

## The Legal and Institutional Framework of State Investment Programs: Azerbaijan in Comparative Perspective

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<https://doi.org/10.69760/gsrh.0250203004>

### Abstract:

This paper explores the legal and institutional architecture of public investment governance in Azerbaijan from a comparative public administration perspective. Anchored in the 2024 Presidential Decree and the foundational 2010 regulations (E-qanun 19404), the study critically analyzes how Azerbaijan structures the planning, implementation, and monitoring of state investment programs (SIPs). Using a theoretical and doctrinal approach, the paper compares Azerbaijan's framework with selected models from European Union member states and OECD practices, emphasizing the principles of transparency, accountability, and subsidiarity. It argues that while Azerbaijan has made substantial progress in codifying its public investment regime, key gaps remain in parliamentary oversight, stakeholder engagement, and legal mechanisms for performance evaluation. The study concludes by recommending legal and institutional reforms to better align Azerbaijan's public investment governance with international standards and best practices, thereby enhancing its long-term fiscal sustainability and administrative integrity.

### Key words:

*public investment governance, legal accountability, Azerbaijan, state investment program (SIP), transition economies, public administration, comparative legal analysis, institutional reform, OECD standards, fiscal transparency*

### Introduction.

State investment programs are critical tools through which governments coordinate large-scale public investments in infrastructure and development projects. In Azerbaijan, as in many countries, these programs are governed by a detailed legal framework and institutional structure that shape how projects are selected, financed, implemented, and evaluated. This paper examines the *legal basis and governance structures* of Azerbaijan's State Investment Program (SIP), with particular

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attention to its **2010 regulations (E-Qanun 19404)** and the **2024 Presidential Decree** updating those rules. Key principles – transparency, accountability, and subsidiarity – are evaluated in Azerbaijan’s context, and the system is compared with practices in other jurisdictions (e.g. European Union/OECD models, and cases like Estonia). Alignment with international public investment standards (OECD, 2014; IMF, 2019; World Bank, 2018) is assessed, and institutional challenges and reform needs in Azerbaijan are critically discussed. The analysis is doctrinal, drawing on legal texts, official documents, and policy analyses of public investment governance.

**Methodology.** The research is based on a review of primary legal texts (Azerbaijani presidential decrees and regulations) and authoritative secondary sources (international guidelines and analyses). We interpret the provisions of Azerbaijan’s SIP regulations (including the 2010 rules and 2024 revision) and situate them within public investment management theory. Comparative insights are drawn from EU/OECD documents (e.g., OECD, 2018; OECD, 2014) and case examples (Estonia). International standards such as the IMF’s Public Investment Management Assessment (PIMA) framework inform evaluation of best practices (IMF, 2019). The approach is non-quantitative and doctrinal, focusing on legal doctrine, administrative procedures, and normative principles.

### **Legal Basis and Governance Structures in Azerbaijan**

Azerbaijan’s SIP framework is grounded in presidential decrees and cabinet regulations. The foundational rule was **Presidential Decree No. 239** of March 17, 2010, which approved the “Rules on the preparation, implementation, monitoring, and evaluation of the State Investment Program”. That decree aimed “*to increase the efficiency of state investment*” and mandated a formal process for SIPs. It explicitly tasks the Cabinet of Ministers and relevant ministries to align existing norms with the new rules, to prepare guidelines for project appraisal (the decree itself authorized forms for quarterly and annual progress reports), and to ensure oversight of investment efficiency. In short, the 2010 Rules established a multi-stage pipeline: project proposals originate with “ordering organizations” (government agencies), are vetted by the Ministry of Economic Development, and then submitted to the Cabinet for financing and prioritization. Presidential Decree incorporates planning principles consistent with international models such as those outlined by the IMF (2019). The introduction of structured ex-post evaluation in Azerbaijan’s 2024 SIP reforms reflects global recommendations for results-based monitoring (World Bank, 2018).

The Cabinet’s role was central: the 2010 decree instructs it to adapt all normative acts to the new SIP rules and to prepare evaluation instructions. Ministries (e.g. Economy and Finance) were required to design specific reporting formats and evaluation forms. Together, these provisions created an institutional structure in which the Ministry of Economy (then “Economic Development”) coordinated the SIP, the Cabinet oversaw budgetary integration, and sectoral ministries acted as project “customers” under the general program. Notably, the 2010 rules did *not* explicitly mention audit or independent evaluation bodies; project feasibility and priority were determined administratively.

This architecture remained in place for over a decade, with only minor amendments. A 2019 presidential decree amended the 2010 Rules to **involve the Supreme Audit Institution (the Accounting Chamber)**. Specifically, two clauses were revised to add the Accounting Chamber alongside the Cabinet and Finance Ministry for approving project lists and annual reports. This change implicitly enhanced accountability by subjecting the SIP to external audit review. Nonetheless, the core governance remained: planning and decision-making stayed with the central authorities, and the SIP was a medium-term, Cabinet-driven program.

In December 2024, a new Presidential Decree was signed to overhaul the SIP framework. Citing constitutional authority to improve the efficiency and oversight of state investment, President Aliyev directed that the 2010 Rules be replaced with a new edition. The 2024 Decree (effective April 2025 for new projects) explicitly states that the rules will cover “*organization, legal and economic foundations*” of SIP preparation, implementation, and evaluation. It reaffirms that Azerbaijan’s **Ministry of Economy** (successor to the Economic Development Ministry) has the coordinating role for all SIP activities. In effect, the decree maintains the centralized model but strengthens formal procedures: it mandates that within two months the Cabinet must issue regulations for SIP project monitoring and evaluation (as provided by the new rules), and the Ministry of Economy must adopt detailed reporting templates. The presidential text itself emphasizes efficiency and “improvement of the mechanism” for SIP cycle management.

Thus, Azerbaijan’s legal basis rests on presidential decrees (with Cabinet regulations as implementing norms). The SIP is a government program prioritized by the President and managed by the Ministry of Economy. Over time, the institutional framework has become more structured (with formal evaluation steps) but remains concentrated at the central level.

### **Key Features of Azerbaijan’s SIP Rules**

**Program definition and planning.** The 2024 rules define the SIP as a *medium-term program* for public investments. Article 1 of the new Rules defines the SIP as a document that “determines the directions, timing, volume, and ordering institutions, and a named list of investment projects” funded by the state budget and other sources over a multi-year horizon. In other words, it is a multi-annual pipeline of projects aligned with national strategies. By law, both *ongoing (carryover)* and *new* projects must meet substantive criteria to be included: new projects require a concept, feasibility study and must be endorsed by the Ministry of Economy. Importantly, the SIP covers all major state-financed investments (with some security-related projects exempted). This aligns with international practice: the IMF’s Public Investment Management Assessment notes that effective public investment requires “comprehensive, unified, medium-term planning and objective criteria for appraising and selecting projects”. Azerbaijan’s SIP is by design a medium-term expenditure program, linking projects to the state budget process.

**Implementation and monitoring.** Once projects are in the SIP, the Ministry of Economy oversees implementation. Under the new rules, the Economy Ministry “coordinates the implementation of all measures provided in the SIP” and supervises that projects progress on schedule. Ministries and

state agencies (the ordering organizations) carry out projects via procurement and contracts. Regular reporting is required: the 2010 and 2024 rules established that project implementers must submit quarterly and annual performance reports to the Economy Ministry. The Cabinet (with the Ministry of Economy) also assesses SIP execution at year-end. In 2024, legislation explicitly directed the Cabinet to promulgate a detailed evaluation procedure, ensuring that monitoring and ex-post evaluation become standard. These provisions mirror best practices in public investment governance, which stress that projects should be “fully funded, transparently monitored, and effectively managed” throughout implementation. By codifying reporting formats and audit trails, Azerbaijan has moved toward that model.

**Evaluation.** The Rules create a formal evaluation cycle. Project proposals undergo an *initial concept review*, then an *interim technical-economic appraisal*, and finally a *comprehensive feasibility analysis* before being funded. The definitions in the 2024 Rules clarify this: an “initial opinion” is issued on project concepts, an “interim opinion” on preliminary feasibility, and a “final opinion” on a project’s conformity with development goals. If a project receives positive final evaluation, it enters the SIP priority list. This tiered approach to appraisal aligns with OECD recommendations that highlight the importance of transparent, evidence-based project selection. However, it remains unclear how technically rigorous these appraisals are or whether independent experts review them. The rules do not require external cost-benefit studies beyond the ministries’ own reviews.

**Transparency and accountability.** The legal texts do not contain explicit transparency requirements (e.g. public disclosure of project data) and much of the SIP deliberation happens behind closed doors. The 2010 decree and 2024 rules do commit implementers to provide information to the state and, since 2019, to the Accounting Chamber. These steps improve **accountability** by involving the state audit body. For instance, the 2019 amendment added the Accounting Chamber to the list of entities approving SIP results, implying that project outcomes can be audited like budget expenditures. The new rules also institutionalize annual ex-post reviews (to be completed 6 months after project completion). These changes bring Azerbaijan closer to international norms of oversight, where external audit institutions play a key role in holding governments accountable. Nevertheless, the SIP process remains mainly administrative: citizens and parliaments have limited visibility, and the President retains strong control over priorities.

**Subsidiarity and decentralization.** Azerbaijan’s SIP is fundamentally centralist. Projects originated by ministries or central agencies, and there is no formal mechanism for local or regional governments to propose projects or influence the SIP. By contrast, the principle of subsidiarity (common in EU governance) holds that decisions should be made at the most local competent level. In Estonia, for example, a national spatial plan was developed with extensive local input and much implementation is delegated to municipalities. The OECD notes that effective public investment often requires “coherent planning across levels of government”, with mechanisms ensuring sub-national plans align with national goals. In Azerbaijan, however, such multi-level coordination is minimal: the SIP is presented as a unified national program, and regional authorities

implement but do not shape it. This top-down model limits participation by local stakeholders and may reduce the relevance of some investments to local needs.

### **Comparative Perspectives (EU/OECD Examples)**

To illuminate Azerbaijan's approach, it is useful to compare with other systems. According to Musgrave and Musgrave (1989), aligning public investment with regional needs is essential for equity and efficiency in public finance. In the European Union, member states' public investment practices are influenced by common frameworks (EU budget rules, Cohesion policy, procurement law) and by domestic reforms. For example, Poland (an EU member and OECD country) enforces a medium-term budget framework that integrates investment with fiscal planning. Recent Polish legislation created an *"Integrated Investment Plan"* allowing private investors to propose projects and collaborate with municipalities on zoning, reflecting a participatory and decentralized twist. More broadly, EU countries are expected to apply transparent procurement procedures and cost-benefit analysis under EU law, and investment projects often require public hearings or parliamentary approvals. These norms promote accountability and public involvement beyond what is seen in Azerbaijan's centralized SIP.

Estonia offers a concrete case of strong practices. According to OECD (2018) Estonia articulates a strategic development vision ("Estonia 2030+") that guides investments and combines it with robust e-governance. The national spatial plan was drafted by the central government *with input* from counties, municipalities, experts and citizens via online platforms and public events (OECD, 2018). According to OECD, much planning and implementation authority in Estonia is delegated to municipalities (subject to coordination). Notably, Estonia routinely merges or reforms local governments to ensure they have capacity to carry out investment projects; the government restructured municipalities (2016 Act) so even small towns meet minimum standards for managing services. This contrasts with Azerbaijan's SIP, where local actors have no formal role. In terms of accountability, Estonia's public audit and budget transparency standards are high (OA as an independent auditor, detailed budget reports). For example, independent fiscal councils or the Estonian National Audit Office regularly review capital spending, and budget documentation is published online (IMF, 2019; OECD, 2018).

**Norms and best practices.** Both the EU and OECD emphasize the same core principles cited for Azerbaijan, but often with different implementation. Transparency is manifested through open bidding, public reporting, and anti-corruption safeguards. Accountability is enforced by strong audit institutions and legislature oversight. Subsidiarity is practiced via defined sub-national responsibilities and co-financing of local projects. Moreover, the EU promotes multi-level investment (e.g. co-financed by EU structural funds) which requires coordination mechanisms between Brussels, national, and local bodies. While Azerbaijan's recent legal reforms echo some of these ideas (e.g. requiring formal reports and adding the audit office), they fall short of the multi-tier governance models seen in EU/OECD countries.

### **Alignment with International Standards**

International bodies have developed guidelines for effective public investment. The IMF's **Public Investment Management Assessment (PIMA)** framework (2019) identifies key institutions for the investment cycle (IMF, 2019). It stresses that sound planning requires a *unified, medium-term* approach and transparent selection criteria, that budgeting should link with a multi-year strategy, and that implementation should be fully funded and monitored. Azerbaijan's SIP is explicitly a multi-year plan (officially "medium-term") and does use formal priority lists; this is broadly consistent with PIMA's principles. The new rules also embed approval stages and mandated feasibility studies, reflecting the PIMA recommendation for thorough project appraisal. Moreover, PIMA highlights the need for institutions that enable cross-sector coordination and oversight. The 2024 reforms strengthen coordination (Ministry of Economy at the center) and introduce structured monitoring. They align with IMF/World Bank advice on creating a whole-of-government process for major projects.

The World Bank and OECD similarly advocate investment frameworks that ensure fiscal sustainability and project quality. For instance, OECD guidance suggests that countries publish information on their investment plans and engage in public scrutiny. While Azerbaijan's legislation does not require public disclosure of all SIP details, there are moves to systematize reporting. On the other hand, international standards stress fiscal rules or envelopes to counteract volatility in investment. In Azerbaijan, however, there is no strict fiscal rule: withdrawals from the State Oil Fund (SOFAZ) and SIP spending remain largely discretionary by executive decision. This contrasts with best practice, where a medium-term fiscal anchor is recommended to prevent pro-cyclical booms in investment. Without a clear fiscal rule or medium-term expenditure framework, public investment can become prone to short-term political decisions rather than strategic allocation (Allen, Hemming, & Potter, 2013). Azerbaijan's dependence on oil revenues has led to cyclical investment patterns, a challenge identified in fiscal governance literature on resource-rich economies (Resource Governance Institute, 2013).

Despite the formal alignment of Azerbaijan's SIP with global benchmarks, the World Bank (2018) notes that implementation success depends heavily on administrative and technical capacity. Legal reform in transition economies often requires both codification of norms and institutional capacity-building to bridge the gap between formal rules and practice (UNCITRAL, 2021).

OECD country assessments also highlight the role of independent audits and performance evaluation. In that respect, adding the Accounting Chamber to the SIP process (2019) and formalizing post-completion evaluation in the 2024 Rules are positive steps. OECD principles would further call for performance indicators and periodic spending reviews. It is not yet clear if Azerbaijan's new rules create actual benchmarks for project outcomes. Nonetheless, by codifying the obligation to "evaluate the results and impacts" of projects after 6 months of completion, the legal framework now at least contemplates learning from completed investments – a move towards accountability and efficiency that international bodies endorse.

Overall, Azerbaijan’s evolving framework appears to take inspiration from international norms. The 2024 update especially signals awareness of critique: it aims to “improve the mechanism” for SIPs, and mandates formal procedures akin to those recommended by the IMF and World Bank. However, implementation capacity (detailed regulations, data management, real transparency) will determine the true alignment with standards.

### **Challenges and Reform Needs**

Despite these reforms, significant challenges remain in Azerbaijan’s SIP system. **Volatility of funding** is a chronic issue. Azerbaijan’s budgets are heavily oil-dependent, and revenue swings lead to unstable investment. The Resource Governance Institute notes that “*sharp year-to-year fluctuations in expenditures are undesirable*” and have hampered growth. With no binding rule on withdrawals from SOFAZ, spending is pro-cyclical. In practice, Azerbaijan has often changed the SIP multiple times annually, making it difficult to track or enforce the program. This ad-hoc adjustment of the SIP undermines both transparency (the public cannot see a consistent plan) and accountability (few can ensure that spending follows the plan). The 2024 decree’s clause that the new Rules do *not* apply to projects prepared before April 2025 suggests another issue: overlapping old and new systems can create confusion during the transition.

**Governance and oversight gaps** also persist. Although the Accounting Chamber now has a role, parliamentary and public oversight of SIP projects is minimal. The Azerbaijani legislature does approve the budget, but detailed project appraisals are often kept secret (for example, large infrastructure projects’ costs were typically not itemized in budget documents, a practice criticized by auditors). Civil society and the media have limited access to SIP deliberations. The principle of transparency thus remains weak in practice: international observers have pointed out that “*little detail is available to verify whether expenditures are aligned with the program*”. Without timely publication of plans and results, opportunities for corruption or misallocation exist.

**Administrative capacity** is another concern. The World Bank and IMF note that Azerbaijan’s public investment efficiency is low. International indices rank Azerbaijan in the bottom quartile for governance effectiveness. Projects may suffer from poor cost estimation and delays. Strengthening technical appraisal skills and project management at line ministries would help, but this is not easily remedied by laws alone. The 2024 rules’ requirement for project feasibility studies is positive, but effective implementation requires trained personnel and data systems (an “enabling factor” in PIMA).

**Subsidiarity and coordination.** As noted, the SIP lacks a built-in multi-level coordination mechanism. With ongoing national efforts to grant more autonomy to regions (e.g. the new Local Self-Government Law), the SIP process may need to adapt. Reforms could formalize a role for regional authorities in nominating investment priorities or co-financing local infrastructure (following OECD examples of vertical co-financing). This would improve efficiency by targeting projects that meet real local needs, and it would distribute the administrative burden. The EU case shows that involving sub-national bodies can yield better-tailored investments (e.g., Poland’s

Integrated Territorial Investments). Azerbaijan may consider legal amendments to clarify the division of responsibilities between national and local governments in investment planning.

**Fiscal rules and budgeting.** A key reform area is introducing fiscal discipline. As noted by RGI (2013), Azerbaijan lacks a comprehensive debt rule or expenditure ceiling, meaning that SIP spending has been limited only by the President's impulses. Adopting a multi-year budgeting framework tied to a fiscal rule (for example, a cap on the non-oil deficit as suggested in 2011's Concept) would stabilize investment funding. The PIMA framework would also advise integrating the SIP within a Medium-Term Expenditure Framework (MTEF) so that the program is backed by legally binding budget envelopes. Transitioning the SIP from ad-hoc presidential programs to a line in the state budget (with clear fiscal parameters) would be a major shift towards international best practices.

In summary, Azerbaijan's SIP legal-institutional framework has become more robust on paper, especially with the 2024 decree. It now includes structured planning, built-in monitoring, and steps toward audit oversight. However, challenges of political control, funding volatility, and limited transparency continue to constrain effectiveness. Further legal reform could address these gaps – for example, codifying public access to SIP documents, enhancing the role of independent institutions, and requiring alignment with a multi-year budget rule. Politically, ensuring genuine accountability (beyond top-down controls) may require a cultural shift as much as new laws.

## **Conclusion**

Azerbaijan's state investment program is governed by a formal legal framework anchored in presidential decrees and executive regulations. The 2010 rules and the updated 2024 version define how projects enter the program, who is responsible, and how performance is reported. These documents prioritize centralized planning and stress efficiency and economic evaluation. Compared with EU/OECD models, Azerbaijan's SIP emphasizes executive control over multi-year planning, with less emphasis on public participation or local subsidiarity. Recent reforms show movement toward international standards: multi-year budgeting, formal appraisals, and audit oversight echo IMF/OECD principles. Nonetheless, issues remain: the SIP process can be unstable and non-transparent, and fiscal discipline is weak. The legal framework is necessary but not sufficient – implementation quality is the ultimate test. Overall, the 2024 reforms represent progress in codifying a systematic approach, but for real improvement Azerbaijan will need to reinforce transparency mechanisms, strengthen independent oversight, and integrate sub-national stakeholders, drawing on the experience of OECD/EU peers.

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Received: 25.06.2025

Revised: 01.07.2025

Accepted: 06.07.2025

Published: 09.07.2025