Asian Dialogues on Sustainability in the Textile and Garment Industry
Online Seminar Series – Technical Seminars: A Deeper Dive

Impact Investing with precision & purpose to unleash Sustainability improvement potential (30th August 2023)

Objective of this technical seminar was to introduce participants to an overview of funding opportunities related to sustainable development, through case studies and to hear about expectations of investors. This seminar included intervention by a manufacturer, 2 Impact funds, and 1 bank involved with Sustainable finance.

Summary

Fashion industry has wide ranging contribution towards jobs, livelihoods and trade. At the same time, its resource intensive nature means that it also has significant water, energy, chemicals, and waste footprint. The intermingled nature of the multi-tiered supply-chain and varied interests of its diverse stakeholders poses its own set of challenges.

While the initial focus of adverse social and environmental impacts of the fashion industry came via NGOs and civil-society, lawmakers in Europe have come up with 16 legislative tools to address the unsustainable aspects of fashion industry. At the same time, large brands and retailers have established policies and prepared pathways for making progress concerning climate impact, chemicals, waste, and social aspects. Some of these companies have also established targets in line with SBTi. In terms of increasing resource efficiency, some of the changes require capital expenditure for better machinery, switching to renewable energy, better chemicals, etc

Frameworks to categorize such investment and relevant KPI/metrics from sustainability aspects have been established via SASB standards, EFRAG criteria, EU Sustainable Finance taxonomy, and others. There have also been pilot projects to utilize sustainable credentials of textile manufacturer, textile product, and buyer for sustainable trade finance. A UNEP report suggests that manufacturers should continue to invest in the best technical practices, while financial institutions should understand and address the needs of diverse stakeholders in the transition. EBRD Green technology Selector and related case studies for textile industry showcase possibilities. Climate Policy Initiative highlights that over $630 billion is available for Climate Finance but only $36 billion has been allocated to industry, with over $500 billion funneled towards Energy and Transportation. So, what’s required to be done for the fashion sector to get access to more Green/Sustainable Finance ? What sort of capital is required for improving social & labor performance?

Rajeev Dubey : CEO Progress Apparels

A textile manufacturer (Progress Apparel) shared their expeirence about accessing Green Finance in the form of Impact financing (Good Fashion Fund), for installing state of the art washing plant to wash upto 6 million garments per annum. In addition to savings of water and energy use, this will also translate into savings in transportation costs and time required for delivery of the finished merchandise resulting in margin improvement. This case study illustrated the thorough technical due-diligence that is deployed in the form of evaluating machinery efficiency, assessment of social and environmental practices, along with a though review of financial aspects. One of the attractions for this manufacturer to access this funding is the possibility to showcase its commitments towards greater sustainability peroformance to major brands and retailers. The Textile manufacturer recommended that from the perspective of efficiency and attractiveness of Green/Impact Finance; 3 aspects be addressed

a) Eliminating redundant assessments for social and environmental aspects
b) Rationalization of interest rate as per country of investment
c) Training programs to allow investee prepare

Sowmya Suryanarayanan; Director - Impact and ESG

A Sustainable Finance provider (Aavishkar Capita), shared example of one of their funds that capitalizes on the global drive for sustainability. It was highlighted that while Impact is considered an outcome to assess a Company's intention and potential to create sustainable impact – Jobs and Livelihoods, Access to Essential Services and Products and Environmental Sustainability; while ESG is used to Framework/tool to systematically strengthen and enhance the Company's internal processes to create better Impact Outcomes. Focus of investment is such that it leads to cost reduction, productivity uplift, amongst others. They consistently look for investments with strong business fundamentals and ESG thesis that encompasses

a) Strong ESG Focus

b) Proven & Resilient Business Model
c) Significant Competitive Advantage
d) Experienced Management Teams
e) Fit with Portfolio Construct

A case study was shared whereby funding was extended to a company exporting apparel to the EU & the USA. Investee was selected as they had a framework for Product traceability, Carbon Emissions Reporting, Fair remuneration and work hours/conditions for workers. There was an emphasis added that potential investee needs to showcase intentionality for making improvements in sustainability aspects.

Jayanth Kashyap : Investment Lead

The mandate of Good Fashion fund (GFF) is to fund improvements that address water use, energy use, chemicals, and working conditions. GFF works with three key stakeholders to maximize impact, that includes Technology provider, Manufacturer, and Brand. GFF's investments related to capital-intensive and high-impact equipment, focus on

(i) wet processing & finishing stage like dyeing, washing, printing and finishing

(ii) wastewater treatment

(iii) recycling

GFF highlighted need to change perception that investing in sustainability cannot be profitable; and that co-operation is required across all actors in the value chain to facilitate sustainability. Jayanth also shared that impact investment is available for both, ‚State of the art', and disruptive technologies that will help reduce water, energy, harmful chemicals.

GFF shared that in order to be eligible for their impact financing, they require

a) Financial Performance: Debt service capacity, Robust financial performance, Exposure to USD revenues
b) Investment plan: Investment plans in new, sustainable technology to result in >50% reduced
consumption of either water, energy, or chemicals.
c) Environmental & Social standards: manufacturer to be willing to perform a Higg selfassessment, and additional social & environmental due diligence.

GFF also needs quantification of baseline and saving Environmental action plan targets. GFF shared an example of their investment into Pratibha Syntex that has resulted in 50% reduction in water consumption due to new continuous tumble dryer, Elimination of filtration chemicals due to installation of a bio-based membrane bioreactor to effluent treatment plant, and Increase in green energy capacity due to installation of solar panels.

GFF also shared that 2 further investments have moved ahead in 2023, one in Bangladesh and another in India, with plans for 2– 3 more in 2024. GFF will share learnings and impact made.

Jenny Fan, Executive Director - Sustainable Finance

An overview of bank's work within credible Sustainable Finance eco-system was shared. This included,

a) Use-Of-Proceeds (Green/Transition/social bonds/loans)
b) Sustainability linked bonds
c) Other iinovative products like Sustainable trade finance, Sustainability linked guarantees/derivatives

Jenny also shared examples of 3 large brands that have committed to reduction of energy, water, waste and utilize Higg FEM for monitoring and reporting.

A case study was shared about a Garment manufacturer's sustainability linked loan whereby the loan margin was tied to 3 KPIs

a) GHG emissions reduction
b) Improving Higg FEM score
c) Women empowerment

Key takeaways

1) Further education required for manufacturers about Sustainable Finance, to understand what can be achieved
2) To engage and socialize companies about ESG, and to establish supporting structure for the journey towards deploying green/sustainable finance
3) Reduce of evaluation/assessent fatigue; and harmonization amongst social & environmental due-diligence frameworks.
4) Manufacturers that have utilized Green/Sustainable finance to share case studies and learnings.

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Registered offices Bonn and Eschborn, Germany

FABRIC Asia
No. 27, Street 302, Boeung Keng Kang 1
Phnom Penh, Cambodia

lisa.ramershoven@giz.de

www.giz.de

Author: Rakesh Vazirani
GIZ is responsible for the content of this publication.

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