Financing the "Great Return"

Cost, Absorption, and Resettlement in Karabakh and East Zangezur, 2020–2026

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1. Summary

Since the November 2020 ceasefire that ended the Second Nagorno-Karabakh War, Azerbaijan has carried out a reconstruction program in the economic regions of Karabakh and East Zangezur whose scale, measured against national income, has few contemporary parallels. Cumulative state allocations reached roughly AZN 25 billion (USD 14.6 billion) through 2026, close to 19 percent of a single year of nominal GDP.[1] The program has been financed almost entirely from the domestic budget, which in turn drew about 37 percent of its 2025 revenue from hydrocarbon-linked transfers.[2]

This paper reorganizes the published record around three questions a fiscal analyst or a prospective investor would ask. How large is the outlay relative to meaningful baselines? What has the outlay purchased, expressed in unit terms? And are the government's own population targets arithmetically consistent with observed resettlement rates? The analysis draws on Azerbaijani budget documents, State Statistical Committee national accounts, state and state-aligned media reporting, and two independent assessments. Where figures are derived rather than reported, the derivation and its assumptions are stated.

Three findings follow. First, the program was macroeconomically large but has begun to taper: the 2026 allocation of AZN 3.5 billion is 12.5 percent below the 2025 approved figure and represents 8.4 percent of budget expenditure, against 21 percent for defense.[3] Second, the headline population figures for the territories conflate returning internally displaced persons, temporary construction labor, and students. In the only disaggregated official release, resettled IDPs accounted for 32.6 percent of the reported total, so reading the headline as a resettlement

[1]"Azerbaijan's 2026 Budget Allocates Billions for Liberated Territories, Defense, Green Energy, and Economic Growth," Caucasus Watch, November 19, 2025, https://caucasuswatch.de/en/news/azerbaijans-2026-budget-allocates-billions-for-liberated-territories-defense-green-energy-and-economic-growth.html. "Azerbaijan's GDP Reaches 129.1B Manats in 2025," Report.az, January 19, 2026, https://report.az/en/finance/azerbaijan-s-gdp-reaches-129-1b-manats-in-2025, citing the State Statistical Committee of the Republic of Azerbaijan.

[2]"Azerbaijan Executes State Budget with $23 Billion in Revenues for 2025," Trend.az, June 19, 2026, https://www.trend.az/azerbaijan/society/4199559.html.

[3]Caucasus Watch, "Azerbaijan's 2026 Budget Allocates Billions for Liberated Territories."

measure overstates progress by roughly a factor of three.[4] Third, the Great Return target of 140,000 returnees by the end of 2026 will not be met. Meeting it would require a monthly inflow about 2.1 times the trailing twelve-month average on the broadest definition of population, and more than thirteen times that average on an IDP-only basis.

2. The Physical Program, 2020 to 2026

Construction began almost immediately after the ceasefire. Work on the Ahmadbeyli-Fuzuli-Shusha highway, a network eventually serving more than twenty settlements, started in November 2020.[5] In 2021 President Ilham Aliyev announced the Great Return to the liberated territories and declared the start of recovery works in Shusha.[6] The government restored the Ghazanchetsots Cathedral in the same year, a project that drew criticism over the methods used.[7] Fuzuli International Airport opened after an eight-month construction period with Turkish financing.[8] The Zafar road, the Barda-Aghdam highway, and the Horadiz-Zangilan highway were planned, under construction, or completed by late 2021, alongside a 240 MW solar facility in Jabrayil and a hydroelectric plant at Gulabird in the Lachin district.[9] Aliyev also established the Karabakh Revival Fund to solicit domestic and foreign investment.[10]

The Great Return was issued as formal policy in 2022. Reconstruction in Aghdam was planned around a target population of roughly 100,000, approximately twice the pre-war figure, supported by 23,000 apartment units and 1,750 detached houses.[11] The smart villages program applied sustainable construction and distributed energy standards to a subset of settlements. Even at this stage, displaced residents interviewed by independent outlets expressed uncertainty about

[4]"Population in Azerbaijan's Karabakh, East Zangezur Surpasses 43,000," Caliber.Az, May 15, 2025, https://caliber.az/en/post/population-in-azerbaijan-s-karabakh-east-zangezur-surpasses-43-000.
[5]"Əhmədbəyli-Füzuli-Şuşa Avtomobil Yolunun Tikintisi Layihəsi Icra Olunur," November 20, 2020, http://www.aayda.gov.az/az/news/2792.
[6]TASS, "Azerbaijani President Aliyev Announces 'Big Return' to Karabakh," January 15, 2021, https://tass.com/world/1245295.
[7]Joshua Kucera, "Azerbaijan Begins Controversial Renovation of Armenian Church," Eurasianet, May 7, 2021, https://eurasianet.org/azerbaijan-begins-controversial-renovation-of-armenian-church.
[8]Shalini MP Nair, "Azerbaijan Opens New International Airport in Karabakh," Airport Technology, October 27, 2021, https://www.airport-technology.com/news/azerbaijan-new-international-airport/.
[9]Ilham Aliyev, "Ilham Aliyev Visited Fuzuli and Khojavend Districts," President of the Republic of Azerbaijan Official Website, March 15, 2021, https://president.az/en/articles/view/51234.
[10]Polish Institute of International Affairs, "Azerbaijan's Challenges in the Reconstruction of Karabakh," July 8, 2025, https://www.pism.pl/publications/azerbaijans-challenges-in-the-reconstruction-of-karabakh.
[11]Heydar Isayev, "Displaced from Karabakh Watch Reconstruction Process with Hope, Concern," Eurasianet, October 5, 2022, https://eurasianet.org/displaced-from-karabakh-watch-reconstruction-process-with-hope-concern.

whether they would return, since many had spent three decades building economic ties elsewhere.[12] In September 2023 Azerbaijan restored control over the remainder of the territory, an event followed by the departure of substantially the entire Armenian population of the region.[13] The regional labor force therefore had to be rebuilt from a base near zero, a fact that bears directly on the cost structure examined below. Resettlement plans were expanded to 150,000 people by 2027.[14]

Between 2020 and 2024, AZN 17.5 billion (USD 10.3 billion) was allocated to post-war restoration.[15] The spending funded power stations and substations in the Fuzuli, Shusha, Lachin, Kalbajar, Zangilan, and Jabrayil districts, new high-voltage transmission, gas pipelines to Fuzuli, Shusha, and other settlements, irrigation and potable water systems, fiber-optic backhaul, and agro-parks in Zangilan, Jabrayil, Fuzuli, and Aghdam. Industrial capacity followed in the form of the Aghdam Industrial Park, the Araz Valley Industrial Park in Jabrayil, and the planned Zangilan Logistics Center.[16]

By the end of 2025 Azerbaijan had commissioned 38 small hydroelectric plants, four reservoirs, and 14 substations, laid over 1,000 kilometers of high-voltage line, and completed six trunk gas lines supplying eight cities, twenty villages, and one settlement. A third airport opened at Lachin. Karabakh University was established alongside nineteen general education facilities and seven preschools, and GPON infrastructure connected 6,400 subscribers across 24 settlements.[17] The Aghdam and Jabrayil industrial parks were credited with 1,000 permanent jobs and output of roughly USD 560 million.[18] Highway work continued on the Toghanali-Kalbajar-Istisu and Aghdam-Asgaran-Khojaly-Khankandi routes, reported at 85 and

[12]Isayev, “Displaced from Karabakh Watch Reconstruction Process with Hope, Concern.”
[13][Citation to be added: a source for the scale of the September 2023 departure of the region’s Armenian population, for example UNHCR or IOM situation reporting. The figure of roughly 100,000 is widely reported but is not sourced in this draft.]
[14]Aida Sultanova, “Azerbaijanis Who Fled a Separatist Region Decades Ago Ache to Return, but It Could Be a Long Wait,” The Independent, October 15, 2023, https://www.independent.co.uk/news/ap-azerbaijan-nagornokarabakh-baku-human-rights-watch-b2429948.html.
[15]Yaver Kazimbeyli, “Azerbaijan Allocates $2.35 Billion for 2025 Karabakh Reconstruction, Totaling $10.3 Billion Since Liberation,” Caspian News, November 27, 2024, https://caspiannews.com/news-detail/azerbaijan-allocates-235-billion-for-2025-karabakh-reconstruction-totaling-103-billion-since-liberation-2024-11-27-0/.
[16]Kazimbeyli, “Azerbaijan Allocates $2.35 Billion for 2025 Karabakh Reconstruction.”
[17]Yaver Kazimbeyli, “Azerbaijan Channels Over $13B into Reconstruction of Liberated Territories,” Caspian News, December 4, 2025, https://caspiannews.com/news-detail/azerbaijan-channels-over-13b-into-reconstruction-of-liberated-territories-2025-12-4-4/.
[18]Kazimbeyli, “Azerbaijan Channels Over $13B into Reconstruction of Liberated Territories.”

72 percent completion respectively,[19] and Aliyev and Erdoğan jointly inspected the Kalbajar-Lachin highway in May 2025.[20] At the Thirteenth World Urban Forum in Baku in May 2026, Aliyev reported 33 completed tunnels with five more planned, and presidential aide Hikmet Hajiyev stated that nearly nine cities and more than 300 villages had been rebuilt, predominantly from domestic resources.[21]

3. Scale and Fiscal Weight

Reported cost figures vary by source and by definition, so the first analytical task is reconciliation. Caspian News reports AZN 17.5 billion allocated between 2020 and 2024. The 2025 budget was executed with AZN 3.78 billion spent on the liberated territories, and AZN 3.5 billion was allocated for 2026.[22] Summing these gives AZN 24.8 billion, or USD 14.6 billion at the pegged rate of 1.70.[23] That reconciles to within about one percent of the USD 14.5 billion total reported by AzerNews in May 2026 and of the Finance Ministry's statement that allocations would exceed AZN 25 billion including 2026.[24] Official and independent sources therefore converge on aggregate cost, which is notable given how widely they diverge on population.

Table 1. Budgetary allocations to the liberated territories, 2024 to 2026

Measure	2024	2025	2026
Allocation (AZN bn)	n.a.	4.00	3.50

[19]"Construction of Aghdam-Asgaran-Khojaly-Khankandi Road Completed by 72%," Azeravtoyol, April 21, 2025, http://www.aayda.gov.az/en/news/6835/construction-of-aghdam-asgaran-khojaly-khankandi-road-completed-by-72; "Construction of Toghanali-Kalbajar-Istisu Highway 85% Completed," Azeravtoyol, accessed May 27, 2026, http://www.aayda.gov.az/en/news/7043/construction-of-toghanali-kalbajar-istisu-highway-85-completed.
[20]"Presidents of Azerbaijan and Türkiye Inspected Progress on Kalbajar-Lachin Highway Construction," Azeravtoyol, May 28, 2025, http://www.aayda.gov.az/en/news/6926/presidents-of-azerbaijan-and-turkiye-inspected-progress-on-kalbajar-lachin-highway-construction.
[21]Aytan Farhadova, "Aliyev Says Nagorno-Karabakh Reconstruction 'Main Priority' for Azerbaijan," OC Media, May 19, 2026, https://oc-media.org/aliyev-says-nagorno-karabakh-reconstruction-main-priority-for-azerbaijan/. Togrul Quluzade, "Hikmət Hacıyev: Azərbaycan qədər öz resursları hesabına 300-dən artıq kənd və qəsəbəni yenidən quran ikinci ölkə yoxdur," APA, May 19, 2026, https://apa.az/wuf13/hikmet-haciyev-azerbaycan-qeder-oz-resurslari-hesabina-300-den-artiq-kend-ve-qesebeni-yeniden-quran-ikinci-olke-yoxdur-965423.
[22]"Azerbaijan Executes State Budget with $23 Billion in Revenues for 2025." "Azerbaijan Reveals Upcoming Costs on Liberated Areas' Restoration in 2026," Trend.az, November 4, 2025, https://www.trend.az/azerbaijan/business/4112319.html.
[23]The manat has been pegged at AZN 1.70 per USD since 2017. The 2020–2024 figures reported by Caspian News, AZN 17.5 billion and USD 10.3 billion, imply a conversion rate of 1.699, confirming that the USD figures used here are peg conversions rather than independent valuations.
[24]Qabil Ashirov, "Azerbaijan Spends Nearly $14 Billion on Karabakh Reconstruction in Five Years," AzerNews, May 19, 2026, https://www.azernews.az/nation/258617.html. Caucasus Watch, "Azerbaijan's 2026 Budget Allocates Billions for Liberated Territories."

Measure	2024	2025	2026
Executed (AZN bn)	n.a.	3.78	1.06 (H1)
Share of budget expenditure	n.a.	9.8%	8.4%
Defense share, for comparison	n.a.	20.9%	21.0%
Execution rate	60.4%	68.7% (8M)	30.4% (H1)

Sources: Trend.az on 2025 budget execution and the 2026 allocation; Caucasus Watch on the 2026 budget presentation; APA on execution rates and the first-half 2026 outturn.[25] *Shares of expenditure are computed against executed expenditure of AZN 38.6 billion for 2025 and planned expenditure of AZN 41.7 billion for 2026.*

Three ratios establish the macroeconomic weight of the program. Against 2025 nominal GDP of AZN 129.1 billion, the AZN 3.78 billion executed in that year equals 2.9 percent of GDP.[26] Against executed budget expenditure of AZN 38.6 billion, it equals 9.8 percent. The most revealing comparison is with national capital formation: total fixed-asset investment in Azerbaijan was AZN 21.2 billion in 2025, so reconstruction in two economic regions absorbed 17.8 percent of all fixed investment in the country.[27] Those regions accounted for well under two percent of the national population on even the most generous official estimate. The program has involved a substantial reallocation of national investment capacity toward a very small share of the population, and that is the central fact any assessment of returns has to confront.

4. Financing Structure and Fiscal Exposure

The program is domestically financed, a point Baku emphasizes for reasons of sovereignty but which carries a specific fiscal implication.[28] Of AZN 39.18 billion in 2025 budget revenue, AZN 14.48 billion, or 37.0 percent, came from transfers, principally from the State Oil Fund.[29] Reconstruction spending of AZN 3.78 billion thus consumed roughly 26 percent of the transfer inflow. The 2027 budget is built on an assumed average crude price of USD 65 per barrel, with

[25]"Azerbaijan Executes State Budget with $23 Billion in Revenues for 2025." "Azerbaijan Reveals Upcoming Costs on Liberated Areas' Restoration in 2026." Caucasus Watch, "Azerbaijan's 2026 Budget Allocates Billions for Liberated Territories." APA, "Azerbaijan Reveals Projection of Funds for Reconstruction of Liberated Territories," https://en.apa.az/finance/azerbaijan-reveals-projection-of-funds-for-reconstruction-of-liberated-territories-482662. "Azerbaijan Posts $1.41 Billion Budget Surplus in 1H 2026," Trend.az, July 27, 2026, https://www.trend.az/business/4210138.html.

[26]"Azerbaijan's GDP Reaches 129.1B Manats in 2025."

[27]State Statistical Committee of the Republic of Azerbaijan, "Monthly Macroeconomic Indicators," https://www.stat.gov.az/news/macroeconomy.php?lang=en. Fixed-asset investment in 2025 totaled AZN 21,226.1 million.

[28]Quluzade, "Hikmət Hacıyev."

[29]"Azerbaijan Executes State Budget with $23 Billion in Revenues for 2025."

oil and gas contributing 39.5 percent of projected revenue.[30] Value added in the oil and gas sector contracted by 1.6 percent in 2025 even as the non-oil sector grew 2.7 percent.[31] Reconstruction is therefore funded from a declining revenue base and is directly exposed to hydrocarbon price risk, although that exposure is cushioned by foreign exchange reserves of USD 11.4 billion, equivalent to 37 months of import cover, and by a low public debt ratio.[32]

Two patterns in Table 1 deserve attention. The first is tapering. The 2026 allocation is 12.5 percent below the 2025 approved figure, and the Ministry of Finance has explicitly framed the reduction as conditioning the attraction of funds from other sources.[33] That is a statement that the state intends to hand off financing it has so far carried alone. The second is execution slippage. Only 60.4 percent of the 2024 allocation was executed, 68.7 percent through eight months of 2025, and 30.4 percent through the first half of 2026.[34] Some back-loading is normal under cash-based contractor payment requests, but a persistent gap between allocation and disbursement points to absorptive capacity constraints, whether in contracting, in demining sequencing, or in the supply of skilled labor. Composition data for the first half of 2026 shows AZN 974.1 million on infrastructure, AZN 45.3 million on mine clearance, AZN 29.8 million on health and culture, and AZN 14.9 million on defense and law enforcement facilities, so the program remains overwhelmingly a hard-infrastructure exercise.[35]

5. What the Population Figures Measure

Headline population figures for Karabakh and East Zangezur are the weakest link in the public record, and the weakness is definitional rather than statistical. On May 15, 2025, Azerbaijani authorities reported that roughly 43,000 people were present in the two regions. The same release disaggregated the total: approximately 14,000 were resettled IDPs, 28,000 were workers engaged

[30]"Azerbaijan's Consolidated Budget Spending to Exceed $29 Billion Next Year," Trend.az, September 16, 2026, https://www.trend.az/azerbaijan/4224869.html.
[31]"Azerbaijan's GDP Reaches 129.1B Manats in 2025."
[32]"Azerbaijan Unveils Ambitious 2026 Budget Prioritizing Non-Oil Growth, Social Welfare, and Reconstructed Territories," Caucasus Watch, https://caucasuswatch.de/en/news/azerbaijan-unveils-ambitious-2026-budget-prioritizing-non-oil-growth-social-welfare-and-reconstructed-territories.html.
[33]APA, "Azerbaijan Reveals Projection of Funds for Reconstruction of Liberated Territories."
[34]APA, "Azerbaijan Reveals Projection of Funds for Reconstruction of Liberated Territories." "Azerbaijan Posts $1.41 Billion Budget Surplus in 1H 2026."
[35]"Azerbaijan Posts $1.41 Billion Budget Surplus in 1H 2026."

in restoration, and 1,100 were students at Karabakh University.[36] Resettled IDPs therefore accounted for 32.6 percent of the headline figure, and construction labor for 65.1 percent.

Table 2. Reported population of Karabakh and East Zangezur

Date	Reported	Source type	Definition used
May 13, 2025	~10,000	Independent	Returned IDPs only
May 15, 2025	43,000	Official	IDPs, workers, students
Dec 2025	62,000	State-aligned	Incl. workers and students
May 19, 2026	80,000	Official (Karimov)	Residents
May 19, 2026	85,000	Official (Aliyev)	Residents

Sources: Researching Internal Displacement; Caliber.Az; Caspian News; OC Media.[37]

Two divergences are visible. The first is between official and independent counts of the same quantity: Researching Internal Displacement estimated just over 10,000 returned IDPs in May 2025 against the official 14,000, a gap of roughly 29 percent.[38] The second is between officials in the same government on the same day, with Aliyev citing 85,000 and the presidential representative in Shusha, Aydin Karimov, citing 80,000.[39] A six percent spread between two senior officials speaking at the same forum indicates that no audited register underlies either figure.

The composition problem matters more than the level problem. The 28,000 construction workers counted in May 2025 are an input to the reconstruction program, not an output of it. Their presence is a function of the capital expenditure run-rate, and that run-rate is now falling. As the program tapers, this component of the population should be expected to contract rather than convert into permanent residency. Any assessment that treats the headline figure as a measure of resettlement conflates a construction workforce with a settled community, and on the only disaggregation available that overstates the durable population by roughly a factor of three.

[36]"Population in Azerbaijan's Karabakh, East Zangezur Surpasses 43,000."
[37]Farid Guliyev, "Post-Conflict Resettlement in Karabakh: Rebuilding Livelihoods," Researching Internal Displacement, May 13, 2025, https://researchinginternaldisplacement.org/short_pieces/post-conflict-resettlement-in-karabakh-rebuilding-livelihoods/. "Population in Azerbaijan's Karabakh, East Zangezur Surpasses 43,000." Kazimbeyli, "Azerbaijan Channels Over $13B into Reconstruction of Liberated Territories." Farhadova, "Aliyev Says Nagorno-Karabakh Reconstruction 'Main Priority' for Azerbaijan."
[38]Guliyev, "Post-Conflict Resettlement in Karabakh."
[39]Farhadova, "Aliyev Says Nagorno-Karabakh Reconstruction 'Main Priority' for Azerbaijan."

6. A Run-Rate Test of the Great Return Target

The Great Return program set a target of 140,000 returnees in Karabakh and East Zangezur by the end of 2026.[40] The record permits a direct feasibility test. Reported population rose from 43,000 in May 2025 to 85,000 in May 2026, an increase of 42,000 over twelve months, or approximately 3,500 per month. From the May 19, 2026 reporting date, roughly 7.4 months remained in the target window. Closing the residual gap of 55,000 would require an inflow of about 7,400 per month, or 2.1 times the trailing twelve-month average.

Applying the target's own definition tightens the result considerably. If the target refers to returnees rather than total presence, and if the IDP share of the population has held at the 32.6 percent observed in May 2025, then the implied IDP stock in May 2026 was approximately 27,700 and the implied IDP arrival rate was about 1,140 per month.[41] Reaching 140,000 returnees would then require roughly 15,200 arrivals per month, more than thirteen times the observed rate.

Table 3. Required versus observed resettlement rates, May to December 2026

Definition of target population	Observed	Required	Multiple
All residents, incl. workers	3,500/mo	7,430/mo	2.1x
Resettled IDPs only (derived)	1,140/mo	15,180/mo	13.3x

Observed rates are computed from the May 2025 and May 2026 reported figures. Required rates close the residual gap to 140,000 over the 7.4 months remaining after May 19, 2026. The second row assumes a constant 32.6 percent IDP share.

The conclusion is not sensitive to these assumptions. Even on the most favorable reading, that the target refers to all residents and that the higher of the two competing official estimates is correct, the program would need to more than double its fastest observed pace during a year in which its capital allocation is falling and execution is running at 30 percent of plan. The 150,000 figure for 2027 cited in 2023 reporting is subject to the same arithmetic with a longer runway.[42] The substantive point is not that Azerbaijan has failed to resettle people, since a genuine resident population has clearly been established, but that the stated target was set without reference to a

[40]"Population in Azerbaijan's Karabakh, East Zangezur Surpasses 43,000."
[41]The IDP share is held constant at the 32.6 percent observed in the May 2025 disaggregation. This is an assumption, not a reported figure. If the IDP share has risen as construction activity tapers, the implied IDP stock is higher and the required run-rate correspondingly lower; the qualitative conclusion holds for any IDP share below roughly 90 percent.
[42]Sultanova, "Azerbaijanis Who Fled a Separatist Region Decades Ago Ache to Return."

demographic model. That variance should be priced into any forecast built on official projections for the region.

7. Unit Costs and Capital Utilization

Converting aggregate spending into unit terms shows why the resettlement shortfall is economically significant rather than merely presentational. Capital already committed was sized for a population that does not yet exist, so the shortfall translates directly into low utilization of completed assets.

Table 4. Derived unit cost and utilization metrics

Metric	Value	Basis
Cost per resident, all definitions	$170,600	$14.5bn / 85,000
Cost per resettled IDP, derived	$523,300	$14.5bn / 27,700
Cost per targeted returnee	$103,600	$14.5bn / 140,000
Multiple of GDP per capita	23.0x	$170,600 / $7,412
Residents per international airport	28,300	85,000 / 3
Permanent industrial-park jobs	1,000	Reported
Output per park job	$560,000	$560m / 1,000
Mine clearance cost per hectare	~$1,780	Derived, lower bound

Cost totals are cumulative from 2020 to May 2026. GDP per capita in 2025 was AZN 12,602, or USD 7,412.[43] *The mine clearance figure annualizes first-half 2026 clearance spending against reported annual hectares cleared.*[44]

The airport ratio is the clearest illustration. Azerbaijan has opened three international airports, at Fuzuli, Zangilan, and Lachin, serving a region whose highest claimed population is 85,000. That is one international airport per 28,300 residents, against a national ratio on the order of one per one and a half million. Housing follows the same pattern. The Aghdam plan alone provided for 23,000 apartments and 1,750 houses, which at an average household size of roughly 3.5 implies capacity for about 87,000 people in a single district, approximately the entire claimed population of both regions combined.[45]

[43]"Azerbaijan's GDP Reaches 129.1B Manats in 2025."
[44]Derived. Mine-clearance spending of AZN 45.3 million in the first half of 2026 is annualized to AZN 90.6 million and divided by the 30,000 hectares reported cleared over a year. The estimate excludes donor-funded clearance and any ANAMA costs carried outside the reconstruction line item, so it should be read as a lower bound.
[45]Isayev, "Displaced from Karabakh Watch Reconstruction Process with Hope, Concern."

Employment data is scarcer but points in the same direction. The two operating industrial parks are credited with 1,000 permanent jobs, about 1.2 percent of the claimed resident population, against 28,000 construction workers recorded in 2025.[46] Reported output of USD 560 million implies USD 560,000 of output per permanent job, a capital intensity consistent with processing or extractive operations rather than with broad-based employment. The region's tradable base after the construction phase therefore rests on a narrow set of activities: agro-processing, small hydro, mineral extraction, transit logistics, and tourism. None has yet been demonstrated at a scale capable of supporting a six-figure population without continued fiscal transfers.

Demining remains the binding precondition on all of it. The Azerbaijan National Agency for Mine Action, established in 2019, reports 270,000 hectares cleared cumulatively, including 30,000 hectares in 2025.[47] At the derived cost of roughly USD 1,780 per hectare, clearance is inexpensive relative to the construction it enables, but it is slow, and its pace rather than its cost governs how quickly land can be brought into agricultural or industrial use.

8. The Absence of Private Capital

The most informative datapoint in the 2026 record is a negative one. Speaking at the World Urban Forum in May 2026, Karimov indicated that foreign direct investment might begin in the liberated territories but confirmed that no investor had yet committed to Shusha City.[48] Six years after the ceasefire, and after USD 14.5 billion of public capital expenditure that removed most of the usual infrastructure barriers to entry, the private sector has not entered the flagship site. That is a revealed assessment of risk-adjusted returns, and it is more credible than any official projection precisely because it is costly to the party disclosing it.

External participation has been narrow and concentrated in categories that carry no commercial risk. The United Kingdom and the European Union have funded demining rather than reconstruction, and Russian involvement has been limited to roughly 24 companies, considerably less than Moscow is likely to have anticipated given its position in the 2020

[46]Kazimbeyli, “Azerbaijan Channels Over $13B into Reconstruction of Liberated Territories.” “Population in Azerbaijan’s Karabakh, East Zangezur Surpasses 43,000.”
[47]Selcuq Elchin, “Azerbaijan Clears over 270,000 Hectares of Mined Land,” Report.az, May 22, 2026, https://report.az/en/domestic-politics/azerbaijan-clears-over-270-000-hectares-of-mined-land.
[48]APA, “Timeline for Foreign Investment in Liberated Territories Revealed,” May 19, 2026, https://en.apa.az/infrastructure/timeline-for-foreign-investment-in-liberated-territories-revealed-506846.

settlement.[49] The Karabakh Revival Fund, established in 2021 to channel domestic and foreign capital, has not become a material financing vehicle relative to the budget line.

The 2026 budget contains a small but telling admission of this. It allocates AZN 5 million to subsidize mandatory social insurance contributions for private operators in the territories and AZN 2 million to cover 20 percent of their utility costs.[50] Together these amount to about 0.2 percent of the AZN 3.5 billion reconstruction line. The sums are trivial, but their existence indicates that private operation is not yet expected to be commercially self-sustaining at prevailing input prices, and that the state anticipates having to subsidize entry rather than simply permit it. Known deposits of gold, copper, silver, and other ores offer a plausible medium-term basis for commercial investment, and formal approval of FDI would serve the secondary purpose of consolidating the regions' economic integration.[51] Whether extraction can anchor a diversified regional economy or merely produces an enclave with limited local employment is the central open question for the next five years.

9. Data Limitations

Three constraints qualify everything above. First, source independence is limited. Most quantitative reporting on the territories originates with Azerbaijani state bodies or state-aligned outlets including Caspian News, Caliber.Az, APA, AzerNews, and Report.az. Where an independent estimate exists, it sits roughly 29 percent below the official figure for the same quantity. Second, definitions are unstable across releases, with population, residents, and returnees used interchangeably despite measuring materially different things, and only one release disaggregates the components. Third, no audited project-level capital expenditure breakdown has been published, so unit costs must be derived from aggregate allocations divided by physical output counts and cannot separate construction cost from land preparation, demining, or financing cost. The aggregate financial figures survive cross-checking well. The population and employment figures do not, and estimates that depend on them should be read as indicative ranges rather than point values.

10. Conclusion

[49]PISM, “Azerbaijan’s Challenges in the Reconstruction of Karabakh.”
[50]“Azerbaijan Reveals Upcoming Costs on Liberated Areas’ Restoration in 2026.”
[51]PISM, “Azerbaijan’s Challenges in the Reconstruction of Karabakh.” APA, “Timeline for Foreign Investment in Liberated Territories Revealed.”

Azerbaijan has delivered a large volume of physical infrastructure quickly and from its own resources, and the aggregate spending figures hold up under cross-checking. The program's weakness lies in the relationship between that capital stock and the population it was sized to serve. Assets have been built for a target population of 140,000 to 150,000, while the durable resident base, stripped of construction labor, plausibly stands below 30,000. The gap will not close on the announced timetable, and the capital allocation is now falling rather than rising.

This does not make the program a failure on its own terms. Sovereignty consolidation, demographic re-establishment, and the political value of visible reconstruction are objectives a net present value test does not capture, and the government has never claimed to be optimizing commercial returns. But the transition now under way, from state capital expenditure to private operation, will be tested against commercial criteria, and the first such test has so far returned a null result at Shusha. The metrics worth tracking are narrow and observable: the IDP share of reported population in future disaggregations, the execution rate against a falling allocation, the date of the first material FDI commitment, and permanent employment in the industrial parks. Those four series, rather than aggregate spending, will determine whether Karabakh and East Zangezur become a self-sustaining regional economy or a permanent claim on the state budget.

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