

BETTER COTTON INITIATIVE 2014 ANNUAL REPORT





Welcome to the Better Cotton Initiative
2014 Annual Report.

On the following pages you will find the latest global results, members and partners activities, updates on BCI's strategic thinking and our financial statements.

Better Cotton is sown and harvested in different annual cycles all over the world. In some regions, sowing and harvesting take place in the same calendar year and, in others, these activities spread over two calendar years. Because of this, and to keep you up to date, we report on our yearly activities in two stages: The first is this, our Annual Report. The second will be the BCI 2014 Harvest Report, which will be released in September 2015.

2014 was the 5th harvest of Better Cotton and an important year for the organisation. As we reach this milestone, our momentum grows on the journey to Better Cotton truly becoming a mainstream commodity.

We hope you enjoy reading about our year.

NOTE FROM THE CEO

2014: RACING TO SCALE, CREDIBLY

RECORDS: 2014 was another year of records for BCI: 1.3 million participating farmers (+65%) and 8.7% of global cotton production (+120%) was grown to our Standard. Of course, the real measure of success is the beneficial impact our system has on planet and people. In September, we reported very strong results in terms of increased yield, reduced inputs and higher incomes for our farmers, so we are confident in the direction we are heading. Two independent, multi-year Impact Assessments have been launched which will rigorously evaluate the effectiveness of our programme. I welcome this additional scrutiny, for the findings of those studies will enable us to improve our practices, and strengthen the credibility of our results.

CREDIBILITY: A notion we take very seriously - especially in a crowded field of sustainability initiatives. BCI's acceptance during 2014 into the family of ISEAL Alliance standards should reassure BCI supporters that we adhere to the most rigorous practices in terms of transparency, inclusive consultation, communications, independent verification, data reporting, etc. We were very proud to demonstrate our adoption of the various codes of practice of this global alliance whose mission is to 'strengthen sustainability standard systems for the benefit of people and the environment.'

PARTNERSHIPS: 2014 saw BCI enter into a number of new collaborative agreements with various government agencies and trade associations around the globe who share our vision of continuous improvement in the practice of cotton production. We refer to these agreements as 'multipliers' because they multiply the impact of BCI's programme in a very cost-effective manner. Key agreements were entered into with IPUD in Turkey, Abrapa in Brazil, IAM in Mozambique, and Cotton Australia (in addition to our existing agreement with the Aid by Trade Foundation in Africa).

DEMAND: 2014 also saw the launch of an initiative to recruit new brands to BCI. In the early years, our focus was (justifiably) weighted towards getting the 'supply' side of Better Cotton right. We have made great progress in that area. To make the initiative truly viable, we now need to add many more brands to the list of visionary 'first-movers' who helped found BCI. Over 2014, a team was recruited, a new management structure put in place, and a series of events were held. The seeds planted in 2014 are now yielding fruit as a number of new global brands have joined us in the early months of 2015. This will remain a key priority for the foreseeable future.

LOOKING FORWARD: We are racing towards our 2020 objective of bringing 5 million farmers into the programme, and achieving 30% share of global production. If we can achieve those noble objectives we will have accomplished two significant milestones: achieving Scale and Impact, and approaching the 'tipping point' which sees Better Cotton become the mainstream cotton production methodology.

Thank you for your continuing support.

Patrick Laine
CEO



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GLOSSARY

ha hectares (100 metres X 100 metres)

MT metric tonnes

BENCHMARKED STANDARDS

Benchmarking is a process of comparing one organisation's policies, practices, standards and systems with those of similar organisations, and identifying gaps between them. We work with other standards on benchmarking with the Better Cotton Standard System, ultimately allowing the cotton produced under that standard to be sold as Better Cotton, increasing global supply.

BETTER COTTON TRACER

The online volume and transaction tracking tool used by parties authorised by BCI. These parties include ginning factories that volunteer to gin seed Better Cotton and by merchants, spinners, retailers and brands that are BCI members.

COMPARISON FARMERS

Previously called 'control groups', Comparison Farmers are comparable producers who are operating in the same area as BCI project participants, but not receiving BCI training.

IMPLEMENTING PARTNER

An organisation responsible for creating an enabling environment in a given country or project area(s) so that farmers can participate in the Better Cotton Standard System. These Partners implement capacity-building and training based on the Better Cotton Production Principles and Criteria, and collect data at field-level.

LEARNING GROUP

A group of approximately 35 farmers that meet to learn from each other and receive training on Better Cotton Production Principles and Criteria.

PRODUCER UNIT

A collection of Learning Groups or Medium Farms. The size of a Producer Unit will depend on local circumstances, though the optimal size is between 3,500 to 4,000 smallholders or 100 Medium Farms.

UPTAKE

The volume of Better Cotton (and corresponding Better Cotton Claim Units) declared as procured by an individual actor (eg: one ginner, spinner or retailer) or group of actors (e.g all ginners, spinners or retailers) on the Better Cotton Tracer and confirmed by a second party (either BCI or the buyer of the cotton).

WHO WE ARE



“ I enjoy higher profits and better health in a better environment. It is now time that all farmers in my village, my state and my country enjoy the same benefits. ”

Kare Yadhareddy, BCI Farmer, India.

THE BETTER COTTON STORY

Look down. What are you wearing? Chances are that one or more of your clothes are made from cotton. Or maybe it's your bed sheets, towels or the bank notes in your pocket. Nearly everyone on Earth uses or wears cotton products every day.

Cotton is a renewable natural resource but the future of cotton production is vulnerable to poor environmental management, poor working conditions and unstable markets. In 2005, a group of visionary organisations came together to work out a practical solution that would secure the sustainable future of the industry. The result was Better Cotton.

Better Cotton means producing cotton in a way that cares for the environment through processes that minimise the negative impact of fertilisers and pesticides, and cares for water, soil health and natural habitats. BCI Farmers can achieve better yields and more financial security through access to global markets, whilst improving the working conditions in their fields.

Cotton that is made in this way meets the Better Cotton Standard. The standard has been developed by the Better Cotton Initiative (BCI), an independent multi-stakeholder organisation whose members are committed to making Better Cotton a mainstream product. From NGO partners to garment manufacturers, from the farmers to household brand names, all BCI's members are working to transform the way cotton is produced and safeguard the future of the sector.

The Standard gives assurance that more sustainable farming is happening on the ground. Every step of cotton production, from sowing and growing to picking and harvesting, adheres to six production principles. BCI Farmers are also expected to continually improve their production processes. The standard can be applied to different scales of cotton production - from smallholder farms in Mali, Mozambique and Tajikistan to large, industrialised operations in Brazil, China and Australia.

Top international brands including adidas, H&M, IKEA, Levi Strauss & Co., M&S and Nike already use Better Cotton in their products. Their support and that of all BCI's members means that more and more Better Cotton is coming onto the market. **In 2014, 8.7% of all the cotton produced globally was Better Cotton. By 2020, we want this figure to be 30%.** We believe 30% will be a tipping point and lead to transformational change for the entire sector. That's better for the farmers, the environment and the cotton sector, and that's better for all of us.

OUR MISSION

The Better Cotton Initiative exists to make global cotton production **better for the people** who produce it, **better for the environment** it grows in and **better for the sector's future**.

BCI works with a diverse range of stakeholders, connecting people and organisations across the cotton sector from field to store, to promote measurable and continuing improvements for the environment, farming communities and the economies of cotton-producing areas.

BCI aims to **transform cotton production worldwide** by developing Better Cotton as a sustainable mainstream commodity.

BCI IN 2014

“Access to future growth markets is of tremendous importance to Australian cotton growers, particularly as they contend with competition from synthetic fibres. Within the global natural fibre market, demand for responsibly-grown cotton is growing.”

Cotton Australia CEO, Adam Kay



THE BETTER COTTON STANDARD SYSTEM

The Better Cotton Standard System is a holistic approach to more sustainable cotton production which covers all three pillars of sustainability: environmental, social and economic. The Better Cotton Standard System is made up of the following key components: Production Principles and Criteria; Capacity Building; Assurance Program; Chain of Custody Guidelines; Claims Framework; and Results and Impact. Each of the components work together to support the system and the credibility of Better Cotton and BCI. Find out more at bettercotton.org/standard.

1. Farmers make a voluntary decision to participate in a BCI programme

FARMERS ARE ORGANISED INTO THREE CATEGORIES



Smallholders < 20ha



Medium Farms 20-200ha



Large Farms >200ha

Organised in Learning Groups and Producer Units

2. Participating farmers have access to training and work towards BCI's Production Principles & Criteria

24 production criteria across the 6 principles apply to all farm categories

+20 additional criteria for Medium and Large Farms

3. Participating farmers maintain individual Farmer Field Books and participate in BCI's Assurance Program

BETTER COTTON ASSURANCE PROGRAM

1. BETTER COTTON PERFORMANCE SCALE

Minimum Requirements:
i. Minimum Production Criteria
ii. Management criteria
iii. Reporting on Results

Improvement Requirements

2. FORMS OF ASSESSMENT:

Farmer self-assessment

AND

A combination of systematic or sample-based 2nd party checks and 3rd party verification.

4. The participating farmers who meet the minimum requirements earn the Better Cotton licence, and are able to sell their cotton on to ginner and further up the supply chain as Better Cotton.



6 PRODUCTION PRINCIPLES

-  Crop Protection
-  Water
-  Soil Health
-  Natural Habitats
-  Fibre Quality
-  Decent Work

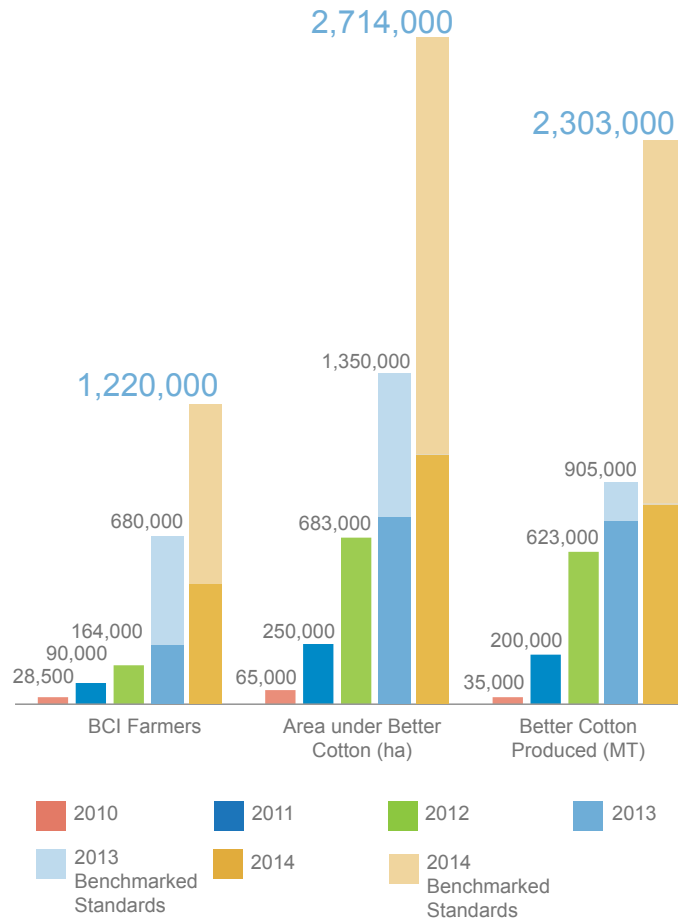
GLOBAL NUMBERS

In 2014, BCI and equivalent Benchmarked Standards reached 1.3 million farmers in 20 countries across five continents. (Benchmarked standards include; Cotton Made in Africa [CmiA], ABR through ABRAPA in Brazil and myBMP through Cotton Australia).

Farmers' support groups strengthened networks with each other and accessed information about improved farming methods. Many of these farmers put new farming techniques into practice and more farmworkers benefited from the Better Cotton Standard than ever.

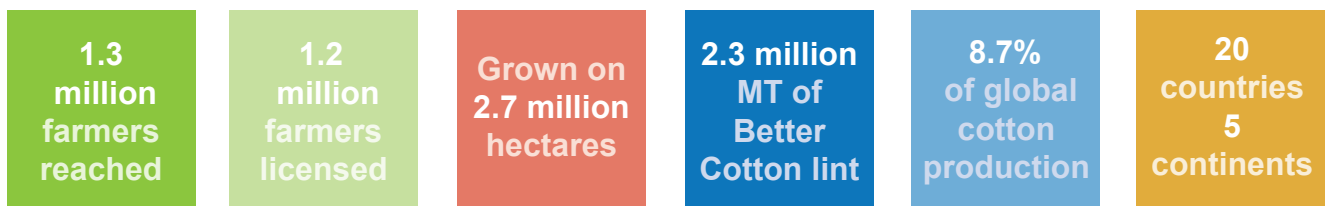
The Better Cotton Standard is applicable in any farming context. This enables more sustainable cotton production at scale to be a reality. BCI works in labour-intensive smallholder settings through to large, highly mechanised farm operations. All of these farmers are working towards improvements across a diverse range of social, environmental and economic issues typical in agricultural practices. From expert advice, the strength that comes from working together with their peers to improved market access, farmers reached by BCI can all benefit from the Standard.

In 2014, with our 5th harvest and the benchmarking of two standards in Australia and Brazil (plus the existing CmiA Benchmarked Standard), we made exciting progress towards our vision of making Better Cotton a truly global, mainstream commodity.



NOTE: Finalised data will be provided in the 2014 Harvest Report, to be published in September 2015.

Better Cotton in 2014:



WORKING TOWARDS IMPROVED LIVELIHOODS

Of the 1.3 million farmers reached by BCI and our Partners in 2014, 99% are smallholders; farmers typically cultivating cotton on farms of 1-2 hectares. Many of these farmers are working under difficult conditions, such as limited access to best practice information, unreliable rains and limited availability of fertilisers.

Improved livelihoods and economic development in cotton-producing areas is something we are striving towards. Not all farmers we work with qualify for the Better Cotton license in their first year, but the training and support accessed through our skilled Implementing Partners helps them to review their techniques, keep records, and take steps towards continuous improvement.

SUPPORTING SMALLHOLDERS

To access training and support, farmers are organised into Learning Groups of approximately 35 participants. Our Implementing Partners then deliver training to support social and economic development of smallholders and their communities. Below are just some of the ways smallholders are supported by BCI:

 <p>Connecting producers to micro-finance institutions.</p>	 <p>Linking communities to vocational training and opportunities.</p>
<p>Establishing partnerships with organisations who have social and labour expertise.</p> 	

MEASURING IMPROVEMENTS

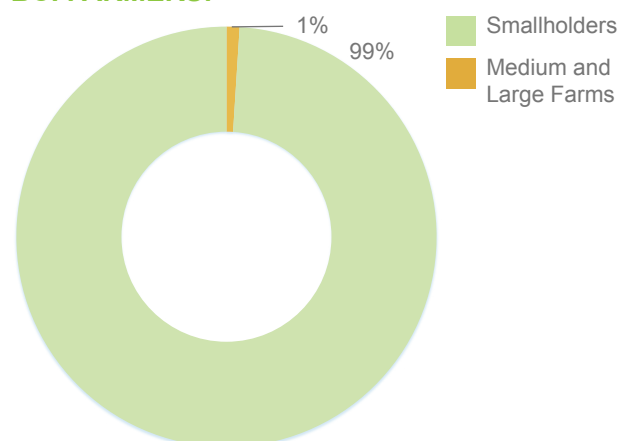
We are committed to making sure that measurable improvements are actually being made to the livelihoods of BCI farmers. To monitor progress we:

» **Measure the profitability of small and medium farms annually.** The gross margin earned from growing and selling Better Cotton is compared to that of farmers in the same area who are not yet using BCI techniques (known as Comparison Farmers). We strive to achieve higher yields with fewer inputs than Comparison Farmers.

» **Commission independent outcome evaluations in two or more countries per year.** These complement our results monitoring by running focus group discussions and other qualitative research with BCI Farmers and their families to find out how growing Better Cotton affects them, their families and their communities.

» **Participate in long-term assessments.** BCI will participate in two independently-organised Impact Assessments; The Greenwich University Natural Resources Institute (commissioned by ISEAL with the support of Ford Foundation) will conduct an evaluation between 2015 and 2018 in India. The Copenhagen Business School is conducting a separate assessment between 2014 and 2016 in India and Pakistan.

BCI FARMERS:

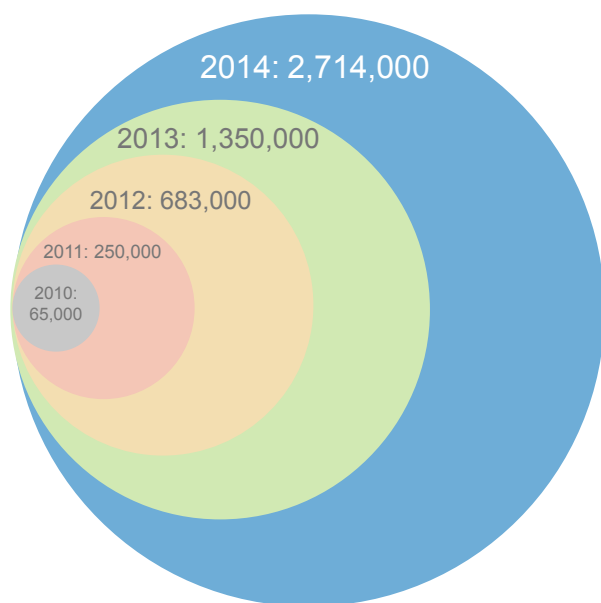


WORKING TOWARDS ENVIRONMENTAL IMPACT

CARING FOR COTTON FIELDS

In 2014, 2.7 million hectares of land in 20 countries on five continents were used to cultivate Better Cotton, propelling the movement past our 2015 target of 2 million hectares. Large Farms accounted for a significant area, particularly under the ABR Benchmarked Standard for Brazilian farmers, with the vast majority of the remaining land cultivated by smallholders from Africa to India and Pakistan to China.

AREA UNDER BETTER COTTON (HA):



MEASURING IMPROVEMENTS

BCI monitors four agronomic indicators at individual farm-level that compare BCI Farmers to Comparison Farmers, to assess progress towards environmental impact:

- » Pesticide use
- » Fertiliser use
- » Water use for irrigation
- » Yield

These results, along with those measuring profitability (see page 12), are available each year in our Harvest Report. An independent study of BCI's agronomic data to date, conducted by LEI-Wageningen University in 2012-2013, concluded that our dataset is robust enough to accurately measure environmental impact in the longer term.

To improve our "Pesticide use" indicator, we began collaborating with the Aid by Trade Foundation (AbTF) in 2014 on a Toxic Load Indicator (TLI), from a model initially developed by AbTF. Using raw data provided by farmers participating in BCI projects, the TLI assigns a score to each pesticide active ingredient based on 15 factors addressing human and environmental toxicity. This will take us beyond calculating the total amount of pesticide applied, to provide better insight into the potential hazard levels for the people in cotton-producing communities and the surrounding environment. The indicator will strengthen learning for cotton farmers, Implementing Partners, and BCI staff. By enabling farmers to make better-informed decisions on the selection of pesticides, we expect this new indicator to ultimately lead to healthier, safer cotton-producing communities and a cleaner environment.

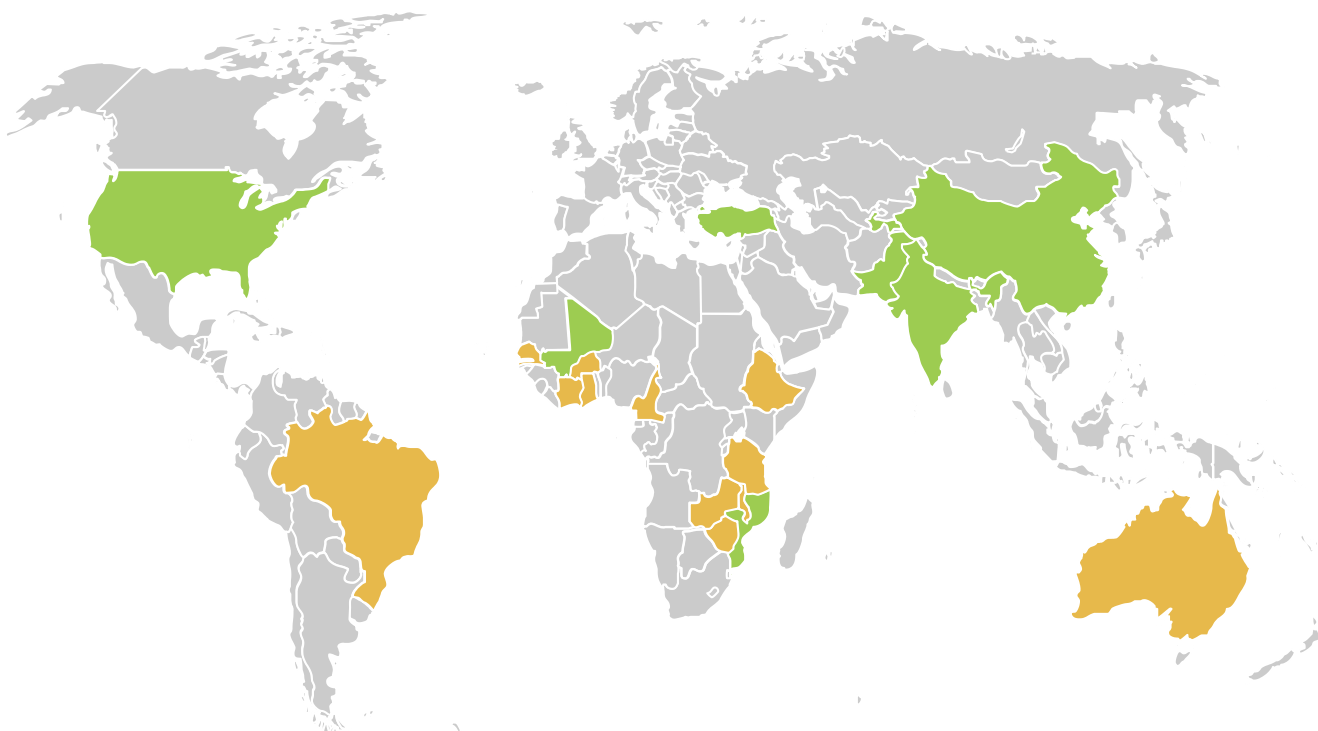
We are continually assessing the design and use of new indicators and evaluation methods which improve results measurement, and bring us closer to understanding long-term impact. We welcome collaboration with other institutions interested in these topics.

BETTER COTTON IS GLOBAL

In 2014, 1,220,000 farmers were licensed to sell Better Cotton. Together, they produced 8.7% of global cotton supply. Thanks to our inclusive approach, working in collaboration with other initiatives and national players, Better Cotton was available from 20 cotton-producing countries after only five years of operations.

In 2014, BCI launched a new programme in Senegal. We also entered into win-win strategic partnerships with owners of other credible national standards in Australia (myBMP) and Brazil (ABR) based on a rigorous benchmarking exercise. Jointly, we promote higher levels of sustainability in cotton production. In countries where BCI was established prior to 2014, we delivered strong growth - both in terms of farmers reached and volume of Better Cotton produced. For example, **in India, Better Cotton now makes up 5% of the national cotton production. In Pakistan, we more than doubled the number of licensed farmers in 2013. And, in Mozambique, we worked with six of the 13 national cotton concessions in the country.**

COUNTRIES IN WHICH BETTER COTTON WAS AVAILABLE IN 2014:



■ BCI projects ■ Benchmarked standards: CmiA/SCS.
ABR through ABRAPA, Brazil. myBMP through Cotton Australia.

AUSTRALIA:

- » 1st Benchmarked Better Cotton produced by certified myBMP farmers, delivering 60,000 MT of Better Cotton to markets across the world.
- » Entered into a Strategic Partnership Agreement with the National Cotton Producer Association, Cotton Australia, recognising the long-established myBMP sustainability standard.
- » The myBMP recognition enhances the diversity of global Better Cotton production - both in terms of quantities available and timing of harvest.

BRAZIL:

- » 4th Better Cotton harvest and the first year under the Benchmarked ABR standard, Brazil continues to deliver significant volumes into the global supply of Better Cotton.
- » Entered into a Strategic Partnership Agreement signed with the National Cotton Producer Association, ABRAPA, recognising ABR, the Brazilian sustainability standard.
- » Under the Benchmarked Partnership, Brazil is the largest contributor of Better Cotton volumes globally.

CHINA:

- » 3rd Better Cotton harvest.
- » Successfully engaged provincial governments to strengthen BCI implementation in smallholder regions leading to a significant increase in smallholder participation for 2015.
- » Successfully established Better Cotton production in the largest cotton producing-area in China, Xinjiang, dominated by large commercial farms.

INDIA:

- » 5th Better Cotton harvest.
- » An Implementing Partnership Agreement was signed with CAIM - an organisation backed by the State of Maharashtra, moving towards greater engagement by state-level government.
- » 84% increase in numbers of smallholder farmers, spread across 10 different states to produce Better Cotton lint equivalent to 5% of national production.

MALI:

- » 5th Better Cotton harvest.
- » Continuing our productive partnership with the Pan-Africa Producer Organisation, AProCA, aiming to transfer to national leadership on Better Cotton over the coming 18 months.
- » With CMDT, the Mali national cotton company, we expanded to the second biggest cotton producing area, Sikasso, aiming to cover 40% of national production in 2015.

MOZAMBIQUE:

- » 2nd Better Cotton harvest.
- » Working towards a full Strategic Partnership with the Mozambique National Cotton Institute (IAM), where they will take over the leadership and national oversight of Better Cotton over the next 18 months.
- » Successfully supported IAM in the integration of the Better Cotton Standard into National Cotton regulations, with first inclusions in new regulation achieved in 2014.

PAKISTAN:

- » 5th Better Cotton harvest.
- » Entered into a formal agreement with the All Pakistan Textile Mill Association (APTMA), to jointly secure national funding for BCI projects and promote Better Cotton to industry and government.
- » Collaboration with UNICEF Pakistan to develop and deliver training on Decent Work and Child Labour.

SENEGAL:

- » 1st Better Cotton harvest.
- » Together with our partner, the Pan-Africa Producer Organisation, AProCA, BCI was successfully launched in the Kolda region, where 25% of the Senegalese cotton is produced.

TAJIKISTAN:

- » 2nd Better Cotton harvest.
- » Successfully supported the Producer Association SAROB to become a formal Implementing Partner and identified additional potential partners to support a national expansion programme.

TURKEY:

- » 2nd Better Cotton harvest.
- » Strategic Partnership Agreement signed with the Good Cotton Practices Association (IPUD), who will now assume the leadership and oversight responsibilities for Better Cotton production in Turkey.

USA:

- » 1st Better Cotton harvest.
- » Successfully engaged farmers across four states to test and implement the Better Cotton Standard in the USA.
- » Engaged in stakeholder and industry engagement to map out options for further expansion.

CmiA:

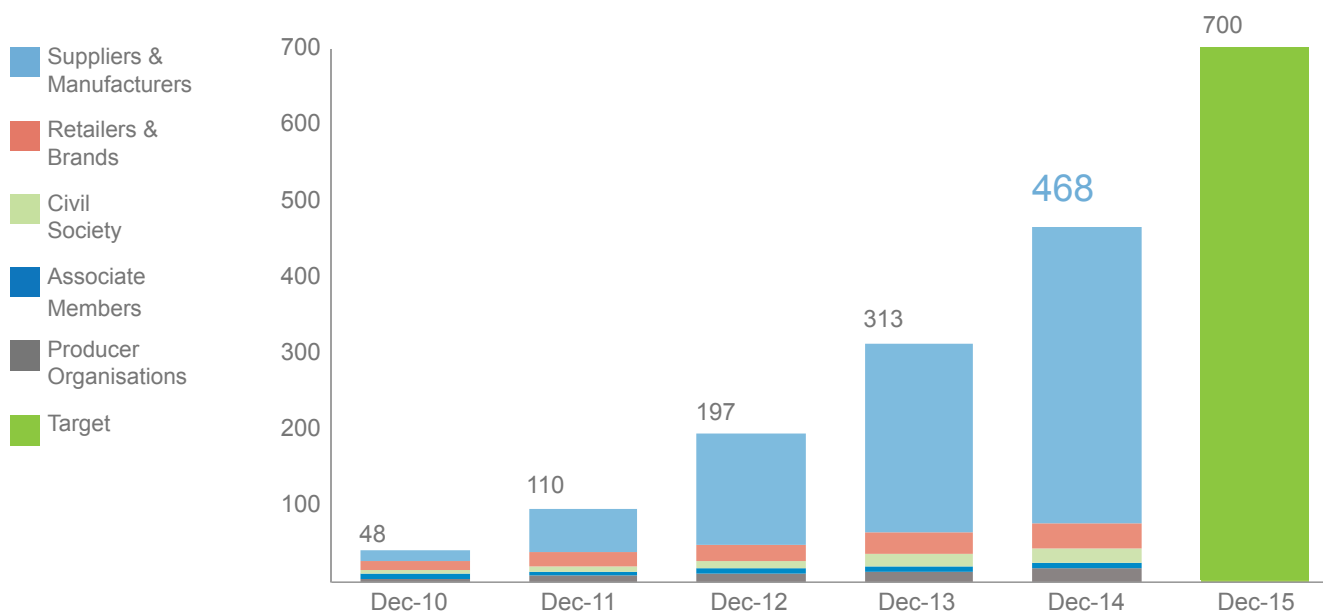
- » 3rd year of Benchmarked Partnership.
- » Successful collaboration through working groups to advance practices on Decent Work, pest control and impact assessments.

OUR MEMBERS: A UNIQUE AMBITION

Being a BCI Member means joining a community working together to help build a more transparent and trustworthy cotton sector. By 2020 BCI aims to convert 30% of the global cotton supply to Better Cotton. Our Members are not only critical to achieving this transformation at field level, but also for pulling Better Cotton through the supply chain.

In 2014, BCI membership increased by almost 50%. At the year end, membership stood at 468 organisations, including 33 retailers and brands. This significant increase demonstrates the confidence of Members in BCI's ability to deliver positive change. The figures in the graph below show all Members - renewals and newly approved - who have paid membership fees in 2014.

Membership Growth in 2014 exceeded the plan of 450 members:



OUTREACH

166 different organisations attended BCI outreach events in 2014. The aim of these events is to recruit new retailers and brands to join BCI and be part of a growing movement that provides a platform for collaboration with all other supply chain actors to make more sustainable cotton a mainstream commodity. The recruitment of new Retailer and Brand Members via these events is critical to creating demand for Better Cotton and increasing its procurement.

KEY 2014 EVENTS:

» VF Corp.'s North Face, New York City:

Ten prospective member companies joined a mix of current Members and Partners and heard from Patrick Laine (BCI CEO), Sean Cady (VF Corp. Vice President of Product Stewardship and Sustainability), Lucian Peppelenbros (IDH Director of Learning & Innovation), and Primit Chanda (IDH Cotton Programme Manager).

» Nike Inc., Portland, Oregon:

This event was a great opportunity for non-members

to find out from Nike and Orta Anadolou how Better Cotton can help mitigate risks and create opportunities in the cotton supply chain.

» **BCI outreach event, London:**

M&S and Sainsbury's discussed their experiences of working with BCI and attendees were able to ask questions directly to our Leadership Team.

» **BCI outreach workshop, Amsterdam:**

This workshop was held as part of our General Assembly, and was a unique opportunity for non-members to learn about all aspects of BCI.

PROTECTING CREDIBILITY

Our Member Monitoring Protocol allows us to ensure that Members are meeting their obligations to BCI and the sector, as laid out in our Code of Practice. In 2014, a pilot survey was carried out to assess BCI membership against the performance criteria set out in this Monitoring Protocol. The purpose of the survey was to give Members an easy way to keep tabs on their own performance, and highlight areas for improvement. The survey was sent out to 379 members with a response rate of 70%. The learnings of the pilot will be integrated into the annual 2015 survey.

A FUNDING TRANSITION

2014 was the first transition year away from the visionary Better Cotton Fast Track Program, towards it's successor, the BCI Growth and Innovation Fund which will be funded by the Volume-Based Fee (VBF) from retailers and brands. This financial contribution system provides a fair and sustainable way to cover the costs of building the capacity of farmers to grow Better Cotton. To use the system, Retailer and Brand Members map their supply chains and engage suppliers to join BCI and access the Better Cotton Tracer which is used to track their procurement. Volume-Based Fees are charged against procurement registered in the Tracer. The total VBF depends on the level of procurement declared in the Better Cotton Tracer, or 'uptake'. We are expecting uptake to steadily increase as the older Unique Bale Identification Codes (UBICs) are completely phased out and BCI Retailer and Brand Members work more closely with their supply chains in 2015. A major focus of the Demand Strategy is an effort to increase retailer uptake over the coming year. See page 18 to read more about the Demand Strategy.

THE BCI COUNCIL

We held our General Assembly in Amsterdam in June 2014, where members elected new representatives to the council. Council members represent the interests of all of our members and stakeholders and ensure that the strategic direction of BCI is maintained, and is in line with the mission of the organisation. The following table shows the changes to Council seats in 2014:

Category	Welcoming our new Council Members:	With thanks to our outgoing Council members:
Retailers and Brands	Nike, Susi Proudman	Levi Strauss & Co., Manuel Baigorri
Suppliers and Manufacturers	Spectrum International (India), Amit Shah	ECOM, David Rosenberg
Producer Organisations	Cotton Australia, Simon Corish	Abrapa (Brazil), Denilson Galbero

The General Assembly approved four amendments to BCI Statutes which ensure that we conform to best practice guidelines in governance and facilitate increased membership.



DEMAND, UPTAKE AND THE TRACER

The Better Cotton Tracer was introduced in 2013 and is used by ginners, traders, spinners and retailers to declare their Better Cotton purchases. In 2014, training and supply chain events were held in China, India, Pakistan and Turkey to support all actors in engaging with each other, building trust, and providing supplier members with a forum to display their Better Cotton products for retailers. Around 500 suppliers, 417 ginning companies, and 35 retailers and brands – a total of approximately 1,500 individuals attended these events and webinars for training over the course of the year. As a result, **after just five harvests, we have reached the significant milestone of mapping entire supply chains of a select few of our Members using the Tracer.**

Overall, spinner uptake remained healthy and BCI surpassed its target of 205,000 MT purchased by spinners. The final spinner uptake stood at 361,000 MT. Retailer uptake declared on the Tracer remained a challenge. This was due in part to the need for manual tracking of orders between spinners and retailers as well as the phasing out of the former physical bale coding system. We also identified that achieving senior level buy-in is critical to increasing declared uptake on the Tracer. For these reasons, we were unable to meet our target of 200,000 MT of declared retailer uptake in 2014. Final retailer uptake stood at 117,000 MT. **2014 saw a dedicated ‘Demand Strategy’ put in place** and a number of activities implemented to further increase demand and uptake of Better Cotton in the supply chain.

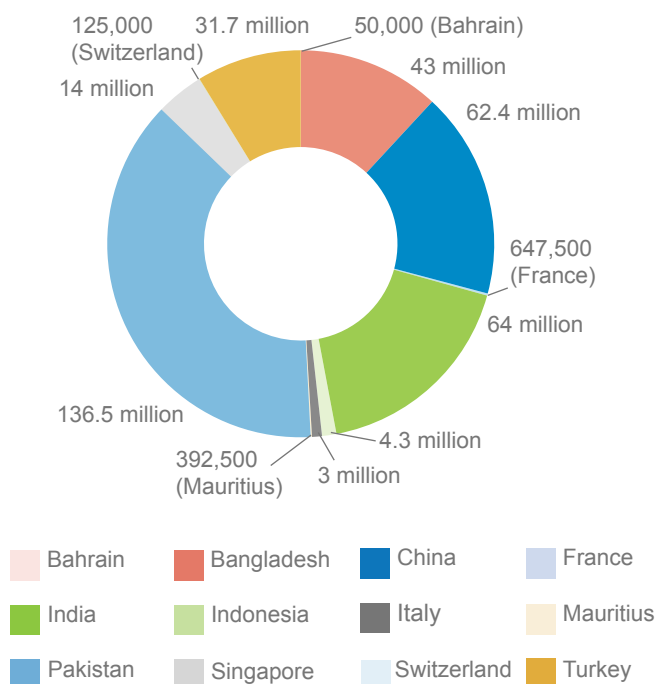
To highlight the performance of ginners and spinners and their contributions to the growing success of Better Cotton, we are featuring a series of interviews online called ‘Stories from the Supply Chain’ available for all to read on www.bettercotton.org. Ginners, traders and spinners from around the world are being interviewed together so others can learn how to improve their Better Cotton

procurement. For example, Yuyue Home Textiles Ltd., a major IKEA supplier in China show how **some spinners were able to achieve 100% Better Cotton facilities.**

In 2014, we also brought together a number of leading suppliers to work on innovative solutions to increase declared uptake. The ‘Supplier Innovation Forum’ met in Bellagio, Italy and developed an idea to establish a platform for dedicated relationships between all actors, including retailers. By sharing data and supply chain information transparently with each other, the platform hopes to overcome the barriers posed by existing supply chains.

In 2015, BCI will focus further on demand to hit a ‘tipping point’ at which a substantial proportion of the Better Cotton available is making its way into the supply chain as declared uptake.

SPINNER UPTAKE BY COUNTRY: (Net weight of Better Cotton lint bought in KG)



RAISING THE PROFILE OF BETTER COTTON

Increasing demand for Better Cotton means securing the commitment of more supply chain actors, and helping them to engage their customers. To do that, we need to provide clear and exciting messages and materials to present a persuasive case.

In 2014, we took a major step forward in our ability to craft these messages and materials, establishing ourselves as professional marketing partners for our members. **Armed with new and refreshed content, we're confident that in 2015 we can raise the profile of Better Cotton together.**

Our task is to reach thousands of different businesses and consumer audiences. It's only through the support of our Members that this can be achieved.

Better Cotton can offer a range of positive messages: from improved environmental management, to transparent supply chains. By providing high-quality marketing content with clear guidance for use, **members can choose which messages work for their own marketing strategies in active and creative communications.** By leveraging the community we can be greater than the sum of our parts, and begin to turn up the volume in the marketplace for Better Cotton.

2014: PREPARING THE GROUND

We knew we needed a strong collection of materials before we could genuinely support our members' marketing needs, so we spent 2014 preparing the ground. Highlights included:

- » A more user-friendly website.
- » The first Communications Focus Groups, looking at the marketing needs of the BCI community.
- » An upgraded Claims Framework, fully aligned with ISEAL good practice guidance.
- » A toolkit: Our Resources web page is a platform to navigate our key messages, and richer field-level content for members to use. See www.bettercotton.org/resources for details.

2015: SOWING THE SEEDS

Because we've prepared, we're now able to focus on individual projects to improve perception and awareness of BCI in order to drive demand in the supply chain and among consumers. Most significantly:

- » We'll work with Retailer & Brand members on internal buy-in and consumer-facing marketing.
- » We'll explore further the possibility of on-product claims under Mass Balance traceability.

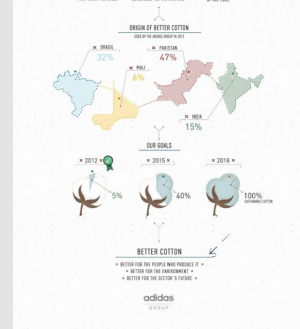
We also know that by raising the profile of Better Cotton and BCI we will come under more scrutiny. A key part of our work in 2015 will be preparing for that attention, to be ready with a unified and positive response, both from BCI and our members.

Together with our members, we're ready to grow a positive and powerful profile for BCI and Better Cotton.

In 2014 our members communicated more than ever about their BCI commitments, helping to raise the profile of Better Cotton:



Contributing photography to our image library: ABRAPA (top) and Orta Anadolu images. Look out for image credits for CmiA and Cotton Australia in this report.



Consumer awareness: adidas and Levi Strauss & Co. infographics for consumer awareness campaigns.



Field visits: Helena Hemerston, H&M Head of Sustainability, visiting BCI projects in India.



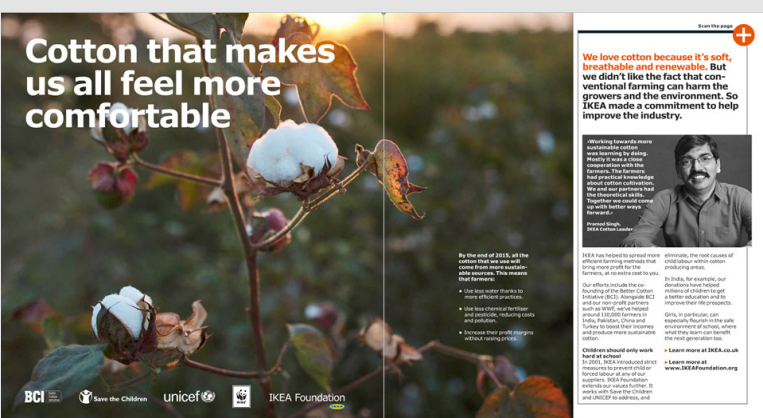
Social Media.



Collaborative videos and documentaries.



Promotional Artworks in store.



Product catalogues: IKEA catalogue 2015.



Event hosting: Outreach event, Nike HQ.

FINANCIAL STATEMENTS

A large stack of raw cotton bales, showing the fibrous texture and light beige color, set against a clear blue sky. The bales are stacked in a way that creates a sense of depth and volume.

“ It’s a win-win business for both
us and the farmer. ”

*Mr Xu Zebin, Shandong Xinyi Textile Co. Ltd.
BCI Spinner Member*

FUNDING GLOBAL CHANGE

Our income is made up of different public and private sector sources, and includes institutional grants from Funding Partners (see page 25 for a complete breakdown).

Our Funding Partners are more than financial supporters; they offer valuable advice and guidance along the way. They support us because they believe that **Better Cotton can address diverse and complex development challenges and is, at the same time, a credible business and field model worth their investment.**

We direct the financial support, together with other income, into two distinct streams:

» **Operations:** Setting policies, ensuring credibility, raising awareness, managing relationships: these oversight services delivered by our our global staff create worldwide momentum for the initiative.

Our aim is to generate enough income to cover Operations and be 100% financially independent of philanthropy. In 2014 we reached 76%, a great leap towards independence, however, we need the ongoing backing of Funding Partners to continue to bridge the gap in the present, for Better Cotton's future.

By strengthening our ability to generate income today and to keep delivering and scaling up the movement worldwide, as much investment as possible will go straight to the Field in the future.

» **Field:** Improving the environment in cotton fields for our planet and for farm workers requires training programmes, capacity-building, and robust verification to produce more and more cotton in a way that is better for people and planet. Crucially, this stream is also supported by the Better Cotton Fast Track Program convened by IDH, the Sustainable Trade Initiative.

As more countries join the Better Cotton movement the demand for Field funds will only grow, as we train more farmers and connect more supply chain actors.

Transforming the way cotton is grown is a substantial ambition, one which will take the support of many, and which we're confident we can continue to deliver.

WITH THANKS TO OUR FUNDING PARTNERS:



Implemented by:



*The views expressed in this publication do not necessarily reflect the views of the European Commission.

“ DEG very much promotes cooperation between BCI and the Cotton made in Africa standard. It allows both standards to increase their marketing potential, and to learn from each other in all aspects related to sustainable cotton production. Financial support from DEG to BCI has helped to make this cooperation work better. ”

Roger Peltzer, Director, Special Programmes, DEG Deutsche Investitions und Entwicklungsgesellschaft

THE BETTER COTTON FAST TRACK PROGRAM

Over the past five years, the Better Cotton Fast Track Program (BCFTP), convened by IDH, has unlocked substantial field investments from BCI's leading Members and Pioneers and 2014 was no exception.

With a total of **€8.5 million invested** in five countries, the Program is the biggest single investor in Better Cotton. **In less than five years, it has grown from supporting 28,000 farmers in 2010 to 375,000 farmers in 2014.**

In 2014, the BCFTP had 10 Retailers and Brands and four public funder members. In addition, many Implementing Partners in the field co-invest in projects, supporting the BCI strategic aims on mainstreaming and sector ownership. Whilst the focus for the BCFTP is on support for farmers, it also engages proactively with the demand side and extends tailored support to the retailer and brands in the BCFTP to source Better Cotton.

During 2014, with the BCFTP mandate coming to an end, BCI and IDH worked together to design a successor programme. The BCI Growth and Innovation Fund will launch in 2016. The new fund will operate in a similar way to the BCFTP and continue supporting Better Cotton production globally. The Growth and Innovation Fund will be formally announced in the second half of 2015.

WITH THANKS TO BETTER COTTON FAST TRACK PROGRAM MEMBERS:



LOOKING FORWARD TO WELCOMING IN 2015:



“ We are very excited about joining the BCFTP. We have been working with Better Cotton during the last couples of years getting to know the system and the market. For us it is a natural development to take our actions a step further in order to increase our engagement and uptake of Better Cotton. ”

Katrine Milman, Corporate Sustainability at BESTSELLER

FINANCIAL UPDATE

The financial statements presented in this report represent the activities of BCI worldwide. They include the accounts of:

- » The BCI secretariat, Geneva, an Association governed by Swiss law. This incorporates income and expenses for programme activities at field level in production countries for which operational control is maintained through the secretariat.
- » The affiliate local entity in Shanghai, China, which has been legally registered as the “Resident Representative Office of Foreign Enterprise” since October 2012.

The project funding generated through the BCFTP (€8.5 million) is managed independently by BCI Partner, IDH. This funding support is in addition to the financial statements shown in this report. To read more, see page 23.

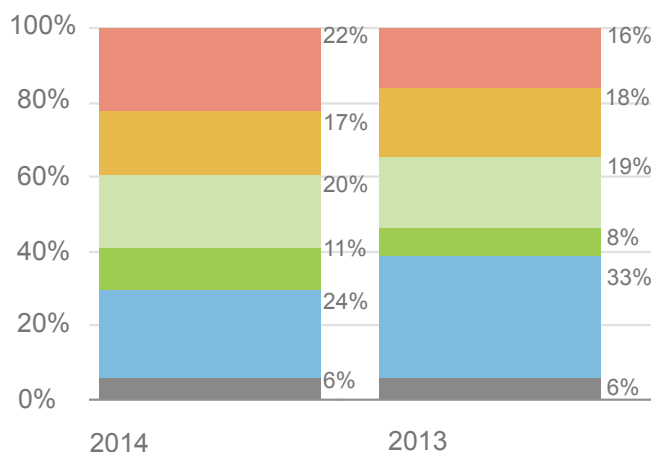
Operating income recorded for 2014 was €3,801,921 against €3,658,972 operating expenses, resulting in a €142,949 operating surplus. Financial and foreign exchange gain and losses reduced this gain to €57,247. As a not-for-profit, we re-invest any profit generated. This surplus increased our financial reserves to €463,389 which will be reinvested in future activities.

Over the course of 2014, membership increased from 313 members at the end of 2013 to 468; close to a 50% increase. The resulting income generated from membership fees more than doubled from €965,579 in 2013 to €2,224,186 in 2014. This is reducing our dependence on grant funding. As a consequence, the total amount of grants from institutional donors decreased from €1,835,462 in 2013 to €898,733 in 2014. This is in line with our strategic objective: To ensure the organisational credibility and sustainability of BCI by becoming 100% dependent on income rather than philanthropy by 2020.

In January 2015 the Euro weakened materially against other international currencies, notably the Swiss Franc. In an unaudited review, management estimates that without mitigating action, BCI’s planned 2015 results would be negatively impacted by approximately €500,000. In response, management have adjusted planned expenses for 2015 and made significant budget revisions. Due to these actions, no material deficit is expected to be incurred as a result of the weakened Euro.

BCI remains strong financially, with a cash balance at year end of €1.1 million. There is a cash reserve policy in place to maintain a minimum of €550,000 (unless prior approval is granted by the Council to temporarily exceed this limit). The organisation has no debt.

SECRETARIAT SPENDING

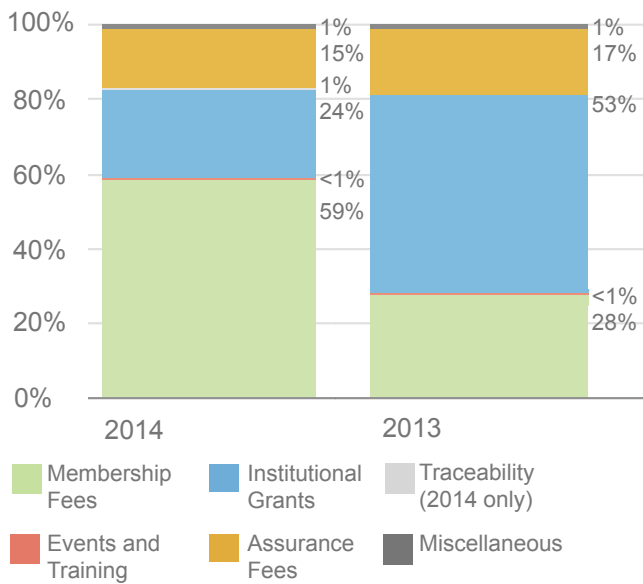


- Core Management & Governance
- Operations & Fundraising
- Membership
- Assurance
- Partnership & Communication
- Programme & Supply Chain

FINANCIAL UPDATE

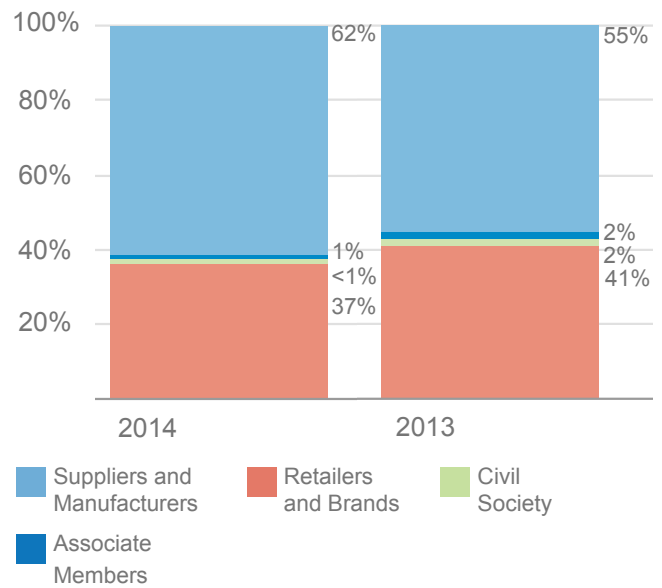
WHERE DOES THE MONEY COME FROM?

Income Stream:*

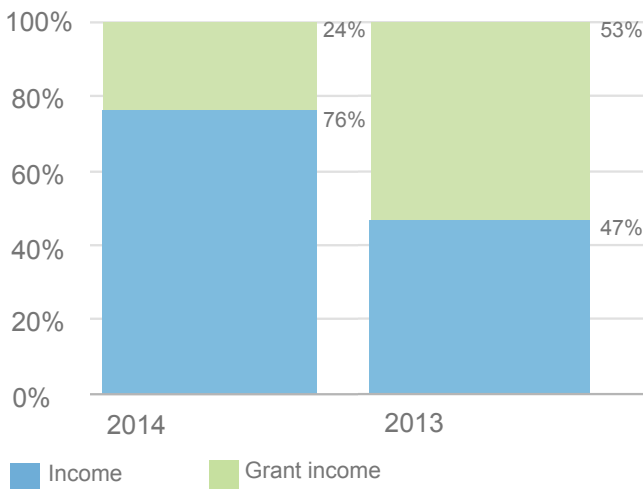


*Excluding income for field projects managed by IDH.

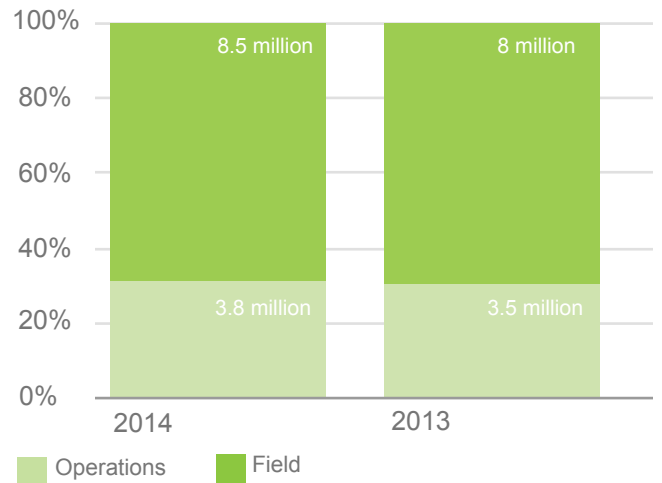
Membership Fees by category:



Income vs. Grant Funding:



Operations Funding vs. Field Funding:



FINANCIAL POSITION

AS OF 31ST DECEMBER 2014 (Euros)

	2014	2013
ASSETS		
Cash	1,106,858	1,241,892
Receivables	1,290,985	357,889
Current accounts	6,443	6,010
Accrued income	75,754	88,140
Deferred expenses	16,627	28,148
Total current assets	2,496,667	1,722,079
Financial assets	40,961	54,586
Intangible assets	265,486	209,042
Total non-current assets	306,447	263,628
Total ASSETS	2,803,113	1,985,707
LIABILITIES & FUNDS		
Payables	91,638	158,721
Provision for VAT	397,533	456,461
Deferred income	1,718,276	908,064
Accrued expenses	132,278	56,319
Total current liabilities	2,339,725	1,579,565
Retained surplus from previous years	406,142	1,121,426
Net result of the year	57,247	-715,284
Total funds	463,389	406,142
Total LIABILITIES AND FUNDS	2,803,113	1,985,707

INCOME & EXPENDITURE

(Euros)

	2014	2013
OPERATING INCOME		
Membership fees	2,224,186	965,579
Event & Training income	19,221	10,964
Grants from institutional donors	898,733	1,835,462
Traceability system income	26,024	-
Project credibility income	588,677	592,138
Partnership income	12,866	4,784
Other operating income	32,215	38,078
Total Operating Income / BCI operations	3,801,921	3,447,005
Farmer Support / Field Investment	-	86,706
Support to partner in Turkey	-	28,000
Total OPERATING INCOME	3,801,921	3,561,711
OPERATING EXPENSES		
BCI staff in Geneva headquarters	1,364,986	969,176
BCI agents based outside Switzerland	664,388	717,121
Other third-party consultants & service providers	897,828	1,174,231
Office running	209,016	210,093
Travel & meetings	471,990	476,529
Other operating expenses	149,600	119,390
Total Operating Expenses / BCI operations before exceptional expense	-3,757,809	-3,666,540
Provision for VAT	98,837	456,461
Total Operating Expenses / BCI operations including provision for VAT	-3,658,972	-4,123,001
Farmer Support / Field Investment	-	86,619
Support to partner in Turkey	-	27,964
Total OPERATING EXPENSES	-3,658,972	-4,237,584
OPERATING RESULT	142,949	-675,873
Miscellaneous financial income	5,932	2,981
Miscellaneous financial expenses	43,654	8,974
Foreign exchange gains & losses (realised)	45,863	32,200
Foreign exchange gains & losses (unrealised)	2,118	1,218
NET RESULT	57,247	-715,284



“ BCI has helped us to improve our cotton-picking technique. For example, we now avoid harvesting when there is dew. This helps considerably in reducing the risk of rot during storage. ”

Soulemane Coulibaly, BCI Farmer, Mali

Better Cotton Initiative

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Cover Image:

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