

Triple Bottom Line Impact of MSMEs

Thematic Session Note

6 February 2020

Context

The private sector is a key vehicle of socio-economic transformation. The United Nations (UN) estimates an annual USD 3 trillion funding gap to achieve the Sustainable Development Goals (SDGs), and names the private sector as a key resource to bridge this shortfall. Businesses are starting to look at sustainability as something that should be at the very core of their operations, and not just a nice-to-have add-on for improving their image. Impact investing and social entrepreneurial efforts are on the rise, with their focus on combining measurable social and environmental impact with financial sustainability and success.

Immense benefits to society and the environment can be gained if systemic shifts in operations and organisation are initiated in the private sector. These actions, however, need to be accounted for. Frameworks like the **Triple Bottom Line (TBL)** provide a basis to measure and further these gains, especially as entrepreneurship gains traction in development practice. The TBL approach measures performance across the three dimensions of economic, social and environmental, introducing environmental impacts and social justice into traditional financial reporting. The framework systematically measures the lifecycle impacts of a company to reduce carbon emissions and environmental impacts at large, and improve socio-economic benefits capturing the impact of an organisation's activities on the world, including both its profitability and shareholder values and its social, human and environmental capital¹.

According to the World Bank, among the entire gamut of economic enterprises that operate in the world, Micro, Small and Medium enterprises (MSMEs) contribute significantly to the GDP and play a crucial role in creating employment and promoting regional economic development. Formal MSMEs contribute up to 45% of the total employment and up to 33% of the GDP in emerging economies. In India, as per the Federation of Indian Chamber of Commerce and Industry (FICCI), there are around 63 million MSMEs that employ around 111 million people and contribute to 28.77% to the GDP. (MoMSME², 2017) While individually, MSMEs have relatively small environmental and social impacts, as a group their impacts are large. Numerous efforts by various organisations and the government have been made to encourage enterprises to move towards greener practices and also boost start-ups to begin green.

Under its Global Cleantech Innovative Programme (GCIP) (2013-2017), UNIDO, for example, 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 minimising/ assessing 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.

Interventions

Emerging economies like India keeping in mind the three P's of people, planet and profits, are piloting programmes, schemes and rating systems, emphasising the environment and social management of the industries.

¹Andrew Savitz, The Triple Bottom Line (San Francisco: Jossey-Bass, 2006)

²Ministry of Micro, Small and Medium Enterprises, Government of India

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.

Green funds and schemes are gaining traction, and other initiatives such as the Sustainability Reporting of the GRI 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. Supporting a movement towards a TBL framework essentially requires critical changes in the organisation of enterprises, including the MSMEs.

Key Challenges

Given this, key challenges such as the lack of information and awareness, availability of consistent data, perceived resource intensity (people and finance) and skilled human resources persist. Action towards designing a TBL framework for MSMEs necessarily entails a change of mind-sets towards sustainability, access to resources like information and finance, and capacity building.

Focus of the Round Table

The thematic session on 'Triple Bottom Line Impact of MSMEs' is a solution-oriented platform that aims to take the conversation further with key stakeholders. The session will focus on pathways for adoption and mainstreaming of TBL frameworks, through a discussion on:

- **Knowledge building** for a TBL orientation. There is a lack of awareness of combining profits with social and environmental impact, and therefore a need to build knowledge, share best practices and opportunities.
- **Initiating action** through identification of key leverage points that can accelerate efforts such as incentives and subsidies, availability and access to financing mechanisms, and digital platforms for reducing time and effort associated with TBL accounting.
- **Collaborative platforms** at the national and international scale to support green enterprises, facilitate their access to information, common metrics and other key resources.