FREE GUIDE

EARTH5R GUIDES · NO. 08

Supplier ESG and Value Chain Guide

How Indian companies can get credible ESG data from suppliers without burying small businesses in questionnaires: the rules in 2026, what to ask, how to check, how to help, and why paying on time is part of it. For procurement, sustainability and finance teams.

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earth5r.org · 2026 edition

ABOUT THIS GUIDE

Most of a company's footprint, and much of its risk, sits with suppliers it does not own and has rarely measured.

Indian listed companies can now disclose ESG data for their largest suppliers and customers under BRSR, and buyers in Europe are asking for the same data. Most of those suppliers are MSMEs that have never been asked before.

This guide shows how to build a supplier ESG programme that is credible and fair: screen the value chain, ask proportionate questions, check what matters, help suppliers improve, and pay them on time.

It draws on SEBI circulars, EU law as amended in 2026, the MSMED Act, CDP data, the BRSRs of seven companies in the Above Average band of TERRA, Earth5R's ESG intelligence platform, and Earth5R's field work with small businesses and informal recyclers.

How to use it

Chapters 1 to 3 explain the drivers and rules. Chapters 4 to 8 are the programme. Chapters 9 to 13 show what leaders do, the common weaknesses, a 12-step plan and a checklist. Three free templates come with it.

Contents

Not legal advice. This guide summarises Indian and EU requirements as of September 2026. Check the current texts with your advisers.

CHAPTER 1

Why suppliers, why now

Five pressures meet in the supply chain in 2026.

- **Disclosure.** SEBI lets the top 250 listed companies report BRSR Core data for partners at 2% or more of purchases or sales, from FY2025-26.
- **Emissions.** CDP found Scope 3 supply chain emissions average 26 times a company's direct operations.
- **Export buyers.** EU CBAM, CSRD, CSDDD and the Deforestation Regulation all push data requests down to suppliers.
- **Risk.** Safety, labour and pollution failures at a supplier become the buyer's headline.
- **Fairness.** Late payment and unrealistic demands hurt the MSMEs a supply chain depends on.

Paying a woman by cheque for the paper bags she made. Fair, timely payment is part of a responsible supply chain.

> **The shift in one line.** Supplier ESG used to mean a code of conduct in the contract. It now means data, evidence and support, flowing both ways.

Sources: SEBI circular SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/42 (28 March 2025); CDP, Scope 3 Upstream: Big Challenges, Simple Remedies (June 2024).

CHAPTER 2

Supplier ESG by numbers

The scale of the supply chain challenge in India.

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Supplier ESG by numbers

Most of a company's footprint, and much of its risk, sits with suppliers.

26×
Scope 3 supply chain emissions vs direct operations, on average (CDP, 2023 data)

45,000+
suppliers asked to disclose through CDP in 2025

2%
of purchases or sales: SEBI's threshold for a value chain partner

45 days
maximum payment period for micro and small suppliers

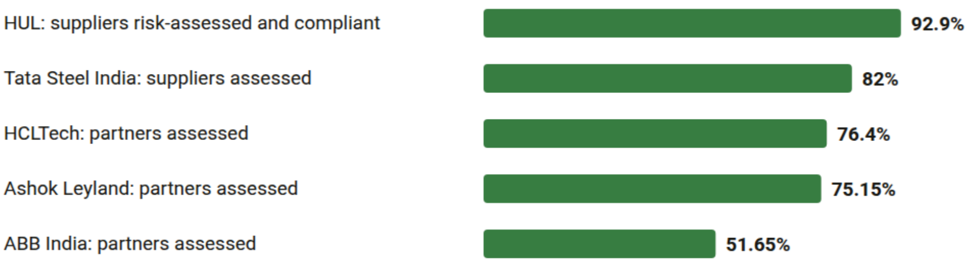
India's supplier base

30.1%
MSME share of India's GDP

45.73%
MSME share of India's exports

4.48 lakh
MSMEs with ZED Bronze certification (Sept 2026)

Share of value chain assessed on ESG (by value, latest year)



CDP (2024; 2025 supply chain page); SEBI circular of 28 March 2025; MSMED Act; PIB (4 July 2025); zed.msme.gov.in (27 Sept 2026); company BRSRs 2025-26 and ABB India 2025. Assessment scopes differ.

Earth5R · Supplier ESG and Value Chain Guide (Guides No. 08)   earth5r.org/guides/supplier-esg-value-chain-guide

MSMEs are the supply chain. MSMEs account for 30.1% of India's GDP and 45.73% of its exports, according to the Ministry of MSME.

Leaders assess most of their spend. HUL reports 92.9% of suppliers by value risk-assessed and compliant in FY2025-26.

Incentives work. CDP found suppliers were 52% more likely to reduce emissions when buyers offered financial incentives.

Sources: PIB (4 July 2025); HUL Annual Report 2025-26; CDP, Strengthening the Chain (September 2024).

CHAPTER 3

The rules in one page

What Indian and EU rules ask buyers to collect from their value chains, as of September 2026.

Rule	What it means for supplier data
SEBI BRSR value chain (India)	Partners individually at 2% or more of purchases or sales, coverage may be limited to 75%. Voluntary for the top 250 from FY2025-26; assessment or assurance voluntary from FY2026-27.
MSMED Act, section 15 (India)	Pay micro and small suppliers within the agreed period, never more than 45 days from acceptance; 15 days if there is no written agreement.
Income-tax Act, section 43B(h) (India)	From FY2023-24, amounts owed to micro and small enterprises and paid late are deductible only in the year actually paid.
EU CSRD value chain cap	After Directive (EU) 2026/470, companies may not ask suppliers with fewer than 1,000 employees for more than the voluntary VSME standard covers.
EU CSDDD	Due diligence across the chain of activities for companies with 5,000+ employees and EUR 1.5 billion turnover; applies from 26 July 2029. Requests to smaller partners must be targeted and proportionate.
EU CBAM	Embedded emissions data for steel, aluminium, cement, fertilisers, hydrogen and electricity, with a cost since 2026.
EU Deforestation Regulation	Applies from 30 December 2026, and from 30 June 2027 for micro and small operators.

Proportionality is now the law, not just good manners. Both SEBI's 2% threshold and the EU's value chain cap limit how far and how hard buyers should push small suppliers for data.

Sources: SEBI (28 March 2025); MSMED Act 2006; Income-tax Act 1961; Directive (EU) 2026/470 (via Covington, Latham); Regulation (EU) 2023/956 as amended; Council of the EU (18 December 2025).

CHAPTER 4

Map your value chain

Start with money: who you buy from and sell to, and how much.

01 **Pull 12 months of spend and sales**

From the ERP, by vendor and customer, with state and MSME status.

02 **Apply the 2% screen**

Partners at 2% or more of purchases or sales are BRSR value chain partners; stop at 75% if you wish.

03 **Add risk, not just size**

Sector, location, labour intensity and emissions intensity. A small foundry can matter more than a large software vendor.

04 **Tier the list**

Tier 1: assess and verify. Tier 2: questionnaire and desk review. Tier 3: code of conduct only.

How few partners are in scope? Commentators estimated SEBI's 2% rule cut value chain partners from about 85 to 1,260 per company to about 0 to 10. Start there, then widen by risk.

Free tool. Sheets 1 and 2 of Earth5R's Supplier ESG Programme Workbook screen for the 2% threshold and assign risk tiers.

Working through the numbers with a partner organisation, Mumbai, 2018.

Source: Vinod Kothari Consultants, April 2025.

CHAPTER 5

05

What to ask, and what not to

Ask for data a small business can actually produce, and explain why you need it.

Ask for

- Electricity and fuel use, from bills
- Water use and wastewater treatment
- Waste by type and who takes it
- Workers, wages paid to women, injuries
- Consents to operate and certifications
- For BRSR value chain partners: BRSR Core KPIs attributable to your business

Avoid

- 200-question surveys copied from global templates
- Asking for Scope 3 from a 20-person workshop
- Different formats from every buyer department
- Data you will not use
- Requests without saying what happens next

> **A practical standard.** For suppliers with fewer than 1,000 employees, the EU's voluntary SME standard (VSME) is now the upper limit for EU buyers' requests. It is a sensible ceiling for Indian buyers too.

> **Free template.** The Value Chain Partner ESG Questionnaire from Earth5R's BRSR and BRSR Core Guide is written for MSMEs: a cover letter and five short sections.

Reviewing survey forms in the field. Short, clear questions get better answers.

CHAPTER 6

Assess and verify

Match the depth of checking to the risk.

Level	What it involves	Use for
Self-assessment	Questionnaire and signed code of conduct	All Tier 2 suppliers
Desk review	Documents: bills, consents, registers, certificates	Tier 1 and a sample of Tier 2
Site visit	Walkthrough, worker interviews, records check	Tier 1 and high-risk sites
Third-party audit	Independent auditor against a standard (e.g. SA8000, ISO 45001)	Highest-risk or disputed cases
Ground verification	Field data collected at or around the site, independent of the supplier	Claims about community, water, waste or land

Score, then act. A weighted scorecard turns answers into a rating: leader, meets expectations, improvement plan, or act now. Sheet 3 of the workbook does this.

Corrective actions, not exits. Agree specific, dated actions with the supplier. Earth5R's Supplier Development and Corrective Action Plan template sets severity levels and timelines.

A waste audit at Powai Lake, Mumbai, 2018: checking against what is actually there.

CHAPTER 7

Build supplier capability

Suppliers improve fastest when buyers teach, fund and reward.

1 **Train in plain language.**
Tata Steel ran 29 awareness sessions covering 2,711 supplier partners in FY2025-26; Ashok Leyland trained suppliers on ESG and BRSR Core covering 75.15% of partners by value.

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2 **Use public schemes.**
The Ministry of MSME’s ZED certification has certified over 4.48 lakh MSMEs at Bronze level. It is a low-cost first step for suppliers.

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3 **Work in clusters.**
Train suppliers in the same town or industry together, and share tools, energy auditors and templates.

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4 **Link improvement to business.**
Preferred-supplier status, longer contracts or faster payment for suppliers who improve. CDP found financial incentives made suppliers 52% more likely to cut emissions.

An Earth5R training session in Bengaluru.

Sources: Tata Steel BRSR 2025-26; Ashok Leyland Annual Report 2025-26; zed.msme.gov.in (27 September 2026); CDP (September 2024).

CHAPTER 8

Pay on time

The simplest supplier ESG action is paying small suppliers within the law.

- **The law.** Micro and small suppliers must be paid within the agreed period and never later than 45 days (15 days without a written agreement).
- **The tax cost.** Since FY2023-24, late payments to micro and small enterprises are deductible only in the year paid.
- **The disclosure.** BRSR Core reports days of accounts payable, and investors compare it.

Days of accounts payable, as reported

Company	Days	Year
Persistent Systems	34	FY2025-26
HCLTech	46.5	FY2025-26
Dalmia Bharat	60	FY2025-26
Ashok Leyland	77	FY2025-26
Tata Steel (standalone)	94	FY2025-26
HUL	103	FY2025-26
ABB India	157	2025

Read the number carefully. Days payable covers all suppliers, not just MSMEs, so a high figure does not by itself mean MSMEs are paid late. But it is the number readers see. Track MSME invoices separately: sheet 5 of the workbook flags any beyond 45 days.

Sources: MSMED Act 2006, s.15; Income-tax Act 1961, s.43B(h); company BRSRs.

CHAPTER 9

Best cases from TERRA

How seven companies in the Above Average band of TERRA, Earth5R's ESG intelligence platform, manage supplier ESG.

Company	What their reports show	Worth copying
Hindustan Unilever	Responsible Partner Policy for all suppliers; 92.9% of suppliers by value risk-assessed and compliant; 5,241 vendors trained digitally; 25.8% sourced from MSMEs and small producers	Coverage by value, with verification for high-risk countries
Tata Steel	Responsible Supply Chain Policy accepted at onboarding; 1,359 critical suppliers assessed; contractors need a 3-star safety rating to bid	Safety as a gate to business
HCLTech	Supplier Code of Conduct and Green Procurement Policy mandatory; 308 partners (76.4% by value) assessed via a third-party platform; CDP Supplier Engagement 'A' four years running	A single assessment platform
Ashok Leyland	Collected BRSR data from 102 key suppliers with a digital tool; trained MSME suppliers with WRI; ₹1,727 crore spent with MSME vendors	Starting BRSR value chain data early
ABB India	ESG assessments for about 51% of suppliers covering GHG emissions; training included a carbon calculator; 29.12% sourced from MSMEs	Giving suppliers tools, not just questions
Dalmia Bharat	Supplier Code of Conduct with ESG criteria for critical suppliers; onboarding help for non-digitised suppliers; timely MSME payments a stated priority	Helping suppliers who are not online
Persistent Systems	Supplier ESG Engagement Programme aligned to BRSR Core value chain indicators; quarterly audits of manpower vendors	Tight focus where risk is highest

Sources: each company's BRSR and annual report, FY2025-26 (ABB India: 2025). Figures as published; assessment scopes differ. Inclusion implies no partnership or endorsement. TERRA bands reflect overall ESG assessment.

Five lessons from the leaders

1

Measure coverage by value.
HUL, HCLTech and Ashok Leyland report the share of spend assessed, not just the number of suppliers. It shows whether the programme reaches where the money goes.

2

Make one rule a gate.
Tata Steel requires a safety rating before contractors can bid. One non-negotiable, enforced, beats twenty unenforced.

3

Use one platform, one questionnaire.
HCLTech runs assessments through a single third-party platform, so suppliers answer once.

4

Give tools, not just questions.
ABB India trained suppliers with a carbon calculator; Ashok Leyland used a digital tool to collect BRSR data.

5

Help the ones who are not online.
Dalmia Bharat supports non-digitised suppliers through onboarding. Many MSMEs need help to be counted at all.

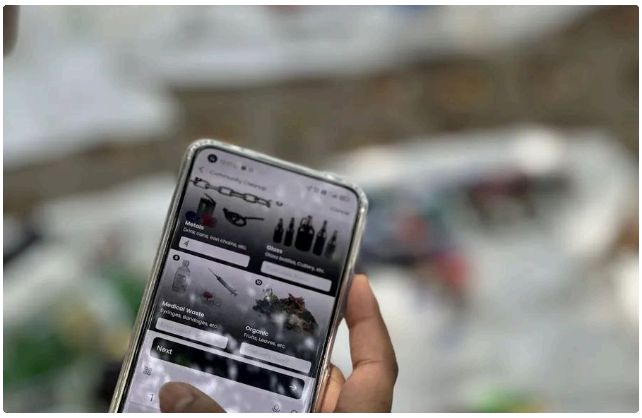
Working with a women's group in Mumbai. Small producers need support to join formal supply chains.

CHAPTER 10

Case: data from the ground

What Earth5R's work with informal recyclers and community enterprises teaches about supplier data.

- **Most of the chain is informal.** Earth5R's decade of field data found an average 62.9% dependence on the informal sector in waste recovery. Supplier programmes that only reach registered vendors miss most of the chain.
- **Data can be collected where work happens.** Earth5R's field network and app record geo-tagged data at source, from cleanups to plantations.
- **Payment builds trust.** Buy-back for segregated material and prompt payment to women's groups made the data flow.
- **Claims need ground truth.** TERRA measures the gap between what companies say and what their data shows; supplier claims are where it is often widest.



Recording data on the Earth5R app, Mumbai, 2023.

Women making paper bags in a livelihood programme: a small supplier in the making.

Sources: Earth5R, Plastic Waste Management and EPR Intelligence 2015-2025; Earth5R, BRSR value chain disclosure and the supplier ESG gap.

CHAPTER 11

Seven common weaknesses

What goes wrong most often, and the fix.

Weakness	What it looks like	Fix
Questionnaire overload	Suppliers get long, overlapping surveys from every buyer	One short questionnaire; share answers across buyers
Size-only screening	Only large suppliers assessed; risky small ones ignored	Tier by spend and risk
Self-declarations only	No evidence checked	Desk review and site visits for Tier 1
Exit as first response	Suppliers dropped instead of improved	Corrective action plans with support
Late MSME payments	Undermines trust and has a tax cost	Track MSME invoices; pay within 45 days
Data never used	Collected for a report, not decisions	Feed results into sourcing and contracts
Claims ahead of evidence	Value chain claims without verification	Ground verification for key claims

An informal recycling unit, Mumbai, 2018: part of many companies' value chains, rarely in their data.

CHAPTER 12

A 12-step supplier ESG programme

Most companies can run steps 1 to 8 in the first year.

EARTH5R · SUPPLIER PROGRAMME

12 steps to a supplier ESG programme

From a spend list to suppliers that improve every year.

1. Screen spend and sales: who is at 2% or more?
2. Tier suppliers by spend and ESG risk
3. Issue a supplier code of conduct
4. Ask proportionate questions, in plain language
5. Review answers against evidence
6. Visit or audit the highest-risk sites
7. Agree corrective action plans
8. Train and support suppliers
9. Pay MSMEs on time
10. Track progress quarterly
11. Report in BRSR and to buyers
12. Reward leaders; exit only as a last resort

Earth5R · Supplier ESG and Value Chain Guide (Guides No. 08) earth5r.org/guides/supplier-esg-value-chain-guide

Free tools. Earth5R's Supplier ESG Programme Workbook covers screening, tiers, scoring, tracking, MSME payments and a 12-month calendar.

CHAPTER 13

Checklist for CPOs and CFOs

Twelve questions for your next procurement or audit committee review.

- [ ] Which suppliers and customers are at 2% or more of our purchases or sales?
- [ ] Which smaller suppliers carry high ESG risk?
- [ ] Does every supplier have our code of conduct, and have Tier 1 suppliers signed it?
- [ ] Is our questionnaire short enough for an MSME to answer?
- [ ] What share of spend have we assessed, and how much of it was verified?
- [ ] How many corrective actions are open, and how many are overdue?
- [ ] Are we paying micro and small suppliers within 45 days?
- [ ] What is our tax exposure under Section 43B(h)?
- [ ] What support do we give suppliers: training, tools, finance?
- [ ] Which EU customers need supplier data from us, and for what rules?
- [ ] Are we ready to disclose BRSR value chain data voluntarily?
- [ ] Can every supplier claim in our reports be backed by evidence?

> **Need help?** Earth5R collects ground-verified data from value chains, including small and informal suppliers, and supports BRSR reporting through TERRA. See Earth5R's ESG and BRSR reporting services.

REFERENCE

Glossary

Attributable data. The part of a partner's emissions or other KPIs that relates to the buyer's business with it.

BRSR Core. A subset of BRSR KPIs under nine attributes that must be assessed or assured; the basis for value chain data.

Corrective action plan. Agreed, dated actions to close gaps found in an assessment.

CSDDD. EU Corporate Sustainability Due Diligence Directive.

CSRD. EU Corporate Sustainability Reporting Directive.

Days of accounts payable. Accounts payable × 365 ÷ cost of goods and services procured.

Desk review. Checking supplier documents without a site visit.

MSME. Micro, small and medium enterprise, as classified under the MSMED Act and registered on Udyam.

Scope 3, Category 1. Emissions from purchased goods and services.

Tier (risk). A priority group for assessment based on spend and ESG risk.

Value chain partner (BRSR). A supplier or customer individually at 2% or more of purchases or sales.

VSME. The EU's voluntary sustainability reporting standard for SMEs, now the ceiling for buyer requests to small suppliers.

ZED. Zero Defect Zero Effect: the Ministry of MSME's certification scheme.

FREE RESOURCES

Templates, infographics and how to share this guide

Everything below is free to use, adapt and republish on your own website or intranet, with credit and a link to this guide.

Resource	What it is	Download
Supplier ESG Programme Workbook (Excel)	Value chain screener, risk tiers, scorecard, engagement tracker, MSME payment check, calendar	earth5r.org/guides/supplier-esg-value-chain-guide
Supplier Code of Conduct (Word)	A plain-language code covering law, people, safety, environment, data, checks, support and breaches	Same page
Corrective Action Plan (Word)	Findings, severity, actions, owners, dates, buyer support and reviews	Same page
Three infographics	Supplier ESG by numbers; the rules reaching Indian suppliers; 12 steps to a programme	Same page

How to cite this guide.
Gupta, S. (2026). *Supplier ESG and Value Chain Guide*. Earth5R Guides No. 08. Earth5R. https://earth5r.org/guides/supplier-esg-value-chain-guide/

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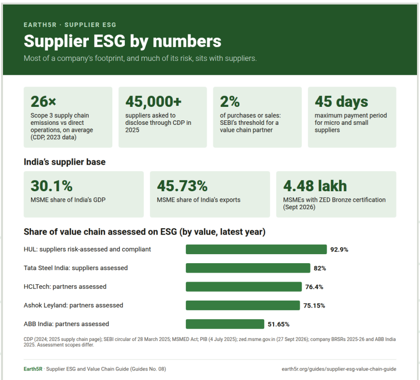

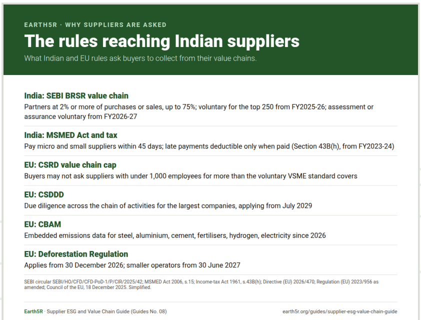

FROM THE FIELD

Small businesses, big supply chains

Paying a woman by cheque for her paper bags.

Women making eco-friendly paper bags, Mumbai.

An informal recycling unit, Mumbai, 2018.

Sorting recovered material, Mithi River, Mumbai.

Recording data at source, Delhi, 2018.

With a women's group in Mumbai.

More photographs of Earth5R's work with partner NGOs: earth5r.org/csr-ngo-work-gallery. All photographs © Earth5R.

WORK WITH EARTH5R

Supply chains that can prove what they claim

Earth5R is a Mumbai-based environmental organisation working across Indian cities and internationally. We collect ground-verified data from value chains, including small and informal suppliers, help companies prepare BRSR, and track narrative-data divergence through TERRA, our ESG intelligence platform.

Starting a supplier ESG programme?

Tell us your spend categories, key suppliers and reporting needs. We will help you screen, ask the right questions and verify what matters.

Talk to Earth5R →

Read more

- ESG and BRSR reporting services
- BRSR value chain disclosure
- BRSR and BRSR Core Guide
- CBAM Guide for Indian Exporters
- All Earth5R Guides

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