



IFC, US Apparel, and Levi Strauss & Co.: Setting a Higher Standard for Sustainability in Pakistan

“The IFC-Levi Strauss & Co. supplier finance collaboration has played a pivotal role in putting our company on the path to becoming a model vendor for LS&Co. and a leader in the Pakistani apparel industry. We’ve seen a positive impact on our cash flow and are very encouraged to see the initial compliance improvements for both our business and our workers.”

Usman Ahsan
Group Director
US Apparel & Textiles

IFC, Levi Strauss & US Apparel:

Creating a Sustainability Pattern for Others to Follow



Introduction

The apparel industry is an engine of economic growth and employment in emerging markets. More than 160 million people around the world earn their livelihood in this industry, which, relative to other sectors, has created more opportunities for young women and migrants to join formal labor markets and improve their lives.

The apparel supply chain is global, comprised of millions of small, medium and large manufacturers in every region of the world, all operating under intense pressure to hold down costs, innovate products and deliver on tight deadlines. Many of these manufacturers are in countries where governance over fire and building safety, labor conditions, and pollution controls is weak.

US Apparel & Textiles (US Apparel), a local company based in Lahore, Pakistan, is one of those suppliers. Since 1974, this producer of textiles, ranging from fabric to finished garments, has grown from a one-room operation to a major factory. Employing more than 15,000 people, it produces over 28 million meters of fabric and 22 million garments annually.

US Apparel sells to major global brands, those with high standards and regular monitoring of their performance as a condition of their business. For textile suppliers like US Apparel, IFC believed that progress toward sustainability could be strengthened if the “sticks” associated with non-compliance could be augmented with “carrots”, in the form of financial incentives for suppliers to invest in sustainability. But how? This wouldn’t be easy in an industry where competition is tough and profit margins are thin. But it wasn’t impossible. IFC just needed the right partner.

INNOVATORS IN FASHION AND FINANCING TEAM UP

Levi Strauss & Co. (LS& Co.) invented cool with its denim jeans that are even more popular today than when iconic American actor James Dean wore them in the 1950s. What makes LS & Co. attractive to IFC is its highly developed and carefully monitored system for rating the environmental and social performance of its suppliers. This system is captured in a numerical value known as its Terms of Engagement (TOE) score.¹

IFC has a platform, known as the Global Trade Supplier Finance (GTSF) program, which makes working capital available to suppliers operating in emerging markets who previously were unable to get financing. In November 2014, IFC and LS&Co. partnered to introduce a new element to the program, whereby IFC linked interest rates charged to LS&Co. suppliers with their environmental and social compliance scores as measured by the TOE. In other words, better environmental and social practices by suppliers lowered their risks, which was reflected in lower interest rates. This differentiated pricing model introduced tangible financial incentives for suppliers to improve standards and adopt new technology, and further enhanced the business case for responsible production.

US APPAREL COMPANY: A MAJOR SUPPLIER WITH AMBITIOUS GROWTH PLANS

US Apparel has been a major supplier of denim garments to LS&Co. since 2009. The company has an ambitious growth strategy, aiming to increase fabric and garment production to 36 million meters of fabric and 35 million garments per year by 2020.

US Apparel joined the IFC supply chain finance program in January 2015, improving its access to on-demand working capital financing. In less than two years with the program, US Apparel has also significantly reduced its cost of financing through the program’s link to sustainability. The company has

¹ TOE scores range from 1 to 10, with 10 being the best score. TOE scores of 4 to 10 are eligible for the GTSF program.

improved its TOE score, further lowering its cost of financing from IFC. US Apparel's leap in sustainability performance has resulted in a ten percent annual reduction in the cost of working capital.

Highlights of the US Apparel-LS&Co.-IFC collaboration include:

- US Apparel receives payment for its sales to LS&Co. on average 55 days earlier with IFC financing.
- US Apparel pays an early payment discount fee, which is associated with the strong credit standing of LS&Co. and is thus a relatively low rate for a company of US Apparel's credit profile. The IFC discount fee is linked to US Apparel's TOE score, with lower interest rates associated with better TOE scores.
- Before joining the GTSF program, US Apparel had a TOE score of 5. After implementing various measures described below, US Apparel improved its TOE score to 7. This improvement has resulted in a reduction in finance fees of approximately \$40,000 per year.



55 days

Average number of days earlier US Apparel receives payment for its sales to LS&Co. with IFC financing



\$40k/year

Approximate US Apparel finance fee savings



ENHANCED SUSTAINABILITY BECAME A DRIVER FOR BUSINESS GROWTH

To support growth of business, US Apparel's senior management team developed a strategy to put the company on a path to become a model LS&Co. vendor and to maximize the benefits of the innovative program. The strategy, now under ongoing implementation, focuses on compliance in the areas of worker well-being and the environment. It builds on industry best practices and employs guidelines and tools made available by LS&Co. and other buyers. US Apparel took several steps to strengthen its internal capacity to raise standards, improve worker well-being, minimize water use and improve energy efficiency and chemical management.

Strengthening internal capacity

One of the key elements behind the successful execution of the new compliance strategy was the decision to restructure US Apparel's compliance department. Initially, US Apparel's compliance team was comprised of four managers and eight team members responsible for managing issues across the company's five factories and 15,000 employees. After the new compliance strategy was developed, management decided to expand and professionalize the compliance teams by hiring highly-skilled professionals for each factory. The teams included qualified labor auditors and chemical and environmental engineers. Today, US Apparel's compliance team is capable of both improvements to social and environmental compliance and carrying out factory audits based on LS&Co.'s TOE, which IFC had evaluated and determined to be aligned with IFC Performance Standards. Since the start of the new strategy, the compliance department has increased to 30 individuals, four of which are now certified by LS&Co. to conduct factory audits.

In addition to reorganizing the compliance department, another key component of US Apparel's strategy has focused on improving the operational and behavioral safety of factory workers. US Apparel's compliance team now provides its factory workers with a series of targeted health and safety trainings each year. The goal of these trainings is to help factory workers understand that compliance with policies and practices is important not for the sake of compliance, but to protect their health. Since the beginning of the trainings, the company has observed significant improvements in the use of personal protective equipment, as well as increased adherence to safety rules.

Worker well-being

Complementing the activities to improve on-the-job worker health and safety, US Apparel has also provided training to support its factory workers beyond compliance with environment and social policies. These trainings have been implemented as part of the LS&Co. Worker Well-being



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Initiative and are motivated by the belief that sustainable factories require support for workers beyond compliance with labor regulations.

In an effort to better understand worker needs, US Apparel conducted a series of surveys via interviews and focus groups. Based on the feedback from these interviews, management decided to focus on worker financial empowerment and basic health needs, such as sanitation, disease prevention and



New techniques developed by LS & Co. reduce the amount of water used to get a desired denim finish.

family and reproductive health. To meet these objectives, US Apparel partnered with HANDS, one of the largest nonprofit organizations in Pakistan, to train a group of 60 factory workers to act as facilitators on financial empowerment and health. Additionally, the company worked with a local financial institution to offer payments to workers via bank accounts. HANDS facilitated 25 sessions and champions held an additional 200 sessions. Absenteeism has dropped from 12 percent to 9 percent, and 100 percent of US Apparel employees now receive their salaries through their bank accounts, enabling them to build credit relationships with formal institutions.

Water minimization, treatment, and re-use

Given the extensive washing and finishing processes required for denim production, water use in US Apparel's factories is significant—as much as 150 cubic meters per hour. For this reason, US Apparel's environmental efforts have focused on water treatment, and also on reducing water usage and increasing the volume of recycled water. US Apparel has upgraded its process equipment by incorporating technologies that achieve the same results with less water. Such technologies include eFlow, an eco-finishing method using nano-bubble water free process, and a dry Ozone

fading technology, which uses no water or chemicals. These technologies were provided by LS&Co. as part of its Water<Less® finishing processes. Additionally, the company has reduced water usage for sanitary purposes by installing more efficient faucets and water saving toilets. As a result of US Apparel's adoption of the Water<Less® finishing techniques and its associated technology upgrades, US Apparel has saved 137,000 cubic meters of water in the past year.

In 2016, US Apparel invested \$100 million rupees (approximately US\$950,000) in a new wastewater treatment plant that is now fully operational. The wastewater treatment plant is paired with an in-house lab for water discharge testing. US Apparel's water discharge practices strive to comply with local legal requirements, as well as with the Global Effluent Requirements (GER) from LS&Co and other buyers. US Apparel has set ambitious water reuse targets for 2017, aiming to reuse 30 percent of its water in its production processes through the introduction of turbo filtration and reverse osmosis.

Energy conservation

US Apparel's energy conservation measures have focused on replacing old machinery with more efficient and cleaner



US Apparel aims to reuse 30 percent of its water in production.

models. Recently, the company replaced its diesel boilers with ones that employ biofuel and installed heat recovery systems used for steam production to its generators. US Apparel also installed solar panels producing 32kWh to one of its factories. The use of these technologies coupled with the water saving technologies described above significantly reduced the company's energy and water consumption and have also had positively affected the company's bottom line. By 2020, US Apparel plans to power all of its offices using solar power with production of 500 kWh.

Chemical management

In addition to efforts to reduce water and energy use, US Apparel has spent the past two years working with different stakeholders to remove hazardous chemicals from its denim processing. Some of the measures the company has taken include:

- The screening of suppliers to avoid products with traces of hazardous materials;
- The introduction of a non-hazardous chemical declaration from suppliers;
- The replacement of spraying machinery with laser machinery for denim design needs.

Together, these activities not only allow US Apparel to remain ahead of global consumer requirement trends, but also enable the company to protect its employees from exposure to harmful products and to reduce its environmental impact and discharge of hazardous waste.

ALIGNING MANAGEMENT AROUND THE GOAL OF SUSTAINABILITY

Management for a company the size of US Apparel has multiple objectives—sustainability is important and so is profitability. IFC's sustainability linked GTSF program brings finance teams together with sustainability teams for a stronger corporate commitment to sound environment and social standards.

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