REPUBLIC OF AZERBAIJAN

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ABSTRACT
of the dissertation for the degree of Doctor of Philosophy

IMPROVING THE BANK LENDING POLICY FOR SMALL AND MEDIUM-SIZED BUSINESSES IN AZERBAIJAN

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GENERAL CHARACTERISTICS OF THE STUDY

Relevance of the topic and degree of its development. In the modern era, the development of the national economy is shaped by numerous factors. These factors determine a wide range of parameters across different sectors of the economy, thereby ensuring its sustainable, stable and continuous development.

International experience demonstrates that the role and share of small and medium-sized enterprises (SMEs) in shaping the principal macroeconomic indicators of national economies are steadily increasing. This is reflected, first and foremost, in the share of small enterprises in gross domestic product (GDP), employment and the total number of enterprises. The improvement in these indicators results, on the one hand, from stronger state support for SMEs and, on the other, from increased economic activity among these entities.

Against the backdrop of globalisation and integration in the world economy, the development of small and medium-sized entrepreneurship has become a major priority in countries worldwide. Alongside other factors, it plays an important role in ensuring dynamic economic development by creating new jobs, facilitating the adoption of modern management methods consistent with international standards and new technologies, promoting the production of goods required by domestic and foreign markets, continuously expanding the scope of import and export operations, and increasing employment, among other outcomes.

A number of important measures are required to foster the development of small and medium-sized businesses. Each of these measures contributes to further improving the sector and aligning it with international requirements. Such measures include establishing an appropriate legal and regulatory framework for SME activities; applying the instruments necessary for effective regulation; providing state support through various mechanisms; creating favourable conditions for free competition; facilitating SMEs' access to foreign markets; and ensuring their access to diverse financial resources.

Among these measures, one of particular importance, which contributes to the rapid development of the sector and the expansion

of business activity, is the improvement of bank lending policy for small and medium-sized businesses. Improvement in this area constitutes an integral component of the development strategy of both banks and the sector concerned and ultimately contributes to the national economy by influencing economic dynamics.

Ensuring small and medium-sized businesses' access to financial resources through bank lending has always been a focus of government attention. Given the importance of this sector to the economy, facilitating and expanding access to credit—as one of the key components of financial inclusion—necessitates the implementation of various measures in this area.

International experience suggests that, since high interest rates on bank loans—the principal source of financing for micro, small and medium-sized enterprises (MSMEs)—are accompanied by less stringent collateral requirements, one of the key objectives in developing this sector is to improve bank lending to MSMEs. Since such improvement is a major instrument of financial inclusion, it has become one of the highest priorities of the country's economic policy.

Bank lending to small and medium-sized enterprises is highly significant in several respects. The most important of these include strengthening competition in the economic environment, enabling SMEs to adapt to changing conditions, and improving the efficiency of their operations.

One of the important priorities of the economic policy currently pursued in Azerbaijan is the development of entrepreneurship. The principal issues in this regard are reflected in official policy documents, including the Strategic Road Map for the Development of Financial Services in the Republic of Azerbaijan, adopted on 6 December 2016, and the national priorities entitled Azerbaijan 2030: National Priorities for Socio-Economic Development, adopted on 2 February 2021, as well as other documents. The issues addressed in these documents that are relevant to the present study include further improving, accelerating and expanding the business environment; enhancing the entrepreneurial climate; increasing transparency in this area; and achieving effective outcomes by strengthening financial inclusion.

Numerous studies and publications address the development of small and medium-sized businesses, their expansion across economic branches and sectors, and the facilitation of financial inclusion in this area. Azerbaijani scholars who have conducted research in these fields include Z.A. Samadzadeh, A. Nuriyeva, A.A. Alakbarov, A.Sh. Shakaraliyev, Z.F. Mammadov, N.M. Imanov, U. Aliyev, A.P. Babayev, M.A. Ahmadov, M.M. Bagirov, E.M. Sadigov, J. Purhani, V. Novruzov, K. Manafov, S. Mammadov, A. Babayev, R. Bashirov and others. Their studies address the general characteristics of the business environment, the principles governing its organisation, the management and regulation of the entrepreneurial market, and the resolution of related insurance, audit and other issues.

Among foreign scholars, the works of Russian researchers B.I. Rybin, T.N. Beloglazova, O.J. Panova, V.N. Kolesnikov, O. Zhukov, O.T. Balabanov, L.N. Krasavina, B. Gerashchenko and L.P. Krolivetskaya, as well as researchers from other countries, including V.N. Alferov, J. Morgan, Y. Haltivanker, J. Leutao, D. Pereira, N. Opzen, E.A. Permik, E.V. Vasholomidze, D. Sisak and A. Gonçalves, contain discussions of various aspects of entrepreneurship development and its financing through credit. Relevant issues are also addressed in the works of classical economists A. Smith and D. Ricardo.

Our research indicates that, although the scholars mentioned above have examined many issues related to the subject of this study, the problem of improving bank lending policy for small and medium-sized businesses has not been considered comprehensively. We therefore believe that this issue requires further investigation in the manner proposed herein.

Research object and subject. The research object is the operating environment of small and medium-sized enterprises in the Republic of Azerbaijan and the process of bank lending to these entities.

The subject of the research comprises the various aspects of the methods, rules, methodological approaches and practical techniques used to characterise the existing environment for small and medium-sized businesses in the country and its development trends, as well as to analyse the bank lending mechanism for this business segment,

assess its current state and evaluate the findings.

Aim and objectives of the research. The principal aim of the dissertation is to identify the key directions for improving bank lending policy in the small and medium-sized business sector of the Republic of Azerbaijan. To achieve this aim, the following objectives have been set:

- to examine the theoretical and methodological issues involved in the formation of credit policy;
- to investigate the principal parameters of the bank lending system;
- to study international experience in lending to small and medium-sized businesses;
- to analyse and assess the current state of bank lending to small and medium-sized businesses;
- to examine the possibilities of applying international experience in bank lending to small and medium-sized enterprises in Azerbaijan;
- to identify areas for improving bank lending to small and medium-sized enterprises.

The research methodology is based on contemporary analytical tools and systematic approaches applied in the literature devoted to bank lending issues in the small and medium-sized business sector. The study employs statistical analysis, logical generalisation, grouping and comparative assessment methods.

The theoretical and methodological foundations of the research comprise studies by scholars on improving bank lending policy for small and medium-sized businesses; decrees and orders signed by the President of the Republic of Azerbaijan; laws and resolutions adopted by the Milli Majlis of the Republic of Azerbaijan; regulatory documents, rules and legal acts established by the Central Bank concerning bank lending; and other relevant materials.

The information base of the research consists of the annual reports of the Central Bank of Azerbaijan, data from the State Statistics Committee, materials of the Entrepreneurship Development Fund under the Ministry of Economy, materials of the Small and Medium Business Development Agency, and annual reports of

individual banks.

Principal propositions submitted for defence:

- the theoretical foundations of credit policy and the principal parameters of the credit system;
- international experience in lending to small and medium-sized businesses;
- an analysis of the current state of bank lending to small and medium-sized businesses and of the legal and regulatory framework governing this activity;
- an analysis of the current state of bank lending to small and medium-sized enterprises;
- priority areas for lending to small and medium-sized enterprises.

Scientific novelty of the research. The scientific novelty of the research conducted by the author is as follows:

- the theoretical foundations of credit policy, its principal characteristics and the key parameters of the credit system have been examined; its conceptual foundations have been systematised; conclusions have been drawn and relevant proposals have been formulated;
- international experience in lending to small and medium-sized businesses has been studied, and the possibilities of applying positive digital trends in Azerbaijan—such as ESG standards, green banking and bank–FinTech cooperation—have been identified;
- the legal and regulatory framework for bank lending to small and medium-sized businesses has been examined, its level of compliance has been assessed, and three legislative amendments have been proposed to improve the framework;
- the current state of bank lending to small and medium-sized enterprises in Azerbaijan has been analysed, and proposals for improving the process have been developed through a comparison of numerous indicators;
- based on the analyses and research conducted, priority areas for bank lending to small and medium-sized businesses in Azerbaijan have been identified, and proposals for further improvement have been put forward.

Theoretical and practical significance of the research. The theoretical and methodological propositions substantiated through extensive analysis and comparison, together with the proposals and recommendations put forward, may be widely used in developing functional and targeted programmes, recommendations and forecasts required to promote, regulate and manage the development of small and medium-sized businesses in Azerbaijan.

The research findings are also of practical significance. They may be widely used in the research activities of scholars and specialists, in the training of economics professionals, and in the educational process.

Approbation and implementation of the research. The principal scientific and theoretical propositions, findings and proposals of the dissertation have been reflected in eight articles (three published abroad) and five conference abstracts (two published abroad) in reputable journals and conference proceedings recommended by the Higher Attestation Commission under the President of the Republic of Azerbaijan. The conference contributions include "The Economic Cost of Credit Policy" (Baku, 2019), "Priority Areas for Lending to Small and Medium-Sized Businesses in Banks" (Nakhchivan, 2020), "Heydar Aliyev and the Development of Small and Medium-Sized Entrepreneurship in Azerbaijan" (Baku, 2023), "The Role of Credit Policy in Banking" (Moscow, 2025), and "Comprehensive Analysis of the Banking Credit Policy: Strategic Framework and Optimization in the Case of Azerbaijan" (Sofia, 2026). During the research, the author also published the following articles: "Credit Policy and Its Role in Bank Operations" (Baku, 2018), "Parameters of Small and Medium-Sized Businesses in the Economies of Developed Countries" (Nakhchivan, 2018), "Directions for Protection against Risks in Lending to Small and Medium-Sized Businesses" (Baku, 2019), "The Current State of Bank Lending to Small and Medium-Sized Enterprises in Azerbaijan" (Moscow, 2020), "The Methodology of Bank Credit Policy in the Small and Medium-Sized Business Sector in Azerbaijan" (Nakhchivan, 2020), "Social Factors of Innovative Economic Development in the Republic of Azerbaijan" (Cienfuegos, 2024), "Problems of SMEs' Access to Financial

Resources (The Case of Azerbaijan)" (Baku, 2025), and "Of the Green Economy to Impact Socio-Economic Well-Being in the Republic of Azerbaijan" (Cienfuegos, 2025).

Name of the institution where the dissertation was completed. Western Caspian University.

Total length of the dissertation in characters, with the length of each structural section indicated separately. The dissertation comprises an introduction, three chapters, a conclusion and a list of references. The total length is 286,128 characters, comprising the introduction (12,271 characters), Chapter I (62,351 characters), Chapter II (95,248 characters), Chapter III (57,022 characters), the conclusion (16,202 characters) and the list of references (21,262 characters). Excluding tables, figures and the list of references, the dissertation contains 243,094 characters.

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MAIN CONTENT OF THE RESEARCH

Chapter I of the dissertation, entitled "Theoretical and Methodological Issues of Bank Credit Policy", examines the theoretical foundations of credit policy formation, the key parameters of the lending system and international experience in lending to small and medium-sized businesses.

International experience shows that banks are financial institutions established for the purpose of generating profit. To achieve this objective, they conduct numerous active operations. Credit operations occupy a significant place among such operations and are carried out through credit policy.As evidenced by the practices of the World Bank, the analysis and interpretation of the socio-economic significance of credit are based on several key theoretical approaches. First, credit, by its nature and characteristics, has a substantial impact on the socio-economic system as a whole. Second, credit is neutral in relation to the existing economic system. Third, credit flows constitute a key element in ensuring the continuous provision of investment required by the economy. Fourth, credit flows ensure the sustained and stable development of the socio-economic system. Fifth, credit flows are an instrument for ensuring dynamic economic development.

The implementation of credit policy across all branches and sectors of the economy reflects the principal provisions of existing credit theories. The provisions of credit policy should be applied extensively to ensure the rapid, dynamic and expansive development of small and medium-sized enterprises, which currently play a decisive role in national economies.

One of the most important characteristics of the lending system is that every value created through credit simultaneously represents both a commodity and money. Taking this factor into account, loans granted by banks to economic sectors may be classified, according to their purpose, as capital loans and monetary loans. This is because a certain proportion of loans provided by banks to borrowing economic entities supplies funds to economic circulation for the creation of new material values, while

another proportion is directed towards the redistribution of assets within economic entities and the expansion of production funds.[1]

The research leads to the conclusion that the bank lending system, which forms the basis of the lending system, consists in substance of a combination of strategy and tactics. These two parameters are implemented through the mechanism by which the lending process is carried out (Figure 1).

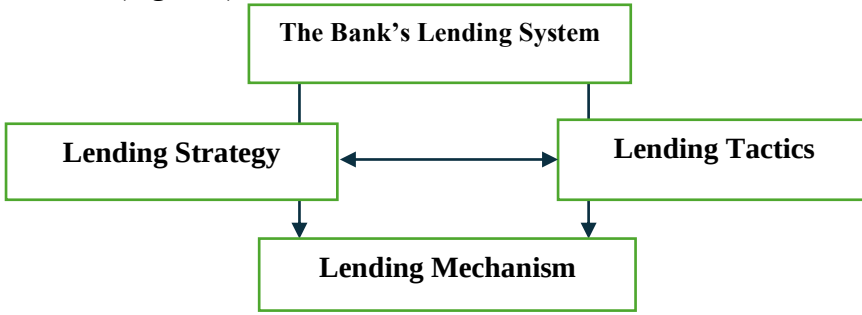


Fig 1. The Lending System in Terms of Its Content[2]

Furthermore, from an organisational perspective, the lending system represents the unity of credit policy and credit technology (Figure 2).

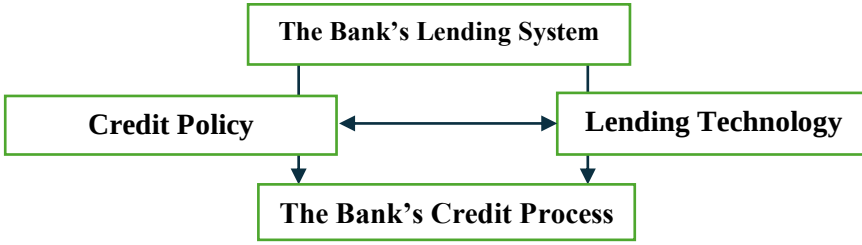


Fig. 2. The Lending System in Terms of Its Organizational Form[3]

[1] *Bağırov V.Y. "Azərbaycanda bazar münasibətlərinin formalaşmasında bank sisteminin rolu mövzusunda 08.00.01 – İqtisadi nəzəriyyə ixtisası üzrə iqtisad elmlər namizədi elmi dərəcəsi almaq üçün təqdim edilmiş dissertasiya, Bakı-2002. 149 s.*

[2] *Əhmədov Munir. "Kredit siyasəti və bazar iqtisadiyyatı şəraitində aqrar bölmənin kreditləşməsinin təkmilləşdirilməsi" mövzusunda 08.00.05 - Xalq təsərrüfatının iqtisadiyyatı və idarə edilməsi (kənd təsərrüfatı) ixtisasında iqtisad üzrə fəlsəfə doktoru elmi dərəcəsi almaq üçün təqdim olunmuş dissertasiya. – səh 46*

[3] *there again*

International experience demonstrates that the credit policies and lending technologies constituting the lending systems of individual banks differ. As a rule, the lending system is formed under the influence of numerous macroeconomic and microeconomic factors.

Based on the research and analysis conducted into the nature, structure and operation of the lending system, it can be concluded that the system performs three key functions: (1) organizational; (2) managerial; and (3) supervisory. By performing these functions, the lending system organises the credit process, manages credit risks and the process as a whole, and monitors the proper and effective management of the process.

A review of international experience in lending to small and medium-sized businesses shows that state support, concessional lending mechanisms, credit guarantees, tax incentives and innovative financing instruments play an important role in developing this sector. Japan's experience is notable for providing SMEs with concessional and long-term loans; Singapore's experience for introducing flexible lending systems and online financing platforms; and the Republic of Korea's experience for credit guarantees, subsidies and innovation-oriented financial support mechanisms. The practices examined demonstrate that effective cooperation between the state and the banking sector, improved access to financial resources for entrepreneurs and reduced credit risks are essential conditions for the sustainable development of small and medium-sized businesses. Adapting these practices to the conditions of Azerbaijan could help improve lending to business entities and increase their economic activity.

Chapter II of the dissertation, entitled "Analysis and Assessment of the Current State of Bank Lending in the Small and Medium-Sized Business Sector", analyses the current state of the legal and regulatory framework for lending to small and medium-sized businesses, the development characteristics of the entrepreneurial environment in Azerbaijan, and the current state of bank lending to SMEs. The strengths and weaknesses, opportunities and threats of the sector are also assessed using SWOT analysis.

One of the most important prerequisites for carrying out operations in any particular area of the economy is the existence of a legal and regulatory framework governing those operations. Such a framework

determines the procedures and standards for implementing each operation.

The principal significance of the legal and regulatory document under review is that it establishes prudential standards and requirements for credit risks arising from banks' lending operations, including large credit exposures. On the basis of these standards and requirements, banks manage emerging risks, minimise their adverse effects and thereby create conditions for maximising profit. In turn, this enables small and medium-sized enterprises, as bank customers and borrowers, to use credit resources as efficiently as possible.

International experience shows that small and medium-sized businesses act as an important driver of sustainable and continuous economic development. Their role in generating the key economic indicators of a country is increasing. These indicators include gross domestic product, employment levels, the number of newly created jobs and tax revenues generated by such businesses. The growing contribution of SMEs to these indicators enables them to make a substantial contribution to the foundation of the overall economic system.

Studies show that micro, small and medium-sized enterprises (MSMEs) accelerate development by fostering economic dynamism in countries worldwide, increasing employment and creating extensive opportunities for the introduction of innovations.[4]

According to international sources, data from the Organisation for Economic Co-operation and Development (OECD) indicate that MSMEs account for 99% of business entities operating in OECD member countries. They provide 60% of employment and 50–60% of gross domestic product.[5]

In accordance with the rules and requirements currently in force in Azerbaijan, a specific environment has developed for micro, small and medium-sized enterprises. Under the criteria applicable before 21

[4] *Alterov V.N., Shakov O.F., Rezmik E.A., Vashalomidve E.V., Yuriyeva A.A. "Economic security of entrepreneurship: Spesifics of management in the context of financial instability" International journal of Recent Technology and Engineering. 8 (3) 2021. P 1396-1401.*

[5] *Keskin H., Gentürk C., Sungur O. The İmportance of SMEs in Devoloping Economies. Second İnternational Symposium on Sustainable Development, June 8-9. 2010, Sarajevo.*

December 2018, there were no micro-level business entities in the country; only small, medium-sized and large enterprises operated. On 21 December 2018, pursuant to Resolution No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan, new classification criteria were adopted, establishing four categories of business entities (Table 1).

Table 1. Classification Criteria for Micro, Small, Medium-Sized and Large Enterprises in the Republic of Azerbaijan

	Category of business entity	Before 21 December 2018		From 21 December 2018	
		Average number of employees (persons)	Annual revenue (AZN)	Average number of employees (persons)	Annual revenue (AZN)
1	Micro-enterprises	-	-	Up to 1-10 persons	Below AZN 200,000
2	Small enterprises	Up to 25 persons	Up to AZN 200,000	Up to 11-50 persons	Above AZN 200,000 and below AZN 3,000,000
3	Medium-sized enterprises	Up to 25-125 persons	From AZN 200,000 to AZN 1,250,000	Up to 51-250 persons	Above AZN 3,000,000 and below AZN 30,000,000
4	Large enterprises	125 persons and above	AZN 1,250,000 and above	More than 250	Above AZN 30,000,000

Source: Compiled by the author on the basis of Resolution No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan dated 21 December 2018.

In line with the aim and objectives of the research, one of the key indicators analysed is the number of active micro, small and medium-sized enterprises during 2020–2024 (Table 2).

Their total number increased year on year by 8.1% in 2020, by 5.99% or 20,109 entities in 2021, by 6.2% or 21,936 entities in 2022, by 2.03% or 7,656 entities in 2023, and by 1.7% or 6,431 entities in 2024.

As is well known, the activities of business entities aimed at supporting innovation, economic growth, dynamism and other positive trends are based on a number of important principles. These principles relate to the establishment of business entities, the management and regulation of their activities, access to financial resources, and the sustainability and

continuity of operations.

Table 2. Dynamics in the Number of Active Micro, Small and Medium-Sized Enterprises in 2020–2024 (units)

№	Enterprise category	2020		2021		2022		2023		2024	
		Enterprise	Change (+/–), %	Enterprise	Change (+/–), %	Enterprise	Change (+/–), %	Enterprise	Change (+/–), %	Enterprise	Change (+/–), %
1	Micro	327400	+5.1	346171	+5.7	366944	+6.0	374269	+2.0	380316	+1.62
2	Small	5746	+11.3	6556	+14.1	7760	+18.4	7926	+2.1	8029	+1.3
3	Medium-sized	2651	+7.9	2879	+8.6	3138	+9.0	3503	+11.63	3584	+2.31
	Total	335797	+8.1	355906	+5.99	377842	+6.2	385698	+2.03	391929	+1.7

Source: Compiled by the author on the basis of materials from the Entrepreneurship Development Fund of the Ministry of Economy of the Republic of Azerbaijan.

They include the principle of targeted accessibility; risk sharing and mitigation; incentives through fiscal measures; sustainable financing; economic alignment and impact; diversification and inclusiveness; integrated support systems; transparency and accountability; and adaptive evolution.

In accordance with the aim and objectives of the research, another indicator requiring analysis is the financing mechanism for business entities operating in the country (Table 3).

Table 3. Financing Mechanism for Operating Business Entities in 2018–2024

№	Parameters	Concessional loan	Equipment loan	Guarantee and interest subsidy mechanism
1	Annual loan interest rate	5%-dən aşağı	9%-dən aşağı	15%-dək
2	Loan amount	5000-10 mln manat	5000-3 mln manat	5 mln manatdan yuxarı
3	Loan term	10 ildən çox	5 ildən çox	7 ildən çox
4	Grace period	Kredit müddətinin yarısından çox	1 ildən çox	3 ildən çox

Note: *The guarantee and interest subsidy mechanism is intended to finance projects to be implemented in the liberated territories.*

Source: Prepared by the author on the basis of reporting data from the Entrepreneurship Development Fund of the Ministry of Economy.

The table shows that the financing mechanism implemented by the Entrepreneurship Development Fund to support the rapid and extensive development of business entities in Azerbaijan covers three main areas: concessional loans, equipment loans, and guarantee and interest subsidy mechanisms. As can be seen, the three financing mechanisms have the same parameters but differ in their respective terms. These parameters comprise the interest rate, loan amount, loan maturity and grace period.

Our research indicates that concessional loans issued by the Entrepreneurship Development Fund in Azerbaijan during 2020–2024 covered the following areas of the economy (Table 4).

Table 4 shows an upward trend in the volume of concessional loans allocated to economic sectors and business entities during 2020–2024.

Table 4.

Distribution by Economic Sector of Concessional Loans Granted by the Entrepreneurship Development Fund of the Ministry of Economy in 2020–2024 (AZN million)

№	Economic sectors	2020		2021		2022		2023		2024	
		Amount	Share, %	Amount	Share, %	Amount	Share,%	Amount	Share, %	Amount	Share, %
1	Agricultural production	57.86	45.6	59.5	45.5	66.2	45.37	90.0	46.4	140.3	53.2
2	Industrial production and processing	47.08	37.1	48.38	37.04	54.77	37.55	71.0	36.78	84.5	32.1
3	Processing of agricultural products	8.2	6.5	8.46	6.47	9.3	6.37	12.3	6.3	14.7	5.6
4	Tourism development	7.2	5.7	7.51	5.75	8.2	5.62	10.7	5.52	12.9	4.9
5	Fisheries and aquaculture development	5.71	4.5	5.89	4.5	6.5	4.45	8.8	4.5	9.6	3.64
6	Development of services	0.8	0.6	0.86	0.6	0.93	0.64	1.0	0.5	1.5	0.57
	Total	126.9	100	130.6	100	145.9	100	193.8	100	263.5	100

Source: Prepared by the author on the basis of materials from the Entrepreneurship Development Fund of the Ministry of Economy of the Republic of Azerbaijan.

In accordance with the aim and objectives of the research, an important indicator to be analysed is the distribution, by category of business entity, of concessional loans granted by the Entrepreneurship Development Fund in Azerbaijan during 2020–2024 (Table 5).

The analysis of Table 5 indicates that, in 2024, micro, small and medium-sized enterprises (MSMEs) accounted for 90.8% of the total loans granted to business entities. Within the structure of these loans, micro-enterprises accounted for 72.36% ((65.7 : 90.8) × 100), small enterprises for 18.61% ((16.9 : 90.8) × 100), and medium-sized enterprises for 9.03% ((8.2 : 90.8) × 100).

Table 5. Distribution of Loans Granted by the Entrepreneurship Development Fund of the Ministry of Economy by Size of Business Entity in 2020–2024 (%)

№	Dimensions of the Economy	2020		2021		2022		2023		2024	
		Share	change (+;-) %	Share	change (+;-) %	Share	change (+;-) %	Share	change (+;-) %	Share	change (+;-) %
1	Micro businesses	12.2	+7.4	48.8	+300	63.6	+30	64.8	+1.9	65.7	+1.4
2	Small businesses	15.5	+8.6	19.3	+24.5	17.4	-10.1	16.9	-3.5	16.9	+0.5
3	Medium-sized businesses	56.5	+14.5	20.0	-64.6	17.3	-13.5	9.4	-45.7	8.2	-12.8
	Total (1+2+3)	84.2	+10.2	88.1	+4.6	98.3	+11.6	91.1	-7.4	90.8	-0.4
4	Large enterprises	15.8	+8.5	11.9	-24.7	1.7	-85.7	8.9	+423.5	9.2	+3.4
	Grand total	100		100		100		100		100	

Source: Prepared by the author on the basis of materials from the Entrepreneurship Development Fund of the Ministry of Economy of the Republic of Azerbaijan.

Another indicator requiring analysis in accordance with the aim and objectives of the research is the dynamics of lending to different categories of active business entities over the period from 1 January 2020 to 1 January 2025 (Table 6).

As shown in Table 6, the total volume of loans granted to business entities declined in 2020–2021 due to the impact of the pandemic, but increased in subsequent years. Specifically, lending rose from AZN 9,031.6 million at the beginning of 2020 to AZN 14,787.2 million at the beginning of 2025, representing an increase of 63.7%. Although large business entities accounted for the largest share of the loan portfolio, the shares of micro, small and medium-sized enterprises changed over the years. Overall, the growth in lending indicates an expansion in the financing of business entities, while changes in the loan structure demonstrate differences in access to financial resources among various business groups.

Table 6. Dynamics of Lending to Active Micro, Small, Medium-Sized and Large Business Entities in 2020–2025 entities

№	Entity categories / Years	Micro		Small		Medium-sized		Large		Total business entities
		Amount (AZN million)	Share in total %	Amount (AZN million)	Share in total %	Amount mln man	Share in total %	Amount mln man	Share in total %	
1	01.01.2020	1808.7	20.03	1002.7	11.1	1396.6	15.5	4823.6	53.37	9031.6
	Change (+/−) (%)	-9.6		-7.6		-3.4		-11.4		-9.5
	Change (+/−) (AZN million)	-192.07		82.47		-49.16		-620.64		-944.34
2	01.01.2021	1896.9	22.37	1097.6	12.9	1493.9	17.62	3989.9	47.11	8478.3
	Change (+/−) (%)	+4.9		+9.5		+7.0		-17.3		-6.13
	Change (+/−) (AZN million)	+88.2		+94.9		+97.3		-833.7		-553.3
3	01.01.2022	1957.74	20.1	1168.80	12.0	1548.66	15.9	5064.8	52.0	9740.0
	Change (+/−) (%)	+3.2		+6.5		+3.67		+26.9		+14.9
	Change (+/−) (AZN million)	+60.84		+71.2		+54.76		+1074.9		+1261.7
4	01.01.2023	2225.3	20.5	1324.33	12.2	1747.67	16.1	5557.8	51.2	10855.1
	Change (+/−) (%)	+13.7		+13.31		+12.8		+9.7		+11.45
	Change (+/−) (AZN million)	+267.56		+155.5		+199.01		+493.0		+1115.1
5	01.01.2024	2629.9	20.8	1585.5	12.6	2149.7	17.0	6251.7	49.6	12616.8
	Change (+/−) (%)	+18.2		+19.7		+23.0		+12.5		+16.23
	Change (+/−) (AZN million)	+404.6		+261.2		+402.03		+693.9		+1761.7
6	01.01.2025	3107.3	21.0	1548.6	10.5	1834.0	12.4	8297.3	56.1	14787.2
	Change (+/−) (%)	+18.15		-2.33		-14.7		+32.7		+17.2
	Change (+/−) (AZN million)	+477.4		-36.9		-315.7		+2045.6		+2170.4

Another important indicator to be analysed in line with the research objectives is the dynamics of average interest rates on loans granted by banks during 2020–2024 (Chart).

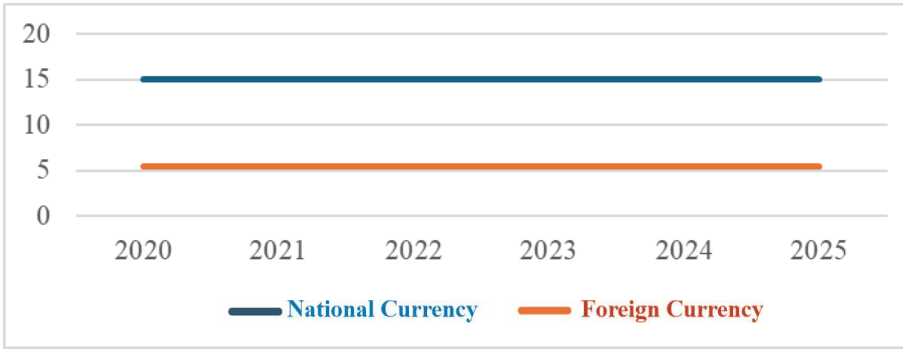


Chart. Average Interest Rates on Loans in 2020–2024

Source: Prepared by the author on the basis of data from the Statistical Bulletin of the Central Bank of the Republic of Azerbaijan (January 2025, No. 01.298).

As the chart shows, the average interest rate on loans issued by banks in the national currency in Azerbaijan's credit market remained broadly unchanged at approximately 15% over the last five years. This is not conducive to the development of small and medium-sized enterprises. The high level of this interest rate is one of the significant factors hindering the development of SMEs.

Our analysis and research indicate that the level of concessional lending provided by the state—one of the important factors in bank lending to small and medium-sized businesses in Azerbaijan—is also relatively low. The indicator for the years analysed is presented below (Table 7).

Table 7. Comparison of Trends in Lending Indicators for Small and Medium-Sized Businesses in 2020–2024

	Years / Indicators	2020	2021	2022	2023	2024
1	Total loans granted to business entities, AZN million	8478.3	9740.0	10855.1	12616.8	14787.2
2	Total concessional loans granted to business entities, AZN million	126.9	130.6	145.9	193.8	263.5
3	Concessional loans Share in total loans , %	1.5	1.34	1.34	1.54	1.78

Source: Compiled by the author on the basis of data from the Central Bank of the Republic of Azerbaijan.

As the table shows, concessional loans granted to business entities accounted for 1.5% of total bank lending to these entities in 2020, 1.34% in 2021, 1.34% in 2022, 1.54% in 2023 and 1.78% in 2024.

It should also be noted, on the basis of information from the European Bank for Reconstruction and Development and the Entrepreneurship Development Fund under the Ministry of Economy, that more than 52,000 entrepreneurs in the country have used concessional lending mechanisms to date. The total amount of concessional loans provided to them stands at AZN 3.3 billion. The value added generated by micro, small and medium-sized enterprises accounts for 15% of the value created in the national economy, while these enterprises provide 50% of newly created jobs. These indicators are considerably below the average for OECD member countries.

Our analyses show that micro, small and medium-sized enterprises in Azerbaijan are currently concentrated mainly in trade, transport, hotels and restaurants. The level of value added in these sectors is relatively low. Accordingly, favourable conditions should be created in the future for the extensive development of MSMEs in other innovation-based sectors of the economy.

Chapter III of the dissertation, entitled “Priority Areas for Lending to Small and Medium-Sized Businesses”, examines the possibilities of applying international experience in Azerbaijan and puts forward proposals for improving bank lending to small and medium-sized enterprises and expanding the opportunities available in this area.

The possibilities of improving lending to SMEs in Azerbaijan have been examined on the basis of the experience of Japan, Singapore and the Republic of Korea. Drawing on Japan’s experience, the study substantiates the establishment of long-term relationships between banks and entrepreneurs, the expansion of regional financial services, and the use of credit guarantees and concessional loans. In line with Singapore’s experience, it substantiates measures to improve financial literacy, promote digital lending, strengthen cooperation between banks and FinTech companies, and introduce digital platforms and open banking instruments. On the basis of the Republic of Korea’s experience, it proposes the establishment of specialised credit guarantee institutions

and the introduction of low-interest loans, start-up financing and innovation grants. It is substantiated that these measures would improve SMEs' access to financial resources and contribute to the sustainable development of the sector.

Simplification of loan origination procedures. This may be achieved by simplifying loan application procedures, reducing bureaucratic barriers and facilitating SMEs' access to credit. Such simplification would not only streamline the granting of loans but also make credit products more attractive to SMEs.

Improvement of credit assessment procedures. The application of advanced analytics and machine-learning models to credit assessment may bring about significant changes in the evaluation of business creditworthiness. Traditional credit assessment methods often rely on historical financial data, which may not fully reflect a business's current financial health or future potential. Machine learning enables businesses to use broader and more dynamic datasets, resulting in more accurate and efficient credit assessment.

Tailoring credit products to business needs. Adapting financial products to meet diverse business needs is essential for strengthening growth and stability within the business community. One key approach is to design credit products with flexible terms that can accommodate the specific requirements of different businesses. A crucial aspect of flexible credit design is the ability to meet the particular financing objectives of a business. For example, enterprises requiring working capital often need short-term loans that can be repaid frequently, ideally within a few months.

Improvement of the legislative framework. Improving the legal and regulatory framework is essential for enhancing bank lending to small and medium-sized enterprises. The analyses conducted reveal a number of gaps in the existing legislation concerning the formation of SMEs' credit histories. The following legislative amendments are proposed to address these gaps. To address these gaps, it is proposed that amendments be introduced to the Law on Credit Bureaus, the Law on Encumbrance of Movable Property, and the Law on Entrepreneurship.

Promotion of stronger bank–entrepreneur relationships. Assigning

dedicated relationship managers to business clients is an effective strategy for developing stronger bank–business relationships. By providing businesses with a dedicated account manager, banks can offer personalised services tailored to the specific needs and objectives of each business.

CONCLUSION

1. Research shows that a bank's credit policy is implemented within certain parameters. The boundaries of this framework depend on a number of actual factors and are established through the application of the laws, rules and regulations in force in the country.

2. The implementation of credit policy, which serves the bank's principal objectives, is influenced by political, economic, legal and social factors. These factors contribute to the achievement of the objectives pursued by credit policy and determine the formation of the credit process. The extent and effectiveness with which each of these factors is used ultimately determine the outcomes of credit policy.

3. To implement its credit policy effectively, a bank must first establish an optimal capital base and then an optimal loan portfolio; align its liabilities and assets in terms of maturity and amount; organise all its activities systematically in this regard; and be capable of making adjustments when necessary. In response to actual conditions, a bank can make operational adjustments and take the necessary decisions, thereby enabling it to apply advanced standards of the lending mechanism to ensure the successful implementation of credit policy.

4. One of the conclusions drawn from our analysis and research is that a commercial bank's lending system comprises the interconnected systems of credit policy and lending technologies. The existence of these elements determines the strategic and tactical directions essential for establishing credit relationships between banks and their counterparties.

5. An analysis of the formation of banks' lending systems and the factors affecting them makes it possible to identify the following elements of credit policy: strategic objectives of credit operations; objectives of credit operations; forms and types of loans; lending principles; credit limits; credit expansion; identification of appropriate markets; organisation of lending; lending supervision; rules governing lending-related documentation; interest rate policy for lending; allocation of authority for credit decisions; assessment of

the loan portfolio; compliance with lending standards; and other related elements.

6. Research indicates that, since the lending system is an open system, its elements interact not only with one another but also with elements of other systems. These include the cash and settlement services system, the system of passive operations, the personnel management system, the security system and others. One of the important parameters and elements shaping the lending system is the set of specific characteristics associated with a bank's operations. These include the bank's size according to key indicators, its market position, rating and image, the size of its loan and investment portfolios, shareholder characteristics, customer base, staff professionalism and other factors. Each of these characteristics has a specific influence on the formation of the lending system.

7. Improving the legal and regulatory framework is of considerable importance for enhancing bank lending to small and medium-sized enterprises. The analyses conducted indicate that the current legislation contains several gaps relating to the establishment of SMEs' credit histories. Legislative amendments are proposed to eliminate these gaps.

8. One of the most important tasks facing the economies of countries shaped by globalisation and increasing integration is to ensure continuous and dynamic development. Countries around the world use numerous factors to achieve this objective. In almost all leading countries, the rapid development of small and medium-sized businesses is recognised as one of the most important such factors.

9. In a number of developed countries, small and medium-sized enterprises (SMEs) act as drivers of economic development. By making a major contribution to GDP formation, employment, job creation and tax revenues, SMEs form the foundation of the overall economic system. Accordingly, governments in these countries attach particular importance to SME development and seek to organise their economic policies in ways that enable SMEs to grow under changing economic conditions.

10. The effective implementation of bank lending to small and medium-sized enterprises (SMEs) is one of the key challenges facing

economies around the world today. The development of SMEs, and the resulting promotion of economic growth, form the foundation of any economic system governed by free-market principles.

The following proposals are put forward on the basis of the research findings:

1. Simplification of credit processes through electronic signatures, online application portals and automated scoring systems;
2. Improvement of credit assessment procedures through the use of artificial intelligence and machine-learning models, drawing on alternative data sources such as utility payments and mobile operator data;
3. Tailoring credit products to the stages of the business life cycle of micro, small and medium-sized enterprises (start-up, development and expansion);
4. Promotion of stronger and more effective bank–entrepreneur relationships through the establishment of transparency, trust and information-sharing mechanisms;
5. Simplification of the regulatory and legal framework and improvement of enforcement mechanisms by amending the Law on Credit Bureaus, the Law on Encumbrance of Movable Property and the Law on Entrepreneurial Activity, and incorporating mechanisms for information exchange with tax authorities;
6. Expansion of access to financial resources through the development of alternative financing mechanisms (credit guarantee funds and microfinance institutions) and improvement of state guarantee mechanisms;
7. Expansion of concessional lending opportunities and strengthening of export support mechanisms;
8. Increasing the transparency of administrative procedures and reducing bureaucracy by minimising the documentation required for loan applications and establishing a unified electronic platform;
9. Improving financial literacy by expanding training and consulting services for entrepreneurs;
10. Ensuring the active integration of MSMEs into digital transformation processes by expanding digital cooperation platforms between banks and FinTech companies;

11. Applying green banking principles to the financing of SMEs and providing concessional loans for environmental projects;

12. Establishing effective information-sharing and cooperation platforms among government agencies, MSMEs and banks.

The following scientific articles and conference abstracts have been published on the principal propositions, findings and proposals of the dissertation:

1. Əzizova V.S. Kredit siyasəti və bankın fəaliyyətində onun rolu // – Bakı: Qərbi Kaspi Universiteti, "Elmi xəbərlər" jurnalı, 2018, № 3. – s. 36–41.
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3. Əzizova V.S. Kiçik və orta biznesin kreditləşməsində risklərdən müdafiə istiqamətləri // – Bakı: Maliyyə Nazirliyi, "Maliyyə & Uçot" jurnalı, 2019, № 1. – s. 36–39.
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9. Boyukkishi, N.B., Aliyeva, R.S., Guliyeva, K.H., Mehdiyeva, Z.J., Əzizova V.S. Social factors of innovative economic development in the Republic of Azerbaijan // – Cienfuegos: Revista Universidad y Sociedad, 2024, 16(4). – pp. 329–337.
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