

# **THE REPUBLIC OF AZERBAIJAN**

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## **ABSTRACT**

of the dissertation for the degree of Doctor of Science in Economics

### **THE CONCEPTUAL BASIS OF THE EFFECTIVE USE OF FINANCIAL SOURCES FOR SUSTAINABLE DEVELOPMENT OF THE ECONOMY**

Specialty: 5307.01 – “Economic theory”

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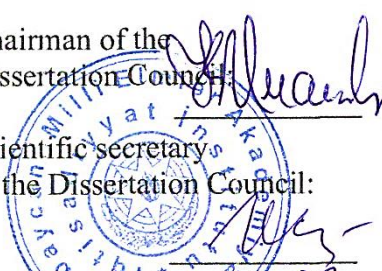
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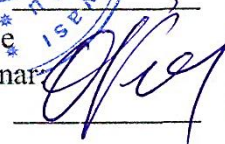


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## INTRODUCTION

**The actuality of the subject.** The problems of sustainable development and its provision are constantly discussed by relevant scientific institutions and researchers. This direction has become one of the main pillars of the state's activity and one of the main points of macroeconomic processes. Thus, the positive tendencies and achievements or certain problems in each country are as a result of the realization of the sustainable development goals.

One of the most important issues that modern sustainable development theories face today is the development of a scientific basis for the effective solution of the existing socio-economic problems of society. In this respect, it is of particular importance to develop scientific and theoretical foundations for the efficient use of financial resources in order to achieve this goal. In addition, despite the processes in the world economy, there is always a need to study this important problem in a comprehensive way and to determine its solutions. Because the quantitative dimensions of sustainable development create certain problems in the face of new trends in socio-economic development in countries that have chosen the market economy path. The transition from quantitative to qualitative indicators also necessitates the efficient use of financial resources in the assessment of sustainable development and the successful solution of the problem of finding optimal systems that reflect the current state of these parameters. The solution of theoretical and methodological problems of these issues is always relevant.

Today, in accordance with our country's long-term socio-economic development strategy, it is necessary to prevent backwardness regarding the processes in the world and to increase the level of sustainable economic development and competitiveness based on the expansion of innovation activities to a qualitatively new level. Thus, increasing competitiveness, being one of the key factors influencing economic progress, also has a significant impact on strengthening sustainable development.

Due to the resources obtained as a result of the successful oil strategy implemented in the country, macroeconomic stability has been maintained, development of the non-oil sector and regions has

been accelerated, infrastructure has been modernized, a favorable business and investment environment has been formed, state support for entrepreneurship has been strengthened, efficient use of strategic foreign exchange reserves has been ensured and continuous improvement of the social welfare of the population has been achieved. In order to analyze the state of the economy and develop a long-term development strategy in accordance with the new challenges to ensure the implementation of economic reforms and policy sustainability, along with a number of concepts and state programs, the Development Concept “Azerbaijan - 2020: Vision for the Future” approved by the Decree of the President of the Republic, Mr. Ilham Aliyev dated December 29, 2012, “Strategic Road Maps for the National Economy and Key Sectors of the Economy” approved by the Decree dated December 6, 2016 and “Azerbaijan 2030: National Priorities for Socio-Economic Development” approved by the Decree dated February 2, 2021 has played a special role in setting goals and objectives, evaluating the measures to be implemented and defining funding mechanisms.

Comprehensive measures are taken to ensure a sustainable level of development based on the current economic potential in our country. The main task in this direction is the continuous protection of the national interests of the Republic of Azerbaijan and the competitive and sustainable development of the country's economy in accordance with the requirements of market relations and the existing system of interests. The main purpose of the effective formation and development of such relations is to fully ensure national revival, sustainable development, and economic integration with the rapidly globalizing world and to minimize the negative consequences of this process. This model of sustainable development is based on the factors that ensure the sustainable development of each economic entity, region, and country as a whole and reflects the main priorities and parameters of the reforms in accordance with civil market relations.

We are proud to note that in the 44-day Patriotic War that began on September 27, 2020, under the leadership of our Commander-in-Chief Ilham Aliyev, the Brave Azerbaijani Army liberated Karabakh from Armenian occupation and restored the territorial integrity of our

country. Reconstruction, revival, and involvement of the liberated territories with rich nature, favorable geographical and economic potential in the national economy will significantly strengthen the economic potential of our country in the near future.

Based on all the arguments, it can be noted that the entry of the economy of the Azerbaijan Republic into a new stage of qualitative development makes it an objective necessity to study the problems of efficient use of financial resources in ensuring sustainable development, including sustainable development of the economy, mainly as a result of the widespread use of science-based technologies. Because it is impossible to ensure the sustainable development of the economy without creating reliable financial sources and using them to the maximum. In this respect, the subject of the dissertation on the study of the conceptual basis of the efficient use of financial resources for sustainable economic development is quite relevant.

As for the level of development of the topic, it should be noted that prominent economists of both classical and modern times have been engaged in the study of the studied subject in different directions. For instance, the classical approach to the problems of sustainable development is reflected in the works of A.Smith, D.Ricardo, J.Keynes and others.

The noteworthy point is that despite the main line of similar research conducted in these areas at the end of the last century was to prevent economic recession and ensure macroeconomic stability, at the beginning of the new century, these trends have diminished, and as a result of the economic recovery, the study of the problems of efficient use of financial resources and sustainable development has regained its relevance.

Azerbaijani scientists, such as Z.A.Samadzadeh, U.K.Alakbarov, A.Kh.Nuriyev, Sh.M.Muradov, A.F.Musayev, N.M.Imanov, G.Z.Yuzbashiyeva, I.H.Aliyev, M.Kh.Hasanli, E.A.Guliyev, B.Kh.Atashov, A.P.Babayev, M.A.Ahmadov, G.N.Manafov, M.Kh.Meybullayev, V.T.Novruzov, T.N.Aliyev, A.Sh.Shakaraliyev, R.Sh.Muradov, I.A.Karimli, F.F.Mustafayev, M.M.Sadigov, Sh.S.Gafarov, A.G.Alirzayev, M.J.Atakishiyev, Sh.T.Aliyev, F.A.Ganbarov, V.S.Ayyubov, S.Y.Guseynov, R.S.Abdullayeva and

others, have researched these and other challenges to sustainable development.

Furthermore, the works of A.Pechchei, J.Forester, M.Mesorovich, E.Pestel, E.Laslo, L.I.Abalkin, Y.Tinbergen, V.Koptyuk, N.Moiseyev, A.Ursul, V.Golubev, O.Dreyer, V.Los, R.Kostansa, A.Pozdnyakov, S.Glazyev, G.Fetishov, P.Munin, foreign scholars engaged in the study of theoretical and methodological aspects of modern sustainable development, including the theory of sustainable economic development, are of great importance.

However, in line with globalization trends and the requirements of a rapidly changing world and consideration of the financial losses caused by the COVID-19 pandemic, which endangered the world's population in 2020-2021, it is necessary to develop theoretical and methodological bases for the study of the efficient use of financial sources of sustainable economic development in the new economic thinking, as well as the formation of the Azerbaijani model of this process in terms of modern requirements. All this led to define the dissertation subject and to research it detailed.

**The object and the subject of the research.** The **object** of research is financial sources to ensure sustainable economic development in the Republic of Azerbaijan.

The **subject** of the dissertation is the study of various scientific views on the content elements of sustainable economic development and the financial sources of its provision, as well as the emerging economic relations in this direction.

**The purpose and the objectives of the research.** The purpose of the research is to analyze the theoretical and methodological foundations of sustainable economic development, to apply the results in the context of Azerbaijan and to develop conceptual as well as practical proposals and recommendations for the efficient use of financial resources.

To achieve this purpose, the following tasks have been determined and implemented:

- to reveal the new qualities created by studying the philosophical -conceptual and theoretical bases of sustainable development of the economy in the globalization environment;

- to substantiate the need for efficient use of financial and investment sources in ensuring sustainable economic development;
- to elucidate the essence and conditions of ensuring economic security on the basis of national interests;
- to substantiate the need to accelerate the development of non-oil sectors to ensure sustainable development and to determine its directions;
- to identify the pros and cons of the financial provision of sustainable development, including budgetary and tax issues;
- to analyze and assess the current state of the Azerbaijani economy in terms of sustainability in the context of globalization;
- to study and assess the impact of the current financial crisis on the sustainable development of the economy;
- to identify aspects of improving foreign investment and sustainable economic development at the macroeconomic level;
- to substantiate the importance of improving financial and investment policy to accelerate access to foreign markets;
- to obtain relevant results by studying that competitiveness as an important condition for sustainable economic development;
- to explain the ways of efficient use of budget expenditures to ensure the sustainability of the economy;
- to substantiate the need for efficient use of investment resources and the priority development of an innovation-oriented economy;
- to estimate the impact of sustainable economic development indicators on GDP in Azerbaijan;
- to make suggestions and recommendations on the implementation of these tasks.

**Research methods.** Various methods and methodological approaches have been used systematically, including dialectics, historical-genetics, synthesis, induction and deduction, systematic approach, comparative economic analysis, observation, estimation and others, based on numerous scientific-theoretical approaches of representatives of classical, neoclassical and modern economic schools as research methods and various theories, concepts and research formed in this direction.

In the process of applying research methods, the information base

of the dissertation has been formed by the results of relevant research conducted by local and foreign scientists and experts on the subject, positive experiences of economically developed countries, reports published by international financial and economic institutions, as well as official statistics of the State Statistics Committee, the Ministry of Economy, the Ministry of Finance, the Ministry of Agriculture, the Ministry of Taxes and the Central Bank of the Republic of Azerbaijan, scientific and practical conference materials, personal observation materials, Internet resources and other sources of information.

**The main provisions to be defended.** The main provisions to be defended in accordance with the research subject are as follows:

- it is necessary to study the causes and features of sustainable development in theoretical and methodological terms;
- sustainability and reliability are important conditions for sustainable economic development;
- sustainable economic development requires reliable financial security;
- the development of non-oil sectors will provide a solid foundation for sustainable economic growth;
- the formation of the budget and tax system in accordance with the real conditions of the country is of exceptional importance in ensuring financially sustainable economic development;
- the dynamic growth of the Azerbaijani economy has led to sustainable economic development;
- a healthy competitive environment should be formed and gradually strengthened as one of the important conditions for sustainable economic development in the country;
- implementation of innovative programs and projects based on innovation and modernization in ensuring sustainable economic development is a necessity of modern times;
- the volume of GDP, which is the basis of sustainable economic development in the Republic of Azerbaijan, has been predicted and probability of GDP growth with increasing dynamics by 2030 has been determined.

**Scientific novelty of the dissertation.** The following scientific



novelties have been achieved during the dissertation work:

- the philosophical-conceptual and theoretical bases of sustainable economic development in the context of globalization have been comprehensively studied and theoretical approaches have been systematized;

- a more advanced mechanism for the efficient use of financial and investment sources to ensure sustainable economic development has been developed;

- in the context of coordinating national interests to sustainable development, a number of proposals were put forward regarding its role in ensuring economic security;

- the role of the non-oil sector in ensuring sustainable economic development and the impact of the financial and tax system on it have been studied and substantiated;

- a comprehensive package of proposals on the efficient use of budget expenditures to ensure the sustainability of the economy has been developed;

- the concept of improving the efficient use of investment resources and forming an innovation-oriented economy has been developed;

- an econometric analysis of the relationship between GDP, which has an important role in the sustainable development of the Azerbaijani economy and a set of indicators characterizing the development of the national economy, has been conducted and a mathematical dependence has been defined;

- the forecast of GDP until 2030, which is the basis of sustainable economic development in the Republic of Azerbaijan, has been developed.

**Theoretical and practical significance of the research.** The theoretical significance of the research is that the various theories formed in the direction of sustainable development, existing scientific-theoretical approaches, concepts, regularities, and general principles of the conceptual basis of efficient use of financial resources for sustainable development of Azerbaijan's economy have been studied and generalized. The theoretical results of the dissertation will be a sufficient source for future research in this area.

The practical significance of the dissertation is due to the fact that the main results and provisions obtained in the research process, proposals and recommendation can be used practically in governing bodies and government agencies in determining the economic policy of the state, as well as in the development and implementation of state programs for more efficient use of financial resources for sustainable economic development in our country and the development of new Strategic Road Maps.

The obtained provisions and methodological approaches can also be used in the process of designing syllabuses for the training of young economists.

**Approval and implementation of the research.** The subject of the dissertation was determined in accordance with the general direction of research work at the Institute of Economics of the Azerbaijan National Academy of Sciences.

On the research work, a total of 134.3 printed pages, 40 scientific articles and theses have been published in the authoritative journals recommended by the Supreme Attestation Commission under the President of the Republic of Azerbaijan, as well as in the materials of international scientific-theoretical, scientific-practical conferences in the country and abroad. In addition, in 2018, a monograph entitled "Problems of financial and budgetary regulation and stimulation of sustainable economic development" in the amount of 320 pages - 518577 characters was presented to the scientific community.

Among the scientific works reflecting the main results of the research are a number of thesis entitled "Budget and financial regulation of the state social policy" (Baku, 2010), "Financial resources and its impact on economic development" (Baku, 2014), "Financing of sustainable economic development: state budget" (Ganja, 2017), "Basic conditions of interrelationships of sustainable development with modernization" (Tambov, 2017) and articles entitled "Budget policy of the Republic of Azerbaijan and its main directions" (Baku, 2009), "Investment-oriented budget policy is an important factor of economic development" (Baku, 2012), "Characteristics of globalization and its sustainability of economic development impact" (Baku, 2015), "Financial and investment factors

for the sustainability of economic development” (Moscow, 2016, based on RINC and Agris), “National interests and security economic security of the state” (St. Petersburg, 2016, impact factor RINC), “Analysis of economic dynamics in Azerbaijan in terms of sustainability” (Baku, 2017), “The role of financial and investment policy in ensuring sustainable economic development” (Moscow, 2017, impact factor RINC), Directions for efficient use of financial and investment sources in ensuring sustainable economic development” (Baku, 2018), “Effective use of investments to ensure sustainable economic development” (Baku, 2018, base Web of Science), “Directions for efficient use of financial and investment sources in ensuring sustainable economic development” (Baku, 2018), “Effective use of investments to ensure sustainable economic development” (Baku, 2018, Web of Science), “Directions of effective use of the state budget in the context of sustainable development” (Baku, 2019), “Financial and investment issues in the strategic management of sustainable development of the economy” (Baku, 2020, ISSN 1849-7535), published in the proceedings of national and international scientific-practical conferences.

Moreover, the main provisions and methodological aspects of the dissertation are used in the teaching process at the Azerbaijan Cooperation University, in the research of doctoral students, masters and bachelors (Letter № 01/88, June 1, 2021).

**The organization in which the dissertation has been accomplished.**

The dissertation work has been accomplished at the Institute of Economics of the Azerbaijan National Academy of Sciences.

**The total volume of the dissertation.** The total volume of the dissertation consists of 274 pages, including an introduction, 5 chapters, conclusion and a list of 294 references. The number of characters in the work, excluding tables, diagrams, graphs and bibliography, is a total of 488259 characters (introduction - 17383 characters, Chapter I – 77973 characters, Chapter II – 90748 characters, Chapter III – 66593 characters, Chapter IV – 84767 characters, Chapter V – 122111 characters, conclusion – 28679 characters).

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## MAIN SCIENTIFIC PROVISIONS TO BE DEFENDED

**1. It is necessary to study the causes and characteristics of sustainable development in the theoretical and methodological aspect.**

The study of the socio-ecological effects of tensions in society-nature relations since the second half of the twentieth century has led to the emergence of the Concept of Sustainable Development. Prospects for the development of mankind, the elimination of the negative consequences of the scientific and technological revolution, ways to solve environmental problems have been first seriously researched in the reports of the Club of Rome, an international non-governmental organization that was founded in 1968 by the Italian businessman and scientist A.Pechchei and studies the global problems of our time. First, J.Forester, a professor at the Massachusetts Institute of Technology and an active member of the Club of Rome, sought to mathematically model population growth, capital investment, the use of non-renewable natural resources, food production, and environmental pollution in his book, "World Dynamics", published in 1971.

In 1972, a book entitled "The growth limit: a report to the Club of Rome" authored by a research group led by R. Meadows, another member of the Club of Rome, has explained some aspects of the concept of ecologically sustainable development. Concerning the definition of sustainable development, it has been said that limiting the use of natural resources depends on the ability of the biosphere to eliminate the negative consequences of human production and socio-cultural activities.

The second report of the Club of Rome, entitled "Humanity at the Crossroads", was prepared in 1974 by M.Mesarovich and E.Pestel. In this report, the authors draw the world's attention to the growing disparity between man and nature, and between the rich and the poor. Then, the 3rd report, entitled "Restructuring of international rules" prepared by the Dutch economist Y. Tinbergen, announced to the world community the coordination of local and global goals. In the 4th report, entitled "Goals for Global Societies" prepared by E.Laszlo,

ways to solve global problems, including the organization and management of society, ways to improve material well-being, waste recycling, energy use and other issues have been analyzed.

The theoretical basis for the solution of the problem of sustainable development, which is widely and frequently discussed in the world, is the documents adopted at the United Nations' successive meetings at various times and places since the 1980s. The main purpose is issues which meet the needs of the present generation without affecting the interests of future generations, such as sustainable development, environmental security, uninterrupted production, continuous improvement of people's living conditions, harmonization of nature and society at all times and so on.

The notion "Sustainable development" was first used in a report entitled "World Conservation Strategy" submitted to the International Institute for Nature Conservation in 1980. In this report, the concept of "sustainable development" is defined as the efficient use of renewable and non-renewable natural resources, human resources and the modification of the biosphere to improve the quality of life and meet human needs. This notion was brought to the attention of the world community in 1984 after the publication of the report "Our Common Future" prepared by the UN Commission on Environment and Development, headed by the Prime Minister of Norway G.Kh.Brutland.

Thus, in the 1990s (especially after the UN conference in Rio de Janeiro, Brazil, on June 3-14, 1992), the notion "sustainable development" as an independent concept has become widespread not only in scientific and famous literature, but also in the speeches of heads of state and political figures. Although the concept of sustainable development is also widespread among researchers, a scientifically sound definition of the concept of development has not yet been established. For instance, in the works of Russian scientists such as academician V.A.Koptuyk, academician N.N.Moiseyev, academician A.D.Ursul, V.S.Golubev, O.K.Dreyer and V.A.Los, the notion and concept of sustainable development are explained from different angles.

Academician U.K.Alakbarov, academician Z.A.Samadzadeh,

professor A.Kh.Nuriyev, corresponding member of ANAS, professor S.Y.Hüseynov, professor N.M.Imanov, professor I.H.Aliyev, professor M.A.Ahmadov, professor A.S.Shakaraliyev, professor T.N.Aliyev and other Azerbaijani scientists have also given wide coverage to the concept of sustainable development in their studies. In general, as a result of the approaches of Azerbaijani scientists, sustainable development can be considered as a conceptual vision that will more fully meet the needs of the current generation without affecting the needs of the next generation.

Although the views of both domestic and foreign researchers differ in the definition of the concept of sustainable development, there is a common point: natural and economic resources should be used economically, thoughtfully and without waste, and a balance should be maintained in nature-society relations. The main reason for the diversity of approaches is that the concept of sustainable development is at the crossroads of many sciences and has a universal character. In this case, it is necessary to seriously analyze and take into account the new challenges of the globalizing world and socio-economic processes in modern times. On this subject, academician Z.Samadzadeh writes, *“We should accept and take into account the globalization factor as an unconditionally objective reality. Our republic participates in regional estimates at various levels of cooperation. The effective functioning of an independent state depends on the development of the national economy. Each of these areas has its pros and cons. Denial of any of these facts can have serious negative consequences and a violation of national interests. In short, during formulating a development strategy, we should consider all these factors and the situation, more precisely, the requirements and realities of modern times”*.<sup>1</sup>

According to the corresponding member of ANAS, professor A.Kh.Nuriyev, *“Sustainable economic development, environmental protection and the solution to the problem of unemployment should be at the heart of the concept of sustainable development, including the*

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<sup>1</sup> Səmədzadə Z.Ə. Böyük yolun mərhələləri – Azərbaycanın yarım əsrlik iqtisadiyyatı, onun yeni reallıqları və perspektivləri. Bakı, 2004, səh. 21.



*concept of sustainable human development. The mechanisms for solving these problems should be clearly defined”.*<sup>2</sup>

Academician U.K.Alakbarov and professor S.Y.Huseynov approaches sustainable development more in the context of the UN “Sustainable Development Concept”. According to these scientists, sustainable development recommends a comprehensive approach to economic, social, and environmental issues, and sustainable development refers to a dynamic process that is effective in all three areas.

According to economist professor M.A.Ahmadov, *“sustainable development means development that is resistant to external influences and dynamic”.*<sup>3</sup>

Professor A.A.Shakaraliyev states in his research that, *“Although sustainable development is described in various forms in the scientific literature, its essence is a new form of economic development and human activity that is able to meet people's needs and does not prevent them from being met. These requirements can be met only on the basis of environmental protection, efficient use of natural resources and energy resources, and for this purpose the creation of new technologies and their widespread implementation in production”.*<sup>4</sup>

One of the issues that is seriously debated among various scholars in the philosophical analysis of the concept of sustainable development is the terminological problem. The English word “sustainable” in Azerbaijani means “sustainable”, “continuous”, “uninterrupted”, “stable” and “long-term”. The expression “sustainable development” in English means “continuous, uninterrupted, sustainable development” in Azerbaijani. N.Mammadov, an Azerbaijani scholar, points out that the term “development”, derived from the English words “sustain” and “to be able”, is understood as the self-sufficiency of development, in other words, the driving force, development that promotes future progress.

Since the term “sustainable development” is used in Russian as

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<sup>2</sup> Nuriyev Ə.X. Davamlı və tarazlı regional inkişaf. Bakı, 2017, səh. 20.

<sup>3</sup> Əhmədov M.Ə. Qloballaşma və milli iqtisadiyyatın formalaşması. Bakı, 2003, 520 s.

<sup>4</sup> Şəkərəliyev A.Ş. Dövlətin iqtisadi siyasəti: dayanıqlı və davamlı inkişaf təntənəsi. Bakı, 2011, səh. 513.

“устойчивое развитие”, until 2003, the term was used in our country mainly as “stable and sustainable development”. This expression is used in research works and various documents published in our country after 2003 as both continuous and sustainable development.

As a result, the concept of sustainable development today serves as a methodology for scientists and professionals studying nature-society relations. In this regard, researchers and specialists should procure methods and means to reduce natural disasters and anthropogenic disasters, minimize the depletion of natural resources, and scientifically examine the requirements of production and consumption for the exploitation of natural resources. Major research should focus on minimizing high living standards and dependence on the planet's resources by changing lifestyles.

Since sustainable economic development is based on the idea of equitable distribution of resources, creating proportionality between current and future generations, that is, meeting the needs of the present generation without affecting the needs of future generations, the concept of sustainable economic development can be considered a fair approach.

## **2. Sustainability and reliability are essential for sustainable economic development**

We noted that the main task of sustainable development is the continuous (sustainable) satisfaction of the needs and desires of society. Since the main goal of economics is to meet the ever-increasing needs of society with limited resources, we can similarly accept the main task of sustainable economic development. This means that the main goals of “sustainable development” and “sustainable economic development” are the same, and both are aimed at continuously meeting the needs of society.

Although sometimes the literature refers to “sustainable development” as the general sustainable progress of society, and “sustainable economic development” as continuous economic progress based solely on economic growth, in general, these concepts are very similar and do not deny each other. All researchers point out that dynamic progress and dynamic economic growth are necessary conditions for sustainability.

Recently, the concept of “sustainable economic development” has been used in the economic literature along with “sustainable economic development”. In our opinion, continuous or sustainable economic development reflects a positive change, growth, and continuity of the system of indicators reflecting the overall development of the country and the region. There are some differences between these concepts. Thus, sustainable development indicates the relative longevity and reliability of continuous development. Sustainability and reliability are important for long-term continuous development.

According to research, each country has its own characteristics of sustainable economic development. They depend on the historical development of the economy, the country's production, including quantitative and qualitative indicators of human potential, natural resources, the state of development of the consumer market, historically formed structures of the economy and socio-economic development policy in the country.

In this regard, according to the requirements of sustainability, economic and social development measures should be aimed at minimizing the negative effects of economic activity and should not create any difficulties for future activities. If the activities of the current generation cause any harm to the next generation or its activities (for example, unnecessary, wasteful use of non-renewable resources), then the damage should be fully compensated.

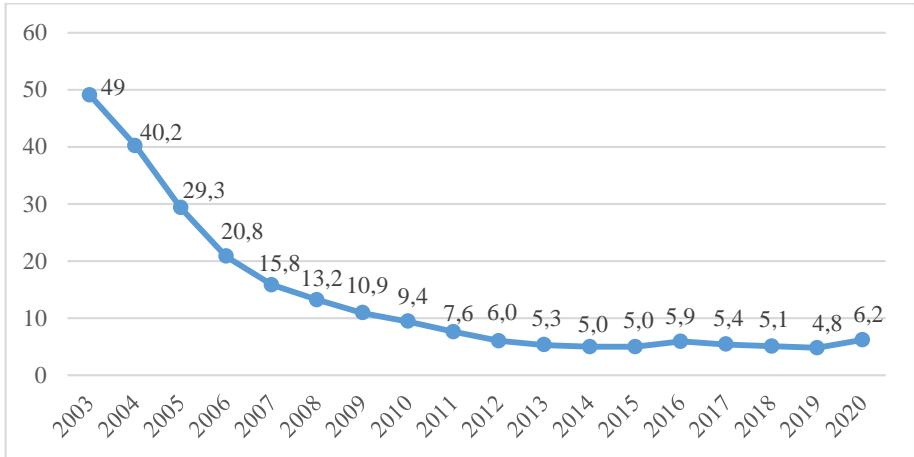
Globalization, together with its positive features, creates conditions for some problems to aggravate. However, a chronological analysis of events in world history shows that if global inequality between people is not prevented and deepened, the problem of poverty may become more serious and threaten the sustainable economic development of the world.

Considering these factors, the fight against poverty has become one of the main goals of the reforms in the Republic of Azerbaijan, which always observes the requirements of international documents, is rapidly integrated into the modern world and benefits from international experience. For this purpose, state programs on Poverty Reduction and sustainable development for 2003-2005 and 2008-2015 approved by the relevant orders of the president of the Azerbaijan

Republic were developed and successfully implemented.

As a result of measures taken to reduce poverty, the poverty rate in Azerbaijan fell from 49% in 2003 to 6,2% in 2020.

Overall, the country's poverty rate for 2003-2020 is shown in Diagram 1.



**Diagram 1. Poverty rate in the Republic of Azerbaijan in 2003-2020 by years, in percentage**

Source: Compiled by the author based on internet resources, [www.stat.gov.az: stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az/stat_yearbook2020.zip/ASG_2020/pdf)

Although research shows that rapid economic growth can minimize poverty, a long-term solution to this problem is only possible with a transition to sustainable development.

### **3. Sustainable economic development requires reliable financial security.**

The financial and investment potential of each country and the existence of a policy that allows the effective use of this potential have an exceptional importance in ensuring sustainable economic development. In this regard, the implementation of a successful financial and investment policy in the country is one of the important issues for attracting both foreign and domestic investments to the economy.

In accordance with the objectives of fiscal policy, not only the volume of investments involved, but also the efficient allocation and proper distribution of funds is of particular importance. From this point of view, the efficient geographical and sectoral distribution of investments is one of the important challenges facing sustainable economic development.

In our opinion, the assessment of the financial potential of individual regions of the country in determining the sources of financing and investment for sustainable economic development will allow to identify both the investment needs of the country and the financial opportunities of the region.

In general, economic entities generate resources through their own resources, attracted funds, borrowed funds, public funds and other resources to achieve sustainable economic development. The main task at this time is to direct investment flows to high demand sectors through effective mechanisms and ultimately to form more progressive and new models of economic development.

As one of the main sources of finance and investment for sustainable economic development, it is extremely important to strengthen the ties between the main economic entities, including enterprises producing goods and services, banks with financial intermediaries, credit institutions, insurance companies, stock exchanges, with the help of the financial market and its components, the securities market. Thus, the securities market plays an important role in the sustainable development of the economy in terms of organizing the movement of financial resources left out of economic circulation, ensuring the proper use of them, acting as a key instrument of financial and monetary policy of the state, and so on.

In the context of limited resources due to globalization and integration processes in the modern world, the financial and investment policy of the state is reflected in the restructuring of production funds by directing the use of resources in the most important areas. To this end, the relevant government agencies should not allow inefficient allocation of resources, focus them on the construction and modernization of strategic areas, create a favorable environment and incentive mechanism for economic entities that

apply competitive, world-class techniques and technologies. The establishment and development of all this work must always be socially oriented.

The state's investment policy should set as its main goal the development of competitive industries that meet the requirements of both domestic and foreign markets, using resources as efficiently as possible.

In general, investments in the economy in Azerbaijan are continuous, and in most cases increase year by year. This can be seen in more detail in Table 1.

**Table 1.**

***The structure of investments in the Azerbaijani economy in 2005-2020***

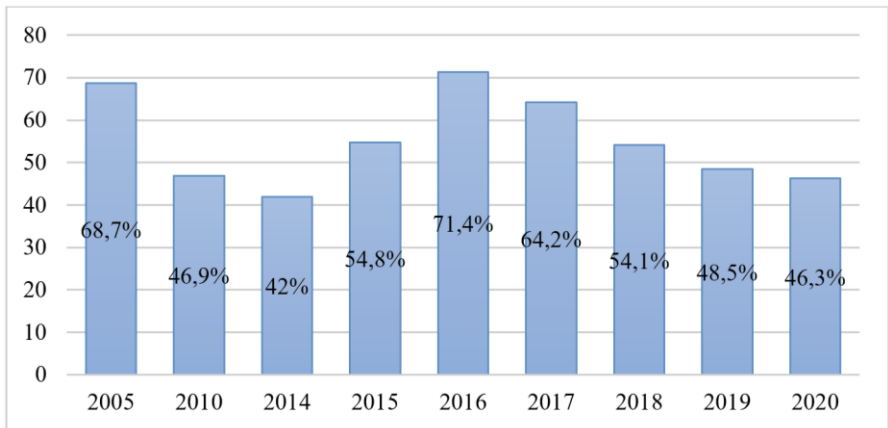
	2005	2010	2015	2016	2017	2018	2019	2020	Growth in 2020 compared to 2005, in times
Total investments:									
million manats	6733,4	14118,9	20057,4	22706,4	24462,5	25877,0	24986,6	22484,0	3,3
million dollars	7118,5	17591,4	19547,2	14228,0	14213,3	15221,7	14698,0	13225,9	1,9
Foreign investments:									
million manats	4628,5	6 619,7	10998,9	16216,1	15697,3	14002,1	12119,5	10413,2	2,2
million dollars	4893,2	8 247,8	10719,1	10161,1	9120,5	8236,5	7129,1	6125,4	1,2
Specific weight in total investments, in percent	68,7	46,9	54,8	71,4	64,2	54,1	48,5	46,3	-
Domestic investments:									
million manats	2104,9	7499,2	9058,5	6490,3	8765,2	11874,9	12867,1	12070,8	5,7
million dollars	2225,3	9343,6	8828,1	4066,9	5092,8	6985,2	7568,9	7100,5	3,2
Specific weight in total investments, in percent	31,3	53,1	45,2	28,6	35,8	45,9	51,5	53,7	-

Source: Compiled by the author based on internet resources, [www.stat.gov.az/stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az/stat_yearbook2020.zip/ASG_2020/pdf)

According to the table, compared to 2005, the total investment in the economy of Azerbaijan in 2020 increased by 3.3 times, including foreign investment by 2.2 times, and domestic investment by 5.7 times.

The Azerbaijan Export and Investment Promotion Fund (AZPROMO) was established in 2003 by the Ministry of Economy of the Republic of Azerbaijan in order to encourage the attraction of foreign investment. AZPROMO, which aims to attract foreign investment in the non-oil sector and stimulate the export of non-oil products in the country, also plays a coordinating role between investors, local producers and the state, government and the private sector.

In general, the share of foreign investment in total investments in 2005-2020 is shown in Diagram 2.



**Diagram 2. The share of foreign investment in total investments in the Republic of Azerbaijan in 2005-2020**

Source: Compiled by the author based on internet resources, [www.stat.gov.az;stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az;stat_yearbook2020.zip/ASG_2020/pdf)

According to research on the Republic of Azerbaijan, most of the investments in the country, especially foreign investments, are concentrated in Absheron, excepting the country's oil and gas resources, most of the labor resources, the potential of natural and economic resources that have not yet been put into circulation, and

large mineral resources are in the regions. Therefore, in the future, a large part of foreign investment needs to be directed to the socio-economic development of the regions, including Karabakh, liberated from Armenian occupation by the Heroic Azerbaijani Army led by the Victorious Commander-in-Chief Ilham Aliyev. To this end, comprehensive measures should be taken consistently to attract foreign and domestic investment in the regions.

It is important to promote the reforms implemented in Azerbaijan to improve the investment environment at the global level, to increase the prestige of the country in international rankings, to identify and solve the existing problems in this field, and to bring all these to the attention of foreign investors. For this purpose, the President of the Republic of Azerbaijan signed an Order on “Additional measures to increase the business environment in the Republic of Azerbaijan and further improve the position of our country in international rankings” on July 13, 2016. The implemented sustainable structural reforms have further increased the efficiency of the economy in our country and created conditions for the development and transparency of governance based on sound principles in the economic entities that are the core of the national economy.

Furthermore, as a result of structural reforms, management was preferred on the basis of new principles in the field of public services and production. To this end, a number of consistent reforms have been implemented to increase the sustainability of the financial and economic activities of large state-owned companies and to expand control over their revenues and expenditures. Thus, by the Decree of the President of the Republic of Azerbaijan dated August 7, 2020, “Azerbaijan Investment Holding” was established as a public legal entity.

In order to ensure sustainable economic development in the Republic of Azerbaijan in 2013-2020, the importance of the total volume of investments in fixed assets, including enterprises and organizations, the state budget, extra-budgetary funds, public funds and bank loans has increased significantly. In this regard, the sources of financing investments in fixed assets in our country can be seen in more detail in the data of Table 2.



**Table 2.**  
**Funds directed to fixed capital by financial sources in the Republic  
of Azerbaijan in 2013-2020**  
*(total in million manats, special weight in percentage)*

Indicators	2013		2015		2017		2020		In 2020 compared to 2013, in percentage
	Total	Special weight	Total	Special weight	Total	Special weight	Total	Special weight	
Total including:	17850,8	100,0	15957,0	100,0	17430,3	100,0	17226,1	100,0	96,5
Own funds of enterprises and organizations	7826,6	43,8	10180,7	63,8	10866,0	62,3	9710,6	56,4	124,1
Bank loans	455,3	2,6	1479,4	9,3	2466,0	14,1	1064,3	6,2	+2,3 times
Budget funds	859,0	4,8	3133,1	19,6	2385,8	13,7	4729,6	27,4	+5,5 times
Extra-budgetary funds	8080,4	45,3	297,4	1,9	202,5	1,2	258,4	1,5	-31,3 times
Funds of the population	540,5	3,0	699,8	4,4	1376,2	7,9	995,6	5,8	+1,8 times
Other funds	89,0	0,5	166,6	1,0	133,8	0,8	467,6	2,7	+5,2 times

Source: Compiled by the author based on internet resources, [www.stat.gov.az; stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az;stat_yearbook2020.zip/ASG_2020/pdf)

According to the table, total funds directed to fixed capital in 2020 decreased by 3.5 percent compared to 2013 as a result of the impact of the COVID-19 pandemic. In general, in 2020, 56.4% of investments in fixed assets in the country are own funds of enterprises and organizations, 6.2% - bank loans, 27.4% - budget funds, and 5.8% - funds of the population was at the expense of.

In our opinion, in developing Azerbaijan's general investment policy for the restoration of post-pandemic and liberated territories, modern risks should be minimized, investors' interests should be taken into account, conditions should be created for the domestic production and consumer market to meet the interests of investors, foreign

investors should be stimulated and state (regional) structures should be established to provide full information to foreign investors on the attractiveness of the business environment for investment and to work to increase the ratings set by international organizations. It is also considered expedient to implement a number of measures to attract the population to the economy.

#### **4. The development of non-oil sectors will create a substantial foundation for sustainable economic growth**

In the modern world characterized by rapid globalization and integration processes, the non-oil sector also has a great responsibility to ensure sustainable development. In this respect, the development of the non-oil sector in Azerbaijan, which is known as the oil country in the world, is a priority of the state's economic policy.

Based on the fact that the economic future of the republic depends on the non-oil sector, significant measures have been taken in this area, a strong social and economic market infrastructure has been created, and a normal investment environment has been formed. This will sharply increase the resilience of our national economy to possible cataclysms, the negative effects of geoeconomic and instability against the sustainable and dynamic development of the future.

In addition, the legislative framework was adapted to the requirements of the time, and some results were achieved in the formation of normal market relations and ensuring free competition. One of the most necessary conditions for the comprehensive development of the non-oil sector is the development of entrepreneurship, which increases the productivity of small and medium-sized enterprises.

In order to provide a systematic approach to the implemented economic reforms, a set of State Programs and Concepts, as well as twelve Strategic Roadmaps for the national economy and eleven sectors of the economy were developed and approved by the Presidential Decree dated December 6, 2016. Strategic Road Maps will ensure the competitiveness, inclusion and social welfare of the economy based on sustainable economic development in Azerbaijan, meet global challenges in accordance with the strategic goals of the republic, strengthen the country's position in the world economy as a

result of investment, free competition, market access and human capital development and will be included in the group of high-income countries. To this end, the Strategic Roadmaps have determined priorities, measures and indicators in accordance with national targets.

World experience shows that the development of countries where the non-oil sector is developed and inter-sectoral proportionality is ensured is more reliable and sustainable. In any case, the non-oil sector is of particular importance in ensuring sustainable development. Development based on only one area or direction cannot be sustainable. In this context, the proportional development of all areas should be more continuous and sustainable. This highlights once again the special role of the non-oil sector in sustainable development.

The priorities of the non-oil sector include a range of services, agriculture and processing industries. As the food supply of the population and the country's food security depend on basic agriculture, the development of this sector is necessary not only in terms of sustainable development, but also in terms of normal life of society in general, raw material base of the food industry, economic security and so on. In terms of ensuring the intensity of reforms, the "Strategic Roadmap for the production and processing of agricultural products in the Republic of Azerbaijan" is of particular importance.

As a result of the consistent and purposeful measures taken in our country, there has been a sharp increase in GDP in the last 15 years, as well as significant changes in its structure, as can be seen in Table 3.

According to the table, compared to 2005, in 2020, GDP increased by 5.8 times, the oil and gas sector by 3.7 times, the non-oil sector by 7.4 times, and net taxes on products and imports by 7.4 times. One of the positive aspects is that the share of the non-oil sector in GDP was 48.4% in 2005 and 61.9% in 2020.

The economic processes occurring in the world and the uncertainty caused by the COVID-19 pandemic necessitated the development of non-oil sectors in Azerbaijan and ensuring the sustainable and dynamic development of the sectors. Moreover, the potential for this, especially in the service sector, has not yet been fully realized.

**Table 3.**

**Changes in the volume and structure of the Gross Domestic Product of the Republic of Azerbaijan in 2005-2020**  
(volume in million manats, special weight in percentage)

	2005	2010	2015	2018	2019	2020	Growth in 2020 compared to 2005, in times
<b>Gross domestic product - total</b>	<b>12522,5</b>	<b>42465,0</b>	<b>54380,0</b>	<b>80092,0</b>	<b>81896,5</b>	<b>72432,2</b>	<b>5,8</b>
including:							
Oil-gas sector	5520,9	20409,5	15382,2	33389,4	30051,9	20577,6	3,7
Special weight	44,1	48,1	28,3	41,7	36,7	28,4	
Non oil-gas sector	6055,1	19179,0	34138,8	46702,6	44481,8	44862,1	7,4
Special weight	48,4	42,2	62,8	58,3	54,3	61,9	
net taxes on products and imports	946,5	2876,5	4859,0	5040,6	7362,5	6992,5	7,4
Special weight	7,5	6,8	8,9	6,3	9,0	9,7	
Volume per capita	1494,3	4753,0	5706,6	8156,2	8268,8	7262,8	4,9

Source: Compiled by the author based on internet resources, [www.stat.gov.az; stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az/stat_yearbook2020.zip/ASG_2020/pdf)

In general, research shows that reliable and long-term development is unlikely to be achieved without ensuring the proportional development of all sectors of the economy. In this context, the balanced and sustainable development of both the oil and non-oil sectors is of particular importance, and the development of one does not hinder the development of the other. However, the development of the non-oil sector is more important in countries known as oil countries in the world, where oil revenues have a larger share in GDP.

**5. The formation of the budget and tax system in accordance with the real conditions of the country is of exceptional importance in the financial provision of sustainable economic development.**

Research shows that it is very important to reconcile the requirements of sustainable development of the national economy with the budget, which is the main financial support of the state, and

the state budget expenditures should be directed to the goals of sustainable development and create conditions for this.

Regardless of the level of sustainable economic development and other parameters in the country, one of the most important problems is the effective management of state budget expenditures. In general, the efficient allocation and management of state budget expenditures should be carried out in accordance with the tasks and socio-economic goals of the government and the budget. The dynamics of state budget funds directed to different areas in the last 15 years in our republic are indicated in Table 4.

**Table 4.**

***Dynamics of structural changes in the state budget expenditures of the Republic of Azerbaijan in 2005-2020 (as a percentage of the total)***

Indicators	Years								
	2005	2010	2014	2015	2016	2017	2018	2019	2020
Total expenditures	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
including:									
On the economy	20,9	41,6	40,6	36,0	23,2	25,0	34,4	32,5	26,1
On socio-cultural events	39,4	24,7	24,0	25,0	32,6	28,8	22,6	23,2	30,0
of them:									
On education	17,4	10,0	8,3	9,0	9,4	9,9	8,6	9,0	10,5
On culture, art, information and other activities	2,1	1,2	1,3	1,3	1,3	1,2	1,2	1,1	1,2
On physical education	0,2	0,2	0,2	0,2	2,5	0,2	0,2	0,3	0,1
On health	5,4	3,6	3,5	4,0	4,0	4,0	3,1	3,6	6,4
On social protection	10,2	9,5	10,4	10,3	14,7	11,8	9,2	9,2	10,8
On social security	4,1	0,13	0,13	0,2	0,18	1,6	0,3	0,2	1,0
On science	1,3	0,8	0,7	0,6	0,6	0,7	0,5	0,5	0,5
On the judiciary, law enforcement and prosecutors	9,6	5,7	5,9	6,2	6,3	6,8	5,8	6,2	6,9
On maintenance of legislative and executive power, local self-government bodies	5,8	2,6	2,4	2,4	2,6	3,1	2,8	3,2	3,5
Others	23,0	24,7	26,4	29,7	34,6	35,6	33,9	34,3	33,0

Source: Compiled by the author based on internet resources, [www.stat.gov.az;stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az;stat_yearbook2020.zip/ASG_2020/pdf)

According to the data on the table, one of the significant changes in the structure of state budget expenditures of the Republic of Azerbaijan was the tendency to reduce or increase the percentage of budget expenditures on socio-cultural activities. This shows the transformation of the state budget of the republic from a socially oriented budget to an investment-oriented budget. In general, compared to 2005, in 2020, budget expenditures from the state budget for socio-cultural activities increased by 9.4 times, and total expenditures by 12.3 times. Only in 2014-2017, a decrease in the share of state budget expenditures directed to the economy was observed. The main reason for this is the impact of complex economic processes at the global and regional levels and the fall in oil prices on the world market on the Azerbaijani economy. During this period, the implementation of certain projects was relatively delayed due to external economic and financial pressures. However, as a result of agile, purposeful and consistent measures taken in our country, the restoration of macroeconomic stability, ensuring financial stability and balancing the foreign exchange market in the coming years has led to an increase in expenditures from the state budget to the economy in 2018.

In terms of the implementation of the requirements of sustainable development, financial and investment resources, including the state budget, can be considered a necessary condition for the sustainability of the economy.

The socio-economic goals of the countries that are rapidly integrated into the global economic field are realized at the expense of the state budget, which is the main source of financing of the state, based on the requirements of sustainable development and international documents on sustainable development. This requires that the expenditure targets be aligned with the sustainable development goals.

Furthermore, the economic and social development of the country is characterized by the level of taxes and other mandatory payments to the state budget and non-budget funds. In this respect, the correct and fair implementation of the fiscal policy, which is an integral part of the state's economic policy, can lead to the development of the economy

of any country with limited natural resources, and even the economy of any country with rich natural resources.

The modern tax system of the Azerbaijan Republic is determined by the Tax Code of the Azerbaijan Republic, approved on July 11, 2000 and entered into force on January 1, 2001. More than one hundred additions and changes are made every year in order to strengthen the positive impact of the Tax Law on sustainable development and economic processes in the country.

The regulation and promotion of sustainable development through financial issues also largely depends on the level of tax discipline in the country. Because if tax payments, which are the main source of state budget revenues, are not made on time, the state will not be able to implement its policy in this area.

In this respect, professor A.F.Musayev, the corresponding member of ANAS, states that *“Determining the tax burden in accordance with the realities of the economic system is one of the most difficult problems for every period. This is due to the fact that the tax system must meet the financial needs of the state, as well as stimulate the interest of taxpayers in entrepreneurship”*.<sup>5</sup>

In recent periods, comprehensive measures have been taken in the country to accelerate both regional and general economic and social development, to improve the business environment and competitiveness, to ensure effective employment and so on. However, the movement of financial capital in the country is still concentrated mainly in the Absheron Peninsula and to some extent in the big cities. Such factors indicate the weak development of financial and market infrastructure and banking sector in the regions due to the concentration of funds in capital. This makes it an objective requirement to have an individual approach to assessing the tax potential of individual regions.

Therefore, the main condition for assessing the tax potential of the country and calculating the tax base depends on the formation of a

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<sup>5</sup> Musayev A.F. “Proporsional iqtisadi böyümədə inteqral vergi yükünün təyin olunması modeli // Strateji iqtisadi islahatlar: Qabaqlayıcı vergi siyasəti” mövzusunda beynəlxalq elmi-praktik konfransın materialları. Bakı, 2018, səh. 444.

system of indicators of regional and sectoral factors affecting the development trends and prospects of the macroeconomic situation, as well as the actual structure of financial flows. In this case, the system of indicators needed to determine tax potential should primarily include aspects that affect its resources.

Thus, while examining the financial and budgetary issues, which are the sources of financing for sustainable development, the evaluation of the tax base also enables to determine the financial capacity. This is crucial for sustainable and sustainable economic growth. While rich financial and budgetary resources, including large tax potential, are needed to ensure sustainable development, sustainable economic development also provides a larger and more stable financial provision.

## **6. The dynamic growth of the Azerbaijani economy has led to sustainable economic development.**

Achieving the transition to sustainable economic development in every country requires, above all, the development and systematic implementation of the conceptual framework for a scientifically sound national economic development strategy. In this context, the study of the main features and principles of the model embodying the existing economic realities in Azerbaijan proves that the sustainable economic development model applied in our country today is a strategic development process directly related to the implementation of social and human aspects based on market principles, free enterprise, deepening international and regional cooperation by considering national interests, and sustainable economic development.

The analysis of the dynamics of economic development in the Republic of Azerbaijan shows that it is possible to divide the period after the restoration of state independence into several stages. Thus, the economy of Azerbaijan was in recession until 1994, the country's economy underwent radical economic reforms, stability, and sustainable development from 1995 to 2003, and in subsequent years, the country's economy began to grow rapidly. The post-2004 period, in which Heydar Aliyev's ideas and economic development strategy were successfully pursued, can be characterized as a period of rapid economic development.



However, the risks experienced in the world economy since 2014 and the uncertainty surrounding the global COVID-19 pandemic since 2020 have also affected the Azerbaijani economy and necessitate significant changes and reforms in the economic policy. The favorable business and investment environment created in the country because of successful economic policies and reforms implemented in accordance with the current situation is reflected in the reports and evaluations of international organizations and financial investors. Examples include:

➤ As a result of measures taken to create and improve the business environment, Azerbaijan is among the 20 most reformist countries in the world (among 190 countries) in the Doing Business 2020 report prepared by the World Bank: 9th on starting a business, 59th on obtaining construction license, 80th on connection to electricity supply networks, 44th on property registration, 1st on obtaining loans, 105th in the protection of the rights of small investors, 40th in the payment of taxes, 83rd in cross-border trade, 28th in the execution of contracts and 47th in the insolvency indicator;

➤ According to the World Competitiveness Index 2017-2018, Azerbaijan ranks 35th among 137 countries and 1st among CIS countries for 8 years, including 9th in terms of macroeconomic environment, 1st in terms of "inflation subgroup", 12th in terms of "ratio of gross national product to GDP" and 33rd in terms of labor market efficiency. Overall, our country has significantly improved its position in 9 out of 12 indicators;

➤ According to the results of the World Economic Forum, our country ranked first in the CIS in the field of ICT;

➤ According to the United Nations Human Development Index, the Republic of Azerbaijan rose from the 101st place in 2005 to the 70th among 187 countries in 2019. In the last 10 years, Azerbaijan has made the fastest progress in human development and has the highest annual growth rate in the post-Soviet space at 1.77 in the last 10 years. As a result, Azerbaijan was included in the category of "high human development" countries, leaving the group of "medium human development" countries.

These parameters also indicate that in the context of irregular

international economic processes and the complexity of the financial situation in the world, Azerbaijan has maintained sustainable economic development and macroeconomic stability, as well as a favorable position of the national economy. As a result of successful economic programs and projects, the average annual GDP growth in 2019 was 2.2%, including 3.5% in the non-oil sector, and its share in GDP was 61.0%. Furthermore, GDP per capita increased 6 times compared to 2003 and the share of the private sector in GDP reached 81.9%. In general, the volume of domestic and foreign investments in the country's economy increased steadily in 2003-2020, and a dynamic increase was recorded in the volume of public investment in the development of the social sphere.

As a result of the economic policy implemented, great successes have been achieved in the social field:

- In 2020, compared to 2003, the average monthly nominal salary increased by 7.0 times, the income of the population by 6.9 times and the amount of per capita income by 3.0 times;

- In 2020, compared to 2003, the average pension was increased 7.8 times and the minimum wage was increased more than 4 times;

- Since 2003, more than 1,480,000 new workplaces have been created in the country, of which 1,102,000 or 74.4% are permanent, and 2,461 new school buildings, more than 500 health facilities and other social facilities have been built and put into operation;

- According to the results of 2020, the poverty rate decreased from 49.0% in 2003 to 6.2%.

In general, according to macroeconomic indicators of the last 15 years, the economy in our country is developing dynamically (Table 5).

According to the table, most macroeconomic indicators increased in 2005-2019, and there was an increase in all indicators in 2019 as a result of sound economic and social policies implemented in the country. However, due to the COVID-19 pandemic in the world in 2020, there were setbacks in a number of indicators in our country.

Although positive economic dynamics have been achieved throughout the country in the face of some difficulties, maintaining the stable and reliable dynamics of economic progress has necessitated taking some measures. In our opinion, issues such as accelerating the

**Table 5.**

**Indices of key socio-economic indicators in the Republic of Azerbaijan  
in 2005-2020 (compared to the previous year, in percentage)**

	2005	2010	2012	2015	2017	2018	2019	2020
<b>Gross Domestic Product (GDP)</b>	<b>126,4</b>	<b>105,0</b>	<b>102,2</b>	<b>101,1</b>	<b>100,2</b>	<b>101,5</b>	<b>102,2</b>	<b>95,7</b>
Industrial products	133,5	102,6	97,7	102,4	96,6	101,5	101,8	96,0
Agricultural products	107,5	97,8	106,6	106,6	104,2	104,6	107,2	102,0
Capital investment	117,2	121,2	118,5	88,9	102,8	95,7	105,5	92,7
Cargo transportation in the transport industry	109,4	103,2	103,6	100,2	101,8	101,6	102,2	80,2
Passenger transportation in the transport sector	104,8	104,5	108,4	103,5	102,3	101,5	102,7	57,3
Retail trade turnover	113,0	108,8	109,6	110,9	102,5	103,0	103,6	98,7
Paid services rendered to population	126,1	110,8	108,0	105,1	101,2	103,0	103,1	72,1
Average monthly salary	124,3	111,2	109,4	105,0	105,7	103,0	116,6	111,4
Incomes of the population	122,3	113,3	113,9	105,8	108,4	108,0	107,4	98,2
Expenditures of the population	117,3	110,5	110,7	113,5	111,9	106,9	107,8	94,8
Disposable income of population	112,6	108,1	113,1	102,2	96,9	105,7	105,9	97,1
Consumer price index	109,6	105,7	101,1	104,0	112,9	102,3	102,6	102,8
Price index of industrial producers	117,3	130,5	104,5	69,4	136,8	126,0	103,2	75,2

Source: Compiled by the author based on internet resources, [www.stat.gov.az/stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az/stat_yearbook2020.zip/ASG_2020/pdf)

diversification of the country's economy and reducing dependence on oil, providing state support to individual regions in specific areas of specialization, the close involvement of the state in export processes should be highlighted. For this purpose, the purchase of products by

the state and their sale in foreign markets may be considered. In this case, foreign exchange inflows from the non-oil sector may increase. This can increase the sustainability of economic growth, especially in cases of falling oil prices and the devaluation of the manat.

As a result of the fundamental reforms carried out in the Republic of Azerbaijan, significant socio-economic changes have been experienced and a new favorable economic environment has been created to accelerate the access of products to foreign markets.

Thus, to increase the export potential of the Republic and accelerate access to foreign markets, the President of the Republic of Azerbaijan signed an Order on September 21, 2016 “On the establishment of a single database of goods produced in the Republic of Azerbaijan”. Since 2016, the web portal, [www.azexport.az](http://www.azexport.az), has been designed, which contains information about the products and manufacturers produced in the country. The portal, which is available in Azerbaijani, Russian and English, has been integrated into a wide range of Alibaba.com, All.biz and other popular online trading platforms around the world.

Moreover, in accordance with the Decree of the President of the Republic of Azerbaijan dated February 22, 2017 “On additional measures to strengthen the position of the Republic of Azerbaijan as a digital trade hub”, the Center for Analysis of Economic Reforms and Communication ensures full use of e-services by exporters. Documents, including agreements, are prepared and signed in electronic form through the “Digital Trade Hub of Azerbaijan” section of the [Azexport.az](http://Azexport.az) web portal. As a result of the measures, according to the “Export Review” of the Center for Analysis of Economic Reforms and Communication in 2019, the country's exports increased by 1.0% compared to the same period last year and amounted to 19.6 billion US dollars, in 2020 decreased by 30.0 percent to 13.7 billion US dollars, which is due to the processes taking place in the world.

Moreover, by the Decree of the President of the Republic of Azerbaijan dated December 28, 2017, the “Agency for Development of Small and Medium Businesses of the Republic of Azerbaijan” under the Ministry of Economy of the Republic of Azerbaijan was established. The Agency coordinates and regulates the services of

government agencies in this area by supporting the development of small and medium enterprises in the country and providing a number of services to economic entities.

Thus, research and analysis of the sustainable development of the Azerbaijani economy shows that positive economic dynamics have been achieved throughout the country.

**7. A substantial competitive environment should be created and gradually strengthened as one of the important conditions for sustainable economic development in the country.**

World experience and economic processes show that although market relations do not support state intervention in economic processes, this process is inevitable based on the regulatory functions of the state. In this respect, one of the main tasks of the state in a market economy is to create the necessary conditions for the formation of a favorable competitive environment for the development of economic entities, industry, and the national economy.

Considering these factors, various measures are taken to increase competitiveness in different countries of the world. According to M.Porter, these measures include devaluation, privatization, softening standards in product quality and environmental pollution, promoting cooperation between various corporations and firms, tax reform, regional development, improving training, increasing public spending on research, the adoption of a state program to finance new enterprises, and so on.<sup>6</sup>

A number of measures are taken to increase the level of competitiveness of the national economy, including industry. First of all, it is expedient to promote the innovative activity of economic entities to specialize in advanced technologies on the basis of cooperation projects, expand the implement of ETT achievements, improve product quality and launch new types of competitive products. Furthermore, the focus should be on increasing the level of technology, increasing labor productivity through close cooperation with partners, taking a series of measures in this area, creating an

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<sup>6</sup> Портер, М. Конкурентного преимущество: Как достичь высокого результата и обеспечить его устойчивость. М., 2008, 720 с.

environment conducive to the dynamic development of all industries in the country and attracting investment and optimal allocation of funds.

According to studies, certain aspects need to be taken into account when developing a policy to create and strengthen competitive advantage in the national industry. Thus, enterprises must first create a competitive advantage, or at least strive and develop for this. Therefore, the commercial organizations themselves should take the lead in this issue.

It is expedient to use advanced international experience in the field of increasing competitiveness and dynamic development, when developing a policy to create and strengthen competitive advantage in the national industry. However, it should be regarded that the repetition of national advantages in the same areas, with the same strategy and state program, on the examples of other countries, provides some success in the development of the country, but this is mostly short-lived. Therefore, the main task of each state should be to identify the deep roots of national superiority and to take political and economic initiatives for their realization.

In this context, a number of important measures have been taken in our country to effectively participate in globalization and integration processes, to ensure the competitiveness of the economy and national and state interests and further improve social welfare on the basis of sustainable economic development formed under the influence of these processes. These measures include Development Concept “Azerbaijan - 2020: Vision for the Future” approved by the Decree of the President of the country, Mr. Ilham Aliyev dated December 29, 2012, “Strategic Road Maps for the National Economy and Key Sectors of the Economy” approved by the Decree dated December 6, 2016 and “Azerbaijan 2030: National Priorities for Socio-Economic Development” approved by the Decree dated February 2, 2021.

Research shows that improving the competitive advantage of the national economy also depends on advanced and growing demand within the country. Public policy is usually aimed at influencing the total volume of domestic demand by manipulating public spending, taxes and the value of credit. However, in terms of ensuring a

competitive advantage, more political decisions on demand are needed. In this regard, the main issue is the influence of the state on the main conditions of demand in specific sectors of the economy in various ways. In-depth scientific analysis should be conducted to increase the effectiveness of the use of these methods and to prevent possible failures.

One of the most common forms of influencing demand is for the state to act as a direct buyer of goods and services. This issue can have a positive impact on competitive advantage in a situation where a serious and fair competition is created in public procurement.

Overall, strengthening the competitive advantage requires large capital investments. In this case, the state must create conditions so that the fall in stock prices as a result of short-term changes in the market does not adversely affect the volume of capital investment. For instance, according to the investment structure in Japan and Germany, when investors buy shares, they predict an increase in their value over the long term and rarely sell those shares.

Ensuring fair competition within the country is of paramount importance for the country's economic development and the creation and strengthening of a national competitive advantage. In this regard, a strict policy of protectionism protects the economic entities of any country from the pressure of foreign competition. This policy is implemented in various forms in all countries. However, it should be regarded that in this case, efforts to increase competitive advantage should be aimed at removing barriers, rather than directly regulating exports and imports.

The shadow economy is one of the factors that negatively affect the increase of competitiveness and the establishment of an innovation-oriented economy. The expansion of the shadow economy reduces the effectiveness of macroeconomic regulation policies in the country and accelerates the illicit turnover and outflow of funds. All this creates a shortage of funds by limiting the use of domestic funds for economic development of the country.

Therefore, in order to increase the competitiveness of the economy, the shadow economy should be prevented, funds should be legally attracted to the economy, the negative contradictions that create

conditions for the shadow economy and promote its development should be determined and eliminated, and competitiveness should be ensured in all areas.

Moreover, the implementation of antitrust measures to create a sound competitive environment can have a positive impact on sustainable economic development.

### **8. Implementation of innovation-oriented and modernization-based programs and projects to ensure sustainable economic development is a necessity of modern times.**

The information technology revolution, which goes in parallel with globalization in modern conditions, has also changed the nature and conditions of economic development in the world. In addition, the changes impose special requirements on the development of various sectors of the economy. This includes innovation and competitiveness above all. Therefore, in modern times, it has become necessary to apply international standards and requirements in all areas of the national economy, especially in the industrial sector. As a result of globalization and the information revolution, the large-scale application of new techniques and technologies in the national economy is already a leading force in social progress.

Moreover, the nature and conditions of economic development on a completely new basis require the modernization of society.

Based on the observations, it can be said that one of the main changes brought by modernization to society is the increase in mobility. Thus, modernization requires and enables the transition from a non-mobile society to a dynamic society based on high social mobility and serious competition.

Although all these cover social, economic and social areas, the changes that occur at the end lead to economic progress. This is because increasing the mobility of society has become an important factor in promoting economic development. Thus, the changes created by modernization accelerate the development of the world economy as a whole by ensuring the sustainable development of individual societies and national economies.

Any fundamental modernization in any field requires strong state will. In this context, in the ever-intensifying competition in the



globalizing world, only countries that will accelerate scientific, technological and information revolutions and create conditions for the unhindered implementation of the latest results in this field will win. In our opinion, it would be expedient to take appropriate measures to control these issues in our country.

Research shows that the national innovation system and policy in our country is not yet fully formed. Scientific and technical fields, enterprises and innovation structures, which are the main elements, operate in retail. The development strategy of the national economy has not yet been focused on development through innovation and the full use of national and foreign scientific innovations. Thus, the innovation situation in the national industry of Azerbaijan is characterized by certain fundamental and technological beginnings in the country, and the availability of qualified scientific and engineering personnel, as well as the fact that this important component of national wealth is not yet focused on concrete innovations.

The growing market demand has a role in increasing the competitiveness of national products, especially exported goods. However, a number of factors, including the lack of funding, have a negative impact on the growth of innovation activity in this area. Thus, new financial institutions (especially commercial banks) are reluctant to invest in innovation projects. Therefore, it would be expedient for the state to stimulate investment in this area.

In addition, one of the factors hindering innovation in the national economy is the lack of financial resources. In general, the world experience proves that the need to eliminate the lack of budget funds for the revival of innovation is acute. In order to revive this area, directing investments from domestic and foreign sources in the country to expand innovation activities should be a priority of economic policy. Only then can the competitiveness of the national economy be rapidly increased and sustainable development ensured.

The state should provide direct financial support to innovation activities, as well as pay special attention to creating favorable conditions in this area. Thus, economic globalization and integration have made innovation systems interdependent, as in the spheres of production of states, and forced economic entities to continuously use innovations.

**9. By estimating the GDP volume, which is the basis of sustainable economic development in the Republic of Azerbaijan, it has been determined that the GDP will grow with increasing dynamics until 2030.**

The importance of GDP in the system of key indicators that characterize the sustainable development of the economy is of particular importance in determining the relationship between other indicators that determine sustainability and GDP. Due to the fact that the volume of industrial production in the Azerbaijani economy is higher than in other sectors due to oil and gas production, revenues from this sector are also considered one of the key factors in ensuring economic growth. In addition, the volume of agricultural production, total investment in fixed assets, state budget expenditures, a large money supply in monetary aggregates affect economic growth by determining the sustainable development of the economy according to the system of indicators characterizing the development of the national economy. In this regard, using the following statistics for the Republic of Azerbaijan, it is possible to evaluate the impact of 2008-2020 indicators on GDP.

According to Table 6, mathematical software packages such as Eviews, MatLab, MS Excel, MathCad, etc. can be used to analyze the regression between GDP and a system of indicators characterizing the development of the national economy, including the volume of industrial and agricultural products, total investments in fixed assets, state budget expenditures, factors of broad money supply on monetary aggregates.

According to annual GDP forecasts and standard deviations calculated by the regression equation based on the Eviews application software package and a number of characteristics of the use of the equation for forecasting purposes, it can be said that the regression equation is useful for estimating. Estimated prices of GDP in the Republic of Azerbaijan have been determined using the graph.

According to the results of econometric analysis, the forecast prices of GDP in the Republic of Azerbaijan will increase to 111.37 billion manat in 2030, which is an increase of 53.8% compared to 2020.

As a result of the study, it has been determined that it is important to evaluate the degree of impact of the indicators affecting the GDP in

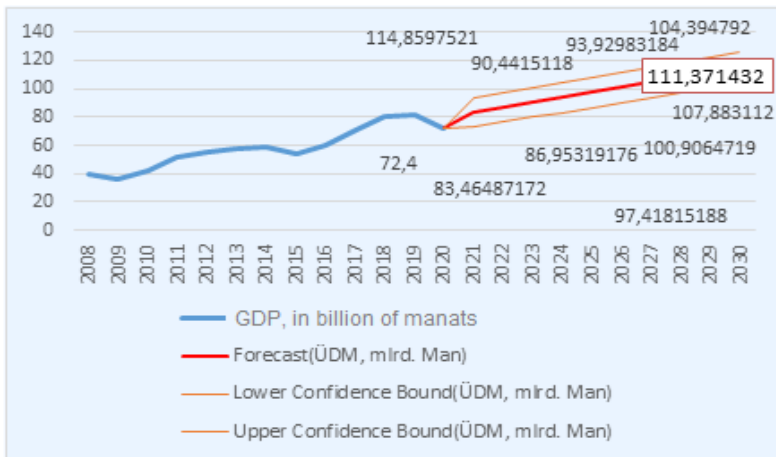
the Republic of Azerbaijan on the indicators of sustainable economic development with the elasticity coefficient.

**Table 6.**

***Dynamics of indicators affecting GDP and sustainable development for 2008-2020 (in billions of manats)***

Years	Fixed capital investment (X1)	Volume of industrial production (X2)	Volume of agricultural production (X3)	State budget expenditures (X4)	Broad money (X5)	GDP (Y)
2008	13,33	29,7	0,16	10,77	8,49	40,14
2009	10,48	22,6	0,175	10,5	8,47	35,6
2010	14,12	27,98	0,188	11,77	10,53	42,47
2011	17,05	35,03	0,199	15,4	13,9	52,08
2012	20,25	34,57	0,263	17,42	16,77	54,74
2013	21,45	33,9	0,305	19,14	19,3	58,18
2014	21,89	32,11	0,359	18,71	21,57	59,01
2015	20,06	26,37	0,374	17,78	21,32	54,38
2016	22,71	32,3	0,409	17,75	20,89	60,43
2017	22,46	39,9	0,383	17,59	22,77	70,34
2018	25,88	47,68	0,385	22,73	24,04	80,09
2019	24,99	47,0	0,615	24,43	28,87	81,9
2020	22,48	37,27	0,796	26,42	29,19	72,4

Source: Compiled by the author based on internet resources, [www.stat.gov.az/stat\\_yearbook2020.zip/ASG\\_2020/pdf](http://www.stat.gov.az/stat_yearbook2020.zip/ASG_2020/pdf)



**Graph 1. Forecast of GDP in the Republic of Azerbaijan until 2030**

Source: Developed by the author based on the software package

Thus, as a result of econometric analysis in accordance with the Eviews application software package, 1 percent increase in fixed capital investment, industrial output and broad money supply in the economy of the Republic of Azerbaijan will lead to a 0.04, 0.58 and 0.48 percent increase in GDP, respectively.

To ensure sustainable development, the mechanism for regulating the indicators characterizing the development of the national economy, including industrial and agricultural products and investments in fixed assets in various sectors of the economy, must be constantly improved in accordance with the requirements of the time.

Thus, new scientific approaches, **results, proposals and recommendations** obtained as a result of research and generalization of the conceptual framework for the efficient use of financial resources for sustainable economic development and they can be expressed as follows:

1. In order to develop the national economy in the Republic of Azerbaijan, purposeful and consistent measures have been taken for maintaining liberal progressive policies and macroeconomic and financial stability, deepening reforms that support sustainable economic development and economic modernization and accelerating the development of non-oil sectors. A number of state programs, Decrees and Orders of the President on diversification of the economy, support of competitive advantage have been implemented and substantial work has been done to develop the economy and strengthen its financial sources.

2. Systematic analysis of the main features of the national development line, which embodies the existing economic realities, shows that the sustainable development model in our country today is based on the needs of market economy, free enterprise, international integration and sustainable economic growth and is directly related to the improvement of social welfare.

3. Given the unequal distribution of resources between generations and countries, and in many cases their inefficient use, the concept of sustainable economic development can be considered a fair approach. In our opinion, the features of production relations that effectively ensure the harmonization of a market economy with sustainable economic development should be researched. Moreover, realization of strategic

goals should be based on the directions of state policy and the interrelation of democratic mechanisms in the process of making decisions (programs, strategic roadmaps) at the regional and national levels.

4. The state budget, which is the main financial support of the country, also plays a key role in ensuring the sustainability of economic development. Regardless of the development level and real potential of the country's economy, the effective management of state budget expenditures has always been one of the most important problems to be solved. In this context, the need for optimal allocation of funds in accordance with real needs to finance the development of the economy and social spheres requires the efficient allocation and management of expenditures in accordance with the tasks and socio-economic objectives facing the state, including the budget.

5. According to research, for transition to sustainable production, efficient production should be achieved in accordance with changes in the structure of demand. In particular, developing countries should try to create optimal demand structures while founding their economies. In this context, in order to achieve sustainable production and consumption in a broad sense, it is important for each country to modernize its economy through the application of new innovative techniques and technologies, as well as increasing environmental efficiency, with maximum funding from all possible sources and cooperation with relevant international organizations.

6. The availability and effective use of necessary financial resources, such as budget funds, extra-budgetary funds, investments, bank loans, etc., is an important condition for ensuring sustainable economic development. The country's financial and investment policy and applied fiscal instruments, including the strategic management structures that control the use of financial resources, must be renewed or significantly improved in line with modern challenges.

7. Achieving sustainable development depends on the level of utilization of existing financial and investment potential. In this context, a accurate prior assessment of available resources is necessary as a way to identify investment needs in regions and areas that ensure long-term sustainable economic development and economic sustainability.

8. Due to the high dependence of economic security on external factors in the context of globalization, the protection of national and statehood priorities, as well as the protection of economic security, should be highlighted when implementing state-level projects in the country, including large-scale joint and individual projects.

9. When pursuing economic policy to ensure sustainable economic development, special attention should be paid to the formation of the national market, as well as the development of priority areas in terms of economic security of the country. In this respect, it is important to develop an inclusive economic policy that will cover the real sector, as well as individual sectors of the economy, in order to ensure sustainable economic development and economic security.

10. In the modern era of sustainable development, characterized by rapid globalization and integration processes, the non-oil sector also has great responsibilities. The development of the oil and non-oil sectors in a reliable, long-term, balanced form is of particular importance, and the development of one stimulates the progress of the other. In this regard, achieving sustainable and dynamic development of non-oil sectors in Azerbaijan should become a necessity.

11. In order to ensure the necessary level of resource provision of sustainable economic development, the budget-tax planning and forecasting system should be based on the sources and opportunities for mobilization of revenues to the state budget, local budgets, extra-budgetary state funds, and so on. It would be expedient to continue the measures implemented through the budget-tax mechanism to ensure sustainable economic development in the country and the development, improvement and stimulation of production.

12. International experience shows that the quantity and quality of scientific and technical information available in the country is becoming increasingly important to ensure the competitiveness of the national economy. In this case, information is a tool to recognize the need to act without wasting time in economic entities and to eliminate inertia in their activities. It is an integral part of increasing competitive advantage in existing areas and successfully competing in new areas. We consider it appropriate to take appropriate awareness-raising measures to ensure the optimal distribution of the funds drawn to the

economy, to ensure the domestic market in priority areas as a close strategy, and to increase domestic competitiveness, to apply preferential terms to local businessmen and domestic investments when investing in any sector of the economy and to give priority to quality indicators rather than quantity in the practical activities of entrepreneurs.

13. Although the Republic of Azerbaijan has already become a country that invests abroad as a result of consistent and purposeful measures taken, it would be useful to prepare an encyclopedia of individual regions (including on Internet resources) in our country, which is rich in natural and economic resources, underground and surface resources. This will provide information about the resource potential of the region, its characteristics, sales markets, traditional products in the region, etc., guide the investors who want to invest in the region and increase their investment activities.

14. Attracting investments in the country's economy is one of the necessary conditions for continuous and sustainable economic development. As funds are optimally allocated across sectors and regions, investment becomes a key factor in overall progress and sustainable economic development. In the context of modern globalization and integration, one of the main tasks of the state is to identify all sources of investment resources and direct it to the reconstruction of production in accordance with national interests, including the non-oil sector, the optimal deployment of productive forces. As one of such sources, the development and implementation of a mechanism for the accumulation and investment of funds collected by the population can play a positive role in ensuring the country's economic development and access to foreign markets.

15. Each state regulates and promotes, as well as directly funding, innovative ideas and achievements of Scientific and Technological Progress. To this end, countries first create an effective economic environment. In this respect, the economy should be dynamic and self-developing and should cover the economic field by participating the whole society. Proportional and inclusive economic development must be achieved by ensuring the efficient use of all available resources of society. An efficient economy or a favorable economic

environment should strive to realize the full intellectual potential of the country through the development of science and education and should be based on progressive economic relations. In this case, it is possible to achieve dynamic and sustainable development by forming a competitive national innovative economy.

16. In the context of globalization, the intensification of competition in the markets and rapid changes in science and technology force businesses to use innovations continuously and uninterruptedly. In order to increase competitiveness on the basis of economic modernization, it is necessary to increase the volume and diversity of production in the country, based on science and modern technologies, export-oriented and meeting world standards. In our opinion, the national innovation system and policy in Azerbaijan are not yet fully formed in terms of new requirements, and the development strategy of the economy is not yet sufficiently focused on the full use of creative scientific innovations. In this regard, the state should pay special attention to creating a favorable environment that can provide synergetic benefits in this field, as well as providing direct financial support to innovation activities.

**The main content of the research is reflected in the following published scientific works of the author:**

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