

# Loans4SME



**S**mall and medium enterprises (SMEs) will require USD 44 billion in debt financing, to 2022, to harness the opportunities presented by renewable energy and energy efficiency in India. Currently, bank lending is the most common source of external finance for many SMEs and entrepreneurs. However, the banking system has traditionally relied on collateral and past track records as key factors in lending decisions. Newer, smaller entities, including renewable energy and energy efficiency SMEs, often fail to meet banks' stringent lending requirement of at least three years of profitability and often do not have real estate to offer as collateral. As a result, there is a shortage of capital for these groups.

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*Peer-to-peer lending offers an alternative to traditional lending.*

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Peer-to-peer lending offers an alternative to traditional lending that can: (i) expand the source of domestic debt capital for renewable energy and energy efficiency beyond banks; (ii) focus on cash flows and repayment capabilities of the projects and create trust in the minds of investors; and, (iii) offer timely financing.

There are currently no other peer-to-peer lending facilities in India that cater specifically to SMEs in renewable energy and energy efficiency, so Loans4SMEs would be the first.

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*Loans4SME is a technology-driven business platform that connects prospective lenders with borrowers through a curated marketplace of peer-to-peer lending.*

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Loans4SME will be launched as a curated marketplace by Aurus Lending Solutions that will connect businesses with debt providers directly via peer-to-peer lending, thereby expanding the source of domestic debt capital for SMEs beyond banks, to include high net worth individuals, family investment offices and corporate treasuries.

By utilizing a resilient credit risk assessment module that incorporates a wide range of data elements as compared to traditional credit scoring mechanisms, Loans4SME will focus on cash flows and the repayment capabilities of the projects in order to increase investor confidence and offer timelier financing when compared to traditional lending.

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*Loans4SME has the potential to add 800 MW of solar rooftop capacity and mobilize around USD 2.2 billion in debt financing for SMEs in renewable energy and energy efficiency till 2022.*

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We estimate that 40% of the Government of India's 40 GW rooftop solar energy target could be driven by the SME sector, which is about 16 GW by 2022. With a 5% market share, Loans4SMEs has the potential to finance the addition of 800 MW of solar rooftop capacity. The total potential for debt financing through Loans4SME is USD 2.2 billion including solar rooftop (USD 590 million), energy, procurement, and construction (EPC) financing (USD 141 billion) and energy efficiency financing (USD 200 million).

Loans4SME could help lower CO2 emissions by ~1107 mMT (0.93 mton per 1MWh power generation) per year by 2022 and SOx and NOx emissions by 3681 mMT and 5146 mMT per year by 2022. This is based only on the solar rooftop installation potential for SMEs.

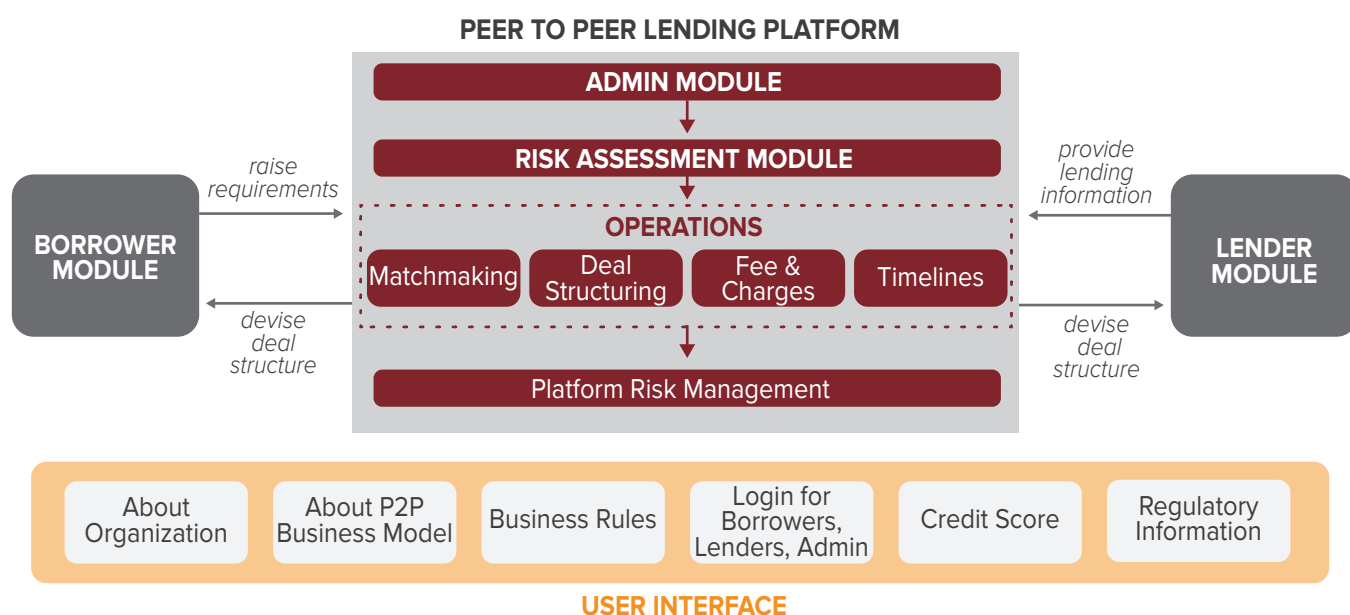
To commission the facility, USD 460,000 in public finance would be required. The leverage of private finance through Loans4SME is 1:234 times, which is very high. Loans4SME is also highly actionable. It can start operation in under ten months, does not face any regulatory barriers, and already has an implementer in place.

## DESIGN

Loans4SME will have four main components that interface with each other: a user interface, the borrowers' module, the lenders' module, and the operating module.

Borrowers and lenders would interact with each other on the Loans4SME platform accessed with validated login details. The platform administrator performs a Know-Your-Customer (KYC) check of a potential account holder before they begin transactions through the platform, in which his or her business and financial position are scrutinized, followed by a fraud check.

Loans4SME would also be supported by a robust credit risk assessment model to build lender confidence. Using an innovative credit score algorithm, Loans4SME will provide lenders with a tool to measure the relative risk of all the loans listed on the portal and organize them according to their risk profile. The model is used in conjunction with cash flow projections to form a view on relative riskiness of the transaction.



**The India Innovation Lab for Green Finance** is a public-private initiative in India that brings together experts from government, financial institutions, renewable energy, and infrastructure development to identify, develop, and accelerate innovative investment vehicles for green growth in India.

Analytical and secretariat work of the India Lab has been funded by [Shakti Sustainable Energy Foundation](#), the [David and Lucile Packard Foundation](#), and the [UK Government. Climate Policy Initiative's](#) team in Delhi serves as Lab Secretariat and analytical provider.