

Promoting Responsible Value Chains in India for an Effective Contribution of the Private Sector to the SDGs *(PROGRESS Project)*

International Interface Meeting 1

MNC Strategies & Behaviours in Global Value Chains to promote SDGs: a North-South Dialogue

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1. Background

Centre for Responsible Business (CRB) and Aston India Centre for Applied Research (AICAR), Aston University, UK are implementing a project to explore and investigate *how private sector companies - as part of GVCs, production networks and FDIs in India have/could better contribute towards achievement of specific SDGs, particularly inclusive education and life-long learning (SDG4), employment and decent work for the youth (SDG 8), women’s social and economic empowerment (SDG 5), sustainable consumption and production (SDG 12), and Climate Action (SDG 13).* This project referred to as the PROGRESS project is being supported by International Development Research Centre (IDRC), Canada.

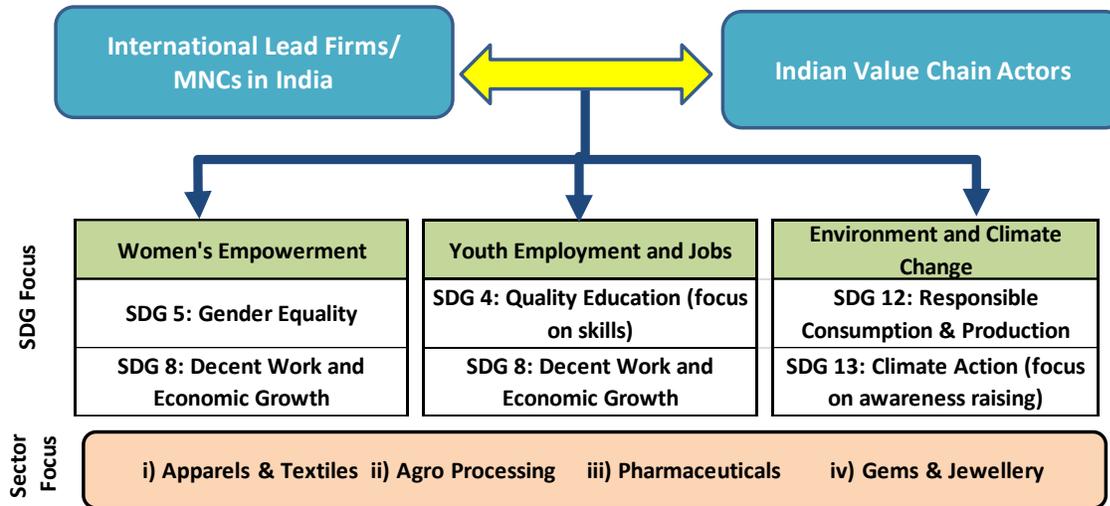


Figure 1: A diagrammatic representation of GVC interactions and potential impacts on relevant SDGs

The project facilitates policy and practice (industry) level discussions in India leading to specific actions in **four key sectors viz. i) Apparels & Textiles, ii) Agro-Processing, iii) Pharmaceuticals, and iv) Gems & Jewellery**. Evidence is being gathered from existing policies/practices in these sectors and through stakeholder interactions to understand the nature of engagement of MNCs with suppliers/manufacturers/producers in India to achieve specific SDGs – and highlight opportunities and challenges.

Further, the experience of the project would also be used to engage with international actors/organisations to highlight contributions through this GVC approach on SDGs, particularly in an emerging economy like India. It will also highlight areas that need attention. It would thereby highlight and demonstrate methodologies for achieving *sustainable and inclusive GVCs aimed at benefiting the youth, women and local environment in an emerging economy.*

2. International Interface Meeting

2.1. Rationale

As mentioned above, the project aims to examine the interactions between brands/lead firms and their value chain actors in India to gather evidence on sustainability impacts (specific Sustainable Development Goals or SDGs) on the ground. This analysis would throw light on opportunities and challenges in pursuing SDGs through a global value chain approach in an emerging economy like India.

Needless to say in addition to **MNCs/lead firms/International brands, international policy actors, international business chambers, academia, civil society and various international organisations** are key stakeholders in this dialogue. It is expected that the project would be enriched by inputs from international stakeholders, to better understand:

- Vision and drivers in adopting sustainability (specific SDGs) among MNCs/lead firms
- Approaches in pursuing sustainability/SDGs through value chains by MNCs/lead firms (and their efficacy)
- Nature of support extended by MNCs/lead firms to value chain actors in emerging economies (like India) to adopt sustainability/SDGs
- Prevailing methods for sustainability measurement in value chain and modes of communication to stakeholders
- Mechanisms (if any) for value chain actors (from the suppliers' side) to provide inputs to shape/inform sustainability/SDG initiatives of MNCs/lead firm

CRB and the project partners started this dialogue with international stakeholders and organisations through a series of (annual) international interface meetings. The first meeting was organised on 9 October in Geneva, Switzerland, in partnership with the International Trade Centre. The objectives of the meeting were as follows:

- Introduce the need/purpose/activities/outcomes of the project and introduction to project partners
- Understand the nature of engagement/interaction between MNCs/lead firms and value chain actors in an emerging economy/production centre for promoting specific SDGs (along the parameters defined above),
- Identify opportunities with academia and international organisations to magnify outreach and envisioned impacts
- Identify relevant (international) stakeholders to be part of project related discussions and events

2.2. Opening Remarks:

The context for the workshop was set in inaugural session. The opening remarks were delivered by **Joseph Wozniak (ITC)** who underlined the importance of India in the context of sustainability especially for any discussion involving Sustainable Development Goals (SDGs), Global Value Chains (GVCs) and Small & Medium Enterprises (SMEs). He further stated that the focus areas of PROGRESS were well aligned with key priority areas for ITC viz.

- Women Empowerment – how do we better integrate women into Global Value Chains
- Youth Employment & Engagement for sustainability – Connecting young entrepreneurs to markets and how can the youth be catalysts for sustainable change
- Climate Resilience for SMEs.

Dr. Bimal Arora from the Aston University provided a background to the PROGRESS research focus and methodology. He highlighted that sustainability today was not a truly global concept as he stressed on the need to create robust dialogue spaces to foster a more. He reiterated PROGRESS’s collaborative approach between an academic organization and a practical organization to jointly design research project, questions, and work closely with relevant stakeholders on the ground.



Mr. Rijit Sengupta, CEO of Centre for Responsible Business provided a practitioners perspective from the South and raised a few points for consideration viz.:

- The need to explore the role of standards and code of conducts to drive sustainability in developing countries? Are we relying too much on these?
- Sustainability initiatives have to account for local wisdom and account for socio-cultural contexts in developing economies
- Global Value Chains need to evolve and allow for more voice and power to small, marginalised players
- Supply chain transparency is essential to ensure sustainability across the board. At present, lower tiers of supply chains (beyond Tier 2) are complicated, intertwined, unorganised and prone to poor environmental and social practices.



Against this backdrop, a panel discussion was organised with representation from the private sector,



international organisations, academia and civil society. Clearly, it will take the combined effort of all these key stakeholders if we are to make meaningful strides on the sustainability agenda. This workshop provided an opportunity for the different stakeholders to share the role that each one of them plays to promote sustainability and at the same time also bring to fore the challenges they face in

pursuing their mandate on sustainability.

2.3. Sustainability through the Global Value Chains

There is no doubt that large MNCs/ businesses can spearhead sustainable initiatives in both their operations and across their value chains. As businesses pursue this agenda and engage with the different stakeholders, there are various elements that support them. The following pages detail some of the elements that enable meaningful contribution on sustainability initiatives and how these can be further reinforced.

As we delve deeper into the discussions, one point for consideration highlighted by the participants is the need to discuss failures. Failures are important to understand where efforts need to be reinforced.

2.3.1 Supply chain sustainability

As large companies/ MNCS look to deliver on their sustainability commitments, it becomes imperative that they focus on sustainability of their supply chains to truly support this agenda. Simply put, supply chain sustainability is defined as *the management of environmental, social and economic impacts and the encouragement of good governance practices, throughout the life cycles of goods and services (UN Global Compact, 2015).*

Large firms often face challenges in mapping and tracing their supply chains in entirety. While, formal and organised Tier 1 & Tier 2 suppliers are easy to identify and interact with, **visibility reduces considerably in the lower tiers that are also rife with environmental and social violations**. Discussions clearly highlighted that MNCs need to invest **more resources in detailed mapping of their supply chains**. Consequently, due diligence exercises tend to focus on high level risks and their mitigation and a challenges in a significant part of the supply chain remain unaddressed. **Resources and focus needs to be directed towards the more informal and unorganised parts of the supply chain**. ILO is attempting to pilot an approach to map the entire supply chain and identify the most pertinent issues across the supply chain. There is a need for absolute transparency and visibility across entire supply chains.

As businesses drive sustainability in their supply chains, a few things need to be considered:

- A **clear business case demonstration** will help drive discussions with the businesses. Evidence and data on loss to business due to inadequate focus on sustainable issues will help drive the discussion significantly.
- **International conventions especially on labour should be mainstreamed and implemented** especially in developing countries
- Supply chain actors especially in developing countries should be supported to **adopt more circular and social models** to manage and mitigate risks.

EU issued a yellow card to Thailand for not addressing human rights and illegal fishing. This prompted concerted action in Thailand to strengthen action on environmental and social violations in the seafood sector

It is important to understand the objective of supply chain mapping and transparency.

Often, suppliers in lower tiers fear retribution and penalty if violations are exposed in their operations. It is imperative that large buyers establish open channels of communication and develop collaborative approaches to address these challenges in the value chains.

2.3.2 The role of SMEs

The importance of SMEs in contribution towards contribution to GDP and job creation cannot be emphasized enough. If value chains are to be explored for pushing the sustainability agenda, it is absolutely critical that SMEs are integrated better into these value chains. However, SMEs continue to face barriers of low integration on account of low funding, limited uptake of new and modern technology, outdated practices and poor access to markets.

Sustainability requires a radical transformation and not incremental change. SMEs are best suited to drive this change; though the success of the SMEs will depend upon a few ingredients namely affordable finance, access to markets for sustainable products, steady regulations and consumer awareness.

2.3.3 Voluntary Sustainability Standards

Very simply defined, Voluntary Sustainability Standards (VSS) are requirements that manufacturers, investors, manufacturers, retailers or companies are expected to follow to source, produce, trade and sell products and services, such that the market rewards them for their sustainability performance. VSS are more formally defined as “voluntary predefined rules, procedures, and methods to systematically assess, measure, audit and/or communicate the social and environmental behaviour and/or performance of firms”. Further, “These initiatives typically establish a set of standards and/or goals, a framework for decision-making, and a process for achieving the standards. These programs often include the development of certification systems, which are intended to provide market incentives for compliance. Consumers become the ultimate enforcers of the system, with independent certifiers playing a key role in providing information on corporate behaviour¹.”

The workshop participants deliberated deeply on the role of VSS in supporting delivery on sustainability related initiatives. There was a common consensus that VSS can be catalytic in promoting sustainability related actions. Experience has shown that defining and introducing standards has brought **formalisation and structure to industries in developing countries**. One example amongst many is the Responsible Jewellery Council that lays down protocols for promoting responsible value chains in the gems & jewellery sector and has immensely benefited industry actors from India. This was also corroborated by experts from industry sectors in India (e.g. apparel & textiles) that integration into Global Value Chains and adhering to voluntary standards had seen a **marked improvement in working conditions, wages and training** especially in the highest tiers of the supply chains. For businesses

¹ Business Responsibility and Sustainability in India: Sectoral Analysis of Voluntary Governance Initiatives: Edited by Bimal Arora, Pawan Budhwar, Divya Jyoti

sourcing from various locations, the adherence to standards serves as an important yardstick to establish ***trust in their suppliers/ value chains***.

However, the workshop participants also highlighted aspects that need strengthening as standards are formulated and applied across value chains. Some of these are:

- It is absolutely essential that **all key stakeholders** are part of the **standard setting process**. Typically, the standards have been set in the global North with little or no representation from the global South. While, this is challenging, there is emerging evidence that more and more standards are gravitating towards a **multi-stakeholder approach**.

A case in point would be the standard designed by the Roundtable on Sustainable Palm Oil that leveraged on a multi-stakeholder consultation.

- **Multiplicity of standards** – the last two decades has seen a burgeoning of voluntary standards causing confusion in minds of both buyers and suppliers as to the applicability and efficacy of these standards. If standards are to be effective, then there is a need to align the many existing standards to a minimum acceptable level of compliance by buyer countries. This will not only ensure that suppliers have better

The Sustainable Supply Chain Initiative (SSCI) The Consumer Goods Forum launched its Sustainable Supply Chain Initiative to promote good social and environmental practices in global supply chains by benchmarking and recognising third-party audit programmes and certification schemes

access to markets but will also help to reduce wastage of resources and time in conducting audits across multiple standards that the suppliers may subscribe to.

- There is a need for **dialogue to enforce the spirit of the standard and to ensure its relevance**. Large corporates/ MNCs rely heavily on standards and associated certification and monitoring to avoid social and economic violations. However, the standards have to be practical and logical and have to be seen by suppliers as sustainability roadmaps that go much beyond mere compliance requirements that the buyers have imposed. In the absence of constructive dialogue, these standards will be ineffective to capture actual change/ challenges on the ground in supplier countries.

2.3.4 Role of Governments

There is no doubt that Governments have the mandate to ensure that their countries deliver on the sustainability agenda. Needless to say, governments will need the support of all stakeholders including the private sector and civil society to realise the SDGs. However, there are certain key roles that government actors can play most effectively in the quest for sustainability. Some of these are:

- Define **clear regulations and road maps on sustainability** – Perhaps one of the biggest obstacles to sustainability initiatives is fluctuating and ambiguous policies. Clear policies will help all stakeholders develop suitable strategies
- **Align national/local regulations to international conventions.** Countries with an objective to integrate better into GVCs will have to demonstrate adherence to international conventions and standards. In such a scenario, supportive local regulations will facilitate better integration into GVCs.
- Increasingly; **governments are also supporting private sector standards** to further the adoption of sustainable practices.
- **Promote sustainable public procurement (SPP)** – In some countries, public procurement accounts for almost 25% of the GDP. Governments in such instances can set a positive market precedent by embedding sustainability aspects in procurement guidelines.
- Oversee pertinent issues such as labour migrations to other countries – Governments can play an important role to reduce violations and exploitations. For e.g. being part of **collaborative dialogues** such as the Abu Dhabi dialogues (regulating labour migrations between sourcing and destination countries) and having **bilateral agreements** with destination countries. In such cases, international conventions again play a crucial role in addressing some of the most urgent sustainability challenges faced by countries (e.g. ILO conventions addressing forced labour). Further, governments can **leverage their influence to ensure that sustainability commitments** are being met. For e.g. US Customs and Border Protection banned import of disposable rubber gloves from Malaysia on suspected use of forced labour.

2.3.5 Role of domestic businesses

It cannot be denied that global conglomerates and MNCs are instrumental in driving sustainability through their own interventions and through their value chains. However, it is important to note that MNCs account for a limited part of markets. In most of the developing economies the MNCs typically account for 25 – 35% market share. It thus becomes crucial to engage local manufacturers and supply chains on the sustainability dialogue. The same holds true for consumer markets in developing countries wherein manufacturers do not find much benefit from investing in sustainability on account of low consumer awareness and consequent no/low demand for sustainable products. Strict local regulations on sustainability, increasing consumer awareness, conducive policies of the government and financial and funding incentives can help establish a strong business case for local manufacturers to adopt more sustainable practices.

Here, it should be mentioned that considerable work has been developing in international conventions, standards and protocols when it comes to sustainability. Countries can look to leverage on these existing tools and resources and develop their own sustainability maps. It is important that existing efforts are built upon and customised as per need than commit resources to develop sustainability tools anew.

2.3.6 Sustainable Consumption and role of Consumer Awareness

Any effort on sustainable production cannot be fully realised unless it is supported and demanded by aware consumers. Businesses are recognising the need for them to respond to more aware and conscious consumers. More sustainable businesses are proactively engaging with consumers and moving towards more transparency and visibility in their operations. However, more efforts will have to

be made to further increase consumer awareness and to guide consumption habits onto more sustainable paths if businesses are to achieve their sustainability commitments.

2.3.7 Collaborations and multistakeholder initiatives

The workshop participants were unanimous in their opinion that collaborations are indispensable when it comes to the sustainability arena. These collaborations are at all levels and amongst varied stakeholders. The private sector has successfully collaborated with governments and civil society to develop tools such as standards and



certifications. Now more than ever, businesses are partnering with governments to adopt systemic approaches to tackling sustainability challenges. International organisations such as the International Labour Organisation (ILO) and United Nations Environment Program (UNEP) rely extensively on multi stakeholder engagement to successfully achieve their sustainability objectives. Any adoption of standards or conventions is discussed with key stakeholders and implementation plans are formed keeping local realities in mind.

However, there are a couple of areas wherein these engagements can be reinforced. Experts felt that there is much more scope for international organisations to collaborate to address common problems. At times, solutions are being explored without an understanding of the problem on the ground. Further, MNCs may need to engage more with national level players in sourcing countries to understand ground realities. A case in point, ILO is encouraging more multinationals to be part of discussions with national employers' organisations as the interests of the two are not always aligned.

2.4. Conclusions

Good achievements have been made on the sustainability agenda especially in the context of Global Value Chains. However, the fact remains that a lot more has to be done. As one participant succinctly put it: *"In Global Value chains, there is goodwill at the top with an expectation of trickledown sustainability; however feedback from bottom up indicates long existing problems that are yet to be resolved. While dialogues may flow smoothly in the top tiers of value chains, it is important to locate where the system for sustainability currently breaks down"*

On an encouraging note, there is firm commitment on sustainability, openness to dialogue and recognition of current gaps. If we are to accelerate the action on sustainability, closer alignment

between different interests is the first order of the day. It is clear that all stakeholders have a role to play. As future action is defined, it is perhaps useful to keep the following considerations in mind:

- Need for continuous dialogue between actors from the Global North and the Global South.
- Role of domestic businesses in promoting sustainability
- Role of national governments to complement efforts and expertise of international/ multinational organisations
- Development of business case to demonstrate the need for all businesses to integrate sustainability
- Promoting collaboration amongst different actors with emphasis on the vulnerable and the marginalised.



3 APPENDIX 1 – Agenda for Workshop

Timings	Program Details
12:00 – 13:00	Registration & Light Lunch
13:00– 13:30	Inaugural Session <ul style="list-style-type: none"> • Welcome Address Joseph Wozniak, Head, Trade for Sustainable Development (ITC) • Opening Remarks Bimal Arora, Assistant Professor in Management, CSR and Sustainability, Aston Business School, UK and Honorary Chairperson, CRB • Special Remarks Martha Melesse, Program Leader, Employment and Growth, International Development Research Centre (IDRC), Canada • Thematic Overview Rijit Sengupta, CEO, Centre for Responsible Business (CRB)
13:30– 14:55 (Panel discussions followed by Q&A)	Panel Discussion on “Inclusive and Sustainable Global Value Chains: How do sustainability imperatives of buyer countries align to emerging economies’ realities” Panel Moderator: Anders Aeroe, Director, Division of Enterprises and Institutions, ITC Panel <ul style="list-style-type: none"> • Wael Issa, Senior Adviser, ILO (Coordinator, ILOs’ Plan of Action on Decent Work in Global Supply Chains) • Christine Svarer, Director, HER Project, BSR • Elisa Tonda, Head, Consumption and Production Unit, Economy Division, UNEP • Didier Bergeret, Director, Social Sustainability and SSCI, Consumer Goods Forum • Peter Nestor, Human Rights Due Diligence & External Engagement Manager, Novartis • Purvi Shah, Senior Manager, Ethical Initiatives, De Beers
14:55 – 15:50	<p>Group work (40 mins) - Participants would be divided into 3-4 groups to discuss the following two topics</p> <p>Topic 1: Business Innovation in Global Value Chains - The group will deliberate on:</p> <ul style="list-style-type: none"> • Enablers needed for MNCs/ International brands to pursue business innovation (w.r.t. sustainability) in their value chains, • How are MNCs supporting sustainability innovations in their value chains; • What are the challenges faced by MNCs to drive sustainability related business innovations through their value chains? <p>Topic 2: Measuring, Monitoring and Communicating Sustainability in GVCs. The group will discuss and summarise on:</p> <ul style="list-style-type: none"> • Existing mechanisms for measurement and monitoring? And their efficiency • How can emerging market value chain actors influence and guide these mechanisms? • Need and means for communicating on sustainability? Who needs to know and how? <p>Group Presentations & Discussions (15 mins)</p>
15:50– 16:00	<ul style="list-style-type: none"> • Concluding Remarks and Way Forward, CRB • Vote of Thanks, ITC