

Green MSME Finance Tool

Mainstreaming finance for commercial banks



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promoting entrepreneurship
for sustainable development



Background

One of the central aims in India's nationally determined contributions (NDCs) is a transformation towards a green economy by reducing emission intensity of its GDP. Socially inclusive and green micro, small and medium-sized enterprises (MSMEs) can have a central role by introducing innovative sustainable products and support the NDCs from the grassroots. However, these enterprises remain largely excluded from mainstream financial services which hinders them to uncover their full potential. This is due to:

- 1) A lack of information, capacities and supporting systems of commercial banks in green financing to address green enterprises; and
- 2) Low returns for financial banks in offering financial services to green SMES in relation to data and knowledge frameworks like credit appraisal and loan restructuring resulting in high due diligence and transaction costs for green projects.

Solution Overview

The **Green MSME Finance Tool** is a knowledge platform positioned as a one-stop source for organised financial information about green MSMEs, credit appraisal and rating systems for green technology solutions and potential monetisation of green solutions. It provides banks with data and frameworks to understand green technology-based enterprises and evaluate them for financing in order to bridge the information gap between banks and green enterprises and thereupon reducing otherwise high due diligence costs.

Key Features

The Green MSME Finance Tool serves as a one-stop shop for banks and provides a comprehensive list of green technologies with proven models. A list of credible technology providers and vendors are matched to list technologies that meet NDC-related

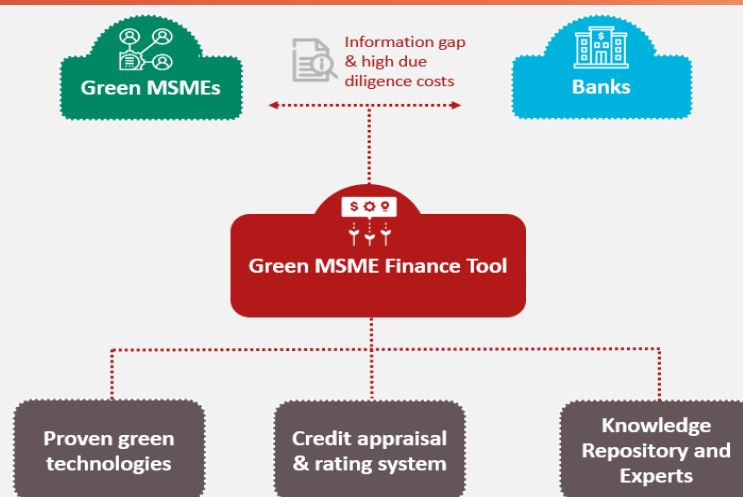
Focus:	Climate change mitigation & adaptation
Ecosystem Impact:	Access to finance; Infrastructure & technology
Lab Cycle:	Climate Finance, India 2018
Challenge Hosted by:	Society for Technology & Action for Rural Advancement (TARA)

sustainability requirements, as well as a demand assessment of the various technologies to proof economic viability. In this way, the Tool bridges the information gap and due diligence costs can be significantly be reduced. Ultimately, the Tool will position the technologies in a credit rating system and inform the platform users thoroughly about the potential of the green technologies including a standardised metrics using SDG and NDC- related tools that assess the climate and social impact of the business models.

The insights from research, experts and guidelines are included within this innovative one-stop platform. This includes standardised systems and frameworks needed

Innovative Characteristics

- Providing banks with information on green technologies and proven and credible models as one-stop shop
- Increasing transparency via a credit and rating system
- Streamlining processes for efficient case-by-case analysis of green products and reduced due diligence costs



by banks to assess green MSMEs on a case-by-case basis efficiently and develop financial products that fit with the needs of the green MSMEs. Target Group

The green MSMEs being listed on the platform are selected based on the following criteria:

- 1) Have a proven social and climate-related impact;
- 2) Apply a commercial model with proven returns for their business and their users;
- 3) Be in business for at least three years; and
- 4) Outline their long-term business plan (5-10 years).

In addition, their model should be replicable to support a transition towards a green economy on the long-term. Participating financial institutions are microfinance institutions, banks, and rural banks across diverse regions in India.

Impact Potential

- During the pilot phase (2019-2022), the Green Finance MSME Tool will unlock access to finance for 250 green MSMEs, certifying 75 green technologies as a “proven model” and rate 35 green technologies using the credit rating
- Via the platform, 20 financial institutions will increase their carbon literacy and develop new climate and MSME-relevant products
- Through a strategic financial support of green MSMEs, up to 1050 MT CO₂ could be saved during the pilot phase contributing to the transition towards a low carbon economy.

Solution Developers



Society for Technology & Action for Rural Advancement (TARA)

Contact person:

Munir Ahmed Tahir: matahir@devalt.org

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.