

## Race to the Top



**Race to the Top** is a pre-competitive, locally owned multi-stakeholder initiative, that aims to reshape Vietnam's apparel and footwear sector by promoting and enabling embedded sustainable (financial, social and environmental) manufacturing practices.

Race to the Top is a collaborative effort between the Vietnamese government, the Vietnamese apparel and footwear industry, global consumer brands, international organizations, and civil society organizations. Working toward long-lasting sustainable performance throughout the sector, its added value resides in broad stakeholder commitment and collaboration.

Stakeholder commitment and collaboration, as well as stakeholders' various roles and activities, contribute to Race to the Top's innovative character. Its interrelated priorities – streamlining assessments, referencing environmental best practices, improving worker management dialogue, incentivizing better buying patterns and sustainable sourcing, and creating access to capital for improvement activities and sustainably operating factories – were determined by the stakeholders involved in Race to the Top, and result in an innovative plan of action that deals with the problems faced by the industry.

## The Apparel & Footwear Industry in Vietnam



Vietnam is the world's number 4 exporter of apparel and footwear products. Employing 2.5 million workers, of which 80% are women, the industry is a key source of industrial employment for the country.

In addition, it is the second biggest export industry. Policy initiatives such as the Trans Pacific Partnership (TPP), a potential Free Trade Agreement with the European Union, and increases in manufacturing costs in China could cause Vietnam's already rapid growth in apparel and footwear production to dramatically increase with particular tariff benefits applied to fabric. On the ground this could mean a vast expansion in the number of fabric mills in Vietnam in a very short amount of time. There is significant opportunity to provide incentives for sustainable investment before additional capital investments occur to build the foundations of a sustainable apparel and footwear value chain for a generation. This coincides with the Vietnamese Government's plans for continuous improvement of the apparel sector for 2015-2020.

## Partners

Race to the Top is governed by two stakeholder groups. The Global Steering Group provides strategic guidance, and the PPP group creates a public-private platform within Vietnam to embed the program locally. IDH convenes companies, governments, and others in public-private partnerships. Together we drive green and inclusive growth at scale in the apparel and footwear sectors, by driving and co-funding the Race to the Top program.

### Private Partners



### Public Partners

Vietnamese Ministry of Industry and Trade  
Vietnamese Ministry of Labour, Invalids & Social Affairs  
Vietnamese Ministry of Natural Resources and Environment  
Ministry of Foreign Affairs of Denmark  
3GF  
Kingdom of the Netherlands

### Other Partners

Better Work  
Sustainable Apparel Coalition (SAC)  
International Finance Corporation (IFC)  
Vietnam Textile and Apparel Association (VITAS)  
Vietnam Leather, Footwear and Handbag Association (LEFASO)  
Cotton Association (VCOSA)  
IDH, the Sustainable Trade Initiative

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# RACE TO THE TOP

catalyzing sustainable growth



## Scaling sustainable manufacturing practices in Vietnam's apparel & footwear industry





## 4 Pillars

The Race to the Top program aims to catalyze the growth and expansion of a socially just and environmentally sustainable apparel and footwear industry. The program is built around **four pillars**:

1

*Proving and improving the (economic, societal, reputational) benefits of a sustainable apparel industry for both the government and the sector*

*Improving the business rationale for manufacturers and mills to invest in sustainable apparel production*

2

3

*Creating a supportive policy and regulatory environment for sustainable apparel production*

*Creating cost-efficiencies by coordinated and innovative interventions at country-level*

4

The social solutions will be piloted and developed to be used in a variety of facilities, in close collaboration with Better Work. By combining productivity/lean components with worker management dialogue, improvements on social performance, worker satisfaction, worker retention, and productivity can be achieved.

The environmental solutions will be rolled out in three different components, with programs targeting existing mills and factories with efficiency improvements and the creation of a blueprint for new mills coming into Vietnam to address the challenges of the newly developing mills as a result of rules of origin legislation as a part of trade agreements.

## Approach



Race to the Top facilitates the creation of a level playing field and public-private dialogue. The approach fostered by Race to the Top will enable buyers to offer their suppliers sustainable improvement services and investments that are genuinely attractive for them.

Race to the Top will help buyers reward their best-performing suppliers with contracts and additional incentives that help them grow their businesses. Race to the Top is set to develop incentives that will drive systemic change and have long-term positive impact on Vietnam's apparel and footwear industry.

The first pilots will create the backbone for sustainable production. This to take the first factories through the model and get the necessary service providers lined up. The subsequent years, it can be scaled.

When the vision behind Race to the Top has been proofed in Vietnam, its best working components can be replicated in other countries with quickly emerging apparel and footwear sectors, such as Ethiopia or Myanmar.

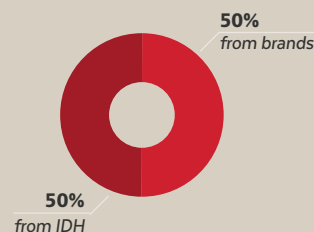
## Funding structure



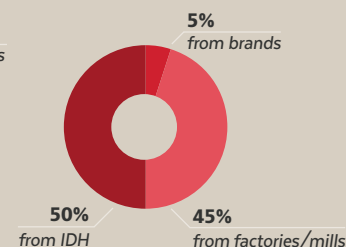
Participating brands and IDH jointly fund the first pilot projects and creation of the backbone for service delivery, including the setup of the PPP, the pool of service providers, and capacity building within Vietnam.

In subsequent years, when the business case for the improvement programs is clearly established in Vietnam, the programs can be scaled through funding from suppliers and IDH (and possibly other donors). Investment opportunities in capital intensive sustainability improvements that are uncovered in the supplier engagement can be looped back to a network of financial institutions and impact investors to match make sustainable investments in the sector.

2016



2017 onwards



## Vietnam's current developments



Dyeing and finishing, which is likely to develop, has a high environmental impact if not carefully controlled, as it is highly water and energy-intensive. The burgeoning growth of the apparel and footwear industry in Vietnam therefore represents both a potential threat to the country's natural environment and an opportunity to foster best practices in sustainable manufacturing processes. The strengths and weaknesses of the apparel and footwear sector largely mirror those of the Vietnamese economy.

### Key strengths

- ✓ A large and cost-effective workforce
- ✓ Political stability
- ✓ The support of the Vietnamese government to the development of the sector and its commitment to developing a clear legal framework

### Key challenges

- ✗ Rising labor costs
- ✗ Water and energy intensive industry
- ✗ Shortage of capacity of social and environmental experts (both manpower and educational curricula)
- ✗ The low productivity of labor compared to other textile manufacturing bases
- ✗ The fragmentation of local private firms