Corporate Malaysia's journey towards a sustainable supply chain

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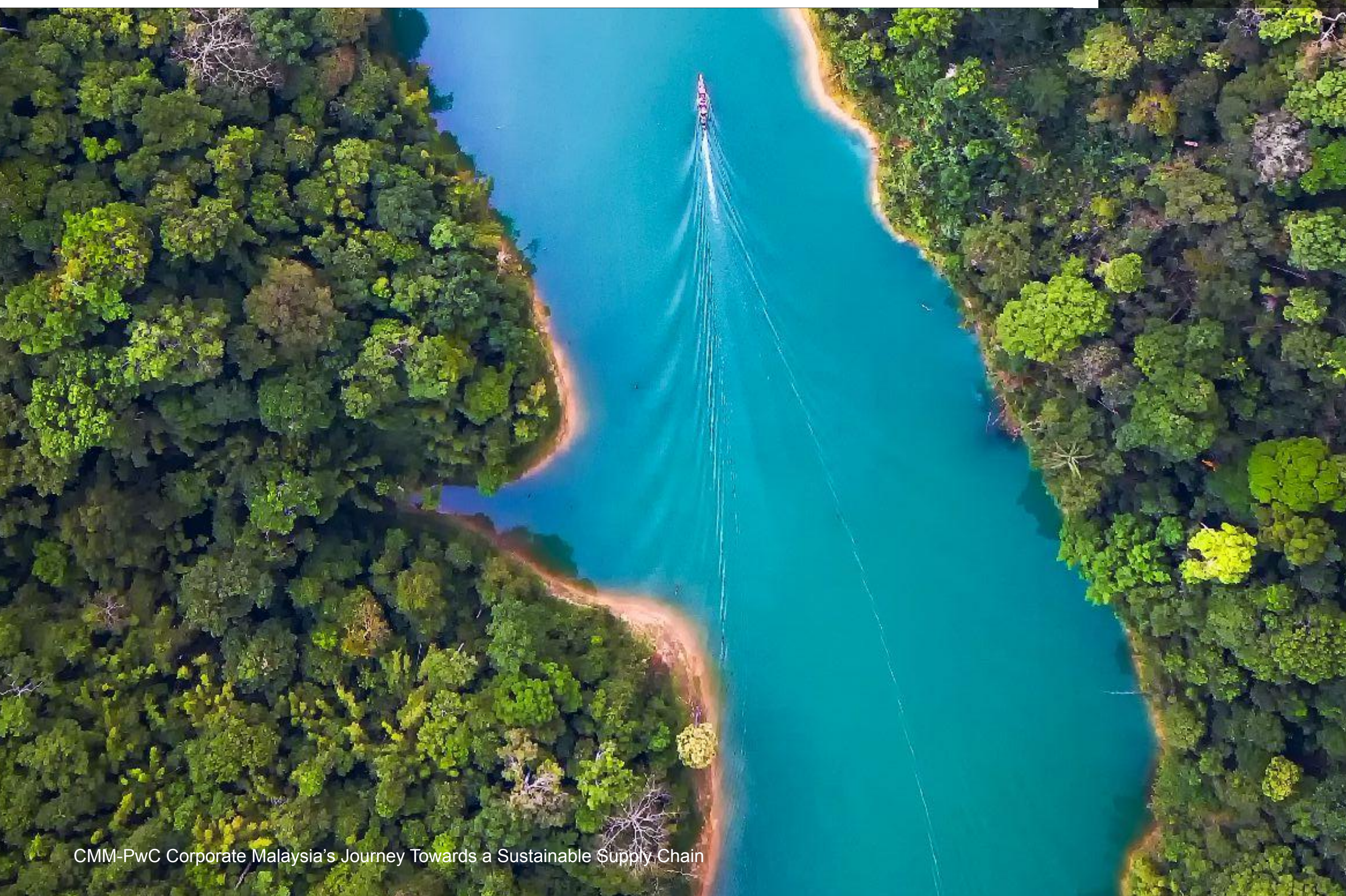
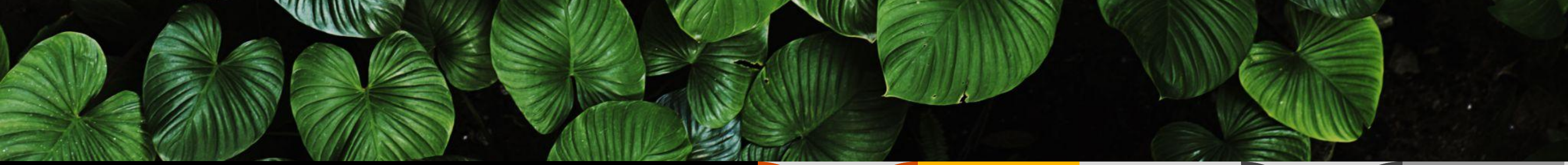




Foreword

Malaysia is facing a growing urgency to address sustainability considerations within supply chains as major trading partners, contributing to more than 50% of the country's total trade and exports, intensify their focus on net zero commitments.

Seeds of progress have been sown, with companies striving to reduce the environmental impact of business activities, ensure fair labour practices throughout the supply chain and distribute the economic benefits to all stakeholders. However, as in many other countries, key hurdles for Malaysian enterprises in the drive towards adopting meaningful sustainability practices include tackling the Scope 3 challenge.

A similar narrative is seen from our assessment of Bursa Malaysia's Top 100 companies' (by market capitalisation) supply chain disclosures against PwC's Sustainable Supply Chain Checklist which was carried out to develop this report.

Business leaders will continue to face growing pressures, from both global and domestic parties, to adopt robust sustainability practices whilst delivering strong commercial returns. Aligning their vendor code of conduct and procurement policies with trading partners' expectations will be increasingly key amidst the tightening of sustainability reporting standards by various international bodies to maintain Malaysia's trading competitiveness with other nations in the region.

Despite these challenges, economic fundamentals remain strong, bolstered by the support of government initiatives in promoting robust investment activity. This report highlights the urgent need for initiatives by corporates, both large and small, to continue in tandem with the various programmes initiated by the public sector towards achieving Malaysia's national agenda of Net Zero as early as 2050.

As Malaysia progresses in its journey towards a more sustainable supply chain, it is important to acknowledge the hard work and dedication of organisations that are already making a difference. Moving forward, coordinated efforts to develop commercially viable and inclusive pathways to reshape supply chains will be critical in creating a sustainable future for the nation.

Navina Balasingam
General Manager
Capital Markets Malaysia

Andrew Chan
South East Asia's Sustainability and Climate Change Leader
PwC Malaysia

This report is a collaborative effort between Capital Markets Malaysia (CMM) and PwC Malaysia to share the current landscape on sustainable supply chains in Malaysia. It highlights the challenges for businesses in their sustainable supply chain journey, showcases companies leading the way in supply chain sustainability and presents possible ways forward.

1 Malaysia in the global supply chain

Sustainability as a burning platform for supply chains in Malaysia

Navigating the changing supply chain landscape

Supply chains are becoming increasingly complex. Given their interconnectedness with geopolitical risks and economic volatilities, supply chain disruptions present far-reaching implications to businesses. Exacerbated by heightened political tension among economic powerhouses, the decoupling of supply chains by countries are prompting corporate leaders to develop resilient responses to current and potential shocks from both the supply and demand side.

PwC's 26th Annual Global CEO Survey finds that 46% of global CEOs are adjusting their supply chains to deal with growing disruptions. ASEAN could be a prime target for these new investments and businesses. To ensure growth, corporate Malaysia needs to carefully navigate the changing supply chain landscape.

Changing tides in supply chains

4% Fall in China's share of global exports of consumer goods from 2016 to 2022

60% Drop in ocean bookings for cargo ships from China to US in Quarter 2 of 2021

360% Increase in far-distance trade for Vietnam from 2014 to 2022

23% European companies in China are considering shifting their investments out of the country in a 2022 survey

Sources: Various sources (CNBC Supply Chain Heat Map, European Business in China: Business Confidence Survey 2022)

Challenges to Malaysia's value proposition

Does Malaysia still have the pull factor for global investors and businesses? The rise of the conscious consumer and growing demand for purpose driven financing globally are prompting the business community to re-evaluate operational decisions that may influence the supply chain landscape.

However, Malaysian business leaders are not looking at sustainability issues with the same urgency as business fundamentals like profitability and cost concerns. PwC's 26th Annual Global CEO Survey finds that Malaysian CEOs are prioritising economic concerns like inflation and macroeconomic conditions, while climate concerns remain secondary.

Various rankings around stakeholder perceptions suggest that more needs to be done to elevate Malaysia's position as the preferred investment hub.

There is still time to trim our sails and the time is now. Past bargaining chips such as Malaysia's involvement in a wide range of trade agreements, openness to foreign investments and close ties with economic powerhouses may not be enough as a winning strategy if they do not meet the changing global expectations for supply chain sustainability.

Overtaken by ASEAN peers as preferred Free Trade Agreement (FTA) partner

In the 2022 ASEAN Business Outlook Survey, Malaysia fared worse than its peers when United States (US) small-to-medium-sized enterprises (SMEs) were asked which countries would be an attractive bilateral FTA partner for US in ASEAN.

Figure 1: Southeast Asian countries' attractiveness to US SMEs

Country	Attractiveness as potential FTA partner to US SMEs
Vietnam	71%
Indonesia	60%
Thailand	51%
Philippines	46%
Malaysia	**29%**

Source: 2022 ASEAN Business Outlook Survey

Malaysia's green policies perceived as less effective than ASEAN peers

Green Future Index 2022 perceived Malaysia's ability to cultivate scientific discovery around environmentally conscious technologies and willingness to invest in green energy/ infrastructure across borders requires improvement.

Figure 2: Country rankings in Green Future Index 2022

Country	2021	2022
Singapore	16	29
Thailand	29	48
Philippines	43	53
Vietnam	49	56
Malaysia	**56**	**65**
Indonesia	57	70

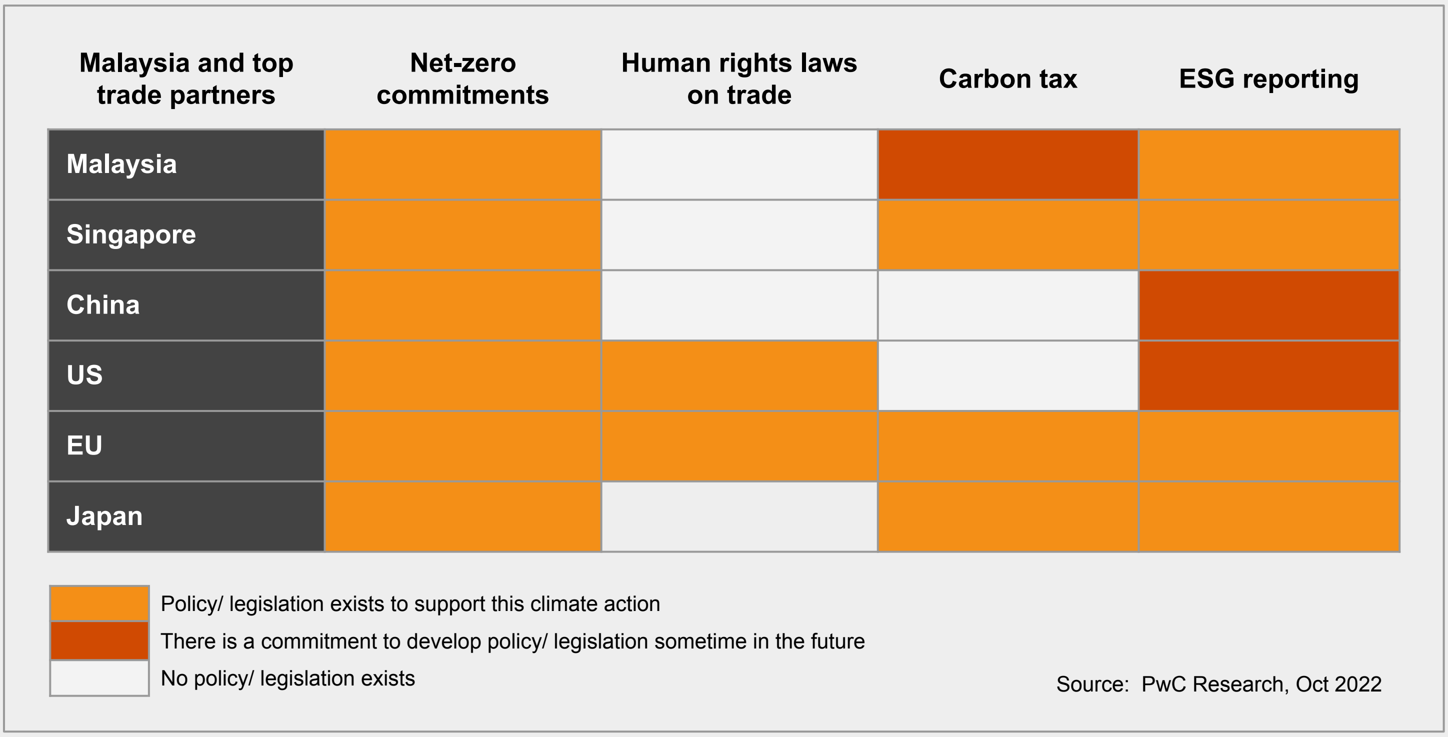
Source: Green Future Index 2022

Sustainable supply chain to drive Malaysia’s value proposition

Malaysia will need to quickly meet growing regulatory scrutiny and consumer concerns around global supply chain practices amidst the growing momentum on climate action. At the same time, investing into sustainable supply chains could be a new growth lever, enhancing the country's market reach and serving as a potential source of innovation and impetus to growth.

Malaysia’s top trade partners - Singapore, China, the US, the European Union (EU) and Japan - contributing to around half of Malaysia’s total trade and exports, are taking steps to translate their net zero commitments into action. Developments can be seen in the form of commitments, tax, legislation, policies, roadmaps, or public-private collaborations, with implications to importers and businesses related to their respective jurisdictions.

Figure 3: National level sustainability-related policies



Businesses are feeling the heat too. With sustainability expectations translating into industry expectations and actions, no longer can companies treat supply chain sustainability as a 'nice-to-have' but a 'must-have'.

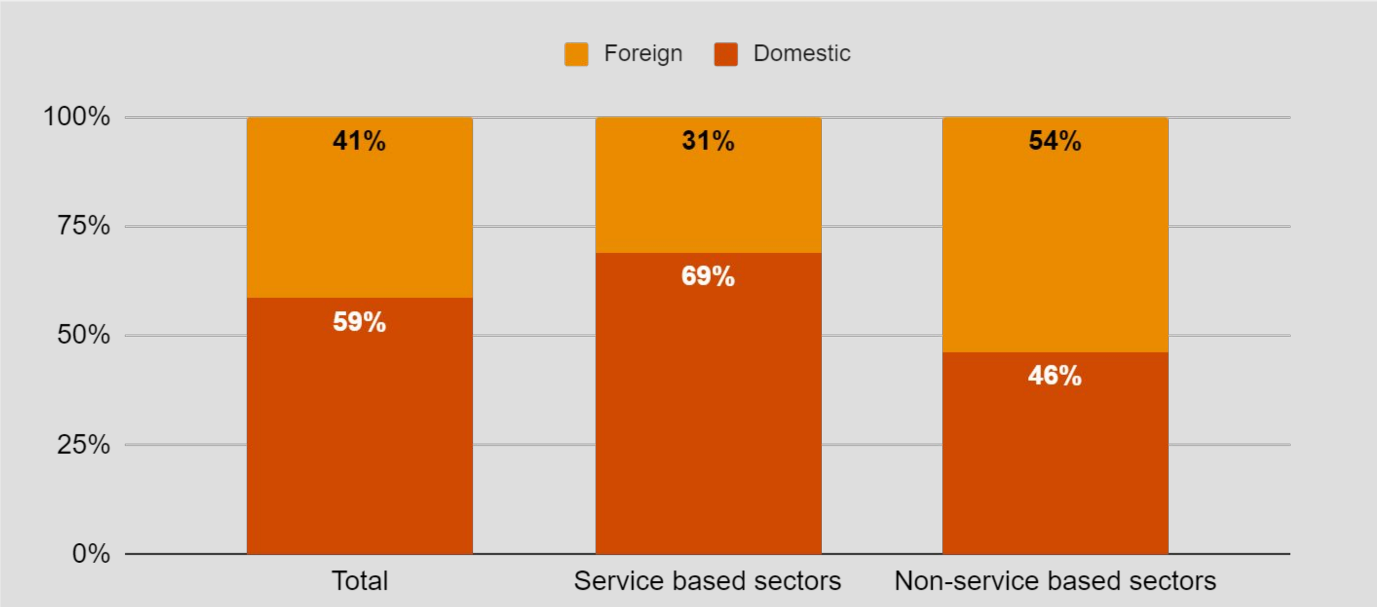
Pressures are mounting for companies in labour intensive sectors in particular, as social issues such as human rights and minimum wage policies increase in materiality in line with the growing emphasis on pursuing a just transition towards a low carbon economy.

Public-listed companies to drive the sustainable supply chain agenda

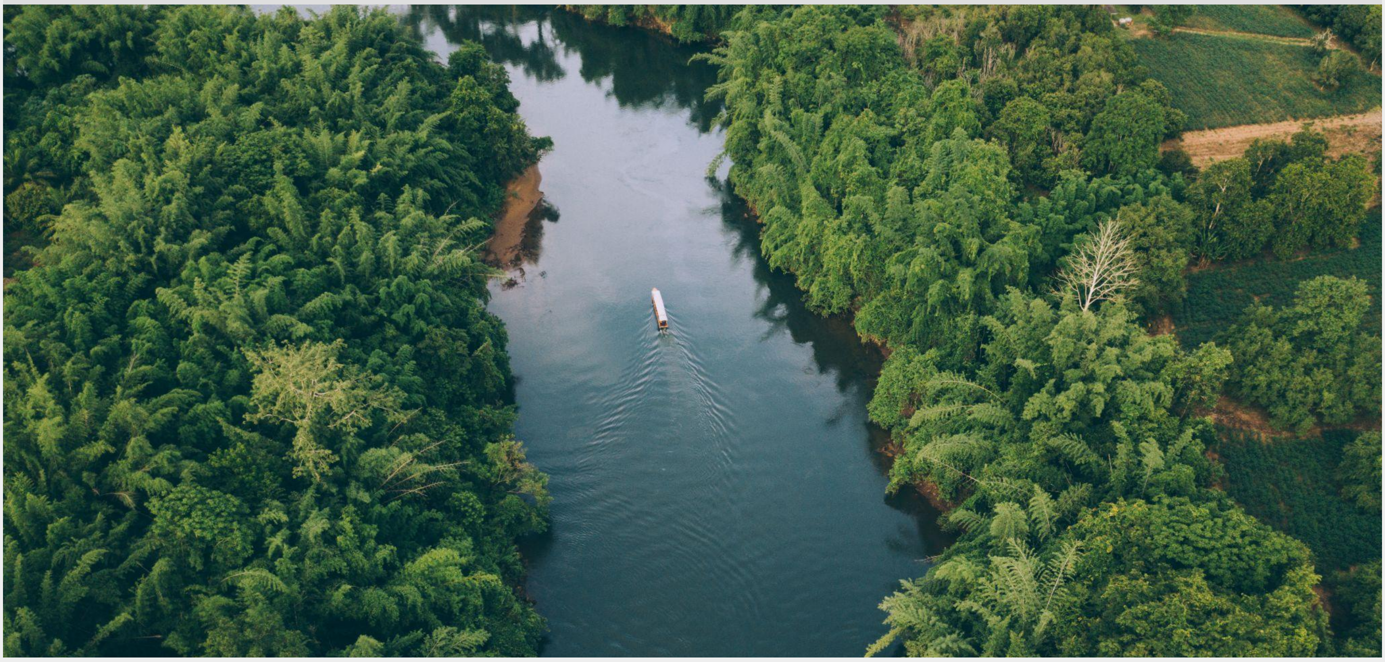
Public-listed companies (PLCs) are the key players in propelling the nation's sustainable supply chain agenda. In addition to being the primary architects of supply chains, PLCs are directly exposed to foreign market expectations.

According to PwC's analysis of Bursa Malaysia's Top 100 companies (by market capitalisation), 41% of revenue for Malaysia's PLCs comes from foreign markets, with most of the exposure concentrated in the non-service sectors.

Figure 4: Share of foreign and domestic revenue by offering



Source: PwC research, Oct 2022

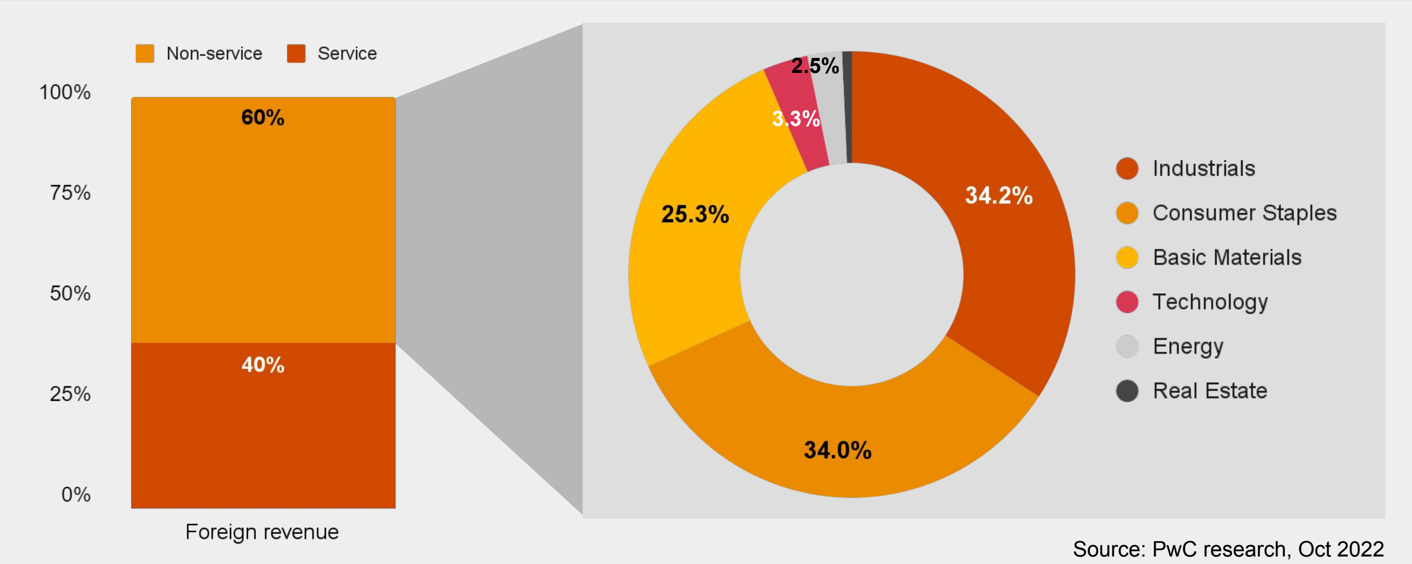


Pressure mainly focused on PLCs in the manufacturing sector

Malaysian PLCs in sectors with high foreign market exposure are among the first to face challenges in ensuring sustainable supply chains. Based on our analysis on the top 100 companies (by market capitalisation) on the Bursa Malaysia, a substantial portion of foreign market exposure in Malaysia lies with the manufacturing sector. This includes,

- **Industrials,** comprising construction materials, industrial goods and services
- **Consumer staples,** comprising food and beverage, tobacco and oil palm
- **Basic materials,** comprising chemicals and metals

Figure 5: Foreign revenue split by sector and offering



Source: PwC research, Oct 2022

Nevertheless, PLCs should have the financial capabilities to meet global expectations for supply chain sustainability. Given enough time and incentive, they can create sustainability practices that flow seamlessly through their supply chain.

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Adoption of sustainable supply chain practices amongst Malaysian corporates

How are Malaysian corporations faring when it comes to supply chain sustainability?

Supply chain is a global challenge

Sustainable supply chain management emerged as a niche issue 20 years ago and has since moved to the mainstream. In recent years, multinational companies have come under scrutiny for various sustainability transgressions, from hazardous work conditions to the dumping of toxic by-products into water sources. A rising number of these companies have pledged to only work with suppliers that adhere to environmental and social standards, but this proves to be easier said than done.

Assessments by PwC on Bursa Malaysia's Top 100 Companies' (by market capitalisation) supply chain disclosures against PwC's Sustainable Supply Chain Checklist signal a greater need to prioritise supply chains as a driver of companies' environmental, social and governance (ESG) performance. This is corroborated by studies by Know the Chain and Massachusetts Institute of Technology (MIT).

Malaysia Top 100 PLCs scored an average of

8/60

on the maturity of supply chain sustainability

PwC research, Oct 2022

Global supply chains scored an average of

32/100

on sustainability

KnowTheChain 2020/ 2021 assessment

Consistent gap between supply chain sustainability goals and corresponding investments from 2019 to 2021

MIT's State of Supply Chain Sustainability Report

The average scores of Malaysian PLCs' performance highlighted above is neither an anomaly nor an isolated challenge. PwC's ESG Empowered Value Chains 2025 looked at how companies were transforming their operations to meet ESG standards. On the whole, the study finds that high-performing companies are an exception rather than the rule in the green transformation efforts in their supply chains. And those in the earlier stages of their ESG journey are citing different challenges, mainly budgetary constraints compared to more ESG-mature companies that may struggle with inadequate access to data.

Governance and integration

Governance and integration of ESG into supply chains are in place, but the emphasis is on form over function

PwC research in developing this report reveals that 80% of PLCs are aware of the need for sustainable supply chains as part of their ESG governance and oversight, but only 55% of them have supply chain risks incorporated as part of their overall corporate risks and strategy. Even amongst these, for many this is reflected only as an item on their materiality matrix.

When we looked at how this translates into the operations of the business, we find that 66% of PLCs in Malaysia have included ESG considerations in their procurement policies and 59% have provided guidelines for their vendors and suppliers, typically through their Supplier Code of Conduct.

What takes companies' governance from form to function, is being clear on communicating actual outcomes and impacts. Policy creates the standard, but is the policy mapped to companies' ESG targets, and is that standard being actualised and measured? Investors and regulators are looking for greater nuance in the data companies are sharing. Companies that are explicit on what their priorities are and how they are tackling issues in achieving their targets can help them see the linkage between investment and commitment. This also makes it easier for data to be validated, so stakeholders are able to trust that the reporting is credible.

Figure 6: Count (%) of Bursa Top 100 companies disclosing supply chain governance and integration

80%
Put in place supply chain ESG governance and oversight

59%
Provide guidelines for vendors/ suppliers

66%
Include ESG considerations in procurement policies, codes and standards

55%
Incorporate supply chain risks in corporate risks and strategy

Source: PwC research, Oct 2022

Regulatory risks from operations across multiple territories

The robustness of Malaysian companies' supply chain has implications on their market access and ability to continue trading with or operating in foreign markets. Where these markets have greater requirements for performance and reporting, companies will naturally need to align with the code of conduct and procurement policies of their trading partners.

The Malaysian Palm Oil Council (MPOC) has raised the need for Malaysia to engage with the EU on their Corporate Sustainability Reporting Directive (CSRD) which recently came into effect in January 2023. The CSRD requires non-EU companies that have a significant presence in the EU to disclose non-financial information on the policies they implement in relation to "environmental, social and employee matters, respect for human rights, anti-corruption, and bribery matters."

Given how intertwined suppliers' operations often are with that of their corporate clients, companies will do well to incorporate supply chain risks in their organisational risk profile. To do this, start by identifying critical suppliers and assess how non-compliance can lead to losses in contracts and end users.

What is ahead for Corporate Malaysia?

Malaysian companies should prepare for mounting regulatory pressures such as:

- Tightening of sustainability reporting standards from international bodies, namely those from the International Sustainability Standards Board (ISSB), US Securities and Exchange Commission and the EU
- Stricter human rights requirements on imports from trade partners, such as the EU, Japan and Germany
- Domestic national plans that focus on sustainability, i.e., National Action Plan on Business and Human Rights (NAPBHR) that intends to define how the United Nations Guiding Principles on Business and Human Rights will be implemented in Malaysia
- Introduction of the Carbon Border Adjustment Mechanism (CBAM) which imposes a carbon tariff on carbon intensive products

Engagement and incentive

Helping suppliers meet growing expectations will require enhanced engagement

For many organisations, their dependence on suppliers and outsourcing partners in delivering products and services makes supply chain partners one of the most important stakeholders for the continuity of business. Regular touchpoints with suppliers from activities such as screening for performance, providing training on areas of compliance, and support for corporate social responsibility (CSR) activities and educating them on the supplier code of conduct are typically reported in most Malaysian PLC’s sustainability reports.

Companies are well-versed when it comes to supplier performance management, particularly in terms of traditional procurement metrics such as price, quality and delivery. The challenge now is in finding ways to engage suppliers on an expanded set of sustainability issues, from human rights to emissions management, in a way that is effective, systemic and creates value for all parties involved.

Companies have access to many tools to enable their supply chains to meet their sustainability commitments (listed in Figure 7). The most commonly reported initiative is having an external channel to collect feedback on suppliers (40%), but there appears to be limited information on how companies are working with their suppliers to act on feedback received. Around a quarter of PLCs are working with suppliers to upskill via development programmes or co-create ESG initiatives. Only 11% have created tangible benefits via incentive programmes to encourage suppliers to play an active role in meeting ESG standards.

Figure 7: Count (%) of Bursa Top 100 companies disclosing supply chain engagement and incentives

40%
Create external channel for feedback on suppliers

26%
Have supplier development programme (or other prominent initiatives)

11%
Create incentive programme to assist suppliers to realise expected standards and values

24%
Work with suppliers to come up with ESG initiatives

Source: PwC research, Oct 2022

Strong supplier relationships to move the needle on decarbonisation

For many companies, up to 80% of their supply chain emissions come from as few as 20% of their purchases. According to a Global Supply Chain report by Carbon Disclosure Project (CDP) in 2022, supply chain emissions are 11.4 times higher than operational emissions but only 41% of companies are engaging their suppliers.

As carbon accounting is becoming a high priority, companies will need to understand their suppliers' emissions to factor them into Scope 3 reporting. Generally, companies find Scope 3 emissions, which make up 65%-95% of most companies' carbon impact, the hardest to track and measure, and the most challenging to shift as they have little to no say in their suppliers' operations. Procurement influence and incentives will be necessary to shift suppliers in sustainable directions and enable their decarbonisation.

As a large number of suppliers in the value chain tend to be SMEs, the barriers to greening their operations may come down to lack of liquidity, know-how, customer support and manpower. Companies that work with these suppliers need to find ways to overcome these barriers, which may involve going beyond a transactional relationship to one that is collaborative.

Just Transition: Malaysia's small-to-medium-sized enterprises (SMEs) sustainability journey is important for all

A **just transition** aims to ensure that no one is left behind, especially more vulnerable stakeholders like SMEs, as we move towards a low carbon economy. As the country strives to adopt better sustainable supply chain practices, it is vital to balance out environmental priorities with the specific socio-economic conditions of each business establishment. Standing to lose around RM 292 billion in revenue due to non-ESG compliance according to the Sustainable Finance Institute Asia, SMEs should be supported by all parties in their sustainability journey as part of Malaysia's journey in achieving a just transition.

SMEs are Malaysia's economic backbone

38%	GDP was contributed by SMEs
48%	National employment is spread across 1.23 million SMEs
97%	Business establishments are SMEs

Source: Department of Statistics Malaysia (2021), SME Corp (2021)

SMEs' export potential

14%	Total exports in Malaysia comes from SMEs
46%	SME exports goes to key trading partners with net zero targets, namely Singapore, US and China

Source: Department of Statistics Malaysia (2019-2021)

SMEs face challenges adopting sustainable practices

- Rising material and labour costs
- Labour shortages
- Cash flow problems
- Barriers to financing

Corporate Malaysia getting active in developing sustainable supply chain

Corporate Malaysia have shown interest in strengthening their sustainability practices before the pandemic. In recent years, more corporations have started working together or forming partnerships with the public sector to promote the adoption of supply chain sustainability.

Under its Awareness & Capacity Building Workstream, the **CEO Action Network** (CAN) strives to raise awareness and build capacity across multiple levels and functions of member organisations and their value chains, helping them champion sustainability for business.

The workstream is currently focused on SME Awareness & Capacity Building, looking to equip its members with the knowledge and skills to uplift their respective suppliers towards a more sustainable supply chain.

Malaysia's **Oil and Gas Services and Equipment** (OGSE) industry is working towards energy transition and greater adoption of sustainability practices with guidance from **Malaysia Petroleum Resources Corporation** (MPRC)'s National OGSE Sustainability Plans (NOSP) 2022.

The NOSP 2022 sets the stage for the industry's development of a National OGSE Sustainability Roadmap in 2023 and eventually, the National OGSE Sustainability Framework in 2024.

United Nations Global Compact Network Malaysia & Brunei (UNGCMYB) and **Malaysia Digital Economy Corporation** (MDEC) collaborated to:

- Develop a Climate Action Guide and Toolkit for digital players, to help them take action and assess their carbon footprint
- Promote free access to resources available at the Digital UNGC Academy

Separately, on their own, UNGCMYB:

- Launched the SME Sustainability Action Guide aimed at assisting SMEs in their sustainability journey
- Developed the MAJU (Mission, Activity, Justify, Upgrade) framework and toolkits to help SMEs identify and leverage sustainability as a source for growth
- Is developing the SME ESG Hub as a one-stop online sustainability resource platform for SMEs looking to develop and implement sustainability action initiatives and programmes within their respective organisations

The **Federation of Malaysian Manufacturers** (FMM) and the **Malaysian International Chamber of Commerce and Industry** (MICCI) signed a Memorandum of Understanding (MoU) to establish a Joint Task Force in support of the government's national commitment to sustainability and the 2030 Agenda for Sustainable Development.

The task force will explore opportunities on awareness programmes, seminars and training on the importance of ESG and other sustainability initiatives for the benefit of members of both organisations.

Support from public sector to integrate sustainable practices in supply chains

Realising SMEs are not able to embark on decarbonisation alone, the public sector has created a number of initiatives to support the SMEs:

Capital Markets Malaysia (CMM)

Initiatives for SMEs

- Collaborates with the Ministry of Natural Resources, Environment and Climate Change on a long-term initiative to provide practical knowledge to SMEs on two crucial areas:
  - Adopting sustainability from planning to implementation and reporting
  - Calculating GHG emissions
- Over 1,000 SMEs nationwide have benefited from the programme in the first 12 months

ESG Disclosure Guide

- Developing an ESG Disclosure Guide tailored to Malaysian SMEs
- The Guide will provide practical guidance and the baseline disclosures expected of SMEs in relation to ESG, to encourage greater transparency and improve the quality of SMEs' ESG disclosures
- It will also highlight key governance considerations to support more sustainable businesses

Bank Negara Malaysia (BNM)

Low Carbon Transition Facility (LCTF)

- A RM2 bil fund in collaboration with a participating financial institution specifically targets SMEs to encourage adoption of sustainable and low carbon practices

Greening the Value Chain (GVC)

- The programme aims to assist Malaysian SMEs in implementing impactful, long term change to green their operations
- Offering of technical advice by participating organisations and transition financing from the LCTF

SME Corporation Malaysia (SME Corp)

Action Centre for Sustainable SMEs (ACCESS)

- A 6-month training and development programme in partnership with UNGCMYB
- Designed to boost SME supplier competitiveness by improving sustainability maturity

Programme for Enhancement of Strategic Industry and High Growth Enterprise (PRESTIGE)

- Aims to develop high growth SMEs in strategic sectors such as medical devices, biotechnology, aerospace and rail in line with the National Entrepreneurship Policy 2030

Support from public sector to integrate sustainable practices in supply chains (cont'd)

Malaysian Green Technology and Climate Change Corporation (MGTC)

MyHijau SME & Entrepreneur Development Programme

- Encourages local industries including SMEs to adopt green practices and offer local green products and services
- By the end of the programme, participating companies should be able to incorporate the best green practices and applications into their operations
- Participating companies are eligible to register their products with MyHIJAU Mark and be listed in the MyHIJAU Directory

Green Practices Guidelines

- Aims to provide guidance in implementing green practices throughout the business process, including identifying opportunities to utilise green technology
- The guidelines are available for various sectors - Construction, Mining, Manufacturing, Agriculture & Plantation, Fisheries, Forest Operations, Services and Livestock

Malaysia External Trade Development Corporation (MATRADE)

Greening Export Supply Chain Initiative (GxSCI)

- Collaborates with various stakeholders on an engagement programme with industry associations and large exporters to green the industry supply chain
- Fund-matching linking Malaysian companies to all financial initiatives the Malaysian Government currently offers in order to promote ESG compliance
- Sectors that will be given due focus in the first wave of engagement will be those which has significant exposure to the export markets such as petrochemical, electrical & electronics, and furniture

Ministry of International Trade and Industry (MITI)

iESG

- Developing the National Framework on Industry Environmental, Social, and Governance, or iESG, for the manufacturing sector as the next step in assisting Malaysian companies, particularly SMEs, to comply with ESG principles
- The Framework's main objective is to build and strengthen a system to encourage the expansion of ESG practices in the manufacturing sector and will be built around 4 pillars, i.e. standards, financing, capacity building and market mechanism such as carbon trading

SIRIM Berhad

ESG Industry Standard

- Developing guidance on a standardised reporting methodology for ESG applicable to all organisations, regardless of its type, size, geographic location or industry sector
- The standard will also include ESG indicators

Data and reporting

Data and reporting is the most challenging aspect for PLCs

Making progress on sustainability, in supply chain and beyond, will come down to being able to track, measure and analyse data on their suppliers' performance.

Around a third of PLCs in Malaysia report their supply chain sustainability key performance indicators (KPIs). While the types of KPIs reported varied, we find there to be greater consistency and traceability among companies in the plantation industry.

Figure 8: Count (%) of Bursa Top 100 companies disclosing supply chain data and reporting

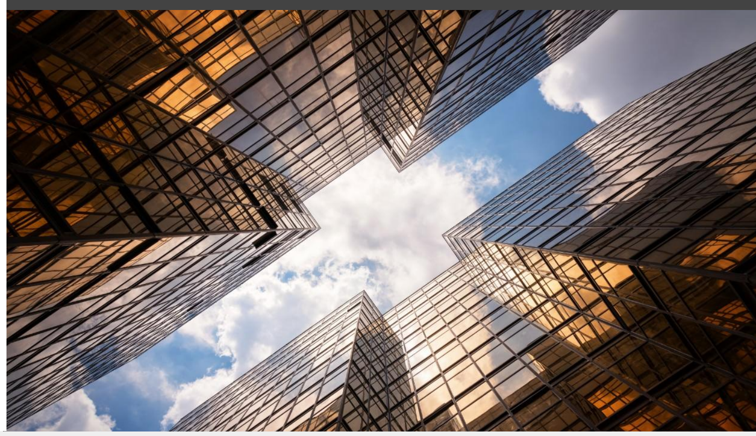
34%
Report supply chain sustainability KPIs

20%
Collect ESG data from suppliers

14%
Incorporate ESG in supply chain performance tracking

12%
Have supply chain ESG data externally assured

Given that only 20% of companies collect ESG data from their suppliers, and even fewer (14%) incorporate ESG as part of their supply chain tracking, it appears that what data is available may not be as reliable as needed to meet increasing reporting requirements. Only 12% of PLCs have had their supply chain ESG data externally assured, primarily among non-service based companies in Consumer Staples and Industrials sectors due to the need to meet industry requirements for products.



Source: PwC research, Oct 2022

Data and reporting (cont'd)

What is ahead for Malaysia?

Bursa Malaysia has signed an MoU with London Stock Exchange Group which includes initiatives to:

- Expand FTSE Russell's coverage of ESG scores to include all PLCs listed on the Main and ACE Markets from the current FTSE Bursa Malaysia EMAS Index
- Collaborate on ESG education initiatives, implementation of sustainable supply chain finance and transition financing workflows among financial institutions
- Launch a Centralised Sustainability Reporting Platform that allows public-listed companies and non-listed SMEs to calculate their carbon emission impact, and disclose common ESG datasets in a standardised manner that conforms to established global standards, such as the Task Force on Climate-Related Financial Disclosures (TCFD)

Case study: Plantation Sector

The palm oil industry has faced vocal criticisms of its sustainability practices over the years and subsequently, has developed industry standards for sustainability requirements. Malaysia's plantation sector, as one of the world's leading producers of palm oil, has benefited from an early headstart in their sustainability journey as they've begun addressing sustainability concerns from the early 2000s.

Governance and integration

Most plantation companies have sustainable palm oil sourcing policies in place. These policies define their sustainability commitments, including eliminating child labour in their operations, ethical foreign labour recruitment practices and traceability targets for their supply chain.

The policies also clearly lay out the companies' expectations for suppliers to adhere to the policy and their commitment to building capacity for the implementation and enforcement of the policy.

Engagement and incentives

Corporate engagement with suppliers can be structured to uplift the livelihoods and competitiveness of small scale suppliers. For example, programmes that support scheme and independent smallholder certification towards sustainable production.

Where companies may not have the expertise, collaborations with civil society groups can help drive more effective supplier engagement, for example in protecting children who live in plantations. The Earthworm Foundation has helped at least one plantation company develop and deliver interventions such as child-risk assessments and child-sensitive remediation mechanisms.

How effective engagement activities are can also be seen by companies' strategies for remedial action when issues surface. Steps for corrective action are usually described in detail.

Data and reporting

Traceability and transparency are consistent across the plantation sector. Suppliers are typically expected to complete a self-assessment, which allows them to be classified into risk categories (low, medium, and high), in their compliance with their commitments, either as laid out in their sustainable palm oil policies, codes of conduct or other industry-accepted commitment.

The use of dashboards made accessible to stakeholders and the general public allows stakeholders to see where companies' palm oil has come from, their progress in achieving sustainability certifications, progress on the resolution of outstanding active complaints and updates on supplier engagement activities.

Case studies: Sustainability practices of selected organisations

Farm Fresh Berhad

Dairy company

Collaborative relationship with dealers

The local dairy company's Home Dealer Network allows micro-entrepreneurs to make a sustainable income by becoming dealers or stockists for the company's products.

In doing so, the company expands produce coverage to areas that do not have a major grocery store or supermarket while improving the income potential of those in underserved areas across Malaysia.

These efforts have resulted in RM133.9 million in income generated for 45 stockists, 900 home dealers, and 1,772 agents, with 80% of the micro-entrepreneurs being women.

Nestle (Malaysia) Bhd

Food and beverage manufacturer

Leading suppliers towards a just transition

The food and drink processing conglomerate is working to utilise responsibly-sourced raw materials in their products while boosting income opportunities for farmers.

Their Farmer Connect programme allows the organisation to source directly from contract farmers, integrating them into the supply chain. Farmers not only benefit from training and technological support, to improve yield-and minimise environmental impact, contract farming practices also ensure that farmers' sell-back price for their produce is not impacted by the open market prices, providing a stable income source for farmers.

There are currently 3 projects under this programme - Nestlé Chili Club, Nestlé Paddy Club and NESCAFÉ Grown Respectfully.

Case studies: Sustainability practices of selected organisations (cont'd)

Mega First Corporation Berhad

Diversified conglomerate

Improve data accuracy with supplier training and audit

This diversified conglomerate reports on Scope 3 emissions from its packaging and resources divisions in their sustainability report. While the Scope 3 calculations only include upstream and downstream distribution, waste generation, business travel and community, the organisation has been capturing emissions data for the past 3 years.

To improve data accuracy, the conglomerate aims to implement mandatory supplier ESG training by 2023. And while there are no audit requirements yet for Scope 3 emissions, the organisation is working to conduct audits of all higher-risk suppliers by 2025.

Unilever

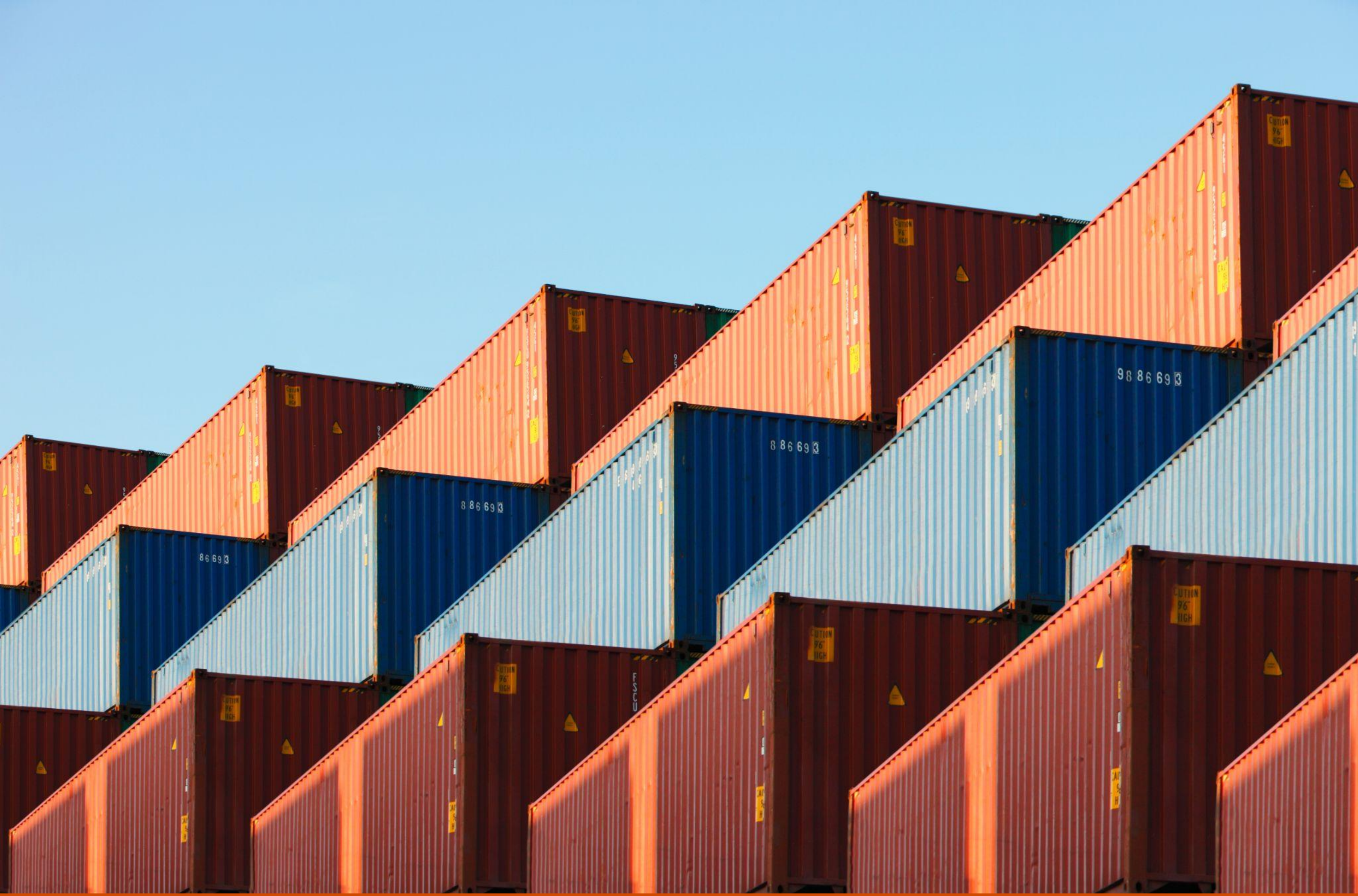
Fast-moving consumer goods manufacturer

Improve traceability and transparency of palm oil supply

With palm oil being a key ingredient to many of this fast-moving consumer goods (FMCG) company's products, they're working to ensure that their palm oil supplies are not only sustainably sourced, but deforestation-free.

A four-step programme drives traceability in their palm oil supply chain, allowing them to identify a 'universe of mills' for 99% of their core volumes and gain visibility over 17 million hectares of oil palm plantations and farms across the world.

This information is made publicly available via their website, or the Global Forest Watch's Universal Mill List.



Case studies: Sustainability practices of selected organisations (cont'd)

Westports Holdings

Port operations and marine cargo handling company

Robust guidelines to manage sustainability risks in the supply chain

The organisation has a formalised process in place to identify supply chain risks that impact the organisation's risk profile. This allows them to include sustainability criteria in the supplier screening process. New and existing suppliers are assessed for their environmental and social performance.

A carrot and stick approach is applied to promote accountability and encourage the desired sustainability compliant behaviours. Suppliers found to be non-compliant with the organisation's policies are recommended for re-training and re-auditing with the possibility of having their contracts revoked. However, those with relevant certification standards receive additional merit in their applications.

3

Strengthening sustainability within the supply chain

Key takeaways

What can Corporate Malaysia do?

While supply chain governance has traditionally focused on managing risk and increasing bottom-line profitability, the push today is on how companies are cleaning up their supply chains from an environmental and social standpoint. In today's ESG-focused landscape, companies can no longer neglect their responsibility for the practices of their supply chain partners.

What can organisations do to strengthen sustainability within their supply chains?

Transform the buyer-supplier relationship

Beyond delivering a contracted service or goods, supply chain relationships that are collaborative or strategic can deliver greater value, for instance, lower long-term costs and create opportunities for suppliers to uplevel their capabilities to enter global supply chains, supporting a Just Transition.

Incentive programmes can encourage the integration of sustainability standards in suppliers. By awarding more business to those who have stronger sustainability performance or giving them greater access to other parts of the supply chain, such as customers, suppliers are likely to find positive reinforcement for their effort.

Invest in data to strengthen performance management

Supply chain data is essential to help identify blind spots or areas of inefficiencies, so companies can engage suppliers in course correction. Investing in databases that allow supplier ESG data to be automatically recorded, made transparent and optimised with supplier engagement would support not only SMEs, but the larger companies that are looking to improve supplier ESG performance.

Capacity building or training programmes can facilitate the transfer of knowledge to upskill suppliers in tracking and managing ESG data, for example, measuring carbon emissions or employee safety records.

Implementing an audit programme to measure and validate performance improvement over time can also provide assurance on the validity of the data reported and mitigate greenwashing risks.

Collaborate for positive impact

Companies in similar industries like construction or food and beverage often share similar supply chains. Working with peers to create common standards for sustainability performance can eliminate redundancies for suppliers in meeting audit and training requirements. Regular engagement with regulators or standard setters can also help companies stay on top of new developments and provide opportunities to be part of consultation processes on new regulation.

Outside of their industries, organisations may benefit from connecting with other businesses, for example, via the CEO Action Network (CAN), which may allow for cross-industry learning to stimulate innovation.

How the public sector can further support supply chain sustainability in Malaysia

Supply chains are key levers for achieving sustainability goals, as they shape much of the economic output and impact for corporations and nations. Disruptions stemming from the pandemic have had companies considering a rebalancing of their global supply chains toward more diverse, regional networks. This presents an opportunity for Asia Pacific countries, including Malaysia, to invest in the infrastructure and policies that are required to encourage sustainable supply chain operations. This will benefit smaller local players who risk being left out of international supply chains if they cannot meet the ESG expectations and stringent rules of global buyers.

Improvements to regulations

Although Scope 3 reporting is not mandatory at the moment, the ISSB has voted to require company disclosures on Scope 1, Scope 2 and Scope 3 greenhouse gas emissions.

Increased government intervention through regulations in the reporting of emissions is likely to drive more transparency and action towards decarbonisation.

Reporting metrics can include specific Scope 3 elements with a realistic transition timeline to encourage PLCs to onboard suppliers, as well as sufficient timelines to make their disclosures.

Incentives for PLCs to upskill suppliers

Export credit guarantees and trade finance options, for example, can support PLCs' upskilling efforts with their suppliers. These incentives can be applied to these initiatives, amongst others:

- Capacity-building or training programmes for suppliers
- Implementation of technology e.g. GPS tracking of raw materials from the source, 5G to automate large volumes of data collection, visualisation and analysis software for reporting
- Public-private partnerships between corporations and governments to better enforce the root cause of issues like deforestation or child labour, through the transparency of their supply chain

Drive the building of a centralised data platform

To drive greater visibility in the supply chain and improve access to funding for SMEs through ESG best practices, Bursa Malaysia and the Companies Commission of Malaysia (SSM) are working together to build a centralised data system. The MGTC has also developed the Low Carbon Operating System (LCOS), a cloud-based carbon management platform for corporates and SMEs.

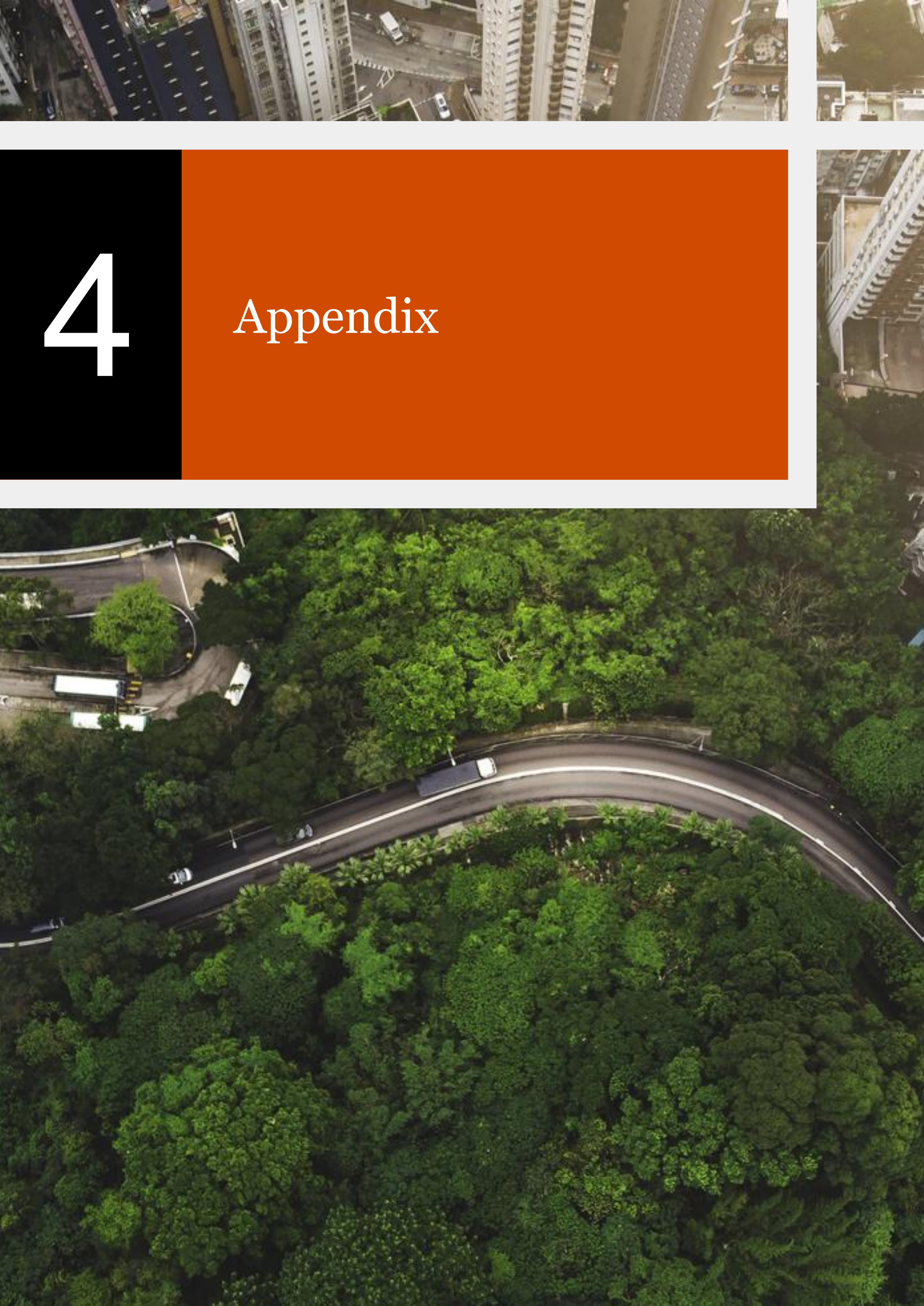
The value of any data system lies in its widespread use. Making the data platform affordable will be an incentive to encourage sustainability reporting.

Alternatively, financing models where investors or corporate clients pay for SMEs to use the platform, in return for support and analysis, for example, can also encourage greater adoption.

Provide access to remedial action

An outlet for issues to be highlighted and addressed can allow for more effective resolution. For example, by providing an external grievance system where employees, especially foreign workers as well as suppliers, are able to lodge a complaint, access legal services and counselling, amongst others.

4 Appendix



Appendix: Methodology

Our methodology

For the purpose of this report, we analysed Bursa Malaysia's Top 100, by market capitalisation, PLCs' supply chain disclosures in their FY2021 annual and financial reports against PwC's Sustainable Supply Chain Checklist with a 5-point maturity scale.

PwC's Sustainable Supply Chain Checklist

Governance & Integration

1. Put in place supply chain ESG governance and oversight
2. Incorporate supply chain risks in corporate risks and strategy
3. Include ESG considerations in procurement policies, codes and standards
4. Provide guidelines for vendors/ suppliers

Engagement & incentive

5. Work with suppliers to come up with ESG initiatives
6. Create incentive programme to assist suppliers to realise expected standards and values
7. Supplier development programme (or other relevant initiatives)
8. Create external channel for feedback on suppliers

Data & reporting

9. Incorporate ESG in supply chain performance tracking
10. Collect ESG data from suppliers
11. Report supply chain sustainability KPIs
12. Have supply chain ESG data externally assured

Maturity scale

Category	Individual score	Composite score	Description
No data	0	-	No data
Informal	1	0 - 12	Nascent, informal and ad hoc
Emerging	2	13 - 24	Reactive and is largely compliance focused based on high risk areas
Structured	3	25 - 36	Trending towards risk management and capability development in product development operations and supply chain
Leading	4	37 - 48	Agenda is formalised, a strong foundation is set through policies standards etc. capacity building and performance is established
Strategic	5	49 - 60	Fully deployed value-driven and integrated into the culture, values, business processes, products and service transformation, and aligns with overall ESG strategy

The analysis process

Step 1: Identification

Determine reporting quality of information retrieved from latest annual reports/ company websites according to maturity scale.

Step 2: Summation

Total score for a company is the sum of scores across all criteria (all 12 criteria were equally weighted). The maximum score a single company can get is 60.

Step 3: Presentation

Charts in this report represent the presence of the criteria, regardless of maturity, in annual reports/websites which reflects company awareness.

Appendix: Bursa Top 100 profile

Figure 9: Count of Bursa Top 100 companies by sector

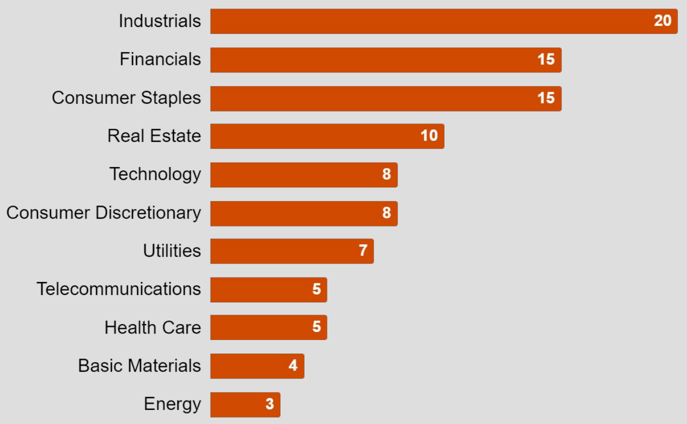


Figure 10: Market capitalisation distribution (in RM) of Bursa Top 100 companies by sector

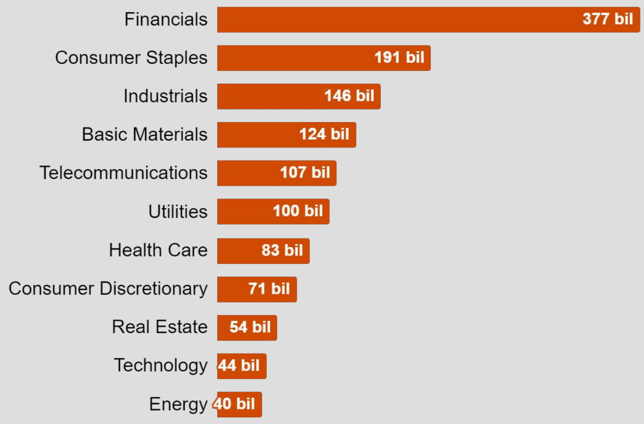


Figure 11: Count (%) of Bursa Top 100 companies by offering type

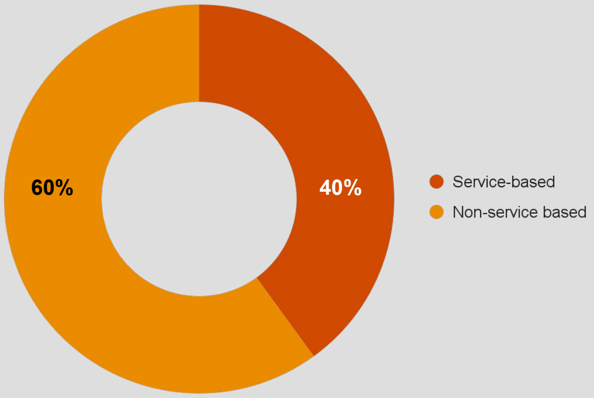
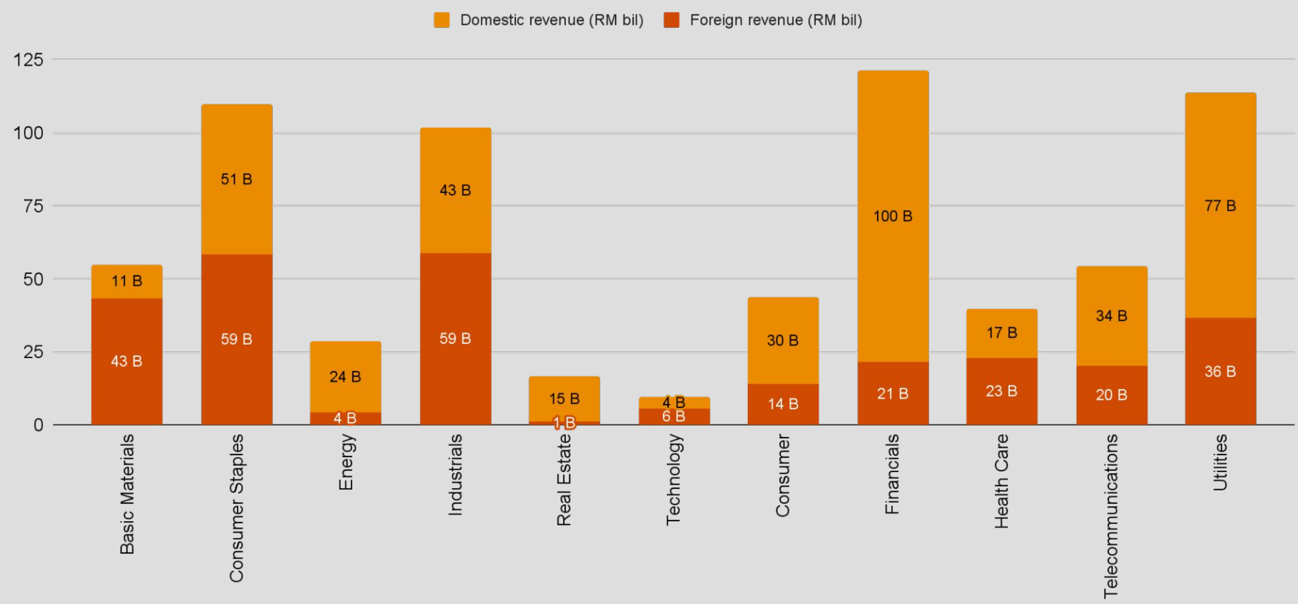


Figure 12: Distribution of revenue (in RM bil) of Bursa Top 100 companies by sector



Speak to us

Capital Markets Malaysia

Navina Balasingam

General Manager

Capital Markets Malaysia

navinab@seccom.com.my

Farina Farid

Head of Communications

Capital Markets Malaysia

farinaf@seccom.com.my

PwC

Nurul A'in Abdul Latif

Deputy Executive Chair

PwC Malaysia

nurul.ain.abdul.latif@pwc.com

Jeremy Prepscius

Managing Director, Asia Pacific Sustainable Supply Chain

PwC Hong Kong

jeremy.prepscius@hk.pwc.com

Andrew Chan

South East Asia's Sustainability and Climate Change Leader

PwC Malaysia

andrew.wk.chan@pwc.com

Redha Shukor

Partner, South East Asia, Sustainable Supply Chain

PwC Malaysia

redha.shukor@pwc.com