

# AZERBAIJAN

**Written statement by Dr. Sahil Babayev, Temporary Alternate Governor of EBRD for Azerbaijan**

The year 2016 was special for EBRD as the Bank's principles on its procedures, operations and strategies shifted towards the application of new transition categories according to a new 'Concept of Transition'.

Today, EBRD's role contributes to fostering transition to a well-functioning market economy whereas priorities and measurements of transition also reflect country circumstances. Furthermore, the launch of EBRD's Economic Inclusion Strategy marks a significant step in guiding the transition across the EBRD region towards inclusive market economies.

When it comes to Bank's performance in 2016, EBRD, despite a challenging economic landscape, managed to keep Annual Bank Investment equaling the record level of financing set the previous year. The year 2016 can also be marked as a special for EBRD as it started implementation of the Green Economy Transition approach which helps countries to reduce emissions.

EBRD's net profit and accumulated reserves for the end of 2016 according to the Annual Financial Report provide us with a huge sense of accomplishment and these are indicators of efficient implementation of Bank's strategy.

Nevertheless, EBRD investment engagement in support of Eastern Europe and the Caucasus region countries of operations declined significantly by 30 percent compared to a year earlier whereas this decline for Azerbaijan was substantial and the Bank delivered only nine new projects totaling €61 million or 77% less compared to a year earlier.

New transition categories articulated in the new Concept are fully in line with the strategic focus priorities made by the Government of Azerbaijan to achieve desirable quality of market economy.

The role of state in Azerbaijan in a new economic paradigm requires further improvement of the business environment in order to encourage private sector investments in non-resource economy and ensure efficient and performance-based model of governance.

Further to support energy sector in the region, EBRD is considering to provide financing for Southern Gas Corridor project—the world’s largest gas development - which will play a key role in diversifying the EU’s energy sources by linking Europe to Azerbaijani gas, and potentially other producers in the Caspian Sea.

We strongly welcome EBRD’s engagement in the development of local currency funding to support SMEs and the strengthening of money markets.

Targeted economic policy allowed Azerbaijan to improve economic infrastructure, to deepen market relations, to reduce poverty, and to improve the economic security and strengthening the state administration.

Sharp price decline in oil markets, weak regional growth and currency devaluations in our main trading partners have made the adjustment of development path necessary. The country is now progressively delinks its economic growth from revenues coming from the energy sector.

To achieve recovery and sustainable growth, a Strategic Road Map has been adopted in 2016 to rapidly diversify the economy. The Road Map set medium and long-term goals for reforms and sustained development where public investments will act as a catalyzer while private sector will be a locomotive for the growth.

The undertaken measures to develop economic situation and made achievements have been also highly appreciated by prestigious international institutions.

According to the World Economic Forum's Global Competitiveness Report 2016–2017, Azerbaijan ranked number 37, number 1 in the CIS, maintaining its leading position among CIS countries for nine consecutive years.

The report stipulates significant improvements of Azerbaijan's competitiveness in the area of health and education by 27 places, innovation by 17, financial market development by 17, business sophistication by 13, infrastructure by 10 places.

Serious reforms have been taken to improve the business environment and investment climate. The number of licenses was reduced, investment promotion certificate was introduced, inspection of entrepreneurs' activities was suspended, public services was improved, significant customs reforms on introduction of electronic customs declaration and simplification of procedures were launched, tax system has been modernized and fully digitized, Appeal Councils were established to resolve valid complaints and problems in a short and easy way.

When it comes to governance category serious fight is waged against corruption and bribery. A special role in this area belongs to the “ASAN” (Azerbaijan Services and Assessment Network) service where public services come from one source.

At the same time, Azerbaijan has made great strides in building e-government. This can be evidenced through the recent UN ranking E-Government Survey 2016. In this survey, Azerbaijan moved up 12 points to 56th place in E-Government Development Index. More significant jump is observed on the E-Participation Index – the country has risen to 47th place by making a great leap of 30 positions.

For non-oil sector diversification, three industrial parks have already been established and three more parks will be completed within few years. Totally, over \$573 million have been invested to the industrial parks by residents and more than 5,000 new job places were created. In the next time period, it is expected that more than \$1.1 billion will be invested which will allow to generate 7,000 more jobs.

Non-oil development in Azerbaijan directly linked with export diversification. Main mechanisms created to expand exports of non-oil products such as promotion of 'Made in Azerbaijan' brand abroad; organizing exhibitions and export missions are already gradually bearing fruits. Another important issue was the simplification of access of small and medium businesses to foreign markets. In this regard, the export portals were launched and integrated with the most popular trading platforms such as Alibaba and Allbiz which makes the domestic products available to potential buyers from anywhere in the world.

Through the established Coordinating Council on Transit Freight cargo transportation services and corridor performance have been improved significantly. In a short period, the number of procedures for transit was decreased, costs for certain type of transit services were diminished up to 40%, and as a result, the volume of transit freight for 1st quarter of 2017 was increased by 40%.

One of the biggest regional projects - Baku-Tbilisi-Kars railway that will be commissioned soon - will connect Asia and Europe and contribute to economic revival and prosperity in the region. Azerbaijan also has been leading the execution of the North-South Transportation Corridor - a grand project that will interconnect Europe and Asia. These projects are very good examples for Azerbaijan's contribution to develop economy of the region.

However, we must note that, occupation of Azerbaijani territories by the Armenian armed forces is one of the main obstacles to mutual cooperation of the regional countries and their economic development. Today 20% of our territories is occupied by Armenia, over 1 million Azerbaijanis live in the status of refugees and internally displaced persons, which causes enormous damage to the Republic of Azerbaijan.

The fact of occupation and non-implementation of UN Security Council Resolutions, impose the biggest threat to the security and economic prosperity of the region and hinders the realization of various local and regional scale projects. Seizing this opportunity I would like to commend EBRD for its commitment and readiness to support the Government of Azerbaijan in its determination to drive the economic reforms process forward to ensure sustainable and inclusive economic growth for the years ahead.