



SIDBI – D&B SPeX

October – December 2022

Sustainability Perception Index of MSMEs in India



dun & bradstreet

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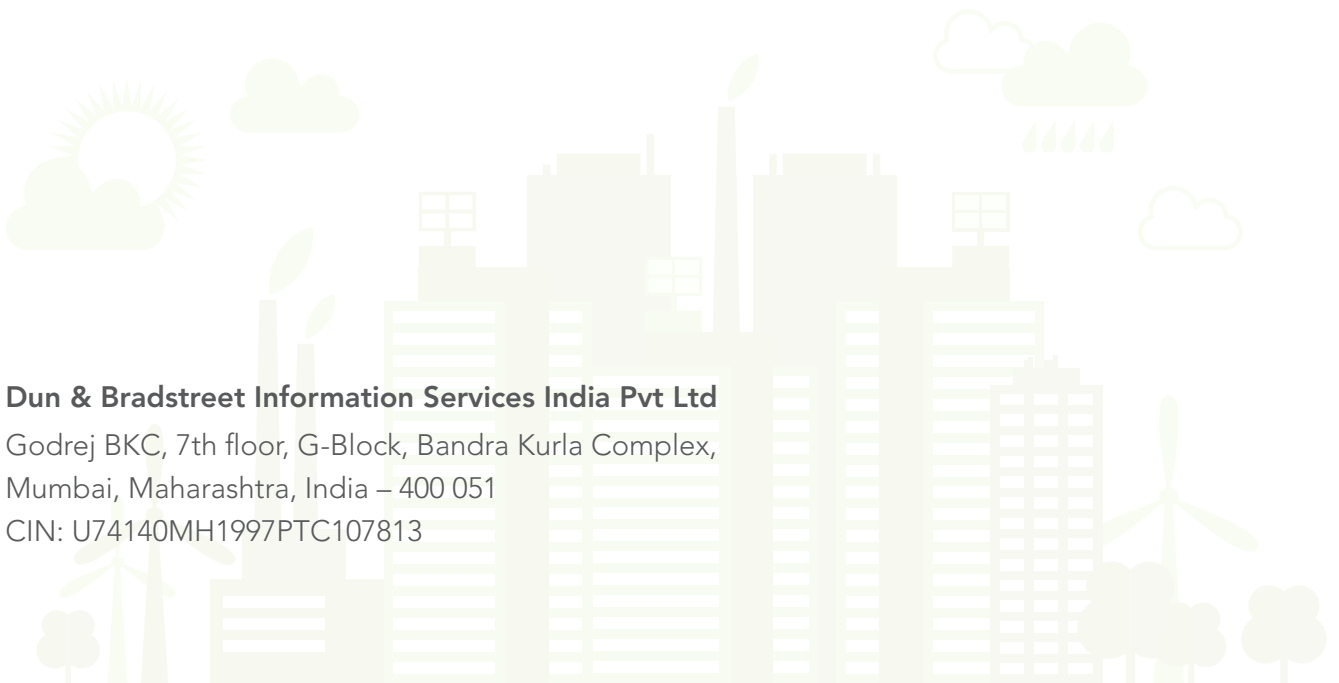
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Message From SIDBI

Sivasubramanian Ramann
Chairman & Managing
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MSMEs are the backbone of the Indian economy. The MSME sector, being largest employer (after agriculture) and major contributor to the economy, has challenges of limited access to technology and finance, poor credit collateral, and lack of requisite skill sets and capacities. Climate change impacts and the imperative for MSMEs to transit to low carbon technologies have posed an additional layer of challenges to MSMEs. Yet, there are also opportunities to leverage the sustainable and green transition pathways unfolding in the country and across the world. MSMEs have to be equipped with the necessary skills, and resources particularly the required finance and technology to make a gradual transition towards low carbon and green pathways.

The national and state policies and priorities for promoting MSMEs while also addressing the challenge of climate change and sustainable development provide the needed policy impetus for this transition. India's recent announcement to reduce 45% of emission reduction and achieve 50% renewable energy, and 500 GW of non-fossil fuels by 2030, and net zero by 2070 provides a positive direction towards low carbon and green transition across various sectors of the economy including the MSME sector. MSMEs in India have huge technology and investment finance needs and gaps compared to the developed world and large companies in India to move towards green and low carbon pathways. The affordability and accessibility of cutting-edge technologies and the

availability of low-cost finance play an enabling role in facilitating economic transition towards a low carbon/ net zero trajectory while maintaining sustainable growth.

Reserve Bank of India UK Sinha Committee in 2019 estimated that the overall credit gap in the MSME sector to be Rs 20-25 trillion (Rs 20-25 lakh crore) or \$267-334 billion. Considering the fact that a large number of MSMEs still struggle to get traditional finance in India, green financing in the MSME sector needs a further push. As more and more investors and customers are becoming conscious of climate change and sustainability-related risks and footprints associated with their investments and consumption today, the MSME sector also needs to equip to be more competitive and attract the required finance and technology. The large-scale and listed companies have all the required resources and capacities in adopting and benefiting from sustainability initiatives and reporting. However, small and medium enterprises require customised solutions as per their unique circumstances and challenges.

The current initiative of SIDBI and D&B is in the right direction for equipping the MSME sector with the right ingredients for preparing itself to harness the finance and technologies required for the much-needed green transition. Going forward, the SIDBI - D&B SPeX will provide the much-needed nudge to the MSMEs towards adopting an ESG framework in their operations. It would help

investors to reduce risks across their supply chain and enable an efficient decision-making process, toward greening MSMEs. The exercise shall expand the risk underwriting parameters of the MSMEs based on multiple data sources, including ESG parameters and other perceived risks. The Sustainability Perception Index (SPeX) jointly by SIDBI and D&B will strengthen the mainstreaming of sustainability, sustainability policies and financing within the MSME Sector. The quarterly report, 1st edition of which is in your hand today, will have a long-term impact and benefit the MSME sector while we move towards low carbon and sustainable economy-wide transition.

I convey gratitude to all the stakeholders involved including the revered members from the concerned MSMEs who have put in untiring efforts in providing the required information, helped in the collection of disaggregated granular information which has ultimately gone into the preparation of this report. I trust this report would provide the much-needed insights and may act as a lighthouse document not only for the bankers' fraternity but also to the policy makers alike.



Message From Dun & Bradstreet

Avinash Gupta

Managing Director & CEO
Dun & Bradstreet



Corporate sustainability has become a mainstream business concept and not just an ethical consideration. An increasing number of MSMEs are getting on board, they recognize the value of sustainability actions and are looking beyond commercial criteria to develop priorities and strategies. Businesses are transitioning from incremental improvements to bolder, systemic initiatives that have a net positive impact, and there is no doubt among business leaders that sustainability ought to be on the agenda, and MSMEs are no exception.

It is in this context that Dun and Bradstreet, in collaboration with SIDBI, has introduced a quarterly Sustainability Perception Index (SIDBI - D&B SPeX). India's first in-depth, quantitative look at the actions of MSMEs to implement sustainability principles and advance sustainable development goals. Findings are heartening in many areas, particularly with respect to the high level of senior executives' willingness. In terms of awareness and implementation, the survey shows that there are distinct areas where MSMEs are excelling and others where they lag. This first survey serves as an important benchmark for measuring MSMEs' actions in the future.

MSMEs account for 99% of all businesses in India and for India to achieve its sustainability goals, it is crucial for MSMEs to embrace sustainable actions. Importantly, do MSMEs understand the factors that are involved in the adoption of sustainable practices and have a clear perception? Are they aware of the opportunities and benefits associated with sustainability measures? How are

MSMEs bringing sustainability into practice? SPeX enables us track Indian MSME's perception towards sustainability. The index attempts to assess the internal and external factors that shape the sustainability perception of businesses on three dimensions – Willingness, Awareness, and Implementation.

Business leaders are making significant commitments to moving towards sustainability. They realize, there is no company whose business model will be unaffected by the shift to a net zero economy. Yet, MSMEs implementing sustainability initiatives are limited. Survey findings indicate to a large disparity between "speak" and "walk". Willingness is an essential and natural first step in demonstrating the importance of a sustainable agenda and the process of integrating principles into strategy and operations. Equally important is ensuring that actions are taken to bring the aim and values to life, that the company's strategy is updated based on results and lessons gained, and that progress is successfully communicated. There is much room for advancement in areas such as conducting impact and risk assessments. Monitoring changes in perception and adoption, and quantification would allow the development of a strategic framework to nudge MSMEs to integrate sustainability initiatives into their overall business strategy, assisting India in meeting its sustainability goals.

Large and small companies alike encounter barriers in advancing corporate sustainability, but they aren't the same barriers. Large enterprises view sustainability as a strategic issue and are prioritizing their efforts. MSMEs on the other hand, face more fundamental barriers, lack of financial resources and knowledge. These are the starting points for sustainability actions. Compared to large entities, MSMEs are more challenged to act once they make the commitment to sustainability because they don't have the basic building blocks to create a sustainable foundation for their business.



Greening the Indian Enterprise Ecosystem

Dr R K Singh
CGM, SIDBI



- Sustainability has emerged as an integral part of today's society and has emerged as a key part of business strategy across the world. The three planetary boundaries- climate change, biodiversity loss, and pollution have put sustainability at the core of all social and economic facets of the world today. In an emerging entrepreneurial economy like ours responsiveness to global, national and local environment sustainable/green agenda is very important. Environment Social and Governance (ESG) indicators, besides economic indicators, are today being employed to estimate risks to businesses and their supply chains. Climate Change and pandemic have been suggestive of the limited scope of using only economic metrics.
- Resource and process efficiency across the life cycle of products, renewable energy, energy efficiency, electrification, waste management, sustainable sourcing, innovation, digitization, and advanced analytics has the potential to shape the sustainable pathways of business enterprises and society. ESG metrics have evolved over three decades yet the changing world requires standards and guidelines to capture the variability in systems. The new way of thinking and living driven today by the momentum towards net zero needs to be adequately addressed. We are thinking of new ways for reduce/reuse/recycle/revive by removing product/process inefficiencies. Thrust is being laid on mobility, waste processing, , urban infrastructure, fuels and energy etc. The traditional way of doing business and existing supply chains and value chains need rejuvenated reconfiguration.
- In India, the Securities and Exchange Board of India would soon be completing its first cycle for Business Responsibility and Sustainability Report (BRSR) that mandated reporting for the top 1000 listed companies. The framework is based on nine principles of conduct for ethics, transparency, and protection of human rights and the environment etc. The central bank -Reserve Bank of India, in its report (on the survey on Climate Risk and Sustainable Finance) emphasizes the inclusion of climate change-related physical and transition risk in reporting. Recently a survey by Indian Banking Association did a survey of 33 banks that includes public sector banks, private sector banks and foreign banks for mapping assessment of their needs towards climate and sustainability-related risks and their disclosures. A requirement towards standardised tools and building capacity towards ESG framework, Climate Risk Assessment, Scenario analysis and stress testing for effective integration of climate risk framework towards greening financial system was unanimously raised. However, Micro, Small and medium enterprises, which form the backbone of the Indian economy, have been largely left out of exhibiting their sustainability actions in an organised manner. In particular, MSEs due to their constraints of limited capacities, capital, skilled manpower, information asymmetry and lack of knowledge have not been able to sail through the opportunities of sustainability disclosure and reporting.
- Small Industries Development Bank in India (SIDBI) cognizant of its role as the solution provider to MSMEs has been weaving its programmes and initiatives in the direction of greening the enterprise

eco system. SIDBI has set a target to become Carbon Neutral and a Net Neutral organization and has started walking that path. SIDBI has already started the integration of the ESG framework into its operations. A Board level Committee has been constituted for guidance, oversight, and monitoring of ESG, Green Strategy of the bank, including relevant SDGs etc.

- MSMEs on their own have limited capacity to assess and respond to sustainability actions. Sustainability initiatives will have to be cognizant of the constraints of clusters, sectors, subsectors, geography and enterprise type. While MSMEs have a high potential to deliver sustainability by fast adopting the good practices, they also have limited capacities for investment, risk sharing and technology adoption. Bankers and lenders are slowly realising that if this aspect is responded well in advance, the chances of portfolio remaining standard is high. Medium enterprises are also realising that to gain advantages of value chain (both national and global) they need to be proactively aligned. MSMEs are also being exposed by institutions like SIDBI (through initiatives like Udyam Sangyan) to good governance and sustainability practices of corporate buyers.
- Keeping in view the constraints of the sector and gauging the opportunities of sustainability reporting for MSMEs, SIDBI has partnered with Dun & Bradstreet (D&B) to build SIDBI - D&B Sustainability Perception Index (SPeX). The index aims to gauge the perception and preparedness of MSMEs (largely cluster centric where MSMEs reside) towards sustainability. Intent is to present it as a quantitative measurement for associations, policymakers and enablers to nudge businesses towards adopting an ESG framework in their business strategy. This periodical index also intends to help lending community to gauge the preparedness and orientation level of MSMEs, both sector and sub sector level, and prepare their responsive lending strategy accordingly.

This effort of SIDBI, along with D&B, may well be defined as an enabler for MSMEs to take call on ESG which is nothing but taking conscious call in each of their operations and be compliant to ESG related aspects.

- SIDBI, as a principal development bank, is dedicated to promoting micro, small and medium enterprises by addressing the financial and non financial aspects, both from demand and supply side. Piloting initiatives through tools/programmes/schemes and validating it for market adoption has been its key strength. On greening the enterprise eco system, it has been proactively expanding the energy efficiency, low carbon, and green financing projects across the MSMEs since 2005 and has been engaging with government, bilateral and multilateral agencies through lines of credits, grant agreements, risk sharing facilities, knowledge sharing, capacity-building, and other green initiatives.
- SIDBI is prioritising the emergent theme areas viz energy efficiency, renewable energy, municipal solid waste management, Biogas, and electric vehicles engagement and is in discussion with multilateral/bilaterals for line of credit, risk sharing facilities and access to digital tools. SIDBI is also accredited as a Direct Access Entity with Green Climate Fund (GCF), a global climate finance platform, to access climate finance to implement low carbon and climate resilient projects in India. Towards bottom up cluster centric strategy, SIDBI has started Project GRiT (Green Inclusivity) wherein energy inefficient practices of micro enterprise cluster are being mapped and they are being prepared for response in a sustainable way.
- SIDBI leverages its network to create awareness and participation in the need to measure, monitor and report while learning about the new risks. The bank recognises it is a long road but intends to move consistently with necessary collaborations.

Executive Summary

Arun Singh
Global Chief Economist
Dun & Bradstreet



Objective of the Index



Sustainability Perception Index (SIDBI - D&B SPeX) is the first Index, which measures perception, across the three dimensions of sustainability (willingness, awareness, and implementation).



SPeX aims to be a reliable indicator of the state of adoption of sustainability in Indian MSMEs.



Providing valuable insight for policymakers, enablers, and businesses towards improving implementation of sustainable measures by Indian MSMEs.



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

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

Key Takeaways



SPeX for October – December 2022 is at 46, indicating the level of sustainability perception in lower middle range by MSMEs.



Amongst the three stages of sustainability (willingness, awareness, and implementation) perception sub-index for willingness is highest at 61. Suggesting, MSMEs are willing to adopt sustainability measures.



Implementation and awareness perception is in lower middle range, with sub-index value of 41 and 40, respectively.



Most respondents cited need for creating awareness as a step to improve sustainability.



MSMEs place positive value towards sustainability measures, nearly 44% consider sustainability measures are a useful guideline towards responsible governance, another 19% consider it a requirement for working with global businesses.



Awareness of sustainability measures is low amongst MSMEs, 69% are only partially aware of the opportunities from implementing sustainability measures and relevant sustainability factors for their business, sector, and geography.



MSMEs believe that sustainability initiatives would have a positive impact on the bottom line (23%), impact on employee retention (21%) and positive outcomes on social lives & communities (20%).



50% of MSMEs choose 'ethics and integrity' as a sustainable priority, only 20% chose 'diversity and inclusion' as their sustainable priority.



78% of MSMEs consider sustainability initiatives to be closely linked to business strategies and only 22% consider them to be distinct and loosely linked.



MSMEs prioritize economic objectives, followed by social and environmental goals while implementing sustainability measures.



Cost reduction is the highest enabler for sustainability implementation (35%), closely followed by internal management drive (34%) and government policies & regulations (33%).



One third of MSMEs claim presence of in-house expertise, and 20% do not plan to build any expertise towards sustainability implementation.



Technical know-how (23%) and established operating procedures (22%) are biggest challenges.



52% of MSMEs are unaware of green finance policies, and 35% are partially aware and 3% have availed green finance.



Overall SPeX is the highest for MSMEs established more than 25 years ago.



Overall SPeX is the highest for senior and middle management and lowest for directors and entrepreneurs.

Introduction to Sustainability Perception Index (SPeX)

Corporate sustainability refers to the business strategy of integrating business, social, and environmental considerations into a company's operations and decision-making processes. This approach aims to balance the interests of a company's stakeholders, including shareholders, employees, customers, suppliers, local communities, and the environment.

How important is it for businesses to consider sustainability measures when making decisions? Quite a lot actually! Corporate sustainability is an important business strategy because it helps companies create long-term value for themselves and their stakeholders by addressing environmental, social, and economic challenges. It can also help companies reduce risks related to environmental and social issues, improve brand reputation, enhance employee engagement and productivity, and create new business opportunities. Corporate

sustainability involves identifying and managing risks and opportunities related to sustainability. This can include practices such as reducing carbon emissions, minimizing waste, promoting ethical business practices, supporting community development, fostering diversity and inclusion, and ensuring transparency and compliance with laws and regulations.

Overall, corporate sustainability is a holistic approach to doing business that considers the well-being of all stakeholders, not just financial performance. By integrating sustainability into their operations, companies can create a more sustainable future for themselves and the communities they serve. Corporate sustainability aims to create long-term value for all stakeholders by managing risks and seizing opportunities. Corporate sustainability can involve a range of practices, including:



Reducing environmental impact by minimizing carbon emissions, reducing waste, and conserving natural resources.



Promoting social responsibility by promoting ethical business practices, supporting community development, and fostering diversity and inclusion.



Ensuring good governance by maintaining transparency, accountability, and compliance with laws and regulations.



Embracing innovation by adopting new technologies and business models that promote sustainability.

The growing number of risks that MSMEs confront because of climate change and social and ecological challenges necessitates the incorporation of ESG (Environmental, Social, and Governance) considerations into their decision-making. For example, if a company relies on resources or has a network of suppliers that are vulnerable to harsh weather conditions, taking these aspects into consideration can assist in limiting risk. In addition to risk mitigation, sustainability practices provide firms with insights into how their activities may affect others in ways they had not previously considered. Understanding all elements of a problem allows us to build wiser solutions in general, which is becoming increasingly crucial in today's environment.

Social risks are just as important for businesses to consider as financial ones. These include factors such as employee happiness, client retention and loyalty, and the business's engagement with its community. Neglecting these issues may result in unfavorable publicity, reputational harm, and lost sales owing to disgruntled consumers. Poor governance can lead to conflicts of interest, fraud, and unethical behavior that damage a company's reputation and shareholder value. These risks are particularly damaging because they occur over time - meaning that poor governance has the potential to seriously impact a business for years or even decades.

The benefits of corporate sustainability can be significant. It can help companies reduce risks related to environmental and social issues, improve brand reputation, enhance employee engagement and productivity, and create new business opportunities. ESG is crucial for MSMEs since these businesses sometimes operate on a shoestring budget and encounter several obstacles when attempting to apply ESG practices. ESG practices, however, provide MSMEs a variety of advantages, including better risk management, increased brand reputation,

and access to new markets and investors. The possibility of greater regulatory scrutiny is one of the key hazards of postponing the adoption of sustainability standards. Currently, several nations are enforcing sustainability standards, which can have serious repercussions for non-compliant businesses. The Non-Financial Reporting Directive, for instance, was established by the European Union and mandates that major corporations publish data on their performance in terms of the environment and society. Companies that do not embrace sustainability practices run the danger of being subject to regulatory and financial penalties. Investors are becoming more interested in sustainability aspects, thus companies that don't put these considerations first may have a harder time getting financing. The CFA Institute discovered that businesses with higher ESG ratings had lower capital costs than those with lower scores. Companies that neglect to take ESG concerns into account run the risk of facing regulatory scrutiny and having less access to capital.

Research by Dun & Bradstreet indicates that the benefits of investing in ESG strategy go far beyond avoiding fines for noncompliance with legislation. Furthermore, ESG is becoming a more powerful force, boosting profitability via innovation and better risk management. Still, many firms struggle with determining how ESG fits into their business goals. Despite many hurdles, organizations reported transformative advantages from applying ESG methods, leading to a wide range of good business outcomes across the company. 75% respondents in the study claimed that ESG-related cost reductions were transformational, 72% noted that it enhanced the performance of their investment portfolio, and 79% stated that ESG-related insights allowed their companies to uncover new growth possibilities sooner.

Without a question, environmentally conscious consumers who care about where their food comes from, how things are created, where their money goes, and how people are treated want to support environmentally friendly businesses. Focusing on sustainable performance not only reduces supply chain, operational, and reputational risks, but also creates efficiency, product and service innovation, appealing financing opportunities, and new alliances. Sustainability practices have advantages for businesses, including better risk management, increased brand recognition, and access to new markets and investors. Businesses need to be aware of how important sustainability is and take steps to include it into their decision-making process.

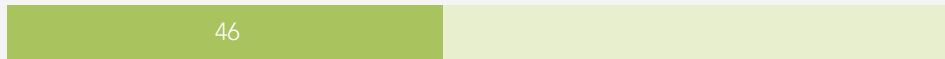
Overall, corporate sustainability is a business strategy that seeks to create long-term value for a company and its stakeholders by addressing environmental, social, and economic challenges. By integrating sustainability into their operations, companies can create a more sustainable future for themselves and the communities they serve.



Key findings of the SPeX

Sustainability Perception Index (SPeX) for October – December 2022 stands at 46, indicating a low level of perception towards sustainability by MSMEs across the country.

Sustainability Perception Index (SpeX)



Note: The index ranges from 0 to 100. Higher the index value, higher is the perception of sustainability
Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

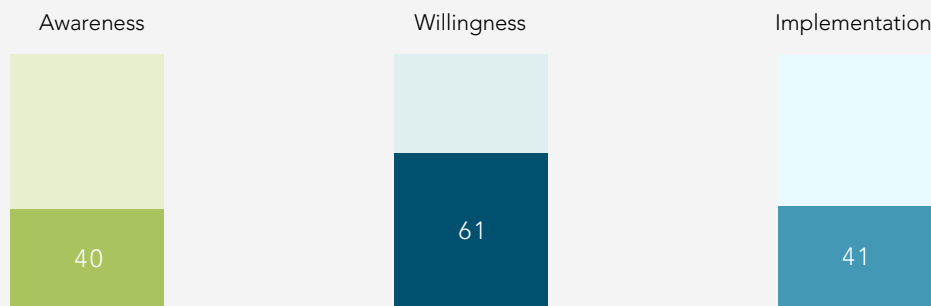
Three Dimensions of Sustainability Perception

- Willingness to adopt sustainable activities is the highest with sub-index value of 61 in upper middle range, among MSME.
- Sub-index values for Awareness (40) and Implementation (41) are lagging.
- The gap between “talk” and “walk” points to issues of time and resources. The committed and defined steps require an investment from senior management.

However, the implementations, such as training, incentives, measurement systems, disclosures of sustainability policies and practices require greater commitments of time and resources including funding.

- For example, only a third of MSMEs claim presence of in-house expertise, yet 20% do not plan to build any expertise towards sustainability implementation.

Three Dimensions of Sustainability



Note: The index ranges from 0 to 100. Higher the index value, higher is the perception of sustainability
Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

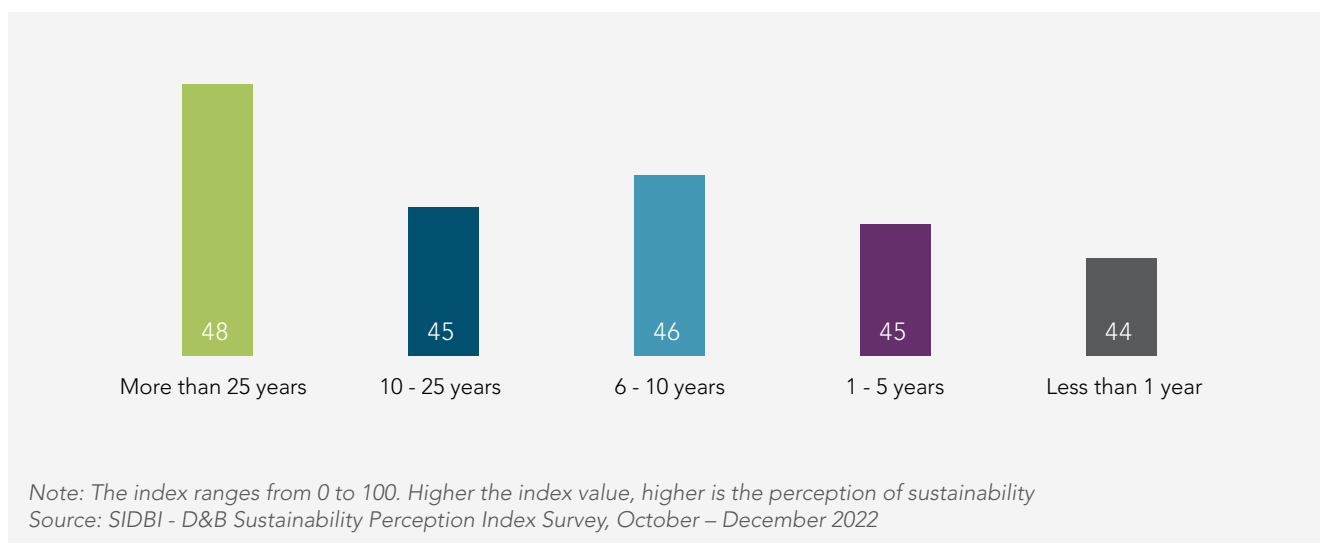
Sustainability Perception by Size of Business

Sustainability perception is highest amongst medium and micro enterprises compared to small scale enterprises.



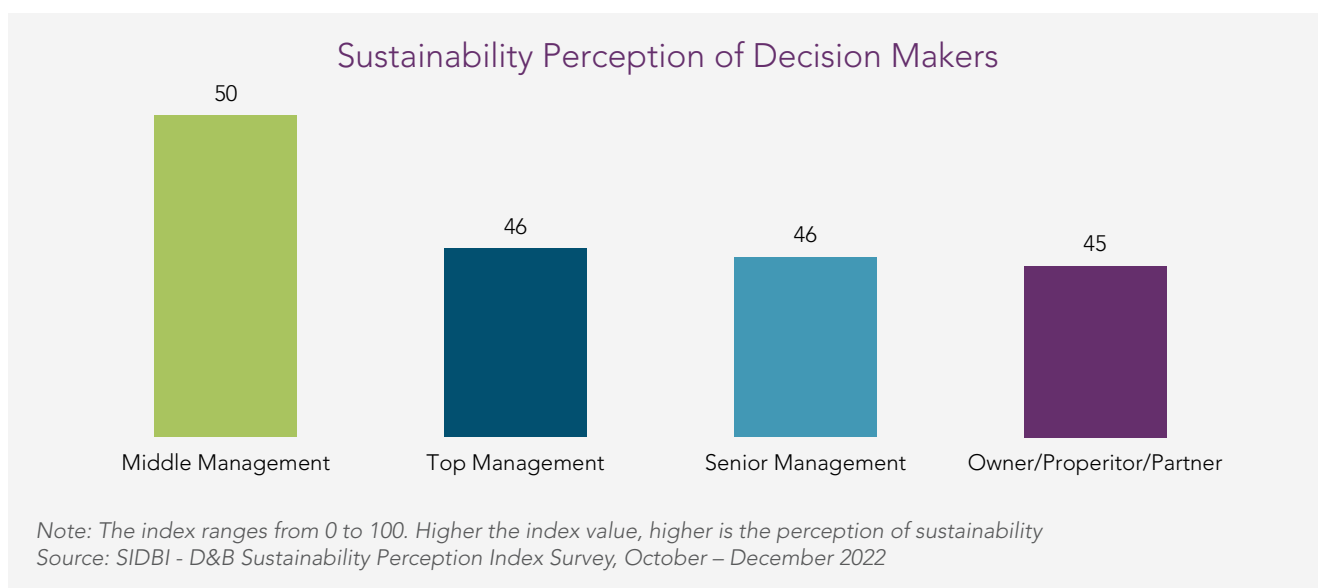
Sustainability Perception of Businesses by Age of Business

- Sustainability perception is highest amongst older businesses i.e., established for more than 25 years and lower amongst new companies (established for less than a year).



Sustainability Perception of Decision Makers

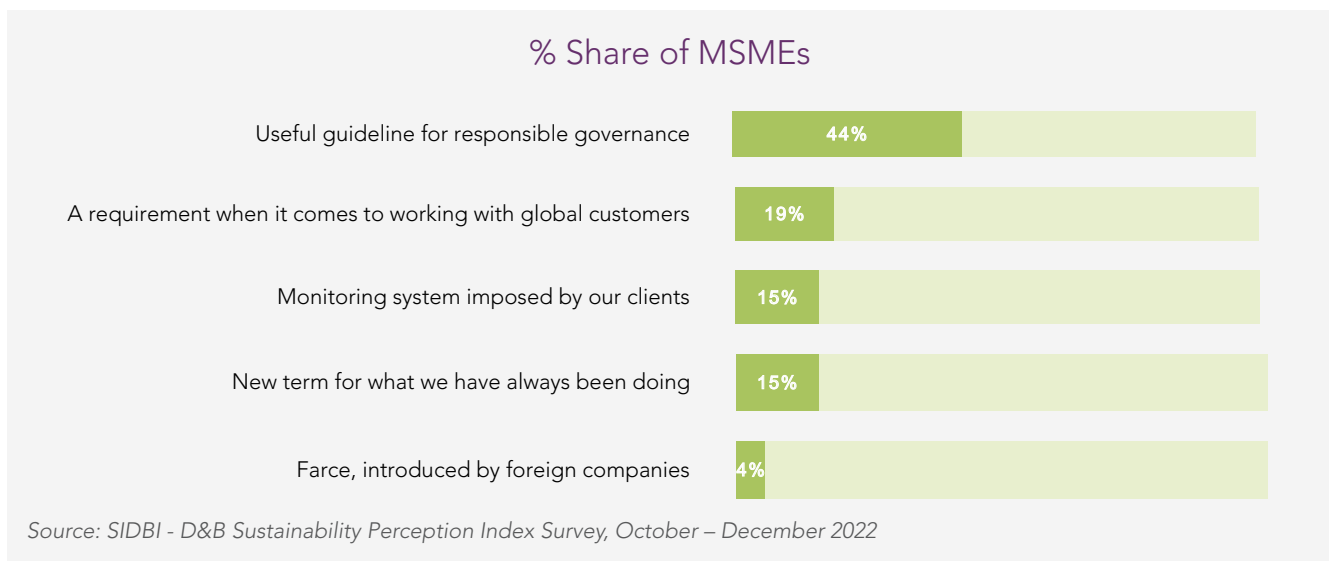
- Sustainable practices are likely to be adopted only when the leaders perceive it as a critical business objective and are aware of the potential benefits from implementing it.
- Sustainability perception is highest amongst the senior and middle management and lowest amongst the top management or key decision takers (directors, promoters/entrepreneurs).



Corporate Social Responsibility (CSR) is a concept in which companies integrate social and environmental concerns into their business operations and interactions with stakeholders. CSR aims to balance profit with social and environmental impact, and it involves taking responsibility for the company's impact on society and the environment.

What does sustainability mean to MSMEs?

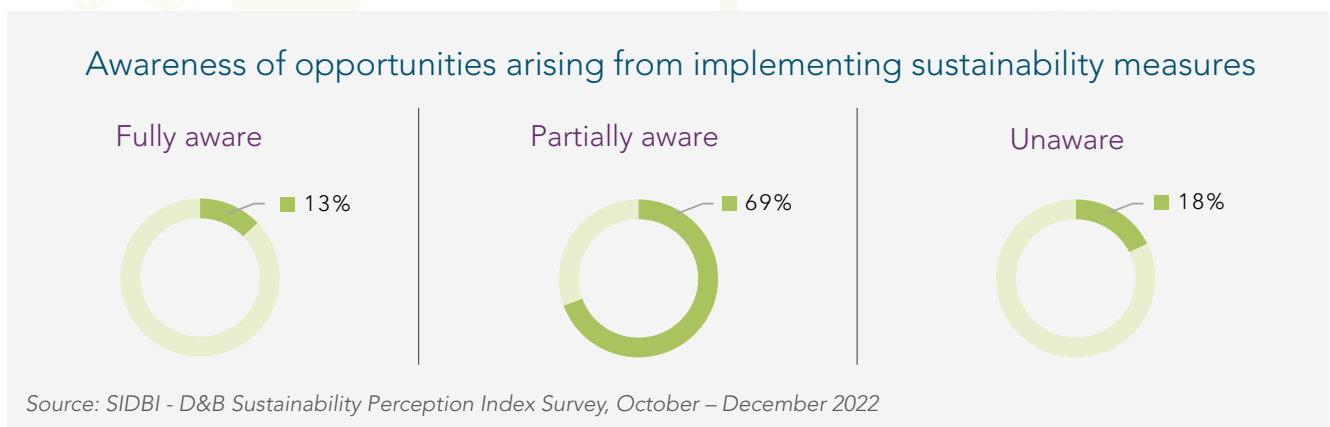
- MSMEs place positive value towards sustainability measures. They understand that sustainability measures are a guideline for conducting business in a responsible manner and they do not perceive this as a farce or just a new terminology.
- Almost 44% consider sustainability as a useful guideline for responsible governance, another 19% consider it as a requirement for working with global customers.



Apart from understanding the terminology, it is important to understand whether MSMEs are completely aware of the opportunities from sustainability initiatives and the factors that is relevant for their business, sector, and geography.

Are MSMEs aware of opportunities from implementing sustainability measures

Corporate sustainability is an approach aiming to create long-term stakeholder value through the implementation of a business strategy that focuses on the ethical, social, environmental, cultural, and economic dimensions of doing business.



- Only 13% MSMEs are fully aware of the opportunities from implementing sustainability measures, 18% are completely unaware and majority i.e., 69% are only partially aware.
- MSMEs are also only partially aware of the sustainability factors that is relevant for their operations, sector or that is pertinent for area of operations or geography.

Global customers are increasingly prioritizing sustainability when making purchasing decisions. Consumers want to know that the products they are buying are ethically and sustainably sourced, produced, and distributed. If sustainability is ignored, businesses may lose customers who value these principles, and ultimately, may face reputational damage. Additionally, businesses that ignore sustainability are at risk of regulatory non-compliance and may incur increasing costs due to fines, penalties, and lawsuits. Several developing countries are implementing sustainability policies and initiatives aimed at reducing the environmental impact of their industries. Indian MSMEs should prioritize sustainability to stay competitive and meet the increasing demand for sustainable products from global customers.

MSMEs that don't adopt sustainable practices are missing out on a range of opportunities that can benefit their bottom line, reputation, and long-term growth. Here are a few examples:



Cost savings: Sustainable practices often result in cost savings by reducing waste, energy and water consumption, and material usage. Companies that invest in energy-efficient technologies, waste reduction programs, and supply chain optimization can achieve significant cost savings over time.



Improved brand image:

Consumers are increasingly looking for companies that prioritize sustainability, and a strong commitment to sustainability can improve a company's reputation and brand image. By demonstrating a commitment to sustainability, companies can attract and retain customers, differentiate themselves from competitors, and increase brand loyalty.



Access to new markets:

Many consumers and businesses are increasingly interested in purchasing products and services that are sustainable and environmentally friendly. Companies that invest in sustainable practices can tap into these markets and gain a competitive advantage.



Reduced regulatory risks:

Governments around the world are introducing regulations to reduce environmental impact, and companies that don't adopt sustainable practices may face regulatory risks, including fines and reputational damage. Sustainable practices can help MSMEs comply with environmental and social regulations, thereby avoiding fines and other penalties.



Access to finance: MSMEs that demonstrate a commitment to sustainability practices are more likely to access finance, as lenders and investors are increasingly interested in sustainable investments.



Improved employee engagement and retention:

Employees are increasingly interested in working for companies that prioritize sustainability, and companies that invest in sustainable practices can improve employee

engagement and retention.

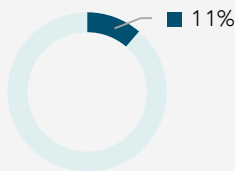
In short, MSMEs that don't adopt sustainable practices are missing out on a range of opportunities that can benefit their bottom line, reputation, and long-term growth. By adopting sustainable practices, companies can reduce costs, improve their brand image, access new markets, reduce regulatory risks, and improve employee engagement and

Awareness of sustainability factors relevant for their business, sector, and geography

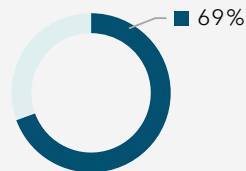
- Majority of the MSMEs surveyed are partially aware of the sustainability factors relevant for their business, sector, and geography. 69% are partially aware, only 11% are fully aware and 19% are completely unaware.

Awareness of sustainability factors relevant for their business, sector and geography

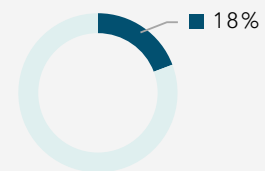
Fully aware



Partially aware



Unaware



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

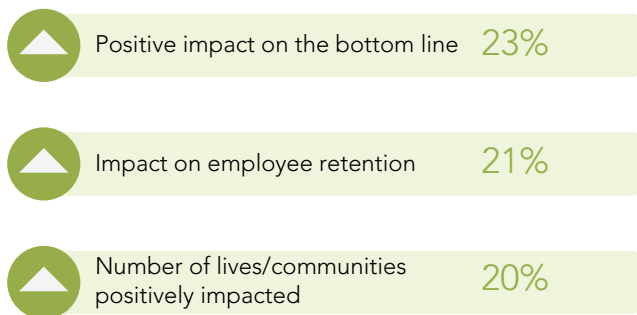
Environmental, Social, and Governance (ESG) factors are used to evaluate the sustainability performance of a company. Environmental factors include a company's impact on the environment, such as carbon emissions, waste management, and energy use. Social factors include how a company treats its employees, suppliers, and customers, as well as its impact on local communities. Governance factors refer to a company's management structure, accountability, and transparency.

What do MSMEs think are the positive outcomes of a company's successful sustainability initiative?

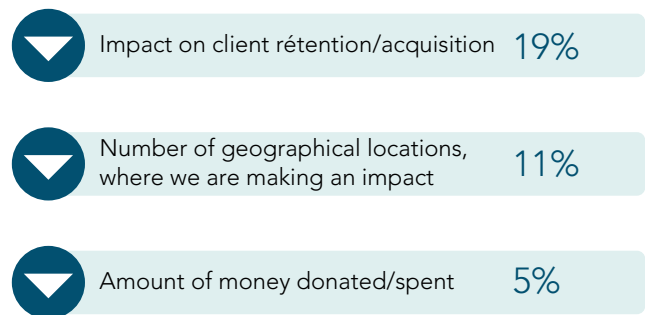
- According to MSMEs the top 3 positive outcomes from sustainability initiatives are positive impact on the bottom line (23%), impact on employee retention (21%) and positive outcomes on lives/ communities (20%)
- Sustainability measures have not led to a considerable impact on client retention acquisition or brought about a considerable impact on areas that MSMEs operate. Only 19% MSMEs consider their sustainability initiatives has an impact on client retention or acquisition.

% Share of MSMEs

Top 3 positive outcomes



Bottom 3 positive outcomes

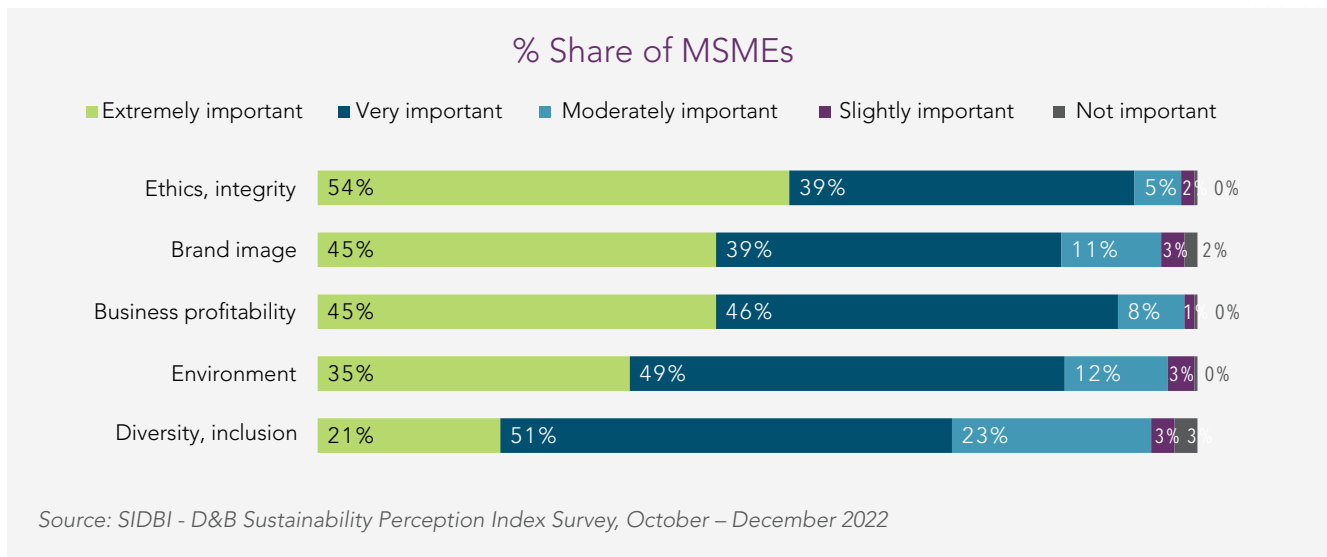


Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

The Triple Bottom Line (TBL) is a framework for measuring an organization's sustainability performance based on three factors: economic, social, and environmental. The TBL aims to balance financial profitability with social and environmental impact. The economic factor measures the financial performance of a company, the social factor measures the company's impact on people, and the environmental factor measures the company's impact on the planet.

Sustainable priorities

- Interestingly, MSMEs choose ethics and integrity followed by brand image and businesses profitability as their topmost priorities for sustainability, while diversity/inclusion was at the bottom of their priority list
- More than 50% of MSMEs selected ethic and integrity while only one fifth of them chose diversity and inclusion as their sustainable priority

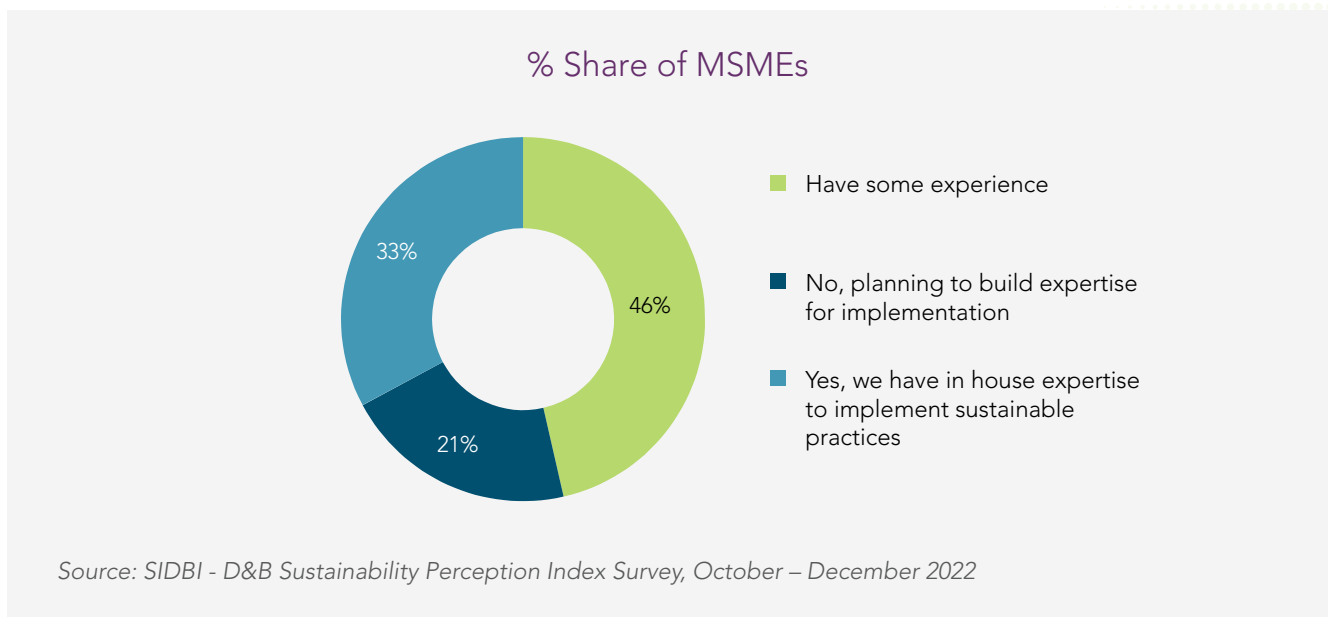


Willingness to change to adopt sustainable initiatives

- Even as MSMEs are aware of the opportunities from adopting sustainability measures and the positive outcomes from implementing them, willingness to change becomes the next important step towards successful implementation.
- We found that 78% MSMEs consider their company's sustainability initiatives to be closely linked to business strategies while only 22% consider both the objectives to be distinct and loosely linked.
- Around 58% of MSMEs report missing internal drive or decision maker's initiative to implement sustainability as a challenge (severe to moderate).

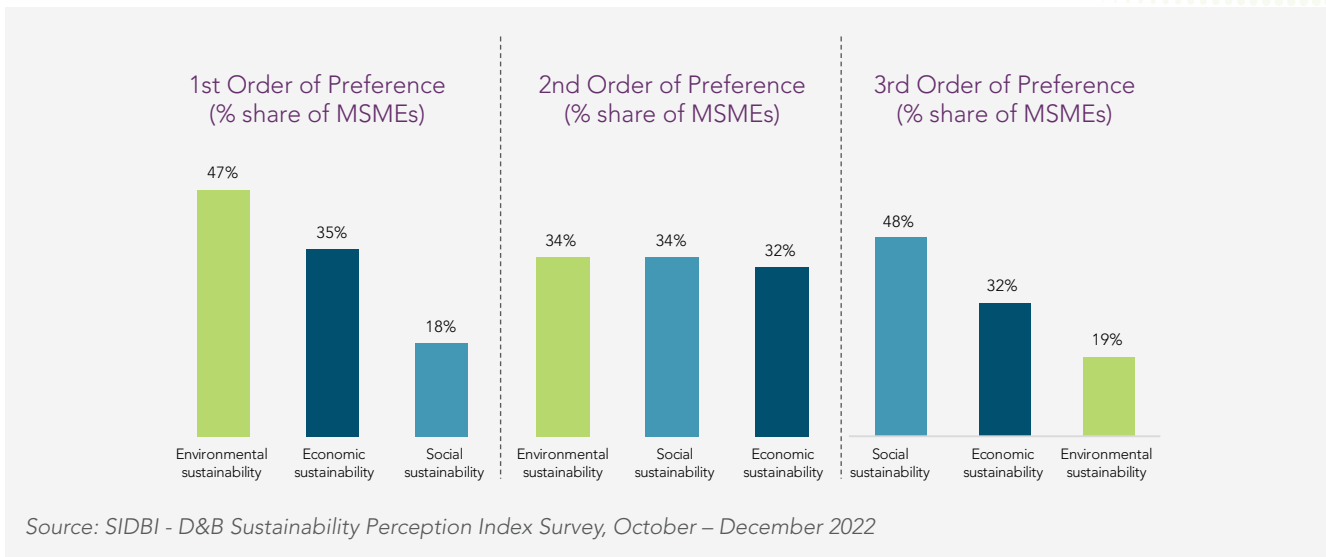


Relevant expertise to implement sustainability measures



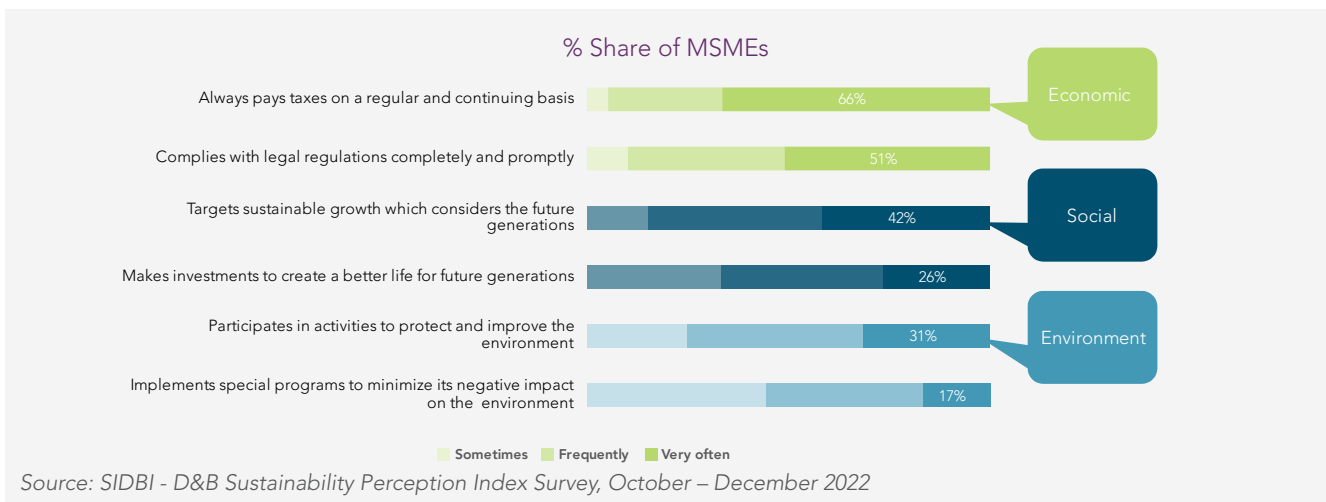
- One in three MSME claim, they have some in-house expertise to implement sustainable practices, and one in five, do not plan to build any expertise to implement.
- 46% of MSMEs stated that they have some relevant experience regarding implementation of sustainability measures.
- Various efforts or governmental steps made to raise awareness or encourage implementation among MSMEs would fail to produce the desired effects if MSMEs lack the necessary competence to execute the various sustainability areas.

Order of preference



- When asked about their preference order for sustainability measures, most MSMEs say environmental sustainability is the first order of preference. However, their actions do not meet the words, as most of their sustainability actions are geared towards economic sustainability.

How are MSMEs implementing sustainability measures as part of their business strategies



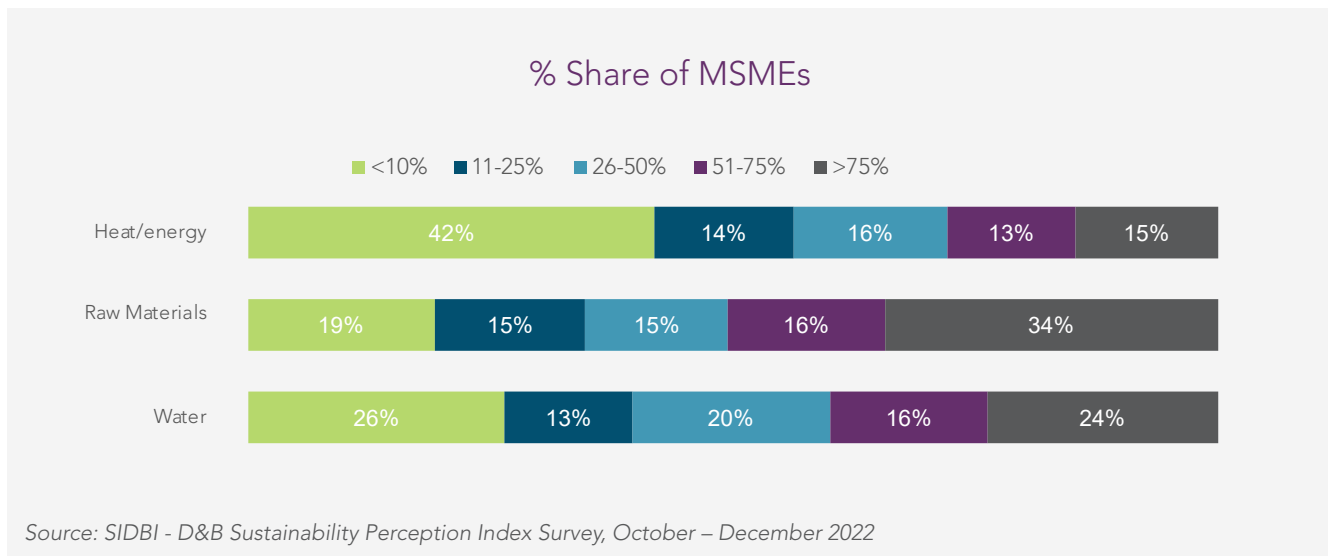
- When it comes to implementation, MSMEs prioritize economic goals followed by social and environmental goals
- Paying taxes (66%), complying with legal regulation (51%) are considered very often by MSMEs
- 42% of MSMEs target sustainable growth considering future generations and 26% make investments to create a better life for future generations
- Only 31% participates in activities to protect and improve the environment and 17% implements special programs to minimize its negative impact on the environment

How do MSMEs measure their environment initiatives?

Our survey tried to ascertain how MSMEs are taking those small initiatives to align their goals and understanding of sustainability with willingness to implement them.

What percentage of your total consumption of the following is recycled/recovered?

- Only 42% of MSMEs recycle/recover heat/energy, 26% recycle water and 19% recycle raw materials. Today, most materials and products are not recovered, re-used or recycled; instead, they are discarded.

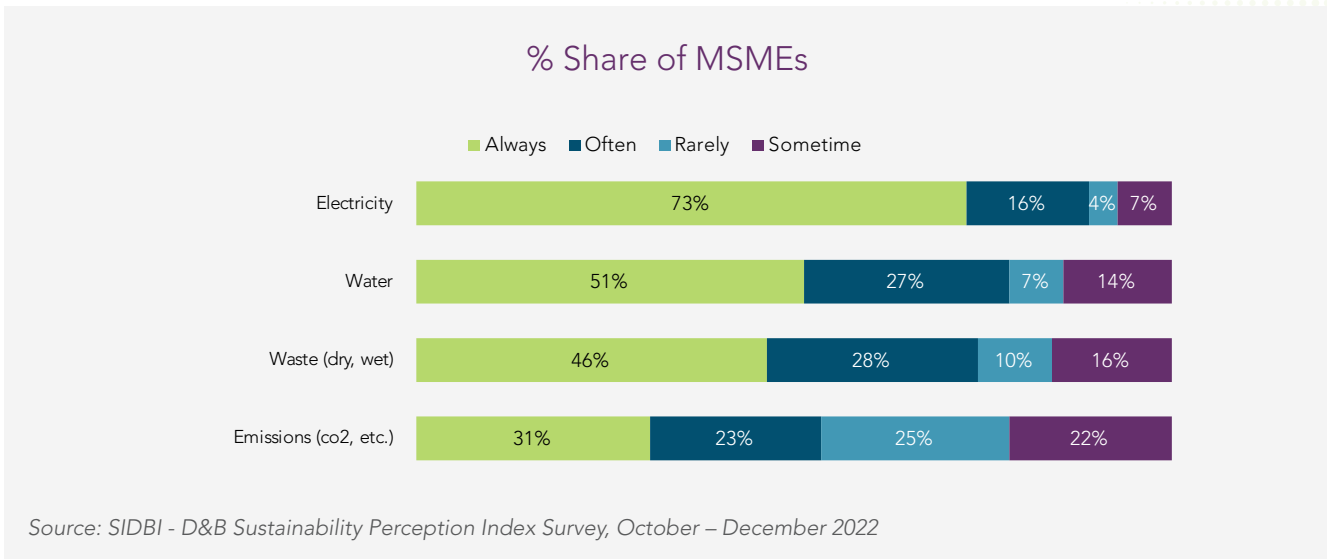


Circular economy is an economic model in which resources are kept in use for as long as possible, extracting maximum value from them, and minimizing waste. It involves designing products and processes that are restorative and regenerative, rather than linear and wasteful. The circular economy concept encourages MSMEs to adopt practices such as reducing waste, using renewable resources, and promoting recycling.

Do you measure the quantity (consumed or released) of the following by your business?

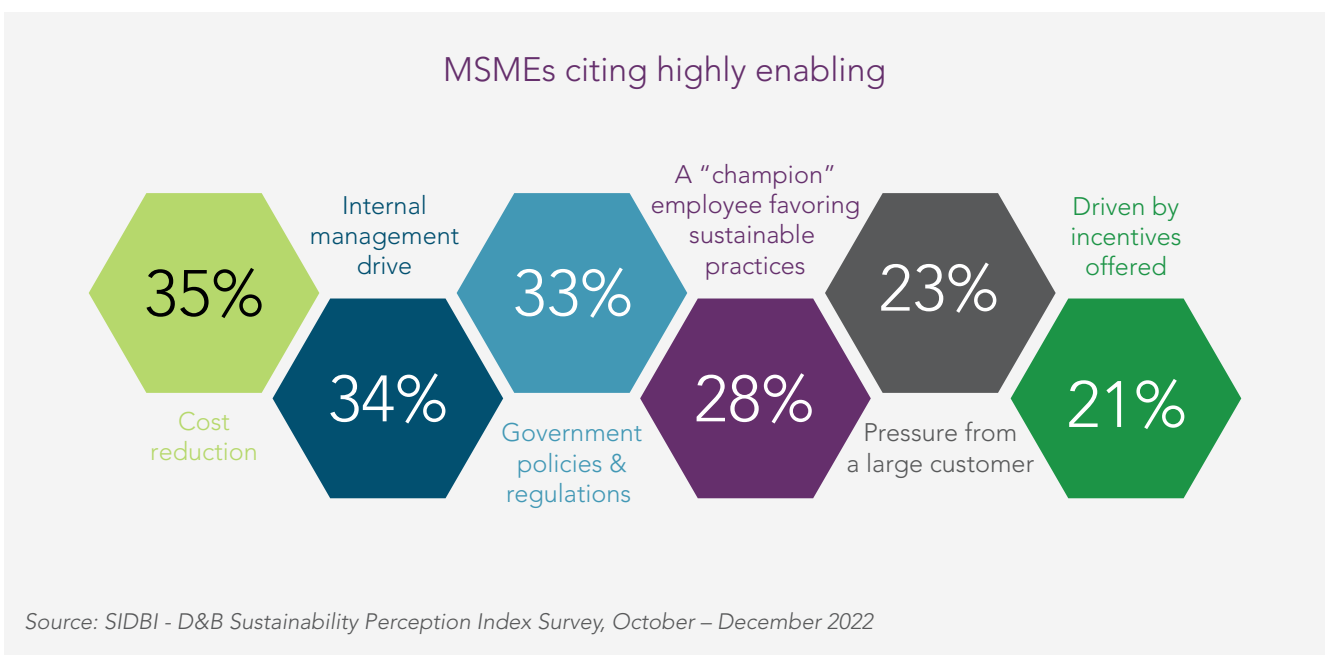
- When it comes to measurement, MSMEs typically measure electricity (73%), water (51%), waste (46%), and emissions (31%).
- This reveals critical information: Three-fourths of the surveyed MSMEs track their electricity use, which is concerning given that practically all firms were expected to watch their electricity consumption.
- Furthermore, just around half of the studied MSMEs measure water or waste released, which must be addressed by sector-specific intervention. Policy measures such as enforcing a reporting structure as part of their business reporting, as well as soft measures such as incentives, enabling needed inputs, and promoting behavioral change, must be developed.

- Understandably, only 31% quantify emissions since MSMEs lack techniques for measuring emissions emitted, and this is an essential area for intervention by government and intervening organizations to assist them with the necessary knowledge and processes.



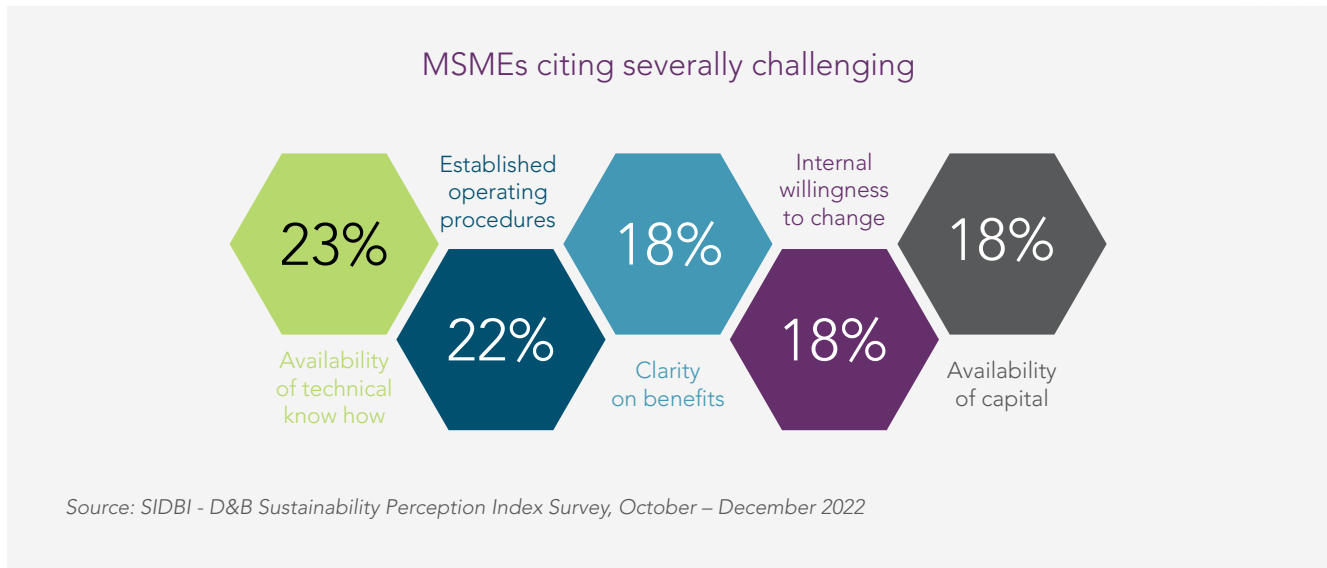
Factors enabling implementation of sustainable practices

- When asked what factors would enable MSMEs to implement sustainable practices, 35% of MSMEs cited cost reduction as the most important enabling element in our poll.
- This was followed closely by internal management motivation (34%), and government laws and regulations (33%).
- MSMEs do not see incentives or consumer demand as major drivers driving them to adopt sustainable practices.



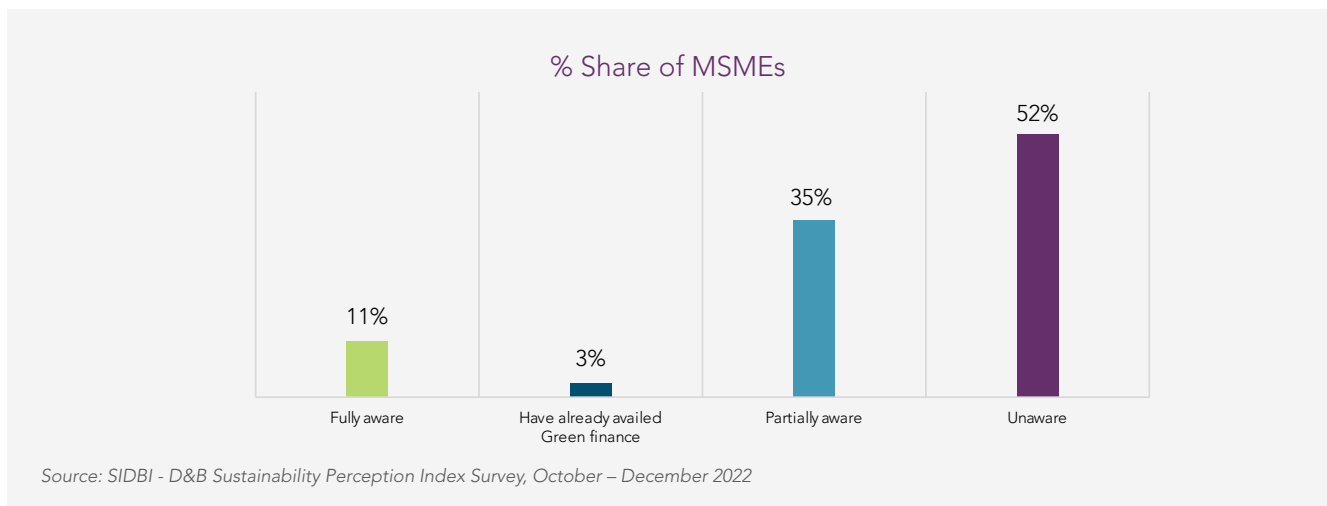
Challenges in implementation of sustainable practices

- The most major obstacles identified by 23% and 22% of MSMEs, respectively, are the availability of technical know-how and established operational processes.
- MSMEs saw clarity of advantages (18%), internal desire to change (18%), and availability of funding (18%) as equally tough issues for implementation.



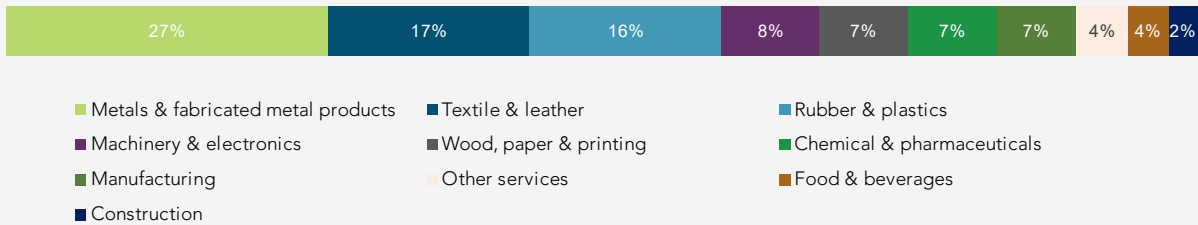
Awareness of Green Finance Policies

- If MSMEs are aware of green financing, it will help them overcome some of the barriers to implementing sustainability measures, such as a lack of technical know-how and established operating procedures, or a lack of buy-in from the leadership team to adopt measures.
- 52% of MSMEs are unaware of green finance policies, 35% MSMEs are partially aware and only 3% have availed such a scheme.



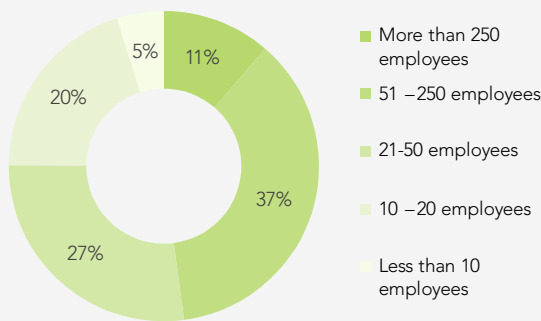
Survey Panel's firmographics

Sector-wise representation (%)

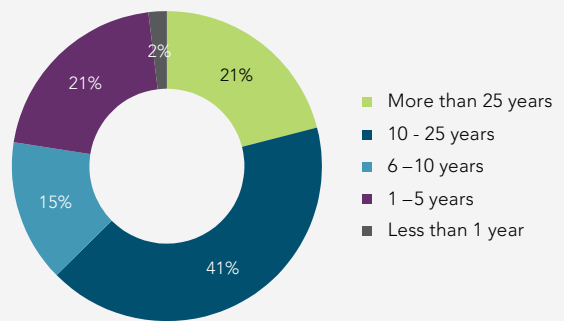


Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

Size of business (%)

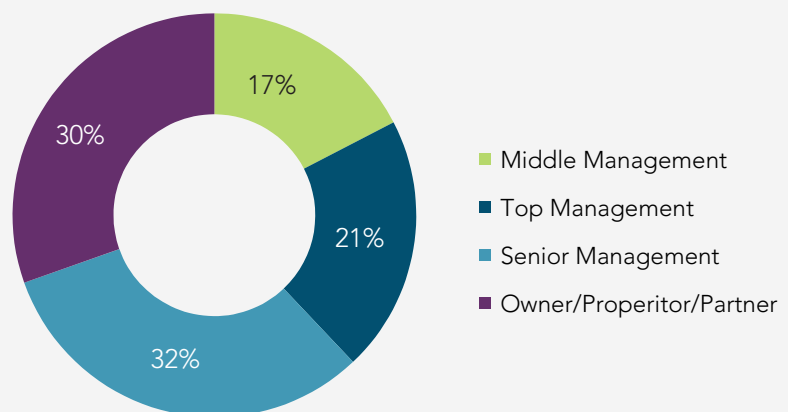


Age of business (%)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

Role of survey panelists (%)



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

Summary

Sustainability is a critical issue that affects businesses of all sizes. However, it is particularly important for MSMEs (Micro, Small, and Medium Enterprises) because of their limited resources, and their contribution to economic growth, job creation, and poverty reduction. There are several steps that stakeholders such as governments, policymakers, regulators, and institutions can take to enhance sustainability preparedness and facilitate sustainability.



Educate stakeholders:

Governments, authorities, and institutions must educate stakeholders about the importance of sustainability and the benefits of adopting sustainable practices. These can involve providing training and resources to MSMEs, investors, and the public.



Sustainability standards:

Institutions shall develop sustainability standards and guidelines that encourage MSMEs to adopt sustainable practices. These standards can cover areas such as climate risk, environmental and social impact, and governance.



Sustainable financing:

Presently only renewable energy from green basket is included in priority sector. ESG embedded lending may be considered for inclusion in priority sector bucket. Concessional funds or incentives like interest subvention, risk sharing facility etc. can be considered for being

channelised through DFIs. These shall incentivise the green mover MSMEs and make GREEN Indian ENTERPRISE resolve, a mission touch.



Increase transparency:

All stakeholders can increase transparency and disclosure around sustainability performance. This can involve encouraging companies to disclose their environmental and social impact, carbon emissions, and other sustainability metrics.



Foster collaboration:

Collaboration is essential to enhancing sustainability preparedness. Governments, monetary authorities, and financial institutions can work together to develop joint initiatives and projects that promote sustainability.



Incentive & penalties:

Though sustainability practices enable long-term sustainable growth and prosperity for all, MSMEs facing economic hardship, cost pressure tend to push the can down the road. Effective use of incentives and penalties within sustainability standards that can nudge MSMEs towards sustainability actions may be considered. Before MSMEs take corrective measures, they need to know the cause and effect of their actions. There cannot be course change without first measuring the impact.



Integrate sustainability into policies and regulations:

Carbon neutrality is national commitment and all stakeholders of enterprise value chain have responsibility to be responsive to this in right earnest. Embedding ESG in financing shall be game changer. INDUCING ACCESS to Green investments (through innovative and ESG embedded instruments) and REDUCING EXCESS (in any way on environment and on society) must be the essence of Enterprise Development Strategy. These steps coupled with enhanced GOVERNANCE shall add SHEEN to agenda GREEN.



Engage stakeholders:

MSMEs should engage with their stakeholders, including employees, customers, and suppliers, to gain their support for sustainability practices. This can be done through communication and training programs.



Adopt sustainable practices:

MSMEs should adopt sustainable practices that are appropriate for their business. This could include using renewable energy, reducing waste, and sourcing materials from sustainable suppliers.



Monitor and report:

MSMEs should monitor their environmental and social performance and report on their progress. This can be done through sustainability reports, which can help build trust with stakeholders and demonstrate the business's commitment to sustainability.

Recommendations for MSMEs:



Conduct a sustainability assessment:

MSMEs should conduct a sustainability assessment to identify the areas where they can improve their environmental and social performance. This assessment should include a review of energy consumption, waste management, and supply chain sustainability.



Set targets and measure progress:

MSMEs should set targets and measure progress towards sustainability goals. This will enable them to track their progress, identify areas for improvement, and demonstrate their commitment to sustainability.

In conclusion, MSMEs that adopt sustainability practices can benefit from cost savings, brand reputation, access to finance, regulatory compliance, and employee retention. To achieve these benefits, MSMEs should conduct a sustainability assessment, set targets, and measure progress, engage stakeholders, adopt sustainable practices, and monitor and report on their performance. By doing so, MSMEs can contribute to a more sustainable and resilient economy.

Overall, enhancing sustainability preparedness requires a coordinated effort from all stakeholders. By working together and taking these steps, governments, authorities, and institutions can help facilitate sustainability and promote a more sustainable future.

Research Methodology

The study is conducted on a sample database of MSMEs with annual revenues ranging from Rs 5 crore to Rs 250 crore. Enterprise presence is based on their size, region, and kind of business, and sectoral representation is dynamic, including both manufacturing and service units (including trade) across India. All survey participants are asked a series of questions aimed to elicit MSMEs' perception/understanding on three dimensions: awareness, willingness, and implementation.

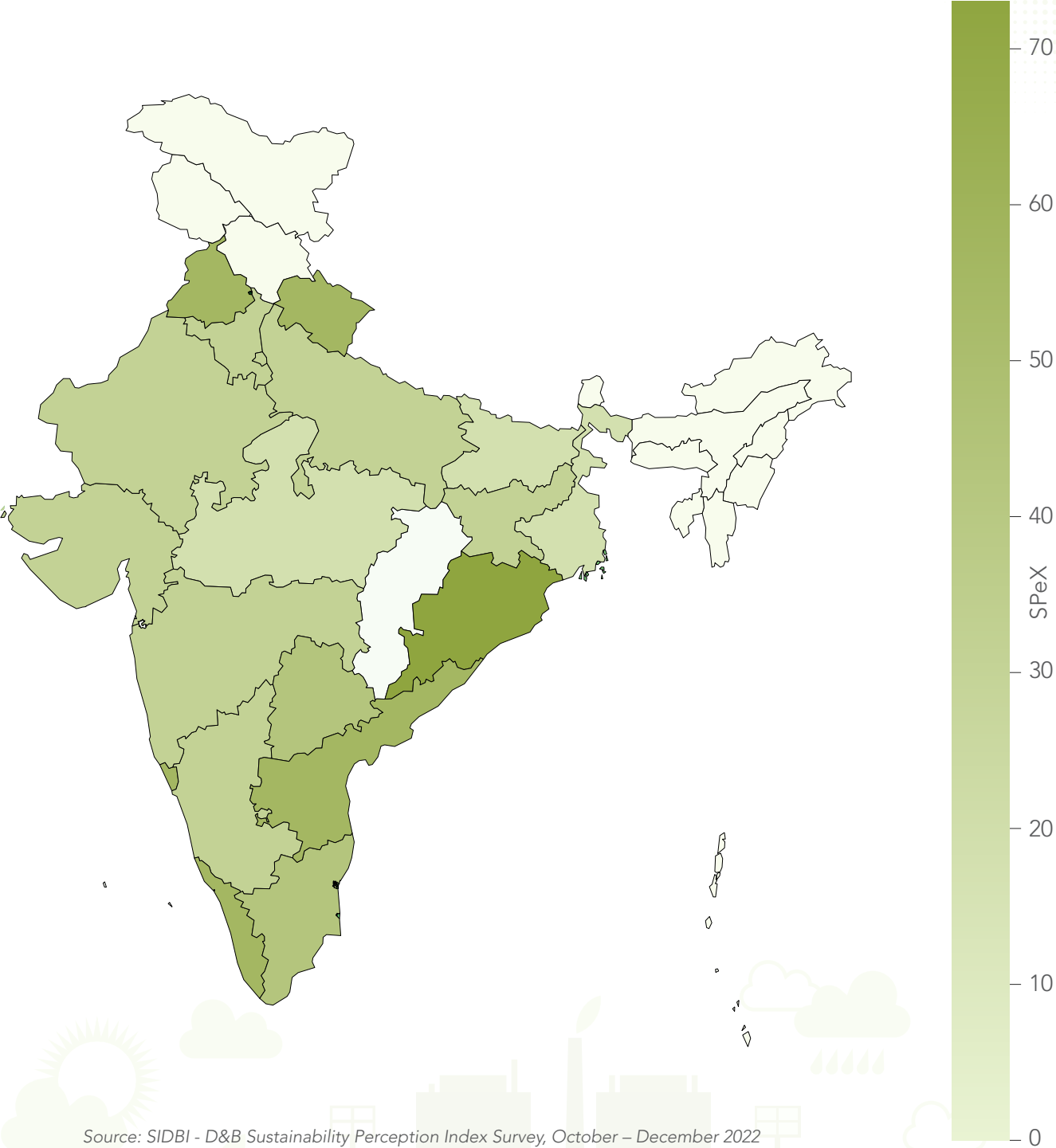
A weighted scorecard technique is used to calculate the index, in which relevant question and response combinations are awarded scores, aggregated, and standardized using a statistical algorithm. The sub-index is produced for three dimensions and then averaged using weights (determined from statistical analysis to explain most of the variability across responses) to produce the overall

Sustainability Perception Index for India. The Sustainability Perception Index (SPeX) can vary from 0 to 100. The higher the Index value, the more positive respondents' assessment of sustainability efforts. The indicator may be understood simply as the percentage of MSMEs that participate in sustainable activities (though degree of complexity may vary).

This survey report is a baseline exercise for measuring the state of sustainability adoption among Indian MSMEs. The research delves into some of the significant difficulties and possibilities that MSME face in developing sustainable strategies. Future research would attempt to follow changes in MSMEs' perspectives and behavior towards the adoption of sustainable business practices.

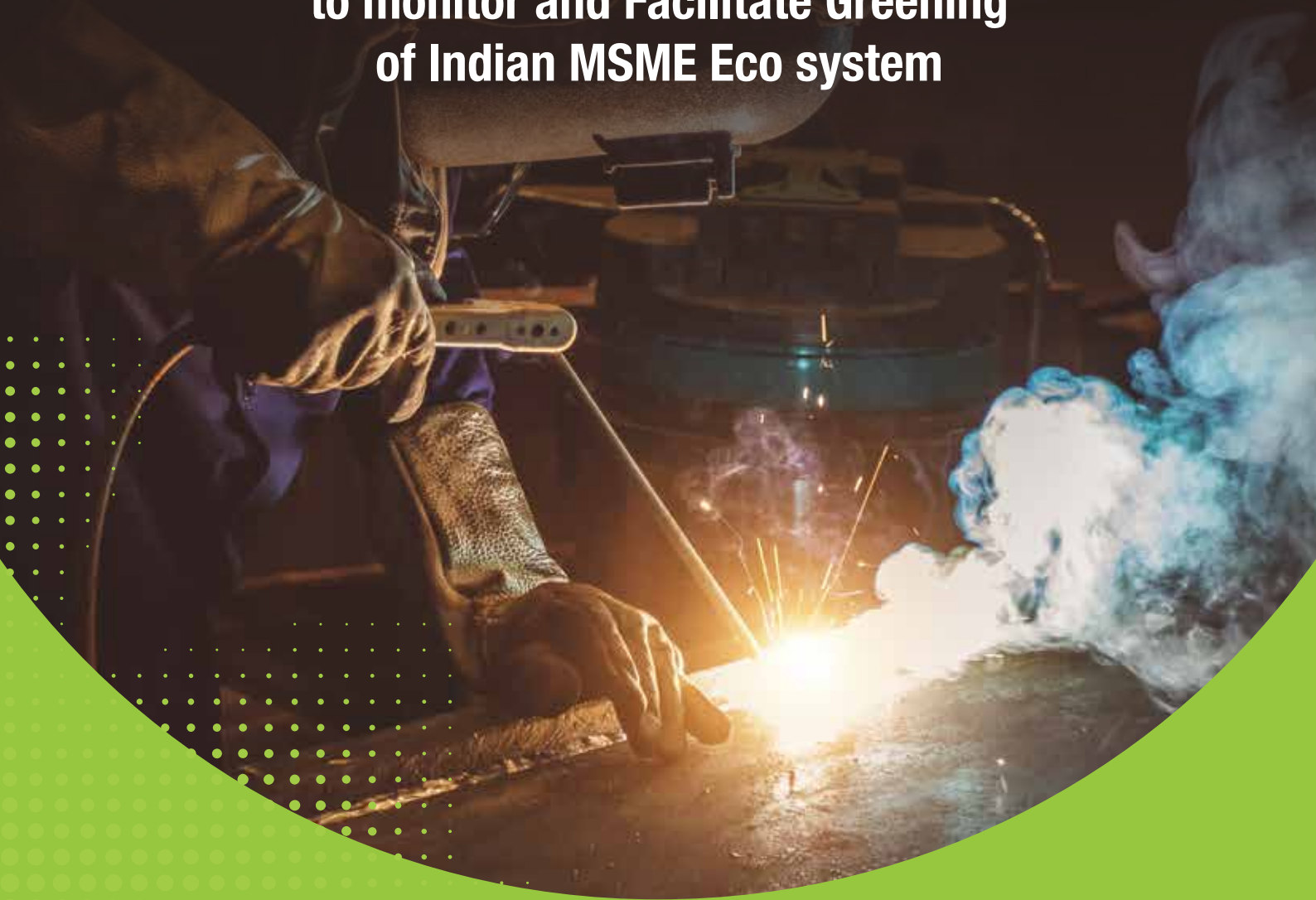


SPeX at state levels



Source: SIDBI - D&B Sustainability Perception Index Survey, October – December 2022

SPeX– A periodical ESG indicator to monitor and Facilitate Greening of Indian MSME Eco system



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