switchasia

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Business Cases for Financing Sustainable Consumption and Production Practices

The SWITCH-Asia Programme

Launched in 2007, the SWITCH-Asia programme is the largest European Union-funded programme promoting Sustainable Consumption and Production (SCP) supporting so far 24 countries in Central, South, Southeast and East Asia. Nearly EUR 300 million have been invested towards promoting sustainable consumption and production practices along value chains and micro, small and medium-sized enterprises (MSMEs) in the region. The programme has funded around 130 projects in the region over a period of 15 years, supporting over 500 Asian and European non-for-profit partners, about 100 private sector associations and 80.000 Asian MSMEs.

SWITCH-Asia is currently implemented through three components, the Grants programme, the Sustainable Consumption and Production Facility (SCP Facility), and the Regional Policy Advocacy Component (RPAC). The SCP Facility aims at strengthening the implementation of SCP policies at the national level. It also facilitates coordination of all components of the programme through information sharing. In addition, it carries out analyses on the results of the pilot projects and supports dialogue with stakeholders.

Acknowledgement

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Insights of the SWITCH-Asia Grant Scheme Review

The grant scheme is designed to support Micro, Small & Medium Enterprises (MSMEs) in the region to test early stages of sustainable consumption and production practices which could be further scaled-up and reproduced to the market.

In 2020, the EU decided to conduct a review of the grant scheme of the SWITCH-Asia programme which aims to draw lessons learned from the economic, environmental and social impacts of the SWITCH-Asia pilot projects. 130 projects funded across the entire programme period between 2007-2020 were analysed.

The following business cases were developed in the context of a review of the SWITCH-Asia grant scheme. Information was gathered by document analysis and by way of interviews with the grant-implementing organisations.

A team of experts examined each project's objectives and impacts and their relevance to policies promoting SCP as well as their relevant to the recent policy priorities of the EU Green Deal. In a second step, projects were clustered according to economic sectors and SCP practices were conducted. In a third step, recommendations were developed based on these analyses.

The project team discerned among four project types. The majority of grant projects related to the "Cleaner Production" and "Value Chains" project clusters, focusing either on innovative cleaner production technologies in manufacturing or on strengthening sustainable value chains and business linkages within a specific sector. Fewer projects were part of the two remaining types, addressing the integration of informal sector players into the formal economy ("Sector Formalisation") and fostering sustainable consumption patterns and consumer awareness ("Sustainable Consumption").

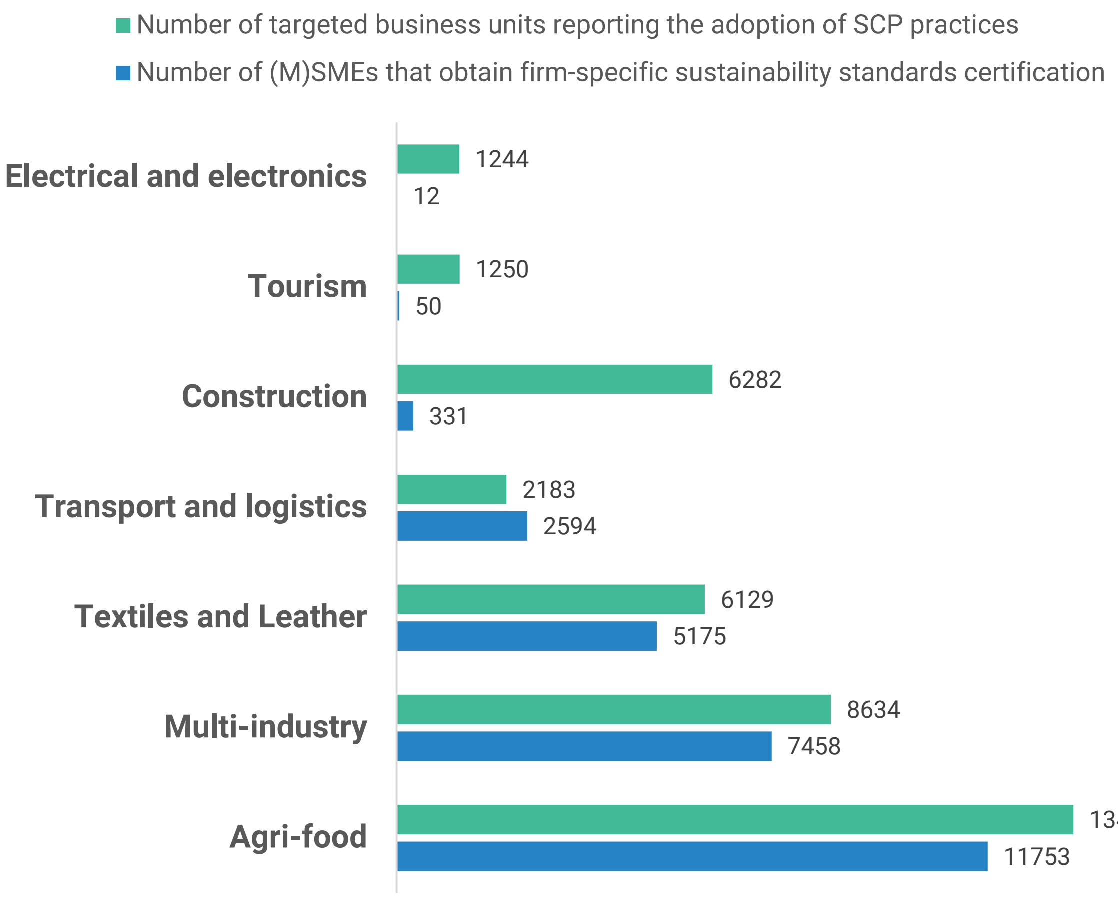
Figure 1: Indicators assessed in interviews and document analysis

- Indicators focus on **6 main impact areas**, mainly building on **EU Switch2Green Indicator Guidance** and **SDGs**
- Additional indicators for the areas of **Sustainable Consumption** and **Social Benefits** had to be tailored **to the context of the SWITCH-Asia Grant Programme**
- **Focus group discussions with grantees** to agree on **final set of indicators**

Key impacts include:

- The uptake of SCP practices by (M) SMEs across all projects. Overall, more than 40,000 business entities reported the adoption of SCP practices as a result of SWITCH-Asia project activities, while more than 27,000 (M)SMEs were reported to achieve sustainability standards certification as a result of the action.

Figure 2: Number of MSMEs reporting on uptake of SCP practices by sector



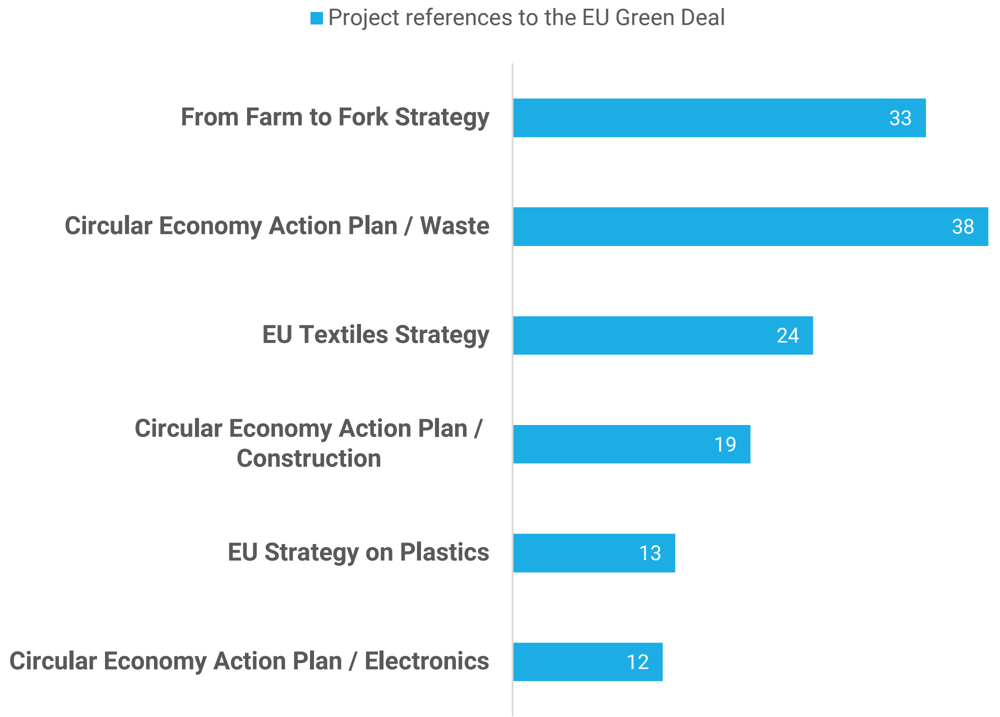
- Many projects sought to build relations with key decision-makers on the local, regional and national level while deploying innovative processes such as policy prototyping workshops. Thereby, many grant projects substantially contributed to a more enabling environment for Sustainable Consumption and Production in the target region.

- The SWITCH-Asia grant scheme accounted for significant achievements in decoupling economic growth from environmental degradation and carbon emissions. Completed SWITCH-Asia projects accounted for overall savings of more than 25,000,000 t CO_2e to date.[1]

- A majority of projects is of relevance to the EU Green Deal and supporting policies, implementing measures in key sectors and promoting circularity and sustainability along value chains.

1 Reported data on CO_2 emissions reduction varies substantially across projects, mainly explained by the different foci of the actions (e.g. energy-intense industry vs. small-scale agri-businesses).

Figure 3: Large majority of assessed projects (81%) are relevant to one or more of the Green Deal focus areas



Additionally, projects show relevance with regard to the EU mitigation taxonomy, EU Chemical Strategy and EU Biodiversity Strategy 2030.

Finally, the review specifically focused on access to finance opportunities as a key area for scale-up and replication of SCP practices tested by grant projects. In correspondence to the increased importance of access to finance on the international development agenda, it showed that finance-related activities of SWITCH-Asia grant projects have built up over time, with more than 75% of projects commissioned since 2014 conducting financing activities.

Financing Analysis: Aim and Scope

Part of the review specifically focused on access to finance opportunities as a key area to scale-up and replication of grant project activities. Project documents and interviews laid the basis for this analysis. The analysis showed that finance-related activities of SWITCH-Asia grant projects built up over time. To date, many grant projects integrate financing activities as part of their activities, and the reported successes range from business case development to make SCP approaches bankable to securing financing for (M)SMEs by local SME banks and other financial institutions.

For this publication, seven exemplary projects representing various sectors and countries covered by the programme were selected. It seeks to inform on the enabling factors for developing successful financing components, show the variedness of challenges and solutions and seeks to present the individual approaches that grant project teams took to making financing and scale-up possible for their business cases.

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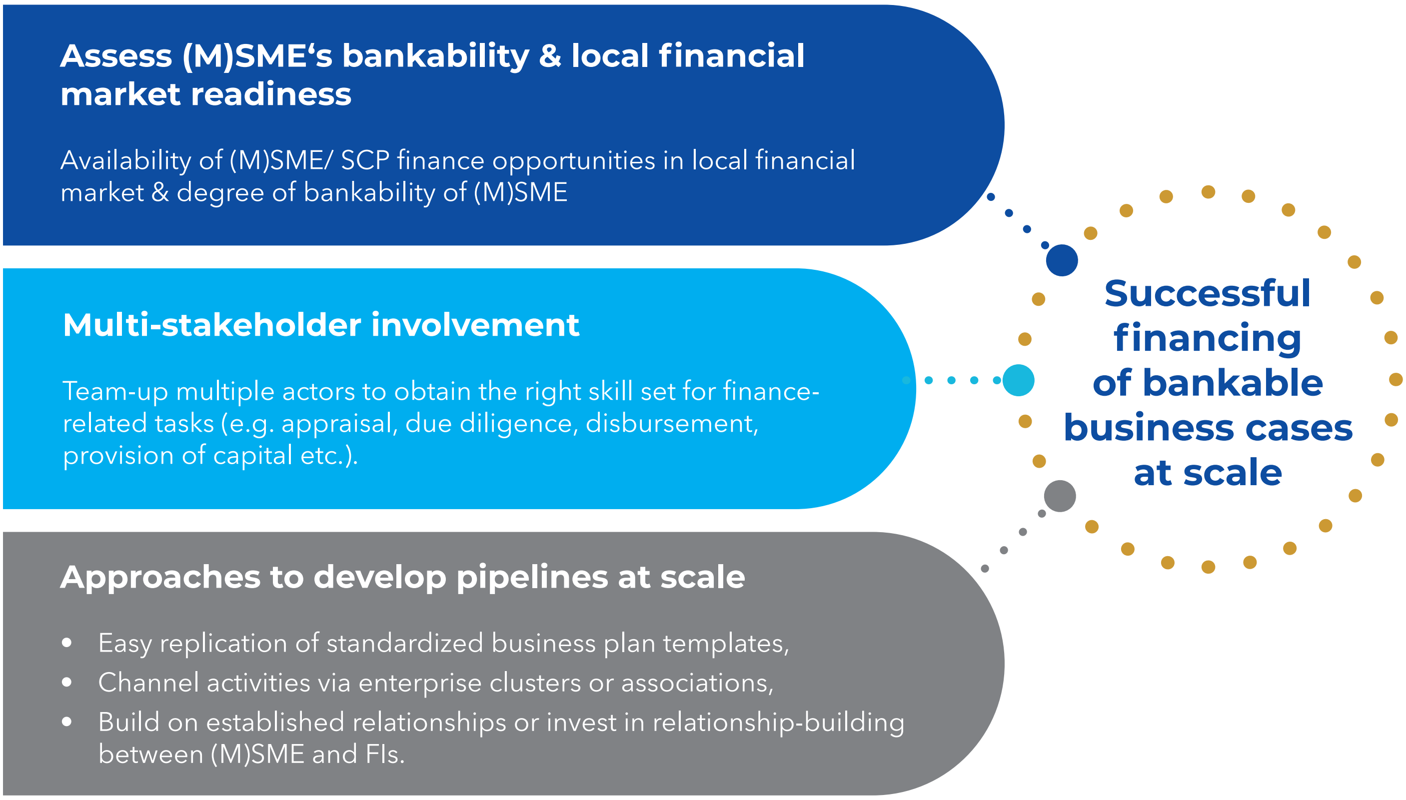
Summary of Findings: Enabling Factors for Developing Bankable SCP Business Cases

Several factors seem to be enabling successful financing of bankable business cases at scale through financial product development in cooperation with local financial institutions (FIs). This includes multi-stakeholder involvement, the assessment of enterprises' bankability and the local financial market readiness, and the use of tested approaches to develop financing "pipelines", that are standardised and build on established relationships or invest in relationship-building between (M)SMEs and FIs.

Figure 4: Enabling Factors for Developing Bankable SCP Business Cases



Structure of the Business Cases

Goal: States the goal of the financing component in the grant project.

Challenges: Describes what specific challenges of the target group need to be considered by the financing component.

Project activities on access to finance: Lists activities in preparation and in support of the financing component.

Policy-level cooperation: States the activities and impacts with regard to regional and national policy levels.

Finance instrument: Describes the type of finance instrument developed.

Terms & conditions: Describes the most important characteristics of the developed instrument.

Sustainability, scale-up and replication: How the project has planned for or implemented to scale-up and replicate.

Stated exchange rates or EUR values are approximates relating to the exchange rate of mid 2020 or final months of project duration.

FEES - Financing Energy and Environmental Solutions

CHINA ● MULTI-INDUSTRY

Goal:

Scaling up Energy Efficiency (EE) and Cleaner Production (CP) in small and medium-sized enterprises through integrated solutions and green credit in Shaanxi, China.

Challenges:

- Limited capacities of SMEs to prepare convincing proposals for high-cost EE and CP projects to financial institutions.
- Limited understanding of FIs to understand and assess risks and opportunities associated with SMEs' investments in EE and CP projects.

Project activities on access to finance:

Demand side:

- Due to emphasis on financial solutions, the project engaged with the owners and General Managers of SMEs to generate interest and raise awareness for innovative green financing schemes.

Supply side:

- Training and capacity building activities helped to improve understanding among FI employees regarding risks and opportunities of green finance products.

Policy-level cooperation:

- Regional government introduced an incentive scheme in form of a risk compensation policy for SMEs: the government backs 40% of companies' losses in cases of failure.
- Cleaner production subsidy policy suggested and approved: government subsidizes 30%-100% of CP audit fees.

Finance instrument:

Bank loans for high-cost cleaner production measures, particularly VOC technology (volatile organic compounds) to reduce air pollution.

Terms:

Investment size	Up to EUR 5 million
Due diligence	Asian Development Bank (ADB) supports with environmental due diligence support of projects

Sustainability, scale-up and replication:

Shaanxi Financial Holding Group and TUV Rheinland continue the project after the SWITCH-Asia funding period, financed by ADB, also drawing on tools developed under the project.

INDTUK - Switching to a Sustainable Auto-rickshaw System

INDIA • TRANSPORT AND LOGISTICS

Goal:

Self-employed auto-rickshaw drivers are empowered to invest in a clean tech auto-rickshaw.

Challenges:

- Rickshaw drivers are deemed not creditworthy, as 97% have no bank account, and no credit history and cannot provide collateral.
- Electric rickshaws were not yet approved as asset class in the local financial market.
- Main challenge was to convince the drivers to move away from informal financing.

Project activities on access to finance:

- **(M)SME:** The project mobilised auto-rickshaw drivers through meetings and liaising with driver communities. Formalization of the sector by forming drivers' cooperative. Basic financial literacy training and coaching (opening bank account, generate savings, mid-term business planning, etc.). The drivers received monthly income guarantee if they registered as drivers in the project's system.
- **Manufacturers:** Agreement with manufacturers to buy back old vehicles.
- **Financial institutions:** Creation of new green finance instrument: Project obtained Non-Banking Financial Company (NBFC) license and set up the financial product.

Policy-level cooperation:

- Linking government subsidy (for buying eco-friendly vehicles) with a scrapping policy to ensure proper disposal of old polluting rickshaws.
- Support the introduction of a procedure to register electric rickshaws on a local level.

Finance instrument:

- Value proposition: Operating costs for electric vehicles are lower, because electricity is cheaper than fuel and the maintenance cost are lower. Longer warranty for financed vehicles (3 years instead of 1 year) also contributes to lower maintenance costs. Additional co-benefits: Improved health; higher social esteem for e-vehicle drivers.
- Mechanism: NBFC license (Non-Banking Financial Company) through an associated enterprise. Capital was raised from external institutions in form of investments. The loans themselves were provided through local partner bank (Kanakadurga Bank). The project contributed to the set-up of the product, including due diligence, repayment tracking, etc. A charity from New Zealand acted as guarantor, enabling enterprise to enter in partnership with Indian banks providing the financing. MicroGraam (financial lending platform for social causes) played a bridging role on loans (up to Rs 40,000 / 570 Euros) if drivers were unable to arrange margin amount.
- Data collection: Development of an application for the credit managers and drivers to follow-up on their credit (simplified and easy to understand). Later in the process, once drivers were more familiar with the application and data required, the project pushed for a driver/borrower application. Family members are also allowed to enter data; higher payment compliance achieved by involving drivers' wives.

Terms:

Investment size	Two types of vehicles with a value of 2500 and 3000 EUR (ticket sizes are still too small for nationalized banks)
Due diligence	Of the asset and the company that is manufacturing it; manufacturers provide an extended warranty (3 years instead of 1 year) Drivers must provide driving license, residential address, bank account, paper work for the vehicle; discussions with family and savings groups are held
Terms & conditions	Loan covers the investment costs at (usually) 100%, with an interest rate of 23% (to compare to the cheapest NBFC on the market - 28% interest, covering 80% of the investment costs).
Repayment	Daily or weekly: mobile payments (20%) or cash collection (80%)
The portfolio at risk for 90 days	Below 1% (PAR 90 of nationalized banks is usually around 30%)
Term & repayment	3 to 3.5 years, with a repayment rate of 300 rupees (5 EUR) per day (benchmarked to the cost of renting a vehicle).

Sustainability, scale-up and replication:

- Drivers become bankable by improving their financial literacy and by building credit history – now eligible for loans from local commercial banks (10% interest rate).
- Enterprise that obtained NBFC license formed by an in-country project partner (Three Wheels United). This enterprise can independently continue with the activities.
- High replication potential for financial instrument – stakeholders including drivers and financial institutions requested the project to scale up the business case.

Promote Bamboo MSME Clusters for Sustainable Development

INDIA AGRICULTURE AND VALUE-ADDITION

Goal:

Improve investment capacity and buffer seasonality of income for bamboo processing and product manufacturing MSMEs in tribal regions of India.

Challenges:

Bamboo MSMEs do not have access to finance, market linkage, technical training and infrastructure and therefore have difficulty in scaling up and dealing with higher order value chains.

Project activities on access to finance:

Demand side:

- The project conducted a baseline survey identifying suitable companies that can be eligible for financing.
- Joint creation of business plans for every financed enterprise (out of 600 cases, around 500 were very similar and a standard module could be used; for larger entities, more details were necessary).

Supply side:

- The project worked with five agencies which have already established trust and built good relationships with several banks and MFIs that deal with lending procedures.
- Project used Schemes of Indian Government ("MUDRA Scheme") that does not require collateral; also integrating State Government programmes.
- Training sessions with financial intermediaries to raise awareness.

Policy-level cooperation:

- Creation of an informal group called India Bamboo Forum, comprising 35 renowned experts of the field.
- Linking up with financing schemes of Government of India and State Governments.
- Small Industries Development Bank (SIDBI), India's apex development financial institution and a project partner, have facilitated one Swabalamban Lab (common facility centre) on pilot basis and more to follow based on its success. SIDBI is also supporting exposure visits for market promotion.

Finance instrument:

Combining offers by different financial institutions and government programmes:

- Micro-finance institutions (MFIs): Around 10 non-bank financial institutions/micro-finance institutions financed roughly 50% of disbursed loans to beneficiaries.
- Commercial banks: 12 public sector and 3 private sector banks disbursed loans to beneficiaries
- National government "MUDRA" scheme.
- Additionally, many state governments have their own products with subsidy schemes. The project used a wide range of products, e.g. the PMEGP loan (Government of India Scheme) with subsidies ranging from 10-30% of total loan amount, depending on the enterprise category; the subsidy is going directly to the bank as down payment.

Types of investment

- Fixed assets: only for bigger enterprises; however, they account for 60%-70% of loan size and help companies to scale up
- Working capital: 90%-95% of enterprises in the bamboo sector are very small (i.e. 2 people/families) who rely on working capital financing.

Terms:

Investment size	• Average loan size: 900 EUR • During COVID, avg. loan size decreased to 500 EUR

Terms & conditions	• Interest rates vary from 10% to 11%, and for MFIs from min 18% - 24%.
	• The shorter the repayment cycle, the higher the interest rate (e.g. repayment every day); the rates of MFIs are especially high, because their employees come and collect the payment themselves.
	• Collateral:
	  • MFIs and the government's mudra loan scheme do not require collateral
	  • Further schemes: Subsidy scheme offered by the National Bamboo Mission (NBM); collateral-free loans up to 20M Rupees through the CGT SME scheme; NECTAR scheme for higher values, which does require collateral but offers very low interest rates

Repayment	Monthly, fortnightly and weekly

Outcome:

- 600 enterprises financed, overall value of loans approximately 30 Million Rupees (~0.5M EUR).
- Current project pipeline: 340 loan cases, with a value of EUR 1.3M and avg. loan size of EUR 3,000 (bigger companies were targeted); adjusted target for 2021 are 1,800 enterprises and EUR 4.5 - 5M.

Sustainability, scale-up and replication:

- The India Bamboo Forum and facilitating agencies (financing) are already in place and will continue operating beyond project period; furthermore, producer networks will be created.

SWITCH Off Air Pollution

MONGOLIA ● SUSTAINABLE HOUSING AND BUILDING

Goal:

Enhancement of Ulaanbaatar's air quality through energy efficiency (EE) advisory and financial intermediation for sustainable housing in low-income "Ger" areas of Ulaanbaatar. Due to rapid urbanization and internal rural-to-urban migration, the Ger areas are expanding every year. Ger areas contribute to more than 60 percent of the air pollution in Ulaanbaatar due to coal burning stoves for heating and cooking.

Challenges:

Low-income households have very limited investment capacities to make their homes more energy-efficient (further negative effects due to the pandemic).

Project activities on access to finance:

Demand side:

- Strengthen interest by households in EE measures and financing through engagement work through Social Media and call centers, through marketing, PR campaigns and simple solutions campaign with the involvement of low-income households.

Supply side:

- Trainings and capacity building provided to bank employees, mapping and identification of suitable financial products, engagement of Mongolian Banking Association.
- Training and capacity building provided to MSMEs, brigades providing insulation to households.
- Working in cooperation with qualified suppliers, financial institutions and energy auditors.

Matchmaking:

- Web-based calculation tool to assess heat loss of individual house, referral service provided to connect to the insulation market. The information is followed by Technical assessment by project trained Energy Advisors and passed on the local FIs.

Connection to international climate finance:

- Loans by Green Climate Fund (GCF) are accessed through local commercial bank, which in turn relies on local energy auditors to guarantee requirement of 20% EE gains of means.

Policy-level cooperation:

Improve legislative environment: Technical procedures including technical assessment and quality implementation check form developed by the Switch Off Air Pollution project were included in the newly amended Construction Codes and Standards on Building Envelope Thermal Insulation of Mongolia, that entered into force on January 1, 2021.

Finance instrument:

Loans provided by local commercial banks (Xac Bank and Khan Bank); further involvement of the Mongolian Banking Association is planned.

Terms & conditions:

Annual interest	Subsidized eco consumer loan of 8% annual interest rate is provided by Xac and Khan bank.
Requirements	GCF-backed loans require 20% enhancement of EE, which has to be audited.

Sustainability, scale-up and replication:

- The project is ongoing; the project team expects activities to continue due to the strength of the business model, continuous necessities for EE measures and intrinsic interest of craftsmen and brigades to continue activities.
- The business model is set up and standardized. There is a high potential of scaling up the business model in involving other products, expanding the number of stakeholders involved.

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SMART MYANMAR II - SMEs for Environmental Accountability, Responsibility and Transparency

MYANMAR ● TEXTILES AND LEATHER

Goal:

Improve options available to SMEs in the garment sector in Myanmar regarding financing sustainable production, thereby scaling-up successful practices, including on water and energy efficiency and safe working conditions.

Challenges:

Banking system in Myanmar is in formative stages of development and highly regulated; bank loan quota is low; trust in formal banking transaction is low due to Myanmar's history with nationalized banks; SMEs lack capacity.

Project activities on access to finance:

Demand side:

- Competency programmes for SMEs, including trainings on business plan development, preparing bankable proposals and how to approach banks.
- Supporting SMEs individually – building financial competency and understanding.

Supply side:

- Working with local commercial banks: Myanmar Citizens Bank (MCB): large, active and cooperative commercial bank; AYA Bank: similar to but a bit smaller than MCB.
- Development and delivery of a 3-part training programme for bank employees, successful participation of participants resulted in certification of employees as "green bankers" by ADFIAP (Association of Development Financing Institutions in Asia and the Pacific).
- Working with the Responsible Business Fund (RBF): Entity providing sustainable development finance, set up by Danish International Development Agency (DANIDA), provides grants to eligible projects.

Matchmaking activities:

- ADFIAP conducted workshops for interested SMEs and linked up interested local banks with RBF to provide blended finance solutions..
- Conduct of forums in which banks presented their financing programmes and SMEs pitched business plans.

Further activity: Development of a Green Finance Handbook, written by ADFIAP, explaining SCP, Green Finance, how to evaluate and monitor loans (120 pages and a short version of 30-40 pages).

Policy-level cooperation:

- Green lending framework that provided guidelines and framework on green finance for local commercial banks submitted to Myanmar's Central Bank.
- Seminar on green lending framework with central bank and commercial banks.

Finance instrument:

RBF finances 65% of projects through grants, the remaining 35% are financed through SMEs' equity or local commercial banks. Some local commercial banks have also financed SME projects from internally generated funds.

Terms:

Interest rate	Interest rate (according to fixed rate by government) at least 13 %.
Other	Credit guarantee insurance allowed SMEs to receive loans without having to provide land as collateral.

Sustainability, scale-up and replication:

The support provided by the SWITCH-Asia programme in Myanmar was instrumental to engage in further dialogues with local stakeholders and with the national government. A second phase of the project was funded by the local EU Delegation focusing on the social dimension of the textile sector in Myanmar.

THA BAR WA - Catalyzing Sustainable Water and Energy Management

MYANMAR ● AGRICULTURE AND VALUE-ADDITION

Goal:

Develop financing options for water and energy efficiency investments by SMEs in the food and beverage industry.

Challenges:

- (see previous case) Banking system in Myanmar is in formative stages of development and highly regulated; bank loan quota is low; trust in formal banking transaction is low due to Myanmar's history with nationalized banks; SMEs lack capacity.
- Wastewater treatment is not regulated in Myanmar, therefore SMEs lack incentive to invest, unless the investment is highly subsidised.

Project activities on access to finance:

Demand side:

- Match-making events with financial institutions and technology providers.
- Workshop on green finance for (M)SMEs.
- Memorandum of Understanding (MoU) have been signed between the project and four partner banks.
- Signing of MoUs and match-making events with green technology providers.

Supply side:

- The project supports commercial banks in restructuring their portfolio to include green aspects and cash-flow based SME lending.
- Banks receive green finance trainings, including cash-flow based lending for SMEs and expose to basic technologies (energy efficiency, renewable energy, wastewater treatment); loan officers are trained how to approach potential clients.
- Training for trainers for bank staff for future roll-out in banks' branch offices.
- Matchmaking events for SMEs, their suppliers, and banks.

Finance instrument A – for wastewater treatment

- Value proposition: installation of wastewater treatment facilities reduced environmental pollution.
- Mechanism: Wastewater treatment facilities installed within the Tha Bar Wa project have so far been financed through subsidies from DANIDA's Responsible Business Fund (RBF). The ideal future scenario would be to finance wastewater treatment facilities through a combination of RBF money and commercial bank lending. So far, no commercial lending for wastewater treatment took place.

Finance instrument B – for renewable energy / energy efficiency interventions

Value proposition:

- Investing in new renewable energy sources allows SMEs to save costs and increases reliability of energy supply.
- SMEs need to invest in new equipment this is a good entry point for energy efficiency technology financing.

Mechanism:

- The project established MoUs with four commercial banks for energy efficiency financing for SMEs.
- SMEs received loans (cash flow-based lending) to finance both fixed assets and working capital.
- Investments mainly targeted new energy efficient machinery and investments in renewable energy (esp. solar).

Terms

Interest rate	Interest rate (according to fixed rate by government) at least 13 %.
Repayment	Rather short repayment periods, adjusted to specific SME (monthly, quarterly)

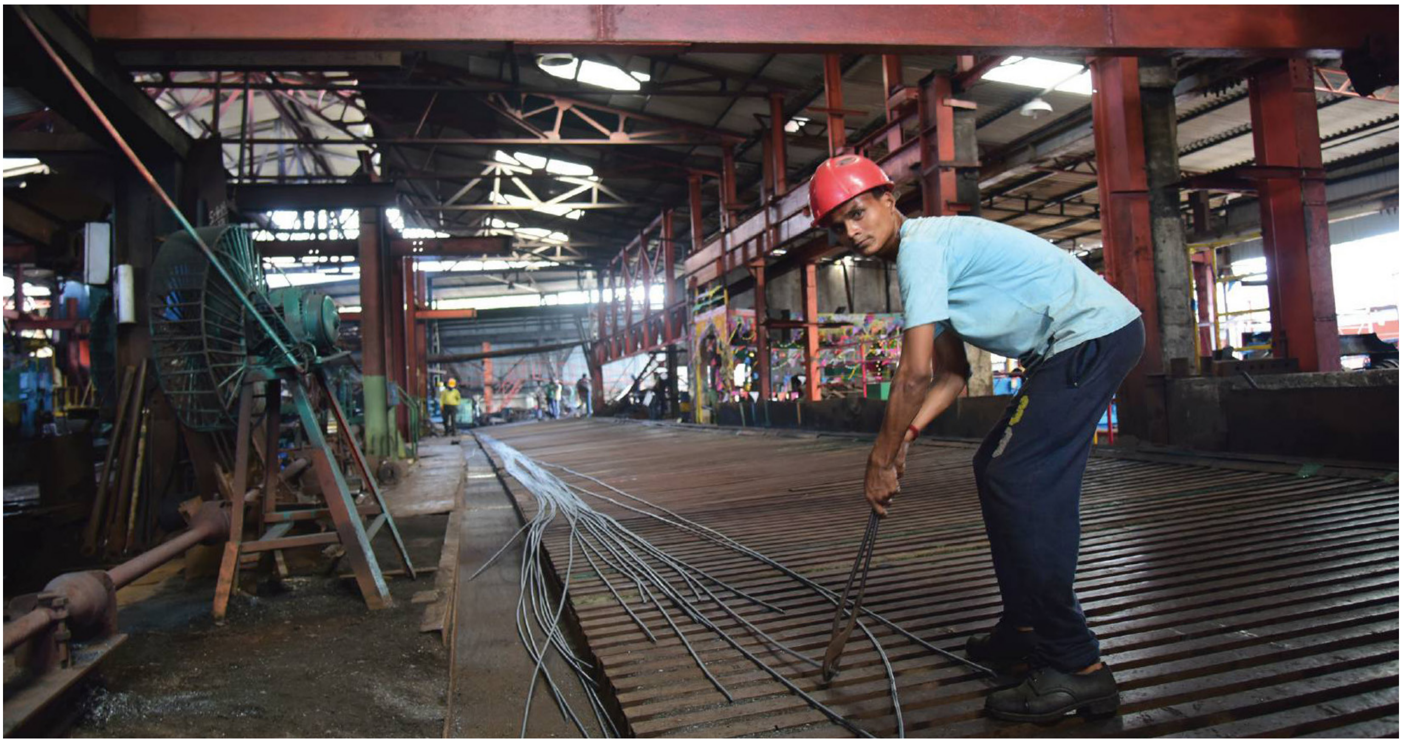
Sustainability, scale-up and replication:

- Project is ongoing until 2022.
- Huge potential for in-country replication; replication process started between Mandalay and Yangon; replication in a third region is planned for the future.
- Local partners are expected to have high incentives to continue with the activities beyond project duration, since cash-flow based lending creates a win-win situation for SMEs (access to finance) and commercial banks (value added to their portfolio).

METABUILD - Creating a resource efficient supply chain for metal products in the building sector in South Asia

BANGLADESH, NEPAL, SRI LANKA

● SUSTAINABLE HOUSING AND BUILDING



Goal:

Offering financial products to finance a resource efficient SME supply chain for metal products in the building sector in South Asia.

Challenges:

- In the three countries engaged in, there is little experience on financial products for the finance of RECP measures, as the concept is not popular among companies.
- Need to address broad parts of FIs as customer loyalty is high and owners or directors of SMEs only trust their own bank.

Project activities on access to finance:

Demand side:

- Training of local consultants to support SMEs to implement RECP and work safety measures and apply for related loans
- Direct support of SMEs on how to write applications for bankable projects

Supply side:

- Working with commercial banks in Bangladesh, Nepal and Sri Lanka.
- Developed a clean tech finance product development toolkit, comprising a 1,5-day workshop (average length) in every country, in which FIs came together to do a training and draft a prototype for different green financial products and were supported with hand holding by the project team.
- Project offered follow-up 1-on-1 workshops for interested banks; two banks in each country participated.
- Produced a compilation of clean tech finance options.
- Nepal: The project could connect to a KfW Energy Efficiency Grant Scheme, some participating SMEs benefitted from these grants.

Matchmaking activities:

- In every country, two banks presented their financial products in a clean tech fair

Policy-level cooperation:

Support/submission of recommendations to governments regarding SCP policies in all countries.

Finance instrument:

Green loans from local/national commercial banks

Terms

Investment size	Depending on measure; usually small ticket sizes: 5.000-40.000 €
Interest rate	Interest rates specific to each country; e.g., 12-16% in Bangladesh

Sustainability, scale-up and replication:

- By gaining trust through implementing no-cost, low-cost measures first, SMEs became increasingly interested in higher-cost investments.
- Situation differs in the three countries, but generally, the project's approach is replicable and can be self-sustaining, especially if SMEs are willing to pay for local RECP consultants' services or the costs are covered by national/state level programmes.