Center for Analysis of Economic
Reforms and Communication of
the Republic of Azerbaijan

INVEST in KARABAKH and EASTERN ZANGEZUR

SPECIAL EDITION OF REFORM REVIEW

BAKU, 2024

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1 KARABAKH AND EASTERN ZANGEZUR
REGION OVERVIEW

1.1 | KARABAKH ECONOMIC REGION



Area

8.99 thsd. km²

Economy

Agriculture, industry, tourism, services

Natural resources

Polymetallic ore deposits, building materials, mineral waters and etc.

1.1 EASTERN ZANGEZUR ECONOMIC REGION

Area

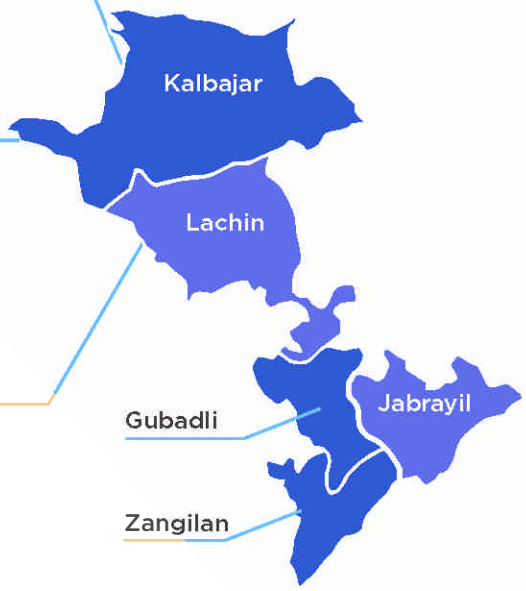
7.47 thsd. km²

Economy

Agriculture, industry, tourism, services

Natural resources

Gold, mercury, marble, facing stone (building stone), copal, perlite and etc.





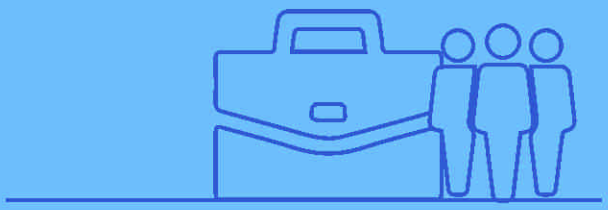
1.2 | SPECIAL REPRESENTATIVES OF THE PRESIDENT OF THE REPUBLIC OF AZERBAIJAN

Activities of special representatives

- Ensuring development of the corresponding territory according to the established purposes
- Coordination of activities of state bodies (organizations) and their local divisions for goal achievement connected with perspective development of the corresponding territory
- The organization of protection of property in the corresponding territory, effective use of state-owned property, and also implementation of activities in the sphere of entrepreneurship, town planning, construction and other spheres
- Implementation of activities in other directions determined by the President of the Republic of Azerbaijan

Currently special representative offices are operating in

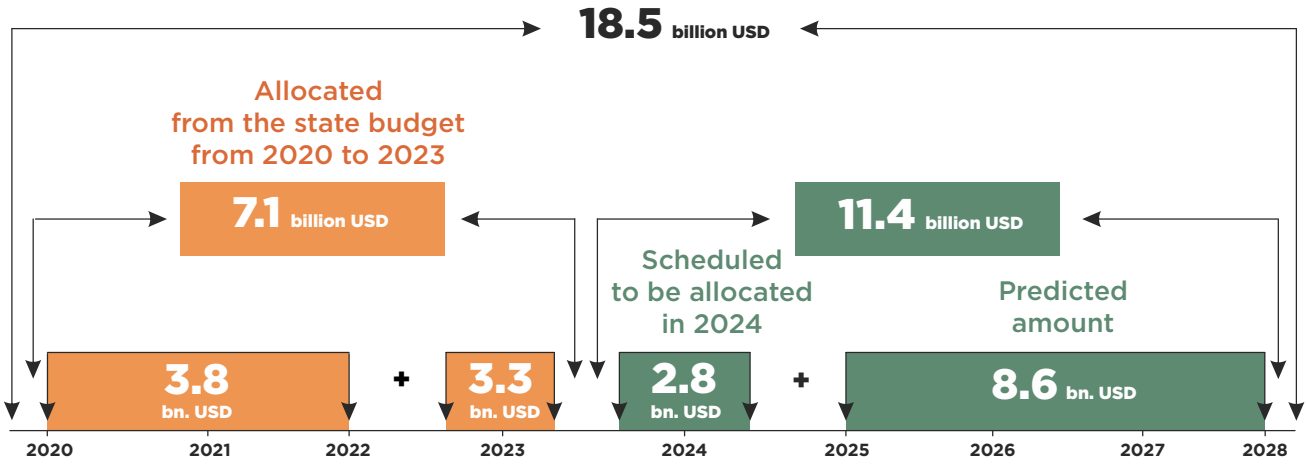
- **Aghdam, Fuzuli and Khojavand districts**
- **Shusha district**
- **Khankandi city, Aghdara and Khojaly districts**
- **Jabrayil, Gubadli and Zangilan districts**
- **Lachin district**
- **Kalbajar district**



Restoration, Construction and Management Services in

- **Aghdam, Fuzuli and Khojavand districts**
- **Jabrayil, Gubadli and Zangilan districts**
- **Khankandi city, Aghdara and Khojaly districts**
- **Lachin district**
- **Kalbajar district**

1.3 | PUBLIC INVESTMENTS IN KARABAKH AND EASTERN ZANGEZUR WITHIN THE FRAMEWORK OF THE I STATE PROGRAM ON THE GREAT RETURN





Agricultural producers across the country are exempt from other taxes including profit tax, income tax, value-added tax (VAT), and property tax on assets utilized in agricultural operations, with the sole exception of land tax.

2 BUSINESS ENVIRONMENT: STATE SUPPORT MECHANISMS FOR ENTREPRENEURSHIP

2.1 | TAX AND CUSTOMS INCENTIVES

from January 1, 2023

10-year exemption of profit (income), property, land, simplified taxes for residents of liberated territories

exemption from VAT and customs duties for 10 years of imported equipment in relevant fields



10-year tax exemption of dividend income of shareholders (partners) of legal entities resident in the liberated territories

exemption of imported raw materials and materials from relevant fields from VAT and customs duties for 10 years

2.2 | SUBSIDIZING SOCIAL INSURANCE CONTRIBUTIONS

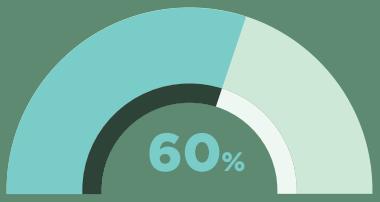
- Compulsory state social insurance contributions paid by non-state sector employers in the liberated territories are subsidized by the state as folows



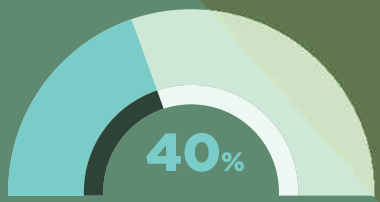
from January 1, 2023, to January 1, 2026



from January 1, 2026, to January 1, 2029

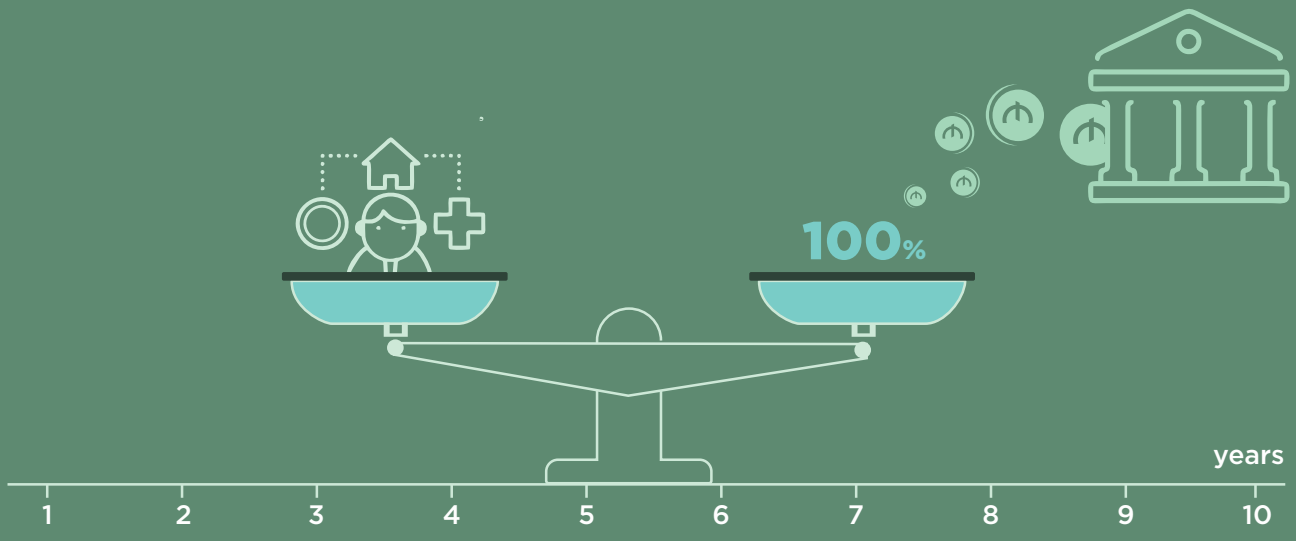


from January 1, 2029, to January 1, 2031



from January 1, 2031, to January 1, 2033

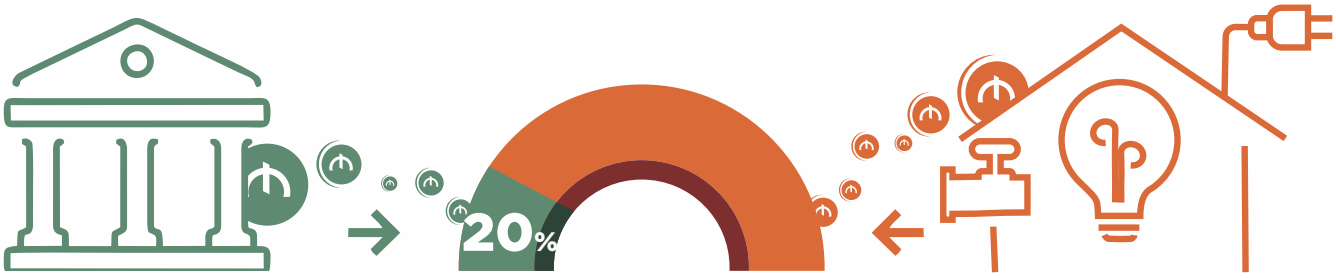
- Compulsory state social insurance contributions for non-salaried income for 10 years are fully subsidized





2.3 | UTILITY SERVICE INCENTIVES

- Provision of financial assistance from the state budget, covering 20 percent of the amounts paid by residents engaged in production activities in the liberated territories for utility services, based on domestic tariff rates.



2.4 | GUARANTEED LOANS

- A credit portfolio of 500 million manats (294 million USD) for entrepreneurs is secured by a state guarantee of up to 450 million manats (264.7 million USD)



- The annual interest rate on loans secured by the state guarantee is subsidized by 10 percentage points



Terms

- The total amount of loans secured by the state guarantee for a single business entity across all authorized credit institutions should not exceed 5 million manats or 294 million USD
- The annual interest rate of the loan must not exceed 15%, and the loan term must not exceed 7 years
- The grace period for the loan must not exceed half of the loan term, up to a maximum of 36 months





2.5 | EXEMPTIONS FROM LABOR MIGRATION QUOTA

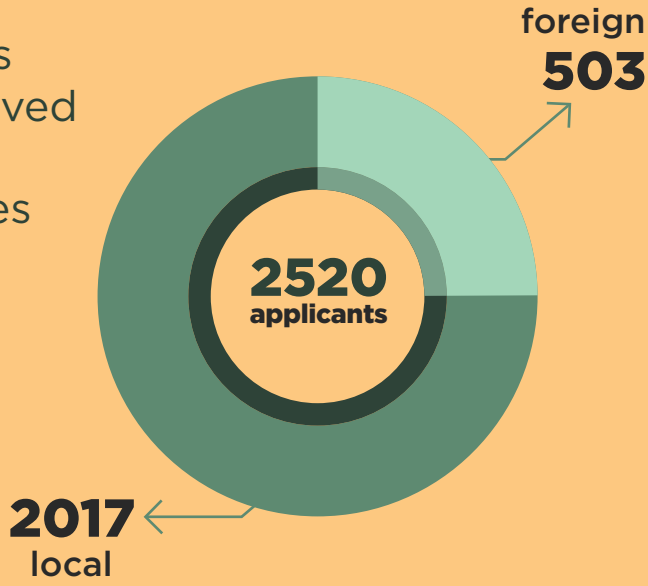


Amendments to the Migration Code of the Republic of Azerbaijan and "The Law of the Republic of Azerbaijan on state fee" dated December 9, 2022 apply to foreigners and stateless persons involved in labor activities in the liberated territories of the Republic of Azerbaijan from January 1, 2023 to January 1, 2028

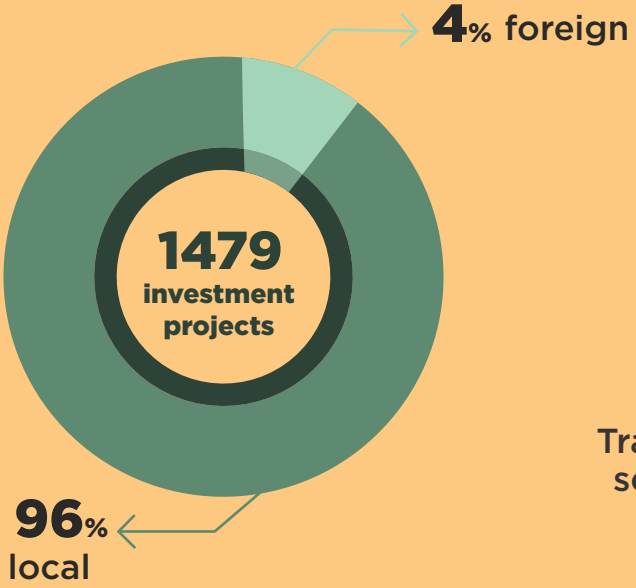
- Issuance and extension of the work permit without taking into account the labor migration quota
- Reduction of the processing time for the work permit application by 5 working days
- Extending the work permit for no more than 2 years each time

2.6 | BUSINESS APPLICATIONS

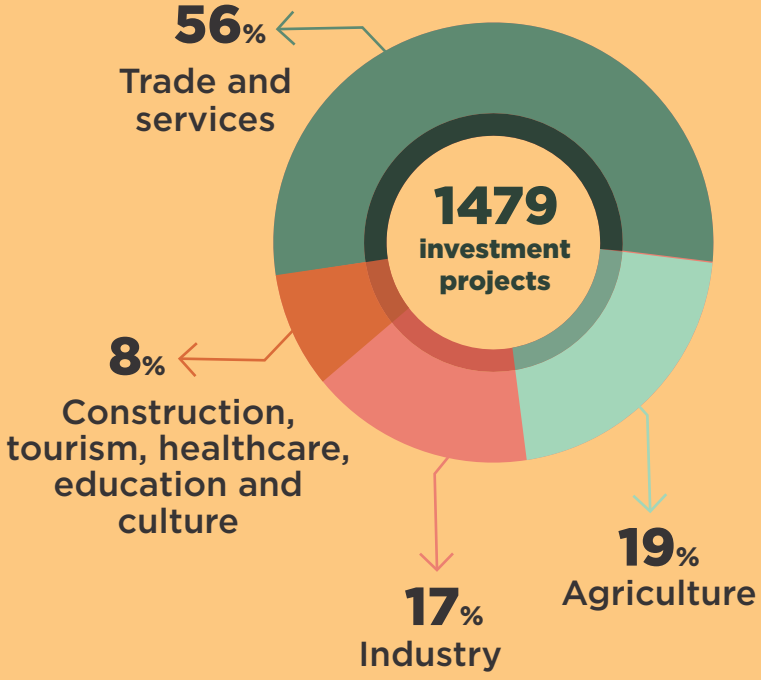
Small and Medium Business Development Agency received over 2520 applications engage in business activities in the liberated territories till 31.10.2024.



1479 out of 2520 applications were investment projects



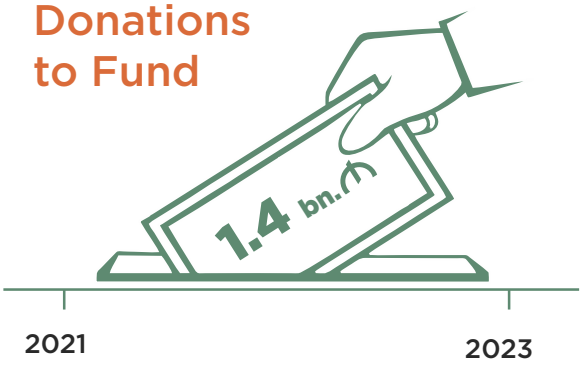
Distribution of applications for investment projects by sectors



2.7 | KARABAKH REVIVAL FUND

The Karabakh Revival Fund is a public legal entity that provides financial support for the restoration and reconstruction of the territories of the Republic of Azerbaijan liberated from occupation

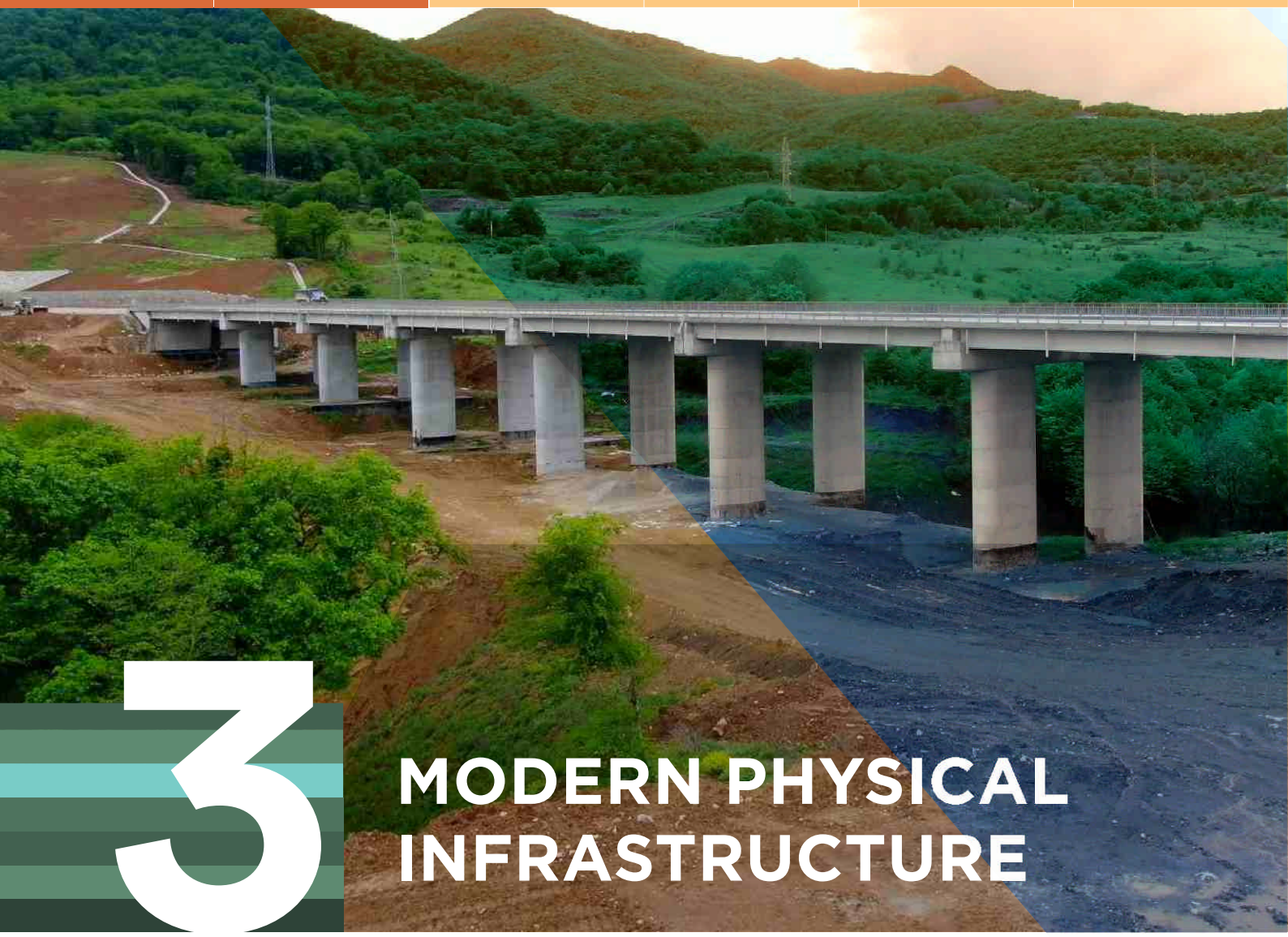
Donations to Fund



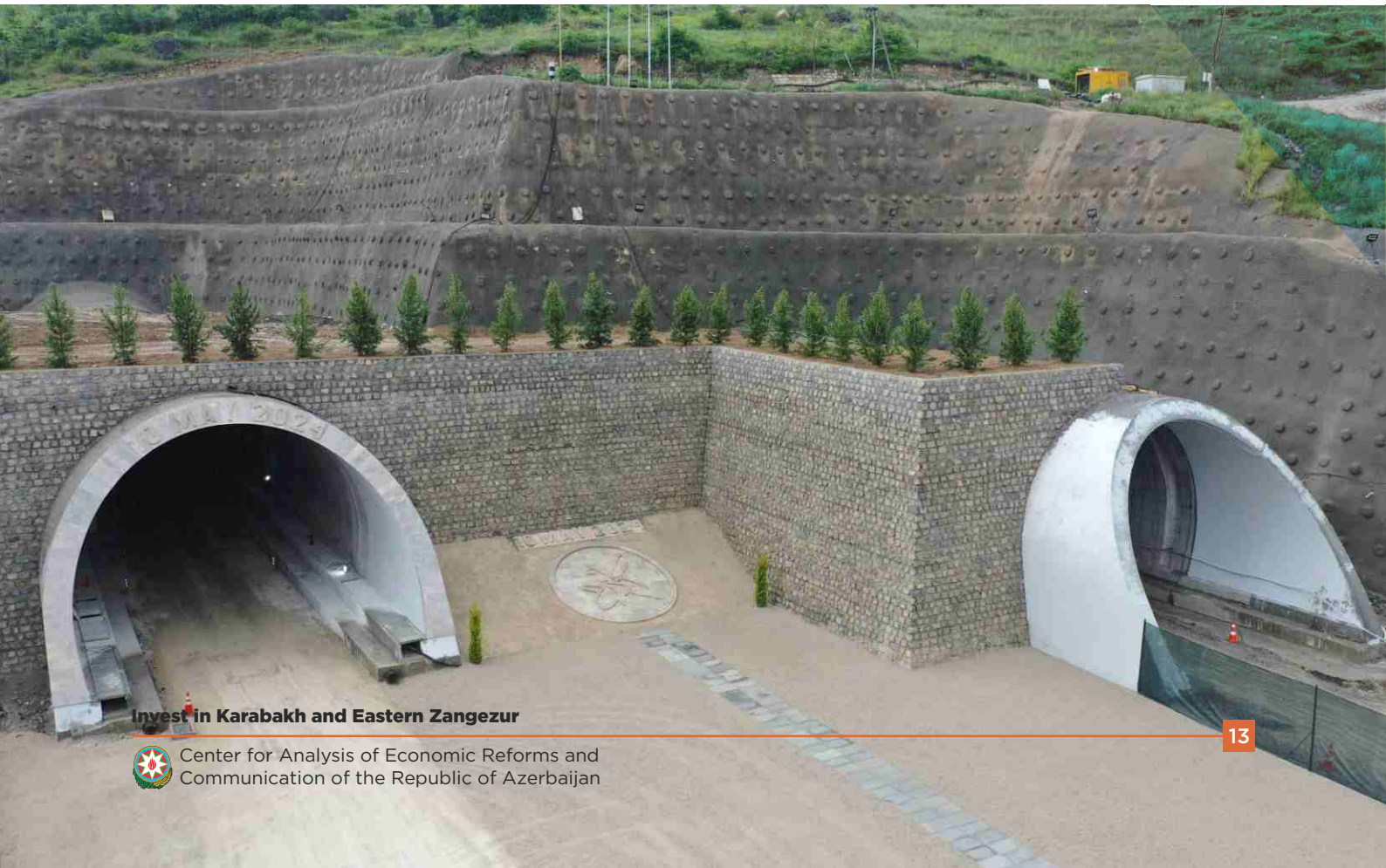
The main directions of the corporate strategy

- Restoration and Reconstruction
- Sustainable Settlement
- Progressive Governance
- Restoration of Ecological Balance
- Responsible Investments
- Advocacy and Agile Communications
- Promotion of Karabakh's Investment and Business Potential
- Development of Human Capital

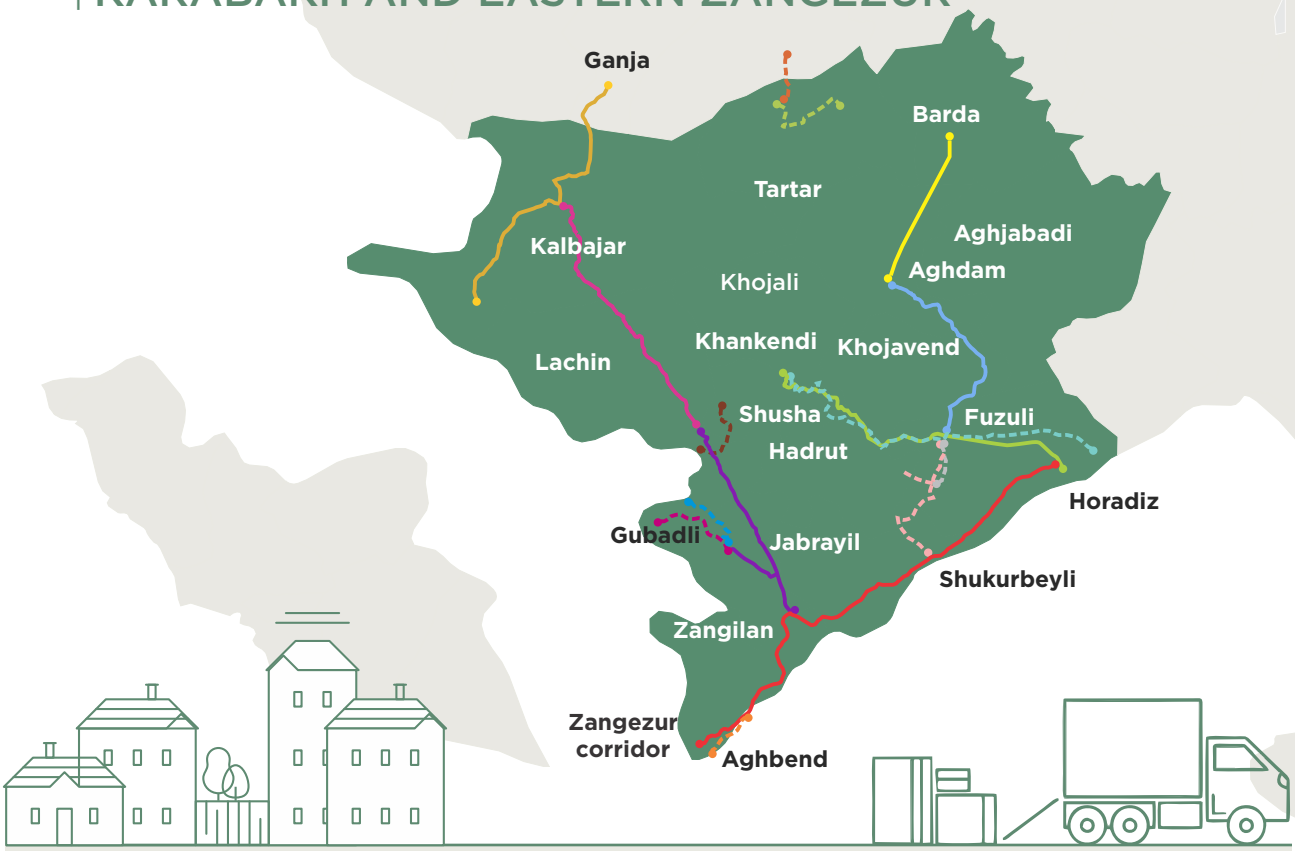
Qarabağ Dirçəliş Fondu



3 MODERN PHYSICAL INFRASTRUCTURE

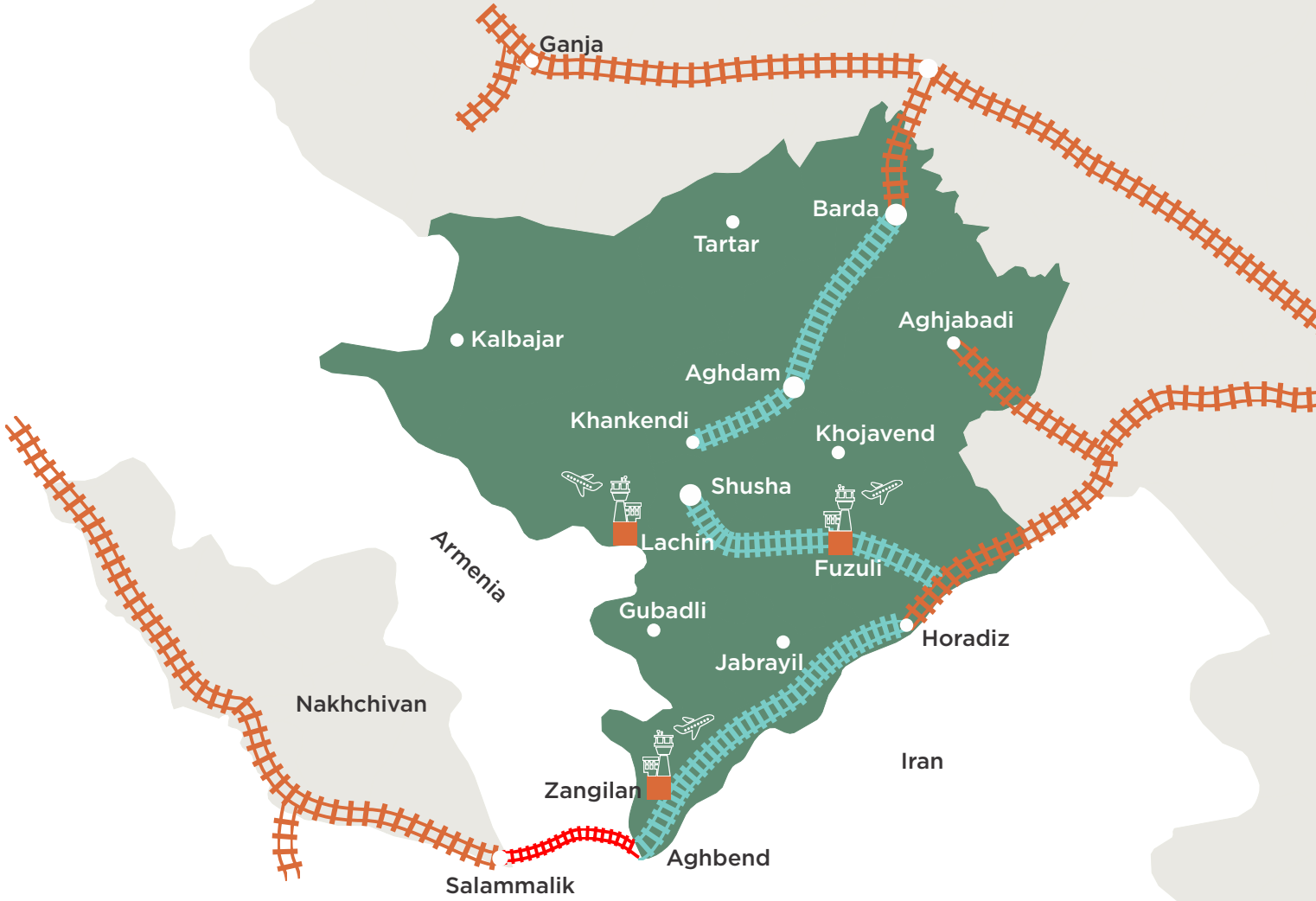


3.1 THE 2023-2025 ROAD INFRASTRUCTURE FOR KARABAKH AND EASTERN ZANGEZUR



- Talish-Tapgaragoyunlu-Qashalti Sanatorium Road - 22 km
- Toghanali-Kalbajar-Istisu Road - 81.9 km
- Kalbajar- Lachin Highway - 75.9 km
- The new alternative road bypassing the city of Lachin - 25.8 km
- The Gubadli-Mahmudlu-Yaziduzu-Armenian Border Road - 22.2 km
- Khudafarin-Gubadli-Lachin Highway - 69.3 km
- Gubadli-Eyvazli Road - 28.2 km
- Tartar-Chayli-Sugovushan-Talish Road - 28.5 km
- Barda-Aghdam Highway - 44.5 km
- The Aghdam-Fuzuli Highway - 65.7 km
- The “Victory Road” - 100.9 km
- Ahmadbeyli-Fuzuli-Shusha Highway - 81.7 km
- Fuzuli-Hadrut road - 12 km
- Shukurbeyli-Jabrayil-Hadrut Road - 39.7 km
- Horadiz-Jabrayil-Zangilan-Aghband Highway - 123.6 km

3.1 | KARABAKH AND EASTERN ZANGEZUR: RAILWAY LINES AND AIRPORTS



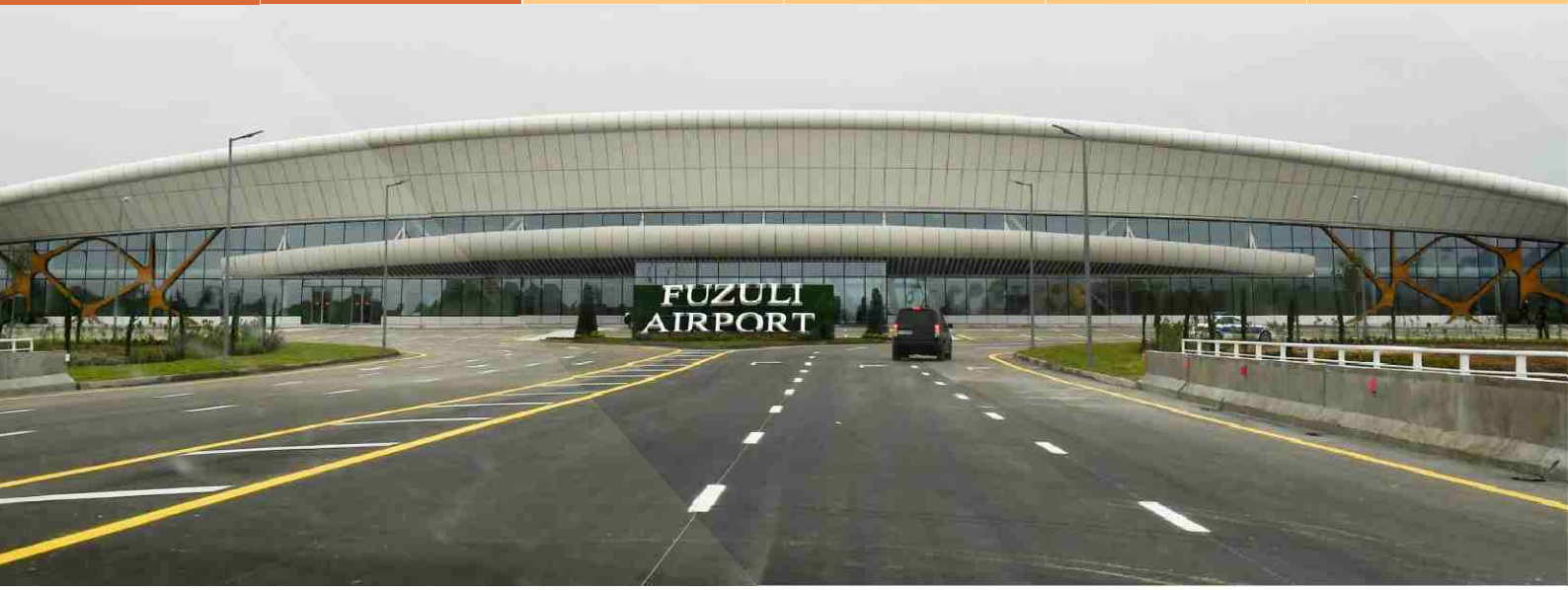


Airports

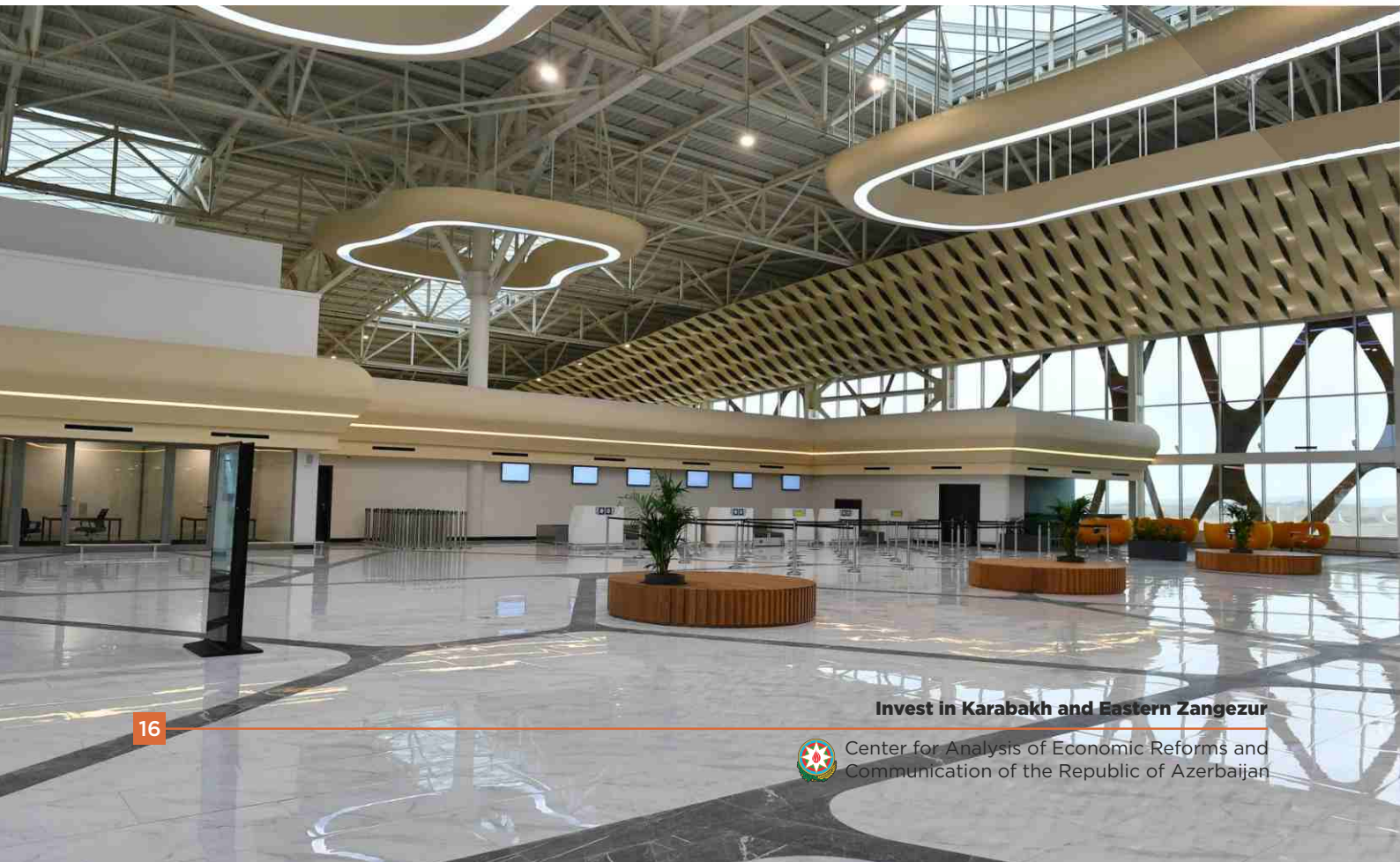
- Fuzuli
- Zangilan
- Lachin



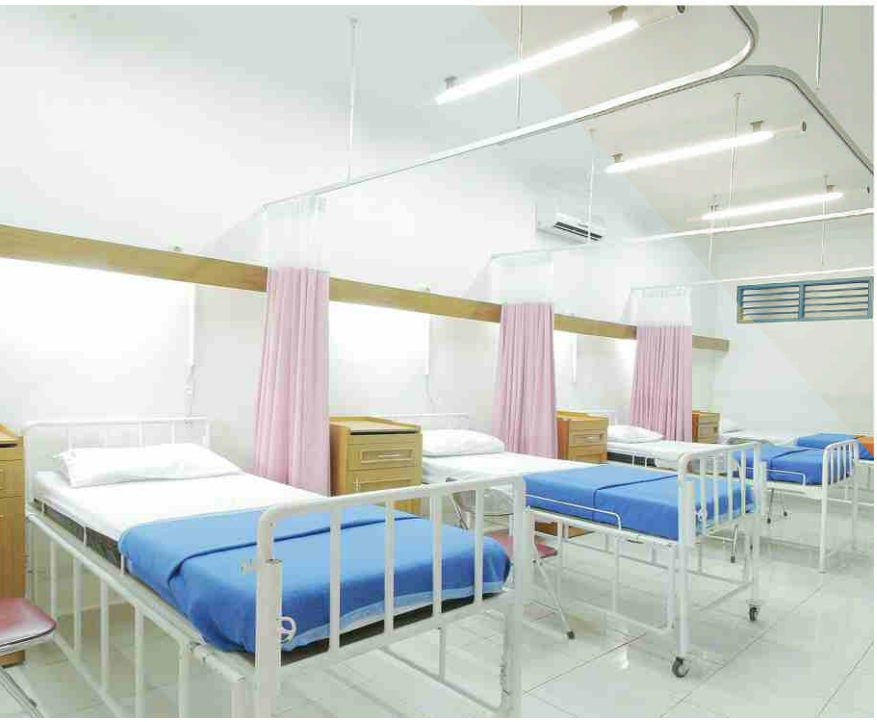
- project design and restoration
- Barda-Aghdam
- Aghdam-Khankendi
- Fuzuli-Shusha
- Horadiz-Aghbend
- Aghbend-Salammalik
- Zangezur Corridor
- Existing railways


FUZULI
AIRPORT


ZƏNGİLAN
AIRPORT



3.2 SOCIAL INFRASTRUCTURE



Healthcare

- Modular hospitals have been constructed and commissioned in the districts of Aghdam, Zangilan, and Khojavend
- The construction of District Central Hospitals with a total capacity of 812 beds is ongoing in the districts of Aghdam, Jabrayil, Shusha, Zangilan, Gubadli, and Fuzuli
- Healthcare infrastructure construction covers all liberated territories

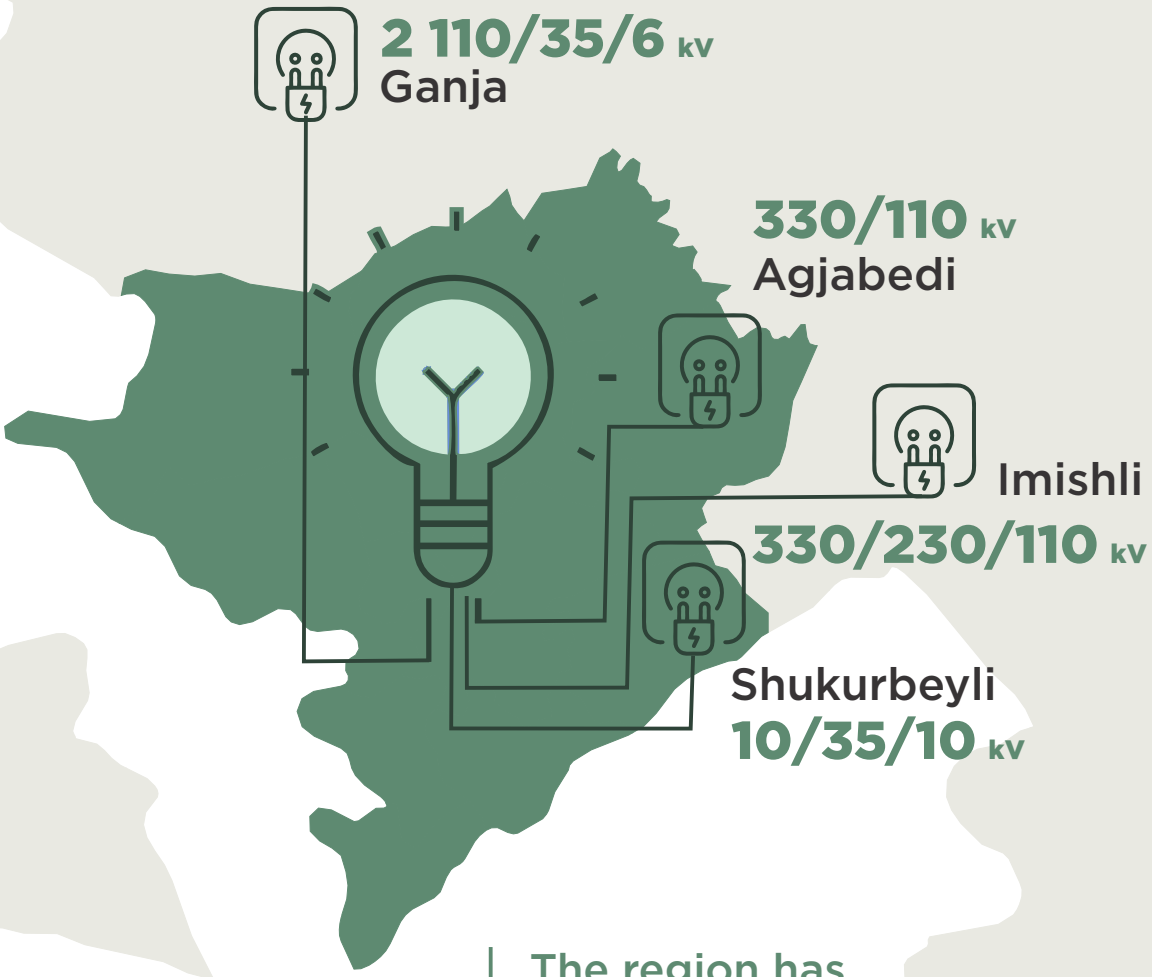
Education

- Karabakh University has been officially commissioned in the city of Khankendi
- In total, 12 educational institutions, including 4 kindergartens, have been constructed and commissioned in the region
- The construction of 23 additional educational institutions, including 11 kindergartens, is currently ongoing
- Education infrastructure construction covers all liberated territories



As of November 1, 2024

3.3 | POWER GENERATION AND DISTRIBUTION



The region has been connected to the national energy system at 4 points

One 330 kV substation, eleven 110 kV substations, and approximately 950 km of 330-110 kV power transmission lines have been constructed

9 small hydropower plants with a total capacity of 61.8 MW have been reconstructed

8 new small hydropower plants with a total capacity of 86 MW have been built

As of July 1, 2024

3.3 COMMUNICATION AND INFORMATION SERVICES



The operation of mobile company base stations has been ensured in the liberated territories



The city of Shusha, Aghali village, and Talish village have been equipped with communication services, including telephone, internet, and multimedia



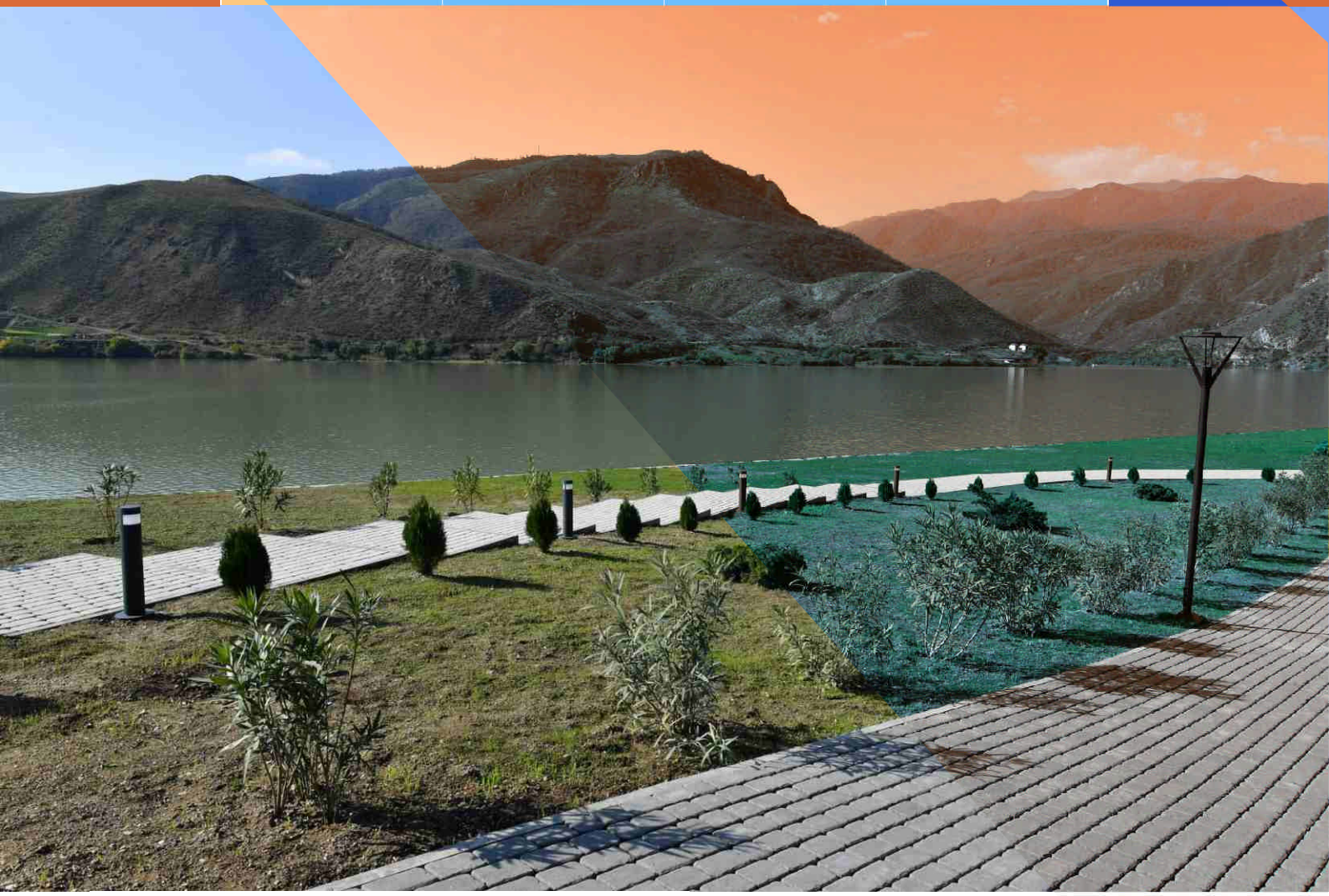
Postal communication services have been established in Aghali village of the Zangilan district



The deployment of intercity (inter-district) and local backbone telecommunication lines is planned for the districts of Shusha, Aghdam, Fuzuli, Zangilan, Aghdara, Lachin, Gubadli, Kalbajar, Khojavend, and Jabrayil



Communication and information services covers all liberated territories

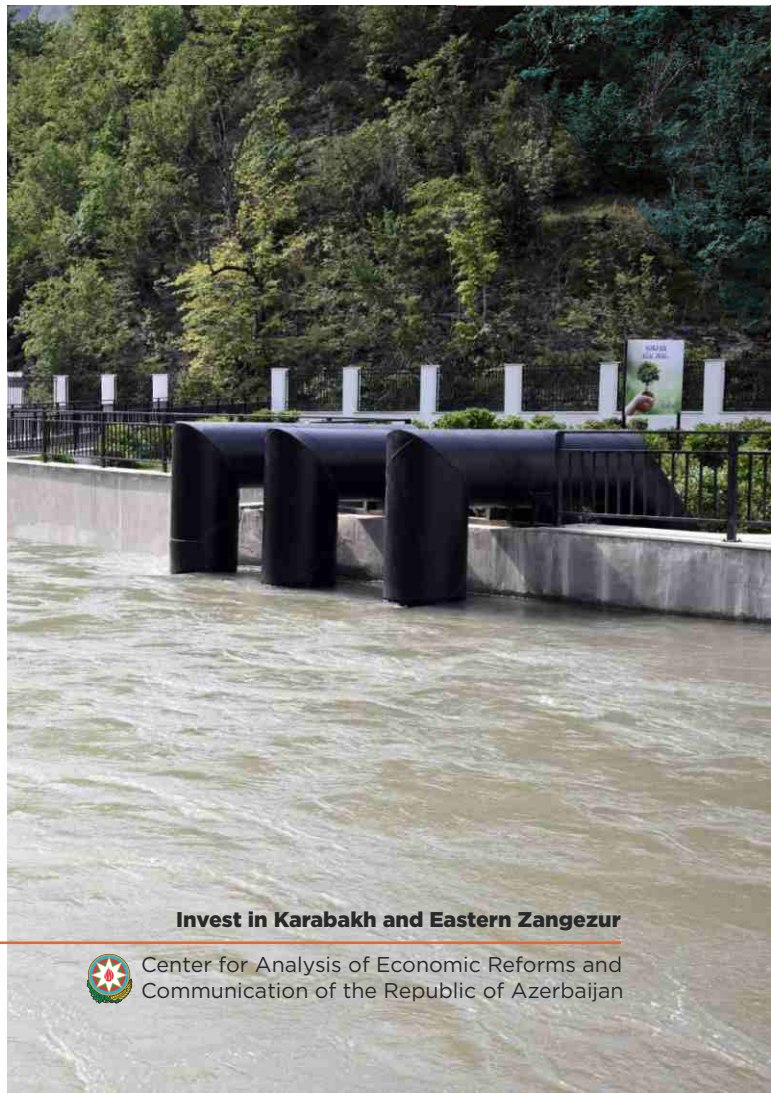




3.5 | WATER, UTILITY AND OTHER SERVICES

Completed projects

- The repair and restoration of the Suqovushan reservoir, along with a 5.2 km main canal
- The repair and restoration of the Khachinchay reservoir, along with a 7 km canal
- The repair and restoration of the Ashagi Kondalanchay, Kondalanchay 1, and Kondalanchay 2 reservoirs
- The design and construction of the Zabukhchay reservoir and its main pipelines





4 KARABAKH AND EASTERN ZANGEZUR POTENTIAL SECTORS

4.1 | AGHDAM INDUSTRIAL PARK

Area
190 ha

Number of residents
28 residents, **4** non-residents

Investment volume
140.2 million USD

Workplace
2090 person

Source: Economic Zones Development Agency, As of November 1, 2024

Priority Areas

- Food and agricultural products
- Production of fodders and veterinary drugs
- Machine building industry
- Production of construction materials
- Production of light industry products
- Packaging
- Agro-chemistry, including fodder and fertilizer production
- Household chemicals
- Repair and technical maintenance of automobiles and trucks, construction and heavy machines
- Repair of household appliances
- Cold storage and logistics services

4.1 ARAZ VALLEY ECONOMIC ZONE

Area
200 ha

Number of residents
13 residentss, 1 non-resident

Investment volume
78.7 million USD

Workplace
2020 person

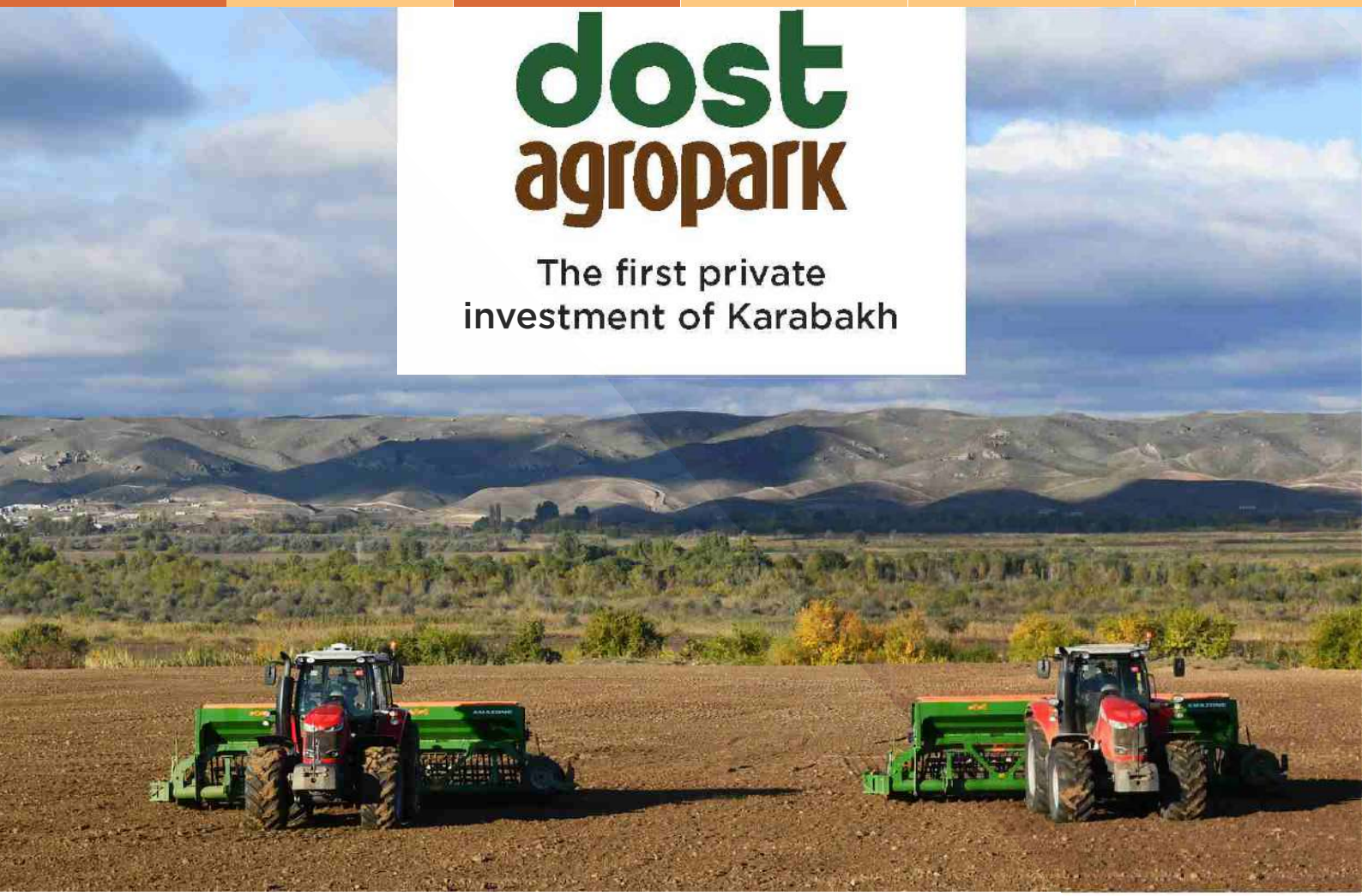
Source: Economic Zones Development Agency, As of November 1, 2024

To incentivize businesses to establish operations within industrial parks, the government offers several key exemptions for a period of 10 years from the date of registration.

These include exemptions from property tax, land tax, income tax, VAT for imported machinery, technological equipment, and devices, as well as customs duty on imported machinery, technological equipment, and devices.

Priority Areas

- Warehousing, cold storage and logistic services
- Sorting and packing
- Alternative energy projects
- Food and agricultural products
- Production of construction materials
- Machine-building industry, automobile industry, appliance manufacturing and agricultural machinery production
- Metal smelting and production of metal parts
- Production of light industry products
- Repair and technical maintenance of automobiles and trucks, construction and heavy machines
- Production of fodders and veterinary drugs
- Agro-chemistry, including fodder and fertilizer production
- Household chemicals



4.2 | "DOST AGROPARK" SMART AGRICULTURAL COMPLEX IN ZANGILAN

Area
6000 ha

Total investments
100 million USD

Expected employment
500 person

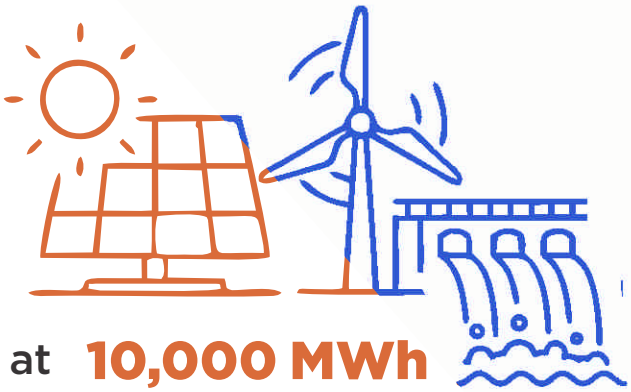
Priority Areas

- Breeding of pedigree livestock
- Meat processing and packaging
- Seed production and cultivation of seedlings

4.3 | GREEN ENERGY

The 'Action Plan for the Establishment of a Green Energy Zone in the Liberated Territories of the Republic of Azerbaijan for 2022-2026' has been approved

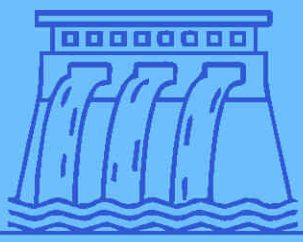
Within the framework of establishing the 'Green Energy' zone, the plan envisages the construction of energy supply infrastructure in the liberated territories, the production of electricity from renewable energy sources, ensuring energy efficiency, implementing green technologies, and promoting public-private partnerships in this sector.



The total 'green energy' potential of Eastern Zangezur and Karabakh (solar, wind, and hydro energy) is estimated at 10,000 MWh



4.4 | INVOLVEMENT OF NATURAL RESOURCES IN THE ECONOMIC CYCLE



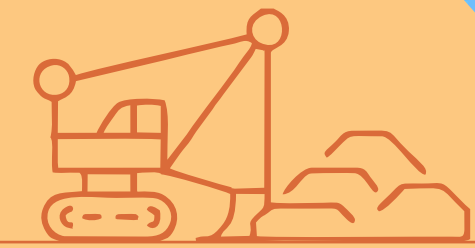
A "Joint Participation Agreement" has been signed between Turkey's "Demirören Yatırım Holding A.Ş.," "Arges Enerji Team" LLC, and the "Azerbaijan Investment Company" (AIC) OJSC. According to the agreement, the restoration and commissioning of 5 small hydropower plants located on the Hakari and Tartar rivers in the Kalbajar and Lachin districts are planned



According to the "Execution Agreement" signed between the Ministry of Energy and BP, the construction of the "Shafaq" solar power plant with a capacity of 240 megawatts is planned in the Jabrayil district



Contracts have been signed with the companies "Eti Bakır A.Ş." and "Artvin Maden A.Ş." for the exploration, research, investigation, development, and exploitation of the "Qashqachay," "Elbeydash," and "Agduzdag" ore deposits



The operation of the "Shahbulag" stone quarry located in the Aghdam district has commenced. Currently, the quarried stone blocks are being used in projects carried out in the liberated territories

4.5 | TOURISM

Karabakh and Eastern Zangezur regions are among the most resource-rich and high-potential tourism destinations in Azerbaijan



Historical and Cultural Tourism

- Shusha, Aghdam, Fuzuli, and Jabrayil possess a particularly rich historical heritage
- The ancient Albanian churches located in the districts of Khojavend and Kalbajar serve as key attractions for religious tourism



Eco-Tourism and Mountain Tourism

- Lachin, Kalbajar, Gubadli, and Zangilan offer ideal locations for hiking, camping, nature tours, and photography

Health and Thermal Tourism

- Kalbajar's famous Istisu springs offer significant potential for health tourism



Winter tourism

- Lachin and Kalbajar are deemed highly suitable for the development of ski resorts



5 KARABAKH AND EASTERN ZANGEZUR FUTURE OUTLOOK AND VISION

Looking ahead, Karabakh and Eastern Zangezur have the potential to become economic powerhouses.

With sustainable and inclusive growth, these regions can significantly contribute to both local economies and national development.

Goals include transforming

- Kalbajar into a mining and tourism center
- Aghdam into a processing hub
- Shusha into a cultural and tourism center,
- Jabrayil into a trade and logistics center
- Gubadli, Zangilan, Lachin, Fuzuli, Khojaly, Aghdara, and Khojavend into agricultural and tourism centers

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Design: Elvira Zeynalova

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