

Tackling the Creative Economy Financing Gap: How Short-Term Capital Can Unlock Long-Term Impact Among Artisan Businesses

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The United Nations has declared 2021 to be the International Year of Creative Economy for Sustainable Development. The framers of the UN's Sustainable Development Goals recognized creativity and culture – alongside economics and technology – as important factors in [charting the path forward for global development](#). An estimated [3% of the world's GDP](#) (as of 2013) already comes from the creative industries – and that's increasing rapidly as the creative economy in the developing world grew at [9% annually and 12% each year](#) from 2002-2011, and has continued to grow rapidly in the decade since then.

We have the chance now – before it grows even larger – to shape the creative economy to be more inclusive and sustainable. As part of these efforts, we can use impact investment to reward businesses that follow high standards of worker rights and transparency, child safety and protection, fair compensation and benefits, health and safety, and environmental care (as discussed in [Nest's Ethical Compliance Standards](#) for artisan businesses.) But first, there must be funds that provide values-aligned investors with access to the significant opportunity the creative economy represents to do well and do good.

'ARTISAN BUSINESS' IS NOT AN OXYMORON

One key component of the global creative economy, the artisan (or handicrafts) sector, is among the largest in the informal economy. The artisan sector employs more than 300 million people [1] out of the [2 billion who work in the global informal economy](#). The global artisan economy is projected to reach a valuation of [\\$985 billion by 2023](#). The sector is one of the primary means of employment for women globally, an important wealth-building pathway in developing countries, and often the best employment opportunity for a dispersed, rural population.

Artisan businesses include traditional for-profit companies, for-profit social enterprises, worker cooperatives and nonprofit social enterprises. Artisan businesses often link the formal and informal economies. In the formal economy, these businesses sell to global brands and

respond to customers' style preferences, quality expectations, and fair trade and sustainability requirements. In the informal economy, production is done by mostly female artisans who work at home while taking care of children and other dependents.

While the artisan sector is positioned to tap into external growth capital (including impact investment financing options), artisan workers operate primarily in the cash economy. Being part of a growing artisan business is often the first access these workers have to the formal marketplace, an important opening for family wealth-building and greater prosperity.

ACCESS TO CAPITAL IS ACCESS TO OPPORTUNITY

Nest is a nonprofit committed to the social and economic advancement of global artisans, where Chris (one of the co-authors of this article) works as chief financial and operating officer. In 14 years working directly with artisan enterprises and the multinational brands that source their products, the organization has uncovered systemic challenges that prevent increased market access for these enterprises, and that limit the ability of brands to source from a more diverse array of artisan businesses poised for growth. One major challenge is the lack of sufficient purchase order financing solutions available to small-scale producers that have product offerings that appeal to the international market, and that have the ambition and capacity to scale. Short-term commercial financing linked to verified purchase orders makes it possible for artisan businesses to purchase inputs and pay workers. Since many global brands do not pay their suppliers until 120 days after the delivery of final goods, it is challenging for small businesses to begin these relationships – which offer tremendous long-term promise – without access to working capital upfront.

Ethical and sustainable fashion and home goods brands bring consumers the uniqueness of artisan production, plus stories about the origin of their products. Through their handcraft product purchases, consumers increase their awareness of new cultures and geographies, closing the gap between consumer and maker. The handcrafted nature of these products has been shown to positively affect customer purchasing habits. As a result, fashion and home goods brands are responding to their customers' propensity toward socially and environmentally responsible lifestyle choices by placing recurring, large-sized orders with handcraft businesses.

However, existing lenders working in the developing world have been hesitant to lend to artisan businesses because they lack knowledge of the sector and the ability to assess these enterprises' credit risk. If these lenders do offer financing, it is at interest rates too high for most artisan businesses to realistically consider. That's why purchase order financing designed to support artisan businesses is critical to accelerating economic growth for these companies, benefiting their workers and their communities.

IMPACT INVESTING FOR THE CREATIVE ECONOMY

The growth of socially responsible and impact investing to around \$31 trillion in assets under management globally has been marked by the development of more responsive investing vehicles that address the very specific capital needs of diverse industries, impact themes, geographies and populations. To capitalize on this momentum, Upstart Co-Lab (where Laura, this article's other co-author, is founding partner) was launched in 2015. The organization aims to connect socially responsible and impact investment capital with the creative economy.

As part of these efforts, Upstart introduced a Creativity Lens to help impact investors see investment opportunities aligned with art, design, culture, heritage and creativity that drive social and environmental impact. Since its introduction, Upstart Co-Lab has mobilized \$11 million from 30 investors, which has been deployed using a Creativity Lens. In June 2020, eight art-loving families and foundations plus two endowed arts nonprofits with \$1 billion of aggregate impact investment capacity stepped forward to amplify the Creativity Lens through Upstart's Member Community.

Despite the economic effects of the COVID-19 pandemic, Nest's global brand partners have signaled their intent to continue sourcing ethically produced artisan products. However, the very limited access to financing previously available to these artisan businesses will certainly be further constrained as a result of market volatility linked to the global pandemic. This means the need for alternative sources of short-term financing for artisan businesses is even more pressing today. A working capital financing solution could address one of the key challenges artisan businesses face as they get back to normal and embrace opportunities to grow.

A financial product providing working capital to artisan businesses would offer a new opportunity for Gender Lens investors to support a largely female workforce. Among the portfolio of artisan businesses supported by Nest (which offers them technical assistance and capacity building), 85% of artisan workers are women – a percentage that's likely typical across the industry. Their primary alternative to craft work would be working in a factory, which would require them to leave their rural communities and relocate to a city. Artisan work allows them to remain in their communities, among their support systems, while also improving the lives of their children. These workers report that 66% of their artisan revenue is used for food, rent and clothing, with 23% used for education fees. For 89% of them, the supplemental income from handicraft work enables their children to complete high school.

A ONCE-IN-A-GENERATION CHANCE

Oxfam describes the COVID-19 recovery as a "once-in-a-generation chance to build a fairer world." At Nest and Upstart Co-Lab, we agree – and we are working towards a solution. We are teaming up with colleagues at Community Investment Management and their lending partners in emerging markets to ensure that values-aligned investors can help close the access-to-capital gap faced by small and growing businesses in the global artisan economy.

Following the example of foundations and universities that have aligned their endowments with their missions, we hope to unlock the endowments of museums, art and design schools, and other cultural institutions to harness the potential of the creative economy to promote inclusion and sustainability. By Upstart's estimate, \$58 billion resides in the endowments of U.S. cultural institutions; almost none of this capital is deployed to sustainable and impact investing. Putting their capital to work to support the global artisan economy is just one way that impact investors can open equitable pathways to economic opportunity for communities that are often overlooked and underestimated.

[1] Gupta, Neelam (2001) Invisible labor: social security for home-based workers of the garment, agarbatti and papad industries, Delhi, SEWA Bharat, p v and vi

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Photo: Nest Artisan business partner Arvind, from India. Photography credit: Sara Otto.
