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## **Are concessional state loans available to every SME?**

**Challenges and opportunities in the provision of concessional state loans for micro and small businesses engaged in tourism in the regions of Azerbaijan**

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## **Abstract**

Tourism is considered one of the main driving forces of economic growth. At the same time, micro and small businesses play a vital role in the development of the tourism sector as a supply side. Also, the development of entrepreneurial activity directly depends on internal and external financial resources. So, this qualitative case study investigates the access to external finance, concessional loans, of micro and small businesses operating in tourism sector in the regions of Azerbaijan. Firstly, concessional state loan mechanisms available for entrepreneurs in the country, the rules and conditions of their granting, as well as how accessible they are to entrepreneurs operating in the tourism sector are examined. Then, the challenges faced by entrepreneurs during their application to authorized credit organizations regarding the acquisition of these loans, as well as the supply and demand factors affecting them are analysed. It has been determined that these challenges are primarily related to entrepreneurs' lack of relevant knowledge, inability to pay the demand for collateral or confirm property rights related to collateral, procrastination by authorized credit organizations and etc. In the end, relevant proposals are presented on potential solutions for eliminating the obstacles that limit entrepreneurs' access to concessional state loans.

**Keywords:** Tourism and development, Micro and small businesses, Access to finance, Concessional state loans, Environmental factors, Supply-side factors, Demand-side factors

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## **Acronyms**

**GDP** – *Gross Domestic Product*

**SMEs** – *Small Medium Enterprises*

**MSMEs** – *Micro Small Medium Enterprises*

**TIN** – *Taxpayer Identification Number*

**MoE** – *Ministry of Economy*

**MoA** – *Ministry of Agriculture*

**MoJ** – *Ministry of Justice*

**MoDDT** – *Ministry of Digital Development and Transport*

**MoENR** – *Ministry of Ecology and Natural Resources*

**STA** – *State Tourism Agency*

**SMBDA** – *Small and Medium Business Development Agency*

**EDF** – *Entrepreneurship Development Fund*

**ACDA** – *Agrarian Credit and Development Agency*

**IDDA** – *Innovation and Digital Development Agency*

**AYF** – *Azerbaijan Youth Fund*

# 1. Introduction

## 1.1 Problem statement

Tourism is a powerful driver of economic growth and job creation, especially for developing economies. Tourism, valued at US\$ 7 trillion and growing, is the world's largest service industry, accounting for 10 percent of global Gross Domestic Product (GDP). Furthermore, it has high growth potential. Its contribution to global GDP is projected to grow by about 4 percent annually over the next 10 years (World Bank, 2018). Furthermore, the tourism industry is considered one of the main forces emerging for sustainable socio-economic development on a global scale (Wakimin et al., 2018, Hwang and Lee, 2019). It is one of the important economic activities all over the world. In many countries, the tourism industry remains an important source of employment and income generation in both the formal and informal sectors (Manzoor et al., 2019).

At the same time, tourism is closely related to some of the Sustainable Development Goals adopted by the international community in 2015, and has a special place as part of this global development plan (UNCTAD, 2017). In developing countries with high levels of poverty, tourism is seen as an important tool for *poverty alleviation*. Furthermore, international development agencies also consider it appropriate to turn to tourism to eliminate poverty (Chok et al., 2007). Moreover, the United Nations General Assembly declared 2017 the International Year of Sustainable Tourism for Development, highlighting its potential to help eradicate poverty (UNCTAD, 2017).

Tourism is also closely linked to the goals of sustainable *decent work and economic growth (ibid)*. Tourism is a powerful factor of economic growth and job creation in rural areas as well. It is an effective tool for attracting investment and increasing interest in rural lifestyles, traditions and local identity of rural areas. Along with traditional agricultural production, it is important as an alternative source of income (Trukhachev, 2015). In addition, it is necessary to emphasize the effects of tourism on the *reduction of inequality*. According to Njoya and Seetaram (2018), tourism helps reduce income inequality by creating employment for the poorest sections of the population.

A widely used view in the economic literature asserts that tourism and its associated entrepreneurial opportunities are best developed by helping individuals to start businesses and enable them to compete in the marketplace (Wilson et al., 2001). It can be said that small and medium enterprises (SMEs) play the most important role in the business environment of almost

every economically developed country. They are of great importance in bringing innovative products to the market, as well as being a significant source of economic growth and creating new jobs (Belanova, 2021). Financial resources play a vital role in the establishment, survival, growth and expansion of SMEs. However, the difficulties they meet in accessing bank loans as a financial opportunity are considered as one of the most important problems they face during their activities (Ipek, 2019).

Similarly, the problem of access to financial resources is one of the main difficulties for business entities operating in Azerbaijan, especially for SMEs. Many studies have been conducted on the problem of access to finance for SMEs in Azerbaijan. And access to finance through banks is considered a major problem. Because the existing bank financial opportunities are not appreciated by entrepreneurs as an effective and accessible financial mechanism due to the high interest rate (Bayramov et. al., 2017). Also, Mirzeyev (2012) notes that one of the main problems faced by entrepreneurs is access to finance. Higher bank lending rates, tough conditions for guarantees and collateral are the main challenges for SMEs.

In addition, Ibadoghlu (2018) states that supply-side barriers, demand-side barriers, as well as institutional aspects mainly affect the access of SMEs to external finance in Azerbaijan. Furthermore, according to the results of a survey conducted by the World Bank among companies, including hotel and catering establishments, and completed in 2020, 24 percent of business entities operating in Azerbaijan mention financial availability as the most important obstacle to business development (World Bank, 2019).

Services that provide financial inclusion in Azerbaijan are mainly bank and non-bank credit organizations and insurance companies. Therefore, SMEs in Azerbaijan turn to banks and non-bank credit organizations for financial resources. SMEs mainly use loans as sources of external financing. However, they face a number of difficulties in accessing these financial opportunities. Some factors that prevent SMEs from obtaining financing are high interest rates for all businesses, difficult loan conditions and the lack of interest of loan institutions to finance the regions (ADB, 2019).

So, as one of the ways out of this problem, the mechanism of providing loans to entrepreneurs through various funds at the expense of the state budget under concessional conditions has been started (Bayramov et. al., 2017). However, relevant studies on the difficulties encountered by SMEs



during access to these state concessional loans, as well as their elimination, have not been sufficiently conducted.

Considering all the above, in this study, it is focused on investigating the possibilities of using state concessional loans as a financial resource for the business entities in Azerbaijan. The limited uptake of micro and small businesses (*individuals and legal entities*) of state concessional loans to help finance business development in the regional tourism sector of Azerbaijan is identified as a **research problem**.

## 1.2 Purpose and research questions

The **purpose of the research** is to provide an up-to-date review of Azerbaijan's current business and lending environment in relation to the provision of state concessional loans to micro and small businesses engaged in tourism in the country's regional areas. Identifying policies, regulations and practices in the development and operation of concessional loans as well as socio-cultural, economic, and technological barriers within the regional context of Azerbaijan, and making appropriate proposals for their elimination, is expected to significantly contribute and assist in this process.

The overall **objectives of the study** can be summarized as:

- To provide an overview of the overall concessional loans framework and existing legislation;
- To identify regulations and other practical matters impacting on the activities of micro and small businesses related to the provision of concessional loans; and
- To identify barriers and opportunities in the process of providing concessional loans.

The **research questions** of this thesis are specifically defined as follows:

- a) What state concessional loan opportunities are available for micro and small businesses in the tourism industry of regional Azerbaijan?
- b) What challenges are affecting implementation and the uptake of loans by micro and small businesses in the tourism industry of regional Azerbaijan?
- c) Given the available opportunities, what steps can be taken to address these challenges?

### **1.3 Structure of the thesis**

The thesis is structured in seven chapters. After the introductory chapter, the second, background chapter will discuss the tourism industry of Azerbaijan, the policy implemented in this direction, the development of micro-entrepreneurship, which is the main driving force of this sector, and the mechanism of soft state loans, which is a financial resource that plays an important role in this development. In the next chapter, a literature review will be conducted regarding the research problem, and earlier researches and theories will be touched upon. In the fourth chapter, a theoretical framework will be formed based on selected relevant theories and approaches regarding the access to financial opportunities of micro and small entrepreneurs. The fifth chapter deals with the methodological approach of the research. Research design, data collection methods, data analysis, ethical considerations and limitations will be discussed here. After that, chapter six will present the main findings and discuss them. The last, seventh chapter will present the final results and future research opportunities.

## **2. Background**

This chapter provides general information about Azerbaijan, its tourism industry and development, state policy, its impact on the country's economy, as well as its regions specialized in tourism.

### **2.1 Tourism industry**

Azerbaijan is a safe place to visit, located between the Caspian Sea and the Caucasus Mountains. Its territory is 86.6 thousand square km, and 12.0 percent of this area is covered by forests, 4.6 percent lands under water, 55.2 percent by agricultural lands (27.9 percent of which is haymakings and pasture), 28.2 percentage is made up of other lands. The population is 10 million 156 thousand 400 (as of January 1, 2022). The capital is the city of Baku, located in the east of the country on the coast of the Caspian Sea (SSC, 2022).

Azerbaijan has a large number of intangible heritage assets, historical monuments and buildings, as well as stunning natural landscapes and excellent hospitality that attract local and international visitors. Azerbaijan's regional areas have the potential to become important destinations for nature, adventure, culture, health and wellness and special interest experiences. They offer a significant range of assets, including mountains, national parks, historical and archaeological sites, thermal springs, cultural villages and diverse ethnic people. However, the vast majority of these natural, cultural and man-made resources are underdeveloped, and to this day, this great tourism potential, especially in its regional areas, is not used enough. As the main factors causing this, inadequate human potential, insufficient tourism infrastructure, limited awareness of regional tourism destinations and promotion measures can be mentioned. In the regional areas of Azerbaijan, there are 4 main corridors that include clusters of regional tourism products combining culture, nature, health and wellness, and special interest. The corridors are: *Northern route* (Baku-Gusar), *North western route* (Baku-Balaken), *Western route* (Baku-Gazakh) and *Southern route* (Baku-Astara) (STA, 2020).

Tourism industry is one of the sectors that create high added value in Azerbaijan. About 65 percent of the output created in the sector falls on the share of added value created. For comparison, the corresponding indicator in the manufacturing industry is around 39 percent (SSC, 2022a). Compared to 2005, the specific weight of the added value created in the tourism sector in 2019 increased by 1.8 percentage points in the total GDP, but in 2015-2019 there was a period of stability in this direction. However, the tourism sector was one of the most affected sectors of the economy of Azerbaijan during the COVID-19 pandemic. In 2020, GDP production in the field of tourism activity decreased by 58.9% compared to the previous year. As a result, the share of this sector in the economy decreased by 1.3 percent and fell to the minimum level of 1.1 percent for the first time since 2010. It should be noted that this indicator increased from 0.6 percent in 2005 to 2.4 percent in 2015 and remained stable until the COVID-19 pandemic. After a decline in 2020, it increased to 1.6 percent in 2022. Currently, the recovery process is being observed in the sector. In 2021, the field of tourism activity was the fastest growing field of activity in the country with a jump of 34.2 percent (SSC, 2022b).

## 2.2 State tourism policy

Azerbaijan is considered a country with wide prospects in terms of tourism. Despite the relatively small size of its territory, the fact that it has sufficient natural resources, material and technical base and historically formed cultural heritage for the development of tourism are factors that can turn Azerbaijan into a potential tourism country (STA, 2020). In addition to all this, state support in this area is considered one of the main issues, and the state is formulating an appropriate policy in this direction.

In 2016, "Strategic Roadmap for the development of the specialized tourism industry in the Republic of Azerbaijan" was approved. This roadmap identifies the strategic objectives and priorities for the short-, mid and long-term horizon. As part of the roadmap, institutional reforms were launched by the government, and the Azerbaijan State Tourism Agency (STA) was established in 2018 for the purpose of developing and implementing the tourism policy. The Agency is responsible for the formulation and implementation of a unified state policy in the field of tourism, the implementation of norm-setting activities in the field of tourism, state regulation, state control and coordination, other state bodies, enterprises and organizations, as well as individuals and legal entities, including international and non-governmental ones, for the purpose of tourism development. It operates in the direction of ensuring the related activities between the organizations, organizing the purposeful use of the territories of reserves and ensuring their preservation, and ensuring the protection and promotion of national culinary samples (President of the Republic of Azerbaijan, 2016). Also, for the implementation of a more specific policy in this field, institutions such as the Azerbaijan Tourism Bureau, Reserve Management Centre, Tourism Information Centres, and educational institutions have been established under STA (STA, 2023). Furthermore, a new Law "On Tourism" was adopted in 2021. In order to ensure the sustainable development of tourism in the country, this law defines the foundations of state management in the field of tourism, the regulatory mechanisms of the tourism industry, the rules for the effective use of tourism resources, and the sources of funding for the tourism sector (MoJ, 2023).

### **3. Literature review**

This chapter reviews the previous literature that discusses the access to concessional loans for SMEs operating in the tourism sector. First, the role of SMEs in the tourism industry is reviewed, followed by the literature on the legal basis of establishing and operating SMEs in the context of Azerbaijan, as well as their access to concessional state loans.

#### **3.1 SMEs and tourism industry**

From the review of existing literature, it is known that the definition of SMEs in different economies of the world differs from each other. A number of countries have been observed using the term micro, small and medium enterprises (MSMEs) to refer to SMEs. In general, the variables used to explain MSMEs or SMEs include the number of employees, annual sales turnover, assets, capital investment, and these can vary by industry (Kushnir, 2010). Since there is no uniform definition of SMEs in the global economy, different countries have used different methods to define SMEs. But, the most common approach used is based on employment. Here again, there are different approaches to determining the upper and lower size limits of SMEs. However, many sources define SMEs as having a cut-off range of 0-250 employees (Dimoska et al., 2015).

McAdam et al., (2004) point out that there is no universal definition of SMEs, and this creates a number of problems for studying and researching SMEs. In general, definitions of SMEs are divided into two criteria: quantitative and qualitative. Quantitative criterion include size, capital, annual turnover, invested capital, revenue, total assets, market share, etc. (Hossain and Kauranen, 2016). Among these, employee headcount is the more popular approach because it is easier to manage and is not affected by inflation (Cong and Thu, 2021). The qualitative criterion considers the independent ownership of SMEs as the main category. In this regard, SMEs are considered small enterprises that are independent in terms of capital and do not have a majority of the market share (Buculescu, 2013). Usually, SMEs are classified as micro enterprises with 1 to 9 employees, small enterprises with 10 to 49 employees, and medium enterprises with 50 to 249 employees (Kushnir et al., 2010). However, the local definition of SMEs can vary from country to country, depending on factors other than the number of employees, such as turnover, assets, etc. (Kiraka et al., 2015).

SMEs play a crucial role in the economic development of every country. So, they significantly contribute to the creation of employment, innovation and industrial growth in the country (Das, 2021). Dimoska et al., (2015) state that SMEs play a vital role in the overall economic development of each country and are considered the engine of the national economy. SMEs account for approximately 46% of global GDP and provide 50-60% of employment worldwide (Ramzy, 2020).

As SMEs are important for economic growth, they also contribute to the development of tourism. They are formed from the available opportunities and help to meet the tourism demand (Nunkoo et al., 2020). According to Dimoska et al., (2015) the tourism sector is dominated by SMEs. They traditionally provide tourists with a wide range of products such as accommodation, catering, transport, attractions and activities. Also, SMEs create various benefits for tourism destinations by directly connecting with tourists. Furthermore, tourism is considered traditionally an SME industry because the vast majority of tourism facilities are managed by SME entrepreneurs (Avcikurt, 2003).

### **3.2 Financing of SMEs**

One of the main factors for the development of SMEs is ensuring their access to financial resources. These resources can include the provision of loans at low interest rates, the establishment of microfinance institutions, as well as the creation of credit guarantee schemes to reduce the risk for lenders (Sulaiman et al., 2020). However, the access of SMEs to bank credit is generally low. The main reasons for this are that they have difficulties in providing guarantees, accountants and other services (Goenadhi and Santoso, 2023). In addition, according to Hasanah and Ratnaanggraini (2017), business operators of SMEs do not have an understanding of accounting, especially financial statements, and representatives of this sector do not sufficiently develop relationships with banks.

Furthermore, Carbo-Valverde et al., (2016) note that access to financial opportunities is vital for SMEs to operate, grow, expand, and generally develop, their activity depends on these opportunities. They consider the difficulty of accessing bank loans as one of the most important problems. Also, a number of studies (Pissarides, 1999; Beck et al., 2008; Wang, 2016; OECD, 2017) report that SMEs face more financial barriers than large firms. As for tourism SMEs, they are more likely to rely on their owners' personal savings or informal financing to sustain their businesses. Moreover, certain external factors and potential threats in the business environment affect small businesses more than large corporations (Camilleri, 2018).

According to Badulescu et al., (2015) business entities can get access to financial resources in two ways: Firstly, through internal financing. This is mainly realized through the owner's contribution and retained earnings. Secondly, through external financing. In this case, funds are mainly raised from family, friends and capital market sources (eg. banks, finance companies and investors). Demirgüç-Kunt et al., (2008) state that entrepreneurs in developing countries use a significant proportion of external financing to meet their needs to operate and grow, and this proportion is 40% for large companies and about 20-30% for SMEs.

### **3.3 Access to finance of SMEs in Azerbaijan**

The classification of entrepreneurial entities in Azerbaijan was carried out on the basis of the relevant Laws of the Republic of Azerbaijan and the Decisions of the Cabinet of Ministers. Entrepreneurial entities are divided into micro, small, medium and large entrepreneurial entities according to the criteria stipulated in part 2 of Article 4-1 of the Law of the Republic of Azerbaijan No. 405 dated 15.12.1992 "On Entrepreneurial Activity" (MoJ, 2023a). Pursuant to Article 1.1.1 of the Law of the Republic of Azerbaijan dated 02.12.2022 No. 661-VIQ "On the Development of Micro, Small and Medium Enterprises", micro, small and medium entrepreneurship subjects are commercial entities classified as micro, small and medium entrepreneurship subjects (according to Article 4-1 of the Law of the Republic of Azerbaijan "On Entrepreneurial Activity") are legal entities and individual entrepreneurs (MoJ, 2023b). Also, by the Decision No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan dated 21.12.2018, "Criteria for the distribution of micro, small, medium and large business entities" was approved. According to this decision, micro entrepreneurs include enterprises with average employee payroll of 10 and annual revenue of 200 thousand manats, small entrepreneurs include enterprises with average employee payroll from 11 to 50 and annual revenue from 200 thousand manats to 3000 thousand manats, medium entrepreneurs include enterprises with average employee payroll from 51 to 250 and annual revenue from 3000 thousand manats to 30000 thousand manats, large entrepreneurs include enterprises with average employee payroll of 251 and more and annual revenue exceeding 30000 thousand manats (MoJ, 2023c). In general, when SMEs are mentioned in this research, they also mean MSMEs.

According to the corresponding report of 2021, the share of SMEs in the total number of business entities operating in the country is 99.7 percent. Also, in 2021, the share of SMEs in the added value

created in the country's economy was 16.4 percent, the share in the total number of employees in enterprises was 41.8 percent, and the share in the investments directed to the capital by business entities was 31.1 percent (SSC, 2021).

One of the important measures related to the development of entrepreneurial activity is the approval of the "Socio-economic development strategy of the Republic of Azerbaijan in 2022-2026" by Decree No. 3378 of the President of the Republic of Azerbaijan dated July 22, 2022. The Action Plan of the Strategy envisages the implementation of measures related to ensuring access to financial resources of business entities, as well as sustainable development of the tourism sector. These measures include: a) Increasing the effectiveness, targeting and transparency of support mechanisms for entrepreneurs; b) Expanding access to resources, including financial resources, for SMEs; c) Strengthening strategic, institutional and financing mechanisms to ensure the sustainable development of the tourism sector etc. (MoJ, 2022).

When it comes to financing, in Azerbaijan, the government provides appropriate financial support measures in the form of state concessional loans, grants and subsidies to SMEs, including entrepreneurs operating in the tourism sector (SMB, 2023). Currently, concessional state loans offered to entrepreneurs through the Entrepreneurship Development Fund (EDF) under the Ministry of Economy (MoE), the Agrarian Credit and Development Agency (ACDA) under the Ministry of Agriculture (MoA), the Innovation and Digital Development Agency (IDDA) under the Ministry of Digital Development and Transport (MoDDT), and the Azerbaijan Youth Fund (AYF) are considered the main mechanisms (MoE, 2023; EDF, 2023; ACDA 2023; MoJ, 2023d; MoJ, 2023e).

#### **4. Theoretical framework**

This chapter presents the theoretical framework and concepts used for the analysis. There is no specific theory that includes access to foreign financial resources of entrepreneurial subjects. Romano et al., (2001) citing Myer (1984) note that financial behaviours cannot be adequately explained by financial theories. Various theories and approaches are commonly used by researchers to explain the access of SMEs to external financial resources (Abdesamed and Abd Wahab, 2014).



Therefore, it is intended to use several theories and approaches in order to achieve these research objectives and analyse the research questions. It will be explained why each theoretical component was chosen and how they interact with each other. First, financial support and its impact on the development and growth of SMEs, then the barriers faced by SMEs during the implementation of financial support mechanisms, and finally the elimination of these barriers will be discussed. In the following chapters, the research problem will be analysed based on these theoretical approaches.

#### **4.1 Finance and SMEs' growth**

Financial inclusion plays a crucial role in economic development. It is vital in promoting regional economic activities, especially in remote and rural areas (Kim et al., 2018). According to Levine (2005), a strong, developed financial infrastructure acts as a key component of the business environment. Because, it has a significant impact on economic performance and poverty reduction.

SMEs are the most important driving force in the business environment of most economically developed countries. SMEs ensure bringing innovative products to the market, represent an important source of economic growth, and are of great importance in creating new jobs (Belanova, 2021). According to Rahaman (2011), financing is an important part of any business entity's activity, and without adequate access to financing, the remaining activity and development potential of the business can be threatened. Furthermore, financing plays a decisive role in terms of reducing and neutralizing potential risks during the activity of SMEs and is of great importance in increasing their sustainability (Kimanzi, and Gamede, 2020).

One of the financing mechanisms is the provision of appropriate loans by government agencies. These loans are aimed at financing certain priority areas of economic activity, as well as a specific direction, such as the development of projects and initiatives related to tourism. For example, the State Tourism Finance Corporation, established in Kenya in 1965, provides affordable financing for the country's tourism industry (Diaz and Kien, 2019). According to OECD (2016), bank loans are the most common source of external finance for many SMEs to start up and meet their investment needs.

## **4.2 Key factors affecting access to finance**

According to Sinha and Fiestas (2011), access to finance is always regarded as the main factor explaining the growth of firms. Also, one of the main factors hindering the development of SMEs is their lack or limited access to financial resources. In this section, the main three factors affecting SMEs' access to finance, and their sub-factors (*ibid*) will be discussed, and then the research problem will be analysed based on these factors.

### **4.2.1 Environmental factors**

#### **4.2.1.1 Macroeconomic instability**

According to Boyd et al., (2001) macroeconomic instability is an important barrier to access to finance. In particular, it affects the decision to grant long-term loans (Sorge and Zhang, 2007). Because macroeconomic instability is accompanied by high inflation rates and large changes in the exchange rate. This is associated with higher nominal interest rates and shorter loan repayment periods, making it the most expensive for businesses to access credit (Sinha and Fiestas, 2011). In addition, Demirgüç-Kunt et al., (2008) note that concerns about macroeconomic and financial instability also hinder financial innovation that helps promote access to credit.

#### **4.2.1.2 The role of the public sector**

Sinha and Fiestas (2011) state that in some developing countries, the public sector intervenes in the financial markets and plays an active role there. At the same time, state also acts as a primary borrower from the private sector. Along with other market participants, state enterprises and government infrastructure projects enjoy preferential access to bank loans. According to Demirgüç-Kunt et al., (2008) in this case, public sector borrowing occurs, which limits the private sector's access to loan in the market and reduces their incentives to participate in the market.

#### **4.2.1.3 Level of development of the financial system**

According to Rajan and Zingales (1998), firms with high financial development have less need for external sources of finance, and firms in economies with more developed financial markets are less financially distressed. Also, Aghion et al., (2007) emphasize that small business entities have more access to finance in more developed financial markets.

#### **4.2.1.4 Poor enforcement of contracts**

Beck et al., (2006) state that problems related to the drafting and execution of relevant contracts can make the lending process particularly difficult in developing countries. If the judicial system and

legal framework are weak and therefore the execution of the relevant contract becomes a long and difficult process, the resulting uncertainty and high risk discourage potential creditors and investors from bidding (Sinha and Fiestas, 2011). A strong judicial system allows banks to enforce their rights over collateral pledged against borrowing by business entities. Also, in case of breach of contract, it ensures compliance with their contractual rights, allowing them to make necessary investments (Xu, 2011). Beck and Levine (2003) also note that an effective legal environment is one of the main factors that facilitate access to finance for business entities.

#### **4.2.1.5 Ineffective bankruptcy laws**

According to Cirmizi et al., (2012) effective bankruptcy laws, which include the reorganization of viable firms, as well as the liquidation or sale of unfit ones, are a necessary condition for economic growth. Djankov et al., (2006) note that despite their importance, bankruptcy institutions work very poorly, especially in developing countries.

### **4.2.2 Supply-side factors**

#### **4.2.2.1 Information asymmetries**

Segarra and Teruel (2009) point out that information asymmetry in financial markets is the most important barrier to access to finance. Lenders do not have easy access to privileged business information about the activities of entrepreneurs, so they cannot properly assess risk. Therefore, the perceived risk of the required investment increases and consequently access to loan is limited or the cost of borrowing to cover the risk increases. One of the important means to reduce these information asymmetries is the development of credit bureaus and credit information systems (Sinha and Fiestas, 2011). According to Djankov et al., (2007) credit bureaus promote credit even in an environment of financial system distress and banks become more willing to lend.

#### **4.2.2.2 High transaction costs**

Financial institutions, as well as banks, sometimes do not want to lend to SMEs because they consider high transaction costs in the lending process and high risk of lending to SMEs (Beck and De la Torre, 2007). According to Sinha and Fiestas (2011), one of the main reasons for this is that transaction costs can exceed expected risk-adjusted returns. However, cost constraints arise due to deficiencies in financial institutions and market infrastructure. Because collecting information about borrowers, properly valuing assets, and monitoring and enforcing contracts is costly (De la Torre et al., 2007).

#### **4.2.2.3 Weak property rights (and lack of collateral)**

According to Fleisig (2006), in low- and middle-income countries, 70%-80% of businesses applying for a loan are required to provide some kind of collateral. But these businesses often struggle to meet these requirements because they don't have enough assets to act as collateral. Beck et al., (2005) point out that collateral requirements significantly limit access to finance. Moreover, Cheng et al., (2014) also indicate that one of the main reasons for the inability of small tourism enterprises to obtain debt financing is their inability to provide adequate and sufficient collateral. Furthermore, De Soto (2000) emphasizes that one effective way to overcome this limitation is to better define property rights. According to Claessens (2006), better protection of property rights significantly increases the use of external finance by small businesses compared to large firms. Johnson et al., (2002) state that if the confidence of entrepreneurs in the transition economy about the protection of property rights in their country increases, it also strengthens the possibility of reinvesting these profits.

#### **4.2.2.4 Efficiency of the banking sector**

A more efficient, developed and strong banking sector improves access to credit for small businesses (Demirgüç-Kunt and Maksimovic, 1999). Beck et al. (2004) note that in countries with a low level of economic and institutional development, the excessive concentration of banks increases the barriers to obtaining finance. However, the presence of a larger share of foreign banks and an efficient credit registry reduces the effect of concentration on financing barriers. On the other hand, more government intervention in the banking sector and more ownership of state-owned banks reinforces these barriers.

#### **4.2.2.5 Absence of long term finance**

Sinha and Fiestas (2011) state that firms, particularly those operating in specific sectors, need longer-term financing to make productive investments. According to Caprio Jr and Demirgüç-Kunt (1998), entering into long-term credit agreements allows firms to grow at faster rates than they can achieve by relying on internal sources of funds and short-term loans. Demirgüç-Kunt and Maksimovic (1999) also note that long-term finance contributes positively to the growth of the firm.

#### **4.2.2.6 Physical barriers to capital**

According to Sinha and Fiestas (2011), in some cases, especially in rural areas, the access to finance of business entities may be limited by their physical distance from financial sources. Beck et al., (2007) study banking sector performance in many countries and conclude that branch and ATM

density is highly correlated with aggregate credit and deposit accounts per capita, which also increases access to credit. However, the recent development of other delivery channels, such as mobile banking or e-banking, can reduce the cost of access to finance, as well as significantly improve the use of financial services. Although the full impact of these new initiatives is not yet sufficiently researched or studied, steps taken in this direction in Kenya have been found to significantly reduce financial barriers for micro-firms in rural areas by optimizing relevant operations and reducing costs (Sinha and Fiestas, 2011).

### **4.2.3 Demand-side factors**

#### **4.2.3.1 Poor financial and management skills**

Sinha and Fiestas (2011) state that entrepreneurs in developing countries usually have limited accounting and management skills, which limits their access to capital and at the same time hinders the growth of their firms. According to Bloom et al., (2011) based on experience in the field of management in Indian textile firms, it was determined that, among other benefits, the application of modern management practices at work increased the average productivity by about 10%. So, the weakness and inadequacy of financial and management skills of entrepreneurs make them less attractive for banks (Sinha and Fiestas, 2011).

#### **4.2.3.2 Low willingness to access finance**

Sometimes it happens that entrepreneurs themselves have no intention of applying for official external financing. In this case, they believe that the foreign source of finance not only leads to higher taxation, but also creates more obligations such as social responsibility (Sinha and Fiestas, 2011).

#### **4.2.3.3 Poor corporate governance**

According to Sinha and Fiestas (2011), strong corporate governance, including good financial accounting, increases the attractiveness of financial investors and is considered a necessary condition for them to invest in a business. However, recent relevant statistics show that only 37 percent of small firms involve external auditors in reviewing their annual financial statements. However, 58 percent of medium-sized firms and 79 percent of large firms use this service (IFC, 2010). Dollar et al., (2003) note that when assessing the investment environment in China, it is clear that Chinese firms have two or more accounting systems depending on the audience.

### **4.3. Policies to increase access to finance**

According to Sinha and Fiestas (2011), a number of effective policies aimed at increasing access to finance for enterprises are implemented. These include:

#### **4.3.1 Deepen financial liberalization**

Financial liberalization is considered one of the most effective means of facilitating access to credit. This liberalization leads to the reduction of institutional barriers and transaction costs in the credit market. As a result, it becomes easier for companies, especially small businesses, to access credit (Sinha and Fiestas, 2011). Carreira and Silva (2010) support this view, stating that financial liberalization eases the financial constraints of firms, especially small businesses. For example, Bhaduri (2005) and Ghosh (2006) note that financial liberalization in India in the 1990s was a major factor in easing the financial constraints faced by manufacturing firms. While financial regulation is important, maintaining the stability of the financial system is essential. It also includes preventing systemic failures or financial crises (Beck et al., 2009).

#### **4.3.2 Improve the efficiency of the banking system**

A well-functioning commercial banking system plays a crucial role in the development of the private sector. This development is realized by providing the necessary investments to accelerate growth and reduce poverty (Demirgüç-Kunt et al., 2008). In order to increase the efficiency of the banking system, it is necessary to carry out policies in three directions. First, promote a strong regulatory and supervisory system that provides a framework for the banking system to operate, secondly, to increase competition in the banking sector, such banks have the incentive to lend, and third, to support banks in developing the technology and tools needed to lend to firms. The most popular method in this direction has been to encourage new banks to enter the market in order to improve the regulatory framework and reduce concentration (Sinha and Fiestas, 2011).

#### **4.3.3 Scale up support to SME financing through partial loan guarantees**

The level of loans granted to entrepreneurial entities, especially SMEs, is low. The main reasons for the reluctance of financial institutions in this matter are the high transaction costs associated with lending and the high risk inherent in lending to SMEs (Beck and De la Torre, 2007). Many countries around the world, including Pakistan, Kenya, Sri Lanka, and Nigeria, are widely using partial loan guarantee schemes to ease constraints on financing SMEs (IFC, 2010). However, designing a partial credit guarantee scheme is a difficult task and only a few of them can be considered successful

(OECD, 2008). Furthermore, Honohan (2010) points out that as most schemes lack comprehensive economic evaluations, their net cost-benefit impact remains uncertain.

#### **4.3.4 Promote financial innovation**

Innovative financial mechanisms are among the factors that can facilitate access to finance for businesses. A clear example of this is the success of mobile finance in many Sub-Saharan African countries as a result of the use of modern financial technologies such as e-finance and mobile finance (Sinha and Fiestas, 2011). Beck et al., (2005) note that the lack of access to specific forms of financing, such as leasing and long-term finance, is significantly more restrictive for small enterprises, although it is the opposite for large firms. Porteous (2006) points out that new technologies reduce the cost of financial transactions for providers and customers, and create new opportunities for new entrants to the financial sector, as well as for the formation of new relationships for the distribution of services. All these changes allow us to note that the prospect of facilitating access to financial services against the background of mobile infrastructure cannot be excluded (Sinha and Fiestas, 2011).

#### **4.3.5 Promote creation of credit bureaus**

First of all, credit bureaus help to improve the availability of information, on the other hand, it has a positive effect on the improvement of access to credit by SMEs, taking into account the more serious problems related to the opacity and asymmetry of information that they face (Sinha and Fiestas, 2011). Brown et al., (2009) based on the research conducted on the effects of information exchange between banks on the operation of the credit market in the transition countries of Eastern Europe and the former Soviet Union, notes that information exchange has a positive effect on the better availability of credit for businesses, and on offering it at a lower price. Furthermore, Sorge and Zhang (2007) state that countries with higher credit information quality are characterized by a higher share of long-term debt.

## **5. Methodology**

This chapter provides a brief description of the methodology used to conduct the study and the research design and methods used to find study participants, followed by a discussion of how data

were collected, coded, and analysed. Lastly, I address ethical considerations and the limitations of this study.

## **5.1 The research design**

Given the nature of the research questions, I decided to use a qualitative method in my research. According to Creswell and Poth (2017), qualitative research is conducted when there is a need for a complex, detailed understanding of the problem. This gave me the opportunity to study the research problem comprehensively, more deeply and in detail.

And a qualitative case study was chosen for the thesis as a research approach, because the research is focused on the study of access to concessional loans of micro and small entrepreneurs operating in the tourism sector in four regions of Azerbaijan with tourism potential. This approach helped me as a researcher to explore the research problem in depth by examining it in a specific context, at the same time this design allowed me to obtain rich descriptions, insights, and explanations that were difficult to obtain through quantitative research.

As the primary source of data collection, semi-structured interviews with key informants were used in this research. Also, the selection and identification of interviewees was done on the basis of purposive sampling. This type of interview is the most effective tool for obtaining the information needed to answer questions two and three. Furthermore, desk research and literature review were carried out as a secondary data source. These were used to investigate and answer the first question, it was necessary to study relevant legislation, norms, rules and other official documents.

## **5.2 Data collection methods**

### **5.2.1 Interviews**

In the research process, 21 individual in-depth interviews (*see table with information on interviewees in Appendix 1*) were conducted with key informants. A semi-structured format was chosen as the form of the interviews. Because it is quite systematic and flexible, it creates conditions for the interviewees to present new perspectives, to express their additional ideas and opinions, and at the same time it allows for follow-up and to a certain extent comparative analysis (Hammett et al., 2014).



Interviewees were divided into 3 groups. The first group included entrepreneurs, both individuals and legal entities, operating in the tourism sector in the regions. The second group included representatives of the state institutions that form the state policy related to the tourism sector, entrepreneurial activity and concessional loans in the country. The third group included authorized lending institutions that participate in granting concessional loans and implement this process. Also, an interview guide (*see Appendix 2*) was prepared separately for all 3 groups.

I conducted interviews between February 23 and March 13, 2023. The form of conducting the interviews, whether online or in person, was determined according to their choice, as well as the time agreed with them in advance. Fourteen of the interviews were conducted online, while seven were conducted in person. I mainly conducted face-to-face personal interviews with the people included in the second and third groups. In addition to giving me the opportunity to study the issue more deeply, in some cases it also gave me a lot of additional information about the interviewees' voice, intonation, body language, etc. (Opdenakker, 2006). However, I conducted interviews with the people in the first group online (via Skype, WhatsApp and phone call) according to their wishes. Considering that the people included in this group are entrepreneurs operating in different regions of the country and in different fields, and they are quite busy people, online interviews allowed me to organize work more quickly and effectively.

The shortest of the interviews lasted 10 minutes, and the longest lasted 1 hour 42 minutes. Also, all the interviews were conducted in Azerbaijani language, without the use of a translator, which led to effective communication in addition to spending less time on the interviews. The relevant findings were translated into English by me. At the same time, before each interview, I informed my interviewees about myself, research and its goals. Also, with the consent of the participants, most of the interviews were recorded. Recording the interviews helped me to be more involved in the interviews. Instead of taking notes, I could concentrate on listening and participate more actively in the discussion.

#### **5.2.1.1 Sampling**

One of the most important factors in the research process is choosing the right people to interview, reaching a sufficiently large sample size, as well as meeting the availability requirements of all interviewees to participate in the study (Creswell, 2017). In this research, the strategy chosen to select interviewees is the purposeful sampling. According to Byrman (2015), purposive sampling is based on the selection of people, departments, and organizations that are directly related to the

issue. Therefore, interviewing people directly related to the research problem provided me with deeper and more detailed information about this problem. So I interviewed the representatives:

- *Regional tourism industry:* Tour operators and travel agents, accommodation operators, tour guides, restaurant and café operators, craft producers<sup>1</sup> - 10 interviews in total
- *Public finance authorities:* MoE, Small and Medium Business Development Agency (SMBDA) under the MoE, EDF, STA, ACDA, IDDA, AYZ – 8 interviews in total
- *Lending institutions:* Banks, non-banking organisations, credit unions – 3 interviews in total

*More detailed information about them is given in Appendix 1.*

### **5.2.2 Desk research**

In the study, desk research was used as a secondary data source together with literature review. Desk research involves gathering information from various sources such as government documents, published reports, articles, and databases. The purpose of desk research was to collect information that was already available and to analyse and synthesize this information to address my research questions and objective.

All this secondary data was taken from the Statistical Committee of the Republic of Azerbaijan, MoE, the Ministry of Justice (MoJ), STA, SMBDA, EDF and other relevant institutions, official documents (law, decision, order, etc.), as well as the published reports of World Bank, the Asian Development Bank, Organisation for Economic Co-operation and Development, World Tourism Organization and other relevant international organizations.

### **5.2.3 Literature review**

During this research, the literature review process was approached from two aspects: a) firstly, a literature review was conducted to gain a deeper understanding of the context, concepts, and general theme of the study, to explore and learn knowledge gained from previous research in this area; b) secondly, a more specific literature review was conducted in addition to the information obtained from the interviews and desk research in order to support the results of the research and obtain additional information on the investigated issue.

This literature includes academic journals, books, conference proceedings, and other scholarly sources. Academic literature covering topics such as sustainable tourism, development of tourism in rural areas, micro and small entrepreneurship operating in the tourism sector, their access to

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<sup>1</sup> Covering each of Azerbaijan's main regional tourism areas: North, West, South, North-West

financial resources, especially concessional loans, difficulties they face, were obtained from online databases (Google Scholar, Lub Search, etc.), as well as reviewed and used.

### **5.3 Data analysis**

First, all interviews were transcribed in their original language - Azerbaijani. As this was the native language of the researcher, it prevented time loss and helped to organize the work related to coding more quickly. This also eliminated the risk of certain ideas being distorted and moving away from their original meaning during translation. In the process of organizing data analysis, the classical method of structuring qualitative data, the manual approach to organizing data was used.

At the same time, a thematic analysis was used to study the data obtained from the interviews and secondary sources. This enabled the identification, analysis and interpretation of patterns of meaning in the qualitative data obtained. Braun and Clarke (2012, p. 57) point out that “thematic analysis is a method for systematically identifying, organizing, and offering insight into patterns of meaning (themes) across a data set”. Thematic analysis was carried out in several stages. First of all, the information obtained from both sources was reviewed and became familiar in detail. Then these data were then summarized and coded for use (Brown and Clarke, 2012). This is important in helping to identify and generate relevant themes to answer the research questions (Bryman, 2015). In the next step, the coded data were searched and reviewed again for quality control. At the end, based on the obtained findings, final thoughts and relevant opinions were discussed and written (Maguire and Delahunt, 2017).

Furthermore, the reasoning of this study is based on an abductive research approach. This approach takes a middle position and includes both inductive and deductive reasoning. So, the research result is not based only on the findings within the research material. It can be seen as a parallel process in which theories and research findings intermingle and together determine the outcome of the research (Lipscomb, 2012). In order to reach relevant conclusions, I used both empirical findings and previous research on the opportunities and difficulties faced by micro and small entrepreneurs in accessing concessional loans.

## 5.4 Ethical considerations

Flick (2018) points out that ethical consideration is one of the important issues for qualitative research. Therefore, a number of ethical considerations were taken into account by the researcher while conducting the research. So, before each interview, the participants were first informed about researcher and his activities, as well as about the context, purpose and objectives of the research. (Kvale, 1996). Also, taking into account the work schedule, convenience and other wishes of the participants, whether the interview should be online or in person, as well as the time and place were determined based on their choice. Then, before the start of the interview, each person who participated was informed in advance about the audio recording of the interview, and only the participants who agreed were recorded (Bryman, 2016).

At the same time, taking into account the importance of interviewee confidentiality, the interviews were transcribed anonymously. This means that the anonymity and confidentiality of the interviewees was taken into consideration (Matthews and Ross, 2010). Therefore, the names and personal information of the interviewees were not written in the transcription, instead their names were coded with appropriate letters and numbers.

In addition, each interview was conducted separately, individually, which allowed the participants to feel more comfortable and freely express their opinions without hesitation. Each participant was told in advance that they could refuse to answer any question they did not want to answer, or even stop the interview at any time. Also, at the beginning of the interview, the researcher first asked more delicate, comfortable and easy questions, and most importantly, without discriminating any of the interviewees based on their gender, nationality, religion and social status, equal opportunities were created for each of them, and all their voices related to the main problem touched upon in the research were heard.

On the other hand, one of the important factors is that the researcher tried to be objective in the interpretation of the obtained data, to avoid negative situations such as misinterpretation or falsification in order to obtain the desired result (Griffith, 2008). Also, the possible effects of the researcher's education, knowledge, skills and positionality, including ethnicity, gender, age, religion, political views and other such factors on the research process were taken into account.

## 5.5 Limitations

In the process of the research, it was also determined that there were some limitations. First of all, it can be noted that although half of the 21 interviews were conducted with entrepreneurs operating in various directions who are direct participants in the tourism sector, it was not possible to involve all types of participants in this field, such as tour guides. Another limitation was that entrepreneurs from 3 of the 4 tourism regions focused on the research participated in the interviews, but there were no participants from the Western region. Also, one notable issue was the participation of only one woman as a source in the data collection process, which is an important issue in terms of gender equality. Of course, these mentioned factors could be useful in terms of looking at the research problem from a wider spectrum.

In addition, one of the important limitations was that the interviews with entrepreneurs were conducted online rather than face-to-face. First of all, this deprived the researcher of the important nuances that can be obtained regarding the body language of the interviewees, and at the same time, in a number of cases related to the Internet problem, it led to interruptions in conversation, disruption of concentration, confusion of thoughts, and loss of effective control over the process (Bryman, 2016). At the same time, the shortcomings of semi-structured interviews can be noted. This manifests itself in limiting the possibilities of data comparison (Kakilla, 2021).

The next important point is that data obtained from quantitative methods is more measurable than data obtained from qualitative methods. Because in qualitative methods, it is not possible to test to determine whether the results of the study are statistically significant or random (Ochieng, 2009). Furthermore, it is not possible to draw a general conclusion based on the data obtained on the basis of a certain number of interviews. Because these data are obtained from a very small part of the society, it limits the formation of an objective opinion on the issue. In the end, it is also important to note that the organization of the interviews based on purposive sampling also limited the participation of other interested persons in addition to those directly related to the field.

## 6. Analysis of findings and discussion

In this chapter, the data obtained as a result of interviews, desktop research and literature review will be analysed and discussed based on the theoretical framework in order to answer the research questions.

### 6.1 Current state concessional loan mechanisms and tourism SMEs

As mentioned in the theoretical framework chapter, SMEs play a crucial role in economic development, and their financing, as well as providing access to state concessional loans, are considered key factors in this process. In this context, state concessional loans have been presented to entrepreneurs as one of the main mechanisms created to provide access to financial resources for SMEs in Azerbaijan (SMB, 2023). Here, the state concessional loan mechanisms currently in force in the country, their terms and rules, as well as whether these mechanisms are intended for SMEs operating in the tourism sector will be studied.

According to the relevant legislation, the state concessional loan mechanisms currently in force in Azerbaijan include concessional loans provided to entrepreneurs by the EDF, ACDA, IDDA and AYF. The goal is to increase the investment opportunities in the non-oil sector of the country's economy and access to financial resources of business entities. These mechanisms have a number of benefits and advantages compared to other loan opportunities. First of all, these mechanisms are loan products with the lowest interest rate available in the country (5-7 percent). Other advantages are the granting of a corresponding grace period during the repayment of the loan, and a longer term (up to a maximum of 10 years). Furthermore, taking into account the relevant risks, all these state concessional loans are offered to entrepreneurs through authorized credit organizations - banks, non-bank credit organizations and credit unions (EDF, 2023b; ACDA, 2023; MoJ, 2023d; MoJ, 2023e; PFI 3; PFI 4; PFI 6). The banking system in Azerbaijan consists of the Central Bank of the Republic of Azerbaijan, which is the supervisory body for financial markets, and credit organizations - *banks, non-bank credit organizations, and credit unions*. Currently, 25 banks, 55 non-bank credit organizations and 40 credit organizations operate in the country (CBAR, 2023).

One of these loan opportunities is the state concessional loan mechanism offered to entrepreneurs by the EDF. The annual interest rate of the EDF's loans is 1 percent, and the annual interest rate applied by authorized credit organizations is not more than 4 percent, and the annual interest rate of concessional loans is set to 5 percent. The funds (with the exception of concessional loans for the purchase of equipment) of the EDF are provided to business subjects with the annual interest rate of up to 5 percent, within the following limits and terms: from 5,000 manats to 50,000 manats - small loans (up to 3 years); from 50,001 manats to 1,000,000 manats - medium-sized loans (up to 5 years); from 1,000,001 manats to 10,000,000 manats - large loans (up to 10 years). The grace period for the use of loans covers the first 1/2 period of the loan period, and during the grace period, business entities must pay only interest debts (EDF, 2023b; PFI 1; PFI 2; PFI 3; PFI 4; PFI 6; LI 1; LI 2; LI 3).

Also, for the purpose of effective deployment of funds of the EDF, priority directions in the fields of the economy for 2023 have been determined. These directions include financing of production and processing (including agro-processing) oriented projects for the development of non-oil industries, production-oriented projects for the development of the agricultural sector, logistics service projects, projects oriented toward the creation of warehouse complexes, digital development and innovation-oriented projects, fishing and aquaculture-oriented projects, green projects, as well as tourism development projects (EDF, 2023).

The documents required when applying for the funds of the EDF are the following: a) the original of the document confirming the entrepreneur's consent to the transfer of information related to the business entity to the EDF b) information on the investment project of the business entity for loans up to 200 thousand manats, business plan for loans larger than 200 thousand manats; c) credit report determined in accordance with the Law of the Republic of Azerbaijan "On Credit Bureaus"; d) copy of taxpayer identification number (TIN); e) copy of the identity card; and f) copies of documents on the place or property where the entrepreneur will operate (EDF, 2023c; PFI 1). One of the main difficulties in obtaining state concessional loans from the EDF is the inability of entrepreneurs to provide documents on the location of their investment projects. In 2022, in order to overcome this difficulty to a certain extent, a "Notification form" has been issued to replace that document for entrepreneurs with a credit requirement of up to 10,000 manats and who cannot provide a document on the place of operation. This form is filled out by the local employees (Small

Medium Business (SMB) friends) of SMBDA based on the request of the entrepreneur, and submitted by the entrepreneur to the authorized credit institution (MoE, 2022).

Projects and programs related to the development of agriculture (including agro-tourism) are financed by means of the ACDA. Loans are provided in the form of microloans up to 15,000 manats, small loans from 15,001 to 30,000 manats, medium-sized loans from 30,001 to 100,000 manats, large loans from 100,001 to 200,000 manats. The term of the loan is up to 3 years for microloans (grace period up to 12 months), for small and medium-sized loans up to 3 years (grace period up to 18 months), for large loans up to 5 years (grace period up to 24 months). The ACDA provides the intended funds to authorized credit organizations by applying 2.5 percent per annum for unsecured microloans or other concessional loans, and an additional 0.5 percent for microloans with collateral. The maximum annual interest rate applied by authorized credit organizations to the ACDA's loan funds (including the interest applied by the ACDA) is 12 percent for microloans, 7 percent for other concessional loans, all loans to agricultural cooperatives and for other type of loans, it should not exceed 5 percent (ACDA, 2023; PFI 3; PFI 4; PFI 7; LI 1; LI 2).

When issuing *microloans*, the documents to be submitted by entrepreneurs include: a) a copy of the identity document of the borrower, b) a copy of TIN, c) a copy of the land document of the borrower. In addition to these documents, the documents to be submitted by authorized credit organizations are as follows: a) Reference from the Electronic Agricultural Information System (this reference is submitted in the form approved by the authorized credit organization with a signature and seal), b) Decision of the credit committee or an authorized person (signature and stamped), c) extract from the Centralized Credit Bureau of the borrower (signed and stamped), d) Form 1 (this is a form that reflects information such as the address of the borrower, telephone contact details, current activity, financial source of the project, the amount of the loan to be received, term, interest rate, specific details of the loan destination, type of loan, actual and new jobs to be created), e) a brief summary of the business and the application (the information must be clearly and fully recorded), f) a signed and stamped application letter on behalf of the authorized person of the credit organization for the allocation of funds. In addition, the bank or credit institution may require additional supporting documents to determine the borrower's ability to pay (ACDA, 2023a; LI 2).

The documents required for *low-interest loans* (from 15,001 manats to 200,000 manats) are as follows. What is required from the entrepreneurs include: a) a copy of the document confirming the identity of the borrower citizen (in a notarized form), b) a copy of the TIN (in a notarized form), c) a



copy of the borrower's land document for the project (in a notarized form), d) if the borrower is engaged in animal husbandry, a certificate from the State Agrarian Development Centre operating in the district where the farm is located, e) if the property is shared, notarial consent of other share owners, f) a copy of the document confirming the identity of the guarantor or guarantors, g) Copy of the document related to collateral security and its assessment act. Documents to be submitted by authorized credit institutions are: a) Reference from the Electronic Agricultural Information System, b) Decision of the credit committee or an authorized person (with signature and seal), c) Form 1 (this is a form that reflects information such as the address of the borrower, telephone contact details, current activity, financial source of the project, the amount of the loan to be received, term, interest rate, specific details of the loan destination, type of loan, actual and new jobs to be created), d) Form 2 (the form containing information such as the borrower's legal address, existing land plot, collateral security, address of collateral security, price of collateral security, etc.). e) Brief summary of the household and application (the information must be clearly and fully recorded), f) Letter of application signed and stamped on behalf of the authorized person of the credit organization for the allocation of funds. In order to determine the borrower's ability to pay, the bank or credit institution may require additional supporting documents (ACDA, 2023b; LI 2).

Another access opportunity to finance is a concessional loan mechanism for entrepreneurs at the expense of the IDDA. The funds of the IDDA are intended to be used in the direction of innovation activities, acquisition of modern technologies and technological solutions for local business entities. Small loans from 5,000 to 50,000 manats (up to 3 years), medium-sized loans from 50,001 to 1,000,000 manats (up to 5 years), large loans from 1,000,001 manats to 10,000,000 manats (up to 10 years) are planned for entrepreneurial subjects. And the annual interest rate of the IDDA's loans is 1 percent, and the annual interest rate applied by authorized credit organizations is not more than 4 percent, and the annual interest rate of loans in general is determined up to 5 percent. The grace period for the use of loans covers the first 1/2 period of the loan use period (not more than 3 (three) years in the case of large loans). Although the relevant rules regarding the provision of these funds were approved and entered into force on June 14, 2019, the application of this mechanism has not been implemented until today (MoJ, 2023d, PFI 3). The reason for this is that in 2021, relevant changes will be made in the structure of MoDDT, and the relevant sub-rules regarding the use of these funds have not yet been approved (MoJ, 2023f; PFI 8).

Finally, the funds of the AYF can also be mentioned as a concessional state loan mechanism. So, by the relevant decree of the President of the Republic of Azerbaijan, in 2018, the "Rule on the use of the funds of the Youth Fund, including the provision of preferential loans at the expense of the funds of the Fund" was approved. This mechanism includes the purpose of financing innovative (start-up) projects submitted by citizens of the Republic of Azerbaijan aged 16-29 (young people). According to the Rule, it is envisaged to provide concessional loans in the form of small loans from 1,000 to 10,000 manats (up to one year), medium-sized loans from 10,001 to 25,000 manats (up to 3 years), and large loans from 25,001 to 50,000 manats (up to 5 years). And the annual interest rate of these loans is 1 percent by the AYF, and the annual interest rate applied by the authorized credit organization to the AYF's loans is not more than 4 percent, and the final annual interest rate of concessional loans is determined up to 5 percent (MoJ, 2023e).

However, it was not possible to start applying this mechanism. Usually, young people apply to authorized credit organizations with more start-up projects, and the difficulty in providing collateral and guarantees as security can be considered as the main reasons that prevent the application of this mechanism (PFI 5). Therefore, in 2022, the Charter of the AYF was amended accordingly, and the mechanism of granting concessional loans at the expense of the Fund was removed from it (MoJ, 2023g). Moreover, relevant works are currently being carried out in connection with the cancellation of the mechanism for granting preferential loans by making appropriate changes to the "Rule on the use of the funds of the Youth Fund, including the granting of preferential loans at the expense of the funds of the Fund" (PFI 5).

So, from the above, it is clear that entrepreneurs operating in the tourism sector have the opportunity to apply to only two of the offered and currently operational concessional loan mechanisms - funds from the EDF and the ACDA. Given that the funds of the ACDA are mainly focused on the financing of the development projects of the agrarian unit and agricultural production facilities, the only and main opportunity for financing tourism projects is the concessional loans offered at the expense of the funds of the EDF.

However, when reviewing the last 4-year (2019-2022) reports of the EDF, it becomes clear that the amount of funds allocated to the tourism sector is still very small, despite the fact that in recent years, tourism was identified as one of the main priority directions for the allocation of EDF funds. So, in 2019, the share of concessional loans allocated to the tourism sector by EDF was 5.6 percent of the total allocated loans. This indicator was 2.2 and 3.1 percent in 2020 and 2021, respectively,

the main reason for this decrease compared to the previous year is considered the impact of the Covid-19 pandemic. However, in 2022, the share of allocated concessional credit increased again and reached 6 percent. But in any case, this indicator is low, 10 times less than the amount of credit allocated to agriculture (in 2022, this indicator was 60 percent), which is typical for regions such as tourism (EDF, 2023a).

## **6.2 Key factors affecting the access of tourism SMEs to state concessional loans**

It is clear from the interviews that the difficulties faced by micro and small entrepreneurs in accessing concessional loans are caused by supply and demand side factors rather than environmental factors.

### **6.2.1 Supply-side factors**

#### **6.2.1.1 Information asymmetries**

Information asymmetry is considered as one of the obstacles in accessing state concessional loans (Segarra and Teruel, 2009). Access to relevant information about entrepreneurs who have applied for a loan is one of the most important issues for authorized credit organizations. They face serious difficulties when obtaining information about whether the relevant information of businesses is correct or whether they have illegal activities. This leads to risky assessment of loan applications made to them and refusal of loan allocation (PFI 6). Although the Azerbaijan Credit Bureau was established on January 15, 2018 (ACB, 2023), the issue is still not fully resolved and access to relevant information about entrepreneurs is not ensured for all credit institutions (PFI 6).

#### **6.2.1.2 Weak property rights (and lack of collateral)**

One of the most important barriers limiting entrepreneurs' access to concessional loans is the inability to provide collateral or guarantors. As a result of this, the application for a concessional loan is rejected by authorized credit institutions (RTI 1; LI 1; LI 2; PFI 1; PFI 6; PFI 7). Beck et al., (2005) emphasize that collateral requirements are one of the factors that significantly limit access to finance. Another case is that the application is not evaluated positively even if a pledge is provided as security. An entrepreneur engaged in folk crafts notes about collateral security:

"Although I presented my own house in the village as collateral, the bank did not accept it. They said that I need to submit an extract from the register as a document

confirming the ownership. Rural houses do not have this document, and it is hard to get it now" (RTI 7).

This is due to the fact that there is no relevant document (excerpt from the register) confirming the ownership of the immovable property provided as security. The situation that aggravates this problem is that the process of obtaining the relevant property document from the relevant authorities is also observed with enough difficulties for the entrepreneurs. This includes bureaucratic hurdles, procrastination, complicated documentation process, etc. (PFI 6; PFI 7; RTI 7). In addition, difficulties related to property rights are also observed when it is required to submit a relevant document related to the place of entrepreneurial activity. In some cases, the land used by business entities in the tourism sector is not used for its intended purpose, which makes their documentation difficult. For example, the entrepreneur is engaged in tourism activities, but the documents state that the land is intended for agriculture or forestry, so it is necessary to go through a complicated process to get a document confirming the ownership of these lands. First of all, it is required to apply to the relevant central executive authority - MoA or the Ministry of Ecology and Natural Resources (MoENR). After receiving a letter of consent from these organizations, the purpose of the land use can be changed after the issue is considered in the Cabinet of Ministers. Only after that, you can apply for the document confirming the ownership (LI 1; LI 2; LI 3; PFI 1; PFI 6; PFI 7).

However, the entrepreneurs operating on the basis of lease are required by credit organizations to submit a lease agreement. In many cases, the absence of this lease agreement also leads to rejection of the loan application (LI 2; LI 3; RTI 1). One of the reasons for not having a tenancy agreement is that it is not popular among people, especially people living in the regions, who prefer verbal agreements (LI 2). In urban areas, one of the main reasons for not concluding a lease agreement is that micro and small entrepreneurs consider the expenses incurred, as well as the notary fee, to be high (RTI 1). An interviewed entrepreneur operating in the city says:

"The notary fee to be paid in connection with the conclusion of the lease agreement has recently been increased 3 times, which is a big amount for a SMEs like me. Therefore, I continue my activity without concluding an official lease agreement" (RTI 1).

Another problem with collateral security occurs when collateral is offered in regions, especially rural areas. At this time, two cases are observed, first, in most cases, there are no documents confirming the ownership of these real estates. Therefore, De Soto (2000) notes that property rights need to

be better defined to prevent such restrictions. The second and more interesting thing is that even if there are documents confirming ownership, it is not accepted as collateral by credit institutions. Two factors can be mentioned as the reason for this. The first is migration from villages and regions to the capital. Because the number of people who want to buy property in rural areas is quite small for a known reason when credit organizations want to realize rural security. The other is related to the psychological factor. Buyers of properties put up for sale by credit organizations are met with serious public condemnation by the local population (PFI 6). A representative of one of the lending institutions:

“We face very serious difficulties when we realize such collateral guarantees, there are no people who want to buy such property, they know that the local people consider it very badly” (PFI 6).

However, loans in the amount of 10,000 manats are provided by the non-bank credit organization "Agrarkredit" without collateral (with a guarantor). In addition, in applications for loans up to 30.000 manats, houses without an extract from the register, as well as houses in the regions (rural areas) are accepted as collateral security. Furthermore, "Agrarkredit" accepts movable properties as collateral (LI 2).

### **6.2.1.3 Efficiency of the banking sector**

Effective organization of the activities of banks plays an exceptional role in entrepreneurs' access to loans (Demirgüç-Kunt and Maksimovic, 1999). Of course, if this activity is not organized effectively, it is inevitable that there will be shortcomings. In this regard, it is crucial to mention the procrastination of credit institutions and the rejection of their loan applications under various pretexts, which cause the most dissatisfaction of entrepreneurs (RTI 1; RTI 7; RTI 8; RTI 9; RTI 10). As an example of this procrastination, it can be noted that the processing of credit applications lasts up to 3-6 months in some cases (RTI 9; RTI 10). A local confectionery manufacturer and seller says:

“I have repeatedly applied to several banks to obtain a concessional loan of 75-80 thousand manats, which is required to expand my production. Every time, with different excuses, they prolong the consideration of my application. They say that the project is not in line with the priority directions (in fact it is), or you have another additional loan obligation (although that obligation is guaranteed)” (RTI 10).

Furthermore, the excuses often voiced by credit organizations are that the application is not in accordance with the priority directions or the corresponding credit limit has expired, or there is an

additional credit obligation, or the project is a start-up, or the turnover is insufficient, etc. (RTI 1; RTI 7; RTI 8). However, banks are more loyal by offering their own loans with high interest rates. Moreover, in some cases the personal relationships and familiarity play a decisive role in making the appropriate decision (RTI 9; RTI 10). In addition, the complexity of the documentation process in banks and the insufficient level of digitization should be attributed to the factors that make access to credit difficult (PFI 2; LI 3).

#### **6.2.1.4 Physical barriers to capital**

The role of physical barriers in limiting the access to concessional loans of SMEs operating in the country's regions, especially in rural areas, is significant (Sinha and Fiestas, 2011). The number of branches and offices of other credit organizations is limited in rural areas, except for large bank networks of the country. This has a negative impact on the use of these services by the population located in these areas. Another factor that strengthens this is the insufficient level of digitalization in this area, for example, banks do not offer mobile applications related to concessional state loans apart from consumer loans. In this context, another important point is the low level of knowledge and skills of entrepreneurs in using the currently offered electronic services (PFI 2).

### **6.2.2 Demand-side factors**

#### **6.2.2.1 Poor financial and management skills**

Entrepreneurs' awareness, professional business habits, as well as having sufficient knowledge and skills can be considered as an important factor affecting access to concessional loans as a demand side (Sinha and Fiestas, 2011). The results of the analysis show that the vast majority of 21 respondents highlight the lack of knowledge of entrepreneurs as a limiting factor in access to concessional loans (PFI 2; PFI 6; LI 1; LI 2; LI 3; RTI 1; RTI 2; RTI 3; RTI 4; RTI 6; RTI 7; RTI 8; RTI 9; RTI 10). The main noteworthy point here is that the representatives of the relevant state institutions and credit organizations note that enough measures are being taken to educate entrepreneurs (PFI 1; PFI 3; PFI 4; LI 1; LI 2). For example, the representative of MoE says in interview:

“EDF and SMBDA regularly hold relevant meetings with entrepreneurs in the regions, provide mobile services through the SMB friend line, distribute brochures, booklets, and provide educational information in the mass media and social networks” (PFI 3).

On the other hand, entrepreneurs point out that they are not sufficiently informed by the relevant institutions as the main reason is their lack of information, or the quality of such measures is not satisfactory. They state that these measures are formal in nature, ineffective, do not cover everyone, and are not accessible to entrepreneurs operating in remote rural areas. As a result, this ignorance directly affects the daily activities of entrepreneurs. This manifests itself mostly in poor administration, especially in the failure to draw up the relevant documents in the required form, and in the failure to properly prepare business plans (RTI 2; RTI 3; RTI 4; RTI 6; RTI 7; RTI 8; RTI 9; RTI 10). An entrepreneur who works as a tour operator says about awareness events:

"These events are formal in nature, and not every entrepreneur is invited, and most importantly, the language is not simple and understandable. Instead of encouraging us, it discourages us even more. That's why I refuse to participate in such events" (RTI 8).

In addition to all of the above, other more observable factors that limit the access of entrepreneurs to concessional loans by demand side include: unsatisfactory credit history, low solvency, failure to use the loan for its intended purpose, insincerity of entrepreneurs (failure to provide correct information about their activities and goals), not taking into account the profitability of the project, not preparing the loan application in accordance with the priority directions, having a lot of other credit obligations, just starting the entrepreneurial activity (LI 1; LI 2; LI3; PFI 1; PFI 3; PFI 4; PFI 6; PFI 7).

#### **6.2.2.2 Low willingness to access finance**

In some cases, the reluctance of entrepreneurs to take loan appears as a factor determining access to credit (Sinha and Fiestas, 2011). Various reasons are put forward here, some of them simply do not want to take on additional responsibilities and obligations. Others do not show inclination, assessing that this process is long and tiring (PFI 6; RTI 2; RTI 3).

### **6.3 Increasing access to state concessional loans for regional tourism SMEs**

The obtained data are summarized based on the directions mentioned in the theoretical framework, and potential solutions are presented.

### **6.3.1 Liberalization**

In addition to the simplification of the procedures, the revision of the state's policy in this area and the liberalization of the conditions can increase the access to concessional loans. Carreira and Silva (2010) also note that liberalization in the financial sphere has a positive effect on alleviating the financial constraints of small businesses in particular. So, measures such as increasing the concessional loan portfolio offered at the moment, lowering interest rates, increasing credit limits, and loan repayment periods (especially for small amounts of loans) or granting seasonal concessions, as well as increasing concession periods (mainly in startup projects) can be mentioned for this purpose (PFI 3; PFI 6; LI 1; LI 2; LI 3; RTI 1; RTI2; RTI 10). It may also be useful to provide concessional loans directly by the Funds that offer those loans, assuming the relevant risks, rather than through authorized credit institutions (PFI 6).

Furthermore, offering alternative concessional loan opportunities (currently the only possibility that covers most economic sectors are EDF loans), or the creation of specific/sectoral funds (for example, the Tourism Development Fund for financing tourism projects) can have a positive effect on the availability of concessional loans (PFI 6; RTI 3; RTI 10; LI 1; LI 2).

### **6.3.2 Improve the efficiency of the lending institutions**

Although concessional loans are financed from the state budget, they are given to entrepreneurs through authorized credit organizations. One of the main issues here is to provide the necessary support for increasing the effectiveness of credit institutions' activities (Sinha and Fiestas, 2011). First of all, it is necessary to increase the trust of credit institutions in front of customers (PFI 4). Most of the people who participated in the interview express dissatisfaction with the activities of credit institutions. So, credit organizations refuse to allocate loans with excuses such as lack of turnover, the project being a start-up, or the project not being in line with priority directions, or procrastinating and considering applications for a longer period of time (within 3-6 months), or not showing interest in granting concessional loans, instead, they offer their loans to customers at a higher interest rate (RTI 6; RTI 7; RTI 8; RTI 9; RTI 10). In some cases, they act unprofessionally and make decisions based on personal relationships (RTI 10).

In this regard, incentive mechanisms are considered to be the most effective way to ensure the interest and active participation of authorized credit institutions in granting concessional loans. This incentive mechanism can include giving them funds at a lower interest rate, or allocating more credit limits and etc. For example, in 2022, a competition was held in the nomination of a credit



organization that provides preferential loans to more women entrepreneurs, and the winning credit organizations were awarded accordingly (LI 1).

### **6.3.3 Scale up support to SME financing through partial credit guarantees**

The state guarantee can play an important role in solving the problem of security, which is one of the main factors limiting the access of entrepreneurs to concessional loans. The state (for example, STA) acting as a guarantor in any form in obtaining concessional loans offered in connection with tourism, can increase the access to credit of entrepreneurs operating in this field (LI 1; LI 2; PFI 2; PFI 6; RTI 1; RTI 7; RTI 8).

Another mechanism is to use the practice of state subsidization of interest on loans related to tourism projects (RTI 8; LI 1; LI 2). The interesting nuance here is that currently the Mortgage and Credit Guarantee Fund (MCGF) guarantees only loans given by banks above 30,000 manats (MCGF, 2023). This rule should be changed, the guarantee should also apply to loans of less than 30,000 and loans issued by all credit institutions, so that micro and small entrepreneurs can take advantage of this mechanism (PFI 6; LI 2).

Furthermore, the issue related to security is the revision of the requirements regarding the ownership documents of the immovable properties presented as collateral. The way out here is to simplify the procedure of obtaining documentation, an extract from the register, or to accept existing current documents confirming the ownership, or to provide an appropriate guarantee by the relevant institution (RTI 7; PFI 6; LI 1; LI 2).

### **6.3.4 Promote financial innovation**

According to Sinha and Fiestas (2011), innovative financial mechanisms are among the factors that facilitate access to finance for business entities. In this regard, one of the factors that increase the availability of concessional loans is the simplification, optimization, digitization of the lending process. Digitization not only increases the transparency of the process but also increases its speed (PFI 1; PFI 2; LI 1; LI 2; LI 3; RTI 1; RTI 2; RTI 3; RTI 10). For example, at the end of 2023, it is planned to completely digitize the reception and processing of applications related to the granting of concessional loans by the EDF (PFI 1). In addition, offering concessional loans through mobile applications, as in the case of consumer loans, can lead to more efficient and optimized work in this area. Furthermore, this can facilitate and speed up the document exchange process between credit institutions and funds offering concessional loans (currently, requiring documents to be signed in paper format causes a considerable loss of time). Therefore, Porteous (2006) notes that new

technologies create new opportunities for new entrants into the financial sector. Moreover, the documentation requirements need to be simplified. For example, when filling out the document called "bank information", especially micro and small entrepreneurs face serious difficulties. In order to obtain a loan of 5-10 thousand manats, very serious economic justifications are required from them. Or, in exchange for a loan of 5 thousand manats, it is required to create an additional new workplace, which prevents this entrepreneur from making a profit and burdens them with additional taxes and social payments (LI 3).

Furthermore, the creation of an Electronic Information System for the register of entrepreneurs operating specifically in the tourism sector, and as a result of the appropriate integration into this system, the availability of relevant information about entrepreneurs will increase, which can lead to a more efficient operation of the concessional loan mechanism (LI 1). Another issue is to simplify the process of changing the purpose of use of the respective plots of land in accordance with the entrepreneurial activity carried out on those, and to make this process more flexible. As a serious problem, this is mostly observed during the ownership documentation of agricultural and forest lands (PFI 6).

In addition, it is necessary to encourage serious improvements in awareness, which has a very important role in access to finance. Because the lack of sufficient awareness of the rules for granting concessional loans by the vast majority of the people who participated in the interviews was highlighted as one of the main difficulties. Although the SMBDA, EDF, authorized credit institutions and other relevant organizations regularly hold informational events, meetings, seminars, fairs, place billboards on the streets, promote and inform in the mass media (TV, radio, etc.) and social networks, entrepreneurs do not have enough information about the procedure for granting concessional loans or no information at all. Therefore, it may be more useful to focus on the quality of these types of events rather than the quantity. First of all, this type of informational events should be organized in every region, district, and settlement of the country, and every entrepreneur should be aware of and can participate in these events. Not only a certain group of entrepreneurs, but every entrepreneur, especially entrepreneurs with a start-up project, should be invited to these events, and events should be accessible to everyone (PFI 2; PFI 6; LI 1; LI 2; LI 3; RTI 1; RTI 2; RTI 3; RTI 4; RTI 6; RTI 7; RTI 8; RTI 9; RTI 10). The representative of the lending institution emphasized the importance of promoting concessional loans: "Need does not arise, need is created" (LI 2).

Also, it may be more useful to organize these types of events in regions where there are more applications for loans (PFI 1) or for specific sector participants (for example, tourism and the active participation of STA in this process) (PFI 1; RTI 7; RTI 8) or especially for owners who do not have a credit history (LI 2). One of the interviewed entrepreneurs notes that "Sending this type of information to the phone numbers of entrepreneurs who are taxpayers like me would be more efficient and effective" (RTI 1).

Another important step is to increase the number of SMB friends and cover each district, and most importantly ensure that they themselves have good knowledge and skills in this field (RTI 3; RTI 7; RTI 8; RTI 9). Also, the language of these informative events should be easy, understandable for everyone, as well as encouraging and stimulating (RTI 8).

### **6.3.5 Promote the activities of credit bureaus**

The first private credit bureau of Azerbaijan "Azerbaijan Credit Bureau" (ACB) LLC was established on January 15, 2018 with the founding of 8 major banks of the country. Currently, ACB has a contractual obligation to exchange information with 216 organizations. ACB collects and analyses the data of individuals and legal entities and minimizes their risks by providing state-of-the-art solutions for evaluating potential customers, monitoring the behaviour of existing customers, and managing portfolios (ACB, 2023). Supporting Brown et al.'s (2009) view that information sharing improves access to credit for firms, ACB's further expansion of its activities related to increasing the accuracy of decision-making in debt relations and reducing the risks of partners in the process of making credit decisions, and increasing the number and quality of its partners and the services it provides will further facilitate access to preferential loans for entrepreneurs (PFI 6).

## 7. Conclusion

This study revealed that although tourism is defined by the state as one of the main directions for the development of the non-oil sector, the allocation of concessional loans by the state to this sector or the ability of entrepreneurs to use them is at a very low level. First, the number of concessional loan mechanisms offered for the tourism sector, which is considered a priority, is limited. The second and more important thing is that tourism entrepreneurs cannot take advantage of these limited opportunities. There are various reasons and influencing factors for this. So, the study of the issues raised in the first research question found out that currently four mechanisms have been designed by the state regarding access to concessional state loans for micro and small businesses, including those operating in the tourism sector. However, although two (provided by the IDDA and AYF funds) of these mechanisms are theoretically available, they are not implemented in practice. Since the loans offered by ACDA funds from the other two mechanisms are for agricultural purposes, the only possibility that tourism entrepreneurs can benefit from are loans offered by EDF funds.

On the other hand, it is not so easy for entrepreneurs to access concessional state loans that are actually working. In the second research question, main difficulties limiting the access of tourism entrepreneurs to these loans were studied. It has been determined that these challenges are mainly related to supply-side and demand-side factors. The supply-side factors include information asymmetry, issues related to collateral security and property rights, inefficient operation of lending institutions, and physical barriers. Among the supply-side factors, the issue of collateral is more prominent. It can be accepted as normal that lending institutions require collateral to neutralize the relevant risk, but the non-acceptance of rural houses, or movable property, or properties without an extract from the register (even if there are other relevant documents confirming the ownership) as collateral seems the basis for limiting access to concessional loans. Unprofessional approaches of entrepreneurs to their activities, or lack of awareness, or insufficient knowledge and skills, or lack of interest in these opportunities stand out as factors from the demand-side. The main point to be noted here is that, despite regular informational events by relevant state organizations and lending institutions, entrepreneurs' lack of sufficient information about loans and their granting rules is considered as one of the reasons limiting access to loans.

In the third research question, the steps that can be taken in relation to the elimination of the challenges that limit the concessional loans of entrepreneurs were investigated. These steps include

the liberalization of rules, conditions and procedures related to concessional loans, increasing the effectiveness of the activities of lending institutions, taking measures related to collateral security, promoting financial innovations, expanding the activities of credit bureaus, etc. In addition, the study showed that the limited current operating concessional loan mechanisms and insufficient loan portfolio may require the consideration of offering additional new loan mechanisms or increasing the portfolio, as well as the creation of specific, sectoral credit funds.

As a result of the research carried out within the framework of qualitative case study, it can be concluded that the existing concessional loan mechanisms are not sufficient and accessible for entrepreneurs operating in the field of tourism, and the implementation of appropriate measures in the direction of the improvement proposed in the research can be useful for tourism industry.

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## Appendices

### Appendix 1. List of interviewees

Regional Tourism Industry (private sector) – RTI

Public Finance Institutions – PFI

Lending Institutions – LI

Number	Date of the interview	Interviewer coding	Location / Regional area	Relations with tourism	Form of interview	Organization	Gender	Duration of the interview
1	02.03.2023	<b>RTI 1</b>	Shaki / North West	Entrepreneur	Online	Retail bakery	M	44 minutes
2	02.03.2023	<b>RTI 2</b>	Shaki / North West	Entrepreneur	Online	Craft producer	M	18 minutes
3	02.03.2023	<b>RTI 3</b>	Shaki / North West	Entrepreneur	Online	Craft producer	W	35 minutes
4	02.03.2023	<b>RTI 4</b>	Guba / North	Entrepreneur	Online	Accommodation operator	M	22 minutes
5	02.03.2023	<b>RTI 5</b>	Gusar / North	Entrepreneur	Online	Restaurant operator	M	15 minutes
6	03.03.2023	<b>RTI 6</b>	Lankaran / South	Entrepreneur	Online	Craft producer	M	33 minutes
7	03.03.2023	<b>RTI 7</b>	Masalli / South	Entrepreneur	Online	Craft producer	M	37 minutes
8	03.03.2023	<b>RTI 8</b>	Lankaran / South	Entrepreneur	Online	Tour operator	M	61 minutes
9	03.03.2023	<b>RTI 9</b>	Lankaran / South	Entrepreneur	Online	Accommodation operator	M	38 minutes
10	06.03.2023	<b>RTI 10</b>	Lankaran / South	Entrepreneur	Online	Accommodation operator	M	58 minutes
11	23.02.2023	<b>PFI 1</b>	Baku	Policy-making government agency	In person	Entrepreneurship Development Fund	M	51 minutes
12	26.02.2023	<b>PFI 2</b>	Baku	Policy-making government agency	In person	Ministry of Economy	M	30 minutes
13	26.02.2023	<b>PFI 3</b>	Baku	Policy-making government agency	In person	Ministry of Economy	M	29 minutes
14	26.02.2023	<b>PFI 4</b>	Baku	Policy-making government agency	In person	Small and Medium Business Development Agency	M	68 minutes
15	27.02.2023	<b>PFI 5</b>	Baku	Policy-making government agency	Online	Azerbaijan Youth Foundation	M	10 minutes



<b>16</b>	09.03.2023	<b>PFI 6</b>	Baku	Policy-making government agency	In person	State Tourism Agency	M	95 minutes
<b>17</b>	13.03.2023	<b>PFI 7</b>	Baku	Policy-making government agency	Online	Agrarian Credit and Development Agency	M	37 minutes
<b>18</b>	13.03.2023	<b>PFI 8</b>	Baku	Policy-making government agency	Online	Innovation and Digital Development Agency	M	12 minutes
<b>19</b>	24.02.2023	<b>LI 1</b>	Baku	Authorized loan institution	In person	Bank Respublika	M	58 minutes
<b>20</b>	28.02.2023	<b>LI 2</b>	Baku	Authorized loan institution	In person	"Aqrarkredit" Non-Bank Credit Institution	M	102 minutes
<b>21</b>	07.03.2023	<b>LI 3</b>	Baku	Authorized loan institution	Online	"Refinance" Credit Union	M	80 minutes

## **Appendix 2. Guiding questions of key informant in-depth interview**

### **Group A. Regional Tourism Industry (private sector)**

1. First of all, I would like to get to know you, please tell me a little about yourself and your business.
2. How did you finance the start-up and ongoing development of your business? What has been the importance of each of the following forms of finance to your business: personal finance, loan, subsidy, grant, investor, any other form?
3. What is your awareness of state concessional loan opportunities for micro and small businesses? Where and how did you find out about the loan/s? How effective did you find this method of communication? How well would you say you understand the rules, conditions, and other related procedures for obtaining the loan/s? What suggestions do you have for how the communications could be improved?
4. What has been your personal experience with accessing state concessional loan/s? What type of loan/s have you applied for? What type of activity/activities was the finance for? How many times have you applied for such loans? Were all your applications successful? If not, what were the grounds for rejection? What were the main challenges you faced? How supportive was the government and financing / lending institution? How would you like it to see the process and general conditions improved / made easier?
5. Please give your experience / opinion on each of the following aspects of state concessional loans and describe how you would like them improved (if at all):
  - a) *Lending limit*
  - b) *Interest rate*
  - c) *Security / bond requirements*
  - d) *Supporting documentation (e.g. legal, financial, business)*
  - e) *Repayment schedule / procedures*
  - f) *Grace period*
  - g) *Any other conditions (please describe)*
6. Overall, how significant has accessing the concessional loan/s been to the growth and development of your business? How much has it impacted on the operation and growth of your business?
7. Do you have any other issues or recommendations you would like to make to government and financing / lending institutions in relation to improving the effectiveness of accessing concessional loans?

**Group B. Public Finance Institutions**

1. What current concessional loan schemes are available that can be accessed by regional tourism micro and small businesses and what are their benefits and conditions?
2. Please describe the overall response / reaction from consumers to the scheme/s? Has it met your expectations? Why / why not? What are the main challenges to the success of the loan scheme/s? What are the main difficulties for micro and small businesses?
3. What are the main reasons for the rejection of the applications of micro and small businesses who applied for a concessional loan?
4. Are there any additional concessions or privileges for micro and small businesses operating in the regional areas or in a specific field such as tourism?
5. Are there plans to introduce any other (new) loan schemes in the future that could be accessed by regional tourism micro and small businesses?
6. What is the development and implementation process that normally takes place for a new loan scheme? Who is involved? How are conditions and benefits developed? How is the private sector involved? Is there benchmarking? Piloting (testing)? How are the schemes rolled out to finance / lending institutions as well as consumers?
7. What, if any, requirements are set for banks, non-bank lending institutions, and credit unions who provide the loans?
8. Do you implement any punitive or incentive measures for banks, non-bank lending institutions and credit unions who provide the loans?
9. Feedback we have been receiving indicates a breakdown in consumer awareness of loans that can benefit them and how to apply. What could be some reasons for this? What do you do to build awareness? Are there any ways you think this could be made even more effective?
10. What steps are taken to monitor and evaluate the effectiveness of the loan scheme/s? Who? How? When? What? Are targets / key performance indicators (KPIs)?
11. What are your overall recommendations on how to increase the number of people accessing loans in the tourism sector? Are there any specific activities you think other stakeholders could do (e.g. STA, ATB, banks, etc.)?

### **Group C. Lending Institutions**

1. What state concessional loan schemes, as well as loan schemes developed by your own institution do you offer that would be beneficial to regional tourism micro and small businesses? What are the specific benefits and conditions of the loan/s?
2. Are there plans to introduce any other (new) loan schemes in the future that could be accessed by regional tourism micro and small businesses?
3. How does your institution promote the state and your institution's concessional loans to consumers? How are customers encouraged to apply (e.g. online, paper form, etc.)? What are the main challenges for your institution and customers in relation to effectively promoting the loan/s? Are there any ways you think promotions and awareness raising could be more effective? Are there any ways STA or other government bodies could support / improve the process?
4. Do you require consumers to submit any concessional loan applications online only or are printed forms also permitted? What is the best approach in your opinion and why? If you are encouraging online applications, are provisions made to support people with limited computer skills or limited access to a computer and the internet?
5. Please describe the overall level of success of the loan/s. Has it met your institution's expectations? Why / why not? Can you please give us a rough estimate of the percentage of rejections to applications? What are the main reasons for rejections and why do you think applicants are not able to successfully meet the application requirements (i.e. what are the underlying causes)? What could consumers do differently to improve their chances of success? Is there any role the state and other government actors such as STA, could play to improve the application process and results?
6. How do you monitor and evaluate the effectiveness of the loan scheme/s offered by your institution? Who? How? When? What? Are you encouraged to meet any targets / key performance indicators (KPIs)? If you do not have any formal targets / KPIs, do you think this could be achievable and an effective way to increase the number of loans given to consumers? If you do have targets / KPIs, is there an evaluation and continual improvement process linked to the results of the reporting? How else do you think monitoring and evaluation could be improved?
7. What is your general opinion about: (1) the range of concessional loans offered by the state that are accessible to micro and small businesses in the regional areas of Azerbaijan, and (2) the state's approach to development and implementation of the loan schemes? What suggestions can you make on how both aspects could be improved?
8. There is a contention that finance / lending institutions are less interested in promoting state concessional loans above their own loans despite state loans sometimes having better conditions for consumers. Do you agree / disagree? Why / why not? What needs to be done by both the government as well as finance / lending institutions to ensure consumers

are offered the most competitive concessional loans with practical and realistic conditions for micro and small businesses in the regional areas of Azerbaijan?

9. Do you have any other general comments or recommendations for the state, and specifically STA as well as finance / lending institutions in terms of helping improve the provision and operation of concessional loans for micro and small businesses operating in tourism in Azerbaijan's regional areas and increase the number of successful loans that are granted?