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THE ROLE OF NON-BANK FINANCIAL INSTITUTIONS IN SUPPORTING SMALL AND
MEDIUM ENTERPRISES IN AZERBAIJAN

Bachelor Thesis

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I have written this Bachelor Thesis independently. Any ideas or data taken from other authors or other sources have been fully referenced.

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Introduction

Small and medium-sized enterprises (SMEs) account for the majority of registered businesses in most economies and serve as primary engines of employment, innovation, and private-sector growth (Beck et al., 2005; Kuntchev et al., 2013). Despite this central economic role, access to external finance remains their most persistent structural constraint. SMEs typically lack audited financial statements, established credit histories, and adequate collateral, placing them at a systematic disadvantage within conventional bank lending models (Beck, 2013). Banks tend to restrict the volume of credit rather than simply raise interest rates, producing the credit rationing described by Stiglitz and Weiss (1981) and leaving many viable firms underfinanced.

These constraints have contributed to the relevance of non-bank financial institutions (NBFIs) as alternative financing channels for underserved firms. Unlike traditional bank lending, which depends primarily on a borrower's overall creditworthiness and collateral position, NBFIs employ asset- or transaction-based models. Instruments such as leasing and factoring extend credit against the value of a specific asset or receivable, reducing reliance on collateral and credit history (Berger & Udell, 2006; Klapper, 2006). Another important type of NBFİ relevant to SME financing is microfinance institutions (MFIs), which provide smaller loans to financially excluded borrowers using lending approaches adapted to environments with limited collateral (Hartarska, 2005; Khachatryan et al., 2017). These distinctions are especially significant in emerging markets, where financial transparency and legal enforcement remain limited (Mol-Gómez-Vázquez et al., 2018).

These dynamics carry particular weight in Azerbaijan, where the SMEs represent a large share of enterprises but make a comparatively limited contribution to GDP, reflecting persistent structural challenges in accessing finance (ADB, 2025). Evidence consistently identifies strict collateral requirements, short loan maturities, and high borrowing costs as the primary barriers to bank credit for Azerbaijani SMEs, pointing to systemic features of the financial landscape rather than isolated firm-level weaknesses (Central Bank of Azerbaijan, 2024; Aliyev, 2019). The NBFİ sector has expanded alongside regulatory reforms, most notably through the 2009 Law on Non-Bank Credit Institutions, which formally authorized leasing, factoring, and microfinance as credit instruments outside the deposit-taking banking system (Republic of Azerbaijan, 2009). In Azerbaijan, these institutions operate under the country-specific designation of Non-Bank Credit

Institutions (NBCIs). This thesis uses the internationally recognized term NBFi throughout for consistency with the academic literature, while acknowledging this regulatory distinction.

Although leasing, factoring, and microfinance are legally permitted in Azerbaijan under the Law on Non-Bank Credit Institutions, legal permission alone does not show whether these instruments actually improve SME access to finance in practice (Republic of Azerbaijan, 2009). Existing studies and institutional reports mainly describe barriers to SME financing, banking-sector dominance, and the formal regulation of non-bank credit institutions in Azerbaijan (Aliyev, 2019; Central Bank of Azerbaijan, 2024; ADB, 2025). However, less attention has been given to how specific NBFi instruments function in practice, which SME constraints they address, and which legal, market, and enforcement conditions limit their use. This creates a gap between the theoretical potential of NBFis and the practical evidence on their role in Azerbaijan's SME financing system. This thesis addresses that gap by analyzing leasing, factoring, and microfinance as distinct financing mechanisms rather than treating NBFis as one uniform category.

The aim of this thesis is to examine how non-bank financial institutions contribute to SME financing in Azerbaijan. More specifically, the thesis analyzes the mechanisms by which selected NBFi instruments address SME financing constraints, as well as the institutional conditions that shape their practical use. To achieve this aim, the following research tasks are pursued:

- to define and delimit NBFis for SME financing and distinguish them from banks;
- to explain how leasing, factoring, and microfinance address different SME financing constraints;
- to analyze the institutional and regulatory framework governing NBFis in Azerbaijan;
- to assess how leasing, factoring, and microfinance function in practice using qualitative evidence from interviews and document analysis;
- to identify the main constraints limiting the development of SME-relevant NBFi channels.

To achieve this aim, the thesis employs a qualitative, theory-driven research design combining a review of academic literature, regulatory documents, policy documents, and statistical reports with document analysis and semi-structured interviews with NBFi

practitioners, banking representatives, SME representatives, and institutional stakeholders in Azerbaijan. This methodological approach enables a detailed examination of instrument-level mechanisms and institutional conditions that quantitative data alone cannot adequately capture. The findings may be useful to Azerbaijani policymakers and SME-support institutions, as they identify which institutional conditions limit the practical use of leasing, factoring, and microfinance. They may also be relevant for NBFİ practitioners and researchers interested in SME financing in bank-centered financial systems.

The thesis is structured into two chapters. Chapter 1 develops the theoretical and empirical foundation of the study. Subchapter 1.1 defines and classifies NBFİs within the SME financing literature and distinguishes them from banks. Subchapter 1.2 examines leasing, factoring, and microfinance as distinct financing mechanisms and reviews prior empirical studies to identify a research gap. Chapter 2 applies this framework to the Azerbaijani context. Subchapter 2.1 presents the institutional background and explains the qualitative research design, while Subchapter 2.2 analyzes how leasing, factoring, and microfinance function in practice and which legal, market, and enforcement conditions shape their operation. The conclusion summarizes the main findings, discusses their implications, and outlines limitations and directions for future research.

The author would like to sincerely thank everyone who supported her during the preparation of this Bachelor's thesis. The author is especially grateful to her supervisor, Lecturer in Accounting and Finance Mariia Chebotareva, for her guidance, thoughtful feedback, and support throughout the research process. The author would also like to thank the interview participants who shared their time, experience, and professional insights. Their contributions were very important for developing the empirical part of this thesis.

Keywords: small and medium-sized enterprises (SMEs); SME financing; non-bank financial institutions; access to finance; Azerbaijan.

1. Theoretical Foundation of NBFİs in SME Finance

1.1. The Role and Conceptual Foundations of NBFİs in SME Finance

Small and medium-sized enterprises (SMEs) are widely recognized as important contributors to employment, innovation, competition, and private-sector development (Beck et al., 2005; Beck, 2013). Despite their economic importance, SMEs consistently experience greater

difficulties in accessing external finance than larger firms. Existing literature shows that smaller firms are more likely to face financing constraints because they often possess weaker collateral positions, shorter credit histories, and less transparent financial information (Beck et al., 2005; Demirgüç-Kunt & Maksimovic, 1999). Conventional bank lending models generally depend on extensive borrower documentation, formal financial reporting, and enforceable collateral, which places many SMEs at a structural disadvantage within formal credit markets (Berger & Udell, 2006; Beck, 2013).

These financing barriers become particularly significant in emerging and transition economies, where weaker financial depth, shorter loan maturities, and less developed financial markets may further complicate SME access to finance (World Bank, 2015; OECD, 2024). Weak creditor rights enforcement, underdeveloped credit information systems, and concentrated banking sectors increase the costs and risks of lending to smaller firms (Beck et al., 2005; Beck, 2013). As a result, financially viable SMEs may remain underserved not only because of limited credit supply, but because conventional lending structures are often poorly suited to the informational and collateral characteristics of small businesses (Berger & Udell, 2006). In this context, discussions on SME finance increasingly emphasize the importance of financing diversification and the development of alternative financing channels outside traditional banking systems (OECD, 2024; World Bank, 2015).

Non-bank financial institutions (NBFIs) are commonly understood as financial institutions that provide credit or credit-related services without operating as deposit-taking commercial banks (Financial Stability Board, 2023; International Monetary Fund, 2023). International institutional definitions generally describe NBFIs as entities engaged in financial intermediation outside the traditional banking sector, usually without direct access to depositor guarantees or central-bank liquidity support (Financial Stability Board, 2023; International Monetary Fund, 2023). However, the relevance of NBFIs for SME finance lies not only in their institutional status but also in the financing mechanisms they may employ. Unlike conventional bank lending, some non-bank financing models rely more directly on assets, receivables, transactional relationships, or borrower proximity rather than on full borrower-level balance-sheet transparency (Berger & Udell, 2006; Klapper, 2006; Buha et al., 2023).

The distinction between banks and NBFIs is therefore functional rather than purely legal (Berger & Udell, 2006; Buha et al., 2023). Commercial banks generally operate through deposit-

funded balance-sheet lending under comprehensive prudential supervision, whereas NBFIs often provide more specialized forms of finance linked to particular financing needs or market segments (Financial Stability Board, 2023; Gorton & Metrick, 2010). This functional difference is important because alternative financing structures may partially address financing gaps that conventional bank lending does not adequately cover (Berger & Udell, 2006). In many financial systems, NBFIs are therefore viewed as complementary institutions that expand financing diversity rather than direct substitutes for commercial banks (World Bank, 2015; Buha et al., 2023).

At the same time, NBFIs should not be treated as a homogeneous institutional category (World Bank, 2015; Buha et al., 2023). Financial-sector classifications often group together leasing companies, factoring firms, microfinance institutions, pension funds, insurance companies, investment funds, and other entities despite their substantially different functions and financing roles (World Bank, 2015). Pension funds and insurance companies primarily perform long-term savings, investment, and risk-management functions, whereas leasing, factoring, and microfinance institutions are more directly connected to SME financing and credit intermediation (Berger & Udell, 2006; Buha et al., 2023). Similarly, venture capital and investment funds may support enterprise development, but they often remain concentrated within narrower market segments in many emerging economies (World Bank, 2010; World Bank, 2015).

For this reason, the present thesis focuses specifically on the NBFi types most directly related to SME financing. The analysis concentrates on leasing, factoring, and microfinance because these instruments are most frequently discussed in the literature on SME access to finance and financing diversification (Berger & Udell, 2006; Klapper, 2006; Cull et al., 2009).

This narrowing is necessary because not all NBFIs are equally relevant to SME credit provision. The NBFi types most relevant to SME financing are those whose instruments reduce reliance on full borrower-level financial transparency by anchoring credit decisions in tangible assets, receivables, or borrower proximity. By contrast, pension funds and insurance companies are commonly classified as NBFIs, but their role in SME finance is mainly indirect through savings mobilization, institutional investment, or risk management rather than direct credit provision (World Bank, 2015; Buha et al., 2023). Table 1, therefore, distinguishes between NBFi types directly relevant to SME financing and those whose role is limited or indirect.

Table 1

Main types of non-bank financial institutions relevant to SME financing

Type of NBFI	Core function	Key SME instruments	Scope
Finance & leasing companies	Asset-based credit without deposit-taking	Leasing	In scope
Factoring companies	Purchase of receivables for immediate liquidity	Factoring, invoice discounting	In scope
Microfinance institutions	Small-scale credit to underserved borrowers	Microcredit, group lending	In scope
Credit unions/cooperatives	Member-based saving and lending	Cooperative credit	Limited/absent
Investment funds & venture capital	Fund-based equity or quasi-equity intermediation	Venture capital, growth equity	Early-stage / underdeveloped
Pension funds	Long-term savings and retirement intermediation	Indirect financing through capital markets	Out of scope
Insurance companies	Risk pooling and financial protection	Indirect institutional investment	Out of scope

Note: Scope indicates whether each NBFI type is directly relevant to the thesis's focus on SME credit provision. "In scope" refers to institutions that provide credit or credit-related instruments directly to SMEs, while "limited/absent," "early-stage/underdeveloped," and "out of scope" indicate indirect or limited relevance to the specific financing mechanisms examined in this thesis.

Source: Compiled by the author based on Buha et al. (2023), Berger & Udell (2006), and World Bank (2015).

This instrument-level distinction also reflects a broader functional difference between banks and NBFIs. Banks usually provide broad, deposit-funded lending under full prudential supervision, while NBFIs often operate through more specialized products, narrower borrower segments, and activity-specific regulation. Table 2 summarizes the key differences.

Table 2

NBFIs versus banks: key differences

Dimension	Banks	NBFIs
Regulatory status	Licensed deposit-taking institutions under full prudential supervision.	No banking license; activity-specific regulation.
Funding Sources	Primarily deposit-funded.	Mainly non-deposit/market-based funding.
Primary lending/finance logic	Relationship lending: balance-sheet based.	Transaction-based; asset or cash-flow based.
Safety net & vulnerability	Access to safety nets (e.g., deposit insurance/central bank liquidity).	No depositor safety net; greater funding volatility.
Product scope	Broad, diversified, low-risk due to oversight.	More specialized by segment (credit, leasing, factoring, insurance, asset management).

Source: Compiled by the author based on Financial Stability Board (2023), Gorton and Metrick (2010), and Buha et al. (2023).

Table 2 shows that NBFIs are not simply smaller or less regulated versions of banks. Their funding structure, underwriting logic, and product specialization reflect a different financing model. Their non-deposit funding base may make them more sensitive to external funding conditions. At the same time, their specialized lending technologies may allow them to serve borrower segments that banks cannot assess efficiently. This functional difference explains why NBFIs are usually viewed as complements to the banking sector rather than direct substitutes for it (Berger & Udell, 2006; Financial Stability Board, 2023; Buha et al., 2023).

The term NBFIs is also used differently across academic and institutional sources. Macro-financial literature often discusses NBFIs through a systemic-risk lens, emphasizing market-based credit intermediation, liquidity transformation, and the absence of traditional banking safety nets (Adrian & Ashcraft, 2012; Gorton & Metrick, 2010; Financial Stability Board, 2023). By contrast, development-finance literature focuses more on the ability of NBFIs to expand access to finance for underserved firms and households (World Bank, 2015; Buha et al., 2023). Since this thesis examines SME financing rather than systemic risk, it adopts the second perspective: NBFIs are assessed according to the financing functions they perform and the barriers their instruments may address.

Table 3

Analytical comparison of conceptual approaches to defining non-bank financial institutions (NBFi)

Conceptual approach	Main focus	Typical sources	Relevance for this thesis
Macro-financial / systemic-risk perspective	NBFIs as market-based credit intermediaries outside traditional banking, with attention to liquidity, maturity transformation, funding vulnerability, and systemic risk	Adrian & Ashcraft (2012); Gorton & Metrick (2010); Pozsar et al. (2010); IMF (2023); FSB (2023)	Useful for defining NBFIs as non-bank credit intermediaries, but not the main analytical lens
Development-finance / SME-finance perspective	NBFIs as alternative financing channels that may expand access to finance for underserved firms and households	World Bank (2015); Buha et al. (2023); Berger & Udell (2006)	The main perspective used in this thesis because the focus is on SME financing rather than systemic risk

Source: Compiled by the author based on Adrian and Ashcraft (2012), Gorton and Metrick (2010), Pozsar et al. (2010), International Monetary Fund (2023), Financial Stability Board (2023), World Bank (2015), Buha et al. (2023), and Berger and Udell (2006).

Table 3 shows that the definition of NBFIs depends on the analytical purpose. While the systemic-risk literature is useful for clarifying the non-bank, non-deposit nature of these institutions, it is less suited to assessing their role in SME finance. This thesis, therefore, adopts a development-finance perspective and evaluates NBFIs through the financing functions they perform and the barriers their instruments may address.

Overall, NBFIs should not be treated as a uniform institutional category whose relevance to SME finance can be inferred solely from legal designation. Their contribution depends on the specific financing functions they perform and on the institutional conditions that allow these functions to operate in practice. Therefore, the next subchapter moves from the general classification of NBFIs to an instrument-level analysis of leasing, factoring, and microfinance as distinct mechanisms for addressing SME financing constraints.

1.2. NBFi Instruments and Empirical Evidence on SME Financing

Following the conceptual distinction established in Subchapter 1.1, this subchapter examines leasing, factoring, and microfinance as separate SME financing instruments. The purpose is not to describe NBFIs again as a broad institutional category, but to show how these

instruments address different SME financing constraints and what previous empirical studies reveal about their practical use. Leasing is mainly connected to investment finance, factoring to working-capital liquidity, and microfinance to entry-level access to formal credit (Berger & Udell, 2006; Klapper, 2006; Cull et al., 2009).

These different constraints matter because they imply different financing needs. Collateral barriers are more closely connected to investment finance, liquidity shortages are linked to working-capital needs, and rejection or discouragement reflects more basic exclusion from formal credit. Therefore, NBFIs may serve different roles depending on the type of constraint: they may act as partial substitutes for bank finance when firms are rejected or discouraged, or as complementary instruments when firms have some access to credit but face unsuitable maturities, collateral requirements, or liquidity shortages (Berger & Udell, 2006; Beck et al., 2008).

This distinction provides the basis for the mechanism-based analysis below. Within this framework, the effectiveness of NBFi instruments depends on whether the broader institutional environment supports the operation of specific lending technologies. Figure 1 summarizes this relationship by showing how institutional conditions influence feasible NBFi lending technologies and, through them, SME financing outcomes.

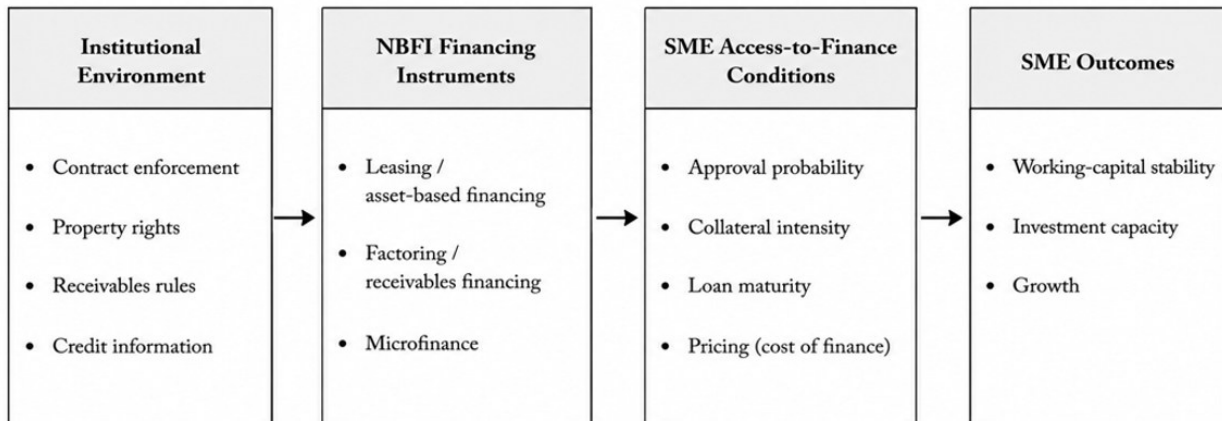


Figure 1. Conceptual pathway from institutions to SME outcomes through NBFi lending technologies
 Source: Compiled by the author based on Berger and Udell (2006) and Klapper (2006).

Figure 1 illustrates that institutional conditions shape the feasibility of NBFi lending technologies, which in turn influence SME financing outcomes. This mechanism-based perspective is important because alternative financing instruments cannot fully bypass weak

institutional infrastructure. Their practical use depends on supporting legal, market, and enforcement conditions (Beck et al., 2005; Berger & Udell, 2006).

Leasing is commonly discussed in the literature as an asset-based financing instrument, particularly relevant for SMEs facing investment and collateral constraints (Berger & Udell, 2006; Beck, 2013). In leasing arrangements, the financed asset itself functions as the primary underwriting anchor, reducing reliance on conventional collateral and extensive borrower-level financial transparency. This structure may improve access to productive equipment and machinery for firms that would otherwise struggle to obtain conventional investment loans. However, the effectiveness of leasing depends heavily on institutional conditions surrounding asset ownership, repossession, and contract enforcement. Leasing markets, therefore, function more effectively where financiers can recover and re-market leased assets predictably in the event of default (Berger & Udell, 2006). Where repossession procedures, secondary markets, or enforcement systems remain weak, leasing tends to remain limited despite its theoretical suitability for SME investment finance.

Factoring addresses a different type of SME financing problem. Rather than focusing primarily on investment finance, factoring is designed to improve working-capital liquidity by converting accounts receivable into immediate cash flow (Klapper, 2006). Unlike conventional collateral-based lending, factoring shifts the financing focus toward invoice verification and the buyer's payment capacity rather than solely on the financial position of the SME borrower. This mechanism is particularly relevant for SMEs operating under delayed payment conditions or supplying larger firms but experiencing liquidity shortages due to slow receivables turnover. However, factoring also depends strongly on institutional infrastructure. Effective factoring systems require clear rules governing receivables assignment, invoice verification, and payment enforcement (Klapper, 2006; Mol-Gómez-Vázquez et al., 2018). Cross-country evidence therefore suggests that stronger legal and commercial infrastructure is associated with deeper and more active factoring markets.

Microfinance institutions (MFIs) are commonly associated with financial inclusion and the expansion of credit access to underserved borrowers excluded from conventional banking systems (Cull et al., 2009; Khavul, 2010). Microfinance generally focuses on small-scale loans provided to borrowers with limited collateral, limited formal documentation, or minimal credit history. In many cases, MFIs operate through simplified lending procedures, closer borrower

relationships, or group-lending arrangements intended to reduce information asymmetries and monitoring costs (Armendáriz & Morduch, 2010). As a result, microfinance may improve initial access to formal finance for microenterprises and very small firms that banks often consider too costly or risky to serve.

At the same time, the literature emphasizes that microfinance should not be viewed as a complete solution to SME financing constraints. Its main contribution lies in widening entry-level access for microenterprises and very small firms, but this does not necessarily translate into support for larger-scale investment, productivity upgrading, or long-term SME expansion (Cull et al., 2009; Ghosh, 2013). This limitation is connected to the outreach–sustainability trade-off: MFIs that serve poorer, riskier, or less formal borrowers face higher monitoring and transaction costs, while institutions seeking financial sustainability may gradually shift toward safer, more commercially attractive clients (Hartarska, 2005; Pinz & Helmig, 2015). As a result, microfinance can reduce exclusion at the lower end of the market. However, it may leave a financing gap for firms that have outgrown microcredit while still lacking the collateral and documentation required by banks. This makes microfinance important, but structurally bounded, within the wider SME financing system.

Table 4

Leasing and factoring as NBFi instruments for SME financing

Channel	Primary SME needs	Underwriting anchor	Key prerequisites for scale
Leasing	Investment and equipment acquisition	Asset value and recoverability	Property rights, repossession practice, secondary markets
Factoring	Working capital locked in receivables	Invoice verification and buyer payment performance	Receivables assignment rules, verification capacity, and dispute resolution

Note: Factoring is treated here as receivables-based working-capital finance.

Source: Compiled by the author based on Berger and Udell (2006), Klapper (2006), and Mol-Gómez-Vázquez et al. (2018).

Table 4 demonstrates that leasing and factoring address different financing needs and rely on distinct verification and enforcement mechanisms. Leasing is primarily linked to productive asset financing, while factoring focuses on liquidity and receivables management. Their effectiveness, therefore, depends not only on borrower demand but also on whether the surrounding institutional environment supports the operation of the corresponding financing mechanisms (Berger & Udell, 2006; Klapper, 2006).

Previous empirical studies show that the role of NBFIs differs less by legal form than by the institutional conditions supporting each instrument. Cross-country SME finance studies first establish the basic problem: smaller firms face stronger financing constraints because they usually have weaker collateral, shorter credit histories, and less transparent financial information (Beck et al., 2005). Kuntchev et al. (2013) add an important refinement by showing that financing constraints are not limited to rejected borrowers; discouraged firms and partially constrained firms also remain outside effective credit access. This distinction is important for the present thesis because Azerbaijani SMEs may be constrained not only when banks reject them, but also when loan terms make application unattractive or unrealistic.

Berger and Udell's (2006) lending-technology framework explains why non-bank instruments cannot be treated as interchangeable alternatives to bank credit. Different instruments rely on different types of information, collateral, and enforcement mechanisms. This is especially visible in the literature on factoring and leasing, where transaction-based finance is shown to depend heavily on enforceable commercial infrastructure. Klapper (2006) demonstrates that factoring is more likely to develop where receivables can be reliably verified, assigned, and collected. Mol-Gómez-Vázquez et al. (2018) extend this point by emphasizing that legal permission alone is not enough; the quality of enforcement, creditor protection, and commercial information determines whether receivables-based finance becomes usable in practice. These studies show why factoring may remain marginal where invoices, contracts, and payment claims are difficult to enforce.

Microfinance studies point to a different mechanism, as it relies less on asset recovery or receivables verification and more on borrower proximity, simplified assessments, and small loan sizes. Hartarska (2005) focuses on governance and performance in Eastern European and Central Asian MFIs, showing that institutional design affects whether microfinance can balance outreach with sustainability. Cull et al. (2009) examine the broader trade-off between reaching poorer borrowers and maintaining financial performance, which helps explain why MFIs may not automatically serve growth-oriented SMEs. Khachatryan et al. (2017), in a post-Soviet context, demonstrate the relevance of microfinance for borrowers excluded from formal banking, but also confirm that its role is strongest at the lower end of the enterprise finance market. Together, these studies suggest that microfinance is more institutionally adaptable than leasing or factoring, but also more limited in scale.

Regional evidence from Turkey provides a useful contrast because leasing and factoring are more operational there than in many post-Soviet economies. The difference is not simply that Turkey has these instruments legally available, but that a larger formal business sector, deeper financial intermediation, and more established commercial finance practices make invoice- and asset-based finance more workable. Sarıgöl (2011) and Kahraman et al. (2019) show that leasing and factoring can support SME finance where market practice and institutional infrastructure are more developed, while Kayhan (2022) indicates that these instruments remain sensitive to macroeconomic instability and funding costs. Therefore, Turkey illustrates both the potential and the limits of NBFİ instruments in a regional setting.

Compared with these contexts, Azerbaijan-specific literature remains more descriptive. Existing studies and institutional reports mainly identify SME financing constraints, banking-sector dominance, and the formal regulation of non-bank credit institutions (Aliyev, 2019; Central Bank of Azerbaijan, 2024; ADB, 2025). What remains underexplained is why legally permitted instruments develop unevenly in practice and whether leasing, factoring, and microfinance can operate under Azerbaijan's legal, market, and enforcement conditions. Chapter 2, therefore, applies the instrument-based framework developed in this chapter to examine how these three channels function in the Azerbaijani SME financing environment.

2. Empirical Analysis of NBFİs in SME Financing in Azerbaijan

2.1. Data and Methodology

This subchapter explains the empirical basis and methodological approach of the thesis. First, it presents the Azerbaijani SME financing context, including SME classification, the bank-centered financing structure, the legal framework for NBFİs, and the current scale of the NBFİ sector. Second, it explains the qualitative research design, including document analysis, semi-structured interviews, coding, and triangulation. This structure is used because the practical role of leasing, factoring, and microfinance can only be assessed after the institutional environment in which they operate has been clarified.

Azerbaijan's official SME classification distinguishes micro, small, and medium-sized enterprises by employee number and annual income (Table 5). This classification is relevant because financing constraints differ across firm-size categories. Micro-enterprises constitute 97.3% of active SMEs, compared with 1.9% small and 0.8% medium-sized enterprises (Ministry of Economy of the Republic of Azerbaijan, 2023). Since micro and small firms are generally less

likely to possess pledgeable collateral, audited financial statements, or extensive credit histories, this structure is important for interpreting SME access to finance.

Table 5

Classification of SMEs in Azerbaijan and associated support measures

Category	Employees	Annual Income (AZN)	Tax Benefits / Support
Micro	1–10	Up to 200,000	75% of income/profit is tax-free
Small	11–50	200,001–3,000,000	Eligible for Start-up certificate (3-year tax exemption on innovative income)
Medium	51–250	3,000,001–30,000,000	Access to KOBIA support programs
Large	251+	Above 30,000,000	Standard corporate regime

Note: Classification is based on the higher of the employee or annual income criteria; newly created entities are classified by employee number.

Source: Compiled by the author based on Cabinet of Ministers of the Republic of Azerbaijan (2018) and Small and Medium Business Development Agency of Azerbaijan (KOBIA, n.d.).

SME financing in Azerbaijan remains largely bank-centered, while non-bank institutions mainly serve narrower segments of the market, especially smaller borrowers and firms with limited access to conventional bank credit. Although SMEs account for most registered enterprises and a substantial share of employment, their contribution to value added remains comparatively limited, reflecting persistent barriers to productive finance (ADB, 2025; OECD, 2024; State Statistical Committee of the Republic of Azerbaijan, 2025). Existing research also shows that bank credit plays an important role in Azerbaijan’s non-oil economic activity, reinforcing the banking sector's central position within the wider financing system (Mukhtarov et al., 2020). Firm-level evidence indicates that collateral requirements, high borrowing costs, procedural complexity, and discouraged borrowing remain important obstacles to bank credit access (World Bank, 2024). This suggests that the financing gap is not only about credit availability, but also about the mismatch between conventional lending requirements and the characteristics of many SMEs, creating space for non-bank financing channels to address selected segments of unmet demand.

The Law on Non-Bank Credit Institutions establishes the formal legal framework for NBFİ activity in Azerbaijan (Republic of Azerbaijan, 2009). The law permits non-bank credit institutions to provide loans and related financial services without accepting public deposits. Article 15.2.1 authorizes factoring and other debt-liability operations, while Article 15.2.2 authorizes leasing activities. These provisions are important because they show that leasing and factoring are formally permitted as transaction-based financing instruments. Appendix D summarizes the main regulatory milestones shaping the development of the NBFİ sector. In addition, the adoption of the Law on the Development of Micro, Small, and Medium Enterprises in 2022 further formalized the institutional framework for SME support, including support infrastructure, advisory services, and access-to-resource mechanisms (Republic of Azerbaijan, 2022).

By the end of 2025, the NBFİ sector had a visible institutional presence, with 89 licensed institutions, 297 branches, 3,903 employees, and foreign capital participation in 14 entities (Central Bank of Azerbaijan, 2026). However, its role in SME financing remains narrow. The total NBFİ loan portfolio stood at AZN 810 million, while business lending accounted for only 31–33% of the portfolio, and 97% of business loans were below AZN 25,000 (Central Bank of Azerbaijan, 2025). This indicates that the sector mainly operates at the micro and small-loan level rather than as a developed channel for larger SME investment or working-capital finance.

Available sectoral data from the Central Bank of Azerbaijan indicates that microfinance is more visible in the Azerbaijani NBFİ sector than leasing and factoring. This provides important context for the empirical analysis, in which the practical role of each instrument is examined in more detail. Their practical use depends on conditions such as enforceable contracts, reliable asset recovery, receivables verification, funding availability, and proportionate regulation. State support mechanisms also shape the SME financing environment, but much of this support remains linked to commercial bank channels. As a result, state support may improve access to conventional credit for some SMEs while leaving transaction-based NBFİ instruments relatively limited.

This institutional context establishes the empirical setting for the thesis and explains why a qualitative, mechanism-based methodology is required. This thesis adopts a qualitative, theory-driven research design. Qualitative methods are appropriate because the analysis focuses on practical implementation, stakeholder interpretations, and the gap between formal regulatory

provisions and operational reality. These questions cannot be adequately addressed through statistical causal inference in this context (Merriam & Tisdell, 2016).

The methodological framework is organized in three sequential phases, as shown in Figure 2.

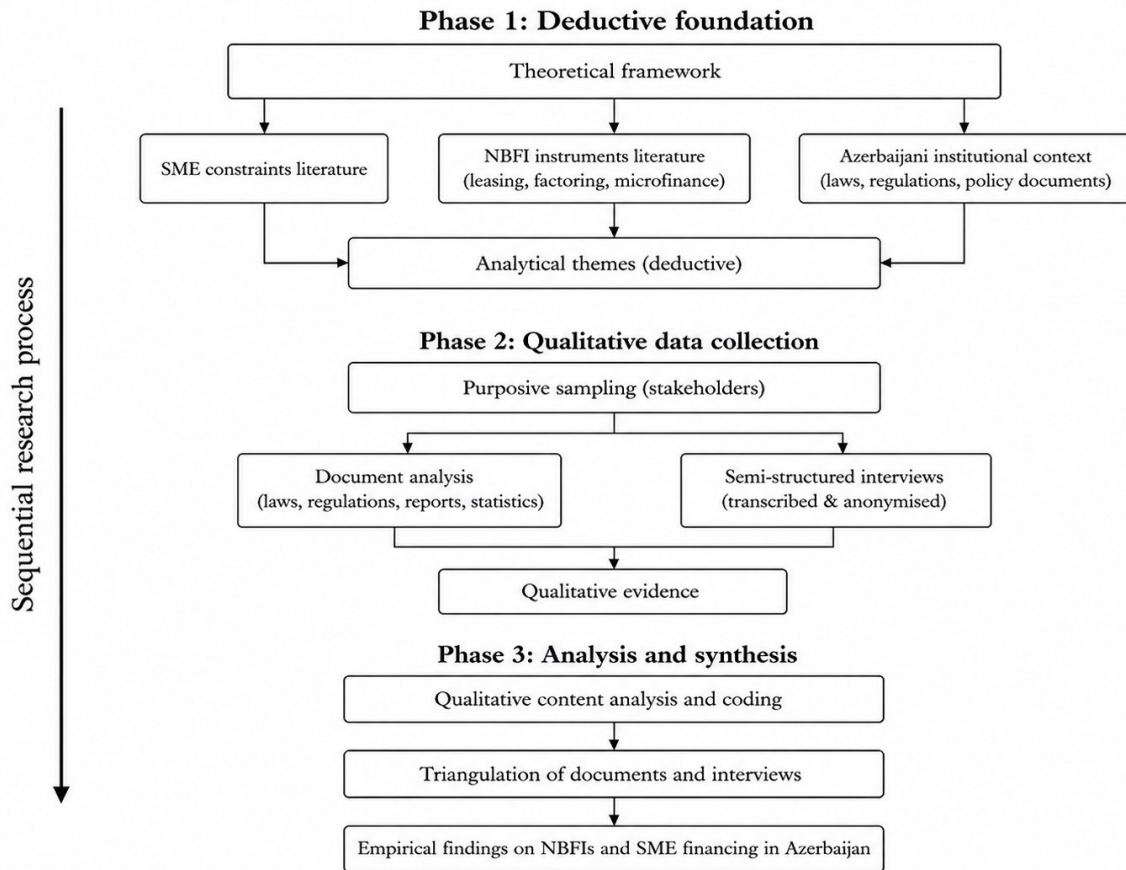


Figure 2. Methodological framework of the thesis

Source: Compiled by the author

Phase 1 establishes the analytical framework by deriving three thematic categories from the theoretical literature reviewed in Chapter 1; these categories subsequently guide both data collection and analysis. Phase 2 comprises qualitative data collection through document analysis, followed by semi-structured interviews. Phase 3 involves thematic analysis and triangulation, in which the two sources of evidence are compared and synthesized to produce an applied assessment of NBFi contributions to SME financing.

The methodological approach allows the study to evaluate three core analytical areas: (1) the main SME financing constraints in Azerbaijan, (2) the role of NBFIs and their lending

technologies in addressing these constraints, and (3) the legal, market, and enforcement conditions that shape the practical use of these instruments.

By applying these clearly defined analytical themes, the thesis moves beyond a general description of the NBFİ sector. It examines whether the rules on NBFİ activities, funding sources, contract enforcement, asset recovery, receivables verification, and state-support channels support or constrain the practical use of leasing, factoring, and microfinance for SME financing. The study employs qualitative document analysis of materials selected for their relevance to the regulatory environment and operational conditions of NBFİs in Azerbaijan. The analyzed sources include:

- the Law of the Republic of Azerbaijan on Non-Bank Credit Institutions (2009, as amended);
- prudential regulations issued by the Central Bank of Azerbaijan (CBAR), including the November 2024 package on credit risk management and effective interest rate transparency;
- official policy documents and statistical reports from the Small and Medium Business Development Agency (KOBIA);
- sectoral reports and materials from the Azerbaijan Microfinance Association (AMFA);
- the Financial Sector Development Strategy 2024–2026;
- international assessments of the Azerbaijani financial sector.

These sources collectively determine the legal scope of NBFİ activity, the prudential rules governing institutional behavior, and the broader policy context in which SME financing occurs. Document analysis followed Bowen’s (2009) iterative approach of skimming, close reading, and interpretation. The materials were examined through the three analytical themes developed in this thesis, with particular attention to whether the legal and regulatory framework supports the practical use of leasing, factoring, and microfinance in SME financing. In this way, document analysis was used not only to describe the formal framework but also to assess whether it creates workable conditions for transaction-based SME financing.

Primary empirical evidence was collected through semi-structured interviews with seven stakeholders directly involved in SME financing in Azerbaijan. This method was chosen because it is suitable for exploratory research in complex institutional contexts, where predefined themes

need to be examined while still allowing participants to explain their experiences and professional interpretations in detail (Harrell & Bradley, 2009). Semi-structured interviews were also appropriate for this thesis because the study examines how NBFİ instruments operate in practice and which constraints are visible to market participants but not fully captured in statistical data. Purposive sampling was used to select respondents with relevant professional experience (Patton, 2002). The final sample included representatives of the microfinance sector, a state SME development agency, a non-bank financial institution, commercial banks, and the SME stakeholders from both urban and rural business contexts (see Table 6).

Table 6

Interview participants

Interview code	Organisation type	Stakeholder group	Interview format	Duration	Date
I1	Microfinance sector association	Financial sector	Online (Zoom)	59 min	13.02.2026
I2	State SME development agency	Institutional stakeholder	Online (Zoom)	42 min	03.03.2026
I3	Non-bank financial institution	NBFİ sector	Online (Zoom)	40 min	26.02.2026
I4	Commercial bank	Banking sector	Online (Zoom)	45 min	31.03.2026
I5	Private company	SME perspective	Online (Zoom)	39 min	01.04.2026
I6	Commercial bank	Banking sector	Online (Zoom)	47 min	24.03.2026
I7	Rural bakery/food production	SME perspective	Online (Zoom)	51 min	25.03.2026

Source: Compiled by the author

Interviews were conducted online via Zoom, lasted approximately 35–60 minutes, and were held in Azerbaijani, English, or Russian, depending on the participant’s preference. To preserve anonymity, participants were identified using interview codes (I1–I7) rather than personal names. The interviews were recorded, transcribed with “TurboScribe”, manually checked for accuracy, and translated into English by the author. The translation prioritized the intended meaning of responses over literal wording, as several statements contained sector-specific expressions and context-dependent explanations. To preserve analytical reliability, translated excerpts were cross-checked against the original recordings to ensure that the substantive meaning of each response was retained. The semi-structured interview guide was developed based on the theoretical framework and research tasks (Appendix A). Ethical

considerations were prioritized in line with good scientific practice and data protection requirements (University of Tartu, 2025). All participants received an information sheet (Appendix B) and provided written informed consent (Appendix C).

Several limitations should be acknowledged. Access to interview participants was limited, as some potential respondents did not respond or were unable to participate. Although no substantially new themes appeared in the final interview, the sample is interpreted as providing theoretical coverage rather than full empirical saturation or statistical representativeness. Only one interviewee represented the NBFİ sector directly, and the study did not include direct leasing or factoring providers. This partly reflects difficulties in securing interview participation from such providers, as well as the limited visibility of leasing and factoring as SME-scale instruments in the Azerbaijani market. However, these instruments were still addressed through interviews with stakeholders who had relevant sector knowledge, including banking-sector respondents, the NBFİ respondent, and the microfinance association representative. Therefore, findings on leasing and factoring are interpreted through triangulation of interview evidence, legal documents, public market information, and institutional reports rather than as direct provider-level evidence.

The interview transcripts and documentary sources were analyzed using qualitative thematic analysis (Mayring, 2000). The analysis applies a deductive category approach, in which three analytical categories were derived from the theoretical framework developed in Chapter 1: Theme A, structural SME financing constraints; Theme B, the role and mechanisms of NBFİs; and Theme C, institutional and regulatory conditions. These themes were transformed into a coding agenda containing category definitions, examples, and coding rules. Each category was grounded in specific bodies of literature. Theme A draws on credit-rationing and SME financing constraint literature (Stiglitz & Weiss, 1981; Beck et al., 2005; Kuntchev et al., 2013). Theme B is anchored in the lending-technology framework, which distinguishes leasing, factoring, and microfinance by the constraints they address and the underwriting logic they use (Berger & Udell, 2006; Klapper, 2006; Cull et al., 2009; Khavul, 2010). Theme C reflects the literature on institutional and legal determinants of transaction-based finance, especially enforcement, receivables frameworks, secondary markets, and regulation (Mol-Gómez-Vázquez et al., 2018; Beck et al., 2005).

Triangulation was used to compare formal regulatory provisions with stakeholder accounts of how NBFİ instruments operate in practice. This comparison helped identify gaps

between legal authorization, institutional capacity, and actual SME access to finance. Interview evidence that was not confirmed by documents or other stakeholder accounts was interpreted more cautiously as an interview-based indication rather than as a sector-wide finding.

Because the coding system was deductively derived, the empirical material was used to assess and contextualize the theory-derived categories in the Azerbaijani case, rather than to claim that the categories emerged inductively from the data. The coding agenda is provided in Appendix E, allowing the reader to trace how interview and documentary evidence were assigned to the three analytical themes.

Coding was conducted solely by the author using the deductive category system and coding agenda. To strengthen reliability, each data source was analyzed in two rounds, with ambiguous passages revisited against the original category definitions and theoretical framework. This intra-coder consistency check, combined with triangulation of interviews and documents, follows the rule-guided quality standards of Mayring's (2000) qualitative content analysis and strengthens the consistency of the interpretive process.

The chosen methods align closely with the mechanism-based lens developed in Chapter 1. Document analysis examines the formal enabling conditions for transaction-based lending technologies, including legal authorization, prudential rules, and policy infrastructure. In contrast, semi-structured interviews reveal stakeholder interpretations of enforcement, market practice, and the feasibility of asset-based and receivables-based underwriting. Together, these methods bridge the gap between theoretical lending technologies (Berger & Udell, 2006) and their practical operation in the Azerbaijani context.

Subchapter 2.2 presents and discusses the empirical findings from this analysis, organized into three analytical themes: structural SME financing constraints, the role and mechanisms of NBFIs, and institutional and regulatory conditions.

2.2. Empirical Findings and Discussion: NBFIs and SME Financing in Azerbaijan

This subchapter presents and interprets the empirical findings derived from document analysis and semi-structured interviews with stakeholders involved in SME financing in Azerbaijan. The analysis is structured around the three analytical themes established in the methodological framework: (A) structural SME financing constraints, (B) the role and mechanisms of NBFi instruments, and (C) the legal, market, and enforcement conditions shaping their practical use. Rather than describing the NBFi sector generally, the analysis focuses on how

leasing, factoring, and microfinance function in practice and how institutional conditions influence their operational feasibility within Azerbaijan's bank-centered financial system.

Structural Financing Constraints on SMEs in Azerbaijan (Theme A)

The interview evidence suggests that financing barriers for SMEs in Azerbaijan are closely connected rather than isolated. Collateral requirements, weak financial documentation, and high borrowing costs reinforce one another, cumulatively restricting access to formal finance. As a result, some firms are excluded before lenders fully assess their commercial viability. Several respondents also indicated that when appropriate SME financing is unavailable, entrepreneurs turn to alternative borrowing channels, including personal loans and business-purpose mortgages. The findings therefore confirm the theoretical expectation developed in Chapter 1 that SME financing constraints are not only about the absence of credit, but also about the mismatch between SME characteristics and the lending technologies most widely available in Azerbaijan.

The collateral requirements (A1) emerged as the most consistently identified barrier. The findings suggest that collateral functions not only as a risk-management tool but also as an entry condition for formal lending. The issue is not simply whether SMEs possess assets, but whether those assets are liquid, formally documented, and recoverable from the lender's perspective. As the SME representative explained, "*Banks also require liquid collateral. It is not sufficient for a company to hold large amounts of inventory; this inventory must be easily sellable*" (I5, personal communication, April 1, 2026). This means that productive business assets may still have limited value for lenders if they cannot be quickly converted into cash.

Several respondents also noted that collateral requirements often exceed the requested loan amount. According to one commercial bank interviewee, "*the collateral must be even larger than the loan principal*" (I6, personal communication, March 24, 2026). This creates a structural disadvantage for smaller enterprises, especially micro-enterprises, which may lack formally registered or sufficiently valuable assets despite maintaining active business operations. The state SME agency similarly confirmed that insufficient collateral remains one of the main reasons SMEs receive loan refusals from banks (I2, personal communication, March 3, 2026). This finding is consistent with the credit-rationing logic discussed in Chapter 1, in which firms may be excluded not because they lack business potential, but because they cannot meet the lender's screening requirements.

Informational opacity (A2) further reinforces this exclusion by limiting the lender's ability to verify SMEs' actual financial position. Several interviewees described smaller enterprises as operating with incomplete accounting systems, partially informal turnover, or inconsistent reporting standards. The NBFi representative identified shadow accounting as a major obstacle, explaining that "*not all company indicators are officially recorded*" (I3, personal communication, February 26, 2026). A banking-sector respondent similarly noted that many SMEs struggle to satisfy formal documentation requirements, especially financial statements and other records required by banks (I4, personal communication, March 31, 2026).

This creates a situation in which firms may be commercially active but difficult for lenders to evaluate through conventional procedures. The I7 interview illustrates this issue from the demand side: the rural bakery/food production representative explained that lenders should consider "*not only formal documents, but also real orders and business activity,*" because the business already had customers before it was fully documented (I7, personal communication, March 25, 2026). Her statement that "*the business may be active, but not everything is formally documented yet*" (I7, personal communication, March 25, 2026). captures the mismatch between early-stage business activity and the formal evidence lenders expect.

This finding directly reflects the theoretical argument that informational opacity disadvantages SMEs under conventional bank lending models (Beck et al., 2005; Berger & Udell, 2006). In theory, NBFIs can reduce reliance on full borrower transparency when their instruments are anchored in verifiable assets, receivables, or social collateral. In practice, however, the interviews suggest that NBFIs do not entirely eliminate the information problem. They may still provide finance when banks refuse, but the uncertainty is reflected in the price: "*The risk is still there, but it is priced differently*" (I6, personal communication, March 24, 2026). Thus, NBFIs may widen access for some SMEs, but they also transfer part of the information risk to borrowers through higher borrowing costs.

Macroeconomic risk pricing (A3) adds a further layer to these constraints. Even when firms satisfy collateral and documentation requirements, borrowing costs may remain high because lenders incorporate inflation, volatility, and broader uncertainty into their terms. One commercial bank interviewee stated that "*Azerbaijan has very high volatility and very high inflation, so the risks are very high. Therefore, high interest rates are one of the biggest problems*" (I6, personal communication, March, 2026). One SME representative estimated

borrowing costs at around 20–25%; since this figure is based on a single interviewee’s assessment rather than documentary market data, it is presented here only as an illustrative perception, not as a sector-wide benchmark. The point is nevertheless important: for SMEs with narrow margins or irregular cash flows, formally available credit may still be difficult to sustain. This reflects the credit-rationing logic described by Stiglitz and Weiss (1981), in which lenders respond to uncertainty by imposing stricter terms or higher rates. I7 described the same problem at the firm level: *“If the monthly payment is too high, it creates pressure because bakery income can change depending on orders and seasons”* (I7, personal communication, March 25, 2026). State subsidy mechanisms may reduce borrowing costs for selected firms, but the interviews suggest that they do not fully remove the pressure of high repayment costs for micro and early-stage enterprises.

Consumer loan substitution (A4) appears as one outcome of these barriers. When suitable business loans are unavailable, some entrepreneurs turn to personal loans or mortgages to finance business activity. The NBFİ representative explained that individuals often have stronger personal credit histories than newly established firms, allowing them to obtain larger amounts as private borrowers than as businesses (I3, personal communication, February 26, 2026). A banking-sector interviewee similarly noted that personal loans are sometimes used as start-up capital before firms become eligible for business finance (I4, personal communication, March 31, 2026). From the SME perspective, this pattern reflects deeper weaknesses in the financing system: (I5) described the use of consumer and mortgage loans for business purposes as evidence of *“underlying financing constraints and structural inefficiencies in the system”* (I5, personal communication, April 1, 2026). Consumer loan substitution, therefore, suggests that entrepreneurs do not simply stop borrowing when SME finance is unavailable; instead, they shift toward instruments not designed for productive business investment. This finding aligns with the substitution logic discussed in Chapter 1, in which constrained or discouraged borrowers may rely on alternative financing channels when conventional business credit is unavailable.

Financial literacy (A5) is a separate but related demand-side barrier constraint. Some SMEs struggle to compare loan terms, understand all borrowing costs, or prepare the documents lenders require. The microfinance association representative stated that *“For MSMEs, the major difficulty is financial literacy. It is difficult for them to analyze the conditions and terms offered by financial institutions”* (I1, personal communication, February 13, 2026). I7 broadened this

point by explaining that practical skills alone are not enough to run a formal business: “*You need to know how to plan, calculate costs, build a brand, and think about customers*”(I7, personal communication, March 25, 2026). This suggests that access to finance also depends on the ability to present business activity in a form that lenders can assess.

The findings show that the barriers to SME financing in Azerbaijan are cumulative and mutually reinforcing. Collateral exclusion limits initial access, informational opacity increases perceived risk, and macroeconomic uncertainty raises borrowing costs. Together, these constraints push some entrepreneurs toward personal borrowing and other substitutes outside formal SME finance. The evidence therefore supports the theoretical argument that SME exclusion results from a mismatch between SME needs and the lending technologies most commonly used in the formal financial system. This provides a basis for examining whether NBFIs can address some of these gaps through more flexible, instrument-specific mechanisms, particularly microfinance, leasing, and factoring.

The Role and Mechanisms of NBFIs: Contribution and Limitations (Theme B)

The empirical findings suggest that NBFIs in Azerbaijan do not operate as a uniform financing channel. Their role differs by instrument, financing scale, and institutional feasibility. Leasing and factoring are theoretically relevant to the constraints identified in Theme A, but both remain weakly developed in practice. Microfinance, by contrast, is the only NBFi channel that has achieved visible operational scale. This indicates a segmented NBFi sector in which some instruments exist mainly in legal or limited operational form, while microfinance partially addresses entry-level exclusion.

Leasing (B1) is theoretically well-suited to the collateral constraints identified in Theme A, as the financed asset itself can serve as the underwriting anchor. In principle, this should reduce dependence on conventional collateral requirements. In practice, however, leasing remains limited. According to the SME representative, weak judicial enforcement increases lender caution because even successful legal claims do not necessarily guarantee asset recovery (I5, personal communication, April 1, 2026). This weakens the main advantage of leasing: if repossession and resale are uncertain, lenders continue to rely on conservative practices and additional security. A commercial bank interviewee also noted that Azerbaijani businesses increasingly explore foreign leasing because domestic leasing conditions are less competitive (I6, personal communication, March 24, 2026). Although this remains an interview-based

observation, it supports the broader finding that domestic leasing remains weak. I7 provides a demand-side example of why leasing remains relevant: for the bakery, the binding constraint was equipment, since “*without proper baking equipment, it was hard to grow*” (I7, personal communication, March 25, 2026). Leasing, therefore, in theory matches SME investment needs, but remains constrained by enforceability, recovery, and market-development conditions.

Factoring (B2) shows the clearest gap between theoretical suitability and operational supply. As discussed in Chapter 1, factoring should help SMEs manage working-capital shortages caused by delayed receivables. However, interview evidence suggests that it remains almost absent at the SME level. The microfinance association described strong demand for factoring while noting that provision is very limited: “*There was a huge demand for factoring services at our meeting. And at the moment, we do not have many such services in the market, only one bank offers it, but only to large businesses, not to small SMEs*” (I1, personal communication, February 13, 2026). A commercial bank interviewee similarly stated that “*recourse factoring is almost non-existent in Azerbaijan*” (I6, personal communication, March 24, 2026). This indicates that the problem is not a lack of potential demand but a weak operational infrastructure. Factoring depends on reliable invoices, formal contracts, receivables verification, and enforceable payment claims. The SME representative’s example from the pharmaceutical sector illustrates its practical relevance: factoring could improve liquidity by allowing firms to use contracts as collateral and receive immediate financing (I5, personal communication, April 1, 2026). However, because the required formalization and verification conditions remain underdeveloped, factoring is not yet a visible SME-scale working-capital instrument.

Microfinance (B3) is the dominant NBFİ instrument in practice. The microfinance association representative emphasized that unmet demand remains high even after more than two decades of sector development: “*Microfinance institutions, despite being in the marketplace for the last 22 years, there is still a huge demand*” (I1, personal communication, February 13, 2026). This suggests that microfinance addresses a real financing gap for borrowers underserved by conventional banks. However, the same evidence also shows its structural ceiling. The microfinance association stated that “*MFIs have a limit of up to 50,000 Manat maximum. If you want more than 50,000 Manat, then you have to go to the bank*” (I1, personal communication, February 13, 2026). The state agency similarly described MFIs as especially relevant for

businesses that do not require large-scale investment (I2, personal communication, March 3, 2026). Therefore, microfinance expands access for early-stage and microenterprises, but it cannot fully meet the investment or working-capital needs of growing small and medium firms.

The group guarantee mechanism (B4) is central to this role of expanding access. The microfinance association explained that “*MFIs can lend even without a tax ID. They can lend based on the group guarantee or on individual guarantee, which lowers the barrier for those who have never had a credit history*” (I1, personal communication, February 13, 2026). This mechanism partly replaces asset-based collateral with social accountability and borrower proximity. I7 also confirms this entry-level function from the borrower side, describing non-bank support as combining finance with “*guidance, confidence, equipment, and someone to believe that the business idea can work*” (I7, personal communication, March 25, 2026). Microfinance, therefore, provides more than credit alone; it can help excluded borrowers enter formal financial relationships.

The complementarity vs substitution relationship (B5) is segmented. Microfinance functions as a partial substitute for bank lending at the entry level because it reaches borrowers with weak collateral, limited documentation, or no credit history. This supports the segmented-substitution logic identified by McGeown et al. (2025), in which alternative finance primarily serves borrowers constrained in conventional credit markets. Leasing and factoring, by contrast, have not developed sufficiently to act as meaningful substitutes for bank finance. This is consistent with Berger and Udell’s (2006) lending-technology framework, which posits that different instruments require distinct verification and enforcement conditions. In Azerbaijan, only microfinance operates at a meaningful scale, while leasing and factoring remain institutionally constrained.

Borrower graduation (B6) appears as a possible longer-term contribution of microfinance. The microfinance association described how MFIs developed regional markets before banks entered them: “*By 2006, banks began opening branches in regions that MFIs had already developed; they saw the market potential MFIs had built*” (I1, personal communication, February 13, 2026). This suggests that MFIs may contribute to repayment culture, credit history, and future bank eligibility. However, because this mechanism is based mainly on the microfinance-sector perspective and was not directly confirmed by banking respondents, it should be treated as a plausible contribution rather than a firmly established sector-wide finding.

A final finding concerns the divergence between banking-sector and NBFİ-sector assessments (B7). While the commercial bank representative viewed the regulatory environment as broadly adequate, microfinance and NBFİ respondents described it as more constraining. This difference reflects unequal exposure to the same institutional environment: banks have deposit funding, stronger legal capacity, and better access to support mechanisms, while NBFİs face higher funding costs and narrower operational flexibility. The state agency’s observation that non-bank institutions cannot collect public deposits and therefore rely on banks as a primary funding source reinforces this point (I2, personal communication, March 3, 2026). This funding dependency limits NBFİs’ ability to compete directly with banks on pricing or scale.

Theme B shows that NBFİs in Azerbaijan partially address the exclusion of lower-segment financing but do not eliminate the broader SME financing gap. Microfinance has developed into a functioning entry-level channel through small loans, group guarantees, proximity-based assessment, and possible borrower graduation. Leasing and factoring remain theoretically relevant but operationally weak. As a result, a missing middle persists between small-scale microfinance and collateral-based bank lending, leaving many SMEs underserved despite the formal presence of alternative NBFİ instruments.

Institutional and Regulatory Conditions (Theme C)

The institutional and regulatory findings explain why the instrument-level patterns identified in the previous subsection persist despite a formally permissive legal framework. Leasing and factoring are legally authorized in Azerbaijan, and the NBFİ sector has expanded institutionally over the past two decades. However, the findings suggest that legal authorization alone has not been sufficient to support the practical development of transaction-based SME finance. Weak enforcement mechanisms, limited receivables infrastructure, underdeveloped secondary markets, and bank-centered funding structures continue to constrain the operational feasibility of leasing and factoring. The central issue is therefore less the absence of legal permission than the mismatch between transaction-based lending instruments and the institutional infrastructure required for their effective operation.

The legal framework (C1) has formally authorized NBFİ activity, including leasing and factoring, since the adoption of the Law on Non-Bank Credit Institutions in 2009. Nevertheless, the interviews indicate a persistent gap between formal authorization and operational capacity. The commercial bank interviewee summarized this directly, noting that “*legislative regulation*

should have an impact, but in reality it does not” because SMEs still struggle to access finance under existing lending conditions (I6, personal communication, March 24, 2026). The state SME agency also noted that many state-supported financing programs remain tied to collateral, tax registration, and formal documentation requirements that microenterprises often cannot meet (I2, personal communication, March 3, 2026). As a result, legal authorization functions unevenly across the SME sector and does not automatically translate into effective access to alternative financing instruments.

Enforcement (C2) emerged as a structural weakness with sector-wide consequences extending beyond NBFİ-specific regulation. The SME representative provided the clearest assessment, stating that *“the inability to recover assets increases lender caution and results in higher pricing for all borrowers”* (I5, personal communication, April 1, 2026). Weak enforcement is particularly important for leasing because the instrument depends on predictable repossession and recovery conditions. The same interviewee explained that even successful court decisions do not always guarantee asset recovery if assets have already been moved or withdrawn. This uncertainty weakens the asset-based underwriting logic on which leasing depends and encourages lenders to maintain stricter collateral requirements and more conservative pricing practices.

The findings additionally suggest inconsistencies in regulatory oversight across lender types. One commercial bank interviewee noted that some non-bank organizations operating under less stringent sector-specific supervision may impose lending requirements *“two to three times higher than the regulator’s requirements for banks”* (I6, personal communication, March 24, 2026). Weak enforcement, therefore, operates at two levels: it increases overall market risk and borrowing costs, while also undermining the practical feasibility of asset-based instruments that depend on reliable recovery mechanisms. In this sense, enforcement limitations reproduce some of the same collateral constraints that leasing is theoretically intended to reduce.

Secondary-market weakness further limits the scalability of leasing (C3). Asset-based finance depends partly on functioning resale markets that allow lenders to recover value from repossessed equipment or machinery. Nevertheless, the state agency described Azerbaijan’s capital market as still *“only at an early stage of development”* (I2, personal communication, March 3, 2026), while the commercial bank interviewee noted that several instruments common in more developed markets are *“either missing or not fully operational in Azerbaijan”* (I6,

personal communication, March 24, 2026). This matters because weak resale markets reduce the attractiveness of leasing: even if repossession is legally possible, the financier still needs a reliable market in which recovered assets can be valued and sold. In this sense, the underdevelopment of secondary markets directly weakens the asset-based logic of leasing, which depends on predictable recovery values (Berger & Udell, 2006).

Receivables infrastructure and factoring constraints (C4) also explain why factoring remains weak despite reported demand. The microfinance association noted that “*there was a huge demand for factoring services,*” but that current provision is very limited and mainly unavailable to small SMEs (I1, personal communication, February 13, 2026). A commercial bank interviewee similarly stated that “recourse factoring is almost non-existent in Azerbaijan” (I6, personal communication, March 24, 2026). This suggests that factoring is constrained less by legal prohibition than by the absence of operational infrastructure required for receivables-based finance. Factoring depends on reliable invoice verification, enforceable receivables assignment, formal contracts, and predictable payment recovery. However, the informational opacity identified in Theme A complicates these processes, particularly among SMEs with inconsistent documentation or partially informal accounting systems. The rural microenterprise interview also supports this point, as I7 noted that factoring would require “*formal contracts, invoices, trusted buyers, and clear payment terms*” (I7, personal communication, March 25, 2026). As a result, factoring remains difficult to scale even where demand exists. This confirms the theoretical expectation that factoring can function only where receivables are sufficiently formalized, verifiable, and enforceable (Klapper, 2006; Mol-Gómez-Vázquez et al., 2018).

Prudential regulation and funding structures further constrain NBFi development (C5). Since non-bank institutions cannot collect public deposits, they remain dependent on wholesale funding, often from commercial banks. The state SME agency explained this directly: “*Non-bank institutions do not have the authority to collect deposits from the public. Therefore, they rely on banks as a primary funding source*” (I2, personal communication, March 3, 2026). This creates a bank-centered environment in which NBFis depend on the same institutions they are expected to complement, while their final lending rates depend on the cost of capital they access.

The interviews also indicate a prudential mismatch. A commercial bank interviewee explained that rising capital thresholds have reduced the number of smaller NBFis in the market (I6, personal communication, March 24, 2026), while the microfinance association argued that

regulation should be more proportionate to the risk profile of MFIs, emphasizing the need for “*a risk-based approach*” (I1, personal communication, February 13, 2026). At the same time, the NBFİ representative noted that greater DTI flexibility enables some borrowers who are excluded from bank lending to access non-bank credit. Nevertheless, the broader effect of prudential tightening has been market concentration and product standardization, limiting incentives to develop more complex SME-oriented instruments such as leasing or factoring. This supports the theoretical argument that NBFİ instruments depend not only on legal authorization but also on funding and regulatory conditions that make specialized lending technologies operationally feasible.

Market infrastructure (C6) represents enabling but insufficient conditions for NBFİ development. The microfinance association discussed a possible APEX wholesale funding institution that could provide local-currency funding independently of banks, reducing funding-cost pressures for MFIs (I1, personal communication, February 13, 2026). Respondents also noted that digital tools, electronic document processing, centralized tax data, and remote client processing may reduce documentation burdens and improve lending efficiency. As the commercial bank interviewee argued, digitalization can help smaller institutions compete more effectively in visibility and client access (I6, personal communication, March 24, 2026). However, these improvements mainly affect operational efficiency. They do not replace the institutional foundations required for leasing and factoring, including enforceable contracts, reliable recovery, receivables verification, and functioning secondary markets.

The bank-centered state support architecture (C7) reveals a tension within SME financing policy. State support mechanisms, including subsidized lending, guarantees, and entrepreneurship programs, are designed to improve SME access to finance. However, the findings suggest that these instruments remain strongly tied to commercial banks and often require tax registration, collateral, and formal documentation. The state agency acknowledged this limitation, explaining that such loans often reach “*only medium or small businesses, not micro-enterprises*” (I2, personal communication, March 3, 2026).

As a result, state support may partly reproduce the same exclusion mechanisms identified in Theme A. Instead of expanding the operational role of transaction-based NBFİ instruments, support is largely channeled through bank-compatible criteria. This creates an institutional paradox: policies designed to address SME financing gaps may still reinforce the bank-centered

structure that limits access for the weakest firms. This supports the theoretical argument that NBFi instruments can broaden SME access only when the surrounding institutional framework enables their practical use, rather than simply recognizing them formally (Berger & Udell, 2006; Klapper, 2006; Mol-Gómez-Vázquez et al., 2018).

Geographic exclusion (C8) adds a spatial dimension to these institutional constraints. Financial services remain concentrated in Baku and other major urban centers, while access in regional areas is weaker. The microfinance association noted that group lending remains one of the main access mechanisms for rural households and micro-enterprises outside urban areas (I1, personal communication, February 13, 2026). The rural microenterprise interview illustrates this from the borrower side: “*sometimes we do not only need a loan. We need guidance, confidence, equipment, and someone to believe that the business idea can work*” (I7, personal communication, March 25, 2026). As a result, geographic exclusion reflects not only unequal access to credit but also unequal access to institutional support and formal financial networks. Table 7 consolidates the main empirical findings across the three analytical themes and supports the final interpretation of how NBFIs contribute to SME financing in Azerbaijan.

Table 7

Summary of empirical findings by analytical themes

Analytical themes	Main empirical finding	Key limitation/implication
Structural SME financing constraints	Collateral requirements, informational opacity, and high borrowing costs reinforce one another, restricting SME access to formal finance.	Some SMEs rely on unsuitable borrowing channels, including consumer lending used for business purposes.
Role and mechanisms of NBFIs	Microfinance is the most operationally developed NBFi instrument, while leasing and factoring remain limited in practice.	NBFIs mainly support lower-segment or entry-level financing needs rather than broader SME investment and expansion.
Institutional and regulatory conditions	Leasing and factoring are formally authorized but constrained by weak enforcement, receivables infrastructure, secondary markets, and funding structures.	Transaction-based instruments remain difficult to scale under current institutional conditions.

Source: Compiled by the author

Taken together, the empirical findings suggest that the SME financing problem in Azerbaijan is less about the formal absence of alternative instruments and more about the gap

between legal authorization and institutional enablement. Leasing, factoring, and microfinance are all formally present in the financial system, but they do not contribute to SME financing in the same way. Microfinance has developed as the most visible non-bank channel because its lending model can operate with weaker documentation, smaller loan sizes, and closer borrower relationships. Leasing and factoring, by contrast, require stronger formal infrastructure, including enforceable recovery procedures, reliable transaction records, receivables verification, and functioning secondary markets. Their limited use therefore reflects not only market underdevelopment, but a mismatch between the institutional requirements of these instruments and the conditions currently available in Azerbaijan.

This distinction is important because it shows that NBFi development cannot be treated as one general sectoral problem. The findings indicate an “instrument vacuum” in the middle of the SME financing system. Microfinance supports entry-level borrowers, while banks remain dominant among larger, more formal borrowers. However, firms that need equipment finance, working-capital liquidity, or growth-oriented funding often fall between these two channels. These are precisely the needs that leasing and factoring could address in theory, but their weak operational development means that this intermediate space remains insufficiently served.

The findings, therefore, support the lending-technology framework developed in Chapter 1. In line with Berger and Udell (2006), the Azerbaijani case shows that each financing technology depends on specific institutional foundations. Microfinance is better suited to informality and weak documentation, while leasing and factoring depend more on formal enforcement and transaction infrastructure. This also extends the credit-rationing perspective of Stiglitz and Weiss (1981): increasing the number of formally permitted instruments does not automatically reduce SME credit constraints if those instruments cannot function effectively in practice.

From a policy perspective, the findings suggest that SME finance reform should move beyond general support for NBFIs and focus on the operational conditions required by each instrument. For leasing, this means improving repossession, asset recovery, and secondary-market conditions. For factoring, it means strengthening receivables assignment, invoice verification, and payment enforcement. For microfinance, the key issue is not basic operational viability, but its limited capacity to support firms beyond small-scale financing needs. Therefore,

the main policy challenge is not only to expand non-bank finance, but to build the missing institutional layer between microfinance and bank credit.

Future research could examine this missing middle more directly by including larger samples of SMEs and direct leasing and factoring providers. Comparative studies across the South Caucasus or post-Soviet economies could also show whether the Azerbaijani pattern reflects wider regional institutional constraints or country-specific market conditions.

Conclusion

SME financing in Azerbaijan is largely shaped by a bank-centered financial structure that disadvantages smaller, less formally documented, and asset-poor firms. Although the financial system formally includes non-bank institutions authorized to provide leasing, factoring, and microfinance, their practical contribution to SME financing remains uneven. The findings of this thesis show that NBFIs do not function as a single alternative to bank lending. Microfinance has become the primary operational non-bank channel for entry-level borrowers, while leasing and factoring remain underdeveloped despite their legal authorization. As a result, the financing gap between what microfinance can provide and what bank lending requires has not been bridged by the formally available NBFİ instruments. The main contribution of this thesis is to show that the role of NBFIs in Azerbaijan should be understood not as a general alternative to bank lending, but rather as an instrument-specific, institution-dependent contribution to SME finance.

The thesis developed this argument by distinguishing NBFIs functionally from banks and by narrowing the analysis to leasing, factoring, and microfinance. The theoretical framework showed that these instruments address different SME financing constraints: leasing is linked to investment finance, factoring to working-capital liquidity, and microfinance to entry-level credit access. The empirical analysis then showed that, in Azerbaijan, these instruments do not develop at the same rate. Microfinance has the clearest practical role, while leasing and factoring remain constrained by weak asset recovery, limited receivables verification, funding constraints, and bank-centered support mechanisms. Thus, the thesis demonstrates that NBFIs can support SME financing, but their contribution depends on whether the necessary operational conditions are in place. This supports the mechanism-based view that NBFIs should be assessed according to the financing logic and operational requirements of each instrument, rather than by their formal legal status alone.

This instrument-specific asymmetry explains why microfinance is more visible in Azerbaijan, while leasing and factoring remain constrained despite their theoretical relevance for SME investment and working-capital finance. Microfinance expands access for microenterprises and early-stage borrowers that are excluded from conventional bank credit. However, it remains limited by loan size and cannot fully support larger investments or growth-oriented financing needs. Leasing is relevant for equipment and investment finance, but its practical use is weakened by uncertainty around repossession and asset recovery. Factoring could address working-capital problems caused by delayed receivables. However, it remains difficult to scale because many SMEs lack the formal contracts, invoice records, and payment transparency required by the instrument. Consequently, firms that have outgrown microfinance but cannot meet bank lending requirements remain poorly served.

These findings have practical implications for SME finance policy in Azerbaijan. General support for the NBFİ sector is unlikely to be sufficient unless reforms address the specific conditions required by each instrument. For leasing, this means improving repossession procedures, strengthening asset recovery in practice, and supporting secondary-market development. For factoring, it means strengthening receivables assignment rules, invoice verification capacity, and buyer-side payment discipline. For microfinance, the main issue is not basic operational viability, but the structural ceiling above which MFIs cannot meet the financing needs of growing SMEs. Therefore, improving non-bank SME finance requires instrument-specific reform rather than broad formal recognition of NBFİs.

Several limitations should nevertheless be acknowledged. The empirical analysis is based on a relatively small qualitative sample and therefore does not support statistical generalization. Direct interviews with leasing and factoring providers were not obtained, meaning that conclusions regarding these instruments rely on triangulation between stakeholder interviews, regulatory documents, and institutional evidence rather than direct provider-level testimony. In addition, demand-side evidence remains limited, particularly regarding the prevalence of consumer-loan substitution and borrower graduation from microfinance into bank lending. The study also did not include direct interviews with the Central Bank of Azerbaijan, meaning that regulatory interpretations were derived primarily from published regulatory and policy materials. The findings should therefore be interpreted as exploratory and mechanism-oriented rather than as definitive sector-wide measurements.

These limitations also point toward several directions for future research. Comparative studies across post-Soviet or South Caucasus financial systems could help determine whether the Azerbaijani pattern reflects broader regional institutional constraints or more country-specific conditions. Quantitative firm-level research could additionally examine the scale of the financing gap identified qualitatively in this thesis, particularly among firms positioned between microfinance ceilings and conventional bank lending requirements. Further studies would also be valuable in assessing whether ongoing regulatory reforms, digitalization initiatives, or changes in market infrastructure improve the operational feasibility of leasing and factoring over time. More broadly, further research on transaction-based finance in bank-centered emerging economies may help explain why formally available financing instruments often remain operationally limited in practice. The Azerbaijani case suggests that expanding SME finance depends not only on creating alternative institutions, but also on developing the legal, informational, and enforcement infrastructure required for these instruments to function effectively.

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APPENDICES

Appendix A. Interview Guide and Theoretical Sources

Theme A. SME Financing Constraints:

1. Could you briefly describe the main activities of your bank and your role, particularly in relation to SME financing?
2. What categories of SMEs does your bank most frequently work with: micro, small, or medium-sized enterprises? Are there any dominant industries among your SME clients?
3. In your opinion, what are the main difficulties SMEs face when applying for bank financing in Azerbaijan?
4. To what extent do collateral requirements and credit history limit SMEs' access to bank loans?
5. How does the bank assess credit risks when working with small businesses or self-employed individuals?
6. What are the main factors that determine interest rates and lending conditions for SMEs in commercial banks?

Based on Beck et al. (2005), Beck et al. (2008), Berger and Udell (2006), Kuntchev et al. (2013), and Beck (2013).

Theme B. Role and Mechanisms of NBFIs

7. From your perspective, in which aspects do non-bank financial institutions serve SMEs differently or more flexibly compared to banks?
8. Do you consider non-bank financing to be competition for banks, a complement to the banking sector, or an intermediate stage before a client transitions to a bank?
9. In your experience, do SMEs turn to non-bank institutions after being rejected by a bank? If yes, for what reasons?
10. Does your bank provide factoring services? If yes, which categories of businesses most often use these services?
11. In your opinion, what factors limit the wider development of factoring among SMEs in Azerbaijan?
12. Does your bank cooperate with leasing companies? In which situations can leasing be a more suitable financing instrument than a traditional bank loan?
13. Do you believe that asset-based financing instruments, such as leasing and factoring, are sufficiently developed in Azerbaijan? Why or why not?

Based on Berger and Udell (2006), Adrian and Ashcraft (2012), Klapper (2006), Beck et al. (2005), OECD (2024), and Asian Development Bank (2025).

Theme C. Institutional and Regulatory Conditions

14. Which regulatory or institutional factors most strongly influence SME lending conditions in Azerbaijan?
15. In your opinion, what structural changes could improve SMEs' access to financing in the future?

Based on Demirgüç-Kunt and Maksimovic (1999), World Bank (2015), OECD (2024), Asian Development Bank (2025), and Mol-Gómez-Vázquez et al. (2018).

Source: Compiled by the author based on the theoretical framework of the thesis and the cited sources listed in the appendix.

Appendix B. Participant Information Sheet

Research Title:

The Role of Non-Bank Financial Institutions in Supporting Small and Medium Enterprises in Azerbaijan

Researcher:

Sona Hamid

Bachelor's student, Business Administration

University of Tartu

The purpose of the study: This research examines the role of non-bank financial institutions in improving access to finance for small and medium-sized enterprises (SMEs) in Azerbaijan. The study aims to collect professional perspectives on SME financing practices, existing challenges, and the contribution of non-bank financial institutions to the SME financing.

Participation in the study: Participation involves taking part in a semi-structured interview lasting approximately 35–60 minutes. Participation is voluntary, and participants may withdraw from the interview at any time without providing a reason.

Confidentiality: All information provided during the interview will be used only for academic research purposes and will be treated confidentially. The identity of participants will be anonymised in the thesis, unless explicit permission is given to disclose the participant's identity.

Recording

With the participant's permission, the interview may be audio-recorded in order to ensure accurate transcription and analysis.

Contact

Sona Hamid

University of Tartu

Email: sonahami@ut.ee

Source: Compiled by the author

Appendix C. Interview Consent Form

Research Title:

The Role of Non-Bank Financial Institutions in Supporting Small and Medium Enterprises in Azerbaijan

Researcher:

Sona Hamid
 Bachelor’s student, Business Administration
 University of Tartu

I confirm that:

- I have read and understood the information provided about this research.
- I understand that my participation in this interview is voluntary and that I may withdraw at any time without providing a reason.
- I agree that the information provided during the interview may be used for academic research purposes in the researcher’s Bachelor’s thesis.
- I understand that my responses will be treated confidentially and that my identity will be anonymized in the thesis.
- I agree that the interview may be audio-recorded for research and transcription purposes.

Participant’s name: _____

Participant’s signature: _____

Date: _____

Source: Compiled by the author.

Appendix D. Key Regulatory Milestones Shaping the NBFi Sector in Azerbaijan

Year	Milestone	Key Impact on NBFi Sector
2009	Law on Non-Bank Credit Institutions (No. 933-IIIQ)	Established a formal licensing framework; explicitly authorized leasing (Art. 15.2.2) and factoring (Art. 15.2.1) for NBFIs
2014–2016	Oil price shock, currency devaluations, and banking crisis	Over 10 banks closed; banking credit portfolio fell ~40%; NBCIs contracted, then pivoted to consumer lending under regulatory liberalisation
2016	Establishment of FIMSA (Financial Market Supervisory Authority)	Separated financial supervision from CBAR; NBFIs placed under a dedicated oversight body
2017	Establishment of KOBIA (SME Development Agency) and creation of MCGF (Mortgage and Credit Guarantee Fund)	Strengthened SME policy coordination; state credit guarantee channel for SMEs formalized.
2018	Cabinet Resolution No. 556: SME classification criteria adopted	Official SME thresholds codified; unified legal basis for all SME-targeted statistics and support programs
2019 (Nov)	FIMSA abolished; all supervisory powers transferred to CBAR	Unified oversight of banks and NBFIs under one authority; increased coherence, but also compliance burden
2022	Law 'On the Development of Micro, Small and Medium Enterprises'	Formalized state support mechanisms for SMEs in primary legislation
2024 (Jan)	Financial Sector Development Strategy 2024–2026, adopted by CBAR	Targets financial inclusion, depth, and diversification of instruments, and strengthening of non-bank channels
2024 (Nov)	CBAR prudential package for NBFIs	Minimum capital raised to AZN 1 million for commercial NBFIs; new credit-risk and transparency rules; several non-compliant NBFIs lost licenses in 2025

Source: Compiled by the author based on the Republic of Azerbaijan (2009, 2022), Mahmudzade (2020), Cabinet of Ministers of the Republic of Azerbaijan (2018), Azerbaijan Microfinance Association (AMFA, 2016), Small and Medium Business Development Agency of Azerbaijan (KOBIA, n.d.), and Central Bank of Azerbaijan (2024, 2026).

Appendix E. Coding Agenda: Deductive Category Application

Analytical theme	Code	Code label	Definition	Indicative evidence pattern	Coding rule
Theme A: SME financing constraints	A1	Collateral requirements	SMEs are constrained when lenders require pledgeable, liquid, and formally documented assets as a condition for credit approval.	References to over-collateralization, real estate preference, asset liquidity, or loan refusal due to insufficient collateral.	Code passages where access to credit is limited by collateral demands, asset documentation, or insufficient pledgeable property.
	A2	Informational opacity	SMEs face financing barriers when weak records, informal accounting, or incomplete documentation prevent lenders from assessing creditworthiness.	References to shadow accounting, weak financial statements, undocumented turnover, or active business activity not reflected in formal records.	Code passages describing missing, informal, or unreliable financial information that leads to credit denial, stricter terms, or repricing.
	A3	Macroeconomic risk pricing	Systemic inflation, volatility, and country-level risk increase borrowing costs and reduce SME loan affordability.	References to high interest rates, inflation, currency risk, volatility, or repayment pressure caused by unstable cash flows.	Code passages where lending costs or restrictions are linked to macroeconomic risk rather than only firm-level default risk.
	A4	Consumer loan substitution	Entrepreneurs use personal, consumer, or mortgage loans for business purposes when suitable SME finance is unavailable.	References to personal loans, mortgages, or individual credit histories are used to finance business operations.	Code passages where non-business credit is used as a substitute for SME financing due to limited access to formal business loans.
	A5	Financial literacy	SME owners face demand-side barriers when they lack the skills to compare loan terms, prepare	References to difficulty understanding loan conditions, hidden costs, business planning,	Code passages describing limited financial knowledge or weak application capacity as a

Analytical theme	Code	Code label	Definition	Indicative evidence pattern	Coding rule
			documents, or present business activity to lenders.	documentation, or financial management.	barrier to accessing finance.
Theme B: Role and mechanisms of NBFIs	B1	Leasing	Leasing supports asset acquisition by linking finance to the financed asset rather than relying only on conventional collateral.	References to equipment finance, agricultural machinery, vehicles, leasing availability, or foreign leasing providers.	Code passages describing leasing as an asset-based financing mechanism or discussing its practical availability and constraints.
	B2	Factoring	Factoring improves liquidity by converting receivables into immediate financing, reducing dependence on fixed collateral.	References to invoices, receivables, delayed payments, contract-based finance, working-capital gaps, or limited factoring supply.	Code passages describing factoring, invoice financing, receivables assignment, or the absence/limited availability of factoring services.
	B3	Microfinance	Microfinance provides small-scale credit to borrowers excluded from conventional bank lending, especially microenterprises and rural clients.	References to small loans, microenterprise finance, the 50,000 AZN ceiling, rural borrowers, or persistent demand for MFI lending.	Code passages describing microfinance as an entry-level financing channel or discussing its scale, outreach, and limitations.
	B4	Group guarantees	Group guarantees substitute social collateral and peer accountability for formal asset-based collateral.	References to group lending, peer guarantees, mutual responsibility, lending without tax ID, or social accountability.	Code passages where social collateral or group-based responsibility substitutes for formal collateral or credit history.
	B5	Complementarity vs. substitution	NBFIs may either complement banks by serving specific financing needs or	References to market segmentation, bank exclusion,	Code passages comparing NBFIs and banks or explaining whether

Analytical theme	Code	Code label	Definition	Indicative evidence pattern	Coding rule
			substitute for banks by serving excluded borrowers.	NBFI-bank comparison, funding dependency, or NBFIs as first-step finance.	NBFIs act as alternatives, complements, or substitutes.
	B6	Borrower graduation	NBFIs may help borrowers build credit histories, develop repayment cultures, and become ready for later bank financing.	References to transition from MFI to bank credit, repayment history, credit culture, or regional market development by MFIs.	Code passages describing how NBFI use improves future access to formal or bank financing.
	B7	Banking-sector interpretation	Banks and NBFIs may interpret the same financing environment differently because they face different funding, regulatory, and operational conditions.	References to bank views on competition, NBFI market share, regulatory adequacy, or differences between bank and NBFI perspectives.	Code passages where banking-sector assessments differ from NBFI, SME, or institutional stakeholder accounts.
Theme C: Institutional and regulatory conditions	C1	Legal framework	Laws and regulations define the permitted activities, licensing rules, and formal scope of NBFI operations.	References to NBFI legislation, leasing law, factoring authorization, licensing rules, or gaps between legal permission and practice.	Code passages discussing the statutory or regulatory basis for NBFI activity and its practical implications.
	C2	Enforcement	Weak contract enforcement and unreliable recovery mechanisms increase lending risk and reduce the feasibility of	References to court decisions, asset recovery failure, repossession problems, or enforcement-	Code passages describing how weak enforcement affects lender behavior, pricing, collateral demands, or leasing feasibility.

Analytical theme	Code	Code label	Definition	Indicative evidence pattern	Coding rule
			asset-based finance.	related risk premiums. References to weak capital markets, resale difficulties, missing financial instruments, bond issuance, or refinancing constraints.	Code passages where market underdevelopment limits leasing, NBFİ funding, liquidity, or asset recovery.
	C3	Secondary markets	Underdeveloped resale, capital, or refinancing markets limit recovery values and constrain NBFİ scale.		
	C4	Receivables infrastructure	Factoring depends on clear rules and operational systems for receivables assignment, invoice verification, and payment enforcement.	References to invoices, receivables assignment, recourse factoring, buyer reliability, payment terms, or verification problems.	Code passages discussing the legal or operational infrastructure required for factoring and receivables-based finance.
	C5	Prudential rules	Capital requirements, DTI rules, and supervisory standards shape NBFİ capacity and may constrain development if not proportionate.	References to capital thresholds, regulatory tightening, DTI flexibility, risk-based regulation, or exit of smaller NBFİs.	Code passages describing how prudential rules affect NBFİ operations, market structure, or lending capacity.
	C6	Market infrastructure	Credit registries, digital systems, wholesale funding, and guarantee mechanisms affect NBFİ competitiveness and operational capacity.	References to APEX funding, digitalization, databases, e-signature, credit bureaus, guarantees, or remote processing.	Code passages describing infrastructure that enables or limits NBFİ lending, funding, or client assessment.
	C7	Bank-centered state support	State support mechanisms may	References to KOBİA,	Code passages where state support

Analytical theme	Code	Code label	Definition	Indicative evidence pattern	Coding rule
			reinforce bank-based finance when guarantees, subsidies, or support programs are mainly routed through banks.	guarantees, subsidized loans, bank-intermediated support, eligibility rules, or exclusion of microenterprises.	is linked to bank channels, collateral, registration, or documentation requirements.
	C8	Geographic exclusion	Regional concentration of finance and support infrastructure limits access for rural SMEs and microenterprises.	References to rural access gaps, regional outreach, lack of training, weaker institutional support, or group lending in regions.	Code passages describing spatial or regional barriers to finance, support services, or formal financial networks.

Note: Coding was conducted by the author using Mayring’s (2000) deductive category application procedure. Themes A, B, and C, along with their associated codes, were derived from the theoretical framework prior to data collection. The “Indicative Evidence Patterns” column summarizes thematic markers rather than verbatim quotations; full excerpts are used in Chapter 2. Interview codes preserve anonymity: I1 = microfinance sector association; I2 = state SME agency; I3 = non-bank credit institution; I4 and I6 = commercial banks; I5 and I7 = SME perspectives.

Source: Compiled by the author based on semi-structured interviews conducted February–April 2026.

Resüme**MITTEPANGANDUSLIKE FINANTSASUTUSTE ROLL VÄIKESTE JA KESKMISE SUURUSEGA ETTEVÖTETE TOETAMISEL ASERBAIDŽAANIS**

Sona Hamid

Käesoleva bakalaureusetöö eesmärk on uurida, kuidas mittepanganduslikud finantsasutused (NBFİ-d) toetavad väikeste ja keskmise suurusega ettevõtete (VKE-de) rahastamist Aserbaidžaanis. Täpsemalt analüüsitakse töös mehhanisme, mille kaudu liising, faktooring ja mikrorahastus aitavad leevendada VKE-de rahastamispiiranguid, ning institutsionaalseid tingimusi, mis mõjutavad nende instrumentide praktilist kasutamist.

VKE-d moodustavad suurema osa Aserbaidžaanis ettevõtetest, kuid nende ligipääs välisrahastusele on jätkuvalt piiratud. Peamisteks probleemideks on ranged tagatisnõuded, ebapiisav finantsdokumentatsioon, kõrged intressimäärad ning raskused tavapärase pangakrediidi saamisel. Seetõttu on alternatiivsed rahastuskanalid muutunud järjest olulisemaks, eriti ettevõtete jaoks, kellel puudub piisav tagatis või krediidi ajalugu.

Töö teoreetiline osa käsitleb mittepanganduslike finantsasutuste rolli VKE-de rahastamisel ning selgitab liisingu, faktooringu ja mikrorahastuse toimimismehhanisme. Samuti antakse ülevaade varasematest empiirilistest uuringutest üleminekumajanduste ja post-sovetlike riikide kontekstis. Teoreetiline raamistik põhineb peamiselt Bergeri ja Udelli (2006) laenutehnoloogiate käsitlusel ning krediidiratsioneerimise teoorial.

Empiiriline osa põhineb kvalitatiivsel uurimismeetodil. Andmete kogumiseks kasutati dokumentide analüüsi ja poolstruktureeritud intervjuusid finantssektori, pankade, riiklike institutsioonide ja VKE-de esindajatega. Analüüs viidi läbi deduktiivse temaatilise lähenemise abil.

Uurimistulemused näitavad, et mitte kõik NBFİ instrumendid ei toimi Aserbaidžaanis võrdselt. Mikrorahastus on kujunenud kõige nähtavamaks ja praktilisemalt kasutatavaks mittepanganduslikuks rahastuskanaliks, kuna see võimaldab teenindada väikeseid ja formaalsetest nõuetest kõrvale jäävaid ettevõtteid. Liising ja faktooring on küll seaduslikult lubatud, kuid nende praktiline kasutamine on piiratud. Peamisteks takistusteks on nõrk lepingute jõustamine, ebapiisav nõuete kontrollimise süsteem, piiratud teisene turg ning pankadest sõltuvad rahastusallikad.

Töö järeldab, et probleem ei seisne mitte alternatiivsete finantsinstrumentide puudumises, vaid erinevuses formaalse regulatsiooni ja institutsionaalse toimivuse vahel. Aserbaidžaani finantssüsteemis eksisteerib nn „puudev keskmine“, kus mikrorahastuse võimalused on liiga piiratud suuremate VKE-de jaoks, samas kui tavapärase pangandus jääb paljudele ettevõtetele kättesaamatuks. Seetõttu sõltub mittepanganduslike finantsinstrumentide areng eelkõige sellest, kas institutsionaalne keskkond võimaldab nende instrumentide praktilist toimimist.

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