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Financing Mechanisms to Support Decarbonisation within the Fashion Sector

Practical steps to mobilise more capital to decarbonise upstream suppliers in major production countries



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Contents

Acknowledgements	2
List of Abbreviations	4
Executive Summary	5
Section 1: Introduction	10
Section 2: Current financing solutions that have supported decarbonisation within the fashion industry.....	20
Section 3: Financing solutions that have supported SMEs in other manufacturing sectors to decarbonise.....	44
Section 4: Financing solutions that will require further development to support decarbonisation within the fashion industry	48
Section 5: Recommendations and practical steps to scale up these financing solutions.....	55
Section 6: Conclusion.....	59
Glossary	62



List of abbreviations

AII	Apparel Impact Institute	LMA	Loan Market Association
APLMA	Asia Pacific Loan Market Association	LSTA	Loan Syndications and Trading Association
ASEAN	Association of Southeast Asian Nations	MEG	Monoethylene glycol
BIDV	Joint Stock Commercial Bank for Investment and Development of Viet Nam	MRV	Monitoring, reporting, and verification
CBI	Climate Bonds Initiative	PE	Private equity
CMT	Cut, make, trim	PPA	Power purchase agreement
CVVPA	Collective virtual power purchase agreement	PTA	Purified terephthalic acid
DC	Direct current	PV	Photovoltaic
DGG	Deployment Gap Grant	QC	Quality control
EMS	Energy management system	REC	Renewable energy certificate
EPC	Energy performance contract	ROI	Return on investment
ESBN	ESCAP Sustainable Business Network	SAGE Programme	Sustainability-Linked Advisory, Grants and Enablers Programme
ESCO	Energy service company	SBTi	Science Based Targets initiative
ESG	Environment, social, and governance	SLB	Sustainability-linked bond
EUR	Euro	SLBP	Sustainability-Linked Bond Principles
EV	Electric vehicle	SLL	Sustainability-linked loans
FLAG	Forest, land and agriculture	SLLP	Sustainability-Linked Loan Principles
FX	Foreign exchange	SMEs	Small and medium-sized enterprises
GBP	Green Bond Principles	SPO	Second-party opinion
GDP	Gross domestic product	SPT	Sustainability performance target
GFF	Good Fashion Fund	tCO₂e	Tonnes of carbon dioxide equivalent
GFI	Green Fashion Initiative	UNFCCC	United Nations Framework Convention on Climate Change
GHG	Greenhouse gas	USD	United States Dollar
GLP	Green Loan Principles	VC	Venture capital
HVAC	Heating, ventilation, and air conditioning	VFD	Variable frequency drives
ICMA	International Capital Market Association	VPPA	Virtual power purchase agreement
KPI	Key performance indicator	WWTP	Wastewater treatment plant
LED	Light-emitting diode	ZLD	Zero liquid discharge



EXECUTIVE SUMMARY



Executive Summary

OBJECTIVES

The Fashion Industry Charter for Climate Action (“the Fashion Charter”) is a voluntary industry-led initiative convened by UN Climate Change, bringing together leading brands, manufacturers and stakeholders to accelerate sector-wide climate action. The industry is a major contributor to global greenhouse gas emissions, the impact is approximately between 2 and 8% of global greenhouse gas (GHG) emissions.¹

The fashion industry is structurally complex as evidenced by its fragmented supply chains, geographic concentration of upstream suppliers in markets that lack rigorous environmental standards and safeguards for environmental risks as well as many brands’ ongoing reliance on these third-party, upstream suppliers. This means that the technical know-how and financial resources necessary for efficient decarbonisation are not equally distributed. Critically, many of the upstream manufacturers and suppliers are concentrated in major production countries in Southeast and Southern Asia, such as Viet Nam, Bangladesh and Pakistan. These countries face acute climate vulnerabilities, yet many manufacturers have limited ability to decarbonise and climate-proof their operations because the investment required for climate action is beyond what most small and mid-sized companies in these geographies can afford.

This paper examines financing options for fashion manufacturers, identifies gaps and barriers and proposes innovative mechanisms to accelerate decarbonisation. Drawing on stakeholder consultations, desk research, and 10 case studies, it offers practical, scalable solutions drawn from both the fashion industry itself and other manufacturing sectors from which learnings can be translated. The report’s objective is to strengthen understanding and foster collaboration between brands, suppliers, and financial institutions to drive sector-wide decarbonisation.

This paper primarily targets Fashion Charter Signatories committed to ambitious climate goals, aiming to help them leverage sustainable financing to implement these commitments and advance collaboration opportunities for decarbonisation especially those involving upstream suppliers. It will also be of relevance to financial institutions offering sustainable finance products and seeking to deepen their role in driving industry-wide decarbonisation. Additionally, it may be useful for financial intermediaries, third-party verifiers, and research bodies working to strengthen the market through best practices and enhanced knowledge sharing.

1 Fashion Industry Charter for Climate Action, (2025) [Fashion's Supply Chain Challenge](#)



KEY FINDINGS

The research undertaken, as put forward in this report, highlights a number of key findings.

- | | | |
|--|--|--|
| | <ul style="list-style-type: none">● Financing solutions that support decarbonisation initiatives tend to be adopted by larger companies in the fashion industry with more awareness of these options and have the resources to meet the requirements of international best practices (such as green bonds). | |
| | <ul style="list-style-type: none">● Given the growing climate impacts that disproportionately affect major production countries, there is a strong urgency to unlock more capital for SMEs not only to decarbonise their operations, but also to support start-ups and smaller manufacturers to develop and scale green technologies in these markets. | |
| | <ul style="list-style-type: none">● The disclosure and information requirements for green financing solutions could be simplified and technology solutions leveraged to bridge data gaps where possible to attract more fashion companies to consider these options for their decarbonisation. | |
| | <ul style="list-style-type: none">● Where collaboration platforms exist to bring together fashion companies of different sizes to drive decarbonisation, these examples tend to be found in regions where major brands and financial institutions are more active in driving sustainability outcomes. | |
| | <ul style="list-style-type: none">● Establishing a clear connection between the financing mechanism and decarbonisation impacts is critical to establish accountability in the supply chain and directly influence emissions reduction. | |



RECOMMENDATIONS

To promote the availability and uptake of sustainable finance solutions at scale, especially among upstream suppliers, this paper leverages the research to outline six key recommendations:

1

Major brands are encouraged to **partner with financial institutions to initiate knowledge sharing** across their supply chain on financing solutions that support decarbonisation impacts.

2

Industry associations, brands and financial institutions in major production countries especially Southeast Asia, Bangladesh and Pakistan can **do more to promote the benefits of EPCs (Energy Performance Contracts) and ESCOs (Energy Service Companies)** to accelerate the decarbonisation of upstream suppliers.

3

More investments could be channeled to **scale up technology platforms and digital tools** in major production countries that enable SMEs to gain access to sustainable financing solutions.

4

Brands with prior experience in collaborative financing arrangements to decarbonise should **take the lead in disseminating this knowledge** to their regional offices in major production countries to explore similar arrangements in other markets that better support upstream suppliers' decarbonisation.

5

Sustainable financing solutions should be structured with the intention to **explicitly link capital with specific decarbonisation goals** and ensure accountability for the emissions reductions.

6

Finally, financial support could be **accompanied by technical, environmental and social guidance** to ensure that the decarbonisation solutions are well embedded into the operations of suppliers.



STRUCTURE OF THE REPORT

The report is presented in the following structure:

1

The introduction in Section 1 sets the scene by providing an **overview of the fashion industry and its greenhouse gas emissions**, the decarbonisation measures available in the industry, the challenges with adopting sustainable financing solutions as well as our research approach.

2

Section 2 presents **current financing solutions** that have supported decarbonisation within the fashion industry alongside 10 case studies to demonstrate their application.

3

Section 3 looks at financing solutions that have supported SMEs in **other manufacturing sectors** to decarbonise and considers how these financing solutions can potentially be applicable to the fashion industry.

4

Section 4 examines **financing solutions that will require further development** to support decarbonisation within the fashion industry.

5

Section 5 draws on the previous sections and presents **recommendations and practical steps to scale up** these financing solutions.

6

Section 6 concludes by providing **final reflections** and suggestions for future research.



1



Section 1

Introduction

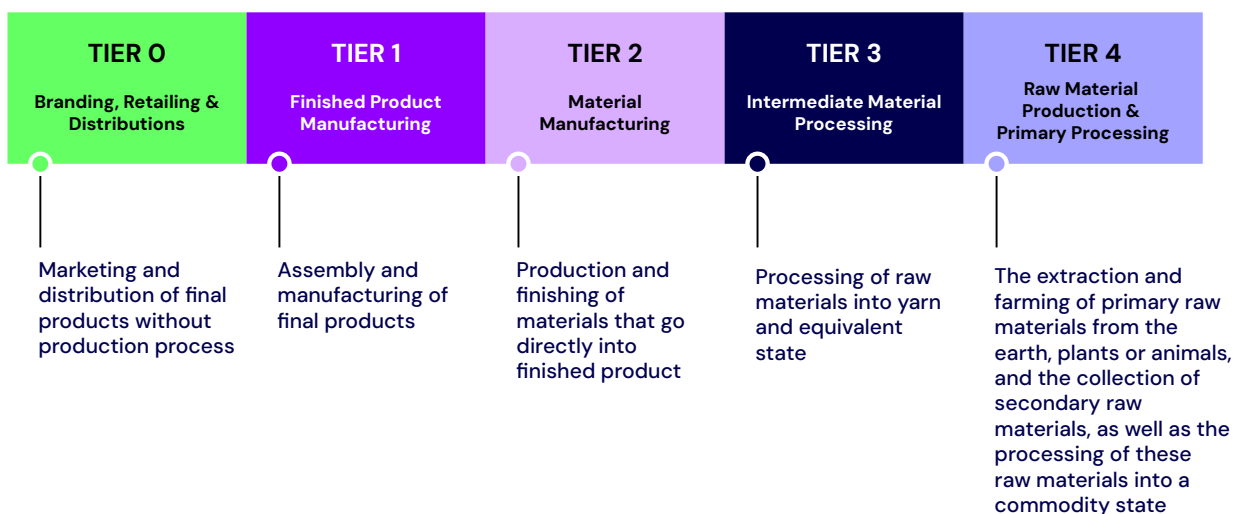


1.1. Overview of the fashion industry and its greenhouse gas emissions across the tiers

The fashion industry is notable for its significant economic contribution, comprising of about 1.63% of the global Gross Domestic Product (GDP) valued at \$1.84 trillion in 2025, and employing 11.9% of the global workforce.²

At the same time, the sector is also a significant contributor to GHG emissions, accounting for approximately 2 to 8% of global GHG emissions.³

According to the *Supply Chain Taxonomy Framework*,⁴ the sector's supply chain tiers can be categorised into the following stages of production, sourcing, and distribution:



² "Global Apparel Industry Statistics: Market Size and Trends (2025)", Uniform Market, May 23, 2025, <https://www.uniformmarket.com/statistics/global-apparel-industry-statistics>

³ Fashion Industry Charter for Climate Action, (2025) [Fashion's Supply Chain Challenge](#)

⁴ "Supply Chain Taxonomy for the textile, apparel and fashion industry", apparel alliance, December 2024, <https://2d73cea0.delivery.rocketcdn.me/app/uploads/2024/12/Supply-Chain-Taxonomy.pdf>



Some studies have identified the industry's emissions to be mostly concentrated in the energy-intensive activities of upstream Tier 1-4 suppliers (71%), while a smaller proportion of emissions are generated by downstream product use and end-of-life treatment (23%). Only 6% of the industry's emissions originate from brand operations including retail and transport.⁵

The relative magnitude of emissions across Scopes 1, 2 and 3 will vary depending on where the company sits in the fashion value chain. For example, a brand or retailer's Scope 1 and 2 emissions are generally small, while its Scope 3 emissions – especially Purchased Goods and Services (Scope 3, Category 1) – accounts for the majority of emissions.⁶ Conversely, in the case of a finished goods manufacturer or textile mill, emissions arising from Scope 1 and 2 sources are expected to be more substantial.⁷

To accelerate the fashion industry's decarbonisation, it is essential to understand the challenges faced by the various supply chain tiers, particularly in major production countries where suppliers are most heavily concentrated. Bangladesh, for example, is the world's second-largest producer of ready-made garments and typifies the complexity described above. The fashion industry contributes over 13% of the country's GDP and employs more than 4 million people.⁸ At the same time, it faces significant environmental challenges due to high energy demand, water consumption, and use of chemicals.

Fossil fuel dependency and limited access to capital are barriers to scaling clean energy solutions. Additionally, local banks are unfamiliar with or do not have the requisite balance sheets to finance long-term, low-margin decarbonisation projects.⁹

In Southeast Asia, where Viet Nam and Indonesia are growing hubs for textiles, faces similar hurdles. Despite competitive labour costs and improving infrastructure, the region's energy mix remains fossil-fuel dominated¹⁰, and fragmented supply chains lack traceability. Small and medium-sized enterprises (SMEs), in particular, struggle to access capital¹¹.

Finally, in Pakistan, where textiles account for 8.5% of GDP and 40% of industrial employment,¹² decarbonisation is constrained by a fragmented supply chain, fossil fuel reliance, weak regulatory enforcement, and misaligned incentives from global brands. High costs and limited access to sustainable machinery and water treatment infrastructure further impede progress.¹³

1.2. Decarbonisation measures available in the fashion industry

The decarbonisation measures available to the fashion industry supply chain can be classified into 4 primary categories: clean energy transition; resource efficiency and process optimisation; sustainable materials and circularity; and supply chain transformation.

- 5 "Fashion on Climate: How the Fashion Industry Can Urgently Act to Reduce Its Greenhouse Gas Emissions", McKinsey, 2020, <https://www.mckinsey.com/-/media/mckinsey/industries/retail/our%20insights/fashion%20on%20climate/fashion-on-climate-full-report.pdf>
- 6 "Climate Action Playbook", Fashion Industry Charter for Climate Action, September 14, 2020, https://unfccc.int/sites/default/files/resource/20_REP_UN%20FIC%20Playbook_V7.pdf
- 7 "Climate Action Playbook", Fashion Industry Charter for Climate Action, September 14, 2020, https://unfccc.int/sites/default/files/resource/20_REP_UN%20FIC%20Playbook_V7.pdf
- 8 "The Garments and Textile Sector: A Change Maker for Bangladesh's Economy", The Foreign Investors' Chamber of Commerce & Industry (FICCI), January 6, 2025, <https://fikki.org.bd/en/blog/the-garments-and-textile-sector-a-change-maker-for-bangladeshs-economy>
- 9 Subir Ghosh, "Decarbonisation or Decline: The Crossroads Facing Bangladesh's Garment Export Sector", texfash, June 10, 2025, <https://texfash.com/special/decarbonisation-or-decline-the-crossroads-facing-bangladesh-s-garment-export-sector>
- 10 "Southeast Asia Energy Outlook 2022", IEA, 2022, <https://iea.blob.core.windows.net/assets/e5d9b7ff-559b-4dc3-8faa-42381f80ce2e/SoutheastAsiaEnergyOutlook2022.pdf>
- 11 "Asia Small and Medium-sized Enterprise Monitor 2024", Asian Development Bank, November 2024, <https://www.adb.org/sites/default/files/publication/1011576/asia-sme-monitor-2024.pdf>
- 12 Abid Raza Khan, "Greening the Textile Industry: An Analysis of the Policy Landscape of Pakistan", United Nations Conference on Trade and Development (UNCTAD), Integrated Policy Strategies and Regional Policy Coordination for Resilient, Green and Transformative Development: Supporting Selected Asian BRI Partner Countries to Achieve 2030 Sustainable Development Agenda, Project Paper No. 2, March 2025, <https://unctad.org/system/files/information-document/unda2030d02-pakistan-textile-industry-en.pdf>
- 13 Ambreen Jabeen Shah, Dr. Naveed Anwar and Dr. Muhammad Akram Naseem, "Weaving Sustainability: Uncovering Challenges in Pakistan's Textile Supply Chain – A Qualitative Perspective", Journal for Social Science Archives, Volume 3, 2025, July 6, 2025, https://www.researchgate.net/publication/393738995>Weaving_Sustainability_Uncovering_Challenges_in_Pakistan's_Textile_Supply_Chain_-_A_Qualitative_Perspective



Each of these categories contributes to decarbonising the fashion industry supply chain but does so in different ways:

- Clean energy transition involves reducing direct Scope 1 and 2 emissions by transitioning from fossil fuels to renewable sources of energy generation.
- Resource efficiency and process optimisation entails improving how energy, water and materials are used across operations to minimise their consumption and waste generation.
- Sustainable materials and circularity refer to the use of low-impact, renewable, or recycled materials and enabling circular production and consumption models.
- Supply chain transformation occurs when manufacturing and supply chain systems are improved holistically to lower life-cycle emissions and enable traceable, resilient operations.

[Figure 1](#) below provides a non-exhaustive list of the decarbonisation measures that apply to each supply chain tier corresponding to these four categories. In practice, the implementation of these decarbonisation initiatives will depend on various considerations such as: the level of awareness of decarbonisation initiatives across suppliers in different geographies; the availability of these technologies in their local markets; and the financing mechanisms that are accessible to them. Although financing solutions designed to support these decarbonisation initiatives exist, there are numerous challenges to their adoption in the fashion industry and these barriers are explored in more detail in Section 1.3.

**Figure 1:** An overview of the decarbonisation measures applicable to each supply chain tier

	Decarbonisation category			
	Clean energy transition	Resource efficiency and optimisation	Sustainable materials and circularity	Supply chain transformation
TIER 0 Branding, Retailing and Distributions	Renewable electricity for stores/Direct Currents (DCs) (Power Purchase Agreements (PPAs), rooftop photovoltaic (PV)) Phase-out diesel gensets; behind-the-meter storage	Efficient Heating, Ventilation, and Air Conditioning (HVAC)/lighting; building Energy Management Systems (EMS)/ISO 50001 for retail and warehouses	Product design for recyclability; brand-led take-back and textile-to-textile partnerships Traceability platforms; sustainable sourcing policies	Low-carbon logistics (route optimisation, EV trials) Supplier decarbonisation programmes; collaborative transition platforms
TIER 1 Finished Product Manufacturing	Onsite PV/PPAs; storage; power-factor and load management	High-efficiency sewing/cutting; light-emitting diode (LED)/HVAC optimisation; idle-time reduction Electrify small thermal uses (electric boilers/heat-pump dryers) where feasible EMS with sub-metering and digital dashboards	Cut, Make, Trim (CMT) waste reduction and recycling; recycled trims/packaging	Utilities right-sizing (compressed-air elimination/right-sizing) Automation and digital monitoring, reporting and verification (MRV); low-carbon factory logistics
TIER 2 Material Manufacturing (Dyeing/Finishing)	Decarbonisation: switch coal/diesel → gas/biomass → electric (boilers/heat pumps) Solar thermal for pre-heat; renewable electricity for stenters, pumps and utilities Energy storage to manage peak dyeing/finishing loads Biomass/biogas boilers where sustainably sourced	Low-liquor/foam dyeing; enzymes; right-first-time colour to reduce thermal load Heat recovery from stenter exhausts; condensate return; steam trap maintenance; insulation Water recycling; advanced wastewater treatment plant (WWTP); Zero Liquid Discharge (ZLD) where regulation/feasibility warrants	Use recycled inputs (e.g., recycled polyester chips/fibres) into fabric lines Textile-to-textile recycled feedstock integration; traceability at lot level	Retrofit dyeing/finishing lines; inline quality control (QC); digital MRV
TIER 3 Intermediate Material Processing (Fibre/Spinning)	Renewable electricity at scale for fibre, spinning and filament lines (PPAs/onsite PV) Lower-temperature chemistries (dope-dyed/masterbatch) that reduce downstream dyeing energy	Premium-efficiency motors and variable frequency drive (VFDs); compressed-air optimisation Heat recovery and low-temperature operations (e.g., lyocell solvent/exhaust heat recovery) EMS and predictive maintenance	Recycled purified terephthalic acid (PTA)/ monoethylene glycol (MEG) and other monomers for synthetics; certified pulp for man-made cellulosics Traceability back to polymer/pulp batches	Automation, digital MRV; low-carbon logistics between mills
TIER 4 Raw Material Production and Primary Processing	On-farm and primary processing energy decarbonisation (solar pumps, efficient irrigation) Renewables/biomass in ginning, scouring, pulp and resin plants; biogas from residues	Precision agriculture for fertiliser and water; soil nitrous oxide reduction via inhibitors/precision application	Feedstock shift: recycled/bio-based synthetics; deforestation-free pulp/hides; certified cotton/wool Enteric methane reduction in ruminants (feed additives, herd and grazing management)	Farm/forest traceability and certification; low-carbon upstream logistics

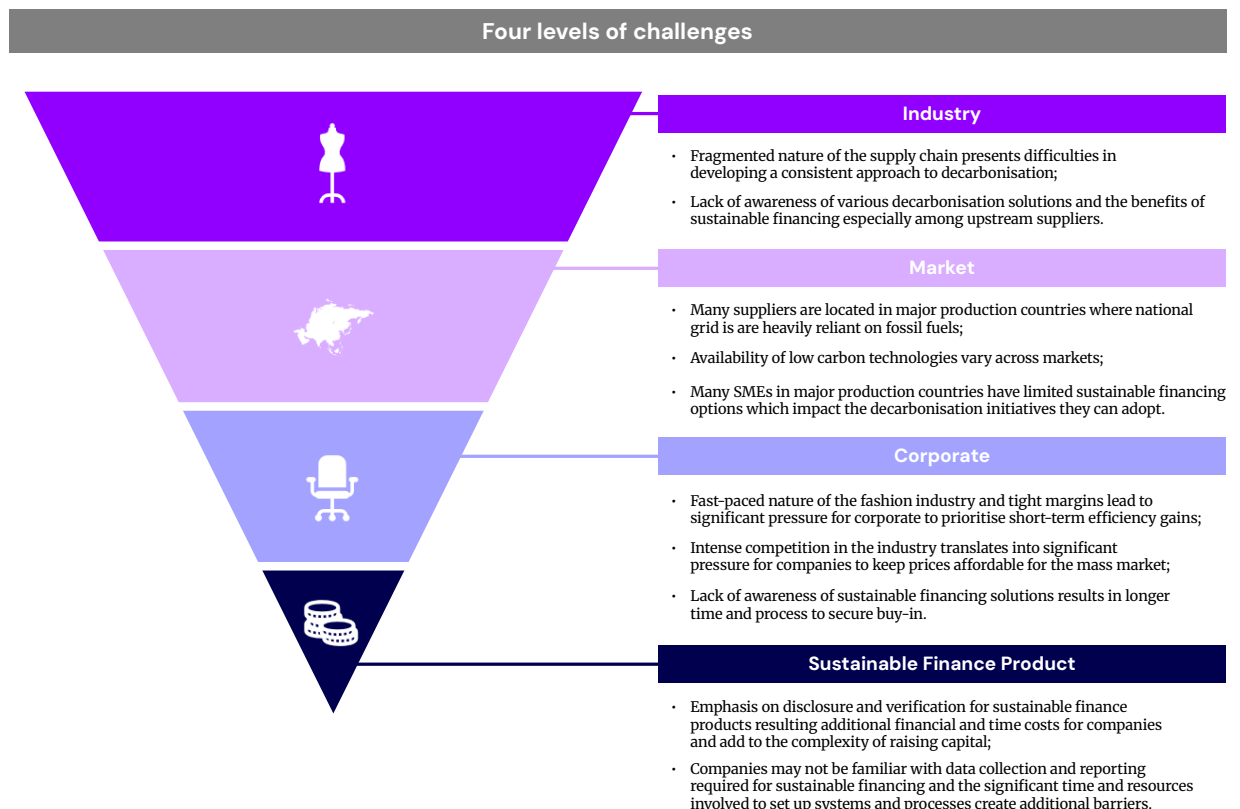


1.3. Challenges with adopting sustainable financing solutions

Efforts to decarbonise the fashion industry will require upfront investment, but affordability is an oft cited challenge, especially for SMEs who are operating in a competitive space at tight margins. At the same time, the material decarbonisation needs of the sector create opportunities to channel more financing to bridge these gaps and, while capital exists, it is not being deployed at the speed and scale required. To unlock more capital, multiple barriers need to be addressed at four levels: industry; market; corporate; and product summarised in Figure 2 below. This section examines each of these four challenges in detail, starting with

industry-level challenges that pertain to the complexity of the fashion industry and the varying levels of awareness among different tiers of suppliers when it comes to sustainable financing solutions. This is followed by market-level challenges that relate to the characteristics of individual markets such as the major production countries discussed above, the availability of decarbonisation initiatives for suppliers in those markets, and the sustainable financing solutions that suit the upstream suppliers. The third level relates to companies' internal barriers to adopting sustainable financing solutions. Finally, the fourth level focuses on the characteristics of sustainable finance products and how they themselves can form barriers for companies to access these products.

Figure 2: Four levels of challenges





1.3.1 Challenges at the industry level

Interviews with several Asian financial institutions have highlighted their expectations that brands take a more active role in encouraging their suppliers to adopt decarbonisation measures and participate in data reporting. From their perspective, a clear signal from brands to prioritise suppliers with sustainable practices could increase the demand for decarbonisation initiatives among these suppliers and, in turn, spur these suppliers to seek sustainable financing solutions to raise the capital required. Brands which prioritise sustainable supply chain practices would also be expected to work with these suppliers more closely on data collection and sustainability reporting, and this data can be used by financial institutions to better evaluate the SMEs which are seeking sustainable financing solutions. The interviews also highlighted that the existence of a long-term business relationship between the brand and the supplier is an important consideration when financing SMEs as this provides more certainty on the ability of these suppliers to repay their loans.

In practice, however, the fragmented nature of the fashion industry supply chain creates difficulty in developing and enforcing a consistent approach to decarbonisation. Brands may be reluctant to finance decarbonisation initiatives among their Tier 1 and 2 suppliers, especially if their competitors who work with these same suppliers do not co-finance the investment. Moreover, brands often lack visibility of their Tier 3 and 4 suppliers and are not sufficiently aware of the financing arrangements these suppliers already have in place to promote sustainable financing to raise capital for decarbonisation initiatives. Collaborative platforms may be needed to incentivise multiple brands to collectively invest in the decarbonisation of their supply chains and for suppliers across tiers to gain familiarity with and implement best practices.

Insights from brands and large tier 1 manufacturers highlight a perceived lack of awareness among upstream suppliers of available decarbonisation solutions and the benefits of sustainable financing. Smaller suppliers often lack the capacity or confidence to adopt sustainable financing products and perceive these solutions to be high risk due to the challenge of quantifying the financial benefits of decarbonisation measures. Conversely, larger suppliers may not see sufficient commercial benefit from adopting sustainable financing solutions to justify the effort required to comply with additional reporting requirements as well as the costs associated with taking on additional debt, especially if they already have access to conventional financing sources.

1.3.2 Challenges at the market level

At present, many suppliers operate within energy infrastructures that have a high reliance on fossil fuels, reflecting broader grid-level constraints rather than individual supplier choices. Moreover, these geographies, as for many major production countries, face challenges in phasing out coal completely due to past instances of severe power shortages commonly caused by ageing grid infrastructure and a longstanding reliance on producing electricity from domestic coal. To decarbonise their operations rapidly, these suppliers must adopt specific corporate or site-level initiatives, however the ability to do so depends on the availability of low-carbon technologies which vary across markets. For example, in Pakistan, machinery is unavailable locally and entails high initial investment and maintenance costs, thereby discouraging adoption among manufacturers.¹⁴ Significant financing is also involved, especially for water treatment plants which are pertinent for dyeing and processing activities that utilise high volumes of water and releases wastewater containing chemicals and dyes.¹⁵ As a result, decarbonisation efforts tend to be implemented by large corporate

14 Ambreen Jabeen Shah, Dr. Naveed Anwar and Dr. Muhammad Akram Naseem, "Weaving Sustainability: Uncovering Challenges in Pakistan's Textile Supply Chain – A Qualitative Perspective", Journal for Social Science Archives, Volume 3, Number 3, 2025, July 6, 2025, https://www.researchgate.net/publication/393738995_Weaving_Sustainability_Uncovering_Challenges_in_Pakistan's_Textile_Supply_Chain_-_A_Qualitative_Perspective

15 Ambreen Jabeen Shah, Dr. Naveed Anwar and Dr. Muhammad Akram Naseem, "Weaving Sustainability: Uncovering Challenges in Pakistan's Textile Supply Chain – A Qualitative Perspective", Journal for Social Science Archives, Volume 3, Number 3, 2025, July 6, 2025, https://www.researchgate.net/publication/393738995_Weaving_Sustainability_Uncovering_Challenges_in_Pakistan's_Textile_Supply_Chain_-_A_Qualitative_Perspective



exporters with more resources, rather than smaller businesses or SMEs.

From a financing perspective, SMEs in many major production countries face ongoing challenges in accessing finance – from unfavourable credit profiling which leads to unaffordable interest rates to physical access limitations which restrict their ability to find an appropriate lender. Despite top-down efforts in some countries to foster a more inclusive sustainable finance ecosystem and encourage SMEs' access – such as the availability of grant schemes to defray part of the costs – the high costs of capital limits the ability of commercial banks to take on the risks associated with financing SMEs. In instances where sustainable financing options are extended to SMEs, these tend to be specific debt products from banks while other non-debt financing solutions in the market are at a nascent stage.¹⁶ As a result, SMEs have limited sustainable financing options and this creates structural imbalances in the industry in terms of the decarbonisation initiatives they can implement and the speed of their decarbonisation.

1.3.3 Challenges at the corporate level

Various corporate-level challenges exist that hinder the adoption of sustainable financing solutions within the fashion industry. First, the fast-paced nature of the fashion industry and the tight margins with which it operates means that corporates often face significant pressure to prioritise short-term efficiency gains. Insights derived from interviews and discussions with corporates have highlighted that decarbonisation projects – such as the installation of onsite renewable electricity generation – entail substantial CAPEX requirements and extended payback periods that often exceed typical business cycles of 3–5 years, thereby making these initiatives less attractive from a return on investment (ROI) perspective.

Second, the competitive market dynamics in the industry means that some companies face significant pressure to keep their prices affordable for the mass market. Based on interviews with the major brands, corporates are concerned that investing in decarbonisation initiatives will increase their cost of production; the corporates interviewed believe that there is a risk of pricing out products when investing in decarbonisation initiatives and this is likely because the additional cost cannot be passed on to consumers so they will experience even lower profit margins as a result.

Third, sustainable financing solutions may not be well-understood in the fashion industry, and the lack of awareness internally results in a longer time and process to secure buy-in. In contrast, conventional sources of financing may seem more attractive and viable to these companies especially when they require capital quickly to meet their short-term business needs.

1.3.4 Challenges related to sustainable finance products

The credibility and integrity of the sustainable finance ecosystem rely on the alignment of sustainable finance products with international and/or regional standards. To mitigate the risks of greenwashing and demonstrate that these products deliver genuine outcomes and impact, a prominent emphasis is placed on disclosure and verification. These activities incur additional financial and time costs for companies and add to the complexity of raising capital. This can in turn create drawn-out processes and delays which deter companies who are already operating on tight margins in a competitive and fast-paced sector.

¹⁶ The common sustainable financing instruments available to SMEs are sustainability linked loans and green loans. More details can be found in Section 3.



Furthermore, the inherent emphasis of sustainable finance on greater levels of transparency means companies are expected to collect and process relevant data to report on a regular basis. This type of data may be new to companies, who may not be familiar with what it is, how to gather or process it, or even why they should. As a result, the information necessary to obtain and manage sustainable financing is not always readily available, particularly in major production countries with evolving but still nascent sustainability and disclosure regulations. Moreover, the burden falls on the company to disclose and set up systems, processes, even teams, to handle it which involves significant time and resources thereby creating additional barriers for both large corporates and SMEs.

1.4. Research approach

Despite the various challenges identified in Section 1.3, recent years have seen fashion companies look into sustainable financing solutions for their decarbonisation initiatives. To strengthen understanding and foster collaboration between brands, suppliers, and financial institutions to drive sector-wide decarbonisation, this paper examines the financing options for fashion manufacturers, identifies gaps and barriers and proposes innovative mechanisms to accelerate decarbonisation.

To achieve a holistic view of the financing solutions in the market and their relevance to supporting the fashion industry's decarbonisation, we undertook the following activities:

1. Defined the parameters of our research. The key parameters we considered are the name of the financing solution, the targeted decarbonisation need, the finance gap addressed, the applicable country/region, the eligibility criteria, the beneficiaries, key stakeholders or providers as well as example(s) of past transactions.

2. Conducted desktop research, group consultations and stakeholder interviews involving selected brands and financial institutions. These stakeholders were selected based on their past experience with sustainable financing and/ or interest in sustainable financing solutions to better understand the successes and challenges faced and where applicable, to bridge the information gaps from the desktop research. We have identified that in general, publicly available case study material with the level of detail required to verify the success of an implemented mechanism against a number of metrics were difficult to find.

3. Consolidated the findings into a financing solutions matrix. The matrix categorises financing solutions into debt, equity, grant, mixed, risk, supply chain and others and allows users to filter the findings based on the key parameters above.

For the purpose of this paper, a further step was taken to group these financing solutions into three bands to facilitate deeper analysis.

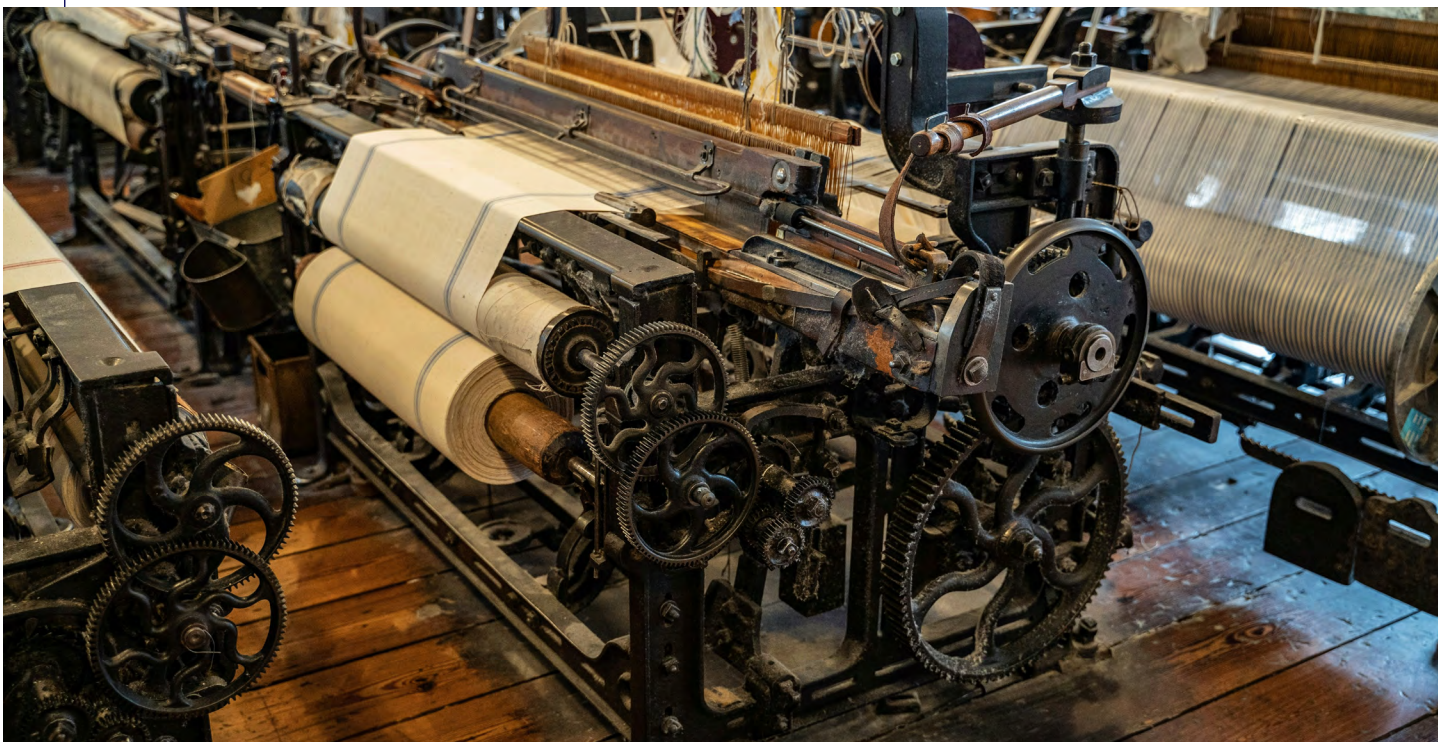
- Band 1 relates to current financing solutions that have supported decarbonisation within the fashion industry and have demonstrable potential for further scale up.
- Band 2 refers to financing solutions that have supported SMEs in other manufacturing sectors to decarbonise, with strong potential for replication in the fashion industry.
- Band 3 captures the financing solutions that will require further development to support decarbonisation within the fashion industry, particularly across upstream suppliers and/or in major production countries

Against this backdrop, [Figure 3](#) provides an overview of the financing solutions which will be examined in this paper and the financing solutions which correspond to each of the three bands.



Figure 3: An overview of the financing solutions which will be examined in this paper

	Debt	Equity	Grant	Mixed	Risk	Supply Chain	Other
Band 1: Current financing solutions that have supported decarbonisation within the fashion industry	Green bonds Green loans Sustainability-Linked Bonds Sustainability-Linked Loans	Green Equity	Grants	Blended Finance	Long-Term Purchasing Agreement Virtual Power Purchase Agreement (VPPA) and VPPA Guarantee	Sustainable Supply Chain Financing	
Band 2: Financing solutions that have supported SMEs in other manufacturing sectors to decarbonise	Sustainability Linked Programme for SMEs Green Loans for SMEs						Energy Performance Contracts
Band 3: Financing solutions that will require further development to support decarbonisation within the fashion industry ¹⁷	Green Subordinated Debt Revolving Credit Facility Concessional Loans Local Currency Loans and Facilities	Private Equity and Venture Capital	Project Co-funding Pull Financing Instruments	Project Finance	Guarantees	Dynamic Discounting Inventory Finance Purchase Order Finance Reverse Factoring	“Green Incentive” on Products Management Fee/ Interest Subsidy Producer Sustainability Compensation



¹⁷ Specific focus is on Southeast Asia, Bangladesh and Pakistan where many upstream suppliers in the fashion industry are located.

A large, white, stylized number '2' is centered on the page. The background is a photograph of a wooden frame containing several spools of thread in various colors (white, green, pink) and some thin threads stretched across the frame.

2



Section 2

Current financing solutions that have supported decarbonisation within the fashion industry

As the fashion industry accelerates its transition toward lower carbon production models, understanding the financial mechanisms enabling this shift has become increasingly important. This section focuses on current financing solutions that have supported decarbonisation in the fashion industry. Within the section, we explain how each financing solution works as well as the key considerations one should keep in mind when selecting this financing solution in the fashion industry. This is critical in order to ensure that the financing solution delivers genuine and impactful decarbonisation outcomes.

Each financing solution is accompanied by a case study to illustrate its practical application and draw out further learnings for the fashion industry. These case studies were selected based on the following considerations:

- Whether a direct connection could be established between the specific financing mechanism and at least one decarbonisation category (as per [Figure 1](#)) for at least one supplier tier in the fashion industry;
- Where multiple examples exist, we have prioritised examples that benefit Tiers 2, 3 and/ or 4 suppliers who are more critical to sector-wide decarbonisation and analysed what this means for Southeast Asia, Bangladesh and/ or Pakistan.

2.1. Debt

2.1.1 Green Bonds

Definition: As per the definition of the International Capital Markets Associate (ICMA) which publishes one of the reference standards, the Green Bond Principles (GBP), green bonds refer to any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, eligible Green Projects¹⁸.

In addition to projects that directly generate environmental benefits, the GBP also recognise Green Enabling Projects, which is a necessary component of an enabled Green Project's value chain, but it is not necessarily a conveyor of a direct positive environmental impact on its own. This could include, for example, manufacturing components for renewable energy systems. A Green Enabling Project's positioning in an enabled Green Project's value chain, should be clearly identified and/or contextualised. ICMA considers these enabling activities eligible for green bond financing when they demonstrably support the environmental objectives of the bond¹⁹.

¹⁸ "Green Bond Principles – Voluntary Process Guidelines for Issuing Green Bonds", ICMA, June 2025, <https://www.icmagroup.org/assets/documents/Sustainable-finance/2025-updates/Green-Bond-Principles-GBP-June-2025.pdf>

¹⁹ "Green Enabling Projects Guidance document", ICMA, June 2024, <https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Green-Enabling-Projects-Guidance-document-June-2024.pdf>



The proceeds of green bonds are not fungible; they cannot be easily exchanged with other assets from traditional bonds which are not aligned to the core components as per international standards such as ICMA's GBP and those of the Climate Bonds Initiative (CBI). This is the case even with multi-tranche issuance where only one tranche is green.

Per ICMA, to which it is estimated that over 90% of green bond issuance aligns globally, the core components that define a green bond are:

- The allocation of net proceeds of the bond to finance eligible Green Projects with clear environmental benefits which will be assessed and quantified by the issuer;
- Processes for project evaluation and selection that clearly communicate the environmental sustainability objectives, the process to determine how projects fit within eligible categories, and the processes to identify and manage social and environmental risks associated with the relevant projects;

- Policies and processes for managing the deployment/allocation of capital and net proceeds; and
- Appropriate reporting and disclosure of how the net proceeds are deployed/allocated and the associated impact(s)

There are no restrictions on who can issue a green bond, and examples exist across sovereign, sub-sovereign, supranational, financial institution and corporate issuers. In each case they can act as an alternative source of capital, albeit one that is explicitly intended to meet green financing or investment needs. In the fashion industry specifically, green bonds may be an appropriate solution to finance eligible projects that drive improvements or enhancements in renewable energy use, energy efficiency, circularity and use of low-impact materials, and supply chain transformation.

Key considerations:

- ▶ Green bond proceeds can be deployed to a wide range of eligible projects with positive environmental benefits. Therefore, issuers from the fashion industry can raise and deploy capital targeted towards clean energy transition (particularly renewable energy), resource efficiency and process optimisation (particularly energy efficiency), sustainable materials and circularity, and supply chain transformation.
- ▶ Green bonds typically require a level of critical mass when looking at the portfolio of eligible projects to which the proceeds will be allocated. Therefore, the financing needs of the issue will usually be substantial and over a certain time horizon. Corporate bonds are typically issued on 3-, 5-, or 7-year time horizons, in comparison to sovereign bonds which are often issued over longer time horizons.



- ▶ Green bond standards emphasise transparency and disclosure at the pre-issuance and post-issuance stages. As an example, under the ICMA Green Bond Principles, issuers are expected to develop a Green Bond Framework describing how the issuer aligns with the green bond principles (e.g. ICMA Green Bond Principles (GBP), the Climate Bonds Standard and/ or the ASEAN Green Bond Standards) and clearly explain the use of proceeds, project evaluation and selection, management of proceeds and reporting. At the post-issuance stage, the green bond issuer is expected to produce an annual report that details how the net proceeds were deployed to eligible green projects (i.e. an allocation report which will usually require auditing) and quantification of the associated environmental benefits of the projects (i.e. an impact report). The latter aims at least to quantify, where feasible, the sustainability impact the eligible projects have generated – as measured using a specific metric – that can be directly attributed to that project.
- ▶ The involvement of an external reviewer is one of the distinguishing features of green bond issuances to strengthen the integrity and credibility of the financial instrument. Pre-issuance, the external reviewer provides an independent assessment of the Green Bond Framework's alignment with the relevant international reference standards (e.g. ICMA's Green Bond Principles) and the external review report/statement may need to be submitted to the relevant standard-setting body. Depending on the issuance jurisdiction, further requirements may arise such as publishing the External Reviewer's opinion on a website or other accessible communication channel.

CASE STUDY 1

H&M Group's inaugural EUR 500 million green bond.

In October 2023, H&M Group issued a EUR 500 million green bond with a maturity of 8 years under its Euro Medium Term Note programme. The bond was over 3.5 times oversubscribed from a broad international base of institutional investors. Per H&M Group's Sustainable Finance Framework²⁰ (which was aligned with the ICMA Green Bond Principles) the net proceeds of the green bond will be allocated towards eligible projects under the following categories: Circular Economy, Green Buildings, Renewable Energy, Energy Efficiency and Sustainable Water Management and Wastewater Management.²¹

H&M Group published its first Green Bond Report in 2024 which outlines the allocation of proceeds and the environmental impacts associated with the Eligible Green Project Portfolio. 100% of the net proceeds from the green bond issuance had been allocated to the eligible green project portfolio. [Figure 4](#) provides a summary of the key information disclosed in this report.²²

20 H&M's Sustainable Finance Framework comprises of a Green Finance Framework and a Sustainability-Linked Finance Framework. Its Green Finance Framework is developed in accordance with the 2021 ICMA Green Bond Principles, including the updated appendix 1 of June 2022, as well as the 2023 LMA Green Loan Principles, administered by the Loan Market Association (LMA).

21 "H&M Group issues inaugural EUR 500 million green bond to support financing of its circularity and climate roadmap", October 19, 2023, <https://hmgroupp.com/news/hm-group-issues-inaugural-eur-500-million-green-bond-to-support-financing-of-its-circularity-and-climate-roadmap/>

22 "H&M Group Green Bond Report 2024", November 30, 2024, <https://hmgroupp.com/wp-content/uploads/2025/04/Green-Bond-Report-2024.pdf>



Figure 4: Key information extracted from H&M Group's Green Bond Report 2024

Eligible green project category	Amount (EURm); % of green bond proceeds allocated in parenthesis	Impact Indicator(s)
Circular economy adapted products, production technologies and processes; and/ or certified eco-efficient products (of which cost of recycled materials is capped at 15% of bond proceeds)	300 (58%)	Tonnes of plastic packaging reduction enabled Tonnes of fabric purchased with the 75 EURm allocated to the Eligible Green Project Portfolio Estimated annual GHG emissions avoided Recycled materials (purchased with the 75 EURm allocated to the Eligible Green Project Portfolio) as share of total materials used in H&M Group's commercial goods in 2024 Share of H&M Group turnover coming from resell
Green buildings	30 (6%)	Number of certified buildings and type of classification/ rating Estimated annual GHG emission avoided Total annual energy savings
Renewable energy	21 (4%)	Estimated annual GHG emission avoided New renewable energy capacity enabled by virtual power purchase agreements
Energy efficiency	138 (27%)	Estimated annual GHG emission avoided
Sustainable water and wastewater management	24 (5%)	Estimated annual GHG emission avoided Estimated annual %/ volume (m3) of freshwater consumption reduced
Total	513*	

* The total amount allocated exceeds the EUR500 m green bond as EUR 289 m was for financing of eligible green projects added in 2024 and EUR 224 m was for refinancing of eligible projects before 2024.

H&M Group's green bond issuance provides some useful examples of where and why green bonds may be an appropriate solution:

- First, H&M Group allocates some of the green bond proceeds towards the project categories and specific decarbonisation measures where it can create the most impact as a Tier 0 supplier (i.e. branding, retailing and distribution). This includes using the green bond proceeds to fund CAPEX related to onsite solar PV at its offices and warehouses and to reduce energy consumption in its stores, offices and warehouses through the installation of real-time monitoring, LED lighting and motion sensors.
- Second, H&M Group has also made allocations through equity investments to pilot or scale-up technologies that benefit other supply chain tiers. This differs from typical green bond issuances where the proceeds are directly used to finance projects with clear environmental benefits. For example, H&M Group states that it has made an equity investment using its green bond proceeds in Rondo Energy, a company that specialises in thermal battery energy storage technology with potential to enable textile factories to electrify. This could potentially support Tier 1 and Tier 2 suppliers to decarbonise more rapidly.



- Finally, H&M Group demonstrates that it is possible to move beyond a traditional buyer-supplier relationship by co-sharing the financing risks with its suppliers. This is evidenced in H&M Group allocating part of its green bond proceeds as loans to its suppliers. Under its Green Fashion Initiative (GFI), suppliers can access funding to invest in technologies and processes to lower energy and water demand and replace fossil fuels. For instance, with the support from GFI, a knitting manufacturer in Bangladesh installed solar PV and energy efficiency measures including heat recovery technology, VFD compressors and more

efficient dyeing machines. Two fabric manufacturers located in Bangladesh and in India respectively, are in the midst of implementing innovative waterless dyeing technologies that substantially decrease the water, energy and chemical used for dyeing fabric. This approach helps to address the decarbonisation needs of Tier 2 and Tier 3 suppliers who tend to operate in locations that are powered by carbon-intensive grid infrastructure while providing an alternative source of financing that is dedicated towards green and sustainable practices.

2.1.2 Green Loans

Definition: Green loans refer to any type of loan instrument and/or contingent facilities – including bonding lines, guarantee lines or letters of credit – where the proceeds or an equivalent amount must be exclusively applied to finance, re-finance or guarantee, in whole or in part, new and/or existing eligible green projects²³.

The Green Loan Principles (GLP) published by the Asia Pacific Loan Market Association (APLMA), the Loan Market Association (LMA) and the LSTA (previously the Loan Syndications and Trading Association) are voluntary recommended guidelines which define the characteristics where a loan may be considered “green”. According to GLP, green loans are not interchangeable with loans which are not aligned with the four core components of the GLP. These four core components are:

1. Specific uses of proceeds for projects that provide clear environmental benefits;
2. Processes for project evaluation and selection including the environmental sustainability objectives of projects, the process to determine how the associated projects fit within eligible categories, and the processes to identify and manage social and environmental risks associated with the relevant projects;
3. Policies and processes for managing the deployment/ allocation of capital and net proceeds of the green loan; and
4. Appropriate reporting and disclosure of how the net proceeds of the green loan are deployed/ allocated and the associated impact(s)

²³ “Green Loan Principles”, Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and LSTA, March 26, 2025, <https://www.lsta.org/content/green-loan-principles/>



A green loan may take the form of one or more tranches of a loan facility, and may be structured as a term loan, revolving credit facility and/ or contingent facilities. In the fashion industry, green loans are increasingly used to finance supplier-level

interventions such as energy efficiency upgrades, renewable energy installations, wastewater treatment improvements and adoption of low-carbon manufacturing technologies.

Key considerations:

- ▶ Green loans are applicable to a wide range of projects with positive environmental benefits. Therefore, borrowers in the fashion industry can channel green loans towards eligible categories including renewable energy, energy efficiency, circular economy adapted products, and sustainable water and wastewater management projects.
- ▶ Many banks are strengthening the integration of environmental considerations into their lending strategies, contributing to a clear upward trend in the origination of green loans²⁴. As institutions expand these activities, borrowers may find increased lender interest in financing projects that qualify as green loans. In contrast to green bonds, green loans are more accessible for SMEs due to the limited scale of their projects and likelihood of lacking the requisite credit profile for green bonds.
- ▶ A green loan/ finance framework that aligns with the four core components of the GLP is considered best practice. According to the LMA GLP, this framework could be developed by the borrower – typically a large corporate seeking to obtain green loans from different financial institutions – or by the lender(s), which are usually a bank or syndicate of banks.
- ▶ There is an emphasis on transparency, accuracy and integrity of the information disclosed by borrowers to their stakeholders. The GLP recommends borrowers to engage an external review provider(s) to determine the alignment of their green loan (or green loan programme) and/ or green loan/ finance framework with the four core components. This is especially important if the borrower is unable to satisfactorily evidence that it possesses internal capabilities and resources to assess alignment with the GLP. Conversely, the GLP recognises that the loan market is traditionally relationship-driven and lenders are likely to have a strong understanding of the borrower and its activities. Therefore, the GLP deems it sufficient that a borrower undertakes self-certification on the basis that it has demonstrated or developed the internal capabilities to assess alignment of the green loan with the key features of the GLP. In such cases, borrowers are recommended to document their expertise thoroughly and to communicate this information to all financial institutions involved in the loan.²⁵

²⁴ “EBA Report in Response to the Call for Advice from the European Commission on Green Loans and Mortgages”, European Banking Authority, December 2023. https://eba.europa.eu/sites/default/files/2023-12/e7bcc22e-7fc2-4ca9-b50d-b6e922f99513/EBA%20report%20on%20green%20loans%20and%20mortgages_0.pdf

²⁵ “Green Loan Principles”, Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and LSTA, March 26, 2025, <https://www.lsta.org/content/green-loan-principles/>



CASE STUDY 2

BIDV's VND 4,200 billion green credit package for textile and garment enterprises

In October 2023, the Joint Stock Commercial Bank for Investment and Development of Viet Nam (BIDV) announced a green credit package worth VND 4,200 billion targeted at textile and garment enterprises.²⁶ The programme was implemented until June 30, 2024 or until all the budget is utilised. Through this programme, BIDV offers short-term green loans for textile and garment companies with plans to produce and trade standard, certified or sustainable-labeled textile products.²⁷ It also provides medium and long-term green loans to finance green construction/renovation projects, equipment replacement and upgrading towards efficient energy consumption such as thermal power systems, byproduct recovery and utilisation systems, and waste treatment systems.

Textile and garment companies which receive these short- and long-term loans will enjoy competitive interest rates, incentives on collateral policies and preferential exchange rates of up to 170 points for foreign currency transactions on BIDV iBank. BIDV notes that the green transition towards sustainable development is an “inevitable trend” for textile and garment companies in Viet Nam to fulfil the “green standards” required by the international market and increase its exports. Besides

benefiting from BIDV's preferential policies, corporates that meet green criteria can boost their future opportunities to access capital from investors and international financial institutions which are interested in green projects.

This case study demonstrates how local financial institutions like BIDV can leverage green loans to promote financing of decarbonisation measures in the textile and garment industry corresponding to the short-, medium- and long-term nature of these activities. Projects such as equipment replacement and upgrading to achieve more energy efficient consumption may require high upfront CAPEX which could fall outside of what upstream suppliers can afford. To address this challenge BIDV has introduced competitive interest rates, incentives on collateral policies and preferential exchange rates which may help lower the barriers for textile and garment companies to consider green loans. By channeling the green loan proceeds towards decarbonisation projects, borrowers are better positioned to meet international market expectations and continue their export activities, thereby creating a win-win situation for both BIDV and the corporate borrower.

2.1.3 Sustainability-Linked Bonds

Definition: Sustainability-Linked Bonds (SLBs) refer to any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability or environment, social, and governance (ESG) objectives. These objectives are measured using predefined Key Performance Indicators (KPIs) and

assessed against predefined Sustainability Performance Targets (SPTs) related to those KPIs. Unlike green bonds, the proceeds of SLBs are not restricted to eligible projects and can be used for general purposes. A SLB's financial and/or structural characteristics can vary depending on whether the selected KPI(s) reach (or not) the predefined SPTs. The SLB must include a financial and/or structural impact involving trigger event(s). Financial

26 “BIDV allocates 4,200 billion green credits for textile and garment enterprises”, Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), October 5, 2023, <https://bidv.com.vn/bidv-en/doanh-nghiep/khach-hang-doanh-nghiep/khuyen-mai/tin-dung/bidv-danh-4200-ty-tin-dung-xanh-cho-doanh-nghiep-det-may>

27 This refers to the Global Recycling Standard – GRS; Sustainable Cotton Label – BCI; C2 sustainable product certification; standard of no discharge of hazardous chemicals – ZDHC among others.

28 “BIDV allocates 4,200 billion green credits for textile and garment enterprises”, Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), October 5, 2023, <https://bidv.com.vn/bidv-en/doanh-nghiep/khach-hang-doanh-nghiep/khuyen-mai/tin-dung/bidv-danh-4200-ty-tin-dung-xanh-cho-doanh-nghiep-det-may>



and/or structural characteristic variations include applicable coupon variation, the coupon variation date and payment frequency, and the SLB coupon mechanism if there are multiple associated KPIs. The potential step-up or step-down of a coupon is the most common variation, which can be adjusted based on the borrower's performance against the SPTs.

ICMA's Sustainability-Linked Bond Principles (SLBP) are widely used in the sustainable finance ecosystem and provide a robust framework for issuers or investors interested in SLBs.

The SLBP are voluntary process guidelines that describe best practices for financial instruments to incorporate forward-looking ESG outcomes and to clarify the approach to issue an SLB.²⁹ The SLBP outlines five core components:

1. Selection of Key Performance Indicators
2. Calibration of Sustainability Performance Targets
3. Bond characteristics
4. Reporting
5. Verification

Key considerations:

- ▶ SLBs attach a financial incentive for issuers to improve their corporate-level sustainability performance within a predefined timeline. For example, if an issuer meets or exceeds the predefined SPTs then they could benefit from a coupon step-down and pay less interest over the remaining life of the bond.
- ▶ They enable issuers to raise listed debt capital in cases where the project pipeline may not be large enough to justify a green bond issuance with fixed use of proceeds, yet the issuer still seeks to generate sustainability-related impact.
- ▶ A clear definition of the KPI(s) should be disclosed and include the applicable scope or perimeter (for instance, the percentage of the issuer's total emissions to which the target is applicable), as well as the calculation methodology (for example, a clear definition of the denominator of intensity-based KPIs), and definition of a baseline. SPTs must be set in good faith and should be ambitious. The SLBP defines an ambitious SPT as: (1) representing a material improvement in the respective KPIs beyond "Business as Usual"; (2) be compared to a benchmark or an external reference; (3) consistent with the issuer's overall strategic sustainability and business strategy in the case of corporate issuers; and (4) be determined on a predefined timeline, set before (or concurrently with) the bond issuance.
- ▶ SLB issuers should disclose and keep readily available and easily accessible: (1) up-to-date information on the performance of the selected KPI(s); (2) a verification assurance report relative to the SPT; and (3) any information that allows investors to monitor the SPTs' level of ambition. This information should be disclosed regularly, and at least on an annual basis. The lack of timely and transparent disclosure of SPT performance data, on the other hand, will make it difficult to hold SLB issuers accountable for their sustainability commitments, and in turn, also undermine the effectiveness of SLBs as a financial instrument.

²⁹ "Sustainability-Linked Bond Principles: Voluntary Process Guidelines", the International Capital Market Association (ICMA), June 2024, <https://www.icmagroup.org/assets/documents/Sustainable-finance/2024-updates/Sustainability-Linked-Bond-Principles-June-2024.pdf>



- At the pre-issuance stage, the SLBP recommends issuers to seek external review (such as a Second Party Opinion) to confirm that their SLB aligns with the five core components of the SLBP. If an external review is not conducted, the SLBP recommends issuers to evidence or develop internal organisational expertise to verify their methodologies and to thoroughly document any such expertise. Post-issuance verification, on the other hand, is a mandatory element of the SLBP. This verification focuses on assessing and certifying the issuer's performance against each SPT for each KPI, resulting in a potential adjustment of the SLB financial and/ or structural characteristics, until after the last SPT trigger event of the bond has been reached. The SLBP stipulates that the verification of the performance against the SPTs be made publicly available.

CASE STUDY 3

CHANEL pioneered new Sustainability-Linked Bonds, a first in the luxury sector linked to the ICMA Sustainability-Linked Bonds Principles

In September 2020, CHANEL Limited's subsidiary, Chanel Ceres plc, issued SLBs in an aggregate amount of EUR 600 million with notes maturing in 2026 and 2031, in accordance with the ICMA's SLBP on the Luxembourg Stock Exchange.³⁰ The inaugural transaction will support CHANEL's climate action plan, CHANEL Mission 1.5° to:

1. Decrease its own carbon footprint (Scope 1 and 2) by 50% in absolute emissions by 2030 (equivalent to -66% per unit sold).
2. Decrease emissions produced by its value chain (Scope 3) by 40% per unit sold by 2030 (equivalent to -10% reduction in absolute emissions).
3. Shift to 100% renewable electricity in its own operations by 2025.

The emission reduction targets were independently validated by the Science Based Targets initiative (SBTi) in November 2019, based on a 2018 baseline.

The KPIs selected for the SLBs are:

1. Scope 1 and market-based Scope 2 GHG emissions.
2. Scope 3 GHG emissions.
3. Percentage of renewable electricity in operations.

The boundary for the SLB performance indicators includes all activities contributing to the CHANEL brand and Scope 1 and 2 of its integrated suppliers which are defined as "CHANEL Group legal entities which are part of the supply chain for CHANEL Brand products but do not carry on business under the CHANEL brand."³¹ CHANEL's Scope 3 emissions arise from ten of the GHG Protocol categories. Categories 8 (Upstream Leased Assets), 10 (Processing of Sold Products), 13 (Downstream Leased Assets) and 15 (Investments) are not deemed material and the company does not report them.

CHANEL publishes a Sustainability-linked Bond Update to disclose the performance of its SLB. [Figure 5](#) provides a summary of the key information disclosed in CHANEL's Sustainability-linked Bond Update 2024.³¹

30 "Sustainability-Linked Bond Update 2024", CHANEL Sustainability, <https://www.chanel.com/puls-img/1758023141952-chanel-sustainability-linked-bond-update-2024.pdf>

31 "Sustainability-Linked Bond Update 2024", CHANEL Sustainability, <https://www.chanel.com/puls-img/1758023141952-chanel-sustainability-linked-bond-update-2024.pdf>

**Figure 5:** Key information extracted from CHANEL's Sustainability-linked Bond Update 2024

Base Year (2018)	Target	2024 performance	Explanation
Scope 1 and 2: 41,765 tCO ₂ e	20,883 tCO ₂ e by 2030, which is equivalent to emissions reduction of -50% (absolute) as well as -66% (intensity)	24,071 tCO ₂ e, which is -42% vs 2018	The continued transition towards renewable electricity is the main driver for the reduction. Scope 1 increased by 1% in comparison to 2023 which is attributable to the addition of new site openings, as well as streamlining some waste management onsite in one facility.
Scope 3: 828,997 tCO ₂ e	746,097 tCO ₂ e by 2030, which is equivalent to emissions reduction of -10% (absolute) as well as -40% (intensity)	925,972 tCO ₂ e, which is +12% vs 2018	Emissions reduction between 2023 and 2024 stemmed from: Raw materials largely driven by cashmere, leather and gold, all of which have strategic transformation programmes; Decrease in events footprint; Freight emissions (ongoing efforts of the Fragrance and Beauty business to transition to sea freight, especially across the Americas and Asia; improved use of regional warehouses for Watches and Fine Jewellery; switch to road transport for intra-European boutique shipments for instance); Decrease in business travel. Increase in emissions between 2023 and 2024 are associated with: Capital goods; Employee commuting (updates to the emission factors and assumptions used, a rise in the number of employees and a rise in the number of employees working from its office spaces).
Renewable electricity in operations: 41%	100% by year-end 2025	99%	CHANEL states that, for their owned facilities, it favours the inclusion of on-site or power purchase agreements where viable, followed by green tariffs and finally the purchasing of unbundled energy attribute certificates. The company obtains all renewable electricity from sources permitted under the RE100 technical criteria and calculates its renewable electricity percentage in accordance with the RE100 technical criteria.

CHANEL's example illustrates how a company in Tier 0 can structure its SLBs with KPIs which are relevant, core and material to its overall business, consistent with its climate strategy and demonstrates a quantifiable improvement in its sustainability performance.

This case study illustrates that CHANEL has made significant progress against its Scope 1 and Scope 2 emissions reductions and renewable electricity in operations targets. The inclusion of a Scope 3 KPI indicates CHANEL's commitment to reducing its value chain emissions, which would necessitate decarbonisation at its upstream suppliers.

However, the increase in Scope 3 emissions between the baseline year (2018) and 2024 highlights the challenge of decarbonising value chain emissions. This increase in emissions can partially be explained by improved calculation methodologies and moving from spend-based to activity-based data. Promisingly, total Scope 3 emissions decreased by 10% from 2023 to 2024 and emissions from raw materials, which is the most material category of CHANEL's Scope 3 footprint, decreased by 20%. Following the current trajectory, CHANEL could meet its Scope 3 emissions reduction target by strategically allocating the SLB proceeds to supply chain decarbonisation.



As CHANEL applies an operational control approach to defining its organisational boundaries, it is able to obtain more accurate data in its reporting and influence the energy management practices of the sites covered.

While its Sustainability-Linked Bond Framework has been reviewed by Vigeo-Eiris,³³ based on publicly available information, it is less clear whether CHANEL has engaged an external reviewer to verify its performance against the SPTs.

2.1.4 Sustainability-Linked Loans

Definition: Sustainability-Linked Loans, or SLLs, refer to any types of loan instruments and/or contingent facilities – such as bonding lines, guarantee lines or letters of credit – where the financial and/or structural characteristics can vary as a result of the borrower achieving ambitious, material and quantifiable predetermined sustainability performance objectives. SLLs look to support a borrower to improve its overarching sustainability performance over time through KPIs and SPTs. SLL proceeds can be used for general corporate purposes.

APLMA's Sustainability-Linked Loan Principles (SLLP) are voluntary recommended guidelines and define the characteristics of an SLL around five core components.³³

1. Selection of KPIs
2. Calibration of SPTs
3. Loan Characteristics
4. Reporting
5. Verification

Key considerations:

- ▶ Attaches a financial incentive for SLL borrowers, for example an interest rate step-down, to improve their corporate-level sustainability performance over the term of the loan or a penalty to disincentivise poor sustainability performance.
- ▶ Allows borrowers to tap into SLLs to meet their financing needs without a requirement for the proceeds to be used exclusively for a pipeline of green/sustainable projects.
- ▶ A clear definition of the KPI(s) should be disclosed and include the applicable scope or perimeter as well as the calculation methodology, definition of a baseline, and be benchmarked against an industry standard and/ or industry peers where viable.
- ▶ SPTs must be set in good faith, remain relevant so long as they apply and should be ambitious to the borrower's overall business throughout the life of the loan. The SLLP defines an ambitious SPT as: (1) representing a material improvement in the respective KPIs and goes beyond both a "Business as Usual" trajectory and regulatory required targets; (2) be compared to a; (3) be consistent with the borrower's overall sustainability strategy and where applicable, business strategy; and (4) be determined on a predefined timeline, set before (or concurrently with) the loan origination.

³² "CHANEL Sustainability-Linked Bond Framework", September 22, 2020, [Sustainability-Linked Bond Framework](#)

³³ "Sustainability-Linked Loan Principles", Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and LSTA, March 26, 2025, <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>



- ▶ A key characteristic of an SLL is that the loan's financial and/ or structural characteristics can vary as a result of whether the selected KPI(s) reach (or not) the selected predefined SPT(s). The common approach in the market is to reduce the rate of interest when the borrower achieves a pre-determined SPT as measured by the pre-determined KPI and vice versa.³⁴ For example, if the SPT is linked to Scope 1 and Scope 2 emissions reduction, then the borrower would benefit from a reduced interest rate if it achieves the pre-determined emission reduction target, or a repayment of interest already paid at the higher rate.
- ▶ Borrowers are expected to provide lenders, at least on an annual basis: (1) up-to-date information sufficient for monitoring the performance of the selected KPI(s); and (2) a sustainability confirmation statement outlining the performance against the SPTs. Borrowers should publicly disclose information relating to their SPTs including any underlying methodology of SPT calculations and/ or assumptions. If this is not feasible, and where appropriate, the SLLP makes provision for borrowers to share this information privately with the lenders instead of making this publicly available.
- ▶ At the pre-issuance stage, the SLLP recommends borrowers seek external review to confirm that their SLL aligns with the five core components of the SLLP (such as a pre-signing Second Party Opinion or KPI/SPT assessment). If no external input is obtained, the SLLP recommends borrowers to evidence or develop the internal expertise to demonstrate alignment with the SLLP five core components and to thoroughly document any such expertise. This information should be provided to all financial institutions participating in the loan on request.
- ▶ Post-issuance verification, on the other hand, is a necessary element of the SLLP and focuses on assessing the borrower's performance level against each SPT for each KPI for any date/ period relevant resulting in a potential adjustment of the SLL financial and/ or structural characteristics, until the last SPT trigger event of the loan has been reached. The SLLP stipulates that the verification of the performance against the SPTs be shared with the lenders in a timely manner and, where appropriate, be made publicly available.

³⁴ Sustainability-Linked Loan Principles", Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and LSTA, March 26, 2025, <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>



CASE STUDY 4

Singaporean lender OCBC has extended a S\$16 million (US\$ 11.8 million) Sustainability-Linked Loan to textile and apparel manufacturer Ghim Li³⁶

Ghim Li Group is a SME with vertical fabric mill and garment factories in Southeast Asia, serving buyers in the US, Canada and Europe. In 2023, it obtained a S\$16 million SLL from OCBC through the use of verified emissions data from the AI-powered ESGpedia platform. Developed by Singapore-headquartered ESG and technology company, the ESGpedia platform draws on SMEs' existing operational data, calculates their emissions based on internationally recognised carbon accounting standards, recognises SMEs through the ESCAP Sustainable Business Network (ESBN) Green Deal badge incentive program, and facilitates external verification by Bureau Veritas. The platform allows Ghim Li to share its data and reports across both the bank and customers.

Data availability is an important ingredient for financial instruments such as SLLs to succeed. SLL borrowers are required to report against their SPTs – which often tied to GHG emissions across Scope 1, 2, and 3. This implies that these borrowers must have access to GHG emissions data and measure their performance to establish a baseline. However, SMEs frequently lack the resources and technical capacity to collect and report the necessary data. This limits their ability to access SLLs and constrains the reach

of sustainable finance across the broader supply chain. The complexity of the fashion industry supply chain compounds this challenge and financial institutions have limited visibility of supplier relationships, particularly at Tiers 3 and 4. Without clear data flows or traceability, banks historically struggle to assess ESG performance and verify climate-related claims.

As this case study illustrates, the effective use of technology platforms and digital tools such as ESGpedia can help to 1) improve supply chain transparency and 2) reduce the reporting burden on SMEs. As more SMEs establish their ESG metrics and make such data available on these platforms, financial institutions – especially those with large exposure to SME clients in Southeast Asia – can access externally verified data to assess their SME clients' GHG emissions performance and evaluate how their SME clients are performing against their peers. This allows financial institutions to extend SLLs to SMEs in the fashion industry and directly incentivise the decarbonisation efforts of Tiers 3 and 4 suppliers where emissions reductions are needed most.

³⁵ "OCBC Sustainability Report 2023", <https://www.ocbc.com/iwov-resources/sg/ocbc/gbc/pdf/ocbc-sustainability-report-2023.pdf>



2.2. Equity

2.2.1 Green Equity

Definition: Green equity refers to direct investment into companies or projects that deliver measurable environmental benefits such as decarbonisation. Unlike debt instruments, equity financing involves investors assuming an ownership stake, sharing both risks and returns. Green equity differs from sustainability-linked

instruments by focusing on the business model itself rather than predefined SPTs. It also differs from green bonds and loans, as green equity does not restrict capital deployment solely to eligible green projects. Green equity can address existing gaps such as a lack of early-stage capital for innovation, and support start-ups or smaller manufacturers developing low-carbon technologies, circular business models or sustainable materials.

Key considerations:

- ▶ Equity can be classified as green when more than 50% of a company's revenue and investments are deemed to be green.³⁶ While this does not make the whole company green, companies need to have a clear understanding of what is required for a certain activity to be green or what it means to strive towards a sustainable business model. Companies should seek to maintain transparency of reporting and actions taken to build investors' confidence.
- ▶ Investors typically set their own green criteria when investing in companies with sustainable business models. In some cases, government regulations dictate the required green criteria. This means that beyond financial returns, companies need to demonstrate measurable positive environmental impact that aligns with investors' expectations. Impact could, for example, be measured in terms of reduced carbon emissions or improved energy efficiency.
- ▶ The lack of globally aligned definitions and taxonomies that define the terminology "green" can limit comparability of companies across different jurisdictions. In such instances, investors may also seek third-party reviews and certifications to confirm that a company meets established standards.

³⁶ Grönroos Johanna, "Green Equity: Supporting the Transition Towards Sustainable Business Models", World Federation of Exchanges, December 2023, <https://focus.world-exchanges.org/articles/green-equity-lamor>



CASE STUDY 5

Closed Loop Partners invests in Hyran Technologies to increase agility in fashion supply chains and reduce textile waste³⁸

Closed Loop Partners is a financial services company based in New York comprised of three key business segments focused on accelerating the transition to the circular economy.

1. Closed Loop Capital Management is an investment group managing venture capital, lower mid-market buyout private equity and catalytic private credit strategies. It acts on behalf of global corporations, financial institutions and family offices;
2. Center for the Circular Economy is an innovation and research center for cross-sector collaboration and data-driven analysis to promote the circular economy;
3. Circular Services serves as one of the largest private recycling and circular economy services providers in the US.

In 2023, Hyran Technologies (Hyran), a collaborative, AI-driven fashion supply chain planning and production platform received investment from Closed Loop Partners' Ventures Group. The aim of the platform is to optimise product development and manufacturing while reducing excess production and textile waste. This is achieved by drawing upon real-time upstream and downstream supply chain data, giving brands and suppliers visibility into the availability of

raw materials and manufacturing capacity, and connecting them with point-of-sale demand signal. This is expected to result in better matching of production with customer demand through the use of artificial intelligence and machine learning techniques to generate optimal, real-time production plans spanning multiple tiers in the supply chain.

This case study illustrates the potential for green equity to finance start-ups and smaller manufacturers and help them to scale up the green technologies needed to decarbonise upstream suppliers. In fact, green equity needs to play a larger role in major production countries as public sector funding for research and development is often limited, and start-ups face ongoing challenges in accessing traditional sources of finance to grow their business due to reasons such as unfavourable credit profiling. Start-ups and smaller manufacturers who develop solutions in major production countries are also better positioned to access and introduce their products to upstream suppliers in the fashion industry, and over time, strive to achieve economies of scale. One promising angle would be to address the clean energy transition for suppliers in Southeast Asia, Bangladesh and Pakistan as they depend on their national grid infrastructure which uses carbon-intensive energy sources.

2.3. Grants

Definition: Grants refer to direct financial aid for the purpose of deploying a specific activity or project. They help to accelerate technology adoption by directly reducing the cost of implementation. Grants offer a direct incentive and can be conditional on meeting certain eligibility criteria such

as carbon emissions reductions. Grants can also be used for technical or financial assistance, for example, to support low-carbon technology assessments, or provide financial assistance to subsidise the upfront CAPEX requirements of clean thermal energy infrastructure.

³⁷ "With Investment from Closed Loop Partners, Hyran Technologies Aims to Increase Agility in Fashion Supply Chains and Reduce Textile Waste", Closed Loop Partners, February 14, 2023, <https://www.closedlooppartners.com/hyran-technologies-to-increase-agility-in-fashion-supply-chains/>



Key considerations:

- ▶ Grant scheme owners should establish clear grant agreements, guidelines and disbursement terms before funds are released. Given that grants for decarbonisation initiatives are contingent on meeting specific eligibility criteria such as carbon emission reduction, these should be clearly stated and the approach to measuring outcomes should be agreed upon at the start.
- ▶ Grant scheme owners could specify the allowable versus non-allowable costs to better ring-fence the use of funds. For example, grantors may stipulate that funds be directed toward projects delivering tangible decarbonisation outcomes, rather than covering general business expenses. Permissible expenses could be tied to a specific decarbonisation initiative corresponding to the supply chain tier and timely submission of reports ensure accountability for the use of funds and impact achieved.
- ▶ To ensure that decarbonisation initiatives continue to deliver impact beyond the duration of grant funding, recipients must be equipped with the necessary skills to operate the relevant technologies and/or have the financial capacity to sustain them independently over the long term. For instance, in the fashion industry, a garment manufacturer adopting energyefficient dyeing equipment should receive training on its operation and maintenance, while also developing a cost plan to cover ongoing upkeep once external funding concludes.

CASE STUDY 6

Deployment Gap Grant to support supplier decarbonisation in India³⁹

Many impactful carbon-reduction projects have faced implementation challenges if the return on investment (ROI) exceeds two years. In light of this, the Apparel Impact Institute (Aii) co-created a grant mechanism, the Deployment Gap Grant (DGG) that bridges the gap between suppliers' two-year ROI threshold and the longer payback period of proven decarbonisation technologies. In April 2025, Aii hosted a supplier-focused activation event in India to kick-off decarbonisation projects. During the 100-day sprint, Aii collaborated with suppliers to design the mechanism and to define the technologies and projects which would be eligible for the grant, and to establish a reporting process.

Aii also engaged the brands to discuss what their contributions to this mechanism could look like and how the funding should be allocated. Pooling the funds across brands help to scale the deployment of decarbonisation solutions while maximising the number of projects that receive funding.

Through the Fashion Climate Fund, Aii has contributed \$1 million of seed funding to pilot the mechanism with eligible suppliers who participated in the India Activation Event. Through this grant, Aii will be supporting an eligible supplier to source up to 100% renewable electricity for its facility and Trident Ltd to install solar sludge dryers with automated climate control.

³⁸ "Deployment Gap Grant", Apparel Impact Institute, September 4, 2025, <https://apparelimpact.org/resources/deployment-gap-grant/>



Aii has disclosed plans to develop the DGG into an industry mechanism for 2026, focusing on supporting processing retrofits that reduce process demand for energy and electrification projects.

This case study illustrates the benefits of leveraging grants to implement decarbonisation initiatives targeted at specific needs of individual suppliers. As suppliers begin

implementing these solutions, they are better positioned to meet the climate requirements of their buyers and stay competitive in the market. By pooling the funds across brands, the DGG also help ensure brands have a stake in ensuring their suppliers implement decarbonisation initiatives and this grant could pave the way for scaling up similar solutions in other markets outside of India.

2.4. Mixed

2.4.1 Blended Finance

Definition: Blended finance is the use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.³⁹ It is a structuring approach rather than a standalone financing solution. Typical blended finance structures include concessional capital, guarantees, technical assistance, and grants. These instruments are deployed by a range of actors, such as public and philanthropic investors, multilateral development banks,

and development finance institutions. It operates through layered structures where public or philanthropic funds absorb first-loss risk or offer guarantees, making projects more attractive to commercial investors or lenders. In the fashion industry, this model supports supplier decarbonisation by subsidising upfront costs and enabling access to affordable loans. It can also be leveraged to underwrite risk-sharing facilities for circular textile innovations, provide concessional capital for recycling infrastructure in major production countries, and supporting technical assistance programs that enhance sustainability reporting and disclosure.

Key considerations:

- ▶ Blended finance structures are tailored to the specific context in which they are applied, often requiring collaboration among multiple partners and institutions. Their purpose is to catalyse investment where market barriers exist, with the intention of gradually reducing concessional support as markets mature and become self-sustaining. Establishing a pipeline of projects is an important element of successful blended finance transactions. Rather than requiring projects to be investible or “bankable” from the outset, blended finance interventions are designed to make them bankable by addressing barriers that would otherwise prevent commercial investment. For example, first-loss mechanisms or guarantees can de-risk capital flows, while aggregation models create sufficient scale to attract investors and enable long-term returns.

39 “Blended Finance”, Convergence, November 2025, <https://www.convergence.finance/blended-finance>



- ▶ In blended finance structures, providers of concessional capital may emphasise development outcomes and impact management. While public funds may support a range of objectives beyond mandated social or environmental impacts, concessional contributions often require clear governance frameworks, transparency, and measurable indicators to ensure results can be monitored and disclosed to relevant stakeholders. This emphasis on accountability helps build a credible track record, strengthens investor confidence, and facilitates knowledge sharing across the field.

CASE STUDY 7

Good Fashion Fund supports textile and apparel production sectors in Asia to implement disruptive technologies and circular innovations⁴¹

SMEs and larger manufacturers in the fashion industry require high-impact technologies and production methods to operate sustainably. Although promising technologies exist in the market, a lack of capital has hindered the scaling up of these solutions within supply chains. Existing financial vehicles are unwilling to take the risk of investing in new innovations. There is also a lack of expertise to evaluate these innovations.

The Good Fashion Fund (GFF), initiated by Fashion for Good, in collaboration with Laudes Foundation, The Mills Fabrica and FOUNT. eu complemented by Rabobank as a lender, was established as the first investment fund focused exclusively on driving implementation of innovative and sustainable solutions in the fashion industry. The GFF structure comprises of three layers:

1. Junior equity/ first loss: this layer is provided by philanthropic or public sector sources – such as the Laudes Foundation – to cover the initial losses
2. Senior equity: this layer provides a preferred return and is also impact-oriented
3. Senior debt tranche: this layer caters to more risk-averse private investors – such as Rabobank – who expect more secure, long-term debt repayments.

This structure is set up to be catalytic where every committed equity dollar is used to mobilise additional debt, which in turn results in a larger fund size and attracts a wider range of investors.

The Fund targets long term USD debt investments in textile and apparel manufacturers located in India and Bangladesh as well as technical, environmental and social expertise to support these manufacturers to implement sustainable production. This involves the use of recyclable and safe materials, clean and less energy, closed-loop manufacturing and the establishment of fair employment and growth.

The GFF illustrates how an impact investment fund can leverage on a blended finance structure to address decarbonisation needs among textile and apparel manufacturers in Asia. Besides finance, the unique feature of the GFF is the availability of technical, environmental and social support to ensure successful implementation as local needs and solutions required in Asia are highly bespoke. The blended finance structure allows financiers of various risk appetites to participate, which also contributes to the long-term viability of the GFF and allows for the realisation of longer-term impact in the sector.



The GFF's first investment was a 2020 deal with Indian manufacturer Pratibha Syntex Limited. The USD 4.5 million investment was made to replace machinery in the spinning, processing, and garmenting divisions of the company, as well as providing capital to acquire new equipment and expand activities. In the years following the investment, Pratibha Syntex installed new spinning equipment including a card chute, comber, ringframe, and autoconer which has significantly reduced energy usage and waste generated.

The company also installed a continuous tumble dryer used for treating fabrics to replace several pieces of legacy equipment which has led to a reduction in water and energy consumption. In addition, the company installed on-site solar panels that meet 30% of energy demand and aim to expand this installation further to meet 50% of energy demand.⁴² This illustrates how an investment made by the GFF has been strategically allocated by a manufacturer in the fashion industry to improve operational efficiency and reduce emissions.

2.5. Risk

2.5.1 Long-term Purchasing Agreement

Definition: A long-term purchasing agreement commits a brand to purchase a certain volume from a producer in the future, beyond the current purchasing cycle. Long-term purchasing agreements are forward-looking commitments and are distinct from “offtake” agreements which typically relate to a commitment to purchase goods that have already been produced. An important consideration is the payment structure of the agreement, as producers may either receive funds upfront and deliver later, or be paid upon delivery at a price fixed today.

These options carry different implications for cash flow stability and risk management. Currency volatility, inflation, and shifting tariffs create uncertainty in long-term purchasing agreements, particularly in the fashion industry where global brands and upstream suppliers face different risk exposures. For buyers, paying upon delivery at a price fixed today helps stabilise costs by locking in prices and shielding them from future macroeconomic fluctuations.

For producers, however, upfront payment provides stronger protection, as it secures working capital, reduces reliance on expensive short-term financing, and reduces the impact of rising input costs, currency swings, or tariff changes eroding already thin margins. Both parties can also consider including price adjustment clauses in the agreement to protect against macroeconomic volatility.

As a result of long-term purchasing commitments, the producer's creditworthiness improves because these agreements provide a clearer indication of stable future revenues and reduce uncertainty around demand. This improved financial predictability makes it easier for producers to secure attractive financing for loans. Moreover, the security of revenue streams and the potential integration of sustainability objectives within such agreements incentivise producers to adopt decarbonisation initiatives with long-term financial returns, even without additional external financial support. Beyond this, the increased certainty on revenues and cashflows provided by long-term purchasing agreement enables improved operational planning.

⁴¹ “Good Fashion Fund's First Investment Demonstrates Impact”, Fashion for Good, 5 December 2022, https://www.fashionforgood.com/our_news/good-fashion-funds-first-investment-demonstrates-impact/



Key considerations:

- ▶ A long-term purchasing agreement could be appropriate if the brand has strategic producers they wish to deepen relationships with. Given the complexity of the fashion industry supply chain, this will likely apply to Tier 1 and potentially Tier 2 suppliers whom the brand has visibility of and existing partnerships with.
- ▶ Brands could incorporate sustainability into its sourcing decisions and, where the purchase agreement explicitly requires it, are able to monitor the suppliers' achievement of measurable decarbonisation outcomes. This contractual requirement ensures that sustainability performance is tracked and influences the supplier's choice of decarbonisation investments. While a long-term purchase agreement itself is not debt, it can create an accounting liability if producers receive advance payments for goods yet to be delivered. More commonly, producers take on debt separately to finance decarbonisation initiatives, with the security of the agreement's predictable revenue streams improving their creditworthiness and ability to meet financial obligations to lenders alongside other business considerations such as staffing and expansion.

CASE STUDY 8

Patagonia signed multiyear sales agreement with Infinited Fiber Company to purchase a regenerated textile fibre created from textile waste⁴³

In 2021, Patagonia committed to purchase a regenerated textile fibre created out of textile waste from Infinited Fiber Company through a multi-year sales agreement. This allows Patagonia to access the fibre and also secure the future income for the producer as they expand their operations and scale up their manufacturing activities. In that same year, Infinited Fiber Company announced its plans to construct a new flagship factory.

This case study demonstrates how a producer was more willing to take additional business

risks including expanding operations and scaling up manufacturing when long-term agreements with brands like Patagonia are in place. For these long-term agreements to generate impactful decarbonisation outcomes, it is essential for the agreement to be explicitly tied to the procurement of specific sustainable materials, for instance, or to incorporate metrics such as GHG emissions reduction as part of ongoing supplier engagement. This ensures that the producer invests in appropriate decarbonisation solutions and is held accountable in the buyer-supplier relationship.

2.5.2 Virtual Power Purchase Agreement (VPPA) and VPPA Guarantee

Definition: A Virtual Power Purchase Agreement (VPPA) is a long-term financial contract involving a buyer and a renewable energy project developer which allows the buyer to support a project and receive its environmental attributes, such as

Renewable Energy Certificates (RECs), without having to physically connect to the project. Through VPPAs, energy buyers provide project developers with the capital for large-scale offsite projects that otherwise might not be feasible while the buyer can claim the associated carbon emission reductions to realise its sustainability goals.

⁴² "The Brand Playbook for Financing Decarbonization", Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_BrandFinancePlaybook_9.26.24.pdf



A VPPA is strictly a financial arrangement where the buyer agrees to pay the developer a fixed “strike price” for the energy produced by the project. This effectively sets a price floor, ensuring that the developer has certainty over a minimum level of revenue. Throughout the life of the agreement, the buyer and project developer periodically settle a balance based on the difference between the market price of energy and the agreed strike price. If the market price falls below the strike price, the developer compensates the buyer for the difference down to that floor. If the market price rises above the strike price, the buyer pays the developer the additional amount. In this way, the VPPA protects both parties against volatility by anchoring settlements to a reference price rather than guaranteeing unlimited upside for the developer.⁴³

In the fashion industry, the Collective Virtual Power Purchase Agreement (CVPPA) has been established as a pioneering collaboration bringing together 12 companies of different sizes to access renewable energy as a group (see Case Study 9).

On the other hand, a VPPA Guarantee can be used to de-risk VPPAs by providing assurance to energy buyers (such as fashion brands or manufacturers) that contracted renewable energy will be delivered or compensated in the event of market or counterparty failure. This involves underwriting risks associated with long-term renewable energy contracts and may be provided by development finance institutions or specialised climate finance platforms.

Key considerations:

- ▶ VPPAs are typically long-term contracts (10-20 years) which means that energy buyers should consider whether they have the ability and certainty to commit to a lengthy energy agreement.
- ▶ As VPPAs are financial contracts, the energy buyer generally needs to demonstrate financial viability to provide the developer with the steady revenue stream necessary for project financing.
- ▶ Although the energy buyer does not have to incur the substantial capital costs of building, operating, and maintaining a generation facility, VPPAs can still involve significant upfront costs related to the complex administrative and legal aspects of setting up the agreement. While these costs are minimal in comparison to constructing a facility, they may nonetheless pose a barrier for smaller companies, raising questions about whether VPPAs are the most appropriate mechanism for these companies, or whether collective agreements offer a more accessible pathway.

⁴³ “The Brand Playbook for Financing Decarbonization”, Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_BrandFinancePlaybook_9.26.24.pdf



CASE STUDY 9

The Fashion Pact-led Collective Virtual Power Purchase Agreement (CVPPA) as a pioneering collaboration for transitioning to renewable energy in the fashion industry⁴⁵

Large companies have been able to address their renewable energy needs by developing renewable energy infrastructure or investing in individual Virtual Power Purchase Agreements with renewable energy providers, but the high upfront costs and lengthy process behind a VPPA has made it challenging for smaller players to enter this space. The Fashion Pact-led CVPPA has solved this roadblock. The CVPPA brings together 12 companies of different sizes to access renewable energy as a group with solar developer Lightsource bp.⁴⁶ Through their membership of the Fashion Pact, participants were able to share project costs, adjusted according to their size, and benefit from expert support provided by the Fashion Pact throughout. Besides accelerating the participants' own transitions to clean energy, the deal also helped to underwrite the growth of new

renewable energy production, by guaranteeing a market for future capacity in Europe.

This case study illustrates how industry collaboration can be an effective approach to make VPPAs more accessible to companies of different sizes by signaling strong collective market demand for renewable energy while sharing project costs which would otherwise not be viable for smaller players. The success of the CVPPA can also be attributed to the central role played by the Fashion Pact, the largest CEO-led sustainability initiative in the fashion industry, to secure participating companies' support at the highest level. The Fashion Pact also involved industry experts to build knowledge across different functions within each organisation to ensure internal alignment.

2.6. Supply Chain

2.6.1 Sustainable Supply Chain Financing

Definition: Supply chain financing is a set of financial solutions that optimize cash flow by allowing businesses to extend payment terms to suppliers while enabling suppliers to receive early payment through third-party financing.⁴⁶ Supply chain finance allows quicker and easier access to finance for suppliers compared to approaching their own bank for funding. Conventional supply chain finance solutions include dynamic discounting (see section 4.6.1), inventory finance (see section 4.6.2), purchase order finance (see section 4.6.3), and reverse factoring (see section 4.6.4). However, these conventional finance solutions do not typically include requirements that hold suppliers accountable for sustainable

impacts and are therefore not considered to be scalable solutions to decarbonise the fashion industry. On the other hand, sustainable supply chain financing builds on this by rewarding and incentivising suppliers for adopting environmentally and socially responsible practices. In other words, suppliers who improve their ESG performance can access finance at more preferential rates and demonstrate achievement of these goals to prospective clients. Buyers can also leverage on sustainable supply chain programmes to align their ESG goals with those of suppliers; in this process, they can improve cost management and support responsible procurement. A modified version of this financing model has been introduced in the fashion industry, known as the Future Supplier Initiative (see Case Study 10).

⁴⁴ "Powering the Transition to Renewable Energy: Insights from the Fashion Pact CVPPA", The Fashion Pact Journal, <https://www.thefashionpact.org/powering-the-transition-to-renewable-energy/>

⁴⁵ The 12 companies are: Bally; Capri Holdings Limited; Ermenegildo Zegna Group; FARFETCH; Ferragamo; Kering; Prada S.P.A.; PVH Corp; Ralph Lauren; Tapestry; Under Armour (non Fashion Pact member) and Zimmermann.

⁴⁶ "Explained: Sustainable supply chain financing", HSBC, July 14, 2025, <https://www.business.hsbc.com/en-gb/insights/sustainability/explained-sustainable-supply-chain-financing>



CASE STUDY 10

The Future Supplier Initiative exemplifies a collective financing model to support the fashion industry's deep decarbonisation⁴⁸

Given that about 99% of total fashion brand emissions arise in the supply chain (Scope 3), the Future Supplier Initiative has been established to accelerate the move to Net Zero by sharing the financial risks and responsibilities of transitioning to renewable energy sources in Tier 1 and 2 garment and textile factories. The initiative was facilitated by The Fashion Pact in partnership with the Apparel Impact Institute, Guidehouse and DBS Bank as a brand-agnostic mechanism to develop and channel capital towards projects that support both brands and suppliers to achieve their Science Based Targets (SBTs) and align with the 1.5°C trajectory.

Suppliers are often deterred from adopting decarbonisation solutions such as electrification and renewable energy sources due to lengthy payback periods that can take decades. The Future Supplier Initiative aims to lower the cost for suppliers by working with fashion brands to decrease the cost of capital for loans that can accelerate decarbonisation. Besides the financial incentives, technical support will be extended to enable suppliers to identify and implement low carbon technologies and solutions. To evidence the impact of projects financed and implemented by the initiative, baselining and tracking emissions reduction will also be undertaken.

The Initiative aims to identify and match projects with the highest potential for impact. By grouping common factory units,

interventions and costs, this paves the way for global and regional joint effort between fashion brands, shifting from targets and roadmaps to implementation and quantifiable reduction, beyond energy efficiency measurements.

The Initiative will commence with a programme in Bangladesh with the support of Bestseller, Gap Inc, H&M Group and Mango. It is actively recruiting more brands and intends to expand to other key apparel manufacturing regions such as Viet Nam, India, China, Italy and Turkey. In the first year, the cohort will prioritise factories based on impact, develop technical proposals to achieve significant decarbonisation and de-risk lending to suppliers to implement these projects at more attractive rates. In the following year, the programme will concentrate on project implementation and monitoring of the climate impacts generated from these investments.

This case study illustrates how a collective financing model can go beyond financial incentives to support suppliers to adopt low carbon technologies and solutions critical to their decarbonisation. Fashion brands and financial institutions play an important role to send a consistent signal – in this instance, to achieve SBTs – and the focus on quantifying the climate impacts from these investments help to build a stronger case for scaling up similar investments in other markets where supplier decarbonisation is much needed.

⁴⁸ "Major brands commit to innovative collective financing model to decarbonise the fashion sector", H&M, June 13, 2024, <https://hmgroupp.com/news/major-brands-commit-to-innovative-collective-financing-model-to-decarbonise-the-fashion-sector/>



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3



Section 3

Financing solutions that have supported SMEs in other manufacturing sectors to decarbonise

Having considered current financing mechanisms that have proven to work in the fashion industry, this section examines additional financing solutions that have been introduced for other manufacturing sectors to support SMEs to decarbonise. These solutions can be classified as: Sustainability Linked Programmes for SMEs, Green Loans for SMEs, and Energy Performance Certificates.

3.1 Sustainability Linked Programme for SMEs

SMEs are often limited by the time, costs and resources involved in developing financing frameworks and all their requisite elements, which present a major barrier for the uptake of sustainability linked financing. In June 2024, UOB and Enterprise Singapore (Enterprise SG), a Singapore government agency, introduced the Sustainability-Linked Advisory, Grants and Enablers (SAGE) Programme to simplify sustainability linked financing solutions for SMEs and offer lower-than-usual interest rates from UOB for participating SMEs that achieved pre-agreed sustainability performance targets.⁴⁸

Under the SAGE Programme, companies can select from three “plug and play” options of pre-defined, sector-specific SPTs measured by KPIs, to obtain sustainability linked financing from UOB. The SPTs are linked to KPIs in three areas: reduction of GHG emissions, certification of management systems and improvement of ESG ratings. An external reviewer has validated the KPIs and associated SPTs which enables the one-to-many approach rather than requiring each SME to obtain their own external review thereby lowering the administrative and time costs associated with the financing. To meet these SPTs, UOB has identified a network of preferred sustainability partners who offer preferential pricing for their services such as ESG digital platform, advisory and assurance services for GHG inventory as well as certification of ISO management systems. These services are eligible for subsidies from Enterprise SG,⁴⁹ as well as the Monetary Authority of Singapore, the central bank, thereby reducing the costs further for SME clients.

⁴⁸ “UOB and Enterprise Singapore Launch Sustainability-Linked Advisory, Grants and Enablers (SAGE) Programme for SMEs”, UOB, June 12, 2024, <https://www.uobgroup.com/uobgroup/newsroom/2024/uob-launches-sage-programme.page?path=data/uobgroup/2024/301>

⁴⁹ This is subject to application post incurrence of relevant costs by eligible SMEs and approval from Enterprise Singapore for support up to 70% of the cost of eligible activities per company.



In the case of the fashion industry, many Tier 1, 2 and 3 suppliers in major production countries face pressures from various brands to adopt sustainability practices at their own expense while operating in a competitive and fast-paced environment. To ensure the financial viability of these SME clients, financial institutions should establish a similar sustainability linked financing programme in consultation with major fashion brands, to identify a few KPIs (such as GHG emissions reduction) in sustainability linked financing that align with the procurement criteria of these buyers and have the KPIs verified by an external reviewer. As part of this programme, financial institutions can partner with a network of consultants to advise and support these SMEs on the adoption of renewable energy or energy efficiency measures. This is intended to enable the SME borrowers to achieve their SPTs in the immediate term, as well as to reduce their operational costs over time. To encourage uptake from the SMEs, we propose a cost-sharing model between the financial institution and the SME client to cover the costs of engaging a consultant, with the proportion of the costs covered by each party adjusted based on the tenor of the loan. In other words, financial institutions who have a longer-term relationship with their SME client could offer to pay a larger share of the consulting costs under this programme.

3.2 Green Loans for SMEs

Unlike sustainability linked financing where the loan proceeds can be used for general corporate purposes, SMEs who have green projects can benefit from access to green loans where the proceeds must be allocated exclusively to projects with clear environmental benefits. However, SMEs – as compared to large corporates – face greater constraints in terms of the time, costs and resources involved in developing green loan frameworks and meeting the requirements under the Green Loan Principles (GLP), and this often limits the attractiveness of green loans as a financing option.

To overcome these constraints, HSBC launched Green Loan for SMEs, a first for the Singapore market back in 2020.⁵⁰ All HSBC Green Loans are issued in accordance with the GLP, and in the case of SME clients, the bank relies on existing certifications from Singapore industry authorities to confirm that the loan proceeds are channeled towards green activities such as the procurement of greener equipment. This simplifies the requirements for SMEs, who already hold green certifications, to obtain a green loan instead of creating their own Green Loan Frameworks and further seek external verification.

Given that there are various decarbonisation measures which upstream suppliers can adopt (as presented in [Figure 1](#) above), financial institutions in major production countries who have existing relationships with SMEs, can offer green loans by recognising green certifications applied in the manufacturing sector such as ISO 14001 on Environmental Management System and ISO 50001 on Energy Management Systems as evidence for the green use of proceeds. Furthermore, as these suppliers operate on tight margins, financial institutions can increase the attractiveness of green loans by offering lower-than-usual interest rates for first-time borrowers. This approach further incentivises Tiers 1, 2, 3 and 4 suppliers who have already obtained green certifications, to continue investing in other decarbonisation initiatives through the availability of green loans. As the market matures and demand for sustainability loans increase among upstream suppliers in major production countries, financial institutions can expand their list of eligible certifications to include fashion industry-related standards that address both environmental and social criteria. They include Cradle to Cradle Certified Product Standard, OEKO-TEX® STeP certification and the Global Organic Textile Standard (GOTS) among others.

⁵⁰ “HSBC launches Singapore’s first Green Loan for SMEs”, HSBC, March 16, 2020, <https://www.about.hsbc.com.sg/news-and-media/hsbc-launches-singapores-first-green-loan-for-smes>



3.3 Energy Performance Contracts

Energy Performance Contracts (EPCs) are financing mechanisms where a client works with an Energy Service Company (ESCO), otherwise known as “energy as a service” providers, to implement energy saving measures. Unlike a VPPA which does not involve physical delivery of electricity to the buyer’s facility, an EPC results in making physical changes to a site – in other words, the ESCO develops, finances and implements projects with a view to reduce energy consumption and is repaid from the guaranteed energy and cost savings achieved over the duration of the contract. The ESCO typically guarantees a certain level of energy and cost savings; if the savings are not achieved, the ESCO must compensate for the difference. These energy saving measures could include upgrading HVAC systems, installing LED lighting and setting up sub-metering to track energy use and would help decarbonise the operations of Tiers 1, 2 and 3 suppliers in the fashion industry.



4



Section 4

Financing solutions that will require further development to support decarbonisation within the fashion industry

Throughout this paper, we have evaluated all the financing mechanisms primarily using two criteria: firstly, their ability to support decarbonisation for Tiers 2, 3 and 4 suppliers and secondly, these upstream suppliers should be located in Southeast Asia, Bangladesh and Pakistan.

Section 2 outlines specific financing mechanisms that have been deployed to support decarbonisation in the fashion industry and these financing mechanisms have shown potential for implementation through at least one real-life case study of how the financing solution enables decarbonisation for Tiers 2, 3 and 4 suppliers located in Southeast Asia, Bangladesh and Pakistan.

Section 3 considers how the fashion industry can potentially adapt financing solutions used to support SMEs' decarbonisation in other manufacturing sectors.

In this section, we examine the financing solutions which have been grouped in Band 3. These financing solutions have not fulfilled the two aforementioned criteria due to one or more of the reasons below:

1. More innovative sustainable financial products lack a proven track record in the fashion industry as compared to financial instruments such as green bonds which have emerged earlier.

One example is guarantees which are currently used in the fashion industry. In the case of Tiers 2, 3 and 4 fashion

suppliers who operate in major production countries, our research has not identified a case study where a guarantee has worked for them and therefore we cannot establish a proven track record. This could be because the guarantee will likely have to come from a development bank or donor who may have specific environmental and social standards as a qualifying criteria for borrowers or projects. The criteria may be difficult for upstream suppliers in major production countries to meet.

The Aii playbook suggests that brands can commit to pay back the financial institution for the remainder of the loan should the producer default.⁵¹ While it does not require the brand to contribute any capital upfront, some or all of the amount is still represented as a liability on the brand's balance sheet. Given that brands have limited visibility of their Tiers 2, 3 and 4 suppliers in major production countries, brands might not be comfortable to commit to a guarantee.

2. Structure of the financing solution may present difficulties to delineate clearly the green use of proceeds.

One example is purchase order finance, a short-term funding solution where a third-party financier pays a supplier directly to fulfil a confirmed customer order. While purchase order finance is already offered in Southeast Asia, Pakistan and Bangladesh and accessible to Tiers 2, 3 and 4 suppliers in the fashion

51 "The Brand Playbook for Financing Decarbonization", Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_Brand-FinancePlaybook_9.26.24.pdf



industry, it is not clear whether purchase order finance can be structured to be used exclusively for decarbonisation initiatives.

3. Some financing solutions are designed to support existing suppliers where brands have clear visibility over their operations or more mature companies with the intention to drive business transformation or expansion. This means that upstream suppliers especially in major production countries are unlikely to benefit.

As a case in point, for project co-funding to work, suppliers must be part of the brand's supply chain and evidence readiness to implement decarbonisation measures. However, the fragmented nature of the fashion industry supply chain and the brand's lack of visibility of its suppliers outside of Tier 1, means that further development is needed before project co-funding can support Tiers 2 and 3 suppliers located in Southeast Asia, Bangladesh and Pakistan to decarbonise.

Another example is a management fee or interest subsidy which requires the brand to put in place strong governance and oversight mechanisms. In practice, this would be challenging to implement if the brands lack visibility of their upstream Tiers 2, 3 and 4 suppliers and in turn, these suppliers' relationships with local financial institutions in the major production countries.

4. Lack of a clear connection between the financing mechanism and decarbonisation impacts at the corporate and/ or project level, for instance there is no explicit decarbonisation requirement as a condition for payment to suppliers. This presents difficulty establishing accountability in the supply chain and directly influencing emissions reduction.

For example, while concessional loans can help with de-risking projects mainly of a social and/ or environmental nature, these loans could also be used for general infrastructure development projects that are not specifically tied to social or environmental attributes. Given that the

favourable loan terms are not explicitly dependent on achieving decarbonisation impacts at the corporate and/ or project level, it could be challenging to claim that concessional loans directly influence emissions reduction.

Another example is "green incentive" on products which involves the brands paying more per item if less carbon is used for that item. From this perspective, it is less clear if the premiums paid for the low-carbon products will be passed onto the rest of the supply chain that is, Tiers 2, 3 and 4 suppliers in major production countries and thereby enable a direct link to be established between the financing solution and these suppliers' decarbonisation efforts.

5. The success of some financing mechanisms relies on complementary strategies such as technical assistance and enabling policies and standards which are lacking in many major production countries.

For instance, pull finance in the climate space is still nascent and needs more piloting to develop a strong track record. Pull finance mechanisms also require complementary strategies to succeed.

In addition to our expert analysis, we also observed that financing solutions in Band 3 lacked a real-life case study to evidence that it supports decarbonisation specifically for Tiers 2, 3 and 4 suppliers located in Southeast Asia, Bangladesh and Pakistan. The lack of case study from our desk research suggests that these financing solutions will need further development although the specific recommendations that apply to each of these financing solutions are beyond the scope of this paper. By grouping these financing solutions in Band 3, however, we do not rule out the possibility that these financing solutions could be applied in other contexts— such as upstream suppliers in other geographies – and backed by one or more case studies but an exploration of these various scenarios is likewise beyond the scope of our discussion.



4.1 Debt

4.1.1 Green Subordinated Debt

Definition: Green subordinated debt refers to a loan or security – used to finance environmentally beneficial projects – that ranks below other loans and securities in relation to claims on a company’s assets or earnings. In the case of borrower default, senior debtholders are paid in full before creditors of subordinated debt are paid out. This means that investors will assume higher risks and potentially more favourable returns, but green subordinated debt remains crucial for unlocking blended finance structures.

4.1.2 Revolving Credit Facility

Definition: A revolving credit facility is a flexible line of credit that allows borrowers to withdraw credit when required to pay for business activities. Once the borrower has repaid according to the terms and conditions of the agreement with the lender, the borrower can withdraw again to meet business needs.

The proceeds of a revolving credit facility can be used for eligible green project(s) throughout the lifetime of the facility, however, the GLP recognises that the green use of proceeds may not be easily identifiable in such instances.⁵² Therefore, the parties to any proposed green loan in the form of revolving credit facilities should determine the best approach to evidence the flow of capital to an agreed upon green project or green projects when applying the GLP to such a loan. For instance, a revolving credit facility may include a specific green tranche, however, if this is not feasible, the borrower may endeavour to disclose to the lenders the use of any revolving borrowings and/ or identify green projects financed by the facility.

Lenders should keep track of the sustainability information disclosed by the

borrower during the tenor of the loan or to seek external review if the lender lacks internal expertise to monitor the loan.

4.1.3 Concessional Loans

Definition: A concessional loan is a loan with more favourable terms than what is offered in the market. These loans are offered by bilateral development finance institutions, multilateral development banks and national development banks, and may include grace periods, a lower interest rate, a longer loan tenure or other features. Concessional loans can de-risk decarbonisation projects through long-term loan contracts to demonstrate a commitment to Net Zero and attract further investment in decarbonisation.⁵³

4.1.4 Local Currency Loans and Facilities

Definition: Local currency loans and facilities are issued by a financial institution in the currency where the investment occurs. Repayment is made in the local currency to avoid risks that arise from currency depreciation, for instance when revenues are denominated in local currency while debt is denominated in foreign currency. The interest rate of the local currency is typically fixed. Project developers in developing markets can leverage on local currency loans and facilities to finance decarbonisation projects in the local currency to avoid increases in repayments as a result of currency depreciation.

4.2 Equity

4.2.1 Private Equity and Venture Capital

Definition: Private equity (PE) refers to a type of financing where private investors acquire an ownership stake in a business.

⁵² “Green Loan Principles”, Asia Pacific Loan Market Association (APLMA), Loan Market Association (LMA) and LSTA, March 26, 2025, <https://www.lsta.org/content/green-loan-principles/>

⁵³ “Climate Club Financial Toolkit: Economic, de-risking and financing instruments for industry decarbonisation”, OECD, 2025, [Climate Club Financial Toolkit \(EN\)](#)



The raised capital can be used for business operations. Venture Capital (VC) is a form of private equity and typically targets early-stage startups that demonstrate high growth potential while PE focuses on scaling or restructuring mature companies. Unlike green equity, which considers environmental impact as a core investment thesis, typical PE/ VC funds invest based on commercial potential, with sustainability as a value driver rather than a pre-requisite.

4.3 Grants

4.3.1 Project Co-funding

Definition: Project co-funding is a direct financing mechanism involving fashion brands partially covering the costs of decarbonisation projects implemented by their suppliers. Factory-level decarbonisation initiatives – such as electrification of thermal processes, energy efficiency upgrades and low-carbon material transitions – often entail high upfront costs and long payback periods especially for Tiers 1 and 2 suppliers. For project co-funding to work, suppliers must be part of the brand's supply chain and evidence readiness to implement decarbonisation measures.

4.3.2 Pull Financing Instruments

Definition: Pull financing instruments link payments with predetermined criteria established by the lender and receiving party. When policymakers and industry lack knowledge of innovation(s) to fix a problem, pull financing can provide a commercial incentive for innovators to develop solutions through an advance purchase agreement or advance market commitment with a path to profitability in the form of promise of future sales or other revenues. This is important to drive innovations that primarily benefit lower-income countries where existing markets may be small and fragmented.

4.4 Mixed

4.4.1 Project Finance

Definition: Project finance refers to a method of financing a single asset or a group of similar assets. Project finance depends solely on the cash flows generated by the project itself to repay debt and service equity. As cash flows from the assets underpin the financing structure, the existence of a reliable offtaker is critical in ensuring a steady revenue stream and the long-term feasibility of the project. In the case of renewable energy projects such as wind farms and solar plants, this often takes the form of a long-term power purchase agreement.

Project financing involves a highly complex decision-making process, with lenders undertaking rigorous risk assessments to assess the project's viability. These include the risks associated with the country in which the project is developed and the long-term operational risks involved including the reliability of the project operator. Lenders may also assess whether the projects meet environmental regulations such as the Equator Principles.

4.5 Risk

4.5.1 Guarantees

Definition: Guarantees are risk-sharing instruments where a third-party – often a development bank or donor – commits to cover part of the losses in the event the borrower defaults on a loan. Guarantees do not constitute direct funding but de-risk loans or investments which make the lenders more willing to finance decarbonisation projects. This is especially important for SME suppliers who often experience high perceived credit risk and lack sufficient collateral. By leveraging guarantees, suppliers in the fashion industry who are looking to finance decarbonisation initiatives with long payback periods, will be able to access capital from commercial banks that would otherwise be unavailable or unaffordable.



4.6 Supply Chain

4.6.1 Dynamic Discounting

Definition: Dynamic discounting refers to a working capital solution where a buyer offers suppliers early payment for goods or services in exchange for a discount on the invoice amount. Discounts are calculated dynamically based on how early the payment is made, which means that buyers benefit by paying less for products or services if they pay early while suppliers gain by receiving payments sooner, thereby boosting their cash flow. Key to dynamic discounting is optimising the timing of payments. This means that both parties must determine when early payments fit their business operations by considering the cash flow cycles of the buyer and the needs of the vendor.

4.6.2 Inventory Finance

Definition: Inventory finance is a form of asset-based lending where businesses use unsold inventory as collateral to secure short-term loans or revolving credit. It helps companies purchase goods or raw materials ahead of sales cycles, manage seasonal demand, and maintain cash flow.

Loan structures are designed to suit a company's operational needs, typically involving revolving credit facilities or term loans.⁵⁴ The choice is dependent on cash flow predictability and inventory turnover rates. To minimise cash flow disruptions, repayment schedule tends to align with inventory cycles and expected sales inflows.

The inventory itself serves as the security for the loan. Lenders generally classify inventory into raw materials, work-in-progress, and finished goods, with each category influencing the collateral valuation and loan terms. For instance, finished goods, being ready for sale, are considered the most liquid form of inventory and the most desirable collateral

for lenders. Their immediate marketability, in turn, enables higher advance rates.⁵⁵

Detailed records of inventory turnover and sales forecast are important to strengthen a company's position when negotiating terms with lenders.

4.6.3 Purchase Order Finance

Definition: Purchase order finance refers to a short-term funding solution where a third-party financier pays a supplier directly to fulfil a confirmed customer order. It enables businesses to accept large orders without upfront capital. The financier assesses the purchase order, pays the supplier, and is repaid once the end customer pays the invoice. This allows the supplier to take on larger contracts and achieve more stable cash flows rather than react to a potential cash crunch when a large order arrives.

4.6.4 Reverse Factoring

Definition: Reverse factoring, also known as accounts payable finance or buyer-led supplier chain finance, refers to a buyer-initiated financing arrangement that involves three parties: the buyer (typically a large company for instance, a brand), the supplier, and a financial institution (the factor). The programme allows the buyer to systematically approve the invoice for payment and raise a funding request against it with a financier; the financier pays a supplier at a lower borrowing cost based on the creditworthiness of the buyer. As a result, the supplier benefits from accelerated payments while the buyer gets a longer-term payment solution. This helps to bridge the financial challenges faced by both parties while contributing to a long-term business relationship. Reverse factoring is one form of supply chain finance; while supply chain finance provides capital for both pre-shipment and post-shipment requirements, reverse factoring finances relate to post-shipment financing only.

⁵⁴ "What is Inventory Financing and How Does It Work?", Accounting Insights Team, February 1, 2025, [What Is Inventory Financing and How Does It Work? - Accounting Insights](#)

⁵⁵ "What is Inventory Financing and How Does It Work?", Accounting Insights Team, February 1, 2025, [What Is Inventory Financing and How Does It Work? - Accounting Insights](#)



4.7 Others

4.7.1 “Green Incentive” on Products

Definition: “Green incentives” on products involves a brand paying a premium for products with lower carbon footprints. These incentives are structured around sustainable supply chain finance principles, often embedded in buyer-supplier contracts, and can help to address the lack of direct financial motivation for suppliers to adopt decarbonisation initiatives. According to the Apparel Impact Institute, this approach works best if the brand’s customers care about sustainability and will pay a premium for low-carbon goods and services.⁵⁶

4.7.2 Management Fee/ Interest Subsidy

Definition: A management fee or interest subsidy refers to a financial incentive mechanism where brands or third-party institutions cover part of the interest cost or management fees associated with supplier loans for decarbonisation projects. The interest rate for a loan is derived from both funding costs and management costs. The funding cost refers to the bank’s profit from extending the loan; the management costs are the operational costs that a bank faces when making and maintaining the loan. If a brand agrees to cover the management costs of a loan (which the Apparel Impact Institute terms as paying a “management fee”), the bank can in turn, reduce the interest rate significantly as they will only need to consider the funding cost.⁵⁷ Alternatively, the brand can also agree to cover a portion of the interest payment itself.⁵⁸ A management fee or interest subsidy requires the brand to put in place strong governance and oversight mechanisms to ensure firstly, the benefit is being passed through and secondly, the supplier has access to viable decarbonisation projects with outcomes that align with the brand’s climate or sustainability goals.

4.7.3 Producer Sustainability Compensation

Definition: Producer Sustainability Compensation refers to direct financial incentives paid by fashion brands to suppliers who implement verified decarbonisation measures. These payments are typically structured as per-unit premiums or milestone-based bonuses, designed to offset the upfront costs of sustainability investments and reward verified emissions reductions. Unlike loans or grants, this mechanism is embedded in commercial transactions and tied to performance. This helps to overcome the challenges faced by suppliers when pricing alone is insufficient to recover the costs of decarbonisation initiatives. According to the Apparel Impact Institute, this approach has a high probability of achieving carbon reduction as the brand is only paying for the results and there is no risk of allocating capital on initiatives that do not lower carbon emissions. However, this approach also brings about the ‘free rider problem’ where one (or a few) brands are paying for the full reduction of the project while other brands share the benefits. Overall, this solution could potentially support Tiers 1 and 2 suppliers in the fashion industry who have active commercial relationships with the brands and brands are looking for a relatively “low-risk” approach to financing their suppliers’ decarbonisation.

⁵⁶ “The Brand Playbook for Financing Decarbonization”, Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_Brand-FinancePlaybook_9.26.24.pdf

⁵⁷ “The Brand Playbook for Financing Decarbonization”, Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_Brand-FinancePlaybook_9.26.24.pdf

⁵⁸ “The Brand Playbook for Financing Decarbonization”, Apparel Impact Institute, https://apparelimpact.org/wp-content/uploads/2024/09/Aii_Brand-FinancePlaybook_9.26.24.pdf



A large, bold white number '5' is centered on the page, overlaid on a photograph of a textile factory. The background shows a complex spinning machine with multiple spindles and bobbins, and a large stack of finished spools of white thread in the background. The machine is mounted on a wooden table, and a pair of scissors and a small piece of fabric are visible on the table surface. The lighting is warm and focused on the machine.



Section 5

Recommendations and practical steps to scale up these financing solutions

Based on our desk research, stakeholder interviews, financing matrix and detailed analysis, we have noted a few key observations about financing the decarbonisation of the fashion industry and in particular, upstream suppliers in major production countries.

First, financing solutions that support decarbonisation initiatives tend to be adopted by larger companies in the fashion industry with more awareness of these options and have the resources to meet the requirements of international best practices (such as green bonds). This allows larger companies to channel the capital towards green projects and accelerate their progress on decarbonisation.

Second, given the growing climate impacts that disproportionately affect major production countries, there is a strong urgency to unlock more capital for SMEs not only to decarbonise their operations, but also to support start-ups and smaller manufacturers to develop and scale green technologies in these markets. These SMEs face ongoing challenges in accessing traditional sources of finance due to reasons such as unfavourable credit profiling while public funding in these countries is limited.

Third, the disclosure and information requirements for green financing solutions could be simplified and technology solutions leveraged to bridge data gaps where possible to attract more fashion companies to consider these options for their decarbonisation. This is especially true given the fast-paced nature of the fashion industry,

the lack of awareness of the benefits of green/ sustainable financing instruments which could lead to internal resistance, as well as the tight margins in which they operate. Upstream suppliers in the fashion industry, which are critical to sector-wide decarbonisation, may also perceive these financing solutions to be high risk due to the challenge of quantifying the financial benefits of decarbonisation measures.

Fourth, where collaboration platforms exist to bring together fashion companies of different sizes to drive decarbonisation, these examples tend to be found in regions where major brands and financial institutions are more active in driving sustainability outcomes. The fragmented nature of fashion industry supply chains mean that these major brands often do not have visibility of their Tiers 3 and 4 suppliers – many of whom are located in major production countries – and this limits their ability to gain exposure and contribute to sector-wide decarbonisation.

Finally, establishing a clear connection between the financing mechanism and decarbonisation impacts is critical to establish accountability in the supply chain and directly influence emissions reduction. This is especially true since some financial institutions such as DFIs and investors have clear mandates and sustainability objectives tied to their financing decisions. When these financing solutions are associated with measurable decarbonisation impacts, they also help to strengthen the case for replicating them in other markets.



These important observations lead us to propose the following recommendations for the fashion industry:

1

First, major brands are encouraged to partner with financial institutions to initiate knowledge sharing across their supply chain on financing solutions that support decarbonisation impacts. This could be knowledge sharing that involves major brands, financial institutions and suppliers especially in Tiers 1 and 2 to ensure that the insights are disseminated more broadly and thereby empower at least Tiers 1 and 2 suppliers to seek out the financing solutions available to drive their decarbonisation. This recommendation also aligns with the [Fashion Charter Commitment 10](#) “Actively engage in building dialogue with financial institutions to share specific industry funding needs for delivery on shared Charter activities and increase understanding of investment needs and available funding sources for the industry transition”.

2

Second, industry associations, brands and financial institutions in major production countries especially Southeast Asia, Bangladesh and Pakistan can do more to promote the benefits of EPCs and ESCOs to accelerate the decarbonisation of upstream suppliers. This could present a viable alternative to traditional sources of financing and public funding that can support upstream suppliers with their decarbonisation initiatives in major production countries. For instance, industry associations can leverage their networking and convening power by organising seminars to increase awareness among Tiers 1, 2 and 3 suppliers. In cases where knowledge of ESCOs is at a nascent stage, they can also help establish a local directory of accredited ESCOs with a track record of working with these suppliers.

3

Third, more investments could be channeled to scale up technology platforms and digital tools in major production countries that enable SMEs to gain access to sustainable financing solutions. Given that data availability and data quality may present challenges for local financial institutions to extend sustainable financing solutions especially to SMEs in major production countries, these platforms could address critical decision-points in the financing process, such as screening of SMEs as eligible borrowers based on whether they have green certifications to support their green use of proceeds. The platform should also help simplify the calculation of their GHG emissions at a company level and based on green project characteristics. This helps to reduce the time for financial institutions to screen potential SME borrowers, as well as for SMEs to report on their decarbonisation impacts to their lenders.

4

Fourth, brands with prior experience in collaborative financing arrangements to decarbonise should take the lead in disseminating this knowledge to their regional offices in major production countries to explore similar arrangements in other markets that better support upstream suppliers’ decarbonisation. The fragmented nature of the fashion supply chain presents barriers for closer collaboration between major brands and their upstream suppliers to drive sector-wide decarbonisation. As major brands have an international presence, those with prior experience in collaborative financing arrangements can leverage on their geographical presence in major production countries to disseminate knowledge to their regional offices and empower these offices to replicate these collaborative platforms at the local level. This allows brands to work through local networks to engage upstream suppliers on collaborative decarbonisation initiatives such as the Deployment Gap Grant.



5

Fifth, sustainable financing solutions should be structured with the intention to explicitly link capital with specific decarbonisation goals and ensure accountability for the emissions reductions. Sustainability linked loans in particular, allow financial institutions to extend these products to a range of SMEs across different tiers of the fashion industry as this is not conditional on the borrowers having a pipeline of green projects. As mentioned in Section 2, to ensure the financial viability of these SME clients, financial institutions should establish a sustainability linked financing programme in consultation with major fashion brands, to identify a few KPIs (such as GHG emissions reduction) in sustainability linked financing that align with the procurement criteria of these buyers and have the KPIs verified by an external reviewer. Besides sustainability linked loans, green loans could be attractive in markets where there is clear demand from SMEs and green projects are available to support their decarbonisation. For instance, commercial banks in Asia who have existing relationships with SMEs could consider offering financial incentives such as competitive interest rates to attract more upstream suppliers as borrowers of green loans; the products could also be tied to specific decarbonisation measures or ESG performance outcomes to ensure accountability for the emissions reductions. Moreover, commercial banks can consider offering short-, medium- and long-term loans to better align with the nature of these green projects and the time needed to generate quantifiable emissions reductions in each case. This helps to foster deeper understanding of the value that decarbonisation initiatives bring, for instance, cost savings as a result of energy efficiency measures, and contribute to a stronger business case for decarbonisation in the long run.

6

Finally, financial support could be accompanied by technical, environmental and social guidance to ensure that the decarbonisation solutions are well embedded into the operations of suppliers. As observed earlier, climate change affects major production countries disproportionately and a strong business case can be made for these upstream suppliers to start decarbonising and build climate resilience so that their operations are less likely to be disrupted by climate change. As the Good Fashion Fund and the Future Supplier Initiative case studies illustrate, sustainable financing itself is limited in impact without the technical guidance to empower these suppliers to implement the solutions. It is also critical that both the baseline emissions and emissions reduction data are consistently tracked to reinforce the business case for replicating similar efforts in other markets.



6



Section 6

Conclusion

The fashion industry is a significant contributor to global GHG emissions however, the technical know-how and financial resources necessary for efficient decarbonisation are not equally distributed across the supply chain. Many of the upstream manufacturers and suppliers, who are critical to sector-wide decarbonisation, are concentrated in major production countries and experience acute climate vulnerabilities that aren't universally felt or understood. Yet, the investment required for climate action exceeds what most SME suppliers can afford.

Against this backdrop, this paper examined a range of financing solutions to unpack what works, what does not, and what we can learn from financing SMEs in other manufacturing sectors to decarbonise.

Section 1 begins with an overview of the fashion industry and its GHG emissions, the decarbonisation measures available in the industry, the challenges with adopting sustainable financing solutions and our research approach. This is followed by **Section 2** focusing on current financing solutions that have supported decarbonisation within the fashion industry

with demonstrable potential for scaling up. Section 2 further spotlighted 10 case studies to demonstrate their application in the fashion industry. In **Section 3**, we considered financing solutions that have supported SMEs in other manufacturing sectors to decarbonise and proposed how these financing solutions can potentially be applicable to the fashion industry.

Section 4 then examined other financing solutions and the reasons we believe they require further development to support decarbonisation within the fashion industry. In **Section 5**, we summarised the key observations followed by our recommendations and practical steps to scale up these financing solutions.

Our analysis throughout these sections shows that despite the multiple barriers to adopting sustainable financing solutions, it is still possible to deploy financing mechanisms to support decarbonisation initiatives across the fashion industry supply chain. Yet, many of these examples are concentrated in mature markets and involve major brands which means more could be done to mobilise the capital needed for upstream suppliers in major production countries to reduce their emissions.



This paper outlined six recommendations and the key actions needed from various stakeholders ranging from major brands and financial institutions to industry associations and technical experts.

1. Major brands are encouraged to partner with financial institutions to initiate knowledge sharing across their supply chain on financing solutions that support decarbonisation impacts.
2. Industry associations, brands and financial institutions in major production countries especially Southeast Asia, Bangladesh and Pakistan can do more to promote the benefits of EPCs and ESCOs to accelerate the decarbonisation of upstream suppliers.
3. More investments could be channeled to scale up technology platforms and digital tools in major production countries that enable SMEs to gain access to sustainable financing solutions.
4. Brands with prior experience in collaborative financing arrangements to decarbonise should take the lead in disseminating this knowledge to their regional offices in major production countries to explore similar arrangements in other markets that better support upstream suppliers' decarbonisation.

5. Sustainable financing solutions should be structured with the intention to explicitly link capital with specific decarbonisation goals and ensure accountability for the emissions reductions.

6. Finally, financial support could be accompanied by technical, environmental and social guidance to ensure that the decarbonisation solutions are well embedded into the operations of suppliers.

As the paper was developed based on desk research and interviews with stakeholders who have prior experience or interest in sustainable financing solutions, future research could provide deeper perspectives from upstream suppliers, especially in major production countries to adapt the key recommendations to the local context. Besides the financial institutions from Singapore and Viet Nam covered in this paper, it would also be valuable to engage with other local financial institutions to understand their experiences in financing SMEs especially in the fashion industry. This will help to identify the challenges and approaches to structuring financing solutions across different markets, with the hopes that transactions with a proven track record of success can be scaled up to accelerate sector-wide decarbonisation in the future.



Glossary

Blended finance	The use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.
Concessional loans	A loan with more favourable terms than what is offered in the market.
Dynamic discounting	A working capital solution where a buyer offers suppliers early payment for goods or services in exchange for a discount on the invoice amount.
Energy performance contracts	A financing mechanism where a client works with an Energy Service Company (ESCO) who develops, finances and implements projects with a view to reducing energy consumption and is repaid from the guaranteed energy and cost savings achieved over the duration of the contract.
Grants	Direct financial aid for the purpose of deploying a specific activity or project.
Green bonds	A bond instrument where the net proceeds, or an equivalent amount, is used exclusively to finance or re-finance, partially or in full, eligible green projects.
Green incentives on products	Involves a brand paying a premium for products with lower carbon footprints.
Green loans	A loan instrument and/ or contingent facility where the proceeds or an equivalent amount must be used exclusively to finance, re-finance or guarantee, in whole or in part, new and/ or existing eligible green projects.
Green equity	Direct investment into companies or projects that deliver measurable environmental benefits such as decarbonisation.
Green subordinated debt	Green subordinated debt refers to a loan or security used to finance environmentally beneficial projects that rank below other loans and securities in relation to claims on a company's assets or earnings.
Guarantees	Risk-sharing instruments where a third-party – often a development bank or donor – commits to cover part of the losses in the event the borrower defaults on a loan.
Inventory finance	A form of asset-based lending where businesses use unsold inventory as collateral to secure short-term loans or revolving credit.
Local currency loans and facilities	Loans and facilities issued by a financial institution in the currency where the investment occurs.



Long-term purchasing agreement	A purchasing agreement commits a company to purchase a certain volume from a producer in the future, beyond the current purchasing cycle.
Management fee or interest subsidy	A financial incentive mechanism where brands or third-party institutions cover part of the interest cost or management fees associated with supplier loans for decarbonisation projects.
Private equity	A type of financing where private investors acquire an ownership stake in a business.
Producer sustainability compensation	Direct financial incentives paid by fashion brands to suppliers who implement verified decarbonisation measures.
Project co-funding	A direct financing mechanism involving companies partially covering the costs of decarbonisation projects implemented by their suppliers.
Project finance	A method of financing a single asset or a group of similar assets that depends solely on the cash flows generated by the project itself to repay debt and service equity.
Pull financing instruments	Instruments that link payments with predetermined criteria established by the lender and receiving party.
Purchase order finance	A short-term funding solution where a third-party financier pays a supplier directly to fulfil a confirmed customer order.
Reverse factoring	A buyer-initiated financing arrangement that involves three parties: the buyer (typically a large company), the supplier, and a financial institution (the factor).
Revolving credit facility	A flexible line of credit that allows borrowers to withdraw credit when required to pay for business activities.
Supply chain financing	A set of financial solutions that optimize cash flow by allowing businesses to extend payment terms to suppliers while enabling suppliers to receive early payment through third-party financing.
Sustainability-linked bonds	A bond instrument where the financial and/ or structural characteristics can vary depending on whether the issuer achieves a predefined sustainability or ESG objective.
Sustainability-linked loans	A loan instrument and/ or contingent facility where the financial and/ or structural characteristics can vary as a result of the borrower achieving predetermined sustainability performance objectives.
Venture capital	A form of private equity that typically targets early-stage startups that demonstrate high growth potential.
Virtual power purchase agreement	A long-term financial contract involving a buyer and a renewable energy project developer which allows the buyer to support a project and receive its environmental attributes without having to physically connect to the project.

