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Title : Spatial Disparities and Policy Effectiveness in Azerbaijan’s Regional Development

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Abstract

This study assesses the design, implementation, and outcomes of the State Program for the Socio-Economic Development of the Regions of the Republic of Azerbaijan, the country’s most comprehensive long-term development initiative spanning 2004–2023. Drawing on official statistical data and fiscal records, the paper evaluates four consecutive program cycles and complementary urban development schemes to determine their effectiveness in promoting balanced regional growth, reducing spatial disparities, and fostering economic diversification. Findings reveal that despite cumulative investments of approximately 92.2 billion Azerbaijani manats, regional inequality has not diminished. Economic activity remains overwhelmingly concentrated in the Baku–Absheron area, which generates over 80 percent of GDP while covering just 2.5 percent of the country’s territory. The analysis demonstrates that regional policy outcomes have closely followed the cyclical pattern of hydrocarbon revenues, with the bulk of financing disbursed during oil-boom periods. The study also identifies the persistent pro-cyclical character of public expenditure, weak institutional decentralization, and limited private-sector engagement as key constraints undermining the program’s developmental impact. The paper concludes that Azerbaijan’s regional development strategy has achieved partial infrastructural improvements but failed to alter the highly centralized spatial structure of its economy. Future policies should prioritize institutional reforms, fiscal diversification, and enhanced regional autonomy to ensure inclusive, sustainable, and post-oil development.

Keywords: Azerbaijan; regional development; spatial inequality; resource dependence; oil revenues; fiscal decentralization; economic diversification; development policy; state programs

Introduction

Since independence, Azerbaijan's economic geography has been profoundly shaped by the uneven distribution of resources and the dominance of oil revenues in national development policy. Among the numerous initiatives introduced to address these disparities, the State Program for the Socio-Economic Development of the Regions stands out as the most ambitious in both duration and scope. Launched in 2004, the program sought to promote balanced growth, reduce regional inequality, and improve living standards through targeted investment in infrastructure, social services, and local industries.

Over two decades, four consecutive five-year programs were implemented, each broadly aligned with the government's strategic vision of regional modernization:

- **Phase I (2004–2008)** focused on infrastructure rehabilitation and rural development;
- **Phase II (2009–2013)** coincided with an oil-revenue boom and emphasized industrial upgrading and small-business support;
- **Phase III (2014–2018)** aimed to strengthen non-oil growth and employment generation;
- **Phase IV (2019–2023)** concentrated on social services, innovation, and sustainable regional infrastructure.

Collectively, these programs mobilized over 92 billion AZN in public and private investment (Table 15). Yet, the results remain uneven. While selected regions experienced improvements in transport, utilities, and employment, national statistics reveal that economic concentration in the Baku–Absheron region intensified rather than diminished. This pattern reflects not only geographical advantages but also the enduring centralization of fiscal, administrative, and investment decision-making.

The persistence of regional inequality poses fundamental questions about the effectiveness of Azerbaijan's regional development strategy.

Background and Policy Context

Among all national policy initiatives implemented in the Republic of Azerbaijan, the State Program for the Socio-Economic Development of the Regions stands out as the most extensive in terms of duration, financial capacity, and scope of implementation. The program was first introduced in 2004¹ as part of the government's strategic vision to reduce regional disparities, stimulate balanced economic growth, and promote social welfare across the country's administrative-territorial units.

Following the completion of the first phase, Azerbaijan continued to implement successive five-year programs with comparable objectives, reflecting a continuation of the centralized planning approach characteristic of the Soviet period. Over the two decades from 2004 to 2023, four consecutive regional development programs were executed, through which the government channelled significant fiscal resources toward regional infrastructure, social services, and economic modernization². Collectively, these programs mobilized significant state and private investments totaling approximately 92.2 billion Azerbaijani manats. The distribution of investments by program stage is summarized in Table 1.

Table 1. Investment of Socio-Economic Development of the Regions

Name and duration of programs	Amount of investment, in billion AZN
The First Program (2004–2008)	16.0
The Second Program (2009–2013) ³	34.7
The Third Program (2014–2018) ⁴	24.5
The Fourth Program (2019–2023) ⁵	17.0
Total:	92.2

Source: State Statistical Committee of the Republic of Azerbaijan

¹ State Program on “Socio-economic development of the regions of the Republic of Azerbaijan (2004 — 2008)”, <https://e-qanun.az/framework/4797>

² State programs of Azerbaijan, <https://azerbaijan.az/related-information/276>

³ State Program on “Socio-economic development of the regions of the Republic of Azerbaijan (2009 — 2013)”, <https://files.preslib.az/projects/regions/r2/a1.pdf>

⁴ State Program for the Socio-Economic Development of the Regions of the Republic of Azerbaijan in 2014-2018, <https://economy.gov.az/az/page/regionlarin-inkisafi/dovlet-proqramlari/azerbaycan-respublikasi-regionlarinin-2014-2018-ci-illerde-sosial-iqtisadi-inkisafi-dovlet-proqrami>

⁵ State Program for the Socio-Economic Development of the Regions of the Republic of Azerbaijan in 2019-2023, <https://economy.gov.az/az/page/regionlarin-inkisafi/dovlet-proqramlari/azerbaycan-respublikasi-regionlarinin-2019-2023-cu-illerde-sosial-iqtisadi-inkisafi-dovlet-proqrami>

The data indicate that regional development financing in Azerbaijan has closely followed the cyclical pattern of oil revenue inflows. While the 1st and 4th programs were implemented under relatively tighter fiscal conditions, the 2nd and 3rd programs coincided with the peak of the oil boom, when rapidly growing hydrocarbon revenues enabled expansive fiscal policy.

Consequently, 64.2 percent of total funds allocated for regional development between 2004 and 2023 were disbursed during these two programs, underscoring the government's tendency toward pro-cyclical expenditure and its dependence on oil-driven fiscal surpluses.

In addition, the Azerbaijani government implemented several comprehensive initiatives aimed at fostering balanced urban development, including the "*Program of Measures to Accelerate the Socio-Economic Development of the Settlements of Baku City for 2006–2007*,"⁶ the "*State Program on the Socio-Economic Development of the City of Baku and Its Settlements for 2011–2013*,"⁷ and the "*State Program on the Socio-Economic Development of the City of Baku and Its Settlements for 2014–2016*."⁸ Collectively, these programs, spanning the period from 2006 to 2017, coincided with a phase of accelerated economic growth in Azerbaijan, largely driven by the substantial increase in oil revenues.

According to official reports, approximately 3 billion manats were allocated for the implementation of the *State Program on the Socio-Economic Development of the City of Baku and Its Settlements for 2011–2013*. This figure was publicly announced by the Minister of Economy and Industry during a conference chaired by President Ilham Aliyev, which was dedicated to assessing the outcomes of the program's implementation⁹. However, no subsequent reporting conference was held to evaluate the *2014–2016 State Program*, and therefore, information regarding the financial resources allocated to that phase was not made publicly available. Nevertheless, it should be noted that the adoption of each state program presupposes the formal approval of its corresponding budgetary framework.

Despite the substantial scale of financial input and institutional effort, the outcomes remain mixed. While some regions experienced localized improvements in infrastructure, industry, and

⁶ Program of Measures to Accelerate the Socio-Economic Development of the Settlements of Baku City for 2006–2007, <https://anl.az/download/beqsii.pdf>

⁷ State Program on the Socio-Economic Development of the City of Baku and Its Settlements for 2011–2013, <https://e-qanun.az/framework/21652>

⁸ State Program on the Socio-Economic Development of the City of Baku and Its Settlements for 2014–2016, <https://e-qanun.az/framework/26845>

⁹ <https://president.az/az/articles/view/10571>

employment, the overall level of socio-economic development continues to exhibit significant spatial disparities. In particular, the Baku–Absheron economic region, which includes the capital city, remains the dominant center of economic activity, capital accumulation, and population growth, far outpacing the rest of the country in most development indicators.

Consequently, the regional imbalance remains a major policy challenge. As of 2024, the comparative socio-economic situation of Azerbaijan’s regions, assessed through multiple parameters (e.g., gross regional product, industry, employment structure, financial institutions and incomes, etc), is summarized in Table 2.

Table 2. Comparative socio-economic situation of Azerbaijan’s regions

Indicator	Share of Baku and Absheron–Khizi Economic Regions (%)
Population	23.3
Territory	2.5
GDP	80.8
Industry	55.1
Retail turnover	60.3
Wholesale trade	86.3
Catering turnover	71.1
Small and medium-sized business activity	66.1
Capital stock	50.2
Employees	61.8
Income	61.1
Deposits	88.6
Credit	76.5
ATMs	52.1

Source: State Statistical Committee of the Republic of Azerbaijan.

The data presented in Table 2 clearly demonstrate that the Baku and Absheron–Khizi Economic Regions constitutes the dominant center of Azerbaijan’s economic activity. Although it covers

only 2.5 percent of the country's territory, it accommodates 23.3 percent of the population and generates the vast majority of national GDP (80.8 percent). This region similarly concentrates most of the country's industrial output, trade, and financial infrastructure, including 86.3 percent of wholesale trade and 88.6 percent of total deposits. However, the Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026¹⁰, adopted on July 22, 2022, sets a target to increase the share of regional agricultural production in total crop output from 35 percent in 2020 to 42 percent by 2026.

Such figures underscore the extraordinary spatial concentration of economic power within the capital area (75.8 %). The next largest contributor, the Absheron–Khizi regions, accounts for only about 5 percent of GDP, while the remaining regions each contribute approximately 1–2 percent. Consequently, the economic output of Baku is roughly 15 times greater than that of the second-ranked region, highlighting the depth of regional inequality in Azerbaijan's development pattern.

Another fundamental reason for the persistent underdevelopment of Azerbaijan's regions lies in the structural features of its authoritarian governance model. In such systems, the state's capacity to maintain political control is closely intertwined with the organization of economic and employment structures. The combination of limited private-sector alternatives, high public-sector dominance, and localized surveillance mechanisms allows the central government to sustain tight control over regional populations, thereby reinforcing authoritarian stability¹¹.

When compared internationally, Azerbaijan's regional imbalance is even more pronounced. The capital city's share in GDP stands at 75.8 percent, compared to 62.1 percent for Yerevan in Armenia and 52.7 percent for Tbilisi in Georgia. A similar pattern emerges when examining per capita GDP levels: in Baku, per capita GDP reaches approximately USD 23,600, while in the Lankaran–Astara economic region it is only USD 1,500—a more than 15-fold difference. For comparison, the ratio between the richest and poorest regions is about 4:1 in Armenia and 2.6:1 in Georgia¹².

¹⁰ Socio-Economic Development Strategy of the Republic of Azerbaijan for 2022–2026, <https://e-qanun.az/framework/50013>

¹¹ Ibadoghlu, Gubad, *The Mechanisms And Tools Of Authoritarian Control In Resource-Rich States: A Case Study Of Azerbaijan* (April 16, 2025). Available at SSRN: <https://ssrn.com/abstract=5219272> or <http://dx.doi.org/10.2139/ssrn.5219272>

¹² Baku Research Institute (BRI), *The Contribution of the Regions to the National Economy: A Comparison Between Azerbaijan and Neighboring Countries*, written by BRI Economic Team, 28 July 2025,

State Program on the Socio-Economic Development of Baku and its Settlements in 2014-2016¹³

These disparities reveal a highly centralized economic and administrative structure, where development remains heavily concentrated in the capital and its surrounding area, leaving the rest of the country with limited economic diversification and lower living standards.

The continued reliance on oil-fund resources reflects the limited success of fiscal diversification efforts and underscores the enduring structural dependence of Azerbaijan's national budget on hydrocarbon revenues. Despite measurable progress in certain areas—such as the gradual expansion of non-oil exports and the partial recovery of foreign direct investment inflows—macroeconomic indicators and fiscal trends demonstrate that advancement toward the Strategic Roadmap's objectives remains insufficient.

The persistence of a substantial non-oil budget deficit and ongoing fiscal dependence on hydrocarbon income reveal unresolved systemic vulnerabilities within the national economy. This divergence between policy aspirations and actual outcomes highlights the urgent need for a comprehensive reassessment of Azerbaijan's post-2025 development strategy. Such a reassessment should prioritize institutional reform, fiscal consolidation, economic diversification, and the enhancement of investment efficiency as essential preconditions for long-term sustainability.

Ultimately, these disparities point to the deeply centralized character of the country's economic and administrative structure, where development remains disproportionately concentrated in the capital and adjacent regions. Addressing these spatial and structural imbalances is critical for fostering inclusive growth, ensuring regional equity, and building a more resilient and diversified post-oil economy.

<https://bakuresearchinstitute.org/en/the-contribution-of-the-regions-to-the-national-economy-a-comparison-between-azerbaijan-and-neighboring-countries/>

¹³ State Program on the Socio-Economic Development of Baku and its Settlements in 2014-2016

Conclusion

This study demonstrates that Azerbaijan's State Program for the Socio-Economic Development of the Regions (2004–2023)—despite massive public investment—has not succeeded in narrowing spatial disparities or achieving balanced regional growth. The Baku–Absheron region continues to dominate national economic activity, while the rest of the country remains economically peripheral.

The findings confirm the limits of state-led regional development in a resource-dependent and centralized context. Oil revenues have enabled periodic surges in regional investment but have simultaneously reinforced fiscal dependence and administrative hierarchy. Infrastructure expansion has not translated into equitable growth or diversified local economies.