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**CAPSTONE PROJECT**

**Barriers to Sustainable Development and Social Inclusion in Azerbaijan's rural  
Communities.**

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## **STATEMENT OF AUTHENTICITY**

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## **Table of Contents**

### **Chapter 1: Introduction.**

#### **1.1. Methodology**

### **Chapter 2: Problem description.**

#### **2.1. Financial Exclusion and Its Impact on Sustainable Development in Rural Areas in Azerbaijan.**

##### **2.1.1. Structural Governance Failures in the Implementation of Rural Development Initiatives in Azerbaijan**

#### **2.2. Impact of Oil Dependency on Social and Economic Inclusion**

#### **2.3. Gender Inequality in Access to Financial Resources and Employment Opportunities**

### **Chapter 3: Policy Options**

#### **3.1. Creation of the Integrated Rural Development Authority (IRDA) to Address Financial Exclusion and Governance Failures in Azerbaijan Rural Area**

#### **3.2. Economic Diversification: Reducing Oil Dependence for Enhanced Social and Economic Inclusion**

#### **3.3. Women Empowerment: Addressing Gender Inequality in Access to Finance and Employment**

### **Chapter 4: Evaluation of Policy Alternatives**

#### **4.1. Assessment of IRDA's Potential for Inclusive Growth and Institutional Reform in Azerbaijan Rural Area**

#### **4.2. Economic Diversification: Reducing Oil Dependence for Enhanced Social and Economic Inclusion**

#### **4.3. Women Empowerment: Addressing Gender Inequality in Access to Finance and Employment**

### **Chapter 5: Conclusion and Recommendations**

### **References:**

### **Index: Interview questions**

## **Final draft**

### **List of abbreviations**

**ADB** - Asian Development Bank

**EBRD** - European Bank for Reconstruction and Development

**ECOSOC** - United Nations Economic and Social Council

**EPRC** - Economic Policy Research Center

**EU** - European Union

**FAO** - Food and Agriculture Organization

**FPI** - Financial Performance Indicators

**GEM** - Gender Equality Measure

**GDP** - Gross Domestic Product

**HDI** - Human Development Index

**ICT** - Information and Communication Technology

**IFC** - International Finance Corporation

**IMF** - International Monetary Fund

**IRDA** - Integrated Rural Development Authority

**KOBIA** - Small and Medium Business Development Agency (Azerbaijan)

**M&E** - Monitoring and Evaluation

**MSMEs** - Micro, Small, and Medium Enterprises

**NGO** - Non-Governmental Organization

**OECD** - Organization for Economic Co-operation and Development

**RD** - Rural Development

**SI** - Social Inclusion

**SMBDA** - Small and Medium Business Development Agency

**SMEs** - Small and Medium Enterprises

**SOFAZ** - State Oil Fund of Azerbaijan

**SDA** - Sustainable Development Authority

**SDGs** - Sustainable Development Goals

**UN** - United Nations

**UNDP** - United Nations Development Programme

**UNICEF** - United Nations Children's Fund

**UNECE** - United Nations Economic Commission for Europe

**WB** - World Bank

## **Chapter 1: Introduction** (*Laman and Sabina*)

The socio-economic development and social integration agenda have been Azerbaijan's significant priorities since its independence. Nevertheless, despite considerable efforts, a substantial divide persists between urban and rural populations (Asian Development Bank, 2022). These unequal living conditions including disparities in infrastructure, access to services, and economic opportunities weaken the effectiveness of national inclusion policies and hinder the overall progress of sustainable development in the country. Thus, this study aims to investigate the low level of sustainable development and social inclusion in Azerbaijani rural areas due to problems and issues related to financial infrastructure, economic orientation towards agriculture, and socio-cultural challenges, including gender ones.

The importance of this work is in its effort to propose pragmatic and specific recommendations that will allow for increasing the country's rural areas' sustainable development and improve their social integration. Solving these challenges is necessary for the states' effective development and making economic opportunities available to people from different regions and social layers. Furthermore, understanding such barriers and ways of dealing with them can help provide the Third World countries experiencing similar challenges with possible solutions.

Azerbaijan has undergone constant economic progress since the beginning of the 1990s, which is attributed to the country's ever-growing oil and gas industry. The landmark “Deal of the Century,” signed in 1994, attracted significant foreign investment and accelerated economic development. Nevertheless, oil revenues have shaped the country's economic dependency and affected the socio-economic development of regions, concentrating its benefits on Baku city and neglecting the rural areas (Guliyev, 2019). This has led to an increased gap between the affluent urban areas and the poor rural regions, where most rely on farming to earn income.

This means that the agricultural sector provides employment to nearly 36% of the employed persons and contributes less than 6-7% of the GDP, so there is a need for the country to diversify its economic base to reduce overreliance on agriculture and extractive industries (UNECE, 2023). There are improper farming methods, no application of technology in the case of farming, and limited capital available for agriculture in the countryside. At the same time, over-dependence on oil revenues implies that other critical sectors for agriculture and rural

development, like technology and services, have not been advanced (Guliyev, 2019). For this reason, this paper aims to establish how the strategic management of oil revenues can enhance the diversification of the rural economy, foster innovation, and support the development of accessible education and vocational training opportunities for young people in rural areas.

Access to formal financial services remains one of the significant structural barriers to sustainable development in rural Azerbaijan. According to the Country of Origin Information Report (Ministry of Foreign Affairs of the Netherlands, 2024), rural populations still lack access to essential financial infrastructure such as banks and credit cooperatives despite macroeconomic recovery. Many rural municipalities remain unbanked, and financial transactions in these regions are still heavily cash-based. Similarly, the Asian Development Bank (2022) highlights that while Azerbaijan has made strides in financial sector development, access to finance for rural communities, women, and small businesses remains limited due to underdeveloped digital payment systems and a lack of localised financial products. The 2022 and 2021 Annual Reports of the Financial Sector Development Partnership Fund reveal that only 11% of all ADB-funded finance sector projects in Central and West Asia focused on inclusive finance, with specific support for women's financial inclusion concentrated in urban centres (Asian Development Bank, 2021, 2022).

Gender-related barriers are even more pronounced. The UN Women (2022) and UN Azerbaijan (2023) reports document that while women's entrepreneurship is gradually growing in Azerbaijan, rural women remain economically marginalised due to restrictive social norms, low digital and financial literacy, and inadequate access to vocational training and startup capital. In 2022 alone, over 3,000 women participated in entrepreneurship training programs supported by the Small and Medium Business Development Agency (SMBDA). Yet, only eight women received Startup Certificates that provide tax exemptions for innovation-based businesses (SMBDA, 2023). The Azerbaijan Government's employment strategy also acknowledges that improving gender-responsive services and access to finance is critical for realising its 2030 inclusive development goals (UN Women, 2022). Despite modest gains, inclusive financial services in rural areas remain fragmented and insufficiently tailored. Targeted expansion of microfinance institutions, deployment of digital banking platforms in rural municipalities, and gender-sensitive loan products must be prioritised to ensure equal participation in Azerbaijan's development trajectory.

The relevance of these challenges was highlighted at the UNECE's Second SDG Dialogue held in June 2023, where emphasis was placed on the need to step up productivity and economic growth, especially in rural areas. The absorption of disparities between urban and rural areas, as well as gender discrimination, were highlighted as among the ways of attaining economic inclusion. It was also stated that targeted social protection should be effectively implemented to support the low-income and vulnerable households (UNECE, 2023).

That is why the present work is devoted to defining practical recommendations for solving three key problems of rural area development in Azerbaijan.

1. Lack of proper financial services: Smallholders often have little access to appropriate formal financial services in rural areas that can help them contribute to the economy.

Addressing this issue requires:

- The following are the solutions: Increase microfinance and establish agricultural-based banks that will suit rural areas.
- Enhancing the government programs to make them more effective and easily accessible.
- Encouraging private-sector investment in rural financial services.

2. Economic Over-reliance on Agriculture with Minimal Diversification: The overreliance on agriculture and the lack of economic diversification impede sustainable development.

Proposed strategies include:

- Appropriate utilisation of the oil revenue in diversifying the rural economy.
- Creating innovation, technology, and entrepreneurship in agriculture and other sectors.
- Enhancing educational and vocational training, especially in schools targeting rural young people.

3. Socio-Cultural Barriers and Gender Disparities: Persistent gender inequalities further compound the difficulties faced by rural communities. Addressing these issues requires:

- Including enhanced credit and land rights for women and increased entrepreneurial activities for women.
- Training and educational services for enhancing the economic status of women.

The general aim of this study is to identify the factors that can facilitate the sustainable development and social integration of the rural areas in Azerbaijan. This study involves government agencies, financial institutions, civil society organisations, and societies to determine practical approaches to removing structural impediments to development. Besides, the findings will help to establish more robust policy measures that will increase economic equality for the growth of each citizen.

### **1.1. Methodology** (*Ignace*)

The paper is based on qualitative research that explores the barriers to sustainable development and social inclusion among the rural population of the regions of Azerbaijan. As the focus of the research is on perceptions, experiences, and structural limiting conditions, a process oriented, in-depth understanding is better acquired through using qualitative methods. Indeed, qualitative methods are particularly important for examining complex social phenomena that are not accurately reflected by quantitative data (Creswell, 2014).

The research uses primary and secondary data for robust analysis. The primary information is obtained through three Open interviews with key informants (KI) who have had direct roles in RD and/or SI within Azerbaijan. These actors are policy makers, members of non-governmental organizations and development workers. This semi-structured interview format strikes a balance between structure and flexibility, such that a guide discussion could occur while participants could elaborate on their personal knowledge and professional experience. This style of conversation has the advantage of promoting a free and open exchange of views (Kvale, 2007).

Beyond the original data, the analysis involved an extensive search of secondary sources such as official government reports, documents from international development agencies, academic research articles and evaluations from non-governmental organisations. These provide important context and background that place the interview results in national,

regional and global contexts. ) Data sources could range from data on rural infrastructure, access to finance, level of education, and social justice from the ministry of economy in Azerbaijan, the World Bank, and the UNDP (Bryman, 2016). Incorporating these secondary sources of information adds depth to the study and helps triangulate the findings, thereby lending rigour to the results.

Additionally, secondary data serves to provide an understanding of the historical evolution of rural development policy in Azerbaijan, reflect on persistent implementation problems therein and develop comparisons with elsewhere (other countries or regions). This wider framing reinforces a more informed view of the structural and institutional determinants of sustainable development and social inclusion results.

The study takes ethical considerations very seriously. However, all interviewees submit written or oral informed consent in which they indicate their understanding of the study, declare that they are participating voluntarily, and are free to withdraw from the study at any time. The consent form also explains how data would be stored and utilized. To preserve anonymity, we have omitted names and identifying locations from this report. Transcripts of interviews are also completely anonymous, and all information gathered will be kept confidential and used solely for academic purposes.

This work follows the highest ethical guidelines used by top academic institutions. It treats participants with rights, transparency, informed consent, and confidentiality protection, as recommended by Babbie (2012), and concurred by the practices of Organization (2000). Last, this inductive investigation, buttressed by strong secondary sources, seeks to generate

This policy paper is structured in five thematic chapters, following the main dimensions of the obstacles to sustainable development and social inclusion in rural Azerbaijan. Introduction In Chapter 1, Chapter 1 introduces the research by providing an overview of the background to the study, and the methodological approach in examining the policy problem. Moreover, chapter 2 gives a complete summary of the problem. This is followed by an explanation of the problem of financial exclusion and how it contributes to retardation of rural development. We also consider recent work on ‘structural failures’ of governance (bureaucratic failure, a lack of administrative instruments and outreach) and its detrimental effects on rural development policy implementation. It also examines the implications of Azerbaijan’s oil dependency on fair economic and social inclusion, and the failure to address gender discrimination in accessing financial and labour resources. In

addition, chapter 3 discusses various policy options in order to deal with the root causes determined in the previous chapter. These models are developed to increase financial inclusion, increase institutional effectiveness and diversify the rural economy and also the promotion of gender-inclusive policies. Furthermore, chapter 4 assesses the alternatives with regard to selected criteria, such as feasibility, cost-effectiveness, and long-term viability. This review is aimed to give insights to the solutions that are more promising to solve the aforementioned challenges successfully. Finally, in chapter 5, the paper concludes by discussing the main results presented here and drawing some direct policy lessons. The final section suggest the best policy response for the furtherance of sustainable development and social inclusion in rural Azerbaijan.

## **Chapter 2: Problem description**

Azerbaijan's rural areas confront several hurdles in achieving social inclusion and sustainable development, predominantly due to a few interrelated factors. Three of them have been identified to be more important in this study. Primarily, the absence of formal institutions providing support and the underdeveloped financial infrastructure in these areas hinder the access to essential financial resources; government programs for rural development frequently fall short of their target populations due to poor outreach and bureaucratic inefficiencies (World Bank, 2020). Moreover, there is an excessive dependence on agriculture, which is still underdeveloped because of obsolete methods, a lack of investments, and inadequate technology. The national economy's fixation on oil and gas, along with this reliance on a single industry, hampers economic diversification which therefore stimulates excessive unemployment and inequality in the area especially in the rural areas (Azerbaijan Ministry of Economy, 2019). Thirdly, women's access to education in most of Azerbaijan's rural areas and employment prospects are limited by sociocultural barriers, including gender gaps, which exacerbate social inequality and impede overall economic growth (UN Women, 2021). When taken as a whole, these elements impede rural communities' development and keep them from realizing a more sustainable and inclusive future.

### **2.1. Financial Exclusion and Its Impact on Sustainable Development in Rural**

#### **Azerbaijan** (*Ignace*)

Secure savings, credit, financial transactions, transfer of remittance and insurance and other rural financial services are the prime tools for the development of an economy and to increase the prosperity of the rural folks (Tenaw & Islam 2009) Formal financial institutions, however, are largely absent in rural Azerbaijan including commercial banks, microfinance institutions and agricultural credit agencies. This extreme shortage of infrastructure has a severe restriction on the access of local populations to indispensable financial resources. Though government-sponsored programs have tried to encourage development in rural areas, they have been unable to exert their influence due to administrative obstacles and lethargic efforts to reach out. As stated by Parviz Haydarov, “there has been weak development of the principle of initiative in the regions” and municipalities “were venue of little or no noticeable activity” in Azerbaijan's regions (From personal communication, April 2025). This reflects a

wider phenomenon of institutional failure that imperils financial inclusion and sustainable development.

The poor banking infrastructure in rural Azerbaijan has considerably implications on savings behaviour, agricultural production and credit accessibility. Inability to obtain funding is a basic prerequisite for further personal or business development that is universally faced in these regions. Natiq Cafarli insisted that the absence of appropriate financial and technical sources is a fundamental cause of agricultural inefficiency: There are serious technical problems including water supply and irrigation issues that prevent further increase in productivity in many regions” (From personal communication, April 2025). In this type of environment credit needs for small businesses and farming are too often met by informal source, such as family or local moneylenders who apply usurious interest rates. This cycle locks borrowers into debt and financial instability, and restricts rural economic progress.

Most of the rural households in Azerbaijan still depend on agriculture as a main source of income, so it is an important sector for promoting local economic growth and sustainable development (Berkum, 2017). But, as the interviewees point out, financial instruments that they can use to invest in better equipment, updated seeds, or current technology continue to be lacking. According to Cafarli, here to be taken into consideration would be scientific thought, appropriate seed selection, and investments that amounted to a funding that was not available for rural communities at this point (From personal communication, April 2025). This sentiment was echoed by Haydarov who claimed that breaks in the production to market chain (ie, when farmers are unable to reach the processing factories) discourages both production and economic participation (From personal communication, April 2025). As they lack access to agricultural credits or microfinance, smallholders cannot continue into take the steps to increase yields or diversify sources of their income.

Additionally, rural households lack formal insurance products which makes them particularly exposed to risks that derive from, for example, market fluctuation or weather-related disasters. The insecurity has the effect of discouraging long term investment and innovation. Complicating the problem is the absence of infrastructure for savings. In cities, traditional banks provide a safe place for savings where residents can save for the future and invest in times of need and opportunity. In Azerbaijan’s rural areas, where such institutions are absent, people tend to keep money in an informal way which increases chances for

money to get lost, and decreases flexibility in tolerance power. Haydarov then pin-pointed the lack of exploiting the country's economic capabilities at the regional level as a consequence of institutional and infrastructure deficiencies (From personal communication, April 2025).

The absence or closure of financial institutions also hampers investment in sustainable, long-term projects such as making the switch to clean energy systems or developing eco-tourism or technological advances in farming. For these investment projects, rural areas face tremendous constraints in obtaining capital as the projects tend to be capital intensive with relatively high upfront cost requirements (World Bank, 2021). Foreign financial aid for the rural areas is scant and many potential transforming programs are still denied (Asian Development Bank, 2020). Cafarli explained that although supermarket chains have the potential to improve market access, these linkages are not adequately facilitated by existing legal and financial arrangements (From personal communication, April 2025). These disconnects undermine investment in the rural economy from the private sector and also nullify the efforts of government programs to stimulate rural development (UNDP, 2019).

Furthermore, as a result of this vacuum from institutions, rural communities also have weak ability to absorb (absorptive capacity) financial aid in a well targeted and managed manner, even when financial aid is actually available. Haydarov's comment about the constraints of economic diversification being driven by an "overreliance on oil and gas" and a "lack of competition" in markets illustrates the systemic blocks to financial inclusion in rural economies (From personal communication, April 2025). These financial and administrative discrepancies leads to the lack of coherence in planning and implementing development projects (Ministry of Economy, 2022). Limited financial access has hampered the reach of programs to develop green technologies, better agriculture and generate jobs (OECD, 2020). Addressing these obstacles can go along way in mitigating rural unemployment and internal migration and thus towards social inclusion and sustainable economic resilience (Mehralizadeh, 2023).

In a nutshell, the combined impact of limited access to financial services, bad governance and poor infrastructure keeps rural communities in the vicious cycle of underdevelopment and marginalization. Without strong policy and investment to address it, financial exclusion would persist as a key barrier to sustainable development in rural areas of Azerbaijan (UNECE, 2021).

### **2.1.1. Structural Governance Failures in the Implementation of Rural Development Initiatives in Azerbaijan (Ignace)**

The mismanagement, low outreach and insufficient monitoring and evaluation are the principal reasons for the failure of the rural development programme in Azerbaijan. These deficiencies function as an obstacle for the advancement of rural persons. There is much red-tape in the decision-making, poor administrative cooperation, inefficient communication among departments and institutions in the government (Asian Development Bank [ADB], 2020). These are inefficiencies that have made it difficult to implement crucial development projects, misuse of funds and the slow disbursement of funds. This complex bureaucratic process which is slow and inefficient delays the implementation of timely responses to shortages of goods and services and undermines local leaders and entrepreneurs who would be central to government-run responses. These people might feel discouraged to work when they can't see their work be rewarded or when the system seems too cumbersome to deal with, and the development space between urban and rural area is increasingly expanding. There is no communication or access of government initiatives to rural areas which further complicates the problem. According to Natiq Cafarli, "If local self-governance infrastructure in Azerbaijan is increased... they will be able to solve local problem easily as they closely work with the community. That is a governance point" (From personal communication, April 2025). As a result, many rural residents are uninformed of supports that are available or unable to access them. And if data is available, it often doesn't get to the right people in a meaningful or human-readable form. Outreach in most cases is generalized and not targeted at meet rural based specifics need of the people which is disconnected as a result of geographical terrain, low literacy levels and poor communication strategies used by public institutions (World Bank, 2018). Moreover, monitoring and evaluation in the way of project sustainability is primitive. And even when programs do make it out to their rural beneficiaries, they can't really measure or adjust their effectiveness without regular data collection and monitoring. Numerous initiatives have been launched with a weak grasp of the rural issues, which explains why the priorities are wrong (UNECE, 2021). In the words of Cafarli, "There are a number of technical issues in terms of water supply and irrigation systems that inhibit greater agricultural productivity in almost all regions" (From personal Communication, April 2025). Infrastructure can be built without consideration of basic human needs such as mobility or access to markets, and there can be lost opportunities and inefficiencies as a result. "It limits the ability of communities to come together, work

collectively, and collaborate... and reduces efficiency and profitability,” said Cafarli. One of the main challenges is the absence of a scientific attitude among rural people” (From personal communication, April 2025).

These are not isolated observations, but have been repeatedly made by various international reports and scholarly studies. For instance, the OECD (2022) highlights continuing governance issues in Azerbaijan’s subnational levels, including the lack of institutional autonomy of the local authorities and their constraint financial capacities. Local executive officials appointed by the central government tend to be mere executors of centrally planned programs that are not designed flexibly or with a local mandate. This is a top-down method that limits flexibility and undermines local ownership of the treatment process.

Further, UNDP (2021) also notes that while Azerbaijan has adopted de facto policy strategies to decentralization and rural sustainability, these strategies continue to be implemented in a top-down manner, resulting in duplication of labour, inefficiencies, and lack of transparency. As a result of this lack of participatory planning and feedback mechanisms, public service provision ó particularly in rural areas ó is so often mis-calibrated to local requirements.

The following figures help to illustrate the rural–urban gap in terms of access to basic facilities (Azerbaijan State Statistical Committee 2023). For instance, 95 percent of urban households possess access to improved sanitation and waste disposal systems, compared to only 68 percent in rural areas. This is a clear indication of a serious disconnect at the level of implementing infrastructure projects, supposedly of national proportion.

In the field of agriculture a core pillar of rural incomes small farmers are often left out as a result of information asymmetries, a lack of digital literacy and overly bureaucratic application processes of government aid schemes. Some 60 percent of the smallholder farmers in southern Azerbaijan, for example, were unaware of the government support programmes they were entitled to, a 2020 FAO report stated. And when they knew, many have been excluded from a combination of a lack of documentation or tech support to apply, deepening the rural divide.

Moreover, Transparency International (2023) has observed that corruption in the processes of public procurement as regards rural development infrastructure projects forms a significant barrier. Poor openness in the distribution and spending of aid has resulted in waste

and delays in project implementation, at the same time some key projects are stuck indefinitely for mismanagement.

The research of Guliyev & Gasimov (2022) also reveals that in the rural development programs of Azerbaijan, the logical frameworks and also monitoring and evaluation mechanisms are mainly post-facto, and formalistic, and conditional learning and adaptation. In more than 70% of regional development projects there was no mid-term review or participatory evaluation identified. This is consistent with your contention that sustainability is weakly monitored and programmes don't change to meet developing local context.

Finally, local governments have low capacity for the use of digital tools and for the application of a performance-based evaluation (EBRD, 2021). This technology divide also serves to hinder the effectiveness and accountability of the provision of public services in conflict-affected rural areas.

## **2.2. Impact of an Oil-Dependent Economy on Social and Economic Inclusion (*Laman*)**

Azerbaijan's excessive reliance on oil and gas can be advantageous and disadvantageous. On the positive side, it has fostered robust economic growth and development, but has also provided several risks detrimental to sustainable and inclusive development. However, it is worth noting that between 2001 and 2011, Azerbaijan saw a tremendous GDP growth of \$ 75 billion in 2014 due to oil and gas exports (Guliyev, 2019). Nevertheless, this economic growth was more or less skin-deep and did not involve significant structural changes. As a result, when global oil prices dropped in 2014, the Azeri economy entered a recession phase immediately. Consequently, its GDP declined by half, from 75 billion in 2014 to around 38 billion in 2016, but it was able to slightly recover in the subsequent years (Guliyev, 2019). While GDP recovered to \$47 billion by 2018, structural vulnerabilities still exist as evidence of structural weaknesses in the economy.

This volatility raises a crucial question that has been a significant weakness of Azerbaijan's economy. Specifically, the country has been significantly impacted by the infamous "Dutch Disease," a phenomenon where excessive reliance on natural resources leads to currency appreciation, which harms manufacturing and agricultural competitiveness (Corden & Neary, 1982). The classic "Dutch Disease" model clearly describes Azerbaijan's current economic landscape. Guliyev (2019) stated that the appreciation of the Azeri manat due to hydrocarbon exports has negatively impacted the country's agricultural and manufacturing

industries. For instance, between 2000 and 2015, agriculture's GDP reduced from 16% to 6.2% while it is still a source of employment to about 36% of the total labour force (UNECE, 2023). Likewise, industry, the mainstay of the Soviet-legacy economy, has declined significantly, worsening the de-industrialisation process and offering little employment for the population (UNECE, 2023).

Furthermore, extensive literature addresses the resource curse phenomenon, including the "volatility theory," which argues that resource-dependent economies suffer significantly from volatile commodity prices. This, in turn, results in fluctuating macroeconomic conditions that affect long-run sustainable development (Guan et al., 2021). Therefore, the Azerbaijani economy remains vulnerable to fluctuations in oil prices, and the country has failed to establish proper relationships between the growing oil industry and the rest of the economic sectors. Consequently, critical areas like technology, manufacturing, and agriculture retain low development levels, worsening the economy's vulnerability.

The Azerbaijani government created the State Oil Fund of Azerbaijan (hereinafter SOFAZ) in 1999 to stabilise oil prices. The primary focus of SOFAZ was to minimise revenue volatility and guarantee the sustainable development of the country's economy. However, its operations have considerably strayed from the best practices exhibited by Norway's sovereign wealth fund. For instance, over the years, Norway invested a lot of its oil revenues in other diversified international assets; hence, the country has been able to attain long-term fiscal balance, low inflation rates, and high economic flexibility to external shocks (Hudson, 2011). On the other hand, Azerbaijan's management strategy had profound short-termism as its core. Consequently, as much as \$100 billion out of \$140 billion of revenues generated by SOFAZ from 1994 to 2019 were spent on current consumption and ineffective investments in infrastructure, which are highly vulnerable to bribes and nepotism rather than investing in the future and training human capital (Guliyev, 2019). Furthermore, although some progress in transparency has been made, financial discipline and accountability in SOFAZ are still not fully developed. This is evident because explicit fiscal rules were adopted as late as 2019.

Education is another area of concern as it becomes the foundation of growth and development for all the parties involved. However, it is still relatively underdeveloped regarding the strategic vision of Azerbaijan's economic development. Government education expenditure has remained at around 2.4%–2.5% of the country's GDP, which is far from the average for the group of upper-middle-income countries. This level of investment is

insufficient to develop skilled human capital to support the process of economic diversification (Guliyev, 2019). Moreover, comparative studies worldwide corroborate that spending on education is directly related to long-term financial sustainability. Hence, inadequate investment in education is a systematic way through which Azerbaijan's growth outside the oil and gas sector is hampered (Todaro & Smith, 2015).

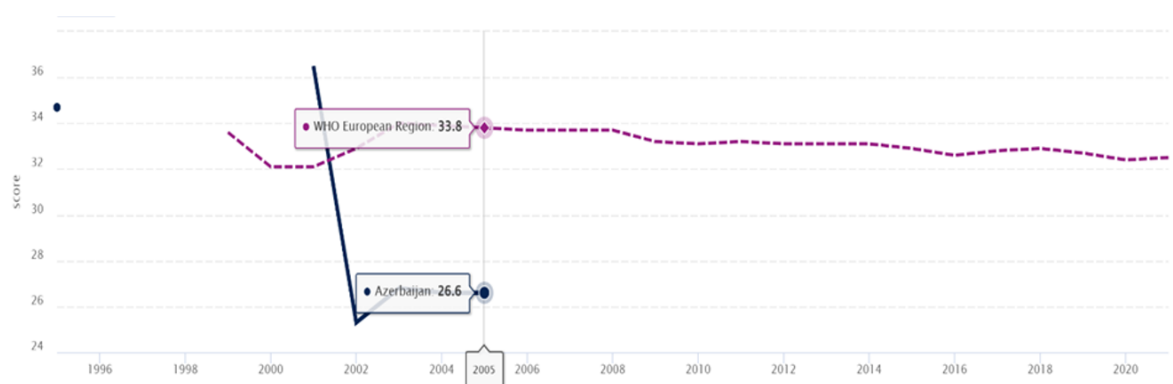
Furthermore, the degree of structure in Azerbaijan's labour markets can be seen as an excellent example of oil reliance's adverse social and economic effects. For instance, within the 2000-2009 period, while the economically active population grew by 14%, the general employment rate only slightly increased to 71.3% by 2008. Notably, the gender participation gap was about 10%, showing that gender barriers to women's employment were still prevalent (Majidova & Petrivska, 2011). This led to employment discrimination where males benefited from employment opportunities in sectors such as oil extraction and related fields, perpetuating gender disparities in the economy.

Also, Azerbaijan's patterns and employment problems are highly differentiated by region and sector. Regarding employment structure, about 38.3% of the labour force is involved in agriculture, which makes a meagre contribution to the GDP of about 7.1% (Majidova & Petrivska, 2011). This clearly shows a significant disparity in investment and overall economic planning, which keeps a large segment of the labour force engaged in low-wage, low-return activities. Sectors and regions mentioned earlier have widened the wage disparity, increasing social exclusion, with the urban areas benefiting from the economic growth, especially Baku. For instance, Baku contributes about 78% of the total GDP of Azerbaijan, hence failing to address regional development requirements; this widens the socioeconomic inequality and migration issues (Majidova & Petrivska, 2011).

Although currently, unemployment rates are comparatively low, averaging 5-6%, the actual rate is considerably higher, especially regarding youth unemployment. This has produced a hidden social pressure, resulting in increased migration, especially to Russia as a safety valve. This migration also hurts domestic economic productivity and social relations in the long run (Guliyev, 2019). In addition, a high level of employment in the informal sector is estimated at 26.5%, while the actual figure is 40% above that of the formal sector, thereby increasing fiscal risks and inequality. This generally erodes taxation efficiency, the pension system, and social security (Guliyev, 2019). The high level of informal employment is

indicative of institutional and governance pathologies, characteristic of a petrostate, where a corrupt elite controls the distribution of resources (Ibadov & Niftiyev, 2022).

These economic distortions are critical in making or unmaking societal inequality and inclusiveness. Azerbaijan experienced a sharp increase in the Gini coefficient soon after regaining independence and a subsequent decline (see Figure 1). It has also been established that the economic gains from the oil revenues have been channeled to the political and financial elites, thus increasing socio-economic inequalities. Also, the average salaries have reduced in real terms from about \$564 in 2014 to as low as \$309 after the currency devaluations showed that the benefits of oil wealth that caused the growth were not inclusive and hence not for the broad populace (Guliyev, 2019). This situation supports the global theories of the political economy of oil states where authoritarianism, lack of institutional reforms, and an increase in economic inequality are provoked by rent-seeking (Ross, 2001).



**Figure 1. Gini coefficient in Azerbaijan and Europe 2025**

Source: (World Health Organisation, n.d.)

In this context, the "Azerbaijan 2030: National Priorities for Socio-Economic Development" strategic document (President.az, 2021) outlines commendable objectives for economic diversification. Still, significant gaps exist between stated ambitions and realistic implementation prospects. First of all, although the discussed strategic plan focuses on economic diversification, it does not offer an extensive and tangible plan of how to diversify the economy away from its oil reliance and towards more sustainable sectors, such as technologies, agriculture, or advanced manufacturing industries (Ibadoghlu & Niftiyev, 2022).

In his work, Guliyev (2019) pointed out that Azerbaijani strategies in the past have failed to meet the goals they set because of the government's inefficiency due to governance deficiencies and rent-seeking and corruption among the elites, which means that without a fundamental change in the system, it is impossible to achieve the stated goals. Moreover, international partners (EBRD, 2025; ADB, 2020) underscore that without concrete governance reforms—particularly transparency, anti-corruption measures, and genuine SME empowerment—strategic ambitions like those articulated in "Azerbaijan 2030" risk remaining aspirational rather than transformative. Hence, realising these national priorities necessitates a more substantial commitment to governance reform, more apparent implementation strategies, and accountable resource allocation.

To achieve these goals, it is necessary for Azerbaijan to radically revise its economic strategy and develop the principles of sustainable and inclusive economic development. In this regard, it has to ally with other countries. Such partners would be the Asian Development Bank (ADB), the European Union (EU), and the World Bank (WB), among others. These measures align with the general global governance standards to contain the effects of resource dependency and diversification. For instance, the European Bank for Reconstruction and Development (EBRD, 2025) has pointed out the following tasks for Azerbaijan: governance advancement and the emergence of a non-oil economy. EBRD's priorities include higher investments in renewable energy, sustainable infrastructure, green finance, and significant support to SMES, which are crucial for stability and equity. In this respect, it is possible to state that the discussed approach is much more effective at addressing economic risks as it focuses on sectors that are not dominant in the Iraqi economy, such as creating employment.

Therefore, the effectiveness of targeted interventions is apparent through Azerbaijan's previous experience in the targeted period of 2019–2024. In this regard, the Bank's activities were fruitful. They provided USD 94 million of financing for developing SMES in various sectors, USD 20 million aimed solely at financing MSMES, and USD 346.5 million invested in renewable energy resources (EBRD, 2025). The above-stated facts show that the attempts at architectural consistency and consistent international cooperation in the sphere of governance reforms, infrastructural development, and diversification of the economy in Azerbaijan are suitable for reducing the risks connected with resource dependency and increasing its economic stability.

### **2.3. Gender Inequality in Access to Financial Resources and Employment Opportunities**

*(Sabina)*

Despite the general focus on the equality issues at the national level, women in Azerbaijan continue to face discrimination in the sphere of financial rights, employment opportunities and entrepreneurship. Though formal measures like the Law on State Guarantees of Equal Opportunities for Women and Men (2006) set provisions for equality, implementation of this legislation is weak, especially in the economic sphere (Asian Development Bank, 2022). Females formed 65.7% of the economically inactive population since many of them are not registered as unemployed due to their roles as carers (EPRC, 2024). These are evident in the area of entrepreneurship as women are only beginning to venture into business. For instance, only 22% of the registered entrepreneurs without a legal entity in Azerbaijan were women by January 2023, and most of them were engaged in agriculture and services, low-profit sectors (KOBIA, 2023a).

Lack of finances is one of the major structural barriers that continue to hinder women in the economic development of Azerbaijan. Due to high collateral requirements and restrictive women's property rights that are due to patriarchal marriage and inheritance laws, women are locked out of formal sources of credit (EPRC, 2024). Hence, most women often use their own or family money or borrow from friends and family to finance their businesses. While institutions like the Small and Medium Business Development Agency (KOBIA) have started supporting activities, the extent of these efforts remains tiny. In 2022, only 11 women entrepreneurs received a state-certified “Startup” certificate, and just 9 out of 40 publicly funded projects were led by women (KOBIA, 2023a). Furthermore, while newer initiatives such as the “Women Entrepreneurs in Successful Partnership” project launched in 2024 aim to connect and support 70 women entrepreneurs through business visits and training sessions, deep-rooted financial exclusion persists (KOBIA, 2023b). These institutional and cultural barriers remain the main causes of women’s limited economic enfranchisement, thus limiting the country’s economic growth and recovery.

Despite having similar literacy standards between male and female adults in Azerbaijan at 100% in the year 2023, gender disparity is still evident in the financial sector in terms of usage of financial services and digital financial solutions. Azerbaijan's female population was 38.8% financially included with an account at a financial institution or mobile money in 2022, while the male population was 54.6%. This means that the financial inclusion gender gap was

15.8 percentage points higher in favour of males in 2022 (World Bank, 2024). This is almost fivefold higher than the regional average for Europe and Central Asia, where women's labour force participation is at 3.2% (World Bank, 2024). It also indicates structural and cultural factors that limit women's economic opportunities in terms of employment, ownership of assets, and gendered division of labour.

However, the level of financial engagement in the digital world is also a concern of gender. For example, 18.7% of the men and only 13.4% of the women in 2022 used a mobile phone or the internet to pay bills, according to the World Bank of 2024. This digital divide may be due to limited self-efficacy in using technology and restricted access to smartphones or the internet in lower-income or rural households. Although adult literacy is high, meaning education is equal for both sexes, this does not mean women are as financially empowered as men. These patterns call for gender-sensitive financial literacy programs and other interventions to address financial literacy and inclusion in Azerbaijan.

There is also the aspect of gender-based economic marginalisation related to the little or no authority vested in women in property rights, such as land and property. This shows that sometimes the assets taken as security in loans bear the man's name, which means that women cannot access such resources to engage in economic activities. During the focus group discussions in Azerbaijan, for example, female participants expressed their opinions, saying that the culture of family members' non-provision of family property as collateral resulted from cultural beliefs that are demeaning and somewhat patriarchal (ADB, 2022).

Besides the mentioned financial problems, gender employment inequality is still prevalent in Azerbaijan, and these inequalities deepen the flaws in the national economy. Currently, women in Azerbaijan are paid 40% less than men, regardless of the industry they work in, and there is no occupation in which women and men are paid equally (EPRC, 2024). In the high-income occupations, including mining and financial sectors, women are paid 60% of what men are paid. While they constitute 52% of the population of Kenya aged 15 years and above, women only comprise 48.3% of employed citizens and 57.7% of unemployed citizens (EPRC, 2024). They also constitute 65.7% of the people classified as economically inactive. These figures also expose structural racism, given that women with equal education standards are paid less than men. Women represent 36.2% of managers and directors, and only 9.5% of the companies are led by women. This type of wage and leadership discrimination perpetuates

gender prejudice and restricts women's access to finances as well as their economic activity as a whole.

Gender stereotypes are one of the main reasons that limit women's opportunities and hinder their career advancement in the labour market. Traditional culture and traditional family roles also restrict women's education and prevent them from training for technical or vocational fields that are considered to be unsuitable for women. In this regard, women cannot access better-paying employment opportunities; hence, a cycle of low returns on employment is created.

These financial and employment barriers collectively affect women's socioeconomic status and the general economic growth in a given country. This not only locks women into poverty traps but also hampers the economic development of nations since women are half of the population and can also be major players in the economy. Thus, while keeping the gender employment rate low, the ADB report (20122 points out that gender inequality in employment limits both productivity and economic diversification in Azerbaijan and hinders its ability to achieve sustained economic growth and innovation. According to Gomółka (2021), it is essential to notice that gender inequalities in economic engagement are still a key factor that hampers the optimal use of the available resources, as well as the development of new economic diversification and innovation, especially in the area of renewable energy and ICT for the future sustainable economy.

Furthermore, the differences in financial opportunities and employment capability affect social relations, putting women in a vulnerable position of dependence. Lack of control of funds by women sustains gender violence, as women are subordinated to men, and their leading positions are defined by patriarchal culture (Abdul, 2024). Such vulnerabilities are most significant when it comes to internally displaced women and those living in rural areas; these groups are less likely to cope with poor socioeconomic status in terms of economic independence (ADB, 2022).

However, such issues as a lack of proper employment opportunities for women and the gender pay gap remain critical challenges for women in Azerbaijan. Out of the total population of women aged 15 years and above, only 48.3% are employed, while 57.7% of the unemployed are women (EPRC, 2024). Some women do not participate in the labour force – 65.7% of all

non-employed people in Kenya are women, many of whom are considered self-employed homemakers, who do not receive any form of employment assistance (EPRC, 2024).

The structural disparities are further worsened by family burdens and lack of adequate paternity leave, which allows men only fourteen unpaid days, while women are left with most of the caring responsibilities and limited chances of promotions (EPRC, 2024). That is why women are a minority in the decision-making process. Women constitute only 36.2% of managerial posts in Azerbaijan, and only 10.5% of the firms are owned by women (EPRC, 2024). In the work domain, Azerbaijan is placed in 11th position among the 12 countries because of high sectoral segregation, low flexible work arrangements, and mobility (ISET Gender Equality Index, EPRC, 2024). Such patterns of exclusion affect organisational diversity in the country and hinder the development of inclusive leadership within governmental and private institutions.

Gender mainstreaming is still a weak concept in Armenia; the governmental institutions, including the State Committee for Family, Women, and Children Affairs (hereinafter SCFWCA), are underfunded and do not have enough political power to ensure gender mainstreaming within the governmental sectors. The promotion of the SCFWCA to the ministry level would go a long way in improving the institutional capacity of the country's development framework to mainstream gender equality into policies and strategies at the national level (ADB, 2022).

Also, it is essential to note that these gendered disparities need to be addressed from a demographic standpoint. Additionally, addressing these gendered disparities is crucial from a demographic perspective. Azerbaijan's skewed sex ratio of 114 males per 100 females at birth indicates entrenched societal preferences for sons, highlighting deep-rooted gender discrimination that begins before birth (UNFPA, 2021). Such a demographic situation suggests the need for coherent and encompassing strategies that would help to address gender disparities in various spheres of social and economic life.

In this regard, the cooperation of international partners and institutional changes were also essential. For instance, through the World Bank, they conducted gender audit studies at many large Azerbaijani organisations such as Azerbaijan Railways and Baku seaport, as well as supporting programs such as the AZTAF, which is Azerbaijan Technical Assistance Facility; it is technical cooperation supported by the World Bank and Gender Advisory Services, which

work to promote employment equity and eliminate discrimination at the workplace (Michael & Michalko, 2023). The main goal of AZTAF is to assist the government in achieving gender equality, better labour market prospects, and enhancing employment equity. Hence, such international partnerships are vital in raising awareness and systematically altering gender practices, so local implementation is critical.

The challenges facing rural development in Azerbaijan result from a complex interplay of financial exclusion, governance inefficiencies, excessive dependence on hydrocarbon revenues, and entrenched gender inequalities. Limited access to affordable credit restricts rural investment and innovation, exacerbating economic stagnation. Governance structures characterized by fragmentation and weak local institutions further impede effective implementation of rural programs, leading to persistent inefficiencies and resource misallocation. The heavy reliance on oil revenues has created economic vulnerabilities and regional disparities, hindering agricultural modernization and sustainable economic diversification. Gender inequalities compound these issues by systematically excluding women from economic participation and decision-making, thus limiting overall productivity and community resilience. Addressing these interconnected barriers requires integrated, coordinated reforms that enhance rural financial access, strengthen local governance accountability, diversify the economic base, and promote gender equality, thereby fostering inclusive and sustainable rural growth.

### **Chapter 3: Policy Options** (*Laman*)

This section examines the main problems that hinder sustainable development in rural areas of Azerbaijan. The main information for the policy options described is formed on the basis of interviews with experts, other information is secondary information from literature reviews. The analysis of the challenges presented in the chapter is important for future steps in this area. Based on this analysis, it will be possible to prepare policies that will ensure more equitable, inclusive and sustainable development. When assessing these problems, the daily needs of various social groups and their existing capabilities are taken into account. The challenges faced by the rural population are grouped by topic so that it is possible to put forward appropriate policy proposals for their solution in the future.

The main focus is on the limited equal access to resources and the lack of social services in rural areas. In many villages, women have more limited opportunities, and people with physical disabilities remain outside the life of society. The development of areas such as education and health has also not developed in a balanced way. The lack of services such as education and health in a number of regions causes people to lag behind in terms of knowledge and health.

On the other hand, poor infrastructure such as roads, water and electricity also negatively affects people's daily lives and economic opportunities. People are unable to market their products, children have difficulty going to school, and healthcare services are difficult to access.

#### **3.1. Creation of the Integrated Rural Development Authority (IRDA) to Address Financial Exclusion and Governance Failures in Azerbaijan Rural Area.** (*Ignace*)

For an effective response to the twin problems of financial exclusion and governance failures, it is suggested that an Integrated Rural Development Authority (IRDA) should be created in rural Azerbaijan. This institution would constitute a centralized but locally accountable organization responsible for coordinating development efforts, cost-effective delivery of financial services, and generation of institutional trust in rural areas. The IRDA would combine the following five main roles of outreach, capacity building, credit facilitation, cooperative development and supervision in an integrated manner. Using this power, the government of Azerbaijan can address the underlying reasons for rural underdevelopment by addressing institutional gaps and making sure that rural people have an

equal ability to participate in economy and exercise their right to participate in decision making.

The rural communities in Azerbaijan encounter fundamental structural barriers in the accessibility of credit, saving services, and investment capital. Commercial banks, as well as microfinance institutions (MFIs), focus primarily on urban areas, providing few alternatives for rural inhabitants to access credit or save (Asian Development Bank, 2019; World Bank, 2020). This financial exclusion has forced people to use informal money lending with extremely high rates of interest and no legal protection, resulting in a debt trap and lack of investment for more economically productive purposes. Unavailability of infrastructure and provisions that support citizens to pursue business-oriented activities continue to remain significant barriers,” said Parviz Haydarov in an interview. His remark highlights the fact that the absence of institutional structures obstructs economic self-sufficiency and social mobility in rural areas (From personal communication April 2025). Aside from economic exclusion, structural governance failings are massive constraints on long term sustainable rural development. Indeed, the disjointed application process, lack of inter-agency coordination and absence of flexible planning had led to lost opportunities and suboptimal use of public resources. Interviewee Natiq Cafarli stressed the low returns from small-holder farming, appealing the size of each land plot and the absence of technical support or agricultural technology. More importantly, he observed: “local self-governance is almost absent and not visible with municipalities having little or no apparent roles” and argued that there is a “need for a strong local self-governance so that communities can address their own issues” (From personal communication). This governance deficit is evident in the way that both programmes are designed and implemented and does not take local realities sufficiently into account leading once more to disconnection from the rural stakeholders. It was to be the IRDA that would meet these challenges with a regional embedded, coordinated system of governance. Rural Development Hubs (RDHs) that would be staffed by trained professionals responsible for outreach, financial education and program facilitation would first be established in each district. The hubs would collaborate with local governments and civil society to determine each region’s particular needs and develop specific development plans for them. The practical benefit of IRDA will also be that multiple ministries including agriculture, economy and labour can pool their resources, avoid duplication, rationalise disbursement and maintain transparency in spending. Second, the IRDA would expand access to financial services, via rural finance cooperatives and digital banking platforms.

Furthermore, there are several good international examples of the potential for rural financial integration under supportive institutional arrangements. Self-Help Groups and microfinance The National Bank for Agriculture and Rural Development in India for instance has played a phenomenal role in upscaling SHGs and microfinance services especially in the rural sector leading to improvement of the saving behaviour and access to credit for the small and marginal farmers and also small entrepreneurs (NABARD, 2021). Kenya's M-Pesa digital banking system similarly made it possible to carry out banking transactions from mobile phones in even the most remote locations, promoting greater inclusion and economic activity (Jack & Suri, 2014). Azerbaijan can therefore follow suit with these models by allowing IRDA in conjunction with the Central Bank and telecoms operators to collaborate, to create a rural digital finance platform to facilitate affordable credit, savings, and insurance products. The promotion of the formation of producer cooperatives, moreover, would feature centrally in the agenda of the IRDA. According to Natiq Cafarli., a new model of collective farming, such as kibbutzim in Israel and farming cooperatives in Europe, could also lead to significant cost savings, better access to markets and the development of trust in the context of collective economic activity (From personal communication April 2025). With legal support and targeted grants the IRDA can nurture the creation of cooperatives to enable smallholders to better share resources, to invest in mechanization, and to negotiate a better price with buyers, especially when connecting those with digital markets. Moreover, by connecting cooperatives to supermarket chains or government-sponsored wholesale markets, more exploitative middlemen who siphon off an unfair share of earnings can be eliminated, thus enabling farmers to command a greater share of the value chain. Furthermore, to facilitate an effective evaluation and learning process, IRDA would employ a strong monitoring and evaluation (M&E) system. Real-time monitoring of program impacts, feedback loops from beneficiaries, and adaptive planning will be necessary to enhance the program's responsiveness and accountability. As Haydarov pointed out, many rural development interventions have failed because technocrats have been unable to adapt to conditions on the ground. "Processing plants are there, but there is no production-to-market chain and link disruptions," he noted in emphasizing the absence of a systemic interaction and feedback, which M&E system of IRDA would have remove (From personal communication April 2025).

Overall, creation of the Integrated Rural Development Authority is a policy game-changer in addressing financial exclusion and governance failure that underpin two of

Azerbaijan's most formidable rural development challenges. By localizing devolutionary functions, clustering multiple sector inputs within centralized yet adaptive architecture, and leveraging financial access through novel partnership and cooperative structures, looks like Azerbaijan could realize its rural economy potential. Inspired by some lessons from India, such a policy would become a scalable and place-based model for inclusive development. Most of all it would restore trust between rural communities and the state by demonstrating that development is not purely a national objective but is fundamentally a shared project.

It says these can be transformational if designed carefully and rooted in local circumstance, as India and Ethiopia demonstrate. The experience of India, more particularly through certain actors such as NABARD and DRDAs is most pertinent. NABARD, set up in 1982, has made a substantial contribution in furthering financial inclusion in the hinterland by ensuring better flow of credit, nurturing SHGs and funding rural infrastructure. These efforts have contributed to significant improvement in saving habits, credit access and financial inclusion of small and marginal farmers. By 2021, more than 120 million households across the country were integrated into SHGs under the aegis of NABARD in the process of promoting two way process and behaviour die change among SHGs and their members, simultaneously nurturing financial literacy as well as community resilience (NABARD 2021). Under the Ministry of Rural development are the district-level DRDAs, which bring out convergence of many rural schemes employment, housing, sanitation at the district level where actual development efforts should be dovetailed with local requirements through a participatory process (Ministry of Rural Development 2023).

Moreover, the Agricultural Transformation Agency (ATA) of Ethiopia, created in 2010, represents another example of successful (centralized) but locally sensitive rural development governance. The ATA is a catalysing entity that helps cut across ministries, academia, research organisation and regional government to find systemic bottlenecks and scale solutions. Highlights have been the establishment of farmer cooperatives, the formulation of Agricultural Commercialization Clusters (ACCs), and the implementation of digital solutions such as the 8028 Farmer Hotline that has served more than 4 million farmers with advisory services. The ATA's efforts in the fields of digital fertilizer monitoring and climate-smart agriculture have been shown to drive productivity, access to markets, and government convergence (ATA 2020) demonstrating the importance of a high-capacity

coordinating institution that is equipped with real-time information and iterative planning systems.

These comparisons with abroad illustrate that an idea of an institution such as the IRDA can be based on a deeply rooted precedent. If NABARD and ATA are two successful examples of multi-sectoral coordination and institutional barrier rupture, IRDA can also be a game changer in addressing Azerbaijan's rural development issues. By using Rural Development Hubs, digital finance, producer cooperatives and inter-ministerial coordination, IRDA can build trust through institutions and delivery systems for inclusive and sustainable development. IRDA has potential to disseminate and adapt the good-practice examples of the successes in India and Ethiopia, to become a scalable and people-based approach to rural renewal for the Azerbaijani context.

### **3.2. Economic Diversification: Reducing Oil Dependence for Enhanced Social and Economic Inclusion. (*Laman*)**

Azerbaijan's economy has relied on oil for decades. Oil income has boosted the country's budget and enabled large-scale investments (From personal communication, April 26, 2025). This oil-dependent economy has created social and economic inequities, notably in rural areas (P. Haydarov, personal communication, April 25, 2025). The economy must be diversified to reduce oil and gas dependency and promote socio-economic inclusion (N. Jafarli, personal communication, April 26, 2025). Focusing on oil has hampered non-oil industry growth. Recent revivals in agriculture, communications, construction, and the service sector have helped the non-oil industry (Mehdiyeva et al., 2018).

For the complicated growth of the economy in various sectors, competent workers are needed initially. The country's economic development and employment plans should determine numerous education system reforms. Production businesses shall get educated human capital based on market need (P. Haydarov, personal communication, April 25, 2025). Labor market compliance is crucial for employment. Development may be accelerated by exploiting global technical advances and enlisting young people in vocational education to master their specialty (Zeynalli, 2022). When generating new occupations, consider regional and local competencies and educate skilled staff to work in those areas. To develop a competent workforce and flexible labor market in Azerbaijan, much effort remains (Ismayilov & Akbulaev, 2022).

Developing the agriculture sector is crucial to diversifying the Azerbaijani economy. Reforms must be contemporary and focus on regional socio-economic growth (Huseynov Tagiyev, 2023).

Starting with development-friendly locations to promote agriculture. Modernizing agricultural regions, using contemporary agricultural technology, and providing farmers with incentives would boost production (P. Haydarov, personal communication, April 25, 2025). Increase farmers' interest in this sector and production by equitably distributing land and installing irrigation systems with modern technology (N. Cafarli, personal communication, April 26, 2025). To help rural farmers sell their goods, infrastructure and logistics must be improved (N. Cafarli, personal communication, April 26, 2025).

Another area that will save the economy of an oil-dependent country is the technological sector. The use of technological innovations will further increase efficiency in non-oil sectors ( Mekhdiyeva, 2023 ). Technological reforms are of great importance for the accessibility of information. Technological reforms create significant savings and convenience in terms of both time and money (altech). It is impossible to talk about sustainable development without providing easy access to information and resources for farmers. Electronic systems should work effectively not only in cities, but also in remote villages (P. Haydarov, personal communication, April 25, 2025).

Information about a farmer's land area, crop type, and support opportunities should be at their fingertips with just one touch. Technology should not tire people, but rather make their work easier. Rural people should have easy access to all information, from subsidies to fertilizers (P. Haydarov, personal communication, April 25, 2025). There should be no need for additional procedures or physical travel to obtain information. Information technologies should be integrated into rural life and accessible to everyone (altech. az). Those working in rural communities, especially in the agricultural sector, should always be aware of new fertilization methods, irrigation techniques, new seed types, and scientific and technological innovations and use these innovations to achieve productivity (N. Cafarli, personal communication, April 26, 2025).

Non-oil industry growth depends on entrepreneurship. Tax breaks, subsidies, and investment incentives encourage entrepreneurs in this industry. Tax exemptions encourage private projects. Micro, small, and medium-sized firms value such breaks (P. Haydarov,

personal communication, April 25, 2025). Important challenges include expanding insurance mechanisms to decrease risks in non-oil industries, credit guarantee funds, and entrepreneur legal protection. Reducing risks attracts local and global investors (Taxes.Gov.Az, nd).

At the same time, major enterprises and worldwide expansion may boost non-oil sector competitiveness. Poor private sector development in the nation (Mehdiyeva et al., 2018). Public-private partnership is one of the key methods for applying its principles, expanding regional industrial zones, and enhancing private sector competitiveness. Regional developments like agroparks and industrial zones boost economic activity and optimize resource utilization. Industrial zones boost local production and create competitive goods by improving production capabilities and attracting new technology (Oxu.az, 2022). Industrial parks balance rural and urban economic development and attract investments in underdeveloped regions by creating new jobs, developing the local economy, and creating agroparks that use modern agricultural technologies (Oxu.az, 2022). Industrial parks balance rural and urban economic growth and attract investment to undeveloped regions (N. Cafarli, personal communication, April 26, 2025).

Tourism, like other areas of the economy, helps build Azerbaijan's non-oil industry. Tourism growth will boost regional living conditions and jobs. Tourism is a major contributor to regional economic power and social well-being (P. Haydarov, personal communication, April 25, 2025). Azerbaijan's tourist potential is boosted by its advantageous position, climatic variation, rich cultural heritage, and historical sites. Tourism-friendly areas should be created for this industry to contribute significantly to economic growth (Abdullayeva, 2022). Complex governmental initiatives, infrastructural investments, and legislative reforms are needed to grow tourism. P. Haydarov, April 25, 2025, personal communication.

To ensure sustainable and effective development of tourism, it is necessary to implement comprehensive reforms and rebuild infrastructure in the regions. First of all, it is important to modernize key infrastructure areas such as roads, transport, communications, and utilities. These factors create conditions for tourists to travel to the regions comfortably and safely (Abdullayeva, 2022).

The establishment of tourism facilities - hotels, recreation centers, information centers and guide services - plays an important role in transforming tourism potential into real economic value in the regions. Also, vocational training programs in the field of tourism should

be organized for the local population, and the interest of young people in this field should be stimulated. This approach serves both to increase employment and to improve the quality of services provided (P. Haydarov, personal communication, April 25, 2025).

Improving the quality of tourism products, promoting them in domestic and international markets, as well as developing tourism in the regions should be taken as priority areas. In 2016, the “Strategic Roadmap for the Development of the Specialized Tourism Industry in the Republic of Azerbaijan” was approved by the decree of President Ilham Aliyev, and this document served as a roadmap for long-term development in the sector (President of the Republic of Azerbaijan, 2016). The simplification of visa procedures through the "ASAN Visa" system has also led to an acceleration of tourist flows. In 2023, 1.6 million foreign citizens visited Azerbaijan (State Border Service, 2024).

Like Azerbaijan, Malaysia long relied on hydrocarbons and other commodities. In the 1970s its export basket was dominated by rubber, tin and crude oil. Recognising the vulnerability of this structure, policymakers set out to diversify beginning with labour-intensive manufacturing and graduating to higher-tech exports.

### Key levers

Lever in article	How Penang/Malaysia applied it	Measurable results
<b>Skilled workforce &amp; vocational education</b>	Penang’s 1972 Free Industrial Zone came with joint curricula between industry and polytechnics. Today the state has a dense network of TVET colleges feeding electronics, medical-device and aerospace clusters (Campbell, 2024)	Penang attracted US \$12.8 billion FDI in 2023 and now supplies 5 % of global semiconductor assembly (Campbell, 2024)
<b>Industrial &amp; agro-parks</b>	Nationwide, 34 industrial corridors offer plug-and-play sites; Penang’s Bayan Lepas hub alone hosts 350 MNCs and thousands of SMEs (Campbell, 2024)	Manufacturing contributes RM 1.2 trillion to GDP, powering 5.5 % expected national growth in 2024 (MIDA, 2024)

<b>Technology in agriculture</b>	Malaysia's Agriculture 4.0 plan subsidises drones, IoT soil sensors and digital marketplaces for smallholders (MIDA, 2024)	Palm-oil yields rose 15 % (2018-23) while pesticide use fell, boosting small-farm incomes
<b>Entrepreneur incentives</b>	Fifteen-year tax holidays for pioneer firms, matching-grant schemes for SMEs, and credit-guarantee corporations de-risk loans (MIDA, 2024)	97 % of registered firms are MSMEs; they provide 48 % of jobs
<b>Tourism upgrade</b>	Penang shifted from mass beach tourism to heritage, medical and eco-tourism; UNESCO status for George Town made culture a centrepiece (Campbell, 2024)	Tourism earned RM 75 billion in 2023, underpinning the services sector's 55 % share of GDP (MIDA, 2024)

### Why it worked and lessons for Azerbaijan

1. Early investment in people created a talent pipeline before multinationals arrived, tying FDI to domestic capacity.
2. Clustered industrial zones lowered entry costs for SMEs and enabled spill-overs from anchor firms to local suppliers, precisely what Azerbaijan seeks through agro-parks and free zones.
3. Digital agriculture increased small-farmer productivity, echoing Azerbaijan's plan for smartphone-based farm services. Rwanda's FAO-backed mobile apps show similar success: youth farmers use local-language apps for weather, markets and livestock care (Yenkasa, 2023).
4. Tourism quality over quantity leveraged unique heritage and medical niches, aligning with Azerbaijan's strategy to target both culture and wellness tourism.
5. Risk-mitigation tools (credit guarantees, insurance) encouraged entrepreneurship in non-resource sectors, exactly the gaps highlighted in Azerbaijan.

Malaysia's experience confirms that a coordinated package skills technology diffusion, well-serviced industrial and agro-parks, risk-sharing finance and destination-led tourism can turn a commodity economy into a diversified, innovation-driven one. Adapting these proven levers to Azerbaijan's context will help translate your policy proposals into tangible, regionally balanced growth.

### **3.3 Women Empowerment: Addressing Gender Inequality in Access to Finance and Employment. (*Laman*)**

Gender inequality in women's access to financial resources and employment opportunities is one of the main social and economic problems in developing countries like Azerbaijan. This problem is not only related to the limitation of women's economic activity, but also to the loss of the country's overall development potential (Allahverdiyeva, 2025).

Financial resources for women should be enhanced to reduce gender disparity. To reduce gender imbalance, Azerbaijan should pursue certain policies. To reduce inequality, financial assistance programs may help women start small and medium-sized enterprises. These initiatives should help women entrepreneurs get loans, subsidies, and other financial aid (SMB, nd). Legal and financial gender equality policies could make loan applications easier for women. Since 2020, helping women in micro and small companies has increased economic growth and benefited society (P. Haydarov, personal communication, April 25, 2025). Increased competitiveness and career options should motivate women. Solving legislative, fiscal, and legal issues that prevent rural women from working in all sectors is also important (The Small and Medium Enterprises Development Agency of the Ministry of Economy in the Republic of Azerbaijan, 2021).

Policies should boost women's employment. The Azerbaijani labor market has fewer women than males, notably in technical, managerial, and decision-making roles. Males dominate several heavy-duty industries due to the economy's oil dependency. However, economic diversification has created new work areas for women (Allahverdiyeva, 2025). Under Soviet ideology, women were not allowed to work in heavy physical labor occupations including transport, energy, and agriculture in Azerbaijan, which increased regional labor capital disparity (Kurshitashvili & Solotaroff, 2024).

In Azerbaijan, women make up 17% of the transport and warehousing employment, 11% of the energy industry, and 8% of the construction sector (Apa.Az, 2024). Despite the labor that women put into agriculture, it is not properly valued (N. Jafarli, personal communication, April 26, 2025).

The fact that businesses discriminate so much between men and women highlights the employment problems of young women in the region. In order to increase women's economic power and ensure gender equality, relevant legislation should be amended, and training and

development programs should be created that encourage greater participation of women in the labor market (Michael et al., 2023). Strong control mechanisms should be implemented to prevent gender discrimination during recruitment. Creating job opportunities for women in male-dominated sectors is considered an important step to balance inequality. Opening new jobs for women also has a positive impact on increasing human capital (Kurshitashvili & Solotaroff, 2024).

The rapid advancement of men to higher positions and higher salaries causes women to be left behind in real job opportunities. In order for women to enter a successful working life, the first step is to correct the uneven division of labor in the labor sector (Abdul et al., 2024).

It is important to implement awareness-raising and education programs on gender equality (Abdul et al., 2024). Increasing the level of education of women in Azerbaijan on financial and economic topics will ensure their independent financial management and greater participation in the business sector. For this purpose, cooperation between government and non-governmental organizations should be strengthened and special business training and financial literacy courses should be offered to women (SMB, nd).

The number of women in leadership positions in Azerbaijan is very low, which reinforces gender inequalities not only in the business world, but also in social structures in society (SMB, nd-b). Appropriate incentive measures and programs should be developed to involve women more in leadership and decision-making positions through cooperation between the state, private sector and non-governmental organizations. To achieve this, mentoring programs and leadership courses aimed at women should be organized, and appropriate legal and social support systems should be created (SMB, nd-b).

Cooperation between the government and relevant international organizations also plays an important role in ensuring gender equality. Making gender equality a strategic and social priority within the country will be possible not only through legislation, but also through practical measures. Projects and programs implemented by international organizations promoting gender equality since 2020 can also help achieve positive results in Azerbaijan in this direction (SMB, nd).

This chapter has reviewed three related policy options for development and social inclusion in rural Azerbaijan. The establishment of the Integrated Rural Development Authority (IRDA) is intended to resolve the problems of fragmented governance and

institutional inefficiency and to create an integrated but participatory institution to coordinate the sector. Second, an economic diversification plan focusing on agro-industrial development seeks to reduce the current rural dependence on the oil sector by creating value chains, jobs and infrastructure in agriculture and related services. Third, a rural-oriented financial inclusion strategy aims to minimize exclusion from the formal banking sector by extending credit, digital finance and specific financial knowledge. Between them, they can remove structural, economic and financial obstacles to rural development. Properly integrated, they create a comprehensive approach that provides for strong institutions, economic empowerment, and that prevent rural communities from being left out of vibrant and resilient futures.

Women's access to finance, skilled jobs and leadership roles can be transformed in a single decade when governments match money with training, enforce equal-opportunity rules and keep women visible in decision-making. Three national stories Kenya, Rwanda and Bangladesh show how the pieces fit together.

### **1. Kenya's Women Enterprise Fund (WEF): credit plus capability**

Launched in 2007 as a flagship Vision 2030 programme, WEF offers group loans at concessional rates, compulsory business-skills training and help with market linkages. By 2022 it had disbursed affordable loans to more than one million women across all 47 counties (IDinsight, n.d).

An independent evaluation found that 65 % of beneficiaries reported business growth and 57 % cited higher household income after combining the loan with WEF training; most borrowers invested in trade or agri-processing, sectors that diversify Kenya's economy beyond cash crops and tourism (IDinsight, 2024).

#### **Why it worked**

- Bundled finance and learning, credit is released only after trainees complete a short course in bookkeeping and marketing.
- Graduated lending cycles let groups build repayment records before accessing larger sums, lowering default risk.

- A new digital application portal cuts disbursement time from 45 days to 48 hours, addressing paperwork barriers that typically exclude rural women.

## **2. Rwanda's constitutional quota: keeping women in the room where it happens**

After the 1994 genocide, Rwanda rewrote its constitution to guarantee women at least 30 % of all decision-making posts. Two decades on, women hold 61.3 % of seats in the lower house of parliament, the highest share in the world (de Vergès, 2024). That visibility has knock-on effects:

- Gender-responsive budgeting now accompanies every finance bill; ministries must show how projects benefit women.
- Female ministers head powerful portfolios such as ICT and trade, helping normalise women in technically demanding sectors that were once male preserves.
- Rwanda's labour code bans gender discrimination in hiring and mandates equal pay for work of equal value; labour-inspectorate spot checks back the law with fines.

## **3. Bangladesh and Grameen Bank: micro-finance that unlocked household bargaining power**

Pioneered in the late 1970s, micro-credit targeted explicitly at rural women remains a pillar of Bangladesh's poverty-reduction strategy. A 2024 empirical study of Grameen Bank clients shows that membership strengthened women's control over household money and community decisions, even when loan sizes were small (Bitan & Lee, 2024).

Azerbaijan's proposed reforms:

- No collateral, doorstep delivery, loan officers travel to villages, mirroring Azerbaijan's aim to digitalise and localise services so women avoid costly trips to cities.
- Group liability replaces collateral, an effective workaround where women own little formal property.
- Parallel literacy and health sessions raise confidence and social capital alongside income.

## Lessons for Azerbaijan

1. Pair finance with skills. WEF shows that low-interest loans yield bigger pay-offs when bundled with compulsory training, exactly what Azerbaijan's Small and Medium-Sized Business Agency could replicate for women-run micro- and small enterprises.
2. Make equality visible at the top. Rwanda's quota demonstrates that when women sit in parliament and boardrooms, gender-sensitive laws follow. Revisiting Azerbaijan's representation targets through temporary special measures could accelerate change.
3. Remove collateral hurdles. Grameen-style group lending or state-backed guarantees let women borrow without land titles, valuable in rural districts where property is customarily registered to male relatives.
4. Digital first, rural first. Kenya's move to 48-hour mobile disbursement and Rwanda's e-government portals prove that technology shrinks both distance and discretion.
5. Monitor outcomes, not only access. All three cases invested in data (IDinsight dashboards for WEF; Rwanda's gender-disaggregated budgets; Grameen's internal audit teams). Azerbaijan's reforms should likewise track loan uptake, repayment, wage gaps and promotion rates by gender.

Taken together, these experiences confirm that targeted credit lines, quota-backed representation and collateral-free micro-loans reinforced by training and digital tools can turn gender equality from aspiration into measurable growth.

## **Chapter 4: Evaluating Policy Options. (Sabina)**

The purpose of this study is to assess policy options to address gender inequality and economic development issues in rural areas of Azerbaijan. In particular, this study examines the effectiveness of policies aimed at ensuring the active participation of rural populations in the development process. Within this framework, three policy alternatives are proposed, each of which aims to increase the economic opportunities of local communities, eliminate gender inequality, and ensure the sustainability of development. Effectiveness, Efficiency, Equity, Feasibility, and Flexibility will be the key indicators in assessing the aforementioned policy alternatives.

### **4.1. Assessment of IRDA's Potential for Inclusive Growth and Institutional Reform in Azerbaijan Rural Area. (Ignace)**

IRDA is a comprehensive and locally-adapted response to the long-standing problems of poverty and isolation in Azerbaijan rural areas. Its key strength is its capacity to offer in a single institutional arrangement a combination of service provision, financial access and participatory governance in a single coherent system. The focus on rural finance cooperatives, digital platforms, and the district-level Rural Development Hubs will ensure that services are not just provided but are tailored to the unique needs of farmers and rural populations. Based on international best practices, such as India's NABARD and Ethiopia's The Agricultural Transformation Agency (ATA), the IRDA has coded in the best of what is known to have worked in these complex rural environments. This increases the credibility and effectiveness of the policy as an instrument of potential large-scale rural rebirth in Azerbaijan.

The IRDA is also made with efficient operation in mind. In doing so across departments such as agriculture, economy, and labor, the authority would eliminate redundancy and reduce waste, thus maximizing resource use. The creation of centers of development that coordinate planning and implementation at the district level renders decision making and investments more local and focused. Digital banking and mobile based financial services, not just reduce operational costs but also lend scalability in more far flung and less developed areas. However, the achievement of such efficiency improvements will rest on resolving long-entrenched coordination failures within the state and likely some administrative restructuring.

IRDA is an equitable based model. Importantly, the policy is pro-poor in nature and seeks to mainstream the marginalized groups, especially rural women, youth and smallholder farmers, into economic and governance systems. Through the opportunities for involvement in planning and action, the IRDA attempts to transform recipients from passive victims into active agents. The development of producer cooperatives, and directed training programs, increases both horizontal and vertical equity by addressing local inequalities whilst raising up those who are furthest removed from opportunity. But realizing equitable benefits for the most marginalized populations will necessitate ongoing outreach and ongoing engagement, particularly in settings where social exclusion has been most entrenched. Although the policy's principles are bold, its practicality is based on established institutional norms and its compatibility with the country's development agendas. Centralized command and control coordinated with local execution provides strategic control but tactical implementation. Yet feasibility is not without its barriers. Resistance of institutions with a vested interest of their own, lack of initial technology know-how, and a tremendous financial investment in digital infrastructure may make the transition rough in the beginning. For the policy to be successful, a good political commitment, inter-ministerial coordination and early investment in capacity building programs is of paramount importance.

One of the IRDA policy's greatest strengths is its flexibility. It is a modular system that can be incrementally introduced and rolled out, say, with digital finance or cluster promotion, scaled and according to resource allocation and institutional preparedness. The place-based planning strategy also requires that development interventions adapted are characterized to the specific socioeconomic and geographic conditions of its different regional contexts. Further, the inbuilt monitoring and evaluation mechanisms will provide regular feedback, enabling mid-course corrections and adaptive governance that is essential for ensuring that policies remain relevant to changing realities on the ground.

In sum, the IRDA is an innovative policy initiative with a transformative potential to redesign rural development in Azerbaijan. Combining financial access, local accountability and cross-sectoral coordination in a single institutional design, IRDA deals with both symptoms and causes of underdevelopment in rural areas. Despite challenges of implementation and institutional resistance, the policy's alignment with successful international models and its embedded flexibility make it a very promising tool for inclusive and sustainable growth.

#### **4.1.1. Effectiveness**

The IRDA policy is a successful one in that it addresses the twin problems of financial exclusion as well as thin governance in rural Azerbaijan. It provides an integrated solution that transcends piecemeal sectoral interventions with the establishment of a centrally but locally anchored institution. IRDA developments that solve for the structural fragmentation of rural institutions, the lack of financial services and capital, and the absence of local representation in governance including rural financial cooperatives, digital financial platforms and regional development hubs. The model is based on international best practice (e.g. NABARD in India; ATA in Ethiopia) which supports the credibility and potential scale of impact that can be achieved. Its emphasis on participatory planning, skills training and collaborative projects also underpins sustainable results. These ingredients are essential to reviving rural economies and promoting inclusive growth.

#### **4.1.2. Efficiency**

Coordination and place-based management are central in IRDA, a key facility for increasing policy efficiency. Through minimizing overlap in the development programs and enhancing cross-sectoral alignment, IRDA seeks to maximize resource allocation. Setting up regional hubs and actively engaging communities helps ensure interventions are context-specific and appropriate to real needs. This reduces wastage and enhances program applicability. Furthermore, the envisaged use of digital tools such as mobile banking reduces transaction costs and enhances service provision at scale. Yet the relative success of implementation will now hinge to a large extent on inter-ministerial coordination and bureaucratic reform which may meet with some pushback.

#### **4.1.3. Equity**

Fairness lies in the heart of the IRDA model. The policy directly targets the poor and marginalized rural population that includes women and youth, for their upliftment through training, financial inclusion and cooperativization. It allows the communities to operate, not as recipients, but as participants in planning and decision-making. The participatory model prevents the poor areas from not falling through the net, is not scaling up and promotes horizontal equity because supply is directly tailored to local needs. Digital inclusion strategies increase access for geographically underserved areas as well. However, equity effects will depend on strong outreach efforts to reach the most vulnerable. Feasibility The potential of IRDA is high, but depends on political will, institutional ownership and the first resource allocation. The centralized model of management with local implementation

provides structural clarity, and the groundwork reflects well-established models adjusted for the Azerbaijani national context. With such alignment to national development priorities, prospects of policy acceptability for IRDA are higher. Yet, institutional resistance from incumbent bureaucracies, restricted early technical capacity, and financial limitations present challenges to implementation. The challenge of spinning up a new authority and build digital infrastructure in remote places could stall early phases.

#### **4.1.4. Feasibility**

The introduction of the Integrated Rural Development Authority (IRDA) in Azerbaijan is a matter of institutional, financial and political feasibility. At the institutional level, the establishment of a centralized yet regionally grounded authority would challenge bureaucratic opposition and promote integration among ministries. This can be facilitated by Azerbaijan's centralized authority which has the capability of sending top-down instructions along with political support. Financially, while there will be upfront costs including staff costs of running RD Hubs, digital platforms and cooperative development support these are manageable with phased delivery and links to international actors such as the ADB and World Bank. Politically, IRDA could also be a flagship rural development programme that ties in with national priorities and so wins broad support. The challenge but also the solution that we see is to have skilled personnel locally and to create capacity at the district level. With planned implementation steps, donor support, and strong leadership, IRDA is a moderately or highly feasible policy alternative, the implementation of which can reform rural development and rural governance in Azerbaijan.

#### **4.1.5. Flexibility**

IRDA is highly flexible. The model is flexible in the face of Azerbaijan rural socioeconomic and geographic variation. Borrowing from India's example also, the policy is scalable and modular in nature elements such as digital finance, cooperatives' building or capacity enhancement can be tackled one after the other, or in parts. The place-based nature of its planning approach allows for localisation of development claims. The policy also promotes nimble feedback and responsive governance, important for adjusting to the changing needs of the community and economic climate.

## **4.2. Economic Diversification: Reducing Oil Dependence for Enhanced Social and Economic Inclusion. (Sabina)**

This section examines how Azerbaijan can strengthen its long-term economic resilience by moving decisively beyond an oil-centric model and nurturing a diverse, innovation-driven set of growth engines. The discussion unfolds in five parts. At the start, it emphasizes why widespread use of hydrocarbons has discouraged equal development in rural regions. Second, it demonstrates that updating farming through equal land management, improved irrigation and better transport, increases output and brings down gaps between regions. Third, it analyses the transformative role of digital technologies in boosting efficiency across farming, manufacturing and services. Fourth, it explores policy levers that stimulate entrepreneurship, attract private investment and scale up industrial and agro-parks. Finally, it demonstrates how a well-planned tourism strategy and public-private partnerships can integrate local economies into national value chains, create quality jobs and distribute the gains of growth more evenly.

Diversification addresses Azerbaijan's core vulnerability: an economy tethered to swings in global oil prices. By expanding productive capacity in agriculture, technology-enabled manufacturing, tourism and small-enterprise services, the country spreads risk across multiple revenue streams and creates a broader tax base. Each pillar already shows proof-of-concept momentum. Harvest yields rise sharply when modern irrigation and precision-farming tools are deployed, while newly designated agro-parks have begun to attract medium-sized processors that add value to raw produce (Ismayilova & Hajiyeva, 2024). Digitalisation likewise cuts transaction costs in logistics and finance, allowing rural entrepreneurs to participate directly in national supply chains. Baydur (2024) states that tourism, anchored in the country's climatic and cultural diversity, has demonstrated a high employment multiplier, especially for women and youth, when infrastructure and marketing align. Public-private partnerships amplify impact by matching state planning power with private capital and know-how. Taken together, these levers promise steadier GDP growth, higher job creation and reduced regional disparities, making the policy package intrinsically effective in meeting both macro-stability and social-development goals.

#### **4.2.1. Efficiency – Optimising the use of scarce resources**

Efficiency hinges on allocating financial, human and natural resources where they generate the greatest marginal return. In agriculture, the reform programme prioritises equitable

land consolidation and drip-irrigation subsidies, both of which maximise output per hectare while conserving water. Smart-market logistics systems integrated cargo hubs, cold-chain corridors and digital produce exchanges minimize spoilage and empty-truck mileage, lowering carbon intensity and transport costs simultaneously. Technology upgrades across manufacturing aim to leapfrog legacy equipment by promoting robotics, cloud-based inventory management and renewable-energy inputs; this shortens production cycles and improves energy efficiency. Targeted tax incentives are structured to sunset after a defined period, ensuring public funds do not become permanent transfers to private firms. Industrial and agro-parks apply a “plug-and-play” model: shared utilities, common training centres and one-stop permitting reduce duplication and free up capital for productive investment. Finally, tourism development clusters sights, accommodation and transport within coherent corridors, allowing each kilometre of road or kilowatt of grid capacity to serve multiple destinations—an efficient way to turn infrastructure into income.

#### **4.2.2. Feasibility – Can the reforms be implemented in practice?**

Much of the required institutional machinery is already in place, enhancing practical feasibility. The Ministry of Economy’s SME Development Agency administers concessional credit lines and incubator programmes, giving would-be entrepreneurs a clear entry point. Azerbaijan’s e-government portal streamlines business registration and land-lease procedures, cutting red tape that once deterred investors. On the human-capital side, vocational education reforms launched in 2023 have introduced competency-based curricula aligned with agro-processing, logistics management and hospitality sectors targeted for growth. Financing capacity is bolstered by a sovereign wealth fund that can co-invest in priority projects, while multilateral development banks have indicated readiness to co-finance climate-smart irrigation and rural broadband roll-outs. Political feasibility is strengthened by broad public recognition that oil revenues are finite and that rural districts require new economic lifelines. Risks such as bureaucratic inertia, skill mismatches or private-sector hesitation are mitigated by performance-based grants, apprenticeship mandates and public-private risk-sharing instruments. These elements make the diversification blueprint not merely aspirational but operationally credible.

#### **4.2.3. Equity – Ensuring fair distribution of benefits**

Equitable growth is built into the design through region-specific interventions and inclusive financial instruments. Land-titling reforms favour smallholders, particularly women, by lowering collateral barriers to credit and guaranteeing inheritance rights. Subsidies for modern farm equipment are scaled to farm size, preventing large agribusinesses from absorbing the bulk of support. In the industrial sphere, the policy requires new parks to locate at least 30 % of total capacity in economically lagging regions and to reserve a minimum share of vendor contracts for local SMEs. The digital-inclusion mandate obliges telecom operators to extend 4G coverage and digital-extension services to villages of fewer than 1,000 inhabitants, narrowing the urban–rural information gap. Tourism initiatives emphasise community-based models: homestay networks, craft markets and guide cooperatives ensure that revenue circulates within host communities rather than leaking to external operators. Employment equity is pursued through sector-specific gender targets and wage-gap audits tied to tax-rebate eligibility. Collectively, these measures distribute income gains and opportunities across regions and social groups, reinforcing social cohesion.

#### **4.2.4. Flexibility – Capacity to adapt to future shocks and opportunities**

The strategy is designed as a living framework that can pivot with changing circumstances. Performance indicators, such as sectoral export shares, job-creation ratios and carbon-efficiency metrics are reviewed annually, allowing policymakers to recalibrate incentives or scale resources to the best-performing clusters. Adaptive regulation gives an opportunity to evaluate new financial methods before they become regular in society. The modular system used in irrigation can also be repurposed or upgraded to fight drought as climate change occurs. Cloud-based and API-compliant systems in logistics, land registries and tourism allow easy integration with other emerging technologies or apps. A contingency fund made using hydrocarbon money helps the government when facing recessions or sudden decreases in tourism due to crises such as pandemics.

Overall, examining the diversification policy of Azerbaijan in terms of effectiveness, efficiency, feasibility, equity and flexibility proves that the policy is well-balanced. It addresses the issue of relying too much on oil, works to produce more from resources, leverages on existing strengths and ensures that a strong economy reaches as many people as possible over time.

### **4.3. Women Empowerment: Addressing Gender Inequality in Access to Finance and Employment. (Sabina)**

The inequality of gender in Azerbaijan in getting support for economic activities and employment leads to a lack of economic progress (Allahverdiyeva, 2025). Four areas that can work together are reviewed: financial aid, labour laws, campaigning for awareness and the push for leadership. These will be judged against five criteria: effectiveness, efficiency, feasibility, equity and flexibility.

#### **4.3.1. Effectiveness**

Targeted financial mechanisms, gender-sensitive credit lines, collateral-free micro-loans and legal guarantees against lending bias directly raise women's business start-up and scale-up rates, which in turn boost household income and GDP growth (Haydarov, 2025). Coupled with stronger equal-opportunity statutes, compulsory anti-bias audits and sector-specific TVET courses, these measures expand women's formal-sector employment and reduce occupational segregation. Awareness programmes and mentoring schemes address intangible barriers, social norms, confidence and networks ensuring that legal reforms translate into real behavioural change. Finally, quotas for boards and senior public posts give the agenda visible champions and produce role-model spill-overs (Michael et al., 2023).

#### **4.3.2. Efficiency**

Most interventions piggy-back on existing institutions, minimising duplication. The Small and Medium-Sized Business Development Agency already manages start-up grants; adding a gender window simply reallocates part of its portfolio. Digital credit platforms lower transaction costs for both lenders and borrowers, while blended-finance funds crowd in private capital, stretching each public manat. Skills courses delivered through regional vocational colleges use spare classroom capacity, and on-line modules cut per-trainee costs. By leveraging public-private co-financing for leadership academies and mentorship networks, government outlay remains catalytic rather than open-ended.

#### **4.3.3. Feasibility**

Legal mandates for non-discrimination and equal pay already exist; the gap lies in enforcement. Strengthening the labour inspectorate, digitising complaints procedures and tying

bank-licence renewals to gender-inclusive lending targets are practical within current administrative structures. Oil-fund reserves and ongoing multilateral projects (e.g., ADB's SME support programme) provide budget space for pilot credit lines and skills schemes. Five high-potential areas will be piloted first to help the government build its capacity and quickly alter the strategy before supporting the entire country.

#### **4.3.4. Equity**

Designers try to resolve problems of inequality in both space and society. Credit assurance for women from rural areas and the use of mobile banking units make finance available to them. Spaces in training programs are set aside for displaced women and members of minority groups. Implementing local curriculum in Zaqatala (for agro-processing) and Lankaran (for eco-tourism) maintains a balanced economy throughout the country. A system of revenue sharing directs some interest gained and fine payments to programs for women's projects.

#### **4.3.5. Flexibility**

Digital means allow subsidies and courses to adjust at any moment, regardless of how many users there are. Reviewing tax incentives every so often and viewing outcomes on loan use, pay disparities and job promotion helps adjust government policy. Transforming the core structure is not necessary; only the flexibility of modules and credit products has to be improved.

*Table 1. Ranking of policy alternatives*

Policy alternatives	Criteria				
	Effectiveness	Efficiency	Equity	Feasibility	Flexibility
<b>Assessment of IRDA's Potential for Inclusive Growth and Institutional Reform in Azerbaijan Rural Area</b>	✓	✓	✓	✓	✓
<b>Enhancing Economic Resilience through Diversification and Innovation</b>	✓	✓	✓	✓	✓
<b>Advancing Gender Equity in Financial Inclusion and Employment</b>	✓	✓	✓	✓	✓

After checking for effectiveness, efficiency, equity, feasibility and flexibility, the Integrated Rural Development Authority (IRDA) is found to be the best policy alternative in helping rural communities and expanding the local economy to contribute to social inclusion and sustainable development in Azerbaijan. IRDA handles issues affecting rural areas by integrating finance, technology and governance specific for them. By working closely and making decisions locally in development hubs, partners can cut back on unnecessary activities and reduce costs. Even with effort from institutions and expensive initial costs, the project can

still be accomplished since it favors both the country's and the world's development. IRDA can also be altered easily which allows agencies to meet regional changes better and continue succeeding. The IRDA's strategy includes specific measures for its members and strengthens cooperation with various ministries, so the plan is easy to put into action. Moreover, because its components are separate, the IRDA model can adapt to specific local needs and continue serving its purpose. Due to the constant checking these policies suggest, you can make updates to your response while the project is underway. For this reason, the IRDA's well-designed structure allows it to support development that rewards both rural and urban communities in Azerbaijan.

## **Chapter 5: Conclusion and Recommendations.** (*Laman and Ignace*)

The final section presents our recommendations for available policy alternatives. The research in the study is comprehensively presented with final conclusions. This project examined what obstacles exist in the path of sustainable development and social inclusion in rural communities in Azerbaijan. We looked at global experience and expert analysis. The study revealed problems such as lack of financial services, dependence on oil, and gender inequality that have a great impact on the development of rural communities. The study shows that structural reforms are important to overcome existing problems, and the expansion of microfinance instruments to accelerate the development of rural areas. For the development of rural communities, it is proposed to cultivate literate human capital in the economic sectors, apply new technologies, and increase investment. Expanding the financial and economic opportunities of women and involving them in entrepreneurship can also have a significant impact on long-term economic development.

The study shows that in order for the economy to develop not only in a single area, but also in a diversified manner, attention should be paid not only to economic factors, but also to social and cultural factors. It is possible to strengthen economic well-being and social equality in rural areas with the joint activities of public, private, and international partners. The policy alternatives developed address these problems in their own unique ways. The state's policy of developing the non-oil sector has increased the influence of other sectors of the economy. The development of rural communities can be addressed by improving the economy, introducing technological innovations, and creating a professional workforce.

### **Recommendations**

Based on our primary and secondary data sources, in order to effectively address the root causes of underdevelopment in rural Azerbaijan, the creation of the integrated rural development authority (IRDA) policy alternative is recommended to the Ministry of Economy of Azerbaijan and should be implemented following these recommendations below:

1. Establishment of the Integrated Rural Development Authority (IRDA) to provide a strong unified institutional framework that addresses both financial exclusion and weak local governance. By creating Rural Development Hubs (RDHs) as localized

one-stop centers, IRDA can streamline the delivery of digital financial services such as mobile banking, savings, microcredit, and insurance. These hubs should also serve as access points to state support programs, helping rural populations formalize their economic activities, strengthen resilience, and build trust in public institutions thus accelerating financial inclusion across underserved communities.

2. Consolidation and coordination of the functions of fragmented state institutions especially those in the agriculture, economy, and labor sectors under the leadership of IRDA. Cross-sectoral coordination should be reinforced through centralized planning, shared databases, and integrated policy design, reducing redundancies and bureaucratic delays. This approach will ensure that state resources are deployed more effectively and in alignment with local needs, while also increasing transparency and accountability in rural development governance.
3. Empowerment of the marginalized rural populations by promoting producer cooperatives and targeted capacity-building programs facilitated through IRDA. These cooperatives should support smallholder farmers, women, and youth in pooling their resources, accessing markets, and strengthening their economic power through collective bargaining. Complementary training programs in financial literacy, agricultural innovation, and entrepreneurship should be delivered through RDHs to build skills and support inclusive economic participation. This inclusive model will help mitigate structural inequalities and reinforce the socio-economic resilience of rural communities in the country.
4. Finally, the implementation of IRDA through a modular, phased approach that aligns with the government's institutional capacity and fiscal constraints. Initial efforts should prioritize the most impactful interventions such as expanding access to digital finance and cooperative structures while building toward broader objectives including infrastructure and employment generation. The Ministry of Economy should ensure that IRDA integrates robust monitoring and evaluation systems to enable adaptive learning and policy refinement. This design will allow the program to respond flexibly to diverse regional contexts and evolving development needs, maximizing its long-term sustainability and impact.

## **Final remarks**

In conclusion, the establishment of the Integrated Rural Development Authority (IRDA) constitutes for us the most comprehensive and strategically pragmatic policy recommendation to address the deep-rooted challenges facing rural Azerbaijan. In a context marked by persistent financial exclusion, fragmented governance, and growing rural-urban disparities, IRDA offers a unified institutional mechanism that brings coherence, accessibility, and efficiency to service delivery. Unlike piecemeal initiatives that often fail to generate systemic impact, IRDA's integrated approach anchored in Rural Development Hubs, digital financial tools, cross-sectoral coordination, and community empowerment ensures that development is not only inclusive but also sustainable. The phased and adaptive design of the program allows for gradual scaling, learning, and innovation, reducing implementation risks while maximizing policy effectiveness. Given Azerbaijan's strategic ambitions for balanced regional development and stronger social cohesion, IRDA is not merely a recommendation but a necessary institutional innovation. Its ability to connect citizens with the state, formalize rural economies, and promote equitable growth makes it the suitable solution to transform rural governance and development in Azerbaijan over the long term.

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## **Index**

### **Interview questions**

1. How would you describe the current state of the economic life of rural communities in Azerbaijan? What do you see as their main struggles?
2. In your experience, what are the biggest barriers to sustainable development in these areas? Are they more related to infrastructure, politics, or other factors?
3. In terms of social inclusion, which groups in rural areas are more at risk of being isolated or left behind – for example, women, youth, people with disabilities? And why do you think this is the case?
4. Do you think the current state programs or institutions (for example, ASAN, Ministry of Economy, etc.) have been effective in supporting rural development and promoting inclusivity?
5. If you could recommend one or two practical steps to make rural development more inclusive and sustainable, what would they be?
6. Finally, are there any inspiring examples, either within Azerbaijan or from other countries, showing how rural communities can develop with proper support?