

LAW IN TRANSITION JOURNAL

After the founder: fixing the succession gap in family firms 28

Digitalisation of trade and the governance dividend: building trust across corridors 40

Contributors

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Bridging economic governance and climate finance 60

Strengthening economic governance in Kazakhstan 94



STRENGTHENING
ECONOMIC
GOVERNANCE





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The EBRD is a multilateral bank that promotes the development of the private sector and entrepreneurial initiative in 40 economies across three continents. The Bank is owned by 77 countries as well as the EU and the EIB. EBRD investments are aimed at making the economies in its regions competitive, well governed, green, inclusive, resilient and integrated.

● ABOUT THIS JOURNAL

Legal reform is a unique dimension of the EBRD's work. Legal reform activities focus on the development of the legal rules, institutions and culture on which a vibrant market-oriented economy depends. Published once a year by the Office of the General Counsel, the *Law in Transition* journal covers legal developments in the EBRD regions. By sharing lessons learned, it aims to stimulate debate on legal reform in transition economies.



CONTENTS

2

FOREWORD

3

EDITOR'S MESSAGE

4

BEYOND THE FIRM: TRANSMITTING
THE GOVERNANCE DIVIDEND
FROM THE BOARDROOM TO THE
NATIONAL ECONOMY

22

THE NEXT CHAPTER FOR DFI
COLLABORATION UNDER
THE CORPORATE GOVERNANCE
DEVELOPMENT FRAMEWORK

28

AFTER THE FOUNDER: FIXING THE
SUCCESSION GAP IN FAMILY FIRMS

40

DIGITALISATION OF TRADE AND
THE GOVERNANCE DIVIDEND: BUILDING
TRUST ACROSS CORRIDORS

50

HIGH STAKES, HIGHER STANDARDS: WHY
RISK IS REDRAWING THE BOUNDARIES
OF CORPORATE GOVERNANCE

60

BRIDGING ECONOMIC GOVERNANCE
AND CLIMATE FINANCE: HOW TRANSITION
PLANNING UNLOCKS GREEN INVESTMENT

74

SUSTAINABILITY DISCLOSURE AND
ECONOMIC GOVERNANCE: ISSB
STANDARDS IN PRACTICE AND THE
EBRD EXPERIENCE

84

EXTRACTING ELEMENTS OF ECONOMIC
GOVERNANCE: SYSTEMIC REFORMS IN
THE MINING SECTOR

94

STRENGTHENING ECONOMIC
GOVERNANCE IN KAZAKHSTAN THROUGH
BANKING LAW REFORM

106

PROCUREMENT MARKETS: WHAT TRADE
RECIPROCITY MEANS FOR TRANSITION
ECONOMIES

116

GLOSSARY



STRENGTHENING
ECONOMIC
GOVERNANCE





STRENGTHENING ECONOMIC GOVERNANCE

The EBRD has entered a new phase in its efforts to foster sustainable market economies. With the adoption of its Economic Governance Strategy 2026-30, the Bank has reaffirmed that strong, transparent and accountable institutions are central to unlocking investment and delivering lasting transition impact. Economic governance now sits at the heart of the EBRD's strategic framework, reflecting the essential role that legal systems, regulatory frameworks and effective institutions play in shaping market outcomes and building resilient economies.

The strategy has a clear ambition: to deepen impact by promoting systemic change through a more integrated approach combining investment, policy engagement and technical cooperation. Achieving this requires coordinated action across the Bank and a renewed emphasis on embedding policy reform – anchored in robust legal frameworks – at the centre of operational engagement with clients and economies of operation.

The EBRD's Legal Transition Programme (LTP), led by the Office of the General Counsel, is essential to this effort. For more than three decades, the LTP has translated strategic priorities into concrete legal and institutional reforms, ensuring that policy objectives are reflected in laws, regulations and implementation practices. Its mission – to promote a sound legal and regulatory environment for business – is directly aligned with the goals of the Economic Governance Strategy.

As the strategy moves into its implementation phase, the LTP will serve as a key delivery engine, working closely with other Bank units engaged in policy dialogue. This collaboration will ensure that reforms are not only well designed but also embedded in investment operations and sustained over time. More specifically, integrating legal expertise into the Bank's broader policy work will be critical in areas such as corporate governance, financial regulation, public procurement and digitalisation.

The LTP's recent achievements illustrate how legal reform underpins economic governance and enables investment. With its portfolio of technical cooperation projects and initiatives, the programme has delivered tangible outcomes across regions and sectors. These results highlight both the scale of engagement and the importance of legal reform as a driver of the Bank's impact.

A central element of this work has been legislative and regulatory reform. During the past year, the LTP has supported the preparation and adoption of laws

and regulations that improve the business environment and strengthen market institutions. These reforms span financial-sector legislation, corporate governance frameworks, enforcement regimes and public procurement systems, contributing directly to the development of transparent and predictable markets.

Several examples demonstrate this impact. Working in close cooperation with other EBRD units, the LTP has supported the development of factoring and crowdfunding regulations in Jordan, which has expanded access to finance and supported market development. In Ukraine, it has helped to reform the governance of state-owned enterprises, strengthening oversight and transparency in key sectors. And in Mongolia, reforms to laws on enforcement agencies have improved debt recovery and contract enforcement, enhancing legal certainty for businesses and investors. Each of these initiatives shows how targeted legislative reforms can address market constraints and unlock investment opportunities.

These achievements underscore a simple but important point: that economic governance is not advanced through strategy alone, but also through the detailed legal reforms that shape how institutions function in practice. The LTP's comparative strength lies in bridging policy ambition and implementation, ensuring that reforms are both technically sound and practically effective.

This issue of *Law in Transition* reflects those priorities. The contributions examine how legal and regulatory frameworks can drive economic transformation, drawing on experiences across the EBRD's regions. They highlight the importance of coherent legal systems, effective institutions and sustained policy engagement in addressing key challenges, from climate governance to digitalisation and financial-sector reform.

As the EBRD begins implementing its Economic Governance Strategy, the role of legal reform will be more important than ever. The LTP will remain at the forefront of this effort, working closely with colleagues and partners to translate strategy into tangible results. Recent experience demonstrates that well-designed laws and strong institutions are not only enablers of investment but also fundamental drivers of sustainable and inclusive economic development.

Michael C. Strauss
GENERAL COUNSEL, EBRD





Economic governance is often discussed in strategic terms. Yet, as this issue of *Law in Transition* makes clear, its true significance lies in how it is implemented: within firms, markets and public institutions, and across sectors and geographical regions.

This issue brings together a set of contributions that move beyond frameworks and principles to explore how governance reforms are translated into practical arrangements. Collectively, these articles show that economic governance is not a single model or checklist but a set of tools that must be adapted, applied and sustained to deliver tangible outcomes – whether in corporate structures, financial systems or public policy.

The issue opens with a contribution by Gian Piero Cigna and Patrik Stålgren, who call for a bottom-up approach to corporate governance reforms, arguing that firm-level reforms can make a significant contribution to broader economic governance outcomes.

A complementary perspective is provided by Pavle Djurić and Bruno Sbardellini Cossi, who show how the Corporate Governance Development Framework helps development finance institutions to translate governance commitments into measurable impact.

At firm level, Anar Aliyev, Alberto Atienza Güell and Leyal E. Savas examine the succession challenges faced by family-owned businesses, showing how governance arrangements can evolve from founder-centric models to more institutionalised structures without control being undermined.

In the next piece, Milot Ahma looks at how the digitalisation of trade enhances transparency and accountability, strengthening governance in cross-border commercial relationships. This article also features contributions from Jamie Macadam and Christine Hagedorn.

The question of differentiation is then taken up by Gian Piero Cigna and Liubov Skoryk, who consider the question of whether corporate governance standards should be tiered to reflect the varying capacities and needs of firms and markets.

The growing intersection between governance and sustainability is addressed in several contributions to this issue. Hakan Ekim and Cem Gündoğan demonstrate how corporate governance reforms, including transition planning, can unlock access to climate finance across economies where the EBRD operates.

In parallel, Michael C. Strauss and Veronica Bradautanu examine the role of the International Sustainability Standards Board, showing that sustainability disclosure frameworks can strengthen decision-making, risk management and institutional capacity, rather than serving compliance alone.

In addition, sectoral perspectives look at how governance reforms operate in practice. Paul Moffatt and Chris Tassis draw lessons from mining-law reforms, identifying the key elements of effective systemic change in resource-rich economies.



Similarly, Catherine Bridge Zoller, with a contribution from Srdjan Kokotović, analyses banking-law reform in Kazakhstan, discussing resolution frameworks and the respective roles of the state and the financial sector.

Lastly, at the level of international finance and public policy, Eliza Niewiadomska and Morana Vučinić address the increasing tension between open and closed procurement models, making the case for multilateral development banks leading by example in promoting open procurement for their infrastructure projects.

Taken together, these contributions underline a central message: strengthening economic governance is not about adopting uniform standards or pursuing abstract ideals. It is about designing and implementing frameworks that work in context – supporting firms through transition, enabling markets to function effectively, and ensuring that public institutions deliver for citizens.

The diversity of perspectives in this issue reflects the breadth of the EBRD's operational experience and its partnerships across regions. It also highlights the increasingly interconnected nature of governance challenges – from climate finance and sustainability disclosure to trade, procurement and sectoral reform.

As editor-in-chief, I am grateful to all authors for contributing insights grounded in practice. Their work demonstrates that economic governance, when effectively delivered, is a powerful driver of sustainable and inclusive development.

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BEYOND THE FIRM: TRANSMITTING THE GOVERNANCE DIVIDEND FROM THE BOARDROOM TO THE NATIONAL ECONOMY



“ Firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs. ”



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Corporate governance and economic governance are closely connected. Until now, analysis of the links between them has tended to focus on the top-down perspective – the idea that better laws and enforcement make better companies – but this article develops a complementary bottom-up perspective. It shows how five transmission pathways – demonstration, finance, market integrity, collective standard-setting and human capital diffusion – can enable firm-level governance reforms to contribute to wider governance outcomes. These bottom-up effects are reliant on enabling conditions such as visible performance signals and supportive external catalysts, especially in transition markets where top-down reform is slow. The approach adopted here is conceptual and informed by practice, offering an analytical framework rather than causal proof. The aim is to provide investors, development finance institutions and reformers with a structured way of thinking about firm-level governance as a lever for broader institutional gains.



INTRODUCTION

Economic governance shapes the environment in which firms operate, compete and invest. It determines whether rules are predictable, institutions are accountable and data are reliable, and whether decisions are governed by transparency rather than discretion. Where this environment is weak, resources are misallocated, transaction costs rise and investors face elevated risks. Where it is stronger, firms can make longer-term decisions, capital can be allocated with greater confidence, and markets are better able to support productivity and resilience.¹

Much policy attention has focused on how this economic governance ecosystem is built. The prevailing approach emphasises a top-down pathway: stronger institutions, better laws and more effective enforcement drive better economic governance. With this approach, corporate governance – the system by which companies are directed and controlled – is treated primarily as a product of the surrounding legal and institutional environment. Good laws, in short, make good companies.

However, in many contexts, the top-down pathway is incomplete, slow or contested. Laws may be adopted before institutions are capable of enforcing them. Regulators may lack independence or capacity. Firms may comply formally while preserving old decision-making processes in practice. In such environments, the existence of rules does not necessarily mean that governance actually changes.

This gap creates space for a complementary and reinforcing bottom-up perspective. This article considers the idea that firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs. It asks whether better-governed companies can help to shape the institutional environment around them, rather than merely reflecting it. The answer advanced here is cautious but affirmative and is developed through five distinct pathways that form part of a complex reform process, with complementing and competing drivers operating over long periods and in conjunction with top-down processes.

These dynamics matter most where top-down reform is weak – that is to say, where institutional capacity is limited, enforcement is uneven and regulatory authority is fragmented. In such settings, strategically important, visible

¹ See World Bank Group (n.d.).

“ Firm-level reform is not intended to replace legal or regulatory change, but it can help to generate the incentives, standards and practices through which such change becomes more effective. ”

or externally financed firms can become channels through which governance expectations, incentives and practices begin to spread.

The framing changes how governance interventions are designed, sequenced and evaluated – not only within firms but also for their potential wider market and institutional effects. The implications outlined in the final section address the question of how development finance institutions (DFIs), investors and reform-minded public actors should shape company-level reform so that it can contribute to broader economic governance outcomes where conditions allow.

FIVE REFORM PATHWAYS: CORPORATE GOVERNANCE AND BEYOND

If we accept that firm-level corporate governance reform can contribute to broader economic governance outcomes, the next question is how exactly that happens. This article identifies five pathways through which governance improvements within companies may spill over into the wider economy (see Figures 1 and 2): **demonstration, finance, market integrity, collective standard-setting and human capital diffusion.**

The EBRD's Economic Governance Strategy 2026-30: corporate governance as a foundation for systemic reform

The EBRD's Economic Governance Strategy 2026-30² regards corporate, sectoral and economy-wide governance as mutually reinforcing elements. In this respect, it reflects the bottom-up logic developed in this article: corporate governance is not only a safeguard within individual investments, but can also serve as an entry point for sectoral and wider institutional reform.

Firm-level reform is not intended to replace legal or regulatory change, but it can help to generate the incentives, standards and practices through which such change becomes more effective.

These pathways are not a causal model. They are a practice-informed framework for identifying how firm-level reforms may influence markets, sectors or institutions. Their logics differ: demonstration turns visible results into benchmarks; finance makes governance relevant to capital; market integrity clarifies the boundary between commercial and political decision-making; collective standard-setting turns shared expectations into market practice; and human capital diffusion transfers governance know-how through people. In practice, these pathways often overlap. A single reform episode may improve internal decision-making, attract investor scrutiny, generate visible

² See EBRD (2026).

results, influence peers, support sectoral standards, and train professionals who later share and communicate those practices elsewhere. Conversely, a reform may remain confined to the company in question if it is invisible, commercially irrelevant, politically unsupported or disconnected from wider market incentives.

The framework is deliberately conditional. Bottom-up transmission depends on whether firm-level reforms are **visible**, **credible** and **consequential** to actors outside the firm. External actors – including DFIs, investors, exchanges, reform coalitions and public

“Bottom-up transmission depends on whether firm-level reforms are visible, credible and consequential to actors outside the firm.”

Figure 1. Top-down and bottom-up approaches to strengthening economic governance

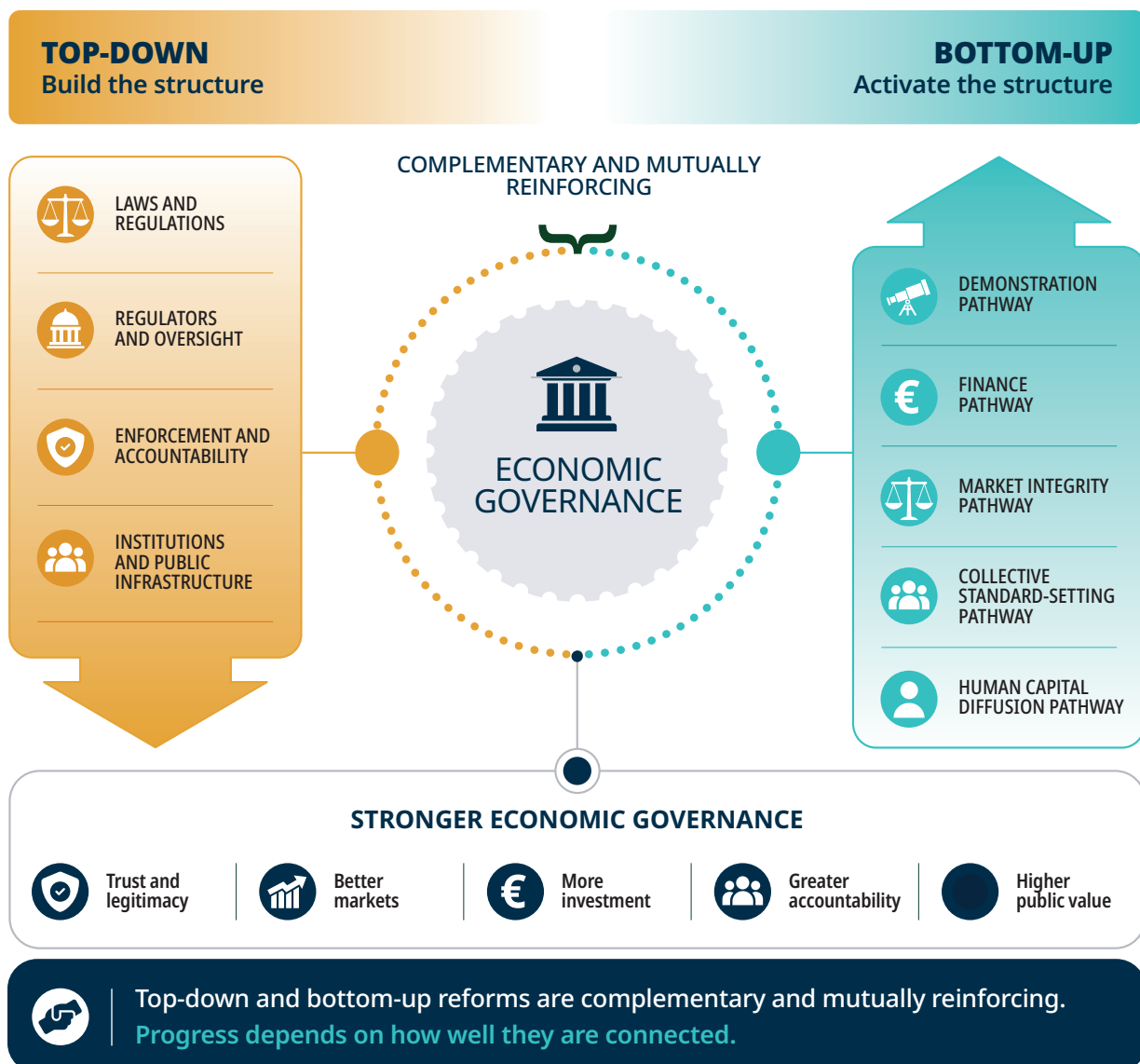


Figure 2. The five pathways of bottom-up transmission

Pathway	Transmission logic	Main actors	Requirement for activation	Typical risk
Demonstration 	Visible results lead to imitation by peers	Firms, peers, investors, regulators	Results are observable and credible	Reform is formal but results are unclear
Finance 	Governance affects access to capital or terms of financing	Firms, lenders, investors, DFIs	Capital providers treat governance as material	Governance becomes box-ticking exercise
Market integrity 	Governance of state-owned enterprises (SOEs) clarifies commercial/ state boundaries	SOEs, state owners, boards, international financial institutions, regulators	Internal reform is protected by external support	Political interference reverses reform
Collective standard-setting 	Market actors converge around shared standards before laws adopted	Exchanges, issuers, investors, regulators	Standards are visible, monitored and commercially relevant	Voluntary standards lack credibility or enforcement
Human capital diffusion 	People carry governance know-how across institutions	Directors, managers, lawyers, advisers, officials	Professionals internalise and communicate practices	Skills remain confined to a small elite

Source: EBRD.

authorities – can help to create these conditions by linking governance commitments with finance, supporting implementation, convening market actors or translating company-level experience into wider standards. Their role is not to replace company ownership of reform but to reinforce it.

The five pathways should therefore be seen as complementary channels of transmission, rather than separate reform recipes. Taken together, they provide a structured way of analysing when corporate governance reform remains confined to the firm and when it may generate a wider governance dividend.

1. The demonstration pathway

The first pathway is the **demonstration** channel³ – when governance reform in one firm creates a visible benchmark that others regard as credible and attainable.

In markets where strong governance practices are uncommon, a company that strengthens its board, improves disclosure, professionalises internal controls or separates commercial management from political interference may show that a different standard of corporate behaviour is possible. The result is not legal compulsion but selective imitation: peers, investors, regulators or public authorities begin to treat the reformed company as evidence of what can be expected elsewhere.

Demonstration depends less on the formal adoption of governance measures than on the **results that they produce**. A new board structure or disclosure policy rarely influences

³ See DiMaggio and Powell (1983) and Connelly et al. (2011).

others simply because it exists. It becomes demonstrative when it is associated with observable improvements – stronger performance, more credible reporting, greater resilience, reduced political interference or more disciplined decision-making. In that sense, the signal is activated by results.

The pathway is strongest where the company is highly visible: large, strategically important, listed, state-owned, systemically relevant, or active in a concentrated sector. In such settings, one firm's governance performance can become a reference point for others. Boards that previously had no genuine responsibilities may be expected to exercise real oversight; limited disclosure may become harder to defend; and governance practices that were once viewed as exceptional may gradually become part of the competitive or institutional baseline in the market.

Ukraine's Naftogaz illustrates this logic in the SOE sector.⁴ Its reforms became influential not simply because new formal arrangements were adopted but because they were associated with visible improvements in transparency, partial depoliticisation of decision-making, financial discipline and results. As these outcomes became harder to ignore, other major Ukrainian SOEs came under pressure to align aspects of their own governance with the Naftogaz model. The demonstration effect was reinforced by international partners, but it depended on the ability of the reform process to generate results that could be observed and used as a reference point.

The Ukrainian case also shows that demonstration is shaped by context. The "Maidan Revolution", recurrent gas crises and, later, Russia's war on Ukraine heightened public scrutiny, increased the cost of poor governance, reinvigorated the pressure for change and made the performance of Naftogaz more consequential for the wider reform agenda. In that environment, governance results acquired significance beyond the confines of the company.

Brazil's Novo Mercado illustrates a different form of demonstration. BOVESPA – the São Paulo stock exchange – introduced the listing segment Novo Mercado and its tiered governance levels in 2000, linking stronger governance practices to clearer market signals. Early adopters showed that stronger disclosure, shareholder protections and improved board practices could be associated with investor confidence and deeper market interest. As those results became visible, Novo Mercado evolved from a voluntary segment to a broader reference point for the Brazilian equity market.⁵

The contrast is instructive. In Ukraine, crisis, strategic importance and external reform coalitions amplified the signal. In Brazil, a stock-exchange platform made governance standards visible and commercially relevant. In both cases, governance reform became persuasive because it was linked to outcomes that others could observe and regard as worth emulating.

The demonstration channel should not be overstated. Peers may choose not to imitate if stronger governance threatens entrenched interests, imposes short-term costs or produces benefits that are difficult to observe. A reformed company may remain an exception rather than a benchmark. The pathway works only where the signal is **visible, credible** and **consequential** to others.

For reformers, the lesson is practical: if demonstration effects are intended, the results of reform need to be observable and interpretable through disclosure, performance tracking, peer learning, investor engagement or links to wider sectoral reform.

⁴ See Cigna et al. (2025).

⁵ See Alexandru et al. (2008).

2. The finance pathway

The second pathway is the **finance** channel – when governance becomes material to a company's ability to access capital, attract investors or obtain financing on better terms. Unlike demonstration, which depends on visible results that others regard as worth imitating, the finance pathway depends on governance becoming **commercially consequential**. It affects capital allocation and shows other firms what investors, lenders or DFIs are prepared to reward.

The mechanism usually comprises three stages. First, a company improves governance in ways that investors or creditors consider relevant to risk, confidence or long-term value – for example, through stronger board oversight, better disclosure, reliable audit arrangements or clearer shareholder protections. Second, those improvements contribute to a financing outcome: the company obtains capital, attracts a new class of investor, improves financing terms or gains access to a market that would otherwise have been difficult to reach. And third, these standards become a de facto benchmark over time: firms seeking comparable access to capital recognise that they will be assessed against similar governance expectations. Other firms then begin to infer that the quality of governance is not merely a matter of compliance or reputation but a factor in capital allocation.⁶

This pathway is especially relevant where legal rules exist but investor confidence remains weak. Here, firm-level governance reform can partially compensate for weaknesses in the surrounding institutional environment by giving investors a more credible basis for trust in a particular company.⁷ Wider effects arise only if the financing result is observable and interpretable. Once other firms see that stronger governance has helped to unlock capital, reduce perceived risk or attract a more demanding investor base, they may expect to be assessed against similar standards.⁸

TBC Bank in Georgia illustrates this logic. Successive financing rounds with international financial institutions made board independence, audit oversight and disclosure of compliance with International Financing Reporting Standards part of the credibility package for external capital, culminating in TBC being listed on the London Stock Exchange in 2014. The visibility of this trajectory helped to spread the word: Bank of Georgia, TBC's main domestic competitor, then followed a similar path. By the mid-2010s, the two leading banks had created a de facto governance benchmark that went above and beyond domestic legal requirements.⁹

Infosys in India is an example of the same mechanism in a different setting. The company's NASDAQ listing in 1999 – the first by an Indian-registered company – established a reference point for what an emerging-market technology firm could offer international investors. Its voluntary adoption of disclosure and board practices ahead of domestic requirements, combined with access to international capital markets, made governance quality visible to investors and competitors. Other leading Indian technology firms progressively complied with similar expectations in order to appeal to comparable sources of capital and credibility. The market signal later contributed to regulatory uptake, as elements of these practices were incorporated into the national governance framework for listed companies.¹⁰

⁶ See Temiz et al. (2026).

⁷ See Klapper and Love (2004).

⁸ See Aggarwal et al. (2011).

⁹ See <https://www.ebrd.com/news/2015/georgias-tbc-bank-and-the-ebrd-work-together.html>.

¹⁰ See Infosys Limited (1999-2005) and SEBI (2003).

The limits of this pathway are important. Finance transmits governance standards only where capital providers care about governance and where firms have incentives to seek that capital. If financing is available regardless of the quality of governance, or if investors treat governance as a box-ticking exercise, the pathway weakens. The pathway may also be limited in closed markets, concentrated ownership structures and sectors where firms are not dependent on external finance.

“If financing is available regardless of the quality of governance, or if investors treat governance as a box-ticking exercise, the pathway weakens.”

For reformers and investors, the practical implication is that governance-linked financing should be designed with transmission in mind. Commitments are more likely to generate wider effects when they are specific, monitored over time, linked to meaningful financing consequences and visible to other market participants.¹¹ When that signal is **visible**, **credible** and **consequential**, finance can turn company-level reform into a market benchmark.

3. The market integrity pathway

The third pathway is **market integrity**. This is most relevant where state-owned, state-controlled or systemically important firms operate at the boundary between commercial activity and public authority. In such settings, weak corporate governance does not just create internal inefficiency. It can also distort markets by allowing political direction, preferential treatment, opaque subsidies, conflicted procurement or repeated state support to shape how the company competes and allocates resources.

With this pathway, governance reform starts inside the firm and helps to clarify the boundary between the firm's commercial role and the state's ownership, policy or regulatory functions. A stronger board, a clearer mandate, more transparent reporting, disciplined procurement and greater insulation from day-to-day political intervention can create a limited “zone of integrity” inside the enterprise. Within that zone, decisions are more likely to be taken on commercial, transparent and accountable terms.

This internal progress can have wider effects when it changes how the firm interacts with the market. When a reformed state-owned enterprise procures more transparently, prices more commercially, discloses more reliably or resists ad hoc political instructions, this can reduce opportunities for market distortion. It may also make the costs of political interference more visible. Thus, the pathway is not about improving one company – it is about using company-level reform to expose, constrain or gradually reshape the state-enterprise relationship.

The pathway is fragile, because internal reformers rarely control the wider political environment. A board or management team may seek to operate commercially, but still face pressure from ministries, political patrons, vested interests or competing policy mandates. Consequently, market integrity effects usually require an external bridge. Investors, creditors, international partners, reform-minded officials and regulators can reinforce internal governance reforms by linking them to finance, policy dialogue, ownership policy,

¹¹ See Kim et al. (2021).



legislation or sector reform. Their role is not to replace domestic ownership of reform but to make interference more costly and reversal more visible.

Ukraine's Naftogaz illustrates this pathway. Its governance reform did more than just create a demonstration effect for other SOEs – it exposed the contested boundary between a strategic state-owned company and the state as owner, policymaker and political actor. Efforts to professionalise the board, strengthen oversight and depoliticise decision-making were repeatedly met with attempts to influence appointments, strategy and management control. The country's 2024 law strengthening the authority of supervisory boards reflected a decade of pressure from the firm and surrounding reform coalitions. When the company-level governance reform acquired wider institutional significance, it contributed to changes in the legal framework that extended beyond the energy sector.¹² In this case, company-level reform could not be secured without a clearer legal and institutional settlement of the state-SOE relationship. Its significance lies less in the success of this particular story than in the way the struggle around Naftogaz made the need for broader SOE ownership reform visible.

Uzbekistan's power sector illustrates a related but different form of the pathway. There, reform began with the restructuring and "corporatisation" of the old vertically integrated utility Uzbekenergo, separating generation, transmission and distribution functions. This clarified commercial roles and created a platform for wider sector reform. That firm-level starting point helped to clarify commercial roles within the sector and created a platform for wider market-facing reforms: the sector moved towards a more independent regulatory framework, competitive renewable-energy auctions were introduced and, ultimately, Law No. LRU-939 "On Electric Energy" was adopted in 2024.¹³ What began as firm-level corporate restructuring eventually supported a clearer separation of commercial, regulatory and policy roles in the sector, alongside more transparent arrangements and competitive renewable-energy investment.

¹² See Cigna et al. (2025) and OECD (2026).

¹³ Law of the Republic of Uzbekistan No. LRU-939 of 7 August 2024 "On Electric Energy" entered into force on 9 November 2024. For an EBRD account of the related sequence of reforms, see EBRD (n.d.).

The two examples show different variants of the same logic. In Ukraine, market integrity centred on protecting a strategic SOE from political interference and translating that contest into wider ownership reform. In Uzbekistan, it centred on restructuring a sector so that commercial activity, regulation and policy could be more clearly distinguished. In both cases, the corporate governance reform mattered beyond the firm in question, because it helped to clarify how state-linked enterprises should operate in a market economy.

The limits are clear. Market integrity effects are difficult to sustain when political incentives remain unchanged, ownership functions are fragmented, boards lack real authority, or governments continue to use SOEs as instruments of short-term policy or patronage. A reformed SOE may remain an island of better governance if the state does not accept corresponding limits on its own intervention.

For reformers, the lesson is that SOE governance should not be treated as a purely internal corporate matter. Where state-linked enterprises shape markets, governance reform should also clarify mandates, protect board authority, separate ownership from regulation, improve disclosure, discipline procurement and make the cost of interference visible.



4. The collective standard-setting pathway

The fourth pathway is **collective standard-setting** – when firms, investors, exchanges, regulators or professional bodies coordinate around shared governance expectations before those expectations are fully embedded in law. Unlike the demonstration pathway, this does not rely on a single leading company generating emulation through visible results. Unlike the finance pathway, it does not turn primarily on one financing decision. Its distinctive logic is coordination: market actors use codes, investor principles, industry standards or monitoring frameworks to define, benchmark and socialise governance expectations across a market, making them increasingly difficult to treat as optional.

This mechanism typically comprises three steps. First, a platform or coalition articulates a standard (a code, segment rulebook, set of investor principles, rating methodology or disclosure template) that translates “good governance” into specific and comparable expectations. Second, a critical mass of issuers and investors treats that standard as a credible reference point for market participation – often, because it reduces uncertainty, levels expectations and helps to overcome the collective-action problem whereby no firm wants to be the first mover. Third, once adherence (or non-adherence) becomes observable through reporting, benchmarking, ratings or public statements, the standard begins to operate as a *de facto* baseline: it shapes what firms regard as normal, what investors routinely ask for and what intermediaries (advisers, analysts, governance professionals, and so on) treat as the market’s reference point.¹⁴

This pathway is most relevant where legal reform is slow or contested or sets only minimum requirements, yet market actors have enough incentive and organisational capacity to coordinate around higher standards. It can also play a role where enforcement is uneven: collective standard-setting can partially substitute for weak enforcement by creating market-facing

¹⁴ See Cuervo-Cazurra and Aguilera (2004).

accountability. However, standards will not change behaviour simply because they exist. The pathway depends on four enabling conditions: (i) a credible coordinating platform (an exchange, a respected professional body or an investor coalition); (ii) clarity and comparability (standards that can be interpreted and assessed, rather than aspirational slogans); (iii) monitoring and publicity (regular reporting, benchmarking, ratings or “comply or explain” statements that make adherence visible); and (iv) market salience (investors, index providers, analysts or counterparties that treat the standard as relevant to credibility, access or valuation). Where these conditions are absent, collective standards tend to remain decorative.

Romania illustrates the national version of this pathway. For many years, the Bucharest Stock Exchange’s Corporate Governance Code was largely disregarded as a market discipline tool, and its revision in 2014-16 did not by itself change market behaviour. Its value emerged when major state-company listings, including Romgaz and Electrica, publicly committed to aligning with the code in their prospectuses. Their successful public offerings showed that pledging to align with an agreed governance benchmark could strengthen the credibility package offered to investors, turning code alignment from a formal exercise into a market signal. As other issuers observed this link between governance standards, investor confidence and access to capital, the code began to function as a collective market benchmark. The 2024 revision process, framed by Romania’s efforts to accede to the Organisation for Economic Co-operation and Development (OECD), followed the same logic: standards matter when they are visible, monitored and commercially relevant.¹⁵

A clearer “platform” variant can be seen in exchange-led premium segments that set higher governance entry thresholds and embed ongoing assessment. The **Nigerian Exchange’s Premium Board**, for example, is explicitly designed as a listing segment for issuers meeting the exchange’s most stringent corporate governance and listing standards, framed as adherence to international best practices. Admission requirements include

evaluation under the exchange’s Corporate Governance Rating System (CGRS) and achievement of a minimum score (70 per cent), alongside market capitalisation and free-float thresholds. The governance effect here is not a single firm’s demonstration or a single financing outcome; it is the institutionalisation of a benchmark that issuers can choose to meet, investors can recognise and the exchange can periodically reassess – thereby making governance quality comparable, verifiable and tied to an identifiable market status.¹⁶

Together, these examples show how collective standards gain force. In Romania, a national code became influential when visible issuers treated it as a market-facing benchmark and others could read investors’ responses through the market. In the premium-segment variant, an exchange-created platform translated governance expectations into threshold criteria and structured assessment, making adherence legible and repeatable across issuers. In both cases, standards mattered because they were institutionally organised, publicly legible and connected – directly or indirectly – to credibility and market participation.

The limits of this pathway are worth noting. Collective standards may remain superficial if they are vague, if assessment is weak, if reporting becomes formulaic, or if investor behaviour does not meaningfully differentiate between adopters and non-adopters. They can also fail through fragmentation: multiple competing standards may dilute comparability and make expectations negotiable. Finally, collective standards can be co-opted: if governance labels become reputational marketing rather than a discipline enforced through monitoring and consequences, the pathway degenerates into box-ticking. Thus, the pathway only works when standards are sufficiently clear, public, monitored and consequential – and when there are mechanisms that make adherence, and failure to adhere, visible.

¹⁵ See Cigna (2017) and EBRD (2013).

¹⁶ For more information, see <https://ngxgroup.com/exchange/raise-capital/premium-board>.

For reformers, the practical lesson is to design collective standard-setting as a bridge between market practice and formal law. Codes, investor principles and industry standards can prepare the ground for legal reform by creating shared expectations, testing what the market can absorb and building a vocabulary of governance that regulators can later codify. But credibility is the hinge: platforms need regular monitoring, transparent publication of adherence and enough investor attention to make the standard matter in practice. When these conditions are present, collective standards can help to transform voluntary governance practices into a recognised market baseline.

“Credibility is the hinge: platforms need regular monitoring, transparent publication of adherence and enough investor attention to make the standard matter in practice.”



5. The human capital diffusion pathway

The fifth pathway is **human capital diffusion**. This captures the way in which governance reform travels through people: directors, executives, lawyers, auditors, advisers, regulators and public officials who experience governance in practice and later carry those expectations into other organisations. This pathway is less visible than the demonstration, finance or standard-setting channels, but it can be highly durable. Formal rules and codes matter, but they require people who know how to interpret, apply and defend them.

This pathway operates when individuals participate in genuine governance reform rather than formal compliance alone. A director who has served on an empowered board, a manager who has worked with transparent reporting lines, a lawyer who has structured board decision-making or a regulator who has seen effective risk governance in practice will develop expectations about how governance should work. When those individuals move across firms, sectors, advisory markets or public institutions, they carry with them professional habits and standards that can influence new settings.

This is especially important in transition and emerging-market contexts, where governance capacity may be weak and formal legal reform may outpace institutional practice. A country can adopt sophisticated company laws, listing rules or governance codes, but these instruments remain fragile if boards do not exercise judgement, managers do not escalate issues, auditors lack authority, regulators lack practical understanding or advisers treat governance as paperwork. Human capital diffusion helps to close the gap between rules on paper and governance in operation.

The banking reforms and privatisations in central and eastern Europe in the 1990s and 2000s illustrate this dynamic. Reformed banks produced a generation of risk officers, internal auditors, compliance professionals, board members and managers who learned governance as an operational discipline: how decisions are documented, how risks are

escalated, how independence is protected and how controls are embedded in daily practice. When these professionals moved into other financial institutions, supervisory bodies, companies in the real economy and advisory firms, they took their governance expectations with them.¹⁷

South Africa offers a related example through the governance tradition associated with the *King Reports*. Over time, directors, company secretaries, audit committee chairs, lawyers and board advisers who were trained in that tradition carried governance expectations into other companies and, in some cases, into neighbouring markets. The influence did not depend solely on legislation. It travelled through professional authority, board practice, advisory work and the credibility of individuals who had internalised a governance culture.¹⁸

“Human capital diffusion helps to close the gap between rules on paper and governance in operation.”

These two examples point to a bottom-up pathway for economic governance reform. Governance reform generates durable effects when it creates professionals who have internalised governance as a practice rather than a compliance matter – and when labour markets, advisory networks and institutional mobility allow those professionals to carry their expectations into new settings. The broader implication is clear: a country may adopt sophisticated governance laws, codes or listing rules, but without people capable of interpreting, applying and defending them, reforms are at risk of remaining formal rather than being effective.

The limits of this pathway are also clear. Diffusion may remain narrow if skilled professionals are concentrated in a small elite, if mobility is limited, if boards and regulators do not value independent judgement, or if governance expertise is used only to satisfy formal compliance requirements. There is also a risk that governance knowledge may become consultant-driven, rather than being institutionally embedded. In such cases, expertise circulates, but practice does not necessarily change.

For reformers, the practical lesson is that governance interventions should be designed to create people as well as procedures. Board reforms, advisory projects, policy dialogue and financing conditions should produce individuals who understand how governance works in practice and can carry that experience elsewhere. This requires attention to board evaluation, director training, professional networks, advisory capacity, succession planning and the practical authority of governance functions inside organisations. When governance experience is internalised and mobile, firm-level reform can contribute to the gradual creation of a wider governance culture.

IMPLICATIONS: FIRMS AS AGENTS OF INSTITUTIONAL REFORM

The five pathways suggest a practical shift in how corporate governance reform is designed and evaluated. Firm-level reform should not be treated purely as a safeguard for a particular investment or as an internal compliance exercise. Under the right conditions, it can also serve as an entry point for broader market and institutional change. This does not mean that companies will replace regulators, courts or public institutions. It means that governance reforms inside companies can sometimes create the signals, incentives, standards and professional capacity through which wider

¹⁷ For more information on the banking transition in central and eastern Europe, see EBRD (2006) and World Bank Group (2005). For details of the role of foreign bank entry and governance norm transfer in central and eastern Europe, see Haselmann et al. (2010).

¹⁸ See Institute of Directors in Southern Africa (2016). On the regional diffusion of King-influenced norms, see Rossouw (2005) and Anderhofstadt et al. (2025).

economic governance improves: firm-level corporate governance reform can be both an outcome of economic governance and one of its inputs.

For investors, development finance institutions and reformers, the question is not only (i) whether a company has adopted better governance arrangements, but also (ii) how these arrangements can be designed and embedded in wider reforms to increase the likelihood of wide governance effects.

This has a number of practical implications (see Figure 3).

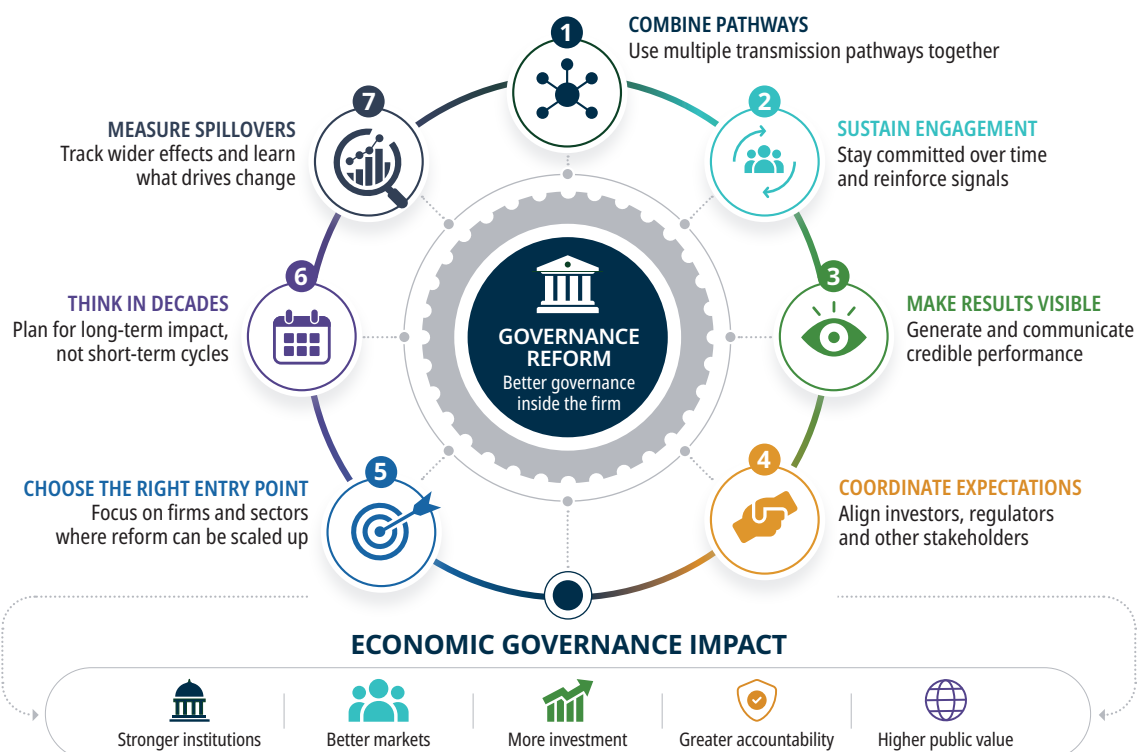
First, pathways should be activated in combination, not in isolation. The five pathways are complementary. A reform that improves board oversight may also support better disclosure, attract more demanding capital, influence peer expectations, feed into a sectoral code and train professionals who later take the practice elsewhere. Reformers should ask, at the outset, which pathways are realistically available in a particular context and how they can be connected (see below).

Second, conditionality should be treated as a relationship, not as a one-off transaction.

Governance commitments attached to financing are most effective when they are specific, monitored and revisited over time. A one-off covenant may secure formal adoption, but repeated engagement supports implementation, adaptation and learning, as well as spillover into new economic governance benchmarks.

Third, results should be made observable and interpretable. Demonstration effects do not arise simply because a company adopts a new governance structure. Other actors must be able to see what has changed and why it matters. This may require clearer disclosure, public reporting, peer learning, board evaluation, case-based communication or links to sector-level reform processes. If the wider market cannot understand the relationship between governance reform and improved performance, resilience, transparency or investor confidence, the reform is unlikely to become a benchmark.

Figure 3. Seven actions to turn firm-level governance reform into wider economic governance impact



When firms lead with integrity and collaborate across the ecosystem, reform becomes a catalyst for stronger institutions and shared prosperity.

Source: EBRD.

Fourth, governance expectations should be coordinated across actors. A firm-level reform is more likely to have wider impact when investors, lenders, international partners, exchanges, regulators and reform-minded public authorities reinforce similar expectations. Fragmented demands make governance negotiable and easier to dilute. Coordinated expectations can help to turn company-level commitments into market norms, particularly where domestic enforcement remains weak.

Fifth, the entry pathway should be chosen according to the context. In a company seeking external capital, finance may be the most effective initial lever. In a visible SOE, market integrity may matter more. In listed markets, collective standard-setting through exchanges or governance codes may provide the best platform. Where formal rules exist but implementation capacity is weak, human capital diffusion may be key. The framework should therefore be used diagnostically, not mechanically.

Sixth, it is important to plan for long horizons, but act when reform windows open. Bottom-up governance effects often unfold over periods that are longer than the duration of individual transactions, advisory projects or political cycles. However, reform opportunities may arise suddenly during crises, political transitions, episodes of fiscal pressure or moments of market opening. Reformers need both patience and readiness: the patience to build relationships, credibility and capacity before a window opens; and the readiness to act when conditions make previously blocked reforms possible.

Seventh, effects should be measured beyond the firm level. Standard governance metrics remain important, but they do not capture the wider governance dividend. Reformers should also ask whether peers' behaviour has changed, investors' expectations have shifted, standards have been incorporated into codes or regulation, state-enterprise boundaries have become clearer, or governance professionals are moving into new positions and taking practices with them.



These effects are harder to identify, but they are central to understanding whether firm-level reform has contributed to wider economic governance.

Not every firm can generate wider effects, and not every governance reform should be expected to do so. Some reforms are necessary for risk management, even if they produce no systemic spillover. The purpose of the framework is not to overburden every company-level intervention with institutional ambitions. It is to help reformers to identify situations where wider effects are plausible and design interventions accordingly.

Firms can only act as agents of institutional reform when reforms are substantial enough to change behaviour, visible enough to be observed, credible enough to be trusted and consequential enough to affect incentives. Where those conditions are absent, corporate governance reform may still improve the company in question, but it is unlikely to travel any further afield. Where they are present, the firm can become a channel through which market expectations, regulatory ideas and professional practices begin to shift.

CONCLUSION

Corporate governance and economic governance are often treated as moving in one direction: better laws, stronger regulators and credible enforcement produce better-governed companies. That remains true. But the relationship can also run the other way. Under the right conditions, governance reforms inside companies can influence the wider environment in which markets operate.

This article has identified five pathways through which that bottom-up transmission may occur. They work through visible results, capital allocation, clearer state-enterprise boundaries, shared standards and the movement of skilled professionals across institutions. None of them are automatic. A reform may remain confined to the company if it is invisible, commercially irrelevant, politically unsupported or treated as a formal compliance matter. But if it is visible, credible and consequential, it can shape expectations and behaviour beyond the confines of the firm.

The idea is not that companies should replace public institutions, or that every firm can become an agent of institutional reform. The reality is more modest and practical than that: in contexts where formal rules exist but institutions remain uneven or slow to change, firm-level reform can sometimes help to make institutional change more concrete. When the connection between company-level change and the surrounding market, institutional and professional systems is weak, reform may stop at the boardroom door. When that connection is strong, however, the boardroom can become one of the places where broader economic governance begins to change.



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THE NEXT CHAPTER FOR DFI COLLABORATION UNDER THE CORPORATE GOVERNANCE DEVELOPMENT FRAMEWORK



“ The Corporate Governance Development Framework functions not only as a set of commitments but also as a learning system – one that helps with the measurement of progress, the identification of bottlenecks and the sharing of workable practices. ”



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With governance risks multiplying – ranging from geopolitics and cyber-threats to artificial intelligence and sustainability pressures – development finance institutions (DFIs) are under growing pressure to turn governance principles into practical results. This article looks at how the Corporate Governance Development Framework (CGDF), launched by the EBRD and partner DFIs, is evolving from a shared methodology into a more action-oriented platform for cooperation. Drawing on discussions at the 16th Annual CGDF Network Meeting in London, it argues that the framework's future lies in usable tools, mutual reliance and stronger implementation support that can make governance reforms more visible, coordinated and effective.



Corporate governance is often described in general terms – transparency, accountability, effective boards, and so on – but for development finance institutions (DFIs), the challenge is more operational: how to turn governance expectations into tangible change in client companies operating across diverse legal systems, ownership models and market conditions.

The Corporate Governance Development Framework (CGDF) provides a shared approach to governance in investment operations. Established in 2011 by the EBRD, IDB Invest and other DFIs, it offers a common methodology and toolkit for assessing and strengthening investee companies' governance – supporting greater transparency, accountability and coordinated impact across markets.

In November 2025 DFIs and partners convened in London for the 16th Annual CGDF Network Meeting. The discussions highlighted the speed with which the key issues affecting the governance landscape are shifting – from geopolitical risk and cyber-threats to disruption by artificial intelligence (AI) and fast-expanding sustainability regulation – and underlined DFIs' need for a shared approach that is practical, comparable and scalable.

A MEETING TAILORED TO TODAY'S GOVERNANCE REALITIES

The 16th Annual CGDF Network Meeting was designed as a two-day conversation with two distinct purposes: (i) to debate the governance issues that are currently reshaping markets; and (ii) to provide a forum for DFIs to compare notes on framework implementation. The mix of thematic discussions and practical exchanges reflected a core idea – that the CGDF is not only a repository of principles but also a mechanism for making governance deliver in investment operations.

The theme of the event – “Navigating the shifting landscape” – captured the convergence of pressures affecting both market and governance expectations. The opening session framed the current governance environment in practical terms: how boards maintain oversight, exercise judgement and respond to risks. Boards are being pulled in many different directions, having to deal with multiple issues simultaneously: geopolitical volatility and trade disruption; cybersecurity, operational resilience and the rising governance implications of AI; and an increasingly dense field of regulatory and reporting requirements. The first of the panel discussions, on the “boardroom 2025”, summed these pressures up in a single question: “How can boards steer through regulatory complexity, keep culture and human-capital oversight credible and build enough organisational ‘grip’ to respond to shocks?”



For DFIs, this is an operational question. Many investee companies, especially in emerging markets or complex ownership settings, must still grapple with uneven board maturity, management-centric information flows and internal controls that were not built for today's pace of risk. In that context, governance becomes a critical driver of resilience and performance: clearer board mandates, stronger reporting and more capable boards directly affect risk management and the quality of decision-making. The practical implication is that boards in particular must reinforce their connection to business strategy, while at the same time increasing their readiness to apply judgement and vigilance regarding various issues that lie outside their area of expertise and the "typical" remit of boards.

The discussion also explored the role that governance can play as an anchor of sustainability at a moment of market recalibration. Regardless of shifting environmental, social and governance labels or priorities, sustainable performance depends



The CGDF Network represents something quite distinctive: a shared commitment to raising governance standards in practice – not as an abstract notion, but as a concrete driver of competitiveness, resilience and sustainable growth. ”

Alba Bozo

Deputy General Counsel, EBRD

on board oversight, accountability for targets, and data integrity and transparency that supports decisions. Ultimately, governance determines whether sustainability commitments become an operational reality.

Another area of focus was the governance of state-owned enterprises (SOEs), where the implementation gap remains pronounced. Competing and unclear mandates, fragmented ownership functions and political economy constraints continue to pose challenges for the effectiveness of boards. For those DFIs – such as the EBRD – that invest in SOEs, engagement on governance often sits at the intersection of investment conditions, technical assistance and policy dialogue, making alignment across institutions critical to avoid mixed signals and support credible reform pathways.

Day one of the meeting also looked at whether implementation itself was a governance challenge. Discussions on incentives and conditionality reinforced a familiar but often underappreciated point: that governance reforms typically fail not because of a lack of standards, but because incentives, capacity and follow-through are insufficient.

FROM COMMON LANGUAGE TO USABLE TOOLS

On day two of the event, the focus shifted from themes to mechanics. The day opened with updates and the annual survey on CGDF implementation, before moving on to an exchange on how to embed CGDF commitments within institutions. The discussion centred on the realities of delivery: where corporate governance sits within institutional mandates; its dependence on internal processes, resources and incentives; and how to align with investment teams while coordinating with other DFIs on individual projects.

A key step in terms of bringing governance further into the mainstream is the creation of a questionnaire aligned with the recently developed CGDF Corporate Governance Progression Matrix. This is intended as a practical screening tool rather than a full

diagnostic instrument. Designed for broad applicability, it enables DFIs to approach governance through a shared structure, so they can avoid duplication in their requests to clients, align expectations regarding action plans and enable mutual reliance where appropriate. Experiences shared during the session showed how this could support more effective cooperation in joint investments, with one institution taking the lead on selected governance diagnostics and others relying on that work to streamline due diligence and engagement.

The broader discussion emphasised that tools are necessary but not sufficient on their own. Governance remains difficult to “see” internally unless it is linked to a clear logic of risk mitigation and performance and integrated into origination and due diligence workflows at an early stage. Incentives are crucial: meaningful governance improvements are more likely when clients are supported through a longer-term reform trajectory with milestones that encourage continuous progress and adaptation.

In that context, shared tools and collective learning can make governance work more actionable in practice. Screening instruments can focus attention on material gaps, training can build capacity, and benchmarking can make governance work more visible within institutions. Thus, the CGDF functions not only as a set of commitments but also as a learning system – one that helps with the measurement of progress, the identification of bottlenecks and the sharing of workable practices.

THE CGDF AS A COLLABORATION PLATFORM: THE NEXT PHASE

As the meeting came to a close, there was a clear sense of renewed commitment – and a shared recognition that, despite mounting pressures, DFIs need to use their investments more purposefully to raise governance standards and translate principles into measurable outcomes. Against that background, the CGDF’s focus in 2026 is on shifting from introspection to action.

If the CGDF is to stay ahead of a governance landscape that is evolving faster than most institutions can adapt, it needs to function less as a static toolkit and more as a practical mechanism for delivery – one that makes good governance easier to apply, evidence and coordinate across institutions. That distinction matters: it is the difference between a framework that is available and one that is actually used – and used early and consistently enough to influence investment decisions.

Recent work on stepping back and reassessing how the framework operates in practice – clarifying its mandate, approach to membership and onboarding of new participants – points in the same direction. Beyond process, the aim is to make collaboration more consistent, inclusive and effective, particularly as the CGDF community expands and takes on more ambitious initiatives.

Tools only create impact when they are understood, tested and refined through application. This places a premium on engagement – that is to say, not just sharing materials but creating feedback loops that help members to see what works, adapt approaches and build confidence in using them.

Most importantly, the CGDF can increase its relevance by making collaboration easier than working alone. In joint investments, this translates into mutual reliance: shared baselines, aligned diagnostics and coordinated engagement that, together, reduce duplication and lead to clearer, more implementable action plans. The building blocks are already in place:



Strong governance is not a luxury – it is the foundation of sustainable value creation. ”

Dirk Werner

Managing Director of the Equity Group, EBRD

common definitions, core checklists and templates that support alignment without requiring identical mandates or processes.

From this perspective, the next phase has three priorities: deepening implementation support where governance challenges are greatest; continuing to turn common language into practical, modular tools; and embedding collaboration in day-to-day practices, particularly for co-investments.

Ultimately, the relevance of the CGDF will be determined by whether it helps institutions move from commitment to delivery. Governance is not an abstract concept – it underpins strategy, shapes risk and determines whether priorities lead to outcomes. If the CGDF can make that connection clearer in practice, it will not only remain relevant but become indispensable.



AFTER THE FOUNDER: FIXING THE SUCCESSION GAP IN FAMILY FIRMS



“ Founder-led family firms present a familiar puzzle: the same governance characteristics that support their success – concentrated authority and personality-based control – can become vulnerabilities as the enterprise grows in scale and complexity, particularly as succession approaches. ”



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Founder-led family firms often thrive on speed, stakeholder trust and concentration of authority – until scale, business complexity and/or succession challenges turn those strengths into weaknesses. This article looks at the “succession gap” and offers a practical route from founder-centric governance to institutionalised oversight and control – aligning family governance arrangements with corporate governance requirements, professionalising the board and management, and preserving the business’s mission and long-term direction without the family having to surrender ownership and control.



INTRODUCTION

Family-owned businesses are major drivers of growth and employment. Family capital is often a key source of early-stage funding, and about 35 per cent of Fortune 500 companies are family-controlled. However, sustaining this success across generations is often difficult, even if the pervasive “three-generation rule” has been challenged by more recent evidence.¹ In that context, founder-led family firms present a familiar puzzle: the same governance characteristics that support their success – concentrated authority and personality-based control – can become vulnerabilities as the enterprise grows in scale and complexity, particularly as succession approaches. This article analyses that vulnerability – the “succession gap” – and proposes a phased framework for the transition from founder-centric governance to an institutionalised model, helping family firms to professionalise governance without losing control or requiring the founder to be personally involved in every aspect of the business. It does not provide a perfect model – no such model exists – but proposes a practical sequence of steps to help family firms adapt to their particular context.

¹ The “three-generation rule” refers to the widely cited view that family businesses often struggle to remain under family ownership or control beyond the founder’s grandchildren – a phenomenon sometimes described as “shirtsleeves to shirtsleeves in three generations”. This term is used here to capture the governance and succession challenges that can emerge across generations, rather than to suggest that such outcomes are inevitable. See Baron and Lachenauer (2021).

THE SUCCESSION GAP: WHY THE FOUNDER-CENTRIC MODEL CAN BREAK

The governance architecture of the founder-led firm is, characteristically, an extension of the founder’s own judgement and authority and is not inherently flawed. It is rational – a single decision-maker can compensate for lack of talent, immature systems, lack of speed and flexibility in decision-making, and uncertain markets. Decisions are fast, accountability feels direct, and stakeholders (including employees, suppliers and lenders) know exactly who is in charge.

Yet, this system contains clear dependencies: strategic decisions are made by one person; there is reliance on informal controls and personality-driven oversight; and institutional knowledge is held by one individual rather than being distributed and transferable. While delegation may exist in some form, responsibility tends to rest with individuals rather than formal structures. Managers and family members may be capable, but the founder remains the key figure who handles the most crucial decisions, relationships and conflicts.

The founder-centric model works until it does not. Decision-making that was once quick starts to become overloaded as scale increases, paradoxically leading to delays, as all decisions depend on a single individual with a finite capacity to adjudicate on all matters. Because controls are informal, approvals, limits and checks are often driven by personal trust rather than documented processes. Oversight is also personalised – performance is assessed

through closeness to the founder or the family and through intuition, and not against agreed objectives that are subject to independent scrutiny. Critical stakeholder relationships – with banks and major customers or suppliers – continue to depend on the founder's standing. Finally, the mission, risk appetite and long-term ambition of the company may be implicitly understood within the family but not codified in a way that guides future leaders or non-family managers.

“The founder-centric model works until it does not.”

Founder-centric systems also tend to mask tensions within the owning family. As long as the founder remains the primary decision-maker and arbiter, disagreements can be deferred – but postponement is not resolution. Once the next generation enters the picture, unspoken expectations start to diverge as regards questions such as (i) who can or should work in the business, (ii) who sets remuneration, (iii) how performance is judged and (iv) who has a voice in determining strategy. Even if family relations are strong, the absence of explicit rules creates room for misunderstanding, and misunderstanding can lead to conflicts.

Certain factors and developments have the potential to bring the succession gap to the surface. Generational entry is the obvious one: new family members entering the business want clarity on roles and participation. Growth and complexity are another – in multi-company groups that are expanding into new territories or developing new product lines, informal decision-making is costly. External financing and investment add pressure too – lenders want predictability and controls, and institutional investors look for decision-making systems that do not depend on a single person and give investors a say over key strategic matters (see Box 1).



Box 1. Case study:

How the EBRD, as an investor, helped a family business to formalise its governance structure

After supporting a particular client – a large, diversified business group led by a strong founder in his 50s – through debt financing, the EBRD decided to strengthen that partnership through an equity investment. Although the group had been successful in consistently growing and expanding into new business lines in the past, its decision-making, particularly on important strategic matters, was still informal and revolved heavily around the founder. During project appraisal, it became clear that, given the size and the level of complexity that the group had reached, this lack of a formalised governance structure posed a significant risk to the group's operations. Consequently, the EBRD decided to use its entry as a minority shareholder as a catalyst for implementing deep and fundamental governance changes by proposing the adoption of a comprehensive corporate governance action plan that reflected the expectations of all shareholders.

Key elements of the plan, which was to be implemented gradually over a number of years, included: (i) the establishment of a supervisory board, together with the appointment of two external non-executive directors with a strong background in risk management and corporate governance; (ii) the establishment of an independent audit committee, overseeing improvements in financial and operational reporting; (iii) the creation of an “IPO (initial public offering) readiness” working group to prepare the company for listing on a reputable stock exchange, which had been identified as the desirable exit route for all parties; and (iv) the adoption of an ownership succession plan, a plan of succession for the chief executive officer and key management positions, and a family employment policy (as the founder's son was working for the business and had been identified as the prospective heir).

The corporate governance action plan was successfully implemented during the EBRD's holding period, which lasted several years. Although the preferred IPO exit did not materialise due to volatile market conditions, and the EBRD's stake was bought back by the founder, the governance improvements that were introduced during the investment period proved to be durable. The group retained those arrangements after the EBRD's exit, demonstrating that they had become embedded in the business, with those improved arrangements continuing to support the further expansion of the business and preparations for the eventual transfer of power to the next generation of the family.



Box 2. Case study:

How IFC helped a family business to strengthen governance after an unexpected succession crisis

An International Finance Corporation (IFC) client – a family-owned group operating across multiple businesses – was founded by a single family member, and that person was later joined by a second family member, who became central to day-to-day decision-making and growth. When IFC investment discussions were in the final stages, the key decision-maker died unexpectedly. The group had no effective governance structure: decision-making was highly centralised and informal, coordination across the various business units was weak, and policies were applied inconsistently. A family dispute arose over ownership and control, and the absence of a succession plan made alignment difficult.

IFC provided support, including a corporate governance assessment and improvement plan, followed by implementation support and capacity building. Measures included developing family governance policies (including a family employment policy), devising a succession plan, creating a holding structure to consolidate the operating businesses, appointing an independent director with financial expertise at the level of the holding structure, establishing a company secretary function to guide board work, and creating an internal audit function. The two second-generation successors were assigned to different business units based on their respective skillsets, which helped to reduce tensions and stabilise decision-making. This case study illustrates the value of putting governance arrangements in place at an early stage, rather than waiting until a trigger event/crisis occurs.

Finally, health scares and other unexpected events can force a transition when neither the family nor the business is ready (see Box 2).

Deferring succession planning tends to amplify these risks. Families that are focused on day-to-day operational management have strong incentives to treat governance reform as a future concern, especially when the business is operating successfully. The absence of a written plan leaves assumptions unchallenged and expectations misaligned across family members. The consequence is an accumulation of untested and unvoiced assumptions – about ownership expectations, management succession, dividends and the terms on which family members may enter the business – that remain unchallenged until a trigger event forces a rushed resolution under pressure and, frequently, amid interpersonal conflict.

As part of the solution, families need to distinguish between – while at the same time connecting – two concepts that are often confused: family governance and corporate governance. Family governance describes the mechanisms by which the owning family makes collective decisions: the allocation of voices among family members, the resolution of disagreement and the management of ownership across generations. Corporate governance is how the company is directed and controlled, through appropriate structures such as the board, management, internal controls and accountability mechanisms. In founder-led companies, the founder serves as the main family representative – both the owner and the executive manager – meaning that the two systems essentially overlap. As the family expands and the firm grows, formally separating the systems becomes a practical necessity, and each system must be reformed in alignment with the other.





CONTROL VERSUS PROFESSIONALISATION: THE WRONG PERCEPTION

The biggest obstacle to governance reform in family firms is often the misconception that professionalising governance means handing over control. This concern is understandable, but it is based on an incorrect assumption, and it can lead families to run their businesses in a suboptimal manner and delay changes until they are forced to act under pressure. The issue often stems from confusion between two different means of control: control exercised through the founder's direct personal authority; and control exercised through a system of durable institutions.

Control does not require constant day-to-day interference. In a well-governed firm, the family keeps control through rights, rules and institutions – not by the founder personally approving every decision. Reserved matters mean that all major and critical decisions still require family consent. Shareholders' agreements set the rules governing ownership transfers and board appointments. A family council provides a forum for the family's voice and deliberation without that voice disrupting company processes.

What changes when governance is professionalised is the control mechanism. The family moves from personality-based oversight, where authority flows from the founder's presence, to system-based oversight, where authority is embedded in clearly defined governance structures. In practice, this means making the owner's principles and decisional processes explicit and capturing them in the form of policies, thresholds and decision-making rights that will remain in place when the founder steps back, so the business can continue to operate without the family's control and sense of direction being relinquished.

“When the mission is embedded in governance documents and institutions, it becomes part of the organisation rather than something that depends on one person.”

Founders often believe that only they can ensure the long-term direction of their company. However, experience shows that proper governance structures can often protect that direction more reliably than a founder's veto. When the mission is embedded in governance documents and institutions – a family charter, a statement of purpose reviewed by the board, and reserved matters that protect against material changes to the stated mission – it becomes part of the organisation rather than something that depends on one person.

Investor confidence also improves when the family's decision-making system becomes clear and institutionalised. Sophisticated investors factor in "key-person risk", and reducing dependence on that person can improve valuations, reduce financing costs and support the retention of talent.

A PHASED APPROACH TO INSTITUTIONALISATION

The transition from founder-centric governance to institutionalised governance is not a single step but a phased process. A phased approach allows the family and the company to gradually build capability and adjust as circumstances change.

Phase 1: Formalise family governance

The initial foundational phase often involves formalising the owning family's own governance – that is to say, the way that the family makes collective decisions and manages its relationship with the firm. In theory, this work should happen at the outset and start as early as possible, because wider corporate governance reforms are much easier to design when the family's objectives and decision-making processes are clear. In practice, however, elements of family governance and corporate governance are frequently developed in parallel.

This first phase can begin with a facilitated family governance workshop – a structured process, often guided by an external party, to identify risks, align expectations on key strategic matters and decide what must be written down. At this point, many families discover that they do indeed have rules, but these are unwritten, inconsistently applied and sometimes contradictory. The goal is not to resolve every disagreement but to make disagreements visible and establish a process for working through them.

The outcome of these deliberations can be captured and codified in a few core instruments. The workshop typically facilitates the development of a "family constitution" – an umbrella document that sets out the family's purpose in owning the business, the core

values it wants to protect, the long-term vision for the business, and the principles that will guide future decisions. It can also define the family's governance bodies – for example, a family assembly (a wider family forum), a family council (a smaller decision-making body) and committees dealing with education, philanthropy or next-generation development.

Two other policies should be considered at this early stage. A family employment policy will reduce the risk of nepotism and unclear roles by establishing clear criteria for family members entering the business – what qualifications are expected, how their performance will be assessed, who makes hiring decisions, and so on. Similarly, a shareholding policy will clarify the rules around ownership and transfers by describing how shares are valued, whether they can be sold outside the family and how ownership will transition within the family or across generations.

Phase 2: Build a corporate governance framework that can function without specific individuals

After clarifying the family's internal decision-making process, the next step involves strengthening the company's corporate governance framework so that it can function without any specific individual, including the founder.

The central element of this framework is a board of directors (or a supervisory board, depending on the jurisdiction) with a clear mandate regarding strategy and supervision, an appropriate composition – members should include independent directors and have a relevant mix of skills – and documented working procedures. If the founder is initially uneasy about sharing authority and establishing a formal board, an advisory board – a body that does not have formal authority – can be set up as an intermediate step. Advisory boards can provide valuable external perspectives on strategic and operational matters, leading to better decision-making, and may in time create a pipeline of candidates for appointment to the formal board.



The targeted governance structure should establish clear lines between ownership, oversight and day-to-day management. Family owners set the strategic direction – approving the mission, long-term priorities and risk appetite – and define the framework within which the company operates. The board governs within that framework – appointing and overseeing management, holding executives accountable, overseeing governance and making decisions on key matters delegated to the board. Management runs the business on a day-to-day basis within the boundaries set by the owners and the board, implementing the strategy.

This separation of tasks does not diminish the family's role. The family merely gives up its informal veto, meaning that the possibility of the founder or another family member unexpectedly overruling or blocking a decision that they dislike is removed. In effect, reserved matters ensure that important and transformational decisions – such as major acquisitions or changes to the

capital structure – continue to be under the family's control. Shareholders' agreements and voting arrangements can ensure that the family's position is respected and that its interests cannot be diluted without its consent. Where a family council exists, this provides a structured channel for the family to engage with the company and the board on matters that affect the family's interests.

Phase 3: Design succession as a governance system

If Phases 1 and 2 reduce dependence on the founder through rules and institutions, succession is the test of those institutions. Ensuring continuity – that is to say, making sure that strategic capacity, decision-making authority and key relationships are embedded in the enterprise, rather than being the responsibility of one individual – is of paramount importance. It is helpful here to distinguish between planned succession and emergency succession (a sudden interim response to the unexpected) and to document

protocols in advance. An effective approach treats transition as a governance design problem, clarifying authority, incentives and accountability, so the company's operations can endure without day-to-day intervention by the founder.

This is not a purely conceptual concern. Recent evidence suggests that succession planning remains one of the most common governance challenges for family businesses. A 2025 family business survey conducted by Deloitte identified uncertainty over decision-making authority as the most widely cited governance challenge, reported by 37 per cent of respondents, followed closely by succession planning for leadership transitions, reported by 36 per cent.² The International Finance Corporation has had similar experiences with family companies: of the firms that IFC has worked with, only 46 per cent have had succession plans in place, based on in-depth assessment of corporate governance practices.

“Recent evidence suggests that succession planning remains one of the most common governance challenges for family businesses.”

Of the family businesses that IFC has worked with, only **46%** have had succession plans in place

In practical terms, succession spans two interrelated aspects. Leadership succession concerns the question of who will have executive authority in the company, how the board will exercise oversight and how those roles will continue to be carried out within a defined mandate. Ownership succession, meanwhile, concerns the question of how equity and voting power will be held, transferred and exercised over time, including which decisions are reserved for shareholders, how directors are appointed, and how family expectations (regarding control, liquidity and dividends) are managed through shareholder arrangements. In many family businesses, these arrangements include a family trust or holding vehicle to consolidate ownership, manage intergenerational transfers and reduce the fragmentation of voting power in relation to non-family shareholders.

Because succession inevitably reshapes authority inside both the family and the firm, it should be treated with the same discipline as any other material governance change. The objective is to achieve not just consensus but predictability – that is to say, shared

² See Deloitte Private (2025).



assumptions about future roles, participation and decision-making rights, and an agreed forum for resolving disagreements. Regular meetings of the family governance bodies set up in Phase 1 – separate from management and board meetings – help to establish expectations at an early stage and reduce the risk of unresolved family issues spilling over into corporate decision-making.

The selection of successors also sends a clear governance signal. Appointments that are not regarded as meritocratic can weaken credibility among non-family executives, lenders and investors, and can intensify intra-family dissension. The legitimacy of appointments can be strengthened by clear, merit-based criteria and transparent assessment – typically combining competence, leadership capability and experience, business judgement, alignment of values and the ability to manage conflict.

The next step is to build capability through structured development plans for identified succession candidates. Structured exposure to strategy, governance and progressively greater operating responsibilities helps to transfer

institutional knowledge from the founder to the identified heir (often a chosen family member) or the future leadership team. This reduces key-person dependency by introducing redundancy and gives the organisation time to adjust to new decision-making patterns.

Finally, the founder's own transition must be carefully designed. Handovers of control fail when informal vetoes persist after formal authority has been delegated. Defining the outgoing leader's post-transition role – for example, membership of a non-executive board or advisory responsibilities – can preserve continuity while protecting the successor's authority. The same discipline should apply on the ownership side: clear policies regarding decision-making, information and reporting, dividends and protection of minority shareholders' rights reduce the scope for arbitrariness and help to keep governance stable throughout the handover process.

During this transition, external perspectives can accelerate institutionalisation by helping to embed strategy, decision-making, oversight

and operational responsibilities in formal structures rather than individuals. An effective board and independent advisers can seize this moment to introduce further discipline, adopt better governance practices and help the family to separate general governance questions pertaining to the company from personal dynamics, particularly where decisions on roles and ownership will have long-term consequences.

Succession becomes resilient when it is made explicit and documented in the broader governance architecture of the company, including shareholders' agreements, reserved matters, board mandates and management delegation. If it takes that form, succession is not a one-off contingent event but an institutional capability – a repeatable way of renewing leadership and ownership without destabilising control, strategy or stakeholder trust.



WHAT DEVELOPMENT FINANCE INSTITUTIONS AND OTHER INVESTORS LOOK FOR

For family businesses working with institutional investors – particularly development finance institutions such as the EBRD or IFC – governance reform goes beyond internal family concerns. It becomes a requirement for receiving investment from those investors and shapes the terms under which they can access future funding.

A key concern for investors is business continuity, and they will look for evidence that the enterprise's operational and strategic capacity is not materially dependent on any single individual. This goes beyond the examination of organisational charts and involves evaluating where decisions are actually made and looking at whether key relationships are maintained by the company rather than the founder or other key individuals. If material key-person dependency is identified, it is treated as a governance risk and can therefore influence valuation and investment conditions.

Investors also expect coherent and robust decision-making as the firm grows or transitions to the next generation, including a formalised approach to succession – not just a statement of intent but a plan covering the transition of both leadership and ownership, with defined timelines and oversight arrangements. They also expect a board with genuine authority and the right composition and skills.

Investors also prioritise transparency in the family's decision-making. When the family's governance is informal and unclear, investors cannot assess how strategic decisions will be made, how conflicts will be resolved and whether the founder's departure would trigger a crisis. They also expect adequate family governance arrangements to make the family's collective decision-making transparent and predictable, with mechanisms that prevent family disputes from paralysing the business. When the family's governance is documented and institutionalised, investors can underwrite risk with greater confidence – and often on better terms.

None of this means that investors expect families to give up control. Instead, they expect control to be exercised through structures that will endure, rather than through the presence of a single individual who will not be there forever.

“ For founder-led family firms, formalising and institutionalising governance is the route to sustainability. ”

CONCLUSION

For founder-led family firms, formalising and institutionalising governance is the route to sustainability. It is not about surrendering control; it is about exercising control in a more resilient way. The real choice is not between informal family control and institutional governance – it is between a form of personality-based control that becomes fragile as the firm grows and a system-based control that preserves the family's purpose across generations.

Addressing this succession gap means aligning family governance arrangements with corporate governance requirements, professionalising the board and management, and treating succession as a system – one that manages the transition of both leadership and ownership. Family businesses that do this at an early stage give themselves the best chance of preserving what matters most: the company's mission, its long-term direction and the ability to remain successful after the founder has left the scene.



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DIGITALISATION OF TRADE AND THE GOVERNANCE DIVIDEND: BUILDING TRUST ACROSS CORRIDORS



“Infrastructure dictates where goods can go, but economic governance dictates how fast, how safely and how profitably they can get there.”



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This article argues that the digitalisation of trade should be understood not just as a logistics upgrade, but as an economic governance reform. It looks at how digital trade strengthens transparency, accountability and trust across three dimensions: business-to-government processes, business-to-business legal instruments and government-to-government data exchange. Using the Middle Corridor as a case study, the article shows how paper-based systems create avoidable friction, legal uncertainty and border delays. It concludes that legal reform, interoperable public infrastructure and coordinated institutional action are essential in order to build resilient, bankable and trusted trade corridors.



INTRODUCTION: THE GOVERNANCE CASE FOR DIGITAL TRADE

The case for digitalising international trade is typically made using the language of logistics: faster clearance times, reduced demurrage fees and the elimination of expensive courier costs. While the gains from such efficiencies are substantial, framing digital trade reform solely as an operational upgrade misses its most profound impact. Digitalising trade is fundamentally about improving how trade relationships are organised, verified, enforced and coordinated across public institutions and private actors – meaning its true value lies in economic governance.

The EBRD's Economic Governance Strategy 2026-30 defines economic governance as the pursuit of better-functioning markets, unlocking private sector-led growth and holding the state accountable for delivering high-quality public goods and services.¹ The strategy explicitly identifies transparency, accountability and fair competition as core objectives, noting that digital technology is a critical cross-cutting enabler of all three. Viewed through this lens, the transition from paper-based to electronic trade documents is not just a technical modernisation process – it is one of the most effective structural reforms a government can undertake to strengthen cross-border economic governance.

International trade is inherently vulnerable to governance deficits, because it relies on trust between actors operating across different legal jurisdictions and performing disparate functions. Exporters, carriers, customs authorities and financing banks interact almost entirely through documents. Where these documents exist on paper, the system is characterised by opacity, duplication and vulnerability to fraud or delay.² By digitising them, the rights, obligations and physical status of goods become visible, auditable and actionable. This governance dividend is realised across three distinct but mutually reinforcing dimensions: business-to-government (B2G), business-to-business (B2B) and, ultimately, government-to-government (G2G) relationships.

THE B2G DIMENSION: THE “SINGLE WINDOW” AND THE END OF INFORMATION ASYMMETRY

The most immediate governance benefits of digital trade are realised at the border – the critical juncture where private commerce meets state authority. In a traditional paper-based environment, B2G interactions are highly fragmented. A trader might submit a customs declaration to the revenue authority, present transport documents to the port operator and physically courier a phytosanitary certificate to agricultural inspectors.

This fragmentation breeds inefficiency, but more importantly, it also creates a governance deficit. It introduces information asymmetries

¹ See EBRD (2026).

² See OECD (2025).

between different state agencies, widens the scope for discretionary decision-making (and thus corruption) and creates an unpredictable environment for traders. Goods often arrive before the necessary paperwork, leading to demurrage charges and supply-chain congestion.³

One cornerstone of B2G digital governance is the electronic national “single window” for trade. Endorsed by the World Trade Organization’s Trade Facilitation Agreement and the World Customs Organization, a single window is an intelligent digital facility that allows parties involved in trade to lodge standardised information and documents with a single entry point to fulfil all import, export and transit-related regulatory requirements.⁴



Practical implementation of digital trade: digitising customs procedures in Moldova

The EBRD’s work on digital trade combines legal reform, institutional modernisation and practical support for electronic trade systems. In Moldova, the Bank is supporting the Moldovan Customs Service and the Chamber of Commerce and Industry by means of a package of measures aimed at expanding the functionality of the ASYCUDAWorld customs platform and accelerating the country’s transition towards fully electronic customs procedures.

This project is designed to make import, export and transit processes faster, more transparent and more predictable. By reducing reliance on paper-based procedures, it can improve customs clearance, facilitate e-commerce and cross-border trade, strengthen revenue collection, reduce opportunities for fraud and discretionary decision-making, and lower costs for businesses. It also supports Moldova’s wider digital economy agenda and shows how digital trade reform can deliver a broader governance dividend: more accountable public institutions, more efficient border processes, and greater trust between traders and the state.

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“The governance logic of the single window is elegantly simple: ‘submit once; use many times’.”

The governance logic of the single window is elegantly simple: “submit once; use many times”. When a business submits data to the single window, that information becomes visible to all relevant public stakeholders – customs authorities, border police, health inspectors and environmental agencies – simultaneously. This structural shift radically alters the B2G relationship. It enhances transparency, as traders know exactly what is required and can track their submissions in real time. It improves accountability, because electronic logging makes it possible to audit exactly where a clearance delay occurred and which agency was responsible. And crucially, it limits arbitrary state interference by embedding procedures in transparent digital workflows, ensuring fair and consistent treatment for all economic operators.

THE B2B DIMENSION: DOCUMENTS OF TITLE AND THE ARCHITECTURE OF TRUST

While the B2G dimension modernises traders’ interaction with the state, the B2B dimension concerns the private legal and commercial architecture of trade. Finance is the oil that keeps global trade flowing. That finance is secured by documents of title and negotiable instruments, such as bills of lading, warehouse receipts, bills of exchange and promissory notes.

³ See World Bank Group (2023).

⁴ See World Customs Organization (n.d.).

The reliance on paper for these B2B instruments is a source of profound systemic risk. If a bill of lading – the vital document conferring title to sea-freighted goods – is in paper form, it can be forged, lost in transit or delayed in a courier envelope. When a bank finances goods in transit, its security interest relies on the physical possession of a piece of paper that might be thousands of miles away. If a dispute arises or a buyer defaults, unwinding the paper trail is a slow, expensive and legally uncertain endeavour.

Digitising these B2B instruments improves the governance of private trade relationships by making the instruments themselves legally reliable and practically immutable. A properly implemented electronic bill of lading (eBL) creates a unique, transparent and auditable chain of title. Transfers are time-stamped and cryptographically secured. If a trade route is abruptly blocked – owing to a war, pandemic or geopolitical shock, for example – an eBL allows the exporter to pivot instantly, transferring title to a new buyer in a different jurisdiction within seconds, rather than waiting weeks to reroute physical paperwork.

“ Without legal equivalence, a digital document is practically useful but legally void. ”

This architecture of trust does require legislative backing, however. Without legal equivalence, a digital document is practically useful but legally void. The EBRD's Legal Transition Programme is instrumental here, helping economies where the Bank operates to upgrade their domestic legal frameworks and support an investor-friendly environment. The United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Transferable Records (MLETR) is transformative in this respect, because it grants electronic transferable records the exact same legal effect as their paper counterparts.



For multimodal trade, this must go further. The UN Convention on Negotiable Cargo Documents (the NCD Convention) is increasingly vital, as it governs the issuance and use of documents that span multiple modes of transport. Legal reform that only covers the maritime leg of a journey creates a broken chain; multimodal reform, on the other hand, ensures that governance extends seamlessly across rail, road and sea. When these legal frameworks are in place, they encourage financial institutions to fully digitalise their trade finance offerings, expanding access to credit for small and medium-sized enterprises (SMEs) that are currently priced out by the heavy compliance and administrative costs of paper-based financing.

THE G2G DIMENSION: CROSS-BORDER DATA EXCHANGE AND SYSTEMIC INTEROPERABILITY

If B2G digitalisation governs the border, and B2B digitalisation governs the transaction, G2G digitalisation governs trade corridors. Trade does not occur in a vacuum: an export from one country is necessarily an import into another.

The G2G dimension in digital trade is about the systemic interoperability of state institutions across sovereign borders. Currently, even if two neighbouring countries both operate highly efficient national single windows, they

often remain digital islands. The exporter submits digital data to Country A on exit, and the importer manually re-inputs the exact same data into Country B's system on entry.

True G2G digital trade breaks this silo through secure cross-border data exchange. By establishing customs-to-customs (C2C) interoperability, the export declaration approved by Country A automatically feeds into the import declaration system of Country B.⁵ This prevents border bottlenecks, vastly improves risk management and eliminates the data discrepancies that often conceal smuggling, tariff evasion or systemic fraud.

This G2G dimension extends to the mutual recognition of electronic documents. Global initiatives such as the International Plant Protection Convention's ePhyto Hub – which allows national agricultural authorities to seamlessly exchange electronic phytosanitary certificates – demonstrate the power of G2G connectivity. A certificate issued by a European authority is instantly verifiable by an Asian customs agency, eliminating the risk of forged paper certificates and ensuring that public health and environmental standards are rigorously enforced. Ultimately, G2G digitalisation ensures that national governments control the movement of goods as a collaborative, connected chain, rather than as a series of isolated, adversarial checkpoints.



Investing in the digitalisation of trade: the example of e-phytos

The use of electronic phytosanitary certificates – e-phytos – to export plants and plant products results in lower trade costs and higher margins for exporters, ultimately increasing trade. This is one of the findings of a recent report by the EBRD and the Food and Agriculture Organization of the United Nations (FAO).

The EBRD and FAO worked together to quantify and explore the benefits of e-phytos for companies in four countries: Egypt, Serbia, Ukraine and Uzbekistan. Their report, which is based on analysis of trade data and interviews with commercial exporters, government officials and logistics providers, shows that e-phytos are easier and cheaper to use, are more responsive to changing circumstances, and can speed up the export process. For exporting companies, the potential savings range from US\$ 3.70 per fruit shipment exported from Uzbekistan (about US\$ 0.18 per tonne, based on the average volume of shipments) to US\$ 83.50 per fruit shipment exported from Egypt (about US\$ 4.24 per tonne), with savings boosted where surrounding countries accept e-phytos. These savings become substantial when multiplied over hundreds of shipments per year per export company, or thousands per country. For companies with large export volumes and small margins, this significantly reduces operational costs, contributing to higher margins. Other key benefits include swift and transparent administrative procedures, reduced risk of logistical disruption and better trade integration with countries that have already adopted e-phytos.

Countries that have already switched from paper to e-phytos confirm that the transition is relatively inexpensive. The report also shows that as more countries adopt e-phytos, exporting companies will see increased benefits. By investing in digital tools such as e-phytos, countries can position themselves to reap the full benefits of a more efficient, transparent and sustainable global trading system. The EBRD and FAO have since promoted and supported the adoption of e-phytos across the EBRD regions – work that was instrumental in the recent implementation of e-phytos in Ukraine.

Jamie Macadam

Associate, Corporate Sector Advisory, EBRD

⁵ For more information, see <https://unece.org/unda-project-c2c-data-exchange>.

THE MIDDLE CORRIDOR: WHERE GOVERNANCE MEETS GEOGRAPHY

There is no clearer test case for the necessity of this three-tiered governance framework than the Trans-Caspian International Transport Route, widely known as the Middle Corridor. Following geopolitical shifts that have complicated traditional northern routes, the Middle Corridor has emerged as a vital artery linking Asia and Europe via central Asia, the Caspian Sea and the southern Caucasus.⁶

As independent analysis by the Overseas Development Institute (ODI) and other studies have noted, the Middle Corridor presents a profound paradox: geographically, it is the shortest and most direct alternative trade route between Europe and Asia (some 3,000 kilometres shorter than the Northern Corridor),^{7,8} yet operationally, it can take the longest to pass through.⁹ This paradox is driven largely by border controls. While the physical transit time on the route itself could, in theory, be reduced to roughly two weeks, actual journey times frequently extend to a month or more owing to crippling delays at border crossings.¹⁰

As the landmark EBRD study *Sustainable Transport Connections Between Europe and Central Asia* (funded by the EU) makes clear, the corridor's constraints are not merely physical.¹¹ While the study identifies €18.5 billion of essential infrastructure needs, it emphasises that “soft connectivity” measures – specifically, the digitisation of transport documents, the interoperability of customs procedures and the elimination of repetitive border controls – are just as critical to the route's sustainability.¹² Goods traversing the Middle Corridor must cross at least five sovereign borders and switch between rail, maritime and road transport multiple times. Every time transport modes

Goods traversing
the Middle
Corridor cross
at least
5
borders



⁶ See OECD (2023).

⁷ See Mami (2024).

⁸ See Trends Research (2024).

⁹ See EBRD and EU (2023).

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.



change or borders are crossed, paper documents must be checked, stamped and reissued, resulting in severe delays and a critical lack of end-to-end shipment visibility. Similarly, the International Road Transport Union (IRU) estimates that one day lost at a Middle Corridor border can cost more than driving hundreds of kilometres, warning that without procedural enhancements, freight demand will fall 35 per cent short of expected growth.¹³

The Middle Corridor is, fundamentally, suffering from governance friction that only digitalisation can resolve. Applying the three-tiered digital trade framework reveals a roadmap to unlocking the route's capacity:

1. B2G reform: Countries along the corridor must urgently implement and upgrade national single windows. Traders must be able to submit customs and transit data once per jurisdiction, allowing port authorities in Baku or Aktau to coordinate directly with state customs without manual exchanges of paper-based documents.

- 2. B2B reform:** The corridor cannot scale up if it is not bankable. To finance goods in transit across five jurisdictions, banks require the certainty of legally recognised electronic documents of title. Adoption of the MLETR and the NCD Convention across Middle Corridor states would allow an electronic multimodal bill of lading to legally underpin trade finance from origin to destination, injecting vital liquidity into the corridor.
- 3. G2G reform:** This is the most critical missing link. The World Bank explicitly calls for a unified, interoperable digital framework along the corridor. G2G interoperability would allow customs authorities in Azerbaijan, Georgia and Kazakhstan to automatically exchange transit data, creating a "green corridor" where risk assessments are done electronically before the train or ferry even arrives at the border.

¹³ See IRU (2026).

THE EBRD'S COMPREHENSIVE DIGITAL TRADE OFFERING

To translate this governance framework into reality, the EBRD deploys a comprehensive product offering across the entire digital trade ecosystem. Rather than addressing digital trade in silos, the Bank leverages its diverse mandates under the umbrella of an internal “digital trade network” to support reform at every level.

Legal and regulatory frameworks: The EBRD's Legal Transition Programme promotes adoption of the MLETR and the NCD Convention, ensuring commercial laws recognise electronic documents of title. Four such projects are under way in Morocco, Tunisia, Türkiye and Ukraine. The Bank's goal is to roll out these reforms in strategically important regions and trade corridors, thus ensuring that a critical piece of the digital trade puzzle is in place.

Digital public infrastructure: Through its Competitiveness and Economic Governance team, the Bank finances and structures e-customs solutions, port modernisation, national single windows and e-certificates of origin as part of its work in the area of sustainable infrastructure.

Agricultural trade: Agri-advisory teams support the rollout of e-phytosanitary certificates to streamline sanitary and phytosanitary controls.

Trade finance and risk mitigation: The EBRD's Trade Facilitation Programme (TFP) provides crucial risk-sharing facilities to ensure the market remains liquid during the digital transition.

Institutional digitalisation: The TFP and the Bank's Digital Hub work together to accelerate the digitalisation of financial institutions, ensuring they have the technical capability to process digital trade instruments.

Innovation: The EBRD Innovation Lab facilitates broader digital transformation, piloting cutting-edge technologies to future-proof the trade ecosystem.

“The digitalisation of trade is not a logistics project; it is an economic governance imperative.”



A POLICY IMPERATIVE

The digitalisation of trade is not a logistics project; it is an economic governance imperative. As the EBRD's Economic Governance Strategy emphasises, dynamic and resilient economies require transparent, accountable and fair market conditions. Paper-based trade actively subverts these goals by sustaining opacity, enabling fraud and creating prohibitive frictions that lock SMEs out of global value chains.

Policymakers must move beyond isolated information technology upgrades and pursue a holistic digital trade agenda. This means passing MLETR-aligned laws to govern private

transactions (B2B), deploying robust single windows to streamline interactions with the state (B2G) and committing to cross-border interoperability to secure international supply chains (G2G).

Trade corridors like the Middle Corridor need to do more than just lay new train tracks or dredge deeper ports if they are to maximise their potential. Infrastructure dictates where goods can go, but economic governance dictates how fast, how safely and how profitably they can get there. By committing to the full digitalisation of trade, governments can finally build an architecture of trust that is worthy of the modern global economy.



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HIGH STAKES, HIGHER STANDARDS: WHY RISK IS REDRAWING THE BOUNDARIES OF CORPORATE GOVERNANCE



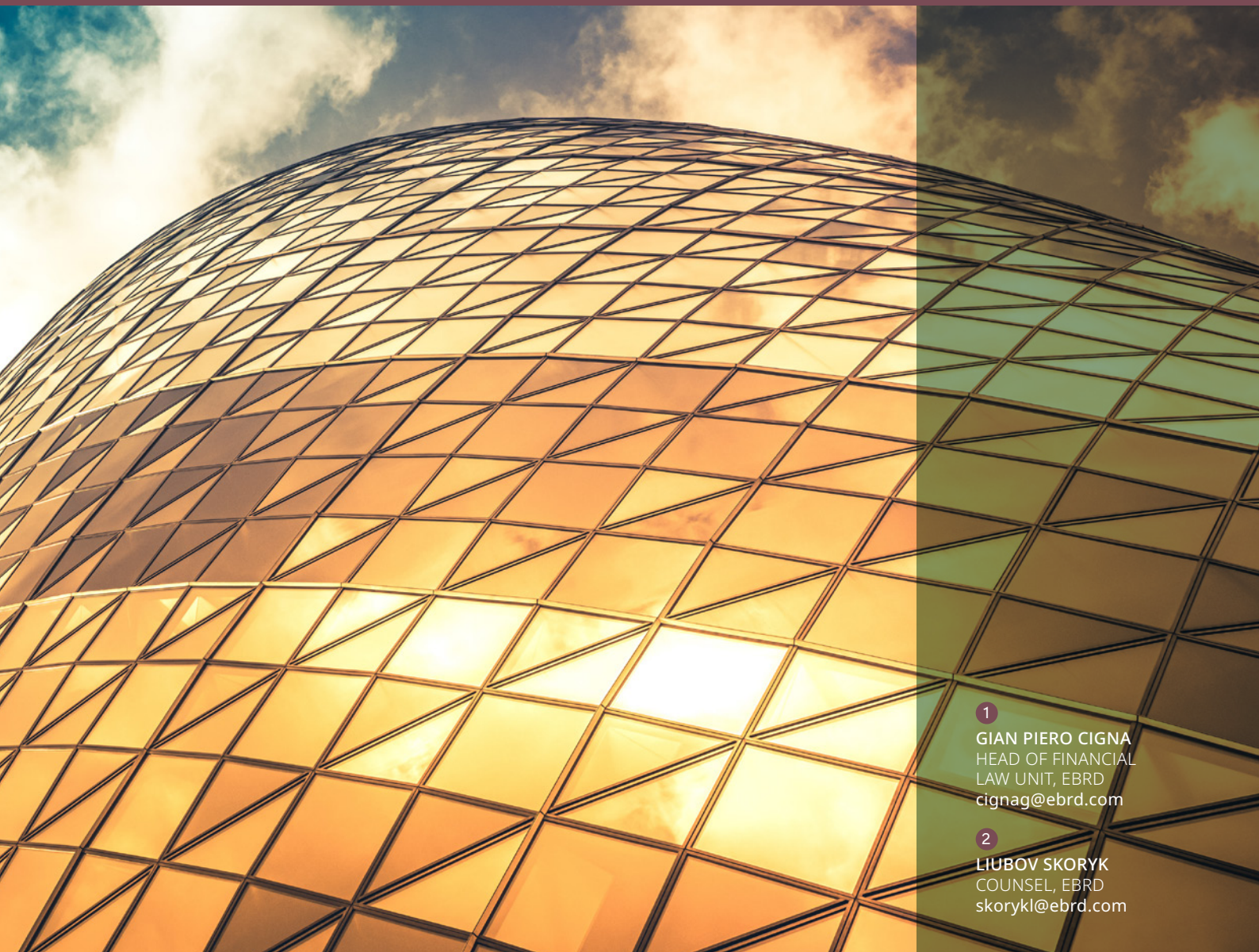
“ Strong corporate governance enables economies to allocate capital more effectively, manage risk more transparently and sustain trust in institutions. ”



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As this article explains, the corporate governance paradigm is no longer about how companies are run internally; it is about how they manage risks – especially those that affect the wider economy. When company failures can harm markets, taxpayers or essential services, their governance becomes a matter of public interest and a core element of economic governance. This article looks at banks, listed companies, state-owned enterprises and strategic sectors, showing that crises have consistently pushed standards higher.



The evolution of corporate governance did not begin as an exercise in public policy. It began as a private-law response to a narrower problem: how to ensure that those who manage a company act in the best interests of those who own it. Over time, however, that narrow concern has widened. Where the failure of a company can impose costs far beyond its shareholders – on taxpayers, consumers or markets, or in terms of the continuity of essential services – corporate governance is more than just a matter of internal corporate order; it is part of economic governance.

This shift is increasingly visible across a range of sectors. Since the 2008-09 global financial crisis, banks have been treated as deserving of higher governance standards because of their financial leverage, their dependence on public confidence and the systemic consequences of failure. Listed companies have gradually been subjected to stronger governance discipline as capital markets have deepened and corporate scandals have exposed the limits of disclosure-based regulation. State-owned enterprises (SOEs) have increasingly been recognised as requiring stronger governance – not only because they may be systemically important, but also because weak governance in public ownership structures can lead to fiscal losses, political interference and market distortions. More recently, companies operating in strategic sectors such as energy, transport, telecommunications and digital infrastructure have begun to attract heightened regulatory attention where the resilience and continuity of essential services are at stake.¹

The unifying factor is not ownership, size or listing status taken in isolation, but rather risk – more precisely, the extent to which corporate failure, poor oversight or weak internal controls result in risk spilling over into the wider economy and society.

“Where the failure of a company can impose costs far beyond its shareholders, corporate governance is more than just a matter of internal corporate order; it is part of economic governance.”

Corporate governance standards rarely evolve in a purely preventive fashion. More often than not, standard setting and law making crystallise after crises have exposed the inadequacy of existing assumptions. The history of the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance illustrates this well. These principles were first issued in 1999 as a global benchmark after the Asian financial crisis. They were then revised in 2004, after corporate scandals in the early 2000s had exposed weaknesses in board oversight,

¹ See European Commission (n.d.) and KPMG (2025).

“Crises do not replace policy judgement, but they often provide the political conditions in which contested reforms become actionable.”

transparency and auditing. They were updated again in 2015 following the global financial crisis – this time under the auspices of the G20 and the OECD – with active participation from the Basel Committee on Banking Supervision, the Financial Stability Board and the World Bank Group. A further revision in 2023 broadened the focus again, reflecting concerns linked to resilience, sustainability and digitalisation.² Taken together, these revisions suggest that governance norms are repeatedly recalibrated when shocks reveal that the previous focus was too narrow.

That broader pattern helps to explain why governance reform is often reactive. In periods of strong market performance, proposals to tighten prudential or governance requirements are frequently resisted as unnecessary constraints on innovation, profitability or growth. Only when a crisis materialises do those reforms come to be seen as prudent rather than intrusive. Crises do not replace policy judgement, but they often provide the political conditions in which contested reforms become actionable.

CORPORATE GOVERNANCE AND THE PUBLIC INTEREST

The modern language of corporate governance is commonly held to have developed in line with the rise of large companies with dispersed ownership in the 19th and early 20th centuries. By the 1820s a growing number of corporations in the United States of America already had publicly traded equity, raising questions about how directors and managers should be held to account. Later, the classic account by Berle and Means framed governance around the

separation of ownership and control in the modern corporation.³ In the United States, the stock market crash of 1929 and the subsequent securities legislation of the 1930s embedded disclosure, investor protection and accountability as core legal concerns.

For much of the 20th century, governance remained largely tied to capital-market integrity and shareholder protection. Over time, however, it acquired a broader public dimension. Major corporate scandals, banking failures and state-sector crises showed that weaknesses in boards, controls and disclosure do not remain neatly confined within the relevant company. They can undermine confidence in markets, distort competition and damage the credibility of public institutions. For the EBRD, corporate governance is a practical instrument of economic governance.⁴ Strong corporate governance enables economies to allocate capital more effectively, manage risk more transparently and sustain trust in institutions. This alignment is increasingly explicit in the Bank's framing of economic governance as a pathway to better-functioning markets and accountable state participation in the economy.⁵

This connection is especially strong in transition economies. Poorly defined accountability, politicised decision-making and weak internal controls can impair capital allocation and depress investor confidence, even if the legislative framework appears modern. In such contexts, strengthening boards, internal controls, ownership arrangements and disclosure can have positive effects well beyond the individual company.

For this reason, the question is not just whether some companies need higher governance standards; it is whether differentiated governance standards are becoming an increasingly necessary instrument of public policy where company-level governance failures create market-level consequences.

² See OECD (2023).

³ See Berle and Means (1933).

⁴ See EBRD (2025b).

⁵ See EBRD (2026).

BANKS AS THE STARTING POINT FOR DIFFERENTIATED STANDARDS

Banks are the clearest example of the type of company that needs higher governance standards. Banks are not ordinary companies. They operate with high financial leverage, transform maturity, rely on public confidence and can transmit distress rapidly across the economy. Unsurprisingly, the governance of banks has gradually been drawn into the architecture of prudential regulation.

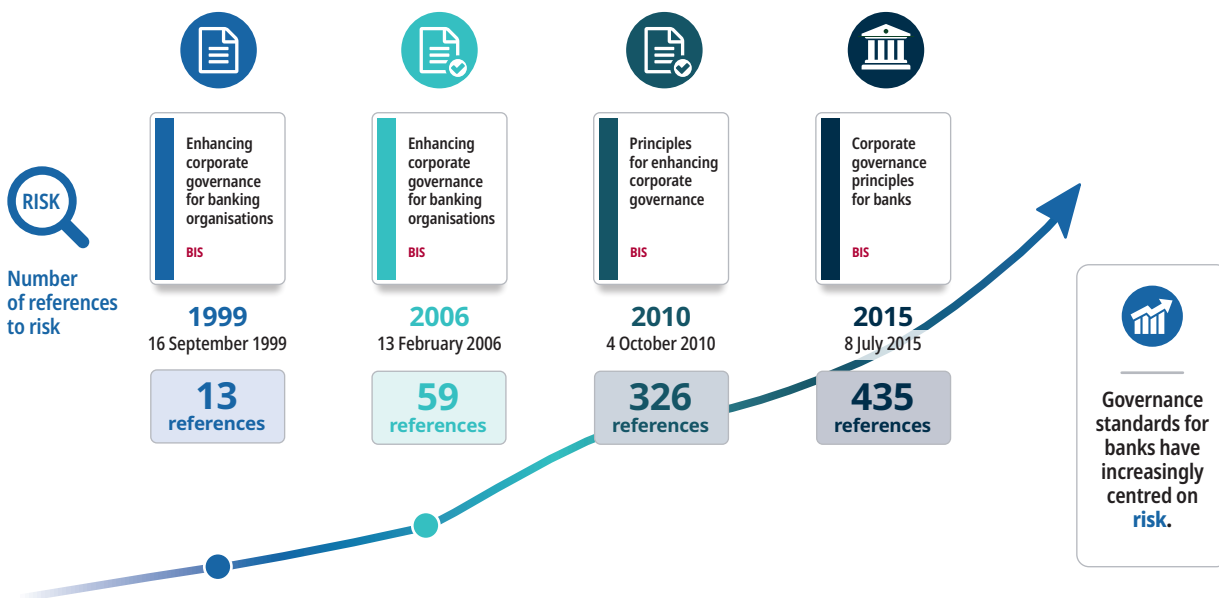
This did not happen all at once (see Figure 1). The Basel Committee on Banking Supervision issued its first governance guidance for banks in 1999, revised it in 2006, updated it in 2010 and issued a substantially revised set of corporate governance principles for banks in

2015.⁶ Basel guidance before the 2008-09 global financial crisis remained relatively close to the broader OECD model: it stressed strong boards, accountability, internal controls and transparency, but risk had not yet become the organising principle of the regime. The 2015 Basel principles, by contrast, explicitly emphasise risk governance, the board's role in overseeing effective risk management systems, strong board committees, control functions, the three lines of defence and sound risk culture.

⁶ See <https://www.bis.org/bcbs/publ/d328.htm>.

Figure 1. The rising focus on risk

References to risk in global standards on the corporate governance of banks



A material shift: References to risk increased more than 30-fold from 1999 to 2015, reflecting the rise of risk-based governance.



From compliance to resilience: Governance standards have evolved to help banks anticipate, manage and mitigate the risks that matter most.

The turning point was the global financial crisis, which demonstrated that risk in banks could not simply be treated as a technical matter of capital ratios and models. Banks that appeared adequately capitalised under pre-crisis frameworks still failed, because boards did not understand, challenge or control the risks that were accumulating. In other words, the crisis transformed banking governance into a prudential sub-regime within corporate governance. Banks had long been included within the European Union (EU) concept of public-interest entities,⁷ but genuinely tailored and more intrusive governance rules for banks emerged only after the crisis, particularly through the Capital Requirements Directive and related supervisory guidance.⁸

In Albania, for example, EBRD assistance provided to the country's central bank has focused on strengthening supervision over the corporate governance of banks, reviewing legislation and supervisory practices, and formulating a new methodology aligned with recent international and European developments. The domestic framework now requires independent directors on bank boards, annual governance self-assessments and three key board committees – audit, risk and remuneration. The practical lesson is clear: differentiated governance standards did not arise because legislators decided in the abstract that banks were special, but rather because repeated crises demonstrated that firm-level governance failures in banks quickly become system-level failures.

LISTED COMPANIES: NO LONGER THE WHOLE STORY

Listed companies remain the classic home of enhanced corporate governance. In their case, the original focus was on board accountability, protection of minority shareholders, disclosure and the prevention of managerial abuse in companies with dispersed ownership. The OECD Principles of Corporate Governance were designed first and foremost as a benchmark for that environment.⁹

Yet even here, the framework has evolved in response to crises. The revision of those principles in 2004 followed the wave of accounting scandals in the early 2000s. And the 2015 revision took place after the global financial crisis and with the explicit involvement of institutions concerned with financial stability, not just company law.¹⁰

Recent EU sustainability reporting reforms point in the same direction, albeit through transparency rather than direct governance mandates. EU rules now require large companies and listed companies to report regularly on the social and environmental risks they face, on the opportunities arising from those issues, and on the impact their activities have on people and the environment. The first companies subject to the Corporate Sustainability Reporting Directive (CSRD) were required to apply these new rules in respect of the 2024 financial year in reports published in 2025.¹¹ The CSRD does not, by itself, create a separate governance regime comparable to that of banks. It does, however, reinforce the trend towards seeing governance as part of a firm's capacity to identify, disclose and manage wider sustainability-related risks and opportunities.

⁷ See Accountancy Europe (2017).

⁸ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. See also EBA (2021).

⁹ The Financial Stability Board includes the G20/OECD Principles of Corporate Governance in its Key Standards for Sound Financial Systems because corporate governance is considered relevant to the stability, robustness and proper functioning of financial systems. These principles support market confidence, integrity, economic efficiency and financial stability by establishing an internationally recognised and assessable benchmark for the legal, regulatory and institutional frameworks governing companies, especially publicly traded companies. See OECD (2023) and https://www.fsb.org/work-of-the-fsb/about-the-compendium-of-standards/key_standards.

¹⁰ See Roffia (2025).

¹¹ See European Commission (2025a).

STATE-OWNED ENTERPRISES: GOVERNANCE AS ACCOUNTABILITY TO THE PUBLIC

Higher governance standards for SOEs are justified, because many operate in strategic sectors and their failure imposes direct costs on taxpayers.

This is why the EBRD consistently describes SOE governance as a major focus of its policy and regulatory work. SOEs play a dominant role in many of the economies where the Bank operates, with significant implications for fiscal stability and economic growth. The Bank's work has therefore focused on ownership arrangements, governance structures, transparency requirements, legal reform and capacity building, in line with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.¹²

“
Stronger governance
at company level
can help to turn
a distressed or
politicised enterprise
into a more
credible platform
for investment and
reform.”

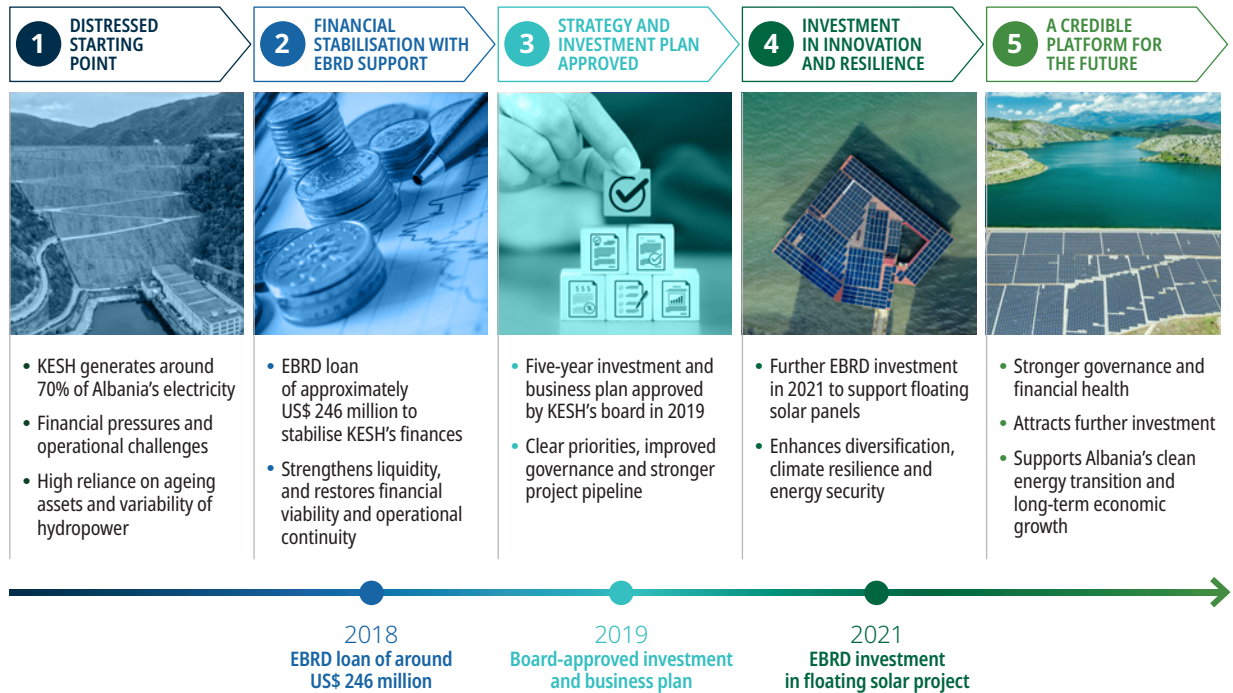
Ukraine provides a particularly clear illustration of this. A defining moment for SOE governance reform in Ukraine was the country's 2014 political and economic crisis, which pushed it to the brink of financial default and exposed deep structural weaknesses in its largest SOEs. The governance crisis – combined with the aftermath of the “Revolution of Dignity” (also known as the “Maidan Revolution”) – made it clear that companies like Naftogaz (the largest SOE in Ukraine) were not “bankable”. In such a dire context, stronger corporate governance – often setting standards that exceeded those applied to private companies – became a precondition for financial support and, ultimately, for Ukraine's integration into international markets. In response, the EBRD led a multi-year reform programme for Naftogaz and other major SOEs, strengthening supervisory boards, clarifying ownership roles and improving transparency through legislative reform and capacity building.¹³ What began as a targeted intervention in a single strategic SOE quickly evolved into a broader, sector-wide transformation, shaping legislation, ownership practices and expectations across the entire SOE landscape.

A similar operational logic can be found elsewhere. As part of the EBRD's engagement with KESH, a state-owned company in Albania that generates around 70 per cent of the country's electricity, financial stabilisation, strategy development and board-approved investment planning were linked to later financing for renewables and resilience-related projects (see Figure 2). The EBRD's initial loan of approximately US\$ 246 million to stabilise the company's finances was followed by a five-year investment and business plan approved by the company's board in 2019, as well as a further investment in 2021 to support floating solar panels. Stronger governance at company level can help to turn a distressed or politicised enterprise into a more credible platform for investment and reform.

Consequently, strategic SOEs need higher governance standards, because public ownership often amplifies the external consequences of weak governance. Ownership matters, but risk matters more.

¹² See EBRD (2021).

¹³ See EBRD (2025a).

Figure 2. EBRD support for KESH

Source: EBRD.

FROM MARKET DESIGN TO RESILIENCE: STRATEGIC SECTORS IN THE NEW NORMAL

A similar shift may now be under way in non-financial sectors. The last decade has seen a series of shocks – pandemic disruption, war-related energy insecurity, cyber-attacks, supply-chain fragmentation and climate-related stress – that have exposed European economies' dependence on companies operating in energy, transport, telecommunications, health, digital infrastructure and related systems.

Recent EU legislation suggests that governance is beginning to adapt. The NIS2 Directive¹⁴ raises the common level of ambition on cybersecurity across the EU, extends obligations to a much wider range of critical sectors and explicitly introduces accountability of top management for non-compliance with cybersecurity risk-management measures, thereby bringing cybersecurity into the boardroom.¹⁵ The sister Critical Entities Resilience Directive¹⁶ adopts an all-hazards approach and aims to strengthen the resilience of essential services across sectors, including energy, transport, health and banking.

These instruments have not yet created a fully fledged sector-specific corporate governance regime for critical non-financial companies which is comparable to that of banks. They do, however, represent an important shift, moving at least some of the responsibility for resilience out of technical or operational silos and onto the desks of company management.

¹⁴ Directive (EU) 2022/2555 on measures for a high common level of cybersecurity across the Union (the NIS2 Directive) is the European Union's revised cybersecurity framework, requiring covered entities in critical and important sectors to adopt risk-management measures, report significant incidents and ensure management accountability for compliance.

¹⁵ See European Commission (n.d.).

¹⁶ Directive (EU) 2022/2557 on the resilience of critical entities is the European Union's framework for strengthening the resilience of entities that provide essential services, requiring member states to identify critical entities and requiring those entities to assess risks and take technical, security and organisational measures to enhance their resilience.



Preparedness for disruption is increasingly treated as a governance issue. Boards are expected not just to absorb shocks but to understand how they affect strategy, capital allocation and long-term viability. What is emerging is not a single, formal “sustainability function” but a broader expectation that governance connects risk, strategy and future positioning. If the old normal was centred on mitigation, the new normal is increasingly about strategic resilience.

PROPORTIONAL GOVERNANCE AS PUBLIC POLICY

Across banks, listed companies, SOEs and critical infrastructure, a common pattern emerges. Governance standards tend to tighten when boards, incentives and internal controls are no longer sufficient to contain risks whose consequences extend beyond the firm. At that point, company-level governance failures become a matter of economic governance, affecting market stability, fiscal outcomes and trust in institutions. The policy question now, therefore, is not whether differentiation exists – it plainly does – but how far it should go, and on what basis.

A cautiously descriptive answer is that differentiated governance standards are most defensible where there is a clear connection between company-level governance failure and public or systemic harm. In such cases, risk-based triggers for higher standards reflect a broader economic governance objective: ensuring that markets allocate capital, manage risk and deliver essential services without transferring the costs of failure to taxpayers or the wider economy. This logic is most developed in banking, increasingly visible in strategic SOEs and now emerging – albeit more unevenly – in cyber-resilience, critical infrastructure and sustainability reporting.

A useful and instructive contrast can be drawn with the European Commission’s proposed “28th regime”,¹⁷ which is framed as an optional EU-wide company-law framework designed to reduce legal friction for startups and scaleups.¹⁸ The EU, therefore, is simultaneously moving in two different directions: reducing legal friction where firms need room to grow, while gradually raising governance expectations where firms generate significant externalised risk. Together, these trends point towards a more differentiated corporate law landscape in which both opportunity and responsibility are increasingly shaped by the public consequences of firm-level failure.

¹⁷ See European Parliament (2026).

¹⁸ See European Commission (2025b).



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BRIDGING ECONOMIC GOVERNANCE AND CLIMATE FINANCE: HOW TRANSITION PLANNING UNLOCKS GREEN INVESTMENT



“The pattern is clear: governance and transition planning build market confidence; confidence enables access to capital; and repeat access confirms credibility.”



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Global climate finance is increasing at an unprecedented pace, yet much of it is failing to reach the economies that need it most. This article considers the structural constraints on efficient capital allocation in the economies where the EBRD operates, looks at how better governance and transition planning translate into finance by reducing information asymmetry, reviews evidence from labelled bond markets and draws strategic implications for corporates, financial institutions and the Bank itself. By bridging the gap between climate ambition and financial credibility, robust governance frameworks and credible transition plans – including those supported by the EBRD's Corporate Climate Governance Facility (CCGF) – can unlock investment, reshape risk perceptions and determine where capital ultimately flows.



WHEN GOVERNANCE IMPROVES, DOES CAPITAL FOLLOW?

Global climate finance has reached record levels. Tracked climate finance flows passed US\$ 1.9 trillion in 2023 and, based on early estimates, exceeded US\$ 2 trillion for the first time in 2024. Meanwhile, private climate finance exceeded US\$ 1 trillion for the first time in 2023, outpacing public investment.¹ Yet the geographical spread of this capital remains uneven. According to the International Energy Agency (IEA), China still accounts for 80-85 per cent of total clean-energy investment in the world's emerging markets and developing economies.² The challenge, therefore, is not only to continue raising more climate finance globally but also to make more firms, projects and jurisdictions investable in places where transition finance remains scarce.

In the economies where the EBRD invests, the climate-finance gap is only partly a capital-availability story. Sovereign and currency risk, the cost of capital, shallow domestic capital markets and fragile project-preparation pipelines all have an impact. The IEA has consistently identified the cost of capital as a binding constraint on clean-energy investment in emerging markets.³ But within that broader landscape, governance and risk perceptions form a distinct and underappreciated channel.

In 2024,
global climate
finance exceeded
US\$ 2 trillion
for the first time

A significant share of potentially investable projects in EBRD economies struggle to reach capital markets because corporate sponsors cannot yet demonstrate a credible transition pathway, robust board-level oversight or decision-useful climate disclosures which are aligned with the frameworks that investors, lenders and supervisors now expect. For investors, these issues are increasingly part of core risk assessments and therefore affect financing terms, including pricing, tenors and the decision to lend at all.⁴

Climate governance is therefore emerging not only as a regulatory expectation but also as an enabling condition for investment. Effective governance structures help companies,

¹ See CPI (2025).

² See IEA (2025).

³ Ibid.

⁴ See Gormsen et al. (2024).

financial institutions (FIs) and municipalities to incorporate climate-related risks in strategic decision-making and comply with evolving disclosure frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board (ISSB) standards.⁵ Increasingly, investors and lenders are evaluating not only the ambition of climate commitments but also the governance mechanisms supporting them.

Disclosure frameworks, board-level oversight, verifiable metrics and targets allow lenders, bond investors, supervisors and rating agencies to price climate-related risk with less uncertainty. Governance of this kind is a necessary condition for credible transition finance in EBRD economies, even if it is not sufficient on its own. It sits alongside work on the cost of capital, mitigation of sovereign risk, project preparation and capital-market depth, rather than replacing it. This aligns with the EBRD's institutional priorities. The Bank's Strategic and Capital Framework 2026-30 places economic governance alongside the green transition as a strategic priority.⁶ Work across the EBRD's Legal Transition Programme (LTP), the CCGF, climate teams and investment teams points to a common conclusion: where governance improves, capital can be priced and distributed more efficiently, and a wider set of issuers can become bankable.

STRUCTURAL CONSTRAINTS IN EBRD ECONOMIES

The EBRD's *Transition Report 2025-26* identifies defining challenges in EBRD regions: ageing populations, declining fertility, tight labour markets and persistent productivity gaps.⁷ Its central message is that future growth will depend on how efficiently capital and labour are allocated. The efficiency of capital allocation is therefore a binding constraint for climate investments. Without credible information on how a company manages climate-related risks, capital providers either demand higher returns to compensate for uncertainty or look elsewhere.

“Climate governance is therefore emerging not only as a regulatory expectation but also as an enabling condition for investment.”

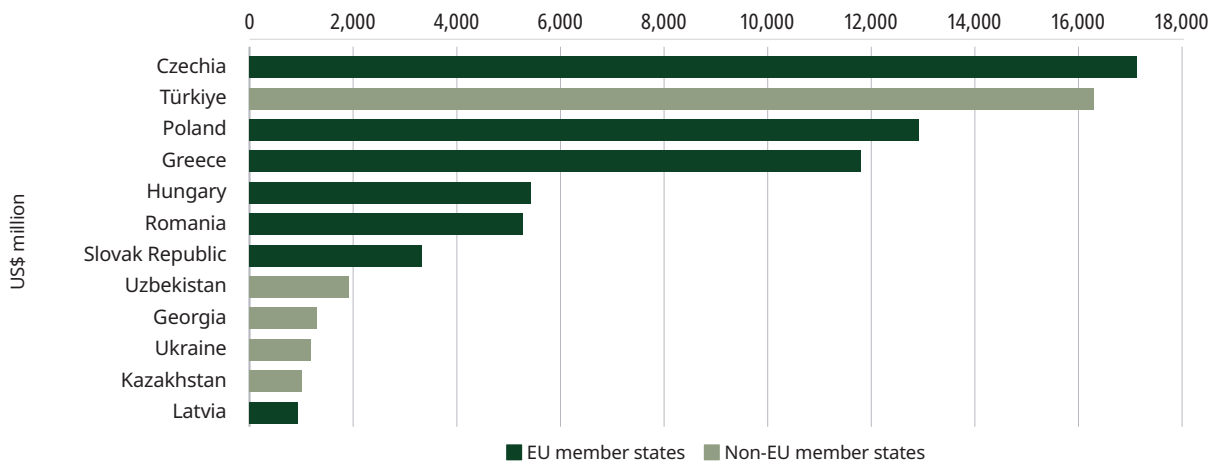
Regional heterogeneity across the EBRD regions sharpens the point. In central Europe and the Baltic states, more sophisticated capital markets, European Union (EU) membership and harmonised disclosure rules have supported deeper pools of issuers. In south-eastern Europe and, in particular, Türkiye and Greece, large corporates and FIs are tapping international markets with increasing regularity. By contrast, eastern Europe and the Caucasus, central Asia, and the southern and eastern Mediterranean (SEMED) continue to have much thinner markets, with capital-market depth constrained by newer disclosure regimes, limited peer benchmarks and, in several jurisdictions, small pools of rated issuers.

Labelled bond data illustrate this clearly. Of the US\$ 82.7 billion of green, social, sustainability, sustainability-linked and transition bonds issued by corporates and FIs in the EBRD regions between 2015 and 2025, central Europe and the Baltic states accounted for 51 per cent, or US\$ 42.5 billion, while south-eastern Europe accounted for 41 per cent, or US\$ 33.5 billion. Central Asia captured 3.8 per cent, eastern Europe and the Caucasus 3.1 per cent and SEMED only 1.2 per cent. In other words, around 9 out of every 10 US dollars of sustainable bond volume were raised in two regions with comparatively advanced capital markets. This is not only a capital-market gap – it is also a governance, disclosure and institutional-readiness gap.

⁵ See TCFD (2021) and <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator>.

⁶ See EBRD (2025a).

⁷ See EBRD (2025b).

Figure 1. Cumulative labelled bond issuance, 2015-25 (top 12 EBRD economies)

Source: Environmental Finance Bond Database and authors' calculations.

Note: The EBRD no longer operates in Greece and Czechia, its mandates in those two countries having expired in December 2025 and March 2026, respectively.

Figure 1 reveals a clear structural divide. Issuance is concentrated in EU member states, reflecting more developed governance frameworks and deeper capital markets. Türkiye stands out among non-EU issuers, with volumes comparable to those of several EU peers, reflecting the country's relatively well-developed regulatory and governance set-up, including its early adoption of ISSB-aligned standards. Other non-EU regions continue to be constrained by thinner markets, fewer rated issuers and less mature governance arrangements.

FROM CLIMATE RISK TO CREDIT RISK

When governance is weak and disclosure is inconsistent, lenders and investors cannot distinguish between manageable transition exposure and unpriced tail risk. This is why the transmission from climate risk to financial risk, and from financial risk to credit decisions, is increasingly being embedded in supervisory rulebooks and regulations. On 9 January 2025, the European Banking Authority (EBA) issued

its final guidelines on the management of environmental, social and governance (ESG) risks. These require in-scope banks to identify, measure, manage and monitor ESG risks, and to prepare plans addressing such risks.⁸ In parallel, the European Central Bank (ECB) has continued to incorporate climate- and nature-related risk management and stress testing in its supervisory framework.⁹

Corporate disclosure is undergoing a comparable consolidation. International Financial Reporting Standards (IFRS) S1 and S2 place governance, strategy, risk management, metrics and targets at the core of sustainability and climate-related disclosure.¹⁰ These standards are being adopted, mandatorily or voluntarily, in an increasing number of jurisdictions, including several EBRD countries of operation. Türkiye is a particularly relevant example: it adopted the ISSB-based Turkish Sustainability Reporting Standards (TSRS) 1 and 2 with effect from 1 January 2024 for large listed companies and banks, making it an early mover in the EBRD regions.¹¹

A further regulatory driver is the EU's Carbon Border Adjustment Mechanism (CBAM), which entered its "definitive phase"¹² on 1 January 2026, requiring importers of certain carbon-intensive products to bear carbon costs associated with their embedded emissions.¹³ The CBAM prices the embedded emissions of

⁸ See EBA (2025).

⁹ See ECB (2024, 2026).

¹⁰ See TCFD (2021).

¹¹ See Amel-Zadeh et al. (2026).

¹² Prior to this, the CBAM was a reporting-only regime.

¹³ See European Commission (2026).

“The emissions intensity of a company’s exports and the credibility of its decarbonisation plan now affect its market access, not just its reputation.”

imported cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. For EBRD economies outside the EU, the CBAM translates directly into a competitiveness signal. The emissions intensity of a company’s exports and the credibility of its decarbonisation plan now affect its market access, not just its reputation.

The implication is significant. A company without credible climate governance and a transition plan now faces friction in three linked markets. In capital markets, anchor investors and large asset managers demand decision-useful and, increasingly, ISSB-aligned disclosure. In banking relationships, regulated lenders must incorporate climate risk into credit decisions, pricing and limits. And in trade flows, the CBAM and sectoral product standards price carbon intensity. Thus, climate risk has become credit risk, export risk and investment risk all in one.

When climate risk is elevated to the status of credit risk and gets onto the agendas of internal credit committees and board meetings, governance becomes financially material. This governance-credit linkage is increasingly impacting the mechanics of financing. Weak disclosure increases uncertainty for lenders, potentially leading to higher financing costs or more restrictive lending conditions.¹⁴ Empirical evidence from

global energy and utilities sectors suggests that firms with credible net-zero transition plans are associated with lower loan spreads, indicating that FIs’ lending decisions are increasingly taking climate transition performance into account.¹⁵

GOVERNANCE AND TRANSITION PLANNING AS FINANCIAL INFRASTRUCTURE

A credible transition plan is an internally consistent set of governance arrangements, strategy decisions, capital-expenditure commitments, scenario analysis, metrics, targets and reliable disclosure. The TCFD pillars, now reflected in IFRS S2 and in supervisory expectations, make this architecture explicit.^{16,17}

From the perspective of a capital provider, a transition plan:

- establishes a credible baseline for emissions and climate-related risks
- explains how strategy decisions and capital expenditure will shift over time in response to those risks
- provides a governance spine that helps to ensure the plan survives changes in management
- produces disclosures that can be compared across issuers.

Without these elements, an information asymmetry between issuer and investor reappears. Thus, a strong transition plan becomes part of the financial infrastructure of the issuer, in line with the growing consensus that transition plans are a critical tool for mobilising private finance.¹⁸

¹⁴ See Di Febo (2025).

¹⁵ See Zhou et al. (2024).

¹⁶ See TCFD (2021).

¹⁷ For more information on IFRS S2, see <https://bit.ly/4dmj3PN>. See also <https://bit.ly/4d7muef> for information on the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD), which structure climate-related disclosures around governance, strategy, risk management, and metrics and targets.

¹⁸ See ITPN (2025).

Several elements are essential to make transition plans operational financial infrastructure:

- Board-level oversight matters. Senior leadership and board accountability is critical for incorporating climate considerations in strategies, risk appetite, investment decisions and performance monitoring.
- Transition planning must be strategic. A credible plan should outline emission reduction targets, investment needs, operational changes and the pathway through which the organisation intends to align with evolving climate policies and market expectations.
- Climate-related risks should be incorporated in enterprise risk management. Physical and transition risks need to be identified, assessed and monitored alongside traditional financial risks.
- Disclosure must be consistent, transparent and decision-useful. TCFD- and ISSB-aligned disclosures facilitate comparability across firms and reduce information asymmetry.¹⁹ However, comparability may remain limited.²⁰

The CCGF was designed to help EBRD clients build this infrastructure, offering climate-governance gap analyses, transition action plans, low-carbon pathways, board-level capacity building, incorporation of climate risk into enterprise risk management and stronger disclosure practices. Common regional gaps include board committees without climate mandates, risk functions treating transition risks separately from credit risk, incomplete Scope 3 inventories and weak links between climate metrics, executive remuneration and approval of capital expenditure.

The LTP complements this corporate-level work with system-level reform. The EBRD has, for example, supported stock exchanges in Skopje, Bucharest, Warsaw and Prague with the development and updating of ESG reporting guidelines, helping to align market infrastructure with evolving sustainability disclosure expectations.²¹ A Corporate Climate Governance Guidance Toolkit (produced in collaboration with Chapter Zero Türkiye) and the Bank's partnership with the Climate Governance Alliance²² have also supported climate competence in boardrooms in several EBRD regions.

FINANCIAL INSTITUTIONS AND CAPITAL MARKETS AS TRANSMISSION CHANNELS

FIs and capital markets convert governance and transition planning into financing outcomes. Banks in the EBRD regions are increasingly using corporate governance and transition planning in three linked ways: in credit risk assessment, by treating governance quality and transition credibility as explicit inputs; in pricing and product structuring, through sustainability-linked loans and green lending programmes that reward performance; and in capital-market underwriting, where FIs act as intermediaries for green, sustainability, sustainability-linked and transition bonds. Surveys suggest that many FIs already take clients' transition strategies into account in credit assessments and stress testing,²³ making the credibility of transition plans increasingly influential in lending decisions.

The CCGF's FI engagements are designed to build this capability from within. The EBRD Climate Practices and Transition Planning Programme for Armenia, for example, has provided training to 27 participants across 9 Armenian FIs through expert-led sessions, self-paced learning and workshops, with gains reported in the understanding of climate risk. In Egypt, the EBRD has provided its first sustainability-linked loan to a financial-sector counterparty in the country (Banque Misr) and supported the National Bank of Egypt in embedding climate risk in its risk policy.²⁴ In Jordan, Bank al Etihad has received capacity-

¹⁹ See TCFD (2021).

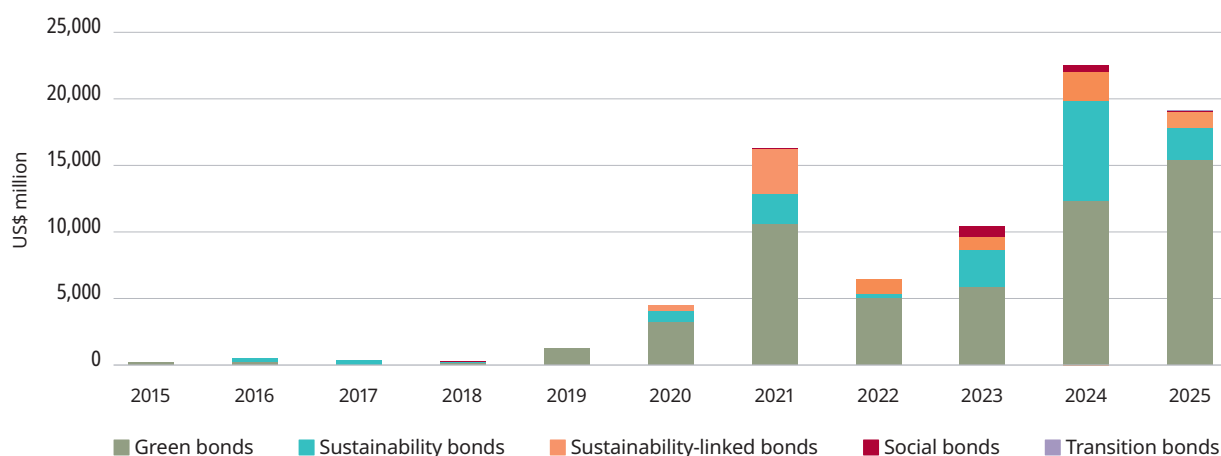
²⁰ See Amel-Zadeh et al. (2026).

²¹ See EBRD (2022a, 2022b, 2023a, 2023b).

²² See EBRD (2022c).

²³ See NGFS (2024).

²⁴ See EBRD (2025c).

Figure 2. Annual labelled bond issuance in the EBRD regions by instrument, 2015-25

Source: Environmental Finance Bond Database and authors' calculations.

building in the area of sustainable finance.²⁵ And in Georgia, the EBRD has deepened cooperation with TBC Bank on climate-related lending.²⁶

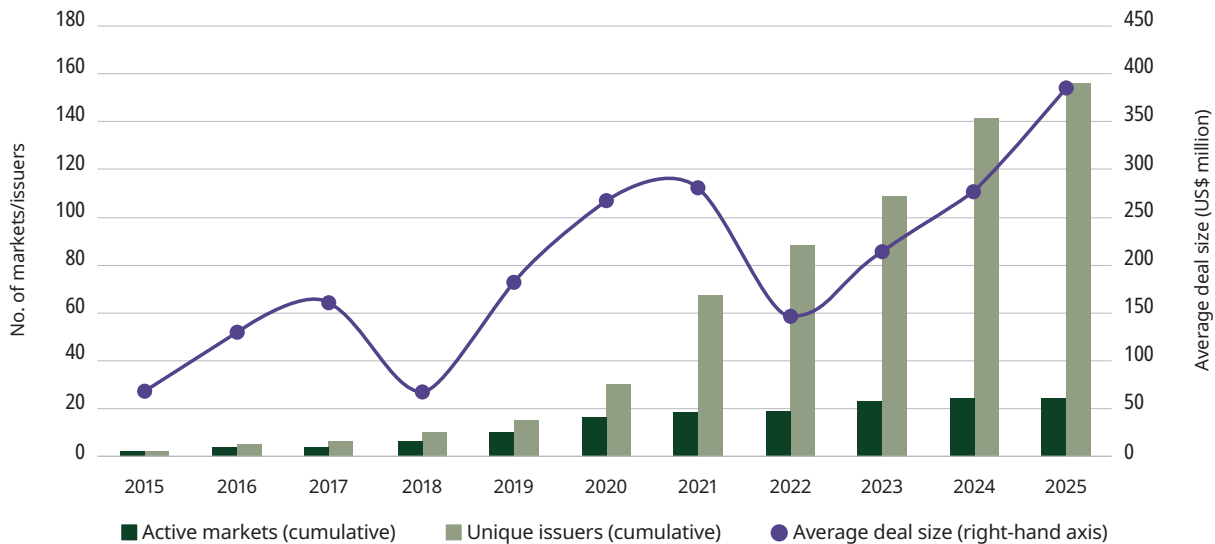
System-level engagement with regulators has run in parallel to the engagement with central banks. The EBRD has supported the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market in developing guidance on climate-related disclosure and joining the Network for Greening the Financial System (NGFS). The Bank has also assisted the National Bank of Tajikistan with joining the NGFS and helped the Central Bank of Armenia to advance its climate-related disclosure framework. These engagements matter, because supervisory expectations can accelerate improvements in governance and transition planning across markets.

The region's capital-market data show the same trend. On the basis of the Environmental Finance Bond Database, the EBRD regions saw 321 green, social, sustainability, sustainability-linked and transition bonds issued by corporates and FIs between 2015 and 2025, raising US\$ 82.7 billion (see Figure 2). Green bonds accounted for 231 issuances (US\$ 54.5 billion), sustainability bonds for 53 issuances (US\$ 17 billion),

Between 2020 and 2025, issuance of green and other labelled bonds by corporates and financial institutions in the EBRD regions raised **US\$ 80.2 billion**, up from **US\$ 2.5 billion** between 2015 and 2019

²⁵ See EBRD (2025d).

²⁶ See EBRD (2024a).

Figure 3. Market deepening, 2015-25

Source: Environmental Finance Bond Database and authors' calculations.

sustainability-linked bonds for 25 issuances (US\$ 9.6 billion), social bonds for 11 issuances (US\$ 1.6 billion), and transition bonds for one issuance (US\$ 100 million). Corporates accounted for roughly 52 per cent of the total volume and FIs for 48 per cent.

The time profile is striking. Between 2015 and 2019, only 19 issuances (worth US\$ 2.5 billion) were priced in the EBRD regions. Between 2020 and 2025, 302 issuances (worth US\$ 80.2 billion) were priced, representing a more than 30-fold increase in cumulative volume. Annual volumes reached US\$ 22.7 billion in 2024 and US\$ 19.3 billion in 2025. Average issuance size rose from US\$ 69 million in 2015 to US\$ 386 million in 2025 (see Figure 3). This capital-market deepening coincided with the consolidation of disclosure standards, anchor investors' adoption of Paris-alignment commitments and the rise of transition planning as a supervisory and market expectation.

This scaling-up has also tracked the spread of external standards, such as the Green Bond Principles and related market guidance. Of the 321 issuances, 197 referenced the Green Bond Principles; 30 combined the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines; 21 were aligned with the EU Sustainable Finance Taxonomy; and 19 referenced the Sustainability-Linked Bond Principles. In total, 92 per cent of all observed transactions referenced at least one external standard. These standards play a key role in structuring credible instruments and ensuring transparency for investors.²⁷

This matters, because external standards are not just labels. They are visible markers of an underlying governance stack. The bond framework may be the document that investors see, but the governance infrastructure behind it is what makes it credible.

²⁷ See ICMA (2025).

THE EBRD'S CATALYTIC ROLE: SELECT CASES

The EBRD Independent Evaluation Department's review of the Bank's green bond investments between 2017 and 2022 reinforces this governance reading. The EBRD invested in 29 individual green bond issuers over that period, and in 90 per cent of those cases the issuer was issuing its first ever green bond. In 4 of the 11 countries covered by its portfolio, the EBRD participated in the first green bond issuance by a non-sovereign issuer, and it was among the top 3 investors in 8 of the 10 issuances examined in detail.²⁸

The EBRD's mandate naturally steers it towards first-time and pioneering issuers, so the high share of debut transactions partly reflects the Bank's strategy. Even so, the pattern is significant. What made these deals possible was not just the marginal dollar of capital – it was the signal offered to other investors by a credible issuer, supported by a credible counterparty and governed by a recognised framework.

“ Well-established governance arrangements can sustain repeat market access, even through difficult macro cycles. ”

Aydem Renewable Energy in Türkiye illustrates this point. In 2021 Aydem priced a US\$ 750 million green bond – at the time, the largest green corporate Eurobond ever issued in Türkiye and a benchmark transaction for the Turkish renewables sector. The EBRD was an anchor investor and a structuring partner.²⁹ The transaction relied on a framework aligned

Between 2017 and 2022, the EBRD invested in 29 individual green bond issuers, **90%** of which were issuing such bonds for the first time

with the Green Bond Principles, disciplined investor reporting and a clearly articulated renewables strategy. These governance features helped to attract institutional capital to a first-time single-B issuer in a sector previously financed largely by bank loans. In 2025 Aydem returned with a US\$ 550 million green bond, extending maturity to 2030. The transaction attracted approximately US\$ 1 billion of orders, with long-term investors taking around 75 per cent, demonstrating that well-established governance arrangements can sustain repeat market access, even through difficult macro cycles.

Meanwhile, Kernel Group in Ukraine illustrates the role that climate governance plays in resilience. Through the CCGF, the EBRD helped Kernel to develop a low-carbon pathway, analyse climate risks and governance practices, set tailored decarbonisation targets and design

²⁸ See EBRD (2024b).

²⁹ See EBRD (2021).

a climate action plan for mitigation and adaptation. In 2022, against the backdrop of the full-scale invasion of Ukraine, Kernel published its first TCFD-aligned report, including Scope 1, Scope 2 and, where data allowed, Scope 3 emissions, climate-related risk assessments and scenario analysis. The engagement gave Kernel a governance and disclosure baseline at a time when investor, regulatory and supply-chain scrutiny were intensifying sharply.

Public Power Corporation (PPC) in Greece shows how transition finance can operate through sustainability-linked instruments. PPC, previously heavily dependent on coal-fired generation, issued two sustainability-linked bonds in 2021 tied to absolute CO₂ emission reduction targets. Sustainability-linked bonds require measurable key performance indicators, credible baselines, external verification and governance accountability. For a utility transitioning away from coal, the instrument functions as a governance contract as much as a financing contract. PPC's subsequent green bond issuance in 2025, which was aligned with the EU Sustainable

Finance Taxonomy and the Green Bond Principles, reflects the deepening of its transition and disclosure framework.

Uzbekistan provides a new-market example. The country's first labelled transactions were priced in 2024, with nine issuances following in the period 2024-25 for a cumulative total of US\$ 1.9 billion.³⁰ Issuers, led by the Uzbek Industrial and Construction Bank, built governance capacity in parallel with the transactions: board committees were reorganised to include climate oversight; sustainable finance frameworks were established in line with International Capital Market Association standards; and reporting templates were prepared for second-party opinion providers. This shows that even in markets without deep domestic ESG investor bases, international demand can be mobilised where governance meets a visible and externally assessed standard.

The pattern is clear: governance and transition planning build market confidence; confidence enables access to capital; and repeat access confirms credibility.



³⁰ Excluding sovereign-labelled bond issuances.

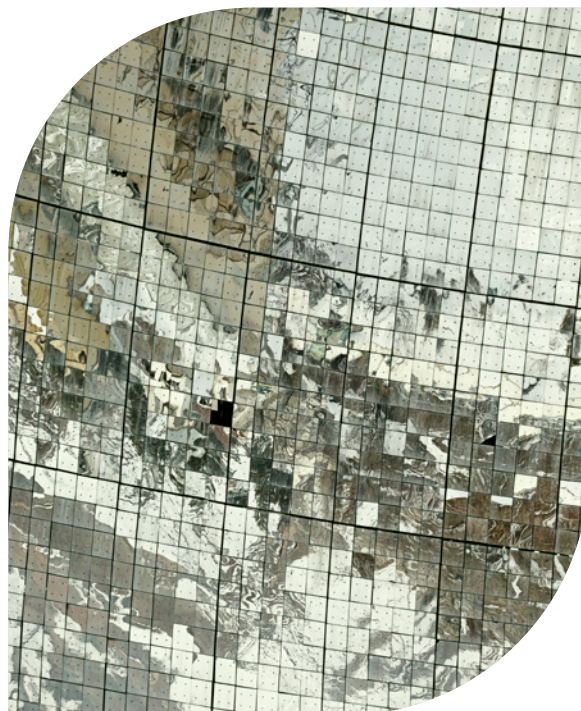
STRATEGIC IMPLICATIONS

At system level, governance and transition planning also improve the efficiency of capital allocation, which the EBRD's *Transition Report 2025-26* identifies as a binding regional constraint.³¹ When issuers can credibly explain how they manage transition risks and opportunities, capital markets can price them more accurately. Capital can then flow faster to projects with stronger risk-adjusted returns. Transition planning should therefore be understood as a tool for fostering economic efficiency.

For FIs, the lesson is that governance and transition planning should be treated as a core credit discipline, not an ESG add-on. This means building the capacity to evaluate transition plans; embedding climate-risk assessment into origination, pricing and portfolio management; developing sustainability- and transition-linked lending products; and underwriting credible issuers using standards such as the Green Bond Principles, the Sustainability-Linked Bond Principles, the EU Sustainable Finance Taxonomy and the European Green Bond Standard.

For corporates, the priorities are: establishing board-level climate oversight; investing in auditable emissions and scenario data systems; linking climate strategies with capital expenditure; aligning disclosures with IFRS S1, IFRS S2 and TCFD standards; and developing transition plans that can withstand investor due diligence. The CBAM, ISSB adoption and EBA guidelines are raising the cost of delay, with early movers benefiting from better access to capital and stronger financing terms.

For the EBRD, the strategic implication is that all three tracks should be pursued simultaneously: first, scale up the CCGF, particularly in central Asia, eastern Europe and the Caucasus, and SEMED, where capital markets remain shallow and governance support can be most catalytic; second, continue to use partner FIs as a primary transmission channel for private-sector climate finance, including through green lending, sustainability-linked lending and transition planning support; and third, continue combining investment, advisory support and



policy engagement in a single proposition. This approach is already embedded in the EBRD's Strategic and Capital Framework 2026-30 and its Green Economy Transition agenda.³²

Collaboration by multilateral development banks, international financial institutions and development finance institutions is also crucial: joint methodologies for tracking climate finance and emerging principles for nature finance create transparency across institutions.³³ As climate governance becomes increasingly linked to nature-related risks, biodiversity loss, ecosystem degradation and water scarcity, the governance agenda will need to expand beyond decarbonisation.³⁴ This does not dilute the climate-finance argument; it strengthens it. Capital providers are increasingly assessing environmental risk in an integrated manner.

³¹ See EBRD (2025b).

³² See EBRD (2025a).

³³ See Multilateral Development Banks (2022-25).

³⁴ See Haralampieva and Herrera-Martínez (2025).

CONCLUSION

The climate finance story of the EBRD regions over the past decade is also a governance and transition planning story. Between 2015 and 2019, US\$ 2.5 billion of green and other labelled bonds were priced in those regions. Between 2020 and 2025, that figure rose to US\$ 80.2 billion. The instruments themselves were not necessarily novel. What changed was the strategic importance of governance and transition planning as infrastructure for finance, while macro-level developments such as Paris alignment, TCFD and ISSB standards, the EU Sustainable Finance Taxonomy, the CBAM and EBA climate-risk guidelines sharpened expectations across the market.

For the EBRD, the coming years will test whether that governance infrastructure can be extended to the economies and sectors where it remains weakest. The Bank's green finance ambitions cannot be met by public capital alone. Whether they are met will depend on whether more corporates, FIs and municipalities become credible, transparent and investment ready. The evidence from labelled bond markets, CCGF technical assistance and LTP legal reform points in the same direction. The climate-finance gap is also a question of confidence, and that confidence is being built by governance and transition planning. Where governance improves, capital will follow.



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SUSTAINABILITY DISCLOSURE AND ECONOMIC GOVERNANCE: ISSB STANDARDS IN PRACTICE AND THE EBRD EXPERIENCE



“The ISSB standards represent an important step in global efforts to improve corporate transparency, but their real value lies in how they are used to strengthen governance, strategy and investment decisions.”



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Sustainability disclosure is rapidly shifting from a compliance matter to a core function of economic governance. This article looks at how ISSB standards (IFRS S1 and S2) – alongside emerging regional frameworks such as the EU’s ESRS – are reshaping the ways in which companies assess risk, strategy and value creation. Drawing on the EBRD’s experience, it shows how the Bank actively applies ISSB-aligned approaches across its investments and advisory work to strengthen governance, support decision-making and unlock access to capital. Examples from Türkiye, central Asia and Africa show how phased, practical implementation can turn disclosure into a driver of resilience, competitiveness and low-carbon transition.



INTRODUCTION

Increasingly, investors expect companies to explain not only their environmental impacts but also how sustainability-related risks and opportunities are identified, governed and reflected in their strategies and financial decision-making. Sustainability- and climate-related disclosure have therefore become central economic governance issues.

At the international level, the International Sustainability Standards Board (ISSB) introduced a common, investor-focused baseline in 2023 in the form of the International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards (hereinafter, “the ISSB standards”).¹ Meanwhile, at the European level, the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) and the corresponding European Sustainability Reporting Standards (ESRS) have

established a regional framework looking at both inward financial effects and outward environmental and social impacts. Together, these frameworks are reshaping expectations of corporate transparency and governance.

Over time, fragmented and often voluntary approaches to sustainability reporting have made it difficult for investors to assess how sustainability-related risks and opportunities affect long-term enterprise value. The ISSB standards respond to this gap by establishing an investor-focused baseline for sustainability-related financial disclosures,² centred on governance, strategy, risk management, and metrics and targets, with a particular emphasis on climate-related risks and resilience.

In parallel, a range of national and local standards are being developed or applied in EBRD economies of operation, often drawing on one of these two major frameworks. The IFRS Sustainability Disclosure Standards become operative and enforceable only through adoption at the local or jurisdictional level.

The EBRD supports the transition towards sustainable market economies by combining investment with policy engagement, reform and capacity building. In its Strategic and Capital Framework (SCF) 2026-30,³ the Bank places particular emphasis on accelerating the green transition by, among other things, strengthening economic governance.

¹ See <https://www.ifrs.org/sustainability/knowledge-hub/introduction-to-issb-and-ifrs-sustainability-disclosure-standards>.

² In the context of the IFRS Sustainability Disclosure Standards, “sustainability” refers to environmental, social and governance-related risks and opportunities that could reasonably be expected to affect a company’s long-term value (for example, exposure to climate risks, natural resource dependence or labour practices). “Materiality” refers to information that could reasonably be expected to influence the decisions of investors and other providers of capital, such as how a drought affecting a key supplier might impact revenues, or how new carbon regulations could alter operating costs.

³ See EBRD (2025).

The Bank recognises that strong sustainability-related financial disclosures are essential in order to guide green investment, so it has worked closely with the ISSB in developing and applying a global baseline for such disclosures.⁴ Through its Corporate Climate Governance Facility (CCGF; see Box 1), the EBRD uses the ISSB standards not as a reporting endpoint but as a structured framework for strengthening governance, identifying financially relevant risks and supporting access to capital in transition economies.

THE GOVERNANCE CORE OF THE ISSB STANDARDS AND THE EBRD'S APPROACH

Although they are framed as disclosure requirements, the ISSB standards are fundamentally about how companies organise themselves in order to identify, assess and manage sustainability-related risks and opportunities. They require companies to explain not only what information is disclosed but how sustainability issues are discussed and acted upon within the organisation.

This emphasis mirrors the EBRD's work through the CCGF, which focuses on the same core aspects as the ISSB framework⁵ – governance, strategy, risk management, and metrics and targets – when assessing client practices. In emerging market and transition economies, this approach is applied proportionately, recognising the varying levels of corporate maturity and the need for sequenced, capacity-appropriate measures.

Within CCGF engagements, the EBRD helps corporates and financial institutions to embed sustainability considerations in board oversight, strategic planning, enterprise risk management and financial decision-making. Sustainability-related risks may include, for example, exposure to extreme weather, regulatory change, carbon-intensive inputs or supply-chain disruptions, while opportunities may arise from energy-efficiency investments, new low-carbon products or improved access to sustainable finance. Importantly, these risks and opportunities are assessed not in isolation but alongside financial impacts on metrics



Box 1.

The EBRD's Corporate Climate Governance Facility

The Bank's CCGF supports companies in embedding climate considerations in board oversight, strategy, risk management and disclosure, treating sustainability as an integral part of business decision-making rather than a standalone reporting exercise. Delivered alongside investment, the CCGF provides targeted expert support to help companies identify and manage financially material climate-related risks and opportunities, strengthening governance, improving access to green and sustainability-linked finance, and enhancing resilience and competitiveness.

The facility operates across regions and sectors, including agribusiness, energy, real estate and infrastructure, reflecting its broad application in the EBRD's economies of operation. It is run by the Sustainable Finance Governance and Regulation Unit – part of the EBRD's Legal Transition Programme – within the Bank's Office of the General Counsel, in close cooperation with the Climate Strategy and Delivery team.



Disclosure is how a company in our regions becomes legible to global capital. For the EBRD, supporting ISSB-aligned reporting is about building better-governed, investment-ready businesses – because a company that can measure and explain its climate transition is a company that can attract the capital to deliver it.”

Felicity Spors

Director, Sustainable Business and Infrastructure, Climate Strategy and Delivery, EBRD

⁴ See EBRD (2026).

⁵ The ISSB framework builds on the recommendations of the Task Force on Climate-related Financial Disclosures, which was established in 2015 by the Financial Stability Board at the request of the G20 in order to develop a consistent, investor-focused approach to disclosing climate-related financial risks and opportunities, with the aim of improving market transparency and capital allocation.

such as asset values, planned capital expenditure, operating costs, insurance coverage and financing options.

By adopting an integrated approach, the EBRD treats ISSB (and EU) standards as practical tools for strengthening green governance and transition planning. While board oversight and governance are central, the standards also place strong emphasis on strategy, performance metrics and target-setting, which are critical to driving corporate sustainability transformation in practice. This includes setting clear and credible transition targets for reducing emissions over time, covering both a company's own operations (Scope 1 and Scope 2) and, where relevant, its wider value chain (Scope 3). Effective implementation also requires close coordination across functions within companies – bringing boards together with finance, risk, operations and sustainability teams – to ensure that sustainability considerations are consistently reflected in management processes and investment decisions.

WHY ISSB STANDARDS MATTER FOR TRANSITION ECONOMIES

For transition and emerging market economies, the relevance of ISSB standards extends beyond reporting. Increasingly, access to international capital is dependent on the availability of credible, comparable information on how companies manage sustainability-related risks and opportunities. Where disclosure is inconsistent or unreliable, investors tend to price in uncertainty, resulting in higher financing costs or reduced investment. This is reflected in regulatory and empirical evidence showing that internationally consistent sustainability disclosures respond directly to investor demand for decision-useful data and are associated with stronger engagement by institutional investors and increased capital allocation.^{6,7}

⁶ See IOSCO (2023).

⁷ See Ilhan et al. (2023).



Preparing the EBRD's first ISSB-aligned sustainability disclosures was a demanding but valuable exercise. It helped to strengthen internal processes linking sustainability risks to financial reporting, improved data quality through external assurance and reinforced the credibility of our disclosures for investors and other stakeholders."

Gad Loew

Associate Director, Sustainability Reporting, Financial Control, EBRD

A globally recognised disclosure baseline helps to reduce these information gaps by aligning sustainability reporting with financial decision-making and investor needs. In this way, ISSB-aligned disclosure supports more informed risk assessment and capital allocation.

The EBRD has sought to lead by example. In September 2025, it published sustainability disclosures for 2024 in full compliance with ISSB standards, subject to external assurance – that is to say, independent verification by a third party to provide confidence in the accuracy and reliability of the disclosed information – becoming the first multilateral development bank to do so. These disclosures explicitly link sustainability-related risks and opportunities to governance, strategy, risk

management and performance metrics, demonstrating the broader value of a governance-led approach.

However, effective implementation hinges on institutional capacity. Many countries face data gaps, limited climate expertise and scarce assurance resources, so immediate full adoption is unrealistic. The EBRD's experience through the CCGF shows that sequenced, proportionate adoption – focusing first on the most material issues (often climate-related), while strengthening board oversight, internal processes and data quality – yields better results. Starting with financially significant climate risks and expanding coverage as capacity grows ensures sustainability reporting does not become a box-ticking exercise and instead bolsters real economic decision-making.

FROM DISCLOSURE TO DECISION-MAKING: APPLICATION OF THE ISSB STANDARDS IN PRACTICE

While the ISSB standards are often discussed at the level of regulatory architecture, their most tangible impact comes where they influence corporate behaviour and strategic choices. Insights from practical usage (see Figure 1) point to the potential for ISSB-aligned frameworks to support earlier consideration of sustainability risks and more coherent internal responses.

Türkiye: national ISSB implementation and partnership with the EBRD

Türkiye offers one of the most advanced examples of early ISSB implementation. In 2023 the country introduced the Türkiye Sustainability Reporting Standards (TSRS), which are closely aligned with IFRS Sustainability Disclosure Standards S1 and S2 and were enacted through amendments to existing laws. By establishing a single economy-wide baseline for sustainability disclosure, anchored in legislation and phased in over time, Turkish authorities have provided regulatory clarity, while managing capacity

Figure 1. Current state of affairs in certain EBRD economies of operation (as at June 2026)

Country law and practice: Most countries that introduce national sustainability standards (including economies where the EBRD invests) emulate either ISSB or EU standards, contributing to the harmonisation of global sustainability practices.

 KAZAKHSTAN There is no full ISSB adoption mandate at present. The EBRD is supporting the development of an ISSB roadmap.	 JORDAN All Amman Stock Exchange-listed companies are permitted to use IFRS S1 and S2 from 2025, mostly only climate-related requirements.	 EGYPT ESG disclosure requirements are in place for listed companies (stock exchange driven).	 TÜRKİYE The ISSB standards are mandatory, having been fully incorporated in the Turkish Sustainability Reporting Standards. The TSRS are mandatory for fiscal periods starting on or after 1 January 2024 and apply to all listed entities and financial institutions, as well as various other entities that meet relevant thresholds.	 NIGERIA All entities are permitted to apply the ISSB standards for annual financial reporting periods starting on or after 1 January 2024. Public-interest entities are required to apply the ISSB standards for annual financial reporting periods starting on or after 1 January 2028.	 KENYA All entities are permitted to apply the ISSB standards for annual financial reporting periods starting on or after 1 January 2024. Public-interest entities are required to apply the ISSB standards for annual financial reporting periods starting on or after 1 January 2027. Large non-public-interest entities are required to apply the ISSB standards for annual financial reporting periods starting on or after 1 January 2028.
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Source: EBRD.

constraints. The initial stage focuses on climate-related disclosures and large companies, ensuring that the most urgent risks are addressed first and giving smaller firms time to prepare.

For Turkish businesses, this new ISSB-aligned framework has rapidly elevated the importance of sustainability in core decision-making. Increasingly, disclosure is seen not as a mere formality but as a means of securing market access and capital. This is especially true for firms that are integrated into European value chains, where partners and investors now demand ISSB-consistent information on climate risks and governance from their Turkish counterparts. Recognising these dynamics, the EBRD has actively supported companies in Türkiye from the very start of TSRS adoption. The Bank worked with national stakeholders to share global best practices and raise awareness of the new requirements. For instance, it convened local banks, corporates and regulators at a 2025 climate governance event in Istanbul, showcasing practical tools, such as a climate governance toolkit (developed in partnership with Chapter Zero Türkiye), that help company boards to assess their readiness for TSRS disclosures.⁸

The EBRD's dual approach – combining investment with advisory support – is helping Turkish companies to not only comply with TSRS but leverage that compliance for strategic advantage. Many of the Bank's clients and partners in Türkiye are using the CCGF-supported four-pillar framework to strengthen board oversight, improve risk management and identify new business opportunities. This mirrors the EBRD's wider approach of combining finance, governance reform and institutional capacity building to accelerate green investment.



Box 2. Case study:

From ISSB-aligned disclosure to strategy (Türkiye)

Yayla Agro, a leading Turkish agrifood company, shows how ISSB-aligned disclosure can support strategic change. In preparing for its first TSRS report, the company undertook a structured assessment of climate-related risks, identifying that the vast majority of its emissions arose in the agricultural value chain and that key inputs were exposed to water stress.

Using the ISSB pillars of governance, strategy, risk management and metrics, Yayla strengthened board oversight and embedded climate considerations in enterprise risk management and planning. This led to concrete actions, including energy-efficiency investments, the adoption of emission-reduction targets and improved Scope 3 data systems. More robust disclosures also supported engagement with international customers and financiers, underpinning EBRD financing signed in 2026.

Similar ISSB-aligned approaches have been applied for other Turkish companies in sectors such as energy and healthcare, supporting the development of transition plans, enhanced board oversight and sustainability-linked financing.



⁸ See https://www.linkedin.com/posts/elisabetta-falcetti_this-week-i-had-the-pleasure-of-opening-activity-7406953941315330049-ozKz.



Türkiye's adoption of the Turkish Sustainability Reporting Standards, which are aligned with IFRS S1 and S2, demonstrates how a globally consistent framework for sustainability disclosure can be implemented in a phased and proportionate manner, taking into account national conditions and the market's readiness. By establishing a clear reporting framework focused on sustainability-related risks and opportunities, the TSRS contribute to stronger corporate governance, greater transparency and more useful information for decision-making by investors and other stakeholders.

The effective implementation of sustainability reporting requirements depends not only on regulatory frameworks but also on the development of corporate capacity, governance structures and reporting capabilities within companies. In this context, cooperation between regulatory agencies, reporting entities, audit service providers and international organisations is of critical importance. The EBRD has made a valuable contribution by supporting companies in strengthening their governance, risk management and disclosure practices, thereby helping to translate reporting requirements into meaningful business processes and long-term value creation."

Dr İbrahim Ömer Gönül

Chairman of Türkiye's Public Oversight, Accounting and Auditing Standards Authority (KGK)

Central Asia: phased adoption built on governance foundations

Several central Asian countries are exploring how ISSB standards can be used to strengthen corporate governance and support investment. **Kazakhstan**, for example, has developed a national roadmap⁹ to align domestic disclosure requirements with ISSB standards, informed by early diagnostics of market readiness. The approach under discussion emphasises phased implementation, starting with climate-focused reporting aligned with IFRS S2 for larger companies and broadening the scope over time as corporate and supervisory capacity develops.

The EBRD is engaging in this work on a targeted and ongoing basis, alongside other international partners. At the policy level, the Bank is providing selective technical input to discussions with Kazakh authorities on the sequencing of adoption and framework design. In parallel, the EBRD is working with selected companies and financial institutions through advisory support to help them prepare for future disclosure requirements, with a practical focus on board oversight, internal data systems and risk management.

Through this balanced engagement, including participation in an ISSB working group, the EBRD is highlighting the importance of building core governance and implementation capabilities first, so that ISSB adoption strengthens decision-making and market confidence, without overburdening companies or supervisors in the early stages.

Elsewhere in central Asia, countries such as **Uzbekistan** and the **Kyrgyz Republic** are taking steps to align sustainability disclosure with ISSB-based approaches within their broader green economy and climate policy landscapes. In Uzbekistan, a presidential decree has already introduced disclosure requirements that draw on key ISSB-type elements, signalling a move towards more structured and comparable sustainability reporting. In both countries, EBRD

⁹ Order No. П/Р-130 dated 13 February 2026.

engagement focuses primarily on the private sector, working with corporates and financial institutions to help align core governance, risk management and data systems with the ISSB approach in advance of a wider regulatory rollout. This practical company-level work is complemented by capacity building and pilot disclosures, allowing firms to gradually become familiar with the standards. The emphasis on governance readiness – including board oversight, internal coordination and reliable data systems – supports an iterative approach which helps to ensure that sustainability reporting leads to meaningful improvements in business practices.

Africa: strengthening climate governance through ISSB alignment and board-level engagement

In Africa, engagement with ISSB standards is uneven but gaining momentum as countries explore their use as tools supporting stronger governance and investment readiness. A leading example is **Nigeria**, where regulators have adopted IFRS S1 and S2 as a national baseline for listed companies and other public-interest entities, supported by a regulatory roadmap setting out sequencing, governance expectations and a gradual

approach to assurance. This shift aims to replace fragmented environmental, social and governance (ESG) disclosures with a more coherent, investor-focused framework and improve confidence in sustainability reporting.

EBRD engagement in Africa is primarily anchored at the board and company level, drawing on its Chapter Zero experience in other countries, including Türkiye. Through Chapter Zero partnerships, the Bank works with directors and senior executives to strengthen climate oversight, embed sustainability in strategy and risk management, and promote alignment with ISSB-based disclosure expectations. In the southern and eastern Mediterranean region, this approach has been applied in **Egypt** through board-level engagement and is complemented elsewhere in the region by more advanced regulatory developments, such as **Jordan's** stock exchange-led climate disclosure framework. By starting with boards and corporates and gradually extending dialogue to regulators and market institutions, the EBRD aims to support a pragmatic transition in which ISSB alignment strengthens the quality of governance and market confidence, rather than becoming a purely formal compliance requirement.



CONCLUSION

The ISSB standards represent an important step in global efforts to improve corporate transparency, but their real value lies in how they are used to strengthen governance, strategy and investment decisions. For the EBRD and its partners, ISSB standards act as enablers of climate action and economic development, helping companies in transition economies to build more resilient low-carbon business models and attract long-term capital. Experience from Türkiye, central Asia and Africa shows that progress depends not only on reporting but also on leadership, cross-functional integration and sustained capacity building.

When implemented in a staged and governance-focused way, sustainability disclosure standards can become effective tools of economic governance. With EBRD support – particularly through the Sustainable Finance Governance and Regulation Unit, the Climate Strategy and Delivery team and Banking teams – ISSB alignment is used to embed climate considerations in financing decisions, board oversight and strategic planning as a tool for long-term value creation.



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EXTRACTING ELEMENTS OF ECONOMIC GOVERNANCE: SYSTEMIC REFORMS IN THE MINING SECTOR



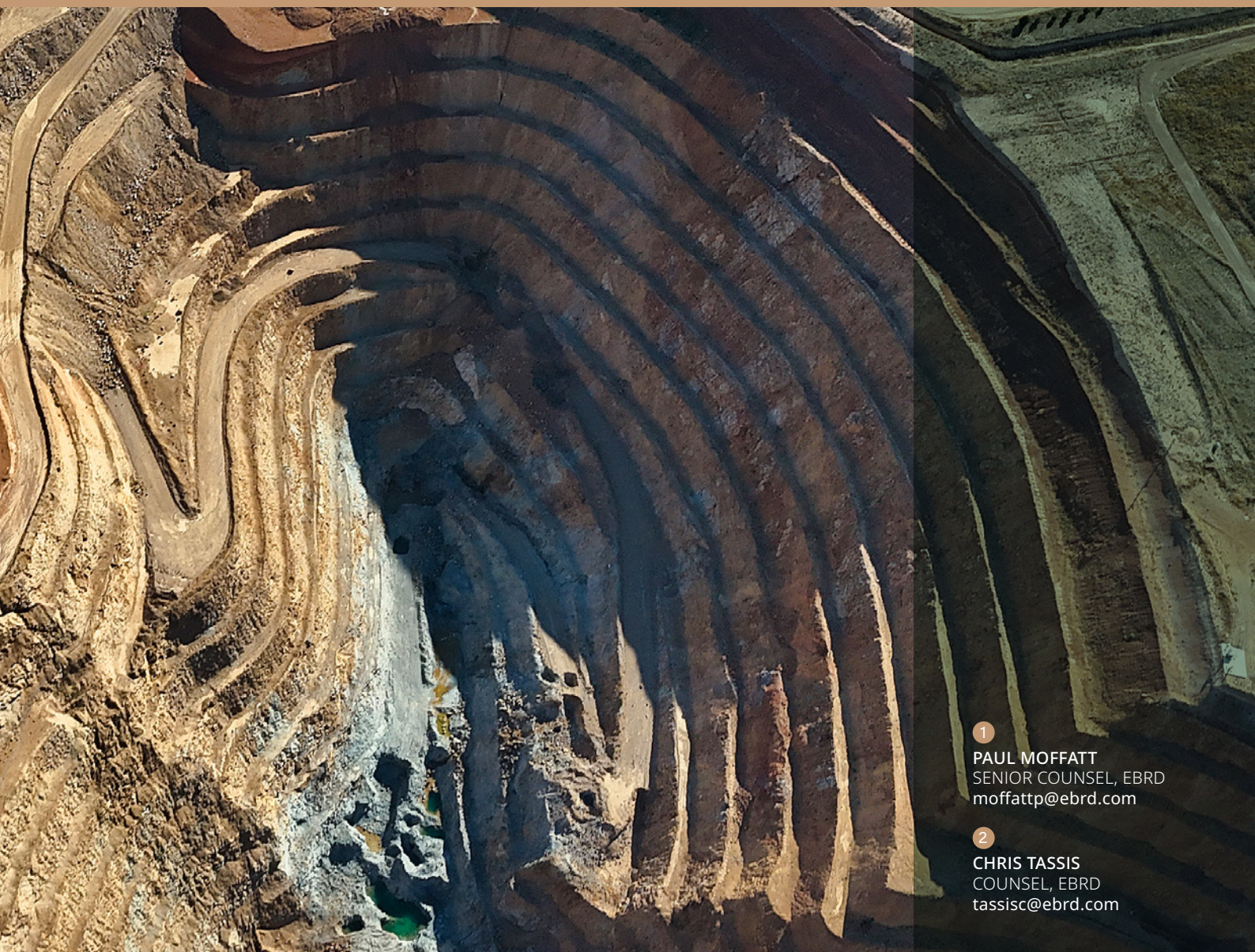
“Where legal frameworks are weak, fragmented or discretionary, economic governance is undermined; where they are clear, enforceable and aligned with market principles, they act as multipliers of reform impact across the economy.”



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This article looks at how EBRD investment, technical cooperation and policy engagement can contribute to more transparent, predictable and market-oriented mining frameworks under the Bank's Economic Governance Strategy 2026-30, with a focus on the Bank's support for economic governance in that sector through legal, regulatory and institutional reform. Drawing on examples from Mongolia, Tunisia, Ukraine and Uzbekistan, the article highlights the role that law plays in strengthening investor confidence, improving regulatory governance and enhancing public institutions' capacity to design and implement sector reforms.¹



MINING SECTOR GOVERNANCE: AN ENDURING CHALLENGE AND OPPORTUNITY

Mining plays a strategic role in many of the economies where the EBRD operates. The sector attracts foreign direct investment, generates export revenues, underpins fiscal capacity, supports local development and, increasingly, supplies the critical raw materials required for the energy, digital and green transitions. Historically, however, mining sectors in some of the EBRD's economies of operation have been associated with weak governance, discretionary state control, fragmented regulation, complicated access to geological data and uneven institutional capacity. To address some of these issues, the Bank's engagement in the mining sector has evolved well beyond the financing of projects. Today, it reflects a systemic reform agenda, consistent with the Bank's recently adopted Economic Governance Strategy 2026-30,² which places effective governance, transparency, accountability, market contestability and institutional capacity at the centre of its transition mandate. This article looks at how EBRD investment and policy support in the mining sector contributes to economic governance outcomes, drawing on real examples from Mongolia, Tunisia, Ukraine, Uzbekistan and other economies where the Bank operates to show how targeted reforms can stimulate wider systemic change and market transformation.

¹ The authors would like to thank the following colleagues for their helpful contributions and discussions: Natalia Lacorzana and her Natural Resources team; and Christoph Saenger, Patrik Stålgren and Luca Bonamico in the Policy Strategy and Delivery team.

² See EBRD (2026).

The EBRD
has invested
in some
220
projects
in the natural
resources sector

EBRD INVESTMENT AND POLICY SUPPORT IN THE MINING SECTOR

The EBRD is fully cognisant of the crucial role that the natural resources sector has played in the economic development of many of the EBRD regions and has, since its inception, actively supported the sector through a variety of financial instruments, including loans, equity investments and guarantees. The Bank has invested in some 220 projects in the sector, with cumulative investment totalling €10 billion and 70 per cent of that funding going to the private sector. The mining sector alone accounts for around a third of the natural resources portfolio, with approximately



80 projects as at May 2026.³ The Bank's project financing and policy approach to the mining sector is detailed in its comprehensive Mining Sector Strategy 2024-28.⁴

Beyond increasing available capital through lending and investing, the EBRD also aims to achieve broader impact through the provision of technical assistance at the company/project level and/or the sector level. At the company/project level, the EBRD can help mining companies to improve their environmental, social and inclusion practices, and enhance corporate and climate governance by applying best practice technologies, methodologies and approaches.

In addition, the Bank strives for systemic change via sector-level technical cooperation projects. The EBRD's definition of systemic change refers to the lasting, transformational changes to market structures, behaviours and institutions that are triggered by Bank projects. Driving systemic change often involves altering underlying roles, norms, structures and incentives within a market system, rather than focusing on the outputs of an individual project.

As regards the mining sector, EBRD staff from various departments – including Policy Strategy and Delivery, Climate Strategy and Delivery, Environment and Sustainability, Gender and Economic Inclusion, and the Legal Transition Programme – work alongside the Natural Resources Banking team to deliver



Case study:

Tunisia – Compagnie des Phosphates de Gafsa (CPG)

Improvements to environmental, health and safety practices

The objective of this technical cooperation assignment was to support CPG in identifying gaps between its existing environmental, health and safety (EHS) practices and the EBRD's Environmental and Social Requirements (ESRs). Through EHS due diligence funded by the Bank, the assignment enabled a comprehensive assessment of current operations across key mining sites, benchmarking them against international standards.

Key outputs included:

- identification of material environmental and social risks and compliance gaps
- development of a structured environmental and social action plan aligned with EBRD requirements
- preparation of a stakeholder engagement plan, including community engagement and grievance mechanisms
- prioritisation of actions to support phased alignment with international EHS standards.

³ For more information, see <https://www.ebrd.com/home/what-we-do/ebrd-sectors/natural-resources.html>.

⁴ See EBRD (2024).

ambitious sector-level reforms. In recent years, many of those reforms have focused on the governance of the sector, with particular emphasis on (i) improving and/or developing a transparent, predictable and investment-enabling environment, (ii) adopting forward-looking and investor-friendly legal and regulatory frameworks, and (iii) building the institutional capacity of national regulators and other stakeholders in order to design and implement reforms.

ECONOMIC GOVERNANCE STRATEGY: AN AMPLIFIER OF IMPACT

The recent adoption of the EBRD's Economic Governance Strategy 2026-30 has further reinforced the idea that economic governance lies at the heart of the Bank's transition mandate – which has, in turn, underlined the need for systemic change in its economies of operation. At its core, economic governance

is about better-functioning markets, unlocking the full potential of private sector-led growth while holding the state sector accountable for the delivery of high-quality goods and services. It encompasses the rules, policies and institutions that shape and regulate economic activity at corporate, sectoral and national level.

“ Law is one of the primary instruments through which economic governance attributes are articulated, operationalised and enforced. ”

Examples of activities currently supported by the EBRD's Legal Transition Programme

- **Investment climate reviews:** assessing market dynamics and sector governance, focusing on the legal and regulatory framework
- **Policy and strategy development:** developing short-, medium- and long-term strategic plans in line with sectoral and national priorities
- **Legislation:** drafting and supporting the adoption of mining laws and codes and supplementing regulations that are aligned with best practices
- **Guidance and methodologies:** helping with licensing processes, designing investment promotion strategies, adopting and implementing standards for reporting mineral resources and reserves, and so on
- **Geodata management:** digitising geological information and digitalising processes, including the development of cutting-edge digital databases and web portals
- **Transparency and anti-corruption:** working with the governments of countries implementing the Extractive Industries Transparency Initiative (EITI) to comply with the EITI standard as a means of ensuring enhanced contract transparency and beneficial ownership disclosures
- **Fiscal regimes:** designing and implementing market-based royalty/tax-based frameworks
- **Capacity building, training and support for practical implementation:** training officials involved in implementing legal, regulatory and policy reforms and turning them into measurable observations

Given that effective economic governance is characterised by predictability, transparency, accountability and the ability to design and implement reforms, law is one of the primary instruments through which economic governance attributes are articulated, operationalised and enforced. It provides the normative framework that structures economic decision-making, constrains discretion and translates policy objectives into binding rules that govern market behaviour.

At sector level, legal frameworks give practical expression to three principles of the rule of law: transparency, accountability, and fair competition in line with international norms. Through clear allocation of rights and obligations, law underpins consistent contract enforcement and the protection of property rights, which are fundamental to trust and confidence in economic transactions. A stable and coherent legal and regulatory environment – supported by clear laws, independent courts, predictable administrative processes and accessible remedies – reduces uncertainty, lowers investment risk and enables domestic and international investors to commit capital to long-term ventures.

“ Law is not merely a backdrop to economic governance but an active instrument of reform. ”

Crucially, law is not merely a backdrop to economic governance but an active instrument of reform. Well-designed legislation consolidates institutional roles, distributes authority across public bodies, establishes checks and balances, and creates mechanisms for oversight and accountability. In this way, law directly strengthens the state's capacity to design, coordinate and deliver reforms, while simultaneously shaping incentives for private actors. Where legal frameworks are weak,

fragmented or discretionary, economic governance is undermined; where they are clear, enforceable and aligned with market principles, they act as multipliers of reform impact across the economy.

Against this backdrop, and in line with the strategy, economic governance is pursued through three mutually reinforcing high-level objectives:⁵

- 1) **well-governed institutions** that create and enable a policy environment conducive to economic growth and investment
- 2) **well-managed and innovative public-sector enterprises and financial institutions** that efficiently fulfil their public mandates in the context of competitive markets
- 3) **well-managed and innovative private enterprises and financial institutions** that compete effectively, both domestically and internationally.

These high-level objectives are supported by a broad set of economic governance interventions. The next section focuses on the first high-level objective, pertaining to well-governed institutions, and expands on two strategy-aligned interventions, drawing on experiences of recent and ongoing technical cooperation projects led by the Legal Transition team.

- **Legal and regulatory reforms to improve the investment environment**

The mining sector presents a unique interface between law and economic power. Mining frameworks allocate access to subsoil resources, define the balance between public and private interests, and establish the fiscal rules that determine how resource rents are generated and distributed. In some EBRD economies of operation, these functions have historically been exercised through discretionary administrative processes rather than predictable legal norms.

⁵ See EBRD (2026).



The EBRD's experience demonstrates that reforming mining laws and codes is not a narrow sectoral exercise but a means of strengthening legal certainty and institutional credibility across the economy. In order to better understand the current governance situation in the mining sector of a given economy of operation, an EBRD team conducts an investment climate review, comprising (i) a market assessment (covering, for example, mineral endowment, market positioning and the investment landscape) and (ii) a comprehensive review of sector governance (looking at issues such as the legal and regulatory architecture, the fiscal regime, administrative processes and related matters). Such reviews have been undertaken in Côte d'Ivoire, Tajikistan, Tunisia and Uzbekistan, informing the Bank's approach to policy engagement and subsequent technical cooperation.

The EBRD's engagement in Uzbekistan is a strong example of how the Bank advances economic governance through legal and regulatory reforms to improve the investment environment, implementing extensive technical cooperation activities in close collaboration with state counterparties. Through its Legal Transition Programme, the Bank works closely with the Ministry of Mining Industry and Geology and the Agency for Strategic Reforms, supporting a multi-phase mining-sector market development programme that has already moved from policy reform to binding legislation.

The Bank's engagement in Uzbekistan's mining sector, which has been ongoing since 2021, has helped to replace a state-dominated and discretionary legacy regulatory model with a modern, market-led framework by drafting and iterating a comprehensive new law on subsoil, alongside detailed secondary regulations covering licensing, cadastres, taxation of subsoil users, environmental safeguards, mine closure and data access. Uzbekistan's new Law on Subsoil (Law No. ZRU-987) was approved by the Senate on 2 September 2024 and signed by the President on 31 October 2024, entering into force on 2 February 2025 following its official publication.

At the time of writing, the team is working on an ambitious reform and capacity-building agenda, focusing on implementing the new Law on Subsoil through the modernisation of the permit framework (including the design of an end-to-end e-permit framework and the administration of a pilot permit award process for selected critical deposits). Importantly, the Bank's engagement encompasses a strong investment promotion element by supporting the design and development of sector- and deposit-specific investment promotion outputs and the development of structured collaboration models for government and private investors, particularly exploration companies.

The impact on the investment environment is significant, as the new law enhances transparency and predictability, clearly defines the rights and obligations of the state and investors, simplifies market entry, strengthens investment protections and aligns Uzbekistan's mining regime with international best practice. This has helped to position it as one of the most investor-friendly frameworks in the region, unlocking credible opportunities for sustainable private investment in critical minerals that the Bank can then support through financing and assistance with implementation.

- **Enhancement of state's capacity to design and deliver reforms**

The importance of the state's capacity to design and deliver reforms cannot be overstated, as is clear from the Bank's technical cooperation projects in Ukraine and Mongolia.

In Ukraine, EBRD support under the technical assistance component of the Hi-Bar Programme funded by the European Union (EU) has focused on strengthening institutional ability to plan, implement and sustain reforms in the mining sector despite wartime constraints. The EBRD team is working directly with the Ukrainian Geological Survey, the State Research and Development Enterprise (SRDE), the State Geological Information Fund (GeoInform) and the Ministry of Environmental Protection and Natural Resources, leading a sequenced reform process consisting of (i) an assessment of the needs of legacy geodata systems, (ii) the design of a technically robust project implementation plan, and (iii) the phased digitisation and publication of geological data through a bilingual "geoportal".

This reform is more than just technical; it embeds new governance practices – such as clear allocation of institutional responsibilities, reduced administrative discretion, improved transparency and investor-ready information – that materially enhance the state's capacity to design and credibly deliver market-oriented reforms aligned with EU critical raw materials priorities. The ongoing scaling-up phase – which is targeting the digitisation of more than 60,000 priority documents and the



Case study:

Ukraine – critical reforms and development of the raw materials market

Modernisation of geodata management

This assignment is part of the EBRD's efforts to help the Ukrainian government to design and implement a programme encompassing the digitisation, storage, processing and dissemination of its geodata archives, with the aim of improving the accessibility of this critical information.

To date, a total of 11,300 geological documents have been digitised, covering more than 30 strategic and/or critical raw minerals and more than 360 deposits. In parallel, a web application (portal) has been designed, to which more than 16,800 documents have been uploaded, unlocking transparent and efficient access to Ukraine's mineral resources through digital innovation.

The existence of comprehensive and easily accessible geodata is critical for the mining sector, as it underpins informed investment decisions by reducing geological uncertainty. High-quality, transparent geodata lower exploration risk, improve deposit evaluation and reduce information asymmetries between governments and investors. By improving project screening and increasing transparency, accessible geodata directly reduce investment risk, enable competitive bidding and generally support a more attractive mining investment environment.

The EBRD and the Ukrainian authorities are aiming to digitise more than **60,000** priority documents

operationalisation of secure, resilient IT infrastructure – shows how the EBRD combines capacity building with practical support for implementation, ensuring that reforms move from policy intent to operational impact.

A similar technical cooperation project has been undertaken in Mongolia, where the Bank, through its Legal Transition Programme, worked closely with the Ministry of Mining and Heavy Industries, the Mineral Resources Regulatory Authority and the National Geological Survey to design and bring online a national digital geological database, following amendments to the country's Minerals Law and the adoption of a State Minerals Policy expressly enabling such a system.⁶ The project went beyond support for infrastructure, also (i) strengthening the state's ability to collect, manage and disseminate pre-competitive data, (ii) improving inter-agency coordination, (iii) training officials and (iv) embedding new regulatory practices that support transparency, investor confidence and informed policymaking – all core elements of effective reform underpinning economic governance objectives.

ECONOMIC GOVERNANCE IN MINING: BUILDING ON EXPERIENCE TO DELIVER THE STRATEGY

This article has shown how EBRD engagement in the mining sector can advance economic governance outcomes through targeted legal, regulatory and institutional reforms. The examples presented are necessarily selective, however. They capture only a portion of the Bank's past and ongoing efforts to support sector-level economic governance, which, in practice, have spanned multiple countries, reform instruments and stages of market development. Taken together, these efforts underscore the breadth of the Bank's toolkit and show that its ability to stimulate systemic change extends far beyond individual transactions.

70%
of the Bank's funding
for natural resources
projects has gone to
the private sector

Arguably, and encouragingly, the EBRD's commitment to economic governance predates the formal adoption of its Economic Governance Strategy 2026-30. The adoption of the strategy does, however, represent an important milestone – in terms of delivery, rather than ambition. The key opportunity now lies in systematically implementing this agenda across the Bank's activities. Economic governance action plans and sector reform roadmaps provide a practical and forward-looking framework for doing so, translating diagnostic insights into sequenced, project-specific and sector-wide reform pathways. For the mining sector, this offers a chance to deepen impact by anchoring individual legal and institutional reforms within longer-term reform trajectories that align policy engagement, capacity building and investment over time.

Within the strategy, law and legal reform remain critical enablers of economic governance. Legal frameworks provide the binding architecture through which (i) policy objectives are translated into enforceable rules, (ii) institutional mandates are clarified and (iii) transparency and accountability are embedded in market practice. As the Bank's experience shows, well-designed and effectively implemented laws can strengthen state capacity, constrain discretion and create the conditions for competitive, investment-ready markets.

⁶ See EBRD (2022).



Looking ahead, the EBRD is well placed to build on its comparative advantages, including its local presence, investment-led model and deep sector expertise, to proactively support economic governance reforms in the mining sector and beyond. By deploying the new

strategy's delivery instruments, the Bank can continue to act as a catalyst for durable, market-shaping reforms that translate governance improvements into tangible economic outcomes.



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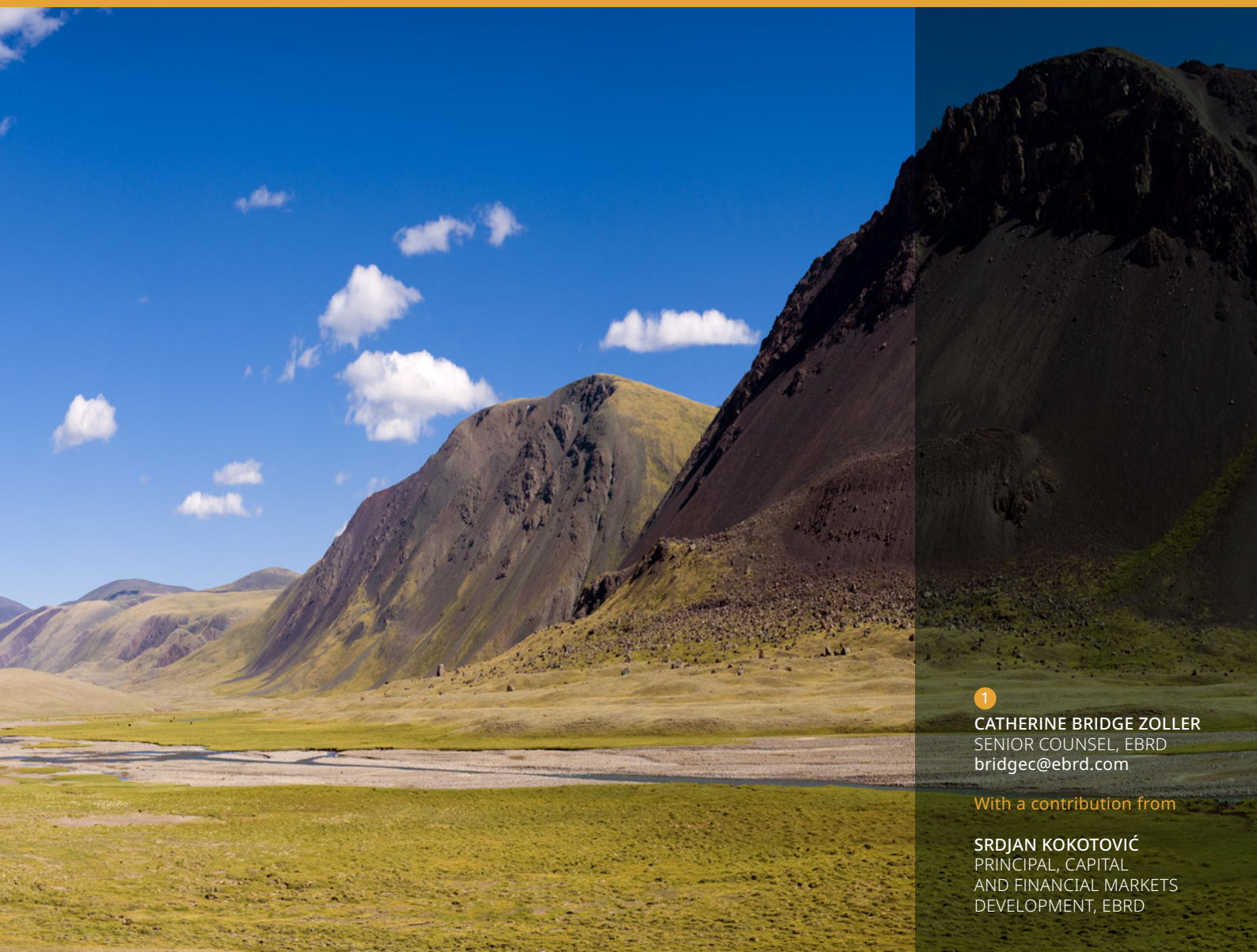
STRENGTHENING ECONOMIC GOVERNANCE IN KAZAKHSTAN THROUGH BANKING LAW REFORM



“ Clear and predictable rules on market entry, governance, supervision and resolution determine whether banks can operate as credible intermediaries. ”



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This article examines the enactment of Kazakhstan's New Banking Law in March 2026 – a landmark reform in the modernisation of the country's financial sector and a critical step in strengthening its investment environment. Drawing on the EBRD's longstanding engagement in the country and the technical assistance provided to the Kazakh financial regulator, the article analyses the factors driving reform. It explains how the new legal framework introduces a differentiated licensing regime for smaller and universal banks, establishes a modernised bank recovery and resolution framework substantially aligned with international standards, and strengthens certain aspects of corporate governance, as well as regulating digital financial assets through an accompanying Omnibus Law. The article also discusses implementation challenges, the scale of secondary legislation and remaining reform priorities, highlighting the key role of strong legal institutions in supporting financial stability and international investment.¹



KAZAKHSTAN, BANKING AND INVESTMENT

Kazakhstan is the largest economy in central Asia and an important country for the EBRD in the region. Its size, natural resources and strategic location at the crossroads of Europe and Asia have made it a major destination for foreign investment – and EBRD engagement – since its independence in 1991. The EBRD has invested €11 billion in Kazakhstan since 1992 through more than 300 projects spanning energy and natural resources, transport and logistics, infrastructure and municipal services, agribusiness, manufacturing and the financial sector.² In May 2026 the Bank's portfolio in Kazakhstan stood at approximately €3.14 billion, with around 49 per cent invested in private-sector counterparties and the remainder in sovereign and state-owned entities.

Well-governed banks are essential intermediaries for EBRD investment and the mobilisation of private capital, as emphasised

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¹ With special thanks to: Anar Aliyev, Principal Counsel, EBRD Legal Transition team; Srdjan Kokotović, Principal, EBRD Capital and Financial Markets Development team; Adrian Kozlovskyy, KPMG Ukraine; and Vassiliy Zenov, Partner, Head of Banking & Finance, Dentons Kazakhstan.

² For more details, see <https://www.ebrd.com/home/what-we-do/where-we-invest/kazakhstan.html>.



in the EBRD's country strategy for Kazakhstan, which identifies private-sector competitiveness, access to finance and sound economic governance as core priorities. Critically, however, achieving these objectives depends on the robustness of the banking law framework. Clear and predictable rules on market entry, governance, supervision and resolution (a special legal process through which public authorities restructure or wind down a failing bank in an orderly manner, with the aim of maintaining financial stability, preserving critical banking functions and avoiding taxpayer-funded bailouts) determine whether banks can operate as credible intermediaries.

Kazakhstan's new Law "On Banks and Banking Activities" (hereinafter, "the New Banking Law") was adopted by parliament in December 2025 and signed by President Kassym-Jomart Tokayev on 16 January 2026, entering into force (with the exception of certain provisions) on 19 March 2026. The New Banking Law was a deliberate effort to address longstanding structural gaps in the framework for managing bank failures. While International Monetary Fund (IMF) country reports had consistently recognised the progress Kazakhstan had made in strengthening banking supervision and undertaking significant clean-up measures after the global financial crisis of 2008-09, they also noted that the legal framework for managing bank failures remained below international standards, particularly with

regard to the orderly resolution of systemically important banks.³ Prior to this reform, weaknesses in Kazakhstan's banking legislation had contributed to the creation of a banking sector that was characterised by high levels of concentration, limited competition and a narrow pool of institutions meeting international governance and risk-management standards. This limited the number of banks that were able to act as effective partners for EBRD investment, constraining market development and the mobilisation of private-sector finance.

Thus, the case for reform was closely tied to Kazakhstan's broader economic governance and development agenda. In his State of the Nation address on 2 September 2024, President Tokayev called for the adoption of a new banking law capable of responding to "the current challenges of stimulating economic activity and [ensuring] further dynamic development of the fintech sector", noting explicitly that the existing banking legislation no longer reflected the realities of a modern, market-based economy.⁴ In subsequent addresses and public statements, he further emphasised the need to intensify competition in the banking sector, modernise financial legislation and create conditions conducive to corporate lending and the financing of large-scale economic projects.

³ See, for example, IMF (2024).

⁴ See President of the Republic of Kazakhstan (2024); see also Sakenova (2024).

STRUCTURAL WEAKNESSES IN THE BANKING SYSTEM AND THE DIAGNOSTIC PHASE

The EBRD supported the reform of Kazakhstan's banking law, which was led by the Agency for Regulation and Development of the Financial Market (hereinafter, "the Agency") and the National Bank of Kazakhstan, through a dedicated technical assistance programme launched in late 2024. The programme, which combined policy engagement, legal and financial analysis, and legislative drafting, was led by the EBRD's Legal Transition Programme in partnership with its Capital and Financial Markets Development and Financial Institutions teams. Dentons Kazakhstan was engaged as a national legal adviser. The team was also supported by Professor Marco Bodellini, whom the EBRD brought onboard to provide high-level guidance on bank resolution and governance, drawing on comparative European experience and international standards.

To ensure that the reform addressed market needs, the EBRD also commissioned a comprehensive market study, led by KPMG's Ukraine offices, which analysed the structure, performance and competitive dynamics of the Kazakh banking sector. The study considered the Agency's proposal for a two-tier licensing system for banks (as discussed below) and legal and regulatory bottlenecks affecting market

development, including digital banking. Together with separate work undertaken by consultancy firm Oliver Wyman – which the Agency engaged to focus on matters such as specialist regulatory regimes, Islamic finance and the supervision of conduct – this preparatory assessment work helped to identify gaps in the then existing banking law framework and informed subsequent drafting efforts.

The EBRD's market study highlighted the highly concentrated nature of the Kazakh banking system, in which two large banks accounted for more than half of total banking assets. Market entry was uncommon, with recent consolidation mainly due to regulations and legacy risks. Smaller banks faced persistent profitability challenges and struggled to compete. Consequently, one of the aims of Kazakhstan's banking-sector reform was the improvement of the banking system institutionally to encourage more competition and easier entry by new banking operators. A key finding in the study was the difficulty of implementing proportional bank regulation, which involves tailoring regulatory and supervisory measures to a bank's size, systemic significance, risk characteristics and business strategy. High statutory minimum capital thresholds and governance requirements imposed fixed compliance costs that were disproportionate for smaller institutions and potential entrants. As a result, regulatory barriers reinforced market concentration and limited competition, particularly in lending to small and medium-sized enterprises (SMEs) and regional lending.

The absence of proportional regulation also affected the effectiveness of supervision. The supervisory framework did not sufficiently differentiate between the application of supervisory and regulatory tools to systemic and non-systemic banks, leading to an inefficient allocation of supervisory resources and governance challenges. Smaller banks were subject to governance and reporting requirements that could sometimes exceed what was necessary to manage their risk profiles, while supervisory attention on larger, more complex institutions could, at times, become diluted.



Certain aspects of the banking sector's corporate governance framework and its implementation further compounded these issues. Comparative analysis demonstrated gaps between governance requirements for Kazakh banks and international standards as articulated by the Basel Committee on Banking Supervision, the primary global standard-setting body for the prudential regulation and supervision of banks and bank governance, as well as relevant prudential governance benchmarks and requirements in selected comparator jurisdictions (the European Union (EU), the United Kingdom, Switzerland and Italy).⁵

Importantly, the diagnostic work highlighted the fact that strengthening market functioning and governance was dependent on having a credible framework to manage bank failures. Without clear tools to address distress, supervisory incentives were inevitably blurred and early intervention was often delayed. Consequently, the IMF's recommendations to modernise Kazakhstan's bank resolution framework became a central reference point for the reform efforts.

PROPORTIONAL REGULATION AND LICENSING REFORM: INTRODUCING THE BASIC BANKING LICENCE

One of the most significant elements of the New Banking Law is the introduction of proportional regulation through differentiated banking licences for Kazakh banks. For the first time, Kazakh law now provides for a basic banking licence alongside the universal banking licence. Uniform licensing and capital requirements were identified as a major barrier to entry and competition, particularly for smaller and specialist institutions. Prior to the introduction of regulatory differentiation, new banks could only enter the market by assuming the full compliance burden, which was designed for large universal banks, rendering many potential business models economically unviable.

Under the new framework, banks operating under a basic licence may engage in a restricted range of banking activities, typically

“For the first time, Kazakh law now provides for a basic banking licence alongside the universal banking licence.”

focused on core services such as deposit-taking and lending, and are subject to limits on asset size and risk exposure. In exchange, they benefit from materially lower minimum capital requirements. Universal banks remain subject to more stringent prudential and supervisory requirements, reflecting their greater risk profile and importance. These include higher capital buffers and more intense supervisory scrutiny. However, as regards corporate governance, the new Regulation 86 “On Approval of the Rules for Forming the Risk Management and Internal Control System for Banks and Branches of Non-Resident Banks of the Republic of Kazakhstan”⁶ (which replaces the previous Regulation 188) does not yet establish any material differences between banks with universal licences and banks holding basic licences in terms of governance requirements, as one would expect under a proportionate regulatory approach.

Nevertheless, by lowering barriers to entry, the law creates space for regional banks, digital banks, niche lenders and institutions focused on SME finance to emerge and compete. This is designed to improve access to finance, reduce concentration and foster innovation within the banking sector.

⁵ See BIS (2015).

⁶ Resolution of the Board of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 86 “On Approval of the Rules for Forming the Risk Management and Internal Control System for Banks and Branches of Non-Resident Banks of the Republic of Kazakhstan”, dated 28 April 2026. Available at: <https://adilet.zan.kz/rus/docs/V2600038586>.

On a separate note, the New Banking Law's legal recognition of Islamic banking windows (a dedicated business line within a conventional bank through which the bank offers Sharia-compliant financial products, while continuing to operate conventional interest-based activities elsewhere in the institution) further expands the range of permissible business models and confirms Kazakhstan's desire to establish itself as a regional financial hub.⁷

BANK RECOVERY AND RESOLUTION: ALIGNING INCENTIVES AND PROTECTING STABILITY

The centrepiece of the New Banking Law is the establishment of a comprehensive bank recovery and resolution framework that is substantially aligned with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions (hereinafter, "the Key Attributes"). Developed in the aftermath of the global financial crisis, the Key Attributes are the gold standard for public authorities when it comes to managing the failure of banks and other systemically important financial institutions.⁸

Previously, the Kazakh authorities lacked a modern, coherent and operational recovery and resolution regime, relying primarily on liquidation, temporary administration or discretionary state intervention. Now, however, the New Banking Law has established a framework consistent with modern banking legislation that empowers the Agency to intervene earlier, require recovery measures and, where appropriate, place a failing bank in a "resolution regime" – a special administrative procedure. This procedure is distinct from bank liquidation, which leads to the closure of the bank and the sale of its assets – activities which, in Kazakhstan, are performed under court supervision.

“The centrepiece of the New Banking Law is the establishment of a comprehensive bank recovery and resolution framework that is substantially aligned with the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions.”

In bank resolution, public authorities' primary objective is to preserve critical banking functions, such as taking deposits, arranging payments and providing access to credit, while allocating losses to shareholders and creditors rather than taxpayers. Unlike bank liquidation, resolution is extra-judicial and designed to be fast and decisive to prevent further market contagion. It allows the resolution authority to intervene once a bank has been categorised as "failing or likely to fail" – but before it becomes balance-sheet insolvent – if no private-sector solution is reasonably likely. Resolution frameworks typically equip authorities with a set of tools, including the transfer of assets and liabilities to a private purchaser or bridge bank, the write-down or conversion of capital and eligible liabilities (a "bail-in"), temporary moratoria, or changes to governance and management.

The New Banking Law provides a full suite of resolution tools. Importantly, however, this legislation does not fully deploy classic bail-in mechanics involving the statutory cancellation of shares and the write-down of equity without shareholder consent. This is due to legal restrictions contained in Kazakhstan's existing Law "On Joint Stock Companies" (hereinafter, "the JSC Law").⁹ The resolution objectives are instead achieved via

⁷ An Islamic window is not a separate legal entity; it operates within an existing conventional bank, but is subject to specific legal, governance and accounting safeguards.

⁸ See FSB (2024).

⁹ Kazakhstan Law No. 415 "On Joint Stock Companies", dated 13 May 2003. Available at: https://adilet.zan.kz/rus/docs/Z030000415_.

mechanisms such as the write-down or conversion of liabilities under the concept of “forced restructuring of liabilities of a bank under resolution”, an administrative resolution measure that does not require prior court approval, which could impede timely intervention.

The new framework now requires systemically important banks to meet total loss-absorbing capacity (TLAC) standards, creating a new category of subordinated or resolution-eligible instruments in which long-term institutional investors such as the EBRD can invest. TLAC standards aim to ensure that banks considered critical to the financial system hold sufficient capital and liabilities that can be written down or converted into equity during a crisis. This buffer supports an orderly resolution process without relying on public funds.

“For the first time, the New Banking Law clearly articulates the principle that the banking sector should itself contribute to the costs of managing bank failures.”



Box 1.

Trends in bank recovery and resolution across EBRD economies of operation

In the EBRD’s non-EU economies of operation, the development of bank recovery and resolution frameworks broadly reflects countries’ strategic orientation and integration objectives. In the Western Balkans countries, as well as in Armenia, Georgia and Moldova, the ambition to join the European Union has been a powerful driver of reform. These countries have made substantial progress in aligning their legal and institutional frameworks with the EU’s crisis management, deposit insurance and bank resolution acquis, including BRRD II.* Reforms have focused on strengthening early intervention and resolution powers, recovery and resolution planning, bail-in tools and institutional coordination. Some jurisdictions have moved to transpose all of the EU framework. For instance, Montenegro, which is widely viewed as the most advanced EU accession candidate, has already incorporated most relevant EU regulations and directives into its domestic legislation.

By contrast, countries in central Asia, the southern and eastern Mediterranean and sub-Saharan Africa do not generally have the EU framework as a formal regulatory anchor, so they have followed more diverse reform paths. In these jurisdictions, recovery and resolution regimes are typically inspired by international standards (most

notably, the Financial Stability Board’s Key Attributes of Effective Resolution Regimes), or have been adapted based on the experiences of peer countries with similar financial-sector structures.

The EBRD’s support in this area has been correspondingly varied in terms of both geography and scope. In several cases, including that of Kazakhstan, the Bank has provided extensive assistance covering the full resolution process, from the drafting of secondary legislation to the operationalisation of resolution tools. Elsewhere, support has been more targeted, focusing on manuals, internal procedures and templates, as well as frameworks for cooperation with foreign resolution and crisis management authorities (including information-sharing and confidentiality arrangements), reflecting the cross-border nature of many banking operations. EBRD assistance has also extended to related financial safety net domains, particularly deposit guarantee schemes, covering issues such as optimal fund size, risk-based premium systems, and the interaction and synergies between guarantee funds and resolution-financing arrangements.

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* Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC.

For the first time, the New Banking Law clearly articulates the principle that the banking sector should itself contribute to the costs of managing bank failures. In particular, where the resolution of a systemically important bank involves the use of public resources, Article 100 of the New Banking Law provides for an ex post cost-sharing mechanism under which part of the loss incurred by the state may be recovered through mandatory contributions from Kazakh banks and branches of non-resident banks. This mechanism is carefully framed, both in scale and in timing, and operates only after shareholders and eligible creditors of the resolved bank have already absorbed losses. While this falls short of the ex ante resolution funding arrangements adopted in some jurisdictions, such as the EU and the United Kingdom, it nonetheless takes an important step towards alignment with international resolution-financing principles by ensuring that public support is complemented by a credible and flexible mechanism for industry cost sharing.

For a systemically important bank, resolution action under the new framework is undertaken following consultations with the National Bank of Kazakhstan and the Financial Stability Council. This is intended to ensure broad institutional alignment and manage systemic risk collectively. The New Banking Law allows the state (including via national holding companies) to inject capital, acquire shares and provide temporary support as part of the resolution of a systemic bank, with various post-resolution safeguards, notably loss absorption, valuation discipline and ex post cost recovery, provided for under Article 100.

The New Banking Law represents a substantial strengthening of the legal architecture governing bank failures. By establishing early intervention powers, a menu of resolution tools and industry-based loss sharing, the New Banking Law reduces reliance on ad hoc state support and contributes to greater predictability for creditors and investors.

CORPORATE GOVERNANCE, THE OMNIBUS LAW AND IMPLEMENTATION CHALLENGES

Corporate governance was an important focus of the EBRD's technical cooperation project supporting the New Banking Law and related reforms. On the subject of governance requirements, the New Banking Law is largely framework-level and defers key requirements to secondary legislation – that is to say, to the new Regulation 42¹⁰ (governing the approval of senior management and board appointments) and Regulation 86 (governing risk management and internal control systems), as referred to above.

In this context, a significant development relates to the treatment of independent directors: the law refines the definition of “independent director” and introduces additional criteria governing independence and a mechanism for their ongoing monitoring, including annual declarations and verification at both board and regulator level. In parallel, the law recognises the principle of proportionality for corporate governance requirements, while deferring to secondary instruments and supervisory practice for its operationalisation. As previously indicated, Regulation 86, the new secondary instrument, does not yet differentiate between banks with a basic licence and those with a universal licence when it comes to corporate governance requirements. This could potentially be the focus of future work, therefore.

In addition, conflicts of interest and related-party transactions are regulated more comprehensively under the New Banking Law by building on the concept of “persons with special relations” vis-à-vis a bank. This concept explicitly covers members of the board of

¹⁰ Resolution of the Board of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 42 “On Approval of the Rules for Granting Consent to the Appointment (Election) of Senior Managers of a Bank, Bank Holding Company, Branch of a Non-Resident Bank of the Republic of Kazakhstan, Insurance (Reinsurance) Organisation, Insurance Holding Company, Branch of a Non-Resident Insurance (Reinsurance) Organisation, Insurance Broker, Branch of a Non-Resident Insurance Broker, Unified Accumulative Pension Fund, Voluntary Accumulative Pension Fund, Joint Stock Company ‘Insurance Payments Guarantee Fund’, Professional Securities Market Participant, Including the Criteria for the Absence of an Impeccable Business Reputation, the Documents Required for Obtaining Consent, the Requirements Regarding Professional Experience for Candidates Holding Professional Qualifications Confirmed by International Certificates, and the List of Such Certificates”, dated 3 April 2026. Available at: <https://adilet.zan.kz/rus/docs/V2600038345>.

directors, senior management and other key decision-makers of the bank and their close relatives, as well as major shareholders (including bank holding companies), their officials and related entities, affiliates, participants in the banking conglomerate and other persons meeting regulatory criteria for special relations. The framework limits dealing on favourable terms with such persons, requires board-level approval and recusals for certain transactions, and provides for reporting on both “persons with special relations” and related transactions.

The New Banking Law obliges banks to establish and maintain a risk-management and internal control system, including internal policies and procedures. More detail is set out in Regulation 86, with a bank’s board of directors being responsible for overall oversight of, and accountability for, the effectiveness of the bank’s corporate governance system. Regulation 86 addresses the subject of executive remuneration at a governance and policy level, requiring appropriate remuneration policies aligned with risk management. A separate Regulation 38330¹¹ envisages remuneration deferral mechanisms for bank management, which are, to a certain extent, similar – though not identical in terms of scope – to the EU framework on remuneration structures, caps or quantitative rules.¹²

As regards the appointment of senior management, Regulation 42 harmonises the “fit-and-proper assessment” across the financial sector – that is to say, the regulatory evaluation of whether an individual is suitable and sufficiently competent to perform a leadership role in a regulated institution. Thus, the regulation applies to banks, bank holding companies, branches of non-resident banks, insurance and reinsurance entities, insurance holding companies, branches of non-resident insurance and reinsurance entities, pension funds and securities market participants. Regulation 42 introduces requirements that senior management must meet relating to their professional qualifications, work experience and business reputation.

These reforms are intended to bring Kazakhstan’s banking governance framework closer to Basel Committee guidance and European supervisory practice. Nevertheless, the reform process has highlighted limitations in the broader legal framework. As previously discussed, certain concepts introduced in the New Banking Law interact imperfectly with the JSC Law, a key piece of legislation for those banks that are required to be incorporated as joint stock companies in Kazakhstan. In particular, the introduction of modern resolution tools, most notably bail-ins, necessitated bespoke legal design in order for those tools to operate within a corporate law framework that was not originally intended to accommodate administrative write-downs and the conversion of liabilities to share capital outside ordinary shareholder decision-making processes. The JSC Law is widely considered to be outdated and does not fully reflect contemporary international standards on governance topics, including directors’ duties and liability, board composition and structure (including committee arrangements), and internal control expectations. Modernisation of the JSC Law has therefore been identified as a key medium-term reform priority to ensure coherence across the legal framework.

The New Banking Law was accompanied by an Omnibus Law amending more than 40 primary statutes to ensure consistency across Kazakhstan’s financial legal system. Through these amendments, the National Bank of Kazakhstan and the Agency pursued a much broader reform of the financial sector covering insolvency, securities regulation, enforcement

¹¹ Resolution of the Board of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 38330 “On Establishing Requirements for the Internal Policy on Remuneration, Accrual of Monetary Compensation and Other Forms of Financial Incentives for Senior Officers of a Bank, Insurance (Reinsurance) Organisation, Insurance Broker, Branch of a Non-Resident Bank of the Republic of Kazakhstan, Branch of a Non-Resident Insurance (Reinsurance) Organisation of the Republic of Kazakhstan, and Branch of a Non-Resident Insurance Broker of the Republic of Kazakhstan”, dated April 2023. Available at: <https://adilet.zan.kz/rus/docs/V2600038330>.

¹² See Article 94 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (CRD IV), as amended by Directive (EU) 2019/878 (CRD V) and Directive (EU) 2024/1619 (CRD VI), which impose binding requirements regarding bank remuneration, including bonus caps, mandatory deferral, payment of variable remuneration in instruments and ex post risk adjustment. See also EBA (2021).

procedures and supervisory powers and digital financial assets (DFAs). Some of the most significant amendments were changes to the Law on Digital Assets, aimed at providing a clearer legal foundation for DFAs. This has reduced legal uncertainty around the issuance, trading and custody of DFAs. For the first time, such assets are now explicitly recognised as financial instruments, placing them on a similar legal footing to money, securities and derivative instruments, and bringing them within the remit of financial market supervision. In addition, the Omnibus Law establishes a regulatory perimeter for digital platforms, distinguishing clearly between DFA platform operators (responsible for issuance, circulation, registry and custody of DFAs) and digital asset trading platform operators (responsible for organising and operating trading systems with digital assets, including DFAs). Both categories of platform operator are subject to registration, supervision and oversight by the National Bank of Kazakhstan, reinforcing institutional accountability and mitigating risks. Meanwhile, the Agency retains responsibility for the regulation and supervision of the DFAs themselves.

“The Omnibus Law embeds the concept of ‘responsible business practices’ across the financial sector, requiring financial institutions to ensure honest, transparent and fair treatment of consumers throughout the lifecycle of financial products.”

Another cornerstone of the Omnibus Law is the creation of a single economy-wide financial ombudsman system, accompanied by mandatory pre-trial dispute-resolution procedures for financial services. The Omnibus Law embeds the concept of “responsible business practices” across the financial sector, requiring financial institutions to ensure honest, transparent and fair treatment of consumers throughout the lifecycle of financial products. This represents an important shift, moving from the previous reactive enforcement regime to a proactive model involving supervision of conduct and behavioural oversight.

CONCLUSION: LAW, STABILITY AND INVESTMENT

Kazakhstan’s New Banking Law is one of the most ambitious banking law reforms undertaken in the EBRD’s central Asia region in recent years. By addressing structural weaknesses in competition and crisis management, and by embedding relevant international standards where applicable, the reform lays the foundations for a more resilient and investable banking system and clearly signals Kazakhstan’s intention to attract greater international investment and strengthen economic governance.

The practical impact of the reform will inevitably take time to assess. Whether it translates into greater market entry, reduced concentration and improved access to finance will depend not only on the quality of the legal framework but also on regulatory consistency, supervisory practice and market confidence as implementation progresses. In this respect, the effectiveness of the New Banking Law will hinge on how practice develops in technically complex areas such as bank recovery and resolution, which are underpinned by an extensive body of dedicated secondary legislation. Building credibility in this area requires not only well-designed implementing rules but also consistent application of those rules over time, supported by clear supervisory communication, scenario testing and the gradual familiarisation of market participants with the new resolution tools. Experience from European resolution

regimes highlights the importance of drawing on independent third-party expertise, particularly in valuations, to ensure that the framework functions credibly and predictably in situations of stress.

Against this backdrop, the EBRD looks forward to continuing its close engagement and partnership with the Agency, the National Bank of Kazakhstan and the banking sector in supporting implementation of the New Banking Law, as well as in the context of a forthcoming project to support further development of legal infrastructure for the capital market.

A key pillar of the New Banking Law will be the suite of regulations that support its implementation in practice. In the area of bank recovery and resolution, for example, the New Banking Law envisages a comprehensive package of implementing regulations underpinning the new regime, including detailed requirements for financial recovery and resolution planning, early

intervention and resolution triggers, valuation methodologies, the execution of share transfers and resolution tools, safeguards around state participation and the operationalisation of depositor pay-outs. Building on the Agency's close consultation with domestic banks and representative bodies, including the Association of Financiers of Kazakhstan, sustained and transparent dialogue during implementation will be essential to ensure that the reform is fully and effectively embedded in new areas such as these in practice. In parallel, continued engagement with international investors and foreign financial institutions will be critical to building confidence in the new framework, particularly in a challenging geopolitical environment where cross-border capital is increasingly sensitive to legal certainty and policy predictability. Together, these efforts will help to ensure that the New Banking Law delivers demonstrable benefits for financial stability, competition and long-term investment.



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PROCUREMENT MARKETS: WHAT TRADE RECIPROCITY MEANS FOR TRANSITION ECONOMIES



“The results of empirical studies suggest that maintaining open procurement markets under the World Trade Organization Agreement on Government Procurement has had a positive impact on trade in both goods and services between parties to the agreement, as well as on outward foreign affiliate service sales.”



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Increasingly, public procurement is being shaped by trade reciprocity rules and industrial policy objectives, with restrictions on market access fragmenting procurement markets. For transition economies, this can both limit export opportunities and complicate vital projects financed by multilateral development banks (MDBs), where co-financing means that geographical eligibility requirements may apply or projects may be subject to multiple procurement regimes. This article argues that closed or discriminatory procurement markets can increase costs and reduce the quality and affordability of public infrastructure and services, without necessarily delivering the expected industrial benefits. It concludes that MDBs have a critical role to play in both promoting international trade rules for government procurement and keeping transition economies connected to international trade and investment, while improving project outcomes.



INTRODUCTION

In public procurement, “market access” refers to the ability of foreign companies to bid on government contracts, either directly across borders or through local subsidiaries established in the country where the public tender is launched. Market access involves opening government contracts up to international trade and competition in order to foster growth and innovation. In public procurement markets, “reciprocity of access” is becoming a key term. Countries are expanding their networks of trade agreements while simultaneously reviewing existing partnerships to improve market access and supply-chain resilience. What does this trade policy shift imply for transition and developing economies? What impact would closed public procurement markets have on their trade and economies? With global trade becoming more fragmented and transition economies facing increasing challenges, it is more important than ever for multilateral development banks (MDBs) to continue promoting open procurement in the projects they finance within these economies.

A MACROECONOMIC ARGUMENT FOR OPEN PUBLIC PROCUREMENT MARKETS

Despite macroeconomic arguments in favour of open global markets, we can see from current trade dynamics that geopolitics, strategic resources and supply-chain security are increasingly shaping economic policy. Developed economies are competing to secure critical inputs for the energy transition and high-tech industries, creating new forms of bilateral trade arrangements, including deals that link tariff reductions to investment commitments. Trade and procurement policies have become strategic instruments shaped by geopolitical competition, regulatory standards and supply-chain security. Efficient global supply chains are essential to underpin global growth, and they themselves require accessible and reliable infrastructure. Citizens and businesses depend on public services and infrastructure, which in turn rely on national public procurement laws and procurement practices. Economic globalisation has gone far beyond imports crossing borders: the combination of technological advances and economic reforms facilitating new types of commerce means that goods, services, employees, customers, investments and intellectual property all cross borders at an ever-increasing rate. Given the scale of global investment and the expansion of supply chains, closing government procurement

markets reduces competition, increases prices and diminishes the advantages of international trade and foreign investment. Public procurement rules and practices affect development priorities that are important for the promotion of sustainable growth. A key prerequisite for better economic performance – affordable, efficient and accessible public infrastructure and services (public transport system, information and communications technology (ICT) infrastructure, water supply, drainage and sanitation system, energy supply, and so on) – is absent at a local level in many regions. Consistent access to efficient public services is fundamental to the performance of national economies, social cohesion, and national safety and security.

“Public procurement is vital for cross-border trade and plays a significant role as an instrument of regional and global economic integration.”

Poor or inefficient infrastructure imposes enormous economic costs – both visible and hidden – on businesses. It not only raises transport costs but also generates other costs, such as higher inventory levels, reduced productivity and higher prices for consumers, with implications for the international competitiveness of domestic firms forced to operate in this environment. Public procurement is vital for cross-border trade and plays a significant role as an instrument of regional and global economic integration. The results of empirical studies suggest that maintaining open procurement markets under the World Trade Organization (WTO) Agreement on Government Procurement (GPA) has had a positive impact on trade in both goods and services between parties to the agreement, as well as on outward foreign affiliate service sales. A small marginal

negative effect on trade in goods has been observed in a few countries, but exports of services (including construction) rise the more open markets there are among parties to the WTO GPA, constituting an important argument in favour of open procurement markets.

OPEN PROCUREMENT MARKETS ACROSS THE WORLD

Unfortunately, public procurement markets are not open as standard. In both developed and developing economies, public procurement rules discriminate against suppliers and products from foreign countries. The taxonomy of measures affecting trade in government procurement developed by the Organisation for Economic Co-operation and Development (OECD) identifies several direct and indirect trade barriers in public procurement. Globally, spending from state budgets and government procurement markets have historically been kept outside the global trade system. The General Agreement on Tariffs and Trade (GATT)/WTO process and the most-favoured nation (MFN) principle do not apply to government procurement.

The United States of America has a long history of implementing a “Buy American” policy in public procurement, favouring domestic producers. The US domestic content threshold increased to 60 per cent in 2022, before rising

The US domestic content threshold is due to reach
75%
in 2029

further to stand at 65 per cent in 2024, and it is due to reach 75 per cent in 2029. On 20 January 2025 President Donald Trump issued an executive memorandum on a new “America First trade policy”,¹ instructing the United States Trade Representative to review the impact of all trade agreements, including the WTO GPA, on US federal procurement, with a view to ensuring that such agreements are implemented in a manner that favours domestic manufacturers.

In the European Union (EU), public procurement regulation has evolved from fragmented national rules into a harmonised, digitalised and strategic regulatory framework aimed at fostering the EU single market. Until now, the EU has operated the world’s most open procurement market, with key EU policy milestones including the 2004 public procurement directives, the updated 2014 versions of these directives and the 2022 International Procurement Instrument. However, a policy shift may be emerging through the proposed Industrial Accelerator Act (IAA), currently under discussion at the European Commission (see Box 1).

The predominance of domestic preference schemes in the United States and the fact that the EU has an open procurement market but low market penetration is undermining the opening up of public procurement markets to international trade. It is also encouraging transition economies to maintain protectionist measures against foreign enterprises.² Discriminatory public procurement policies favouring domestic bidders are in place in India, Indonesia, Brazil, Thailand, Saudi Arabia, South Africa, Tunisia, Morocco, Colombia and Australia, either across the public procurement

In March 2026,
the WTO Agreement
on Government
Procurement 2012
was binding on
49
WTO members

market as a whole or in specific sectors.³ For decades, China has used legislative measures to favour domestically produced goods and services in public contracts. In December 2024 the Chinese Ministry of Finance released new draft standards for government procurement that include, among other things, a 20 per cent price preference for domestic products.⁴

THE WTO GPA 2012 AND FTAS: GLOBAL AND REGIONAL TRADE INSTRUMENTS ENSURING ACCESS TO PUBLIC PROCUREMENT MARKETS

Explicit discrimination against foreign suppliers in public procurement remained a regulatory standard until 1994,⁵ when the WTO code on fair practices for government purchases, the Agreement on Government Procurement, was signed under the GATT. The WTO GPA aims to liberalise and expand international trade, facilitate integrity in government procurement systems and foster the efficient and effective management of public resources. Revised in 2012, the WTO GPA remains voluntary and plurilateral. Effectively, a subset of WTO members have agreed to give other signatory countries access to their government procurement markets. In March 2026, the WTO GPA 2012 was binding on 49 WTO members. Among MDBs, the World Bank, the EBRD and the International Finance Corporation (IFC) act as observers to the agreement.

¹ See The White House (2025).

² See Križić (2017).

³ See Cernat (2023).

⁴ See Global Trade Alert (2024).

⁵ See Baldwin and Richardson (1972).

Across the world, selected bilateral and regional free trade agreements (FTAs) include government procurement-related commitments, but procurement market access is not a standard component of such agreements. When FTAs do include public procurement, they open it up to foreign competition by ensuring non-discrimination and transparency, within or below the thresholds adopted under the WTO GPA 2012 rules. Parties to FTAs agree to open up public contracts to each other's suppliers and guarantee treatment that is "no less favourable" than that extended to domestic suppliers.

THE QUESTION OF RECIPROCITY

Reciprocity of access to public procurement markets means that foreign companies can only bid on public contracts if their home country offers equal access to companies from the procuring country under the WTO GPA 2012 or dedicated FTAs that cover the public procurement market.

38

countries around the world have trade agreements with the EU covering reciprocal access to public procurement markets

The WTO GPA 2012 serves as the main global framework for reciprocal opening of public procurement markets among WTO members. FTAs applicable to public procurement markets incorporate the standards established by the WTO GPA 2012 and extend them to parties that are not signatories to the WTO GPA 2012 or members of the WTO.

The EU has concluded trade agreements containing binding legal obligations regarding reciprocal access to public procurement markets with 38 countries globally – estimated to be the largest network of such agreements outside of the WTO GPA 2012 system.

KEY TERMS IN TRADE RECIPROCITY: MARKET ACCESS AND LOCAL CONTENT

Public procurement attracts attention from policymakers in the context of industrial policy debates. The idea behind the strategic use of public procurement for industrial policy purposes is that public spending that is specifically directed towards domestic suppliers will lead to a revival of certain sectors of the domestic economy. In addition to reciprocity of trade opportunities, the key terms in these political discussions are "market access" and "rules of origin" for goods and services that are purchased under procurement contracts.

Rules of origin in public procurement determine the "economic nationality" of goods and services purchased by the public sector. The aim is to ensure that specific criteria must be met in order to qualify as domestic or originating from a preferred trade partner. In essence, rules of origin determine which goods are treated as domestic for public tender purposes. Rules of origin prevent "trade deflection" – where goods are simply shipped through a particular country to gain preferential access – and are used to enforce local content requirements, anti-dumping duties, or to apply national treatment exceptions in trade agreements.

Applied together, rules of origin and market access determine who can participate in public tenders and which goods and services can be offered to public-sector clients in a specific country.



RECIPROCITY IN PUBLIC PROCUREMENT AND TRANSITION ECONOMIES

What trade reciprocity means in practice for developing and transition economies is perhaps best illustrated by a recent EU industrial policy initiative (see Box 1), as well as challenges that could be encountered in the procurement of complex projects financed by MDBs in such economies (see Box 2).

“ In the past, favouring domestic suppliers has failed to achieve the desired goals, and it is unlikely that current policymakers will see different results. ”

⁶ The IAA codifies EU case law on access to EU public procurement markets by economic operators incorporated in countries that are not parties to the WTO GPA 2012 and have no FTA with the EU covering public procurement markets (Court of Justice of the European Union (CJEU) Case C-652/22 (Kolin) and CJEU Case C-266/22 (CRRC Qingdao Sifang Co. Ltd)).



Box 1.

Impact of industrial policies

The Industrial Accelerator Act (IAA) is a proposed EU regulation aimed at boosting industrial capacity and decarbonisation in strategic sectors such as steel, cement, aluminium, cars and net-zero technologies.⁶ To this end, it introduces “made in EU” and low-carbon requirements within public procurement, including for public-private partnerships and concessions, and imposes conditions on large foreign direct investments of more than €100 million. These measures are designed to promote clean manufacturing and innovation across the EU’s single market, potentially reducing demand for imports that do not meet origin-based or low-carbon criteria.

The IAA builds on and is compliant with EU trade commitments under the WTO GPA 2012 and relevant EU FTAs. It grants reciprocal “trusted partner” status and enforceable market access to economic operators from countries that are parties to EU trade agreements.

A number of the transition economies where the EBRD operates qualify as trusted partners, thanks to their participation in the WTO GPA 2012 and/or FTAs concluded with the EU. The majority of the economies where the Bank invests do not have market access to public contracts in EU member states, however. The IAA also establishes strict rules of origin, requiring compliance with EU and low-carbon thresholds, and includes supply diversification requirements to reduce reliance on a single third country. Goods manufactured in the majority of the transition economies where the EBRD operates cannot be marketed or sold to public-sector entities in EU member states under public contracts – even if they are manufactured in compliance with EU low-carbon standards.



Box 2.

The challenge for multilateral development banks' projects

MDBs invest in order to support transition and developing economies, and MDBs' procurement rules are aligned with these mandates/business objectives. MDBs promote open procurement markets through a range of approaches. Most MDBs moved away from tied aid some time ago and now use international competitive bidding by default. The core principles of their procedures are transparency, economy, efficiency and equal opportunity for suppliers from any country or any member country;⁷ in addition to strict eligibility criteria to ensure value for money and fairness. MDBs today actively innovate to offer faster, more cost-efficient and sustainable outcomes by developing harmonised procurement standards, entering into mutual reliance agreements and, where possible, relying on one another's procurement capacity to reduce transaction costs and accelerate project implementation.⁸

Addressing the global infrastructure gap and the growing investment needs of transition economies requires MDBs to mobilise financing alongside other funding partners. Owing to current global trade dynamics, the funding conditions of those partners may include trade reciprocity requirements and geographical eligibility restrictions in procurement (limiting access to procurement either at the initial tender stage and/or at the contract award stage), which is challenging for projects. Clients can be required to apply multiple procurement rules, which puts pressure on them, especially if the project is urgent. Increasing the complexity of projects in this way can also raise wider questions about the effectiveness⁹ of MDB financing.¹⁰

CONCLUSION

Governments are under pressure to maximise domestic resources and growth, and public procurement, which accounts for about 30 per cent of government spending on average, is one of the ways that countries can do more with the same – or less. This encourages protectionist changes to procurement policies, whether there is evidence of economic benefits or not.

Economic research indicates that public procurement markets differ from commercial trade markets. With open procurement markets, market penetration by foreign firms

On average, public procurement accounts for about **30%** of government spending

rarely mirrors the overall trade openness of the economy. In public procurement, distance and gravity matter much more than in the rest of the economy. Public procurement is strongly affected by home bias. While in global trade, the median trade distance for international business-to-business trade transactions is almost 5,000 km,¹¹ in public procurement, the distance between public buyers and their suppliers is far shorter. A study of the EU procurement market found that around 40 per cent of suppliers were located less than 500 km from the public procurement buyers, and less than 5 per cent of suppliers were located more than 2,000 km away from public buyers.¹² Since procurement markets are so strongly local, governments around the world do not really need to strengthen their trade reciprocity in public procurement.

⁷ See African Development Bank et al. (2025).

⁸ Ibid.

⁹ The negative impact that applying different procurement rules has on the effectiveness of development aid has been criticised by multiple individual authors and several reviews of MDB procurement rules. See Morlino (2019).

¹⁰ The harmonisation of procurement rules is linked to the objective of speed and simplification, one of the five priority areas for converting MDBs' operational models to support transformative investments. See IEG (2023).

¹¹ See Berthelon and Freund (2008).

¹² See European Commission (2021).



Local content rules can be linked to reductions in emissions and strengthening of the domestic manufacturing and processing of raw materials, thus achieving a positive development impact overall. However, limiting market access in contexts where beneficial ownership is not a mainstay of the procurement policy and tax havens are tolerated is unlikely to achieve the intended economic gains. In the past, favouring domestic suppliers has failed to achieve the desired goals, and it is unlikely that current policymakers will see different results.

MDBs are supranational institutions that play a pivotal role in shaping public procurement practices. They manage multiple layers of accountability: upwards to funders and boards, downwards to project beneficiaries and laterally to partner agencies and contractors. Over the past decade, MDBs have included sustainability goals in their procurement policies, encouraging their public- and private-sector clients to follow suit and thus shaping public procurement reforms

globally. The MDB open procurement market is an opportunity to mitigate global sustainability impacts, and a value-creation approach shifts the focus towards achieving impact and aligning procurement outcomes with sustainability objectives.

MDBs aim to enhance international trade and market access and foster cross-border economic integration. These improvements not only attract foreign investment for specific strategic projects but also facilitate increased trade flows, enabling businesses from both within and outside the EBRD regions to compete more effectively for public contracts. This approach strengthens the economic connectivity and trade capacity of transition and developing economies. Plurilateral agreements can be used to advance negotiations with such economies where consensus is difficult, while international public procurement policy standards include instruments protecting the interests of transition and developing economies.



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GLOSSARY

B2B	business to business
B2G	business to government
CBAM	Carbon Border Adjustment Mechanism
CCGF	Corporate Climate Governance Facility
CGDF	Corporate Governance Development Framework
CSRD	Corporate Sustainability Reporting Directive
DFAs	digital financial assets
DFI	development finance institution
EBA	European Banking Authority
eBL	electronic bill of lading
EBRD	European Bank for Reconstruction and Development
EHS	environment, health and safety
EITI	Extractive Industries Transparency Initiative
ESG	environmental, social and governance
ESRS	European Sustainability Reporting Standards
EU	European Union
FI	financial institution
FTA	free trade agreement
G2G	government to government
GATT	General Agreement on Tariffs and Trade
IEA	International Energy Agency
IFC	International Finance Corporation
IFI	international financial institution
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
LTP	Legal Transition Programme
MDB	multilateral development bank
MFN	most-favoured nation
MLETR	Model Law on Electronic Transferable Records
NGFS	Network for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development
SCF	Strategic and Capital Framework
SEMED	southern and eastern Mediterranean
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
TCFD	Task Force on Climate-related Financial Disclosures
TFP	Trade Facilitation Programme
TLAC	total loss-absorbing capacity
UNCITRAL	United Nations Commission on International Trade Law
WTO	World Trade Organization

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