

# Country Assistance Policy for the Republic of Azerbaijan

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## 1. Relevance of Assistance

Azerbaijan has abundant energy resources and forms energy and logistics corridors linking Central Asian countries and the Caspian Sea region with Europe. It is also located in a geopolitically critical place, surrounded by regional powers such as Russia and Iran. Stable development of Azerbaijan is thus highly important for the stability of the Caucasus region.

Since its independence, Azerbaijan has achieved dramatic economic development led by oil and natural gas exploration through active introduction of foreign capital as well as by exports of such resources. However, while industries supported by public investment, such as the construction industry, are growing rapidly, the oil industry, which has been a driving force for the country's economic growth, shows signs of slowing growth with the reduction of oil production in recent years. Likewise, the wealth achieved through past economic development has not been adequately distributed as the shortfall in human resources impeded an effective and efficient management of private investment and government budgets. This has led to serious disparities between the rich and the poor as well as between urban and rural areas.

Taking into account the future depletion of oil for stable medium- and long-term development of the economy, there is a pressing need for further diversification in the industrial structure as well as for the improvement of aging infrastructure constructed during the Soviet era as they will be a base for economic development. In addition, in order to redress increasing disparities, it is also important to develop infrastructure for providing wide-ranging social services which aim to improve people's livelihood as well as their quality of life, and to develop human resources in the private and government sectors.

In these conditions, Japan's assistance to Azerbaijan in the framework of Official Development Assistance (ODA) will not only help solve the problems this country is facing, but also lead to the strengthening of the friendship between the country and Japan. It is also beneficial from the perspective of contributing to the stability in the Caucasus region as a whole.

## 2. Basic Policy of Assistance: Providing Assistance Aiming to Achieve Sustainable Economic Development and Redress Disparities

In order for Azerbaijan to achieve sustainable economic growth and redress disparities, Japan supports the economic diversification pursued by the Government of Azerbaijan. Japan also supports the promotion of the agriculture, tourism and

transport industries, on which the Government of Azerbaijan is focusing, as well as the improvement of infrastructure, including electricity and roads.

### 3. Priority Areas

#### (1) Improvement of Economic Infrastructure

The deterioration of infrastructure facilities developed during the Soviet era is a factor impeding the country's economic growth. In particular, electricity and logistics networks are a base for smooth business activities and also important from the perspective of promoting non-oil sectors such as agriculture; thus Japan provides assistance for the improvement of infrastructure mainly in the energy and transportation sectors.

#### (2) Improvement of Social Services

As the disparities between the rich and the poor as well as between urban and rural areas are widening, the improvement of social infrastructure such as water supply and sewerage is important as a basis for the livelihood of the people. Likewise, as there are unmet needs for such basic social services as health and medical care, education and environmental measures, there is a pressing need to ameliorate not only the access to public services but also the quality of the services. For the improvement of people's livelihood and quality of life, Japan provides assistance which contributes to the improvement of the basis for providing social services. Furthermore, for sustainable economic development and reduction of the disparities, Japan also focuses on assistance for the development of human resources in the government sector who can provide proper social services as well as those in the private sector who can contribute to the promotion of industries.

### 4. Points to be considered

As other development partners are providing assistance to Azerbaijan, Japan actively shares information with these partners while paying attention to the possibility of cooperation with them to offer assistance in an efficient manner.

Annex: Rolling Plan