THE RURAL DEVELOPMENT FRAMEWORK - Update July 2014

“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,”

Nestlé in Society, Creating Shared Value 2013

Introduction

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

The Rural Development Framework (RDF) was developed in order to:

- Deliver a consistent approach and ambition to rural development across Nestlé, ensuring that we address both global development priorities whilst providing the flexibility to address locally relevant issues
- Align field activities with business and societal priorities, by identifying and setting priorities to create shared value at a market level based upon identified gaps
- Provide a credible process with partners, that can measure and communicate progress and activities

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, with a focus on three distinct but connected groups: farmers, workers and communities. The goals that we seek for each are that:

- **Farmers** are business orientated and farming by choice
- Rural based employment is attractive for **workers**
- **Communities** are progressing economically, environmentally & socially

The RDF has been designed specifically for small-holder farming, both through our Farmer Connect operations as well as our procurement through trade partners. We are targeting important sourcing countries for Nestlé and countries where there is a high social need (as defined by low Human Development Index, high Global Hunger index and high Inequality). They are:

Cameroon, Ethiopia, Guatemala, Honduras, Kenya, Morocco, Nicaragua, Nigeria, Papua New Guinea, Zimbabwe, Cote d’Ivoire, Ghana, India, Indonesia, Pakistan, Vietnam, Brazil, China, Colombia, Ecuador, Mexico, Costa Rica, Dominican Republic, Panama, Peru, Philippines, Thailand, Sri Lanka, South Africa, Turkey.

In 2012 we made a public commitment to establish a baseline assessment (see below) in 21 countries from this list.
Scope

We have identified eight core areas which we believe are important elements of successful rural development that Nestlé should focus on. We fully realize that these are not the only aspects that are important, but they are the ones where we believe that Nestlé (directly or through partners) can be most impactful. We believe that improving any identified gaps in these will contribute materially to rural development. We also recognize that in some of these countries Governments have a duty to deliver services and that the role of companies is theoretically limited to a responsibility to not compromise these services. Nevertheless, it is clear that in some countries companies may need to cross these boundaries and assist communities. In some situations, Nestlé’s role, our course of action, is yet to be determined.

Each situation will require its own response, and we will develop these in conjunction with the communities, farmers, workers, Governments and partners.

The eight core areas are:

1. **Farmer Net Income**
   
   Ultimately by increasing farmer net income we expect to make farming attractive. Net income is dependent upon a wide variety of factors, broadly under the headings of productivity/ha, quality, price and costs of production. We also recognize the importance of the “farm system” – that is that the target crop may not be the only crop grown. We aim to benchmark the farm net income against official government minimum wage levels and living wage levels, with an ambition that net incomes exceed living wage levels. Living wages are difficult to determine and complicated where farmers also grow their own food, and households have extended family members and receive multiple income sources. Nevertheless our ambition is to ensure that farming is attractive for the next generation of young people who wish to be farmers.

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.

3. **Labour Standards**
   
   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. Farm workers, often migrant labourers, may often be “invisible” to traditional support programmes. We aim to gather data on the type of workers, their working conditions and wage rates, comparing against minimum and living wage levels and again with an ambition that wages exceed living wage levels.

4. **Women’s Empowerment**
   
   While women’s empowerment is a core area on its own, work in this area has direct impact on the seven others. In addition to understanding the proportion of male and female farmers that supply us, we will gather specific information on women to understand four areas: the role of women in society and the family; access to services (such as training, finance, land); the tasks undertaken by women on the farm; income levels and sources of income.

5. **Clean 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 WBCSD WASH pledge. We are committed to assist in the provision of clean water and improved sanitation to
priority communities where Nestlé is sourcing agricultural commodities. In the RDF we gather information on the sources of drinking water at the farmer/community level (eg piped, wells, open water sources) and the provision of sanitation facilities.

6. **Nutrition & Health**
   Nutrition is the key priority area under our Creating Shared Value approach. We will gather information on nutrition security through two internationally recognized questionnaires – Mean Annual Household Food Provision and Dietary Diversity Score. The first provides an overview of the months of the year that farmers are short of food. The second is a quick measure of how balanced the diet is. Measures in response to the findings are unlikely to involve making Nestlé nutrition products more widely available, rather the solutions are likely to focus upon the development of kitchen gardens and livestock, education and empowering women.

7. **Property Rights**
   A high proportion of small holder farmers do not have secure titles to the land that they farm. This is often a constraint to investment in the farm as well as the ability to obtain credit. A second issue is the lack of equality of land tenure between men and women, as inheritance laws and property rights in many societies favour men over women. The baseline assessment will gather further information on these aspects.

8. **Natural Resource Stewardship**
   While gathering data on the environmental performance of individual farmers, we believe that we should also study resource stewardship at the landscape level and the need for collective community level actions to preserve individual human rights. We will seek to understand four areas: water (water tables and surface water quality), deforestation, soil management (erosion, contamination) and biodiversity (IUCN red list species, biodiversity connectivity).

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.
Methodology

During 2013 we carried out three pilot applications of the RDF to establish baseline data sets and understanding of the situation of the farmers, workers and communities that we are sourcing from in Vietnam, China and Côte d’Ivoire. From this experience we have been able to develop the following approach that we will apply in the future.

**Step 1. Country Briefing:** this is a desk research phase carried out by Public Affairs at Nestlé Centre using existing publicly available information (e.g. UNDP, World Bank). It details the current status of rural development and human rights at the national level, and is complemented by a local mapping of important stakeholders. This provides us an outside view from NGO, civil society, stakeholders, etc on rural development issues in the country. Through this we can confirm the scope of the RDF (the eight areas): in Côte d’Ivoire for example we extended the scope to include child labour and education.

**Step 2. Context assessment:** here we gather important information from internal and external stakeholders at the market level. This provides valuable insight from our own agronomists and external partners to ensure that issues mentioned in the Country Briefing apply to our particular supply chain or not.

By asking the main stakeholders involved, we aim to get a better understanding of different farming systems and be more selective on issues. 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. Ultimately, it helps to cluster farmers according to farming systems, which will help to stratify sampling for the field survey.

**Step 3. Data Collection:** here we collect information from farmers and farm workers. Through the stratification as part of the situation analysis we will have a much more targeted approach to make a field assessment which helps also to have a realistic sampling size. This step is carried out by a third 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 available). For example in Côte d’Ivoire we have reliable information on gender and child labour from existing initiatives being carried out with the Fair Labor Association.

**Step 4. Response:** After the analysis of the data is completed by the third 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.
Pilot Results and Next Steps

We applied the RDF in Vietnam and China to our coffee procurement programme, and in Côte d’Ivoire to our coffee, cocoa and cassava procurement.

A scoring system allows us to evaluate the status of the eight core areas, as well as Child Labour and Education in Côte d’Ivoire. Some common findings across all three countries include poor or variable access to clean water & sanitation and adequate nutrition. In addition natural resources stewardship is ranked low due to unregulated expansion of crops into forested areas, poor soil management and pollution of water sources. There is also some variability on the security of land tenure and in the status of women, and the knowledge of farmers and workers on agronomy practices.

We are currently discussing how Nestlé teams in the various countries will respond to the findings. Some actions already incorporated into the country business plan are underway. Other findings will require working with partners and further discussions with Governments. In Côte d’Ivoire we are sharing our findings with other companies and stakeholders to determine if we can align around some key interventions.

We have presented these findings at meetings with a wide range of stakeholders who have provided invaluable insights to help us develop the RDF further. Based on this feedback, the following are some immediate observations that will guide the future development of this work:

- There is a high level of interest by stakeholders in this work, and through this paper we are sharing details of the process and some of the challenges arising from the first pilots. However, Nestlé still needs to share the detailed findings with the communities and Governments concerned. With this in mind we are not yet publishing some of our ideas on how to respond to the findings.
- The results need to be viewed with some caution and without being too judgmental. The findings are a snapshot of the current situation on the ground and responsibility for the state of some of the issues should not be ascribed to any particular stakeholder. Nestlé needs to work with the Governments, the farmers, workers and communities surveyed (as well as other companies) in a way that each takes appropriate responsibility to develop solutions and actions. From a Nestlé perspective we need to define clearly what we can and can’t do.
- We will share these results and the process with other companies and organisations. It is important to align our efforts with other companies to avoid duplication of efforts and initiatives. There is an opportunity to combine similar efforts by industry.