Implications of New Environmental Regulations

Policy brief

This policy note draws on DCED's Business Environment Working Group research report: Implications of New Environmental Regulations, authored by Jana Krajcovicova. The DCED Business Environment Working Group produces policy notes to provide short, relevant insights and guidance on specific topics related to donor and development agency support for business environment reform in emerging and developing economies.

/01 Introduction

In response to the urgent global climate crisis, **regulatory frameworks around environmental sustainability have been rapidly evolving worldwide.** The growing recognition of climate change as an existential threat has driven nations to adopt stringent measures aimed at mitigating its impact. The European Union (EU) has taken a leading role in these efforts, implementing a comprehensive suite of regulations that target both companies operating within the EU market and those exporting from it, provided they meet certain criteria. Key regulations, including the EU Deforestation Regulation (EUDR), the Carbon Border Adjustment Mechanism (CBAM), the Corporate Sustainability Due Diligence Directive (CSDDD), the EU Forced Labour Ban, and the EU Ecodesign for Sustainable Products Regulation, have recently been adopted, introducing and reinforcing environmental, social, and governance (ESG) requirements for businesses (Table 1).

These regulations are designed to drive global responsible conduct across value chains. They require companies to increase transparency, track the carbon footprint of imported goods, ensure deforestation-free sourcing, and address forced labour risks in their supply chains. Collectively, these measures are reshaping the business landscape worldwide, making sustainable practices a critical component of global trade. The EU legislation is particularly relevant for emerging and developing economies interconnected through value chains as exporters and suppliers to the EU, urging them to accelerate the adoption of more sustainable, transparent, and responsible practices. With key components of these regulations set to take effect soon, it is essential for both the private sector and policymakers to act swiftly to prepare for compliance.

Table 1: Overview of selected EU legislation introducing environmental, social, and governance requirements for businesses

Measure	Nature	Objective	Scope	Requirements	Timeline
EU Corporate Sustainability Reporting Directive	Reporting	Ensure reliable sustainability disclosures.	Large EU companies and listed SMEs.	Annual sustainability reports per European standards.	Effective 2023; national law by July 2024; phased roll-out starting 2024.
EU Deforestation Regulation	Import Control	Reduce deforestation and GHG emissions.	Companies placing or making available selected products on the EU market or exporting them.	Provide traceability and deforestation-free evidence.	Effective 2023; phased roll-out starting from December 30, 2025.
Carbon Border Adjustment Mechanism	Import Tax	Prevent carbon leakage.	Importers of certain high-carbon-intensity goods to the EU.	Declare embedded emissions and surrender certificates.	Effective 2023; full implementation from 2026 onwards.
EU Corporate Sustainability Due Diligence Directive	Due Diligence	Promote responsible corporate behaviour.	Large EU and non-EU companies operating in EU meeting employee/ turnover thresholds.	Conduct due diligence and implement climate plans.	Effective July 2024; two-year transposition period; phased roll-out starting 2027.
EU Forced Labour Product Ban	Import Control	Combat forced labour.	Companies placing or making available products on the EU market or exporting them.	Ensure products are free from forced labour.	Adopted April 2024; enforcement expected in 2027.
EU Ecodesign for Sustainable Products Regulation	Import Control	Enhance product sustainability.	All companies placing goods in the EU market.	Comply with Ecodesign requirements.	Adopted April 2024; expected rollout through 2030.

The EU legislation represents more than mere administrative changes; it introduces both significant challenges and opportunities for emerging and developing economies. Affecting multiple sectors, it impacts all exporters to the EU. For low-income and Least Developed Countries that rely heavily on exports from agriculture and extractive sectors, compliance with regulations like EUDR and CBAM is essential to maintain access to key markets, particularly the EU. However, adaptation efforts are still in the early stages, highlighting the urgent need for proactive and timely policy responses to address these challenges effectively.

Development partners have a critical opportunity to create and implement effective strategies that support the alignment and implementation of new environmental regulations. A reactive "wait-and-see" approach is insufficient, as delays in addressing these challenges may amplify existing vulnerabilities and hinder economic growth. While some EU regulations are still evolving, there is significant variation in awareness of their implications across different economies. This uncertainty, coupled with the lack of comprehensive impact assessments, underscores the need for clear guidance to inform national policy responses. By fostering understanding and readiness for these regulatory changes, development partners can play a key role in advancing sustainable development and ensuring successful adaptation in emerging and developing economies.

/02 Challenges in emerging and developing economies

Interviews with a diverse range of stakeholders from government agencies, private sector companies, industry associations, development partners, and multinational corporations across multiple countries[1] reveal the varied challenges faced by countries and sectors in adapting to new environmental regulations. While some countries have already initiated reforms to align with EUDR and CBAM, which are set to be rolled out by 2025-2026, many have yet to take substantial action, increasing their vulnerability as deadlines approach. Additionally, concerns about potential competitiveness loss and economic impact are widespread, and if not addressed, these challenges could delay adaptation and further harm these economies.

Short-term challenges

In the short term, the pressing challenge is to ensure compliance with the requirements of legislation entering into effect soon, such as EUDR, CBAM and CSDDD, necessitating the implementation of reforms and the resolution of adaptation delays. Key challenges include:

- **Compliance readiness:** Many countries, especially SMEs, lack the infrastructure and resources to implement complex compliance measures like traceability systems, audits, and data management; for example, Turkey's carbon-intensive sectors face significant challenges with emissions tracking and reporting.
- **Awareness and understanding:** There is a lack of awareness about new regulations in countries like Ivory Coast and Eswatini, where businesses, particularly smallholder farmers, struggle to understand and meet EU regulations such as EUDR and CSDDD.

[1] Stakeholders were interviewed across countries like Turkey, Ivory Coast, Uganda, Vietnam, and India, as well as regional groups like the Organization of African, Caribbean, and Pacific States. These discussions highlight the specific regulatory challenges posed by the EUDR, CBAM, and CSDDD.

- **Financial burden:** Compliance costs, including investments in new technologies, put pressure on businesses, particularly SMEs, which struggle to afford the necessary changes without external support.
- **Administrative and reporting obligations:** Companies face significant burdens in adapting supply chains, managing administrative tasks, and navigating financial compliance costs like carbon taxes.
- **Achieving compliance:** Full compliance requires coordination and strategic planning, as seen in Ivory Coast, where the government's slow progress on the national traceability system highlights resource limitations that could hinder meeting EUDR requirements.

Medium-term challenges

Medium-term challenges include broader structural issues in affected sectors, which could hinder the potential of these regulations to drive sustained green growth in the countries.

- **Economic impact:** The financial burden of meeting new regulations may reduce competitiveness and hinder economic growth. For example, Turkey's carbon-intensive sectors, like cement and steel, face rising costs under CBAM, potentially reducing EU exports, while Ivory Coast's cocoa sector may struggle to maintain market access due to EUDR compliance challenges.
- **Capacity constraints:** Lack of financial and technical resources is limiting the ability of SMEs to adapt to new regulations. In India, steel sector SMEs face difficulties with emissions tracking for CBAM, and smallholder farmers in Eswatini struggle to meet compliance standards for coffee exports.
- **Market dynamics:** New regulations are prompting shifts in sourcing practices. In Turkey, cement companies are moving to less regulated markets like Africa due to CBAM costs, while Ivory Coast's cocoa exporters are reconsidering supply chains due to non-compliant cooperatives.
- **Need for structural reforms:** Comprehensive reforms are necessary to address these challenges. In Peru, slow progress on a national traceability system under the EUDR highlights the need for stronger frameworks, while Uganda's fragmented coffee supply chains require reforms to ensure compliance and maintain competitiveness.

If these challenges are not promptly addressed, they could lead to delays in adaptation processes, compounding vulnerabilities and adversely affecting the economic stability of developing countries. A coordinated effort from development partners, local governments, and private sector stakeholders will be essential in creating strategies that support compliance and promote sustainable economic growth.

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Lessons learned in Turkey and Ivory Coast

Country case studies of **Turkey** and **Ivory Coast** document key measures and challenges arising in the context of adapting to CBAM and EUDR, and are discussed more in depth in the full report. Both cases reveal the complexities of managing adaptation to new environmental regulations and provide valuable lessons for other developing economies preparing for similar challenges.

1. **Proactive government action**: Turkey's Green Deal Action Plan, launched in 2020, demonstrates a coordinated government approach to CBAM compliance, focusing on clean energy, sustainability, and the development of a national emissions trading system (ETS). This proactive strategy is helping address compliance challenges and promote a low-carbon economy. In contrast, Ivory Coast's experience with EUDR highlights the need for collaborative support among government, NGOs, and the private sector to transform challenges in the cocoa sector into sustainable opportunities.
2. **Clear and consistent regulations**: both countries underscore the necessity for clear compliance guidelines. In Ivory Coast, the EUDR introduces requirements that demand traceability for cocoa exports. However, ambiguity surrounding legality criteria has created uncertainty for exporters, complicating their ability to comply. Establishing transparent regulations is essential for effective business planning and investment, as seen in Turkey, where the clear direction of the Green Deal's goals has helped guide industry adaptation, although challenges remain with respect to the details of the national emissions trading system.
3. **Technological integration for traceability and compliance**: the significance of technological solutions for traceability and compliance is evident in both case studies. In Turkey, examples of emission verification and monitoring in supply chains shows the potential to reach compliance with EU standards. Similarly, Ivory Coast is developing a **national traceability system** to digitally monitor cocoa supply chains. These technological advancements not only improve transparency but also facilitate market access for producers who can demonstrate compliance with sustainability standards.
4. **Private sector leadership in adaptation efforts**: in Turkey, large companies in steel or cement sector are leading the charge by investing in new technologies and establishing their own emissions reporting systems to comply with upcoming regulations. This private sector leadership catalyzes broader industry changes and encourages smaller enterprises to adopt sustainable practices. Conversely, in Ivory Coast, major chocolate brands rely on Ivorian cocoa but face pressure to improve sustainability in their supply chains, prompting them to support local farmers in meeting EU requirements.
5. **Challenges facing SME suppliers**: SMEs in both countries face significant challenges in adapting to complex regulations. In Turkey, many smaller firms lack the resources to implement the necessary compliance systems, while in Ivory Coast, smallholder cocoa farmers often struggle with access to technology and financing. Targeted financial and technical assistance, along with simplified guidance, is essential for helping these businesses meet new standards and remain competitive in a rapidly evolving regulatory landscape.

6. **Financial support and investment needs**: adequate funding for green transitions is critical in both contexts. Turkey is exploring various financial mechanisms, such as grants and low-interest loans, to facilitate the implementation of its Green Deal initiatives. Similarly, Ivory Coast requires significant investment in capacity-building programs and infrastructure to support its cocoa sector's compliance with the EUDR. Development partners play a key role in channeling funding to transformative initiatives that can help both countries achieve their sustainability goals.
7. **Collaboration among stakeholders**: successful adaptation requires collaboration among public and private sectors, NGOs, and international partners. In Turkey, public-private partnerships have been instrumental in shaping regulatory frameworks that support the green transition. In Ivory Coast, partnerships with NGOs and development agencies enhance training and resource availability for farmers and cooperatives, improving compliance and sustainability practices. These collaborative efforts underscore the importance of inclusive dialogue in policy-making processes, ensuring that the perspectives of local communities are integrated into regulations.

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Recommendations for development agencies

The next twelve months present a critical opportunity to strengthen collaboration among development agencies, the EU and third-country governments, private sector actors, and civil society organizations, ensuring that all 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 about impacts, facilitating international dialogue and partnerships, capacity building, and providing resources for compliance to enable countries to effectively navigate the complexities of environmental regulations.

Addressing knowledge gaps and prioritizing research topics

Development agencies should identify and tackle key research gaps to support compliance with new environmental regulations and enhance adaptation strategies. Collaborating with the EU bodies coordinating implementation of specific regulations would inform these efforts. Important research areas include:

- **Sectoral impact assessments**: Conduct studies to assess the economic, social, and environmental impacts of regulations like EUDR and CBAM. These assessments should focus on understanding their effects on trade and local economies, particularly in vulnerable economies among the Africa, Caribbean and Pacific States, many of which depend on exports of agricultural and extractives commodities to the EU. For example, in Turkey, impact studies by development partners such as the World Bank and EBRD have been instrumental in prioritizing reforms like establishing a national Emissions Trading System (ETS) to mitigate CBAM's effects.

- **Adaptation strategies for SMEs**: Investigate tailored strategies specifically designed for SME suppliers to help them meet compliance requirements. Research should explore the most effective types of support—financial, technical, and educational—that can assist them in adapting to new regulations. A strong focus should be put on agricultural value chains, mainly cooperatives and small-holders affected by EUDR and CSDDD.
- **Role of technology in compliance**: Examine how technological integration can enhance compliance and traceability, particularly for smallholders and cooperatives. Understanding the effectiveness of different technological solutions in improving transparency and compliance will be crucial. At the same time, technology is not everything and must be deployed in a sustainable manner.
- **Financial mechanisms and their impact**: There is a gap in research regarding the effectiveness of financial instruments, 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.

Engage in international policy and multi-stakeholder fora

Development agencies should actively engage in international policy dialogues, fostering collaboration among governments, private sector, NGOs, and multilateral organizations. While the EU leads in ESG legislation, other regions are catching up, with 22 countries across four regions enacting due diligence laws between 2015 and 2024. [2] This global trend is reshaping major export markets for developing countries, highlighting the shift toward stricter regulatory frameworks.

This engagement can achieve several objectives:

- **Advocate for coherent regulations and inclusive dialogue**: As countries develop regulations on due diligence, carbon taxes, and environmental standards, development agencies can emphasize the importance of coherent, consistent frameworks. For instance, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct have played a significant role in shaping the CSDDD, ensuring alignment with global standards while considering the unique circumstances of developing countries to avoid hindering trade and economic growth.
- **Support multi-stakeholder initiatives**: Engage with initiatives like the Sustainable Cocoa Initiative and the European Partnership for Responsible Minerals, fostering inclusive dialogues that amplify local voices and ensure regulations reflect on-the-ground realities.
- **Advocate for green funding**: Promote accessible green funding mechanisms, such as grants and low-interest loans, to help developing countries invest in sustainable practices, supporting compliance and a

[2] Based on multiple sources: OECD (2021), Mandatory Due Diligence, Taking Stock And Looking Forward, QIMA, Ecovadis, Plan A.

transition to sustainable economic models. Existing funds, like the Green Climate Fund and the World Bank's Climate Investment Funds, already support clean energy and low-carbon projects and could be better aligned with EU regulations like CBAM, EUDR, and CSDDD to bolster compliance in developing countries.

Provide country-level support

Donor agencies should prioritize countries based on the urgency of impacts and demand for support, tailoring responses accordingly.

- **Urgent responses for adaptation to EUDR and CBAM**: Conduct rapid impact assessments to evaluate affected value chains, identify vulnerabilities, and provide technical and financial assistance. Support policymakers in developing effective compliance strategies and help businesses invest in necessary compliance measures. Additionally, facilitate access to digital tools for traceability and emissions monitoring.
- **Raise awareness and enhance capacity building**: Initiate information workshops and training programs to educate businesses, particularly SMEs, on new regulations and compliance requirements.
- **Assist in developing long-term reform roadmaps**: Play a key role in facilitating the creation of comprehensive reform roadmaps aligned with national climate and development goals. These roadmaps should address compliance, tackle structural issues like fragmented supply chains and limited financing, and highlight successful examples like Turkey's Green Deal Action Plan to engage both public and private sectors.

For links to more resources on this topic see the DCED's Business Environment Reform webpage and Green Growth webpage.

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