

Primus Partners Report

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Kinara Capital Says Three-quarters Of MSMEs Unaware Of Green Financing



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Article Content:

Despite MSMEs' crucial role in reducing carbon emissions, they struggle with high investment costs, policy uncertainty, and limited financing options

In a dramatic development, nearly three-quarters of India's micro, small and medium enterprises (MSMEs) are unaware of available green financing solutions, fintech firm Kinara Capital said in its MSME Insights report. The finding came as a surprise amid India's push towards its 2070 Net Zero target, where MSMEs are expected to play a central role in driving sustainable growth.

Highlighting a major gap between intent and access, the study found that 73.2 per cent of MSMEs cited lack of awareness as the key barrier, while 11.2 per cent were deterred by confusion over the process. Despite this, over half (51.7 per cent) of those who did apply for green loans secured funding, signalling both readiness for credit and a growing willingness to adopt sustainable practices.

"India's ambitious Net Zero target by 2070 cannot be achieved without placing the country's dynamic MSME sector at the heart of its climate strategy," said Hardika Shah, Founder and CEO of Kinara Capital. "Focused awareness campaigns and technology-led solutions are essential to bridge the green financing gap and catalyse large-scale transformation."

The survey, conducted across 100-plus cities in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Telangana and Puducherry, covered 3,649 MSMEs in manufacturing, trading and services. The findings suggest a sector both eager and pragmatic in pursuing environmentally responsible operations.

High Intent, Low Awareness

While awareness remains limited, 74.2 per cent of MSMEs seeking financing within the next year said they plan to direct funds towards making operations more sustainable. Beyond internal

changes, 14 per cent are looking to manufacture eco-friendly products and 11.8 per cent are eyeing wholesale or direct-to-consumer sales in the green economy.

Notably, only 3.7 per cent of MSMEs cited the absence of rewards or incentives as a reason for not going green, underscoring that intent outweighs the need for subsidies.

The report found that MSMEs are most attracted to value-driven solutions that reduce costs. Solar-powered products and rooftop solar topped the list with 32.4 per cent interest, followed by electric vehicles at 27.7 per cent and energy-efficient machinery at 19.3 per cent. A further 11.2 per cent prioritised sanitation, water and waste management.

When choosing financing partners, 46.7 per cent of MSMEs favoured non-banking financial companies (NBFCs) or fintechs, compared to 24.1 per cent opting for private banks and 17.5 per cent for nationalised banks. The preference reflects a shift towards agile, technology-driven lenders and embedded finance options, Kinara said.

Regional And Sectoral Differences

Tamil Nadu and Puducherry emerged as the most proactive regions, with 37.5 per cent of MSMEs signalling intent to incorporate sustainable practices. Andhra Pradesh and Telangana followed at 31.6 per cent, while Karnataka ranked third with 22.1 per cent. Gujarat and Maharashtra trailed with just 8.8 per cent.

Among sub-sectors, metal-related manufacturing industries such as fabrication, machine and auto components accounted for 37.8 per cent of positive responses. Within trading, consumables led with 30.6 per cent, including retail in provisions, healthcare, comestibles and medical shops. B2B traders in automobile parts and industrial products followed at 19.9 per cent, alongside textiles and apparel at 19.8 per cent.

The survey revealed that trading MSMEs are ahead of manufacturers in embracing green financing, with 55.2 per cent planning to seek such credit within the year. Many are exploring solar-powered cold storage, energy-efficient generators, reusable batteries and smart lighting to cut operational costs and reduce environmental impact.

Kinara Capital said the findings show that India's MSMEs are both willing and positioned to drive climate-positive innovation, provided that awareness and accessibility improve. "The future of sustainable growth in the MSME sector lies in bridging the knowledge gap, leveraging technology-driven finance and equipping entrepreneurs to become climate-resilient," the company said.

Accessing Green Capital

Earlier, Primus Partners, in its report, stated that SMEs are critical to India's green transition but face significant financial and regulatory barriers in accessing green capital. The report revealed that these enterprises encounter considerable challenges in securing financing for green initiatives.

It identified several barriers that restrict SMEs from accessing the necessary capital to transition towards sustainability, including high upfront investment costs, regulatory uncertainty, lack of customised financial solutions, and limited access to capital markets. These challenges collectively hinder SMEs from fully participating in India's journey towards a low-carbon economy.

One of the most significant barriers SMEs face in securing green capital is the high upfront investment costs associated with adopting sustainable technologies. Many SMEs operate on thin profit margins and do not have the financial cushion required to invest in energy-efficient machinery, renewable energy solutions, or waste management systems.

Unlike large corporations that can leverage their financial strength to issue green bonds or attract ESG-linked investments, SMEs struggle to obtain the funding needed to implement eco-friendly measures. Traditional banks and financial institutions often perceive green investments as high-risk ventures, leading to stricter lending criteria and limited financing options for SMEs.

The report also highlighted that regulatory uncertainty is a major roadblock for SMEs looking to transition towards sustainable practices. Environmental policies and compliance requirements continue to evolve, making it difficult for SMEs to keep up with changing regulations.

The lack of clear guidelines and standardised frameworks often confuses, discouraging businesses from making long-term investments in green projects. Additionally, financial institutions tend to favour large, well-established corporations that have the resources to comply with stringent environmental regulations, leaving SMEs at a disadvantage.

Government Push

Union Environment Minister Bhupender Yadav has said green finance must be treated as the backbone of resilient and competitive economies, calling it central to India's ambition to balance growth with sustainability while urging global collaboration on climate funding.

Speaking at the Federation of Indian Chambers of Commerce and Industry's (Ficci) fourth edition of Leads, Yadav argued that India's development trajectory under Prime Minister Narendra Modi rests on ambition, innovation and transformation. He stressed that aligning profits with sustainability is critical as governments, regulators, industries and citizens confront the twin challenge of economic expansion and ecological preservation.

"The pathway to building economies of the future rests on aligning progress and profits with sustainability," Yadav said, according to a release by the Ministry of Environment, Forest and Climate Change (MoEFCC). Yadav said the 21st century poses dual responsibilities for nations such as India, addressing the aspirations of a young, fast-growing population while safeguarding the planet from climate change, biodiversity loss and ecological degradation.

He emphasised that climate finance should not be seen as a niche intervention but as an economic imperative. "Green finance must form the backbone of competitive and resilient economies," Yadav said. He added that restructuring capital flows to ensure every investment simultaneously delivers economic and environmental returns would define future competitiveness.

Global Investor Confidence

The minister pointed to India's sovereign green bonds, which have drawn wide international interest, as evidence of investor confidence in India's green growth agenda. Regulators such as the Reserve Bank of India and the Securities and Exchange Board of India are increasing scrutiny of disclosures and accountability in green instruments, aiming to ensure transparency and build long-term market trust.

India is also deploying blended finance structures that leverage public money to reduce risks and catalyse private investment in renewable energy, electric mobility, energy efficiency, and nature-based solutions. With the country estimating it will need more than USD 10 trillion by 2070 to meet its net-zero goals, Yadav said such tools are vital.

Highlighting the importance of international cooperation, Yadav said operationalising Article 6 of the Paris Agreement, which enables bilateral and multilateral carbon trading, is key to mobilising billions of dollars in climate finance. "High-integrity carbon markets governed by transparency and accountability can channel significant investment into climate action," he said.

Yadav also reiterated the moral responsibility of developed nations to support the global South,

arguing that the UNFCCC's current target of USD 300 billion in climate finance by 2035 falls short of the scale of the challenge. Domestically, India has revised its Green Credit Programme, first launched in 2023, to encourage voluntary environmental actions such as eco-restoration. The updated methodology, notified on 29 August 2025, allows direct participation by private entities and sets mandatory restoration commitments, aiming to mobilise capital while ensuring measurable results on the ground.

Yadav said green finance is expected to unlock investments across solar and wind power, green hydrogen, sustainable agriculture, the circular economy and climate-resilient infrastructure. These areas, he added, have the potential to create millions of jobs, improve competitiveness and secure India's energy future. Yadav framed climate finance as an ethical duty. "Failing to finance the green transition is a moral failure towards future generations," he said, reiterating India's commitment to pioneering sustainable growth and contributing to global climate goals.