

From Field
to Fashion

Mainstreaming the Midstream



**Better Cotton
Fast Track Program**

END YEAR REPORT 2013



“Reflecting back on the four years of the Better Cotton Fast Track Program to celebrate its achievements, I can truly say that this coalition derives its power from the partners that work together to drive transformative sustainable change in the cotton industry. It is the commitment and trust of the retailers and brands, their supply chain partners, public funders, NGOs and implementing partners who work tirelessly to make BCI a global mainstream reality - taking sustainability in the cotton industry from niche to norm. Though there is still much to be done to realize our vision and new challenges will continue to emerge, we can confidently say that it is collaborative innovation that will accelerate change and result in real impact on the ground.”

Joost Oorthuizen

Executive Director IDH & Chair of the Executive Board - Better Cotton Fast Track Program



From The Secretariat

In the winter of 2009, at IKEA's headquarters in Helsingborg, Sweden a small group dared to dream about creating one million metric tonnes of sustainably produced cotton in five years. Four years down the line, the dream is well on its way to becoming a reality and the Better Cotton Fast Track Program, convened by IDH, has much reason to celebrate! In 2013, the Fast Track Fund supported over 30 farm level projects in six countries, reaching out over 200,000 farmers who have produced almost 750,000 metric tons of licensed Better Cotton. This means we are closer to meeting the 2015 revised target of 1.5 million metric tonnes of Better Cotton in the global cotton market.

With an abundant supply of Better Cotton in the market, this year we have been able to concentrate on its uptake; working together with our retail brand members and their supply chain partners. Admittedly, we still have a long way to go in getting to our goal of 9 million metric tonnes of Better Cotton in the market by 2020. This doesn't, however, take away from the many small achievements in 2013 which have been special in a lot of ways. While continuing to drive cost efficiency in our farm projects, we have been successful in attracting substantial investments from the supply chain into supply creation with the hope that many of these projects will become self-reliant over a period of time. Identification of opportunities that transcend the 'project approach' and institutionalize the Better Cotton standard is the collaborative innovation we seek to build into our work.

Two new private partners joined the programme in 2013 - TESCO, a leading UK retailer and Netherlands-based Tommy Hilfiger Europe. In the same year, many of our older retail and brand members moved from piloting Better Cotton procurement in the earlier years to developing actionable plans, leading to some success stories which we are happy to share with you in this report. The year also saw a targeted supply chain work plan being put into motion by BCFTP, bringing greater transparency into the supply chain while working to make suppliers "Better Cotton ready".

BCI has had many new things to announce in 2013. Starting with a new CEO in Patrick Laine, under whose leadership and the relentless work of his team, a new Mass Balance System of traceability and a new Assurance Model were rolled out. This was also a year of very close collaboration between BCI and BCFTP, and both teams have worked together to deliver various joint activities. Ruchira Joshi and Lena Staafgard in BCI have been an inseparable part of the BCFTP Secretariat.

The Executive Board met twice in 2013 and continued to guide policy and challenge us to meet our objectives for the programme. Sean Cady (VF Corporation) and Patrick Laine (BCI) were also welcomed as new members to the executive board. There have also been many new faces in the Investors Committee, which has had various meetings through 2013 to take strategic investment decisions.

Last but not the least, the funders - both public and private - have had a huge part to play in providing the resources needed to achieve our ambition to scale the program. We express our appreciation for their continued support and as we look forward to realize this shared dream.

We hope you will enjoy reading our 2013 journey as much as we enjoyed scripting it!

Anita Chester

Senior Program Manager - Cotton, IDH the Sustainable Trade Initiative

Introduction

Cotton is grown in more than 70 countries. In 2013, around 60% of the 25.6 million metric tons (MT) harvested cotton was concentrated in China, India and USA. Today, around 50 million people, predominantly smallholder farmers, depend on cotton agriculture. Among producing countries, major differences exist in farm sizes, organization, market structures, state support mechanisms, making one-size-fits-all solutions impractical.

The growing of cotton poses numerous sustainability challenges owing to an indiscriminate use of pesticides as well as immense water wastage involving both, high economic and health costs to the farmers. Issues of severe working conditions, child labor and fair-pay have also been in the spotlight.

Challenges in the sector expand beyond the environmental and social aspects. Between the farm and the clothing store, there are multiple actors involved in trading, cleaning, spinning, and weaving the fiber. Different kinds of cotton are blended to increase the quality of yarn. Those factors translate into a lack of visibility in the supply chain: generally, brands deal only with the apparel manufacturers and spinners and have little idea where their cotton comes from. There is very limited vertical integration within the supply chain and given the volatile price of cotton, short-term contracts prevail. Consequently, the incentives of the different actors in the chain (in terms of risks, costs and rewards) are hard to align.

To address the social, economic and environmental concerns related to cotton production, several initiatives have been set up by key industry stakeholders over the years. However, reaching scale appeared to be a challenge and in response to that, the Better Cotton Initiative (BCI) was launched in 2005 as mainstream approach for sustainability in the cotton supply chain. The Better Cotton standard is designed to reduce the environmental impact

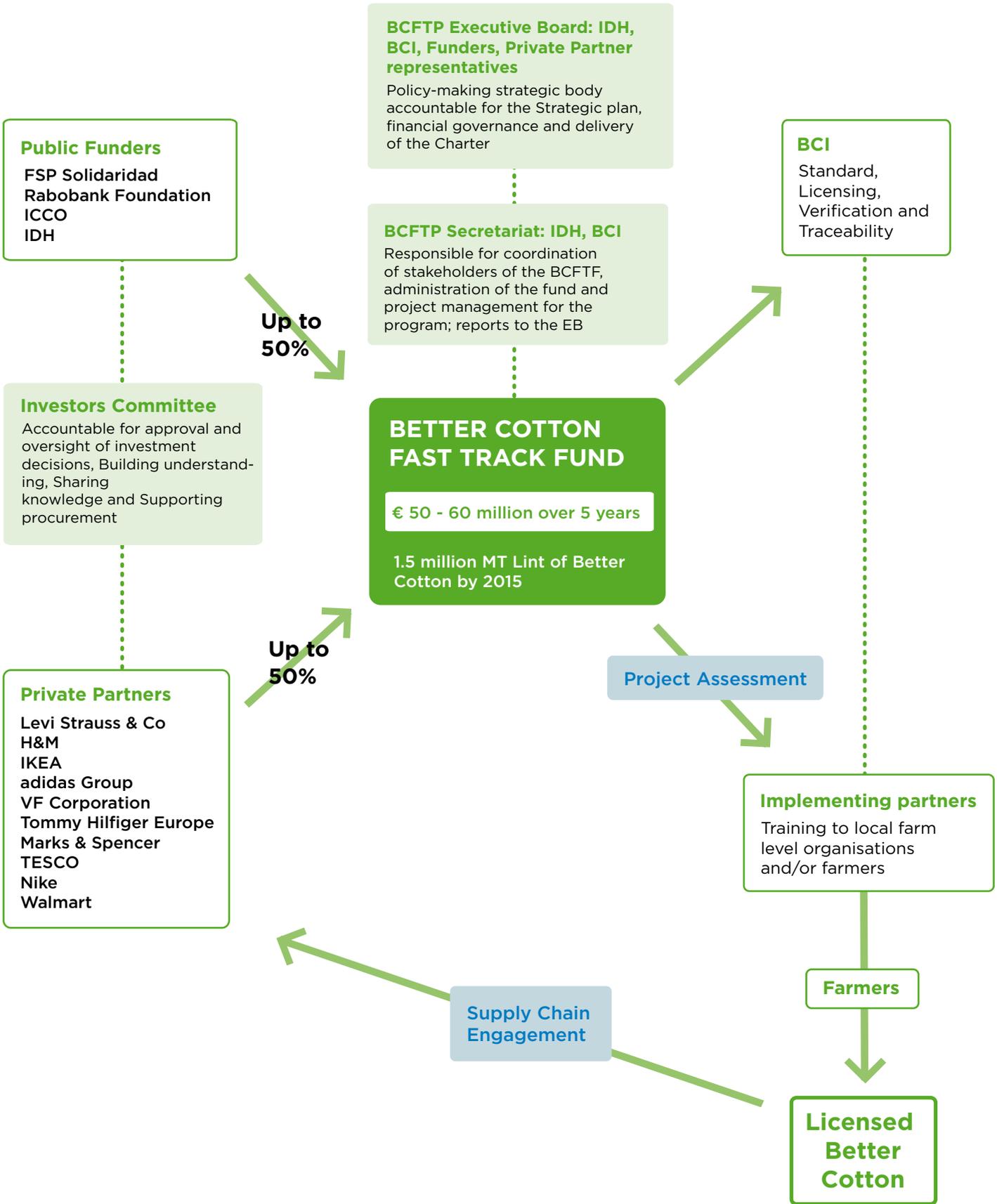
of cotton production, and to improve livelihoods and economic development in cotton producing areas.

The Better Cotton Fast Track Program was convened in 2010 by IDH to accelerate the implementation of Better Cotton projects. Germinated by front running brands, it was developed through a close collaboration between IDH and BCI, where BCI would bring their cotton expertise and IDH the program management and strategic positioning needed in the market to accelerate BCI's impact.

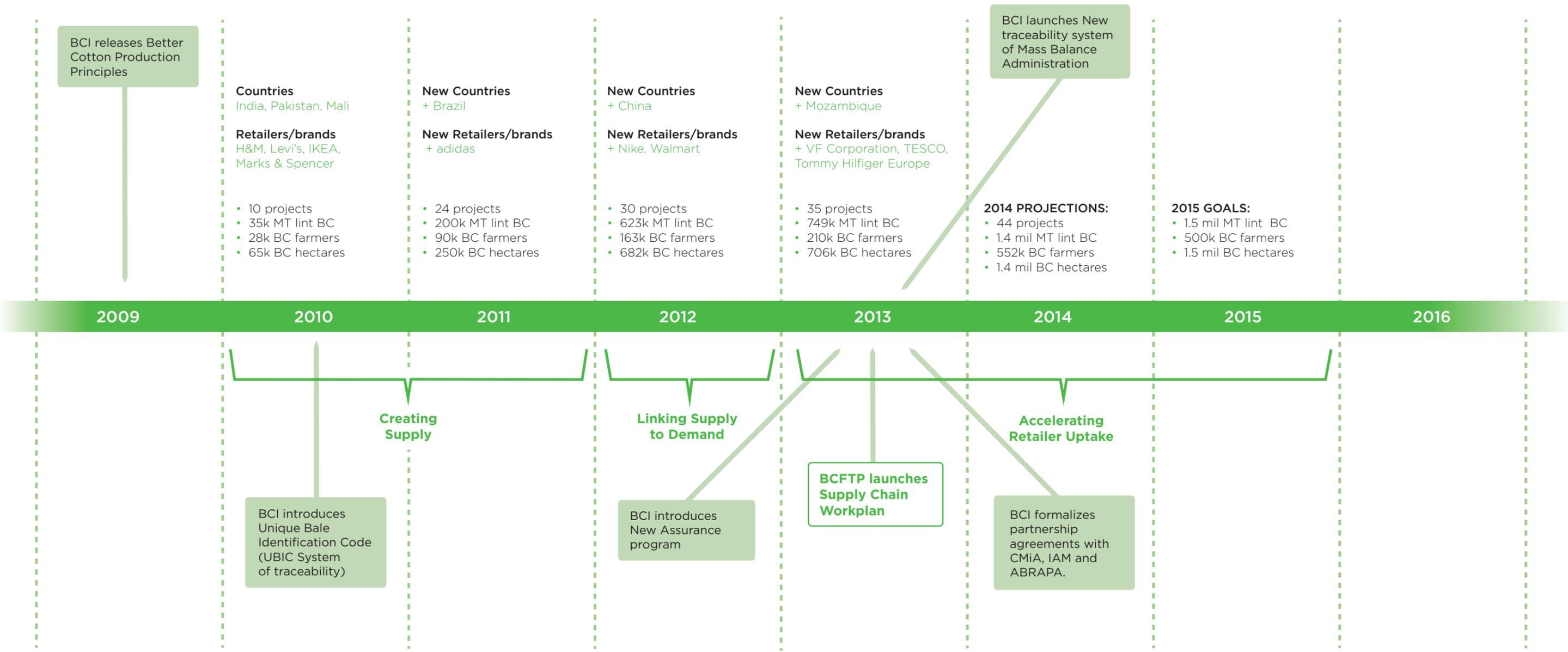
As a demand-driven program, the BCFTP promotes and builds on the commitment of a coalition of ten front runner apparel brands who are committed to procuring 100% sustainable fiber in the future. The BCFT Fund is based on up to 1:1 matched support by the public funders - Rabobank Foundation, Farmer Support Programme (Solidaridad), ICCO and IDH - to financial contributions from the private partners to the Program. For enabling a public-private partnership that aims to upscale and accelerate the sustainable production of cotton, IDH delivers for BCFTP its threefold role of convening, sharing learning and co-funding - drawing its financial support from *the Dutch Government (Ministry of Foreign Affairs)*, *Federal Council of Switzerland - State Secretariat for Economic Affairs (SECO)* and *Ministry of Foreign Affairs of Denmark (DANIDA)*.

The Fund aims to invest in farmer capacity building at the farm level to support production of Better Cotton in the sourcing geographies of the retailers and brands part of the coalition. Currently the retail brands in this pre-competitive coalition include *IKEA, H&M, Levi's Strauss & Co, Marks & Spencer, adidas, Nike, Walmart, VF Corporation and now TESCO and Tommy Hilfiger Europe*.

How BCFTP Works



BCFTP Timeline*



* The production, hectares and farmers figures for BCFTP are different from the BCI figures as the BCFTP projects are a subset of BCI projects.

The Year That Was

As a mature program in the fourth Better Cotton harvest year, 2013 has been eventful. There has been much learning from the initial years that was applied and has reaped results for the BCFTP.

This year we had 35 projects in the BCFTP project portfolio which produced nearly 749,000 MT lint of Better Cotton in 6 countries - namely, India, Pakistan, Brazil, China Mali and Mozambique. The projects covered 706,000 hectares and 210,000 farmers were licensed to produce Better Cotton. At present, BCFTP accounts for 93% of all Better Cotton production.

We were also able to develop a more refined and robust investment strategy that allowed us to take a critical look at our legacy projects which still faced challenges of cost inefficiency and procurement as they were not connected to the supply chains of the BCFT brands. This exercise made our portfolio more meaningful and we worked on setting the foundations to make these projects self-reliant and more connected.

There was a further improvement in cost efficiency as the capacity building cost per metric ton of Better Cotton was at its lowest since the inception of BCFTP being at €7.48 per MT (down from €44 per MT in 2010).

We have also been working with our implementing partners to gradually increase their contribution to the total projects costs and to this effect, we have seen a visible jump in implementing partners contributions to the fund from 6% in 2011, to 12% in 2013 and a projected share of 27% in 2014, a lot of the investments emanating from supply chain partners who want to invest directly in the field projects to create a supply of Better Cotton they can transact in.

This year we signed on two new brands to the BCFTP - TESCO and Tommy Hilfiger Europe - increasing the financial and procurement commitment of private investors in the program.

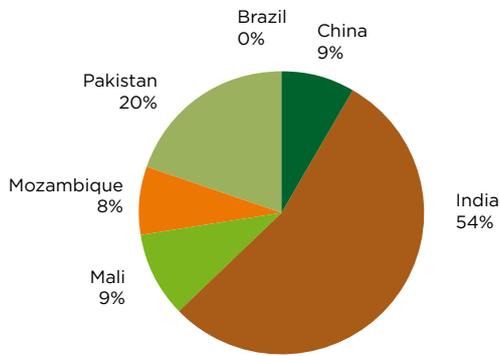
We formalized the first supply chain work-plan aimed at engaging the BCFT brands directly to help them set and achieve their procurement commitments. To deliver the plan, IDH engaged an experienced supply chain consultant who worked with the brands and their midstream partners through the year.

Many efforts were made to reach out to more brands in the apparel market; an outreach event was organized jointly by BCI and BCFTP at San Francisco, USA kindly hosted by Levi's Strauss & Co. at their offices. The event was aimed at increasing membership by introducing more North American brands to Better Cotton.

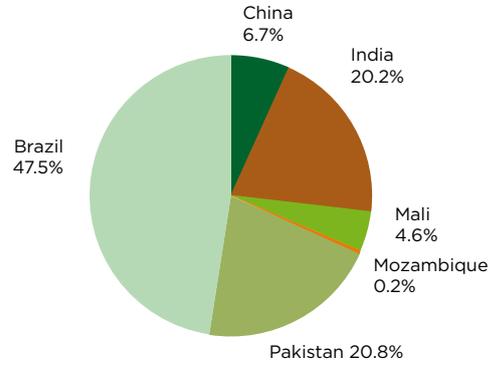
This was also an important year for BCI as they formalized partnership agreements with ABRAPA (Brazil), IAM (Mozambique) and CMiA (Cotton Made in Africa). All these partnerships, now firmly cemented, will substantially augment the supply of Better Cotton.

2013 Overview of Actual Data	Brazil	China	India	Mali	Pakistan	Mozambique	Global
% of Farmers earning Better Cotton License	97%	78%	92%	100%	48%	72%	75%
Tons of Better Cotton produced (MT Lint)	361k	51k	143k	34k	158k	1.4k	749k
Number of Better Cotton Farmers licensed	131	4.6k	119k	33k	47k	7k	210k
Number of farmers/workers trained	131	10k	121k	34k	47k	7k	277k
Hectares licensed to grow Better Cotton	215k	22k	183k	86k	192k	6k	705k
Number of Projects	1	9	18	1	5	1	35
Cost / metric ton licensed (€)	0	9	20	15	7	393	7
Gin Uptake in MT	132k	37k	49k	24k	79k	180	320k
Gin Uptake in % of Better Cotton Produced	36%	72%	34%	71%	50%	18%	42%

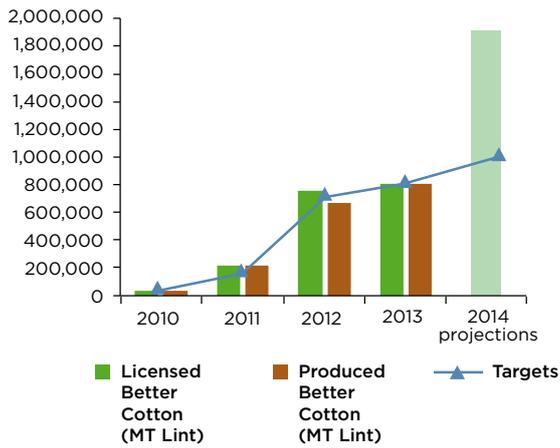
BCFTP Investment 2013



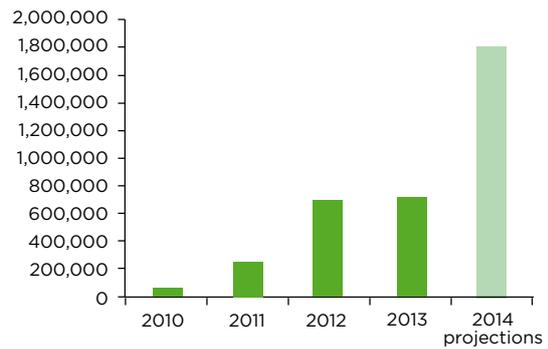
Better Cotton Produced under BCFTP 2013



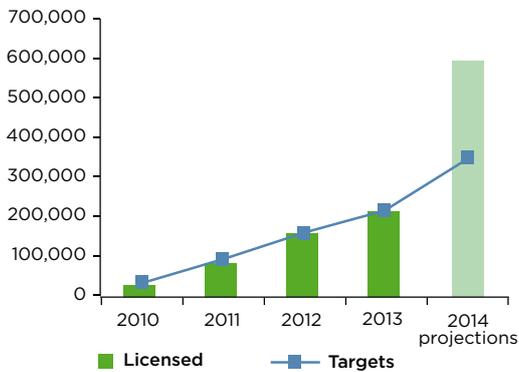
Better Cotton Production (MT Lint)



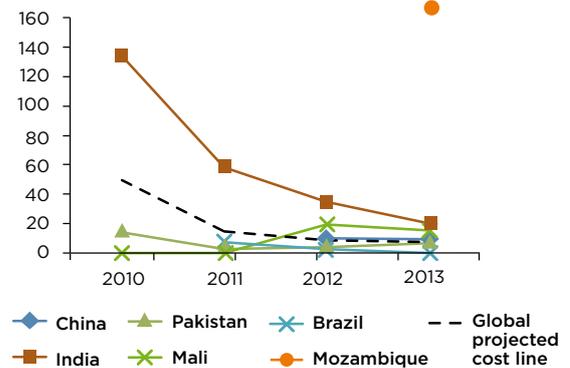
Better Cotton Hectares Licensed



Better Cotton Farmers Licensed



Cost Efficiency (Euro/MT) per country



India

India leads the world in acreage under cotton cultivation and is second only to China in volume of production among all cotton producing countries. Cotton is one of the principal crops of India and plays a vital role in the country's economic growth as it not only engages around 6 million farmers in 10 states, but also involves another about 40 to 50 million people relating to cotton cultivation, cotton trade and its processing¹.

However, today, India's yield position straddles the 500 kg lint per hectare mark and it still has a long way to go in comparison to the global average which is close to 800 kg lint per hectare². In addition, the low standards of living of the small and marginal farmers engaged in cotton production have placed it into the spotlight for some years now.

Given its position as a country of strategic importance for sourcing, being the first country for our investment in hugely diverse projects which were not the most cost efficient, and the fragmented nature of markets with a myriad of traders exploring opportunistic gain - all meant there was much to be done by BCFTP in India.

With a clear strategy in place in 2013, the BCFTP invested a significant amount of 3 million Euros (equivalent

to 54% of the total project costs in India in 18 projects across 7 states - Gujarat, Maharashtra, Punjab, Andhra Pradesh, Madhya Pradesh, Rajasthan and Orissa. 143,000 MT lint of Better Cotton was produced in 2013, showing a visibly significant scale up from the 10,000 MT lint four years ago. Out of the 143,000 MT lint produced, 49,000 MT (34 % of the total production) was taken up by ginners.

The projects covered an area of 183,700 hectares and 119,000 farmers were licensed to produce Better Cotton (92% of the farmers trained in the Better Cotton production principles were licensed in 2013 in comparison to 66% in 2012 - hence, a significant improvement from the previous years).

Cost efficiency of capacity building improved dramatically in 2013 with a 43% increase in efficiency over the previous year and a target to reduce it further by 50% in the following year. Supply chain partners were encouraged to invest in supply creation and BCFTP co-invested with such partners with the idea of decreasing support over the years.

Partners such as Rabobank have worked to develop financial solutions to eliminate barriers for uptake thus enhancing the business case for the mid-stream that seem to be quite engaged.

On the government policy side there were no impediments or bans either so on the whole it has been a satisfactory year for India on the correct trajectory with a smarter portfolio of projects.



INVESTMENT STRATEGY

Substantial scale up in supply to meet brand needs & counter opportunistic gains by suppliers

- Build cost efficiency in legacy projects
- Incentivise mid-stream players to invest in supply creation
- Exploring innovative collaborations with embedding potential
- Exploring financial innovations in moving away from grants to other financial instruments

¹ Source: Ministry of Textiles - India, The Indian Textile Journal

² Source: USDA

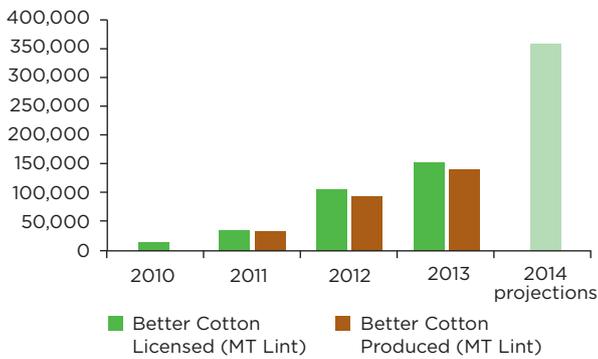


Selling Better Cotton at the gins. Courtesy: AFPRO

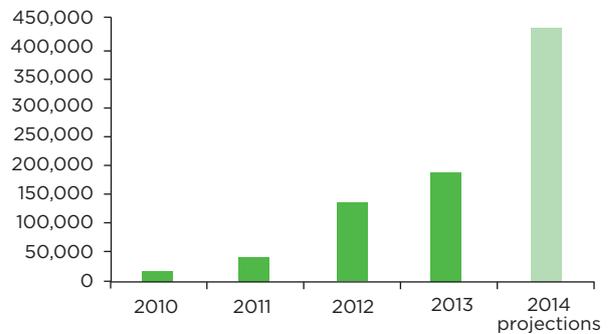


Farmers exchanging good practices at a learning group meeting. Courtesy: ACF

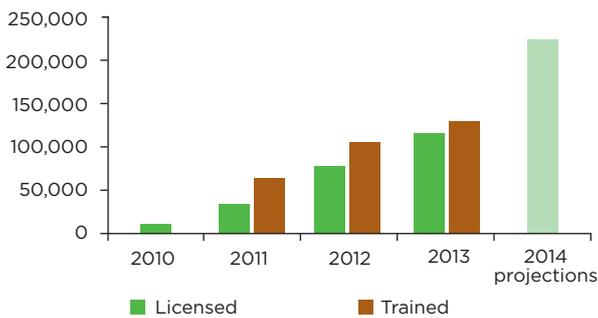
Better Cotton Production (MT Lint)



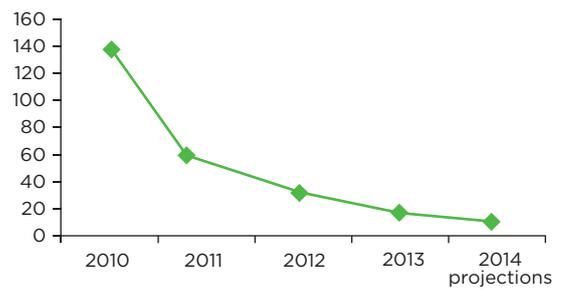
Better Cotton Hectares Licensed



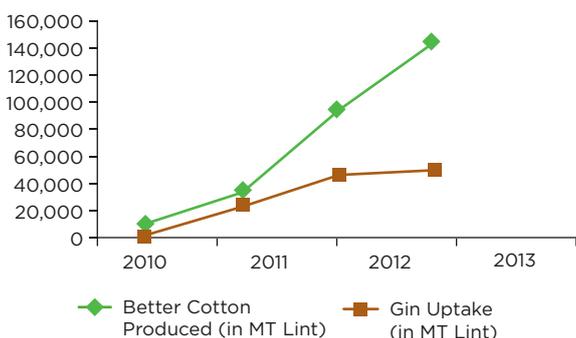
Better Cotton Farmers



Cost Efficiency (€/MT licensed)



Better Cotton Gin Uptake



Pakistan

Pakistan is the fourth largest producer and third largest consumer of cotton, in addition to being the largest exporter of cotton yarn in the world in 2013.

Cotton is the country's foremost non-food cash crop and is considered the backbone of the national economy. The cotton sector, along with the textile and apparel industry, accounts for 11 percent of GDP, and 60 percent of the country's export value. It cultivated by 1.6 million farmers (over 25% of the total 6 million farmers) mostly with small holdings less than five hectares of land¹. In Pakistan, the government policy has generally been to maintain a stable and often relatively low domestic price of cotton by imposing import duties in order to support the domestic industry.

Since the inception Pakistan has made steady progress in the program. Its cost effective fiber and vertical integration in the market structure has also been an enabler for a good uptake both at the level of the gins and spinners. Risks if any exist on the overdependence on one Implementing Partner.

In 2013, BCFTP invested over 1 million euros in 5 projects across Punjab and Sindh (equivalent to 20% of the total project costs). 158,000 MT Lint of Better Cotton was produced out of which 78,500 MT (50 % of the total production) was taken up by ginners. The total production reduced slightly over the last year on account of stricter licensing in the interest of maintaining credibility but its uptake into the supply chain was satisfactory.



The projects covered an area of over 192,500 hectares and 46,500 farmers were licensed to produce Better Cotton (i.e. 51% of the farmers trained in the Better Cotton production principles were licensed in 2013).

While WWF has played an integral part in bringing Better Cotton to Pakistan, the dependence on one implementing partner has been a concern. WWF Pakistan has been the implementing partner since the very first harvest in 2010, and they have been working locally with the two agricultural extension departments (AEDs) in Sindh and Punjab. In 2013, a strategic dialogue was initiated by BCI and WWF to engage the AEDs to become more self-reliant to take up projects themselves. After four harvests, the AEDs have accumulated sufficient knowledge and expertise to lead the implementation of the Better Cotton Standard System as part of their independent service delivery.

Additionally, there has also been an extensive engagement by BCI with the domestic textile sector in Pakistan supported by the 'All Pakistan Textile Mills Association' (APTMA), with the idea of encouraging midstream actors to provide financial support for the farmer capacity building led by AED. The business case for the domestic textile sector to invest in the creation of Better Cotton supply is that it would ultimately help the industry meet the demand of their customers (namely the international retailers and members of the BCI), and eventually expand their customer base (by acquiring a competitive advantage and appeal to new retailers).

INVESTMENT STRATEGY

- Diversify portfolio to include other implementing partners
- Work with the dominant IP to build capacity of local partners
- Engagement with trade and government bodies

¹ Source: USDA Foreign Agricultural Service: Report - Pakistan Cotton and Products Annual 2013

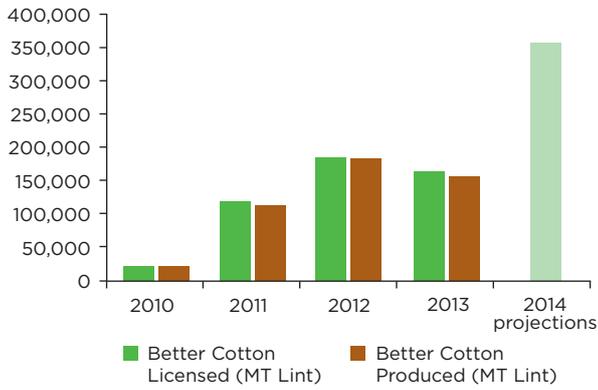


Cotton is sown on raised bed through dribbling saved around 25-30% irrigation water during sowing time. Courtesy: WWF

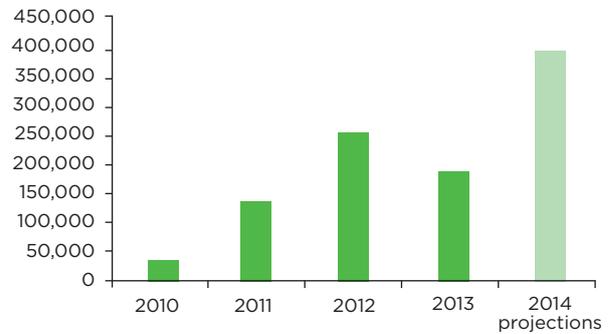


Seed delinting before sowing enhances germination by 15-20%. Courtesy: WWF

Better Cotton Production (MT Lint)



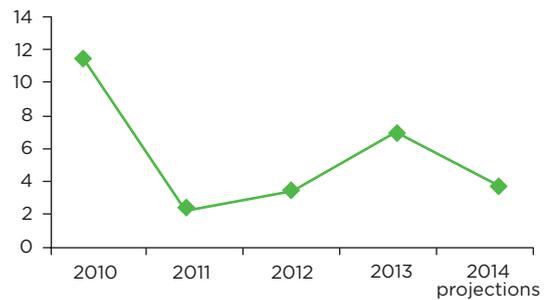
Better Cotton Hectares Licensed



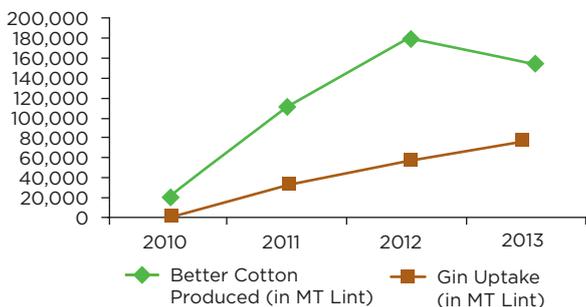
Better Cotton Farmers



Cost Efficiency (€/MT licensed)



Better Cotton Gin Uptake



China

As the world's largest cotton producer, consumer, and importer, China has long been at the center of the global cotton market.

Due to its leading garment and textile industry, its importance as the most important sourcing hub for the BCFTP brands cannot be undermined. Yet China has not been without challenges for us on account of its government reserve policy in the interest of guaranteeing its cotton farmers a minimum price. This distortion of the free market mechanism has imposed a lot of constraints on the uptake of Better Cotton fiber in China and consequently weakened the appetite for much needed ambitious investments in the country.

In 2013, BCFTP invested over 479,000 euros (equivalent to 9% of the total project costs) in 9 projects (up from 4 in 2012). 51,000 MT Lint of Better Cotton was produced out of which 37,000 MT (72 % of the total production) was taken up by ginners and this was quite high as compared to the other countries. The projects covered an area of over 22,000 hectares and 4,600 farmers were licensed to produce Better Cotton (i.e. 78% of the farmers trained in the Better Cotton production principles were licensed in 2013).



In China, BCI has been actively seeking collaborations with local and central government (initially by engaging with the Ministry of Agriculture) to see how we can embed the Better Cotton principles in the China Good Agricultural Practices (GAP) standard which are still being developed. There is still much work to be done in this area but engagement with local trade associations has been good.

Cotton reserve policy update in 2014:

In 2014, the Chinese government made an announcement that put an end to the reserve policy. However it is still unclear how fast they will release their vast stocks (estimated at 50% of the world's stock). This of course will have major ramifications on world trade and its own impact on the Better Cotton trade.

However in order to protect the farmers in province of Xinjiang, the China National Development and Reform Commission together with Department of Agriculture and Ministry of Finance announced a 'target price' for cotton produced in Xinjiang to be 19800RMB/ton¹ implying that the cotton producers in the province can sell their cotton at market prices and the government will subsidize them if the prevailing market price is below the pre-set target price which is still considerably higher than the world cotton prices.

This may mean a decrease in cotton planting area will be visible around the Yangtze River and Yellow River areas as other than the Xinjiang region, the China government has not announced a 'target price' but there may be subsidies introduced by the local governments in other cotton producing provinces.²

INVESTMENT STRATEGY

- Maintain existing projects
- Maintain high engagement with the industry
- Increasing participation of local mills in all new projects
- Develop a pipeline of projects that can bring substantial scale in readiness to be operationalized quickly on policy reversal

¹ Source: China Cotton Association: <http://www.china-cotton.org>

² Source: Research Center for Rural Economic: <http://www.rcrc.moa.gov.cn/>

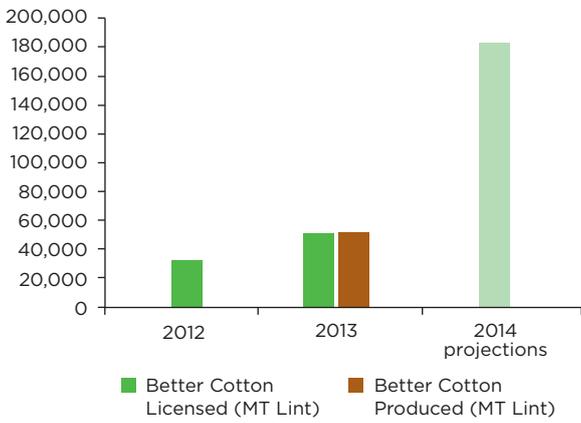


A farmer trains his peer on the use of protective gear while spraying pesticides. Courtesy: Guoxin

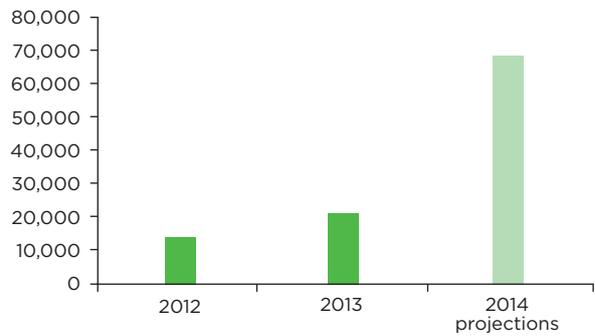


Training on importance of healthy work conditions for women. Courtesy: Guoxin

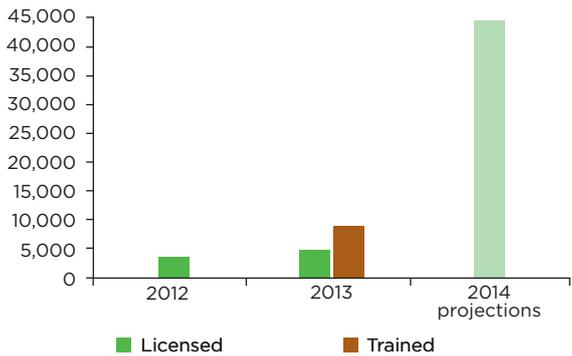
Better Cotton Production (MT Lint)



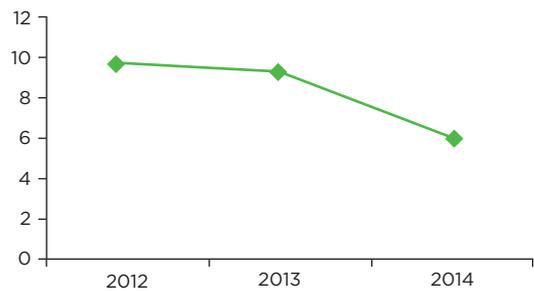
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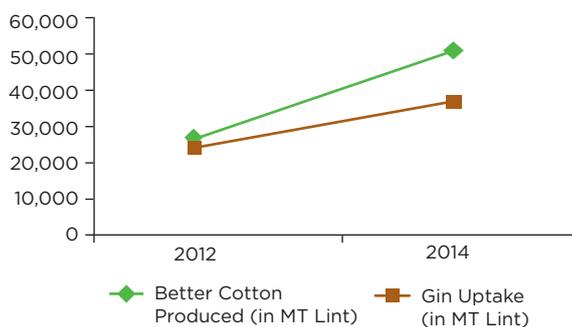
Better Cotton Farmers



Cost Efficiency (€/MT Lint)



Better Cotton Gin Uptake



Brazil

Brazil is fifth largest cotton producer in the world. Due to various economic and technological interventions – such as targeted government support, the emergence of new cotton producing regions, and precision farming technologies – Brazil's cotton production is thriving. The high level of quality demanded by the domestic and international markets has incentivized Brazil to modernize its production, harvesting and ginning processes. Today, in nearly 80% of the cotton area, farming practices and harvesting are fully mechanized while new ginning equipment has completely replaced old ones. A modern and competitive cotton industry has flourished, and today, Brazil is one of the world leaders in terms of fiber quality¹ & yield boasting of productivity almost twice the world average of 800 kgs lint per hectare.

The Brazilian Cotton Growers Association, known by the Portuguese acronym ABRAPA (Associação Brasileira dos Produtores de Algodão), is the Implementing Partner for Better Cotton in Brazil since 2010. ABRAPA and its state-based associations represent 99% of cotton farmland, 99% of cotton production, and 100% of cotton exports in Brazil².

BCFTP's role in Brazil has been largely catalytic in nature. In 2012, ABRAPA was supported with funding to initiate Better Cotton production in Brazil. However, in 2013, the ABRAPA project was entirely self-funded. 2013 was also the year in which ABRAPA's 'ABR' standard was successfully benchmarked with Better Cotton which has since been formalized through an agreement with BCI. This means that, all ABR Cotton can also be sold as Better Cotton. It has been a successful partnership model.

In 2013, 361,000 MT lint of Better Cotton was produced out of which 134,000 MT lint (37 % of the total production) was taken up by ginners. The project under BCFTP covered an area of over 215,000 hectares and 131 farmers were licensed to produce Better Cotton (i.e. 97% of the farmers trained in the Better Cotton production principles were licensed in 2013).

Approximately 50% of all cotton produced in Brazil is consumed domestically and as there are no Brazilian retailer brands in the BCI membership, a large percentage of the ABR cotton was not recorded on the BCI traceability systems. However, feedback has reflected that the Better Cotton exports to other countries and manufacturing centers abroad have shown an increase.



¹ Source: USDA Foreign Agricultural Service: Report - Brazil Cotton and Products Annual 2013

² Source: www.abrapa.com.br

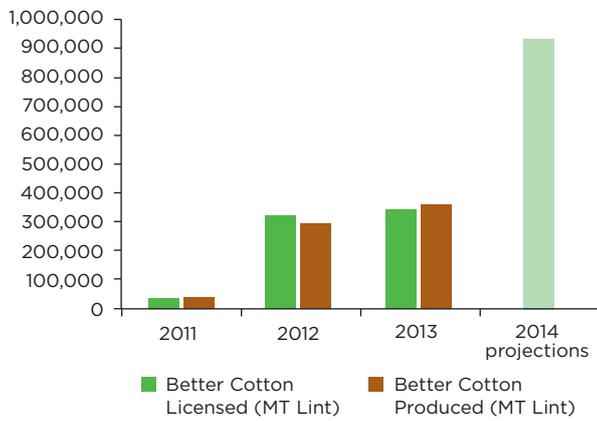


An ABRAPA large farmholder receives training on pesticide usage. Courtesy: Better Cotton Initiative

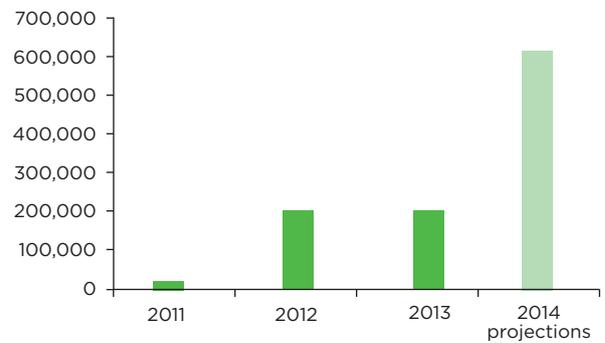


ABRAPA's ABR standard is benchmarked with BCI. Courtesy: Better Cotton Initiative

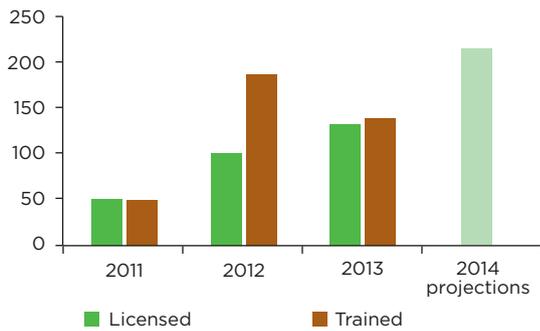
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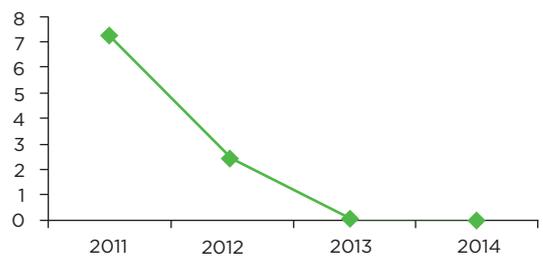
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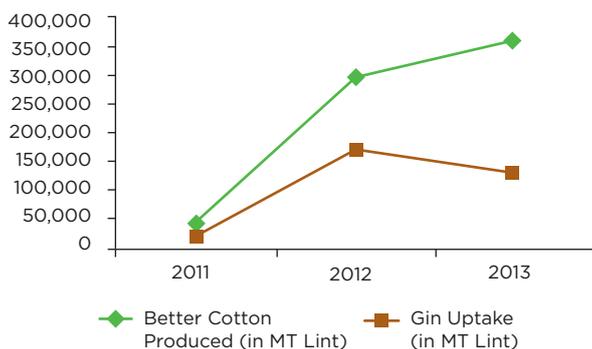
Better Cotton Farmers



Cost Efficiency (€/MT licensed)



Better Cotton Gin Uptake



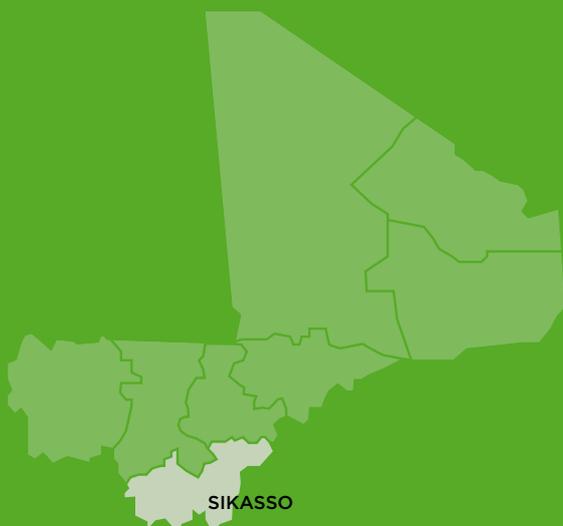
Mali

Mali is Africa's second largest producer contributing 25 percent to the country's total exports, 8 per cent to the GDP, and providing livelihoods to over 4 million people. Nearly forty percent of the rural population in Mali is dependent on cotton production, covering approximately 200,000 farms.¹

Malian growers sell their cotton to only one purchaser, the CMDT or Compagnie Malienne pour le Development du Textile (state-owned company responsible for the production and marketing of Mali's cotton). They also depend heavily on growing cotton as a main source of income and so, the price of cotton is directly linked to access to education and health care. Moreover, the cotton industry also serves to counteract rural out-migration and emigration by creating local jobs for the local population.

In 2013, BCFTP invested approximately 532,000 euros, funding one project in Mali (equivalent to 9% of the total project costs). Implemented by Solidaridad, along with AProCA and CMDT, the project covered an area of over 85,500 hectares and 35,000 MT Lint of Better Cotton was produced. 33,000 farmers were licensed to produce Better Cotton (i.e. 100% of the farmers trained in the Better Cotton production principles were licensed in 2013).

This project has been designed right from the start to work with existing farmer associations (APROCA and other coops) and develop market linkages through CMDT. AProCA is the African cotton producers association that plays the role of a convener at the regional level to look after the interests of producers across the 13 member countries in Africa. On the other hand, CMDT is the main actor in the cotton sector, managing the value chain upstream and downstream, from providing subsidies for inputs to the farmers, to ginning and facilitating exports. That is also the reason why Better Cotton in Mali has a high gin uptake rate – in 2013, 24,600 MT (71 % of the total production) was taken up by the CMDT. This tripartite relationship is aimed to facilitate the transition towards self-reliance for this project as it will be institutionalised into the existing structure of the cotton industry in Mali.



¹ Cotton Technical Assistance Programme for Africa

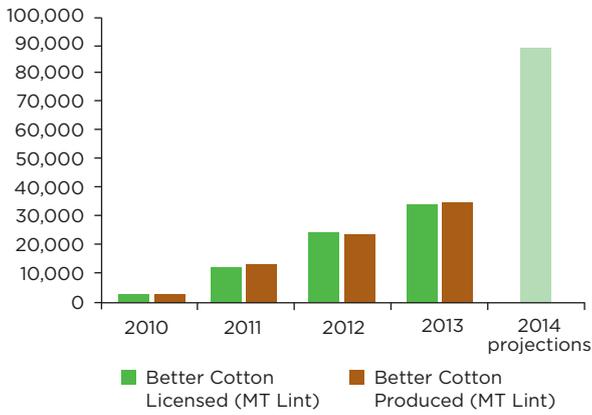


Field observation of the crop's health and key pest and beneficial insects. Courtesy: Solidaridad

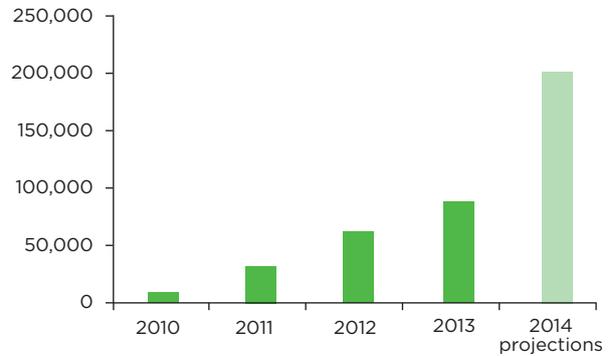


Women harvesting cotton using creton bags
Courtesy: Solidaridad

Better Cotton Production (MT Lint)



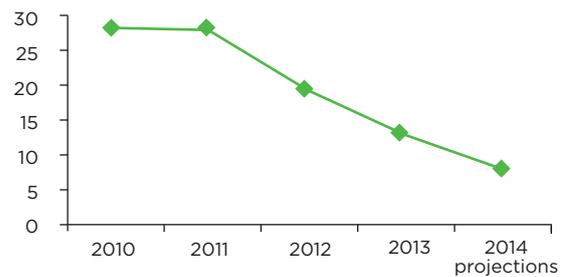
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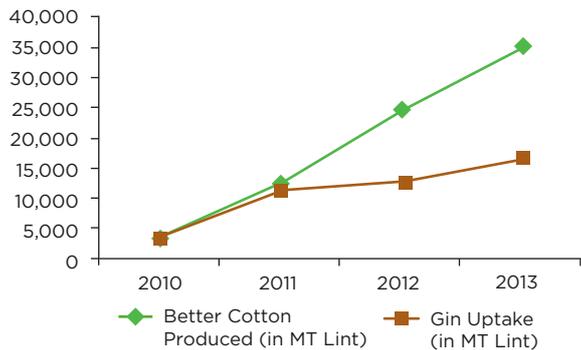
Better Cotton Farmers



Cost Efficiency (€/MT Lint)



Better Cotton Gin Uptake



Mozambique

In Mozambique, cotton assumes a great importance among small farmers in rural areas even though it is not a big cotton producer country. It is an important crop for more than 300,000 small households. Cotton ranks 6th in overall exports for Mozambique¹. However, the abject poverty of the farmers and other social issues make it a country of focus for BCFTP.

According to the country's legislation, cotton concessions are companies that are given the right by the government to be the sole operator in a given area, where in return they provide farming inputs to the farmers. The country has 14 concessions which include international merchants and national companies and hence, the Fast Track Fund supports projects in Mozambique through implementing partners that are ginners and concession operators.

Mozambique Cotton Institute (Instituto de Algodão de Moçambique-IAM) is a public institution that serves as the authority of cotton sector in Mozambique. The aim of the authority is to promote, guide, regulate and supervise activities related to production, marketing, processing and export of cotton. Through an initial partnership with the government, which saw BCI's Minimum Production Criteria embedded in the country's cotton legislation, we are anticipating that Mozambique will become the first country to make 100% of its cotton production Better Cotton.

As a strategic partner, IAM will work with BCI to establish enabling structures that allow for the appropriate transfer of leadership and exchange of views, develop and roll out training programs, effectively build capacity and develop accurate reporting in relation with the Better Cotton System.

OLAM became the Implementing Partner as a part of the BCFTP in Mozambique working with farmers to produce the country's first Better Cotton harvest in 2013.

In 2013, BCFTP invested 440,000 euros, half of which was invested by the implementing partner (equivalent to 8% of the total project costs) in the project which licensed 6,350 farmers (i.e. 72% of the farmers trained in the Better Cotton production principles) to produce 1,400 MT lint of Better Cotton. 180 MT Lint of Better Cotton (18 % of the total production) was taken up by ginners. The project covered an area of 6,000 hectares. Considering the size of the investment, the results have been far from satisfactory. The poor production was largely due to unfavorable weather conditions. Nevertheless a plan has been developed to increase the efficiency of the project and invite other concession holders to become implementing partners in 2014.



¹ Food and Agricultural Organization (FAO) - Report: MAFAP 2012

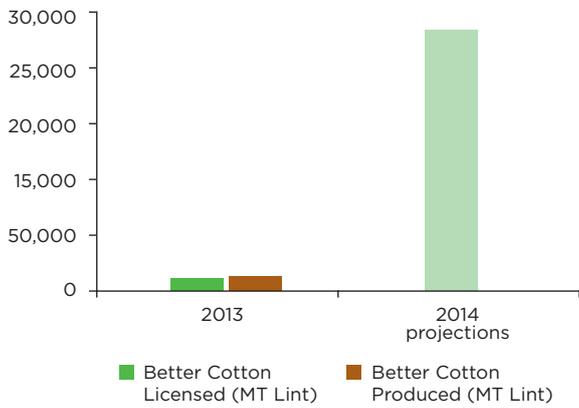


Farm workers wear protective masks while sorting the cotton outside the gin. Courtesy: Olam

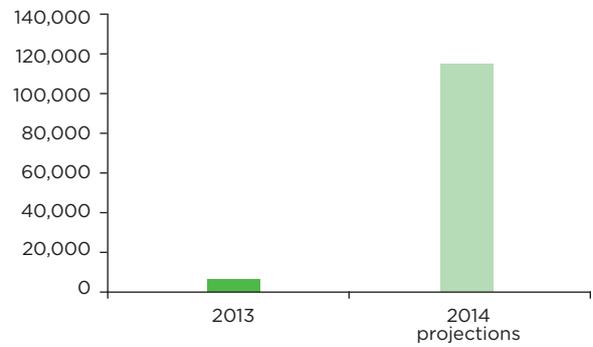


Farmers in Mozambique share some of the lessons learned from implementing the Better Cotton Production Principles. Courtesy: Olam

Better Cotton Production (MT Lint)



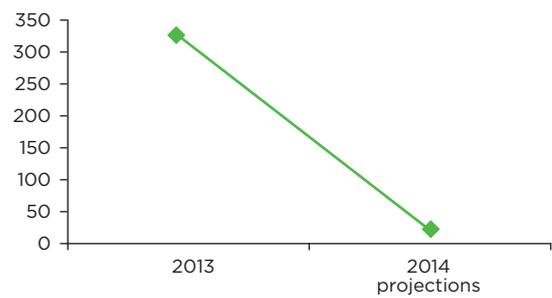
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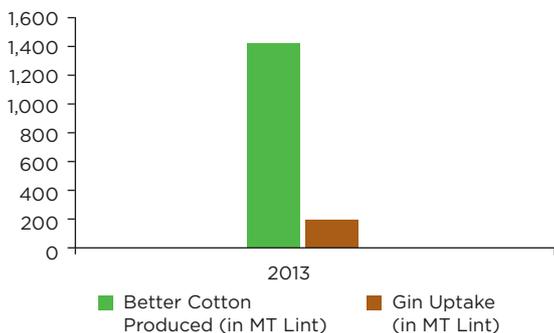
Better Cotton Farmers



Cost Efficiency (€/MT Lint)



Better Cotton Gin Uptake



What's New at Better Cotton Initiative...

...Leadership

Patrick Laine joined BCI as CEO in July 2013, from his last role as Director of Corporate Partnerships at WWF where he worked with the private sector to help them understand the environmental footprint of their value chain and to develop strategies that would reduce or eliminate this impact. Besides his vast background in sustainability, Patrick also has over 20 years' of senior management experience in large multinational corporations.

...Traceability

The **Better Cotton Tracer** was launched as an online, centralized tracking system for BCI members to record all transactions of Better Cotton across the supply chain.

In 2013, BCI also introduced the new traceability system of **Mass Balance Administration**. Under this system no physical segregation is required beyond the gin. We are confident this will make it easier for supply chain actors to service the needs of brands and hence go a long way in increasing uptake of Better Cotton.

...Operations

In 2013, BCI developed a **new Assurance Program** that highlights the focus on continuous improvement and farm-level change by introducing a set of Minimum Requirements combined with Improvement Requirements. To be licensed to sell Better Cotton, farmers must meet Minimum Requirements (that ensure that Better Cotton meets clearly defined standards for pesticide use, water management, decent work, record keeping, training and other factors) and at the same time farmers are encouraged to develop further through Improvement Requirements (measured through a questionnaire that tells their story of how things are changing for the better). The farmers receive a score which is shared publicly. High-scoring farmers are rewarded with higher Better Cotton status (ranging from advanced to masters level), and see their license period extended from 1 to 3 or 5 years.

Having worked on many sustainable commodity initiatives in the past, I speak from experience when I say that the Better Cotton Fast Track Program, convened by our strategic partner IDH, has taken years off the normal time required to achieve field impact and market acceptance. Without the visionary commitment of our commercial partners, BCI would not be in 17 countries in 2014 and engaged in improving the well-being of 900,000 farmers. The BCFT program has established BCI as a global, mainstream initiative working to ensure a sustainable future for the cotton industry.

Patrick Laine CEO, BCI



Accelerating Retailer Uptake

BCFTP as the accelerator for supply & uptake

As a market driven initiative, the BCFTP not only encourages the production of Better Cotton but also places immense importance on increasing the demand and uptake of Better Cotton by retailers/brands and their suppliers to facilitate the mainstreaming of Better Cotton for market transformation.

The primary focus over the last few years has been at accelerating the supply via capacity building at the farm level. The Better Cotton supply has increased from 35,000 MT lint in 2010 to 749,000 MT lint in 2013 and the Gin Uptake Rate (GUR) has been consistent at approximately 42%. The corresponding increase in Retailer Uptake Rate (RUR) has lagged behind in the initial years and this is not uncommon for a new initiative. What has been encouraging is the increasing trend of uptake which has grown from 1,600 MT in 2010 to 84,000 MT in 2012 and in 2013, spinners have already procured 150,000 MT which is likely to be picked up by retail brands. Driving up the uptake has been our focus and activities around this goal have kept us busy in 2013. In 2012, we put in our first efforts in linking the Better Cotton supply to the demand from our retailer brand partners and it was in 2013 that more structured work plans were put into operation.

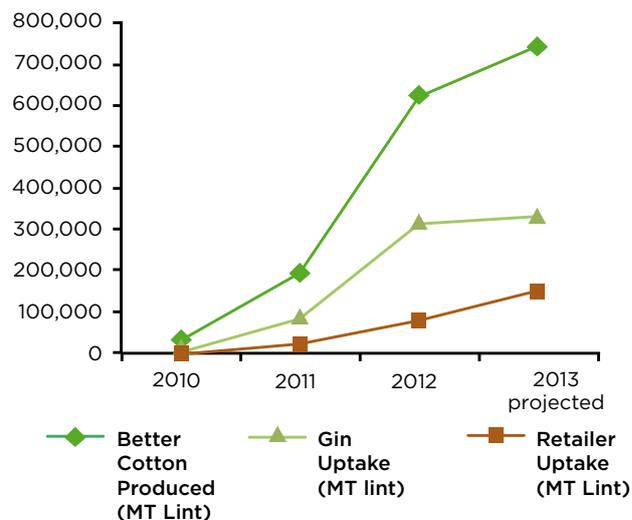
Complexities in Retailer Uptake Rate

The complexities of RUR can also be attributed to the fact that, unlike the GUR, the RUR does not solely depend on the linkages between two actors of the supply chain. As we all know cotton is a complex supply chain. The final retailer might be using cotton grown in several of the over 70 cotton producing countries. This cotton is processed and shipped in and through a dozen more places, through many layers of agents, traders, mills and warehouses. Many brands have little or no ownership or control of this as they have little visibility beyond the first or second tier in the supply chain. Further to monitor and trace the product flows and its integrity is a daunting task and the need of a good traceability system can-

“We are well on our way to achieve our goal of 100% cotton from sustainable sources by 2015. For us in IKEA, 2013-2014 was a good year as 3/4th of cotton used in IKEA was from more sustainable sources, and ‘Better Cotton’ accounted for 44% of the total cotton consumption.”

Pramod Singh IKEA Cotton Leader

Better Cotton Market Uptake



The Retailer Uptake figures for 2013 are not final as procurement is ongoing. Date from the BCI indicated that spinners have already procured over 150,000 MT of Better Cotton; As this is likely to go into production of brand garments sooner rather than later the retailer uptake for 2013 will be substantially higher than previous years.

not be undermined. If we take stock of the RUR with this backdrop, some challenges that the retailers faced in pushing up their uptake included

- The absence of Better Cotton in the US which, as the 3rd largest cotton producer, is a key geography in the supply chain of many retailers/brands
- The cotton reserve policy in China made it unviable to procure Better Cotton in China due to the higher-than-market prices,
- In the initial years, Better Cotton was created in pockets that were difficult to link to their suppliers.

While the BCFT brands conveyed their procurement goals to their first tier suppliers, their demand signals were not transmitted down to the ginners.

Responding to the retailers’ concerns, BCFTP proposed certain strategic market inventions aimed at addressing some of the above challenges. BCI had its own complementary demand strategy in place and a basket of activities – some delivered as core BCI activities and others jointly with BCFTP – were undertaken in 2013.



“The BCFT Secretariat has worked very closely with the BCI team on addressing our key challenge of retailer uptake. Coordinating the work of external consultants, meeting with key suppliers, and identifying bottle necks in retailer sourcing plans - the BCFT and BCI teams together have been able to substantially increase spinner uptake already. I am hopeful that continued collaborative work of this kind will also lead to high retailer uptake rates.”

Ruchira Joshi, Programme Director, BCI



Creating supply in all cotton producing geographies

To ensure a smooth uptake into supply chains, there needs to be Better Cotton supply in almost all geographies that retailers source from. Apart from high cost smallholder projects in developing countries, the inclusion of developed markets like the US, Australia, Brazil and Turkey become very important. For Better Cotton to be a global mainstream commodity, the portfolio had to strike a balance between large volumes of Better Cotton from countries like Brazil that underpin the mainstream nature of the commodity and smaller quantities from poverty alleviation focussed projects in countries like India that underpin the transformative nature of Better Cotton. In delivering this approach, BCFTP has invested its funds primarily in impact delivering projects in developing countries. Very small, if any, investments have been made, with catalytic start-up intent in the developed geographies. BCI has successfully built partnerships in Brazil and Turkey and a good supply from these countries has augmented the supply of Better Cotton. Turkey has its own Organisation IPUD now up and running and in Brazil, there has been a successful benchmarking with the ABR cotton standard and a partnership agreement with ABRAPA. Work is ongoing in both Australia and USA to explore ways of creating Better Cotton supply. We keenly await the outcomes.

Working with the BCFT brands

In 2013, a fairly ambitious supply chain work plan was put into action for the first time in BCFTP. This was jointly developed and delivered with BCI with the help of a highly experienced external consultant hired by BCFT.

Over the course of engagement, the supply chain specialist engaged with the BCFT brand members, focusing on their sourcing operations in Asia, both in terms of the business teams and the key suppliers especially in Bangladesh, India, China, Hong Kong and Pakistan.

The intent of these interventions were to equip the sourcing staff of brands with the essential information and insight that would empower them to have an informed conversation both internally as well as with their own supply chain on Better Cotton, so that they would be better able to address some of the challenges in the sourcing of Better Cotton. This was achieved by running multiple sessions for individual brands at their offices and those of their suppliers and from the feedback received was quite useful in breaking down some of the resistance barriers.



Individual retailer brand meetings with their key suppliers

Working with the supply chain partners

In 2013, BCI also introduced the new traceability system of **Mass Balance Administration** - encouraging supply chain users of Better Cotton to procure and use more of it, as it does not require (costly) physical segregation of the Better Cotton fiber along the supply chain after the gin. Industry actors still must procure physical Better Cotton at the start of the supply chain (thereby generating benefits for farmers and planet); they just don't have to track the physical Better Cotton yarn in the more advanced processing phases following initial procurement.

To educate the mid-stream about the new MBA (Mass Balance Administration) traceability system and the new Chain of Custody requirements, BCI hosted 4 supply chain events last year in Istanbul, New Delhi, Lahore, and Shanghai. In addition to these 'live' events, BCI also held monthly webinars to train new members on the aforementioned topics.

These trainings were augmented by the work of the external consultant who has been working with individual brands and suppliers building a basket of engaged mid-stream suppliers committed to support the procurement of Better Cotton in the supply chain of BCFTP brands. The smaller meetings were more conducive for detailed questions and discussions on specific issues related to the respective brands' supply chains and allowed for a focused discussion on the commercial opportunity of working with Better Cotton.

As part of this work plan, two large scale events were also hosted in Bangladesh and China to increase the broad awareness of BCI and working with the Mass Balance Administration system:

- **Better Cotton Trade Fair-Dhaka, Bangladesh:** The event was designed in a manner to allow the attendees to interact with different players from the supply chain who had set up stalls. They also attended a training session on Better Cotton and how to work with it in everyday business, followed by a workshop on MBA. The event was attended by a 120+ people and had 15 stalls representing a cross section of the Better Cotton Supply Chain.
- **Part of a Cotton Association meeting-Changzu, China:** The event was hosted along with CKIA-The Chinese Knitwear Association, hence one of the key benefits was the opportunity to position Better Cotton to a large audience through the CKIA forum. The intent was to generate interest to participate in the Better Cotton supply chain, highlighting the opportunity of Better Cotton to support their retail brand customers. The program had attendance of over 300+ members of CKIA and Better Cotton received the endorsement of the CKIA president at a credible public forum.



Pramit Chanda (BCFTP supply chain consultant) conducts an onsite training on the MBA system for Nike and their supplier Ramatex



President of the CKIA endorses Better Cotton



Stalls set up the BCI supply chain event in Dhaka

While the supply chain engagement in 2013-2014 has laid a foundation for an increased understanding of how to work with Better Cotton and the MBA system in the supply chain, there is a need for ongoing engagement by the brands both internally within their organizations and externally with their midstream partners to cement the inroads that have been made in 2013, resulting in some success for the achievement of their Better Cotton goals.



“The key focus of Better Cotton has always been the Farmer to improve their well-being and reducing the impact on the environment of their farming practices. The impact on the farmer and the farm remain uncompromised with the MBA System, which simply enables a seamless uptake into the supply chain. In this way, Better Cotton is handled the same way as conventional cotton – as the physical properties are the same. The successful commoditisation of the Better Cotton will be dependent on both the brands and the supply chain not treating Better Cotton as a differentiated product.”

**Pramit Chanda,
BCFTP Supply Chain Consultant**



Engaging with new brands

Though BCFTP brands that have led the way in procuring Better Cotton, they represent about 5% of the global cotton consumption. There has been an appreciation that we need this to be a more inclusive group and hence new members are being invited to join the BCFTP. Towards this end, BCFTP and BCI plan to jointly organise outreach events. The first of this series was targeted towards North American brands and retailers; and was hosted in San Francisco by Levi's Strauss & Co. where 18 brands came together to know more about Better Cotton and BCFTP. To explore more of this hitherto untapped market, more events are being planned in 2014. In 2013, BCI also hosted its own outreach events in London, Stockholm and Sao Paolo. We do hope these events will successfully create the correct buzz and interest for Better Cotton.



Better Cotton – A Good Story to Tell event held at the Levi's offices in San Francisco

¹ Source: H&M Sustainability Report 2013

² Source: Textile Exchange

The H&M Story

Introduction

Managing pivotal relationships that align the sustainability goals of the retailers and supply chain actors is a challenging exercise for all companies that produce and sell products made of cotton. Across this industry, there is limited vertical integration within the supply chains of retail brands and a highly visible lack of transparency in the processes between the farms that supply the fiber and their clothing stores. For all major brands, the raw cotton fiber and semi-finished products are sourced from myriad suppliers and locations globally, and the entry of the finished products in the market is strongly influenced by the price factor and fluctuations in fiber supply.

The challenges faced by H&M were no exception to those that confounded the retail industry across the world. Cotton is a natural, renewable material with many advantages, but it also raises a number of concerns. For example, conventionally-grown cotton can have a heavy impact on the environment through the intensive and unscientific use of water and misinformed use of pesticides. The big question that H&M has been working on is how to ensure that their garments are produced using sustainable sources of fiber while remaining competitive in a growing and diverse market.

This case study tells a story of how H&M has developed a cohesive strategy for Better Cotton to accelerate their efforts and proactively pursue their goal to use 100% sustainable fiber by 2020.

Along with other like-minded retailer brands, H&M has been a part of BCFTP. H&M believes this precompetitive coalition to be a unique opportunity to collaborate with other frontrunner brands, and to share learnings and best practices. An obvious benefit is the match-funding model of BCFTP that allows the investments of the retailers and brands to be augmented by match funding from public funders to fund high potential farm-level projects which increase the supply of Better Cotton in the market. The investments from this fund are also invested in a highly focused fashion in a way that links the supply to the existing supply chains of brands. The close interaction with other BCFTP stakeholders via this initiative led to the realization of the shared purpose that the frontrunner retailers share with each other in relation to sustainability which is why despite a very competitive scenario, they support each other. According to Harsha Vardhan, Environment Responsible- Global Production at H&M, "When H&M joined BCFTP; we were able to use the platform to learn from the more experienced members. Today, with a clear goal and a roadmap to get there, H&M can play a

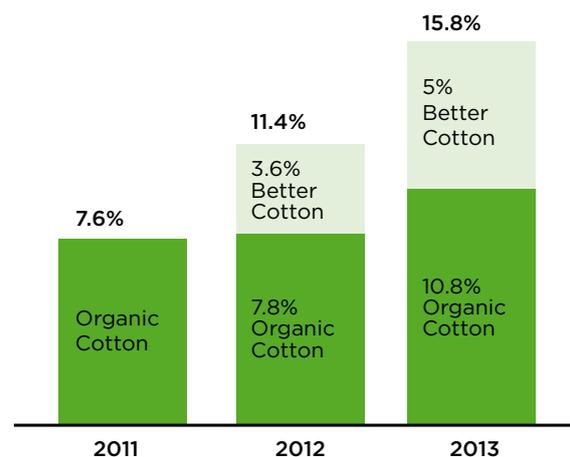
more supportive role in the BCFTP helping newer brands to get there..."

Through this case study, IDH would like to share the learning and experiences of H&M with other brands & stakeholders in the sector. By doing so, we hope that it provides the motivation and lessons for other companies to build their own 'roadmaps' to 100% sustainable fiber, thus creating a significant shift in the global cotton market.

The Journey So Far - How H&M started to work with Better Cotton

The path to sustainable cotton hasn't always been easy to tread on, but H&M is determined to make sustainable fashion an easily accessible alternative to their customers. They believe that in the not so distant future, this will be one of the demands of a new generation of environmentally and socially conscious customers and their realization of this emerging thought pattern as well as the commitment to use the planet's resources responsibly puts them on the forefront of sustainability.

To reduce the negative impact of cotton production significantly, H&M has chosen to procure via their supply chains three forms of sustainable fiber - Organic Cotton, Better Cotton and Recycled Cotton. "We plan to further increase our use of organic cotton in the future, beside making strong investments in Better Cotton and gradually increasing our use of recycled cotton," says Henrik Lampa, Environmental Sustainability Manager at H&M. "Cotton is the raw material we use the most and our good progress against our goal means major improvements for people and the environment in cotton-producing communities."



H&M has doubled their share of more sustainable cotton in the last two years and are on target with 15.8% (2012: 11.4%) of their cotton being certified organic (10.8%), Better Cotton (5.0%) and recycled (0.01%). Source: H&M Sustainability Report 2013.

Having already achieved, in 2013, 15.8¹ percent of their cotton from sustainable sources, they are on track on their journey to 100% sustainable fiber by 2020. Historically H&M have been one of the frontrunners in procurement of sustainable fibers being numero uno among brands in procuring Organic Cotton for at least two consecutive years². In 2013, organic cotton accounts for 10.8% of their fiber use and Better Cotton will be a similar percentage in 2014. Though H&M will continue to increase their use of organic cotton, Better Cotton seems to have entered the market at an opportune time for them as this will help in a speedy ramping up of their sustainable fiber use. As Better Cotton is not a niche commodity, it is a highly attractive alternative to conventionally grown cotton and its scalability potential provides H&M an unparalleled opportunity to increase its sustainable fiber uptake to meet its 2020 goals. According to Pascal Brun, Global Materials Manager at H&M, a big driver for the adoption of Better Cotton also has been ‘the social components’ and the ‘decent work’ principles of Better Cotton. “These aspects directly contribute to our corporate vision by impacting the lives of the producers at the bottom of the pyramid.” After working with Better Cotton for a number of years now, H&M believes there is no looking back when it comes to working with this sustainable source. “There is an ever growing supply in the market from every consequent harvest and all the efforts made to engage the supply chain partners have started to yield good results,” says Harsha Vardhan.




“Using more Better Cotton in our products means that we have a direct role to play in improving the livelihoods of all the small and marginal farmers from the developing countries that we source from”.
Harsha Vardhan, Environment Responsible - Global Production at H&M


Developing a Roadmap to 2020

Since the inception of the BCFTP in 2010, H&M has been engaged in working together with other leading retailers and public funders in order to create larger volumes of Better Cotton so that the retailers could procure the requisite volumes and create a visible change in their cotton use. Via a process of collective decision making they could steer the course of investments made by the Better Cotton Fast Track Fund and in turn, start to address the complexities in cost efficiency and accountability that arose in the first years of farm-level projects funded by the BCFTP. At that nascent stage, it was the sustainability team that engaged with the BCFTP and invested time and energy on top of their substantial financial contributions to the fund.

Leading up to 2012, the persistent efforts of BCI and the BCFTP yielded an exponential increase in the availability of Better Cotton. Supply was no longer the primary reason of concern, but Better Cotton still remained a difficult commodity to procure into the supply chain. For H&M and the other retailers alike, there was still a lack of clarity on the real business case for their suppliers to engage and adopt Better Cotton upstream into the supply chain. It was not unnatural for opportunistic suppliers who had an inventory of Better Cotton to charge a price differential. In India, where Better Cotton projects were scattered across many states, the situation was particularly distressing. The higher price paid to the farmers as an excuse often used that was not necessarily true. Down the supply chain, the ‘invisible’ 2nd and 3rd tier players were not connected directly to H&M and the retailer could not directly exert any influence on them. It is for these very reasons that very little Better Cotton made its way up into the supply chain in the initial years. In 2013, H&M resolved to change this. There were meetings between the BCFTP secretariat and the CSR team at H&M which reinforced the feeling that to bring a transformational change in their Better Cotton procurement, H&M would be required to take a deep dive into their supply chain. It was at this stage that the Materials team headed by Pascal Brun jumped into the fray. The task ahead seemed daunting but had to be done none the less. The first joint efforts to unravel the issues and understand the concerns of the suppliers was a LEEP(Linking, Engaging, Empowering and Performing) meeting hosted by H&M in Bangalore India in February 2013 with the involvement of BCFTP & BCI. H&M invited their apparel factories and some key spinners to this meeting. The Secretariat helped by getting into the room, a cross-section of ginners who were possibly already in their supply chain but of course, neither the ginners or H&M had ventured into a dialogue or knew of each other’s existence. The meeting was designed firstly, to communicate clearly H&M’s intent and vision for Better Cotton; and to dispel the notions of those who believed Better Cotton to be a ‘fad’ that would not last.



It was also a beginning for engaging with all the tiers of the supply chain with the idea of bringing transparency and understanding the drivers and concerns to unblock the barriers for uptake. Needless to add it was highly interactive in nature.

The LEEP meeting brought together in one room ginners, spinners and apparel factories along with H&M, BCFTP & BCI. There were some surprises and the disconnect soon became apparent with the realization that the demand for Better Cotton placed by H&M to the 1st tier apparel factories were not getting transmitted down the rest of the supply chain. These missing signals were key for those farthest removed in the supply chain and the energy of the commitment from H&M was an awakening. This was a first baby step but helped the ginners to identify more strongly with H&M and its vision 2020 firsthand. A similar meeting also took place in Pakistan shortly afterwards. This strong messaging and its reiteration by the team went on to affirm a business case for those that wanted to cement their relationship with H&M and were ready to make commitments for the procurement of Better Cotton for H&M.

At H&M, this led an internal wave of planning and strategizing for Better Cotton procurement. What followed was months of hard work at H&M by the materials team under Pascal's leadership. Creating a detailed blueprint of how H&M would achieve its Better Cotton goals was

the beginning and this included a detailed multi-year plan of geography wise targets and KPI's. One to one meetings with individual suppliers were held to identify suitable partners for this initiative and hard negotiations ensued. As these were backed by a promise of continued engagement, the business case soon became apparent to all suppliers including ginners.

Only those suppliers who choose to partner in the sustainability journey are rewarded with longer term contracts. This was instrumental in slowly petering out the price differential from the system as opportunistic short term profit was replaced by a more continuous promise of engagement and opportunity. The fact that BCI simultaneously introduced the Mass Balance Administrative system for traceability helped immensely in accelerating the uptake by the spinners.

H&M continues to reinforce the message to its suppliers that their demand and procurement of sustainable fibers will sharply increase leading up to 2020, when conventional cotton may have no place in their supply chain. Today, their supply chain looks prepared to take this transformation forward as a result of the ongoing training, collaborative planning and engagement. The H&M team is quite motivated and confident that their 2020 vision is no longer a distant dream and they are more prepared to deal with new challenges that will continue to emerge especially in the newer geographies.



What started off as a CSR initiative for H&M has now got truly embedded into their buying system. BCFTP is happy to have played a small but meaningful catalytic role.

Listening to the Suppliers

Amit Shah, CEO and Founding Director, Spectrum International Private Limited - India

S IPL is a global business that produces, processes and sells sustainable fibers and textiles under programs such as organic, and BCI while closely aligning with the goals of various leading retail brands



“As a ginner, we are the bottom of the supply chain. There could be 6 players– commission agents, traders, spinners, fabric manufacturers, dyers, processors and garmentors etc between the brands & us. We deal with only our customers and we get no opportunity to talk and engage directly with frontrunner brands like H&M. However when I have the opportunity engage with their management at a senior level and understand what their objectives are, I am able to translate that better into my own procurement plans from farmers and I can better envision the growth chart over the next 5 years in a more risk free manner. Getting a sense of demand over the next 3-6 months for a traded commodity like cotton is in itself the biggest boon you can receive!



On an operational level, by working directly with a market leader like H&M, we are able to eliminate the ‘middleman’ with whom there is often a huge trust deficit- especially in countries like India, Bangladesh & Pakistan. When a brand is deeply involved within its supply chain, there is a lot of confidence building which positively impacts trade practices and can reduce the cost of middlemen, which eventually get passed on to brands.”

Tina Lee, Vice General Manager at Huafu - China

As an A share listed company founded in 1993, Huafu Top Dyed Mélange Yarn Co. Ltd. is a global manufacturer and supplier of middle-high grade and innovated yarn with its headquarters located in Shenzhen. The company centers on the supply of mélange yarn featured with fashion, environment friendly and technology.

LEEP Meetings held in India and Pakistan



“We transmitted a strong message of commitment from H&M to the supply chain partners present on that day. We told them that we want your cotton and we want only Better Cotton”.

Pascal Brun, Global Materials Manager



“Huafu has been a supplier to H&M for over 10 years and we have been working with Better Cotton for three years now. H&M is our strategic partner and year on year, we conduct a Better Cotton annual sales forecast so that Huafu can reserve or procure the BCI cotton in advance to meet their quantity requirement. This year H&M has also played an instrumental role in linking their whole supply chain, and so now we work more closely with not only their buying teams but also their whole supply chain from garment suppliers to fabric mills. At Huafu, we are

driven strongly by market forces and our long standing relationships with brands like H&M. As long as they continue to place orders for sustainable fibers on us, we feel that we have a responsibility to work together with them and meet their demands.”

Leading the Change - Lessons Shared

Getting to this point entailed several months of hard work on the ground, and through this case study, H&M would like to highlight the learnings that they hope will be useful to other brands who are working on their own Better Cotton story:

Lasting and systemic change cannot be driven by one entity alone and collaboration is the key to success.

H&M does not have direct relationships with every sub-player in their supply chain and in fact, most of their suppliers have their own links to the lower tiers of the supply chain. It needed to be a collaborative exercise and hence, this time around, they adopted the combination of a top-down and a bottom-up approach by working closely with their suppliers to create transparency, accountability, business growth and a combined vision for sustainability.

It is crucial for every brand to develop an in-depth understanding of their supply chain - investigate it, map it and identify the game-changing elements.

An important learning that came early in planning process was that different product types have different supply chain actors. Similarly, different regions have different key players as well. In 2013, H&M put an intensive effort into identifying the key players within their supply chain in each product category and geography. The Materials team at H&M customized their strategy for different product categories and geographies depending on the key link in the supply chain that would champion the procurement of Better Cotton. By doing so, H&M gained confidence and had a fit for purpose process which allowed them to identify whom they could partner and who would make the difference.

Set your goal and make a concrete and actionable plan to achieve it. Identify the resources that you need to get you there.

It is a good principle to clearly define where you want to make an impact (for instance, in a particular location, site or product category) and then, to create an actionable plan on what impact you want to create. The last and most important step, which is often undermined in

the process, is to identify who can help you in creating that impact (internal teams and supply chain partners) and what you need from them to complete the circle of change (time, investment etc).

Make the Commitment - it will drive you and your suppliers to live up to the highest success you can imagine!

At H&M, the writing on the wall is clear. It is important for the brand, then, to demonstrate the business for every link in the supply chain and not just garment supplier. The biggest milestones achieved by this Swedish giant were attributed to them diving into their supply chain, engaging with their partners and setting plans and goals together. There is indeed a higher risk in getting so involved, however, the attitude and commitment of the brand is determines the level of success to be achieved in this high-risk environment. Questions to ponder on are: Are you ready to Lead with commitment?

Take a Stand. Let's buy Better Cotton only as an undifferentiated commodity.

The strong approach by H&M to unwaveringly treat Better Cotton as an undifferentiated commodity both in terms of internal materials planning and management as well as in external communications to their suppliers is an underlying reason for their mid-term success.



“BCI started as a brand-led initiative. Now it is time for this to be an industry initiative”.

Harsha Vardhan, Environment Responsible - Global Production

Future Direction of the BCFTP

Since its inception in 2009, the Better Cotton Fast Track Program has come a long way. So far, BCFTP has been successful in not just accelerating the supply of Better Cotton, but also catalyzing its uptake by understanding the challenges and the opportunities that lie in linking supply and demand for sustainable cotton. The program has also created significant learning on the business case for brands, farmers and midstream players, and subsequently, has triggered increasing private sector investment. It is the vision of BCFTP is that by 2020, sustainable cotton accounts for 33% of the global cotton market.

Strengthening the Supply Chain

It is also clear that in order to scale our impact; we will need to actively engage local stakeholders in producing countries. For the next stage of market transformation, the impetus to the production of Better Cotton as well as to create stronger supply chain linkages between the mid-stream players has already been initiated. Today, many midstream partners in the supply chain of the BCFTP brands are actively responding to the demand signals received from the retailers in order to procure Better Cotton. A smaller group has gone a step further, to actually invest in the creation of Better Cotton through direct contribution to farm projects. In 2014, there is a focus on cementing the business case for the midstream actors and working with BCI to create a forum for suppliers to communicate with each other, develop a common understanding and shared value, and jointly put forth possible solutions to prevailing challenges.

Collaborative Innovations: Embedding the Better Cotton standard

Well aware that the project based approach was an appropriate beginning, we now seek to transcend this to achieve scale - working together, seeking partnerships and collaborations, finding creative solutions to industry issues.

The biggest challenge and opportunity is to work with governments and national trade bodies in order to embed the Better Cotton standard in their country standards. This requires an ongoing effort in liaising with the local governments, and moving away from a 'project-based' approach to an institutional approach that allows for a systematic transformation of the cotton market.

Working with strategic partners such as public agencies engaged in the sector, allows us to establish enabling structures, to build capacity and fundraise locally so as to ultimately enable the appropriate transfer of leadership. Better Cotton in Mozambique has been successful on this front - working with IAM has been a step towards nationalizing Better Cotton standards across all concessions. In Brazil, Better Cotton has been successfully benchmarked with ABRAPA's ABR standard - this is also an example of successful collaboration with national standards aimed to ramp up the share of sustainable cotton in the market.

In Pakistan, as mentioned in the previous chapters, BCI is engaging in conversations with the Agricultural Extension Departments (AEDs) and the 'All Pakistan Textile Mills Association' (APTMA) to gauge the levels of knowledge transfer and self-financing possibilities to plan for a BCFTP exit from these ongoing and legacy projects.

In India, the strategy is to start the work with provincial governments and local agencies. Some progress has already been made in a successful dialogue with the Government of Maharashtra in exploring areas of convergence.

Balancing Scale & Impact in key cotton producing countries

Cotton is unlike other commodities which have highly consolidated demand scenarios. The expansion of BCI to all cotton producing countries will be a key unlocking move in matching the demand and supply for Better Cotton. As retailers have extremely complex supply chains a single retailer may have cotton originating from various countries and not even know about it. Spinners often buy many varieties from all over, blending them to meet quality parameters cost efficiently. Hence, developed as well as developing countries become equally important for mainstreaming BCI and making a diverse portfolio which will support easier uptake by brands.

It is with this consideration that countries like Brazil play an important role. Moreover all farmers benefit and improve their ecological performance from the continuous improvement system of BCI. It is a well-known fact that due to the level of pest threat in Brazil, Brazilian farmers use more pesticides than anywhere in the world. So though huge investments of public funds are not made in developed markets, there is no denying that the BCI system of continuous improvement helps all farmers - big or small.



With this philosophy, the BCFTP will continue to step up its work in the developing countries amongst smallholder farmers and yet countries like USA and Australia need to have a Better Cotton supply. BCI has already initiated scoping work in both geographies.

The Transition: The Better Cotton Growth & Innovation Fund

With the term of the BCFTP coming to an end in 2015-16, BCI and IDH are looking to create a new structure into which the BCFTP can transition. "The Better Cotton Growth & Innovation Fund" as it is now christened is the next phase of the market transformation journey. Aimed at making BCI itself self-sustaining, this fund will attract revenue from a volume based fee of €15/MT on retailers for their Better Cotton use as well as donor funds from a diverse group of interested investors.

Much work has been done jointly by IDH and BCI to conceptualise this proposition with the help of a consulting company engaged to advise on the design and development of the fund including developing investment propositions, governance structure and an outline of the legal and fiscal structure. As decisions get made the Secretariat will be tasked to develop a transition plan that takes

care of a seamless transfer of not just financial flows but also knowledge and learning.

Till then BCFTP has one last investment cycle in 2015 and we look forward to celebrating this successful journey!

Annexure 1: Better Cotton Fast Track Projects 2013

Project	% farmers trained earning Better Cotton license	Better Cotton Production	Better Cotton Farmers	Better Cotton Hectares (Licensed)
Brazil				
Abrapa (Brazil)	97%	361.000	131	214.914
Totals:	97%	361.000	131	214.914
China				
Solidaridad (Xinjiang - Huafu)	100%	3.249	807	2.039
Solidaridad (Xinjiang - Zhongliang)	100%	5.050	296	2.065
Lutai (Xinxiang)	100%	19.068	1.572	8.050
Guoxin (Hebei)	100%	6.655	221	4.470
Solidaridad (Heilbei - Guoxin)	0%	0	0	0
Golden Fields (Jintian)	0%	0	0	0
Taichang (Xinjiang)	100%	8.890	83	4.159
Huitong (Xinjiang)	100%	4.040	1.044	3.354
Addchance (Xinjiang)	100%	4.032	566	1.528
Totals:	78%	50.984	4.589	22.000
India				
Solidaridad (ASA)	100%	9.257	13.267	12.276
Solidaridad (Pratibha)	100%	5.437	7.014	8.403
Arvind (Gujarat Nizar)	0%	0	0	0
Arvind (Akola Maharashtra)	100%	4.893	3.000	4.894
CottonConnect (Maharashtra)	80%	13.268	9.958	16.096
CottonConnect (Gujarat)	100%	8.273	5.268	8.281
ACF (Gujarat) Kodinar	100%	2.237	2.733	2.040
ACF (Punjab) Bhatinda	100%	3.847	2.722	4.274
ACF (Maharashtra) Chandrapur	100%	3.286	1.980	4.676
ACF (Rajasthan/Marwar)	85%	3.982	900	3.850
ACF (Andhra Pradesh/Nadikudi)	89%	2.026	1400	2.184
WWF India (Punjab)	80%	14.942	6.374	18.021
WWF India (Warangal)	100%	8.672	18.508	14.460
WWF India (Maharashtra)	100%	6.900	5.540	9.168
Trident (Abishek)	100%	24.390	14.773	26.487
AFPRO (Yavatmal)	100%	13.232	13.087	25.287
AFPRO (Wankaner)	100%	6.759	5.972	9.291
AFPRO (Surendranagar)	100%	11.590	8.613	14.012
Totals:	92%	142.991	118.809	183.700
Mali				
Solidaridad (Koutiala - Aproca)	100%	35.000	32.788	86.000
Totals:	100%	35.000	32.788	86.000
Mozambique				
Olam	72%	1.400	6.342	6.000
Totals:	72%	1.400	6.342	6.000
Pakistan				
WWF Pak (Sindh)	60%	62.000	14.943	66.997
WWF Pak (Punjab - RYK)	44%	40.000	8.427	43.019
WWF Pak (Punjab - Jhang)	45%	12.000	7.343	15.897
WWF Pak (Punjab - Bahawapur)	63%	43.000	13.873	63.711
WWF Pak (Punjab - TTSingh)	14%	1.500	1.972	2.896
Totals:	48%	158.500	46.558	192.520
Global				
Global Totals	75%	749.875	209.217	705.134

The BCFTP Investors Committee and Executive Board comprise of organizations that are committed to sustainability. Representatives of these organizations have been working together, through the BCFTP, since 2009 to drive initiatives that meet the global challenges prevalent today.

Through this report we also celebrate and appreciate their support to this Program:

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*BCFT IC and EB members at the time of printing (2014)

Prepared by:

Jasmer Dhingra, IDH with inputs from the BCFTP Secretariat and IDH learning & communication teams.

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powered
by



Pramit Chanda

E chanda@idhsustainabletrade.com

T +91 98111 09022

I www.idhsustainabletrade.com/cotton

Better Cotton Initiative

E membership@bettercotton.org

I www.bettercotton.org

Better Cotton Fast Track Program Stakeholders



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