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Foreword from CII

India, the largest democracy in the world, has become 63rd among 190 nations in the latest World Bank Ease of Doing Business Index. In a single year India has moved 14 places to achieve this rank. This underlines India’s attractiveness as a key market for doing business and for investment by international and local companies.

The improved rank helps to fulfill the aspirations of the Government of India to increase business activity in the country through new investments, business expansions and making Indian companies a part of global value chains. At the same time, India also faces several societal and environmental challenges of varying nature. Acknowledging the importance of businesses’ roles in the development agenda and the impact of activities of businesses on society and environment, the Indian Government is also making several attempts to mainstream sustainability as a core business responsibility.

The Indian Government, through policy and regulation, aims to create positive impacts and to drive actions towards sustainable development, including the fulfilment of the UN Sustainable Development Goals (SDGs). India has its own guidelines for responsible business conduct: the National Guidelines on Responsible Business Conduct (NGRBC), which are designed to assist businesses to perform above and beyond the requirements of regulatory compliance. India also remains committed to the work of the United Nations and, being a member state of United Nations Human Rights Council (UNHRC), it is working on the launch of a National Action Plan (NAP) on Business and Human Rights. Once effective, the NAP will help in the implementation of United Nations Guiding Principles on Business and Human Rights (UNGPs) at a country level.

The CII-ITC Centre of Excellence for Sustainable Development has partnered with Sedex to publish this report, “Integrating Sustainability into India Supply Chains”. This publication aims to provide actionable guidance to companies on the integration of sustainability within their supply chains. It is based on the existing Indian legislation landscape and guidance around responsible business conduct, as well as applicable international laws and legislation to Indian companies as sourcing partners. It also brings to the fore the business case for investing in sustainable supply chains by looking at key drivers, key risks, and key challenges faced by Indian businesses in their supply chains.

Ms Seema Arora
Deputy Director General
Confederation of Indian Industry
Foreword from Sedex

I am delighted to introduce our first joint report with the Confederation of Indian Industry (CII). It is with great interest that I have followed India’s journey over the past two decades, from its emergence as a significant consumer market to becoming an industrial superpower and an invaluable business partner for companies around the world.

With such an evolution comes a growing desire from Indian companies to follow and lead global standards in responsible business, worker welfare and employer ethics. Sustainable, socially responsible businesses make for increasingly attractive options to investors, consumers, partner companies and buyers.

India’s own development runs alongside a new era for business globally. The COVID-19 pandemic has further highlighted the importance for fair working conditions and the importance of responsible business practices - to develop robust supply chains through healthy, safe and protected workforces. Operating responsibly is an integral component of long-term growth, in ensuring supply chains are protected and resources safeguarded for the future; this is more important today than it has ever been. As the world responds to the crisis, ordering more and more goods, there is a danger that, whether deliberately or not, workers may be forced into ever more difficult conditions.

With greater presence and influence on the global business stage, Indian companies are undoubtedly aware of the positive impacts they can have throughout the global supply chain and are keen to develop and demonstrate their sustainability credentials. In today’s context of a global pandemic, the criticality of responsible business practices is clear. It is essential that businesses continue assessing their sites and their suppliers despite the challenges posed by COVID-19 (and other factors) - to manage social and environmental impacts, protecting and positively affecting workers.

Sedex is proud to support Indian industry in this, and to collaboratively work with CII to help businesses achieve their ambitions. This report is designed to help Indian businesses in all industries to be more sustainable and act more responsibly, from understanding the “reasons why” through to the practical steps a business can take to integrate sustainable practices into its operations, and to combat the challenges it will encounter.

We celebrate every action towards these laudable aims. Sedex looks forward to working more closely with CII and our other Indian collaborators to drive responsible business practices throughout the global supply chain.

Mr Simon McCalla
Chief Executive Officer
Sedex
About Sedex and CII

About Sedex

Sedex is a global membership organisation dedicated to driving responsible business practices across global supply chains. We enable companies to implement responsible business practices in their business operations and their supply chains, helping to improve people’s working conditions and protect the environment.

Sedex provides businesses with practical tools and resources to operate ethically, source responsibly and work with suppliers to create fair conditions for workers. We operate an online platform and services, including the widely recognised SMETA social audit methodology, that allow our members to collect, share and analyse data, and manage risks in their supply chain. Our collaborative approach allows buyers and suppliers to exchange information and work together to better manage and improve their businesses’ ethical performance.

Over 60,000 member organisations from 180 countries use the Sedex platform to exchange data, manage business risk, meet compliance and drive positive impact. We have 16 years of expertise and work with some of the world’s most recognisable brands and standard setting organisations.

We have offices in London, Gurugram, Santiago de Chile, Shanghai, Sydney and Tokyo.

About CII-CESD

CII-ITC Centre of Excellence for Sustainable Development (CESD) is a not-for-profit, industry-led institution that helps businesses become sustainable organisations.

It is on a mission to drive innovative ideas and solutions, in India, and globally, to enable business, and its stakeholders, in sustainable value creation. Its knowledge, action and recognition activities enable companies to be future ready, improve footprint profiles, and advocate for improved sustainable business standards with policymakers and legislators through domestic and global policy interventions.

CESD leverages its role as all-inclusive ecosystem player, partnering industry, government, and civil society. It has been a pioneer of environment management systems, biodiversity mapping, sustainability reporting, integrated reporting, and social and natural capital valuation in India, thus developing business in India to sustainable competitiveness.

With two locations in India, CESD operates across the country and has also been active in other parts of South and South East Asia, the Middle East, and Africa. It has developed institutional partnerships and held memberships with the United Nations Global Compact.
Executive Summary

India has historically been at the cross-roads of world trade between the east and the west. With government support and leadership commitment, the country has built export capacities across a wide range of commodities serving various key sectors. The current government focus to have more manufacturing in India, through the Self-Reliant India (Aatma Nirbhar Bharat) programme, aims to boost India’s role in global value chains and position the country as a favourable sourcing destination.

A growing number of external and internal factors increases the drive for Indian businesses to integrate improved environmental sustainability and ethical practices within their business operations. These drivers include:

- Consumer preferences
- Investors seeking responsible business practices
- The evolving legislative landscape in India and partner countries that source from India
- A company’s internal risk management, cost and resource efficiency, and brand reputation.

Sustainability in supply chains can be broadly divided into four areas: labour standards, health and safety, environment, and business ethics. A minimum expectation in these areas is adherence to applicable national and international laws.

Companies can face challenges in the pursuit to make their supply chains more sustainable. Broader challenges can include meeting legislation, providing for an informal workforce, or a lack of tools and frameworks to address cross-sectoral issues. Site or business-specific challenges, such as a lack of resources and knowledge, can also deter companies from integrating sustainability practices. These challenges are further aggravated by unexpected crises like the one the world currently faces, the COVID-19 pandemic.

Risk analysis and audit assessments on the Sedex platform highlight key sustainability risks and issues held by supplier companies in India. The top risks and issues highlighted in this report include:

- Informal working contracts
- Inadequate health and safety measures
- Excessive overtime
- Low wages
- Forced labour
- Water extraction
• Waste and pollution.

The COVID-19 pandemic is exacerbating risks to business continuity, worker health and worker incomes. Sedex surveyed its membership in April 2020 and found that 70% of business respondents from India had seen a critical decrease in their revenue and over half expected a labour shortage. Managing these factors will require more careful consideration to supply chain workers’ recruitment, income, and health and safety.

In order to deal with the risks identified, companies must design suitable strategies to integrate sustainability across their supply chains.

Sustainability strategies require strong internal management systems. These involve leadership commitment along with other management controls such as policies, resource deployment (i.e. staff) and training. External actions include engaging with suppliers through setting sustainability goals and targets, training, and remediating issues. Mapping and monitoring suppliers’ practices are also key activities to identify and manage sustainability risks.

As the world grapples with the pandemic and its impact, there is a strong focus on supply chain “resilience”. Buyer companies look to diversify their supplier base across different geographies, placing greater emphasis on improving labour standards and the environmental impact of operations. Tighter regulations around social and environmental disclosures in supply chains, at both international and local levels, are expected to enable companies to better measure and understand their supply chain operations, risks and resilience.

This report aims to support companies to develop a more sustainable and resilient supply chain. This aim is met by outlining key legislative and compliance commitments, highlighting risks and challenges, and providing guidance on actions to take when setting sustainability strategies.
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<tr>
<th>Abbreviations</th>
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<td>BRR</td>
<td>Business Responsibility Reporting Framework</td>
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<td>BRSR</td>
<td>Business Responsibility Sustainability Reporting</td>
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<td>CDP</td>
<td>Carbon Disclosure Project</td>
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<tr>
<td>CESD</td>
<td>CII-ITC Centre of Excellence for Sustainable Development</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>ESG</td>
<td>Environment, Social and Governance</td>
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<td>ETI</td>
<td>Ethical Trading Initiative</td>
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<td>GPDP</td>
<td>Green Partner Development Program</td>
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<tr>
<td>HMCL</td>
<td>Hero MotoCorp Ltd</td>
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<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>L&amp;D</td>
<td>Learning and Development</td>
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<td>MCA</td>
<td>Ministry of Corporate Affairs</td>
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<td>NAP</td>
<td>National Action Plan on Business and Human Rights</td>
</tr>
<tr>
<td>NC</td>
<td>Non-compliance</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>NGRBC</td>
<td>National Guidelines on Responsible Business Conduct</td>
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<td>NVG</td>
<td>National Voluntary Guidelines</td>
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<tr>
<td>P&amp;G</td>
<td>Procter &amp; Gamble</td>
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<td>PPE</td>
<td>personal protective equipment</td>
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<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<td>SEBI</td>
<td>Securities and Exchange Board of India</td>
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<td>SMETA</td>
<td>Sedex Members Ethical Trade Audit</td>
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<td>UNGPs</td>
<td>United Nations Guiding Principles on Business and Human Rights</td>
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<td>UNHRC</td>
<td>United Nations Human Rights Council</td>
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<tr>
<td>UP</td>
<td>Uttar Pradesh</td>
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India: Part of the Global Supply Chain
India: Part of the Global Supply Chain

India is a key sourcing location in the global economy. Availability of natural resources, low production costs and a large, skilled workforce make Indian businesses attractive partners to international companies.

As global supply chains reconfigure due to the impact of COVID-19, India continues to be on global companies’ radars as they look to build resilient supply chains able to meet current and future business needs. Key statistics about the country are provided in Figure 1 below.

India moved up 14 places in the latest World Bank ranking on ease of doing business, from 77 in 2018 to 63rd of 190 nations in May 2019. Business reforms over the past few years have helped India attain this rank. Several states in India have held consultations and meetings with multi-national corporations to discuss the possibility of investment and business expansion in India. Across April to July 2020, India attracted investments and pledges from 15 companies to the amount of $20bn.

Key statistics

$2.88 trillion
GDP (World Bank data)

5.02%
GDP Growth in 2019
(World Bank data)

18.66%
Export contribution to GDP
(World Bank data)

1.38 billion
Current population

0.99%
Annual growth of population

494,261,426
Number of people in employment
(World Bank data 2019)

Figure 1: Key statistics – India, Source: Data World Bank. (2019). [online] Available at: https://data.worldbank.org/country/india [Accessed 04 August 2020]

Within the country, there is an increasing emphasis on the Make in India and Self-Reliant India campaigns by the Prime Minister Narendra Modi and a deepening focus on regional...
development. Under the campaign of Self-Reliant India, a vision known as Aatma Nirbhar Bharat, a special economic package was released by the government in May 2020. The idea is to provide financial cushioning to industry to help businesses manage the impacts of COVID-19, to get back to operations at the earliest opportunity and to increase the scope for industries to get more business as they reopen operations\textsuperscript{iii}. Additionally, the objective is to attract investment and create more opportunities for Indian businesses to become part of global supply chains.

Top countries importing from India, 2019 (by value in USD$)

![Figure 2: Top countries importing from India](http://indiantradeportal.in/vs/jps?id=0,25,45,858,859)

India’s top export destinations are the USA, the United Arab Emirates (UAE), China, Hong Kong, the UK, Singapore, Germany, Netherlands and Belgium. This is based on the export value of commodities imported by these countries as indicated in Figure 2 above.

The key sectors are automobiles, machinery and equipment, refined petroleum products, chemicals and chemical products, pharmaceuticals, gems and jewellery, agriculture, forestry and fishing, food products, and textiles and leather-related products\textsuperscript{iv}. 

Integrating Sustainability into Indian Supply Chains

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Exports of goods and services make up 18.66% of India’s GDP. As seen in Figure 3, automobiles and machinery equipment, refined petroleum products and agriculture, forestry and fishing are the top sectors for the most-exported commodities (by export value in USD$). A detailed list of export commodities is found in the Appendix.

Figure 3: Exports of goods from India, 2019. x-Axis represents export value in billions, USD; y-Axis represents sectoral classification of commodities.

Greater business opportunities come with increased stakeholder pressure on businesses to improve their impact on people and the environment. Awareness of human rights and environmental issues resulting from business and supply chain activities is growing, facilitated by media scandals and NGO campaigns. Consumers, governments, and investors expect businesses to act responsibly, respect human rights, and conduct operations in an environmentally sustainable manner.

Global legislation requiring businesses to take responsibility for the environmental and social impacts in their supply chains has increased in the last decade. As suppliers to other countries and global companies, Indian businesses must adhere to the international standards and legislations applicable to global companies’ supply chains.

Investors are increasingly looking at Environment, Social and Governance (ESG) considerations in their decision-making process and shifting the lens from company operations alone to include entire supply networks. The Indian Government is putting greater focus on responsible business through the National Guidelines on Responsible Business Conduct, which were revised in 2019, and the upcoming National Action Plan on Business and Human Rights.
In August 2020, the committee on Business Responsibility Reporting submitted its recommendation to the Ministry of Corporate Affairs of a new proposed format for the required “Business Responsibility Sustainability Report” (BRS R), to be adopted by companies in India. The recommendation is to implement the new format in a phased manner, starting with the top 1,000 listed companies (by market capitalisation). The recommendations focus on sustainability disclosure for supply chains. Alongside this, the Indian Government is working on a process of labour reforms to consolidate codes followed by the introduction of new laws around the welfare and social protection of informal workforces.

These drivers are pushing companies in India to become more sustainable and widen their focus from company-level operations to include their supply chains.
What is a Sustainable Supply Chain?
What is a Sustainable Supply Chain?

The environmental and social impact of supply chain activities is significant. For example, the recent Carbon Disclosure Project (CDP) global supply chain report indicates that supply chains produce on average over five times the emissions of direct operations. Having a sustainable supply chain means taking responsibility for the steps that a product or service goes through before it gets to the consumer. This could include product design and development, material selection (including virgin materials), manufacturing, waste handling, packaging, warehousing, transportation and distribution.

There are four key elements of sustainability that companies need to think about:

**Labour:** the expectation for companies to operate in compliance with legal and customer requirements for providing their workers with fair, safe and humane working conditions. This includes managing issues such as forced and child labour, the payment of fair wages, overtime, discrimination, freedom of association and collective bargaining, and no violence, harassment and harsh treatment.

**Health and safety:** the expectation that companies will provide a safe and healthy work environment, including issues such as fire safety, chemical safety, the use of dangerous machinery, and PPE and first aid.

A sustainable supply chain involves taking a holistic approach to the environmental, social, economic, and legal concerns. This can include issues such as carbon emissions, water use, waste, working conditions, and the health and safety of the people making products or services throughout the supply chain, as well as worker exploitation.
Environment: the expectation for companies to operate in compliance with legal requirements and in a way that protects the environment by limiting any negative impacts on the environment and on local communities. Examples include lower energy consumption, reduction of carbon footprint, water and waste management, biodiversity conservation, and responsible management of raw material extraction and natural resources depletion.

Business ethics: the expectation for companies to operate in compliance with legal requirements by following a set of moral standards, for example around issues like bribery and corruption.

Improving sustainability in supply chains starts with an internal company commitment at a leadership level, which is then communicated to internal teams such as Procurement, Human Resources and Technical. These teams are often the key driving functions for sustainability-related activities.

As a minimum, all companies should operate within national laws set for business, environmental and labour standards. Companies can go beyond legal requirements and align with more specific standards, certifications or codes of conduct. The regulations set by these standards might be stricter than legal obligations and can have a specific focus area, e.g. Ethical Trade Initiative, Rainforest Alliance or organic production methods.

The two case studies in the Case Study chapter further explore how companies are implementing sustainability in their supply chains. These are based on work done by CII-CESD and Sedex with their respective member companies. These case studies are from:

- **Hero MotoCorp**: The company has been working with its suppliers to integrate environmental sustainability since 2007. A special programme, the “Green Partner Development Programme”, was launched to ensure that the company’s suppliers and suppliers understand, implement actions, monitor and make improvements around environment-related dimensions in their operations. So far, this programme has covered 186 suppliers and suppliers of Hero MotoCorp.

- **Procter & Gamble (P&G)**: P&G became a Sedex member in 2009. They use Sedex tools to map their supply chain and view supplier assessments. Since 2015/16 P&G have carried out over 400 SMETA audits in their supply chain.

These case studies, detailed further in the Case Studies chapter, explain why each company has prioritised sustainability and discuss the approaches these companies have adopted to integrate it into their supply chains.
Key Drivers for a Sustainable Supply Chain
Key Drivers for a Sustainable Supply Chain

Businesses are influenced by both internal factors (such as risk management, employees and brand reputation) and external factors (such as government, community, investors, consumers and suppliers) to adopt sustainable supply chain initiatives as indicated in Figure 4.

Civil society and consumers

NGOs and societal groups are increasingly voicing their concerns around the environmental and social impacts of businesses, including those within businesses’ supply chains. With growing awareness of the environmental and social impacts of the products they buy, consumers are increasingly asking and opting for products from brands that consider the sustainability of their supply chains. A 2018 study conducted by YouGov suggested that more than 50% consumers in the Asia-Pacific region believe businesses have a responsibility to ensure that their supply chain doesn’t harm the environment and is free from exploitative practices like child labour. Digitisation helps to broaden the reach of these voices. Consumers now have access to much more information about the sustainability and ethics of the companies they buy from, which in turn influences their buying choices.

**Principle of Responsible Investment (PRI):** guidance issued for investors in 2018 on considering ESG risks in supply chains for their investee companies.

**OECD guidelines on responsible business conduct for investors:** specifies investors’ actions to screen investment portfolios to identify risks across the various stages of a supply chain.

**Global Investors for Sustainable Development Alliance**

**Increasing ESG-based investments in India:** the Nifty ESG Index, as of Jan 2020 has close to 90 companies across 16 sectors.
Investors

In the past decade, investor attention on the ESG aspects of businesses has increased. For investors, ESG considerations are directly related to brand and reputational risks associated with investee companies. ESG issues can impact the brands and reputations of companies, which then impacts their share prices. Thus, investors have started to consider the ESG issues of investee companies as part of their decision-making process; drivers of this are provided in Figure 5 (above). In the USA, net flows into sustainable funds reached $20.6 billion in 2019 – this is four times the amount in 2018⁸. Initiatives such as the Principles for Responsible Investment (PRI) have helped build and steer this progress.

Legislations and guidance

International legislation impacting Indian supply chains

Over the last few years, governments around the world have started to introduce legislation on mandatory disclosures and due diligence requirements around environmental and human rights responsibilities for businesses; some are also applicable to their supply chains. Due diligence involves several steps, which include identifying and assessing adverse human rights impacts; integrating findings across a business; taking actions to address any issues raised; tracking the effectiveness of measures; and communicating to stakeholders the impacts and actions taken⁹.

The purpose of these requirements is to increase transparency around business risk and impact, and management strategies to mitigate risks and negative impacts. Additionally, Indian businesses operating in other countries must comply with local legislation in order to do business. Indian businesses that supply global companies must also adhere to the mandatory requirements of international legislation, as they become a part of these companies’ global supply chains. The table below provides an overview of the relevant legislation in key export countries.
## International legislations in key export countries

<table>
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<tr>
<th>Country</th>
<th>Key legislation</th>
<th>Key aspects of the legislation</th>
<th>Status</th>
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<tbody>
<tr>
<td>United States of America</td>
<td>California Transparency in Supply Chains Act 2010&lt;sup&gt;iii&lt;/sup&gt;</td>
<td>Large retailers and manufacturers (annual gross receipts exceeding US$ 100m) doing business in California must publish annually details of their efforts to eradicate human trafficking in direct supply chains.</td>
<td>Effective</td>
</tr>
<tr>
<td>United States of America</td>
<td>Section 307 of the Tariff Act of 1930&lt;sup&gt;xii&lt;/sup&gt;</td>
<td>Prohibits the import of merchandise mined, produced or manufactured, wholly or in part, in any foreign country by forced or indentured labour, including forced child labour.</td>
<td>Effective</td>
</tr>
<tr>
<td>Canada</td>
<td>Bill S-11, To enact the Modern Slavery Act and to amend the Customs Tariff&lt;sup&gt;xiv&lt;/sup&gt;</td>
<td>Every corporation, trust, partnership or other incorporated organisation that is listed on the Canadian stock exchange and meets at least two of the following conditions: 1) generated at least CAD$40m in revenue; 2) owning assets worth at least CAD$20mn; 3) employing at least 250 employees; must report actions taken throughout the previous year to prevent and reduce the risk of forced labour used in their supply chains.</td>
<td>Proposed</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>UK Modern Slavery Act 2015&lt;sup&gt;xv&lt;/sup&gt;</td>
<td>Commercial organisations doing business in the UK and generating a turnover of £36m or more must issue a statement setting out the steps taken to address modern slavery in their business and supply chain.</td>
<td>Effective</td>
</tr>
<tr>
<td>Germany</td>
<td>Proposed law on mandatory human rights and environmental due diligence for German companies and their supply chains&lt;sup&gt;xvi&lt;/sup&gt;</td>
<td>German companies with over 250 employees and an annual turnover of at least €40m would be required to report publicly on the fulfillment of due diligence relating to the environment and human rights. Non-compliance include fines, imprisonment, and exclusion from public procurement processes.</td>
<td>Proposed</td>
</tr>
<tr>
<td>France</td>
<td>The French Corporate Duty of Vigilance Law</td>
<td>Large French companies that employ at least 5000 employees at the end of two consecutive years must report on steps taken in relation to human rights and the</td>
<td>Effective</td>
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<tr>
<td>Country</td>
<td>Regulation/Proposal</td>
<td>Details</td>
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<tr>
<td>European Union</td>
<td>Conflict Minerals’ Regulation (2017/821)&lt;sup&gt;xvii&lt;/sup&gt;</td>
<td>EU importers of 3TG (tin, tantalum, and tungsten, their ores, and gold) need to comply with and report on supply chain due diligence obligations if minerals originate from conflict-affected or high-risk areas without being limited to specific geographic locations.</td>
<td>To be applicable across EU on 1&lt;sup&gt;st&lt;/sup&gt; January 2021</td>
</tr>
<tr>
<td>European Union</td>
<td>Non-Financial Reporting Directive&lt;sup&gt;xviii&lt;/sup&gt;</td>
<td>EU member states must enact legislation requiring certain large public interest entities to report annually on non-financial issues including human rights. The statement should include information on policies and due diligence processes of the entity, and where proportionate, its supply chains.</td>
<td>Effective</td>
</tr>
<tr>
<td>European Union</td>
<td>Human Rights and Environmental Due Diligence&lt;sup&gt;xix&lt;/sup&gt;</td>
<td>Upcoming EU legislation is expected to provide a regulatory framework to impose robust corporate human rights due diligence obligations.</td>
<td>Upcoming</td>
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<td>Norway</td>
<td>Supply Chain Transparency Proposal for an Act regulating enterprises’ transparency about supply chains, duty to know and due diligence&lt;sup&gt;x&lt;/sup&gt;</td>
<td>Once effective, all companies offering goods and services to Norwegian consumers would be required to know the salient risks of adverse impacts on fundamental human rights and decent work within the company and its supply chain. Large companies would be required to exercise and publicly report on due diligence to identify, prevent and mitigate possible adverse human rights impacts on decent work.</td>
<td>Proposed</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Dutch Child Labour Due Diligence Act 2019&lt;sup&gt;xxi&lt;/sup&gt;</td>
<td>All companies that sell or supply goods or services to Dutch consumers, no matter where the company is based or registered, with no exemptions for legal form or size, are required to certify that they have conducted due diligence in relation to child labour in their supply chains. Possible fine for non-compliance.</td>
<td>Effective</td>
</tr>
<tr>
<td>Australia</td>
<td>Australian Modern Slavery Act 2018&lt;sup&gt;xxii&lt;/sup&gt;</td>
<td>All entities based or operating in Australia and generating annual revenue of AU</td>
<td>Effective</td>
</tr>
</tbody>
</table>
$100m are required to publish a statement setting out the steps taken to address modern slavery, including in supply chains, which must be published and submitted to the government.

Hong Kong Modern Slavery Bill 2017 (proposed law)xiii

Certain commercial organisations doing business in Hong Kong would be required to issue a statement stating the steps taken to address modern slavery in their business and supply chain.

**Table 1: Key international legislation focusing on sustainability related disclosures in supply chains**

In addition to these laws, the standards that many customers in key export markets require their suppliers to follow include:

- **International Labour Organization (ILO) conventions**: 190 international laws, many of which have been adopted by countries as national law, which aim to improve the labour standards under which people around the world work.

- **The Ethical Trading Initiative (ETI) Base Code**: nine clauses based on the ILO conventions. Many retailers are members of the ETI and have signed an agreement to this Code of Conduct, and work to ensure their suppliers meet the Code clauses.

- **The United Nations Sustainable Development Goals (SDGs)**: 17 targets agreed by the UN for international development with a vision of ending poverty, reducing inequality, protecting the planet and ensuring that all people enjoy peace and prosperity.

- **The United Nations Guiding Principles on Business and Human Rights (UNGPs)**: the activities businesses must conduct to respect human rights in their own operations and in their supply chain. A commitment to supply chain sustainability means integrating social, environmental and governance principles within company operations and supplier networks.

**Indian legislation and guidance landscape**

In 2009, the Ministry of Corporate Affairs (MCA) released voluntary guidelines on Corporate Social Responsibility (CSR), focusing mainly on community development around business operations as the first step towards embedding the concept of corporate social responsibility. The Ministry released a second set of guidelines in 2011 called the National Voluntary Guidelines (NVGs) on the Social, Environmental and Economic Responsibilities of Business. These provided broader guidance on what constitutes responsible business conduct. In order to align with the SDGs and the UNGPs, the NVGs...
were revised, upgraded and released in 2019 as National Guidelines on Responsible Business Conduct (NGRBC), which currently prevail.

- **NGRBC**: these guidelines assist companies in performing above and beyond the requirements of regulatory compliance. These guidelines are articulated in nine principles and their core elements. They urge companies to conduct business responsibly and sustainably and to encourage and support their suppliers, distributors, partners and other stakeholders to adopt the guidelines.

**Key principles of NGRBC on business responsibility in supply chains**

Principle 2 focuses on the environmental aspects of a business’s value chain. It states that businesses should work on reducing the environmental impact of their products and services while aiming to make their value chain circular.

Principle 3 highlights the responsibilities of a business across its value chains. It requires a business to account for the wellbeing and dignity of not just their employees but also their employees’ families.

Principles 4 and 5 identify the requirements of a business to encompass human rights in their value chain. While Principle 4 suggests promoting equitable value-sharing among all stakeholders, Principle 5 states it is the responsibility of the business to promote awareness and realisation of human rights across its value chain.

The guidelines specifically call on MSMEs to adopt responsible conduct because of their significant contribution to the global supply chains. That is primarily because product categories like garments, sports goods, furniture, etc. which Indian MSMEs are heavily involved in, are exposed to the global business environment.

**Figure 6: Key principles of NGRBC stressing business responsibility in supply chains**

- **Business Responsibility Reporting Framework (BRR)**: the extent of adoption of responsible business practices required, in line with those mentioned in the NGRBC. Under a BRR, a company is expected to list all the activities it undertakes and the processes it has put in place to encourage its supply chain partners to embrace practices such as fair and minimum wages, employee health and safety, and reduced environmental footprints. As per a directive by the Indian capital markets regulator, the Securities and Exchange Board of India (SEBI), BRR is applicable to the top 1,000 listed companies (by market capitalisation). The
committee on BRR has submitted its latest recommendation to the MCA to change the name of BRR to Business Responsibility Sustainability Reporting (BRSR) and to bring more focus on sustainability in the disclosure framework.

**Key areas of BRR on supply chain-related disclosures**

Principle 2 requires businesses to procure in a sustainable manner. The principle encourages businesses to have appropriate processes across the entire value chain, including distribution and disposal in a responsible manner. It also requires businesses to improve the capacity and capability building of local and small vendors within their supply chains.

Principle 5 mentions that businesses must have a human rights policy in place and that the policy should extend over suppliers. Businesses should promote awareness and realisation of human rights across their entire value chain.

Principle 6 highlights the responsibility of a business to respect, protect and make efforts to restore the environments in which it operates and impacts.

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**Figure 7: Key areas of BRR focused around supply chain-related disclosures**

- **Upcoming National Action Plan on Business and Human Rights**: The Government of India published the zero draft of its National Action Plan on Business and Human Rights (NAP) in 2018. The NAP on Business and Human rights is comprised of policy documents which help states to prioritise actions that support the implementation of the UNGPs. In order to develop India’s NAP, the Government’s zero draft provides a baseline around existing laws, regulations and guidance on human rights. As multi-stakeholder consultations are underway to finalise the NAP, it is expected that the NAP will also direct companies to work with their supply chains in a sustainable manner.
Internal drivers

Internal drivers motivating companies to work on sustainability in their supply chains include:

- **Risk management.** One of the prime reasons companies are keen to work on supply chain sustainability. Working on environmental and social dimensions with suppliers can protect a company from business disruption, especially when a company is dependent on a single supplier for a critical component. Non-compliances with national or international regulations at a supplier’s site could lead to penalties, ruined brand reputation and damaged customer relationships. These risks can be reduced by working with suppliers on their environmental and social practices to ensure they meet required standards.

- **Operational efficiencies and cost control.** Poor working conditions reduce workers’ abilities to thrive in their jobs, lowering commitment, performance and retention. The cost of replacing and retraining workers can be a significant cost to a company’s bottom line. Responding to recurring labour issues, legal violations, negative audit findings, and customer dissatisfaction incurs further costs. Labour abuses such as excessive overtime, forced labour and discrimination harm workers and their families and undermine business productivity. On the environmental side, improved approaches to managing energy, water and raw materials can increase corporate sustainability and save the company money on these operational costs.

- **Culture of responsibility.** When companies create a culture of responsibility and prioritise their impact on the environment and the human rights of workers in their supply chains, they can generate multiple mutual benefits such as boosting employee morale, becoming more attractive workplaces and improving business relationships with suppliers.

- **Brand reputation.** Brands that take action to improve their environmental and social impact can gain customer trust and loyalty, and generate a more positive brand image. Building brand reputation through sustainability strategies drives brand value and customer satisfaction. This driver is particularly important for consumer-facing businesses.
Risks and Challenges
Risks and Challenges

Previous chapters outline the increasing regulatory requirements and end-user expectations that companies and their suppliers must meet in order to do business. Most buyers take a risk-based approach to monitoring their supply chains. This section describes the common challenges and key risks that buyers should consider when partnering with businesses in India. It is useful for Indian businesses to understand these risks in order to review their own operations and take actions to reduce and remediate any issues that may occur at their sites.

The risk overview provided in this section is based on data from the Sedex risk assessment tool, Radar, and social audits uploaded on the Sedex platform in 2019, alongside industry research.

Challenges

Companies may face several challenges that contribute to or exacerbate the existing social and environmental risks associated with their business operations.

Challenges can be at a country level, such as inadequate legislation, a large informal workforce, and lack of tools and frameworks to address cross-sectoral issues. They can also be at a local site or business level. These include lack of resources (e.g. personnel, time, money), inadequate local infrastructure, and little knowledge of how to address sustainability issues.

Country and site-level challenges are connected, as laws and local customs influence how issues arise and are dealt with at a local level. Both are also influenced by international and global challenges, such as climate change and the COVID-19 pandemic.

The COVID-19 pandemic has increased the risk to workers world-wide. Sedex has developed specific guidance on corporate responsibility to manage the impacts of COVID-19 and to keep people safe. Safety in the context of COVID-19 includes both health and economic safety:

- **Worker health**: keeping workers safe from COVID-19.
- **Worker income**: protecting workers from the economic impacts of COVID-19. For many, poverty is a more urgent threat to life and health than the virus itself.

This guidance can be found here: [https://www.sedex.com/sedex-guidance-on-covid-19/](https://www.sedex.com/sedex-guidance-on-covid-19/)
The table below outlines the key challenges for businesses in India, and how these are aggravated by the COVID-19 pandemic.

**Key challenges specific to supply chains in India and the impact of COVID-19**

<table>
<thead>
<tr>
<th>Challenge: Legislation around sustainability in supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>Although guidelines are being strengthened, policies related to procurement and logistics addressing isolated issues are fragmented and challenging to enforce(^{xxv}). An overall policy capturing environmental and social dimensions can help.</td>
</tr>
<tr>
<td><strong>Issues aggravated by COVID-19</strong></td>
</tr>
<tr>
<td>• Dilution of certain labour laws in states (Madhya Pradesh &amp; Uttar Pradesh) through ordinances(^{xxvi}). UP’s ordinance exempted all factories and establishments engaged in manufacturing processes from all labour laws for a period of three years, subject to the fulfilment of certain set conditions. This means that labour risks may increase.</td>
</tr>
<tr>
<td>• Working hours increased from nine to 12 hours a day in Assam, Gujarat, Himachal Pradesh, Haryana and more states(^{xxvii}). This means excessive hours are likely to become more common and customer codes of conducts may be breached more frequently.</td>
</tr>
<tr>
<td>• Provision of workers’ rights has been compromised due to the temporary change in labour legislation(^{xxviii}).</td>
</tr>
</tbody>
</table>
Description

- Migrant workers coming from rural areas to work in urban pockets of the country are at greater risk of exploitation. xxx
- India is estimated to have some 120 million rural-to-urban migrants xxx.
- Informal labour, including that conducted by many migrant labourers, is not covered under any social security xxxi.
- Minimum wages are not guaranteed to informal workforces.

Issues aggravated by COVID-19

- Exodus of migrant workers from cities due to lack of income guarantee and fear of contracting virus is severely affecting distribution of essential products in lockdown. This means many companies are unable to deploy even 20% of their workforce, thereby affecting the entire supply chain xxxii. It also means that workers without jobs are at increased risk of poverty, and those that do stay to work may be living in conditions that increase the risk of COVID-19.
- Garment, footwear and construction sectors are hardest hit xxxiii as they constitute a large informal labour workforce. The Indian textile and garments industry employs more than 45 million people and estimates suggest nearly 90% of these are informal workers xxxiv. These workers are particularly at risk of sickness and financial insecurity due to the pandemic.
### Challenge: Human rights issues

**Description**

- 4.35 million child labourers in India working in poor conditions.
- Lack of capacity building across supply chains to uphold human rights.
- Lack of gender equality.
- Unsafe working conditions.
- Lack of legitimacy of labour providers, many of whom practice debt-bondage and forced labour.
- Lack of effective tools to prevent or report forced labour.

**Issues aggravated by COVID-19**

- Child labour and other forms of labour trafficking have risen post Covid-19.
- With a 0.7% increase in child labour for every 1% increase in poverty levels, India may see an addition of 600,000 child labourers post COVID-19. This increases the risk of companies using child labour, particularly in their supply chain, and breaching laws and customer requirements.
- Difficulty in continuing due diligence of human rights during COVID-19, thus increasing the risk of forced labour.

### Challenge: Sourcing challenges

**Description**

- Majority of farmers are marginal or small landholders with average landholding size of 1.08 ha.
- Responsible sourcing forms a very minimal component of sourcing criteria for most products.
- Most intermediary companies are at an early stage of developing compliance processes and quality systems.
- Investors, consumers and other stakeholders want more sustainable practices across supply chains.

**Issues aggravated by COVID-19**

- Many businesses are struggling to stay afloat and meet business demands during COVID-19. Therefore, sustainability has been deprioritised at a time when human rights risks have increased, significantly increasing the labour risks within Indian businesses.
COVID-19 impacts on workers and businesses

In April 2020, Sedex conducted a survey of its members to better understand the impact of COVID-19 on businesses and workers in supply chains. 5% of respondents were from India. Key results from companies in India include:

- 70% of businesses in India expect a critical decrease in their revenue.
- 55% of businesses predict a labour shortage.
- The most common way to deal with labour shortages is to use contract labour and agree timelines with customers that allow companies to meet orders.
- 62% of businesses with surplus labour are concentrating on getting new business.

It is clear that businesses have been significantly disrupted and companies are working hard to adjust to the new trading environment. A high proportion of businesses expect a critical decrease in their revenue and over half expect a labour shortage. These factors increase human rights risks, as businesses may struggle to pay their workers or may use contractors as a mean to find cheap labour. A key consideration is how businesses will keep their workers safe during this challenging period, both in terms of personal health and financial safety. The Sedex survey found that:

- The majority of respondents put measures in place to protect the health and safety of their workers. The types of measures and their prevalence are presented in Figure 8 below.
- 32% of businesses said they would continue to pay full wages throughout the period. This is a positive step and makes a significant difference to the lives of workers, however it is concerning that so many workers will be left with reduced or no income. This is likely to result in significant increases in poverty, as well as human rights risks for Indian businesses.
**Risks**

**What is “risk”?
**

Risk is traditionally defined as the combination of a particular hazard (e.g. financial fraud) and the likelihood of it occurring. In human rights and environmental terms, this translates into identifying adverse human rights or environmental impacts (e.g. forced labour or a pollution incident) and the probability that these impacts might occur.

Risk refers to the likelihood of adverse external impacts on people, the environment and society. Governance, economic, geographic and demographic factors (such as the challenges described above) can increase the type and severity of social and environmental risks.

Sedex considers risk in three ways:

**'Inherent' risks**

Inherent risks are country and sector risks. Countries have different laws and customs and sectors have different types of work, norms and workforce compositions that can increase potential risks to people and the environment. The challenges described above contribute to India’s country-level inherent risk.
Considerations for more “vulnerable” workers within human rights and labour standards risks

Human and labour rights risks are risks to people, for example the risk that a worker will experience harassment. Different groups of people are more at risk than others, for example female migrant workers are at much higher risk of exploitation and abuse than local male workers. Assessing risks to different people can improve the accuracy of a risk assessment. More vulnerable worker groups to account for include migrants, informal workers, women, and children.

An overview of supply chain risks in India

To meet customer and own-company requirements, businesses benefit from being aware of potential risks in their country, sector and sites, so that they can put systems in place to manage them.

Figure 9 provides an overview of the key labour standards, health and safety, environmental, and business ethics risks held by companies operating in India. A higher score indicates a higher risk relating to the particular issue; either it is more likely to happen, or the issue is more severe.

These four categories are split into 14 topics to give more detail on risks for specific issues.
According to Sedex’s risk assessment, India is a medium to high risk country. Within the Labour Standards category, highest risk areas are around Regular Employment, Forced Labour and Working Hours. For the Environment category, the highest risk areas are Waste and Pollution, Water, and Biodiversity.

**Top three sustainability risks by sector**

While some issues are relevant across India, many are sector-specific. Figure 10 below outlines the top three inherent risks for a number of key sectors within India, identified by Radar, the Sedex risk assessment tool.

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**Key Terms**

**Forced Labour**: work done involuntarily and under the threat of penalty.

**Freedom of Association**: workers have the right to join or form trade unions and to bargain collectively. They are not discriminated against for participating.

**Regular Employment**: work is performed through recognised employment relationships i.e. through contracts. Workers on permanent contracts tend to have better job security and access to legal rights and benefits at work than those in informal arrangements or temporary contracts.

**Discrimination**: no discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation.

**Business Ethics**: business is conducted without bribery, corruption, or any type of fraudulent business practice.
Regular employment is a common risk across all sectors outlined in Figure 10. Risks relating to working hours are found in textiles, automobile, leather and logistics sectors. Waste and Pollution risks are also common, as these are high in the Pharmaceutical, Construction, Automobile, Logistics and Retail sectors. The Retail and Textiles sectors both have higher risks of forced labour.

### Most common issues raised in social audits (SMETA) in 2019

The [Sedex Members Ethical Trade Audit (SMETA)](https://www.sedex.com) is an audit methodology that many companies use to assess all aspects of responsible business practices, covering Sedex’s four pillars of Labour, Health and Safety, Environment and Business Ethics. It is one of the most widely used ethical audit formats in the world.

Companies may conduct audits at their suppliers’ sites to verify whether they are compliant with codes of conduct, local laws and/or ethical standards. Where a supplier
is not compliant, this information is noted down in the audit report as a non-compliance (NC) and the supplier is asked to remediate the issue within a certain period of time.

The below table outlines the most common NCs raised during social audits at supplier sites in India, using the SMETA audit methodology and uploaded on the Sedex platform in 2019. SMETA audits are conducted by third-party auditors, which assess supplier sites and business operations within the four pillars of SMETA.

The majority of NCs were raised under the Health, Safety and Hygiene category (61%). Within this category, fire safety was the most common concern. Other common issues include awareness of code and legal requirements (Management Systems), payment of benefits and insurance (Working Hours), and waste management (Environment).

<table>
<thead>
<tr>
<th>Issue Category</th>
<th>Health, Safety and Hygiene</th>
<th>Management Systems (the processes companies have in place to manage risk)</th>
<th>Wages and Working Hours</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of all NCs raised in 2019</td>
<td>61%</td>
<td>13%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>Top ‘Issue Sub-Categories’ raised during social audits</td>
<td>Fire safety - alarms and evacuation</td>
<td>Awareness of code and legal requirements</td>
<td>Benefits and insurance</td>
<td>Waste management</td>
</tr>
<tr>
<td></td>
<td>Machinery</td>
<td>Management systems and monitoring</td>
<td>Wage records and documentation</td>
<td>Air emissions and greenhouse gases</td>
</tr>
<tr>
<td></td>
<td>Chemicals</td>
<td>Licences and certifications</td>
<td>Payment of wages</td>
<td>Environmental permits &amp; management systems</td>
</tr>
<tr>
<td></td>
<td>Personal Protective Equipment</td>
<td>Systems to manage compliance</td>
<td>Working hours record keeping &amp; Management Systems</td>
<td>Water waste and usage</td>
</tr>
<tr>
<td></td>
<td>Fire safety - fire exits</td>
<td></td>
<td>Overtime</td>
<td>Energy usage</td>
</tr>
</tbody>
</table>

*Table 2: Most common non-compliance issue categories and sub-categories raised during SMETA audits uploaded onto the Sedex platform in 2019.*
Key sustainability risks in India

Companies developing sustainability strategies should be aware of key environmental and ethical risks in their supply chains. Many of these issues are of high concern to export customers who have committed to ensuring their suppliers comply with codes of conduct and local regulations and meet customer expectations.

This section provides more detail on the top sustainability risks that suppliers operating in India hold, as identified by Radar, Sedex’s risk assessment tool (Table 2). The aim of this chapter is to equip businesses with the knowledge they need to understand the risks and issues they should address within their sustainability and social compliance strategies. The Guidance on Supply Chain Sustainability chapter that follows explains the systems that companies can put in place to mitigate these risks.

Regular employment

A significant proportion of people working in India are employed on an informal basis, without written contracts or salaried work. They are commonly employed through subcontractors or agencies. In these arrangements, work is often temporary and insecure. It means workers are more at risk of exploitation that breaches law and customer requirements.

Informal workers have lower job security and less access to legal rights and benefits than those on permanent contracts. In times of crisis they have little protection. As much as 80% of urban informal workers have no access to current state social security programmes, putting them at greater risk of extreme poverty.

Home-based work is also often arranged informally and through subcontractors. Homeworking offers income to many people, especially women. However, typically wages are low, work is irregular, and subcontractor-networks reduce transparency of payments. Workers are often isolated from others and health and safety is a concern.

Three sectors account for the highest proportion of manufacturing home-based work in India:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and beverages</td>
<td>7%</td>
</tr>
<tr>
<td>Textiles</td>
<td>9%</td>
</tr>
<tr>
<td>Wearing apparel</td>
<td>10%</td>
</tr>
</tbody>
</table>
A large proportion of issues relating to Regular Employment raised during 2019 social audits were due to no or inadequate employment contracts (e.g. missing crucial information or incomprehensible terms and conditions), making up 45% of issues raised in this category.

Health and Safety

In 2019, 61% of all non-compliances found during social audits at Sedex members’ sites in India were raised for Health and Safety (Table 2, above). Within this category, fire safety was the most common issue (30%). Frequent findings include inadequate evacuation plans, no or inadequate fire exits, blocked fire exits and blocked access to firefighting equipment.

Insufficient fire safety measures, particularly in the garment sector, have raised international concern due to a series of incidents resulting in multiple fatalities. In 2019, over 40 garment workers were killed in a factory fire in Delhi, and in early 2020 a fire at a denim factory in Ahmedabad killed at least seven people. Campaigners say these incidents show the failure of brands and governments to enforce fire safety and building standards.xlvii

Inadequate personal protective equipment (PPE) was another common issue raised during social audits in 2019 (14% of health and safety non-compliances). Training of employees on health and safety is lacking in many sectors, including construction, pharmaceutical, manufacturing and heavy machinery.xlvii

Figure 11 below outlines top health and safety risks for eight sectors. The risks listed are non-specific to India and are applicable to the sectors globally. Chemicals is the most common risk across the sectors. Manual handling, and vehicles and machinery, are also common risks.
Integrating Sustainability into Indian Supply Chains

Wages and Working Hours

Legal obligations for working hours and wages are enforced by state governments. In 2019, the legal maximum working day for all states was 8 hours and the maximum working week was 48 hours. Employers had a legal obligation to give workers a minimum 30-minute rest period every four hours. Compulsory overtime was prohibited, and employers were required to pay twice the normal wage during overtime hours. The maximum number of working hours per week, including overtime allowed by common social compliance frameworks was 60 hours per week. However, there is no national legal limit on the amount of overtime taken by a worker in a working week, except in mining and bidi and cigar sectors.

In 2019, 30% of issues raised under Working Hours in social audits related to overtime, with the most common issues relating to excessive use of overtime (30%) and lack of or inconsistencies in records and monitoring systems (35% of issues raised under working hours).

Low pay and wage inequality are serious challenges in India. Minimum wages vary across states and, are very low for unskilled workers. Enforcement is often seen as inadequate because of the limited numbers of inspectors and insufficient penalties.

Delayed or lack of payment of social insurance and legally required bonuses or benefits were the most common issues relating to wages identified during social audits in 2019 (29% of issues raised in this category). Issues around wage records were also common, mainly because of absent or unclear pay slips and payroll records.

Figure 11: An overview of health and safety risks to workers by sector (non-specific to India)
Forced Labour

National law prohibits all forms of forced labour, including bonded labour. However, enforcement of the law and compensation for victims varies across states.

Bonded labour is when a worker cannot leave work voluntarily because they are forced to pay off a debt. The worker is effectively tied to the job until the debt is repaid. This can occur when workers are required to pay high recruitment fees in order to obtain a job.

A high proportion of bonded labour occurs in the agricultural sector. Other sectors with high reported incidence of bonded labour include stone quarries, brick kilns, construction and embroidery factories. Commodities with identified risk of forced labour are:

- Bricks
- Carpets
- Cottonseed (hybrid)
- Embellished textiles
- Garments
- Rice
- Stones

A low number of Forced Labour issues were raised during social audits in 2019 (‘Employment is Freely Chosen’ NCs made up less than 1% of total NCs raised). The main issue category raised was Management Systems (37% of Employment is Freely Chosen issues), which included no systems in place to evaluate compliance with laws on slavery and no policy on bonded labour.

Biodiversity

India is ranked as the country with the fourth highest number of endangered species. Main threats to biodiversity in India are deforestation and habitat loss. Drivers of habitat loss in India are agriculture, mining, land conversion (e.g. for housing, roads and industry) and construction of dams.
From 2001 to 2019, India lost 334,000 hectares (3.3%) of natural forest, with “hotspots” in north eastern regions (Figure 12 above). Commodities with high risk of deforestation are: soybeans, cattle, palm fruit/oil and timber.

**Water**

India is classified as experiencing “extremely high” levels of baseline water stress. Figure 13 below shows that northern regions in particular face high and extremely high baseline water depletion (the ratio of total water consumption to available renewable water supplies).
Drivers of India’s water crisis include:

- Irregular rainfall
- Construction of dams for irrigation
- Rapid urbanisation
- Lack of comprehensive water policy

The most common water issues found at sites during SMETA audits in 2019 were for lack of appropriate permits for water use/extraction as per legal requirements. Inadequate monitoring of wastewater was also a key issue that was raised in that year.

**Waste and Pollution**

Waste Management was the most common NC raised within the Environment NC category in social audits in 2019 (35%). Within this category, the most common issues were:

- Hazardous waste improperly handled/stored/disposed of
- No/inadequate records to show hazardous waste has been properly handled/stored/disposed of
• No permits for waste disposal as per legal requirement.

India is the third most polluted country in the world, behind Bangladesh and Pakistan.\textsuperscript{x} It has the highest number of pollution-related deaths worldwide, with 2.3 million deaths in 2017 linked to pollution.\textsuperscript{xi}

Air emissions make up 29\% of issues raised under the Environment issue category during audits in 2019. The most common issue raised relating to air emissions was no permits for emissions to air as per legal requirement.

The main causes of high air pollution levels in India are:

• Coal-fired power plants
• Waste combustion
• Vehicles
• Emissions from heavy industries
• Burning of agricultural fields \textsuperscript{xii}
• Hazardous waste improperly handled/stored/disposed of
• No/inadequate records to show hazardous waste has been properly handled/stored/disposed of
• No permits for waste disposal as per legal requirement.
Guidance on Supply Chain Sustainability
Guidance on Supply Chain Sustainability

While integrating sustainability principles within a supply chain might seem daunting, a planned and phased approach can make things easier.

Strong internal management systems are important for initiating and tracking actions. This means establishing leadership commitment, policies, resources available, identification of responsibilities, internal and external engagement mechanisms, and a monitoring and review processes. For supplier engagement, it is recommended that companies start by engaging with their first-tier suppliers and/or critical component suppliers.

This is a common approach which companies can refer to while planning and implementing a sustainability strategy for their supply chain.

<table>
<thead>
<tr>
<th>Internal management systems</th>
<th>Key steps in managing supply chain sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leadership commitment</td>
<td>• Supply chain mapping</td>
</tr>
<tr>
<td>• Policies</td>
<td>• Communicating requirements with suppliers</td>
</tr>
<tr>
<td>• Procedures</td>
<td>• Risk assessment</td>
</tr>
<tr>
<td>• Resource deployment and cross-functional engagement</td>
<td>• Monitoring site performance through assessments and audits</td>
</tr>
<tr>
<td>• Communication and training</td>
<td>• Improvement - preventative capacity building and remediation</td>
</tr>
<tr>
<td>• Documentation</td>
<td>• Effective grievance mechanisms</td>
</tr>
<tr>
<td>• Monitoring and capturing data</td>
<td>• Supply chain transparency and disclosures</td>
</tr>
<tr>
<td>• Improvement</td>
<td>• Investors, consumers and other stakeholders want more sustainable practices across supply chains.</td>
</tr>
<tr>
<td>• Investors, consumers and other stakeholders want more sustainable practices across supply chains.</td>
<td>• Investors, consumers and other stakeholders want more sustainable practices across supply chains.</td>
</tr>
</tbody>
</table>

*Figure 14: Internal management systems and supplier engagement actions that make up elements of a sustainability strategy*
Internal actions for a company | Management systems

Putting a management system in place helps to avoid risks and address problems when they arise. In many cases, management systems for sustainability also improve overall business performance. Management systems do not need to be complex to be efficient and beneficial.

A management system is the way a company runs its day-to-day operations, makes decisions and helps avoid recurrence of common problems. Businesses may have an informal system, with staff and workers relying mostly on verbal direction and not much in the way of documentation or formal checking to see if things are working properly.

If a company operates a more advanced system, they may have written policies and procedures, trained employees so they fully understand what to do and how to do it and established a process to check that policies and procedures are being followed. A more formal management system will support businesses in meeting legal and customer standards. This needs to be applied internally and can also be extended to support suppliers to adopt this approach too.

Key elements include:

- **Leadership commitment, role and engagement**: Commitment to sustainability must come from the top. Commitment from leadership enables a company to deploy and drive sustainability policies, processes and procedures across the business. Leadership commitment involves setting clear targets on sustainability and regularly reviewing performance against these targets.

- **Policies**: Policies state company commitments and goals; what is acceptable and not acceptable to the business. Sustainability policies should clearly state commitments for human rights and labour standards, health and safety, the environment, and business ethics. At a minimum, companies need to maintain compliance with the law, international standards, and customers’ requirements, and policies should be signed by the most senior manager of the company. Policies for environmental and social standards can be separate, for example, on waste management, human rights or business integrity. Policy documents can include commitment to any international standards or frameworks and can be made applicable to external stakeholders, including suppliers. Systems around the implementation of policies must be set and must include communications and training.

- **Procedures**: These are the step-by-step instructions that create a process for companies to achieve their policies. For example, they can include instructions on what steps to take, who will do the job and how, the documentation needed and how to monitor progress. Procedures can include steps to manage known risks.
For example, the above section showed that the management of overtime hours is a key risk, therefore an appropriate process would include the steps to take to ensure that hours do not exceed 60 per week for any one worker.

- **Resource deployment, ensuring cross functional role and engagement:** “Resources” refers to staffing, roles, responsibilities, knowledge and the skills needed for carrying out procedures in a way that meets the intent of policies. In order to implement policies and achieve targets for a sustainable supply chain, different resources need to be deployed including financial, human, technological and infrastructural. As a result, involvement of cross-functional teams becomes important. For example, Procurement teams may need to be trained by Learning and Development (L&D) teams on sustainable procurement or how to manage supplier engagement ethically. In order to implement this training, an L&D department must be aware of the targets set for a sustainable supply chain and decide the approach or the platform for such training, physical or online. Thus, the involvement of information technology teams becomes important.

- **Communication and training:** Both internal and external communication is required to ensure awareness of the company’s sustainability strategy. At a minimum, all company departments and suppliers should know about the company’s sustainability policies, applicability of laws and how to operate without violating legal, social, environmental, and business ethics standards. Internal teams and suppliers should also be informed about goals and objectives to ensure they act and do their part in achieving such goals.

- **Documentation:** Written documents and records make sure that processes and procedures are followed consistently. Documented procedures reduce confusion about who is supposed to do what, how a task is supposed to be done and what best practices to follow, saving time and helping employees be more efficient. For example, documentation can be a simple check list for employees. In this way, procedures can also act as a form of training for new workers. Companies and suppliers should also keep formal documented records that relate to social and environmental legislation and standards. Documented records help companies monitor when procedures are being followed and can be used as evidence to demonstrate compliance with legal and customer requirements.

- **Monitoring and capturing data:** These provide information on whether suppliers are following processes and procedures and enable companies to assess whether policies and procedures are having the intended effect. In the initial stages, data capture is crucial to understand current performance relative to the minimum expected levels of the company and establish a baseline. Monitoring can be
conducted in many ways, but it must be on-going so companies can regularly see how they are doing and whether adjustments to a strategy is needed.

- **Improvement:** This means addressing the root causes of any challenges identified when managing sustainability. For example, a company may find that staff are not implementing sustainability actions because their managers do not think it is sufficiently important. In this case, the company may want to start regular training for managers on the importance of sustainability and what their role is and consider setting targets for managers to meet.

### Key steps in managing supply chain sustainability

Below is an outline of the activities and steps involved in managing supply chain sustainability or due diligence. These are the steps that companies need to take to identify, prevent, mitigate and account for human rights abuses and environmental damage linked to their supply chains. The above management systems methods can be utilised to ensure that the steps are implemented effectively.

- **Supply chain mapping:** Supply chain mapping is a key first step in supply chain due diligence. Knowing key supplier information, such as where they are all located, what they produce, the key processes on site and the number of workers enables companies to get the information needed to assess potential risks and impacts of supplier operations. There is no one method, but companies can start by listing all first tier (direct) suppliers, their products and their locations. They can also use platforms such as Sedex to map and link to their suppliers.

- **Communicating requirements with suppliers:** The next step is to communicate the company’s required standards with suppliers, often referred to as a Code of Conduct. This can be done at the same time as supply chain mapping. Codes of Conduct state the standards (usually in relation to environmental, labour, health and safety and business ethics) that all suppliers are expected to achieve in order to do business with the company. Suppliers are expected to sign an agreement to this document and ensure that the requirements are met by their business. It is important to adopt a partnership approach with suppliers, listen to their concerns and support them to meet requirements where appropriate. It can also help to provide an avenue through which suppliers can raise their concerns and remedy issues, to facilitate a mutually constructive relationship.

- **Risk assessment:** The identification and assessment of environmental and human rights risks in a company’s supply chain. This enables a company to understand the
Integrating Sustainability into Indian Supply Chains

risks likely to be present in its supply chain and helps it prioritise where to focus corrective activities. The risks can be environmental, labour, health and safety and/or business ethics risks. Supplier country, sectoral and site risks should all be taken into account, along with an assessment of the likelihood, severity and impact of that risk. Risk assessment tools, such as Sedex’s Radar, allocate risk “scores” to help companies see where their highest risks are in their supply chain and where they should focus.

- **Monitoring site performance through assessments and audits**: Site assessments are carried out as part of the due diligence process, so that a company can understand what is happening at supplier sites, identify possible social or environmental impacts, see gaps in compliance, and help a company and its suppliers establish where improvement is needed. Site assessments can be done for existing suppliers as well as new suppliers. Companies can use online data platforms, such as Sedex, to assess their suppliers and gain information on the type, size and location of supplier sites, audit results and level of management systems. Tools to aid these assessments include Self-Assessment Questionnaires, audits or Worker Voice technologies. Worker Voice provides insights of working conditions at a supplier site, from the viewpoint of the workers. When it is not possible or feasible for an auditor to visit a supplier’s site, a “Virtual Assessment” can be conducted via video conferencing to assess particular supplier performance areas, such as management systems and health and safety. All these methods help companies to identify whether their suppliers are adhering to their Code of Conduct. These tools can be used to set a baseline assessment of performance and be used to monitor the performance of suppliers on an on-going basis.

- **Improvement**: This refers to addressing compliance issues by finding the root cause of the problem and putting in effective corrective and preventative actions. For any improvement action, it is important to assign task owners, targets and completion dates. There are two key improvement approaches, which are used at different times:
  - **Preventative approaches e.g. training and capacity building**: Training builds supplier awareness and ability through information and instruction. For example, companies are expected to provide their suppliers with the requisite training and resources for them to understand company requirements and codes of conduct. Training may also help suppliers in high risk industries or regions to understand the risks they face and help them to implement policies and processes to minimise these risks. There are many ways to execute training and capacity building, from group
training to on-site consultancy and support. Technology can be used to deliver training to suppliers based in different geographic regions.

- **Remediation:** Remediation is needed when an issue occurs at a supplier site that breaks the law or a company’s Code of Conduct, for example poor waste management or non-payment of minimum wages. Remediation is when a negative impact is improved, and any harm is rectified. For example, in the case of non-payment of wages, workers would have their pay compensated to achieve minimum wage. Additionally, capacity building training would be conducted with site management teams so the site understands and commits to paying workers minimum wage in the future, and sets systems to ensure this continues to happen.

- **Effective grievance mechanisms:** A grievance procedure provides workers with the opportunity to raise concerns, problems or complaints and gives the company a way to monitor and resolve systemic issues that, if left unchecked, could lead to legal issues, strikes, high absenteeism, poor worker morale and low labour productivity. Although many issues can be resolved informally, grievance procedures allow workers to voice their problems and complaints to management in a way that workers feel comfortable reporting them. Within the supply chain, grievance mechanisms can provide suppliers with a built-in method to monitor problems related to the implementation of company policies and procedures.

- **Supply chain transparency and disclosures:** Public disclosure of supply chain sustainability performance demonstrates a company’s commitment to a sustainable supply chain. It can also encourage other companies to progress in this area. While there is no limit to how much a company can disclose, there are certain parameters applicable to the top 1,000 listed companies in India, which specify the information they are required to disclose. As per the BRR, the top 1,000 companies in India must disclose:
  - Percentage of forced or involuntary labour identified
  - Percentage of suppliers that paid minimum wages to their employees
  - Percentage of supply chain partners assessed for adherence to health and safety practices
  - Percentage of suppliers covered by social and environmental audits
  - Percentage of input material and services, sourced from suppliers adhering to internal or external sustainability standards/codes/policies/labels
  - Number of business agreements and contracts with third party partners that were reviewed in the year, to avoid adverse human rights impacts
  - Percentage of value chain partners providing training on human rights
o Stakeholder groups made aware of the grievance mechanism for human rights
o Scope and coverage of human rights due diligence conducted.

Separate supply chain disclosures are not required. A company can choose to disclose its supply chain initiatives and outcomes in a sustainability report. Companies must also ask their suppliers to disclose their sustainability performance, which must state as a minimum their performance around goals and targets set by the company.
Case Studies

P&G case study

About P&G: The Procter & Gamble Company (P&G) was founded over 180 years ago as a simple soap and candle company. Today, P&G is the world’s largest consumer goods company and home to iconic, trusted brands that make life a little bit easier in small but meaningful ways. Their business has spanned three centuries thanks to three simple ideas: leadership, innovation and citizenship.

“We want to be a force for good and a force for growth. We know that the more we integrate and build citizenship into how we do business, the bigger the impact we can have on the people we serve, the communities we live in, and the broader world that surrounds us. In turn, that helps us grow and build our business.”

David S. Taylor, Chairman of the Board, President and Chief Executive Officer

P&G operates under their purpose, values and principles, whereby it strives to do the right thing every day. The company works to be a “Force for Good” and a “Force for Growth” through sustainability, community impact, equality and inclusion, and ethics and corporate responsibility. Being compliant with regulations and operating ethically is important for the organisation. Compliance helps reduce legal, environmental and social risks.

The strategy adopted by P&G was to engage internally with Ethics and Compliance teams and externally with organisations like SHIFT (a leading think-tank on the UN Principles on Human Rights) to ensure the right processes for remediation of human rights issues within their supply chains.

P&G conducted an assessment of human rights risks in various countries and selected India as a country to further assess. They then created a timeline that considered the region’s context along with its assessment. As per the allocated time frames (known as “Waves”), India was placed in Wave 1.

Next, P&G considered critical spend to identify the suppliers with whom they should engage about SMETA audits. They partnered with Sedex for a repository tool for all suppliers to register on, initiate an audit and hold audit records. Suppliers who had already received a SMETA audit would upload the audit report in the Sedex database, which would then be transferred to the P&G dashboard that outlines each supplier status and remediation actions. Since 2015/16, the P&G team have helped coordinate more than 400 audits in their supply chain.
Having access to multiple supplier records on an internal system, and completing actions such as running a webinar and creating a road map with P&G buyers and mapping an audit timeline, help P&G to manage the human rights risks in their supply chains.

The benefits of assessing human rights risks across countries and implementing an audit strategy include:

- P&G buyers are aware of social audit requirements
- Follow-up audits check whether critical or minor issues are remediated
- Enables working with suppliers to respect human rights and improve conditions for workers
- Reassurance that suppliers are meeting compliance obligations.

**Hero MotoCorp case study**

*AboutHero MotoCorp Ltd.:* Hero MotoCorp (HMCL) Ltd is India’s leading two-wheeler company. Led by Dr Pawan Munjal, it has a presence in 37 countries across Asia, Africa, South and Central America. The company has close to 90 million customers.

**The case for supply chain sustainability**

The company believes in environmental protection and preservation as one of its core values. Aligned with this, the company started engaging with CII in 2007 to ensure that environmental management practices are not just practiced within their own premises but are also practiced by their suppliers. In order to put this thinking into practice, CII and Hero MotoCorp came up with The Green Supply Chain Management initiative. It targets two ends of the supply chain: suppliers as well as dealers through the Green Partner Development Program (GPDP).

The company has been running these two programmes for 13 years. So far, this programme has engaged 186 suppliers and suppliers. Key objectives of the programmes are:

- De-risking the supply chain by knowledge sharing and expanding the environmental practices among supply chain partners
- Creating a collaborative approach to conserve and protect the environment to meet societal commitments
- Better business sustainability and improved vision for the challenges ahead.
In terms of tangible benefits accrued at the supplier end, which the company measures and monitors periodically, these are seen in the areas of electricity, water, and waste savings. Intangible benefits are numerous, including:

- Improved systems identified through GPDP approach
- Enhanced legal knowledge
- Organised methodology of process mapping, instead of a kaizen approach
- Better clarity in relation to waste (overconsumption of resources) and loss (efficiency loss, distribution loss, chemical wastage, oil leakage etc.)
- Water, energy and waste mass balance and identification of gaps
- Better understanding of all environmental aspects in various processes
- Team knowledge and capability enhancement.

“Hero MotoCorp is committed to implementing sustainability best practices in its entire value chain. HMCL value chain partners play a vital role in its commitment towards sustainability, as a major portion of manufacturing takes place outside HMCL boundaries.

In 2007, HMCL launched Green partner Development Programme (formerly known as Green Supplier Development Program GVDP) in collaboration with CII-ITC CESD to upskill its suppliers in the supply chain. The aim of the programme is to enable suppliers to conduct business while conserving resources such as water, non-renewable energy sources, minimise production wastage and maximise utilisation of available resources and compliance to applicable legal regulations.”

Supply Chain Division of Hero MotoCorp

ITC testimonial

ITC is one of India’s foremost private sector companies, with a diversified presence in FMCG, hotels, packaging, paperboards and specialty papers, and agri-business. With a market capitalisation of nearly US$35 billion (as of 30th June 2020), ITC’s businesses and value chains have created sustainable livelihoods for more than 6 million people, a majority of whom represent the poorest in rural India. ITC demonstrates an exemplary dedication to doing business in a sustainable manner.

"ITC requires that suppliers and service providers, and their facilities, comply with all applicable laws, respect human rights, conserve the environment, produce high-quality products and services, and practice the highest standards of ethical conduct in their business operations."

Mr. D. John Roberts, Head of Employee Relations & Compliance, ITC
Looking Ahead: A Focus on Sustainable and Resilient Supply Chains
Looking Ahead: A Focus on Sustainable and Resilient Supply Chains

The interlinked and global nature of supply chains means that businesses have to fulfil responsibilities outlined by local laws, international legislation and a broad range of stakeholders. As the world recovers from the COVID-19 pandemic, and both business and society seek to build more resilient models, expectations around integrating sustainability principles within supply chains are expected to rise. The following areas are anticipated to have an impact going forward:

- **Increased or tightened international legislation** around the environmental and social impact of supply chains. More countries are expected to introduce laws which demand disclosures around human rights, other social impacts and environmental impacts in companies’ supply chains.

- **Increasing focus of the Indian Government on the National Guidelines on Responsible Business Conduct**, which includes supply chains in their scope.

- More focus and alignment around the **SDGs** to meet commitments by 2030.

- Changing business perspectives to favour **making business models more resilient**. COVID-19 sent shockwaves through society and economies worldwide. As a result, companies are looking to build supply chain resilience by diversifying their supply base and putting greater focus on protecting of labour rights and ensuring positive environmental impacts.

- **Technological advancements**. Technologies such as blockchain and artificial intelligence can improve companies’ abilities to trace products and monitor risks and conditions in supply chains. Innovations around “green” technologies are expected to improve resource efficiency and climate impact, whilst reducing reliance on fossil fuels.

Building resilient supply chains requires the integration of sustainability principles within company values and supply chain management strategies. Companies taking their first steps are recommended to take a phased approach. The guidance described in this document can help companies in India to have a positive impact on people and the environment, while simultaneously improving business continuity, stakeholder relationships and brand reputation.
Integrating Sustainability into Indian Supply Chains

Appendix and References
## Appendix and References

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<tr>
<th>Sector</th>
<th>Export Value [in USD]</th>
<th>Key Products</th>
<th>Sectors As per ISIC</th>
<th>Top importing countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering goods</td>
<td>83.70 bn\textsuperscript{xv} in the year 2018-19</td>
<td>Ferrous and non-ferrous metals, industrial machinery and automobiles</td>
<td>Automobiles</td>
<td>The USA, the UAE and Germany followed by the UK, Bangladesh, Mexico and Singapore\textsuperscript{xvi}</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>47.95 bn\textsuperscript{xvii} in the year 2018-19</td>
<td>Engine gasoline, naphtha and diesel</td>
<td>Refined petroleum products</td>
<td>Singapore, Saudi Arabia, United Arab Emirates, and the Netherlands</td>
</tr>
<tr>
<td>Chemicals &amp; Dyes</td>
<td>22.57 bn\textsuperscript{xviii} in the year 2018-19</td>
<td>Dyes and dye intermediaries, organic and inorganic chemicals, fertilisers, paints</td>
<td>Manufacture of chemicals and chemical products</td>
<td>The USA, the UAE, the UK, Bangladesh and Saudi Arabia importing cosmetics, toiletries and essential oils\textsuperscript{xix}</td>
</tr>
<tr>
<td>Drugs &amp; Pharmaceuticals</td>
<td>19.18 bn\textsuperscript{xix} in the year 2018-19</td>
<td>Generic drugs</td>
<td>Manufacture of pharmaceuticals, medicinal chemical and botanical products</td>
<td></td>
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<tr>
<td>Gems &amp; Jewellery</td>
<td>29.01 bn\textsuperscript{xx} for the year 2019-20</td>
<td>Majorly cut and polished diamonds</td>
<td>Gems &amp; Jewellery</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Value (bn)</td>
<td>Top Exports</td>
<td>Manufacturing of</td>
<td>Largest Markets</td>
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<tr>
<td>Agriculture and Food</td>
<td>38.49 in 2018-19</td>
<td>Basmati rice (USD 4.71 bn), beef (USD 3.58 bn), non-basmati rice (USD 3 bn)</td>
<td>Agriculture, forestry and fishing</td>
<td>Middle East Asia, South East Asia, SAARC countries, the EU and the USA</td>
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<tr>
<td>Cotton</td>
<td>11.20 in 2018-19</td>
<td>Cotton yarn, cotton fabrics, cotton made-ups and handloom products</td>
<td>Manufacturing of textiles</td>
<td></td>
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<tr>
<td>Seafood</td>
<td>6.72 in 2018-19</td>
<td>Shrimps, fishes, dried &amp; live items</td>
<td>Agriculture forestry and fishing</td>
<td></td>
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<tr>
<td>Leather and Leather Products</td>
<td>4.64 in 2019-20</td>
<td></td>
<td>Manufacture of leather and related products</td>
<td>Largest markets in total exports are the USA (16.73%), Germany (12.31%), the UK (11.41%), Italy (7.48%) and France (5.54%)</td>
</tr>
<tr>
<td>Tea &amp; Coffee</td>
<td>1.57 in 2019-20</td>
<td></td>
<td>Agriculture forestry and fishing</td>
<td>India ranks fourth worldwide in tea export and is the third largest exporter of coffee in Asia</td>
</tr>
</tbody>
</table>

Table 3: Details of key products exported by India along with export value and top importing countries
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References

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