

IKEA: Promoting sustainable cotton farming in India and Pakistan



Initiative Description

In January 2013, the Swedish home-furnishing retailer, IKEA, joined the Business Call to Action with its commitment to procure and use by the end of 2015 only cotton coming from more sustainable sources.

IKEA's goal

- All cotton used in IKEA products will come from more sustainable sources, including the Better Cotton initiative (BCI), by 2015



Business Model

Cotton is a critical raw material for IKEA. In 2012, the company used 150,000 tonnes of cotton in its products, making it the second most important raw material after wood. Many products are dependent on cotton as the only currently viable raw material for providing certain comfort qualities, such as softness and breathability. As a predominantly smallholder-grown crop, cotton growing is a renewable resource that has the potential to provide a stable income for poor rural communities. However, the company is aware that cotton production can be associated with major concerns for people and the environment.

Most of the cotton used in IKEA products comes from China, India and Pakistan. Production in those countries is both a major contributor to the local economy and employment and a source of environmental, social and economic problems.

By making sustainability affordable for everyone, we hope we can lead to the transformational change of markets and commodities, such as cotton.

Steve Howard,
Chief Sustainability Officer, IKEA Group

Inefficient irrigation practices can be a major contributor to water losses, with conventional cotton cultivation methods requiring between 7,000 and 29,000 litres of water to produce 1 kilogram of cotton lint. Compounded by drought and high pollution potentials of conventional cotton production, broader effects include severe environmental and social problems for both farmers and the land. Intensive fertilizer and pesticide use can not only pollute the land, but also pose significant health risks for farmers and workers. In India, cotton is grown on only 5 per cent of the country's arable land but accounts for 54 per cent of all agricultural pesticides used yearly.

By focusing on the development of more sustainable cotton cultivation and production, IKEA contributes to reducing the overall environmental impact while maintaining cotton yields at a lower cost, thus increasing the farmers' earnings and helping to secure the supply of a critical raw material for the IKEA business. The initiative also aims at an improved quality of life for farmers through encouraging the use of less chemical pesticides, fertilizers and water.

The Better Cotton Initiative (BCI) is a global, multi-stakeholder, collaborative initiative, of which IKEA was a founding partner, to make cotton production better for the environment it grows in, better for the people who produce it and better for the sector's future. Since 2005, IKEA has collaborated with the World Wildlife Fund (WWF) and the Better Cotton Initiative (BCI), working with cotton farmers in India and Pakistan to use smaller quantities of chemicals and water and to improve their livelihoods by helping them produce cotton according to the BCI criteria. By the end of 2015, IKEA aims to have 100 per cent cotton from more sustainable sources in its products. By working in collaboration with BCI and WWF, IKEA is also part of a movement leading to the transformative change of the cotton sector.



How it Works

BCI's leading participants are international companies and NGOs, as well as an increasing number of ginners and textile producers. BCI aims to develop a market for a new mainstream commodity, "Better Cotton", at par with conventional cotton market prices, with no fixed price premium implications.¹

Producing better cotton involves training farmers in and encouraging the use of various techniques. The system works towards providing uniquely identifiable better cotton bales. To do this, it is implementing a verification system to ensure traceability of the seed cotton from the farm to the ginner and onwards in the supply chain.²

To facilitate the sharing of best practices, the BCI develops tools to enable its members, implementing partners and others to share knowledge across the supply chain and across countries.⁴

IKEA's Business Model

The sustainability of IKEA's initiative is based on the business case throughout the supply chain, starting from transferring resource-efficient farming solutions to cotton farmers and building capacity of BCI producer organizations and enhanced production of better cotton to supply chain improvement through involving local and international actors.

Aiming at the creation of a transformative change in the cotton supply chain, farmers supported by the IKEA initiative that comply with BCI guidelines are free to sell their cotton to any buyers. As the result, more sustainable cotton is available on the global market, thereby ensuring a more stable supply and limited price volatility.

Innovations

that improve lives

1. <http://bettercotton.org/>

2. Ibid.

3. Ibid.

4. IDH Sustainable Trade (2012) The IKEA experience in moving towards a Better Cotton supply chain 2012. Available at <http://www.idhsustainabletrade.com/katoen-learning>

Results Achieved

Since the inception of the IKEA initiative in 2005 beginning with training 450 farmers, the project today involves over 100,000 farmers in China, India, Pakistan and Turkey that adopt better crop management, including reducing the use of water, fertilizer and chemicals, while increasing profit margins. The projects have so far shown that it is possible to produce cotton at a lower cost by reducing the agricultural inputs, thus improving the gross margin for the farmers. Implementing better crop management practices can reduce farmers' use of water and expensive pesticides by 50 per cent and cut their usage of chemical fertilizers by 30 per cent.

Business Impact

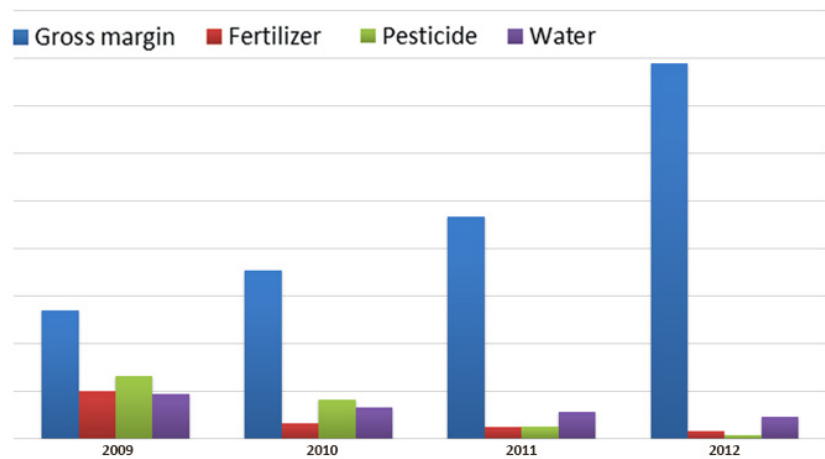
If cotton does not remain a financially viable crop for farmers due to low yields as a result of soil depletion, dropping water tables and a lack of technical know-how, the farmers will switch to other cash crops. This could result in market volatility and swings in supply. Hence, switching from conventional methods to better cotton ensures that cultivation stays profitable in the long term, thereby ensuring supplies for IKEA and all players along the chain. Setting up the BCI process also required getting understanding the entire cotton supply chain, which in turn led to better risk management for the company.

Sustainability is an increasingly important issue for retailers and their consumers. Consumers are interested in ecologically sustainable and socially responsible products, but will not necessarily pay a premium for them. Creating a commodity like "Better Cotton" helps IKEA to bring a competitively priced product to market that satisfies the consumers' and its own needs for a responsibly created product that leaves a smaller ecological footprint.⁵

5. IDH Sustainable Trade (2012). The IKEA experience in moving towards a Better Cotton supply chain.

6. Based on the data from Fact Sheet for IKEA-WWF India and Pakistan Cotton for BMP farmers compared to conventional farmers

Figure 2: In India and Pakistan, farmers who lower inputs, earn higher gross margins⁶



Development Impact

An increase in more sustainable farming practices leads to significant improvements in mainstream cotton production and to less environmental and social harm for cotton farmers. Reducing the use of water, expensive pesticides and fertilizers not only reduces the expenditures and frees up household income, but also leads to health benefits for farmers and their families

Under the BCI initiative, production costs have fallen because of reduced input costs. In some projects, yields have also increased as a result of participating in the BCI. Farmers can save an average of 50 per cent of their outlay on these inputs, enabling them to earn higher gross margins. Farmers who have adopted the new farming practices have found their profitability rising over the years.





Key Success Factors

Partnerships for Capacity

The IKEA-supported cotton projects in India and Pakistan are implemented together with field partners, such as WWF, Action for Food Production (AFPRO) and the Development Support Centre (DSC).

In India, for example, these NGOs work directly with farmers in some of the country's most distressed cotton growing regions, where yields are low and many farmers are poor and indebted. Their focus has been on reducing farmers' production costs by minimizing the improper use of fertilizers and pesticides, and by replacing artificial chemicals with natural ones where possible, demonstrating soil and water conservation techniques and helping farmers mobilize into groups to buy inputs and sell their yield.⁷

WWF, through its country offices in India and Pakistan, designs the projects in terms of scope, approach, methodology and targets. The organizations are also responsible for implementation of project at field level. WWF provides capacity building support and training for the cotton farmers, shares experiences and offers technical assistance to other organizations.

7. Ibid.

8. IDH Sustainable Trade (2012) The IKEA experience in moving towards a Better Cotton supply chain 2012. Available at <http://www.idhsustainabletrade.com/katoen-learning>

Creating Linkages

Improving capacity of the farmers is key to the better cotton process. However, the process is incomplete if the better produced cotton does not enter the supply chain or if it cannot be traced through the various stages of processing and manufacture into the finished product that IKEA sells to its customers. That means it is necessary to create a series of linkages between the actors in the chain – from farmers to ginners and from ginners to suppliers.⁸

Achieving Scale

Apart from financing, IKEA is also facilitating the uptake of more sustainable cotton by its supply chain partners. The approach includes creating the capability of farmers to cultivate cotton in a more sustainable way and creating demand for better cotton by setting a goal of 100 per cent cotton from more sustainable sources by end of 2015. Farmers that deliver cotton to IKEA suppliers must incorporate not only the environmental criteria set by IKEA and WWF, but also comply with the labour rights goal of "decent work" defined by BCI. This approach contributes to a more sustainable cotton production and is a strong step towards of a greater volume of Better Cotton.

Next Steps and Spin Off Effects

Ensuring that its cotton is produced in a socially and environmentally responsible way requires IKEA to reach far upstream into its supply chain, while connecting it to the demand side. Ultimately, IKEA expects for projects in India and Pakistan to become self-sustaining, where the company is no longer actively involved in building capacity or in forming farmer-to-cotton ginner linkages.

IKEA plans on continuing working closely with its field partners to build volumes to a larger scale and connecting supply with demand through an identifiable bale of Better Cotton. The company will continue facilitating the exchange of best practices and knowledge to encourage the scaling up of collective action until Better Cotton Initiative operations in the region develop and mature, leading to a complete transformation of the cotton sector.



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