



Summary of the Roundtable on ESG and Sustainability in the Supply Chain
Co-organised by UN Global Compact Network Malaysia & Brunei and the
Penang Green Council

May 9, 2023

INTRODUCTION

The Roundtable on ESG and sustainability in the supply chain was attended by 20 senior management representatives from the manufacturing sector as well as green industry in Penang.

The overall objective of the Roundtable was to understand issues, challenges and drivers relating to promoting sustainability along the manufacturing supply chain in Penang. The Roundtable discussed several topics related to stakeholder pressure, local and responsible sourcing, the issue of traffic congestion, education, challenges faced by SMEs and the types of support needed, and so on.

SUMMARY OF THE ROUNDTABLE DISCUSSION

Stakeholder pressure

Participants noted that stakeholders such as customers, shareholders, and employees are pushing companies to demonstrate ESG credentials, leading to regional competitive pressure. MNCs should lead cross-departmental collaboration to set the tone from the top and work with customers to reduce emissions from production.

For SMEs, there is increasing pressure from their customers, especially MNCs, to incorporate or address sustainability issues (including ESG) in their operations. The priority concern for MSMEs, however, is still profitability and they would need help and support from third parties like the government to move towards more sustainable production.

In Penang, the manufacturing industry is often seen as the cause of negative environmental impacts. However, participants suggested that companies in Penang are part of the global green supply chain as they produce components for green and low-carbon technologies, and therefore should be recognised as a green manufacturing base.

Local and responsible sourcing

The Roundtable also discussed localizing the supply chain and the need for MNCs to source from local suppliers. SMEs need support from MNCs to be ESG ready through capacity building, and the public sector can provide assistance to local SMEs through ESG incentives. Waste as a resource was another topic, with participants noting that there are local companies in Penang that could convert industrial waste into raw materials, but supply needs to be consistent and of good quality.

Traffic

During the Roundtable session, participants also highlighted the need to address traffic flow and the increasing temperature at the Free Trade Zone (FTZ) and Batu Kawan. It was observed that traffic conditions have worsened post-COVID, as fewer people are using public transport. To alleviate the situation, participants emphasised the importance of government-provided public transportation during peak hours. By improving public transport options, it is hoped that traffic congestion can be mitigated, contributing to a more sustainable and efficient transportation system in the region.

Energy

The rising cost of electricity and the need for green energy were discussed. Participants noted that Penang may no longer be attractive as a manufacturing destination due to cheaper alternatives in China and Vietnam.

The Imbalance Cost Pass-Through (ICPT) will further increase the cost of electricity, and there is a disconnect between TNB and the need for clean energy. The Roundtable suggested addressing the red tapes for solar energy from TNB to increase the number of quotas to maximize solar energy.

Education

Another significant topic discussed during the Roundtable was the importance of long-term education to increase employee and supply chain awareness regarding ESG practices. Participants emphasised the need to empower employees to take action and play an active role in driving sustainability within their organisations. It was also highlighted that there is a need to gauge supplier awareness and ensure that they are aligned with ESG principles. In addition, participants stressed the importance of communicating to the supply chain that multinational corporations (MNCs) will consider procuring from alternative suppliers if the ESG requirements are not met. This approach aims to incentivize suppliers to prioritize and enhance their own sustainability practices, ultimately fostering a more sustainable and responsible supply chain ecosystem.

Greening the Supply Chain

Most MNCs have already started to push for sustainability and ESG issues along their supply chain. This is mostly done through specification of procurement standards or criteria and through supplier audit. Some MNCs also organise sustainability workshops for their suppliers while others have also started to ask suppliers to provide CO2 emission data. Nevertheless, there is no specific budget set aside to help suppliers move towards more sustainable production.

Challenges

Concerns of SMEs were discussed, including the additional cost of ESG compliance. The perceived high cost of sustainability was mentioned as a major barrier for SMEs. It was noted that additional costs associated with implementing ESG practices can be a significant challenge for small businesses with limited resources. At the same time, SMEs do not see the need for uptake of green financing if there is no clear business benefit. In addition, there is a perception that existing green financing schemes offered by banks are beyond the reach of SMEs due to the amounts involved – banks are seen to prefer multi-millions transactions as opposed to the smaller financing needs of individual SMEs.

Another point that was made is that the measurement of ESG performance can also be a challenge for SMEs. ESG is not a certification or credential, and SMEs may not know how to become ESG compliant or which criteria to follow. It was suggested that a harmonized or standardized approach to ESG reporting could help SMEs have a clear direction to follow, and that an ESG rating benchmark system for Penang SMEs could be useful.

The participants suggested the Bursa Framework and Responsible Business Alliance (RBA) code of conduct as possible solutions.

Support needed for small businesses

It was suggested that MNCs could help their SME suppliers become ESG ready through capacity building and support, such as offering incentives and sharing best practices. It was also suggested that the government could provide assistance to local SMEs through ESG incentives and financing options.

Measurement and monitoring were also highlighted as critical, and SMEs need to know how to start. MNCs should assess the readiness of suppliers and set clear expectations. In particular, concerted help is needed to establish sustainability baselines among the SMEs. Efforts to drive SME compliance should be phrased as "helping SMEs" and the bar should be raised once suppliers achieve compliance.

Digitalization was suggested as a way to monitor energy usage, and models can be used to improve energy efficiency and reduce GHG emissions.

Other issues raised

Other important issues discussed included water security and the impact of floods and rising temperatures on mental health. It was emphasised that sustainable water supply and support systems are needed to address these challenges. The interplay between the environment and mental well-being was recognized, highlighting the importance of holistic approaches to promote resilience and protect mental health in the face of climate change.

Conclusion

Overall, there was consensus among the participants that sustainability is an important issue not only for MNCs but also for their supply chain. While MNCs have the means and will to incorporate sustainability in their operations, they are also facing other important challenges such as increased electricity cost and the lack of options when it comes to renewable energy and traffic issues, which need to be addressed by the government.

There was a recognition that a more concerted effort is needed to help push sustainability issues along the supply chain in Penang. All stakeholders, including the government, MNCs and SMEs themselves, need to work together to overcome challenges related to capacity building and education, standards and data collection, access to green technologies as well as financing. Penang State's Green Industry Programme can provide a good platform for this kind of collaboration.

Ultimately, MNCs and their SME suppliers need to be able to adapt to the global shift towards more sustainable production and consumption, and local regulatory and investment environments need to be able to cater for that shift.