

Online Platform to Facilitate Access to Climate Finance for MSMEs



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Objectives

Climate finance has long been dominated by larger projects, but more recently smaller ticket sizes have become interesting for climate finance investors in India (Singh 2017). In comparison to the Asian average, India has the smallest transaction size for climate finance projects (Climate Finance Initiative 2020) and there is comparatively more diversity in projects and investors (Jain 2020). The awareness among investors of the role that MSMEs have in leveraging climate change solutions is rising (SIDBI 2019). The array of opportunities that climate finance opens up for MSME financing is reflected in the slowly growing number of climate finance instruments that are accessible for MSMEs (Singh 2017). Yet, there are several impediments that prevent MSMEs from fully leveraging climate finance.

Solution Overview

The online platform to facilitate access to climate finance addresses the following challenges that MSMEs face:

Awareness and understanding: Climate-smart MSMEs are often eligible for climate finance based on their climate change adaptation and mitigation impact but remain unaware of the funding opportunity. Many MSMEs are familiar with only a few such instruments, including carbon credits, Certified Emission Reductions or grants but have difficulties to understand the wider climate finance ecosystem.

Impact at scale: The complex application process for climate finance and related paperwork remains a major challenge for MSMEs. Especially the impact measuring, reporting and verification as required by many instruments remain a barrier.

Ticket size: Despite this slow redirection towards smaller ticket sizes, the existing climate finance instruments and channels are not optimized for catering

Focus:	Mitigation, Adaptation
Instrument Type:	Access to Finance Mechanism
Lab Cycle:	India 2020
Solution	Intellectap
Developers:	

to the MSME sectors. For example, the GCF requires that every dollar invested should leverage four dollars of commercial capital.

Key Features

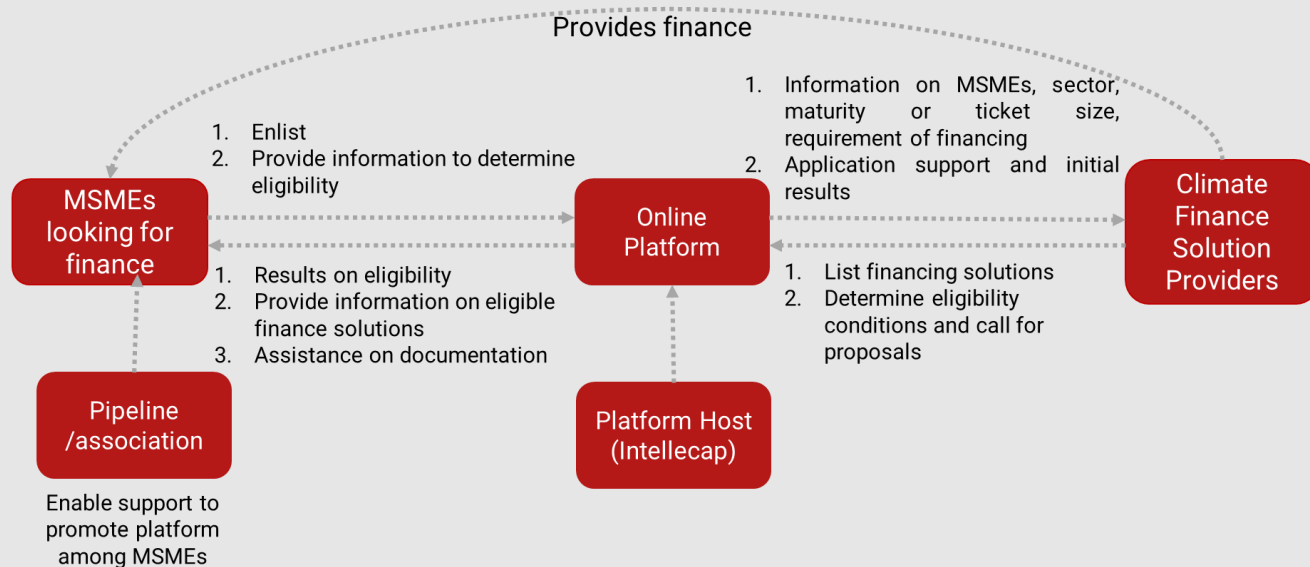
The climate finance solution has the following key features:

Guide MSMEs through the process

The platform will not only list available finance instruments, but filter opportunities for which a MSME is eligible, and guide the MSMEs at every step to tap that source of climate finance.

- The first step will be a tech-enabled, initial eligibility check to determine eligibility for relevant and feasible climate finance opportunities
- Based on this information, the platform will guide the MSME through obtaining any environmental or legal certification that may be required to further eligibility
- The platform will try to link to the central government's MSME database that might enable pre-populate credit appraisal information via an API, and then perform a credit assessment using this data
- The platform overall aims to match MSMEs with suitable climate finance offerings





Support Climate Finance Providers

Solution providers can directly provide information on the available financing opportunities on the platform; and through the eligibility check will also learn about investment worthy MSMEs. This will also help create a pipeline of investment-ready MSMEs for investors – bridging the gap between supply and demand, particularly easing the breakdown of climate finance flows into smaller ticket sizes.

Reduce the transaction costs

To reduce the cost of transactions, the platform will aim to **blend various sources** of climate finance and commercial finance. While climate finance is usually offered at concessional rates, often due to a large number of intermediaries, currency hedging costs, etc. it is effectively more expensive. The transparent overview of climate finance supply, that also takes government schemes into account, and demand will encourage climate finance providers to **focus and tailor their offerings**, making them more effective. This will reduce relative transaction costs.

Target Market

The online tool addresses MSMEs implementing climate change mitigation and adaption measures that are looking for finance and financial institutions of all kinds providing such finance. The platform will cluster MSMEs in eligible segments, based on sector, maturity or ticket size, depending on what is required by the financing source.

Impact Potential

- For financial institutions: more efficient disbursement of climate finance funds.
- Visibility of demand and supply that create new finance solutions.
- For MSMEs: better access to climate finance and therefore implementation of more climate change projects.
- Improvements in the progress of SDGs 7 12 and 13.

Solution Developers



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SEED Practitioner Labs Climate Finance empower participants during the hands-on and collaborative Labs process to turn major financing challenges into robust prototypes. SEED Practitioner Labs Climate Finance are part of the implementation of “Financing and capacity building for micro and small climate-smart enterprises: Filling the gap of the missing middle”, a project supported by the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety.