C&A Foundation

Sustainable Cotton Programme Strategy

Strategy to 2020
Last updated: November 2017
The Industry Context
Vast and systemic challenges shape the future of cotton

Cotton is a key raw material used in the textile sector (26%)

- Its production, especially in the underregulated smallholder context, is associated with a heavy social and environmental burden.
- Other factors that put the future of cotton at risk are:
  - Prioritization of food crops (through better prices) over cotton, due to food security concerns to feed a growing population.
  - Low prices of polyester.
  - Likely shift to a more circular system.
Of the 25 million MT of cotton lint grown globally only 15% comes from sustainable sources.

Global Cotton Production

- Conventional: 85%
- Sustainable: 15%

Organic cotton is less than 1% of the global cotton production.
Organic cotton offers a sustainable alternative to conventional methods

<table>
<thead>
<tr>
<th>Impact for 1 MT seed cotton</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CO₂ emissions (kg CO₂ eq)</strong></td>
</tr>
<tr>
<td>Organic: 339</td>
</tr>
<tr>
<td>Conventional: 680</td>
</tr>
<tr>
<td><strong>Water footprint (litres)</strong></td>
</tr>
<tr>
<td>Organic: 24,400</td>
</tr>
<tr>
<td>Conventional: 344,000</td>
</tr>
<tr>
<td><strong>Eco toxicity (Comparative Toxic Unit)</strong></td>
</tr>
<tr>
<td>Organic: 0.141</td>
</tr>
<tr>
<td>Conventional: 9,000</td>
</tr>
<tr>
<td><strong>Human toxicity (Comparative Toxic Unit)</strong></td>
</tr>
<tr>
<td>Organic: 1.99E-10</td>
</tr>
<tr>
<td>Conventional: 1.82E-06</td>
</tr>
</tbody>
</table>

- 50% lower global warming impact
- 93% less fresh/blue water consumption
- 9,000 times less impact on human & eco toxicity impact
Declining production:
< 1% of the cotton globally is organic

Problem Description

- Lack of supporting ecosystem for farmers
- Complex supply chain – lack of transparency
- Lack of sector alignment

We work together with key stakeholders in the sector to address these challenges
The Systemic Issues

**SUPPLY**: Only 15% global cotton production in sustainable*

- Shortage of professionals with understanding of sustainable cotton production
- Limited knowledge and awareness regarding sustainable agriculture
- Uncertainty regarding transfer of value in organic supply chain
- Competition from other crops
- Limited economic Incentive
- Lack of supporting regulations at the government level
- Implementation bottlenecks for existing policies

**DEMAND**: Uptake is only 17% of global sustainable cotton production

- Lack of sector coordination and alignment at the industry level
- Integrity issues in the supply chain
- Limited traceability of the complete supply chain
- Technology improvements motivating shift to a circular system and alternate fibers
- Declining oil prices – increase in polyester
- Shifting fiber system

*Organic, Better Cotton, Fairtrade & CMIA

CONSUMER awareness and demand for sustainable clothing low – not motivating industry to action
Programme Vision & Goals

Cotton is produced in a way that improves livelihoods of farmers and does not have an adverse impact on the environment and the health of communities

Our programme goals for 2020 are:

- Incomes of farmers cultivating sustainable cotton increases by 20-30% over conventional cotton farmers
- Organic cotton lint production triples (up to 330,000 MT)
- 30% of global cotton production is Better Cotton certified
- Traceability solution developed and adopted by major retailers in the industry
Introduction

Our strategy

Our investments

The way forward
The Sector Landscape

Our efforts go beyond the supply chain, collaborating with key stakeholders for the sector

Legend
- Where are the investment gaps/
  Who do we fund
- Who are our collaborators
- Other stakeholders

Universities/Research Institutes

Government/Policy Makers

Standard Holding Bodies &
Audit/Certification Agencies

NGOs

Input Manufacturers ➞ Farmers ➞ Traders ➞ Ginners ➞ Spinning Mills ➞ Cut and Sow Factories ➞ Brands and Retailers

SUPPLY CHAIN – Lack of transparency and traceability

Funder/Donor Organizations ➞ Consumers ➞ Multi-stakeholder Initiatives
Three Interlinked elements of our strategy:

1. Direct farmers’ capacity building

2. Industry and ecosystem building

3. Mainstreaming sustainable cotton

Policy advocacy
Farmer Capacity Building

- Demonstrate the socio-economic and environmental case for sustainable cotton
- Increase and improve sustainable cotton production through provision of technical and governance capacity support to farmers
- Support initiatives building capacity and leadership of women farmers in sustainable cotton

1. Direct farmers’ capacity building

2. Mainstreaming sustainable cotton

3. Industry and ecosystem building

3. Policy advocacy

13
Farmer Capacity Building

Why do we do it?

- To develop models of farmer livelihood enhancement opportunities
- Increase sustainable cotton production to meet industry demands

How do we do it?

- Prototype farmer capacity building programmes as demonstration tool showcasing benefits of sustainable cotton cultivation E.g. Prototypes in India, Pakistan
- Commission studies to highlight the benefits of sustainable cotton cultivation E.g. LCA & socio-economic impact assessment of three cotton cultivation systems-BCI, organic & conventional cotton
- Build cadre of trainers/ practitioners to scale sustainable cotton cultivation on ground E.g. Course with JNKVV via OFCS
- Support innovations that increase efficiency/ quality of sustainable cotton production E.g. Testing new bio-pesticides with CMIA partners
- Actively work towards integrating women in on-farm decision making process – both agronomic and economic decisions

What do we expect?

- Increase in production of sustainable cotton
- Increase in number of farmers cultivating sustainable cotton
- Increase in area under sustainable cotton production
- Increase in net farm income of farmers cultivating sustainable cotton
- Increase in number of women in farm leadership roles
Organic cotton capacity building
9 partners in 5 countries
Organic Cotton Capacity Building

...Where we are - India, Pakistan, China, Tanzania, Brazil

Farmers: Organic / in conversion

- 2017-18: 38,512
- 2020: 51,457

Cotton Hectares

- 2017-18: 43,649
- 2020: 60,728

Lint Metric Tonnes

- 2017-18: 19,536
- 2020: 28,780
Organic Cotton Capacity Building:

India – Year 4

Income from cotton (Euro/Hectare)

Initiative farmers
Comparison farmers

+26%

Metric tonnes lint production: 10,201
Number of organic/in-conversion farmers: 34,123
Cotton area (ha) under production: 23,378

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017/18</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total yield (Lint)</td>
<td>437 Kg/hectare</td>
<td>-4%</td>
</tr>
<tr>
<td>Total input cost</td>
<td>177 Euro/hectare</td>
<td>-49%</td>
</tr>
<tr>
<td>Total income from cotton</td>
<td>590 Euro/hectare</td>
<td>26%</td>
</tr>
</tbody>
</table>
Organic Cotton Capacity Building:

Pakistan - Year 2

Yield increase in 1 year (kg / hectare)

460

+11%

220

Initiative farmers
Comparison farmers

| Metric tonnes lint production | 9,143 |
| Number of organic/in-conversion farmers | 4,000 |
| Cotton area (ha) under production | 19,895 |

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017/18</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total yield (Lint)</td>
<td>459 Kg/hectare</td>
<td>11%</td>
</tr>
<tr>
<td>Total input cost</td>
<td>370 Euro/hectare</td>
<td>72%</td>
</tr>
<tr>
<td>Total income from cotton</td>
<td>533 Euro/hectare</td>
<td>-12%</td>
</tr>
</tbody>
</table>
Organic Cotton Capacity Building: China - Year 2

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017/18</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total yield (Lint)</td>
<td>546 kg/hectare</td>
<td>-61 %</td>
</tr>
<tr>
<td>Total input cost</td>
<td>2,598 Euro/hectare</td>
<td>+51 %</td>
</tr>
<tr>
<td>Total income from cotton</td>
<td>1057 Euro/hectare</td>
<td>-51 %</td>
</tr>
</tbody>
</table>

Metric tonnes lint production: 190
Number of organic/in-conversion farmers: 306
Cotton area (ha) under production: 347

Income from cotton (Euro/Hectare)

-51%
Industry and Ecosystem Building

- Strengthen industry cooperation to support sustainable cotton
- Strengthen institutions and technologies that support sustainable cotton
Industry and Ecosystem Building

Why do we do it?

- Lack of sector alignment
- Challenges of integrity and transparency across the supply chain
- Need for concerted collective action

How do we do it?

- Engage with multi-stakeholder initiatives that address challenges with respect to a missing enabling environment for farmers and transparency E.g. Forum for the Future
- Support standard holding bodies to enhance their engagement with brands in increasing sustainable cotton uptake E.g. BCI
- Support initiatives that enhance collaboration between supply chain actors E.g. OCA
- Support organizations/ initiatives that track industry trends; collect industry information so that the industry stakeholders can take decisions based on credible information. E.g. Textile Exchange

What do we expect?

- Increase in production of sustainable cotton
- Increase in uptake of sustainable cotton by brands
Industry and Ecosystem Building

**Cotton 2040**
Integrating and accelerating efforts for sustainable cotton

**Organic Cotton Accelerator**
Fostering industry collaboration for a more prosperous organic cotton sector

**Better Cotton Initiative**
Making global cotton production better for the planet by developing Better Cotton as a sustainable mainstream commodity

**Textile Exchange**
Catalysing sustainable practices across the textile supply chain through partnerships and collaborations; building knowledge and capacity to inform and educate
OCA fosters industry-wide collaboration to accelerate the transition to a more prosperous cotton sector that benefits all, from farmer to consumer.

Brand-driven sourcing and capacity building program delivering integrity, quality and prosperity at the farmer level.

Non-competitive solutions that benefit the entire organic cotton sector.

Standalone for-profit entity providing access to finance for scale and innovation.
Policy Advocacy

Foster a policy and regulatory environment that supports sustainable cotton
Policy Advocacy

Why do we do it?

• Help scale solutions
• Provide complementary resources and funding

How do we do it?

• Direct engagement where possible to push for government engagement to motivate both farmers or industry
• Advocate for support – financial, technical, administrative – to foster enablers for farmers
• Identify and activate possibilities of government adoption of existing programmes for scale

What do we expect?

• Increase in policies and regulations supporting sustainable cotton farming
Developing a network of local stakeholders to accelerate change

- Public sector seed breeding
- Rural youth training programme
- Dialogue with the government on implementation of state organic policy

*Organic & Fair Trade Cotton Secretariat Madhya Pradesh, India
Working with C&A

Sourcing
- Identifying potential areas for scale
- Linking farm groups to partners in the C&A supply chain
- Aligning on standard operating procedures

Partnership on MSIs
- C&A is a founding member of the OCA
- C&A participates in foundation-incubated/supported initiatives such as the OFCS, BCI, Cotton 2040

Communications
- National Geographic Documentary - For the Love of Fashion
- Launch of ‘For the Planet’ line of T-shirts in China with cotton sourced from foundation supported programme in China

Knowledge Building
- Collaborate on areas of importance to the industry such as identifying best practices on GMO testing in organic cotton
Our Expected Results

Expected results

- Increased (net) smallholder farmers incomes
- Increased certified sustainable cotton farmers
- Increased production of sustainable cotton
- Enhanced market demand for sustainable cotton
- Improved soil health and water conservation
- Increased leadership and capacity of women farm workers
- Improved policy and regulatory environment to promote sustainable cotton

Targets (2020)

- Incomes of farmers cultivating sustainable cotton increases by 20-30% over conventional cotton farmers
- Organic cotton lint production triples
- 30% of global cotton reduction is Better Cotton certified
- Traceability solution developed and adopted by major retailers in the industry

Assumptions

- MSIs and industry institutions directly engage with/ support capacity building programmes
- Government agencies adopt the capacity building programmes/ further scale these in the hotspot areas
- Farmers independently begin to engage in the supply chain
Our Criteria for Investment

- **Collaboration**: Incubating and strengthening initiatives that coordinate collective investments and actions
- Investments should be **catalytic**, encouraging others to step in or build on what already exists
- **Market based** models and solutions
- **Systemic solutions that can be scaled** - not just projects leading to incremental change

### What we look for

- **Geographic focus**: Countries with smallholder cotton production that are linked well to major apparel/yarn manufacturing geographies
- **Farmer profile**: smallholder farmers
- Sustainable cotton standards: whilst recognising that various standards exist and are pathways to the same goal, majority of our farmer capacity building investments are for smallholder organic cotton farmers
- **Working with the C&A business**: gives the opportunity to work closely with the supply chain and develop initiatives that are market driven;
- Program design must include a **planned exit**

### What we do not support

- Do not work at a brand/retailer level - directly support only one brand or retailer
- Primarily focus on **consumer engagement**/increasing consumer awareness on sustainable cotton
Investment by Strategy Element*

Total is 29.17 investment Million Euros

Policy Advocacy
0.685
2.35%

Industry & Ecosystem Building
5.45
18.68%

Capacity Building
23.04
78.97%

* Operating Portfolio as of April 2018
Introduction

Our strategy

Our investments

The way forward
Key Milestones through 2020

2014 - 2016

Prototype and Incubate

- Develop farmer capacity building prototypes in focus geographies
- Incubate Multi-stakeholder initiatives
- Prototype initiatives to address business case for sustainable cotton and supply-chain transparency

2017 - 2020

Identify Hotspots and Consolidate

- Identify and invest in institutions and solutions that address challenges
- Invest in studies and initiatives that increase availability of credible data and sector information
- Identify hotspots and deepen capacity building programmes
- Pilot advocacy initiatives at local levels and then replicate across hotspots
- Deepen investment in sector alignment initiatives
- Continue investments in collaborative initiatives

2020 and beyond

Consolidate/Replicate/Planned Exit

- Replicate the model of combining field strength and industry level initiatives to push for positive government engagement across different hotspot
- Plan exit as market mechanisms & governments take over
- Deepen investments in multi-stakeholder initiatives that bring about sector alignment
Risk and Risk Mitigation

<table>
<thead>
<tr>
<th>#</th>
<th>Description</th>
<th>Mitigating Action</th>
</tr>
</thead>
</table>
| 1  | Not enough farmers adopt sustainable cotton farming                          | 1. Support partners for farmer capacity building and technical support programmes  
                                          | 2. Support multi-stakeholder initiatives to strengthen demand signals to build incentives and a business case for farmers to convert to sustainable farming practices |
| 2  | Insufficient incentives for industry cooperation                              | Incubate pre-competitive alliances; incentivize stakeholders by match-funding                                                                    |
| 3  | Changes in farming practices have negative impact on women’s right or gender dynamics | All field based programmes include components of support to women via trainings on micro-entrepreneurship, financial literacy programmes, health and safety training |
| 4  | Government does not provide enough policy or regulatory support to sustainable cotton | 1. Engage with governments / quasi governmental organizations jointly with partners to lobby for policy change                                             
                                           | 2. Fund partners and encourage them to take local ownership of advocacy                                                                         |
| 5  | Consumer apathy towards sustainable cotton                                    | Support (not necessarily financially) industry to build on relevant consumer communication                                                        |
Lessons Learnt

Identify and Nurture Hotspots:
Focus on regions where supply chain actors are collaborative; policy environment favourable

Proof Points of Success Needed to Initiate Policy Change:
Important to support capacity building programmes first – successes from the field help drive positive policy change

Field Partner Selection is Key:
Important to select partners who have connect with the communities in the hotspot and have experience on sustainable cotton value chains

Market Based Approach Important:
Programme sustainability and success can only be driven once market linkages are built and function at their optimum

Organic Doesn’t Show Results Before the Third Year:
The income & yield show some positive results only by third year as improvement in soil health takes time

Work in Collaboration:
There is no better player to identify how to work with our beneficiaries than partners that are on the ground

Where the Organic Cotton Chain is Poorly Developed:
Increasing supply to a minimum threshold level is key to encourage interest of the private supply chain partners
To promote a thriving organic cotton sector we must all come together to develop constructive and actionable solutions.

For more information contact: a chester@candafoundation.org