Incentives for improving traceability and ESG monitoring in global value chains

The role of co-operation
What’s needed to get exchange of data through global value chains?

How similar is it to transport of real goods?
Infrastructure #1

First Feature:
The routes that the data can move along:

- Standardised,
- Inter-connecting
- Inter-operable
Infrastructure #2

Second Feature:

Rules which facilitate safe transport (against accidents, theft)

And someone to enforce them?
Infrastructure #3 - Incentive design

Third Feature:

Sufficient positive reasons for data to be exchanged

And lower negative reasons for it not to be
Incentive Design Possibility #1 – mandated investor reporting

Data availability and granularity
- Data on Environment State
- Accessibility, Granularity (Digitisation)
- Trust and Verification
- Value Chain Transparency
- Consistency + Content Prioritisation

Corporate reporting
- Standards/frameworks
- Climate data aggregators
- Climate data rating
- Supporting software
- Consulting services
- Verification/Audit

Decision-useful data
- Listed company
- Data analysis
- Data rating
- Investor

Resources
- Agriculture
- Primary extraction
- (Commodity) traders
- Logistics & travel
- Tier 2 supplier
- Tier 1 supplier
- Listed company
- Data analysis
- Data rating
- Investor
Incentive Design Possibility #2 – leave it to Google
An example from Digital Product Passport data costs

Estimated costs associated with implementation of a DPP, including costs related to integration and market distortions over a 10-year period:

1. Institutional centrally-managed standards / specifications model:
   Between EUR 9 billion and EUR 18 billion

2. Competing proprietary standards and systems:
   Between EUR 63 billion and EUR 152 billion

3. Global, open, decentralised standards based model:
   Between EUR 3 billion and EUR 7.1 billion

Source: Deloitte, April 2022
Incentive Design to optimise....?

A public good goal .... of maximising the societal value of data exchanged.

Potential key features:
• Works (sufficiently) for everyone along the data value chain for them to actively participate.
• Founded on determination of rights, and trust
How to design incentives?

Suggestions:

1. Work on specific use-cases
2. Co-design it with the users, to meets their expressed needs
3. Inform it by incentive design from other existing data sharing, data exchange models
4. Needs neutral, supra-national process with public good goals
5. Modular/option design to allow adjustment for other use-cases.

EU have funded some initial work. 2 reports available. Some more is planned.

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How to design incentives #2

- Data is a valuable resource
- Powerful actors manoeuvre to control it or capture value from it
- This includes shaping rights and incentives
- Balanced governance of incentive design choices and their ongoing adjustment is essential.
- Governance is also essential to remove lack of trust – the largest barrier to data exchange.

Design of governance also needs to match needs, be supra-national, neutral, experience-based, piloted and co-designed.

May start with consensus agreement of a set of principles
Some Complexities
Value chains have many stakeholders

- 1 Danone = 50,000+ farms
- 700,000 people in indirect supply chain
- Scope 3 > 24X Scope 1+2

Source: Own illustration; Danone exhaustive 2021 extra-financial data
It’s a web, not a chain

Source: NGFS
- Network of 114 Central Banks and Financial Regulatory Authorities
Some of the key points to guide incentive design

2. There will be a key role for organisations which check the quality, relevance and accuracy of data, and prepare, maintain and amalgamate it into data products which are easily understandable for users.

3. The value of the data for users depends on its quality, as much as its availability.

4. Generating and sharing data, and especially high-quality data, has costs. As does the curation, verification, quality control, and updating of data sets for user access.

5. Many stakeholders expressed current disincentives to give access to data - fears of harming their competitive position, or breaching legal compliance of data rules.

6. As a result, although there exists a huge amount of relevant data held in companies, public bodies or available through remote monitoring, this data is not accessible. Problems with data standards, searchability and interoperability also play a role.