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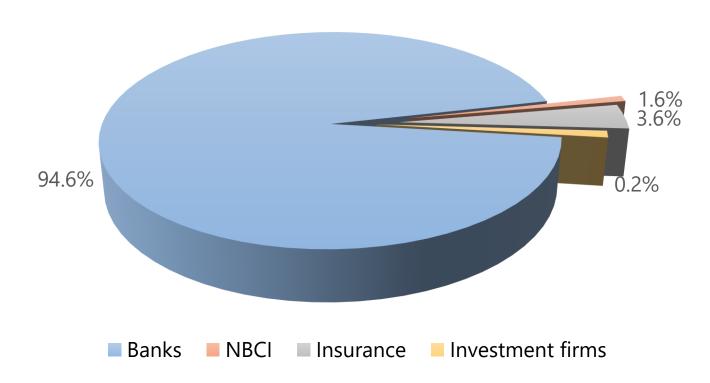
Asia SME Monitor 2025

Session 3: Financing MSMEs amid Global Uncertainty – How Financial Regulators Can Handle the Potential Financing Risks Risks for MSMEs

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Bank-dominated financial sector in Azerbaijan

Financial sector assets



- Banks are the main external financing channel for MSMEs
- Share of MSME loans to total business loans is 47 percent (2025)
- MSME share in total employment is 44 per cent (2023)

- MSME share in the GDP is 18 per cent (2023)
- High employment share but lower relative gross value added implies a concentration of MSME jobs in lowerproductivity activities

Main factors limiting MSME access to loan includes

Challenges	Consequences	Impact
 Lack of financial literacy (31% of MSMEs do not have knowledge on loan offerings) 	High information asymmetryHigh credit risks	Higher risk premiumHigh level of rejection
 Limited immovable collateral ownership especially in regions (over 80 % of loans are issued with collateral) 	 High collateral demand 	■ Financial gap for SMEs
 Low quality of financial management in business entities 		
 Weak independent accounting and audit institutions 		
 Insufficiency in risk-mitigation (risk sharing) mechanism 		
 Inefficiencies in the collateral liquidation process 		

Central Bank of Azerbaijan has dual role in the SME access to financing landscape

Promoting SME access to financing

Regulatory framework for market and product development

Enabling SMEs to get access to financing by creating prudential incentives

Dialogue with financial institutions

Manage risks prudently

Minimizing the risk of SME lending by improving the credit risk assessment and underwriting processes

Risk-based supervisory framework

NATIONAL FINANCIAL INCLUSIONSTRATEGY (Draft): Individuals and businesses can use financial services that they need on equitable and affordable terms and conditions

Improved financial wellbeing of citizens and financial health of MSMEs

Convenient access anytime anywhere

Increased use of financial services

Responsible supply and use of financial services

High quality of services and customer satisfaction **Broad participation by** individuals and firms

A. Multiple interoperable channels

B. Quality financial products and services C. Diverse financial services providers and efficient financial infrastructure

D. Inclusive policies and regulatory framework

E. Infromed users

- 1. Make physical access to financial services available in all zones through agent banking and other means
- 2. Facilitate access to digital financial services for all users evervwhere

- Design and offer affordable payment and money transfer services
- Stimulate saving and small-scale investing in financial instruments
- Expand the use of insurance services
- Enrich the offer of credit products for MSMEs and agricultural enterprises
- Enhancement of affordable consumer and mortgage products
- Enhancing access to finance for women

- Launch digital ID and digital profile for all financial services providers
- 10. Stimulate the entry of fintechs and application of efficient technological solutions
- 11. Strenghening information infrastucture
- 12. Ensure healthy competition in the financial sector

- 13. Improve regulatory framework to stimulate financial inclusion
- 14. Improve the effectiveness of government funding policies and development finance institutions
- 15. Improvement of Government payment architecture
- 16. Improve ecosystem for microfinance and access to finance forhe self-employed individuals

- 17. Increase financial capabilities of individuals and MSME owners
- 18. Enact strong financial consumer protection system and increase trust in financial institutions
- 19. Support voluntary inclusion of vulnerable individuals (older adults, youth, migrants, returnees)

CBAR's current initiatives to enhance SME access to finance

Development and implementation of the sustainable microfinance model Introducing Supply Chain Finance solutions to streamline payment flows between large corporates and supplier and distributer micro and small enterprises Roadmap for the development of Islamic finance sector Legal and regulatory framework to initiate local credit rating agency in Azerbaijan Expanding agriculture focused loan propositions

Thank you for your attention!