An Analytical Overview

RESEARCH ON CROWDFUNDING IN AZERBAIJAN

PREPARED FOR: International Center for Not-for-Profit Law (ICNL)

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Introduction

Goals and Objectives of this Research

The present research on crowdfunding in the Republic of Azerbaijan (hereinafter “research”) is based on analysis of the legislation of the Republic of Azerbaijan (hereinafter “Azerbaijan”). The research:

1. presents a review and analysis of the existing legal regulation of fundraising by non-commercial organizations (“NCOs”) by means of electronic and online tools (crowdfunding); and
2. provides conclusions and recommendations on how to most efficiently use existing electronic and online tools in compliance with legislation, as well how to further develop and use new potential methods for NCO fundraising.

The research achieves these goals by presenting the results of legal analysis of civil, banking, financial and tax regulation relating to NCOs’ fundraising by means of electronic and online tools, both as written in legislation and as implemented in practice.

The present research intends to explain to NCOs: a) how to use electronic and online tools as fundraising methods in compliance with the law; and b) to provide recommendations for legislative reforms in Azerbaijan, improving NCO’s access to funding through the use of electronic and internet services.

Defining the Concept of Crowdfunding for the Purpose of this Research

There is no definition of “crowdfunding” under Azerbaijani legislation. Therefore, for the purposes of the present research we suggest using the following definition:

“Crowdfunding is fundraising from broad circle of legal and natural persons with the use of electronic and internet means through donations and other gratuitous transfers, as well as sales of goods and services aiming to finance specific or general statutory purpose of the NCO”.
The present research does not cover “crowdfunding platforms” as such, as to our knowledge, they do not exist in Azerbaijan.

At present, crowdfunding is not broadly used in Azerbaijan. Most NCOs raise funds for their activities through soliciting grants from specific foreign donors. However, access to such foreign funding is becoming increasingly difficult for a variety of reasons. Another available source is state funding, either through state grants or through state procurement of social services. However, this source is insufficient for financing the Azerbaijani NCO community due to limited available funding. Only a small portion of donations and grants from local individuals and businesses benefit NCOs currently, making it an insignificant source of funding for NCOs. At the same time, only a few NCOs generate income from sales of their goods and services. In light of the current environment, when NCOs face funding deficits, NCOs are interested in identifying new sources of income. For this reason, crowdfunding, which allows opportunities to reach a large number of individuals and businesses asking for support with the use of internet and electronic means, is very important and promising for Azerbaijani CSOs.

Regarding the term “electronic and online means” in this paper, we specifically mean and will review the following:

- collecting funds through SMS via mobile service providers;
- payments through payment terminals (MilliOn, ExpressPay, E-manat, etc); and
- bank wires through special arrangements with banks.

We refer to mobile service providers, banks, and operators of terminals as “operators.”

This research will address various aspects of crowdfunding. In particular, the research will cover the following:

- legal regime for various sources of funding for NCOs in Azerbaijan;
- legal regulation of interaction between NCO and intermediaries (for the purpose of fundraising), who help to facilitate communication between NCOs and potential funders;
- legal regime for funds received by intermediaries, including taxation;
- legal regime for funds received by NCO from intermediaries, and documenting them as non-taxable income; and
- legal regime for intermediaries, possibility to fundraise on behalf of NCO, accountability for reporting on use of collected funds, etc.

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2 Regulation of income of NCOs in Azerbaijan, M. Guluzade, Baku, 2018.
1. Legal Regime for Types of Funding for NCOs

1.1 GENERAL PROVISIONS

The legislation of Azerbaijan provides for a variety of types of funding for NCOs,\(^3\) including grants, donations, income from economic activity, membership fees, public funding, and other types not prohibited by law. The law does not specifically mention “crowdfunding.” The most relevant to the topic of crowdfunding are donations and income from economic activities (sales of goods and services), which are subject to detailed regulation. Below we briefly describe donations and income from economic activities as sources of funding for NCOs.

1.1.1. DONATIONS

The NGO Law of Azerbaijan\(^4\) defines a donation as aid in the form of funds and (or) another material form to an NCO in accordance with this law without a condition to achieve any purpose. No conditionality shall be attached to donation on the part of the donor. If made in compliance with the law, donations are tax exempt for the NCO-recipient (see details on taxation below). Activities under a donation can be implemented at the discretion of an NCO, in compliance with legislation and its charter. Only registered NCOs, but not individuals can receive donations. Local individuals and legal entities, as well as foreign NCOs (FNCOs) with registered offices in Azerbaijan can give donations. Donations cannot be given in cash, the exception being when the recipient of a cash donation of up to 200 manat ($115) is an NCO which has charity as its main statutory purpose (i.e. not only charities per se).\(^5\) Rather, donations must be made via bank transfer. A donation of any value shall be registered with the Ministry of Justice (MoJ).\(^6\) Anonymous donations are not allowed in Azerbaijan.\(^7\)

In practice, the registration of a donation may be rather time-consuming and also requires a number of formalities, (i.e. the donation agreement shall be in writing between a specific qualified donor and an NCO-recipient, amongst other requirements). Agreement with each donor shall be registered separately, even if several donors are funding the same project.

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\(^3\) According to Article 43.5 of the Civil Code, an NCO is a legal entity that does not have the generation of profit as its main purpose and does not distribute profit among the participants. An NCO includes public associations, foundations and unions of legal entities. For the purpose of this publication, the terms “NCO” and a non-governmental organization (“NGO”) have similar meaning unless noted otherwise.


\(^5\) The law of Azerbaijan does not establish rules for the registration of charities.

\(^6\) Decision of the Cabinet of Ministers of Azerbaijan # 336, November 13, 2015.

\(^7\) Information about a donor is a part of mandatory information to include in annual financial reports submitted to the Ministry of Finances of Azerbaijan (MoF).
The defined list of entities who can make a donation (i.e., no anonymous donors), as well as the requirement to register a donation with the MoJ, and a de facto requirement to have a written agreement for the donation signed between a qualified donor and an NCO, makes the donation form unsuitable for a public request, asking an unlimited circle of entities and individuals to support an NCO, as this would likely result in a number of small contributions, each of which would require a complex registration procedure with the MoJ. Therefore, in the present legal environment, donations might not be suitable type of funding to be fundraised through crowdfunding.

1.1.2. INCOME FROM ECONOMIC ACTIVITY

It is important to note that NCOs are permitted to use received funds ('income') without registration with the MoJ. Such funds will be considered as income, generated through economic activities, even if received on a gratuitous basis, and will be subject to profits tax, if it does not go through a proper registration with the government as a donation or a grant. Taking into consideration the difficult registration requirements for any kind of exempt income received by NCOs (grants or donations), presently the most viable way to obtain additional funding using electronic and internet means, would be to obtain it as taxable income and not claim a profits tax exemption on it.

Azerbaijani NCOs may carry out economic activities that are consistent with and “aimed at reaching the objectives of the creation” of the organization, so long as income generated is not distributed among the founders or members. The production and sale of goods for profit, the acquisition of securities, property and non-property rights, as well as participation in businesses, are all permitted activities for NCOs as long as they advance the organization’s objectives. The recipients of NCO’s services or buyers of goods can be any natural or legal entities, including foreign.

An NCO shall keep records of and account for its income and expenditures related to its economic activities. As these incomes are subject to tax, an NCO shall keep records of and accounts for them separate from records of and account for income exempt from profit tax. Restrictions on the types of activities an NCO can conduct may be determined only by law (for example, if certain activity requires a special permit (license)). The one important issue to keep in mind is that contracts between NCOs, as contractors, and foreign entities or persons, are also subject for approval by the MoJ, according to the Rules on Registration of Service Contracts. The procedure for

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8 Not specifically prescribed by law, but the lack of it makes it impossible to register a donation with the MoJ.
9 Article 43.6 of the Civil Code.
10 Article 22.3, NGO Law.
11 Rules on Registration of Service Contracts on Provision of Services or Implementation of Works by NCOs, as well as by Branches or Representative Offices of Foreign NCOs, from Foreign Sources adopted by the Government of Azerbaijan on October 21, 2015, and entered into force with its publication on November 20, 2015.
registration of service contracts with foreign entities or persons in the Rules is somewhat similar to donations registration procedure.

Despite the fact that income from an NCO’s economy activity is taxable, this type of income might work for crowdfunding purposes because: a) registration of contracts on provision of services/sale of goods from local sources is not required by law; b) the tax rate can be as low as 2% (see the next section on taxation); and c) there is usually no licensing requirement for vast majority of services which NCOs typically provide.

It shall be noted that NCOs’ contracts on provision of services/sale of goods with foreign entities and persons have to be registered with the MoJ. In practice, the registration of such a contract may be rather time-consuming and also requires a number of formalities, i.e., the contract shall be in writing between a specific qualified client and an NCO-service provider (goods supplier), amongst other requirements. Contracts with each foreign client shall be registered separately, even if several of them are “financing” the same project. Therefore, it should be noted that current Azerbaijani law does not encourage the participation of foreign entities or citizens in crowdfunding, and NCOs should make this clear in their fundraising campaigns. If an NCO still decides to involve foreign entities and citizens in its crowdfunding campaign, it might be prudent to establish a certain threshold of payments from foreign entities and citizens (i.e., only payments above a certain amount are accepted) which would cover the time an NCO would spend on formalities and registration of such payment with the MoJ.

2. Taxation of NCOs

The use of crowdfunding mechanisms (whether SMS, or terminals or bank transfers through special arrangements with banks) will most likely generate taxable income for NCOs (subject to profits tax and VAT), under the current legal framework. As explained in section above, all exempt incomes, such as donations or grants, are subject to strict rules and regulation, requiring time and effort from both donors and NCOs to ensure compliance, and as a result, would undermine the effectiveness of the crowdfunding mechanism, which is supposed to enable broad outreach to donors with minimal-to-no burden on the part of donors in particular. Additionally, the current law assumes that donors (both individuals and entities) will not be able to receive any tax benefits on funds transferred to NCOs when they support activities of NCOs via crowdfunding mechanisms. Therefore, this section will provide an overview of taxation of NCO-recipients of income via crowdfunding mechanisms with involvement of intermediaries (such as mobile service providers, e-terminal operators, and banks). The latter is important for NCOs as the amounts of taxes to be paid by intermediaries shall be taken into account and deducted from the total amount
of funds raised via intermediaries (in addition to service fees to be paid to intermediaries).

2.1. NCO-SIMPLIFIED TAX PAYERS

NCOs with a revenue of 200,000 manat or less during any single month for 12 consecutive months, may become payers of simplified tax.\(^\text{12}\) As a payer of simplified tax, an NCO pays 4% of its total revenue if it is located in Baku, and 2% of its total revenue if it is located in regions outside of Baku.\(^\text{13}\) NCOs subject to simplified tax do not pay VAT and profit tax.\(^\text{14}\) The accounting for such NCOs is simpler compared to entities subject to the regular tax regime.

The simplified tax applies to all revenues, including revenue collected through a crowdfunding mechanism (bank wires, e-terminals or SMS), however, if the revenue exceeds 200,000 manat during any single month for 12 consecutive months, NCO will become subject to regular tax regime.

It is important to remember that NCOs under the simplified tax regime will have to pay simplified tax on the entire amount of the revenue, even including properly registered with MoJ grants or donations. Therefore, an NCO must carefully consider whether to register as a simplified tax payer.

Simplified tax payers cannot register as VAT tax payers without losing simplified tax status.\(^\text{15}\) As discussed further in this section, transfer of property rights on funds is not subject to taxation with VAT\(^\text{16}\), and financial operations are exempt from VAT.\(^\text{17}\) Therefore, depending on how an agreement between an NCO and an intermediary is drafted, an NCO might not pay VAT on the funds received from the intermediary, even if it is not registered as a VAT tax payer.

2.2. NCOS UNDER REGULAR TAX REGIME

NCOs are tax payers, subject to all taxes, with exceptions, established in the Tax Code of Azerbaijan. The main taxes include profit tax, VAT and property tax. In the following sections we will review taxes applicable to NCOs relating to revenue generated through crowdfunding.

2.2.1. TAXATION WITH PROFITS TAX

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\(^{12}\) Article 218.1 of the Tax Code.

\(^{13}\) Article 220.1 of the Tax Code.

\(^{14}\) Article 219.5 of the Tax Code.

\(^{15}\) Article 219.5 of the Tax Code.

\(^{16}\) Article 13.2.11 of the Tax Code.

\(^{17}\) Article 164.1.2 of the Tax Code.
NCOs\textsuperscript{18} are payers of profits tax under Azerbaijan’s Tax Code. The general profit tax rate is 20\%.\textsuperscript{19} All income of NCOs is subject to profits tax, with the exception of certain types of income, defined in the Tax Code, such as transfers received on a gratuitous basis, donations, and membership fees.\textsuperscript{20} As discussed in the previous sections, these exceptions would generally not be applicable to fundraising activities with the use of crowdfunding. Therefore in this section we will focus on taxation of income from economic activities of NCOs.

2.2.2. TAXATION OF INCOME FROM ECONOMIC ACTIVITIES

Economic activity is defined by the Tax Code as activity independently conducted by a person, the primary purpose of which is derivation of profit from the use of property, provision of goods, performance of works, or provision of services.\textsuperscript{21} Since taxation of passive (investment) income is not relevant to crowdfunding, we will not cover it in the present research. Profit from NCOs’ economic activities is subject to profit tax at the rate of 20\%.\textsuperscript{22} The profits subject to taxation with profit tax is calculated as a revenue generated from economic (taxable) activities less by expenses.\textsuperscript{23} Revenue received by an NCO from intermediaries will most likely be considered revenue from economic activity. Depending on how the relationship between an NCO and an intermediary is structured, an NCO will have to pay profit tax on the whole amount of the revenue received from an intermediary, or, on the amount reduced by the fee to be paid to intermediary by an NCO (which would be considered a deductible expense for the purpose of calculation of a profit) and/ or other deductible expenses. Please note that expenses can only be deducted if they directly relate to generation of revenue.\textsuperscript{24} Expenses relating to non-commercial activities cannot be deducted from the revenue from economic activities.\textsuperscript{25}

The NGO Law requires NCOs to maintain separate accounting for revenues and costs for economic activity (taxable)\textsuperscript{26} versus exempt incomes (i.e., properly registered

\textsuperscript{18} The Tax Code uses the term “non-commercial organization,” but does not provide a definition. A non-commercial legal entity is defined by the Civil Code as “a legal person not having the generation of profit as the main purpose and not distributing received profit among participants (Article 106.1.2 of the Civil Code). The Tax Code (Article 13.2.36) also uses term “charitable organizations,” which is defined as a “non-commercial organization conducting charitable activity.” It is unclear which NCO may be recognized as a charity, whether an organization must conduct only charitable activities in order to be entitled to this benefit, or, alternatively, whether any NCO which conducts charitable activities (in addition to other non-charitable activities) may qualify. It would be a high-risk activity to claim any special status and incentive to attribute to a charitable organization status as such.

\textsuperscript{19} Article 105.1. of the Tax Code.
\textsuperscript{20} Article 106.1.2. of the Tax Code.
\textsuperscript{21} Article 13.2.37 of the Tax Code.
\textsuperscript{22} Article 105.1. of the Tax Code.
\textsuperscript{23} Article 104.1 of the Tax Code.
\textsuperscript{24} Article 108 of the Tax Code.
\textsuperscript{25} Article 109.2 of the Tax Code.
\textsuperscript{26} Article 22.3 of the NCO Law.
donations or grants). It is important to note that a separate accounting for taxable versus exempt income may substantially complicate accounting for an NCO and would require the assistance of an experienced accountant.

### 2.2.3. VAT FOR NCOS

Organizations conducting economic activity are obligated to register as VAT-payers if the volume of their taxable operations during any month over the 12 consecutive months exceeds 200,000 manat. An NCO is also required to register as a VAT payer, if a volume of a single transaction or a contract exceeds 200,000 manat. Entities with income below this threshold may voluntarily register as VAT-payers.

Article 164 of the Tax Code establishes a list of supplies and imports that are exempt from VAT, regardless of whether they are sold or imported by commercial or non-commercial entities.

The exemptions are largely irrelevant for the purpose of taxation of income generated via crowdfunding.

Simplified tax payers cannot register as VAT tax payers without losing simplified tax status. As discussed further in this section, transfer of property rights on funds is not subject to taxation with VAT, and financial operations are exempt from VAT. Therefore, depending on how an agreement between an NCO and an intermediary is drafted, an NCO might not pay VAT on the funds received from the intermediary, even if it is not registered as a VAT tax payer.

### 3. Specifics of legal regulation of fundraising for NCOs via Crowdfunding

In this section we will look at regulation of fundraising for NCOs with use of three mechanisms which to our opinion can be most suitable under the current legislation:

#### 3.1. PAYMENTS VIA SMS;

#### 3.2. PAYMENTS VIA E-TERMINALS; AND

#### 3.3. DIRECT WIRES TO BANK ACCOUNTS OF NCOS.

An NCO may enter into a contract with mobile service providers (mobile operator), banks and other intermediaries (particularly we will study e-terminal operators) to collect payments on behalf of the NCO. There is no separate legislative regulation of these relations between NCO and intermediaries. Such relations are regulated by

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27 Article 155.1 of the Tax Code.
28 Article 156 of the Tax Code.
29 Article 156.1 of the Tax Code.
30 Article 13.2.11 of the Tax Code.
31 Article 164.1.2 of the Tax Code.
norms of general law applicable to all subjects of these relations. As described in previous sections of the research, NCOs will most likely have to pay profit tax on income generated through revenues received from intermediaries. NCOs shall also bear in mind that they have to negotiate a service contract with an intermediary, including the service fee to be paid to the intermediary, amongst other terms. In the course of negotiating the contract, an NCO might try to negotiate a no fee arrangement with an intermediary, appealing to its corporate social responsibility sensibilities.

3.1. PAYMENTS VIA SMS

There are three mobile operators in Azerbaijan (Azercell, Bakcell and NAR).

NCOs can sign contracts with one or more mobile operators so that they transmit a message from the NCO to all their clients which are users of the operator’s mobile network. In such messages, as a rule, there is a short appeal to send funds for the NCO’s specific goal, for example, “help to save life of Asmer Ismailova” with a link where more information can be obtained. The idea and effectiveness is in the fact that the user of a mobile network can transfer any amount of funds by pressing one button, i.e., sending an SMS to a short number. If a mobile operator has 500,000 clients, and 10% transfer one manat (there can be another minimum amount agreed with the operator), then the NCO can receive a substantial amount of funds, even after paying tax and service fee to the operator.

One has to take into account that the effectiveness of the fundraising campaign using such a mechanism increases if similar arrangements are made at the same time with other mobile operators.

Transfer of funds from users of mobile operators to a recipient of funds (NCO) is made via bank account of the mobile operator to which funds from users of the mobile network are transferred.

To sign a contract (on agent services) with a mobile operator, one needs to contact the department dealing with public relations or corporate social responsibility and sign a contract for services related to a short SMS. The operators have their own contract templates and as a rule they need to be adjusted for the purpose of the NCO, therefore a support from a lawyer might be needed.

Once the mobile operator sends a mass SMS to its users (for example, about fundraising for helping a specific patient), the user receives information about the charity project (for example, a link to a webpage), and once the user transfers funds, the mobile operator sends automatic reply via SMS thanking the user for support.

Once the funds are received in the account of the operator, after period of the fundraising campaign expires, the mobile operator deducts the agreed-upon fee for its services (usually a certain percentage of overall amount raised; the smaller the amount
of minimal individual payments, the higher the cost of the operator’s services), in accordance with the conditions of the contract between the mobile operator and recipient (NCO). For purposes of NCO’s reporting, there might be a need for a Handover Act with the mobile operator upon the campaign’s completion and fulfilment of the parties’ duties.

As described in previous section, the legislation does not provide tax benefits for mobile operators if they help an NCO to fundraise via SMS. As a result, the mobile operator pays profit tax on the fee received from the NCO. Depending on its tax status, the NCO shall pay a simplified tax or profit tax and VAT.

The terms for procedure and frequency of mutual payments, as well as other terms between the NCO and a mobile operator, shall be stipulated in the contract.

3.2. PAYMENT VIA E-TERMINALS

Persons who want to transfer funds to an NCO’s bank account can do so via e-terminals. In order to be able to receive payments and transfers e-money to a bank account or e-purse, an NCO needs to sign a contract on such services with a supplier of payment services (MilliOn, ExpressPay, E-manat). As a rule, for these purposes, the supplier of payment services ensures (via e-terminals) integration of advertisement banner of NCO into interfaces of network of e-terminals based on a contract. In many cases, there is a one-time fee for this, the amount of which is subject to negotiations between the parties.

To enter into such a contract, an NCO needs to present:

- Its founding documents;
- information about the head of the NCO;
- its bank details; and
- contacts (address, email, phone, etc.).

When making payments by e-terminals, the sender receives a receipt which is a document and a proof of payment by means of placing cash or credit card into payment system (bank) via e-terminal.

Once the funds are received via e-terminal and the receipt is issued, the supplier of payment service (bank) has an obligation to the sender of funds to issue payment and/or transfer funds to their specified recipient.

Presently, the following e-terminals are popular in Azerbaijan: MilliOn, ExpressPay, E-manat. Their commissions and other terms differ and depend on the turnover of the

32 www.million.az.
33 https://expresspay.az/login.
34 https://e-manat.az/.
client, average amount of individual payments, variety of services, amongst others (with the fee of 1%-10% of the total collected amount). These e-terminals accumulate the funds and transfer them to the client’s account once per week.

3.3. PAYMENT TO AN NCO’S BANK ACCOUNT

Any NCO can place information about its bank account on its webpage or any other webpage (for example, partner organization or mass media) with a call to wire funds to the NCO’s account for a certain purpose or for the organization’s statutory activity. Moreover, the NCO can send emails with information about fundraising and link to its bank account. Here one has to bear in mind that this fundraising method is less expensive, for example, compared with fundraising via SMS (no need to pay for a mobile operator). However, at the same time, it is quite limited as potential donors have to make extra effort to transfer funds to an NCO (for a regular citizen who does not have an e-signature for their bank, it requires going to the bank to make a payment, which narrows the circle of people ready to support the NCO).

Additionally, an NCO can enter into a contract with a bank so that the latter places a call on transferring funds to a special account of the organization in its branches and on-line (see below). Opening such an account and advertisement are made by contract between a bank and NCO on fee-based payment services. Such a contract can also contain provisions by which bank collects funds for NCO by placing information on bank’s webpage in the system of online or internet banking. In this case, the clients of this bank can login to their online banking account and wire funds to the account of the NCO, whose project is presented on bank’s webpage.

As is the case with crowdfunding through mobile operators, when entering into such a contract with a bank, the NCO has to pay a commission (usually percentage of the amount received) for use and service of this account. However, in practice there are cases when socially responsible banks refuse to take commission and render such services pro bono to an NCO (particularly when the bank’s name is featured in the NCO’s report on completion of its fundraising campaign). As a rule, this happens at the decision of the bank.

Taking into account that NCOs have to submit a detailed reports (financial and tax), they need to have a detailed information about the payer (name and surname of the sender (or title for a legal entity), ID number (tax ID for legal entities), aim of payment, etc)\(^\text{35}\). In case of NCOs special accounts to which wires are made directly to NCO, the bank has to present such information to an NCO and this condition must be included in the contact between the bank and NCO.

\(^{35}\) Banks collect this information prior to making a payment by individuals or legal entities and make it available to the final recipient, in this case, the NCO.
3.4. PAYMENTS FROM FOREIGN SOURCES

In accordance with the legislation of Azerbaijan, all contracts on transfer of funds between NCO-contractors and foreigners have to be registered with the Ministry of Justice. When organizing a fundraising campaign from the general public, and when funds go directly to NCOs bank account (not via intermediary’s account), an NCO shall make it clear in its call to the public that only Azerbaijani natural and legal persons may contribute. It is especially important taking into consideration that people most likely will be making small payments, and, regardless of its amount, any contribution from a foreigner will have to be registered by an NCO with the MoJ. NCO also have to be ready to wire back the funds if they are made (mistakenly) by foreigners and pay additional fee for such service (about $20 per wire). Unfortunately, banks usually do not agree to revise their standard contract on bank services to enable automatic return of funds received from foreigners.

In light of the aforementioned, it might be in the interests of NCO to receive funds from the account of an intermediary and not directly from individuals. An intermediary, for example, bank or mobile operator, is a legal entity in Azerbaijan and for NCO it does not matter which subjects (local or foreign) wired funds to the intermediary’s account. NCO is not required to register funds received from the account of an intermediary.

If an NCO makes decision to receive funds from a foreign source (including in foreign currency), then the NCO would need to take the following actions:

- open a foreign currency account (for each currency separately); in this case the bank has to identify and verify the payer (see details below); and
- be ready to register with the MoJ each wire to the NCO’s account from a foreign source.

As the funds from a foreign source will be paid to a bank account, the bank will collect and make available for NCO all information relating to a foreign payer that the NCO needs for its reporting purposes (ID info in case of natural persons, and title and tax ID number of a legal entity in case of the latter).
4. Conclusions and Recommendations

Crowdfunding is not yet popular in Azerbaijan and legislative barriers impede its development. Due to requirements to register every grant and donation with the MoJ and the related practical implications, fundraising in the form of grants and donations with use of crowdfunding is practically impossible in Azerbaijan.

Fundraising in the form of service contracts is possible in practice. Only service contracts between NCO-contractors and foreigners might constitute a challenge, as they require registration with the MoJ, therefore are not suitable for crowdfunding. We have identified three most viable options for it: a) via mobile operators; b) via e-terminals; and c) via banks.

Each of these methods requires thorough documentation, including a contract between an NCO and intermediary, proper accounting, collection of information from individual contributors (in case funds are transfers directly to a bank account of an NCO), and finance and tax reporting.

Bearing in mind the findings of the present research, the following recommendations are made in order to facilitate the development of crowdfunding in Azerbaijan:

- Simplify registration of NCO’s income from foreign sources;
- Abolish the requirement for NCO to register donation from local source in lieu of existing requirement to report about them to the Ministry of Finances;
- Introduce a threshold of 200azn for reporting the names, surname and passport number of each person giving a donation to NCO in the MoF’s annual financial reporting template;
- Introduce tax exemptions and incentives for donors and recipients.