



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

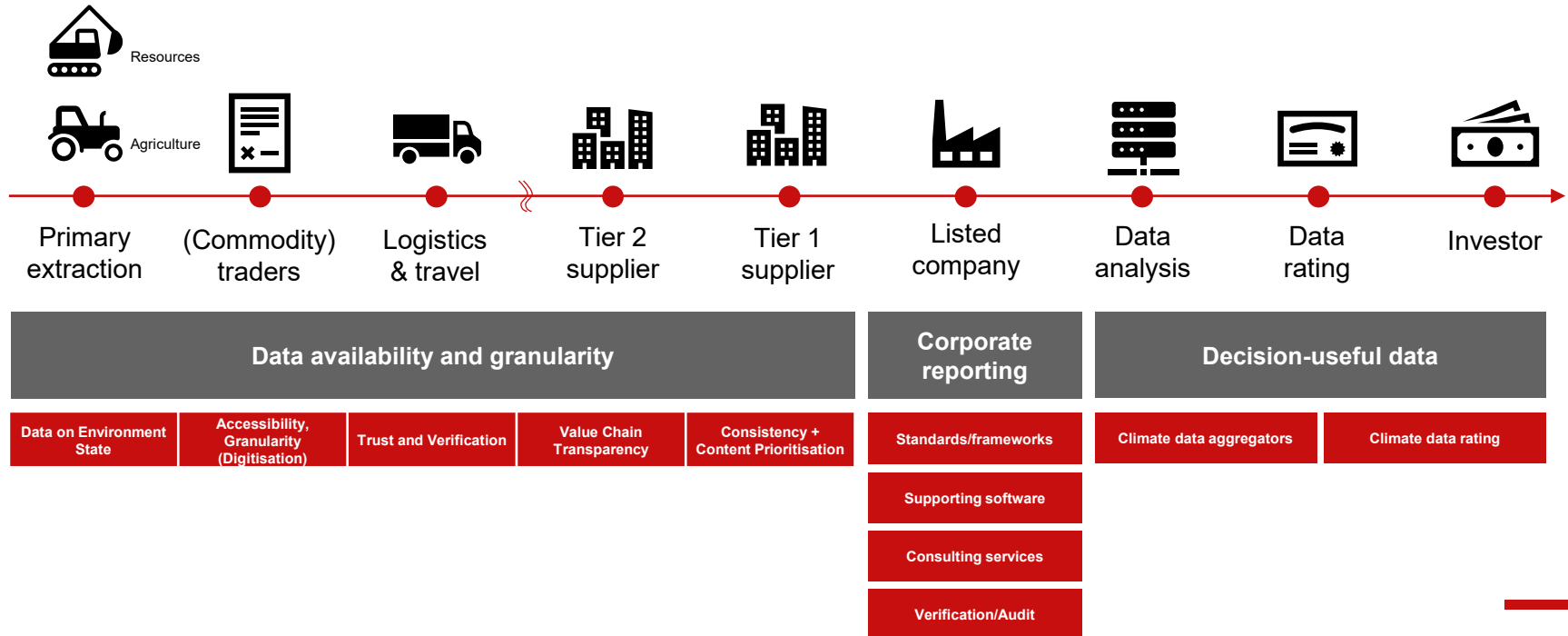


Third Feature:

Sufficient positive reasons for data to be exchanged

And lower negative reasons for it not to be

Incentive Design Possibility #1 – mandated investor reporting



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

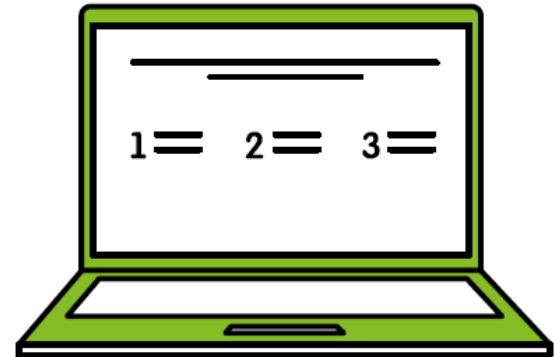
② Competing proprietary standards and systems:

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

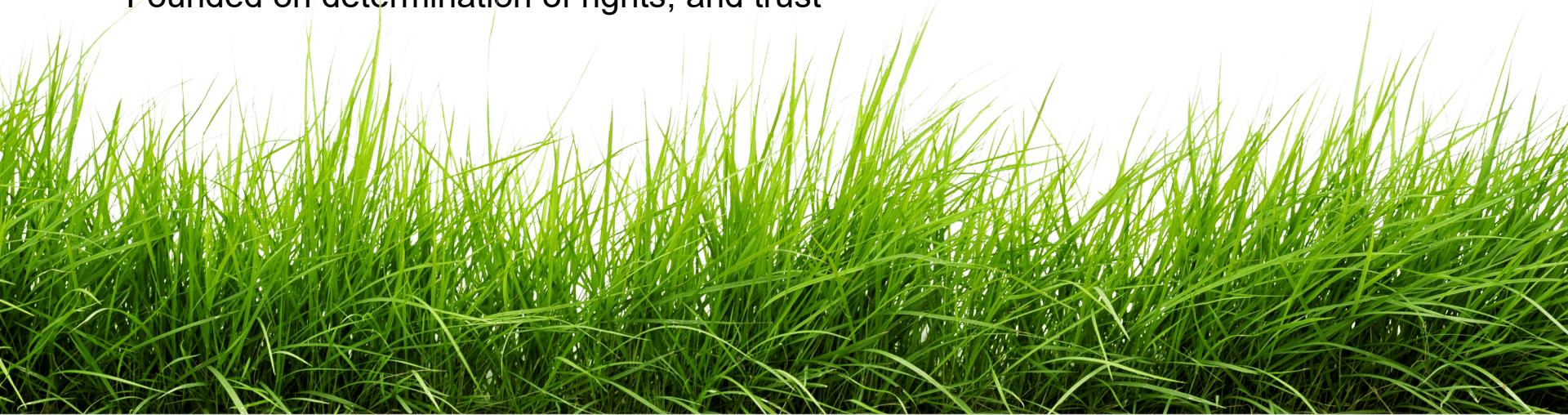


Incentive Design to optimise....?

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

Potential key features:

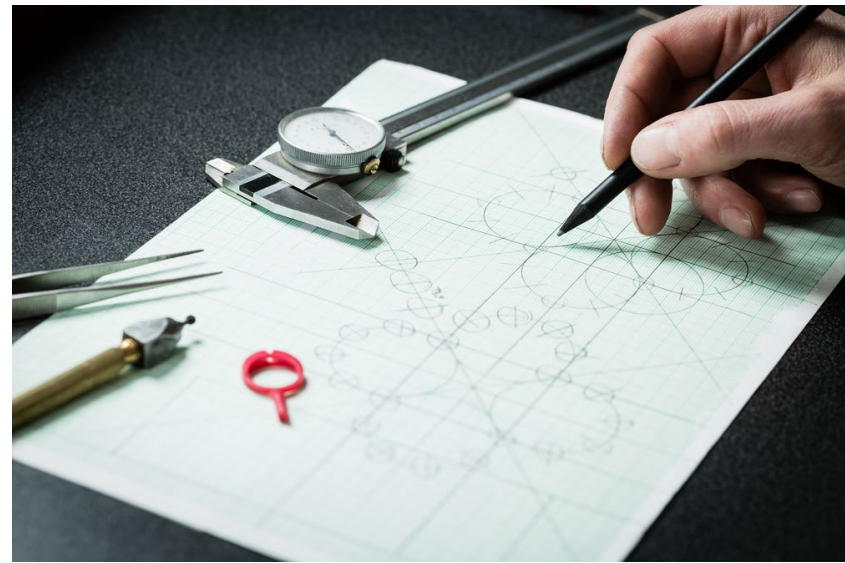
- Works (sufficiently) for *everyone along the data value chain* for them to actively participate.
- Founded on determination of rights, and trust



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.

Contact: christian.hudson@giz.de

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

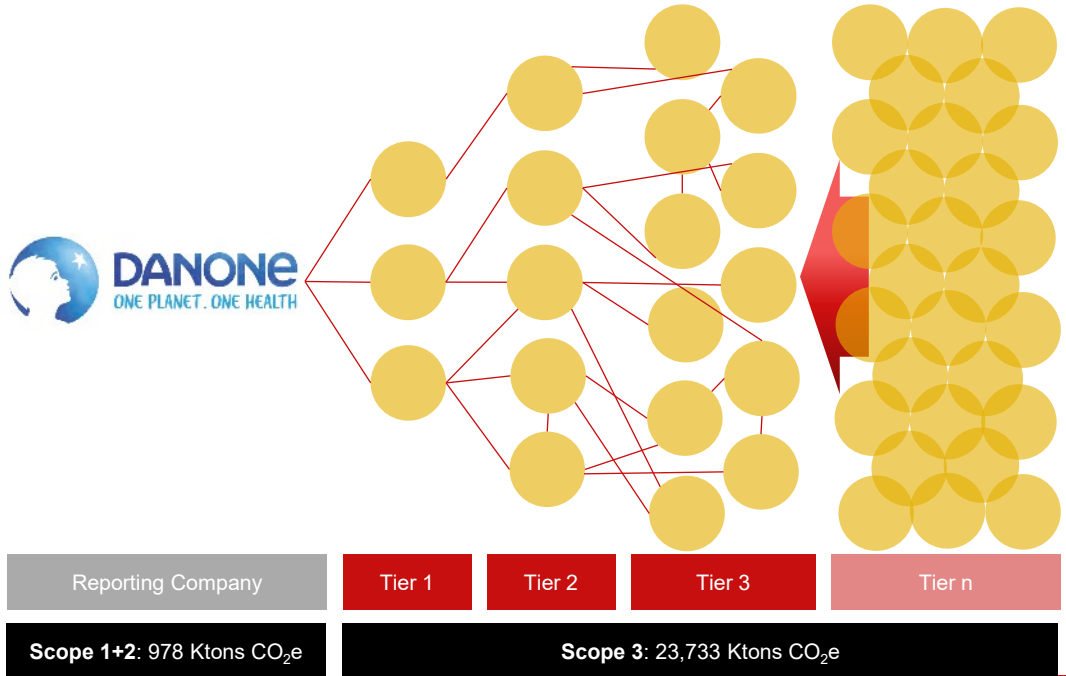


Some Complexities

Value chains have many stakeholders

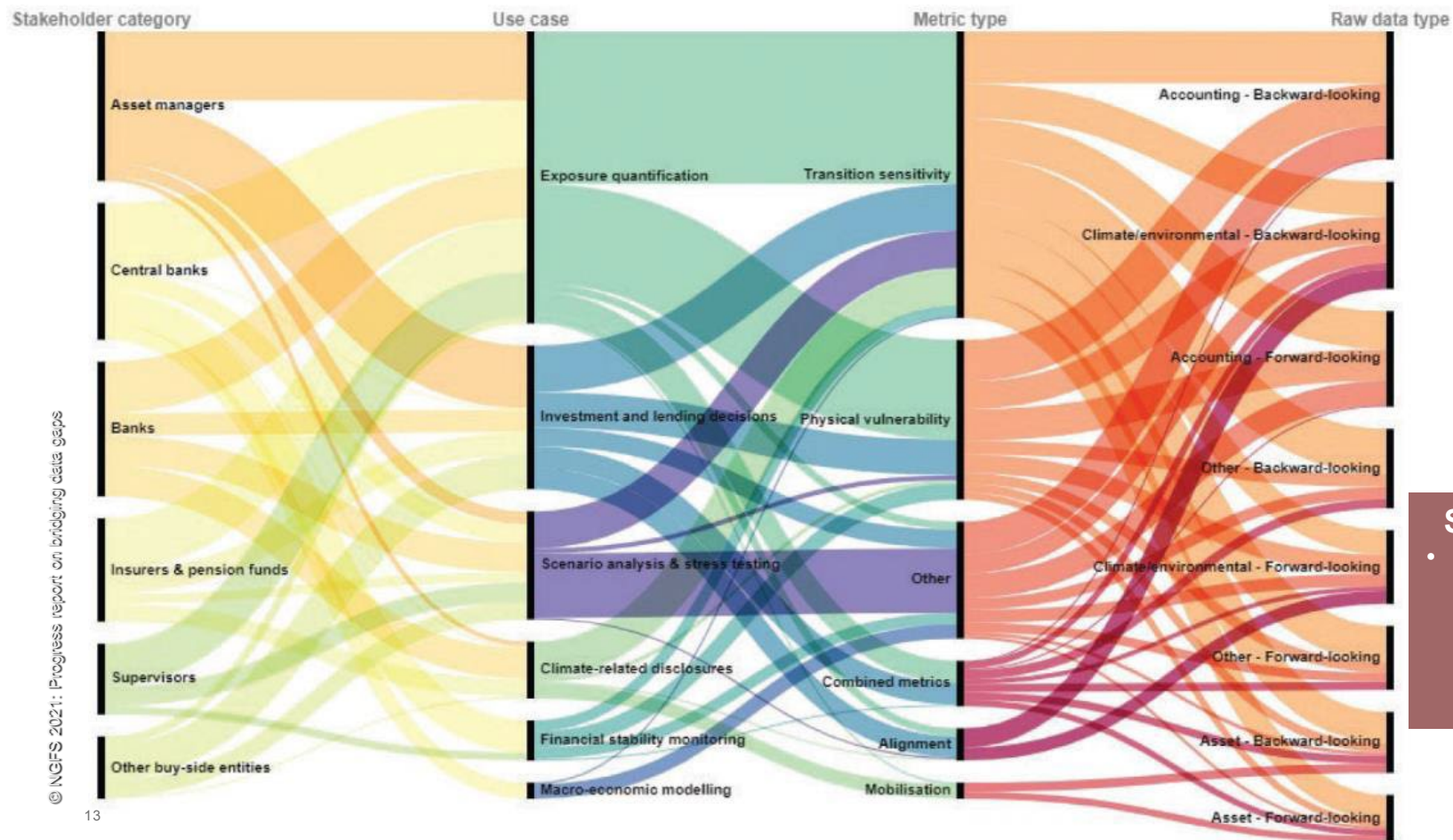


- 1 Danone = 50,000+ farms
- 700,000 people in indirect supply chain
- Scope 3 > **24X** Scope 1+2



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.