

ESG Integration in Textile and Apparel MSMEs

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In the last article, [Embracing ESG Integration](#), we wrote about the need and challenges faced by Indian Micro Small and Medium Enterprises (MSMEs) in integrating sustainability. Continuing the theme, we now dive deeper, with this article on the textile and apparel (T&A) MSMEs in the country.

Why the Indian Textile and Apparel (T&A) MSME industry?

The T&A industry plays a significant role in the Indian economy by contributing 10.5% of the total exports from the country and providing livelihood to millions of people (Ministry of Textiles, 2021-22). In the global landscape as well, the Indian T&A industry is highly valued as it is the 3rd largest exporter with a share of 4.6% of the global T&A trade. India's unique advantage is largely due to the presence of all key raw materials and skilled workforce in the country. India is one of the largest producers of



cotton and jute, engaging more than 60 million people in farms and mills associated with these products.¹ We are also the second largest producer of silk and man-made fibres.²

The high value of the Indian T&A industry is not only provided by the larger firms but a significant share also comes from the MSMEs in the country. Multiple clusters of T&A production are present across the country with the majority of units in these clusters falling under the MSME categorisation. The annual report on MSMEs in India also mentions textiles among the top five industries within the manufacturing sector of MSMEs.³ Given the importance of this segment to the Indian production and export economy, the evolving sustainability requirements at a global level also need to be integrated into the MSMEs to ensure sustainable growth of the T&A industry.

There is an active focus on sustainability across all realms of the T&A industries.

- 1. Increased data and understanding of the impact-** There has been an increased understanding of the environmental and social impact of the fashion industry in the past decade. Reports suggest that the global fashion industry emits about 4% of the total GHG emissions annually.⁴ These emissions are estimated to outweigh the carbon footprint of international flights and shopping combined. Further, the industry also contributes 20-35% of microplastic flows into the ocean.⁵ The impact has also been witnessed by people themselves. Past instances of Noyyal River pollution due to the effluents released from Tiruppur's textile industry and its impact on public health have been one of the real-life examples of this impact.⁶
- 2. Evolving sustainability regulations in India:** The Indian government and regulators are constantly evolving the sustainability/ ESG requirements. The upcoming amendments in the SEBI-BRSR regulations make 'reasonable assurance' of supply chain practices mandatory for the reporting organisations. Therefore, large retailers with supply chain presence in India need to report on their supply chain, irrespective of the destination market. Apart from this, the Ministry of Textiles has developed a dedicated focus on ESG by announcing a task force for ESG in the T&A industry.⁷
- 3. Evolving regulations in export destinations-** The major export destinations of Indian T&A products (US, UK, EU-27) are coming up with regulations to standardise ESG practices across

¹ As per the report by Ministry of Textiles Cotton plays a major role in sustaining the livelihood of an estimated 5.8 million cotton farmers and 40- 50 million people engaged in related activities such as cotton processing and trade. It is estimated that the jute industry provides direct employment to 40 lakh farm families in the agriculture, 2 lakh workers in organised mills, 2 lakh in value added diversification and 3 lakh in Tertiary and allied sectors.

² https://texmin.nic.in/sites/default/files/English%20Final%20MOT%20Annual%20Report%202022-23%20%28English%29_0.pdf

³ <https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-ENGLISH%202020-21.pdf>

⁴ <https://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/fashion%20on%20climate/fashion-on-climate-full-report.pdf>

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<https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/The%20state%20of%20fashion%202020%20Navigating%20uncertainty/The-State-of-Fashion-2020-final.pdf>

⁶ <https://ejatlas.org/conflict/noyyal-river-basin-a-pollution-cocktail>

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<https://government.economictimes.indiatimes.com/news/governance/esg-task-force-dedicated-to-sustainability-to-be-created-soon-for-textile-s-sector-goyal/99706315#:~:text=An%20ESG%20%28environmental%2C%20social%20and%20governance%29%20task%20force,handloom%20and%20handicrafts%20in%20Rajkot%2C%20Gujarat%20on%20Saturday.>

the supply chain. The EU strategy for Circular and Sustainable Textiles⁸ and the regulation pertaining to the labelling of textile products⁹ are a step in this direction. Similarly, the drafts of the New York Fashion Act also mandate social and environmental disclosures for retailers and manufacturers.¹⁰

- 4. Demand in export destinations-** There is a growing consumer awareness of sustainable products. A 2019 survey of US consumers suggested that 31% of Gen Z and 26% of Millennials are willing to pay extra for sustainable products. However, despite the interest, there is also a sense of distrust among consumers as the number of lawsuits on unauthentic sustainability claims has increased in the past few years.¹¹ This further increases the need for standardised ESG integration across the industry.

The tailwinds mentioned above are making it imperative for the Indian T&A industry and the MSMEs that form a large portion of the value chain of global buyers, to move towards sustainability and ESG integration.

What does sustainability mean for the T&A industry?

A number of disclosure standards exist that talk about the material issues within the T&A industry. While these standards provide a broad framework for thinking about ESG integration in the T&A industry, the material topics need to be broken down into smaller units at the supply chain level for better understanding. These topics are also expected to vary by the activities carried out by a particular factory. Based on the Sustainability Accounting Standards Board (SASB) framework and qualitative assessment of the sector through various engagements, Sattva has developed a matrix of sustainability issues as per the different activities being carried out in a T&A factory. We found that social parameters such as labour management, employee health and safety, diversity and inclusion are important in all factories, irrespective of their activities. Similarly, governance parameters such as anti-corruption and whistleblowing remain relevant for all factories, irrespective of their activities while other governance parameters around data protection are yet not an important aspect of the sector. For the environmental parameters, energy management, waste management and raw material sourcing are relevant across all parts of the value chain. Parameters such as water and chemical management become important only in factories involving wet processing activities.

So where do the Indian T&A MSMEs stand today with respect to these indicators?

In the past year, Sattva conducted a couple of studies with different stakeholders to assess the sustainability maturity of T&A MSMEs dealing with different kinds of products across geographies. While these were conducted in different contexts and followed a self-assessment process coupled

⁸ https://environment.ec.europa.eu/strategy/textiles-strategy_en

⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1007>

¹⁰ <https://www.nysenate.gov/legislation/bills/2021/A8352>

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https://www.mckinsey.com/~/_/media/McKinsey/Industries/Retail/Our%20Insights/The%20state%20of%20fashion%202020%20Navigating%20uncertainty/The-State-of-Fashion-2020-final.pdf



with field visits rather than an audit methodology, we noticed the following insights in our assessments:

- **The MSMEs are open to the idea of ‘sustainability’:** The MSMEs realise the growing need for sustainability and ESG integration. In some cases, it could be a self-driven interest while in others it is driven by buyer pressure. However, none of the factories disregard the concept of improving their operations and becoming more ‘sustainable’.
- **MSMEs are not very far behind in their sustainability journey:** As against the general notion of unsustainable practices at the end of MSMEs, we analysed a set of activities that they had been inherently practising simply from a business efficiency perspective. These include the installation of solar panels, selling the waste to waste handlers instead of dumping/burning it, ensuring proper working conditions to reduce attrition and training costs, and so on. While there are definite gaps that exist across all fronts, especially in terms of documentation and record keeping, the MSMEs have been extracting the economic value from some sustainability-related practices for a long time.
- **Size/ turnover also played some role in defining their sustainability maturity:** Sattva’s analysis showed that while their performance on social parameters was fairly similar, medium-sized organisations performed better on environmental parameters than small and micro-sized organisations. In the studied sample, >60% of the factories dealing with international clients had social certifications like SA8000/SMETA audits done for their facilities, clearly indicating the efforts happening at the factory level. On the contrary, there were facilities (mostly small and micro-sized) that also lacked basic pollution-related compliances on the environmental front.
- **Governance practices have both extremes available:** When it came to the governance practices of anti-corruption, whistle-blowing, legal audits and compliances,, the analysis showed an equal split with almost 50% having all requisite processes in place while others having none of them.

Where are they stuck with respect to ESG Integration?

The studies also identified areas of improvement for these MSMEs, a few of which are highlighted below:

- The record-keeping and documentation process was found missing in most set ups. They had their own ways of documenting information which could be scattered with different places and people. However, the lack of proper documentation leads to a lack of visibility and transparency for buyers which is critical for ESG integration.
- Environmental sustainability was accounted for only from a legal compliance perspective and its real need was not completely understood by all MSMEs.

Similar to the challenges highlighted in the [previous articles](#), the surveyed MSMEs faced operational challenges in furthering their efforts with respect to ESG integration:

- **Knowledge and awareness gap:** MSMEs do not have extensive knowledge or awareness of what needs to be done for ESG integration. They have usually been reactive to the buyer's needs and might not understand the entire context of sustainability. Furthermore, they are unable to understand the importance of sustainability measures on business operations. Sustainability aspects with obvious business benefits have been actively implemented in these units, but others around pollution control requirements might seem like unnecessary investments to some of them.
- **Capability and capacity gap:** In cases where interest and proactive leadership exist, there is a capability and capacity gap at the mid-managerial level to drive these initiatives. In many cases, the required skill or time might not be internally available and new recruitment would mean additional costs for the organisation.
- **Cost constraints:** Indian T&A MSMEs work with minimal margins and hence, any investments with zero or fairly long-term returns don't seem feasible for the units. Sustainability is considered as one such investment, especially if adequate knowledge of its benefits is missing. In case certain units in the cluster invest in these initiatives and increase their cost of production in the short term, they have a constant fear of losing out on business as their competitors might be able to provide the same products at a lower cost.
- **Lack of standardisation in buyer demands:** Typically T&A MSMEs manufacture for multiple buyers/brands. Since each brand has its own sustainability requirements, it usually becomes difficult for the MSME to manage the expectations of each of them. It also increases their cost of compliance, even when the returns being received from the buyers might not be significant.
- **Lack of inclination towards certifications:** While certifications provide a fairly standardised way of ESG integration and are accepted by most buyers as well, a sense of hesitation for the certifications was observed. Firstly, certain factories felt that it is not possible to ensure compliance with all aspects of the certifications at all times and these small misses also lead them to get blacklisted or debarred which might create business problems for them. Secondly, not all MSMEs have the appetite for the expensive certification processes. Even though they might be practising most of the guidelines, the lack of resources to get the certification process done leads to business limitations. Though certain factories who had taken the certifications under buyer pressure, admitted that they have led to an increase in their business productivity, the value realisation is a long-term process. Hence most of the MSMEs do not see a lot of benefit in engaging with the certification process.

How can the ESG integration process be streamlined for Indian T&A MSMEs?



As highlighted in our previous article too, the ESG integration for Indian MSMEs needs to be looked at as a holistic and collaborative approach. Starting with the quick-wins and high-impact initiatives, the efforts need to be scaled to continuously improve across all material parameters.

Sattva's analysis also highlights that buyers/brands play a significant role in this integration process for T&A MSMEs. The following initiatives at the buyer end may help the MSMEs in their ESG integration journey:

- Buyers can own or drive the transition process and support the vendors in the process of transitioning with knowledge, adequate financial support or linkages and business incentives, where possible.
- Multiple buyers can come together, especially when they are sourcing from the same clusters. This would ensure standardisation of practices across the cluster and minimal business loss for MSMEs. Further, the support provided by the buyers would be aggregated, reducing the pressure on one or two buyers.
- Indian T&A MSMEs have been resilient throughout the macroeconomic fluctuations over decades. In this journey, they have built their own ways of working and finding frugal solutions to complex problems. Their experience and learnings across this journey should be leveraged by the buyers to co-create sustainability solutions bottom-up.
- MSMEs also need to be open to innovations and cross-learning with their peers. The entire ESG integration process should be looked at as a collaborative experimental process that benefits all participants equitably.

To support T&A brands and MSMEs in this ESG integration journey, Sattva has developed a dedicated turnkey solution. The solution can be leveraged by the brands to help their SME vendor base in the ESG integration process. Sattva has piloted the framework with two different archetypes of industry players, a leading home furnishing brand and a platform for brands to source required apparel products. The turnkey solution enabled both organisations to gain better visibility on the operations of their vendor base across countries and accordingly build specific strategies to enable the transition of their organisation and their vendors in a structured manner. These strategies are also expected to help the vendors to improve their operations and business productivity. The turnkey solution takes learnings from these engagements and adapts them for archetypes of spinning, weaving, wet processing and cut-make-trim SMEs in India.

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.