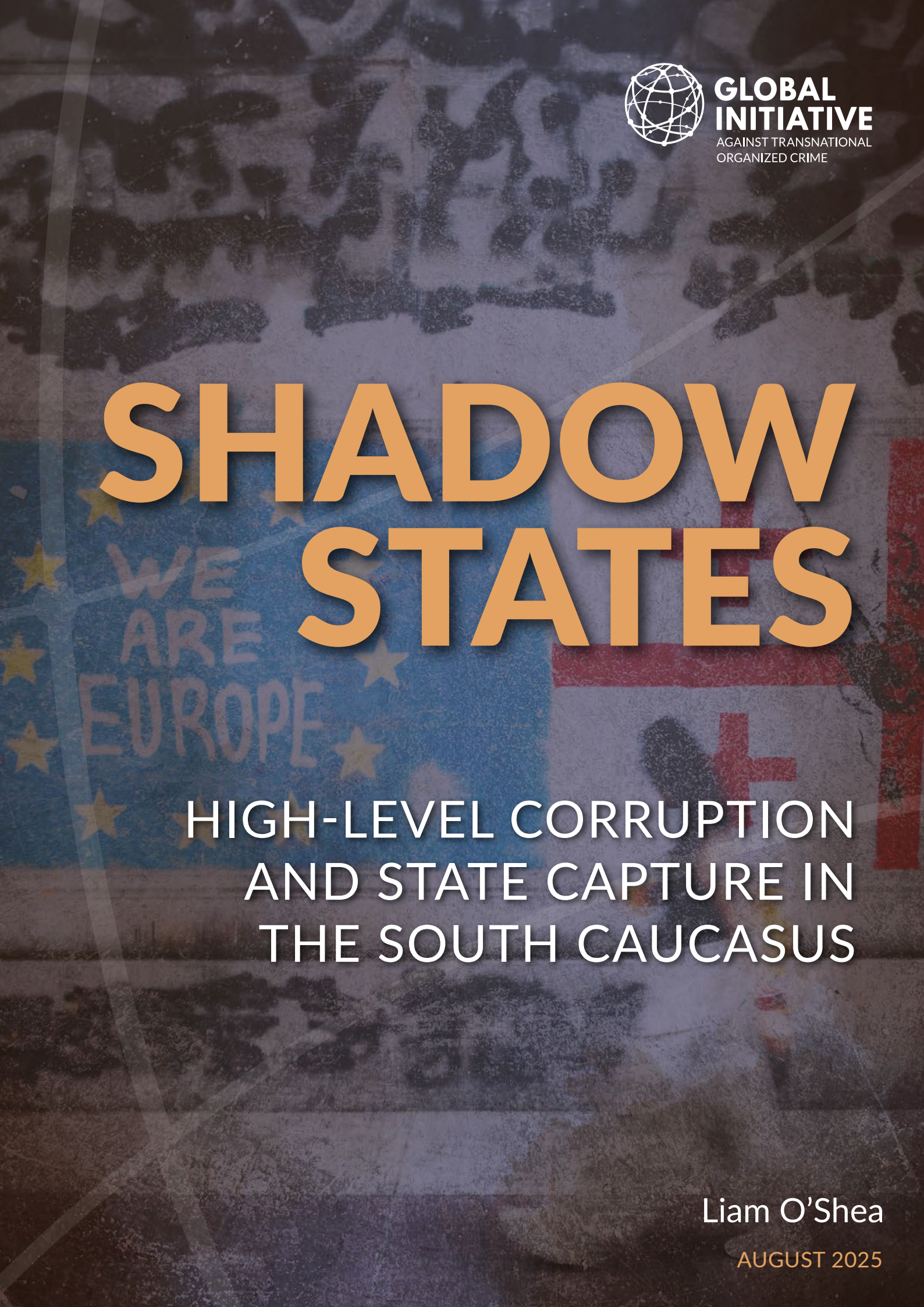

GLOBAL INITIATIVE
AGAINST TRANSNATIONAL ORGANIZED CRIME

SHADOW STATES

HIGH-LEVEL CORRUPTION AND STATE CAPTURE IN THE SOUTH CAUCASUS

Liam O'Shea

AUGUST 2025

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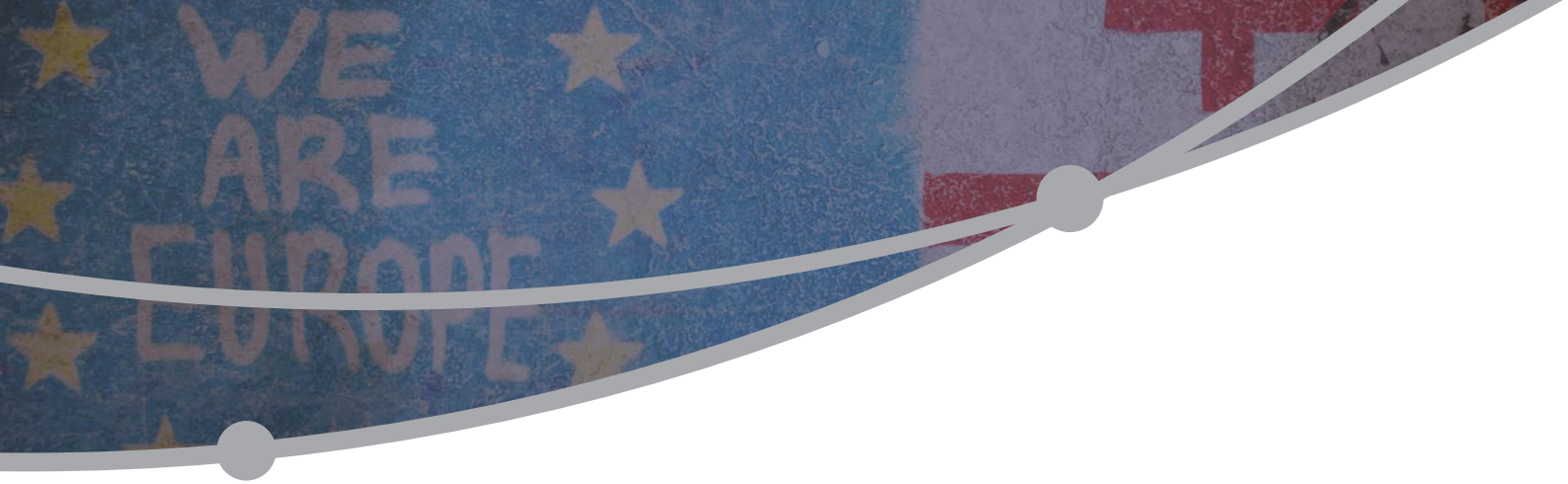


EXECUTIVE SUMMARY

Over the last 35 years, the South Caucasus has witnessed a series of profound economic and geopolitical developments that have transformed the region. But beneath these upheavals, certain systems of governance have persisted, cultivating high-level corruption, organized crime and state capture.

Ordinary people and elite figures alike seek the protection of deeply entrenched political and economic networks that operate across the former Soviet world. Informal governance dominates the region, with formal institutions and decisions subverted to the interests of a political and business elite. This creates a space where licit and illicit activities intersect and the boundaries between state, business and criminal activity are blurred.[1] For organized crime and corruption, the opportunities are many and the constraints are few.

Waning Western influence and deepening ties with autocratic states have halted the development of effective constraints on illicit activity. Regional conflicts have created new avenues for organized crime and other forms of illicit activity (e.g. sanctions evasion), dissuading domestic leaders from improving governance and allowing them to use nationalistic rhetoric to divert public attention from corrupt practices. The declining influence of Euro-Atlantic countries has reduced the pressure for reform, while the growing influence of Azerbaijan, Türkiye and Russia continues to push the South Caucasian republics closer to illiberal regimes, with few constraints on corruption and organized crime.[2] Even where geopolitical alignments have shifted, there is a high degree of underlying economic integration with illiberal countries (particularly in the form of sanctions evasion since 2022), which has created sprawling networks that extend well beyond the political elite.

Historic governance practices, geopolitics and domestic politics have combined in different ways in each country, creating varying levels of corruption and state capture.

This report examines how informal governance enables and shapes different forms of corruption across the South Caucasus. It distinguishes between three levels of corruption, each reflecting various degrees of institutionalization. Petty corruption involves routine bribery and small-scale abuse of public office, typically at the point of service delivery. High-level corruption refers to the manipulation of laws, policies and regulatory frameworks by political and economic elites to advance specific interests. State capture[3] refers to the systematic subordination of formal institutions to informal networks, enabling elites to shape rules and resources for private gain while maintaining a facade of legitimacy.[4]

Citizens gather in protest in Tbilisi, Georgia, following the government's announcement to halt the country's EU accession negotiations. *© Sebastien Canaud/NurPhoto via Getty Images*

Azerbaijan is a prime example of consolidated state capture, where the Aliyev and Pashayev families have constructed a sophisticated system that combines formal institutional power with informal networks that extend across both public and private sectors. Cases of high-level corruption uncovered by investigative journalists have shown how the intricate system operates, with complex schemes involving offshore companies, strategic control of the banking sector and manipulation of public procurement processes.[5]

Georgia's trajectory over the last decade has shown how quickly progress in tackling corruption can be reversed as formal institutions have been undermined by increasingly autocratic styles of governance. Since the election of the Georgian Dream party in 2012, founder Bidzina Ivanishvili and his network have developed increasingly sophisticated methods of state capture, structured around Ivanishvili's vast wealth and informal control mechanisms. High-level corruption is endemic. The regime has manipulated elections, possibly with support from organized criminals, and the political elite has co-opted formal institutions and key economic sectors by manipulating procurement processes and state resources.[6]

At the surface level, Armenia appears to be transitioning away from an oligarchic system to governing in the public interest. Reforms introduced in 2018 have had some success in reducing petty corruption but domestic political constraints and continued economic dependency on Russia have ensured that they can only go so far. Frequent alleged cases of corruption among figures close to the government and questionable criminal investigations and prosecutions of opposition politicians also raise serious questions about the government's interest in systemic change.

The scale of corruption in the South Caucasus, and the persistence of governance structures that sustain it, suggest that there are deep barriers to reform. A broad swathe of political and economic figures profit from these systems, which are bolstered by economic ties with authoritarian countries and their respective elites. Institutional changes alone are insufficient to address the underlying pattern of informal governance that enables systemic corruption. The first step is to appreciate how these deeply entrenched patterns create opportunities for corruption and undermine constraints.

Methodology

Measuring corruption presents significant methodological challenges and requires a multi-layered analytical approach. For petty corruption, the report draws on perception and experience-based survey data, including Transparency International's Corruption Perceptions Index and other relevant indices. High-level corruption is assessed through the triangulation of multiple data sources: specific cases documented by investigative journalism and civil society reports, audit trails of suspicious transactions and allocations of state funding that suggest a bias toward particular interests. The same methodology helps identify where corruption and organized crime intersect, particularly where state actors provide protection for illicit activities.

State capture is identified using a framework that examines:

- The structure and operation of elite networks, including their economic interests and political connections
- The mechanisms through which informal power is exercised, from strategic appointments to selective law enforcement
- The relationship between formal institutions and informal practices, particularly in resource allocation
- The persistence and adaptation of these networks and their links to criminal markets

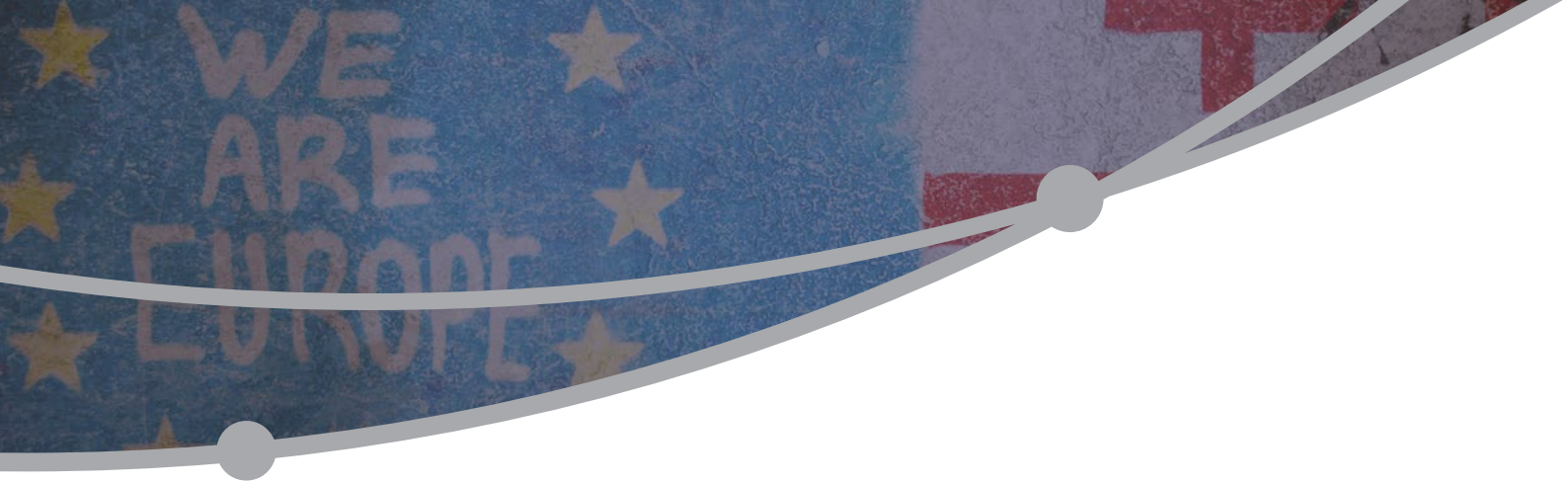
Research was conducted between September 2024 and March 2025, combining desk research (academic literature, corruption and governance indicators, international trade data, and grey literature from NGOs and media sources) with fieldwork in Armenia and Georgia in January 2025 (in-depth interviews with civil society representatives, investigative journalists, academics and Western diplomatic personnel). Authoritarian restrictions in Azerbaijan prohibited any fieldwork there.

Several limitations should be noted. Firstly, perception indicators and interview data may not capture the full scope of corrupt activities. Secondly, the inherently hidden nature of high-level corruption, state capture and their intersection with organized crime means that the available evidence is often circumstantial rather than direct. Thirdly, while analysis of the political economy of each country provides insights into systemic patterns, it cannot prove corrupt intentions in all elements of apparent state capture. Finally, the six-month timeframe and narrow focus on specific countries limited the ability to track the long-term evolution of corrupt networks or the full extent of their integration into broader international illicit networks.

Key findings

- High-level corruption and state capture remain deeply entrenched across the South Caucasus, significantly constraining prospects for effective anti-corruption measures.
- Azerbaijan exemplifies consolidated elite capture, with political and economic power tightly concentrated around the Aliyev and Pashayev families, through informal networks and strategic control over key economic sectors.

- Georgia's regression towards consolidated elite capture has accelerated significantly since 2012, driven by informal governance and authoritarian practices under Georgian Dream, dominated by the billionaire Bidzina Ivanishvili.
- Armenia has made notable progress since the Velvet Revolution of 2018, particularly on petty corruption, but there are indications that high-level corruption remains a serious problem, and anti-corruption efforts have often been politically selective, undermining trust in reforms.
- Informal governance patterns inherited from the Soviet era continue to profoundly shape political and economic life, creating an environment conducive to corruption and illicit economic activity.
- Regional conflicts, declining Western influence and deeper ties with authoritarian states have further weakened already limited domestic and external constraints on corruption.
- Institutional reforms introduced in the region have generally failed to dismantle elite-controlled informal governance structures, as powerful political and economic interests continue to benefit from the current systems.



INTRODUCTION

In Georgia, Azerbaijan and Armenia, informal economic activity accounts for an estimated 62%, 55% and 44% of GDP, respectively.[7] These shadow economies, among the largest in Europe, involve more than just tax evasion or unregistered businesses. They are symptoms of deeper issues, where the boundaries between state, business and illicit activity have become blurred. The same governance patterns that enable high-level corruption and state capture also create fertile ground for regional and transnational organized crime to operate. Most analysis of the South Caucasus focuses on the degree of democracy versus authoritarianism or how it is affected by geopolitical dynamics,[8] but this paper examines how governance patterns, deeply rooted in Soviet and post-Soviet practices, create opportunities for, and limit constraints on, corruption in the region (as well as organized crime, which a companion report examines in detail).[9]

Governance patterns tend to sit on a spectrum of state capture by the elite. At one end lie 'consolidated elite capture' regimes, where a small group holds tight control over political power and economic resources. In these systems, formal institutions – like the judiciary, parliament or anti-corruption bodies – are controlled by informal networks loyal to the ruling elite. Decisions about public spending, regulation and access to state resources are made to benefit those elites, rather than the broader population.

In the middle are 'competitive elite capture' regimes. Here, multiple groups or factions vie for control over institutions and state resources. While these systems are still characterized by informal practices such as patronage and clientelism, the existence of rival power centres (often seen in shifting political alliances during elections) prevents the dominance of any single group. Institutions may be stronger than in fully captured regimes, but they are still vulnerable to political interference and corruption.

At the other end of the spectrum is 'public interest governance'. In these systems, no single group can dominate the state, and institutions like the courts, audit offices and law enforcement agencies have enough independence to hold political actors to account. Public resources are allocated through transparent procedures, such as competitive procurement or needs-based budgeting, and citizens have access to information and meaningful ways to influence decisions. These systems have stronger checks and balances and make more consistent efforts to serve the general public, rather than private or political interests.[10]

The three Caucasian republics sit at different points on this spectrum.

Former Georgian president Mikheil Saakashvili presents a golden rose, symbol of Georgia's Rose Revolution, to former UN secretary-general Kofi Annan, 2005. Saakashvili's government embarked on public sector reforms but authoritarian tendencies later intensified in the country. *© Zviadi Nikolaishvili/AFP via Getty Images*

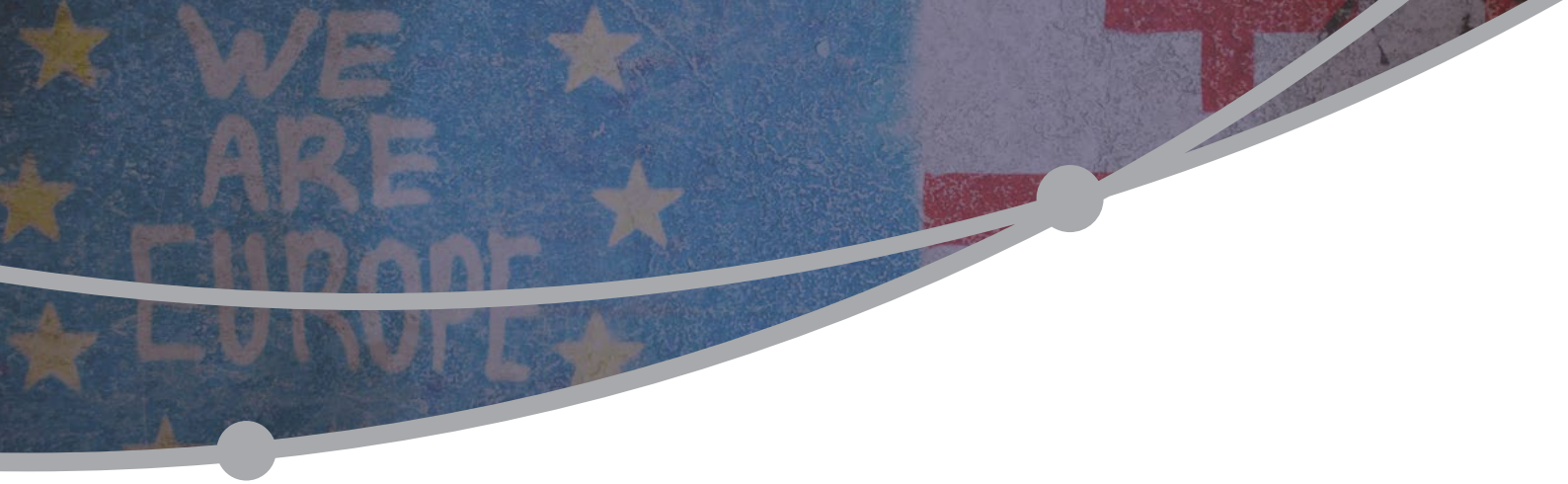
Azerbaijan embodies a system of consolidated elite capture. Since the collapse of the Soviet Union, the Aliyev family has presided over rigged elections, suppressed political and civil opposition and maintained tight control over the country's key assets, particularly its oil wealth, by concentrating ownership among the family and allied elite networks.[11]

Georgia has oscillated between a competitive and consolidated form of elite capture. From its independence from the Soviet Union in 1991 until the 2003 Rose Revolution, the state was highly corrupt but public institutions were too contested and weak for there to be a consolidated form of state capture. The revolution brought Mikheil Saakashvili's government to power, which embarked on significant public sector reforms. However, strengthening these institutions simply helped to consolidate state power without addressing underlying corruption. Since the Georgian Dream coalition took power in 2012, led by Ivanishvili, authoritarian tendencies and state capture have intensified.[12] Recent developments demonstrate a marked acceleration and deepening of this regression, pushing Georgia further into a consolidated elite capture model.

Armenia's trajectory suggests it is moving towards the spectrum's other end – public interest governance. Armenia operated as a competitive elite capture regime until the 2018 Velvet Revolution brought the reformist Nikol Pashinyan and his government to power. The Pashinyan government has made strides in combating petty corruption, but geopolitical constraints, ongoing high-level corruption cases and politically charged prosecutions against opposition figures have raised questions about the depth and durability of these reforms.[13]

While these systems reflect their respective domestic politics, they do not exist in isolation. Regional dynamics – particularly unresolved conflicts, waning Western influence, and deepening political and economic integration with Russia and Türkiye – have an enormous impact on institutional resilience and reform. Broadly speaking, these dynamics loosen the constraints on corruption and illicit activity, though their effects vary across the region. In Azerbaijan, victory in the Nagorno-Karabakh conflict, abundant energy resources and engaging in balanced diplomacy between Russia and the West have all reinforced the ruling regime. Georgia's growing political and economic ties to illiberal neighbouring powers have also reinforced the level of state capture by the Georgian Dream party, despite the government remaining ostensibly committed to closer alignment with Euro-Atlantic countries. The Armenian government, meanwhile, has been weakened by military defeat and its efforts to combat corruption are limited by the country's deep economic dependence on Russia, even as it cautiously explores closer ties with the EU.

The following analysis first explores how post-Soviet governance and international developments have created opportunities for corruption, before examining how corruption manifests in each state. This approach reveals how deeply rooted styles of governance continue to shape illicit activity across the South Caucasus.



GOVERNANCE: THE LONG SOVIET SHADOW

Contemporary governance patterns in the South Caucasus reflect deeply entrenched practices, which create opportunities for high-level corruption and state capture while undermining formal constraints. While geopolitical alignments have rapidly shifted, these modes of governance have proved remarkably resistant to change.

The roots of these patterns lie in the Soviet system. Though authoritarian and able to impose order to a degree, the Soviet state was also deeply corrupt, fostering the development of family and kinship networks at the bottom of the system, and patronage at the top. Several interconnected features made corruption inevitable. The imposition of impossible economic targets by central government, backed by crushing punishments, forced officials and ordinary people to violate rules. The arbitrary application of law pushed individuals to seek protection through personal relationships. Finally, the absence of a professional, impartial civil service embedded favouritism throughout the public sector.[14] The state's monopoly over the economy, combined with widespread scarcity, created a system where factionalism and nepotism flourished, even though the Communist Party's overarching control provided some constraints.[15]

The collapse of the Soviet Union reinforced prevailing corrupt governance patterns in the South Caucasus.
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Soviet officials secured and enhanced their positions through patronage networks and the collection of *kompromat* – compromising information on an individual that could be deployed across the political, legal, professional and media spheres. The *kompromat* system, essentially a form of institutionalized blackmail, became a powerful tool for neutralizing rivals and maintaining power.[16]

The collapse of the Soviet Union triggered four simultaneous transitions: marketization, democratization, state-building and re-thinking Soviet conceptions of national identity.[17] But, rather than disrupting corrupt governance patterns, these changes only reinforced them. Marketization, including the mass privatization of key sectors and opening to international trade, created vast economic opportunities as state assets were redistributed. However, the successor states lacked the means to regulate privatization or protect property rights. Reduced state capacity also created power vacuums that were quickly filled by three connected groups: predatory state elites, organized crime and private sector businesspeople. The boundaries between these groups blurred as violence in business became normalized, most notably through 'roofing' (*krishivanie*), a protection racket system where the 'roof' (*krysha*) provides protection from other criminals and bureaucratic interference in exchange for regular payments.[18] This protection economy became foundational to organized criminal activities across the region, with state actors providing the 'roof' for illicit operations.

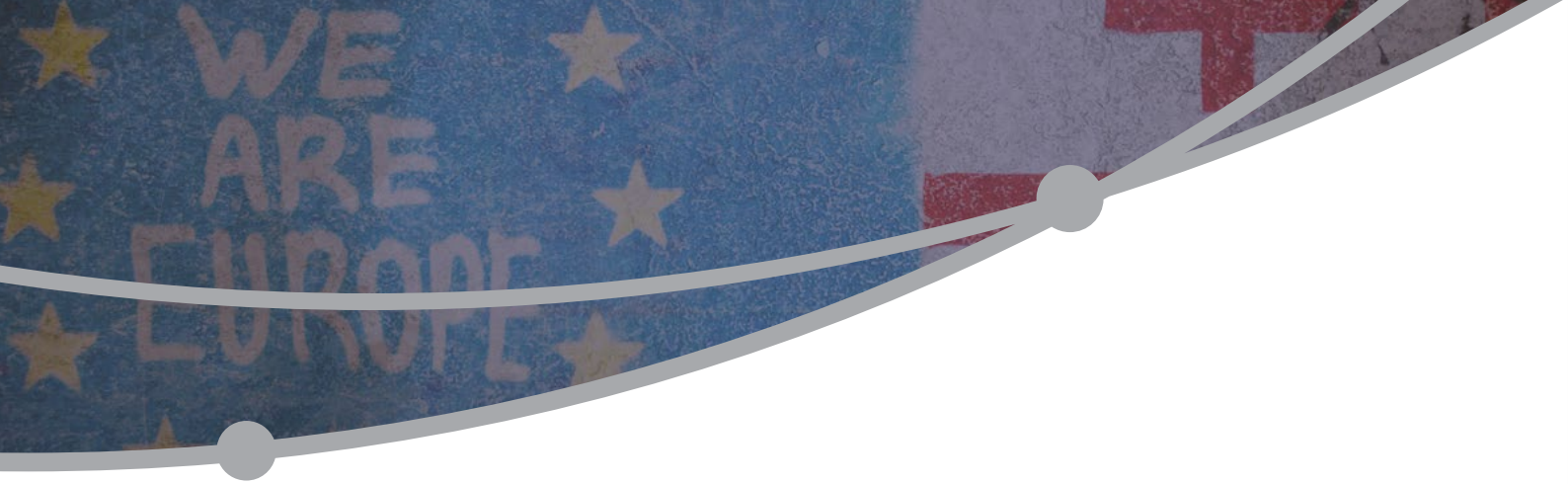
While the weakness of formal institutions opened up opportunities for these groups to accumulate immense wealth, it also left the successor states without robust mechanisms to manage political competition predictably (with a rules-based system) or peacefully. To preserve or acquire power political elites resorted to tried-and-tested Soviet techniques of authoritarianism – including electoral manipulation, capturing judicial systems and the media, establishing ruling parties, strategic economic control using loyal oligarchs, and repressing political opponents and civil society – all while maintaining the facade of democratic legitimacy.[19]

These historical patterns manifest today in three interconnected ways that directly enable state capture and illicit activity. First, politics continues to be conducted through personal relationships rather than formal institutions. While constitutions and laws nominally set out the rules, political outcomes in the South Caucasus depend on personal ties and competition within the politico-economic elite. But, unlike the Soviet era, an individual's power stems not just from their official position but their ability to leverage both state and economic resources.

Second, economic and social activities are primarily informal. Government contracts are allocated and business disputes decided by connections rather than merit. Recruitment, advancement and conflict resolution in the public and private sectors depend more on who you know than what you know. This informality creates an ideal environment for organized criminal networks to operate, as they can use the same relationship-based systems that dominate legitimate business. While they might be less visible in the modernized capitals of Baku, Tbilisi or Yerevan, these practices are prevalent in rural areas where social relations retain almost feudal characteristics, with local powerbrokers controlling political institutions and economic resources.[20]

Third, elite networks have stronger connections within the former Soviet Union than with external actors. Elite figures in politics, security and business often have shared backgrounds in Soviet-era institutions,[21] common approaches to business and politics,[22] and hold cross-border assets.[23]

While these networks help the Caucasian elite to consolidate power, they also bind all participants – from politicians to bureaucrats to businessmen (and even organized criminals) – into a web of informal agreements and negotiated interests. At the ordinary level, citizens must navigate this system through personal connections and favours (*blat*),[24] more through necessity than choice, perpetuating these governance patterns across politics, business and daily life throughout the former Soviet Union.



GEOPOLITICS

Geopolitical changes since the end of the Cold War have not only shaped opportunities for corruption in the South Caucasus but also limited constraints on illicit activity. Regional conflicts have created areas of poor governance and allowed a nationalist political elite to divert attention from reform. Meanwhile, closer political and economic alignment with authoritarian countries has reduced the external pressure to improve governance and the internal incentives to do so. These dynamics have also had an impact on the behaviour of actors outside government circles – removing constraints on the illicit activities of a broader political and business elite, as well criminal actors. The dominance of informal ways of 'doing business' only incentivizes involvement in illegality.

Regional conflicts and fragmentation

Conflicts in the South Caucasus have complex roots and enable and perpetuate corruption through multiple mechanisms. The South Caucasian republics inherited their borders from the Soviet federal system. These were contested by nationalist movements and minority groups, leading to a number of conflicts that began in the late Soviet period. From 1988 to 1994, Armenia and Azerbaijan fought their first war over Nagorno-Karabakh, a region within Azerbaijan's internationally recognized territory but mainly populated by ethnic Armenians and subject to historical claims from both sides. Armenia's triumph in the conflict gave it control of the region and reinforced the split between Azerbaijan's main territory and its autonomous Nakhchivan exclave on the border with Türkiye.[25] But the victory left Armenia geopolitically isolated. Already landlocked, its borders with Azerbaijan and Türkiye were, and remain, closed – in the latter case due partly to Türkiye's close relationship with Azerbaijan and partly as a result of the Armenian genocide during the First World War.[26] Bolstered by significant oil revenues, Azerbaijan eventually retook Nagorno-Karabakh in two offensives in 2020 and 2023. Georgia simultaneously faced territorial fragmentation. In the early 1990s, the regions of Abkhazia, South Ossetia and Adjara broke away from central control.[27] While Adjara was later reintegrated, relatively peacefully, following the 2003 Rose Revolution, Abkhazia and South Ossetia remain outside Tbilisi's control.

Though the dynamics of each conflict are different, they have all created zones of disputed control where formal institutions are either weak or absent, which has allowed informal networks to dominate economic and political life.[28] They have also distorted regional economic relationships by creating artificial barriers to trade that incentivize smuggling and other illicit activities. Abkhazia, especially, has developed into a hub for organized crime networks involved in trafficking in drugs and people, as well

FIGURE 1 Regional conflict zones.

as goods smuggling to evade customs duties and sanctions.[29] Most significantly, however, the conflicts have fundamentally shaped domestic political priorities and discourse in ways that protect corrupt practices. Political leaders have had to prioritize security and deal with the aftermath of these conflicts (e.g. refugee flows), and nationalist rhetoric around these conflicts has provided a powerful tool for deflecting attention from corruption and state capture. This dynamic is particularly evident in Azerbaijan, where the Aliyev regime has successfully used the Nagorno-Karabakh conflict to maintain popular support despite high levels of state capture.[30]

Russia has also used these conflicts to advance its geopolitical interests. Its sustained political, economic and military support for Abkhazia and South Ossetia has entrenched informal and patronage-based systems in those territories. They have also served as a useful tool to frustrate Georgia's aspirations for closer ties with the West, particularly through NATO and EU integration, further undermining the institutional reform and improved governance that such engagement might encourage.[31] Similarly, Russia has used its role as Armenia's security guarantor to constrain Yerevan's ties with Euro-Atlantic powers. Although its leverage over Azerbaijan has waned as Baku's wealth and power has grown, Moscow maintains influence by positioning itself as an indispensable regional actor and energy partner, and by accommodating the Aliyev regime in exchange for strategic cooperation and regional stability.[32]

The landscape remains dynamic, particularly given the potential for a peace settlement following Azerbaijan's victory over Nagorno-Karabakh. Following the resumption of peace talks in mid-2025, in August 2025 Armenia and Azerbaijan signed a US-brokered agreement at the White House. The accord commits both countries to establishing diplomatic relations and to respecting each other's territorial integrity, renouncing force and working toward normalization. It also envisages Washington taking development rights for a transit corridor across southern Armenia linking Azerbaijan to Nakhchivan.[33] However, the agreement falls short of a comprehensive peace settlement. Key issues remain unresolved, including Azerbaijan's demand for constitutional changes in Armenia.[34] A substantive peace agreement has the potential to fundamentally alter economic as well as political relationships in the region, though such is the dominance of informal governance that informal and illicit activities are likely to adapt to these changes rather than be diminished.

The populist Georgian Dream party has aligned itself with Russia since the invasion of Ukraine, and in November 2024 the government announced it would delay EU accession negotiations until 2028.
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Diplomatic realignments and external influences

While the region is often portrayed as a battleground between the Euro-Atlantic powers and Russia, the position of the republics has altered significantly over the last 35 years and other countries have entered the fray. Western influence has declined, although genuine Euro-Atlantic integration has always been a long-term project at best for the republics. This has pushed these countries into closer engagement with states whose political and economic systems impose fewer constraints on corruption.

Since the 1990s, Azerbaijan has pursued a cautious foreign policy, aiming to navigate between competing geo-political alignments. Though it withdrew from the Moscow-led Collective Security Treaty Organization (CSTO) in 1999 and has opted not to join the Eurasian Economic Union (EEU), it maintains a transactional relationship with Russia. This relationship is largely driven by mutual economic and security interests, with Moscow tolerating the Aliyev government's authoritarianism in exchange for regional stability and geopolitical cooperation.[35] At the same time, Azerbaijan has positioned itself as a key energy supplier to Western markets and a strategic partner on regional security, fostering relatively good, albeit pragmatic, relations with Euro-Atlantic powers.[36] This pragmatism reflects mutual economic interests – especially around energy and security cooperation, including border security, stability of energy transit routes and addressing organized crime – despite substantial differences in political and ideological outlook.

Armenia's alignment with Russia has shifted since the 2018 Velvet Revolution, a trend further accelerated by Russia's failure to support it during the recent Nagorno-Karabakh conflicts. A founding member of the CSTO in 1992, Armenia joined the EEU in 2015. However, this decision came after significant Russian pressure, particularly in 2013, when Armenia abandoned negotiations for an EU Association Agreement in favour of deeper economic and security ties with Moscow.[37] While Armenia previously sought to balance relations with Russia and the West,[38] recent developments suggest a cautious reorientation. In 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU, which focuses on strengthening democracy, human rights, rule of law, economic development, trade and sectoral cooperation but excludes free trade provisions (which would conflict with Armenia's EEU commitments). Pashinyan's government has worked on implementing and deepening CEPA's provisions and recently floated holding a referendum on seeking EU membership.[39] It also froze involvement in the CSTO in January 2024 after it failed to assist during the conflicts with Azerbaijan[40] and, in early 2025, Armenia signed a Strategic Partnership Charter with the United States, outlining cooperation on sovereignty, security, anti-corruption and democratic governance.[41] Soon after, the parliament passed a domestic EU Integration Act intended to formally initiate the accession process, though no formal application has yet been submitted.[42] While these steps may indicate a stronger rhetorical and diplomatic alignment with

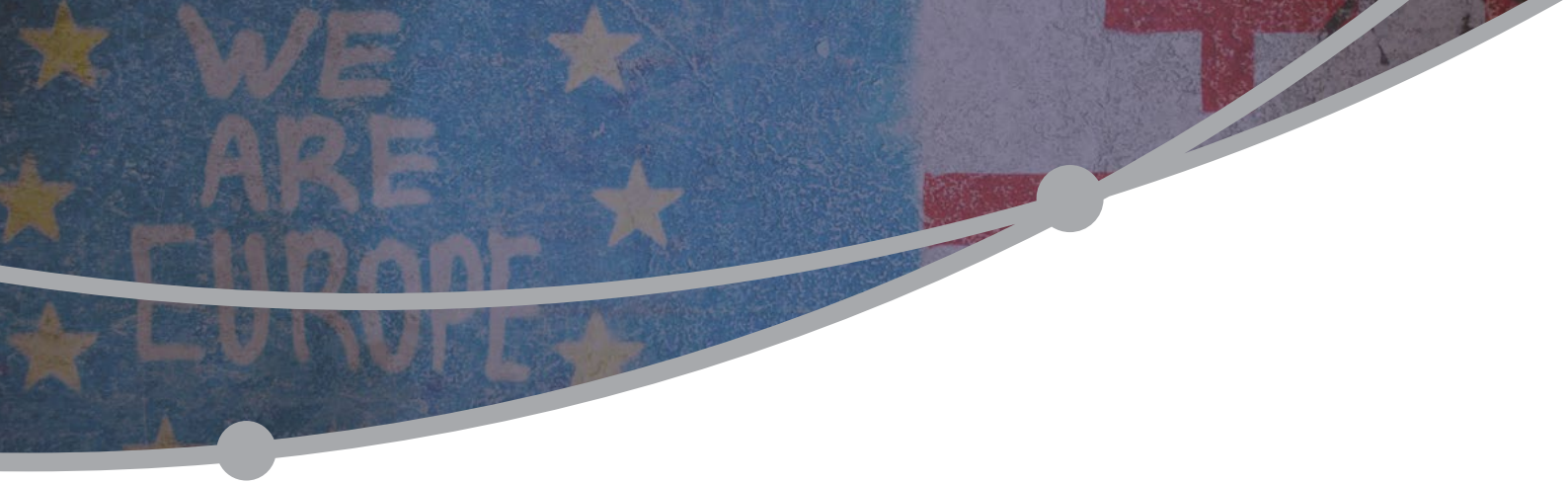
Euro-Atlantic institutions, the depth and durability of this shift remain uncertain, particularly given Armenia's entrenched governance practices and its ongoing economic and security constraints.

Since the end of the Cold War, Georgia has officially pursued closer alignment with the Euro-Atlantic community. After the Rose Revolution, the Saakashvili government sought to integrate Georgia with the EU and to join NATO. Russia justified its 2008 invasion as an attempt to protect South Ossetia but the attack was also an effort to curtail Georgia's Euro-Atlantic aspirations. Georgian Dream ostensibly continued these efforts, and in 2014 Georgia signed an association agreement with the EU and was granted candidate status in December 2023.[43] But Georgian Dream's tendencies towards authoritarianism and state capture have brought it into closer alignment with Russia.[44] Since Russia's invasion of Ukraine in 2022, Georgian Dream's rhetoric against the West has increased,[45] which is driven in part, according to several Western diplomats, by Ivanishvili's calculation that Russia will attain a positive position in the aftermath of the conflict.[46] Georgian Dream has more overtly distanced itself from Western powers ever since and in November 2024 the government announced it would delay EU accession negotiations until 2028.[47] This came after the EU ambassador to Georgia declared in July that the accession process had been effectively suspended,[48] a position reinforced in October when the EU announced it was freezing €121 million in assistance due to concerns over democratic backsliding.[49]

Azerbaijani President Ilham Aliyev at a press conference following a meeting with US President Donald Trump and Armenian Prime Minister Nikol Pashinyan at the White House, where they signed on 8 August 2025 a deal advancing peace efforts to end the 37-year-long Nagorno-Karabakh conflict. *© Azerbaijan Presidency/Anadolu via Getty Images*

Closer alignment with illiberal external actors has encouraged a permissive environment where transnational organized crime can operate with less scrutiny. Russia has consistently used political, military and economic tools to leverage its position, including conflict mediation, direct military intervention and pressure through trade embargoes and sanctions.[50] Azerbaijan's growing economic power (with a GDP of approximately US$72 billion in 2023 compared to Armenia's US$24 billion and Georgia's US$31 billion[51]) and military victories have enhanced its regional influence. Türkiye's influence has grown through support to Azerbaijan and investments in Georgia, and Iran and Armenia have expanded their trade and exchange of high-level visits.[52] Chinese influence, particularly through its investments in Georgia, has also been flagged as a risk to Western influence and democracy in the region. Its leverage of economic assets has been relatively muted at present but trade and investment have significantly increased.

At the same time, the decline in Western influence has reduced what limited constraints on corruption there were. Euro-Atlantic powers have rarely had the leverage to push for deep governance reforms, especially in the case of Azerbaijan, and now they face stiffer competition.[53] Alignment with Euro-Atlantic countries has not always been conducive to improving integrity. These countries have often overlooked profound shortcomings in favour of other priorities (e.g. countering Russia, securing energy supplies, tackling terrorism) and many Western banking, financial services, legal and other firms have been complicit in laundering the gains made from illicit activity.[54] Western influence may have provided only modest constraints on corruption in the past, but in today's shifting international landscape they have waned even further.[55]



ECONOMIC INTEGRATION

Geopolitical alignments represent just one international influence on corruption. Formal diplomatic positions mask deeper patterns of integration with markets in illiberal countries. Business elites, traders and ordinary citizens are embedded in economic networks dominated by informal practices and corruption.

For example, there is a significant South Caucasian diaspora in Russia. While the exact figures are hard to determine, there are an estimated 2–3 million Armenians, 1.5–2 million Azerbaijanis and 400 000–800 000 Georgians living in Russia.[56] Remittances from these communities are a major source of income for their home countries, and have formed a substantial portion of their economy – approximately 13% of Armenia's GDP and 11% of Georgia's GDP from 2015–2018, according to one World Bank estimate. (Azerbaijan was less dependent on remittances during this period, constituting only 2% of its GDP).[57] These links are also exploited by transnational criminals, who use networks developed to facilitate legitimate cross-border commerce for illicit activity.[58]

Figure 2 highlights each country's major trading partners, and the partners' score on V-Dem's Liberal Democracy Index (red = low; blue = high. See Annex for more detail). They highlight, with the exception of Azerbaijan's exports, that most trade is with illiberal countries, with Armenia especially dependent on trade with Russia.

Figure 2 highlights some overarching trade patterns, but there are even deeper structural dependencies in key areas that further limit domestic governments' ability to implement governance reforms. Armenia remains particularly dependent on Russia,[59] which supplied nearly 80% of its energy in 2020,[60] 33% of its total imports and 21% of total exports in 2021.[61] This trade flow has increased dramatically since the invasion of Ukraine, with Armenia having become a key source for the re-exportation of goods such as vehicles and machinery into Russia.[62] Georgia is less dependent overall but also relies heavily on Russia's energy imports, including 52% of its electricity, 24% of its gas and 47% of its petroleum products in 2022.[63] There is a degree of economic interdependency between Azerbaijan and Georgia, albeit with the former in the stronger position. Georgia is a key transit hub for Azerbaijan, particularly for access to Türkiye and Europe. In return, Azerbaijan supplies Georgia with around 75–80% of its gas, and Azerbaijani investments in Georgia have increased in recent years.[64]

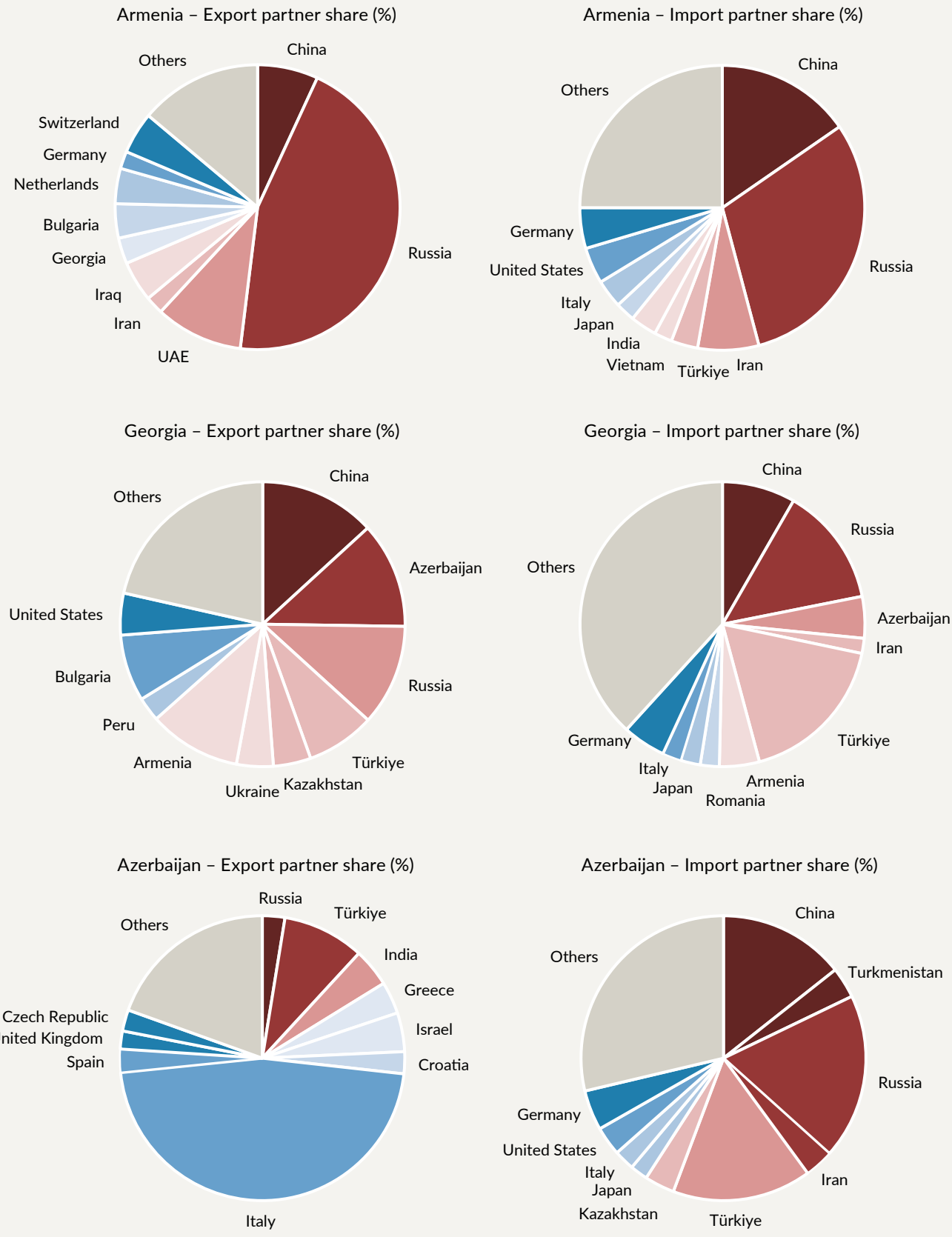


FIGURE 2 Liberality of major trading partners of the South Caucasian republics, 2025.

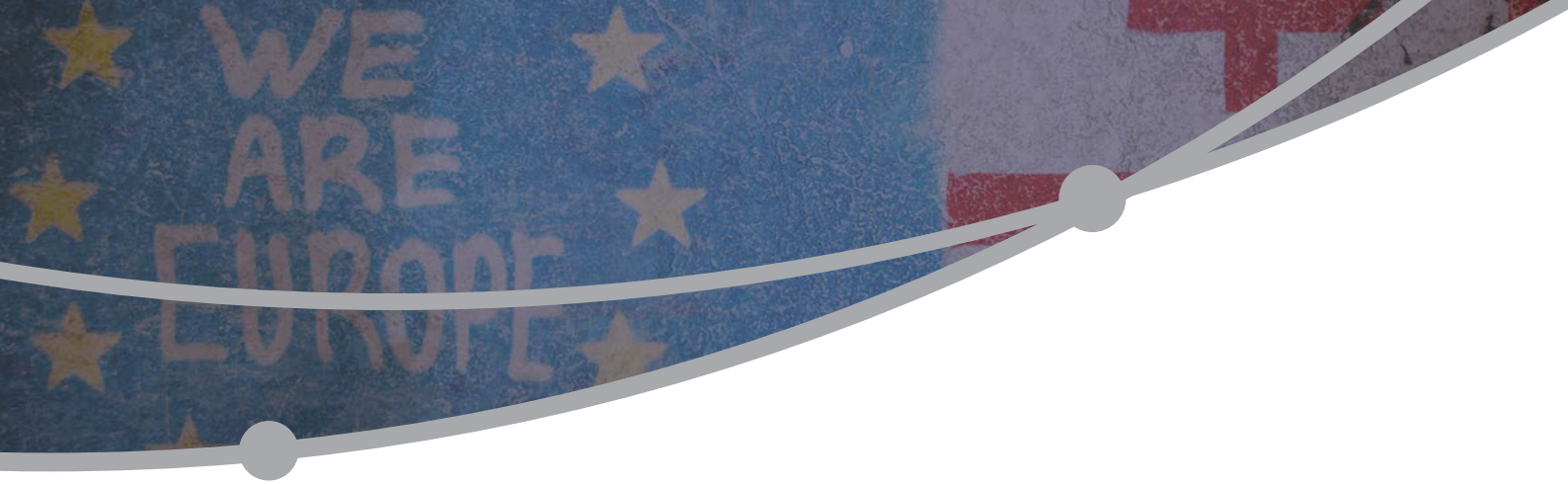
NOTE: Countries with a Liberal Democracy Index (LDI) score of 0–0.5 are shaded in red; countries with an LDI score of 0.5–1 are blue. Based on estimates of the extent of suffrage, the freedom and fairness of elections, freedoms of association and expression, individual and minority rights, equality before the law and executive constraints.

SOURCE: World Bank, World Integrated Trade Solution Data, 2025, https://wits.worldbank.org/countrysnapshot/en/GEO; and Varieties of Democracy (V-Dem) Project, 2025, https://www.v-dem.net/

The response of Georgia and Armenia to Western sanctions after Russia's invasion of Ukraine illustrates how underlying economic integration and dependencies facilitate corruption and illicit activity more than formal alignment constrain them. Neither country has fully joined Western sanctions regimes but they have stated publicly that they are not facilitating evasion.[65] Supporting sanctions evasion does not automatically constitute domestic corruption and the exact picture is nuanced. For example, Georgia's aspirations for EU candidacy, though waning, and the need to uphold banking regulations to maintain its connection to global markets, meant that Georgia directed its national bank to comply with financial sanctions.[66]

Ironically, sanctions may have pushed the Caucasus into closer alignment with Russia and other economies dominated by corrupt practices. Georgia officially committed to preventing sanctions circumvention,[67] but investigative journalists have found a lack of checks on 'dual use' goods such as microchips and drones being exported to Russia, and trade has increased since 2022.[68] Armenia's partial support for Western sanctions is dwarfed by the advantages it gains as a hub for re-exporting goods to Russia. Exports, likely driven by circumvention of sanctions, surged from US$5.1 billion in 2022 to US$7.3 billion in 2023, reaching US$10.2 billion in the first 10 months of 2024.[69]

Overall, the effect of sanctions has probably hindered opportunities to tackle corruption in the region. At minimum they have increased the profits to be made from activities under official sanction and, more broadly, have allowed Georgia and Armenia to become re-export hubs. [70] As domestic elites profit from this trade, their economic interests become increasingly aligned with Russia's.



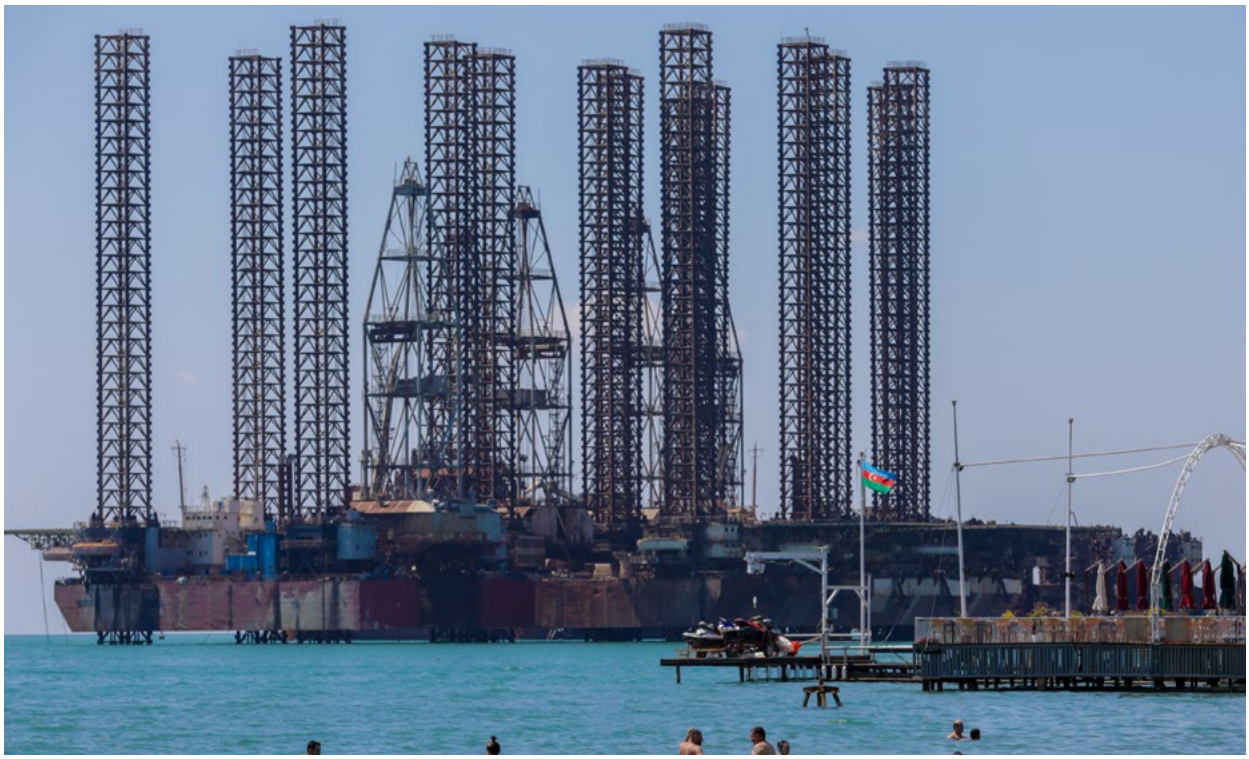
HIGH-LEVEL CORRUPTION AND STATE CAPTURE AT THE NATIONAL LEVEL

Soviet and post-Soviet governance patterns and geopolitical relationships undoubtedly have an influence on corruption and state capture, but they do so in combination with domestic factors, primarily domestic politics. In Azerbaijan, the outcome has been consolidated elite capture. Georgia has moved backwards towards a more consolidated form of elite capture. On the surface, Armenia has moved in the other direction but prominent cases of alleged high-level corruption have raised question marks over the government's ability to, and interest in, tackling it. These governance systems also create an environment conducive to organized crime, although illicit activity is dominated by state actors and organized crime groups operate within clearly defined boundaries set by the ruling regimes.[71]

Azerbaijan: Consolidated elite capture

Azerbaijan is as clear an example of a consolidated elite capture regime as exists. A small group of powerful families associated with President Ilham Aliyev holds near-total political and economic power. This system, built over three decades, is based on the institutionalization of personal governance.[72]

The foundations of the current system were set in 1993 when Heydar Aliyev, a former KGB official and leader of the Azerbaijani Communist Party, took power through a coup that removed Abulfaz Elchibey, the country's first (and only) democratically elected president.[73] Heydar quickly quashed Azerbaijan's nascent democratic movements through a combination of outright repression and a more subtle co-opting of elite networks. He maintained the facade of a democratic process through managed elections while systematically dismantling opposition networks. Opposition figures who refused to be co-opted found themselves and their families facing orchestrated campaigns of harassment, their businesses subjected to selective tax investigations and their supporters excluded from public sector employment. By 1995, the most prominent opposition figures were either in jail or exile, and the Milli Majlis (the Azerbaijani parliament) had become effectively subordinate to the executive.[74]



Oil rigs in the Caspian. Since the end of the Soviet era, the Aliyev family have maintained control over key economic assets, particularly Azerbaijan's energy wealth. *© Aziz Karimov via Getty Images*

It has been argued that the transfer of power to his son Ilham in 2003 demonstrated how thoroughly the system had been captured. Heydar orchestrated the transition through constitutional manipulation, strategic appointments and careful management of elite networks.[75] In the years leading up to the transition, Ilham was placed in key roles. First in the State Oil Company of Azerbaijan (SOCAR), then as vice president of the ruling party, and finally as prime minister.[76] This allowed him to build his own network of loyalists while maintaining his father's power base. The transition itself was managed through a careful balancing act, with key security and economic positions distributed among trusted allies to ensure stability.[77]

Under Ilham, repression has intensified, partly to prevent any possibility of a colour revolution – the non-violent pro-democracy protest movements that toppled several post-Soviet governments in the 2000s. Constitutional changes in 2009 removed presidential term limits, and further amendments in 2016 strengthened executive power, including granting the president more authority to dissolve parliament. These changes were widely condemned by international observers.[78] The Milli Majlis has been stripped of even a nominal political opposition, and opponents of the regime have had their children attacked and imprisoned.[79] Journalists, activists and civil society groups, especially youth groups, have been thoroughly repressed. As of September 2024, there were 319 political prisoners in Azerbaijan, a significant uptick since September 2021, when 122 cases were reported.[80] Repression operates through a series of mutually reinforcing mechanisms – from direct police action to denying employment to opposition supporters' family members and the use of *kompromat* to silence critics. Despite several initiatives to reform the judiciary sponsored by the World Bank and the UN, the judicial system remains highly susceptible to external pressures, exhibits systemic corruption and engages in lengthy pre-trial detentions of those facing criminal accusations.[81]

The regime operates through a system involving centralized authority, neo-patrimonial administration and strategic deployment of patronage networks. Day-to-day governance works through a complex

web of personal obligations and informal arrangements that take precedence over the formal system.[82] These networks extend beyond Azerbaijan.[83]

Power networks are often described as being split between two 'clans', the Nakhchivanis (associated with Aliyev's base in that region) and the Yerazis (ethnic Azerbaijanis from Armenia). But, since regional ties cut across other relationships, the elite falls into three main groups:[84]

- The 'old guard' – Soviet-era patronage networks
- The 'oligarchs' – who head prominent state and private enterprises
- The 'family' – those related to Ilham and his wife Mehriban Aliyeva (from the Pashayev family)

While there is some debate about the exact power balance, ranging from Ilham having total control,[85] to power being divided among elites with independent wealth and hierarchies, [86] the 'family' has become increasingly dominant. Upon taking office, Ilham gradually removed the 'old guard' from key positions. This resulted in the 2020 demotion of Ramiz Mehdiyev, a senior 'old guard' appointee from Heydar's tenure, from his position as chief of staff, along with his subordinates. These moves benefited his wife Mehriban, who has served as first vice president since 2015, and her family the Pashayevs, many of whom have been moved into key positions.[87] Whatever the exact balance, the extensive economic reach of the Aliyev and Pashayev families is indicative of their systemic control of the country. SOCAR and the State Oil Fund (SOFAZ) operate as key vehicles for generating and distributing patronage. But the family's business conglomerates are strategically positioned across other critical sectors, including banking, construction and hospitality.[88] Through holdings like DIA Construction, Ata Holding and Pasha Holding, family members directly control at least 11 banks, and have significant stakes in major infrastructure projects.[89]

Both the families, and individuals and groups linked to them, are widely suspected of benefiting from high-level corruption across these sectors.[90] SOCAR and SOFAZ, for example, are under presidential control with little effective oversight from parliament.[91] A 2013 Global Witness report demonstrated how SOCAR operates through a vast and opaque network of subsidiaries, joint ventures and intermediary firms, many registered in offshore jurisdictions, which insert hidden private interests into state business processes without any clear business rationale.[92] These intermediaries made large profits by selling oil from SOCAR to its own subsidiaries or into the market, under these opaque arrangements.[93] A 2022 OCCRP investigation reported how profits were captured by senior officials in the company.[94]

The banking sector in Azerbaijan further demonstrates the extent of state capture. Family-owned banks not only offer financial services but also act as key players in business transactions, with major deals often requiring implicit approval from regime-linked elites. These banks are crucial in facilitating domestic financial activities and international capital flows, supporting the regime's financial operations. In so doing they also serve as gatekeepers for economic activity, ensuring compliance with informal rules that align with the interests of the regime.[95] Within the overarching economic system, public procurement plays a crucial role in resource distribution.[96] Major infrastructure projects, particularly in construction and energy, are often awarded through managed tender processes where the outcome is effectively predetermined.[97] These tenders are typically controlled by a small number of companies closely linked to the ruling elite. To secure contracts, companies must navigate the complex system of political patronage, where maintaining good relations with key regime figures is essential.[98]

Because of a lack of transparency around ownership, transactions and opaque structures, it is difficult to track misuse of specific public resources. But investigative journalists have documented large-scale, secretive transfers of wealth out of the country, which a report has linked to the likely involvement

of Azerbaijan's ruling elite in a fraudulent scheme.[99] A 2017 investigation uncovered the 'Azerbaijani Laundromat', a complex money-laundering scheme by the country's ruling elite that saw approximately US$2.9 billion being channelled through European companies and banks from 2012 to 2014, which was used, among other things, to sway European politicians and launder illicit funds.[100] Leaks based on the Pandora and Panama papers revealed that the Aliyevs' interests had a global character, with family investments in Dubai, Czech Republic and elsewhere. At the peak of its wealth, the family owned a real estate portfolio in London worth £429 million (roughly US$580 million), including commercial and residential property in prestigious neighbourhoods.[101]

In addition to corruption and state capture at the high level, petty corruption is normalized in Azerbaijan. It has one of the largest shadow economies in post-Soviet Eurasia, with estimates ranging from 30–60% of official GDP. As many as 400 000 individuals may be employed in the informal sector and paid with cash in envelopes, depriving the state of tax income while undermining workers' social security. [102] This informality incentivizes corruption by making businesses and workers dependent on protection and vulnerable to selective law enforcement. According to a local journalist, bribery in public service delivery has decreased somewhat since the introduction of the State Agency for Public Service and Social Innovations (ASAN). This offers a one-stop shop for various public services, including obtaining identity documents, registering as a taxpayer and notary services, and has been a beacon of integrity in an otherwise corrupt system.[103]

But despite ASAN's success, corruption remains endemic in public life. The country ranks 154th out of 180 countries in Transparency International's Corruption Perceptions Index.[104] Corruption grew significantly during the oil boom of 2002–2008, as increased revenues provided more opportunities for rent-seeking while reducing pressure for reform.[105] The regime largely dismantled major criminal networks during the 1990s and the government frequently highlights its effectiveness at tackling organized crime, but this is largely a facade. There are few independent criminal groups or networks operating in the country but this is mainly due to the monopolization of illicit activity by the ruling elite.[106]

Armenia: Tackling competitive elite capture?

Prior to the 2018 Velvet Revolution, Armenia was moving towards a consolidated form of competitive elite capture but with an active and mobilized civil society. This created opportunities not only for high-level corruption but also for organized criminal networks to operate with state protection or tacit approval. Pashinyan's government has implemented extensive anti-corruption reforms to tackle this, but aspects of elite capture seem to persist.

The shift toward state capture began during Levon Ter-Petrosyan's presidency in the 1990s. Initially popular, Ter-Petrosyan faced severe challenges in managing economic collapse, establishing state institutions and handling the first Nagorno-Karabakh conflict. By the mid-1990s, the regime had increased presidential power and was suppressing political opposition.[107] Economic challenges resulting from closed borders and blockades led to the rise of powerful commodity cartels, which had political connections and control of key infrastructure. These cartels monopolized the import of essential goods such as sugar, flour and fuel, often using offshore companies to obscure ownership.[108] This monopoly created a permissive environment where the boundaries between licit and illicit activities became increasingly blurred. Ter-Petrosyan's attempts to maintain power through alliances with business and military groups backfired when his appointed prime minister, Robert Kocharyan, forced his resignation in 1998.

Under Kocharyan and later Serzh Sargsyan, this system evolved into a more organized form of state capture dominated by the 'Karabakh clan', a network of leaders with military backgrounds in the Nagorno-Karabakh conflict. They expanded their control over key economic sectors, including gas, fuel, banking and tobacco, through complex ownership structures and informal agreements.[109] Russian influence also increased significantly, particularly through debt-equity swaps that gave Russian state organizations control over critical infrastructure such as power plants and cement factories, creating long-term dependencies.[110] The regime became increasingly authoritarian, exemplified by the violent suppression of protests in 2008 that resulted in 10 deaths.[111] However, it faced persistent legitimacy challenges and an active civil society capable of mobilization.[112] Constitutional changes in 2015 created a parliamentary system that would allow Sargsyan to remain in power by becoming prime minister after his second presidential term ended.[113] When Sargsyan attempted to follow through with this in 2018, despite his earlier promises not to seek the position of prime minister, it triggered mass protests led by Pashinyan. After just six days of demonstrations, Sargsyan was forced to resign, marking a shift towards governance reform. [114]

Pashinyan's government has introduced several reforms including institutional changes, specific anti-corruption measures and sector-specific reforms in areas like public procurement, the judiciary and the armed forces.[115] A 2020 Law on Public Service created new integrity requirements for civil servants, including detailed asset declarations and conflict of interest provisions. The Corruption Prevention Commission (established in 2019) and Anti-Corruption Committee (created in 2021) were formed as dedicated anti-corruption institutions.[116] Similar to the approach taken in Georgia, reforms have also targeted organized criminal structures, particularly through legislation that criminalized association with criminal subcultures and especially thieves-in-law (senior underworld figures in the Soviet world). This has resulted in investigations and indictments, with mixed success, and has pushed some criminal activity abroad, mainly into Russia and the EU.[117]

As the institutional framework is relatively new, there is only limited information available to determine if it is operating effectively and there are signs of progress. The Corruption Perceptions Index shows a notable improvement in recent years, which is corroborated by other indices, such as the World Bank's Control of Corruption indicator and Bertelsmann Transformation Index's Rule of Law Index – both of which have improved since 2018.[118] According to the Financial Action Task Force List too, Armenia does not have significant systematic deficiencies when it comes to money laundering.[119] More generally, several interviewees indicated that they thought that *vertikal* corruption – the organization of petty bribery, funnelled up to high-level officials and politicians – had been broken, as had the complete monopolization of certain economic sectors by cartels.[120]

But a number of corruption scandals involving individuals within or close to the government suggests that high-level corruption remains a serious issue. Local civil society actors and investigative journalists claim that the manipulation of state tenders is far more lucrative than being the principal in a petty corruption pyramid scheme,[121] and several high-level political figures have been implicated in such practices. The former deputy prime minister, Tigran Avinyan, for example, has been embroiled in several scandals allegedly involving the channelling of public resources to family and friends. During Avinyan's oversight of an agricultural subsidy programme as deputy prime minister, five recipients, together awarded about US$620 000 in government funds, subcontracted his family's company, Irrigate LLC, for part of the work.[122] As mayor of Yerevan, he has been subject to further allegations.[123] In March 2025, for example, investigative journalists reported that while chaired by Avinyan, the Armenian National Interests Fund, a government-backed body set up to attract foreign

investment, invested over US$3.8 million in an offshore company run by a close associate of his wife and which was registered in Delaware only eight days before the investment.[124] Transparency International Armenia's project director described the case as revealing a 'blatant conflict of interest' and possibly 'grand corruption'.[125]

Avinyan's case is not an isolated example and friends or relatives of figures in or close to the government winning government contracts are common.[126] Parliamentary speaker Alen Simonyan has also faced corruption allegations linked to his family and friends. In 2021, his brother's construction firm secured US$1.4 million in government contracts,[127] while a long-time friend, despite previous bankruptcy, acquired a 25% stake in a luxury real estate project valued at US$40–50 million.[128] Other cases have raised suspicions over prominent business figures' influence over government contracting, a pattern similar to the Kocharyan/Sargsyan era. Two prominent oligarchs, Gurgen Arsenyan and Khachatur Sukiasyan, both of whom made their fortunes under previous administrations, were elected as MPs on the Civil Contract party ticket in 2021.[129] Companies owned by Sukiasyan's family won supply contracts to the ministry of defence worth US$11 million in 2021, and a US$500 000 contract, without tender, with the interior ministry in 2023.[130]

President Trump welcomes Prime Minister Pashinyan at the White House. A number of corruption scandals suggest that high-level corruption remains a challenge in Armenia.
© Brendan Smialowski/AFP via Getty Images

The government's approach to political financing also raises questions over its commitment to tackling state capture. While elections are notably fairer than under previous regimes,[131] investigative reporters have found evidence of suspicious donations to Civil Contract. In 2022, nearly all donations received by the party originated from its own candidates in municipal elections and, often, 10 or more candidates contributed the exact same amount on the same day. But when journalists reached out to the supposed donors, many denied making any contributions to the party.[132] A further investigation found a similar pattern in 2023.[133] This suggests a centralized informal system for managing party finances.

Particularly worrying is the apparent impunity of those affiliated to Pashinyan and his inner circle. Pashinyan downplayed reports of suspicious donations, acknowledging that a problem occurred but dismissing any notion that the donations constituted crimes.[134] The state anti-corruption body has brought cases against those accused of corruption, but these have been highly selective, especially when involving members of the old political elite.[135] Cases of alleged high-level corruption involving regime allies have gone uninvestigated.[136] For example, Economy Minister Vahan Kerobyan resigned in February 2024 after being charged with manipulating procurement decisions, and in May the Armenian National Interests Fund was dissolved amid further corruption allegations, yet the associated criminal investigation had reportedly stalled by year's end.[137] Instead of thoroughly examining allegations, the

ruling elite has tended to dismiss or deny accusations,[138] and investigating media and civil society organizations have found themselves subject to lawsuits.[139] Even where cases have gone to trial they have had limited success. Both Kocharyan and Sargsyan had corruption charges dropped in 2023/24 after the statutes of limitation expired.[140]

In some respects, the government's ability to constrain and roll back corruption is limited. The military defeats in Nagorno-Karabakh in late 2020 and 2023 triggered severe social and economic difficulties and the government has had to prioritize responding to these. Armenian politics also remain highly polarized and members of the old guard continue to be influential, including many with track records of authoritarianism and corruption. Though Civil Contract surprised observers by winning 53.9% of the vote in parliamentary elections in 2021, Kocharyan's party came second, securing 21%. This could be seen as a sign of Kocharyan's weakness domestically, but a significant number of Armenia's other elite political and business figures hold Russian passports,[141] and retain their power and wealth through illicit practices linked to Russian markets.[142] Internally, Pashinyan has to balance the benefits of enhancing judicial, parliamentary and other institutions' independence against the risk that actors within these bodies may undermine his government for their own narrow political or economic interests.[143] The government's ability to tackle corruption is thus restricted by internal politics as well as Armenia's dependence on Russia.

But the continuation of personalized governance is also a major driver of high-level corruption. The government denies that these cases represent systemic corruption (i.e. state capture) and this is difficult to assess. Nonetheless, indications remain that systemic issues persist. Although new anti-corruption institutions and laws have been introduced, they sit within a constitutional framework lacking checks and balances.[144] Pashinyan's government has not overturned the 2015 changes that consolidated the power of the prime minister. Parliament, dominated by the ruling party, remains weak. The judiciary, in particular, still contains many judges who served under previous regimes and who are known for deciding in favour of the executive in politically sensitive cases.[145] Pashinyan himself has displayed authoritarian tendencies, packing the judiciary with loyalists,[146] denouncing critics[147] and frequently reshuffling the government and dismissing officials, who often face smear campaigns or criminal prosecution.[148]

The extent to which the government has defended or failed to investigate senior figures accused of corruption also raises concerns regarding its commitment to integrity. At best, the boundaries between legitimate business, political influence and potentially illicit activities remain blurred in Armenia. The environment still allows state-embedded actors considerable autonomy and minimal accountability. This situation reflects not only the legacy of previous regimes but also the ongoing practices of figures within the current government. Recent high-profile anti-corruption cases and national security actions in Armenia illustrate the complexities of addressing corruption in a highly polarized political environment. In July 2025, former ministers Seyran Ohanyan and Artsvik Minasyan of the opposition Armenia Alliance parliamentary group led by Kocharyan were charged for corruption-related crimes.[149] Given that similarly credible accusations involving figures close to Pashinyan's government remain largely uninvestigated, such cases appear selective. However, in Armenia's political landscape, shaped by decades of entrenched corruption and politicization of the criminal justice system, there is no clear demarcation between corrupt officials currently in power and a supposedly clean opposition. Rather, corruption allegations and anti-corruption measures remain deeply interwoven with political rivalries and power struggles.

Georgia: Regression towards consolidated capture

Georgia's political trajectory shows limited progress in tackling state capture, aside from a period in the mid-2000s when this appeared more likely. Throughout the 1990s Georgia was riven by ethno-nationalist conflict, economic collapse and state capture (albeit a low-capacity state). In 2003, a new government led by Mikheil Saakashvili and the United National Movement (UNM) undertook an extensive programme of government reform.[150] This included replacing the police and cracking down on corrupt officials and prominent organized crime figures, including thieves-in-law.[151] The programme was remarkably successful, with Georgia registering among the fastest improvements of any country on major corruption indices, which resulted in severe disruption to both organized criminal networks and their collusion with security and political actors.[152]

The anti-corruption programme was part of a wider state-building project that increased state capacity but lacked democratization or effective measures to tackle high-level corruption and state capture. UNM consolidated power, expanding presidential authority over the executive, judiciary and parliament. This enabled it to rapidly build a nascent modern state, with an institutional framework capable of gathering taxes, implementing the executive's orders, delivering basic public services and building key infrastructure. But UNM did so without creating institutional checks and balances to constrain executive authority, particularly within the judiciary.[153] During this period, UNM displayed disdain for any opposition, labelling opponents as 'counter-revolutionaries' and 'traitors',[154] and successfully co-opted or controlled key civil society institutions.[155] The consolidation of power was also achieved without removing personalized governance at higher levels. This planted the seeds for later state capture. While low-level corruption and organized crime were being drastically curtailed, privatization of institutions was done through nepotism and, as the government solidified its position, businesspeople close to UNM enjoyed preferential treatment.[156]

Since 2012, Georgia has moved toward a much more consolidated form of state capture, structured around Bidzina Ivanishvili's vast personal wealth and informal control mechanisms.[157] By the early 2010s, economic hardship and growing authoritarianism had eroded UNM's popularity. Georgian Dream, founded by Ivanishvili in 2011, presented itself as a coalition for democratic renewal. However, Ivanishvili's personal influence has dominated the new system, backed by his wealth.[158] Ivanishvili accumulated his fortune (estimated at US$7.6 billion by 2024, nearly a quarter of Georgia's GDP)[159] through privatizations in Russia in the 1990s, particularly in the metals and banking sectors. After returning to Georgia in 2003, he remained largely reclusive, known primarily for his philanthropy while keeping most of his assets in Russia. After entering politics in 2011, he began divesting from Russian holdings and expanding his business presence in Georgia. Since then, he has built a complex network of interests across key sectors – finance, construction, real estate, tourism, healthcare and energy – often managed through offshore structures that provide both economic leverage and a means for distributing patronage.[160]

Over the 13 years Georgian Dream has been in power, Ivanishvili has built a governance system with parallel formal and informal structures,[161] exercising control despite not holding an official position in government since 2013.[162] At the political level, he determines the strategic placement of personnel, and senior politicians and officials answer to him and his inner circle rather than to formal institutions.[163] Former employees from his businesses and philanthropic organizations, such as Cartu Bank, Cartu Group and the Cartu Foundation, have been systematically appointed to key positions, including the prime minister, interior minister and head of the state security services.[164] Informal authority is exercised through power brokers within state structures but also through private companies and the Georgian Dream party.[165] For example, Ivanishvili's cousin and close confidant Ucha Mamatsashvili has no official position but has reportedly been a key figure in resolving disputes between private and state entities,

liaising with Azerbaijan over energy, and is the key decision-maker in Georgian Railways.[166] The patronage system extends well beyond the party and parliament in Tbilisi and out to Georgia's regions. Georgian Dream's dominance of the municipalities and governorships creates a vertical power structure where local officials depend on the party for their position and resources. Central ministries control appointments and resource allocation down to the district level. In rural areas, this creates an effective party monopoly over employment and provision of state services, giving it significant leverage over rural voters who are dependent on local patrons.[167]

Alongside the informal system, formal institutions have been systematically weakened. In 2016–2017, constitutional changes moved Georgia from a presidential to a parliamentary system and strengthened Georgian Dream's position. The Venice Commission noted major limitations in this move, including the automatic redistribution of votes for parties that did not clear the 5% threshold to the party which received the most votes overall, a provision clearly favouring the incumbent.[168] The regime has also developed more sophisticated methods of electoral fraud. The OSCE's Office for Democratic Institutions and Human Rights reported that the 2012 parliamentary and 2013 presidential elections proceeded without large-scale fraud but there was a marked deterioration in subsequent elections due to voter intimidation, misuse of administrative resources and concerns over the independence of electoral institutions.[169] Georgian Dream also dwarves other parties' financial resources, and it has used a variety of incentives (e.g. promises of land, promotions and cash payments) as well as intimidation to secure votes. In what appears to be an overt case of vote-buying, in 2018 Ivanishvili's Cartu Foundation promised to write off the debts of 600 000 citizens (over 16% of the population) after the first round of the presidential elections.[170] The write-off demonstrates how private resources have been used for political purposes, a practice that is replicated at local levels.

Similarly, repression of civil society has expanded in scale and sophistication. The introduction of a Foreign Agents Law in 2024, which required organizations receiving 20% or more foreign funding to register as 'pursuing foreign interests', represents a direct threat to independent NGOs.[171] The security and judicial apparatus has also been subverted by the regime. Activists and protestors have been subjected to police brutality. Though it has not undergone systematic analysis, several interview respondents also indicated that the concentration of party, official and state security power, particularly in small, rural communities, forms part of a system of surveillance that effectively keeps dissent in check.[172]

The judiciary, already weak under UNM, has been further compromised by 'the clan', a group of influential judges who manage appointments and promotions, coordinate decisions in sensitive cases and ensure loyalty from lower court judges who understand their careers depend on 'clan' approval.[173] Amendments to the Organic Law 'On Common Courts' adopted in June further consolidated 'the clan's' power, by abolishing the Independent Inspector's Office and simplifying procedures for the dismissal of judges, among other measures.[174] Georgia's anti-corruption mechanisms have also been used against civil society: in June 2025, the Council of Europe Commissioner for Human Rights expressed concern about a Tbilisi City Court ruling that forced several prominent NGOs to disclose sensitive information under threat of criminal prosecution, a move widely seen as part of a broader campaign to repress dissent.[175]

The predominance of this parallel system of informal governance has resulted in much greater levels of high-level corruption. Whereas UNM had consolidated power primarily (though not exclusively) for political purposes, the use of this power to benefit private economic interests seems to have increased markedly under Georgian Dream.[176] Transparency International Georgia has catalogued 206 cases of alleged corruption since 2016 involving 16 judges, 37 members of parliament, 34 senior ministers, including prime ministers and their deputies, and 62 local government officials. Cases involve officials using government powers to manipulate market conditions to favour particular companies, failing to

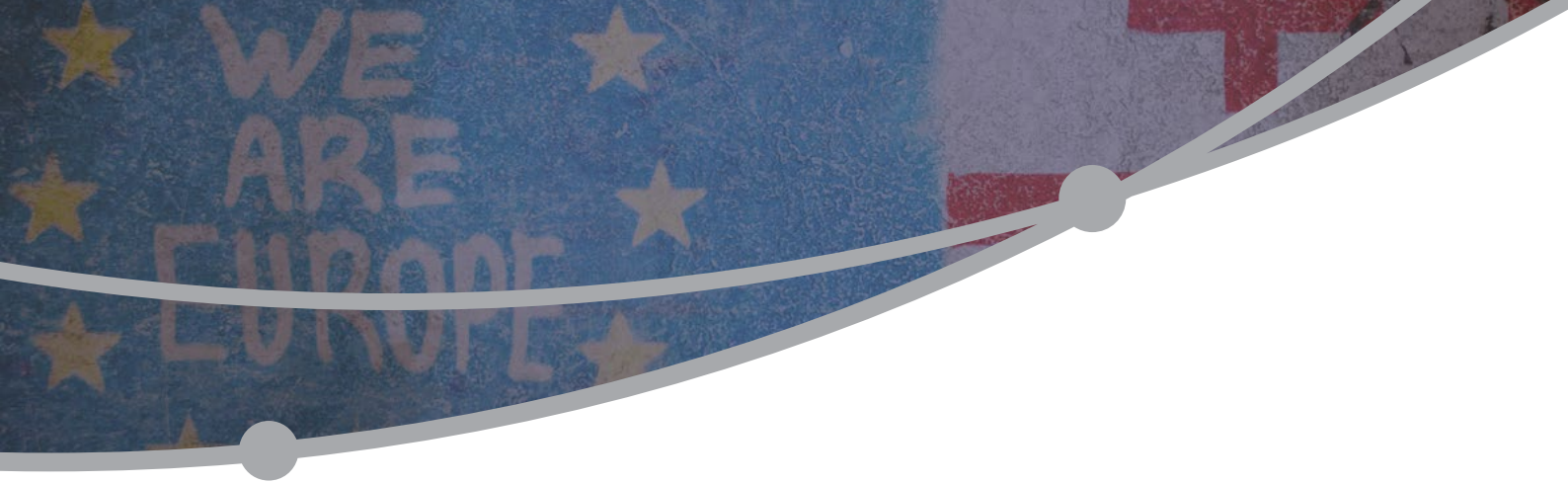
investigate corruption cases involving high-ranking officials and individuals linked to the party, and favourable distribution of contracts to the same set of persons.[177] Other investigative reports have found similar patterns, including the unexplained wealth of several top judges widely considered to have substantive influence across the judiciary.[178]

Several forms of high-level corruption are particularly prominent.[179] First, state procurement processes are rigged to favour individuals linked to the regime. A 2024 Transparency International Georgia investigation found that companies linked to Ivanishvili and appointed officials had received state contracts to the tune of US$1.17 billion since 2013,[180] which likely represents a mere fraction of those benefiting from favouritism. Second, state property is gifted or sold at below market rates. Companies linked to Ivanishvili, for example, have acquired land at prices significantly below market value in Abastumani, where the billionaire has built a private resort.[181] Third, lucrative licencing agreements have been granted, again, at below market value. Two companies owned by a former state official with family connections to Ivanishvili were granted contracts to develop at least 25 hydroelectric power plants despite having no track record in the renewable energy sector. Despite legal obligations, details on the contracts have not been made public, but investigative journalists report that the two companies were set up by other people and then given to the official for free a matter of months before the contracts were signed.[182] Finally, political elites appear to have a degree of impunity where it comes to extorting businesses. In one example, leaked recordings capture a close relative of former prime minister Irakli Garibashvili making violent threats against a businessman, who later abandoned his business interests.[183] Despite the large numbers of alleged corruption cases, outlined in some detail by investigative reporters and civil society, few have been investigated, indicating a culture of impunity.[184]

Under these conditions, the boundaries between political authority, private interests and criminality are blurred. Increasing state capture has led to the return of organized criminal groups operating with state protection. Elections have become a critical arena where criminal figures are mobilized by the state to influence outcomes by intimidating voters and harassing political activists.[185] These activities span from lower-level connections, such as collaborations between police officials and individual criminals, to high-level partnerships involving prominent political figures. Criminal–political alliances may also now extend beyond electoral activities into long-term business ventures. For example, there have been reports suggesting that a senior government official has maintained a joint cargo trans-shipment business with Russian-based thieves-in-law, which operates across Ukraine and Russia.[186]

Though the exact nature of the relationship remains unclear, Russia's influence on Georgian domestic politics appears most clearly in Georgian Dream's emulation of Russian governance methods. The level of direct Kremlin influence is difficult to assess, but Ivanishvili's ability to sell his substantial Russian assets at market price in 2012/13 suggests high-level facilitation from Moscow.[187] What is clear is that the government's approach to state capture mirrors Russian practices – from the Foreign Agent Law to government announcements and campaign materials that often directly replicate Russian state media narratives.[188]

This alignment extends beyond the potential Putin–Ivanishvili relationship into the broader elite. Many in Georgia's political and business elite have commercial interests tied either directly to Russian markets or to Ivanishvili's Russia-aligned patronage network. Recent legislation, such as the 2024 'offshore law' enabling asset transfers to Georgia with limited oversight,[189] may further facilitate the integration of these elite networks, regardless of whether it was directly coordinated with Moscow.[190] The result is a domestic political system that increasingly resembles Russia's model of governance;[191] for Georgian Dream, imitation is the highest form of strategy.



CONCLUSION AND RECOMMENDATIONS

While distinguishing clearly between high-level corruption and state capture is difficult, the sheer number of confirmed and uninvestigated cases of high-level corruption indicate that a degree of state capture exists in each of the three republics. This pattern of parallel governance creates an environment where illicit activities can flourish – a grey zone where the boundaries between state, business and criminal activity dissolve. In Azerbaijan, the subordination of formal institutions to informal networks controlled by the Aliyev and Pashayev families is a clear case of consolidated elite capture. Armenia's trajectory since 2018 indicates some progress in tackling corruption, particularly at lower levels, but persistent cases of alleged high-level corruption involving figures close to the government raise questions about the depth of reform and whether elements of state capture remain. Georgia's regression toward more consolidated capture by Georgian Dream, structured around Ivanishvili's vast wealth and personal networks, demonstrates how quickly formal institutions can be subverted by informal governance patterns.

While petty corruption has declined across all three countries, even in Azerbaijan, corruption continues to have profound impacts on economic development, public service provision and institutional integrity. The persistence of a parallel system of informal governance enables the systematic manipulation of state resources and institutions for private gain: from rigged procurement processes to selective law enforcement. It also creates an environment in which organized crime can operate relatively freely under the protection of state-embedded actors. Under these conditions, not only are public resources diverted but market competition is distorted, investment deterred and faith in public institutions undermined.

The entrenchment of corruption in the South Caucasus reflects the interaction of three key factors. First, governance patterns inherited from the Soviet era create opportunities for corruption while undermining formal constraints. For example, the continued dominance of personal relationships over formal institutions, the prevalence of informal practices in economic and social activity, and the continuation of Soviet-era networks all facilitate corrupt practices.

Second, the international context encourages rather than constrains corruption. Regional conflicts create spaces for illicit activity while providing political cover for corrupt practices. The decline in Euro-Atlantic influence and growing alignment with illiberal powers has reduced external pressure for reform while deepening integration with economic systems dominated by informal practices.

Police officers stand guard outside a government building as protestors gather in Yerevan, Armenia, over the conflict with Azerbaijan. Conflicts such as the one surrounding the Nagorno-Karabakh region have created zones of disputed control across the South Caucasus. *© Anthony Pizzoferrato/Middle East Images/AFP via Getty Images*

Third, and perhaps most significantly, domestic political developments have generally reinforced rather than disrupted these patterns. In Azerbaijan, the Aliyev regime has consolidated control through a combination of repression and strategic distribution of resources. In Georgia, initial progress under UNM has been reversed as Georgian Dream constructed a system of parallel formal and informal structures dominated by Ivanishvili's interests. Even in Armenia, where the Velvet Revolution created the potential for genuine reform, the persistence of personalized governance and selective application of anti-corruption measures has led to limited progress.

Nevertheless, successful reforms in specific areas suggest that progress is possible when political conditions align. The significant reduction in petty corruption, mostly in Georgia and Armenia, through administrative reforms demonstrates that targeted changes can succeed. The institutional reforms implemented under the UNM government in Georgia and in Armenia after 2018, while incomplete, show that even deeply entrenched systems can begin to shift. For reformers seeking to tackle high-level corruption and state capture, and those seeking to influence reform such as international donors, the South Caucasus thus has substantial barriers with faint glimmers of opportunity. When it comes to how to improve, the available evidence is clearer on the intractability of these problems rather than on how to address them. There is little rigorous evidence in support of the most commonly prescribed anti-corruption policies,[192] but research on the broader set of factors that enable countries to get control of corruption provides some indication of how to address the underlying power structures that drive corruption.[193]

At a broad level, in contexts of consolidated state capture, where formal institutions are thoroughly subordinated to informal networks to the benefit of a narrow elite, reformers may have to focus on disrupting monopolistic control over resources and building normative constraints against state capture. This might include supporting independent media and civil society organizations capable of exposing

corrupt networks; promoting fiscal transparency mechanisms that reveal how public resources are allocated; and facilitating the emergence of independent business associations that advocate for fair market competition. Identifying and protecting genuine reformist allies within the system is particularly important, while building external pressure through informed citizen engagement and international partnerships that can leverage diplomatic and economic influence.

For competitive elite capture regimes, where multiple networks vie for control, success relies on strengthening formal institutions and enhancing genuine political competition beyond elite circles. This may involve implementing more robust transparency in political financing; supporting electoral reforms that reduce barriers to entry for new political actors; strengthening independent oversight bodies with genuine enforcement powers; and investing in judicial independence. The competitive environment offers opportunities to exploit divisions between competing elites by incentivizing good governance reforms and creating structured channels for citizen participation and accountability that go beyond periodic elections. Building anti-corruption constituencies might include empowering professional associations; supporting collective action among reform-oriented businesses; and developing civic education that shifts social norms that tolerate corruption. [194]

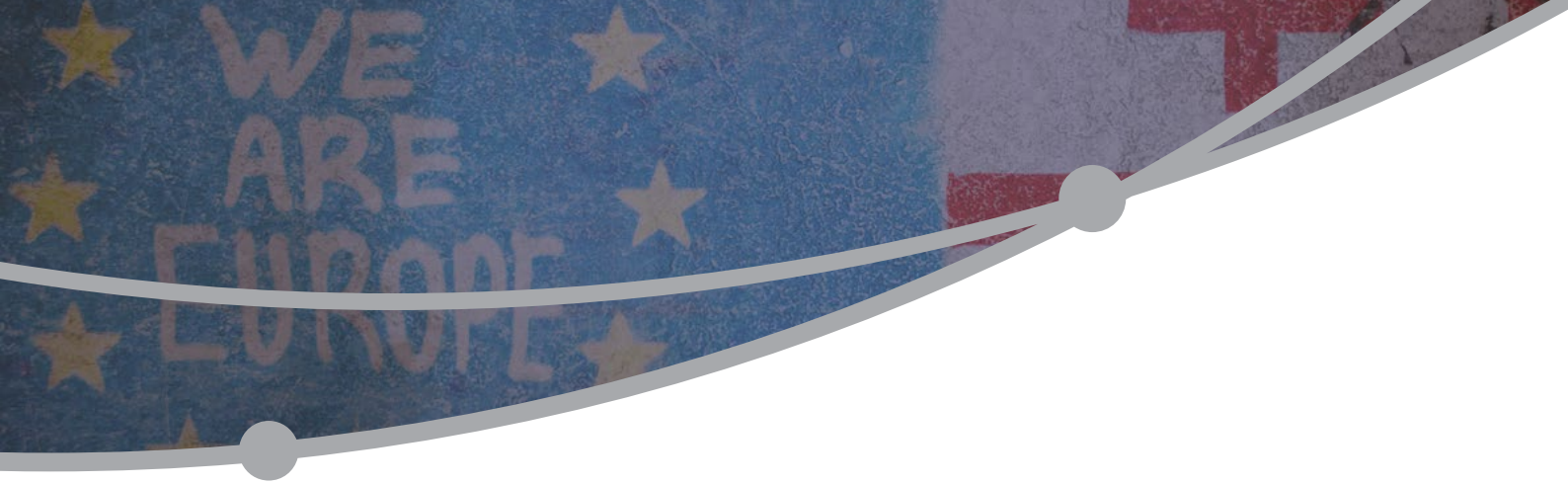
The regional overview provided in this report gives some indication of how likely these approaches are to succeed in the South Caucasus. There are few opportunities to disrupt monopolistic control over resources or build normative constraints against state capture in Azerbaijan. The most viable option is to support actors outside the country who are able to expose corrupt networks. Since Georgia is sliding towards a more consolidated form of state capture, it is difficult to identify reformers within the system, but allies may be found in the business sector, which engages with Western institutions, and Georgia's vibrant civil society and media. Armenia currently offers the greatest prospect for progress, and the more institutional and technical measures outlined above may help to reduce opportunities for corruption. The government's mixed record on anti-corruption, however, highlights that actors outside the government, who can hold it to account, remain important.

Identifying the specific interventions, actors and entry points for success requires a more detailed mapping of each context. Successful anti-corruption coalitions bring together diverse stakeholders, including reform-minded officials, business leaders seeking fair competition and a civil society capable of monitoring government activity. They include individuals and groups that not only have an interest in fighting corruption but also wield some influence. There is room for donors to support, and even bring together, individuals, organizations and institutions to form a corpus of anti-corruption advocates. How exactly to do that is beyond the scope of this report. But the core point is that anti-corruption is driven by people, not institutions. A first step is to undertake detailed stakeholder mapping of individuals, organizations and institutions to determine who has genuine interest in addressing corruption and who has power and influence.

In addition to identifying and exploiting domestic windows of opportunity, international donors may also be able to leverage geopolitical pressure to influence the regimes. There are substantive challenges to doing this effectively. Illiberal powers have a much closer, and in many respects greater, influence in the region. Recent sharp cuts in Western foreign development assistance, as well as rollbacks on corruption checks for Western businesses operating in non-Western countries, add further challenges. But each country, and powerful constituencies within them, still engage with institutions and markets in the Euro-Atlantic world, which imposes some constraints. For example, Georgian companies and financial

institutions still follow banking regulations to engage with Western financial institutions. There may be opportunities to support these domestic actors, for example business associations and chambers of commerce, who are also more likely to have power and influence compared to the civil society groups that donors typically collaborate with. Again, understanding who also has a genuine interest in addressing corruption is a prerequisite.

Fundamentally, sustainable reform requires addressing the underlying governance patterns that enable state capture and high-level corruption to persist and the entrenched actors with strong vested interests in resisting reform. For reformers to be effective, they need to leverage the few domestic windows of opportunity that exist. In a global environment more hostile to anti-corruption measures, international actors will need to be especially efficient. The barriers are daunting, but catalyzing local reformers remains the most efficient way for external actors to contribute to addressing high-level corruption and state capture in the South Caucasus.



ANNEX: MAJOR TRADING PARTNERS OF ARMENIA, GEORGIA AND AZERBAIJAN

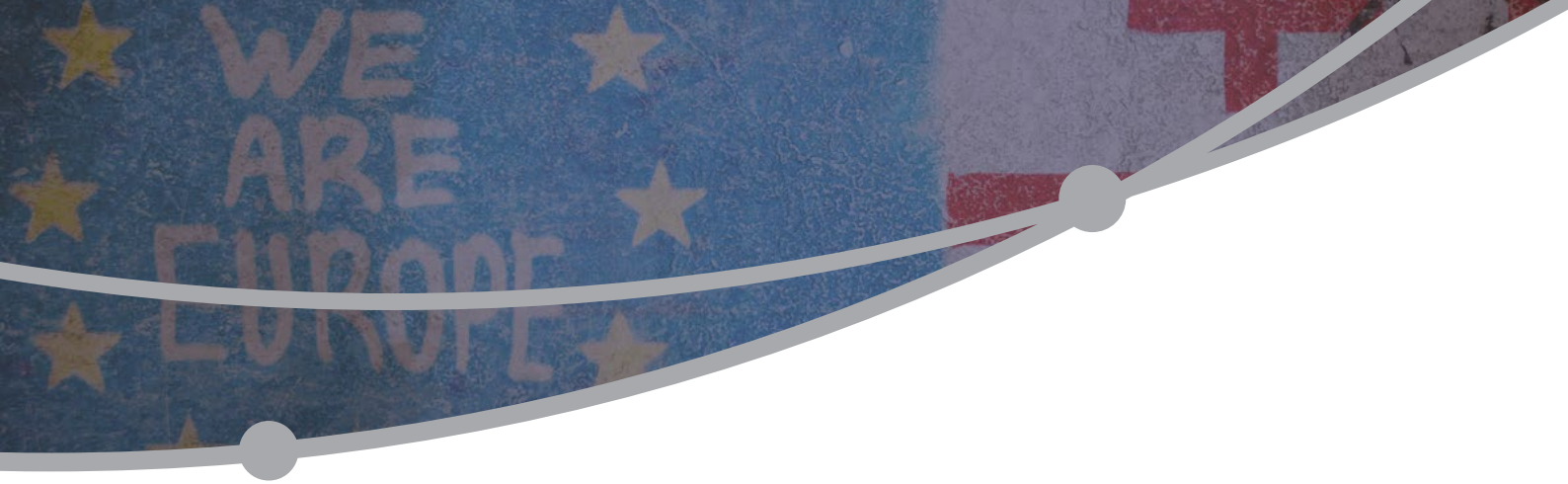
Armenia					
Country	Export partner share (%) 2022	V-Dem LDI score 2023	Country	Import partner share (%) 2022	V-Dem LDI score 2023
Russia	45.059	0.06	Russia	30.4856	0.06
UAE	9.9463	0.08	China	15.3746	0.04
China	6.8884	0.04	Iran	6.9265	0.08
Switzerland	4.744	0.84	Germany	4.6199	0.81
Iraq	4.6174	0.21	United States	4.1155	0.77
Netherlands	4.005	0.8	Italy	3.2111	0.76
Bulgaria	3.8842	0.59	Türkiye	3.0308	0.11
Georgia	2.9403	0.47	India	2.9941	0.28
Iran	2.0568	0.08	Japan	2.2298	0.73
Germany	1.9743	0.81	Vietnam	2.0306	0.11
Others	13.8843		Others	24.9815	
Georgia					
Country	Export partner share (%) 2022	V-Dem LDI score 2023	Country	Import partner share (%) 2022	V-Dem LDI score 2023
China	13.1956	0.04	Türkiye	17.524	0.11
Azerbaijan	12.0482	0.06	Russia	13.549	0.06
Russia	11.5062	0.06	China	8.3138	0.04
Armenia	10.4637	0.42	Germany	4.9031	0.81
Türkiye	7.7844	0.11	Azerbaijan	4.727	0.06
Bulgaria	7.5867	0.59	Armenia	4.5299	0.42
United States	4.7473	0.77	Japan	2.2255	0.73
Kazakhstan	4.2645	0.14	Romania	2.1559	0.5
Ukraine	4.1694	0.25	Italy	2.1265	0.76
Peru	2.7562	0.58	Iran	1.708	0.08
Others	21.4778		Others	38.2373	

Azerbaijan					
Country	Export partner share (%) 2022	V-Dem LDI score 2023	Country	Import partner share (%) 2022	V-Dem LDI score 2023
Italy	46.6164	0.76	**Russia**	18.8052	0.06
Türkiye	9.2918	0.11	**Türkiye**	15.7908	0.11
Israel	4.4112	0.63	**China**	14.3504	0.04
India	4.3585	0.28	**Germany**	4.5454	0.81
Greece	3.6486	0.58	**Turkmenistan**	3.5066	0.04
Spain	2.6451	0.76	**Kazakhstan**	3.4012	0.14
Russia	2.5571	0.06	**United States**	3.3016	0.77
Croatia	2.4967	0.64	**Iran**	3.2777	0.08
Czech Republic	2.4175	0.81	**Italy**	2.3237	0.76
United Kingdom	2.044	0.77	**Japan**	1.9963	0.73
Others	19.5131		**Others**	28.7011	

FIGURE 3 Major trading partners of Armenia, Georgia and Azerbaijan.

NOTE: Countries with a Liberal Democracy Index (LDI) score of 0–0.5 are shaded in red; countries with an LDI score of 0.5–1 are in blue. Based on estimates of the extent of suffrage, the freedom and fairness of elections, freedoms of association and expression, individual and minority rights, equality before the law and executive constraints.

SOURCE: World Bank, World Integrated Trade Solution Data, 2025, https://wits.worldbank.org/countrysnapshot/en/GEO; and Varieties of Democracy (V-Dem) Project, 2025, https://www.v-dem.net/



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