

## How MSMEs can come up with localised solutions towards sustainability

***Sustainability measures for MSMEs look different from large enterprises. There is a need for MSMEs to work towards contextualized sustainability goals for long term impact.***

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Sustainability is a complex term. In a business setting, we must differentiate between the term 'sustainable business' and 'business sustainability'.

'Sustainable businesses' are those that have a core mission towards developing sustainable solutions. These would include companies in clean-tech, sustainable fashion, sustainable materials sectors, etc. 'Business sustainability' refers to how sustainable an already running business exists. An example here, will be mapping of the carbon emissions and ESG risks of a standard textiles manufacturer.

For a micro-to-medium-sized enterprise, this differentiation is significant to understand and distil. The spectrum of businesses that qualify as MSMEs is very large. Sectoral and operational variations amongst MSMEs fundamentally change the context in which sustainability applies to each of them. Hence, how sustainability matters to an MSME is fundamentally a microeconomic (unit level) question. We must assess each MSME's sustainability journey on a case-to-case basis. It must be noted however, that micro-level impacts must be aggregated at the macro-economic scale to successfully map the effect of sustainability transitions on the society.

### **Why sustainability matters to MSMEs?**

Why sustainability matters to MSMEs is a multi-dimensional question. Few of the carbon-intensive sectors such as agriculture, animal husbandry, textiles and apparel, construction etc. are increasingly facing policy regulation forcing them to change their business models. Sustainability is also a business opportunity for MSMEs. 'Green products' often command higher premiums and profit margins. Sustainability transitions also come with their own incentives in the form of interest rate subventions, thereby unlocking larger capital pools. Finally, consumer activism has triggered a wave of product innovation, opening new business opportunities for businesses.

Before diving into how sustainability matters for MSMEs across different levels, there are certain basic sustainability tenets that apply to all MSMEs. These include paying fair wages to employees, ensuring hygienic and safe working conditions, having a seamless waste

disposal mechanism, a fundamental practice of energy efficiency and low wastage. Any business, no matter how big or small, can be reasonably expected to follow these best practices, all of which contribute towards sustainability. The central and state governments also promote these practices via multiple schemes. These include most recent additions, such as, the MSME GIFT scheme (provides interest subvention for green technology loans), MSME SPICE (offers credit linked capital subsidies for circular economy practices).

### **How to measure impact?**

A small grocery store can barely invest in replacing single use plastics in its own packaging and delivery. Expecting this store to drive social or environmental initiatives in the broader society would be excessive.

On the other hand, many 'small' enterprises (as defined above) may be mandated to comply sooner, if they have high net profits (over Rs 5 crores). Most micro or medium businesses (which make up nearly 98 percent of all MSMEs) cannot be expected to comply with complex environmental or social reporting guidelines.

Another way to envisage sustainability for MSMEs is to assess the role that the individual enterprise plays in the ecosystem. All industries have a value chain – from procurement of raw materials, via intermediate processing. A vast number of MSMEs serve intermediate levers of the value chain, via B2B or B2G sales. These include technology platforms, service providers, traders, recyclers, R&D labs, among others.

Sustainability for a technology platform can be measured in the way its product adoption drives us towards value chain decarbonization, while for a service provider, this might mean mapping how it facilitates business linkages that contribute towards improving process efficiency, enhancing business credibility and/or increasing operating scale. Recyclers can be assessed for the role they play not just to ensure circularity, but how they contribute towards critical R&D in their quest to improve circularity outcomes. Therefore, to what extent sustainability matters to an MSME is also contingent upon its individual role in the larger industrial ecosystem.

To conclude, MSMEs need to think about employing their own contextualized framework to understand the business' progress towards business sustainability.

Possible future research on business sustainability includes working on developing and capturing accurate data indicators, conceptualizing frameworks to address the traceability (tracking impact) and attribution (assigning responsibility and ownership) questions, conducting life-cycle assessments (LCAs) to understand total carbon emission impact of MSMEs etc.

It is here that entrepreneurs have to be willing to adapt fast and show a willingness for climate resilience. Extreme weather events, impact of climate change on health and disruptions in the eco-system on which an MSME is dependent on.

Those entrepreneurs who can connect these dots and think long-term will surely pave the path for the future of their business and thereby create a hyperlocal impact to the larger discussion of sustainability measure for MSMEs.

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