



CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

The Role of Financing Tools in Increasing Exports in Azerbaijan

2026

Development of Financing Tools in Azerbaijan

I. Factoring

II. Islamic Banking

The Role of Factoring/forfaiting in Increasing Exports in Azerbaijan

➤ **Reduces cash-flow risk:**

- Exporters often wait **30–90 days** for foreign buyers to pay.
- Provides **early access to cash against unpaid invoices**.
- Reduces pressure caused by delayed payments.
- Gives SMEs more predictable working capital.

➤ **Increases production capacity:**

- Immediate liquidity can finance **raw materials and production costs**.
- Exporters can reinvest cash into the next shipment.
- SMEs may reject orders because of **insufficient working capital**.
- Provides **liquidity to finance production**.
- SMEs can accept **larger and more frequent export orders**

➤ **Supports entry into new markets:**

- Foreign buyers often prefer **30–90 day payment terms**.
- Offering credit terms can make exporters more competitive.
- Allows exporters to offer deferred payment while accessing cash earlier.
- Better financing conditions can support expansion into **new foreign markets**

Factoring in Azerbaijan

- Expanding financing opportunities for alternative financing instruments, **including factoring operations is one of the strategic initiatives of the Central Bank as per the Financial Sector Development Strategy for 2024-2026.**

Main Barriers	Solutions
Gaps in the legislative framework	Amendments to the Tax Code, Civil Code, and other relevant normative acts
Limited technological infrastructure and potential of banks to manage Supply Chain Finance (SCF) products	Development of the technological infrastructure
Low awareness of SCF products among the banking sector and customers	Development of the capacity building programs
Limited knowledge about the implementation of existing SCF programs	

Development of factoring in Azerbaijan

- ***Amendments to the Tax Code***
- ***Amendments to the Civil Code***
- ***Technological infrastructure***
- ***Capacity building***

Amendments to the Tax Code

- **Buyer's restriction of VAT compensation when financed through the factoring operations before the changes made in 2024:**
 - When the amount of VAT was paid to the seller by the bank, the buyer had to pay the debt (both principal and VAT) to the bank, and since the banks as providers of financial services are exempt from VAT, ***the buyer was unable to reimburse the VAT amount.***
- A new Article 175.14 has been added to the TC effective since Jan 2024. According to the Article, within the scope of factoring operations the VAT amount is reimbursable when the value of the transaction is paid to the factor's bank account and the VAT amount is paid to the seller's VAT deposit account.

Amendments to the Civil Code

- **Currently, factoring activity is regulated by the Civil Code.**
 - The Code recognizes factoring as a legal instrument for financing and defines the legal framework for factoring contracts, including the rights and obligations of the participating parties.
 - According to the Code, factoring contracts must be drawn up in writing and must include certain mandatory provisions (i.e. the amount of receivables, payment terms, and the responsibility of the parties).
 - The Code also defines the legal basis for the transfer of ownership of receivables from the seller to the factor.
- **Shortcomings of the current version and proposed amendments:**
 - The Code currently does not provide for the types of factoring, i.e. reverse-factoring
 - The Code does not differentiate for recourse vs non-recourse factoring
 - Amendments to the Code as per the Model Law (best practise) on Factoring have been proposed with regard to the following:
 - Requirements for the transfer of a receivable
 - Principle of debtor protection
 - Notification of a transfer or payment instruction
 - Debtor's discharge by payment

Technological infrastructure

- Starting from April 2017, invoices are submitted in electronic form. However, financial institutions lack access to the electronic invoice system.
- It has high fraud risk as they don't have access to the below information:
 - status of the e-invoices to be funded (whether the invoices have been cancelled, amended, paid);
 - Information on the authenticity of the invoices;
 - Information on double financing.

Capacity building

- Provision of technical support to financial institutions in the development of Supply Chain Finance (SCF) programs.
- Research shows that few banks are aware of the concept or structure of SCF products. We are aiming to form practical experience of SCF products in financial institutions together with international organizations. This would include the following:
 - raising product awareness,
 - performing diagnostics,
 - selecting which SCF products to finance.
- Increasing the demand for SCF tools by deepening the competence of large "anchor" companies and MSMEs in the relevant field. It is intended to form the awareness of business subjects about SCF products, their role in solving the problem of low creditworthiness and lack of collateral.

Preferential Loans – Azerbaijan Business Development Fund

➤ **Financing of Business Entities with Preferential Loans**

- Purpose
- Key Principles
- Credit Mechanisms
- Monitoring and Control

➤ **Implementation of Investment Projects**

- Purpose
- Key Principles
- Diversification of the Investment Portfolio

Islamic banking in Azerbaijan

- Expanding financing opportunities for alternative financing instruments, **including Islamic banking is one of the strategic initiatives of the Central Bank as per the Financial Sector Development Strategy for 2024-2026.**

- **Market survey:**

Assessment of SME demand for Islamic banking through a survey of 1,000 businesses across 23 regions / 10 economic zones.

- Interest in Islamic banking due to better credit terms.
- Interest due to religious beliefs.
- Interest in Islamic banking as an additional source of financing.

Islamic banking in Azerbaijan

For the introduction of Islamic banking in Azerbaijan, the **Islamic Window model** has been selected as the initial approach, as it is considered more suitable for the early stage of implementation. Under this model, **5 (five)** Sharia-compliant products have been selected, including sales-based and partnership-based (Islamic deposit products).

Main Barriers	Solutions
Gaps in the legislative framework	Amendments to the Tax Code, Civil Code, Law “On Banks”, Law “On State Duties” and others.
Lack of human resources	Development of the capacity building programs.

How Can Islamic Banking Increase Exports in Azerbaijan

➤ **Expands access to trade finance:**

- Provides Sharia-compliant financing for businesses.
- Provides another financing channel for SMEs.
- Can finance purchases of raw materials, inventory and goods for export.
- Gives exporters an additional source of working capital.

➤ **Increases investment and production capacity:**

- Islamic finance can support equipment and business investment.
- Financing can be used to expand production facilities.
- Helps SMEs increase the quantity and quality of export products.

➤ **Attracts investment and strengthens links with Islamic markets**

- Creates opportunities to attract **Sharia-compliant investors**.
- Can strengthen financial connections with Gulf and other Muslim-majority markets.
- Facilitates business relationships between Azerbaijani companies and foreign investors.
- Can support trade diversification toward new markets.

Amendments to the Laws

➤ **Tax Code:**

- Tax neutrality between Islamic and conventional banking.
- Recognition of sales transactions under Islamic finance products as financial services.
- Penalty payments (late-payment penalties) are not recognized as bank income in Islamic banking activities.
- Exemption from Value Added Tax (VAT).

➤ **Civil Code:** Legal recognition of Islamic banking contracts.

➤ **“Law on Banks”:** Giving banks the legal capacity to offer Islamic financial products.

➤ **“Law on State Duties”:** Avoiding double fees in Islamic transactions (sales based contracts).

Current Progress

➤ **Capacity Building:**

- Development of specialized training programs in cooperation with the Islamic Development Bank (IsDB)
- Knowledge-sharing initiatives for regulators, financial institutions and industry stakeholders.

➤ **Pilot Regulatory Sandbox Projects:**

- Two banks are currently testing Islamic banking products within the regulatory sandbox framework-ABB and Rabitabank are participating in the pilot phase.

➤ **Legislative Amendments:**

- Legislative amendments on Islamic banking are currently being discussed with relevant government authorities.

➤ **Regulatory Framework and Sharia Governance:**

- The Central Bank's internal regulatory framework will be developed-Regulations will address implementation of Islamic banking products process.
- A framework for the establishment and functioning of Sharia Boards will also be developed.

Thank you!

2023
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