

A new Finance Brief: Access to Finance for SCP Practices by SMEs in India

FINANCE BRIEF

switchasia
SCP FACILITYACCESS TO FINANCE FOR
SUSTAINABLE CONSUMPTION
AND PRODUCTION PRACTICES
BY SMALL AND MEDIUM-
SIZED ENTERPRISES IN INDIA

This briefing summarises main findings of a desk analysis, literature review and interviews conducted on the topic of access to finance for **Sustainable Consumption and Production (SCP)** practices by SMEs in India. The analysis was conducted as part of work in support of the EU SWITCH-Asia programme, by the SWITCH-Asia SCP Facility.

SCP IN THE INDIAN SME SECTOR

Mainstreaming SCP is urgently needed in India. The harmful effects of unshackled economic growth in form of pollution and adverse impacts on health and prosperity are already visible today. Especially in India's industrial and urban regions, air and water pollution levels are high, and directly affect the health and life prospects of hundreds of millions of people. India's formal collection and recycling rate is relatively low across waste sectors compared to global averages, leading to environmental problems. India's energy demand is rising in tandem with increased prosperity, while posing new challenges both in terms of infrastructure and emissions. According to IQAir, in 2020, 22 of the most polluted cities worldwide were located in India.¹

In order to protect and continue the developmental progress made in India in past decades, pollution and resource efficiency need to be **tackled in a holistic manner, including along value chains**. Indian **small and medium-sized enterprises (SMEs)** are responsible for 70% of industrial pollution in India; dense SME clusters are particular sources of environmental contamination. Yet, some **companies already engage in sustainable production practices**, typically focusing on energy efficiency, waste management and cleantech (renewable energy, green buildings, management of (waste) water).

This emerging SCP action is largely due to **cost and external pressures**. The latter comes from both international buyers and investors, as well as existing and anticipated legislation.

SMEs engaged in (international) supply chains are increasingly **required to measure and manage their environmental, climate and social performance** as buyer countries/regions such as France, Germany, the UK and the EU tighten regulation on corporate supply chain management.

Under the current government, the **importance of environmental issues** was reiterated. At the same time, to ease economic recovery from the pandemic downturn, environmental regulations have been reduced, including on environment and wildlife protections for industrial projects.² Yet a longer-term legislative shift towards sustainability seems required, not least to meet the conditions set forth in the Paris Agreement. For example, the Securities and Exchange Board of India (SEBI) has updated its Business Responsibility and Sustainability Report (BRSR) framework, now requiring the 1000 largest Indian companies to report granular sustainability and corporate governance data from 2022 onwards.

¹ <https://www.iqair.com/th-en/world-most-polluted-cities>

² <https://www.conservancy.org/projects/global-conservation-rollbacks-tracker>

EU Best Practices

Access to investment and working capital is crucial to support SMEs in professionalising and expanding their SCP



practices and services. A new [Finance Brief](#)

produced by the

SWITCH-Asia SCP Facility presents an overview of financing opportunities for SMEs and their SCP-related activities and summarises recommendations to Development Finance Institutions for increasing (access to) relevant funding in India.

The study found there are limited general and SCP-specific financing options for Indian SMEs and funding is low compared to actual demand (Development Alternatives 2020). Priority sector lending targets, issued by the Reserve Bank of India to foster economic development (e.g. through micro enterprises and SMEs, social infrastructure and renewable energy) do not reflect in actual lending behaviour (Tandon 2020).

Some financing options exist and include Government schemes, Indian banking sector, Microfinance Institutions, Non-Bank Financial Institutions (NBFIs), as well as venture capital and impact investment. The report details opportunities and pinpoints to a range of SCP schemes directly accessible to SMEs. Additionally, the brief highlights recommendation to development institutions.

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