



SIDBI – D&B SPeX

OCTOBER – DECEMBER 2023

Sustainability Perception Index (SPeX) – MSME's Green Pulse



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CIN: U74140MH1997PTC107813

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Introduction

Sustainability has become a key focus area for businesses globally, and Micro, Small, and Medium Enterprises (MSMEs) are no exception. In India, MSMEs play a vital role in the economy, contributing significantly to the country's GDP and employment generation. However, the sector also faces challenges, including sustainability concerns. To address these challenges, it is essential to understand the current state of sustainability perceptions among MSMEs in India.

It is in this context Dun and Bradstreet, in collaboration with SIDBI introduced a quarterly Sustainability Perception Index (SIDBI - D&B SPeX) - the green pulse indicator. SPeX is a pioneering effort to assess the sustainability perceptions of MSMEs across various industries and locations. The index is designed to provide a comprehensive overview of the sustainability landscape in the Indian MSME sector. The index assesses the internal and external factors that shape sustainability perception of businesses on three dimensions, namely –Awareness, Willingness, and

Implementation of sustainability measures. The SPeX is based on a rigorous methodology that considers a range of factors that influence sustainability perceptions, such as policy and regulations, social responsibility, and governance practices. The index uses data from survey of MSME owners and managers to capture an accurate picture of sustainability perceptions. The report provides insights into the current state of sustainability perceptions among MSMEs in India, highlighting trends, challenges, and opportunities for improvement. It aims to serve as a valuable tool for policymakers, regulators, industry associations, and MSMEs to identify opportunities for improvement and implementation strategies to enhance adoption of sustainability practices. SPeX acts as an enabler in raising awareness about the importance of sustainability among MSMEs, encourage MSMEs to adopt sustainable practices, and contribute to the overall growth and development of the Indian economy.



Key takeaways

Sustainability Perception Index (SPeX)



The index ranges from 0 to 100. Higher the index, higher is the level of perception towards sustainability
Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

Newly established MSMEs exhibit high awareness and willingness and but comparatively lower level of implementation compared to MSMEs aged 10 years and above.

Cost reduction is the most important factor for MSME's to adopt sustainability, consistently for the fifth consecutive survey.

One in three respondents anticipate that implementing sustainability practices will aid in client retention and acquisition, suggesting domestic customers are not showing keen interest in sustainability at the supplier's end.

The already high gap is further widening between awareness and available expertise to implement sustainable practices.

Only around 27% of MSMEs fully understand the benefits, although more than half believe that sustainability adoption can lead to higher profitability and cost savings.

Nearly half of the MSMEs do not have expertise for creating sustainable supply chain, increasing their vulnerability to supply chain shocks.

57% of small businesses do not know how to measure their carbon footprint or formulate strategy towards achieving net-zero.

Objective of SPeX



D&B and SIDBI's Sustainability Perception Index (SIDBI - D&B SPeX), the green pulse indicator is the first index globally, measuring perception of MSMEs on sustainability measures across three dimensions of sustainability adoption (willingness, awareness, and implementation).



SPeX aims to provide valuable insights into how industry stakeholders perceive sustainability, identify key areas for improvement, and foster a culture of sustainable practices.



The index report would provide valuable insight for policymakers, sustainability enablers, and businesses towards improving adoption of sustainability measures by Indian MSMEs.



A quantitative measurement for policymakers, enablers, and businesses, measuring:

- Trend and level of awareness, willingness, and implementation of sustainability measures.
- Implementation of sustainability factors across value/supply chain.
- Role and impact of internal drivers – strategy, resources and culture
- Impact of regulations and policies
- Factors impeding/enabling implementation of sustainable practices by MSMEs

How is SPeX calculated?

SPeX is a quantitative measurement of sustainability perception of MSMEs in India. For quantitative measurement, Dun and Bradstreet conducted survey of 250+ MSMEs across India during October-December 2023. Survey participants are to fill a digital questionnaire containing questions aimed to elicit their perception, understanding and implementation of sustainability practices/measures. Based on the responses, Dun and Bradstreet calculated scores on three dimensions: awareness, willingness, and implementation to each MSME (using a scorecard approach). The reported SPeX and sub-index values are the median score of the survey sample. There may be overlap between the survey respondents in the current and previous surveys.

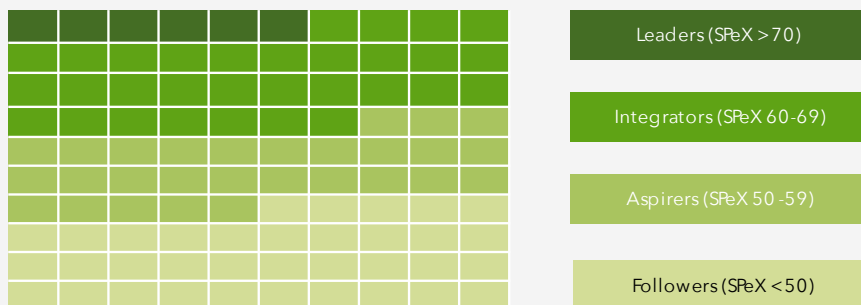
A weighted scorecard technique is used to calculate the index, with combinations of relevant question and response being assigned scores, aggregated, and standardized using statistical algorithm to arrive at sub-index values for awareness, willingness, and implementation dimensions. SPeX is a weighted average of sub-indices (weights are determined from statistical analysis to explain most variability across responses). SPeX can range from 0 to 100, higher the value, the more positive are respondents' assessment of sustainability measures. All India SPeX value is the median score of the survey respondents.



SPeX leadership categories

We have categorized respondent MSMEs in four SPeX Leadership categories based on their SPeX value (MSMEs with SPeX value higher than 70 are categorized as Leaders, Integrators are with SPeX between 60-69, Aspirers are with SPeX between 50-59 and Followers are with SPeX value less than 50. In the survey, majority of the respondents are Followers (61%), followed by Aspirers (22%), Integrators (13%) and Leaders (4%).

Distribution of SPeX Leadership Category



Source: SIDBI - D&B Sustainability Perception Index Survey, October - December 2023

SPeX Categories



Leaders: MSMEs in this category are leading in sustainability perception (measured via SPeX value). They become leader in sustainability performance and are promoters of sustainability practices within its industry. They may set ambitious targets for adoption of sustainability practices and may actively collaborate with others to drive sustainable progress.



Integrators: MSMEs in this category are actively integrating sustainability practices in business's overall strategy and operations. Sustainability considerations are taken into account in decision-making processes. They may set higher adoption targets of sustainability practices and at furthering their integration in the organisation.



Aspirers: MSMEs in this category are actively seeking to improve their sustainability practices beyond the regulatory requirements. They may engage in setting specific sustainability targets (for example, reducing environmental footprint, improving social impact). They aspire to enhance sustainability adoption, and may be driven by peers, customers.

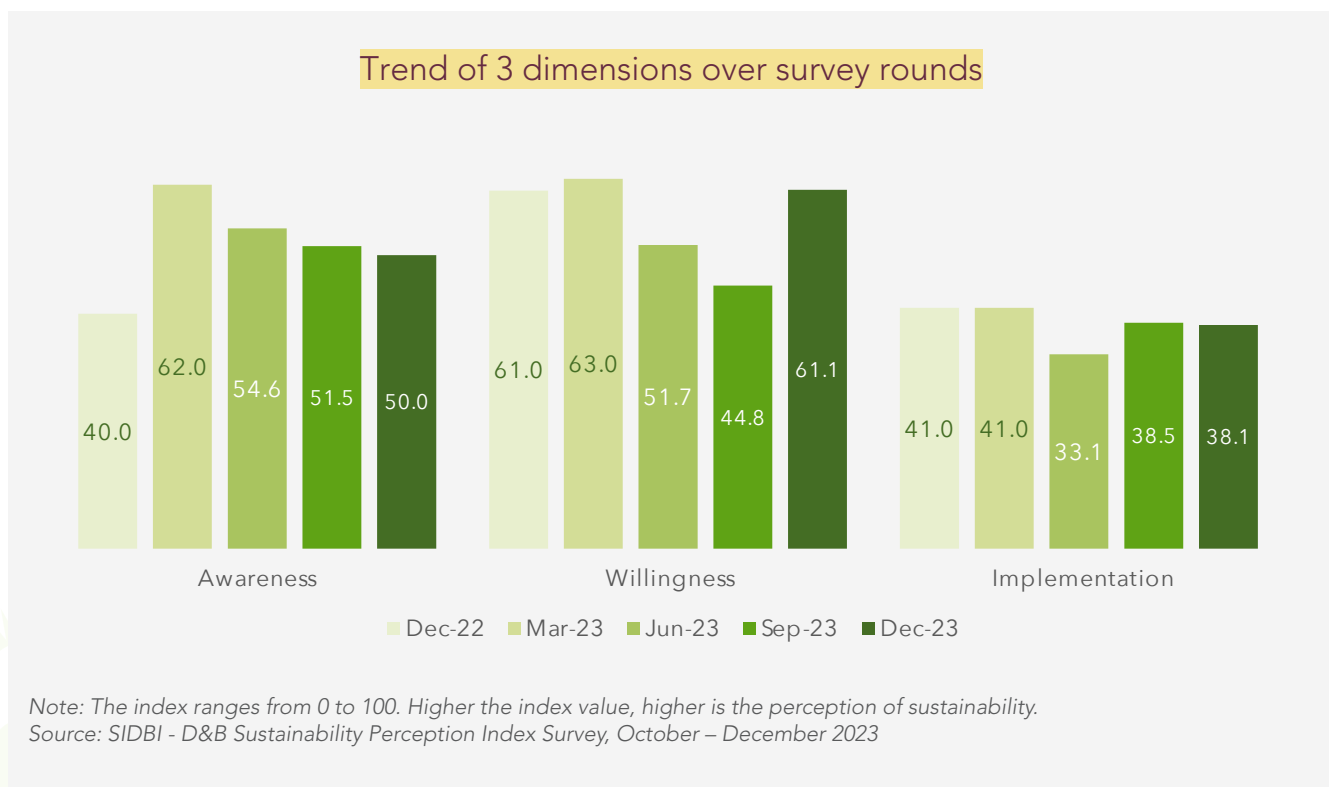


Followers: MSMEs in this category are yet to become fully engage on the sustainability practices, and may not be aware/believe its economic and social benefits. They are looking to understand the potential benefits and risks associated with implementation of sustainable practices. They may assess current practices to identify areas to improve.

Key findings

MSMEs are willing to implement sustainability measures but still lack motivation and expertise to do so.

- SIDBI - D&B Sustainability Perception Index (SPeX) – the green pulse indicator value for October-December 2023 improved from 48 to 55.
- Among the three dimensions comprising the index, Willingness showed a notable increase of 16% in October-December 2023 compared to the previous quarter. Conversely, the dimensions of Awareness and Implementation experienced only a minor decline by 1.5% and 0.4% respectively.
- Willingness dimension, continues to be the largest factor at 61, reversing the declining trend of the previous 2 quarters - indicating MSMEs are again looking favourably towards sustainability and the momentum needs to be maintained.



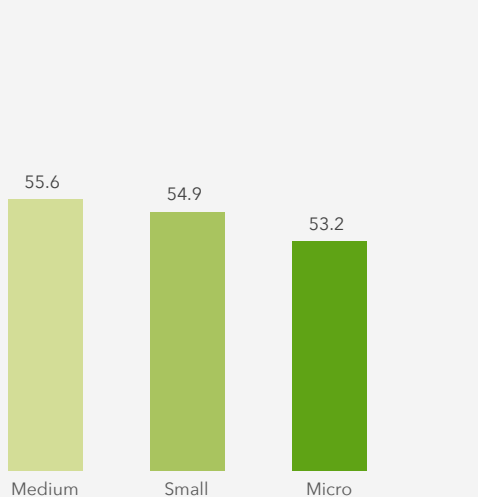
Both awareness and implementation is highest amongst the medium sized businesses.

- Although willingness to adopt sustainability measures are similar for micro and small size businesses, level of awareness and implementation is lowest for micro businesses.
- Both awareness and implementation is highest amongst the medium size businesses in our survey for the October-December 2023 quarter.

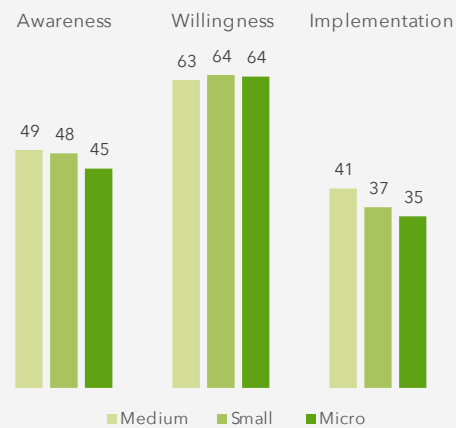
As applicability of sustainability to MSMEs is fast evolving, MSMEs need to be continually engaged on sustainability related initiatives. Such activities, may enhance their awareness, understanding and willingness of sustainability actions. To ensure a healthy growth in sustainability adoption by MSMEs the following initiative-taking steps may help:

- Availability of sustainability training and materials.
- Direct communication with MSMEs to disseminate best practices for sustainability adoption.
- Integration of sustainability metrics (ranking/rating) into credit/investment evaluations.
- Foster culture of sustainability and regularly reinforcing it through policy support.

SPeX index by size of firms

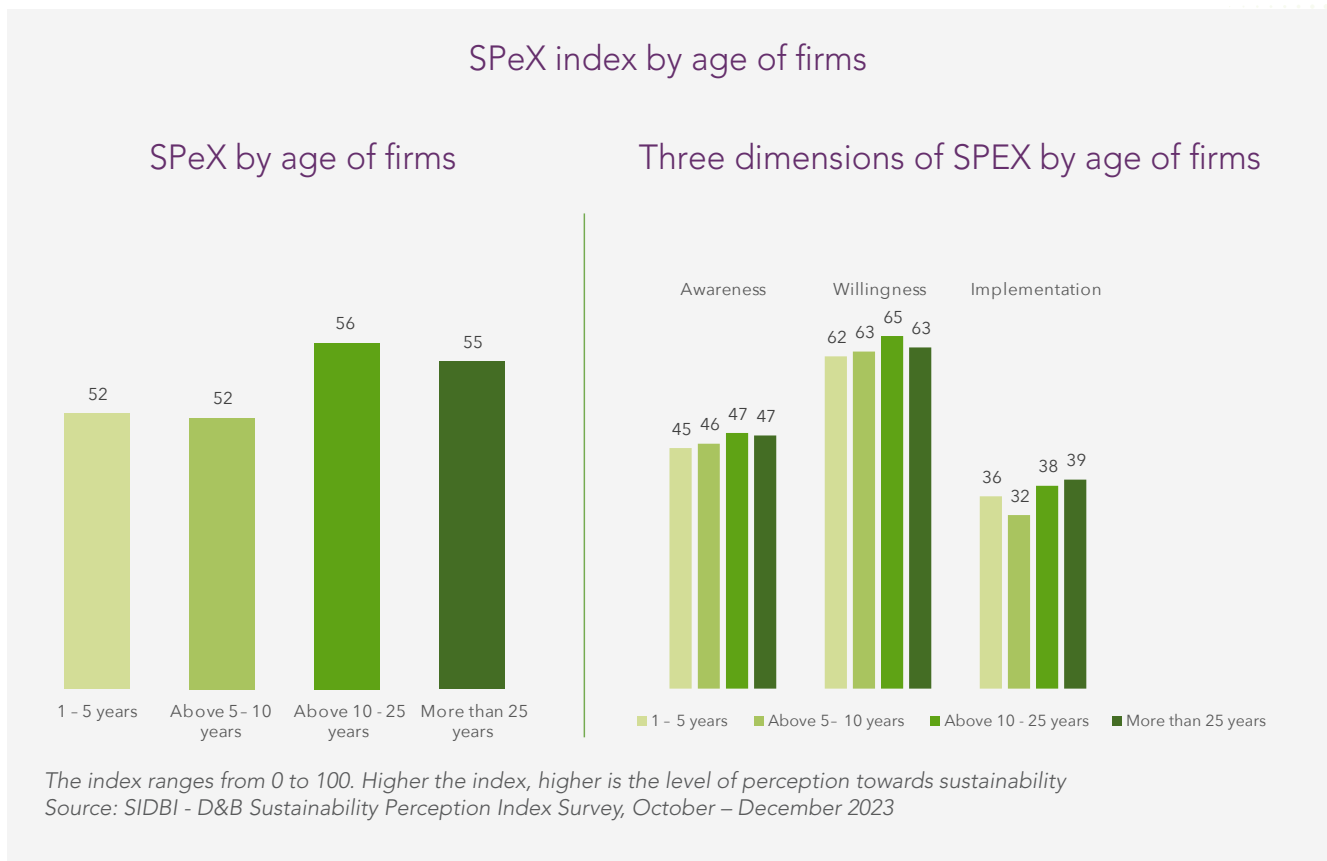


Three dimensions of SPeX by size of firms



The index ranges from 0 to 100. Higher the index, higher is the level of perception towards sustainability
Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

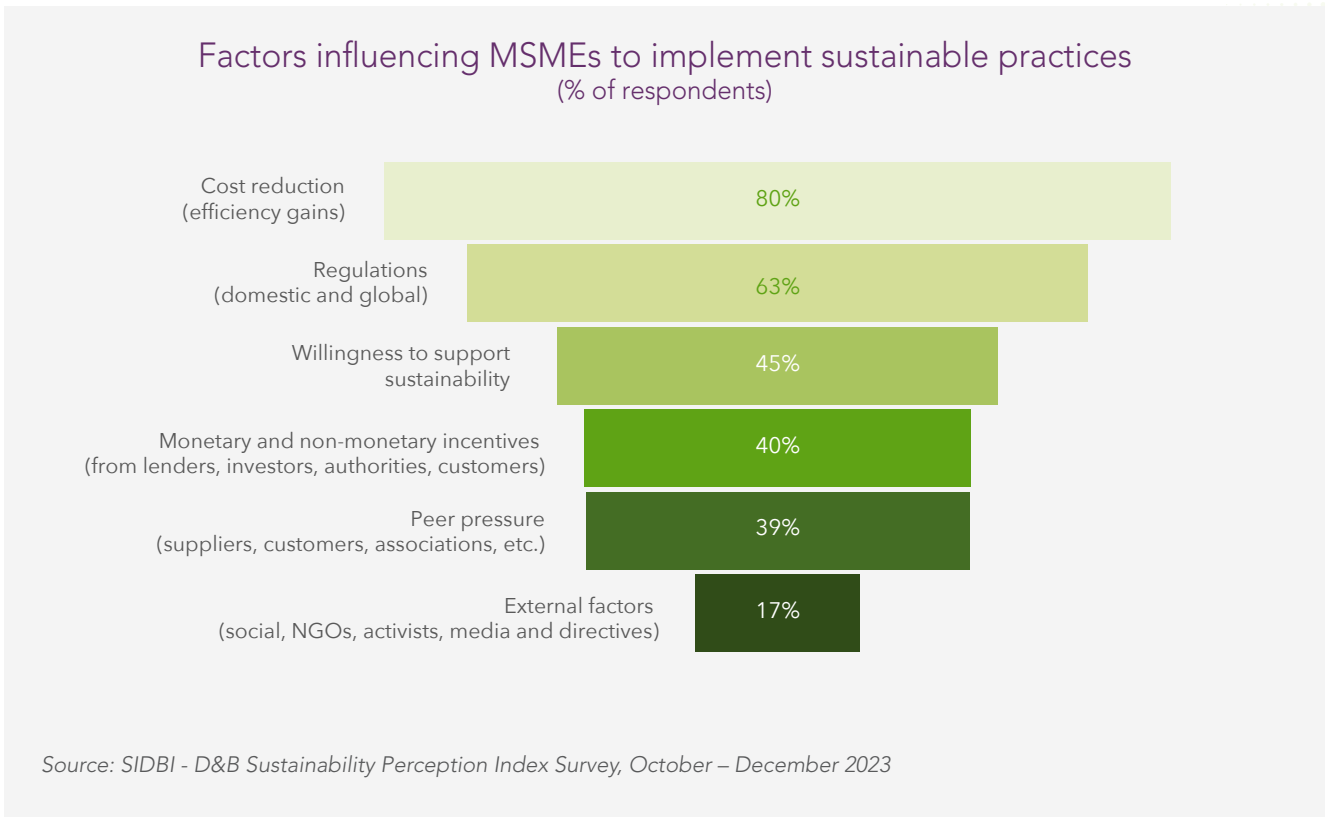
Newly established MSMEs exhibit high awareness and willingness and but comparatively lower level of implementation compared to MSMEs aged 10 years and above.



- Perception of sustainability is higher among established businesses due to their greater awareness, willingness to implement and actual implementation of sustainable practices.
- Businesses with less than 10 years of establishment demonstrate a lower level of sustainability implementation compared to those aged over 10 years, despite similar levels of awareness and willingness to implement.



Cost reduction is the most important factor for MSME's to adopt sustainability, consistently for the fifth consecutive survey.

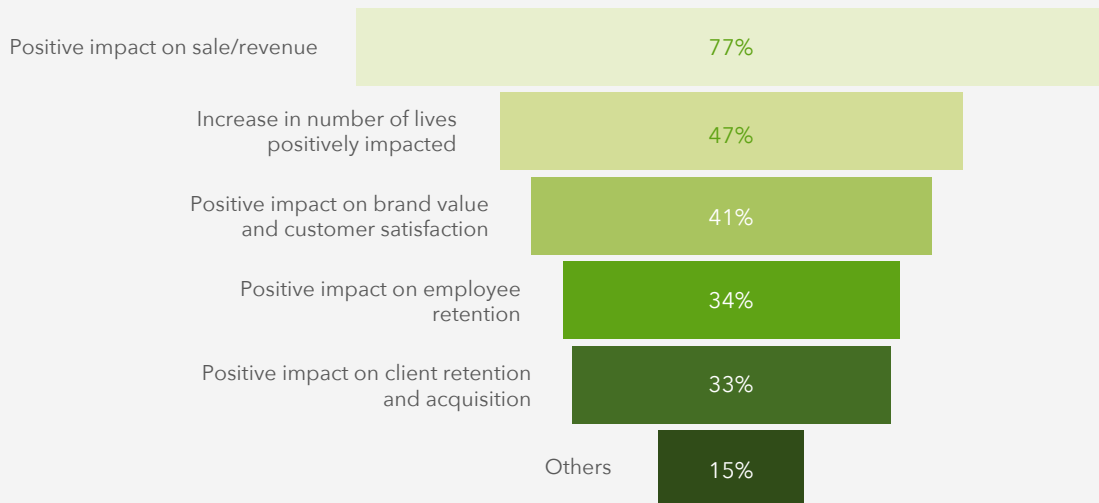


- Majority of MSMEs consider cost reduction (80%), regulations (63%) and willingness to support (45%) as the key factors that play a vital role for them to adopt sustainability practices
- Consistently, MSMEs have indicated that they regard peer pressure and monetary and non-monetary incentives as the least significant factors when considering implementing sustainable practices.



Positive impact on sales/revenue from implementation of sustainable practices remains the largest benefit, for the fourth consecutive survey.

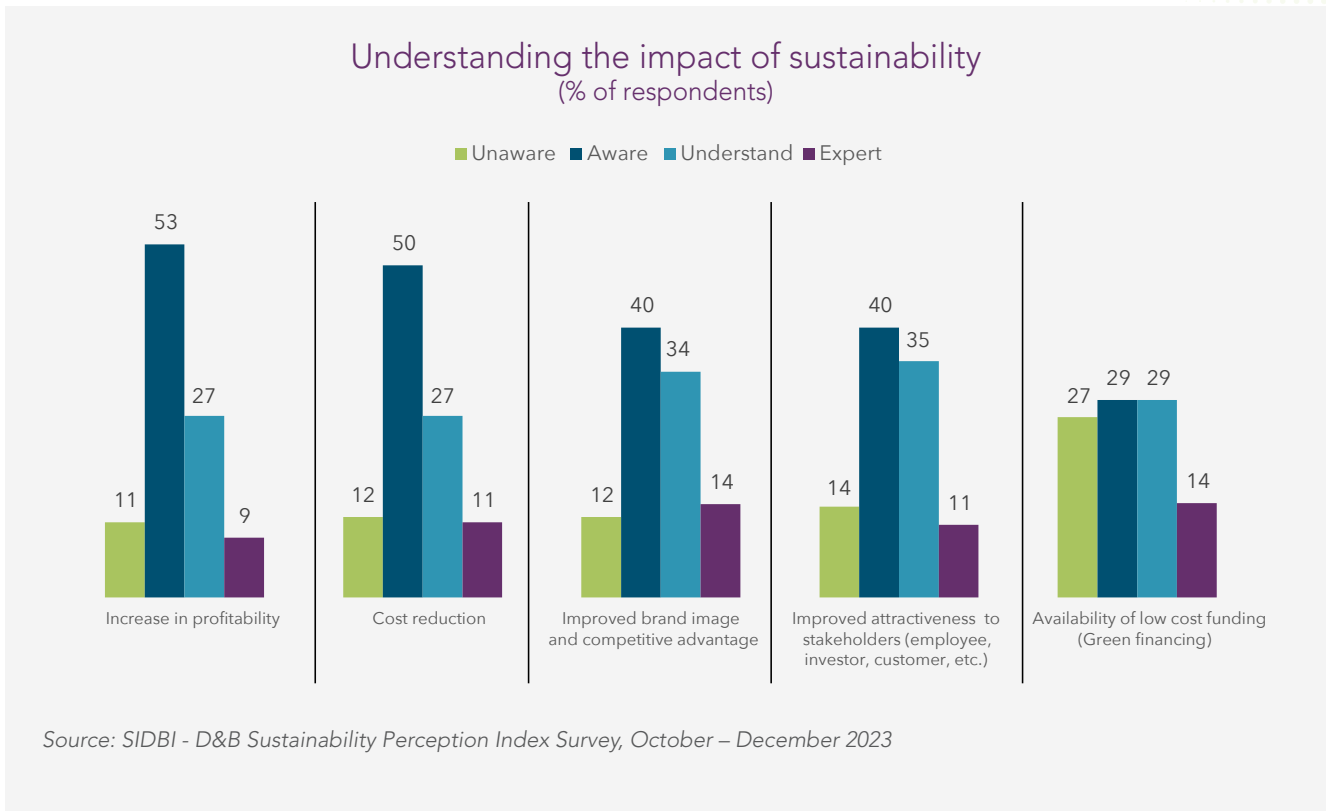
Positive outcomes that MSMEs expect from implementing sustainability measures (% of respondents)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

- 77% of MSMEs expect adoption of sustainability practices to result in higher revenue.
- 41% of MSMEs stated that adopting sustainable practices help in increasing brand value and customer satisfaction, indicating growing awareness amongst about sustainable practices.
- Only one in three respondents anticipate that implementing sustainability practices will aid in client retention and acquisition, suggesting domestic customers are not showing keen interest in sustainability at supplier's end.

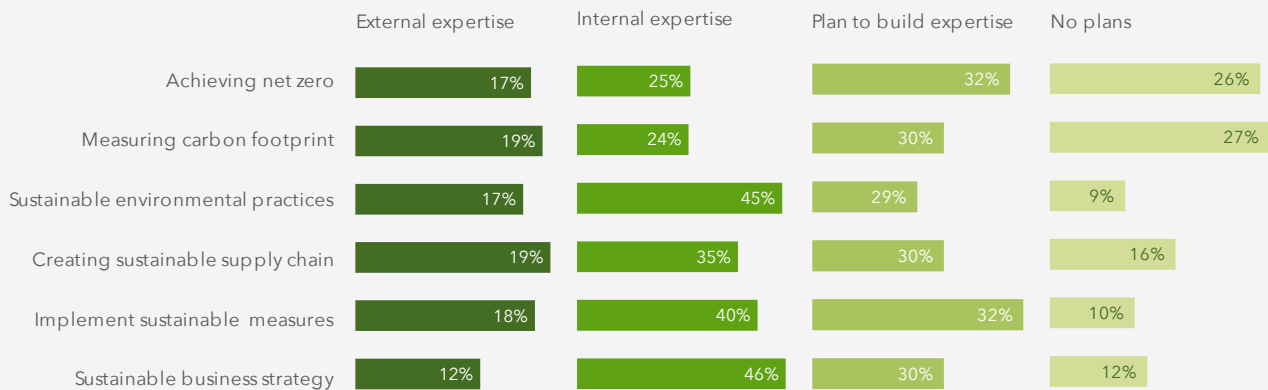
Gap between awareness and expertise to implement sustainable practices is high amongst MSMEs.



- MSMEs claim awareness of the impact of sustainability practices though lack understanding and expertise to effectively implement sustainability practices.
- Awareness about green financing and low-cost funds for sustainability initiatives remain low (29%) despite high overall sustainability awareness (46%).
- Limited understanding of the impact on cost and profit from implementation of sustainability measures. Only around 27% of MSMEs fully understand the benefits, although more than half believe that sustainability adoption can lead to higher profitability and cost savings.
- 42% of MSMEs acknowledge the various benefits of sustainability. Only one in ten MSMEs claim to have expertise about the benefits of sustainability adoption.

Nearly half of the MSMEs do not have expertise for creating sustainable supply chain, increasing their vulnerability to supply chain shocks.

Internal and external expertise to implement sustainable practices (% of respondents)

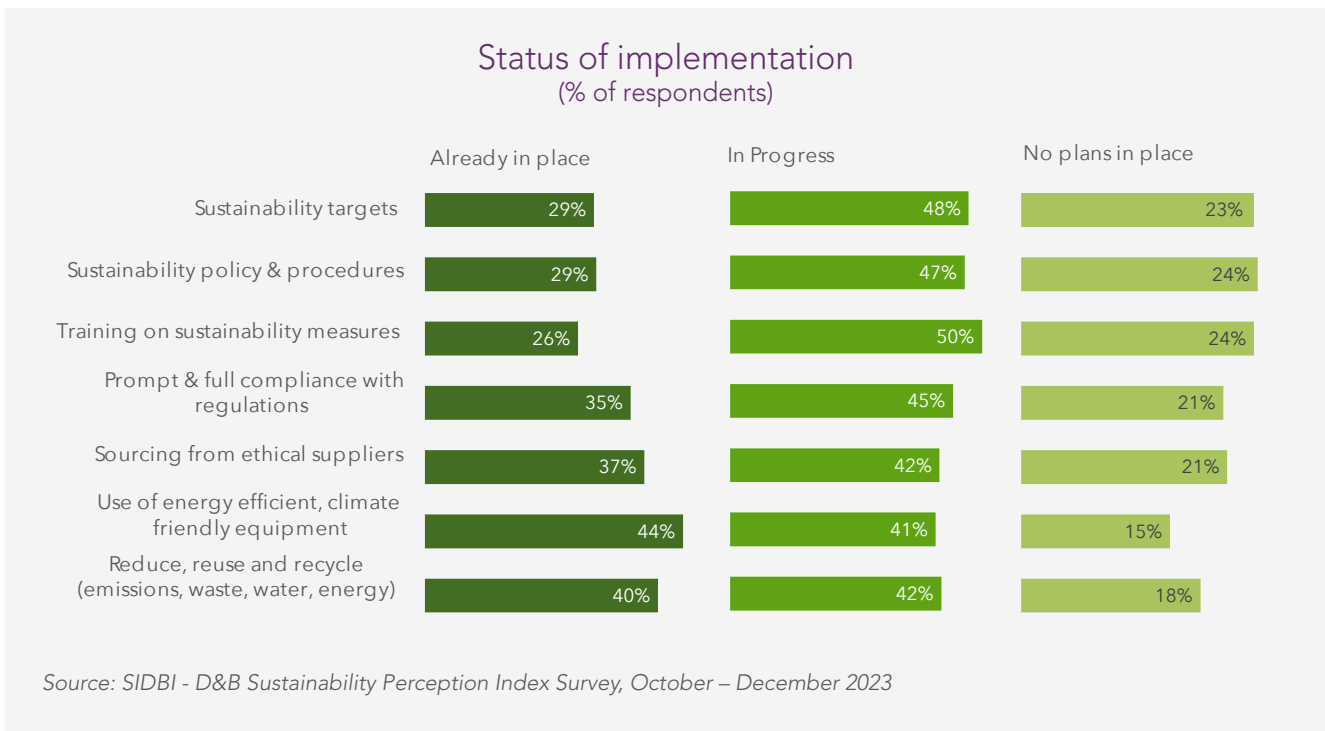


Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

- 36% MSMEs claim to have internal expertise to implement various sustainable practices. Another 17% would depend on external expertise to implement sustainable practices.
- 30% of MSMEs are planning to develop an expertise. Supporting the transition of these MSMEs to sustainable business practices will have multitude knock-on benefits such as helping them to develop resilient businesses and credibility thereby enhancing their potential to get contracts from large customers and realizing more profits.
- One in two MSMEs do not have expertise (internal or external) to make their supply chain sustainable.
- 57% of small businesses do not have expertise to measure their carbon footprint or formulate strategy to achieve net-zero emissions.



Even MSMEs claiming to have with internal expertise are yet to establish sustainable targets, highlighting the wedge between awareness and implementation.

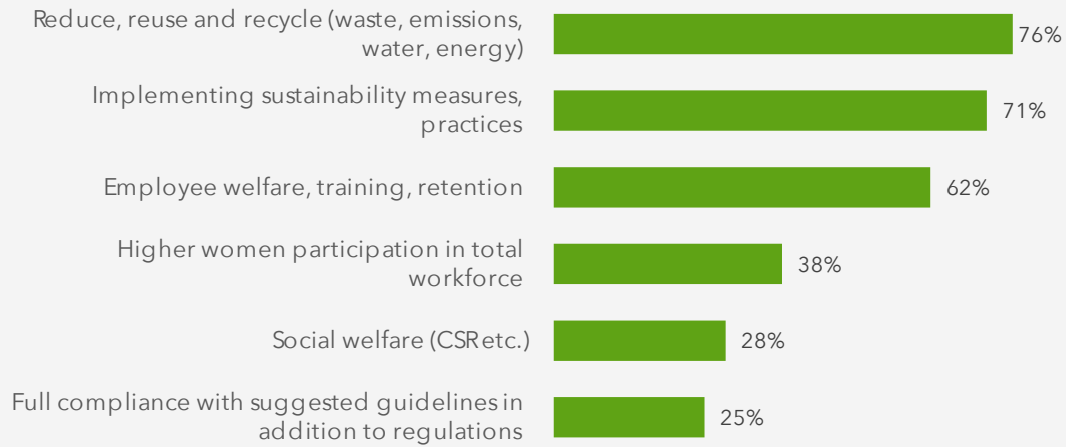


- Despite 46% of MSMEs claim to have internal expertise for developing sustainable business strategies, only 29% of them have established sustainable targets, indicating a clear divide between understanding and implementation.
- Two out of every three small businesses lack compliance with regulations, mirroring their tendency to prioritize compliance lowest among their concerns.
- Consequently, it's crucial to understand why compliance ranks at the bottom of their priorities, given its mandatory nature.
- This understanding will enable stakeholders to devise effective support programs to aid MSMEs.



Compliance with regulations and guidelines is lowest in priorities.

MSMEs top 3 sustainable priorities (% of respondents)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

- Environmental measures are the foremost priority for MSMEs, followed by social measures, with governance ranking lowest in their priorities.
- Two in three MSMEs are prioritising 3Rs (reducing, reusing, and recycling).
- Only 1 in 4 MSMEs identified adhering to compliance and regulations as a priority.



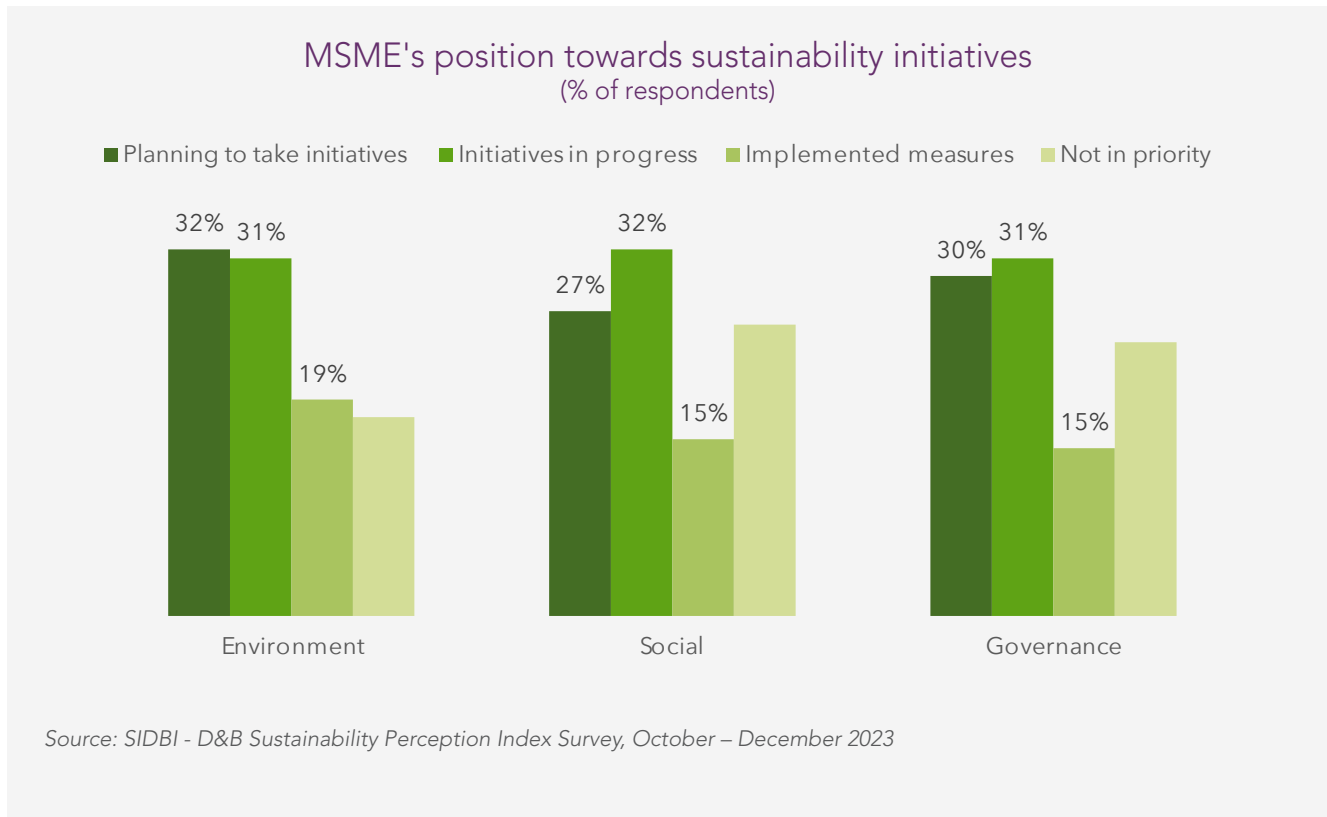
Case Study - Helping MSMEs transition to legal and sustainable practices.

Between 2016 and 2021, the Food and Agriculture Organization (FAO) and the European Union Forest Law Enforcement, Governance, and Trade (FLEGT) Programme collaborated on more than 100 projects across 20 countries to assist MSMEs in the production and trade of legal timber and associated products. This support was developed in recognition of the fact that aiding MSMEs in transitioning to legal and sustainable practices yields numerous benefits, including poverty reduction, the provision of decent work, support for inclusive economic growth, and the promotion of sustainable forests. Drawing from the Programme's experience, several proven strategies for engaging with MSMEs have emerged. These include:



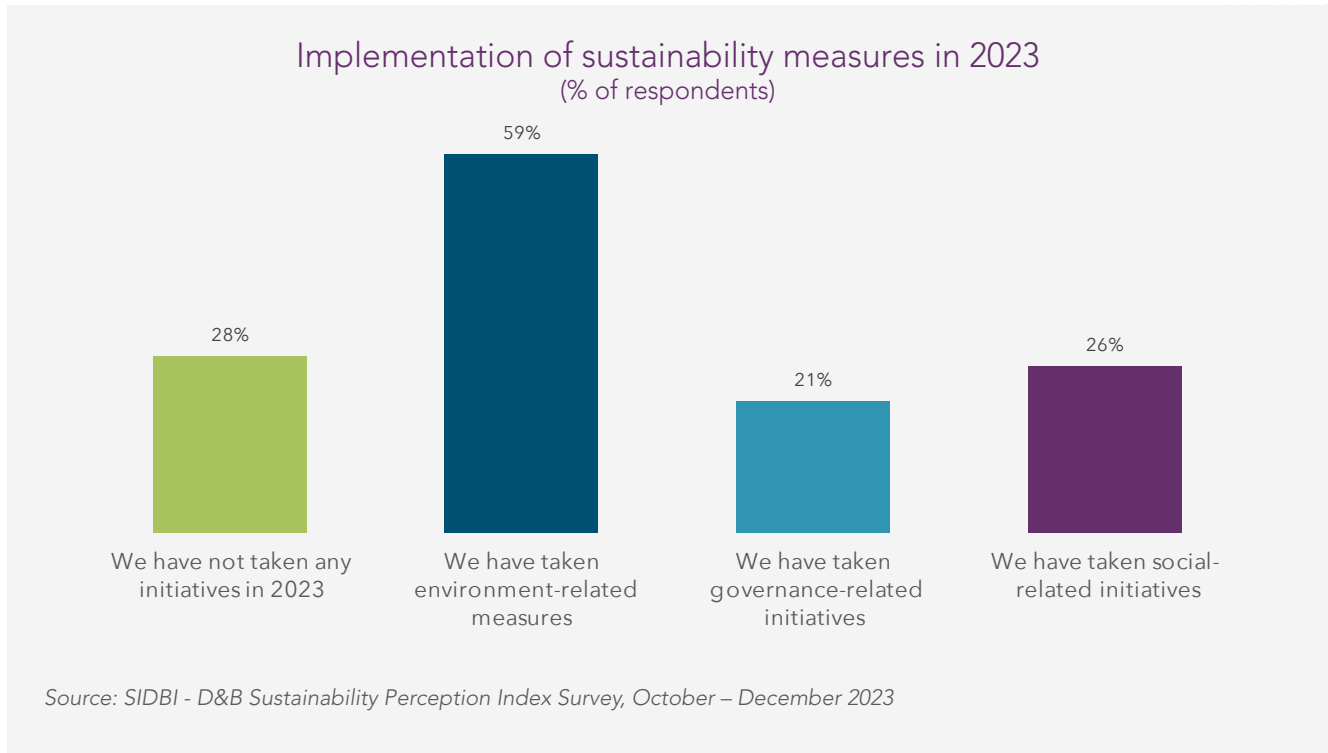
Source: Food and Agriculture Organization (FAO) of the United Nations

One in four MSMEs assert that governance and socially related sustainable initiatives are not in their priority list.



- Although 17% of MSMEs assert that environment-related measures are not in their priority list, 50% maintain that such measures are in various stages of implementation.
- Additionally, one in four MSMEs contend that governance and socially related sustainable initiatives are not in priority.
- These findings indicate that MSMEs recognize the significance of undertaking environment-related initiatives and to an extent possess know-how to implement them. Conversely, understanding how to implement social and governance measures and their implications on business may pose relatively greater challenges for these enterprises.

In 2023, environment related sustainability initiatives outpaced social or governance measures.

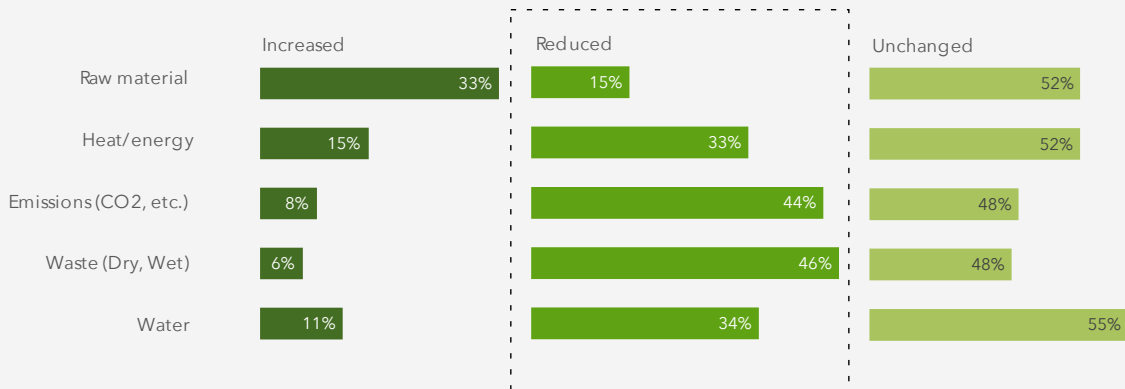


- In 2023, 59% of MSMEs have taken environment related measures, while only around 23% have taken social and governance related measures.
- 28% of MSMEs did not take new sustainability related initiatives in 2023.



46% of MSMEs claim reduction in waste generation.

Change in consumption/generation for the same unit of production/revenue
(% of respondents)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

- During the October-December 2023 quarter, majority of MSMEs, accounting for 46%, have reported successfully reducing the generation of waste (both dry and wet) compared to the previous quarter.
- Following closely behind, 44% have indicated a reduction in emissions.
- On the other hand, 33% of surveyed small businesses have reported an increase in their raw material usage for the same unit of production compared to the last quarter, indicating potential inefficiencies in processes and practices.

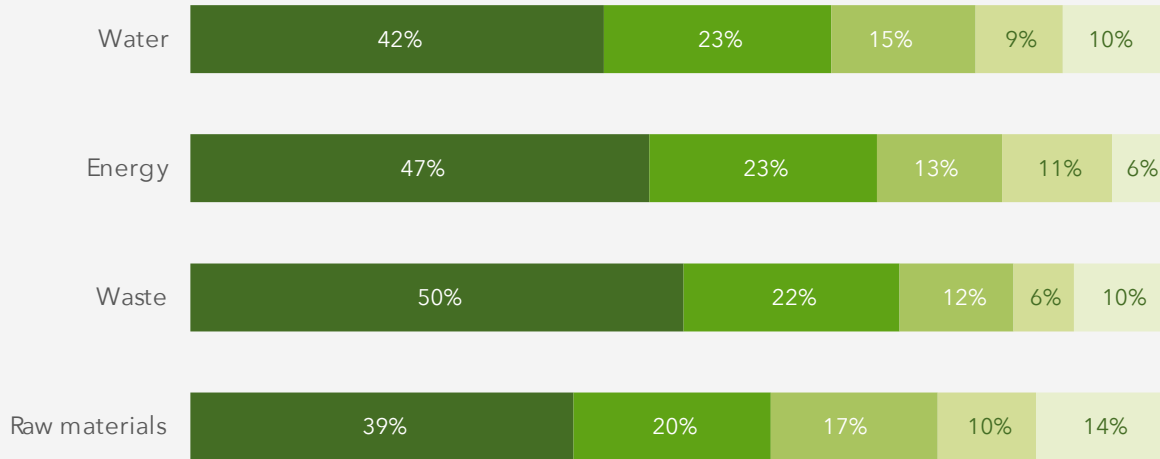


MSMEs express relatively higher ease in recycling/recovering raw materials.

Percentage of total consumption/release of the following is recycled/recovered

■ <10% ■ 11-25% ■ 26-50% ■ 51-75% ■ >75%

(The colour denotes % of reuse of the consumption/release of water, energy, waste and raw materials)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

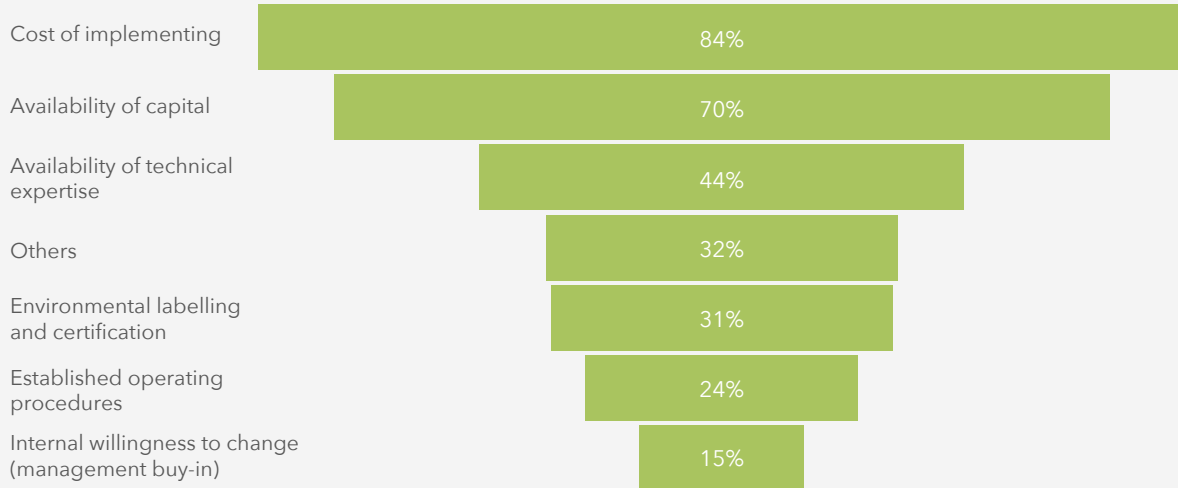
Note: The figures inside the horizontal bars denote the % of respondents.

- 50% of MSMEs recycled less than 10% of waste during October -December 2023 compared to the previous quarter.
- 65% recycle less than 25% of water released/used in their production process.
- MSMEs find it relatively easy to recycle/recover raw materials. 27% claim they are able to recycle between 51% to 75% of raw materials, highest than the others i.e. waste energy and water.
- While 14% are able to recycle greater than 75% of raw materials consumed.



For the 4th consecutive survey, MSMEs claim technical expertise and capital availability as primary challenges in adopting sustainability initiatives.

Key challenges that MSMEs face in implementing sustainable practices (% of respondents)

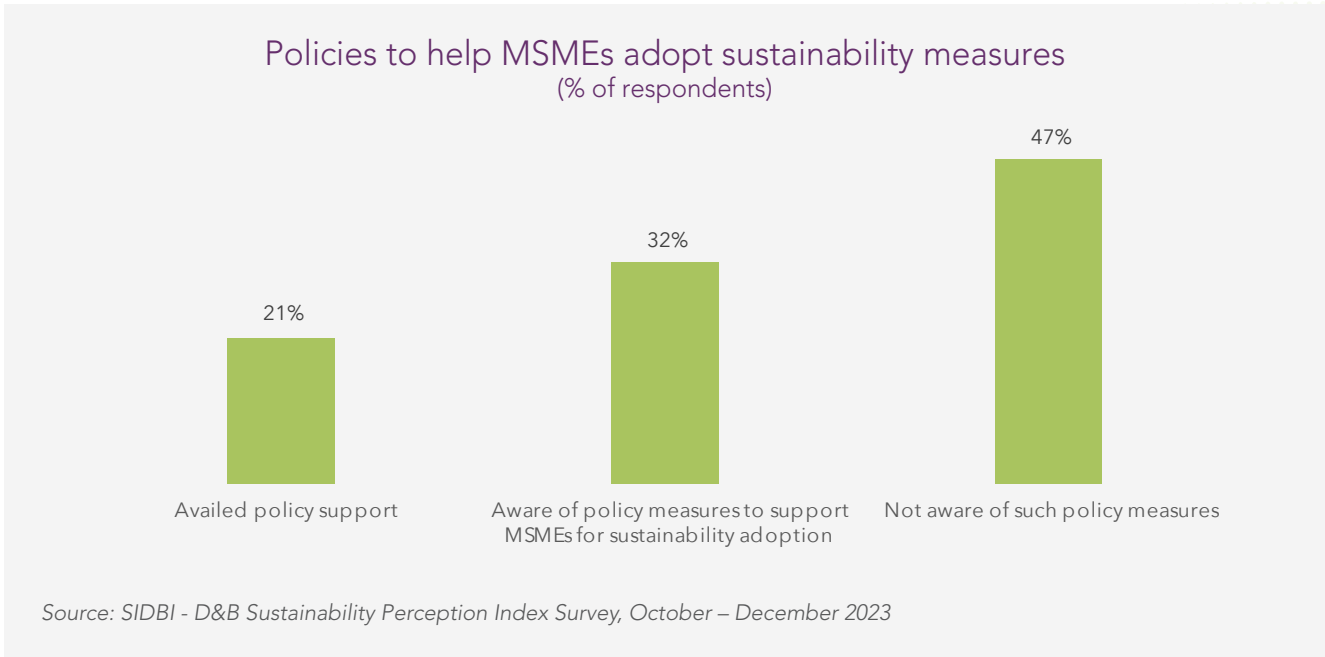


Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

- Cost of implementation is the biggest challenge for MSMEs cited by 84% of MSMEs followed by availability of capital, stated by 70% of them.
- Technical expertise is cited by 44% of MSMEs as a challenge to implement sustainable practices.
- Interestingly, only 24% and 31% of respondents identify operating procedures and environmental labeling and certification, respectively, as challenges.



Half of MSMEs are not aware of policy support for sustainability adoption.



- Only 21% of MSMEs have availed policies that have been devised to help MSMEs adopt sustainable practices.
- Another 32% of MSMEs are aware but have not availed of any policy. 47% are not aware of any such policy.

Sustainability initiatives announced in the Union Budget for 2024-25

- Viability gap funding will be provided to harness offshore wind energy potential for initial capacity of 1 GW.
- Coal-gasification and liquefaction of 100 MT by 2030. Phased mandatory blending of compressed biogas in compressed natural gas for transport.
- Introduced Rooftop solarisation programme offering capital subsidy.
- Introduction of bio-manufacturing and bio-foundry scheme to offer eco-friendly alternatives, including biodegradable polymers, bioplastics, biopharmaceuticals and bio agri- inputs.
 - Financial assistance to be provided for the procurement of biomass aggregation machinery.
 - Expanding and strengthening the e-vehicle ecosystem by supporting manufacturing and charging infrastructure. Higher adoption of e-buses for public transport networks.

Key trends in sustainability perception of MSMEs observed during 2023

In the first three quarters of 2023, 40% MSMEs were aware that sustainability adoption could lead to increase in profitability and reduction in cost, which improved to over 50% in Q4 2023.

Though awareness about direct benefits have improved, the indirect or induced benefits are still not clear amongst MSMEs.

MSMEs seek efforts for higher awareness about sustainability initiatives over other drivers like direct incentives, policies, or awards and recognitions to improve sustainability adoption.

In 2023, capital availability and technical expertise were the foremost challenges for MSMEs to implement sustainability practices. Almost 4 in 5 MSMEs lack internal expertise to implement sustainability practices.

While capital availability is a challenge, awareness about green financing remains abysmally low as less than 1 in 3 MSMEs are aware about it.

MSMEs emphasized the impact of sustainability practices on client retention and acquisition to be the least critical factor influencing sustainability adoption.

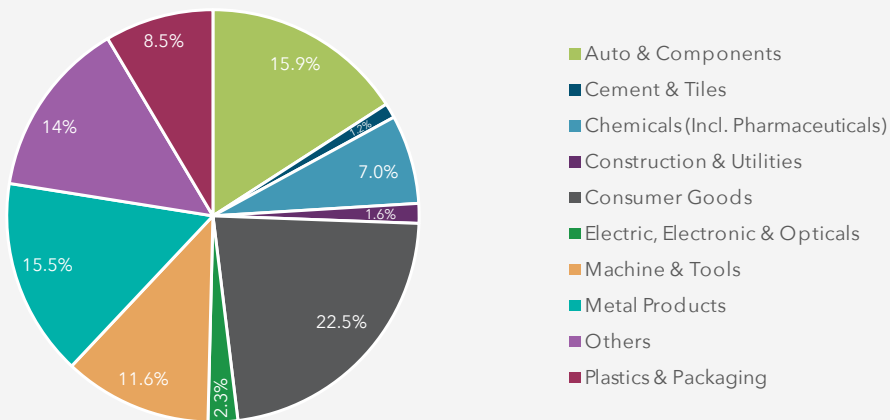
2 in 3 MSMEs stated that they are not adhering to compliance with regulations mirroring their tendency to prioritize compliance lowest amongst other sustainability initiatives.

Full compliance with suggested guidelines (including social and governance) ranks lowest in sustainability priorities.

In 2023, MSMEs have undertaken environment related sustainability initiatives more than social or governance measures. Close to 50% have already implemented some measures related to reducing, reusing and recycling emissions, waste, water and energy.

Firmographics

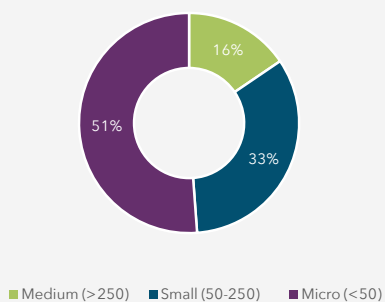
Sector-wise survey participation



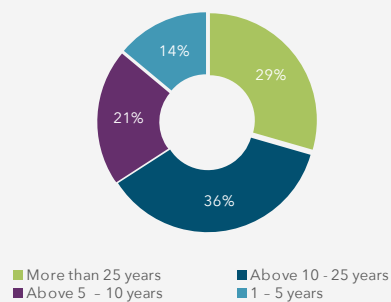
Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

Size and age of business

Respondents by Employee Size (% share)

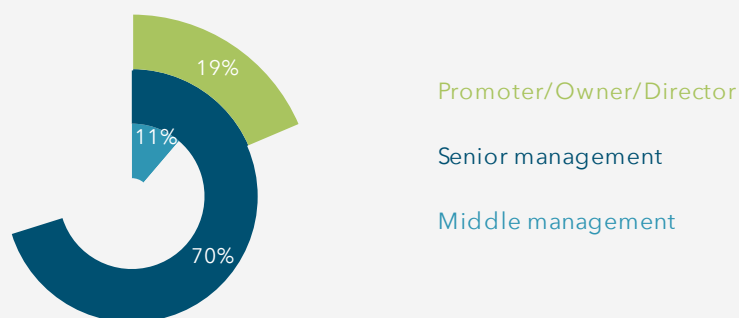


Respondents by Age of Business (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

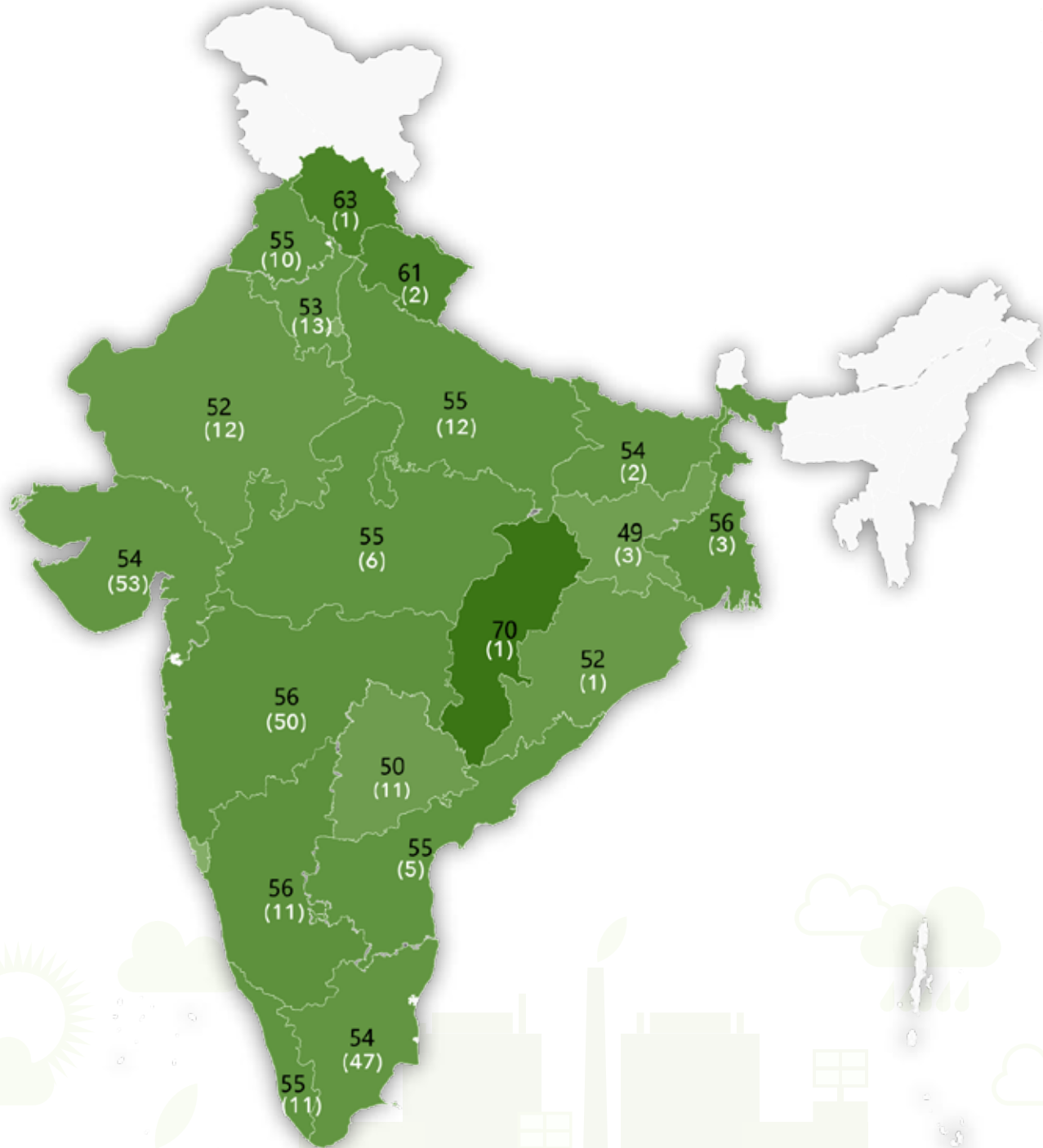
Share of respondents by position



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2023

SPeX at state levels

The colour gradients denote the average SPeX values for each state
(The sample size is indicated in parenthesis)



Solely intended for illustrative purposes.

Source: SIDBI - D&B Sustainability Perception Index Survey, October-December 2023



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