

Concept Note for Financing Climate Action

Apparel Impact Institute

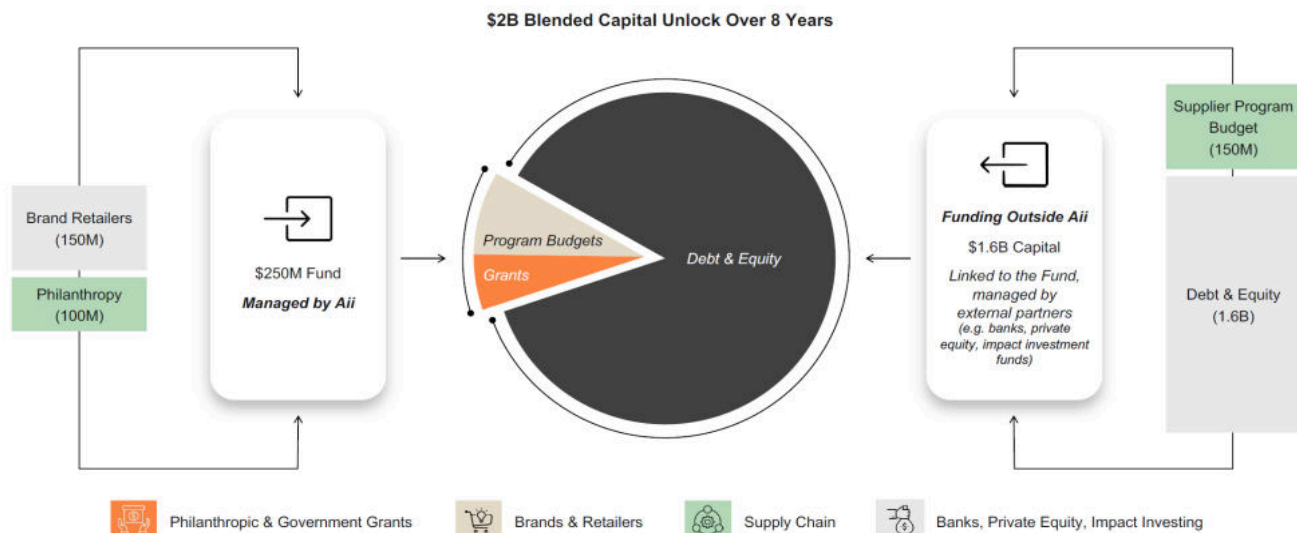
OPPORTUNITY OVERVIEW

Apparel Impact Institute (Aii) is building a coalition of partners to collectively fund the decarbonization of the apparel and footwear industry supply chain through a mix of capital sources.

As a first step, Aii has launched its \$250M [Fashion Climate Fund](#) with philanthropic contributions from Schmidt Family Foundation, H&M Foundation, H&M Group, Target, PVH Corp, and Lululemon. Aii is now securing aligned investment capital of \$1.6B towards financing of renewable electricity, energy efficiency, and coal phaseout (the “[Climate Solutions Portfolio](#)”).

Many institutions are already setting targets in the trillions of dollars toward sustainable finance to address climate, but those investments are not finding readily available opportunities for deployment. We are building an inventory of investment-ready projects to decarbonize the textile, apparel, & footwear supply chain including by providing project design funding; first loss funds and/or lower interest rates; aggregating smaller investments into larger check sizes; and other risk mitigation measures, such as volume guarantees and concessionary capital.

We invite strategic partnerships with aligned investors, including commercial banks, development banks, and private equity and family offices, to collaboratively fund capital improvements and technological developments to decarbonize the apparel and footwear supply chain.



Aii will leverage our strategic network with brand partners, implementation partners, and manufacturing facilities to roll out the program and connect the financing with the investment opportunities. Aii will also lead the oversight of project implementation and impact measurement. Financing collaborations that combine an optimal mix of debt, equity, and grants/concessionary



capital will be developed for each region and intervention (e.g., renewable electricity in Vietnam). Current countries of focus include Bangladesh, China, India, Indonesia, Italy, Pakistan, USA, and Vietnam.

THE INVITATION

Aii is securing lead financing partnerships to each make the following commitment:

- **\$200M sustainable finance commitment to the apparel supply chain by 2030**
 - Innovative financing structures are critical for solving the climate crisis. Apparel Impact Institute will identify aligned sustainable investment opportunities in the apparel supply chain and work with financing partners to develop innovative financial tools to address funding gaps. The first phase of funding will focus on existing solutions, including renewable electricity, energy efficiency, and coal phaseout. Future funding opportunities may include new technologies, such as next-generation materials and renewable thermal heat generation. Investment may be originated directly by the lead financing partner or flow through an intermediary;
- **Join Aii's Financial Tools Working Group**
 - Financing partners are invited to join the Financial Tools Working group to share insight and align focus on the most actionable financing opportunities. Participants include brand partners, philanthropic foundations, multinational banks, and development banks.

In addition, blended capital partners are invited to contribute to the philanthropic Fashion Climate Fund.

- **\$10 million philanthropic contribution by 2030**
 - Apparel Impact Institute invites financing partners to also join as a lead partner of the Fashion Climate Fund with a \$10 million philanthropic contribution to be paid by 2030. As we convene the fashion industry (e.g. brands, retailers, manufacturers, and financial institutions) to scale solutions that lower carbon emissions in the global apparel supply chain, we seek lead partners at \$10M by 2030. This funding allows Aii to identify high-quality solutions, work with manufacturing facilities to develop investment plans, and verify emissions reduction claims.

ABOUT APPAREL IMPACT INSTITUTE

Apparel Impact Institute (Aii) is a 501(c)(3) global nonprofit organization dedicated to identifying,

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funding, scaling, and measuring the apparel and footwear industry's proven environmental impact solutions. Aii works with over 50 brands and retailers who are leading the sector's decarbonization efforts, including Target, Gap, PVH, Lululemon, H&M Group, and Ralph Lauren. To learn more about Aii, visit apparelimpact.org.

In 2022, Apparel Impact Institute announced a \$250 million donor-pooled [Fashion Climate Fund](#) (FCF), designed to unlock and drive another \$1.75 billion in debt & equity capital. Along with the fund, the [Climate Solutions Portfolio](#) (CSP) uses rigorous vetting criteria to identify impact solutions within the apparel supply chain and drive access to funding for sustainable capital investments, thus solving a real need in the industry to ensure funding is allocated to the highest quality impact solutions.

This is a bolder, more urgent, and holistic approach that builds on Aii's flagship program, Clean by Design. To date, Aii's Clean By Design programs have removed over 1 million tonnes of carbon emissions in the supply chain and unlocked over \$70M in sustainable finance for factory improvements, delivering both a financial ROI and measurable sustainability improvements. See case study: [Investing in environmental improvements at wet processors generates positive financial returns](#).

SAMPLE FINANCING OPPORTUNITIES

- **Energy efficiency improvements:**
 - USD 500k - 1M per facility for boiler replacement, steam traps, smart metering, etc.
 - Current regions: China, Taiwan, Vietnam, India, Bangladesh, Indonesia, Italy, USA
 - Return on investment: 10-30% financial ROI, 10-20% carbon emissions reduction
 - Type of capital needed: commercial loans and concessionary first-lost loans
- **Renewable electricity:**
 - USD 1M - 5M per facility for onsite or offsite solar and wind projects
 - Current regions: China, Taiwan, Vietnam, USA
 - Return on investment: 5-15% financial ROI, 20-50% carbon emissions reduction
 - Type of capital needed: commercial loans and commercial equity investment

TIMELINE & NEXT STEPS

- **Confirm interest and participation in working group meetings**
- **Sign commitment agreement**
- **Announcement event**
- **Begin implementation**

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PROJECT CONTEXT

Apparel and footwear is a multi-trillion-dollar industry, producing over 100 billion units worldwide annually. Given its size, structure, and complexities at every stage of production, from farms and manufacturing to the consumer lifecycle, the industry creates a number of environmental issues. Most critically, it is estimated to produce anywhere between 2-8% of global greenhouse gas emissions. The vast majority of those emissions are in developing countries where perceived and actual risk create barriers to investment.

The apparel and footwear industry offers attractive ESG investments with high financial and environmental returns. In fact, 61% of the capital needed to reach net zero will go to solutions that already exist and are ready for investment. The remaining interventions within the supply chain, including eliminating the use of coal in material and product manufacturing and the reliance on petroleum-derived fibers, require new solutions that are commercially viable and deployable across geographies, an area that is ripe for venture capital investment.

Our report in partnership with Fashion for Good and sponsored by HSBC, [Unlocking the Trillion-Dollar Fashion Decarbonisation Opportunity](#), estimates that \$1 trillion will be needed for apparel and footwear to reach net zero by 2050. This includes \$300 billion in grant funding from philanthropy and corporate brand treasury for riskier pre-seed and seed technologies and to otherwise derisk decarbonization investments, as well as \$700 billion of debt and equity investment to scale existing solutions now and fund the next wave of innovations.

High-impact supply chain interventions were identified in the [Roadmap to Net Zero report](#), co-authored by Apparel Impact Institute (Aii) and WRI. Projects cut across all tiers of the supply chain, from raw materials to yarn preparation, from fabric preparation to cut & sew assembly. The report identifies six key levers to reduce carbon emissions:

- Material efficiency
- Better, Preferred Materials
- Next Generation Materials
- Energy Efficiency
- Thermal Heat Innovations (dry processing and renewable thermal)
- Clean Energy (renewable electricity)

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