Climate Finance

How Much Money Is Needed and How Can the Upcoming Legislation Enable Sufficient Investment

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Key Interventions for Reducing Emissions

Activity	Description
Existing Solutions (Requiring Minimal New Innovation)	
Shift to Renewable Electricity	Deploy renewable electricity across the supply chain.
Scale Preferred Materials & Processes	Increase the use of lower-carbon fibers (e.g. recycled polyester) and practices (e.g. conservation tillage for cotton).
Maximize Energy Efficiency	Expand energy efficiency efforts across manufacturing facilities.
Coal Phaseout: Alternative Fuel Source	Replace coal as an energy source for apparel manufacturing, by switching to alternative fuel sources (e.g., natural gas or biomass).
Innovative Solutions (Requiring Additional Innovation to Reach Scale)	
Accelerate Next Gen Materials	Ramp up investment in “next generation” low-carbon materials such as textile recycling, bio-based materials, and plant-based leather.
Coal Phaseout: Dry Processing	Replace coal by replacing current processes with innovative new dry processing technologies that require very little to no amounts of water

Reference: WRI & Aii’s Roadmap to Net Zero

The Role of Finance

"When it comes to a complete change in energy use or a new way of manufacturing, the manufacturer cannot take on the entire cost burden and project risk. There need to be additional stakeholders to co-invest alongside the manufacturer."

- *Punit Lalbhai, Executive Director, Arvind Limited*

Barriers to Financing

Overarching	Specific to *existing* solutions	Specific to *innovative* solutions
1 High Degree of Industry Fragmentation.	4 Credit Worthiness of Production Facilities.	7 Innovation Lacks A Successful Track Record.
2 Externalities are currently not priced in.	5 Difficulty of Deploying Capital Into Emerging Markets.	8 Innovation Cycles Are Very Long And Capital Intensive.
3 Limited Awareness of the Financial Opportunity.	6 Individual Projects Are Often Too Small for Most Investors.	9 Misaligned Incentives And Unequal Power Relations.

How Can Legislation Enable Investment?

Increase incentives for brands and manufacturers

- Eco-modulated fees depending on the product footprint
- Requiring all brands to meet specific sustainability targets, such as:
  - Level of scope 3 emissions
  - Minimum threshold for recycled content for each fibers type
- Direct financial and technical support for SMEs and their manufacturers
- Tax incentives for low-carbon production in the EU

Increase incentives for investors

- Government-backed loan guarantee fund or green bank to de-risk loans to facilities (i.e., green bank takes first loss)
- Align upcoming regulatory taxonomy with existing methods used to measure, report and reduce carbon emission (i.e., SPI and Substantiating Green Claims)
- Additional economic incentives for low-carbon production and energy use, such as tax credits and feed-in tariffs
- Direct funding of early stage innovation
- Link regulations to preferential trade agreements with key importing countries