

Implications of New Environmental Regulations

Business Environment Working Group

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Table of Contents

Introduction	4
Part 1: Global Trends in Environmental Legislation	5
1.1 Global Legislative Responses to Climate Change	5
1.2 The Rise of Due Diligence Legislation	6
Part II. Implications for Developing Economies	9
2.1 EU Corporate Sustainability Reporting Directive (CSRD).....	10
2.2 Corporate Sustainability Due Diligence Directive (CSDDD)	13
2.3 EU Forced Labour Product Ban (FLPB)	16
2.4 EU Deforestation Regulation (EUDR)	18
2.5 Carbon Border Adjustment Mechanism (CBAM).....	22
2.6 EU Ecodesign for Sustainable Products Regulation (ESPR).....	25
2.7 Analysis	28
Part III. Lessons Learned from Early Adaptation Processes	29
3.1 CBAM: The Case of Turkey	29
3.2 EUDR: The Case of Ivory Coast	37
3.3 Additional Country Insights on EUDR, CBAM and CSDDD	42
3.4 Summary	43
Part 4. New Environmental Regulations and Business Environment	46
4.1 Regulatory Uncertainty in the Face of Emerging Regulations	46
4.3 The Dual Challenge of Compliance Costs and Market Access	47
4.4 The New Role of Suppliers in Environmental Regulations.....	49
4.4 Digitalization of Sustainable Supply Chains.....	50
4.5 Clean Energy Strategies and Global Trade Implications	50
4.6 Unintended Consequences for SMEs	51
Part V. Recommendations for Development Partners to Advance Adaptation to New Environmental Regulations	52
5.1 Taking stock of knowledge gaps and prioritizing research topics	52
5.2 Engaging in international policy and multistakeholder fora	53
5.3 Providing country-level support.....	54
Annex 1: Due diligence legislation & guidance (global)	59

Introduction

In November 2023, the Business Environment Working Group commissioned research on the emerging regional and global environmental regulations, particularly those from the European Union. Donor and development agencies are increasingly interested in understanding how governments and firms in developing countries respond to these regulatory changes.

This report examines the evolving global landscape of environmental legislation and its implications for developing economies, focusing on key European Union directives. As the urgency to combat climate change escalates, nations are adopting various legal frameworks that impose due diligence and sustainability obligations on businesses. An [accompanying policy brief](#) is also available.

Employing a qualitative research approach, this study investigates the impact of emerging environmental regulations, in particular the EU Deforestation Regulation (EUDR), Carbon Border Adjustment Mechanism (CBAM), but also others such as EU's Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD), EU Forced Labour Product Ban (FLPB) and EU Ecodesign for Sustainable products Regulation (ESPR), on developing economies. The research methodology includes literature reviews, stakeholder interviews, and media analyses to capture diverse perspectives from a range of actors—government representatives, industry associations, multinational corporations, development partners, and local NGOs across several countries.

In particular, two in-depth case studies of Turkey and Ivory Coast illustrate the practical implications of these regulations on local economies and businesses. Additional interviews with country stakeholders, coupled with literature reviews and media scans, contextualize the findings within broader global trends in environmental legislation. The data collected is systematically analyzed to identify key patterns, challenges, and actionable recommendations. This approach ensures that the findings are firmly rooted in the perspectives of those directly impacted by the regulations.

While this study aims to provide valuable insights into the implications of new environmental regulations for developing economies, it is crucial to recognize its limitations. The rapidly changing legal landscape may cause insights to become outdated, making it challenging to draw definitive long-term conclusions. Furthermore, the qualitative nature of the research and its relatively small sample size limit the generalizability of the findings. Variability in stakeholder awareness and preparedness may also lead to biases in perceptions.

The study is structured into five distinct parts:

Part 1 focuses on global trends in environmental legislation, examining legislative responses to climate change and the increasing significance of due diligence legislation. This section lays the groundwork for understanding the motivations behind these regulations and their potential impacts on international business practices.

Part 2 delves into the specific implications of key EU directives, including the CSRD, CSDDD, EU Forced Labour Product Ban (FLPB), EU Deforestation Regulation (EUDR), Carbon Border Adjustment Mechanism (CBAM), and the EU Ecodesign for Sustainable Products Regulation (ESPR). Each regulation is scrutinized to assess its effects on developing economies and their capacity to adapt to new compliance requirements.

Part 3 highlights lessons learned from early adaptation processes in Turkey and Ivory Coast, providing insights into the challenges and successes these countries face in implementing the regulations. This section also

includes additional insights from other countries encountering similar challenges, contributing to a broader understanding of adaptation strategies.

Part 4 discusses the implications of new environmental regulations on the business environment, addressing regulatory uncertainty, compliance costs, and market access challenges. It explores the evolving role of suppliers, the digitalization of sustainable supply chains, clean energy strategies, and the unintended consequences these regulations may have on small and medium-sized enterprises (SMEs), particularly in developing countries.

Finally, **Part 5** presents recommendations for development partners, highlighting the need to prioritize research, engage in international policy dialogues, and provide urgent country-level support for compliance with regulations like the EUDR and CBAM. The section also emphasizes building awareness, sharing knowledge, and designing tailored policy roadmaps to address structural challenges in affected sectors, ensuring countries are prepared while promoting sustainable growth.

Part 1: Global Trends in Environmental Legislation

1.1 Global Legislative Responses to Climate Change

The world is facing an unprecedented climate, environmental degradation, and human rights crisis requiring urgent action of all stakeholders. According to the Climate Change 2023 Report by the Intergovernmental Panel on Climate Change (IPCC)¹, human-caused climate change is already affecting many weather and climate extremes in every region across the globe. Vulnerable communities who have historically contributed the least to current climate change are disproportionately affected. Moreover, a substantial gap exists between Nationally Determined Contributions (NDCs) and climate policies and the Paris Goal to limit warming to 1.5°C. The IPCC report concludes with high confidence that without urgent action in the near-term among governments, private sector and civil society, global warming will exceed 1.5°C during the 21st century, leading to dire consequences for humans.

Recognizing that climate change and environmental degradation remain an existential threat, developed countries have recently taken the lead in designing new environmental legislation. Most notably, in 2020, the EU introduced the European Green Deal², touted as the most ambitious and all-encompassing set of policies in all spheres to turn the European Union into a modern, resource-efficient and competitive economy by 2050. In 2022, the US followed suit and enacted the US Inflation Reduction Act, which also has a broad focus and aims to steer private capital towards clean energy, transportation and industry.³

¹ IPCC (2023), [Summary for Policymakers](#). In: [Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change](#)

² European Commission, [The European Green Deal](#)

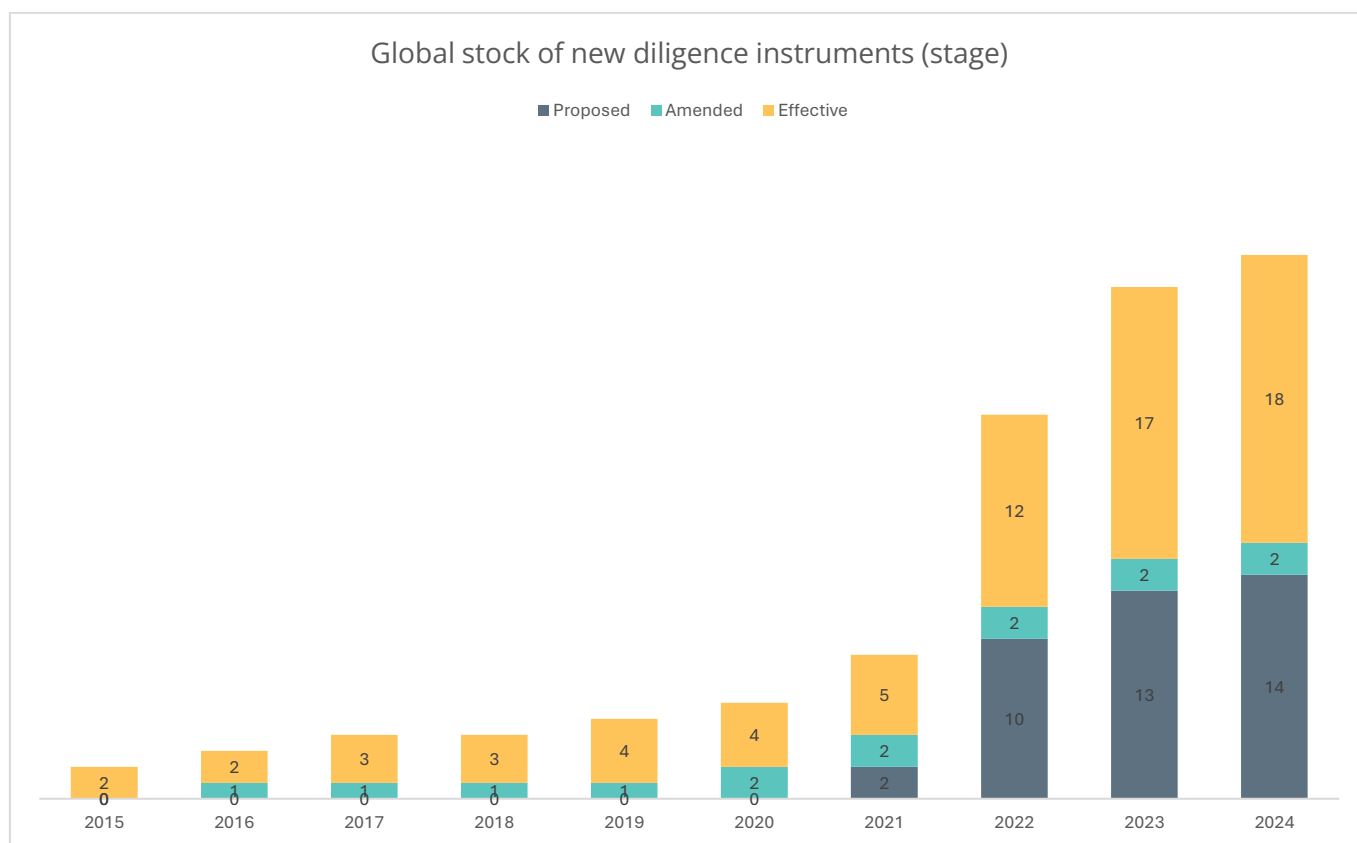
³ U.S. Department of Treasury, [Inflation Reduction Act](#)

Compared to prior regulatory efforts by nations, these policy initiatives go much beyond climate change, recognizing that achieving results must address systemic issues, such as environmental justice, conservation and biodiversity protection, circular economy, green finance and private sector accountability, to name a few.

1.2 The Rise of Due Diligence Legislation

While there have been many types of environmental legislation, one notable global development has been the introduction of due diligence legislation. Due diligence requirements introduce a responsibility for companies to undertake due diligence in order to identify, prevent, and mitigate risks for human rights in a company and its value chains. The concept has been first introduced by UN Guiding Principles on Business and Human Rights (2011)⁴ and was further refined by the OECD in its Due Diligence Guidance adopted in 2018.⁵ Between 2015-2024, 22 countries and states located in four global regions have proposed or adopted due diligence legislation or guidelines (Figure 1). Europe has introduced the highest number of such instruments, with North America and recently also Asia and Pacific following, covering all major export markets of developing countries (Figure 2). An overview of the legislation by country is included in Annex.

Figure 1 Due diligence legislation (year/stage)⁶

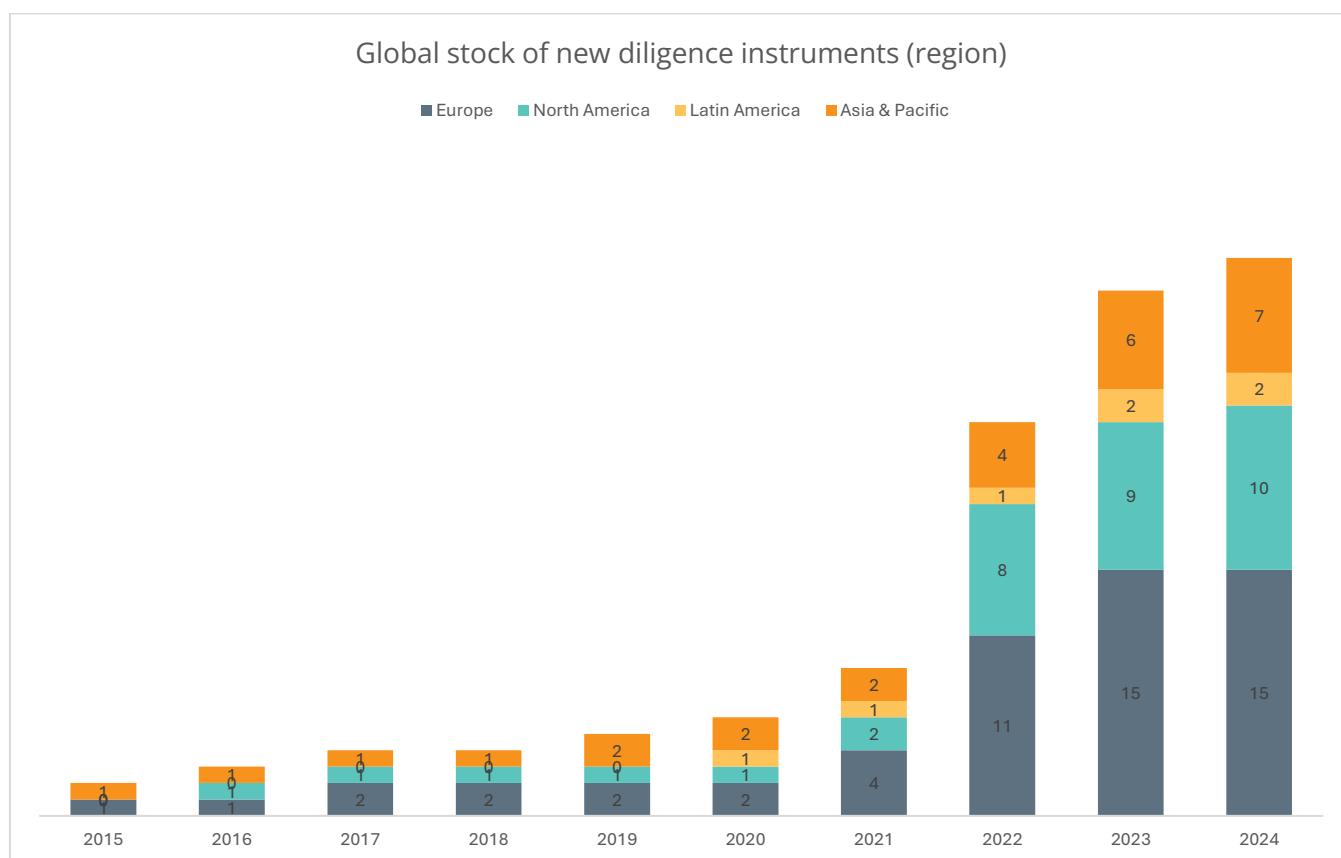


⁴ UN Office of the High Commissioner for Human Rights (2011). Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework

⁵ OECD (2018), OECD Due Diligence Guidance for Responsible Business Conduct

⁶ Author's elaboration based on multiple sources: OECD (2021), Mandatory Due Diligence, Taking Stock And Looking Forward, QIMA, Ecovadis, Plan A

Figure 2 Due diligence legislation (region)⁷



Climate and environmental provisions are becoming increasingly prominent, next to human and labour rights (Figure 3). Overall, legislation often refers to international declarations and agreements, including the OECD general and sectoral guidelines on responsible business conduct. These instruments require disclosure or changes to company conduct (Figure 4). For example, Norway's Transparency Act Companies requires large companies operating in and exporting from Norway to investigate whether there are any actual, or risks of, adverse impacts on human rights or decent working conditions in their own operations, their supply chain, and other business relationships. Companies must report their assessments publicly, take steps to remediate the findings and respond to public due diligence information requests. Other pieces of legislation only require disclosure, meaning that companies simply identify and report on risks in their value chains.⁸ California's Senate Bill 253: Climate Corporate Data Accountability Act (proposed) requires companies to report their direct and indirect greenhouse gas (GHG emissions) covering scopes 1, 2, and 3, criteria pollutants, and toxic air contaminants.⁹ The legislation often builds upon their predecessors. For instance, the EU Corporate Sustainability Reporting Directive (CSRD) expands on the Non-Financial Reporting Directive (NFRD), the EU Deforestation Regulation (EUDR) builds on the EU Timber Regulation, while the EU Carbon Border Adjustment Mechanism (CBAM) extends the carbon pricing mechanism in EU to imported goods.¹⁰

⁷ Author's elaboration based on multiple sources: [OECD \(2021\), Mandatory Due Diligence, Taking Stock And Looking Forward](#), [QIMA, Ecovadis, Plan A](#)

⁸ Government of Norway, [Norway Transparency Act](#)

⁹ California Legislative Information, [Climate Corporate Data Accountability Act](#)

¹⁰ For example, the EU Corporate Sustainability Reporting Directive expands on the Non-Financial Reporting Directive, while the EU Carbon Border Adjustment Mechanism extending the carbon pricing mechanism in EU to imported goods.

Figure 3 Due diligence legislation (topic)¹¹

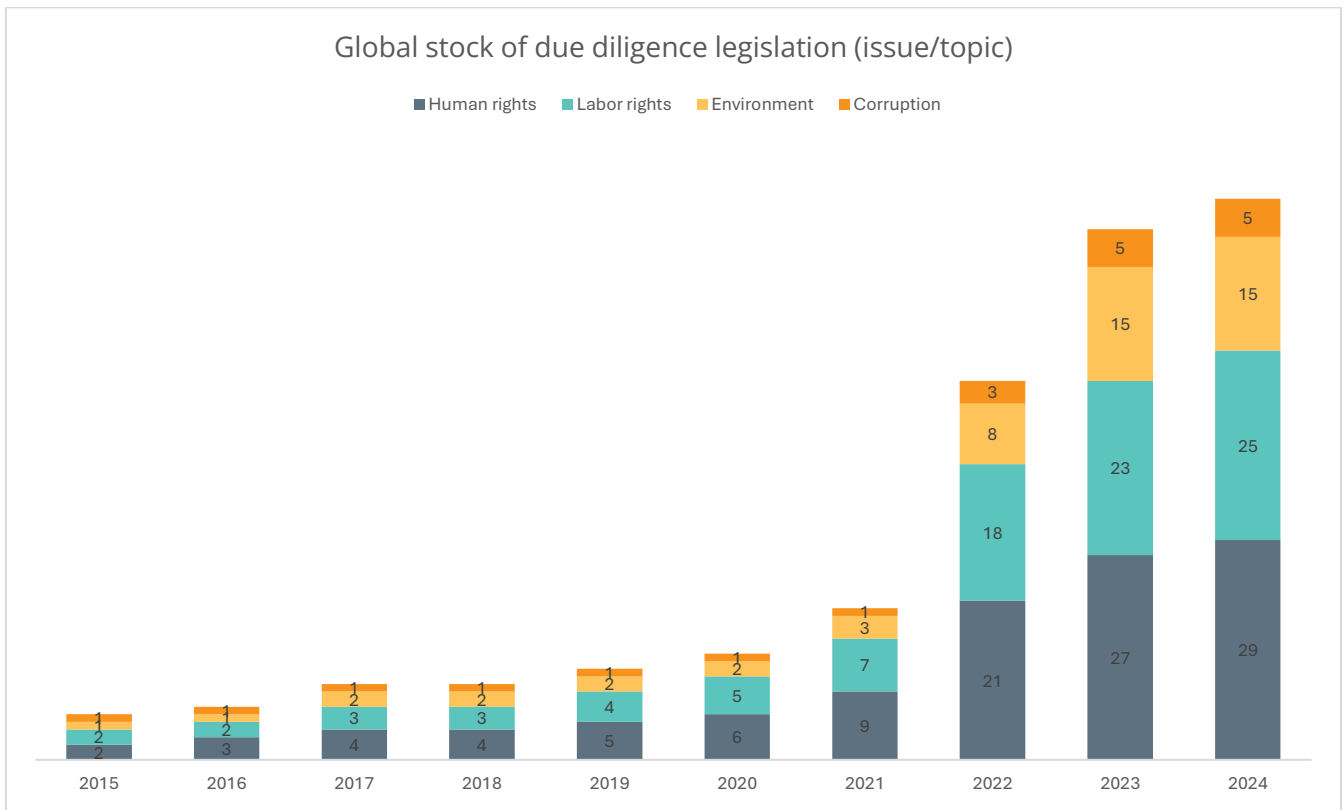
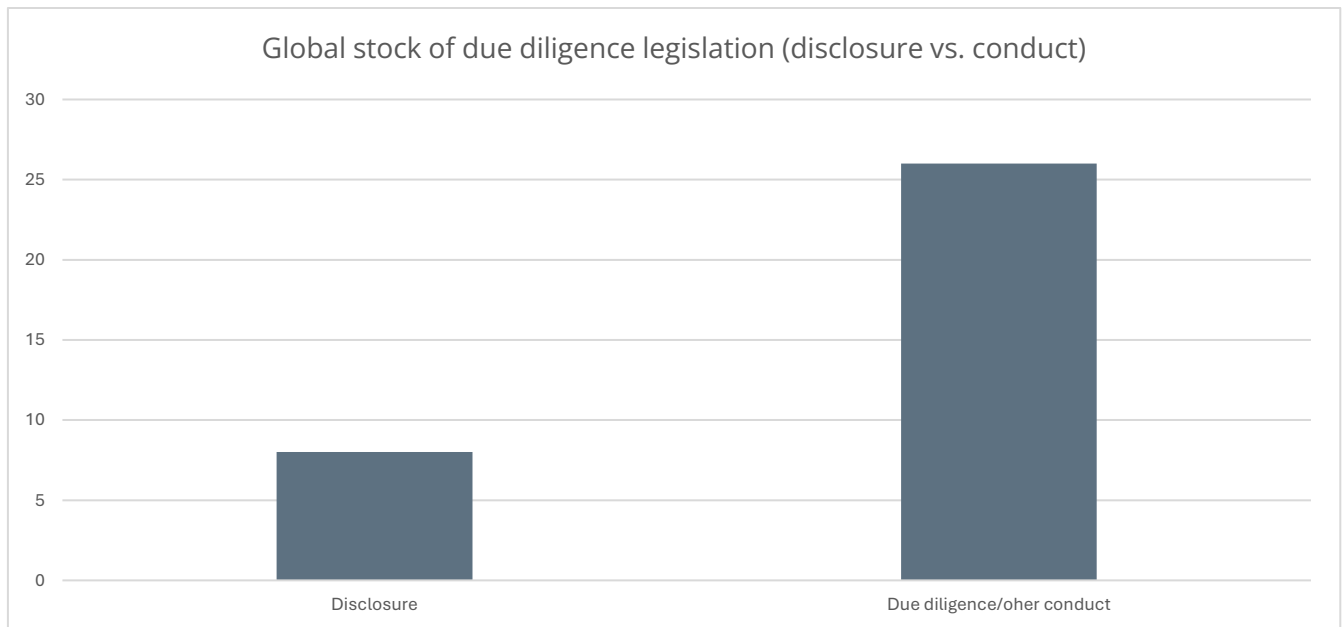


Figure 4 Due diligence legislation (type of requirements)¹²



¹¹ Author's elaboration based on multiple sources: [OECD \(2021\), Mandatory Due Diligence, Taking Stock And Looking Forward](#), [QIMA](#), [Ecovadis](#), [Plan A](#)

¹² Author's elaboration based on multiple sources: [OECD \(2021\), Mandatory Due Diligence, Taking Stock And Looking Forward](#), [QIMA](#), [Ecovadis](#), [Plan A](#)

The shift to compulsory due diligence is a result of multiple factors. First, voluntary instruments have shown limited effectiveness,¹³ prompting policymakers to move from soft to hard instruments. Second, events such as the collapse of Rana Plaza in Bangladesh have mobilized public support in buyer markets for more sustainable global value chains in the fashion sector, spilling over to other sectors as well. Third, increased investment and buyer demands for transparency and information, alongside pressure from heightened environmental commitments like the Paris Agreement, have underscored the need for rigorous standards. Additionally, some regional investment and trade agreements include environmental and social provisions, which can turn into national due diligence legislation (i.e. strong labour provisions under the United States-Mexico-Canada Agreement asking states to take measures to prohibit the importation of goods produced by forced labour¹⁴). The shift has also been catalyzed by technological advances, which have made due diligence processes easier to implement.

Mandatory due diligence entails many requirements for companies in developed and developing economies. In sum, these regulations push companies to adopt more sustainable practices, improve governance and risk management, and ensure compliance with a growing set of environmental and social standards. This requires significant resources to comply with both explicit and implicit requirements of these regulations. Small and medium-sized enterprises (SMEs), which, compared to multinational corporations (MNCs) have more limited resources for compliance, will not be left out of new requirements. For example, the CSRD foresees corporate disclosures by certain types of SMEs in the near future.¹⁵ More importantly, SMEs will be impacted through MNCs' supply chains and in some cases, as direct exporters to markets such as the EU, as will be shown in the rest of this report. In addition, some legislation introduces the possibility of civil and criminal liability and import prohibition. This means that companies will be held accountable for their actions.¹⁶

Part II. Implications for Developing Economies

Recently adopted and proposed EU instruments are likely to set a legislative precedent on a global scale. The European Green Deal has triggered a number of new legislative instruments, which seek to encourage sustainable business behaviour. They regulate companies (i.e. CSRD), the financial sector (i.e. Green Taxonomy), products (i.e. Deforestation Regulation- cocoa, coffee, wood, palm oil, rubber, cattle and soya) and systems (i.e. circular economy in case of the Batteries Regulation). Like global instruments, they also use various approaches to influence companies' behaviours, such as requiring disclosures (i.e. Corporate Sustainability Reporting Directive), or mandating due diligence (i.e. Corporate Sustainability Due Diligence Directive). Some

¹³ Torres-Cortés, F., Salinier, C., Deringer, H. et al., [Study on Due Diligence Requirements Through The Supply Chain – Final Report](#), A study for the European Commission (2020).

¹⁴ U.S. Department of Labour, [Labour Rights and the United States-Mexico-Canada Agreement \(USMCA\)](#)

¹⁵ listed SMEs, including non-EU listed SMEs have reporting obligations for financial year 2026, with first sustainability statements published in 2027. However, listed SMEs may decide to opt out of the reporting requirements for a further two years. [Directive \(EE\) 2022/2464 Of the European Parliament And of the Council of 14 December 2022 As Regards Corporate Sustainability Reporting](#)

¹⁶ For example, CSDDD, the German Supply Chain Act or the Norwegian Transparency Act include possibility of civil liability for damages and criminal liability for failure of companies to comply. In the case of CSDDD, the specific provisions are yet to be specified in EU Member State's legislative frameworks.

introduce novel green taxonomies to classify companies' activities according to sustainability contributions (i.e. Green Taxonomy) and fairly stringent import/export controls to discourage human rights violations and negative climate impacts (i.e. Conflict Minerals or Regulation on Prohibiting Products made with Forced Labour). Although each takes a slightly different angle, they all have one in common, that is that they seek to address the impacts that businesses have on the enjoyment of human rights and the environment.

The following section analyzes selected EU legislation, which will likely impact many developing countries' trade and competitiveness in the near future. The EU Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive introduce new diligence requirements, where EU-based companies will need to obtain information from their suppliers for the purpose of monitoring their value chains to avoid being party to adverse human rights or environmental impacts. The EU Forced Labour Product Ban might influence how companies conduct due diligence. The EU Deforestation Regulation, the Cross-Border Adjustment Mechanism and EU Ecodesign for Sustainable Products Regulation introduce import tax and possible market access restrictions for commodities and products not complying with them. These regulations introduce new environmental, governance, and social requirements to specific products, which are common export items of developing countries, including Least Developed Countries (LDCs). Many manufacturers and exporters in developing countries will be covered by them. Given that EU importing companies bear the responsibility of showing compliance with these new directives and regulations in the next 6 years, developing countries will urgently need to adjust.

2.1 EU Corporate Sustainability Reporting Directive (CSRD)¹⁷

Table 1 CSRD overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
EU Corporate Sustainability Reporting Directive	Reporting requirements	Comparable and reliable sustainability disclosures help investors steer investments towards more sustainable technologies and industries.	Large EU companies and listed SMEs (excluding microenterprises)	Companies have to publish annual reports on how sustainability matters impact their business and how their operations are impacting people and the environment (double-materiality principle), following the European Sustainability Reporting Standards (ESRS), and ensuring third-party assurance. Reporting requirements apply across sectors and cover entire value chains.	Effective since 2023 and to be transposed into national law by July 2024. <u>Phased roll-out based on thresholds:</u> 2024: 500+ employees (including listed non-EU companies) 2025: 250+ employees and/or a balance sheet of over 20mil. EUR and/or a net turnover of over 40mil EUR. 2027: listed SMEs and small, non-complex credit institutions

¹⁷ Directive Of The European Parliament And Of The Council Amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC And Directive 2013/34/EU, As Regards Corporate Sustainability Reporting

					2028: Non-EU companies, 150mil. EUR net turnover in the EU
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The CSRD requires all large companies meeting employee or turnover thresholds, and all listed companies (except micro-enterprises), to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment. Having entered into force in 2023, it extends the scope of its predecessor, the Non-Financial Reporting Directive (NFRD),¹⁸ and aims to ensure more detailed, reliable and comparable sustainability reporting. It adopts a “comply or explain” approach, meaning that companies must disclose the requested ESG (environmental, social, and governance) information or provide an explanation of why they are not able to do so. The directive’s phased approach expands scope over time to include SMEs and non-EU companies (Table 1 1). This will help investors redirect investment into more sustainable activities and civil society and consumers make better informed choices. About 50,000 companies fall under the scope of CSRD in the EU, compared to about 11,700 currently companies covered by NFRD.¹⁹ This accounts for 75% of all EU companies’ turnover. The first round of reports under CSRD will be by large companies in 2025 covering financial year 2024.

The European Financial Reporting Advisory Group (EFRAG) issued European Sustainability Reporting Standards (ESRS) detailing how companies should report under CSRD and the Delegated Act laying out the standards.²⁰ An overview of the standards and topics covered is provided in Table 2 and Table 3. In addition, the first set of detailed reporting requirements for cross-cutting and topical reporting requirements applicable to all companies have already been issued, while sectoral guidelines will become available during the next two years.²¹

Table 2 Structure of ESRS

Categories of ESRS	Coverage	Description
Cross-cutting standards	ESRS 1 General requirements and ESRS 2 General disclosures	Set out general requirements for preparing and presenting sustainability-related information and disclosures about governance, strategy, impact, risk and opportunity management, and metrics and targets
Topical standards	Environmental, Social and Governance standards	Include specific requirements that complement ESRS 1 and 2 in each topic
Sector-specific standards	Sector-specific standards are applicable to all undertakings within a sector.	They address impacts, risks and opportunities that are likely to be material for all undertakings in a specific sector and that are not covered, or not sufficiently covered, by topical standards

¹⁸ [Directive 2014/95/EU Of The European Parliament And Of The Council Of 22 October 2014 Amending Directive 2013/34/EU As Regards Disclosure Of Non-Financial And Diversity Information By Certain Large Undertakings And Groups Text With EEA Relevance](#)

¹⁹ European Parliament Pressroom (2022), [Sustainable Economy: Parliament Adopts New Reporting Rules for Multinationals](#)

²⁰ [Commission Delegated Regulation \(EU\) 2023/2772 Of 31 July 2023 Supplementing Directive 2013/34/EU Of The European Parliament And Of The Council As Regards Sustainability Reporting Standards](#)

²¹ [Directive 2024/1306 of the European Parliament and of the Council of 29 April 2024 amending Directive 2013/34/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertaking](#)

Table 3 Sustainability matters covered in topical standards under ESRS²²

	Environmental	Social	Governance
Topics	Climate change, pollution, water and marine resources, biodiversity and ecosystems, circular economy.	Own workforce, workers in the value chain, affected communities, consumers and end- users	Business conduct
Examples of sub-topics	Climate change adaptation and mitigation, energy, microplastics, pollution of water and air, waste, direct impact drivers of biodiversity loss	Working conditions, equal treatment and opportunities for all, rights of indigenous peoples, communities' economic, social and cultural rights	Corporate culture, protection of whistle-blowers, management of relationships with suppliers including payment practices, corruption and bribery

2.1.1 Relevance for Developing Countries

Some of the information requirements applicable to “in-scope” companies will affect suppliers in developing countries. Although the CSRD does not introduce due diligence requirements, in-scope companies will have heavy data reporting requirements related to their upstream and downstream value chains, affecting also suppliers in developing countries.

According to a study by the European Commission on the effects of the NFRD (the “lighter” predecessor of CSRD),²³ over one-third of 212 surveyed companies under the scope of the directive requested additional information from their suppliers and/or clients. This information included:

- environmental information related to (1) consumption of resources such as paper, water and energy consumption, (2) CO₂ and other GHG emissions and other climate-related information, (3) waste recycling and renewable energy usage, and (4) raw materials usage,
- human rights information related to occupational health and safety and working conditions.

Some companies reported having developed enhanced compliance procedures for their suppliers and clients such as obligation to fill out surveys and questionnaires, to adhere to supplier code of conduct, documentation of various processes, definition of key controls and local sign-off procedures. It is likely that CSRD will lead to similar or higher information requests compared to NFRD, given that it is more precise on the information and verification requirements for sustainability reporting, and also includes administrative sanctions in case of non-compliance.

In addition to suppliers, listed and large companies from outside EU operating on the EU market are within CSRD scope. Starting 2024, the CSRD will also cover non-EU companies with securities listed on an EU regulated market. From 2028, it covers non-EU companies that directly generate a net turnover of over €150 million in the EU and have a subsidiary office with a net turnover of at least €40 million in the EU, or a large or listed EU

²² CSRD, Appendix A, Article 16

²³ European Commission (2021), [Study on the Non-Financial Reporting Directive](#)

subsidiary. One estimate suggests that about 10,300 non-EU companies, affected, mostly from USA, Canada and UK, with a few companies from emerging and developing countries, such as Turkey, Indonesia and South Africa.²⁴

Table 4 Requirements of CSRD for private sector in developing countries

Explicit requirements	Implicit requirements
CSRD covers certain large non-EU companies operating on the EU market, some of which are from emerging and developing countries.	Developing country suppliers along buyers' value chains might have to collect and report environmental, social, human rights and governance data to their buyers in the EU.

2.2 Corporate Sustainability Due Diligence Directive (CSDDD)²⁵

Table 5 CSDDD overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
EU Corporate Sustainability Due Diligence Directive	Due diligence requirement	Foster sustainable and responsible corporate behaviour and anchor human rights and environmental considerations in companies' operations and corporate governance.	<p><i>Large EU and non-EU companies meeting employee/turnover thresholds:</i></p> <p><u>EU companies:</u> 1000 employees, 450 million EUR net worldwide turnover</p> <p><u>Non-EU companies:</u> EUR 450 million net turnover in the EU</p> <p><u>Companies in franchising or licensing agreements:</u> EUR 22,5 million royalties in the EU, EUR 80 million net worldwide turnover</p>	<p>Companies have a corporate due diligence duty with respect to human rights and environmental impact. They are obliged to put into effect a transition plan for climate change mitigation in line with the limiting of global warming to 1.5 °C.</p> <p>Obligations apply to companies' own operations, those of their subsidiaries and partners in companies' "chains of activities".</p>	<p>Entered into force into force in July 2024.</p> <p>Members States have two years to transpose the directive into their national law.</p> <p><u>Phased roll-out:</u></p> <p>2027: 1.5 billion EUR in turnover and over 5000 employees</p> <p>2028: 900 mil. EUR in turnover and over 3000 employees.</p> <p>2029: 450 mil. EUR in turnover over 1000 employees.</p>

²⁴ How many companies outside the EU are required to report under its sustainability rules? LSEG

²⁵ Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859 (Text with EEA relevance)

In-scope companies will have to apply due diligence measures to their own operations, those of their subsidiaries, and their direct and indirect business partners throughout their “chains of activities”.²⁶ The chain of activities covers a company’s upstream business partners related to the production of goods or the provision of services by the company, and of downstream business partners related to the distribution, transport and storage of the product.

More specifically, companies will have to undertake a comprehensive risk-based due diligence to avoid adverse impacts of their operations in line with key international instruments specifying human and environmental rights. Topics covered by due diligence are referenced in international conventions and include human rights, such as forced labour, exploitation of workers, child labour, just and favorable working conditions, fair and adequate living wages, unequal treatment in employment and the right to freedom of association, and environmental issues such as emissions, deforestation, pollution, handling of hazardous wastes and chemicals, protection of the ozone layer, pollution, use of mercury and water usage.²⁷ The Commission will issue sector-specific guidance to provide support to companies on how to fulfill their due diligence obligations in a practical manner.

The directive applies across sectors, however, the introductory text to the directive highlights the importance of large food processors and retailers adapting their purchasing practices to support living wages and incomes for their suppliers, particularly smaller agricultural operators.²⁸ The directive aims to tackle harmful purchasing practices and price pressures on producers in the sales of agricultural and food products, and thereby strengthen the position of farmers in the food supply chain. The directive will be enforced by authorities in Member States who will decide about applicable sanctions, including fines of up to 5% of companies’ net worldwide turnover and the option of civil liability for damages according to national laws.²⁹ At European level, the Commission will set up a European Network of Supervisory Authorities that will bring together representatives of the national bodies to ensure a coordinated approach. Member States will ensure that victims get compensation for damages resulting from the failure to comply with the obligations of the new proposals.

Compared to the earlier versions of the directive, its scope has been mostly narrowed down, overall lowering its ambition and impact in the short-term. In particular, the original proposal directly covered 12,800 EU companies and 4,000 non-EU companies.³⁰ The amended version covers about 5,300 EU companies, while non-EU company figures are not yet released.³¹ The latest version does not mention specific sectors, inferring a cross-sector coverage, with the exception of downstream operation of financial sectors, which have been excluded. On the other hand, companies in franchising and licensing agreements operating in the EU have been explicitly mentioned and thereby included. As for climate transition, the requirement for very large enterprises to formulate and implement a climate transition plan has been rescinded and is deemed to be fulfilled if disclosed under CSRD.

²⁶ CSDDD, Article 3

²⁷ CSDDD, Articles 5-11, Annex Part 1 & 2

²⁸ CSDDD, Paragraph 34

²⁹ CSDDD, Article 20

³⁰ European Commission (2022), [Factsheet - Just and sustainable economy: Companies to respect human rights and environment in global value chains](#)

³¹ Greta Koch, Member of European Parliament: [Webinar: An in-depth look behind the final CSDDD agreement](#). Accessed on April 20, 2024

2.2.1 Relevance for Developing Countries

CSDDD introduces due diligence requirements for very large companies' chains of activities, including upstream and downstream value chains. It will likely have a profound impact on private sector in developing countries through global value chains, especially through information requirements as well as requirements to change business practices related to sustainability.

Table 6 Requirements of CSDDD for private sector in developing countries

Explicit requirements	Implicit requirements
CSDDD covers non-EU companies with €450 million in turnover in the EU, and also those in licensing and franchising contracts reaching €22,5 million royalties in the EU and €80 million net worldwide turnover. Statistics in affected countries and companies are not yet available.	<p>Developing country suppliers along buyers' value chains might have to:</p> <ul style="list-style-type: none"> - collect and report environmental, social, human rights and governance data to their buyers in the EU - provide contractual assurances to buyers covered by the directive about their compliance with Code of Conduct and the prevention action plan³² - secure contractual assurances from their own suppliers provided that they fall under the definition of the chain of activity of the EU company³³ - make technological and other investments to ensure compliance with buyers' requirements, including in their own value chains (beyond Tier 1) - bear the risk and cost of temporary suspension of business relationship, or their permanent termination in case of incompliance/failure to deliver of prevention plan (as a last resort).³⁴

To mitigate some of the risks and burden for SMEs, including in developing countries, the directive foresees several types of support measures:

- financial and capacity building support from member states, including for upstream economic operators in third countries,³⁵
- dedicated websites, portals, or platforms on due diligence and other information,³⁶
- proportionate financial support to support compliance with their due diligence policies and other means of collaboration from companies,³⁷
- neighborhood, development and international cooperation instruments, including trade agreements, to support third country governments and upstream economic operators in third countries by the Union and Member States.³⁸

³² CSDDD, Article 7

³³ CSDDD, Article 8

³⁴ CSDDD, Article 7

³⁵ CSDDD, Article 47

³⁶ CSDDD, Article 14

³⁷ CSDDD, Article 7 & 8

³⁸ CSDDD, Paragraph 49

A recent study examines the expected impacts of CSDDD on SMEs and finds that due diligence regulations present both opportunities and challenges, and for those in developing countries in particular.³⁹ Interviewing German private sector stakeholders to examine opportunities and challenges arising from the German Supply Chain Act (as a proxy for CSDDD), it identifies expansion of customer base for sustainable and ethically-produced products, and possibly better access to green public procurement as possible opportunities for SMEs. The challenges include lack of clarity on what constitutes compliance (due to lack of clarity of some provisions), and passing of costs from larger buyer companies to smaller suppliers who have limited resources. SMEs in developing countries also lacked awareness of the supply chain regulation. The study concludes that without support, they will face significant compliance hurdles. The study findings are aligned with literature on sustainability reporting by SMEs presenting opportunities and challenges. Due diligence regulations can be associated with significant challenges for SMEs, often related to limited capability and resources to implement standards.⁴⁰ On the other hand, SMEs could some benefits from sustainability reporting, including improved reputation or better access to external capital.⁴¹

2.3 EU Forced Labour Product Ban (FLPB)⁴²

Table 7 FLPB overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
EU Forced Labour Product Ban	Import control	Improve the functioning of the internal market, while contributing to the fight against forced labour.	All EU companies, products, sectors. Companies placing or making available products on the Union market or exporting products from the Union.	Companies have implicit due diligence obligations, meaning that they should be able to show that their products are free of forced labour. Obligations apply across sectors and on all stages upstream of the product being available on the market.	Adopted by European Parliament in April 2024 and expected to enter into force in 2024. Member States have 3 years to adopt it.

FLPB seeks to end forced labour by laying down rules prohibiting all companies, including SMEs, from placing products placed on the EU market or exporting from products made with forced labour.⁴³

³⁹ Kolev-Schaefer, G., Neligan, A., [Due Diligence - Effect of Supply Chain regulation. Data-based results on the effects of the German Supply Chain Act](#), IW-Report, Nr. 8, Köln / Berlin (2024)

⁴⁰ See for example Alvarez Jaramillo, Sossa, and Orozco Mendoza (2018), [Barriers to sustainability for small and medium enterprises in the framework of sustainable development—Literature review](#), Setyaningsih et al. (2023), [Challenges and opportunities in sustainability reporting: a focus on small and medium enterprises \(SMEs\)](#), and Basit et. Al (2024), [Review of Enablers and Barriers of Sustainable Business Practices in SMEs](#)

⁴¹ See for example Send and Cowley (2013), [The Relevance of Stakeholder Theory and Social Capital Theory in the Context of CSR in SMEs: An Australian Perspective](#), or Giacomelli (2022), [EU Sustainability Taxonomy for Non-financial Undertakings: Summary Reporting Criteria and Extension to SMEs](#)

⁴² Text adopted by European Parliament, [Prohibiting Products Made With Forced Labour On The Union Market \(Resolution And Text Of The Proposal\)](#).

⁴³ FLPB, Article 1

Competent authorities bear the burden of establishing that forced labour has been used at any stage of production, manufacture, harvest or extraction of a product, including working or processing related to the product. The basis for investigation can be received from international organizations, cooperating authorities and whistle-blowers. The Commission will establish a database of forced labour risk areas or products, to provide an indicative, non-exhaustive, evidence-based, verifiable and regularly updated information of forced labour risks in specific sectors and geographies to assist national authorities and companies in investigations.⁴⁴ If a product is found to have been made using forced labour, it will be prohibited from EU market or exports, withdrawn from the market by authorities, and disposed of at the expense of the company (recycled, deemed inoperable or donated).

The regulation does not create additional due diligence obligations for companies besides those already provided by Union or national law, including in EU Conflict Minerals Regulation, the CSDDD and the Deforestation Regulation, all of which already require due diligence with respect to human rights. However, the Commission will issue guidance for companies on due diligence in relation to forced labour, including forced child labour, taking into account existing guidelines of international organizations, as well as the size and economic resources of companies, different types of suppliers along the supply chain, and different sectors.⁴⁵

2.3.1 Relevance for Developing Countries

The implications for developing countries are similar to those of CSDDD given that many companies will conduct due diligence to ensure smooth import, market placement and export of products. However, compared to CSDDD, FLPB covers companies of all sizes, including SMEs. It also prohibits placing of the product using forced labour on the EU market, which is not the case of CSDD (companies have to remedy possible violations of due diligence obligations). FLPB therefore complements CSDDD these measures with an obligation that specifically prohibits the placing of products made with the use of forced labour on the EU market.

The scale of impact will depend on which economic sectors, products and geographic areas will be classified as risky in terms of forced labour, including state-imposed forced labour. Products meeting the risk criteria will be subject to investigations by national authorities, which could have wide-ranging implications for developing country exporters and suppliers, including potential import ban for exporters, or loss of business relationships for suppliers. While the regulation covers all sectors, it is likely that some service sectors, textiles, mining and agriculture, all of which are reported to witness forced labour,⁴⁶ will be included as high-risk in the FLPB database.

⁴⁴ FLPB, Article 8

⁴⁵ FLPB, Article 11

⁴⁶ European Commission (2022), [Questions And Answers: Prohibition Of Products Made By Forced Labour In The Union Market](#).

Table 8 Requirements of FLPB for private sector in developing countries

Explicit requirements	Implicit requirements
<p>FLPB covers all economic actors placing a product on the EU market and exporting it, including developing country exporters to the EU.</p> <p>All economic operators will have to be able to provide information on whether their products embedded forced labour at any point of the value chain.⁴⁷</p>	<p>Developing country exporters and suppliers along buyers' value chains might have to:⁴⁸</p> <ul style="list-style-type: none"> - collect and report data in relation to all forms of forced labour, including forced involving vulnerable and marginalized groups in society, such as women, children, ethnic minorities etc., to Member State Authorities or their buyers in the EU - make technological and other investments to set up due diligence processes - as exporters, bear administrative cost of cost of engaging with Member State Authorities, and of loosing market access in case a case against it could not have been made - as suppliers, bear the risk or termination of business relationship in case of location on high-risk areas

In addition, the directive foresees some support measures to reduce the burden and risks for suppliers:

- support measures for SMEs, including microenterprises, and their partners in supply chains through a Forced Labour Single Portal by the Commission (specific measures are not mentioned in the regulation),⁴⁹
- information and assistance to SMEs on the application of the regulation (i.e. organizing trainings on risk indicators and how to engage with authorities during investigations)⁵⁰ by member states
- international cooperation with authorities in third countries to exchange information on forced labour, best practices to end it, in particular with countries with similar legislation. Such discussions might take place as part of sustainability provisions in trade agreements, the Generalised Scheme of Preferences, and EU development cooperation initiatives. EU may consider the development of cooperation initiatives and accompanying measures to support SMEs and civil society.⁵¹

2.4 EU Deforestation Regulation (EUDR)⁵²

Table 9 EUDR overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
EU Deforestation Regulation	Import control	Minimize EU's contribution to deforestation	All companies placing or making available	Companies have to present a due diligence statement/certificate	Entered into force in 2023. Companies have to enforce regulation from 30 December 2025 except

⁴⁷ FLPB, Article 11

⁴⁸ FLPB, Article 11

⁴⁹ FLPB, Article 10

⁵⁰ FLPB, Article 11

⁵¹ FLPB, Article 13

⁵² Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and

		and forest degradation and reduce contribution to GHG emissions and global biodiversity loss.	selected products on the EU market or exporting them from the EU.	providing complete traceability and evidence of being 'deforestation-free'. Obligations currently apply to cattle, cocoa, coffee, oil palm, rubber, soya and wood, and selected derived products (Annex I)	for microenterprises. For small and micro undertakings this period is extended until June 30, 2026. ⁵³
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The regulation seeks to ensure that products placed on the EU market or exported from it do not originate from deforested land or have not contributed to forest degradation. It covers products that contain, have been fed with or have been made using relevant commodities, namely cattle, cocoa, coffee, oil palm, rubber, soya and wood.⁵⁴ This means that it also covers derived products such as leather or chocolate.

In order for these products to be placed on or exported from the EU, they need to fulfill three criteria:⁵⁵

- be deforestation-free,
- be produced in accordance with the relevant legislation of the country of production, and
- be covered by a due diligence statement.

The regulation requires that operators and traders dealing with the above products establish stringent due diligence processes prior to placing relevant products on the market or exporting them. SMEs are excluded from these requirements provided that other non-SME operators have already undertaken due diligence and submitted a due diligence statement. Countries will be assigned a production risk level, which will determine the depth of type of due diligence requirements.

First, operators have to collect information to meet the criteria above to ensure full traceability of products (including the geolocation of all plots of land where the relevant commodities used in the product were produced, date or time range of production, information about business or person from whom they have been supplied with the relevant products) and data and evidence that the relevant products are deforestation-free and produced in accordance with the relevant country legislation (including land rights, labour rights and human rights protected under international law).⁵⁶

Second, operators have to perform a risk assessment, considering country production risk (will be assigned in December 2024), the presence of forests, situation of indigenous peoples, prevalence of deforestation or forest degradation in the country of production or parts thereof, concerns in relation to corruption, lack of law enforcement, violations of international human rights, or armed conflict and others.⁵⁷

⁵³[EU Deforestation Law: Council Agrees To Extend Application Timeline](#)

⁵⁴ EUDR, Annex I

⁵⁵ EUDR, Article 3

⁵⁶ EUDR, Article 9

⁵⁷ EUDR, Article 10

Third, operators are asked to put in place systems to mitigate and manage effectively the risks of non-compliance of relevant products identified, with the exception of cases where prior steps show negligible risk, or where products come from countries with a “low” production risk.⁵⁸

In case of failure to comply with the regulation, operators will be asked to take corrective action, which might include preventing the relevant product from being placed on the market or exported, withdrawing the product or donating it to charitable or public interest purposes or, disposing of it in accordance with EU law on waste management. Companies may face penalties for infringements up to 4 % of annual turnover and other consequences, such as prohibition from public procurement.⁵⁹

2.4.1 Relevance for Developing Countries

Similar to FPLB, the regulation prohibits imports of certain product in this case if operators fail to submit a prior due diligence statement, and covers all companies regardless of size working with the mentioned commodities. Due to concerns raised by member states, third countries, traders and operators that there was a risk that they would not be able to fully comply, the deadline for roll-out was recently postponed from December 2024 to December 2025, giving companies and operators extra time to comply.⁶⁰

The implications for developing countries are likely to be high given that the covered commodities and products are important export items for them. For example, a simulation of EUDR’s application to countries’ exports shows that the regulation will have a particularly strong impact on some developing countries in Sub-Saharan Africa, Latin America and Caribbean, and South-East Asia and Pacific.⁶¹

On the other hand, similar to FPLB, the Commission will adopt a country classification system based on risk levels. These will be assigned based on (a) rate of deforestation and forest degradation, (b) rate of expansion of agriculture land for relevant commodities and (c) production trends of relevant commodities and of relevant products.⁶² Exporters and suppliers in low-risk countries will be relieved from some due diligence as products will face simplified due diligence. However, to what extent this classification will be in favor of developing countries remains to be seen. The EU Commission will publish a list of high-risk countries in December 2024 and is required to engage in dialogue with these countries to reduce risk levels. Although the EUDR does not mandate third countries to share data, those interested can provide information at any time. This data may include agreements with the EU on deforestation, national laws and their enforcement against deforestation, availability of transparent data, protections for indigenous peoples' rights, and any relevant international sanctions imposed by the UN Security Council or the Council of the EU on specific commodities.

⁵⁸ EUDR, Article 13 and 29

⁵⁹ EUDR, Article 25

⁶⁰ [EU Deforestation Law: Council Agrees To Extend Application Timeline](#)

⁶¹ Arenas G., Echandi R. (2023), [Trade And Development Chart: Impact Of The EU Deforestation Regulation](#) (World Bank Blogs)

⁶² EUDR, Article 29

Table 10 Requirements of EUDR for private sector in developing countries

Explicit requirements	Implicit requirements
<p>EUDR covers all traders and operators placing a product on the EU market and exporting it, including developing country exporters to the EU.</p> <p>All private sector players in the value chain of the selected commodities will have to be able to provide information on whether their products are deforestation-free since 2020.⁶³</p>	<p>Developing country exporters and suppliers along buyers' value chains might have to:</p> <ul style="list-style-type: none"> - collect and report information, data and documents showing compliance with the regulation. This requirement implies the need for a full product traceability⁶⁴ - make technological and other investments to set up due diligence processes⁶⁵ - as exporters, bear administrative cost of cost of engaging with customs authorities to prove compliance⁶⁶ - as suppliers, bear the risk or termination of business relationship in case of location on high-risk areas

The European Commission has already introduced several initiatives to support partner countries in their transition to sustainable, deforestation-free supply chains. Key programs and tools include the Deforestation-Free Value Chains Initiative, an initiative of EU and Member States, which offers financial and technical support to help partner countries develop sustainable and legal agricultural value chains,⁶⁷ the EU Observatory on Deforestation,⁶⁸ a platform providing comprehensive data and tools for monitoring deforestation and forest degradation, or the Deforestation Due Diligence Statement Registry,⁶⁹ an online tool that streamlines the creation of due diligence statements. The system will be opened to all users in December 2024. The EU will offer guidelines on key issues such as agricultural use, certification, and legality, supporting both public authorities and private actors in meeting compliance requirements.

The regulation foresees some support mechanisms to evaluate and reduce the burden and risks for private sector in developing countries:

- the Commission and member states will engage in a coordinate manner with producer countries, especially high-risk ones, to jointly address the root causes of deforestation and forest degradation. It will develop a strategic framework for such engagement to facilitate partnerships and cooperation mechanisms focused on conservation, restoration and sustainable use of forests, deforestation, forest degradation, and the transition to sustainable commodity production, consumption, processing, and trade methods.⁷⁰
- by 2028, and at least every five years thereafter, review the regulation and the need for and feasibility of additional trade facilitation tools – and in particular for LDCs and high-risk countries. It will also evaluate impact on farmers, in particular smallholders, indigenous peoples and local communities and the possible need for additional support for the transition towards sustainable supply chains and for smallholders to meet the requirements of this Regulation.⁷¹

⁶³ EUDR, Article 3

⁶⁴ EUDR, Article 9

⁶⁵ EUDR, Article 10

⁶⁶ EUDR, Article 5

⁶⁷ [Fact Sheet Team Europe Initiative on Deforestation-free Value Chains](#)

⁶⁸ [EU Observatory on Deforestation and Forest Degradation](#)

⁶⁹ [The Deforestation Due Diligence Registry](#)

⁷⁰ EUDR, Article 30

⁷¹ EUDR, Article 34

2.5 Carbon Border Adjustment Mechanism (CBAM)⁷²

Table 11 CBAM overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
Carbon Border Adjustment Mechanism	Import tax	Prevent carbon leakage, level the playing-field between EU producers (subject to the EU ETS) and foreign producers. Incentivize greener policies in third-countries.	Selected imported products with high carbon intensity and risk of carbon leakage.	Importers to the EU have to declare the emissions embedded in imports and surrender the corresponding number of certificates each year (excluding carbon price already paid in a third country). Obligations apply to cement, electricity, fertilizers, iron and steel, and aluminium hydrogen, and some precursors and downstream products made from cement, iron and steel, and aluminium.	Entered into force in 2023. <u>Gradual roll-out:</u> 2023-2025 (transitional period): CBAM registration, authorization and data collection/reporting 2026 onwards: full implementation. Importation of CBAM goods allowed only for CBAM declarants. 2034: CBAM fully in place, meaning that all EU ETS products will be covered by it.

Although CBAM is not strictly a due diligence legislation, it applies to producers of CBAM goods and those whose products serve as precursors to CBAM goods. The CBAM declarant, which can be the importer or the indirect customs representative (depending on who lodges the customs declaration) have to report greenhouse gas (GHG) emissions associated with imported goods, pay a carbon price on goods entering the EU if they embed more emissions, undergo independent verification of reported emissions, coordinate with customs authorities for proper reporting and payment and continuously monitor and report emissions levels. Developing country exports of CBAM products will be significantly affected given that they are more carbon-intensive than production in the EU.

CBAM seeks to prevent carbon leakage by addressing GHG emissions embedded in selected imported goods, namely selected products in cement, electricity, fertilizers, iron and steel, aluminium and chemicals. By doing so, it creates incentives for the reduction of emissions by operators in third countries, and ensures fair competition for EU businesses by leveling carbon cost with external competitors. Starting 2026, the CBAM initially applies to imports of these goods because these sectors were selected following specific criteria, in particular their high risk of carbon leakage and high emission intensity which will eventually, which represent more than 50% of the emissions of the industry sectors covered by the ETS. In the future, the CBAM may be extended to other ETS sectors.⁷³

CBAM complements the EU Emissions Trading System (EU ETS), initiated in 2005 to combat rising GHG emissions in the EU and operating on a 'cap-and-trade' basis. CBAM applies an equivalent set of rules to imports

⁷² [Regulation \(EU\) 2023/956 Of The European Parliament And Of The Council Of 10 May 2023 Establishing A Carbon Border Adjustment Mechanism \(Text With EEA Relevance\)](#)

⁷³ [European Commission, Carbon Border Adjustment Mechanism \(CBAM\) Questions and Answers \(updated on 31 January 2024\)](#)

of the goods into the EU.⁷⁴ By aligning tariffs to the ETS, CBAM ensures that the carbon price on both domestic products and imports are aligned. It applies to imports from all third countries, except those who are already part of EU ETS (i.e. Iceland, Norway). Other third countries with a carbon pricing system are covered by the regulation, but can deduct the effective carbon prices paid outside the EU from the adjustment to avoid a double price.⁷⁵

An importer to the EU will have to apply for the status of a CBAM declarant prior to importing goods into the EU. Once implemented, CBAM declarants have to submit yearly CBAM declaration with information about quantity of relevant goods imported, the total embedded emissions, the total number of CBAM certificates to be surrendered, corresponding to the total embedded emissions and copies of verification reports, issued by accredited verifiers.⁷⁶ CBAM introduces a detailed methodology for calculating embedded emissions in imported goods.⁷⁷ Depending on the carbon intensity of goods vis-à-vis competition, they will be mandated to purchase carbon credits according to the actual prices on EU ETS.

The Commission will establish a Transitional CBAM registry, which is an electronic database containing the data regarding the CBAM certificates of those authorized CBAM declarants, including data on certificate transactions (surrender, purchase, etc).⁷⁸ The Registry will collect the information reported during the transitional period, forming a basis for the development and establishment of the CBAM Registry pursuant to Article 14 of Regulation (EU) 2023/956. Member States will play a central role in implementation and enforcement, and conduct registration, certificate issuance, and verification of CBAM declarations.

The Commission will undertake a review of CBAM at the end of the transitional period and is likely to extend the list of products, as well as extend the obligation to report indirect emissions⁷⁹ for all products, including iron, steel and aluminium (currently covering only direct⁸⁰ emissions).⁸¹

2.5.1 Relevance for Developing Countries

The implications for countries exporting a high share of carbon intensive products into the EU are likely to be high, including for developing countries. Exporters will need to assess to what extent they are able to compete with producers on the EU market who are already paying carbon tax under EU ETS. Similar to FLPB and EUDR, importation of covered is subject to authorization.

Recent research by World Bank has developed a CBAM exposure index⁸², which calculates the effect of the CBAM policy on countries' competitiveness on the EU market. Accordingly, the most vulnerable countries will

⁷⁴ CBAM, Article 1 and 2

⁷⁵ CBAM, Article 3

⁷⁶ CBAM, Article 6

⁷⁷ CBAM, Article 7, Annex IV

⁷⁸ CBAM, Article 14

⁷⁹ Indirect emissions refer to the emissions from electricity used during the production of CBAM goods. CBAM, Article 3

⁸⁰ Direct emissions refer to the emissions produced during the manufacturing of CBAM goods, including those from heating and cooling processes, no matter where the heating or cooling is generated. CBAM, Article 3.

⁸¹ CBAM, Article 30

⁸² Maliszewska M., Chepeliev M., Fischer C., and Jung E. (2023), [How Developing Countries Can Measure Exposure To The EU's Carbon Border Adjustment Mechanism](#) (World Bank Blogs)

be low-income countries, with low technological advancements in their production and processing capacities of the covered products, as well as low capacity for emissions measurement. The study concludes that these countries will need financial and technical assistance in addressing data gaps and building carbon tracing, measurement and certification infrastructure.

Table 12 Requirements of CBAM for private sector in developing countries

Explicit requirements	Implicit requirements
<p>CBAM covers importers from third countries placing covered products on the EU market.</p> <ul style="list-style-type: none"> - It specifies a range of obligations ranging from application for authorization, submission of CBAM declaration, calculation of embedded emissions and verification, including surrendering CBAM certificates corresponding to the total embedded emissions.⁸³ - Collect, monitor and report information, data and documents showing compliance with the regulation. This requirement implies the need for products' carbon traceability given the need to include scope 1 and 2 emissions 	<p>Developing country exporters and suppliers along their value chains might have to:</p> <ul style="list-style-type: none"> - Bear the cost of higher adjustment carbon prices at the border than competition, putting them in a disadvantaged trading position - Make technological and other investments to calculate embedded emissions and reduce carbon intensity on par with European competition - As exporters, bear administrative cost of cost of engaging with Member State (i.e. submit yearly CBAM declarations) authorities to ensure compliance - As suppliers, bear the risk or termination of business relationship in case they are not able to calculate emissions.

Relatively clean exporters might benefit from CBAM even though they will be required to purchase CBAM certificates (they will be paying relatively less than their more carbon-intensive competition in the EU). However, this only applies if they are able to track, monitor and verify emissions in line with the regulation.

Overall, calculating and reporting emissions to European authorities according to the regulation's methodology could be a challenge given lack of resources, capacity and carbon tracing infrastructure in many developing countries. The European Commission has introduced several tools and resources to assist stakeholders, including importers and installation operators, in adapting to CBAM (Box 1). However, they remain insufficient and are deemed complex by private sector. Exporters not able to quantify or disclose embedded emissions following the EU methodology will be subjected to default values. These will be derived using averages for worst performers and set as the average emission intensity of each exporting country and for each of the covered goods, and increased by a proportionately designed mark-up (this will be determined in implementing acts on the basis of information gathered during the transitional period).⁸⁴

Although the regulation does not list specific support measures for developing countries, the introductory text affirms the commitment of the EU to supporting low and middle-income countries towards decarbonization as part of the external dimension of the European Green Deal and in line with the Paris Agreement. It also calls for the development of bilateral, multilateral and international cooperation with third countries to promote the implementation of ambitious climate policies in all countries and pave the way for a global carbon pricing framework. It also calls for the provision of financial support from EU budget towards climate mitigation and adaptation in LDCs, including to implement this regulation.

⁸³ CBAM, Article 5-10

⁸⁴ CBAM, Annex IV, Article 4.1.

Box 1: CBAM support tools for stakeholders, including importers and installation operators:

1. **CBAM Self-Assessment Tool:** Helps importers determine if their goods are subject to CBAM and guides them through reporting requirements.
2. **Guidance Documents:** Provides detailed information on CBAM implementation, reporting obligations, and compliance for importers and installation operators.
3. **Communication Templates:** Offers templates for installations to communicate emissions data for CBAM compliance.
4. **Default Values for Embedded Emissions:** Provides guidance and tools in PDF and Excel formats for calculating default embedded emissions in imported goods.
5. **Webinars and Learning Modules:** Organizes webinars and e-learning modules for key sectors (e.g., steel, aluminum, fertilizers) to offer insights on CBAM compliance.
6. **Q&A Documents:** Releases Q&A documents to address frequently asked questions about CBAM, ensuring stakeholders have access to accurate information.

Source: European Commission⁸⁵

2.6 EU Ecodesign for Sustainable Products Regulation (ESPR)⁸⁶

Table 13 ESPR overview

Measure	Nature	Objective	Scope	Requirements	Adoption/roll-out timeline
EU Ecodesign for Sustainable Products Regulation	Import control	Improve the environmental sustainability of products on the EU market, make sustainable products the norm.	Companies that place physical goods on the EU market (manufacturer, the authorized representative, the importer, the distributor, the dealer and the fulfilment service provider). Contracting authorities and contracting entities (green procurement)	Companies have to comply with the ecodesign requirements applicable to each product, as defined in delegated acts for each product group. Obligations will eventually apply to all products, including components and intermediate product, except a few product categories specified in Article 1.	Adopted by European Parliament in April 2024 and expected to enter into force in 2024. <u>Gradual roll-out:</u> Within 9 months of adopting the new regulation, a 2024-27 work plan will develop plans for product categories, such as iron and steel, aluminium, textiles, chemicals, and others. ⁸⁷ Many new regulations are expected by 2030.

⁸⁵ European Commission, Carbon Border Adjustment Mechanism

⁸⁶ Text adopted by the European Parliament, Ecodesign Regulation

⁸⁷ Full list: iron and steel, aluminium, textiles, in particular garments and footwear, furniture, including mattresses, tyres, detergents, paints, lubricants, chemicals, energy related products (including those already covered by Directive 2009/125/EC), information and communication technology products and other electronics.

ESPR is a framework instrument for introducing more demanding ecodesign criteria for a broader range of products compared to the ecodesign directive,⁸⁸ which it will replace. It aims to significantly improve product circularity, energy performance and other environmental sustainability aspects. It also prohibits the destruction of unsold consumer goods.

The regulation will enable the setting of performance and information requirements by the Commission for almost all physical goods placed on the EU market, with the exception of a few products such as food, feed, medical products, vehicles and similar.⁸⁹ Manufacturers, dealers and importers will only be able to place the products on the market if they comply with the eco-design requirements for each product group.⁹⁰ The delegated acts will be issued according to the work plan for each product group and tackle the following aspects:

- product durability, reusability, upgradability and reparability
- presence of substances that inhibit circularity
- energy and resource efficiency
- recycled content
- remanufacturing and recycling
- carbon and environmental footprints

Each product will also require a Digital Product Passport with key information (Box 2).⁹¹ The passport is expected to help consumers, businesses as well as market surveillance authorities make better choices and perform checks.

Box 2: Digital Product Passport

The European Sustainable Product Regulation (ESPR) will introduce a Digital Product Passport (DPP), which acts as a digital identity card for products, components, and materials. The DPP will store essential information to enhance sustainability, promote circularity, and ensure legal compliance. This data will be electronically accessible, allowing consumers, manufacturers, and authorities to make informed decisions. Customs authorities can also perform automatic checks on the DPPs of imported products.

The specific information included in the DPP, determined by the Commission in consultation with stakeholders, will vary by product and may cover aspects such as technical performance, material origins, repair activities, recycling capabilities, and lifecycle environmental impacts.

Source: European Commission⁹²

The regulation empowers the Commission to adopt 3-year working plans setting out lists of products which will be prioritized for ecodesign requirements, including timelines. The first working plan is to be published within 9 months from the date of entry into force, will cover 11 product groups, including iron and steel, aluminium,

⁸⁸ [Directive 2009/125/EC Of The European Parliament And Of The Council Of 21 October 2009 Establishing A Framework For The Setting Of Ecodesign Requirements For Energy-Related Products \(Recast\) \(Text With EEA Relevance\)](#)

⁸⁹ ESPR, Article 1

⁹⁰ ESPR, Article 5

⁹¹ ESPR, Article 9

⁹² [European Commission, Ecodesign for Sustainable Products Regulation](#)

textiles (in particular garments and footwear), furniture, IT products and electronics, and others.⁹³ Some product categories, such as mobile phones and tablets, already have delegated acts effective as of 2025 (developed under Directive 2009/125/EC).

The regulation introduces ecodesign requirements that apply along the full value chain and creates new obligations for manufactures with respect to how goods are produced, packaged and labelled, as well as how information is managed and digitized for each single product. Prior to placing a product on the EU market, manufacturers will need to conduct a conformity assessment with an accredited conformity assessment body in the member states. Similarly, importers and distributors have to ensure compliance with the criteria.

Companies might face penalties in case of duty infringement, at least in the form of fines and exclusion from public procurement procedures. This will be decided by member states.

2.6.1 Relevance for Developing Countries

The impact on developing countries will likely be high given the wide range and type of products (i.e. iron and IT/electronics products) covered and the far-reaching nature of ecodesign requirements, which consider the full product life cycle. However, more will become clear once delegate acts for each product are issued. Certain products are excluded from the regulation, because they are covered by sector-specific regulation (i.e. vehicles, food, medicine), or due to security or strategic reasons (i.e. defense equipment, space technology).

Table 14 Requirements of ESPR for private sector in developing countries

Explicit requirements	Implicit requirements
<p>ESPR states that products placed on the EU market shall meet certain performance and information requirements on ecodesign, including a digital product passport, and that this information should be independently verifiable.⁹⁴</p>	<p>Developing country manufacturers, suppliers and exporters might have to:</p> <ul style="list-style-type: none"> - Collect and report information, data and documents showing compliance with the regulation - Make investments into technology and others to adjust products to ecodesign criteria - Make investments into digital software and capacity-building - Potentially be excluded from value chains in case they cannot provide such information due to low product traceability, or make investments to ensure compliance - As exporters, bear the administrative cost of engaging with member states' authorities to prove compliance.

SMEs are likely to be the most affected given resource limitations. The regulation foresees some support measures, which will be available to suppliers:⁹⁵

- prior to their adoption, delegated acts will undergo an impact assessment, including stakeholder consultation and consideration of impacts on third countries.

⁹³ ESPR, Article 18

⁹⁴ ESPR, Article 5-7

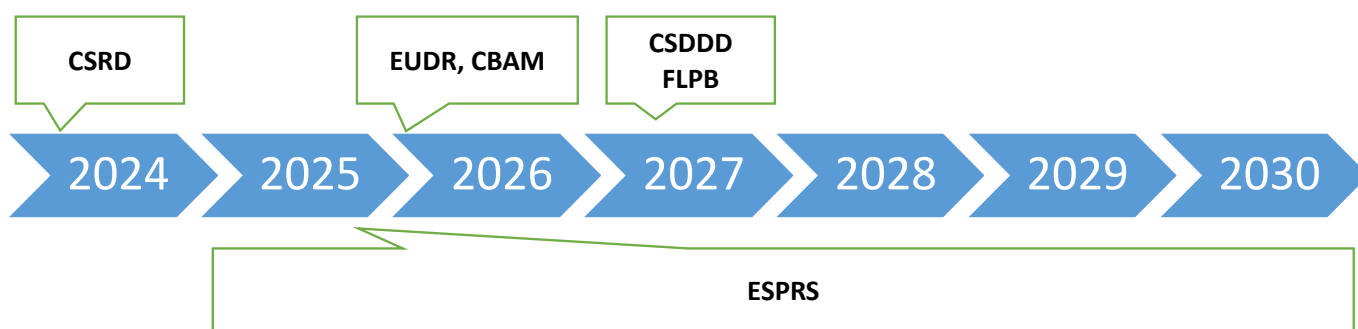
⁹⁵ ESPR, Article 33

- delegated acts will be accompanied with digital tools and guidelines covering specificities of SMEs, in particular micro-enterprises, in order to facilitate the compliance.
- member states will also take appropriate measures to help SMEs, in particular microenterprises, comply with the ecodesign requirements, such as availability of one-stop shops, financial support, incentives for investing in physical and digital infrastructure, access to finance, specialized management and staff training or organizational and technical assistance.

2.7 Analysis

The review of selected EU instruments introducing due diligence and other requirements for private sector shows that each regulation aims to catalyze positive impacts in developing countries. The CBAM might foster a shift towards cleaner energy sources and technologies, assisting developing countries in meeting their NDCs under the Paris Agreement, green transition while ensuring fair competition for EU businesses by levelling carbon costs with external competitors. Due diligence legislation such as CSDDD might bring closer buyers and suppliers in developed and developing countries, and position the latter more competitively on the market leading to higher market shares. The optimistic expectation of EU lawmakers is that CSDDD will lead to better protection of human rights and the environment, increased stakeholder awareness on key sustainability and climate issues, increased sustainable investment, improved sustainability-related practices, and an increased take-up of international standards and ultimately improve living conditions for people.⁹⁶ EUDR could reduce deforestation and GHG emissions, contributing to climate mitigation, adaptation and preservation of biodiversity, among others.

New requirements will impact developing country actors very soon, requiring urgent adaptation. Most notably, companies will need to comply with EUDR starting 31 December 2025, with CBAM in 2026 (although CBAM registration and data collection is already ongoing as part of the transition period), and with CSDDD and FLB (if approved in 2024 by the European Council) in 2027. Regulations addressed above will have to be effectively implemented by companies in the next 1-6 years and developing countries urgently require technical and financial support to prepare for them.



The review indicates that the regulations will impact the operating environment for firms in developing countries. Each regulation imposes significant information requirements, making data collection and reporting essential for compliance in global value chains. Although there are overlaps in required data types, most

⁹⁶ European Commission, [Corporate Sustainability Due Diligence](#)

requirements differ, necessitating new capacities for suppliers, exporters, and independent verifiers. Meeting these demands will require investments to adapt business models and products for EU markets, including due diligence and traceability systems, as well as capital-intensive efforts to reduce carbon intensity. While EU-based companies must provide financial and capacity-building support under the CSDDD, the specifics of this assistance are unclear. The European Commission and Member States are committed to supporting SMEs and fostering dialogue with developing countries, necessitating technical assistance and capacity-building programs for upstream actors.

Impact studies on the effects of regulations on developing countries are scarce, highlighting the need to pay special attention to low-income countries and LDCs. African LDCs exporting CBAM-affected products to the EU may face significant negative impacts, with estimated export decreases of up to 13.9% for aluminium, 8.2% for iron and steel, 3.9% for fertilizers, and 3.1% for cement, as some exports shift to China and India.⁹⁷ Overall, GDP and income across the continent could decline by 0.5%, with 11 African LDCs projected to see GDP impacts ranging from 1.5% to 8.4%. Early signs indicate a shift in sourcing; a study on the German Supply Chain Act revealed over a 20% drop in imports from countries like Bangladesh and Pakistan, which struggle with sustainability enforcement. Additionally, more than one in eight companies opted for suppliers with strong human rights protections, and media reports suggest EU companies are moving away from African suppliers for EUDR products.⁹⁸ The regulations do not foresee any exemptions from regulations for LDCs, similar to Everything But-Arms preference scheme, which removes tariffs and quotas for all imports of goods (except arms and ammunition), coming into the EU from LDCs.

Part III. Lessons Learned from Early Adaptation Processes

3.1 CBAM: The Case of Turkey

3.1.1 Relevance of CBAM for Turkish economy

Turkey's exports of CBAM-regulated products like cement, iron, steel, and aluminum face significant challenges as the EU's CBAM takes full effect in 2026. In 2022, 39.8% of Turkey's iron and steel exports (US\$5.8 billion), 60.4% of its aluminum exports (US\$2.4 billion), and 20.6% of its cement exports (US\$1.7 billion) were destined for the EU.⁹⁹ Given Turkey's carbon-intensive production processes, CBAM will impose additional costs to level the playing field with EU producers who already bear emissions costs.

⁹⁷ African Climate Foundation and The London School of Economics and Political Science (2023), [Implications For African Countries Of A Carbon Border Adjustment Mechanism In the EU](#)

⁹⁸ Reuters, [Coffee Firms Turning Away From Africa As EU Deforestation Law Looms](#)

⁹⁹ Data from [World Integrated Trade Solution](#)

Country impact assessments vary: some studies estimate a potential GDP loss for Turkey of up to 3.6% by 2030¹⁰⁰, while others, such as the EBRD, predict a more modest economic contraction of 0.04% by 2032¹⁰¹, with a 3% decline in exports to the EU. The World Bank Climate and Development Report (2022) estimates that CBAM will have limited impacts at the macroeconomic level, but some key industries will face lower output and employment, requiring action to facilitate structural adjustments both within and between sectors.

Aligning with EU regulations, including CBAM and the circular economy offers Turkey an opportunity for green growth and deeper integration with the EU Single Market. A successful adaptation could secure Turkey's position as a critical player in the EU's supply chain, attract new investment, and foster innovation in green industries. Decarbonizing key sectors, including energy, is not only essential for economic competitiveness, but also for meeting of Turkey's NDCs and national security, given the economy's reliance on imported energy.¹⁰²

Interviews with representatives of public and private sector directly involved in CBAM implementation suggest that Turkish exporters are already bracing for CBAM. The immediate challenges include higher costs of CBAM products and reduced competitiveness in the EU market. To mitigate these impacts, some companies, like cement producers, are shifting focus to markets with less stringent carbon regulations, such as West Africa.¹⁰³ At the same time, CBAM is driving structural reforms, including plans for a national emissions trading system by 2024, which could help reduce CBAM-related costs and generate revenue to support green technologies and initiatives.

3.1.2 Adaptation Measures

The following sections explore key policy developments and strategic measures taken by the Turkish government, private sector, and international partners to manage CBAM adaptation and highlight the remaining challenges. It shows that Turkey has taken a proactive approach in response to the EU Green Deal and CBAM under its ambitious Green Deal Action Plan (GDAP), which is set to drive a comprehensive green transformation across its economy. These efforts are crucial for maintaining competitiveness in EU markets, supporting innovation, and driving the country's transition toward a low-carbon economy. However, the plan faces significant challenges, from funding gaps to regulatory delays, requiring robust government support and sector-specific strategies.

Adaptation Measures by the Government

1. Mobilizing through the Green Deal Action Plan (GDAP)

In response to the EU Green Deal, the Turkish government launched the Green Deal Action Plan (GDAP) in 2020, marking a significant shift towards a green transformation in trade and industry.¹⁰⁴ GDAP outlines an ambitious agenda for Turkey's green transformation and encompasses a broad range of actions in areas such as combating climate change, promoting a green and circular economy, green finance, CBAM, clean and affordable energy, sustainable agriculture, smart transportation, and diplomacy. Developed by a cross-governmental working group led by the Ministry of Trade, with contributions from the Presidency of Strategy

¹⁰⁰ [Acar S., Aşıcı A. A., Yeldan A. E., Potential Effects Of The EU's Carbon Border Adjustment Mechanism On The Turkish Economy](#)

¹⁰¹ [Potential Impact of the Carbon Border Adjustment Mechanism on the Turkish Economy, European Bank for Reconstruction and Development \(2023\)](#)

¹⁰² [Turkey's Twelfth Development Plan \(2024-2028\)](#)

¹⁰³ Interview with private sector, August 2024

¹⁰⁴ [Green Deal Action Plan of Turkey \(2021\)](#)

and Budget, the Ministry of Environment, Urbanization and Climate Change, the Ministry of Foreign Affairs, the Ministry of Energy and Natural Resources, and six other ministries, the plan marked a significant milestone for Turkey's environmental and climate policies, initiating key discussions on CBAM, the circular economy, and relevant legislation like the Ecodesign Directive. The private sector also responded positively, as the plan fostered public-private dialogue through various working groups that provided input and analysis.

A notable outcome of GDAP is the "Green Deal Working Group" and nineteen specialized technical groups were established, including the EU CBAM Specialized Working Group. This group's focus is on analyzing the impacts of CBAM on the Turkish economy, in collaboration with EBRD and World Bank, exploring policy options, and advancing key reforms, such as developing emissions monitoring, reporting methodologies, launching an EU-compatible emissions trading system (ETS). The group is liaising with the EU on open issue topics such as accreditation of domestic verifier organizations and crafting sector-specific decarbonization roadmaps for industries like steel and cement.

Box 3: Key analytical outputs and achievements of the Green Deal Working Group:

- **Impact assessments:** Studies like the EBRD's "Assessment of the Potential Impacts of Turkey on the Turkish Economy" and the World Bank's "Turkey Country Climate and Development Report" have been crucial for understanding CBAM's effects on energy-intensive sectors and the broader economy.
- **Emissions monitoring and reporting methodologies:** The group is developing methodologies for monitoring, calculating, and reporting emissions, essential for CBAM compliance and creating an online data management system.
- **Establishment of National Emissions Trading System (ETS):** The group is working on creating a national ETS compatible with the EU ETS, including legislative and infrastructural steps, under the National Carbon Pricing Working Group.
- **EU standards compliance and certification:** Turkey is engaging with the EU to accredit domestic verifier organizations for CBAM, ensuring alignment with evolving EU rules post-2026 and supporting export competitiveness.
- **Sector-specific decarbonization initiatives:** Progress has been made in developing low-carbon roadmaps for sectors like steel, aluminum, and cement, supported by the EBRD, outlining necessary technologies and policies for low-carbon production.
- **Training and capacity building:** The Ministry of Trade is providing training for "CBAM trainers" and collaborating with industry groups to build CBAM reporting infrastructure and enhance compliance across industries.
- **Clean energy transformation:** Turkey is improving energy efficiency, increasing renewable energy, and developing hydrogen and carbon capture technologies to lower CBAM costs and decarbonize its economy, with a goal of reaching 65% renewable capacity by 2035.

Source: Green Deal Working Group - Annual Report 2023¹⁰⁵

2. Preparing legal foundations for a Turkish Emission Trading System

A national ETS could significantly reduce CBAM costs for Turkey by generating revenue to reinvest in decarbonizing key sectors and advancing the clean energy transition. An EBRD study estimates that a domestic

¹⁰⁵ [Green Deal Working Group Annual Activity Report - 2023](#)

ETS could lower CBAM costs across sectors, particularly in iron & steel, cement, and chemicals, potentially cutting CBAM charges from €2.5 billion to €1.08 billion by 2032 with a domestic carbon price of €50/tCO₂e and an EU ETS price of EUR 150/tCO₂e.¹⁰⁶ This could also boost exports of low-emission products, raise GDP by 1%, and reduce GHG emissions by up to 34%, highlighting the strategic importance of ETS for Turkey's low-carbon development.

CBAM has renewed momentum for ETS implementation. Turkey has been laying the groundwork since 2013, supported by the World Bank's Partnership for Market Readiness (PMR)¹⁰⁷, and developed an MRV system covering over 700 facilities responsible for 50% of national emissions.¹⁰⁸ The Ministry of Environment, Urbanization and Climate Change has developed a draft Climate Law which will be pivotal for establishing the foundational legal structure for the TR ETS. A pilot ETS is expected in 2025, targeting energy and industry sectors with emissions above 500,000 tCO₂e annually.¹⁰⁹ The World Bank is assisting this effort through modeling studies and supporting the pilot and early implementation phases the Partnership for Market Implementation (PMI) Project.¹¹⁰

Adaptation Measures by the Private Sector

1. Large companies leading the transition

Major Turkish companies, especially in CBAM-affected sectors, are proactively adjusting their operations to meet carbon reduction goals. For example, Oyak Group, Turkey's largest steel producer, has committed \$3.2 billion to cut emissions by 25% by 2030 through investments in renewable energy, electric arc furnaces, and green hydrogen technologies.¹¹¹

Other companies are adopting adaptation measures regardless of whether they are currently covered by CBAM, positioning themselves for future opportunities. For example, Votorantim Cimentos Turkey, a cement producer, is proactively implementing decarbonization measures to align with global goals and prepare for potential CBAM regulations, despite not currently exporting to the EU. The company is closely monitoring carbon capture initiatives within its global network and plans to adopt the technology, which could unlock future export opportunities. Similarly, major companies in other sectors such as electronics and food are preparing for CBAM compliance even though their exports are not yet covered by the regulation. For example, Siemens aims for net-zero operations by 2030 and a carbon-neutral supply chain by 2050. The company has established internal teams and provides resources like the SiGreen platform¹¹² to manage and report emissions, supporting both existing and new suppliers. CBAM regulations have also encouraged Siemens to adopt a collaborative "ecosystem" approach, fostering partnerships with customers and suppliers affected by CBAM, and promoting sustainability careers, particularly for young women.

2. Private sector associations actively engaged in policy advocacy

Private sector associations, including YASED (International Investors Association of Turkey), play a pivotal role in advocating for policies that align with the EU Green Deal and CBAM. These associations work to ensure that

¹⁰⁶ [Potential Impact of the Carbon Border Adjustment Mechanism on the Turkish Economy, European Bank for Reconstruction and Development \(2023\)](#)

¹⁰⁷ [Partnership for Market Implementation, Turkey](#)

¹⁰⁸ [Republic of Türkiye Updated First Nationally Determined Contribution \(2023\)](#)

¹⁰⁹ [Turkish ETS Unlikely To Launch In Mid-October-Sources, June 27, 2024. Carbon Plus](#)

¹¹⁰ [Partnership for Market Implementation, Turkey](#)

¹¹¹ [Erdemir And Isdemir Aim To Invest In Green Steel, January 1, 2024. Steelradar](#)

¹¹² [CO2-Management-Tool SiGREEN, Siemens](#)

Turkey's investment climate remains competitive while facilitating the transition to a low-carbon economy. They provide platforms for collaboration on decarbonization strategies, offer guidance on CBAM compliance, and lead capacity-building initiatives to help businesses meet environmental standards. Through active policy advocacy, they help shape a supportive regulatory framework for international investors adapting to CBAM and other green regulations.

3.1.3 Adaptation Challenges

Government Adaptation Challenges

1. *Regulatory complexity and ETS implementation*

The passage of the Climate Law, which is essential for establishing the legal framework for a national Emissions Trading System (ETS), has been delayed due to the parliamentary process. This delay complicates planning and adaptation efforts and narrows the window for piloting the domestic ETS, risking a full launch before January 2026.¹¹³ Managing an ETS also requires complex decisions, such as determining carbon pricing, allocating free emissions permits, and selecting an oversight body that can also ensure security of transactions. Additionally, unresolved technical questions with the EU need to be addressed for accurate emissions calculations and verification.¹¹⁴

Another concern for the private sector is how ETS revenues will be used. The current draft proposes a collaborative approach, involving multiple ministries and private sector in the decisions about the allocation of funds, which differs from Turkey's traditional budgetary practices. Ensuring that revenues from the national ETS is channeled into green transition initiatives, including CBAM sectors, will be key to mitigate economic impacts of CBAM on them while facilitating green investments in other sectors. This example shows the difficulty of transposing new terminology and approaches from the EU system into the Turkish legal system.

2. *Lack of funding for the green transition*

Turkey's Twelfth Development Plan (2024-2028) outlines funding mechanisms for the green transition, including compliance with CBAM and establishing an ETS.¹¹⁵ However, there remains a significant funding gap, and the government is seeking external support from development partners. Initiatives like the \$450 million Türkiye Green Industry Project, which includes grant and credit mechanism for green transition of industrial exporters, and the €600 million loan guarantee facility for Turk Eximbank, which aims to provide affordable, long-term financing for Turkish exporters to invest in green, climate-resilient solutions, can help private sector decarbonize and stay competitive under CBAM.¹¹⁶ The Ministry of Trade's Responsible Program also launched consultancy support for Green Deal compliance. The Responsible Program covers up to 50% of consultancy costs, with a cap of 10 million TL over five years, helping companies plan and initiate decarbonization and transformation strategies.¹¹⁷ However, this support is largely geared toward early-stage planning and initial

¹¹³ Interview with YASED, August 2024.

¹¹⁴ These include whether emissions verifiers should be Turkish or EU-based agencies, and whether companies can integrate unlicensed renewable energy investments into their emission calculations in line with EU systems. Some of these issues are being discussed in technical and high-level contacts with the European Commission as part of Turkey's input on CBAM legislation. Source: [Green Deal Working Group Annual Activity Report - 2023](#)

¹¹⁵ [Turkey's Twelfth Development Plan \(2024-2028\)](#)

¹¹⁶ [Türkiye Green Export Project, Integrated Safeguards Data Sheet Concept Stage. World Bank \(2023\)](#)

¹¹⁷ [Responsible Program, Ministry of Trade](#)

technological adaptations. Despite these efforts, more funding is needed in the short term to support the transition. The hope is that the national ETS will generate additional funds for broader financial support, enabling companies to pursue comprehensive decarbonization efforts.

3. *Transparency and effectiveness of investment incentives*

The government is adding new incentives schemes into its incentives framework for green technologies and sustainable practices. Although past incentives have primarily focused on tax deductions and other fiscal measures, the private sector is calling for more direct financial support, such as grants and low-interest loans, to encourage investment.

As the government reevaluates its incentive framework, it is crucial that it aligns with global best practices. The private sector stresses the importance of ensuring the new incentives are transparent, well-administered, and based on a clear, strategic rationale. Aligning incentives with international best practices will be essential to ensuring the framework is transparent, well-administered, and effective in supporting the low-carbon transition.

4. *SME-specific barriers*

A particular concern by public and private actors is the impact of CBAM and other environmental regulations on SMEs. To date, there has been no impact study estimating the effects of the regulations on the SME sector, although they constitute the majority of Turkish exporters, many already covered by CBAM sectors such as producers of bolts, joints or aluminum waxes.¹¹⁸

SMEs face significant barriers in adapting to CBAM, including the costs of emissions measurement, reporting, and compliance. Especially SMEs that do not export directly to the EU, are unaware of the indirect impact CBAM could have on their operations through supply chain dependencies. The Ministry of Trade is working on raising awareness through information campaigns, but more targeted financial support and training programs are needed to help SMEs meet compliance requirements. SMEs also struggle to participate in existing programs, such as the Responsible Program, due to capacity and financial challenges. Large companies have programs in place to onboard suppliers, but these do not cover all suppliers and some supply chain consolidations are likely depending on how fast some suppliers can adjust. There is a need for more targeted schemes specifically designed for SMEs.

Private Sector Adaptation Challenges

1. *Regulatory uncertainty*

All private sector companies face significant challenges due to the delayed passage of the Climate Law and the uncertainty surrounding the national ETS. This complicates long-term planning and investment in decarbonization efforts by all companies, including the “first movers”, given that carbon prices and free allocation decisions are not set yet. Companies are also concerned about how ETS revenues will be allocated and the potential financial impact on their operations. Ensuring that these funds are reinvested into green transition initiatives, particularly for CBAM-affected sectors, is critical for maintaining competitiveness.

¹¹⁸ Interview with Ministry of Trade, August 2024

2. Costs of carbon data collection, monitoring and verification

The private sector, particularly industries covered by CBAM, faces high costs for monitoring, reporting, and verifying carbon emissions. While Turkey's MRV system provides a foundation, many firms are not yet equipped to comply with CBAM's detailed requirements. The need for carbon content verification of products like cement is resource-intensive, and Turkish exporters may need to rely on EU-based verifiers, further complicating the process.

3. Funding challenges for low-carbon transition

Industries are struggling to secure the necessary funding for decarbonization and green energy investments. While some companies have initiated projects like solar farms or use renewable energy, there is still a significant gap. While it is difficult to estimate the exact cost for the required investments, some sectoral estimates show the scale of the challenge. For example, Turkish Cement Manufacturers' Association estimates that approximately \$2 billion is needed for the cement industry to meet CBAM requirements and maintain competitiveness.¹¹⁹ Some plants have already initiated solar farms at raw material quarries or sell self-generated energy on the market to offset energy costs. Others purchase electricity from certified renewable sources.

The industry is actively seeking financing to support the necessary investments for compliance. Some local entrepreneurs receive EBRD financing or MNC affiliates are seeking funding through internal funding sources. Additional incentives for the adoption of renewable energy and energy efficiency could help reduce the cost of adopting low-carbon technologies and provide more time for adaptation. There is ongoing dialogue between the Turkish government and the cement industry to develop supportive policies.¹²⁰

3.1.4 Advancing Adaptation

The following section summarizes areas for policy and business action considered as priority by stakeholders in Turkey ensure timely transition to CBAM and manage its impacts. Policymakers must fast-track the Climate Law, launch the Emissions Trading System (ETS), and provide targeted financial support to drive decarbonization. Public-private partnerships and robust R&D incentives are essential to fuel green innovation. Meanwhile, companies must embrace digital solutions, accelerate investments in clean technologies, and collaborate with SMEs to stay competitive. These combined efforts will secure Turkey's place in a low-carbon, sustainable future.

1. Fast-track the Climate Law and ETS implementation

The private sector emphasized the urgency of fast-tracking the passage of the Climate Law and launching the national Emissions Trading System (ETS) by 2025. Establishing clear, consistent regulations on carbon pricing, ETS budgets, and compliance processes is essential to provide businesses with the certainty they need for long-term decarbonization investments. While sectors may face unique challenges, this regulatory clarity will benefit all industries in planning for CBAM compliance.

¹¹⁹ Interview with private sector, September 2024

¹²⁰ Interview with private sector, September 2024

2. Address sector-specific challenges

Despite the development of sectoral roadmaps for CBAM adaptation, private sector and academia have highlighted the need for addressing structural challenges in affected sectors. Examples include infrastructure bottlenecks (i.e. logistics in the cement sector), lack of financial support and regulatory issues. In addition, there is a need to develop sector-specific emission targets aligned with Turkey's NDCs. Tailored climate policies would help industries plan for decarbonization and long-term CBAM adaptation. Revisiting financing and budget policies is also crucial to ensure alignment with the Paris Agreement and EU climate targets.¹²¹

3. Increase funding for decarbonization

All stakeholders agreed that expanded financial support to speed up adaptation as well as a mid-long-term decarbonization is critical for industries affected by CBAM and other environmental regulations. Financial incentives in the form of subsidies, grants, and low-interest loans for private sector to support all aspects of green transition also need to be transparent, well-administered and geared towards clear objectives. A weighing of costs and benefits is also important to avoid industry distortions.

Moreover, programs like the World Bank PMI or the Türkiye Green Industry Project, EBRD's financing of waste heat recovery systems in the cement sector, demonstrate how financial backing can drive decarbonization. Development partners will play a vital role in bridging the financing gap until the national ETS becomes operational.

4. Increase R&D and public-private collaboration

Public and private stakeholders should also increase R&D investments and collaborate with academic institutions to develop specific technologies like carbon capture or hydrogen are needed in some sectors, expanding R&D for green technologies and digital solutions for emission tracking and process optimization will benefit multiple industries. AI and machine learning, for example, can optimize operations across sectors, generating environmental and cost-saving advantages.

Public-private collaboration should focus on joint infrastructure development and decarbonization initiatives. Policymakers must incentivize these partnerships through supportive policies and financial backing, while the private sector contributes resources, expertise, and technology. Sector-specific needs, such as waste fuel transport and renewable energy generation, should be addressed. Oyak Group's Green Transition Plan in the steel sector is an example, but similar efforts should be encouraged across industries to tackle their unique decarbonization challenges.¹²²

5. Support suppliers with tailored financial and technical assistance

Policymakers must create financial and technical support schemes specifically designed for SMEs. Simplified guidance materials, digital tools, and targeted awareness campaigns are crucial to helping them navigate CBAM regulations. Programs like the Ministry of Trade's Responsible Program, which supports SMEs in early-stage decarbonization, provide a model for expanding support across sectors to ensure a smooth transition for smaller businesses.

¹²¹ Bas D., *Advancing Steel Sector Decarbonization In Turkey: An Introductory Assessment, Executive Summary Istanbul Policy Center (2023)*

¹²² Interview with private sector

Larger companies should also assist SMEs through supplier development programs including offering technical training and financial support. Initiatives like Siemens' emission tracking platforms and supplier training programs can help SMEs across different industries achieve CBAM compliance, preventing supply chain disruptions. Large companies, in particular, should foster "ecosystem approaches" to solve shared challenges.

3.2 EUDR: The Case of Ivory Coast

3.2.1 Relevance of EUDR for the Economy

Ivory Coast, the world's leading cocoa producer, is significantly affected by the EUDR. The country's cocoa exports account for 15% of its GDP, and 40% of its export earnings,¹²³ with 59% directed to the EU.¹²⁴ Major chocolate brands such as Cargill, Nestlé, and Mars depend on Ivorian cocoa, making sustainable and ethical sourcing essential. Despite supporting around 6 million people—approximately one-quarter of the population—the sector struggles with challenges like low productivity, insufficient diversification, and high poverty rates among producers, who receive only 5-7% of global profits.¹²⁵ Additionally, environmental concerns, including deforestation and child labor, complicate the sector's reputation and sustainability.¹²⁶

The EUDR offers both opportunities and challenges for Ivory Coast's cocoa industry. On the positive side, it could help tackle persistent issues such as deforestation and empower farmers in their negotiations with intermediaries by enhancing traceability and facilitating timely payments through mobile solutions. However, compliance with EUDR requirements may pose difficulties for small-scale farmers, who often lack the resources necessary for investment in new technologies, training, and infrastructure.

Interviews with private sector stakeholders in Ivory Coast indicate that changes to current supply chains are inevitable, impacting multiple stakeholders. Large exporters may need to reassess their supply chains, facing potential disruptions if cooperatives fail to meet EUDR standards. They will incur additional costs to expand their network of compliant cooperatives while dealing with others requiring remediation support. Cocoa farmers could experience reduced volumes from cooperatives struggling with compliance, limiting their income and market access. Many cooperatives may be compelled to broaden their networks, increasing operational complexity and costs. Additionally, there is a trend of buyers withdrawing from farmers near deforested areas, which could significantly impact local economies reliant on cocoa as their sole income source. A broader economic risk includes the potential classification of Ivory Coast as a high-risk country by the EU, which would lead to extra requirements on exporters.

3.2.2 Adaptation Measures

¹²³ IDH Côte d'Ivoire Cocoa and Forests Initiative 2022 Annual Report

¹²⁴ Unpacking the EU Deforestation Regulation for the cocoa sector (2023)

¹²⁵ Côte d'Ivoire Economic Outlook: Why the Time Has Come to Produce Cocoa in a Fully Inclusive and Responsible Manner, World Bank (2019)

¹²⁶ Côte d'Ivoire Economic Outlook: Why the Time Has Come to Produce Cocoa in a Fully Inclusive and Responsible Manner, World Bank (2019)

This following section explores the government's adaptation measures, the challenges faced by both the public and private sectors, and the critical role of cooperatives in this transformation. As Ivory Coast strives to enhance its cocoa sector in alignment with international sustainability standards, the government is implementing a national traceability system aimed at ensuring all cocoa batches are digitally tracked from farms to export points. This initiative, part of the country's commitment to EUDR, seeks to improve transparency and compliance across the supply chain. While major exporters have begun adopting advanced digital tools for traceability, smaller players often struggle with the associated costs and complexities.

Adaptation Measures by the Government

1. National traceability system

The Ivorian government is establishing a national traceability system requiring all cocoa batches to be digitally tracked from farms to export points. Traceability of products covered by EUDR is one of the three core requirements of EUDR, next to legality and being deforestation-free.

The decision to launch a national traceability system was taken when Ivory Coast joined the Cocoa and Forest Initiative in 2017, committing to establishing a national traceability system, enhancing supply chain mapping, and creating an auditable cocoa tracking system from farm to port. While all the main exporters have already adopted sophisticated digital traceability systems using software and innovative tools such as blockchain technology, QR codes and barcodes to track cocoa beans from the certified cooperatives or farmers' associations, smaller exporters and traders entities often struggle with the financial and technical demands of these requirements. Setting up of the system on a national level aims to address some of these constraints by integrating all farmers into a unified system.

In 2022, the national traceability system was piloted, and since then, the goal has been to consolidate the achievements of the pilot phase and roll it out nationally.¹²⁷ A study from August 2023 suggests that only 30-40% of cocoa was traced at that time.¹²⁸ Current plans include rolling out an electronic card system to track beans and confirm their origin, with about half of the 1 million cards yet to be distributed. The implementation cost is estimated at 421 billion CFA francs (\$692 million), with half sought from donors and the cocoa industry. Delays in securing funding and implementation could lead to Ivory Coast being classified as high-risk, potentially resulting in increased checks and bottlenecks for cocoa operators and traders.¹²⁹

Adaptation Measures by the Private Sector

1. Cocoa buyers are taking the lead in reform efforts

Large companies like Cargill have implemented digital traceability initiatives, including systems that assign unique IDs to cocoa bags, linking them back to verified farms compliant with deforestation standards.¹³⁰ Cargill has also facilitated mobile money systems, ensuring that payments to farmers are traceable, secure, and immediate, thereby reducing the risk of financial discrepancies. Additionally, the company funded the Coop 2.0. Academy program, providing capacity building to cooperatives preparing for EUDR and implemented with

¹²⁷ [Slow progress on Ivory Coast cocoa sustainability sparks EU concern, September 12, 2023, Reuters](#)

¹²⁸ [Traceability and transparency of cocoa supply chains in Côte d'Ivoire and Ghana, Nitidae and EFI \(2021\)](#)

¹²⁹ [Slow progress on Ivory Coast cocoa sustainability sparks EU concern, September 12, 2023, Reuters](#)

¹³⁰ Interview with private sector, July 2024.

IFC's Global Agriculture and Food Security Program.¹³¹ This project spans Ivory Coast and Cameroon, impacting around 140 cooperatives and benefiting approximately 40,000 farmers indirectly. It provides capacity building support to cooperatives to ensure compliance with EU regulations, particularly in tracing indirect supply chains involving unregulated and uncertified cocoa traders.

3.2.3 Adaptation Challenges

Government Adaptation Challenges

1. *Expected delays in the launch of the national traceability system*

Despite these initiatives, the government faces significant challenges in launching the national traceability system. Completing the system requires physical visits to all cocoa farmers, which is a daunting task given that there are about 900,000 cocoa-producing households in the country.¹³² The official timeline for the rollout of the national traceability system was set for October 1, but companies expect that achieving this deadline is unrealistic. Deploying the system involves issuing farmer cards that identify both the farmer and their plots. Although officials state that 90% of farmer cards have been produced, buyers are somewhat skeptical given that many farms are yet to receive them. Without the national system, large buyers can still use their own traceability systems, however, many farmers outside of their supply chains will remain excluded and face difficulties meeting EUDR requirements.

2. *Lack of clarity on legality criteria in EUDR*

Another challenge is the lack of clarity regarding how to ensure compliance with the legality criterion. Compliance requires adherence to relevant Ivorian laws concerning land, environment, human rights, labor, trade, and customs. Currently, there is no specific document clarifying which companies can legally operate in the field, leaving exporters to collect various documents, such as certification records and government authorizations, to prove legality.

The Government has been actively involved in the development of the African Regional Standard for Sustainable Cocoa (ARS 1000) as part of African Organization for Standardization member states.¹³³ ARS 1000 is a voluntary standard for cocoa producers and industry stakeholders in Africa, offering a framework for improving practices across the continent. Similar to EUDR, it includes a **zero-deforestation commitment and traceability requirement**. Whether this standard could will help companies meet the legality criterion is yet to be clarified by the Government.¹³⁴

3. *Map of protected areas yet to be released*

¹³¹ [Cargill and IFC announce Coop Academy 2.0 to empower cocoa producing cooperatives](#), Cargill and interviews with private sector, July 2024

¹³² [Traceability and transparency of cocoa supply chains in Côte d'Ivoire and Ghana](#), Nitidae and EFI (2021)

¹³³ [Interlinkages Between ARS-1000 & EUDR Need To Be Realized For The Benefit Of Sustainable, Deforestation-Free Cocoa](#). An Explainer. IDH (2023)

¹³⁴ Interview with private sector, July 2024.

Furthermore, there is an urgent need for an updated map of protected areas to help exporters prove that their cocoa does not come from land deforested after December 31, 2020. Estimates suggest that between 15% and 30% of cocoa farms are in protected areas, potentially breaching EUDR standards.¹³⁵ Clear borders and updated information about these areas are essential to ensure compliance.

Private Sector Adaptation Challenges

1. *Regulatory uncertainty and compliance risks*

Delays in launching the national traceability system, the lack of clarity on legality requirements and of the map of protected areas adds to regulatory uncertainty as companies struggle to identify which documents are necessary for compliance. Moreover, EUDR introduces significant data management and storage requirements posing a challenge, as EUDR mandates that all documents for each shipment container be archived for five years. The administrative burden becomes overwhelming, leaving each purchase as a potential risk.¹³⁶ In addition, implementation of remediation systems for non-compliant farmers, which is a CSDDD requirement, will likely be a significant compliance challenge if the number of such farmers is high.

2. *Challenges facing cooperatives*

Cooperatives, which play a key role in aggregating cocoa from smallholder farmers, face significant compliance pressures, and the risk of excluding non-compliant farmers from the market. More than 20,000 cooperative sections and local buying agents are involved in collecting cocoa beans, while about 2,900 cooperatives and 187 local traders engage in trading cocoa beans to exporting companies.

The EUDR introduces significant data requirements. Cooperatives have to be able to provide to buyers data on the geolocation of farms, attributes associated with farmer and unique ID, certification records (if available), purchase orders, cocoa batch identification, collection requests etc. They could also have a key role in providing data and information related to legality.

However, many lack the basic ICT infrastructure needed to run such systems and those cooperatives who are already working with such software (provided by large buyers) struggle with different data reporting systems to different buyers. Lack of interoperability of the existing systems is an issue, putting extra bureaucratic burden on cooperatives reporting to different buyers. Multiple software systems complicate data management for cooperatives. The GIZ project DIASCA and the FAO are exploring ways to enhance interoperability of these systems.¹³⁷ Implementing such systems can be prohibitive without external financial support. Moreover, cooperatives collaborating with large exporters often find themselves lacking control ("not in the driver's seat") because they have limited access to crucial data and a poor understanding of the advantages of implementing sustainability measures. Sustainability specialists sent by buyers to collect data typically do not share this information with cooperatives, leaving them without crucial data to make informed pricing and other operational decisions.

¹³⁵ [Study Finds Around 15% Of Ivory Coast's Cocoa Farms Are In Protected Forest, May 6, 2021, Reuters; Traceability And Transparency Of Cocoa Supply Chains In Côte d'Ivoire And Ghana, Nitidae And EFI \(2021\)](#)

¹³⁶ Private sector interview, July 2024

¹³⁷ [Digital Integration of Agricultural Supply Chains Alliance \(DIASCA\), Initiative for Sustainable Agricultural Supply Chains](#)

3.2.4 Advancing adaptation

As Ivory Coast navigates the complexities of EUDR, policymakers and the private sector play a crucial role in ensuring the sustainability of the cocoa industry. This section outlines areas for policy and business action towards adaptation as seen by interviewed stakeholders.

1. Accelerate the rollout of the national traceability system

Private sector and Government consider the roll-out of the system as crucial. This involves a swift distribution of electronic farmer ID cards to ensure all cocoa farmers are integrated into the digital traceability system. This integration will both, facilitate compliance with EUDR for all value chain actors, while enhancing the efficiency of tracking cocoa from farm to export

2. Clarify EUDR requirements for the private sector

Private sector needs clear guidelines outlining the necessary documentation for legal compliance under the EUDR. For example, is it sufficient if actors along the value chain comply with local laws, or is something more required? What is a proof of compliance? Additionally, an updated map of protected areas to assist supply chain actors in demonstrating that their cocoa does not come from recently deforested land is needed before the regulation enters into force. The private sector could also need guidance on designing a remediation system for farmers who are not yet meeting the requirements.

3. Build technological and compliance capacity of cooperatives and farmers

The impact of EUDR on smallholder cocoa producers is understudied. Yet, given that the majority of value chain actors are from this group, boosting competitiveness of cooperatives and farmers is vital dimension of EUDR response and livelihood efforts.

There is a critical need for building awareness and empowering farmers and small-scale intermediaries to get up to speed with the new regulations, including CSDDD. Comprehensive training programs about regulatory compliance with EUDR requirements, including traceability, legal documentation, zero deforestation commitments, and data management and reporting are examples of content to be covered.

Beyond compliance, cooperatives need to be equipped with knowledge, tools and funding to self-sufficiently managing these data to empower them in decision-making about pricing and their of supply chains. For example, globally, there are about 30 potential solutions for cocoa traceability and EUDR compliance reporting.¹³⁸ Assisting them in choosing and operating suitable technological solutions, promoting interoperability of existing systems, while integrating ed-tech wherever possible, could be a changemaker for enhancing capacity, data management and increasing engagement in sustainability practices. Furthermore, they could facilitate real-time monitoring of cocoa, enhancing transparency and enabling immediate feedback on compliance.

4. Engage with local and international NGOs

¹³⁸ [Martin, Carla D., Angebault C. and Gonnet G., Benchmarking Traceability and EUDR Compliance Solutions For Cocoa. Fine Cacao and Chocolate Institute and Nitidæ \(2024\)](#)

Partnering with NGOs specializing in agricultural training and sustainability can facilitate value chain actors through expertise and resources. These partnerships can enhance training content to ensure programs are relevant and incorporate the latest research and best practices while also expanding the reach to a wider audience of farmers and cooperatives. Experiences of past programs with cooperatives, including the Cargill-IFC program, have shown that building capacity of farmers and cooperatives takes time and requires significant resources on the ground. Technology alone cannot ensure full traceability.¹³⁹

5. *Facilitate access to innovative funding*

Facilitating access to across all dimensions of EUDR adaptation, including innovative funding for cooperatives to invest in necessary technologies and infrastructure. This could be explored through scaling blended finance and impact investing instruments that mobilize private sector capital and are less risk-averse than traditional finance, allowing to test new approaches and build financial capacity of entrepreneurial cooperatives at the same time.

3.3 Additional Country Insights on EUDR, CBAM and CSDDD

The following sections provides short summaries of additional feedback collected as part of the research, based on interviews with public and private sector representatives, as well as development partners engaged in relevant country programs.

3.3.1 India (CBAM)

India is focusing on protecting its steel and aluminum exports to the EU in the wake of **CBAM** requirements. The Indian government has already laid the foundation for a **domestic carbon market**, which could help mitigate the impact of CBAM, but Indian businesses are concerned about the impact of the regulation on their exports. SMEs in particular lack the resources and expertise needed to manage complex carbon accounting systems and funding to innovate, posing a significant barrier to compliance. The European Commission has pledged to collaborate with India to help the country adapt to the EU's Carbon Border Adjustment Mechanism (CBAM) and develop its own emissions pricing system.¹⁴⁰

3.3.2 Ghana (EUDR)

Ghana aims to preserve its access to the EU market by aligning its cocoa sector with the **EUDR**, ensuring that production meets strict sustainability and deforestation monitoring requirements. Ghana has been proactive by utilizing **surveillance technology** to monitor deforestation and comply with the EUDR. This initiative has helped safeguard its cocoa exports to the EU, a critical market for Ghana's economy. Despite these achievements, ensuring full traceability in the cocoa supply chain remains challenging, particularly among

¹³⁹ Interviews with IFC and Technoserve as part of the IFC Supplier Innovation Fund Project, June 2024

¹⁴⁰ [Brussels, New Delhi agree to work together on CBAM, July 8, 2024, Carbon Pulse](#)

smallholder farmers. The country must strengthen its monitoring systems and formalize smallholder operations to meet the increasing demand for transparency.

3.3.3 Peru (EUDR)

Peru's goal is to adapt its coffee and cocoa industries to the **EUDR**, ensuring that traceability and sustainability standards are met. Efforts have been supported by international bodies, including the World Bank, to establish traceability systems and sustainable farming practices. These initiatives are designed to help maintain Peru's access to the EU market. The large number of smallholder farmers and the need for coordination across various ministries (Agriculture, Environment, Trade), local governments, NGOs and private sector make the adaptation process challenging.

3.3.4 Uganda (EUDR and CSDDD)

Uganda's primary task is adapting its coffee sector to meet the requirements of both the **EUDR** and **CSDDD**, supported by the International Trade Center. This includes ensuring traceability and implementing sustainability practices. Uganda has introduced a **Coffee Farmers Registry** to formalize smallholder farmers, a key step toward meeting traceability requirements. The **Uganda Coffee Task Force** is also playing a central role in promoting sustainable practices in the sector. Uganda's coffee supply chain is highly informal, with up to seven intermediaries between smallholders and exporters. This fragmentation complicates efforts to establish full traceability. Additionally, the country faces a lack of financial and technical capacity to fully implement the necessary sustainability and traceability systems.

3.3.5 Vietnam (CSDDD)

Vietnam's challenge to ensure compliance of textile exports with CSDDD relates mainly to SMEs. Vietnam's Textile and Apparel Association (VITAS) has partnered with international organizations to provide training on ESG risk management. The National Action Program 2023-2027 was introduced to promote responsible business practices in Vietnam's textile industry. Despite these efforts, 80% of SMEs face challenges in meeting the complex requirements of CSDDD. Increased short-term costs include compliance costs and process improvements as well as investment costs in new management and reporting systems to meet transparency requirements. SMEs are increasingly under pressure to enhance their production processes and invest in environmentally friendly technologies to align with environmental regulations. Additionally, they must improve monitoring and oversight of sub-suppliers.

3.4 Summary

Turkey and Ivory Coast have both made important strides toward compliance with EU environmental regulations, but their efforts highlight distinct challenges and opportunities. Turkey has progressed with its Green Deal Action Plan and the anticipated launch of a national ETS, both critical for aligning with CBAM. However, SMEs particularly in carbon-intensive sectors, struggle with the high costs of technology upgrades and carbon accounting systems. International financial and technical assistance is crucial to support these businesses in meeting the stringent EU requirements and avoiding market exclusion.

In Ivory Coast, the focus is on the cocoa industry, where the EUDR mandates a robust traceability system to ensure deforestation-free production. All major trading companies like Olam, Barry Callebaut or Cargill have already implemented digital traceability systems, but the real challenge lies in scaling these efforts across the entire supply chain, especially among smallholder farmers. Many farmers lack the resources to adopt digital tools, leaving the broader sector vulnerable to losing access to the EU market. Ivory Coast's efforts highlight the need for significant investments in infrastructure and training, coupled with stronger international support, to ensure full compliance and safeguard the livelihoods tied to cocoa exports.

Overall, country examples reveal that quite a few countries are bracing for the new regulations, recognizing the potential advantages associated with green transition, but also the economic cost associated with inaction. There is, however, a wide disparity in readiness across countries in meeting EU regulatory requirements:

- **Turkey, Peru and Ghana** have **taken significant steps toward compliance**, but smaller firms in both countries are struggling with the financial and technical demands of aligning with new standards.
- **India, Ivory Coast and Uganda** are **at earlier stages**, with notable efforts in place, but facing significant hurdles, particularly among their smallholder farmers and SMEs. In **Vietnam**, compliance with CSDDD is critical for maintaining the competitiveness of its textile industry, while the private sector wishes for a more proactive government role to leverage opportunities on the EU and also US markets (i.e. related to NY Fashion Act).
- Some countries are **seeking more time and support**. Many ACP countries are still in the early stages of discussion around all three regulations. While there are positive examples, due to limited resources, they are calling for more time to comply with these EU regulations.

The cases of Turkey and Ivory Coast provide valuable lessons for other developing economies facing similar challenges due to new environmental regulations. By prioritizing government action, ensuring clear regulations, leveraging technology, supporting SMEs, securing financial investment, fostering collaboration, and establishing robust monitoring systems, countries can effectively navigate the transition to a sustainable future. Box 4 summarizes the observations.

Box 4: Lessons learned from country cases about EUDR, CBAM and CSDDD

1. Importance of Proactive Government Action

Countries like Turkey and Ivory Coast demonstrate that proactive government initiatives, such as the Green Deal Action Plan in Turkey and the national traceability system in Ivory Coast, are crucial for successfully adapting to new environmental regulations. These plans foster collaboration among ministries and stakeholders, facilitating the development of comprehensive strategies to meet compliance requirements and enhance sustainability across sectors.

2. Need for Clear and Consistent Regulations

The experiences from both Turkey and Ivory Coast highlight the necessity for clear guidelines regarding compliance requirements. For example, in Ivory Coast, ambiguity surrounding legality criteria under the EU Deforestation Regulation (EUDR) has created uncertainty for exporters. Establishing transparent, consistent regulations is essential for businesses to effectively plan and invest in necessary adaptations.

3. Technological Integration for Traceability and Compliance

Turkey, Ivory Coast and Ghana emphasize the significance of technological solutions in ensuring traceability and compliance. Turkey's focus on emissions monitoring and reporting methodologies, alongside Ivory Coast's and Ghana's use of digital tools for cocoa traceability, illustrates how technology can enhance transparency and efficiency

in supply chains. Supporting suppliers, including cooperatives and smallholder farmers in adopting these technologies is vital for compliance and market access.

4. Private Sector Leadership in Adaptation Efforts

Large companies are often at the forefront of adaptation efforts, investing in sustainability initiatives and establishing traceability systems to prepare for regulatory compliance. Their leadership can catalyze broader industry changes and support smaller players through capacity-building and collaboration.

5. The importance of support for SMEs Suppliers

The adaptation processes underscore the specific challenges faced by SMEs. In both Turkey and Ivory Coast, SMEs lack the resources and expertise needed to comply with complex regulations. SMEs in Vietnam are under increasing pressure to invest in process improvements and environmentally friendly technologies to comply with regulations like CSDDD. Providing targeted financial and technical assistance, as well as simplified compliance guidance, is essential to support these businesses in meeting new standards.

6. Financial Support and Investment Needs

Adequate funding for green transitions is critical. Both countries are exploring various funding mechanisms, including grants, loans, and partnerships with international organizations, to bridge financial gaps. Development partners play an important role in channeling funding to transformative decarbonization initiatives and reforms. In addition, exploring innovative funding mechanism to support SMEs entrepreneurship and, including empowering cooperatives, is also needed.

7. Collaboration Among Stakeholders

Successful adaptation to new environmental regulations requires collaboration among public and private sectors, NGOs, and international partners. In Turkey, for instance, public-private partnerships and active policy advocacy by associations help shape supportive regulatory frameworks. Similarly, in Ivory Coast, partnerships with NGOs can enhance training and resource availability for farmers and cooperatives, improving compliance and sustainability practices. The examples of Peru and Uganda further illustrate the need for cross-sector coordination, involving ministries, local governments, NGOs, and the private sector, to address the multifaceted demands of regulations such as the EUDR and CSDDD.

Source: Author's elaboration

Part 4. New Environmental Regulations and Business Environment

This section explores broader themes related to the emergence of new environmental regulations and their implications for the global business environment, particularly in developing countries. Key issues include heightened regulatory uncertainty, compliance costs, market access challenges, supply chain adjustments, the increasing role of technology, and the impact on SMEs. These regional and global regulations are reshaping the business landscape by elevating compliance costs, driving innovation and green investment, and presenting both challenges and opportunities for private sector development. The demand for sustainable practices is no longer optional; it is becoming an essential component of global trade. Businesses must adapt to these changing requirements or risk exclusion from lucrative markets such as the EU.

4.1 Regulatory Uncertainty in the Face of Emerging Regulations

Regulatory uncertainty stems from pushback from several fronts, particularly developing countries, concerning regulations like EUDR and CBAM, which are taking effect soon. For the EUDR, many producing countries, have raised concerns about traceability and data governance challenges, calling for more time and clear guidance from the EU to avoid market disruptions.¹⁴¹ In Indonesia, EUDR has also affected trade deal negotiations with EU over commodities like palm oil.¹⁴² For CBAM, global organizations like the WTO warn that it could fragment global trade and spark litigation, advocating for a global carbon pricing framework that accounts for different economic realities. This system would require modifications to the existing CBAM.¹⁴³ CSDDD is yet to be transposed to the legislative frameworks of EU Member States and while the EU is closely engaged in these processes to ensure maximum harmonization, there is a possibility of different definitions, scope, penalties, and other aspects.¹⁴⁴

The new regulations are being introduced at a fast pace and necessitate extensive collaboration across various sectors and levels to ensure proper implementation. EU legislators, industries, and regulatory bodies are actively working together to refine and clarify these emerging rules. Through public consultations, conferences, and the creation of comprehensive guidance and templates, the groundwork for regulatory certainty is gradually being laid. Global collaborative platforms, such as the Responsible Business Alliance, are facilitating the exchange of sustainability best practices and aligning policy advocacy efforts, which are essential in smoothing the transition for companies facing new compliance demands.

¹⁴¹ [Fairtrade: The Unbearable Compliance Costs of EU Deforestation Law For Small-Scale Farmers, euobserver, September 13, 2024](#)

¹⁴² [EU-Indonesia Trade Deal Set to Miss September Deadline Over Deforestation Dispute, euobserver, September 25, 2024](#)

¹⁴³ [Global Carbon Pricing Needed to Avert Trade Friction, Says WTO Chief, Financial Times, September 14, 2024](#)

¹⁴⁴ Private sector interview, September, 2024

There is a critical gap in deeper engagement with developing countries, which are disproportionately impacted by these regulations. Many low- and middle-income countries, particularly those that rely heavily on export-led growth, face substantial challenges in meeting the new environmental standards. Organization of African, Caribbean and Pacific States mentioned that the lack of prior consultation with these nations in the development of EU regulations has exacerbated feelings of marginalization, forming a systemic grievance. While the EU has initiated many bilateral discussions and is working on implementing regulations, multistakeholder initiatives, such as those seen in the cocoa and mineral sectors, have historically proven effective in addressing sustainable practices across industries (Box 5). Expanding these collaborative efforts with developing nations will be crucial for ensuring a fair and inclusive transition to greener trade practices.

Box 5: Examples of successful multistakeholder initiatives

Sustainable Cocoa Initiative

The EU's **Sustainable Cocoa Initiative**, launched in 2020, aims to improve economic, social, and environmental sustainability in cocoa production, particularly in key countries like Côte d'Ivoire, Ghana, and Cameroon. It focuses on raising farmers' incomes, protecting the environment, and eliminating child labor. The initiative fosters collaboration among EU stakeholders, governments, and the private sector to ensure sustainability through traceability, deforestation prevention, and living income standards. Supported by a €25 million EU program, it drives reforms and hosts multistakeholder dialogues called "Cocoa Talks" to align the sector with EU sustainability legislation.

European Partnership for Responsible Minerals (EPRM)

The **European Partnership for Responsible Minerals (EPRM)** promotes responsible mineral sourcing from artisanal and small-scale mining (ASM) communities in conflict-affected regions. Complementing the EU Responsible Minerals Regulation, the EPRM funds projects to improve conditions in these areas. It connects governments, supply chain actors, and civil society to support responsible mining, improve due diligence, and foster collaboration through initiatives like the Due Diligence Hub for sourcing minerals such as tin, tantalum, tungsten, and gold (3TG).

Sources: European Commission, EPRM¹⁴⁵

4.2 The Dual Challenge of Compliance Costs and Market Access

Country cases illustrate the type of compliance costs and market access issues. For Turkey, industries such as steel, aluminum, and cement, which are carbon-intensive, face higher costs to meet the CBAM requirements. These increased compliance costs include direct cost of CBAM certificates, as well as the cost of adjustments through investments into green technologies and emissions monitoring and reporting systems. Given the lack of support from the Government, they also bear the cost of bringing their suppliers up to speed with the new legislation. If Turkish companies do not comply with CBAM by reducing their carbon emissions or adopting cleaner technologies, they risk being priced out of the EU market due to carbon tariffs. Companies in the cement industry are already adjusting to the expected market access restrictions by diversifying exports to destinations with less stringent environmental regulations. Similarly, exporters covered by EUDR and CSDDD

¹⁴⁵ [European Commission](#) and [EPRM](#)

will face a range of compliance costs, which will be difficult to avoid if companies want to maintain access to EU market.

Table 15 Categories of compliance costs faced by companies under CBAM, EUDR, and CSDDD.

Cost category	CBAM	EUDR	CSDDD
Traceability and data management	Implementing systems to track carbon emissions throughout the supply chain.	Implementing systems for tracing the origin of products to ensure deforestation-free supply chains.	Implementing systems for identifying and tracking environmental and human rights risks and impacts in supply chains.
Auditing and verification	Emissions verification through third-party audits, monitoring, and reporting.	Independent audits to verify deforestation-free sourcing.	Regular sustainability and human rights audits across suppliers.
Legal and regulatory compliance	Navigating carbon accounting rules and adapting to cross-border taxation policies.	Compliance with EU rules on traceability, deforestation definitions, and verification criteria.	Ensuring compliance with human rights, environmental, and governance laws across jurisdictions.
Capacity building	Training employees and suppliers on emissions reporting and CBAM-related practices.	Training farmers and cooperatives on traceability, monitoring, and data management.	Educating suppliers on human rights, sustainability, and environmental risks.
Remediation systems		Measures to ensure compliance and address non-compliance issues throughout their supply chains, specifically in relation to the prevention of deforestation-linked goods entering the EU market ¹⁴⁶	Compensation to affected individuals, setting up grievance mechanisms, providing remedy (e.g., restitution, compensation, guarantees of non-repetition) for human rights or environmental harm
Supply chain adjustments	Shifting to lower-carbon suppliers or adjusting processes to minimize emissions.	Sourcing from new suppliers that comply with deforestation-free policies.	Sourcing from new suppliers that comply with sustainability standards.
Administration and reporting	Regular emissions reporting to EU regulators, including carbon intensity documentation.	Reporting traceability and compliance to the EU for commodities like cocoa, coffee, and palm oil.	Continuous reporting on sustainability, human rights, and environmental compliance.
Technology investments	Investing in carbon accounting software and emissions tracking technologies.	Costs for traceability/geolocation software and hardware	Investments in technology for monitoring and reporting due diligence on environmental and social issues.

¹⁴⁶ Although EUDR does not strictly address "remediation," the regulation raises concerns about the capacity of smallholder farmers to comply. Some stakeholders advocate for measures like capacity building, financial support, and technology access, which could be seen as forms of indirect remediation to ensure these small producers can comply with the regulation without losing market access.

Financial Compliance Costs	Paying carbon tax linked to emissions. Penalty in case of false or incorrect declaration.	Various penalties applicable to infringements	Penalties for the infringement of national provisions
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Source: Author's elaborations based on interviews

4.3 The New Role of Suppliers in Environmental Regulations

New environmental regulations are driving companies to reassess their supply chains to align with upcoming legislative requirements. While none of the interviewed large businesses indicated the intent to restructure their operations yet, they all acknowledge that ensuring a clean and transparent supply of critical inputs is vital. While many had already implemented voluntary sustainability policies and programs, in the new context, suppliers play a critical role in the supply chain. Their ability of companies to supply reliable and accurate data is not optional anymore, it has direct consequences for a company's legal liability and product prices.

Accelerated by these regulatory developments, MNCs are looking to tighten upstream relationships to ensure compliance and supplier data accuracy.¹⁴⁷ The case of EUDR implementation in Peru shows that EUDR has prompted buyers to closely monitor and coordinate their supply chains. This included collaborating with local governments and international organizations to ensure proper compliance with local laws and EUDR standards.¹⁴⁸ In the case of CBAM and other environmental legislation, large market players like Siemens are going a step further and adopting an "ecosystem" involving both, their supplier and customer relationships, translating into multi-party partnerships to foster knowledge and information exchange on all aspects of sustainability. Siemens example shows that strengthening supplier relationships and ensuring compliance not only mitigates risks but also enhances overall sustainability efforts across the supply chain.

Box 6: Siemens Ecosystem Approach

Siemens' ecosystem approach, spearheaded through initiatives like the **Estainium network** and **SiGreen software**, aims to accelerate businesses' sustainability efforts by fostering collaboration across supply chains and industries. The approach recognizes that no single business can tackle climate challenges alone, particularly because up to 90% of emissions for many products originate in the supply chain, not from the manufacturer directly. The **Estainium network** encourages manufacturers, suppliers, and partners to exchange reliable carbon footprint data securely, creating a more transparent and efficient path to reducing carbon emissions and increasing energy efficiency. **SiGreen software** helps track a product's emissions throughout the supply chain, ensuring companies can measure the true environmental impact of their products.

Traditionally, companies have focused on their own emissions, but Siemens pushes for **supply chain-wide ownership** of sustainability issues. It spearheads a **technology-driven collaboration**. Siemens leverages advanced digital tools, such as blockchain-based crypto verification, to ensure data accuracy and trust in a way that previous systems have not allowed. It has an **ecosystem mindset**. Instead of companies working in silos, Siemens advocates for **knowledge sharing** and reuse of existing solutions across industries, significantly speeding up the path to sustainability.

Source: Siemens Insights¹⁴⁹

¹⁴⁷ [The EU Carbon Border Adjustment Mechanism \(CBAM\): Implications for supply chains, PWC, February 27, 2024](#)

¹⁴⁸ [Celiku B., Arenas G., Paz M. A. G., Echandi R., The impact of European Union Deforestation Regulation: Four lessons from Peru's Journey, July 31, 2024, World Bank Blogs](#)

¹⁴⁹ [Siemens AG website](#)

4.4 Digitalization of Sustainable Supply Chains

New environmental regulations are pushing companies to improve their data collection and management systems related to traceability, emissions reporting, and supply chain oversight. Technology for trade – TradeTech – is one example of how **blockchain** technology in supply chain management and customs processes can help businesses and customs authorities. Blockchain enables real-time tracking of goods, providing a transparent record of each step in the supply chain. This allows businesses to ensure compliance with trade regulations like **rules of origin** or **carbon footprint tracking** under sustainability-focused regulations like CBAM.¹⁵⁰ Companies like **Unilever** are experimenting with **blockchain technology** to ensure their supply chains are free from deforestation, providing clear traceability from raw materials to the market.¹⁵¹ A future opportunity could be Ed-Tech technologies, which could be used for enhancing capacity, data management and increasing engagement in sustainability practices by SMEs and small-holder farmers. Furthermore, they could facilitate real-time monitoring of commodities like cocoa, enhancing transparency and enabling immediate feedback on compliance.

4.5 Clean Energy Strategies and Global Trade Implications

Beyond data and systems, several emerging and developing economies are exploring clean energy technologies such as green hydrogen, carbon capture and storage or carbon capture utilization, while embedding energy efficiency and substituting carbon-heavy inputs. For example, Morocco's and Algeria's governments and private sector are looking to carbon capture and storage (CCS) to counterbalance emissions from oil and gas production to minimize the impact of CBAM. This strategy would enable them to attract European manufacturers by offering them a way to produce goods with a lower carbon footprint. Industry experts say that this strategy is significantly cheaper than complying with CBAM.¹⁵² China and India are embarking on plans to develop green hydrogen capacities, recognizing that future hydrogen trade between these countries and the EU will be linked to the EU-ETS.¹⁵³ In Turkey, cement companies implement decarbonization strategies that include substituting fossil fuels with biomass and waste, improving energy efficiency, and investing in renewable energy sources like hydroelectric, solar, and wind power.¹⁵⁴

New environmental regulations are likely to reshape global trade and investment patterns. In the short term, some exporters of CBAM products and their components within and outside the EU may redirect some of their production and exports to markets with less stringent environmental standards as a way to mitigate the costs of compliance.¹⁵⁵ Additionally, certain production inputs for CBAM industries, such as scrap metal in the steel industry, will see increased demand as companies look to meet carbon reduction targets.¹⁵⁶ This shift may lead to protectionist measures as countries try to secure the supply of critical materials.

However, the long-term trend indicates a growing commitment among companies to invest in decarbonization technologies to maintain competitiveness, especially in markets like the EU, where the demand for low-carbon goods continues to increase. This shift towards greener production could result in a broader global movement toward decarbonization and an expansion of industries that provide the necessary inputs for a low-carbon

¹⁵⁰ [Digitalization Is Disrupting Global Trade – Here's How AI Can Help Customs and Businesses To Respond](#), World Economic Forum, June 6, 2024

¹⁵¹ [SAP, Unilever Pilot Blockchain Technology Supporting Deforestation-Free Palm Oil](#), March 21, 2022

¹⁵² [Morocco And Algeria Challenge EU Carbon Tax With Carbon Capture Plans](#), Hespess, July 14, 2024

¹⁵³ [Green Hydrogen in China: A Roadmap for Progress WHITE PAPER](#), World Economic Forum, June 2023 and [National Green Hydrogen Mission, India](#)

¹⁵⁴ Private sector interview

¹⁵⁵ [INTERVIEW: Tactics To Avoid EU CBAM Likely To Include Relocation, Circumvention](#), Carbon Pulse, July 5, 2024.

¹⁵⁶ [INTERVIEW: Tactics To Avoid EU CBAM Likely To Include Relocation, Circumvention](#), Carbon Pulse, July 5, 2024.

economy. The UK is planning to implement their own versions of carbon border measures (CBAM), while the US has previously made similar announcements.¹⁵⁷ Moreover, with additional EU legislation taking effect soon such as the Ecodesign Directive, green trade and investment will likely be further reinforced.

4.6 Unintended Consequences for SMEs

SMEs are likely to be significantly affected by supply chain adjustments driven by new environmental regulations, yet the types and scale of these impacts remain poorly understood. While regulations can create new markets and business models for compliant SMEs, many in developing countries face challenges due to limited resources compared to larger corporations. Furthermore, although many SMEs are concerned about climate change, most have yet to invest in adaptation measures. According to ITC SME Competitiveness Surveys in Africa, 60% of large firms reported investing in at least one measure to reduce environmental risk, compared to only 38% of micro, small, and medium-sized firms.¹⁵⁸

A pressing challenge is the high compliance costs related to traceability, carbon accounting, and sustainability standards, which can be especially burdensome for SMEs operating on tight margins. The impact on SMEs will vary based on factors such as sector, export share aimed at the EU, geography, and local infrastructure. For example, in Ivory Coast, smallholder cocoa farmers risk exclusion from EU supply chains due to their lack of technical know-how and financial capacity to implement necessary traceability systems. However, since 78% of cocoa exports are controlled by large EU buyers, some smallholders may benefit as these larger companies adapt to new regulations.¹⁵⁹ In contrast, smallholder farmers in countries like Malaysia and Indonesia, with weaker ties to EU markets, face greater risks of exclusion.¹⁶⁰

While these regulations aim to promote sustainability and transparency, they can inadvertently lead to unintended consequences for SMEs. Larger companies may prioritize suppliers who meet compliance demands, sidelining smaller suppliers that struggle to adapt. Additionally, the pressure to comply may stifle innovation among some SMEs, leading to a potential rise in informal practices.

A deeper understanding of these impacts is essential. Targeted country research could assess compliance costs and barriers while considering broader implications for market dynamics, access to financing, and the potential for innovation within the sustainability space. Such insights would be essential for shaping effective strategies to support SMEs and addressing unintended consequences of new environmental regulations.

¹⁵⁷ [Factsheet: UK Carbon Border Adjustment Mechanism, Government Of UK, December 18, 2023](#) And [US Lawmakers Push Carbon Border Tariff Similar To EU's CBAM, euraktiv, August 10, 2021](#)

¹⁵⁸ [International Trade Center \(2021\), SME Competitiveness Outlook 2021\(Executive Summary\)](#)

¹⁵⁹ [Traceability And Transparency Of Cocoa Supply Chains In Côte d'Ivoire And Ghana, Nitidae And EFI \(2021\)](#)

¹⁶⁰ [Spencer M., European Deforestation Regulation: Key Opportunities And Risks \(2023\)](#)

Part V. Recommendations for Development Partners to Advance Adaptation to New Environmental Regulations

The next twelve months present an opportunity to strengthen collaboration between EU and third country governments, private sector actors, and civil society organizations, ensuring that all relevant parties are informed and engaged in the adaptation process. By prioritizing open communication and knowledge sharing, development agencies can help address the challenges posed by evolving regulatory frameworks. Initiatives during this time should focus on addressing knowledge gaps, facilitating international dialogue and partnerships, capacity building, and providing resources for compliance to enable countries to effectively navigate the complexities of environmental regulations.

In particular, the following types of engagements could prove helpful:

5.1 Taking stock of knowledge gaps and prioritizing research topics

The report identifies several research gaps that need might to be addressed to support compliance with new environmental regulations and enhance adaptation strategies. Collaboration among agencies already implementing pilot programs related to the regulations, and with the EU could inform these research efforts.

- **Sectoral impact assessment of regulations:** such studies are scarce and needed to assess the economic, social, and environmental impacts of regulations like the EUDR and CBAM. In Turkey, impact studies by development partners like the World Bank and EBRD have been critical in prioritizing policy reforms, such as establishing a national Emissions Trading System (ETS). By assessing costs and benefits, these simulations provide clear evidence to guide decision-making, ensuring policies maximize opportunities while minimizing disruptions. Research should focus on understanding their effects on trade and on local economies, particularly in agriculture and industry.
- **Adaptation strategies for SMEs:** studies should explore tailored adaptation strategies specifically designed for SME suppliers, investigating the most effective types of support—financial, technical, and educational—that can help them meet compliance requirements.
- **Role of technology in compliance:** understanding the impact of technological integration on compliance and traceability is essential. Research should focus on evaluating different technological solutions that enhance transparency and compliance, including for smallholders and cooperatives.

- **Financial mechanisms and their impact:** There is a gap in research regarding the effectiveness of financial mechanisms, such as grants and low-interest loans, in facilitating the green transition. Investigating how these mechanisms influence investments in sustainable practices will provide valuable insights for policymakers and development agencies.

5.2 Engaging in international policy and multistakeholder fora

Development agencies should proactively identify and participate in relevant international policy dialogues, bringing together key stakeholders from buying and producing country governments, private sector representatives, NGOs, and multilateral organizations. This engagement presents an opportunity to achieve two main objectives:

- **Advocating for coherent regulations and inclusive dialogue:** as countries develop legislation related to due diligence, carbon taxes, and other environmental regulations, development agencies can emphasize the importance of creating coherent and consistent regulatory frameworks. For example, the OECD Guidelines on Responsible Business Conduct have been instrumental in shaping the CSDDD, ensuring alignment with internationally recognized standards (Box 7). Such efforts could be boosted, while making sure that they consider the unique circumstances of developing countries, ensuring that compliance does not hinder trade and economic growth.

Box 7: OECD Guidelines on Responsible Business Conduct

The **OECD Due Diligence Guidance for Responsible Business Conduct** offers practical support for enterprises implementing the OECD Guidelines for Multinational Enterprises. It provides clear explanations of due diligence recommendations aimed at helping businesses avoid and address negative impacts related to workers, human rights, the environment, bribery, consumers, and corporate governance linked to their operations and supply chains. The Guidance includes additional tips, illustrative examples, and seeks to promote a shared understanding of due diligence among governments and stakeholders. It aligns with other frameworks, such as the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration, facilitating the implementation of their due diligence recommendations.

Sectoral due diligence guidance: The OECD has developed sectoral guidance which helps enterprises identify and address risks to people, the environment and society associated with business operations, products or services in particular sectors. Such guidance is available for the extractive sector, mineral supply chains, agricultural supply chains, garment supply chains, financial sector and other topics such as child labour in mineral supply chains, artisanal and small-scale gold mining, sport and corruption and criminal exploitation of resources.

- **Supporting awareness and action in multi-stakeholder initiatives:** development agencies should identify and strategically engage with initiatives like the Sustainable Cocoa Initiative and the European Partnership for Responsible Minerals. For example, the EU Sustainable Cocoa Initiative has resulted in concrete results, and could be replicated and improved in other sectors (Box 8). By mapping relevant initiatives, they can share knowledge and facilitate inclusive dialogues that amplify the voices of local communities and marginalized groups in policymaking processes, ensuring that regulations accurately reflect the realities on the ground.

Box 8: Results and Challenges of the Sustainable Cocoa Initiative

The EU Sustainable Cocoa Initiative aims to promote deforestation-free trade and combat child labor in Côte d'Ivoire, Ghana, and Cameroon. The Initiative has been a **useful addition to the cocoa sector**: it has enabled **dialogue** between producer country governments and the main consumer country governments (the EU) in a way that has never happened before. In addition, it has helped **push forward important priorities** like national traceability systems, and helped with preparation for the application of the EU Regulation on deforestation-free products (EUDR). Actors in Cameroon, Côte d'Ivoire and Ghana are **better-informed** than in **other producer countries**.

However, **challenges** remain. Issues include concerns about the robustness and transparency of traceability systems, deficiencies in monitoring child labor and deforestation, and a lack of clarity on compliance with national laws regarding land and labor rights. To enhance progress, the report recommends establishing four types of dialogues:

1. Smaller technical working groups led by producer country governments.
2. Structured political dialogue between the European Commission and producer countries.
3. A permanent multi-stakeholder dialogue forum at the producer country level.
4. Larger public-facing discussions similar to the original Cocoa Talks (2021-2022).

These measures should be inclusive of non-government actors like companies, farmers' organizations, and NGOs to address identified issues effectively.

Source: Fern¹⁶¹

- **Advocating for green funding:** development agencies should promote the establishment and accessibility of green funding mechanisms that support sustainable practices and compliance with environmental regulations. This includes advocating for grants, low-interest loans, and innovative financing solutions that enable developing countries to invest in green technologies and practices. For example, the Green Climate Fund, the World Bank's Climate Investment Funds, and other organizations like European Investment Bank and International Finance Corporation already provide funding for renewable energy projects, clean technologies, and low-carbon solutions, and could be further explored to align more closely with the latest requirements of EU regulations like CBAM, EUDR, and CSDDD to support developing countries' compliance efforts

5.3 Providing country-level support

5.3.1 Prioritize Urgent Responses to Support EUDR and CBAM

Countries and companies affected by the new environmental regulations, including CBAM and EUDR, must prioritize adaptation to protect their export markets and maintain competitiveness. Given the short timelines, policymakers should conduct rapid assessments of impacted value chains, identifying key gaps and collaborating with stakeholders to minimize disruptions. Immediate actions should focus on identifying major export firms, mapping their supply chains, and supporting compliance efforts, including engagement with EU importers and communication with EU trade authorities.¹⁶² Existing initiatives related to traceability, geolocation, and carbon reduction technologies should be leveraged to facilitate adaptation. Digital platforms

¹⁶¹ Assessment Of The Eu Sustainable Cocoa Initiative: Looking Back On The Journey And To The Road Ahead, Fern (2024)

¹⁶² Celiku B., Arenas G., Paz M. A. G., Echandi R., The impact of European Union Deforestation Regulation: Four lessons from Peru's Journey, July 31, 2024, World Bank Blogs

from international organizations or private entities can help ensure compliance with deforestation-free and emissions reduction criteria. For producers struggling with regulatory requirements, alternative market strategies should be developed to minimize losses during the adaptation process.

5.3.2 Build Awareness and Knowledge Exchange on Relevant Legislation

Increased awareness-building efforts are crucial for developing countries to adapt effectively. Stakeholders across various countries have identified gaps in awareness and understanding of these regulations due to technical complexity, EU-centric terminology, and language barriers.

Governments, development partners, and industry bodies should organize information workshops, information sessions, and stakeholder consultations to educate businesses, particularly SMEs, about the regulations. Existing infrastructure of EU delegations and of development partners, such as the GIZ Business Scouts Program¹⁶³ should be leveraged to raise awareness and provide technical and capacity support to SMEs.

Box 9: GIZ The cooperation network of the Business Scouts for Development

Business Scouts act as development cooperation experts for the German Federal Ministry for Economic Cooperation and Development (BMZ) in Germany and around 30 other countries. They are integrated into Germany's leading business associations, chambers of commerce, and social partners, making them accessible to small and medium-sized enterprises (SMEs). The Scouts provide targeted support for sustainable initiatives, offering advice on development policy instruments and business opportunities in developing and emerging markets, and facilitating cooperation projects through the Business Scouts Fund.

Business Scouts focus on areas that align with the Federal Government's goals for inclusive, sustainable, and stable economies in project countries. Their four priority areas include:

1. **Driving the Global Energy Transition:** Promoting climate-neutral and socially just solutions through sustainable supply chains and skills development.
2. **Strengthening Participation:** Enhancing inclusion of women and disadvantaged groups via vocational training programs.
3. **Building Resilient Health Systems:** Establishing crisis-proof health systems in response to the COVID-19 pandemic.
4. **Combating Poverty and Hunger:** Encouraging sustainable practices in the agri-food sector.

Source: GIZ¹⁶⁴

Knowledge exchange and collaboration platforms can facilitate sharing best practices and connect local actors with EU resources, tools, and development partners already working on compliance projects. For example, the earlier mentioned EU Sustainable Cocoa Initiative has resulted in concrete results, and could be replicated and improved in other sectors.

The EU Helpdesk will also serve to exchange knowledge and sharing of best practices. Facilitated by the EU and several Member States, it will serve as a primary contact point and information source for private sector

¹⁶³ [The Cooperation Network of the Business Scouts for Development, GIZ](#)

¹⁶⁴ [The German Agency for International Cooperation \(GIZ\)](#)

actors and civil society organizations in partner countries of EU development assistance. This Helpdesk will offer initial guidance on the Corporate Sustainability Due Diligence Directive (CSDDD) and direct stakeholders to public resources and development cooperation initiatives aimed at preventing and mitigating negative human rights and environmental impacts in business operations. Resources may include sustainability standards, supplier training, guidance documents, financing instruments, and stakeholder networks. To tailor the Helpdesk to user needs, private sector and civil society are providing inputs to help guide its design and implementation.¹⁶⁵

5.3.3 Design Policy Mixes and Adaptation Roadmaps to Address Structural Issues

Development agencies can play a key role in facilitating the creation of comprehensive reform roadmaps that address structural issues in affected sectors while aligning with national climate and development goals. These roadmaps should focus on compliance, tackling challenges like fragmented supply chains and limited financing, while drawing on successful examples such as Turkey's Green Deal Action Plan to engage both the public and private sectors. Effective policy mixes must target these structural issues to ensure compliance with EU regulations like EUDR and CBAM. For instance, fragmented agricultural supply chains and limited access to finance for smallholder farmers in Ivory Coast hinder compliance with traceability and sustainability standards. In Turkey, a reliance on carbon-intensive industries and the absence of a comprehensive carbon pricing mechanism complicate meeting CBAM standards. Addressing these issues necessitates investments in technology, improved stakeholder coordination, and clearer regulatory frameworks to foster sustainable and efficient supply chains. Developing reform action plans, such as Turkey's Green Deal Action Plan, can mobilize public and private sector around reforms.

Transparency in supply chains is emerging as a critical area requiring urgent support. Regulations like EUDR and CBAM mandate companies to track product sourcing and carbon emissions. In this context, stakeholders must collaborate to ensure that businesses can verify the origin of their raw materials and adhere to compliance requirements. As seen in the case studies, supply chain transparency enables companies to meet regulatory obligations such as ensuring deforestation-free sourcing (EUDR), conducting due diligence on human rights and environmental impacts (CSDDD), and tracking emissions for CBAM compliance. Additionally, other policy topics such as regulatory quality, carbon pricing, incentives for green growth, technology for data management, and public-private partnerships are becoming increasingly relevant. However, policy mixes must be tailored to each country's specific needs and challenges.

A participatory policymaking approach is essential for fostering ownership, equity, and shared responsibility in compliance processes. Pilot projects by the International Trade Centre in African and Latin American countries highlight the need for support to MSMEs and smallholder producers, who often lack the resources to adapt.¹⁶⁶ Tailored awareness campaigns, clearer communication about both voluntary and mandatory EU standards, and inclusive dialogue platforms are vital for effective collaboration. Co-investment from all value chain actors ensures equitable cost-sharing and mitigate risks of exclusion of less-resourced stakeholders. For example, in Eswatini's textile and coffee sectors, of stakeholder-driven approaches have helped increase engagement between EU firms and local suppliers, aligning policies with local realities.¹⁶⁷

¹⁶⁵ [EU Helpdesk Questionnaire](#)

¹⁶⁶ [Making mandatory human rights and environmental due diligence work for all Highlights on effective and inclusive accompanying support to due diligence legislation, International Trade Center](#)

¹⁶⁷ [Making mandatory human rights and environmental due diligence work for all Highlights on effective and inclusive accompanying support to due diligence legislation, International Trade Center](#)

Development agencies must also scale supplier development programs to ensure compliance with environmental and climate-related standards. The CSDDD calls for companies to support their suppliers, especially SMEs, in adopting sustainable practices. This support may include training, resources, and technical assistance, which are crucial to maintaining SMEs within global supply chains. The growing importance of environmental and due diligence criteria makes these programs essential for enabling SMEs to remain competitive, ensuring they are not excluded from international trade. One example is South Korea's Ministry of SMEs and Startups (MSS) initiatives, which include tailored compliance support for SMEs impacted by CBAM. These programs focus on carbon reduction, training, and technical assistance, demonstrating how targeted support can help SMEs meet stringent regulations (Box 10).

Box 10: Summary of MSS Support Measures for Korean SMEs Responding to EU's CBAM

The Ministry of SMEs and Startups (MSS) of South Korea announced a series of support measures aimed at helping Korean SMEs adapt to the EU's Carbon Border Adjustment Mechanism (CBAM), which came into effect in October 2023. This initiative focuses on enabling SMEs to comply with EU regulations and maintain competitiveness in the export market.

Key Support Measures:

- **Strategic Support for Compliance:** MSS will analyze SMEs based on factors such as export scale and industry type, providing tailored support to those significantly impacted by CBAM. The plan includes three key initiatives: measuring carbon emissions per product, issuing verification reports through EU-ETS verification bodies, and assisting SMEs with emissions calculation and verification processes.
- **Resilience Building:** MSS aims to improve resilience by supporting facility conversions for carbon reduction. This includes developing digital Measurement, Reporting, and Verification (MRV) solutions to reduce costs for SMEs, as well as offering loans and guarantees for carbon reduction projects.
- **Voluntary Carbon Neutrality Support:** MSS will help SMEs achieve carbon neutrality by providing information on carbon regulations and supporting voluntary net-zero initiatives. A dedicated platform will be established to disseminate information on global carbon regulation trends and to reflect SME concerns in national carbon discussions.
- **Training and Capacity Building:** MSS plans to offer specialized training programs to ensure SMEs have a clear understanding of CBAM requirements. This will include courses on carbon emissions measurement and verification.
- **Legislative Support:** MSS intends to pursue the enactment of a Small and Medium-sized Enterprises Carbon Neutrality Promotion Act to bolster voluntary carbon reduction efforts among SMEs.

Source: Ministry of SMEs and Start-Ups, South Korea ¹⁶⁸

Finally, identifying adequate budgets and revamping international financial support are critical for successful adaptation. Concessional finance from Development Finance Institution (DFI) and Multilateral Development Bank (MDB) is necessary to support national policy reform and mitigate the impact of regulatory changes. Governments and development partners should collaborate to secure funding for green finance schemes that provide low-interest loans, grants, guarantees or subsidies.

¹⁶⁸ [Ministry of SMEs and Start-Ups, South Korea](#)

Additional innovative funding mechanisms like **green bonds** and **blended finance** can de-risk compliance efforts, enabling SMEs to access funding for implementing traceability systems, emissions reduction technologies, or sustainable farming practices. Furthermore, technical assistance should be provided to help entrepreneurial SMEs in developing countries, including impact ventures and social enterprises, to develop investable decarbonization, digital and circular economy projects.

Annex 1: Due diligence legislation & guidance (global)

Region	Country	Instrument	Proposed/Adopted
Europe	Spain	Protection of Human Rights Law	Proposed in 2022
Europe	UK	Modern Slavery Act	Effective since 2015
Europe	Norway	Transparency Act	Effective since 2022
Europe	France	Duty of Vigilance Law	Effective since 2017
Europe	Germany	Supply Chain Due Diligence Act	Effective since 2023
Europe	Switzerland	Swiss Code of Obligations	Effective since 2022
Europe	EU	EU Corporate Sustainability Due Diligence Directive	Effective since 2024
Europe	EU	European Union's Corporate Sustainability Reporting Directive	Effective since 2023
Europe	EU	EU Deforestation Regulation	Effective since 2023
Europe	EU	EU Forced Labour Ban	Proposed in 2022
Europe	EU	EU Conflict Minerals Regulation	Effective since 2021
Europe	EU	EU Carbon Border Adjustment Mechanism	Effective since 2023
Europe	Netherlands	Dutch Child Labour Law	Effective since 2022
Europe	Netherlands	Responsible and Sustainable International Business Act	Proposed in 2022
Europe	Belgium	Belgian Vigilance Proposal	Proposed in 2021
North America	USA	Fashioning Accountability and Building Real Institutional Change Act (FABRIC Act)	Proposed in 2022
North America	USA	Slave-Free Business Certification Act	Proposed in 2022
North America	USA	Uyghur Forced Labour Prevention Act (UFLPA)	Effective since 2022
North America	USA	1930 Tariff Act (Issuance of Withhold Release Orders (WROs))	Amended 2016
North America	California	California Transparency in Supply Chains	Effective since 2022
North America	California	California Garment Worker Protection Act	Effective since 2022
North America	California	Senate Bill 253: Climate Corporate Data Accountability Act	Proposed in 2023
North America	Canada	Canadian Fighting Against Forced Labour and Child Labour in Supply Chains Act	Effective since 2024
North America	Canada	Canadian Xinjiang Manufactured Goods Importation Prohibition Act	Proposed in 2021

North America	NYC	New York State Fashion Sustainability and Social Accountability Act	Proposed in 2022
Latin America	Mexico	Forced Labour Ban	Effective 2023
Latin America	Brazil	Brazil's "Dirty List"	Effective/updated in 2020
Asia & Pacific	Australia	Modern Slavery Act	Effective in 2019
Asia & Pacific	New Zealand	Modern Slavery Act	Proposed in 2022
Asia & Pacific	China	Chinese Due Diligence Guidelines for Responsible Mineral Supply Chain	Published in 2015
Asia & Pacific	Japan	Guidelines on Respecting Human Rights in Responsible Supply Chains	Published in 2022
Asia & Pacific	S. Korea	Proposed Act on Human Rights and Environmental Protection for Sustainable Management of Companies	Proposed in 2023
Asia & Pacific	India	Proposal for ESG Disclosures, Ratings, and Investing	Proposed in 2023
Asia & Pacific	Taiwan	Draft Guidelines for Enterprises to Respect Human Rights in the Supply Chain	Proposed in 2024



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