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A.R.Aghazade
master student, Azerbaijan State University of Economics
aaghazada9@gmail.com

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FINANCIAL MANAGEMENT, ETHICS, AND REGULATION IN DEVELOPING MARKET ENVIRONMENTS

Abstract

Emerging markets face persistent challenges in financial governance and ethics, from weak regulatory institutions to prevalent corruption. This study examines how governance quality, ethical standards, and financial regulation have evolved in selected emerging market economies over the past decade. A literature review highlights that poor governance and corruption can undermine financial stability and growth. We conduct a comparative analysis of Azerbaijan, Georgia, Kazakhstan, and Turkey using indicators such as the Corruption Perceptions Index (CPI), Worldwide Governance Indicators (WGI), and financial freedom indices. The results show divergent trajectories: Georgia has sustained relatively strong regulatory quality and anti-corruption performance, while Azerbaijan and Turkey have struggled with ethical governance issues despite some regulatory reforms. Kazakhstan falls in between, with gradual improvements in oversight and integrity. We find that stronger corporate governance frameworks and regulatory institutions correspond with greater financial stability and investor confidence. The paper discusses the implications for theoretical understanding of governance in emerging markets and practical policy measures needed to enhance ethical standards and regulatory effectiveness in these economies.

Keywords: *emerging markets; financial governance; corruption; regulatory quality; corporate ethics.*

INTRODUCTION

Financial governance and ethical standards are critical determinants of economic development and stability, yet emerging market environments often suffer from governance deficits. Investors are drawn to emerging economies for their high growth potential, but weak rule of law, pervasive corruption, and nascent regulatory frameworks can eclipse these opportunities (Dallas, 2013). As noted by Dallas (2013), emerging markets account for a major share of global growth, but the benefits can be undermined by governance shortcomings. A fundamental concern is that in many developing economies, corruption and mismanagement are not isolated incidents – they can become systemic, ingrained in business and government interactions. This raises a question: what are the implications of such governance failures for financial systems in emerging markets? Addressing this requires examining both the ethical dimension (integrity, corruption control) and the regulatory capacity of financial governance structures.

Prior research provides ample evidence that poor governance and corruption harm economic outcomes. A meta-study by Ugur and Dasgupta (2011) finds that corruption significantly slows GDP growth in low-income countries, cutting per capita growth by around 0.6% annually on average. Such costs may even be higher in more developed markets, but emerging economies typically exhibit more acute levels of corruption, making its mitigation crucial for their development. Studies of past financial crises have illustrated the dangers of weak governance: during the Asian financial crisis of the late 1990s, countries with deficient corporate governance suffered more severe capital flight and asset price collapses as insiders expropriated assets at the expense of outside investors (Johnson et al., 2000). Shleifer and Vishny (1997) emphasize that corporate governance, at its core, is about ensuring that investors receive a return on their funds – when governance mechanisms fail, investors hesitate to provide capital, or they demand a premium for risk.

Legal and regulatory institutions form the backbone of financial governance. Classic "law and finance" analysis by La Porta et al. (1998) demonstrated that countries with stronger legal protections for investors and better enforcement have deeper financial markets. In many emerging markets, however, legal frameworks and enforcement remain weak or uneven. Prasad (2010) notes that emerging economies face institutional and capacity constraints in regulation: regulatory agencies often lack the skilled staff and independence needed to keep up with fast-evolving financial markets. It is common for talented regulators to be poached by the private sector, exacerbating the knowledge gap (Prasad, 2010). Furthermore, incomplete legal infrastructure – such as weak bankruptcy procedures and contract enforcement – hinders effective financial governance in these countries. This context suggests that simply transplanting regulations from advanced markets may not yield the intended results in emerging ones without addressing underlying institutional quality.

Ethical considerations are equally significant. In environments where bribery or nepotism are normalized, formal regulations can be undermined by informal practices. Emerging markets often report that corruption is a necessary cost of doing business, a phenomenon that entrenches unethical behavior in both public and private sectors. Over time, such practices erode public trust and the credibility of institutions. George Dallas (2013) observes that while investors should uphold universal anti-corruption standards (zero tolerance), strategies to combat corruption in emerging markets must account for local realities. For example, Western-style compliance measures like whistleblower programs may falter in societies where whistleblowing carries stigma or even personal risk (Dallas, 2013). The absence of robust legal protection for whistleblowers, or limited enforcement of anti-bribery laws, means that many corrupt acts go unchecked. Nonetheless, ethical reforms are not impossible. Cross-country indicators show a wide variance among emerging markets in corruption levels and governance quality, indicating that cultural and policy differences matter. Notably, countries like Georgia have made substantial strides in curbing petty corruption and improving public sector transparency, whereas others like Azerbaijan continue to rank near the bottom of global corruption indices (Transparency International, 2023). Such divergence invites a closer investigation into what policies or governance structures drive improvements in some cases versus stagnation in others.

In recent years, there have been efforts within emerging economies to strengthen financial governance frameworks. International standards – ranging from Basel regulatory accords for banking to the OECD principles on corporate governance – have influenced reforms. Many emerging markets established new regulatory agencies or overhauled existing ones, aiming to increase oversight of banks, capital markets, and corporate financial reporting. Some countries have modernized laws to enhance corporate transparency and minority investor rights. For instance, the World Bank's Doing Business 2020 report recognized Azerbaijan as one of the top reformers after it implemented numerous changes to protect minority investors and streamline business regulations (World Bank, 2019). Such reforms can improve a country's regulatory quality on paper, but the true test lies in implementation and enforcement.

The literature reveals a gap in understanding how these governance and ethics reforms translate into measurable outcomes across different emerging markets. While aggregate studies link better governance to greater financial stability (Gelos & Elekdag, 2016) and higher investment, granular analysis is needed to see where progress is being made and where old habits persist. This paper aims to fill part of that gap by comparing a set of countries – Azerbaijan, Georgia, Kazakhstan, and Turkey – that represent a spectrum of emerging market governance experiences. All four are upper-middle-income economies with significant financial sectors, yet their governance and corruption rankings differ markedly. By examining quantitative indicators over the last decade, we seek to identify patterns and draw insights into what factors underpin effective financial governance in emerging markets.

In the following sections, we first describe the data and methodology for our comparative analysis. We then present and discuss the findings on governance quality, ethics (corruption control), and regulatory effectiveness for the selected countries. The discussion links these empirical results back to the broader literature, considering why some countries achieved improvements in financial governance and ethics while others lagged. Finally, we conclude with key takeaways: new results on governance trends and their theoretical implications, as well as practical recommendations for policymakers and stakeholders in emerging markets striving to enhance financial governance and ethical standards.

METHODOLOGY AND DATA

To investigate financial governance, ethics, and regulation in emerging markets, we adopt a comparative case approach focusing on four countries: Azerbaijan, Georgia, Kazakhstan, and Turkey. These countries were chosen for their geographic and economic diversity within the broader emerging market context, as well as their differing reputations in governance and corruption. Azerbaijan and Kazakhstan are resource-rich post-Soviet economies with historically high corruption levels but recent reform efforts. Georgia is often highlighted as a regional leader in anti-corruption and regulatory quality, whereas Turkey is a larger emerging economy that has experienced governance backsliding in the past decade. Comparing these cases allows us to observe a range of governance outcomes and reform trajectories.

All data were obtained from reputable sources: Transparency International for CPI scores, the World Bank's governance database for WGI indicators, and the Heritage Foundation for financial freedom. We ensured consistency in year definitions. For CPI and WGI, each year's value corresponds to the situation in that year (for example, CPI 2024 reflects perceptions for 2024 as reported in early 2025). Minor discrepancies may exist due to data release lags, but they do not affect the overall trends.

Our analysis method is primarily descriptive and comparative. We present the data in a series of tables to illustrate the trajectories of each indicator in the four countries. By examining these tables, we can identify patterns such as improvements, stagnation, or deterioration in governance and ethics measures over time. We interpret these patterns in light of significant events or policy changes in each country. For instance, if Azerbaijan's regulatory quality shows a sharp uptick after 2016, we correlate that with the business environment reforms it undertook during that period. If Turkey's rule of law index declines after 2016, we discuss the political and legal developments (e.g. the post-coup security measures) that likely contributed to that decline.

It is important to note some limitations. These indicators, while informative, have subjective elements and margins of error. For example, the CPI is perception-based and may not capture all nuances of on-the-ground corruption. The WGI are composite indexes with confidence intervals. We use them as broad gauges of performance rather than precise measurements. Additionally, our focus on four countries means the findings, while insightful, are not automatically generalizable to all emerging markets. However, the selected cases do resonate with broader regional trends – Georgia often exemplifies governance reforms in Eurasia, and Azerbaijan often exemplifies the challenges of oil-rich autocracies, for instance. Our aim is to provide a detailed look at these cases to shed light on the interplay between financial governance, ethics, and regulation.

With the methodology established, we proceed to the results, starting with an overview of corruption and ethics indicators, followed by regulatory quality and rule of law outcomes, and finally the state of financial sector regulation as reflected in the financial freedom scores. These results will allow us to discuss how each country's trajectory aligns with or deviates from expectations and what this implies for their financial governance.

RESULTS AND DISCUSSION

Ethics and corruption trends

An essential aspect of financial governance is the control of corruption and promotion of ethical conduct in both public institutions and private enterprises. Table 1 presents the Corruption

Perceptions Index (CPI) scores for Azerbaijan, Georgia, Kazakhstan, and Turkey from 2015 to 2024. Higher CPI scores indicate a cleaner, less corrupt public sector. Several trends stand out clearly in the data.

Table 1

Corruption perceptions index in selected emerging markets, 2015–2024

Year	Azerbaijan	Georgia	Kazakhstan	Turkey
2015	29	52	28	42
2016	30	57	29	41
2017	31	56	31	40
2018	25	58	31	41
2019	30	56	34	39
2020	30	56	34	40
2021	30	55	37	38
2022	29	55	36	36
2023	23	56	39	34
2024	22	53	40	34

Source: *Transparency International (2023, 2025). CPI scores range from 0 (most corrupt) to 100 (least corrupt).*

In summary, the CPI data reflects a widening governance gap among our case countries. Georgia appears to have maintained a relatively clean system (score >50) over ten years, Kazakhstan shows marked improvement (approaching 40), Turkey has significantly worsened (down to mid-30s), and Azerbaijan remains deeply troubled by corruption (low 20s).

These differences will influence and be influenced by the regulatory quality and rule of law outcomes, which we examine next. It is noteworthy that the rankings of these countries on CPI align with their general reputation: Georgia is often cited as a positive example in the post-Soviet space, Azerbaijan often cited as a negative example of entrenched kleptocracy, Turkey as a case of backsliding, and Kazakhstan as an intermediate achiever balancing reform and old practices. The ethical context set by these CPI scores forms the backdrop for how financial regulations are designed and enforced.

Regulatory quality and rule of law in governance

Moving from perceptions of corruption to the effectiveness of governance itself, we consider the Worldwide Governance Indicators for Regulatory Quality and Rule of Law. These indicators help gauge how well countries formulate and enforce rules – a core aspect of financial governance. Table 2 and Table 3 show the estimated scores for Regulatory Quality and Rule of Law, respectively, from 2015 through 2024 for the four countries. Recall that these WGI scores are on a scale roughly from –2.5 (very weak) to +2.5 (very strong), with 0 representing the global average. For emerging markets, scores are typically below zero, but the direction of change over time is telling.

Table 2

Regulatory quality index (WGI) in selected countries, 2015–2024

Year	Azerbaijan	Georgia	Kazakhstan	Turkey
2015	–0.6	0.6	–0.3	0.2
2016	–0.5	0.7	–0.2	0.1
2017	–0.3	0.8	–0.2	0.0
2018	–0.2	0.9	–0.15	–0.1
2019	–0.1	0.9	–0.1	–0.2
2020	0.0	1.0	–0.05	–0.3
2021	0.02	1.0	0.0	–0.4
2022	0.04	1.03	0.0	–0.5
2023	0.04	0.95	0.01	–0.5

2024	0.13	0.95	0.05	–0.4

Source: *World Bank Worldwide Governance Indicators (World Bank, 2023). Higher values indicate better regulatory quality.*

Table 3

Rule of law index (WGI) in selected countries, 2015–2024

Year	Azerbaijan	Georgia	Kazakhstan	Turkey
2015	–0.9	–0.2	–0.7	–0.2
2016	–0.8	–0.1	–0.6	–0.3
2017	–0.7	0.0	–0.6	–0.5
2018	–0.6	0.1	–0.5	–0.5
2019	–0.5	0.1	–0.5	–0.6
2020	–0.5	0.2	–0.4	–0.7
2021	–0.5	0.1	–0.4	–0.8
2022	–0.52	0.1	–0.3	–0.8
2023	–0.53	0.0	–0.27	–0.8
2024	–0.49	0.0	–0.25	–0.75

Source: *World Bank Worldwide Governance Indicators (World Bank, 2023). Higher values indicate stronger rule of law.*

The Regulatory Quality indicator (Table 2) measures the ability of the government to formulate and implement sound policies and regulations that support private sector development. Here we see a dramatic contrast between Georgia and the rest. Georgia's regulatory quality scores are exceptionally high for an emerging market – around +1.0 for much of the period. A score of +1 is roughly the 80th percentile worldwide, meaning Georgia's regulatory environment is comparable to some developed economies. In practical terms, this reflects Georgia's investor-friendly climate: regulations are relatively streamlined, business registration is easy, and there is less burdensome red tape. Indeed, for several years Georgia ranked in the top 10 of the World Bank's Doing Business rankings globally. The slight dip from 1.03 in 2022 to 0.95 in 2023 likely does not represent a significant policy reversal, but perhaps the effects of political uncertainty or minor policy slippages. Nonetheless, Georgia's regulatory institutions have proven to be among the most effective in the post-Soviet space. Agencies are generally competent and fairly transparent, and the country has consistently worked to adopt international best practices (for example, aligning financial regulations with EU standards under its association agreement). This high regulatory quality complements Georgia's good corruption score – together, they signal a well-governed market where rules are clear and fairly enforced, which is attractive for both domestic entrepreneurs and foreign investors. That said, one must not be overly complacent: sustaining such high standards requires ongoing commitment, and recent political polarization in Georgia could test the independence of regulatory bodies.

Azerbaijan's Regulatory Quality story is one of significant improvement. From a deeply negative score (–0.6 in 2015, indicating a rather poor regulatory climate) Azerbaijan climbs to a positive score of +0.13 by 2024. This upward shift aligns with known reform episodes. In the mid-2010s, Azerbaijan's government, facing an oil price shock and economic crisis, embarked on an agenda to improve the business environment. They cut numerous bureaucratic procedures, launched one-stop service centers (ASAN) to reduce petty corruption, and implemented some business law reforms. By 2019, Azerbaijan made a notable jump in the Doing Business rankings, at one point being listed among top global reformers (World Bank, 2019).

These efforts are reflected in the WGI regulatory quality moving above 0 (global average) around 2019–2020. For example, the elimination of dozens of licenses and permits and the simplification of customs clearance are policy changes that would boost perceptions of regulatory quality. The data shows the trend leveling off around 2021–2023, with a big leap to 0.13 in 2024. That final leap might correspond to recent digitalization measures and improved insolvency procedures, or it might indicate that the governance experts observed more effective implementation of earlier reforms by that time. It's worth noting that improved regulatory quality in Azerbaijan is somewhat at odds with its stagnant or worsening corruption scores. This suggests a duality: on one hand, the country has modernized many regulations (the "technical" side of governance), but on the other hand, the *application* of rules might still suffer from favoritism or informal influence (the ethical side). Such a scenario is plausible – one can cut red tape and still have high-level corruption. The Azerbaijani financial sector illustrates this: the central bank and financial regulators have introduced stricter rules (for example, on capital requirements or auditing standards) and closed some weak banks, improving regulatory metrics. Yet if politically connected institutions get exceptions or if rule of law is weak, the true governance isn't as rosy as the regulatory quality score alone implies. In essence, Azerbaijan's progress in regulatory quality is a positive sign that the government can enhance capacity and policy framework when incentivized (often by economic necessity), but bridging the gap between written rules and rule of law remains a challenge.

Kazakhstan shows a notable positive trend in Regulatory Quality, moving from approximately –0.3 in 2015 to +0.05 in 2024. By 2024 it has essentially reached the global average in regulatory governance. Like Azerbaijan, Kazakhstan undertook significant business environment reforms, especially under its "100 Concrete Steps" institutional reform plan announced in 2015. It simplified business start-up procedures, improved the process for obtaining construction permits, and strengthened protections for minority investors (Kazakhstan made a strong showing in Doing Business indicators related to these areas by 2020).

The WGI data indicates a continuous, if incremental, improvement. By 2023–2024 Kazakhstan's regulatory quality is slightly above zero, reflecting a middling performance worldwide – not outstanding, but no longer poor. This suggests that the country's regulatory agencies and policy design have become more competent and attuned to market needs. For example, the creation of the Astana International Financial Centre (AIFC) with its own English-language commercial court and regulations was an innovative step to boost regulatory credibility for financial markets. However, much of Kazakhstan's economy is still influenced by state-owned enterprises and quasi-sovereign holding companies, which can sometimes blur the clarity of regulation. Still, a positive regulatory quality score indicates that, on average, policies in Kazakhstan do encourage private sector growth and the regulatory burden is not excessively heavy compared to global norms. Its percentile rank (around 53% in 2023) places it ahead of many peers in Central Asia and indicates that investors might find a reasonably predictable policy environment. One interesting observation is that Kazakhstan's improvement in regulatory quality outpaced its improvement in corruption control – similar to Azerbaijan, albeit at higher levels. This implies that while Kazakh regulators have gotten better at crafting rules, ensuring those rules are enforced equally (without corruption) is a separate battle. In practice, foreign businesses in Kazakhstan often praise the country's business-friendly laws but complain about inconsistent enforcement or advantages enjoyed by insiders – which mirrors this divergence between regulatory quality and rule of law.

Turkey's Regulatory Quality trajectory is unfortunately downward, reflecting its broader political-economic changes. In 2015 Turkey was slightly above the global average (score ~0.2), consistent with its status then as a converging emerging market with aspirations of EU accession (which required adopting EU-aligned regulations). Over time, especially after 2016, Turkey's score falls into negative territory, hitting around –0.5 by 2022 before a modest uptick to –0.4 in 2024. The decline in Turkey's regulatory quality corresponds with the consolidation of power by the executive and a shift away from technocratic policymaking. Businesses in Turkey have observed an unpredictable regulatory environment in recent years – sudden changes in rules, ad-hoc interventions (for instance, foreign exchange controls, unorthodox monetary policies, or abrupt changes in trade policy). The undermining of independent regulators is a key factor. For example, Turkey's Banking Regulation and Supervision Agency (BRSA), once considered relatively autonomous, has faced political pressure. The same is true for energy and competition regulators. This leads to regulations that sometimes favor political objectives over market logic, dragging down perceived regulatory quality. The slight recovery in 2024 to –0.4 might be due to efforts to stabilize policy after economic turmoil (perhaps the appointment of more orthodox economic officials in mid-2023 signaled an improvement in policy formulation). Still, Turkey's score indicates a below-average regulatory environment. For the financial sector, this has manifested in episodes like the 2018 currency crisis, where non-market measures were imposed (such as limits on swaps) that, while temporarily calming markets, hurt Turkey's reputation for consistent rule-setting. Investors increasingly see Turkish regulation as somewhat capricious. This is a stark change from a decade prior when Turkey was often cited alongside EU countries for its regulatory frameworks in banking and corporate governance. The data underscores how closely tied regulatory quality is to the overall governance climate: as Turkey's politics took an illiberal turn, the quality of economic governance suffered in tandem (IMF, 2019).

Turning to the Rule of Law indicator (Table 3), which measures confidence in and adherence to the legal system, we see a pattern that complements the corruption data. Here, Georgia manages to reach around 0.1 at best (slightly above zero in 2018–2020) but then slips back to 0.0 by 2023–2024. Georgia's near-zero score means it is roughly at the global median in terms of rule of law – not bad for an emerging market, but not as stellar as its regulatory quality. This aligns with qualitative assessments that while Georgia drastically reduced low-level corruption and improved public services, its judiciary and law enforcement reforms have lagged. There are ongoing concerns about political interference in courts or selective justice in Georgia, which prevent it from achieving higher rule of law scores. The small decline after 2020 might be due to high-profile events that dented judicial independence (for example, controversies over supreme court appointments or prosecutions of opposition figures). Nevertheless, Georgia's maintenance of a non-negative rule of law score is commendable in a region where many countries score deeply negative. It indicates that on the whole, property rights are respected and contracts are usually enforceable. This has positive implications for financial governance: banks and investors can rely on the courts to a reasonable extent in Georgia, which facilitates lending and investment. For instance, Georgia ranks relatively well on indices of contract enforcement and insolvency resolution, reflecting its decent rule of law performance. The challenge for Georgia will be to further insulate its legal institutions from political swings to move into positive territory consistently, which is often a slower process than regulatory reforms.

Azerbaijan's rule of law score remains deeply negative throughout, improving only marginally from – 0.9 to about –0.5 over ten years. A score of –0.5 is still very low (around the 10th–15th percentile globally). This persistent weakness in rule of law aligns with Azerbaijan's entrenched problems of judicial dependence, lack of transparency, and human rights issues. Contracts in Azerbaijan can be difficult to enforce if a powerful party is involved, and businesses often prefer arbitration outside the country for dispute resolution. The slight improvement by 2024 could be attributed to reforms like the establishment of commercial courts or measures to improve legal procedures on paper, but clearly the fundamental nature of the regime (authoritarian, patronage-based) limits genuine rule of law. Notably, Azerbaijan's improvement in regulatory quality did not translate into a comparable jump in rule of law – on the contrary, its control of corruption worsened as we saw. This combination – better regulatory frameworks, weak rule of law – suggests a scenario where laws and regulations exist but are applied arbitrarily or selectively. For financial governance, this is problematic: it means that even if banking regulations meet international standards, a politically connected bank might evade sanctions for violations, or an investor might lose assets via legal machinations. In fact, Azerbaijan's banking sector experienced a crisis in 2016 where several banks collapsed; observers partly blamed poor enforcement of prudential rules and insider lending (i.e. rule of law failures in finance). The government responded by tightening some rules (hence regulatory score up), but without independent courts or regulators, enforcement remains questionable. The rule of law deficit also underlies Azerbaijan's corruption problem – officials are not held accountable, and whistleblowers or journalists who expose wrongdoing face persecution rather than protection, as highlighted by incidents like the arrest of economist Gubad Ibadoghlu in 2023 on dubious charges. Therefore, despite some modernization, Azerbaijan's financial governance will remain fundamentally insecure to investors until the rule of law significantly strengthens.

Kazakhstan's rule of law score, while negative, shows clear improvement from around –0.7 to –0.25. This mirrors Kazakhstan's anti-corruption and judicial reforms, which, though incomplete, have made some headway. By the mid-2020s, Kazakhstan introduced mandatory asset declarations for public officials, established specialized commercial courts, and invited international experts (for example, the AIFC court is staffed with British judges) to bolster legal credibility.

The score of –0.25 in 2024 indicates Kazakhstan is closing in on the world average in rule of law, although it's not there yet. It ranks better than Azerbaijan and perhaps even Turkey in recent years on this metric. However, significant issues remain: property rights can be insecure if politically sensitive (as seen in past expropriations in the oil sector), and the ruling elite's influence can overshadow legal proceedings. The progress so far suggests an intent to create a more reliable legal environment for business – likely driven by the leadership's goal of attracting foreign investment and diversifying the economy.

For example, Kazakhstan's improvements in insolvency law and minority investor protections were reflected in higher Doing Business scores, aligning with better rule-of-law practices in commercial matters. Still, entrenched patronage and occasional misuse of law for political ends (e.g., harassment of opposition or activist figures) keep the index below zero. In terms of financial governance, improved rule of law in Kazakhstan has likely contributed to a more robust banking sector than a decade ago – non-performing loans are dealt with more systematically now and the National Bank has closed some weak banks without political interference. The continuing challenge is ensuring neutrality of the courts in conflicts involving state-owned enterprises or influential business groups. The rule of law index suggests Kazakhstan is on a positive trajectory, but further reforms will be needed to sustain investor confidence, especially as it aims to become a regional financial hub.

Turkey's rule of law index illustrates a steep decline, dropping from around –0.2 (not far from zero) in 2015 to about –0.8 by 2021–2022, with a slight uptick to –0.75 in 2024. This decline corresponds with the erosion of judicial independence and the concentration of power after Turkey's 2017 constitutional changes which created an executive presidency. The aftermath of the 2016 attempted coup saw purges of judges and police, and the government gained tight control over the appointment of judiciary members. The effect was a clear loss of confidence in the rule of law. Turkey's current score near –0.8 puts it in a worrying position globally – similar to countries known for weak institutions.

The business community in Turkey has voiced concerns that courts cannot be relied upon to impartially adjudicate disputes, especially if one party has political connections. High-profile instances, such as the takeover of certain companies by government-appointed trustees or legal actions against critics, send negative signals. Contracts, especially involving foreign investors, are now sometimes written with arbitration clauses to avoid Turkish courts, which is telling.

The small improvement by 2024 might hint at attempts to slightly mend international relations and credibility (for example, moves in 2023 to adhere to some rule-of-law norms under economic pressure). Nonetheless, reversing the damage to institutions will likely be a long process. For financial governance, Turkey's weakened rule of law has multiple implications: it undermines central bank independence (the perception that rule of law is low correlates with the perception that monetary and regulatory authorities are not free from political dictates), it discourages long-term investment (investors fear sudden legal or regulatory changes), and it has led to Turkey's removal or suspension from some international forums that require strong institutional benchmarks. Indeed, Turkey's credit ratings and risk premiums worsened over this period, partly reflecting institutional concerns alongside macroeconomic issues.

In summary, Turkey's decline in rule of law is a cautionary tale that even an economy with a sophisticated financial sector can regress if broader governance falters. This reinforces the understanding that ethics, rule of law, and effective regulation are intertwined – a country cannot sustain advanced financial governance on a brittle institutional foundation (Shleifer & Vishny, 1997; La Porta et al., 1998).

Combining insights from Tables 2 and 3, we observe that Georgia manages relatively high regulatory quality and moderate rule of law – a combination conducive to robust financial governance. Kazakhstan shows moderate regulatory quality and improving rule of law, indicating a positive, though incomplete, trajectory.

Azerbaijan achieves moderate regulatory quality on paper but remains hamstrung by weak rule of law, a dichotomy that could limit the practical impact of its reforms. Turkey illustrates the reverse of Georgia: its formerly decent regulatory apparatus has been undermined by a drastic decline in rule of law, eroding what was once a comparatively strong governance environment among emerging markets. These findings echo the literature that true financial governance strength requires both competent regulations and honest, impartial enforcement (Gelos & Elekdag, 2016; Prasad, 2010). Where one side of that equation is missing, the system is vulnerable.

Financial Sector Regulation and Freedom

The final dimension of our analysis considers the extent of financial sector liberalization and government intervention, as captured by the financial freedom index from the Heritage Foundation. While not a direct measure of governance quality, this index provides context on how restrictive or open each country's financial regulations are.

A higher score (closer to 100) implies fewer barriers to financial services, less state ownership of banks, and a more market-driven system, whereas a lower score indicates heavy state involvement or repression of the financial sector (Heritage Foundation, 2025).

Table 4 presents the financial freedom scores for the four countries in 2015 and 2024, illustrating changes over the decade.

Table 4

Financial freedom index (Heritage Foundation) – 2015 vs 2024

Country	2015 Score	2024 Score
Azerbaijan	50	60
Georgia	50	60
Kazakhstan	40	50
Turkey	60	60

Source: *Heritage Foundation (2015, 2025). Scores range 0–100 (higher = more financial freedom). 2015 data from Heritage Index 2016 report; 2024 data from 2025 report.*

In 2015, Azerbaijan and Georgia both had a financial freedom score of around 50, indicating a moderately free financial sector with some significant government influence. By 2024, both countries' scores had risen to 60, suggesting notable liberalization. For Azerbaijan, the increase reflects a series of banking sector reforms. Around 2015–2016 Azerbaijan faced a banking crisis and responded by restructuring the sector: several weaker banks (including the large state-owned International Bank of Azerbaijan) were cleaned up or privatized, and regulations were aligned closer to international standards. The government also eased some controls, for instance by allowing more foreign banks to operate and by improving the legal framework for credit information. The move from 50 to 60 implies that Azerbaijan's banking system became less dominated by the state and more competitive. However, a score of 60 still flags that the state retains a role – indeed, the government continues to direct credit to priority sectors through state agencies and holds significant sway over banks' lending decisions indirectly. Moreover, while formal restrictions may have diminished, the effective freedom can be hampered by the governance issues we discussed (rule of law, etc.). Nonetheless, this increase aligns with the narrative of Azerbaijan trying to modernize its financial sector in tandem with other economic reforms, especially after the oil shock.

Georgia's financial freedom score of 60 in 2024 demonstrates that it also improved, although Georgia's financial sector was already relatively open by 2015. Georgia privatized its banks in the

1990s and early 2000s, and by 2015 it had a largely foreign-owned banking sector with minimal state intervention. Its score of 50 in 2015 may have been affected by the small size of the sector and the legacy issues. Climbing to 60 by 2024 indicates further strengthening of financial infrastructure – for example, Georgia implemented a new insolvency law, improved its securities market regulation, and fostered competition in banking (there are several significant private banks and no state banks now). Additionally, Georgia has no capital controls and fairly easy repatriation of profits, contributing to a freer financial environment. The improvement might also reflect better credit bureaus and collateral systems introduced in that period. Essentially, Georgia's financial system is one of the freest in the region – a factor that, combined with strong regulatory quality, has led to high financial inclusion and a robust banking sector relative to its GDP. The Heritage index's components for Georgia note efficient banking and relatively low interference, which is consistent with the country's pro-business stance.

Kazakhstan started from a lower base: a score of 40 in 2015 signals substantial state presence or heavy regulation in finance. This was indeed the case – Kazakhstan had (and still has) major state-owned players in banking and development finance, and historically it maintained more restrictions on capital flows. By 2024, the score rose to 50, reflecting partial liberalization. Over the decade, Kazakhstan privatized some banks, improved its monetary policy framework (moving to inflation targeting and a freer exchange rate by 2015-2016), and eased certain controls. The establishment of the Astana International Financial Centre, which operates under English law and allows freer movement of capital for participants, is an example of increasing financial openness. The government also reduced directed lending programs after they led to inefficiencies – though it still has some, like subsidized loans for SMEs or agriculture through state institutions. A score of 50 indicates the financial sector remains only "moderately free." The state's sovereign wealth fund (Samruk-Kazyna) still owns stakes in banks, and the government exerts influence through regulatory decisions. Additionally, the banking system's health issues over the last decade led to interventions like bailouts, which can lower the perception of freedom as the state has had to step in frequently. The improvement in score is encouraging, though: it suggests Kazakhstan is moving toward a more market-oriented financial sector gradually, complementing its better governance. A more open financial system can encourage foreign bank entry and more innovation, which Kazakhstan has been cautiously welcoming (some Chinese and Gulf banks have entered, and fintech is developing under new regulations).

Turkey's financial freedom score remained at 60 throughout the period, indicating no net change. Turkey traditionally has a quite liberal financial sector – it underwent major banking reforms in the early 2000s after its 2001 banking crisis, resulting in strong independent regulators and open markets. By 2015, virtually all banks in Turkey were private (apart from a few state-owned commercial banks, which operate commercially) and foreign banks had a presence. Capital flows were mostly unrestricted. The score of 60 reflects a reasonably free system but not without some government footprint – Turkey's state banks (like Ziraat Bank) are significant, and occasionally the government has used them to pump-credit for stimulus, which counts against full financial freedom. The fact that the score did not change by 2024 suggests that, on paper, Turkey did not impose new permanent restrictions on the sector. However, this can be a bit misleading in context: during times of market stress (2018, 2020, 2021 currency crises), the Turkish authorities took various ad-hoc measures (such as limits on forex swaps, high reserve requirements, and informally guiding banks on lending rates). These measures might not be fully reflected in the Heritage scoring if they were temporary or if Turkey's overall framework remained nominally free. But qualitatively, we know that the Turkish financial system in practice faced increasing state intervention in recent years. The central bank's policy was heavily influenced by political decisions, and state-owned banks shouldered quasi-fiscal burdens like lending at below-market rates to support credit growth. So, while the score is stable at 60, the reality might be that Turkey's financial freedom *decreased* somewhat, but perhaps not enough to drop it to the next category in Heritage's view. By comparison, a score of 60 is still fairly high – it indicates that private banks compete (which they do), foreign currency is generally accessible (Turks can hold forex deposits freely, for instance), and there's a variety of financial services. The concern is more about the backsliding in governance around this freedom: without strong rule of law, as we saw, the freedom can be abused or lead to instability (for example, credit booms and busts in Turkey's case).

Interpreting these financial freedom results in conjunction with governance indicators yields interesting insights. Georgia and Azerbaijan, despite very different corruption scores, ended up with identical financial freedom scores (60). This suggests that even a country with high corruption (Azerbaijan) can liberalize its financial sector structure to a similar degree as a cleaner country (Georgia). In Azerbaijan, this may reflect deliberate efforts to attract investment by appearing modern and open in finance, even if underlying governance is weak. For instance, Azerbaijan opened several financial hubs like the Baku International Finance Centre concept, though they haven't fully materialized. However, the true effectiveness of financial liberalization in Azerbaijan is questionable given its rule of law issues – investors might be free to operate, but they take on higher risk of legal troubles or corruption, which can negate some benefits of that freedom.

For Georgia, strong governance and increased financial freedom work together positively – its banks have thrived and are considered well-regulated yet competitive. In Kazakhstan, moderate governance improvements plus moderate liberalization hint at a cautious but forward-moving strategy; it is likely to continue gradually reducing the state's role while trying to bolster regulations, as it has done by adopting international banking standards and inviting foreign participation (for example, Chinese banks investing in Kazakh banks).

Turkey shows that having a historically free financial sector is not a safeguard against governance erosion. Turkey's private banks remain competent and its financial markets deep for an emerging economy, but the overall financial governance has weakened due to political interference and economic mismanagement. One could argue Turkey is still benefiting from the inertia of past liberalization – if it were to impose strict capital controls or nationalize banks, the score would drop – but it hasn't crossed those lines, preferring stealthier interventions.

In essence, financial freedom is a necessary but not sufficient condition for good financial governance. A country may liberalize (score high) but if it lacks ethics and rule of law, the financial sector can misallocate resources or implode in crisis. Conversely, a country with somewhat less "free" finances (e.g., Kazakhstan at 50) might do okay if governance is improving and the state uses its role constructively (for instance, by guiding credit to productive uses without crowding out private initiative). The balance between state oversight and market freedom must be managed carefully in emerging markets – too much state control stifles growth and invites corruption, too little control without good governance can lead to instability and abuse.

Our analysis across Tables 1–4 suggests that Georgia strikes a relatively good balance: high regulatory quality, reasonable rule of law, low corruption, and a fairly free financial sector, all of which have made it a regional financial services hub and kept its banking system stable and growing. Azerbaijan, despite improvements in regulatory framework and liberalization, is undermined by severe corruption and weak law enforcement – indicating a risk that reforms may not achieve desired outcomes unless governance improves in substance (not just form). Kazakhstan shows promise as it strengthens institutions and opens up: it could evolve similarly to, say, Eastern European countries if it continues its trajectory. Turkey serves as a warning that governance slippage can quickly erode prior achievements; its financial sector freedom and past reforms mitigated some damage, but continued deterioration in rule of law could eventually force heavier-handed controls, which would be detrimental.

In conclusion, the results paint a nuanced picture. Emerging markets are not homogeneous: some have made impressive gains in governance and ethics (e.g., Georgia in curbing corruption, Kazakhstan in regulatory capacity), while others have stagnated or worsened (Azerbaijan in corruption, Turkey in institutional independence). These governance outcomes directly impact financial regulation effectiveness and ethical conduct within financial systems. The resilience of banks, the confidence of investors, and the integrity of financial transactions all hinge on the quality of governance. The data supports the argument that good governance (both in technical regulation and ethical rule of law) enhances financial stability and development. Countries with stronger governance frameworks were more resilient during global shocks (Gelos & Elekdag, 2016 found that firms in emerging markets with better governance suffered smaller declines in equity value in turbulent times). Our findings echo that: Georgia and Kazakhstan weathered recent financial volatility relatively well, whereas Azerbaijan had a banking crisis and Turkey a currency crisis, both exacerbated by governance weaknesses.

Finally, these results underline that improving financial governance in emerging markets is a multifaceted endeavor. It requires political will to tackle corruption, capacity-building to improve regulatory quality, and often cultural changes to uphold the rule of law. External anchors (such as EU integration for Georgia, or IMF programs for others) can provide impetus, but domestic commitment is key. In the next section, we will conclude by summarizing the new insights gained and discussing their theoretical and practical implications – essentially, how these comparative observations contribute to our understanding of financial governance in emerging markets and what they suggest for policymakers and stakeholders aiming to foster ethical, well-regulated financial systems.

CONCLUSION

This comparative analysis of financial governance, ethics, and regulation in four emerging market environments – Azerbaijan, Georgia, Kazakhstan, and Turkey – yields several notable findings and insights. We observe that the trajectories of governance and ethical standards in these countries have diverged significantly over the last decade, and these differences carry important theoretical and practical implications.

One key result is the strong performance of Georgia in both regulatory effectiveness and corruption control relative to its peers. Georgia's sustained high Regulatory Quality (around the 80th percentile worldwide) alongside a moderately positive Rule of Law showcases that an emerging market can, through comprehensive reforms, approach governance standards of more developed economies. This supports theories that emphasize institutional design and political will as drivers of governance (La Porta et al., 1998). Georgia's case aligns with the notion that good governance is achievable and not purely a function of income level or cultural legacy – a point often debated in development literature. It lends credence to arguments that policy choices and anti-corruption measures can yield substantial improvements in a relatively short time, validating modernization theories and providing a counter-example to deterministic views that posit post-Soviet or low-income countries are fated to have poor governance. In contrast, Azerbaijan's experience highlights a scenario where reforms in form did not fully translate to reforms in function. Despite adopting more modern regulations and nominally liberalizing its financial sector, Azerbaijan remains mired in corruption and weak rule of law. The theoretical implication here is that partial reforms that alter laws without improving enforcement or accountability may have limited impact. This resonates with the concept of "isomorphic mimicry" in institutional theory – when countries adopt the outward appearance of best practices without the internal norms that make them effective. Azerbaijan's governance regime can be seen as a case where entrenched elite interests have co-opted reforms enough to prevent them from threatening the status quo, supporting theories by Acemoglu and Robinson on how elites might allow certain economic changes while blocking political/institutional changes that would undermine their rent-seeking (Acemoglu & Robinson, 2006). It underscores that fighting corruption and improving ethics require more than new agencies or laws; it needs genuine commitment to transparency, independent judiciaries, and empowered civil society – elements that were absent or suppressed in Azerbaijan. Kazakhstan provides an intermediate model: a gradual, state-led approach to improving governance. Its improvements in corruption indices and governance scores suggest that incremental change under an authoritarian framework is possible, albeit slower and perhaps fragile. The theoretical take-away is nuanced – it suggests that even without full democratization, a government can professionalize its bureaucracy and judiciary to an extent (Prasad, 2010). However, whether these gains endure through political transitions is an open question (as of late 2022, Kazakhstan has seen some power shifts and civic unrest). The Kazakh model supports a strand of thought in political economy that meritocratic governance reforms can be introduced top-down if the leadership sees value in them for economic performance or legitimacy. This is consistent with Singapore or UAE analogies on a far smaller scale. Yet, Kazakhstan's continued relatively low rule of law score reminds us that top-down reform has limits – without external accountability or pluralism, certain aspects of governance (like fully independent courts or media freedom) may not materialize, potentially capping the country's governance quality below that of a liberal democracy.

Turkey's backslide in governance and ethics offers a sobering theoretical insight: institutions are reversible, and emerging markets can regress if political incentives change. Over the 2000s, Turkey was often cited in academic literature as evidence that a Muslim-majority emerging economy could combine democracy, growth, and improving governance – challenging cultural determinism and inspiring "Turkish model" discussions. The 2010s regression, with rising corruption and weakened rule of law, suggests that such gains are not irreversible and heavily depend on maintaining checks and balances. It aligns with theories that emphasize the role of leadership and political competition in sustaining institutions. Once Turkey's leadership consolidated power and faced less electoral constraint, governance suffered – illustrating Olson's theory of roving vs. stationary bandits in a modern context, or North's emphasis on open-access orders. Turkey thus provides a cautionary example for theories of institutional change: it shows that even relatively deep-rooted reforms (like Turkey's early 2000s banking overhaul under an IMF program) can be eroded if the political equilibrium shifts. For scholars, this case reinforces the importance of political inclusivity and rule-of-law culture over mere legal texts.

Across all cases, a major finding is that financial sector outcomes (stability, investor confidence, etc.) track closely with governance indicators. Georgia and Kazakhstan, which showed better governance trends, have not experienced major financial crises in recent years and have seen rising investment. Azerbaijan and Turkey, with worse governance trajectories, have faced serious financial turmoil (bank failures in Azerbaijan, currency crises in Turkey). This correlation supports a growing body of empirical research linking good governance to financial stability (Gelos & Elekdag, 2016; IMF, 2016). It adds weight to the argument that corporate governance and country-level governance frameworks are vital for preventing boom-bust cycles and for withstanding external shocks. Our results hence contribute to the literature by providing concrete, comparative evidence from a set of emerging markets that improvements in governance and ethics are accompanied by tangible benefits in financial governance – such as more robust regulatory enforcement, improved creditworthiness, and resilience against global financial volatility.

For Kazakhstan's policymakers, our analysis encourages sustaining the reform momentum: the improvements are paying off in terms of perception and should translate into economic gains, as seen by its climbing CPI and WGI scores which likely contributed to an upgrade in investor sentiment (Kazakhstan's Eurobond ratings and interest spreads have generally been favorable compared to peers with similar income, arguably due to better governance expectations). The challenge will be ensuring these reforms survive leadership changes and do not remain personality-dependent. It might be practical to institutionalize changes – for example, granting legal autonomy to the Anti-Corruption Agency or ensuring transparent selection of judges – to lock in gains.

Georgia's experience holds lessons for many developing countries: with sustained commitment, even a relatively small and once highly corrupt nation can transform its governance landscape within a generation. Georgia's government leveraged e-governance, public service reform, and zero-tolerance on petty bribery to alter norms. Other countries in similar contexts (e.g., Ukraine, Armenia, or nations outside the region) can draw on Georgia's toolkit. The practical takeaway is that reform packages should be comprehensive – Georgia simultaneously reformed the police, tax collection, business licensing, and judicial processes in mid-2000s – creating a virtuous cycle of integrity. Partial reforms in isolation are more likely to be undermined by remaining corrupt elements.

For Turkey, the practical message is one of damage control and potential restoration. If Turkey wishes to regain investor trust and restore financial stability, it will need to bolster rule of law and autonomy of institutions. This could involve reversing some political interventions: for instance, re-empowering the central bank to fight inflation without interference, strengthening the banking regulator's independence, and ensuring corruption allegations are investigated impartially. In the short run, technical adjustments (like raising interest rates or tightening regulation) can patch economic issues, but without governance improvements, vulnerabilities persist. Turkish business associations and civil society could use the evidence of the past decade's negative outcomes to advocate for governance reforms, arguing (rightly) that the country's economic woes are partly rooted in institutional decline.

To conclude, the study demonstrates that financial governance in emerging markets cannot be divorced from general governance and ethical context. The experiences of Azerbaijan, Georgia, Kazakhstan, and Turkey illustrate that strong financial regulation and ethical practices flourish in an environment of transparency, accountability, and rule of law. Countries that have embraced those principles are reaping benefits in terms of stability and growth, whereas those neglecting them face recurrent crises and lost potential. The theoretical contributions of these cases align with and enrich the existing literature on the vital role of institutions in development. Practically, the findings encourage policymakers to view anti-corruption efforts and regulatory reforms not as separate silos but as complementary facets of building a sound, trustworthy financial system.

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Ə.R.Ağazadə

magistrant, Azərbaycan Dövlət İqtisad Universiteti

Maliyyə idarəetməsi, etika və tənzimləmə inkişaf etməkdə olan bazar mühitlərində

Xülasə

İnkişaf etməkdə olan bazar iqtisadiyyatlarında maliyyə idarəetməsi və etika sahəsindəki problemlər – zəif tənzimləyici institutlar və geniş yayılmış korrupsiya – aktuallığını qoruyur. Bu tədqiqat son onillikdə bəzi inkişaf etməkdə olan ölkələrdə idarəetmə keyfiyyəti, etik standartlar və maliyyə tənzimlənməsinin necə dəyişdiyini araşdırır. Ədəbiyyat icmalı göstərir ki, zəif idarəetmə və korrupsiya maliyyə dayanıqlığını və iqtisadi artımı zəiflədə bilər. Azərbaycanda, Gürcüstanda, Qazaxıstanda və Türkiyədə indikatorlar əsasında aparılan müqayisəli təhlil (məsələn, Korrupsiya Qavrayış İndeksi, Dünya Bankının İdarəetmə Göstəriciləri və maliyyə azadlığı indeksi) müxtəlif trayektoriyalar üzə çıxarır. Nəticələr göstərir ki, Gürcüstan güclü tənzimləyici keyfiyyəti və korrupsiyaya qarşı göstəriciləri qoruyub saxladığı halda, Azərbaycan və Türkiyədə etik idarəetmə sahəsində problemlər qalır, baxmayaraq ki, bəzi tənzimləyici islahatlar aparılıb. Qazaxıstanda isə son dövrdə nəzarət və dürüstlük meyarları tədricən yaxşılaşıb. Müşahidələr onu deməyə əsas verir ki, güclü korporativ idarəetmə çərçivələri və tənzimləyici institutlar daha yüksək maliyyə dayanıqlığı və investor etimadı ilə əlaqəlidir. Məqalədə inkişaf etməkdə olan ölkələrdə idarəetmənin nəzəri izahı və bu iqtisadiyyatlarda etik standartları və tənzimləmə səmərəliliyini artırmaq üçün praktik siyasət tədbirləri müzakirə olunur.

Açar sözlər: *inkişaf etməkdə olan bazarlar; maliyyə idarəetməsi; korrupsiya; tənzimləyici keyfiyyət; korporativ etika.*