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**EDITORIAL ANALYSIS**

# India's MSMEs at the Carbon Crossroads — Greening Growth Without Choking Jobs

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MAINS RELEVANCE:




## INTERVIEW ANGLE

*"Can India balance its climate obligations with its developmental imperative in the MSME sector? Is the EU's CBAM a form of green protectionism?"*

When NITI Aayog released its *Roadmap for Green Transition of MSMEs* in January 2026, it did so with unusual urgency. The reason was external, not internal: the European Union's Carbon Border Adjustment Mechanism (CBAM) has entered full enforcement in 2026. For the first time, India's 69 million small businesses face a carbon price at the border of their most valuable export market. The question is not whether to green India's MSMEs, but how to do it without unravelling the employment fabric that holds 250 million workers.

## THE STAKES: WHY MSMEs CANNOT BE LEFT BEHIND

The MSME sector is not peripheral to India's economy — it is the economy for most working Indians. Contributing ~30% of GDP and 45.7% of exports, MSMEs are a larger employment generator than organised manufacturing. In the textile belts of Surat and Tirupur, the engineering clusters of Pune and Coimbatore, and the leather workshops of Kanpur and Agra, small enterprises are not merely economic units — they are livelihoods.

This is precisely why the CBAM creates a political as much as an economic dilemma. Forcing rapid decarbonisation on small workshops that run on a 4% margin with no access to concessional finance risks wholesale industrial mortality, not environmental progress.

## WHAT CBAM ACTUALLY REQUIRES

The CBAM requires EU importers to buy carbon certificates corresponding to the embedded carbon in goods imported from non-EU countries. In sectors where India lacks a domestic carbon price (steel, aluminium, textiles, engineered goods), Indian exporters will effectively face the full EU ETS price (~€50–70 per tonne of CO<sub>2</sub>e in recent years).

For a small textiles exporter in Surat, this translates to a cost that could eliminate price competitiveness in a market where margins are already thin. The EU has argued CBAM is not protectionism but an “incentive to decarbonise.” India’s negotiating position at the WTO frames it as a disguised trade barrier that violates the “common but differentiated responsibilities” (CBDR) principle of international climate law — under which developed nations, historically responsible for the bulk of cumulative emissions, must not penalise developing countries still lifting their populations out of poverty.

## NITI AAYOG’S RESPONSE: STRUCTURALLY SOUND, INSTITUTIONALLY UNCERTAIN

The NITI Aayog roadmap’s three-lever approach — energy efficiency, green electricity, alternative fuels — is technically coherent. The PM-Suryaghar-style model, combining capital subsidies with VGF, has proven its worth in the rooftop solar market for households and could work for industrial clusters.

But two gaps stand out:

**The MRV deficit:** Monitoring, Reporting, and Verification (MRV) infrastructure does not exist at MSME scale. To comply with CBAM, exporters must document embedded carbon per unit of production. Most micro-enterprises lack formal energy metering, production logs, or the digital literacy to operate MRV tools. The proposed NPMA must prioritise building this infrastructure — without it, even decarbonised MSMEs cannot prove it.

**The credit gap:** Even concessional green finance requires collateral and formal documentation that many micro-enterprises lack. SIDBI’s ₹5,000 crore equity infusion is welcome but not sufficient given the scale of the challenge. India needs to leverage international climate finance windows — the Green Climate Fund, ADB Climate Finance, World Bank MSME lending — to bridge the gap. This requires India to negotiate from a position of climate credibility, which the roadmap itself is meant to establish.

## THE EQUITY DIMENSION: WHO BEARS THE COST?

Green transition imposes transition costs. In large corporations, these costs are absorbed through retained earnings, capital markets, or passed on to consumers. In micro-enterprises, where the owner is also the worker, transition costs threaten livelihoods directly.

India’s green MSME policy must therefore be designed not as a carbon reduction mandate but as a **just transition** framework — one that combines:

**Technology subsidies** to make green equipment affordable

**Skill training** to operate new energy systems

**Market access incentives** — green-certified MSME products getting procurement preference in government tenders

**Transition income support** during technology switchover periods

The Sri Lanka crisis of 2022 offered a cautionary tale: overnight mandates for organic farming, without transition support or market infrastructure, collapsed the agricultural sector. A rapid decarbonisation mandate without financial scaffolding for Indian MSMEs would risk an analogous outcome in industry.

## INDIA'S NEGOTIATING LEVERAGE

India is not without power in this dynamic. As the world's most populous nation and a key global supply chain partner, India can credibly argue that:

Its per capita emissions (1.9 tonnes CO<sub>2e</sub>) are a fraction of the EU's (7.5 tonnes) and the US's (14 tonnes)

Its net-zero target of 2070 is consistent with its developmental trajectory under the Paris Agreement's equity principle

CBAM, as currently structured, does not account for the lack of comparable social support systems in developing economies

At the WTO, India — alongside South Africa, Brazil, and China — is building a coalition to challenge CBAM's compatibility with the Agreement on Subsidies and Countervailing Measures (ASCM) and the principles of Most Favoured Nation (MFN) treatment.

## A MODEL FOR GREEN INDUSTRIALISATION

The NITI Aayog roadmap, if well-funded and institutionally grounded, offers India an opportunity to leapfrog the energy transition that OECD economies took decades to navigate. Industrial clusters — where 200 small enterprises share a single geography — are ideal units for collective renewable energy procurement, shared MRV infrastructure, and cluster-level carbon accounting.

Countries like Germany (the Mittelstand-Energiewende model) and Japan (SME green transition partnerships) have shown that small businesses can decarbonise with targeted state support. India, with the scale of its MSME sector and the depth of its DFI architecture (SIDBI, NABARD, NHB), has the institutional plumbing to do this — if political will and adequate finance align.

## CONCLUSION

India's MSMEs are standing at a carbon crossroads not of their making. The emissions that triggered climate change were overwhelmingly produced by industrialised nations over two centuries. Yet the adjustment costs are falling partly on small workshops in Tirupur and Kanpur. A green transition that works for India must be grounded in equity — both between nations and within the Indian economy. The NITI Aayog roadmap is a promising start. Whether it translates into meaningful support for 250 million workers depends on the quality of its implementation, the depth of its financing, and the courage of India's negotiators at Geneva and Brussels.

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**EU CBAM — KEY DATA:**

Full form: Carbon Border Adjustment Mechanism

Legal basis: EU Regulation 2023/956

Transitional phase: October 2023 – December 2025 (reporting only, no payment)

Full implementation: January 2026 (payment starts)

Sectors covered: Cement, iron and steel, aluminium, fertilisers, electricity, hydrogen

Carbon price reference: EU Emissions Trading System (ETS) — ~€50-70/tonne CO<sub>2</sub>e

India's WTO argument: Violates CBDR principle; disguised trade barrier; incompatible with ASCM/MFN

**INDIA MSME SECTOR — CORE DATA:**

Total enterprises: ~69 million | Micro: 63+ million

GDP share: ~30% | Exports: 45.7% | Employment: ~250 million

CO<sub>2</sub> emissions: 135 MtCO<sub>2</sub>e (2022) | Industrial energy: 25%

Sectors most exposed to CBAM: Textiles, steel, leather, auto-components, engineering goods

**NITI AAYOG ROADMAP PROPOSALS:**

Three levers: Energy Efficiency, Green Electricity, Alternative Fuels

New institutions: NPMA (National Project Management Agency), CSIF (Climate Sister Impact Fund)

VGF proposed: Rs 6,000 crore for PM-Suryaghar-style MSME rooftop solar scheme

MRV: Monitoring, Reporting and Verification — critical for CBAM compliance

**CLIMATE LAW PRINCIPLES:**

CBDR: Common But Differentiated Responsibilities (UNFCCC, 1992) — developed nations bear greater responsibility

Paris Agreement (2015): NDCs, equity principle, differentiated timelines for net-zero

WTO ASCM: Agreement on Subsidies and Countervailing Measures — trade law touchstone for CBAM challenge

MFN (Most Favoured Nation): WTO principle prohibiting discriminatory tariffs

**PER CAPITA EMISSIONS (APPROXIMATE):**

India: ~1.9 tonnes CO<sub>2</sub>e per capita

EU average: ~7.5 tonnes CO<sub>2</sub>e per capita

USA: ~14 tonnes CO<sub>2</sub>e per capita

China: ~8 tonnes CO<sub>2</sub>e per capita

**OTHER RELEVANT FACTS:**

Just Transition: A policy framework ensuring the benefits of the green transition are widely shared and costs do not disproportionately burden workers and communities

Green Climate Fund (GCF): UN climate finance body; USD 12.8 billion raised for climate action in developing nations

SIDBI equity infusion (Jan 2026): Rs 5,000 crore | Target: 76.26 lakh → 102 lakh MSMEs

India net-zero target: 2070 (announced COP26, Glasgow, November 2021)

Sources: Indian Express, NITI Aayog PIB, Insights on India



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