

Financing a *handmade* revolution

How Catalytic Capital
Can Jumpstart India's
Cultural Economy

Executive Summary

Why This Research Matters

Published in July 2023

Financing a Handmade Revolution | How Catalytic Capital Can Jumpstart India's Cultural Economy studies the opportunities and challenges in investing in India's creative manufacturing and handmade (CMH) sector and the role of catalytic capital in supporting the same. This first-of-its-kind mapping finds that craft-led MSMEs operating in the CMH sector and broadly across the nation's cultural economy face development and growth challenges that affect their ability to scale and grow. A primary challenge is the financing gap faced by MSMEs in the sector. We make the case for why these enterprises need the right financing, at the right time, in the right place, and offering the right conditions. Catalytic capital offers an untapped opportunity to build an entirely new ecosystem of financing that can catalyse and nurture new markets while driving much-needed social change.

This Executive Summary summarises the findings and insights covered as part of Business of Handmade (2023).

The full research showcasing voices of enterprises, investors, and other actors invested in India's creative manufacturing and handmade sector can be accessed through a comprehensive report and a website that leverages creative storytelling.

 www.businessofhandmade2.com ↗

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Full Report



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The Opportunity

India's Creative Manufacturing and Handmade (CMH) Sector

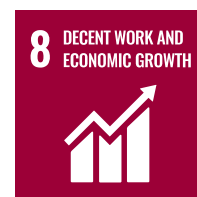
India's CMH sector is a significant subset of its creative and cultural economy and its manufacturing landscape. CMH works across fashion, home-decor and lifestyle, e-commerce and retail, craft-tech, culture-tech, value-added agri products, tourism, and more. It includes the artisan economy as well as a diversity of creative producers and actors linked to allied sectors. According to Chatterjee & Subramanian, India has a ₹11.2 lakh crores (\$140 billion) low-skill manufacturing gap which is about 5% of India's GDP. The CMH sector is uniquely positioned to bridge the same. Here is why:

- ① India's unexplored raw material pipelines and its massive labour force makes it a future-ready hub for building collaborative approaches for greener supply chains.
- ② There is a renewed interest in 'Vocal for Local' — led by homegrown brands and enterprises, largely driven by massive digital penetration and adoption post COVID.
- ③ Retail conglomerates are keen to capitalise on the local demand for culturally relevant and ethnic products by supporting regional production in India.
- ④ CMH has the potential to build a climate-smart future while also driving inclusion for India's informal and differently-skilled, first mile communities — mostly youth, women, marginalised groups, rural creative producers.

The CMH sector is already addressing the evolving needs of the conscious consumer. But increased demand necessitates the creation of efficient and resilient backend supply chains that can eventually support economies of scale via decentralised, New Formal approaches for a sunrise sector.

An estimated 200 million livelihoods are linked to the sector and it operates across the farm-to-consumer value chain, addressing at least 10 of the 17 SDGs.

KEY SDGs LINKED TO THE CMH SECTOR



Who are India's Handmade and Craft-Led MSMEs or HCMs?

Handmade and Craft-based MSMEs (HCMs) include small and growing social, creative and impact enterprises working in the CMH sector employing artisans and creative producers. They come with diverse skill-sets and work to deliver products and experiences across fashion, home-decor, cultural experiences, craft-tech, culture-tech, and more.

The driving force behind the CMH sector, HCMs span the entire farm-to-consumer value chain — from the creation of new materials and better technology to the development of brands and models that enhance artisan lives and consumer experiences.

We find that *six unique segments* make up India's HCMs



Input Innovators

Early value-chain innovators creating new, sustainable input materials using upcycling + recycling methods



Grassroots-to-Market-Nurturers

Nonprofits or social enterprises working with artisan clusters in rural India



Process Enhancers

Tech-based disruptors looking to modernise a traditional system



Online Aggregators

Online marketplace aggregators of artisan clusters, smaller and larger HCMs, and other brands



Diginative Upstarts

New-age enterprises that build differentiated, scalable, online brands leveraging social commerce



Lifestyle Curators

Premium / high-end conscious luxury brands catering to a smaller, more discerning market

Highlights

A First-of-its-Kind Survey

We spoke to 70+ investors, funders, ecosystem actors and enterprises working in India's handmade economy. Thereafter, we mapped the unique characteristics and financing needs of 516 craft-led, mostly for-profit MSMEs as part of a pan-India survey. Here are our key findings:

89%

HCMs are focused on building brand, growth, and profitability

91%

HCMs are open to external financing

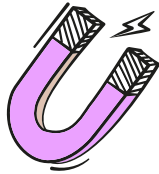


92%

HCMs see catalytic capital as a great fit for their financing needs

78%

HCMs struggle to access working capital



83%

HCMs are limited by negative stereotypes associated with the sector

88%

HCMs self-finance their operations, limiting scope and innovation

85%

HCMs sell pan-India

95%

HCMs have sophisticated, digitalised modes of receiving payments



70%

HCMs support a workforce with an equal or more women skew

HCMs are increasingly influenced by the external startup landscape and there is a growing need for financing since scale is critical to ensuring profits and impact. But they face systemic bias at the cultural, social, and investment scales that limit their ability to access financing, scale up, and drive growth.

Note: All % shown are from Financing a Handmade Revolution and based to N=516 HCMs unless noted otherwise.

The Problem

Barriers to Financing

① HCMs have unique and diverse financing needs

Since building future-ready, sustainable, retail value chains sits at the heart of the CMH sector, the right financing matters. HCMs typically need four types of capital:

- Startup Capital
- Working Capital
- Innovation Capital
- Growth Capital

② Traditional financing is not meeting HCM needs

Unlike traditional tech-based startups, HCMs need risk-adjusted or high-risk capital for growth, expansion, and experimentation. Impact-linked investment and similar financing instruments available in the market often come with stipulations that do not allow HCMs to address the necessary operational gaps, throwing them into a capital starvation cycle.

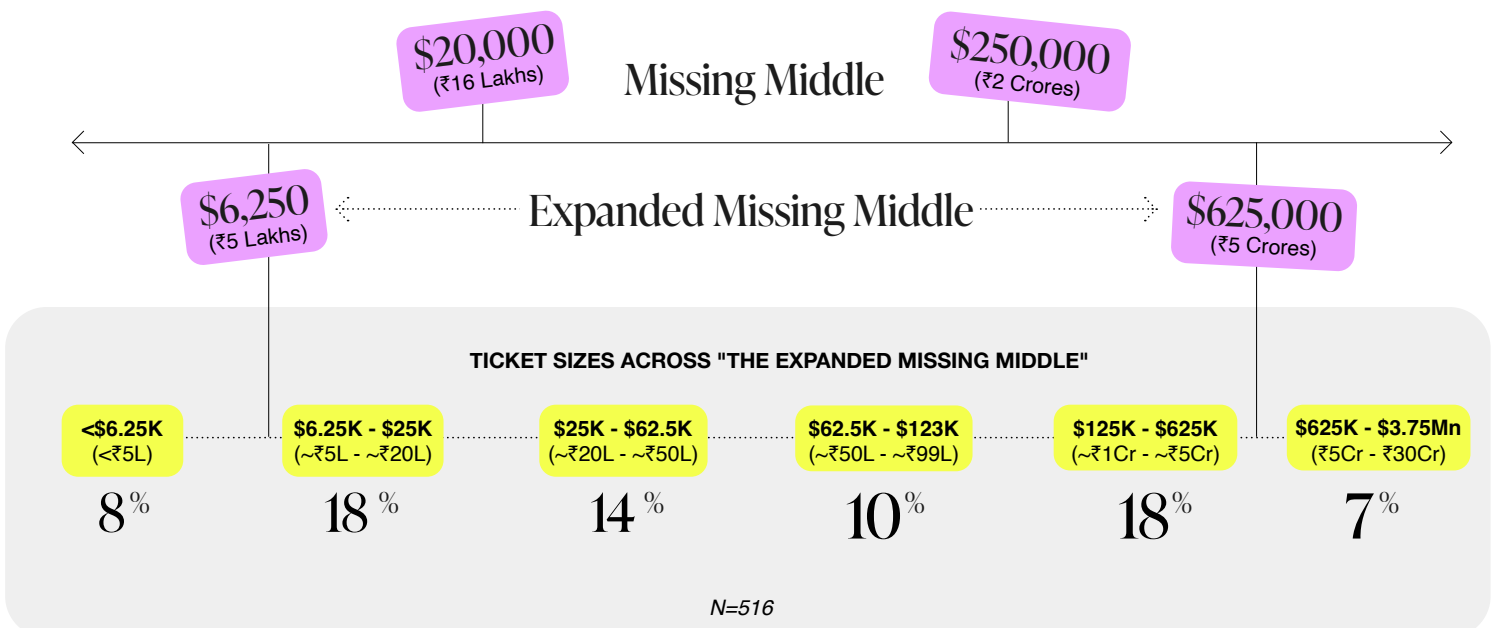
45% avoid banks altogether

55% are unable to find capital that does not demand collateral / guarantees

61% are unable to find capital without excessive paperwork

Expanded Missing Middle in India's CMH Sector

The current financing needs show an 'Expanded Missing Middle' in the CMH sector that ranges between ₹5 lakhs (\$6,250) to ₹5 crores (\$625,000) depending on the size and scale of the enterprise.



Numbers above add to 75%; the balance includes 'Not Seeking Funding', 'Need Help Figuring Estimate', and a negligible % of 'Don't Know'

③ Access to capital is limited, cost of capital is high

The current offerings are not designed to help enterprises meet the growing consumer demand for conscious and cultural products anchored in responsible, local, regional production. For one, access to capital that matters still remains elusive for many enterprises working in the CMH sector. And two, the cost of capital available in the market remains high and is rarely structured to address market conditions in the CMH ecosystem.

65% HCMs find it difficult to access finance

48% HCMs struggle to find investors who will accept lower returns compared to commercial investors

⑤ Lack of scale is directly linked to lack of business support ecosystems

Investors want to see growth structures in an organisation that can aid scale and impact after funding. Enterprises often lack such structures as well as the knowledge needed to operationalise growth. Expertise in verticals like accounting, marketing, branding, legal compliance, etc. don't come as naturally to HCM founders. Scale and growth is also a function of building efficiencies for which technology is critical. There is very little support or incentives available to HCMs to adopt technology, or experiment with craft-tech or culture-tech despite their appetite to do so. The capital starvation cycle naturally makes it harder for HCMs to innovate, resulting in slow growth and scale.

④ HCMs face a disproportionate financial literacy gap

Due to lack of access to relevant financial literacy, many HCMs do not have clarity on the diverse financial instruments and options available in the market, how to access them, how to navigate terms and payback schedules, and how to forge the right match (instrument, terms, funder).

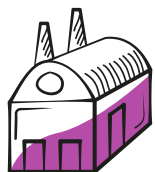
55% need help understanding their options to secure investment

only 18% fully understand the right financing fit for their enterprise



88% HCMs rely on insular networks (friends / family / founders) for advice and resources

The C.R.A.F.T Lens - Traditional Financing Misfit



C

Collateral Requirements

Traditional finance requires assets as collateral but HCMs often do not have access to personal assets.



R

Return Expectations

Traditional finance is only looking at financial returns but HCMs also deliver social and environmental returns.



A

Access

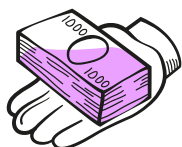
HCMs do not have access to traditional networks of financing — investors, funders, intermediaries.



F

Financing Instruments

Traditional finance is either debt (fixed payments on a regular basis) for companies with regular and steady cash flow, or equity (dilution of stake in high-growth firms). HCMs don't fit in either of these moulds.



T

Ticket Sizes

HCMs require capital across a diversity of ticket sizes along the 'Expanded Missing Middle' (too big for microfinance, too small for bank loans, impact and commercial investors).

⑥ HCMs lack sector-specific portfolios + policies

At the ecosystem level, currently, there are hardly any mainstream investment portfolios in India dedicated to sustainable production and consumption. This combined with the burden of ever-changing State and Central policies, processes, and GST compliances add to the already innumerable challenges of running a small business. The underdeveloped infrastructure and R&D ecosystem further deters HCMs looking to build economies of scale, boosting the perception gap of the sector being unscalable.

83% are limited by the negative stereotypes associated with the sector

73% struggle to overcome complex certifications, policies, and tax directives

63% either have and do not use or do not have MSME / Udyam registration

⑦ Women-led enterprises need custom solutions

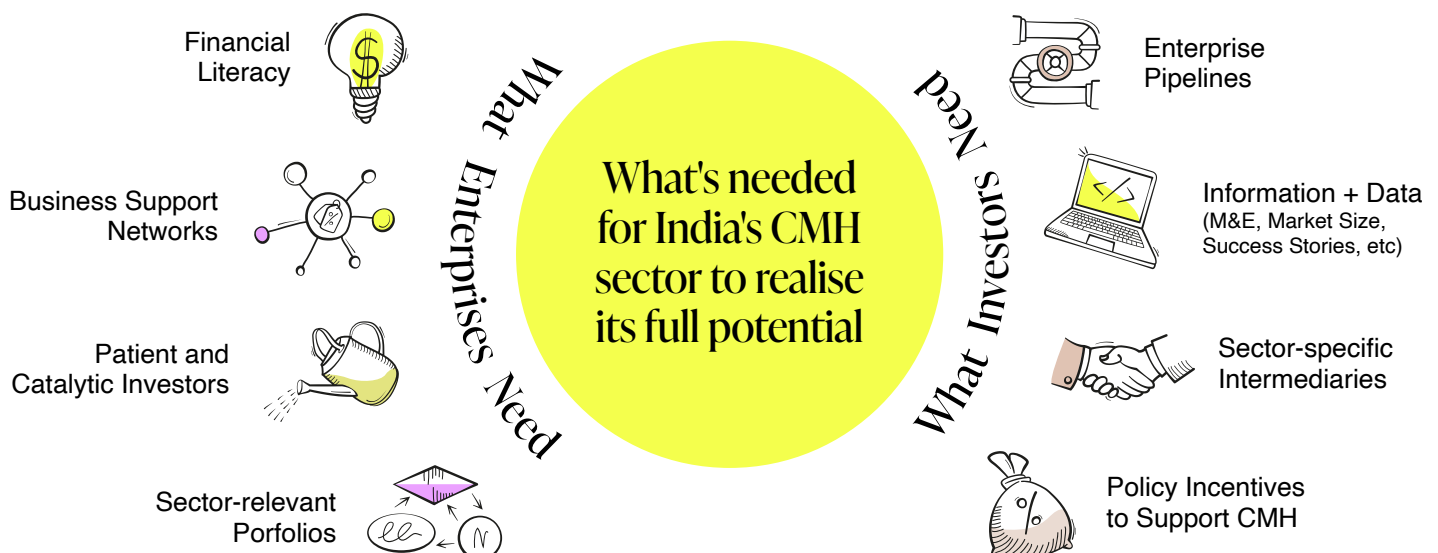
Most HCMs — especially women-led — are especially impacted because they lack access to collateral by way of immovable assets, which is particularly critical when looking for debt-based solutions. Due to the imbalance in privilege, mobility, and access to funds that lead to successful entrepreneurship, more women-led HCMs need support with business strategy as compared to male-led HCMs.

62% women-led HCMs find talking to investors as a huge challenge (vs. 48% men-led enterprises)

55% women-led HCMs find it a massive struggle to understand what funding options are available (vs. 33% men-led HCMs)

34% women-led HCMs find it hard to calculate the investment ask (vs. 19% men-led HCMs)

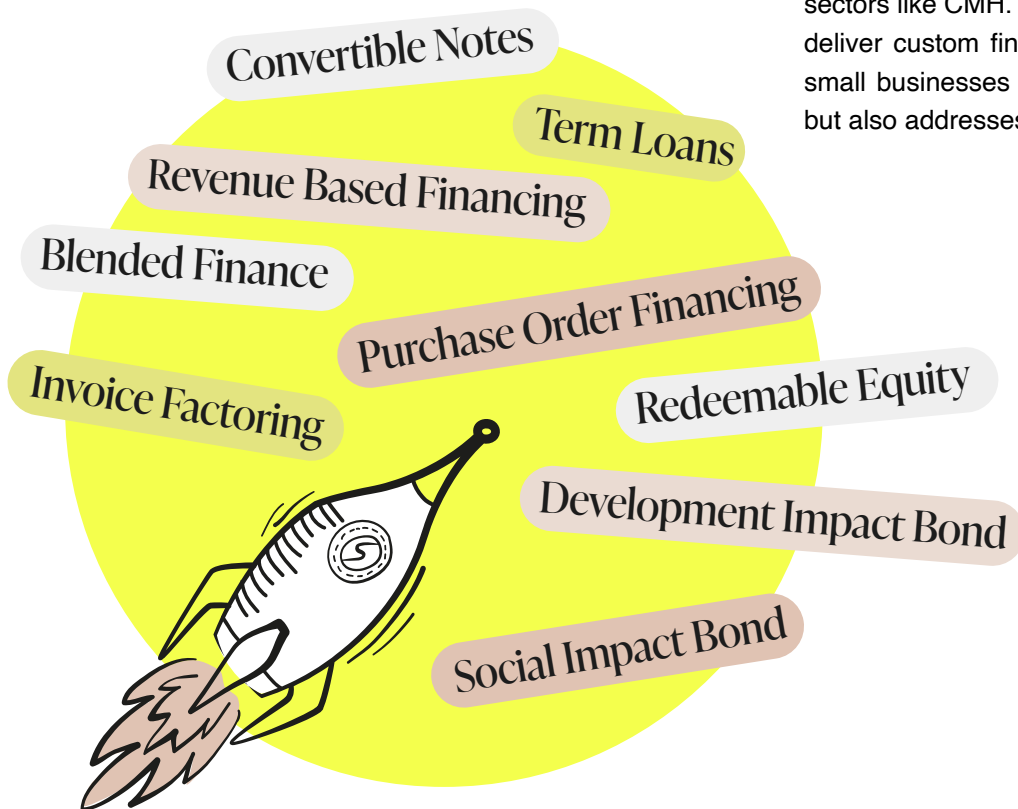
Snapshot of Barriers to Financing



The Solution

Understanding Catalytic Capital

HCMs have very specific financing needs ranging from support for infrastructure, R&D, human resources, capacity building, or working capital. These also differ based on the size of the enterprise, their business model, their geographic areas of operation and more. The current financing and support ecosystem is limited to incubators, accelerators and a handful of investors. In the push and pull between profits vs. impact, catalytic capital offers the much-needed middle ground to financing emerging and unexplored sectors like CMH. Catalytic capital has the potential to deliver custom financing solutions that not only help small businesses and MSMEs become capital-ready but also addresses their unique needs.



Catalytic capital is investment capital or financing that is patient, risk-tolerant, concessionary, flexible, and meets enterprises where they are.

It acts as a springboard for investment actors to take measured risks and direct their resources towards solving specific challenges on-ground that can, in turn, deliver the most impact. India's HCMs are more than ready to benefit from friendly and flexible capital that has, so far, been out of bounds.

79% HCMs have never received any external financing

92% HCMS see catalytic capital as a great fit for their financing needs

Much of the immediate demand by HCMs for financing is linked to meeting their working capital needs. Retail businesses cannot finance large orders on their own. However, given the large incidence of delayed payments in India, catalytic debt offers the next best solution.

82% HCMs would prefer interest rates to stay under 15%

81% HCMs see Advances against Customer Orders as a viable option

Now, more than ever, the CMH sector needs tailored and patient approaches that not only address persistent, prevailing market failures but also empower its enterprises to accelerate socio-economic mobility among the communities they employ. New approaches and structures involving impact investment actors, institutional investors, family philanthropy, CSR, and retail giving play a critical role in creating a more dynamic playing field for innovative and inclusive financing.

Here is what catalytic capital can deliver for the CMH sector:

- ① De-risk innovation pipelines and support newer ideas across the diverse value-chains that operate within the CMH sector
- ② De-risk the enterprise growth trajectory by enabling HCMs to replicate approaches, build track records, and gain proof-points for scale making it easier for third-party investors to step in.
- ③ Foster SDG impact + aligned policy action by building an enabling environment to support and drive specific impact goals
- ④ Build accountability and incentives for impact generation by offering “better terms for better impact” to market-based HCMs to deliver additional social and environmental outcomes.
- ⑤ Empower HCMs to drive formal inclusion and economic mobility of first-mile artisan communities, making it easier for mainstream startup actors in health, education, financial inclusion to actively participate in the CMH ecosystem.



What Next?

Building an Inclusive Financing Ecosystem

The report goes into in-depth recommendations for investors, policy actors, intermediaries and enterprises. Distilled, here are the key highlights.

Investors + Funders

Need to rethink their approaches and build sector-specific, creativity-led portfolios that prioritise Responsible Consumption and Production (SDG 12) — an untapped and potentially lucrative opportunity in India amounting to more than \$1 trillion. They also need to introduce catalytic capital offerings in partnership with philanthropic and policy actors by using first-loss mechanisms to de-risk financing for the CMH sector.

Ecosystem Actors + Intermediaries

Need to act as bridge-builders to align and connect diverse stakeholders; build public good infrastructure bridge information, trends, and data gaps by leveraging technology to deliver data, market intelligence, business support resources, and market access networks; guide policy-makers and investors to direct the right capital across specific needs across the farm-to-consumer value chain in the CMH sector.

Policymakers

Need to take a lead in creating an enabling environment for both MSMEs and investors by supporting data mapping specific to the CMH sector, consolidating offerings by diverse ministries and governments to create a single window policy and design legal structures that minimise the compliance burden and most importantly position the sector as “Creative Manufacturing and Handmade”

Enterprises

Need to arm themselves with tools, resources and intentionally access collaborative networks and work towards building a clear + differentiated value proposition centred around an understanding of the conscious customer as well as gaps in the value chain.

Leverage Catalytic Capital to Galvanise India's CMH Sector

While investment is crucial for any sector to grow, unless we ensure that the multitude of self-funded enterprises in India's CMH sector become capital-ready first, they cannot actively participate in the larger investment ecosystem. Thus this conversation, right now, on catalytic capital is critical for India's many MSMEs and the diverse communities they support.

Beyond what is covered in this summary, here are key resources that can continue to inform investor portfolios and their future approaches:

01 Extensive and tangible data and need gaps that demonstrate where your intervention can help the sector achieve dynamic growth, profitability and recognition. [FINDINGS ↗](#)

02 In-depth case-studies to demonstrate how catalytic capital has achieved impact on ground in India. [CASE STUDIES ↗](#)

03 Global best practices that can inform the creation of innovative financing theses customised to the needs of the CMH sector. [READ REPORT ↗](#)

04 First-of-its-kind enterprise segmentation and breakdown of HCM financing needs through an investability lens across these segments. [MEET THE HCMS ↗](#)

05 A compendium of resources for enterprises to actively start their journey to meet the future needs of the conscious consumer and become global powerhouses of inclusive and green production. [RESOURCES ↗](#)

The creative manufacturing sector has the potential to support the development of resilient, inclusive value chains, spur the export of cultural goods and creative services, boost digital adoption among creative micro, small and medium-sized enterprises (MSMEs), formalise India's mostly rural economy, and support livelihoods and sustainable development at scale.

If designed and directed with intention, catalytic capital can build an enabling environment for HCMs to support India's ambition of a \$5 trillion economy.

The time is now to finance India's handmade revolution.



Supported by

The Catalytic Capital Consortium (C3) is an investment, learning, and market development initiative working to increase the knowledge, awareness and use of catalytic capital. The C3 strategic partners — The Rockefeller Foundation, Omidyar Network, and the MacArthur Foundation — are supporting field-building work through the C3 Grantmaking Program to build a strong evidence base for the value of catalytic capital and equip investors with the data, knowledge and insights needed to drive deep and sustainable impact.

C3 Grantmaking supported 14 research projects across the world to help build the evidence base around the uses of catalytic capital. 200 Million Artisans was selected to study, document and make recommendations for the role of catalytic capital in India's artisan sector, with a specific focus on how it applies to craft-based micro, small and medium-sized businesses.

Global Alliance for Mass Entrepreneurship (GAME) is an ecosystem support organisation whose mission is to catalyse an India-wide movement of entrepreneurship and favourable conditions for the growth of both existing and new enterprises, resulting in 50 million new jobs by 2030.



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