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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**THE EVALUATION OF THE EFFECTS OF THE
IMPLEMENTATION OF IFRS ON FOREIGN
INVESTMENTS IN DEVELOPING COUNTRIES**

Speciality: 5310.01 – World Economy

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INTRODUCTION

The significance of a topic and the level of knowledge and understanding. In the 21st century, characterized by rapid globalization and economic integration, foreign investments play a central role in the economic development strategies of developing countries. Foreign capital inflows not only increase the volume of financial resources but also facilitate the transfer of new technologies, advanced management models, innovative production methods, and international business culture into the host country. As a result of these investments, the integration of local enterprises into global supply chains becomes easier, export potential is enhanced, and product quality is aligned with the requirements of international markets. In the evaluation of investment risks, factors such as institutional stability, financial transparency, clarity of the legal environment, low levels of corruption, efficiency of the judicial system, and stability of macroeconomic policies play a decisive role. Within this context, the transparency of financial reporting and the ability to ensure international comparability have become key determinants in shaping investors' expectations regarding risk and return. The adoption of International Financial Reporting Standards (IFRS) has thus transcended being merely an accounting reform and has transformed into a strategic policy instrument with significant macroeconomic implications.

The adoption of IFRS functions as one of the key institutional pillars reinforcing investor confidence in the modern global economy. By providing a unified and internationally recognized reporting framework, these standards ensure comparability, reliability, and transparency of financial information across jurisdictions. As a result of IFRS implementation, the degree of information asymmetry between investors and enterprises is reduced, uncertainty in the decision-making process is mitigated, and the overall efficiency of capital markets is enhanced.

For resource-based transition economies such as Azerbaijan, the intersection between IFRS adoption and foreign investment attraction policies assumes particularly critical importance. Since the early 2000s, Azerbaijan's economic growth has largely been built upon

revenues derived from the oil and gas sector, which has simultaneously become the central destination of substantial foreign investment inflows. However, this model entails significant risks in the face of oil price volatility, the finite nature of hydrocarbon reserves, and the ongoing global energy transition. Consequently, the diversification of the national economy has emerged as a key priority of state policy, with the strategic aim of attracting greater volumes of foreign investment into non-oil sectors such as agriculture, manufacturing, logistics, and information technologies. Yet, alongside the promotion of these sectors, ensuring investor confidence in the accuracy, transparency, and comparability of financial information remains indispensable. In this regard, the adoption of IFRS plays a decisive role not only in facilitating the inflow of foreign investment into targeted sectors but also in supporting the broader economic development objectives of resource-dependent transition economies.

The impact of IFRS adoption on the process of attracting foreign investment has been the subject of extensive investigation by numerous scholars and researchers worldwide. A. Musah et al. have examined this relationship in African countries, while J. Charles et al. have explored its implications in cross-border mergers and acquisitions. O. Jinadu et al. have conducted research in Nigeria, and O. Akisik has analyzed the effects across 57 different countries. Similarly, C. Lungu et al. investigated the influence of IFRS in 80 countries, whereas M. Nejad et al. focused on Southeast Asian economies, and L. Gordon et al. assessed the outcomes of IFRS adoption in 124 countries. Collectively, these studies provide a broad empirical foundation, underscoring the diverse yet significant role that IFRS implementation plays in shaping foreign investment patterns across varying economic and institutional contexts.

In the case of Azerbaijan, no scholarly works or research studies have been identified that directly examine the relationship between IFRS adoption and the attraction of foreign investment. Although this specific topic remains unexplored, a number of Azerbaijani economists and researchers, including S. Sabzaliyev, Q. Abbasov, A. Salahov, E. Cafarov, E. Ibadov, A. Aliyeva, among others, have contributed scientific

works on accounting practices and the implementation of IFRS. Meanwhile, the role and impact of foreign investment on the national economy have been addressed in the theoretical frameworks and academic studies of economists and professors such as F. Qanbarov, N. Sabiroghlu, M. Mammadli, and several others.

Object of the research. The object of the dissertation is foreign investment inflows in developing countries.

Subject of the research. The subject of the dissertation is the role of IFRS adoption in attracting foreign investment and shaping investors' decision-making processes.

Purpose and objectives of the research. The primary objective of this dissertation is to determine the impact of IFRS adoption on the attraction of foreign investment and to examine how this process influences the economic growth of developing countries.

To achieve this objective, the dissertation sets forth the following tasks:

- Analyzing the main economic and theoretical aspects of IFRS adoption;
- Assessing the economic significance of the foreign investment attraction process for developing countries;
- Examining the relationship between IFRS adoption and the formation of investor confidence;
- Analyzing, through a regression model, the impact of IFRS adoption on foreign investment inflows in developing countries;
- Identifying practical challenges arising from IFRS implementation and proposing solutions to address them;
- Developing recommendations for enhancing IFRS adoption and foreign investment attraction policies in the Republic of Azerbaijan.

Research methods. In conducting the research, methods such as observation, comparison, regression, correlation, induction and deduction, program-based approaches, as well as statistical and econometric analysis were employed. Information base of the research is based on theoretical and practical studies by Azerbaijani and international scholars concerning the mechanisms for attracting foreign investment and IFRS adoption effect on foreign investments.

The research relies on data obtained from the International Monetary Fund (IMF), the World Bank (WB), the United Nations Conference on Trade and Development (UNCTAD), the IFRS Foundation, as well as official economic and statistical reports, decrees and orders of the President of the Republic of Azerbaijan.

Key propositions submitted for defense. In accordance with the objectives, scientific novelty, and final results of the dissertation, the following propositions are submitted for defense:

1) Over the past decade, developing countries have been the primary destinations of foreign direct investment (FDI);

2) The adoption of IFRS has a statistically significant positive effect on foreign investment inflows into developing economies;

3) The successful and comprehensive implementation of IFRS requires the establishment of a dedicated body responsible for both execution and oversight. One of its foremost priorities should be the professional translation of standards, interpretations, and application documents into the local language;

4) For developing countries to attract larger volumes of foreign investment, it is essential to increase the participation of domestic enterprises in local stock exchanges, strengthen the linkage of these exchanges with international capital markets to facilitate the listing of domestic firms abroad, and expand the trading of diverse financial instruments within capital markets;

5) In Azerbaijan, most enterprises do not prepare reports in accordance with IFRS, largely due to the insufficient allocation of resources. Moreover, the absence of up-to-date and professional translations of IFRS into Azerbaijani, coupled with the lack of a platform or institution where practitioners can address practical questions, poses a significant challenge for local specialists;

6) The significant part of foreign investments in Azerbaijan has been directed toward enterprises in the oil and state-owned sectors, with only a minimal share allocated to the non-oil sector, excluding banks;

7) The impact of IFRS adoption on foreign investment in Azerbaijan cannot yet be reliably studied through multivariate

regression testing, as sufficient time has not passed to render such an analysis viable and conclusive.

Scientific novelty of the research. The scientific novelties of the dissertation may be presented in the following sequence:

1) Based on statistical data covering the years 2000–2023 and the results of a multivariate regression analysis, it has been established that the adoption of IFRS exerts a positive impact on foreign investment inflows into developing countries, including Azerbaijan;

2) Drawing upon the practices of developing countries that have successfully implemented IFRS, the dissertation identifies the necessity of establishing a State Agency for IFRS Implementation under the Ministry of Finance (or an equivalent authority), and outlines the proposed organizational structure of such an agency together with a summary of the functions of its constituent units;

3) Listing preparation criteria have been developed for enterprises in developing countries to facilitate their access to stock exchanges and to enable them to raise funds from international financial institutions;

4) A survey conducted among finance professionals employed in 122 enterprises in Azerbaijan revealed that local firms generally do not apply IFRS. The survey also highlighted the lack of up-to-date and professional Azerbaijani translations of the standards, as well as the need for the establishment of a dedicated institution to oversee the comprehensive implementation of IFRS;

5) It has been determined that enterprises operating in Azerbaijan's non-oil sector account for only a minimal share of foreign investment inflows, thereby underscoring the necessity of providing greater state support to such enterprises in order to enhance their ability to attract foreign investment;

6) Drawing upon the practices of developing countries that have successfully attracted foreign investment, the dissertation proposes specific measures to be undertaken in the case of Azerbaijan by the Stock Exchange, the Central Bank, the Ministry of Science and Education, the Ministry of Economy, the State Tax Service, and local banks.

Theoretical and practical significance of the research. The general findings and well-substantiated recommendations derived from the research may be utilized by state institutions and economic policymakers in formulating strategies aimed at expanding the application of IFRS and enhancing the attraction of foreign investment. Primarily small and medium-sized enterprises (SMEs), as well as all other business entities, may benefit from these results in designing their accounting policies and strategies for attracting foreign capital.

Furthermore, the outcomes and main propositions of this research can serve as a valuable resource in the preparation of lecture materials for relevant courses taught in higher education institutions and vocational schools specializing in economics and finance.

Application and implementation of the research results. The results and main findings of the dissertation were presented and discussed at international and national conferences, symposia, and seminars between 2023 and 2024. Based on the dissertation materials the author has published one book, nine scientific articles and one thesis.

Name of the organization where the dissertation work was conducted. Institute of Economics, Ministry of Science and Education of the Republic of Azerbaijan.

Structure and volume of the dissertation. The dissertation consists of an introduction, three chapters, a section on conclusions and recommendations, and a bibliography, with a total volume of 167 pages. The introduction comprises 11,675 characters, Chapter I – 80,697 characters, Chapter II – 108,152 characters, Chapter III – 74,430 characters, the conclusions and recommendations – 5,135 characters, and the bibliography – 15,160 characters, bringing the total length of the dissertation to 295,249 characters. The dissertation contains 18 tables, 18 figures, and 8 illustrations, and references 110 different sources. Excluding spaces, tables, figures, illustrations, and the bibliography, the main text of the dissertation comprises 230,863 characters.

The structure of the dissertation

Introduction

Chapter I. Theoretical and methodological foundations of the application of International Financial Reporting Standards (IFRS) and the process of attracting foreign investment

1.1. The essence, historical development, significance, and theoretical foundations of IFRS application

1.2. The positive and negative effects of foreign investment inflows in developing countries

1.3. Theoretical and methodological foundations of the impact of IFRS on foreign investment inflows

Chapter II. Assessment of the impact of IFRS adoption on foreign investment inflows in developing countries

2.1. Analysis of the transition process of developing countries to IFRS

2.2. Dynamics of foreign investment inflows in developing countries

2.3. Evaluation of the impact of IFRS adoption on the attraction of foreign investment in developing countries

2.4. The historical development of IFRS in Azerbaijan, the transition to a unified standard, and the analysis of foreign investment attraction

Chapter III. Directions for improving the application of IFRS and the process of attracting foreign investment in developing countries

3.1. Directions for expanding IFRS implementation by enterprises in developing countries

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Conclusion and recommendations

Bibliography

PRIMARY CONTENT OF THE DISSERTATION

1. The essence, historical development, significance, and theoretical foundations of IFRS application

As one of the main directions of the research, this section explores the origins, historical development, and types of accounting, the history of IFRS, as well as the benefits, challenges, and distinctions of IFRS compared with other existing standards.

Accounting is defined as the discipline that records and summarizes financial information measurable in monetary terms, and presents and analyzes this information for users in the form of financial statements.

While the earliest evidence of accounting practices can be traced to ancient findings in Egypt, China, and Rome, the discipline experienced a significant breakthrough during the Renaissance, particularly between the 14th and 17th centuries. The foundations of modern accounting and the principles of double-entry bookkeeping were first formally documented in 1494 by Luca Pacioli in his treatise *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* (*Summa*). The double-entry system described by Pacioli has survived to this day and serves as the foundation of modern accounting software. For this reason, Luca Pacioli is widely regarded as the “father of accounting.”¹

The late 18th and 19th centuries, marked by the Industrial Revolution, are considered the period when accounting evolved both in theory and in practice.

The years between 1900 and 1950, characterized by the growth of corporate enterprises, the expansion of government activities, and the increasing complexity of economic transactions, saw accounting gradually transform into a more established scientific discipline.

¹ Charles, J.C., Mark, C.M. Luca Pacioli and the Role of Accounting and Business: Early Lessons in Social Responsibility // *Research on Professional Responsibility and Ethics in Accounting*, – 2018. 21, – p. 2.

From the 1950s to the present day, the dominant feature of accounting development has been the process of harmonizing financial reporting practices, which ultimately led to the creation of international financial reporting standards. In 1973, the International Accounting Standards Committee (IASC) was established. In 2001, the organization underwent restructuring and was renamed the International Accounting Standards Board (IASB).

At present, 42 IFRS standards exist, each regulating either the accounting of specific elements of financial statements or their disclosure in explanatory notes.

The implementation of IFRS in enterprises provides several significant advantages, including:

- Enhancing comparability and transparency;
- Facilitating access to international capital markets;
- Strengthening corporate governance and accountability;
- Improving decision-making processes and internal control mechanisms.

However, alongside these benefits, the adoption of IFRS also presents certain challenges, such as:

- High transition and compliance costs;
- Complexity and the need for professional judgment;
- Potential inconsistencies with legal and tax systems;
- Continuous revisions and updates;
- The lack of high-quality professional translations into the local language.

2. The positive and negative effects of foreign investment inflows in developing countries

This section examines the types of foreign investment, their main characteristics, as well as their positive and negative effects on host economies.

Foreign investment generally takes two principal forms: foreign direct investment (FDI) and foreign portfolio investment (FPI). FDI refers to long-term and direct investments made by a foreign individual, institution, or enterprise into a business located in the host

country by acquiring controlling rights over its equity shares. According to the definitions adopted by the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), an investment is classified as FDI if the investor owns at least 10 percent of the equity shares of the enterprise. In any given year, the amount of inward FDI into a country is calculated as the sum of the equity capital invested by the foreign investor, the retained earnings of the enterprise, and the net intercompany debt between the investor and the investee firm. Expressed in formulaic terms:²

$$FDI_t = Equity_t + Retained\ earnings_t + Net\ debt_t \quad (1)$$

Here, FDI_t denotes the total amount of foreign direct investment received by the host country in year t . $Equity_t$ represents the amount invested by the foreign investor in acquiring shares of the enterprise in year t . $Retained\ earnings_t$ refers to the retained earnings of the enterprise after deducting distributed dividends in year t , while $Net\ debt_t$ represents the net intercompany borrowing between the foreign investor and the investee enterprise during year t .

FPI, by contrast, consists of investments by foreign investors in the shares, bonds, and other financial instruments of domestic enterprises or institutions without conferring significant control or influence over them.

The attraction of foreign investment and its impact on host economies have been the subject of extensive research, leading to the development of several theoretical frameworks, including:

- The Neoclassical Growth Model;
- The Endogenous Growth Theory;
- Dunning's OLI (Ownership, Location, and Internalization)

Paradigm.

The positive effects of foreign investment on the economies of developing countries include:

² Organization for Economic Development. OECD Benchmark Definition of Foreign Direct Investment (Fifth Edition) // OECD Publishing. Alexandria, Romania, – 2025. – p. 32, 213.

- Improvements in production efficiency and optimal allocation of resources;
- Job creation and positive effects on the labor market;
- Technology transfer and opportunities for innovation;
- Development of infrastructure and expansion of public services;
- Diversification of exports and integration into global value chains;
- Greater macroeconomic stability and enhanced creditworthiness.

However, alongside these benefits, it is also important to recognize the negative effects associated with foreign investment inflows into developing countries, which may include:

- Increased dependence of the national economy on foreign investors;
- Concentration of capital flows in the most profitable sectors, leading to the neglect or weakening of other industries;
- Penetration of foreign values (particularly Western economic and cultural values) into domestic economies and societies;
- The potential for speculative behavior by large investors through portfolio investments, which may generate instability in financial markets.

3. Theoretical and methodological foundations of the impact of IFRS on foreign investment inflows and analysis of the transition process of developing countries to IFRS

In an era of accelerating globalization and financial integration, the availability of transparent, comparable, and high-quality financial information plays a crucial role in attracting foreign investment. The theoretical and methodological foundations of the link between IFRS adoption and foreign investment can be explained through several well-established theories, which are outlined below:

- *Agency Theory*. According to this perspective, when there is information asymmetry between company managers (agents) and shareholders or owners (principals), managers may prioritize their own interests over those of the shareholders, thereby engaging in

opportunistic behavior. This risk tends to be higher in developing countries, where corporate governance systems are less developed and internal audit mechanisms are often ineffective;

- *Signaling Theory.* From this viewpoint, the adoption of IFRS in developing countries serves as a strong signal to international investors, demonstrating the commitment of governments and companies to transparency and accountability in financial reporting;

- *Cost of Capital Theory.* This theory, which explains the relationship between risk and return in financial economics, posits that IFRS adoption reduces information risk and uncertainty by enhancing the transparency and comparability of financial statements. As a result, the cost of capital for firms is expected to decline, thereby improving their access to foreign investment.

The status of IFRS adoption among listed enterprises in developing countries is presented in the table below:

Table 1. Status of IFRS adoption among listed enterprises in developing countries

Status of IFRS adoption	Africa	Americas	Asia	Europe	Total
IFRS is compulsory	19	18	30	6	73
No information	19	-	8	-	27
IFRS is optional	4	5	6	-	15
Stock Exchange market does not exist	7	1	5	1	14
IFRS is compulsory for only some companies.	2	2	3	1	8
IFRS is not allowed	2	1	2	-	5
Total	53	27	54	8	142

Source: Prepared by the author based on the information on the website of iasplus.com.

The data can be analyzed in greater detail on a continental basis as follows:

- *Africa.* An examination of African countries shows that IFRS adoption is fully prohibited only in Egypt and Tunisia. In all other countries, IFRS is either applied on a mandatory basis or permitted on a voluntary basis. One of the most significant developments that expanded the application of IFRS in African countries was the

establishment of the Organisation for the Harmonization of Business Law in Africa (OHADA) in 1993. The organization, officially named Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA), currently includes 17 member states: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Côte d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Republic of Congo, Senegal, and Togo. The primary objective of OHADA is to promote development and accelerate economic growth in West and Central Africa by fostering investment. Among its core responsibilities is the authority to define financial reporting standards, with member states required to comply with OHADA's decisions. According to its resolution, from 1 January 2019 onwards, all enterprises listed on stock exchanges within OHADA member countries are required to adopt IFRS. However, small and medium-sized enterprises (SMEs) are granted flexibility and may choose whether to apply IFRS;³

- *Americas.* Across the American continent, approximately 90 percent of countries have adopted IFRS either mandatorily or voluntarily. The only country in the region where IFRS is not applied is Cuba. In recent years, Cuba has considered the possibilities of harmonization with IFRS; however, no significant steps have yet been taken in this direction;

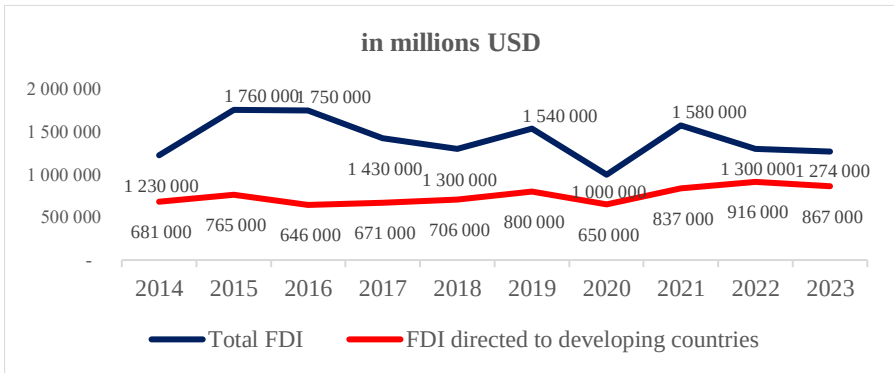
- *Asia.* Asia leads other continents in terms of mandatory IFRS adoption. Among Asian countries, IFRS is explicitly prohibited only in Turkmenistan and Vietnam.

In addition, countries that have achieved widespread and successful IFRS implementation, such as, Kazakhstan, Georgia, Brazil, and Nigeria have been analyzed in depth. The features of IFRS adoption in these countries will be presented in detail in a comparative table alongside the status of Azerbaijan.

³ International Financial Reporting Standards Board. IFRS® standards – Application around the World. Jurisdiction profile: Cameroon, – 2025. – p. 1-2.

4. Dynamics of foreign investment inflows in developing countries

Data on foreign direct investment (FDI), which constitutes the largest share of total foreign investment, can be found in the annual World Investment Report published by the United Nations. This report presents the yearly volume of FDI as well as its distribution between developed and developing countries. The total volume of FDI over the past ten years, along with the portion directed toward developing economies, is illustrated in the graph below:



Graph 1. Total FDI and FDI directed to developing countries over the last 10 years

Source: Compiled by the author based on the World Investment Reports.

As illustrated in the graph, although significant fluctuations can be observed in the total volume of global FDI, the share directed toward developing countries has either remained stable or demonstrated an upward trend. Approximately 68 percent of total FDI has been allocated to developing economies, largely due to the fact that global giants such as China and India have attracted the majority of these investment flows.

5. Evaluation of the impact of IFRS adoption on the attraction of foreign investment in developing countries

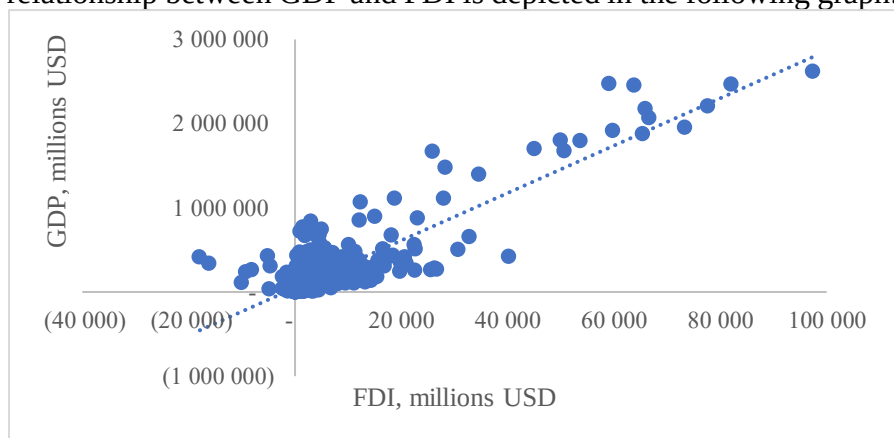
The purpose of this section is to examine the impact of IFRS adoption on foreign direct investment (FDI) inflows through the

application of a multiple regression test. For this purpose, a sample of 30 developing countries was selected. Among these, 24 countries have adopted IFRS as their financial reporting standard, while 6 continue to apply their own national standards without adopting IFRS. The countries selected for the analysis were chosen with a view to diversification, as they are located across different continents and represent diverse economic and political characteristics.

To ensure that the study covers both periods prior to and following the adoption of IFRS, and to capture a sufficiently long-term timeframe, the period from 2000 to 2023 was selected for analysis.

In the multiple regression model, the dependent variable is the volume of inward FDI. The independent variables include IFRS adoption, gross domestic product (GDP), inflation and its quadratic form, trade openness, political stability and the absence of violence/terrorism, and the degree of natural resource endowment.

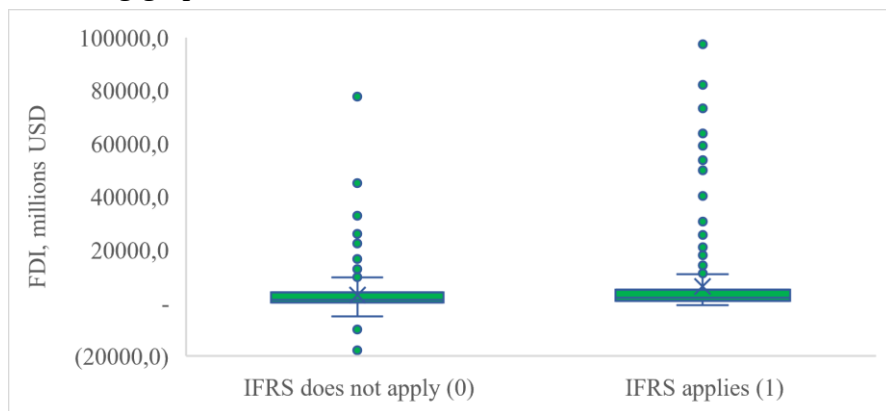
Prior to running the multiple regression analysis, the linear relationships between the dependent and independent variables were examined, as well as possible solutions for cases where linear relationships were not present. As an illustrative example, the relationship between GDP and FDI is depicted in the following graph:



Graph 2. Relationship between GDP and FDI

Source: Compiled by the author based on data obtained from the World Bank Data Bank platform.

The same type of analysis was conducted for all independent variables other than IFRS. The results of the examination revealed that GDP, political stability, and natural resource endowment display either strong or moderate linear relationships with FDI. By contrast, no linear relationship was observed between FDI and inflation or trade openness. To capture the potential nonlinear effects, the quadratic form of inflation was introduced as a new variable in the regression model. Similarly, the natural logarithmic form of trade openness was incorporated to account for its possible nonlinear impact. Considering that IFRS adoption is a categorical variable, its relationship with FDI was analyzed using a boxplot diagram. The observations derived from the graph indicate that the median value of FDI in countries that have adopted IFRS is higher compared to those countries and periods in which IFRS has not been applied. Furthermore, when examining the interquartile range, it can be observed that IFRS adoption corresponds to higher FDI values. The above insights are derived from the following graph:



Graph 3. Relationship between IFRS Adoption and FDI.

Source: Prepared by the author based on data obtained from the World Bank Data Bank platform and Deloitte Touche Tohmatsu reports.

In addition, before proceeding with the estimation of any regression model, it is of utmost importance to examine the stationarity of the data. Non-stationary variables, i.e., indicators whose

mean and variance change over time—may lead to spurious regressions. In such cases, although the model may display a high coefficient of determination (R^2) and statistically significant t-values, these do not reflect genuine economic relationships. Therefore, testing for the presence of a unit root and ensuring the stationarity of the variables, whether at the level form or after differencing, is a necessary condition for obtaining reliable results.

In the context of panel data, several specific tests exist for assessing stationarity, each with distinct methodological features. The Levin-Lin-Chu (LLC) test assumes a common unit root process across the entire panel and is based on stricter assumptions. In contrast, the Im-Pesaran-Shin (IPS) test allows for heterogeneous unit root processes across countries or firms and is therefore considered a more flexible approach. Fisher-type tests (such as Fisher-ADF and Fisher-PP) combine the results of individual unit root tests conducted for each panel unit to construct a panel statistic, which is particularly advantageous for unbalanced panels.

The joint application of these methods allows both commonalities and heterogeneity across panels to be considered, thereby enhancing the robustness of the results. The tests were conducted for each variable of the regression model at the level form, and the following results were obtained:

Table 2. The results of unit-root tests on each variable of regression test

	Levin-Lin-Chu		Im-Pesaran-Shin		Fisher-ADF		Fisher-PP	
	T-stat.	p-value	T-stat.	p-value	Chi ²	p-value	Chi ²	p-value
FDI	-3.1757	0.0007	-3.2018	0.0007	118.194	0.0000	149.250	0.0000
GDP	-2.1044	0.0177	-2.8116	0.0025	90.792	0.0063	94.179	0.0032
Inflation	-1.7440	0.0406	-1.8549	0.0318	89.509	0.0081	93.042	0.0040
Ln(trade openness)	-5.2037	0.0000	-5.0604	0.0000	149.201	0.0000	122.244	0.0000
Political stability	-4.2888	0.0000	-4.3022	0.0000	114.449	0.0000	126.722	0.0000
Natural resources	-3.5282	0.0002	-2.8821	0.0021	90.886	0.0062	86.260	0.0148

Source: Compiled by the author using “E-views” Student version 12 software.

Accordingly, the multiple regression test is specified by the following equation:

$$FDI_{it} = \beta_0 + \beta_1 * GDP_{it} + \beta_2 * Inflation_{it} + \beta_3 * (Inflation_{it})^2 + \beta_4 * IFRS_{it} + \beta_5 * \ln(Trade\ openness_{it}) + \beta_6 * Political\ stability_{it} + \beta_7 * Natural\ resources_{it} + \varepsilon_{it} \quad (2)$$

Here:

FDI_{it} – represents the volume of foreign direct investment in country i at time t ;

β_0 – constant term;

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ – parameters of the model, which measure the change in the dependent variable resulting from a one-unit or one-percent change in the independent variables;

$GDP_{it}, Inflation_{it}, (Inflation_{it})^2, IFRS_{it}, \ln(Trade\ openness_{it}), Political\ stability_{it}, Natural\ resources_{it}$ – independent variables of the model;

ε_{it} – error term.

Before running the multiple regression analysis, multicollinearity among the independent variables was examined first by constructing a correlation matrix and subsequently through the calculation of the variance inflation factor (VIF). Both tests confirmed the absence of multicollinearity. In addition, to increase the robustness of the results, a Fixed Effects Model was applied. This technique allows for controlling unobserved heterogeneity that exists across countries but does not vary over time. Finally, the presence of heteroskedasticity among the error terms was tested. The results revealed a p-value below 0.05, leading to the rejection of the null hypothesis and confirming the existence of heteroskedasticity at a statistically significant level. To address this issue and ensure more reliable estimates of t-statistics and standard errors, the White Cross-Section (Period-Cluster) technique was employed. This correction mitigates heteroskedasticity and enhances the robustness of the regression outcomes.

An examination of the heteroskedasticity-corrected cross-sectional output of the multiple regression test yields the following results:

1) *C (constant term)*. The constant is negative and statistically significant; however, it has little practical meaning, as it represents the level of FDI when all other explanatory variables are equal to zero);

2) *GDP*. There is a positive and statistically significant relationship between GDP and FDI. Specifically, an increase of one million USD in GDP results in an average increase of 0.018 million USD in FDI inflows;

3) *Inflation*. The inflation rate demonstrates a negative and statistically significant relationship with FDI. This result reflects the fact that investors perceive countries with high inflation as risky, thereby reducing FDI inflows;

4) *Inflation²*. Although only weakly significant, the squared inflation variable captures a nonlinear relationship between inflation and FDI. Based on this, it may be inferred that FDI responds differently at very low and very high levels of inflation;

5) *IFRS adoption*. The adoption of IFRS exerts a positive and statistically significant effect on FDI inflows. On average, countries adopting IFRS attract an additional 877 million USD of FDI. This finding underscores the role of IFRS in enhancing transparency and strengthening investor confidence;

6) *Trade openness (logarithmic)*. The logarithmic values of trade openness show a strong positive and statistically significant relationship with FDI. This confirms that more open economies tend to attract higher levels of FDI. According to the model, a 1% increase in trade openness results in an additional 11.9 million USD of FDI inflows;

7) *Political stability and absence of violence/terrorism*. This variable has a positive and statistically significant effect on FDI. Legislative and institutional stability fosters investor interest, thereby increasing the volume of FDI inflows;

8) *Natural resource endowment*. The effect of natural resource abundance on FDI is negative, which may be explained through the “resource curse” hypothesis. In some cases, resource wealth is associated with corruption, instability, and inefficient governance, leading investors to perceive such countries as risky and to refrain from investment.

6. The historical development of IFRS in Azerbaijan, the transition to a unified standard, and the analysis of foreign investment attraction

The development of Azerbaijan's financial-accounting system began primarily after the country regained independence in 1991. One of the most significant events shaping this field was the signing of the agreement commonly known as the "Contract of the Century" in 1994 under the leadership of national leader Heydar Aliyev. This contract, concluded between the State Oil Company of the Republic of Azerbaijan (SOCAR) and leading international oil companies such as BP, Amoco, ExxonMobil, Itochu, Amerada Hess, Statoil, and others, provided for oil production from the Azeri-Chirag-Guneshli field in the Azerbaijani sector of the Caspian Sea.

In the direction of developing financial-accounting practices, the Cabinet of Ministers of the Republic of Azerbaijan adopted on 23 February 2003 the Five-Year Program on the Preparation and Implementation of National Accounting Standards (NAS) for 2003–2007. Within the framework of this program, the preparation of 32 standards during 2003–2006 and the adoption of the "Code of Ethics for Professional Accountants" in 2007 were envisaged.

On 4 May 2018, amendments to the Accounting Law of the Republic of Azerbaijan abolished NAS and replaced them with IFRS as the sole financial reporting standards. Consequently, enterprises were required to prepare their financial statements not in accordance with NAS, but in compliance with IFRS (including IFRS for SMEs).

The status of IFRS adoption in Azerbaijan and the strategies pursued in this area are presented in the table below, alongside a comparison with countries that are considered successful in this regard:

Table 3. Cross-country comparison of IFRS adoption

Criteria	Kaza- khstan	Georgia	Brazil	Nigeria	Azerbai- jan
Recognition of IFRS as the sole financial reporting standard	✓	✓	✓	✓	✓
Development of a roadmap for IFRS implementation	X	✓	✓	✓	X
Establishment of a platform to address problems arising during the application of IFRS	✓	✓	✓	✓	X
Availability of an up-to-date and professional translation of IFRS into the local language	✓	✓	✓	✓	X
Inclusion of IFRS in university curricula	✓	✓	✓	✓	✓
Existence of a specific institution responsible for IFRS implementation and oversight	✓	✓	✓	✓	X
Development of professionals and the execution of certification processes	✓	✓	✓	✓	✓

Source: Prepared by the author.

The volume of FDI inflows into Azerbaijan can be obtained from the official website of the Central Bank of the Republic of Azerbaijan and from the database of the State Statistical Committee. Unfortunately, the database of the Central Bank contains data only for the period after 2019, while information on earlier years is available exclusively on the official website of the State Statistical Committee. Nevertheless, it should be noted that an analysis of the data from both

sources for the period 2019–2024 reveals significant discrepancies between them which may distort the analysis of FDI inflows in Azerbaijan.

The distribution of investments in fixed capital between the oil and non-oil sectors in Azerbaijan during the period 2010–2024 shows that 34 percent of total investments are directed to the oil sector. Naturally, such a high concentration of overall investment in a single sector is not favorable in terms of economic diversification.

The status of foreign investment attraction in Azerbaijan, along with the strategies applied in this field, is compared with countries considered successful in this regard in the table below:

Table 4. Cross-country comparison of foreign investment attraction

Criteria	Kaza- khstan	Georgia	Vietnam	Azerbai- jan
Formulation of a state strategy for the development of capital markets	✓	✓	✓	✓
Ensuring financing opportunities through venture capital, crowdfunding platforms, and similar instruments	✓	✓	✓	X
Strengthening the role of secondary market activities within capital markets	✓	✓	✓	X
Alignment of investment fund legislation with current requirements	✓	✓	✓	X
Availability of derivative financial instruments	✓	✓	✓	X
Opportunities for trading currencies and commodities	✓	✓	✓	X

Source: Prepared by the author.

In Section 5, it was not possible to apply the multiple regression test specifically to Azerbaijan. The main reason is that IFRS has only been implemented in Azerbaijan since 2019, and insufficient time has passed to fully observe its effects on foreign investment inflows. As a result, it is difficult to obtain reliable statistical evidence on the impact

of IFRS adoption on foreign investment in Azerbaijan. Prior to testing, the stationarity of each variable was examined using the Augmented Dickey-Fuller (ADF) unit-root test, and the p-values for all variables were found to be above 0.05. This indicates that the variables are non-stationary, and under such conditions, statistical analysis would not yield acceptable results.

To overcome this limitation and to assess the current status of IFRS adoption in Azerbaijan, a survey was conducted among leading financial specialists working in 122 different enterprises. The following results were obtained:

1) The majority of enterprises do not prepare financial statements based on IFRS, relying instead solely on tax accounting for reporting purposes;

2) Among enterprises that partially apply IFRS, there is a shortage of resources and technical capacity;

3) The main reason for the non-adoption of IFRS is that shareholders are unfamiliar with the standards and unaware of their benefits. Additional reasons include a shortage of qualified specialists and insufficient awareness;

4) The vast majority of respondents either hold a Professional Accountant Certificate or have passed the stage that assesses knowledge of IFRS;

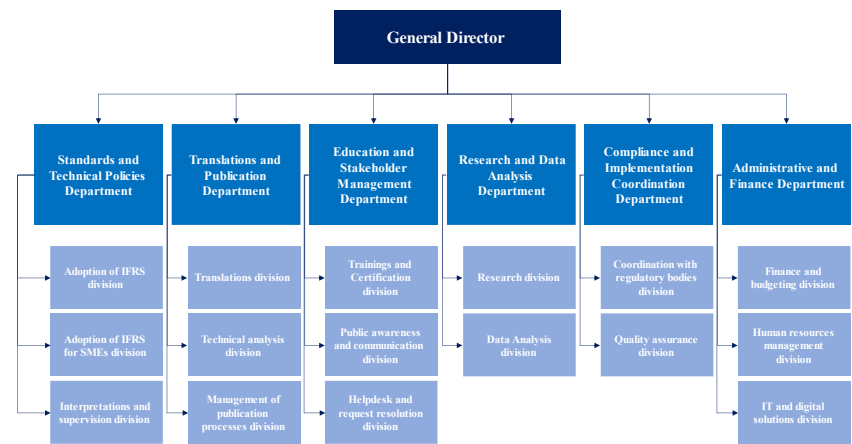
5) The IFRS translations provided by the Ministry of Finance are rarely used in practice, as they are not based on a unified terminology framework and are not fully consistent with the grammatical rules of the Azerbaijani language;

6) There are no Azerbaijani-language resources or support platforms available for IFRS implementation, and the establishment of such a platform is considered essential.

7. Improving the regulation of IFRS application and foreign investment attraction in the Republic of Azerbaijan

To expand the application of IFRS in Azerbaijan, it is proposed to establish a state agency for IFRS implementation under the Ministry

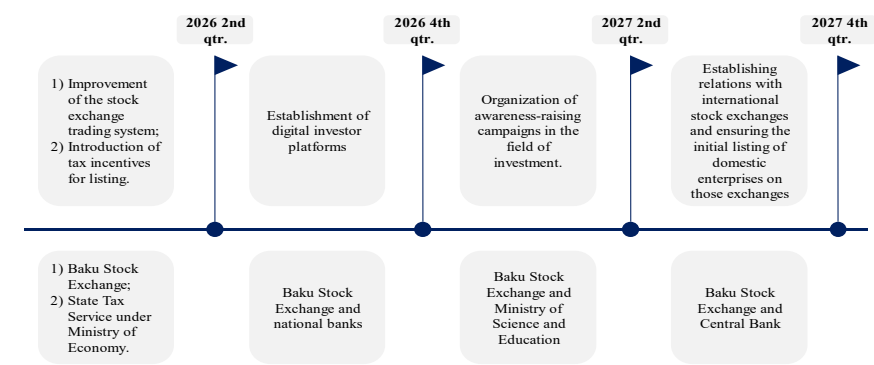
of Finance. The organizational structure of this agency, as outlined below, is expected to ensure its effective and efficient operation:



Picture 1. Organization chart of the Agency

Source: Prepared by the author.

In addition, for the purpose of developing capital markets and attracting foreign investment in Azerbaijan, the following steps and roadmap are proposed to be undertaken by the relevant institutions:



Picture 2. Roadmap of measures for accelerating the process of attracting foreign investment

Source: Prepared by the author.

8. The following key findings have been obtained from the dissertation research:

1) Although the volume of global foreign direct investment has fluctuated over the past decade, the amount directed toward developing countries has remained stable or shown an increasing trend. This indicates that such countries have become more attractive investment destinations due to favorable production costs, large consumer markets, and demographic potential;

2) A multiple regression test was conducted to assess the impact of IFRS adoption on FDI inflows across 30 developing countries between 2000 and 2023. The results demonstrated that IFRS adoption has a statistically significant positive effect on foreign investment inflows;

3) The experience of developing countries that have successfully adopted IFRS shows that the process requires the establishment of a dedicated supervisory and management body. Within such an institution, a Translation Department tasked with translating standards, interpretations, and application documents into the local language should be a top priority;

4) The strategies of countries that have strengthened FDI attraction highlight the need to increase the participation of domestic enterprises in capital markets, integrate local stock exchanges with international exchanges, diversify financial instruments, and improve financial literacy among the population;

5) It was found that enterprises in developing countries often do not fully meet the listing requirements of stock exchanges or the conditions of international financial institutions, making them unprepared for the process. To address this, companies must adopt procedure-based governance models, develop long-term financial models, establish professional public relations strategies, and prepare high-quality prospectuses;

6) A survey conducted among finance specialists in 122 enterprises in Azerbaijan revealed that most companies do not prepare IFRS-based financial statements, face resource shortages, and lack sufficient technical expertise. In addition, there is no up-to-date or

professional Azerbaijani translation of IFRS, nor is there an institutional platform to address practical questions;

7) Statistical data for Azerbaijan show that the majority of FDI is directed toward the oil and state-owned sectors. According to international financial institutions, excluding the banking sector, the non-oil sector accounts for only 5% of total FDI. This finding suggests that private enterprises face serious challenges in attracting foreign investment, highlighting the importance of increasing state support in this area;

8) At present, evaluating the impact of IFRS adoption on FDI in Azerbaijan through multiple regression is not feasible, since IFRS has only been applied since 2019 and the variables are non-stationary. A longer time series is needed before reliable statistical results can be obtained. For now, surveys have been used as an alternative method to assess this impact.

To address these challenges, the dissertation proposes a set of scientifically and practically significant recommendations, summarized as follows:

1) Establishment of a state agency for IFRS implementation under the Ministry of Finance, comprising six departments and fourteen divisions, with clearly defined responsibilities for each;

2) Development of a three-stage program consisting of formation of a professional translation team, preparation of a unified financial terminology dictionary and translation of IFRS, interpretations, and related documents to ensure the professional and up-to-date translation of IFRS into Azerbaijani;

3) Preparation of a roadmap to foster capital market development and increase enterprise participation in stock exchanges. The roadmap includes proposals on improving the stock exchange system, introducing tax incentives, creating digital investor platforms, conducting awareness-raising campaigns, and fostering cooperation with international exchanges;

4) Based on the experience of developing countries, practical solutions in Azerbaijani have been prepared to address some of the challenges encountered in IFRS implementation by enterprises;

5) Specific measures are proposed for enterprises to obtain stock exchange listings, including the development of growth strategies, financial reporting, procedure-based governance systems, financial modeling, professional public relations strategies, and accurate prospectus preparation;

6) A set of criteria required for attracting investment from international financial institutions has been systematized. Within this framework, recommendations are provided for mitigating and managing risks across integrity, financial, market, governance, technical-operational, legal, environmental, and social dimensions.

The results obtained in the dissertation were published in the following scientific papers:

1. Paşazadə, S. MHBS - Peşəkar Mühəsib Sertifikatı İmtahanına Hazırlıq üzrə Dərs Vəsaiti Kitabı: [3 cildə] / S. Paşazadə, R. Fətullayev, F. Nuriyev [və b.]. – Bakı: “Nurlar” Nəşriyyat-Poliqrafiya Mərkəzi, – c. 1. – 2023. – 353 s.
2. Pashazade, S. The Benefits of Implementation of International Financial Reporting Standards (IFRS) on Attracting Foreign Capital // Elmi iş Beynəlxalq elmi jurnal, – 2023. 3 (2), – p. 13-16.
3. Pashazade, S. Bridging Economies: Unlocking Foreign Investment in Developing Nations // III International Scientific and Practical Conference on “The Sustainable Development of Economy and Administration: Problems and Perspectives”, – Baku: – 22-23 december, – 2023, – p. 430-436.
4. Pashazade, S. The Role of International Trade Agreements in Facilitating Foreign Investment // XVI Respublika Elmi Qaynaqlar Konfransı, – Bakı: – 12 mart, – 2024, – p. 55-60.
5. Pashazade, S. Challenges and Opportunities in Attracting Foreign Capital Post-Covid-19 // Gənc Tədqiqatçıların VII Respublika Elmi Konfransı, – Bakı: – 15 mart, – 2024, – p. 304-306.
6. Пашазаде, С. Значение Привлечения Иностранных Инвестиций в Экономику Азербайджана и Влияния на

- Экономическое Развитие // – Москва: Финансовый Бизнес журнал, – 2024. №4, – с. 216-219.
7. Pashazade, S. The Role of the Legal Systems on Attracting Foreign Capital // – Bakı: Qanun jurnalı, – 2024. №5 (355), – p. 27-32.
 8. Pashazade, S. The Importance of Attracting Foreign Capital for Developing Countries (The Case of Kenya) // – Bakı: Geostrategiya jurnalı, – 2024. №3 (81), – p. 185-188.
 9. Pashazade, S. The Importance of Foreign Capital in Developing Countries // – Bakı: Turizm və qonaqpərvərlik jurnalı, – 2024. №2024-2, – p. 70-76.
 10. Pashazade, S. The Practical Difficulties of Applying IFRS in Small and Medium Size Entities // – Bakı: Geostrategiya jurnalı, – 2024. №4 (82), – p. 172-175.
 11. Pashazade, S. Current status and future pathways for international financial institutions (IFI) financing // XII international scientific conference, – Toronto, Canada: – 08-09 august, – 2024, – p. 7-13.



The dissertation defence will be held on October 10, 2025 at 16:00 at a meeting of the FD 1.11 Dissertation Council operating under the Scientific Research Institute of Economics Studies at Azerbaijan State University of Economics.

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The dissertation is available for review at the library of Azerbaijan State University of Economics.

Electronic versions of the abstract have been published on the official website of the Azerbaijan State University of Economics.

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