impact investing institute

IMPACT INVESTORS COUNCIL

Unlocking Investor Action for a Just Transition in India's Fashion Sector

Learning report

Executive Summary

India's textile and apparel sector sits at the intersection of global supply chains, domestic industrial growth and climate transition. As the world's second-largest textile manufacturer and sixth-largest exporter, the sector employs more than 45 million people across complex and fragmented supply chains, including farmers, garment workers, artisans and waste-picker communities whose work is critical yet often undervalued.

The transition of this sector carries consequences that extend well beyond decarbonisation. It is a question of whether millions of people who have long powered one of the world's most labour-intensive industries will be included in, or marginalised by, the shift to more sustainable production. Advancing a just transition in India's fashion sector means ensuring that climate action and social equity move together, that the costs and benefits of transition are fairly distributed, and that the communities most exposed to environmental harm are not the last to benefit from change.

Over the past year, the Impact Investing Institute, in partnership with the Impact Investors Council, has explored how capital can be mobilised to support this agenda. The work has been grounded in extensive market engagement, including convening over 100 stakeholders across major gatherings in India and the United Kingdom, alongside more than 25 in-depth interviews with investors, enterprises, brands, policymakers and intermediaries.

Across this engagement a consistent picture has emerged: the constraint is not a lack of capital, nor a lack of solutions, but how both are structured and aligned.

Key insights from this work

Five interconnected insights emerged from the programme's research and engagement. Together they describe how India's textile transition is shaped by structural market failures, workforce and community vulnerabilities, financing gaps for micro, small and medium enterprises, ecosystem barriers to circularity and mismatches in the financial architecture. Across all five, a common thread runs: the people most central to the value chain remain the least visible in the financial frameworks designed to transform it.

1. **The transition is held back by structural market failures, not technology.** Solutions exist across the value chain, but transition costs are concentrated upstream, borne by suppliers and communities, while commercial benefits accrue downstream through brands and global markets. Without risk-sharing structures, demand visibility and coordinated financing across brands, suppliers and capital providers, the gap between available solutions and deployed capital will persist.
2. **Worker well-being, gender and climate resilience are material risks but financially invisible.** Climate hazards, chemical exposure and unsafe working conditions are already affecting productivity, workforce stability and community resilience across manufacturing clusters. Evidence from pilots demonstrates that investments in worker well-being, including gender equity, health and climate adaptation, can improve productivity, attendance and retention while reducing operational costs. These are not trade-offs between impact and return; they are cases where the two reinforce each other. The measurement frameworks and investment mandates needed to act on this are not yet consistently in place.
3. **The "missing middle" of the supply chain is India's biggest leverage point**. Tier-2 suppliers, particularly in dyeing, wet processing and finishing, are central to environmental performance and labour outcomes but remain structurally underserved by existing finance. Many understand how to scale their operations; what they lack is clarity on where demand for transition-aligned production exists and the market linkage support to invest with confidence.
4. **Circularity and new materials require systems-building, not just innovative finance**. Scaling circular models depends on infrastructure, coordination and demand alignment across the value chain, not early-stage investment alone. The recycling segment in particular presents a distinctive opportunity: with the right investment in formalisation and skills development, waste collection and sorting roles, currently informal and precarious, can be upgraded into more stable, better-paid positions while simultaneously improving feedstock quality and supply chain resilience.

5. **The finance landscape is mismatched to just transition needs.** Capital is active but fragmented and poorly aligned with sector realities. Two pools remain particularly underactivated: impact investors already deploying into adjacent themes, including sustainable agriculture, gender equity and community health, have not consistently connected those priorities to the textile value chain despite the clear overlaps; and India's domestic corporate social responsibility pool, patient and return-free, is structurally well-suited to catalytic roles such as first-loss provider but lacks the intermediaries to deploy it effectively in this sector.

What the evidence points towards

Across the five insights, three categories of solution emerge from the programme's research and stakeholder engagement.

Financing structures that reflect sector realities. The most promising models identified through this programme are those that share risk across the value chain rather than concentrating it at the point of least capacity. Blended credit facilities combining philanthropic first-loss capital with senior commercial investment, as demonstrated by the Good Fashion Fund, have shown that climate upgrades and improved worker conditions can be mutually reinforcing outcomes of the same investment cycle. Tri-party arrangements, in which a brand acts as anchor buyer, a bank provides financing and a development finance institution contributes a risk-sharing guarantee, represent a scalable direction for aligning commercial incentives with transition investment. Impact-linked structures that tie the cost of capital to measurable just transition outcomes, as piloted by Upaya Social Ventures, offer a replicable model for parts of the value chain historically dependent on grant funding.

Ecosystem enablers that connect capital to need. Early models are beginning to demonstrate what effective intermediation looks like in practice: the Re-START Alliance's Cluster Collective is coordinating aggregators, recyclers and manufacturers around shared infrastructure in India's major textile hubs; and Saamuhika Shakti shows that inclusive circular models are viable when worker agency and community voice are built into the design from the outset. Brand offtake commitments and procurement-linked finance remain the most underleveraged tools available to accelerate supplier investment.

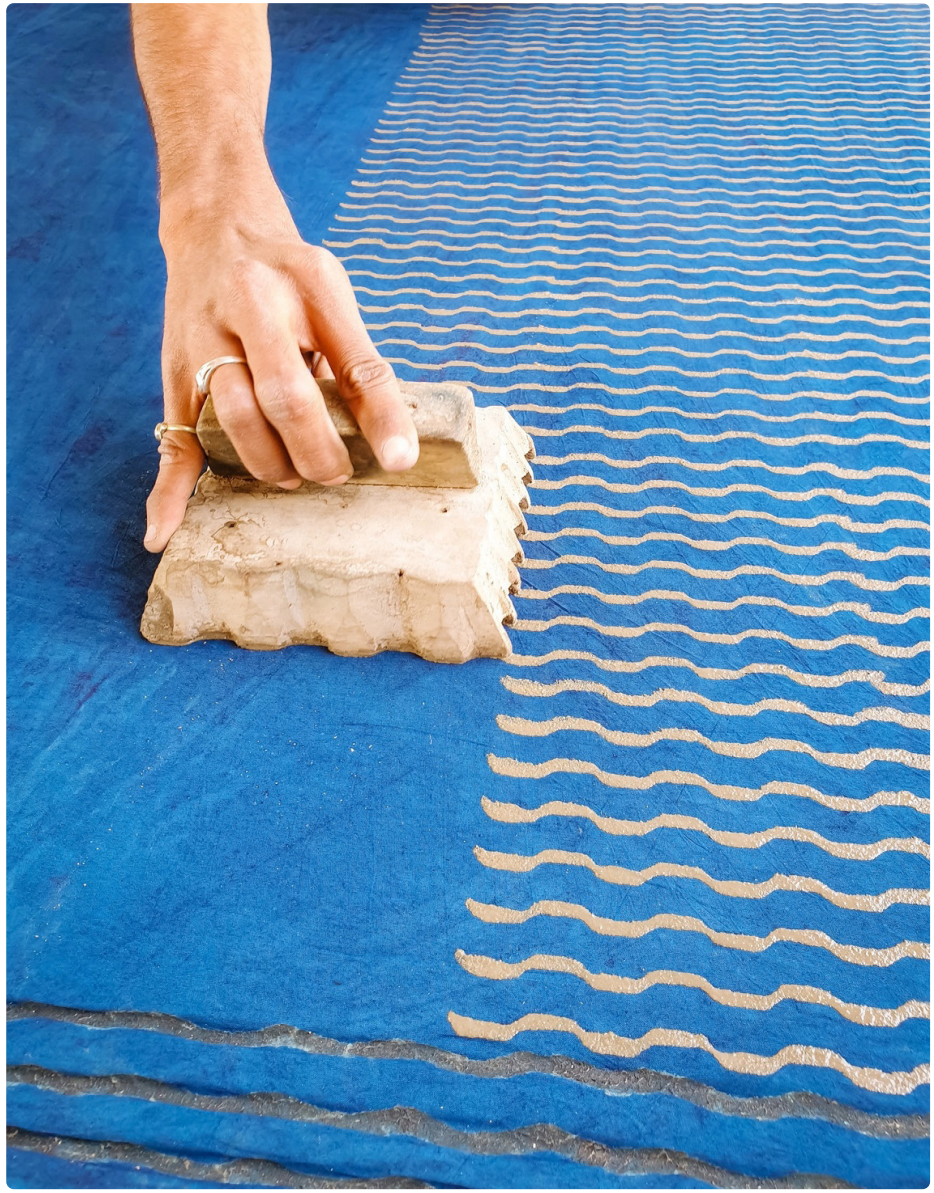
Practical frameworks for integrating just transition into investment practice. Investor-facing resources such as the Schroders and Cornell Global Labor Institute's Just Resilience toolkit provide structured approaches for engaging apparel brands on the social implications of physical climate risk. Recent IIGCC guidance on integrating just transition into the Net Zero Investment Framework recommends extending just transition expectations explicitly to upstream and downstream value chains, a principle this programme's findings directly supports, and for which no equivalent sector-specific application yet exists in fashion and textiles. Progress depends on applying the tools that already exist more consistently, and on building the measurement infrastructure to link workforce and community outcomes to financial performance at the enterprise level.

From insight to action

The direction of travel is becoming clear and the early evidence is promising. Across the sector, transition-aligned finance is beginning to take shape through blended credit facilities, impact-linked structures, circularity pilots and workforce-focused initiatives. These examples demonstrate that capital can be deployed effectively under the right conditions. The challenge now is moving from isolated proof points to systemic change, and to do so at a pace that reflects the urgency facing the workers, farmers and communities who cannot wait for the market to self-correct.

A core conclusion runs across all five insights: the sector requires stronger and more coordinated demand signals. Longer-term sourcing commitments from brands, regulatory clarity through frameworks such as EPR and credit guarantees, patient and catalytic capital at the point where commercial capital cannot yet reach, and institutional investors translating just transition commitments into sector-specific mandates: together these create the conditions for enterprises to invest, innovate and scale more inclusive models.

India's combination of manufacturing scale, agricultural depth, a large and growing domestic market and a concentration of marginalised communities across every stage of the value chain makes it a uniquely important test case for just transition finance. It is a context in which the stakes of getting the transition wrong are high, and in which the opportunity to demonstrate that climate action and social equity can move together is real. The lessons from this work are directly relevant to investors, policymakers and ecosystem actors seeking to deploy capital across emerging markets and complex supply chains where the same tensions apply.



About

About the Impact Investing Institute

The Impact Investing Institute is an independent non-profit organisation working to transform capital markets so they support a fairer, greener, more resilient economy. We see impact investing as an effective tool for deploying capital and we want to accelerate the impact investing market, both in the UK and globally. We come up with innovative solutions that help private finance address societal challenges, and we grow the field of impact investing by building expertise across financial markets. We work with investors and their advisors to move more effective capital for the benefit of people and the planet, and we advocate for regulatory and policy environments that support that goal.

About the Impact Investors Council

Impact Investors Council (IIC) is India's preeminent member-based, not-for-profit industry body set up to strengthen impact investing in the country. IIC focuses on four key areas - Impact Investment focused Programs, LP-GP Partnerships & International Investor Relations, Research backed Publications, and Policy Research. Its core objective is to develop a robust impact investing ecosystem and present a compelling India Impact story to both domestic and international stakeholders. IIC today receives active support from over 65 prominent Impact Investors and Ecosystem Players.

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1. Introduction

Context

India holds a significant position in the global fashion and textile industry. It is ranked as the second-largest in manufacturing capacity and the sixth-largest exporter of textiles and apparel globally. The sector employs more than 45 million people[1] and plays a vital role in both rural and urban livelihoods across the country.

The textile value chain, from raw material cultivation to end-of-life disposal, also presents complex environmental and social challenges. Cotton is grown on farms, spun into yarn, processed in dyeing and finishing units, stitched into garments and eventually discarded as waste. At every stage, the sector is associated with high carbon emissions, intensive water and chemical use, and a heavy reliance on marginalised communities whose work is critical yet often undervalued.

Advancing a just transition in India's fashion sector is therefore essential, not only to reduce environmental harm but also to safeguard the livelihoods of farmers, workers, artisans and waste-picker communities. By integrating social equity with environmental responsibility, India has an opportunity to position itself as a global leader in sustainable and inclusive fashion.

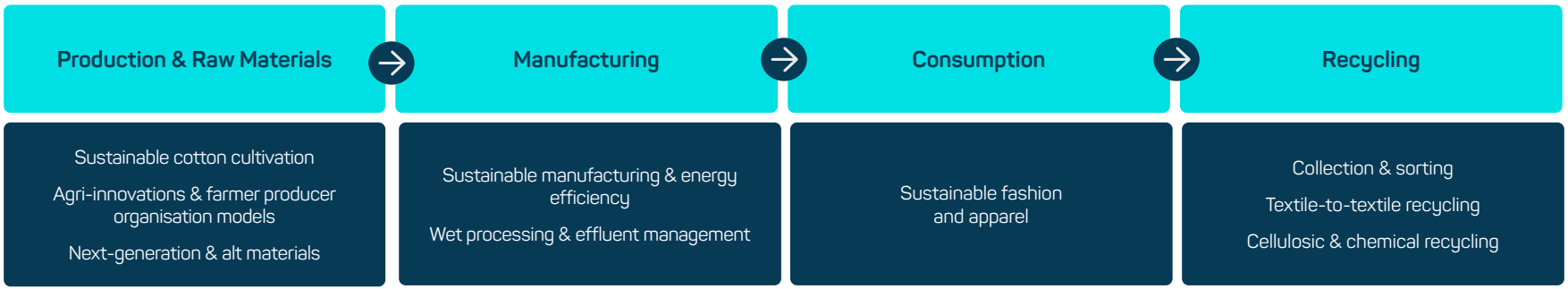
About the Programme

To advance the agenda of a just transition, the Impact Investing Institute and the Impact Investors Council jointly implemented the programme *Unlocking Investor Action for a Just Transition in India's Fashion Sector*.

The programme adopted a value chain approach, examining transition challenges from sustainable cotton cultivation through to end-of-life textile waste management and recycling. This framing was designed to identify where climate and social outcomes converge, where capital flows are most needed and which transition pathways across the sector could be realistically strengthened.

The programme engaged a diverse group of stakeholders, including development finance institutions, philanthropic foundations, equity and debt investors, catalytic capital providers and entrepreneurs, to explore how the investment community could play a more proactive role in supporting a just transition across India's textile and apparel ecosystem. This included convening over 100 stakeholders across gatherings in India and the UK, alongside more than 25 in-depth interviews with investors, financial institutions, enterprises and intermediaries.

Figure 1: Value Chain Approach



What do we mean by Just Transition?

A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind[2].

As captured in the International Labour Organization's definition, a just transition is not only about reducing emissions or shifting to cleaner technologies. It is about ensuring that the costs and benefits of the transition to a net zero economy are fairly distributed, and that existing inequalities, whether in income, access to healthcare, economic opportunity or basic services, are neither reinforced nor deepened in the process.

The concept has its origins in trade union and environmental justice movements, and has since gained widespread recognition across governments, investors and civil society.

It was formally incorporated into the Paris Agreement, the legally binding international treaty on climate change adopted at COP21, and reinforced as a core principle of the global climate agenda at COP27. Most recently, the Baku-Belém Roadmap[3], published at COP30 in Belém in November 2025, set out a pathway to mobilise at least USD 1.3 trillion per year by 2035, reflecting a growing recognition that climate finance must be directed towards resilience, livelihoods and inclusive economic development, not decarbonisation alone. As reflected in the framework developed by the G7-backed Impact Taskforce (see box), the success of a just transition depends on the inclusion of affected communities[4]. Critically, what counts as just will vary depending on local context, which is why integrating community voice alongside climate action and socio-economic equity is essential rather than optional.

In the context of India's textile and apparel sector, advancing a just transition means aligning environmental improvements with the livelihoods of the farmers, workers, artisans and waste-picker communities who form the backbone of the industry, ensuring that the shift to more sustainable production is both commercially viable and socially inclusive.

Three integrated and universal elements adaptable to local needs

The Impact Taskforce, backed by the UK presidency of the G7 in 2021, brought together 170 global stakeholders to mobilise capital towards a just transition. The Taskforce identified three just transition elements ("the elements") to provide a common frame of reference for financial market actors seeking to advance a just transition. The elements are applicable across geographies and can be used to determine local just transition priorities. They are interlinked and equally important, all three must be present to ensure alignment with a just transition. The Impact Investing Institute has since developed the Just Transition Criteria[5], co-created and tested in collaboration with over 20 asset owners and asset managers, to help investors apply these elements in practice.

1. **Advance climate and environmental action**
   including greenhouse gas emission mitigation, reduction, and removal

2. **Improve socio-economic distribution and equity**
   through, for example, inclusive opportunities for decent jobs

3. **Increase community voice**
   through, for example, engagement and dialogue with affected communities that are often excluded and marginalised

Figure 2: The just transition and its three elements

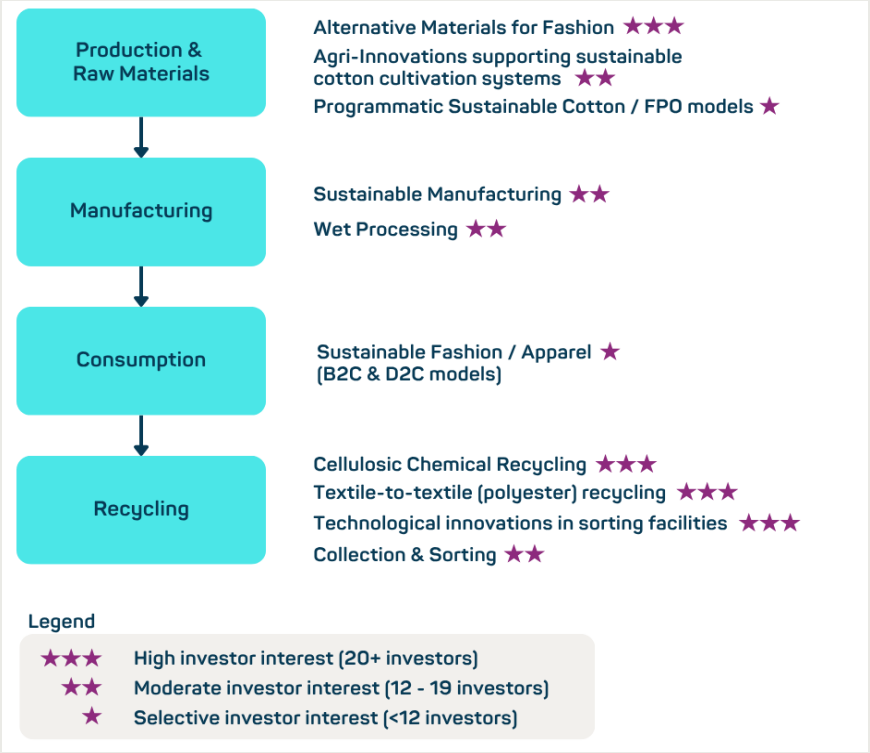
2. Investor Mapping Exercise

As part of this programme, an investor mapping exercise was undertaken to understand how different capital providers assess opportunities across the textile and apparel value chain.

More than 40 investors shared perspectives on how they evaluate the sector, reflecting their investment strategies, sector understanding and outlook.

Investor Interest Across the Value Chain

Figure 3: Investor Mapping Output - The mapping highlights patterns in investor interest and preferences among investors engaged during the programme.



High Investor Interest

Alternative Materials for Fashion - Investors see strong potential in fibre innovations derived from agri-residue, biomass, algae and other next-generation inputs. These models align with climate goals, demonstrate scalability potential, and given their early-stage nature, are currently attracting greater interest from equity investors.

Textile Waste Management & Recycling - Investor interest is also concentrated in recycling solutions such as cellulosic chemical recycling, textile-to-textile recycling and sorting technologies. Investors recognise the scale of India's textile waste challenge and the potential role of these solutions in improving resource efficiency, reducing long-term emissions and improving worker livelihoods.

Most investors noted, however, that these technologies remain early-stage and dependent on ecosystem enablers, including consistent feedstock availability, lower aggregation and logistics costs, clearer Extended Producer Responsibility (EPR) frameworks and stronger brand offtake commitments.

Moderate Investor Interest

Wet Processing - Investors recognise the environmental intensity of wet processing and the potential impact of solutions that reduce water use, chemical exposure and effluent discharge. Interest is relatively lower due to micro, small and medium enterprises (MSMEs) readiness challenges and the high capital expenditure required for process upgrades.

Solutions that can be retrofitted onto existing equipment are viewed as more feasible, as they reduce the upfront financial burden for manufacturers.

Sustainable Manufacturing - Investor interest is driven by models that enable renewable energy integration, energy-efficiency improvements and retrofit solutions across MSME manufacturing units. Adoption remains constrained by thin margins, varying operational maturity across clusters and the need for stronger buyer incentives to justify even incremental upgrades.

Investor Interest Across the Value Chain

Selective Investor Interest

Segments including agri-innovations in cotton cultivation, programmatic approaches to sustainable cotton through Farmer Producer Organisation (FPO) models, and sustainable fashion and apparel brands have attracted comparatively selective investor interest. While these models play an important role in advancing raw-material sustainability, farmer livelihoods and responsible consumption, investors highlighted the need for clearer demand signals, stronger brand commitments and identifiable commercial anchors to enable greater participation and investment at scale.

Notes on Investor Sample

The patterns of investor interest reflected in this mapping should be read as an indicative snapshot rather than a comprehensive picture of the full capital landscape. Responses were more concentrated among equity investors focusing on early- to growth-stage innovations, with smaller representation from debt providers, development finance institutions and philanthropic foundations.

This composition reflects where entrepreneurial activity and early commercial momentum are most visible in India's textile ecosystem, and where domestic capital is currently most active. It also means that certain parts of the investment landscape are less fully represented. International investors, including development finance institutions, blended finance vehicles and impact funds, tend to engage differently: often at the debt end of the capital stack, across manufacturing and processing segments, and with a more explicit social mandate alongside environmental goals. Their perspectives and the financing models they bring are captured more fully through the programme's broader stakeholder engagement, including interviews, convenings and case studies, which inform the key insights that follow.

Taken together with the wider evidence base, the mapping points to a consistent conclusion: capital is active across the value chain, but fragmented and unevenly distributed, with the segments where environmental and social outcomes are most concentrated remaining the hardest to finance.

Key takeaways

- Investor interest is strongest in alternative materials and textile waste recycling, where climate benefits, technological differentiation and early-stage equity opportunities align most clearly
- Interest across manufacturing and processing segments remains more limited despite their central role in environmental performance and worker outcomes, reflecting higher capital requirements, operational complexity and the absence of financing structures suited to this segment
- Investor appetite across the value chain is shaped as much by the availability of demand signals, offtake commitments and commercial anchors as by the supply of capital; strengthening these conditions is as important as mobilising more investment
- The mapping provides a directional snapshot of current investor positioning; the full capital landscape, including debt providers, development finance institutions and blended finance vehicles, is broader and is reflected in the key insights that follow

3. Key Insights

Over the past year, we have engaged over 100 stakeholders across India's textile and apparel ecosystem, including investors, enterprises, brands, policymakers, and intermediaries, through convenings, interviews, and investor mapping. This included 25 in-depth interviews to understand the value chain, financing needs, opportunities, challenges, and sector requirements.

These engagements point to a consistent picture: the challenge is not a lack of capital or solutions, but how both are structured, aligned, and deployed.

3.1 The transition is held back by structural market failures, not technology

The technologies required to support transition across India's textile and apparel value chain are already available. Cleaner dyeing processes, renewable energy integration, water efficiency systems, regenerative cotton practices and recycling technologies are all in active use across parts of the ecosystem. Yet adoption remains uneven and slow.

In many cases, innovations including alternative fibres, next-generation materials and circular production models, remain in early-stage or pre-commercial phases. The constraint is not technical. It is the absence of conditions required for scale.

Misaligned incentives across the value chain

The structural problem lies in how costs and risks are distributed. Suppliers operate on thin margins and short-term order cycles, limiting their capacity to take on capital expenditure risk. Brands, meanwhile, retain flexibility in sourcing decisions, and sustainable inputs are frequently benchmarked against volatile conventional alternatives.

Across the programme's stakeholder engagements, a consistent tension emerged: while brands increasingly recognise the need to support supplier transition, sustainability and procurement functions often operate in separate organisational silos, with commercial teams remaining under pressure to maintain cost competitiveness and sourcing flexibility. This structural disconnect within brands compounds the external misalignment between sustainability ambition and procurement behaviour across the value chain. Limited long-term offtake commitments compound the problem further. Without clear signals on future demand, suppliers and innovators cannot justify investment in new technologies or process upgrades.

Supply chain churn makes this worse. Where brands frequently change their supplier base, the business case for long-term investment in any individual supplier relationship weakens on both sides. Longer-term, more stable sourcing relationships are a prerequisite for transition finance to function, but they remain the exception rather than the norm.

A structural imbalance in how costs and value are distributed

These dynamics create a structural imbalance. Transition costs are concentrated upstream, borne by farmers, processors and micro, small and medium enterprises (MSMEs), while commercial benefits accrue downstream through brands and global markets. Climate risks, worker well-being and operational vulnerabilities remain largely unmeasured and unpriced in sourcing and procurement decisions, reinforcing this imbalance further.

The Apparel Impact Institute's Cost of Inaction (2026)[6] puts a sharper point on this: delayed investment in supplier decarbonisation could reduce operating margins by up to 34% by 2030 and 67% by 2040, driven by rising carbon prices, energy costs and raw material volatility. The financial case for earlier action is increasingly clear; the mechanisms for sharing these costs equitably across the value chain are not.

> *"The challenge is not that the technology doesn't exist. It's that nobody knows who pays for the cost of getting there."*
>
> *- Impact investor*

Commercial barriers to adoption and scale

A number of reinforcing barriers continue to limit adoption. Long validation and testing cycles, combined with limited access to pilot infrastructure, slow the movement from innovation to commercial scale. Cost structures remain prohibitive for many suppliers, particularly where operations are fragmented and margins are thin. Investor hesitancy persists where performance data is limited and commercial pathways remain uncertain. And micro, small and medium enterprises continue to shoulder transition costs without adequate risk-sharing, increasing their financial exposure.

A further barrier that emerged consistently across convenings concerns the lack of shared pilot infrastructure. Where innovators cannot access capital-intensive textile machinery for testing and piloting, the transition from lab-scale proof of concept to commercially viable product stalls. Access to shared facilities, or partnerships with larger manufacturers willing to open their production lines for piloting, was identified as a critical and currently missing link.

Emerging practice

Early responses point to a shift in how transition is being approached. Brands are exploring supplier financing models linked to equipment upgrades, particularly in energy-intensive processes, and some are moving towards co-investment within strategic supplier relationships. Industry-led initiatives are emerging to pool funding for supplier decarbonisation.

One model gaining traction involves a tri-party arrangement in which a brand acts as anchor buyer, a bank provides financing and a development finance institution steps in with a risk-sharing guarantee. This structure has the potential to align commercial incentives with transition investment in a way that no single actor can achieve alone, and represents an important direction for scaling coordinated, demand-linked approaches.

These developments signal growing recognition of shared responsibility across the value chain. They also point to an opportunity to scale more coordinated financing approaches that better align commercial incentives with transition investment.

Key Takeaways

- Unlocking investment requires stronger demand visibility, through offtake agreements, volume guarantees and longer-term sourcing commitments that give suppliers the confidence to invest
- Transition finance must incorporate risk-sharing structures, including blended finance, guarantees and co-investment models, to rebalance how costs are distributed across the value chain and ensure that brands, suppliers and capital providers share responsibility for the transition
- Catalytic capital has a critical role in enabling early adoption, particularly where commercial incentives alone are insufficient to support inclusive, worker-aligned transition pathways
- Moving from pilot to scale depends on standardised and replicable financing models, including multi-site deployment and pooled-supplier financing vehicles
- Shared pilot infrastructure, whether through industry consortia or partnerships with established manufacturers, is a prerequisite for translating early-stage innovation into commercially deployable solutions

Case Study Snapshot: Good Fashion Fund Blended finance for textile manufacturing

The Good Fashion Fund (GFF) is a blended private credit vehicle that provides long-term loans to textile and apparel manufacturers investing in cleaner production. Launched in 2019, the fund operates across Tier-2 and Tier-3 manufacturers in India and Bangladesh, a segment critical to the sector's environmental performance but chronically underserved by conventional finance.

GFF's capital structure combines a philanthropic first-loss tranche with senior commercial investment and a dedicated technical assistance (TA) facility. The first-loss layer absorbs initial downside risk, enabling participation from commercial investors, while the TA facility supports ESG implementation and post-investment monitoring.

Evidence from the portfolio demonstrates that climate upgrades and improved worker conditions are not separate workstreams but mutually reinforcing outcomes of the same investment cycle.

At Pratibha Syntex, a USD 4.5 million investment delivered a 74% reduction in energy consumption and increased promotion of female supervisors. At Sri Kannapiran Mills, energy use fell by over 50% in the first year, accompanied by occupational health improvements and reduced labour fatigue through automation. Together, these two investees generated financial savings of over USD 1 million from GFF-funded equipment alone.

GFF's experience also surfaces a structural gap that shapes its approach to a second fund: brands must become active financing partners rather than passive observers. Manufacturers are currently asked to absorb transition costs while brands capture the commercial benefits. Closing this gap is central to GFF's evolving model.

Read the full case study at **impactinvest.org.uk**.

3.2 Worker well-being, gender, and climate resilience are material risks but financially invisible

Behind every stage of India's textile and apparel value chain are people: farmers, garment workers, artisans and waste-picker communities whose labour drives one of the country's most significant industries. Climate stress, workplace safety, gender dynamics and income stability are already affecting productivity, workforce retention and supply chain continuity. These risks are not theoretical. They are increasingly visible across manufacturing clusters and will intensify as climate pressures increase.

A gap between lived experience and decision - making

While these risks are widely recognised in practice, they are inconsistently reflected in formal decision-making. A gap exists between how working conditions are perceived at management level and how they are experienced by workers. Programmes that have directly captured worker voice have revealed material differences between compliance-based reporting and the lived reality on the factory floor, including cases where workers and managers hold fundamentally different assessments of the same workplace conditions.

Structural gender barriers reinforce this disconnect. Unsafe commuting conditions, lack of childcare, inadequate sanitation facilities and occupational segregation continue to limit participation and progression for women across parts of the value chain. The picture is further complicated by the fact that standard audit processes, typically conducted once a year, often miss the most severe conditions. An audit conducted in cooler months will not capture the heat stress experienced by workers in peak summer, meaning the data that reaches investors and brands systematically understates the risk.

At the same time, occupational and climate-related risks, including heat stress and chemical exposure, remain under-recognised in planning and procurement decisions, despite their growing impact on productivity and workforce stability. Research on garment supply chains has shown that climate hazards create cascading consequences beyond the factory floor, affecting worker health, mental well-being, unpaid care burdens and income stability, all of which ultimately translate into operational disruption for businesses. This is documented in detail in RISE's 2025 report Weaving Fairness: How Women Workers Hold the Key to Climate Resilience in the Garment, Footwear and Textile Sectors[7], which also notes that these impacts disproportionately affect women workers across Bangladesh, Cambodia and comparable manufacturing contexts.

From operational risk to financial invisibility

Despite their operational significance, workforce-related risks remain weakly integrated into financial frameworks. Environmental metrics are increasingly standardised and embedded into investment processes. Social and resilience-related indicators, by contrast, remain fragmented, difficult to measure and rarely linked to financial performance.

Several underlying challenges drive this. There is a lack of shared frameworks

to define and measure worker and community outcomes, limited data linking workforce conditions to financial performance, and minimal integration of worker and gender risks into due diligence or sourcing decisions. As a result, risks such as workforce attrition, productivity loss, climate-related disruption and social vulnerability remain largely underpriced.

For many enterprises, MSMEs in particular, investments in workforce systems, safety infrastructure or gender-inclusive facilities are perceived as additional costs rather than drivers of long-term value. This framing is both financially short-sighted and a barrier to attracting the capital needed to improve conditions at scale. Across the programme's investor convenings, asset-owner capital was noted as flowing predominantly into climate solutions with a strong technology lens, leaving the intersection of livelihoods, worker conditions and climate resilience largely unaddressed.

Research from Indian garment factories offers a more constructive framing. Studies combining factory-level production data with worker conditions have found that investments in worker well-being, from energy-efficient lighting that reduces heat stress on factory floors to soft skills training and gender equity initiatives, generate measurable improvements in productivity, attendance and retention while simultaneously reducing operational costs[8]. The evidence points in one direction: worker-centred investment is not a cost to be managed but a driver of operational performance. Making this business case consistently and credibly, at the level of individual enterprises rather than macro-level projections, is one of the most important steps towards shifting capital allocation in this area.

Emerging practice

Worker engagement and voice programmes are generating more granular insight into workplace conditions, while evolving standards are beginning to incorporate climate-related worker protections. Some brands are linking improvements in labour conditions to productivity and retention outcomes, strengthening the operational case for action.

Investor-facing tools are also beginning to bridge the gap between social outcomes and financial decision-making, including the Schroders and Cornell Global Labor Institute's Engaging with companies on Just Resilience toolkit[9] and recent IIGCC guidance[10] recommending that investors extend just transition expectations explicitly to upstream and downstream value chains. Upaya's textile waste technical assistance facility overleaf illustrates how concessional finance and performance-linked incentives can support worker-centred outcomes in practice. These approaches, however, have yet to be consistently embedded within mainstream investment and financing frameworks.

Key Takeaways

- Worker well-being, gender inclusion and climate resilience need to be integrated into investment processes, including due diligence, risk assessment and portfolio monitoring, rather than treated as peripheral ESG considerations
- Strengthening the measurement and valuation of workforce-related risks, including clearer links between social outcomes and financial performance, is a prerequisite for shifting capital allocation
- Outcome-linked finance, tying cost of capital or access to finance to improvements in safety, workforce stability and inclusion, can accelerate this shift and create alignment between financial incentives and social outcomes
- Concessional capital and technical assistance are needed to build the underlying data systems, monitoring tools and enterprise capabilities required to operationalise these approaches, particularly in MSMEs where internal capacity is limited
- Alignment between investment strategies and sourcing practices is critical to ensure improvements in worker outcomes are supported by commercial incentives rather than undermined by short-term procurement dynamics

"Climate change is here, it's now, and it's impacting the lives of workers in the factory, in the community and at home."

- Worker well-being researcher

Case Study Snapshot: Upaya Social Ventures Impact-linked finance for textile waste enterprises

Upaya Social Ventures' Technical Assistance Facility (TAF) for Textile Waste Management is an integrated financing model designed to support enterprises building circular economy solutions with sanitation and waste workers at the centre. Launched in 2024 with a USD 1.5 million catalytic grant, the facility combines seed capital, tailored technical assistance, and impact-linked incentives across three portfolio enterprises: Green Worms, WeVois Labs, and Saahas Zero Waste.

Each enterprise receives approximately USD 200,000 in seed capital, with full interest waiver linked to predefined impact targets across three dimensions: quality job creation for people in poverty, diversion of post-consumer textile waste from landfill, and financial viability of the textile waste management unit. A further USD 50,000 in non-repayable performance incentives aligns financial returns with social and environmental outcomes.

Over the first two years of implementation, partner enterprises have established textile recovery operations, tested sorting and processing systems, and begun building downstream market relationships. Operational facilities are now active across multiple cities, with early systems for sorting, grading, and recovering post-consumer textile waste in place. Enterprises have also strengthened their ability to track waste flows, workforce outcomes, and recovery pathways, while initiating buyer partnerships across recycling, downcycling, and resale markets. Early ecosystem collaborations are also underway to explore higher-value applications for recovered materials.

Implementation has also surfaced important lessons. Enterprise readiness, particularly leadership commitment and management bandwidth was as important as prior sector experience. Post-consumer textile waste remains highly labour-intensive to process, especially mixed and blended fabrics. And downstream market development is underdeveloped, reinforcing the need for buyer engagement and demand aggregation as core components of future facility design.

Most importantly, the facility demonstrates that impact-linked finance can work in a sector historically dependent on grants - offering a practical, replicable model for tying concessional capital to measurable just transition outcomes across circular value chains. Read the full case study at impactinvest.org.uk

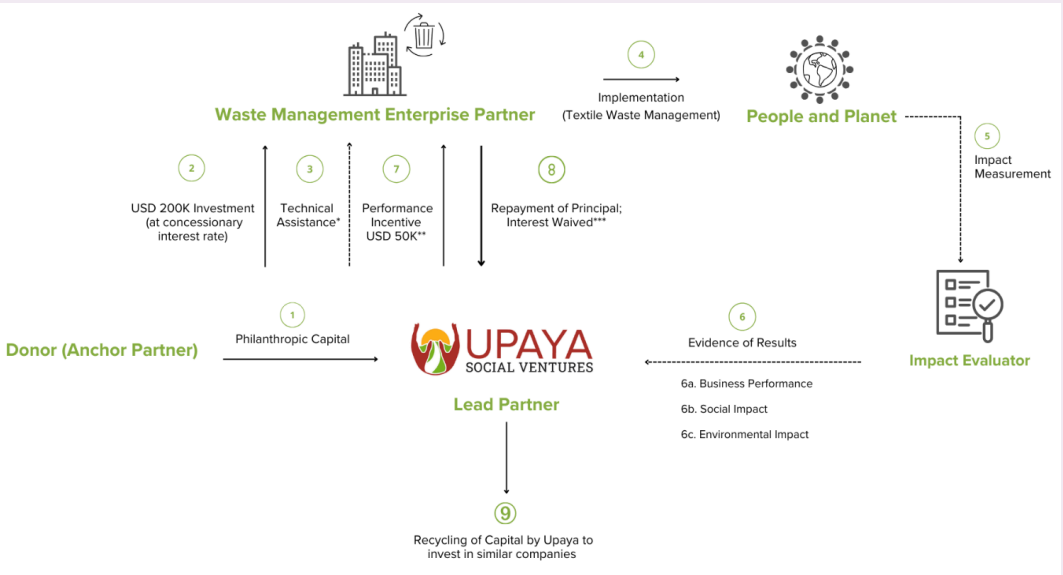


Figure 4: Technical Assistance Facility Overview

3.3 The 'missing middle' of the supply chain is India's biggest leverage point

Between the large base of small, fragmented enterprises at one end of India's textile and apparel value chain, and the relatively small number of large, organised players at the other, sits a critical and underserved mid-segment.

Tier-2 suppliers, particularly in spinning, dyeing, wet processing and finishing, are central to both environmental performance and labour outcomes, yet remain structurally underserved. Strengthening this segment is essential to enabling climate-aligned upgrades, improving worker conditions and building a more resilient supply chain.

Capital is needed where it is hardest to deploy

These enterprises face a distinct set of financial constraints. They are typically capital-intensive, operate on thin margins and are exposed to volatile, short-term order cycles. Investments in cleaner technologies, energy systems or process upgrades often require upfront capital that is difficult to justify without predictable demand.

Limited financial documentation, informal operating structures and variable governance standards make it difficult for lenders and investors to assess creditworthiness and enterprise readiness. From an investor perspective, opportunities in this segment are smaller, distributed across clusters and more complex to underwrite. This creates a persistent gap between where capital is most needed and where it can most easily be deployed.

Barriers extend beyond access to finance

Financial constraints are reinforced by broader ecosystem challenges. Many suppliers operate with limited management capacity, inconsistent production standards and uneven exposure to global sustainability requirements. Shared infrastructure, such as testing facilities or effluent treatment systems, also remains uneven across clusters.

And for some enterprises in this segment, access to finance is not the primary barrier at all: what they lack is clarity on where to direct their growth, specifically

which markets, buyers and demand signals are actively looking for transition-aligned production. Market linkage support, whether from an accelerator, an industry convener or a brand partner, is as important as capital in enabling these enterprises to invest with confidence.

These factors reduce the consistency, visibility and scale required to attract investment even where the underlying need and impact potential are clear. Across the programme's engagements, participants consistently noted the absence of strong ecosystem enablers capable of bridging the information gap between investors and enterprises, collating investable opportunities and reducing the due diligence burden on both sides. Domestic financial institutions have a role to play where risk can be appropriately structured, but domestic capital alone has not moved at the pace or scale this segment requires.

Emerging practice

Where financing does reach this segment, it typically does so through structured or supported approaches. Blended finance facilities are supporting supplier upgrades, while impact-oriented lenders are extending credit alongside technical assistance to strengthen enterprise readiness. There are also early efforts to aggregate smaller suppliers into more investable portfolios, improving scale and reducing transaction costs.

Alongside these domestic-led approaches, there is growing recognition among global investors that dedicated financing for sustainability transitions in textile and apparel supply chains represents both a gap and an opportunity, and early efforts to act on this are beginning to emerge.

These approaches demonstrate that Tier-2 suppliers are investable when risk is appropriately structured, though they have yet to reach the scale required to meet transition needs across the value chain.

> *"These businesses often understand how to scale. What they lack is clarity on where to scale, and who is asking for what they can offer."*
>
> - Industry practitioner

Key Takeaways

- Capital is most likely to reach Tier-2 suppliers through aggregated and intermediated structures, including pooled vehicles that reduce fragmentation and transaction costs at the enterprise level
- Financing models need to better reflect supplier realities, including longer-tenor, more flexible instruments suited to the investment timelines of capital-intensive manufacturing upgrades
- Linking finance to brand demand signals, through offtake-backed or procurement-linked structures, is critical to enabling supplier investment, and requires active engagement from brands as well as capital providers
- Expanding investment depends on combining capital with enterprise readiness support, including improvements in financial documentation, governance and market linkage, not capital alone
- Both domestic financial institutions and global investors have a role to play; dedicated financing for textile and apparel supply chain sustainability transitions is an important and growing channel that remains underutilised to date
- Enterprise-level ecosystem enablers, whether industry conveners, accelerators or intermediaries, are needed to bridge the information gap between investors and individual enterprises, build pipeline visibility and reduce due diligence costs on both sides

In Practice

Ministry of Textiles - Exploring Credit Guarantee Mechanisms for Textile MSMEs

Following the Union Budget 2026, the Ministry of Textiles convened a national consultation[11] to operationalise the **Textile Expansion and Employment Mission (TEEM) and the Tex Eco initiative.** Discussions explored how existing financing mechanisms, such as Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Mutual Credit Guarantee Scheme (MCGS), could be adapted for the textile sector.

Proposed approaches included measures like guarantee fee support, expanded credit coverage, and interest subventions, among others. By leveraging established guarantee frameworks and addressing MSME financing gaps, such interventions aim to improve access to affordable capital and encourage broader investor participation.

During the consultation, Impact Investors Council participated and highlighted the "missing middle" in financing for textile innovations, noting that newer solutions across the value chain such as sustainable fibres, recycling technologies, and machinery innovations, among others - often require longer gestation periods and significant upfront investment. Scaling these innovations may require patient and catalytic capital through blended finance or impact-linked financing structures to move from pilot validation to commercial scale and attract wider investor participation.

Learn more about the consultation at pib.gov.in

Case Study Snapshot: Omnivore
Venture capital at the agriculture-textile intersection

Omnivore is an impact venture capital firm backing agrifood innovation and climate solutions in India since 2011. Through its third fund, a USD 215 million vehicle, Omnivore has expanded into sustainable materials, backing enterprises that bridge India's agricultural base with global textile supply chains. Its investment in STCH, an asset-light fabric and materials innovation platform, illustrates how agri-derived fibres, including banana, Himalayan wild grass and hemp, can be integrated into commercial apparel supply chains in ways that generate both environmental and livelihood outcomes.

India's position as the world's largest cotton producer, combined with the scale of its agricultural residue, creates a structural opportunity that few geographies can replicate. Banana cultivation alone generates an estimated 30 million tonnes of biomass annually, most of it currently disposed of at cost by farmers. STCH's model converts this disposal burden into a raw material supply chain, connecting rural farming communities to a premium textile segment that previously had no place for them. Omnivore tracks smallholder farmer participation and income improvements relative to conventional residue disposal as core impact indicators.

Omnivore's experience also surfaces the infrastructural constraints that capital alone cannot resolve: the absence of standardised testing facilities for alternative fibres, limited mill willingness to experiment with new inputs, and the gap between brand sustainability commitments and firm purchase orders. The firm's conclusion is direct: investors who help build the enabling infrastructure, not just fund into it, will be best positioned as the sector matures.

Read the full case study at impactinvest.org.uk.

3.4 Circularity and new materials require systems-building, not just innovative finance

India's textile ecosystem includes a long-standing base of recycling activity alongside growing innovation in circular models and alternative fibres. Established mechanical recycling clusters coexist with emerging enterprises in textile-to-textile recycling, waste aggregation and next-generation materials. This creates a strong foundation, with both industrial capability and entrepreneurial momentum already in place.

Feedstock and infrastructure gaps limit scale

Despite this progress, scaling circular models remains constrained by a set of interconnected system-level challenges. Recycling enterprises face inconsistent feedstock supply due to fragmented collection and sorting systems, creating volatility in volumes and quality. Infrastructure gaps in aggregation, preprocessing and traceability increase operational risk and drive up logistics costs.

The geography of the problem compounds this. Textile waste is generated across dispersed urban and semi-urban locations, while recycling capacity remains concentrated in a small number of industrial clusters. Bridging this spatial mismatch requires investment in collection infrastructure and regional sorting facilities, not just in recycling technologies themselves.

Material composition creates a further constraint. The dominance of blended fabrics across post-consumer waste streams makes mechanical recycling difficult and chemical recycling expensive. This is a systems problem, not an enterprise-level one, and it requires coordinated investment across the value chain rather than isolated interventions at the recycling stage.

Circularity requires system-level investment

Circularity is not simply an innovation or enterprise-level opportunity. It is a system-building challenge requiring coordinated investment across infrastructure, supply chains and market mechanisms. This includes integrating informal waste workers into formal systems, strengthening cluster-level infrastructure and developing policy frameworks that create the right incentives.

On the policy side, Extended Producer Responsibility (EPR) for textiles in India is at an early but active stage of regulatory development, with the Ministry of Textiles having undertaken the first government-backed mapping of the textile waste value chain[12]. EPR frameworks in other sectors have demonstrated how well-designed mandates can create market demand and guarantee more predictable feedstock flows[13]. Engagement from investors and industry in shaping the design and pace of implementation is important now.

Coordination challenges limit adoption

Alternative materials and circular innovations face a persistent scale deadlock: technologies are proven but the conditions required for deployment at scale are not yet in place. Innovators require long-term demand commitments

> *"The waste is here now. We can't stop it. What we need is for innovators, brands and capital to come and work with us on the ground."*
>
> - Textile waste entrepreneur

to justify investment. Buyers require reliability and cost competitiveness. Commercial investors require proof of scale that only deployment can provide. Bridging this gap requires a distinct category of financing, targeted at first-of-a-kind deployments, that sits between early-stage equity and commercial debt.

A related risk is that investor interest in next-generation materials, while genuine and growing, is often disconnected from full circularity thinking. Capital is flowing into fibre innovations without sufficient attention to whether those fibres can be recycled at end of life, or whether the systems required to do so exist.

Emerging practice

Established recycling clusters continue to process large volumes of textile waste, while newer enterprises are developing textile-to-textile recycling technologies and aggregation models. Early investments in sorting, traceability and preprocessing systems are beginning to improve material flows.

The recycling segment also presents a distinctive workforce opportunity. Textile waste collection and sorting already supports informal livelihoods across India. With the right investment in formalisation and skills development, these roles can be upgraded into more stable, better-paid positions while simultaneously improving feedstock quality. Several enterprises are demonstrating that worker-centred design and commercial viability are mutually reinforcing rather than in tension.

Key Takeaways

- Scaling circularity requires investment in enabling infrastructure across the full collection and processing chain, including regional sorting facilities that address the geographic mismatch between where waste is generated and where recycling capacity exists
- EPR for textiles is at an early but active stage of regulatory development in India; the design and pace of implementation will determine whether it genuinely shifts incentives, and engagement from investors and industry in shaping that framework matters now
- Bridging the gap from pilot to scale requires a distinct category of commercialisation capital, targeting first industrial deployments where the technology is proven but commercial debt is not yet accessible
- Circular enterprises require flexible financing structures, including working capital solutions that reflect the upfront, feedstock-intensive nature of their operating models
- Investor interest in next-generation materials needs to be accompanied by attention to end-of-life recyclability, to avoid replicating the design failures that currently make post-consumer waste so difficult to process

In Practice

Blended finance blueprint for Next-Generation Materials

Launched at Davos in January 2026, Canopy's investment blueprint[14] aims to mobilise USD 2 billion into next-generation fibre made from agricultural residues and recycled textiles, with India selected as the first deployment market. The blended finance model is designed to de-risk early investment, attract institutional capital and build market confidence around alternative materials at commercial scale. The initial programme targets 1.5 million tonnes of next-generation production capacity in India, as part of a broader global ambition to mobilise USD 78 billion by 2033.

For India's textile sector, the model is significant: it demonstrates how blended finance anchored by brand offtake commitments can bridge the gap between early-stage innovation and commercial scale, while redirecting agricultural waste that would otherwise be burned into productive supply chains..

Read more at canopyplanet.org

In Practice

Cluster Collective for Textile Recycling - Re-START Alliance

Launched in December 2025, the Re-START Alliance's first flagship project, Cluster Collective, aims to scale textile-to-textile recycling across India's major industrial hubs. Led by IDH, the four-year programme initially focuses on Ludhiana and Indore, with plans to expand to two additional clusters.

It connects aggregators, recyclers and manufacturers around shared infrastructure through early brand offtake commitments and a blended finance technical assistance fund, managed by Navaka Social Business Fund, that plans to deploy €13m in grants, concessional loans and patient capital to build sorting infrastructure, integrate traceability and formalise labour across the value chain.

By aligning key actors within existing textile hubs, Cluster Collective demonstrates how coordinated investment and blended finance can address the fragmentation that has long constrained India's circular textile economy.

Read more at **re-startalliance.com**

Case Study Snapshot: Saamuhika Shakti Inclusive textile waste systems

Saamuhika Shakti is a collective impact initiative, initiated and funded by the H&M Foundation, launched in 2020 to enable informal waste pickers to lead secure and dignified lives, with a specific focus on gender and equity. Over two phases and approximately USD 21 million in grant funding, the initiative has evolved from project-level interventions to an integrated, systems-oriented approach centred on sustainable livelihoods, essential services and ecosystem engagement.

This snapshot focuses on Phase 2's Textile Recovery Facility (TRF) in Bengaluru, launched in August 2024 and operated by India's first waste picker-turned-entrepreneur managing a TRF - a milestone that has since inspired other waste pickers to explore and establish similar TRFs of their own - with support from the Circular Apparel Innovation Factory and Hasiru Dala. The TRF operates on a hub-and-spoke model: textile waste is collected door-to-door across 14 residential wards and aggregated at Dry Waste Collection Centres before being sorted into distinct value streams, including second-hand resale, recycling, industrial felt production and upcycled utility products made by women waste pickers trained by the Sambhav Foundation.

The initiative demonstrates that inclusive circular models are operationally viable when worker agency, community voice and multi-stakeholder coordination are built into the design from the outset. It also illustrates the catalytic role that grant capital can play in proving models that commercial investors cannot yet justify on financial terms alone. By placing waste pickers at the centre of the value chain rather than at its margins, Saamuhika Shakti provides a replicable blueprint for how circularity can generate dignified livelihoods alongside environmental outcomes.

Read the full case study at **impactinvest.org.uk**.

3.5 The finance landscape is mismatched to just transition needs

Interest in climate and sustainability investment across India's textile and apparel sector is growing, with capital active across multiple parts of the ecosystem. This has not yet translated into consistent deployment at scale. Investors point to a persistent disconnect between available capital and investable opportunities: while appetite exists, deployment is constrained by fragmented pipelines, limited standardisation and the challenge of aggregating opportunities into investable portfolios.

Mismatch between capital structures and sector realities

Different segments of the value chain require fundamentally different forms of capital: flexible, longer-tenor credit for micro, small and medium enterprises; working capital and infrastructure investment for circular models; patient, risk-tolerant equity for early-stage innovations. Existing financial structures are not designed to accommodate this diversity. Conventional lending remains short-tenor and collateral-heavy, while investment mandates often lack explicit alignment with just transition outcomes.

A further dimension of this mismatch concerns sustainability teams within brands, who act as important intermediaries between commercial capital and supply chain investment. Across the programme's engagements, these teams were operating under increasing internal pressure, with reduced budget and headspace as organisations reorient around near-term commercial priorities. This weakens one of the most important demand-side signals for transition finance.

Gaps in tools, pipelines and mandates

Asset-owner mandates do not consistently translate just transition ambitions into sector-specific strategies. Capital at the intersection of livelihoods, worker conditions and climate resilience falls between the thematic categories most asset owners currently use to organise their portfolios, leaving it chronically underserved.

Two pools of capital remain particularly underactivated. Impact investors already deploying into adjacent themes, including sustainable agriculture, gender equity and community health, have not consistently

connected those priorities to the textile value chain despite clear overlaps. India's domestic corporate social responsibility (CSR) pool is a different but equally important opportunity: as patient, return-free capital it is structurally well-suited to acting as a first-loss guarantor, but intermediaries capable of deploying it effectively in this sector remain limited.

A market architecture challenge

The deeper challenge is not unlocking more capital but building the market architecture to connect capital to need. This requires aggregating fragmented pipelines into investable portfolios, developing shared frameworks and metrics, and funding the ecosystem enablers that can reduce information asymmetry between investors and enterprises. Neither commercial nor impact capital has consistently moved to fill this gap.

Emerging practice

Blended finance structures, impact-linked financing models and early efforts to map investable opportunities across the value chain are beginning to point in the right direction. These approaches demonstrate that capital can be structured to reward just transition outcomes rather than simply fund them. They remain early and dispersed, but they provide a foundation to build from.

> *"Capital follows strategy, and strategy follows purpose. Until the mandates at the top of the capital stack explicitly include just transition outcomes, deployment will remain fragmented."*
>
> - Impact Investor

Key Takeaways

- Unlocking capital at scale requires stronger alignment between asset-owner mandates and just transition outcomes, translating high-level commitments into sector-specific investment strategies
- Financing structures need to evolve to better reflect sector realities, including longer-tenor and more flexible instruments that match the investment timelines of enterprises across the value chain
- Impact investors deploying into adjacent themes represent an underactivated source of capital; making the connection to the textile value chain requires deliberate, evidence-based engagement
- India's domestic CSR pool is a structurally distinct opportunity as patient, return-free capital; unlocking it requires intermediaries capable of structuring and deploying it in this sector
- Dedicated ecosystem enablers, capable of curating pipelines, building narrative and reducing information asymmetry, are a prerequisite for market development that is currently underinvested
- Progress depends on stronger coordination across investors, brands, intermediaries and policymakers, with brands playing an active role in shaping the financing conditions in their supply chains

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Feedback

The production of this guide has been an iterative and collaborative endeavour. We welcome feedback on the guide and further cases studies of best practice of just transition finance in global value chains. Feedback can be submitted to **justtransition@impactinvest.org.uk**

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