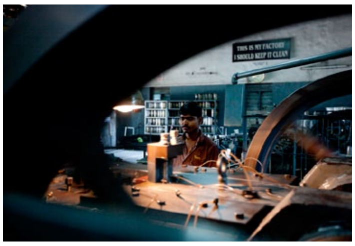
Newsletter

STRENGTHENING INDIAN MSME

JUNE 2013

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

MSME Umbrella Programme



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Globally, financial institutions are increasingly moving toward integrating 'Environmental, Social and Governance' (ESG) criteria for appraising their investments and making their financial decisions. Internationally, evidence shows that companies with strong environmental ratings obtain bank loans at almost 20% lower interest rates. There is increasing evidence that integrating sustainability concerns into business practice makes business sense. With the release of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business by the Ministry of Corporate Affairs', India has a common framework for integrating sustainability concerns in core business operations.

Financial institutions have a key role to play in catalysing responsible business behaviour in the core of business operations: not for "doing good" but for "doing well". From a risk perspective, it makes sense for financial institutions to integrate sustainability into financial decision making: cost of water, waste disposal, cleaning contaminated land, environmental fines–all these are externalities, associated with "bad" environmental business practices which are increasingly being priced. Successful banks therefore go beyond the commercial performance of businesses but take non-financial considerations into account.

1 From the Director's Desk

A recent global survey by IFC shows that financial institutions view government enforcement of laws through shutdowns or fines, export market regulators, the media as well as community and civil society actors as key sources of environmental risks. For lenders, poor environmental and social performance can mean non-performing loans and investments, devaluated collateral or bad publicity and reputational risks. In order to have a viable business model, businesses therefore must consider not just its immediate business needs but also stakeholder concerns.

Realizing these international trends, some of the notable developments in India, about which you will read in this newsletter in detail, include the GIZ supported Financial Sector Working Group on Sustainability, involving India's largest banks. In addition, GIZ works with SIDBI and other partner banks in developing sustainability strategies and 'Green' products for financial institutions. To strengthen capacities in the financial sector, the Responsible Investment Research Association (RIRA) has recently been set up with Yes Bank, Bloomberg, MCX, IDFC and GIZ as founding members. As you read further, you will get an overview of GIZ's engagement with its various partners to promote "responsible enterprise financing" and the integration of sustainability in the core of financial institutions. Happy reading!

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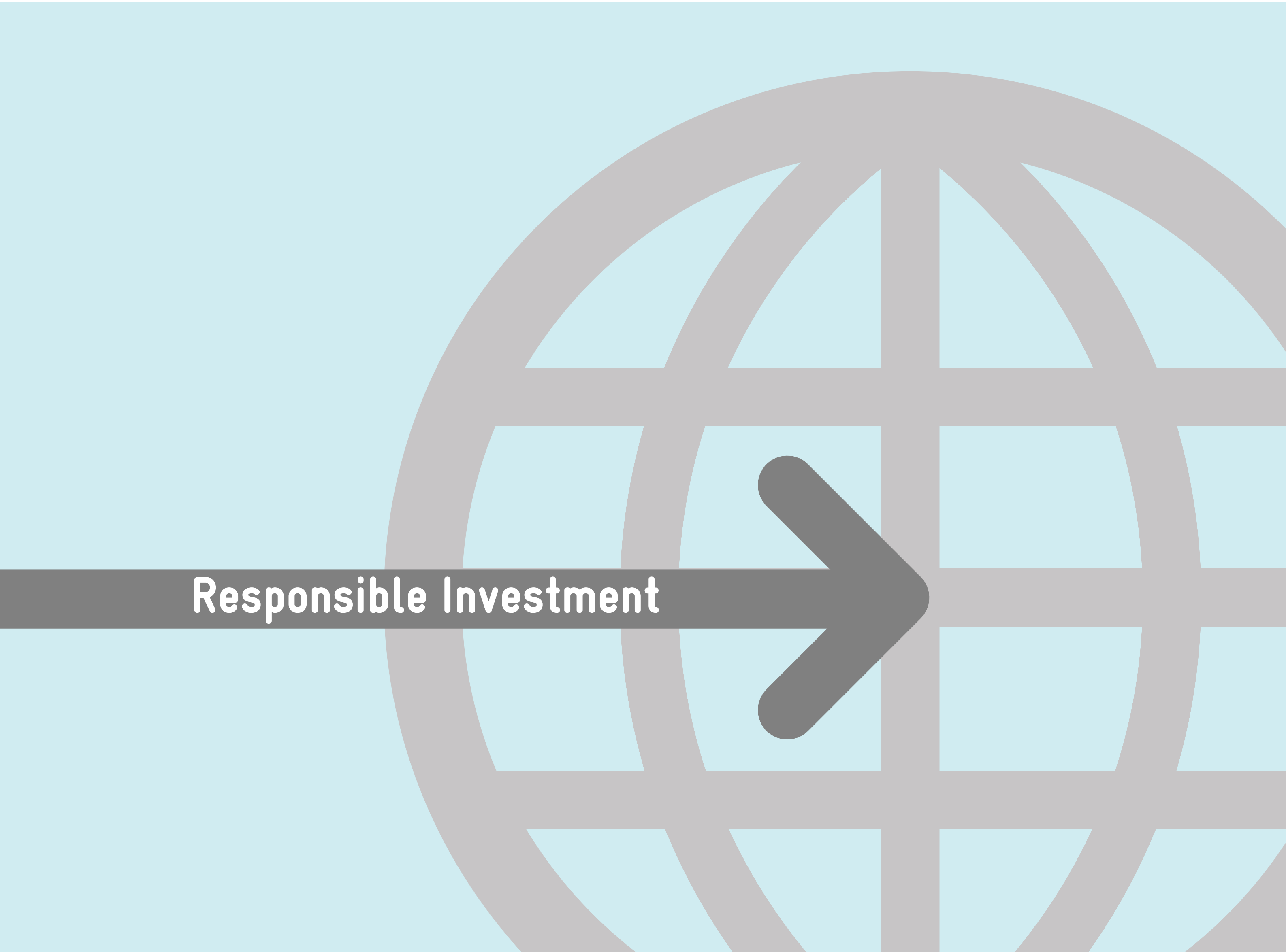

2 Financing for Sustainable Growth

The Indian economy is facing a dilemma.

The challenge is to not only achieve rapid sustainable growth, creating at least 180 million new jobs until 2025 but also to working towards environmental protection and resource efficiency.

In the next ten years, the Five Year Plans envision generating each unit of Gross National Product (GNP) with 20% less energy as compared to current standards; this calls for a major push for more sustainable business behaviour. Therefore the entire industrial sector, including micro, small and medium enterprises (MSME), has to work towards a smaller environmental footprint and be resource efficient – not only because of "doing good" to the environment but also for "doing well" in terms of long term competitiveness and sustained growth. In this context, the financial sector can have a catalyzing role by directing capital towards modernising industrial technologies in order to reduce energy and resource use and financing innovation.

Given their position at the core of a complex economic, environmental and social ecosystem, banks depend on and have an influence on the behaviour of other actors in the economy. Justifiably, it may seem a progressive idea for the financial sector to begin using Environmental, Social and Governance criteria (ESG) in their lending and investment decisions. On the contrary though, the financial risks arising from negligence of ESG standards have increasingly been brought into focus. Incidents such as the disasterous Gulf of Mexico oil spill which resulted in a staggering $42.2 billion loss for BP and costly environmental degradation are fresh in our minds. In India too there are examples such as the court-ordered closure of over 700 textile dyeing and bleaching units in Tirupur due to their failure to reduce river pollution, affecting over 40,000 workers and causing losses of €7 million a day. Internationally, lenders and investors are currently going through an evolutionary process of recognizing that there are significant economic benefits of sustainable practices and that these can become best practices, even in the financial sector.

Sustainable finance has thus in recent years started to reach the mainstream of the financial industry on a global scale (see box). Emerging market banks have been catching up as well, by demonstrating the viability of integrating sustainability strategies into

Banks representing 80% of global lending have adopted at least one of the global voluntary standards for sustainable banking practices, such as the Equator Principles, the United Nations Principles for Responsible Investment (UNPRI) or the United Nations Environment Programme's Statement by Banks on Sustainable Development (UNEP-FI).

22% of all global investment (€10.3 trillion) is already going to investment funds that use some system of environmental or social criteria when making investment decisions. This figure includes nearly half of all investment in Europe, where in Germany, Austria and Switzerland there are now 380 investment funds targeting sustainable investments.

their core banking model. For instance, YES Bank in India has recognised a business opportunity in providing tailor-made investment banking advisory to companies in social and environmental sectors as well as embedding an environmental and social policy in its bank-wide credit risk policy.

Since the 2008 global financial crisis, growing concerns over the role of the financial sector within the economy and society have driven increasing numbers of customers to banks which focus explicitly on socially and environmentally beneficial investments and lending. After paving the way for this banking model over many years, banks such as GLS Bank in Germany and Triodos and ASN in the Netherlands experienced a threefold increase in customers since the crisis and now together serve more than one million individuals. The catalyzing effect of the crisis is equally evident in the investment community. An estimated ten percent of emerging market investments are already adhering to sustainability standards and four out of five emerging market investors agree that the importance of such indicators has been amplified by the crisis.

Increasingly, these trends are being reflected in India. The push for sustainability in business and finance has received government backing, with the Ministry of Corporate Affairs introducing National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business and the Security and Exchange Board of India making these Guidelines part of mandatory reporting for the 100 largest companies listed on the Bombay Stock Exchange. The financial sector is starting to position itself in this agenda as well, with YES Bank and IDFC in recent years becoming the first Indian signatories to the United Nations Environment Programme's Finance Initiative and United Nations Principles for Responsible Investment. In driving this process forward, the Small Industry Development Bank of India (SIDBI) plays a crucial role with its mandate to carry sustainable banking practices into the wider Indian financial industry. SIDBI has lead the way by becoming the first Indian bank to publish a sustainability report according to the standards of the Global Reporting Initiative and by introducing innovative financial services such as energy efficiency credit to finance environmental technology across the industrial MSME sector.

GIZ's MSME Umbrella Programme supports SIDBI and other banks in developing sustainability strategies, as well as "green" loan products (see box). GIZ is also facilitating the setup of a financial sector working group on sustainability, which contains at least 80% of banks and will be tasked with investigating how environmental and social issues can be accounted for by assessing the relevant risks in the lending process. To aid the financial sector in building relevant skills, a Responsible Investment Research Association (RIRA) has been launched, which offers various training courses on sustainability to banks and investors, with YES Bank, MCX Stock Exchange, Bloomberg, IDFC and GIZ as founding members.

Since 2009, SIDBI has been running focused lending schemes through a dedicated "Energy Efficiency Cell" under bilateral lines of credit from KfW, JICA, AfD and the World Bank. So far, at least 6,000 MSMEs have benefitted from Rs.3,000 crore (€422 million) in loans dedicated for investments in clean production and energy efficient technologies.

State Bank of India, the country's largest bank, has developed an energy efficiency credit product with the support of GIZ and SIDBI. It is likely to be rolled out soon across all bank branches and has the potential of reaching some 6 million MSMEs.

Also, this month, the Indian Impact Investor Council (IIIC) was set up to promote in India-impact investment, which is an emerging class of venture capital that looks at environmental and social concerns beyond just risks and concern itself with opportunities, aiming to create measurable social impact. Last year, impact investors worldwide provided $8 billion

The Samridhi Fund, operated by SIDBI with investments from DfID, will make impact investments of Rs.336 crore (€47 million) in social enterprises operating in India's low-income states.

The India Opportunities Fund, managed by SIDBI on behalf of the Indian government, is the first in a series of funds that will provide Rs.5,000 crore (€703 million) in capital to innovative MSMEs over a ten year period.

in funding to innovative enterprises serving the needs of the poor and providing solutions in sectors such as education, sustainable agriculture and health. In India, over 100 impact investments worth Rs.2,100 crore (€395 million) have been made so far. Going forward, the challenge will be to provide more early-stage risk capital to enable the creation and growth of innovative enterprises. SIDBI has been tasked with addressing this gap and to this end has recently started operating impact funds on the mandates of donors and the Indian government (see box).

In their continued endeavour to support promising developments in the Indian financial sector, GIZ and SIDBI will soon launch a new bilateral programme supported by the German Ministry of Economic Cooperation and Development (BMZ). The program will promote finance for sustainable growth while envisaging rapid, sustainable and inclusive growth for India.

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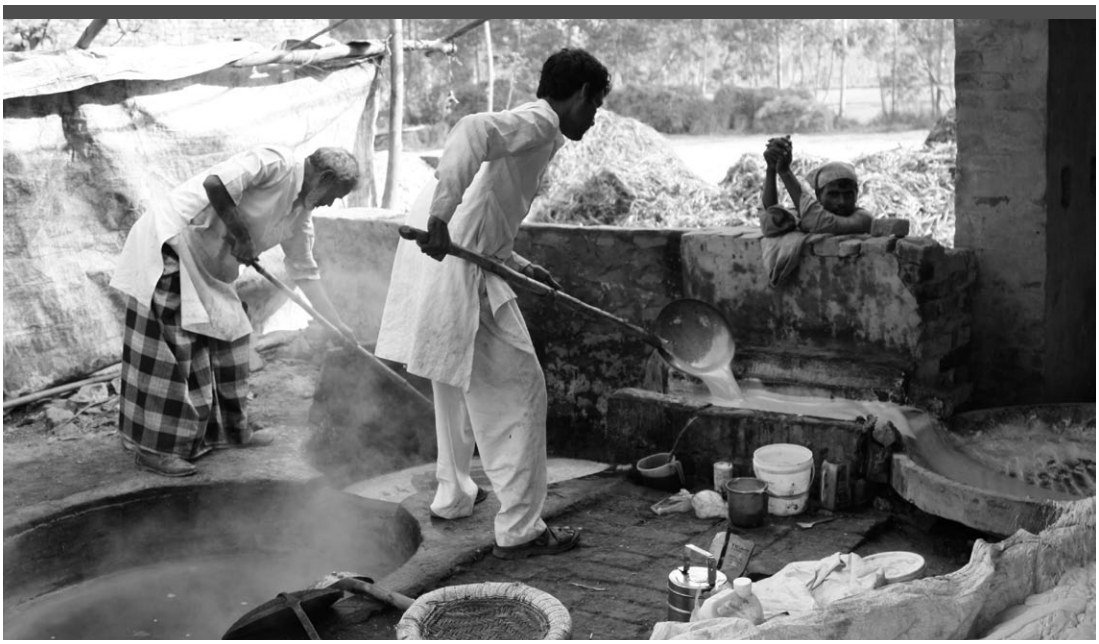
3 RIRA - India's Sustainable Investment Forum Goes Live

RIRA, India's Sustainable Investment Forum, was launched on 29th January in Mumbai with GIZ, Bloomberg, IDFC, MCX Stock Exchange and YES Bank as founding members. RIRA is a not-for-profit initiative to act as a catalyst and a partner in mainstreaming Environment, Social and Governance (ESG) issues in investment and lending decisions. The launch comes at a time when the international community is still discussing whether environmental issues like climate change present risks and costs or new investment opportunities. While speaking at the official launch of the Responsible Investment Research Association (RIRA), Dr. Subir Gokarn, Economist and Former Deputy Governor, Reserve Bank of India emphasized on the role of the financial sector in driving sustainability. He shed light on how the financial sector interacts with other constituents in fostering responsible behavior in the overall eco-system and how ESG concerns are strategically aligned to business.

RIRA seeks to initiate and partner in ESG-research that contributes towards building the business case for Responsible Investment and Finance in India. It will generate investor awareness and provide training to investment professionals through workshops, on-site programs and facilitating multi-stakeholder dialogues on mainstreaming responsible investment for better adoption and policy making. It is envisaged that through mainstreaming and wider participation RIRA will work closely with its members, partners and other stakeholders in building the market infrastructure, thought capital and skills to facilitate the ESG integration.

The launch of RIRA and the India Sustainable Investment Forum connects India with the global community as the country joins the international community of Sustainable Investment Forums (SIF). In February 2013 the world's seven largest sustainable investment



forums, US SIF, the Social Investment Organization (SIO), Eurosif, UKSIF, the Dutch Association of Investors for Sustainable Development (VBDO), Responsible Investment Association Australasia (RIAA) and Association for Sustainable & Responsible Investment in Asia (ASrIA), announced that they have formed the Global Sustainable Investment Alliance (GSIA), a collaboration whose vision is the integration of sustainable investment into financial systems and the investment chain.

The **Global Sustainable Investment Review 2012** states that globally, at least USD 13.6 trillion worth of professional managed assets incorporate environmental, social and governance concerns into their investment decisions. The most common used strategy used globally is negative or exclusionary screening, with USD 8.3 trillion in assets. Norms-based screening is also significant at USD 3.0 trillion, but this approach is currently only found on a large scale in Europe. Positive or best-in-class screening stands at just over USD 1.0 trillion, with the US market contributing most of the global assets invested in positive screening. Assets utilizing ESG-integration are at $6.2 trillion. Approaches to corporate engagement and shareholder action vary greatly across regions, but this is the third most common strategy, at $4.7 trillion. Impact investing and sustainability themed investments are comparatively small at $89 billion and $83 billion respectively, but growing significantly over the past years.

All of the regions expect sustainable investment strategies to expand as increasing numbers of investors realize the value in considering ESG issues and the importance of sustainable investment to risk management and long-term performance.

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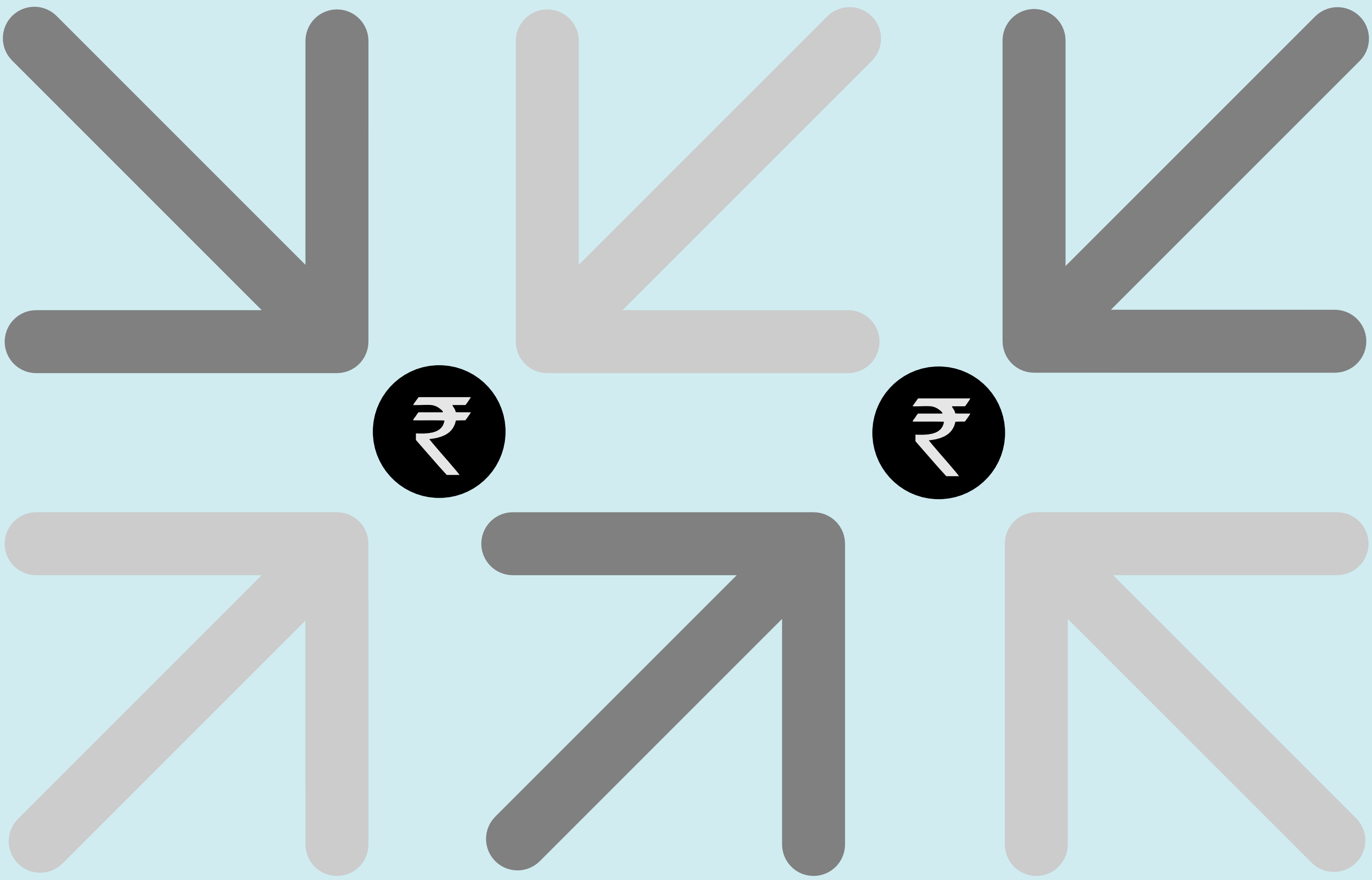

4 How can India Improve Energy Efficiency as the Demand Rises? —The role of Finance for MSME

With the establishment of the Bureau of Energy Efficiency in 2002, the Indian Government took the initiative to promote Energy Efficiency within the Indian economy. Since then there has been no looking back as India has significantly reduced its energy intensity. However, the MSME sector, which contributes to over 45% of industrial production and around 40% of the total exports sector, has fallen behind Indian industry benchmarks in terms of productivity, technology upgradation and energy efficiency. The Energy Efficiency Gaps and Strategy Study by UNEP and World Bank finds that 'although the Government of India's investment and trade policies have provided impetus towards Energy Efficiency, the efforts towards realizing the energy efficiency potential have gained momentum only in large enterprises.'[1]

Efforts towards promoting Energy Efficiency among Micro, Small and Medium Enterprises (MSMEs) are still at a nascent stage. While the enterprises individually can only contribute little to energy savings, their aggregate saving potential is enormous. The impediments then arise in the form of lack of awareness, lack of flexibility to adopt new technology, lack of managerial skills, and lack of financial and non-financial assets to undertake such changes. So far, efforts towards implementing energy efficiency measures to enable inclusive and accelerated growth of the MSME Sector has not been adequately leveraged, neither by supporting institutions, nor by the enterprises.

Under the Indo-German cooperation, GIZ is committed to strengthen the capacity of Indian MSMEs to increase energy efficiency in the production processes through two initiatives: The Indo-German Energy Programme that focuses on organizing the energy supply and demand side management and the MSME Umbrella Programme, which aims to strengthen MSMEs by helping them to

1 http://www.3countryee.org/public/EEGaps&StrategyIndia.pdf

modernize and innovate in order to increase their competitiveness in an environmentally friendly and socially sound manner. The two projects joined forces with KAEFER, one of the world's largest providers of holistic insulation solutions, under the Public-Private Partnership (PPP) 'Moving India's SME towards Energy Efficiency'. The project aims to raise awareness among MSMEs on the competitive advantage of adopting energy efficiency measures, by providing companies with access to advisory services, training and finance, enabling them to implement energy efficient insulation (demand side). To demonstrate the benefits of professional insulation, three pilot projects have been implemented in different industry clusters, showcasing the huge cost saving potentials for MSME. In a series of workshops MSME's were provided access to advisory services and information on credit schemes and other support services provided by different stakeholders, which provide additional help to MSME.

With financial institutions (supply side), GIZ in cooperation with the Small Industries Development Bank (SIDBI) has partnered with the State Bank of India (SBI) to introduce a financing scheme on energy efficiency for MSMEs, recognizing that MSME's face constraints in accessing finance for the adoption of energy efficiency measures and new technologies. A pilot-initiative in two energy-intensive Clusters was conducted – Mandi Gobindgarh and Ludhiana – and a detailed diagnostic study was conducted by GIZ and SBI, reflecting the potential for energy savings as well as the willingness of enterprises in these clusters to improve their processes and technologies and hence be more competitive. To increase awareness among bankers to assess proposals by MSME and to strengthen capacities on financing clean energy projects of businesses, GIZ is rolling out a training programme, addressing banks from across the board including State Bank of India, Bank of India, SIDBI and other public and private sector banks. At least 50 workshops will take place in the most energy-intensive clusters in India, facilitating the access to energy efficiency finance for MSME.

Through these interventions, GIZ is aiming to enhance both, the MSME and the service environment for promoting the adaptation of energy efficiency and clean energy measures.

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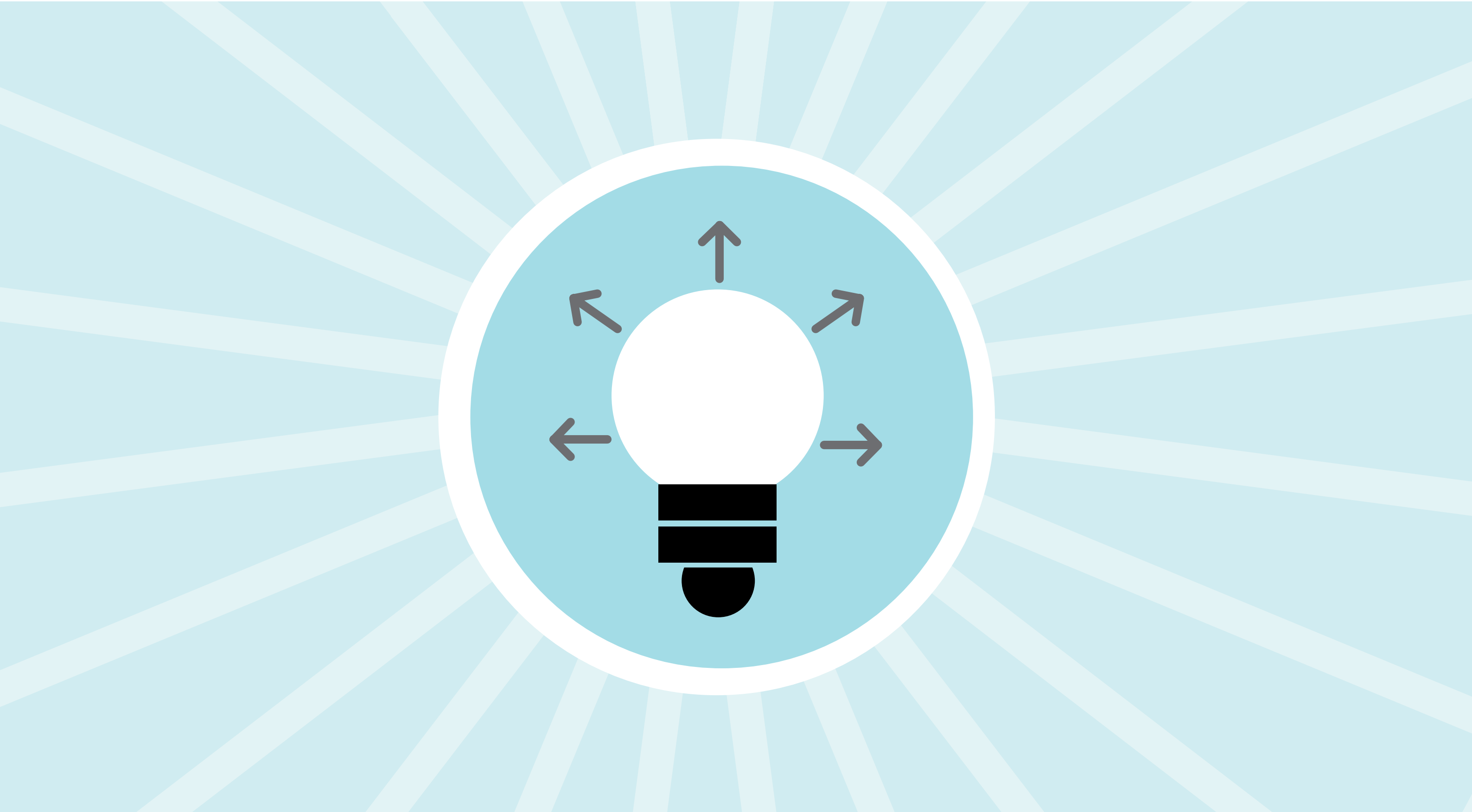

5 The Challenges in Obtaining Debt Finance for Successful Micro Enterprises: An Interview with Bindu Ananth and Nachiket Mor[2]

Bindu Ananth, President of IFMR Trust

Nachiket Mor, Chairman of the Board at CARE India, Non Executive Board Member at CRISIL, Member Board of Governors at IFMR, etc.

Many banks have started to develop innovative models to cater to the needs of the MSME sector—seeing the enormous potential for the Indian economy. In your opinion, what is the status-quo of Microenterprise Financing in the country?

The situation in this regard in India is pretty grim. For microenterprises that have developed successful models and have positive cash-flows but that are not yet profitable at the enterprise level or even for those that are profitable with requirements below $1 million, accessing finance from mainstream banks or even cooperative banks is almost impossible.

There has been some progress for the medium-sized enterprises on account of the development of instruments such as supply chain linked financing and the rating effort by CRISIL ratings—it now rates 45,000 such enterprises covering 190 sectors. Though a lot more work remains to be done, there is a definite sense of progress.

What are the challenges for enterprises to access financial services and where do you see challenges for banks and financial institutions in providing financial and other support in rural and urban areas?

Microenterprises in general are very vulnerable; particularly those that operate across markets and either buy or sell in different geographies because events entirely outside their control can swamp their performance. Enterprises that are purely local in character, such as grocery stores, face a

2
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lower level of business risk but have fewer growth opportunities. For any lender evaluating the risk levels inherent in each business is an enormous challenge.

For the larger banks when the values are small ($200) transactions costs alone can be as high as 30% and while higher values ($4000) have lower costs the credit risk levels can be extremely high[3]. The ideal situation would be for them to work with local financial institutions to gain the benefit of both lower transactions costs and lowered risk levels but a combination of a small financial sector with many other competing avenues to deploy funds and a very hostile regulatory environment for non-banks has made it difficult for the local financial institutions to flourish.

If the situation is so grim with the banking system where are the opportunities for growth? What would your advice be to microenterprises looking for such finance? What types of solutions need to emerge at the national level?

There is clearly a need for new work here. To some extent this gap is being filled by the rural and the urban cooperative institutions but these institutions are themselves facing so many problems of viability and governance that it is not clear how long they will be able to continue to provide this service. A few specialised institutions have emerged which include:

- IFMR Capital (**http://capital.ifmr.co.in**): which provides low cost refinance to local financial institutions so that they can in turn serve microenterprises – very similar to the role a District Credit Cooperative Bank may play in the life of Primary Agricultural Credit Society.
- Specialised Venture Debt Funds: these include Intellegrow (**http://intellegrow.com**) and Caspian (**http://www.caspian.in**) that provide debt funds to Small Enterprise though perhaps not to microenterprises per se.
- Local Full-Service Financial Institutions: These include Cooperative Banks, Regional Rural Banks, and the Kshetriya Gramin Financial Services (KGFS) companies promoted by IFMR Trust (www.ifmr.co.in). These institutions have the capacity to fund a mix of micro and small enterprises in both rural and urban areas.
- Specialised SME lenders: These include non-bank companies like Vistaar Finance (**www.vistaarlfi.com**) and AU Finance (**www.aufin.in**) who have developed specialised approaches to assess small enterprise cashflows and manage collateral.

To help this kind of finance to grow national policy needs to become much more supportive of partnerships between different types of regulated institutions (such as Banks and NBFCs) so that each can focus on its own area of strength. And, prominent refinance institutions such as the National Bank for Agriculture and Rural Development (NABARD) need to become a lot more institution neutral in their approach and much more focused on supporting successful models rather than just focusing on scheduled commercial banks and cooperative banks.

For many MSMEs meeting social and environmental standards is a challenge. This not only affects their environment and workers, but also their competitiveness - as more and more actors are looking for environmental and social compliance. In your view, can the banking sector take a more pro-active role and integrate environmental and social criteria in their credit appraisal process?
In your opinion, which structure can be developed to overcome these challenges and what should be the role of the different stakeholders?

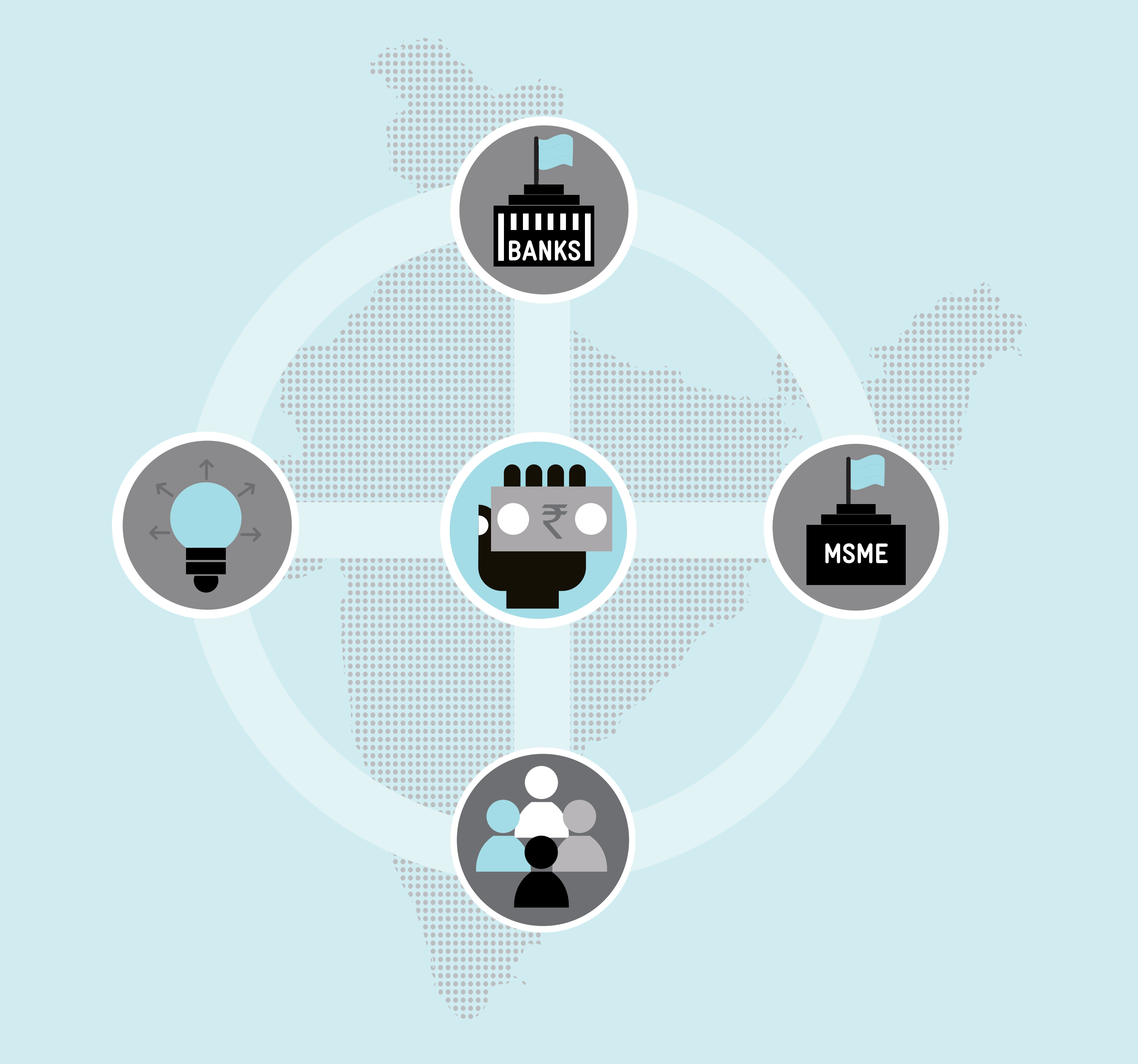
Direct inclusion of environmental guidelines in the lending policies of banks towards microenterprises could become another tool for exclusion, even by the few banks that may have an interest in this. Such an approach would be far more appropriate for the larger companies and listed entities. Unless there is sufficiently strong activism by civil society actors, resulting in errant industrial units being closed and consequent defaults in loans to the point that rating

3
See Sahasranaman and George (2013): "Cost of Delivering Rural Credit in India" for an excellent data based analysis of this issue: **http://foundation.ifmr.co.in/wp-content/uploads/2013/04/Cost-of-Delivering-Rural-Credit-in-India.pdf**

agencies take note of environmental risk factors and modify their ratings, there will be few, if any, changes.

For microenterprises much more indirect approaches could be more effective:

- Developing lending models for manpower intensive sectors. These are naturally more environmentally friendly and also create new jobs but are typically much harder to finance.
- Facilitating access to steady sources of mainstream or alternate forms of energy will automatically ensure efficient usage by microenterprises even if these sources are more expensive.
- Higher fuel prices naturally propel microenterprises to focus much more on local procurement and local sales thus sharply reducing their environmental footprint. Continuing civil society activism towards lowered subsidies on fossil fuels could be very effective here.



6 GIZ's efforts in the MSME-Sector —What can we do for you?

With pressures stemming from globalization, Indian MSMEs need an enabling environment to remain competitive. MSME in India, however, are often working against the odds with lack of support, little finance and often outdated technologies. In order to boost growth and competitiveness of the MSME-sector, businesses need to innovate in products, processes and business models to catch-up or gain competitive edge. To overcome these challenges GIZ is working towards building a self-sustaining MSME sector by offering a wide range of services to government, clusters and businesses. The services presented below have been highlighted with examples from the MSME Umbrella Programme and demonstrate only a small range of activities performed:

We provide knowledge

Through its market studies and sector analyses, GIZ provides knowledge to eco-system players in topics relevant to MSME finance and development issues. Working with SIDBI to boost micro enterprises financing, GIZ has developed a **Technical Note Series** to provide knowledge on Missing Middle Financing, the needs of enterprises, their financing challenges and providing recommendations on addressing these gaps.

We advice policy makers

Working with the Ministry of MSME on support policies and programmes, GIZ actively advises policy makers on design, planning, implementation and impact monitoring of public support schemes, especially with a focus on efficiency and effectiveness of the schemes. For example, GIZ advises the Office of the Development Commissioner MSME on its Tool Rooms and Development Institutes, assisting them to refine their service portfolio to the MSME. GIZ further advises the Ministry of MSME on its outreach strategy, developing a National Portal for MSME that helps enterprises to access support services.

We support capacity development

With its various partner, starting from business associations, to incubators, to private service providers, GIZ aims to strengthen the service environment for MSME. Together with the Centre for Sustainable Development of the Confederation of Indian Industry (CII-CESD), GIZ aims to increase the innovation capacities of enterprises through Capacity development programmes, including Business Model Innovation and Co-Creation Modules that aim to assist companies in their efforts to develop sustainable and inclusive solutions. Also, along with Ahmedabad based Incubator Centre for Innovation, Incubation and Entrepreneurship (CIIE), GIZ aims to strengthen competencies of other incubators and service providers in providing support to social enterprises; therefore GIZ not just works with businesses directly as suggested by most of its capacity building efforts that are targeted at service providers.

We develop solutions

Analyzing gaps in the eco-system, GIZ aims to develop innovative solutions that help market development: One such solution helps to enable businesses adapting to climate change (**www.climate-expert.in**). In this interactive tool businesses can assess their climate-related risks and develop adaptation measures accordingly. The tool illustrates a comprehensive solution for businesses to develop an adaptation strategy to the impacts of climate change.

We support business model development

In partnership with a German knowledge partner Sequa, an expert for capacity development of business associations, GIZ strengthens competencies of Indian Business Membership Organisations (BMO) by supporting them to develop their Business Models. BMO's are provided training on five different aspects of their business development – BMO Management, Income Generating Skills, Business Responsibility, Advocacy and Public Support Schemes. Further, the project also provides experts who work with the individual BMO to develop a customized action plan.

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7 Strengthening linkages between Indian and German Associations

Over the last years, Indo-German economic relations have evolved into a strong strategic partnership with benefits for both countries. Established cooperation areas such as Science & Technology, Telecom, Auto components, Skill Development, IT, etc. laid the foundation to further strengthen the bilateral collaboration. Acknowledging the fact that Small and Medium Enterprises are the motor of economic development and growth in both countries, it is an endeavor of both governments to strengthen the relationship between Indian and German SME. Taking into account that SME often lack sufficient financial and managerial resources, the importance of local intermediary aggregators as facilitators of successful collaboration and providers of business development services rises significantly. However, there is an absence of a regular institutional mechanism that provides a platform to promote cluster/association level linkages and networks, and enables exchange of experience on MSME promotion policy frameworks.

Given these constraints, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) jointly with the Office of DC MSME, the Ministry of MSME, SIDBI, the Indo-German Chamber of Commerce and its knowledge partner Sequa organized a two-day international Forum in New Delhi on May 31 – June 1, 2013 to providea platform to foster linkages between public authorities, cluster/industry associations and other service providers from India and Germany.

In his key note speech, Mr. Madhav Lal, Secretary MSME, emphasized that industry associations have to be actively involved in the design and implementation of public support programmes to achieve an enhanced impact. He further remarked that "the BMO (Business Member Organisations) landscape in

India is highly disorganized and therefore the Ministry is actively considering different options to organize BMOs which will create an enabling environment to foster better cooperation. Once finalized, a notification under MSME DI Act 2006 will be issued in this regard".

Based on the remarks during the key note speech, Mr. A. Sinha, Development Commissioner MSME, further highlighted the importance that Indian BMOs play in the whole MSME ecosystem and once again emphasized the efforts undertaken by the Ministry to organize the BMO landscape in India for a more effective coordination and enhanced private-public cooperation. He remarked that "German associations, indeed, provide huge learning potentials for Indian BMOs in that process."

Providing an overview of German SME policy, Dr. Armgard Maria Wippler – Head SME Policy, Federal Ministry of Economics and Technology, (BMWi) Germany, said that "It is not one policy, programme or institution which is behind the success of the German 'Mittelstand'; but it's the result of collective efforts and the cooperation of all".

The Forum saw extensive participation from German and Indian BMOs, and representatives from both governments. Around 110 participants followed the speakers on topics such as the 'Role of BMOs in SME Development', 'Investment & Cooperation Opportunities for SMEs in India and Germany' and 'Institutional Facilitators in India and Germany' during the first day. The second day focused primarily on initiating dialogue between the participating BMOs to leverage cooperation potentials. 30 Indian and 15 German BMOs and service providing institutions actively networked and identified areas of mutual cooperation for further detailing and follow-up. The Forum was a first-of-its-kind initiative. Given the positive feedback from the participants, it is planned to organize similar events in the future.

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8 Events

Training Series on "Schemes@Clusters" for MSME

GIZ in cooperation with the office of DC MSME organized several workshops titled "Schemes@ Clusters" across various locations in India like Dehradun (26-28 February), Hyderabad (3-5 March) and Belgaum (16-18 March), Tuticorin (18-20 March), Bhopal (7-9 March) and Aurangabad (27-29 May). The workshops are part of an awareness raising and facilitation program with events to be conducted in seven locations across India.

The 3-day event aims at creating and enhancing awareness about different support programmes and provides on-site advisory and consultancy support to MSMEs and BMOs in filling up application forms and answering queries on scheme guidelines. The workshop series further provides a platform for the participants to understand benefits of ongoing and latest government schemes, application procedures and eligibility norms for various schemes. During the event feedback is collected from participants on the design and implementation of the schemes with a view to assist the DC MSME office in redesigning its public support schemes.

The workshops have been conducted by Apex Cluster Development Services Pvt. Ltd., a consultancy firm which works towards the objective of MSME cluster empowerment through local economic development techniques. In the five workshops held so far, around 400 MSMEs and representatives from different BMOs have obtained on-the-spot expert assistance in filling up of application forms. One other workshop is planned to be held in Ranchi.

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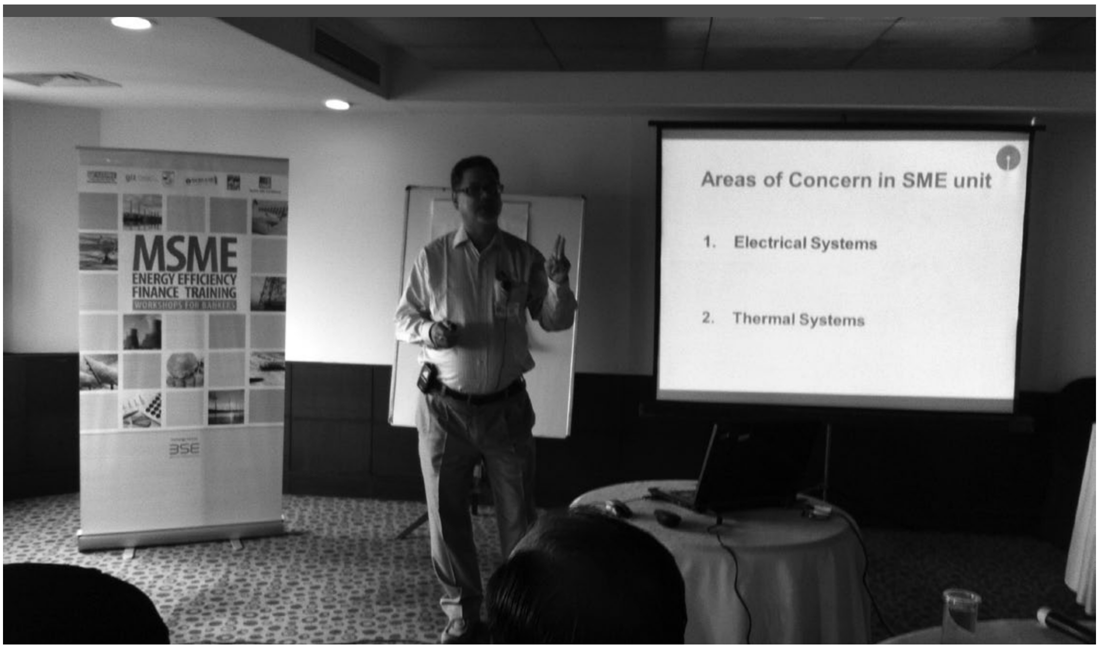
Bankers Training on Energy Efficiency Finance for MSME



With the aim to promote 'Energy Efficiency Finance' in the MSME sector, GIZ India (Private Sector Development Programme) in cooperation with State Bank of India (SBI), Small Industries Development Bank of India (SIDBI) and Bank of India (BOI) kicked off a training series for Bankers on Energy Efficiency Finance for MSMEs with the aim to strengthen their capacities particularly in the field of energy efficiency and environment protection measures. The Energy Efficiency Finance workshops are planned at 50 MSME industrial Clusters across the country. So far 23 training workshops have been organized.

During the 1-day training the Bankers are exposed to their role in promoting energy efficiency loan schemes to MSMEs. The programme includes important topics that introduce bankers to the lending process of energy efficiency loan schemes such as viability analysis for energy efficiency loan proposals, role of credit rating and risk management and monitoring and measurement of energy efficiency projects. To this end, GIZ has commissioned Dun & Bradstreet (D&B) to develop training modules and provide these trainings to the bank's MSME Relationship Managers, Credit Manager, Trainers and other staff. The workshops saw attendance between 40-100 bankers per training who cater to MSMEs; more than 500 Bankers have been trained so far. The participants are representatives from various banks such as State Bank of India, SIDBI, Bank of India, Canara Bank, Punjab National Bank, Axis Bank, ICICI Bank, Indian Overseas Bank, Oriental Bank of Commerce, Corporation Bank etc.

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GIZ - Aarohan Workshop Series: Ecosystem Development and Capacity Building for Social Enterprises in India

Among many issues challenging the growth of impact enterprises in India, one is that there is more capital available than the number of investable enterprises. Against this backdrop GIZ is focusing its efforts on the incubation and acceleration aspect of impact investing. More efforts need to go into sourcing and finding enterprises — and India is big, where not every enterprise that does great work with social impact knows about "social enterprises" and the community that exists, including new sources of capital such from impact investors. With this in mind GIZ's efforts go into strengthening the incubation capacities, especially with a focus to build or strengthen incubators or service providers beyond the metros.

In the past one year GIZ has undertaken a few innovative initiatives by partnering with various players in the social enterprise space. In collaboration with Aarohan Ventures, Centre for Innovation Incubation and Entrepreneurship (CIIE), GIZ launched a pioneering series of workshops focused on Ecosystem Development and Capacity Building for Social Enterprises in India. The first of these workshops, which aim at improving the support infrastructure for social enterprises and social incubation initiatives, was held at CIIE, IIM Ahmedabad from the 25th - 27th of April, 2013.

The first day of the workshop was dedicated to capacity building of support institutions, i.e. incubators, CSR agencies, NGOs and foundations in supporting social enterprises. The second day aimed at matchmaking between the support institutions and the social enterprises to explore common areas for collaboration. The third day centered on capcity building of the social enterprises. The workshop was attended by twelve support institutions with bigger and renowned players such as Centre for Business Acceleration, Goa, Ambuja Cement Foundation and Reliance ADA Group. The social enterprise side was represented by another twelve innovative social enterprises such as Vat Vrikshi, Contreezy, Boond and Udyogin, operating in diverse domains spanning across healthcare, rural lighting and livelihood creation. The workshop also provided an opportunity for experienced mentors and experts to share their best practices and learnings with the young cohort.

Based on feedback from participants, CIIE expressed plans to assist participating organizations access high quality mentoring and experience sharing even beyond these workshops.

For more information, please contact:
Lalmuanzuala.chinzah@giz.de

Launch of Sustainability Series of workshops to promote Sustainable Finance

On April 23, the MSME Umbrella Programme in a joint initiative with YES Bank, UNEP FI (UN Environment Program Finance Initiative) and RIRA (Responsible Investment Research Association) in Mumbai launched the Sustainability Series, a first-of-its-kind initiative in India to increase Environmental & Social (E&S) awareness in the financial sector. More than 170 actors from financial sector, media, civil society and business were present at the inaugural session of the event.

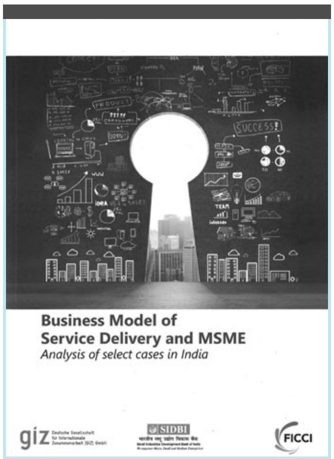
While inaugurating the Series, Dr. Chakrabarty, Reserve Bank of India Deputy Governor stressed the role of financial institutions and remarked, "Sustainability is now seen as a key challenge as well as an opportunity in business. Environmental viability is not independent from financial viability. Banks as the financing agents of the economic and developmental activities of the world could play a crucial role in promoting overall sustainable development."

The first day workshop of the Sustainability Series focused on Environmental & Social Risk Management to highlight and discuss the potential financial risks faced by banks on account of unsustainable practices undertaken by borrower businesses. The workshop provided participants with case studies and methods to adequately address risks and encouraged them to recognise sustainability as a business opportunity. The workshop saw engaged participation of 45 senior risk and sustainability managers of leading public and private banks in India such as SBI, ICICI, HDFC, IDBI, Axis Bank, Deutsche Bank, Royal Bank of Scotland, LIC and IDFC. Further events are already planned for 2013, engaging with investors, project financers, and insurers.

For further details contact:
Stefanie.bauer@giz.de

9 Recent Publications

Launch of study at FICCI MSME Summit on 14 May 2013, New Delhi

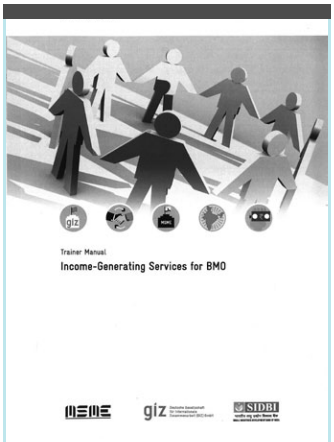


I: Business Model of Service Delivery and MSME

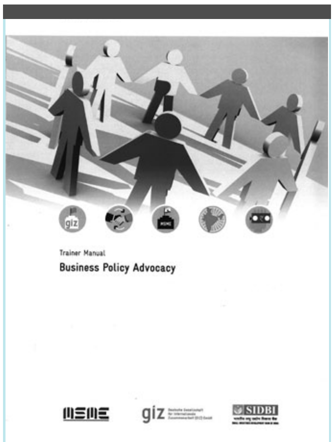
2nd MSME Summit on the 14th March in New Delhi
Theme: “Innovation – An Imperative for Competitiveness & Sustainable Development”

Innovation Ecosystem: Cooperation Matters!
The case of the SME, Cluster and Automotive Industry in German System

Strengthening Business Membership Organisations (BMO)



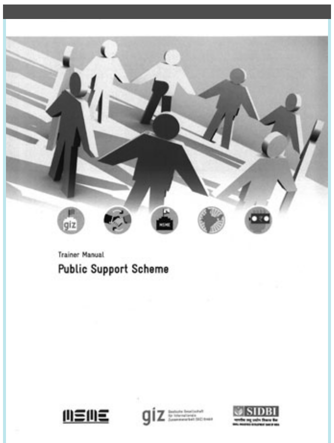
Trainer Manual – Income-Generating Services for BMO



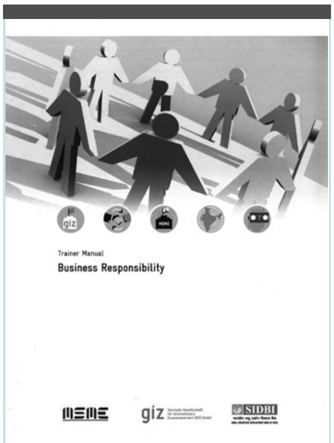
Trainer Manual – Business Policy Advocacy

Brochures:

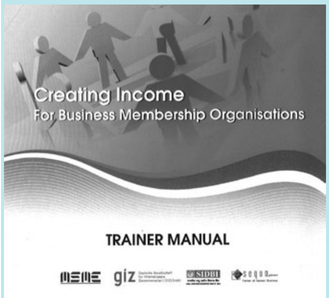
1. Indo-German SME Forum
2. Directory of German Business Membership Organisations



Trainer Manual – Public Support Schemes



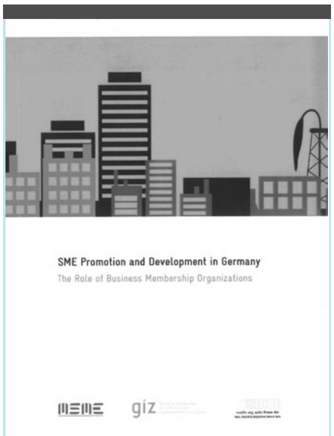
Trainer Manual – Business Responsibility



CDs:

1. Managing Business Membership Organisations
2. Creating Income For Business Membership Organisations

Trainer Manual – Managing Business Membership Organisations



SME Promotion and Development in Germany – Role of Business Membership Organisations

To order the publications please contact: **Amit.kumar@giz.de**

10 Feedback Corner

In an endeavour to foster better understanding of our work within GIZ and the GIZ service portfolio, we have attempted to answer your questions below.

How does GIZ work? Is GIZ a donor?

GIZ is often perceived as a donor organization, however, that is not the case. GIZ is an implementing agency, where all GIZ projects are based on a specific commission either from the German Government, the German Federal Ministry for Economic Cooperation and Development (BMZ), other German federal ministries or national and international partners and clients. Increasingly private sector companies and foundations are also mandating GIZ. The commissioning parties normally finance projects with a longer time horizon of 1 – 4 years in mind, thereby ensuring larger impacts than financing just stand-alone initiatives. These measures are agreed upon between partners prior to the commencement of a programme. In India, for instance, GIZ's International Services (IS) has been commissioned by the Government of India to provide Skill Development Services (e.g. Technical Support for ITI Upgradation in Karnataka).

Who are potential partners for GIZ? How can I contact them?

GIZ works with a wide range of actors, public actors such as governments, ministries, government agencies of the federal states or associated Institutions; civil society organizations, and private businesses. At the intermediary level GIZ also partners with industry associations, chambers of commerce, business associations, incubators, MSME clusters, business development service providers, etc. Any organisation interested in partnering with GIZ can express their interest by writing to the relevant Country Director. For further enquiries on partnership opportunities with the MSME Umbrella Programme, please contact: **Manfred.haebig@giz.de.**

What are the fields in which GIZ is working in India?

GIZ works in areas in which demand in India's emerging economy is high and in which Germany is particularly strong. Thus, GIZ works actively in three areas:

Environment: Individual cities, federal states and the central government are implementing ambitious programmes with GIZ to remedy the disastrous environmental conditions in settlements and industrial zones.
Energy: GIZ advisory services aim to improve energy efficiency in coal-fired power stations and in the use of electricity. GIZ is also promoting the use of renewables.
Private sector: GIZ is promoting small and medium enterprises, improving responsible business management and reforming financial systems to make them accessible to poor population groups. The Indian Government is introducing an across-the-board social welfare system in partnership with GIZ.

For more information on GIZ work in each of these sectors please see:
http://www.giz.de/en/worldwide/368.html

What services does GIZ offer within the MSME Umbrella Programme?

GIZ offers various services within the MSME Umbrella Programme that aim to improve the investment and business climate and the service ecosystem for the benefit of MSME. The services offered include capacity development, business model development, business action plan development, advisory services, development of collaborative eco-system, and more customized services as required. For detailed information, please look at our article on services offered by the MSME Umbrella Programme within this edition or contact: **Stefanie.bauer@giz.de**

11 Survey Questions

Dear Reader,

We are thrilled with your response to our first edition and would love to hear from you further. Any feedback from your end on what you would like to see in our newsletter, would only help us improve on our efforts, hence please keep writing to us. In this edition, we would also like to integrate a small survey to interact with you and hear your thoughts on the following.

- Do you think financial institutions have a role to play to catalyze socially and environmentally responsible business practice?
- Should financial institutions include social and environmental performance criteria in their lending and investment decision process in addition to financial criteria?
- In your view, are voluntary financial sector guidelines desirable and needed to addresses the current regulatory gap, and promote the integration of environmental and social performance criteria in the financial sector?

You can answer the questions under the following link (**https://www.surveymonkey.com/s/Survey_REF**) or sent an e-mail to: **msme-india@giz.de**. Your responses will remain anonymous.

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