



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

SUSTAINABLE
DEVELOPMENT
GOALS



UNIDO AND SUSTAINABLE SUPPLY CHAINS

UNIDO Directorate of SDG Innovation and Economic Transformation

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Global Context

Globalization has led to the creation of more complex supply chains around the world. Around 80% of world trade is now based on global supply chains, supporting the livelihoods of at least 450 million people worldwide. Yet until today, many of the products and raw materials we consume are produced under poor environmental and working conditions. Often the most vulnerable groups - women, youth, and children - perform the most cumbersome work. The International Labour Organization estimates that about **160 million children aged 5-17 are engaged in child labour** worldwide and 79 million of them are in hazardous work. A significant portion of these children work in the textile sector – a sector that is not only prone to harsh labour conditions but that also significantly contributes to environmental degradation. According to the UN, for example, textile production contributes to **20% of global wastewater annually**. These trends have only been exacerbated by the Covid-19-induced economic implications.

To address these issues, many governments introduced new regulatory requirements through due diligence legislation on human rights and environmental matters. This type of legislation obliges multinational enterprises (MNEs) to identify, bring to an end, prevent, and mitigate negative human rights and environmental impacts in the company's own operations, those of their subsidiaries, and importantly, in those of their suppliers along the supply chains. The foreseen EU Corporate Sustainability Due Diligence Directive, for example, will place this due diligence obligation on large companies and those operating in risk sectors, such as textiles.

In combination with voluntary standards and commitments, these new laws can contribute significantly to better working and living conditions and stimulate the needed transformation to sustainable production. Yet, they may also pose substantial challenges to firms and workers in our partner countries, particularly for small- and medium-sized enterprises (SMEs). One concern is that SMEs, which typically provide incomes to a large share of the population, will be excluded from global supply chains because they struggle to meet these new requirements. These new laws may thus create new trade barriers, which can have **far-reaching implications for developing countries that wish to boost their exports or that rely on incomes generated through trade**. This is a consideration, given that the EU is a major export market for many Least Developed Countries (LDCs).

The urgently needed transformation to sustainable production and supply chains thus needs to be a **shared responsibility** among regulators, industry, and consumers as well as industrialized and industrializing nations. Development entities play a critical role in **facilitating, catalyzing, and incentivizing good practices**, and in **ensuring an inclusive process** that integrates the voices of all actors in global supply chains.





In summary, the global pressures affecting the sustainability of supply chains are four-fold. **Lack of qualification** is one of them. As of today, 44% of the world's population work in low-skilled occupations constituting a large global poor workforce with low value addition occupations. The second is **environmental degradation**. 40% of deforestation is commodity driven, contributing to the Triple Planetary Crises of pollution, climate crisis, biodiversity loss and/or ecological crises. The third pressure is linked to the **complexity and lack of visibility of supply chains** leading to inequalities among supply chain actors. For example, a study conducted by IFC revealed that only 30% of SMEs in developing countries have integrated supply chain management systems, thus undermining their ability to respond effectively to market dynamics and demand fluctuations. Finally, supply chains are facing **three simultaneous pressures**. Regulatory pressure is linked to the mandatory due diligence legislation, consumer pressure is related to consumer awareness of sustainability matters, and brand/legal pressure is related to potential reputational risk and law cases following sub-optimal practices along the supply chain.





Addressing the challenge

The reality for millions of workers is excessive hours, often in difficult and unsafe working conditions, and wages that are not enough to make ends meet. The outsourcing of working processes from industrialized to industrializing countries has exacerbated these developments even further. This exploitation of people and labour, and of the environment, must not be the basis of our global economy.

To meet this goal, UNIDO works to ensure that our **partner countries are getting a fair deal and that scarce resources are preserved**. We support firms and workers in global supply chains to achieve the transformation to human-centric production by becoming economically, socially and environmentally sustainable. This will enable them to obtain a fair share of the benefits derived from globalization.

There is an emerging global consensus on the need

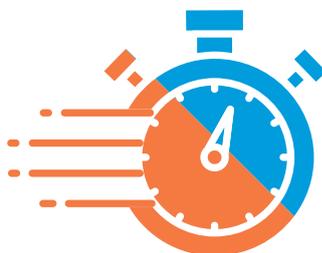
for **more concrete actions** toward the sustainability of supply chains. As the challenges are complex, the solutions need to **address the root causes while responding to current demands**. Therefore, the solutions need to rely on three key principles:

- » **Multidimensionality** – thoroughly and systematically addressing the root causes and complexity of the challenge;
- » **Immediacy** – raising awareness of new laws and regulations in close coordination with public, private and development partners;
- » **Sustainability and scalability** – tailoring interventions to the local context and realities; sustained in time and financially, and ensured that successful/innovative pilots are put to scale in other countries, regions, supply chains.



MULTIDIMENSIONALITY

Addressing the root causes and complexity of the challenge



IMMEDIACY

Raising awareness and working jointly with partners



SUSTAINABILITY & SCALABILITY

Tailored to the local context of the producer countries



UNIDO is committed to delivering the above principles at the **global, regional and local levels**, working with our **partners and stakeholders** to promote sustainable supply chains that benefit both people and the planet.

Many agencies are working on putting in place solutions. For example, the EU has identified eight accompanying measures ranging from due diligence awareness to collecting tools and supply chain finance, among others. Furthermore, the EU is in the process of setting up a Help Desk for the implementation of the Corporate Sustainability Due Diligence Directive in partner countries to assist in the implementation of the Directive. Other examples include the Better Work Programme of the IFC and ILO, and the Standards Map of ITC. UNIDO carefully coordinates and assesses complementarities with other organizations in finding the best combination of solutions suited to the particular sector and country.



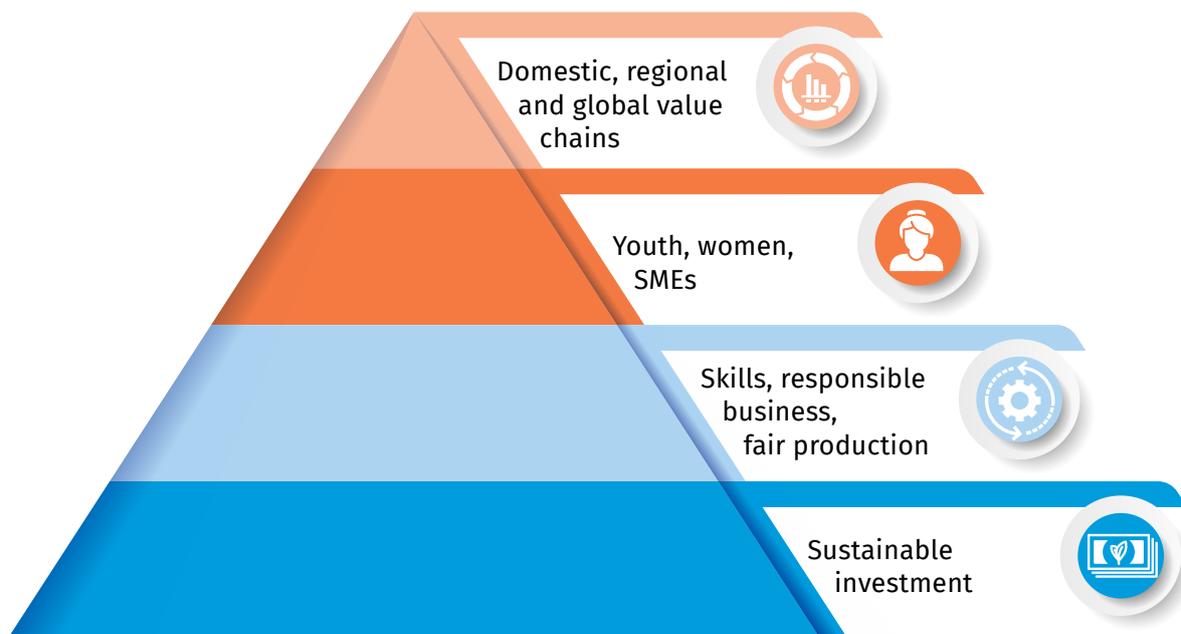


UNIDO's role

Building on the challenges and solutions, **UNIDO's mission** is to promote the integration of countries into domestic, regional and global value chains in a manner that is socially just, environmentally sustainable and economically inclusive. **UNIDO achieves** this by empowering youth, women and SMEs

with the skills, technology and resources needed to successfully participate in sustainable supply chains. **In addition**, UNIDO builds institutional and policy-making capacities to foster a conducive business environment and support infrastructure, unlocking investments for lasting growth.

UNIDO'S APPROACH



UNIDO's role will consist of **five technical dimensions and three levels of intervention**, adapted to the local context. We address the root causes and provide immediate support by offering a holistic package that includes the following **five dimensions**:

» **Value addition contributing to socially just supply chains** and product diversification to tackle the issue of low incomes of the producers within the first mile of the supply chain. Among others, UNIDO will use its expertise in Agro-Industrial Parks, which are designed to attract domestic and foreign investors in agro-processing. Their main objectives are to create jobs, increase farmers' incomes, generate export revenues, substitute imports of agro-processed goods and

contribute to economic growth and structural transformation. UNIDO is more generally seeking to upgrade the production capacities and productivity of SMEs in the first stages of global supply chains, allowing them to generate higher incomes and invest in the sustainable transformation.

» **Standard compliance through enforcing institutional and policy-making capacities**, building on UNIDO's extensive experience in this field. For example, UNIDO has strengthened Peru's quality infrastructure and helped coffee and cocoa producers by facilitating technical standards, allowing producers to sell at higher prices

- » **Skills development to allow successful participation in sustainable supply chains** through the provision of demand-driven labor market requirements, following the Public Private Development Partnership (PPDP) and Market Development Systems (MSD) approaches on Environmental, Social and Governance (ESG) matters. For example, over the past few decades, UNIDO has supported the textile and leather industries in adopting safe and environmentally friendly production practices through skills development. These initiatives have included connecting tanneries with local and international markets, providing access to the latest technologies based on international best practices and improving the occupational health and safety of workers.
- » **Resource efficiency contributing to environmentally sustainable supply chains**, building on the circular economy and Eco-Industrial Park approaches. For example, UNIDO is working on circular economy in the southern Mediterranean by changing the way goods and services are produced and consumed. To achieve this, the initiative provides tools and services directly to the private sector, supports an enabling policy environment, and facilitates the exchange of information among partners and key stakeholders.
- » **Sustainable investment advancing economically inclusive supply chains** focusing on supplier development of SMEs and tools such as the Computer Model for Feasibility Analysis and Reporting (COMFAR) and gender-lens investment. For example, UNIDO has developed a platform for

Africa, Caribbean and Pacific (ACP) countries to strengthen investment promotion and facilitation practices. The ACP Business Friendly initiative improves the linkages between multinationals and facilitated hundreds of investment opportunities.

The combination of the dimensions allows UNIDO to tackle the immediate needs along the supply chains brought by the mandatory legislation (e.g. standard compliance), while addressing the root causes of the sub-optimal practices along the supply chains. For example, product diversification and value addition through improved skills will improve workers' incomes, and resource-efficient practices can improve profit margins. Finally, improved ESG practices among companies will attract more investors and hence contribute to the structural transformation of industries.

UNIDOs delivers its services on **three levels**:

- » **Macro & Global**, using UNIDO's role as a global convener, bringing together stakeholders from different sectors, countries, genders and age groups.
- » **Meso**, by assisting governments in policy analysis and in developing guidelines in response to the due diligence requirements.
- » **Micro** through supplier development as well as capacity building of individuals and firms to allow companies in industrializing countries to meet the mandatory due diligence requirements and benefit from the transformation to sustainable production.

UNIDO's multidimensional approach in the cocoa industry in Nicaragua



UNIDO has been working in the Mining Triangle in Nicaragua since 2018 to improve the productive and organizational capacities of cocoa producers. The focus is to improve the incomes of at least 1,250 families of cocoa-producers through the implementation of good agricultural practices, which allow an increase in quality for export markets, organizational and business strengthening and the generation of employment. Furthermore, the project embarked into local cocoa production with attractive packaging and quality features. As of today, the cocoa producers in Nicaragua's Mining Triangle region are Rainforest Alliance certified, meaning that their products respect the three pillars of sustainability (social, economic and environmental). This also increases their production volume and incomes, as well as enhances the quality of the cocoa produced. The funding for this work was providing by the Swiss Development Cooperation to the amount of 4.7 million US dollars, while the key business sector partner is Ritter Sport.

UNIDO's expert group meeting on making supply chains sustainable

Vienna 7 and 8 June 2023

UNIDO convened diverse stakeholders to take stock of the status and trends across the various dimensions of sustainable supply chains amidst new compliance requirements. The experts made several recommendations.

Macro-level actions should include the preparation for crises by investing in producers, infrastructure, and value chains, with particular support for geographies already affected by global warming and desertification. Allowing sufficient time for the transition from voluntary to mandatory legislation is also necessary, starting with a minimum standard and enabling companies to meet varying criteria.

At the meso level, harmonizing sustainability regulations, and simplifying language and content for better understanding is important, as well as the coordination of efforts and priorities across stakeholder groups, such as the formal and informal sector and community groups. Supporting inclusiveness by sharing compliance burdens among all actors is also paramount.

Micro-level actions include facilitating traceability using digitalization, sensors, and real-time data



for footprint analysis across complex, cross-border supply chains. Similarly, dynamic monitoring of unintended consequences is needed to recalibrate legislation and the accompanying measures as necessary.

International organizations, such as UNIDO, should take an active role in capacity building, coordination, advocacy, partnership building, and setting up monitoring and evaluation frameworks as enablers to implement these recommendations.





UNIDO's approach to gender and labour in supply chains in the Cambodia CAPFish project

UNIDO is working with the Cambodia's Fisheries Administration (FiA) to promote inclusive and sustainable development of the country's post-harvest fisheries value chain through the CAPFISH-Capture project. The project implements innovative approaches in food safety policy support, the harmonization with global market requirements, the development and implementation of a voluntary food safety certifications scheme, as well as in value chain financing. The project also places emphasis on multi-stakeholder involvement through a collaborative innovation platform, bringing together government, academia and the private sector.

Next to the project's overarching goals, it streamlines gender equality, environmental and social considerations throughout all project activities. For example, out of 38 supported fisheries enterprises so far, 30 are women led or owned. 360 full and part time jobs (286 of which female) were created or retained through the support. Environmental and Social Management Plans (ESMPs) are also developed, which

address, amongst other things, labor standards, work safety and welfare of workers (women in particular), and prevention of child labour.

Going forward, the project aims to support at least 200 fisheries processing enterprises to improve their competitiveness and market access. The European Union (EU) co-funds the project through a contribution of EUR 16.9 million.



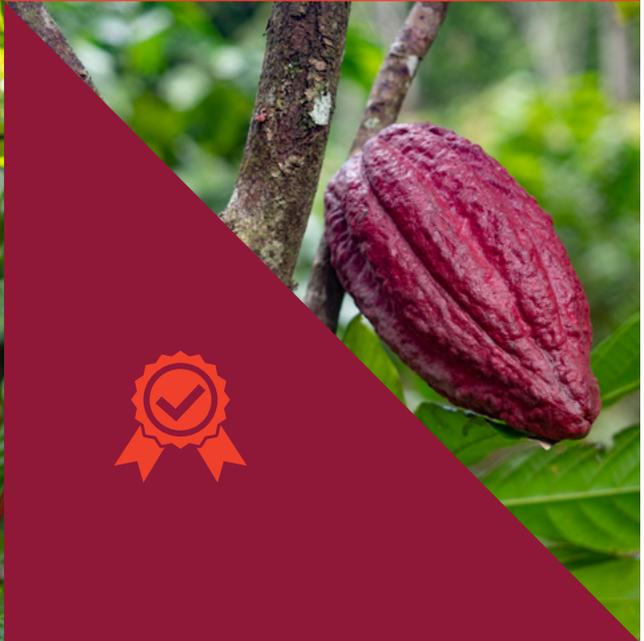


Partnerships

The main **external partners** for UNIDO in ensuring the sustainability of supply chains include UNIDO's Member States, the United Nations counterpart bodies, industry and the business sector as well as Multi-Stakeholder Initiatives (MSIs).

Development Dialogues offer **UNIDO's Member**

States an opportunity to engage with the Secretariat on matters related to sustainable supply chains. Virtual participation is made available, thus allowing the Member States to involve relevant entities in their capitals. In addition, UNIDO is a long-standing valued partner for our member states and their implementation agencies.



UNIDO's approach at the meso level in the automotive sector in Morocco



UNIDO will embark on an initiative, jointly with GIZ with funding of 0.5 million Euros from BMZ, to improve the automotive industry's trade compliance and competitiveness in Morocco by enhancing local SMEs' sustainability reporting and monitoring mechanisms for future due diligence regulations.

The expected outcome is to ensure compliance with relevant sustainability standards among suppliers through capacity building and through capacity building and institutionalizing sustainable services supporting due diligence monitoring and reporting.

Furthermore, UNIDO collaborates closely with relevant **UN-agencies**, such as ILO, ITC, OECD, UN Global Compact to seek mutually reinforcing working modalities. These entities are already working in collaboration with UNIDO and the engagement will be further the engagement will be further enhanced throughout the work on sustainable in sustainable supply chains.

As a specialized agency of the UN to work on industrial development, UNIDO is a natural partner to the **industry, including the business sector**. UNIDO brings in the "industry voice" to **facilitate an inclusive debate** toward more sustainable supply chains. UNIDO already collaborates with both international and local multinationals, SMEs as well as industry associations in industrializing and industrialized countries.

Another group of key partners for UNIDO is the **various Multi Stakeholder Initiatives**. For example, UNIDO already collaborates with Fairtrade International and amfori in finding solutions to the challenges along the domestic, regional and global supply chains building on areas of mutual interest.

Finally, our approach **combines all of UNIDO's resources** as mentioned under the five dimensions (value addition, sustainability standards, skills development, resource efficiency, sustainable investment) and three levels (macro/global, meso, micro) as well as UNIDO's cross-cutting expertise on International Financial Institutions, Public-Private Partnerships as well as gender and youth.





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