

## Supporting MSMEs in the supply chain to reduce emissions by adopting energy efficiency measures



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### Objectives

In its strategy to transition towards a green economy, the Government of India (2015) aims to reduce the emission intensity of its GDP by 33-35% until 2030. Collectively, MSMEs significantly contribute to India's greenhouse gas emission and especially MSME clusters have a high energy use. Current energy standards in MSME clusters are low and there is hence a high potential to increase energy efficiency.

MSMEs often lack access to latest technologies and there are financial and capacity restraints to adopting more energy efficient practices. Beyond this, Indian MSMEs has 20-30% scope to reduce production costs with **energy-efficient technologies**.

The biggest challenges faced by MSMEs to be addressed in the SEED Practitioner Labs Climate Finance includes the lack of financial strength to implement energy efficient technologies". Even though repaying energy efficient technologies is often not a problem as cost-savings materialise, the CAPEX model for financing energy efficient technology poses a barrier for many MSMEs. Many MSMEs simply cannot afford to pay high-upfront costs for new equipment. This is especially evident in the post-COVID phase, where capital is primarily used for payment of wages. Furthermore, there is limited knowledge about energy efficient technologies and limited knowledge and time to perform techno-financial analysis about the equipment to calculate potential cost savings. Moreover, often MSMEs are unwilling to upgrade to cleaner technologies as they are afraid that OEMs might renegotiate and cut into their profit margins. Lastly, due to short contracts with OEMs, supplier MSMEs often do not have the financial stability to prove they can pay off a loan over a long timeframe.

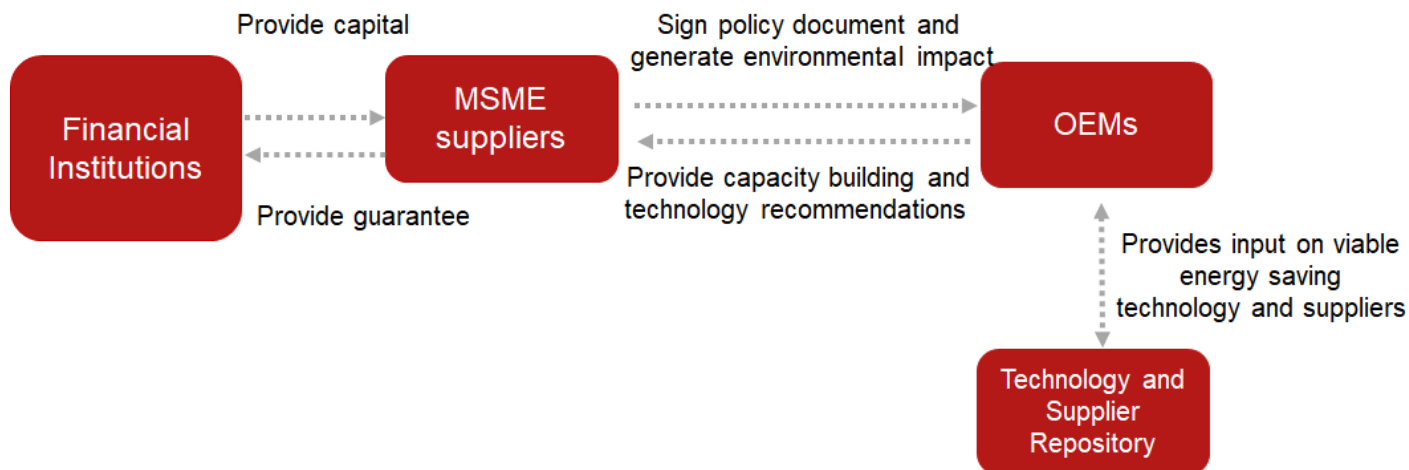
Focus:	Mitigation
Instrument Type:	Access to Finance Mechanism
Lab Cycle:	India 2020
Solution	Mahindra & Mahindra
Developers:	

### Solution Overview

This climate finance solution aims to address all of these problems. It comprises a benchmarking of energy saving technology, a central repository of suppliers of energy-saving technology, template policy documents to be signed between supplier and OEMs, financing through carbon markets and adopting Techno-commercial energy efficiency technologies in Geographical cluster by OEM anchor led approach.

### Key Features

The financial instrument of the model to incentivise MSMEs to take up energy efficiency is build on loan combined with ESCO / Operational lease (rental) model/ (Pay As You Save model). As a further financial incentives, the integration of carbon revenue that translates the energy for additional revenue for MSMEs and directional step to become future ready/ Gain competitive advantage.



The impact of energy efficient technologies depend on the technology used and the specific circumstances they are used in. Therefore, this climate finance solution uses an OEM-anchor led approach that goes beyond a cluster approach: suppliers in a cluster that supply to the same OEM are chosen. Furthermore, energy saving technologies are benchmarked. A number of standardised, viable energy efficient technologies are selected, based on their impact and returns. The suppliers and technology are listed in a central repository provided by the OEM which allows an easier impact measurement through standardised technologies.

Furthermore, MSMEs may fear if they implement more energy efficient technology, generating cost savings, the OEM they are supplying to might renegotiate the prices charged, affecting the suppliers profit. This is solved by using a standard policy document to confirm supplier relationship.

## Impact Potential

### Environmental Impact

- Higher energy efficiency
- Lower greenhouse gas emissions
- Scope 3 emissions of OEMs reduced

### Economic Impact

- Using more energy efficient technology can reduce costs by up to 30%
- Higher profit margins for supplier and perhaps OEMs, depending on the agreement reached

## 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.

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