



SIDBI – D&B SPeX

APRIL – JUNE 2024

Sustainability Perception Index (SPeX) – THE GREEN PULSE INDICATOR



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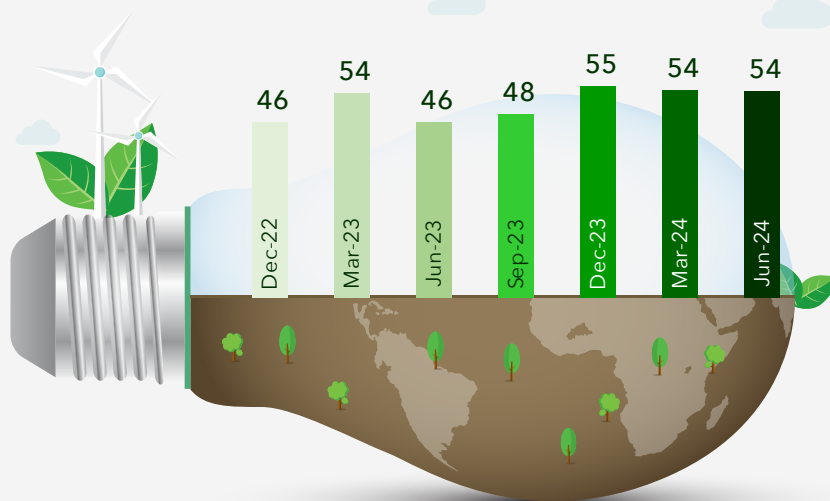
Introduction

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 MSMEs to capture an accurate picture of sustainability. The report provides insights into the current state of sustainability 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, thereby supporting India in meeting the goals pledged by the government at the COP26 summit.

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, April – June 2024

Key takeaways



WILLINGNESS

- In Q2 2024, MSMEs showed more inclination to continue with their current level of sustainability initiatives while their preference to increase them declined compared to Q1. This was indicated for environmental, social as well as governance initiatives.
- In Q2 2024, while micro firms showed a decline in willingness to build expertise in sustainable measures and waste management compared to Q1, the percentage of those with expertise across all six sustainability initiatives increased.



AWARENESS

- Awareness of sustainability among MSMEs has increased over the past year, with medium, small, and micro firms showing a stronger focus on environmental measures over social and governance factors in Q2 2024. They perceive sustainability initiatives as most beneficial for profitability and brand image compared to other factors.
- Larger section of medium and small firms believes sustainability efforts can improve brand image (89%), boost stakeholder appeal (88%) and profitability (84%), though they are less confident about cost reduction with 78% of them stating so.
- On the other hand, micro firms primarily view improving brand image (78%) and reducing costs (77%) as key benefits, while fewer anticipate increased stakeholder appeal (71%).



CHALLENGES

- Despite the increased awareness, MSMEs face challenges in quantifying the benefits of sustainability investments, with many concerned about returns from sustainability initiatives and having limited familiarity with social aspects of sustainability.
- Global client demand is a primary driver for medium and small firms to adopt sustainability practices, while high costs, availability of capital, and lack of technical expertise are major challenges across all firm sizes.



IMPLEMENTATION

- Implementation in Q2 2024 has improved over the past quarter, with micro firms leading in implementing sustainability practices.
- MSMEs' efforts are primarily concentrated on labor welfare, environmental actions, and community initiatives, with variations depending on the firm's age and firm size.
- The percentage share of micro firms reporting implementation in Q2 2024 compared to Q1 2024 saw the highest increase in four categories: training on sustainability measures, compliance, sourcing from ethical suppliers, and recycling practices.
- Sustainability initiatives by firms vary by age. For internal sustainability initiatives, younger (less than 1 year) and older MSMEs (more than 25 years) engage more on environment related measures. While MSMEs aged between 1-25 years revealed focusing on labour welfare.
- For external sustainability initiatives, old (more than 25 years) and younger MSMEs (less than 5 years) are mostly involved in community welfare. While MSMEs aged between 5-25 years are engaged with activities related to development of the environment of local community.

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 April -June 2024. 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.

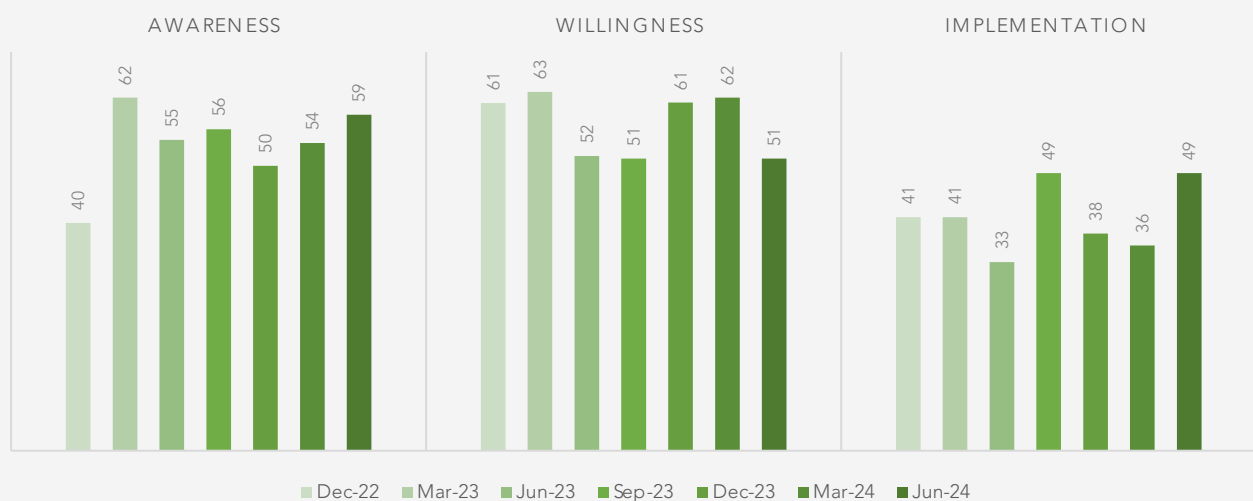


Key findings

Despite the increase in Q2 2024, implementation dimension continues to remain lowest for six consecutive quarters.

- The SIDBI - D&B Sustainability Perception Index (SPeX), also known as the "green pulse indicator," stood at 54 during April - June 2024 period, unchanged from the last quarter.
- In Q2 2024, SPeX was led by awareness dimension with a value of 59, rising 9%; followed by implementation, which saw a 35% increase to 49; while willingness dropped 17% to 51 compared to the previous quarter.

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, April - June 2024

AWARENESS



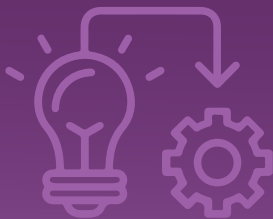
- Awareness of sustainability among MSMEs has increased over the past year, with medium, small, and micro firms showing a stronger focus on **environmental measures** over social and governance factors in Q2 2024. They perceive sustainability initiatives as most beneficial for **profitability** and **brand image** compared to other factors.
- Despite the increased awareness, MSMEs face **challenges** in **quantifying the benefits** of sustainability investments, with many concerned about **returns** from the sustainability initiatives.

WILLINGNESS



- In Q2 2024, MSMEs showed more inclination to continue with their current level of sustainability initiatives while their preference to increase them declined compared to Q1. This was indicated for environmental, social as well as governance initiatives.
- The sustainability priorities in Q2 remain the same as in Q1, with micro firms increasing their focus on CSR activities, while this focus declined among small and medium firms.

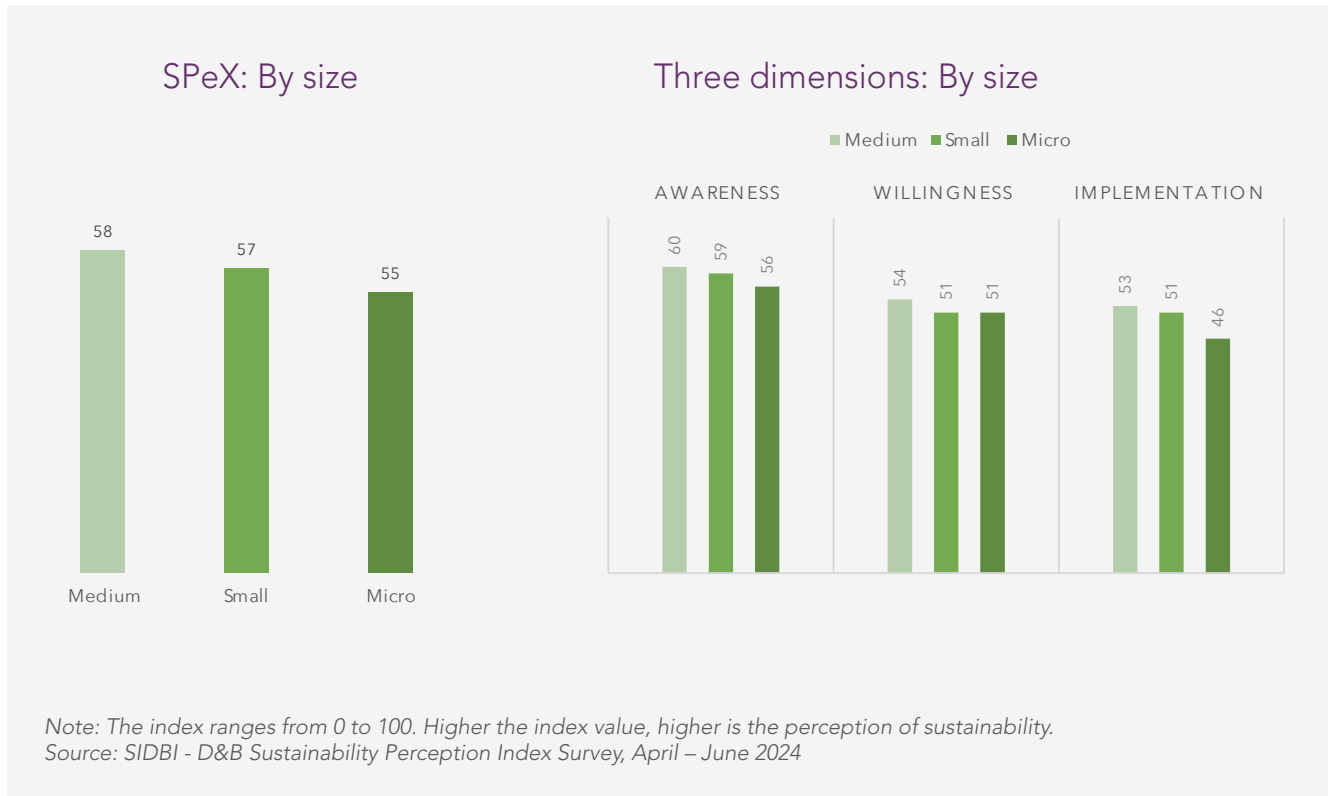
IMPLEMENTATION



- MSMEs have shown improvements in implementing sustainable practices, especially micro-sized firms, with many **planning to adopt additional measures** in the near future.
- Internal and external sustainability efforts of MSMEs are focused towards **labor welfare, environmental measures** and **community initiatives**, and these vary by age and size of firms.

SPeX by size of firms

Increased awareness of environmental measures, challenges in quantifying benefits and reduced willingness to expand sustainability practices are the three common factors highlighted by MSMEs in Q2 2024



- The SPeX of micro firms remain lowest at 55 compared to the small (57) and medium (58) size firms in Q2 2024.
- Firms of all sizes have shown improved awareness of sustainability, particularly on environmental measures. This indicates a growing recognition of the importance of environmental sustainability across the board.
- MSMEs face challenges in quantifying the benefits of sustainability initiatives.

This suggests that while firms recognise the value of sustainability, they struggle to measure its impact effectively, especially in financial terms.

- MSMEs have indicated reduced willingness to expand or adopt new sustainability practices in Q2 2024. This trend may reflect uncertainties, resource constraints, or a need for clearer guidance and incentives.

Insights by size of firms

Medium firms:

- **Global client demand as a driver of sustainability initiatives:** Medium firms are largely driven by global client demand, which influences their sustainability practices. This is different compared to small and micro firms that are more influenced by demand from domestic clients.
- **Focus on cleaner production:** Medium firms emphasised more on labour welfare as internal sustainability

initiatives differentiating them from micro firms that prioritised cleaner production and recycling processes.

- **Higher perceived profitability gains:** Medium firms perceive higher profitability gains (82%) from sustainability initiatives compared to micro firms (76%), indicating a belief in the financial benefits of sustainable practices.



Small firms:

- **Labor welfare prioritisation:** Small firms prioritise labor welfare and environmental measures over community welfare, showing a focus on the workforce's well-being as part of their sustainability strategy.
- **Influence of both global and domestic demand:** Small firms are influenced by both global and domestic client demand, highlighting their position in the market as being affected by multiple external factors.

- **Concerns about short-term returns:** A concern for small firms is the potential lack of short-term returns along with uncertain returns from sustainability efforts, which may impact their willingness to invest heavily in these initiatives.



Micro firms:

- **Significant improvements in implementation:** Micro firms have shown the most improvement in implementation of sustainable business practices in Q2 2024, indicating a high level of adaptability and progress.
- **Focus on CSR and community health measures:** Micro firms have increased their focus on CSR activities and community health-related measures the most in Q2 2024, setting them apart from medium firms (which have higher women

participation) and small firms (which focus more on employee welfare) with different sustainability priorities.

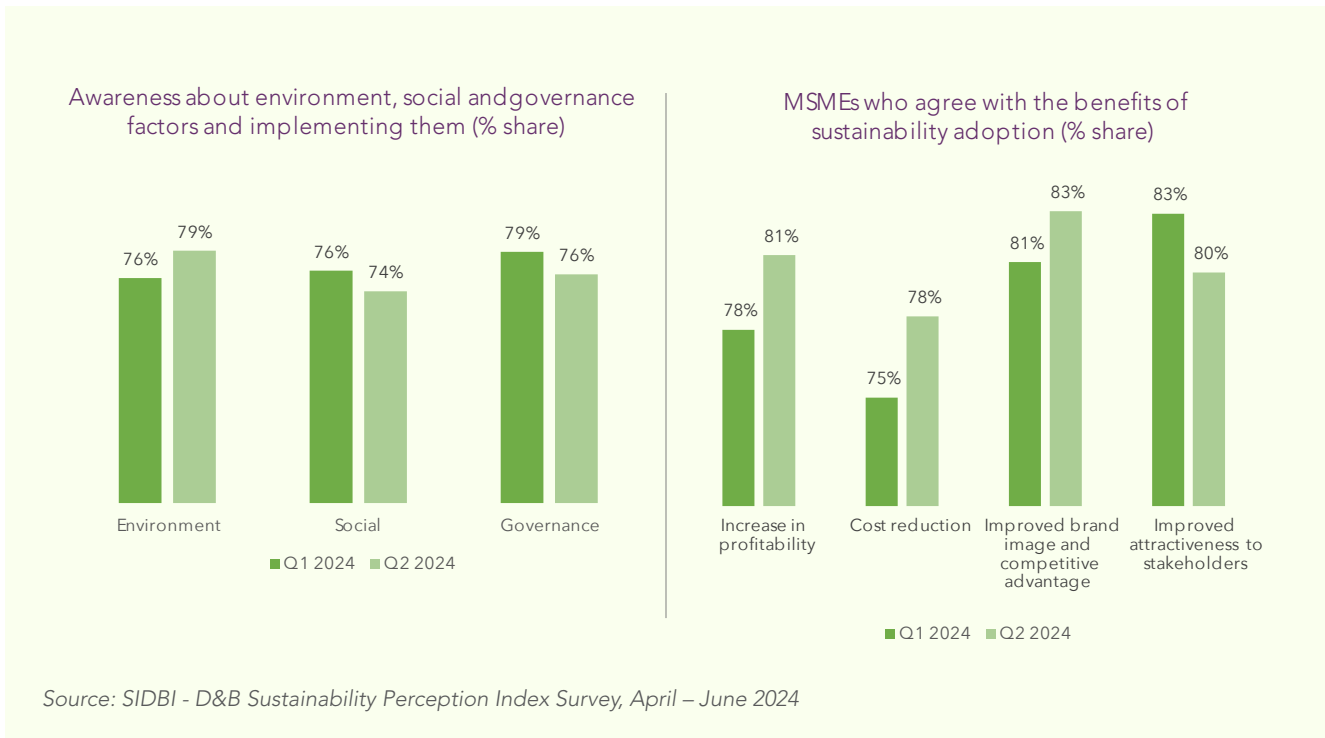
- **Domestic client demand as a primary driver:** Unlike medium firms, micro firms are primarily driven by demand from domestic clients emphasising their local market focus and responsiveness to community needs.





Awareness about sustainability amongst MSMEs

Awareness of sustainability among MSMEs has increased over the past year, with medium, small, and micro firms showing a stronger focus on environmental measures over social and governance factors in Q2 2024. They perceive sustainability initiatives as most beneficial for profitability and brand image compared to other factors.



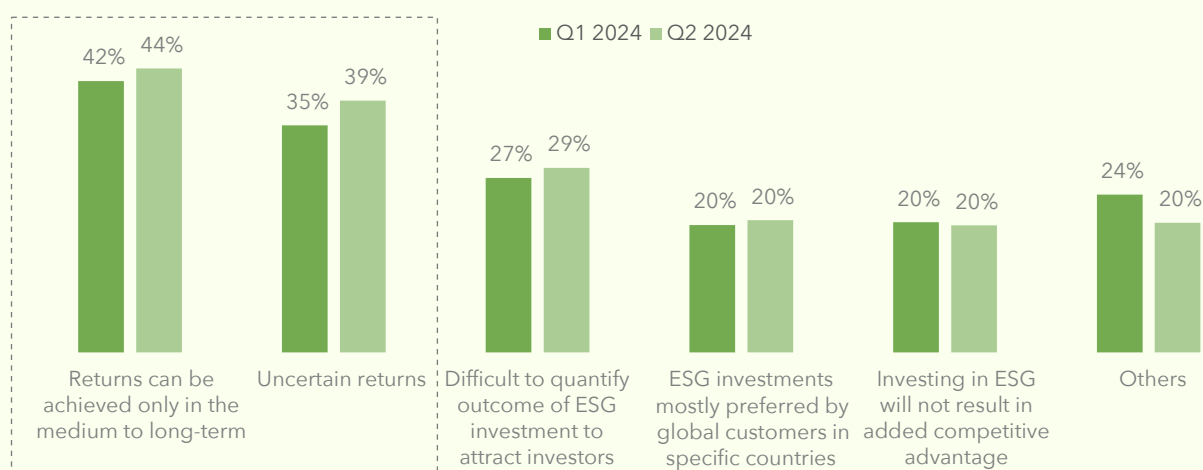
- Awareness of sustainability has improved among medium, small, and micro firms (MSMEs) over the past year, with these firms demonstrating a stronger understanding of and interest in implementing environmental measures compared to social and governance factors. The awareness dimension of the sustainability index for Q2 2024 is highest is five quarters.
- MSMEs recognize that adopting sustainability practices can bring about various benefits, however, this differs across size of firms.
- Larger section of medium and small firms believes sustainability efforts can improve brand image (89%), boost stakeholder appeal (88%) and profitability (84%), though they are less confident about cost reduction with 78% of them stating so.
- On the other hand, micro firms primarily view improving brand image (78%) and reducing costs (77%) as key benefits, while fewer anticipate increased stakeholder appeal (71%).
- Notably, MSMEs' awareness of the profitability and cost-reduction benefits of sustainability has been growing since Q1 2023 when we started our survey.



Challenges perceived by MSMEs about investing in sustainability measures

Despite the increased awareness, MSMEs face challenges in quantifying the benefits of sustainability investments, with many concerned about returns from these initiatives and limited familiarity with social aspects of sustainability.

Reasons for not implementing sustainability measures (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 2024

- Despite the increased awareness of sustainability benefits, MSMEs still perceive significant challenges to implement such initiatives.
- About 38% of medium-sized firms find it challenging to quantify the outcomes of ESG investments to attract investors, acknowledging that benefits are more likely in the medium to long term.
- Small firms express concern over returns to be uncertain and achieved only in the medium to long term, with 44% sharing this view.
- While 77% of micro firms agree that sustainability initiatives can enhance profits and reduce costs, close to 50% believe returns will only materialise in the medium to long term, leading to hesitancy, especially regarding intangible benefits from social initiatives.
- This is evident as only 42% of micro firms stated that they have limited familiarity with the social aspects of sustainability, and just 30% are implementing them. The remaining 28% stated very low familiarity with or relevance of social measures.



Willingness of MSMEs to adopt sustainable practices

The percentage of micro firms showing willingness to continue with their current initiatives in Q2 2024 has increased compared to Q1, as they have shown less willingness to expand their initiatives or start new ones.



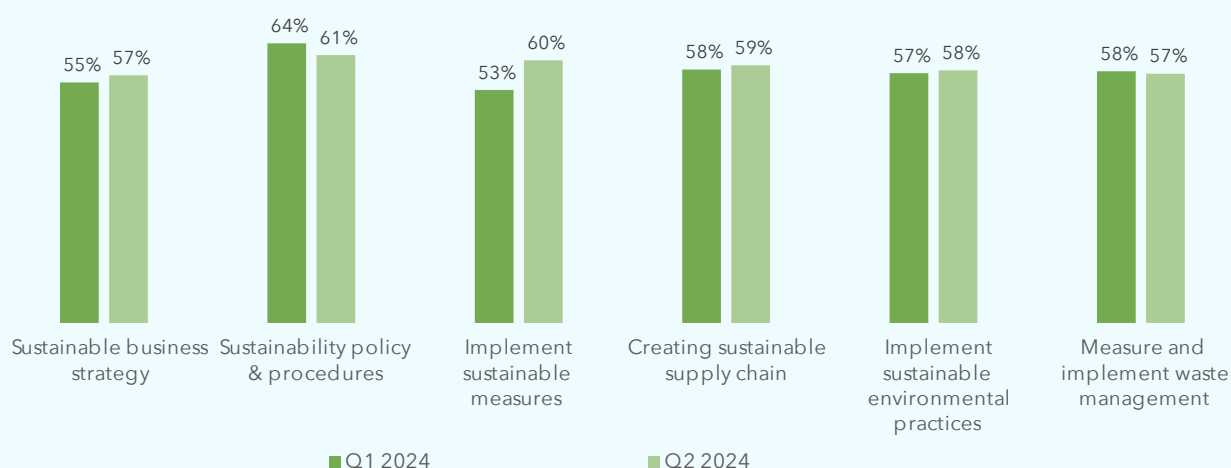
- The Sustainability Perception Index shows a decline in MSMEs' willingness to adopt sustainable practices in Q2 2024 compared to the previous two quarters.
- In Q2 2024, MSMEs showed more inclination to continue with their current level of sustainability initiatives while their preference to increase them declined compared to Q1. This was indicated for environmental, social as well as governance initiatives.
- Percentage of micro firms (44%) planning to continue their sustainability efforts in the next six months in Q2 2024 is highest while a higher share of smaller firms (54%) has shown inclination for increasing their current initiatives.



MSMEs' expertise in sustainable practices

In Q2 2024, while micro firms showed a decline in willingness to build expertise in sustainable measures and waste management compared to Q1, the percentage of those with expertise across all six sustainability initiatives increased.

Building expertise on sustainable business practices (% share)



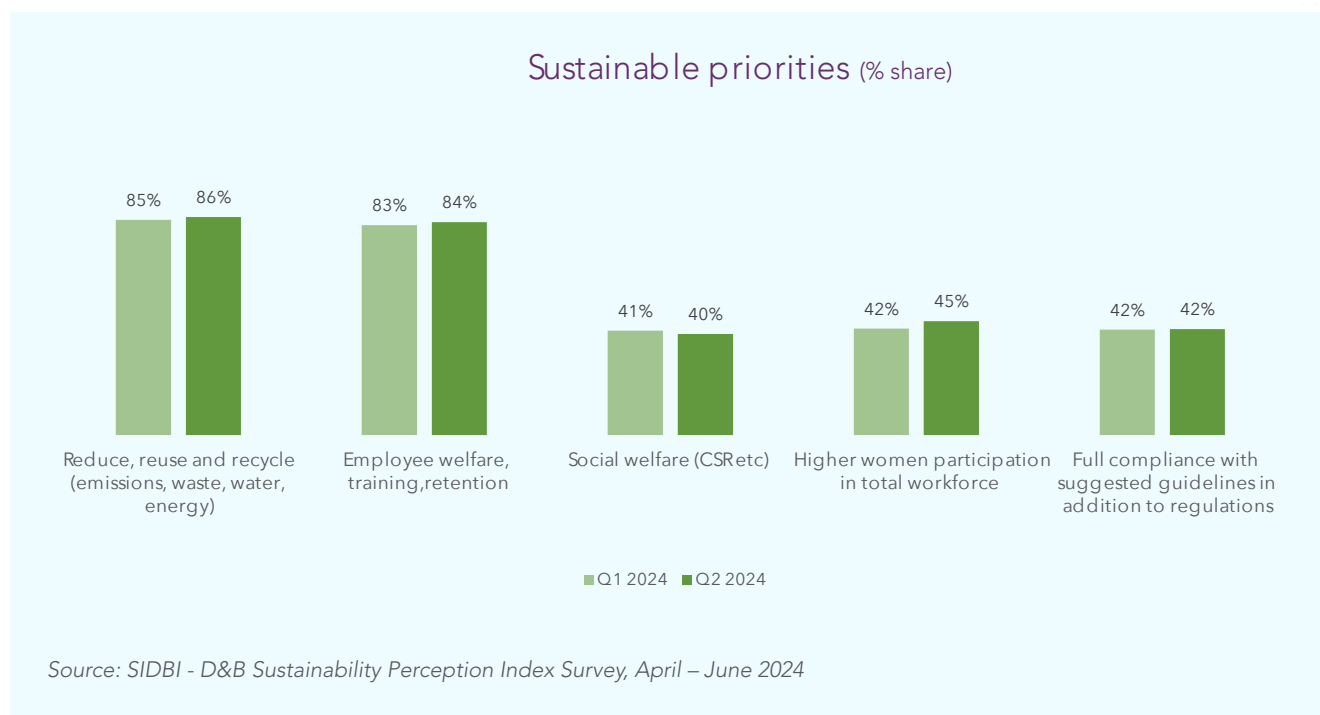
Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 2024

- In case of micro firms, the percentage of firms building expertise on implementing sustainable measures and waste management measures has declined in Q2 2024 compared to Q1 2024.
- Notably, the percentage of micro firms stating they have expertise on all six initiatives i.e. sustainable business strategy, policy, supply chain, waste management, environmental practices and implementing sustainable measures has increased in Q2 2024 compared to the previous quarter.
- Higher share of medium firms have revealed building expertise in sustainability policy & procedures in Q2 compared to Q1 2024 contrary to small firms.
- Besides, higher share of medium sized firms has revealed building expertise in creating sustainable supply chains, implementing sustainable environmental practices along with implementing waste management in Q2 compared to Q1 2024.
- Among smaller firms, share of firms stating building expertise on sustainable environmental practices along with sustainability policy & procedures have declined in Q2 compared to Q1.



Sustainable priorities of MSMEs

The sustainability priorities in Q2 remain the same as in Q1, with micro firms increasing their focus on CSR activities, while this focus declined among small and medium firms.

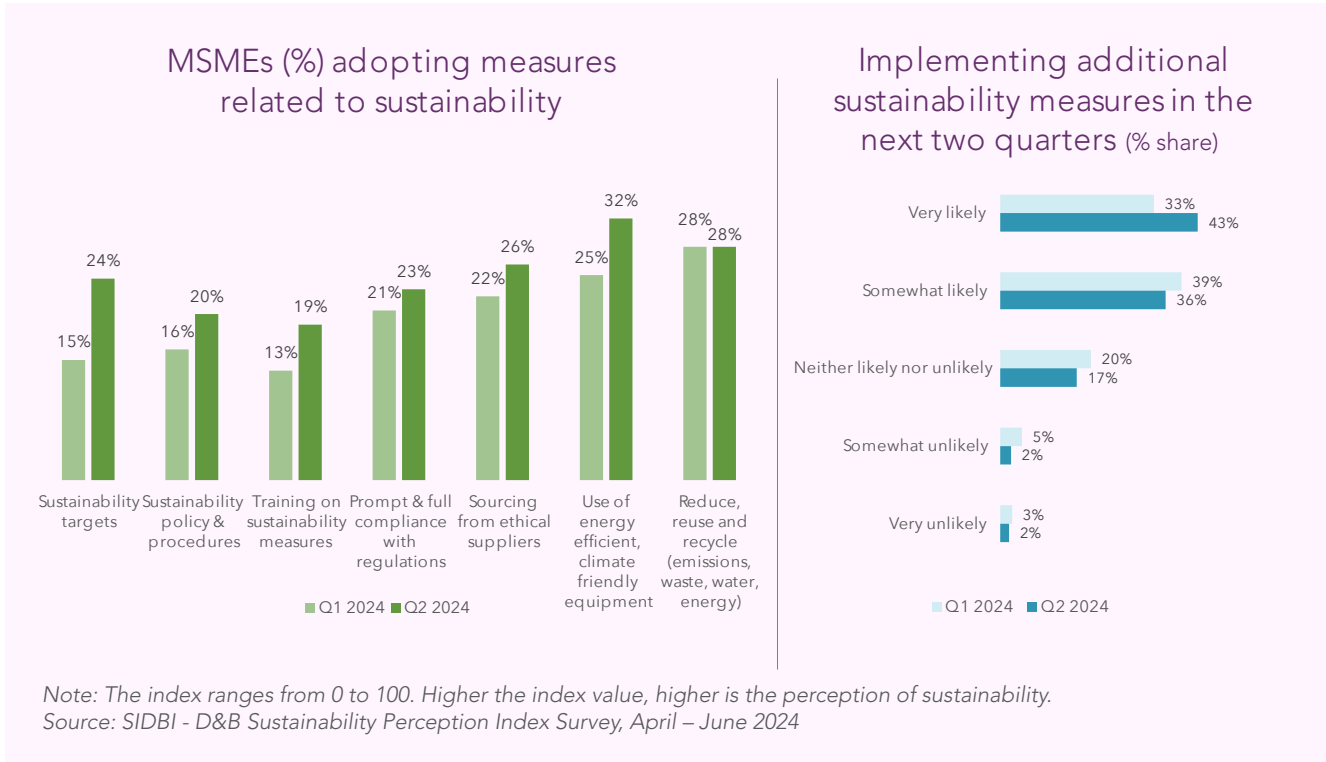


- The order of sustainability priorities for MSMEs in Q2 2024 remains unchanged from the previous quarter.
- Environmental factors and employee welfare continue to be the top two priorities in Q1 and Q2 of 2024, as they were in 2023.
- In Q2 2024, the percentage of micro firms focusing on selected sustainability priorities (as mentioned in the graph) decreased compared to the previous quarter, except for CSR activities, which increased; meanwhile, small and medium firms showed a decline in prioritising CSR activities during the same period.
- Further, share of medium firms reporting emphasis on employee welfare as their priority in Q2 2024 was lower compared to the last quarter.



Implementing sustainability measures

Implementation improved with micro firms leading in implementing sustainability practices in Q2 2024.



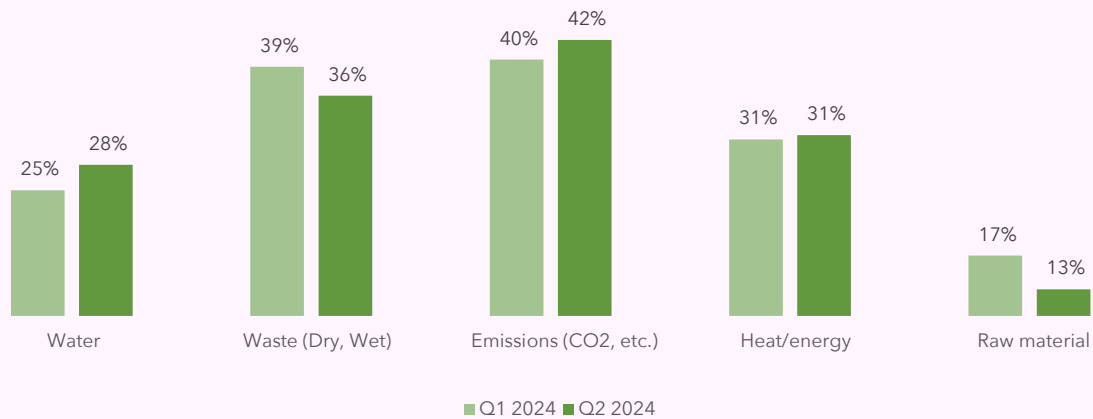
- The implementation dimension of the SPEX index has improved over the last quarter.
- Businesses were asked about various stages of implementation of seven categories of sustainable practices in Q2 2024.
- Share of MSMEs indicating implementation of sustainable business practices have improved across most of the measures asked in the survey and this was observed mainly amongst the micro sized businesses.
- The percentage of micro firms reporting implementation in Q2 2024 compared to Q1 2024 saw the highest increase in four categories: training on sustainability measures, compliance, sourcing from ethical suppliers, and recycling practices.
- For small firms, the percentage implementing sustainability policies, training, compliance, and sourcing from ethical suppliers was lower in Q2 2024 compared to the previous quarter.
- The share of medium firms using energy-efficient, climate-friendly equipment was lower in Q2 2024 compared to the previous quarter.
- However, medium (56%), small (47%) and micro (35%) firms indicated that it is very likely for them to implement additional sustainability measures over the next two quarters.



Change in consumption/generation of output

MSMEs managed to reduce their water consumption and emissions in Q2 compared to Q1, but did not cut back on raw material usage and waste reduction.

Reducing consumption/generation of output for the the same unit of production/revenue from the previous quarter (% share)

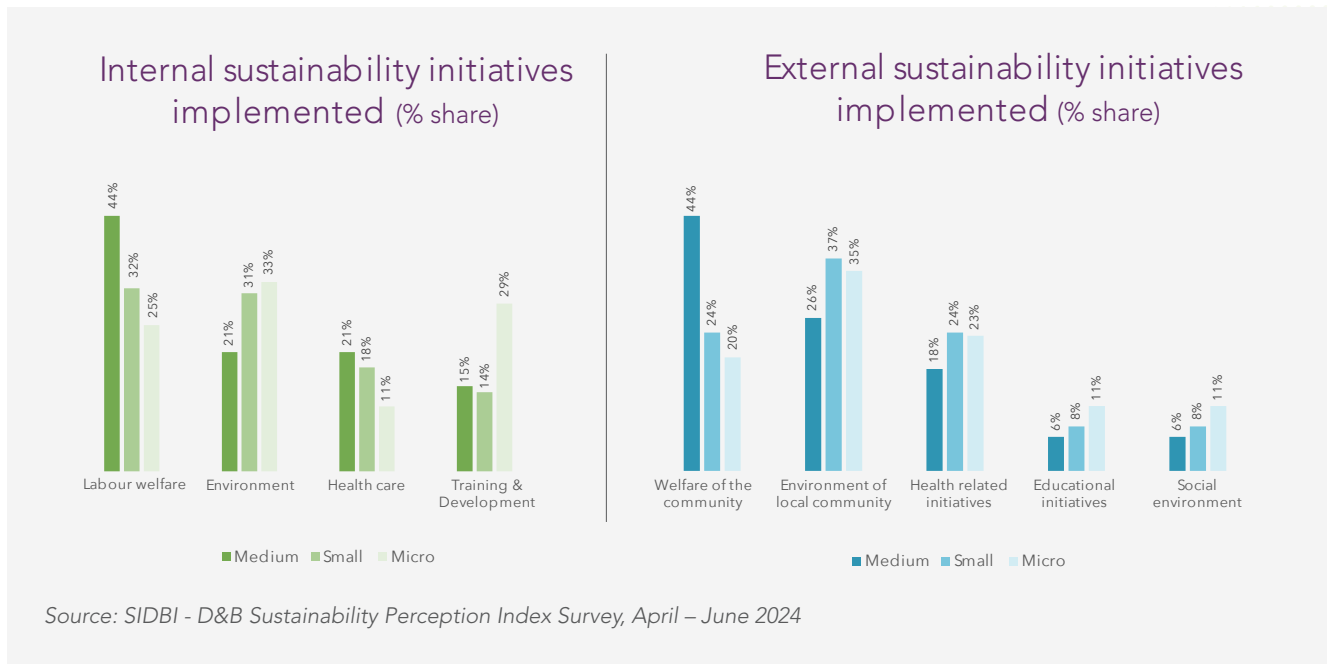


Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 2024

- Reductions in raw materials were reported by a lower share of firms across all firm sizes—medium, small, and micro—in Q2 compared to the previous quarter.
- In Q2 2024, a lower percentage of small firms reduced consumption/generation of waste, emissions, heat, and raw material compared to Q1 2024.
- However, a higher proportion of micro firms reported reductions in consumption and generation, though not in waste and raw materials, in Q2 2024 compared to Q1 2024.

Internal and external sustainability initiatives taken by MSMEs

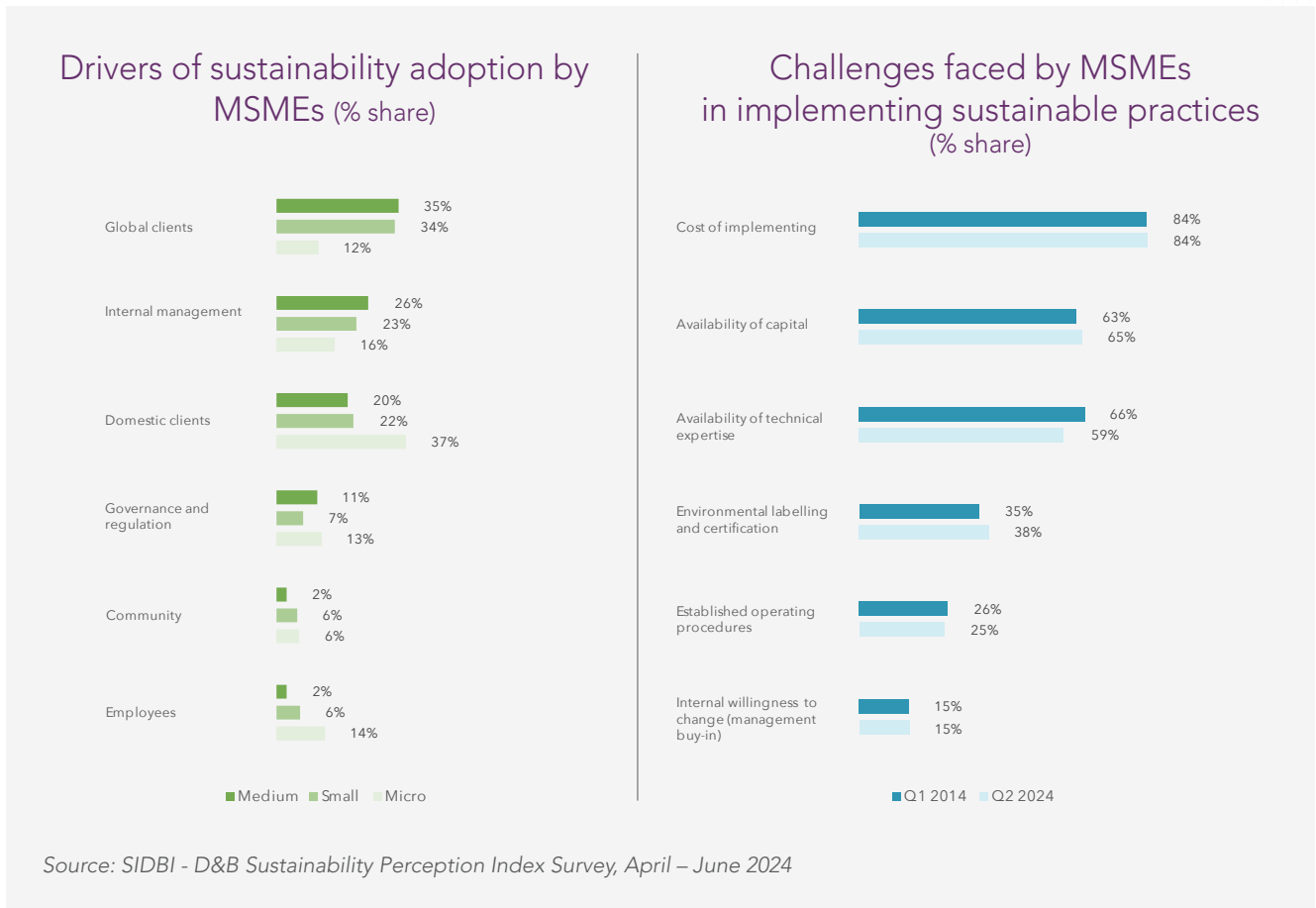
Both internal and external sustainability initiatives by firms vary by age.



- Labour welfare and cleaner production are the top two internal sustainability initiatives for MSMEs.
- Age-wise, younger (less than 1 year) and older MSMEs (more than 25 years) engage more on environment related measures. While MSMEs aged between 1-25 years revealed focusing on labour welfare.
- However, only 19% of firms over 25 years old have implemented labour welfare measures. Instead, a larger share of these older firms focus on cleaner production processes (38%) and training in sustainability measures (25%).
- For external sustainability initiatives, both medium and small firms show a greater focus on community welfare and the development of the environment of local community. while a larger share of micro firms also adopt community health-related measures.
- Old (more than 25 years) and younger firms (less than 5 years) are mostly involved in community welfare.
- While firms aged between 5-25 years are engaged with activities related to development of the environment of local community.

Key drivers and challenges in MSMEs' adoption of sustainability practices

Global client demand is a primary driver for medium and small firms to adopt sustainability practices, while high costs, availability of capital, and lack of technical expertise are major challenges across all firm sizes.



- Global client demand primarily drives medium and small firms to adopt sustainability initiatives as they are more likely to be involved in exports, while smaller firms are influenced by domestic client demand.
- Governance and regulation, community or employee motivation have minimal impact on MSMEs' decision to adopt sustainability measures.
- Cost, availability of capital, and technical expertise are the most significant challenges faced by MSMEs of all sizes i.e. micro, small and medium.

Government's thrust on sustainability highlighted through the fiscal policies

Some of the key renewable energy and green initiatives taken by the government in 2024



Government bolsters sustainability with Green Energy and Eco-Friendly initiatives.



Introduction of bio-manufacturing and bio-foundry scheme to offer eco-friendly alternatives, including biodegradable polymers, bioplastics, biopharmaceuticals and bio agri-inputs.



Viability gap funding to harness offshore wind energy potential for initial capacity of 1 GW.



Financial assistance provided for the procurement of biomass aggregation machinery.



Coal-gasification and liquefaction of 100 MT by 2030. Phased mandatory blending of compressed biogas (CBG) into compressed natural gas (CNG) for transport.



Expanding and strengthening the e-vehicle ecosystem by supporting manufacturing and charging infrastructure. Higher adoption of e-buses for public transport networks.



Introduced rooftop solarisation programme offering capital subsidy.

Some of the key measures taken by the government in the Union Budget for 2024-25.

- The duty structure on solar cells and modules has been revised favorably, along with changes for critical minerals. These adjustments will support domestic manufacturers and aid India in transitioning to sustainable energy.
- Exploring public-private partnerships in nuclear energy, particularly for developing small modular nuclear reactors, will help increase India's clean energy production and advance its sustainability efforts.
- The government plans to introduce a Climate Finance Taxonomy to classify economic activities that support climate commitments and other environmental goals.

This taxonomy will be vital in directing capital toward climate-resilient infrastructure and practices, and in increasing funding for climate initiatives. It will encourage investments in sectors transitioning from energy efficiency targets to emissions reduction targets. Currently, several countries and regions are developing or have already developed a climate finance taxonomy. A taxonomy in this context refers to a classification system that identifies what investments can be considered environmentally sustainable. This helps guide investors, companies, and policymakers in aligning financial flows with climate and environmental goals. Below are some countries and regions with climate finance taxonomies:



European Union

EU Taxonomy: The European Union has developed one of the most comprehensive and influential taxonomies, which sets criteria for determining whether an economic activity is environmentally sustainable. It covers climate change mitigation and adaptation, as well as other environmental objectives.



China

Green Bond Endorsed Projects Catalogue: China has its own taxonomy, which primarily focuses on projects eligible for green bonds. It outlines categories and criteria for green projects, particularly in energy, transportation, and resource conservation.



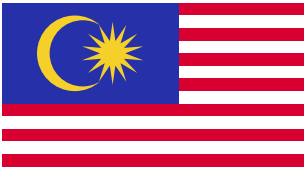
Russia

Russian Green Taxonomy: Russia has developed a green finance taxonomy to support its green bond market, covering areas like energy efficiency, renewable energy, and waste management.



South Africa

Green Finance Taxonomy: South Africa has published a green finance taxonomy to guide the classification of green and sustainable investments, including those related to climate change.



Malaysia

Climate Change and Principle-based Taxonomy (CCPT): Malaysia's taxonomy is designed to guide financial institutions in assessing economic activities based on climate risk and environmental impact.



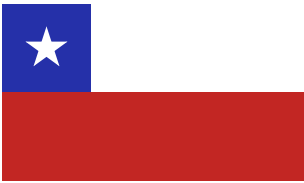
Mexico

Sustainable Taxonomy: The country's Sustainable Taxonomy is designed to tackle three key sustainability challenges: i) climate change, ii) gender equality, and iii) access to essential municipal services. It seeks to guide financial resources toward sustainable activities, produce reliable data, ensure transparency, and lay the groundwork for sustainable finance policies in Mexico.



Colombia

Green Taxonomy: Colombia is developing a green taxonomy to align financial flows with sustainable development and climate goals, with support from international partners.



Chile

Green Finance Taxonomy: Chile is in the process of developing a taxonomy to support its sustainable finance framework and climate commitments.



United Kingdom

UK Green Taxonomy: The UK is developing its own green taxonomy to guide sustainable investments, drawing on the EU framework but tailored to the UK market.



Indonesia

Green Taxonomy: Indonesia has introduced a green taxonomy to support the classification of economic activities based on their environmental impact, particularly in the energy and forestry sectors.

Firmographics

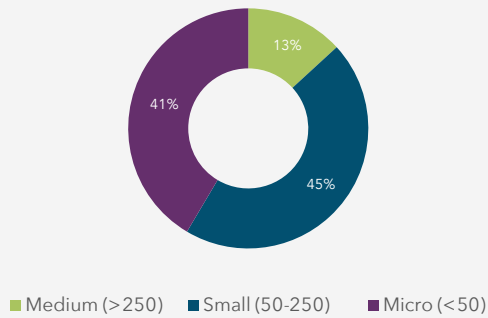
Sector-wise survey participation



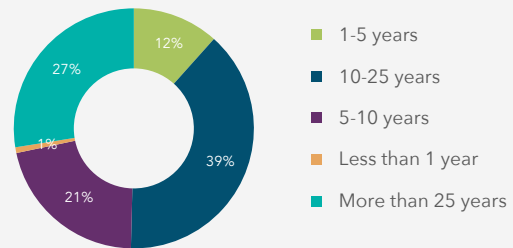
Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 2024

Size and age of business

Respondents by Employee Size (% share)

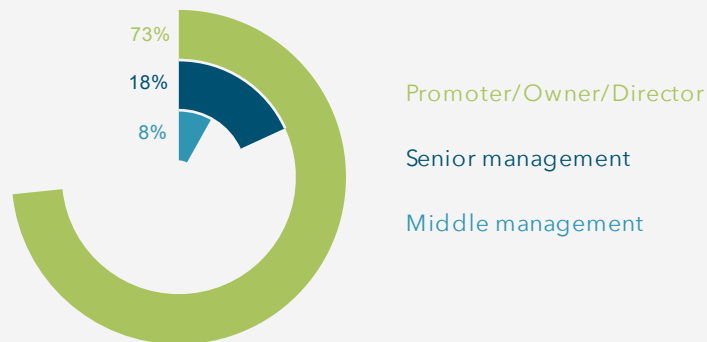


Respondents by Age of Business (% share)



Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 2024

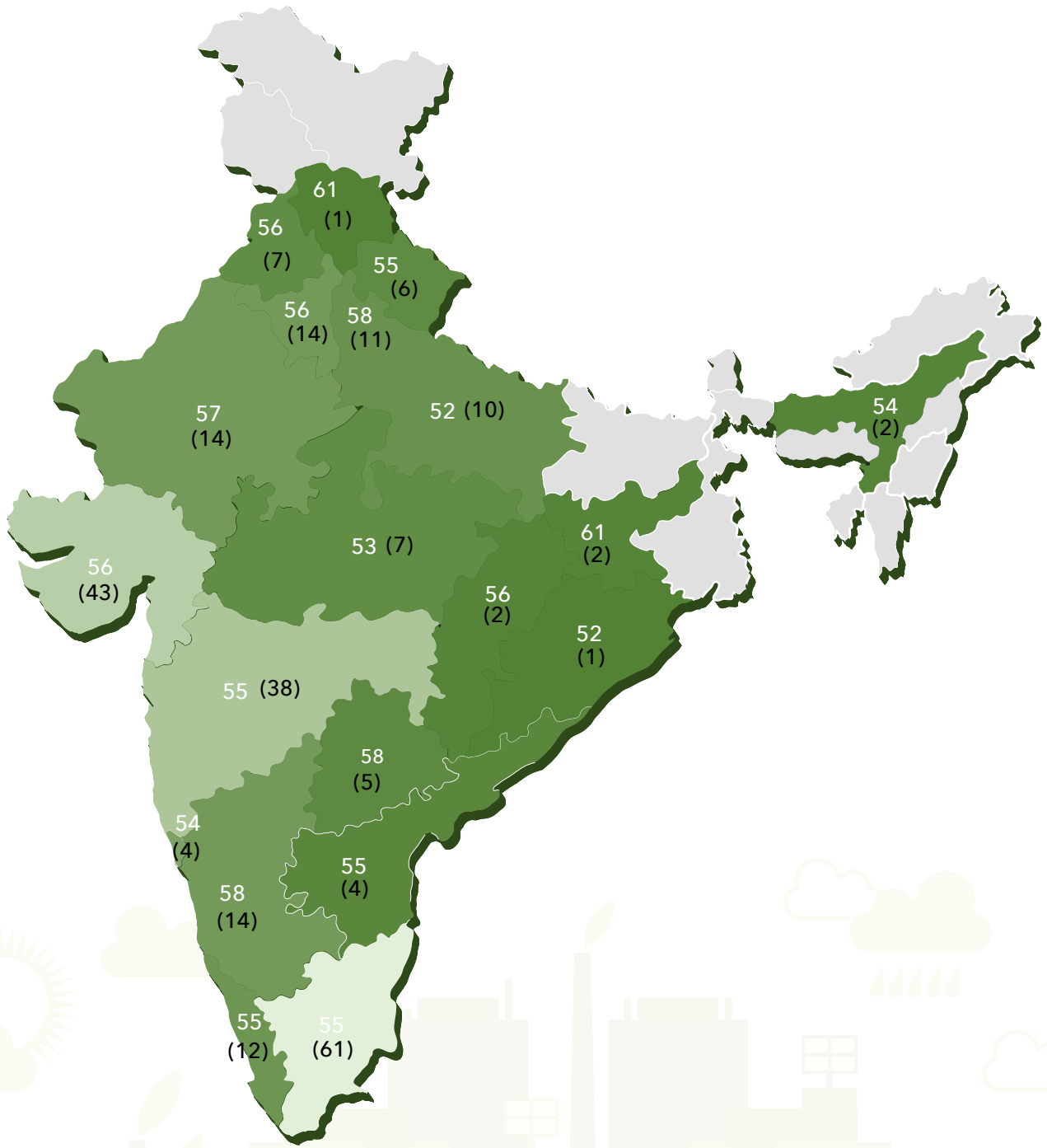
Share of respondents by position



Source: SIDBI - D&B Sustainability Perception Index Survey, April – June 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, April – June 2024



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