ECOTEXTILE NEWS

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Two Minutes with...

Ecotextile News interviews **Dr Maximilian Martin**, founder and global managing director of Impact Economy, the Swiss-based impact investing and strategy firm which is becoming an increasingly influential voice in textile sustainability circles.

Tell us about Impact Economy?
At Impact Economy, our fundamental working assumption is that it is possible to do both good and well. Working in a number of industries has convinced me and my colleagues that megatrends such as the rise of the Base of the Pyramid (BoP), which encompasses four billion poor people – who also represent a five trillion dollar market – and the developing middle class in emerging markets hold the potential to create both economic and social value. In other words, profit-only, without any regard to what this means for the people around us, does not have to be the dominant paradigm of how we work and invest. There is nothing utopian about this. Take the phenomenon of virtuous consumers who globally spend over US$500 billion on their 'lifestyles of health and sustainability'; or the advent of an increasingly circular economy where more and more materials are reused.

Each is in principle a multibillion-dollar market as well as a major social impact opportunity. But to unlock these markets, new financial solutions to allocate capital efficiently are needed, as well as a strategic vision on how to engage effectively. Our job at Impact Economy is to precisely construct these building blocks for value creation. We help our clients – who are mainly professional investors and companies – to understand what is going on, and to come up with strategy and investment solutions that enable them to create value for shareholders and stakeholders alike.

Why did Impact Economy produce the *Creating Sustainable Apparel Value Chains* report?
Following Rana Plaza, a charity that must remain unnamed asked if such a thing as a sustainable apparel industry is really possible; or if good social and environmental performance is doomed to remain the exception rather than the rule. I found this a fascinating challenge: here is a longstanding, global industry, whose products people love and need, and which makes an important contribution to development in many sourcing countries – but where the main value is in the brand, which is labour intensive and suffers from such a poor environmental footprint and social performance record that activists routinely protest when major fashion retailers open new stores.

Building on our expertise in strategy and investments, we conducted a serious ground sweep, with extensive desk research and analysis of several producer and consumer countries with site visits. We gathered additional evidence from experts, including reaching out to approximately 750 industry stakeholders through an online survey, conducting a number of expert interviews and site visits and reviewing more than 200 reports on the overall industry. The result was daunting and exciting at the same time. Yes, we found that a major breakthrough would be possible. But, that a mindset shift from compliance to investment had to occur. And like in a chemical reaction, a catalyst was needed to give this process a hand.

Your report talks of the opportunity to achieve market transformation through water, chemical and energy savings and lean manufacturing.
But how will this process of change be facilitated?
Our main constraint is neither technological, nor financial. It is our ability to imagine and dare. Sure, the industry's problems are complex, systemic and of great consequence. This means that the solution blueprints and solution providers must be practical, sophisticated and able to move with equally impressive scale; and that capital is needed to unlock the upside. If upgrading textile and garment factories and raising competitiveness at the same time are our goal, adopting a systemic and investment mindset is imperative. In a nutshell, a solution that can really change the game needs to:

- Drive the upgrades in the factories which help achieve competitiveness as well as higher social and environmental performance;
- Mobilise capital from multiple sources;
- Be financially attractive to the local producer and "factory owned" rather than only retailer or regulator enforced;
- Minimise credit default and execution risk;
- Become scalable across the industry and go viral.

Let's look at the specifics. We found that the top seven simple resource efficiency measures implemented in a model factory cost only US$83,000, and were hardly 'rocket science'. They

Dr. Maximilian Martin

include eliminating water leaks from tubes and pipes, reusing cooling water from dyeing operations, process water from rinsing, recovering water from bleaching, reusing heat from drying operations and caustic soda, or improving liquor ratio. Yet, they unlocked input savings in excess of US$500,000 annually. Dedicating resources to improving working conditions can further strengthen this win-win. This includes measures to strengthen productivity, improve labour agreements and working contracts, optimise quality control systems, human resource management as well as decision-making practices.

Could you tell us about Impact Economy's Apparel Innovation Consortium?

The one billion dollar question for the global textile and garment industry with its long supply chains is this: how can we actually make the upgrading I described earlier happen across the board? How can we graduate from the logic of limited demonstration projects? How can we make progress along the environmental and social dimension in lockstep, rather than in isolation?

When I was working on the report, I was struck by how many of the players' surveyed had a limited focus on how their solutions – which were often great – would be taken to scale, and cease being 'stop and go' projects subject to funding cycles.

During the research process for *Creating Sustainable Apparel Value Chains*, we had hoped to find an organisation that could already be considered a sort of catalyst for scale. But we did not. And we reached out to a lot of people. The logical conclusion was to then come up with a blueprint for such a mechanism.

Financing upgrades

I do not want to get ahead of the story here; we will release all details in due course. But the core ingredients are reasonably obvious. We need to find ways to finance upgrades on the environmental side, and programmes that raise social performance.

We need to design incentive structures that are attractive to brand owners and factory owners, deliver real benefits for workers, and minimise bureaucracy and management attention for people who, after all, are busy running a competitive business. As an impact investing and strategy firm, at Impact Economy, we are convinced that combining impact investing and efficient procurement are the key forward strategy, and that you need two pools of capital, grants and debt. And that this can complement the several development finance funded initiatives under way such as PaCT or the GTSF programme.

You can think of the AIC as a player who aims to leverage and complement other private and public sector expert organisations, and help participants in the industry value chain (brands, producers) to target the low-hanging fruit by assessing factory's performance, developing individual solution packages, and implementing those measures that are easy to implement and cost-efficient. The goal is not to fix everything at once; rather it is to help the players graduate to an investment mindset that values workers as an asset and finds it normal to deploy best available technology.

There is an argument that brands should be doing more and investing more in the likes of Bangladesh; the same argument suggests that factories are working on such tight margins that they don't have the money to invest in environmental/social upgrading. What is your take on this?

The opportunity for improvement is massive; but you are right in being sceptical about motivations and ability to actually do the upgrades in an industry that runs on a very transactional mindset. Let's look at the fundamentals. The fashion industry is the world's second largest user of water and the textile and garment industry absorbs fully 25 per cent of all globally manufactured chemicals. That means 40,000 different chemicals, many of which are potentailly toxic. In Bangladesh, only around 100 of around 5,600 manufacturers producing for export are estimated to have achieved high social and environmental performance standards. In Cambodia, 44 per cent of the 371 factories audited by ILO in 2013-2014 were subject to strikes, resulting in more than 78,878 lost person days, not to mention the industrial accidents killing hundreds of people.

Sobering statistics

These statistics are sobering. But precisely because margins are so tight, it does make much sense to focus on reducing the use of inputs such as chemicals, energy, and water, and to render factories more productive. If this has not yet happened on a massive scale, it is because the transition path has not been clear, not because it makes economic sense to waste resources.

Extrapolating from our research at the factory level to the overall cluster of factories indicates an annual savings potential of up to US$2.6 billion in Bangladesh. If we conservatively assume to unlock one third of the potential, this would result in input cost savings of US$ 860 million every year. ■