sector in the long-run.

Oil and energy sector plays an exceptional role in socio-economic development of the Republic of Azerbaijan. Azerbaijan, as a leading country of the region, tries to get involved in the integration not only the country but the whole region into Europe and its energy security system. The Republic of Azerbaijan, which used to import gas from Russia and Iran now became a gas exporting country over the last 5 years. Over that period of time, completion of a number of great projects such as the construction of Baku-Tbilisi-Ceyhan main oil and the Baku-Tbilisi-Erzurum gas pipelines that played an important role in development of the country, creation of the North-South and East-West transport corridors, as well as, beginning of construction of the Baku-Tbilisi-Gars railway improved access of people living in regions to infrastructure and markets, paved the solid basis for expansion of business activities, while increasing regional importance of the country.

Construction of new power generating plants in regions of the country ensured meeting demand of the population for electricity and plays an important role in sustainability of energy system. Thus, 7 of 9 power generating plants built over the last 5 years are situated in regions. Construction of modular power generating plants in Astara, Sheki, Khachmaz districts, 3 power generating stations in the Nakhchivan Autonomous Republic and new Thermal Power Station in Sumgait city was completed and put into operation. Moreover, new power generating plants are under construction in Shirvan city, Devechi, Guba and Fuzuli districts. 110 MW capacity modular power generating plant in Baku city and 300 MW capacity "Senegachal" modular power generating station in Garadagh district were constructed and commissioned in order to totally meet demand of the population in capital city for electricity. Independent function of the "Bak?electrishebeke" and "Sumgait electric shebeke" joint stock companies has been reinstated.

As a result of works aimed at improving natural gas provision, access of population in the Nakhchivan Autonomous Republic to natural gas supply is renewed after 13 years of break, Lerik, Yardimli districts and Horadiz town of Fuzuli district had access to natural gas for the first time, as well as, gas provision to Aghjabedi, Beylagan districts, Guzanli settlement of Aghdam district and other areas was ensured. Currently, works are underway for ensuring gas supply to regions, especially, villages.

75 new boiling houses were constructed and 72 ones thoroughly repaired over 2004-2008 years in order to rehabilitate heating supply in regions. Dozens of boiling houses were built in Baku city in order to improve heating supply to facilities to be provided with centralized heating system, as well as, new gas

pipelines were constructed, existing ones thoroughly repaired and reconstructed with a view to improving natural gas supply to population in Sabunchu, Binegedi, Surakahni, Sebail, Garadagh, Nizami, Khetai, Ezizbeyov districts.

With a view to improving water supply and sanitation systems in the country, a number of projects, including, construction of the Oguz-Gabala-Baku water pipeline and relevant works on reconstruction of water supply and sanitation systems in Ganja, Sheki, Agdash, Goychay towns and other small urban areas of the country have been continued over the past period of time through public investment funds and involvement of international financial organizations.

Construction of the Oguz-Gabal-Baku water pipeline carries significant importance in terms of improving access of population to water supply. 5 cubic meters of water per second will be transmitted to Baku city and population will be provided with high quality water through underground water sources in Oguz and Gabala districts after the pipeline is commissioned. Construction of the Takhtakorpu water reservoir will improve by two times drinking, irrigating and technical water supply to Baku and Sumgait cities, as well as, Absheron peninsula in overall. Moreover, commissioning of these facilities will save 15 mln. manats worth electricity a year.

Dynamic socio-economic growth of the country required development of necessary infrastructure, including reliable transport system. The main objective for development of transport system is to pursue favorable transport policy in the service of upgrading living condition of population and ensuring sustainable economic growth, while meeting growing demand of people for transport services. To this end, more than 1000 km length of highways were constructed or thoroughly repaired in regions, 600 km length of roads of national importance and 2700 km length of roads of local importance reconstructed, 69 new bridges built and 34 ones overhauled over the past 5 years.

Over the last 5 years, new airports in line with modern standards were built and put into operation in Nakhchivan, Ganja, Lenkoran and Zagatala cities.

Large and medium capacity buses were brought into the country and put into operation in order to improve transport system and improve passenger carrying service in Baku city. At the same time, with a view to improving regulation and management of transport circulation in Baku city, it's planned to establish intellectual management system of transport operations. Application of this system will allow eradication of problems in passenger carriage and movement of vehicles, and streamlining passenger buses in Baku city.

A number of road junctions and pedestrian passages were built in Baku city and 43.9 km length Khirdalan circle-Binegedi-Balakhani motor road repaired over the past period of time. Construction of the "Baku circle road" of 21.5km length linking 3 highways of the country, the part of road (14 km) between the "Ezizbeyov" subway station to the Airport named after Heydar Aliyev, as well as, 6-strip Zigh-Bina and Bilgah-Pirshaghi motor roads plays an important role in improving transport system of the capital city. Some activities have been taken in subway transport which plays an exceptional role in comfortable and safe transportation of population of Baku city. Thus, the "Nasimi" station was built, "Icherisheher" (Old City) and "28 May" stations were reconstructed. Construction works in the "Azadlig avenue" station are coming to an end.

Projects on expansion of the Hovsan aeration station and reconstruction of the Zigh pumping station #2 are underway in order to improve ecological status of Baku city and prevent discharge of waste water to the Sea. About 100 ha oil polluted areas were undergone re-cultivation works in Bibiheybet and Sabunchu districts, and 1200 part of open canals for discharge of layer waters were changed with closed

concrete-reinforced canals. Biological purifying complexes with 10,000 cubic meters/day capacity were put into operation in Buzovna settlement.

Significant works have been done in recent years in order to improve public utility services provided to population and German, Russian and Japan made specialized machinery have been brought in Baku city from. Application of new equipment and machinery will ensure regular collection and processing of household wastes. The Decree of the President of the Republic of Azerbaijan on "Improvement of management related to household wastes in Baku city" dated August 6, 2008 plays an important role in terms of implementation of thorough reforms in this sphere. With a view to achieving goals set in the Decree, it was planned to establish the "Tidy City" JSC, construction of burning plant for solid wastes in Balakhani and implementation of the World Bank project on "Comprehensive management of solid household wastes".

In recent days, communication services are of high importance in formation of favorable business climate and improvement of living condition of population in the country. Modern automated telephone stations have been construed and reconstructed, as well as, new post offices were put into operation over the past period of time in order to improve quality of communication services in regions.

Necessary measures have been undertaken in social sphere within the State Program in order to improve housing condition of invalids and martyr families, as well as, to create rehabilitation centers for the disabled. Over that period of time, 33 buildings for the disabled and martyr families, and 7 rehabilitation centers for invalids were constructed in regions.

Special attention is attributed to construction of education facilities, their provision with modern material and technical basis. Over the past 5 years from the adoption of the State Program, 1600 new education facilities and additional buildings for different education facilities were constructed and put into operation. 636 new school buildings were constructed, 192 schools thoroughly repaired and 243 new classrooms at different schools built in regions. Only within the project "New schools for renewing Azerbaijan" of the Heydar Aliyev Foundation, 238 school buildings were constructed, 39 education facilities, including, 28 boarding schools thoroughly repaired, 8 kindergartens reconstructed and provided with modern equipment over the past period of time.

Protection of health care of population and further improvement of medical services are in the limelight of the state, while being one of the main direction of socio-economic policy pursued in the Republic of Azerbaijan. High economic growth rate observed in recent years also contributed to health care sector and a number of significant measures have been undertaken, as well as, material and technical framework of medical facilities significantly improved. Over the past period of time, dozens of hospitals, polyclinics and diagnostic centers have been constructed and put into operation, as well as, health care facilities provided with modern medical equipment and devices. New modern treatment-diagnostic centers are operational in Lenkeran, Gazakh, Zagatala, Berde, Gebele districts, Ganja, Nakhchivan and Shirvan cities, as well as, "Real-Med" diagnostic-health care center in Sumgait, "N-KAY M Clinic" in Khachmaz, "Mughan" clinic in Sabirabad, the Central Hospital in Julfa district of the Nakhchivan Autonomous Republic, "Duzdagh" Physio-therapy center in Babek district and other facilities have been built and put into operation.

Policlinics in Khojasen, Ehmedli and Bulbule settlements of Baku city and 125-bed building for TB treatment clinic in Buzavna settlement were constructed. The abolishment of all paid medical services at health care facilities of the Ministry of Health of the Republic of Azerbaijan beginning from 2008 year was very important and significant step in terms of protection of health care of population.

Strengthening of sport potential is also of high importance for comprehensive development of the Republic of Azerbaijan. Thus, protection of health care of the youth and their physical development was defined as one of the priority youth policy directions. 18 modern Olympic complexes have been built and put into operation over the past period of time. Construction of 15 such complexes are underway.

"The State Program on Socio-Economic Development of Regions for 2009-2013 years" was approved in order to continue the achievements succeeded in "The State Program on Socio-Economic Development of Regions for 2004-2008 years" and "Action Program on acceleration of socio-economic development of settlements of Baku city for 2006-2007 years".

The Action Plan of the State Program was drafted on following directions:

1. Measures of national importance.

2. Measures on districts and settlements of Baku city.

3. Measures on economic regions of the country:

3.1. Absheron economic region (Absheron, Xizi districts, Sumgait city);

3.2. Aran economic region (Aghjabedi, Aghdash, Beylagan, Berde, Bilesuvar, Goychay, Hajigabul, Imishli, Kurdemir, Neftchala, Saatli, Sabirabad, Salyan, Ujar, Zerdab districts, Shirvan, Mingechevir, Yevlakh cities);

3.3. Upper Shirvan economic region (Aghsu, Ismayilli, Gobustan, Shamakhi districts);

3.4. Ganja-Gazakh economic region (Aghstafa, Dashkesen, Gedebe, Goranboy, Goygol, Gazakh, Samukh, Shemkir, Tovuz districts, Ganja and Naftalan cities);

3.5. Guba-Khachmaz economic region (Devechi, Khachmaz, Guba, Gusar, Siyezen districts);

3.6. Lenkeran economic region (Astara, Jelilabad, Lerik, Masalli, Yardimli, Lenkeran districts);

3.7. Nakhchivan economic region (Nakhchivan city, Babek, Julfa, Ordubad, Sederek, Shahbuz, Kengerli, Sherur districts);

3.8. Kelbejer-Lachin economic region (Kelbejer, Lachin, Zengilan, Gubadli districts); (Special program will be prepared and implemented for administrative districts of Kelbejer-Lachin economic regions after they are liberated from Armenian occupation).

3.9. Sheki-Zagatala economic region (Balaken, Gakh, Gebele, Oghuz, Zagatala, Sheki districts);

3.10. Upper Garabagh economic region (Aghdam, Terter, Khojavend, Khojali, Shusha, Jebrayil, Fuzuli districts, Khankendi city); (Special program will be prepared and implemented for administrative districts of Upper Garabagh economic regions after they are liberated from Armenian occupation).

Implementing organizations of the State Program are relevant central and local authorities. The Ministry of Economic Development of The Republic of Azerbaijan coordinates the implementation process.

Favorable economic climate that is in place created the basis for successful implementation of the State Program. Socio-economic policy to be pursued from now on and established economic potential will contribute to acceleration and upgrading of economic development, increase of share of medium strata of population, improvement of welfare of people and fell of poverty level, while playing an important role in ensuring sustainable socio-economic development.