

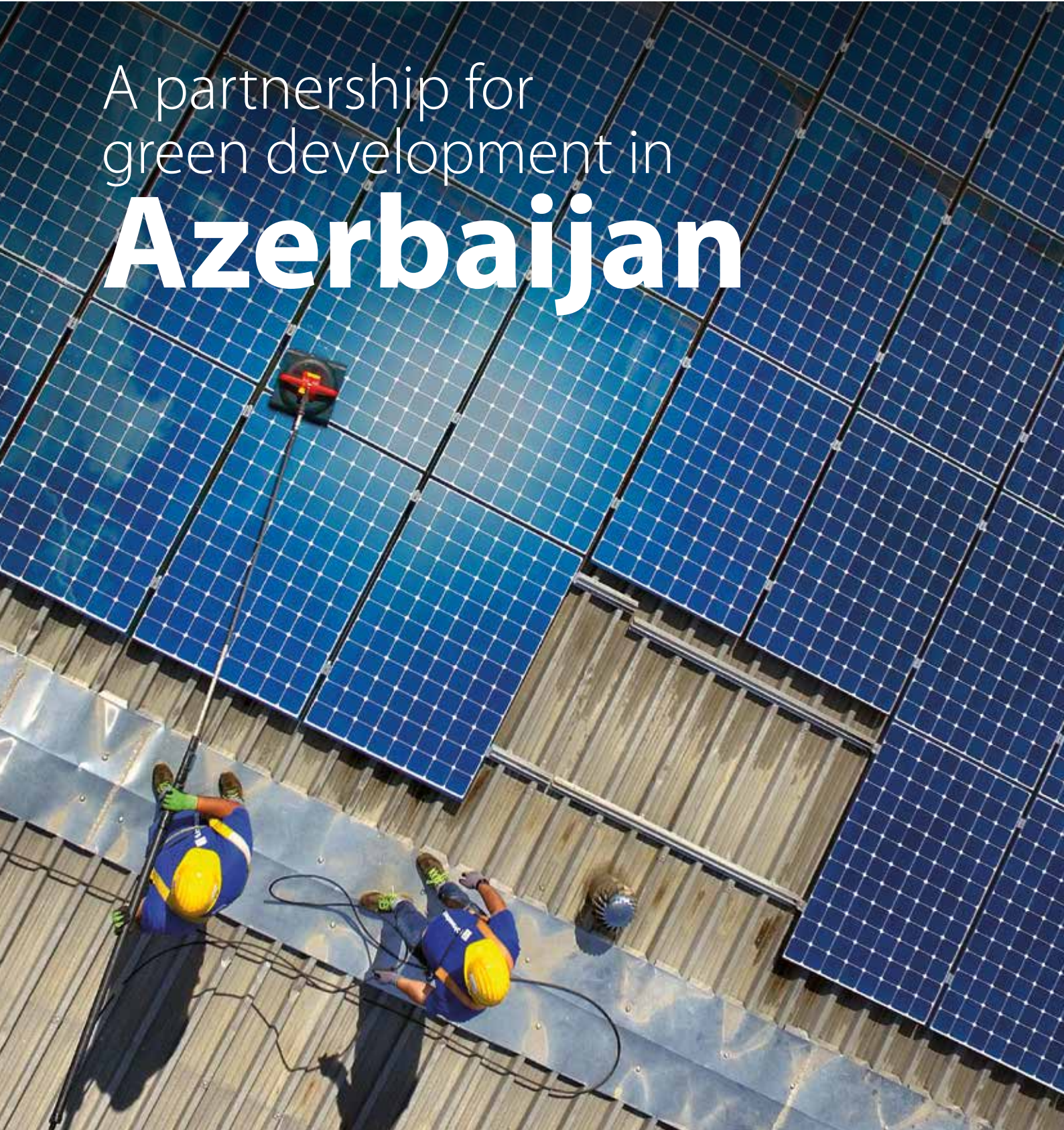


Action funded by the European Union

# EU4Environment

Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine

# A partnership for green development in Azerbaijan



Action implemented by:





# A partnership for green development in **Azerbaijan**

**Greening Azerbaijan's economy is urgently needed as the current models of growth continue to erode the stocks of natural assets and undermine the integrity of ecosystem services on which economic activity depends.** This decade is decisive for boosting the resilience of societies and economies in the context of urgent climate and environmental challenges. This means imminently changing the current models of growth. The shift becomes even more pertinent in the context of the global health emergency of the coronavirus (COVID-19) pandemic.

The EU-funded "EU4Environment" Action, launched in 2019, helps Azerbaijan, as well as five other Eastern partner (EaP) countries - Armenia, Belarus, Georgia, the Republic of Moldova and Ukraine – preserve their natural capital and increase people's environmental well-being, by supporting environment-related action, demonstrating and unlocking opportunities for greener growth, and setting mechanisms to better manage environmental risks and impacts.

EU4Environment integrates in a single strategic framework initiatives to achieve: greener decision making, sustainable economy and green growth, smart environmental regulations, ecosystem protection and knowledge sharing.

## How can Azerbaijan benefit from greener growth?

As part of its co-operation with the European Union, Azerbaijan has made commitments to green economy. This is reflected in the Eastern Partnership Summit Declarations. Azerbaijan's strategic economic policy document "Azerbaijan 2020: Look to the future" integrates environmental concerns, recognises ecological problems from oil extraction among the major challenges and set a target "...to achieve sustainable socio-economic development from an ecological point of view...".

Investing into greener growth will bring benefits to Azerbaijan while failure to adequately manage natural capital will result in increasing costs of substituting the services it provides:

### **Reducing air pollution will make people healthier:**

Currently, welfare costs associated with air pollution by fine particles (PM2.5) represent about 5% of GDP equivalent in Azerbaijan, compared to 3.8% on average in the EU. The mean population exposure to PM2.5 is two times higher than the WHO guideline (21 vs 10  $\mu\text{g}/\text{m}^3$ ).

### **A less wasteful, more resource-efficient approach will make the economy more competitive:**

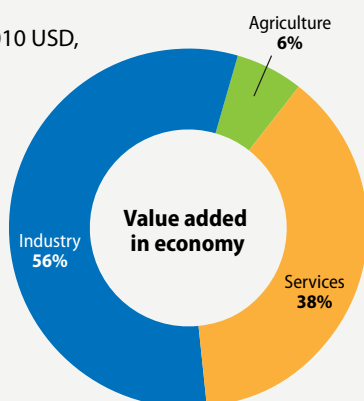
Azerbaijan's oil and gas sector accounts for about one-third of the country's GDP and nearly all exports. However, the economy needs to diversify as the downward trends in oil and gas prices and subdued global growth pose key risks to the economic outlook. Despite some improvements, Azerbaijan's CO<sub>2</sub> and energy productivity, though highest among the EaP countries, remains below the EU levels, indicating therefore room for further improvement in energy efficiency, and production processes.

### SOCIO-ECONOMIC CONTEXT

Real GDP per capita, 2010 USD,  
2018: **15 672**  
(EU average: **37 220**)

Labour tax revenue,  
% of total, 2018: **28**  
(EU average: **56**)

Population density,  
inhab./km<sup>2</sup>, 2018: **115**  
(EU average: **116**)



**Greening will open new employment and economic growth opportunities:** With a population of 9.94 million, Azerbaijan, one of the most densely-populated EaP country, has the second highest real GDP per capita of USD 15 672 (after Belarus; EU: USD 37 220) and low unemployment rate of 5.4% (EU: 6.5%). Doing business outside the oil sector in Azerbaijan remains challenging, especially for SMEs, which account for over 80% of all companies, but contribute only around 3% to the economy. Agriculture sector accounts for 5.7%, but 36% of employment. Both SMEs and agriculture can benefit from being more environmentally aware since

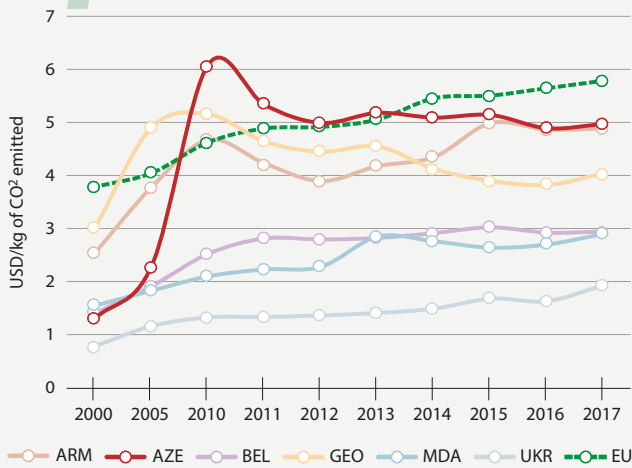
the important export market for Azerbaijan is the EU, where consumers increasingly take environmental considerations into account.

**A safeguarded ecosystem, restored land and forests will provide economic and ecological services:** Reducing the environmental footprint of the heavy industries, which dominates Azerbaijan's economy, will help to reduce significant pressures on the environment, including reduction of air pollution and degradation of the Caspian Sea.

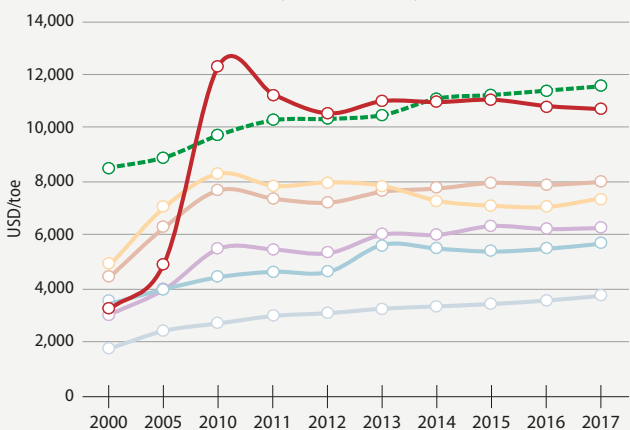
## FOUR DIMENSIONS OF GREEN GROWTH

### 1 Environmental and resource productivity, 2017

#### CO<sub>2</sub> Productivity



#### Energy Productivity



### 2 Natural asset base

**CROPLAND, 2015: 31%** of total land area  
(EU average: **41%**)

**WATER, 2015: 49%** of total land area  
(EU average: **3%**)

Total renewable water resources: **3555 m<sup>3</sup>**  
per inhab./year (countries under **1700 m<sup>3</sup>** are  
considered water-stressed)

**FOREST STOCK: 149 mln. m<sup>3</sup>**  
(EU average: **950 mln. m<sup>3</sup>**)



### 3 Environmental dimension of quality of life

Deaths from PM<sub>2.5</sub>, 2017: **461** per 1 mln inhab.  
(EU average: **402**)

Welfare cost associated with PM<sub>2.5</sub> pollution,  
2017: **5%** of GDP (EU average: **3.8%**)

Population with access to improved drinking  
water sources, % of total, 2017: **73.6%**  
(Euro area average: **98.1%**)



### 4 Economic opportunities and policy responses

Fossil-fuel subsidies, 2014: **2.3%** of GDP



\* To support policies in aligning economic and environmental priorities and to monitor progress towards green economy, the OECD developed a measurement framework which consists of a set of green growth indicators that can capture progress in four areas of green growth:  
<https://www.oecd.org/greengrowth/green-growth-indicators/>

# How does the EU help?

## Areas of cooperation within EU4Environment in Azerbaijan



### Greener decision making

**OBJECTIVE:** Make political leaders, civil servants and the general public aware and supportive of green growth and promote economic and environmental policy integration.

This work is implemented by UNEP and UNECE.



#### WHAT IS THE BASELINE IN 2019?

- Action Plan on improving ecology and efficient use of natural resources for 2015-20 adopted
- Law on Environmental Impact Assessment (EIA) adopted (2018)
- Pilot SEA applied to National Strategy on the Use of Alternative and Renewable Energy Sources 2015-20
- An array of reference frameworks, manuals and tools for green economy transition were developed

#### WHAT WILL BE ACHIEVED BY 2022?

- Inter-ministerial and cross-sectoral policy dialogue on the Green Economy supported
- Civil servants trained on green economy policy development and analysis
- Green economy courses available on-line for various stakeholders
- Investment needs assessed in a priority sector(s) and an action plan developed
- Secondary legislation on EIA and Strategic Environmental Assessment (SEA) adopted and fully aligned with the international legal requirements for EIA and SEA
- Pilot SEA applied to new plans and programmes
- 4 million people reached across the EaP region by communication campaigns



**DID YOU KNOW?** Azerbaijan is a Party to the UNECE Convention on EIA in a Transboundary Context (Espoo Convention) but not yet a party to its Protocol on SEA. The implementation of the Espoo Convention is one of the cooperation areas in the 1999 EU-Azerbaijan Partnership and Cooperation Agreement (Article 43) and one of the objectives in the EU Azerbaijan Action Plan. Progress in this area also contributes to achieving "20 Deliverables for 2020".



### Circular economy and new growth opportunities

**OBJECTIVE:** Scale-up public and private action on circular economy and sustainable production and lifestyles.

This work is implemented by UNEP and UNIDO.



#### WHAT IS THE BASELINE IN 2019?

- Small and Medium Sized Enterprise Development Roadmap adopted (2016)
- Agency for SMEs Development created (2018)
- Resource Efficient and Cleaner Production (RECP) Clubs for SMEs established in Ganja, Khachmaz, Sumgayit, Yevlakh
- National Strategy on improvement of solid waste management for 2018-22 endorsed

#### WHAT WILL BE ACHIEVED BY 2022?

- Resource savings of up to 15% in water and energy use and 2-3% in raw materials reached by SMEs that apply RECP approach
- New RECP Clubs created in two regions
- SMEs familiarized with the concept of Single Market for Green Products
- Sustainable waste management system further developed and Extended Producers Responsibility integrated into plastic and e-waste management strategies
- SMEs trained on eco-innovation and RECP approaches



**DID YOU KNOW?** Most SMEs in Azerbaijan are concentrated in relatively low value-added activities (trade and repair of vehicles, transportation and storage, accommodation and restaurants). The SME Roadmap adopted in 2016 initiated several actions that promote SME development and stimulate the diversification of the economy. Developing green industry can help to tackle high energy intensity of the economy and promote the use of renewable energy. The proximity to the European markets whose demand for environmentally conscious products is ever increasing, is a facilitating factor.



## Environmental level playing field

**OBJECTIVE:** Improve incentives and governance mechanisms that aim at correcting market failures related to the environment, thus ensuring a level playing field in the context of intensified economic exchange with the EU.

This work is implemented by the OECD.



### WHAT IS THE BASELINE IN 2019?

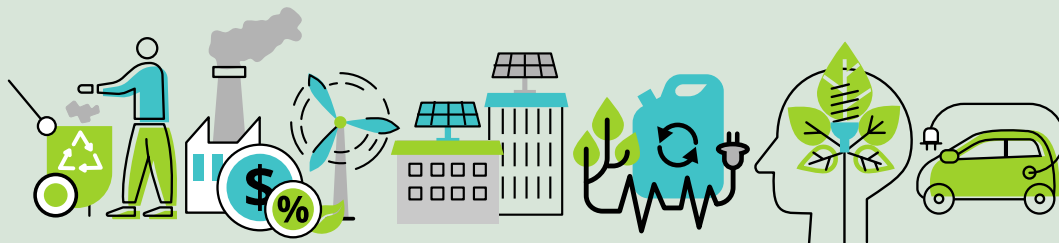
- Regulation of atmospheric air pollution became a priority
- Ongoing structural reforms in the Ministry of Environment, including strengthening the compliance assurance systems
- First comprehensive inventory of energy subsidies (2017)
- Analysis on scaling-up green investments conducted (2018)

### WHAT WILL BE ACHIEVED BY 2022?

- Officials better equipped to set emission limit values and reform environmental permitting, in line with EU Industrial Emissions Directive
- Environmental compliance assurance strengthened and equipped with more effective compliance promotion instruments and non-compliance responses
- New SME Development Agency provided with the tools to support greener SMEs
- Inventory on subsidies updated and data published on line in the OECD Fossil-Fuel Subsidies Database
- Debt capital financing for green investments (including through green bonds) mobilised
- Administrative capacity of public environmental administration strengthened and new capacity building activities designed and carried out



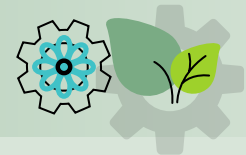
**DID YOU KNOW?** The strategic plan for 2017-20 of the Ministry of Economy sets a target to strengthen institutional capacity. Its focus is on: 1) responding to citizens' requests: continue improving relationship and quality of electronic services by establishing e-government system; 2) creating a single database: deepen the relationship between structural parts and information exchange; 3) effective functioning of the organisation: timely and successful implementation of Decrees and Orders and strategic documents.



## Monitoring progress at environment-economy nexus

**OBJECTIVE:** Facilitate regional knowledge sharing and coordination, monitor progress towards green economy.

This work is implemented by the OECD.



### WHAT IS THE BASELINE IN 2019?

- Initial national set of the OECD-based green growth indicators developed and selected data made available on the web-site of the State Statistical Committee
- Inter-agency working group established by the Ministry of Economy to support this work

### WHAT WILL BE ACHIEVED BY 2022?

- National set of green growth indicators updated and published
- Policy makers equipped with up-to-date regular measurement tools to assess progress in greening the economy
- The public engaged in evaluating greening the economic growth of Azerbaijan building activities designed and carried out



**DID YOU KNOW?** Data on selected GGIs for Azerbaijan is also collected by OECD and is also available in the OECD statistical database OECD.stat: <https://stats.oecd.org>

## About

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- **Budget:** about EUR 20 million for the six EaP countries (with EUR 19.5 EU contribution)
- **Duration:** 2019-2022
- **Implementing agencies:** OECD, UNECE, UNEP, UNIDO and the World Bank.
- **Overall guidance:** European Commission.
- **Key national partners in Azerbaijan:** Ministry of Ecology and Natural Resources and Ministry of Economy.

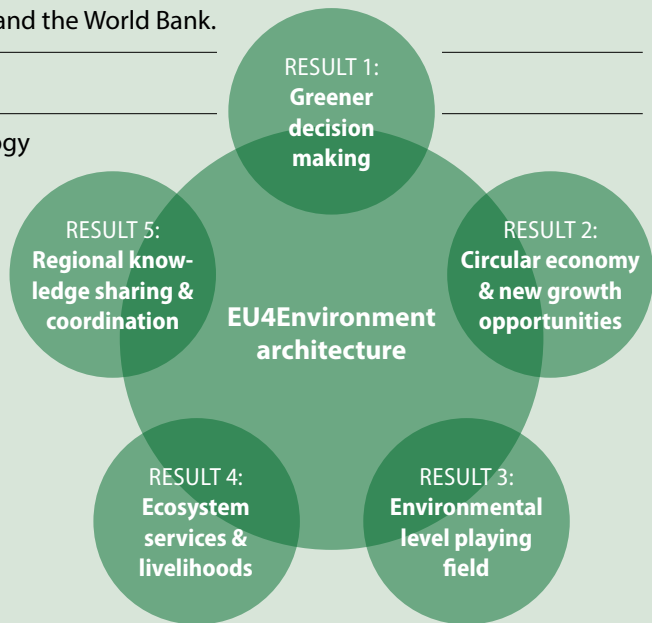
By bringing together environmental and economic actors, EU4Environment helps to deliver policy and legislative changes, making planning and investment greener, stimulating the uptake of innovative technologies, adopting new business models, and creating green jobs. It also promotes better environmental governance, improved management of protected areas and forests, and sustainable trade.

The scope of the Action was defined in cooperation with all partner countries. It targets both public and private sector actors, aiming at creating a critical mass of capacity for greener growth.

It ensures continuity of engagement of the European Union within the Eastern Partnership and builds on political engagements of the partner countries since the Eastern Partnership's establishment in 2009 and the results achieved.

It also provides a vehicle for implementing the European Green Deal, a new green growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy as well as the Joint Communication "Eastern Partnership Policy Beyond 2020: Reinforcing Resilience – An Eastern Partnership that Delivers for All".

The EU4Environment Programme builds on important achievements of past cooperation programmes, such as Greening Economies in the Eastern Neighbourhood (EaP GREEN), the Forest Law Enforcement and Governance (FLEG), and the Emerald Network, which were completed in 2017-18. See more in [EaP GREEN brochure](#) and [Infographic](#).



**Sources:** OECD Green Growth Indicators database, Environment at a Glance – OECD Indicators, World Bank Development Indicators database, Eurostat, EU4Business, OECD Eurasia competitiveness programme, Ministry of Environment and of Economy web sites, Green Growth Knowledge Platform, EU4Environment inception report, EUWI+ inception report, EaP GREEN Brochure, OECD report *Inventory of Energy Subsidies in the EU's Eastern Partnership Countries (2018)*, OECD report *Measuring green transformation of the economy: Guide for EaP countries (2016)*.

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