



Accelerating and scaling-up collective action for sustainable supply chains

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EXECUTIVE SUMMARY

Supply chains are key to economic life, international production, trade and investments. Under certain conditions, supply chain development and their integration into global supply chains can lead to sharp productivity gains, employment creation, and income premiums as well as social protection, skills development, knowledge and technology transfers, compliance with higher standards, and women's economic empowerment. However, global supply chains can also exacerbate inequalities within and across nations, and within and across supply chains.

The global governance architecture for sustainable supply chains, due diligence and responsible business conduct, is a complex web of multiple instruments. It encompasses legally binding international agreements on human rights, labour conditions, environmental protection and the fight against climate change and a global normative framework reflecting governments' expectations on sustainable supply chains. Additionally, it includes a myriad of private, voluntary sustainability standards and multi-stakeholder initiatives, largely aligned to the multilateral legal and normative framework.

Unfortunately, the existing mix of international and national voluntary and mandatory measures for sustainable supply chains has not eradicated human rights abuses, decent work deficits and environmental impacts from supply chains. Many of the supply chains in which abuses occur, are those sourcing raw materials, labour-intensive goods and products from – and within – countries with systemic governance challenges. These countries are also experiencing high levels of informality and working poverty.

Power asymmetries between supply chain actors (e.g. retailers, large first-tier producers and suppliers), often result in cost and risk shifting onto the subcontractors, producers and workers further down the supply chains. Furthermore, the international commodity market price-fixing regime is strongly leveraged by large buyers and commodity exchanges, making it difficult for commodity producers and farmers to have a level playing field.

National legal frameworks are often unequally aligned to international sustainability standards and principles. The disparity in national legal frameworks, secondary regulations, and enforcement systems also undermines the level playing field. Business voices are becoming increasingly louder in demanding greater legal certainty and coherence of sustainability requirements for global supply chains.

As a result, robust laws, regulations and enforcement mechanisms, may increasingly become key to countries' comparative advantage and a prerequisite to attract sustainable Foreign Direct Investment (FDI) and secure access to export markets.

There is growing interest in how States, through a smart mix of policy instruments, can effectively stimulate private investment and innovation in line with the Sustainable Development Goals (SDGs). Indeed, States can take an active role in encouraging sustainable and responsible business behavior in supply chains. However, translating public policies into effective practice requires robust institutions and legal frameworks aligned with international standards on responsible business conduct, as well as institutional capacity to navigate vested interests within supply chains, as some may obstruct transformative policies.

Recent years have seen a wave of mandatory due diligence legislation in multiple countries; this evolution has the potential to decrease the occurrence of extreme abuses and sub-optimal practices, provided that the potential negative impacts of these laws on producers, suppliers and workers are identified, documented, disclosed and mitigated. However, mandatory due diligence legislation may fall short on significantly improving living incomes and rural livelihoods for the majority of producers, without structural changes to the functioning of the international commodity market.

Businesses are increasingly revamping their supply chain strategies to demonstrate a strong sustainability proposition. Consumers, workers, corporate stakeholders and the financial sector, are increasingly socially and environmentally conscious: they demand greater transparency on Environmental, Social and Governance (ESG) business' performance and reporting, as well as ethical and sustainable products. This is putting pressure on businesses and their supply chains to achieve the triple bottom-line of sustainability: first, to ensure inclusive growth, decent job creation and respect of human rights to protect the people; second, to reduce their carbon footprint and improve circularity to protect the planet; and third, to be economically resilient.

Furthermore, the transition to circular business models is gaining momentum, not only to mitigate risks associated with import dependency and price volatility, but also to save costs, improve financial performance and competitiveness. Lead firms are expected to play a key role in decarbonizing their own production and supply chains, notably by stepping up collaboration with domestic firms and investing in green technology transfer.

Finally, corporate thinking is moving away from a logic of competitive cost to one of competitive risk. Supported by the resurgence of protectionist national policies, accompanied by massive public subsidies and other State support, re-shoring, friend-shoring and far-shoring are increasingly considered as alternatives to the dominant off-shoring model. Firms are also investing in robotics and automation to reduce labour costs. Automation is shifting the global division of labor based on economies of scale, limiting developing countries' strategic entry points into global markets and reducing their relative competitive advantage based on lower labor costs. This highlights the importance for industrializing countries to modernize their national skills' development systems in order to meet industry's needs.

As supply chains become increasingly complex, end-to-end visibility has become a top priority for supply chain leaders, both to improve supply chain resilience and to demonstrate ESG

performance. Digital traceability and other technological advancements hold the potential to increase transparency and accountability in sustainability reporting and performance, provided that different tiers in the supply chain overcome a lack of trust and engage in new ways of collaboration and information sharing.

UNIDO calls on all relevant state and non-state actors to accelerate and facilitate coordinated collective action in identified priority areas across and within supply chains, respecting actors' legitimate roles and responsibilities. UNIDO also calls on its sister agencies to step-up coordination efforts and to pursue joint action, to leverage the wider UN systems capacities in line with the “UN act as one approach”.

Against this backdrop, UNIDO identifies the following priorities to reach sustainable supply chains before 2030:

(1) Scale-up collective action. Continue to further strengthen multi-stakeholder dialogue at global, regional and national. Inclusive dialogue is paramount to finding effective solutions. Building on existing evidence, identify and prioritize interventions with potential to facilitate systemic change.

(2) Deliver systemic, multi-dimensional, country-driven tailored support to countries around the world, simultaneously addressing the root causes of unsustainable supply chains, while preparing countries to meet new requirements brought about by sustainability-driven international regulations. Establish robust legal frameworks in line with international standards and support effective enforcement systems. Scale-up efforts to strengthen knowledge sharing and capacity building across policymakers and regulators.

(3) Establish a robust monitoring mechanism designed to document and disclose the impacts of mandatory due diligence laws in different countries, supply chains and throughout different tiers of the supply chain. This is key to building a strong evidence base for the design and delivery of accompanying support measures. Translate evidence into practical recommendations for legislators, policy makers, development partners and businesses in producer and consumer countries.

(4) Support businesses in transforming their strategies to ensure that sustainability is a key driver when shaping business models, products and services, across different tiers of supply chains. Step up efforts to strengthen SME's ESG preparedness, including improved access to finance, knowledge and technology, as well as support in low-carbon transition, value addition, quality infrastructure, and skills development. A differentiated approach in consumer and producer countries is needed.

Harnessing the potential of these opportunities requires moving away from a technocratic perspective, recognising that politics and power is central to achieving sustainable supply chains.

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Cover photo: Ms. Varoti Pathang undertakes final check before starting a carding machine for recycled cotton in SIMCO recycling facility in Dhaka, Bangladesh. UNIDO-led Switch to Circular Economy Value Chains project works with selected fashion brands and their supply chains in Bangladesh to achieve a circular transition in the textile and garments sector. Note: After the carding machine starts with operation, in addition to ear plugs and hair covering, a face mask is part of the personal protective equipment.

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