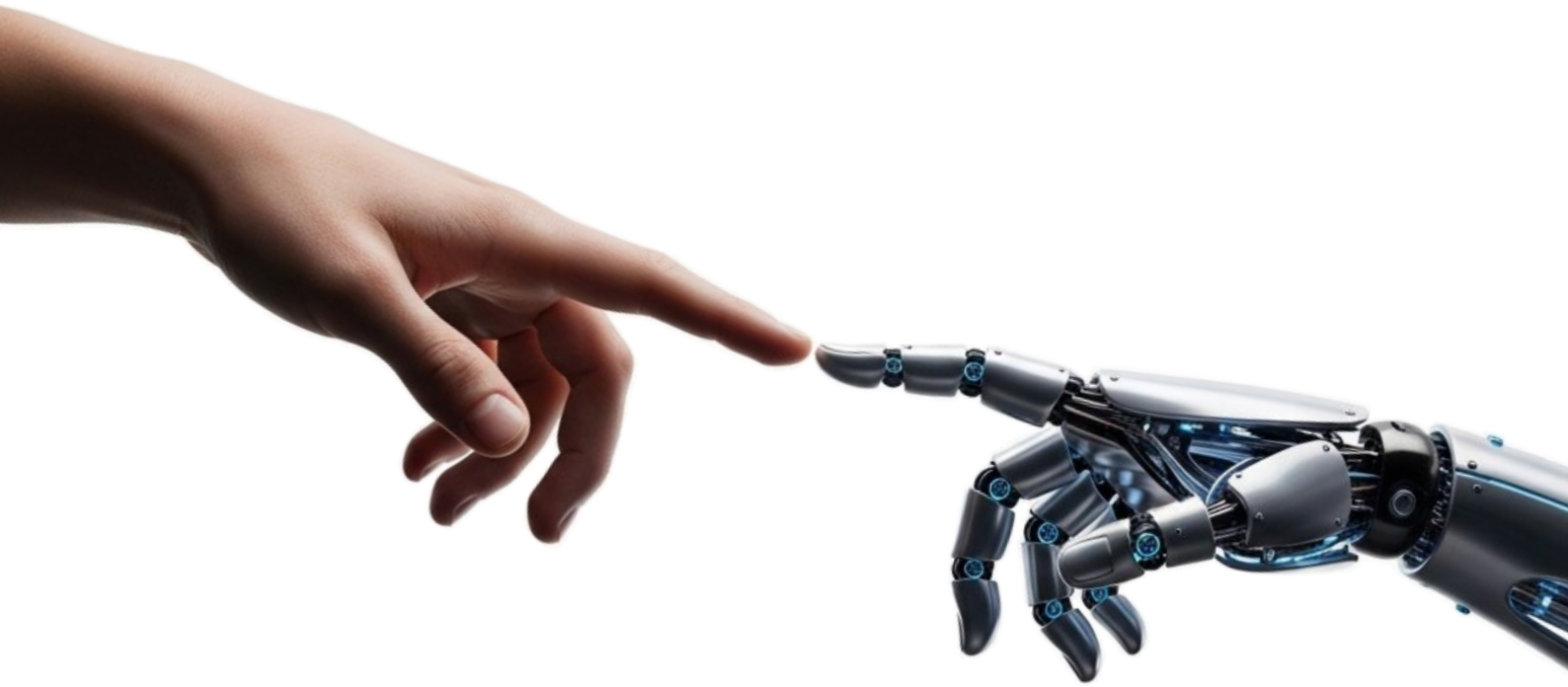
CORPORATE GOVERNANCE
DEVELOPMENT FRAMEWORK

MAY 2026

Evolution on Display:

The Boardroom's Role in AI-Driven Transformation



Leading the Shift from Tools to Intelligence

Boards are not struggling with artificial intelligence because they lack technical knowledge. They are struggling because AI exposes the limits of how boards are structured to govern complex, fast-moving, and cross-cutting issues. The challenge is not understanding the technology – it is integrating it into judgment, oversight, and decision-making.

Across the Corporate Governance Development Framework (CGDF) community, a clear pattern is emerging. AI is no longer discussed as a standalone topic, but as something that cuts across strategy, risk, operations, and accountability. It does not sit neatly within existing committees or processes. As a result, many boards find themselves reacting to AI through fragmented entry points – risk reviews, compliance discussions, or isolated technology updates – rather than engaging with it as a core governance issue.

This is precisely where the CGDF remains relevant. The Governance Progression Matrix was designed to capture how institutions move from awareness to structured oversight. What is changing is not the framework itself, but the context in which it is applied. AI brings new dimensions – data governance, algorithmic accountability, digital resilience – but the underlying question remains the same: how do boards organize themselves to exercise effective, informed, and collective judgment?

This edition reflects that shift. It moves beyond general discussions of AI to focus on how governance is being operationalized in practice. From tools that enhance supervisory judgment, to the specific risks AI introduces in development finance, to the capabilities boards need to oversee it effectively, the articles converge on a common theme: governance is the mechanism that determines whether AI becomes a source of value or a source of risk.

It also points to a more fundamental transition. The conversation is moving from "why AI matters" to "how boards govern it." This requires more than adding expertise or updating policies. It requires changes in how boards structure discussions, allocate responsibility, and engage with management on issues that evolve quickly and cut across traditional boundaries.

The CGDF role is to support that transition. Not by redefining governance, but by helping institutions apply it more effectively in a changing environment: sharing practical approaches, aligning on emerging practices, and strengthening the foundations that allow boards to act with clarity and discipline.

I encourage you to engage with the content, contribute your perspectives, and continue advancing this important conversation across our community.

Bruno Sbardellini Cossi

Chair, CGDF Working Group

From Data to Judgement:

MALENA, AI for Smarter Supervision and Investment - IFC

As regulatory complexity increases and expectations around sustainability, governance, and market integrity continue to rise, investors and supervisors face a familiar challenge: information is abundant, but actionable insight remains scarce. Manual reviews, fragmented data sources, and inconsistent disclosures often limit the ability to move from reactive oversight to proactive, risk-based decision-making.

In response, the International Finance Corporation has developed MALENA, an AI-powered analyst designed to enhance investor and regulatory judgment. Positioned as a free global public good, MALENA reflects a growing shift toward using artificial intelligence to strengthen, not replace, governance and oversight.

Why MALENA Matters:

Across capital markets, regulators and investors are under increasing pressure to do more with less, overseeing larger and more complex institutions, monitoring ESG performance, and responding quickly to emerging risks. Traditional tools struggle to keep pace with the scale and speed of modern disclosures.

MALENA addresses this gap by applying advanced analytics, including natural language processing and machine learning, and generative AI to review corporate documents such as annual reports, prospectuses, and sustainability disclosures. By translating unstructured data into clear insights, it enables users to focus on **judgment**, **interpretation**, and **decision-making**, rather than manual screening.

Early Impact and Use Cases

Initial applications of MALENA across emerging markets demonstrate tangible benefits:

- Faster review cycles and decision-making.
- Improved identification of governance and disclosure risks.
- Greater consistency across supervisory processes.
- Enhanced institutional learning over time.

From Innovation to Impact

MALENA represents more than a technological solution: it signals a broader evolution in how institutions approach oversight and investment. By combining advanced analytics with human expertise, it enables a shift toward more proactive, informed, and consistent decision-making.

In an environment where speed, scale, and complexity continue to increase, such tools are becoming essential to maintaining market confidence and strengthening governance outcomes.

Who is MALENA for?

What MALENA Does:

- AI-Augmented Review - MALENA rapidly analyzes large volumes of text to identify material governance and disclosure risks. It highlights inconsistencies, gaps, and red flags helping users prioritize where deeper analysis is needed.
- Explainable and Traceable Outputs - Unlike many AI tools, MALENA provides direct references to source materials, allowing users to trace each insight back to the original text. This transparency supports trust, accountability, and auditability.
- Consistency at Scale - By applying standardized analytical logic, MALENA improves consistency across reviews while reducing variability between analysts.
- Governance by Design - MALENA operates within a human-in-the-loop model, ensuring that final decisions remain with investors and regulators. Built-in safeguards support data integrity and reduce the risk of unreliable outputs, reinforcing confidence in its use. manual screening.

Case Insights

The Capital Markets Authority of Kenya and the Moroccan Institute of Directors are using MALENA to assess issuer compliance with ESG frameworks. Amundi Asset Management is piloting MALENA to evaluate green and sustainability bonds.

Key Takeaway

MALENA enables boards, investment committees, and regulators to move from information review to **informed judgment** and **risk prioritization**—strengthening governance, improving decision-making, and supporting better outcomes across institutions and markets.

Boards at a Crossroads:

Guardians of Responsible AI or Passive Observers?

Artificial intelligence is no longer a distant innovation, it is a transformative force reshaping economies, organizations, and societies. As highlighted in a recent opinion piece in La Tribune, boards of directors now face a defining question: will they act as guardians of responsible AI, or remain passive observers of its potential excesses and risks? The article makes clear that AI is not just a technological issue, it is a governance issue. From strategic decision-making to ethical accountability, the implications of AI extend directly into the remit of the board. Yet many boards remain underprepared, lacking the expertise and frameworks needed to effectively oversee its deployment.

Within the Corporate Governance Development Framework (CGDF), this challenge aligns closely with the Governance Progression Matrix, particularly in how institutions evolve from basic awareness to active governance.

A Governance Gap in the Age of AI

One of the central concerns raised is the widening gap between the pace of AI adoption and the capacity of boards to oversee it. Many directors do not yet possess sufficient understanding of AI systems, their risks, or their strategic implications.

This creates a risk of governance lag, where oversight mechanisms fail to keep pace with innovation. From a CGDF perspective, this speaks directly to the "Structure and Functioning of the Board" pillar. Boards must strengthen their composition and capabilities, whether through targeted training, the inclusion of technology expertise, or the creation of dedicated committees, to ensure they can engage meaningfully with AI-related decisions.

Ethics, Transparency, and Accountability

The article underscores the ethical challenges associated with AI, including algorithmic bias, lack of transparency, and unclear accountability. These are not abstract risks, they have real consequences for trust, reputation, and social cohesion. Here, the CGDF Matrix reinforces the importance of:

- Control Environment and Risk Management: ensuring AI risks are identified, monitored, and mitigated.
- Transparency and Disclosure: communicating clearly about how AI systems are used and governed.

Boards must ensure that AI systems are not only effective, but also fair, explainable, and aligned with organizational values.

Navigating a Fragmented Regulatory Landscape

AI governance is further complicated by diverging global regulatory approaches. While jurisdictions such as the **EU AI Act** are moving toward comprehensive oversight, others are adopting more flexible or market-driven models.

This creates a complex environment for organizations operating across borders. Boards must strike a careful balance between compliance and competitiveness, ensuring adherence to emerging standards without constraining innovation.

Within the CGDF framework, this aligns with the "Commitment to Governance" pillar, requiring boards to set clear expectations and proactively adapt to evolving regulatory norms.

A Defining Moment for Board Leadership

Ultimately, the article frames AI as a test of board leadership. The question is not whether AI will shape the future, it already is. The question is whether boards will shape AI in return.

To do so, they must move beyond passive oversight and embrace a more active role in:

> The CGDF Governance Progression Matrix offers a practical pathway, helping boards transition from awareness to structured oversight, and ultimately to leadership in governance.

Governing AI Risk in Development Finance:
Ethics, **Bias**, and **Accountability**

Artificial intelligence is rapidly becoming embedded in financial decision-making, from credit scoring and fraud detection to portfolio monitoring and ESG assessments. For development finance institutions (DFIs), this introduces not only operational efficiencies but also heightened governance risks with direct development implications.

Unlike purely commercial institutions, DFIs operate with dual mandates: financial sustainability and development impact. This amplifies the consequences of poorly governed AI systems. Algorithmic bias, for instance, can unintentionally exclude underserved populations, womenowned businesses, rural enterprises, or informal sector participants, thereby undermining financial inclusion goals.

Implications for Governance

Boards must ensure that AI risks are integrated into enterprise risk management frameworks, rather than treated as isolated technical issues. This includes:

- Defining ethical AI principles aligned with development mandates.
- Establishing clear accountability structures for AI-driven decisions.
- Requiring independent validation and audit of AI systems.
- Ensuring explainability standards where AI-informed decisions affect access to finance or development outcomes

International benchmarks, such as the OECD AI Principles, provide a useful reference point, emphasizing fairness, transparency, and accountability.

DFIs are uniquely positioned to lead in responsible AI, not only through internal practices but also by influencing investee companies. Embedding AI governance requirements into due diligence, financing agreements, and technical assistance engagements can help shape market practices and scale responsible approaches across jurisdictions, consistent with the CGDF's emphasis on strengthening governance ecosystems.

Understanding the Risk Landscape

AI-related risks in DFI contexts tend to cluster around four areas:

1 Bias & Inclusion Risk

SYSTEMIC IMPACT

Models trained on historical financial data may replicate systemic inequalities. Without ntervention, AI can reinforce rather than reduce development gaps

2 Bias & Inclusion Risk

DECISION CLARITY

Many AI systems lack transparency, making it difficult for boards and regulators to understand how decisions are made, particularly problematic in high-stakes lending or investment contexts.

3 Accountability Gaps

GOVERNANCE RISK

When decisions are partially automated, responsibility can become diffused across developers, management, and systems, creating governance blind spots.

4 Regulatory Fragmentation

COMPLIANCE RISK

AI governance is further complicated by diverging regulatory approaches across jurisdictions. For example, the European Union's AI Act has established a comprehensive, risk-based framework, while other markets continue to rely on more flexible or market-driven approaches. For DFIs operating across borders, this creates a complex environment where compliance expectations, risk classifications, and disclosure requirements may differ significantly across markets.

Key Takeaway

For DFIs, AI governance is not just about managing risk – it is about ensuring that innovation supports inclusion and development impact. This requires boards to take an active role in overseeing how AI systems shape decisions, access to finance, and outcomes across markets.

Building the AI-Ready Board:

Capabilities for the Next Generation of DFIs

Key Takeaway
The future of DFI governance depends on boards that are informed, adaptive, and equipped to oversee AI as a core strategic issue.

As AI becomes central to strategy and operations, the effectiveness of governance increasingly depends on the capability of the board itself. Yet many DFI boards were not designed with digital oversight in mind, widening the gap between the pace of AI adoption and the capacity to govern it effectively.

As highlighted in a recent La Tribune opinion piece, boards are increasingly at a crossroads: they can either act as stewards of responsible AI or remain passive observers of its risks and unintended consequences.

Closing this gap requires more than awareness; it demands a deliberate shift in how boards are composed, how they operate, and how they engage with management. Within the CGDF Governance Progression Matrix, this transition reflects the move from awareness to structured oversight – where boards begin to systematically integrate emerging risks, such as AI, into their governance frameworks.

Becoming an AI-ready board requires a structured approach across three dimensions:

1. Board Composition - Boards are expanding to include directors with expertise in:
- Digital transformation.
- Data governance and analytics.
- Cybersecurity and technology risk.

However, the objective is not to turn boards into technical bodies, but to ensure informed oversight and effective challenge of management.

2. Governance Structures - Leading DFIs are strengthening oversight through:
- Dedicated technology or innovation committees.
- Expanded mandates for risk or audit committees.
- Integration of AI considerations into investment committees.

These structures ensure that AI is consistently addressed at the highest levels of governance.

3. Continuous Learning and Engagement - Given the pace of change, capability building must be ongoing. Effective approaches include:
- Board-level workshops and simulations.
- Deep dives on AI use cases and risks.
- Engagement with external experts and partners.

Case Insight:
Asian Development Bank has incorporated digital transformation and AI governance into board strategy sessions, strengthening alignment between technology investments and development priorities.

Culture: The Critical Enabler
Beyond skills and structures, culture is key. Boards must foster:
- Openness to innovation
- Willingness to challenge assumptions
- Constructive engagement with management on technology issues

This cultural shift enables boards to move from passive oversight to active stewardship of innovation.

Data, Cybersecurity, and AI:

Strengthening Resilience in Portfolios

AI systems depend fundamentally on data and in the context of development finance, data environments are often fragmented, inconsistent, or vulnerable. This creates a complex risk landscape where data governance and cybersecurity are inseparable from AI governance.

A New Risk Frontier

For DFIs, risks extend beyond internal systems to include investee companies operating in diverse and often high-risk environments. Key challenges include:

Data Quality and Availability
In many emerging markets, data may be incomplete or unreliable, affecting the accuracy of AI models.

Cybersecurity Vulnerabilities
Increasing digitization exposes institutions and investees to cyber threats, including data breaches and system disruptions.

Third-Party Dependencies
Reliance on external vendors, cloud providers, and AI platforms introduces additional layers of risk.

Cross-Border Data Risks
Differing regulatory frameworks complicate data management and protection.

> **Case Insight:**
> European Bank for Reconstruction and Development has incorporated cybersecurity assessments into its investment processes, particularly for digital infrastructure and fintech projects.

Strengthening Governance and Oversight

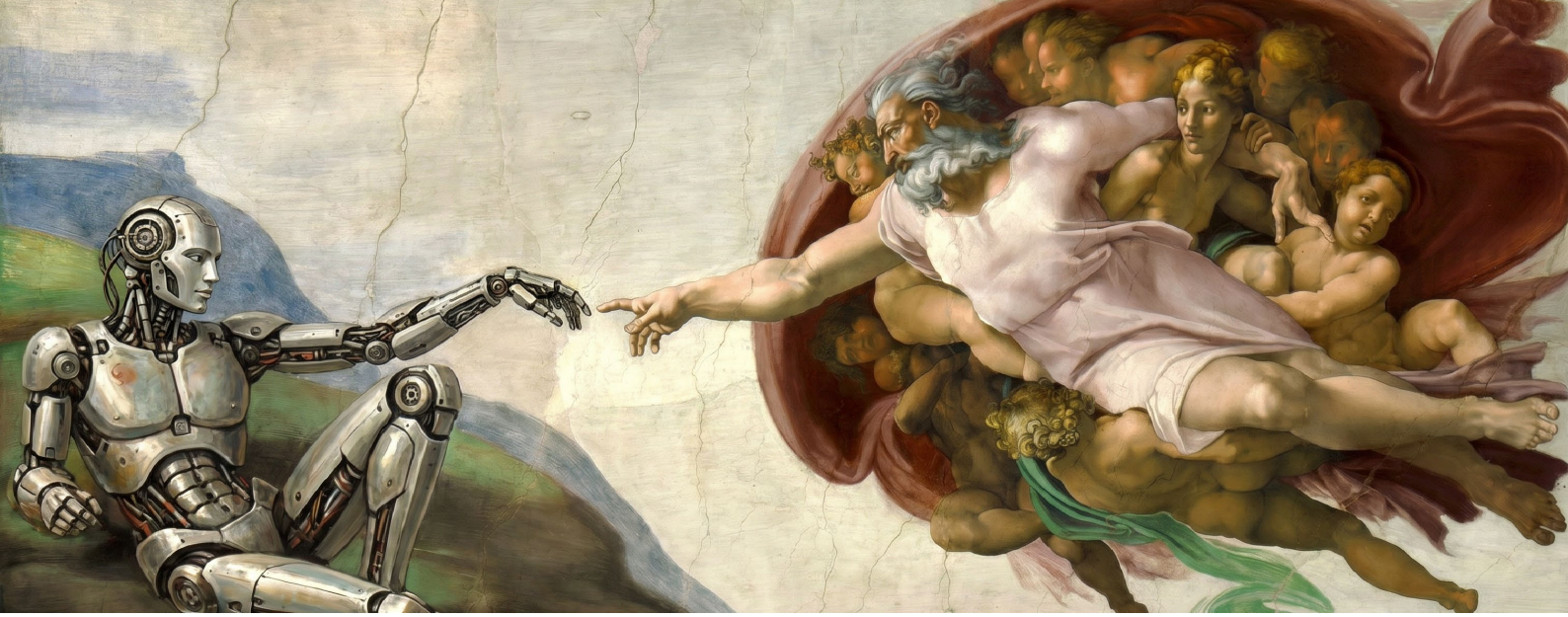
Boards must ensure that data and cybersecurity risks are integrated into governance frameworks, both at the institutional level and across portfolios, with clear accountability and reporting mechanisms. This aligns with the CGDF emphasis on effective control environments, risk oversight, and accountability. This includes:

- Establishing robust data governance policies.
- Conducting cyber risk assessments across portfolios.
- Embedding third-party risk management into due diligence.
- Ensuring incident response and resilience planning.

Strengthening Governance and Oversight

AI itself can enhance cybersecurity, detecting anomalies, predicting threats, and improving response times. However, it can also introduce vulnerabilities if not properly governed. For DFIs, governance must extend beyond the institution to the broader portfolio. Supporting investees in strengthening data and cybersecurity practices is critical to safeguarding both financial and development outcomes.

> **Key Takeaway:**
> Data governance and cybersecurity are foundational to AI success. Boards must ensure resilience across both institutions and portfolios.



The Future Boardroom:
Human Judgment at the Core

Despite growing awareness of AI at the board level, a more fundamental challenge remains, translating that awareness into effective oversight. While many institutions recognize the importance of AI, far fewer have developed practical approaches to govern it at the board level.

This gap is not abstract – it is already shaping how boards engage with strategy, risk, and decision-making. At IDB Invest, it has led to the development of the TIAB (Technology, Innovation, and AI from the Boardroom) Program – an initiative designed to help boards move from high-level understanding to structured governance of AI.

At its core, this is a question of judgment. AI can process vast amounts of information and generate insights, but it does not replace the board's responsibility to interpret, challenge, and decide. Boards struggle less with understanding AI tools, and more with how to integrate them into fiduciary judgment: how to ask the right questions, challenge management assumptions, and make decisions under uncertainty.

A Critical Risk: Overreliance on AI
One of the key risks emerging in this context is automation bias: the tendency to rely too heavily on AI outputs without sufficient scrutiny.

Boards must actively guard against this by ensuring that AI supports, rather than substitutes, fiduciary judgment. This requires maintaining critical evaluation, encouraging diverse perspectives, and reinforcing accountability at all levels – even when decisions are informed by automated systems.

AI is not redefining the role of the board; it is raising the expectations around it. Oversight now requires a deeper understanding of how technology shapes decisions, risks, and outcomes, while preserving the central role of human judgment.

Ultimately, governing AI is not about mastering the technology itself. It is about strengthening the board's ability to exercise informed, collective judgment in a more complex and data-driven environment.

A Structured Approach to Board-Level AI Governance
TIAB is built around three complementary dimensions that reflect how AI intersects with board responsibilities:

1. Governing AI as a Strategic and Risk Issue
Boards must oversee how AI shapes strategy, risk profiles, and decision-making processes. This includes understanding where AI is used, what risks it introduces, and how those risks are managed. This is ultimately a fiduciary question: how technological choices affect risk, incentives, and long-term value.

2. The Board's Own Use of AI
Beyond oversight, boards themselves are beginning to use AI tools to enhance decision-making. This introduces a new dimension of governance: how directors rely on AI to interpret information, prepare interventions, and form views. Questions around reliability, bias, confidentiality, and the integrity of collective deliberation become central. Efficiency gains are real, but they cannot come at the expense of shared understanding and sound judgment.

3. Firm-Level Implications
AI adoption affects operations, client relationships, and development outcomes. Boards must ensure alignment with institutional objectives, including inclusion, sustainability, and long-term value creation. Across these dimensions, boards are expected to:

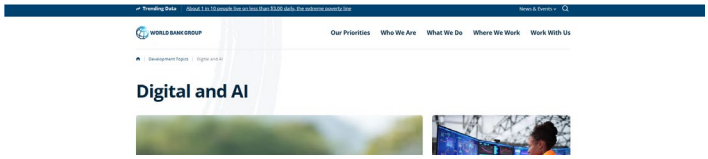
- Define where AI can and should be used in decision-making processes.
- Establish clear accountability for AI-driven outcomes.
- Ensure oversight mechanisms keep pace with technological deployment.
- Align AI use with institutional purpose and development objectives

> **Key Takeaway:**
> Effective AI governance is no longer about awareness – it is about execution. Boards must develop the structures, capabilities, and discipline needed to oversee AI as a core strategic and fiduciary issue, ensuring that human judgment remains at the center of decision-making.

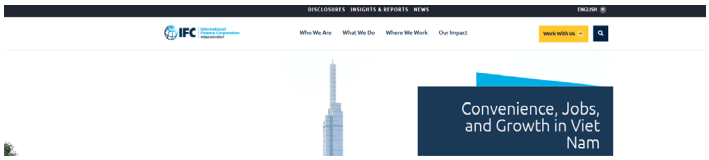
RECOMMENDED READINGS

Organisation for Economic Co-operation and Development – AI Principles

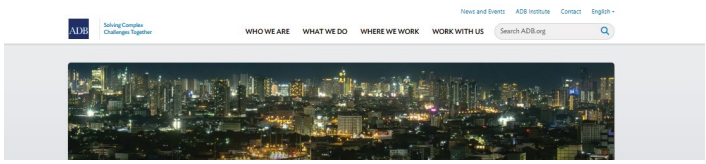
World Bank – AI for Development



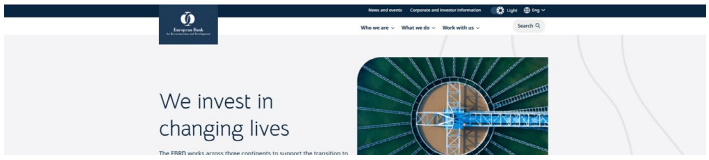
International Finance Corporation – Governance & Technology Resources



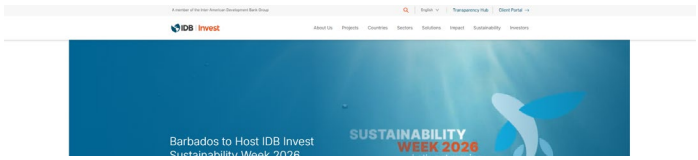
Asian Development Bank – Digital Agenda 2030



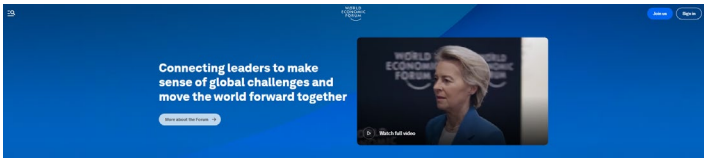
European Bank for Reconstruction and Development – Digital Transition Strategy



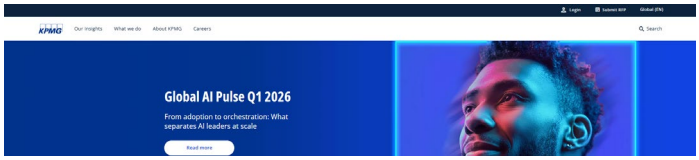
IDB Invest – ESG and Innovation Resources



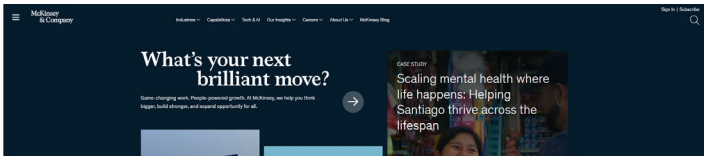
World Economic Forum – AI Governance Alliance



KPMG – AI in the Boardroom

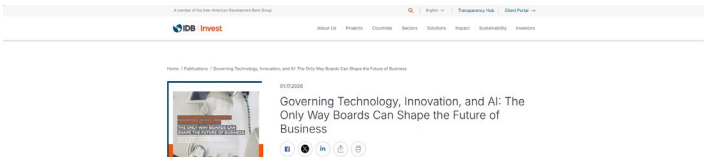


McKinsey & Company – State of AI



United Nations Development Programme – Digital Governance & AI

IDB Invest – Governing Technology, Innovation, and AI



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