



SIDBI – D&B SPeX

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



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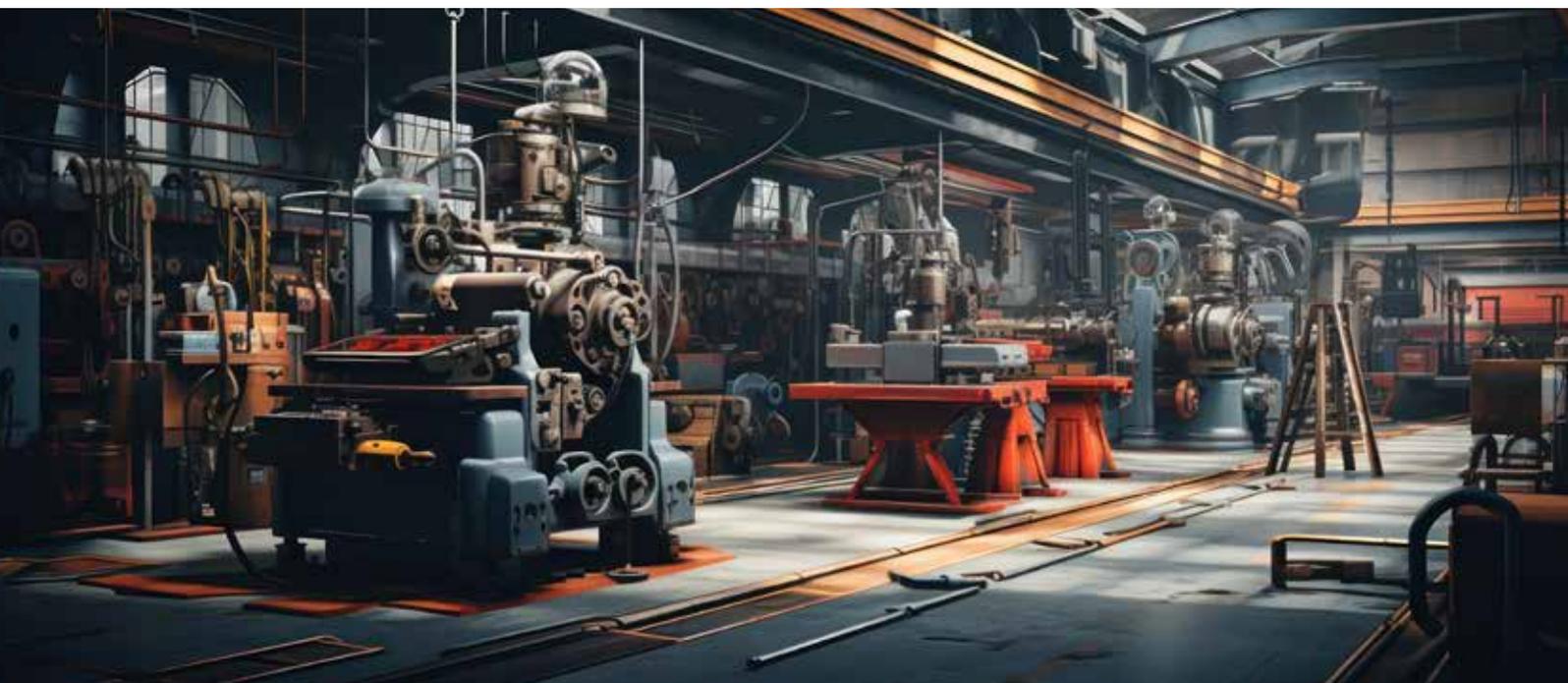
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Introduction

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)



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, January – March 2024

54% of MSMEs strongly agree that sustainability adoption will improve attractiveness to stakeholders.

57% of MSMEs are unaware of Green Financing.

78% of MSME claim cost reduction to be pivotal factor for sustainability adoption closely followed by regulatory compliance (64%). Less than half believe incentives to be a major driver.

Long gestation and uncertain returns constrain sustainability adoption.

1 in 2 MSME is unaware of policy support available for sustainability adoption.

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 July-Sept. 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.

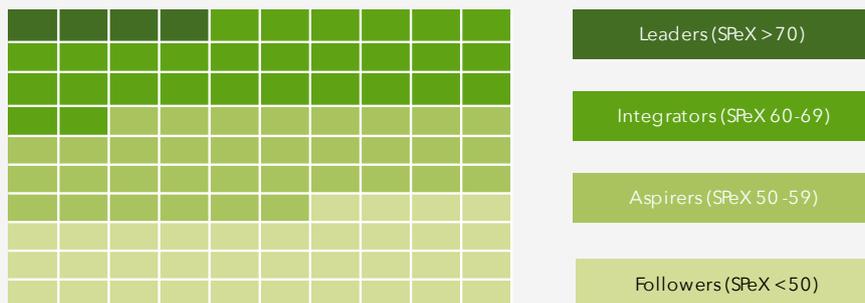
A weighted scorecard technique is used to calculate the index, with combinations of relevant question and response being assigned scores, aggregated, and standardized using statistical algorithm to arrive at sub-index values for awareness, willingness, and implementation dimensions. SPeX is a weighted 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, January – March 2024

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.



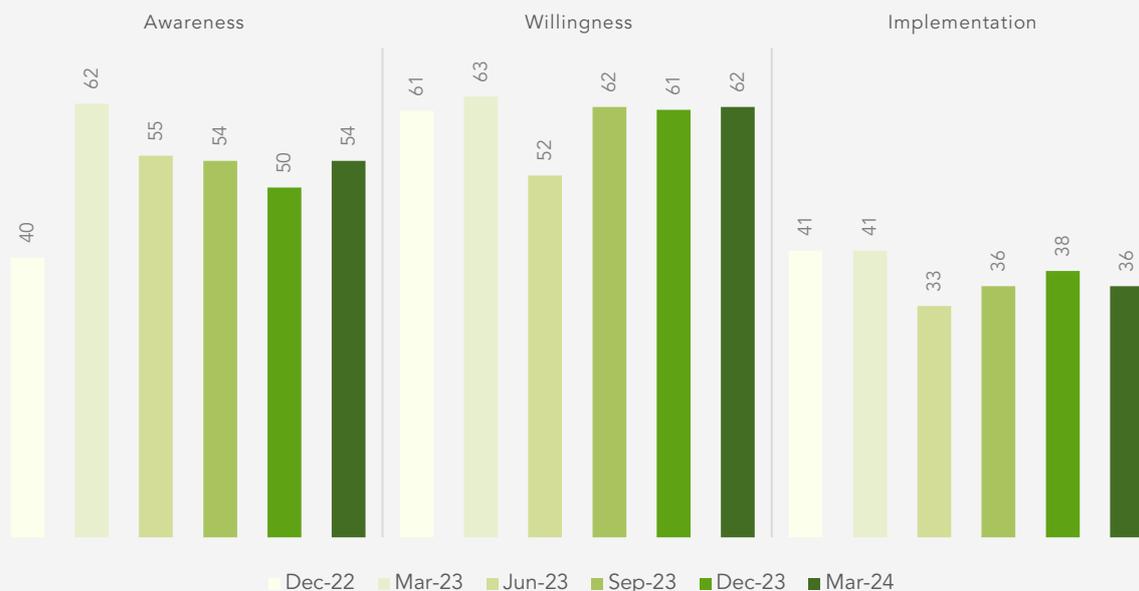
Followers: MSMEs in this category are yet to become fully engage on the sustainability practices, and may not be aware/believe its economic and social benefits. They are looking to understand the potential benefits and risks associated with implementation of sustainable practices. They may assess current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

Key findings

Willingness to implement sustainability measures remains higher than awareness and implementation for the 3rd consecutive quarter

- The SIDBI - D&B Sustainability Perception Index (SPeX), also known as the "green pulse indicator," decreased by 2% to 54 during January -March 2024 period, owing to decrease in implementation of sustainability practices.
- Among the three dimensions comprising the index, the Awareness and Willingness dimensions of the SPeX increased by 8% and 1% to 54 and 62 respectively while implementation fell by 6% to 36 during January - March 2024 over the previous quarter.
- Willingness remained the highest dimension with a value of 62. Implementation declined both over the previous quarter and over the year ago period indicating MSMEs are exercising cautiousness over the implementation of sustainability practices.

Trend of three dimensions over survey rounds



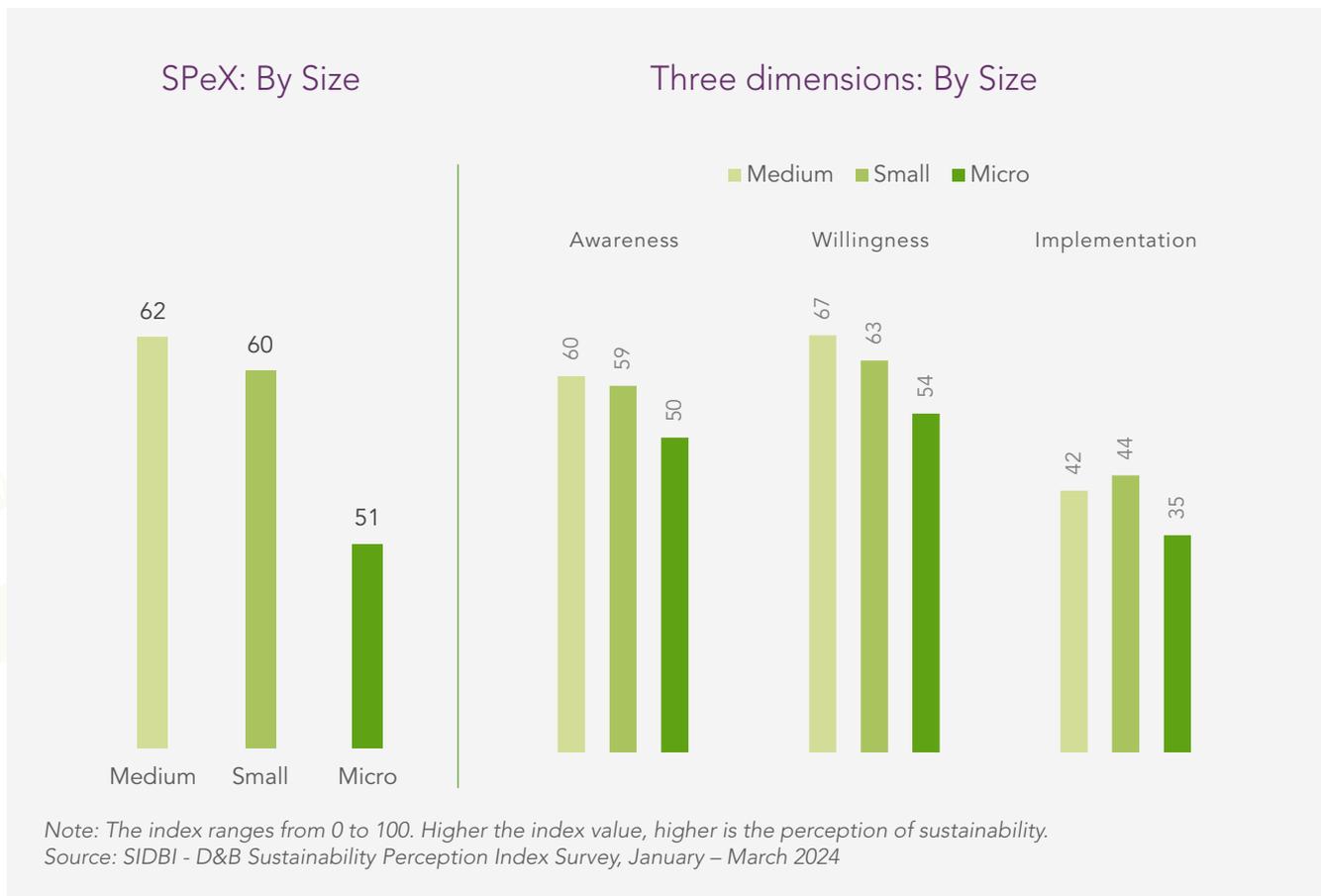
Note: The index ranges from 0 to 100. Higher the index value, higher is the perception of sustainability.
Source: SIDBI - D&B Sustainability Perception Index Survey, January – March 2024

Small businesses indicated the highest level of implementation amongst the others.

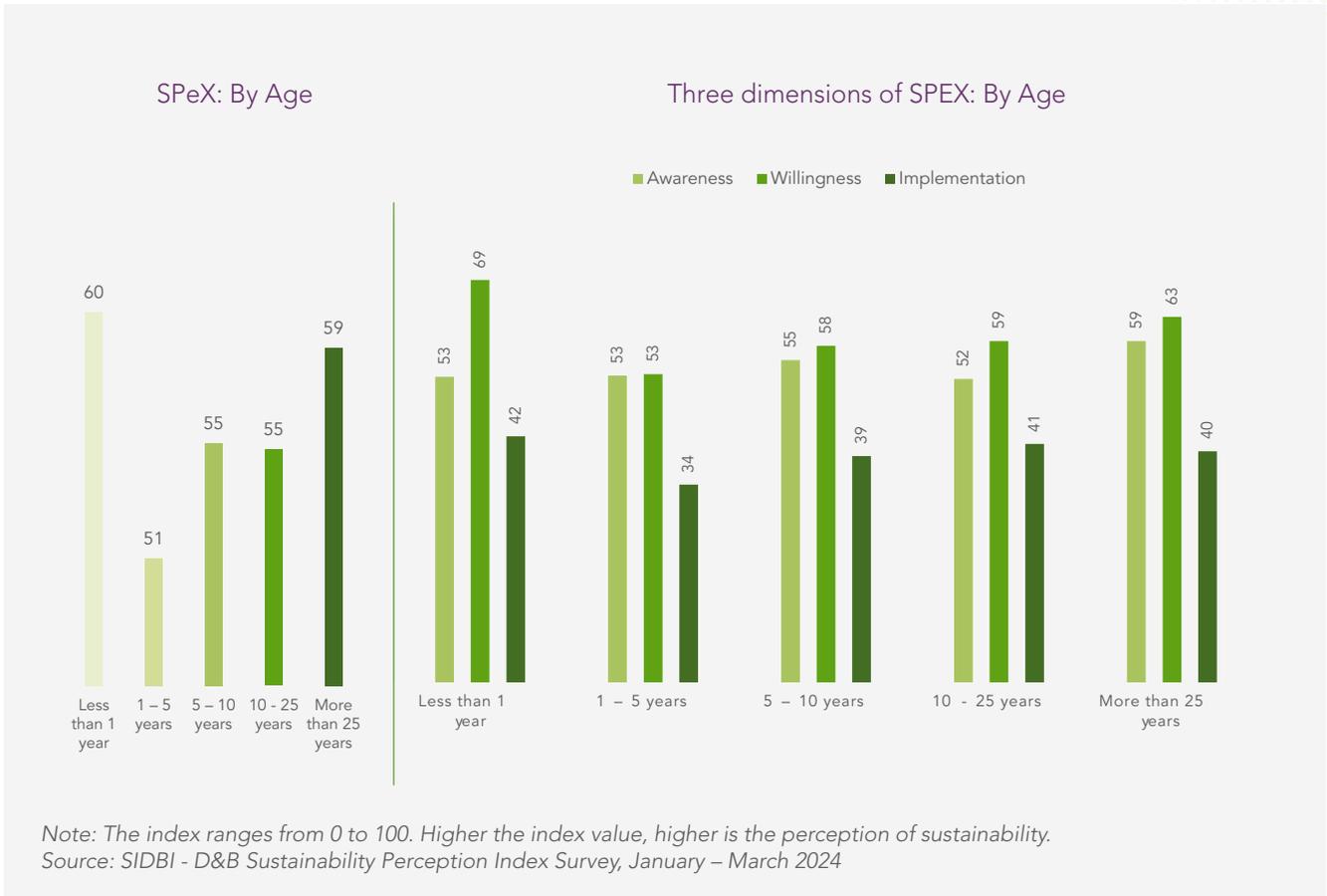
- The SPeX of micro firms remain lowest at 51 compared to the small (60) and medium (62) size firms.
- All three dimensions, i.e., awareness, willingness and implementation are lowest amongst the micro size firms.
- Small firms indicated higher level of implementation compared to medium and small sized firms.

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.



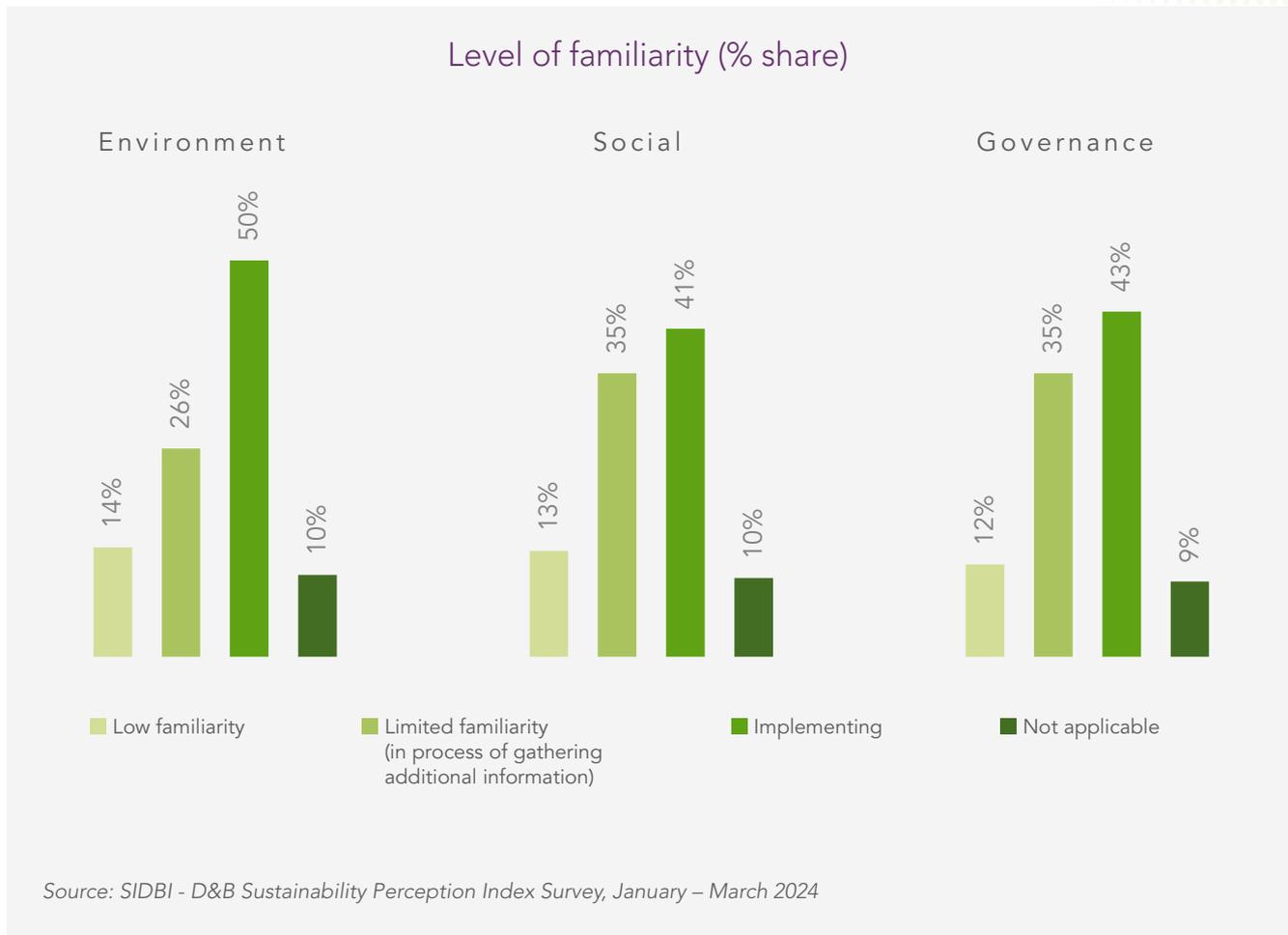
Level of willingness and implementation is the lowest among firms between 1-5 years.



- Perception of sustainability is highest amongst both the newly established firms (less than 1 year) and the older firms (more than 25 years old). Both their willingness to implement and implementation of sustainability practices remain higher than the others.
- Level of willingness and implementation is the lowest among firms between 1-5 years, despite them having high level of awareness indicating firms in that age group are less inclined towards investing in sustainable practices.



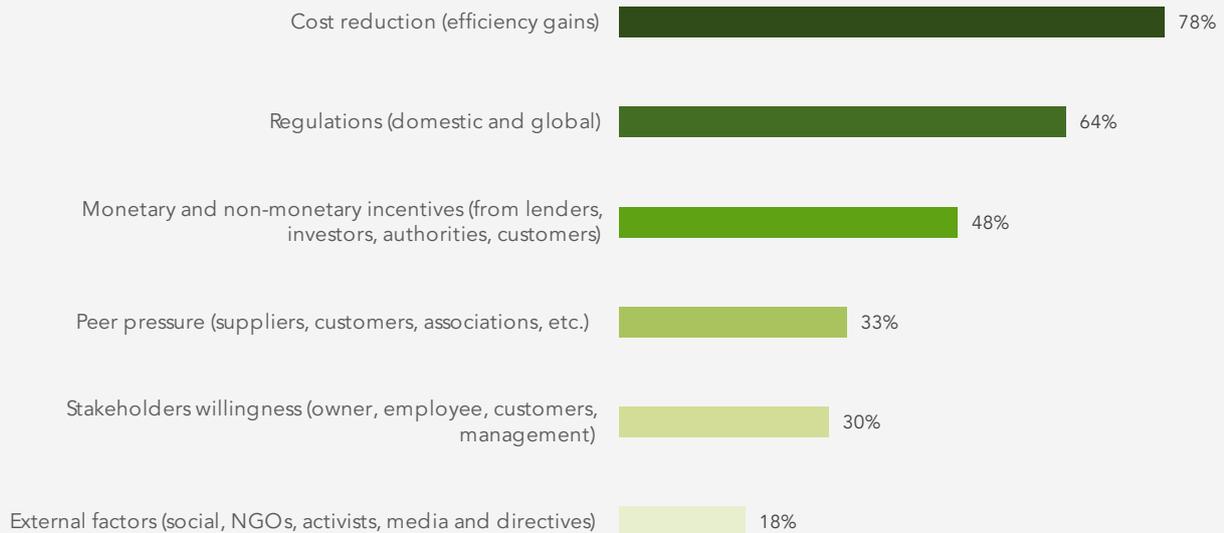
Improved awareness leads to improved adoption.



- Familiarity with governance and social measures remain low or limited compared to environmental measures amongst MSMEs. Consequently, more MSMEs are implementing environmental initiatives compared to social and governance measures.
- Our survey shows 40% of MSMEs have low or limited familiarity about environment related measures and 50% are implementing them.
- 48% of MSMEs admit to having low or limited awareness of social initiatives, with 41% implementing some measures. Likewise, 47% of MSMEs lack familiarity with governance measures and 43% are implementing them.

For the 6th consecutive survey, cost reduction remained the primary factor influencing the adoption of sustainable practices.

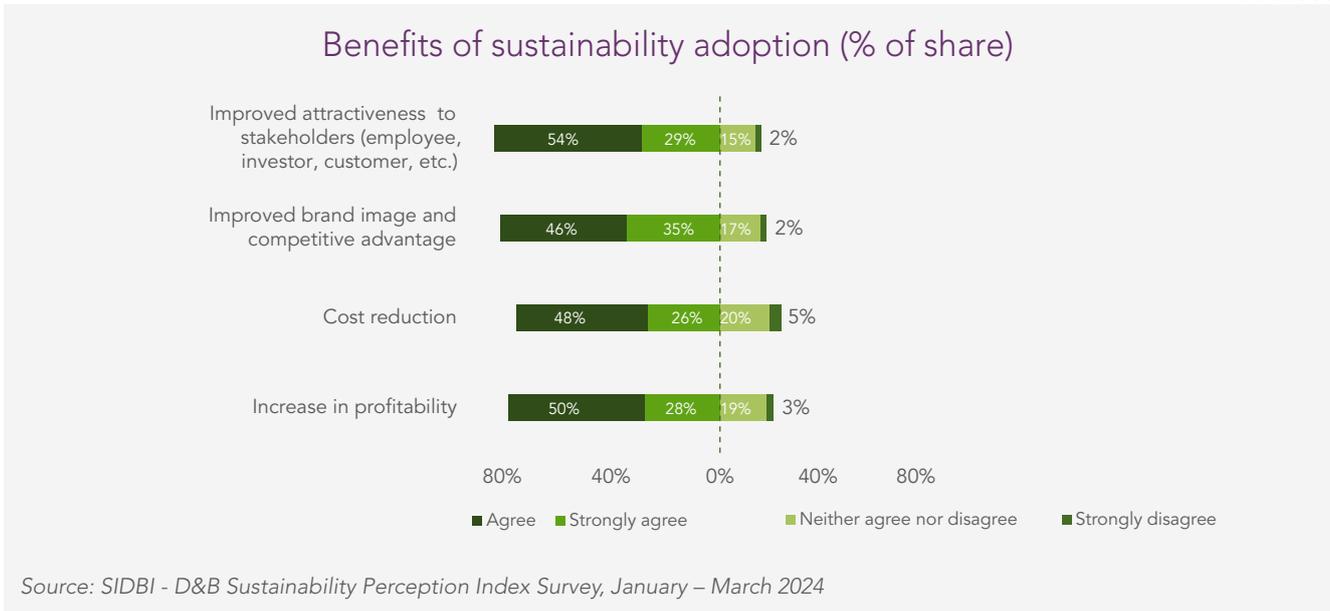
Factors influencing MSMEs to implement sustainable practices



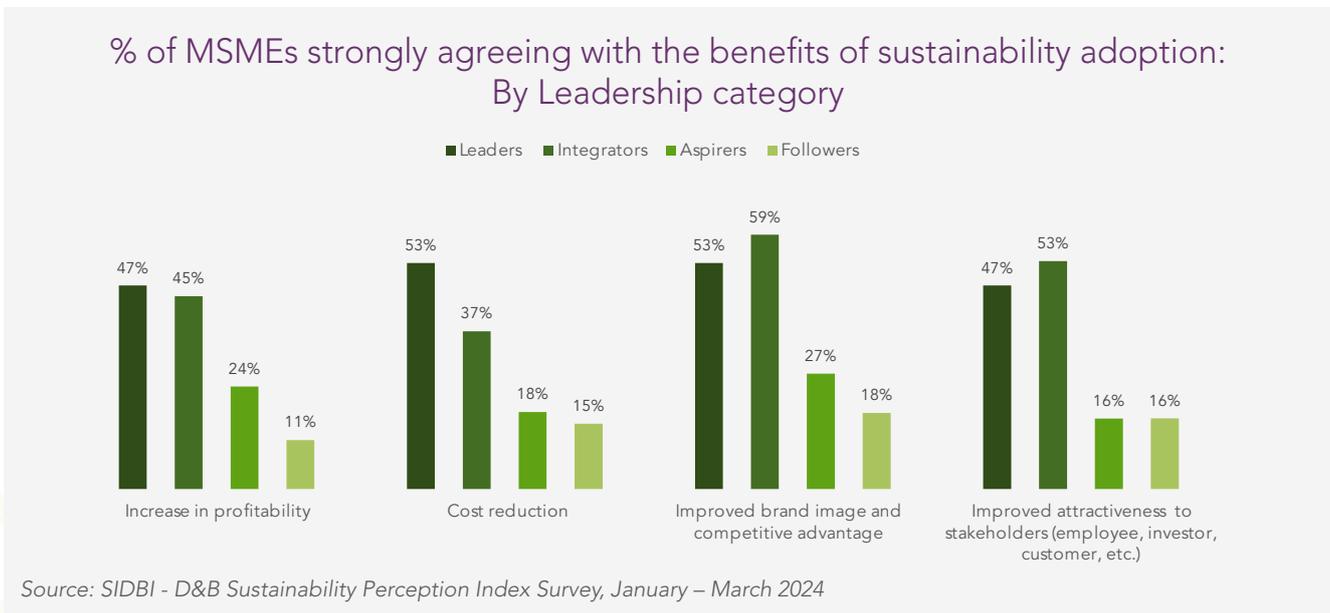
Source: SIDBI - D&B Sustainability Perception Index Survey, January – March 2024

- Majority of MSMEs view cost reduction (78%) and regulatory compliance (64%) as pivotal factors driving their adoption of sustainability practices.
- Less than half of surveyed MSMEs view monetary and non-monetary incentives as influencing factors, suggesting that stakeholders should prioritize demonstrating the benefits of sustainable measures rather than solely focusing on providing incentives.
- Less than one-third of MSMEs see stakeholder willingness as a significant factor, indicating their readiness to implement sustainability practices. However, they are primarily focused on the tangible benefits they stand to gain, such as cost reduction, efficiency improvements, and enhanced stakeholder appeal.

54% of MSMEs strongly agree sustainability adoption to improve stakeholder interest.



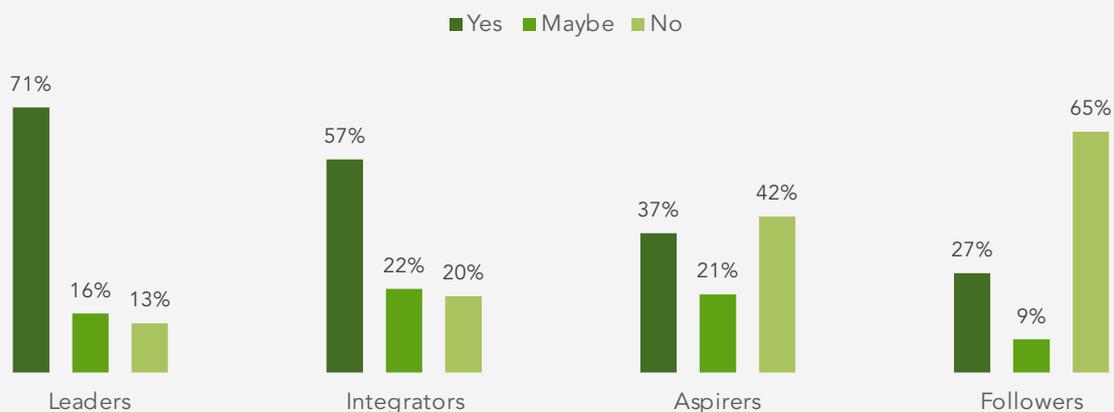
- According to MSMEs, improved attractiveness to stakeholders (54%) followed by increase in profitability (50%) are the two most important benefits to be derived from sustainability adoption.



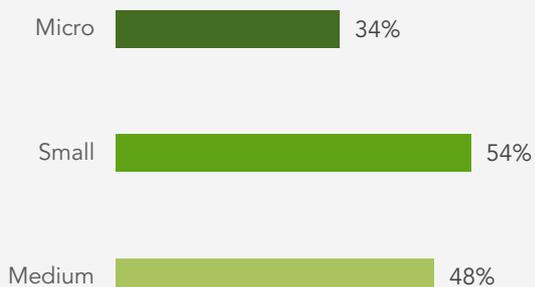
- Across leadership categories, the importance of benefits varies. For Leaders, cost reduction along with improved brand image and competitive advantage are the top two benefits.
- For Integrators, improved brand image and improved attractiveness to stakeholders are the top two benefits.
- For Aspirers, improved brand image is the key benefit.
- For the followers, none of the measures asked in the survey appeared to be important benefits; only an average of around 15% strongly agreed to the benefits derived from sustainability measures.

57% of MSMEs are unaware of Green Financing.

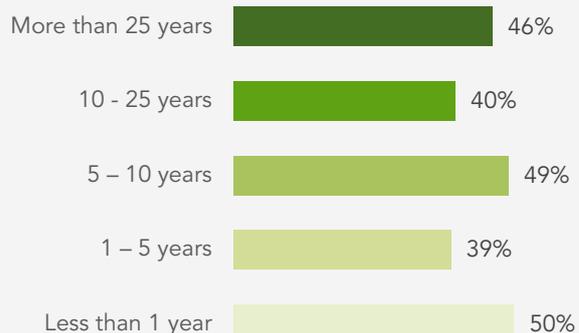
Awareness of Green Financing (% share)



Awareness of Green Financing: By size



Awareness of Green Financing: By age

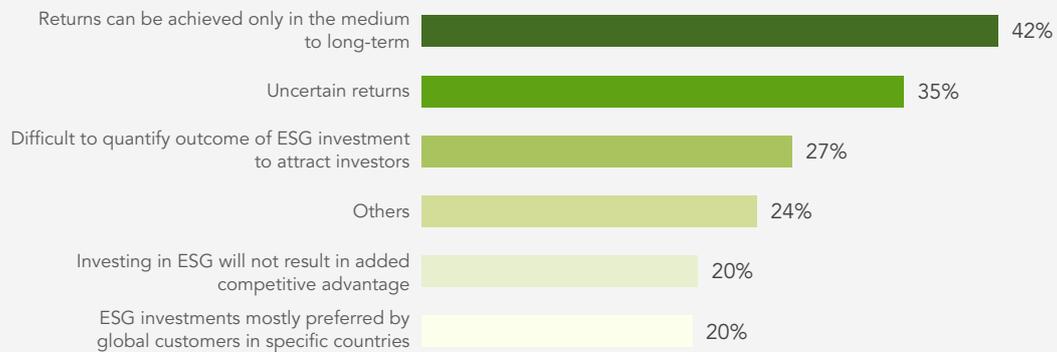


Source: SIDBI - D&B Sustainability Perception Index Survey, January – March 2024

- Overall, 43% of MSMEs stated that they are aware of green financing. However, the response varies with the size and age of firm's establishment as well as by leadership category.
- 71% of Leaders are aware of green financing compared to 27% of followers.
- Among different business sizes, compared to 54% of small businesses 34% of micro sized businesses are aware of green financing.
- Regarding firm age, 49% of those established for 5-10 years are aware, compared to 39% among those established for 1-5 years.

Long gestation and uncertain returns constrain sustainability adoption.

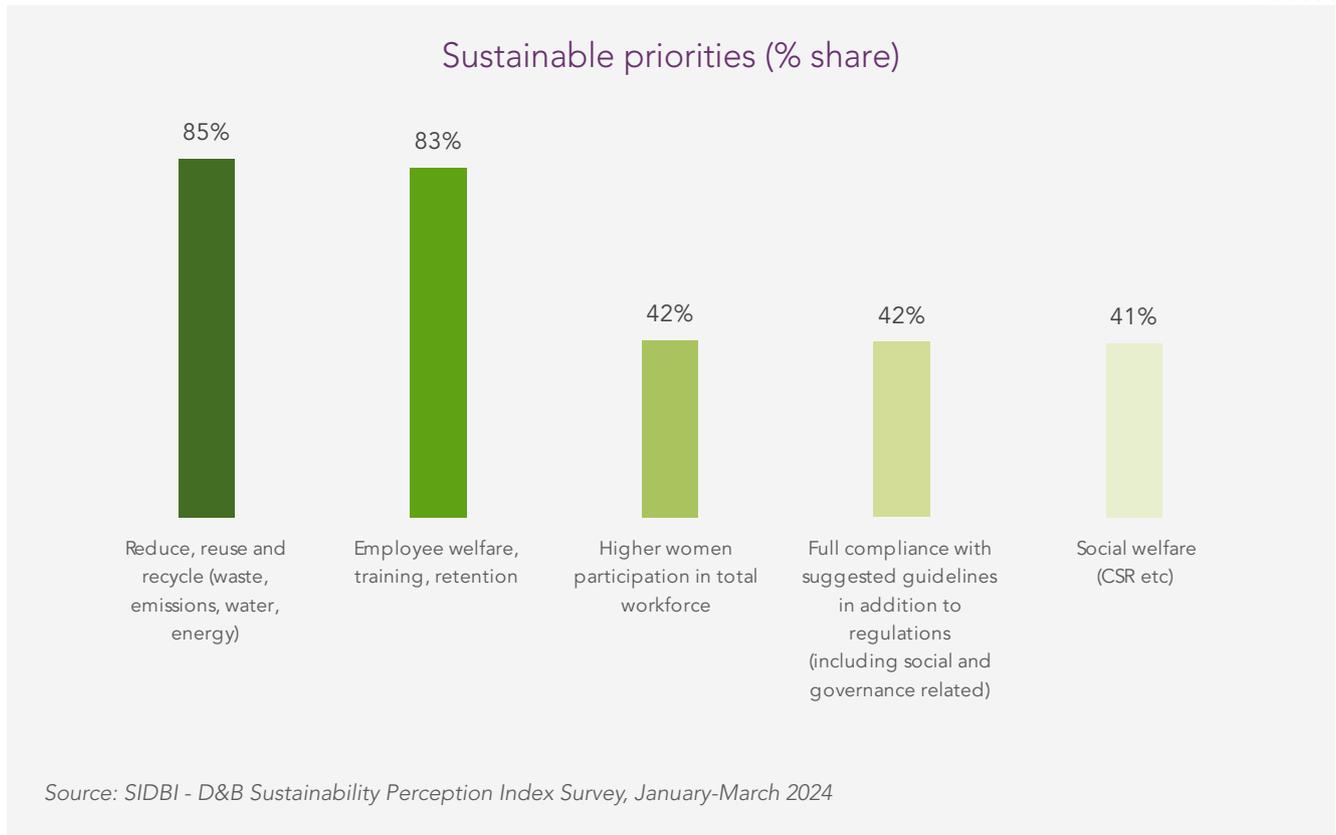
Reasons for not implementing sustainability measures (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, January – March 2024

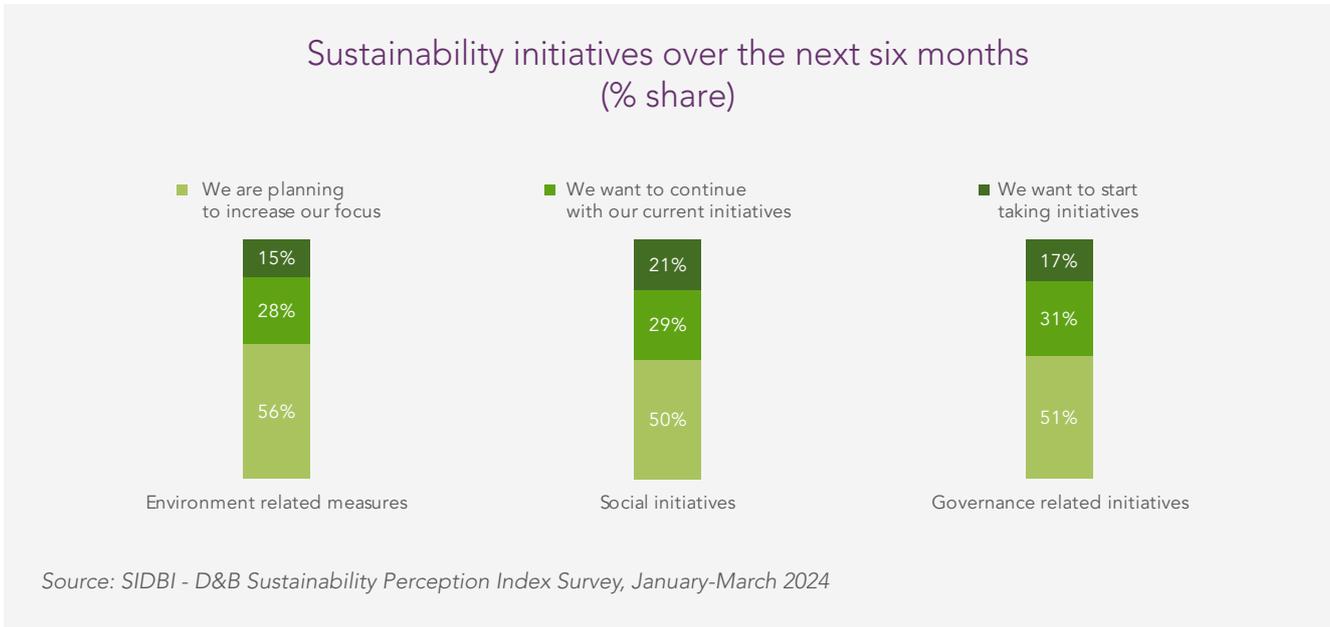
- MSMEs refrain from implementing sustainable measures because of numerous factors.
- According to 42% of MSMEs returns from implementing sustainability measures can only be achieved in the medium and long term and 35% consider returns to be uncertain. This poses limitations to implement.
- Majority of Leaders and Aspirers in the leadership category i.e., 55% and 57% respectively consider returns achievable only in the medium to long term.
- Difficulty to quantify outcome of ESG investment is an issue revealed by 27% of MSMEs.
- Only few i.e., 1 in 5 MSMEs consider that ESG investment will not result in competitive advantage.
- ESG investments are preferred by global customers only in specific countries is considered by only 1 in 5 MSMEs as reason for not implementing sustainability measures.

Reduce, reuse, and recycle (waste, emission, water, and energy) is the topmost sustainable priority for MSMEs.



- Reduce, reuse, and recycle (waste, emission, water, and energy) is the topmost sustainable priority for MSMEs.
- More than 80% of MSMEs across leadership categories consider environment related initiatives such as reducing, re-using, and recycling to be their topmost priority.
- Compliance, social welfare, and increasing women's participation in the workforce are among the least prioritized by MSMEs, with only 40% considering them important on average.
- 36% of Aspirers consider compliance to be a priority, the lowest amongst the leadership category compared to 47% of Integrators who are the highest.
- 31% of medium sized firms and 37% of Leaders prioritize increasing women's participation in the workforce, the lowest amongst the firm size and leadership categories.

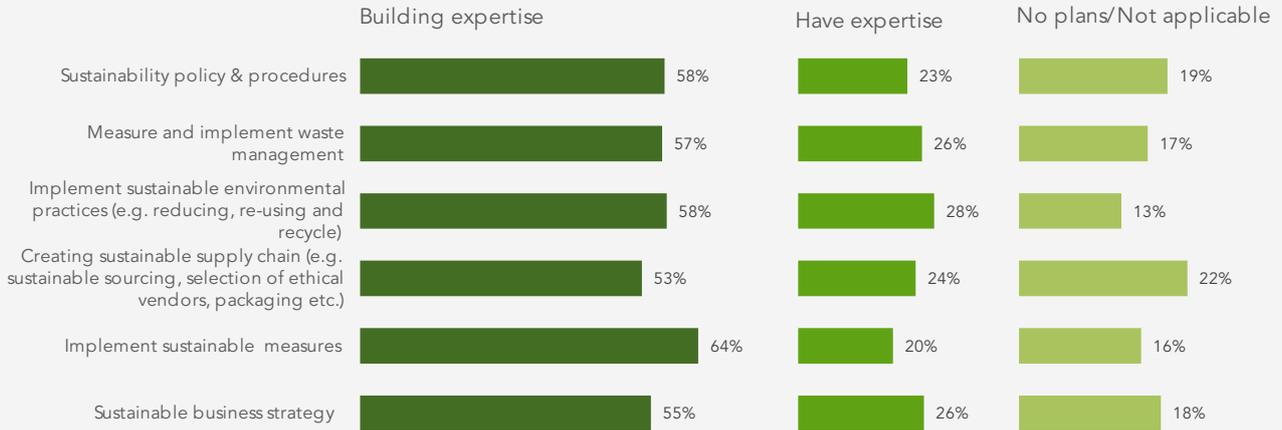
1 in 10 MSMEs want to start taking social and governance related initiatives over the next six months and 3 in 10 want to continue with their current initiatives.



- Around 41% of MSMEs stated that governance measures like adhering to compliance and social welfare are their current priorities.
- Over the six months, 31% of MSMEs stated that they are going to continue with their current social and governance related initiatives.
- Across the leadership category, in the two areas of social and governance related initiatives, around 59% of Leaders stated that they are going to continue with the current initiatives, only 3% want to start taking initiatives.
- 1 in 3 Integrators want to continue with their current initiatives and only 1 in 10 want to start taking new initiatives. 1 in 4 Aspirers want to continue with their current initiatives. More than 1 in 10 want to start taking new initiatives.
- Less than 2 in 10 Followers want to continue with their current initiatives and 4 in 10 showed inclination towards starting new initiatives.

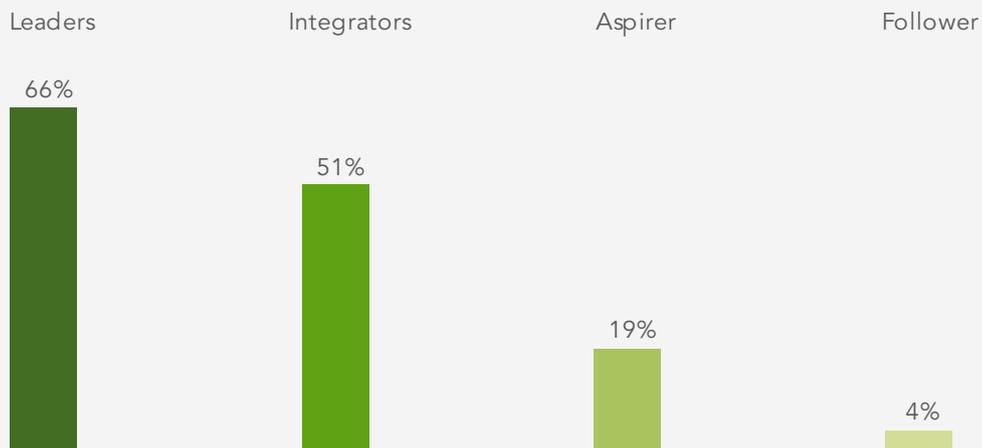
MSMEs appear to have most expertise on implementing sustainable environmental practices but this varies across leadership category.

Expertise on implementing sustainable initiatives (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, January-March 2024

By leadership categories: % of MSMEs with expertise to implement sustainable environmental practices

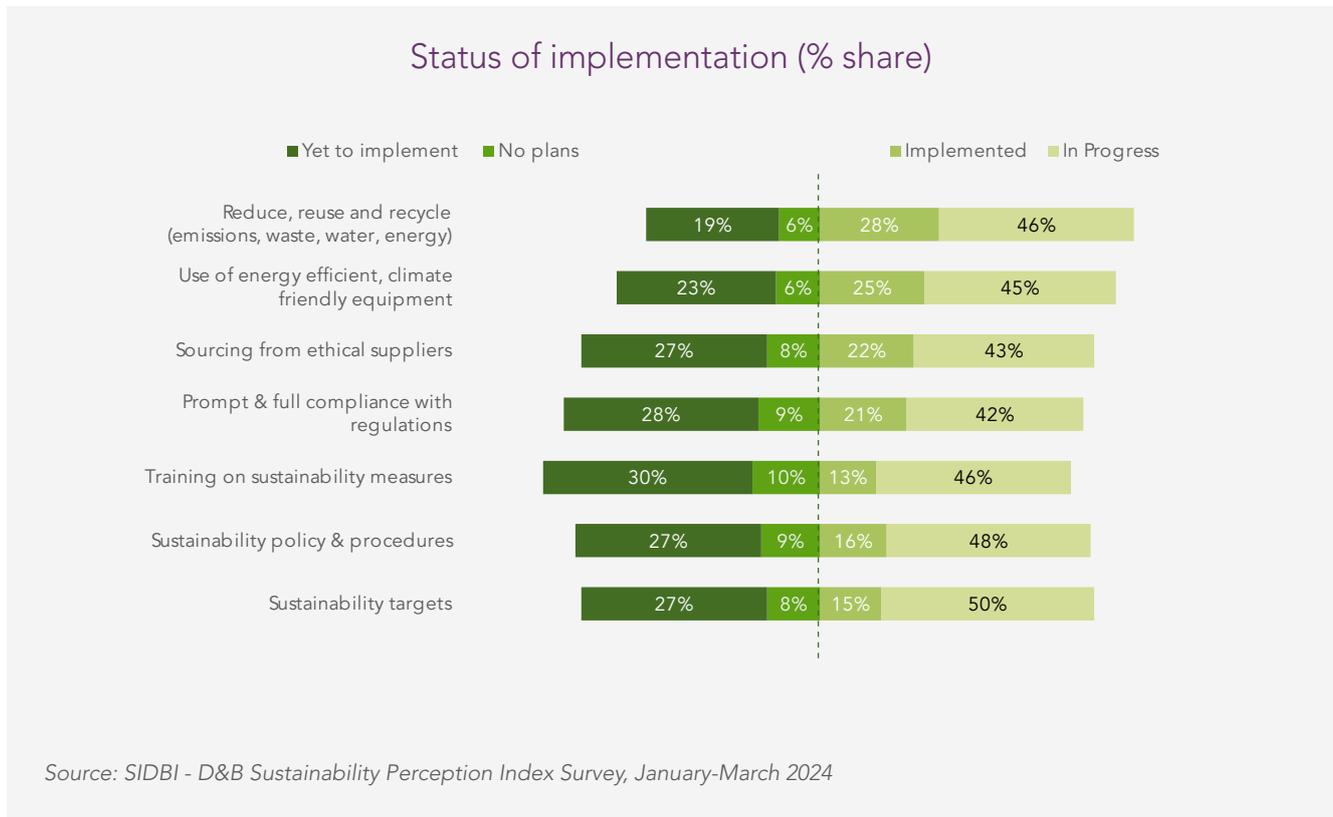


- Out of the six measures asked in our survey, MSMEs appear to have expertise on implementing sustainable environmental practices the most: 28% of them stated that they have expertise, but this varied widely according to leadership category. 66% of Leaders stated they have expertise compared to 4% Followers.
- Implementing sustainable measures in the area where the majority of the MSMEs i.e., 64% are working towards building an expertise.
- According to 22% of MSMEs, there is no plan to create sustainable supply chain. 48% of Followers stated that they have no such plans compared to 6% of Integrators. The Leaders either have expertise or are building expertise on creating sustainable supply chains.
- The Leaders have the most expertise in waste management (71%) and in creating sustainability policy & procedures (71%).
- The Integrators have the most expertise in implementing sustainable environmental practices (51%) and the least in devising sustainable business strategy (27%).
- The Aspirers have low expertise across the six initiatives: The highest in sustainable supply chain (22%) and the least in sustainable policy and procedures (13%).
- Only 13% of Followers stated that they have expertise in creating sustainable business strategy and less than 7% have expertise in all the other five initiatives.



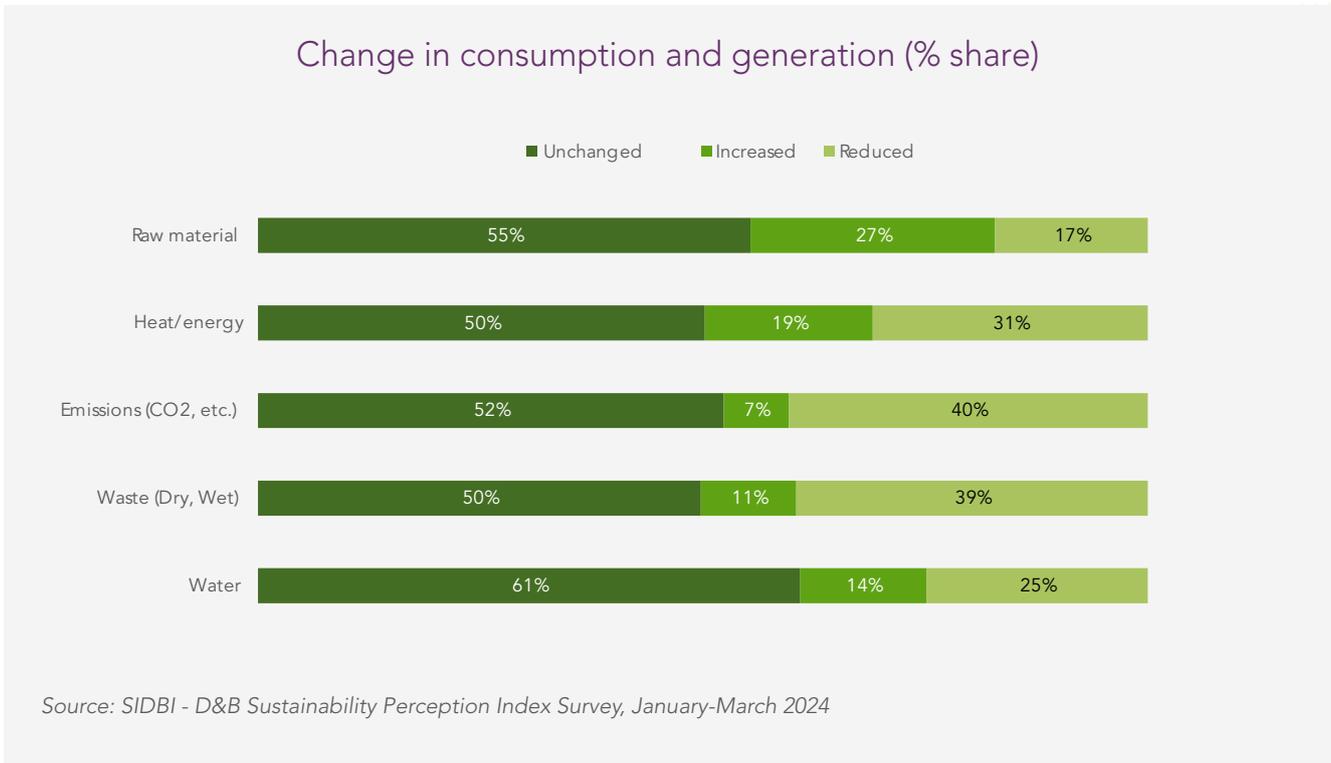
BI D&B Sustainability Perception Survey Report April - June 2023

Sustainability policy implementation and training remain quite low amongst MSMEs.



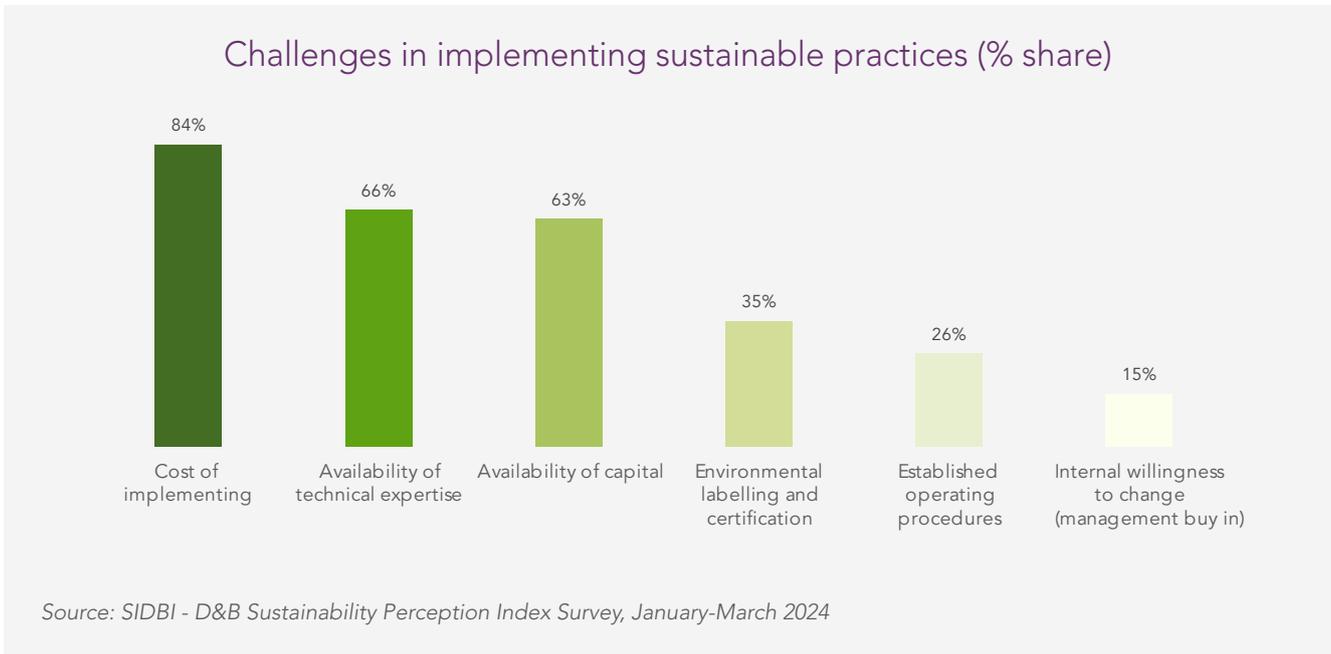
- More than 1 in 4 MSMEs have implemented environmental related measures such as energy efficient equipment and reusing and recycling measures.
- Environment related measures are adopted mostly by Leaders (71%) and Integrators (59%) and the implementation is extremely low amongst Aspirers (17%) and Followers (7%).
- Implementation of sustainability policy and procedures and training remains quite low. Only around 15% of MSMEs have implemented them and close to an average of 40% have not implemented them. Across leadership categories, around 58% of Leaders have implemented. Implementation remains quite low amongst Integrators (15%), Aspirers (7%) while Followers have not implemented any measures in this regard.

MSMEs were able to reduce emissions the most and raw materials the least in the January - March 2024 quarter over the previous quarter.



- Around 40% of MSMEs have been able to reduce emissions and waste in the January – March 2024 quarter compared to the previous quarter.
- While 63% of Leaders were able to reduce emissions, 37% of Followers were able to do so, higher than the Aspirers and Integrators.

For the 5th consecutive survey, MSMEs claim technical expertise and capital availability as primary challenges in adopting sustainability initiatives.



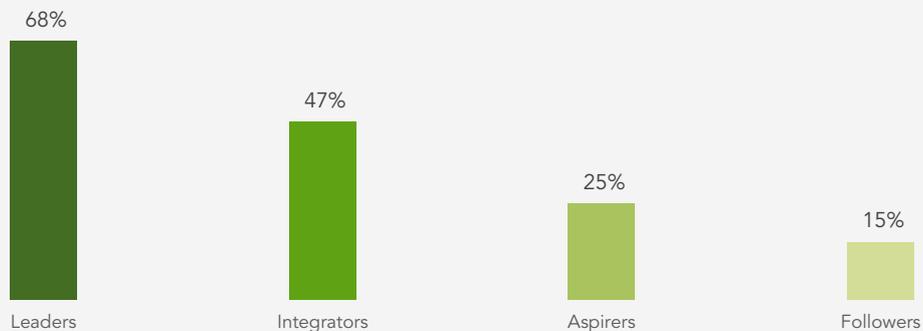
- Cost of implementing is the topmost challenge for implementing sustainability measures across all categories of leadership.
- While technical expertise is the second most key challenge for all, for Followers it is the availability of capital.
- Availability of technical expertise is a key challenge for 67% of Integrators and Followers each, highest than the other categories.
- Established operating procedures is a key challenge for 39% of Leaders whereas it is a challenge for 18% of Followers.

1/3rd of MSMEs are very likely to implement additional sustainability measures over the next two quarters.

Implement additional sustainability measures in the next two quarters (% share)



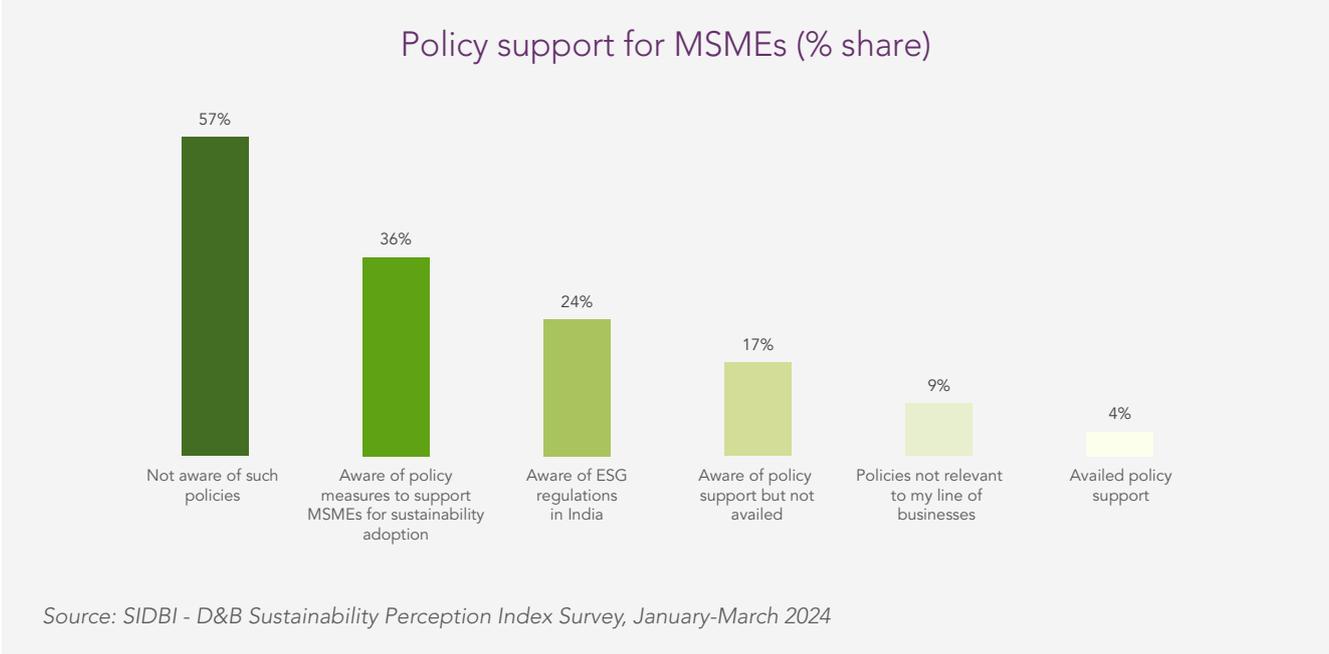
% of MSMEs who are 'Very Likely' to enhance sustainability adoption: Leadership categories



Source: SIDBI - D&B Sustainability Perception Index Survey, January-March 2024

- While 33% of MSMEs are highly likely to implement additional measures, the willingness to implement varies across different categories of leaders.
- Compared to 68% of Leaders only 25% of Aspirers and 15% of Followers are highly likely to implement additional measures over the next two quarters.

Awareness of policies to support MSMEs for sustainability adoption remains low; 57% of MSMEs are not aware of any such policies.



- Only 24% of MSMEs are aware of ESG regulations and a higher 36% of MSMEs respondents stated that they are aware of policy measures to support MSMEs for sustainability adoption, but only 4% have availed them.
- According to 9% of MSMEs, these policies are not relevant to their business.
- For majority of MSMEs, awareness is low; 57% are not aware of any policies and 17% who are aware have not availed of any policies.

Firmographics

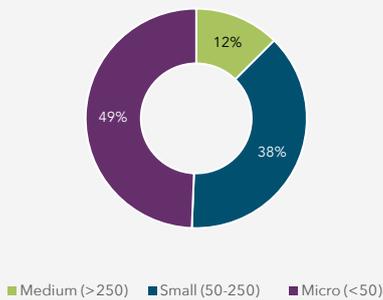
Sector-wise survey participation



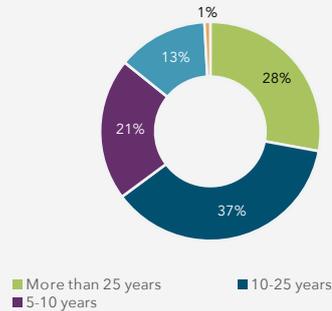
Source: SIDBI - D&B Sustainability Perception Index Survey, January-March 2024

Size and age of business

Respondents by Employee Size (% share)



Respondents by Age of Business (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, January-March 2024

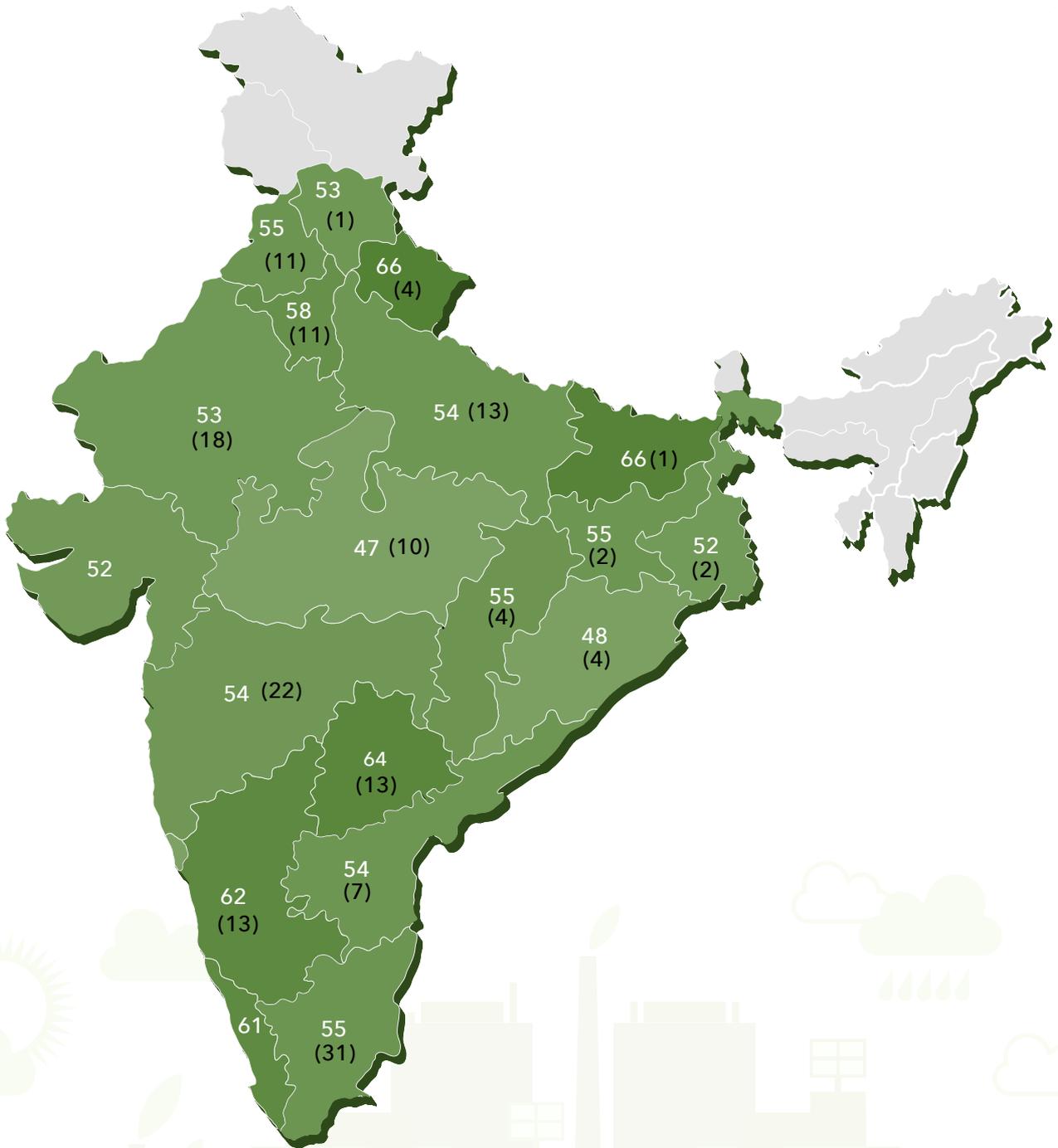
Share of respondents by position



Source: SIDBI - D&B Sustainability Perception Index Survey, January-March 2024

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, January-March 2024



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