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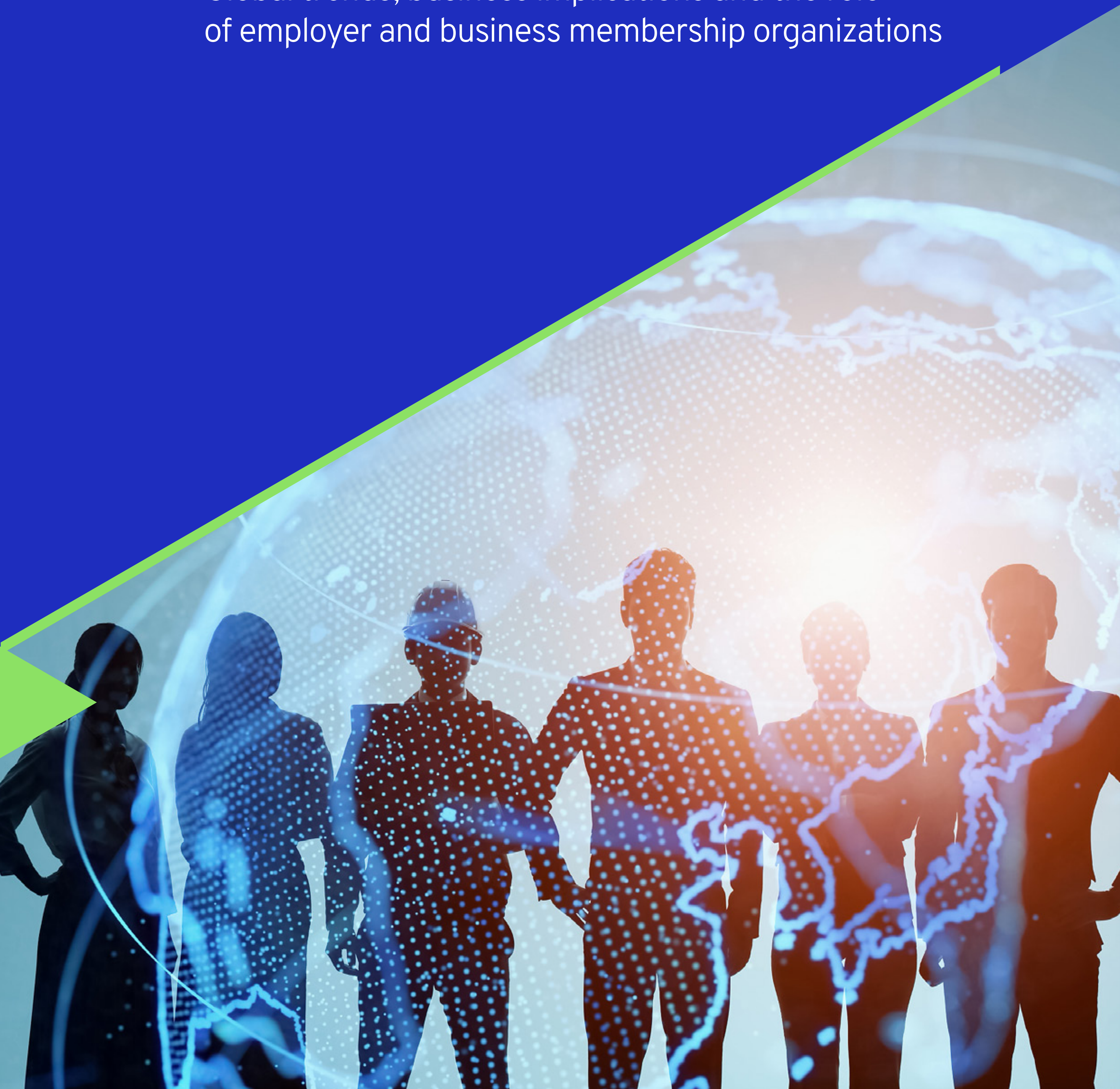
Executive summary

Governance: hard to build, easy to erode

Global trends, business implications and the role of employer and business membership organizations



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International Labour Office • Geneva

Executive summary

For employers and investors, governance is not an abstract concept. It shapes whether rules are predictable, contracts are enforced, policies are stable and long-term investment decisions can be made with confidence. When governance is weak or unstable, businesses face higher costs, greater uncertainty and increased risk of policy reversal.

This report examines how governance conditions have evolved globally over the period 1996-2024, and what it means for business. Using data from 208 economies, it goes beyond static country rankings to analyse long-term patterns, including how often governance improves, deteriorates and remains stable over time. Unlike most governance assessments, the report combines long-run country-level analysis with new organizational-level evidence to explain why governance reforms persist, stall or reverse.

The findings reveal a global landscape marked by inertia, significant deficits in institutional quality, and a clear asymmetry: governance is more prone to decline than to improve sustainably.

A persistent global governance gap

As of 2024, more than half of the world's economies operate in governance conditions that create significant uncertainty for business.

- 53 per cent of countries fall into "Unsatisfactory" (46.2 per cent) or "Unsound" (6.7 per cent) governance categories.
- About 40 per cent of countries achieve high performance with "Satisfactory" governance.
- Only 7.2 per cent of countries offer what can be described as consistently "Sound" governance, characterized with environments where rules are predictable, institutions are strong and risks are relatively low.
- Global average governance has barely changed since the mid-1990s.

For business, this means that predictable investment climates remain limited, and that improvements in some markets are often offset by deterioration elsewhere.

The asymmetry of governance change: Persistence, fragility, and backsliding

The analysis of long-term governance trajectories reveals three key patterns.

First, governance quality is highly persistent and path dependent. In simple terms, countries tend to remain in their initial governance category over extended periods. More than 80 per cent of countries classified as "Unsatisfactory" in 1996 were still in that same band in 2024. Similarly, 68.8 per cent of countries that were "Sound" nearly three decades ago still occupy the top tier. This strong inertia suggests that both high- and low-governance outcomes are self-reinforcing, making significant improvements difficult and slow to achieve.

Second, improvement is limited and gradual, while decline is more frequent, especially among stronger performers. Over the period analysed, a similar number of countries improved (23 countries) and declined (20 countries) but the pattern of change is asymmetric. The data show that progress is difficult to achieve. Only 12.4 per cent of “Unsatisfactory” countries managed to improve to a “Satisfactory” rating, and no country successfully transitioned from “Unsatisfactory” directly to “Sound”. In contrast, the risk of decline is considerably higher. Around 15 per cent of countries that were “Satisfactory” in 1996 fell back into the “Unsatisfactory” category by 2024. Even among the top performers, nearly one-third of once “Sound” countries saw their governance deteriorate to a “Satisfactory” level. This asymmetry, where the number of improvers and decliners is similar, but decline is concentrated at the top, demonstrates that governance gains are fragile and that backsliding – reversals of past progress – is a persistent risk.

Third, governance quality and stability are intrinsically linked. Countries with strong governance tend to have the most stable and predictable governance trajectories, with little year-to-year variation. Conversely, countries with weak governance are often trapped in cycles of instability, with high volatility that reflects political crises, institutional fragility, and suboptimal policy environments. This creates a double challenge for low-performing countries: they suffer not only from weak institutions but also from a level of unpredictability that deters long-term investment and undermines the credibility of reform efforts.

The governance-investment nexus

The analysis shows a clear and consistent link between governance and a country’s ability to attract investment. Countries with stronger governance climates tend to receive higher levels of foreign direct investment (FDI), even when broader global and regional conditions are taken into account. While governance is one of many factors influencing investment decisions, its significance as a determinant is clear. Predictable rules, credible institutions and stable policy environments reduce risk and make countries more attractive destinations for both foreign and domestic capital. In this sense, good governance is not an abstract institutional goal but act as a foundational condition for investment: incentives and growth potential are far less effective when governance is weak or unstable.

EBMOs as institutional intermediaries in governance reform

A central contribution of the report is the examination of governance at two interrelated levels: national governance and intermediary organizations. Drawing on data collected by the ILO in 2025, the report introduces a new EBMO Governance Index covering 166 employer and business membership organizations (EBMOs) worldwide. The index measures organizational autonomy, internal governance and operational capacity to assess how well-equipped these organizations are to act as institutional stabilisers.

The EBMO Governance Index reveals significant variation in organizational governance quality. Across the full sample:

- 51.2 per cent of EBMOs are classified as established;
- 27.7 per cent as developing;
- 13.3 per cent as weak; and
- Only 7.8 per cent as robust.

When high-income countries are excluded, the picture shifts markedly. In developing and emerging-market economies, 52.2 per cent of EBMOs fall into weak or developing categories, and over 83 per cent operate with low organizational capacity according to the autonomy-capacity typology. The most pronounced governance deficits are found in lower-middle and upper-middle income countries, where more than half of EBMOs operate with incomplete governance frameworks.

The analysis shows a positive association between national governance quality and EBMO governance quality. EBMOs operating in stronger national governance environments tend, on average, to score higher on autonomy and internal governance. At the same time, the relationship is not deterministic. Functional organizational governance can be built even in challenging national contexts. At the same time, the evidence identifies a threshold effect: no robust EBMO is observed in countries with unsound national governance climates. Below a certain level of institutional stability, severe political and legal constraints limit the ability of intermediary institutions to consolidate and sustain governance capacity. This interaction between national and organizational governance is critical. National governance shapes the environment; organizational governance shapes the transmission and durability of reform. Where both are weak, reform efforts face compounding structural barriers.

The autonomy-capacity disconnect

A structural asymmetry emerges within EBMOs themselves. While a large majority of organizations – 88.5 per cent of EBMOs – score highly on autonomy, most of these organizations have low organizational capacity. Legal and financial independence from government does not automatically translate into effective advocacy or sustained policy engagement.

This autonomy-capacity gap is most pronounced in developing and emerging-market economies, where intermediary institutions operate under great resource constraints and institutional fragility. Capacity, not, autonomy, emerges as a binding constraint.

This finding helps explain why national governance reforms are often difficult to sustain. The internal organizational weaknesses of EBMOs are compounded by challenging external environments, as the majority of the sampled organizations operate in countries with an unsatisfactory national governance climate. Formal independence without sufficient organizational capacity limits the ability of these intermediary institutions to defend reforms, maintain policy dialogue, and stabilise governance outcomes over time. In these environments, even independent EBMOs struggle to translate their voice into influence, making them less effective as stabilisers of governance climate, particularly where political governance is weak.

Implications for business and policymakers

The findings carry direct implications for EBMOs, the broader business community, and policymakers. A stable, predictable, and effective governance framework is a core condition for a thriving business environment. The evidence shows that governance deficits, whether in the form of weak rule of law, regulatory uncertainty, corruption, or political instability, are tangible barriers to investment, enterprise growth, and economic development.

For EBMOs, the evidence highlights the importance of internal governance, capacity and representativeness. Strong organizations are better positioned to sustain engagement, build coalitions and defend reform gains across political cycles.

For policymakers, the evidence supports four guiding principles.

- Reform efforts should prioritise the weakest pillars of a country's institutional framework.
- Design reforms for durability, not short-term visibility.
- Anticipate and prevent backsliding through institutional safeguards – such as an independent judiciary, a merit-based public administration, and transparent processes – that ensure reforms are durable and can withstand political cycles.
- Invest in intermediary institutions capable of sustaining reform across political cycles.

Final reflection

Governance is not a single reform, policy or index score. It is a continuous process of building balance, credibility and resilience across institutions.

The evidence presented in this report shows that governance is hard to build and easy to erode. Lasting improvements in governance and the investment climate depend not only on sound policies but also on strong, capable and resilient intermediary organizations operating within supportive national governance environments.

Strengthening both levels – national governance frameworks and the organizational capacity of intermediary organizations – is essential for sustaining reform, supporting investment and promoting long-term enterprise development.

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