

# Sustainable Supply Chains

- Global Challenges & Trends
- Sectoral Perspectives & Institutional Approach
- Dimensions of Sustainable Supply Chain
- Implications and Actions for Central Asia



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# Acronyms & Abbreviations

The following acronyms and abbreviations are used in this document:

**AUM** Assets Under Management

**BREEAM** Building Research Establishment Environmental Assessment Method

**BRSR** Business Responsibility and Sustainability Reporting

**CDP** Climate Disclosure Project

**EBRD** European Bank for Reconstruction and Development

**EU** European Union

**ESG** Environment Social and Governance

**ESM** Environmental and Social Management

**GDP** Gross Domestic Product

**GHG** Greenhouse Gases

**GRI** Global Reporting Initiative

**ICMM** International Council on Mining and Metals

**IFRS** International Financial Reporting Standards

**ILO** International Labour Organization

**ISO** International Organization for Standardization

**ISS** Institutional Shareholder Services

**LEED** Leadership in Energy and Environmental Design

**OPIM** Operating Principles for Impact Management

**PRB** Principles for Responsible Banking

**PRI** Principles for Responsible Investment

**SASB** Sustainability Accounting Standards Board

**SEC** Securities and Exchange Commission

**SME** Small & Medium Enterprises

**S&P** Standard & Poors

**TCFD** Taskforce for Climated Related Financial Disclosures

**UNGP** United Nations Guiding Principles on Business and Human Rights

**UN SDGs** United Nations Sustainable Development Goals

**WTO** World Trade Organization

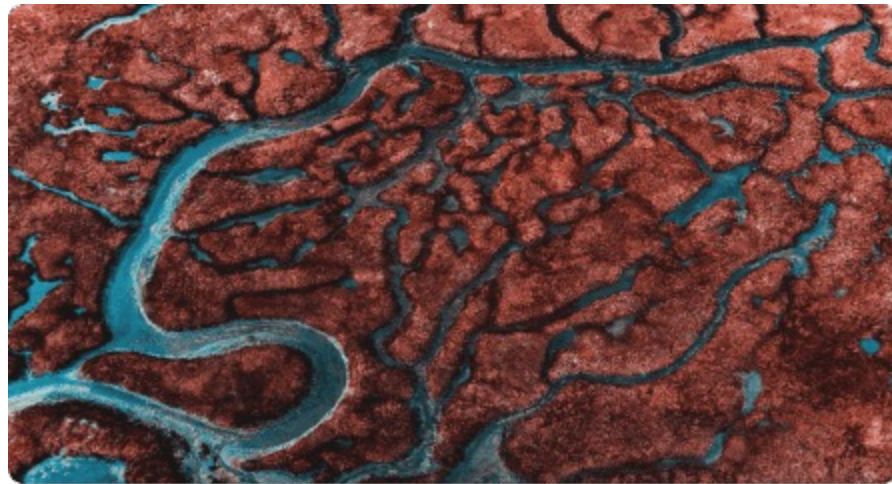


# Global Challenges & Trends





# Global Challenges & Sustainable Supply Chains



## Climate Change

Driven by continuous growth in anthropogenic GHG emissions, climate change poses a critical threat for the global economy

Since 2/3 of global GHG emissions can be categorized as Scope 3, sustainable supply chains can be one of the major drivers of climate change mitigation



## Human Rights Violations

Global supply chains present severe risks of human rights violations such as child labour, forced labour, and worker health & safety issues

Sustainable supply chains focus on fair labor practices, including safe working conditions, fair wages, and respect for human rights



## Resource Depletion

The use of natural resources has more than tripled since 1970 and continues to grow resulting in steady depletion of natural resources

Sustainable supply chains promotes responsible resource consumption, recycling and reuse of materials as well as sustainable sourcing



## Global Waste & Pollution

The issue remains one of the greatest global challenges resulted from decades of unsustainable production and consumption models


Sustainable supply chains aim to minimize waste generation through efficient production and transportation of goods as well as reuse and recycling


Sustainable supply chains can become one of the key instruments to combat global challenges


# Tightening ESG Regulations


The trend of tightening global ESG legislation can be observed with now more than 150 regulations on sustainability imposed or announced across the globe as a result of climate, UN SDGs, and other international and local commitments

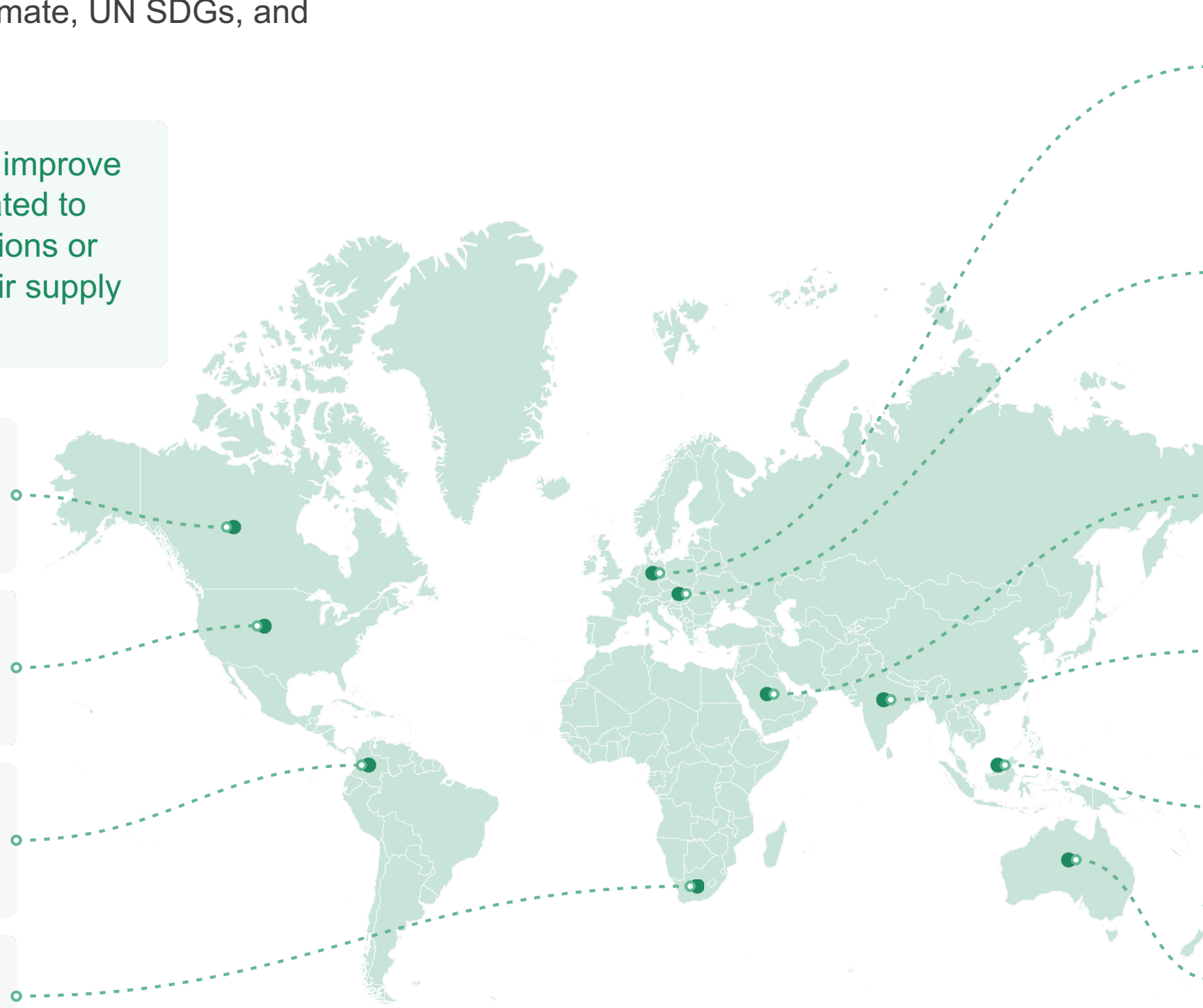
Some regulators are pushing companies to improve disclosure and management of aspects related to supply chains such as Scope 3 GHG emissions or human rights violation monitoring within their supply chains


 Canadian Bill S-211 requiring organizations to report on addressing forced and child labor in supply chains


 US SEC Disclosure Initiative and California State Act requiring disclosure of Scope 3 GHG emissions


 Columbia Green Taxonomy, Disclosure requirements for ESG funds, ESG and climate risks integration in financial market


 Green Taxonomy, Johannesburg Stock Exchange's ESG reporting requirements





 German Act on Corporate Due Diligence Obligations in Supply Chains

 CSRD, ITS requiring disclosure of corporate and financed Scope 3 GHG emissions; Corporate Sustainability Due Diligence Directive requiring managing adverse impacts related to human rights and environment

 The Saudi Exchange ESG Disclosure Guidelines including controversial sourcing and supply chain labor standards

 BRSR Core-Framework for Assurance and ESG Disclosures for Value Chain

 Capital Markets Malaysia ESG Disclosure Guide in relation for SME within global supply chains

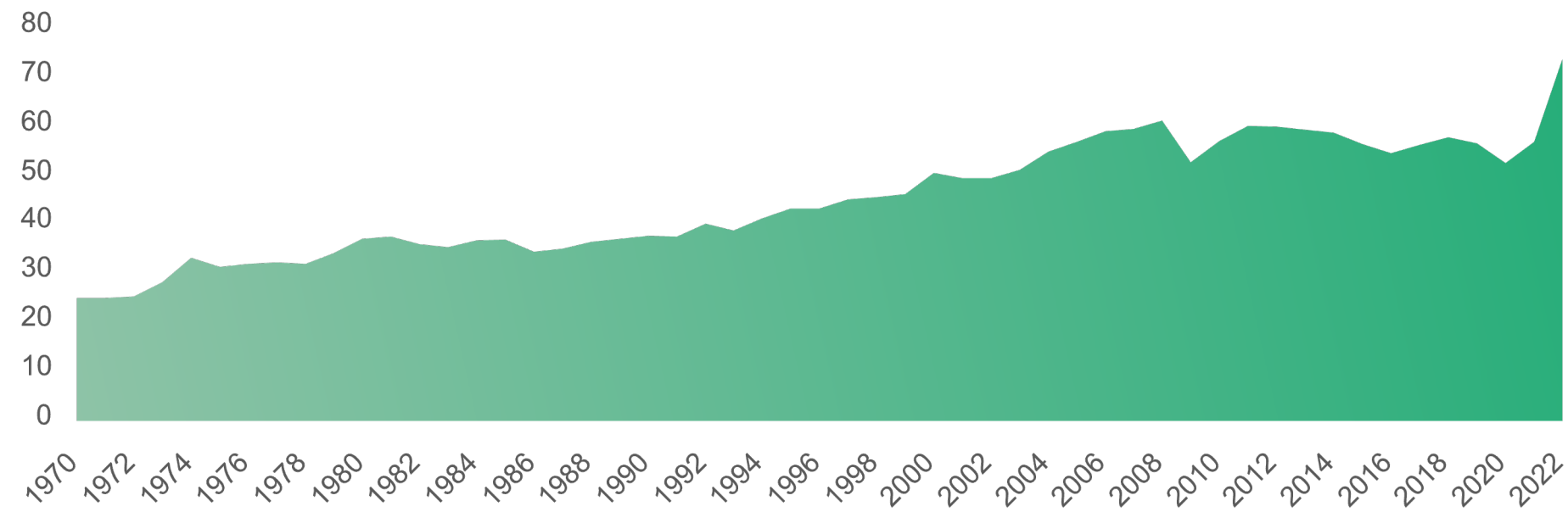
 Climate related financial disclosures for financial institutions and large corporates, including Scope 3 GHG emissions



# Recovery in Global Trades

One of the most notable trends in recent post-Covid years is the increase in global trade (Figure 1); the ongoing recovery in supply chains and the growth of emerging markets have also contributed to this upward trajectory

Figure 1. Global Trade as a Percentage of GDP



2024 although has contradictory growth forecasts with political tensions remaining a key factor

“Global trade growth in 2024 is expected to be only half the average in the decade before the pandemic” – Worldbank

“Trade growth should pick up in 2024 growing faster than GDP” – WTO

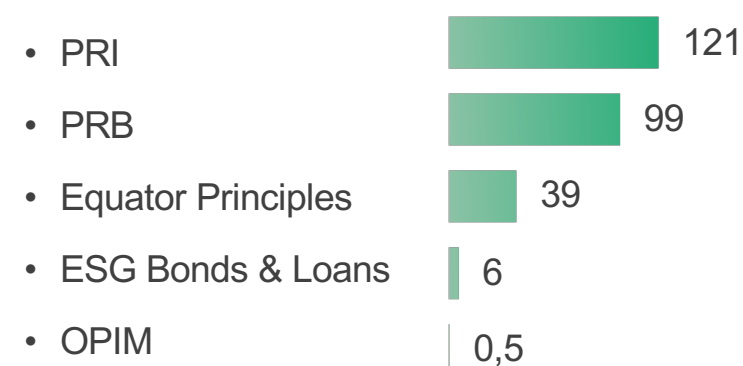


# Sustainable Standards & Practices Implementation

There is an increasing scale in sustainability-focused commitments made by financial institutions as well as sustainable practices and standards followed by corporates while most of them have a particular focus on supply chains

## Sustainable Finance

Global Coverage AUM, USD tn

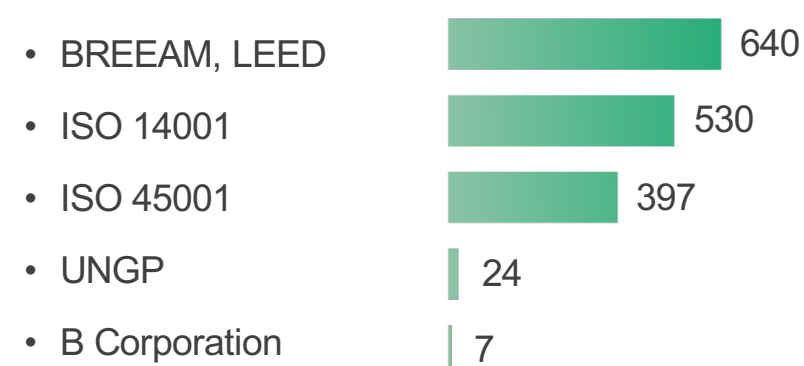


Most sustainable finance initiatives focus on Scope 3 GHG emissions of invested companies and projects as well as ESG risks related to their supply chains:

- The PRB encourage banks to set climate targets regarding their financed emissions (Principle 2: Impact and Target Setting)

## ESM Standards

Global Coverage number of certificates

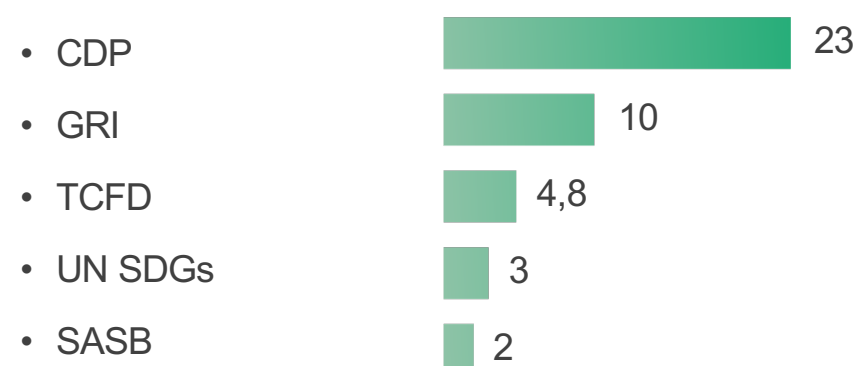


ESM standards force companies to follow responsible sourcing practices and consider ESG performance of its suppliers:

- BREEAM methodology includes responsible sourcing aspects
- ISO 14001 requires considering environmental practices and performance of suppliers

## Non-Financial Disclosure

Global Coverage Annual disclosures,ths

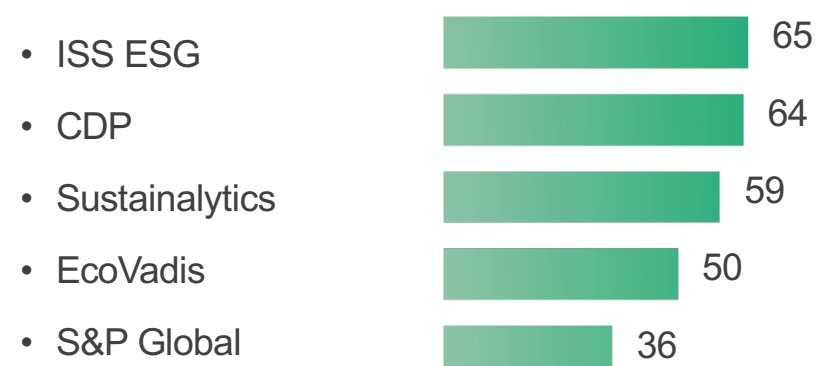


Leading reporting standards require transparency on aspects related to supply chains such as Scope 3 GHG emissions or responsible procurement:

- ISSB Climate Related Disclosures (IFRS S2)
- GRI 204: Procurement Practices
- SASB: Financed GHG emissions of banks including Scope 3

## ESG Ratings and Scores

Global Coverage rate by investors



ESG Rating questionnaires and methodologies include supply chain aspects

- EcoVadis: focus on supplier environmental and social practices
- CDP: engagement strategy with suppliers, customers and other partners, requirements to suppliers as part of purchasing process



# Growing Awareness around Supply Chain Due Diligence

The number of companies scored by EcoVadis increased by 134% in 5 years with a high share of unique assessments which indicates rising awareness around supply chain due diligence

EcoVadis is one of the leading ESG rating providers, its methodology emphasizes assessment of companies' supply chain risk management and due diligence

Figure 2. Number of companies scored by EcoVadis, ths

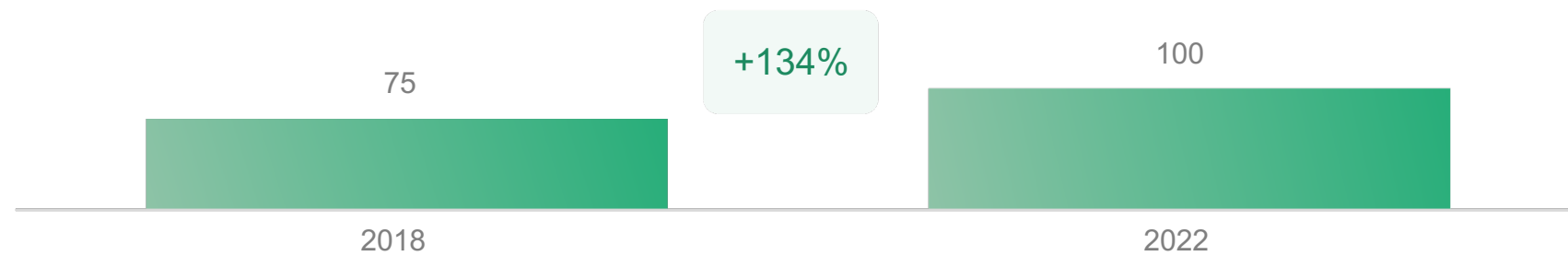


Figure 3. Unique company assessments 2018-2022, %



# Increasing Cybersecurity Threats from Supply Chains

Supply chains become more vulnerable to cyberattacks due to its naturally increasing complexity and multiplicity while financial losses from data breaches are increasing

In 2023, the average number of cybersecurity breaches in supply chains negatively impacting organizations increased as well as the average cost of each data breach

Figure 4. Average number of cybersecurity breaches in supply chains globally

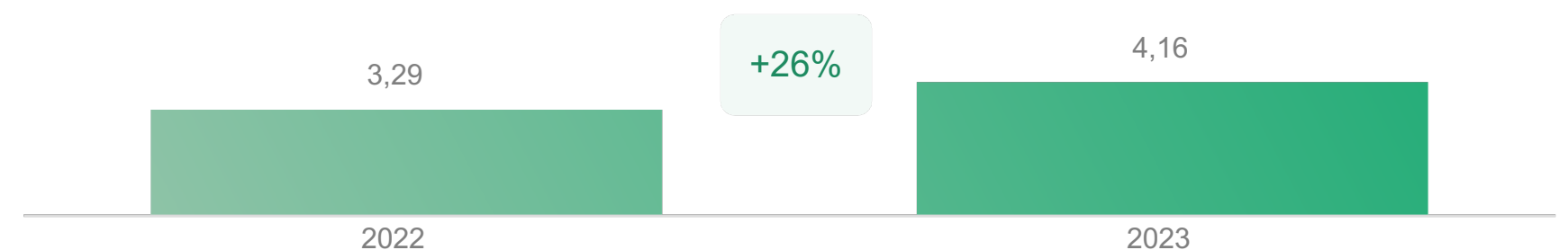


Figure 5. Average total cost of a data breach, USD million





# Changing Consumer Preferences

## McKinsey and NielsenIQ, 2023

Products making ESG-related claims demonstrated 28% of average cumulative sales growth over the five-year period versus 20% for products that made no such claims (US market, 2017-2022). The clearest trend was demonstrated by food and personal care product categories.

## IBM Institute for Business Value, 2020

Over 53% of consumers surveyed would pay a premium of 35% on average for brands that support recycling, practice sustainability and/or are environmentally responsible (based on responses of 18,980 consumers in 28 countries).

## Deloitte, 2018

From 24% to 31% of millennials surveyed indicated that climate change and income inequality are among their top-five personal concerns (based on responses of 10,450 millennials in developed and emerging markets).

## Cone Communications, 2017

87% of consumers responded that they would purchase a product if a company supports an issue they are concerned about, while 76% said that they would refuse to buy it if a company advocates for an opposite issue (based on a survey of 1,000 US respondents).



# Sectoral Perspectives & Institutional Approach





# Environmental Footprint in Supply Chain

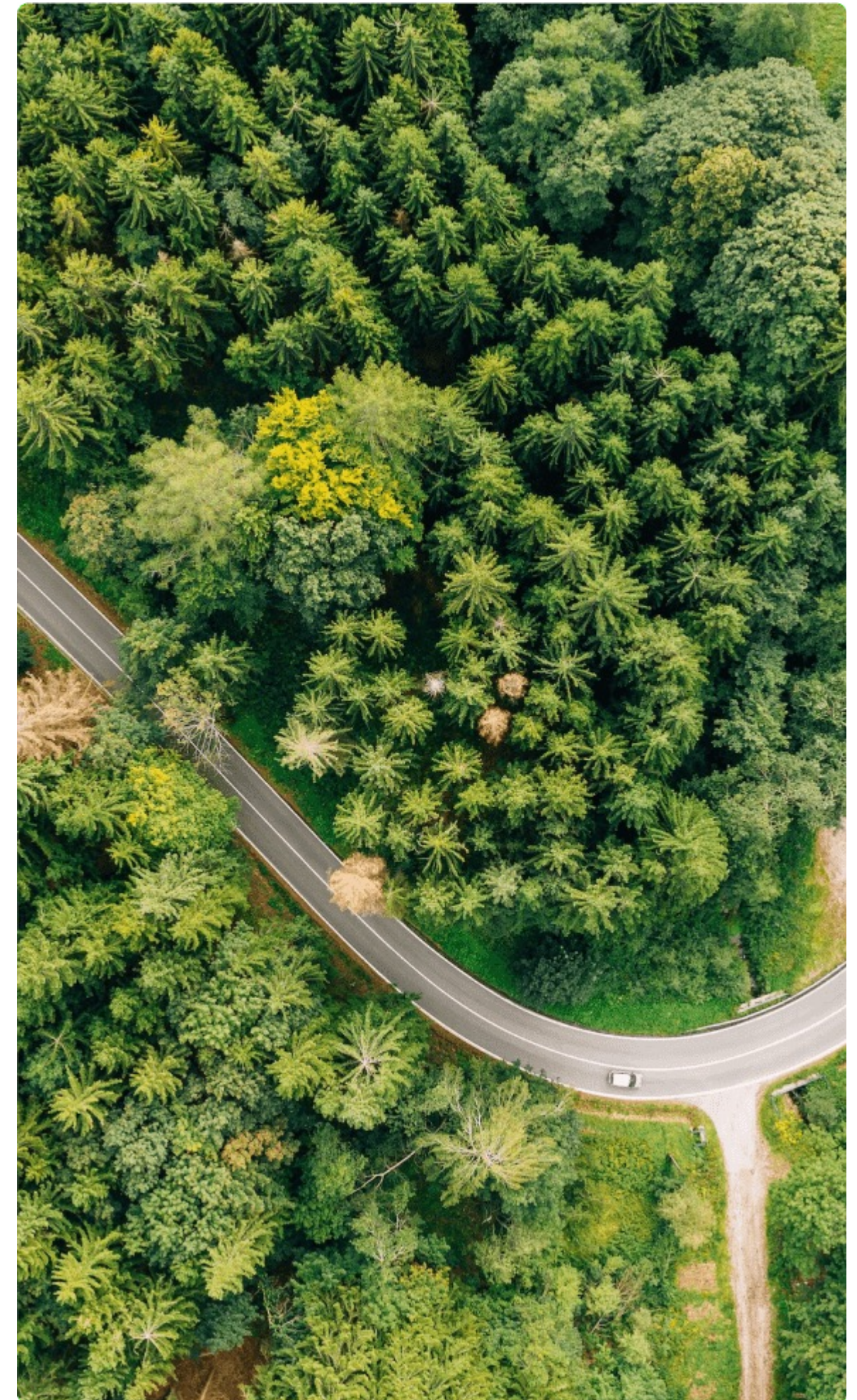
For some sectors, the environmental impact is mostly located in the companies' supply chain remaining in the "DNA" of delivered products and services

## Environmental impact in supply chain

Figure 6. Share of environmental impact located in the supply chain, %



Sources: UN PRI (based on private capital markets data)





# Sector Standards: Focus on Supply Chain

Sector standards that also focus on supply chain management

The most prominent sector standards and initiatives related to sustainability pay specific attention to the aspects of proper supply chain management. However, the presence of standards, their integration level and emphasis vary across different industries.



## Financial Sector

The PRB encourage banks to consider the environmental and social impacts of their financing decisions, including those related to supply chains



## Oil & Gas

The Extractive Industries Transparency Initiative (EITI) expects oil and gas companies manage risks associated with contractors and suppliers

## Gold Mining



By adopting Responsible Gold Mining Principles (RGMPs), signatories make a commitment to require their suppliers to conduct businesses ethically and responsibly in a form of obligatory condition of any business relationship.  
The Cyanide Code encourages purchasing cyanide from manufacturers who operate in a safe and environmentally protective manner



## Retail Sector

Despite retail supply chains are responsible for 25% of global GHG emissions, the industry is poorly presented on the climate agenda staying without any acknowledged standard



## Metals & Mining

Setting principles such as Decision Making, Human Rights, and Social Performance, the ICMM promotes its members to incorporate responsible behavior throughout their supply chain



## Jewellery

The Responsible Jewellery Council's Code of Practice requires its certified members to follow responsible business practices throughout the jewellery supply chain, from mine to retail



## Steel

The Responsible Steel: the ESG performance of direct and indirect input material suppliers is understood and an effective strategy to help improve performance is being implemented



## Textile

Sustainable Apparel Coalition assesses the environmental and social performance of the value chain and the environmental impacts of products



# Institutions' Guidance on Supply Chain Management

Institutional Organizations such as Worldbank Group and OECD provide the market with various supply chain management and due-diligence approaches

## Worldbank Group

Best practices of supply chain management (SCM) according to Worldbank SCM Guidance 2023:

Assessing the Project's Operational Context	This includes assessing potential environmental and social impacts of any project that are related to SCM
Mapping the Supply Chain	Potential risks can be identified, and mitigation techniques can be implemented
Identifying Supply Chain Vulnerabilities	Monitoring on the most vulnerable parts of the supply chain, develop supply risk mitigation approaches
Conducting Supply Chain Risk Management	Identifying and minimizing risk and managing any impacts on the project
Capturing the Information in a Risk Management Plan	Review and compare all identified risks, prioritize them, and develop action plans if warranted
Including Supply Chain Considerations in the Works Requirements/Specification	Consider the Project Development Objectives and the Value-for-Money principles, and design them with a "fit for purpose" mindset

## OECD

OECD sectoral due diligence guidance various processes have led to specific, non-binding due-diligence guidance for the following supply chains:



Conflict minerals (2011), Child Labour in minerals (2017)



Financial sector (2019)



Agriculture (2016)



Garment and footwear (2017)



Extractives (2017)



# UN SDGs & Global Supply Chain

Some of the targets of United Nations Sustainable Development Goals (UN SDGs) are dedicated to aspects of global trade and global supply chain with a specific focus on developing countries



## 8.a Aid for trade support to developing countries

Increase Aid for Trade support for developing countries, particularly Least Developed Countries (LDCs), including through the Enhanced Integrated Framework for LDCs



## 16.3 Rule of law at the international level

Promote the rule of law at the national and international levels, and ensure equal access to justice for all



## 9.3 Integration of SMEs into global value chains

Increase the access of SMEs, particularly in developing countries, to financial services including affordable credit and their integration into value chains and markets

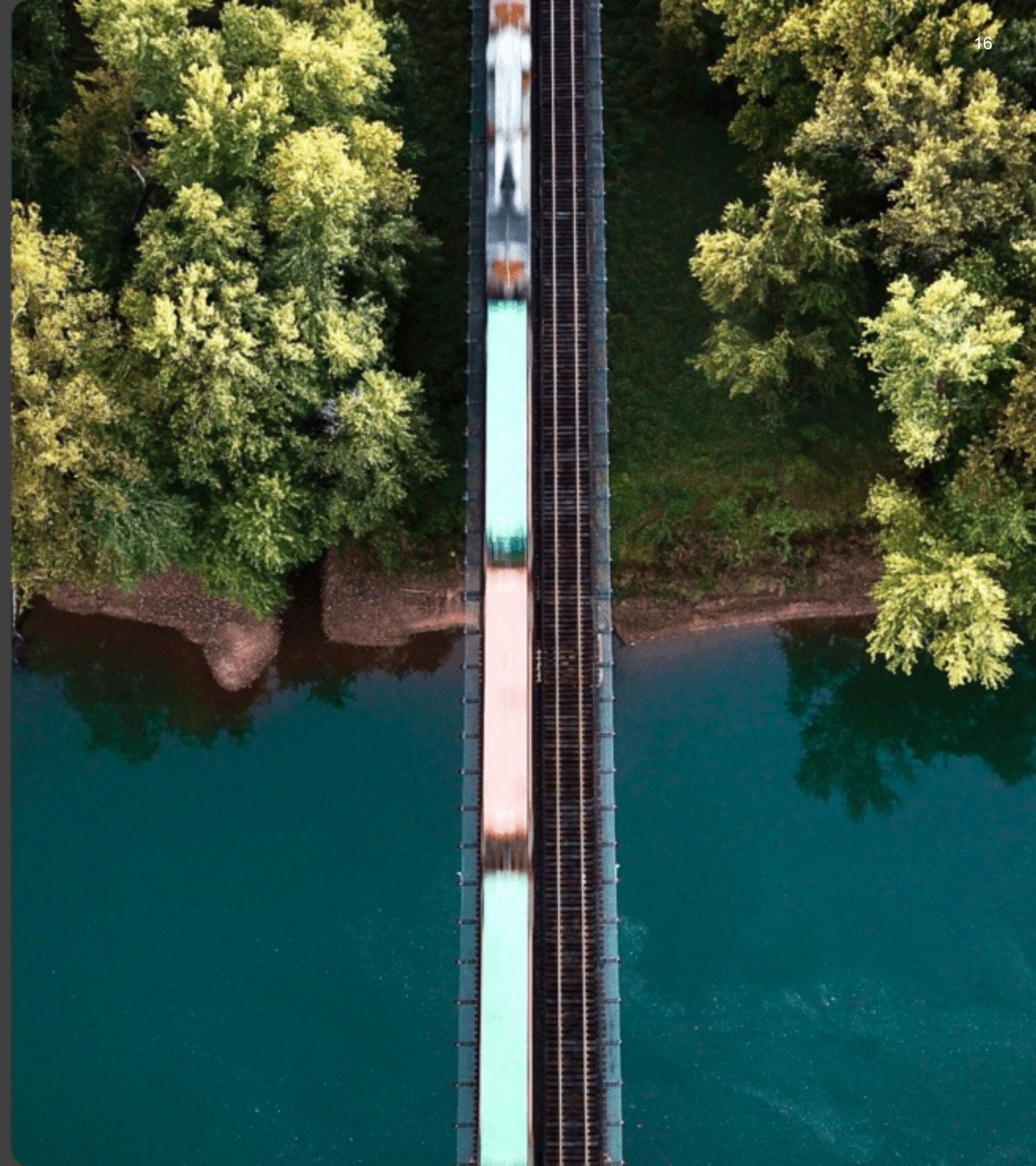


## 17.11 Boosting exports by developing countries

Increase significantly the exports of developing countries, in particular with a view to doubling the LDC share of global exports by 2020



# Dimensions of Sustainable Supply Chain





# Dimensions of Sustainable Supply Chain

Based on the analysis of best corporate market practices as well as existing institutional and sector standards, we formulated the following key dimensions of sustainable supply chain:

BEST PRACTICES



## Green Supply Chain

- 01 Carbon Management
- 02 Green Transportation
- 03 Green Fuel
- 04 Lighter Shipments



## Circular Supply Chain

- 01 Responsible Product Design
- 02 Reused & Recycled Materials
- 03 Reused & Recycled Packaging
- 04 Proper Waste Management



## Socially Responsible Supply Chain

- 01 Human Rights Due Diligence
- 02 Labor Rights
- 03 Health & Safety
- 04 Blacklists



## Transparent Supply Chain

- 01 Disclosure & Transparency
- 02 Traceability
- 03 Digitalization
- 04 Responsible sourcing



# Best Practices: Case Studies

## Green Transportation → IKEA

Vehicles and vessels used by IKEA are compliant with the emissions requirements defined in IKEA organization specifications

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A list of vehicles used for IKEA related operations is maintained and includes the equivalent national engine emissions standards, or if a national standard does not exist, the vehicle age and the country of registration

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Vehicles and vessels used for IKEA are powered by Alternative fuels

Sources: IKEA - IWAY Standard Transport Section

## Carbon Management → General Motors

Suppliers should continually strive to reduce GHG emissions

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Track Scope 1, 2 and 3 GHG emissions

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Upon request, share Scope 1, 2, and 3 GHG emissions data with GM, and/or publish that data through GM's preferred third-party

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Establish time-bound emission reduction goals and shall strive to obtain approved science-based targets that are at a minimum aligned with GM's Supplier Sustainability Partnership Pledge

Sources: General Motors - Supplier Code of Conduct



# Best Practices: Case Studies

## Reused & Recycled Materials & Packaging → Ford

Ford's suppliers are required to use recycled and renewable materials where possible in packaging

Increase use of recycled content and improve recyclability of Ford products through material selection and product design as approved by Ford

Eliminate waste and divert waste from landfill to products

Work to eliminate single use plastics throughout the manufacturing process

Sources: Ford - Supplier Code of Conduct

## Responsible Sourcing → Apple

Apple's Supplier shall exercise due diligence on relevant materials in their supply chains as well as develop particular due diligence policies and management systems in order to identify applicable risks and take appropriate steps to mitigate them

Due diligence shall be conducted down to the material processing level to determine whether relevant materials originate from high-risk regions associated with conflict, the worst forms of child labor, forced labor and other reasonably objective high-risk activities

Sources: Apple - Supplier Code of Conduct and Supplier Responsibility Standards



# Best Practices: Case Studies

## Health & Safety → Nestle

The Supplier shall identify, assess and effectively manage key risks to prevent harm, analyze all work-related injuries and illnesses and ensure preventive actions are implemented to prevent recurrence

Provide workers with appropriate and recorded safety and health training prior to starting work and on a regular basis thereafter

Cover any treatment costs linked to work-related injuries or illnesses in accordance with local worker compensation laws

Ensure workers with personal protective equipment, hygienic working environment as well as equip production and utilities equipment with machine guards and emergency stops



# Best Practices: Case Studies

## Disclosure & Transparency: Reporting on breaches → Unilever

Any failure to meet the mandatory requirements of which the business partner is aware and which is not rectified in a reasonable timeframe should be reported to Unilever as soon as possible

Business partners and their stakeholders may report actual or suspected breaches to Unilever by phone or online. Reports can be submitted confidentially and anonymously (where permitted by law)

The business partner shall assist in case of investigation and provide access to any information reasonably requested

If remediation is required, the business partner will create and inform Unilever of their corrective action and implementation plans and timeline to effectively and promptly resolve the breach

Sources: Unilever - Responsible Partner Policy

## Traceable Supply Chain → Inditex

Suppliers are required to know their supply chain and work exclusively with manufacturers and intermediaries previously assessed, authorized and which comply with all the Inditex sustainability standards

Report on all the facilities and intermediaries involved in each of the production processes, including both their own facilities and those contracted and managed by themselves or by third parties

Provide proof of the use of preferred raw materials by means of documentation proving their origin and certifications of the facilities

Know and share all the data of their own supply chain in the traceability management system. Inform the Company, at all times, of the factories that are involved in making our products

Sources: Inditex - Supply Chain: management to transform the sector



# Implications and Actions for Central Asia





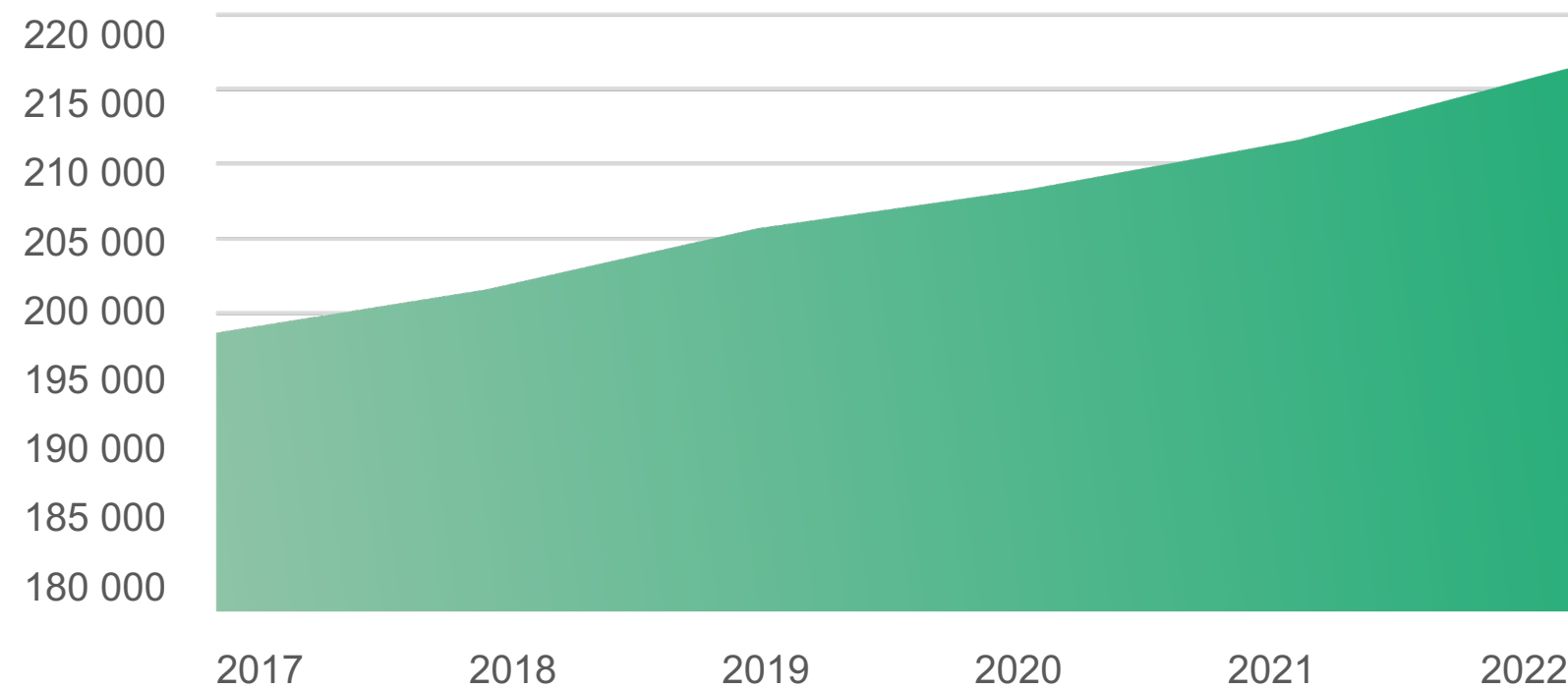
# Central Asia: Prime Investment Opportunity

Ongoing market liberalization, solid reserve of natural resources, geographical position, and foreign trade participation make the Central Asia<sup>1</sup> an attractive opportunity for foreign capital

## Inflow of Foreign Direct Investments

Expected market liberalization and privatization of the largest economies in the region, foreign direct investments

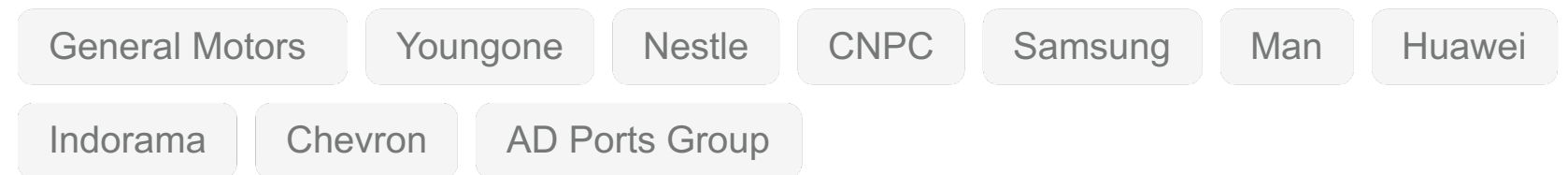
Figure 7. FDI Inward Stock in Central Asia, USD m



## Role in Global Trades

The region plays a notable role in global trades with oil and gas, metals, chemicals, agriculture products and textile being the largest categories of export from Central Asian countries.

## A notable presence of international companies in Central Asia



## Increasing interest in Central Asia from development institutions such as the Worldbank Group and EBRD

Figure 8. Portfolio of Current Projects in Central Asia, USD m



<sup>1</sup> For this research paper Central Asia includes Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, and Turkmenistan



# Central Asia: Requirements of Foreign Partners

Since Central Asian countries are increasingly involved in global trade and supply chains, it is crucial to understand their expectations regarding supply chain management practices – below we provide an example for the agricultural sector



COFCO – one of the largest agricultural companies in China.

To reduce supply chain risks, company prioritizes sourcing directly from farmers and cooperatives, wherever possible, in all major producing countries.

All COFCO suppliers are required to comply with the Company's ethical and environmental standards. COFCO assesses the risks associated with suppliers and invests in technology to monitor their compliance with internal criteria

Sources: COFCO International, COFCO Supplier Code of Conduct, 2021

## Key COFCO requirements for suppliers

- 01 Supplier Code of Conduct
- 02 Food and Feed Safety Policy
- 03 Soybean raw material procurement policy

## General principles for all international suppliers

- 01 Business ethics and compliance
- 02 Human rights and labor law
- 03 Occupational Health and Safety
- 04 Local communities
- 05 Supply Chain Management

## Additional principles for agricultural suppliers

- 01 Trade sanctions
- 02 Sustainable farming methods
- 03 Right to use land
- 04 Supply chain transparency

- Examples of sustainable agricultural practices:
- Application of environmental methods to avoid deforestation and loss of biodiversity;
- Promotion of reforestation activities;
- Implementation of best agricultural practices that increase soil fertility and prevent erosion;
- Incorporate robust certification into supplier procedures, business practices and supply chain;
- Use of agrochemicals in accordance with the least impact on human health (both local residents and consumers);
- Maximum possible consideration and minimization of risks associated with climate change.



# Central Asia: Commitments on Human Rights

Central Asian countries that have ratified ILO principles (including Kazakhstan, Uzbekistan, Tajikistan, Kyrgyz Republic, and Turkmenistan) should ensure appropriate governance systems and measures to achieve coherence between economic outcomes and decent work in global supply chains

## Central Asian Countries ratified most fundamental conventions on key human and labour rights

Country	Ratification of Universal Declaration on Human Rights	Ratification of 18 International Human Rights Treaties <sup>1</sup>	Ratification of ILO Conventions		
			Fundamental Conventions	Governance Conventions	Technical Conventions
Kazakhstan	ratified	14/18	10/10	4/4	11/177
Kyrgyz Republic	ratified	14/18	8/10	3/4	42/177
Tajikistan	ratified	11/18	9/10	3/4	38/177
Turkmenistan	ratified	13/18	8/10	2/4	1/177
Uzbekistan	ratified	11/18	9/10	4/4	7/177

<sup>1</sup> International Convention on the Elimination of All Forms of Racial Discrimination, International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights, Convention on the Elimination of All Forms of Discrimination against Women, Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, Convention on the Rights of the Child, International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, International Convention for the Protection of All Persons from Enforced Disappearance, Convention on the Rights of Persons with Disabilities, Optional Protocol to the Covenant on Economic, Social and Cultural Rights, Optional Protocol to the International Covenant on Civil and Political Rights, Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty, Optional Protocol to the Convention on the Elimination of Discrimination against Women, Optional protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict, Optional protocol to the Convention on the Rights of the Child on the sale of children, child prostitution and child pornography, Optional Protocol to the Convention on the Rights of the Child on a communications procedure, Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, Optional Protocol to the Convention on the Rights of Persons with Disabilities



# Takeaways for Central Asian Sovereigns

Our study showed that sustainable supply chain practices in the region are at the very early stage of development and are being limited solely by the regulatory restrictions. Thus, we list a key recommendations for Central Asian sovereigns

- 01 **Cooperate through regional bodies** to harmonize laws and practices and/or improve policy coherence among countries, in order to ensure decent work in global supply chains
- 02 **Strengthen labour administration and labour inspection systems** to ensure full compliance with laws and regulations and access to appropriate and effective remedy and complaints mechanisms
- 03 **Use public procurement** to promote fundamental principles and rights at work, considering the ILO Convention No. 94 (1949), as this can have an important effect on workers' rights and working conditions along global supply chains
- 04 Where appropriate, **require enterprises** owned or controlled by the state to **implement due diligence procedures** and to promote decent work in all their operations in their supply chains
- 05 **Create an enabling environment** to help enterprises strengthen their contribution to sustainability and decent work throughout their business specific risks and implement due diligence procedures in their management systems
- 06 **Stimulate transparency and encourage**, and, where appropriate, require, by various means, that enterprises report on due diligence within their supply chains to communicate how they address their human rights impacts
- 07 **Implement measures to improve working conditions** for all workers, including in global supply chains, in the areas of wages, working time and occupational safety and health, and ensure that non-standard forms of employment meet the legitimate needs of workers and employers
- 08 **Target specific measures** at small and medium-including cooperatives and other entities of the social economy, to increase their productivity and promote decent work

Sources: ILO Resolution concerning decent work in global supply chains



# Takeaways for Central Asian Corporates

Our study showed that sustainable supply chain practices in the region are at the very early stage of development and are being limited solely by the regulatory restrictions. Thus, we list a key recommendations for Central Asian corporates

- 01 **Assign the responsibility for managing responsible supply chain to the dedicated business unit or position**
- 02 **Develop ESG documentation** regulating the process of contractors' selection and interaction with them (Procurement Policy, Supplier Code of Conduct)
- 03 **Develop ESG assessment system** for potential and existing contractors, including quantitative and qualitative indicators of ESG assessment in the format of questionnaire. Implement ESG assessment of the contractors in the company's contractual terms
- 04 **Develop sample supply contract with an ESG clause on responsible procurement** (e.g. no relation with internationally recognized prohibited activities, respect for human rights, the company's right to terminate the contract in case of non-compliance with the minimum requirements)
- 05 **Implement a system of inspections** by the company on compliance with ESG requirements in the process of interaction with contractors
- 06 **Build a public reporting system** on responsible supply chain, including relative quantitative and qualitative data



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