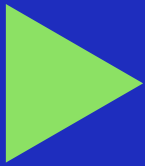




International
Labour
Organization



► Governance: hard to build, easy to erode

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





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

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► Preface

The International Labour Organization (ILO) was founded on a simple but powerful principle: that lasting peace and prosperity depend on social justice, strong institutions and inclusive economic development. At the heart of this mandate lies the conviction that well-functioning governance systems – grounded in the rule of law, accountable institutions, and effective social dialogue – are essential for decent work, sustainable enterprises and shared prosperity.

For employers and their representative organizations, governance is not an abstract institutional concept. It determines whether laws are predictable, regulations fairly enforced, contracts honoured, and policy shaped through open and constructive dialogue. Where governance is stable and credible, enterprises invest, innovate and create jobs. Where governance is weak or volatile, uncertainty compounds, risks multiply and economic opportunity contracts.

It is against this backdrop that the ILO Bureau for Employers' Activities (ACT/EMP) presents this report. It responds to a growing concern among employer and business membership organizations (EBMOs) worldwide: that governance conditions are not improving at the pace required to support sustainable enterprises and inclusive growth. At a time when many countries face political polarization, institutional strain and pressures on civic space, it is essential to take stock of long-term governance trends and their implications for business, labour markets and social dialogue.

This report provides a comprehensive analysis of global governance over nearly three decades (1996-2024). Its findings are sobering. Despite widespread reform efforts, global average governance has largely stagnated. Progress is often gradual and difficult to sustain, while backsliding, particularly political governance, has become more visible. These patterns have direct consequences for decent work and for the investment climate on which job creation depends. The evidence confirms a clear link between governance quality and foreign direct investment, reinforcing the importance of institutional reform as part of broader development strategies.

A distinct contribution of this report is its focus on EBMOs as institutional transmission channels within national governance systems. In the ILO's tripartite framework, EBMOs are not merely constituents; they are central actors in social dialogue, policy formulation and the defence of institutional integrity. Drawing on new data collected by ACT/EMP in 2025, the report introduces an EBMO Governance Index that assesses organizational autonomy, internal governance and operational capacity. The results show that while many EBMOs enjoy formal independence, significant gaps remain in organizational capacity and internal governance. Strengthening these institutions is therefore not ancillary to governance reform; it is fundamental to ensuring that reform is durable, inclusive and anchored in broad-based coalitions.

For ACT/EMP, this analysis serves a dual purpose. First, it provides evidence that can support informed advocacy for EBMOs in national and international policy debates. Second, it underscores the urgency of investing in the institutional capacity of EBMOs themselves, so that they can effectively fulfil their role within the tripartite system. Governance reform cannot succeed through legislation alone; it requires

resilient institutions capable of sustaining dialogue, defending reforms and maintaining accountability across political cycles.

The ILO's mandate calls on us to advance decent work through social dialogue and strong institutions. This report reaffirms that governance is not a secondary concern, but a foundational condition for that mandate to be realized. Building balanced, credible and resilient governance systems is a long-term endeavour. It requires commitment from governments, engagement from employers and workers, and sustained cooperation across all sectors of society.

We hope that this report will contribute to deeper understanding of governance dynamics and will support EBMOs, policymakers and other stakeholders in advancing reforms that strengthen institutions, foster investment and promote decent work for all.

Deborah France-Massin



Director
Bureau for Employers' Activities
International Labour Office

► Acknowledgements

The report was prepared by the ILO Bureau for Employers' Activities (ACT/EMP).

The report was conceived and led by José Luis Viveros Añorve, Specialist of ACT/EMP, who initiated the analytical framework, compiled and structured the underlying data, conducted the long-term trend and transitional analysis, carried out the econometric assessments and drafted the core manuscript.

Jae-Hee Chang, Senior Relations Officer of ACT/EMP, co-authored the report and provided strategic direction on its conceptual development, particularly in strengthening the institutional dimensions of the analysis.

The report benefited from valuable review and technical feedback from Paolo Salvai of the International Training Centre of the ILO (ITC-ILO), whose comments helped strengthen the clarity and policy orientation of the final manuscript.

Finally, the global ACT/EMP team contributed essential data on employer and business membership organizations; the report would not have been possible without their analysis and insights.

► Abbreviations

ACT/EMP	Bureau for Employers' Activities (International Labour Organization)
EBMOs	Employer and business membership organizations
FDI	Foreign direct investment
GCI	Governance Climate Index
GDP	Gross domestic product
IHS	Inverse hyperbolic sine
ILO	International Labour Organization
ITC-ILO	International Training Centre of the ILO
OECD	Organisation for Economic Co-operation and Development
WDI	World Development Indicators (World Bank)
WGI	Worldwide Governance Indicators (World Bank)





Executive summary

► 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.



1

**Why
governance
climate
matters**

► 1. Why governance climate matters

For employers, governance shapes the day-to-day business environment. It affects whether rules are predictable, contracts are enforced, policies remain stable and disputes can be resolved fairly. When governance works well, businesses can plan, invest, and grow with confidence. When it does not, uncertainty rises, costs increase, and long-term decisions are postponed or abandoned.

Strong governance is also closely linked to economic performance. Countries with better governance tend to achieve higher income levels and more sustained growth over time (Acemoglu, Naidu, Restrepo, & Robinson, 2019; Kaufmann & Kraay, 2002). This is not because of one single factor, but because governance influences how markets function, how policies are implemented and how reliably institutions operate.

Governance is not a single issue. It has three distinct but connected dimensions, each of which matters for business in different ways:

- **Political governance:** Whether governments are stable, accountable and open to dialogue, and whether political violence or sudden disruption is avoided.
- **Economic governance:** Whether policies are credible, regulations are clear and consistently applied, and the state can deliver basic services effectively.
- **Institutional governance:** Whether the rule of law is respected, corruption is controlled and courts and regulators operate independently.

This three-pillar view of governance is widely used in international analysis. For example, the Atlantic Council's Freedom Index brings together political, legal, and economic freedom dimensions of governance to show that countries rely on complementary pillars, not a single factor, to create stable and prosperous systems (Acemoglu et al., 2019; Kaufmann & Kraay, 2002; Atlantic Council, 2023). Similarly, the World Bank's Worldwide Governance Indicators (WGI) measure six separate aspects of governance – including voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption—precisely because no single measure captures “governance” in full (Kaufmann & Kraay, 2010, 2024; Scalamonti, 2025).

In practice, countries often display imbalances across these dimensions: some achieve capable, market-friendly economic administration with weak accountability, while others democratise early but struggle to consolidate rule of law. From a business perspective, strength in one area rarely compensates for weakness in another. A country with good regulations but weak courts, or political openness without political stability, can still represent high investment risk.

This raises a question for business leaders and policymakers alike: Where should governance reform focus when resources and political attention are limited? Improving governance is not just about raising an overall score but about identifying and fixing the weakest links that undermine predictability and confidence.

Against this backdrop, this report applies a composite indicator to characterise countries' governance climate over time. Drawing on the World Bank's WGI and following established research approaches, the indicator groups governance into political, economic and institutional pillars on a simple 0–1 scale.¹ This makes it possible to compare countries, observe changes over time, and identify where imbalances are most likely to constrain the business environment.

¹ A methodology introduced by Scalamonti (2025) is replicated for this purpose. Scalamonti uses a two-tier aggregation that combines the six WGI indicators into three pillars (political, economic, institutional) using a geometric mean within pillars (to penalise internal imbalances) and an arithmetic mean across pillars (to allow limited compensation).

The analysis examines how governance has evolved globally since the mid-1990s, how countries compare today and where the main bottlenecks lie. It also explores how governance conditions relate to foreign direct investment (FDI), showing how stronger and more balanced government climates tend to support higher and more stable investment flows.

The purpose of this report is not to introduce a new governance index or ranking. Instead, it shifts attention away from one-off comparisons towards the dynamics of governance: how governance quality evolves over time, how persistent institutional regimes are, and how often countries experience meaningful transitions across governance bands. By examining nearly three decades between 1996 and 2024 (Bermeo, 2016; Waldner & Lust, 2018), the report treats governance as slow-moving structural condition: one that shapes business environments over the long-term, rather than responding quickly to short-term policy announcements.



2

The global governance landscape: key findings

► 2. The global governance landscape: Key findings

This section presents the empirical patterns that emerge from the Governance Climate Index (GCI), which tracks governance conditions across 208 economies over time. It first looks at global trends since the mid-1990s, then examines how countries are distributed across governance categories for the latest year (2024), and concludes with an assessment of long-term dynamics, structural patterns, and their implications for investment.

2.1. A world of stagnation: Global trends, 1996-2024

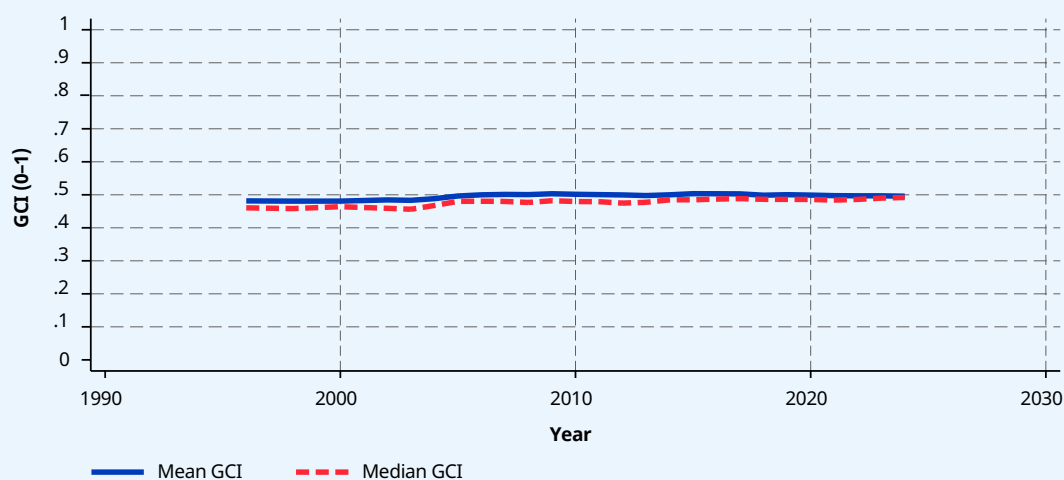
At the global level, governance has shown remarkably little improvement over the past three decades (Figure 1). The average GCI score across countries has remained broadly flat since the mid-1990s, hovering around 0.49–0.50 with only minor year-to-year fluctuations (e.g., 0.482 in 1996; 0.496 in 2024; N = 208 in 2024).

Looking across different aspects of governance, average scores in 2024 are very similar across political, economic and institutional pillars. However, the spread of performance differs. The economic and institutional pillars exhibit slightly wider spread at the top end (higher maxima of ~0.82 and ~0.81, respectively), indicating that a small group of countries has achieved very strong regulatory frameworks and legal institutions, while most have not. The political pillar shows less variation, reflecting the difficulty of sustaining high levels of political stability and accountability.

The global median GCI rose modestly from ~0.460 in the early 2000s to ~0.492 in 2024. This suggests that some countries have made incremental improvements, shifting from clearly weak governance of “Unsatisfactory” towards “Satisfactory” levels. However, these gains are limited and uneven, and there is no evidence of broad convergence toward high-quality governance.

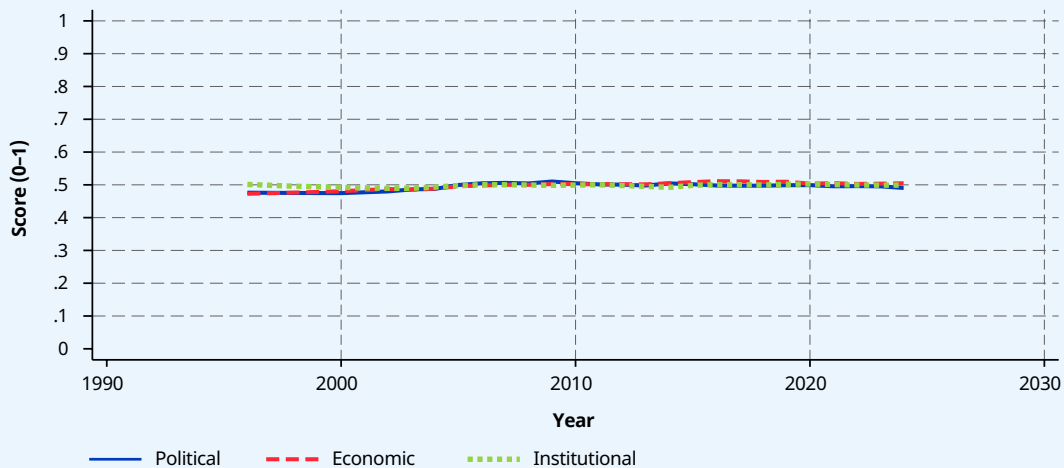
For business, this global stagnation has a clear implication. Improvements in the investment climate have been partial and fragile. Progress in some countries has been offset by setbacks elsewhere, leaving the overall global environment largely unchanged. Many countries still show imbalances across governance pillars – for example, improvements in regulation without matching gains in political stability or enforcement – which undermines predictability and increases risks for long-term investment decisions.

► **Figure 1 a. Global governance climate. Mean and median, 1996–2024**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

► Figure 1 b. Global pillar averages, 1996–2024



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

2.2. The state of governance today: A 2024 snapshot

The 2024 GCI dataset covers 208 country and territory entities used by the WGI. This broad coverage allows for a clear and comprehensive snapshot of the global governance climate.

2.2.1. Distribution across qualitative bands

To better understand the global governance landscape, each country or territory is grouped into four qualitative governance bands – Sound, Satisfactory, Unsatisfactory, and Unsound – based on their 2024 GCI score (Scalamonti, 2025). This categorisation goes beyond averages and reveals how governance performance is distributed across the world. It allows us to distinguish not only the very best and worst performers but also the large group of countries in the “middle” where governance is neither failing nor fully effective. The resulting distribution (Figure 2) provides a clear picture of how rare high-quality governance truly is, and how widespread governance weaknesses remain.

These bands provide a practical way to think about risk and predictability:

- **Sound** governance reflects environments where rules are stable, institutions are strong and uncertainty is relatively low.
- **Satisfactory** governance indicates generally workable conditions, but with remaining weaknesses that can affect predictability.
- **Unsatisfactory** governance signals significant institutional and regulatory weaknesses that raise risk.
- **Unsound** governance reflects severe instability and institutional breakdown.

The 2024 distribution shows how uneven the global governance landscape remains:

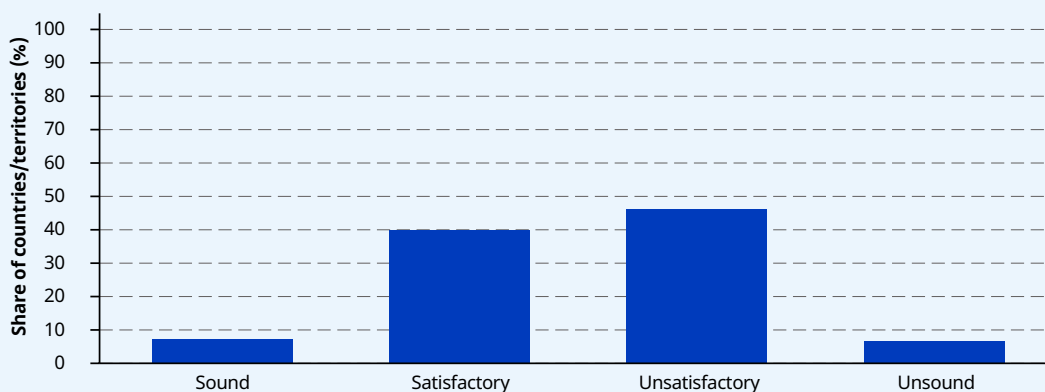
- Sound governance: 15 countries and territories
- Satisfactory governance: 83 countries and territories
- Unsatisfactory governance: 96 countries and territories
- Unsound governance: 14 countries and territories

In percentage terms:

- ▶ Only 7.2 per cent of countries and territories achieve “Sound” governance.
- ▶ 39.9 per cent reach the “Satisfactory” level.
- ▶ A large share of 46.2 per cent operate under “Unsatisfactory” governance.
- ▶ 6.7 per cent remain “Unsound.”

Taken together, more than half of the world (52.9 per cent) operates under governance conditions that create significant uncertainty for business. This highlights a persistent global governance deficit, in which institutional, political, and regulatory weaknesses remain widespread and difficult to overcome. The fact that only a small elite group (7.2 per cent) achieves “Sound” governance also implies that excellence in governance remains rare and difficult to sustain.

▶ **Figure 2. Global distribution of governance quality (2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

2.2.2. Top governance performers (2024)

The highest-scoring countries in 2024 (Table 1 and Figure 3) illustrate that strong and stable governance is achievable and can be sustained over time:

Table 1. Top six GCI ranking 2024

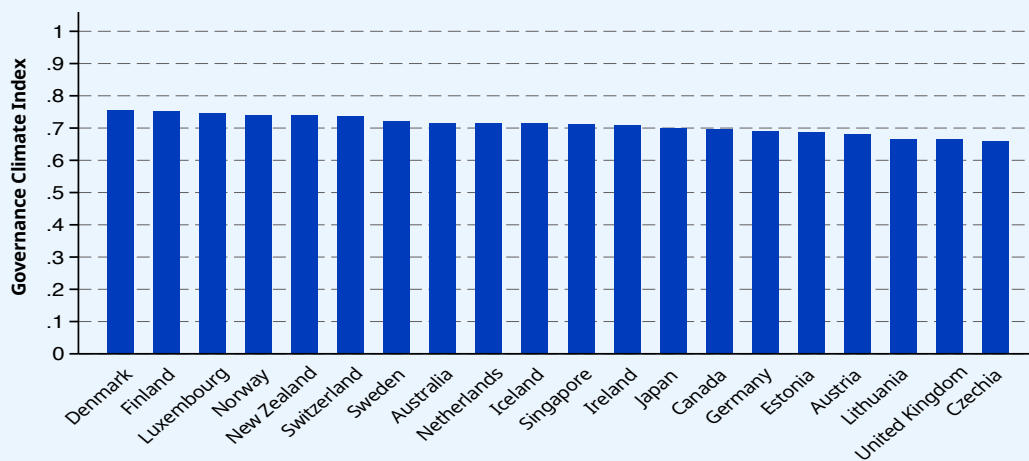
Rank	Country	GCI	GCI class
1	Denmark	0.7555	Sound
2	Finland	0.7530	Sound
3	Luxembourg	0.7469	Sound
4	Norway	0.7429	Sound
5	New Zealand	0.7408	Sound
6	Switzerland	0.7376	Sound

These countries consistently perform well across all three governance pillars, rather than excelling in only one area. In particular, they combine:

- ▶ Strong rule of law and low corruption (institutional strength),
- ▶ Efficient and predictable regulation (economic governance),
- ▶ Stable and accountable political systems (political governance).

For business, these countries represent environments where risk is relatively low, rules are reliable and governance conditions are predictable over time. Their performance illustrates a key message of this report: reaching the top of the governance distribution requires balanced performance across all three pillars, not isolated excellence in one area.

▶ **Figure 3. GCI ranking. Top-20 ILO member states (2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

2.2.3. Lowest governance performers (2024)

At the bottom of the distribution (Table 2 and Figure 4) are countries where governance failures are deep and systemic, often shaped by fragility, conflict, or state collapse.

Table 2. Bottom six GCI ranking 2024

Rank	Country	GCI	GCI class
203	Venezuela, (Bolivarian Republic of)	0.2458	Unsound
204	Afghanistan	0.1890	Unsound
205	Syrian Arab Republic	0.1954	Unsound
206	South Sudan	0.2569	Unsound
207	Federal Republic of Somalia	0.2204	Unsound
208	Yemen, Rep.	0.1661	Unsound

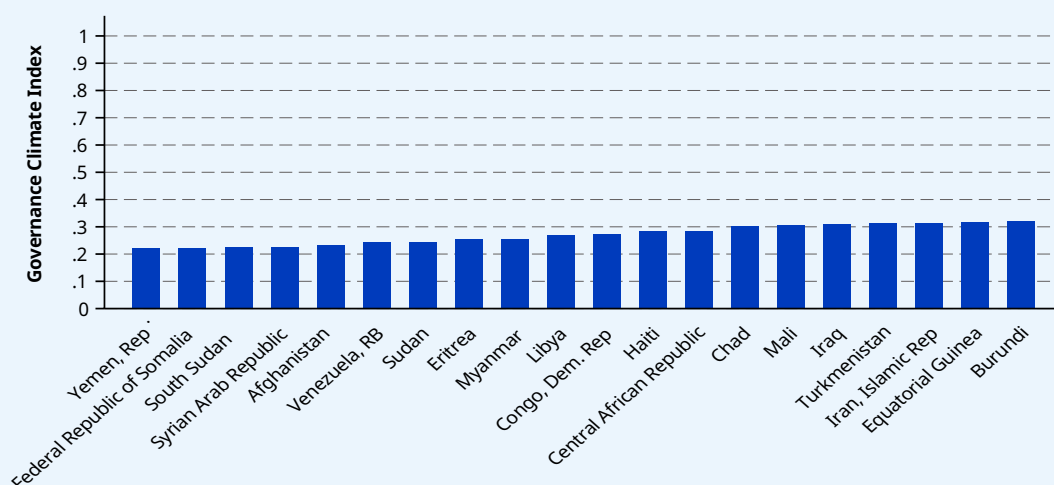
These countries share a set of severe governance weaknesses, including:

- ▶ Collapsed or ineffective institutions,
- ▶ High levels of corruption,
- ▶ Political instability, violence or ongoing conflict,
- ▶ Weak or non-functioning state capacity.

Such conditions create extreme uncertainty for business, making normal market activity, contract enforcement and long-term investment highly risky or impossible. This pattern aligns with the Organisation for Economic Co-operation and Development's (OECD) classification (2025) of Yemen, Afghanistan, Somalia, South Sudan, and Sudan as contexts of extreme fragility, and with World Bank evidence (2011), which identifies institutional weakness as a root cause of conflict and state failure.

While these cases represent the most severe end of the governance spectrum, they underscore an important broader point for business: when governance breaks down across all pillars, economic activity becomes highly constrained, and recovery, when it occurs, is slow and uncertain.

▶ **Figure 4. GCI ranking. Bottom-20 ILO member states (2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025.

2.2.4. Pillar-level insight: Where global governance strongest and weakest

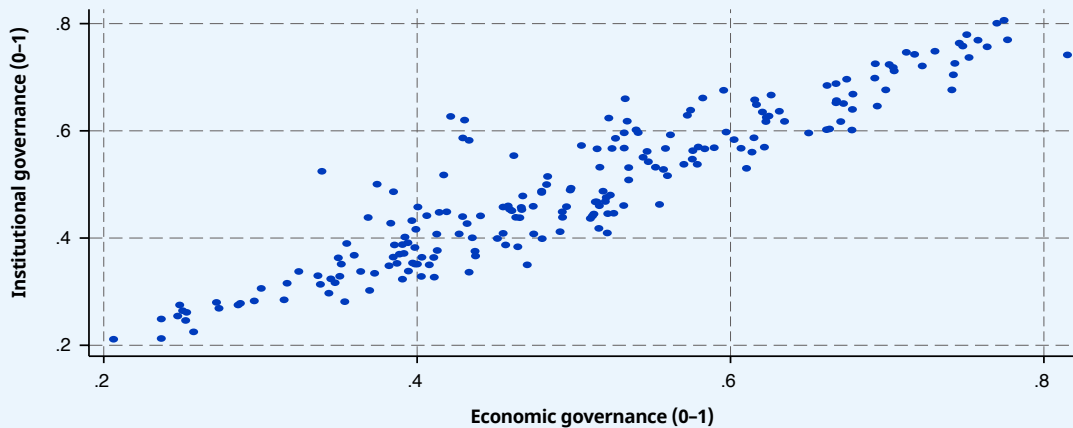
Looking across the three governance pillars reveals important imbalances in how governance systems function around the world.

- ▶ At the top end of the distribution, economic governance reaches the highest levels. Some countries achieve very strong scores – up to ~0.82 – reflecting high-quality regulation, effective public administration and predictable policy implementation. This shows that it is possible to build world-class regulatory systems that support business activity and economic management.

- ▶ The institutional pillar also reaches high levels in a small number of countries, with score approaching ~0.81. These cases are characterized by strong rule of law, effective courts and low levels of corruption, which are critical for contract enforcement and investor confidence.
- ▶ By contrast, the political pillar peaks at noticeably lower levels (~0.71). Even among the top performers, achieving consistently high political stability, accountability and openness proves difficult. This indicates that political governance is generally harder to sustain than technocratic capacity or legal frameworks.

The relationships between the three governance pillars reveal further structural patterns (Figures 5–7). The strongest relationship is between economic and institutional pillars (Figure 5), suggesting that regulatory capacity and legal foundations – rule of law and corruption control – tend to move together. Countries with strong regulatory quality typically also have strong institutions, and vice versa. This alignment reflects the complementarity between technocratic capacity and legal infrastructure.

▶ **Figure 5. Economic and institutional governance (2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025.

The relationship between political and institutional governance is also positive but shows more dispersion (Figure 6). Several countries achieve higher institutional quality than their level of political accountability might suggest. This reflects development paths where states have prioritised building effective bureaucracies and legal systems without fully opening political space – a pattern often described in literature on developmental states (Imam & Temple, 2025; Evans, 1995).

The weakest correlation is between economic and political governance (Figure 7). A number of countries with relatively high political accountability show only moderate economic governance, while others with limited political freedoms have developed strong regulatory capacity. This dispersion suggests that technocratic capacity does not always move in lockstep with democratic accountability. For business, this is an important warning: political stability or voice does not automatically translate into a predictable regulatory environment, and strong regulation does not guarantee political openness.

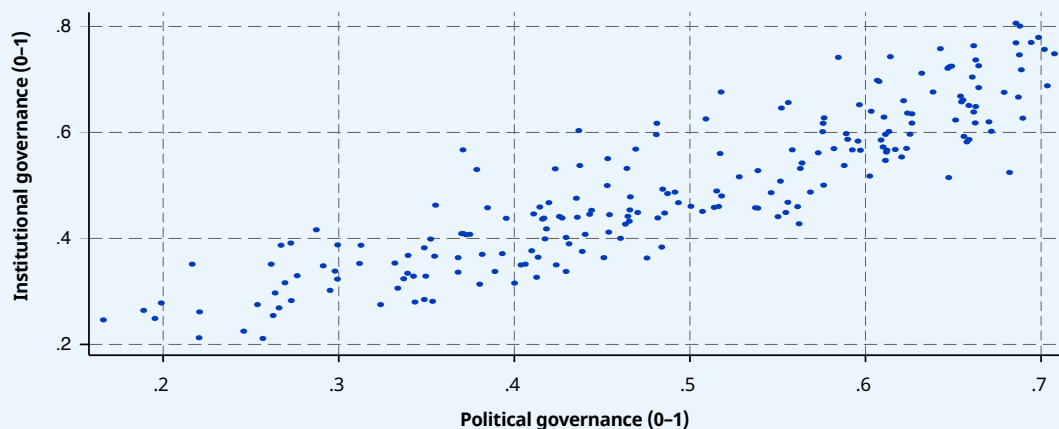
Taken together, these patterns show that governance problems are often about imbalance rather than absolute failure. Many countries perform reasonably well in one or two pillars but lag in others: some score relatively well on economic or institutional governance but lag in political governance, while others enjoy political freedoms but have weak state capacity or persistent corruption. Globally, the political pillar has the lowest maximum score, confirming that accountability and stability are harder to achieve than technocratic capacity. Institutional weaknesses are especially common in lower- and middle-income

economies, consistent with evidence linking corruption and weak rule of law to development traps (Acemoglu & Robinson, 2012).

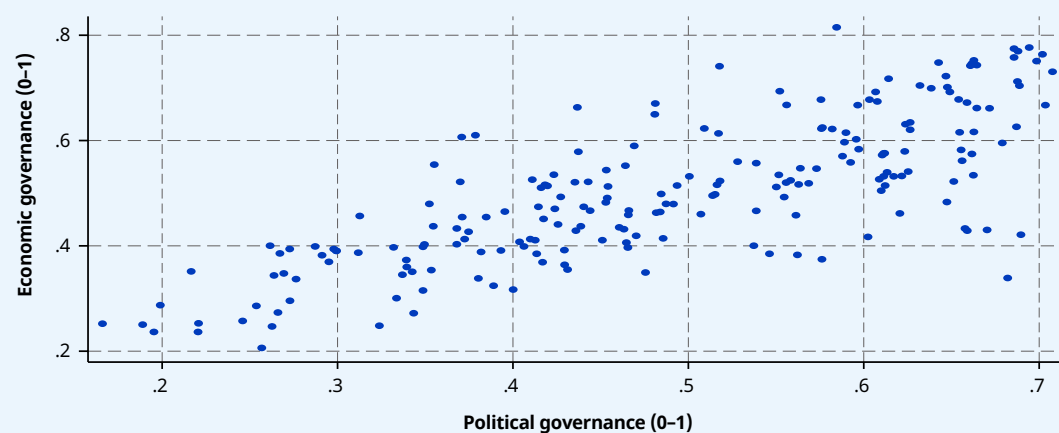
For reform and for business, the implication is clear: governance failures tend to occur at the weakest pillar. Improving average performance is not enough if one pillar continues to undermine predictability and confidence. Effective reform strategies must therefore focus on the weakest pillar, not just on head-line improvements.

The evidence suggests that it is marginally “easier” for countries to build technocratic state capacity (economic and institutional governance) than to maintain fully stable and accountable political systems. In other words, institutional quality and regulation can be built gradually, but political governance is more sensitive to social tensions, polarization, or executive overreach (Andersen et al., 2025). This pattern reinforces the rationale for analysing pillars separately: different dimensions evolve differently, and governance “balance” matters as much as overall level (Scalamonti, 2025).

► **Figure 6. Political and institutional governance (2024)**



► **Figure 7. Economic and political governance (2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025.

Business takeaways: What the global governance snapshot means for business

- ▶ **Global governance has largely stalled:** Over the past 30 years, average governance quality worldwide has barely improved. Progress in some countries has been offset by deterioration elsewhere, making improvements in business conditions uneven and fragile.
- ▶ **Predictable business environments are rare:** Only 7 per cent of countries offer consistently “Sound” governance – environments where rules are stable, institutions are strong and policy risk is relatively low.
- ▶ **More than half of the global economy operates** under governance conditions that are “Unsatisfactory” or “Unsound”, increasing uncertainty around regulation, enforcement and policy continuity.
- ▶ **Governance is hard to improve and easy to lose:** Countries tend to remain on their existing governance path. Major improvements are uncommon, while backsliding is a real risk, even among previously strong performers.
- ▶ **Systems fail at their weakest point:** Weaknesses in political stability, regulation or rule of law can undermine the entire business environment. Balance across governance pillars matters more than strength in any single area.

This snapshot sets the stage for the next section, which examines how governance evolves over time, identifying which countries are improving, stagnating, or declining, and why these patterns exist and what policy levers matter most.

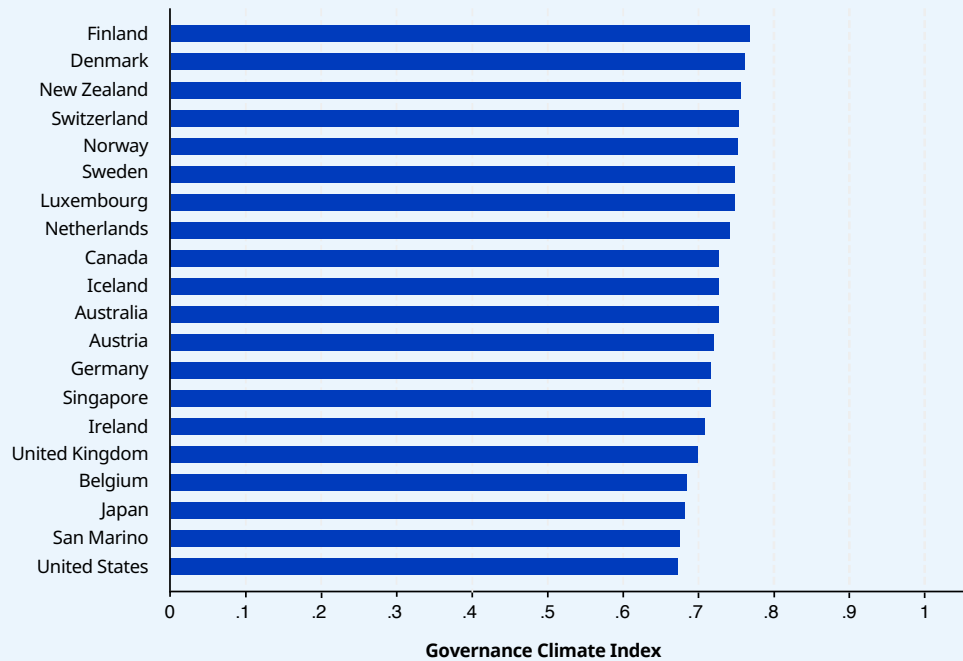
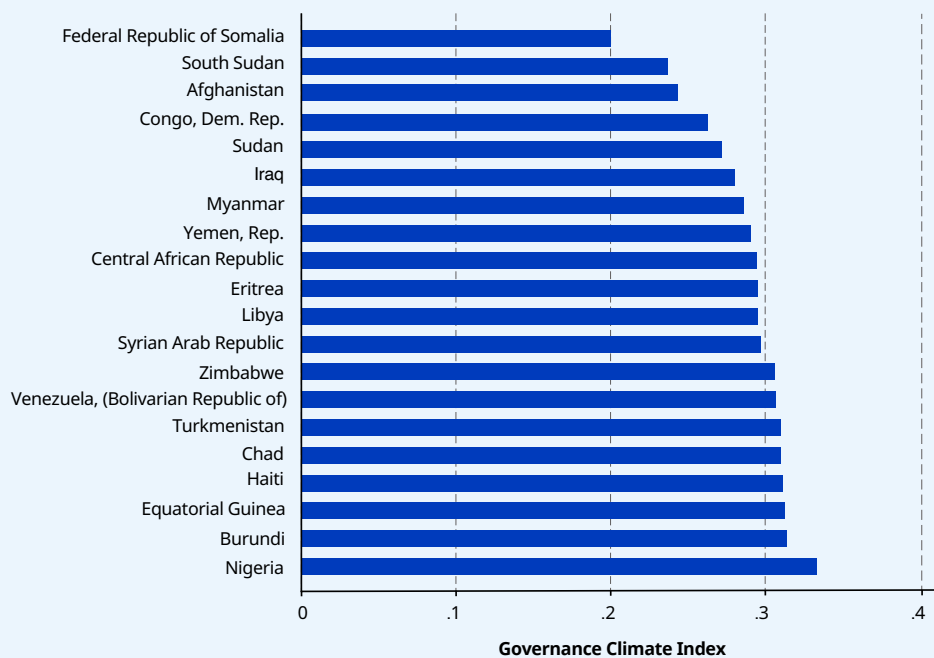
2.3. Long-run governance performance: Sustained leaders and persistent gaps

Looking at long-run governance performance over the period of 1996–2024 highlights which countries have delivered consistently strong governance over time, rather than performing well only in a single year.

When countries are ranked by their average GCI over nearly three decades (Figure 8), the same group of countries appears at the top. Finland (0.767), Denmark (0.761), New Zealand (0.756), Switzerland (0.753), and Norway (0.751) record the highest long-run scores, reflecting sustained strength in institutions, regulation and political stability. These countries have not only achieved high governance standards but have been able to maintain them across political cycles and external shocks.

At the other end of the distribution (Figure 9), Somalia (0.200), South Sudan (0.237), Afghanistan (0.244), Congo, Dem. Rep. (0.263), Sudan (0.272) consistently rank lowest. These long-run rankings closely mirror the 2024 snapshot. This indicates that current governance outcomes are not temporary or cyclical but a result of deep structural differences that have endured for decades rather than transitory shocks. Countries that are well governed today were generally well governed in the past, while those with weak governance have found it difficult to escape that position.

For business, this persistence matters. Credible reforms, once embedded in institutions, translate into durable governance gains. Conversely, countries with chronic governance weaknesses seldom self-correct without sustained policy effort, capacity building and institutional reform (Acemoglu & Robinson, 2012; Imam & Temple, 2025).

► **Figure 8. Mean GCI, 1996–2024. Top–20 ILO member states**► **Figure 9. Mean GCI, 1996–2024. Bottom–20 ILO member states**

Sources: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025.

2.4. Long-run dynamics and structural patterns in global governance

While the 2024 rankings highlight the current state of global governance, they do not reveal how governance evolves over time or whether improvements are sustained. To address this, the analysis looks at governance trajectories from 1996–2024, focusing on volatility, persistence, and mobility across governance categories. This long-run perspective helps explain why governance reform is difficult and why it matters for business.

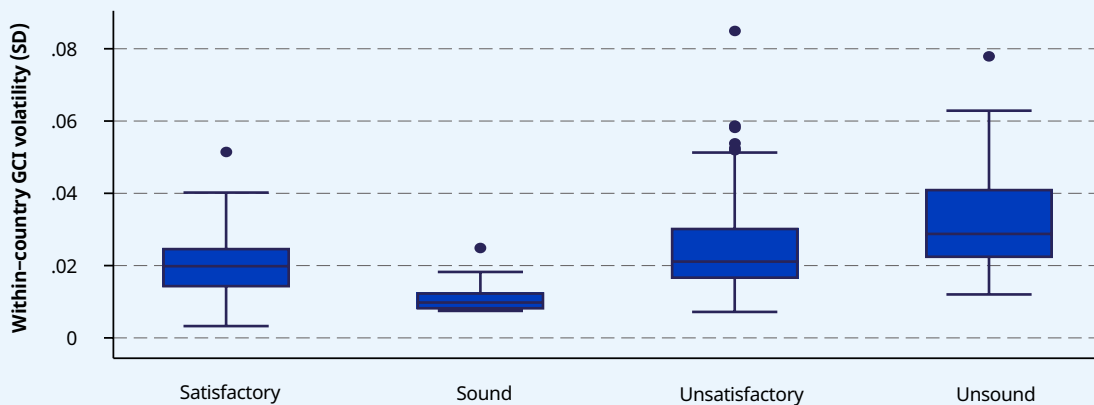
Averaged across all countries, the global mean GCI has remained remarkably stable since the mid-1990s, fluctuating within a narrow band around 0.49. This indicates that while some countries have achieved meaningful reforms, others have deteriorated, resulting in global stagnation. However, behind this flat average lies significant divergence: some countries have made sustained gains in governance, while others have experienced long-term decline or cyclical instability. This confirms that governance is not converging globally, it is polarising.

Governance is not only about levels but also consistency over time. Some countries display remarkably stable governance trajectories for decades, reflecting institutional continuity, policy credibility, and resilience to political shocks. Others, however, experience sharp swings in their governance performance due to political crises, institutional breakdowns, or erratic reform cycles.

To capture this dynamic dimension, the analysis examines how much GCI scores vary over time (Figure 10). The results show a clear pattern:

- ▶ Countries with “Sound” and “Satisfactory” governance exhibit very low volatility, indicating that strong governance systems tend to be durable and self-reinforcing.
- ▶ Countries with “Unsatisfactory” and “Unsound” governance show high volatility, suggesting that weak governance is often fragile, unstable, and vulnerable to shocks.

▶ **Figure 10. Governance stability by category**



Sources: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025.

This finding underscores a critical insight: governance quality and governance stability go hand in hand (Imam & Temple, 2025). High-performing countries are not just better governed; they are also more predictable. Low-performing countries, in contrast, face a double challenge: weak institutions and unstable trajectories.

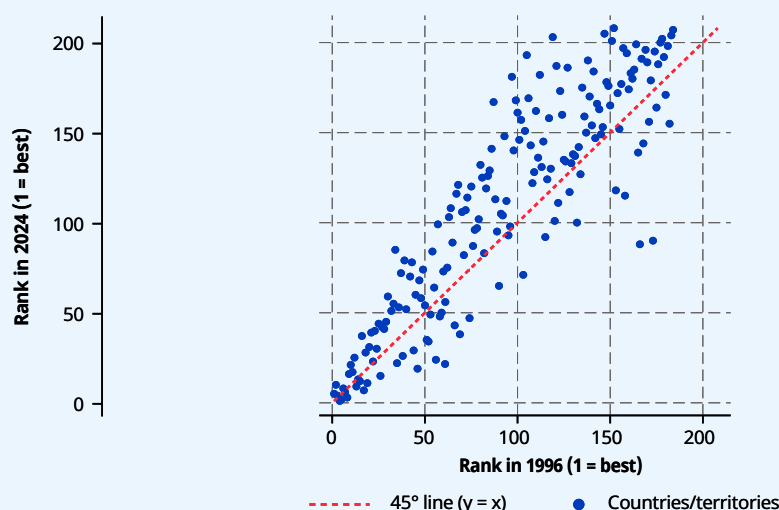
These results suggest that reform durability matters as much as reform quality. One-off institutional upgrades are insufficient if governance cannot withstand political turnover, conflicts, or economic shocks. Volatile governance erodes investor confidence, weakens policy implementation, and undermines public trust.

The analysis also confirms that governance is path dependent. Figure 11 compares each country's GCI ranking in 1996 with its ranking in 2024. Many observations lie close to the 45-degree line, confirming a high degree of persistence: countries that started with strong governance (such as the Nordic countries, New Zealand or Switzerland) generally remain at the top, while fragile or conflict-affected states continue to rank near the bottom. This indicates that governance quality is path-dependent and slow to change.

At the same time, the direction of change is asymmetric: a significant number of countries sit above the 45-degree line, meaning their governance rankings worsened over time. Far fewer countries lie well below the line (large improvers). This suggests that declines in governance have been more common than major sustained improvements.

In other words, while persistence dominates, the direction of change for many countries has been negative rather than positive. This points to a global trend of governance backsliding in parts of the world (Bermeo, 2016; Waldner & Lust, 2018), reinforcing the need for reform in the political, economic, and institutional governance dimensions.

► **Figure 11. Persistence in governance rankings (1996–2024)**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

Finally, to move beyond changes in average governance scores, the analysis examines movements across governance bands between 1996 and 2024 (Table 3).² Analysing movements across bands helps assess the persistence of governance outcomes and the extent to which countries experience durable improvement or deterioration over time.

The transition matrix reveals a high degree of persistence in governance performance over nearly three decades. The majority of countries remain in the same governance band between 1996 and 2024, confirming that governance outcomes are highly durable over time. For example, around 80.4 per cent of countries classified as “Unsatisfactory” in 1996 remain in that band in 2024, while close to 68.8 per cent of countries initially classified as “Sound” continue to be in the top governance category. This pattern underscores the extent to which both strong and weak governance outcomes tend to be self-reinforcing. This result is consistent with Imam and Temple (2025), who find that transitions between levels of state capacity are rare and that state capacity is highly persistent.

Upward mobility is possible but remains limited. Among countries initially classified as “Unsatisfactory”, only about 12 per cent improved to the “Satisfactory” category, and no country moved directly from “Unsatisfactory” to “Sound”. This confirms that progress in governance is usually gradual, advancing one tier or band at a time rather than through sudden, rapid leaps. A notable result, however, is that three countries – Iceland, Japan, and Liechtenstein – moved from “Satisfactory” to “Sound” between 1996 and 2024. This suggests that sustained, long-term institutional strengthening can eventually translate into top-tier governance outcomes, albeit for very few cases.

Table 3. Transition matrix of governance bands, 1996 – 2024

From \ To	Unsound	Unsatisfactory	Satisfactory	Sound
Unsound	42.9% (6)	50.0% (7)	7.1% (1)	0% (0)
Unsatisfactory	7.2% (7)	80.4% (78)	12.4% (12)	0% (0)
Satisfactory	0% (0)	14.5% (8)	80.0% (44)	5.5% (3)
Sound	0% (0)	0% (0)	31.2% (5)	68.8% (11)

Over the period 1996–2024, 23 countries improved their governance band classification, while 20 experienced decline. While the overall numbers are similar, the pattern of change is asymmetric: downward mobility from the highest categories is more common than upward mobility into the top tier. Around 15 per cent of countries that were classified as “Satisfactory” in 1996 fell back into the “Unsatisfactory” category by 2024. Even among countries that started in the “Sound” category, nearly one-third experienced a decline to “Satisfactory”. In contrast, only three countries moved from “Satisfactory” to “Sound” (Iceland, Japan, and Liechtenstein), and no country transitioned directly from “Unsatisfactory” to “Sound”. This indicates that governance gains are not irreversible and can be eroded by political instability, democratic backsliding (Bermeo, 2016), or weakening institutional checks and balances.³

Overall, these results point to a clear conclusion. Governance change is slow, sustained improvement is difficult, and backsliding is a persistent risk. While upward transitions into higher governance bands are possible, they require prolonged and consistent reforms rather than short-term or episodic improvements. At the same time, maintaining high governance standards demands continued institutional resilience. Protecting past gains appears to be as critical as achieving new ones.

² These bands group countries into broad qualitative categories of governance performance, allowing differentiation between marginal score movements and changes that reflect more substantive shifts in institutional quality.

³ The full list of countries that changed governance band is presented in the Appendix.

2.5. The investment connection: evidence on governance and foreign direct investment

Does governance quality matter for attracting foreign investment? The evidence presented in this report shows that it does.

Across countries and over time, there is a clear and positive relationship between the GCI and Foreign Direct Investment (FDI) (Figure 12). Countries with higher governance scores consistently attract more foreign investment than those with weaker governance, even after controlling for global time trends and regional differences.

The results, summarized in Table 4, show that improvements in governance are associated with meaningful increased in FDI flows.⁴ In practical terms, countries with more predictable rules, credible institutions and stable policy environments tend to be more attractive destinations for international investors.

Table 4. Governance and FDI: regression results

Regression Coefficient	Value
Coefficient on GCI	0.914
Robust Standard Error	0.180
t-statistic	5.07***
p-value	< 0.001
R-squared	7.6%
Observations	4 480
Year fixed effects	Yes
Region fixed effects	Yes

Source: ILO calculations based on World Development Indicators and Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), Accessed on 12/15/2025.

Note: *** indicates statistical significance at $p < 0.001$ level. The dependent variable is FDI (% of gross domestic product (GDP)) transformed using the Inverse Hyperbolic Sine (IHS) transformation. The independent variable is the GCI. Robust standard errors are Eicker–Huber–White.

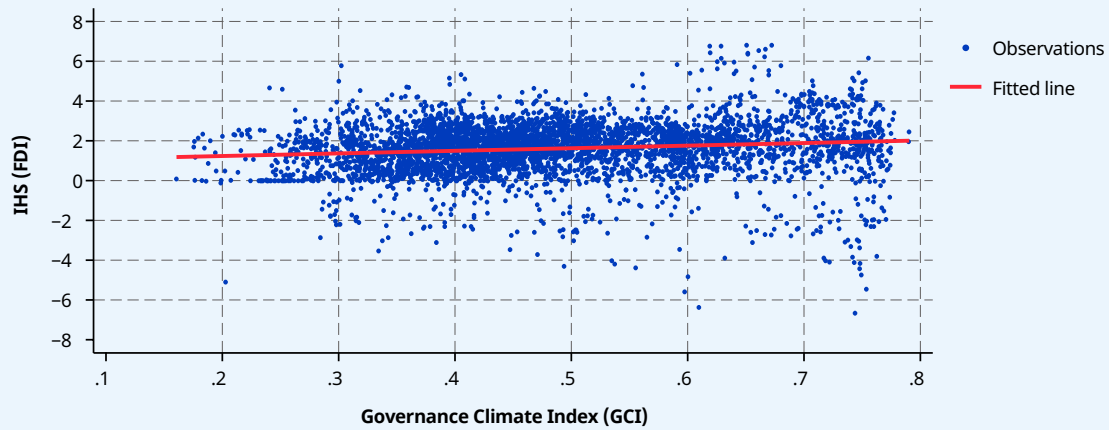
However, governance is not the only factor influencing investments decisions. The analysis shows that governance explains a significant but limited share of cross-country differences in FDI.⁵ Other factors, such as market size, macroeconomic stability, trade openness and infrastructure quality, also play an important role.⁶ This is consistent with existing evidence showing that governance acts as a foundational condition, shaping how effectively other economic advantages translate into investment.

4 The coefficient on GCI (0.91) indicates that a one-unit improvement in governance quality is associated with a meaningful increase in FDI inflows.

5 The model explains approximately 7.6 per cent of the variation in FDI across the sample.

6 This finding is in line with Islam and Beloucif (2023) and Ross (2019), who find that while governance infrastructure (i.e., systems, rules, and institutional capacities) is a significant determinant of FDI, other factors, such as market size, macroeconomic stability, trade openness, and infrastructure quality, also play important roles in explaining cross-country variation in investment flows.

► **Figure 12. Relationship between governance climate and foreign direct investment**



Note: The figure shows country? year observations of FDI, transformed using the inverse hyperbolic sine, and the governance climate index (GCI), with a fitted linear relationship. Multivariate regression result with year and region fixed effects, which absorb time-specific and region-specific unobserved factors, and estimated with heteroskedasticity-robust standard errors, are reported in Table 4.

Source: ILO calculations based on World Development Indicators and Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025.

For business and investors, the implication is clear: governance quality is a meaningful signal of investment climate, but it should be assessed alongside other country-specific factors. For policymakers, the findings reinforce the case for treating governance reform as part of a broader strategy. Improving governance helps create conditions under which investment can be attracted and sustained, rather than relying solely on short-term incentives or policy announcements (Fwaga et al., 2025).⁷

⁷ Details of the regression methodology is available in the Appendix.



3

**What the
evidence
means
for policy
and reform**

► 3. What the evidence means for policy and reform

The evidence presented in this report points to a fundamental conclusion: governance reform is harder, slower, and more fragile than is often assumed. While governance outcomes vary widely across countries, the patterns observed over nearly three decades reveal common structural features that have important implications for how reform should be designed, sequenced, and sustained.

Rather than viewing governance as a policy lever that can be adjusted quickly, the evidence shows that governance behaves more like a long-term structural condition, shaped by deep institutional arrangements, political incentives, and historical trajectories. This has direct consequences for both policymakers and business leaders who depend on predictable and credible governance environments.

Governance is a long-term structural condition, not a short-term policy outcome

One of the clearest lessons from the evidence is that governance changes slowly. Countries tend to remain on their existing governance paths for long periods, and major improvements rarely occur within short political or reform cycles. This persistence reflects the fact that governance outcomes are embedded in institutions, administrative capacity, and political settlements that take time to build and even longer to consolidate.⁸

For reformers, this means that expectations of rapid transformation are often unrealistic. Short-term reform programmes, one-off legislative changes, or isolated institutional upgrades may produce visible signals of progress, but they rarely alter underlying governance conditions unless they are sustained and reinforced over time.

For business, this persistence has two implications. First, improvements in the business environment are unlikely to materialize quickly, even when reform commitments are announced. Second, countries that have achieved strong governance outcomes tend to be those that have invested consistently in institutional development over many years, not those that have relied on episodic reform initiatives.

Governance systems fail at their weakest pillar

The pillar-level analysis highlights that governance performance depends not only on overall strength, but on balance across political, economic, and institutional dimensions.⁹ The best-performing countries are not those that excel in one area alone, but those where weaknesses in one pillar do not undermine the functioning of others.

By contrast, many countries struggle not because governance is weak across the board, but because one fragile pillar acts as a binding constraint. For example, improvements in regulatory quality may be undermined by weak courts or corruption. Political openness may fail to deliver better outcomes if administrative capacity is limited. Similarly, strong technocratic institutions can be destabilised by political volatility or declining accountability.¹⁰

8 These findings align with institutional economics literature, which emphasises that governance is not a static concept but the outcome of long-run political and institutional dynamics (Acemoglu & Robinson, 2012; North, 1990).

9 This aligns with the literature on “state capacity” (Besley & Persson, 2011) and “embedded autonomy” (Evans, 1995), which argues that inclusive, capable, and accountable states can both enable markets and deliver public goods.

10 This pattern is consistent with Andersen et al. (2025), who find that administrative capacity can be built incrementally, but political governance is more vulnerable to breakdown.

This helps explain why governance reform often disappoints. Efforts that focus narrowly on “best practice” reforms in a single area, such as regulatory simplification, anti-corruption agencies, or electoral reform, may deliver limited results if other pillars remain weak. Governance systems tend to fail where they are most vulnerable.

For reform strategy, the implication is clear: prioritisation matters. Effective reform should focus on identifying and addressing the weakest pillar, rather than spreading effort evenly or targeting the most visible areas.

Backsliding is a structural risk, not an exception

Another central insight from the evidence is that governance gains are not irreversible. While sustained improvement is possible, decline is often easier and more common, particularly among countries that had previously achieved relatively strong governance.

Political governance appears especially vulnerable. Accountability, stability, and institutional checks can deteriorate quickly in response to polarization, executive overreach, or weakening oversight. Once these safeguards erode, progress in other governance dimensions can also unravel.

This pattern helps explain why governance backsliding has become more visible globally. Rather than being exceptional events, reversals reflect underlying vulnerabilities in institutional design and political incentives. Where reforms are not protected by legal safeguards, independent institutions, and broad coalitions, they remain exposed to reversal.

For policymakers, this means that protecting existing governance gains is as important as pursuing new reforms. For business, it underscores the importance of monitoring governance stability over time, not just current conditions or recent improvements.

Stability and credibility matter as much as governance levels

The evidence also shows that governance quality and governance stability are closely linked.¹¹ Countries with stronger governance tend to experience more predictable trajectories, while weaker governance is associated with volatility and abrupt shifts.

This distinction is critical for investment decisions. Businesses respond not only to the level of governance but to its credibility and consistency.¹² Volatile government environments increase risk, erode trust and discourage investment, even when formal rules appear adequate on paper. From a reform perspective, this reinforces the importance of durability. Governance improvements that cannot withstand political transitions, economic shocks or leadership changes are unlikely to translate into lasting confidence or investment.

11 Imam and Temple (2025) reach a similar conclusion, demonstrating that state capacity is highly persistent and that transitions between levels are rare.

12 This finding supports North's (1990) claim that stable institutions reduce uncertainty and enable credible commitments.

Governance reform and investment: enabling conditions, not quick fixes

The relationship between governance and investment reinforces these lessons. Stronger governance climates are associated with higher levels of FDI, but governance does not operate in isolation. Rather, it acts as an enabling condition that determines whether other advantages, such as market size, location, or incentives, can be converted into sustained investment.¹³

In weak or unstable governance environments, incentives and reforms may have limited impact. In stronger governance contexts, the same measures are more likely to be credible and effective. This helps explain why investment outcomes often diverge even among countries pursuing similar policy strategies.

For policymakers, this suggests that governance reform should be treated as a foundation for investment, not a substitute for broader economic policy.¹⁴ For business, it highlights governance stability as a key component of risk assessment.

Design principles for effective governance reform

Taken together, the evidence points to three core principles for governance reform:

- I.** Target the weakest pillar. Governance systems fail at their most vulnerable point. Reform should prioritise the dimension (political, economic, or institutional) that acts as the binding constraint.
- II.** Extend reform timelines. High performers achieved strong governance through sustained investment in state capability, rule of law, and accountability. Short-term reform cycles cannot replicate such progress.
- III.** Establish institutional safeguards against reversal. The growing incidence of decline highlights the need for institutional protections: independent courts, merit-based bureaucracy, transparent processes, and mechanisms that maintain pressure for integrity regardless of political transitions.

In sum, governance reform is not about the number of initiatives undertaken but about their coherence, sequencing and durability. Governance is hard to build and easy to erode. Successful reform requires long-term commitment, institutional resilience, and a sustained attention to the political and institutional foundations that support predictable and credible governance outcomes.

¹³ Globerman and Shapiro (2002) demonstrate that governance infrastructure is an important determinant of both FDI inflows and outflows across a broad sample of developed and developing countries, finding that investments in governance infrastructure not only attract capital but also create conditions for domestic multinational corporations to emerge.

¹⁴ Buchanan, Le, and Rishi (2012) provide evidence from 164 countries showing that institutional quality has a positive and significant effect on FDI, with a one standard deviation improvement in institutional quality improving FDI by a factor of 1.69.

4

**Employer
and business
membership
organizations
as governance
actors**

► 4. Employer and business membership organizations as governance actors: Capacity, autonomy and national context

The preceding chapters show that governance outcomes are highly persistent, that reform is slow and fragile, and that progress often unravels where institutions lack durability or balance across governance pillars. They also demonstrate that governance reform depends not only on state capacity and policy design, but on the broader institutional environment in which reform is advocated, implemented, and defended over time. This raises a critical question: through which institutions are governance reforms sustained, or allowed to erode, in practice?

This chapter addresses that question by examining the role of Employer and Business Membership Organizations (EBMOs) as key institutional intermediaries. EBMOs sit at the intersection of business, policy, and the state. They aggregate enterprise-level interests, participate in policy dialogue, and often play a central role in shaping and defending reform agendas. By analysing how governance quality is experienced and mediated at the organizational level, this chapter helps explain why some governance reforms gain traction while others stall or reverse, even when formal policies are in place.

The analysis draws on data collected by the ILO in 2025 from 166 EBMOs worldwide and combines quantitative and qualitative evidence to assess organizational governance, capacity, and voice.

4.1. Measuring EBMO governance: An organizational governance index

To anchor the analysis, this section introduces a composite EBMO Governance Index. The index provides a structured way to assess how well employers' organizations themselves are governed, and therefore how effectively they are positioned to advocate for, sustain, and defend governance reform over time.

Conceptually, the EBMO Governance Index mirrors the logic of the national GCI used earlier in the report. While the GCI measures governance at the country level, the EBMO index focuses on organizational governance capacity, i.e. the institutional layer through which national governance conditions are often translated into practice.

The index captures three core dimensions of EBMO governance:

1. **Autonomy and the capacity for political voice**, measuring legal and financial independence.
2. **Internal governance rules and procedures**, reflecting the strength of constitutions, bylaws, leadership selection processes and strategic planning
3. **Organizational and technical capacity**, capturing staffing, specialized units, financial sustainability and the ability to deliver sustained services and advocacy.

Scores are normalized on a scale from 0 to 1, where higher values indicate stronger organizational governance.

4.1.1. The overall EBMO governance performance: A global snapshot

The EBMO Governance Index reveals a wide dispersion in organizational governance quality across the 166 countries in the sample. The average index score is 0.502, indicating that on average, many EBMOs operate with governance frameworks that remain incomplete or still developing, rather than fully consolidated.

The standard deviation of 0.188 – equivalent to a coefficient of variation¹⁵ of 37.5 per cent – reflects moderate dispersion around the mean, indicating that while most EBMOs cluster in the mid-range of the index, meaningful variation exists across the sample. The scores range from a minimum of 0.000 to a maximum of 0.892, confirming that the sample includes organizations at both the lowest and highest ends of the governance spectrum.

These aggregate results are, however, influenced by the composition of the sample. High-income countries account for 33.7 per cent of the sample (56 of 166 countries), and EBMOs in this group perform considerably better, with a mean governance index score of 0.585 and 82.1 per cent classified as established or robust. By contrast, the mean score for EBMOs in low, lower-middle, and upper-middle income countries is 0.461, and 51.9 per cent of these organizations fall in the weak or developing bands. The overall average therefore masks a more challenging reality for EBMOs in the developing world, which is examined in detail in Section 4.1.2.

To provide a more granular understanding, the index scores are grouped into four qualitative bands:

- ▶ **Weak** (scores below 0.30): EBMOs with severe governance and capacity constraints.
- ▶ **Developing** (0.30 to 0.49): EBMOs with partial governance structures but significant gaps.
- ▶ **Established** (0.50 to 0.69): EBMOs with broadly functional governance frameworks.
- ▶ **Robust** (0.70 and above): EBMOs with strong autonomy, rules and capacity.

The distribution of EBMOs across these bands is presented in Table 5.

EBMO governance band	Freq.	Percent	Cum.
Weak	22	13.3	13.3
Developing	46	27.7	41.0
Established	85	51.2	92.2
Robust	13	7.8	100.0
Total	166	100.0	

Over half of the EBMOs in the sample (51.2 per cent) fall into the established category. These organizations have functional governance frameworks that combine autonomy and structured internal rules, as well as a certain degree of operational capacity. However, these organizations have not yet reached the level of institutional consolidation required to function as fully effective and strategically influential actors.

A further 27.7 per cent fall into the *developing* category. These are organizations with partial governance structures in place, but gaps in their internal rules, accountability mechanisms or organizational resources constrain their ability to engage consistently in policy processes and support their members effectively. 13.3 per cent are classified as weak, indicating organizations with deficits across autonomy, internal governance and capacity. At the other end of the spectrum, 7.8 per cent (13 out of 166 countries in the sample) are considered robust. This means they combine high autonomy with strong internal governance and the organizational capacity to act as an effective representative of the business sector and support their members.

¹⁵ The coefficient of variation (CV) measures how spread out values are relative to their average. A higher CV indicates greater relative variability across observations; a lower CV indicates that values cluster more tightly around the mean.

These results show that constraints on governance reform may arise not only at the national level, but also at the level of the intermediary institutions expected to advocate for, promote, and sustain reform momentum over time.

4.1.2 EBMO governance in developing countries

The global results presented in Section 4.1.1 reflect a sample in which high-income countries account for one-third of observations. To examine the governance quality of EBMOs in low, lower-middle, and upper-middle income economies – that is, developing and emerging-market economies – Table 6 presents the EBMO governance band distribution for this sub-sample of 110 EBMOs, excluding the high-income group.

Table 6. Distribution of EBMOs by governance quality in developing and emerging market economies

EBMO band	Freq.	Percent	Cum.
Weak	20	18.2	18.8
Developing	38	34.6	52.7
Established	43	39.1	91.8
Robust	9	8.2	100.0
Total	110	100.0	

The results show a markedly different distribution. In developing and emerging-market economies, 52.7 per cent of EBMOs fall into the *weak* or *developing* governance bands: 18.2 per cent (20 EBMOs) are classified as *weak*, meaning organizations with severe deficits across autonomy, internal governance, and organizational capacity; and 34.5 per cent (38 EBMOs) are in the *developing* band, that is, organizations with partial governance structures in place but with gaps that constrain their ability to engage consistently in policy processes. The *established* band accounts for 39.1 per cent (43 EBMOs), and only 8.2 per cent (9 EBMOs) qualify as *robust*.

Comparing these figures with the full-sample results in Table 5 makes the compositional effect of the high-income group visible. In the full sample, 58.9 per cent of EBMOs are established or robust; in the developing and emerging-market sub-sample, that share falls to 47.3 per cent. In other words, the majority of EBMOs in these economies operate with incomplete and suboptimal governance frameworks.

This pattern is analytically important. It suggests that in the very contexts where national governance challenges are most acute, intermediary institutions also face more pronounced organizational constraints. As a result, the capacity of EBMOs to act as stable partners in national policy dialogue and governance reform processes may be structurally limited, reinforcing the persistence and fragility of governance outcomes.

4.1.3. The three pillars of EBMO governance

Deconstructing the overall index into its three pillars reveals important asymmetries in performance. EBMOs perform strongest on Pillar 1 (Autonomy and Voice), with a mean score of 0.837. This suggests that most organizations in the sample have secured formal independence from government control, and in principle, possess the space to engage in policy dialogue.

Performance is considerably weaker on Pillar 2 (Internal Governance), where the average score falls to 0.531. This suggests that many EBMOs operate with incomplete or uneven internal governance frameworks. While basic rules and structures are often in place, they are not always sufficiently robust to ensure accountability, continuity and strategic direction over time.

The weakest performance is observed in Pillar 3 (Organizational Capacity), with an average of just 0.142. This exceptionally low score highlights a critical constraint: while many EBMOs are formally independent, they often lack the internal resources and technical capabilities required for effective operation. In practical terms, independence without capacity limits an organization's ability to analyse policy, mobilise members, sustain advocacy or respond to political change.

This imbalance across pillars is a key finding. It shows that formal independence does not automatically translate into high-quality internal governance or strong organizational capacity. As with national governance systems, EBMOs governance appears to fail at its weakest pillar, most often organizational capacity, undermining the organization's ability to act as a durable institutional actor.

4.1.4. EBMO governance in the national context

An important question is whether the quality of EBMO governance is related to the broader national governance climate in which these organizations operate. To explore this, EBMO governance index scores are examined alongside the 2024 GCI scores for the 166 EBMOs in the sample. The sample spans from a wide range of national governance environments.

Half of the EBMOs in the sample (50.0 per cent, $n=83$) work in an unsatisfactory national governance climate (Table 7). A further 36.8 per cent ($n=61$) are in satisfactory environments. The remaining countries are split equally between sound (6.6 per cent, $n=11$) and unsound (6.6 per cent, $n=11$) governance climates. This distribution reflects the diversity of national governance environments in which EBMOs operate and provides the context for examining the relationship between national and organizational governance quality.

Table 7. Distribution of EBMO sample by GCI band

GCI Band	N	Percent	Cum.
Sound	11	6.6	6.63
Satisfactory	61	36.8	43.37
Unsatisfactory	83	50.0	93.37
Unsound	11	6.6	100.0
Total	166	100.0	

The composition of this distribution is, however, shaped by the income structure of the sample. Among EBMOs in high-income countries ($n=56$), 75.0 per cent are in satisfactory and 19.6 per cent in sound governance climates; only 5.4 per cent face an unsatisfactory climate. Among EBMOs in developing and emerging-market economies ($n=110$), the picture is reversed: 72.7 per cent ($n=80$) of EBMOs operate in unsatisfactory and 10.0 per cent ($n=11$) in unsound governance climates, with only 17.3 per cent ($n=19$) in satisfactory environments. The full-sample average therefore conceals the extent to which EBMOs in developing countries operate within constrained national governance environments.

Figure 13 plots the EBMO Governance Index score against the national GCI score for each of the 166 EBMOs, with a fitted regression line. For the 2024 cross-section, the data show a positive association between national governance quality and EBMO governance quality¹⁶: EBMOs in countries with stronger governance climates tend, on average, to score higher organizational governance scores. At the same

¹⁶ Pearson $r = 0.282$, $p < 0.001$.

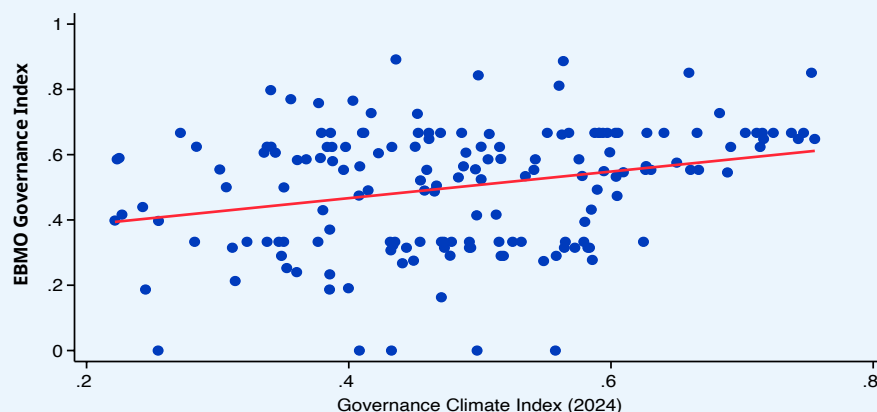
time, the wide vertical dispersion of points around the regression line indicates that, at any given level of national governance quality, there is considerable variation in organizational governance.

This association should be interpreted with caution: the analysis is cross-sectional and limited to a single year without multiple years of EBMO governance data. It is not possible to assess whether the pattern is stable over time or to draw conclusions about the direction of influence. Nevertheless, the pattern suggests that national governance conditions and organizational governance quality are related, though not tightly coupled.

What the cross-section does illustrate is a distinction between two levels of governance. National governance shapes the environment in which EBMOs operate – the policy space available, the risks of interference, and the possibility and credibility of social dialogue. EBMO governance, by contrast, reflects internal organizational choices, leadership quality, and institutional design. The data confirm this distinction clearly: despite operating largely in countries with unsatisfactory national governance (50.0 per cent of the full sample; 72.7 per cent of developing-country EBMOs), 83.1 per cent of EBMOs across the full sample achieve high scores (0.75 or above) on Pillar 1 (Autonomy and Voice), and 45.8 per cent do so on Pillar 2 (Internal Governance). Among developing-country EBMOs specifically, 78.2 per cent score at or above 0.75 on Pillar 1 and 37.3 per cent on Pillar 2 – lower than the full-sample averages but still indicating that formal independence and a degree of internal governance can be established even in constrained national contexts.

The association between national governance and EBMO performance is most visible for Pillar 1. Average scores fall steadily from 0.968 in sound governance environments to 0.669 in unsound ones – a difference of nearly 0.30 points. This pattern is consistent with the expectation that national conditions, such as respect for civil liberties, freedom of association, and the rule of law, shape the environment for EBMOs to operate as representative and independent voices of the business sector. The picture is different for Pillar 3 (Organizational Capacity), where scores remain low across all national governance environments: around 77 per cent of EBMOs score below 0.25 on this pillar. Capacity constraints therefore appear harder to overcome and not solely a function of national governance quality. Limited funding, restricted access to technical expertise, and organizational infrastructure appear to constrain EBMOs across contexts, although these challenges are likely compounded in lower-income environments.

► **Figure 13. EBMO governance and national governance climate**



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025 and aggregated information of EBMOs (2025) (ILO, unpublished).

The scatter plot analysis (Figure 13) is complemented by examining the distribution of EBMO governance bands against national GCI bands, for the full sample and for developing and emerging-market economies respectively. In the full sample (Figure 14a), the largest single concentration (36 countries) consists of established EBMOs in countries with a satisfactory national climate. However, a near-equal number of established EBMOs (35 of 85, or 41.2 per cent) are located in countries with an unsatisfactory governance climate, confirming that functional organizational governance can be built in challenging national contexts. Six weak EBMOs operate in satisfactory governance climates, suggesting that a supportive national environment does not by itself prevent organizational weakness. Notably, no country classified as unsound hosts a robust EBMO, underscoring the limits imposed by severely constrained political environments.

Figure 14b, on the other hand, shows a markedly different distribution when the sample is restricted to developing and emerging-market economies. No EBMO in this sub-sample falls in the sound GCI band; all 110 EBMOs operate in satisfactory, unsatisfactory, or unsound national governance environments.

The dominant cell is established EBMOs in unsatisfactory national climates (34 EBMOs), which accounts for 79.1 per cent of all established EBMOs in this sub-sample (34 of 43). Of the 80 developing-country EBMOs in unsatisfactory national governance environments, 41 – just over half – are in the established or robust bands, while 39 are in the weak or developing bands.

This near-even split illustrates the two distinct organizational trajectories within the same national governance context: organizations that have built functional internal governance despite suboptimal national governance climates, and those that have not. At the same time, the absence of any robust EBMO in an unsound national climate, observed in both figures, suggests the presence of a structural threshold. Below a certain level of national governance quality, the broader institutional and political environment constrains even internally focused dimensions of organizational governance. In such contexts, severe political instability, weak rule of law or restricted civic space appear to limit the scope for institutional consolidation, regardless of internal organizational efforts.

► **Figure 14 a. EBMO governance bands by GCI bands. Full sample (n=166)**

GCI Band	Weak	Developing	Established	Robust
Sound	0	0	10	1
Satisfactory	6	15	36	4
Unsatisfactory	14	26	35	8
Unsound	2	5	4	0

0 18 36

Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), accessed on 12/15/2025 and aggregated information of EBMOs (2025) (ILO, unpublished).

► **Figure 14 b. EBMO governance bands by GCI bands. Developing and emerging-market economies (n=110)**

GCI Band	Weak	Developing	Established	Robust
Sound	0	0	0	0
Satisfactory	4	8	5	2
Unsatisfactory	14	25	34	7
Unsound	2	5	4	0

0 18 34

Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025 and aggregated information of EBMOs (2025) (ILO, unpublished).

4.1.5. Regional patterns in EBMO governance

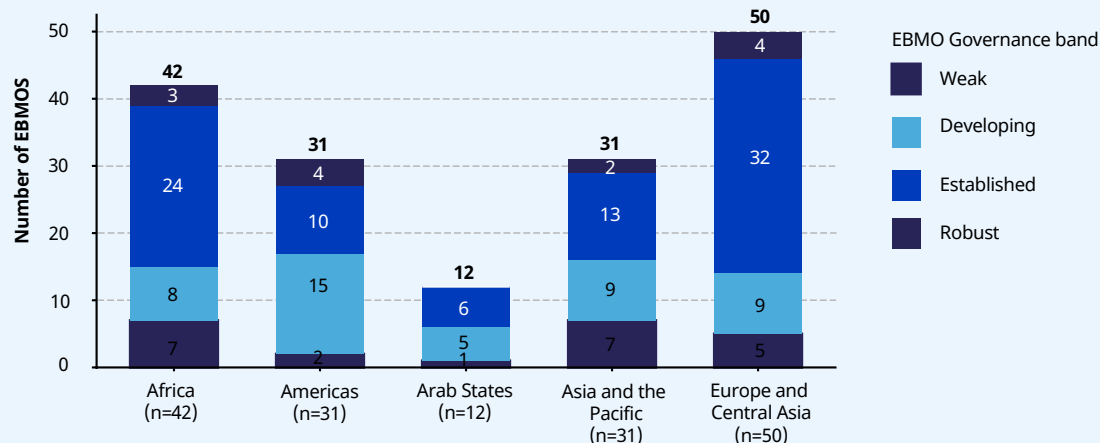
The EBMO Governance Index allows for a comparison of organizational governance quality across regions. While EBMO governance is not tightly determined by national governance conditions, the regional distribution of EBMOs across governance bands reveals different patterns (Figure 15).

Europe and Central Asia has the largest share of EBMOs in the established band (64.0 per cent, 32 of 50 countries) and, together with the Americas, accounts for the highest number of robust EBMOs (four in each region). Africa is the largest region in the sample (n=42) and presents a mixed picture: 57.1 per cent of African EBMOs are in the established band, while 16.7 per cent are weak. Africa contributes three of the 13 robust EBMOs in the full sample, indicating that strong organizational governance can be built in contexts where national governance conditions are often challenging. The Americas show a more dispersed distribution, with 48.4 per cent in the developing band and 12.9 per cent (the highest regional share) in the robust band.

In the Arab States, the established band accounts for half of the 12 countries (50.0 per cent), but no country in this region achieves a robust rating. Asia and the Pacific shows the highest share of weak EBMOs (22.6 per cent), with 41.9 per cent in the established band and 6.5 per cent robust.

Across all regions, the established band is the most common category, with the exception of the Americas, where the developing band is the most frequent classification.

► Figure 15. EBMO governance quality by region



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025 and aggregated information of EBMOs (2025) (ILO, unpublished).

4.1.6. EBMO governance and economic development

A key question is how EBMO governance quality relates to the economic development of a country. Figure 16 shows the distribution of EBMO governance bands across country income groups.

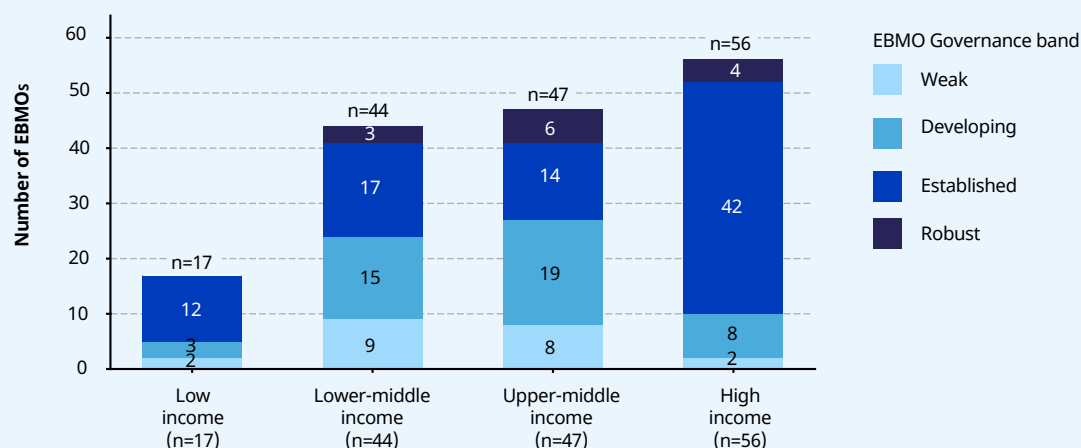
The data reveal a clear pattern of decreasing governance quality with decreasing income, though with important nuances. In high-income countries ($n = 56$), 75.0 per cent of EBMOs are classified as established and 7.1 per cent as robust, resulting in an overall established-or-robust share of 82.1 per cent. In low-income countries ($n = 17$), 70.6 per cent are established, none are robust, and 29.4 per cent are in the weak or developing bands.

The most pronounced governance deficits are found in lower-middle and upper-middle income countries. In lower-middle income countries ($n = 44$), 54.6 per cent of EBMOs are in the weak or developing bands: 20.5 per cent are classified as weak, and 34.1 per cent as developing. In upper-middle income countries ($n = 47$), this figure rises to 57.4 per cent: 17.0 per cent are classified as weak, while 40.4 per cent are classified as developing. Notably, upper-middle income countries also have the highest proportion of robust EBMOs of all the developing countries (12.8 per cent, or six out of 47), suggesting that, within this income group, governance quality is more dispersed, with a subset of EBMOs having reached a high level of consolidation, while the majority have not.

These findings suggest a form of “middle-income institutional squeeze.” In lower-middle and upper-middle income contexts, EBMOs operate in environments characterized by partial institutional development, evolving regulatory systems and constrained organizational resources. These conditions appear to generate both opportunity and vulnerability: some organizations consolidate and strengthen while others remain in transitional governance stages.

These results are consistent with the findings presented in Section 4.1.2: when high-income countries are excluded, over half of the EBMOs in the sample (52.7 per cent) are categorised as weak or developing. The income-group breakdown confirms that this challenge is concentrated and highlights the importance of organizational capacity building in lower-middle and upper-middle income countries.

► Figure 16. EBMO governance quality by country income group



Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025 and aggregated information of EBMOs (2025) (ILO, unpublished).

4.1.7. The autonomy-capacity disconnect: A typology of EBMO governance

The pillar-level analysis in Section 4.1.3 revealed a structural asymmetry: while most EBMOs achieve high scores on Pillar 1 (Autonomy and Voice), the large majority score low on Pillar 3 (Organizational Capacity). To examine this disconnect systematically, this section introduces a typology that classifies EBMOs based on their combined performance on Pillar 1 and Pillar 3. EBMOs are classified as “High” on a pillar if their score is 0.50 or above, and “Low” if it is below 0.50. This produces four governance profiles. Table 8 presents the distribution for the full sample (N=166) and for the sub-sample of developing and emerging-market economies (N=110).

Table 8. Typology of EBMO Governance: Autonomy vs. Capacity

EBMO Profile	Description	All EBMOs (N=166)	Percent	EBMOs in developing countries (N=110)	Percent
Type 1	High Autonomy + High Capacity	26	15.70%	12	10.90%
Type 2	High Autonomy + Low Capacity	123	74.10%	82	74.50%
Type 3	Low Autonomy + High Capacity	6	3.60%	6	5.50%
Type 4	Low Autonomy + Low Capacity	11	6.60%	10	9.10%
Total		166	100.00%	110	100.00%

The most common profile across the entire sample is Type 2 (High Autonomy, Low Capacity), accounting for 74.1 per cent of all EBMOs (123 out of 166). Although a large majority of organizations – 147 EBMOs or 88.5 per cent of the sample – score highly on autonomy, most of them lack the organizational capacity to translate that autonomy into effective advocacy. Indeed, 83.7 per cent of autonomous EBMOs fall into the low-capacity category. While formal independence from government is widespread, the internal resources, structures and capabilities required for advocacy and service provision to members are not.

The profile most conducive to effective institutional partnership – Type 1 (High Autonomy, High Capacity) – represents 26 EBMOs (15.7 per cent). Type 4 (Low Autonomy, Low Capacity), with 11 EBMOs (6.6 per cent), captures EBMOs that face constraints on both dimensions at the same time. Type 3 (Low Autonomy, High Capacity) is the rarest profile, with six cases (3.6 per cent), confirming that capacity constraints are not a by-product of limited autonomy, they are a binding constraint in their own right.

The pattern is more pronounced in developing and emerging-market economies. Type 2 remains dominant at 74.5 per cent (82 of 110). Type 1 falls to 10.9 per cent (12 of 110), compared to 15.7 per cent in the full sample. Type 4 rises to 9.1 per cent (10 of 110), compared to 6.6 per cent in the full sample. Taken together, Type 2 and Type 4 – the two profiles defined by low organizational capacity – account for 83.6 per cent of EBMOs in developing and emerging-market economies.

This typology clarifies the structural nature of the autonomy-capacity gap. The gap is not evenly distributed: it is most acute in developing and emerging economies where the conditions for building institutional capacity are most constrained.

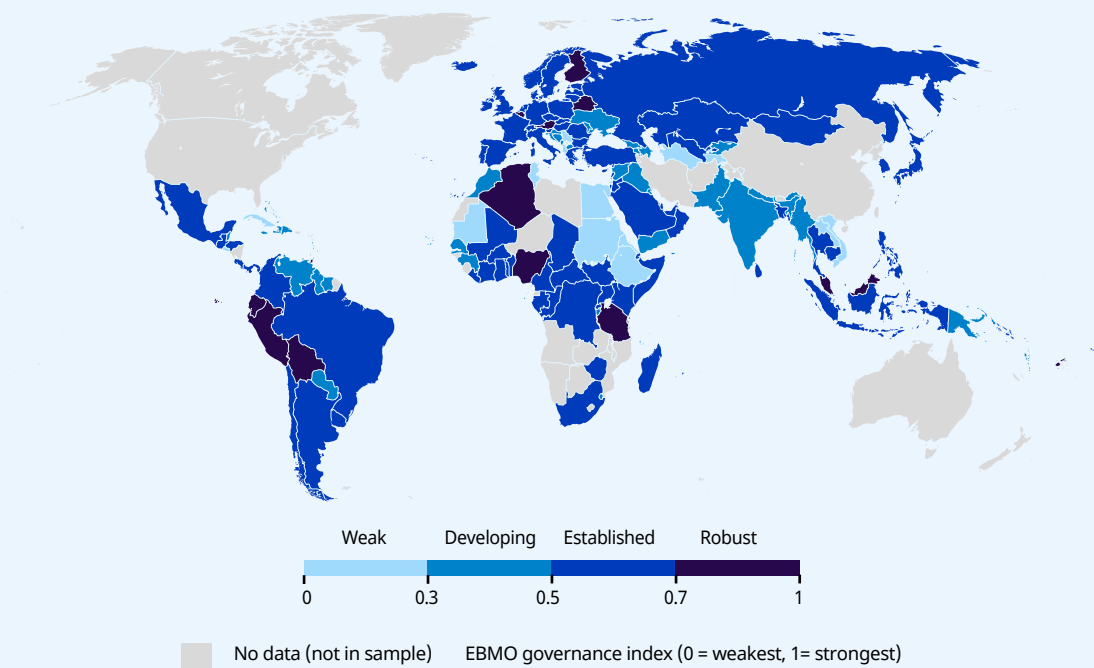
4.1.8. A global view of governance landscapes

The patterns identified in the preceding sections, namely the concentration of governance deficits in developing and emerging-market economies and the imperfect alignment between organizational governance and national institutional conditions, also have a clear geographical dimension. Maps 1 and 2 illustrate the global distribution of the EBMO Governance Index and national GCI, respectively, allowing a direct visual comparison between organizational governance and the broader national governance environment across countries.

Map 1 shows that higher EBMO governance scores (indicated by darker shades) are concentrated in Europe, parts of the Americas, and selected countries in Africa and Asia. Lower scores are more prevalent across parts of Sub-Saharan Africa, the Middle East, and Central Asia. Map 2 shows the GCI, with a broadly similar but not identical geographical pattern: stronger national governance environments are concentrated in Europe and North America, while weaker environments are distributed across Sub-Saharan Africa, parts of the Middle East, and South and Central Asia.

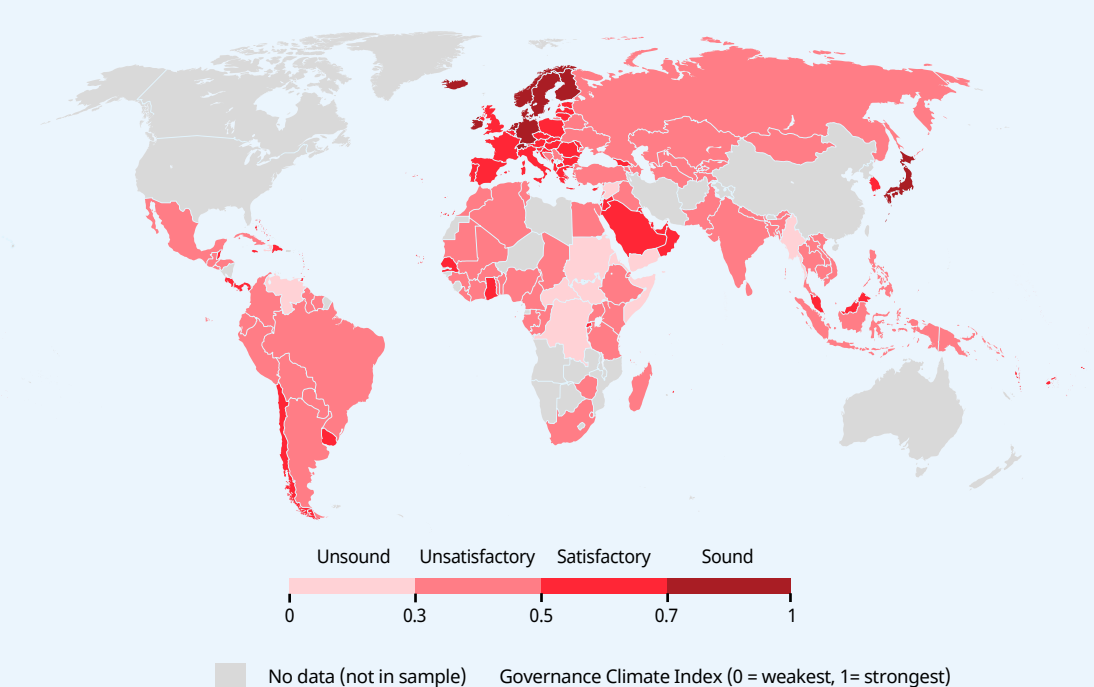
The visual comparison reinforces the statistical finding from Section 4.1.4: the two indices share a positive association, but the relationship is not deterministic. Several countries with lighter shades on Map 2 (indicating a challenging national governance climate) host EBMOs with relatively darker shades on Map 1, particularly in Africa and South America. This geographical pattern is consistent with the earlier pillar-level finding that formal autonomy and a degree of internal governance can be established even where national conditions are constrained. At the same time, the maps make visible the concentration of both governance deficits, national and organizational, in the same regions, particularly in parts of Sub-Saharan Africa and the Middle East, where the compounding of weak national governance and weak EBMO governance represents the most challenging environment for institutional reform.

► **Map 1. EBMO governance index score by country**



Source: ILO, Unpublished. Calculations based on aggregated information of EBMOs (2025).

► **Map 2. Governance Climate Index (GCI) score by country (2024)**



Source: ILO calculations bases on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org). Accessed on 12/15/2025, and aggregated information of EBMOs (2025) (ILO,unpublished)

4.2. Implications: EBMOs as governance stabilisers

The evidence presented in this chapter provides an institutional perspective on the persistence, volatility, and reversal of governance outcomes documented earlier in the report. EBMOs operate at the intersection of business, policy, and the state. Their organizational characteristics therefore influence how governance reforms are articulated, supported, and sustained over time.

When EBMOs combine organizational autonomy with coherent internal governance structures and sufficient operational capacity, they can function as stabilising intermediary institutions. In this role, they help maintain continuity in policy dialogue, articulate the interests and constraints of enterprises, and sustain engagement between the private sector and public authorities across political cycles. Such organizations are able to defend institutional gains, support reform implementation, and contribute to a more predictable policy environment for business.

Where organizational capacity is limited, this stabilising function becomes weaker. Even when formal autonomy exists, the absence of analytical resources, specialised staff, and sustained member engagement reduces the ability of EBMOs to translate representation into effective policy engagement or practical support for sustainable enterprise development. In these contexts, governance reforms depend more heavily on government initiative and are more exposed to discontinuity.

From this perspective, the governance of EBMOs forms part of the broader institutional ecosystem that underpins governance performance. National governance outcomes depend not only on the formal design of public institutions but also on the strength of intermediary organizations capable of sustaining policy dialogue, representing business, and maintaining engagement in reform processes over time.



5

Conclusions and takeaways

► Conclusions and takeaways

This report has examined global governance over nearly three decades and arrives at a clear conclusion: governance is multidimensional, persistent, and strongly shaped by a country's history and institutional trajectory. Political, economic, and institutional dimensions interact and reinforce each other, but when one dimension is weak, it can become a binding constraint. While a small group of countries has developed capable and resilient governance systems, many others face stagnation, imbalance, or decline.

5.1. A persistent and unequal governance landscape

The global distribution of governance remains highly unequal. More than half of countries fall into "Unsatisfactory" or "Unsound" categories, reflecting structural problems in rule of law, accountability, regulatory quality, and political stability. These deficiencies are not temporary; they limit economic development, social trust, and institutional legitimacy. The fact that only a small share of countries achieves "Sound" governance underscores the difficulty of building and sustaining capable states.

The most successful countries are not simply strong in one dimension; they are balanced across political accountability, regulatory effectiveness, and institutional integrity. This confirms that governance systems function as an interconnected whole. Reforms that focus on only one dimension are unlikely to produce lasting improvements, as systems tend to fail where they are weakest.

5.2. Governance is persistent and vulnerable

An important finding is that governance outcomes are highly path dependent. Governance progress is possible but often gradual and difficult to sustain. The data show that upward mobility across governance bands is relatively rare, especially into the top tier, while downward movement from the highest categories is more common.

This asymmetry confirms that governance gains are fragile. Democratic backsliding, polarisation, and weakening institutional checks can reverse earlier progress. Governance is therefore not self-correcting. Structural reform is required to shift countries into higher governance categories.

Equally important is the link between governance quality and stability. High-governance countries also tend to be the most resilient over time, benefiting from institutional continuity, predictable rules, and depoliticised state functions. In contrast, low-governance countries face volatility, which undermines investment, weakens social cohesion, and makes reform fragile. Improving governance levels without securing durability leaves progress vulnerable to reversal.

The long-term persistence of governance rankings shows that initial conditions matter. Countries that are well-governed today were typically on strong institutional trajectories decades ago. This path dependence confirms that governance cannot be transformed quickly. Effective reform requires long-term commitment, broad coalitions, and protection from short-term political pressures. Superficial or politically convenient reforms will not deliver lasting change.

5.3. Governance and investment

Our econometric analysis provides robust, quantitative evidence that a stronger governance climate is a statistically significant and economically meaningful determinant of FDI. This result aligns with Fwaga et al. (2025), who find that targeted institutional and policy reforms lead to increased FDI inflows in developing countries. While governance is not the only driver of investment, it functions as a foundational condition.

This governance-investment nexus has direct policy implications: countries that strengthen their governance institutions, through improved rule of law, reduced corruption, enhanced regulatory quality, and greater political accountability, can expect to attract higher levels of FDI. Given the critical role of foreign investment in job creation, technology transfer, and economic growth, this governance-investment nexus represents a powerful incentive for reform.

5.4. National governance and intermediary capacity: a two-level system

The organizational-level analysis adds an important institutional dimension to these findings. The EBMO Governance Index shows a positive association between national governance quality and organizational governance quality. EBMOs operating in stronger national governance environments tend, on average, to score higher on autonomy and internal governance. National conditions shape the space within which intermediary institutions operate.

At the same time, the relationship is not deterministic. Functional internal governance can be built even in challenging national contexts. However, the analysis reveals a threshold effect: in unsound national governance environments, no robust EBMO is observed. Below a certain level of national institutional stability, the broader political and legal context constrains even well-designed organization.

This two-level interaction is critical. National governance affects the environment, organizational governance affects the transmission and durability of reform. Where both are weak, reform faces compounding structural barriers.

5.5. The autonomy-capacity gap

Most EBMOs score highly on autonomy, yet the majority lack sufficient operational capacity. In fact, while 74 per cent of EBMOs fall into the high autonomy-low capacity category, more than four out of five autonomous organizations lack the capacity needed to translate formal independence into sustained advocacy and institutional influence. Formal independence alone does not guarantee effective engagement or reform durability.

This gap is most pronounced in developing and emerging-market economies, where intermediary institutions operate in more constrained political and economic environments. The result is a structural vulnerability: governance reforms may be initiated, but the intermediary institutions needed to sustain them are not fully equipped to anchor reform coalitions, maintain policy dialogue and defend institutional gains.

In other words, capacity, not autonomy, emerges as the binding constraint at the organizational level.

5.6. Implications for employers and business membership organizations

For the business community, the message is clear. National governance conditions shape investment risk and enterprise opportunity. Improvements in governance enhance predictability and attractiveness; deterioration in governance increases uncertainty and cost.

For EBMOs, the evidence highlights the importance of strengthening the internal governance and operational capacity. Autonomy is necessary but insufficient. Their ability to act as a credible and durable partners in reform processes fundamentally depends on internal governance and operational capacity. Organizational resilience, technical expertise, sustainable financing and structured internal rules are essential for translating formal independence into effective advocacy. Without it, their voice is weakened, and their ability to contribute to a stable and predictable governance climate is diminished. This is particularly true in the challenging national contexts where many EBMOs operate.

5.7. Design principles for reform

Governance reform, therefore, benefits from broad-based coalitions that bring together government, workers' and employers' organizations around a shared understanding of institutional challenges (Wood, 2001). EBMOS' engagement in governance diagnostics, priority-setting, and reform implementation can help shift governance from a technical or political issue into a business imperative. This is particularly relevant in lower- and middle-income countries and emerging-market contexts, where governance deficits are most acute and where business leadership can catalyse institutional change. The experience of countries that have successfully reformed their governance systems suggests that such reform is most durable when it is sequenced strategically and when it is embedded in law and procedure in ways that make it difficult to reverse when political leadership changes.

From a policy perspective, four guiding principles stand out for governance reform.

First, diagnose and prioritise the weakest governance pillar. Governance systems fail where they are most vulnerable. Reform efforts should focus on the dimension that most constrains credibility and stability.

Second, reforms must be designed for durability, not just short-term impact; this requires legal safeguards, merit-based public administration, judicial independence, and transparency.

Third, anticipate and prevent backsliding by strengthening accountability, civic space, and checks and balances.

Finally, sequence reforms strategically. Successful governance systems were built over decades of gradual state-building, coalition management, and adaptive problem-solving rather than one-off interventions.

5.8. Final reflection

Governance is not a single reform, policy or index score. It is a continuous process of building balance, credibility, and resilience. It is the foundation of long-term development. The evidence shows that governance is hard to build and easy to erode. Durable progress requires long-term commitment, institutional safeguards, and capable intermediary organizations operating within supportive national governance environments.

For employers, policymakers and other stakeholders, the challenge is to strengthen both levels simultaneously – national governance frameworks and the intermediary institutions that sustain them – so that reform can endure across political and economic cycles. Only through such resilience can governance support stable investment, enterprise growth and long-term development.



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Appendix

► Appendix

Table A1. Governance climate index mean rank, 1996-2024

Country code	Country	GCI	years	Mean rank
FIN	Finland	0.76747	26	1
DNK	Denmark	0.76062	26	2
NZL	New Zealand	0.75562	26	3
CHE	Switzerland	0.75273	26	4
NOR	Norway	0.75131	26	5
SWE	Sweden	0.74845	26	6
LUX	Luxembourg	0.74807	26	7
NLD	Netherlands	0.74162	26	8
CAN	Canada	0.72689	26	9
ISL	Iceland	0.72669	26	10
AUS	Australia	0.72629	26	11
LIE	Liechtenstein	0.72144	26	12
AUT	Austria	0.71953	26	13
DEU	Germany	0.71659	26	14
SGP	Singapore	0.71617	26	15
IRL	Ireland	0.70754	26	16
GBR	United Kingdom	0.69955	26	17
MCO	Monaco	0.69636	10	18
ADO	Andorra	0.68809	26	19
JEY	Jersey, Channel Islands	0.68647	14	20
BEL	Belgium	0.68465	26	21
GRL	Greenland	0.68389	16	22
HKG	Hong Kong, China	0.68317	26	23
JPN	Japan	0.68106	26	24
SMR	San Marino	0.67478	10	25
USA	United States	0.67296	26	26
AIA	Anguilla	0.67023	14	27
FRA	France	0.66368	26	28
ABW	Aruba	0.66257	21	29
EST	Estonia	0.65968	26	30

CHL	Chile	0.65343	26	31
CYM	Cayman Islands	0.65005	26	32
TWN	Taiwan, China	0.64963	26	33
BRB	Barbados	0.64928	26	34
PRT	Portugal	0.64881	26	35
MLT	Malta	0.64668	26	36
BMU	Bermuda	0.64585	19	37
CYP	Cyprus	0.63732	26	38
ESP	Spain	0.63252	26	39
SVN	Slovenia	0.62916	26	40
CZE	Czechia	0.62727	26	41
URY	Uruguay	0.62617	26	42
BHS	Bahamas, The	0.62524	26	43
VIR	Virgin Islands (U.S.)	0.62358	14	44
GUF	French Guiana	0.62237	26	45
REU	Réunion	0.62143	14	46
KOR	Korea, Rep.	0.61688	26	47
ANT	Netherlands Antilles (former)	0.61656	14	48
ASM	American Samoa	0.61441	20	49
KNA	St. Kitts and Nevis	0.61297	21	50
MTQ	Martinique	0.6116	19	51
LTU	Lithuania	0.61013	26	52
GUM	Guam	0.60669	21	53
MAC	Macao, China	0.60557	26	54
MUS	Mauritius	0.60406	26	55
VCT	St. Vincent and the Grenadines	0.60156	21	56
LCA	St. Lucia	0.59964	21	57
BWA	Botswana	0.59736	26	58
POL	Poland	0.59705	26	59
CRI	Costa Rica	0.59368	26	60
LVA	Latvia	0.59288	26	61
DMA	Dominica	0.59097	26	62
HUN	Hungary	0.59056	26	63
SVK	Slovak Republic	0.59039	26	64
ISR	Israel	0.58982	26	65

ATG	Antigua and Barbuda	0.58875	26	66
ITA	Italy	0.58742	26	67
PRI	Puerto Rico (U.S.)	0.58582	26	68
PLW	Palau	0.58223	17	69
BRN	Brunei Darussalam	0.5767	26	70
ARE	United Arab Emirates	0.57332	26	71
WSM	Samoa	0.57283	26	72
CPV	Cabo Verde	0.57202	23	73
GRC	Greece	0.5696	26	74
GRD	Grenada	0.56535	26	75
SYC	Seychelles	0.56525	26	76
QAT	Qatar	0.55903	26	77
FSM	Micronesia, Fed. Sts.	0.54847	21	78
NAM	Namibia	0.54831	26	79
BTN	Bhutan	0.54607	26	80
NRU	Nauru	0.54523	18	81
HRV	Croatia	0.54474	26	82
TUV	Tuvalu	0.54279	21	83
MYS	Malaysia	0.53998	26	84
KIR	Kiribati	0.5327	21	85
MHL	Marshall Islands	0.53264	20	86
VUT	Vanuatu	0.52916	21	87
OMN	Oman	0.52722	26	88
TTO	Trinidad and Tobago	0.52703	26	89
ZAF	South Africa	0.526	26	90
BGR	Bulgaria	0.51324	26	91
COK	Cook Islands	0.51252	9	92
PAN	Panama	0.51216	26	93
ROU	Romania	0.51211	26	94
MNE	Montenegro	0.51057	19	95
KWT	Kuwait	0.51028	26	96
TON	Tonga	0.50834	21	97
JAM	Jamaica	0.50813	26	98
BHR	Bahrain	0.49624	26	99
BLZ	Belize	0.49495	26	100

FJI	Fiji	0.49419	26	101
GHA	Ghana	0.49384	26	102
MNG	Mongolia	0.48993	26	103
JOR	Jordan	0.48841	26	104
BRA	Brazil	0.4883	26	105
GEO	Georgia	0.48769	26	106
SUR	Suriname	0.48745	26	107
NIU	Niue	0.48509	9	108
ARG	Argentina	0.4798	26	109
SEN	Senegal	0.47558	26	110
MDV	Maldives	0.47413	26	111
STP	São Tomé e Príncipe	0.47046	26	112
TUN	Tunisia	0.47024	26	113
THA	Thailand	0.46874	26	114
IND	India	0.4682	26	115
LSO	Lesotho	0.46723	26	116
XKX	Kosovo	0.46587	17	117
BEN	Benin	0.46513	26	118
MKD	North Macedonia	0.46328	26	119
TUR	Türkiye	0.46274	26	120
ARM	Armenia	0.46271	26	121
GUY	Guyana	0.46137	26	122
PER	Peru	0.45978	26	123
MEX	Mexico	0.45905	26	124
ALB	Albania	0.45784	26	125
DOM	Dominican Republic	0.45592	26	126
SLV	El Salvador	0.45439	26	127
LKA	Sri Lanka	0.45237	26	128
MAR	Morocco	0.45157	26	129
SLB	Solomon Islands	0.45034	21	130
SRB	Serbia	0.44968	26	131
MDA	Moldova	0.44961	26	132
SAU	Saudi Arabia	0.44501	26	133
PHL	Philippines	0.44261	26	134
RWA	Rwanda	0.43765	26	135

ZMB	Zambia	0.43727	26	136
IDN	Indonesia	0.43635	26	137
COL	Colombia	0.43625	26	138
BIH	Bosnia and Herzegovina	0.43614	26	139
MWI	Malawi	0.43558	26	140
BFA	Burkina Faso	0.43057	26	141
TZA	Tanzania	0.43043	26	142
VNM	Viet Nam	0.43012	26	143
GMB	Gambia, The	0.42692	26	144
CHN	China	0.42521	26	145
BOL	Bolivia	0.4218	26	146
KAZ	Kazakhstan	0.4194	26	147
SWZ	Eswatini	0.41824	26	148
TLS	Timor-Leste	0.41549	23	149
MDG	Madagascar	0.41508	26	150
ECU	Ecuador	0.41485	26	151
PRY	Paraguay	0.41365	26	152
MOZ	Mozambique	0.41204	26	153
PNG	Papua New Guinea	0.40917	26	154
GAB	Gabon	0.40733	26	155
UKR	Ukraine	0.40511	26	156
CUB	Cuba	0.40472	26	157
GTM	Guatemala	0.40238	26	158
MLI	Mali	0.40046	26	159
UGA	Uganda	0.39975	26	160
MRT	Mauritania	0.39885	26	161
NER	Niger	0.39862	26	162
EGY	Egypt, Arab Rep.	0.39799	26	163
KEN	Kenya	0.39731	26	164
LBN	Lebanon	0.39659	26	165
NIC	Nicaragua	0.39497	26	166
HND	Honduras	0.39452	26	167
RUS	Russian Federation	0.39406	26	168
NPL	Nepal	0.39287	26	169
KGZ	Kyrgyz Republic	0.38978	26	170

BLR	Belarus	0.3885	26	171
DJI	Djibouti	0.3885	26	172
AZE	Azerbaijan	0.38817	26	173
PSE	West Bank and Gaza	0.38481	26	174
SLE	Sierra Leone	0.38107	26	175
DZA	Algeria	0.38043	26	176
KHM	Cambodia	0.37213	26	177
TGO	Togo	0.37126	26	178
LAO	Lao PDR	0.37091	26	179
CIV	Côte d'Ivoire	0.37067	26	180
BGD	Bangladesh	0.362	26	181
ETH	Ethiopia	0.35876	26	182
COM	Comoros	0.35798	26	183
LBR	Liberia	0.35649	26	184
CMR	Cameroon	0.35498	26	185
IRN	Iran, Islamic Rep.	0.35372	26	186
PAK	Pakistan	0.34612	26	187
GNB	Guinea-Bissau	0.34332	26	188
COG	Congo, Rep.	0.33924	26	189
GIN	Guinea	0.3392	26	190
TJK	Tajikistan	0.3383	26	191
UZB	Uzbekistan	0.33716	26	192
AGO	Angola	0.33628	26	193
NGA	Nigeria	0.33339	26	194
BDI	Burundi	0.31424	26	195
GNQ	Equatorial Guinea	0.3128	26	196
HTI	Haiti	0.31156	26	197
TCD	Chad	0.31043	26	198
TKM	Turkmenistan	0.30998	26	199
VEN	Venezuela, (Bolivarian Republic of)	0.30717	26	200
ZWE	Zimbabwe	0.30608	26	201
SYR	Syrian Arab Republic	0.29717	26	202
LBY	Libya	0.29545	26	203
ERI	Eritrea	0.29525	26	204
CAF	Central African Republic	0.29454	26	205

Governance: hard to build, easy to erode

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

YEM	Yemen, Rep.	0.29082	26	206
MMR	Myanmar	0.28598	26	207
PRK	Korea, Dem. People's Rep.	0.28064	26	208
IRQ	Iraq	0.2801	26	209
SDN	Sudan	0.27203	26	210
COD	Congo, Dem. Rep.	0.26288	26	211
AFG	Afghanistan	0.24356	26	212
SSD	South Sudan	0.23679	14	213
SOM	Federal Republic of Somalia	0.19994	26	214

Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), Accessed on 12/15/2025.

Table A2. GCI 2024

Country code	Country	Rank	Governance rank by pillar			GCI	GCI class
			Political	Economic	Institutional		
DNK	Denmark	1	0.6856	0.7745	0.8063	0.7555	Sound
FIN	Finland	2	0.6880	0.7700	0.8009	0.7530	Sound
LUX	Luxembourg	3	0.6943	0.7769	0.7696	0.7469	Sound
NOR	Norway	4	0.6985	0.7509	0.7793	0.7429	Sound
NZL	New Zealand	5	0.7018	0.7638	0.7566	0.7408	Sound
CHE	Switzerland	6	0.6857	0.7579	0.7692	0.7376	Sound
LIE	Liechtenstein	7	0.7076	0.7306	0.7488	0.7290	Sound
SWE	Sweden	8	0.6617	0.7461	0.7637	0.7238	Sound
AUS	Australia	9	0.6627	0.7522	0.7368	0.7172	Sound
NLD	Netherlands	10	0.6428	0.7481	0.7582	0.7164	Sound
ISL	Iceland	11	0.6877	0.7122	0.7468	0.7156	Sound
SGP	Singapore	12	0.5845	0.8151	0.7418	0.7138	Sound
IRL	Ireland	13	0.6644	0.7432	0.7260	0.7112	Sound
GRL	Greenland	14	0.6888	0.7039	0.7183	0.7037	Sound
JPN	Japan	15	0.6607	0.7421	0.7048	0.7026	Sound
CAN	Canada	16	0.6469	0.7224	0.7208	0.6967	Satisfactory
DEU	Germany	17	0.6141	0.7174	0.7427	0.6914	Satisfactory
MCO	Monaco	18	0.6476	0.7013	0.7240	0.6910	Satisfactory
EST	Estonia	19	0.6490	0.6924	0.7253	0.6889	Satisfactory
JEY	Jersey, Channel Islands	20	0.7036	0.6673	0.6879	0.6863	Satisfactory
AUT	Austria	21	0.6321	0.7046	0.7118	0.6828	Satisfactory
TWN	Taiwan, China	22	0.6385	0.6992	0.6765	0.6714	Satisfactory
ADO	Andorra	23	0.6645	0.6615	0.6845	0.6702	Satisfactory
LTU	Lithuania	24	0.6541	0.6780	0.6685	0.6669	Satisfactory
GBR	United Kingdom	25	0.6068	0.6922	0.6983	0.6658	Satisfactory
CZE	Czechia	26	0.6587	0.6721	0.6511	0.6606	Satisfactory
SMR	San Marino	27	0.6870	0.6259	0.6667	0.6599	Satisfactory
BEL	Belgium	28	0.6077	0.6742	0.6964	0.6594	Satisfactory
URY	Uruguay	29	0.6790	0.5955	0.6758	0.6501	Satisfactory
HKG	Hong Kong, China	30	0.5177	0.7412	0.6765	0.6451	Satisfactory
CYM	Cayman Islands	31	0.6718	0.6613	0.6023	0.6451	Satisfactory
ABW	Aruba	32	0.6629	0.6165	0.6487	0.6427	Satisfactory

GUM	Guam	33	0.6548	0.6155	0.6578	0.6427	Satisfactory
KOR	Korea, Rep.	34	0.6032	0.6778	0.6402	0.6404	Satisfactory
GUF	French Guiana	35	0.5966	0.6674	0.6526	0.6388	Satisfactory
ASM	American Samoa	36	0.6556	0.5822	0.6616	0.6331	Satisfactory
USA	United States	37	0.5521	0.6937	0.6463	0.6307	Satisfactory
LVA	Latvia	38	0.6238	0.6311	0.6366	0.6305	Satisfactory
PRT	Portugal	39	0.6266	0.6204	0.6352	0.6274	Satisfactory
FRA	France	40	0.5560	0.6676	0.6567	0.6268	Satisfactory
SVN	Slovenia	41	0.6265	0.6345	0.6177	0.6262	Satisfactory
BRB	Barbados	42	0.6616	0.5745	0.6385	0.6249	Satisfactory
MAC	Macao, China	43	0.5755	0.6774	0.6015	0.6181	Satisfactory
CHL	Chile	44	0.5763	0.6245	0.6276	0.6095	Satisfactory
ESP	Spain	45	0.5760	0.6227	0.6174	0.6054	Satisfactory
PLW	Palau	46	0.6624	0.5340	0.6179	0.6048	Satisfactory
BTN	Bhutan	47	0.6217	0.5328	0.6598	0.6048	Satisfactory
SYC	Seychelles	48	0.6104	0.5724	0.6289	0.6039	Satisfactory
CRI	Costa Rica	49	0.6561	0.5617	0.5926	0.6034	Satisfactory
WSM	Samoa	50	0.6514	0.5224	0.6238	0.5992	Satisfactory
CYP	Cyprus	51	0.5899	0.6149	0.5872	0.5973	Satisfactory
POL	Poland	52	0.5891	0.5971	0.5977	0.5946	Satisfactory
ITA	Italy	53	0.5958	0.6022	0.5837	0.5939	Satisfactory
MUS	Mauritius	54	0.5820	0.6217	0.5695	0.5911	Satisfactory
MLT	Malta	55	0.6233	0.5795	0.5701	0.5909	Satisfactory
ARE	United Arab Emirates	56	0.4813	0.6703	0.6172	0.5896	Satisfactory
COK	Cook Islands	57	0.6252	0.5409	0.5967	0.5876	Satisfactory
BRN	Brunei Darussalam	58	0.5091	0.6230	0.6252	0.5858	Satisfactory
BHS	Bahamas, The	59	0.6134	0.5399	0.6019	0.5851	Satisfactory
ATG	Antigua and Barbuda	60	0.6119	0.5759	0.5628	0.5835	Satisfactory
KNA	St. Kitts and Nevis	61	0.5971	0.5835	0.5668	0.5825	Satisfactory
CPV	Cabo Verde	62	0.6115	0.5322	0.5964	0.5800	Satisfactory
TUV	Tuvalu	63	0.6895	0.4214	0.6269	0.5793	Satisfactory
SVK	Slovak Republic	64	0.6114	0.5756	0.5470	0.5780	Satisfactory
QAT	Qatar	65	0.4809	0.6499	0.5959	0.5756	Satisfactory
VCT	St. Vincent and the Grenadines	66	0.6089	0.5266	0.5860	0.5738	Satisfactory
FSM	Micronesia, Fed. Sts.	67	0.6703	0.4303	0.6201	0.5735	Satisfactory

BWA	Botswana	68	0.5925	0.5585	0.5669	0.5726	Satisfactory
LCA	St. Lucia	69	0.6171	0.5321	0.5680	0.5724	Satisfactory
ISR	Israel	70	0.4367	0.6633	0.6035	0.5678	Satisfactory
HRV	Croatia	71	0.5878	0.5703	0.5373	0.5652	Satisfactory
DMA	Dominica	72	0.6123	0.5149	0.5664	0.5645	Satisfactory
MYS	Malaysia	73	0.5171	0.6137	0.5601	0.5637	Satisfactory
GRD	Grenada	74	0.6099	0.5050	0.5728	0.5626	Satisfactory
FJI	Fiji	75	0.5730	0.5468	0.5617	0.5605	Satisfactory
MHL	Marshall Islands	76	0.6590	0.4292	0.5867	0.5583	Satisfactory
KIR	Kiribati	77	0.6577	0.4331	0.5822	0.5577	Satisfactory
GRC	Greece	78	0.5639	0.5475	0.5427	0.5514	Satisfactory
PRI	Puerto Rico (U.S.)	79	0.5583	0.5244	0.5673	0.5500	Satisfactory
TON	Tonga	80	0.6475	0.4833	0.5152	0.5487	Satisfactory
NRU	Nauru	81	0.6206	0.4617	0.5538	0.5454	Satisfactory
OMN	Oman	82	0.4691	0.5896	0.5683	0.5423	Satisfactory
ROU	Romania	83	0.5388	0.5573	0.5278	0.5413	Satisfactory
NAM	Namibia	84	0.5629	0.5167	0.5323	0.5373	Satisfactory
HUN	Hungary	85	0.5281	0.5597	0.5164	0.5347	Satisfactory
MNE	Montenegro	86	0.5516	0.5350	0.5084	0.5317	Satisfactory
JAM	Jamaica	87	0.5687	0.5187	0.4876	0.5250	Satisfactory
GEO	Georgia	88	0.4374	0.5789	0.5376	0.5179	Satisfactory
KWT	Kuwait	89	0.4641	0.5522	0.5321	0.5161	Satisfactory
RWA	Rwanda	90	0.4531	0.5441	0.5506	0.5160	Satisfactory
NIU	Niue	91	0.6820	0.3392	0.5245	0.5152	Satisfactory
SAU	Saudi Arabia	92	0.3709	0.6067	0.5675	0.5150	Satisfactory
DOM	Dominican Republic	93	0.5558	0.5201	0.4680	0.5146	Satisfactory
VUT	Vanuatu	94	0.6024	0.4170	0.5177	0.5124	Satisfactory
BGR	Bulgaria	95	0.5179	0.5233	0.4802	0.5072	Satisfactory
BHR	Bahrain	96	0.3786	0.6102	0.5301	0.5063	Satisfactory
PAN	Panama	97	0.5503	0.5117	0.4411	0.5010	Satisfactory
GHA	Ghana	98	0.5152	0.4977	0.4897	0.5009	Satisfactory
TTO	Trinidad and Tobago	99	0.5547	0.4927	0.4492	0.4989	Unsatisfactory
ALB	Albania	100	0.5006	0.5319	0.4610	0.4978	Unsatisfactory
MKD	North Macedonia	101	0.5164	0.5163	0.4604	0.4977	Unsatisfactory
JOR	Jordan	102	0.4232	0.5351	0.5314	0.4966	Unsatisfactory

BLZ	Belize	103	0.5614	0.4581	0.4599	0.4931	Unsatisfactory
SEN	Senegal	104	0.4845	0.4983	0.4929	0.4919	Unsatisfactory
MDA	Moldova	105	0.4936	0.5146	0.4676	0.4919	Unsatisfactory
ARG	Argentina	106	0.5139	0.4954	0.4587	0.4894	Unsatisfactory
MNG	Mongolia	107	0.5387	0.4666	0.4573	0.4875	Unsatisfactory
ZAF	South Africa	108	0.4916	0.4794	0.4873	0.4861	Unsatisfactory
XKX	Kosovo	109	0.4872	0.4796	0.4850	0.4839	Unsatisfactory
SLB	Solomon Islands	110	0.5761	0.3745	0.5005	0.4837	Unsatisfactory
ARM	Armenia	111	0.4529	0.4825	0.4997	0.4784	Unsatisfactory
IND	India	112	0.4353	0.5208	0.4758	0.4773	Unsatisfactory
GUY	Guyana	113	0.5073	0.4603	0.4513	0.4730	Unsatisfactory
STP	São Tomé e Príncipe	114	0.5462	0.3848	0.4864	0.4725	Unsatisfactory
SRB	Serbia	115	0.4542	0.5129	0.4449	0.4707	Unsatisfactory
MDV	Maldives	116	0.4660	0.4674	0.4784	0.4706	Unsatisfactory
IDN	Indonesia	117	0.4429	0.5217	0.4457	0.4701	Unsatisfactory
KAZ	Kazakhstan	118	0.4198	0.5138	0.4674	0.4670	Unsatisfactory
SUR	Suriname	119	0.5373	0.4006	0.4580	0.4653	Unsatisfactory
BRA	Brazil	120	0.4817	0.4629	0.4389	0.4612	Unsatisfactory
THA	Thailand	121	0.4111	0.5256	0.4464	0.4610	Unsatisfactory
LKA	Sri Lanka	122	0.4657	0.4590	0.4540	0.4596	Unsatisfactory
TLS	Timor-Leste	123	0.5621	0.3832	0.4280	0.4578	Unsatisfactory
CHN	China	124	0.3552	0.5546	0.4625	0.4574	Unsatisfactory
BEN	Benin	125	0.4440	0.4669	0.4532	0.4547	Unsatisfactory
MAR	Morocco	126	0.4161	0.5105	0.4365	0.4544	Unsatisfactory
COL	Colombia	127	0.4271	0.4929	0.4386	0.4529	Unsatisfactory
PER	Peru	128	0.4538	0.4912	0.4121	0.4524	Unsatisfactory
PHL	Philippines	129	0.4182	0.5160	0.4178	0.4507	Unsatisfactory
VNM	Viet Nam	130	0.4145	0.4742	0.4596	0.4494	Unsatisfactory
GMB	Gambia, The	131	0.4856	0.4142	0.4479	0.4492	Unsatisfactory
LSO	Lesotho	132	0.4704	0.4190	0.4493	0.4462	Unsatisfactory
PRY	Paraguay	133	0.4840	0.4643	0.3838	0.4441	Unsatisfactory
SLV	El Salvador	134	0.4405	0.4743	0.4077	0.4409	Unsatisfactory
ZMB	Zambia	135	0.4632	0.4318	0.4272	0.4407	Unsatisfactory
MWI	Malawi	136	0.4646	0.4063	0.4418	0.4375	Unsatisfactory
TZA	Tanzania	137	0.4257	0.4405	0.4416	0.4359	Unsatisfactory

BIH	Bosnia and Herzegovina	138	0.4359	0.4291	0.4404	0.4351	Unsatisfactory
AZE	Azerbaijan	139	0.3699	0.5215	0.4094	0.4336	Unsatisfactory
CIV	Côte d'Ivoire	140	0.3953	0.4654	0.4378	0.4329	Unsatisfactory
TUN	Tunisia	141	0.3847	0.4549	0.4581	0.4326	Unsatisfactory
UKR	Ukraine	142	0.4606	0.4352	0.4005	0.4321	Unsatisfactory
NPL	Nepal	143	0.4654	0.3967	0.4325	0.4315	Unsatisfactory
UZB	Uzbekistan	144	0.4176	0.4513	0.3992	0.4227	Unsatisfactory
ECU	Ecuador	145	0.4388	0.4371	0.3754	0.4171	Unsatisfactory
MEX	Mexico	146	0.4239	0.4703	0.3500	0.4147	Unsatisfactory
KEN	Kenya	147	0.3710	0.4549	0.4088	0.4116	Unsatisfactory
TUR	Türkiye	148	0.3524	0.4798	0.3990	0.4104	Unsatisfactory
GTM	Guatemala	149	0.4510	0.4107	0.3635	0.4084	Unsatisfactory
CUB	Cuba	150	0.4168	0.3688	0.4384	0.4080	Unsatisfactory
PNG	Papua New Guinea	151	0.4293	0.3922	0.4019	0.4078	Unsatisfactory
DZA	Algeria	152	0.3747	0.4268	0.4078	0.4031	Unsatisfactory
LAO	Lao PDR	153	0.4099	0.4130	0.3766	0.3998	Unsatisfactory
TGO	Togo	154	0.3726	0.4126	0.4074	0.3975	Unsatisfactory
LBR	Liberia	155	0.4756	0.3497	0.3630	0.3961	Unsatisfactory
SLE	Sierra Leone	156	0.4312	0.3552	0.3898	0.3921	Unsatisfactory
MDG	Madagascar	157	0.4135	0.3848	0.3647	0.3877	Unsatisfactory
GAB	Gabon	158	0.4038	0.4077	0.3502	0.3872	Unsatisfactory
UGA	Uganda	159	0.3546	0.4374	0.3665	0.3862	Unsatisfactory
KGZ	Kyrgyz Republic	160	0.4062	0.3987	0.3517	0.3855	Unsatisfactory
EGY	Egypt, Arab Rep.	161	0.3127	0.4565	0.3872	0.3855	Unsatisfactory
MRT	Mauritania	162	0.3931	0.3915	0.3716	0.3854	Unsatisfactory
HND	Honduras	163	0.4128	0.4109	0.3270	0.3835	Unsatisfactory
AGO	Angola	164	0.3818	0.3887	0.3699	0.3801	Unsatisfactory
KHM	Cambodia	165	0.3681	0.4333	0.3363	0.3792	Unsatisfactory
DJI	Djibouti	166	0.3681	0.4031	0.3641	0.3784	Unsatisfactory
BOL	Bolivia	167	0.4295	0.3639	0.3376	0.3770	Unsatisfactory
SWZ	Eswatini	168	0.3487	0.3985	0.3825	0.3765	Unsatisfactory
BFA	Burkina Faso	169	0.2872	0.3992	0.4164	0.3676	Unsatisfactory
RUS	Russian Federation	170	0.3318	0.3972	0.3532	0.3607	Unsatisfactory
TJK	Tajikistan	171	0.3496	0.4027	0.3285	0.3603	Unsatisfactory
NER	Niger	172	0.2994	0.3906	0.3877	0.3592	Unsatisfactory

BLR	Belarus	173	0.3396	0.3599	0.3679	0.3558	Unsatisfactory
ETH	Ethiopia	174	0.2728	0.3941	0.3914	0.3528	Unsatisfactory
BGD	Bangladesh	175	0.3118	0.3872	0.3526	0.3505	Unsatisfactory
COM	Comoros	176	0.3890	0.3245	0.3377	0.3504	Unsatisfactory
GIN	Guinea	177	0.3393	0.3729	0.3341	0.3487	Unsatisfactory
PSE	West Bank and Gaza	178	0.2672	0.3855	0.3874	0.3467	Unsatisfactory
GNB	Guinea-Bissau	179	0.4000	0.3170	0.3156	0.3442	Unsatisfactory
COG	Congo, Rep.	180	0.3802	0.3384	0.3136	0.3441	Unsatisfactory
MOZ	Mozambique	181	0.2978	0.3943	0.3387	0.3436	Unsatisfactory
LBN	Lebanon	182	0.3427	0.3506	0.3290	0.3407	Unsatisfactory
NGA	Nigeria	183	0.2911	0.3819	0.3484	0.3405	Unsatisfactory
PAK	Pakistan	184	0.2616	0.4003	0.3512	0.3377	Unsatisfactory
CMR	Cameroon	185	0.2993	0.3907	0.3230	0.3377	Unsatisfactory
ZWE	Zimbabwe	186	0.3369	0.3450	0.3241	0.3354	Unsatisfactory
NIC	Nicaragua	187	0.3534	0.3540	0.2817	0.3297	Unsatisfactory
BDI	Burundi	188	0.2950	0.3697	0.3023	0.3223	Unsatisfactory
GNQ	Equatorial Guinea	189	0.3488	0.3152	0.2847	0.3162	Unsatisfactory
IRN	Iran, Islamic Rep.	190	0.2764	0.3367	0.3298	0.3143	Unsatisfactory
TKM	Turkmenistan	191	0.3337	0.3004	0.3063	0.3135	Unsatisfactory
IRQ	Iraq	192	0.2695	0.3476	0.3167	0.3113	Unsatisfactory
MLI	Mali	193	0.2166	0.3516	0.3517	0.3066	Unsatisfactory
TCD	Chad	194	0.2638	0.3437	0.2974	0.3016	Unsatisfactory
PRK	Korea, Dem. People's Rep.	195	0.3435	0.2719	0.2798	0.2984	Unsound
CAF	Central African Republic	196	0.2729	0.2960	0.2825	0.2838	Unsound
HTI	Haiti	197	0.3238	0.2484	0.2754	0.2825	Unsound
COD	Congo, Dem. Rep.	198	0.2538	0.2858	0.2755	0.2717	Unsound
LBY	Libya	199	0.2661	0.2734	0.2691	0.2695	Unsound
MMR	Myanmar	200	0.1989	0.2871	0.2783	0.2548	Unsound
ERI	Eritrea	201	0.2626	0.2472	0.2543	0.2547	Unsound
SDN	Sudan	202	0.2206	0.2529	0.2616	0.2451	Unsound
VEN	Venezuela, (Bolivaria Republic of)	203	0.2458	0.2575	0.2249	0.2427	Unsound
AFG	Afghanistan	204	0.1890	0.2504	0.2645	0.2346	Unsound
SYR	Syrian Arab Republic	205	0.1954	0.2367	0.2488	0.2270	Unsound
SSD	South Sudan	206	0.2569	0.2062	0.2115	0.2249	Unsound
SOM	Federal Republic of Somalia	207	0.2204	0.2368	0.2128	0.2233	Unsound
YEM	Yemen, Rep.	208	0.1661	0.2522	0.2466	0.2216	Unsound

Table A3. Countries changing governance band between 1996 and 2024

Country	GCI class in 1996	GCI class in 2024	Direction
Angola	Unsound	Unsatisfactory	Improved
Argentina	Satisfactory	Unsatisfactory	Declined
Austria	Sound	Satisfactory	Declined
Bahrain	Unsatisfactory	Satisfactory	Improved
Belize	Satisfactory	Unsatisfactory	Declined
Bhutan	Unsatisfactory	Satisfactory	Improved
Bulgaria	Unsatisfactory	Satisfactory	Improved
Burundi	Unsound	Unsatisfactory	Improved
Canada	Sound	Satisfactory	Declined
Central African Republic	Unsatisfactory	Unsound	Declined
Croatia	Unsatisfactory	Satisfactory	Improved
Dominican Republic	Unsatisfactory	Satisfactory	Improved
Eritrea	Unsatisfactory	Unsound	Declined
Georgia	Unsatisfactory	Satisfactory	Improved
Germany	Sound	Satisfactory	Declined
Ghana	Unsatisfactory	Satisfactory	Improved
Guinea-Bissau	Unsound	Unsatisfactory	Improved
Haiti	Unsatisfactory	Unsound	Declined
Iceland	Satisfactory	Sound	Improved
Iraq	Unsound	Unsatisfactory	Improved
Jamaica	Unsatisfactory	Satisfactory	Improved
Japan	Satisfactory	Sound	Improved
Liberia	Unsound	Unsatisfactory	Improved
Libya	Unsatisfactory	Unsound	Declined
Liechtenstein	Satisfactory	Sound	Improved
Maldives	Satisfactory	Unsatisfactory	Declined
Mongolia	Satisfactory	Unsatisfactory	Declined
Panama	Unsatisfactory	Satisfactory	Improved
Qatar	Unsatisfactory	Satisfactory	Improved
Romania	Unsatisfactory	Satisfactory	Improved
Rwanda	Unsound	Satisfactory	Improved
Saudi Arabia	Unsatisfactory	Satisfactory	Improved
Sierra Leone	Unsound	Unsatisfactory	Improved

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South Africa	Satisfactory	Unsatisfactory	Declined
Syrian Arab Republic	Unsatisfactory	Unsound	Declined
São Tomé e Príncipe	Satisfactory	Unsatisfactory	Declined
Tajikistan	Unsound	Unsatisfactory	Improved
Thailand	Satisfactory	Unsatisfactory	Declined
Trinidad and Tobago	Satisfactory	Unsatisfactory	Declined
United Kingdom	Sound	Satisfactory	Declined
United States	Sound	Satisfactory	Declined
Venezuela, (Bolivarian Republic of)	Unsatisfactory	Unsound	Declined
Yemen, Rep.	Unsatisfactory	Unsound	Declined

Source: ILO calculations based on Worldwide Governance Indicators, 2025 Revision, World Bank (www.govindicators.org), Accessed on 12/15/2025.

► The framework for measuring governance quality

The empirical strategy builds on the composite governance index proposed by Scalamonti (2025), which aggregates the Worldwide Governance Indicators (WGI) into political, economic, and institutional pillars using geometric means and combines them into an overall Governance Climate Index (GCI). This choice reflects the objective of ensuring conceptual coherence and comparability with existing work, rather than introducing an alternative aggregation scheme. The focus of the analysis is therefore not the construction of the index itself, but its use as an analytical device to study long-run governance dynamics, regime persistence, and transitions across governance bands.

We begin with the official WGI dataset, which provides annual governance scores for six dimensions: voice and accountability (VA), political stability/absence of violence (PV), government effectiveness (GE), regulatory quality (RQ), rule of law (RL), and control of corruption (CC). We use the continuous “estimate” score rather than percentiles. All country–year observations with valid estimates are retained, covering approximately 1996 onwards (Scalamonti, 2025).

To prepare the data, we structured it so that each country–year contains the six WGI indicators side by side. In rare cases where multiple observations existed for the same country–year–indicator, we averaged them. This ensured a clean and consistent panel suitable for index construction.

We then transformed all six indicators from their original scale (roughly -2.5 to $+2.5$) to a 0–1 range using a linear transformation (Scalamonti, 2025). This step ensures non-negativity for the geometric mean, enhances interpretability, and maintains comparability across indicators. Moreover, the six indicators are organised into three pillars that reflect distinct but complementary dimensions of governance:

- Political governance: VA and PV
- Economic governance: GE and RQ
- Institutional governance: RL and CC

Within each pillar, we applied the geometric mean, which is non-compensatory. This means that very poor performance on one component cannot be fully offset by high performance on the other, reflecting the idea that both elements of a pillar are essential. Mathematically, for each pillar we compute the square root of the product of the two normalised indicators.

To obtain the overall Governance Climate Index, we then followed Scalamonti’s second-tier aggregation rule and took the arithmetic mean of the three pillars. This allows for limited compensation across pillars: a country may perform better in one broad area while lagging in another, but extreme imbalances are still penalised because each pillar was itself non-compensatory. We calculate the GCI only when all three pillars are present for a given country–year to maintain internal consistency.

To make the index more accessible for policymakers, we classify each country–year into four qualitative categories (Scalamonti, 2025):

- Unsound (<0.30)
- Unsatisfactory ($0.30\text{--}0.50$)
- Satisfactory ($0.50\text{--}0.70$)
- Sound (≥ 0.70)

These categories allow for quick, intuitive assessment while retaining the detail of the continuous index.

4. Finally, we produce three outputs essential for analysis:
5. A full country–year panel containing the three pillars, the overall GCI, and the qualitative classification.
6. A latest-year GCI ranking, which highlights the most recent governance performance across countries.

A long-run average GCI ranking, which captures sustained governance quality over time and reduces year-to-year volatility.

In addition to the descriptive analysis of the governance climate index, we conduct econometric analysis to quantify the relationship between governance quality and foreign direct investment.

► Econometric Specification and Diagnostics

A. This annex details the econometric methodology, data transformations, and diagnostic checks conducted for the regression analysis presented in Section 2.5.

A. Regression Specification

The relationship between FDI and governance was estimated using a pooled Ordinary Least Squares (OLS) model with year and region fixed effects. The specification is as follows:

$$IHS(FDI)_{it} = \alpha + \beta GCI_{it} + \gamma_t + \delta_r + \varepsilon_{it}$$

Where:

$IHS(FDI)_{it}$ is the inverse hyperbolic sine of FDI as a percentage of GDP for country i at time t .

GCI_{it} is the governance climate index for country i at time t .

γ_t represents year fixed effects, which control for global time trends and common shocks affecting all countries in a given year (e.g., global financial crises, commodity price fluctuations).

δ_r represents region fixed effects, which control for time-invariant regional characteristics that may influence FDI flows (e.g., geographic proximity to major markets, regional trade agreements).

α is the intercept (constant).

β is the coefficient of interest, measuring the effect of GCI on FDI after controlling for year and region effects.

ε_{it} is the error term.

- A. The inclusion of year and region fixed effects ensures that the estimated relationship between governance and FDI is not confounded by global time trends or systematic regional differences.

B. Data Treatment and Transformations

- ▶ Several econometric issues were identified during the exploratory data analysis, necessitating specific treatments to ensure the validity and robustness of the regression results.
- ▶ **Non-Normality and Outliers:** The raw FDI data exhibited extreme right-skewness (18.4) and kurtosis (437.3), indicating a non-normal distribution with a high prevalence of outliers (8.8% of the sample). To address this, the Inverse Hyperbolic Sine (IHS) transformation was applied to the FDI variable. The IHS function, defined as $\ln(x + \sqrt{x^2 + 1})$, is similar to a logarithm but is defined for zero and negative values. This transformation successfully normalised the variable's distribution, reduced the influence of extreme outliers, and allowed for the inclusion of all observations, including meaningful instances of capital outflow (negative FDI).
- ▶ **Heteroscedasticity:** Diagnostic tests indicated the presence of heteroscedasticity, where the variance of the error term is not constant across observations. To correct for this without altering the model specification, Huber-White (HC1) robust standard errors were calculated. This procedure provides more accurate estimates of the coefficient's variance, leading to more reliable t-statistics and p-values.

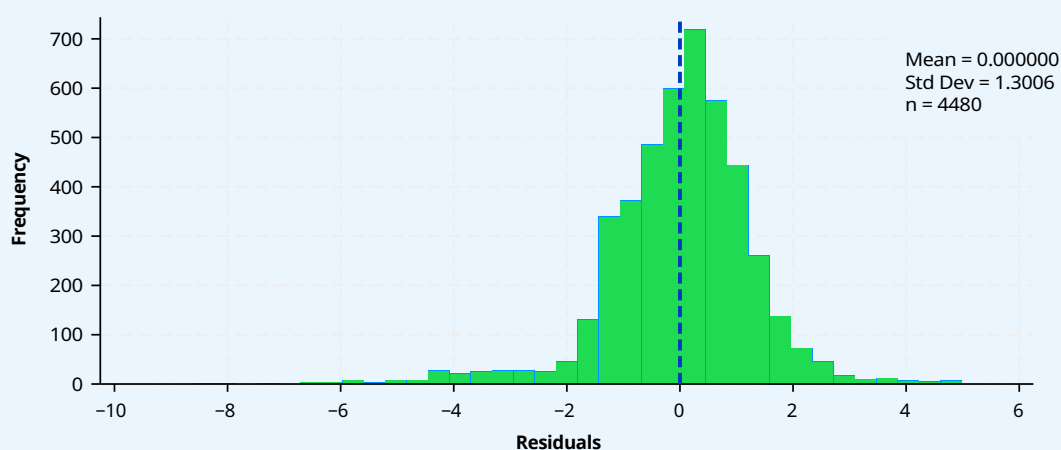
C. Sample and Data Sources

- ▶ The regression sample comprises 4,480 country-year observations covering 175 countries from 1996 to 2024. The data sources are:
- ▶ **Governance Climate Index (GCI):** Constructed from the World Bank's Worldwide Governance Indicators (Kaufmann & Kraay, 2024).
- ▶ **Foreign Direct Investment (% of GDP):** World Bank World Development Indicators
- ▶ **Region classification:** World Bank regional groupings.

D. Residual diagnostics

After fitting the multivariate model with fixed effects, the distribution of the residuals was examined to assess the model's validity. As shown in Figure below, the residuals of the IHS-transformed model are approximately normally distributed and centred around zero, confirming that the transformation effectively addressed the issues of non-normality and outliers present in the untransformed data.

▶ **Figure A1. Distribution of residuals from the IHS-transformed FDI regression model**



Source: ILO calculations based on World Development indicators and Worldwide Governance Indicators 2025 revision, World Bank (www.govindicators.org). Accessed on 12/15/2025..

The background is a solid blue color. Overlaid on this are several thin, white, straight lines that intersect to form a large, abstract geometric pattern. The lines create a series of triangles and quadrilaterals across the page, with some lines extending from the edges towards the center.

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Route des Morillons 4
1211 Geneva 22
Switzerland