



Textile  
Exchange

A MEMBER REPORT COMMISSIONED BY TEXTILE EXCHANGE

# Transformational integrity

Addressing the root causes of integrity issues in the organic cotton sector, September 2018

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**Note:** This report is intended for Textile Exchange members to inform strategy and action.

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## Acronyms

<b>BCI</b>	Better Cotton Initiative
<b>BSD</b>	BSD Consulting
<b>GOTS</b>	Global Organic Textile Standard
<b>GMO</b>	Genetically Modified Organisms
<b>IFOAM</b>	International Foundation for Organic Agriculture
<b>OC</b>	Organic Cotton
<b>OCA</b>	Organic Cotton Accelerator
<b>OCMR</b>	Organic Cotton Market Report
<b>OCRT</b>	Organic Cotton Round Table
<b>OCS</b>	Organic Content Standard
<b>OECD</b>	The Organization for Economic Co-operation and Development
<b>NGO</b>	Non-governmental organization
<b>NPOP</b>	National Program for Organic Production
<b>SC</b>	Scope Certificate
<b>SDG</b>	Sustainable Development Goals
<b>TC</b>	Transaction Certificate
<b>UK</b>	United Kingdom

# Foreword

By Liesl Truscott, Director of European & Materials Strategy, Textile Exchange

Textile Exchange has been championing organic cotton within the textile industry for over sixteen years now, pioneering an integrity and standards division with the aim of continuous improvement, long before it became fashionable to do so. Over the last couple of decades, Textile Exchange has championed organic throughout the farming and production process by facilitating discussions and action around topical issues affecting its membership. This has evolved into Textile Exchange's multi-stakeholder initiative, the Organic Cotton Round Table (OCRT) supported by the annual Organic Cotton Market Reports (OCMR) which publish a unique analysis of organic cotton fiber production volumes, trends and forecasts. This long-standing engagement and collective action on improving integrity and standards has enabled Textile Exchange to drive positive change. With the support of dedicated members, the individual actions taken by many – the brands, producer groups, certification bodies, as well as advocates and funders – have been able to create collective, connected action.

It's clear from discussions over the last few years that integrity has surfaced as a "hot topic" that warrants further effort. With so many groups acting to address the integrity issue, it was determined that we needed to take a step back and get an external perspective. We asked – are the actions that are being taken really addressing the issues – or only the symptoms? Where should we focus our efforts? The first step is about gathering that information and being able to have a more holistic view. We decided to focus on India, which is the largest organic cotton production region. The purpose of this report is to create awareness of not only the symptoms, but the root causes driving some of these issues; to provide an external perspective on areas where best practices are in place; and provide a mechanism to drive more coordinated and collaborative action in order to support and drive the needed transformation for organic cotton.

This report offers an honest account of the current concerns facing the organic cotton sector. It is not designed to "name and shame" but rather as an opportunity to lay the symptoms of deeper systemic issues in integrity on the table so the sector can come to terms with the problems and move forward.

This report shines a light on the positive contributions organic agriculture makes to people and the environment. However, despite the proven benefits, the sector remains fraught with challenges and weaknesses in the business model.

Weaknesses occur at almost every step and have led to issues of integrity and a lack of confidence even among the most committed of stakeholders.

If organic cotton is to thrive and deliver on its promise as a market driven solution to environmental and social sustainability in cotton, more needs to be done. And it needs to be done now! It was this realization that led Textile Exchange to commission integrity expert Joy Saunders to dig deeper into the complexities of organic cotton integrity challenges to better understand the root causes at play and to make recommendations for immediate action.

Textile Exchange has reviewed the findings from this work and remain committed to working with the whole sector to build ever increasing integrity. Alongside this report, over the last two years, we have facilitated stakeholder meetings to determine the best ways to support the organic cotton sector. One outcome of these consultations is the Central Database System, a system co-designed with Global Organic Textile Standard (GOTS) to create traceability and transparency throughout the supply network with go live scheduled for January 2019. The database will support integrity efforts and eliminate some of the areas where fraud and duplicate certificates or duplicate “sales” for the same fiber may currently exist.

Another area of focus for us has been the Organic Cotton Market Reports (OCMRs). In order to drive up quality, Textile Exchange has invested in regional ambassadors in each of the key production regions, cross-referencing of OCMR data with certification bodies, as well as annual internal systems and process improvement.<sup>1</sup> As a result of this continued focus on accuracy and completeness of data and working closely with our peers, we have rooted out bogus certification bodies, non-existent producer groups and provided training across the supply network in support of best practices.

We know the benefits and potential of organic remain sound; it will be up to the community to take the learnings from this report and act collectively to address the root causes. There is a role for everyone, but action needs to be taken now. The future of a strong and thriving organic cotton sector, that implements regenerative agriculture and builds resilient communities, is a future worth our collective effort.

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<sup>1</sup> During 2018, BSD Consulting (BSD) provided an independent opinion about the quality of the reported data and the adherence to the AA1000APS and the GRI Standards. BSD affirmed that “Textile Exchange was able to improve the accuracy and completeness of the presented data and deliver a reliable picture of the current state of organic cotton production” (BSD Consulting, 2018).

# Introduction

“Organic” is not a purity claim, but rather an agricultural production method. Organic cotton is cotton that is produced and certified to organic agricultural standards. Its production sustains the health of soils, ecosystems and people by using natural processes rather than artificial inputs. Importantly, organic cotton farming does not allow the use of toxic chemicals or Genetically Modified Organisms (GMOs). Instead, it combines tradition, innovation and science to benefit the shared environment and promote a good quality of life for all involved. The environmental and social benefits from organic have led to a growing demand for organic cotton, but despite this, farmers are not making a fair return on their investment and many are moving out of organic production (Textile Exchange, 2016). As a result, brands are finding it increasing difficult to find the right quality and/or quantity of organic cotton (Organic Cotton Accelerator, 2017). Alongside the challenge of building supply, stakeholders have increasingly raised integrity concerns within the supply network of organic cotton.

This report summarizes the findings from a series of key informant interviews held in 2017 on the topic of integrity within the organic cotton sector, with a focus on cotton grown in India.<sup>2</sup> It discusses integrity issues, which due to their sensitive nature may not have been formally acknowledged, in the hope that transparency will lead to ownership which in turn will move the sector to constructive dialogues and solution finding. This report also recognizes the groundwork performed by Textile Exchange in starting conversations through documents such as their white paper on co-existence with GMOs (Textile Exchange, 2016) and the efforts of the Organic Cotton Round Table (OCRT)<sup>3</sup>, as well as others such as the Organic Cotton Accelerator (OCA)<sup>4</sup> and C&A Foundation<sup>5</sup> in trying to confront these problems through pilots or small-scale action. These resources have proved a helpful starting point to prove concepts or test ideas that if scaled up would likely improve the integrity of the sector.

Key stakeholders (interviewees) helpfully shared their perceptions and experiences of the challenges and associated risks for the sector as well as many examples of good practice in organic cotton. These good practices alongside recommendations

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<sup>2</sup> India was selected as the focus for this pilot study as it is the top organic growing country in the world with 67% of market share. (Textile Exchange, 2016).

<sup>3</sup> More information can be found here: <http://textileexchange.org/organic-cotton-round-table/>.

<sup>4</sup> More information can be found here: <http://www.organiccottonaccelerator.org>.

<sup>5</sup> The C&A Foundation has been catalytic in its support and funding of organizations or initiatives such as Textile Exchange, OCA, Cotton Connect, and the Organic & Fair Cotton Secretariat.

for the way forward are highlighted in the following pages to encourage others to jointly invest in practical initiatives that build integrity. The report emphasizes that more investment is needed to transform the sector to ensure consistent delivery of quality organic cotton to consumers.

This report underscores a need for collective action to catalyze systematic sector change in the following areas:

1. **Redefining the business case with positive incentives:** Right along the supply chain, from farmers to manufacturers to corporate buying teams, more guidance is needed on the risks of contamination and good practice methods to ensure incentives are in place promoting integrity every step of the way.
2. **Bringing greater transparency to the supply network:** Responsible trade and fair prices must be paid throughout the supply network which should include differentials to incentivize the take up of organic textiles with integrity, full traceability and co-operation between organizations.
3. **Organization of the sector – creating a Connected Organic Cotton Community:** There is a need to collectively mobilize under common and coordinated leadership to improve integrity within the sector. Sector nominated leadership should seek to set the tone (rules and culture) of the industry, provide and support regulation and codes of conduct. And, if needed, provide a mechanism for sanctions for those stepping outside the predefined frameworks. OCA and Textile Exchange are engaged in the strengthening of the OCRT as a general assembly for the Organic Cotton Industry with meetings scheduled in October 2018 in conjunction with the Textile Exchange Sustainability Conference.

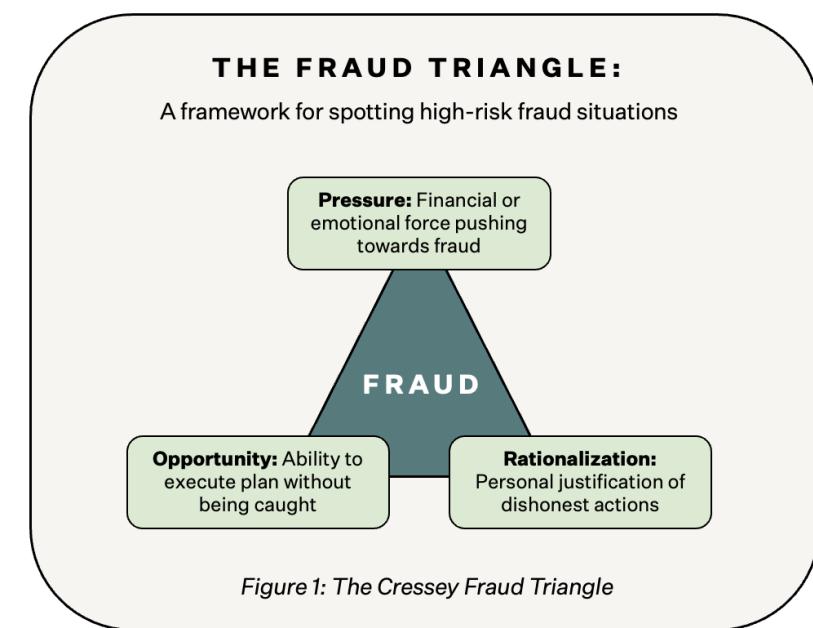
This report seeks to emphasize the benefits of joining forces and working together to build increasing integrity throughout the sector.

Currently, despite various processes and controls built into the supply chain and additional certification tests specifically for organic (NPOP/GOTS/OCS), integrity challenges remain within the production of organic textiles in India (shown through the high percentage of failures in testing). The findings from this review shine a light, not only on India, but on the sector more widely. It is hoped that the recommendations made in this report will assist the whole sector, in making concrete improvements in integrity. Many of the solutions could easily be applied to any commodity or supply chain where price and other pressures have led to compromises in integrity.

*The fieldwork highlighted the reality on the ground in India of the theory of the Cressey fraud triangle (see figure) which states that corrupt practices tend to happen at the intersection of financial pressure, rationalization and opportunity (Cressey, 1973). In overall terms, this research highlights a mismatch of supply and demand, lack of transparency and excessive price pressure in the supply chain.* Combined, these factors have resulted in a financial pressure at farm, gin and spin level (more information provided in the following pages) that has led to a widespread rationalization of cutting corners to reduce costs, and opportunities to by-pass the compliance checks that allows compromises to integrity in some cases.

There is an urgent need to focus on the root causes of these integrity challenges to increase sustainability of the sector, improve honesty in marketing to end consumers and address the underlying culture where collusion or turning a blind eye to corrupt practices is accepted. This culture, while not promoting illegal practices – stakeholders have been careful to protect themselves legally through contracts and adherence with compliance standards – accepts the reality of inconsistent practices and raises ethical questions on the benefits of remaining within the organic cotton sector when the right incentives for integrity are not in place.

In the following pages, this report covers sector challenges, how to respond to a sector facing integrity challenges, recommendations and conclusions.



# Sector challenges

Informed by the work of pioneers such as Textile Exchange, the Organic Cotton Round Table and C&A Foundation<sup>6</sup> who are committed to finding ways to strengthen the sector, the Organic Cotton Accelerator (OCA) has built on their work and summarized the challenge of the organic cotton sector as three-fold (Organic Cotton Accelerator, 2017). To address the root causes of these three challenges requires a collaborative sector wide approach, with organizations joining together in a combined objective of building integrity:

## **1. The farmer business case is under pressure.**

Most organic cotton farmers do not have access to quality non-GMO cotton seeds, do not have secure buyer relations, and often do not receive a price differential that offsets their efforts. Without fair remuneration for farmers there is greater pressure to increase yields and reduce costs which increases the likelihood of using higher yield producing GMO seed, gap filling organic farms with GMO seed (if germination fails or organic seeds cannot be sourced) or the use of pesticides to prevent disease or losses from insect pressure. All these actions, while justified for a poor farmer trying to make ends meet, undermine the integrity of organic farming techniques.

## **2. The supply chain business case is insecure.**

Supply chain actors, from ginners to garment makers, face supply insecurity, integrity challenges, quality and contamination issues. Additionally, there is a lack of transparency in most value chains due to fragmented delivery mechanisms. Without traceability of supply networks, it is difficult to evidence an organic chain of custody which limits accountability if integrity is questioned.

## **3. The sector lacks a shared vision and organization around integrity.**

Initiatives to tackle the sector's integrity issues are disjointed. Unfortunately, the industry still seems to be in a place where blame is assigned to others in the supply network. The main actors in the sector are not yet aligned or organized around a common vision of integrity for the whole sector. This is particularly evident in dealing with integrity challenges as despite there being common agreement among stakeholders on the problems, there is a lack of understanding, awareness or coordination in addressing root causes and implementing solutions at scale.

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<sup>6</sup> The C&A Foundation has been catalytic in its support and funding of organizations or initiatives such as Textile Exchange, OCA, Cotton Connect, and the Organic & Fair Cotton Secretariat.

This report seeks to address the more entrenched and complex challenges (root causes) facing agriculturally based textile supply chains rather than symptoms of the market such as GMO contamination or detection<sup>7</sup> in organic cotton or “Transaction Certificate trading.”<sup>8</sup> Rather than focus on these signals of mismanagement or corrupt practices, underlying themes or market failures have been raised to address weak points in the sector and “opportunities” to deal with mismanagement, fraud or corruption.

Considerations and challenges include:

- **Mismatch of supply and demand.** Price differentials at the seed cotton and fiber levels (particularly in India) have been diminished resulting in dis-incentivized farmers, decline in production and reduced fiber length and micronaire (quality of organic cotton) – meanwhile demand for organic cotton is increasing.
- **Lack of transparency.** Links between the farm standard and the textile chain of custody standard are not seamless and insufficient physical checks are performed as the cotton moves off the farm (Farm standard) and into the factory (Chain of Custody standard). Furthermore, certifying bodies work in commercial silos where information is not shared and limited incentives exist to encourage the highlighting of integrity challenges.
- **Price pressures in the value chain.** Practices such as pushing prices down (price squeezing) or the opposite – inflating products with no transparency of why and where (up charging) through the value chain are also problematic. The value addition is strongest at the farm level and prices need to reflect the efforts and impacts of organic agriculture as well as the legitimate costs of farmer training, certification, internal control systems and infrastructure that supports farmer groups. Yet, while it may cost more for a factory to produce a product with organic integrity, the uncertainty/lack of transparency of the “right price” for organic – and where the money is going – is undermining the market.

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<sup>7</sup> More information on the symptoms of GMO contamination or detection can be found in Textile Exchange’s “GMO Contamination in Organic Cotton – Taking Steps to Build a Resilient Future” paper from August 2016.

<sup>8</sup> While not explored thoroughly within this report, Transaction Certificate trading should be addressed by the work of Textile Exchange and GOTS Central Database System which aims to combat duplication or fraud within the certification process.

The challenges at each stage of the supply network are summarized here (with recommendations given in the section to follow):

<b>Seed producers</b>	<b>Farmers</b>	<b>Ginners</b>	<b>Spinners</b>	<b>Certifiers</b>	<b>Brands</b>
Lack of investment in organic seed production resulting in poor quality seed.	Insufficient stock of quality organic seeds leads to decline in production and reduced fiber length/micronaire.	Need to physically clean seed rollers between runs and segregate organic seed/fiber/finished products during receiving, processing, storage and shipping.	There is no published or commonly agreed methodology for testing. This undermines confidence in results.	The difficulty of traceability of cotton throughout the supply chain leads to challenges in knowing whether cotton purchased is organic.	
Possibility of GMO and non-GMO seeds mixing or contamination through mismanagement (both un/intentional) if not kept separate in storage and on the farm.	Need for organic farming training to obtain sustainable yields.	A lack of transparency due to complex supply chains makes it difficult to evidence an organic chain of custody. With Transaction Certificate trading occurring at times.	A compliance-based or zero-tolerance approach alone is insufficient to deal with complex supply chains and integrity.	Price pressures imposed from brands affect value throughout the supply network. Estimates show that at least an additional 19% to current prices is needed at a farm level and 3.3% is needed at garment level to provide a fair wage.	
	Possibility of GMO contamination from neighboring crops/pollen drift and need to implement controls to clean out harvester, harvest sacks and transport vehicles between fields.	Poor quality fiber length/micronaire from organic.	The difficulty of traceability of cotton throughout the supply chain with no centralized database providing traceability or proof of testing/certification. <sup>9</sup>	The organic cotton market does not have one institution or organization that leads the sector in setting the tone, creating rules and regulations or holding others to account when needed resulting in no incentives for improvement for poor integrity performers.	
	Insecure buyer relationships with unfair price differentials that are not representative of the risk taken leaving farmers unable to sustain organic farming costs.	Supply insecurity.	Links between farm standard and textile chain of custody are not seamless with insufficient physical checks.	A zero-tolerant approach with no space for dialogue and improvement may result in integrity challenges being hidden – undermining product integrity and the opportunity to address root causes of issues.	
		Risk of contamination through GMO processing inputs.	Commercial silos between certification bodies with payment structure incentivizing the hiding of issues rather than the exposing of them.		

<sup>9</sup> Noting that development of the Textile Exchange and GOTS Central Database System is underway to address this challenge with go-live planned for 2019.

# How to respond to a sector facing integrity challenges

Several risks have been raised in the preceding section. The hope is that the next section will help put forward the various options, as a thought-starter for discussion and action, that an organization or individual can take when faced with integrity challenges. The best course of action should be designed and adjusted based on needs, the associated risks and weighing up short- and longer-term objectives.

The field work for this report, supported by other research, highlighted that organic cotton brands are finding it increasing difficult to find the right quality of organic cotton in India. This includes obtaining the required fiber length and micronaire for the price offered. As a result, they are faced with the four options<sup>10</sup> of exit (withdraw from the region), voice (attempt to repair the sector in India through communication), loyalty (stay with the sector) or organize (improve the regional efforts). These options are explored in the following pages to address some of the motivations currently in place with the hope to further incentivize strategizing and organizing around integrity throughout the supply network. Investing in appropriate incentives as a group with shared goals is important as the sector grows with transparency and accountability.

## **Exit (withdraw from the region)**

The first option when faced with challenges is to leave the region. The basic concept is that when, for example, a brand is perceiving a decrease in quality they can exit (withdraw from the sector) and shop elsewhere. There is insufficient evidence of this in the Indian organic cotton sector but the findings above may lead some to consider leaving. The hope, with this report, is rather than leave, the root causes of issues could be tackled to increase integrity and sustainability. However, as above, it is recommended that needs, risks and short- and longer-term objectives are weighed before action is taken.

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<sup>10</sup> Albert O. Hirschman wrote a treatise in 1970 called *Exit, Voice, and Loyalty*. His work hinges on a conceptual ultimatum that confronts consumers in the face of deteriorating quality of goods: either exit, voice or loyalty. This has been widely viewed as the main options individuals have when faced with integrity challenges but this report will add another option: to strategize and organize. This final alternative is based on work at an international non-governmental organization (NGO), Integrity Action focused on building integrity within the complex supply network of overseas development assistance (international aid) where a constructive collaborative approach to corrupt practices in the supply chain of aid, improved service delivery by up to 80%. This resulted in health care centers, schools, and quality roads being finally delivered after many years of stalling due to mismanagement or corruption (Integrity Action, 2015). This final option of strategizing and organizing, has already been proposed by Textile Exchange through OCRT and OCA, and could help the organic cotton sector, as it did in parts of the aid sector, to come together to solve the complex problems currently being faced on integrity.

### **Voice (attempt to repair the sector through communication)**

Alternatively, rather than leave, others may attempt to repair or improve the sector through communication of the problems or by presenting proposals for change. We see this in the commitment of Textile Exchange, and the work of Textile Exchange's Organic Cotton Round Table, as well as other initiatives like OCA, to improve the integrity of the sector while acknowledging the current challenges. This pioneering work has fed into public proposals for change, training and educational events and the encouragement of pilot initiatives to improve the business cases for organic cotton on both the supply and demand side. These efforts should be applauded with further investment to scale up and mainstream efforts to improve integrity.

### **Loyalty (stay within the sector)**

Within organic cotton there are brands who have remained loyal to the sector, despite, it seems from interviews performed, being aware of the integrity challenges. They have chosen not to exit. Generally, loyalty is seen in markets when options to exit are not so appealing, perhaps because of senior management commitment to the market creating political or financial hurdles to moving. In this sector, the promise and hope of what organic production systems can do in terms of environmental and social benefits is a compelling case for remaining loyal with the general feeling of interviewees that organic is worth pursuing as the “best practice” of farming approaches.

What is clear is that the three options do not act independently; they can also interact together. For example, a spinner may vocalize their concerns around the quality or integrity of organic cotton to their brand customers (VOICE) – but if no action is taken, they may choose to leave the sector (EXIT). However, others faced with the same scenario may raise concerns (VOICE) but then stay within the sector because of self-interest - the move to the conventional cotton sector may be considered too competitive a market place for them to succeed (LOYALTY).

What is pertinent from the field work performed is that stakeholders are reluctant to exit and therefore are seeking alternatives to “loyalty” to remain supportive but improve the organic sector. This focus on enhancing the integrity of the current production cycle is further explored in the following pages and should be supported with additional investment to enable future success and growth. Building increasing integrity into the sector will attract new entrants, protect stakeholder reputations and improve the quality of textiles. As can be expected, members will become increasingly committed to the sector’s success when their voice is heard and feedback is acted upon – or they know that their feedback and action can reform or improve the sector. This leads to the fourth option presented – strategize and organize.

## **Strategize and organize (to improve the sector)**

Taking a more global look, the history of the anti-corruption movement shows us that in the past individuals have often felt that they only have three options (Hirschman, 1970) to tackle integrity challenges but there is an alternative - to find like-minded colleagues who want to work together to help lead the change that they believe is necessary. Working together can lead to opportunities to develop strategies and tactics that are effective in changing the present situation and enabling a pooling of skills, knowledge and resources to present an alternative to the status quo (Integrity Action, 2015).

Textile Exchange had the foresight to take a leadership role to address the opportunities and challenges facing the sector and formed the Organic Cotton Round Table (OCRT) to bring together key players. From this starting point, several initiatives and targeted interventions have been supported. One initiative is OCA, conceived to support collective action and accelerate change where it is needed. Textile Exchange mobilized the founding partners of C&A, C&A Foundation, Cotton Connect, Eileen Fisher, H&M, Inditex, Kering, and Tchibo in support of adopting best practices to accelerate the adoption of organic cotton. This included working with integrity, paying a fair price throughout the value chain (making the business case for organic) and investing in improved processes (such as providing farmer training). OCRT and OCA have sought to provide thought-leadership to the sector and specifically (in the case of OCA) to India. However, more leadership and collaboration within the organic sector is required to support initiatives that jointly seek to reduce corruption and improve integrity. This leadership should be taken by initiatives or organizations that have the respect of the entire sector, are able to fairly represent the views of all stakeholders and have the clout to achieve change as well as hold others to account. OCA and Textile Exchange have made a commitment to partner with the OCRT in the strengthening of the organic cotton sector. In line with these positive discussions, it is recommended the sector nominate a multi-stakeholder leader who has the mandate to strategize and organize particularly around integrity.

By understanding the relationships between exit and voice, and the interplay that loyalty has with these choices, the OCRT could be the leadership required to mobilize the sector in a coordinated manner in order to lead the sector in structuring a response to incentivize integrity and better address concerns and issues, leading to concrete improvements. Failure to understand these competing pressures could lead to sector decline and possible failure.

Early signs of change are promising, but to date, most of the work on integrity has been at the pilot or proof of concept stage and, for the sector to succeed, would need additional focus and investment from all stakeholders. It is hoped that the recommendations made in the following pages in this report can help investment be channeled to the most effective areas and move from a focus on VOICE to MOBILIZING and ACTION. Taking concrete actions by applying the recommendations in this report towards building integrity should bring incremental improvements in the sector but also serve as risk mitigation for stakeholders concerned about reputational problems being exposed to the general public.

# Recommendations

The recommendations at each stage of the supply network are summarized here:

Seed producers	Farmers	Ginners	Spinners	Certifiers	Brands
A sector leader should be appointed that sets the tone, creating rules and regulations and holding others to account when needed with appropriate incentives for improvement, collective action, or sanctions for poor integrity performers.					
Focused investment in organic seed production.	Training and capacity building for farmers on organic farming techniques and appropriate processes, controls and testing to prevent/detect GMO contamination from neighboring crops.	Training and capacity building around cleaning seed rollers between runs and segregation of organic seed/fiber/finished products during receiving, processing, storage and shipping. As well as the implementation of appropriate processes, controls and testing to prevent/detect GMO contamination.	A published and commonly agreed methodology for testing that is consistently applied throughout the supply network and documented in standard operating procedures. Auditors should be trained in these processes and controls.		Brands should map their full supply chains to better understand the chain of custody. This increased visibility should be used to incentivize stakeholders at all stages of the supply network to ensure integrity is maintained throughout.
Training for producers on segregation methods for both storage and on the farm.	A need to implement processes and controls to clean out harvester, harvest sacks and transport vehicles between fields.	A formal commitment to purchase organic cotton at harvest from the farmers within their training schemes.	The introduction of a threshold for compliance with organic standards that encourages honesty and integrity.		Greater security should be given by brands throughout the supply network with fair prices paid that are representative of the risk taken allowing farmers, ginners and spinners to sustain organic farming and production.
Increased transparency over the production and sale of organic/GMO seed.	The implementation of the Textile Exchange and GOTS Central Database System. Further efforts to provide traceability, volume reconciliations and proof of testing/certification from the farm level.	The implementation of the Textile Exchange and GOTS Central Database System. Further efforts to provide traceability, volume reconciliations and proof of testing/certification from the farm level.	The implementation of the Textile Exchange and GOTS Central Database System. Further efforts to provide traceability, volume reconciliations and proof of testing/certification. GOTS and Textile Exchange should work towards full and mandatory take up of the database.		The implementation of the Textile Exchange and GOTS Central Database System. Further efforts to provide traceability, volume reconciliations and proof of testing/certification from the farm level.

	Pre-financing of seeds/crops at an affordable interest rate to allow farmers to invest in organic farming with fair pricing of organic seed. Insurers or the Indian government should underwrite crops to provide a financial buffer for organic farmers.	Farmer producer groups should send a representative to the gin to ensure appropriate segregation and cleaning of the gin before/during processing of organic cotton.	Robust links introduced between farm standard and textile chain of custody with sufficient and regular physical checks back to paperwork with mandatory co-operation between certification bodies.	The introduction of a threshold for compliance with organic standards that encourages honesty and integrity from suppliers. Brands aware of blending or falsification practice should put remediation plans with integrity incentives in place with suppliers or withdraw from the sector until organic traceability can be assured.
	Paying an appropriate price (via bank transfer) for organic cotton in support of living wages for farmers.		If TC trading is found, suppliers should be asked to give an account for their actions and if fraudulent practices are found, suppliers should be blacklisted and not used for organic cotton.	There is a need for advocacy and education for consumers to raise awareness of the actual price of organic cotton and the need to increase prices to ensure a fair return to all stakeholders throughout the supply chain.
			The sector leader should implement a new incentive structure for certifying bodies where they are rewarded for identifying irregularities and making recommendations for improvement. Changing the payment and performance structures would improve incentives for integrity and reduce the opportunity for fraud. Launching integrity or whistleblower hotlines would also help to hold the certifying bodies accountable.	

# Conclusion

This report summarizes the findings from a series of interviews in 2017 held on the topic of integrity within the organic cotton sector, with a focus on cotton grown in India.<sup>11</sup> The evidence obtained highlights many stakeholders (interviewees) are aware of the challenges and associated risks. Some are trying to address these problems through pilots or small-scale action which is a helpful starting point to prove concepts and test ideas. Many of the solutions could easily be applied to any commodity or supply chain where price and other pressures have led to compromises in integrity. However, the report emphasizes that more investment aimed to combat the root of issues, is needed, including discussion (VOICE) around change, and combined training and educational events and the scaling up of pilot initiatives to improve the business case (MOBILIZE and ACTION) to transform the organic cotton sector with integrity and to ensure consistent delivery of organic cotton to consumers.

This report highlights an urgent need for collective action to catalyze systematic sector change in the following areas:

1. **Redefining the business case with positive incentives:** Support farmers with training and awareness raising on organic farming techniques, risks of contamination and good practice methods alongside increasing price points to allow for fair remuneration for risk and effort.
2. **Bring greater transparency to the supply network:** There is a need to look at the business case not only at the farm level but ensure fair prices are paid throughout the supply network which should include differentials to incentivize the take up of organic textiles with integrity.
3. **Addressing Traceability:** The Central Database System (CDS), currently in development, is a technical solution for the chain of custody of GOTS and Textile Exchange standards. It integrates scope certification, transaction certification and volume reconciliation across all supply chain stakeholders and certification bodies, preventing possible duplication through disparate certification systems and traceability for a GOTS and Textile Exchange certified material along the value chain. The current standards revision for backward traceability to farm that is to be incorporated into the CDS will further enable connectivity between national organic farm standards, GOTS and OCS and provide a baseline for

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<sup>11</sup> India was selected as the focus for this pilot study as it is the top organic growing country in the world with 67% of market share. (Textile Exchange, 2016)

reconciliation. Additionally, Textile Exchange's developmental work in a greater Shared Measurement System (SMS) – an integrated technical solution which uses CDS as its traceability backbone for certified and un-certified data from farm to retail – will connect brand uptake and farm impacts as well as monitoring and evaluation and risk management of organic cotton in the supply chain.

4. **Organization and mobilization of the sector:** In line with the positive discussions by OCA and Textile Exchange who have made a commitment to partner with the OCRT in the strengthening of the organic cotton sector, there is a need to mobilize under common and coordinated leadership, nominated by the sector, with a focus on action to improve integrity within the organic sector. The leadership should seek to set the tone (rules and culture) of the industry, provide and support regulation and, if needed, provide a mechanism for sanctions for stepping outside those predefined frameworks.<sup>12</sup> This sector leadership should be taken by an initiative or organization that has the respect of the entire sector, is able to fairly represent the views of all stakeholders and has the clout to achieve change as well as hold others to account.

The main concern arising from this work is that the organic cotton sector is not always honest around the integrity of textiles made with organic cotton from India. Despite various controls built into processes, it seems from the high percentage of failures in testing, that integrity challenges exist in India within the production of organic textiles. This is due to a mismatch of supply and demand, lack of transparency and excessive price pressure in the supply chain. Combined, these factors have resulted in a financial pressure at farm, gin and spin level that has led to a widespread rationalization of cutting corners to reduce costs, and opportunities to by-pass the compliance checks that allows compromises to integrity.<sup>13</sup>

To increase sustainability of the sector, there is a need to address the root causes of integrity challenges, improve honesty in marketing to end consumers and address the underlying culture where turning a blind eye is accepted. This culture accepts the reality of inconsistent practices and raises questions on the benefits of remaining within the organic cotton sector when the incentives for integrity are not in place.

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<sup>12</sup> The current work by Connected Communities, a research project supported by Textile Exchange and Patagonia focused on the need for a more connected organic cotton sector has significantly progressed the dialogue around leadership. Recommendations to develop a sector vision, goals and shared leadership model are currently being addressed and worked through with OCA, Textile Exchange and the OCRT as part of this initiative.

<sup>13</sup> As previously noted, the Cressey fraud triangle states that corrupt practices tend to happen at the intersection of financial pressure, rationalization and opportunity (Cressey, 1973).

Rather than recommend a full-scale exit from this region, dialogue and collective action is encouraged around specific themes that will systematically improve integrity. Over time, it is hoped that adjusting incentives will motivate stakeholders to act with greater integrity.

The recommendations of this report are:

1. The farmer's business case
  - a. Providing more clarity over the business case for organic at the farm level.
  - b. Increasing supply of organic seeds and knowledge of organic farming cultivation.
2. Increasing security of the supply chain
  - a. Improving traceability including the continued roll-out of the Textile Exchange and GOTS Central Database System.
  - b. Improving incentives for integrity at all levels of the supply network.
  - c. Releasing more finance based on a fair reward for effort into the organic cotton sector.
3. Setting a vision for and organizing around integrity throughout the sector
  - a. Building on the discussions already performed by OCA, OCRT and Textile Exchange to embed leadership at a sector level.
  - b. Being pragmatic about contamination but continuously striving for improvement.
  - c. Introduce consistency over GMO seed testing.
  - d. Consolidate certification processes and introducing linkages between certification and traceability.
  - e. Being honest about the levels of failure in GMO seed testing.

## Be part of the solution

If you would like to:

- Join the conversation and work with us in addressing these core issues, or
- Join our next webinar focused on transformation integrity scheduled for Thursday Oct. 4<sup>th</sup>, 2018 at 9-10am CT/3-4pm BST, or
- Help in building a specific integrity action plan for your organization,

Please contact Liesl Truscott: [Liesl@TextileExchange.org](mailto:Liesl@TextileExchange.org).

# Appendices

## Appendix 1: More on the author

After having worked for numerous years in the corporate sector, Joy Saunders moved into the not-for-profit world where she was the Chief Executive Officer of Integrity Action (2011-2016), a United Kingdom (UK) based NGO that seeks to build integrity in some of the world's most challenging settings. She has written and presented in various forums on the importance of closing the feedback loop as well as metrics and measuring impact in the anti-corruption field and sat as the civil society representative for the Organization of Economic Co-operation and Development (OECD) Anti-Corruption Task Team.

## Appendix 2: Appreciation

The author would like to thank all individuals interviewed for their kind assistance during this review. In particular, the Textile Exchange team spent considerable time providing documents and explanations and assisted the evaluator in exploring many lines of enquiry. This assistance and availability throughout the course of this consultancy is much appreciated.

The evaluation took the form of interviews with over thirty-five individuals from different elements of the supply network for organic cotton in India<sup>14</sup> to ascertain their views, opinions and seek evidence on the areas within scope of this review. To protect the identity of interviewees, confidentiality was promised to encourage a safe space where individuals could share views freely without concern for repercussions. The consultant has taken time to follow up on all points raised, trying, where possible, to obtain evidence or corroborate statements. Numbers and detailed examples are correct at the time of the fieldwork in spring 2017. These efforts have been made to increase the integrity of the reporting. However, it should be clearly noted that due to the discursive nature of this evaluation, some of the points raised in the report may be based on perceptions expressed during interviews without concrete evidence to support them. The report should be read with this in mind. To combat bias and provide a constructive report, the evaluator has sought to draw out larger themes and recommendations within this report rather than note all matters raised within interviews. It is hoped this summary report will be helpful in the development and on-going growth of the organic sector.

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<sup>14</sup> India was selected as the focus for this pilot study due to being the top organic growing country in the world with 67% of market share. (Textile Exchange, 2016)

### **Appendix 3: Conflict of interest declaration**

Textile Exchange is a key player in the organic cotton sector:

- Providing thought-leadership through facilitating the Organic Cotton Roundtable, and sharing best practices regarding farming, materials and processing.
- Initiating change and action by co-founding Cotton Connect and the Organic Cotton Accelerator as well as encouraging and supporting other interventions like Chetna Coalition;
- One division of Textile Exchange does set compliance standards through the Organic Content Standard (OCS) and works in collaboration with the Global Organic Textile Standard (GOTS). These standards are certified by an independent third party.

The consultant and author, Joy Saunders, was hired by Textile Exchange to perform a review of the organic cotton sector. As such there could be seen to be a conflict of interest where any action or recommendation made could affect Textile Exchange's reputation or standing within the sector (self-interest threat and undue influence threat). The funding of this work highlights a risk that judgments or actions within the evaluation could be unduly influenced by management to protect Textile Exchange's reputation. To combat this risk, an independent expert was brought in to perform the review. As a consultant, rather than an employee, the writer of this report felt that she maintained sufficient independence of reporting lines to provide an objective report based on the evidence reviewed. In addition, Textile Exchange senior management gave the consultant free reign to report findings with no threat to repercussions. As such it was felt that the risk was brought to an acceptably low level to proceed with the review.

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