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**Policy Alternatives for Strengthening Small-Scale  
Public-Private Partnerships in Azerbaijan:  
Covering Gaps in Effective Public Service Provision in  
Azerbaijan**

Nigar Miriyeva, Farida Safikhanli, Sevilay Huseynli

Contact e-mail: [nmiriyeva13226@ada.edu.az](mailto:nmiriyeva13226@ada.edu.az), [fsafikhanli7966@ada.edu.az](mailto:fsafikhanli7966@ada.edu.az),  
[shuseynli7807@ada.edu.az](mailto:shuseynli7807@ada.edu.az)

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**ADA UNIVERSITY**

MASTER OF PUBLIC ADMINISTRATION  
NIGAR MIRIYEVA, FARIDA SAFIKHANLI, SEVILAY HUSEYNLI

APPROVED:

Faculty Supervisor: \_\_\_\_\_

Organization Supervisor: \_\_\_\_\_

Dean of the School: \_\_\_\_\_

Date: \_\_\_\_\_

## STATEMENT OF AUTHENTICITY

We have read ADA University's policy on plagiarism and certify that, to the best of our knowledge, the content of this paper, entitled "*Policy Alternatives for Strengthening Small-Scale Public-Private Partnerships in Azerbaijan: Covering Gaps in Effective Public Service Provision in Azerbaijan*" is all our own work and does not contain any unacknowledged work.

Signed: Nigar Miriyeva \_\_\_\_\_

Signed: Farida Safikhanli \_\_\_\_\_

Signed: Sevilay Huseynli \_\_\_\_\_

Date: 14.05.2025

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For permissions requests or inquiries, please contact:

Nigar Miriyeva ([nmiriyeva13226@ada.edu.az](mailto:nmiriyeva13226@ada.edu.az))

Farida Safikhanli ([fsafikhanli7966@ada.edu.az](mailto:fsafikhanli7966@ada.edu.az))

Sevilay Huseynli ([shuseynli7807@ada.edu.az](mailto:shuseynli7807@ada.edu.az))

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

Signed: \_\_\_\_\_

Date: 14.05.2025

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## Abstract

Small-Scale Public-Private Partnerships (SSPPPs) are known around the world as effective tools for promoting regional development and making essential services more accessible. However, in Azerbaijan, the adoption of SSPPPs remains limited despite recent legislative efforts aimed at strengthening public-private cooperation. This policy paper examines the key barriers to SSPPP development in local context, mainly focusing on restrictive financial thresholds, complex administrative procedures, and limited institutional capacity. Using qualitative interviews with key public sector representatives involved in local PPPs in a combination with comparative analysis of international best practices, particularly Uzbekistan's experience, the study identifies practical shortcomings in Azerbaijan's PPP framework. Findings of the research reveal that while utility power of SSPPPs are recognized worldwide, the current legal and procedural requirements effectively exclude smaller-scale projects, particularly in rural and regional areas. The qualitative research identified rigid financial threshold of 30 million AZN to be the main barrier of entry for majority of small scale projects. The paper concludes by suggesting targeted policy recommendations to address these challenges, including legal adjustments, capacity-building plans, and process streamlining system. By aligning policy frameworks with practical needs on hand, Azerbaijan can better utilize SSPPPs to advance its goals of economic diversification, social equity, and balanced regional development.

**Keywords:** Small Scale Public-Private Partnerships, Capacity Building, Regional Development, Public-Private Partnerships, Legal Framework.

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## List of Abbreviations:

PPP – Public-Private Partnership

SSPPPs – Small-Scale Public-Private Partnerships

AZN – Azerbaijani Manat

IFC – International Finance Corporation

ADB – Asian Development Bank

UNECE – United Nations Economic Commission for Europe

ECA – Europe and Central Asia (region classification)

EPEC – European PPP Expertise Centre

PPIAF – Public-Private Infrastructure Advisory Facility

SMEs – Small and Medium-sized Enterprises

CP3P – Certified Public-Private Partnership Professional

EPMC – European PPP Management Certificate

## Chapter 1. Introduction

### 1.1. Policy Context

The global rise of Public-Private Partnerships (PPPs) has significantly reshaped how governments address infrastructure and public service delivery challenges by putting to good use the efficiency, expertise, and resources of the private sector. This strategic collaboration aims to enhance public service quality, stimulate economic growth, and facilitate infrastructure development, particularly in emerging economies. Recognizing these substantial benefits, Azerbaijan formally adopted the PPP model through the enactment of the Public-Private Partnership Law (Law No. 691-VIQ) in December 2022, subsequently complemented by comprehensive secondary legislation in March 2024 (PPP Framework Azerbaijan, 2024). This legislative framework explicitly seeks to attract domestic and international investments, but even more so to improve transparency, and

enhance service efficiency and delivery. Azerbaijan is currently at a very important and responsible moment in its history as it is experiencing a dynamic infrastructure boom, positioning itself as a vital economic and logistical hub in the South Caucasus region. This transformation is driven by strategic government investments across key sectors, particularly transportation, energy, and logistics infrastructure (Reanda International, 2023). Massive changes in road networks, railways, and port facilities are enhancing the country's transit capacity, improving both domestic mobility and international trade routes. At the same time, energy sector projects like the Southern Gas Corridor, which includes the South Caucasus Pipeline, TANAP, and TAP, are enhancing Azerbaijan's role in regional energy security and enabling the expansion of energy exports to Europe. All of these projects and work in progress within the major local sectors demonstrates Azerbaijan's critical role in ensuring regional energy security and expanding its exports to Europe (Reanda International, 2023). At the same time, the country is embracing digital transformation and smart city initiatives to modernize governance and urban infrastructure, further reflecting a comprehensive long-term vision (Reanda International, 2023). Empirical data in terms of budget allocation suggests that a critical focus of Azerbaijan's current infrastructure agenda is the reconstruction of territories liberated after the Second Karabakh War. Cities and regions such as Aghdam, Khankendi, and Khojaly are being rebuilt almost entirely from scratch. Reconstruction efforts include the development of roads, airports, energy infrastructure, public services, and hospitality facilities all of which are large endeavors (AzerNews, 2024). It is important to notice that in 2025 alone, \$2.35 billion has been allocated for reconstruction in the Karabakh region, with the total post-liberation investment reaching \$10.3 billion (Caspian News, 2024). Such a vast variety of different sectors of work, indicates that private sector's involvement would prove to be beneficial. While this level of governmental investment into infrastructure highlights Azerbaijan's commitment to regional development, it also points

to the limitations of relying solely on the governmental funding. In the context of actively growing and developing local infrastructure and acute demand for similar projects, PPPs are not just a useful tool, they are an essential aspect of continuous and sustainable development. Despite the large and accessible governmental budget, managing multiple large-scale projects simultaneously creates significant fiscal and operational pressure for a developing country such as Azerbaijan. According to the global practice, PPPs offer a suitable solution by allowing governments to use private capital, bring in adventitious technical expertise, and share risks associated with specific projects (World Bank, 2023). The World Bank emphasizes that developing strong institutional frameworks for PPPs significantly enhances a country's capacity to attract private investment and improve infrastructure quality and coverage (World Bank, 2023). This is important as the research tends to show that the private sector contributes innovation, efficiency, and improved project delivery, whereas the governments often face delays and budget overspending (Osei-Kyei & Chan, 2017). These advantages become especially relevant during high-intensity reconstruction efforts such as those ongoing in Karabakh. Compared to traditional public procurement, PPPs introduce performance-based contracting and risk-sharing mechanisms that result in stronger cost control, accountability, and lifecycle efficiency. According to the Asian Development Bank (2011), projects executed through PPPs often experience lower long-term costs and fewer delays, particularly when private partners take on design, construction, and operational responsibilities. Similarly, the International Finance Corporation highlights that PPPs allow governments to leverage the financial, operational capabilities and the expertise of the private sector, ultimately leading to stronger infrastructure delivery in critical sectors (IFC, n.d.).

Overall, Azerbaijan's infrastructure landscape was always evolving but in recent times a rapid growth is evident, with Karabakh's reconstruction being the central part of this

national transformation. However, to maintain momentum and ensure the highest quality development with a long-term sustainability, the integration of PPPs into the country's infrastructure strategy is a must. By adopting PPP models, Azerbaijan can relieve part of fiscal burdens from the state budget, as well as ensure timely project execution, and deliver high-quality, resilient infrastructure that supports both regional development and national growth.

## 1.2. Definition

At the moment, Azerbaijan is experiencing active legislative developments in terms of PPP laws. However, despite these promising legislative advancements, the practical effectiveness and full potential of PPP implementation within Azerbaijan cannot be measured, largely due to the recency of these changes as well as challenges encountered by government institutions and stakeholders that are only now adjusting to the PPP system. One critical problem identified is the underdeveloped state of Small-Scale Public-Private Partnerships (SSPPPs), which are projects that typically fall below the established threshold of 30 million AZN and often encompass rural or socially impactful initiatives. The core problem this paper addresses is the systemic underdevelopment of Small-Scale Public-Private Partnerships (SSPPPs) in Azerbaijan, which stems from rigid financial thresholds, bureaucratic complexity, and limited institutional capacity, resulting in missed opportunities for regional development and socio-economic inclusivity.

The primary interest in addressing this issue arises from the substantial socio-economic benefits that SSPPPs can deliver, particularly through rural development projects and socially valuable initiatives, which may not provide substantial financial returns but significantly enhance the quality of life for Azerbaijani citizens. Despite a decline in investments, the persistent demand for small-scale PPPs underscores their importance in achieving Sustainable Development Goals, particularly in sectors like energy,

transportation, and healthcare (Bisbey, Hayek, & Nair, 2024). Proper implementation and government support for SSPPPs represent crucial evidence of a nation's developmental progress, offering tangible improvements in public welfare and regional equity (Pattberg, Biermann, Chan, & Mert, 2012). Moreover, this issue carries significant urgency; comparative analysis utilizing the World Bank's 2023 PPP report highlights Azerbaijan's considerable lag in PPP activities relative to regional peers such as Uzbekistan (World Bank, 2023). Despite Azerbaijan's generally more developed economy, its comparatively late engagement with PPP projects suggests untapped potential and possibility to miss opportunities for accelerated economic and social growth.

### 1.3. Statement of Interest

Immediate reforms and focused policy shifts toward embracing SSPPPs are important for improving Azerbaijan's regional development. While larger PPPs have traditionally dominated policy focus due to their substantial investment scale and perceived economic impact, international evidence highlights that SSPPPs possess unique capabilities for quickly dealing with local needs and fostering inclusive economic growth (World Bank, 2020). The importance of SSPPPs is particularly notable in developing and transitioning economies as they offer agile, targeted, and cost-effective approaches to infrastructure and social service gaps. Which in return helps to effectively complement traditional public sector efforts and large-scale PPPs (Asian Development Bank, 2016). SSPPPs over the time have demonstrated their ability to provide solutions for underserved communities, resulting in significantly improving public service quality, and enhancing local socio-economic environment. According to research conducted by the World Bank (2017), SSPPPs in water management, healthcare, education, and local transportation have shown great efficiency in project execution, higher levels of community satisfaction, and increased transparency due to closer stakeholder engagement

and accountability at the local level. Furthermore, SSPPPs typically have shorter preparation and execution times compared to large-scale PPPs. These reasons allow quicker responsiveness to immediate developmental needs and providing visible benefits within shorter timelines (ADB, 2016). For Azerbaijan, specifically, the strategic emphasis on SSPPPs could prove invaluable. Azerbaijan faces obvious regional disparities with considerable gaps in infrastructure and basic services across different regions, often due to centralized governance structures that inadvertently limit local stakeholder participation and responsiveness (World Bank, 2019). Considering the ongoing strategic emphasis on balanced regional growth, economic diversification, and infrastructural improvements highlighted by Azerbaijan's successive socio-economic development programs since 2004, SSPPPs emerge as particularly suitable instruments to meet these localized and specialized regional development needs (Ministry of Economy, 2023). SSPPPs can quickly and effectively deliver specialized projects in specific regions like Mingachevir, Yevlakh, and other identified districts within the Aran and Absheron economic regions, which require carefully planned out interventions to accelerate their development. Given their smaller scale and flexible implementation, SSPPPs are capable of stimulating regional economies, enhancing employment, and supporting long-term national objectives of socio-economic sustainability and resilience. Moreover, the SSPPP model in its core promotes local empowerment, stimulating private sector engagement at a regional level and bringing grassroots economic development to Azerbaijan. This targeted approach aligns well with Azerbaijan's national development strategies, which are built around the essential goals of economic diversification and regional socio-economic stability (Government of Azerbaijan, 2022).

Empirical evidence of countries with similar socio-economic conditions of Azerbaijan further proves the success of smaller scale PPP initiatives. For example, the recent positive experience of Uzbekistan, where SSPPPs were responsible for successfully

enhancing local water supply, sanitation, and educational infrastructure, is notable. This improvement significantly boosted economic growth within regions, simultaneously having a positive effect on the quality of public services provided (National Centre for Privatization & PPP, 2022). Georgia has also adopted SSPPPs, but their area of interest was local healthcare service delivery. Similarly to the Uzbekistani case it has proven to be an effective tool in improving areas that it was focused on. Such approach ended up promoting greater equity, and significantly reducing regional disparities (European Bank for Reconstruction and Development, 2021). These examples underline the potential for SSPPPs to deliver strategic, scalable impact adapted to the needs of underdeveloped regions of Azerbaijan and communities living within them. In the end, if Azerbaijan wants to fully use the potential of PPPs to support social and economic development, it's important to include and promote SSPPP frameworks in its strategy. Such partnerships are a sure way to provide immediate relief to localized infrastructure and social challenges. In addition to that, they also stimulate sustained private-sector participation, innovation, and community engagement, critical factors necessary for long-term national prosperity (ADB, 2016; World Bank, 2020). This research, therefore, aims to address Azerbaijan's current SSPPP underutilization by proposing actionable insights and strategic policies taken from international best practices and practical evidence.

#### 1.4. Methodology

Methodologically, this study employs both quantitative and qualitative research methods, primarily through evaluating the existing statistical data on local PPPs in comparison to other countries from the nearby regions as well as by conducting structured interviews with government officials and specialists involved directly with the public sector aspect of PPPs. For the statistical data the main sources are going to be credible global publications from World bank, Asian development bank, International monetary fund and

other similar databases. The qualitative aspect centers on conducted structured and semi-structured interviews. The preference for interview candidates was given to be the key stakeholders directly involved in public-private partnerships. In total, five interviews were conducted (mostly in an online format) with senior advisors and experts across both domestic and international institutions. These included:

- Turkan Vusat, Head of the PPP Unit, Ministry of Economy (Azerbaijan).
- Abduqodir Yoqubov, Deputy Director of the PPP Development Department at the Ministry of Economy and Finance (Uzbekistan).
- Aysel Maharramova, Chief Advisor at the Corporate Cooperation Department of the Strategic Development Division, TƏBİB (Azerbaijan).
- Qizilgul Hasanova, Chief Advisor at the Environmental Policy Division, Ministry of Ecology and Natural Resources (Azerbaijan).
- Elchin Jamalov, Leading Specialist at the Tax Policy and Revenues Department, Ministry of Finance (Azerbaijan).
- Jala Agayeva, Project Manager at Azersun Holding (Azerbaijan).

These interviews provided valuable first-hand insights from government representatives directly related to PPP activities. Particularly, during our longest interview, Mr. Yoqubov shared personal experience with establishing and developing SSPPPs in Uzbekistan. What made that interview even more important for the research was that it came from a neighboring country that has achieved greater maturity in its PPP ecosystem. The aim of these interviews was to better understand the perception from within, institutional capacity issues, and opportunities for SSPPP development. Given that the target audience for this project includes policymakers, specifically the Ministry of Economy of the Republic of Azerbaijan—understanding the internal

governmental perspectives was essential to designing practical, context-specific policy suggestions. This qualitative approach is supplemented by comprehensive policy reviews and comparative analyses with international best practices, drawing upon academic literature, international reports, and frameworks from countries with successful PPP models.

However, several methodological limitations are bound to be acknowledged in this study, mainly caused by two main factors. Firstly, as the result of the group members' lack of legal and governmental background and not enough hands-on experience with the public sector in terms of public-private projects, the suggestions and evaluation of possible policy solutions will prove to be a complicated task, due to the main issue revolving around the PPP framework which overlaps with legal side a lot, making provided by the group be quite limited. However, exactly for this reason the decision to work very closely with the Ministry of Economy of the Republic of Azerbaijan and the Head of PPP unit in Azerbaijan was made. Having the fresh perspective of the students studying public administration in combination with know-how of an experienced government sector representative in the field of PPP work will minimize the limitation of unfitting background. Secondly, there is a challenge of recency of implementation of Azerbaijan's PPP laws which led to the current lack of extensive empirical data that the research on this topic is facing. Nevertheless, now is the best time to look into the current situation of PPPs in Azerbaijan and outline the existing issues at the start of the development of this joint work approach.

Additionally, it must be noted that some interviewees, such as Qızılgül Hasanova from the Ministry of Ecology and Natural Resources and Jala Agayeva from Azersun holding explicitly clarified that their responses reflect personal opinions rather than official positions of their institutions. This affects the generalizability of some public-sector perspectives. Furthermore, despite efforts, only limited input could be gathered from the

Azerbaijani private sector, as according to the interview with the Head of the PPP Unit at the Ministry of Economy, there are currently no local private companies that have participated in an official PPP project in Azerbaijan. This absence underscores a critical limitation in capturing a full stakeholder view, particularly from the private side, because to this day there was no direct experience with PPP, and answers were made based on future plans only.

Lastly, due to the current early stage of project implementation, detailed longitudinal assessments of project outcomes and impacts are inherently restricted. Nonetheless, the combination of leveraging expert interviews, internal governmental insights, and international comparative analyses allows the preparation of well-informed suggestions suitable for the ministry to implement.

## 1.5. Bibliography

The foundation of this research was built by mainly using a specific type of secondary data. While the total pool of sources consisted out of a wide array of sources which were used for different purposes in terms of insights they provide, the simple structuring approach was taken to simplify the writing process.

First and foremost, due to the nature of the topic and the lack of openly available governmental data on PPPs, the priority for research were the international organizational reports and databases from institutions such as the World Bank, Asian Development Bank, and IMF. These were the key sources which provided the essential credible statistics, global benchmarks and important insights on the effects of small- and large-scale PPPs. These insights were helpful for understanding and evaluating PPP models, especially in the context of developing economies. Another extremely important source type was the Academic literature and peer-reviewed articles, which were used to evaluate the level of importance of PPPs in general and even more importantly to prove the value

of SSPPP. As the academic literature provided not only raw data, but the properly analyzed and scientifically proven examples of how small-scale projects affect the developing nations. Additionally, the governmental and legal documents from Azerbaijan were also referenced, in order to provide the local context to the study and elaborate on the legislative developments. To further explore the social and economic context of Azerbaijan the news articles were used. The selectively chosen articles were picked to provide up-to-date information on infrastructure investments and policy changes, particularly around post-conflict reconstruction efforts in Karabakh. Lastly, the primary data gathered through interviews with public sector experts helped bridge data gaps and added value

## 1.6. Roadmap

This paper delivers a comprehensive analysis of the public-private partnership scene in Azerbaijan, with a particular focus on small-scale public-private partnerships. The research is prepared using a methodical approach beginning with a contextual assessment of Azerbaijan's policy and legal framework, followed by a cross-national comparative study before concluding with suited policy recommendations designed to enhance PPP effectiveness and applicability in the Azerbaijani context.

The paper starts by presenting the context of the problem, recapturing the development of PPPs in Azerbaijan with attention to institutional reforms, legal milestones, and the current governance model. This section highlights the limitations that affect the widespread adoption, such as abundance of resources, bureaucratic complexities, and lack of coordination between stakeholders, particularly in regional and small-scale project settings.

The Definition of the Problem section identifies the specific causations that stop both parties to get involved in PPPs, and even more apparently be engaged in smaller projects.

The analysis includes issues such as limited local expertise, weak incentives, complicated procedures, and low investment attractiveness for socially beneficial but lower-return projects.

The Statement of Interest presents the importance of dealing with these challenges by providing real examples of how successful PPP frameworks, especially inclusive of SSPPPs can help contribute to broader national goals of reaching faster regional development, infrastructure efficiency, and public service delivery. This part is focused on providing successful examples of SSPPP implementation mechanisms that ended up being helpful on a national level which demonstrates the strategic relevance of unlocking smaller PPP models to support Azerbaijan's socio-economic diversification goals.

The study's methodology and limitations section outline the use of qualitative research techniques, combining evaluation of the existing local socio-economic environment through stakeholder interviews with the analysis of the secondary data from academic and publicly available sources from Azerbaijan and closely located countries with longer established PPP mechanisms. It also recognizes methodological limitations, particularly in terms of accessing PPP related data due to its strict regulation as well as acknowledging contextual differences between PPP implementation in Azerbaijan and other countries.

The paper analyzes international PPP practices, with an emphasis on the case of Uzbekistan. It explores how structural changes, capacity-building programs, and targeted legal reforms contributed to effective PPP expansion in Uzbekistan and draws parallels with Azerbaijan's starting stage of development to ensure successful development in the long-run.

The Evaluation of Policy Alternatives introduces three potential reform directions:

- 1) Capacity-building programs to enhance private sector engagement in PPPs;
- 2) Institutional and legal instruments to support and de-risk SSPPPs;

3) Decentralization and streamlining of PPP processes to increase regional implementation feasibility.

Each policy alternative is assessed using the criteria of effectiveness, efficiency, equity, feasibility, and sustainability.

The final segment presents an integrated reform model designed to stimulate PPP development across all levels by combining national legal reforms with regional empowerment and targeted private sector support measures. The strategy includes short- and medium-term implementation pathways and provides actionable guidance for government bodies, private entities, and development partners.

The paper follows an organized and analytical structure that blends international benchmarking with context-specific strategies to foster an inclusive and robust PPP environment in Azerbaijan

## Chapter 2. Problem Description

### 2.1. Problem Definition

As it was established, PPP is an important step for the development of any country which strives for a brighter and better future for its population. According to World Bank classification an established Public-Private Partnership (PPP) framework consists of the policies, laws, institutions, and procedures that define how PPP projects are identified, evaluated, selected, budgeted, procured, monitored, and regulated (World Bank, 2017). A well-structured PPP legislation ensures that projects would align with national development strategies, generate economic value, and not create risky fiscal situations for the government at the same time (World Bank, 2017). Additionally, it promotes good governance by facilitating transparency, risk-sharing, and accountability in public-private collaborations.

Although most developing countries have been actively adopting formal PPP legislations from as early as the 1980s and 1990s, Azerbaijan has only recently begun exploring by not utilizing the potential of actively developing the local PPP Framework. Many countries in Asia, Latin America, and Africa established structured PPP laws and policies to attract private investment in infrastructure projects during this period (Asian Development Bank, 2021). Moreover, in order to attract private sector participation for addressing the infrastructure investment gaps, most developing economies began implementing PPP legislations in the 1990s and early 2000s (Asian Development Bank, 2021). While considering this fact it is also important to keep in mind that Azerbaijan has been classified as a developing country since gaining independence in 1991, based on various socio-economic indicators such as its Human Development Index (HDI) and income classification (United Nations Development Programme [UNDP], 2022). Historically, Azerbaijan's HDI has improved steadily, reflecting progress in economic

and social development. Over the past decade, the country's HDI ranking has evolved as follows (Country Economy, 2023).

**(Table 1) Comparison: Human Development Index, 2022**

Year	HDI (Human Development Index)	World Ranking
2016	0.752	92nd place)
2017	0.754	(93rd place)
2018	0.757	(93rd place)
2019	0.762	(90th place)
2020	0.722	(107th place)
2021	0.738	(95th place)
2022	0.760	(89th place)

Data from Country Economy (2023), Human Development Index - HDI

Despite more than 30 years of being recognized as a developing country, Azerbaijan only recently initiated the formalization of a Public-Private Partnership (PPP) framework (United Nations, 2014; International Monetary Fund, 2023). According to the World Bank (2016), over 6,400 PPP projects were launched across 137 emerging markets between 1991 and 2015, demonstrating a widespread commitment to institutionalizing PPP structures. By 2003, privatization and PPP initiatives had already raised over \$400 billion in developing nations, reinforcing the role of private sector collaboration in infrastructure development (Asian Development Bank, 2021). All this time Azerbaijan did not utilize the PPP sector of work due to not having a direct, understandable and legally binding framework and thus no possibility to practice such projects.

Azerbaijan formally adopted PPPs in December 2022 and further solidified that action by introducing the comprehensive secondary legislation in March 2024 (PPP Framework Azerbaijan, 2024). This marked a significant step towards diversifying the nation's

economic approach to public infrastructure and service delivery. Nevertheless, despite the clear and correct strategic intentions behind the Azerbaijani government's decision of adopting PPPs, the actual application process has exposed considerable implementation challenges, particularly affecting SSPPPs, which typically address essential local or regional social services and infrastructure needs.

Historically, Azerbaijan's economic landscape has been predominantly influenced by great revenues generated from its oil and gas sector. This financial abundance was allowing the Azerbaijani government to independently finance significant public infrastructure. Having such environment is not ideal for PPP development as countries with higher budgetary resources are less likely to engage in PPPs due to their ability to finance infrastructure projects independently (International Monetary Fund [IMF], 2006). Moreover, it affects smaller scale projects even more (World Bank, 2023). Thus, while large-scale projects like major transportation or infrastructure developments have a chance to receive attention, smaller ones, such as regional healthcare, education, or waste management are bound to face significant neglect under the existing PPP mechanisms.

While PPPs in Azerbaijan were in discussion from as early as 2016, the PPP law was adopted in 2022 and only recently in 2024 it was properly developed. However, even with the newly established framework in place, the implementation of small-scale PPPs remains in early stages and presents important opportunities for growth. The SSPPP sector is facing difficulties worldwide and Azerbaijan is not an exception. In countries where the PPP sector is considered to be highly practiced the question of "how to better deal with SSPPPs?" is very relevant. Despite the maturity of their PPP legislations, these nations often encounter difficulties in implementing SSPPPs due to factors such as limited project sizes, higher relative transaction costs, and complexities in risk allocation.

WAPP has recognized the global challenges associated with SSPPPs. In one of their publications, the critical role of SSPPPs in achieving sustainable development goals was

mentioned. The analysis revealed a notable decline in small-scale PPP projects, with only 3% of total investments towards PPP projects that were under \$50 million in 2022, down from approximately 40% in 2016 (Bisbey, Hayek, & Nair, 2024). This trend serves as a demonstration of a growing global funding gap for small-scale projects, emphasizing the urgent need to address the existing challenges. As the result of such trend, smaller, yet still impactful, social projects in fields like: healthcare, local infrastructure, education, and environmental sustainability were systematically side-lined worldwide. This issue is also exists in Azerbaijan, given the recency of its PPP law. During our first interview with Turkan Vusat, it was mentioned that many socially beneficial projects that were perfectly capable of providing a lot of value to the communities of different regions of Azerbaijan were scrapped, as they did not meet the monetary criteria set by Azerbaijan.

The root of the current problem lies in three critical interconnected causes: rigid financial thresholds, a complicated regulation process, and limited governmental expertise regarding PPP legislations (T. Vusat, personal communication, 2025). A prominent example highlighting this issue was a housing project in Karabakh, which faced unrealistic completion timelines and inappropriate budget expectations due to these systemic misunderstandings, clearly illustrating the practical implications of these underlying problems (T. Vusat, personal communication, 2025). International comparative analysis further highlights the severity of this issue. Azerbaijan's PPP activities remain notably nascent, especially when they are being compared with regional developing neighbors like Uzbekistan, Kazakhstan. In 2023, Azerbaijan completed only one PPP infrastructure project with a total investment of \$348 million, which is significantly lower than its fellow ECA members. Uzbekistan, for instance, recorded six PPP infrastructure projects totalling with largest annual investment of \$1.61 billion, while Kazakhstan implemented four projects with \$219 million in investments. Benchmarking Azerbaijan against Uzbekistan, Kazakhstan, and other ECA countries is the correct

approach as they transitioned from centrally planned economies to market-based systems while actively pursuing PPP-based infrastructure development (de Melo et al., 1996). Furthermore, among the countries in the Europe and Central Asia (ECA) region, Bulgaria led in small-scale PPP implementation, completing 13 projects with a total investment of \$532 million, making it the most efficient country in terms of low-budget PPP investments per project (World Bank, 2024). This comparison further demonstrates the urgent need for Azerbaijan to refine its PPP legislation, particularly in streamlining approval processes and increasing small-scale PPP participation. As noted by Vusat (2025), the global landscape for SSPPPs is evolving, and many countries are still experimenting with frameworks to better support them. Vusat (2025) emphasizes that benchmarking emerging PPP systems like Azerbaijan's against regional counterparts offers valuable lessons for gradual institutional development.

As shown in Table 2, Azerbaijan proceeded with only singular large scale infrastructure PPP, indicating both limited use of PPPs in the country and even more so showing how far the country is from implementing SSPPP. Despite the financial capacity, key challenges such as nascent regulatory frameworks, developing approval mechanisms, and emerging private sector engagement are primarily factors effecting the successful implementation of SSPPPs in the country.

(Table 2) Investment Commitments and Number of Infrastructure Projects with Private Participation in ECA, 2023 (PPI investments number in million USD)

Country	PPI investments in 2023	Number of Projects
Uzbekistan	1,612	6
Bulgaria	532	13
Bosnia and Herzegovina	495	2
Türkiye	434	4
Azerbaijan	348	1
Kazakhstan	219	4
Albania	187	2
Serbia	169	1
Kyrgyz Republic	118	1
Armenia	26	1
<b>Total</b>	<b>4,139</b>	<b>35</b>

Data from World Bank (2024), reflecting 2023 PPP project investments.

## 2.2. Current Policy Context and Challenges

While Azerbaijan has only recently taken steps to develop PPPs, it is important to note that the framework was not the only action taken by the government to boost the local PPP. Economic factors and complexities were taken into consideration by the Azerbaijani government and tax benefits were used as a tool to promote PPP. An example of such benefits are the exemptions from corporate income tax, property tax, and VAT for PPP-related imports (Report, 2024; E. Jamalov, personal communication, 2025). However, the not so obvious structural and administrative challenges remain largely unaddressed by the government. These fiscal incentives, although potentially attractive to foreign investors, do not directly solve fundamental problems such as complex procedures of starting PPP projects, excessive bureaucratic obligations, and lack of public sector's expertise. There is also an absence of cost-recovery mechanisms for unsolicited PPP proposals which further discourages private sector from showing initiative (J. Agayeva, personal

communication, 2025). In addition to this, studies have shown that complex bidding procedures often hold back SME participation in PPP projects (Ibrahim & Jantan, 2024). Furthermore, Gcume and Willie (2023) argue that stringent financial requirements tend to exclude SMEs from PPP opportunities. The issue lies in the private sectors' lack the capital and financial stability, which is required for participation (J. Agayeva, personal communication, 2025). This context is important because as it was previously mentioned Azerbaijan has a very stringent financial requirement set. Moreover, the Caspian Legal Center acknowledges the complexities involved in the Azerbaijani PPP mechanism, emphasizing on the necessity for careful legal analysis. They emphasize that the interaction between the Civil Code, the Law on PPP, and the Law on Public Procurement requires thorough consideration to ensure the validity and enforceability of agreements, which may present challenges for private sector participation, particularly for smaller investors (Caspian Legal Center, 2024).

Azerbaijan's Public-Private Partnership system is based on Law No. 691-VIQ (2022), which provides the broad definition of PPPs. The law also sets strategic development goals, and outlines the roles of key institutions that take part in the process. Furthermore, the implementation details such as procedures, project stages, and responsibilities, are explicitly specified in the PPP Rules issued in 2024.

Earlier sections of this paper have discussed the financial threshold of 30 million AZN and its negative impact for small-scale PPPs. In addition to this monetary barrier, the legislation outlines several procedural requirements which are responsible for development and approval of PPPs.

The primary stakeholders impacted by these challenges are the population of Azerbaijan as well as private and public parties involved in cooperative projects. To be more precise, the biggest impact of SSPPPs is on rural and regional communities which continue to lack access to high-quality, efficient, and sustainable infrastructure and services. Not having

SSPPPs negatively affects social equity and regional economic development, directly hindering the government's broader objectives of economic diversification, social inclusion, and sustainable growth. Addressing these structural and procedural shortcomings of Azerbaijan's current PPP legislation is a crucial step. The process is linear, firstly every proposed PPP project must undergo a pre-feasibility study which is a preliminary assessment that identifies the project's basic goals, alignment with national strategies, and potential value. If the project is considered worthy based on pre-feasibility analysis, it must then be evaluated by a full feasibility study, which provides a detailed analysis of the project's technical requirements, financial costs, revenue potential, risk allocation, legal considerations, and implementation capacity. These evaluations act as a safeguarding measure to ensure that each PPP project aligns with policy objectives while at the same time being realistically achievable, attractive to private investors, and sustainable over the long term. These include detailed requirements for pre-feasibility and feasibility studies, which must assess the strategic relevance, economic value, financial viability, commercial attractiveness, and managerial capacity of each proposed project. The Ministry of Economy acts as the competent authority responsible for approving project concepts, forming working groups, and publishing official PPP lists. The public partner usually being a government body or municipality, leads the development of the project, conducts procurement, and monitors implementation. Moreover, the Ministry of Finance is responsible for finance related evaluation, guarantees and fiscal commitments. Notably, the law permits both solicited and unsolicited proposals. In cases of unsolicited proposals where only one company shows interest in competing for it, the government can enter into direct negotiations with that one company. However, before moving forward, these negotiations must be reviewed by antitrust authorities to ensure that the deal doesn't create unfair market conditions or monopolies. Contracts must describe the terms of risk allocation, performance-based payments, environmental compliance, and

government support (e.g., availability payments or access to land). A final clause worth mentioning is related to project monitoring. According to the rules PPP agreements require quarterly and annual reporting from both public and private partners, these reports go straight to the Ministry of Economy and the Cabinet of Ministers. This reporting structure acts as prime evidence of the Ministry of Economy's central role in overseeing and coordinating the PPP framework, reflecting its effort to centralize project monitoring and establish accountability across all stages of implementation. Together, these legal provisions form a supportive environment for large scale projects which gave a great start for of PPP model in Azerbaijan, which is especially notable given its recent formal adoption by the government. However, the implementation process has outlined some challenges with small scale projects, leaving a room for improvement.

### 2.3. Cause 1: 30 million AZN threshold

An obvious significant limitation within the current Azerbaijani PPP legislation is the established financial threshold of 30 million AZN, as outlined in the PPP Rules, which explicitly defines PPP-eligible projects as those exceeding the mentioned amount (PPP Framework Azerbaijan, 2024). Such a harsh criteria causes a big trouble for developing small scale projects and this is particularly evident in the examples of project cancellations due to the financial threshold. While collecting data for this paper, the issue of restricted access to information caused some complications. Nevertheless, it was bypassed by directly communicating with the Head of PPP unit in Azerbaijan, Turkan Vusat, who personally mentioned challenges of small projects applying for PPP in Azerbaijan by providing information about the recently rejected PPP projects. One of the most memorable cases in her experience was the rejection of a \$14 million housing project in Karabakh. The project was designed to support post-conflict reconstruction efforts by providing essential housing for displaced populations (T. Vusat, personal

communication, 2025). Despite its social importance and potential good, the project failed to meet the 30 million AZN threshold and for that reason had to be abandoned. However, this was not an singular occurrence, several other PPP proposals for Karabakh were also rejected for similar reasons, demonstrating how the rigid threshold and budget limitations prevent the implementation of crucial SSPPPs. Last example, was the cancellation of a \$1 million project proposed in collaboration with MIDA (State Housing Construction Agency of Azerbaijan), which also failed to gain approval due to its small budget that contradicted the local rules of PPP (T. Vusat, personal communication, 2025). The lack of official public data on rejected PPP projects further obscures the full extent of these inefficiencies, making it difficult to assess how many critical SSPPP initiatives have been abandoned. This lack of flexibility in PPP approval processes not only limits private sector participation but also results in missed opportunities for infrastructure development in underserved regions (T. Vusat, personal communication, 2025).

As the result of our interviews, it is evident that this threshold inherently restricts smaller, yet potentially impactful, public projects from accessing the PPP modality. Smaller projects typically include essential community-level initiatives in sectors like rural healthcare, educational facilities, waste management, and regional infrastructure improvement, which although not financially lucrative, substantially benefit societal welfare and regional equity (Guliyeva, 2023). The World Bank has repeatedly stressed the importance of supporting smaller scale projects within PPP legislations, as global experience has proven their ability accelerate regional development and growth in less urbanized or rural areas (OECD, 2023). Thus, Azerbaijan's current monetary threshold included in the most recent PPP legislation does not allow SSPPP projects to exist, thus severely constrains the realization of these critical developmental goals.

Unlike Azerbaijan, neighbouring countries have successfully implemented more flexible and inclusive PPP legislations that give chance for smaller-scale projects, attracting

higher private sector participation and community driven development (A. Yoqubov, personal communication, 2025). For example, Kazakhstan managed to increase the feasibility of small-scale PPPs by simply introducing standardized project templates and clear procedural guidelines. Their reforms have significantly reduced administrative burdens and shortened planning timelines by four to six months. As a result, a great number of small scale community-centric PPPs have been complete. The SSPPPs in Kazakhstan include 220 kindergartens, 127 medical facilities, 343 school canteen modernization projects, and several small-scale lighting and security systems that have been successfully implemented (Kazakhstan PPP Center, 2024).

Belarus provides another successful model with its "One District - One Project" initiative, which prioritizes regional PPPs by offering tax exemptions, preferential land leases, and reduced customs duties to smaller-scale projects. This approach has effectively encouraged investment in initiatives with substantial socio-economic benefits (Belarus PPP Presentation, 2024).

Kyrgyzstan has taken a different approach by creating a dedicated Fund for Financing PPP Project Preparation (FFPP), which financially supports the preliminary stages of smaller projects. This initiative has helped overcome the financial barriers that typically prevent private sector involvement in small but critical PPP projects, such as rural healthcare facilities and renewable energy initiatives (UNECE Kyrgyzstan Report, 2024).

#### 2.4. Cause 2: Lack of Public Sector's expertise and knowledge of PPP

A major factor hindering effective implementation of PPPs in Azerbaijan is the insufficient expertise and understanding of PPP mechanisms within the public sector. It is important to note that private sector in Azerbaijan did not participate in any local PPP projects yet, thus it is assumed that their level of expertise is also non-existent. Such difficulty is caused by the lack of experience with PPPs due to PPP laws in Azerbaijan

being only recently enacted. This issue often results in inadequate project expectations, misaligned requests, and inefficient risk allocation between public and private entities. The European PPP Expertise Centre (EPEC) highlights that public institutions frequently lack the specialized project management capabilities required to handle complex PPP risks, often resulting in project delays and inefficiencies (EPEC, 2016). As the results of interviews conducted with Turkan Vusat, it was confirmed that government officials lack the awareness about PPP mechanism and often confuse the concept of PPP with the conventional public procurement approach. Misunderstandings on such a fundamental level are very likely to cause problems. For example, in Azerbaijan cases were lack of understanding of PPP format led to several cases of unrealistic project schedule propositions, inappropriate financial expectations, and overall inefficiencies (T. Vusat, personal communication, 2025). For example, the reason for not accepting the recent housing project in Karabakh was the unrealistic deadline of 6 months set for the whole project scope. While according to the global practice the PPP projects take at least a year to be planned out and a minimum of 2 years in total to be complete (T. Vusat, personal communication, 2025). Due to such governmental misconceptions, many projects face difficulties where they could be avoided, thus for bettering the PPP mechanism and allowing for SSPPPs to be established in Azerbaijan, the government sector has to get used to the new model. The international experiences add up to the demonstration of the importance of addressing public sector capacity and expertise from the early stages of PPP implementation. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, 2017) emphasizes that it is extremely important to start capacity building at an early-stage, as it provides the public sector with the necessary skills to navigate the complexities inherent in PPPs. Adequate training enhances collaboration between public officials and private sector partners, aligning expectations and significantly improving project outcomes (UNESCAP, 2017). The PPP unit of Azerbaijan

has been working on this for some time now. According to Turkan Vusat the 59 people participated in the APMG PPP certification program and continued with additional one-day trainings. She also mentioned regular online sessions where different PPP project opportunities and others related topics (T. Vusat, 5munication, 2024). All of these indicate the steps in the right direction for Azerbaijani PPPs, but in order to improve the efficiency and ensure long term sustainability the education must not be only within PPP unit. Awareness is an important factor when it comes to adjusting to new systems, and public sector in a broader view is lacking knowledge of PPPs. An educated public sector contributes significantly to the overall effectiveness and sustainability of PPP projects. The International Finance Corporation (IFC, 2022) stresses that PPPs offer governments opportunities to leverage private sector expertise and efficiency, but it was also mentioned that these opportunities are maximized only when public officials possess the necessary understanding and skills to structure, manage, and monitor PPP projects effectively. Similarly, the International Monetary Fund (IMF, 2006) warns that if public sector does not have sufficient PPP knowledge, it can cause PPPs to have hidden fiscal costs and risks, making expertise critical for effective risk identification and management. Thus, investing in public sector human capital development is a fundamental requirement for successful PPP implementation. Addressing the gap in PPP knowledge within Azerbaijan's government bodies can lead to positive outcomes by promoting smoother collaborations and clearer communication between public and private partners.

### 2.5. Cause 3: Complexities and Difficulties of Bureaucratic Procedures

A critical barrier to the effective implementation of Public-Private Partnerships (PPPs) in Azerbaijan is the complexity and difficulty of bureaucratic procedures. Extensive bureaucratic requirements can significantly discourage public and private sector participation, making PPPs less appealing compared to traditional public procurement

methods. According to the IMF overly complicated and bureaucratic PPP processes are linked with lower success rate of projects. It happens because complex processes tend to create uncertainty, increase delays, and in some cases they can even lead to higher transaction costs. This combination of negative consequences ends up discouraging potential investors (IMF, 2021). Similarly, Yeboah (2021) highlights how bureaucratic complexity within governmental processes reduce effectiveness of PPP model by creating an unpredictable environment that tends to discourage private sector participation.

During one of the interviews, Turkan Vusat did a practical illustration of how bureaucratic complexity negatively impacts PPP projects in Azerbaijan. A project opportunity was proposed which could fit both the time and budgetary requirements and the Azerbaijani PPP unit was actively working on developing and proposing the project to be complete under the PPP format. However, the long and timely preparational processes related with PPPs prevented timely advancement of the PPP proposal. Consequently, the required projects were redirected to traditional public procurement channels before PPP approvals could be finalized, demonstrating how excessive bureaucratic hurdles can result in missed opportunities for leveraging private investment and efficiencies (T. Vusat, personal communication, 2025). In contrast, neighboring countries such as Kazakhstan have found a more modern way of dealing with bureaucratic processes within their PPP guidelines. Kazakhstan introduced a comprehensive PPP law in 2015, with polished and more flexible administrative procedures, enabling faster project approvals and reducing overall project timelines (Grata International, n.d.). This proactive and adaptable legislative approach has fostered a more supportive and efficient PPP environment, allowing Kazakhstan to successfully complete numerous projects across a number of different sectors (Kazakhstan PPP Center, 2024). Meanwhile, Azerbaijan is facing ongoing challenges due to the newly established PPP law. The new legislation is still in its early years a lot of bureaucratic processes are yet to be memorized and changed as the years go

by. The World Bank (2016) identifies the absence of clear and efficient administrative procedures as a significant barrier. According to the Ministry of Finance, one of the most pressing obstacles to PPP implementation is the need for stronger legal and institutional infrastructure, particularly in the management of long-term contractual and fiscal commitments (E. Jamalov, personal communication, 2025). Moreover, unclear roles, responsibilities, and approval mechanisms can damage the project by delaying the execution, reducing investor confidence and public sector engagement. This only further proves that in order to fully embrace the potential of PPPs as well as to allow SSPPPs to thrive in Azerbaijan, the local government should pay close attention at the PPP laws as in the beginning the majority of weak points can be pinpointed and taken care of. The implications of these bureaucratic complexities extend beyond delays; they foster an environment of uncertainty that makes PPP projects unattractive for the private sector and burdensome for public entities. As the consequence, the public sector in Azerbaijan is leaning towards the old and reliable conventional procurement methods, not understanding the potential long-term advantages of PPPs. Simplifying the bureaucratic procedures and clarifying administrative responsibilities would significantly benefit Azerbaijan's involvement in PPPs, by giving chance for a more efficient collaboration between public institutions and private investors and ultimately contributing to improved infrastructure and service delivery.

### Chapter 3. Policy Alternatives

In this chapter, we systematically evaluate the three proposed policy alternatives aimed at improving the implementation of Small-Scale Public-Private Partnerships (SSPPPs) in Azerbaijan. The evaluation follows a five-criteria framework commonly used in policy analysis literature and supported by Young and Quinn. The criteria that were applied are the following:

**Effectiveness** – How well the policy achieves the intended goal of expanding SSPPPs.

**Efficiency** – The policy’s ability to maximize outcomes with minimal resource use or time.

**Equity** – The degree to which the policy promotes fair and inclusive benefits, especially across underserved regions.

**Feasibility** – How implementable is the policy under Azerbaijan’s current legal, political and other important conditions.

**Flexibility** – The adaptability of the policy across different sectors, regions, and future reforms.

Each policy alternative is scored on a 1 to 5 scale under each criterion, with 5 showing full satisfaction with the policy alternatives based on the criteria description and 1 representing minimal or no satisfaction with evaluation standards. This approach provides a structured comparison of policies' strong sides, as well as, possible limitations and limitations and helps determine the most impactful and realistic path forward for strengthening SSPPPs in Azerbaijan.

Grade	Level	Explanation
5	High	Fully meets the criterion across most contexts and backed up by evidence or theoretical support. No major weaknesses.
4	Moderate-High	Substantially meets the criterion but has minor complexities, limitations, or is in someway context-dependent. Showing good results on its own and has promising long term application.

3	Moderate	Meets the criterion partially. Impact depends on execution, environment, or support.
2	Low-Moderate	Has some merit but lacks several important factors. Useful in narrow cases or needs significant aid.
1	Low	Fails to meet the criterion meaningfully under current conditions. Likely to face serious limitations.

### 3.1. Bundling of Projects

Arguably, the greatest challenge to introducing SSPPPs in Azerbaijan lies in a legal requirement that sets a minimum project budget of 30 million AZN, as defined by the PPP law and its guidelines. While this high threshold is intended to ensure the efficient use of the PPP model, it unintentionally excludes many socially valuable projects, especially in sectors like education, healthcare, water supply, and municipal services. As it was mentioned several potentially impactful PPP projects proposed for the Karabakh region were rejected solely because they did not meet the set minimum cost requirement (T. Vusat, personal communication, 2025).

To overcome this limitation, a practical and internationally tested approach is proposed: the bundling or otherwise known as grouping of smaller projects into a single larger package that collectively meets or surpasses the minimum threshold for PPP implementation. This approach not only keeps everything in order by complying with the legal cost requirement but also brings favorable administrative, financial, and operational advantages.

International experience provides strong evidence that bundling is an effective strategy for facilitating PPPs in small-scale infrastructure projects. In the United States, the Pennsylvania Rapid Bridge Replacement Program bundled 558 small rural bridges into a single PPP, resulting in a 20% cost reduction and halving the delivery time compared to

traditional procurement (GI Hub, 2021). To add to this, in Australia, the Queensland Schools PPP gathered 10 schools into one package, streamlining design and lifecycle maintenance, and ensuring on-time delivery through economies of scale (GI Hub, 2021). Sectors with distributed, replicable infrastructure needs are particularly well-suited for bundling. These include primary education (school construction and renovation), primary healthcare facilities (regional clinics), water treatment and supply systems, local road sections, waste management, and public housing. According to our interviews Azerbaijan has infrastructure needs in exactly these sectors, particularly in newly resettled areas and rural districts where standalone projects often fall below the financial threshold for PPP consideration.

In order to successfully implement this policy it would consist of the following:

**Central Coordination and Project Identification:** Drawing on international guidance and best practices, the Ministry of Economy's PPP Unit will be responsible for coordinating with sectoral ministries and regional executive authorities to identify small-scale infrastructure needs suitable for bundling. The World Bank and PPIAF (2020) recommend that governments systematically develop project pipelines for SSPPPs through multi-year planning. This planning model helps with the strategic aggregation of projects into coherent investment packages. By following this model, Azerbaijan would initiate an annual process to build and maintain a list of potential bundled projects categorized by type, geographic proximity, and timeline. This clearly structured model would provide more clarity, which is crucial for private sector engagement and the long-term alignment with national infrastructure goals (World Bank & PPIAF, 2020, p. 6).

**Legal Adjustments:** While bundling of projects is not prohibited in Azerbaijan's PPP law, still the operationalization process may require adoption of new guidelines or coordination protocols. For example, it would be necessary to outline how secondary

legislation or Cabinet instruction can formally permit joint procurement procedures and shared contracting responsibilities among multiple parties involved.

**Standardization of Designs and Documentation:** To ensure coherence across multiple assets within a bundled project, standard templates for technical specifications, contract structures, and performance benchmarks will be developed. This will improve internal consistency, reduce coordination complexities, and simplify joint procurement of multi-site packages that is distinct from general fast-track processing mechanisms used for stand-alone SSPPPs.

**Institutional Capacity for Contract Management:** Bundled PPPs require advanced contract oversight skills. Thus, this policy should be implemented in parallel with the proposed capacity-building policy, ensuring that bundled projects are managed by certified and trained officials.

### 3.2. Capacity Building

Due to the recency of PPP legislation in Azerbaijan the know-how for this format of projects is not very high. This is a natural occurrence as the know-how is built with experience which takes time to build-up. This challenge of experience growth is affecting PPPs of all sizes and it is very important to start progressing in the right way to ensure faster and more reliable results. According to our interviews within the public sector, Azerbaijan at the moment has limited capacity of public institutions to manage the complex legal, financial, and operational dimensions of such projects. To address this constraint, a comprehensive and structured technical assistance and capacity-building program for public sector entities is proposed. The focus should be on strengthening the institutional expertise of government bodies involved in the PPPs from start to finish.

Despite the establishment of the PPP law and existing training initiatives noted by Turkan Vusat, the current capacity-building activities in Azerbaijan are simply the beginning of

a long journey (T. Vusat, personal communication, 2025). Government officials have participated in certification programs abroad, and selective training has been provided in legal and financial matters. Turkan Vusat confirmed that employees from the Ministry have begun obtaining internationally recognized certifications, such as the EPMC (European PPP Management Certificate), and that the Ministry actively supports this initiative. However, she also told that only a few employees have completed these programs and that institutional-level adoption has not yet occurred (T. Vusat, personal communication, 2025). Moreover, the capacity-building measures were supported by many international organizations, including the World Bank, EBRD, IFC, AFD, ADB, and the European Investment Bank. These institutions have delivered seminars and technical assistance programs aimed at improving public sector PPP literacy, including sessions on risk-sharing, legal frameworks, procurement, and financial modeling (UNECE, 2024). A limited number of officials had a chance to achieve CP3P (Certified PPP Professional) credentials, but there is currently no official national plan for retaining or expanding this knowledge across ministries (T. Vusat, personal communication, 2025). The problem with these efforts is their fragmented nature which prevents it being a part of a bigger sustainable institutional mechanism. There is no formal system for knowledge retention, institutional know-how storage, or coordination between the ministries. As a result, the effectiveness of these trainings often dissipates as staff rotate out or move into unrelated roles. Interview with the ministry of ecology representative has also outlined the need for more localized, sector-specific training and tools that can be applied directly within their own ministry's PPP context (Q. Hasanova, personal communication, 2025). By taking inspiration from Uzbekistan, the proposed policy seeks to institutionalize capacity building by establishing constant technical trainings in field of PPP, mandatory international certifications, and internal mentorship programs (A. Yoqubov, personal communication, 2025). Uzbekistan's Ministry of Economy and Finance has demonstrated

how a combination of such model with downstream technical support and real-time experience-sharing among public bodies can result in a noticeable success. The Uzbekistan's case ended in a staggering success in form of implementation of over 900 PPP contracts with most of them being low-budget, small-scale, and in socially vital sectors such as education, heating, and water infrastructure (A. Yoqubov, personal communication, 2025).

Recent insights from the Ministry of Ecology further support the need for this approach. Even though the ministry has already submitted two PPP proposals, its representatives admitted that they are still in the early stages of understanding PPP frameworks and project preparation requirements. Despite receiving some external assistance and attending occasional trainings, ministry staff lack a systematic understanding of how to independently develop, procure, and manage PPPs. The representative stressed that most capacity-building efforts so far have been short-term and fragmented, with limited practical application or narrowed down for specific sectors. This proves the urgency to institutionalize the continuous and applied PPP education that not only cover general procedures but also address specific technical, legal, and environmental challenges unique to each sector. Without such tailored support, even proactive ministries remain unable to fully leverage small-scale PPP tools, especially in priority areas like sustainable waste management, eco-tourism infrastructure, or biodiversity restoration (Q. Hasanova, personal communication, 2025).

In order to successfully replicate and adapt this to Azerbaijan's context, the capacity building program would consist of the following:

**Mandatory Certification Programs:** Establish a mandatory requirement for key senior PPP personnel in government to have proper qualifications. The key personnel can be classified as workers who are involved in project screening, procurement, and contract management. These employees would be forced to obtain international certifications such

as the APMG Certified PPP Professional (CP3P) or the EBRD's EPMC program in order to match the knowledge requirements of their positions. These certifications would ensure that public employees have a common technical language and meet international standards for PPP planning and implementation (APMG International, 2022).

**Technical Mentorship and Embedded Advisors:** Create an internal system to deploy embedded technical advisors within ministries and agencies implementing SSPPPs. These advisors that are to be contracted through donor-supported technical assistance programs would mentor project teams through real-time project cycles and help institutionalize best practices.

**International Knowledge Exchange:** Launch formal partnerships with countries like Uzbekistan, Georgia, and Kazakhstan, where similar institutional environments exist. These partnerships would allow for annual and semi-annual site visits and regular forums with open discussion programs. Such arrangement allows for two-way communication between Azerbaijani officials participating in PPPs and neighbours who already have dealt with similar difficulties.

### 3.3. Fast-Track Method

This policy alternative proposes the creation of a fast-track approval mechanism within Azerbaijan's existing PPP framework to help ease the process of proposing and completing SSPPPs (J. Agayeva, personal communication, 2025). Under the current legislative system PPP proposals no matter the scope or budget are obligated to follow the same standardized multi-step procedure outlined in the Rules on Implementation of PPP Projects (2023). These procedures consist of such steps as the submission of preliminary concepts, detailed feasibility assessments, inter-agency coordination, review by the Ministry of Economy as the Authorized Body, and ends with the Cabinet-level

decision-making (PPP Framework Azerbaijan, 2024). While these steps are reasonable, as they play an essential part in ensuring that transparency and accountability mechanisms are in place, they also carry an involuntary negative consequence: a significant procedural burden imposed on smaller-scale projects with limited budgets and simpler risk profiles.

The proposed fast-track mechanism works as a simplified pathway for PPP projects that fall below a specified financial threshold, such as the 30 million AZN minimum currently embedded in the legislation (Rules on Implementation of PPP Projects, 2023). It is important to not bypass the approval system altogether, and thus the main idea is built around the mechanism restructuring the existing requirements to be more considerate of the project size. It would apply to sectors where low-cost but high-impact projects are common such as local education, municipal waste, rural healthcare, and housing services. Keeping the mechanism more flexible allows for more variety in private public partnership.

This accelerated process would include three core features. First feature is the establishment of strict administrative timelines for each approval phase to prevent delays and allow for better planning by both public and private actors. Secondly, it would mandate the use of standardized documentation formats. The documentation would consist of pre-approved templates for project proposals, risk matrices, and model PPP contracts, which are already permitted under Article 4.2 of the PPP Rules (Rules on Implementation of PPP Projects, 2023). Third feature includes delegation of a dedicated facilitation team operating within the Ministry of Economy's PPP unit. The team would be responsible for overseeing and guiding small-scale project proponents through the required steps and help with ensuring that they adhere to minimum legal and technical requirements.

In addition to the mentioned features, this mechanism does not require any major changes in legislation. Under existing legal provisions, the Ministry of Economy has the authority

to issue methodological guidelines and approve project templates (PPP Framework Azerbaijan, 2024). These provisions create space for implementing differentiated procedures for certain project categories through secondary legal instruments or ministerial decrees, without altering the primary law (Law on Public-Private Partnership No. 691-VIQ).

The concept for this mechanism is partially inspired by South Korea's experience with its Build-Transfer-Lease (BTL) PPP model. South Korea introduced a fast-track approach for small- and mid-scale PPPs, particularly in sectors such as education and public housing, combining time-bound approvals with standardized contracts and centralized project support. This allowed the country to implement hundreds of infrastructure projects with greater efficiency, without removing oversight or transparency safeguards (KDI, 2017; World Bank, 2017). Even though the legal and institutional contexts are different, some of the structural aspects like having centralized PPP oversight and legal flexibility for templates provide a foundation that is suitable for adapting similar system.

The fast-track model would keep the essential aspects of existing model such as fiscal analysis, risk allocation, and contract transparency, but adjust the depth and format of these elements in proportion to the project's scope. While maintaining registration within the national PPP pipeline, eligible projects would follow a condensed evaluation and approval sequence, enabling quicker turnaround and lower transaction costs for both parties.

This alternative is not replacing but rather adding to Azerbaijani PPP system by offering procedural flexibility and a realistic entry chance for smaller projects. It is specifically designed to address the practical limitations reported by Azerbaijan's PPP Unit, including the repeated abandonment of smaller projects that could not meet the full procedural requirements, despite their social relevance (T. Vusat, personal communication, 2025).

## Chapter 4. Policy Evaluations

### 4.1. Bundling of Projects

#### **Effectiveness**

Bundling directly addresses the 30 million AZN project threshold barrier by aggregating smaller initiatives into legally compliant, larger-scale PPP packages. This enables many low-cost but socially important projects especially in rural and resettled areas to qualify for private sector participation. International examples demonstrate the effectiveness of bundling in PPPs like the Pennsylvania's Rapid Bridge Replacement project, which managed to successfully deliver 558 bundled bridges in less than half the typical project delivery time, while also achieving a 20% cost reduction. Moreover, the successful conduction of the Queensland Schools PPP is a practical example of bundling methodology helping projects that were considered to be of insufficient scale individually to benefit from private sector delivery and lifecycle maintenance. This approach demonstrated how bundling can enhance project viability, reduce fragmentation, and promote consistent service delivery (GI Hub, 2021). These examples demonstrate how bundling turns individually unviable projects into viable PPPs, attracting private sector participation in sectors that would otherwise be excluded. In the Azerbaijani context, this approach is particularly promising for unlocking SSPPP investment in sectors where individual proposals fall short of the legal threshold, usually projects outside of construction sector.

Moreover, bundling helps the government deliver coordinated infrastructure projects in sectors where different needs are closely connected, improving efficiency and overall impact. The Ministry of Ecology stated that in newly resettled areas like Karabakh, housing development is not feasible without parallel investments in sewage and waste

management systems (Q. Hasanova, personal communication, 2025). TABIB likewise emphasized that physical health facilities are ineffective without trained personnel to operate them (A. Maharramova, personal communication, 2025). This insight supports the argument for bundling projects with aligned functions — for example, pairing clinic construction with training facilities or medical staff accommodations.

### **Efficiency**

Bundled PPPs achieve economies of scale by sharing procurement and transaction costs, standardizing designs, and consolidating timelines. This is especially important when considering that Azerbaijan has many potential small projects that are undermined due to budget size. Global practice indicates that such small-scale projects tend to have disproportionately high transaction costs, which can be mitigating by bundling can mitigate by streamlining procurement (World Bank & PPIAF, 2020) While the structuring of bundled contracts is complex, the long-term administrative and financial savings justify the initial effort. Having standardization in the bundling process, gives the stakeholders involved in the project better understanding of timelines and implementation efficiency.

### **Feasibility**

Bundling is feasible under Azerbaijan’s current PPP legal framework, which does not restrict multi-asset projects. The Ministry of Economy’s PPP Unit can coordinate this with minimal legal changes. At most, there would be a need for new methodological guidelines. Experience from around the world and World Bank-supported projects shows that bundling can start on a small scale, by grouping together similar projects into small clusters. With donor support and pilot initiatives, Azerbaijan can demonstrate bundling success without major structural reform.

## **Equity**

A significant number of rural infrastructure projects at the moment are being excluded from PPP support due to budget thresholds. This in return is creating a potential risk of having unequal development opportunities. Bundling helps address this issue by providing equal access to PPP mechanisms for small sized projects that would otherwise be out of reach. Resettled regions as well as rural areas of Azerbaijan, where many projects might fall short of the financial threshold, stand to benefit from this approach. The policy ensures broader participation in national infrastructure investment and helps reduce spatial inequality in service provision. However, it is not ideal as some sectors are more attractive and thus get higher number of different or similar project proposals, allowing for easier bundling, while others less popular ones might struggle to find enough projects to achieve 30 million AZN mark.

## **Flexibility**

Bundling as an action is modular in its nature, which means that projects have a lot of options in terms of being grouped into one package. Projects can be grouped by sector (e.g., health), location (e.g., a district), or service type (e.g., sanitation). This variety in bundling opportunities allows policymakers to tailor bundles to market interest, development needs, or stakeholders' priorities. As national priorities change, bundled PPP packages can be redesigned or expanded accordingly.

## **4.2. Capacity Building**

### **Effectiveness**

This policy offers a direct and focused solution to a real threat of potential institutional weakness in the form of lack of public sector expertise in PPP implementation. While Azerbaijan has done several capacity-building activities, including international certifications like CP3P and EPMC, they have been limited in their effect due to lack of

institutional anchoring (T. Vusat, personal communication, 2025). By turning the training into a formalized, monitored, and multi-channel program, the policy significantly improves the state's ability to prepare, tender, and manage SSPPPs in future. Drawing on Uzbekistan's example of successfully implementing over 900 PPP projects following comprehensive training, Azerbaijan could reasonably expect a substantial improvement in SSPPP volume and quality.

### **Efficiency**

Research highlights that institutional training programs not only strengthen administrative readiness but also reduce long-term reliance on external technical consultants, thereby lowering transaction costs and implementation delays (World Bank & PPIAF, 2020, p. 6). When compared to the alternative, which is over-reliance on external consultants, this approach is cost-effective in the long run. The cost of establishing a training hub and sponsoring public servants for international certification is outweighed by the recurring benefits: stronger project designs, fewer implementation failures, and reduced delays.

While the implementation of newly acquired skills and knowledge from these trainings may take time to fully translate into project outcomes, the primary efficiency gain lies in setting the right institutional tone and foundational capabilities (World Bank & PPIAF, 2020, p. 8). Establishing a shared technical language, common frameworks, and procedural familiarity will significantly reduce transaction costs and preparation delays in the long term. By training the staff early, ministries will be able to process more SSPPPs with better quality, less risk of failure, and faster turnaround which has potential of yielding cumulative efficiency gains over time. Thus, although the benefits may not be immediate, the structured training program represents a long-term investment in administrative productivity.

## **Equity**

One of the main advantages of this policy is its emphasis on inclusivity. SSPPPs are typically needed around underserved and lower-income regions, yet these areas often have the least capacity to work in PPP format. By institutionalizing training and providing support across both central and regional authorities, the policy ensures that all both urban and rural communities can benefit from infrastructure and service delivery through PPPs. Targeted support for regional governments is especially critical for inclusive infrastructure development, given their limited capacity and visibility in the PPP ecosystem (World Bank & PPIAF, 2020, p. 5). The Ministry of Ecology's experience shows that even engaged ministries have difficulties unless empowered with localized, practical tools (Q. Hasanova, personal communication, 2025).

## **Feasibility**

This policy demonstrates a high degree of feasibility based on several different levels. Firstly, it is quite feasible on Azerbaijan's existing legal and institutional framework. Azerbaijan has already dedicated a PPP Unit within the Ministry of Economy, which is an important pillar. Furthermore, this PPP Unit has shown the desire and active pursuit of growth through capacity-building, which is evident by their efforts in sending employees to obtain CP3P and EPMC certifications (T. Vusat, personal communication, 2025). In addition to that, the presence of multilateral support through institutions such as the World Bank, EBRD, and ADB creates an enabling environment for technical assistance and knowledge exchange. Donor-funded technical assistance programs have successfully enabled countries to initiate PPP pipelines without placing immediate fiscal pressure on domestic budgets (World Bank & PPIAF, 2020, pp. 3–4).

It is important to note that Azerbaijan has expressed interest in enhancing its PPP-related training capacity with the help of international institutions. This was noted in official documentation during the 8th UNECE International PPP Forum and suggests that there

is strong potential for donor institutions to contribute to the initial implementation costs of such programs (UNECE, 2024). This would allow the state to initiate the program with lower fiscal pressure while building internal capacity for long-term sustainability. Resistance to change, inter-ministerial coordination challenges, or limited institutional follow-through may emerge as risks. However, these can be mitigated by taking things slowly and applying a phased approach, political backing, and the use of internal advisors during the initial rollout. The program's modular design further increases its feasibility by allowing adjustments in scope, pace, focus according to sectoral readiness and opportunities to learn from experiences of earlier modules.

### **Flexibility**

The modular design of this policy is giving a lot of space of changes during implementation process. Such design isn't just good for teaching step by step, it's beneficial to fully control the process of implementing the policy. Moreover, having the information broken down into parts allows the training curricula to be adapted to specific needs of each sector, while the advisory pool ensures that ministries receive tailored support. As the PPP market evolves, new modules on blended finance, green PPPs, and digital infrastructure can be incorporated. Feedback loops built into monitoring mechanisms will enable periodic adjustments.

## **4.3. Fast-Track Method**

### **Effectiveness**

The proposed fast-track mechanism is designed to address the blind spot of Azerbaijan's current PPP system, which applies the same complex approval process to all projects regardless of size. This singular strict approach creates procedural bottlenecks that discourage people in Azerbaijan from pursuing smaller projects, which tend to be in socially important sectors such as education, rural healthcare, and municipal services. By

introducing a simplified approval route for projects below a defined financial threshold, the fast-track model aims to reduce delays and administrative burdens while preserving transparency and oversight.

The effectiveness of such a mechanism is well supported by international examples. South Korea's Build-Transfer-Lease (BTL) model was launched in 2005 and provided a similar sped-up process for small and mid-sized infrastructure projects. According to the Asian Development Bank (2014), over 400 BTL projects were implemented. These smaller scale projects were mainly related to sectors like education, housing, and environmental services, significantly expanding the reach of public-private cooperation. The sectors mentioned in Korean example, tightly converge with the ones mentioned throughout our interviews related to SSPPP in Azerbaijan. This further proves viability of relying on this method, as these socially important sectors are usually left behind due to their smaller scale. Moreover, the Azerbaijani mechanism has similarities with the Korean one. For example, they both propose the use of standardized documents and timelines to facilitate faster and more predictable approvals. This approach is likely to yield a tangible increase in the number and completion rate of SSPPPs, especially in regions that are underserved under the current system.

### **Feasibility**

The feasibility of implementing a fast-track approval mechanism for small-scale public-private partnerships (SSPPPs) in Azerbaijan is well supported by the country's legal framework and administrative direction. The Law on Public-Private Partnership (Law No. 691-VIQ, 2022) grants the Ministry of Economy the authority to establish participation methods, issue procedural guidance, and approve standard documentation templates. The authority that was granted to the Ministry over PPPs, allows application of differentiated approval mechanisms through secondary regulations without needing to amend the

primary law (Law No. 691-VIQ, 2022). This is extremely beneficial as the suggested fast track method falls under such mechanisms, proving to be a hassle-free policy alternative. Additionally, Azerbaijan's PPP infrastructure is actively being modernized. According to a UNECE stakeholder presentation, the Ministry has engaged in PPP capacity-building and framework development in cooperation with international actors, including the European Bank for Reconstruction and Development (UNECE, 2024). Although there is no available detailed data on the Ministry's internal staffing or the volume of PPP applications processed, the fact that the Ministry is participating in such international technical assistance programs suggests institutional willingness and partial readiness for procedural innovation. Moreover, the policy is aligned with Azerbaijan's national priorities, such as promoting regional development, improving infrastructure, and enhancing private sector participation goals all of which were repeatedly mentioned in government strategy documents and economic road maps (UNECE, 2024). This alignment strengthens the likelihood of political and policy support for a reform that aims to deal with the bottleneck of SSPPP in a form of procedural burden.

### **Efficiency**

From an efficiency standpoint, the fast-track mechanism offers decent benefits. One of the main criticisms of traditional PPP procedures is their high transaction cost, which can be disproportionate when applied to smaller-scale projects. The need for comprehensive feasibility studies, legal review, and multi-stage ministerial approval creates delays and inflates project development costs. For local investors, these requirements can make participation seem as an impractical endeavor.

The fast-track model addresses this challenge by utilizing standardized feasibility assessments, risk matrixes, and contract templates, which reduce potential costs by

decreasing the need for extensive consultations and legal services. Furthermore, strict administrative timelines will cause faster decision-making. In South Korea's BTL system, similar reforms enabled small infrastructure projects to be processed and delivered much faster than traditional PPPs, without putting at risk the public interest safeguards (ADB, 2014). By maintaining essential approval steps but scaling their complexity according to the size and risk of the project, Azerbaijan's proposed model ensures that efficiency gains are not made at the expense of accountability. In South Korea's BTL system, similar reforms enabled small infrastructure projects to be processed and delivered much faster than traditional PPPs, without putting at risk the public interest safeguards (ADB, 2014). By maintaining essential approval steps but scaling their complexity according to the size and risk of the project, Azerbaijan's proposed model ensures that efficiency gains are not made at the expense of accountability.

### **Equity**

One of the most promising features of the suggested mechanism is its potential to improve equity on both sides: the participation and benefit distribution. Global practice indicates that large firms with access to legal and financial expertise dominate the PPP space, while SMEs and regional governments are often excluded (Lobina, 2022). By lowering transaction costs and simplifying entry requirements, the new mechanism could broaden PPP access and set a start to an inclusive economic development of Azerbaijan. This reform is especially important in the context of Azerbaijan's goal to improve infrastructure in underdeveloped regions (World Bank, 2021). SSPPPs in rural healthcare, waste management, or education could be developed more swiftly under a fast-track process, directly addressing the urban-rural service gap. Furthermore, the mechanism's focus on transparency and equal treatment of applicants ensures that equity is preserved in implementation. By lowering barriers of entry the fast-track model widens the range of

stakeholders that participate and benefit. These changes are in line with Azerbaijan’s broader socio-economic inclusion agenda.

### **Flexibility**

One of the key ideas behind the proposed mechanism is the adaptability, making it suitable for application across a range of sectors and administrative contexts. By allowing the Ministry of Economy to issue sector-specific templates and eligibility thresholds, the model can be tailored to the needs of different project types, from small healthcare centers to regional waste management systems. This modular approach ensures the longevity of PPP mechanism in Azerbaijan as it stops it from becoming overly rigid by limiting it to a narrow set of high budget sectors.

Scalability is also a strong aspect. There more projects are done through utilizing this method the more developed it will be. There is a real potential to expand volume and complexity of projects due to gained experience. This mirrors South Korea’s trajectory, where the BTL framework started with education and public housing projects and later expanded into other infrastructure domains. Azerbaijan’s version can follow a similar path, starting with pilot sectors and gradually extending its scope based on evolving priorities.

<b>Criterion</b>	<b>Policy 1 (Bundling of projects)</b>	<b>Policy 2 (Structured Capacity Building)</b>	<b>Policy 3 (Fast Track Approval)</b>
<b>Effectiveness</b>	High: removes threshold barrier directly; quick impact	Moderate: depends on staff capacity-building over time	Moderate: speeds process but depends on uptake

<b>Efficiency</b>	High: economies of scale reduce unit transaction costs	Moderate: lowers costs long term, but training is costly	Moderate: reduces admin costs through standardization
<b>Equity</b>	Moderate: enables rural/remote projects to qualify	Moderate-high: training reaches regions	Moderate: transparency safeguards needed to ensure equity
<b>Feasibility</b>	High: allowed under current law; requires only guidance	Moderate-high: institutionally supported, needs funding	Moderate: requires political will and internal support
<b>Flexibility</b>	High: easily adjusted by region, sector, or size	High: modular curriculum adaptable	Moderate: depends on central authority's responsiveness
<b>Total Score</b>	23/25	19/25	15/25

## Chapter 5. Conclusion and Recommendations

After conducting a thorough analysis of the three proposed policy options to address the challenges of SSPPPs in Azerbaijan, this paper concludes that Bundling of Projects is the most impactful course of action within the defined policy problem. The decision was made based on the five-criteria framework, which is a staple in international policy analysis and is actively supported by Young and Quinn. In the end, bundling emerges as the only option that delivers high performance across all 5 dimensions.

### 5.1. Why Bundling is the Preferred Option:

Bundling is the only policy alternative, which directly solves the central legal and operational constraint preventing SSPPPs from moving forward: the 30 million AZN

threshold under current law. By aggregating multiple small projects into a single PPP contract, this approach legally qualifies what would otherwise be ineligible infrastructure proposals. In doing so, it opens a whole new specter of opportunities which can lead to immediate progress without needing any legislative interventions, only supplementary guidelines issued by the Ministry of Economy. Moreover, it provides practical benefits such as economies of scale. Bundling allows for cutting costs through shared procurement, design standardization, and streamlined timelines. It is also inherently equitable, allowing rural, post-conflict, and underserved regions of Azerbaijan to participate in PPPs by combining their smaller projects into large packages that overachieve the existing threshold. Moreover, it is highly feasible, as it does not require any legislative amendments. Lastly, the policy is flexible as bundles can be done in any way shape of form and can be adapted by sector, region, or timeframe, depending on realities of the needed projects in the country. The Ministry of Finance has highlighted that public-private partnerships provide an option for easing fiscal pressure by distributing financial responsibilities with the private sector (E. Jamalov, personal communication, 2025). This supports the argument that bundling smaller projects into well-structured, service-aligned packages is not only administratively feasible but also fiscally sustainable. This approach also strengthens operational readiness by aligning infrastructure delivery with personnel needs, a necessity emphasized by healthcare institutions such as TABIB (A. Maharramova, personal communication, 2025).

## 5.2. Why Other Policies Are Supportive but not Fundamental:

While Policy 2 "Structured Capacity-Building" and Policy 3 "Fast-Track Approval" each present executable results, they lack the immediate impact and are marked as supportive policies rather than problem solvers. Capacity-Building is essential for long-term institutional sustainability, but its benefits depend on future application by trained staff. On its own, It does not unlock any blocked projects, making it more of a later stage

intervention to strengthen internal capacity after the Bundling mechanism has generated initial traction. Fast-Track Approval on the other hand is more viable as it can reduce procedural delays for small projects. However, its success depends on many factors that create unnecessary potential risks. Without qualified staff and clear project pipelines, fast-track mechanisms risk being underutilized or misapplied.

### 5.3. Recommended Implementation Sequence:

Given the interdependence of the three policies, a phased approach is recommended:

**Phase 1** – Launch Bundling Immediately showcase the utility of this policy by starting a Bundling program for 5–7 small infrastructure projects (e.g., clinics, water systems) in developing regions such as Karabakh. Develop ministerial guidelines and procurement templates using the legal authority already in place. This kind of sequencing reflects the lessons learned from Uzbekistan, where small-scale PPPs were piloted first to build public trust and demonstrate feasibility before broader systemic reforms were introduced (A. Yoqubov, personal communication, 2025)

**Phase 2** – Initiate Capacity-Building Once Bundling has become a work in progress, ministry of economy should design and roll out a targeted training program using these bundled projects as practical learning cases. This ensures that public sector employees involved in PPPs will gain the valuable hands-on experience with the new form of projects.

**Phase 3** – Introduce Fast-Track Approval: With trained staff and an option of bundling projects, the last step to create a sturdy and reliable PPP mechanism which is SSPPPs friendly, is to develop a fast-track pathway for eligible SSPPPs. This should be

accompanied by transparency protocols and clearly defined project selection criteria to maintain public trust.

#### 5.4. Final Recommendation

The Bundling policy not only addresses the most critical barrier stopping popularization of SSPPPs in Azerbaijan but also lays a concrete foundation upon which the other two policies can be built. It stimulates project delivery in the short term while creating real-world examples that improve institutional learning. For these reasons, Bundling should be adopted as the immediate first step, followed by capacity-building, and finally consolidates by introducing the fast-track model. This layout demonstrates a coherent and phased policy strategy that puts immediate changes as the priority, while leaving space for scalable development.

## Appendix A

### Interview Questions for Private/ Public Sector

1. What benefits do you see PPPs bringing to the private sector in Azerbaijan?
2. Has your organization participated in or considered participating in any PPP projects? If yes, could you describe your role and experience?
3. Do you believe that the private sector is adequately informed and trained to engage in complex PPP contracts and long-term obligations? Why or why not?
4. What kind of support or capacity-building do you think the private sector in Azerbaijan needs to become more effective PPP partners?
5. What do you see as the main challenges for private sector companies entering PPPs in Azerbaijan?
6. Do you think the current regulatory and legal framework in Azerbaijan is favorable for private sector participation in PPPs? Why or why not?
7. Have any concerns stopped private sector from engaging in PPP projects?
8. Do you believe the new legislation and recent institutional efforts (e.g., PPP law and competition rules) have improved the environment for private sector involvement?
9. How involved do you feel the private sector is in shaping the current and future PPP agenda in Azerbaijan?
10. What would make PPPs more attractive for private companies like yours?
11. If you could suggest one reform or improvement to enhance private sector participation in PPPs, what would it be?

## Appendix B

### **Interview Questions for International PPP expert**

1. Can you briefly describe the current state of PPP development in Uzbekistan?
2. What can you say about SSPPPs in Uzbekistan, are they in demand? (please elaborate your answer)
3. In your view, what were the main factors that allowed Uzbekistan to advance its PPP agenda so effectively?
4. Were there any specific legal or institutional reforms that played an important role in your PPP journey?
5. What were the main challenges or resistance points you faced in developing PPPs from both the public and private sectors?
6. How did you address the lack of PPP-specific knowledge or capacity within government institutions or local private firms?
7. What would be your top recommendations for accelerating PPP success?

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