ESG in Emerging Markets

The effects of EU sustainability regulations on non-EU companies

A Danish Industry Study Report 2024

July 2024

Developed together with RAMBØLL

ABOUT

This report

This report is the outcome of Ramboll Management Consulting's study on behalf of Danish Industry (DI), aiming to assess the impact of EU sustainability regulations and multinational corporations' sustainability focus on companies in twelve emerging economies where DI is engaged. These countries include Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda, South Africa, the Philippines, India, Vietnam, Türkiye, and Colombia.

After the Executive Summary, this report is divided into four chapters:

I. **The first chapter** is an introduction, that explains the background, objective, and scope of the project.

II. **The second chapter** includes an overview of the EU's ESG legislation, including possible implications for non-EU companies.

III. **The third chapter** focuses on findings and recommendations and presents detailed findings from the study. It gathers these findings under three main themes: Awareness & prioritisation, customer demands & business impact, and readiness & support.

IV. **The fourth chapter** contains deep dives into the country-specific highlights. Each deep dive provides a brief overview of the local market conditions as well as a description of key findings.

Finally, the appendices provide a more in-depth description of the research design and methods as well as references used for the desktop analysis.

Executive Summary

A summary of the study, including key findings and recommendations.

Executive Summary: Introduction to the study

In recent years, the EU has developed significant legislation addressing ESG matters, underscoring its aim to achieve a carbon-neutral Europe by 2050. Because of these legislations, large corporations with operations in the EU are increasingly compelled to adhere to environmental, social, and business integrity standards.

Although these regulations are mainly targeted at companies within the EU, they will also have implications for companies outside the EU if they are part of European value chains, as they set expectations along the entire value chain

To help local companies navigate the growing ESG requirements from EU legislation and demands from multinational companies, Danish Industry is actively collaborating with local partner organisations to develop supportive tools, but for this support to be effective, a deeper understanding of the challenges is needed.

This study was performed by Ramboll Management Consulting on behalf of Danish Industry between January to July 2024. The objective of the study was to evaluate the effects of the expanding EU ESG legislation and the increased sustainability focus among multinational companies on companies in emerging markets.

In the project, mixed methods and triangulation approaches were applied. The study included data collection of both qualitative and quantitative data through a survey, six focus group interviews, nine interviews with local actors and experts as well as a literature review. The survey consisted of 26 questions and 778 representatives from local companies filled it out. In the focus group interviews, 120 companies participated.

The study focuses on companies in 12 countries where DI is engaged; Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda, South Africa, the Philippines, India, Vietnam, Türkiye, and Colombia.

Executive Summary: Findings and recommendations

Summary of Key Findings

The study reveals that overall ESG awareness among local companies in emerging markets is low, both generally and in relation to international and EU sustainability standards. This lack of awareness poses a significant risk not only for local companies, who may struggle to comply with new demands, but also for European companies, which may face non-compliance issues within their value chains. Despite the low awareness, sustainability emerge as a high priority for local companies across markets – reflecting increasing business opportunities and more stringent regulatory requirements.

Local companies note that customer sustainability demands have increased over the past few years, although the significant impact of the EU's ESG legislation is still forthcoming. The study indicates that companies are generally optimistic about the business opportunities that may arise from a heightened focus on sustainability. However, the lack of a proper understanding of the potential implications of EU legislation may inflate these numbers. Nonetheless, 49% of the surveyed companies also recognise the enhanced sustainability requirements as an emerging trade barrier, expressing concerns that it could reshape existing trade patterns and lead them to seek out other markets with less stringent regulations.

The overall readiness to meet upcoming demands is generally considered low, despite some variations among companies, industries, and markets. South Africa, Türkiye and Colombia are the most advanced in terms of ESG preparedness, whereas Eastern Africa demonstrates a significant readiness gap. Small and medium-sized companies (SMEs) are generally considered particularly vulnerable to the new requirements, as their capabilities to understand, prioritise, and address sustainability demands are limited.

In light of this, the study underscores the need for support measures to prepare companies for increased demands, enabling local firms to better benefit from upcoming opportunities and ensuring that EU companies meet their supply chain impact targets. While financial support is recognised as an important enabler for enhancing sustainability work, it is surpassed by the need for more knowledge, implementation guidance, practical hands-on support, and technical assistance, when local companies state their desired support.

Against this backdrop, business associations emerge as important enablers, as the reliance on support networks varies by company size. The study reveals that due to limited capital and resources, SMEs and locally-owned companies depend more on business associations and other networks than large, foreign-owned firms who can utilise external consultants. A significant challenge identified is that local firms experience that few local actors, including external consultants, can provide adequate support for interpreting EU ESG legislation. Consequently, capacity building from European actors becomes essential.

Summary of Key Recommendations

Key recommendations for business associations include implementing awareness training, to increase knowledge about ESG, international sustainability legislations, and their potential implications for companies in non-EU countries. This entails implementing introductory ESG training for SMEs and advanced sessions focused on upskilling in specific legislations and ESG areas. It is also recommended that business associations provide active facilitation between local and European companies, to interpret demands and develop best practices. To enhance support effectiveness and increase accessibility to a wider range of companies, implementing digital support centres that operate across markets is highly recommended. Lastly, it is recommended to provide value chain training , especially for complex value chains and sectors that involve numerous SMEs.

For European companies, it is recommended to assess value chain readiness and develop strategies to enhance upskilling efforts, mitigating the risk of non-compliance. Due to the low awareness among local companies, European firms need to scale up communication and work proactively with value chain actors on anticipated demands, clarify expectations, and assist in interpreting requirements for effective ESG implementation. Continuing, given the low readiness level for meeting new ESG requirements, European companies must facilitate training across the entire value chain, extending beyond their tier 1 suppliers, and establishing best standard practices for effective data gathering. Lastly, European companies should establish long-term partnerships with their key suppliers, recognising that the shift towards sustainable practices takes time.

European policymakers are recommended to allocate resources for enabling a just transition in non-European markets. It is also recommended to make an effort to prevent legislation from becoming trade barriers for non-EU companies. To overcome the information gap between the EU and emerging markets, European policymakers are recommended to spread information about EU legislation and establish support centres. In addition, given the low readiness of companies in non-EU markets, it is recommended that European policymakers consider just transition mechanisms, provide implementation guidance that allows for phased-in periods, and help companies align EU sustainability demands with local sustainability priorities.

TABLE OF

Contents

01 Introduction

Background and objective of the study

New & upcoming EU sustainability legislation

Background to the study

In recent years, the EU has developed significant legislation addressing ESG matters, underscoring its aim to achieve a carbon-neutral Europe by 2050. Because of these legislations, large corporations with operations in the EU are increasingly compelled to adhere to environmental, social, and business integrity standards.

Although these regulations are mainly targeted at companies within the EU, they will also have implications for companies outside the EU if they are part of European value chains, as they set expectations along the entire value chain.

Non-EU companies' transformation towards sustainable practices and business models is key to achieving the full intended effects of the EU sustainability legislation. EU companies will not be able to achieve their supply chain transformation or meet their sustainability targets unless local companies contribute with reduced impact and data collection. To achieve the full effect of the EU's ESG legislation, companies outside of the EU also need to transform towards sustainability.

This poses challenges for companies in emerging economies. There is a concern that the private sector in these economies will be even more challenged in the future and risks becoming decoupled from global value chains.

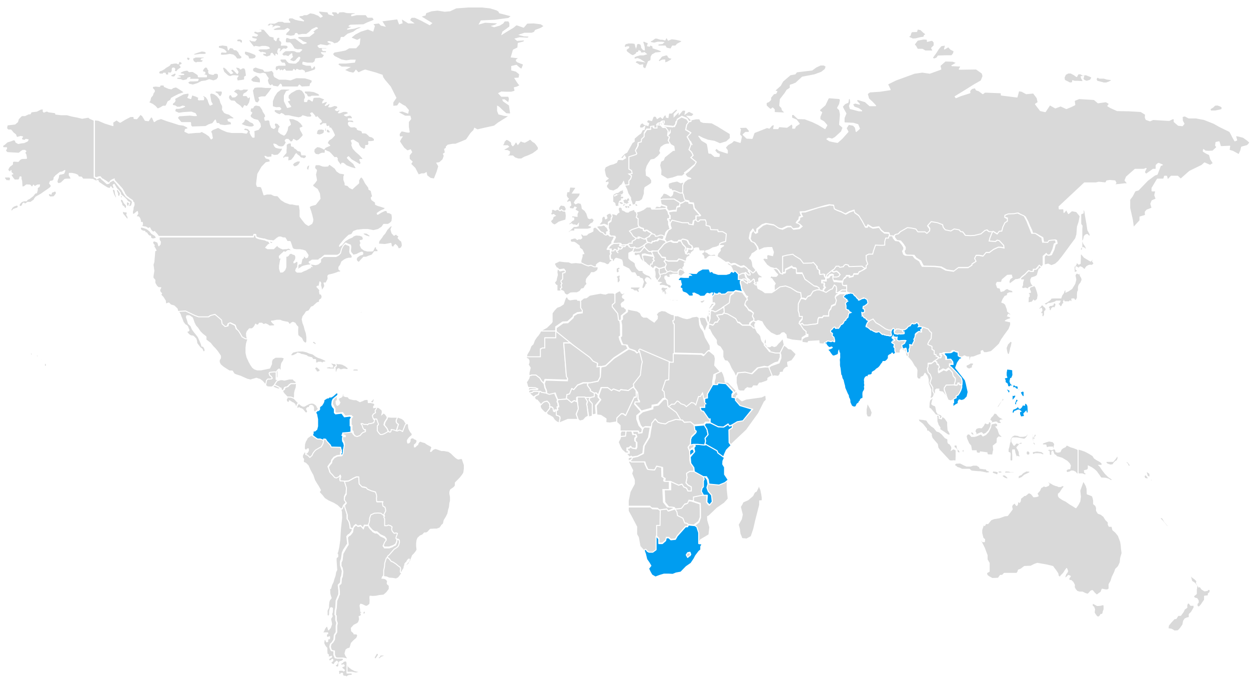
To help local companies navigate the growing ESG requirements from EU legislation and demands from multinational companies, Danish Industry (DI) is actively collaborating with local partner organisations to develop supportive tools, but for this support to be effective, a deeper understanding of the challenges is needed.

So, how does EU ESG legislation and an increased focus on sustainability from multinational companies affect local companies in emerging markets?

This study seeks to answer this key question, targeting companies in 12 countries where DI is engaged.

Countries selected for the study

Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda, South Africa, the Philippines, India, Vietnam, Türkiye, and Colombia.



Objective and scope of the study

Objective

The overall objective of the study was to evaluate the effects of the expanding EU ESG legislation and the increased sustainability focus among multinational companies on companies in emerging markets.

Approach

In the project, mixed methods and triangulation approaches were applied. The study was performed in the following four steps

1) Scoping, prioritisation, and initial data collection including a desktop of existing literature in the field, complemented by nine expert interviews with partner organisations across eight of the selected markets: India, Vietnam, Kenya, Tanzania, Türkiye, South Africa, Colombia, and the Philippines.
2) Broad understanding of the research questions through a survey of 778 local companies from twelve markets. The survey consisted of 26 questions, designed to provide insights into how ESG regulations in the EU and the increased focus on sustainability among multinational companies affect companies in the selected non-EU countries.
3) Deep-dive into interesting findings in focus group interviews with 120 companies in six chosen markets: India, Vietnam, Kenya, Türkiye, South Africa, and Colombia.
4) Data analysis and report writing summarising the findings in this report.

Scope

The study focuses on assessing company circumstances in four key research areas, under which several sub-topics are elaborated upon:

- Key EU legislation and local markets condition: This area investigates how EU sustainability legislation impact different industries in local markets.
- Awareness & prioritisation: The objective under this topic is to assess local suppliers' awareness and prioritisation towards EU ESG legislation and willingness to prioritise ESG issues.
- Customer demands & business impact: This theme analyses the customer demands and business impact on local suppliers derived from EU ESG legislation and pressure from European companies.
- Readiness & support: This topic contains an evaluation of the readiness of local companies to meet the increasing demands, overcome risks, and leverage business opportunities as well as the need for support measures to meet the demands.

The findings of the study are firstly presented as overall findings across all countries to highlight general trends, followed by a chapter with individual sections for each country or region.

The insights from this study will serve as a baseline for which supportive interventions can be developed to facilitate local companies' ability to meet the increasing demands from EU legislation and multinational companies.

02 EU Sustainability Legislation

Overview

Possible implications for non-EU companies

Overview

There is a global shift from voluntary sustainability standards to hard laws with more clearly defined sustainability requirements for companies

Sustainability expectations for local suppliers are not a new phenomenon but have long been acknowledged by large multinational companies. Over time, these companies have implemented various sustainability initiatives and requirements to mitigate potential impacts and risks across their value chains. However, these initiatives and requirements have primarily been voluntary and operated on a discretionary basis, resulting in limited obligations for suppliers and minimal due diligence.

Suppliers have traditionally faced limited expectations regarding environmental impact, basic labor practices (particularly health and occupational safety), and fundamental business ethics (such as combating corruption). While these expectations have established a baseline for sustainability efforts, the absence of mandatory compliance and rigorous enforcement has often resulted in inconsistent and limited implementation.

Sustainability demands have typically been communicated through:

Supplier Codes of Conduct: Companies often outline limited requirements and expectations regarding sustainability and responsible business practices in their code of conduct or through written communication.

Training and Capacity Building: Companies may provide training and capacity building programmes to help suppliers understand and meet sustainability requirements.

Collaboration and Engagement: Companies engage in ongoing dialogue and collaboration with suppliers to address sustainability challenges collectively.

Supplier Audits and Assessments: Companies do in some cases conduct audits and assessments of their suppliers to evaluate their compliance with sustainability standards.

In recent years, there has been a global shift towards ESG legislation, resulting in more formalised, structured, and data-driven sustainability efforts. The EU has emerged as the leading source of comprehensive ESG legislation, taking a frontrunner position in making sustainability standards into hard law. These clearly defined sustainability requirements will inevitably compel large and multinational companies to impose a much broader range of demands on their suppliers throughout the value chain.

The following section will elaborate what EU ESG legislation currently exists, what is upcoming, and what they require.

The European Green Deal gives rise to a new EU ESG regulatory landscape

The European Green Deal consists of a series of policy initiatives, important commitments, and a detailed roadmap to create a net-zero EU by 2050.

It includes:

- Proposals to reduce greenhouse gas emissions to half of 1990 levels or even more by 2030
- Policies to ensure economic growth is decoupled from resource use
- Key actions to restore biodiversity
- A law that will direct the European Union towards the goal of being climate neutral by 2050

These policies are supported by the Just Transition Mechanism and the Sustainable Finance Strategy.

The Sustainable Finance Strategy aims to finance the sustainable transition, while the Just Transition Mechanism ensures the transition is just and inclusive.

“There is a big uncertainty on how these legislations will play out outside Europe, and I would say that there is a need for a more concerted effort across countries to help build capacity.

Peter Lund-Thomsen
Professor

Over the last few years, several new ESG regulations and directives have been approved, and more is to come

EU Green Deal

Proposal for an eco-design for Sustainable Products Regulation (ESPR)

EU Battery Regulation

Carbon Border Adjustment Mechanism

Corporate Sustainability Reporting Directive (CSRD)

Forced Labour Ban Regulation *(draft)*

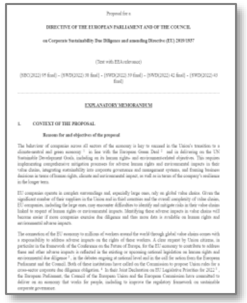
2020 | 2021 | 2022 | 2023 | 2024 | 2027/2028

EU Taxonomy

Sustainable Finance Disclosure Regulation

Revision of the Packaging & Packaging Waste Directive

EU Deforestation Regulation (EUDR)



Corporate Sustainability Due Diligence Directive (CSDDD)

EU rules restrict the import of certain products based on ESG criteria and enhance ESG-related product development

Carbon Border Adjustment Mechanism (CBAM)

The purpose with the CBAM is to put a fair price on the carbon emitted during the production of carbon intensive goods that are entering the EU, and to encourage cleaner industrial production in non-EU countries.

The CBAM will initially apply to imports of certain goods and selected precursors whose production is carbon intensive and at most significant risk of carbon leakage including cement, iron, steel, aluminium, fertilisers, electricity and hydrogen.

The rules apply to EU importers of cement, iron, steel, aluminium, fertilisers, electricity and hydrogen. By the end of 2024, companies importing affected products must disclose amount of the products embedded GHG-emissions. By 2026, companies must pay a price (certificates) for the reported GHG-emissions.

EU Deforestation Regulation (EUDR)

The purpose with the EUDR is to prevent products and goods linked to deforestation and forest degradation from being imported to or exported from the EU. Before a product can be released onto the EU market, companies must disclose whether they have conducted a due diligence to ensure that the product is free from deforestation and is legal according to the legislation in the country of origin, as well as ensuring respect for human rights and rights of affected indigenous people.

Although the EUDR is targeting EU companies, its reach is global through its focus on the import/export of certain products[1] that are 'known' to be associated with deforestation.

The rules apply to large and medium sized enterprises who need to apply the rules by the end of 2024. SMEs must comply at the latest end of June 2025.[2]

Packaging & Packaging Waste Directive (PPDW)

The purpose with the new revised Packaging and Packaging Waste Directive (PPWD– Directive 94/62/EC) presented in 2022, to ensure that all packaging is reusable or recyclable in an economically feasible way by 2030.

It lays down measures to prevent the production of packaging waste, and to promote reuse of packaging and recycling and other forms of recovering packaging waste. Measures are also envisaged to tackle over-packaging and reduce packaging waste.

It also sets out the requirements that all packaging placed on the EU market must meet.

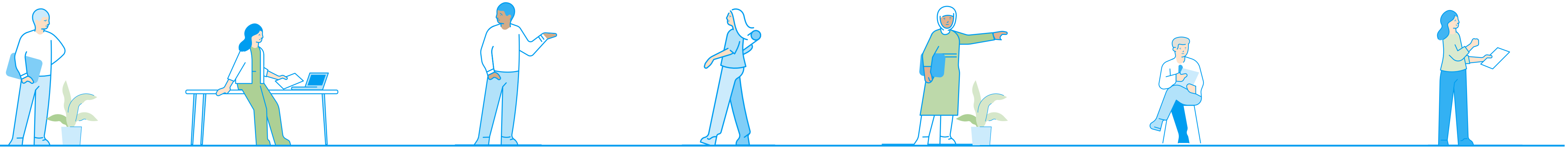
The proposal is now in the hands of the co-legislators.

Eco-design for Sustainable Products Regulation (ESPR)

The ESPR builds on the existing eco-design directive, by setting new requirements to make sustainable products the norm in the EU. This by setting new minimum requirements to enhance products becoming more durable, reliable, reusable, upgradable, reparable, easier to maintain, refurbish and recycle and energy and resource efficient.

Proposal includes turning the current eco-design directive into a regulation while also extending the scope to new product groups including textiles, ICT, electronics, furniture, steel, concrete and chemicals.

In addition, all regulated products will have Digital Product Passports (DDP) to provide information about products' environmental sustainability. DDP for 30 product groups with the greatest environmental impact are expected to be developed. Battery sector is first out, followed by textile and electronic sector.



 Notes: 1) The EUDR applies to timber, rubber, palm oil, soy, cattle, coffee and cocoa. **2.)** SMEs only need to apply the rules if it is the first time that the relevant raw material or product is being released onto the EU market.

New EU rules mandate Human Rights Diligence, as do several national regulations around the world

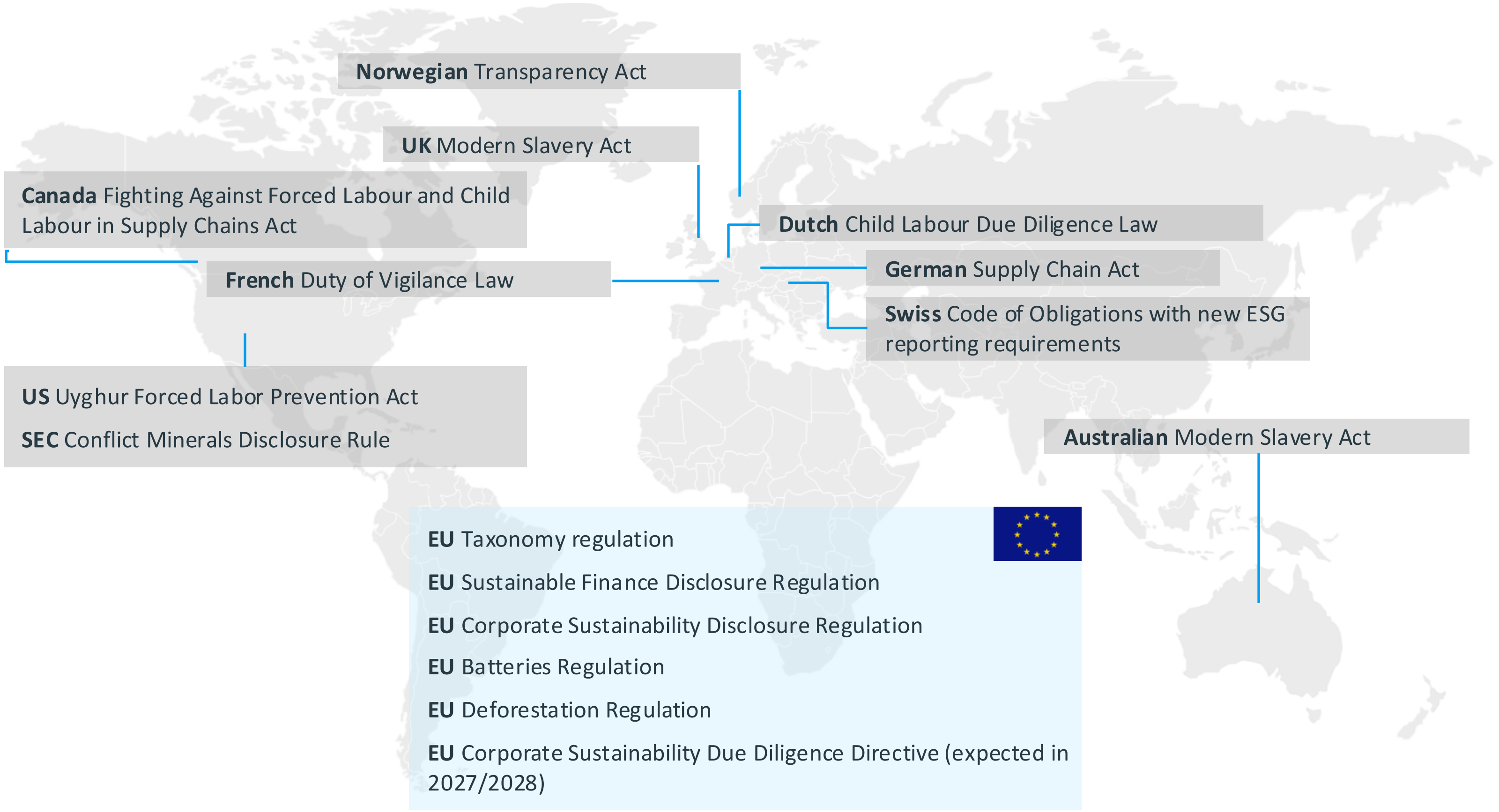
There is a growing global trend towards implementing regulations that require companies to conduct human rights-related due diligence throughout their own operations and supply chains.

This trend has been further accelerated by the EU proposing regulations aimed at ensuring companies' respect for human rights. The EU's focus on due diligence has not only influenced the regulatory landscape within its member states but also set a global precedent.

Nations in Europe have launched their own legislation requiring similar due diligence measures, for example, the German Supply Chain Act. It mandates large companies to conduct due diligence to identify and address both human rights and environmental risks in their supply chains.

Similarly, the Norwegian Transparency Act requires companies to disclose human rights-related matters.

Beyond Europe, countries such as Australia, Canada and the US are also considering, or have already implemented, legislation related to human rights-related due diligence.



New EU rules lay out requirements for ESG reporting to increase transparency and combat greenwashing

These are three major legislations that will impact the ESG reporting landscape

The CSRD, EU Taxonomy and SFDR collectively represent a significant shift in the ESG reporting landscape, introducing standardised reporting frameworks, enhanced transparency requirements and clear definitions of when an activity can be considered sustainable.

A significant change is also the CSRD's mandatory requirement for companies to look beyond their own operations, to also consider the broader social, environmental and economic implications of its activities across the **entire value chain.**

Rules for companies

Rules for financial market participants

CSRD

EU Taxonomy

SFDR

The Corporate Sustainability Reporting Directive (CSRD) targets both companies and financial firms.

The objective with the CSRD is to enhance transparency and comparability by improving the quality, reliability and comparability of sustainability information. It requires companies perform a double materiality assessment to identify and disclosure the company's impacts, risks and opportunities across ESG topics with consideration of the companies' entire value chain.

The EU Taxonomy Regulation targets companies and financial firms.

The objective with the EU Taxonomy is to provide a standardised framework for identifying environmentally sustainable economic activities, and align with the minimum safeguards, art. 18

Companies that are in scope to report need to disclose financial data on three financial KPIs to communicate the share of its turnover, CapEx and OpEx.

The Sustainable Finance Disclosures Regulation (SFDR) targets assets managers and other financial markets participants.

The objective of the SFDR is to promote transparency and sustainability in the financial sector. It requires financial market participants and financial advisers to disclose how they integrate environmental, social and governance (ESG) factors into their investment decisions and how they consider the adverse impacts of investment decisions on sustainability factors.

Possible Implications for non-EU Companies

The newly passed and upcoming EU ESG legislation are expected to result in increasing demands on local suppliers in three key areas

Sustainability due diligence

Several of the new EU ESG legislations, including the CSRD, SFDR, EU battery regulation, Conflict Mineral Regulation, EUDR and upcoming CSDDD mandate sustainability due diligence.

These developments indicate a broader shift towards **holding businesses accountable for their negative impacts** on people the environment and reflect a growing recognition of the importance of corporate responsibility in the global economy.

Corporate sustainability reporting

CSRD, EU Taxonomy and SFDR are raising the bar on ESG reporting by making it mandatory to provide a much greater depth of information on a variety of ESG topics, and to consider impacts and economic implication beyond its own operations.

This development is set to increase the **need for reliable ESG data and transparency** on actors that form part of European value chains.

Sustainable production and products

New EU legislation like CBAM, EUDR, Eco-design and Packaging and Waste Directive aim to make sustainable products the norm in the EU by setting new requirements in relation to circular material use, encourage cleaner industrial production in non-EU countries and prevent deforestation.

These regulations are highly likely to result in increased demands for local suppliers to **ensure supplied products are sustainably designed, manufactured and transported** in line with the new environmental requirements.

The export focus of each country will determine its exposure towards specific EU legislation

Local firms primarily supply EU companies with products and goods in eight key export sectors

Demands in relation to ESG data are expected to impact all local suppliers that have exposure to the EU market, primarily as a result from the CSRD applying to all EU companies meeting certain thresholds. Local suppliers that supply EU companies with products and goods can be found within eight key export sectors:

Agriculture products
Mainly coffee, tea, vegetables products and sugar.

Machinery and electronics
Industrial machinery, construction machinery and agricultural machinery

Natural resources
Mainly coal, mineral fuels, base metals, iron and aluminium, as well as conflict minerals like gold, tin, tantalum and tungsten

Chemicals

Stone & metals
Mainly platinum, diamonds, jewellery, pearls and precious metals

Automobile and components
Components, cars and trucks

Processed food & tobacco

Textiles, appeal and leather

The different countries have differing export focuses

African countries like Burundi, Ethiopia, Kenya, Malawi, Tanzania, and Uganda predominantly export agricultural products. South Africa has a more diversified export sector with significant contributions from stone and metal products, natural resources and transport.

In Asia, India has a balanced export profile including stone and metal products and machinery, while the Philippines and Vietnam focus heavily on machinery and electronics.

Colombia's exports are mainly natural resources, and Türkiye exports a mix of stone and metal products, textiles, transport and machinery.

This underscores a strong agricultural focus in many African countries and a technological focus in some Asian countries.

Export focus determine exposure and call for closer scrutiny

As new EU legislation increasingly restricts the import of products based on ESG criteria and promotes ESG-related product development, analysing the export sectors of each country becomes imperative.

Countries with a significant number of companies operating in sectors targeted by European ESG legislation will face heightened exposure to new ESG demands due to direct regulatory requirements imposed by their EU customers.

Key export sectors that will be particularly affected by EU legislation

New EU legislation such as the Corporate Sustainability Reporting Directive (CSRD) and the upcoming Corporate Sustainability Due Diligence Directive (CSDDD) will apply to all EU companies that meet certain thresholds, and thus regardless of which sector they operate in. Meanwhile, some new EU ESG regulations including the EUDR, EU Conflict Regulation, and CBAM will apply to EU Companies that operate in **certain high-risk sectors**. Given that many local suppliers operate within these high-risk sectors whilst being part of European value chains, further demands on these local suppliers can be expected.

Agricultural products

The EU Deforestation Regulation (EUDR) applies to importers and exporters of specific commodities including **timber, rubber, palm oil, soy, cattle, coffee and cocoa**.

Companies releasing or exporting the affected products on to or from the EU market must conduct due diligence checks to confirm that the products do not originate from land deforested or subject to forest degradation after December 31, 2020. Companies must also ensure that these products comply with relevant legislation in the country of production, including respect for human rights and the rights of affected indigenous peoples.

Demands in relation **to due diligence and obligations to fulfil national legislation including respect for human rights and the rights of affected indigenous peoples** are likely to impact many local suppliers in Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda and Colombia.

Minerals

The EU Conflict Mineral Regulation applies to importers of **tin, tantalum, tungsten and gold**, whether these are in the form of mineral ores, concentrates or processed metals.

EU importers will be required to identify the smelters and refiners in their supply chains and check whether they have the correct due diligence practices in place. Whenever EU importers find smelters and refiners' practices to be insufficient or associated with risks, they will have to manage and report on this. To help companies, the European Commission will create a so-called 'white list' of global smelters and refiners which source responsibly. The regulation will indirectly affect about 500 smelters and refiners of tin, tantalum, tungsten and gold, whether they are based inside the EU or not.

Demands in relation to **due diligence** are likely to impact local producers of these minerals in countries like South Africa, Tanzania and Colombia (producers of gold) Uganda and Ethiopia (producers of tantalum), Burundi (tin, tantalum and tungsten) and Vietnam (producer of tin and tungsten).

Industrial production

Carbon Border Adjustment Mechanism (CBAM) applies to EU importers of cement, iron, steel, aluminium, fertilisers, electricity and hydrogen.

CBAM aims to encourage cleaner industrial production in non-EU countries. This by enforcing mandatory requirements for EU importers of cement, iron, steel, aluminium, fertilisers, electricity and hydrogen to disclose amount of the products embedded GHG-emissions. By 2026, companies must pay a price (certificates) for the reported GHG-emissions.

Demands in relation to implementing cleaner production processes are likely to impact suppliers of these commodities in countries such as Türkiye and Colombia (cement, iron, steel, and aluminium), India and Vietnam (aluminium and iron) as well as South Africa (iron and steel).

Local ESG legislation is not yet likely to comprehensively address the EU's third-party impact

Local legislation regarding ESG issues is fragmented across different domains and sectors, but often lacking the strictness of EU policies in terms of implementation and enforcement. In nearly all markets, ESG legislative initiatives have mainly focused on large or listed companies, with little attention given to SMEs.

Environment

Local environmental legislation exists in several of the EU's priority areas, focusing on e.g. biodiversity, pollution control, waste management, land use and CO_2 reduction. Meanwhile, level of enforcement and application among local companies varies with a risk for greenwashing.

Countries like Vietnam, Ethiopia, Kenya, Malawi, Tanzania, Uganda and Colombia have taken measures to **combat deforestation, protecting forests and to some extent prevent illegal logging.**

Moreover, countries such as South Africa, Malawi, the Philippines, India and Türkiye have enforced regulations and measures to **reduce CO_2 emissions.** For example, in Türkiye, India, the Philippines and Malawi companies are required to conduct **Environmental Impact Assessments (EIAs)** for projects with significant environmental impacts, while India and South Africa also incentivises emission reduction in energy-intensive industries.

Social

As all markets have laws enforcing protection for human and labour rights, including regulations against child and forced labour and for regulating working conditions, DI local partners' interviews highlight **local companies' greater experience in addressing social issues**, with environmental and governance concerns being relatively new to them.

However, despite having legal frameworks in place for human rights and labour rights, the **effectiveness of implementation and enforcement varies and is generally low**. This inconsistency poses a challenge, taking EU's human rights due diligence efforts into consideration.

Overall, there has been **limited effort to ensure due diligence and compliance along the value chain** in line with EU legislation, which emerged as a recurring challenge from the conducted interviews.

Governance

Local requirements for ESG reporting mainly apply to large listed companies, with exceptions like Tanzania where almost all but micro entities must report ESG factors.
Historically, mandatory ESG reporting has particularly applied to high-impact sectors such as the **mining and natural resource sector** in countries such as South Africa, Tanzania and Malawi[1].

India's Business Responsibility and Sustainability Report, BRSR, launched in 2023, follows GRI, SASB, and TCFD frameworks. In January 2024, Colombia and Türkiye enforced similar requirements, resembling the EU's CSRD. These requirements will gradually apply to more companies each year, **starting with large companies** exceeding certain thresholds.

03 Findings & Recommendations

- Summary Key Findings
- Summary of Key Recommendations for Future Support and Progress
- Awareness & Prioritisation
- Customer Demands & Business Impact
- Readiness & Support
- Recommendations

Summary of Key Findings

This chapter focuses on the findings and recommendations for the general trends across geographies. The chapter is divided into three themes: i) Awareness & Prioritisation; ii) Customer Demands & Business Impacts; and iii) Readiness & Support. On this slide, a summary of key findings is presented, across the three themes and geographies. In the following sections of the chapter, the details of the findings for each theme are presented.

Low overall awareness of ESG and international legislation

The ESG awareness amongst companies seems to be low in most markets, accordingly, resulting in a limited understanding of international and EU ESG. While companies might recognise specific regulations, their comprehension of the implications remains severely limited. The level of awareness varies partly with aspects such as company size and ownership structure; large and foreign-owned companies generally have higher awareness than locally-owned SMEs.

Risk of missing business opportunities due to low awareness

Due to the low awareness of ESG principles and the potential impacts of EU sustainability legislation, local companies face a risk of failing to comply with new demands and thus missing out on business opportunities. Ultimately, this could also lead to a shift in existing trade patterns. Larger foreign-owned companies are better equipped to meet new demands and have the potential to enhance knowledge and take a leadership role in driving development in local markets, thereby increasing awareness among locally-owned companies as well.

Sustainability is a high priority for companies across markets

Across all markets, there is a clear tendency that sustainability is of high priority for all companies. This focus is primarily driven by increased business opportunities, more stringent regulatory requirements, and strategic priorities at the group level wherein companies mitigate risks and align their sustainability efforts consistently across all markets. However, the understanding of ESG can differ between the EU and local markets, sometimes leading to conflicts between EU and local sustainability priorities.

Customer demands increase, but the push from the EU's ESG legislation is yet to come

Companies across all markets generally report an increase in sustainability demands from customers in recent years. However, the big push in sustainability demands driven by the new and upcoming EU ESG legislation has yet to fully materialize - presenting a window of opportunity to proactively enhance readiness through awareness-raising and upskilling efforts.

Companies are optimistic about the business opportunities from sustainability

Despite low awareness, companies across various markets and sectors are generally optimistic about potential business opportunities arising from new sustainability demands. This optimism may stem from a limited understanding of the implications and outcomes of these new demands. However, nearly half of the companies also acknowledge the risk that these demands could potentially become trade barriers, shifting existing trade patterns.

The dependence on networks for support varies with company size

Where companies turn for support regarding sustainability-related matters varies with company size and ownership structure. Whereas large and foreign-owned companies rely more on external consultants, SMEs and locally-owned companies lean more towards networks and business associations for support. Given that the latter two are particularly vulnerable to new requirements, this underscores the significant role played by support networks and business associations.

Few local actors can provide support on international legislation

The low awareness of international and EU legislation applies also to local consultants and other experts. Thus, when companies reach out to external consultants for support, there are difficulties finding experts with the right skills. This underscores the importance of foreign upskilling efforts and expertise to facilitate sustainability progress.

Support measures are needed to prepare companies for increased demands

The overall low awareness of ESG as well as international sustainability legislation and its supply chain implications highlight the need for support measures to prepare local companies for the increasing demands and opportunities. There is particularly a critical need for enhanced knowledge about international legislation, implementation guidance and the development of practical support tools.

Summary of Key Recommendations for Future Support and Progress

Given the key findings and the general trends across geographies, this slide highlights recommendations for future support and progress for enhancing local firm's ability to comply with European ESG legislation. The recommendations are divided into three stakeholder areas:

Recommendations for Business Associations

Implement awareness training

Given the low awareness and understanding of ESG and EU sustainability legislation, there is a strong need to increase knowledge across all markets. This entails implementing introductory ESG training for SMEs and advanced sessions focused on upskilling in specific legislations and ESG areas (e.g., reporting or due diligence). Due to the limited expertise of local market actors, upskilling efforts should also target local support functions.

Provide active facilitation between local and European companies

Local companies are seeking more active dialogue with European customers to interpret new sustainability demands and obtain best-practice guidance for implementation. This necessitates active partnerships between European and local business associations.

Establish digital support centres

To enhance support effectiveness and increase accessibility to a wider range of companies, implementing digital support centres that operate across markets is highly recommended. These centres would provide timely updates on new requirements, interpret legislation, offer basic training modules, and equip companies with tools for meeting customer demands, including standardized emission data collection and reporting.

Provide value chain training

To integrate sustainability practices and mitigate risks throughout the value chain, it is crucial to identify best practices and establish practical, hands-on support for fostering cooperation within the value chain. This is especially pertinent for complex value chains and sectors that involve numerous SMEs with limited capabilities to address ESG issues.

Recommendations for European Companies

Assess value chain readiness

Considering the low readiness of value chain actors in emerging markets to meet new sustainability demands, European companies must assess their value chains and develop strategies to enhance upskilling efforts, mitigating the risk of non-compliance.

Scale up communication with local suppliers

Due to the low awareness among local companies, European firms need to scale up communication and work proactively with value chain actors on anticipated demands, clarify expectations, and assist in interpreting requirements for effective ESG implementation.

Ensure value chain training and establish best practice

Given the low readiness level for meeting new ESG requirements and the value chain focus of recent legislation, European companies must facilitate training across the entire value chain, extending beyond their tier 1 suppliers. Establishing best standard practices for effective data gathering across all tiers is crucial.

Collaborate long-term with key suppliers

European companies should establish long-term partnerships with their suppliers, recognizing that the shift towards sustainable practices takes time. The study underscores that local companies are enthusiastic about improving sustainability efforts and capitalizing on new business opportunities, yet they need assistance with the transition and hands-on support to reduce the administrative burden.

Recommendations for European Policymakers

Allocate resources for enabling just transition in non-European markets

To assist European companies in reducing their negative impacts across the value chain and transitioning towards sustainable practices and business models, resources must be mobilized to companies outside the EU to effectively achieve desired sustainability targets.

Prevent legislation from becoming trade barriers

Policymakers should recognize that new sustainability legislation could potentially become a trade barrier due to the limited readiness of local firms, leading to shifts in geopolitical trade patterns. To prevent this, European actors must actively provide implementation guidance to non-European counterparts and also reduce the administrative burden.

Share information about EU legislation and establish support centres

There is a strong information gap between the EU and markets outside of the EU, concerning both the awareness of the legislation and its potential implications. Policymakers must actively direct resources to improve information channels in non-European markets.

Consider just transition mechanism

Given the low readiness of companies in non-EU markets, policymakers should carefully consider how to provide implementation guidance that allows for phased-in periods and helps companies align EU sustainability demands with local sustainability priorities.

Awareness & Prioritisation

Companies were asked about their awareness regarding ESG and the EU legislation as well as their familiarity with specific EU sustainability legislation, prioritisation, and key drivers for working with sustainability.

Key take-aways for Awareness & Prioritisation

This section focuses on the findings of the theme of awareness and prioritisation across geographies. On this slide, key findings on awareness and prioritisation are presented.

1 An overall low awareness of EU's sustainability legislations

Non-EU companies demonstrate a low level of awareness regarding new and upcoming EU legislation. Larger companies exhibit slightly higher awareness compared to SMEs, but knowledge is often confined to a few individuals and lacks widespread integration within the organisation. While specific legislations like the CSRD are somewhat recognized, the multitude of legislations often lead to confusion and uncertainty about their contents. Many companies emphasize a significant difference between being acquainted with the legislation and having a solid understanding of its key elements.

2 Variations in awareness and priority depend on ownership structures

There are notable variations in awareness of EU sustainability legislations and drivers for sustainability efforts based on market exposure and ownership structures. Foreign-owned companies, including those with foreign investors and joint ventures, demonstrate higher awareness of EU sustainability legislation compared to locally-owned firms – reflecting a significant exposure towards international markets. Such firms also tend to prioritise sustainability efforts more than locally-owned companies, which often struggle to see the business case for sustainability due to limited customer demand in local markets.

3 Potential causes for awareness gaps among non-EU companies

Key factors contributing to the knowledge gap on EU sustainability legislation include regulatory complexity, low general ESG awareness, and challenges in understanding business benefits. Companies report insufficient support and inadequate information about the topic from both European and local governments. Smaller firms particularly struggle with ESG concepts, often viewing them as relevant only to large corporations and confusing sustainability with purely environmental issues.

4 Sustainability is a high priority for local companies

The prioritisation of sustainability among local companies is high, with a strong expectation to increase sustainability work in the coming years. Both large companies and SMEs report that sustainability is either of high or relatively high priority for their organisations. Larger firms tend to prioritise sustainability slightly more, likely due to their greater resources and clearer recognition of the business benefits. Despite variations in understanding of EU legislation, most companies anticipate an increase in the prioritisation of sustainability over the next three years.

5 Sustainability efforts are driven by external pressures and internal strategic goals

Sustainability efforts among companies are driven by both external and internal strategic goals. Key drivers include sales and business opportunities and regulatory compliance. Large companies face greater customer pressure and investor pressure to adopt sustainable practices at a group level. In contrast, SMEs exhibit a slightly higher degree of drive for sustainability, often motivated by local community expectations and organisational values within sustainable development.

6 Aligning EU and local sustainability priorities poses a challenge for companies

With EU legislation gaining prominence in emerging markets, local firms are experiencing a disparity between EU's understanding of sustainability and local interpretations. This mismatch often leads to perceptions of unfairness due to insufficient consideration of local contexts, underscoring the need for active collaboration and support from European stakeholders to address these concerns.

An overall low awareness of EU's sustainability legislations

The study reveals a low level of awareness among non-EU companies about the EU's new and upcoming sustainability-related legislation. While large companies exhibit slightly higher awareness of specific EU sustainability legislations compared to SMEs, a significant awareness gap remains. This entails potential vulnerability to new demands and underscores the need for awareness-raising measures across all levels.

A profound awareness gap in terms of EU legislation

The non-EU companies state an overall low level of awareness regarding the EU's new and upcoming sustainability legislation. Notably, a significant portion of companies report low awareness levels, with more than four out of ten rating their awareness as low or limited. In contrast, only 16% of companies indicate a high level of awareness, with larger firms exhibiting a somewhat higher understanding than SMEs.

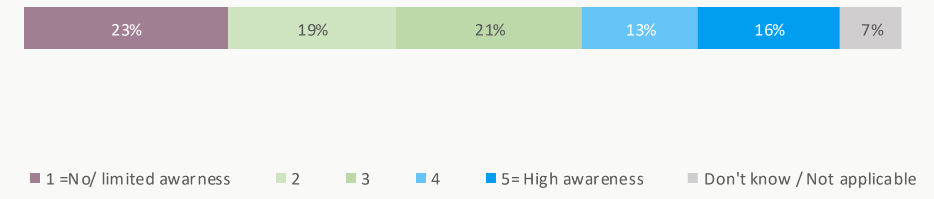
However, even among companies with a high awareness of the EU sustainability agenda, it has been noted in the focus group interviews that this knowledge often resides with only one or a few individuals within each company. Consequently, many interviewees argue that a systematic or holistic approach within each company to stay updated remains limited.

Lack of familiarity at all levels regarding specific EU sustainability legislations

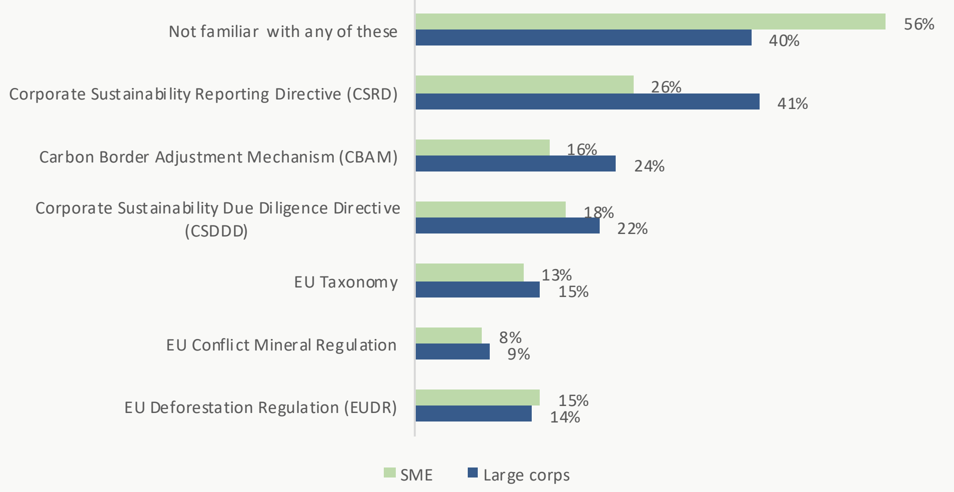
There is a significant knowledge gap among non-EU companies regarding specific EU sustainability legislation. While larger firmsgenerally exhibit somewhat higher familiarity, 40% of these firms and 56% of SMEs have never heard of any of the legislations. Among both large and small companies, the Corporate Sustainability Reporting Directive (CSRD) is the most recognised, followed by the Carbon Border Adjustment Mechanism (CBAM) or the Corporate Sustainability Due Diligence Directive (CSDDD).

With that said, the companies themselves also state that they find the multitude of legislations confusing, resulting in uncertainty about their contents, where to start, and what to prioritise. Many companies point out a significant difference between being familiar with the legislation and understanding its key elements. This gap in understanding underscores a strong vulnerability as these legislations come into effect.

Overall awareness of EU sustainability legislation (% of respondents)



Awareness of specific EU sustainability legislation (% of respondents)



Variations in awareness and priority depending on ownership structures and value chain characteristics

The study indicates variations in awareness of EU sustainability legislation and drivers for sustainability efforts dependingon ownership structures and value chain characteristics. Foreign-owned companies report higher awareness of EU sustainability legislation compared with locally-owned.

Foreign-owned companies and value chains with large companies report higher awareness of EU sustainability legislation compared to locally-owned, small companies

The study shows that there are variations in awareness depending on ownership structure. Among companies with fully foreign ownership, 39% state that they are not familiar with any of the EU sustainability legislations, followed by joint ventures (41%) and foreign investors (44%). Among companies with fully local ownership, 54% expressed being unfamiliar with the EU legislation.

The discussions in the focus group interviews indicate that awareness also depends on the characteristics of the value chain. Companies in value chains consisting of small companies seem to have lower awareness, compared to those of larger companies. Examples that were highlighted are the agricultural and fishing industries, value chains often including many small companies. This is confirmed by the data from the survey where a large share of the companies in Eastern Africa belong to the agriculture sector, being locally-owned – and having a lower awareness compared with companies in other regions.

For prioritisation of sustainability, the findings follow a similar pattern with the highest priority among companies that either have fully foreign ownership or have foreign investors. Joint ventures and firms with local ownership have slightly lower priority on sustainability.

This indicates that to ensure continued competitive advantage also for locally-owned firms in value chains with many smaller companies, enabling them to benefit from growing opportunities from the EU market, and transforming them towards sustainability, it is key to close the knowledge gap between locally-owned and companies with foreign ownership or investors as well as between value chains with large companies and SMEs.

Drivers of sustainability efforts differ with ownership structures

The reasons for focusing on sustainability vary significantly based on ownership structure. For companies with foreign investors, group-level strategic priority is the most frequently cited reason, in contrast to other categories. Additionally, investor pressure is ranked higher for these companies compared to the general average, highlighting the significant role of external pressures in driving sustainability efforts.

For companies with full foreign ownership, an intriguing finding is their heightened emphasis on regulatory compliance, which reflects the exposure to international markets and expected adherence to various international frameworks. However, sales and business opportunities also play a crucial role for these companies. Many of the interviewed firms attribute this to heightened sustainability demands among customers in foreign and more regulated markets.

In contrast, joint ventures, which typically focus more on domestic markets, tend to see sales and business opportunities as less influential in driving sustainability efforts due to the less pressure from local customers.

Companies with fully local ownership naturally place less emphasis on group-level strategic priorities and investor pressure as drivers of sustainability efforts. In general, their focus on sustainability tends to be lower due to the absence of a clear business case and fewer customer demands for sustainability. Consequently, many of the interviewed companies state that international legislation emerge as a crucial driver for their sustainability initiatives, due to insufficient sustainability pressure from local markets.

Potential causes for awareness gaps

While there are a number of factors contributing to the existing knowledge gap on EU sustainability legislation, some factors include regulatory complexity, lack of resources, and challenges in understanding business benefits. The low awareness is also influenced by inadequate information sharing from both European and local governments.

Inadequate information sharing from European and local actors fuel awareness gap

When questioned about the reasons for the existing knowledge gap, companies participating in the study frequently cite insufficient engagement/knowledge transfer from European partners, local trade associations, foreign trade facilitators, and other key stakeholders as the main contributors. It was a recurring pattern in all focus group interviews that local companies experience that European actors are not really interested in partnering with them to help them understand the expectations.

This challenge also extends to local government officials, especially in less developed ESG markets, where fragmented institutions and slow governmental responses delay proactivity and information dissemination.

Overall, this causes a profound knowledge gap about the existence of upcoming ESG legislation, its potential impacts, and the necessary support required for alignment – herein potentially hindering readiness efforts.

Low ESG understanding and legislative complexity have been outlined as key barriers to awareness

Another recurring theme is the profound lack of understanding of ESG among companies, particularly smaller ones.

There is a common perception that ESG matters primarily apply to multinational and publicly traded corporations, and that the language surrounding ESG can be daunting for many firms. Similarly, many companies have expressed that sustainability efforts are often mistaken as solely environmental initiatives, overlooking social and governance issues, or (in more immature markets) aligned solely with sustainable economic development or the general Sustainable Development Goals (SDGs).

This confusion leads to European ESG legislation being regarded as highly complex and difficult to scrutinise, making it very challenging to understand its implications, requirements, and how to begin compliance efforts. Therefore, establishing basic ESG awareness will be a key priority moving forward.

Smaller firms struggle to see the business case for sustainability, limiting the prioritisation and resource allocation

The awareness of EU sustainability is furthermore limited by a low understanding of the business case for sustainability, hampering firms desire to engage and be at the forefront of new legislative developments. This perspective particularly apply to smaller companies who, in addition to meeting less customer sustainability pressures from local markets, struggle to allocate resources to stay updated or to consult sustainability experts who can help overcome awareness issues.

It has been highlighted that with the absence of strong local regulatory sustainability requirements, the business case for sustainability needs to be clearly visible before especially smaller firms engage and upscale their efforts.

For many larger firms, these business incentives have been highlighted through enhanced foreign investments, new market access, and increased international sustainability demands.

Sustainability is a high priority for local firms

The study indicates a high prioritisation to work with sustainability among local companies and that they expect to scale up sustainability work in the coming years.

Both large companies and SMEs state sustainability to be of high or relatively high priority for their companies. However, sustainability seems to be of slightly higher priority in large companies.

The prioritisation to work with sustainability is high among non-EU companies

Most surveyed companies consider sustainability a high priority, which demonstrate that sustainability is becoming a central focus for many non-EU companies. However, this should be seen in light of a somewhat differing understanding of the issue compared to EU legislation, with sustainable economic development and job creation often highlighted as key pillars of sustainability work.

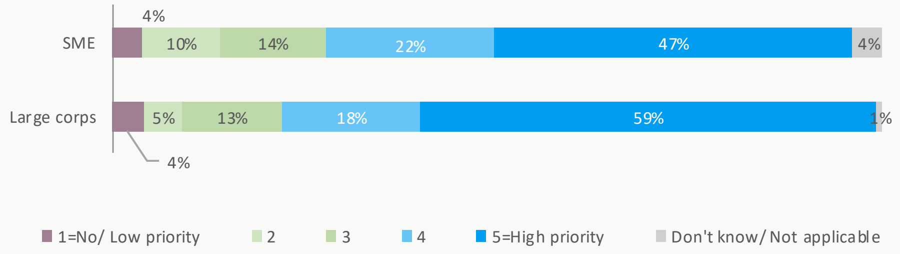
Nevertheless, respondents from large companies and SMEs indicate that sustainability is a high or relatively high priority for their companies. Sustainability appears to be of slightly higher priority in large companies, which have more resources to invest in sustainability initiatives, can access better information and may see the business case more clearly than SMEs following the focus group interviews. However, the consistent emphasis on sustainability across companies of varying sizes undeniably serves as a strong foundation for advancing discussions on new sustainability initiatives.

Non-EU companies expect to scale up sustainability work in the coming years

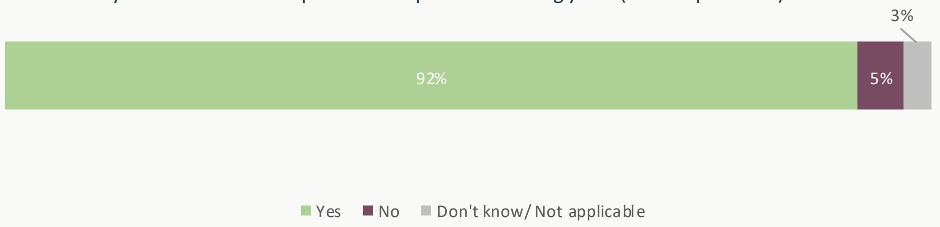
A noteworthy 92% of surveyed companies believe that sustainability will become a more prioritised topic over the next three years, whereas only 5% do not foresee an increase in prioritisation, and 3% are unsure. This indicates that sustainability is expected to gain greater in importance, with companies recognising a growing momentum - even those who are currently not prioritising sustainability initiatives.

Accordingly, the study emphasises that companies are increasingly set to integrate sustainability considerations more deeply into their operations and strategic planning. The survey results show little variation between large companies and SMEs regarding this trend, as such suggesting that the long-term business case for sustainability holds true for most firms.

Prioritisation of sustainability today (% of respondents)



Sustainability will become a more prioritised topic in the coming years (% of respondents)



Sustainability efforts are driven by both external pressures and internal strategic goals

The study highlights that sustainability efforts are driven by both external and internal strategic goals. The main drivers for companies to work with sustainability are sales and business opportunities, while regulatory compliance is also an important factor.

Key drivers of sustainability are business opportunities and regulatory compliance

The study indicates that the main drivers for companies to work with sustainability are primarily sales and business opportunities, as well as regulatory compliance. Notably, investor pressure is ranked as a less significant factor. These findings highlight that both external pressures and internal strategic goals are propelling sustainability efforts.

Open-ended responses reveal additional motivations, such as survival in unpredictable economic conditions, risk management, and financial sustainability, underscoring a close link between sustainability and economic resilience. Additional factors include social commitment, corporate goals, innovation, and organisational purpose. For some companies, sustainability is integral to their business model, such as in farming or sustainability-related services, while others emphasise environmental protection, energy efficiency, and corporate growth. Several respondents also view sustainability as a moral imperative, seeing it as the "right thing to do" and essential for the long-term health of society and the planet.

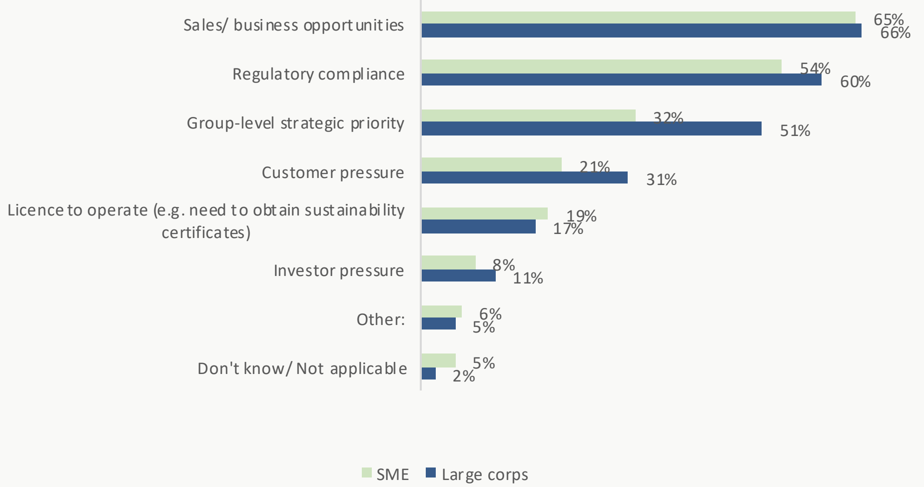
Group-level strategic priority is more a driver for large companies compared to SMEs

Large companies highlight a higher number of drivers for sustainability compared to SMEs, with the most significant difference seen in group-level strategic priority. As expected, large companies face more pressure to prioritise sustainability at a group level. Additionally, large companies experience greater customer pressure and investor pressure to adopt sustainable practices.

In contrast, SMEs exhibit a slightly higher degree of drive for sustainability, often motivated by local community expectations and organisational values within sustainable development. This indicates that sustainability efforts are driven by both external pressures and internal strategic goals across companies of all sizes.

Drivers of sustainability (% of respondents)

Drivers of sustainability, divided by company size (% of respondents)



Aligning EU and local sustainability priorities poses a challenge for companies

As the EU legislations are becoming increasingly prevalent in emerging markets, local firms foresee a mismatch between the EU's understanding of sustainability and the local understanding where too little consideration has been made to the local context. This has in instances given rise to a sense of unfairness, requiring active collaboration and support from European actors to counter.

There is a mismatch between EU's understanding of sustainability and local understanding of sustainability

What has become evident from the survey and the conducted focus group interviews is that there is often divergent opinions concerning what sustainability denotes between European and local actors. Local perspectives often emphasise job creation, stable incomes, and economic development as key elements of sustainability, which can diverge from and clash with the EU's focus on CO_2 emissions reduction, resource minimisation, and ensuring fair labour conditions. This divergence help explains why firms claim to prioritise sustainability efforts highly yet exhibit low awareness of the reporting mechanisms for foreign sustainability directives.

A perceived divergence between foreign and local sustainability priorities may create a sense of unfairness and "ESG colonisation"

Based on the disparity in sustainability understanding, interviews highlight that companies perceive foreign sustainability directives as overly rigid and insufficiently attuned to local contexts, including readiness levels and key developmental goals in each markets or regions. Interviewees emphasise the need for exemptions and phase-in processes to facilitate a just transition, allowing local developmental goals to align more effectively with European ESG priorities. Given the existing challenges in aligning foreign and local sustainability priorities, companies expressed concerns that additional requirements could aggravate perceptions of unfairness – where terms like "ESG colonisation" were put forward to articulate such worries.

Aligning foreign sustainability priorities with local developmental goals will be a challenge and require active collaboration between European and local actors

Considering the low awareness of European ESG legislation and the potential mismatch in priorities between foreign and local actors, it is evident that alignment will pose a challenge for local companies. In more mature markets such as India, Türkiye, Colombia and South Africa, similar legislation to that of the EU has already been initiated to enhance awareness and readiness. However, many firms in less developed markets emphasise the need for elements of a just transition to be integrated, necessitating active collaboration and support from European actors to facilitate trade.

Customer Demands & Business Impact

Companies were asked whether they experience receiving customer demands, and if yes, what type of business impact it has/or will have on their company.

Key take-aways from Customer Demands & Business Impact

This section focuses on the findings of the theme of customer demands and business impacts across geographies. On this slide, key findings on customer demands and business impacts are presented.

1 Customer-driven sustainability demands are a frequent consideration for local firms

Local companies are increasingly encountering sustainability demands from their customers, with a majority reporting a recent increase. Meeting these demands is crucial for retaining clients and capitalizing on future business opportunities. While there has been a recent increase in such demands, the full impact of upcoming EU sustainability regulations on local firms is yet to be seen. Therefore, local companies should prepare for heightened customer expectations regarding sustainability.

2 Environmental demands are key issues for companies

Companies experience that sustainability demands from their customers primarily focus on environmental topics, across both large companies and SMEs. However, there is a notable discrepancy between perception and reality regarding sustainability issues. Despite a belief that environmental topics dominate sustainability discussions, survey findings show that companies more frequently encounter social and governance demands.

3 The type of sustainability requests received varies with company size

While the study reveals that environmental certifications, occupational health and safety, and business ethics policies are key requirements for all companies, there is often significant differences between large and small firms in the sustainability demands they face. Large companies face a wider range of demands compared to SMEs, particularly concerning greenhouse gas emissions, supply chain labor practices, and governance standards like whistleblower protection. SMEs generally face fewer and less diverse sustainability demands but should prepare for increasing expectations as regulatory requirements evolve.

4 New sustainability customer demands are set to influence business operations

Most companies anticipate that customer sustainability demands will significantly impact their operations, requiring the development of new production processes, technological advancements, and rigorous sustainability compliance measures. While many recognize the potential benefits of new sustainability demands, such as innovation, market differentiation, and consolidation, almost half of the firms also acknowledge the presence of associated trade barriers.

5 Positive and negative impacts on companies due to customer demands are foreseen

Companies anticipate various impacts from responding to customer sustainability demands. On the positive side, they expect enhanced brand reputation and increased sales through new market access. However, they also foresee increased operational costs due to sustainability investments and regulatory compliance. Concerns extend to trade dynamics, where companies fear that stricter sustainability requirements in regions such as the EU could reshape existing trade patterns and prompt them to explore markets with less stringent regulations.

6 Ownership-structures affect customer demands

Foreign-owned companies receive more detailed and specific customer requests across environmental, social, and governance aspects of sustainability compared to locally-owned companies. These requests often involve providing GHG emissions data, environmental certifications, and comprehensive sustainability reporting. In contrast, locally-owned companies receive more demands related to sustainable packaging, while joint ventures report fewer requests on traceability. Additionally, locally-owned firms express less optimism about some of the potential benefits of increasing sustainability demands, particularly regarding brand and reputation enhancement.

Customer-driven sustainability demands are a frequent consideration for local companies

The study indicates that most companies have experience with sustainability-related demands from customers, and that there has been a steep increase in the number of sustainability demands that local companies are facing.

Most firms are acquainted to sustainability demands from their customers

A vast majority of the studied companies highlight that they have experience receiving sustainability-related demands and requests from their customers. Even if such demands are more common for large companies (82%), a majority of SMEs (62%) also experience such requests. The request are usually communicated through written communication, even though companies state that they to an increasing extent have been sustainability requirements being incorporated into official agreements or in the code of conducts of European firms. Understanding what is demanded of them can often be a challenge for local companies, wherein request coming from smaller European companies can be particularly unfocused.

Yet, the focus group interviews also revealed that meeting customers' sustainability demands - whether driven by legislation or voluntary efforts - is crucial for local firms to retain existing customers and capitalize on future business opportunities.

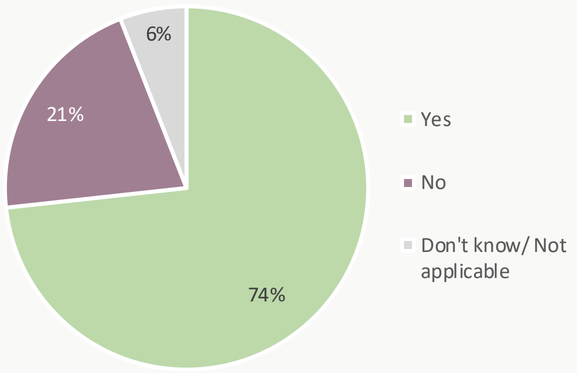
A majority have experienced a recent increase in sustainability customer demands

Companies highlight that they have seen a recent increase in sustainability demands and requests from customers. Thus, there is a trend towards a customer-driven push towards sustainability efforts.

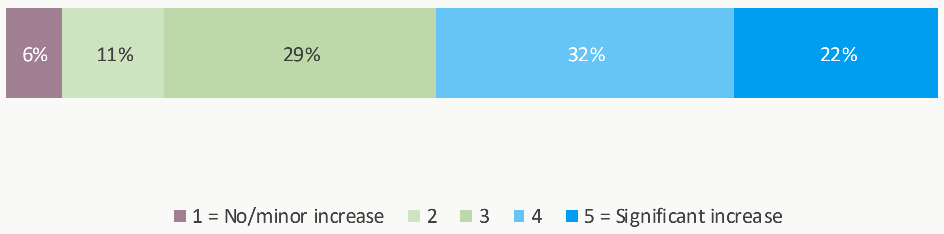
Yet, based on the discussions in the focus group interviews, it seems as if the big effects of the EU's new and coming sustainability regulations are yet to be seen for the local companies. Based on the timeline of the legislation, the EU companies are most likely in the phase of preparing their own operations for the new legislation and have yet to involve their value chains in the efforts. Also, other legislation is not yet in place even for EU companies.

Therefore, non-EU companies should prepare for a coming, bigger push from customers on sustainability demands.

Companies receiving sustainability demands from customers (% of respondents)



Increase in customer sustainability demands last few years (% of respondents)



Environmental demands are key issues for companies

The study indicates that local companies experience sustainability demands to highly revolve around environmental topics. However, it can be discussed whether the perception of the sustainability definition creates a bias towards environmental aspects, as governance and social demands are at the top when assessing the number of requests.

Companies experience sustainability demands to largely focus on environmental topics

The studied companies report that customer requests primarily center on environmental topics, with minimal variation between large companies and SMEs. Focus group discussions underscore that sustainability is frequently associated with environmental considerations, particularly focusing on emission data, environmental certification, and sustainable production processes. Such request poses a significant challenge for local companies, reinforcing the perception of environmental demands as being a dominating narrative in terms of sustainability demands.

The perception of sustainability might bias experience

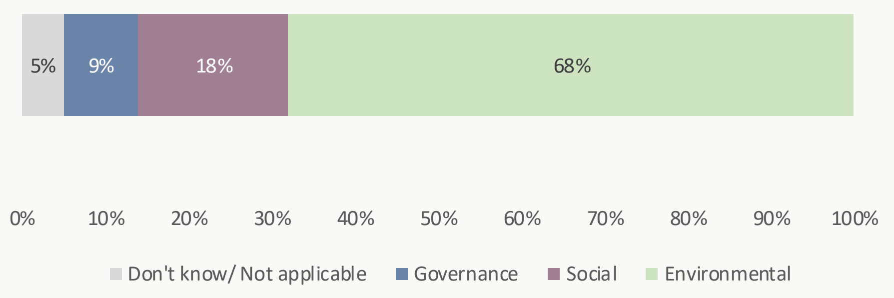
It could be discussed whether previous perceptions about the definition of sustainability biases the discussions and survey results on what topics are the most requested by customers.

In the survey, despite the overwhelming focus on the environment in the diagram to the right, when asking about specific requests, social and governance aspects are ranked at the top - above any environmental topics. Business ethics policies are ranked highest, followed by occupational health and safety.

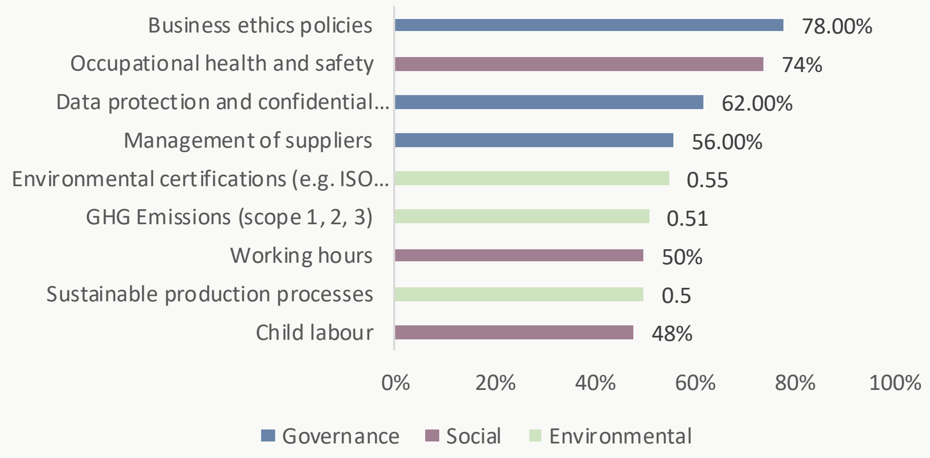
Thus, it can be discussed whether companies equate sustainability with environmental aspects, missing the broader definition of sustainability to also include the social and governance perspectives.

In this report, the lack of overall awareness of sustainability is highlighted. The experienced challenge of separating between sustainability and the environmental dimension adds to the conclusion that there is a need to increase the knowledge and awareness about sustainability in general, and from a business opportunity perspective in particular.

Focus of customer sustainability demands (% of respondents)



Focus of customer sustainability demands (% of respondents)



The type of sustainability requests received from customers varies with company size

The study indicates that customers' top demands include environmental certifications, occupational health and safety and business ethics policies.

Large companies experience more sustainability demands than SMEs.

Environmental demands

Analysing the survey results of all companies, environmental certifications such as ISO 14001 are the most frequently requested by customers. However, the study reveals significant differences between large companies and SMEs. Large companies show greater familiarity with demands related to GHG emission data and calculations compared to smaller firms. Considering the evolution of EU legislation, particularly the CSRD mandating GHG calculations for many companies, customer demands for collecting and reporting GHG emissions will likely increase. Therefore, it is crucial for SMEs to prepare themselves to capitalize on the business opportunities that will arise.

Moreover, requests for emission data seems to be notably more prevalent in developed economies such as Türkiye, Colombia, and South Africa, in contrast to less developed markets like Eastern Africa, wherein certifications remain popular.

Social demands

Occupational health and safety is highlighted as the most common customer request on social sustainability across all markets.

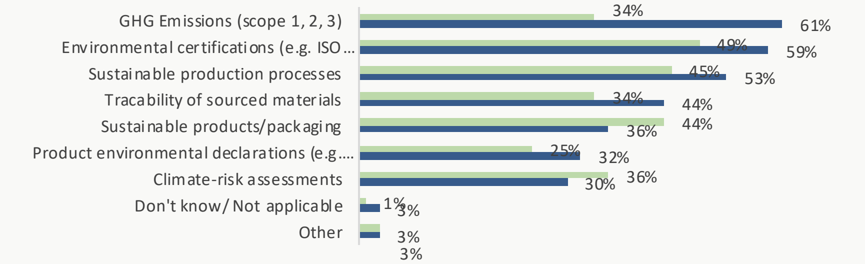
Large companies generally have more experience in addressing specific social customer requests, particularly regarding value chain due diligence, as highlighted by their responses on "labor practices in your supply chains." In contrast, SMEs typically face fewer customer demands on many social topics. However, with legislation like the CSDDD, social requests from customers are likely to rise. Therefore, local firms must increase their awareness of these potential future demands.

Governance demands

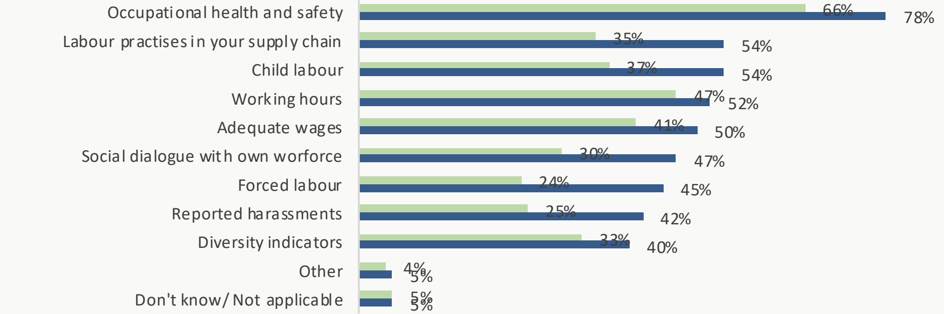
Business ethics policies seem to be the most common governance sustainability demand from customers.

In line with environmental and social requests, there are differences between large companies and SMEs. Not surprisingly, customers seem to have higher demands on large companies for management of suppliers and protection of whistle-blowers. As the demands grow for sustainability in general, it can be expected that the requests on SMEs on governance issues might increase over time.

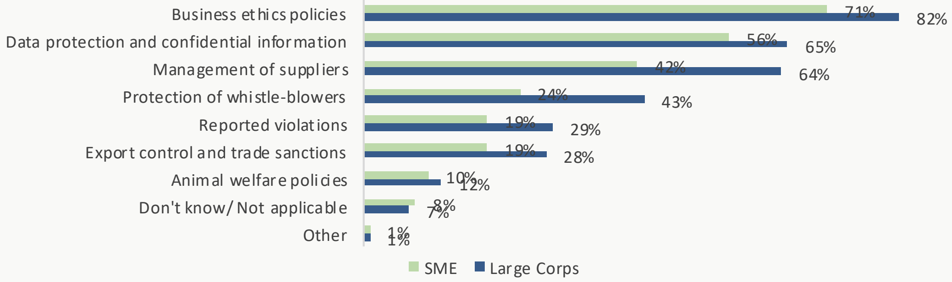
Focus of customer environmental demands (% of respondents)



Focus of customer social demands (% of respondents)



Focus of customer governance demands (% of respondents)



New sustainability customer demands are set to influence business operations

The study indicates that most companies expect their operations to be significantly impacted by customer sustainability demands. While many emphasize the potential business opportunities, 49% also perceive these demands as concurrent trade barriers. Both large and smaller companies anticipate substantial effects, with larger companies generally more optimistic about the outcomes.

Most companies estimate that customers sustainability demands will have an impact on their operations

Most companies argue that the sustainability demands from their customer will have an impact on their business operations, necessitating the development of new production processes, technological advancements as well as rigorous sustainability compliance measures. Interestingly, there are minimal discrepancies between large companies and SMEs; 67% of surveyed large companies report a relatively high or significant business impact, while 61% of SMEs share this sentiment. While focus group interviews consistently highlighted that SMEs, which struggle with resources, will primarily bear the negative business impacts of new demands, it was also noted that SMEs may have less export exposure to the European market. Hence, they might be less affected by any new requirements.

Both large and small firms also emphasize that new sustainability demands will result in improved working conditions for employees and more attractive companies.

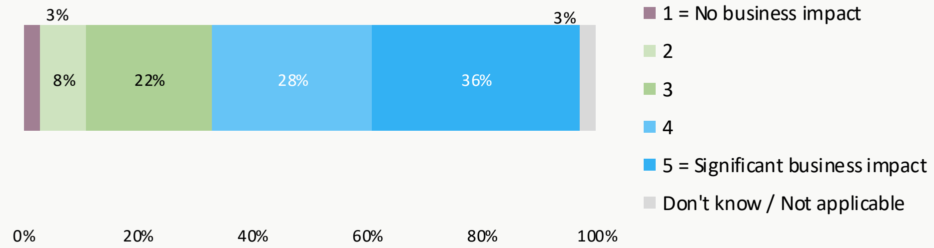
Most companies see potential in new sustainability demands but also recognize associated trade barriers

When discussing whether the business impact is positive or negative with companies, the answer is dual. Most companies consider it to be a business opportunity. However, many also see it as a trade barrier at the same time.

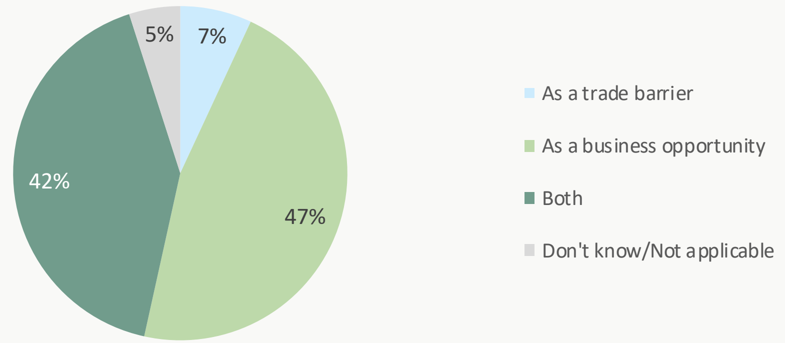
Large companies are the most positive, with focus group interviews indicating expectations of market consolidation that could lead to new business opportunities. Similarly, companies are increasingly recognizing the shift of finance towards sustainable business models, thereby identifying emerging business prospects.

SMEs also exhibit positivity, acknowledging potential business opportunities in sustainability, despite concerns over potential trade barriers. This latter view was particularly reinforced in many focus group interviews when discussing the specifics of new European ESG legislation.

Expected business impact of sustainability demands (% of respondents)



Perceived business impact of sustainability demands (% of respondents)



Companies foresee both positive and negative effects of customer demands

The study indicates that companies predict both positive and negative impacts on their business from increased demands. The impacts include enhanced brand, increased sales, and increased costs.

However, despite the companies' positive outlook on increasing demands, they also highlight a risk of changed export markets due to high demands.

Companies predict enhanced brand, increased sales, and increased costs

Zooming in on the predicted consequences on the company operations from the sustainability demands, positive and negative aspects are highlighted in the study.

Enhanced brand, increased sales and increased costs are considered the main business impacts. Large companies consider enhanced brand and reputation as a more likely effect compared with SMEs, with focus groups interviews indicating that larger companies better understand how an improved reputation leads to better access to finance, new customers, and skilled employees.

Many companies predict increased costs. Therefore, to ensure that the companies' positive outlook remains, it is important to strengthen and prepare the companies to minimise the negative impacts of potential increased costs and trade barriers.

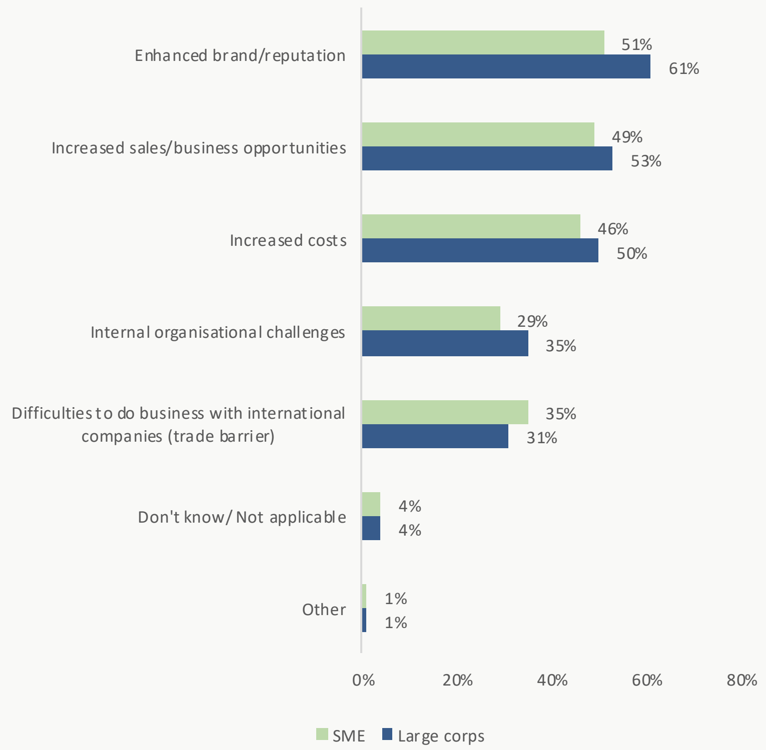
Risk of changed export markets due to high demands

Even though many of the companies are positive about potential business opportunities coming with increased demands, there is also a fear among the companies of increased trade barriers.

The findings that companies have both positive and negative outlooks on how their business will be impacted by demands were confirmed by the discussions in the focus group. Companies even highlighted the fear of demands becoming so high and complex that companies eventually choose to export and collaborate with other markets than the EU which apply less stringent sustainability demands. Ultimately, this could lead to geopolitical shifts in global trade patterns.

Such a development would have detrimental implications from multiple perspectives. The EU's sustainability ambitions aim to drive positive change along its companies' value chains. However, if value chain actors opt for other markets, it will not only pose significant risks for European companies in securing their supply chains, but also hinder global sustainability progress.

Expected effects of sustainability demands (% of respondents)



Ownership-structures affect customer demands

The. study indicates that foreign-owned companies seem to receive more specific customer requests on sustainability compared with locally-owned on all three dimensions of sustainability.

In addition, locally-owned firms are less optimistic about enhanced brand from demands

Foreign-owned companies receive more specific customer requests on sustainability compared with locally-owned

In general, foreign-owned companies seem to receive more specific customer requests on sustainability compared with locally-owned. This is accurate for all three dimensions: environmental, social, and governance.

On the environmental side, examples of aspects where fully foreign-owned companies stand out compared with the other categories are requests for GHG emissions data and calculations as well as environmental certificates.

The locally-owned companies state that they receive more demands on sustainable packaging compared to the average company. Joint ventures receive instead a low number of requests on traceability. However, this could be affected by a lower number of participants in the study from joint ventures.

In the focus group interviews, it is highlighted that value chains with complex structures and many small firms will most likely have more difficulties to meet the demands. Value chains with few and large companies, such as mining, are probably more ready to meet the demands of their customers.

Locally-owned firms are less optimistic about enhanced brand from demands

Locally-owned firms are less optimistic about some of the potential benefits of customers' growing sustainability demands. The biggest difference compared with the other categories of companies is the outlook of enhancing brand and reputation. Even if 51% agrees with the statement that customers' impact will enhance their brand and reputation, it is still significantly lower than the 68% of the companies having full foreign ownership.

It is interesting, though not surprising, that the perceived opportunities for gaining business through positive branding diminish as the market focus shifts away from the EU and international markets. Derived from the focus group interviews, it remains clear that locally-owned firms experience less customer sustainability pressure from domestic markets, resulting in less recognition and reward for their sustainability efforts. As a result, the business case for sustainability becomes less visible and more doubtful.

Following the above, many locally-owned firms perceive sustainability initiatives as acts of "doing good," primarily undertaken by large corporations, rather than as genuine business opportunities. While the long-term perspective is shifting and locally-owned firms are beginning to experience increasing sustainability pressure, the significant push and reward for sustainability efforts have yet to materialize, leading to less optimistic outlooks.

Readiness & Support

Companies were asked about their experience with current and future sustainability demands, barriers faced, and the need for support in working with sustainability.

Key take-aways from Readiness & Support

This section focuses on the findings of the theme of readiness and support across geographies. On this slide, key findings on readiness and support are presented.

1 Companies have moderate experience in meeting current sustainability demands

The study indicates that non-EU companies have moderate experience in meeting *current* sustainability demands. With an anticipated increase in sustainability demands, driven primarily by upcoming EU legislation, companies must significantly improve their capabilities to meet these upcoming requirements. The study also highlights a readiness gap between large companies and SMEs, with larger companies generally exhibiting greater experience in sustainability practices. This gap suggests that larger firms are better equipped to handle the sustainability demands from international and EU counterparts.

2 SMEs need more experience to prepare for future sustainability demands

SMEs generally exhibit less experience in addressing specific sustainability requirements compared to larger companies, emphasizing the need to enhance their capabilities to prepare for and capitalise on any business opportunities. In contrast, larger companies demonstrate greater readiness, having established processes and resources to manage sustainability practices. However, both large companies and SMEs face significant challenges when it comes to collecting and reporting data from their value chains.

3 Lack of resources, knowledge, and finances limit sustainability progress

The study identifies lack of resources, knowledge, and financial as primary barriers hindering companies' progress on sustainability. Financial limitations pose challenges in affording necessary resources and building essential knowledge and competencies. While there are small differences between SMEs and large companies in their perceived barriers to sustainability progress, both face similar challenges related to resources, knowledge, and financial constraints.

4 Companies need more knowledge and support to benefit from the opportunities

Companies, particularly SMEs, face challenges in staying updated on international legislation while also navigating national laws, customer demands, and voluntary frameworks. This study highlights a critical need for enhanced knowledge about international legislation and hands-on support tools. While financial support remains a key priority for both small and large firms – somewhat higher for small firms - these other factors are seen as even more crucial. Nonetheless, lowering the financial barrier to sustainability progress will be a key priority going forward.

5 Trade and business associations can play an important role in accelerating sustainability progress

Given the limited financial resources of local firms, particularly SMEs, and the general heavy reliance on external consultants for gaining access to sustainability knowledge, trade associations, and business networks play in supporting local firms on sustainability initiatives. Not only can they provide crucial expertise and knowledge on international legislations, but also help lowering existing financial barriers to sustainability progress through training and industry-wide upskilling efforts. In comparison to large firms, SMEs express a stronger desire to utilize associations and networks for sustainability support.

6 Readiness and support needed vary by industry and value chain characteristics

Smaller companies typically demonstrate lower readiness in addressing ESG issues compared to larger firms. This readiness gap underscores varying support needs across industries and value chains. Sectors dominated by small companies, such as agriculture, require targeted assistance due to limited sustainability resources. Moreover, companies involved in complex value chains with numerous small actors encounter challenges in implementing due diligence and sustainability reporting, necessitating comprehensive training throughout the entire value chain to enhance skills at all levels.

Companies have moderate experience in meeting current sustainability demands

The study indicates that non-EU companies possess moderate experience in meeting *current* sustainability demands but need to make significant improvements to meet upcoming requirements. It also highlights that large companies generally have more experience in this regard compared to SMEs.

Room for development regarding local firm's experience of addressing sustainability demands

The study highlights that non-EU companies seem to have moderate experience in meeting sustainability demands. Only 38% of the survey respondents state to be relatively or highly experienced in the matter, indicating room for development.

These findings are also supported by the discussions in the focus groups interviews.

Since the study also indicates that there will be an increase in sustainability demands, partly due to new and coming EU legislation that is yet to fully effect the companies with full effect, companies must gain more experience to fully benefit from the potential benefits and business opportunities.

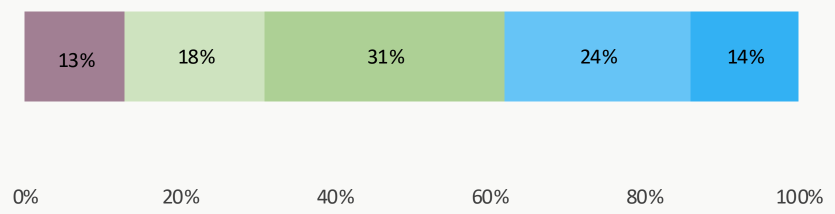
Larger companies have more experiences than SMEs

The study shows that larger companies are more experienced than SMEs regarding sustainability demands. From the survey, the average experience for SMEs is 2.8 on a scale from 1 to 5, while large companies have an average of 3.3. This supports the hypothesis regarding large companies having a larger readiness to meet the growing demands from international and EU companies.

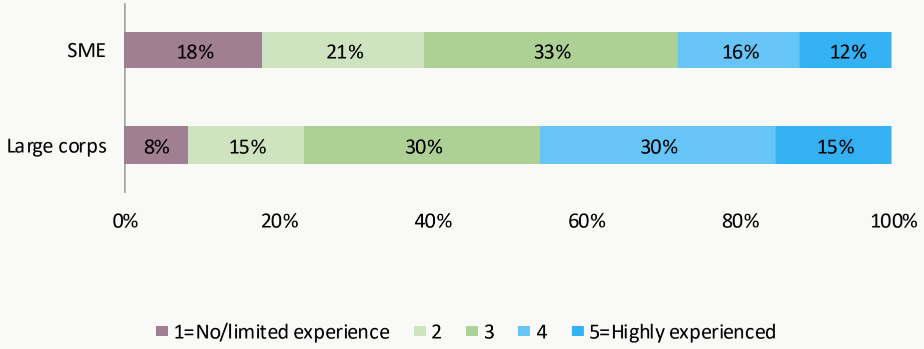
These findings highlight a need for particular support for SMEs. Support for SMEs is not only important for the specific companies, but also crucial to achieve the desired effects of the EU's legislative sustainability push. Since SMEs are important parts of EU companies' value chains, it is key that SMEs are progressing and develop towards sustainability for EU companies to achieve their sustainability goals.

EU companies rely on SMEs to collect and report data for their own reporting. Therefore, for the market to advance in sustainability reporting as envisioned by the EU, SMEs in non-EU countries must acquire additional experience.

Experience in working with sustainability demands (% of respondents)



Experience in working with sustainability demands (% of respondents)



SMEs need more experience to prepare for future sustainability demands

The study shows that SMEs generally have less experience with specific sustainability requirements, underscoring the necessity for enhanced capabilities to capitalize on future business opportunities. Both large companies and SMEs find collecting and reporting data from the value chain challenging.

Generally lower experience among SMEs on specific sustainability demands

The study indicates that SMEs have generally lower experience regarding specific sustainability demands.

The survey results highlight that there are no large differences in experience for SMEs between the different topics. The biggest differences between SMEs and large companies are on the topic of collecting and reporting environmental data; 64% of the large companies report to be relatively or highly experienced, but only 32% of the SMEs.

Focus group interviews revealed that smaller firms not only lack access to information channels needed to build capacity but also face financial constraints that prevent them from hiring external consultants and investing in new capabilities - as larger firms - to address sustainability demands. As a result, sustainability is often seen as a costly attribute that primarily larger companies can afford and turn into a competitive advantage.

Collecting and reporting value chain data highlighted as difficult to achieve

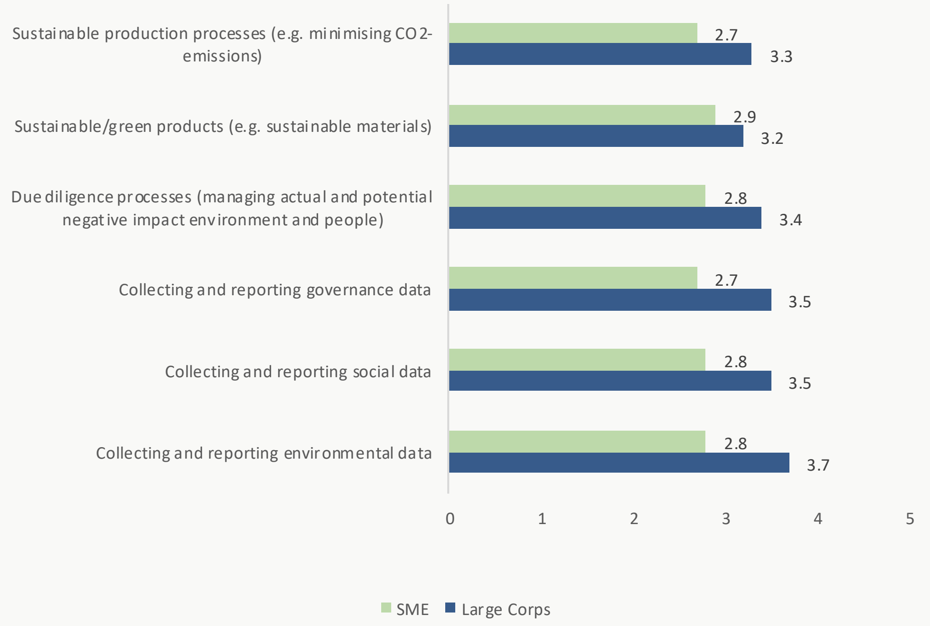
The study highlights challenges of collecting and reporting value chain data. In the focus group interviews, participants expressed that even for large companies working with data for their own operations, they struggled with collecting and reporting data for the value chains, mainly upstream data. For SMEs, the issues with value chain data were even more challenging than for large companies.

The EU's sustainability legislations, including the CSRD, EU Taxonomy and CSDDD, expand the focus on companies to take responsibility for its value chains beyond the companies' own operations. The legislations also emphasise collecting and reporting data from their value chains, including upstream data on topics such as GHG emissions, working conditions and circularity.

With a growing focus on collecting and reporting data from the EU, to benefit from future business opportunities and not lose business to competitors from other markets, the companies must overcome the challenges of data from the value chains.

This highlights the need of supporting companies with their management and practices of supply chains. It is important to enable companies to meet their customers' demands of value chain data and practices.

Experience in working with specific sustainability demands (Average on a scale of 1 – 5)



1 = No/limited experience
5 = Highly experienced

Lack of resources, knowledge and finances limit sustainability progress

The study indicates how lack of resources, knowledge and finances are considered key barriers, and thus, limit sustainabilityprogress for non-EU companies. It also shows small variation between large companies and SMEs on this matter.

Lack of resources, knowledge and financial constraints are key barriers for companies

The study identifies several barriers hindering progress on sustainability. The studied companies argue that key barriers include lack of resources, knowledge, and financial constraints.

With financial constraints, it is difficult to afford the resources needed as well as to build knowledge and attract the right competencies. These findings highlight the need for support that builds and gives access to knowledge and resources, e.g. through trainingand networks.

Considering the importance of support from management for companies' sustainability progress, it is interesting that supportfrom management is not considered a key barrier for the companies in the study. That is positive for the companies' possibilitiesto benefit from coming business opportunities.

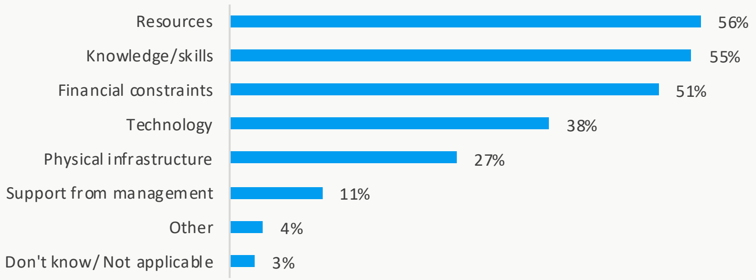
Small variations between large companies and SMEs' barriers to progress

The study shows that there are small variations between SMEs and large companies regarding barriers to sustainability progress. The study indicates that lack of resources, knowledge and financial constraints are top barriers for companies regardless of company size.

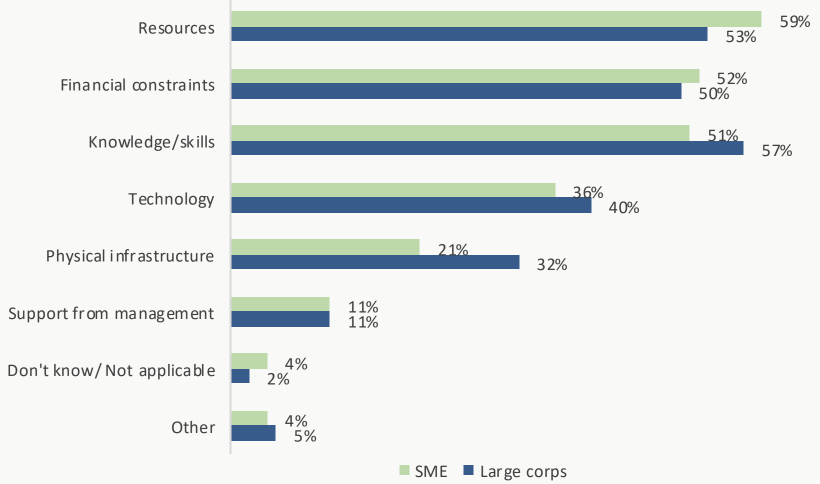
The most significant disparity between the two company sizes lies in the perception of physical infrastructure as a barrier,which SMEs view as more problematic compared to larger firms. This discrepancy may stem from sector-specific differences, whereas industries like agriculture – mostly populated with smaller firms – experience that physical support structures are more limited.

Overall, both large and small firms indicate that obtaining support from management is not a challenge when driving sustainability efforts.

Perceived barriers for progress in sustainability work (% of respondents)



Perceived barriers for progress in sustainability work (% of respondents)



Companies need more knowledge and support to benefit from the opportunities

The studied companies wish to receive support with increased knowledge about international legislation, hands-on support, and support with concrete tools. While financial support remains a key priority for both small and large firms, these other factors are seen as even more crucial. Lowering the financial barrier to sustainability progress will be a key priority going forward.

Knowledge about international legislation as well as hands-on support and tools highlighted as wanted support measures

It is a challenge for non-EU companies to be updated on EU legislation while also making sure to have knowledge about national laws, legislations from other regions, voluntary frameworks and other demands from customers.

In the focus group interviews, the challenge of gaining access to knowledge about international legislation has been discussed. In general, there are few national experts with deep insights into international regulatory requirements and their implications for local firms. Continuing, according to the interviews, the local consultants often do not have enough knowledge about international and EU legislation to support local companies.

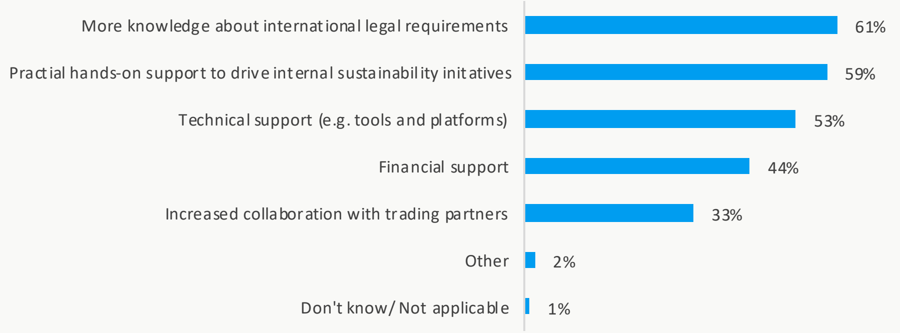
Thus, to ensure that local firms can benefit from growing sustainability opportunities and for EU companies to get access to the supply chain data they need to make their sustainability transformation, business associations and other networks have a crucial role to play.

SMEs wish also for financial support

In addition to knowledge about international legislation as well as hands-on support and tools, SMEs also express a wish for financial support.

As explained on the previous page, financial constraint is considered a key barrier for both large companies and SMEs. Both groups of companies express a wish for financial support, but it is a more prioritised question for SMEs than for large companies due to the general lack of resources. Focus group interviews underscored that this challenge is closely linked to demonstrating the business case for sustainability and providing financial incentives for sustainability initiatives. Addressing these concerns and reducing the financial barriers to sustainability progress will be a critical priority moving forward.

Needed areas of support (% of respondents)



SME-specific needed areas of support (% of respondents)

Trade and business associations can play an important role in accelerating sustainability progress

The study highlights that companies often seek support from external consultants, associations, and networks for sustainability matters. Due to their constrained financial resources, SMEs have less ability to access sustainability knowledge through external consultants. In this context, trade associations and business networks play a crucial role in supporting local firms for sustainability progress and meet any new upcoming demands.

External consultants, associations and networks are key for enabling companies to benefit from opportunities

The study shows that local firms turn to external consultants, associations, and networks for support on sustainability matters. While external consultants often are used for provide hands-on support on specific requirements, many companies state that trade and business associations not only help provide crucial expertise and knowledge on international legislations, but also forums for information-sharing and best practise.

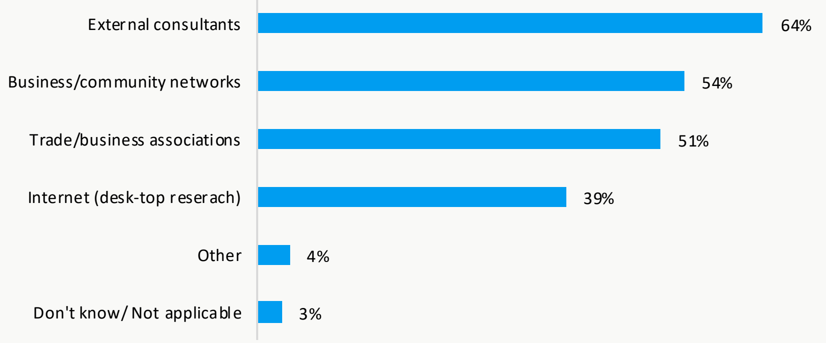
As noted earlier, a recurring challenge identified in the focus group interviews is the lack of expertise among local consultants regarding international legislation. Therefore, many regard associations and networks as crucial players in facilitating access to insights and skills on this topic.

SMEs rely less on external consultants

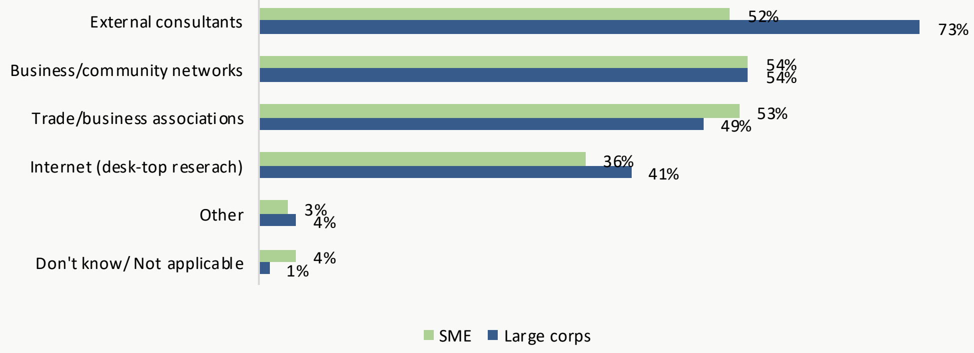
The study indicates that SMEs rely less on external consultants than larger companies. Instead, SMEs highlight that they turn to associations and networks for support with sustainability-related questions more than large companies.

This trend is largely attributed to SMEs having fewer financial resources dedicated to sustainability efforts and their greater need for financial support to overcome barriers to progress. Consequently, due to the high costs associated with using external consultants, SMEs are expected to utilize them less than larger companies. Trade and business associations can therefore play a pivotal role for such firms in mitigating existing financial barriers to sustainability progress through training, knowledge sharing, and industry-wide upskilling initiatives.

Sources of knowledge and support (% of respondents)



Sources of knowledge and support (% of respondents)



Readiness and support needed vary by industry and value chain characteristics

Given the lower readiness among smaller companies to address ESG issues, it is evident that the necessary support varies across industries and value chains. Sectors with numerous small entities, such as agriculture, may require targeted assistance due to the generally more limited resources available to prioritise sustainability work. Similarly, companies operating within complex and extended value chains face challenges in implementing due diligence processes and embedding sustainability reporting practices among their sub-suppliers. Comprehensive value chain training will be crucial to ensure upskilling at all tiers.

Industries and value chains with many small actors will be particularly vulnerable to new demands and will require extra resources

While general readiness to meet new sustainability demands remains limited across all markets and sectors, the study highlights the pronounced vulnerability of smaller locally owned firms, which often face challenges due to limited access to capital and expertise. Consequently, industries with a high prevalence of small companies and a larger dependency of informal labour, such as agriculture, textile and apparel or food processing, will need extra support and tailored programmes to improve their sustainability practices effectively. Identification and prioritisation of sectors with such characteristics, predominantly found in Eastern Africa, should involve collaboration with local partner organisations to ensure targeted support and meaningful impact.

Effective implementation support and best practices necessitate industry-specific application

Based on varying readiness levels and the unique characteristics of each value chain, companies in the focus group interviews also sought best practices tailored to their industries, especially regarding the implications of new legislation. As a result, there is a clear distinction between general awareness-raising efforts, which cover policy development and potential implications, and practical implementation support, which focuses on the specific adjustments needed within each industry. Going forward, it will be important to focus on both these parameters to enhance the ESG readiness level of local firms.

Comprehensive value chain training will be key to respond to new reporting requirements and embed due diligence work at all tiers

Based on the interviews conducted, it is apparent that larger local companies identify embedding sustainability practices across their local value chains as a critical challenge in meeting new sustainability demands. This challenge persists even in more mature markets like South Africa, Türkiye and Colombia, where large companies face difficulties in establishing standardised sustainability practices, such as accurate emission calculations, along their value chain. As such, there is a need to identify best practise and establishing practical hands-on support for value chain cooperation.

FINDINGS & RECOMMENDATIONS

Recommendations

This section focuses on recommendations for continued progress and support. The section is focused on three stakeholders; business associations, European companies, and European policymakers.

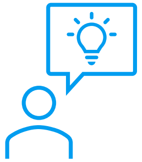
Recommendations for European Business Associations

This section focuses on recommendations for European business associations to support continued progress and development.

Implement awareness training

Given the low awareness and understanding of ESG and EU sustainability legislation, there is a strong need to increase knowledge across all markets. Many smaller companies find ESG language intimating, and business association can play an important role in bridging this gap. This involves implementing introductory ESG training for SMEs to establish a foundational understanding of what ESG entails and the business opportunities it presents. Given the significant gaps in this basic understanding identified in the study, scalable training programs using digital learning platforms would be advantageous.

For larger companies and companies with higher awareness level, advanced trainings are proposed that focus on upskilling in relation to specific legislations and ESG areas (e.g., reporting or due diligence). Given the limited expertise of local market actors such as consultancies and business organisation – as highlighted in the study by the companies – upskilling efforts should also target such local support functions.



Provide active facilitation between local and European companies

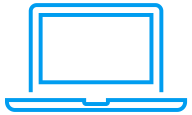
Local companies are clearly seeking more active dialogue with European customers to interpret new sustainability demands and obtain best practice guidance for implementation. Currently, many companies in emerging markets feel that the demands are one-sided, with limited understanding of how to meet these requirements and initiate dialogues with European companies.

Therefore, there is a pressing need to establish more forums where European and local business associations can facilitate direct contact between businesses in their respective markets. This underscores the necessity for active partnerships between European and local business associations.

Establish digital support centres

To enhance support effectiveness and increase accessibility to a wider range of companies, implementing digital support centres that operate across markets is recommended. Many smaller companies struggle with resources and the heavy reliance on external consultants to address sustainability demands make sustainability work an expensive trait. Therefore, there is a significant need for affordable solutions that provide access to knowledge and best practices.

Such centres would provide timely updates on new requirements, interpret legislation, offer basic training modules, and equip companies with tools for meeting customer demands, including standardized emission data collection and reporting. The solution could be easily scaled across markets, with local adjustments to be made where necessary.



Provide value chain training

To integrate sustainability practices and mitigate risks throughout the value chain, it is crucial to identify best practices and establish practical, hands-on support for fostering cooperation within the value chain.

It has been observed that even larger companies face challenges in building ESG capacity throughout their local value chains and ensuring consistent sustainability standards and data collection methods across all involved parties. This is especially pertinent for complex value chains and sectors that involve numerous SMEs with limited capabilities to address ESG issues.

Companies accordingly seek sector-specific value chain training that effectively assesses the implications of new legislation and reporting requirements. Such training should involve both European and local actors.

Recommendations for European Companies

This section focuses on recommendations for European companies to support continued progress and development.

Assess value chain readiness

Considering the low readiness of value chain actors in emerging markets to meet new sustainability demands, European companies must assess their value chains.

Low levels of knowledge and skills or a lack of resources among local suppliers constitute risks for European companies, challenging their compliance and their supply chain management.

Also, EU companies must act upon identified risks among suppliers, ensuring their sustainability performance throughout the value chains.

Thus, EU companies must assess their value chains, and develop strategies to enhance upskilling efforts, mitigating the risk of non-compliance.

Scale up communication with local suppliers

Due to the low awareness among local companies, European firms need to scale up communication with their suppliers.

Responding to customers' demands can be time and resource-consuming for their suppliers. With a lack of knowledge on the topic, customer demands can be difficult to interpret for local companies.

EU companies must be clear with their demands and clarify their expectations. Otherwise, there is a risk that local suppliers cannot meet their requests.

Thus, EU companies must support their non-EU suppliers by proactively communicating their anticipated demands, clarifying expectations, and assisting in interpreting requirements for effective ESG implementation.

Prioritise value chain training and establish best practice together with business associations

Given the low readiness level for meeting new ESG requirements and the value chain focus of recent legislation, European companies must cooperate with business associations and prioritise training across the entire value chain, extending beyond their tier 1 suppliers.

Considering the increased co-dependency for companies across value chains, the whole supply chain must increase their knowledge and skills and ensure that all actors pull in the same direction.

Therefore, establishing best standard practices for effective data gathering across all tiers is crucial. Best practice and standardised methods, can also act as support for suppliers, guiding them on how to meet their customers' sustainability demands.

Collaborate long-term with key suppliers

As suppliers' lack of awareness and resources are highlighted in the study as a risk for EU companies, they should initiative and develop long-term collaborations with their suppliers – in particular, with key suppliers providing crucial materials, or where there is a lack of alternative suppliers.

The study highlights that local companies are enthusiastic about improving sustainability efforts and capitalizing on new business opportunities, yet they need assistance and time for the transition.

Therefore, European companies should establish long-term partnerships with their suppliers, recognising that the shift towards sustainable practices takes time. EU companies should consider the progress of their value chains' sustainability performance as a long-term journey. EU companies should support their key suppliers long-term to achieve progress and enable data collection.

Recommendations for European policymakers

This section focuses on recommendations for European policymakers to support continued progress and development.

Allocate resources for enabling just transition in non-European markets

To assist European companies in reducing their negative impacts across the value chain and transitioning towards sustainable practices and business models, resources should be mobilised to companies outside the EU to effectively achieve desired sustainability targets.

The study has indicated that the lack of ESG capabilities in non-European markets poses a risk to European companies and their sustainability trajectory. It also demonstrates that without adequate financial incentives to reduce the barriers for costly sustainability upgrades in emerging markets, progress amongst local companies will become delayed.

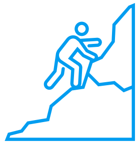
Accordingly, European policymakers need to allocate just transition resources and financial incentives to value chain activities outside of Europe to achieve the desired sustainability goals.

Prevent legislation from becoming trade barriers

It is important to recognize that the EU's rising sustainability demands have significant implications for trade. As highlighted by the study, many companies perceive the new sustainability legislation as potentially becoming a trade barrier, given the limited readiness of local firms. Ultimately, this situation may lead to shifts in geopolitical trade patterns.

To prevent this, European actors should actively work to raise awareness about anticipated new demands and also provide implementation guidance to non-European counterparts. Sustainability should accordingly be integrated into existing trade negotiations, becoming an integral part of all bilateral or multinational trade discussions.

By fostering collaboration and providing tangible support, policymakers can help align global trade practices with evolving sustainability standards, facilitating smoother transitions and reducing the risk of trade disruptions.



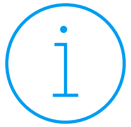
Share information about EU legislation and establish support centres

As highlighted by the study, there is a strong information gap between the EU and markets outside of the EU, concerning both the awareness of the legislation and its potential implication. For enabling non-EU companies to meet customer demands, and benefit from business opportunities, the information gap must decrease.

Policymaker should actively direct resources to improve information channels in non-European market, such as support centres or resource allocation to local business organisations.

It is important to highlight that sustainability is an important part of trading. With increased ESG legislation from the EU, sustainability will become an even bigger part of trading relations.

Therefore, European policymakers must prioritise overcome the existing information gap.



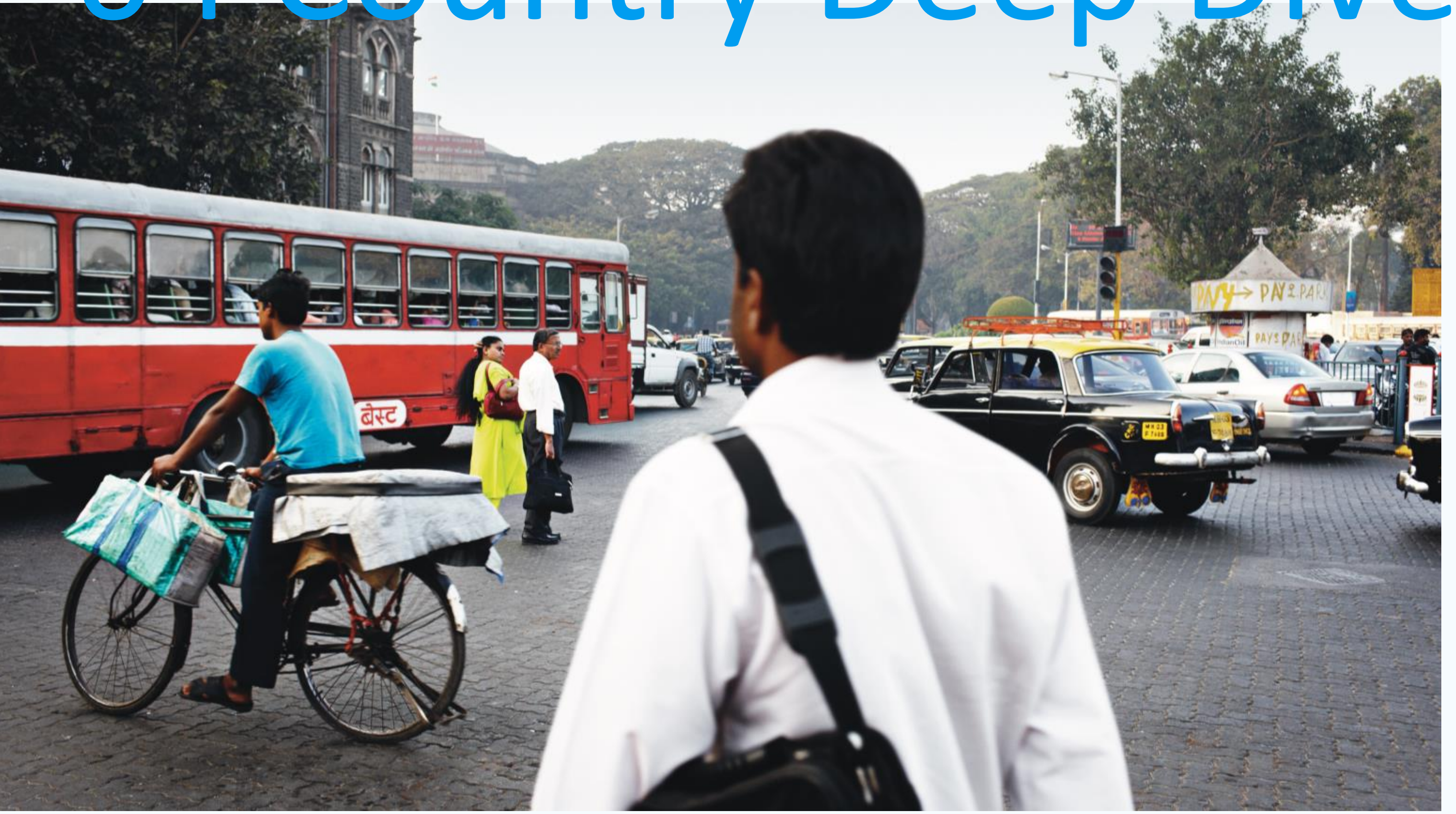
Consider just transition mechanism

Given the low readiness of companies in non-EU markets, policymakers should carefully consider how to provide implementation guidance that allows for phased-in periods and helps companies align EU sustainability demands with local sustainability priorities.

Companies in the study request flexibility in the legislation to account for local contexts and sustainability agendas – wherein sustainability priorities often need to be merged with local developmental goals.

Therefore, European policymakers should incorporate just transition mechanisms into existing frameworks, striving to include all companies in the sustainability transition, including locally-owned SMEs in emerging markets with limited awareness and resources.

04 Country Deep Dives



Colombia

India

Vietnam

The Philippines

Türkiye

South Africa

Kenya

Eastern Africa*

*Burundi, Malawi, Ethiopia, Uganda, and Tanzania

Summary of maturity and support trends for all markets

Based on the study results, several overarching maturity trends and categorisations emerge, which can serve as a framework for assessing needs, organising support interventions, and guiding future work.

South Africa, Türkiye and Colombia

South Africa, Türkiye, and Colombia emerge as the most mature markets in terms of ESG readiness. Domestic sustainability reporting frameworks enhance overall reporting capabilities in each country, and all have adopted policies influenced by existing EU legislation. Despite this maturity, companies still require effective support to meet upcoming demands, particularly in relation to **implementation guidance**, **advanced ESG skills training** and **technological support.**

A significant challenge identified by larger companies in all three markets is obtaining data from smaller suppliers, which requires further attention. Accordingly, the companies stress **awareness-raising interventions for SMEs** and **value chain training** to meet new sustainability demands.

Additionally, ensuring sustainable production processes, such as minimizing CO_2 emissions and producing sustainable products, remains a significant challenge. These difficulties are especially pronounced in Türkiye and South Africa, underscoring the complexities introduced by the CBAM and emphasizing the necessity for **best practices and technological support.**

Moving forward, taking these factors into consideration will be of highest importance for guiding implementation and capacity-building programs effectively.

India and Vietnam

The study results from India and Vietnam are somewhat divided and require closer examination. While survey data indicates a medium ESG maturity, likely influenced by a skewed sample biased towards construction in India and textiles in Vietnam, interviews and desk research provide a more nuanced perspective.

Despite the survey results, India is likely to demonstrate higher ESG maturity than most markets due to its adoption of several legislative frameworks similar to those in the EU, which require companies to incorporate ESG factors into their business operations. In contrast, Vietnam's ESG maturity varies significantly across sectors, depending on the extent of their export ties with the EU.

While both countries actively participate in ESG discussions, their limited familiarity with EU legislation and its implications highlights the need for **targeted training** and **advanced sessions focused on implementation guidance**. This includes initiatives such as **value chain training**, **technological support**, and the development of **tools and platforms** aimed at enhancing skills and effectively addressing emerging sustainability challenges. This is especially evident regarding environmental issues, presenting a significant challenge for companies in both countries to address successfully.

Eastern Africa and The Philippines

Eastern Africa and the Philippines emerge as the least mature ESG markets, exhibiting a very low readiness to meet both existing and upcoming sustainability demands. Both survey results and focus group interviews highlight significant knowledge gaps regarding general ESG awareness and EU legislation. Implementing **broad-based basic ESG training** alongside **awareness-raising interventions focusing on EU legislation** will therefore be the highest priority going forward.

Due to limited local ESG requirements and less demand from local customers, there is a strong need to **highlight the business case** for sustainability, particularly to assist smaller firms in prioritizing and engaging with ESG issues. Such initiatives should include **providing financial incentives** and highlighting new export opportunities. Foreign businesses and trade organisations play a crucial role in reducing financial barriers for these firms.

Targeted industry training and awareness campaigns should prioritise firms operating in key export sectors with a significant number of SMEs, such as agriculture. In this context, simplified value chain training could prove effective in addressing challenges related to reporting and ensuring due diligence processes across all tiers.

Deep dive:
Colombia

Colombia | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Colombia is a top economic performer in Latin America, emphasising balanced growth alongside environmental, climate, and sustainability targets.
- Colombia is considered a beacon in Latin America in relation ESG understanding and reporting. The country has developed a local green bond market and adopted a green taxonomy, integrating ESG factors into financial sector guidelines.
- Colombia is committed to reducing greenhouse gas emissions, achieving carbon neutrality by 2050, and implementing sustainability criteria in infrastructure projects through public-private partnerships.

"Companies approach sustainability for diverse reasons, and we can see differences deepening on factors such as sector and size.

Going forward, incorporating biodiversity into ESG considerations will be a challenge, alongside unaddressed gaps in social aspects.

Even though awareness of these issues is growing among companies, the primary obstacle remains the lack of capacity and expertise, often constrained by financial resources.

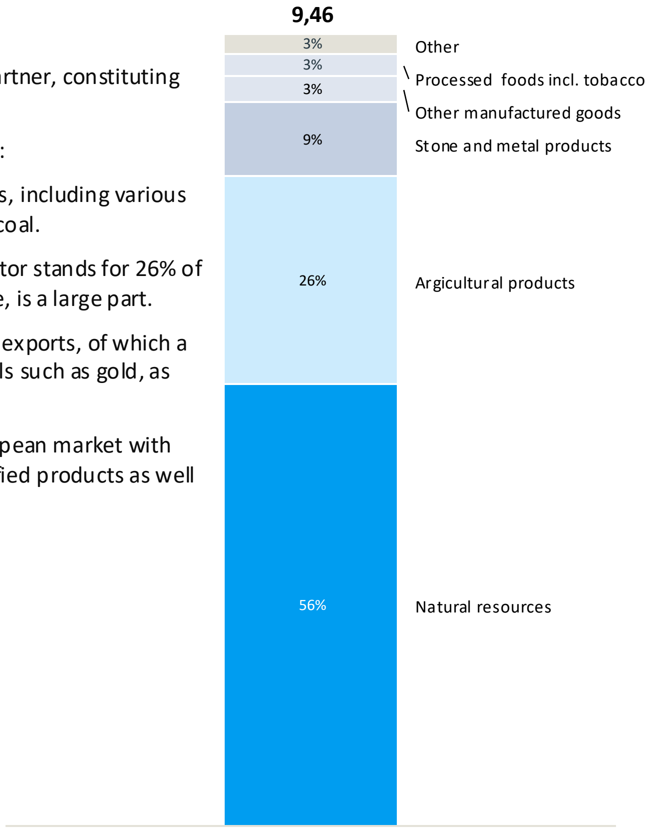
ANDI: Asociación Nacional de Empresarios de Colombia

Key exports from local markets to the EU

The EU is Colombia's second largest export partner, constituting 15% of total exports.

Key exports from Colombia to Europe include:

- **Natural resources** stand for 56% of exports, including various mineral products, mineral fuels as well as coal.
- **Agricultural products:** The agricultural sector stands for 26% of which vegetable products, including coffee, is a large part.
- **Stone and metal products** stand for 9% of exports, of which a majority is pearls and other precious metals such as gold, as well as goods made of base metals.
- Colombian suppliers also provide the European market with goods such as glass and various non-classified products as well as processed foods.



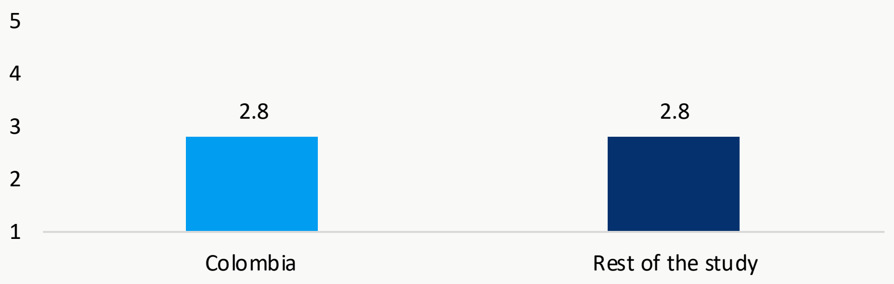
Exports to Europe, *share (%) and total € billion*

Colombia | Awareness & Prioritisation

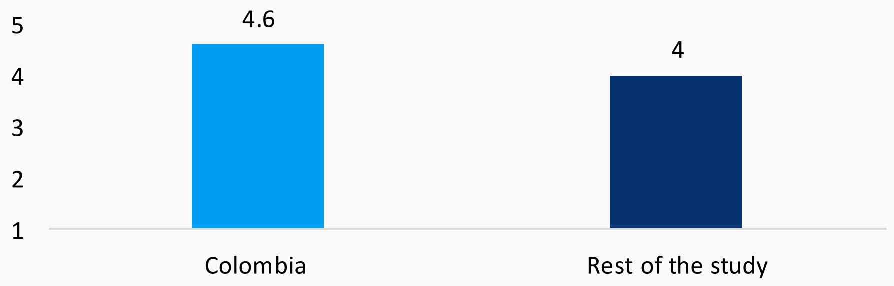
Colombian companies are already prioritising sustainability in their strategies, with support from a national institutional framework, but more awareness is needed about the specific requirements from EU legislation.

- Colombian companies exhibit a limited understanding of EU ESG legislation, in line with the average of the study. Only 28% of the companies state a relatively high/high awareness of the existing legislation, while 42% state no/limited understanding. CSRD remain the most well-known legislation with 38% of the company's stating recognition, followed by CSDDD (29%), Taxonomy (22%) and EU deforestation regulation (21%).
- Colombian firms prioritise sustainability more significantly than firms in the other studied markets. It was emphasised that their sustainability efforts are aligned with strategic priorities at the group level, influenced by public expectation, sales opportunities and regulatory compliance requirements.
- In addition to the above, there is also a strong institutional support underpinning companies' sustainability initiatives. This includes Colombia's commitment to global initiatives, the introduction of a new regulatory framework adhering to international standards, the implementation of new reporting standards and green taxonomy criteria, and the integration of ESG principles into the financial sector, making sustainability crucial for accessing finance.
- Following the above, 97% of the Colombian companies expect to scale up sustainability work in the coming three years.
- In line with the general observations in this study, focus group interviews highlighted a vulnerability among smaller firms with limited resources. Sectors such as agriculture are affected due to the high number of small firms, complex value chains and reliance on informal labour - and does as such require closer scrutiny.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



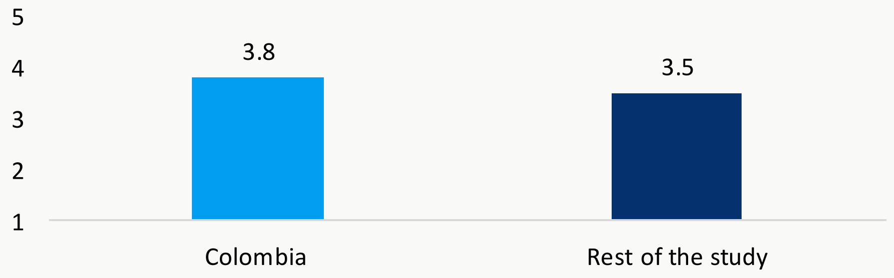
Results based on 100 completed and 36 partially completed survey responses

Colombia | Customer Demands & Business Impact

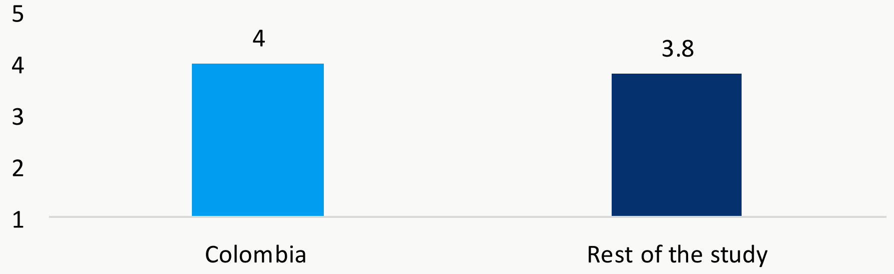
Most surveyed companies have noticed a rise in sustainability demands, particularly environmental demands.

- While 75% of surveyed Colombian companies report ongoing sustainability demands from customers, 68% have seen an increase in these demands. This suggests that nearly all companies exposed to sustainability demands have noticed a rise in such expectations.
- Environmental demands are the most frequent, emphasised by 78% of the companies. These demands largely pertain to providing GHG emission data, obtaining environmental certifications and implementing sustainable production processes. Despite Colombia's large agriculture sector and the introduction of EU deforestation regulations, only 16% of companies have received demands for traceability of sourced materials.
- Occupational health and safety, labour practises in supply chain along with diversity indicators dominate social demands, whereas governance demands particularly pertain to business ethics policies, data protection and management of suppliers.
- From the focus group interviews, companies particularly seem to struggle with emission data along with request that pertain to their own local supply chain.
- In general, Colombian companies foresee a substantial impact from emerging sustainability requirements, with 78% indicating a high or significant influence. While improved brand reputation and better sales opportunities were acknowledged as positive outcomes, particularly in terms of public perception, the firms also highlight internal organisational challenges and increased costs as notable risks, wherein they raise concerns about limited guidance for responding proactively to new demands.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



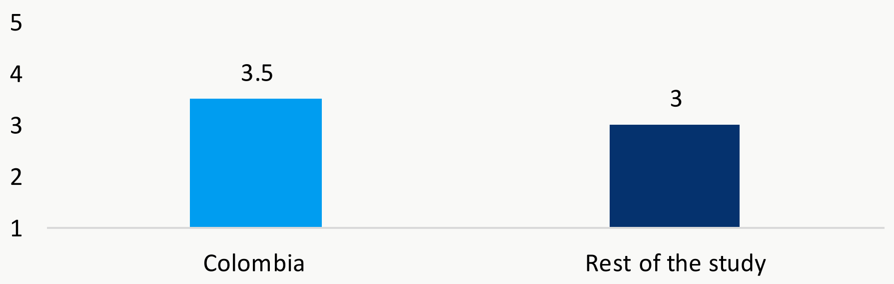
Results based on 100 completed and 36 partially completed survey responses

Colombia | Readiness & Support

Colombian companies primarily see sustainability demands as a business opportunity but need technical and practical support to help ensure sustainable products.

- When assessing their ability to address sustainability demands, Colombian companies perform above the average. Most companies, 54%, see incoming sustainability demands as a business opportunity. Only 5% sees it as a clear trade barrier, whereas 39% sees it as both. However, from the focus group interviews, it became clear that the understanding of the potential implication of EU legislation remains limited, and companies became more pessimistic following a presentation of each legislation.
- Reporting capabilities were rated as high, but companies expressed challenges in obtaining data from their smaller suppliers. Such effects became more pronounced in sectors characterised by many SMEs.
- Similarly to other more advanced sustainability economies in this study, such as Türkiye and South Africa, companies cited difficulties in ensuring sustainable or green products (e.g., sustainable materials) and production processes.
- Resources, knowledge, skills and technology emerged as the top three barriers to sustainability processes. Interestingly, financial resources are ranked fourth, lower than the global average. This trend is echoed in companies' predominant request for technical and practical hands-on support. Seen together with the low prioritisation of enhanced collaboration with trading partners, suggest that Colombian firms have a stronger grasp of sustainability expectations compared to other markets, but face challenges in implementing these expectations, thereby emphasising the need for more hands-on support.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response option	Colombia	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	75%	55%
Technical support (e.g. tools and platforms)	70%	49%
More knowledge about international legal requirements	54%	62%
Financial support	47%	44%
Increased collaboration with trading partners	14%	38%
Other (comment field)	2%	2%
Don't know/ Not applicable	1%	2%

Results based on 100 completed and 36 partially completed survey responses

Deep dive:
India

India | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Indian companies have had a strong focus on energy efficiency since early 2000s, and this is now evolving into an increased focus on tackling CO_2 emissions. This is partly driven by increased regulations, but also as Indian companies acknowledge need to address ESG issues to stay relevant and competitive.
- Two important sustainability regulations including the Business Responsibility and Sustainability Reporting (BRSR) for the largest 1000 listed companies and Carbon Trading Scheme (CCTS) for energy-intensive.
- It is important to note that requirements and level of enforcement of ESG regulations can vary, as the 28 states implement ESG regulations differently.

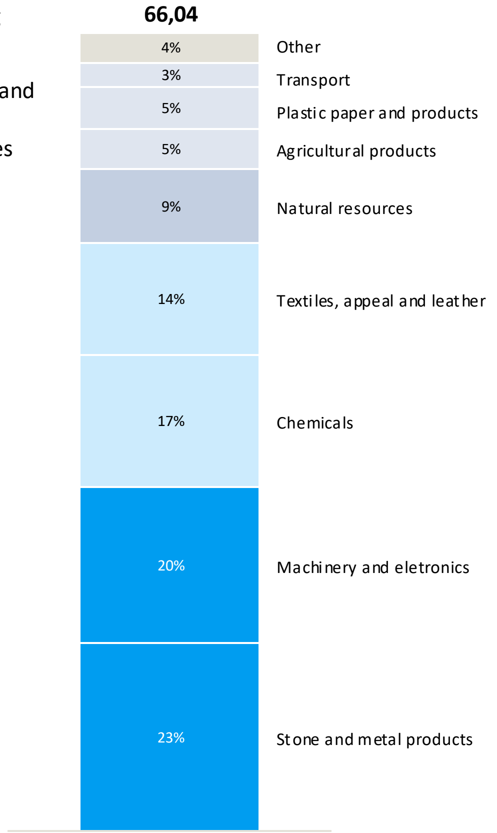
"Data collection in relation to ESG is not a concern in India at all, scope 1 and 2 data will for example be easily collected.

What will be needed is suitable technology platforms and tools to facilitate this for the companies.

- Confederation of Indian Industry, Indian Green Building Council

Key exports from local markets to the EU

- The EU is India's second largest export partner, constituting 16% of total exports.
- Key exports include stone and metals products mainly iron and aluminum products etc. (23%), machinery and electronics (20%), chemicals (17%), textiles (14%), and natural resources mainly petroleum and petroleum products (9%).



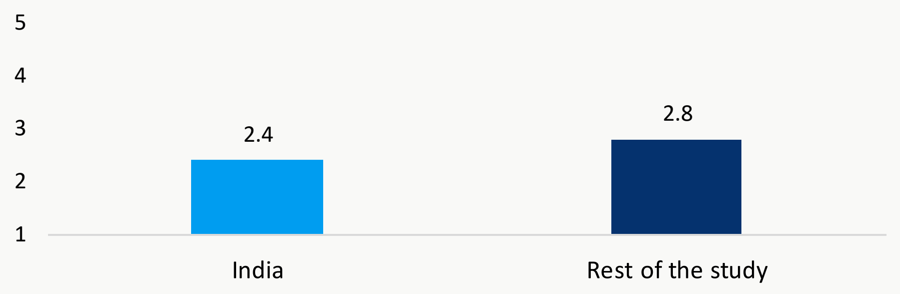
Exports to Europe, *share (%) and total € billion*

India | Awareness & Prioritisation

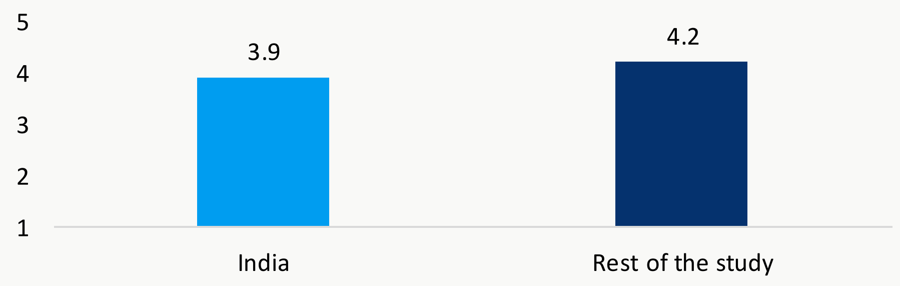
More awareness and understanding of EU legislation is needed, targeting SMEs.

- The Indian companies participating in the study, overrepresented by firms from the construction sector, demonstrate a lower awareness of EU's upcoming sustainability regulation than average. This may be due to 69% of survey respondents indicating they currently have no European customers, identified as the primary source of awareness for EU standards in focus group interviews.
- Yet, despite the population bias in the survey responses, the focus group interviews confirmed a profound awareness gap in terms of understanding and navigating the newly introduced EU legislation. Many companies cited information overload from numerous directives and noted that their customers did not clearly communicate expectations for meeting new requirements.
- The most well-known legislation is the CSRD, recognised by 27% of companies, while CBAM, CSDDD, and the EU Taxonomy are familiar to 15% of respondents. Given the extensive focus on CO_2 emissions in India, the low awareness of CBAM is surprising.
- Sustainability is a high priority for Indian companies, with 81% of the companies expecting to scale up work in the next three years. The main drivers for sustainability efforts are sales and business opportunities, followed by regulatory compliance and strategic priorities. Interviewed firms also highlighted the significant risks associated with weak ESG performance, further motivating their sustainability initiatives.
- It is evident that awareness varies by industry, company size, and ownership, consistent with the overall trends in this report. Indian companies emphasise that awareness efforts should target SMEs and highlight the need to educate about the broader ESG area, as most companies tend to define sustainability as environmental issues

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



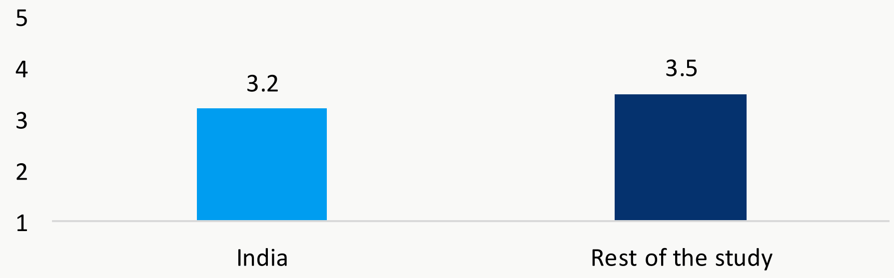
Results based on 22 completed and 15 partially completed survey responses

India | Customer Demands & Business impact

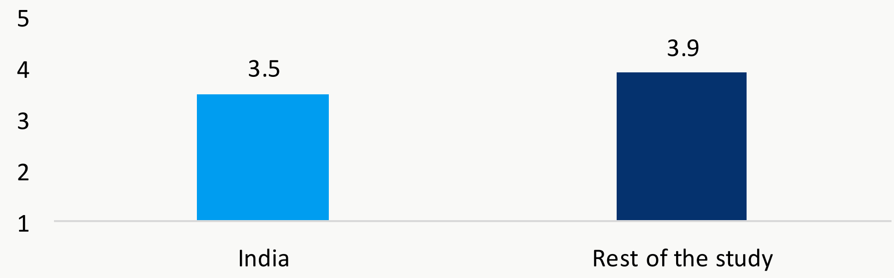
A relatively low proportion of Indian respondents have seen an increase in sustainability demands recently, but most expect upcoming legislation to impact their business.

- While 81% of Indian participants in the study receive ongoing sustainability demands from customers, 38% reported an increase in these demands recently, placing India below the study's average. Sector and export exposure were identified as key factors influencing sustainability demands in the focus group interviews. Notably, participants with EU exposure, particularly in the service sector, observed an increase in these demands.
- Environmental demands remain the most common, with sustainable production processes, environmental certification and sustainable products being the top requests. Only 19% of participants had been asked about GHG emissions.
- Occupational health and safety dominate social demands, followed by child labour and general labour conditions. Governance, business ethics policies, data protection and management of suppliers remain the top three requests.
- 53% of the responding companies anticipate an impact from new upcoming legislation. Optimistically, firms expect to see more business opportunities and enhanced brand reputation emerging because of increasing sustainability demands. However, they also anticipate increased costs due to the large-scale capital investments required for green production processes, with uncertainty about who should bear these costs and whether the necessary financial resources are available.
- Additionally, implementing ESG standards at the SME level, which constitutes the supply chain for companies with EU export exposure, will be a challenge, even for the more experienced firms. Focus group sessions revealed concerns that the awareness gap might lead to a reactive approach to new demands, potentially resulting in negative business impacts.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



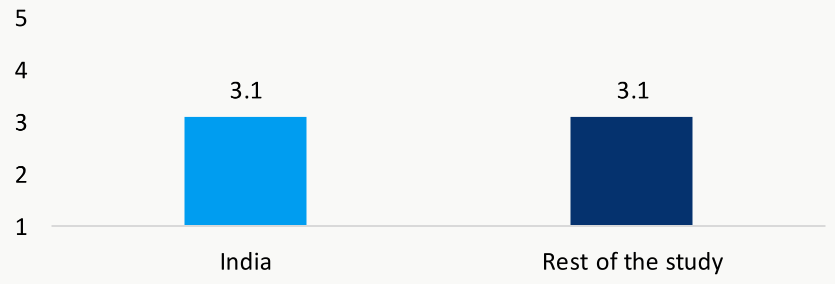
Results based on 22 completed and 15 partially completed survey responses

India | Readiness & Support

Indian companies find EU regulations challenging due to stringent and complex requirements and demand interpretation and more hands-on support from trading partners

- Indian firms exhibit a moderate capacity to meet sustainability demands, aligning with the study's average. While many are adept at meeting basic local ESG requirements, there is a widespread belief that EU regulations are stringent, posing challenges in meeting environmental demands.
- When evaluating their readiness for ESG requirements, Indian companies face difficulties in ensuring robust due diligence processes throughout their value chains. Focus group interviews highlighted inconsistency in ESG implementation across many firms. For instance, while impact assessments may be conducted, the execution of action plans often falls short, resulting in outcomes that do not meet desired standards.
- Knowledge, skills, financial constraints and resources have been identified as the primary barriers hindering companies from responding to sustainability demands. Interviews with local companies underscored significant challenges in interpreting EU standards within their specific sector and operational contexts, emphasising the need for guidance. As a result, companies expressed a desire for industry-specific workshops on ESG topics, and sessions on new regulations such as CBAM, deforestation, CSRD, SFDR and CSDDD.
- Indian companies emphasised the need for increased collaboration with trading partners – more so than other markets. This reflects a widespread perception that foreign regulatory requirements are often unclear and complex, causing the need for clarification and interpretation amongst trading partners.
- Additionally, Indian companies expressed a desire for practical, hands-on support and technical assistance. This includes establishing a "digital support centre" and providing more tangible support in managing CO_2 emissions and environmental data, challenges that many companies face.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	India	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	50%	60%
Technical support (e.g. tools and platforms)	45%	54%
More knowledge about international legal requirements	50%	61%
Financial support	41%	45%
Increased collaboration with trading partners	45%	32%
Other (comment field)	0%	2%
Don't know/ Not applicable	5%	1%

Results based on 22 completed and 15 partially completed survey responses

Deep dive: Vietnam

Vietnam | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- The current regulatory landscape targets listed companies, mandating reports on sustainable development factors. Around 35% of these companies have met the requirements, while approximately 50% of all other companies aim to do so within the next few years.
- The Vietnamese market is becoming more competitive with stricter ESG demands that challenges local companies. This is especially the case for SMEs, which constitute around 90% of all companies nationally.
- Companies are relatively used to social impacts, while environmental factors (mainly GHG) have become a recent focus due to increased external pressure. Governance aspects are the least incorporated.

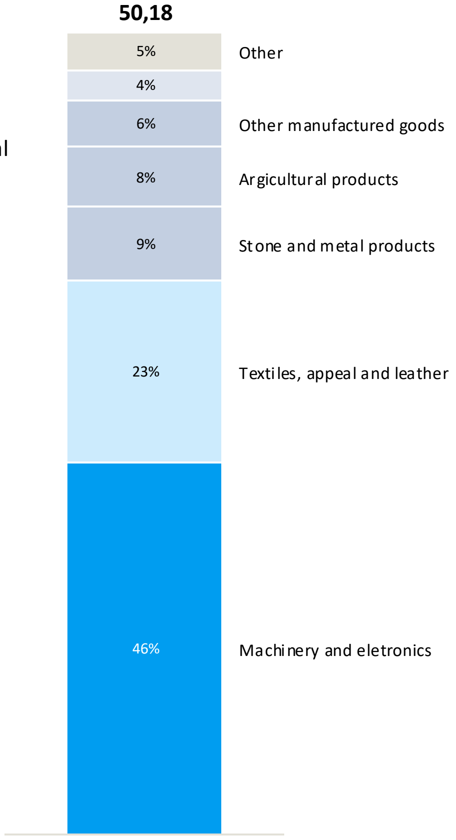
"SMEs often view compliance of ESG regulations as an expensive cost, they do not see the investment aspect. This perception leads to sustainability being deprioritised.

There is a lack of performance results throughout the years, which creates a lack of proven sustainability models. The struggles of establishing good governance strategies contributes to this, companies cannot see the positive returns of ESG initiatives.

- Representative of VCCI, Vietnam Chamber of Commerce and Industry

Key exports from local markets to the EU

- The EU is Vietnam's third largest export partner, constituting 13% of total exports.
- Key exports include machinery and electronics (46%), textiles, apparel and leather, mainly clothing (23%) and stone and metal products mainly base metals such as iron, aluminium, tin and tungsten (9%).



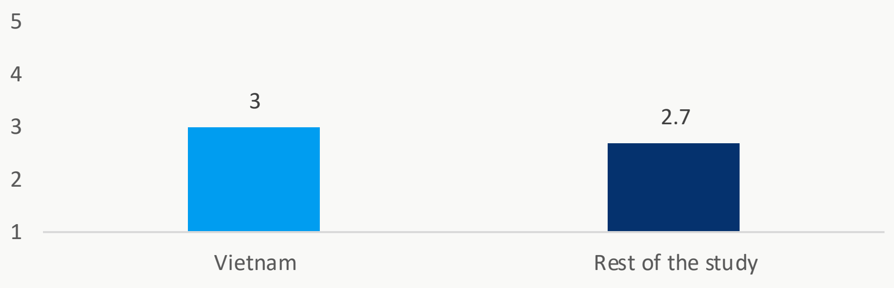
Exports to Europe, *share (%) and total € billion*

Vietnam | Awareness & Prioritisation

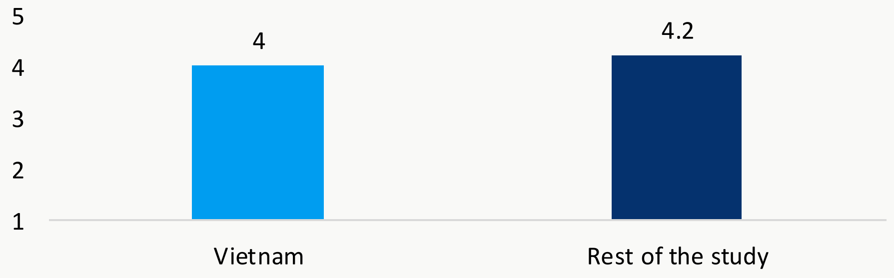
A lack of centralized information concerning EU ESG legislation and few mandatory ESG requirements fuels awareness gap

- Vietnamese companies show moderate awareness of European sustainability legislation, with 39% indicating awareness of EU regulations. However, 43% report being unaware of any presented regulations, highlighting a significant gap in understanding the latest EU developments and suggesting potential overstatement of awareness levels.
- Focus group interviews revealed that the awareness gap is fuelled by a lack a centralised source of information, particularly for small and medium-sized enterprises (SMEs), and there is limited availability of sector-specific information.
- Sustainability remains a priority for Vietnamese firms (73%). Many firms however proclaim that the prioritisation of sustainability initiatives depends on the presence of mandatory ESG requirements. Here, the Vietnamese regulatory framework is becoming increasingly stringent, albeit still in its early stages. As a result, 86% of surveyed companies expect sustainability to become a higher priority in the coming years.
- Vietnamese companies emphasise sales and business opportunities, alongside increasing customer demands, as primary drivers for their sustainability efforts. The focus on these demands continues to grow, with companies viewing ESG initiatives as still in their early stages of development.
- Ownership structure has also been identified as influential in shaping Vietnamese companies' awareness and prioritisation of sustainability efforts. Those with foreign ownership highlight investor pressures or headquarters' priorities as key drivers for sustainability initiatives, wherein smaller local companies still struggle with seeing the business case.
- Companies express concerns about the lack of consensus and standardised approaches to sustainability practices. This has led to regional differences in awareness and prioritisation levels between Northern and Southern Vietnam, with the more industrialised southern region being advanced in sustainability efforts.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



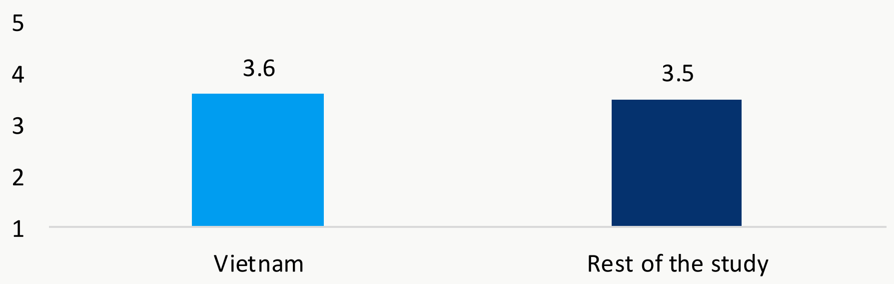
Results based on 90 completed and 75 partially completed survey responses

Vietnam | Customer Demands & Business Impact

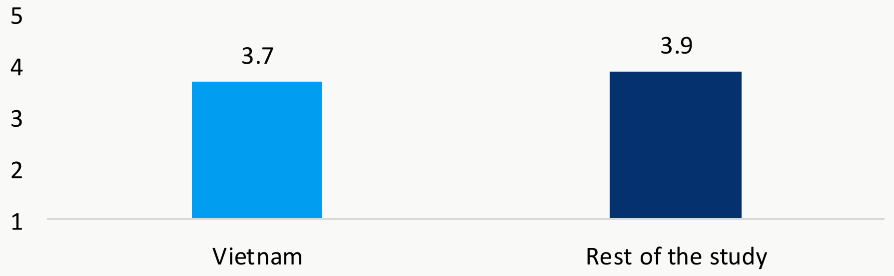
Vietnamese companies report moderate increases in sustainability demands, although they appear to have received a significant number of requests related to new sustainability reporting practices

- While Vietnamese companies feel that ESG requirements and demands are still in their early stages, 77% still state that they received ongoing sustainability-related demands. Among them, 61% have noted a significant increase in the extent of these demands over the past few years.
- Environmental concerns are increasingly in demand, focusing on emission data, traceability of sourced materials, environmental certification and sustainable production processes. Surprisingly, climate risk assessments are relatively new, despite Vietnam's potential vulnerability to climate change.
- Social requests are notably prevalent in Vietnam, surpassing other markets in the study. 91% of companies surveyed have received demands related to occupational health and safety, followed by working hours (85%), child labour (81%), social dialogue (80%) and adequate wages (76%). Only diversity indicators seem to be less prevalent amongst all options, with 33% reporting such demands.
- Governance demands are dominated by business ethics policies, management of suppliers and data protection.
- The survey responses and the focus group interviews reveal a contradiction: Vietnamese companies report average numbers in terms of receiving sustainability demands, yet many have already been asked to report on key areas related to new sustainability reporting practices.
- Unlike nearly all other markets, Vietnamese companies expect a significant business impact from enhanced sustainability practices which relates to increased costs (70%), rather than potential business opportunities. The interviewed companies highlight that sustainability is generally viewed as an expensive trait, which primarily larger companies can afford and turn into a competitive advantage.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



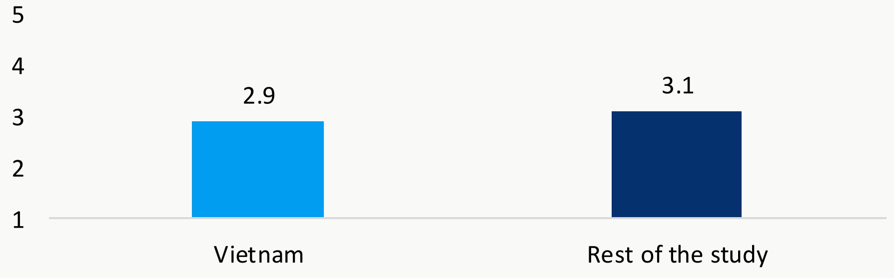
Results based on 90 completed and 75 partially completed survey responses

Vietnam | Readiness & Support

A lack of mandatory legislation and clear ESG business case incentives cause a reactive approach from Vietnamese companies

- Given the existing customer demands that Vietnamese companies are receiving, they state a relatively low capability to meet such demands. Amongst the surveyed companies, only 26% state a high to significant experience in meeting such demands. The reported capacity is lower for SMEs than larger companies, in line with the general findings of the study.
- Vietnamese companies report relatively low capabilities across all focus areas of the EU's new legislation, including reporting capacity, sustainable products and production processes, and due diligence. This is surprising, given the relatively high number of requests that companies report meeting, especially in terms of reporting.
- This discrepancy stems from Vietnamese companies' reactive approach to sustainability, as many are waiting for local legislation or incentives before acting. In essence, such an approach may come with profound risks as the sustainability landscape is rapidly developing.
- Vietnamese companies identify resources and knowledge/skills as the two most significant barriers to sustainability progress, followed by financial constraints and physical infrastructure. Regarding knowledge and skills, companies emphasise the limited availability of resources in Vietnamese for interpreting European ESG legislation.
- Accordingly, 71% of the surveyed Vietnamese companies express a need for support in understanding international requirements. Practical support and technical solutions are also identified as two more priority areas, wherein companies express a desire for industry best practices and case studies to further guide their ongoing sustainability efforts.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	Vietnam	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	53%	61%
Technical support (e.g. tools and platforms)	48%	55%
More knowledge about international legal requirements	71%	58%
Financial support	38%	46%
Increased collaboration with trading partners	38%	32%
Other (comment field)	1%	2%
Don't know/ Not applicable	3%	1%

Results based on 90 completed and 75 partially completed survey responses

Deep dive:
The Philippines

The Philippines | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- In the Philippines, SMEs make up a vast majority of businesses. Consequently, sustainability initiatives tend to be primarily industry-driven, often aligning with the Sustainable Development Goals (SDGs) set by the United Nations. There is also a notable gap in mandatory sustainability reporting obligations, as this only applies to large listed companies.
- The Philippines has laws enforcing human and labour rights protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low.
- In the Philippines, companies are required to conduct Environmental Impact Assessments (EIAs) for projects with significant environmental impacts.

"We need trading partners who not only request sustainability programmes but also support their implementation. Proof of concept is crucial.

For SMEs in the Philippines, this will require a total shift in mindset across the entire company, along with comprehensive training and a roadmap for transformation.

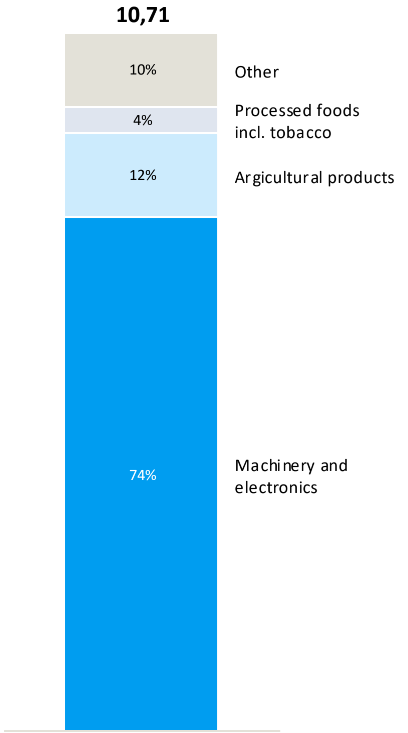
Convincing the workforce is very important and to be able to benchmark against peers and learn from their experiences.

- Employers Confederation of the Philippines

Key exports from local markets to the EU

- The EU is the Philippine's fifth largest export partner, constituting 12% of total exports.
- Key exports include machinery and electronics (73%), agricultural products, mainly animal or vegetable fats and oils (12%) and processed foods incl. tobacco (4%).

Due to a lower number of respondents in the Philippines compared with other regions, the findings should be seen as indications, providing an initial understanding of Philippines companies' conditions and needs.



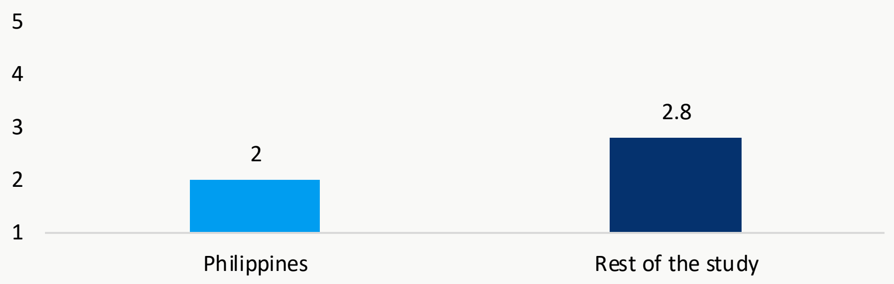
Exports to Europe, *share (%) and total € billion*

The Philippines | Awareness & Prioritisation

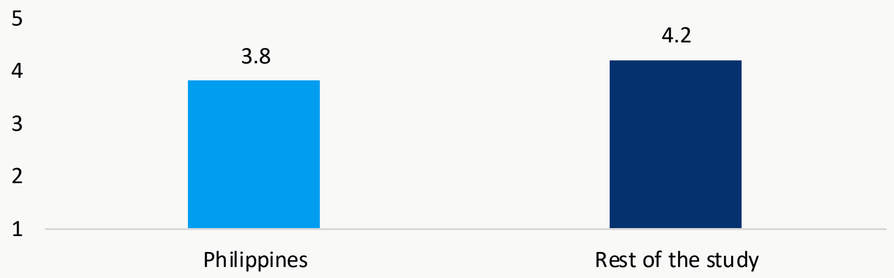
Low awareness but high priority

- Companies in the Philippines have amongst the lowest awareness of EU's ESG legislation, with 72% of the companies stating that they are unfamiliar with all the listed EU legislation. Only the CSRD remain somewhat recognized, with 23% declaring familiarity.
- However, despite the low awareness, there is still a high priority of sustainability within Philippine companies, if yet below the study average. However, almost all respondents, 94%, anticipate that sustainability will become a higher priority for their firms in the next three years.
- Sales and business opportunities as well as regulatory compliance are the key drivers for Philippine companies to prioritise sustainability. Interestingly, regulatory compliance is ranked higher for this group than for the average company in the study.
- Additionally, sustainability as a strategic priority at the group level do not appear to drive sustainability efforts among companies in the Philippines as strongly as it does in other markets, potentially influenced by the high percentage (67%) of firms with local ownership responding to the survey. With little sustainability pressure from local markets, corresponding efforts becomes limited.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



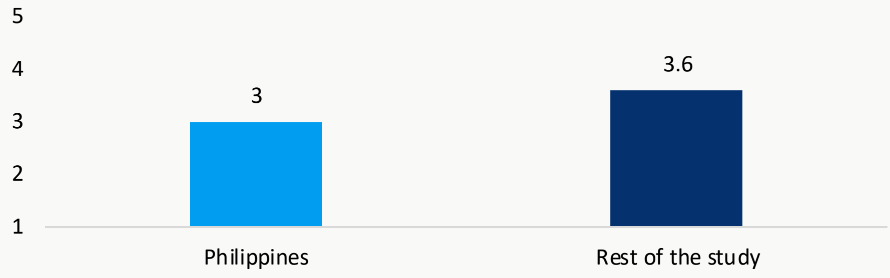
Results based on 36 completed and 25 partially completed survey responses

The Philippines | Customer Demands & Business Impact

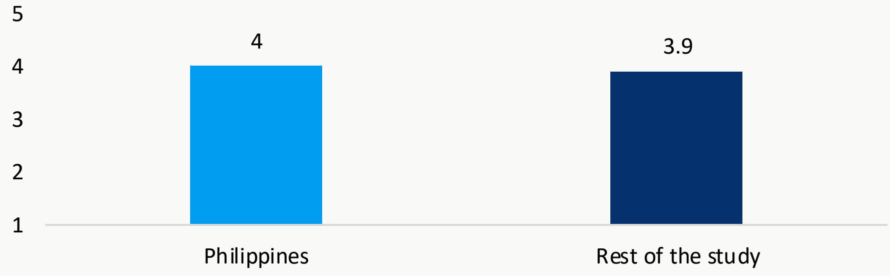
Smaller increase in demands and fewer requests for greenhouse gas emission data and calculations

- 61% of the Philippines companies in the study have experience with receiving customer sustainability demands, among which 22% note a significant increase over the past few years. However, compared to the average company in the study, Philippine firms appear to face fewer demands, which may explain the lower awareness of EU ESG legislation. Globally, 54% of companies indicate experiencing a high to significant increase in such demands over the past few years.
- While 48% of Philippine companies state that environmental demands remain the most common request, a surprisingly large number - 37% - highlight customer requests regarding social sustainability as dominant. This percentage is significantly higher than the global average.
- Environmental demands are dominated by request related to sustainable production processes, products and packaging, followed by environmental certification. In terms of GHG emissions, only 15% of the companies receiving sustainability demands have received such requests. It is also surprising that only 11% of the companies have experience in receiving climate risk assessments, despite the climate exposure of the Philippine islands.
- Occupational health and safety, adequate wages, and working hours are predominant requests in terms of social sustainability, with a majority of the surveyed firms receiving such requests.
- For governance-related demands, data protection and confidentiality are ranked highest, followed by business ethics policies and supplier management. Protection for whistleblowers and handling reported violations are ranked lower in priority.
- 65% of the companies also report a high to significant business impact from new sustainability demands. The top three impacts include increased business opportunities, higher costs, and enhanced brand reputation. Given the low ESG maturity, it is somewhat surprising that only 24% mention potential difficulties in doing business with international companies as an impact.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



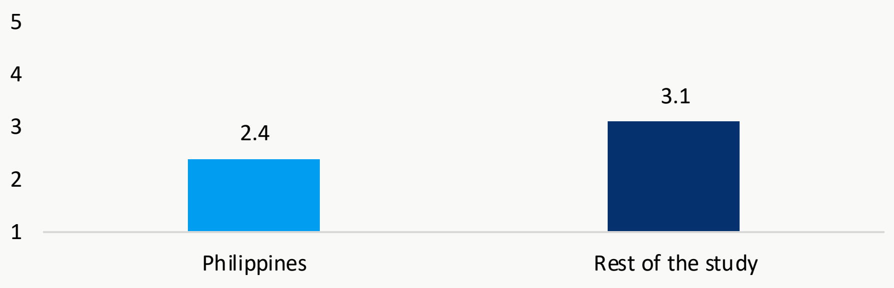
Results based on 36 completed and 25 partially completed survey responses

The Philippines | Readiness & Support

Networks and associations are important for support on sustainability-related matters

- Despite the low ESG maturity, 49% of the surveyed companies view increasing sustainability demands as a potential business opportunity. This optimistic outlook is likely influenced by their limited understanding of upcoming EU ESG legislation. However, 49% also consider it either a trade barrier or a combination of both a trade barrier and a business opportunity.
- Compared to the average of the rest of the study, Philippine companies appear significantly less experienced in handling sustainability demands across all surveyed areas, including reporting, human rights due diligence processes, and implementing green production processes.
- The only area where Philippine companies appear to be slightly more experienced is in handling requests related to sustainable products, which coincidentally is also one of the areas where they report receiving the most demands.
- Regarding barriers to progress, Philippine companies state a lack of knowledge and resources at the top, followed by financial constraints and technological solutions. Overall, companies express a need for greater understanding of international legal requirements, practical hands-on support, and increased collaboration with trading partners.
- For support on sustainability-related matters, Philippine companies primarily rely on business networks and trade associations. Interestingly, compared to the average company in the study, Philippine respondents indicate a lower reliance on external consultants (only 30% mention them as a primary source of support), with internet resources being more commonly used than consulting services.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	Philippines	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	65%	61%
Technical support (e.g. tools and platforms)	41%	55%
More knowledge about international legal requirements	73%	58%
Financial support	32%	46%
Increased collaboration with trading partners	46%	32%
Other (comment field)	0%	2%
Don't know/ Not applicable	0%	1%

Results based on 36 completed and 25 partially completed survey responses

Deep dive: Türkiye

Türkiye | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Türkiye constitute one of the most mature markets in this study, possessing a diverse industry landscape with many similarities, wherein the automotive, machinery, metal and textile industries are the most important export sectors to the EU.
- The ESG landscape in Türkiye is notably advanced, driven by a proactive regulatory framework that aligns with international standards and with policies that are highly influenced by the development in the European Union.
- The new national reporting standards in Türkiye will closely mirror EU's CSRD. Additionally, sector-specific regulations targeting the energy, mining, metal, and chemical industries are enhancing awareness and accountability. These regulations are also driving robust reporting capabilities, particularly among larger firms.

"The legislation can become a trade barrier due to the high compliance cost. If the companies fail to comply, they will struggle with market access – and thus will not be able to export goods. Especially the smaller firms will lack behind, they struggle to understand what is expected from them.

However, if the awareness levels are high, these regulations can also be seen as an opportunity to make innovation.

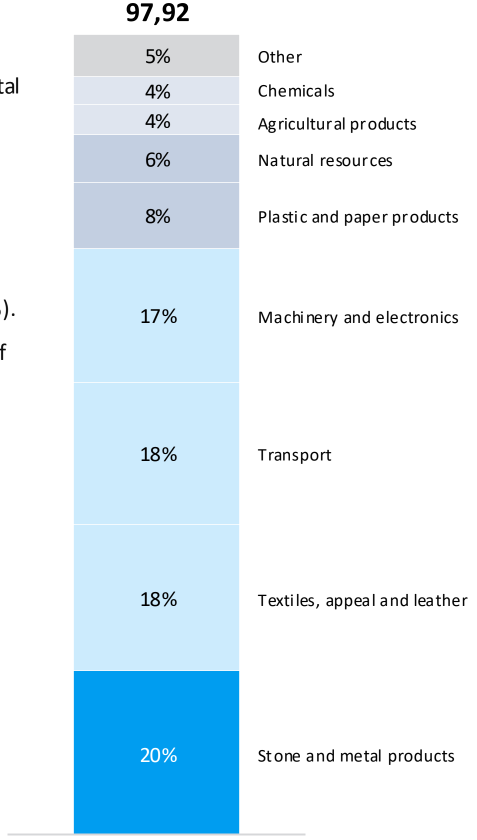
- Confederation of Turkish Employers' Associations

Key exports from local markets to the EU

The EU is Türkiye's largest export partner, constituting 40% of total exports.

Key exports from Türkiye to Europe include:

- **Stone and metal products** including iron and steel, and non-ferrous metals such as aluminium and copper and articles thereof (29%).
- **Textiles, apparel and leather** mainly articles of clothing (18)%).
- **Transport** including various transport equipment to the EU, of which a majority is cars and trucks (18%).
- **Machinery and electronics** including industrial machinery, construction machinery and agricultural machinery (17%).
- Turkish suppliers also supply the EU market with **plastics and paper products** (8%), followed by **natural resources** (6%), **agricultural products** (4%) and **chemicals** (4%).



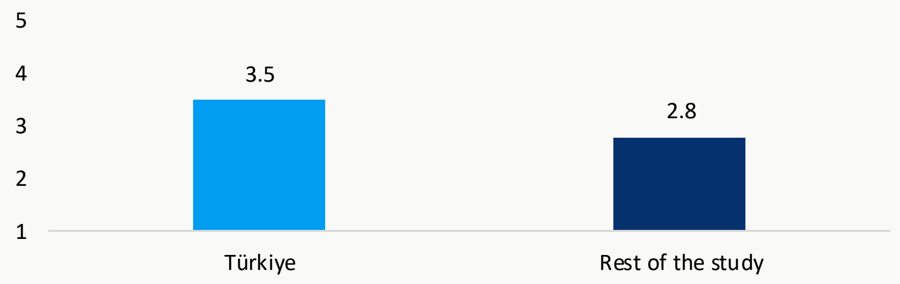
Exports to Europe, *share (%) and total € billion*

Türkiye | Awareness & Prioritisation

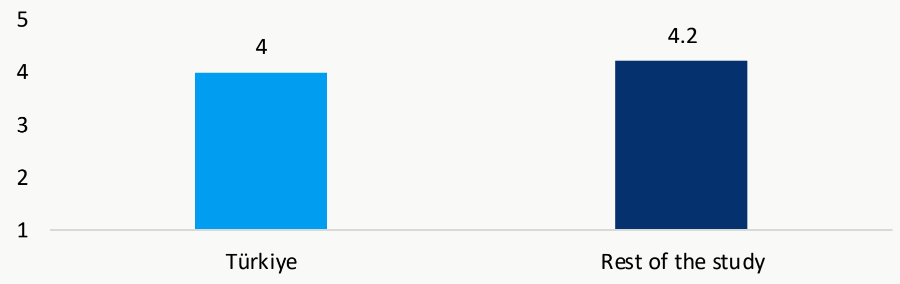
Turkish companies show a higher awareness of EU legislation compared to other markets, yet they still struggle to understand its requirements and implications.

- Turkish companies exhibit a high level of awareness regarding EU ESG legislation compared to other emerging markets, with 58% of the companies stating that they have a high awareness of its key pieces. This heightened awareness is driven by Türkiye's proximity to the EU, a general high level of ESG awareness, and regulatory alignment with EU policies.
- Key pieces of legislation, such as CBAM, CSRD, CSDDD and the EU Taxonomy, are among the most recognised, wherein more than 50% are familiar with the two former. The EU deforestation policy is found at the other end – well reflecting the composition of Türkiye’s exports and industries.
- However, focus group interviews reveal that even among larger companies, there is a noticeable gap between being aware of the legislation and understanding its impacts and requirements. Accordingly, there is still a strong need for awareness-raising interventions and training focusing on the potential implication of new legislation, in order to build readiness.
- The prioritisation of sustainability remains high for most companies, primarily driven by business opportunities, regulatory pressure and customer demands. Larger companies are increasingly recognising access to finance as a critical factor for ESG initiatives as well as C-level buy-in.
- 90% of the surveyed companies expect sustainability to become a more prioritised topic for their company to work with in the next three years.
- Local companies still face challenges in embedding sustainability across their organisations and value chains. Smaller firms struggle with awareness of ESG principles, prioritising sustainability and understanding its business case.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



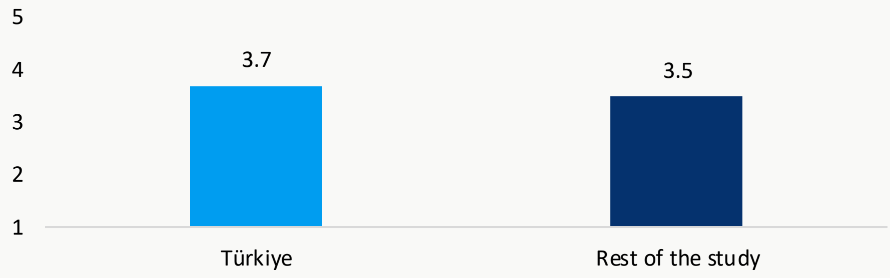
Results based on 33 completed and 22 partially completed survey responses

Türkiye | Customer Demands & Business Impact

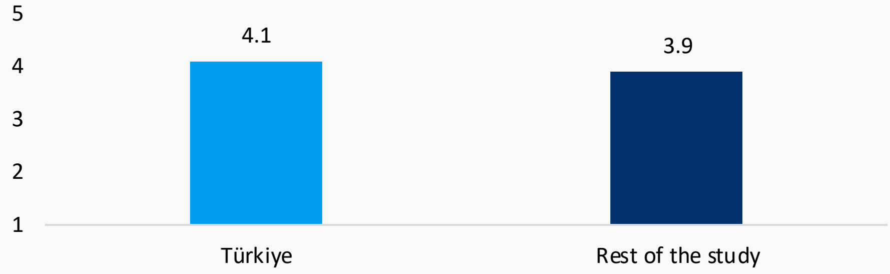
Turkish companies anticipate a substantial impact from customers' growing sustainability requirements.

- In line with global development, Turkish companies have experienced a strong increase in sustainability related demands in recent years. Unlike the global average, both environmental and social demands are stressed as equally prevalent (potentially supported by a better understanding of the full scope of ESG).
- Environmental demands include certifications, emissions, declarations, and sustainable products, while social demands focus on occupational health and safety, followed by working hours, social dialogue and adequate wages. Governance demands stress business ethics, data protection and supplier management.
- While Turkish companies generally do not struggle to provide data, they feel that EU customers are not clearly articulating their requirements. This issue becomes pronounced when dealing with smaller counterparts.
- EU legislation is seen as bringing significant business impact, with only a 12% expressing no/little impact. While increase costs and less trade in sectors targeted by particularly CBAM (as noted by many firms) have been highlighted, a majority stress expected business opportunities. These are linked to enhanced business prospects and sales, facilitated by access to new capital and technologies, as well as a consolidation of the market where non-compliers will exit. Furthermore, improvements in brand reputation, including better social benefits for their workers, are also emphasised.
- Smaller firms are expected to face challenges during this transition, as the ability to capitalise will depend on access to knowledge, capital, expertise and innovation, as emphasised in focus group interviews.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



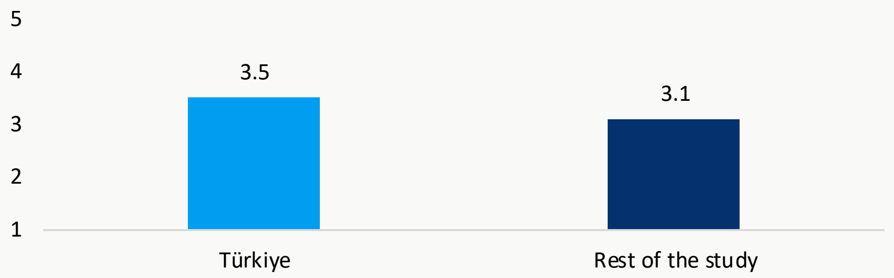
Results based on 33 completed and 22 partially completed survey responses

Türkiye | Readiness & Support

While Turkish companies demonstrate high experience in addressing sustainability demands, meeting growing demands for sustainable products and production processes will be a challenge.

- Turkish companies demonstrate a stronger capability in meeting sustainability demands compared to the global average, especially in ESG reporting. However, ensuring sustainable products and production processes poses challenges, necessitating access to finance and innovation.
- From the interviews, it became clear that also the larger companies will struggle in implementing due diligence processes throughout their value chain, particularly at tier 2 or 3 levels, where the local capabilities to understand, prioritise and address ESG issues is deemed low.
- Financial constraints are a significant barrier, impeding companies as they aim to invest in new technologies capable of meeting growing demands for sustainable products and production processes. Similarly, investments in knowledge, upskilling, and specialised ESG expertise are anticipated to rise, particularly as new sustainability reporting requirements necessitate embedding sustainability throughout organisations. This perspective is notably absent in Turkish firms, as shown by their heavy reliance on external consultants, which 85% of survey respondents are using for their ESG work.
- Furthermore, there is an increasing demand for training in sustainable value chain management and tools for calculating emissions to enhance overall sustainability preparedness. In this regard, the interviewed company emphasised the importance of their trade and business associations as valuable forums for showcasing best practices and making tools accessible.
- While only 15% of the respondent are seeking increased collaboration with trading partners, it is noted that the interviewed companies seek implementation practise from their European counterparts. This include a more open dialogue on how to interpret and live up to new expectation.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	Türkiye	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	58%	61%
Technical support (e.g. tools and platforms)	45%	55%
More knowledge about international legal requirements	42%	58%
Financial support	79%	46%
Increased collaboration with trading partners	15%	32%
Other (comment field)	0%	2%
Don't know/ Not applicable	0%	1%

Results based on 33 completed and 22 partially completed survey responses

Deep dive: South Africa

South Africa | Local Market Conditions

Overview of existing ESG landscape and local market conditions

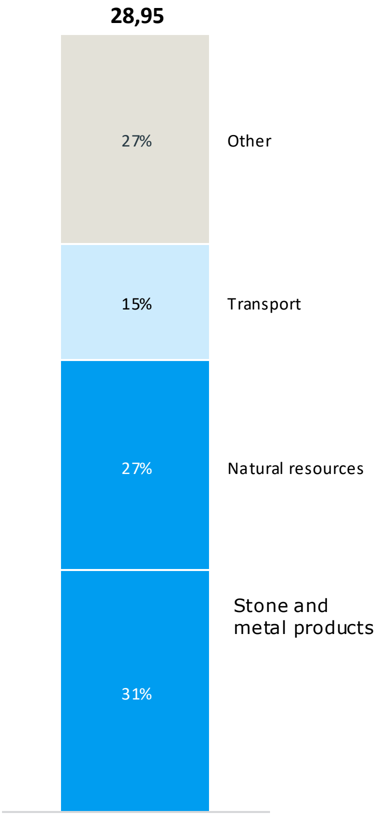
- South Africa's key exports to the EU include fruits, agro-processing, metals and mining, automotive and food and beverages, with the EU being its largest trading partner.
- The country looks to the EU for regulation inspiration, especially in banking, finance and green finance taxonomy. National environmental legislation has been extensive since the late 1990s, with a focus on environmental aspects, mandatory reporting for large emitters, a national carbon tax and incentives for energy efficiency and biodiversity. Social legislations regarding equity and discrimination are also extensive.
- The data accessibility is greater for environmental matters than social ones. However, listed companies are equally capable within both categories.

> There is awareness, at least among the larger companies, and there is also a level of concern that is understandable. We do not have the economic muscle as India or China, but we seem to be facing the same level of scrutiny.
>
> However, we have seen a complete shift over just the last five years. Companies have moved from questioning disclosures to establishing an unprecedented demand for climate-related data. The old narrative has completely disappeared.

- National Business Initiative

Key exports from local markets to the EU

- The EU is South Africa's largest export partner, constituting 22% of total exports.
- Key exports include stone and metal products mostly platinum, diamonds, gold, jewellery, iron and steel (31%), natural resources such as coal (27%), and automobile parts and components including vehicles (15%).



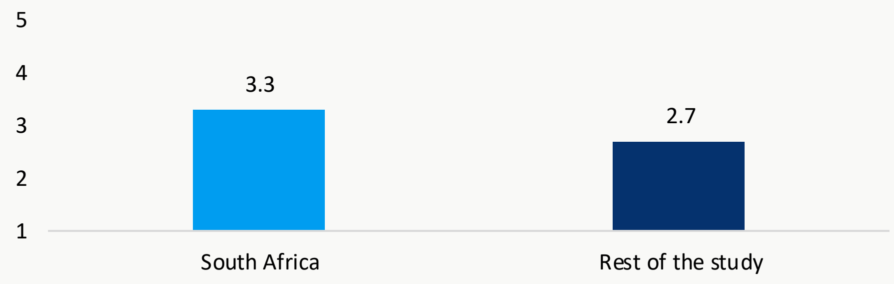
Exports to Europe, *share (%) and total € billion*

South Africa | Awareness & Prioritisation

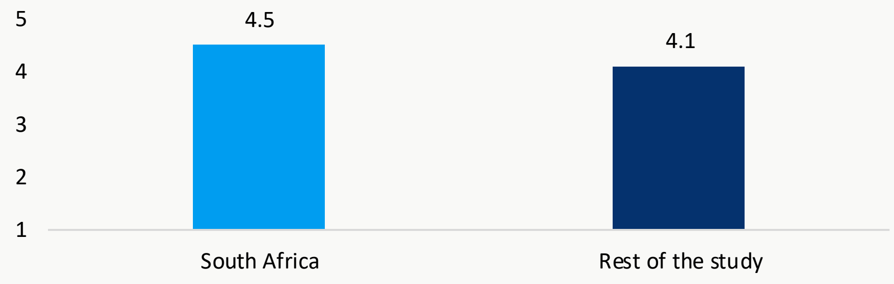
Higher awareness compared to other regions

- South African companies demonstrate a higher awareness of upcoming EU legislation compared to the study's average. This awareness is driven by demands from European investors and customers, and a deeper understanding of ESG matters given by a more robust regulatory framework and advanced corporate governance standards (i.e., reporting).
- However, one in four companies have still not heard of the most prevalent legislation, indicating significant gaps in awareness. This issue extends to understanding the legislation's content and implications, with even larger firms highlighting the complexity of the regulations and a lack of local market expertise for interpretation. CBAM is the most well-known legislation (64%), highlighting the fact that emission-heavy industries in South Africa will be particularly affected by its provisions. This is followed by awareness of the CSRD (60%) and the EU Taxonomy (45%).
- While sustainability constitute a high priority for local firms, focus group sessions have highlighted a potential mismatch between local and EU understandings of sustainability, wherein job-creation and addressing social inequalities are two key local sustainability challenges which foreign legislation often overlook.
- When ranking drivers of sustainability, 42% emphasise sales and business opportunities, while 34% prioritise regulatory compliance as drivers of sustainability efforts—figures lower than in many other markets. In contrast, South African companies place greater emphasis (60%) on group-level strategic priorities, where a push from investor communities and significant international exposure among larger local firms was highlighted as key explanations.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



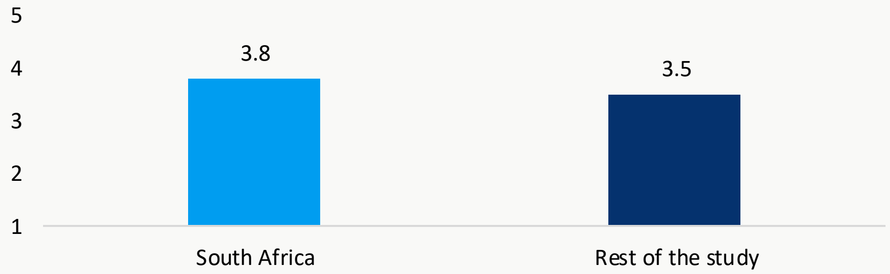
Results based on 38 completed and 20 partially completed survey responses

South Africa | Customer Demands & Business Impact

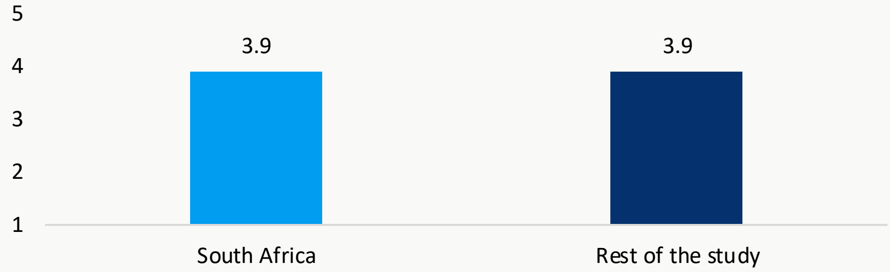
Environmental demand and greenhouse gas emission data are common customer demands

- 81% of the South African companies state that they are receiving ongoing sustainability demands from customers, wherein 66% have witnessed a great/significant increase in demands in the last few years.
- 79% of the respondents view environmental demands as the most prioritised area for customers, whereas GHG emission data is particularly sought after followed by climate-risk assessments and certifications. Demands on sustainability production and products have also increased, constituting a challenge for many companies due to heavy investments. Within social, diversity indicators, occupational health and safety, and labour practices in the value chain are most prevalent, while business ethics policies, data protection, protection of whistleblowers and supplier management are prioritised within governance standards.
- Common for all areas, is that local companies are seeing increased focus on reporting and mitigating impacts within their local value chains, presenting a significant challenge due to the lower awareness, prioritisation and readiness at the tier 2 or 3 levels.
- South African companies generally anticipate a significant business impact on their operations, with 48% stating that it will lead to difficulties in international trade. CBAM is highlighted as challenging in this context, and companies also express concerns about the increased costs associated with enhanced sustainability practices. Overall, aligning foreign sustainable goals with local sustainable goals remain a struggle, given rise to dialogues concerning ESG colonialisation.
- Many of the large companies express sustainability advantage in a global context, given the domestic regulatory landscape. Better social condition will also lead to better brand reputation.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



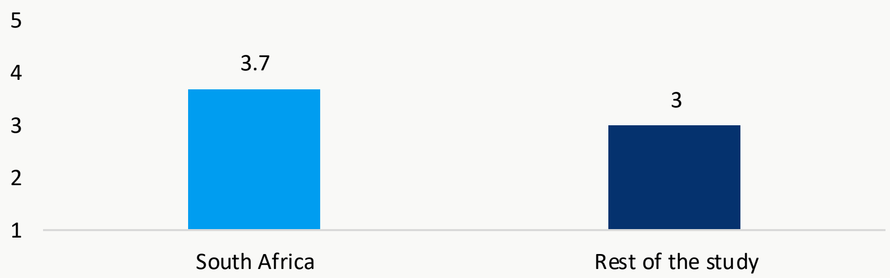
Results based on 38 completed and 20 partially completed survey responses

South Africa | Readiness & Support

High capabilities in ESG reporting

- South African companies report a high experience in addressing sustainability demands - possible biased by the high number of large companies participating in the study – with particularly strong capabilities in ESG reporting where most of the companies state high capabilities.
- Ensuring sustainable production processes, such as minimising CO2 emissions, and producing sustainable products are highlighted as particularly difficult areas, underscoring the challenges posed by CBAM.
- South African companies did in general report pessimistic outlooks of complying with upcoming legislation if no phase-in period/exemptions will be applied - given existing challenges of aligning of aligning foreign and local sustainability goals. Challenges relate to ensuring sustainability practises along their own value chain, wherein the knowledge and skills are lacking. Particularly on environmental issues, where companies reported that the sustainability language often can be intimidating and complex.
- When ranking compliance barriers, 61% of companies cite financial constraints, 55% mention limited resources, and 32% point to gaps in knowledge and skills. For support needed, companies prioritise technical support, more information on international legal requirements, and practical, hands-on assistance.
- South African companies frequently turn to local external consultants for ESG matters but often find their expertise lacking. Consequently, 61% of participants consider trade and business associations as essential support functions and hope for more support in translating foreign demands into local implementation plans.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	South Africa	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	42%	61%
Technical support (e.g. tools and platforms)	53%	53%
More knowledge about international legal requirements	47%	62%
Financial support	42%	45%
Increased collaboration with trading partners	29%	33%
Other (comment field)	5%	1%
Don't know/ Not applicable	0%	1%

Results based on 38 completed and 20 partially completed survey responses

Deep dive:
Kenya

Kenya | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- The main sectors for trade with the EU are agricultural products, including fruits, vegetables and flowers, as well as the agro-processing industry, such as processed foods and tobacco.
- Listed companies are the main targets of local ESG legislation, where transparency, accountability and good governance is mandated through yearly reports. They should cover ESG-factors and good governance, however specific requirements and guidelines are considered scattered and insufficient, which causes uncertainty and lack of engagement among companies.

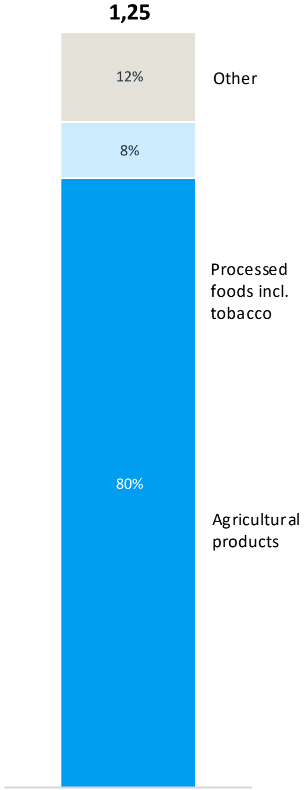
"There are no specific legislations on ESG across the country. Currently, it is mostly international companies, multinational industries and banks that are leading the way in ESG reporting to comply with their international markets/clients.

However, their reports vary with different priorities as they see.

- Kenya Association of Manufacturers

Key exports from local markets to the EU

- The EU is Kenya's largest export partner, constituting 16% of total exports.
- Key exports include tea, cut flowers and coffee (80%).



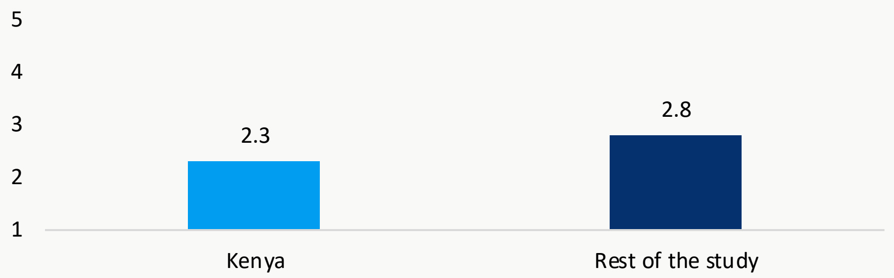
Exports to Europe, *share (%) and total € billion*

Kenya | Awareness & Prioritisation

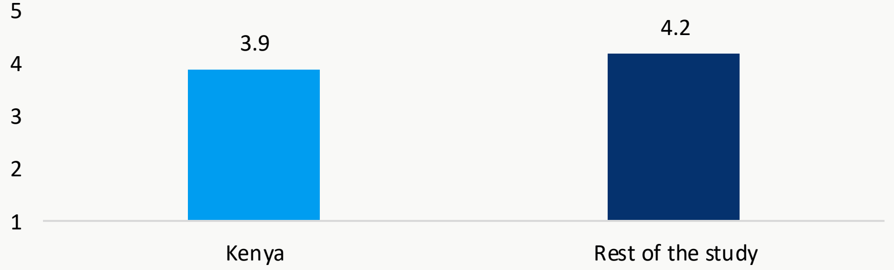
Lower awareness compared with other regions

- Kenyan companies show a lower awareness of the EU's existing and upcoming ESG legislation, with 61% reporting little to no knowledge. Only 21% have heard of CSDDD or the EU deforestation legislation, and just 18% recognise the CSRD.
- This limited awareness is due to minimal direct trade with EU partners and a low understanding of ESG. This challenge is further aggravated by Kenya's lack of a national ESG framework, the perception that ESG is predominantly a concern for multinationals, and the current absence of regulatory requirements – making ESG more about "charity".
- While sustainability remains a priority for surveyed companies, it is noted that this priority is lower than the global average. The lack of regulatory requirements is cited as a significant factor. With ESG being voluntary, and the awareness of the implications of foreign legislations being low, companies often lack the incentive to initiate and drive sustainability initiatives. Particularly smaller firms, wherein the business case for sustainability is deemed vulnerably.
- However, 94% of the companies expect sustainability to become an increasingly important priority. This shift is driven by a growing recognition of enhanced sales opportunities in this area, along with the rising significance of regulations and group-level priorities. Interestingly, very few Kenyan companies cite investor pressure (12%) or customer demand (15%) when describing their motivations for sustainability efforts.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



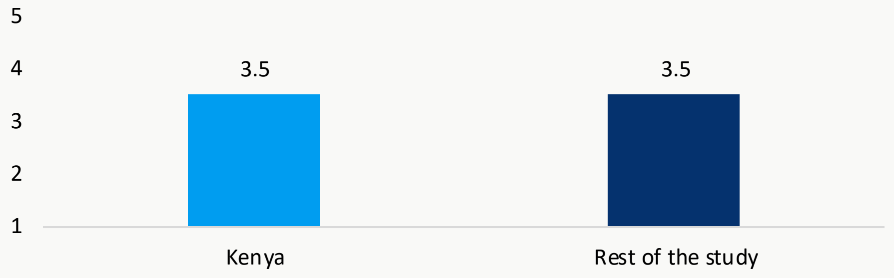
Results based on 24 completed and 23 partially completed survey responses

Kenya | Customer Demands & Business Impact

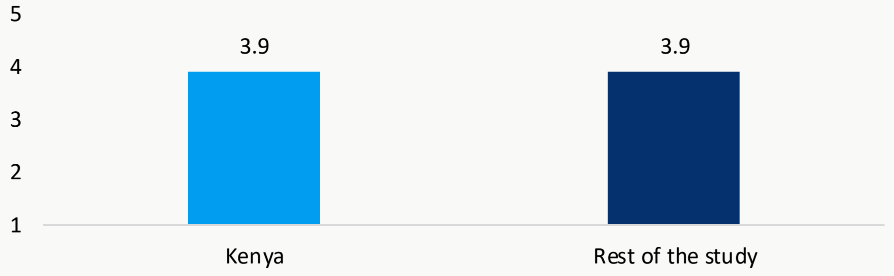
The big push from the EU's ESG legislation is yet to come

- 53% of the Kenyan companies have experienced an increase in sustainability related demands or request from their customers. However, from the focus group interviews it has been noted that the big push in terms of EU legislative impact is yet to come.
- Most of the companies state an increase in environmental related demands (61%), typically related to traceability of sourced material, sustainable production processes as well as sustainable packaging and products. Emission seems to be of less importance, compared to many of the more industrial countries like Colombia, South Africa or Türkiye.
- 29% highlight social demands as most prevalent, related to occupational health and safety as well as labour practises in value chain. Governance issues does not seem to be the dominating narrative (6%), even though demands related to business ethics policies, data protection and management of suppliers seem popular.
- 63% of Kenyan companies anticipate a high to significant business impact from new sustainability demands. While survey respondents rank enhanced brand reputation as the top impact, 44% also view these demands as both a business opportunity and a trade barrier.
- From the focus group interviews, it is evident that SMEs will be particularly vulnerable to new legislation due to their low ESG awareness and limited resources for necessary upskilling. Sectors such as agriculture, characterized by numerous smaller players and family-owned enterprises, will require specific attention in this regard.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



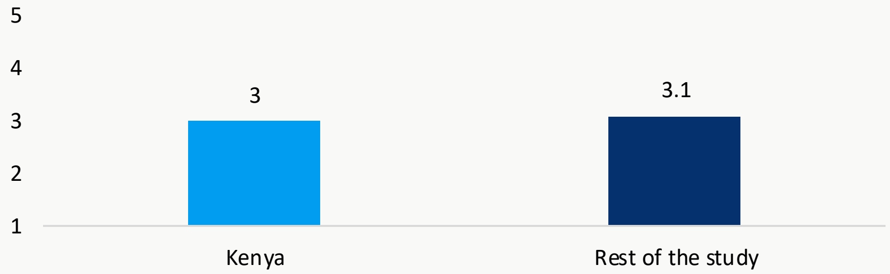
Results based on 24 completed and 23 partially completed survey responses

Kenya | Readiness & Support

ESG readiness level in Kenya is considered limited

- Kenyan companies show a low readiness to meet upcoming sustainability demands, with one out of four companies having no prior experience in this area. While their overall capability matches the study's average, focus group interviews revealed a limited understanding of the implications of new ESG legislation. This could result in an overestimation of their readiness levels to effectively address sustainability requirements.
- Kenyan companies are currently lacking capabilities across all new areas aligned with EU regulations, including reporting, due diligence, and sustainable production and products. During focus group discussions, companies emphasized that awareness training at all levels is crucial for enhancing understanding and building the necessary capabilities required by the new legislation.
- Barriers to making progress in sustainability efforts often include knowledge and skills gaps, resource limitations, and financial constraints. Notably, 63% of respondents point to a specific knowledge gap in sustainability work as a major obstacle.
- Building on the previous points, Kenyan companies need increased awareness of international requirements, technical support, and practical hands-on assistance to effectively advance their sustainability efforts.
- Interestingly, Kenyan companies emphasise increased collaboration with trading partners more than other markets for future sustainability progress. This perspective, derived from focus group interviews, reflects a dual concern. Firstly, there is apprehension that small actors within domestic value chains may not be adequately prepared to meet the sustainability requirements that larger firms may need to satisfy European counterparts. Secondly, larger export-oriented companies also seek greater collaboration with their European counterparts to understand the expectations placed on them.
- Trade and business association were outlined by 79% of all respondents as a key support actor that can help address the above concerns.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	Kenya	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	54%	59%
Technical support (e.g. tools and platforms)	50%	53%
More knowledge about international legal requirements	58%	61%
Financial support	38%	45%
Increased collaboration with trading partners	50%	32%
Other (comment field)	8%	1%
Don't know/ Not applicable	4%	1%

Results based on 24 completed and 23 partially completed survey responses

Deep dive:
Eastern Africa

To have sufficient data for analysis with high quality, the following countries having similar characteristics were grouped:

- Burundi
- Ethiopia
- Malawi
- Tanzania
- Uganda

Burundi | Local Market Conditions

Overview of existing ESG landscape and local market conditions

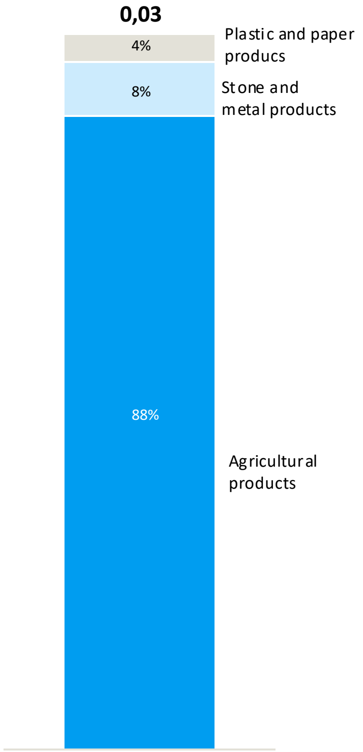
- Burundi has laws enforcing the protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low.
- The EU sustainability legislation identified to have a particular impact on Burundian suppliers is the EU Deforestation Regulation (EUDR), and the EU Conflict Mineral Regulation.
- Considering Burundi's many suppliers in the agriculture sector, the EUDR is expected to affect Burundian companies through further demands with due diligence, including respect for human rights and the rights of affected Indigenous peoples.
- Burundian companies supplying the EU with tin, tantalum and tungsten are likely to be affected by the EU Conflict Mineral Regulation. This is expected to lead to increased demands concerning due diligence practices.

Key exports from local markets to the EU

The EU is Burundi's second largest export partner, constituting 18% of total exports.

Key exports from Burundi to Europe include:

- **Agricultural products:** The agricultural sector dominates Burundi's exports to the EU. The industry constitutes 88% of the country's exports to the EU.
- **Stone and metal products:** The second largest product group regarding Burundi's export to the EU is stone and metal products. They represent 8% of Burundi's EU exports.
- **Plastic and paper products:** Burundi also exports plastic and paper products to the EU. This sector constitutes 4% of their EU export.



Exports to Europe, *share (%) and total € billion*

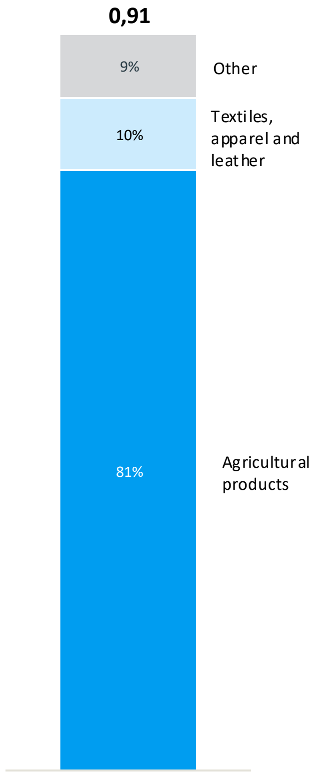
Ethiopia | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Ethiopia has laws enforcing human and labour rights protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low. In addition, Ethiopia has taken measures to combat deforestation, protect forests, and to some extent prevent illegal logging.
- The EU sustainability legislation identified to have a particular impact on Ethiopian suppliers is the EU Deforestation Regulation (EUDR), and the EU Conflict Mineral Regulation.
- Considering Ethiopia's many suppliers in the agriculture sector, the EUDR is expected to affect Ethiopian companies through further demands with due diligence, including respect for human rights and the rights of affected indigenous peoples.
- Ethiopian companies supplying the EU with tantalum will likely be affected by the EU Conflict Mineral Regulation. This is expected to lead to increased demands concerning due diligence practices.

Key exports from local markets to the EU

- The EU is Ethiopia's second largest export partner, constituting 15% of total exports.
- Key exports include coffee, fruits and vegetables (81%).
- Ethiopia also exports textiles, apparel and leather products to the EU.



Exports to Europe, *share (%) and total € billion*

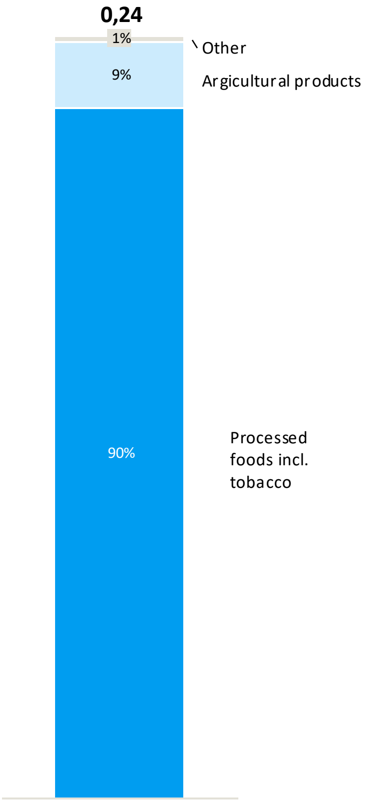
Malawi | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Malawi has laws enforcing human and labour rights protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low.
- In addition, Ethiopia has taken measures to combat deforestation, protect forests and to some extent prevent illegal logging. In Malawi, companies are required to conduct Environmental Impact Assessments (EIAs) for projects with significant environmental impacts.
- In Malawi, local requirements for ESG reporting have mainly applied to high-impact sectors such as the mining and natural resource sectors.
- The EU sustainability legislation identified to have a particular impact on Malawian suppliers is the EU Deforestation Regulation (EUDR). Considering Malawi's many suppliers in the agriculture sector, the EUDR is expected to affect Malawian companies through further demands with due diligence, including respect for human rights and the rights of affected indigenous peoples.

Key exports from local markets to the EU

- The EU is Malawi's largest export partner, constituting 34% of total exports.
- Key exports include processed foods including beverages and tobacco of which mainly tobacco (90%), as well as sugar and tea.
- Malawi also export agricultural products to the EU.



Exports to Europe, *share (%) and total € billion*

Tanzania | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Tanzania has several ESG-related legislations that address factors such as carbon trading, environmental impacts and social conditions. Apart from ESG-reporting for all companies, except micro, there are sector-specific legislations targeting for example mining industries. Tanzanian legislation is less strict than EU's, prioritising adaptation over mitigation to provide support for companies' sustainable transitions. The goals are the same, but with differing timelines.
- Tanzania has laws enforcing human and labour rights protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low. In addition, Tanzania has taken measures to combat deforestation, protect forests, and to some extent prevent illegal logging.
- Considering Tanzania's many suppliers in the agriculture sector, the EU Deforestation Regulation (EUDR) is expected to affect Burundian companies through further demands with due diligence, including respect for human rights and the rights of affected indigenous peoples. Tanzanian companies supplying the EU with gold are likely to be affected by the EU Conflict Mineral Regulation. It is expected to lead to increased demands concerning due diligence practices.

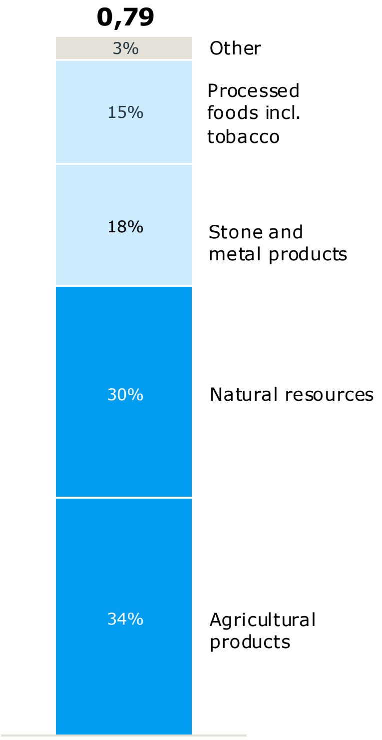
"The similarities between Tanzanian and European legislation are minimal. The EU seems stricter, either you comply with the requirements or are out of the market. We are not in the position to ban activities, but rather to guide a slower transition for companies to be able to adapt.

EU ESG legislation also has a much wider spread, as sustainability issues will be applied at supply chain level. Such an overarching approach will really be a challenge for Tanzanian companies for financial reasons.

- Association of Tanzania Employers

Key exports from local markets to the EU

- The EU is Tanzania's fifth largest export partner, constituting 5.5% of total exports.
- Key exports include coffee, tea and cocoa (34%), natural resources such as iron, etc. (30%), and stones and metal products mainly pearls, gold and precious metals (18%) as well as processed foods and tobacco (15%).



Exports to Europe, *share (%) and total € billion*

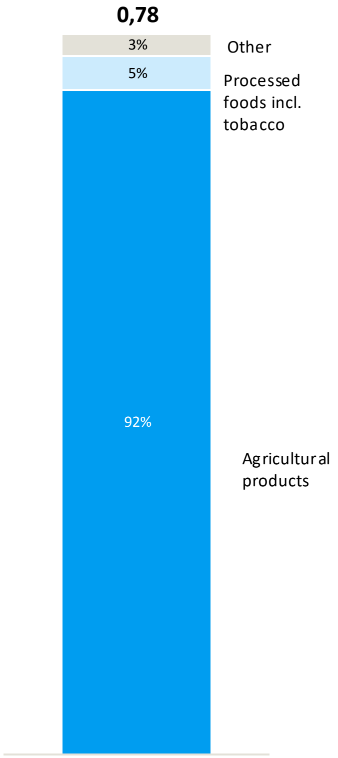
Uganda | Local Market Conditions

Overview of existing ESG landscape and local market conditions

- Uganda has laws enforcing human and labour rights protection for human and labour rights, including regulations against child and forced labour and regulating working conditions. However, the effectiveness of implementation and enforcement varies and is generally low.
- The EU sustainability legislation identified to have a particular impact on Ethiopian suppliers is the EU Deforestation Regulation (EUDR), and the EU Conflict Mineral Regulation.
- Considering Ethiopia's many suppliers in the agriculture sector, the EUDR is expected to affect Ethiopian companies through further demands with due diligence, including respect for human rights and the rights of affected indigenous peoples.
- Ethiopian companies supplying the EU with tantalum will likely be affected by the EU Conflict Mineral Regulation. This is expected to lead to increased demands concerning due diligence practices.
- In addition, Uganda has taken measures to combat deforestation, protect forests and to some extent prevent illegal logging.

Key exports from local markets to the EU

- The EU is Uganda's largest export partner, constituting 20% of total exports.
- Key exports include agricultural products including coffee, tea, spices etc. (92%).
- Uganda also exports processed foods to the EU.



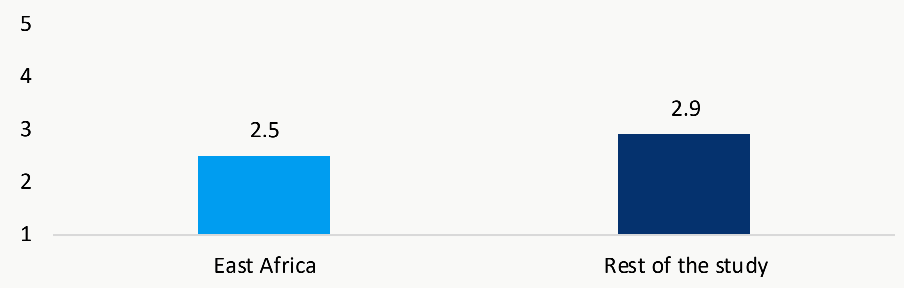
Exports to Europe, *share (%) and total € billion*

Eastern Africa | Awareness & Prioritisation

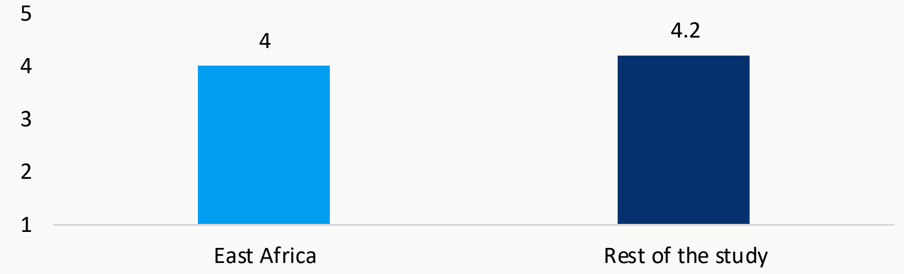
Local ownership common for Eastern African companies in the study

- East African companies exhibit lower awareness of EU sustainability legislation compared to companies in other regions. Among the surveyed companies, 47% have never heard of the predominant EU sustainability legislation, while 33% are aware of the CSRD and 22% are familiar with the EU deforestation regulation.
- The limited awareness of EU regulations among East African companies can be attributed to several factors, including the absence of robust domestic ESG regulatory frameworks and little local demand for sustainability practices among customers.
- Additionally, many of the surveyed companies are locally owned SMEs with limited international pressure for sustainability compliance. Eastern Africa also has a higher concentration of agricultural companies, which predominantly comprise numerous small enterprises exhibiting low levels of awareness regarding sustainability regulations.
- Despite the low awareness, East African companies express ahigh level of priority for sustainability, if yet somewhat below the study avererage.
- Also, there seems to be a consensus that sustainability will become an even bigger priority in the future, with 94% of surveyed companies anticipate it becoming a more prioritised area within the next three years.
- Sales and business opportunities, along with regulatory compliance, are the primary drivers for sustainability efforts among East African companies. In contrast to many other markets, customer and investor pressure appear to be less significant, with only 15% and 10% of companies respectively identifying them as key drivers.

How well is your company aware of the EU's new sustainability related legislative developments?



How does your company prioritise working with sustainability today?



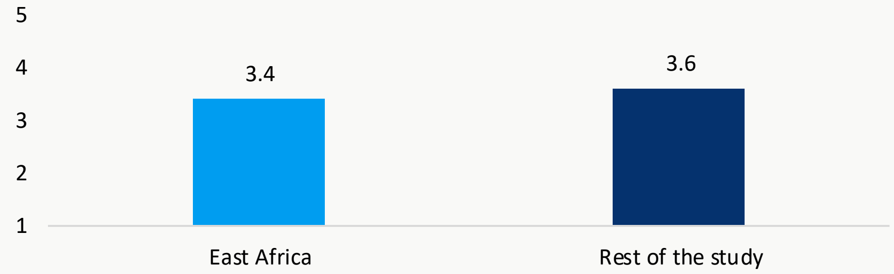
Results based on 121 completed and 98 partially completed survey responses

Eastern Africa | Customer Demands & Business Impact

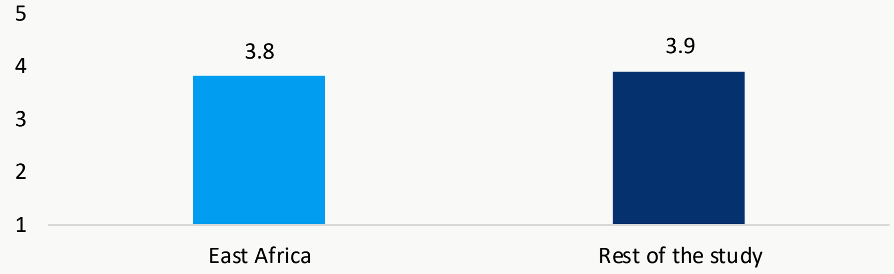
Impacts include enhanced reputation, increased sales, and increased costs

- 69% of the East African companies in the study claim to have experience with customer sustainability demands, with almost half of the companies also stating that they have seen an increase in requests over the last few years. A majority of these demands are stated to be related to environmental issues.
- Regarding environmental demands, East African companies primarily encounter requirements related to environmental certification, followed by sustainable production processes and products/packaging. Interestingly, compared to companies in other regions, East African companies receive significantly fewer requests for collecting and reporting greenhouse gas emissions data and calculations, with only 19% of these companies having experience in this area.
- Social demands are dominated by request related to occupational health and safety, followed by working hours, adequate wages and the presence of child labour. Request related to forced labour and diversity indicators are situated at the other end.
- For companies in East Africa, the most common governance-related request seems to be business ethics policies. However, compared with the average company in the study, East African companies state that they receive less demands on data protection and confidential information as well as on management of suppliers.
- 63% of East African companies express that new sustainability demands from customers will have a high or significant impact on their business. While most firms anticipate these new demands will enhance their reputation and increase sales, 44% also expect increased costs, and 37% foresee difficulties in conducting business with international firms.

To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?



To what extent do you already think that customers' sustainability demand will impact your company?



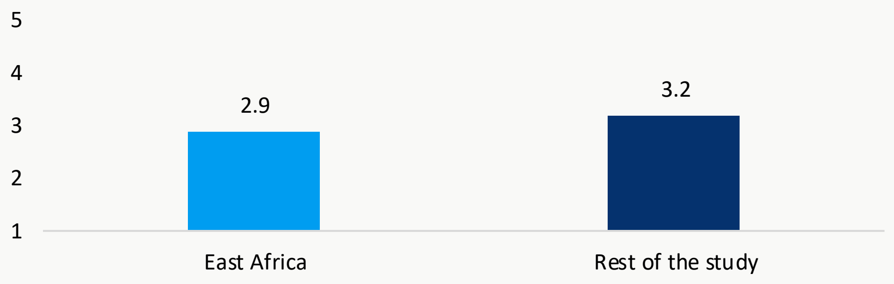
Results based on 121 completed and 98 partially completed survey responses

Eastern Africa | Readiness & Support

Less experienced in working with sustainability demands

- In line with the study's overall findings, East African companies generally view customers' sustainability demands as a business opportunity, with 49% expressing this sentiment. However, 39% also see these demands as both a sales opportunity and a trade barrier.
- The optimistic view on new sustainability demands is somewhat surprising, given East African firms' limited experience with such requirements, which falls below the study's average. A likely explanation could be their limited understanding of the potential implications of new legislation and demands.
- Regarding the main barriers to progress, East African companies cite a wide range of challenges, including a lack of knowledge and resources, financial constraints, and limited access to technology.
- When asked about interventions to contribute to sustainability progress, East African companies prioritise gaining more knowledge about international requirements, followed by hands-on support for meeting these standards. Interestingly, companies in the region also seek collaboration with trading partners more frequently than companies in other regions covered by the study.
- 65% of companies in the region rely on business networks for support with sustainability-related matters, followed by external consultants (61%), trade associations (56%), and desk-top research (31%).
- Given the export-oriented nature and industry characteristics of many East African markets, which are heavily focused on agricultural products and encompass many smaller firms, trade and business communities are likely to play an important role in lowering the financial barrier to sustainability progress.

How experienced is your company in working with sustainability demands?



What factors would be valuable for your company to facilitate future progress on sustainability?

Response options	East Africa	Rest of the study
Practical hands-on support to drive internal sustainability initiatives	57%	61%
Technical support (e.g. tools and platforms)	52%	53%
More knowledge about international legal requirements	65%	62%
Financial support	45%	45%
Increased collaboration with trading partners	41%	33%
Other (comment field)	1%	1%
Don't know/ Not applicable	1%	1%

Results based on 121 completed and 98 partially completed survey responses

Appendices

APPENDIX 1

Methodology

Overall Methodology and Approach of the Study

The overall objective of the study was to evaluate the effects of the expanding EU ESG legislation and the increased sustainability focus among multinational companies on companies in emerging markets. The focus was on countries where Danish Industry (DI) is engaged with partner organisations.

The study focuses on examining the topic in four key research areas:

- Key EU legislation and local markets condition: How EU sustainability legislation impacts different industries in local markets.
- Awareness & prioritisation: Local suppliers' awareness and prioritisation towards EU ESG legislation and willingness to address ESG issues.
- Customer demands & business impact: The customer demands and business impact on local suppliers derived from EU ESG legislation and pressure from European companies.
- Readiness & support: Readiness for local companies to meet the increasing demands, overcome risks, and leverage the business opportunities, and the support needed to succeed.

The study was performed by Ramboll Management Consulting on behalf of Danish Industry (DI). It was executed between January and July, 2024. The project was performed in collaboration between Ramboll Management Consulting, DI, and DI's local partner organisations, from the 12 countries in the focus of the data collection.

Numerous companies have participated in the study; 778 company representatives from 12 countries have participated in the survey, and 120 company representatives in total participated in the six focus group interviews. In addition, 9 interviews were performed with DI's local partner organisations and experts.

The study has applied a mixed methods approach, with both quantitative and qualitative data as well as desktop data. A mixed method approach can enable a more thorough examination of a topic and enable exploration of complex research questions when neither qualitative nor qualitative studies can answer the studied questions.[1]

The study has applied a triangulation approach, using multiple datasets and methods. The datasets include the results of the survey, focus group interviews, other interviews, and a literature review. The benefits of triangulation include enabling holistic analyses of complex phenomena, and deeper understanding.[2]

The hypotheses were developed based on the desktop research and the initial interviews. The hypotheses guided the continued study.

Notes: 1) NOVA Southeastern University, https://education.nova.edu/Resources/uploads/app/35/files/arc_doc/mixed_methods.pdf
2) Ayoub et al., Methodological Practices in Social Movement Research, Chapter 4: Triangulation in Social Movement Research Get access Arrow

The research strategy followed a funnel approach divided into four steps

STEP I

Scoping, prioritisation, and initial data collection

Objective: Established an initial understanding of local suppliers' conditions and developed hypotheses to guide the subsequent data collection.

- **High-level literature review** and **interviews** with selected local DI partners and experts on ESG legislation in global supply chains.

Outcome: A detailed understanding of the applied research strategy, key hypotheses to guide the data collection approach as well as the roles and responsibilities between Ramboll, DI, and DI's local partners.

STEP II

Broad understanding of the research questions

Objective: Gathered quantitative data and obtained a deep understanding of the impact on local suppliers across the 12 markets which enables identifying key areas to investigate further during the focus group interviews.

- **Distribution of survey** to local suppliers on all 12 markets[1], using Ramboll's tool SurveyXact for collection of quantitative and comparable data across regions, markets, and sectors.

Outcome: An overarching understanding of how local suppliers across the 12 markets are impacted by the increasing sustainability-related EU sustainability regulations.

STEP III

Deep-dive into interesting findings

Objective: Gathered qualitative data based on identified, interesting findings in the survey, and thus, obtained an in-depth understanding across the markets.

- **Focus group interviews** with groups of local suppliers in selected markets including Colombia, Kenya, South Africa, India, Türkiye and Vietnam.

Outcome: In-depth understanding of the impact of escalating EU ESG legislation and demands from EU companies on local suppliers.

STEP IV

Data analysis & report writing

Objective: Gather qualitative data in relation to interesting, identified areas from the survey and thus obtain an in-depth understanding amongst local suppliers on the 12 markets, followed by recommendations for appropriate supportive interventions.

- **Analysis** of collected qualitative and quantitative data in step I-III.
- **Report writing** summarising the project and its key findings and recommendations.

Outcome: An analysis of all collected data, a deep understanding of how local suppliers across the 12 markets are impacted by the increasing sustainability-related EU sustainability regulations, and a report summarising the project.

Notes: 1) Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda, South Africa, the Philippines, India, Vietnam, Türkiye and Colombia

Seven key hypotheses were developed during the preparatory phase to guide the subsequent data collection

Based on preliminary findings from the literature review and interviews with selected markets, seven key hypotheses were derived to drive the study. The hypotheses guided the design of the survey structure, the formulation of questions, and the overall themes explored in the focus group interviews.

1. Demands towards local suppliers are likely to increase within three main areas, given the scope of EU's ESG regulatory landscape, including: a) Due diligence in relation to environmental, social and governmental issues, b) ESG data and reporting, and c) Sustainable products and productions processes.

2. Certain local suppliers are expected to face new demands in relation to implementing due diligence processes and aligning with local ESG legislation as well as ensuring low emission production and transportation processes given the scope of EU Deforestation Regulation, EU Conflict Mineral Regulation and CBAM.

3. Sectors such as food processing or chemicals will be better prepared to meet rising ESG demands due to established international benchmarks and the history of having to obtain various sustainability certifications as a license to operate.

4. Companies are likely to face greater challenges in gathering environmental data, as well as to ensure human rights due diligence, given the stricter reporting requirements and limited enforcement of local laws.

5. Larger companies have a higher awareness of the EU ESG regulatory landscape compared to SMEs due to their export exposure and are also more inclined to perceive the EU ESG regulatory landscape positively and recognise the business case for sustainability initiatives.

6. Larger companies have a stronger readiness to meet the growing demands from EU companies and multinational corporations from other regions. However, SMEs face numerous challenges, including low awareness, limited resources, financial constraints and a lack of practical knowledge.

7. Valuable supportive key measures for SMEs include gaining more knowledge about the evolving EU ESG legislative landscape and understanding of the business impact this poses for their company, along with practical knowledge and hands-on support for how to implement and drive sustainability initiatives followed by tools and platforms to facilitate ESG data gathering, enhanced collaboration between stakeholders and support from trading partners.

The execution of the study entailed several risks for which several mitigating initiatives were applied

In the project's scoping phase, potential risks were identified, along with suggested mitigation approaches to handle the risks.

Identified potential risks:

- **Low response rates** amongst companies' that have received the survey.
- **Difficulties to arrange focus group interviews** resulting in inability to carry them out as originally planned.
- **Inability amongst focus group stakeholders to participate**/show up for planned focus groups interviews due to unforeseen hindrances (sickness etc.).
- **Inadequate responses** e.g. too many 'don't know' responses hindering the ability to draw meaningful conclusions.

Suggested mitigation approaches to handle the risks:

- **Pro-long project timeline:** Extending the project timeline of the data collection phase can allow for ensuring a higher response rate. This by allowing more time to send reminder emails and if necessary, conduct phone calls to encourage respondents to take part of the survey.
- **Digital interviews with local suppliers:** Performing digital interviews with a few or a group of local suppliers can be applied in case where data is inadequate, and thus to fill in data gaps.
- **Interviews with experts:** Performing a few interviews with selected experts can be applied to fill in data gaps and enhance better understanding in relation to impacts on local suppliers.

Throughout the project execution, some of the identified risks did occur.

The following risks did occur during the project:

- **Overall low response rates** amongst companies that have received the survey.
- **Difficulties in arranging focus group interviews** on the planned timeline. Due to the longer timeline for the survey, the focus group interviews were also delayed. Also, some of the focus group interviews were postponed with short notice.
- **Inadequate responses** regarding many companies choosing 'other' on industry categorisation.
- **Complex project coordination** due to the many stakeholders across plural markets being involved.

Mitigation approaches that were applied to minimise the effects of the risks that occurred:

- **Pro-long timeline for the survey:** The survey timeline was extended to allow for a higher response rate. The survey was open longer time, there were additional reminder emails sent to respondents, and there was extensive communication between Ramboll Management Consulting, DI and DI's local partners.
- **Extended timeline for the focus group interviews:** The timeline for the focus group interviews was prolonged.
- **Extended timeline for the project:** Since the data collection took longer than expected, and because of the complex project coordination, the overall project time plan was prolonged.
- **Manual adjustments for industries:** If the respondent answered 'other' to the question, they also had to write a text answer on which industry the company belonged to. These text responses were then converted to match existing responses.
- **Increasing the amount of data:** Respondents who had not completed the entire questionnaire but had answered a couple of questions were also included in the report material, as the research objective revolved more around finding trends within different markets and sections of the survey, than a multivariate analysis.

Literature Review and Interviews

The literature review and interviews served as initial data collection and to scope the project

Purpose

The preparatory phase acted as initial data collection and supported the scoping and prioritisation of the research method. It was performed by desktop research combined with supplementary interviews with experts and DI local partner organisations across eight selected markets: India, Vietnam, Kenya, Tanzania, Türkiye, South Africa, Colombia and the Philippines.

The insights from this phase supported the development of **research hypotheses in relation to the overall research objective** on how the push for sustainability regulation in the EU and the increased focus on sustainability among multinational companies is impacting companies in countries where DI is active.

The research hypotheses guided the subsequent data collection phases, the survey and focus group interviews, and the analysis of data.

Focus Areas

The literature review served to gain an understanding of the following key areas:

- **Key EU ESG regulations**, their scope, and key requirements to assess direct impacts on EU companies and likely indirect demands on their suppliers.
- **Local ESG legislation** on the 12 markets, their scope, key requirements, and similarities with EU ESG regulations.
- **Key export sectors from** each local market that supply to EU companies and thus face greater exposure to new ESG demands as a result from the direct regulatory requirements imposed on their EU customers.

Interviews were carried out to complement the findings of the desktop research, focusing on eight markets identified by DI as the most influential and strategically significant within the project's scope.

Interviews*

Interviews were carried out with the following actors:

Local partners

- India: Confederation of Indian Industry (CII)
- Vietnam: Vietnam Chamber of Commerce and Industry (VCCI)
- Kenya: Kenya Association of Manufacturing
- Tanzania: Association of Tanzania Employers
- Türkiye: Turkish Confederation of Employer Associations
- South Africa: National Business Initiative (NBI)
- Colombia: ANDI: Asociación Nacional de Empresarios de Colombia
- The Philippines: Employers Confederation of the Philippines

Experts

- Peter Lund-Thomsen, Professor of Corporate Social Responsibility in Developing Countries at Copenhagen Business School

Interview guide with DI Local Partners

Part I: Background on sectors and local ESG legislation

1. Which are key business sectors that European companies do business in within your market?
2. What are the main local ESG legislations that companies in your markets are affected by?
    a. Are there any sectors that are more affected by sustainability legislation than others?
3. Are there any new, local ESG legislations that are coming into place in the near future?
4. Do you see any similarities between these legislations and the main sustainability legislations that are coming out from the EU?
5. What have been the primary ESG demands that your companies have been facing from foreign companies?
    a. Are there any areas where you are particularly strong/aligned with foreign demands?

Part II: Impact on local business derived from EU sustainability regulations and demands from multinational companies

6. What is the overall awareness and perception amongst local businesses towards the new sustainability regulations that are coming out from the EU?
7. In what way do you see that new EU sustainability regulation has an impact on local companies?
    a. Is it seen as a new trade barrier?
8. What are local business experiences from receiving sustainability related demands from customers in the EU and other regions?
9. What type of sustainability demands are customers asking of local companies?
10. Are there any main capabilities that you see that local companies are lacking in order to meet the new sustainability demands?
11. What type of support do you see that local companies are in need of to successfully meet the increasing sustainability demands directed at them?

PART III: Other

12. Are there any important factors to keep in mind when conducting a survey and focus groups interviews on your market? For instance, language preferences.

Overview of interviewees

1. Peter Lund-Thomsen, Professor at Copenhagen Business School. February 8th 2024.
2. S Karthikeyan, Deputy Executive Director at Confederation of Indian Industry. February 12th 2024.
3. Perry Ferrer, Industry Committee Chairman of the Philippine Chamber of Commerce and Industry. Februrary 12th 2024.
4. Jenny Galvis Echeverry, Paola Buendía García and María Camila Agudelo Salazar, National Business Association of Colombia. February 12th 2024.
5. Mai Hồng Ngọc and Bùi Thị Ninh, Vietnam Chamber of Commerce and Industry. February 20th 2024.
6. Georgina Wachuka, Kenya Association of Manufacturers. February 23rd 2024.
7. Kennedy Rwehumbiza, Association of Tanzania Employers. February 23rd 2024.
8. Alex McNamara, Head of Operations at National Business Initiative South Africa. February 23rd 2024.
9. Pelin Öztürk Yudu and Utku Mert Metin, Confederation of Turkish Employers' Associations. February 28th 2024.

APPENDICES

The Survey

Survey: Purpose, target group, research areas and structure enabled deeper insights in the research questions

Purpose of the survey

Gathered **quantitative data** to obtain a good understanding of the impact on local suppliers across the 12 chosen markets. This phase identified key areas to investigate further during the focus group interviews.

Target groups

- The targeted groups were all organisations with connections to DI's partner organisations outside of EU within emerging markets.
- These were reached out to either through E-mails from Rambolls survey system SurveyXact, or via specific links customized for each market/partner organisation.

Questions covered the following three areas:

1. Awareness and prioritisation
2. Customer demands & business impact
3. Readiness & Support

To further investigate and test the hypotheses, the survey questions were structured in the following matter:

- **Business categorisation:** Introductory questions including *business sector belonging, whether they export to the EU, company size* and *ownership structure* to enable comparison and identification of differences and similarities across these categories. This is important considering the hypotheses suggesting significant variances across sectors and company sizes in terms of awareness, impact and readiness.
- **Scales:** Questions using scales (1-5) to measure level of awareness, prioritisation, business impact and experience in addressing and working with ESG matters in general and especially in relation to the three key identified areas for which increasing demands are expected: a) due diligence related to environmental, social and governance issues, b) ESG data and reporting and c) Sustainable products and production. Focusing on the impact of legislation allows for a pragmatic approach to answer the overall objective, given the low awareness of specific EU laws as accounted for in the literature review.
- **Ranking and multiple-choice:** Questions using a combination of ranking and a given multiple choices to enable understanding of local suppliers' experience, anticipation, preferences or importance in relation to reasons for working with ESG matters, business impacts and key challenges as a result from new EU ESG legislation and demands from multinational companies as well as needed supportive measures.
- **Open questions:** Open questions where applicable to allow for further elaboration in relation to specific matters.
- **Other:** All questions are to include the answer options "Don't know/ Not applicable" and "Other".

See the next slide for further elaboration on how the survey questions were formulated.

Survey questions was formulated to enable gathering of insights in relation to three research areas

Overall objective	Research areas	Base for formulation of survey questions
Increase the knowledge on how the push for sustainability regulation in the EU and the increased focus on sustainability among multinational companies is impacting companies in countries where DI is working.	Awareness & Prioritisation	• Level of awareness towards EU ESG legislative developments • Level of awareness towards EUDR, CBAM and EU Conflict Mineral Regulation amongst local suppliers to whom these regulations are likely to indirectly apply • Level of prioritisation in terms of willingness to address and work with ESG matters
	Customer Demands & Business Impact	• Which of the identified, increasing customer demands (e.g. ESG data, respect and compliance of human and labour rights, CO_2 reduction etc.) local suppliers currently are facing and are expected to face in the upcoming years, and if other, yet unidentified, demands exist or are anticipated • Level of dialogue between the local suppliers and their trading partners and how these demands are being communicated to local suppliers • If local suppliers experience any differences in ESG related demands from customers from other regions outside the EU, and what these in that case are • Level of business impacts (positive and negative) that local suppliers have experienced in their own business and are expecting to experience in the near 2-5- and +5 years • Current and expected types of business impact (e.g. trade barrier, compliance costs, access to new customers)
	Readiness & Support	• Level of experience in working with sustainability questions • Reasons for working with ESG matters (e.g. certificates, local ESG legislation, internal or external pressure) • Level of experience in working with the three ESG areas for which increasing demands are anticipated: Human rights due diligence, ESG data and reporting, sustainable products & productions • Which of the key identified challenges (e.g. lack of skills and knowledge) local suppliers experience the most, and if there are other yet unidentified challenges • Which of the identified supportive measures (e.g. practical knowledge) is regarded as most valuable to local suppliers and if there are other, yet unidentified supportive measures

Survey: Practical distribution

Practical distribution

- The study was distributed digitally via SurveyXact and via DI's local partner organisations.
- The survey was conducted in English for all markets except Vietnam, the Philippines, Turkey, Burundi and Colombia where it was translated to local languages. Respondents in these markets also had the opportunity to answer the survey in English.
- The survey remained open for varying periods depending on market but was open for a total of 8 weeks, from week 14 to 22.
- Reminders emails was sent out weekly to ensure enough responses, primarily via email but also through WhatsApp in the Eastern African markets.
- Ramboll also drafted and shared market-specific email reminders to help and simplify the reminder work for the partner organisations that chose to share the link to the survey themselves.

Roles and responsibilities

Ramboll Management Consulting

- Developed the first draft of the survey questions based on the identified research areas.
- Invitation email was sent to target groups, as well as reminder emails.

DI

- Provided feedback and approval of the survey questions and emails.

DI Local partners

- Sent out a specific link to survey.
- Sent out 2-4 reminder emails, based on need and availability.

Survey outcome and general questions

- **Total number of respondents answering:** 778
- **Respondents who finish the whole survey:** 464
- A majority of the respondents represented larger companies (43,5% answered 'more than 500 employees' and 13,5% answered '250-500 employees')
- Most respondents defined their business sector as 'other' (37,1%), followed by 'textile, clothing, leather, footwear (20,2%), and agriculture (11,3%)

Country	Number of respondents
Colombia	136
India	37
Vietnam	165
The Philippines	61
Türkiye	55
South Africa	58
Kenya	47
Burundi	61
Etiophia	41
Malawi	6
Tanzania	37
Uganda	74
Total	**778**

Questions included in the survey

1. Business sector
2. Country
3. Which business sector does your company belong to?
4. What is the size of your company?
5. Does your company have EU companies as customers?
6. What does your company's ownership structure look like?
7. How well is your company aware of the EU's new and upcoming sustainability related legislative developments?
8. Is your company familiar with any of the following EU sustainability legislations? Please pick all relevant alternatives.
9. How does your company prioritise working with sustainability today?
10. Do you believe sustainability will become a more prioritised topic for your company to work with in the next three years?
11. What are the main reasons for your company to work with sustainability? Please pick up to three answer alternatives.
12. Does your company have experience from receving sustainability-related demands or requests from customers?
13. To what extent has your company experienced an increase in sustainability-related demands or requests from customers over the last few years?
14. In relation to what ESG area do the customers typically have demands or requests?
15. What type of environmental-related demands or requests are customers asking for? Please pick all relevant alternatives
16. Where is your company currently turning to get support with GHG emissions data and/or environmental declaration (LCA, EPD)? Please pick all relevant alternatives.
17. What type of social-related sustainability demands or requests are customers asking for? Please pick all relevant alternatives.
18. What type of governance-related sustainability demands or requests are customers asking for? Please pick all relevant alternatives.
19. How are customers communicating these demands or requests? Please pick up to three answer alternatives.
20. Does your company experience a difference in sustainability demands from customers from other regions outside the EU?
21. To what extent do you already think that customers' sustainability demand will impact your company?
22. What type of business impact do you see or think customers' sustainability demand will have on your company? Please pick up to three answer alternatives.
23. How do you percieve existing and/or incoming sustainability demands from your customers?
24. How experienced is your company in working with sustainability demands?
25. How experienced is your company with working in sustainability within the following areas? - Collecting and reporting environmental data
26. How experienced is your company with working in sustainability within the following areas? - Collecting and reporting social data
27. How experienced is your company with working in sustainability within the following areas? - Collecting and reporting governance data
28. How experienced is your company with working in sustainability within the following areas? - Due diligence processes (managing actual and potential negative impact on environment and people)
29. How experienced is your company with working in sustainability within the following areas? - Sustainable/green products (e.g. sustainable materials)
30. How experienced is your company with working in sustainability within the following areas? - Sustainable production processes (e.g. minimising CO2-emissions)
31. Which of the following factors do you see as barriers for your company to make progress on sustainability? Please pick up to three answer alternatives.
32. Where does your company turn to gain help and support with sustainability matters? Please pick up to three answer alternatives.
33. What factors would be valuable for your company to facilitate future progress on sustainability? Please pick up to three answer alternatives.

Focus Group Interviews

Focus group interviews: Purpose, format and target groups

Purpose with the focus group interviews

To gather **qualitative data** in relation to the study and get and in-depth understanding of the trends identified in the survey.

Countries

Kenya, South Africa, Vietnam, India, Türkiye, and Colombia.

Format

The focus group interviews were conducted over either one or 1-2 days per country with 12-16 companies per market. The questions were developed based on the insights from the literature review as well as the survey results.

The focus group interviews were divided into two or three parts, given the preferences of the local partner organisations:

Session 1 – Awareness, Prioritisation

Session 2 - Customer Demands Business Impact

Session 3 –Ability to meet demands and Support needed

In each session, the participants were asked to capture the general trends in their own country, using their own experiences as examples to guide the discussion.

Outcome of the focus group interviews

- 120 company representatives in total participated in the six focus group interviews.
- Notes were taken at each of the focus group interview sessions by Ramboll facilitators and DI staff.
- The focus group interviews included **large companies and SMEs** to capture the diverse challenges associated with company sizes.
- The focus group interviews were conducted with local actors having EU companies as **significant trade partners.**

Roles and responsibilities

Ramboll

- Ramboll had the overall responsibility for the execution of the focus group interviews. This includes developing format, scope (incl. proposal for targeted industries and function within each company) and facilitating the sessions.

DI Project Managers

- Provided feedback on targeted industries and invited companies to the sessions.
- Helped provide venues for the sessions.
- Welcome and introductory remarks (when possible and on-site).

DI local partners

- Supported in the identification of suitable companies to invite to the sessions.
- Supported the DI Project Managers with the invitations as needed.

Interview guide for focus group interviews

Awareness & Prioritisation

1. The survey indicates that awareness of current and upcoming European sustainability legislation is generally low. Why do you think that is?

   Please consider factors such as:

   - Awareness: What channels or sources are in place to inform you about new legislation?
   - Level of Complexity: How complex is the legislation, and how hard is it to understand and keep up with these regulations?
   - Main Barriers: What are the main obstacles preventing greater awareness (i.e., limited resources, lack of training etc).
   - Export Exposure: How does your company's involvement in export markets affect your awareness and prioritisation of European sustainability legislation?

2. A relatively high number of companies report that working with sustainability is a priority for them today.

   a. Why is it prioritised and where is the drive working with sustainability coming from?

   b. What are the key elements of current sustainability efforts?

3. Would you say that the conversation and work with sustainability changed over the past years – how?

Customer Demands & Business Impact

1. When it comes to customer demands, companies report a clear divide: half state that sustainability demands have significantly increased over the past few years, while the other half indicate only moderate to no increases.

   a. What could explain such divergence?

   b. What factors could feed into such puzzle?

   Please consider factors such as:

   - The nature of the company (size, ownership etc).
   - The sector they operate in
   - Lack of awareness of customer requirements etc.
   - Are there any unique conditions for Türkiye?

2. How do you experience communication from customers regarding sustainability requirements? Is there insufficient communication from customers?

3. More than a majority of companies state that customer sustainability demands will significantly impact their business.

   a. How do you think that impact will play out?

   b. What factors determines whether you are impacted severely or more easily?

4. The survey indicates a clear divide in whether you regard ESG legislation as a business opportunity or a trade barrier. What are the arguments for each case?

Ability to meet demands and support needed

1. How would you describe the general ability amongst Turkish companies to meet increasing sustainability demands from abroad?

   a. Is the ability equally distributed in terms of E, S and G – where are competences lacking and why?

2. Many companies state that they expect sustainability demands to increase in the following years. What do you think is required from you to meet any upcoming demands?

3. What type of support would your company need to meet customer sustainability demands?

   a. What would you require from your trade organisation?

   b. From your EU customers?

Data Analysis & Report Writing

Data Analysis & Report Writing: Mixed methods and triangulation approach allowed for a robust analysis

Ramboll Management Consulting performed the analysis based on a mixed methods and triangulation approach, which enabled solid conclusions and recommendations. The analysis was based on four themes: 1) Key EU legislation and local market conditions; 2) Awareness & Prioritisation; 3) Customer Demands & Business Impact; and 4) Readiness & Support.

The analysis and report writing were executed in five steps:

1. Analysis of literature review & initial interviews

The findings of the literature review were categorised into different themes. Notes from the initial interviews were analysed and categorised. By executing an overall analysis of the findings from the literature and the initial interviews, the study's hypotheses were developed. This analysis focused on all four themes.

2. Analysis of quantitative data

The data gathered through the online survey was cleaned to ensure data quality and with no advanced statistics being required it was decided to include incomplete responses to increase sample size. This analysis focused on themes 2-4. The data was analysed based on differences between the sizes of companies, ownership structures and market (country). Interesting key highlights were showcased through multiple charts and graphs.

3. Analysis of qualitative data

The notes and the overall impressions from the focus group interviews were analysed. Key highlights from the data were highlighted, and the data was categorised according to themes 2-4. The data was also analysed based on differences between the sizes of companies, and ownership structures.

4. Triangulation of data

The data from the literature review, the initial interviews, the survey, and the focus group interviews were triangulated and merged into one overall analysis. The data was cross-checked between the different data sets, enabling a robust analysis. The analysis focused on all four themes. The data was also analysed based on differences between the sizes of companies, and ownership structures.

5. Report writing

The study and its findings and recommendations were summarised in this report. Ramboll Management Consulting developed a first draft that Danish Industry (DI) gave feedback on. Lastly, Ramboll Management Consulting updated the report based on the feedback.

APPENDIX 2

References

References used for the literature review

- Ayoub et al., *Methodological Practices in Social Movement Research*, Chapter 4: Triangulation in Social Movement Research Get access Arrow
- Bureau of International Labour Affairs. 2022. *2022 Findings on the Worst Forms of Child Labour: Malawi.*
- Bureau of International Labour Affairs. 2022. *Child Labour and Forced Labour Report Burundi.*
- Bureau of International Labour Affairs. 2022. *2021 Findings on the Worst Forms of Child Labor: Colombia.*
- Bureau of Labour Relations. N.d. Labor Code of the Philippines.
- Capital Markets Authority of Kenya. 2015. *The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015.*
- Constitutional Court of the Republic of Türkyie. 1995. The Constitution of the Republic of Türkiye.
- Commission for Mediation and Arbitration. 2006. Employment and Labour Relations Act.
- Department of Labour. N.d. *What Employers and Workers Need to Know about Employment Equity.*
- Egemenoğlu. 2024. Turkish Sustainability Reporting Standards (TSRS) and Scope of Application of TSRSs were Published in the Official Gazette.
- Environmental Management Bureau. 2016. What You Should Know About Environmental Impact Assessment (EIA) and Environmental Compliance Certificate (ECC).
- Foreign Economic Relations Board of Türkiye. 2011. The New Turkish Code of Commerce: Rules Regarding the Corporations in a Nutshell.
- George, V. 2023. *Carbon Herald*. India Announced Its Domestic Carbon Credit Trading Scheme (CCTS).
- India Briefing. N.d. *Indian Labour Laws.*
- International Finance Corporation. 2023. *IFC Launches ESG Program in Ethiopia to Boost Sustainable Growth, Spur Investment.*
- Laws Africa Legislation Commons. 2014. *Malawi Employment Act.*
- Malawi Government. 2019. *Mines and Minerals Act, No.8 of 2019.*
- Ministry of Gender Labour & Social Development. 2006. *The Employment Act, 2006.*
- Morcillo, L and Arocha, N. 2023. *Latin Lawyer*. Colombia Leads the Way on ESG Reporting and Green Taxonomy.
- National Assembly. 2015. The Tanzania Extractive Industries (Transparency and Accountability) Act.
- National Environment Management Authority. 2019. *The National Envionment Act.*
- National Environment Management Council. 2005. Environmental Impact Assessment Training Manual in Tanzania.
- National Treasury. 2022. South African Green Finance Taxonomy 1st Edition.
- Netherlands Commission for Environmental Assessment. N.d. *Ethiopia.*
- National Environment Management Authority. N.d. *Environmental Impact Assessment (EIA).*
- NOVA Southeastern University, https://education.nova.edu/Resources/uploads/app/35/files/arc_doc/mixed_methods.pdf
- Official Gazette. 2013. Republic Act No. 10364.
- Precidency of Migration Management. N.d. *Work.*
- Republic of Kenya. 2007. *The Employment Act, 2007.*
- Securities and Exchange Commission Philippines. 2019. *Sustainability Reporting Guidelines for Publically Listed Companies.*
- South African Mineral Reporting Codes. N.d. Associated Industry Standards – Best Practice Guidance Notes.
- South African Government. 1996. *Constitution of the Republic of south Africa no. 108 of 1996.*
- South African Government. 1997. *Basic Conditions of Employment Act, 1997.*
- South African Government. 2008. *Companies Act 71 of 2008.*
- South African Revenue Service. 2023. *Carbon Tax.*
- The National Board of Accountants and Auditors. 2020. Tanzania Financial Reporting Standard NO1 the Report by Those Charged with Governance.
- WageIndicator.org. 2023. *Decent Work Check Burundi.*

Bright
ideas.
Sustainable
change.

RAMBOLL