LEGAL REGULATION OF CROWDFUNDING ACTIVITIES IN AZERBAIJAN

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Summary: This article examines the legal framework, regulatory mechanisms, and practical implications of the Law of the Republic of Azerbaijan "On Crowdfunding". It analyzes how the new legislation is designed to balance alternative financing opportunities for small and medium-sized enterprises (SMEs) with investor protection, Central Bank oversight, and digital infrastructure integration, while drawing comparative parallels with European and American regulatory standards.

In the context of diversification and digital transformation of the national financial system, expanding access to alternative sources of capital for small and medium-sized enterprises (SMEs), including startups, is of particular relevance. The Law of the Republic of Azerbaijan "On Crowdfunding" (hereinafter – the Law), approved by the President of the Republic of Azerbaijan is the first special normative legal act that forms the institutional and legal framework of the mass financing institution in the country.[1] Pursuant to Article 23, the Law will enter into force 6 months after its official publication, meaning its full operational framework will become active in early 2027. Once effective, the law will establish legal certainty between the parties by using the opportunities of the capital market, determine the status of platform operators, and institute prudential control mechanisms aimed at protecting investors. So, what is crowdfunding, what principles are the legal foundations of this regulation based on, why is its adoption commendable, and how is it expected to affect the country's financial ecosystem upon implementation?

Crowdfunding is a process by which project owners (startups, SMEs) raise funds from a wide audience (individual or institutional investors) through special digital platforms.[2] Article 1.1 of the Law imperatively distinguishes between two main investment models of crowdfunding. The first model, equity-based crowdfunding, is the raising of capital in exchange for the acquisition by investors of shares issued by the project owner in order to increase its authorized capital. In this model, the investor acquires the right to a corporate share, and only Joint Stock Companies can act as the project owner. The second model, debt-based crowdfunding, is the placement of debt investment securities (bonds) issued by the project owner in exchange for the raised

[1] Law of the Republic of Azerbaijan "On Crowdfunding", adopted and signed on 14 July 2026; in accordance with Article 23 of the Law, it enters into force 6 months after its official publication.

[2] "Crowdfunding's Potential for the Developing World", World Bank, Finance and Private Sector Development Department Report, 2013, pp. 14–15.

funds. Commercial legal entities can participate in this model, subject to explicit statutory exclusions under Article 9.9 of the Law: entities supervised by the Central Bank under financial market laws, pawnshops, and persons offering factoring or financial leasing services are expressly prohibited from hosting crowdfunding projects on platforms. The maximum maturity of the bonds is set at 5 years, and the project owner can carry out a maximum of 2 campaigns of this type in the last 12 months.[3]

The adoption of this regulatory act is of great legal and economic importance. First, it will create an alternative source of financing for SMEs and digital startups that face difficulties raising capital due to the high interest rates and heavy collateral requirements of traditional bank loans. Second, upon its entry into force, it will eliminate the legal uncertainty that previously existed in this area and protect the rights of investors at the state level. The legislator has established special mechanisms for the protection of individual investors in conditions of asymmetric information. Pursuant to Article 16.3 of the Law, upon submitting an investment offer, individual investors are immediately notified of the exact start and end dates of their "cooling-off" period. This period spans 7 calendar days, starting from the day following the offer's submission, during which no funds can be collected from individual investors for the purchase of shares or bonds. In addition, funds collected from investors will be segregated from the operator's own property and cannot be claimed or seized for the operator's debts.[4]

As for the legal basis, the Law was developed in accordance with paragraphs 10–13 and 15 of Part I of Article 94 of the Constitution of the Republic of Azerbaijan. The normative-legal characteristics of crowdfunding activities are regulated by a hierarchical structure. The main regulatory acts include the Civil Code of the Republic of Azerbaijan, the Law "On Crowdfunding", the Law "On Combating the Legalization of Property Obtained by Crime and the Financing of Terrorism", and the Law "On Targeted Financial Sanctions". Furthermore, essential operational thresholds, including quantitative investment limits for non-professional investors, minimum capital requirements for operators, and detailed technical and cybersecurity criteria, are designated to be specified in secondary normative acts to be adopted by the Central Bank of the Republic of Azerbaijan. This Law does not apply to legal entities established by the state for the purpose of implementing the state investment policy and the institutions established by them. Relevant relations in the Alat Free Economic Zone are regulated by the special regime of the Law "On the Alat Free Economic Zone".[5]

The crowdfunding platform operator is the central infrastructure of the crowdfunding system. According to Article 3.1 of the Law, the operator must be

[3] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.
[4] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.
[5] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.

established only in the organizational and legal form of a Limited Liability Company or a Joint Stock Company. The exclusive subject of its activity is the management of the platform, and the operator cannot simultaneously carry out other commercial activities. The operator's name must necessarily contain the phrase "crowdfunding platform operator". The use of the words "state", "national", "central", "government", "guaranteed", or "insured" in the name of the company is prohibited in order to prevent misleading perceptions. The platform management activity will be permitted only after inclusion in the official register of operators maintained by the Central Bank. The application for inclusion in the register will be considered within 90 calendar days, and if deficiencies are detected, a period of 15 working days is given, during which the consideration period is frozen. The platform's compliance with technical and cybersecurity standards will be verified by live viewing. Persons performing management functions of the operator must have a higher education, at least one of whom must have at least 3 years of work experience in the financial sector regulated by the Central Bank, and must meet the requirement of "civic integrity". Citizens of risky countries, persons on the sanctions list, as well as legal entities or individuals registered in offshore zones, cannot be founders, owners of significant participation shares, or beneficiaries of the operator. To acquire a significant participation share (10 percent or more), or an additional share that brings the share to the limits of 20, 33, or 50 percent, prior official permission of the Central Bank is required (consideration period: 60 calendar days), and voting rights on shares acquired without permission are frozen.[6]

When comparing Azerbaijan's newly adopted crowdfunding framework with Western legal benchmarks, its statutory structure reflects a calculated balance between consumer protection mechanisms and capital allocation efficiency. Regarding disclosure standards, Azerbaijan aligns closely with the European regulatory philosophy. Similar to Germany's Small Investor Protection Act (*Kleinanlegerschutzgesetz*), which utilizes the standardized Asset Investment Information Sheet (*Vermögensanlagen-Informationsblatt*, VIB) to deliver streamlined risk disclosures without requiring a full prospectus, Azerbaijan mandates the Key Investor Information Sheet (*əsas məlumat vərəqəsi*) as its primary disclosure instrument.[7,8]

An operational comparison between Title III of the US JOBS Act and Azerbaijan's crowdfunding framework reveals structural parallels in conflict-of-interest management rather than a simple contrast in regulatory strictness. Both regimes enforce rigorous insider prohibitions at the individual level. Securities Act Section 4A(a)(11) and SEC Rule 300(b) strictly bar funding portal directors, officers, and partners from holding

[6] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.
[7] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.
[8] "Regulation of Crowdfunding in Germany", Tobias H. Tröger, SAFE Working Paper No. 199, 2018, pp. 19–20.

any financial interest in an issuer using their platform, directly mirroring Article 8.2 of Azerbaijan's law, which prohibits platform operators' management, employees, and major shareholders from owning hosted projects. At the entity level, however, both systems accommodate limited financial involvement through distinct statutory mechanisms. While SEC Rule 300(b) permits the intermediary entity to acquire equity in an issuer solely as service compensation, provided the securities carry identical terms to those issued to retail investors, Azerbaijan's Article 8.3 allows the operator legal entity to co-invest up to 20 percent of a project's target funding on identical terms to demonstrate alignment of interest.[9,10,11,12]

In conclusion, the Law of the Republic of Azerbaijan "On Crowdfunding" introduces a specialized statutory framework for digital financial intermediation within the national legal system. Once fully operational in early 2027, the framework seeks to leverage capital markets as a complementary channel to traditional bank financing, facilitate retail investment flows, and maintain market stability through prudential oversight. Mechanisms such as fund segregation, the 7-day cooling-off period, Central Bank registry control, and offshore restrictions are intended to strengthen structural credibility within the emerging market. Subject to the finalization of secondary Central Bank regulations, this legislation provides a clearer regulatory foundation for FinTech development and SME capital access in Azerbaijan.

[9] See, Law of the Republic of Azerbaijan "On Crowdfunding", 2026.
[10] Jumpstart Our Business Startups Act 2012, HR 3606, 112th Cong. § 302 (2012).
[11] Securities Act of 1933, § 4A(a)(11), 15 USC § 77d-1(a)(11) (as amended by JOBS Act 2012 § 302).
[12] SEC Regulation Crowdfunding, 17 CFR § 227.300(b) (Rule 300(b)).