International Trade and Sustainable Development

Monitoring the Sustainability of Complex Global Value Chains: Tools, Incentives and Challenges

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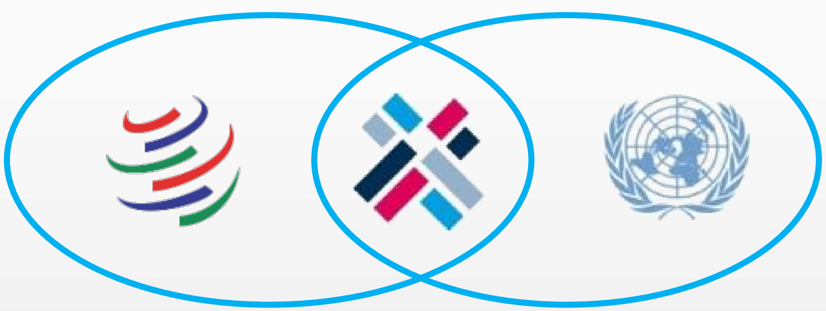
International Trade Centre (ITC)
Established in 1964 in Geneva, Switzerland

Joint technical cooperation agency of the United Nations (UN) and the World Trade Organization (WTO)



TRADE-RELATED NEEDS

- Providing trade and market intelligence
- Building a conducive business environment
- Strengthening trade and investment support institutions
- Connecting to international value chains
- Promoting and mainstreaming inclusive and green trade
- Supporting regional economic integration and South-South links

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- Global challenges with local implications;
- Shared responsibility among all actors in global value chains (GVCs) from production to consumption;
- Innovative approaches and tools to monitor sustainability in complex GVCs.

Global Value Chains (GVCs)

*The term **Global Value Chains** (GVCs) refers to fragmented production processes: products and their spare parts being manufactured, assembled and sold in different countries and regions.*

This form of cross-border production emerged during the 1990s as a result of trade liberalization, advances in technology and communication, and progress in logistics.

- Globalization versus local purchases
- Industrial development & upgrading: the myth of indefinite growth
- Social and environment challenges versus economic development
- Highly complex GVCs and multiple levels of interaction between stakeholders
- Competitiveness, global governance and responsible sourcing strategies

Monitoring Sustainability

Traditional business models are based on return on investment projections, cost-benefit analyses, profit maximization and cost reductions. ***Monitoring sustainability*** *brings into the picture additional dimensions, such as the social and environmental impacts of a business.*

- Sustainability tools, frameworks and initiatives have emerged;
- Voluntary sustainability standards and certifications (eg Fairtrade, GlobalG.A.P., PEFC, Organic)
- International conventions and due diligence frameworks (eg ILO Conventions, OECD MNE Guidelines, United Nations Guiding Principles, Global Compact)
- Corporate social responsibility codes of conduct, audit protocols and corporate reporting.

Tools, Incentives & Challenges

Evolution of tools & approaches

- The development of VSS started in the 1980s to palliate the lack of environmental and social regulations. A key turning point occurred in 1992, when the UN Conference on Environment and Development in Rio de Janeiro sparked a proliferation of sustainability monitoring tools, standards and certifications.

- In the years 2000-2015, multiple companies, brands, and manufacturers realized that they needed more comprehensive sustainability assurance in their respective GVCs, and that the issues around sustainability were no longer an area of competition between themselves, but rather a joint issue that should be handled collectively.

- As GVCs evolved over the past 20 years, so have the expectations of consumers, regulators and investors. Everyone expects supply chains to be efficient, traceable and sustainable. Capabilities to satisfy these expectations have also evolved over time, and the most recent trends indicate an emergence of new technological tools to monitor sustainability of supply chains.

Tools, Incentives & Challenges

Stakeholders & Incentives

- Consumers: Over the past few decades, consumers have become increasingly vocal over issues of sustainability: a Nielsen survey of more than 30,000 consumers in 60 countries found that more than half (55%) of global respondents said they willing to pay extra for "products and services from companies that are committed to positive social and environmental impacts.

- Non-Governmental Organizations: While consumer pressure on companies has grown in recent years, NGOs have been advocating for fairer social and environmental practices for decades.

- Financial institutions: The financial sector has been also increasingly looking into the field of sustainability: what is called "sustainable finance" and integrates environmental, social and governance (ESG) criteria into the business or investment decisions for the benefits of both clients and society. (e.g. sustainable funds, green bonds, impact investing, microfinance, and credits for sustainable products)

- Governments: The public sector can play a key role in ensuring that sustainable supply chains include an adequate legal framework that protects the public interest and underpins responsible business practices, while monitoring business performance and compliance with regulatory frameworks.

Tools, Incentives & Challenges

Most common challenges in monitoring sustainability in GVCs

- Lack of visibility of beyond the first tier of suppliers;
- Diversity of definitions for sustainability;
- Credibility, overall governance and multi-stakeholder participation in sustainability initiatives;
- Potential disconnect between the monitoring framework and the reality on the ground.



Conclusions & recommendations

- GVCs have been playing a central role in the globalization of production and international trade. They impact millions of people and businesses around the world, both in developed and in developing countries;
- Rising issues around environmental degradation, climate change, devastating working conditions and income inequality, have emerged with concerns around the sustainability of GVC, namely whether businesses respect ethical, labour and environmental norms;
- Various tools and approaches have been developed to monitor and assure the sustainability of value chains, among which sustainability standards, codes of conduct, audit protocols;
- Industry platforms have emerged with shared responsibility frameworks and new technologies to monitor sustainability at a larger scale, in coordination with other stakeholders from civil society and public sector;
- Monitoring sustainability of GVCs remains with difficulties, mostly around the difficulty of mapping and engaging suppliers beyond the first tier and reaching a good level of assurance.
- Other common challenges include the lack of a common definition of sustainability, the lack of credibility of some sustainability schemes, and the disconnect between the content of sustainability initiatives and their impacts in the field.

Thank you!

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