Systemic Conditions Required for Local Green Enterprises to Flourish in India

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About the Monograph

Micro, Small and Medium Enterprises (MSMEs) not only contribute to growth and employment in India, but also foster innovation and social cohesion. They are a driving force for the transition to an inclusive and green economy. Thus, in order to expedite this transition, where we earn profits whilst being just to people and the planet, further attention needs to be given to the needs of MSMEs. They require an ecosystem which assists in their evolution to Local Green Enterprises (LGEs).

The Green Economy Coalition (GEC) held its Global Annual Meeting from 4 – 6 February 2020 in New Delhi, India on the theme of "Local Green Enterprises: *Building Movements of MSMEs within India's Transition to an Inclusive Green Economy*". Participants absorbed the elements for enabling an ecosystem for Local Green Enterprises in India. This document captures the essence of dialogues held on the third day of the Annual Meeting in three different round table discussions touching upon the following key areas:

1. Financing Local Green Enterprises (LGEs)
2. Sustainable Procurement of Local Green Enterprises (LGEs)
3. Triple Bottom Line Impact of Micro, Small and Medium Enterprises (MSMEs)

Acknowledgements

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About the Partner Organisations

PAGE

The **Partnership for Action on Green Economy** (PAGE) seeks to put sustainability at the heart of economic policies and practices to advance the 2030 Agenda for Sustainable Development and supports nations and regions in reframing economic policies and practices around sustainability to foster economic growth, create income and jobs, reduce poverty and inequality, and strengthen the ecological foundations of their economies. PAGE brings together five UN agencies – UN Environment, International Labour Organization, UN Development Programme, UN Industrial Development Organization, and UN Institute for Training and Research – whose mandates, expertises and networks combined can offer integrated and holistic support to countries on inclusive green economy, ensuring coherence and avoiding duplication.

UNIDO
UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

The **United Nations Industrial Development Organization (UNIDO)** is a specialised agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalisation and environmental sustainability. UNIDO's Regional Office in India acts to mobilise knowledge, information, innovation, skills and technology to promote competitive industry and productive employment by applying best practices and approaches to common problems of the region, whilst also protecting the environment.

SEED
promoting entrepreneurship
for sustainable development

SEED was founded by UN Environment, UNDP and IUCN as a global partnership for action on sustainable development and the green economy. SEED is based on the understanding that the promotion of social and environmental entrepreneurship is pivotal for environmentally friendly and socially inclusive development and poverty reduction. It works directly with growing enterprises and aspiring entrepreneurs to strategise, optimise and award achievements in eco-inclusive entrepreneurship.

The **Global Green Growth Institute (GGGI)** was founded on the belief that economic growth and environmental sustainability are not merely compatible objectives; their integration is essential for the future of humankind. GGGI works with partners in the public and private sector in developing countries around the world to put green growth at the heart of economic planning andcarries out research into various aspects of green growth theory and practice.

The **Global Reporting Initiative (GRI)** is an independent international organization that has pioneered sustainability reporting. It helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being. This enables real action to create social, environmental and economic benefits for everyone. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interes

The **Federation of Indian Chambers of Commerce and Industry (FICCI)** is the largest and oldest apex business organisation in India. A non-government, not-for-profit organisation, it is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, it articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies reaching out to over 2,50,000 companies.

The Energy and Resource Institute (TERI) is an independent, multi-dimensional organization, with capabilities in research, policy, consultancy and implementation. They are innovators and agents of change in the energy, environment, climate change and sustainability space, having pioneered conversations and action in these areas for over four decades.

GIST Advisory is an international Sustainability Analytics, Solutions and Insights firm. It is a globally recognised leader in sustainability metrics, analytics and insights. It works at the intersection of Sustainability, Big Data Analytics, & Intelligent Computing..

Centre for Responsible Business (CRB) is a centre of excellence, facilitating organisational behaviour change towards incorporating responsible business strategies, policies and practices that contribute to harmonious relationships in workplace, organisational productivity and growth.

What is a Green Economy?

The United Nations Environment Programme (UNEP) defines Green Economy as, "one which is low carbon, resource efficient and socially inclusive." In a Green Economy, growth in employment and income are driven by public and private investment into such economic activities, infrastructure, and assets that allow reduced carbon emissions and pollution, enhanced energy and resource efficiency, and prevention of the loss of biodiversity and ecosystem services. UNEP promotes a development path that understands natural capital as a critical economic asset and a source of public benefits, especially for poor people whose livelihoods depend on natural resources. The Green Economy Coalition (GEC) has identified five related action areas for any economy to transition to a Green Economy namely valuing natural systems, tackling inequality, greening economic sectors, reforming financial systems and measuring what matters.

India’s Economy: Trajectory of Growth Rate

With Gross Domestic Product (GDP) growth averaging 7.5 per cent between 2014- 15 and 2016-17, India was rated as among the best performing economies in the world on this parameter. **Although there has been a decline in the last few years, the broad story of India’s GDP growth to be significantly higher than most economies of the world does not alter.** The nation managed to retain its position as the third largest start-up base in the world with over 4,750 technology start-ups, and about 1,400 new start-ups being founded in 2016 (NASSCOM). Positioned to have one of the youngest populations in the world by 2020, the existing figure of 65% of the population within working age is only slated to rise. (UNDP, 2016)

Impact of Business-As-Usual Approach in India

The single minded focus on economic growth has resulted in increasing environmental degradation and social inequities. The country's cities are becoming notorious for the pollution of their air, the scarcity of their water supplies and the toxicity of their waste dumps. One fourth of the land is undergoing desertification and more than one-third of the total land is facing degradation. Three fourth of India's surface water is polluted with more than half of the groundwater sources expected to be in a critical state in the next decade. The resource guzzling economy is overexploiting and degrading the soils, forests and rivers of this once wealthiest of nations at an unsustainable rate. Further, not everyone has shared wealth equally in India. The top 10% of the population holds 77% of the total national wealth. 73% of the wealth generated in 2017 went to the richest 1%, while 67 million Indians who comprise the poorest half of the population saw only a 1% increase in their wealth. (Oxfam, 2020) Thus, the disparities in income and wealth are becoming huge and socially threatening. There is an urgent need to adjust all economic activities to be within planetary and societal boundaries for **India to make a transition to a greener more inclusive economy.**

Initiatives and Perspectives of Different Stakeholders

India has international commitments to various initiatives such as Inclusive Green Economy, Nationally Determined Contributions to the Paris Agreement, and the Sustainable Development Goals (SDGs).

(1) In this light, the **Government of India** has taken many significant steps that will strengthen India's potential to achieve its Sustainable Development Goals and Targets. The nation's plans for expanding installation of renewable energy plants, removal of plastic wastes and conservation of natural resources are among the largest and most ambitious in the world. 'Make in India' and 'Skill India' are some of the other flagship programmes of the Government of India including SFURTI, a cluster based model for reviving traditional industries are in place to enhance the employment opportunities and industrial base of the economy.

(2) India also joined the **Partnership for Action on Green Economy (PAGE)** programme as 20th country in 2018, recognising the urgency in enabling the country to meet its various international commitments. PAGE is a coalition of Five UN agencies namely ILO, UNEP, UNIDO, UNDP, UNITAR. It supports nations and regions in reframing economic policies and practices around sustainability to foster economic growth by creating income and jobs while reducing poverty and inequality, and strengthening the ecological foundations of their economies. In India, PAGE will be seen capturing perspectives through sub-national and national consultations to overcome challenges and leverage opportunities especially for Micro Small Medium Enterprises (MSME) sector.

(3) Civil Society Organisations (CSOs)

In India, **Civil Society Organisations (CSOs)** play a critical role in engaging green entrepreneurs from across the country through dialogues and consultations. To fulfil the agenda of mainstreaming green economy and building enabling system for LGEs, fostering solidarity amongst the entrepreneurs is vital.

Potential and Value of MSMEs in India's Economy

With the national scenario of resource extraction and disparate inequalities, it is imperative for India to enable a system that appropriately localises and decentralises its production of goods and services while also integrating economic efficiency, environmental soundness, and social equity into business decisions. Across high, middle, and low-income countries, micro and small enterprises constitute the largest share of private businesses and account for the bulk of employment. (Reeg et al., 2015) These dynamic entities create local jobs and boost economic resilience leading to strong multiplier effects on the national economy. In India, a survey of MSMEs conducted by Confederation of Indian Industry (CII) indicates a growth of 13.9 per cent in Net Jobs Created over the last 4 years at 3.3 per cent per annum (compounded growth rate). Given that the total workforce size according to the Labour Bureau is estimated at 450 million (projected for 2017-18), the overall job additions work out to 13.5 – 14.9 million per annum. (CII, 2019)

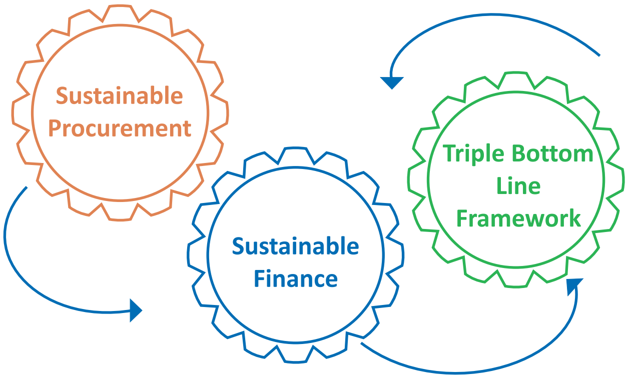
Local Green Enterprises: Foot Soldiers for a Transition to an Inclusive Green Economy

The previous section highlights the extensive literature and data available on MSMEs and their role in employment generation. Thus, further enabling green entrepreneurs will accelerate the formation of integrated development solutions – enabling job creation, poverty reduction, environment sustainability and resilience building. Environmentally responsible MSMEs or **Local Green Enterprises (LGEs)** are those MSMEs that build their business models on the principles of resource conservation, resource efficiency and waste management from the environmental end; while also creating decent jobs, enabling availability of products and services, and thus boosting the local economy. These LGEs are critical enablers of green and inclusive economy at the grassroots supporting in achieving the Sustainable Development Goals. Many existing enterprises are attempting to green current practices and many more are starting-up in the areas mentioned above. Studies also suggest ways in which existing MSMEs can transition to green. There are many cases from across India that corroborates the role of MSMEs in providing poverty and environment solutions while building a resilient economy. Some of the examples from LGEs are, but not restricted to, the following:

- In the agricultural sector: farmer based collectives and producer group companies, which are building their agri-based business models on the principles of environmental sustainability
- In the construction sector: local enterprises focused on alternatives to highly resource and carbon intensive materials (like red bricks) – such as fly ash, pond ash, plastics and other available alternative materials
- In the tourism sector: enterprise models that focus on enhancing local jobs, like home stays, and promoting local handicrafts and culture, within the environmental limits of the region as against the mainstream tourism sector
- In the energy sector: enterprises that are serving energy demands of the last mile through solutions of decentralised clean renewable energy.

Fostering an Ecosystem - Strengthening the Dynamic Environment

Even though India has moved up on World Bank's ease of doing business ranking from the 130th position in 2015 to the 63rd in 2019, there is still a long way to go. Finance, Procurement and Measurements are three major factors which have been identified in building an enabling ecosystem to boost MSMEs trying to switch to and /or start green. Enterprises adopt or switch to environmentally and socially responsible practices if these do not negatively impact profits and /or the ease of conducting business. If responsible practices would enable better price and an increase in customer base, enterprises would be incentivized to adopt or switch to the same. Today's consumers care about how the products they purchase are made.



In order to make the **Procurement** process sustainable, the public sector and private markets need to demand and procure products from green enterprises. MSMEs will require financing in order to transform their business practices to be environmentally and socially responsible. **Finance** will also be needed to support and export market development such that local green enterprises can scale up and more such green and inclusive businesses join the market (scaling out). If, LGEs simultaneously adopt accounting frameworks based on the **Triple Bottom Line** which is acceptable to the financial institutions and investment agencies and report the improvement in practices, it will increase their credibility with 'responsible or green' financial institutions.

EXAMPLE: 'Sustainability Linked Loan' where the terms of the loan incentivise the borrower to improve its performance against certain pre-determined environmental, social and governance ("ESG") criteria. In practice this would typically mean that the cost of servicing the loan is directly linked to the sustainability performance of the borrower. The hallmark of a sustainability linked loan is that the borrower's performance against predetermined sustainability objectives affects the interest rate, incentivising improved performance over time which could then be used for general business purposes.

A Review of the Business Ecosystem for LGEs

LGEs in India face many systemic and structural challenges that impede their growth and scaling up. Gaps in **finance**, skill, information, **markets**, governance and **measurements** are some of the major roadblocks. Before, we discuss the opportunities and challenges faced by LGEs in India, it is crucial to identify the actors in the ecosystem.

The stakeholder map for LGEs in India is presented below. The major players with their possible roles and functions have been identified. For each of the scenarios, examples of institutions in India have been presented.

1. **Financial Institutions** from whom LGEs can avail finance can been categorised into Development Finance Institutions (DFIs), Banks both Public and Private, Non-Banking Financial Corporations (NBFCs) and Micro-Finance Institutions (MFIs).

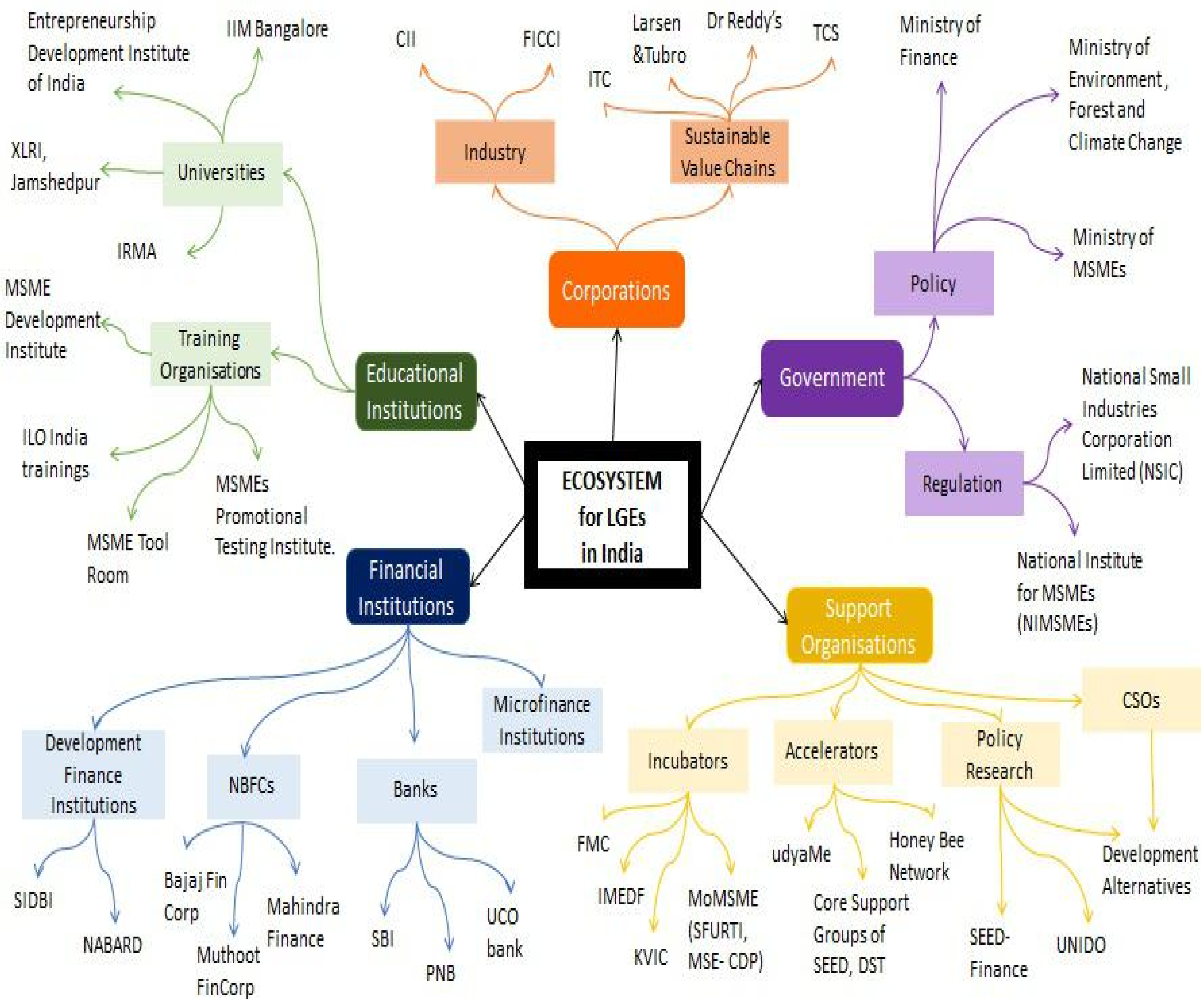
2. **Support Organisations** – LGEs require different kinds of support from organisations performing different functions including - Incubators which help in setting-up the LGE till it matures; Aggregators who are meso-level players bringing multiple LGEs together to share their challenges and find solidarity in forming solutions; Policy and Research Institutions perform a gas assessment and help analyse the policies of the government, and Civil Society Organisations which ensure that the voice of these entrepreneurs reaches the government.

3. **Corporations –** Industry - are corporations which provide a platform for networking and consensus building within and across sectors and is the first port of call for firms, policy makers and the international business community. They help in building a conducive environment for business in India. Large firms - have the potential to restructure their entire value chain to promote sustainable production. This will help put pressure on the MSMEs to shift to greener practices, products and services as the demand increases.

4. **Educational Institutions** - These include two types of institutions – training institutes and universities. While the former is to help entrepreneurs develop and learn new skills to survive in the market, the latter is to nurture the spirit of entrepreneurship by introducing it in the curriculum.

5. **Government** – The Government including ministries and regulatory authorities where the role of the former is to put in place policies, and that of the latter is to ensure that they are implemented in the most effective manner.

Actors in the Indian Ecosystem of Local Green Enterprises



Challenges and Opportunities of Undertaking Green and Inclusive Business

Three key areas in discussion are as follows:

Finance for LGEs

Finance for LGEs refers to financial investments flowing into business activities that are more green and inclusive.

What is the current scenario?

Increasing dialogue with stakeholders and literature continues to indicate that micro and small enterprises remain underserviced. According to the International Finance Corporation (2017), only 12-16% of enterprises have access to formal finance, including non-banking and government institutes, small banks, public sector banks, private sector, and foreign banks.

A majority (67%) of finance supply for small businesses in India comes from informal sources such as money lenders, friends and family, according to the data compiled by the consulting company Dun & Bradstreet (D&B).

Another 21% comes through equity finance. (Financial Express, 2019) Of the 12-16% financing that happens through the formal sector, about 80% still comes from commercial banks. However, one can clearly see the trend where others like Non-Banking Financial Companies (NBFCs), fintech are picking up. (Economic Times, 2019)

A report by GIZ (2013) highlights that almost 94% of enterprises fall under the missing middle segment where credit requirement varies from INR 50,000 to 10,00,000. While Micro Finance Institutions (MFIs) support loans up to INR 50,000, banks are hesitant to support enterprises below the threshold of INR 10, 00,000.

What are the challenges?

Some of the major challenges that have been identified by studies and the experience of agencies working in the area are:

- **Asymmetric Information**: LGEs are unaware of the range of sustainability related investments as tools to foster competitiveness. LGEs are also often intrinsically less able to access sustainable finance because of capacity barriers, including financial literacy around the range of products provided by promotional institutions, as well as challenges in accessing capital market products.
- **Higher Perceived Risks**: Unproven business models and a corresponding lack of credibility with bankers, limited purchasing power of the Bottom of the Pyramid (BOP), and low levels of financial inclusion among the BOP.
- **Lack of Capacities in Financiers**: Banks and financial institutions lack robust data on green and sustainable financing needs of LGEs. If needs and potential opportunities are not clearly understood, financial institutions may face difficulties in advancing the business case for scaling up green and sustainable finance.
- **Limited Products and Instruments**: There is a lack of green and sustainable financing products and instruments specifically for LGEs, especially across the enterprise life cycle (e.g. seed funding). There is limited diversity in financial institutions that offer long term and sustainable financing for LGEs.

- **Metrics for Evaluation**: Environmental and social performance is not considered in the assessment of LGEs funding decisions. A lack of familiarity, common approaches or standards for evaluating the credit quality of LGEs engaged in new clean technologies, green products or sustainability services may affect risk pricing, ultimately impacting the cost of capital.

Where are the opportunities?

- For Financial Institutions
  - ➢ Reduce the complicated paperwork to make green finance more readily available
  - ➢ Incentivise distribution of green credit (e.g. through MFIs) to reduce cost of finance
  - ➢ Ensure financing is available for the entire life cycle of the products. For example – provide loans for purchase of e-rickshaw as well as battery replacement at later stages
  - ➢ Identify sectors that are likely to be targeted for greening soon and can provide scale for financing. For example – automobile, textiles, waste management etc.

- For the Government
  - ➢ Define green and what constitutes sustainable finance
  - ➢ Review the Private Sector Lending system
  - ➢ Check implementation of the existing institutional mechanisms
  - ➢ Provide incentives to the financial system to prioritise green aspects in lending
- For LGE Aggregators
  - ➢ Assessment of green performance: Prepare methodologies to assess the Environmental and Social Performance of LGEs also at scaled-up level

It is pivotal to employ sustainable financing solutions which can be an effective means to fillip environmental, safety and labor practices from procurers/manufacturers. In the Business-As-Usual approach, small enterprises access finance on the basis of their credit-rating and expectation of economic returns analysed on the feasibility of their business plan within acceptable market risks. If the finance, credit or investment is linked to the "environment and social outcomes" and associated environmental and social risks, then the entrepreneur is likely to seek / adopt business practices that are greener and more inclusive. Learn More

Sustainable Procurement for LGEs

Sustainable procurement offers an improvement over the conventional means of procurement. It is a systematic process which begins with identification of requirements, followed by adoption of the most appropriate procurement method(s), tendering and/or sourcing of suppliers/contractors, evaluation of bids and ends with the award of contract(s).

What is the current scenario?

According to the Ministry of Finance (MoF), India spends around 25 per cent of the GDP on public procurement (2018). In 2006, the National Environment Policy of the Ministry of Environment and Forests (MoEF) explicitly mandated the public sector to encourage adoption of purchase preference for goods and services that meet international environmental standards (MoEF 2006: 44) . The Department of Expenditure, MOF, Government of India (GoI), provides the basis for implementation of sustainable public procurement through General Financial Rules (GFR). The recently revised GFR of 2017[5] has laid down the provisions for adding environmental criteria while undertaking procurement decisions into rule 173. The purchases by users through Government e-marketplace (GeM) have been authorised and made andatory by MoF, through adding a new rule 149 in the GFR 2017. The rule explicitly mentions that the Directorate General of Supplies and Goods (DGS&D) will ensure adequate publicity, including periodic advertisement of items to be procured through GeM for the prospective suppliers; and credentials of suppliers on GeM shall be certified by the DGS&D. In terms of conceptualisation, 'sustainable public procurement' in India has four dimensions, which include socio-economic, environmental, transparency and market information.

Central public sector enterprises (CPSEs) and other public procurement authorities are also faced with the challenge of selection for procurement, due to the lack of requisite information on quality, capability, eligibility of MSME vendors and suppliers.

What are the challenges?

Some of the other hurdles faced by MSMEs in greening their procurement process are listed below

- **Ambiguities in product characterisation** - While specifying product characteristics, many tenders focus on product description instead of functional performance.
- **Lack of a comprehensive regulatory framework** - This encourages mal practices and biased public procurement without adequate quality checks. It also leads to violation of procedural norms and corrupt practices.
- **Lack of standard bid documents** - The evaluation criteria for the bids remain ambiguous. Multiplicity of bid documents across entities in terms of addition/rephrase/repetition of clauses/provisions makes the procurement process cumbersome.
- **Delay in procurement phases** - The procurement process is often delayed at the stages of need assessment, budget preparation and approval.
- **Lack of awareness on the procedure of public procurement** – MSMEs lack understanding of the process of public. This apart, they also possess low levels of management skills.
- **Inadequate capacity on labeling and certification** – There are many labels and certifications in India for various sectors spanning across public and private domains. The 'Zero Effect and Zero Defect' (ZED) scheme assess and rates MSMEs on defined enabler and outcome parameters on operational level

indicators. This includes process design parameters for environmental management, product design for environment, and outcomes for environmental performance). According to the latest information[13] available on the ZED scheme, only 266 MSMEs are ZED certified. The low number indicates a very low initial uptake of certification.

Where are the opportunities?

- For the Government
  - In order to reduce/avoid corrupt practices and violation of procedural norms, a **comprehensive regulatory framework** to be in place
  - Ensure that the existing certification schemes are **updated/renewed** as multiplicity of policies leads to confusion
  - **Local level government** i.e. the *Gram Panchayats* should be used to introduce the idea of sustainable procurement at the grass roots
- For Civil Society Organisations (CSOs) to increase awareness of LGEs
  - of the **process of public procurement** to ensure increased participation
  - reduce the disconnect between certification systems and the intended outcome through a **two-way information system**
  - **better quality control** of LGEs by focusing on the product description instead of the functional performance while specifying the product characteristics
- LGE Aggregators to provide capacity building/training to LGEs in
  - Laying down need assessments to fasten the procurement process
  - Preparation of Budgets to ensure clarity
  - Labeling and Certification process to increase number of certified LGEs

Sustainable procurement looks beyond the up-front cost to make purchasing decisions based on the entire life cycle of the goods and services, and takes into account associated costs, environmental and social risks and benefits, and broader social and environmental implications. Therefore, it becomes imperative for all stakeholders to enable MSMEs to transition to this method of procuring, as it will accelerate the transition towards a more green and inclusive economy. Improved financing will help in procuring products and servicing more sustainably, and maintaining a framework to assess the enterprises' activities will provide a system to keep them accountable. Learn More

Triple Bottom Line Measurement of LGEs

Triple bottom line is the accounting framework which draws the attention of businesses to incorporate social and environmental factors along with the financial aspects.

What is the current scenario?

India keeping in mind the three P's of people, planet and profits, is piloting programmes, schemes and rating systems, emphasizing the environment and social management of the industries.

Under its Global Cleantech Innovative Programme (GCIP) (2013-2017), **UNIDO**, fostered an entrepreneurship ecosystem by identifying and supporting entrepreneurs for clean technologies to accelerate the transition to an economically and environmentally sustainable future. However, these actions need to be measured. Therefore, specific indicators devised to track environmental and societal impact can help in assessing and/or minimising the negative effect of the firm on people and the planet. With MSMEs becoming a key driver to achieve inclusive growth and poverty reduction, it is crucial to enable them to embrace TBL as a guiding paradigm for their business growth.

SME360X (TM) (Beta) is a digital DIY online platform developed by GIST Advisory for Small and Medium Businesses that combines advanced Sustainability Analytics with cutting edge technology, global data bases, algorithms developed with 40+ person years' research and cognitive search engines. It is easy, fast and affordable as it gives a single quantitative score of the SMEs impact on natural capital.

GIST Advisory will be soon launching a tool called SME360X (TM) (Beta) where every Small Medium Enterprise will be able to assess their Environmental Impact easily and affordably.

The **Global Reporting Initiative** as part of the "Scaling Up Sustainable Development of MSME Clusters in India" project trained 100 MSMEs to produce Aggregate Sustainability Reports for the foundry units in each cluster based on the GRI Sustainability Reporting Standard.

The **Green Economy Coalition (GEC)**'s work on 'Measuring What Matters' and aligning measurement frameworks for the SDGs across different business, national and international levels has promoted the role of TBL in sustainable development. At the enterprise level, the **Caribbean Natural Resources Institute (CANARI)** has led the development of a preliminary 'radar tool' to assist TBL self-assessment of local, green MSMEs in the Caribbean.

Examples of efforts are schemes and programmes in India, such as 'Zero Effect Zero Defect Scheme' by the Ministry of MSMEs, 'Green Ratings' by SME Rating Agency of India (SMERA), aim to support SMEs towards addressing social, economic and environmental aspects of their organisation. The Confederation of Indian Industries (CII) has also developed a 'Green Company Rating system' (GreenCo rating), which is a framework to evaluate companies on environmental friendliness of their factories, based on a 1000-point assessment across 10 parameters. Implementation of GreenCo rating provides guidance to companies on how to make products, services and operations greener, while providing training to industry personnel on the latest green concepts and practices.

Other Sustainability initiatives are mainstreaming TBL practices in large enterprises, corporations and MSMEs. However, the maximum potential of a TBL framework will be seen when it becomes a norm rather than an elective.

What are the challenges?

However, following are the challenges faced by MSMEs in adopting and reporting on the TBL framework -

- Most small enterprises are **struggling to exist** – where going beyond profits almost seems impossible and even unnecessary
- Lack of **awareness** of the need to combine profits with social and environmental impact – MSMEs do not understand the importance of the TBL approach and its implications
- Lack of **incentives**– There need to be more incentives in the form of subsidies or tax benefits etc for MSMEs to "want" to make the shift from brown to green and report about the same
- Lack of **access to financing** mechanisms – Financial Institutions does not have enough mechanisms in place for MSMEs to be able to access it. Also, for the ones which exist, information does not reach the MSME seeking it
- Lack of **digital platforms** for reducing time and effort associated with TBL accounting – Since the process of accounting and reporting based on the TBL is a time consuming process, more digital tools need to be developed and shared with MSMEs
- Lack of **capacity** to collect information and right data points in the desired manner – There is a lack of manpower and know-how with the MSMEs to make the desired shift possible.

Where are the opportunities?

- For the Government
  - **Formalization of the informal sector** would track these MSMEs providing support in sustainability reporting
  - Reduce **cost of technology** to increase the uptake of alternative and energy efficient technologies
  - **Simplification of compliances**: Non-redundant and simplified compliances will ease the transition process of the MSMEs
  - To help create an **infrastructure for green start-ups** in the industry
- For Aggregators, CSOs and Government together to encourage MSMEs to report sustainable practices by
  - **Sensitizing** about the sustainable practices and need for reporting
  - providing them **access to tools** for the kind of data points to be collected
  - **Incentivise** the form of tax savings etc
  - Emphasis on reporting of MSMEs as a **cluster** instead of reporting as an individual
  - **Handholding support** by the bigger players trying to make the shift in the industry, to the smaller MSMEs through knowledge transfer and collaborations.

If MSMEs are assessed along environmental and social parameters along with financial return parameters through a Triple Bottom Line (TBL) framework, it will make access to sustainable finance relatively easy as financial institutions and investment agencies would be able to track changes in their green and inclusive business practices. Learn More

Way Forward

Local Green Enterprises (LGEs) have been found as the solution to solve the twin problems of environmental degradation and unemployment in India. This has been demonstrated by a growing body of research and practical experience. LGEs are seen to have a transformative potential to help India transition to a green and more inclusive economy.

For LGEs to be governed, it is necessary to be mindful of the different trade-offs and synergies arising in areas ranging from entrepreneurship to sustainability. It is thus time for a more comprehensive multi stakeholder effort to be put in.

There is a need for a new contract to be formed among the national government, private sector, financial institutions, and civil society organisations not leaving behind local governments, social enterprises, farmer producer organisation and self-help groups. It would be essential for these actors to collaborate and work in synchronization to enable an ecosystem to fillip LGEs and support them in achieving significant scale and impact.

This will include rigorous capacity building and training – financial literacy, certification of products procured sustainably and measurements including reporting frameworks based on the Triple Bottom Line. The financial institutions will then be in a better position to lend, as the information asymmetry between the borrowing LGEs and the financial Institutions will be minimized. Thus, leading to reduced risk for the lender and enabling LGEs to be part of the sustainable procurement chain and measure the environmental and social impacts of their own activates.

Therefore, partnerships and network built with dialogues such as the Round table discussions at the Green Economy Coalition Global Annual Meeting 2020 at New Delhi are fundamental. This will act as a stepping stone for future dialogues, networks and partnerships which will eventually aim to develop an action agenda enabling countries to up-scale LGEs and strive for opportunities to transition to an Inclusive Green Economy.

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The **Green Economy Coalition** is the world's largest movement committed to accelerating the global transition to green and fair economies. We are a new type of institution: we mobilise multiple organisations – including global institutions, businesses, civil society, trade unions and people's movements – towards a shared responsibility and collective action. Our network now spans across six continents, comprising 50 members, and continues to grow. We tackle some of the biggest challenges of the world: extreme poverty, climate change, biodiversity loss, rising inequality and weak governance. But we recognise that these issues cannot be tackled alone, and that they arise from the same problem – how our economies are organised, ruled and managed.

Development Alternatives (DA) is a premier social enterprise with a global presence in the fields of green economic development, social empowerment and environmental management. It is credited with numerous innovations in clean technology and delivery systems that help create sustainable livelihoods in the developing world. DA focuses on empowering communities through strengthening people's institutions and facilitating their access to basic needs; enabling economic opportunities through skill development for green jobs and enterprise creation; and promoting low carbon pathways for development through natural resource management models and clean technology solutions.

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The European Union is a unique economic and political union between 27 EU countries that together cover much of the continent. It spans many different policy areas and provides funding for a broad range of projects and programmes covering areas such as regional & urban development; employment & social inclusion; agriculture & rural development; maritime & fisheries policies; research & innovation and humanitarian aid.

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