

Embracing ESG Integration: Sustainability for MSMEs in India

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In the emerging sustainability landscape in India, there is widespread consumer demand for sustainable products. Governments and regulatory bodies are implementing stricter regulations related to environmental protection, labour standards, and responsible sourcing. Investors expect companies to demonstrate sustainable practices, manage risks effectively, and create long-term value to protect their investments and align with their own sustainability objectives.

Further, the COVID-19 pandemic exposed vulnerabilities in global supply chains, emphasising the importance of building resilient and sustainable supply networks. As a result, organisations are looking to embed sustainability into their core strategy and business operations. Businesses are increasingly seeking suppliers that can manage environmental, social and governance risks effectively.

The SEBI mandated Business Responsibility and Sustainability Reporting (BRSR) for the top 1000 listed companies in India furthers the case for a resilient and ESG compliant supply chain for corporates. Micro, Small, and Medium Enterprises (MSMEs) form a large part of these value chains accounting for around 30% of India's GDP and contributing approximately 48% to the country's total exports (Source: Ministry of Micro, Small and Medium Enterprises).



Additionally, MSMEs are assessed on various ESG risks such as inadequate waste disposal practices, impact on production due to climate change, non-compliance with labour laws, lack of health and safety measures, human rights violations, irresponsible sourcing of raw materials and unethical practices.

To thrive in the evolving landscape, they must proactively manage these risks and capitalise on the growing demand for responsible and ethical business practices.

What does ESG for MSMEs look like?

The first step in the sustainability journey for MSMEs should be to identify the material ESG risks and issues, identify the key motivators and challenges for ESG integration, and understand the industry perspectives through an ESG assessment. However, ESG assessments for MSMEs could be a bit challenging due to the following factors:

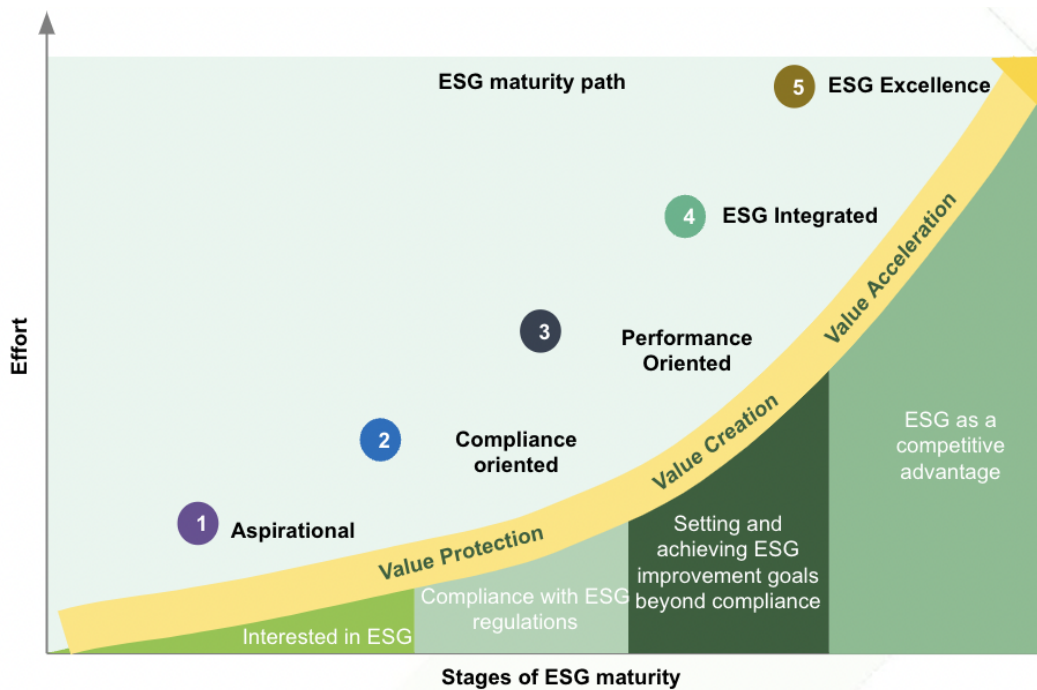
- **Scale and Resources:** MSMEs generally operate on a smaller scale with limited resources compared to large corporations. They have fewer dedicated personnel, financial capabilities, and technological infrastructure inhibiting extensive assessments. Post the COVID-19 pandemic, they are operating in 'survival mode' and might not have enough financial outlay for this purpose. Hence the cost of transition to greener alternatives is limited.
- **Complexity and Data Management:** ESG integration requires robust data collection, measurement, and reporting systems. MSMEs may struggle with the complexity of gathering and managing ESG data, especially if they lack standardised systems or dedicated personnel for tracking and reporting on relevant metrics.
- **Lack of awareness and understanding:** about regulatory compliances, available government initiatives and their implications for the business.

Considering MSMEs' limited capabilities, a simplified approach to ESG integration should be adopted to effectively incorporate ESG.

I) Start with the Basics

With reference to the [ESG maturity map](#), MSMEs could begin with being aspirational and compliance-oriented by ensuring compliance with legal requirements related to the environment such as ensuring obtaining necessary permits from the Central Pollution Control Board and/or State Pollution Control Boards, labour standards such as ensuring the minimum wages and equal remuneration to male and female workers under the wage code and governance such as following the provisions of Anti-Bribery under the Companies Act, 2013.

Compliance with regulations not only minimises risks but also improves operational efficiency enhances reputation, and gives access to new markets



II) Government Support and Policy Framework

The Indian government has implemented various initiatives and policies to support the integration of ESG practices among MSMEs and they offer subsidies for easy adoption. Here are some key initiatives and policies:

ZED (Zero Defect, Zero Effect) Certification: The ZED certification programme is an initiative by the government to adopt best practices in manufacturing, quality control, and environmental management to enhance competitiveness and minimise environmental impact. The government provides financial assistance in the form of subsidies to MSMEs for the certification. The MSMEs can apply for certification at any of the following three levels:

- Certification Level 1: BRONZE (5 Parameters)
- Certification Level 2: SILVER (14 Parameters)
- Certification Level 3: GOLD (20 Parameters)

S. No.	Parameters	Bronze	Silver	Gold
1.	Leadership	✓	✓	✓
2.	Swachh Workplace	✓	✓	✓
3.	Occupational (Workplace) Safety	✓	✓	✓
4.	Measurement of Timely Delivery	✓	✓	✓
5.	Quality Management	✓	✓	✓
6.	Human Resource Management		✓	✓
7.	Daily Works Management		✓	✓
8.	Planned Maintenance & Calibration		✓	✓
9.	Process Control		✓	✓
10.	Product Quality & Safety (Testing / Certification)		✓	✓
11.	Material Management		✓	✓
12.	Energy Management		✓	✓
13.	Environment Management		✓	✓
14.	Measurement and Analysis		✓	✓
15.	Supply Chain Management			✓
16.	Risk Management			✓
17.	Waste Management (Muda, Mura, Muri)			✓
18.	Technology Selection & Upgradation			✓
19.	Natural Resource Conservation			✓
20.	Corporate Social Responsibility			✓

ISO 9000/ISO 14001 Certification Reimbursement

Another incentive scheme introduced by the government to promote technological upgradation, quality improvement and environment management is reimbursement of the cost of certification for those SMEs who have acquired ISO 9000, ISO 14001, and HACCP certification.

Besides these, there are SIDBI schemes where financial support (in the form of loans) for the acquisition of ISO series certifications by SMEs.

Green Finance Scheme/End-to-End Energy Finance scheme by SIDBI

The greening MSMEs schemes encourage MSMEs to adopt environmentally friendly practices by providing financial incentives and reduced interest rates on loans for implementing green technologies, energy-efficient measures, and cleaner production processes. An illustrative example is the subsidised loans provided for the installation of rooftop solar systems.

III) Target Low-effort and High-impact Initiatives



While ESG integration is a long and gradual process involving interventions such as

- setting up policies and conducting training on POSH, health and safety etc.
- setting ESG goals and targets and KPIs to monitor progress for set targets,
- changing internal mechanisms and operational changes like moving from non-renewable to renewable sources, establishing grievance redressal mechanisms,
- getting environmental and social certifications like ISO 14000 and SA 8000
- conducting audits

An easy way to begin is by assessing the current priorities and biggest risks so as to identify low-hanging fruits that can bring the maximum benefit and impact through low time and investment effort. While bringing in change in the internal mechanisms is a long-haul process, the enterprises can focus on getting certifications which have been subsidised by the government. This will not only open avenues to newer markets including international customers through meeting quality, environmental and social parameters but also creating a high ESG impact.

Furthermore, MSMEs can look for collaboration with industry associations, government initiatives, and capacity-building programmes which can help them navigate the complexities of ESG integration and unlock the potential benefits of sustainable practices like:

- Getting higher ESG ratings attracting green finance
- Tapping into new markets and expanding the customer base
- Higher operational efficiency and long-term cost reductions
- Facilitation of government support

Looking at the challenges, risks, opportunities and the policy landscape it can be easily deduced that ESG integration is a gradual and tailored approach that suits the specific needs and capabilities of each MSME. It starts with awareness and being aspirational about incorporating ESG, followed by identifying key risks and material issues to the business. Thereafter the enterprise can conduct an ESG



assessment to understand one's standing on the ESG map, setting goals and targets, implementing sustainability measures and monitoring progress.

While these are broad guidelines for ESG assessments and integration for MSMEs, the assessments become more nuanced when we focus on a particular industry. Sattva has been working with various sectors and industries, like Textiles and Construction, to understand the potential risks and specific opportunities to integrate ESG priorities for their business. The subsequent articles in this series will discuss these insights.

Sattva can enable MSMEs to accelerate their ESG journey, to know more about our offering and further details, do write in to esg@sattva.co.in.