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Sustainability Disclosures: A Value Chain Perspective

India's sustainability landscape is evolving, with the Securities and Exchange Board of India (SEBI) emphasizing value chain disclosures in its Business Responsibility and Sustainability Reporting (BRSR) framework. Introduced in July 2023, the BRSR Core framework extends corporate responsibility beyond direct operations, reflecting the interconnected nature of businesses and their stakeholders.

Understanding Value Chain Disclosures in BRSR Core

The BRSR Core framework requires companies to report on the environmental, social, and governance (ESG) performance of their key upstream (suppliers) and downstream (customers) partners. These disclosures must cover entities cumulatively accounting for 75% of the company's purchases and sales by value, ensuring a comprehensive view of the corporate impact.

Timelines for Implementation

From FY 2024-25, these disclosures are mandated on a comply-or-explain basis for the top 250 listed companies (by market capitalization), emphasising shared accountability across the value chain.

Proposed Relaxations in ESG Norms

Recognizing the challenges companies face in implementing these requirements, SEBI proposed draft relaxations in May 2024. The key proposals include:

- **Redefined Value Chain Partners:** The definition of value chain partners is refined to include upstream and downstream partners individually comprising 2% or more of the company's purchases/sales by value, and cumulatively covering at least 75% of the company's purchases/sales by value. This adjustment reduces the maximum number of partners to be reported, easing the reporting burden while ensuring significant partners are included.

- **Compliance Timeline:** The ESG disclosures and limited assurance (third party verification) for value chain, may be classified as 'voluntary' requirement rather than being mandated on a 'comply-or-explain' basis for FY 2024-25.

These proposed changes aim to balance the need for comprehensive ESG disclosures with the practical challenges companies face, facilitating a smoother transition toward enhanced sustainability reporting.

Why Value Chain Disclosures Matter

- **Extended Responsibility:** Many sustainability challenges, such as carbon emissions, waste, and ethical labor practices, occur outside a company's direct operations. Including upstream and downstream partners addresses a broader spectrum of risks and opportunities.

- **Global Competitiveness:** With global companies setting clear supply chain sustainability targets, aligning with international standards through value chain disclosures strengthens Indian companies' attractiveness to global partners.

- **Stakeholder Confidence:** Transparent reporting builds trust among stakeholders by demonstrating accountability and commitment to sustainability goals.

Key Challenges in Implementation

- **Data Collection:** Gathering consistent and reliable data from value chain partners, especially smaller entities, remains challenging.

- **Engagement and Collaboration:** Encouraging suppliers and customers to align with ESG goals requires continuous engagement and capacity building over the long-term.

- **Standardization:** Diverse reporting practices across the value chain can complicate data aggregation and analysis.

Six Steps for Transparent Value Chain Reporting

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1.	Map the Value Chain	Identify key upstream and downstream partners contributing 75% of purchases/sales by value.	A clear understanding of key contributors to the company's sustainability footprint.
2.	Engage Partners	Educate and align value chain partners with ESG goals through training and agreements.	Stronger collaboration and alignment with corporate sustainability objectives.
3.	Collect Data	Use digital tools for data collection and estimate missing data through proxies or trends.	Consistent and verifiable data collection, even with incomplete information during initial days.
4.	Monitor Performance	Track partner ESG compliance via audits, surveys, and KPI monitoring.	Clear visibility into sustainability practices and identification of improvement areas.
5.	Incentivize Practices	Offer rewards and support for partners adopting sustainable practices.	Enhanced partner commitment to sustainability goals and overall ESG performance.
6.	Report Transparently	Disclose ESG data, explaining estimation methods for missing information.	Improved stakeholder trust and accountability in value chain disclosures.

Opportunities for Indian Companies

- **Innovation and Collaboration:** Value chain reporting fosters collaboration with partners, driving innovations in sustainable practices.
- **Enhanced Risk Management:** Identifying ESG risks in the value chain enables proactive mitigation, reducing potential disruptions.
- **Industry Leadership:** Leading in value chain transparency positions companies as sustainability leaders, offering competitive differentiation.

Our Take

SEBI's emphasis on value chain disclosures under the BRSR Core framework is a pivotal step in advancing Corporate sustainability agenda. The proposed relaxations address compliance challenges while reinforcing the need for transparent ESG reporting. Companies can leverage this framework to strengthen stakeholder trust and global competitiveness, but must navigate risks like data gaps and resistance from smaller partners. By investing in robust data systems, engaging value chain partners, and adopting phased strategies, Indian businesses can drive meaningful sustainability outcomes and gain a competitive edge in the global market.*

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