

Current Situation and Development Directions of Public–Private Partnership in the Tourism Sector of Azerbaijan

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ABSTRACT

This study provides a comprehensive analysis of the role, current status, and developmental prospects of public–private partnership (PPP) in Azerbaijan’s tourism sector. As tourism gains increased importance for the country’s economic diversification and international positioning, PPP emerges as a key mechanism for leveraging private investment, innovation, and expertise to complement public sector initiatives. Drawing on statistical data from the State Statistical Committee of Azerbaijan, legislative documents, and international reports from organizations such as the World Bank, UNWTO, OECD, and UNDP, this article evaluates how PPP models have been implemented in Azerbaijan’s tourism sector, their effectiveness in fostering infrastructure development, enhancing service quality, and promoting sustainable tourism in line with global standards.

The paper systematically explores the legislative and institutional frameworks that underpin PPPs in Azerbaijan, compares them with international best practices, and identifies gaps and challenges—such as limited sector-specific guidelines, project diversification, and sustainability assessment. Through a detailed comparative analysis presented in tabular form, the article examines the strengths and weaknesses of current PPP practices in the Azerbaijani tourism industry. Key findings indicate that, while foundational progress has been made—especially in the development of tourism infrastructure and heritage conservation—there is significant potential for further enhancement, including expanding PPPs into digital tourism, event management, and marketing, as well as strengthening regulatory clarity and monitoring mechanisms. The study concludes with policy recommendations aimed at fostering a more dynamic, inclusive, and sustainable tourism environment.

Keywords: Public–private partnership; tourism; Azerbaijan; sustainable development; tourism policy; PPP models; investment

1. INTRODUCTION

Tourism has become one of the fastest-growing sectors in Azerbaijan, playing a vital role in economic diversification, job creation, and the enhancement of the country’s international image. As Azerbaijan seeks to reduce its dependence on oil revenues and foster a more sustainable and inclusive economy, the development of the tourism industry has been identified as a strategic priority in various national

policy documents and development programs (Bababayli et al., 2025). The country's rich cultural heritage, diverse natural landscapes, and improving infrastructure offer significant potential for attracting both regional and international tourists.

However, the successful realization of this potential requires substantial investment, innovation, and expertise—challenges that are often difficult to address by the public sector alone. In this context, public–private partnership (PPP) has emerged as a critical tool for mobilizing additional resources, sharing risks, and enhancing the quality and competitiveness of tourism services (Abdullayev & Alakbarov, 2025). PPP allows for a collaborative approach, bringing together the government's regulatory and planning capacity and the private sector's efficiency, capital, and customer-oriented mindset.

In recent years, Azerbaijan has made concerted efforts to improve the legislative and institutional frameworks governing PPPs, particularly within the tourism sector. The adoption of the Law on Tourism, the establishment of the State Tourism Agency, and the launch of several PPP-based projects demonstrate the government's commitment to fostering greater private sector engagement. Despite these advancements, the current PPP models are predominantly focused on infrastructure, and there is a need to diversify into areas such as digital tourism, event organization, and destination marketing.

This article provides a thorough analysis of the current state of PPP in Azerbaijan's tourism sector, explores international best practices, and identifies future directions for development. The paper is structured as follows: Section 2 outlines the methodology; Section 3 presents the literature review; Section 4 discusses the findings with a comparative analysis table; and Section 5 offers the conclusion and policy recommendations.

2. METHODOLOGY

This research adopts a multi-method approach to provide a comprehensive analysis of public–private partnership within Azerbaijan's tourism sector, integrating both qualitative and quantitative research techniques.

Quantitative data were collected from official statistics published by the State Statistical Committee of Azerbaijan (2024), including annual reports, sector-specific tourism indicators, investment figures, and data on the performance of PPP projects. The statistical analysis provides a foundation for understanding current tourism trends, the scale of PPP involvement, and measurable outcomes in terms of visitor numbers, revenue, and infrastructure development.

A qualitative review was conducted using legislative documents, policy papers, and official reports, including the Law on Tourism of Azerbaijan (2022), strategic documents issued by the State Tourism Agency, and relevant government decrees. To place Azerbaijan's experience in a broader context, the research also included a comparative literature review drawing on international reports from the World Bank (2019), UNWTO (2020), OECD (2020), and UNDP (2018) to identify global trends, best practices, and successful PPP models in the tourism sector.

The study employs a comparative analysis framework presented in tabular form to systematically evaluate the strengths, weaknesses, challenges, and opportunities associated with PPP implementation in Azerbaijan's tourism sector. This comprehensive methodology allows for an in-depth understanding of the dynamic interplay between public and private actors and provides a solid foundation for policy recommendations.

3. LITERATURE REVIEW

3.1 Global Perspectives on PPPs in Tourism

Globally, PPPs are viewed as collaborative arrangements whereby the public and private sectors share resources, risks, and rewards to achieve mutually beneficial outcomes (Yescombe, 2018). According to the World Bank Public–Private Partnerships Reference Guide (2019), successful PPPs are characterized by clearly defined legal frameworks, transparent procurement processes, and robust risk-sharing mechanisms. These partnerships are especially relevant in tourism, where the development of hotels, resorts, transport infrastructure, and destination management often requires private sector efficiency and public sector oversight (Abdullayev et al., 2024).

The UNWTO (2020) highlights the critical role of PPPs in advancing the Sustainable Development Goals, particularly Goal 8 (Decent Work and Economic Growth) and Goal 12 (Responsible Consumption and Production), emphasizing that PPPs stimulate investment, foster innovation, and drive inclusive growth by involving local communities and promoting sustainable tourism practices. The UNDP (2018) underscores the contribution of PPPs to inclusive economic development by facilitating access to finance and capacity-building for small and medium-sized enterprises in the tourism sector.

The OECD Tourism Trends and Policies report (2020) discusses the global variability in PPP implementation, noting that countries with clear policy guidance, sector-specific legislation, and dedicated PPP units tend to achieve better outcomes. The OECD observes that diversification of PPP projects—beyond infrastructure to include marketing, events, and digital transformation—is key to building resilient and competitive tourism sectors (Abdullayev, 2025).

3.2 Azerbaijan’s Legislative and Institutional Framework

In Azerbaijan, the significance of PPPs in tourism development has been increasingly acknowledged in strategic documents and legal acts. The Law on Tourism (Azerbaijan Republic, 2022) provides a legal foundation for PPPs, outlining the roles and responsibilities of public authorities and private entities. The State Tourism Agency’s Tourism Report (2022) details recent PPP projects, including the modernization of tourism infrastructure, heritage site restoration, and the development of new tourism products. The State Statistical Committee’s data (2024) demonstrates a steady increase in private investment and collaborative projects in tourism.

Despite these advances, the literature identifies several challenges. Regulatory specificity for tourism-related PPPs remains limited, which may hinder the implementation of diverse and innovative partnership models. Institutional capacity and experience in designing, managing, and monitoring PPP projects are still developing. Academic research and international case studies suggest that successful PPPs depend not only on a supportive legal environment but also on effective project preparation, stakeholder engagement, and ongoing evaluation (Yescombe, 2018; World Bank, 2019).

4. DISCUSSION

4.1 Effectiveness and Impact of PPPs in Azerbaijan’s Tourism

The adoption of PPP frameworks in Azerbaijan has resulted in several successful projects, particularly in the development and restoration of hospitality infrastructure, cultural sites, and recreational facilities (Azerbaijan Republic State Tourism Agency, 2022). These initiatives have contributed to the overall improvement of the tourism environment and have increased the sector’s appeal to both domestic and international investors. The involvement of private partners has also introduced contemporary management practices, advanced technology, and customer-oriented innovations that have elevated the quality of tourism services.

Notwithstanding these achievements, the sector’s reliance on PPPs remains largely concentrated in infrastructure-related projects. International experience, as highlighted in OECD (2020) and UNWTO (2020) reports, suggests that a broader application of PPPs—encompassing digital transformation, destination marketing, event management, and the creation of thematic tourism clusters—can generate more resilient and diversified tourism economies. Therefore, Azerbaijan’s tourism policy should prioritize expanding the scope of PPPs beyond traditional infrastructure to include more innovative and flexible partnership models.

4.2 Regulatory and Institutional Challenges

Despite the existence of a legal foundation for PPPs in tourism (Azerbaijan Republic, 2022), the current regulatory framework often lacks the specificity and clarity needed to address sector-specific requirements and complexities. The absence of detailed guidelines and standardized procedures for PPP design, procurement, and implementation can lead to inconsistencies, delays, and uncertainty for both public authorities and private investors. Strengthening the regulatory environment by introducing tourism-specific PPP guidelines, standardized contracts, and transparent risk-sharing mechanisms would provide greater confidence and predictability for stakeholders.

Institutional capacity also remains a critical challenge. Many public organizations involved in tourism PPPs lack specialized knowledge and experience in structuring, negotiating, and managing complex partnership arrangements. Capacity-building initiatives—including targeted training programs, technical assistance, and the establishment of dedicated PPP units within tourism agencies—are essential for improving project preparation, implementation, and oversight.

4.3 Sustainability and Inclusive Development

Sustainability is another key consideration in the ongoing evolution of PPPs in Azerbaijan’s tourism sector. While several projects have focused on the preservation of cultural and natural heritage, the integration of environmental and social sustainability criteria into PPP planning and evaluation is not yet systematic. Drawing on best practices from UNWTO (2020) and UNDP (2018), Azerbaijan should adopt comprehensive monitoring and evaluation frameworks to assess the long-term impacts of PPP projects on local communities, ecosystems, and the broader economy. Inclusive approaches—such as involving local communities, supporting small and medium-sized enterprises, and prioritizing eco-friendly initiatives—will contribute to more equitable and sustainable sectoral growth.

4.4 Comparative Analysis: PPP in Azerbaijan’s Tourism Sector

Table 1 provides a systematic overview of the strengths, challenges, and opportunities associated with PPP implementation in Azerbaijan’s tourism sector across five key dimensions.

Table 1: Comparative Analysis of PPP Implementation in Azerbaijan’s Tourism Sector

Dimension	Strengths	Challenges	Opportunities
Legislative Framework	Law on Tourism (2022) provides legal basis for PPPs; defined roles for public and private actors	Lack of tourism-specific PPP guidelines; limited standardization of contracts and procedures	Develop sector-specific regulations; introduce standardized PPP templates and transparent risk-sharing mechanisms
Infrastructure Development	Successful hotel, heritage site, and recreational facility projects; improved tourism environment	Overconcentration on physical infrastructure; limited diversity of PPP project types	Expand PPPs to digital tourism, marketing, events, and eco-tourism clusters

Institutional Capacity	State Tourism Agency established; growing experience with PPP implementation	Limited specialized knowledge for structuring and managing complex PPP arrangements	Establish dedicated PPP units; provide targeted training and technical assistance
Sustainability & Inclusion	Heritage conservation projects; growing awareness of sustainable tourism goals	No systematic integration of environmental and social criteria in PPP evaluation	Adopt comprehensive monitoring frameworks aligned with UNWTO SDG goals; involve local communities
Investment Climate	Improving governance; government commitment to attracting private investment	Regulatory uncertainty; limited incentives for innovative or smaller-scale PPP projects	Strengthen transparency, introduce investment incentives, foster cross-sectoral collaboration

Source: Compiled by the author based on Azerbaijan Republic State Tourism Agency (2022), OECD (2020), UNWTO (2020), and World Bank (2019).

4.5 Opportunities for Future Development

The current phase of PPP development in Azerbaijan’s tourism sector offers several promising opportunities. Global trends indicate a rising demand for experiential, digital, and sustainable tourism products, which can be addressed through innovative PPP arrangements. By fostering collaborations in smart tourism technologies, green infrastructure, cultural festivals, and international marketing campaigns, Azerbaijan can enhance its competitiveness and resilience in a rapidly changing global tourism landscape (Ibrahimov et al., 2024).

Furthermore, the ongoing improvement of the investment climate, facilitated by stable governance, transparent policies, and incentives for foreign and local investors, will be crucial in attracting new PPP projects. Cross-sectoral partnerships—linking tourism with transport, agriculture, and creative industries—can create synergies, generate added value, and accelerate regional development.

5. CONCLUSION

The development of the tourism sector is a strategic priority for Azerbaijan as the country seeks to diversify its economy and strengthen its position as a prominent destination in the region. This study has shown that Azerbaijan has made noteworthy progress in establishing the legislative and institutional foundations for PPPs in tourism. The adoption of the Law on Tourism and the active involvement of the State Tourism Agency have paved the way for significant investments and have led to the successful implementation of several infrastructure and heritage-related projects.

However, the analysis reveals that the current application of PPPs in Azerbaijan’s tourism sector remains largely confined to traditional infrastructure projects. There is substantial untapped potential for extending PPPs into new domains, such as digital tourism, destination marketing, cultural events, eco-tourism, and the development of thematic tourism clusters. Embracing a more holistic and diversified approach will not only broaden the sector’s economic impact but also increase its resilience to external shocks and changing market dynamics.

To maximize the benefits of PPPs, Azerbaijan must continue to refine its regulatory and institutional frameworks by developing sector-specific PPP guidelines, establishing transparent procurement and risk-sharing mechanisms, and creating standardized contractual templates. Strengthening institutional capacity through targeted training and the creation of specialized PPP units is also critical. Sustainability and inclusivity must be embedded in all stages of PPP planning and implementation, and fostering a

favorable investment climate through stable governance and attractive incentives will be essential for attracting domestic and international private partners.

In conclusion, while Azerbaijan has laid a solid foundation for the integration of PPPs into its tourism sector, there is a clear need for ongoing reform, innovation, and capacity-building. Key policy recommendations are as follows:

- Expand the scope of PPPs beyond infrastructure to include digital, marketing, and cultural projects.
- Strengthen the regulatory framework with sector-specific guidelines and standardized processes.
- Enhance institutional capacity through training and the establishment of specialized PPP units.
- Embed sustainability and inclusivity into PPP planning, implementation, and evaluation.
- Create an enabling investment environment through transparency, incentives, and cross-sectoral collaboration.

By embracing international best practices and responding proactively to emerging trends and challenges, Azerbaijan can create a vibrant, competitive, and sustainable tourism industry that contributes significantly to national development and the well-being of its people.

DECLARATIONS

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