



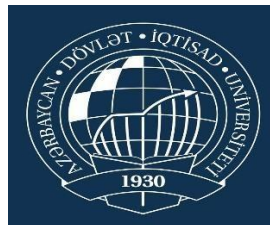
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The Role of Capital Markets in Manufacturing Industries

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Abstract

This research intended to explain the prime purpose of the capital markets in the manufacturing area. The investigation noticed that the capital market performs a vital role in funding into grown communities, but in growing communities like Azerbaijan, Most of the Investors and corporations cannot yet discover these opportunities. This, in turn, slows the growth of capital markets. A solely small portion of manufacturing corporations considers capital markets when they would like to raise capital. The principal reasons are linked with undeveloped infrastructure and taxation.

This study clearly shows that Azerbaijan's corporations prefer bank loans because of their easy reach. In order to get this consequence, the sources of financing are analyzed. This study also covers SOCAR bonds, which are the most massive capital raising in Azerbaijan. Because SOCAR is the most prominent organization in Azerbaijan, furthermore it is dominant, and its status can represent the whole industry. The consequences of the investigation show that country-specific factors have a vital impact on the capital market in Azerbaijan.

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Introduction

Financial capital can be interpreted as accumulated resources that are accessible to generate additional revenue. The capital markets are areas where those who need additional resources endeavor others who desire to invest their surplus. They are also areas where partners can operate and diversify their uncertainties. Capital markets were visible places such as beverage homes and then purpose-built markets. In our time, capital markets partners may be settled in diverse regions and handle agreements using excellent information technology.

Capital markets present a broad variety of tools that are associated with economic investments. Capital markets include the securities market such as share and bond, and just about any real or virtual tool or agent where stock and bond can be exchanged. Their primary mission is to gather reserves and private investors' wealth to fields where there is a shortage of demand for financing.

The method of an indirect investment using financial agents, called financial intermediation, is the fundamental way of transferring reserves from investors to borrowers. Admittedly, although the scholars concentrate full of their study on stock exchanges, particularly the securities market, financial agents are a far further crucial origin of funding for enterprises than stock exchanges are.

The fundamental characteristic of financing organizations is between equity and liability. Equity finance gives control and ownership rights in the enterprise issuing stock and may be gathered either by a stock offer or as past time earnings reinvested as retained earnings. Equity finance is primarily unchanging in business, as it is uncommon for companies to repay stocks; indeed in most countries, there are legal limitations too so making. Debt finance describes as a bond of the firm. A beneficial method to characterize bond is in the duration of its maturity. Bonds may be insured on the firm's assets or uninsured, or they may be distributed against incoming cash flows, which is known as securitization.

Majority of organizations are financed by a mixture of equity and debt money. Debt is given by investors who purchase bonds issued by the corporation, or by sale suppliers who suggest terms of credit. Equity capital is afforded by the enterprise's ordinary shareholders who have an ownership right of the business. Preferred stock is seldom also classified as a sort of ownership, although it is indeed a hybrid mode of financing.

Frankly enormous, well-established businesses have a comfortable entrance to markets to finance their processes. Individuals and smaller start-ups that are not well-formed are less likely to gather funds by issuing corporate securities. Alternatively, they most often take their funding from banks.

We tried to analyze numerous notable features, which may maintain the main problems in both the global and Azerbaijan's capital markets.

In our view, the most remarkable suggestion is advancing regulation system within the

capital markets and state authorities which drove to the growth of the capital markets.

1. Introduction to Capital Markets

1.1 Overview of Financial system

Financial markets in which reserves are transferred from people who have a surplus of possible resources to people who have a deficit. Financial markets, such as bond and stock exchanges, are crucial to supporting excellent economic productivity by channeling reserves from people who do not have a productive use for them to those who do. Indeed, well-functioning exchanges are a crucial part in creating high economic growth, and inadequately performing exchanges are one reason that many nations in the world remain severely insufficient. Actions in financial markets also have direct influences on personal wealth, the performance of businesses and customers, and the cyclical performance of the economy.

Financial organizations are what make financial markets operate. Without them, financial markets would not be capable of transferring funds from people who preserve to people who have fruitful investment possibilities. Financial institutions thus play a critical task in advancing the effectiveness of the economy.

Central Banks and the Conduct of Monetary Policy

The most prominent financial institution in the financial system is the central bank, the state bureau liable for the control of monetary policy, which in the United States is the Federal Reserve System. Monetary policy requires the management of interest rates and the supply of money, also pointed to as the money supply. Because monetary policy influences inflation and interest rates, both of which have a significant influence on financial markets and organizations.

Banks and Other Financial Institutions

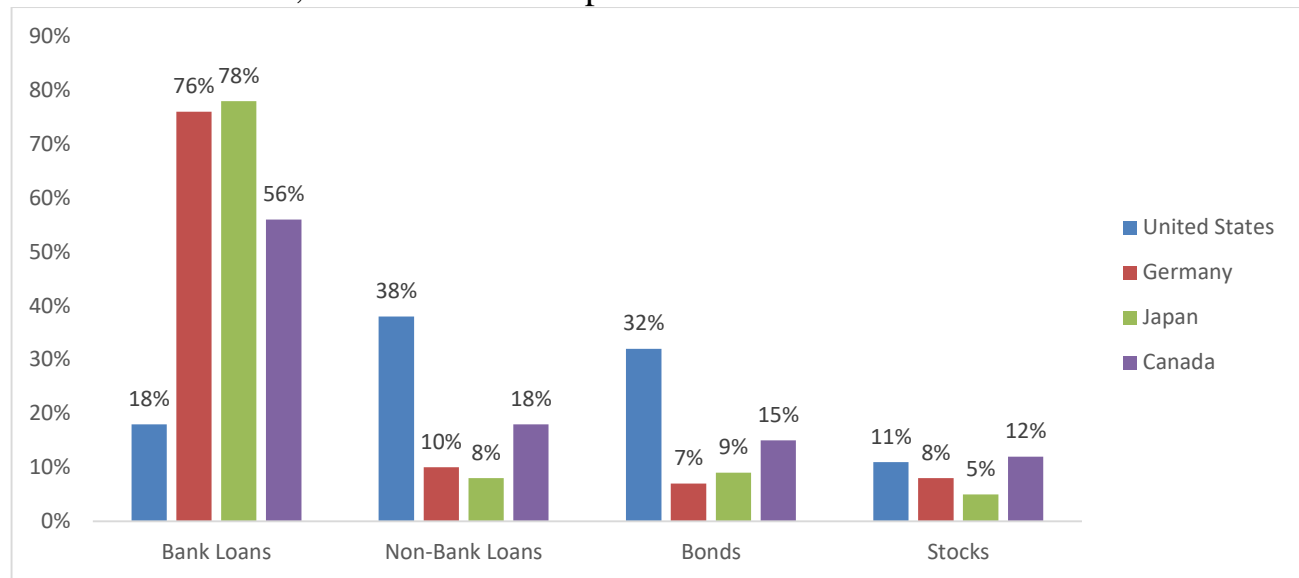
Banks are financial institutions that receive deposits and offer loans. Included under the title banks are firms such as commercial banks, savings and loan associations, mutual savings banks, and credit unions. Banks are the financial intermediaries that the ordinary person associates with most commonly. A person who needs a fund to purchase a house or a vehicle usually takes it from a neighborhood bank. Most people keep a large balance of their financial assets in banks in the form of checking accounts, savings accounts, or different kinds of bank deposits. Because banks are the most significant financial intermediaries in our economy, they earn careful study. Nevertheless, banks are not solely substantial financial institutions. Indeed, other financial institutions such as insurance companies, finance companies, pension funds, mutual funds, and investment banks have been expanding at the cost of banks, and so we must analyze them as well.

Financial Innovation

In the good ancient times, when you took money from the bank or desired to monitor your account balance, you went to say hello to a familiar person. Now, you are further likely to communicate with an automatic teller machine (ATM) when withdrawing cash and to use your house computer to monitor your account balance. Financial innovation, the expansion of new economic goods and services, can be an essential strength for welfare by securing

the financial system more productive.

Regrettably, financial innovation can have a gloomy front: It can lead to catastrophic economic disasters, such as the one experienced from 2007 to 2009.



Source: Frederic S. Mishkin, Stanley G. Eakins (2018). *Financial Markets and Institutions* ninth edition. Pearson. Page 177.

Figure 1. Sources of External Funds for Nonfinancial Businesses: A Comparison of the United States with Germany, Japan, and Canada (1970-2000).

Fundamental Facts About Financial Structure Throughout The World

The financial system is complicated in both structure and function throughout the world. It includes various kinds of institutions: banks, insurance companies, mutual funds, stock and bond markets, and so on—all of which are monitored by the administration. The financial system channels trillions of dollars per year from savers to souls with fruitful investment possibilities. If we necessitate a dense look at financial structure, we obtain EIGHT BASIC FACTS, some of which are quite unexpected, that we must to solve to learn how the financial system operates.

1. Stocks are not the most significant source of external financing for manufacturers. Because so many concentration is focused on the stock market, numerous people have the opinion that stocks are the most influential sources of funding for enterprises. Nevertheless, as we can witness from the bar chart in Figure 1.1, the stock market estimated for only a little portion of the external financing of US corporations in the 1970–2000 period: 11%. Similarly, small numbers apply in the other nations displayed in Figure 1.1 as well.
2. Issuing marketable bonds and stocks are not the fundamental ways in which corporations finance their services. Figure 1.1 displays that bonds are a far further significant source of financing than stocks in the United States (32% versus 11%). However, stocks and bonds combined (43%), which make up the whole portion of marketable securities, still supply fewer than one-half of the external funds' enterprises need to finance their operations. The evidence that issuing marketable securities is not the common significant source of funding is valid elsewhere in the world as well. Admittedly, as we see in Figure 1.1, other nations have a much less portion of external financing supplied by marketable securities than does

the United States.

3. Indirect finance, which requires the activities of financial intermediaries, is several times further crucial than direct finance, in which corporations gather funds directly from lenders in financial markets. Direct finance includes the selling of financial securities. The 43 percent of stocks and bonds as a root of external financing for manufacturers greatly exaggerates the significance of direct finance in our financial system. Since 1970 less than 5% of recently issued corporate bonds and commercial bills and fewer than one-third of securities have been sold directly to households. The rest of these securities have been purchased primarily by financial intermediaries such as insurance companies, pension funds, and mutual funds. These numbers show that direct finance is used in fewer than 10% of the external funding of the American company. Because in most nations marketable securities are an even few significant source of finance than in the United States, direct finance is also considerably infrequent crucial than indirect finance in the rest of the world. Why are financial intermediaries so prominent in financial markets? In recent years, however, indirect finance has been declining in significance.

4. Financial intermediaries, particularly banks, are the common significant source of external funds used to finance companies. As we can observe in Figure 1.1, the primary source of external funds for corporations throughout the world comprises loans made by banks and other nonbank financial intermediaries such as insurance companies, pension funds, and finance companies (56% in the United States, but higher than 70% in Germany, Japan, and Canada). In other industrialized nations, bank credits are the greatest class of sources of external finance (higher than 70% in Germany and Japan and higher than 50% in Canada). Thus, the data suggest that banks in these nations have the most valuable role in financing business enterprises. In emerging nations, banks perform an even more critical role in the financial system than they do in industrialized nations. What makes banks so crucial to the performances of the financial system? Although banks remain powerful, their portion of external funds for organizations has been decreasing in recent years.

5. The financial system is among the most densely controlled areas of the economy. The financial system is heavily regulated in the United States and all other matured nations. Authorities regulate financial markets fundamentally to encourage the provision of information and to guarantee the soundness (durability) of the financial system.

6. Simply great, well-established organizations have easy entrance to securities markets to finance their operations. Individuals and smaller enterprises that are not well organized are less likely to gather funds by issuing marketable securities. Alternatively, they most often take their funding from banks.

7. Collateral is a common characteristic of debt agreements for both households and enterprises. Collateral is a property that is guaranteed to a banker to ensure repayment in the event that the borrower is incapable to make debt repayments. Collateralized debt is the dominant type of household debt and is extensively used in company financing as well. The preponderance of household debt in the United States consists of collateralized loans. Business and land mortgages, for which estate is pledged as collateral, make up one-quarter of financing by nonfinancial companies; corporate bonds and other bank credits also often require guarantees of collateral.

8. Debt agreements typically are remarkably complex legal documents that place

substantial limitations on the performance of the borrower. Many students think of a debt agreement as a single IOU that can be written on a particular piece of paper. The actuality of debt agreements is considered strange, however. In all nations, bond or loan agreements typically are lengthy legal documents with requirements that limit and define some movements that the borrower can engage. Restrictive covenants are not just a characteristic of debt agreements for companies; for instance, personal car loan and house mortgage agreements have covenants that require the borrower to have adequate insurance on the car or home purchased with the credit.

Structure and Competition

The actions of individual banks (how they get, practice, and control funds to gain a profit) are approximately related everywhere the world. In all nations, banks are financial intermediaries in the market of making profits. When you analyze the structure and performance of the banking business as a whole, In most nations, four or five big banks typically control the banking industry.

Classification of Financial Markets

There are several methods to classify financial markets. One approach is by the kind of financial requirements, such as debt markets and equity markets. Another is by the maturity of the request. For example, there is a financial market for short-term debt instruments, called the money market, and one for longer-maturity financial assets called the capital market. Financial markets can be categorized as those bargaining with financial requirements that are recently issued, called the primary market, and those for exchanging economic conditions previously released, called the secondary market or the market for sharp instruments. Markets are classified as either cash or derivative instruments markets. Its organizational structure can organize a market: It may be an auction market, an over-the-counter market, or an intermediated market. All these classifications are summarized in.

Table 1 Summary of Classification of Financial Markets
CLASSIFICATION BY NATURE OF CLAIM:
Debt market
Equity market
CLASSIFICATION BY MATURITY OF CLAIM:
Money market
Capital market
CLASSIFICATION BY SEASONING OF CLAIM:
Primary market
Secondary market
CLASSIFICATION BY IMMEDIATE DELIVERY OR FUTURE DELIVERY:
Cash or spot market
Derivatives market
CLASSIFICATION BY ORGANIZATIONAL STRUCTURE:
Auction market
Over-the-counter Market
Intermediated market

Market Participants

Members in the global financial markets that issue and purchase financial claims include households, enterprise entities (corporations and partnerships), federal authorities, state control bureaus, local governments, and supranational (such as the World Bank, the European Investment Bank, and the Asian Development Bank). Nonfinancial enterprises manufacture products—for example, automobiles, iron, and processors—and provide nonfinancial services—including transport, utilities, and programming. Finally, while we have concentrated on market participants that produce and exchange financials, a broader interpretation of market participants would combine regulators of financial markets.

Globalization of Financial Markets

Because of the globalization everywhere the world, entities in any country endeavoring to accumulate reserves must not be restricted to their national financial market. Nor are investors in a state limited to the financial assets issued in their national market.

Globalization means the integration of local exchanges throughout the world into a global market.

The determinants that have driven to the integration of financial markets are

- (1) deregulation or liberalization of markets and the motions of market participants in essential financial hubs of the world;
- (2) technological advancements for controlling international markets, executing orders, and analyzing financial opportunities; and
- (3) extended institutionalization of financial markets.

Global competition has driven authorities to deregulate (or liberalize) several features of their financial markets so that their financial companies can compete adequately around the world. Technological advancements have progressed the integration and productivity of the global financial market. Advances in telecommunication systems associate market participants across the globe, with the result that orders can be executed within moments. Advances in computer technology, united with advanced telecommunication systems, enable the transmission of real-time information on security charges and other vital details to several participants in various distances. Consequently, numerous investors can observe global markets and together assess how this data will affect the risk/return profile of their portfolios. Significantly developed computing power permits the direct manipulation of real-time market data so that arbitrage opportunities can be identified. Once these opportunities are identified, telecommunication systems allow the prompt accomplishment of orders to capture them. The U.S. financial markets have stirred from mastery by retail investors to domination by financial institutions. By retail investors we mean individuals. For example, when you or I acquire a share of common stock, we are referred to as retail investors. Examples of financial institutions are pension funds, insurance companies, mutual funds, commercial banks, and savings and loan associations. The moving of the financial markets from dominance by retail investors to institutional investors is called as the institutionalization of financial markets. The same situation is happening in various industrialized nations. Unlike retail investors, institutional investors have been further

prepared to transfer wealth across sovereign borders to increase portfolio diversification and utilize recognized is the pricing of financials in distant nations. The possible portfolio diversification advantages correlated with international investing have been documented in multiple subjects, which have heightened the consciousness of investors about the merits of international investing.

1.2 Overview of Capital Markets

Financial capital can be interpreted as accumulated resources that are accessible to generate additional revenue. The capital markets are areas where these who need additional resources endeavor others who desire to invest their surplus. They are also areas where partners can operate and diversified their uncertainties. Capital markets were visible places such as beverage homes and then purpose-built markets. In our time, capital markets partners may be settled in diverse regions and handle agreements using excellent IT system.

In a sweeping judgment, we are at least a portion of the period. We obtain cash to purchase an apartment or an automobile so that we can continue our careers, do our works, and execute our tiny benefaction to the expanding prosperity of countries. We gather to handle school and college tuition expenses, spending in the ‘human capital’ that will support the financial strength of the nation. More briefly, though enterprises utilize financial capital, authorities, regional and local administrations, and worldwide firms to perform investments in fruitful sources. When an organization makes a modern plant, it is involved in funds expense – utilizing reserves contributed by stockholders or bondholders or deposited out from earlier gains to acquire assets handled to produce anticipated profits. States use taxations to finance in infrastructure plans such as bridges. Businesses such as the World Bank insert reserves into emerging nations to create a foundation for industrial extension and later prosperity.

Repeatedly, the explanation is that we each are. Seldom we make that immediately by acquiring stocks distributed by organizations and bonds issued by states and their bureaus. Sometimes we operate dealers to invest reserves on our side. We save money in bank accounts, finance in mutual funds, and placed aside funds in pension programs for our retirement. We pay taxes to the states and regional authorities. We pay insurance premiums to insurance firms who fund the interests upon their expected obligations. Organizations to become roots of resources when they reinvest their gains rather than financing capital distributions to stockholders.

It is also a wide area of risk management. Risk raises various kinds in the capital markets, and financial organizations perform a crucial task in evaluating, controlling, and spreading risk. For instance, a commercial bank that loans capital assumes a credit risk – the likelihood that the borrower may default on its repayments. Bankers attempt to examine and decrease such leaks to lessen damages. As the global ‘credit crisis’ which began in 2007 revealed when all fail it has significant consequences not solely for bank stockholders and clients but also for taxpayers and for people operating in the ‘real economy’ outside the banking industry.

In current times banks have frequently utilized their task as financial intermediaries to originate mortgages then ‘package’ them up and trade them off in the structure of Mortgage-backed securities issues. This method is called securitization. The bondholders consider the credit risk on the loan list in return for a rate of interest higher than they could

make on secure state bills. The banks recycle the reserves they were equipped by their stockholders and clients so that they have reserves possible to generate additional credits. They measure risk, control risk, and then spread risk by the public debt securities markets.

This so-called ‘originate and spread’ market type got difficulty in the credit crunch beginning in 2007 when securities backed by US mortgage credits suffered significant failures and became hard to exchange. It looks incredibly likely that securitization will continue a routine in the capital markets for the foreseeable future. However, it also appears likely that the exchanges will be subjected to tighter guidance by the administrative executives.

The barriers separating various kinds of financial institutions have been growing frequently blurred in the current financial system. Beginning of the 20th century, the boundary lines looked more exact. In the US the 1933 Glass-Steagall Act formed a firm separation between what became known as commercial banking and investment banking. Retail banks took in deposits and made credits to people. They expected credit or failure risk and included this risk by assessing the creditworthiness of borrowers and by operating a diversified portfolio of debts. Investment banks underwrote new issues of contracts and traded in stocks and debentures. They took underwriting uncertainty. This arises when a bank or a union purchase an item of contracts from the issuer at a fixed charge and anticipates liability for selling the stock into the capital exchanges.

The US Congress understood that a financial institution suffered from a conflict of interest if it acted as both an investment and a commercial bank. As a result, the big banking business of Morgan divided into 2 various companies. The commercial banking industry later became a division of JP Morgan Chase. The investment banking corporation was formed into Morgan Stanley.

In the UK the same kinds of responsibility accepted to use until the boundaries were progressively eliminated. After the Second World War and till the 1980s the current distribution market in London was mainly the dependency of so-called merchant banks. Retail and corporate banking was controlled by the significant clearing or ‘money center’ banks such as Barclays and National Westminster Bank (now division of the Royal Bank of Scotland group). Dealing and broking in the UK and European stocks and in UK state bills in London was handled by some little partnership-businesses with suggestive titles such as James Capel and Wedd Durlacher. The insurance firms were separate from the banks, and Lloyds of London dominated the world insurance business. These separations have all since been cleared away. Now great UK financial companies offer a pretty comprehensive series of banking and investment products and services to private, institutional, and retail customers.

In the US the components of Glass-Steagall were regularly elevated towards the end of the previous century. US retail banks commenced moving back in the current issuance market both inside the US and within their foreign services. The first circumstance that encouraged this expansion is called disintermediation. In the 80s and 90s, furthermore, corporate

borrowers preferred to gather funds quickly from retail and institutional investors by releasing bonds rather than by borrowing from banks. The expansion was particularly marked amongst top US borrowers with high credit grades. In a frame, the purpose was to skip out the margin required by the commercial banks for their function as intermediaries between the final suppliers of financial assets and the final users. In a frame, it revealed the overall drop in the credit condition of the retail banks. Top class borrowers realized that they could issue bonds and finance their capital requirements at keener rates than many conventional financial institutions.

Disintermediation (cutting out the role of banks in lending) expanded apace in the US and then passed to various financial exchanges. Later even weaker credit worth borrowers obtained that in agreeable conditions they could accumulate capitals through the tradable debt securities market.

The appearance of the modern single European money, the euro, prompted the same sort of method in Europe. Before the single currency was formed, Europe originated as a group of tiny and fragmented financial exchanges with numerous regional and local banks. Banks and organizations had powerful mutual relations, connected by cross-shareholdings. In Germany, the prominent banks and insurance corporations controlled vast parts of the top industrial organizations. Most corporate borrowings was conducted with the involvement of the bank. Stocks and bonds were issued and exchanged essentially in national markets and a series of various currencies. There were limitations on the extent to which institutional investors such as pension funds could keep foreign currency reserves. There was a general absence of perception among investors of other European countries.

All this has been shifting in current decades, and at the high rate. For instance, Deutsche Bank has developed to be a significant global presence in the worldwide capital exchanges, with strong performances in hubs such as New York and London. Although the actions of regulators still complicate cross-border consolidations, banks across Europe have been merging. For example, in 2005 the Unicredit group of Italy combined with the Munich-based HVB group, which was itself formed from the consolidation of two Bavarian banks. In 2007 the Dutch bank ABN-Amro was acquired by a consortium driven by the Royal Bank of Scotland. On their front, European borrowers are frequently looking to the recent issue exchanges to grow capital. Investors in Europe can now purchase stocks and tradable debt and other securities denominated in an individual currency that is freely and actively exchanged across a whole of Europe. Securities and derivative markets that originated in local markets have been consolidating and re-inventing themselves as cross-border trading platforms.

One of the most powerful impacts on the global capital exchanges in advanced years has been the maturity of hedge funds. Naturally, hedge funds are financing channels endeavored to high net worth individuals and run by professional asset managers. Traditionally they were considerably unregulated, but this is soon set to break in the aftereffect of the global credit crisis. Regularly hedge funds use leverage in an endeavor to

increase the returns to the clients. Unlike a regular mutual fund, which purchases and holds stocks for a period and consequently directs to profit when prices rise and lose when they drop, hedge funds try to deliver an ideal return – that is to say, to gain profit in all business situations. These come at a cost, however. Typically a hedge fund administrator demands ‘2/20’: a 2% yearly management fee plus 20% of the profits. Clients also attend to be ‘locked in’ for allowed periods and so cannot immediately redeem their capital.

Hedge funds can proceed to a broad series of sophisticated tactics, some of them are extremely risky, though others are planned to contain risk. One traditional approach is the buying (‘going long’) stocks, it can also take short positions. This involves gambling that the price of a stock will drop over a given period. Sometimes a hedge fund creates a ‘spread’ trade, which involves wagering that the price variation between two tradable securities or markets will raise or decrease over a given time.

Nevertheless, the movements of hedge funds have considerably diversified in current times. Some purchase stocks of enterprises that are possible to acquire targets. Others manipulate commodity prices and FOREX rates, analyzing economic trends in the international markets. Some use complex statistical patterns to utilize pricing exceptions; while others speculate on the levels of volatility in the exchange by using financial engineering products. There are also hedge funds which hold direct posts in untraded companies, which is the regular market of private equity firms. Some hedge funds invest in so-called ‘distressed’ tradeable securities, such as bonds issued by enterprises in critical financial challenges. They can benefit if the volume redeemed by selling off the company’s assets passes the price paid for the debt securities.

One of the main expansion fields for investment banks in current terms is the prime brokerage market, which includes delivering high-level services to hedge funds. This maintains security lending for short selling, analysis, advisory, dealing and clearinghouse services, regulatory advice, providing credits against the deposit, and tailoring advanced structured financial products to help a hedge fund perform a suitable investment plan.

Outside Europe and the US, a fundamental modern trend in the capital exchanges is the growth of China, India, Brazil, and other developing nations. With its large trade excesses, China has accumulated wealth that is no longer invested only in US state bills. For instance, in 2007 it took a \$3 billion position in US private equity firm Blackstone in an IPO.

The consequence of sovereign wealth funds (SWFs) is instantly observed anywhere in international exchanges. SWFs perform worldwide purchases using revenue derived from the sale of the country's natural sources. In 2008 prominent US banks such as Citigroup and Merrill Lynch asked significant capital injections from SWFs to re-build their balance sheets following failures in the sub-prime mortgage crisis.

1.3 Equity vs Debt Financing

Financing instruments

The fundamental characteristic of financing organizations is between equity and liability. Equity finance gives control and ownership rights in the enterprise issuing stock and may be raised either by a stock offer or as past time earnings reinvested as retained earnings. Equity finance is primarily unchanging in business, as it is uncommon for companies to repay stocks; indeed in most countries, there are legal limitations too so making. Debt finance describes as a bond of the firm. A beneficial method to characterize bond is in the duration of its maturity. Therefore extremely short-term bond is adequately designed by a government as short-term bills, and toward the longer-term bond, a firm raises funds by issuing a bond. Bonds may be insured on the firm's assets or uninsured, or they may be distributed against incoming cash flows, which is known as securitization. The simple kind of bond is remembered as a plain vanilla or common bond, or in the US markets, a bullet bond. Such a bond emphasizes a planned coupon and fixed duration to maturity, so, for instance, a US Treasury bill such as the 6% 2009 pays coupon of 6% each year until 15 August 2009, when it is reclaimed and principal repaid to bondholders. An enterprise's funding processes are defined in many forms, which maintain:

- Maturity: funding that is needed for shorter than the whole year is marked as short-term, and money market bonds are short-term in this way. Borrowing between the entire year and ten years is recognized medium-term, while longer-dated obligations are considered as long-term. There is continuing financing, for instance, preference shares.
- The volume of the funding: the amount of resources needed.
- The uncertainty is carried by suppliers of investment and the repayment required by them as the expense of owning such risk. The risk of any investment tools issued by one issuer is administered by the particular department of the company and the financial environment in which it functions, but special tools own specific risks. Secured bondholders are at smaller chance of failure opposed to unsecured bondholders, while the stockholders are least in the list for payment of capital in the event of default. The revenue realized by the various kinds of investment reflects the risk disclosure each kind describes.

Comparing corporate Debt and equity

Majority of organizations are financed by a mixture of debt and equity money. Debt is given by investors who purchase bonds issued by the corporation, or by sale suppliers who suggest terms of credit. Equity capital is afforded by the enterprise's ordinary shareholders who have ownership right of the business. Preferred stock is seldom also classified as a sort of ownership, although it is indeed a hybrid mode of financing. In this thesis, the focus is on common stock, also mentioned to solely as 'stocks.'

Characteristics of Ordinary stocks

- The owners – identified as ordinary shareholders in the UK and common stockholders in the US – have ownership and voting rights in the organization.
- The stock is a risky investment. The buyers have the deepest ranking in the capital composition of the organization, which indicates that other investors need to be returned out first. Ordinary stockholders have a residual right on the assets of a firm – if an

enterprise is settled into liquidation, they are returned least.

- A company is not required for dividend payments on its current shares. It needs to pay interest (though in severe conditions it may attempt to get the deal with lenders to defer repayments for a term of the interval).
- Shareholders profit from the extension in the benefit of the organization by an expanding stock return and a rising share price.
- The ordinary stock is commonly more costly for a business to maintain than bond because investors require greater profits to repay for greater risk (and also because dividend returns are not tax deductible in most countries). On another side, if it goes into problems, an organization can cut or decrease dividend payments.
- New start-ups are often financed mostly by traditional stock since stockholders are ready to remain for their revenue on investment, perhaps by exchanging their security later on in an IPO.
- Some enterprises have a form of non-voting stocks. This signifies that authority over company management is kept by the voting stocks, which in turn frequently exchange at a bonus to the non-voting securities. The goal of a dual-class equity model may be to guarantee safety over policy and to perform the business more challenging to take over. Scholars who trust in stockholder democracy claim that it produces ‘second class’ investors lacking a speech.

Hybrid securities

Some contracts are ‘hybrids,’ combining some of the features of stock and bond. They are created to advance to various classes of investors.

- Preference Shares (Preferred Stock in the USA). The fixed dividend payments are paid before profits are paid to the general shareholders. ‘Preferred stocks’ have no maturity and standing above common stock in the event of default, but do not sustain voting rights.
- Cumulative Preferred Stock. If the profit is not given one time, it ought to be provided in the following time or whenever the organization makes adequate gains. The arrears should be paid off before any payment is formed on the general stock or other preferred shares with a below ranking.
- Convertible Preferred Stock. Preferred shares that can be turned into regular shares. Before conversion, it is under risk than the general stock because it has a greater ranking and (regularly) pays fixed dividends.
- Convertible Bond (CB). Debt securities that can be turned into a fixed quantity of shares before maturity as the right of the owners.

Government bonds

Bonds are long-term debatable debt contracts distributed by authorities, state agencies, financial organizations, and enterprises to raise capital through debt. The majority are ‘plain vanilla’ bonds which:

- give fixed interest – known as coupons – on regular terms;
- have a determined maturity or redemption time, at which period the bond’s par or face value is returned to the bondholders.

Nations around the world raise long-term money by issuing bonds to fund budget

deficiencies, the distinction between authority spending and the capital raised by taxes. On another side, if a state runs a budget excess (as occurred in the US in the early 2000s), it may purchase its government bills back by outright acquisitions in the public exchange or via ‘reverse auctions’ in which it bids for bonds held by brokers and traders.

The bond markets survive because of the financing demands of governments and organizations. The origins of funds are diverse, but the complete supply of reserves in exchange is made up of an individual or family savings, corporate savings also increase in the overall capital supply. Nevertheless, the claims of savers and borrowers contrast significantly, in that savers have a short-term investment range while borrowers favor taking a longer-term aspect. The ‘constitutional weakness’ of what would oppositely be unintermediated capital exchanges led, from an initial step to the growth of financial agents.

Corporate bonds

Enterprises are referring to the private area issues corporate bonds. They describe what exchange members call the credit exchange. In corporate businesses, bond investments usually have a declared duration to maturity, although the length is often not determined because of the extension of long or short characteristics. The law is for most corporate issues to be medium- or long-term, and infrequently to have a duration higher than 20 years. In the US market previous to the Second World War, it was already usual for businesses to issue debt securities with maturities of 100 years or more, but this is now very limited. Especially the highest-rated institutions find it feasible to issue bond certificates with times to maturity higher than 30 years; while the 1990s such organizations including Coca-Cola, Disney and BP.

Asset-Backed Bonds and Securitisation

Securitization is a well-established method in the international bond markets. It considers to the selling of assets, which make positive cash flows, from the organization that owns them to a different corporation that has been specially set up for the goal, and the issuing of bills by this another organization. The cash finances these bills flow from real assets. The method was presented initially as a method of funding for US mortgage institutions. Consequently, the system was implemented for other assets such as credit cards and leasing receivables. It has also been operated as a component of ALM (Asset Liability Management), as a mechanism of controlling balance sheet uncertainty. Securitization permits companies such as financial institutions and enterprises to change assets that are not immediately tradeable— such as Real Estate mortgages or automobile loans – into priced contracts that are marketable in the secondary exchange. The people that purchase these bonds earn an expression to these kinds of unique assets, to which they would not differently have entrance. The procedure is well organized and was initially proposed by Wall Street banks in the USA throughout the 1970s. The following synthetic securitization exchange is furthermore up-close-date, dating from 1997. The critical difference between cash and synthetic securitization is that in the former, as we have noted, the assets in question are sold to a separate legal company known as a special-purpose vehicle (SPV,

also referred to as a special-purpose entity (SPE)). This does not occur in a synthetic transaction, as we shall see.

Mortgage-Backed Securities (MBS)

A mortgage is a credit established for the goal of acquiring resources, which in turn is utilized as the agreement for the credit itself. It is described as a liability tool providing restricted control of capital and secured by the capital that is being funded. The borrower contributes the lender with a mortgage in front of the right to use the assets while the time of the lease and accepts to secure periodic installments of both principal and coupon. The mortgage charge is the safety for the lender and is discharged when the money is paid off. A mortgage may require real estate commercial property and it is long-term bonds, typically 25 to 30 years; nevertheless, it can be redeemed for lower terms if claimed by the issuer. If the issuer or mortgagor failures on the coupon payments, the lender or mortgagee has the power to take over the assets and redeem the cash from the gains of selling the real estate.

1.4 Participants of Capital Markets

1. Investment bank
2. Asset management
3. Mutual Funds
4. Private Equity
5. Venture Capital
6. Hedge Funds
7. Sovereign wealth funds
8. Stock Exchanges
9. Custodian Banks
10. Clearinghouses
11. M&A Advisory
12. Brokerage
13. Crowdfunding

The method of an indirect investment using financial agents, called financial intermediation, is the fundamental way of transferring reserves from investors to borrowers. Admittedly, although the scholars concentrate full of their study on stock exchanges, particularly the securities market, financial agents are a far further crucial origin of funding for enterprises than stock exchanges are. This is valid not solely for the USA but also other developed nations (see the Global box). Why are financial agents and indirect investment so crucial in exchanges? Respond to this issue. We must recognize the function of trade expenses, risk diversification, and technology expenses in exchanges.

Types of Financial agents

We should observe why financial agents have such a significant role in the market. Now we glance at the notable investment agents themselves and how they operate the intermediation role. They divide into three classes:

depository organizations (Commercial Banks),
contractual savings organizations
investment agents.

Investment Intermediaries

This kind of financial agents includes finance corporations, mutual funds, money market mutual funds, and investment banks.

Financial Organizations

Financial Organizations gather reserves by exchanging commercial bills and by releasing shares and bonds. They lend certain reserves to customers and small firms. Some financial organizations are established by a parent organization to assist trade their commercial products. For instance, TOYOYA Credit Company offers credits to customers who buy Toyota cars.

Mutual Funds

These investment agents collect funds by selling stocks to various investors and utilize the proceeds to acquire diversified portfolios of securities. Mutual funds permit investors to combine their money so that they can get the benefit of lower transaction charges when purchasing vast chunks of securities. In extension, mutual funds permit investors to carry further diversified securities than they otherwise would. Stockholders can redeem their portions at any moment, but the worth of those portions will be defined by the worth of the mutual fund's holdings of financial securities. Because those fluctuate considerably, the worth of mutual fund portions do, too; hence, stakes in mutual funds can be risky.

Money Market Mutual Funds

These financial agencies have the features of a mutual fund but also operate to an unusual degree as a commercial bank because they suggest deposit-type accounts. Similar to most mutual funds, they sell portions to collect reserves that are later utilized to acquire money market tools that are both highly liquid and reliable. The coupon on certain assets is paid out to the investors. A fundamental characteristic of these funds is that investors can write notes toward the worth of their portions in the fund. In influence, proportions in a money market mutual fund work like checking account deposits that give coupon payments. This kind of mutual funds had experienced remarkable extension since 1971 when they initially issued. By the end of 2015, their AUMs had escalated to nearly \$2.7 trillion.

Mutual Fund Structure

Mutual funds regularly suggest many unrelated mutual funds. They have described as complexes and are characterized as a collection of funds under a considerably single command, formed of individual or extended classes of funds. The benefit to shareholders of fund complexes is that investments can generally be carried between various funds within a group so quickly and immediately. Additionally, the account statement can be summed by the compound to assist clients in keeping their investments secured.

Hedge Funds

Hedge funds are a sort of mutual fund with unique features. Hedge funds are formed as limited partnerships with least investments changing from \$100,000 to, more generally, \$1 million or more. Certain restrictions expect that hedge funds are subjected to considerable lower control than other investment funds. Hedge funds invest in various kinds of asset classes, with remarkable concentrating in shares, others in debt securities, others in FOREX, and still others in considerably more exotic investments.

Investment Banks

Notwithstanding its title, an investment bank is not a bank or a financial agent in the common understanding; that is, it does not gather in deposits and then gives them out as a credit. Alternately, an investment bank is a separate kind of financial intermediary that assists an organization issue shares and bonds. Primary, it suggests the organization on which sort of contracts to issue (bonds or stocks); then it treats underwrite the contracts by acquiring them from the organization at a decided price and reselling them in the exchange.

Investment banks also serve as deal makers and make tremendous commission fees by assisting organizations in buying additional entities by M&A (Mergers or Acquisitions). Investment bankers are the elite on Wall Street. They have gained the wideknown status from the sorts of investment operations they offer. Investment banks are well recognized as agents that aid enterprises to raise money. Nevertheless, this interpretation is far extremely brief to correctly describe the many worthy and advanced assistance these organizations present. (Notwithstanding its title, an investment bank is not a bank or a financial agent in the common understanding; that is, it does not gather in deposits and then gives them out as a credit.) In extension to underwriting the primary selling of securities and other commercial papers, investment banks perform a crucial function as dealmakers in the M&A business, as agents in the purchasing and selling of businesses, and as private brokers to the incredibly wealthy clients. Some reputable investment banks are Bank of America and Merrill Lynch, Credit Suisse, Morgan Stanley, and Goldman Sachs. One characteristic of investment banks that differentiates them from security dealers and brokers is that they normally make their profit from commission fees charged to customers rather than from fees on security exchanges. These charges are often introduced as a fixed rate of the money quantity of the agreement being operated. Because the transactions commonly include enormous amounts of funds, the costs can be substantial. The commission charge will be less for significant transactions, in the vicinity of 3%, and much higher for smaller deals, sometimes surpassing 10%.

Mergers & Acquisitions (M&A)

Investment banks have remained engaged in the M&A business since the 1960s.

Consolidation happens when two various firms merge to create a single new organization. Both enterprises approve the consolidation, and corporate managers are usually chosen so that both organizations share the new executives' team. Shareholders shift in their share for share in the new enterprise. In a takeover, the individual organization takes control of another one by purchasing its shares. Usually, the process is friendly, and the companies accept that particular deductions can be taken by merging assets. It is not surprising that an enterprise experiencing economic hardship will even attempt out an organization to take over them. At another time, the organization being bought may oppose. The resisted acquisition is described as hostile. In these circumstances, the buyer endeavors to obtain enough portion of the target entity to achieve a majority of the positions on the cabinet of managers. Cabinet managers are then ready to vote to consolidate the target entity with the acquiring company.

Stock Dealers and Brokers

Stock Dealers and Brokers handle dealing in secondary exchanges. Brokers are true agents who operate as intermediaries for investors in the buying or selling of contracts. Their duty is to coordinate buyers with sellers, a purpose for which customers paid brokerage fees to them.

In opposition to brokers, dealers connect buyers and sellers by being available to purchase securities at given prices. Consequently, dealers operate inventories of contracts and earn their existence by trading these stocks for a somewhat greater amount than they spent on

them—that is, on the spread between the bid price, (price that the broker pays for contracts they purchase) and the ask price, (the amount they get when they sell). That is a high-risk industry because dealers hold contracts that can arise or drop in price; in current times, numerous dealers concentrating in debt contracts have failed. Brokers, by the opposition, are not as endangered to risk because they do not hold the contracts included in their market dealings.

Private Equity

When you talk about financing, you are usually considering shares and bonds. Both of those contracts are traded on the exchange. The vast bulk of the amount controlled by brokers and investment banks is in these publicly held contracts. Nevertheless, there is an alternative to public equity financing, which is a private equity investment. With private equity, rather than raising money by issuing contracts to the public, a limited partnership company is established that gathers capital from a small number of high net wealth investors(HNWI). Within the whole world of private equity industry, the two most popular are venture funds and capital buyouts (mainly LBOs). In many examples, the related companies are operating in both fields. Major players in this business include Blackstone Group, KKR (Kohlberg, Kravis, Roberts & Co.), Appolo, Bain Capital and Carlyle.

Venture Capital Firms

Assume that you improve and sell a unique product that you believe has a magnificent opportunity of being a celebrity. Nevertheless, considering it is fresh and unproven, you cannot receive investment from traditional sources. Banks will not lend you money since there is no guaranteed cash flow to use for repayment of debt. It will be troublesome to trade shares to the retail investors through brokers because the business is so fresh and has not yet shown that it can be strong. In the lack of alternative sources of capital, your unique purpose may not have a real opportunity to be improved. Venture capitalists present the reserves a start-up business requires to get organized.

Venture capitalists are normally described as capital provided to new, start-up enterprises. Limited partnerships most commonly support these funds and funded by the common partner in organizations giving the guarantee of extraordinary profits in the expectation. After the mid-1940s, venture capitalists have fed the expansion of America's HighTech and entrepreneurial societies. Their movements have succeeded in making employment, industrial expansion, and global competitiveness. Venture capital firms backed most of the prosperous HighTech organizations during the 1980s and 1990s, including Apple Computer, Cisco Systems, Microsoft, Netscape, and so on. A number of service organizations, such as Starbucks, and TCBY, also profited from venture funding. Admittedly, many of the germination endured through the 1980s and 1990s can be drawn back to the funding contributed by the venture capitalists.

The financial industry is amongst the most massively controlled fields of the world economy. The states monitor financial exchanges for two central purposes: to enhance the data accessibility for retail and institutional investors and to guarantee the soundness of the financial markets.

Improving data accessibility for Investors

Asymmetric information in financial exchanges indicates that investors may be directed to adverse selection and moral hazard dilemmas that may prevent the effective performance of exchanges. Risky corporations or unconditional crooks may be the common impatient to exchange contracts to unprepared investors, and the resulting adverse selection difficulty may hold investors out of exchanges. Moreover, once an investor has purchased stock, whereby loaning funds to an enterprise, the borrower may have motives to involve in risky ventures or to perform obvious cheating. The appearance of this moral hazard issue may also hold investors away from exchanges. Administrative control can decrease adverse selection and moral hazard issues in the investment world and intensify the competence of the exchanges by raising the quantity and quality of data accessible to investors.

Guarantee the Soundness of the Financial Markets.

Asymmetric information can guide to the extensive breakdown of financial markets, noted as a financial crash. Because providers of reserves to financial agents may not be capable of evaluating whether the organizations keeping their reserves are sound, if they have suspicions about the overall well-being of investment agents, they may require to draw their reserves out of both sound and unsound agents. The potential consequence is a financial crash that generates substantial declines for society and generates serious destruct to the market. The state has executed various sorts of controls to preserve the community and businesses from financial depressions.

1.5 Islamic Capital Markets

History of the Islamic Capital Markets.

The mid-1970s can define the start of the current Islamic finance activities. Distinctive in remarkable essential regards from the conventional finance, Islamic finance has its faithful uniqueness and is based on the laws of Islamic rules. It is anticipated that Islamic finance will expand for the following several decades. The gross assets in Islamic finance is more than USD2.0 trillion at the end of 2018.

The preponderance of Islamic Financial assets are, however, still banking assets which cover around 75 % of the cumulative IF assets, but this expresses a vital chance for sukuk (Investment certificate) outstanding. If we compare larger organizations in the GCC region with larger global organizations, the financing variations are severe. Main GCC firms equate smaller than 50 % bond versus bank financing, whereas bond financing equates over 90 % in larger worldwide firms. This intimates that there is a vital chance for extension in the Sukuk issuing in the GCC region in particular.

Islamic (Participation) debt securities

Islamic financial tools, created with remarkable extra components of ethical doctrines, have promoted to develop a niche market for financial products in the world today. The whole capital of this niche market is no more than a tiny part of the world's conventional securities exchanges. These Islamic contracts may be divided into four main classes:

- 1.stocks
- 2.mutual funds
- 3.money markets
- 4.Sukuk

Sukuks are Islamic debt instruments owned by the lenders. The sources to which Islamic contracts adhere are considerably distinct from those used in the configuration of standard contracts, but remarkable current terms are shared by the two methods, borrowed from traditional institutions. The latest financial systems that supervise the intention of conventional debt instruments developed over 2500 years without much evidence to the nature of ethical policies that have been implemented in creating Islamic financial tools in ancient times as well as now.

Islamic financial tools can be organized into 4 essential sorts of agreements:

1. Musharakah agreements. Ownership and usufruct of a business's capitals by the acquisition of portions of shares execute this group so comparable to traditional stocks. The proportions of shares are agreements that provide the buyer with a right to the earnings only if the gains are obtained after the risk of the business has been received.

2. Sukuk contracts. These are frequently restricted-time financing agreements, essentially without managerial authority of the project financed but with bizarre incomplete control of a collection of income-generating reserves of a borrower. These assets are placed aside by the borrower as Asset Backed Securities held in a Special Purpose Vehicle (SPV) conducted by the capital suppliers, whose payoff is based on earnings distributing from the reserves of the SPV.

3. Takaful (insurance). Takaful agreements are risk-transfer contracts that maintain the sanctuary that the insurance premiums accumulated from the clients are to be invested solely in permissible fields. Takaful practices mutual protection policies; therefore, the excess earnings of the insurance investments are spread at periodic terms to members based on a prenegotiated earnings rate.

4. Islamic mutual funds. These are funds administered on the representation of customers for a charge and return of the expenses incited in running the funds. Revenue of investments happens after the supervision fees are collected. These investments are funded only in socially profitable production projects.

This pure 4-category range of Islamic investment tools may favor the traditional contract types of stocks, bonds and mutual funds. Nevertheless, there are notable exceptions in their formation, in the method of valuing them, in collateralization, and in what financial production exercises may have entrance to the reserves.

For instance, the pricing of Islamic contracts is made by profit sharing and risk distribution agreements under the ethical policy of giving awards solely after the risks are distributed. Traditional bonds are priced by coupon payments to bondholders, usually prenegotiated, with no risk allocated. Some Islamic contracts may even have unique characteristics, such as an unusual sort of diminishing principal payments with earnings distribution. Thus, earning distribution are decreased as the entrepreneur gains more authority of the business. This is described as diminishing musharakah. There are other fascinating deals, all attached to the particular financing requirements in the manufacturing period. These and other features make participatory financial tools so distinct from conventional devices. The image of similarity is somewhat overstated by experts not understanding that the crucial fundamental varieties are expected to safeguard both borrowers and lenders and to guarantee ethics-based financing methods.

Since Islamic contracts, once outstanding as publicly traded devices, are also purchased in exchanges, we ought to also add the extra class of Islamic financial tools: Private Equity and Venture Capital. This section is a separate class of contracts when such contracts are not publicly exchanged, so we may also summarize them as nontraded private Islamic securities.

Sukuk Securitization as an IPO

The nature of sukuk, from a current prospect, rests in the notion of asset securitization, which is done by the method of sukuk outstanding. Its vast potential is in modifying an asset's anticipated cash flow into existing cash flow. Sukuk issuing usually obtains among the institutional investors who will sell Sukuks to private clients. Sukuks are mainly given to institutional investors (i.e., wholesale investors), who buy on a vast scale, rather than to the retail investors, who performs to purchase securities on a less amount.

Furthermore, most of the Sukuks are not exchanged on a stock market but are exchanged by sukukholders on the Over-The-Counter (OTC) market. It has been calculated that merely a quarter of Sukuks are traded on the regular exchanges and that the rest are traded on OTC although the transaction does not operate as a first exchanging platform for Sukuk.

What does the “PaperEconomy” look like now

At the end of 2011, it was calculated that in the USA, the entire nominal WORTH of paper tools (without any direct tie with the real economy) “such as CDO, Futures such as Commodity Futures, Indices, CDS exceeded \$700 trillion.” This contrasts to the “whole amount of market capitalization of the global share and bond markets of \$150 trillion at the same moment. That is, all the paper machines in the USA were five times greater than the total market capitalization of all the publicly traded corporations in the world (Bogle 2012, 7–9).

To understand the connection of the fictional investment to entrepreneurial investment, suppose that in the USA from 2006 to 2011, “whole stock IPO's contributed supplementary funds to growing businesses equating \$45 billion yearly. Secondary listings contributed further equity funds equating \$205 billion for a sum of \$250 billion per year. The total amount of stock dealing over the same moment equated \$33 trillion yearly. Some 130 times greater than the size of equity capital.” This indicates that only 0.8 % of investment went to equity for supporting the real economy and 99.2 percent went to speculation that does not add any usefulness to the real economy of the USA.

In other words, “speculation represented 99.2 percent of the activities” of the U.S. market, and only 0.8 percent accounted for “capital formation” (see Bogle 2012, 1–10).

In truth, it should be recognized that the IFI fronts overwhelming hardships competing within the well-entrenched systems whose main block is the interest device forbidden to Islamic finance (IF). The fact that, in most nations, fiscal and monetary methods are based on the interest rate (Riba which prohibited in Islam). Therefore, an extension to the absence of Shariah-compliant tools proceeded by authorities that IFI can use for liquidity and risk management, authorities' macroeconomic strategies encourage interest rate-based funding upon which IFI should face.

Summary

Equity funding, which mirrors mudarabah-kind funding, is corresponding to the Shariah requirement that risk and profits be shared. Even so, not all traded shares can be regarded as Shariah-compliant. The call to distinguish Shariah-compliant tools has commanded to the expansion of the Ethical screening programs. Away from the Malaysian SAC, Dow Jones, Financial Times, Reuters and other financial data providers have created Shariah screening tools. There are some variations in the screening methods. The Malaysian SAC holds mixed businesses equipped they meet specific quantitative and qualitative inceptions. The capital formation of the corporation is not viewed directly but through interest expenses or incomes. The Dow Jones filter, on the different side, eliminates several operations and analyzes debt financing. Like the traditional stocks market, the Islamic stocks market can and does, in the Malaysian circumstances, include several ingredients obtained in traditional stock exchanges. Based on Ethical investment products, an Islamic stock market can have Shariah-compliant ETFs (exchange-traded funds), Shariah-compliant REITs, Shariah-compliant mutual funds, Shariah-compliant private equity, and structured products. Though operationally the same, the Islamic version has its Shariah board that superintends governance and Shariah assent. Shariah-compliant products are functionally the same but are commanded by Shariah demands. Given Shariah demands,

these corporations should avoid leverage, short selling, tools that have Gharar, and so on. Notwithstanding these limitations, Shariah-compliant mutual funds and REITs have endured quite a speedy germination, much quicker in various situations than their traditional rivals. Given the enormous reputation of Islamic Capital Market products, financial data providers have created and launched various Shariah-compliant stock indices. Now just about each country or exchange has a Shariah-compliant stock index correspondence to a common one. Considering the capital exchanges of Muslim nations, most are further volatile than the S&P 500. This extended volatility may utterly be a light of both less dimension and an initial step of growth.

2. Capital Raising

2.1 Capital Raising

It Takes Capital to Earn Capital

This traditional common proverb declares: “It Takes Capital to Earn Capital.” Question any start-up founder, businessperson, or top manager, and possibilities are that she or he will inform you that observation isn’t quite a strange ancient proverb; it’s a central fact of making market now.

Any corporation cannot function without the funds required to meet salary payments and merchants, and internal roots of resources aren’t continuously sufficient to hold a game is running — particularly for start-ups and growing enterprises that lead to suck up money far quicker than it gets in from selling of business services. Sure, all the capital in the society isn’t always sufficient to guarantee game victory — founding a prosperous company claims hardworking, innovative ideas, dedicated and talented staff, and further than a slight hint of chance — but at some cases, each company requires to raise capital to sustain and to grow.

For most institutions, the six primary roots of funds are:

1. Founder’s or private financing
2. Money is made within the company
3. Credit is given by merchants (for sales)
4. Client Awards
5. Capital borrowed from banks or investors
6. Funds from the exchange of an ownership share (stock) in the company

Got Cash? Estimating How Much Cash You Demand

The initial stage in fundraising is realizing how much resources you require to get. Do you demand \$100,000, \$50 million, or anything between them? Although you don’t fundamentally ought to understand this response under to the latest cent, you should own an innovative idea of wherever you want to finish up, because the reaction has a notable influence on concluding which sort of funding is relevant for your requirements and where you’ll go to raise it.

As you start to prepare your arms throughout this imaginary amount, be convinced to concentrate on your short-term and long-term requirements. Prosperous manufacturers forecast their projected capital requirements, create maps, and complete fundraising policies well ere they discover themselves in a money crisis. While it appears to calculate out how much cash you’ll require, hold these three assumptions in mind:

As enterprises expand, they often go by numerous steps or rounds of funding. Those various stages are often targeted to particular aspects of an organization’s extension (for instance, the early stage is suitable to start-up firms that are further fresh in their growth to bring the recognition of the considerable venture capitalists) and, consequently, demand various policies and various networks of possible investors.

Fundraising will be a continuing concern for your company — you’ll nevermore have too much money. In reality, business extension, purchases of auxiliary enterprises, and unexpected difficulties can place much substantial pressure on your organization’s business strength. Project for the fundraising manner to suit a form of experience for you and your

company.

Money never comes as fast as you believe it will. It can take extra period (from a few months to multiple) from recognizing the necessity for funds the moment you can it. Anticipating your money demands well in advancement through cyclic project updates can withdraw procrastination in arranging your funding and expanding your company. Although you'll seemingly require to make full-blown commercial statements to define this amount with a fair number of efficiency here's a fast and straightforward method to obtain a comprehensive opinion of how much cash you'll require to target in your attempts to get funds.

1. Plan your forecasted sales.

How much cash do you suppose to get in this cycle? Your forecasted yearly earnings are the opening spot for settling how many funds you'll require to ask. You can plan your anticipated yearly profits by:

- Utilizing your past year's sales as a baseline and then expanding or reducing the whole by your expected rate rise or drop in deals.
- Requiring any one of your supervisors liable for deals to present you with an assessment of earnings for the cycle, and then calculating the returns.
- Choosing an income purpose for the sequence based on an amount that can realistically be completed.

2. Estimate your business expenses.

If your company is a fresh one, you'll require to determine the one-time expenses that can be connected to start-up procedures. Be sure to cover the expenses of items like:

- Starting inventory and stocks.
- Advertisement and marketing related to your business.
- Capital expenses for equipment, furniture, machines, appliances, renovation, and so on.
- Deposits (for instance, for office payments) and primary insurance premium (often, for instance, for employees' insurance premium, the initial term should be given in advance).
- Licenses, Permissions, and similar charges.
- Expert charges including analysts, lawyers, advisers, and others.
- Unknowns (resources in an additional 25 percent or higher to meet with unforeseen expenses).

3. Sum up your recurring payments.

Each company has recurring expenses, that is, costs that are given on a routine base. Most of those expenses are categorized as overhead and combine expenses for:

- Rent.
- Services.
- Salaries, and bonuses.
- Phones and Internet costs.
- Insurance premium and tax payments.
- Office equipment.
- Debt repayments.
- Extra stock acquisitions.
- Continuing expert expenses including analysts, lawyers, advisers, and others.
- Unknowns (resources in an additional 25 percent or higher to meet with unforeseen

expenses).

Once you've decided the whole predicted deals, start-up expenses, and staff expenses, you can quickly determine whether you'll be running at a gain or failure, and how much funding you'll require to reach your aims.

So considerably, so great. But there's one more point that the other guesses do not examine: your demands for working capital — the money you'll require to keep your day-to-day transactions. It does no great if your deals occur late in the first cycle. You ought to have the funds to continue ongoing operations till later. To correctly evaluate your first year's funds requirements, maintaining working capital, you require to do an accurate cyclical cash flow prediction — outflow and inflow. Here's how:

Set your start-up costs in month 0.

Ramp your sales forecast over the 12 periods as conservatively as you think you can. Then move them by the number of dates you assume your clients to exercise to give you.

Diverse your costs by month according to when you foresee to return them and be convinced your stock estimation grades consistently with your sales outlook (Do not forget that you will have stocks on hand in advance of your deals).

Then, estimate your regularly net cash flow and drive a cumulative net cash flow from term 0 to period 12. The initial few periods will reasonably point a negative cash flow and the combined negative number will hold developing! At some period you'll start to notice a real cash flow.

Watch the combined negative result at that time on your records. That's the least cash you will require to must get your company began. This is a point solely because something unusual happens when you've purposed, and particularly not in the time intervals that you normally assume.

To add to this point the volume of "buffer" you expect you will require for ambiguities. One method to do this is by reestimating your record with your deals shifted 2 or 3 periods. You actually can't manage how active clients will purchase and pay for your goods in advance! The best and common space-efficient style to display all of that is to show pure financial records with lines labeled: purchases, cash receivables, inventory, capital expenditures net cash flow, combined cash flow. Rows will be period 0, 1, 2, and etc., and annual total. Name this "The Plan." Next, determine the worst case with the transactions shifted to estimate the capital required maintaining the buffer.

Now you understand how to estimate your actual fund requirements, which cover the working capital you will require to run until your company is cash positive. You've also promptly prepared a project that you can practice to recognize if you are on track on a month-to-month base.

Ere you direct to outside reservoirs of funds to fit your business requirements, be assured that you primary exhaust all potential private reservoirs, including lowering expenses, preserving earnings, stimulating the accumulation of receivables, obtaining advances from clients, and trading off the surplus record and fixed capital. Not solely will maximizing your inner sources permit you to bypass using bonds, it also will decrease the volume that you must ask when you eventually select to attempt funds from external investors.

Equity or Debt

When you make a serious decision regarding fundraising for your company (and anytime you require money, it's crucial), analyze two primary methods:

Debt funding indicates obtaining cash for an interest payment. Debt funding is excellent, for instance, when you don't desire to weaken ownership of company in exchange for the money you require. Of course, on the downside, you should refund the full value of the funds plus coupon at any time in the future. If the debt surpasses your capacity to repay it on time, you may be required to sell assets or go into liquidation.

On the other hand, Equity funding indicates exchanging a portion of your company for a cash investment. Equity funding is famous if you don't desire a debt to pay a bank, but, on the downside, you ought to give up a piece of your control in the company. Give up too much control, and you may fail to manage your company.

So which path is suitable for your firm? The response to that issue alters depending on the purposes that you own for your company, the strength of your enterprise to pay its bill, the sum of cash required, and many additional parts. Each program has its tremendous and defective features.

Numerous organizations employ a mixture of both sorts of funding, securing a tension between them. A enterprise with a list of loan, vehicle leases, and an variety of business mortgages and short-term credits (all sorts of debt funding) may, for instance, look to venture investors for an mixture of funds to ammunition development, grant share options to its employees, or float an IPO of its shares (equity funding choices).

Various sorts of debt funding

An organization that doesn't utilize debt instruments at one point or another is limited. You can notice lots of several methods to handle the obligation to feed your company. Although we treat with some of the significant sorts, to provide you a feeling of what's feasible:

1. Short-term business credits
2. Long-term business credits
3. House credits (also called Mortgage REITs)
4. Working capital lines of credit
5. Leasing
6. Credit cards
7. AR (Accounts receivable) funding
8. Inventory funding
9. Debt securities
10. Lines of loan

Be cautious regarding the degree to which you utilize debt funding in your company. Too much bond stacked up upon your possible assets generates an unfortunate debt-to-equity rate (which reveals superimposed your capacity to pay your bill and can present a bright caution flag to possible lenders — commonly a debt-to-equity degree in the surplus of 1 is recognized as critical). Not solely that, but settling your business too far in debt

overextends your capital, presenting it more challenging to natural diseases a downturn in trades or unforeseen situations that influence your sales in a contrary direction.

Various sorts of equity funding

If your firm is fast-growing, innovative, and offers great goods or services, you may discover that people aren't engaged in just acquiring what you offer, they're also engaged in obtaining a share of your company. Although the make-money-fast times of the modern eruption (and consequent implosion) of dot-com firms appear to be back us — bringing with them growth in IPOs — lots of investors still are attending for great moments to settle their capital into the market.

Here are some of the further popular methods that you can get equity funds from external investors:

- Venture capital
- Crowdfunding platforms
- Angel investors
- Investment Banks
- Private equity firms
- Hedge funds
- Family and friends
- Founder's investment
- IPOs
- Strategic Associates
- Strategic investors

Put in memory, nevertheless, that stocks are considerably varied than bonds, and in several forms, it can be far more rude to your company. Here are remarkable of the points you require to think before performing to an equity funding method:

Unlike bonds that can be cleared off (for instance, by making a new debt), it is extremely troublesome to convert stocks. The shareholder will require a much more return than he placed in because of the risk he took. So you ought to commonly watch at fundraising as an unchangeable case. Remaining careful is obvious! You'll be breathing with these shareholders and their claims for an extended period.

Stockholders will desire to understand when, how and how much they will receive their investment back. You'll demand responses to those issues.

Do not ignore that most start-ups go through various series of fresh stock investors. You can't transfer away a lot of the stock first on or you'll should too small leave for the following sequence — or you'll be met with missing command of your business in these predicted series (and absent power of your exit policy also).

Looking for funding in all the appropriate areas

If you study carefully, you can get the money that you necessitate to start up your company or feed its germination almost anywhere. Here are some of the major resources for enterprise funding:

Self-funding:

- Individual savings
- Credit cards
- Merchant credit
- Employee stock ownership plans
- House-equity credits
- Bartering
- Buyers

Private sources:

- Angel investors
- Family offices
- Family and friends
- Founder's capital
- IPOs
- Strategic Associates
- Strategic investors
- Mergers & Acquisition

Commercial funding:

- Investment banks
- Venture capital
- Crowdfunding platforms
- Private equity
- Hedge funds
- Retail banks
- Savings and credit unions
- Leasing firms

Government financing programs:

- SME (Small and Medium enterprises) Loans
- SME Investment Companies

Lots of resources of funding are possible to those who explore the capital. The solution is getting the sort of funding that is appropriate for your business in an adequate quantity to guarantee that you satisfy your objects. As troublesome as it may be to understand, one circumstance is critical than no funding at all: Investment that doesn't satisfy your necessities or that makes you and your firm into the financial struggle.

2.2 Advantages & Disadvantages of Capital Markets

Capital markets present a broad variety of tools that are associated with economic investments. Capital markets include the securities market such as share and bond, and just about any real or virtual tool or agent where stock and bond can be exchanged. Their primary mission is to gather reserves and private investors' wealth to fields where there is a shortage of demand for financing.

ADVANTAGES

- Capital markets present the lubricant between investors and those wanting to gather money.
- Capital markets formulate fair price and liquidity. They give reliable service for an extensive variety of investors to speculate and hedge.
- Keeping various equity and debt securities enable an investor to diversify investment risk.
- The secondary market provides valuable pricing data that allows cost-effective use of restricted resources.

DISADVANTAGES

- In capital markets, security prices are impacted by economic indicators such as unemployment, income growth/decline, CPI (consumer price index), and manufacturing expenses. Any data that suggests growing inflation rate will reduce bond prices, as inflation rate decreases the revenue from security.
- Stock price in markets can be so unpredictable. Their value depends on the number of outside indicators across which the investor has no authority.
- Various securities can have different stages of liquidity, i.e., request from clients and agents.

Venture Capital Companies

Tiny and expanding companies attempting to fund further growth, but which cannot accumulate the required reserves through a loan or overdraft, or by an injection of additional capital from the current shareholder, may obtain that venture capitalists present the precise answer to their demands.

ADVANTAGES

- VC investors put cash into innovative ideas that might differently have struggle receiving investment.
- Aside from contributing financing, a VC takes an actual position in the administration team of a firm, to which it can deliver a big arrangement of organizational expertise and market experience.
- A VC firm will do everything it can to guarantee that it is a benefit.
- VC organizations can also give entrance to financing by other VC firms.

Refinancing by an extra investor, or an acquiring of the whole company by the management team.

DISADVANTAGES

There may be disadvantages to taking VC backing, and the subsequent features should be examined accurately.

- Is the VC firm serving as a principal investor? If yes, are there rival companies in its

portfolio? Does it have practice with related forms of the industry?

- Will the VC firm be capable of reaching up with the additional investment if it becomes required?
- What sort of performance does it require in the management team?
- Can your management breathe up to the requirements necessitated by the VC firm, and does it have corresponding experiences?
- If your start-up reaches the stage of bargaining with a VC, you will give legal and accounting expenses whether or not you are successful in obtaining money.

Raising Capital through Private Equity

Several publicly listed firms demanding to gather reserves for financing decide not to issue equity or debt securities on the public exchanges but alternatively look for money on the private equity businesses. In some cases, cash invests from a publicly traded organization looking to fund in other firms that suggest synergy, as well as excellent financial profit. In the latter, the money comes from institutions who invest their capital indirectly through private equity firms—private equity holding a group of assets that are not listed on the stock markets. Institutions provide such resources to obtain risk-adjusted profits that surpass those achievable on the stock exchanges.

ADVANTAGES

- Gathering funds through equity can be a reliable option for organizations that are not fit for an IPO or are reluctant to development through bonds.
- An ownership agreement indicates that the organization has entrance to industry specialists through its investors, who can assist in driving the company strategically as well as economically.

DISADVANTAGES

- Holding the equity map can lock a business into an arrangement over the long term.
- The organization may abandon a large portion in return for financing, perhaps as much as 50%, and also give seats on the board.
- Investors may meddle with the organization's business strategy and other fields of strategic concern.
- It can be impossible for a business to free itself from a share financing agreement, depending on the duration of the contract.

Sovereign Wealth Funds

Sovereign Wealth Funds' (SWFs) financing choices are generally made with one of two purposes in mind: Either the investment is attempting an attractive internal rate of return in complete economic cycles, or they wish to create strategic advantages for their nation. In some cases, SWF typically defines itself as passive investors in that they do not attempt to affect or manage the businesses they invest in, seldom fancying to avoid owning voting stocks at all.

ADVANTAGES

- SWFs' stated purpose of financing for the long duration can give confidence to the stockholder bases of the organizations in which they finance.
- SWFs have been an especially helpful origin of urgent cash injections into a business

whose balance sheets have been in the primary requirement of strengthening.

- The high amount of investable funds give SWFs the capacity to invest in possibilities created by market fluctuations, with the meaning SWFs can be a stabilizing power during periods of volatility.
- This capital has been a relevant origin of large-scale financing for some enterprises in the shortage of money as the credit crisis has deepened.
- Several SWFs try to ensure nonvoting stocks in their portfolio firms, assisting in litigating matters in some nations over external purchasing of strategic companies.

DISADVANTAGES

- The suspense continues in some regions over the reasons behind some SWFs purchases, especially those made for long period strategic purposes.
- The absence of transparency linked with SWFs can generate anxieties over the reasons behind some purchases.
- Some advanced SWF purchases can face protectionist. A well-known example happened when Dubai World's acquisition of P&O inspired US members of Congress to insist that the acquirer would lead to numerous significant P&O-owned US ports.

Raising Capital by Issuing Shares

An organization that requires to gather money by issuing stocks has various possibilities. If it is not yet traded on a stock market, the firm can plan for an IPO. How much an IPO can gather cash depends slightly on the regarded condition, and thus the stock price of the firm, and partially on how much benefit there is in the stocks when they are issued on the exchange.

For a business that is previously listed on the market, an alternative way is to launch an additional stock issue also known as a Seasoned Equity Offering, or SEO.

ADVANTAGES

- For an organization that has reached a particular value and has a powerful reputation, an IPO can be a better path to raising a considerable quantity of resources that will permit it to grow or finance in assets that will let it develop in the future.
- The firm does not require to compensate this equity funds but instead agrees to pay dividends to investors in return for their capital.
- Once registered on the market, an organization can regularly distribute further certificates via SEO, gathering yet more cash for the extension without moving up the bond. Being in a condition to raise funds from the exchanges, rather than from private institutions, is a significant inspiration for numerous firms to issue stock on the market.

DISADVANTAGES

- The central trouble of issuing stock by an IPO is that an organization's founders no longer have sufficient ownership of the company and become liable to stockholders. Stockholders can block projects if they consider they carry a high risk to their investment.

Cross listing

In common, businesses cross-list when the volume of their economic requirements beats their national market potential. There is insufficient liquidity in the national exchange, and the price of the stock may be more attractive in an international exchange. The current

national investors also profit, because cross-listing is expected to lessen the agency conflicts with the company's managers. And the stock prices are supposed to be more profitable because dealing occurs in two or more exchanges and more financial measures support the cross-listing. Nevertheless, some expenses make cross-listing less attractive.

Advantages of Cross-Listing

The most extensively mentioned advantage is the decline in the cost of capital. Because the firm is cross-listed, it can reach international investors who will be ready to invest in both international and national corporations.

Nevertheless, it is not apparent whether the exchange responds confidently because of the reduction in the cost of capital or whether it is motivated by one or more of the extra advantages of cross-listing. These are:

- Increased liquidity of existing stocks.
- An extension in the corporation's visibility and political acceptability to its shareholders
- Formulation of a secondary market for stocks that can be utilized to pay local executives and workers in an international subsidiary.

Disadvantages of Cross-Listing

The actual market response to cross-listing could also reflect the trade-off between the advantages of cross-listing explained earlier and some possible expenses, namely disclosure expenses. In cross-listing and selling shares on the foreign market, an organization fronts two barriers: an extended engagement to complete exposure and an ongoing investor relationships program. Expenses are likely to be higher for businesses that have been conventional to reporting far fewer data.

Raising Capital by Issuing Bonds

Raising capital by distributing debt securities is an attractive option for some firms rather than selling stocks, as it enables an enterprise to bypass abandoning control of the company. Bonds permit the issuer to fund long-term loans with outside reserves.

ADVANTAGES

- Funding by issuing bond is a valuable method of observing an organization's overall strength, like the capacity to pay the interest indicates the overall financial security of the organization.
- Debt securities suggest a further stable revenue for investors—dividends are paid out solely at the preference of the organization, whereas coupon on bond ought to be given according to the set duration of the agreement.
- Funding by bonds can, therefore, be so beneficial for businesses that do not desire to abandon power to others.

DISADVANTAGES

- The risks for bond investors rise as extra securities are issued.
- An extremely leveraged organization is expected to meet cash flow challenges as it should pay the interest charges regardless of its profit.
- If the organization is publicly traded, the risk to owners rises when the bond is issued. This is due to the elevated demands of bondholders, on the firm's assets and profits, which should be utilized to pay the debt before anything else. And if the organization has challenges fixing the liability, stockholders loss their investment in the event of bankruptcy.

- The last acquiring strength of an investment in securities is diminished by an identical rise in inflation, which also effects in higher interest rates and correspondingly lower security prices.

2.3 Case Studies

CASE 1:

Spira—Six Billion Customers?

Andrew Krafur, CEO of Spira Footwear, Inc., contends that each one on the earth is a possible buyer for his firm's shoes. Established in 1999, Spira was financed initially by credits from the founder and his spouse. In 2001, the organization issued ordinary shares through a private placement, realizing results of US\$1,155,000. Spira injected its products to the public in 2001.

In July of 2007, Spira announced a private placement note was asking a sum of US\$4,000,000 from sophisticated investors.

US\$200,000. The money was to be utilized to diminish debt, to expand inventory, and for the international extension. Over the following year, discussions with the fundamentally targeted investors showed slower than anticipated. Less than a million dollars was allocated, directing the management board to ask other origins of funding. An extra 500 000 dollars was allocated from the owning family of a store chain, and an angel investor lent a 1,000,000 dollars that could be later switched to shares.

Notwithstanding the diminished capacity to allocate reserves and due to the financial downturn, Spira's managers and the committee of supervisors decided to focus vital works on marketing. They expected that decreased spending by purchasers might lead opponents to lower expenses by scaling back on promotional movements. To the management board at Spira, this realized an opportunity. The organization joined into a partnership with the Walt Disney Company, sponsored sportsmen of peculiar distinctness to the targeting society, and pushed ahead with real product improvement. One key measure of progress was a leap in ranking for Spira.

CASE 2:

InkJet

The Dutch firm InkJet Ltd., established in 2000, has produced an innovative and licensed inkjet technology for manufacturing use. While the first two years the organization concentrated on expansion, and in following years it performed a triumphant entrance into the Dutch market. In 2007, with total turnover at €4.5 million, InkJet determined to grow its company globally, with a focus on the European neighbors as a first move. After forming up the business strategy, it was identified that between €2 and €2.5 million would be required to fund the extension. Up to this time the organization had been wholly backed by founders' money and debt. It was pretty soon recognized that the way as mentioned above of funding would not work for the projected globalization. The business, therefore, started to ask investor and obtained one in 2008.

The investor was a VC that concentrated on manufacturing technology and gave €2.5 million in cash. The VC got 35% of the stocks for €1.3 million. The other €1.2 million was given as debt with 10% interest rate. Moreover, the founders allowed a following modification of the business valuation in favor of the investor if returns drop more than 10% of the business plan forecasts.

CASE 3:

An Angel in England

Anita Roddick began her shop, The Body Shop, producing and selling beauty goods. Roddick was intended to open another shop in Chichester, but the bank turned down her demand for credit. In depression, Roddick asked her friend Bentham McGlinn. McGlinn gave Roddick £4,000 in 1976 in return for 50% ownership in the company. Anita allowed the suggestion.

With his ownership stake, McGlinn became an angel investor and sat on the committee of The Body Shop, leaving just ere it was floated on the stock exchange in 1984. At the period of the flotation, McGlinn was worth £4 million, but he withdrew the press by taking a holiday in Portugal. By 1991, McGlinn's 52 million stocks were worth £150 million. The Roddicks and McGlinn unitedly held 56% of The Body Shop, blocking a takeover. In 1996, McGlinn sold 3.5% of the firm for £12 million. When L'Oréal acquired The Body Shop in 2006, McGlinn's 22% share was worth £137 million. As of 2007, McGlinn was ranked no. 28 on the Sunday Times Rich List, with an approximated net worth of £146 million.

CASE 4:

Tessera Enterprise Systems

Tessera Enterprise Systems, a software developer, was established in Boston in 1995 by a supervisory board that had earlier operated collectively for three years. Tessera's objective clients included some of the American retail and financial organizations, such as Eddie Bauer. The founders contributed first funding for the VC, but next year it was determined that VC was wanted to develop the business. Tessera, nevertheless, obtained a financing suggestion from Greylock Management, a leading Boston-based VC. Greylock's status attached legitimacy to the enterprise, allowing it to get agreements with target organizations, and other noticeable buyers. The following extension and third-stage funding from two other notable Venture Capitals compressed Tessera in the market and directed to a business extension to San Francisco. At a similar period, Tessera supposed organizing a branch in Switzerland to serve possible European buyers. One of the Venture Capitals likened globalization to filling a plane with stacks of money and opening the doors while traveling over the Atlantic.

Tessera nonetheless continued its general business approach and, while it moderately got some European deals, it did so without the engagement or support of its VCs. Had Tessera asked finance from a technology organization such as Oracle, it might have been better able to leverage its investor's networks and experience to the advantage of its international market. A plain capital round was given by VCs and a private investor in anticipation for an exit. Tessera, formerly organizing on a public offering and extensive foreign extension, was taken over in 2001 by iXL, an internet services provider firm with branches in San Francisco and London.

3. Azerbaijan

3.1 Azerbaijan's manufacturing industry

Azerbaijan is seemingly quite explained as an industrial nation with a grown manufactural production. The manufacturing industry is highly stationary in Azerbaijan, ostensibly due to the existence of enormous natural resources and assistance from the state. The goods produced in the country are utilized in the country and the surplus is exported. The manufacturing activity has been an asset to the nation's economy because, as it develops, it decreases the number of products that are being imported to the nation. Azerbaijan is instantly beginning to join the free marketplace, the range of products has developed and modern technology has been submitted. There is a big wish to reach the quality of manufacturing on world models. Also, the oil agreement with European organizations has given numerous stimulus to the whole manufacturing sector.

Engineering

The center of this field of manufacturing is a country-owned organization, known as Azneftekhimmash, which is organized to cover the whole range of engineering research-design of modern machinery, production, and utilization to manufacturing. There are 3 research institutes, 10 extensive plants, and more than 120 companies engaging about 60 000 people.

Fundamentally the firm produces oil and gas production-oriented tools, drilling and hydro-geological devices, as well as transport used at drilling sections for getting oil and gas. For some sorts of tools, Azneftekhimmash used to maintain the monopoly for providing the whole previous Soviet Union. There are 13 factories which produce oil and gas tools which include pumps, fractionated distillation devices, anti-eruption machine, drilling device, derricks, and offshore fuel manufacturing platforms.

Although fabricating for the oil engineering application has been set for a long time in Baku, producing in the electro-technical, products, and computer manufacturers is reasonably fresh.

Electro-technical Industry

The electro-technical field is formed up of 5 great organizations:

Bakkonditioner, Azerelectroterm, Azerelectromarsh, Azerelectrosvet and Chinar. They manufacture air conditioners, a kind of electric kitchen equipment, fridges, electro-thermal devices, electric motors, insulation elements, mechanical heaters, electrical welding tools, etc. There are now more than 10 joint ventures in this province of production.

The machine is fabricating and radio-electric activities include more than 50 enterprises, varying from tiny to big. Manufacturing comprises radio-electronic devices, Korvet computers, and radios.

Mining Industry

Azerbaijan is enriched with many mineral deposits. The typical metals in the country include aluminum, gold, silver, lead, iron, titanium, manganese, molybdenum, cobalt, zinc, copper mercury and chromium. The most substantial portion of the country's metal reserves is placed in Lesser Caucasus field. The mining has directed to the extension of

many manufacturers and formulation of various job possibilities for the people. There are a lot of mining firms that have grown up in the countys to dominate the mining industry. Throughout the past decades, Metallurgy has converted to a deeply developed field following in the formulation and expansion of metallurgic enterprise in Azerbaijan. The monopoly is held by a state-owned Baku Steel Company which is formed up of more than 20 firms.

Aluminum

The advantage is set on the aluminum sector. The raw material, alunite, is mined from areas in the Dashkesan district. At a factory in Ganja, the alunite is transformed to alumina and in the past, about 500 000 tons have been manufactured yearly.

Then alumina is carried to the Sumgayit and turned into aluminum. These times manufacturing is pretty restricted and solely 100 000 tons is being prepared or 20% potential. The rest is being transported from the Ganja factory. Aside from aluminum, numerous by-commodities are created from alunite. Azerbaijan has 5 organizations of non-ferrous metallurgy which process aluminum parts, folded metal, construction supplies and house products. Ferrous production is pretty grown. In Dashkesan, there is a factory which processes iron ore which maintains about 60% pure iron.

In Sumgayit, there is a tube manufacturing factory, the biggest of its sort in Azerbaijan. This manufactory was created in World War II to build a pipe for gas and oil production. It has 4 central shops, 13 support shops, a lab and 6 smelters, each with 150-ton manufacturing capacity. Generation of pipelines for the oil sector holds 80% of the complete manufacturing.

A modern production is developing linked to valuable minerals maintaining gold. Azerzoloto, a state-owned organization keeps the monopoly. The organization leads a research institute which is profoundly valued outside of Azerbaijan.

Electrical Energy

Azerbaijan now generates 43.5 billion kilowatts of electrical power from hydro-electric stations on the rivers Kur, Araz and Terter. The entire capacity of the electrical power system is 5,000 MWt generated at 3 fuel stations, 4 principal and numerous small hydroelectric dams. Electrical cables spread more than 100 000 km in Azerbaijan. Luckily, Azerbaijan can generate energy. International organizations are present in the process of contracting the building of the Sirvan hydro-electric manufactory and to constructing a modern plant in the Baku which would have the size of 520 MWt.

Oil Industry

Gas and oil production represents a crucial part of the Azerbaijanian economy. In truth, Azerbaijan has been listed among the world's top exploration and expansion areas in oil. Oil exportation forms around 76% of the nation's whole exports. In 1994, the State Oil Company of Azerbaijan (SOCAR) entered within a 30-year agreement with 13 additional oil extracting organizations in the world. These oil companies include BP, ExxonMobil, Statoil, Lukoil and etc. The State Oil Fund of Azerbaijan (SOFAZ) was established up to guarantee security and proper management of oil revenue.

Agriculture Industry

Agriculture is a central activity of Azerbaijan's economy. Farming is extensive, estimating for around 54.9% of the nation's whole land space. Azerbaijan's farming focus is on the viticulture, cotton, horticulture, wheat crop, wine-making ingredients, and medicinal plants. Nevertheless, conventional wheat crops planted in largely rural areas. Farming has not solely been crucial for the mission of supplying the community with food but also the extension of agro-based manufacturers in the nation. Some of the organizations that have profited from cultivation include soft drink industries, beer brewing, dairy product, and the wine-making as well as several other food-producing organizations. Livestock preservation and cultivation of pastures are also the sections of the farming traditions of Azerbaijan.

Science and Technology Industry

Technology and innovation have had a continuously direct influence on the Azerbaijan economy. In truth, the continuous improvement of the revenue from this sector has been forecasted to expand in the following times. The expansion is anticipated to be enormous and to meet with the oil industry. The Ministry of Communications and Information Technology is also contributing the urgent assistance and support for the advancement of science and innovation. Numerous significant changes are also ongoing in the community. For instance, in recent years Azerbaijan has launched satellites into space.

The ample growth of the oil industry will generate opportunities for the stimulated expansion of the non-oil industry as well. At the same moment, the beneficial investment conditions in the non-oil area, privatization and other reforms, will strengthen the development of the non-oil industry.

3.2 Azerbaijan's Capital Markets

Capital market is a piece of the financial market, where long-term investment tools are traded. The appearance of the capital market in particular state symbolizes the growth of the nation's economy and the more grown capital market indicates more grown economy. This market nourishes the economy of any nation with its. Funding of numerous innovation projects, application of new and up-to-date technologies, expansion of organizations serving in the country and their goods have a primary influence on the country's economy. But all this can not be achieved without the capital market. In many communities, when the real economy moves to negative or positive, the capital market acts fundamentally, and if the economy is positive, the capital market brings different sorts of investors, which in turn invests in the market and the market is expanding respectively. Otherwise, investors decrease the volume of their investment.

As we understand, the international market is expanding from recession to recession. Throughout each downturn, we can reduce the risk at least in the future, even though we can not avoid similar cases in the future. In the early 2000s, organizations such as Enron and Worldcom were bankrupted (though they were considered to be the ideal capital investment until bankruptcy), and corporate governance losses and the formal approach to this recession are one of the central causes for these problems. Therefore, it is desirable that local firms take specific outcomes from international experience and give more care to corporate governance matters. Any business can succeed, but corporate governance is crucial to keeping long-term success!

The current level of growth of the securities market in Azerbaijan and the failure of numerous market participants to react to the difficulties of the time are the most severe restrictions limiting the mobilization of the infinite abilities of the capital market. Indeed, there are some actual reasons for these circumstances. The vast majority of firms are "children" of privatization of state-owned assets, and their owners do not even have an opinion of the potential of the capital market. Some of these businesses' illegal actions (lease of assets of the company, lease positions with unfavorable provisions, hiding profits and exaggeration of costs, etc.) undermine investors' trust not only in the stock market but also in the expectation of the capital market.

The risk of penetrating the capital market without applying corporate governance rules has also been examined in Azerbaijan. Thus, "Ismayilli Poultry Farm" OJSC has frequently made the extra stock placement, but has failed in economic action. According to the organization's statement, losses in 2009 rose by 71,600 manats and passed 285,000 manats. This loss equal to 71% of its market value.

Some stock firms are inadequate to accurately assess the capacities of the capital market for business expansion. Many of these Stock Companies managed share-envelope owners are skeptical of their strategic buyers and investors' plans to enter the business. As a result, neither the firm nor the shareholders get anything.

International investors and global corporations consider the Azerbaijani market as a reasonably promising market in terms of capital investment. The creation of the capital market is available with economic and legal reforms and market infrastructure. The development of a mechanism that guarantees the transformation of savings into an investment at a time when investment and investment are carried out by numerous people becomes a matter of necessity. The capital market and its fundamental elements provide an efficient re-allocation of resources between subjects of economic activity by executing this task. In the conditions of current reforms, the issue of growth and improvement of all segments of the capital market plays a vital role. This factor derives from the fact that the capital market plays a significant role in the revitalization of the real sector as a cash flow transit in the economy in parallel with the banking system. In particular, the existence of the difficulty of directing oil revenues to other sectors in Azerbaijan gives specific attention to the expansion of the country's capital market. Successful creation of the capital market is achievable through the establishment of market infrastructure through economic and constitutional reforms. One of the most vital elements of the capital market infrastructure is the securities market. The securities market is one of the most outstanding opportunities for funding the economy along with the state budget and the banking system. It promotes the mobilization of the market resources, redistributing the financial resources between the various spheres and spheres of the economy in favorable and profitable ways, in favor of dynamically developing production. The securities market performs a vital task in expanding the scope of financial relations in each society. The functioning of the established securities market in Azerbaijan is one of the central factors in the expansion of the country's economy. Targeted economic reforms have been carried out to strengthen the securities market. Nevertheless, taking into consideration the experience of other nations, the adoption of advanced listing rules and procedures is insufficient and should be accompanied by different actions such as promoting/encouraging the securities market.

As we know, the stock exchange is the secondary market. As it is seen from global experience, stock markets in developed nations are the "barometer" of the economy. In the economy of Azerbaijan, the opportunity of formation of specific markets within the stock exchange should not be ruled out through the establishment of large corporate and small firms.

Brokerage services are also greatly enriched by the creation and growth of the securities market. Broker firms provide services on the domestic market as well as on international markets. Brokers also involve in advisory services. As a professional member, they carry out their services under specific licenses. That's why all these services should be at a high level. At present, there are six brokers in Azerbaijan, which are members of the Baku Stock Exchange.

1. InvestAz
2. AzFinance
3. Pasha Capital
4. Uni Capital
5. Capital Management
6. PSG Capital

Organizations have specific licenses and serve clients on the local market.

Ranking by the annual turnover of the brokers (Ranking is estimated monthly and is published at the start of the following month, which is estimated in manats on state and corporate securities market, without repo transactions and TMA market.)

Rank	Name	Annual Turnover (in manat)
1	Pasha Capital IC. CJSC	2,549,317,421.98
2	AzFinance IC. CJSC	839,790,173.53
3	Invest-AZ IC. CJSC	567,027,867.98
4	Xalq Capital IC. CJSC	564,163,765.93
5	Unicapital IC. OJSC	491,601,692.25
6	PSG Capital IC. CJSC	59,315,013.70
7	BTB Capital IC OJSC	21,386,938.53

Source: BSE <http://www.bse.az>

Table 2. Ranking of BSE members at 5 may 2019

As you see in the rankings that Pasha Kapital leads the list with 34% of the annual turnover. In extension to Pasha Capital, Pasha Holding's subsidiary Pasha Bank has an Investment Banking division. Pasha Bank also performs a crucial role in SME financing. In the meanwhile, we can conclude that Pasha Holding is the dominant player in the Capital Markets of the Country.

One of the main requirements for the expansion of the securities market in Azerbaijan is the creation of trademarks of local organizations as a brand. In the international experience, the shares of firms with influential brands are more expensive than ordinary businesses, which, in turn, will grow the capitalization of the stock market. In this case, the interest of small investors in bonds increases, and the interests of institutional investors are mainly dependent on their strategic objectives. In general, it is essential for them to engage in the board of brand corporations and thus gain revenue from re-selling shares as a result of the rise in price.

3.3 Case study (SOCAR Bonds)

The remarkable innovation in the Azerbaijani capital market has been the issue of SOCAR bonds for the domestic market. This is the most considerable amount of capital raising in the capital markets by manufacturing companies. Trading on SOCAR Bonds at BSE was started on October 18, 2016. Through these bonds SOCAR has raised \$ 100 million and has committed itself to pay a 5% coupon on bonds, the coupons are paid quarterly. The key factors that make SOCAR Bonds into the most popular securities in the country are its high profitability and liquidity.

It should be noted that bonds issued by numerous corporations in Azerbaijani manat, dollar and euros, and the shares solely issued in manat are officially in circulation. However, only one of them - SOCAR bonds are being bought and sold in the secondary market. Due to the fact that other securities are sold more targeted, dozens of transactions in the market are almost non-existent.

SOCAR is the largest production company in the exploration and development of oil and gas areas in the country. Production, processing and transportation of oil, gas and gas condensate, oil and petrochemical products, domestic and foreign gas as well as the supply of natural gas to the manufacturing and population in the country. SOCAR has four operating entities with 23 legal entities, including three business associations, one oil and one gas processing plant, Deep Water Jacket Plant, two trusts, one institute.

Another important point. It is not necessary to have a buyer in the market, but the buyer should take it from him for a reasonable price. The example of Unibank's bonds can explain the result of this. At present, the face value of the bonds issued in manat and it is 1,000 manats, but it can be sold at the market at most 840 manats. For this, the owner of this bond will sell it with a loss of 160 manats. Unibank's current obligations do not have a purchase back guarantee at a minimum price.

In the bonds of SOCAR, as mentioned above, there is a purchase back guarantee, and this guarantee allows the bondholder to sell at least a nominal price. It means, even if there are no buyers in the market, the owner of the SOCAR will be able to sell its bonds to SOCAR at least \$ 1,000 if needed. As a result of this guarantee, the price of SOCAR Bonds does not fall below \$ 1,000.

These bonds attracted dozens of investors. There are several reasons for this:

1. Taking into account that today banks are paying a maximum of 3% for insured deposits in the country, for this, the oil company's 5% coupon payment is a profitable investment for investors.
2. SOCAR's financial stability (100 million bond and 5% interest payment against 30 billion assets) makes this instrument a low-risk investment.
3. Purchase back guarantee.
4. Tax exemption for coupon payments.
5. Issued in the dollar.

As mentioned above, high profitability, low risk, purchase back guarantee, tax exemption and issuing in the dollar make SOCAR bonds one of the country's most profitable investment instruments.

Extension of the capital markets has been identified as one of the priorities of the country's economy. One of the directions of reforms currently underway is to develop this sector. High-tech solutions and contemporary legal frameworks have been created for investors and issuers in the Azerbaijani Capital Market. Nevertheless, today's situation in the stock market is inadequate.

Therefore, the issue of SOCAR bonds will stimulate the activity of the securities market, and the operations on the secondary market will strengthen, which is also a very decisive moment.

3.4 Methodology and Results

In 2015-2018, there was a 48% drop in the Corporate Securities market, while positive quantitative and qualitative changes were also recorded. Thus, the corporate bonds raised in foreign currency in 2016 increased by 1220% compared to 2015 and amounted to 182 million manats. In the recording period, placement in the corporate securities market rose 137%, capital raising in the corporate bond market based on foreign currency increased by 3,300%, but capital raising in corporate bonds market which based on local currency decreased by 87% over the same period.

Corporate securities

As a consequence of actions of real sector participants and financial organizations to raise their capital through the stock market during the reporting period, the volume of deals in the corporate securities market has increased by 137% over the mentioned period. At the beginning of the reporting period, the capital raising on the stock segment increased, but in 2018 the listings of new shares are decreased by 65%.

	2018	2017	2016	2015
Corporate Securities	8.94%	23.28%	62.36%	39.77%
Primary Market	5.40%	14.43%	58.81%	18.18%
Secondary Market	3.54%	8.86%	3.56%	21.59%
Shares	3.77%	12.92%	6.51%	6.24%
Shares (Primary Market)	2.64%	11.91%	4.02%	2.59%
Shares (Secondary Market)	1.13%	1.02%	2.49%	3.65%
Corporate Bonds	5.18%	10.36%	55.85%	33.53%
Primary Market (Manat)	0.85%	1.72%	53.49%	15.46%
Primary Market (Foreign Currencies)	1.91%	0.81%	1.30%	0.13%
Secondary Market (Manat)	1.78%	5.83%	0.53%	17.76%
Secondary Market (Foreign Currencies)	0.63%	2.01%	0.54%	0.18%
Government Bonds	54.33%	38.60%	5.96%	0.20%
Primary Market	53.27%	38.05%	3.01%	0.00%
Secondary Market	1.06%	0.55%	1.04%	0.20%
Derivatives	34.24%	37.79%	31.66%	58.85%
Repo/Reverse Repo	2.49%	0.33%	0.01%	1.18%
Securities Market	100.00%	100.00%	100.00%	100.00%
Primary Market	58.68%	52.48%	61.81%	18.18%
Secondary Market	41.32%	47.52%	36.26%	81.82%

Source: FİMSA <http://www.fimsa.az>

Table 3. Each Section is shown as a portion of Securities Market

	2018	2017	2016	2015
Corporate Securities	100.00%	100.00%	100.00%	100.00%
Primary Market	60.42%	61.97%	94.30%	45.72%
Secondary Market	39.58%	38.03%	5.70%	54.28%
Shares	42.13%	55.51%	10.44%	15.69%
Shares (Primary Market)	29.49%	51.13%	6.44%	6.52%
Shares (Secondary Market)	12.63%	4.38%	4.00%	9.18%
Corporate Bonds	57.87%	44.49%	89.56%	84.31%
Primary Market (Manat)	9.55%	7.37%	85.77%	38.87%
Primary Market (Foreign Currencies)	21.38%	3.46%	2.09%	0.33%
Secondary Market (Manat)	19.94%	25.05%	0.84%	44.66%
Secondary Market (Foreign Currencies)	7.01%	8.61%	0.86%	0.44%

Source: FİMSA <http://www.fimsa.az>

Table 4. Each Section is shown as a portion of Corporate Securities

	2018	2017	2016
Corporate Securities	-40.00%	-58.16%	108.95%
Primary Market	-41.49%	-72.50%	330.95%
Secondary Market	-37.57%	179.01%	-78.04%
Shares	-54.46%	122.51%	38.98%
Shares (Primary Market)	-65.39%	232.14%	106.52%
Shares (Secondary Market)	73.19%	-54.18%	-8.99%
Corporate Bonds	-21.95%	-79.21%	121.98%
Primary Market (Manat)	-22.25%	-96.40%	361.01%
Primary Market (Foreign Currencies)	270.58%	-30.69%	1220.33%
Secondary Market (Manat)	-52.24%	1144.15%	-96.06%
Secondary Market (Foreign Currencies)	-51.17%	316.68%	307.45%
Government Bonds	119.90%	625.53%	3921.26%
Primary Market	118.74%	1318.84%	
Secondary Market	200.70%	-40.86%	601.72%
Derivatives	41.52%	33.77%	-28.31%
Repo/Reverse Repo	1086.78%	2396.71%	-98.33%
Securities Market	56.22%	12.07%	33.26%
Primary Market	74.68%	-4.86%	352.97%
Secondary Market	35.84%	46.89%	-40.94%

Source: FİMSA <http://www.fimsa.az>

Table 5. Annual change

However, a 28% decline was observed in the secondary market for the mentioned period. In particular, the increase in the authorized capital to reach the capital requirements of the banks was an essential feature in the extension of the stock market. In general, the number of deals made on the primary market of shares during the reporting period amounted to 3.35 billion manats. Also, in 2016, was the most prosperous year for the stock market of Azerbaijan with 1.87 billion placement in local currency.

	2018	2017	2016	2015
Corporate Securities	1,326,900,000	2,267,877,497	8,248,026,100	1,913,926,446
Shares	647,700,000	1,871,364,639	563,430,807	272,818,223
Corporate Bonds (Manat)	209,800,000	269,845,132	7,501,840,000	1,627,266,538
Corporate Bonds (Foreign Currencies)	469,400,000	126,667,725	182,755,293	13,841,685
Bank Loans	13,020,300,000	11,757,800,000	16,444,600,000	21,730,400,000

Source: FİMSA <http://www.fimsa.az> and <http://www.stat.gov.az>

Table 6. Fields of Corporate Securities by annual capital raising

	2018	2017	2016
Corporate Securities	-41%	-73%	331%
Shares	-65%	232%	107%
Corporate Bonds (Manat)	-22%	-96%	361%
Corporate Bonds (Foreign Currencies)	271%	-31%	1220%
Bank Loans	11%	-29%	-24%

Source: FİMSA <http://www.fimsa.az> and <http://www.stat.gov.az>

Table 7. Fields of Corporate Securities by annual change

Corporate bonds market, which is another segment of the corporate securities market, decreased by 64% during the recording period and amounted to 1.27 billion manats at the end of the recording period.

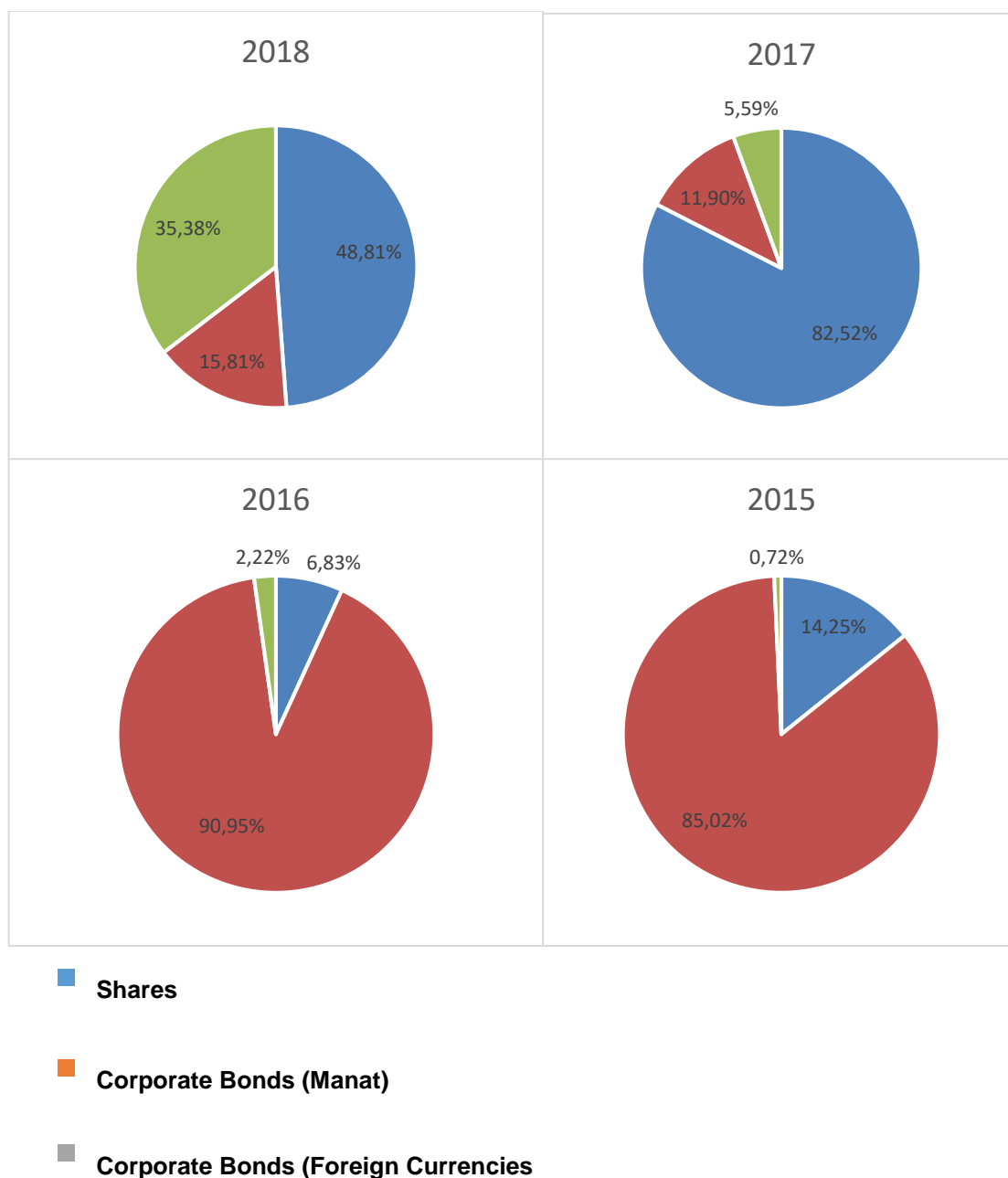
Also, there has been a notable switch in the underlining currency in which corporate bonds were raised during the recording period. If 85% of the corporate bonds placed in the Baku Stock Exchange in 2015 were based on the manat, this proportion had fallen to 15.8% in 2018.

On the other hand, bonds placed in foreign currencies at the beginning of the reporting period amounted to 0.72% of corporate securities placed in the Baku Stock Exchange, but this proportion reached 35.4% at the end of the reporting period. The corporate bond market has experienced the most successful period since 2016. In 2016, the volume of placed bonds in the Baku Stock Exchange amounted to 183 million manats, which is a 1220% increase compared to the previous year.

Bonds placed in foreign currencies in 2015-2018 showed an astronomical increase of 3,300%. At the same time, the volume of bonds placed in the manat on the Baku Stock

Exchange decreased by 87%. Nonetheless, 92% of the obligations placed in the Corporate Securities market in 2015-2018 were placed in the local currency only 8% in foreign currency.

Solely in 2018 Azerbaijani corporations used bank loans (13 billion) 9.8 times more than the securities market (1.3 billion) to finance them. As seen from the table, the most successful year for bonds in the Azerbaijani securities market was 2016, with a 1220% increase. And for stock markets, the most successful year was 2017, with an increase of 232%.



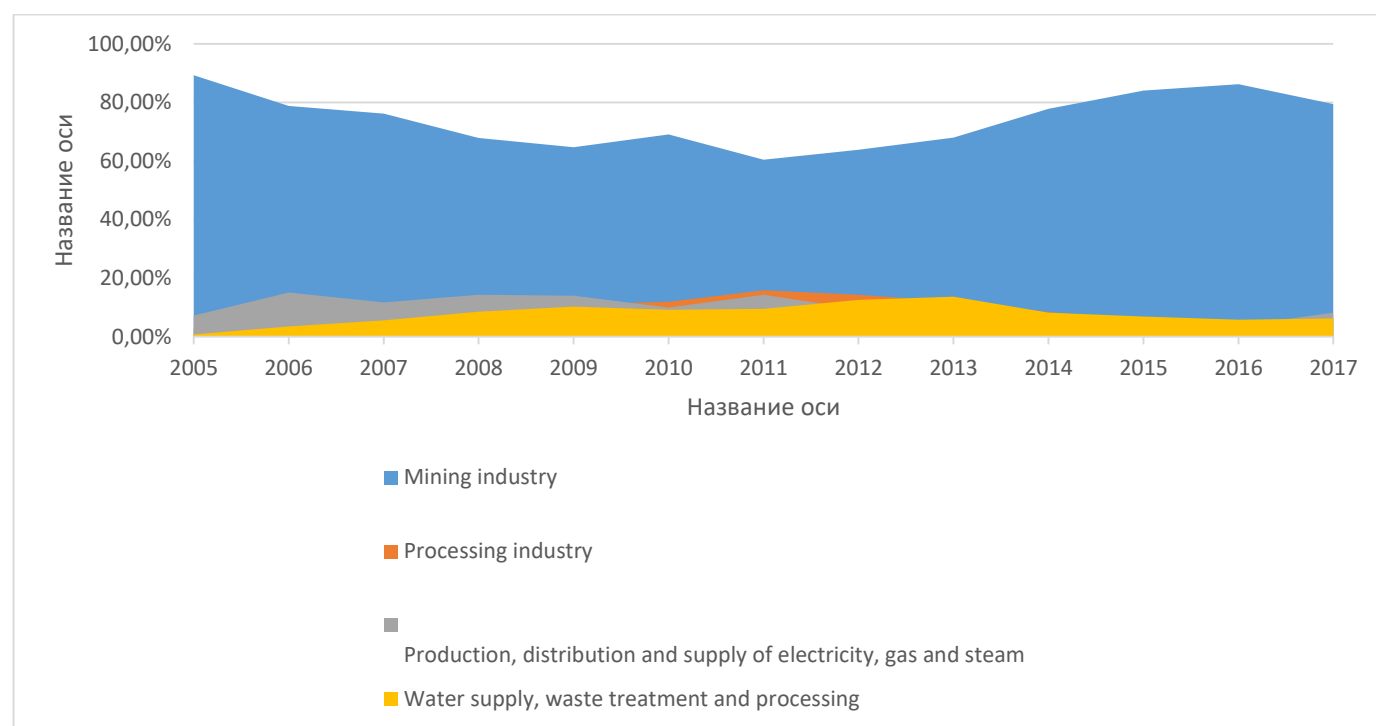
Source: FİMSA <http://www.fimsa.az>

Figure 2. Fields of Corporate Securities as a portion of Corporate Securities Market by Annual Capital Raising

During the recording period, the raising of 13.756 billion manats was made on stocks and bonds in the Baku Stock Exchange.

Although corporate bonds placed in the manat in 2015 and 2016 have dominated the market, they have faced significant shrinkage in subsequent years.

Securities placed both in stocks and in foreign currencies have shown a significant increase in the Corporate Securities Market in 2017 and 2018 although they constitute a small part of the Corporate Securities market in 2015 and 2016. Even in 2017, the capital raising in the stock market was dominated in the corporate securities market by 82.5%.



Source: <http://www.stat.gov.az>

Figure 3. Areas of Industry by Annual Capital Investment (Foreign and Domestic Investment)

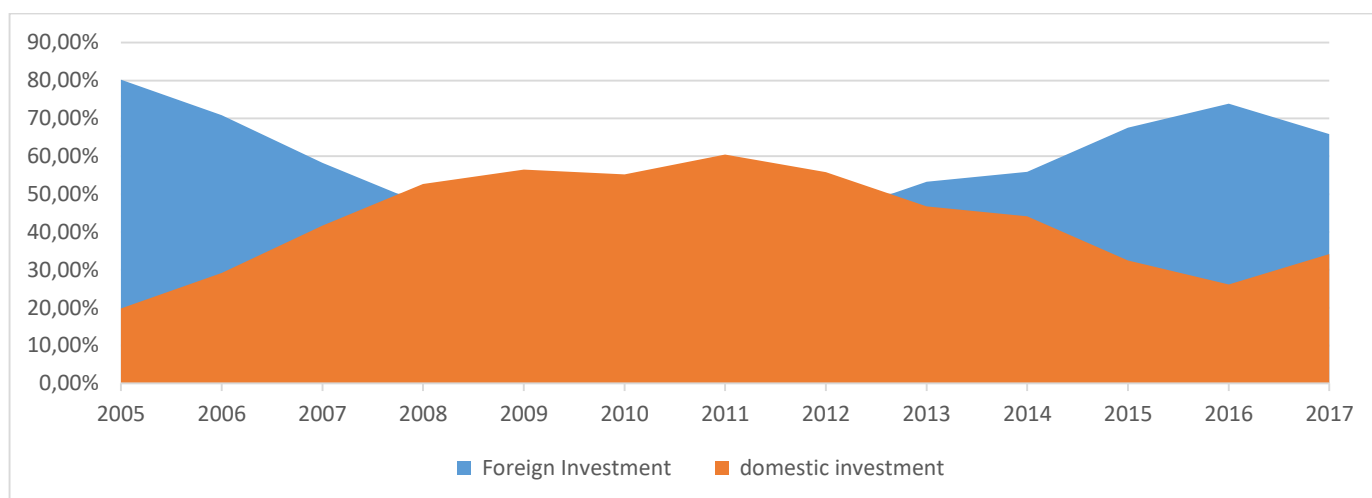
As shown in the table above, investments in fixed capital in the industry show that the investments in the sector were directed to

The mining industry (75%)

The processing industry (8.5%)

Generation, delivery of electricity, gas and steam (9.5%)

Water supply, waste treatment and processing (7%)



Source: <http://www.stat.gov.az>

Figure 4. Foreign and Domestic Investment to whole Industry

When we look at the origin of investments in the industry, we can see that a large part of the investment in the country's manufacturing (59%) is attracted from foreign markets in the general period.

Solely in 2008-2012, domestic investment exceeded foreign investment by 56%.

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

In this research, we tried to analyze capital markets both globally and Azerbaijan. Global capital markets have begun to emerge from the second half of the 20th century. The main reasons for this growth are technological innovation and the worldwide expansion of capitalism.

But at the end of 2011, it was calculated that in the USA, the entire nominal WORTH of paper tools (without any direct tie with the real economy) ‘such as Interest Rate Swaps, CDO, Futures exceeded \$700 trillion’. This contrasts to the “whole amount of market capitalization of the global share and bond markets of \$150trillion at the same moment. That is, all the paper machines in the USA were five times greater than the total market capitalization of all the publicly traded corporations in the world (Bogle 2012, 7–9).

To understand the connection of the fictional investment to entrepreneurial investment, suppose that in the USA from 2006 to 2011, “whole stock IPO’s contributed extra funds to growing businesses equating \$45 billion yearly. Secondary listings contributed further equity funds equating \$205 billion for a sum of \$250 billion per year. The total amount of stock dealing over the same moment equated \$33 trillion yearly. Some 130 times greater than the size of equity capital.” This indicates that only 0.8 % of investment went to equity for supporting the real economy and 99.2 percent went to speculation that does not add any usefulness to the real economy of the USA.

In other words, “speculation represented 99.2 percent of the activities” of the US market, and only 0.8 percent accounted for “capital formation” (see Bogle 2012, 1–10).

Azerbaijan has been able to join this trend since 1990 after the collapse of the Soviet Union. However, the BSE (Baku Stock Exchange), which is the first stock bourse in Azerbaijan, was established in 2000 and until recent years mainly government-issued securities were sold in the exchange.

Only in 2018 Azerbaijani corporations used bank loans (13 billion) 9.8 times more than the securities market (1.3 billion) to finance them. The corporate securities market has started to develop after 2016.

But even today, several problems are waiting for the solution in Azerbaijan’s capital markets.

1. Technological deficiencies.
2. Low level of liquidity on the stock market and conducting of off-exchange trading.
3. Dividend income taxation.
4. The absence of the Exchange index reflecting the general appearance of the stock market.
5. Low level of literacy in the field of Capital Markets.
6. A failure by some firms to report their financial statements publicly.
7. Listing requirements on the stock exchange (Minimum capital requirement).
8. Listing costs.

Another problem is that principally large corporations have entrance to this market. While these organizations can raise funds directly from the securities markets with help from their investment bankers, smaller and younger start-ups that have not yet issued securities to the

public do not have that advantage. Start-up firms rely instead on bank loans, angel investors and the equity investment companies which called venture capital (VC).

4.2 Recommendation

This study revealed several outstanding results, we may firstly comprehend the main problems in the global capital markets. According to the study the most primary challenge of the capital markets is speculation.

In our opinion, the most outstanding suggestions for regulatory authorities are:

1. To prohibit transactions that cause speculation on the stock exchange.

- Margin Trading
- Short Selling
- Trading on Derivatives such as CFD, CDS and etc.

Which seriously damages the community during financial crises, and adversely affects the real economy.

2. Promote Equity Financing rather than Debt Financing.

In the case of the financial crisis, in societies preferring to debt financing, borrowers, in other words, the low level of the population is more affected by this crisis. In the community that prefers equity financing, the loss that people face is equivalent to the amount of capital they have. This prevents just one group from being suffered more than the other group and makes all individuals have a smaller loss during the recession. Which in turn reduces inequalities in society.

Upon concluding the study we have various and suggestions for the Azerbaijanian Capital Markets Authorities.

1. Azerbaijan should learn a lot of lessons from international experience, therefore, Azerbaijan has to follow new methods and ideas in order not to get affected by another likewise market crash.

2. Baku Stock Exchange also should set up the dynamic and flexible policy in order to support investors to have better liquidity conditions during the trade session.

3. The BSE also has to monitor the stock market and not allow the trade of toxic securities on the stock exchange. Otherwise, risky toxic securities could turn into a collapse of the Capital markets in Azerbaijan.

4. Additionally, BSE may introduce guidelines for the public and as well as for the corporations in order to increase financial literacy.

5. Brokers should also be focused on the development of IT (Information Technology) systems. It is undeniable that online operations are a crucial part of modern-day brokerage industry. In this sense, brokers should provide better computer-based investment platform as well as hire much-sophisticated staff to carry on transactions within their IT systems.

6. Also, tax exemptions on dividend income on a share may give support to the development of this market.

7. The creation of the stock market index may also increase the interest in capital markets.

8. Establishing guidelines for venture capital firms to support small and younger firms that are unable to release securities to the public.

In our view, the most remarkable suggestion is advancing regulation system within the capital markets and state authorities which drove to the growth of the capital markets.

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