"It takes a community"

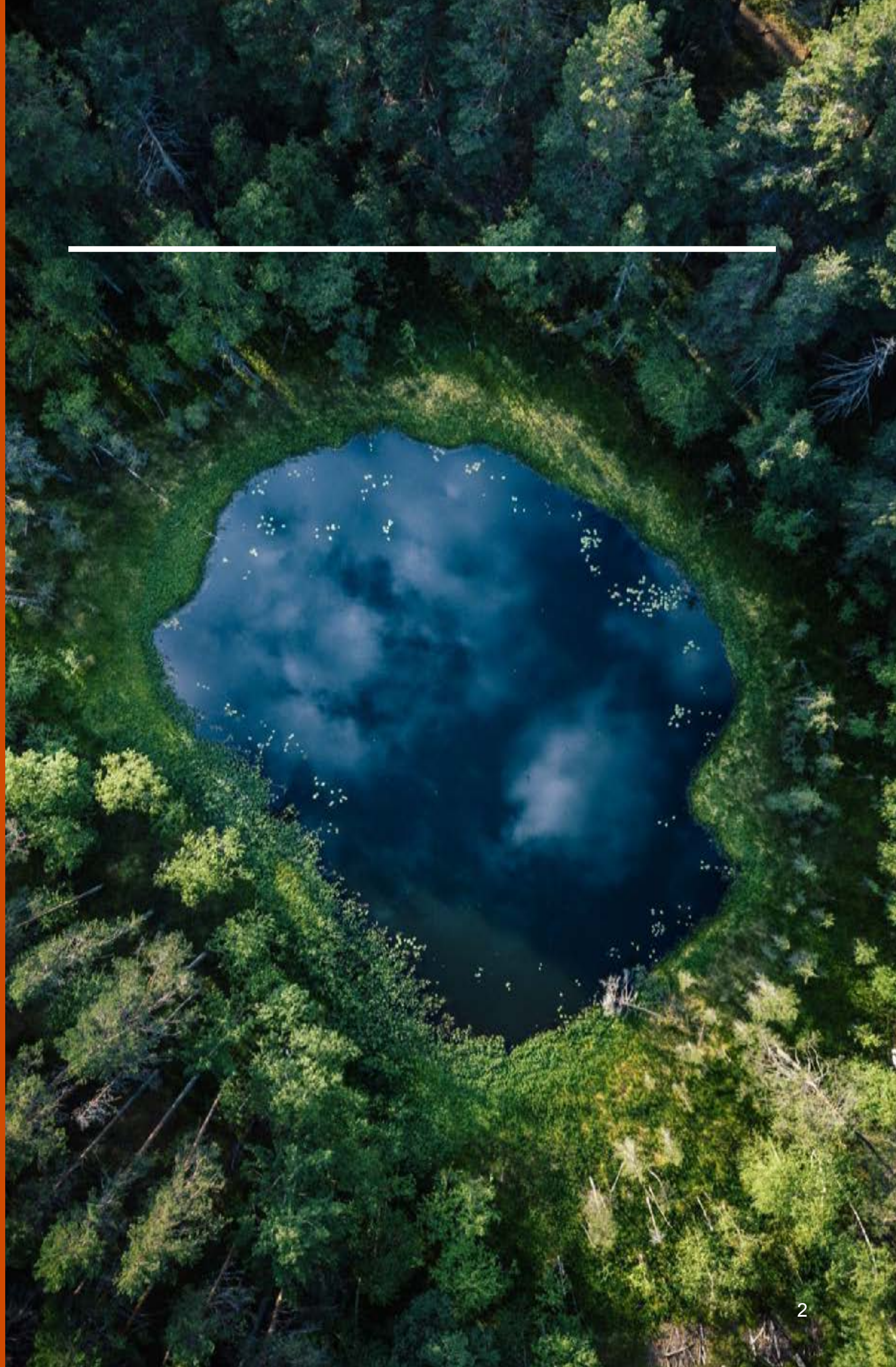
Enabling SME resilience in FMCG supply chains

An overview of stakeholder support needed to accelerate SME sustainability in Southeast Asia

pwc

CIIP Centre for Impact Investing and Practices

Table of contents



01 Introduction

Businesses in Southeast Asia face compounding issues of climate change, regulatory shifts and increasing economic pressures against the backdrop of global geopolitical uncertainties.

As businesses race to adapt to these changes, small and medium-enterprises (SMEs) within larger supply chains will need to manage the dual challenges of increasing client and regulatory expectations while addressing disruptive changes on the ground.

SMEs are often limited in resources and influence relative to multinational buyers (MNCs) and downstream stakeholders, yet their ability to adapt and thrive in the face of shifting external pressures is not just a matter of the survival of individual businesses but will ultimately determine the broader industry's collective resilience and sustainability.

The Centre for Impact Investing and Practices (CIIP) and PwC Singapore have collaborated to develop an introductory report to shed light on how SMEs in the fast-moving consumer goods (FMCG) sector from Indonesia, Malaysia and Singapore are perceiving and responding to sustainability-related challenges.

Drawing on consultations with small and medium-enterprises, larger corporates and civil society organisations, this overview seeks to cast a spotlight on the urgency of key sustainability-related issues in the industry and their potential impacts if not addressed. In addition, this report outlines principles and approaches for stakeholders to help strengthen supply chain resilience and sustainability.

The primary goal of this overview is to provide an introduction to the highly complex and multidimensional nature of the sustainability challenges that affect FMCG SMEs in Indonesia, Malaysia, and Singapore. Through this introductory report, we aim to identify key areas and efficiencies for further investigation and investment that will bridge the gap between the current capacity and future necessities of the industry in this region.

Forces affecting SMEs

Fast-moving consumer goods (FMCG), also known as consumer-packaged goods (CPG), refers to products that are in high demand, sold quickly and affordable.[1] Malaysia and Indonesia are significant actors in the global FMCG sector as producers of more than 80% of global palm oil,[2 3] an ingredient in approximately 60% of consumer goods.[4] The FMCG sector in Southeast Asia has historically been faced with persistent and complex challenges, such as deforestation and forced labour in palm oil plantations.[5 6] However, emerging issues like the cascading impacts of climate change threaten to cause lasting disruption to the industry.

In a 2023 study on the infrastructure needs of Southeast Asia, the Asian Development Bank (ADB) found that US$210 billion is required annually through 2030 for climate infrastructure investment.[7] In addition, research shows that in the most severe climate scenario, ASEAN markets could lose about 37% of GDP by 2048, with Indonesia, Malaysia, the Philippines, Singapore and Thailand likely to lose economic output totaling more than seven times their 2019 GDP by 2050.[8] These losses are attributed to, among other factors: losses in agricultural productivity due to changes in rainfall (both droughts and floods); catastrophic risks associated with extreme weather events, as well as their impact on labour productivity; and the cumulative adverse impacts on human health and ecosystems.[9]

A wave of new sustainability laws and regulations globally and in the ASEAN region has introduced more stringent sustainability requirements for large companies. As a result, supply chain producers in Southeast Asia will need to adapt and align with the new standards to maintain their business relationships.

These include sustainability reporting requirements—in laws and standards such as the EU Corporate Sustainability Reporting Directive (CSRD) and the International Sustainability Standards Board (ISSB) IFRS S1 and S2 standards, as well as broader supply chain human rights due diligence or commodity traceability and transparency obligations—in laws such as the EU Corporate Sustainability Due Diligence Directive (CSDDD) and the EU Regulation on Deforestation-Free Products (EUDR).[10 11]

Collectively, SMEs in the Southeast Asia region already face several barriers to market access and internationalisation such as a lack of internal capacity or trained personnel, costs associated with certifications (particularly in the agricultural sector) and the adverse impact of trade costs (fixed and variable) on smaller firms relative to larger exporters.[12] Further, economic recession and inflation is forecasted to result in a drop in global demand for manufactured exports from Southeast Asia in 2024.[13]

[1] Corporate Finance Institute. (2024). “Fast-moving consumer goods (FMCG)”.
[2] Mongabay. (2023). “Indonesia and Malaysia account for 85% of global palm exports...”.
[3] WWF Germany. (2021). “Unlocking Smallholder Finance for Sustainable Agriculture in Southeast Asia”.
[4] Sustainable Palm Oil Choice. (2023). “What Can Consumers Do?”
[5] IOP Science. (2019). “What causes deforestation in Indonesia”.
[6] Malaysian Sustainable Palm Oil. (2024). “Forced labour in the Malaysian Palm Oil Industry” (Extracted 2024)
[7] Asian Development Bank. (2023). “Greening Southeast Asia’s Infrastructure Pipeline”.
[8] Swiss Re (2021)”The Economics of Climate Change:Impacts for Asia”
[9] Asian Development Bank (2015) “Climate change losses for Southeast Asia well above previous estimate”
[10] PwC. (2023). “Integrate respect for human rights in your supply chain”.
[11] Protiviti. (2023). “Sustainability regulation: ESG disclosures and demand for accountability set the tone for the future”.
[12] Asia-Pacific Economic Cooperation. (2020). ”Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalisation”.
[13] Asian Development Bank. (2023). ”Asian Development Outlook, July 2023: Robust growth with moderating inflation”.

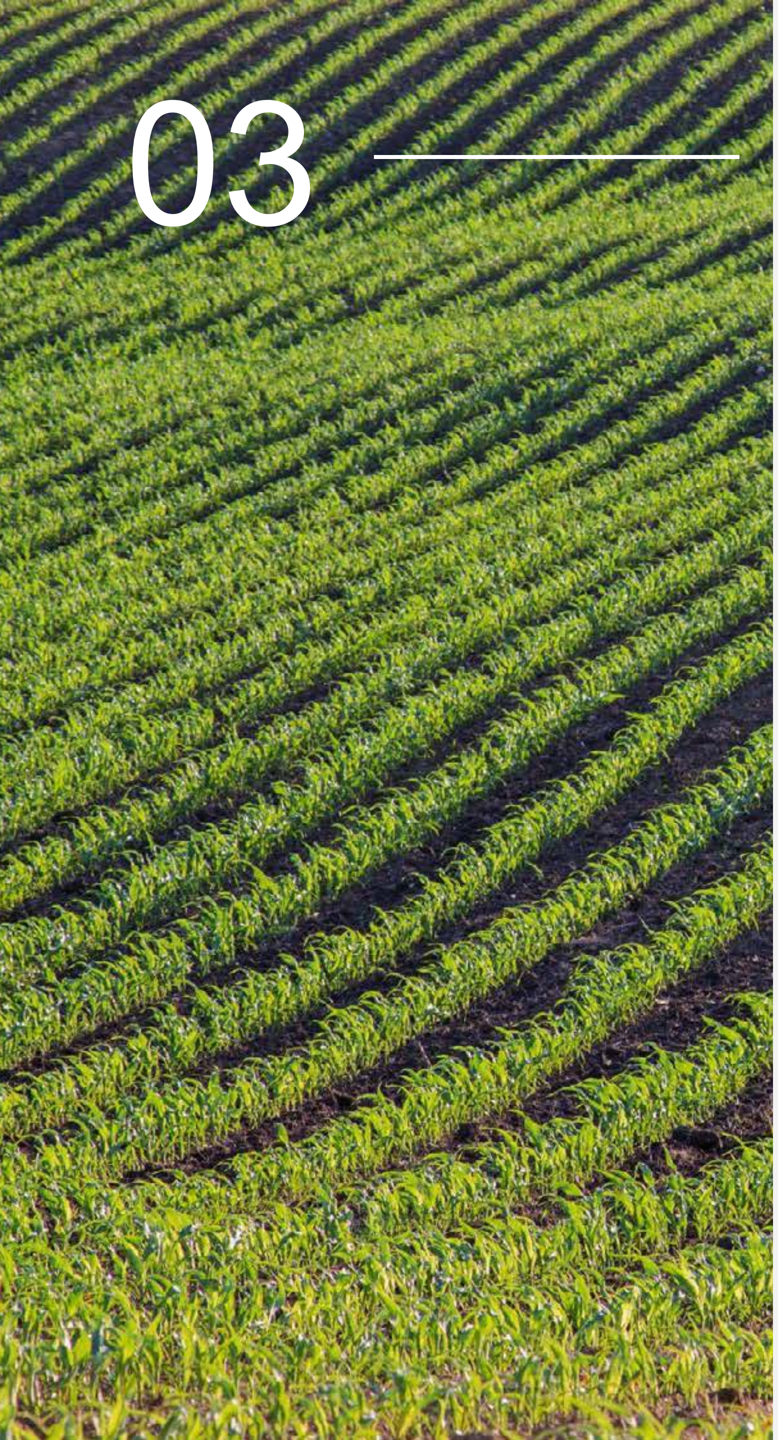
Methodology

PwC has conducted research on how small-medium enterprises in the FMCG sector in Indonesia, Malaysia and Singapore are perceiving and responding to challenges like climate change, regulatory shifts and economic pressures. The objective of this study is to understand, from the SME perspective, the resources, capacities and investments that are required to help bridge the gap between current practices and the future needs of sustainable supply chains in the region.

The sustainability risks faced by SMEs in the FMCG sector can vary widely depending on where they operate, the commodities they trade in and the services they provide. The intention of this overview is not to comprehensively document the material sustainability issues affecting the sector, but rather to identify the common drivers and enablers experienced by different types of stakeholders across the FMCG supply chain.

PwC Singapore engaged with ten stakeholders to gather perspectives from SMEs, multinational corporations, non-profit organisations and other FMCG actors in Indonesia, Malaysia, and Singapore, representing different parts of the FMCG value chain, including: producers, aggregators, processors and distributors. The consultations were conducted in the form of semi-structured interviews with questions that addressed internal capacity needs, management controls, incentives and disincentives to sustainable business practices, and opportunities for engagement and investment.

The intended audiences of this introductory report include both SMEs in the FMCG sector as well as their key stakeholders, such as MNC buyers, investors and regulators. This overview seeks to amplify the SME perspective to better enable ecosystem actors like MNCs, investors, governments entities and industry organisations to support sustainability integration in SMEs and collectively design solutions for more sustainable and resilient supply chains within the FMCG sector.



Supply chain context

The FMCG sector covers a vast and diverse category of consumer goods, involving a complex network of supply chain stakeholders, including raw materials suppliers, manufacturers, distributors, retailers and logistics providers. FMCG covers commodities like food and beverage, home care and personal hygiene products. Within the countries covered in this overview, food, beverage and agriculture products represent the majority of the FMCG sector. This section provides a general overview of the various supply chain stakeholders involved at different points in the FMCG value chain, the types of services they provide and some common business challenges they face.

Production

Production involves farming activities for agricultural produce, as well as the extraction or production of raw materials like oils, grains or other basic ingredients that are used in consumer products.

The SME stakeholders involved in production include farmers and farmers' organisations, co-operatives, and companies that invest in land and directly manage farms. These stakeholders are required to balance productivity with sustainable environmental practices and can face fluctuating input prices and inconsistent output. For example, overall production cost increases due to shifting weather patterns. Currently, there are over 70 million small family farms in Southeast Asia.[14] In addition, Southeast Asia has become the world's largest exporter of several agricultural commodities.[15]

Aggregation

Aggregation involves the consolidation of these materials from multiple small-scale producers or suppliers so that they can be transported in bulk to the processing and manufacturing facilities.

These services are typically provided by larger-scale farm operators, wholesalers and transportation companies. These stakeholders often deal with challenges relating to quality consistency, cost-effective transportation and timely logistics.

Processing and manufacturing

At this stage, the aggregated raw materials undergo processing to be transformed into finished products. Processing may involve cleaning, refining or combining different ingredients, whereas manufacturing involves the actual production of final consumer goods, which are then packaged and prepared for distribution.

This stage can be complex and multi-layered, and SME stakeholders are required to keep up with technological advancements for efficient production, ensure that they are adhering to various health, safety and environmental regulations, and are responsible for ensuring quality control and uniformity in products.

Distribution and retail

The final step in the FMCG value chain involves the transportation of manufactured goods to various distribution centres and retail outlets. These stakeholders include logistics providers and distributors, warehousing, traders and retail companies.

Distribution stakeholders are required to manage complex logistics operations to ensure timely delivery of goods, as well as guarantee to their retail customers that all goods meet the necessary quality control, regulatory compliance and sustainability performance standards (as applicable).

Across the supply chain, sustainability issues relating to land usage, labour practices, traceability, financing and reporting may arise and will be explored in the following chapters.

[14] GrowAsia. (2020). "Driving AgriTech Adoption: Insights from Southeast Asia's Farmers".
[15] WWF Germany. (2021). "Unlocking Smallholder Finance for Sustainable Agriculture in Southeast Asia".

04

Country context

Overview

Indonesia, Malaysia and Singapore each have unique environmental, social and governance landscapes that present their own sustainability challenges and opportunities. This section provides a high-level overview of the key regulatory trends, SME economy, FMCG sector footprint and salient sustainability issues that are specific to each country.

Indonesia

SME economy and FMCG sector

The SME economy in Indonesia is one of the largest in the world. According to an APEC 2020 study, there are more than 64 million SMEs in Indonesia, making up 99.99% of the share of total enterprises. SMEs in Indonesia contribute a 61% share towards the country's total GDP and 14% of the country's total export value (excluding the oil and gas sector).[16] The FMCG sector is dominated by agricultural production and food processing, which are the main SME industries in Indonesia and approximately 43% of all SMEs are involved in the food products manufacturing industry,[17] which contribute to the overall FMCG industry. In addition, approximately 29% of the country's workforce is employed in agricultural production.[18] Indonesia is a leading global producer of palm oil, pulp and paper, cocoa and rubber.[19]

[16] APEC Policy Support Unit. (2020). "Overview of the SME sector in the APEC region: Key issues on market access and internationalisation".
[17] APEC Policy Support Unit. (2020). "Overview of the SME sector in the APEC region: Key issues on market access and internationalisation".
[18] International Labour Organisation. (2022). "Indonesia: The employment – environmental –climate nexus".
[19] CIA World Factbook. (2024). "Indonesia: Economy".

Key supply chain sustainability issues

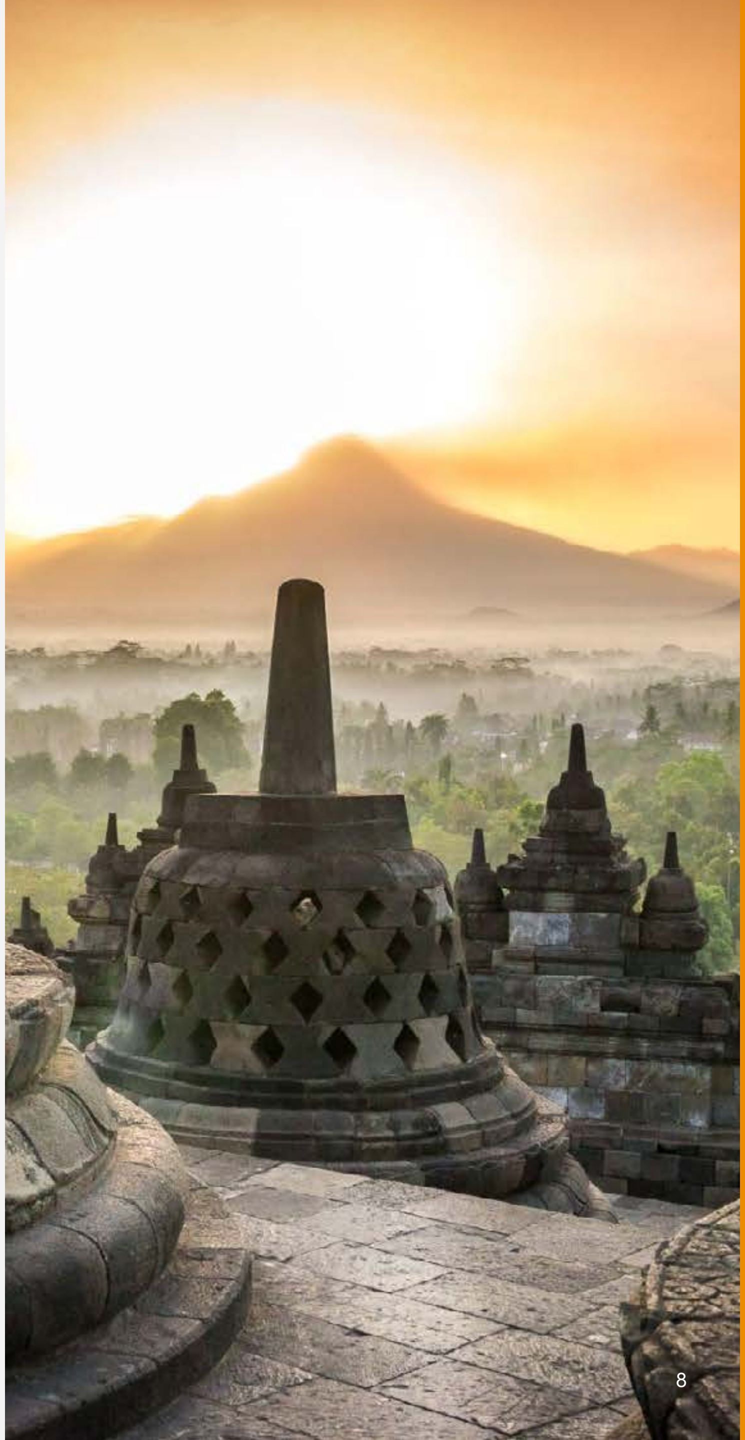
Within the FMCG value chain, Indonesia faces a range of environmental and social issues that are likely to disproportionately affect SMEs, given their significant role in the supply chain. For instance, in the palm oil sector alone, smallholders control almost half of the total plantation area, with this share expected to increase to 60 percent by 2030.[20]

Pertinent sustainability issues include climate change impacts, specifically, those related to food insecurity and natural disasters such as flooding and drought.[21] Deforestation and environmental degradation linked to the palm oil, rubber and pulp production industry is also a significant concern, and the corresponding soil erosion can exacerbate the impact of flooding and other climate related natural disasters.[22] Labour issues, including migrant worker rights, child labour and forced labour, are prominent in the FMCG sector,[23] as well as ongoing historical disputes over land tenure in agricultural production.[24]

Regulatory drivers and incentives for sustainability

Food security and supporting the agricultural sector workforce is a key policy thrust of Indonesia's Ministry of Agriculture's Strategic Plan 2020-2024. The plan includes engaging with local stakeholders on climate impacts, standardising and certifying agricultural professions, and increasing production and strategic food capacity through superior seeds and farming practices.[25] Indonesia also provides non-cash food assistance to 15.6 million beneficiaries through the Sembako programme.[26] As part of the UN Food Systems Summit, Indonesia has also committed to implementing all the principles of the Food Systems Summit Dialogues (FSSD), which includes doubling the agricultural productivity and incomes of small-scale food producers by 2030.[27] The Government of Indonesia supports SMEs with exhibitions and international certification facilities run by the Ministry of Cooperatives and SMEs (MCSME), as well as fiscal incentives through collaboration with the Directorate General of Customs and Excise (DJBC).[28]

[20] WWF Germany. (2021). "Unlocking Smallholder Finance for Sustainable Agriculture in Southeast Asia".
[21] Asian Development Bank. (2021). "Climate risk country profile: Indonesia".
[22] Earth.Org. (2022). "Vanishing Act: Deforestation in Indonesia"
[23] International Labour Organization. (2021). "Indonesia to focus its child labour programme in rural area".
[24] UN FAO. (2020). "A review of land tenure issues and options for the future - FAO Indonesia report".
[25] FFTC-AP. (2020). "Strategic Plan of the Indonesian Ministry of Agriculture 2020-2024."
[26] The Coordinating Ministry for Economic Affairs, Indonesia (Kementerian Koordinator) (2020) "Brief of Sembako Program"
[27] Summit Dialogues. (2021). "Indonesia Strategic National Pathway For Food Systems Transformation."
[28] OECD and Economic Research Institute for ASEAN and East Asia. (2018). "SME Policy Index: ASEAN 2018."



Malaysia

SME economy and FMCG sector

SMEs play a significant role in Malaysia's economy, contributing to 38% of Malaysia's national GDP and employing 48% of the workforce.[29] The majority of the SME workforce in Malaysia is employed within the agriculture and food manufacturing sectors (accounting for around 42% and 45% of Malaysia's SME workforce, respectively).[30] Palm oil and palm oil-based agricultural products comprised 4% of the country's export products in 2019, whereas the food processing sector comprised approximately 10% of the country's manufacturing output.[31] Malaysia is the second-largest producer of palm oil in the world while also being a major producer of rubber and rice.[32]

Key supply chain sustainability issues

Within the FMCG value chain, Malaysia is vulnerable to a combination of environmental and social issues. Flooding is a key environmental issue that affects the entire FMCG value chain, including both agricultural production, and food processing and manufacturing operations.[33] The impact and frequency of flooding is further exacerbated by issues such as logging in rural areas as well as the rapid urbanisation of population centres.[34] Within the social realm, the key sustainability issues within the FMCG value chain consist of labour rights issues including forced labour, child labour, and migrant worker rights issues.[35] Food security is another key social issue, as Malaysia depends on imported goods for key commodities such as rice.[36]

Regulatory drivers and incentives for sustainability

There are several key areas of sustainable supply chains that are being focused on from a regulatory perspective, within both agriculture, and food processing and manufacturing. Food security is a key concern for the Malaysian government, which has implemented strategic plans such as the National Agrofood Policy that aims to safeguard national food security through modernisation and smart agriculture practices.[37] National budget plans also provide incentives such as 100% income tax exemptions on capital expenditure for technology within the agriculture sector as well the implementation of an Agricultural Protection Scheme which aims to protect entrepreneurs from out-of-control risks, such as weather and pests.[38] Policies and regulations are also being implemented to alleviate labour risks within the FMCG value chain, including the Foreign Worker Recalibration Programme, which aims to legalise undocumented migrants within the country to allow employment by qualified employers.[39]

[29] Department of Economy, Department of Statistics Malaysia. (2022). "Micro, small and medium enterprises (MSMEs) performance."
[30] Department of Economy, Department of Statistics Malaysia. (2022). "Micro, small and medium enterprises (MSMEs) performance (Extracted 2024)
[31] Flanders Investment & Trade. (2020). "Food and beverage industry report, Malaysia 2020".
[32] USA International Trade Administration. (2024). "Malaysia - Country commercial guide, Agricultural sector".
[33] Butler, R. A. (2015). "High Deforestation rates in Malaysian States hit by flooding".
[34] World Bank data (2022) "Urbanisation rate in Malaysia"
[35] Lee, Liz, Mei Mei Chu, and A. Ananthalakshmi. (2021). "Malaysia's Labour Abuse Allegations a Risk to Export".
[36] Zalani, A. (2023). "Malaysia at risk of short-term food insecurity".
[37] Minister of Agriculture and Food Industries. (2021). "National Agro-Food Policy 2021-2030".
[38] Business Today. (2022). "Budget 2023 Strengthens the National Food Security Agenda".
[39] Bernama. (2023). "Foreign Worker Recalibration Programme Extended Another Year."

Singapore

SME economy and the FMCG sector

Similar to Malaysia and Indonesia, SMEs account for the majority of Singapore's business enterprises and provided employment to more than 71% of Singapore's workforce in 2018.[40] Small and medium-enterprises make up the majority of FMCG-adjacent sectors such as wholesale trade, retail trade, transportation and storage, and food and beverage services.[41] [42] Notably, Singapore is also host to several major global FMCG regional hubs such as Unilever, P&G, Coca-Cola and L'Oreal,[43] [44] and their key activities include procurement, warehousing, distribution, human resources and R&D. In 2021, Malaysia and Indonesia were part of Singapore's top five importing countries for consumer goods, comprising an import partner share in Singapore of 18% and 6% respectively.[45] This demonstrates Singapore's high degree of reliance on regional supply chains for satisfying the demand of the local market.

Key supply chain sustainability issue

Key risks for FMCG SMEs in Singapore relate to the upstream supply chain risks associated with sourcing from countries with lesser social and environmental protections. From an environmental perspective, Singapore ranked 44 out of 180 countries in the 2022 Yale Environmental Performance Index (EPI), second only to Japan in the Asia-Pacific (APAC) region, based on 11 indicators covering three policy objectives.[46] In contrast, the APAC region was the third lowest performing region in the EPI.[47] Labour rights are generally understood to be strong in Singapore, including legal right to freedom of association and collective bargaining,[48] although specific elements of the employer sponsorship system may need further consideration and focus as regulations tighten.[49]

As such, risks for FMCG SMEs in Singapore include the upstream supply chain risks associated with sourcing from countries with lesser social and environmental protections.

Regulatory drivers and incentives for sustainability

Aligned with Singapore's sustainability efforts as outlined in the Singapore Green Plan 2030,[50] companies listed on the Singapore Stock Exchange are currently required to provide sustainability-related disclosures on a 'comply or explain' basis. In addition, climate reporting is mandatory for issuers in industries such as the agriculture, food and forest products industry in 2024. The Singapore Stock Exchange is undergoing a public consultation to amend its listing rules to enhance the requirement from a 'comply or explain' basis to a mandatory basis.[52] In the food sector, Singapore has established a 30 by 30 goal, aiming to build the country's agri-food industry's capability and capacity to sustainably produce 30% of the country's nutritional needs by 2030.[53] Singapore SMEs are supported with overseas expansion by Enterprise Singapore, which has a network of 36 overseas centres in 21 economies and which launched the Global Innovation Alliance (GIA) in 2017 to strengthen Singapore's connection to major innovation hubs around the world.[54]

[40] APEC Policy Support Unit. (2020). "Overview of the SME sector in the APEC region: Key issues on market access and internationalisation".
[41] Singapore Department of Statistics/ (2022). "Enterprise Landscape of Singapore's Services Sector"
[42] Business Times. (2022). "Shipping new products attracting foreign traders among Singapore routes to trade 2030 goals".
[43] EDB.gov. (2024). "Nestle".
[44] EDB.gov. (2024). "Consumer businesses".
[45] World Bank data.
[46] Environmental Performance Index. (2022). "2022 EPI Results".
[47] Environmental Performance Index. (2022). "2022 EPI Results".
[48] US Department of State. (2022). "2022 Country Reports on Human Rights Practices: Singapore".
[49] US Department of State. (2022). "2022 Country Reports on Human Rights Practices: Singapore".
[50] Singapore Green Plan 2030. (2024). "Singapore Green Plan 2030".
[51] "Sustainability Knowledge Hub - Singapore Exchange (SGX)." (2024) Singapore Exchange - Singapore Exchange (SGX).
[52] "Sustainability Reporting - Singapore Exchange (SGX)." (2024). Singapore Exchange - Singapore Exchange (SGX).
[53] Our Food Future. (2024). "30 by 30."
[54] Enterprise Singapore. (2024). "Global Innovation Alliance (GIA)."

The impact of global regulatory trends on SMEs

In most cases, SMEs will not fall within the direct scope of global sustainability laws and regulations that govern supply chain due diligence, transparency and reporting requirements. However, they may be indirectly included through the stakeholders in their downstream value chain.

For example, multinational buyers who are required to disclose their Scope 3 greenhouse gas (GHG) emissions may in turn ask their SME suppliers to provide data on their Scope 1 and Scope 2 GHG emissions. Scope 3 GHG emissions refer to indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.[55]

Within the region, Scope 3 disclosures will be required for listed companies and large non-listed companies in Singapore from FY 2026 and no earlier than FY2029 respectively.

These recommendations are based on the ISSB IFRS S2 Climate-related sustainability disclosures standard. While there are not currently any Scope 3 disclosure requirements in Indonesia or Malaysia, the Institute of Indonesia Chartered Accountants has established a taskforce to support the implementation of the IFRS S2 standard, and the Malaysia Advisory Committee on Sustainability Reporting (ACSR) launched a public consultation on the standard in early 2024.[56] [57]

While large companies typically have oversight of their Scope 1 (Direct) and 2 (Indirect, purchased energy) emissions, Scope 3 (Indirect value chain) emissions present a challenge as they require value chain actors to develop measurement and reporting capabilities. As a result, smaller players could end up being dropped from global supply chains due to the level of business transformation required by sustainability regulations like the ISSB IFRS S2 standard.

The international sustainability frameworks upon which sustainability reporting standards are based, are increasingly being integrated into regulations that target specific types of businesses or sectors. For example, the OECD Guidelines for Multinational Enterprises[58] are expressly referred to in both the EU Sustainability-related financial disclosure regulation (EU SFDR)[59] as well as the forthcoming EU Corporate Sustainability Due Diligence Directive (EU CSDDD).[60] There is a clear regulatory trend of convergence of sustainability standards that will both flow upwards from the real economy as well as trickle down from the financial sector.

[55] GHG Protocol (2024). "FAQ".
[56] Saptano et al. (2023). "Development of Climate-Related Disclosure Indicators for Application in Indonesia". MDPI.
[57] ACSR. (2024). "Public Consultation Paper: Proposed National Sustainability Reporting Framework".
[58] OECD Guidelines for Multinational Enterprises. OECD.
[59] Regulation 2019/2088 - EN - Sustainability-related disclosures in the financial services sector. (2019). EUR-Lex.
[60] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937. (2022). EUR-Lex.

Notable sustainability regulations with potential impacts on SME value chain partners

Illustrative and non-exhaustive

	EU Regulation on deforestation-free product [58]	ISSB IFRS S1 and S2 sustainability disclosure standards [59]	EU Corporate Sustainability Reporting Directive (EU CSRD) [60]
Sustainability requirements	Cattle, cocoa, coffee, palm oil, rubber, soya and wood exporters to the EU must prove that their products are deforestation-free before selling to EU member states. Includes social dimensions such as labour rights, human rights and the principle of free, prior and informed consent relating to the rights of indigenous peoples.	Subject to jurisdictional enforcement, applicable entities are required to disclose sustainability-related and climate-related risks and opportunities on the entity's business model and value chain, and related metrics.	Companies are required to report according to the European Sustainability Reporting Standards (EFRS), as well as assure this information, which involves the identification and disclosure of sustainability matters with material impacts, risks and opportunities within their own operations and value chain, through its products/services and business relationships. Includes social and human rights dimensions consistent with the UN Guiding Principles on Business and Human Rights.
Timeline for enforcement	Large and medium enterprises must comply from 30 December 2024; small and micro undertakings must comply by 30 June 2025.	Subject to jurisdictional enforcement; in Singapore listed issuers will be required to report from FY2025, followed by large non-listed companies from FY 2027.	Effective for large Public Interest Entities (PIEs), EU listed companies, large non-listed EU companies and EU parents of large groups from as early as FY2024; and non-EU parent companies meeting certain criteria will be required to report from FY2028.
Expectations on upstream supply chain partners	Upstream SME suppliers will be expected to provide product traceability documentation that includes quantity, supplier, country of production and the exact geolocation coordinates of the plots of land where the commodities were sourced.	Upstream SME suppliers who are part of the value chain of a large company in the scope of IFRS S1 and S2 standards may be required to provide sustainability-related performance data, including Scope 1 and Scope 2 GHG emissions data.	Upstream SME suppliers who are part of the value chain of a company in the scope of CSRD may be required to provide detailed information on environmental, social and governance performance, including Scope 1 and Scope 2 GHG emissions data.

[61] "Regulation 2023/1115 – EN – Deforestation Free Products". (2023). EUR-Lex.
[62] "IFRS Sustainability Disclosure Standards." (2023). IFRS.
[63] "Directive 2022/2464 - EN – CSRD Initiative". (2022). EUR-Lex.

The SME perspective

Insights reflected are based on engagement with value chain actors, highlighting their perceptions of drivers and enablers of sustainability in the sector.

"It takes a community to raise an SME" -
A systems approach to sustainability through relationships built over time

Drivers:
Factors that are pushing SMEs to adapt and innovate.

Regulatory change
- Sustainability-related regulations are changing SMEs' operating context
- Sustainability reporting requirements are increasingly demanding
- Bridging the data gap will require collective efforts

Resilience
- Climate change is a known risk but climate resilience is not yet a collective priority
- The sector may be unprepared for the impact of climate change on supply chain infrastructure

Enablers:
Resources, strategies or conditions that can facilitate or support SMEs in implementing sustainable business practices and in overcoming barriers to sustainability.

Circularity enables value enhancement and can be supported by multinational corporations

Capacity building efforts must be sensitive to the unique needs of different types of SMEs in order to suit their specific needs

Financial inclusion requires innovative solutions to address current barriers to access

Landscape approaches avoid duplication of efforts and enable community resilience

Cross-cutting principles:
Overarching themes that intersect various aspects of sustainability and which offer a holistic approach to addressing the challenges faced by SMEs.

Stakeholder buy-in is essential for success

Sustainability challenges may also present opportunities

Long-term relationships are key

Overview

PwC engaged with SMEs, multinational buyers and non-profit organisations to gain a range of perspectives on the key sustainability risks, gaps and opportunities facing the FMCG sector in Singapore, Indonesia and Malaysia. The insights from the interviews form the basis of the findings and key takeaways in this report, ensuring that they are practical and applicable to SMEs first and foremost.

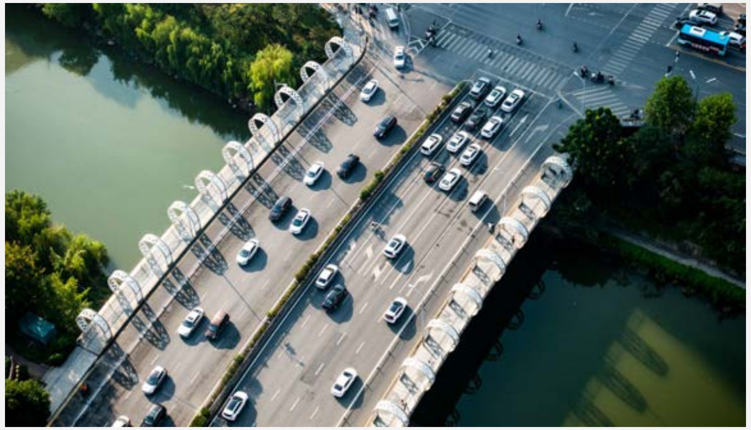
Through speaking directly with stakeholders in the FMCG value chain, this study proposes a set of drivers, enablers and cross-cutting principles that will enable the integration of sustainable practices for SMEs. The underpinning message is that it will take a systems approach to enable sustainable practices, and this should be done through long-term relationships with SMEs.

Insights from the stakeholder consultations broadly address three key areas:

Drivers: Factors that are pushing SMEs to adapt and innovate.

Enablers: Resources, strategies or conditions that can facilitate or support SMEs in implementing sustainable business practices and in overcoming barriers to sustainability.

Cross-cutting principles: Overarching themes that intersect various aspects of sustainability and which offer a holistic approach to addressing the challenges faced by SMEs.



1. Drivers: Factors that compel or motivate SMEs to adapt and innovate

Impacts of regulatory change

Sustainability-related reporting requirements have rapidly increased in recent years. Numerous jurisdictions and countries are accelerating their sustainability efforts, resulting in greater expectations of businesses to integrate and report on their sustainable business practices.

Sustainability-related regulations are changing SMEs' operating context: Evolving regulations, such as the EU Regulation on Deforestation-free Products (EUDR), were found to be a major concern for stakeholders across the FMCG supply chain.

Sustainability reporting requirements are increasingly demanding: Major shifts in sustainability reporting requirements have increased the reporting burden of large companies, which creates a knock-on effect on SMEs who need to supply the data required by their buyers for meeting their reporting compliance obligations. Compounding this, larger stakeholders have reflected that they face country-specific reporting challenges such as shifting goalposts from evolving regulations.

Bridging the data gap will require collective efforts: Stakeholders interviewed for this study reported that the new reporting regulations take for granted that upstream SMEs are willing or able to share data, a requirement that poses challenges in practice. In countries where governments have emissions reporting requirements, SMEs that are part of the supply chain of larger clients will fall under the Scope 3 emissions reporting boundary and are therefore increasingly expected to report their own Scope 1 and 2 emissions. Many SMEs will require capacity and skills development to be able to keep pace with these new reporting requirements. Several stakeholders interviewed for this introductory report shared a concern of the risk of losing business with larger customers who have ambitious decarbonisation goals if they are unable to accurately track with their own emissions data.

> **"Changing global and local regulations like the EUDR and the upcoming SGX ISSB requirements are shifting goalposts and require a lot of effort and capacity building to prepare for"**
>
> Danny Chua, Group Sustainability Team Lead, Mewah Group

> **"Large clients with ambitious climate goals require SMEs to report emissions and reduction plans. At this moment, many SMEs don't have the capacity to provide this information and risk being left behind"**
>
> Nichol Ng, CEO & Managing Director, X-Inc Pte Ltd, FoodXervices

Resilience

At the same time as SMEs work to align themselves with new sustainability reporting requirements, they will also be forced to adapt to the realities of the impacts of climate change. Across the companies interviewed, there were differing perceptions of the actual risks of climate change as well as how best to respond to those perceived risks. This suggests that some actors may not be adequately prepared for the chronic or acute climate risks that are likely to affect the region. Related issues such as insurance premiums and business continuity planning are therefore additional areas that can be further explored

Climate change is a known risk, but climate resilience is not yet a collective priority: While stakeholders interviewed generally believe that climate change is likely to pose long-term issues such as water scarcity or flooding, there are limited collective efforts underway to prepare for such events. Some upstream stakeholders have stop-gap and ad-hoc measures such as creating water catchment areas as a buffer against water shortages, however these were not long-term measures designed to cope with extended droughts. Companies that were more advanced in their sustainability practices highlighted issues of longer drought seasons, limited access to water and irrigation, and knock-on impacts such as lowered productivity as significant impacts of climate change.

The sector may be unprepared for the impact of climate change on supply chain infrastructure: Given the strong likelihood of heatwaves, droughts and floods in Southeast Asia due to climate change, upstream SMEs are likely to face increasingly challenging conditions in the near future.[63] It is estimated that in 2020 alone, the overall disaster loss in Asia amounted to USD 67 billion and that growth in average annual disaster losses will outpace gross domestic product growth in the region.[64] However, the interviews revealed that there is currently limited understanding of climate-related physical risks on commodities and related territories, resulting in limited to no effort being made to develop adaptation measures to enable resilience in the face of extreme weather conditions. As companies may be limited in their ability to develop large scale adaptive infrastructure or relocate to more viable agricultural land, there is a potential for public-private partnerships to leverage interdependencies to future-proof various industries along the value chain.[65]

> **“El Niño is starting to hit Indonesia, with longer drought seasons, decreasing access to water and lower productivity, affecting both the farmers and large companies. However, the government and other actors have not yet provided approaches or strategies to address this”**
>
> Great Giant Foods

[64] IPCC. (2024). “Fact Sheet - Asia.”
[65] AIIB. (2023). “Investing in Technologies for Climate-Resilient Infrastructure in Asia”.
[66] AIIB. (2023). “Investing in Technologies for Climate-Resilient Infrastructure in Asia”.
“For example, satellite imagery and analytics can help utilities identify underground leaks in water infrastructure in increasingly drought-stressed areas, support agriculture produce in finding new sources of water and ensure food security. Computer modelling can help to predict and manage increasing risks from wildfire and tropical cyclones affecting energy infrastructure, exacerbated by rising temperatures”.

2. Enablers: Resources, strategies or conditions that can facilitate or support SMEs in implementing sustainable business practices and in overcoming barriers to sustainability

Circularity

Circularity enables value enhancement: Many of the stakeholders interviewed for this study are currently implementing or are exploring the feasibility of incorporating circular economy initiatives into their operations and business operating models. Circularity, or a circular economy, refers to 'a system where materials never become waste and nature is regenerated. In a circular economy, products and materials are kept in circulation through processes like maintenance, reuse, refurbishment, remanufacture, recycling, and composting. The circular economy tackles climate change and other global challenges, like biodiversity loss, waste, and pollution, by decoupling economic activity from the consumption of finite resources.'[66]

Throughout the supply chain, companies are using new methods to increase circularity by using waste as a resource. This includes agriculture companies leveraging cattle waste as organic fertiliser, distribution companies creating schemes to collect, process and use biodiesel, and FMCG companies using buyback models to decrease food and packaging waste. These efforts demonstrate the practical impacts of sustainability initiatives in creating additional sources of income, while creating unique opportunities for SMEs to differentiate themselves from competitors and appeal to more sustainability oriented customers.

Circular economy initiatives can be supported by multinational corporations: Circular approaches often require significant research and development, and therefore may be beyond the abilities of most SMEs to implement on their own.

MNCs can enable wider adoption of circular practices amongst SMEs in their supply chain by deploying their resources to conduct the necessary research and piloting.

Interventions to support circularity can include providing access to a repository of decision-useful information (e.g., on packaging materials) and opportunities for reuse, as well as increased opportunities and funding for collaboration with NGOs and other civil society organisations.

> **Understanding your company's value chain and local resources can help large companies make connections to identify circular approaches that can become alternative income streams for upstream producers"**
>
> Great Giant Foods

> **Examining current processes to identify areas of underutilised resources can pave the way for creating opportunities for circularity and collaboration, which can set small companies apart and become a value enhancer, especially attracting large clients who are looking for opportunities to become more sustainable"**
>
> Nichol Ng, CEO & Managing Director, X-Inc Pte Ltd, FoodXervices

[67] Ellen Macarthur Foundation. (2024). "Circular Economy Introduction".

Capacity building

Most supply chain stakeholders face critical skills and capacity gaps in adapting to the changing sustainability landscape and increasing reporting requirements. However, capacity building efforts must be sensitive to the unique needs of different types of SMEs in order to be effective: SME stakeholders noted specific capacity building and upskilling needs in the areas of sustainability reporting and disclosures, managing emissions and climate risks, e-commerce, marketing, traceability and circularity. However, creating avenues for sustainability education also requires active engagement to identify gaps that exist and how they can be filled. Ensuring that information and upskilling platforms are accessible and affordable to SMEs is key to their uptake and can help to better integrate sustainable practices along the supply chain.

Downstream FMCG stakeholders struggle with navigating fragmented and overlapping data requirements and certification criteria, and would benefit from investments in digital resources: Downstream SMEs interviewed for this study reflected that their clients often require certifications with data requirements that are challenging or even impossible for them to fulfil on their own. For instance, wholesalers and distributors may be asked to provide emissions data from suppliers within their supply chain that they have neither oversight of nor leverage over. Similarly, given the varying interest areas of client companies, SMEs are tasked with navigating a broad universe of varied certification standards and requirements (e.g., fair trade, organic, plastic-free packaging, etc.).

As such, given that SMEs have to provide key data points for their client's sustainability reporting, they need to be better equipped to provide accurate information.

Stakeholders such as large companies, governments or intermediaries can help to bridge the capacity building gap by supporting or investing in repositories of sustainability-related information, which can be leveraged by their suppliers to enhance their sustainability practices. This can include consolidating information on sustainability credentials or certifications, as well as accessible platforms for tracking emissions data.

> **"Digital platforms exist, but they need to present clear benefits to the SMEs in order for them to be willing to share their information to use the tools"**
>
> Global palm oil company in Indonesia

> **"As an SME, we can see consumer and client preferences for sustainability firsthand, but need support and information to become sustainable. SMEs currently have to navigate different certification requirements of clients, limited avenues and resources for sustainability upskilling and extensive research for sustainable alternatives, all in addition to actually running the business"**
>
> Specialty food SME in Singapore

Financial inclusion

Innovative solutions are needed to address current barriers to access to finance: From the upstream perspective, there are structural barriers inhibiting access to the financing that smallholders require to be able to adopt sustainable business practices. Structural barriers can include lack of formal landholding status – smallholders are often disincentivised from seeking formal certification due to tax requirements or ambiguity over historical land tenure. This prevents smallholders from being able to access traditional forms of financing from financial institutions or government platforms. Other significant issues include prohibitively high interest rates and collateral requirements.

True financial inclusion for SMEs requires tailored financing solutions as opposed to one-size-fits all products: Subject matter experts consulted for this study suggested that, aside from the risks associated with loans to smallholders, there is a significant knowledge gap where banks often do not have the sector or industry expertise to adequately set loan agreements or interest rates to reflect realities on the ground. In some instances, stakeholders reflected that large global banks tried to apply terms related to different commodities with vastly differing lifecycles, rendering them inapplicable.

Blended finance, for example, often falls short of SME stakeholder needs: While blended finance has gained traction in the sustainability field for its ability to leverage philanthropic funding to de-risk and mobilise private capital flows,[67] some stakeholders do not see it as a viable option to bridge the funding gap for SMEs.

Reasons for this include the constrictive funding conditions of Development Finance Institutions (DFIs) and other financing institutions, which have been found to be restrictive and difficult for smallholders to comply with. In addition, the pricing of the loan terms in some cases were found to not be as competitive as local banks, acting as a further disincentive.

Increasing the viability of such financing will require greater localisation, with reasonable criteria: One notable approach that emerged from the consultations was that bridging these financing barriers would include taking a multi-stakeholder approach to enabling financing. Some conveners have brought together companies, such as off-takers and guarantors for loans to enable more accessible financing for SMEs. Such approaches help to address the underlying limitations of traditional financing by leveraging existing networks to bridge the financing gap.

> “Public-Private partnerships are needed to fill the gaps in the financing system so that SMEs are able to access and leverage resources to improve their practices. Conveners need to be able to develop innovative approaches to bring stakeholders together for industry-wide improvements”
>
> PISAgro

[68] Javier Pereira (2017) “Blended Finance: What it is, how it works and how it is used”

Landscape approach

Landscape approaches are necessary to avoid duplication of efforts and enable community resilience: Given the vital role of agriculture as the critical upstream industry of the FMCG sector, resilience in agricultural production will be critical for the sustainable production and supply of FMCG products and services more broadly. Landscape approaches refer to taking a more holistic and inclusive view of the area of production instead of relying on singular company-specific initiatives to address issues within only their own supply chain or area of operations.

Drawing from the theory of Japan's One Village, One Product,[68] and Thailand's One Tambon, One Product [69]–where effort is taken at a village level to develop specific industries, with help from the government and private sector to develop products and seek new markets–some stakeholders suggested pooling resources to address persistent challenges of traceability and deforestation. A multi-stakeholder landscape approach, including the mapping of smallholders and monitoring of farming practices, can reduce the duplication of efforts by large companies, and help to centralise oversight and knowledge dissemination. This should also involve efforts to understand the needs, vulnerabilities, and gaps of SMEs and their surrounding communities.

> **"Taking a landscape approach to industry-wide issues can help to minimise the current duplication of efforts and enable collaboration while developing greater trust in the communities"**

Global palm oil company in Indonesia

[69] Miyazaki Masayuki. (2024). "JICA Economic Development Department; OVOP (One Village, One Product Movement) expanding over the world- aiming for community revitalization".
[70] Asian Productivity Organization. (2024). "One Tambon, One Product Movement".

3. Cross-cutting principles: Overarching themes that intersect various aspects of sustainability, and which offer a holistic approach to addressing the challenges faced by SMEs

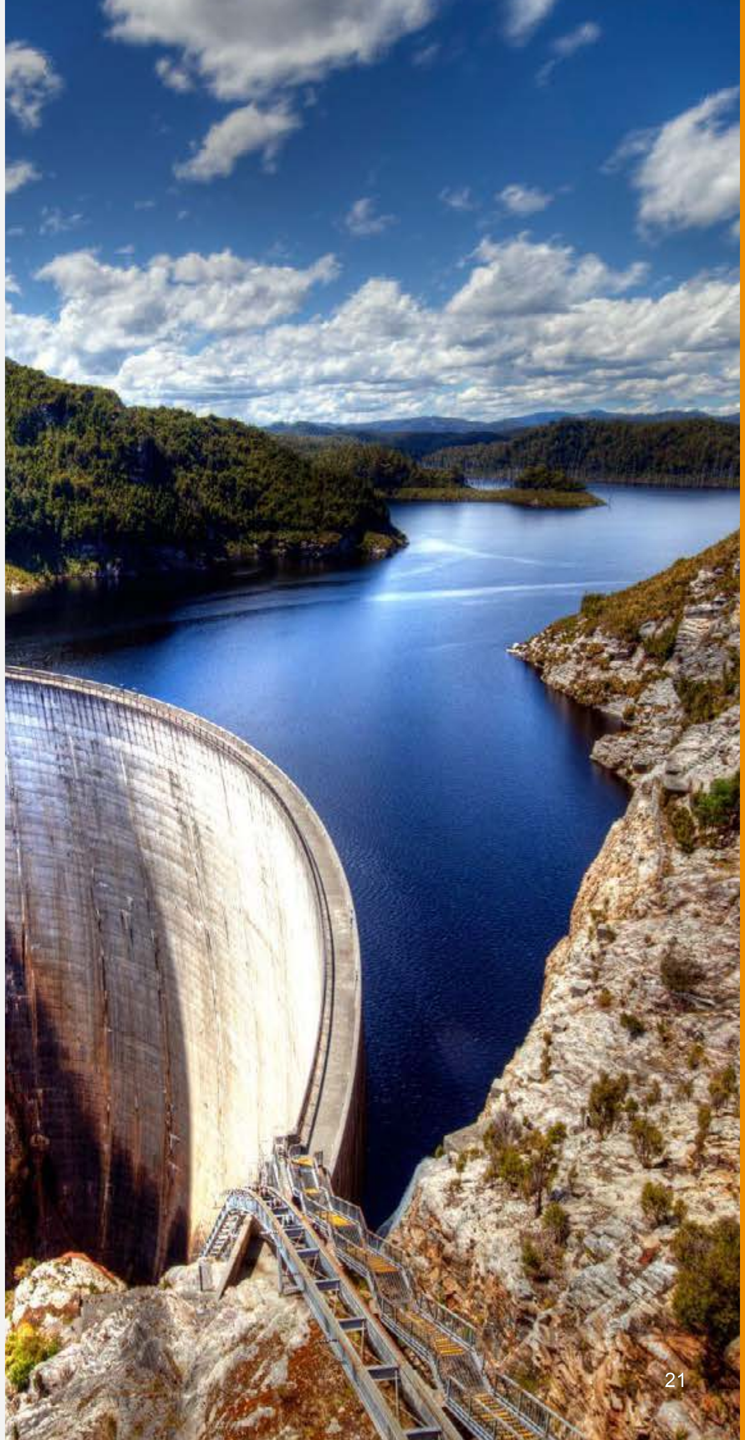
In exploring the various drivers and enablers of sustainability with ecosystem actors, several overarching themes emerge that could help frame multi-stakeholder approaches to sustainability integration.

Stakeholder buy-in is essential for success

Digitisation was identified by multiple stakeholders as one area, in particular, that must be stakeholder-driven if it is to be effective. Initial desk research covering this area indicated that a major hurdle to integrating sustainability in upstream practices was insufficient digital infrastructure. However, the stakeholder interviews indicated that, while digital infrastructure in countries like Indonesia and Malaysia is improving, the barrier to the use of digital tools is often more behavioural than infrastructure-related.

For instance, one interviewee reflected that, as a large company, they encouraged smallholders to use digital platforms to monitor and report crop yields and other data. However, smallholders were reluctant to use the platforms and preferred traditional methods.

Similarly, in efforts to increase traceability, another large company tried to use mobile apps to track landholdings and ownership but later discovered that farmers were sometimes unwilling to provide those data points. In some cases, this was due to ambiguity in the legality of landholdings, while in others, farmers seeking to work for different companies preferred not to share the data due to privacy concerns.



Sustainability challenges may also present opportunities

Friction faced by SMEs in integrating sustainable business practices presents opportunities for interventions: Given the rapidly increasing sustainability expectations of clients as well as the real-world challenges caused by climate change, SMEs should not be expected to integrate sustainable practices without external support. The interviews demonstrated that successful interventions need to address significant areas of friction faced by SMEs, which can also create opportunities for growth and development.

For instance, as sustainability compliance requirements are viewed as a burden by SMEs, who often lack the resources to align with them adequately, an opportunity to address this issue could be the creation of a central repository for sustainability-specific supplier disclosures that can reduce duplicated efforts through digital tagging and filtering. An intervention like this can help to address information gaps and reduce the reporting burden on SMEs, while enabling access to improved quality data for their customers. In addition, the standardisation of disclosure requirements and indicators by large companies would decrease the need for duplicative reports to different buyers and financiers. Similarly, as mentioned previously, friction caused by inaccessible financing creates the opportunity for the development of different models of financing that could stimulate industry-wide improvements.

Long-term relationships are key

The downstream business partners of SMEs should prioritise building long-term relationships that foster trust in order to adequately understand and address their suppliers' challenges and concerns: A crucial finding of this study is that top-down interventions without a sound contextual understanding are ineffective in the long-term. While regulatory developments are placing pressure on companies to report sustainability metrics, actual integration and implementation of sustainable practices requires stakeholder buy-in and long-term approaches.

Downstream actors who wish to enable the shift towards a more sustainable supply chain will need to build relationships and foster trust with upstream SMEs over time in order to fully understand the challenges facing them and the broader industry. In this way, companies will be able to identify solutions that effectively address the root causes of sustainability challenges and barriers. Working together with other key stakeholders in the ecosystem, such as local governments, large corporations, investors and local communities, will be essential to designing and implementing effective interventions.

Concluding observations

The overarching finding of these consultations is that a concerted systems approach is needed to equip SMEs with the sustainable business practices that will be required for long-term resilience. No single business can address the existing and emerging complex sustainability challenges in isolation. To effectively mitigate and/or adapt to these complex issues, SMEs and their business partners must prioritise collaboration within and between all ecosystem actors, including industry peers, industry associations, overseas buyers, conveners, regulators and investors. As such, it will take a community of stakeholders to address the multidimensional sustainability issues faced by SMEs to foster an enduring business ecosystem.

Key takeaways
It takes a community

1

Get started on understanding your supply chain to improve transparency and meet reporting requirements

2

Build a shared understanding of the issues that need to be addressed to prioritise resources, design effective interventions and avoid duplication of efforts

3

Design interventions inclusively to address the actual needs of SMEs and the affected communities

4

Sustainable solutions require an ecosystem approach for collective improvement

5

Enable your community and your value chain to progress- don't let perfect be the enemy of good

Building on the analysis of the drivers, enablers and cross-cutting principles explored in the previous sections, the recommendations in this section seek to present principles-based approaches for FMCG ecosystem actors like MNCs, government, financial institutions as well as SMEs themselves, to act on the insight from this report.

Within their respective scopes, actors in the FMCG ecosystem can apply these principles to future business activities to enhance the sustainability of their supply chains.

1. Get started on understanding your supply chain to improve transparency and meet reporting requirements

To meet increasing reporting requirements, companies along the supply chain will need to gain access to extensive data beyond their own operations. This would entail dedicating resources to improving transparency and traceability. To enable this process, companies will need to map out their supply chain and work with suppliers to identify relevant data points, enable capacity building and identify necessary tools to ensure accurate data collection and documentation.

Companies, both large and small, would benefit from creating avenues for regular communication with suppliers to identify current gaps and future needs. As a whole, these efforts will enable companies to more adequately support each other in their sustainability journey while enabling improved transparency and accuracy to inform their sustainability strategy and reporting.

Example: In order to understand the potential extent of climate risks to the business, companies would benefit from identifying the key geographies and activities of their own operations and that of their supply chain. This could be further developed into a risk heatmap to allow for greater visibility of climate vulnerabilities across the supply chain.

2. Build a shared understanding of the issues that need to be addressed to prioritise resources, design effective interventions and avoid duplication of effort

Sustainability issues can be wide-ranging and cross-cutting, covering all aspects of a company's operations. Actors therefore need to be clear on the issue they are attempting to address and the timescale affecting it in order to devise effective solutions.

Some challenges have short time horizons, such as capacity development for sustainability reporting, in order to enable digestion of the range of new sustainability regulatory requirements affecting businesses and supply chains globally. Other issues, such as building resilient infrastructure, will require a science-based understanding of the future environmental impacts of climate change and their cascading impacts on people and communities. While there are a range of sustainability-related initiatives and upskilling opportunities from NGOs, governments and international funders, interventions need to have a clear and achievable end goal in mind in order to design effective interventions and avoid duplication of efforts and wastage of resources.

Example: Climate-related scenario analysis can be conducted to identify possible chronic and acute physical risks and transition risks in the short, medium and long term in different geographies. These assessments can provide a grounded and scientific basis for various ecosystem actors to understand the material climate risks to businesses and communities and inform potential mitigation and adaptation measures for increased climate resilience.

3. Design interventions inclusively to address the actual needs of SMEs and the affected communities

Interventions can often take the form of top/down approaches, with assumptions made on the needs of the SMEs in the industry by other actors in the value chain. Several stakeholders interviewed for this introductory report noted this experience, where development projects and financing institutions have positioned SMEs as beneficiaries to be ‘empowered' instead of rational actors navigating complex systems. One issue that exemplifies this is the question of digitisation. Initial assumptions viewed the lack of digital infrastructure as the main roadblock, but stakeholders report that behavioural factors, like unwillingness to share data and privacy concerns, have been more significant disincentives to digitisation.

Consequently, sustainability initiatives must be co-created through partnerships and active dialogue between the ecosystem actors. Goals, such as expected outcomes and desired impacts, also need to be co-created to ensure they address the actual needs of SMEs and their communities. Companies can also consider incentive programmes to encourage sustainability integration. These efforts require ongoing relationship-building and a regular presence in the areas of intervention, as opposed to one-off large-scale activities.

Example: Climate adaptation or mitigation interventions to address risks like droughts or flooding need to follow a consultative process with the SME actors to adequately understand the local context and resources needed to best enable long term resilience. Interventions found in the study such as earth bunds, water catchment areas and regenerative farming require a sound understanding of the landscape and community needs in order to be effective in the long run.

4. Sustainable solutions require an ecosystem approach for collective improvement

As companies work towards building capability and managing sustainability challenges, ensuring effective communication and coordination between different sector actors can help to reduce a duplication of efforts while ensuring that the sector is able to advance evenly. Taking an ecosystem approach will involve bringing together a range of actors from across the ecosystem—not limited to MNCs, governments, NGOs and financiers—to identify areas for collective efforts and to collaborate on potential solutions. While companies may be hesitant to share information related to supply chains, consensus building through understanding the collective risks and opportunities can better enable collaboration. This could take the form of a dedicated convening platform with a local presence. Key to this approach is including the SME voice to identify areas of need.

Example: The interviews found that some large companies are currently exploring efforts to enable greater climate resilience. However, given the extensiveness and interconnectedness of production and distribution supply chains, developing climate resilient infrastructure cannot effectively be undertaken at the entity level or by the private sector alone. Enabling industry resilience will need to involve collective effort from governments, investors, industry organisations and companies to take a long-term view and concerted action.

5. Enable your community and your value chain to progress- don’t let perfect be the enemy of good

Developing a sustainable supply chain is an immense undertaking requiring significant resources. While companies may not currently have the required capabilities or technical know-how, it is imperative to make a start and improve practices and approaches iteratively instead of waiting for the perfect solution or tool. Given the pressing nature of climate change, efforts to build resilience today can help to mitigate risks and enhance opportunities in the future.

Example: Climate risk assessments typically evolve with enhanced research and data, which is continuously improving. Making a start with the existing data and understanding of your supply chain will already provide valuable insights which can be incrementally built on for greater accuracy and completeness.

07

About the report

At PwC, our purpose is to build trust in society and solve important problems - this is at the core of everything we do from the value we provide to our clients and society to the decisions we make as a firm.

Our services started with audit and assurance over a century ago. As times change and the issues faced by businesses and individuals evolved, we have developed specialised capabilities in tax, advisory and consulting to help you address emerging new challenges across focus areas like ESG, sustainability and climate change, digital transformation, cyber security and privacy, data, mergers and acquisitions, and more.

In Singapore, we have more than 3,500 partners and staff to help resolve complex issues and identify opportunities for public, private and government organisations to progress. As part of the PwC network with over 364,000 people in 151 countries, we are among the leading professional services networks in the world focusing on helping organisations and individuals create the value they are looking for.

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