BETTER COTTON INITIATIVE 2013 ANNUAL REPORT

BCI Better Cotton Initiative

www.bettercotton.org

Welcome to the Better Cotton Initiative 2013 Annual Report.

As Better Cotton continues to be produced in more and more countries worldwide, so our reporting structures must evolve to provide timely and accurate snapshots to our members and the general public about its progress.

So this year we are reporting our 2013 activities in two stages: the first is this, our Annual Report. Here you will find the latest updates on global numbers, membership and partnership activities, reviewing our organisational aims, and our financial statements.

The second stage will be the Better Cotton 2013 Harvest Report, which will be released later in 2014. Better Cotton is sown and harvested in different annual cycles all over the world and can be spread over two calendar years. It takes time for us to compile, check, and accurately communicate the data. So to keep our reporting simple we share all harvest data later the following year in a single Harvest Report.

It’s been a fantastic year for Better Cotton and BCI. We hope you enjoy reading about it.

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NOTE FROM THE CEO

2013 was an exciting and productive year for BCI. It marked the transition of the Better Cotton Initiative from being a standard 'under development', to a proven methodology expanding globally. Some of the highlights featured in this report include:

» 300,000 farmers in 8 countries received training in the application of our program, and 810,000 metric tonnes of Better Cotton were licensed (over 3% of global cotton production). The trajectory established in 2013 will lead us to working with 900,000 farmers in 17 countries in 2014, and producers in 20 other countries have asked that we launch Better Cotton in their territories.

» The number of BCI member organisations producing, trading, processing, and marketing consumer products increased by over 50% to end the year with a total of 313. Our Retailer & Brand members represent about 10% of global cotton consumption.

» A number of independent studies to evaluate the Better Cotton Standard concluded that Better Cotton results data which show improvements in various environmental, social and economic indicators reflect reality observed on the ground, and will be suitable for scientific 'impact assessments' in just a few years when sufficient historical data is gathered. Recommendations from these studies to improve our methodology are being integrated into our practices. Moreover, in line with with our objective to continuously improve, BCI launched a new Assurance Program to ensure the quality of the training provided as well as that of the indicators we report against.

» BCI carried out 'benchmarking' studies with other standards which enabled strategic partnerships with the Cotton made in Africa program, as well as the ABR standard in Brazil. In addition, an alliance was formed with a newly created national production group (IPUD) in Turkey, and an agreement to recognise myBMP in Australia should be finalised during the first half of 2014. These partnerships are in line with our desire to build on the strength of existing standards, rather than creating new ones.

» In 2013, BCI began a transition to a new market-based financing model which is not based on either premiums or philanthropy. Instead, we are migrating to an innovative model where our Secretariat costs will be covered by membership fees, and our field-level work with farmers will be financed by payments from brands and retailers (who value our program due to improvements in supply chain security), coupled with match funding from international donor organisations.

It was an exciting year, but one that also highlighted a key priority as we move forward. While great progress is being made on the supply side of Better Cotton, we now need to tell this story to the brands and retailers of the world, so that demand keeps pace. We are fortunate in having global, visionary brands already committed including H&M, IKEA, M&S, Levi Strauss & Co., adidas, Nike and others. We have launched a new program to recruit many more during the coming year that we look forward to welcoming to the Better Cotton Initiative.

We are well on our way toward our objective of reaching 5 million farmers and 30% of global production by 2020. Thank you for your continued support.

Patrick Laine
CEO

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THE BETTER COTTON INITIATIVE

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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 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.

Be part of something Better.

WHY BETTER COTTON?

Cotton is one of the world's most important natural fibres. It's used by nearly everyone on Earth every day, and supports 250 million people's livelihoods in the early production stages alone. For millions of people, many in some of the world's poorest countries, cotton is a vital and unique link to the global economy.

It's a highly versatile and key raw material for clothing, beauty products, home furnishings and insulation. Cotton is also a renewable natural resource, but only if we manage it responsibly.

Cotton cultivation often puts stress on the planet's natural resources and undermines the long-term sustainability of the sector. More attention is needed at the farm level to develop more efficient irrigation techniques, better management practices and proper use of pesticides and fertilisers - improving the availability of clean water, soil fertility, human health and biodiversity.

Many cotton farmers suffer from low incomes, a lack of affordable finance, and often have difficulty overcoming financial barriers. Farm workers may experience arduous working conditions (particularly women), and in some regions, child labour and forced or bonded labour persist.

Better Cotton came to life out of the belief that we can transform this vital sector, to be a force for positive environmental and social change.

Retailers, brands, civil society organisations, traders, spinners, mills, cut & sew (garment makers), ginners, farmers and governments are now coming together to reduce the negative environmental and social consequences of cotton production on a scale never seen before.

We are a not-for-profit organisation stewarding the global standards for Better Cotton. We bring together cotton's complex supply chain in a unique global community committed to developing Better Cotton as a sustainable mainstream commodity. By helping farmers to grow cotton in a way that reduces stress on the local environment and improves the livelihoods and welfare of farming communities, we aim to create long-term change.

It is a global approach that provides a solution for the mainstream cotton industry, including both smallholders and large scale farmers. All farmers benefit from the development of Better Cotton as a more sustainable mainstream commodity.

Better Cotton is a product,

Better Cotton is a philosophy, achieving sustainability through continuous improvement,

And Better Cotton is a movement of like-minded organisations.

BETTER COTTON IN 2013

THE BETTER COTTON STANDARD SYSTEM

The Better Cotton Standard System is a holistic approach to sustainable cotton production which covers all three pillars of sustainability: environmental, social and economic. Each of the elements work together to make up the Better Cotton Standard System, and to support the credibility of Better Cotton and BCI:

- » **Production Principles and Criteria:** a global definition of Better Cotton through 6 key principles.
- » **Capacity Building:** supporting and training farmers in growing Better Cotton, working with experienced partners at field level.
- » **Assurance Program:** regular farm assessment, encouraging farmers to continuously improve.
- » **Chain of Custody:** connecting supply and demand in the Better Cotton supply chain.
- » **Claims Framework:** spreading the word about Better Cotton by communicating powerful data, information and stories from the field.
- » **Results and Impact:** monitoring and evaluation to ensure Better Cotton has the intended impact.

THE NEW ASSURANCE PROGRAM

The Assurance Program is a key part of the Better Cotton Standard System and is the way we assess whether farmers can grow and sell Better Cotton. Throughout 2013, we developed a new Assurance Program that combines the strengths of the original model with significant improvements. The new program will be rolled out for the first time in 2014, with added simplicity, transparency, and credibility, while encouraging farmers to continuously improve and helping to scale up Better Cotton production.

The Better Cotton Performance Scale: encouraging high performance

The new Assurance Program increases the focus on continuous improvement and farm-level change by introducing the Better Cotton Performance Scale: a set of Minimum Requirements combined with Improvement Requirements.

To be licensed to sell Better Cotton, farmers must meet Minimum Requirements which ensure that Better Cotton meets clearly defined standards for pesticide use, water management, decent work, record keeping, training and other factors.

Minimum Requirements are just the first stage. At the same time farmers are encouraged to develop further through Improvement Requirements, measured through a questionnaire telling the ongoing story of how things are changing for the better. Farmers receive a score and their results are shared publicly. High-scoring farmers are rewarded with higher Better Cotton status (ranging from advanced to masters level), and see their licence period extended from 1 to 3 or 5 years.

Assurance mechanisms: innovation, credibility and scalability

The decision to grant farmers a licence to sell Better Cotton is made on the basis of several mechanisms: annual self-assessment at farm level; 2nd Party Credibility Checks (by BCI and/or Partners); and 3rd Party verification (by independent verifiers). An online self-assessment tool has also been developed to make the reporting process easier at farm level. In future, additional training for verifiers at global level will also help to improve consistency.

The Production Principles and Criteria, and the Assurance Program Overview and Appendices are all available for download on the BCI website.

GLOBAL NUMBERS

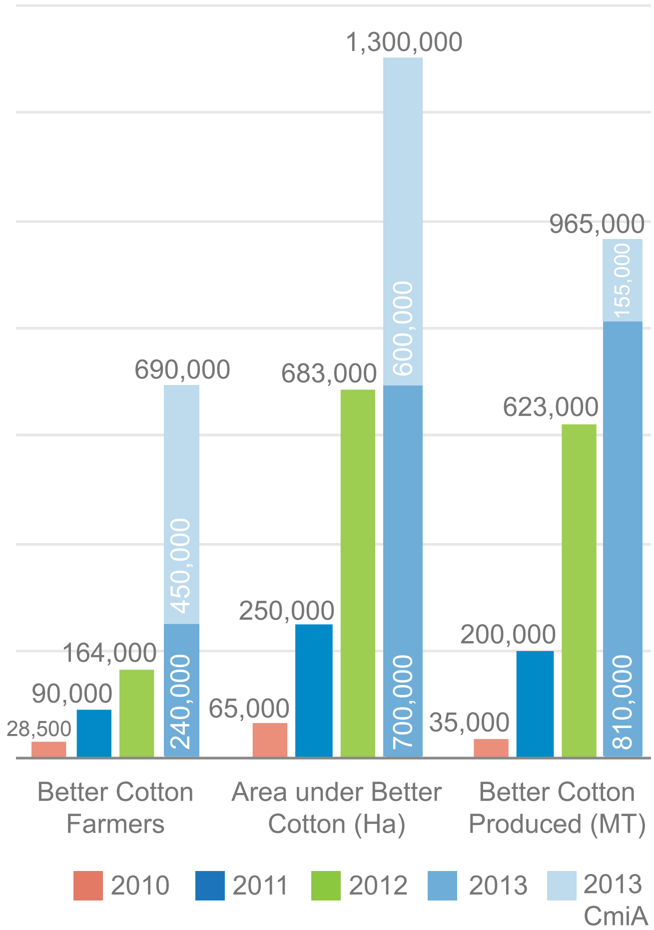
In 2013, 300,000 farmers worked with 24 Partner Organisations in 8 countries. Farmers learned new farming techniques and shared experiences under the guidance of our partner organisations in the field.

Farmers who achieve the Better Cotton Standard System's Minimum Production Criteria are given a one-year licence to sell their crop as Better Cotton. In 2013, 80% (240,000) of the total number of farmers working with our Implementing Partners successfully met the Standard. Thanks to these farmers, 810,000 metric tonnes of Better Cotton lint was harvested.

This achievement represents the incredible amount of work and commitment of the farmers who are part of the Better Cotton movement, along with the work of our skilled partners to train and coach farmers in diverse contexts on three continents.

These results, along with the exciting inclusion of Cotton Made in Africa (CmiA) as a benchmarked standard (meaning CmiA can be sold as Better Cotton), meant the Better Cotton movement leaped towards our 2013-2015 Expansion Phase targets of:

» 1 million Better Cotton farmers
» 2 million Better Cotton hectares under cultivation
» 2.6 million metric tonnes of Better Cotton lint produced

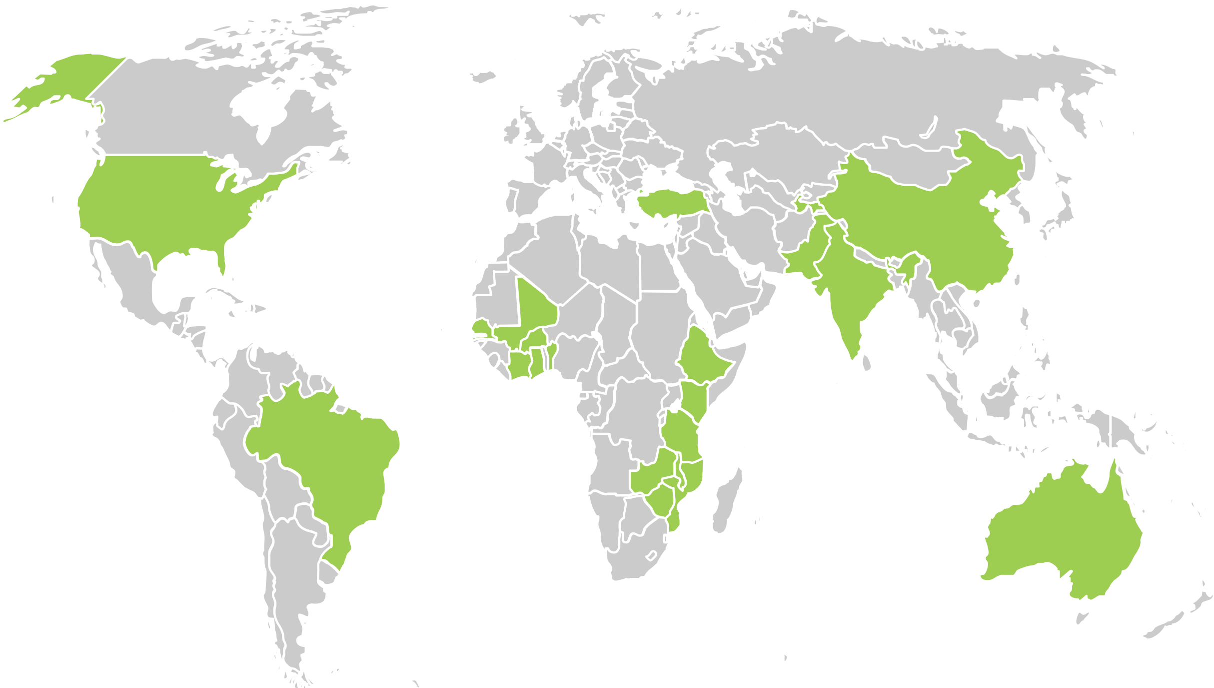


NOTE: All data is actual except India and CmiA Better Cotton harvests, finalised in the 2013 Harvest Report released in Q3 2014. Figures for India and CmiA Better Cotton are licensed figures only. CmiA specialises in qualification and verification of smallholder farmers across Africa. Consequently the CmiA farmer base is large in comparison to cotton output.

To date, BCI has issued licences to 240,000 Better Cotton farmers, and worked with 300,000 farmers worldwide.

1 figure = 10,000 farmers

COUNTRY HIGHLIGHTS



INCREASING WORLDWIDE SUPPLY

AUSTRALIA

» Cotton Australia (CA) and BCI began the benchmarking process of CA's myBMP standard, which when completed will allow certified myBMP cotton to be sold as Better Cotton.

» A Strategic Partnership Agreement is fully expected to be finalised in 2014, sfter which certified myBMP cotton will flow through the supply chain as Better Cotton.

BRAZIL

» ABRAPA's 'ABR' standard was successfully benchmarked with Better Cotton, meaning ABR cotton can be sold as Better Cotton.

» A Strategic Partnership Agreement was being finalised at the close of 2013, and our Global Numbers will continue to include all Better Cotton from Brazil.

COTTON MADE IN AFRICA (CmiA)

» A Strategic Partnership Agreement has now been signed, paving the way for significant expansion of Better Cotton in Africa.

CHINA

» Second harvest of Better Cotton in 2013.

» An agreement was signed with the China Knitting Industry Association (CKIA).

» We took part in a stakeholder consultation process to develop and release the China Better Cotton Standard.

INDIA

» Fourth harvest of Better Cotton in 2013, across almost all cotton growing states.

» A detailed Decent Work study was completed, providing us with the basis for a plan to improve performance in this area.

COUNTRY HIGHLIGHTS

KENYA

» The Better Cotton project began in the Kerio Valley, with the initial participation of 2,500 smallholders.
» The project aims to reach 6,000 farmers by 2016, including 2,000 women.

MOZAMBIQUE

» First harvest of Better Cotton in 2013.
» We developed a Strategic Partnership Agreement with IAM (Mozambique Cotton Institute) for 2014.

PAKISTAN

» Fourth harvest of Better Cotton in 2013.
» Supply chain uptake is strong, with some ginners in Sindh province now processing 100% Better Cotton.
» Discussions are ongoing with All Pakistan Textile Mills Association to embed Better Cotton into government farmer advisory services.

SENEGAL

» The Better Cotton project began in the Kolda region, which produces 25% of the country's cotton.
» The project aims to reach 4,000 farmers by 2014, and 9,000 in 2015 including 20% women.

TAJIKISTAN

» First harvest of Better Cotton in 2013.
» We are working with the 'Framework and Finance for Private Sector Development' (FFPSD) and local Partners (Sarob and ECOM), supported by GIZ.

TURKEY

» First harvest of Better Cotton in 2013.
» 'İyi Pamuk Uygulamaları Derneği' (IPUD), or 'The Society of Good Cotton Practices', was established to become a BCI Strategic Partner during 2014.

USA

» An agreement was reached to implement a 2014 pilot project in multiple states, giving us valuable experience to develop a full-scale program.

MAJOR ACHIEVEMENTS

2013 was a very positive year for us, beginning with one interim agreement with a Strategic Partner (CmiA), and ending the year with agreements or negotiations with nine partner organisations.

We have celebrated some remarkable achievements, such as signing off long-term partnership agreements with ABRAPA in Brazil and with Aid By Trade Foundation / CmiA in Africa.

In China, we have worked closely with the Ministry of Agriculture to help develop the China Better Cotton Standard. We are confident that this work will ultimately lead to developing a strategic partnership agreement in China.

We are confident that 2014 will be another excellent year for Better Cotton worldwide, following the careful and significant work carried out in 2013.

OUR MEMBERS DRIVE THE CHANGE

More than 100 new organisations joined as members in 2013, meaning our growth exceeded 50% this year. BCI Retailer and Brand members represented almost 10% of the world's total cotton consumption at the end of 2013. With this market share in mind, we are moving fast towards our expansion targets for mainstreaming. BCI closed 2013 with a total of 313 members from 27 countries.

As a multi-stakeholder initiative, BCI is governed by a Council made up of our members.
2013 Council members were: ABRAPA, FAP, Gouxin, Solidaridad, WWF, PAN-UK, ECOM, Orta, Olam, IKEA, H&M, Levi Strauss & Co.

WE ENCOURAGE ACTIVE MEMBERSHIP

More than 1,000 people attended BCI events and training sessions in 2013, including the Annual Membership Workshop in Singapore, and supply chain and traceability training events in China, India, Turkey, Pakistan. In addition we held awareness-raising events in San Francisco, London, Stockholm and São Paolo along with training programs for farm-level partners in India, Mozambique, Pakistan China, Mali, Senegal and Turkey.

WE LAUNCHED A NEW MEMBERSHIP OFFER

We launched a new membership offer in 2013, designed to better meet the needs of different kinds of members. For example; Retailers & Brands can now choose between Pioneer, Standard and Learning levels. Suppliers & Manufacturers can choose to register to gain access to training sessions and the Better Cotton Traceability System.

Over the course of 2013, we also welcomed our first four Pioneer members:

We excitedly anticipate welcoming Levi Strauss & Co. and Nike on board as Pioneers from 2014.

ENSURING A STRONG & CREDIBLE MEMBERSHIP BASE

In 2013 we developed a new Monitoring Protocol to continue to improve members performance, and protect the credibility of the initiative.

Total number of members in 2013	313
Members expelled due to failure to meet our membership criteria	2
Members suspended while appearing on the ICA default list	5
Members cancelling their membership for other reasons	34

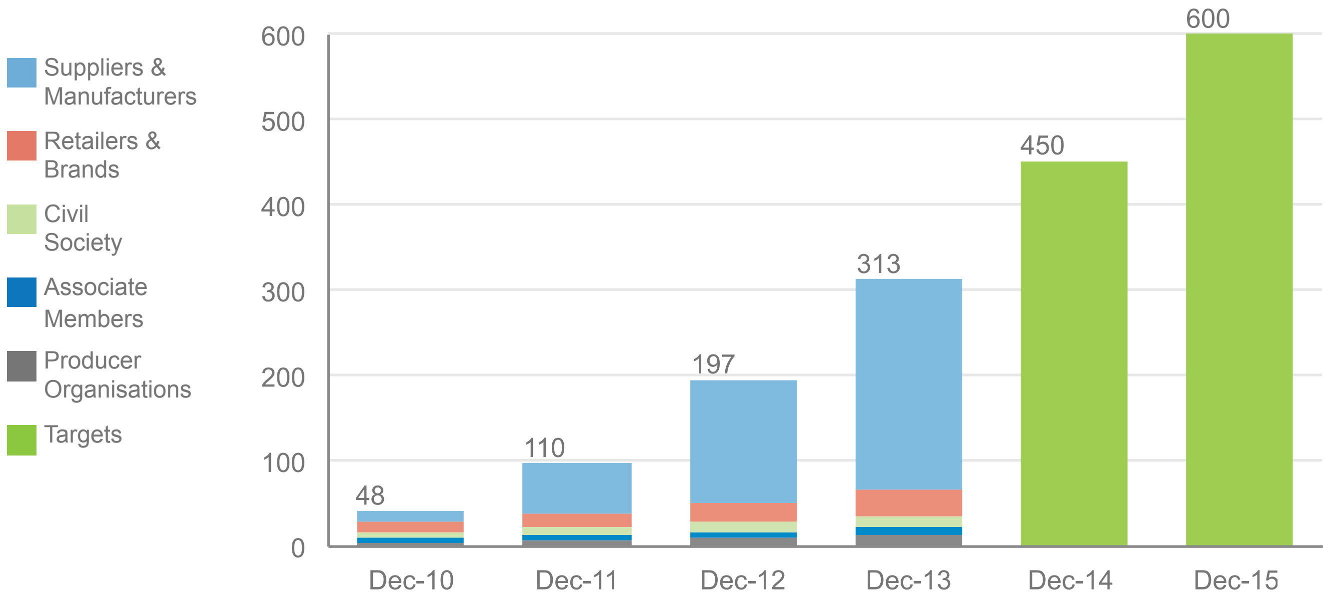
As a result of the 2013 membership requirement changes, we had planned for member attrition of up to 38. The bulk of members who left BCI were ginners, which was fully anticipated as we no longer require membership at gin level.

The strong growth in membership shows that the value added by Better Cotton is attractive to all kinds of organisations within the cotton sector, and forms the foundation for the success of Better Cotton as a mainstream sustainable commodity.

"BCI's support has been invaluable as we have worked internally and with our suppliers to get our Better Cotton procurement off the ground."
Alan Wragg, Technical Director, Tesco

OUR MEMBERS DRIVE THE CHANGE

2013 saw solid membership growth against targets:



Our members in 2013 came from 27 different countries:

BETTER COTTON VOICES

“BCI is the most promising approach to reduce the environmental impacts of cotton production globally, helping WWF to halt biodiversity loss.”

WWF, BCI Implementing Partner, Funding Partner and Council Member

“My children used to accompany me for picking, because I thought they will collect extra cotton and help get a little bit more money. But they used to get sick. Now I’ve realised that only I should work, and my children should go to school and stay healthy and safe from diseases.”

Cotton Picker, Pakistan, extract from WWF-UK ‘Better Cotton: from farmers to retailers’, 2014

“We take sustainability seriously, it’s a part of our business. And we think the Better Cotton Initiative is the best vehicle to create a mainstream sustainable platform for cotton.”

ECOM Cotton Group, BCI Trader member and Council Member

“As a multi-stakeholder initiative, BCI credibly focuses on those aspects of cotton cultivation that we believe will move both farming practices and the market in a positive direction.”

H&M, BCI Pioneer and Council Member

“I acted upon the advice of WWF even though this was a new technique for me. This was a turning point in my cotton growing history. The irrigation efficiency of my farm doubled and I saved money and time.”

Muhammad Ramzan, Better Cotton Farmer, Pakistan

“We believe in BCI’s philosophy. It is not about making declarations; it is about supporting Better Cotton and Better Farmer Lives.”

Orta, BCI Supplier & Manufacturer member and Council Member

“The main advantage of reducing pesticides is that we not only save money but the environment is better too - for example, there were no more honeybees in our area, but now they’re coming back.”

Mohammad Mustafa, Better Cotton Farmer, Pakistan, extract from WWF-UK ‘Better Cotton: from farmers to retailers’, 2014

“Before, we didn’t know that we could use fewer or no insecticide sprays. We didn’t know that women and children can be more sensitive to pesticides than men. That’s why, we women, we will now come together to reach the Better Cotton Standard in our fields. We have learnt ways to communicate which will help make sure our cotton income is distributed fairly. Thanks to this training, we have more self-confidence, and understand our essential role in our villages. Now, we know we can change things for the better.”

Rokiatou Traore de N’Tonasso, Better Cotton training participant, Mali

“IKEA wants to be part of a wide movement and develop Better Cotton as a mainstream product. By working together with others we can achieve so much more than if we work on our own.”

IKEA, BCI Pioneer and Council Member

OUR AIMS

TRANSFORMATIONAL AIM 1:
Increase commitment to and flow of Better Cotton throughout the supply chain.

Indicator	2013 actual	2015 target	2020 target
Volume of Better Cotton bought by spinners (MT lint)	no tracking system in place	1.5 million	4 million

During the course of 2013 we introduced three steps to substantially increase the retailer uptake of Better Cotton, generating funding for farmer capacity-building: A Mass-Balance Chain of Custody; a Volume-Based Fee for each metric tonne of Better Cotton procured by retailers; and the launch of the Better Cotton Tracer, our online traceability platform.

The Better Cotton Chain of Custody Guidelines already provide members with a unified set of rules on how to declare their purchases and sales of Better Cotton. The Better Cotton Tracer is a global, user-friendly online platform to make these declarations, helping members and us to trace volumes of Better Cotton "demanded" by each supply chain actor.

The Better Cotton Tracer is the only traceability platform in the global textile industry that allows companies from any country to declare purchases and sales of bales and yarns with any origin, introducing a new level of transparency into the cotton industry. It contains the records of all Better Cotton ever licensed, making field to end product traceability a realistic objective.

Retailer uptake is critically dependent on their supply chains fully understanding the benefits offered by Mass-Balance. In 2013 we held events in Istanbul, Delhi, Lahore, Shanghai and Singapore to train members on the Cotton Tracer and the Chain of Custody Guidelines.

Additional events were held with the Better Cotton Fast Track Program in Dhaka, Bangalore, and Changshu. Monthly webinars were also held from July to December. Close to 700 individuals from BCI member companies received training on the Better Cotton Traceability System. In addition to 439 traders, spinners, and retailers and brands, 373 ginning factories also use the traceability system through a different platform.

The design phase of 'fabric mill accounts' in our traceability system is underway and due before the end of 2014, building an even more complete and transparent system, like no other in the industry.

We also began implementing a Demand Strategy:
» We signed up as supporters of the UK Sustainable Clothing Action Plan.
» We engaged with the Sustainable Apparel Coalition to promote the inclusion of Better Cotton within the Higg Index.
» We recruited a (Better Cotton Fast Track Program funded) consultant who will work with retailer members on sourcing Better Cotton.

The focus of the Demand Strategy in 2014 will be on carrying out a Chain of Custody cost study at ginner and spinner level and publishing the results, and delivering a retailer 'name and praise' scorecard. We will also highlight the performance of ginners and spinners in sourcing Better Cotton. We are confident that this focus on driving retailer uptake will deliver concrete results in the coming years.

OUR AIMS

TRANSFORMATIONAL AIM 2:
Improved livelihood and economic development in cotton-producing areas.

Indicator	2013 actual	2015 target	2020 target
Number of Better Cotton farmers	690,000	1 million	5 million

Measuring the number of farmers who earn licences to sell Better Cotton indicates the progress of the Better Cotton movement: the number of farmers of all types - from smallholders in India to farmers in Brazil running large, mechanised farms - travelling together on the road of continuous improvement toward strengthened sustainability of worldwide cotton production. From 2012 to 2013, we saw a four-fold increase in the number of farmers licensed to 690,000, the vast majority of whom were smallholders.

Beyond tracking progress, we are also committed to conduct monitoring which aims to show improved livelihoods for farmers' families and economic development. We do this using a combination of methods:

» Measuring the profitability of smallholder and medium farms as an annual farm-level Result Indicator. The net profit earned from growing and selling Better Cotton is compared to the profit earned by farmers using conventional methods in the same geographical area. Updated profitability results will be shared in the 2013 Harvest Report.

» Commissioning case studies in two or more countries per year. These check the accuracy of our farm-level data, and include group discussions with farmers to learn more about their experience of growing Better Cotton, and how they feel it has affected them, their families, and their communities.

» Commissioning evaluations and assessments of the results and impact achieved through implementing the Better Cotton Standard. In particular, a study completed in October 2013 by Ergon Associates focused on BCI's Decent Work Principle. It examined whether our approach is appropriate, as well as whether there are initial impacts to note. The study found that: "BCI [partners] are engaging in an impressive array of activities to promote decent work." As well as conducting training and awareness-raising activities for farmers and communities, which are the building blocks of change, our partners in the field are:

» Establishing partnerships with international and local organisations with expertise on Decent Work issues.
» Linking communities with vocational training and opportunities.
» Connecting producers with microfinance institutions.
» Subsidising rates for personal protective equipment used when applying pesticides.

"The scale of the Decent Work challenge is daunting, but the BCI approach is the right one."

Ergon Associates Limited, October, 2013

OUR AIMS

TRANSFORMATIONAL AIM 3: Reduce the environmental impact of cotton production.

Indicator	2013 actual	2015 target	2020 target
Better Cotton hectares under cultivation	1.3 million	2 million	9 million

To measure our success in achieving this aim we count the number of hectares farmed by Better Cotton producers.

Since the first Better Cotton harvest in 2010, the movement has doubled from four countries to eight (14 with the 6 CmiA countries in Africa); and increased more than ten-fold from 65,000 hectares to 700,000 hectares (1.3 million including CmiA). We fully expect to hit our target of 2 million hectares of Better Cotton cultivated by 2015.

We also collect information about three indicators that show the progress at farm-level, comparing Better Cotton farmers to farmers using conventional methods.

These indicators are:

» Pesticide use
» Fertiliser use
» Water use for irrigation

These results are made available each year in our Harvest Report.

We recognise the need for in-depth and longer term impact assessment to examine the reduced environmental impact of Better Cotton. In 2013, BCI's partner IDH (The Sustainable Trade Initiative) commissioned a study by LEI-Wageningen University to look at whether our agronomic indicators can be used to establish a baseline for future impact assessments. The findings were positive overall, and found that our data can be used as a baseline for measuring impact on key indicators such as the use of fertiliser and pesticides, production, and productivity.

We are also looking to design and use indicators and evaluation methods in the future that go beyond results toward the measurement of impact (from water footprint to water catchment, for example), and we continue to welcome collaboration with other institutions interested in these topics.

OUR AIMS

TRANSFORMATIONAL AIM 4: Ensure organisational credibility and sustainability of BCI.

Indicator	2013 target	2013 actual	2015 target	2020 target
Earned income (excluding donations) as % of operating income	40%	47%	75%	100%
Better Cotton recognised as the global standard for more sustainable mainstream cotton	300 members	313 members	We continue to work to define our strategy for membership targets in the context of mainstreaming Better Cotton	

In 2013, we took two significant steps towards financial security through improving our membership offer, and the launch of a new model to finance farm-level programs.

The new membership offer more clearly defines the value of BCI membership for different kinds of organisations, through offering different levels of engagement - from 'Learning' and 'Basic' membership, to BCI 'Pioneers'.

The introduction of a Volume-Based Fee to Retailers and Brands on their Better Cotton procurement offers flexibility and transparency about the real costs - and benefits - of Better Cotton. Retailer and Brand member funding adds to farm-level funding by other stakeholders, and is key to the success of mainstreaming Better Cotton and ensuring supply in the future. Ultimately, the Volume-Based Fee will enable financial stability and economies of scale to be realised. We also launched a project to determine how to best manage these funds in an efficient and high-impact way.

At Secretariat level (i.e. all our non-field level activities), we measure our financial independence through measuring:

- the percentage of our income which is 'earned' as opposed to a 'donation' or 'grant',
- number of fee-paying members, and
- the level of self-financing for country level activities.

During 2014 we will continue our work to determine how to best manage farm-level funds in an efficient and high-impact way.

OUR PARTNERS

Our funding partners are more than just financial supporters; they offer us valuable advice and guidance along the way. They are truly partners in everything we achieve and we are proud that they are part of the Better Cotton journey.

In particular, we would like to thank the following, for their funding of BCI:
» SIDA (via WWF Sweden)
» SECO
» IDH
» ICCO
» Rabobank

We would also like to thank the following:
» DEG, for their support of our partnership with ABTF / CmiA
» GIZ, for their support of Better Cotton in Tajikistan

You can read more about donations and grants to BCI in 2013 in our Financial Statements in this report, and in the separate 2013 Financial Report.

THE BETTER COTTON FAST TRACK PROGRAM: A KEY STRATEGIC PARTNER

The Better Cotton Fast Track Program, convened by IDH, is an independent program set up by a coalition of leading private and public organisations to promote and support Better Cotton. Read more on the Better Cotton Fast Track Program page of our website.

At more than €7,000,000 the Better Cotton Fast Track Program investment represented more than 95% of total farm-level support in 2013.

As well as farm-level investment, the Better Cotton Fast Track Program also supported BCI in ensuring that Better Cotton was being pulled into and used by the supply chain. This included financing an independent consultant to work closely with the Better Cotton Fast Track Program retailers particularly in China, India and Pakistan on engaging their supply chains and educating them on the benefits offered by Mass-Balance. It also supported a member outreach event hosted by Levi Strauss and Co. in San Francisco.

To learn more, contact:
chester@idhsustainabletrade.com

> “Rabobank Foundation supports BCI because we see the positive changes of the system at farm level and the commitment of retailers to use Better Cotton. Changing a system cannot occur overnight, the first important steps have been taken - now it is time to really upscale!”

An Ha, Rabobank Program Manager Asia

FINANCIAL STATEMENTS

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FINANCE UPDATE

The accounts presented on the following pages reflect the 2013 income and expenses of BCI Secretariat Offices. BCI has entered into various partnerships with external parties who independently manage an additional budget exceeding €8 million for field level interventions to deliver the program to farmers.

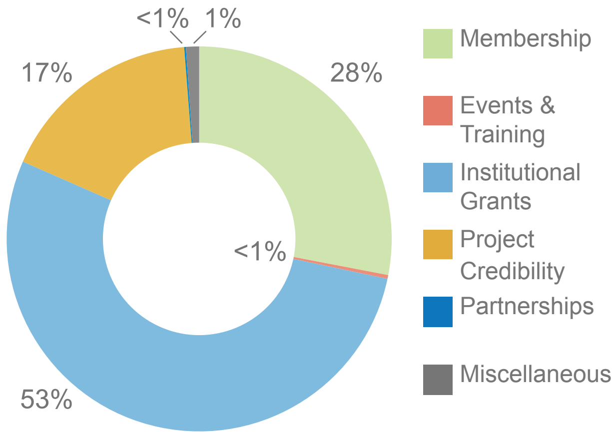
Income recorded for 2013 was €3,561,711 against a total expense of €4,237,584, resulting in a €715,284 annual deficit. However, due to a change in accounting practice in 2013 we deferred approximately €769,000 in membership fee income to 2014, which we would not have done prior to the change. As a not-for-profit we re-invest any surplus generated. In 2011 and 2012 we generated significant positive results and re-invested these funds during 2013.

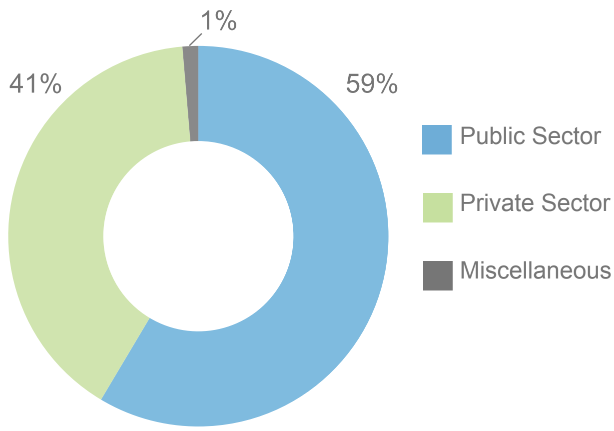
In early 2014, it was discovered that BCI has not been paying required VAT on certain categories of expense since 2009. This was due to a misinterpretation of BCI VAT exemption on income. Our estimate of the VAT liability is €456K for the years 2009-2013 (accrued in the year end accounts). For 2014, the BCI budget includes a VAT provision, based on maximum expected amount.

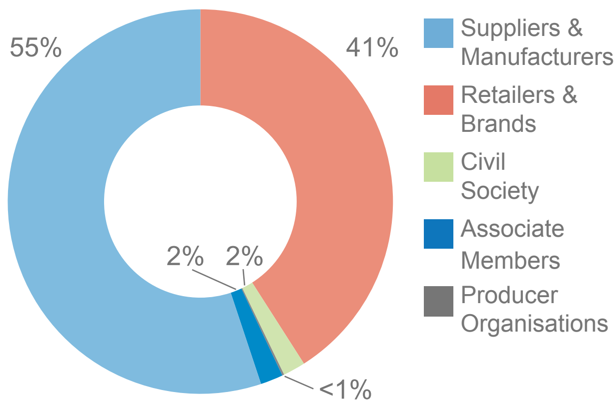
As a result of this incident the BCI Council replaced its external auditor. The BCI Council has further initiated a number of measures to strengthen and improve BCI financial and risk management to prevent the recurrence of such incidents, including the establishment of a Council-level Risk and Audit Committee and the recruitment of a Certified Accountant to head the BCI finance department.

BCI remains strong financially, with cash balance at year end of €1.2 million, and a cash reserve policy to maintain a minimum of €500,000 (unless prior approval is granted by the Council to temporarily exceed this limit). The organisation has no debt.

WHERE DOES THE MONEY COME FROM

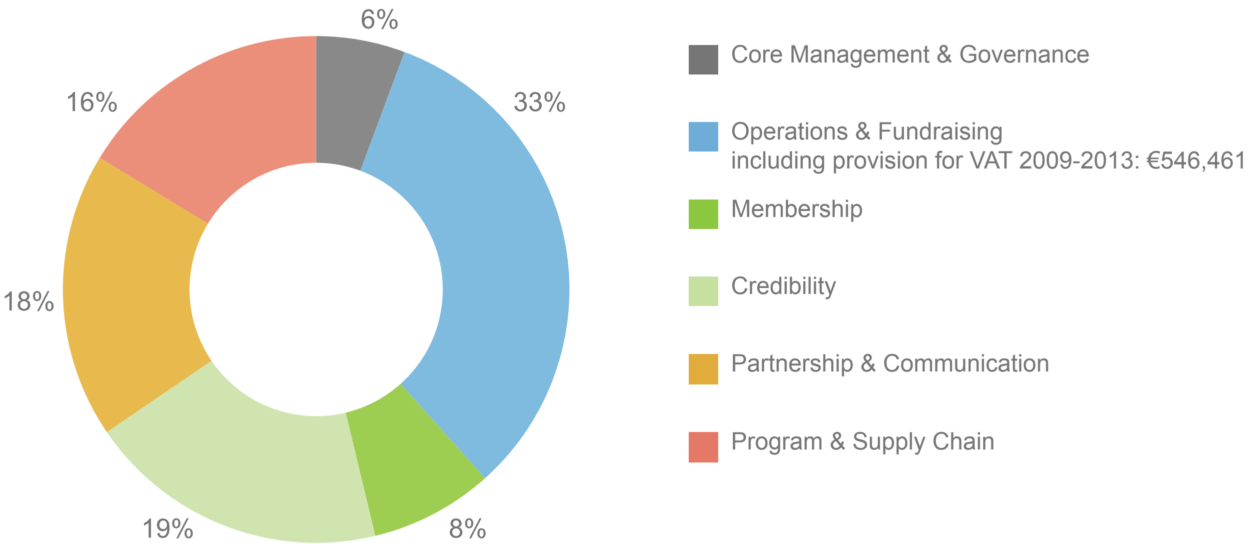




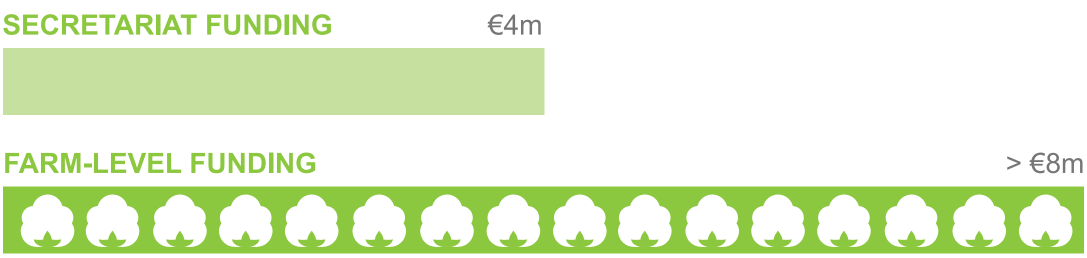


FINANCE UPDATE

SECRETARIAT SPENDING



The BCI Financial Statement only includes the income and expenses for the Secretariat itself. In addition to the approximately €4 million spent on providing project support, global oversight and management, more than €8 million was invested directly in farm-level capacity building by BCI partners and members.



FINANCIAL POSITION

AS OF 31 DECEMBER 2013, IN EUR

ASSETS

	2013	2012
Cash	1,241,892	1,499,233
Receivables	357,889	67,693
Current accounts	6,010	6,164
Accrued income	88,140	13,374
Deferred expenses	28,148	39,684
Total current assets	1,722,079	1,626,148
Financial assets	54,546	53,034
Intangible assets	209,042	0
Total non-current assets	263,628	53,034
TOTAL ASSETS	**1,985,707**	**1,679,182**

LIABILITIES & FUNDS

	2013	2012
Payables	158,721	199,267
Exceptional provision for VAT	456,461	0
Deferred income	908,064	323,225
Accrued expenses	56,319	35,264
Total current liabilities	1,579,565	557,756
Retained surplus from previous years	1,121,426	402,509
Net result of the year	-715,284	718,917
Total funds (accumulated result)	406,142	1,121,426
TOTAL LIABILITIES & FUNDS	**1,985,707**	**1,679,182**

INCOME AND EXPENDITURE

IN EUR

OPERATING INCOME

	2013	2012
Membership fees	965,579	930,727
Event and Training income	10,964	25,198
Grants from institutional donors	1,835,462	1,864,695
Traceability system income	0	0
Project credibility income	592,138	749,237
Partnership income	4,784	0
Other operating income	38,078	11,862
Total Operating Income / BCI operations	3,447,005	3,581,719
Farmer support / Field Investment	86,706	47,536
Support to partner in Turkey	28,000	0
TOTAL OPERATING INCOME	**3,561,711**	**3,629,255**

OPERATING EXPENSES

	2013	2012
BCI staff in Geneva headquarters	-969,176	-606,310
BCI agents based outside Switzerland	-717,121	-606,182
Other third-party consultants and service providers	-1,174,231	-1,071,319
Office running	-210,093	-140,842
Travel & meetings	-476,529	-377,944
Other operating expenses	-119,390	-8,889
Total Operating Expenses / BCI operations before exceptional expense	-3,666,540	-2,811,486
Exceptional provision for VAT	-456,461	0
Total Operating Expenses / BCI operations including exceptional expense	-4,123,001	-2,811,486
Farmer Support / Field Investment	-86,619	-75,914
Support to Partner in Turkey	-27,964	0
TOTAL OPERATING EXPENSES	**-4,237,584**	**-2,887,400**
OPERATING RESULT	**-675,873**	**741,855**
Miscellaneous financial income	2,981	3,742
Miscellaneous financial expenses	-8,974	-6,134
Foreign exchange gains & losses (realised)	-32,200	-17,689
Foreign exchange gains & losses (unrealised)	-1,218	-2,857
NET RESULT	**-715,284**	**718,917**

Better Cotton Initiative

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