

# BCI COUNCIL AGREEMENTS 2016

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## Meeting, 13-14 January

### Agenda ITEMS

1. Welcome, introductions and Approval of the agenda
2. Meeting Overview
3. 2015 Review
4. 2016 Annual Operating Plan
5. 2016 Operating Plan wrap-up
6. 2016 Annual Meeting and General Assembly
7. Executive Committee report on strategy and HR
8. Any Other Business, Conclusions and adjournment

### DECISIONS:

- **Operating Plan:** The Council approved the proposed 2016 Annual Operating Plan and associated budget.
- **Supply / Farm-level programmes:** Council requested that the Secretariat review the new country strategy to deliver both impact where change is needed and match any expansion in production with demand.
- **Finance:** Council approved the five policies proposed by management at the request of the Finance Committee:
  - Cash flow buffer
  - Financial Reserves
  - Operating and Financial results
  - Bad Debt policy
  - Foreign exchange risk policy
- The 2016 budget was approved with the proviso that management deliver a robust plan in the event that targets for fundraising are not met
- **Executive Committee report on strategy and HR:** A task force to support management in a governance review and monitor progress was nominated with the following members:
  - Barry Clarke
  - Simon Corish
  - Julie Greene
  - Richard Holland
  - Susi Proud man
- The Council agreed that any changes proposed by the Committee would only be considered for after the 2016 General Assembly

## Call, 11 May

### Agenda ITEMS

1. 2016 Finances forecast – accounts update and mitigation plan
2. Strategy Review
3. Governance Review
4. HR update
5. Any other Business

### Decisions

#### 1. 2016 Finances forecast – accounts update

At the recent Finance Committee call it was confirmed that Q1 activity was in line with expectations. The 2016 budget had included stretch funding targets of €750K in new grant income in order to deliver the growth in projects that was planned for in the 2016 Operating Plan. The Finance committee is confident about prospect and speed of membership fees collection.

#### 2. Strategy Review

The aim for BCI is to reach 30% of global production, covering some 5 million cotton farmers, by 2020.

BCI's objective is reachable but it will rely on increasing efforts on fundraising and marketing. BCI needs to continue with the momentum it has generated and drive to new levels of funding.

#### 3. Governance Review

The BCI governance framework, which has served BCI well in its startup and acceleration phase, is beginning to show weaknesses. Following the strategy review this outgoing council is requested to formally invite the incoming council to review BCI governance, with a view to submitting a new framework for approval by members at an Extraordinary General Meeting in June 2017. Objective: maintain the multiStakeholder character of the organisation while building in the flexibility and representativity that will be needed to see BCI through to mainstreaming.

Following the strategy review and in line with its confirmed targets, the time is right for the Council to examine BCI governance and make appropriate recommendations for its adaptation to the new Strategic objectives up to 2020 and beyond.

Outgoing Council to issue formal recommendations to incoming council that governance review is their top priority. Barry Clarke will provide guidance in formulating the recommendations

#### 4. HR update

Lena Staafgard is appointed Chief Operating Officer of BCI

#### 5. AOB

Bilal Israel Khan expressed his concerns regarding the lack of interest from farmer's organisations to engage with BCI. The producers look for better profitability they want to engage with BCI to increase the quality of cotton they produce and increase their profit.

## Meeting, 15-16 June

### Agenda ITEMS

1. Strategy Review
2. Finance Committee Report and Outlook to 2020
3. 2016 Operating Plan
4. Demand Strategy until 2020
5. Supply Strategy & GIF Investment Strategy 2016-2020
6. IP Performance and continuous improvement
7. Update on US and on partnership with AbTF
8. Standards & Assurance
9. Comms & Fundraising
10. Governance Proposal
11. Review and sign-off for proposals
12. AOB and / or Executive Session

### DECISIONS

#### 1. Strategy Review

The Council were invited to comment on the Leadership Team's recommendation that the 2020 strategy be reconfirmed with specific targets as outlined in the call in May. The targets include reaching by end 2020:

- 30% of global cotton production
- 5 million farmers
- Better Cotton procurement by retailers and brands of 10% of global production (or one third of Better Cotton produced by then, according to the targets)
- National embedding in 9 countries
- A financially independent secretariat

The **targets were approved** with the proviso that the procurement percentage should be reviewed for consideration at the next Council meeting.

The concept of national embedding needs clarification, for example on how BCI will measure progress and on how the role of national financing will be integrated.

#### 2. Finance Committee Report and Outlook to 2020

Update on 2016, January to April

The 2016 budget is on track, with a slightly increased estimate for membership revenue

Financial plans for the 2020 targets were presented for BCI secretariat and for the Growth & Innovation Fund. Over the period, on current expectations, secretariat expenses will double, to support a six-fold increase in GIF field expenses.

While the financial targets include self-sufficiency for the secretariat by 2020, the farm-level funding strategy for this period relies on a continued role for donor funds to match the expected increase in private funding from the VBF (Volume Based Fee). BCI will pursue this strategy but also begin now to look at how impact investing or microfinance can be considered as alternative vehicles for supporting the growth of production in Better Cotton.

The remark was made that the organisation should plan to grow operating reserves to keep pace with the overall growth in its financial footprint.

Overall, driving demand is the priority in this strategy, both to bring the secretariat towards self-financing and to support the momentum for donor funding

#### 4. Demand Strategy until 2020

The revised Member Value Proposition (MVP) and Volume-Based Fee (VBF) model were approved.

The Demand Strategy to 2020 was approved

#### 5. Supply Strategy & GIF Investment Strategy 2016-2020

Requested a concrete proposal on how to fulfil funding GIF requirements both from the demand side and from fundraising.

Having previously approved the BCI New Country Policy, the **GIF priority countries** (China, India, Pakistan, Turkey, USA + Africa) **were approved**

#### 8. Standards & Assurance

Modifications proposed in the Assurance Programme (as per the pre-read) were approved.

Council was notified that next year will require further discussions on the Assurance Programme, in particular for risk-based assurance, publication of licensees as per the requirements of the ISEAL code, review of USA Group Assurance Model Pilot.

The proposed **national interpretation process** – local applicability – **was approved**.

This is an optional process. The request was made that BCI manage the introduction of this option so that it does not become over-used. Part of the attraction of BCI is that it is relevant globally, and few countries would qualify for national interpretation.

#### 9. Communications & Fundraising

**The on-product mark plans were approved**, with the proviso that Council asked to remove the fixed progress ladder of minimum 5% increase every year. RBs should instead manage the annual increase themselves over the period, with the condition of reaching 50% by the end of 5 years, with an annual review on progress.

The **social media strategy was approved** with the proviso that the team needs to provide for the expected time and resource needs to manage it effectively.

#### 10. Council matters & Governance Review

Susi Proudman was unanimously re-elected as Chair, and Leon Piçon was unanimously re-elected as Treasurer.

Council co-opted Bilal Khan as a member of Council.” Having completed two terms as an elected representative of the Producer Organisations caucus, Bilal Khan generously accepted this appointment, until a new representative could be found.

The proposal to put out **to tender a formal governance review was approved**

A review by caucus members may be planned for half-way through the process. Barry Clarke will stay involved through to completion. It was noted that the review must take into account both the Swiss civil code and ISEAL principles.

## Call, 15 September

### Agenda ITEMS:

1. Dates and venue of the next Council Calls & Meeting
2. Fundraising Update
3. Finance Update
4. National Embedding definition
5. Driving uptake and revenue generation to 2020 through the GIF
6. Crisis preparedness plan
7. Team organisation (no pre-read)

### DECISIONS

#### 1. Date and venue of the next Council Calls & Meeting

The date of the Member meeting has been brought forward to the week of May 25<sup>th</sup>, due to Ramadan.

#### 2. Fundraising Update

For the year 2017: BCI will only take on projects through the GIF that can be funded. The likely scenario of any shortfall (compared to expectations) is to postpone some projects rather than cancellation.

#### 3. Finance Update

Broadly speaking, the financial situation of BCI is considered healthy today.

Action:

- BCI Senior Manager, Finance, to prepare a comprehensive proposal for the Finance committee to meet in order to update BCI policy on hedging and foreign exchange risk
- 2017 budget to include higher provisions for potential exchange rate losses

#### 4. National Embedding definition

The Council had asked for clarification on this target and on how it is defined and will be measured.

The BCI Leadership Team will take into account the variety of likely scenarios for embedding, differing from country to country or region.

#### 5. Driving uptake and revenue generation to 2020 through the GIF

BCI needs to accelerate demand generation and fundraising now to meet the targets for 2020 approved by Council. In June, the Council had agreed to the principle of investing from GIF in driving demand, uptake and donor contributions to, in turn, raise the level of farmer support funding.

There was a general consensus that more funds are necessary and will benefit farmers in turn; There is a serious funding gap facing the GIF and IDH is currently the only leading donor of substance. (Other donors, DFAT and Helvetas, are on a much smaller scale and/or short time period)

75% of Secretariat costs are already privately funded and do not require donors. Thanks to this commercially-generated revenue the burden of the secretariat is lower than in other organisations.

With the new hires, BCI would be able to generate more demand, and therefore more VBF, and new funders, faster. The farmers and the financial health of the GIF would ultimately benefit from that.

Considering the time lag to recruit and get on board new RBs and donors (12 to 18 months), the recruitment needs to be done quickly.

#### **6. Crisis preparedness**

BCI should prepare a high-level risk management plan that covers, inter alia, potential communication crises and how to prepare for them. Additionally, the paper should anticipate specifically what kind of crises can arise.

#### **7. Team organisation**

No replacement (even temporary) for the Demand Director. The CEO will be taking personally some of her responsibilities and the managers and senior managers in the demand team will step up to fill gaps. The operating plans and Council approvals are in place and the team has good visibility on the next 18 months.

## Call, 15 November

### Agenda ITEMS

1. Progress Report for BCI and GIF in 2016
2. Priorities of the 2017 Operating Plan for Council approval
3. Governance

### DECISIONS

#### 1. Progress Report

##### Retailers and Brand Uptake:

2016 uptake had reached 350'000 MT by 1<sup>st</sup> November. This figure is expected to reach between 400,000 and 430,000 by year end. Note that uptake in 2016 is reached over 11 months.

2017 will be the last year for non-refundable upfront RB payments into the GIF. In 2018 these will be entirely replaced by the VBF which will be fully applied.

##### Institutional donors and the funding gap:

The German Ministry for Economic Cooperation and Development, BMZ, has informed BCI that it intends to support the GIF with a disbursement before the end of this year of 1M €, covering 2016 and 2017.

##### Other risks:

Main areas of concern for the next phase are that the robustness and reliability of BCI's infrastructure should keep pace with the rapid rate of growth, for example in IP support, Standards & Assurance and Membership services, which need to be resourced adequately.

An ISEAL workstream is currently working on communicating the positive impact of voluntary standards, a project that is highly relevant for BCI.

##### IP Performance and costs:

The variations in cost of projects depends on the local characteristics of agricultural production, as well on the size of farms and how far up the learning curve the project has come. Cost per farmer is a function of size of PUs, IP structure, activities planned, the ease of reaching farmers and so on, among many variables. Indian projects, for example, involve only smallholders, while Pakistan has small and medium large sized farmers. New IPs, furthermore, normally have higher cost compared to old IPs.

#### 2. Priorities

9 key issues that have been identified as priorities for 2016

1. Bring demand to 1m MT declared by Retailers and Brands
2. Secure '17 – '20 funding for BCI and the GIF
3. Develop and launch a field-level Innovation Framework
4. Reinforce robustness of implementation through learning and continuous improvement
5. Roll-out revised Standard and training programme
6. Develop tools for Retailers and Brands to communicate about impact



7. Clarify and reinforce BCI brand position to support uptake and communications
8. Develop frameworks to meet increased scrutiny and manage potential communications crises
9. Centralise ICT: integrate systems and develop the Project Database as a priority

**Priority on the supply side:**

It was suggested that BCI should also prioritise the availability of supply to meet the expected increases in demand, and that this should be managed in such a way as to avoid escalating premiums in the market.

**Action:**

The general direction of the 9 priorities was approved. The Council made suggestions for adjustments that will be finalised in January.

**3. Governance**

**Action:**

Barry Clarke to create a Governance working group and to submit recommendations in January after due research and opinion gathering among Council members.

## Call, 07 December

### Agenda ITEMS:

1. Introduction and responses to issues raised in the previous call
2. 2016 year-end forecast
3. Annual Operating Plan 2017 – Finances
4. AOB

### DECISIONS:

#### 1. Introduction and responses to issues raised in the previous call

- BMZ, the German Federal Ministry for Economic Cooperation and Development, which had agreed to fund BCI with a grant of 1 million, subsequently informed BCI that it would double the amount of the grant.
- A funding agreement for BCI-GIF had been signed in the week prior to the Council call. This welcome move puts BCI in a much stronger position to address the targets for 2017 and beyond.

Priorities had not been changed. The general direction, although not the detail, of the nine priorities had been approved during the previous call. Suggestions for adjustments will be discussed and finalised in January. The discussion about finance later in this meeting will also help to confirm or shape the priorities.

#### 2. 2016 year-end forecast

The context for the budget shows where BCI is in a strong position as well as a couple of areas for concern.

##### Strengths:

- ISEAL full membership is a significant benefit for BCI and underpins the credibility of the BCSS.
- New members are coming in daily. There are over 900 already and we shall be close to 1000 before the end of the year. BCI has a unique position which maps the supply chain end-to-end.
- New funders, C&AF and USAID for the Secretariat and BMZ and DFAT for the GIF, have helped reduce dependency on one donor and established relationships that will be built on for the future.
- The expected 430,000 MT uptake by retailers and brands is very close to the target, since it is calculated over 11 months. On an annualised basis the result would be 470,000 (target is 500,000).

##### Concerns:

- Slow development in ICT planning and slow progress in the IP Performance work-stream, due to resourcing gaps.
- On the organisational priorities for 2016, it was noted that most of the traffic lights were at orange. This nevertheless represents a strong performance, given the constraints on resources over the year, with the new funds only coming in during the last quarter.

### 3. Annual Operating Plan 2017 – Finances

- The BCI Budget Statement Summary shows a healthy growth in income (+22%). If BCI reaches its target, financial reserves should increase by 25%.
- The 5% increase in Member income and 68% increase in the BCT user fee reflect the New Membership Value Proposition (MVP), which aims to be clearer, simpler and to add value for membership. The new MVP will be implemented 2017 mid-year for Suppliers and Manufacturers and will make it possible for users to trace cotton without becoming members.
- The user fee will be lower, and the demand team is expecting a significant number of companies to join from the outside but that some members will convert from member to user status.
- The increase in grant income shows the full year contribution made by the C&A Foundation and USAID. The target for 2017 (250k€) comes to a third of the 2016 target.
- In 2017, BCI Secretariat will recruit 13 people. As approved by the Council at its June Meeting, BCI needs to invest now in order to reach the 2020 targets. Demand generation and fundraising are among the priorities for investment. New hires in other departments are geared to freeing up executive management time for those priorities.
- A risk management plan is in place to address possible underperformance in revenue. Potential savings of 670k have been identified and would be acted on after Q1 if necessary. The Treasurer noted that the mitigation plan looks strong, and that BCI is less dependent on new grants.

**Action: Council has agreed with the overall plan for income and expenditure for 2017. At the January meeting, Council will be requested to approve formally the 2017 budget in the context of income projections over two 2 years and the 2020 strategic plan.**

### 4. AOB

On Governance, the chair reminded Members that the work on finding a replacement for electing a new chair is ongoing. He invited Council Members to provide comments and /or suggestions.

He is also working on a recommendation to Council in January for a new governance model for BCI. All Council members are invited to contribute their views ahead of the Council Meeting.