FUTUREMATTERS™
CENTRE OF EXCELLENCE

SUPPLY CHAIN SUSTAINABILITY AT THE CROSSROADS: NAVIGATING THE WAY AHEAD

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gprnt.ai pwc ELEVANDI

POINT ZERO FORUM™
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Contents

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ELEVANDI

Elevandi is set up by the Monetary Authority of Singapore to foster an open dialogue between the public and private sectors to advance FinTech in the digital economy. Elevandi works closely with governments, founders, investors, and corporate leaders to drive collaboration, education, and new sources of value at industry and national levels.

Elevandi's initiatives have convened over 350,000 people to drive the growth of FinTech through events, closed-door roundtables, investor programmes, educational initiatives, and research. Elevandi's flagship product is the Singapore FinTech Festival, which runs alongside other fast-rising platforms such as the Japan FinTech Festival, Point Zero Forum, Inclusive FinTech Forum, Elevandi Insights Forum, The Capital Meets Policy Dialogue, The Founders Peak and Green Shoots.

For more information, visit www.elevandi.io.

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Gprnt is an open and interoperable data platform that interlinks the financial sector and real economy to facilitate efficiencies in collecting, accessing, and harnessing high-quality ESG data to drive green and transition efforts.

The platform is a culmination of MAS' Project Greenprint and will serve both businesses and corporates as well as financial institutions.

Greenprint will support FIs' seamless data collection and access to verified ESG data by:

- Automating ESG disclosures for businesses large and small, through integration with various public and private data sources, and translate these economic data into ESG-related data outputs;
- Facilitating access to aggregated ESG data, benchmarks and insights from its ecosystem of private and public data; and
- Connecting ESG market solutions to investors, financial institutions, and corporates, to support the needs of users who desire more sophisticated tools or solutions that befit their respective business needs.

Gprnt is launching in phases across 2024 and will focus initially on automating basic climate reporting by SMEs and progressively scale its automation capabilities to support the climate-related disclosure needs of larger corporates.

** The Monetary Authority of Singapore launched Gprnt (pronounced "Greenprint"), an integrated reporting solution that aims to automate and therefore simplify how all businesses, including SMEs report their basic Environment, Social, and Governance information. ACKNOWLEDGEMENT © 2024 Elevandi Ltd. All Rights Reserved. Reproduction Prohibited. 5 Transitioning Asia's supply chain Introduction Progress is being made on sustainability in the round.*

pwc

At PwC, our purpose is to build trust in society and solve important problems - this is at the core of everything we do from the value we provide to our clients and society to the decisions we make as a firm.

Our services started with audit and assurance over a century ago. As times change and the issues faced by businesses and individuals evolved, we have developed specialised capabilities in tax, advisory and consulting to help you address emerging new challenges across focus areas like ESG, sustainability and climate change, digital transformation, cyber security and privacy, data, mergers and acquisitions, and more.

In Singapore, we have more than 3,500 partners and staff to help resolve complex issues and identify opportunities for public, private and government organisations to progress. As part of the PwC network with over 364,000 people in 151 countries, we are among the leading professional services networks in the world focusing on helping organisations and individuals create the value they are looking for.

Executive Summary

Corporate sustainability appears at a crossroads. Having moved through a phase of wide-ranging sustainability commitments and pledges, this agenda find itself in its delivery period. But as delivery is pursued, real-world challenges are emerging.

It was against this backdrop that climate policy experts, entrepreneurs, NGO representatives, financiers and consultants gathered in Zurich, in July 2024 at the Point Zero Forum, to discuss what concerted action is needed to help business manage the practical challenges their early actions, in pursuit of greater sustainability, have generated.

Drawing upon those conversations, this report first sets the scene, highlighting three broad trends that suggest business is – or will be soon – moving in a more sustainable direction.

Left alone, however, these trends are unlikely to be sufficient to deliver widespread, long-term corporate sustainability. The reasons why are also explored.

The final section of the report seeks to articulate what might be done along three core dimensions (a so-called '3D approach' – duty, data, dialogue) to help enhance corporate sustainability, with a particular emphasis on sustainable supply chains.

A point on definitions

Throughout this report, the terms 'sustainable' or 'sustainability' generally refer to 'Environmental and Social Sustainability', as defined by the UN[1]:

> ***"Environmental and Social Sustainability (ESS) is the adaption and integration of precautionary environmental and social principles and considerations into decision making processes."***

Reasons to be optimistic?

Delivering corporate sustainability has never been simple. But in 2024, it may seem more complex than ever. Perceived or real, a large part of this complexity is coming from supply chain considerations. Businesses are increasingly expected to account for and ensure the sustainability not only of their own operations, but of the wider networks they rely on to survive and prosper.

Understanding supply chain sustainability, let alone delivering it, can seem like a monumental task. However, there are today three key trends that suggest businesses can – or will have to – rise to this challenge:

1. **Changing consumer sentiment**
2. **A more holistic approach to investor valuation**
3. **New and emerging regulations and standards**

Each of these trends warrants closer examination.

1. Changing consumer sentiment

Consumers are now demanding sustainable products and services – and are willing to pay for them. A full 46% of respondents to the PwC 2024 Voice of Consumer Survey[2] said they were buying more sustainable products to reduce their impact on the environment. Consumers surveyed were also willing to spend an average of 9.7% more on sustainably produced or sourced goods. These figures, collated from more than 20,000 consumers across 31 countries and territories, are especially noteworthy given ongoing cost-of-living and inflationary pressures.

The Survey's findings suggest real commercial opportunity for businesses that can competitively procure sustainable goods from suppliers for their customers and clients.

2. A more holistic approach to investor valuation

Investors and analysts are increasingly factoring social and ecological risks into their valuations, many of which originate within supply chains.

For example, in May 2024 the US Senate Committee on Finance criticised several automakers for failing to police their supply chains effectively. The resultant reputational damage for the firms saw their shares trading down as a consequence.

Just as shifting consumer sentiment presents commercial upside potential, embracing sustainability can help insulate businesses from negative headlines and the resultant financial shocks.

3. New and emerging regulations and standards

Corporate sustainability due diligence is now in the spotlight of policymakers and standard setters like never before. Businesses that remain unconvinced of the upside risk potential and downside risk mitigation arising from sustainable supply chain management may be compelled to act in any event by legislation.

From a regulatory perspective, the EU continues to drive the agenda here. Three major legislative instruments, two directives and one regulation, have emerged in the past few years, in the field of supply chain sustainability – these are summarised on the next page.

Taken together they illustrate how EU policymakers see large businesses as being responsible for understanding the sustainability of - and delivering high integrity within - their supply chains.

Beyond regulation, there are various certification bodies that exist to detail what high integrity denotes in key sectors of the real economy. For example, the Roundtable on Sustainable Palm Oil (RSPO) or Bonsucro, the global platform for sustainable sugarcane. Several of the certifications these bodies provide feature in sustainable finance taxonomies. For example, both RSPO and Bonsucro certifications have been included in the December 2023 Singapore-Asia Taxonomy, in regards sustainable agricultural practices.

Such certification bodies can play a crucial role in determining and classifying sustainable business activity in the real world. Their presence in taxonomies such as Singapore's may help mobilise increasing levels of finance towards such sustainable practice. By extension, this can help embed corporate sustainability and sustainable supply chains around the world.

It could be argued, therefore, that there are good reasons to be optimistic that corporate supply chain sustainability is a topic being engaged effectively. Thanks to a combination of shifting consumer sentiment, investor pressure, and regulatory requirements.

Unfortunately, for each of these three trends there also exist significant obstacles threatening to delay progress towards wider corporate sustainability.

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Table 1 on next page displays The 'big three'- Notable EU sustainability legislation with potential impacts on value chain partners[3]

Challenges today and tomorrow?

1. Changing consumer sentiment

Returning to PwC's 2024 Voice of the Consumer Survey (see below), another key takeaway was that inflation fears still loom large in shoppers' minds. In response to the question: 'which of the following risks or threats do you feel could impact your country in the next 12 months?', 64% of respondents placed inflation in their top three choices, with macroeconomic volatility the second most prominent concern. While increasing appetite for sustainable goods and services is encouraging (climate change was the third highest risk registered), ongoing inflation and economic uncertainty will undoubtedly limit consumers' ability to spend sustainably, even if it is their preference to do so.

On the supply side, many of the Small and Medium-sized Enterprises (SMEs) that populate large corporate

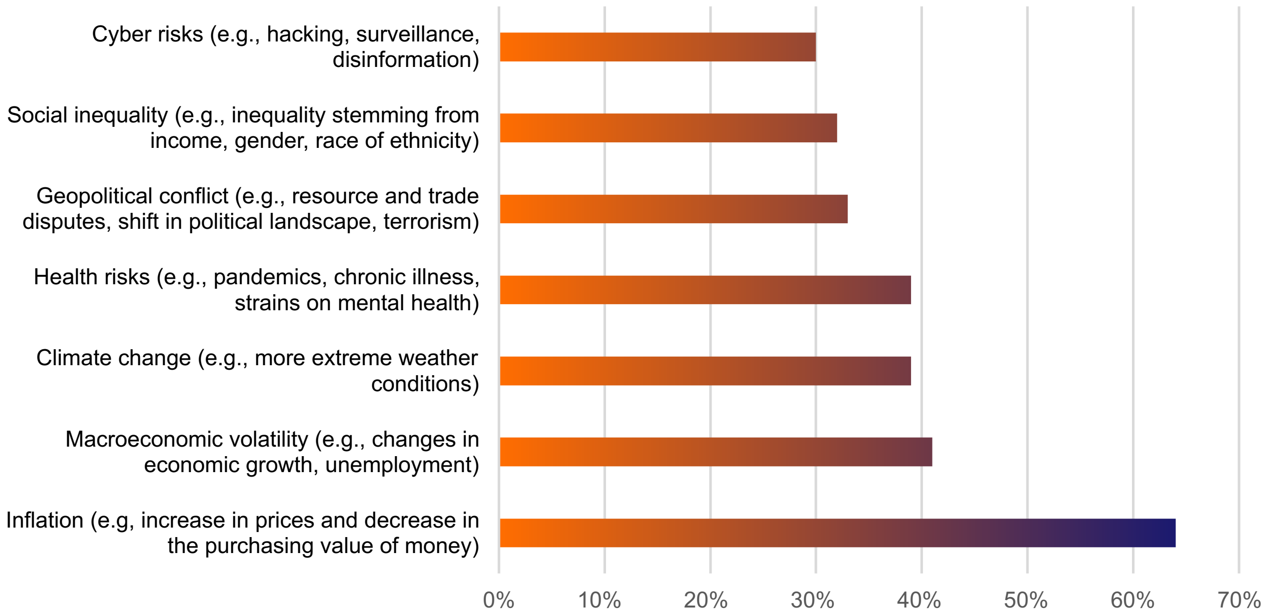
Table 1 The 'big three'- Notable EU sustainability legislation with potential impacts on value chain partners[3]

	EU Regulation on deforestation free product (EUDR)	EU Corporate Sustainability Reporting Directive (EU CSRD)	EU Corporate Sustainability Due Diligence Directive (CSDDD)
Sustainability requirements	Cattle, cocoa, coffee, palm oil, rubber, soya and wood exporters to the EU must prove that their products are deforestation-free before selling to EU member states. Includes social dimensions such as labour rights, human rights and the principle of free, prior and informed consent relating to the rights of indigenous peoples.	The CSRD aims to bring sustainability reporting on a par with financial reporting. To achieve this objective, companies must provide reliable information on sustainability-related impacts, risks and opportunities (IROs) across their value chains. The directive is underpinned by the European Sustainability Reporting Standards (ESRS), which lay out disclosure requirements in detail.	Companies are required to report according to the European Sustainability Reporting Standards (EFRS), as well as assure this information, which involves the identification and disclosure of sustainability matters with material impacts, risks and opportunities within their own operations and value chain, through its products/services and business relationships. Includes social and human rights dimensions consistent with the UN Guiding Principles on Business and Human Rights
Timeline for enforcement	Large and medium-sized enterprises must comply from 30 December 2024; small and micro undertakings must comply by 30 June 2025.	Those firms currently subject to the EU's Non-Financial Reporting Directive (NFRD) must report under the CSRD for financial years starting on or after 1 January 2024, filing for the first time in FY2025. Other unlisted EU companies meeting the size thresholds have more time, reporting on financial years starting on or after 1 January 2025, filing for the first time in 2026. Listed small and medium-sized entities and certain financial institutions will have to report for financial years starting on or after 1 January 2026. Non-EU entities with significant activities in the EU will have to report for financial years starting on or after 1 January 2028	Effective for large Public Interest Entities (PIEs), EU listed companies, large non-listed EU companies and EU parents of large groups from as early as FY2024; and non-EU parent companies meeting certain criteria will be required to report from FY2028.
Expectations of upstream supply chain partners	Upstream SME suppliers will be expected to provide product traceability documentation that includes quantity, supplier, country of production and the exact geolocation coordinates of the plots of land where the commodities were sourced.	Companies must assess the materiality of sustainability topics across their value chains and then consider which of more than 1,000 data points to disclose. By extension value chain participants of reporting entities may be expected to help furnish the relevant sustainability information needed.	Upstream SME suppliers who are part of the value chain of a company in the scope of CSRD may be required to provide detailed information on environmental, social and governance performance, including Scope 1 and Scope 2 GHG emissions data.

supply chains simply do not have the time or inclination to embrace sustainability on a practical level, despite the notion that doing so might help ensure their long-term competitiveness. The reasons for this have been explored in research published following the Japan Fintech Festival[5].

While commercial opportunity evidently remains for those businesses that can build out their sustainability credentials, there is a risk that many businesses are shut out from accessing it. At least until going sustainable can be made simpler and fundamentally more cost effective, at consumer and corporate level.

Question: Which of the following risks or threats do you feel could impact your country in the next 12 months? [4]



Base: 20,662 (All respondents)

2. A more holistic approach to investor valuation

Supply chain sustainability risk, once crystalised, can be as material as any other financial risk. The fallout from the 2024 Senate Finance Committee report described above showed this, but there are other case studies too. For example, fast-fashion company Boohoo suffered an exodus of institutional shareholders in 2020, following evidence of illegal work conditions in its supply chain.

These events underline the case for adopting sustainable supply chain practices from the perspective of downside risk mitigation, among other factors. However, the extent to which, for example, the 'greenness' of a company's supply chain might contribute to increased valuation is unclear.

There are, of course, case studies that suggest enhanced corporate sustainability is commensurate with stronger financial performance. For example, research commissioned by the RSPO suggests that companies committed to sustainable palm oil production have stronger equity returns[6].

While such research may be compelling in the palm oil space, it would not be reasonable to infer such findings as being generally applicable to the producers of other key commodities such as cocoa, coffee, rubber, or soya, for example.

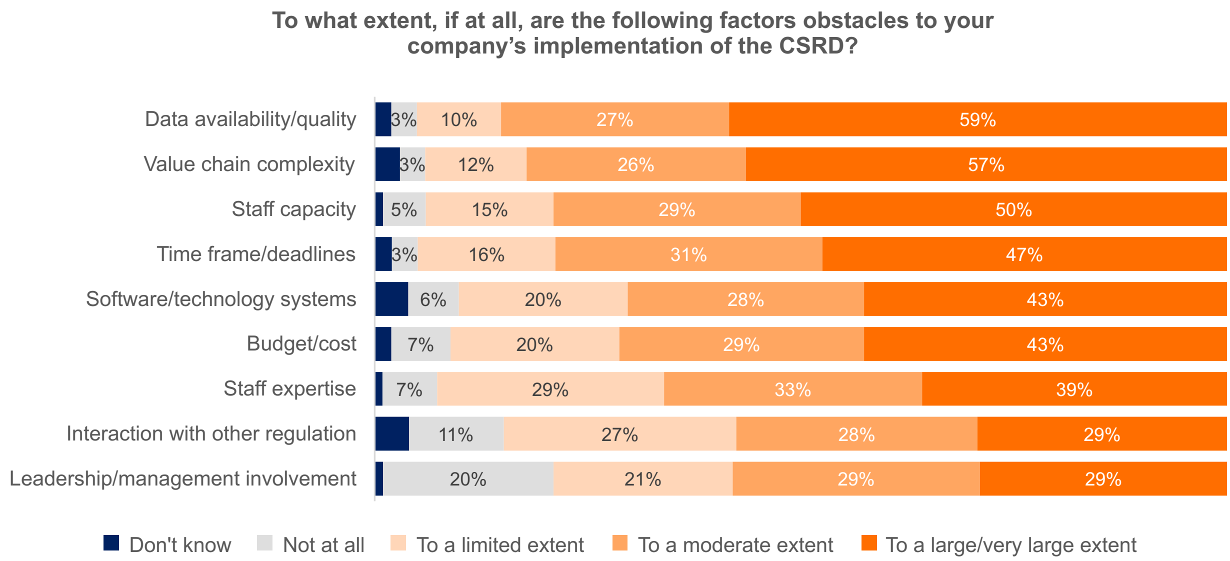
Tailored research examining the competitiveness premium arising from sustainability integration from a sectoral perspective may be key to mobilising wider moves to embracing supply chain sustainability on a larger scale.

3. New and emerging regulations and standards

The arrival of new sustainability legislation in the EU, with its resulting extra-territorial effects, is very significant. Businesses within the Asia-Pacific region might increasingly consider compliance with these new initiatives as part of the cost of doing business within the EU.

This begs the question – how challenging will it be for businesses to comply with this legislation? PwC's inaugural Global CSRD Survey 2024 sheds some light on this – see below.[7]

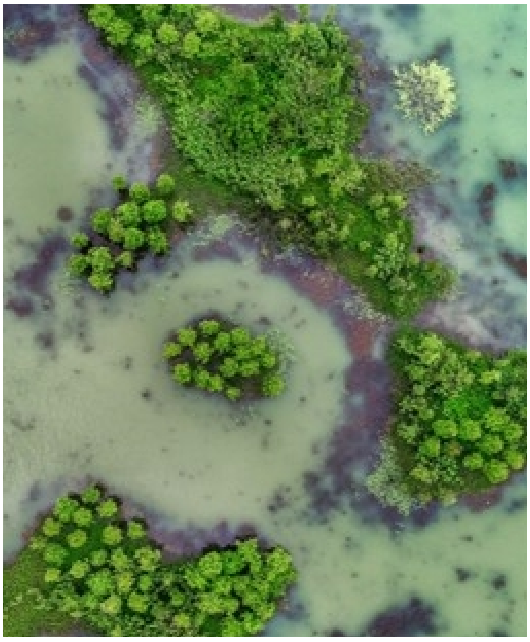
The top three obstacles highlighted in the survey resonate considering anecdotal business experience from across the Asia-Pacific region:



1. **Data availability/quality** – considering many corporate supply chains are made of up SMEs, it is often simply impractical to expect them to have the resources available to collect and provide such information.

2. **Value chain complexity** – the number of actors in any given supply chain can be very extensive. For example, raw materials used in cement production often originate from a variety of different countries. If this did not present enough challenges, the same raw material might be sourced from several different countries, before being combined as input within a given production process. This makes traceability incredibly complex.

3. **Staff capacity** – The issues above would present obstacles for large sustainability teams. Yet, even within large organisations sustainability teams are often lean. And already grappling with many obligations.



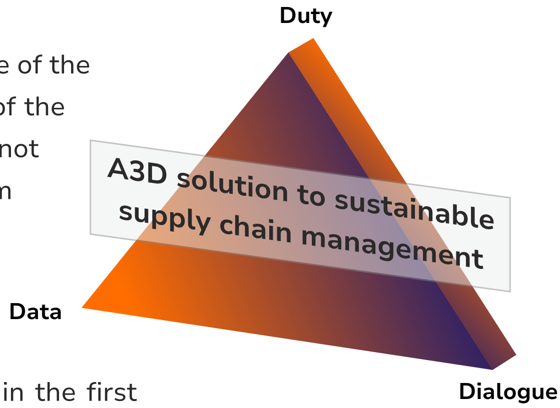
Legislation such as that presented in the EU is significant. But the very practical implementation challenges arising – especially pronounced given these instruments' ambition – may delay realisation of the tangible sustainability benefits policymakers desire.

This raises a question; will the three trends discussed – 1. Changing consumer sentiment; 2. A more holistic approach to investor valuation; 3. New and emerging regulations and standards – catalyse a genuine shift in corporate sustainability or fall short of realising their potential?

This question was the subject of discussion at the 2024 Point Zero Forum, with the practical recommendations arising out of conversations held presented next.

A '3D' solution to sustainable supply chain management?

1. Duty



Point Zero Forum participants agreed on the pervasive nature of the SME challenge – and that simply repeating the significance of the sustainability imperative to small business owners would not change behaviour. Nor would emphasising the long-term competitiveness benefits on offer to SMEs by integrating sustainability.

In the face of these obstacles – especially considering that compliance obligations would fall on large corporates in the first instance – there is a duty on big business to provide genuine support to their suppliers, to help them navigate the challenges sustainability integration entails.

Such a duty can help ensure that the opportunities the net zero transition affords are more widely accessible to SMEs. Thus, giving the best possible chance of realising the benefits of changing consumer sentiment, as discussed above.

2. Data

A duty to support will only be effective if there is clarity around where such support would prove most effective.

If SMEs are the target of support, then simplifying the sustainability data collection process must be a priority. Any prospective simplification, however, cannot come at the expense of acknowledging unique data points that are essential to understanding sustainability in one sector, versus another.

Also, a duty to provide support to SMEs or struggling businesses more generally should extend to acknowledging – so participants argued – that such support comes with a cost. This cost may fall, for example, largely on anchor buyers or financial institutions in the first instance, but there needs to be candour here - around how/if and under what circumstances any upfront costs incurred to the benefit of SMEs today, may be recouped tomorrow.

Circling this issue without gripping it inevitably leads to further delay when time is of the essence.

3. Dialogue

Perhaps the most significant aspect of the three dimensions is the third – dialogue.

But dialogue cannot remain open-ended, however. It must be targeted and focused. Such focus must be delivered by acknowledging that what works for one sector may not apply to others. As one roundtable participant said: "we have the ISSB [International Sustainability Standards Board] – but we now need ISSB to go to the level of data, going to the level of sectors."

A sectoral approach lends itself to a structured pilot programme, whereby suppliers from a given sector, anchor buyers, and financial institutions collaborate. In the first instance their dialogue should seek to answer three core questions:

a) What are the – simplified – data requirements arising from this sector to enable effective sustainability reporting (especially considering regulation upcoming) and financing?

b) What are the costs associated with furnishing such data across supply chains, considering how technologies such as blockchain/artificial intelligence might feature?

c) What division of the costs now, and moving forward, is fair and proportionate from wider supply chain stakeholders?

If clarity of purpose is forthcoming, with these questions having been answered, a pilot programme – time-limited (thus ensuring focus) – would be well placed to trial whether the results are capable of mobilising greater levels of sustainable financing by financial institutions and in turn, sustainable practice by SMEs.

Conclusion

Corporate Sustainability has already gained enormous traction; with consumers, investors, and policymakers paying ever more attention to it.

But if we are to resolve the most pressing sustainability imperatives of our time we require a step change in the pace of corporate transformation.

Concerted action is essential, but it cannot be too broad-brush. It must acknowledge the challenges specific to certain sectors, acknowledge the costs associated with the requisite action, and look to leverage the transformative potential of technology to accelerate the rate of change.

A three-dimensional solution to sustainable supply chain management offers up the outline of a model that could be tested and scaled if successful, in pursuit of real-world change. In sum:

- Larger market players should embrace the notion of a corporate anchor **duty**, genuinely supporting their supply chain participants embrace sustainability. Not just demanding it of them.
- **Data** is critical and its collection and processing need not be as complex as often presented. However, sectoral differences remain and these cannot be ignored.
- Effective **dialogue** is an essential pre-requisite to progress. But it must be targeted, not open-ended. A sectoral pilot programme lends itself to providing focus, in support of actioning an effective corporate anchor duty and identifying the crucial data points need to measure and manage sectoral sustainability.

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The views expressed here are their own and do not necessarily reflect the views of company or its staff.

To access more reports, scan the QR code below:

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