

The Nestlé Rural Development Framework



Findings from Studies in 11 Countries and Implications for our Future Work on Rural Development

Introduction

Rural Development is one of the areas of focus for Nestlé in its ambition to create shared value. The reason is simple: Nestlé has a large presence in rural areas. 400 of our factories, employing 205,000 people are located in rural areas and make significant contributions to rural communities. We source from 4.1 Million farmers, including directly from almost 700,000 across over 50 countries. Most of these are family farmers. It is important therefore for Nestlé that rural areas are attractive places to live, work and invest in: the overall wellbeing of farmers and their families, rural communities, small entrepreneurs and suppliers are intrinsic to the long-term success of our business.

Over the last few years we have developed The Rural Development Framework (RDF) to guide our work with farmers through our Farmer Connect programmes and to inform our work on responsible sourcing through our trade partners. The aim of the RDF is to align business and social needs in order to ensure long term supply of raw materials and simultaneously deliver upon our ambition to create shared value. The RDF provides a methodology that allows us to assess and prioritise any gaps in business practices and social needs that are present in our supply chains. Following on from that, we can define field activities to address those gaps and needs.

An RDF baseline has been established in 11 markets since 2013. This has provided us with a consistent approach across Nestlé Markets and an ability to measure & communicate progress and report credibly to partners and stakeholders. In designing the RDF and through the application in the first 11 countries we have engaged with a series of organisations representing civil society, governments and companies. There has been considerable interest in the RDF from outside stakeholders and trade partners, which has led us to produce this report.

In September 2015 the United Nations Global Goals were agreed by the world's governments. There is a significant overlap in Nestlé's work on rural development and the Global Goals – an initial assessment indicates that our activities will contribute to 11 of the Global Goals and over 30 of the indicators.

This is a good moment therefore to take stock of where we are, what we have learned to date, and to set a course for the next few years; not only in how we continue to establish baselines, but importantly how we operationalise the findings into the Nescafé and Cocoa Plans, our broader Farmer Connect programmes and work with trade partners.

Our findings are not unique – they are similar to those of other surveys and government statistics. The scale of the challenge in some countries and some topics is however significant. Whilst we have been able to identify appropriate actions for Nestlé to undertake, collective effort is needed to solve some of the challenges. We are open to sharing our own insights and welcome engagement not only with the communities in which we operate, but with governments and other stakeholders.



José Lopez
EVP, Operations
Nestlé
September 2015

Summary

*“Nestlé has identified areas of focus where shareholders’ and society’s interests intersect, and where value creation can be jointly optimised.... **Rural development:** because the overall wellbeing of farmers, rural communities, small entrepreneurs and suppliers are intrinsic to the long-term success of our business. We aim to demonstrate and measure systematic and continuous improvement in ... these areas”. The CSV pyramid description January 2011*

In order to define and deliver upon this ambition, Nestlé has developed a Rural Development Framework (RDF). The RDF is first and foremost a diagnostic tool which allows us to develop an understanding of the status of farmers, farm workers and communities from the communities we are sourcing from. This then allows us to identify interventions that will align business and social needs in order to ensure long term supply of raw materials and simultaneously deliver upon our ambition to create shared value.

During the last two and half years Nestlé has applied the RDF across 11 countries. This report describes the RDF – its objectives, the various process steps, and the findings from baseline data gathered in these first 11 countries. The key findings across the eight core areas that we gathered data on are:

Farm Economics	Typical farm size is 1-2 ha. Target crop typically provides 40% of income, and is often of secondary importance.
Farmer Knowledge & Skills	Farmer training delivers productivity, quality & income benefits.
Farm Workers	Data is difficult to gather. Workers are often migrants and are in an insecure situation. They rarely receive training.
Women’s Empowerment	The status across countries is variable. They have low access to training.
Land & Land Tenure	10-30% of farmers have insecure land title. More knowledge is needed on minimum economic land size.
Nutrition	Typically in a country 30-70% of farmers are short of food for 3 months or more. There is poor dietary diversity.
Water & Sanitation	10-100% of farmers take drinking water from rivers/streams. Poor hygiene is common.
Natural Resource Stewardship	Key farmer concerns are: soil quality & erosion; polluted streams; and the need for help in adapting to changing weather patterns

These findings need to be seen within the context of the overall development of the countries themselves, which are typically lesser developed or low-middle income countries. In designing the interventions to respond to the findings it is important to recognize that there are many actors, of which Nestlé is just one. Whilst Nestlé can define individual interventions for its supply chains, many of the problems and challenges need collaborative action and partnerships. There is also a limit to the roles that a company or companies can play, and so actions by Governments are still crucial on topics such as land. The RDF has also highlighted the need for a discourse amongst the development community on the reliance upon certification to deliver development outcomes.

The findings have now shaped a roadmap for the next few years for Nestlé’s work on rural development, both in terms of improving the RDF process itself and in designing national and global interventions. At the national level the individual country reports will help define the interventions. Complementing this there will be a global focus upon improving farm economics and the nutrition security of communities.

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Glossary of Terms

CSV: Creating Shared Value – the idea of simultaneously creating value for shareholders and society

Farmer Connect: Nestlé's direct sourcing programme that provides technical support for farmers through Nestlé's own network of agronomists

Nescafé Plan: The *Nescafé Plan* is a global initiative that brings together our commitments and activities that support the responsible farming, production and supply, and consumption of coffee.

Cocoa Plan: The *Nestlé Cocoa Plan* aims to improve the lives of cocoa farming communities and the quality of the cocoa we purchase.

Global Data Sources

The global context data was taken from a variety of publications by:

The Food and Agriculture Organisation (FAO)

World Bank, United Nations Development Programme (UNDP)

World Health Organisation (WHO)

United Nations Children's Programme (UNICEF)

United Nations Cultural Organisation (UNESCO)

International Trade Union Confederation (ITUC)

Millennium Challenge Corporation

World Economic Forum

The Economist Intelligence Unit

The Global Alliance for Improved Nutrition (GAIN)

The World Resources Institute

Part I

Background & Objectives

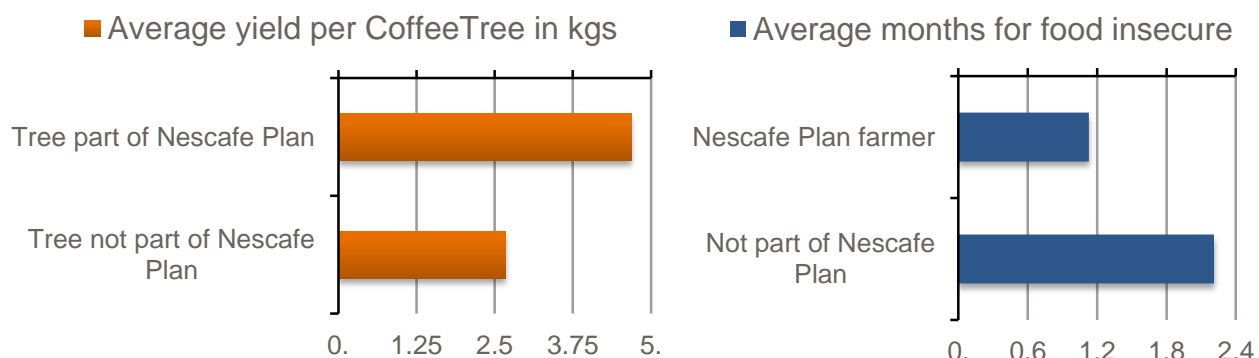
Nestlé has worked closely with farmers since its creation almost 150 years ago, and recognizes the important role that farmers, both large and small, play in supplying it with high quality raw materials. Nestlé today has a team of over 1000 agronomists and 10,000 agricultural extension staff worldwide who work to develop the supply of raw materials and support the farmers that supply us¹.

Through programmes such as the Nescafé Plan, the Nestlé Cocoa Plan, the Nespresso AAA Program and our other Farmer Connect (direct procurement) work with dairy farmers and other crops, our focus has historically principally been upon supply chain interventions – the provision of better inputs (eg higher yielding plantlets), farmer training on agronomy, animal husbandry and business practices. Farmers who have received this support have improved yields and incomes, and improved livelihood outcomes compared to those who have not (see box).

Observed impacts of Nescafé Plan, based upon baseline data gathered during 2013/2014 See Results section on page 14 for further explanation

Outcomes from Nescafé Plan, Kenya

Source RDF report, Solidaridad



Outcomes from Nescafé Plan, Mexico

Source RDF report, Technoserve

- Farmer Net Income: 95% higher than control group
- Farmer Knowledge & Skills: 100% higher productivity and higher adoption levels across most key skills areas
- Nutrition: 35% fewer skipped meals than control group

Nestlé has long understood the need to support farmers beyond supply chain interventions and to address “context” factors such as empowering women or investing in clean water and sanitation. A

¹ See www.nestle.com for further information

variety of existing activities address such issues as part of voluntary certification standards. A similar approach is followed by our trade partners, many of whom also look to Nestlé for guidance on where to focus their support programmes.

In order to better guide the actions of multiple initiatives supporting farmers Nestlé developed the Rural Development Framework (RDF). This sets out to:

- Deliver a consistent global approach and ambition across Nestlé whereby we identify and address locally relevant issues whilst also contributing to global development priorities
- Align the business with these societal priorities, by setting priorities to create shared value at a market level based upon gaps identified from gathered information, and by designing our field activities to deliver upon these
- Provide a credible process with partners, that can measure and communicate progress and activities and results

The RDF was developed with the help of Solidaridad, Rainforest Alliance, the Fair Labor Association and the Danish Institute for Human Rights and has been socialized with a variety of other specialist stakeholders who have also provided inputs to its development. It blends a development and human rights approach to the challenges faced in rural areas. It focuses upon three separate but connected groups: farmers, workers and communities. The goals that we seek for these different groups are that:

Farmers are business orientated and farming by choice

Rural based employment is attractive for **workers**

Communities are progressing economically, environmentally & socially

Ultimately, we would like to see rural areas that are attractive places to live, work and invest in.

The RDF is thus a diagnostic tool to be used across key sourcing regions to assess the status of farmers, farm workers and communities who provide agricultural raw materials to Nestlé businesses from smallholder systems. The RDF has been designed specifically for small-holder farming, both through our Farmer Connect operations as well as through our procurement through trade partners. We are targeting countries that are important sourcing origins for Nestlé and where there is a high social need (as defined by low Human Development Index, high Global Hunger Index and high Inequality²).

We recognize that it is not the responsibility of business to solve social needs. Nestlé is a business, and is only one actor amongst many within a country. Our sphere of influence and responsibility is different to that of governments, communities themselves and other actors. Governments have a duty to deliver services such as clean drinking water and the role of companies is limited to a responsibility to not compromise these services. Nevertheless, it is clear that in some countries and situations companies may need to cross these boundaries, and in doing so it is possible to create shared value for shareholders and society. This is the underpinning for the concept of Creating Shared Value.

We have identified eight core areas which we believe are important elements of successful rural development that Nestlé should focus upon. The eight core areas are composed of two that directly address farmers, one on workers and a further five that address community level topics (accepting that farmers and workers are themselves part of a community). We do not pretend that these are the only

² UNDP, IFRPI & Gini Index

aspects that are important to development, but they are the ones where we believe that Nestlé can bring some expertise (directly or through partners) to deliver improved outcomes to rural development.

To provide important context information, the graphs in this section illustrate the scale of the challenges at national levels. The data are taken from global publicly available sources.

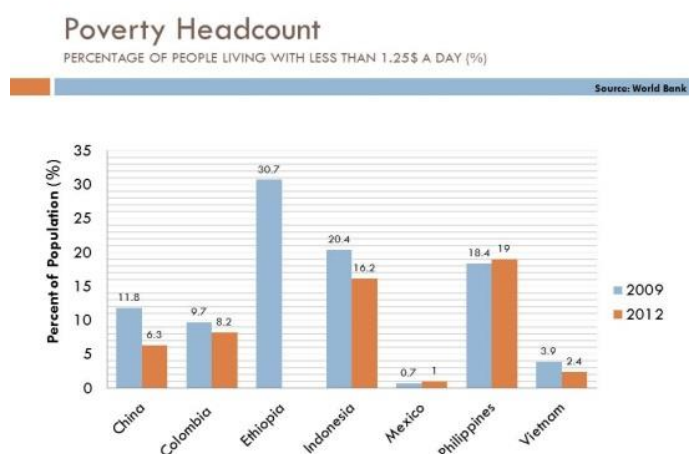
They eight areas are:

1. Farm Economics

Ultimately by improving farm household economics we expect to make farming attractive. Farm economics is dependent upon a wide variety of factors: productivity; quality; costs of production and price premiums (for achieving quality or sustainability standards)*. We also recognize the importance of the “farm system” – that is that the target crop may not be the only crop grown and commercialized.

*Price is a significant element of farm economics, though not one over which a company can have a significant impact. Supply – demand dynamics and the role of commodity markets largely determine price movements. We have purposely therefore excluded pricing as a lever upon which we will concentrate.

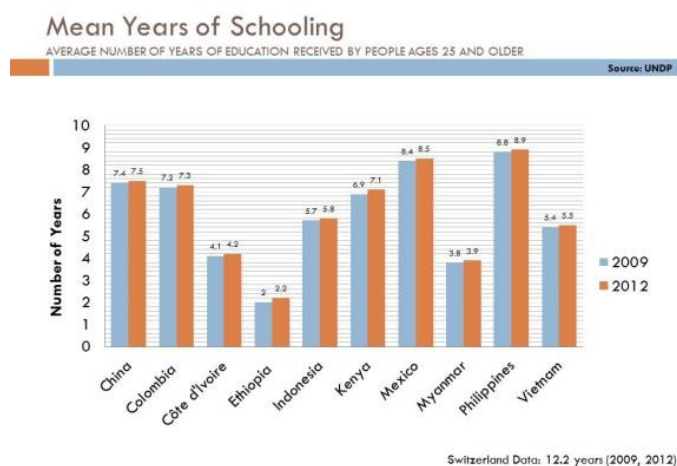
Data for Poverty Headcount graph from the World Bank



2. Farmer Knowledge & Skills

Farmer knowledge and skills are a key area to focus upon to drive productivity, trading relations, cost control and management of the farm as a small business. The provision of training is not the objective, rather the uptake of the learning from training and application of best practices.

Data for the Mean Years of Schooling graph from UNDP



3. Farm Workers

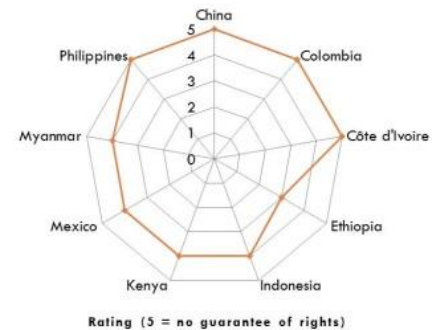
We believe that it is not only important to focus upon farmers, but also the farm workers that provide the permanent and casual labour, primarily at harvesting season, though often throughout the year in larger farms. Often composed of migrant labour and often “invisible” through traditional support programmes, the attractiveness of farming requires also that farm work is attractive.

Data for Workers Rights from ITUC

Worker's Rights

ITUC GLOBAL RIGHTS INDEX (2012)

Source: International Trade Union Confederation (ITUC)



Switzerland Data: 2

4. Women's Empowerment

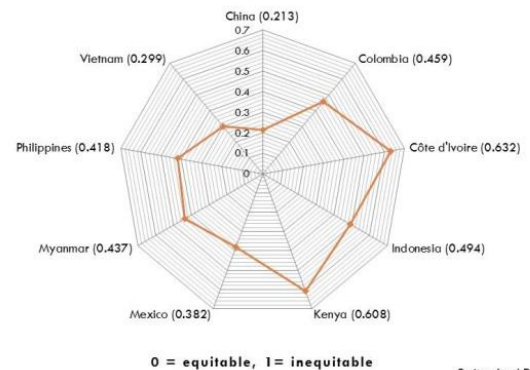
Gender equality is at the heart of the human rights. In addition to understanding the proportion of male and female farmers that supply us, there are four areas that we believe are important to gain insights on to guide our work: the role of women in society and the family; access to services and assets (such as training, finance, land); the tasks undertaken by women on the farm; income levels and sources of income.

Data for Gender Empowerment from UNDP

Gender Inequality

RATING (2012)

Source: UNDP



Switzerland Data: 0.030

5. Water & Sanitation

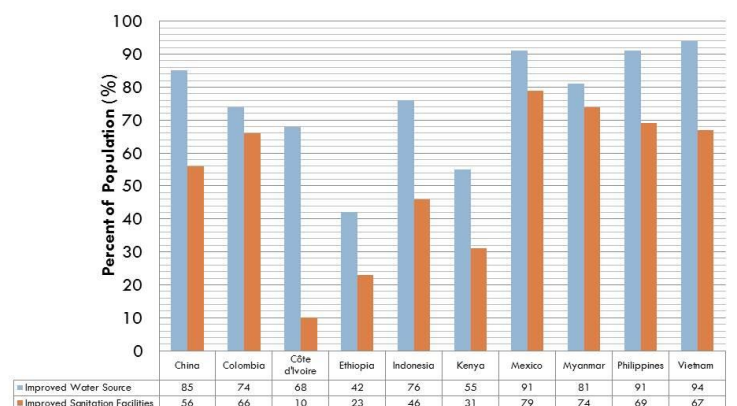
Water is one of the priority areas of focus under our approach to business: Creating Shared Value. Nestlé supports the human right to water and has signed the World Business Council for Sustainable Development (WBCSD) WASH pledge. We are committed to assist the provision of clean water and improved sanitation to priority communities where Nestlé is sourcing agricultural commodities.

Data for Improved Water Source and Sanitation Facilities from WHO/UNICEF (World Bank)

Improved Water Source and Sanitation Facilities

PERCENT OF POPULATION USING IMPROVED DRINKING WATER SOURCE AND SANITATION FACILITIES (%) (2012)

Source: WHO/UNICEF (World Bank)



Switzerland Data: 100%

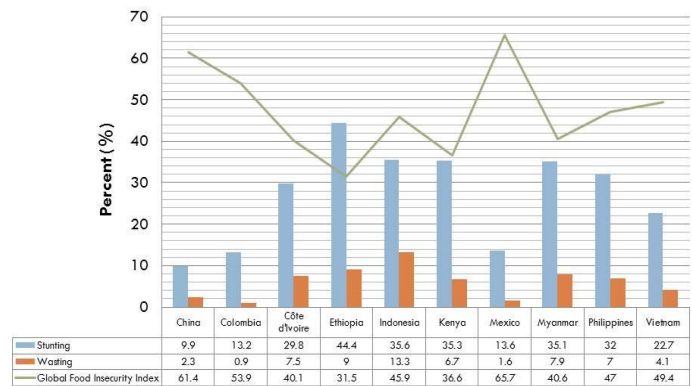
6. Nutrition

Nutrition is the other key priority area under our Creating Shared Value approach. We have focused our efforts to gather information on nutrition security through two internationally recognized questionnaires – Mean Annual Household Food Provision and Dietary Diversity Score³. The former provides an overview of the months of the year that farmers are short of food. The latter is a quick measure of how balanced the diet is.

Data for Stunting & Wasting/Global Food Insecurity Index from UNICEF & Economist Intelligence Unit

Stunting & Wasting/Global Food Insecurity Index (2008-2012)

Source: UNICEF, The Economist, Intelligence Unit



STUNTING/WASTING: THE LOWER THE BETTER
GLOBAL FOOD INSECURITY INDEX: THE HIGHER THE BETTER

7. Land and Land Tenure

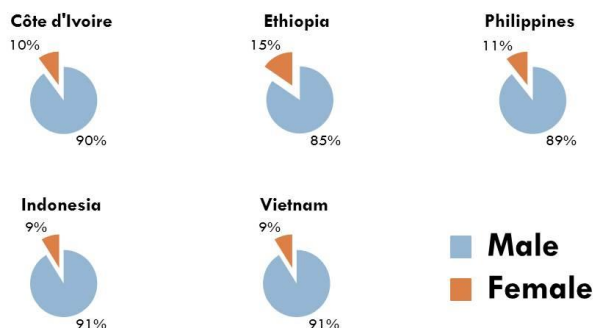
A high proportion of small holder farmers do not have secure title to the land that they farm. This is often a constraint upon investment in the farm as well as the ability to raise finance. A second problem is the lack of equality of land tenure between men and women.

Data on Women Land Holders from FAO. Data on Property Rights Index from World Economic Forum

Land Holders, Women - 2009

PERCENTAGE OF WOMEN THAT OWN LAND (%)

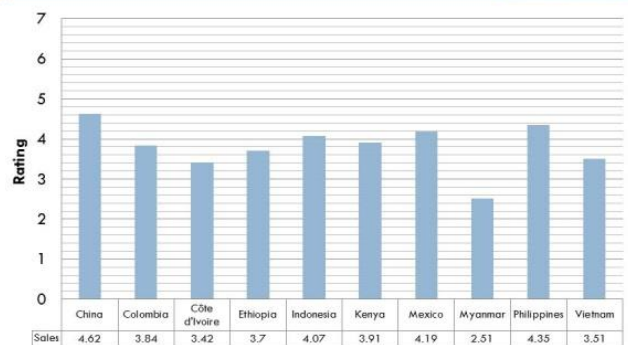
Source: FAO



Property Rights Index

(2012)

Source: World Economic Forum



Rating (7 = best)

8. Natural Resource Stewardship

Two levels of resource stewardship are important - the environmental performance of individual farmers, and the collective community or landscape level actions to preserve individual human rights. For management of natural resources to be effective, actions are frequently required at both

³ Questionnaires developed by USAID

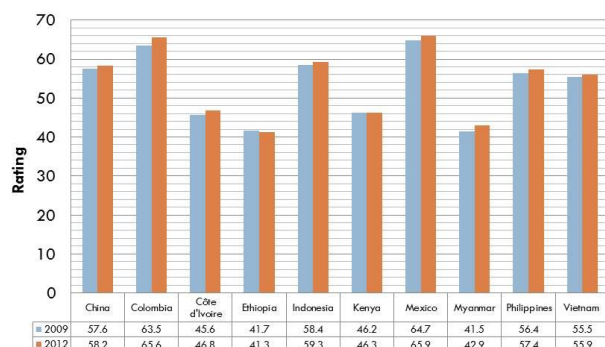
levels. We are focusing upon four areas: water (water tables and surface water quality), deforestation, soil management (erosion, contamination, health) and biodiversity (IUCN red list species, biodiversity connectivity in fragmented landscapes).

Data on Climate Change from GAIN. Data on Fertilizer Consumption from FAO/World Bank

Climate Change – ND Gain Index

Rating

Source: GAIN



100 = best, 0 = worst

Summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience

Fertilizer Consumption

KG/HA OF ARABLE LAND

Source: FAO/World Bank



Switzerland: 209.2 kg/ha (2012)

We accept that in some countries some of these eight core areas may not be relevant and some additional areas may be more important. The RDF process allows for adjustments to this list, as described below.

The Broader Context

Comparing the eight focal topics and the proposed work on rural development against the Global Goals (formerly the Sustainable Development Goals) indicates that as Nestlé implements findings from the RDF work it will contribute to 11 of the Global Goals and 32 of the individual indicators.

Contribution to UN Global Goals*

Farm Economics	End Poverty, Sustainable Agriculture
Farmer Knowledge & Skills	Life Long Learning, Decent Work
Farm Workers	Decent Work, Inclusive Societies
Gender	Gender Equality & Empower Women
Land & Land Tenure	End Poverty
Nutrition	End Hunger
Water & Sanitation	Availability of Water & Sanitation
Natural Resource Stewardship	Climate Change, Natural Resource Use

* Selection only: Full list of Global Goals 1,2,3,4,5,6,8,12,13,15,16. (32 indicators)

Diagnostic Process

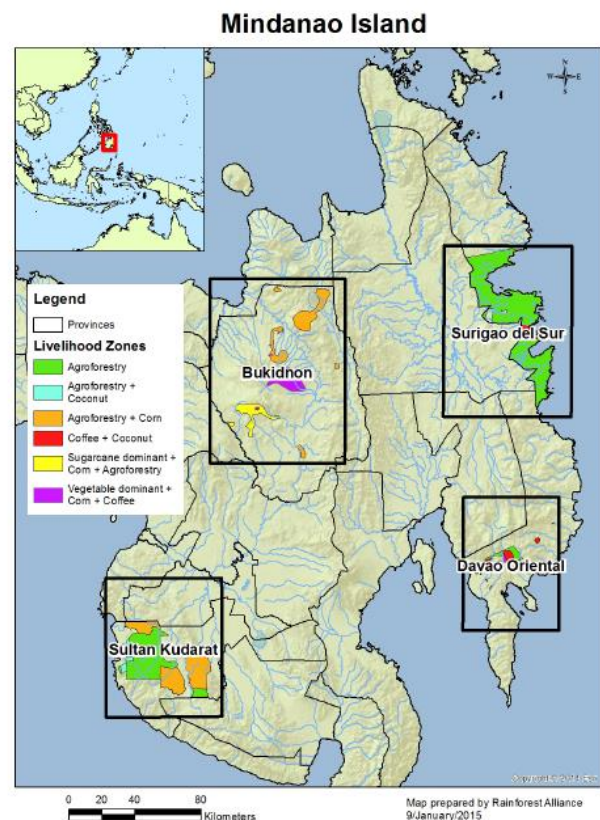
During 2013 we carried out three pilot applications of the RDF to establish baseline data sets in Vietnam, China and Côte d'Ivoire. From this experience we have been able to develop the following approach that we are currently using.

Step 1. Country Briefing: this is a desk research using existing publicly available information eg United Nations Development Programme (UNDP), World Bank. This is complemented by outside views from NGOs and other stakeholders. This allows us to confirm the scope of the RDF (the eight areas) and adjust it accordingly. In Côte d'Ivoire for example we extended the scope to include child labour and education.

Step 2. Livelihood Zoning⁴: this is a stratification process that considers different geographies and farming systems, to describe different “livelihood zones”. Typically there are 4-10 different livelihood zones in each country. This allows us to cluster farmers according to the role & significance of the target crop plays and the farming system that they employ. It helps to stratify sampling for the field survey and to be more selective on the data gathering. Ideally this includes some methodological exercises like constructing a seasonal calendar, in order to understand if there are economic, social or environmental variances in different farming areas. *See example from Philippines.*

Step 3. Data Collection: here we collect information from communities, farmers and farm workers. This step is carried out by a 3rd party, preferably local. The purpose is to gather missing information and verify the information collected during step 2. In this step we also rely on existing data where it is available. We have a comprehensive questionnaire with over 200 questions. In gathering the data we focus wherever possible upon data gathering at the community level – this is particularly the case for women's empowerment, water & sanitation, nutrition, land & land tenure and natural resource stewardship.

Step 4. Response: After the analysis of the data is completed by the 3rd party, the main findings are discussed by the technical teams at the Head Office and at the country level. We jointly agree on the response and way forward. The response is then incorporated into the country business plan.



⁴ FEG Consulting and Save the Children (2008). The Practitioners' Guide to the Household Economy Approach, regional Hunger and Vulnerability Program, Johannesburg

Business objectives

We have deliberately named this process as a framework. This is to ensure that there is flexibility to accommodate the different social contexts, different approaches to farming and the different business needs. As previously noted, we expanded the analysis in Côte d'Ivoire to cover other social issues.

The RDF has also proven to be flexible enough to accommodate different business needs. In China the RDF helped us frame a study to understand better the needs of existing farmers in order to help build trust. In Myanmar we do not have operations, so the RDF exercise was very much about collecting a broad understanding of the current status and capabilities of farmers. In other countries such as Vietnam, Mexico and Côte d'Ivoire where our Farmer Connect activities are expanding the RDF has helped us define our strategy.

We have currently only applied the RDF to small-holder farming situations. For larger family and commercial farms typical of dairy, or coffee in Brazil, a full RDF process may not be appropriate. Larger farms often do not face the basic development challenges of smallholders – for them the challenges are to streamline and improve existing practices, and for this our current approach uses a tool called RISE (see nestle.com for further details). Nevertheless, the livelihood zoning element could be a useful addition to the RISE assessment.

Understanding the Baselines

We have designed the RDF as a diagnostic tool to understand the status of the farmers, farm workers and communities from whom we source (or whom we can potentially source from). In this design process we were conscious of the different approaches to M&E (monitoring and evaluation). The approach we have taken is essentially about “performance measurement”, not “impact assessment”. Whilst we wish to have an impact in our operations, the speed and fluidity of the business decision making is such that we did not wish to have control groups or statistically driven evaluations.

The baselines therefore are designed to identify gaps (across the business and social aspects prioritized) based upon gathered data and insights from focus groups. By identifying these gaps we can then better identify interventions that can strengthen our sourcing programmes and simultaneously identify interventions and activities to facilitate and create shared value in rural areas. As in project management approaches, repeating the baselines in the future will identify the relevant gaps that we will then need to focus upon at that time.

The consequence of this is that from the activities undertaken as part of our work with farmers, Nestlé will not be able to claim any attribution to changes in the situation regarding rural development. The issues highlighted are complex and interconnected. The approach we are intending is to describe the situation as we have found it, describe the change and detail the contribution that we have made.

We will however set specific measurable targets for some of our interventions to be reported in the Nestlé in Society report (see Part II of this report).

Summary Findings

As at the end of July we have undertaken baseline assessments in 11 countries: China, Colombia, Côte d'Ivoire, Ethiopia, Indonesia, Kenya, Mexico, Myanmar, Philippines, Thailand, and Vietnam. These have primarily been markets where we source coffee from the Nescafé Plan, though we have also applied the RDF to communities supplying us with cocoa and cassava. Following a first set of pilots in China, Vietnam and Côte d'Ivoire the roll out of the RDF was based upon market demand and opportunities for collaboration with other data gathering exercises.

This section describes the learnings and provides a high level summary of the findings for the eight global priority topics. Summary diagrammes of the individual country findings are provided in Appendix 1.

The Process

We used the first three assessments (China, Vietnam and Côte d'Ivoire) to learn the best way to gather the data and which data to gather. The step to identify Livelihood Zones came from our learnings in Vietnam, whilst comparison of insights from Côte d'Ivoire with surveys carried out by IFC, Mars and IDH (the Sustainable Trade Initiative) led us to simplify our questionnaire and change some of our questions. Participation in the Sustainable Food Lab community of practice on measurement and evaluation led us to start using questions on nutrition (MAHFP and HDDS⁵) that are gaining in use by other companies.

A consequence of this is that there are some differences in the data we have across the different countries and we are returning to some countries to gather additional data – for example after our initial report in China did not give us the right insight on nutrition we gathered additional data using the MAHFP and HDDS questionnaires. This gave us valuable new insights.

In both Vietnam and Colombia we relied upon the extensive data already gathered in these countries. This proved to be a successful approach in Vietnam, though in Colombia the results were disappointing and we consider that the quality of this report is not suitable for us to identify appropriate interventions, and so we are investigating other opportunities to improve the data and analysis.

We also learned the importance of local support and the limitations of using outside staff and consultants. In some countries we do not have a strong local presence, whilst in others we have been present in communities and with our own agronomists for many years. This influences significantly the ability to properly brief the communities of the process and manage expectations. In addition, where we have a local presence we have been able to carefully select a local partner (usually a local university or consultancy) to carry out the work. This has worked well. The alternative is to use external consultants which create challenges in that the time on the ground tends to be limited and the presence of a foreigner influences the way that local farmers respond to the questions. This has been noted in both Myanmar and Indonesia. In Myanmar in particular, where the baseline was carried out in conjunction with a human rights impact assessment, further data will need to be gathered to complete a rigorous assessment.

There will always be concerns on data quality. Our only opportunity to quantify that comes from Côte d'Ivoire where we were able to compare our findings with that from 3 other surveys and found a great

⁵ MAHFP : Mean Annual Household Food Provisioning. HDDS: Household Dietary Diversity Score. Both designed by USAID

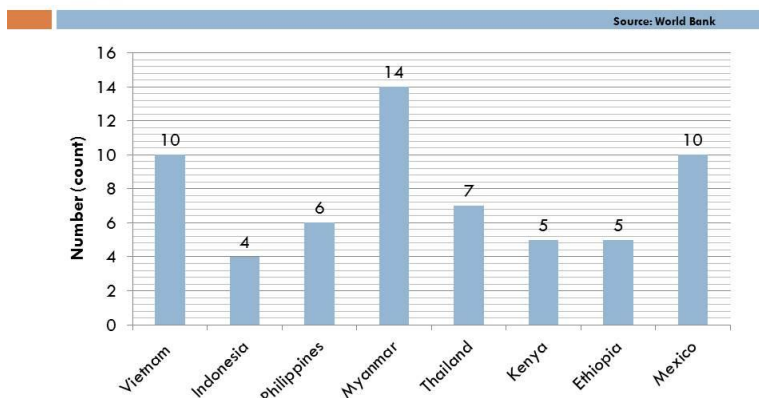
degree of consistency (once adjusted for population differences). Having said that, we are conscious that the RDF is intended as a diagnostic tool. It is not expected that it will always give us insights into what interventions should be made; rather it points us in the direction of areas for further study. The interventions will need to be designed with the local communities and farmers themselves.

The Livelihood Zoning is providing particularly valuable insights, as are the two questionnaires on nutrition. One area that has proven difficult to gather data on is workers. In part this is because the field work has not been carried out during the main harvesting period when workers are mostly used. Gathering data on workers is also a sensitive one because of the community implications where workers are part of the community.

One aspect that needs to be followed through in all countries is to feed back the findings to the farmers and communities, and to socialise the findings with stakeholders. This will be best combined with discussions on implementation and partnerships.

Number of Livelihood Zones

(COUNT)



Livelihood Zones were not elaborated for Colombia, China nor Cdl

Results

Whilst we did not set out to establish control groups, in both Mexico and Kenya the data was gathered from both existing Nescafé Plan farmers and non-Nescafé Plan farmers. Farmers who have received supply chain interventions (improved plants and training) have higher productivity and incomes than those who do not. The Nescafé Plan farmers also have better livelihoods as measured by fewer months without adequate food compared to non-Nescafé Plan farmers. Whilst these studies did not compare Nescafé Plan farmers before and after our support, (hence we are unable to draw definitive conclusions) the results provide strong support for the rationale behind the supply chain interventions.

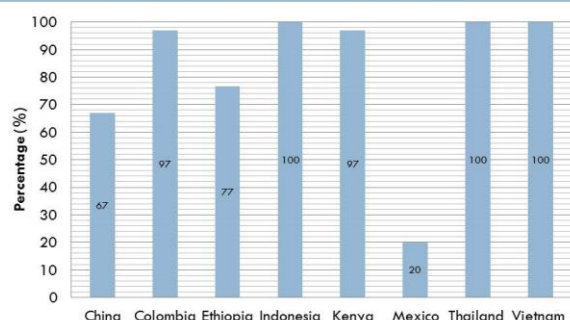
Certification schemes also make an important contribution by addressing the worst practices and improve environmental and social performance.

Nevertheless, despite the supply chain interventions and certification, the findings from our RDF baselines indicate that other approaches are needed to improve livelihoods and drive rural development. The following are the key findings across the eight focal areas. It should be noted that there are significant interconnections across these. There are also significant differences within countries based upon the different livelihood zones.

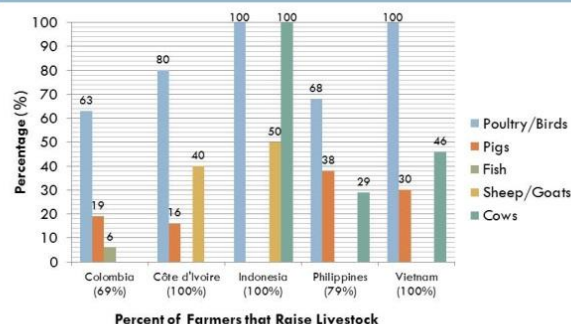
It is important also to note that our findings are based upon the communities that Nestlé is sourcing from and so caution should be exercised in drawing conclusions that the results apply to the country as a whole.

Farm Economics: The typical farm size is 1-2 ha, though there is a broad variation from less than 0.5ha to 6ha, and in some limited cases higher. The picture that emerges is that the target crop, which our current support programmes are designed around, is typically grown with a variety of other cash and food crops as well as livestock. The target crop typically provides 40% of income, and is often of secondary importance. Income sources are varied and frequently include remittances. Add in various factors influencing crop income – costs, productivity, quality, wastage, prices and premiums – and in these circumstances it is difficult to focus, as we had expected, on measuring farm income. What is clear is that improvements in crop productivity have led to improved incomes, but there is much more that can be done, not just in terms of target crop productivity, but the farming system.

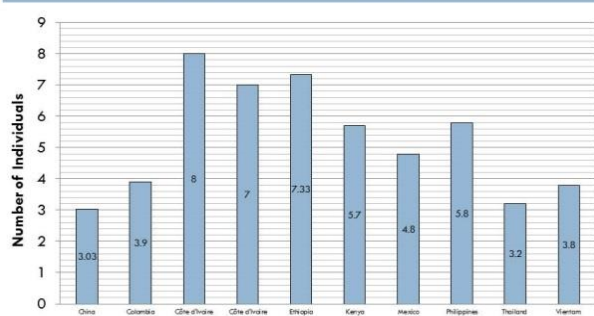
Percentage of Farmers Growing Crops Other than Coffee



Percentage of Farmers Raising Livestock



Average Size of Households



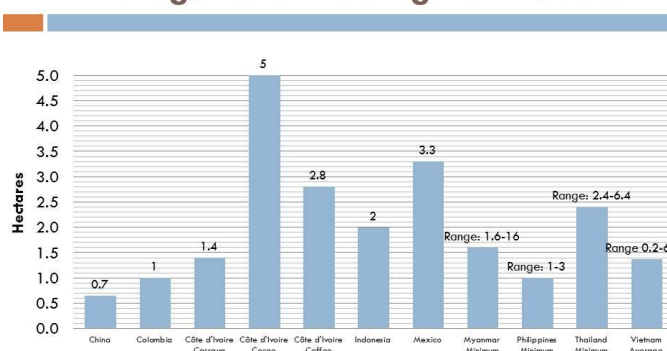
Farmer Knowledge & Skills: farmer training is arguably one of the most effective ways to deliver productivity & income benefits. It is appreciated by farmers and more is requested. Information from the baselines has highlighted the areas of interest for further training. We have good data on the provision of training, though we have yet to find a way to measure training outcomes. Operationally we will need to follow more the progress of individual farmers to see which ones attend multiple training sessions.

Farm Workers: As previously noted data has been difficult to gather, though the picture that emerges is of a generally insecure situation of workers (particularly migrants). They also rarely receive training, though are keen to acquire skills. The data we were able to gather indicates that in some countries such as Vietnam minimum wages are paid, in others there is a combination of wages, housing and food provided. The difficulty of finding workers within the small-holder farming system is a common finding across most countries.

Women's Empowerment: A variable picture emerges that mirrors global surveys, showing more equality in Asia than Africa, and with Central and South America somewhere in the middle. We have evidence of women having responsibility for the family budgets and joint decision making through to women being excluded from decision making and little access to training. We are however starting to acquire good data on the attendance by women at training sessions. For example in Ethiopia over 35% of attendees are women, even though there are very few single women farm owners.

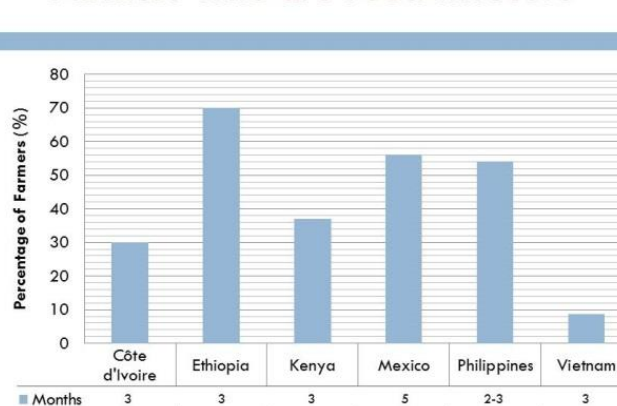
Land & Land Tenure: There are two topics of significance around land – the minimum land area that a farmer needs to become a successful farmer, and land tenure. We have been able to gather data on land sizes and this has raised the question in a few countries as to where we should be targeting our efforts to support farmers – especially where some farmers have sub-optimal areas. See the Discussion section. Typically 10-30% of farmers have insecure land title. Locally this can be a significant factor when encouraging farmers to invest in their land.

Average Land Holding Per Producer



Nutrition: “Lean months” is a well-known phenomenon in many countries especially where there are distinct seasons. One of the standout findings from the RDF baselines is the extent of the poor nutrition of farmers and communities. Whilst our data is currently variable (based upon good sample sizes in China, Ethiopia, Côte d'Ivoire, Kenya and Mexico, though more limited data sets elsewhere) a picture emerges of 30-70% of farmers in any one country being short of food for 3 months. As we get more data in on dietary diversity we are also building up a picture of diets. The insights from this data are allowing us to define interventions.

Farmers Who are Food Insecure



Water & Sanitation: the data on water and sanitation also provides a variable picture, even within individual countries depending upon the reach of public utilities and the different solutions available to farmers. There are however some findings that cause concern. In Africa, Mexico and Philippines significant numbers of people (typically 25% at the country level) take water from rivers/streams. Contamination of water supplies is a common finding, such as in Vietnam and China and there are variable levels of sanitation. Poor hygiene is also common.

Natural Resource Stewardship: Information on environmental stewardship also proved difficult to gather as we had originally intended. Biodiversity measures particularly such as connectivity of natural vegetation within a landscape is of low priority compared to nutrition security and requires a coordination and collaboration across the community which is often not there. We discovered however that natural resource stewardship is something that farmers are concerned about, and they were forthcoming in voicing their concerns and desire for assistance. There were three common themes: soil quality & erosion; polluted streams; and changing weather patterns/climate change. These would therefore be good starting points for work with farmers on natural resource stewardship. A consequence of working on them would deliver enhanced biodiversity outcomes.

Part II

A Roadmap for Future Activities on Rural Development

Future Baselines and Data

Based upon what we have learned so far, we have identified a further 7 baselines that we wish to establish, across coffee, cocoa and dairy. The dairy business encompasses a wide range of farm types from large “mega-farms” through to farmers with a few cows. Existing tools such as RISE and our responsible sourcing audits are more appropriate for larger farms so the scope of the application of the RDF to dairy will be limited to small-holder farmers. We will test the approach in one country in the next phase to assess its applicability.

The next phase of the work on the RDF is to focus upon implementation of the findings. We will need to assess and report upon the areas that have been prioritized for each location. A key date for reporting will be 2020 as several public commitments (see Section on Nestlé in Society Commitments) on rural development will be reported in the Nestlé in Society report. At some stage we will also need to repeat the baseline assessments to reassess the status and challenges facing farmers, workers and communities.

Based upon the experiences to date, future data gathering should preferably be organized in such a way that local consultants, preferably from local universities, undertake the work. The local agronomy and corporate communications teams play a key role in driving this process, and so where we do not have such local support other methods will need to be found to ensure that enough time is taken to prepare the farmers and communities for the data gathering and to manage expectations. In these circumstances the role of Vevey based teams will be more important.

We will also need to find ways to gather better insights and data on workers. This is complicated as the optimal time for this is during the harvesting period which is a busy time in farming, when it is difficult to get cooperation to gather data. Nevertheless our work to date has already highlighted some key areas to focus implementation on, and this alone should facilitate the gathering of better insights.

In the future we can also benefit from interviewing local stakeholders to both gather data and insights. Involving more local stakeholders in the exercise prepares the ground for the design of activities to implement the findings.

Responses

Our existing interactions and activities with farmers through our Farmer Connect teams, have demonstrated that farmers where we deliver supply chain interventions (better plants, training, quality premiums), have improved income and living conditions. Nevertheless, it is also clear that there are other factors that we need to focus upon in developing agripreneurs, and making rural areas attractive places to live work and invest in. Our eight chosen topics play a significant role.

A significant overlap and interconnection exists within these topics. For example, interventions to address gaps in nutrition can build upon and be influenced by work in the other areas (for example

nutrition security may be better achieved through increasing women's incomes rather than, or in addition to direct interventions on nutrition).

The RDF baseline identifies market level interventions that can guide individual market Operational Master Plans. In addition to this, the following sections propose a series of future global priorities to guide the Nescafé and Cocoa Plans, other Farmer Connect programmes, and work with supply chain partners as part of our Responsible Sourcing programmes. Whilst this is high level guidance only, some detailed support packages will be developed to guide markets.

As previously mentioned the baselines have in certain places identified where we have issues though not provided enough guidance on suitable interventions. In these cases we will need to carry out specific studies to inform next steps. In China for example we have subsequently carried out further data gathering on nutrition to better understand observations about health.

Notwithstanding these caveats, the following is a summary of the next steps and future direction.

Farm Economics / Farmer Knowledge & Skills

Our current supply chain work is addressing these needs, though opportunities exist to deliver more impact (see the proposed commitment). A focus on farm economics will need to recognize the whole farming system and the sometimes limited role that the target crop plays. Already in some countries such as Philippines and Thailand our local agronomy teams are promoting coffee growing as part of a mixed farming model. Helping to make farmers resilient to weather events and climate changes will also be important.

Farmer knowledge & skills is an important driver of farm economics, and it will be important to ensure that our training provision is able to develop the agripreneurs⁶ for the future. Reaching young people and making farming attractive to retain and attract young people into the industry needs more emphasis, especially as demographics and development draw young people to the cities.

Training programmes need to ensure that women and workers are reached. The opportunity particularly exists with women to extend the training curriculum to topics to address other areas – nutrition, and hygiene.

Farm Workers

The design and application of the RDF to date has raised the profile and importance of farm workers, yet the current baselines have not yielded many insights to guide our work. We will continue to gather a better understanding of the status of farm workers, whilst focusing our activities on:

- ensuring that farmer workers are able to access training, and where appropriate that the provision of training explicitly targets farm workers and family members where applicable
- ensuring that farm workers are paid the minimum wage
- the living conditions and hygiene of workers
- health and safety
- child labour, particularly amongst migrant workers

⁶ Agripreneurs are “trusted and talented farmers who are: farmers by choice; able to meet our requirements for standards; managing their farming business profitably; and who are committed to continuous improvement for long term future growth”.

It is clear also that we need to work through industry platforms and roundtables to increase the awareness of the challenges faced by farm workers, and to encourage collaborative action by other industry players and civil society organisations.

Women's Empowerment

It is not necessary to develop a separate strategy on gender. Rather, gender needs to be integrated into our approach. This means eliminating any unconscious bias against women in our current programmes (eg on training and trainers). Gathering data on women attendance at training has proven to be effective simple method to do this in Ethiopia.

It is clear that the status of women varies markedly across the countries we have sampled, and in some countries it will be necessary to initiate specific initiatives to improve for example: the role of women in society (management of cooperatives); access to resources; and/or own sources of income. Women should also be an important entry point for delivering initiatives on nutrition and hygiene. Future work can also focus on understanding better the root causes of key threats to women, in order to better design our work, as well as the role of both men and women in a community in order that by focusing on women we do not disempower (or perceive to disempower) men in the community.

Nutrition

Improving the nutrition status of farmers and their families and the communities they are part of is a key element of future work on rural development (see proposed commitment).

In the immediate short term there are a series of “no regrets” interventions that can be made:

1. Farmer training on nutrition. The target audience should be women and so this needs to be linked with gender empowerment programmes (which in some cases will need to be established). Specific training material will need to be developed, and should include topics such as dietary diversity, harvesting & pre-processing, food wastage, storage and preservation (to extend food availability & diversity across seasons).
2. Promotion of intercropping and kitchen gardens and livestock to provide better nutrition security. The first priority should be increasing the availability of food through “lean months” and simple approaches to extend the variability of diets.
3. The provision of improved vegetable planting material. This could be an additional plant production objective from the existing nurseries established for coffee & cocoa plants.
4. Extend Nestlé Healthy Kids into the rural areas. This will involve some minor adjustments of the curriculum at the national level to make it relevant for the rural setting.
5. Provide education on the importance of sanitation, particularly hand washing.

The success of these interventions goes beyond the training modules and supporting programmes. Behaviour change is a long term undertaking and dependent upon the local context – from economics to clean water and sanitation and the availability of traditional and packaged foods.

In the longer term we will need to develop a more scientific approach on intercropping and kitchen gardens, in order to develop more diverse diets tailored to local conditions (soils, culture, and nutrient gaps).

Water & Sanitation

The scale of the challenge to address the provision of clean water & adequate sanitation across the communities we are sourcing from is a significant one that will require investment and collaborative action from various players, led by government. This is a significant challenge for an individual company and we have yet to find the appropriate level of intervention for Nestlé. Our focus will be guided by the need to help communities to meet the human right to water and sanitation.

Our initial interventions will therefore focus upon alternatives to the usage of water from streams for drinking water and the prevention of surface water pollution. A focus upon hygiene, as part of farmer training modules, is particularly important and will reinforce work on nutrition and gender.

This is nevertheless an area that will require further development.

Land & Land Tenure

Our data indicates that land (both size of land holding, and secure land tenure) is often characterized by complicated political and historical issues, and where the challenges are ones that are best left to governments to resolve.

This makes it difficult to define a global approach. Nevertheless, there could be a role for Nestlé at the national and local levels to support communities and governments, especially to overcome roadblocks in specific situations. Whilst continuing to highlight the topic globally we are leaving this issue for individual markets to handle.

Natural Resources Stewardship

Whilst certification standards, the Nestlé Better Farming Practices and RISE assessments detail measures that can deliver upon appropriate stewardship of natural resources, several common areas of concern were highlighted by farmers across the countries sampled. More emphasis is recommended therefore on developing effective measures to tackle the following topics:

- soil management, including: preventing erosion; improving soil quality; rehabilitating degraded soils and improving soil moisture. This is closely related to more targeted plant nutrition regimes.
- preventing pollution of streams, from chemical usage, waste management and sanitation (whilst delivering plant protection)
- a specific request from farmers is on help to adapt to changing weather patterns and climate change. A major focus should be on soil (as above) allied to a focus upon nursery systems and shade tree establishment. An industry platform – Coffee and Climate – has produced effective guidance on this.

Next Steps

Designing and Operationalizing Responses

The previous sections have detailed the findings and conclusions from the first 11 baselines. The next steps for Nestlé are to design and implement programmes to address the findings. A crucial step in this process is operationalizing such programmes – that is, making them happen. For Farmer Connect there are various mechanisms that Nestlé employs to do this:

- The Agriculture team provides the ownership of the RDF and the overall direction. In conjunction with other functions such as R&D, guidance will be provided to markets on how to work on topics such as nutrition, climate change adaptation, and standardized training modules.
- The business units can drive alignment of the Nescafé Plan and Cocoa Plan across the markets, provide resources where appropriate, and monitor progress.
- Within the markets Operational Master Plans (OMP) detail objectives and responsibilities. It will be important that individual markets include findings from the country baseline studies into their annual OMP process.

Trade partners are a second major way in which we can operationalize the findings. We have kept a few trade partners apprised of this work as it develops, and whilst our initial emphasis has been to ensure that the RDF can be operationalized with Farmer Connect, it is our intention to align this work with trade partners. Indeed trade partners become an important means of delivery in those countries where we do not have Nestlé agronomists on the ground (Kenya and Ethiopia are good examples).

Partnership platforms

Whilst there are many potential actions that Nestlé will be able to act on alone, there are a significant number that require a “platform approach”. Platforms such as 4C, the IDH Sustainable Coffee Programme, and Cocoa Action all provide opportunities to collaborate in a pre-competitive space to develop cross-sectoral approaches and programmes. An example of this is the Coffee and Climate programme.

Development of Partnerships

A broader challenge is to develop partnerships to work collaboratively on the topics identified. The topics lend themselves to Public Private Partnership approaches as we are piloting in Kenya and Ethiopia. A second development option we are exploring is to look for companies with inclusive (base of the pyramid) business models, and social impact investors who can invest in the communities we are operating. We have some initial progress on this through the World Business Council for Sustainable Development and are currently exploring how to operationalize this in Kenya.

Feedback to communities. Sharing insights with Governments

Whilst in some countries we have already begun implementing the findings, one step that we have not consistently followed is to formally feedback to communities on the findings and next steps. In part this has been because we have been awaiting this analysis and future roadmap. We now need to do this consistently and open up a dialogue with communities to jointly develop the next steps. Having ongoing feedback mechanisms with farmers and communities is a further step which we need to investigate.

A similar situation occurs with Governments (both national and local). This is particularly important as we design programmes on nutrition. In many countries we already have good working relations with the relevant government departments and work together on nutrition programmes such as Nestlé Healthy Kids, which based upon existing Government recommendations on nutrition. One opportunity to address the nutrition challenges in the communities where we source raw material from is to extend the Nestlé Healthy Kids programme to these rural areas.

Nestlé in Society Commitments on Rural Development

In order to hold ourselves accountable and to drive continuous improvement we have made public commitments, which we report upon annually in the Nestlé in Society Report. Commitments on Rural Development cover Responsible Sourcing, the Nescafé Plan and Cocoa Plans⁷ and the RDF.

We are proposing in 2016 to include two new commitments on the RDF, based upon the findings from the first 11 baselines. These are on farm economics and nutrition. Nutrition is seen as a proxy for livelihoods. In focusing the public commitment on these two themes, this does not eliminate the need to work on all eight priority areas in the RDF according to priorities identified at the country level.

Much work is now needed to define better these commitments – for example how many farmers will we plan to reach with training, what constitutes “improved dietary diversity” and clarifying the role of trade partners in the delivery.

Overall Objective: Operate our Farmer Connect and smallholder upstream sourcing activities in a manner that ensures our long term supply whilst simultaneously contributing to rural development.

By 2018: Establish a total of 18 baseline assessments in the sourcing locations of key importance to our business that show pronounced social need, to guide us in aligning our own activities with the priorities of farmers and local communities.

By 2017: Ensure that farmer training support programmes are: developing agripreneurs; equally accessible to men and women; young people; and available to farm workers.

By 2020: Farm economics* have been improved in 7 priority sourcing locations based upon the results of the RDF baselines.

By 2016: Put in place strategies (activities & targets) in priority locations to improve food availability and dietary diversity. Pilots running in 3 locations.

By 2020: Food availability and dietary diversity has been improved in 5 priority sourcing locations based upon the results of the RDF baselines.

* Farm economics comprises the following four factors that Nestlé will focus upon: Productivity, Quality, Costs, and Price Premiums.

⁷ See www.nestle.com for the commitments

A Broader Discourse

The findings from these first 11 baselines, together with the process itself have highlighted a variety of topics that would benefit from a broader debate amongst companies, governments, civil society organisations and other stakeholders. Three topics in particular stand out.

Alignment with Governments and Companies

Nestlé is not alone in gathering data to assess the status of their supply chains. Other major companies and institutions are using similar approaches, and there is a Community of Practice convened by the Sustainable Food Lab in the USA that brings many of those organisations together. It is through that process that we have been able to improve and align our questionnaires with other actors, and in the case of Côte d'Ivoire share findings that have confirmed the accuracy of our findings.

We remain convinced that further opportunities exist for sharing of insights and data gathering. This will not only save costs and reduce waste, but help align organisations by developing a commonly agreed set of priorities for cross industry and cross sectoral action, and for dialogue with governments. Indeed the development of the baseline in Indonesia was carried out in conjunction with ISEAL and Rainforest Alliance who worked in areas where both Nestlé and Mondalez source coffee. In Kenya and Ethiopia, the baseline was prepared by Solidaridad as part of a broader 7 year programme on food security in coffee area that partially overlaps with and includes farmers supplying Nestlé. As this work is part of a Public Private Partnership, the results are publicly available.

More opportunity exists to align with platforms such as 4C, the IDH Sustainable Coffee Programme, and Cocoa Action, and intergovernmental organisations such as IFAD (the International Fund for Agricultural Development), IFC (The International Finance Corporation) and GAIN (the Global Alliance for Improved Nutrition).

Certification & its Role

For the last 15 years the dominant approach on sustainability, and narrative with consumers, has been through the adoption of voluntary certification standards. Various studies⁸ and our experiences have highlighted how certification has improved many practices and overall farm performance – especially when associated with training programs designed to prepare farmers for certification. Nevertheless, our findings indicate that despite gains in crop productivity, quality, and revenue, as well as natural resource conservation, many certified smallholder farmers are still living in unacceptable conditions. Chief among these are lack of access to clean, potable water; inadequate nutrition; and poor standards of housing. Whilst certification explicitly addresses these issues for workers on large farms/plantations, it is, by itself, unable to fully address such issues for farm owners themselves. This is because whilst it is possible to require large farm operations to provide for their workers, it is not feasible, nor preferable, to require farmers to provide for themselves at the risk of losing certification.

Nonetheless, while the premise of certification is to deliver a promise to consumers that a product comes from a sustainably managed farm, there is an assumption in the minds of the consumers that if a product is certified then these broader social and economic problems are necessarily solved. As we and

⁸ COSA The COSA Measuring Sustainability report 2012. CRECE Monitoring and Evaluation of Nespresso AAA Sustainable Quality™ Program in Colombia

other organisations publish our findings, there is a risk that consumers will lose confidence in certification logos. We need a narrative and more nuanced positioning of certification's role in sustainable development, and the necessary role of other approaches to collectively and effectively address poverty in small-holder communities. Certification is one leg of the stool. Rather than take away a leg, more legs need to be added to fully support producers and their communities. The certification community itself also needs to reflect upon its role and consumer promise.

Land

As mentioned in the results section, we have many farmers in our supply chains owning or farming less than 1 hectare of land. Whilst it is not easy to generalize on the minimum economic size of land needed to grow crops such as coffee and cocoa, this does raise an issue that receives little attention globally – that not all farmers may be able to successfully grow the target crop and enter global supply chains. Nestlé already has recent experience in China of the speed by which farming systems can evolve from smallholder based to medium and large farms, yet for many countries the transition will be slow, and in some the trend is for land holdings to decrease. More discussion is needed on this topic - the social safety nets that are required, and the roles of companies, governments and civil society organisations.

Appendix 1

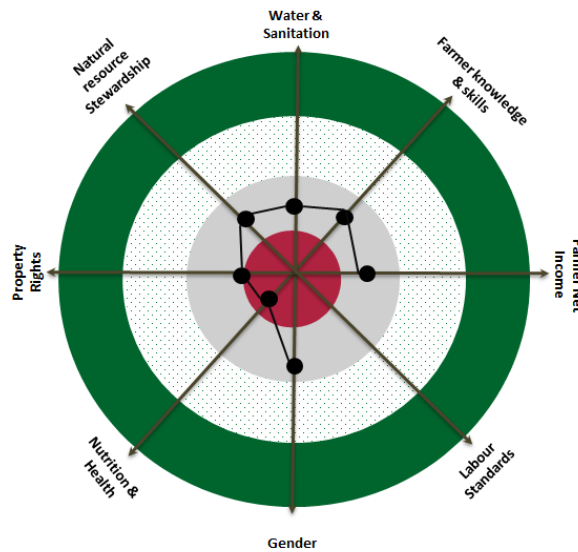
Country Summaries

The following spider diagrams detail the findings across the eight focal areas. Note that the **findings apply to the communities that Nestlé sources from** and care should be taken in drawing conclusions regarding the situation at the national level. Note also that only 8 summaries are presented here. The data from Thailand still needs to be compiled. The exercises in Colombia and Myanmar are considered to be not of a high enough standard, and so further information is required.

Degree of sustainability:

- Red: All livelihood zones, or majority of indicators are negative
- Grey: Problems in a minority of livelihood zones, or a minority of indicators
- Dotted Green: Minimum level of acceptable standard, compliance or human right achieved
- Dark Green: Progressing well / no action needed

Ethiopia

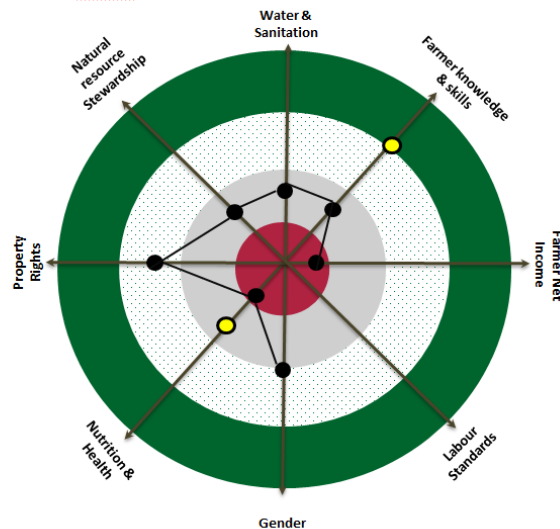


Degree of sustainability:

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- Performance of Nestlé farmers

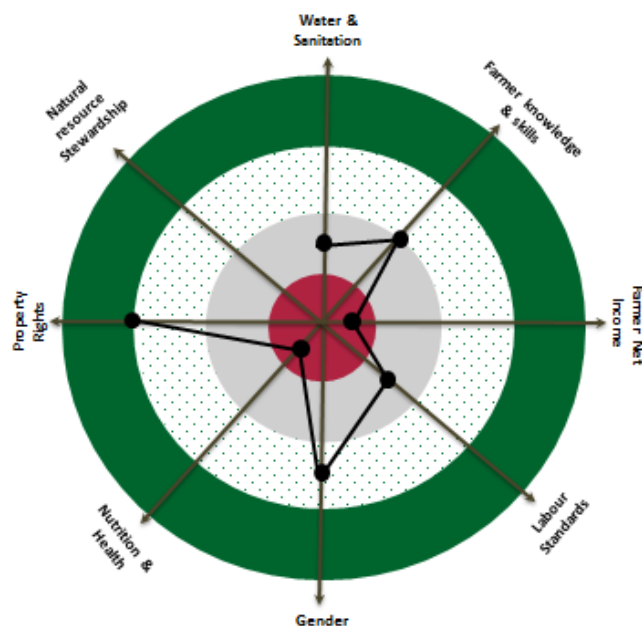
Kenya



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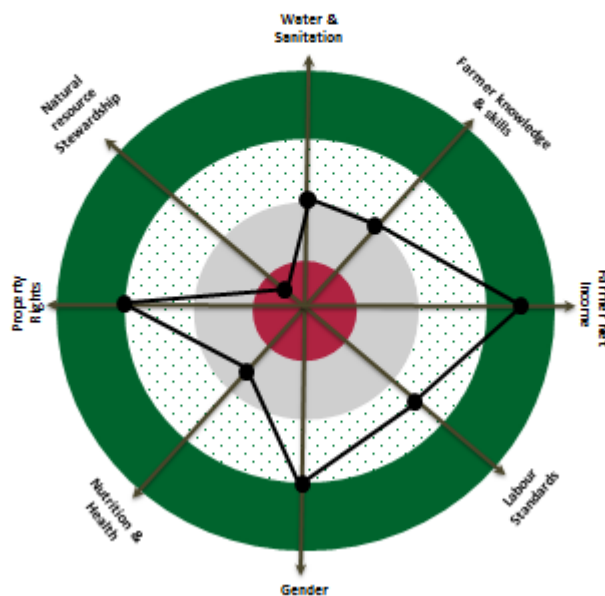
Philippines



Degree of sustainability:

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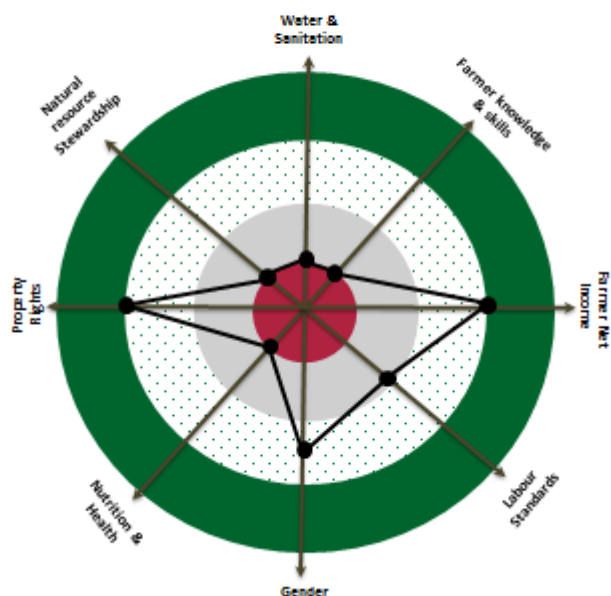
Vietnam



Degree of sustainability*

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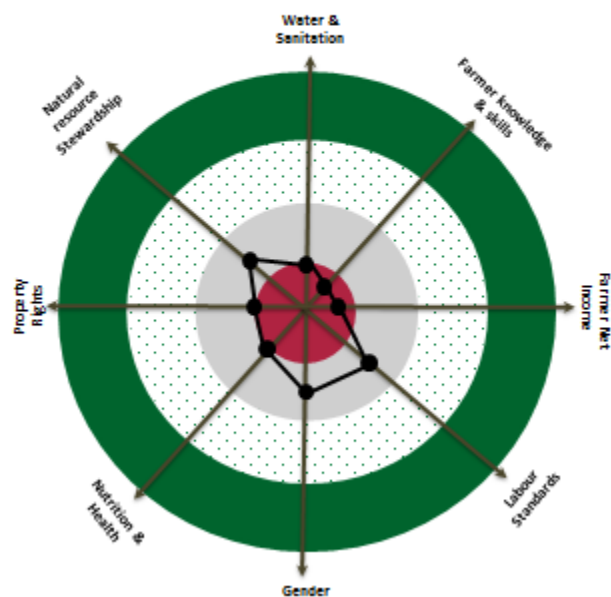
Mexico



Degree of sustainability*

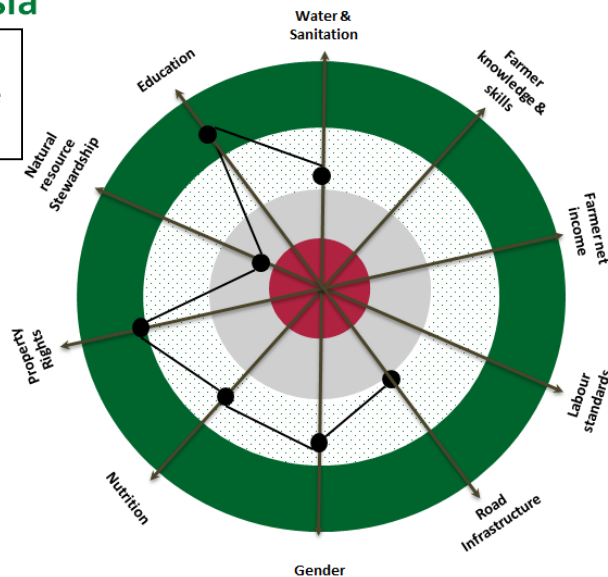
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- Dark Green: Progressing well / no action needed

Côte d'Ivoire



Indonesia

Provisional data, to be completed
in 2016 once the baseline
assessment is finalized



Degree of sustainability:

- Red: All livelihood zones, or majority of indicators are negative
- Grey: Problems in a minority of livelihood zones, or a minority of indicators
- Dotted Green: Minimum level of acceptable standard, compliance or human right achieved
- Dark Green: Progressing well / no action needed

Note: The spider graphs will be completed in 2015, once the baseline assessment will be finalized.

Degree of sustainability*

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- Dotted Green: Minimum level of acceptable standard, compliance or human right achieved
- Dark Green: Progressing well / no action needed

China

