

**BCI Growth & Innovation Foundation,
Geneva**

**Report of the Independent Auditor on
the financial statements for the year
ended March 31, 2022**

Report of the independent auditor
to the Board of the Foundation of
BCI Growth & Innovation Foundation, Geneva

As independent auditors, we have audited the financial statements (statement of financial position, statement of income and expenditures and notes) of BCI Growth & Innovation Foundation, Geneva, for the year ended March 31, 2022.

Board of the Foundation's Responsibility

The Board of the Foundation is responsible for the preparation of the financial statements in accordance with Swiss law and the charter of the foundation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of the Foundation is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements for the year ended March 31, 2022 comply with accounting, valuation and presentation principles as stipulated by Swiss law, applicable to the preparation of financial statements and the charter of the Foundation.

RSM Audit Switzerland SA

Jeremy Howarth
Audit expert
Auditor-in-Charge

Meltem Kulak

Geneva, August 25, 2022

Enclosures: Financial statements (statement of financial position, statement of income and expenditure and notes)

BCI Growth and Innovation Foundation
Statement of Financial Position as of March 31, 2022
(In '000 EUR)

	Notes	21-22	20-21
Assets			
Current assets			
Cash and cash equivalents	3.1	4'065	7'148
Accounts receivable		8'330	911
<i>Receivables, due from implementing partners</i>	3.4	-	1
<i>Receivables, due from BCI</i>	3.4	8'330	910
Prepaid expenses and accrued income		471	668
<i>Prepaid expenses</i>	3.2	221	657
<i>Accrued income</i>		250	11
Total current assets		12'866	8'727
		<hr/>	<hr/>
Total assets		12'866	8'727
Liabilities			
Current liabilities			
Trade accounts payable		-	351
Accrued expenses	3.3	219	280
Deferred income		11'014	6'413
Total current liabilities		11'233	7'044
		<hr/>	<hr/>
Total liabilities		11'233	7'044
Capital and funds			
Foundation capital		46	46
Funds		1'587	1'637
<i>Funds brought forward</i>		1'637	1'725
<i>Surplus (deficit) of the period</i>		(50)	(88)
Total capital and funds		1'633	1'683
		<hr/>	<hr/>
Total liabilities, capital and funds		12'866	8'727

The accompanying notes are an integral part of these financial statements.

BCI Growth and Innovation Foundation
Statement of income and expenditure for the year ended March 31, 2022
(In '000 EUR)

	Notes	21-22	20-21
Contributions from BCI	3.4	8'369	6'293
Income from grants	2 - 3.5	853	2'471
Total income		9'222	8'764
Contributions to projects	3.6	8'970	8'360
Country development and innovation projects	3.6 - 3.7	169	405
Operating expenses	3.8	133	87
Total expenses		9'272	8'852
Result for the year		(50)	(88)
Funds brought forward		1'637	1'725
Funds at end of year		1'587	1'637

The accompanying notes are an integral part of these financial statements.

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 1 - General Information

The BCI Growth and Innovation Foundation (hereafter "GIF" or the "Foundation") is a foundation incorporated in Geneva in May 2016 under Article 80 et seq. of the Swiss Civil Code. The GIF secretariat is in Geneva, Switzerland. The GIF's primary funder is Better Cotton Initiative (BCI), trademark registered as Better Cotton, a members' association based in Geneva.

The Foundation's purpose is to improve global cotton production for the people who produce it and for the environment in which it grows. The GIF has a global portfolio. The fund supports Better Cotton projects in several countries, including China, India, Pakistan, Mozambique, Turkey and Mali.

The Better Cotton GIF makes annual grants to fund projects that support farming communities. Better Cotton GIF core funding is directed toward capacity-building projects for farmers to adopt practices consistent with the Better Cotton Principles and Criteria. A smaller amount of funding is dedicated to innovative or research-based projects that show promise in the future of sustainable cotton farming.

Note 2 - Key accounting and valuation principles

Principles of financial reporting

The present annual financial statements have been established in compliance with the principles of Swiss law, with the articles relating to commercial accounting and the presentation of the financial statements (Art. 957 to 962 CO).

Basis of preparation and foreign exchange translation

The accounting records of the Foundation are kept in Euro (EUR), the currency in which most of its transactions are concluded. Transactions in other currencies have been translated into EUR during the year at rates prevailing when the transactions arose.

Cash and cash equivalents

The cash and current assets with a stock exchange price item include cash holdings, and bank deposits. They are recorded at their nominal value.

Income from donors and grants

The final beneficiaries of Fund activities are cotton farmers, cotton farm workers, cotton communities and the environment.

The Brand and Retail Members contribute to Better Cotton a volume-based fee ("VBF"). These fees are restricted for being used for field-level activities. This fee is based on the volume of Better Cotton sourced by retailer brand members, which are recorded on the Better Cotton (online) Platform.

Better Cotton utilises some of these fees for training endorsed partners and field-level activities, such as the delivery of assurance, verification and collecting and analysing data on farm-level results. The remainder of the fees are donated to the GIF.

The GIF encourages funded partners to obtain matched funding. As a result of such matched funding, the Fund can increase the capacity of its portfolio, which also ensures that implementing partners are invested in the programme's success. This approach aims to make projects cost-efficient, economically viable and scalable.

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 2 - Key accounting and valuation principles

Income from donors and grants (cont'd)

In addition to the Better Cotton contribution to GIF, public and private funders contribute funding through different channels: directly to the GIF, via Better Cotton or directly to partners. These partners are required to implement projects following the Better Cotton Principles & Criteria.

Contributions to projects

The GIF has three directors who are the Executive Group of Better Cotton. The GIF is advised by two committees described below. IDH, “The sustainable Trade Initiative”, has acted as both the official Fund Manager and an essential funder until 31 March 2022. The GIF is now managed by a dedicated team of experts who are employed by Better Cotton and seconded to GIF. See note 4.3 about the change of fund manager.

Representatives from IDH and Better Cotton form the Better Cotton GIF Secretariat, which proposes and implements the GIF strategy, manages and processes applications and promotes knowledge sharing.

Better Cotton Members who meet the representation criteria are invited to nominate themselves to join the GIF committees and participate in developing its investment strategy. Two multi-stakeholder committees support the Foundation’s annual investment programme:

The Buyer and Investor Committee (BIC) links supply and demand and proposes new strategic initiatives. In season 2021 - 2022, BIC members included representatives from American Eagle, Action BV, Bestseller, Better Cotton, C&A, Fast Retailing, GAP Inc., GIZ, H&M, IDH, IKEA, Laudes Foundation, Target and The Children’s Place

The Field Innovation and Impact Committee (FIIC) oversees the annual GIF application process. It approves Fund investment allocation (for capacity-building projects and programmes delivered by Better Cotton Implementing Partners and innovation and learning projects). In season 2021 – 2022, FIIC members included representatives from the following organisations: IDH, Better Cotton, C&A, GIZ, GAP Inc., IKEA, Laudes Foundation and Pesticide Action Network. The annual GIF investment budget for the year is set in December of the previous year based on the anticipated Volume Based Fee (VBF) receivable.

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 3 - Information on Statement of Finance Position and Statement of income and expenditure

3.1 Cash and cash equivalents

	<u>21 - 22</u>	<u>20 - 21</u>
Denominated in EUR	4'065	7'148
Total	<u>4'065</u>	<u>7'148</u>

3.2 Prepaid expenses

	<u>21 - 22</u>	<u>20 - 21</u>
Projects contributions	221	655
Country development and innovation projects	-	2
Total	<u>221</u>	<u>657</u>

3.3 Accrued expenses

	<u>21 - 22</u>	<u>20 - 21</u>
Projects contributions accrued	166	192
Country development and innovation projects	5	17
Operating expenses accrued	48	71
Total	<u>219</u>	<u>280</u>

3.4 Contributions from Better Cotton

During the financial year 21-22, Better Cotton contributed to GIF Euro 11'053k, Euro 8'369k was allocated for the investment activity during the financial year 21 - 22. Euro 11'014k is carried forward as deferred income for future projects. In addition, a receivable is due from Better Cotton of Euro 8'330k at the end of the year.

All through season 21-22, as the pandemic restrictions were easing, the level of field investments remained stable and consistent compared to prior period, Euro 8'970k in 21-22 and 8'369k in 20 - 21. Physical travel and in-person events were combined with virtual training. As a result, a higher percentage of funding has been utilized by Implementation Partners. The underspend has gone down from Euro 656k in 20-21 to 221k in 21 - 22.

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 3 - Information on Statement of Finance Position and Statement of income and expenditure

3.5 Income from grants

	<u>21 - 22</u>	<u>20 - 21</u>
IDH	100	1'900
Laudes Foundation	752	517
DFAT	1	54
Total	<u>853</u>	<u>2'471</u>

3.6 Contributions to projects

21 - 22 BC GIF contributions to project per country	Contracted for 21 - 22	Actual spending from IP	Expenses recognised at GIF prior year 20-21	GIF Contributions 21-22	Prepaid for 22-23	Accrued expenses 21-22
India	4'631	4'575	(1)	4'574	57	147
Pakistan	3'798	3'696	13	3'709	97	-
China	318	318	(4)	314	-	-
Turkey	313	246	-	247	67	-
Mozambique	30	39	-	39	-	19
Mali	87	87	-	87	-	-
Total	<u>9'177</u>	<u>8'961</u>		<u>8'970</u>	<u>221</u>	<u>166</u>
Country development and innovation projects	238	-	-	169	-	5
Operating expenses				133	-	48
Total expenses				<u>9'272</u>	<u>221</u>	<u>219</u>

20 - 21 BC GIF contributions to project per country	Contracted for 20 - 21	Actual spending from IP	Expenses recognised at GIF prior year 19-20	GIF Contributions 20-21	Prepaid for 21-22	Accrued expenses 20-21
India	5'307	4'894	-	4'894	342	141
Pakistan	3'478	3'156	-	3'156	258	11
China	298	297	(8)	289	3	1
Turkey	216	146	-	146	32	-
Mali	-	-	(99)	(99)	20	-
Mozambique	47	49	(76)	(26)	-	39
Total	<u>9'346</u>	<u>8'544</u>	<u>(183)</u>	<u>8'360</u>	<u>655</u>	<u>192</u>
Country development and innovation projects	560	-	-	405	2	17
Operating expenses				87	-	71
Total expenses				<u>8'852</u>	<u>657</u>	<u>280</u>

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 3 - Information on Statement of Finance Position and Statement of income and expenditure

3.7 Country development and innovation projects

In the season 2021-22, the Better Cotton GIF funded the following Innovation projects:

Learning Management System for Field Facilitators in India

The development, launch and roll-out of an online learning tool to support skills improvement among Field Facilitators. This assignment was partly funded by additional funding by the Laudes Foundation. The project concluded at the end of 2021.

Soil health project with University of Arkansas

Research to evaluate the long-term responses of cotton production with cover cropping and little tillage versus no cover cropping and conventional tillage practices.

Israel Cotton Board

Research and assessment of the effectiveness of multifunctional vegetation buffers (MFVBs). This project reviewed the use of MFVB's as a means to mitigate the effects of agricultural runoff and improve the functionality of the agroecological systems on cotton farms.

Consultancy-led Decent Work risk assessment across Cotton Made in Africa (CmiA) countries and Better Cotton Africa countries

This project consisted of a desk-based risk assessment to weigh risks related to forced labour, child labour and other labour issues across twelve Sub-Saharan African countries. Two countries, Chad and Mali, underwent a further, in-depth field assessment with more than 50 stakeholder consultations. The project also mapped existing Decent Work initiatives in-country (e.g., government programmes, civil society initiatives and local child-labour monitoring groups). This project was finalised in April 2022.

Building Capacity to Better Engage Women Within Cotton Production in Pakistan

From October 2021 to August 2022 Better Cotton collaborated with CARE International Pakistan and CARE International UK, alongside Programme Partners CABI and SWRDO, to increase women's access to Better Cotton programmes.

3.8 Operating expenses

	<u>21 - 22</u>	<u>20 - 21</u>
Financial expenses	42	8
Audit costs	50	49
China local taxes	28	26
VAT – services from GIF to BCI	12	2
Other costs	1	2
Total	<u>133</u>	<u>87</u>

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 EUR)

Note 4 - Other information

4.1 Headcount

The Foundation has no employees. In 2021 / 2022 fund management duties were performed by IDH, a strategic partner of Better Cotton, at no cost to the Foundation. These services were delivered as part of a partnership agreement between Better Cotton and IDH. The associated Service Level Agreement was updated in 2021 and ended on 31 March 2022. See note 4.4 regarding new fund management. As of 1 April 2022, the management of fund is carried out by Better Cotton employees seconded to work for the GIF.

4.2 Tax-exempt status

GIF is exempt from Swiss cantonal income tax and capital tax as well as Swiss direct federal tax, in accordance with a decision from the Department of Finance, Canton of Geneva, dated 21 October 2016. The exemption of federal tax is an official recognition by the Swiss federal authorities that GIF is a 'foundation of public interest'.

4.3 Subsequent events

Fund Management

As of 1 April 2022, the management of GIF is performed by Better Cotton employees seconded to work for the GIF.

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 CHF)

Note 5 – Presentation of financial statements in CHF

For the presentation of these accounts in Swiss francs (CHF), the EUR accounts are translated into CHF at March 31, 2022 closing rates for all balance sheet accounts, except capital and funds, that are translated at historical rates. All rates used are those provided by "AFC - Administration fédérale des contributions".

The closing rate of 1 EUR = 1.0418 CHF for assets and liabilities. (March 31, 2021: 1 EUR = 1.1158 CHF)

Income and expenses have been translated at the average rate for the year of 1 EUR = 1.0870 CHF (March 31, 2021: 1 EUR = 1.0827 CHF). Any resulting unrealised translation gains are deferred and shown separately under Funds

Statement of financial position	21-22 CHF	20-21 CHF
Assets		
Current assets		
Cash and cash equivalents	4'235	7'975
Accounts receivable	8'678	1'016
<i>Receivables, due from implementing partners</i>	-	1
<i>Receivables, due from BCI</i>	8'678	1'015
Prepaid expenses and accrued income	490	745
<i>Prepaid expenses</i>	230	733
<i>Accrued income</i>	260	12
Total current assets	13'403	9'736
Total assets	13'403	9'736
Liabilities		
Current liabilities		
Trade accounts payable	-	392
Accrued expenses	228	312
Deferred income	11'475	7'155
Total current liabilities	11'703	7'859
Total liabilities	11'703	7'859
Capital and funds		
Foundation capital	50	50
Funds	1'774	1'830
<i>Funds brought forward</i>	1'830	1'925
<i>Surplus (deficit) of the period</i>	(56)	(95)
Currency translation adjustment	(124)	(3)
Total capital and funds	1'700	1'877
Total liabilities, capital and funds	13'403	9'736

BCI Growth and Innovation Foundation
Notes to the financial statements for the year ended March 31, 2022
(In '000 CHF)

Note 5 – Presentation of financial statements in CHF

	21-22	20-21
Statement of income and expenditure	CHF	CHF
Contributions from BCI	9'097	6'813
Income from grants	927	2'675
Total income	10'024	9'488
Contributions to projects	9'751	9'051
Country development and innovation projects	184	438
Operating expenses	145	94
Total expenses	10'080	9'583
Result for the year	(56)	(95)
Funds brought forward	1'830	1'925
Funds at end of year	1'774	1'830