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COMPARATIVE LEGAL ANALYSIS OF THE ESTABLISHMENT OF LIMITED LIABILITY COMPANIES IN AZERBAIJAN AND TURKEY

Açar sözlər: məhdud məsuliyyətli cəmiyyət, şirkət hüququ, Azərbaycan, Türkiyə, korporativ idarəetmə, kapital tələbləri, biznes qeydiyyatı.

Ключевые слова: общество с ограниченной ответственностью, корпоративное право, Азербайджан, Турция, корпоративное управление, требования к капиталу, регистрация бизнеса.

Keywords: limited liability company, company law, Azerbaijan, Turkey, corporate governance, capital requirements, business registration.

Introduction

Limited liability companies occupy a central place in the economic landscapes of both Azerbaijan and Turkey. They allow entrepreneurs to participate in commercial activities without risking their personal assets beyond the amount they contribute to the company. Investors often choose this organisational form because it combines flexibility with legal certainty. Over the past decade both countries have modernised their commercial laws, aiming to attract domestic and foreign investment, protect creditors and

promote transparency. In Azerbaijan the Civil Code and the Law on State Registration and the State Register of Legal Entities provide the basic rules for establishing LLCs, while the Turkish Commercial Code sets out the corresponding framework in Turkey.

The comparative analysis of these two regimes is particularly relevant because the countries share cultural and economic ties yet have adopted distinct approaches to company formation. Azerbaijan has pursued a liberal regime that facilitates entrepreneurship by keeping administrative hurdles and capital requirements low. By contrast, Turkey has gradually tightened its rules, culminating in a significant increase in the minimum capital for limited companies in 2024. These differences have important implications for the ease of doing business, access to finance and the protection of creditors.

The subject has gained renewed importance in recent years because of several reforms. Azerbaijan introduced an electronic registration system that allows companies to be formed in a matter of days and adopted a mechanism permitting creditors to convert debt into equity in distressed companies. Turkey amended its laws to strengthen the capital base of companies, expanded digi-

tal incorporation through the Central Registry System (MERSIS) and clarified the roles of general assemblies and managers. Analysing these developments through a comparative lens helps reveal how each country balances flexibility and protection.

This article aims to provide a structured yet interpretive discussion of the establishment of LLCs in Azerbaijan and Turkey. It does not merely describe the rules but evaluates how they shape incentives for founders, minority partners and creditors. The approach is analytical rather than descriptive: instead of summarising sources, it synthesises them and adds independent commentary. The comparison is organised into two main sections focusing on each jurisdiction, while highlighting points of convergence and divergence. The conclusion draws broader lessons for policymakers and investors seeking to navigate these legal environments.

Establishing Limited Liability Companies in Azerbaijan

Legal basis and formation conditions: In Azerbaijan the creation and operation of LLCs are governed by the Civil Code and the Law on State Registration and the State Register of Legal Entities. These instruments permit a company to be formed either by establishing a new entity or by reorganising an existing legal person, such as through merger, division or transformation. LLCs may have one or more participants; the Civil Code allows a sole founder but prohibits an LLC formed by a single participant from being owned by another company that itself has only one participant. The maximum number of participants is fifty, reflecting a policy choice to keep the entity closely held. LLCs are often preferred because the liability of participants is limited to the value of their contributions, insulating personal assets from business risks. In practice, this liability shield is a major attraction for foreign investors [1].

Founders must decide whether to adopt a corporate charter and, if there is more than one participant, a founding agreement. The charter sets out the company's name, address, scope of activities, charter capital, management structure and procedures for profit distribution and dissolution. The founding agreement regulates the relationship between participants by specifying their rights, obligations and voting proportions. Azerbaijani law requires that the charter capital be stated in the charter, but it does not prescribe a minimum amount. The capital may consist of monetary or nonmonetary contributions and may be paid before registration or within a period defined in the charter. The lack of a statutory minimum capital requirement is a distinguishing feature of the Azerbaijani regime and reflects an intention to reduce barriers to entrepreneurship [6].

The absence of a fixed capital threshold is accompanied by rules that ensure transparency. Contributions must be valued in the charter, and any property transferred to the company becomes its separate property. All participants gain a share proportionate to their contributions, expressed as a percentage of the charter capital. This share determines voting rights and profit distribution. Transfers of participatory interests to third parties are allowed but subject to the preemptive rights of existing participants, who can acquire the interests on the same terms. Such rights aim to prevent unwanted outsiders from entering the company and help maintain trust among participants. Because LLCs in Azerbaijan do not issue shares, participatory interests are documented in the charter and recorded in the company's register [4].

Registration procedure and governance: State registration is the final step in establishing an LLC. Founders submit an application to the State Tax Service, which is the registration authority. The process includes choosing and

reserving a company name, providing notarised copies of identification documents, preparing the charter and founding agreement, paying a nominal registration fee and opening a bank account. Foreign directors must hold a residence or work permit, but there is no requirement to appoint a local director or shareholder. Electronic registration can be completed within a few days, making the process efficient and accessible to foreign investors [2]. After state registration, the company is issued a taxpayer identification number and is entered into the State Register. It may then open bank accounts and commence operations.

The internal governance of an Azerbaijani LLC is flexible. If there is more than one participant, the general meeting is the supreme body. It approves major decisions such as amendments to the charter, election of directors, distribution of profits and liquidation. In a single participant LLC, these functions are exercised by the sole participant. The company may appoint directors or a management board responsible for day-to-day operations. Participants may agree on additional organs, but the law imposes few mandatory structures. This flexibility allows the governance arrangements to be tailored to the specific needs of the business. The participants' liability remains limited, and public creditors cannot pursue participants directly unless they have not paid their contributions.

Capital and debt-equity innovations: A notable feature of Azerbaijani law is the absence of a statutory minimum capital requirement for LLCs. While jointstock companies must have at least 4 000 AZN in charter capital, an LLC may be established with any amount agreed by the participants. Nevertheless, practical considerations encourage founders to contribute sufficient capital to support the company's operations and to demonstrate credibility to banks and suppliers. In cases where foreign founders seek residence permits, the law or administrative

practice may require them to demonstrate at least 50 000 AZN in capital. This requirement is not contained in the Civil Code but reflects migration policy considerations [2].

In December 2023 the Civil Code was amended to introduce a debt-equity swap mechanism for companies whose losses exceed their charter capital. Under this mechanism, individuals or entities with monetary claims against an LLC may convert their claims into participatory interests, thereby offsetting debts without injecting additional capital. The conversion requires a unanimous decision of the participants, or a two-thirds majority if a company has multiple classes of interests. Once the conversion is approved, the creditor becomes a participant in proportion to the value of the claim. This innovation aims to help distressed companies recapitalise without resorting to external financing and to strengthen the balance sheets of domestic businesses. It reflects a broader trend toward flexible corporate restructuring tools in Azerbaijani law [9].

Share transfer and exit: Participants in an Azerbaijani LLC enjoy considerable freedom to transfer their interests. Transfers may be made to other participants or to third parties. However, existing participants have preemptive rights: before an interest is sold to an outsider, it must be offered to current participants on the same terms. If no participant exercises this right, the transfer can proceed. The transfer must be documented, and the charter must be amended to reflect the new ownership structure. In practice, notarised agreements and state registration of the new participant are required. The law does not impose conditions on the price or require independent valuation, leaving the parties to negotiate freely. These rules encourage liquidity while protecting the cohesion of the company [4].

Participation may also end through withdrawal or exclusion. A participant may withdraw by selling or donating their interest or by re-

questing dissolution and liquidation. Exclusion occurs when a participant fails to fulfil payment obligations or otherwise breaches the charter. In such cases the remaining participants may decide to buy out the defaulting participant's interest. Azerbaijani law thus provides a balance between flexibility in transferability and protection against sudden disruptions in the company's composition.

Foreign investment and practical considerations: Azerbaijan encourages foreign investment by allowing full foreign ownership of LLCs and by providing a swift and inexpensive registration process. Foreign participation is not limited, and there is no requirement to have a local partner or to maintain a local office, although having a physical office may facilitate banking procedures and visa applications. Founders must provide notarised and apostilled documents and may operate through a power of attorney if they cannot be physically present. After registration, companies are subject to regular tax obligations, including quarterly financial reporting and monthly VAT returns where applicable [6].

The flexible regime has advantages and drawbacks. On the one hand it lowers entry barriers, fosters entrepreneurial activity and simplifies governance. On the other, the absence of a minimum capital requirement may leave creditors exposed if the company is undercapitalised. The new debtequity swap mechanism addresses part of this concern by providing a tool for internal recapitalisation, but it remains to be seen how widely it will be used. Overall, Azerbaijan's approach reflects a policy preference for economic liberalisation and minimal regulation, in line with its efforts to diversify the economy beyond the energy sector.

Establishing Limited Liability Companies in Turkey and Comparative Insights

Legal framework and capital requirements: The legal foundation for limited companies in

Turkey is the Turkish Commercial Code (TCC). Article 573 allows one or more natural or legal persons to form a limited company under a trade name. The number of partners cannot exceed fifty, and singlemember companies are explicitly permitted. Each partner's liability is limited to the capital share they commit and any additional obligations specified in the articles of association. The company has its own legal personality upon registration, and partners are not personally liable for the company's debts unless they fail to fulfil their capital contributions [8]. The articles of association must be in writing, signed in the presence of a registry official, and registered with the trade registry.

Prior to 2024 the minimum capital requirement for a limited company was 10 000 Turkish lira. However, a Presidential Decree issued on 25 November 2023 increased this requirement to 50 000 lira, with effect from 1 January 2024. The new threshold applies to companies incorporated after that date; existing companies are not obliged to increase their capital but are encouraged to do so to strengthen their equity structures [5]. The capital may be contributed in cash or in kind and must be fully paid within 24 months following registration. The company contract may specify a payment schedule, and directors have discretion to determine payment dates. For jointstock companies, at least one quarter of the nominal value must be paid before registration, but for limited companies all contributions may be deferred until after registration [7].

The substantial increase in the minimum capital reflects a policy to ensure that companies have a stronger financial base. By requiring greater initial investment, the legislator aims to protect creditors and promote longterm sustainability. Critics argue that the higher threshold may deter small entrepreneurs and foreign investors. However, the impact is mitigated by the possibility of payment over two years and by

the absence of restrictions on foreign participation. The TCC allows full foreign ownership of limited companies, and foreigners are treated equally to Turkish nationals under the Law on Direct Foreign Investments. This open regime has made limited companies a common vehicle for foreign investment.

Establishment procedure and organs of the company: In Turkey the process of forming a limited company begins with the preparation of the articles of association. The document must specify the company's name, headquarters address, business purpose, capital amount, number and type of shares, management structure and rights of partners. The partners must obtain a unique company name and register through the Central Registry System (MERSIS). Signature declarations are notarised, and the articles are submitted to the trade registry along with declarations from nonpartner managers if any. Upon registration the company acquires legal personality, receives a tax number and is enrolled with the social security system [3]. Unlike in Azerbaijan, the presence of the founders or their representatives is required at registration; however, they may act through a notarised power of attorney.

The governance structure comprises two mandatory organs: the general assembly and the managers. The general assembly consists of all partners and decides on fundamental matters such as capital increases, amendments to the articles, election of managers, approval of financial statements and dissolution. Managers are responsible for daytoday management and representation of the company. They may be partners or nonpartners, and the law permits the appointment of multiple managers. Unless otherwise stated in the articles, the signatures of at least two managers are required for representation, a rule designed to ensure checks and balances within the management [3]. The TCC also allows the creation of additional optional organs,

giving companies flexibility to tailor their governance structures.

An important distinction from the Azerbaijani regime is the more prescriptive approach to share capital. While Azerbaijan does not require a minimum capital and gives participants freedom to determine their contributions, Turkey imposes a relatively high threshold and requires full payment within a defined period. This difference reflects divergent economic strategies: Turkey seeks to ensure that limited companies are well capitalised and capable of meeting their obligations, while Azerbaijan prioritises ease of entry into the market. The Turkish requirement may enhance creditor protection and instil greater discipline in financial planning.

Share transfer and partner relations: Transfers of shares in a Turkish limited company are regulated by Articles 595–599 of the TCC. A transfer agreement must be in writing and signed before a notary. The general assembly must approve the transfer unless the articles provide otherwise; failure to obtain approval renders the transfer invalid. These restrictions aim to maintain the personal character of the company and to protect existing partners from unwanted entrants [8]. Upon approval the transfer must be registered and announced in the trade registry. Turkish law prohibits the issue of bearer shares, and share certificates are optional. Partners' rights are embodied in the share quotas recorded in the trade registry.

Partners have preemptive rights to acquire shares offered for sale. They may waive these rights in writing, but the waiver is effective only after the waiver is registered. Partners may also be subject to additional payment or performance obligations if stipulated in the articles. A partner who fails to pay the subscribed capital within the specified time may be excluded and held liable for damages. The TCC thus balances flexibility in share transfer with mechanisms to protect the company's integrity.

Comparative analysis of Azerbaijani and Turkish regimes: Several similarities unite the Azerbaijani and Turkish frameworks. Both jurisdictions allow singlemember companies, limit the number of participants to fifty and protect partners by limiting their liability to the amount of their contributions. Each requires that the company's constitutive document—charter in Azerbaijan and articles of association in Turkey - define key aspects such as name, address, business purpose, capital and governance. Both systems also permit the transfer of participatory interests or shares subject to preemptive rights of existing partners.

Despite these parallels, the regimes differ markedly in their treatment of capital. Azerbaijan imposes no minimum capital requirement for LLCs, allowing founders to establish a company with any agreed amount and to pay it before or after registration. Turkey requires at least 50 000 TRY, reflecting a significant financial commitment and a greater emphasis on creditor protection. The ability to pay capital over 24 months softens the impact but still signals a tighter regulatory approach. Another difference lies in the formalities surrounding share transfers: Azerbaijan requires notarisation and amendment of the charter but does not mandate general assembly approval; Turkey requires both notarisation and approval, making transfers more cumbersome.

Management structures also diverge. Azerbaijani law offers considerable flexibility, allowing the appointment of one or more directors or a management board, and permitting singlemember LLCs to be managed directly by the sole participant. Turkey mandates a dual structure of general assembly and managers and imposes a dualsignature rule unless the articles provide otherwise. These rules aim to prevent unilateral decisions and promote collective oversight. However, they may slow down decisionmaking

compared with the more streamlined Azerbaijani system.

The introduction of a debtequity swap mechanism in Azerbaijan stands in contrast to Turkey's more rigid capital regime. By allowing creditors to convert debts into equity, Azerbaijan provides a tool for rescuing distressed companies without increasing monetary contributions. Turkey has no similar mechanism in the context of limited companies. Instead, it relies on capital increases and strict enforcement of capital contributions. This difference reflects broader policy choices: Azerbaijan favours restructuring and flexibility, while Turkey emphasises financial solidity.

Finally, both countries have embraced digitalisation. Azerbaijan's electronic registration system and Turkey's MERSIS platform facilitate rapid incorporation and reduce bureaucratic hurdles. They also improve transparency by maintaining electronic records of companies. However, digital registration in Turkey still requires physical notarisation of signatures, whereas Azerbaijan allows full remote incorporation with a power of attorney. These practical differences may influence the choice of jurisdiction for foreign investors.

Practical implications for investors and policymakers: For entrepreneurs seeking to establish a company in Azerbaijan, the key advantages include the lack of a mandatory capital threshold, the possibility of full foreign ownership and the speed of registration. The main risks are related to potential undercapitalisation and the need to manage relationships among participants without rigid statutory guidance. Investors should carefully draft the charter and founding agreement to address governance, transfer of interests and dispute resolution. The new debtequity swap mechanism offers a tool for recapitalisation but also introduces the possibility of creditors becoming participants. Founders should assess whether this aligns with their strategic objectives.

In Turkey investors must be prepared to commit a substantial amount of capital upfront or within two years. This requirement may deter small entrepreneurs but can signal financial soundness to creditors and partners. The formalities of share transfer and the requirement for general assembly approval may complicate exit strategies; however, they also protect partners from unexpected changes in the company's composition. The mandatory dual management structure ensures oversight but may increase administrative complexity. Foreign investors benefit from a clear legal framework, equal treatment and a robust system of company law backed by longstanding commercial practice.

From a policy perspective the Azerbaijani approach illustrates how a liberal regime can attract entrepreneurs and encourage business formation, especially in an economy seeking diversification. The Turkish model shows how higher capital requirements can serve as a tool for strengthening corporate governance and creditor protection. Both countries are moving towards greater digitalisation, but differences in notarisation and registration practices remain. Policymakers might consider whether further harmonisation or mutual recognition of corporate forms could facilitate crossborder investment between the two countries.

Conclusion

Limited liability companies play a vital role in the economies of Azerbaijan and Turkey by providing a flexible yet protective framework for conducting business. The comparative analysis of the legal rules governing their establishment reveals both convergences and divergences. Azerbaijan offers a liberal regime with no statutory minimum capital, simple governance structures and quick electronic registration, reflecting a policy to foster entrepreneurship and

attract foreign investment. The introduction of a debt-equity swap mechanism further enhances flexibility by allowing the internal restructuring of capital without additional cash contributions. These features, however, raise questions about the adequacy of creditor protection and the potential for undercapitalised entities.

Turkey, on the other hand, imposes a substantial minimum capital requirement of 50 000 lira, requires payment within two years and enforces formalities for share transfers and management. These rules emphasise financial solidity, creditor protection and collective decisionmaking. The dual structure of general assembly and managers ensures oversight, and the requirement of notarised transfer agreements reduces the risk of disputes. While these measures may deter some small investors, they contribute to the stability and credibility of Turkish limited companies.

The comparison illustrates how legal frameworks embody broader economic priorities. Azerbaijan prioritises accessibility and flexibility to stimulate economic diversification, whereas Turkey prioritises capitalisation and formal governance to safeguard stakeholders. Investors must therefore consider their business objectives, financial capacity and tolerance for regulatory formalities when choosing between the two jurisdictions. Policymakers may draw lessons from this comparison to refine their corporate laws: Azerbaijan could explore mechanisms to enhance creditor protection without imposing rigid capital thresholds, while Turkey might consider simplifying share transfer procedures or introducing innovative recapitalisation tools. Ultimately, both regimes demonstrate that limited liability companies can be tailored to local needs while maintaining core features of limited liability and separate legal personality.

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**AZƏRBAYCAN VƏ TÜRKİYƏDƏ MƏHDUD MƏSULİYYƏTLİ CƏMİYYƏTLƏRİN
YARADILMASININ MÜQAYİSƏLİ HÜQUQİ TƏHLİLİ**

XÜLASƏ

Məhdud məsuliyyətli cəmiyyətlər (MMC) Azərbaycanda ən çox yayılmış və Türkiyədə ən populyar şirkət formalarından biridir. Onlar sahibkarlara kommersiya fəaliyyətlərində iştirak edərək şəxsi məsuliyyəti məhdudlaşdırmağa imkan verir. Bu məqalə son beş ildə Azərbaycanda və Türkiyədə MMClərin yaradılması üçün hüquqi çərçivələrin analitik müqayisəsini təqdim edir. Araşdırma formalaşma şəraiti, minimum kapital tələbləri, iştirakçıların sayı və tərkibi, dövlət qeydiyyatı proseduru və idarəetmə strukturlarını təhlil edir. Xüsusi diqqət borcun paya çevrilməsi mexanizminin tətbiqi və Türkiyədə məhdud şirkətlər üçün minimum nizamnamə kapitallarının 10 000 lirədən 50 000 lirəyə artırılması kimi son qanunvericilik dəyişikliklərinə ayrılır. Təhlil göstərir ki, Azərbaycan qaydaları elastikliyi önə çəkir - tək iştirakçıya imkan verir, minimum kapital tələbi qoymur və natura töhfələrini qəbul edir, Türkiyə isə daha yüksək kapitalizasiya və formallaşma axtarır. Məqalədə hər iki ölkədə iştirakçıların sayının yuxarı həddi kimi oxşarlıqlarla yanaşı, pay köçürülməsi qaydaları, üstünlük hüquqları və korporativ idarəetmə fərqləri də müqayisə edilir. Mətn sonunda qanunvericilik çərçivələrinin yerli və xarici investorlar üçün praktiki nəticələri vurğulanır və hər bir rejimin daha geniş iqtisadi prioritetləri əks etdirdiyi nəticəsi çıxarılır.

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**СРАВНИТЕЛЬНО-ПРАВОВОЙ АНАЛИЗ СОЗДАНИЯ ОБЩЕСТВ
С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ В АЗЕРБАЙДЖАНЕ И ТУРЦИИ**

РЕЗЮМЕ

Общества с ограниченной ответственностью (ООО) являются одной из наиболее распространенных и популярных форм компаний в Азербайджане и Турции. Они позволяют предпринимателям ограничить личную ответственность, занимаясь коммерческой деятельностью. В данной статье представлено аналитическое сравнение правовых рамок создания ООО в Азербайджане и Турции за последние пять лет. В исследовании анализируются условия создания, минимальные требования к капиталу, количество и состав участников, процедура государственной регистрации и структуры управления. Особое внимание уделяется недавним законодательным изменениям, таким как введение механизма конвертации долга в акции и увеличение минимального уставного капитала для обществ с ограниченной ответственностью в Турции с 10 000 лир до 50 000 лир. Анализ показывает, что азербайджанское законодательство делает упор на гибкость - допуская одного участника, отсутствие требований к минимальному капиталу и принимая взносы в натуральной форме, в то время как Турция стремится к более высокой капитализации и формализации. В статье сравниваются сходства в обеих странах, такие как верхний предел числа участников, а также различия в правилах передачи акций, преимущественных правах и корпоративном управлении. В заключение освещаются практические последствия законодательных рамок для отечественных и иностранных инвесторов, и делается вывод о том, что каждый режим отражает более широкие экономические приоритеты.

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