



A Global Engine for Growth

Levi Strauss & Co.

The textile, apparel, and footwear industry serves as a global engine for growth, generating jobs for more than 60 million people, including many women in emerging markets.


An IFC Manufacturing Case Study



IFC

International
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Creating Markets, Creating Opportunities



“If your business strategy doesn’t include sustainability, then it’s incomplete.”

—Michael Kobori, Vice President, Sustainability, Levi Strauss & Co.

The Right Thing to Do

The textile, apparel, and footwear industry is a global engine for growth, generating jobs for more than 60 million people, including many women in emerging markets. But the sector can exact a heavy toll on the environment. Both cotton growing and dyeing use large amounts of water, while the production of synthetic fibers such as polyester generates high levels of greenhouse gases. Globally, the textile industry accounts for up to 8 percent of greenhouse gas emissions and is a major source of industrial water pollution from the treatment and dyeing of textiles. A number of factors contribute to these trends. The apparel supply chain consists of millions of small, medium, and large manufacturers, many of which operate in countries with weak labor, environmental, and safety regulations for manufacturing. At the same time, global brands and their producers are under intense pressure to hold down costs, innovate products, and deliver on tighter deadlines as consumers buy more clothes and faster fashion cycles compress production and delivery times. The industry increasingly is also asked to focus on environmental and social sustainability. Many brands have responded, recognizing it as the right thing to do and as a good business opportunity. They are voluntarily setting their own goals and targets on energy, water, labor, and climate, and are acting to reduce the environmental impact of textile manufacturing and to improve the livelihoods of workers—strategies that ultimately can save money and boost productivity.

Levi Strauss & Co.

As one of the world's largest brand-name apparel companies, Levi Strauss & Co., known as LS&Co., has a significant impact on environmental and labor conditions around the world. Besides its 14,000-plus employees worldwide, it contracts out production of its jeans, casual wear, and accessories to independent manufacturers in some 30 countries employing 300,000 workers. Net revenues were \$5.6 billion in fiscal 2018. LS&Co. has been a leader in promoting sustainable manufacturing to reduce its carbon footprint and improve the lives of textile workers. Since 1991, the company has required all third-party contractors and licensees to comply with a code of conduct based on specific ethical, environmental, labor, and health standards, in line with ILO Conventions and the UN Declaration of Human Rights. It has adopted new technologies and production methods that limit pollution, energy and water use, partnering with IFC to help meet its ambitious global sustainability goals. LS&Co. is seeking to achieve a 90 percent reduction in greenhouse gas emissions and 100 percent use of renewable energy in its owned-and-operated facilities by 2025. It has also pledged to cut greenhouse gas emissions across its entire global supply chain by 40 percent and has committed to cutting water use by 50 percent in areas where water shortages are frequent.

Investment & Advisory

Manufacturing is a route for creating job opportunities and building more sophisticated value chains that can have a positive impact on economic growth. In particular, low-income countries are able to use textile manufacturing to grow their economies and improve people's lives. Increasingly, manufacturers are looking not only at minimizing costs but also at the environmental and social impact of production and what can be done to improve sustainability. In several emerging markets, IFC works with local, regional, and multinational companies to develop and implement approaches for reducing energy and water use and for increasing use of renewable energy, steps that also can lower operating costs.

LS&Co. began working with IFC in 2013 through the Better Work program, which is an IFC partnership with the International Labour Organization that seeks to improve working conditions in the garment industry. The next year, LS&Co. became the first to join IFC's Global Trade Supplier Finance program, which encourages suppliers to improve their environmental and social practices by offering lower interest rates on short-term financing. LS&Co. also participated in IFC's Bangladesh Partnership for Cleaner Textile program, known as PaCT, which helps factories identify and implement cleaner and more resource-efficient production options. This engagement formed the basis of a 2017 IFC pilot program with six LS&Co. suppliers in Bangladesh, India, Sri Lanka, and Vietnam. IFC experts advised the suppliers on energy-saving, cleaner production methods and cost-saving investments to reduce water and energy use. Changes made by the factories led to a 19 percent drop in energy and water consumption and a \$1.2 million reduction in total annual operating costs for the six suppliers. Six more suppliers were included the following year, and in 2019, cooperation was expanded to cover 42 additional Levi suppliers in 10 countries. Under the new expanded program, IFC will work with the factories to identify and implement water and energy savings and scale up use of renewable energy, helping LS&Co. meet its 2025 science-based targets.

Impact

IFC and LS&Co. built a foundation where the two have partnered extensively to help the company's suppliers pivot to more sustainable production. This latest partnership involves LS&Co.'s strategic suppliers in South and East Asia, South America, and the Middle East. IFC will follow its Partnership for Cleaner Textile approach to identify water and energy savings and renewable energy solutions for designated LS&Co. suppliers. Suppliers that choose to implement identified improvements must pay for any new equipment and technology themselves. Factories that participate are expected to achieve savings in water and energy use, lowered consumption of grid and diesel electricity, and reduced water pollution. Depending on measures implemented, they can recoup their investment costs within one to six years based on savings alone, while also reducing greenhouse gas emissions and water use. The program can also introduce suppliers to new technologies, such as the use of LS&Co.'s Water<Less technology, which utilizes dramatically smaller amounts of energy and water to finish products.

Next Steps

IFC and LS&Co. have worked together to develop new approaches to encourage and support sustainable production and they expect that the results of this new agreement will lead to more cooperation for reducing greenhouse gas emissions and water use. The 42 suppliers included in this program account for a significant part of LS&Co.'s supply chain. The lessons learned from this effort will be used to help other suppliers in LS&Co.'s supply chain improve sustainability in their manufacturing processes. The two sides will publish their results and case studies so the information can serve as a model and an inspiration to other brands and suppliers.

Many leaders in the textile industry, along with IFC and LS&Co., are committed to sustainable manufacturing, guided by agreements such as the United Nations Fashion Industry Charter for Climate Action, which aims to achieve net-zero greenhouse gas emissions in manufacturers' global supply chains by 2050. The "Fashion Pact" announced by France's President Emmanuel Macron in 2019, is bringing together the fashion industry to adopt science-based targets in three areas: global warming, restoring biodiversity and preserving the oceans through largely ending single-use plastics.

Greening the Footprint

INTERVIEW WITH
Jeremy Levin, Senior Energy Specialist,
International Finance Corporation

Why pay so much attention to environmentally sustainable practices in the textile industry?

The textile, apparel, and footwear industry has a significant environmental footprint globally in terms of energy use and greenhouse gas emissions associated with energy use, water consumption, discharge of water pollution, and chemical use. Improvements in this sector will help address global and local environmental issues.

How did IFC and Levi Strauss & Co. start working together on this?

Levi Strauss & Co. has always been a pioneer in these areas and IFC is happy to work with such a partner to help them directly improve sustainability metrics for their key suppliers, and to provide an example for other industry players. LS&Co. was a partner in Better Work in 2013 [the IFC-ILO program focused on improving social and labor conditions]. It was a foundational partner for GTSF [IFC's Global Trade Supplier Finance program]. It was also a member of IFC's PaCT [Partnership for Cleaner Textile] program for suppliers in Bangladesh. It gained confidence in the IFC program due to the energy and water savings we were able to achieve for their suppliers in a small pilot with LS&Co. in 2017 and a larger one in 2018. This cooperation expanded as Levi announced their ambitious science-based sustainability targets. IFC is a critical partner to help LS&Co. meet these commitments.

Key to the program is that suppliers upgrade their facilities, but they have to pay for the changes themselves. Isn't that a disincentive for the suppliers to act?

The fundamental driver is that these investments make economic sense. We identify cost-effective water and energy savings and renewable energy solutions to these suppliers. Yes, the suppliers are the ones to pay for the new boilers, new washers, and water recycling equipment needed to make the upgrades, but they will start saving energy, water, and money right away. These are climate-friendly investments that make economic and environmental sense and, on a life-cycle cost basis, these are highly attractive investments that are paid off in one to six years with increased savings.

Is there a role here for governments in encouraging this to happen?

Governments are very important for creating the enabling environment for these investments. This can include relevant government policies

“ *A company that produces T-shirts or denim often needs extra help to identify or assess a technology they are not familiar with or to incorporate a new process into their plant. That's where IFC...can provide unbiased advice and help with adoption of energy and water solutions.*”

and programs covering environment, infrastructure, water stewardship, trade, tariffs, and even special support for the textile sector through economic zones, for example.

What is out there that can help textile factories produce clothing in a more environmentally sustainable way?

There are many new technologies, new applications of existing technologies, and transfer of existing technologies and processes into new markets, all of which can provide cost-effective solutions for suppliers. For example, finishing blue jeans can be done with chemicals in a hazardous water- and energy-intensive process. Laser finishing and LS&Co.'s Water-Less techniques can now produce the same level of finished products with dramatically less energy and water.

How easy is it to introduce new production processes to suppliers?

New technology can be a huge driver of clean production, but there's a learning curve. A range of supplier-level barriers needs to be addressed before widespread adoption and uptake, including things such as customer access to information, unfamiliarity, a high perceived risk with new technology, and supplier prioritization of investments in other areas. Training and workshops are part of the education process to help demonstrate and replicate and scale beyond the initial suppliers.

What other challenges have you run into on the ground?

Customers can be initially skeptical and reluctant to change from technologies and processes that they are familiar with. This can be overcome with case studies and demonstrations of the energy and water savings, and once they are convinced, they will adopt on a large scale. But it takes time and patience.

Adding Value, Having Impact

INTERVIEW WITH

Michael Kobori, Vice President, Sustainability, Levi Strauss & Co.

When did LS&Co. get involved in promoting sustainability and why?

You could say that the trousers that Levi Strauss and Jacob Davis first created in 1873 were a sustainability innovation; they were more durable than what miners had so they didn't have to keep buying new pairs. More recently, in 1991, we were the first multinational company to establish a comprehensive code of conduct for our suppliers, which included global labor, environment, and health and safety standards. We promote and innovate on sustainability because it is the right thing to do for our planet, the communities in which we operate, and our business, and because it helps us uphold our company's guiding philosophy of Profits Through Principles.

You've been working with IFC for some time. Why IFC?

IFC has been a great partner. We began in 2014 with the Global Trade Supplier Finance program, which helps incentivize suppliers to do better on sustainability by offering lower interest rates on short-term trade finance. In 2017, we piloted the Partnership for Cleaner Textiles program, known as PaCT, with six suppliers in four countries, and saw how they used IFC funding and guidance to reduce emissions while saving on costs. And in June, we signed a \$2.3 million Cooperative Agreement with IFC to begin expanding the PaCT program to 42 of our largest vendors.

You want them to reduce global supply chain emissions by 40 percent by 2025.

Yes, that is the Scope 3/supply chain commitment that we made towards our Science Based Targets on greenhouse gas emissions. The IFC's PaCT program is key to achieving this.

What do you see as the main challenges in achieving your goals?

We think of it more as an opportunity to share our sustainability work with consumers, wholesale customers, and investors. If we can do that, it'll increase awareness and demand to do more.

How do you actually strengthen awareness?

We need to be more clear and explicit in our product and marketing, and speak about sustainability more accurately with stakeholders. With millennials and Generation Z, you have a significantly heightened interest in sustainability and the future of our planet.

“ *The next step is to stay at it and seek bigger impact for ourselves and industry.*”

Then you have fast fashion. Ultimately, do prices have to rise?

No. The sustainable garment should by definition be less costly because it requires fewer inputs. However, we know that our current economic system sometimes distorts that fact.

What kind of impact will this next phase of work with the IFC have?

Our goal in establishing an aggressive target for greenhouse gas emissions was not only to challenge ourselves, but to inspire the industry to do better. We hope we can use this program to drive collaboration and improve performance on sustainability on a much larger scale.

Promoting sustainability is good PR, but is it also good business?

It's never been a public relations play for us. Any company with a global supply chain needs to be concerned about sustainability, not just because consumers care about it, but because it impacts our business. Climate and water affect everything from how cotton is grown and crop yields, to our ability to operate and deliver products, to what consumers wear. I firmly believe sustainability provides business benefits in terms of risk management, productivity and cost, and opportunities for growth through innovation and building brand equity.

What's next for LS&Co. after this project?

We're talking to IFC about how to make the PaCT program available to other companies and suppliers. Other companies see it makes suppliers more efficient and resilient, with payback in one or two years at most, and they're eager to participate. I'd expect it to be available to others in the industry within the next year.



“IFC is highly engaged in the textile and apparel sector and we are actively seeking investment opportunities to support clients looking at new technologies and business model innovations that also address the sustainability issues.”

—Sabine Schlorke, Global Manufacturing Manager, International Finance Corporation

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