



## Need for Climate Finance for MSME

**For Prelims:** MSME, Climate Finance, CoP26, UNFCC

**For Mains:** Climate Finance, CoP26

### Why in News?

According to a report by the **Centre for Study of Science, Technology & Policy (CSTEP)** published in 2018, **Micro, Small and Medium Scale (MSME)** generates around 110 million tonnes of CO<sub>2</sub> equivalent. India's MSMEs must pare emissions and **climate finance** maybe the nudge they need.

- The **MSME sector** contributes around **30% to India's gross domestic product** and **employs around 120 million people**.

### Why are MSMEs needed to curb emissions?

- **India's Commitment to CoP 26:**
  - India committed to attain **net zero carbon emissions by 2070** during the **26<sup>th</sup> Conference of Parties (CoP26)** to the **United Nations Framework Convention on Climate Change** at Glasgow, Scotland in 2021.
  - India would supply **50% of its energy needs through renewable sources by 2030**.
  - **Solution:** The only way to do this is to **gradually phase out the use of coal, increase investment in renewable energy sources, stop deforestation and speed up the transition to electric vehicles.**
- **To Minimise its Carbon Footprints:**
  - The CSTEP report highlighted that **the MSME sector used 13% of the total coal/lignite, 7% of petroleum products and 8% of the natural gas** supplied in India in 2015-16.
  - The MSME sector needs a push to **adopt new technologies** that quickly minimise its carbon footprints and **make it less vulnerable to climate change and risk**.
  - The sector can achieve this transformation with **the aid of climate finance**.
  - **Traditional funds alone cannot help** the sector to become **decarbonised**.

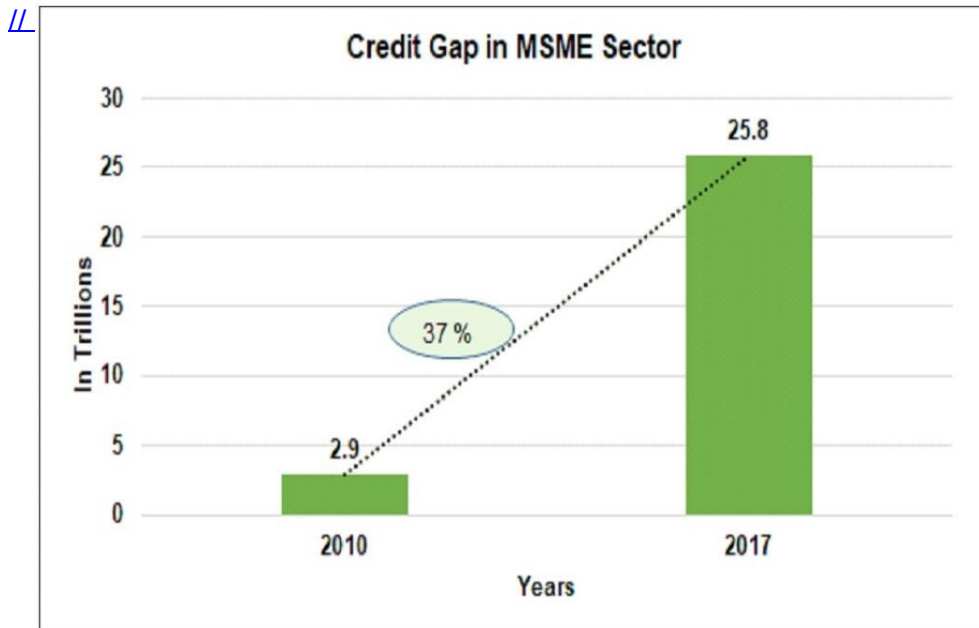
### What is Climate Finance?

- **Climate finance** is **money paid by developed countries** (which are responsible for most of the historic emissions) **to developing countries to help them pay for emissions reduction measures and adaptation**.
- Climate finance will open doors and enable **the transfer of technology and expertise from developed to developing nations**, which require these resources and capacity to combat climate change at the rate that the world currently demands.

### Why do MSMEs need Climate Finance?

- **Huge Credit Gap:**

- The **MSME sector in India** faces a **huge credit gap**, which means the **difference between the total supply of credit** from formal channels in the country and **the addressable demand**.
- According to the [International Finance Corporation](#), the credit gap was around \$37 billion in 2010 and reached \$330 billion in 2017.
- In 10 years, **the gap** compounded annually at a **rate of 37%**.



#### ▪ Status of Flow of Finance:

- The overall debt demand of the MSME sector is USD 882.42 billion.
- But the irony is only **16%** is catered to by the [formal sector](#) and **the remaining are catered to by the [informal sector](#)**.

### What are the Challenges Faced by MSMEs?

#### ▪ Lack of awareness:

- **Climate finance is still a fantasy for MSMEs**, as many still **struggle to obtain traditional financing**.
- The **MSME sector does not have awareness regarding climate finance structures and policies**.
- Their knowledge of how their businesses may **earn profit from climate finance is constrained by a lack of awareness on the subject and a lack of financial literacy**.

#### ▪ Formal Financing structure:

- Only about **16% of MSMEs** in India have been found to be **financed through the country's formal banking system**.
- Most **climate finance in India is routed through formal financial frameworks** with strict guidelines, this also **imposes a major barrier on the sector to avail the benefit**.

#### ▪ Comprehensive Procedural needs:

- **Comprehensive procedures are needed to avail international climate funds procedures**.
- These include the creation of a detailed project, energy and emission audit reports, etc.
- Many **small and micro-businesses cannot implement these because they lack the means or the ability to do so**.

### Way Forward

- The **Indian government needs to work on strategies and try to bring finance to MSMEs** so that the sector can decarbonise.

- The **sector needs to be connected with a more formal financial credit system**, which will enable them to achieve climate finance and bridge the huge credit gap.
- The **major focus** should be on the most **accelerated aspects of decarbonisation like cleaner fuel, common combustion facilities and energy efficiency technologies** that can achieve a high level of decarbonisation in the sector.

### UPSC Civil Services Examination, Previous Year Question (PYQ)

**Q. Which one of the following statements best describes the term 'Social Cost of Carbon'? It is a measure, in monetary value, of the (2020)**

- (a) long-term damage done by a tonne of CO<sub>2</sub> emissions in a given year.
- (b) requirement of fossil fuels for a country to provide goods and services to its citizens, based on the burning of those fuels.
- (c) efforts put in by a climate refugee to adapt to live in a new place.
- (d) contribution of an individual person to the carbon footprint on the planet Earth.

**Ans: (a)**

**Exp:**

- **The social cost of carbon (SCC) is an estimate, in dollars, of the economic damage that would result from emitting one additional ton of greenhouse gases into the atmosphere.** The SCC puts the effects of climate change into economic terms to help policymakers and other decision makers understand the economic impacts of decisions that would increase or decrease emissions.
- India's country-level social cost of carbon emission was estimated to be the highest at \$86 per tonne of CO<sub>2</sub>. It means the Indian economy will lose \$86 by emitting each additional tonne of CO<sub>2</sub>. India is followed by the US (\$48) and Saudi Arabia (\$47).
- **Therefore, option (a) is the correct answer.**

**Source: DTE**

PDF Refernece URL: <https://www.drishtias.com/printpdf/need-for-climate-finance-for-msme>