

## ***PROCESS DESCRIPTION***

The manufacture of clothing involves finished fabric decoration, such as embroidery, garment assembly, home interiors, and other industrial uses of finished fabrics.

Embroidery is the art of decorating fabric or other materials with designs stitched in strands of thread or yarn using a needle. Embroidery may also incorporate other materials such as metal strips, pearls, and so on.

The main activities in the manufacture of clothing are cutting to size and subsequent sewing of the fabric into the final product. The sewing operation may be fully automated, semi-automated (this is the most common in the industry) or carried out by hand. Auxiliary activities may include steam ironing, dry cleaning trial runs, the application of waterproofing or other coatings and packaging.

This guidance note does not include the dyeing or other treatment of fabrics and textile materials, which are covered under EBRD's Textile Manufacturing Sub-sectoral Guidelines.

## ***KEY ENVIRONMENTAL, HEALTH AND SAFETY RISK/LIABILITY ISSUES***

The environmental, health and safety issues associated with the manufacture of clothing have limited impact. However attention should be paid to the issues outlined below:

### ***Energy Consumption***

Clothes manufacturing involves the use of considerable amounts of energy, in particular to operate the cutting and sewing machines. Issues to consider include:

- Energy management programmes, including measuring energy consumption, setting reduction target and implementing energy efficiency measures. The minimization of energy use also leads to a reduction of energy costs.
- Use of renewable energy sources to reduce the impacts of energy consumption on climate change.

### ***Occupational Health and safety***

- ***Dust and Fly Generation:*** The cutting and working of material generates significant quantities of small particles of fabric, referred to in the industry as fly. High levels of fly and dust within buildings can be a cause of significant occupational health hazards (primarily respiratory).
- ***Physical hazards:*** activities related to operation and maintenance may expose workers to physical impacts, particularly with reference to hot surfaces and moving equipment.
- ***Musculoskeletal disorders (MSDs):*** worker are subject to MSDs, which can happen as a result of any activity that involves some movement of the body, from heavy lifting to sewing. It affect muscles, joints, tendons and other parts of the musculoskeletal system. Common problems include low back pain, joint injuries and repetitive strain injuries of various sorts.
- ***Explosion and Fire hazard:*** build up of fly on machines, if not properly cleaned, can ignite and cause fires.
- ***Noise:*** from machinery.

## *Waste*

Waste arises mainly from three streams:

- Uncontrolled emissions of fly and dust, which may cause litter and nuisance problems.
- Paper and ink cartridges used in the cutting process.
- Waste from dry cleaning solvents
- Packaging waste.

## ***OTHER ENVIRONMENTAL, HEALTH AND SAFETY RISK/LIABILITY ISSUES***

Environmental impacts arising from clothing manufacture are minor in nature. Nevertheless, the following issues should be considered:

- ***Use of chemicals:*** The industry is likely to use small amounts of specialist chemicals, such as antistatic agents, wax, waterproofing agents and solvents for dry cleaning. These chemicals should be stored in a secure location with secondary containment. Appropriate personal protective equipment (PPE) should be used where necessary (e.g. to control exposure to chemicals such as dry cleaning solvents). If the process of application generates wastewater a permit to discharge effluent may be required from the regulatory authorities.
- ***Emissions to air:*** The main source of emissions to air are from boilers.
- ***Wastewater discharge:*** primarily sanitary and laundry in origin.

## ***KEY SOCIAL, LABOUR AND COMMUNITY RISK/LIABILITY ISSUES***

### ***Labour standards***

Labour standards are rules that govern working conditions and industrial relations. They may be formal, such as national level regulation and international agreements, or informal, expressed through norms and values.

In general, developed countries have more robust labour standards than developing countries where the associated risks are higher. The commonly accepted rights and principles enshrined in the International Labour Organization conventions are:

- The right to collective bargaining.
- Elimination of forced or compulsory labour.
- Abolition of child labour.
- Elimination of all forms of discrimination.

In addition, issues to consider (which are of particular concern in the clothes manufacturing industry) include:

- Fair wages.
- Fair working hours.
- Acceptable working conditions (e.g. appropriate lighting, space, ergonomic equipment, temperature).

Violations of any of these principles could potentially cause severe reputational damage to the company.

Labour standards should apply to the company's own employees as well as to all contractors and

sub-contractors engaged. In addition, labour standards should be expected to be enforced by key suppliers.

This sector is associated with high risk of violations occurring where there is a large temporary workforce for example in very cyclical businesses or those with weak production planning. Typical breaches include long hours working, child labour, unacceptable working conditions and unfair wages.

## ***OTHER SOCIAL, LABOUR AND COMMUNITY RISK/LIABILITY ISSUES***

### ***Upstream supply chain risks***

Labour standards and human rights violations in the company's supply chain can impact its ability to continue to serve discerning markets. Trade customers and retail consumers increasingly expect responsible practices from their suppliers. In the case of clothes making, besides all the above labour standards factors, one particular issue to consider is:

- ***Home working:*** sub-contracting individuals (typically women) to work from home is a common practice in the industry, especially when there is detailed / complex work to be done, such as embroidery. Such groups are typically vulnerable to violations of labour and human rights standards such as child labour, enforced overtime and wages below the legal minimum.

## ***FINANCIAL IMPLICATIONS***

### ***Energy Supply***

Clothes manufacturing industry involves the use of considerable amounts of energy. With the fluctuation of energy prices, weak energy

management leads to higher costs to the business.

### ***Regulatory compliance***

There are costs associated with ensuring compliance with regulatory requirements. The main costs are associated with dust and fly generation, in particular, requirements to improve the ventilation and extraction systems. Minimizing dust and fly lead to health and safety benefits as well as reducing the potential risk of fires.

### ***Litigation***

Litigation costs may be significant depending on the degree of the damage and the number of plaintiffs. Causes for legal action could include health and safety incidents (e.g. serious injuries or death), damage to neighbouring property through accidental fires.

### ***Reputational risk***

Damage to reputation (due to either environmental or social impacts or failures) could involve costly and long-running efforts to mitigate damage and reassure stakeholders such as investors, shareholders, customers and the public. This is in addition to associated litigation costs and compensation payments that might be incurred.

Moreover, specific products might become less desirable as a result of damaged reputation, possibly leading to a reduction of demand and fall of the product's market value, impacting the industry's financial performance.

### ***Upstream supply chain***

Low environmental, health, safety, social, labour and community standards in the supply chain

might impact the industry's ability to continuously trade with key customers who have screening criteria on these issues. Loss of key customer accounts or inability to attract new customers might have a significant impact on the organisations financial performance.

## **IMPROVEMENTS**

### ***Environmental, Health and Safety Improvements***

Potential environmental, health and safety improvements may include:

- Implementation of Environmental Management System, such as ISO 14001.
- Regular cleaning and sweeping of dust and fly in the building.
- Implementation of energy management programmes, including energy efficient lighting and use of renewable energy.
- Upgrade of extraction and ventilation system to ensure dust/fly is controlled.
- Waste management/control to reduce the amount of waste (including fly).

### ***Social, Labour and Community Improvements***

Potential social, labour and community improvements may include:

- Implementation of policies and practices that support international labour standards, including the right to collective bargaining, elimination of forced or compulsory labour, abolition of child labour and elimination of all forms of discrimination.

- Ensure fair wages in line with national law and/or sector standards average (whichever is higher).
- Ensure there are fair working hours and working conditions in place in line with national law and/or sector average (whichever standard is higher).
- Develop a policy covering labour practices for contractors and sub-contractors.
- Implement a formal code of business conduct, which outlines the principles by which individual employees and the organisation must conduct themselves.
- Develop a whistleblowing policy to allow anonymous reporting of any ethical violations without fear of repercussion.

## **GUIDE TO INITIAL DUE DILIGENCE SITE VISITS**

The issues and risks associated with a site will vary depending on factors including the type and size of the operation, site location, and the quality of management. However, due diligence visits should consist of a tour of the entire site.

When visiting the sites of potential borrowers or during loan supervision, financial intermediaries may wish to use the following suggestions to guide the initial due diligence process. However, note that this does not represent an exhaustive list of issues for consideration.

During the initial site visit, it will be important to assess the following:

### *Environmental, Health and Safety issues*

- Identify if the site has an environmental management system and possible accreditation by an independent body.
- Find out whether the site has environmental policies, objectives and performance improvement targets.
- Examine if key environmental issues are being monitored (e.g. amount of energy used and waste disposal). Compare annual data to assess if there has been an increase or reduction of the environmental impact.
- Examine the standard of housekeeping and amount of accumulated dust/fly on the floor, equipment, outside the building.
- Observe the level and adequacy of ventilation within the building. Check for solvent smells when first entering work areas.
- Assess the quantity and type of chemicals used, for example solvents, and control measures in place on storage and use.
- Check if workers handling chemicals are using appropriate personal protective equipment (PPE).
- Look out for potential for fire hazards in building and emergency response to fires, fire escapes, evacuation etc.
- Assess the disposal practices for waste materials.
- It is also suggested that contact is made with local regulatory agencies to determine compliance record and whether complaints have been made by the public.

### *Social, Labour and Community*

- Check that labour standards, contracting and remuneration are in line with national law and are consistent with the average for the sector.
- Check that hours worked, including overtime, are recorded and staff should receive written details of hours worked and payment received.
- Observe working conditions through process and document review and interview staff.
- Check if the company is subject to any customer policy and/or to any monitoring reviews (e.g. supply chain audit). If so, analyse the policies and the results of customer's audits.
- Has the Company received inspections from the local labour inspectorate in the previous three years? Have these resulted in any penalties, fines, major recommendations or corrective action plans?
- Has the Company received inspections from major customers in the previous three years? Have these resulted in any major issues, recommendations or corrective action plans?
- Does the organisation have a grievance mechanism which allows employees to raise workplace concerns?
- Are employees free to form, or join, a worker's organisation of their choosing?
- Does the industry sub-contract home workers? If so, examine how labour standards are assured throughout the supply chain.

## ***ACTION PLANS***

Any lending or investment should take place within the context of Environmental and Social Action Plans, which should have clear timescales and roles and responsibilities established for each action point. Typically, plans include:

### ***Environmental, Health and Safety Issues***

- Provision of a financial plan and budget for management of environmental issues and performance improvement, for example, capital investments for energy efficient technology.
- Development of key performance indicators (KPIs) and monitoring systems to allow for the setting of performance targets to meet regulatory standards and industry best practice. These indicators should allow, in particular, the continuous monitoring of: energy use and waste generation.
- Development of plans and procedures for managing risks including:
  - Occupational health and safety issues, such as dust related diseases, exposure to

physical hazards, musculoskeletal disorders (MSDs) and noise.

- Emergency response procedures, for example in case of explosion or fire.
- Training for site personnel to ensure awareness of the above issues.

### ***Social, Labour and Community Issues***

- Implement best-practice labour standards (in line with International Labour Organization principles), with particular attention to child labour, fair working hours and working conditions.
- Implementation of a process to assess labour and human rights conditions for contractors and sub-contractors, with particular attention to home working arrangements.
- Design and communication of an appropriate code of business conduct that considers concerns of key stakeholders (shareholders, employees, government bodies, NGOs).



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## **Sub-sectoral Environmental and Social Guidelines: Apparel and Other Textile Products (Clothes Making)**

### ***REFERENCES AND ADDITIONAL SOURCES***

International Finance Corporation Environmental, Health and Safety Guidelines - <http://www.ifc.org/ifcext/sustainability.nsf/content/EnvironmentalGuidelines>

International Labour Organisation - <http://www.ilo.org/global/lang--en/index.htm>

ISO14000 Series: Environmental Management Systems - <http://www.iso14000-iso14001-environmental-management.com/>