CII-ITC Centre of Excellence
for Sustainable Development

Confederation of Indian Industry

White Paper
ESG in Value Chains:
From Expectations to Action

Executive Summary

Sustainability is no longer contained within the four walls of a company. Environmental, Social and Governance (ESG) risks and opportunities are distributed across value chains—from raw-material sourcing and manufacturing to logistics, distribution and end use. As regulators, investors, customers and markets sharpen their expectations, companies are being asked not only to manage their own ESG performance, but also to understand and strengthen ESG performance across their value-chain partners.

This shift is especially consequential for India's Micro, Small and Medium Enterprises (MSMEs), which form the backbone of corporate value chains but often operate with limited resources, technical expertise, data systems and access to finance. Handled well, however, ESG is not merely a compliance burden for MSMEs; it is an opportunity to strengthen competitiveness, deepen resilience and secure their place as strategic, future-ready suppliers to large enterprises in India and global markets.

This paper outlines what value-chain ESG means, why it matters commercially and not just ethically, who is driving the agenda, and how industries and organisations such as CII, through its Eco Edge programme and newly launched ASCEND initiative, are helping translate ESG expectations into action.

1. Understanding ESG in Value Chains

Value-chain ESG refers to the environmental, social and governance performance of an organisation's upstream partners (raw-material suppliers, component manufacturers, service providers) and downstream partners (distributors, dealers, logistics providers, and end users), in addition to the organisation's own operations. It extends the ESG lens beyond an organisation's own operations to the broader ecosystem through which a product or service is created, delivered and consumed.

For large enterprises, this means understanding where environmental impacts, labour practices, health and safety issues, governance standards and human-rights risks actually sit within a complex, often multi-tier supplier base. For MSMEs, which frequently sit one or more tiers upstream of a large buyer, this means increasingly being asked to measure, report and improve ESG performance, often with limited prior data, dedicated capacity or specialist knowledge.

MSMEs form a substantial part of Indian value chains: the sector contributes close to 30% of India's Gross Domestic Product, around 35% of manufacturing output and about 45% of the country's exports, while supporting tens of millions of livelihoods[1] (Ministry of MSME, Government of India). Their ESG readiness is therefore not a peripheral issue. It is central to whether Indian value chains, and Indian large enterprises' sustainability claims, can hold up to scrutiny.

Key considerations for MSMEs in this transition include establishing baseline environmental data on energy, water, waste and emissions; strengthening workplace health and safety systems; improving labour and human-rights practices; establishing governance and ethics frameworks; and developing the ability to generate credible ESG data that can be shared across the value chain.

2. Why Value-Chain ESG Matters

[1] The MSME sector contributes close to 30 percent of India's GDP, around 35 percent of manufacturing output and about 46 percent of the country's exports. Source: Ministry of Micro, Small and Medium Enterprises, Government of India, PIB press release.

Value chains concentrate a large share of a organisation's overall ESG risk, both environmental, such as emissions, water use, waste and resource consumption, and social, such as labour conditions, occupational health and safety, and human rights, much of which sits outside a company's own reporting boundary and can otherwise go unseen. Mapping and managing ESG across the value chain has therefore become increasingly important for organisations seeking to manage risk, strengthen resilience and respond to evolving market expectations. The business case for value-chain ESG rests on several converging drivers:

- **Scope 3 emissions and decarbonisation.** Under the GHG Protocol, Scope 3 (value-chain) emissions, covering both upstream activities such as purchased goods and services, and downstream activities such as product use and end-of-life, typically account for 70–90% of an organisation's total greenhouse-gas footprint[2]. An organisation cannot credibly pursue net-zero or science-based targets without engaging its value-chain partners.
- **Supply-chain resilience and risk management.** ESG-related disruptions from resource scarcity and extreme weather to labour and compliance failures, increasingly translate into commercial risk. Assessing and strengthening ESG performance across suppliers reduces exposure to operational, reputational and financial shocks.
- **Long-term value creation.** Organisations that build genuine partnerships with value-chain partners, rather than treating ESG as a one-way compliance checklist, tend to see more durable improvements in quality, cost, and supply continuity over time.

3. Who Is Driving the Agenda, and How Can Companies Respond?

Value-chain ESG expectations are being shaped by several actors simultaneously:

Regulators in India.

The Securities and Exchange Board of India (SEBI) requires the top 1,000 listed entities to file a Business Responsibility and Sustainability Report (BRSR). SEBI has also introduced value-chain ESG disclosures under the BRSR Core framework for the top 250 listed entities. The current framework covers the top upstream and downstream partners individually comprising 2% or more of the listed entity's purchases and sales, respectively, by value, while allowing the listed entity to limit disclosure to value-chain partners covering 75% of its purchases and sales by value, respectively. Value-chain disclosures have been made voluntary.

International regulatory developments.

- The European Union's Corporate Sustainability Due Diligence framework requires in-scope companies to identify and address certain adverse human-rights and environmental impacts across their operations and relevant business relationships. Recent EU simplification measures have revised the scope and implementation timeline, but the direction of travel remains clear: sustainability-related due diligence and value-chain risk management are becoming increasingly important for companies operating in or supplying global markets.
- The EU's Corporate Sustainability Reporting framework also requires in-scope companies to report on material sustainability matters, including relevant impacts, risks and opportunities across their value chains.

[2] Value chain, or Scope 3, emissions typically account for 70 to 90 percent of a company's total greenhouse gas footprint under the GHG Protocol. Source: Normative, CDP Technical Note: Relevance of Scope 3 Categories by Sector.

- The EU's Carbon Border Adjustment Mechanism (CBAM) introduces a carbon-pricing mechanism for embedded emissions in imports of covered goods, including cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. As the definitive regime takes effect, reliable emissions data from non-EU producers and suppliers becomes increasingly important for companies exporting covered products to the EU.
- The IFRS Sustainability Disclosure Standards, IFRS S1 and IFRS S2, are being adopted or referenced by a growing number of jurisdictions. IFRS S1 requires companies to consider sustainability-related risks and opportunities across their value chain, while IFRS S2 specifically addresses climate-related risks and opportunities and requires disclosure of Scope 1, Scope 2 and Scope 3 greenhouse-gas emissions. IFRS S2 requires entities to consider all 15 Scope 3 categories described in the GHG Protocol and determine which are relevant to their value chain.
- Together, these developments mean that even companies not directly within the scope of a particular regulation may increasingly be asked by customers, buyers and other stakeholders to provide ESG, sustainability and emissions data. This is effectively extending sustainability expectations deeper into value chains.

Customers, Investors and Market Expectations

Beyond regulation, ESG performance is increasingly influencing **customer relationships, market access and investor confidence**. For MSMEs, stronger ESG practices can help retain existing customers, qualify for new business opportunities, participate in global value chains and improve access to finance. For large enterprises, value-chain ESG performance is increasingly becoming a factor in strengthening competitiveness, resilience and long-term business relationships.

How can companies respond: Moving from assessment to action

For organisations, the practical response is to move beyond a one-time audit-and-checklist approach toward a continuous cycle: **map** value-chain partners and prioritise by risk and materiality; **assess** baseline ESG performance using structured, comparable tools; **engage** partners through dialogue rather than one-way mandates; **build capacity** through training, handholding and access to finance/technology; and **monitor** progress over time so improvement, not just compliance, is tracked.

- **Map -** Organisation can begin by identifying and prioritising value chain partners based on spend, criticality, geography and sector level ESG risk, so that assessment effort is focused where it matters most.
- **Assess -** Using structured, comparable diagnostic tools, organisations can establish a baseline of each partner's ESG performance across environmental, social and governance parameters, creating a common, credible starting point for improvement.
- **Engage -** Rather than issuing one-way mandates, organisations can open a dialogue with value chain partners, sharing assessment findings, agreeing priorities jointly and setting realistic, time bound improvement expectations.
- **Build Capacity** – Organisations can invest in training, handholding, implementation advisory, and access to financing and technology, helping partners, particularly MSMEs, translate ESG findings into concrete and sequenced action.

- **Monitor** – Organisations can track progress over time through repeat assessments, scorecards and maturity-based certifications, so that continuous improvement, and not one time compliance, becomes the basis for a lasting partnership.

How CII is enabling Action across Value Chains: Eco Edge and ASCEND

CII is helping organisations operationalise this **map – assess – engage - build capacity - monitor** cycle through CII Eco Edge Program. CII's SaaS-based value-chain ESG assessment framework covers the full spectrum of value-chain partners, both upstream suppliers and downstream partners such as dealers and distributors, and evaluates performance across four focus areas, decarbonisation, circularity, health and safety, and human rights. Through this framework, sourcing companies can benchmark and continuously improve ESG maturity across their networks, with well performing value chain partners recognised through Eco Edge's maturity-based certification.

Building on this, CII has launched ASCEND – Accelerating Supply Chain Competitiveness, a CEO-led, market-driven initiative focused specifically on MSME suppliers. ASCEND brings large sourcing companies and their MSME vendors together around measurable commitments, guiding MSMEs through sustainability awareness and capacity building, baseline assessment, decarbonization roadmaps, Scope 1 and Scope 2 measurement, resource efficiency, certification, implementation handholding, and access to green finance and technology. The collective ambition is to enable the transformation of over 100,000 MSMEs by 2030, strengthening India's position as a globally competitive and sustainable sourcing hub. Together, Eco Edge and ASCEND give organisations a practical, scalable route from ESG expectations to ESG action across their entire value-chain ecosystem Through CII's interventions to date, over 300 value-chain partners and more than 100 MSMEs have already been engaged.

> *"Government support alone cannot create sustainable value chains. We all need to appreciate that industry partnerships are extremely important and critical. This is where CII is steering this particular initiative Eco Edge. Large companies and sourcing organisations have an important role in building capabilities among their suppliers, particularly MSMEs, through knowledge sharing, capacity building, technology transfer and access to markets."*
>
> — Shri Bharat Khera, Secretary, Ministry of Micro, Small and Medium Enterprises, Government of India.
>
> *"Sustainable and resilient value chains are no longer a choice, they are fundamental to building globally competitive businesses. ASCEND brings large enterprises and MSMEs together around a shared ambition, to transform sustainability from a compliance agenda into a driver of competitiveness, resilience and growth. We are proud to be a founding member of this movement."*
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> — Shiv Siddhant Narayan Kaul. Chairman, CII National Committee on Environment & Managing Director, Nicco Engineering Services.

4. Learning from the Value Chain: Two Case Studies

The following examples illustrate what value-chain ESG action looks like from two vantage points: a large sourcing company driving assessment and capability-building across its supplier and dealer network, and an MSME using a baseline assessment to build a structured sustainability roadmap.

4.1 A Sourcing Company's Perspective: Škoda Auto Volkswagen India (SAVWIPL)

Building on its internal sustainability programmes, Škoda Auto Volkswagen India Private Limited (SAVWIPL) extended its value-chain sustainability efforts through CII's Eco Edge programme, using a structured, SaaS-based assessment covering decarbonisation, circularity, health & safety and human rights, aligned to select requirements of BRSR, BRSR Core, CDP and GRI. Since 2022, SAVWIPL has assessed 200 value-chain partners across upstream manufacturing and service partners as well as downstream dealerships, in four structured phases.

Metric	Result
Value-chain partners assessed (since 2022)	200, across 4 phases
Capacity-building programmes conducted	30
Partners awarded Eco Edge maturity certificates	62 (46 Emerging, 39 Progressive)
SAVWIPL's own maturity progression	Emerging → Progressive

Beyond the numbers, SAVWIPL used Eco Edge findings to act on its own operations and its value chain together, increasing renewable energy use and shifting from conventional to electric forklifts, achieving IGBC Platinum certification for a manufacturing warehouse, launching an Employee Assistance Programme, and supporting solar installations and energy-efficiency monitoring at select dealerships. The following best practices emerged among assessed value chain partners:

ESG Best Practices observed in Škoda Value Chain Partners	Level Achieved
Renewable energy portfolio	98%
Waste diversion	99.7%
Women in middle management	25%
Women in lower management	60%

The case shows how a structured, data led assessment framework can drive measurable ESG improvement simultaneously at the sourcing company and across its upstream and downstream partners.

> *"Over the past four years, Škoda Volkswagen India has actively partnered with CII under the Eco Edge program to strengthen ESG performance across our value chain. Through structured assessments and capacity-building initiatives, value chain partners have been evaluated, enabling enhanced transparency, improved ESG governance, and progressive supplier maturity.*
>
> *The Eco Edge framework has provided a practical and structured approach to engage suppliers on sustainability parameters aligned with evolving regulatory expectations, including BRSR Core. We appreciate CII's role in*

> *supporting industry-led value chain ESG transformation and view Eco Edge as a meaningful enabler in this journey."*
>
> — Mr. Ajay Bhatt, Head of External Affairs, Corporate Communications, Sustainability Strategy and CSR, Škoda Auto Volkswagen India Private Limited

4.2 An MSME's Perspective: Pon Pure Speciality Chemicals (PPSCPL)

Pon Pure Speciality Chemicals Private Limited (PPSCPL), a specialty chemical manufacturer, undertook an ESG Gap and Baseline Assessment in FY 2024–25 through support of CII. A SaaS-based platform built around a structured questionnaire spanning 12 ESG aspects, including governance, risk management, health and safety, supply chain and environmental management. Driven by leadership commitment and anticipation of future regulatory and buyer expectations, PPSCPL used the resulting baseline to prioritise gaps and build a multi-year improvement roadmap.

- Constituted a cross-functional ESG Core Team to drive organisation-wide implementation
- Identified 5 key focus areas, 28 ESG gaps and 30 actionable recommendations
- Conducted a GRI-aligned materiality assessment, prioritising 11 material ESG topics
- Developed a Scope 1 and Scope 2 GHG inventory for FY 2024–25 and initiated a Supplier Code of Conduct and BRSR reporting
- Achieved the 'Emerging' maturity level, establishing a baseline, and rolled the Eco Edge assessment out to its own key suppliers

PPSCPL's journey illustrates how a single structured baseline assessment can convert an unfamiliar, resource-constrained ESG mandate into a concrete, sequenced improvement plan, turning an MSME into a more transparent, better-governed and more future-ready supplier in its own right.

> *"At Pon Pure Chemicals, sustainability isn't a standalone initiative — it's embedded in our design thinking. From pioneering green chemistry to minimizing waste across our operations, we've always believed that the only growth worth pursuing is one that's responsible and enduring.*
>
> *We recognize the pivotal role of CII-ITC Centre of Excellence for Sustainable Development in shaping a resilient future. By bringing together industry, policy, and science, CESD is helping forge the partnerships that real progress demands.*
>
> *CESD team's work has been instrumental in raising climate awareness, accelerating ESG adoption, and turning aspirations into measurable impact — including for organizations like ours.*
>
> *As we move forward, we remain committed not just as a chemical company, but as a catalyst for sustainable planet transformation."*
>
> — Mr. Suryaprakas M P, Executive Director, Pon Pure Chemical India Pvt. Ltd.

Key Message

Sustainable value chains cannot be built through vendor compliance alone. As both case studies show, durable improvement requires stronger partnerships between buyers and suppliers, credible and comparable data, sustained capacity building, and continuous, not one-time improvement across the ecosystem.

For MSMEs, ESG is best understood not as an externally imposed cost, but as an opportunity: to move beyond being compliance-driven vendors and instead build competitive advantage, operational resilience and long-term strategic relevance through sustainability. For large enterprises, embedding ESG across the value chain is central to managing Scope 3 emissions, meeting regulatory and investor expectations, and securing supply-chain resilience. Platforms such as Eco Edge and ASCEND exist precisely to help both sides of this relationship move from expectation to action, together.

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