

# Financing local green enterprises in developing and emerging countries

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## Public event

27 October 2022

Presentation of the report  
**Financing Local Green Enterprises**

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# Financing Local Green Enterprises

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0. Project
1. Green MSMEs?
2. Barriers
3. Solutions



# Financing Local Green Enterprises

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## 0. Project

1. Green MSMEs?
2. Barriers
3. Solutions



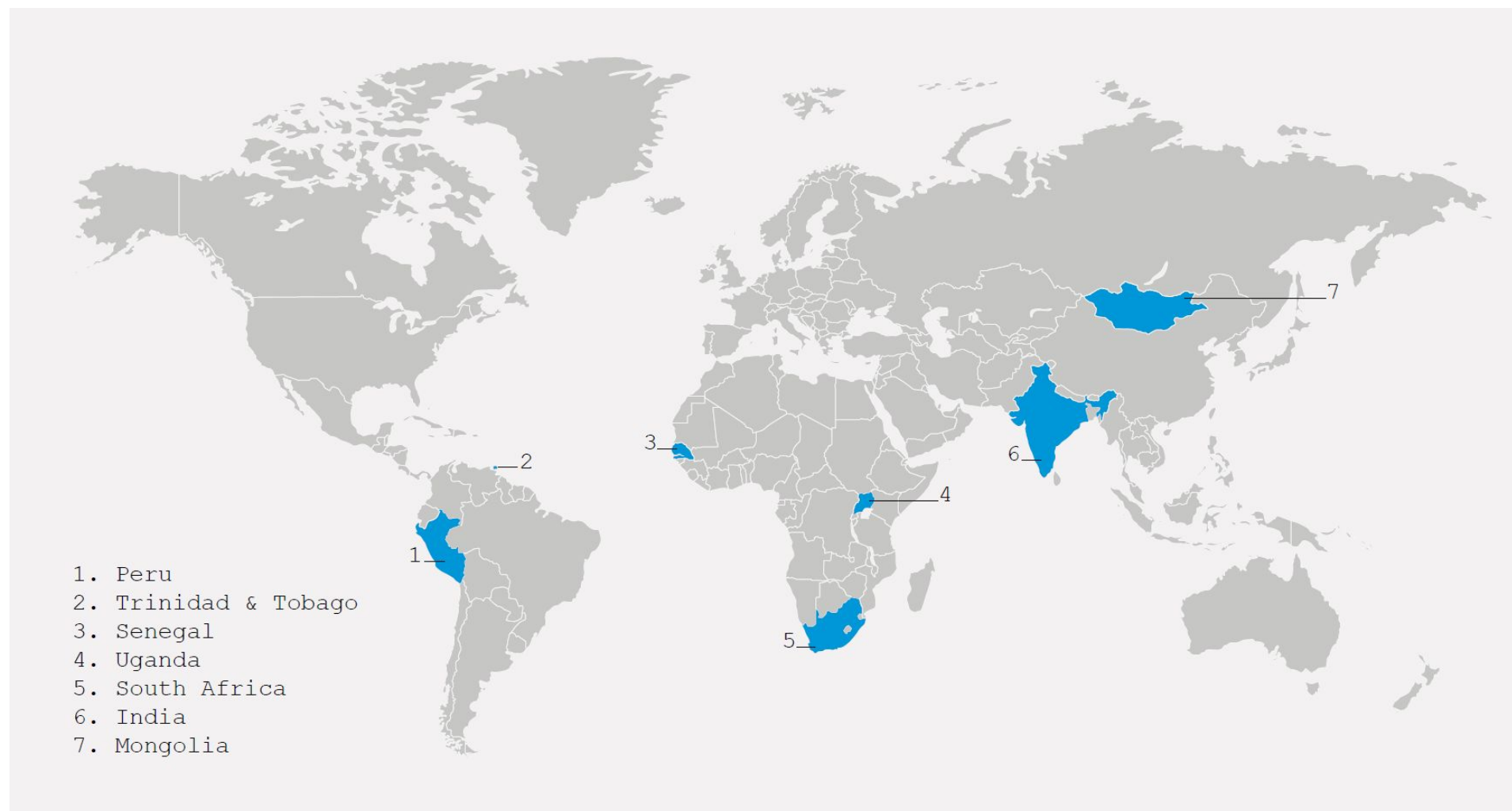
# 0. The project

## 7 GEC HUBs

- **PE:** Libelula; FNI
- **T&T:** Canari
- **SE:** IED Africa
- **UG:** Acode
- **SA:** Tips
- **IN:** Devalt
- **MG:** EPCRC

## Outcome:

- **CFA**
- **National report**
- National policy dialogue
- Advocacy
- **Synthesis report**



# Financing Local Green Enterprises

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0. Project

**1. Green MSMEs?**

2. Barriers

3. Solutions



# 1. Green MSMEs?

Micro-  
Small-  
Medium-  
Enterprises

Table 2 - IFC thresholds to define MSMEs comparison

Indicator	Firm size class		
	Micro	Small	Medium
Number of employees	<10	<50	<300
Total assets (US \$)	<100,000	<3 million	<15 million
Total annual turnover (US \$)	<100,000	<3 million	<15 million

Table 1 - Cross-country of MSME definitions by employees

Country	Firm size class		
	Micro	Small	Medium
Mongolia <sup>28</sup>	<10	<50	<200
Uganda	<10	<50	<100
South Africa <sup>29</sup>	<10	<50	<250
Peru	<10	<100	/
Trinidad and Tobago	≤5	<25	<250

→ **lack of uniformity** in definition/thresholds of MSMEs

# 1. Green MSMEs?

## 4 facts on MSMEs

1. Large share of **total employment** (20-90%) & **GDP** (20-65%)
2. Mostly composed of **Micro- enterprises**  
(lion's share of MSMEs' employment)
3. Mostly active in the **secondary sector**  
(trade, manufacturing, & construction)

And...

4. Often **largely informal** (GDP (~15-45%) & Employment (~30-95%))

Fig. 6. Share of GDP and employment accounted for by MSMEs in the case study countries

Source: MTIC 2015; OECD 2018; IFC 2018; MSC 2020

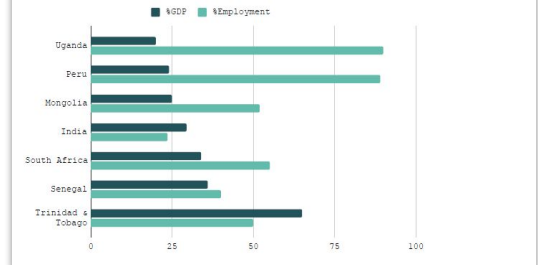


Fig. 3. Relative share of Micro, Small & Medium enterprises in the case study countries

(SME Finance Forum, 2019)

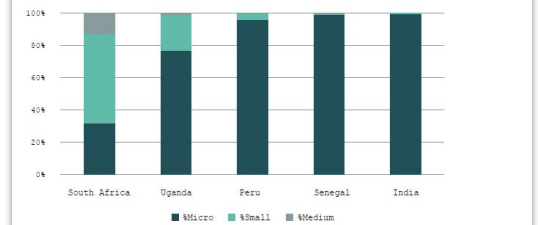
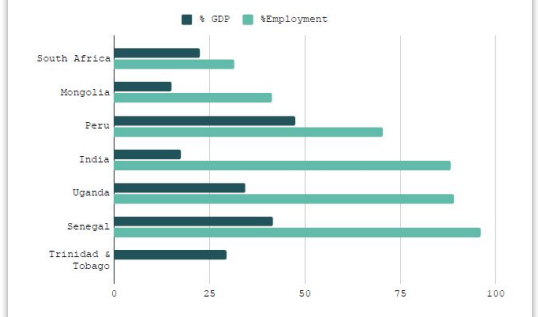


Fig. 7. Size of the informal economy

Source: WB, 2017; ILO, 2019; INEL; IMF, 2020

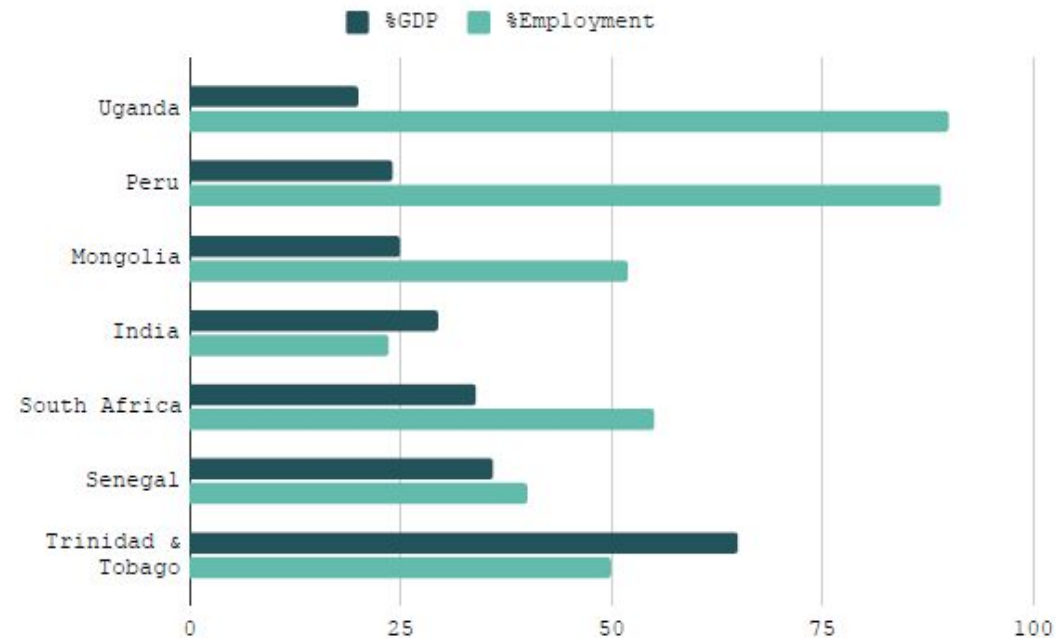




# 1. Green MSMEs?

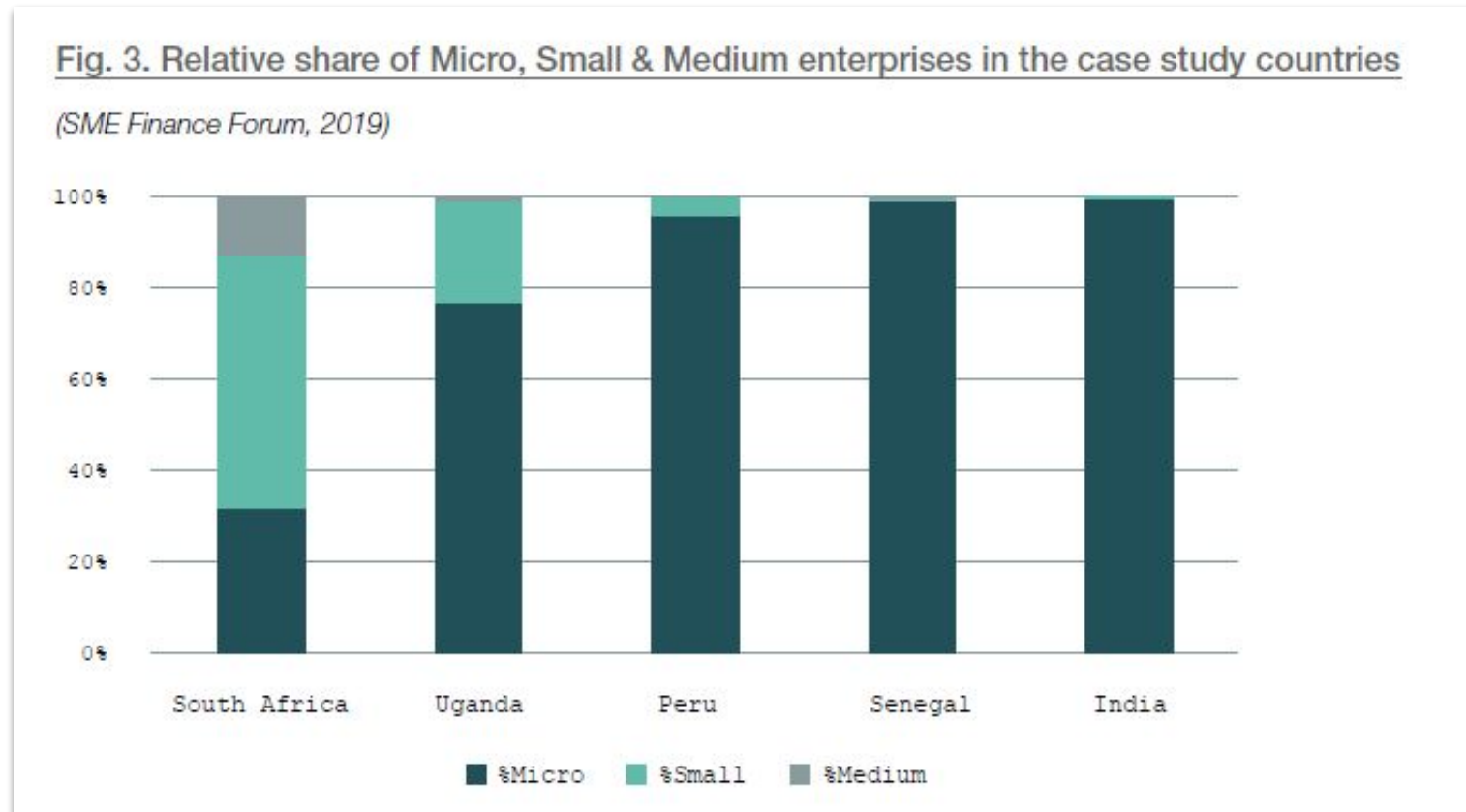
**Fig. 6. Share of GDP and employment accounted for by MSMEs in the case study countries**

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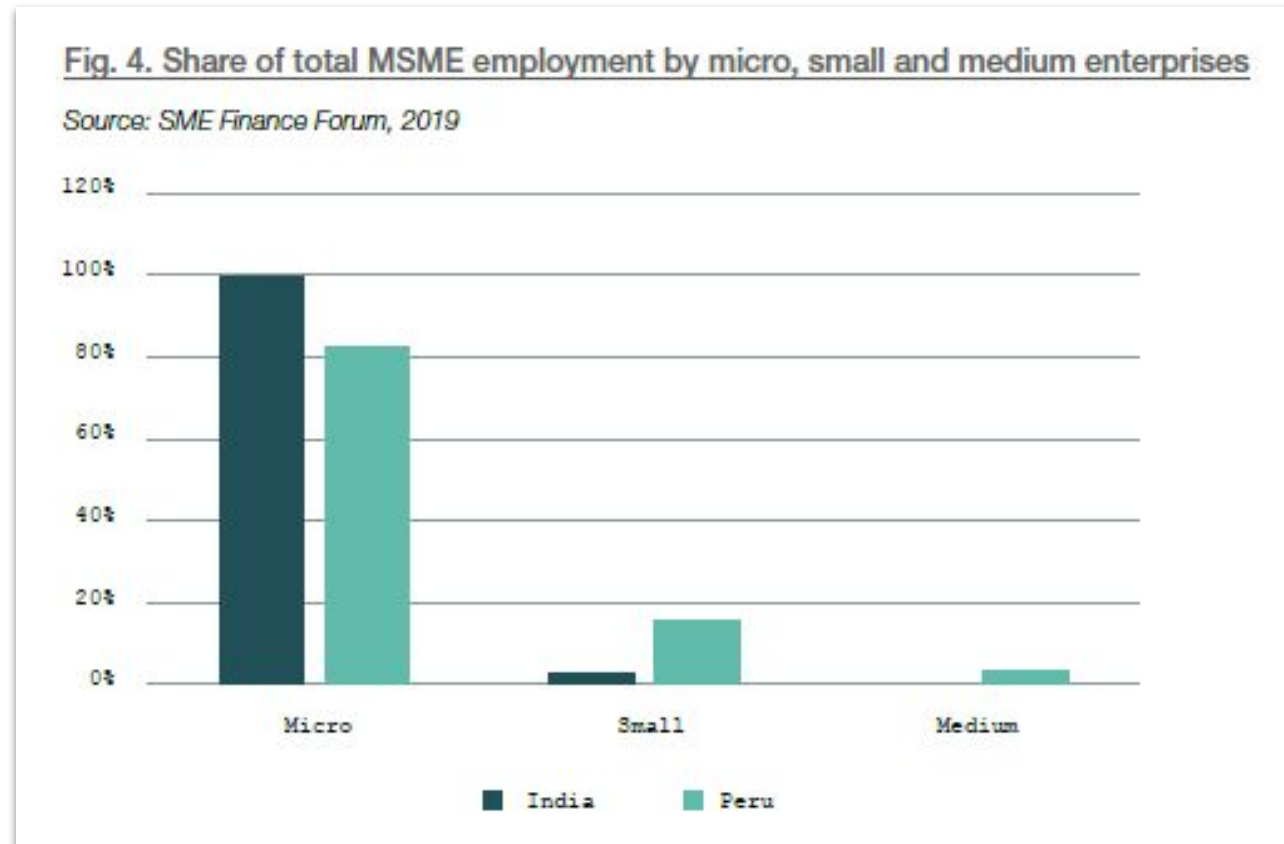
**MSMEs** = large share of **total employment** (20-90%) & **GDP** (20-65%)

# 1. Green MSMEs?



**MSMEs** = mostly composed of **Microenterprises**

# 1. Green MSMEs?



**MSME employment** = Microenterprises (often the lion's share)

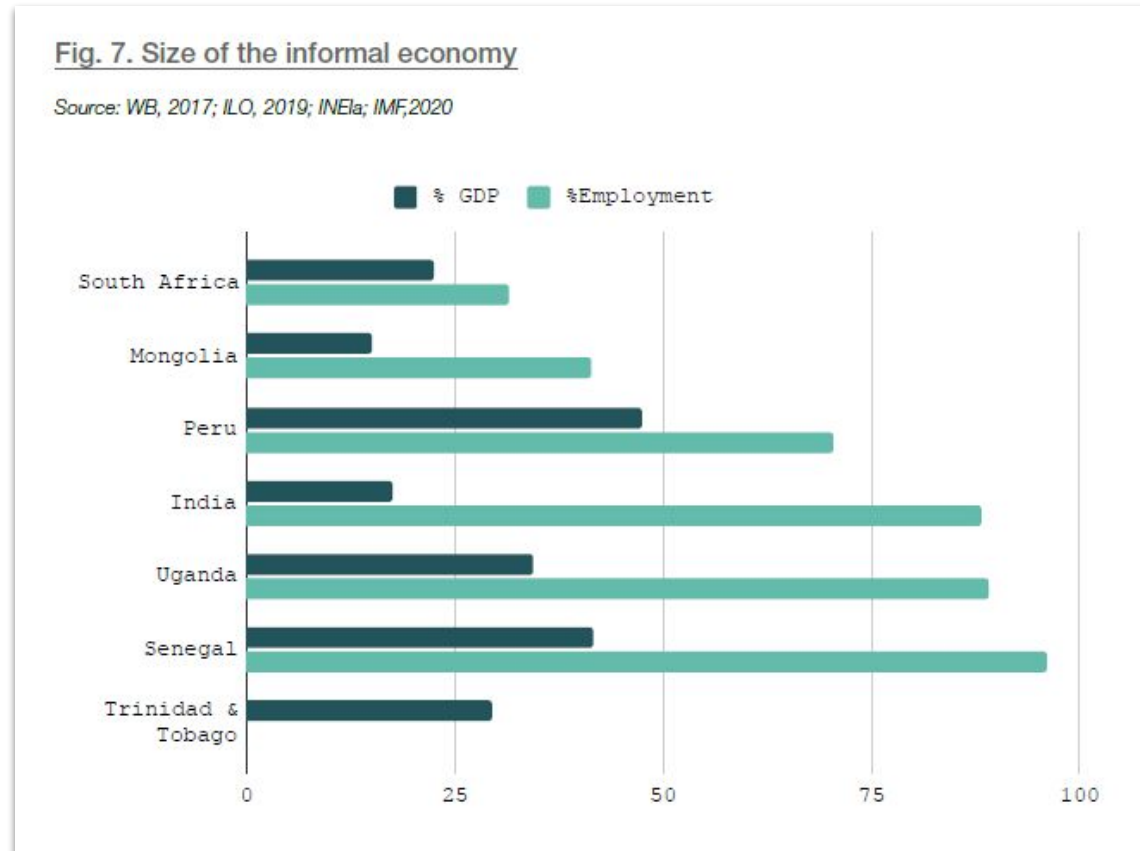
# 1. Green MSMEs?

## MSMEs in...

- **South Africa** = trade, construction, & domestic services
- **India** = trade (36%) & manufacturing (31%)
- **Mongolia** = trade (51%), services (32%), manufacturing (19%) & agriculture (6%)
- **Peru** = trade (46.2%), services (40.6%), & manufacturing (8.4%)
- Etc.

**MSMEs** = mostly **secondary sector** (trade, manufacturing, & construction)

# 1. Green MSMEs?



**Informal economy** = **GDP** (~15-45%) & **Employment** (~30-95%)

# 1. Green MSMEs?

**Green MSMEs** = MSMEs which...

- *“is committed to the principles of environmental sustainability in its operations”*
- *“strives to use renewable resources”*
- *“tries to minimize the negative environmental impact of its activities”*
- **“conducts sustainable economic activities”**
- ...

Table 3 - Landscape of LGEs and MSMEs legal definitions

	T&T	PE	SN	UG	ZA	IN	MN
Legal status of green enterprises	NO	NO	UNCLEAR	UNCLEAR	YES	NO	NO
Green taxonomy (i.e. classification system)	NO	NO	NO	UNCLEAR	YES	NO	YES

YES (blue), UNCLEAR (light green), NO (red)

→ Lack of official definition, classification system (taxonomy) & legal status

# Financing Local Green Enterprises

0. Project

1. Green MSMEs?

**2. Barriers**

3. Solutions



## 2. Barriers... in access to finance

### MSMEs financing gap

4-18% GDP

mostly **SME**  
(except for Uganda)

Fig. 12. MSME Finance gap as share of GDP (%)

Source : SME Finance Forum, 2019

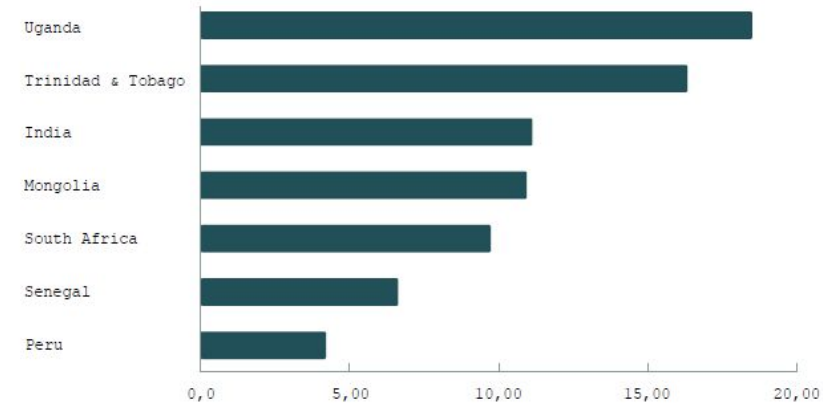
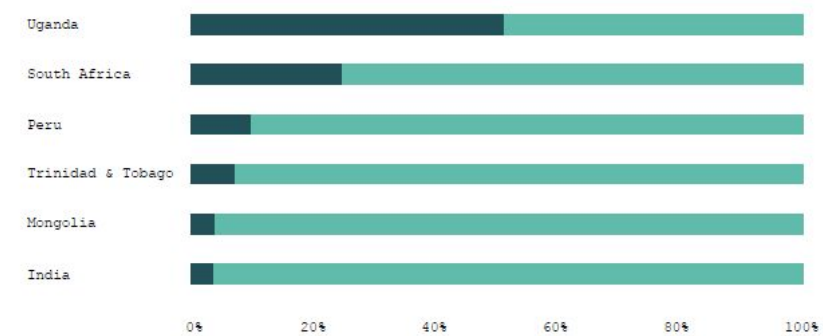


Fig. 13. MSME Finance gap by size of enterprise & by country, as% of GDP

Source : IFC, 2017





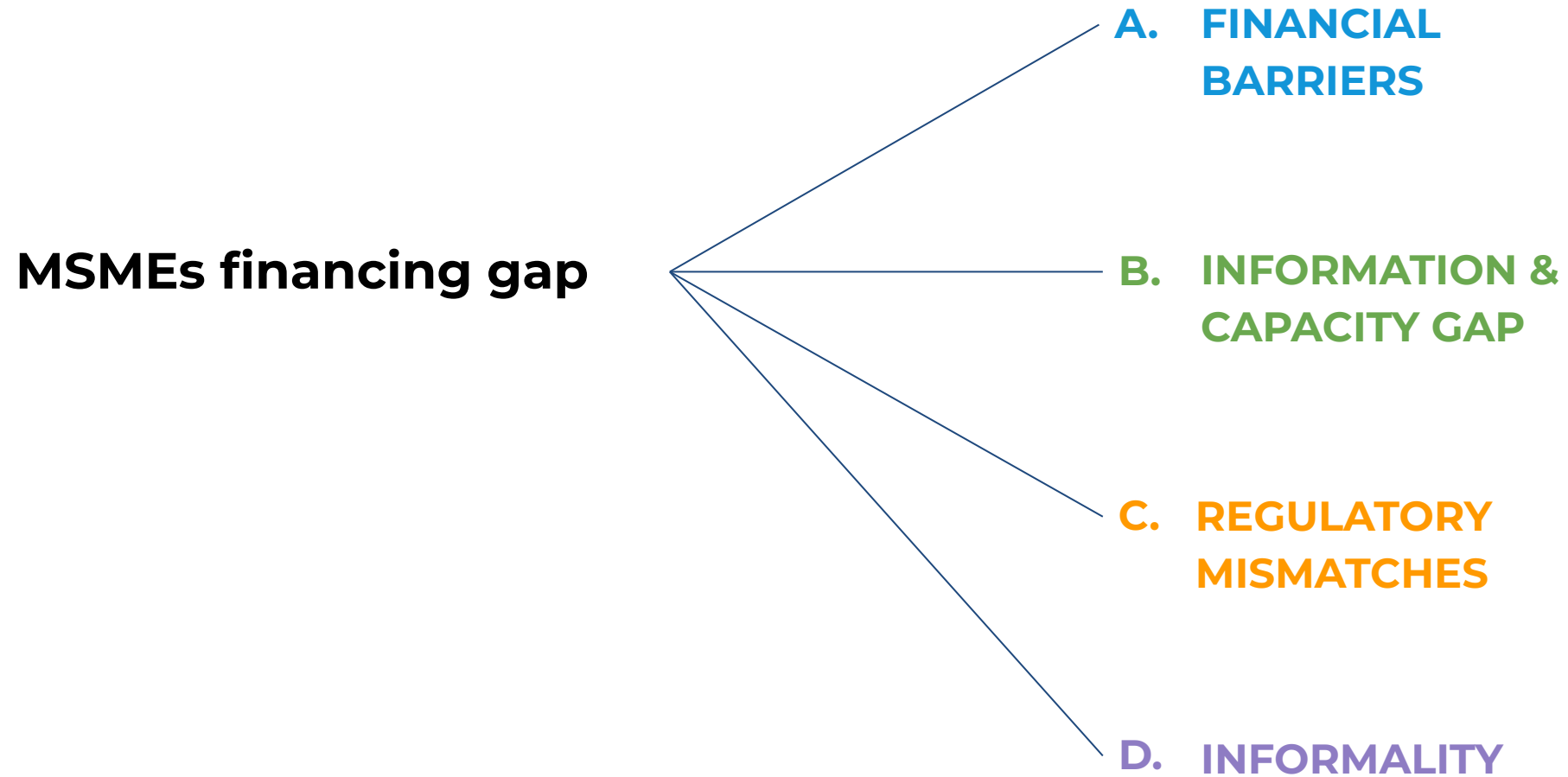
# 2. Barriers

## Based on

- Surveys in partners' countries
- CFAs
- National reports

Table. 5. Signature issues by type and country

		COUNTRIES						
		Trinidad & Tobago	Peru	Uganda	Senegal	South Africa	India	Mongolia
EXTERNAL	Lack of (access to) information	■			■		■	■
	Weak, limited and fragmented policy/poor policy implementation	■					■	
	Inadequate (absence of) regulations	■				■	■	
	long/burdensome business/administrative procedures	■		■	■			■
	High interest rates			■	■			■
	High failure rate/High risk MSME market			■	■			
	Informality		■		■		■	
	Insufficient consideration of social and environmental criteria by Fis		■			■	■	
	Deficit of rule of law					■	■	
	Lack of demand					■	■	
	Lack of governmental support						■	
	Lack of incentives for banks to provide credits to green projects and enterprises		■					
	Lack of special legal status, formal definition & certification for LGEs/MSMEs	■				■		
	Limited BDS targeting LGEs	■						
	Lack of proper representation in policy & social dialogue		■					
	Lack of knowledge by FI of the specific risks of environmentally based projects						■	
	High dependence on informal finance and lack of access to formal finance				■			
	Lack of transparency in accessing subsidies				■			
	Overly long payment delays				■			
	Lack of opportunities for partnerships (with FI and technical institutions)			■				
High transaction costs						■	■	
Logistical problems (infrastructures & access to inputs)						■		
Operational difficulties						■		
Complex employment practices						■		
Flouting of rules and unethical practices								
INTERNAL	Lack of collateral/insufficient guarantees	■	■	■	■	■	■	■
	Lack of financial literacy/awareness of financial schemes		■	■	■	■	■	■
	Lack of skills			■	■	■	■	
	Lack of networking between LGEs	■						
	Poor implementation of digital services	■						
	Low productivity		■					
	Unpredictable cash-flows					■		
	Long break-even cycles					■		
	Poor repayment capacity						■	
	Lack of business knowledge			■				



## 2. Barriers

### A. FINANCIAL BARRIERS

1. **Inappropriate collateral requirements** and lack of credit guarantees
2. **Prohibitive interest rates**
3. **Cumbersome application procedures**

## 2. Barriers

### A. FINANCIAL BARRIERS

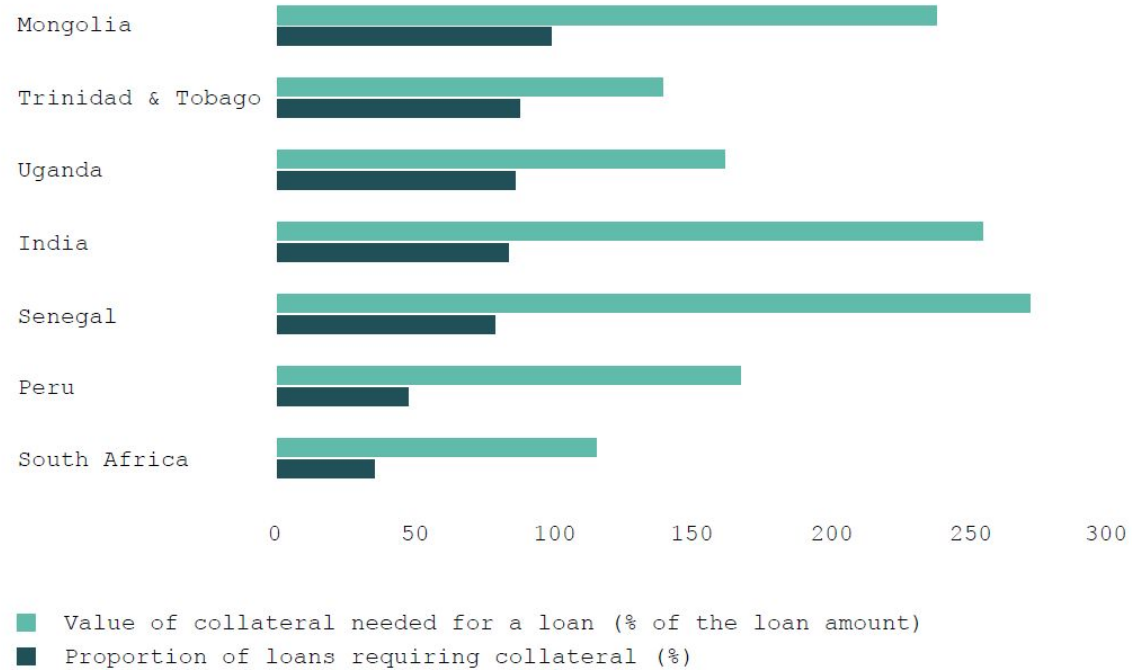
#### 1. Inappropriate collateral requirements and lack of credit guarantees

**40-95%**  
of loans require  
collateral

**120-275%**  
of loan value

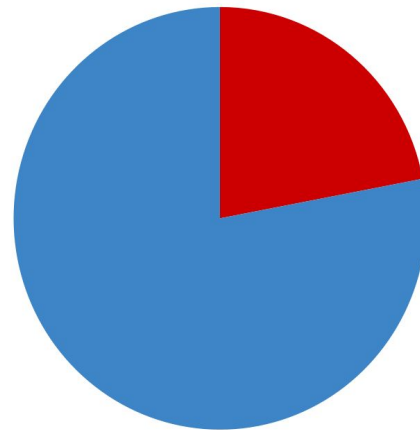
Fig. 14. The use of collateral (%)

Source : World Bank enterprise survey



### A. FINANCIAL BARRIERS

#### 1. Inappropriate collateral requirements and lack of credit guarantees



**MSMEs capital stock** (EMDES) =

**22% immovable assets** (i.e. land, building)

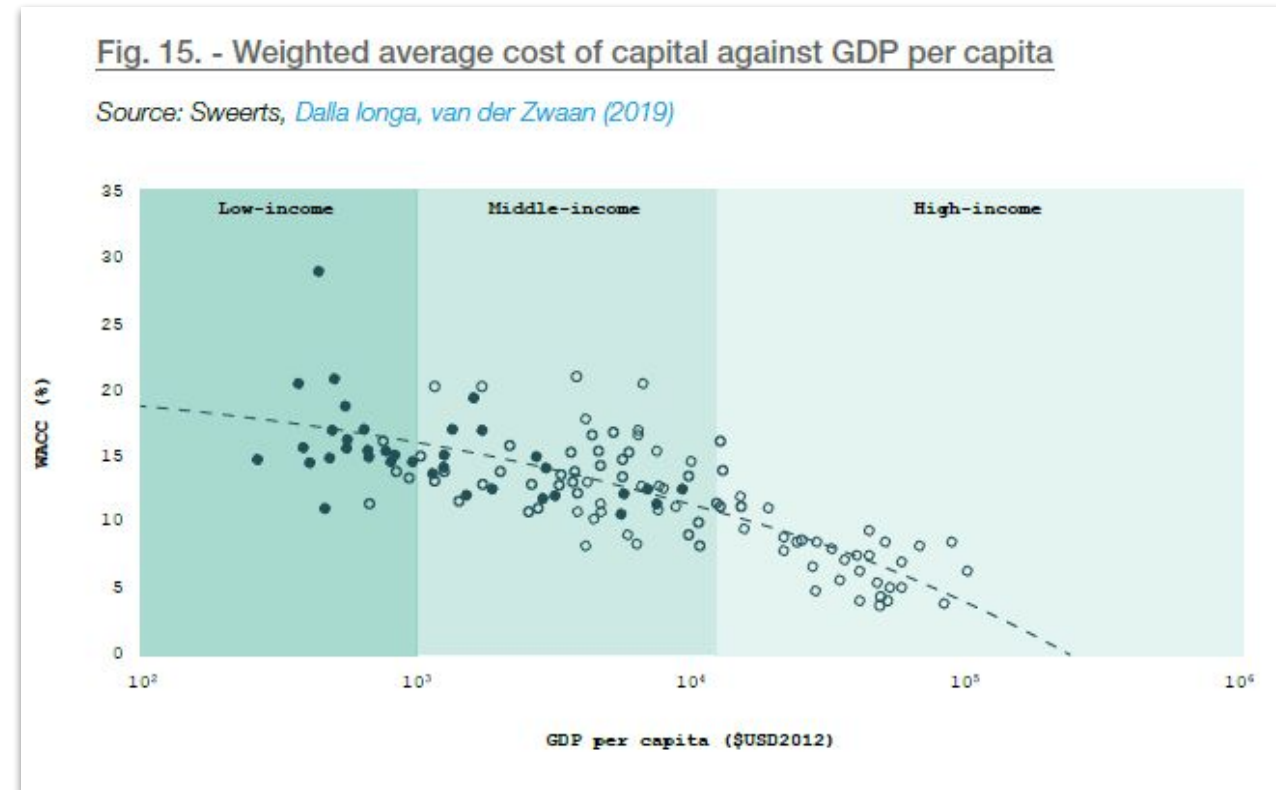
**78% movable assets** (e.g. machinery, equipments)

## 2. Barriers

### A. FINANCIAL BARRIERS

1. **Inappropriate collateral requirements** and lack of credit guarantees
2. **Prohibitive interest rates**

WACC  
+ interest rate  
**+ risk premium**  
(MSMEs perceived as risky)



## 2. Barriers

### A. FINANCIAL BARRIERS

1. **Inappropriate collateral requirements** and lack of credit guarantees
2. **Prohibitive interest rates**
3. **Cumbersome application procedures** (formal credit)

## 2. Barriers

### A. FINANCIAL BARRIERS

1. **Inappropriate collateral requirements** and lack of credit guarantees
2. **Prohibitive interest rates**
3. **Cumbersome application procedures**

### B. INFORMATION & CAPACITY GAP

1. **Financial institutions lack information on MSMEs** (i.e. financial health; ESG)
2. **MSMEs lack of knowledge** (e.g. fin. opportunities, CGSs, support programs)
3. **MSMEs lack of skills** (e.g. business, finance, environmental)



## 2. Barriers

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### C. REGULATORY MISMATCHES

1. **The lack of supportive regulations** (e.g. legal status Green MSME; taxonomies)
2. **The presence of burdensome regulations** (e.g. registration, licences, tax)
3. **The negative effects of existing regulations** (e.g. subsidies for large firms)

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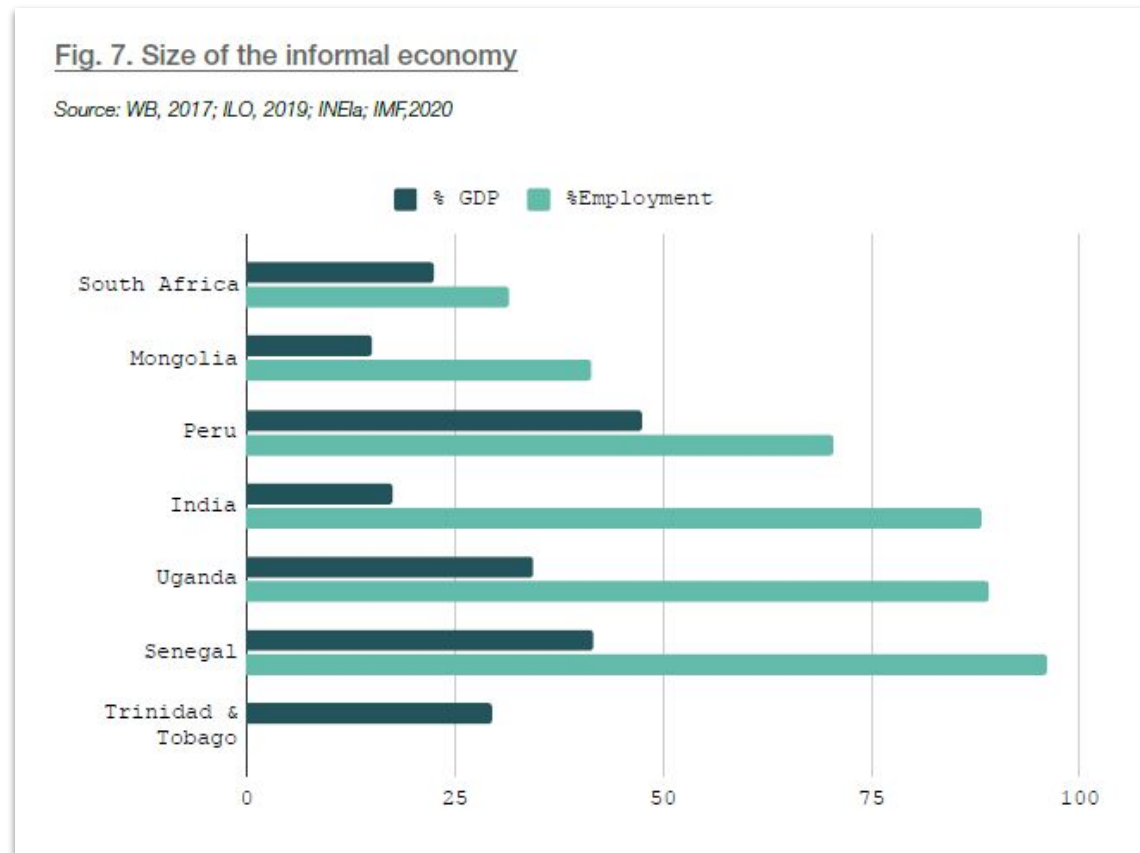
### D. INFORMALITY

- \* **match or mismatch?**

## 2. Barriers

### D. INFORMALITY

\* match or mismatch?



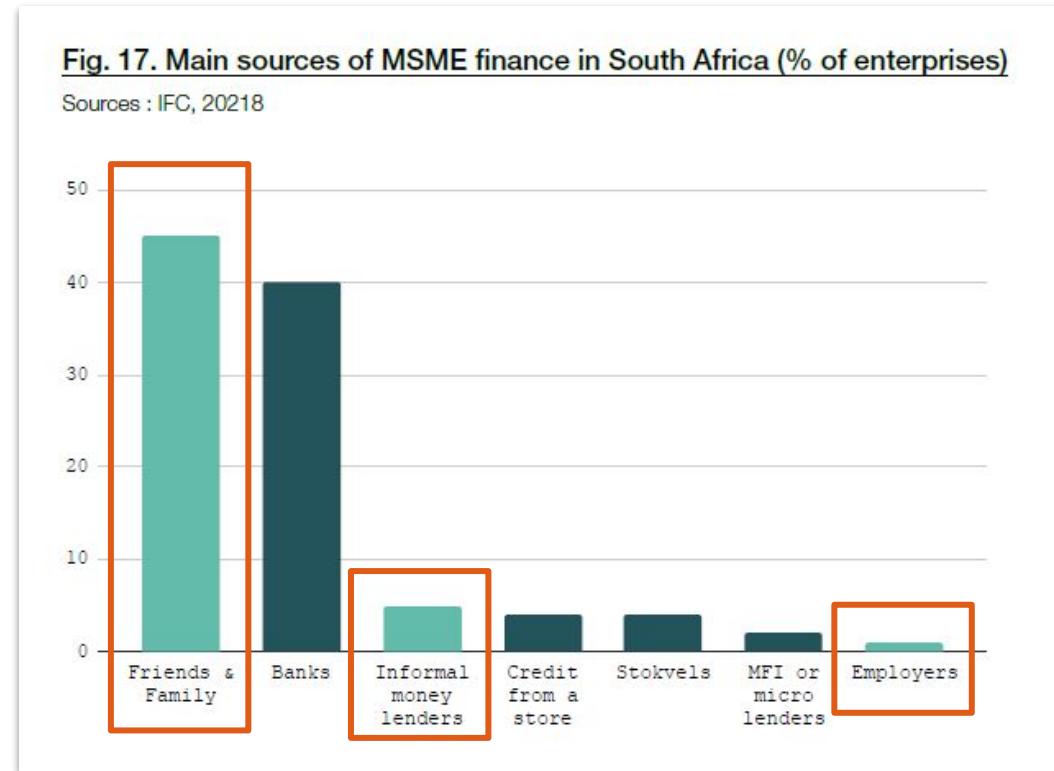
GDP  
**15-47%**

Employment  
**31-96%**

## 2. Barriers

### D. INFORMALITY

\* match or mismatch?



## SOUTH AFRICA

Informal sources

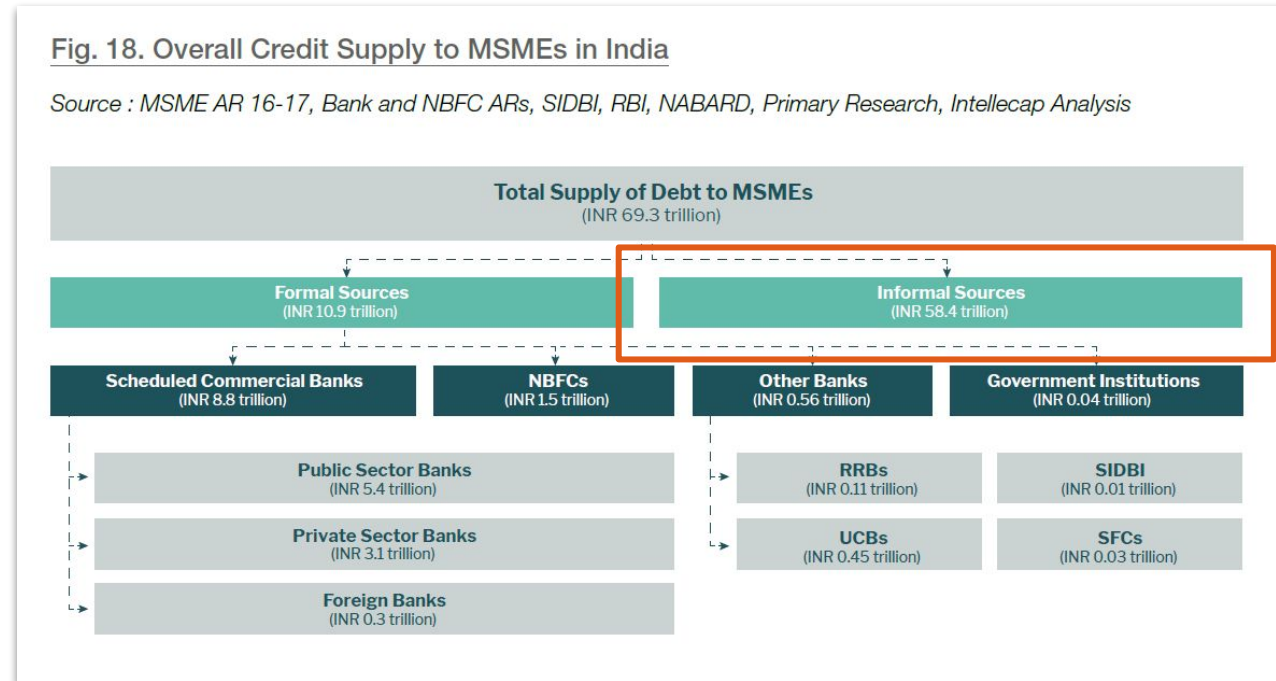
> **50%**

of MSME funding

## 2. Barriers

### D. INFORMALITY

\* match or mismatch?



# INDIA

Informal sources

> 80%

of MSME credit

## 2. Barriers

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### B. INFORMATION & CAPACITY GAP

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### D. INFORMALITY

- \* **match or mismatch? → reality that must be taken into account**

## 2. Barriers

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3. **The negative effects of existing regulations** (e.g. subsidies for large firms)

### D. INFORMALITY

- **Match or mismatch?** (e.g. preference of borrowing for informal finance)

# Financing Local Green Enterprises

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0. Project
1. Green MSMEs?
2. Barriers
- 3. Solutions**



## Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

- A. Bridging the trust gap** between MSMEs and financial institutions
- B. Bridging the information & capacity gaps** (MSMEs and financial institutions)
- C. Bridging the financing ecosystem gap**

## A. Bridging the trust gap between MSMEs and financial institutions

### 1. Ensuring MSMEs can pledge movable assets as collateral

- **Design an advanced secured transaction framework**
- **Establish modern collateral registries**  
(e.g. India's CERSAI (2013); Uganda's SIMPRS/SIMPO (2020))

#### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

## A. Bridging the trust gap between MSMEs and financial institutions

1. Ensuring MSMEs can pledge movable assets as collateral

2. Improving and greening public credit guarantee schemes

- **Ensure the existence of well-designed CGSs specifically targeted towards MSMEs** (cf. international standards; CGSs' reach, efficiency, and additionality; simplified process)
- **Add clear and stable environmental commitments in CGSs mandates** (e.g. supporting national green strategies, NDCs, etc) - WB & AFI guidelines

### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

## B. Bridging the information & capacity gaps

### 3. Credit information sharing mechanisms more granular & green

- **Eliminating minimum loan thresholds for being included in a CB or CR's database**
- **Reporting negative *AND* positive credit information** (i.e. “reputational” collateral)
- **Using digital financial services (DFS) to reduce transaction costs**
- **(Provide FIs with ESG information** (cf. next point))

**Barriers**

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

## B. Bridging the information & capacity gaps

3. Credit information sharing mechanisms more granular & green

4. A robust but simplified chain of ESG information

- **Establish green taxonomies** as aligned as possible with the existing ones
- **Establish legal status of Green MSME**
- **Establish mandatory and harmonised corporate sustainability reporting (CSR)**

and...

- **Adapt existing taxonomies and corporate sustainability reporting requirements to be applied to/by MSMEs** (cf. “IFRS for SMEs Standard”; IPSF)

### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

## B. Bridging the information & capacity gaps

3. Credit information sharing mechanisms more granular & green

4. A robust/simplified chain of ESG information

5. **MSMEs agency as a one-stop-shop** (+liaison offices)

- **Increase MSMEs' awareness of existing opportunities, support mechanisms (CGSs), etc.**
- **Provide technical assistance and training** (e.g. credit (guarantee) application, collateral establishment, setting up of group lending, cooperative societies, the greening of their activities, etc.)
- **Act as a one-stop-shop for business registration** (i.e. build MSMEs' awareness of the benefits of formal registration, provide information, partner with business organisations to facilitate registration)
- **Where they exist, ensure their effectiveness & that they help connecting**

### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

## C. Bridging the financing ecosystem gap

### 6. Unleash DFIs' potential

#### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
- INFORMALITY

- **Revise DFIs' mandate to integrate lending targets** towards green MSMEs and LICs
- **Set up green MSME facilities** (cf. donor equity/public guarantee; support DFIs risk-taking)
- **Participating in national dialogues** to facilitate alignment of DFIs' investment & technical assistance with national development and environmental priorities
- **Organise capacity-building for Local (Development) Financial Institutions/intermediary**

## C. Bridging the financing ecosystem gap

### 6. Unleash DFIs' potential

### 7. Improving consumer protection to reduce irresponsible lending

- **Establish regulation(s) that expands to a broad scope of credit products and includes:**
  - minimum criteria for creditworthiness assessment (CWA)
  - interest rate caps at levels that protect consumers from predatory practices without reducing lending rates to creditworthy MSMEs
  - minimum criteria for pre-contractual information
  - harmonised forbearance measures
- **Establish a unique framework for microfinance loans that applies to all microfinance lenders** (e.g. commercial banks, microfinance institutions, coop. banks & financial NGOs)

#### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
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## A. Bridging the trust gap between MSMEs and financial institutions

1. Ensuring MSMEs can pledge movable assets as collateral
2. Improving and greening public credit guarantee schemes

## B. Bridging the information & capacity gaps

1. Credit information sharing mechanisms more granular & green
2. A robust but simplified chain of ESG info. (e.g. gr taxonomy, status gr MSMEs; CSR)
3. MSMEs agency as a one-stop-shop (+liaison offices)

## C. Bridging the financing ecosystem gap

1. Unleash DFIs' potential (i.e. lending targets; green MSME facilities; dialogue)
2. Improving consumer protection (e.g. CWA; interest rate caps; pre-contractual info)

### Barriers

- FINANCIAL BARRIERS
- INFORMATION & CAPACITY GAP
- REGULATORY MISMATCHES
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# Questions & Answers

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# To continue the discussion...



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