REINIER DE MAN

PROMOTING SUSTAINABLE COTTON FROM WEST AFRICA

THE BUSINESS CASE FOR PRIVATE SECTOR INVOLVEMENT

REINIER DE MAN

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Note

Please note that the designations employed and the views expressed in this draft study are those of the author and do not necessarily reflect the views of UNEP or FAO

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1. INTRODUCTION

Millions of small farmers and their families in Africa are dependent on growing cotton. More than often, they earn less than a dollar per day. Liberalisation of the world market and continuing subsidies to cotton farmers in the developed world, resulting in record low cotton prices, have created a poverty situation, from which the farmers cannot escape.

Despite low cotton prices, cotton cultivation has been expanding, as there are not many alternatives. Cotton growing and expansion of cotton areas mean continuing pressure on the environment, threatening Africa's biodiversity, vulnerable ecosystems and the agricultural resource base itself.

Mainly hand-picked cotton from Africa has a good quality and is used all over the world. The majority of African cotton is being exported, increasingly to Asia. The textile producing sector has a corporate responsibility and a business interest in maintaining and improving cotton from Africa and, at the same time, contributing to the future of its producers.

Companies can play different roles and have different interests in promoting sustainable cotton from Africa, as individual companies or on the industry level.

This paper gives some ideas how the opportunities for business involvement could look like. It is an invitation for discussion about developing partnerships between players in the cotton and textile sector, African cotton farmers and public institutions.

2. THE NEED FOR CHANGE

There are alternatives available that take the environment better into account whilst guaranteeing social standards as well. It takes a great effort to promote these alternatives on the farming level, and to market the 'more sustainable' cotton.

Business companies in the textile and cotton supply chain can make a difference by actively demanding this cotton and by supporting projects in the cotton fields which assist farmers in making the shift to sustainability.

2.1 COTTON, POVERTY AND THE ENVIRONMENT

Cotton cultivation in Africa, on the average, produces far less ecological problems than cotton from central Asia, for example. African cotton is rain-fed and hand-picked. Because of poverty, farmers do not even have they money to use the quantities of chemicals used in the rest of the world. Nevertheless, there are some severe problems, mainly (but not only) social problems. We just mention a few examples:

- As a result of low cotton market prices: extremely low income, no escape from poverty
- Inadequate systems for providing inputs
- Inadequate handling of chemicals, safety problems
- Soil deterioration, leading to decreasing outputs

- Important health risks and problems for farmers and their families due to inappropriate pesticide use
- Threats to biodiversity through expansion of cotton cultivation and use of agrochemicals
- Governance problems in the cotton sector, partly as a result of market liberalisation

2.2 SUSTAINABLE ALTERNATIVES

The good news is that there are many alternatives to 'conventional' cotton cultivation available and that there are many developments in the testing phase.

The best known alternative is 'organic cotton', mostly sold in small niche markets or used in blends, sometimes combined with Fair Trade certification.

There are a number of alternatives to 'conventional' cotton that are not as radical as 'organic' with respect to the use of fertilisers and pesticides, but can effectively contribute to fighting soil deterioration, maintaining or increasing productivity and avoid the major environmental and social problems. Some of these alternatives are the result of national or regional initiatives. We mention the following examples (for Mali and Burkina Faso):

- GIPD: Gestion Integrée de la Production et des Déprédateurs (integrated pest management)
- Bonnes Pratiques Agricoles (BPA/GAP)
- Lutte Étagée Ciblée (LEC)
- Traitement sur Seuil (TS)

Although these methods differ, they have in common that they are more sophisticated in fighting pests (and therefore use less pesticides), contribute to maintaining soil quality, increase farmer safety and can contribute to better or more stable yield and farm income. Especially GIPD and GAP can substantially contribute to more sustainable cotton cultivation.

2.3 PARTNERSHIPS FOR SUSTAINABLE COTTON

The alternatives to conventional cotton cultivation, including organic cotton, have to be tested in practice and there is need

for giving the farmers appropriate training and providing them with the extension services they need.

There is a need to support these testing, demonstration and training activities. Partnerships between farmer organisations, cotton companies, governments (including development aid organisations) and players representing the cotton and textile demand side such as retailers are needed.

Cotton companies in cooperation with farmer organisations are mainly responsible for implementing these projects, but they need support from governments and business: financial contributions and a clear demand for sustainable cotton.

3. OPPORTUNITIES FOR BUSINESS

Players in the textile business do not only have a moral responsibility to engage themselves in creating a sustainable future for African cotton farmers. They also have a genuine business interest. Different companies are driven by different interests: different business drivers.

Some companies have an interest in being directly involved in African projects. Others may opt for a less direct but equally powerful role at a distance: asking their suppliers to guarantee minimum standards.

3.1 WHEN IS THERE A BUSINESS CASE?

Companies have ethical principles and may feel a moral obligation to help African farmers. Their efforts necessarily remain limited, if not marginal, if these activities do not produce any value for the company: increased turnover, reduced costs, reputation improvement, motivation of people working for the company, etc.

There is a business case, if more value is generated than the costs of the activities for enhancing 'sustainability' (improving social conditions, protecting the environment). There is a business case for promoting sustainable cotton from Africa, as long

as the costs of this promotion are offset by the business value created.

3.2 THREE BUSINESS DRIVERS

For the cotton and textile supply chain, there are three drivers that can make the efforts for African farmers interesting from a business point of view:

- supply chain security
- reputation risk
- consumer markets

3.2.1 Supply Chain Security

Cotton is a highly versatile material, technically attractive and attractive from a fashion point of view. Consumers love cotton for its natural feeling and many other qualities. Considerable parts of the textile industry are based on cotton: worldwide it is fibre no. 2 (39% in 2004) just after polyester. In some parts of the world, such as Europe, cotton is even more important.

There is a genuine self-interest in long term security of cotton supply, especially for companies that are highly or even exclusively based on cotton. Cotton supply can be endangered through two factors or a combination:

- declining yields as a result of bad agricultural practices leading to soil exhaustion or other problems
- bad reputation of cotton caused by social and environmental problems.

The cotton-based industry has an interest in promoting sustainable, productive practices in the cotton field.

3.2.2 Brand Value and Company Reputation

Today the stock market value of major companies consists only for 20-30% of fixed assets. The remainder are 'intangibles': company reputation, brand value and knowledge. As a result, companies can be hit harder by attacks on reputation and brand than on the physical assets. A factory can be rebuilt more easily than a brand. Brands and reputations can be destroyed overnight.

NGOs and media play an important role to create 'issue careers' that rapidly create immense risks.

The textile business has experienced such risks when dealing with child labour and sweat-shops. NGO actions led to immense reputation damage but finally created the basis for widely accepted standards and systems (SA 8000) and better controlled supply chains.

Next can be the cotton issue. There are high risks involved. If an NGO starts a campaign showing how children from Togo work on the cotton fields in Benin under slavery conditions and if they manage to create the link with a well-known fashion or sportswear company, the business risks are enormous.

Many large textile chains with well-known brands have understood that they have to do something. They blend organic cotton in their mainstream products, for example. The question is, whether this is enough. If the same company is confronted with a really negative story about unacceptable social conditions or the destruction of irreplaceable biodiversity, even buying thousand tons of organic cotton will not help.

Textile companies, from a risk management perspective, have an interest to guarantee minimum environmental and social standards, not only for manufacturing but also for cotton as a main raw material.

3.2.3 Consumer Markets

The number of consumer that is really interested in buying sustainable products is limited. Because of the direct link with health issues, the highest interest is in the food market. Today, the interest in 'sustainable cotton' is limited to a small (but growing) niche market for 'organic cotton' products and an upcoming market for Fair Trade cotton.

For retailers, who serve these small market segments, there is certainly a business case for sustainable cotton. Opportunities are mainly in the market for organic cotton products.

3.3 COMPANIES AND THE BUSINESS CASE

3.3.1 Four Types of Textile Retailers

Whether there is a business case for sustainable cotton (from West Africa) is dependent on the company and its broader context. The question is: is the company going to be rewarded for the resources spent on sourcing (more) sustainable cotton? We distinguish four types:

- Type 1: no business case for sustainable cotton
  A number of companies (mainly operating at the low end of the market) will not profit from sustainable cotton since none of the business drivers will work for them: they are not operating in consumer markets that are sensitive to the issue and they do not face any reputation risks because they do not have vulnerable brands and are not very visible.

- Type 2A: sustainable cotton helps to avoid risks
  A number of large companies, especially (global) brands, are primarily driven by the business risks of non-sustainable cotton. They are interested in sustainable cotton, not because their consumers pay a cent more, but because they fear damage to their brands. Their main interest is in methods to limit the risks of non-sustainable cotton at the lowest possible costs. They prefer solutions with a minimum of transaction and control costs and are not primarily interested in labels or certification. In addition, they may be interested in some PR activities that gives them a sustainable company image. Some companies use organic cotton blends to show their commitment to sustainability.

- Type 2B: supply chain integration helps avoid risks
  Basically, these companies are similar to the preceding company type, but they have a different supply chain structure. As they have more control over their supply chains, they are more motivated to start projects in the supply chain and even get involved in cotton cultivation projects, mainly in countries with integrated cotton industries such as Turkey, India or Pakistan. Unfortunately, West Africa does not yet offer good opportunities for

such companies, as there is hardly any textile industry present.

- Type 3: consumers reward retailer for sourcing sustainable cotton
  These are companies that operate in relatively small niche markets for organic and/or fair trade cotton. Consumers in these niche markets are willing to pay a premium for the 'sustainable' quality they buy. Most of these companies are not pure Type 3 companies, but have one or more organic/fair trade product lines, in addition to conventional cotton.

3.3.2 The Business Case for Cotton Traders and Cotton Companies

As (cotton) traders are not particularly vulnerable to public pressure and corporate social responsibility issues, the main driver for cotton traders is demand for sustainable cotton, which is mainly determined by the retailer. Cotton traders will have an interest in trading sustainable cotton and providing services to supply chains for sustainable cotton, so long as the retailers explicitly ask for it and are willing to bear the additional costs.

Cotton traders who have acquired cotton companies have different interests in sustainability and their business case is accordingly different. They have long term interest to operate as a company in the (West African) communities. They are no longer traders who can let prevail their short term interests. Regional and national stakeholders require them to operate at least in a socially responsible way. This creates a business case for (elements of) sustainability that is not present for the traditional commodity trader.

4. ENHANCING DEMAND FOR SUSTAINABLE COTTON

For companies who want to stimulate the development of sustainable cotton in Africa, there are basically two options: building integrated supply chains or promoting an industry standard for sustainable cotton.

The first option is to organise integrated supply chain partnerships for sustainable cotton. The partnerships operates on the company-to-company level and creates direct communication between the cotton field and the end market.

The alternative is to work more at a distance. Companies who choose this option are not creating any direct links between the cotton field and their operations. They create partnerships at the industry level. They demand sustainable cotton on the basis of an industry standard for sustainable cotton.

4.1 SUPPLY CHAIN PARTNERSHIPS

In this configuration, retailers seek cooperation with cotton companies, farmer organisations and traders to organise a well-organised and transparent chain from seed to T-shirt. The identity of the cotton is entirely preserved.

There are good experiences with this model, especially with regard to organic cotton. So far the most successful project was implemented in India. African projects are taking place in Tanzania and Mali and there are more to come.

Supply chain partnerships are not the easiest way to produce an end product, but they have an important potential for stimulating sustainability and for creating innovation. As a rule, they lead

to additional costs: additional coordination costs and costs for certification.

There is only a business case, if the market rewards the additional efforts. In practice, this means that such partnerships can be attractive for organic cotton (possibly combined organic and Fair Trade cotton) and for somewhat higher quality products.

4.2 AFRICAN MARKETS THROUGH A GLOBAL STANDARD

For companies that do not have a strong position in the organic and/or fair trade market, and that do not intend to build up such a position, the supply chain partnership model is generally not attractive. It leads to too high costs and it serves a too small market.

Still these companies can effectively contribute to promoting sustainable cotton from Africa. The initiative here is not on the company but on the (global) sector level. It is based on building up and implementing a global minimum sustainability standard for cotton. Retailers, in this case, do not have to deal with cotton supply chain in any detail. They will require their suppliers to implement the given standard.

A global sustainability standard for cotton is currently being developed in the framework of the 'Better Cotton' process, a multi-stakeholder process, organised by WWF and IFC, in which major textile companies participate. It can be expected that there will be regional implementations of this standard. In that case, there will be an African or West African specification of this standard.

Retailers and brand owners have an interest in helping to develop and implement this standard (also) in West Africa and subsequently make 'Better Cotton' part of their supplier conditions. The main tasks of the cotton companies, traders and spinners is then to organise the production of 'Better Cotton' certified yarns. The textile industry can then buy these yarns as required by the retailers. The result is a simple 'dual commodity' (i.e. a 'Better Cotton' grade alongside conventional cotton) sup-

ply chain which is much less costly than completely transparent organic cotton supply chains.

It will take some time before such a system is operational, but retailers can contribute already today to its development. The 'Better Cotton' standard will probably be based on a number of existing integrated pest management and similar initiatives. Its implementation will be a process of continuous improvement with a number of farmer organisations and cotton companies.

Textile retailers will have the opportunity to develop some corporate image and brand advantages through their participation in implementing 'Better Cotton' in West Africa. They could, for example. create direct links with these farmers, not through expensive identity preserved (IP) supply chains and certification, but through 'adopting cotton farmers': paying a part of the development costs for implementing the sustainability standards. In return, companies will be allowed to communicate their contributions in their corporate social responsibility reports. The idea should be worked out further.

5. PROMOTING 'BETTER' COTTON FROM AFRICA

For the bulk market, it is more interesting to look for sector-wide solutions than to set up costly integrated chains from Africa to textile companies. The ongoing 'Better Cotton' initiative constitutes the framework. Companies at the end market side will have the responsibility and the opportunity to contribute to its implementation in Africa.

Players	*Roles / Activities*	*Business driver(s)*	*Comments*
Retailer with strong commitment to organic / Fair Trade	no strong interest in this market		
Retailer with high visibility, high brand value in bulk market	• support BC standard setting process • support BC pilots in Africa • 'adopt' farmers • make BC a standard supplier requirement •	risk management (avoiding reputation / brand damage)	
Traders	organising the supply chain, solving logistic and finance problems	▪ additional business in an interesting market ▪ reputation	
Cotton Companies	Organise the improvement process in the field: training, extension, auditing, etc.	▪ licence to operate (explain) ▪ new markets / value added services	Especially foreign cotton companies in African countries need to continuously invest in their 'licence to operate'
Spinners	Produce yarns from BC cotton	▪ new market	
Better Cotton Group	Definition of principles, framework for (regional) standards	not applicable	N.B. The ongoing project 'Cotton Made in Africa' can play an important role in the translation of the standards into criteria for Africa.
farmers and farmers org	training of farmers, advocacy, feedback on production methods other ?	yield increases, decreasing input costs, environmental and health benefits for communities, technical assistance other ?	
Public players, including UNEP/FAO	facilitating, providing technical assistance and funds for extension work, mobilizing additional public sector resources, training, etc.	not applicable	

6. PROMOTING ORGANIC COTTON FROM AFRICA

There are small but interesting markets for organic cotton, possibly combined with Fair Trade. Different players can play different roles.

Players	*Roles / Activities*	*Business driver(s)*	*Comments*
Retailer with strong commitment to organic / Fair Trade	initiating highly integrated supply chains, based on partnership philosophy	▪ serving the market for organic/FT ▪ corporate reputation / brand value	
Retailer with high visibility, high brand value in bulk market	blending organic cotton sourcing organic cotton for his supplier	▪ risk management (avoiding reputation / brand damage)	as an additional strategy only
Cotton companies / traders	organising the supply chain, solving logistic and finance problems	▪ additional business in an interesting market ▪ reputation	
Farmers and farmers' organisations	training of farmers, advocacy, feedback on production methods	▪ price premium for farmers ▪ stability / security ▪ environmental and health benefits for communities	
Public players, including UNEP/FAO	facilitating, providing technical advice and funds for extension work, training, mobilizing additional resources from other public sector players, etc.	not applicable	