

PROGRESS REPORT

On Responsible Sourcing of Vanilla



RSG Criteria

- Legal compliance
- Labour practices
- Environmental impacts
- Creation of shared value



To meet consumer's preferences Nestlé is sourcing vanilla from Madagascar which is used in

products like ice creams, chocolate, yoghurts and soft drinks. In 2010, Nestlé conducted an in-depth field investigation into the Malagasy vanilla supply chain in order to evaluate the responsible sourcing risks and opportunities. Because there was no traceability beyond exporter level, this in-depth field visit by a major end user, was well perceived, from all suppliers and communities. Based on this investigation, the Nestlé Responsible Sourcing vanilla strategy was created. This strategy is articulated around these key areas:

1) Establish vanilla traceability back to origins:

The ambition is to know where the vanilla comes from, starting from the exporter, down to the collectors, the villages and gardens or plantations. This is achieved either by sourcing organic certified vanilla (which also

gives a 20% premium to farmers) or by selecting suppliers that have vertical integration in place e.g. own plantations and subsequent process and standards.

2) Ensure responsibly sourced vanilla volume through the implementation of best practices:

The traditional Nestlé way of assessing origins and gradually implementing action plans if required was not adequate for vanilla because of:

- The nature of the work done in plantation (mostly seasonal).
- The current level of challenges found.

Therefore Nestlé decided to directly invest in remediation activities rather than in an assessment programme.

100% Traceable – 2014 Target

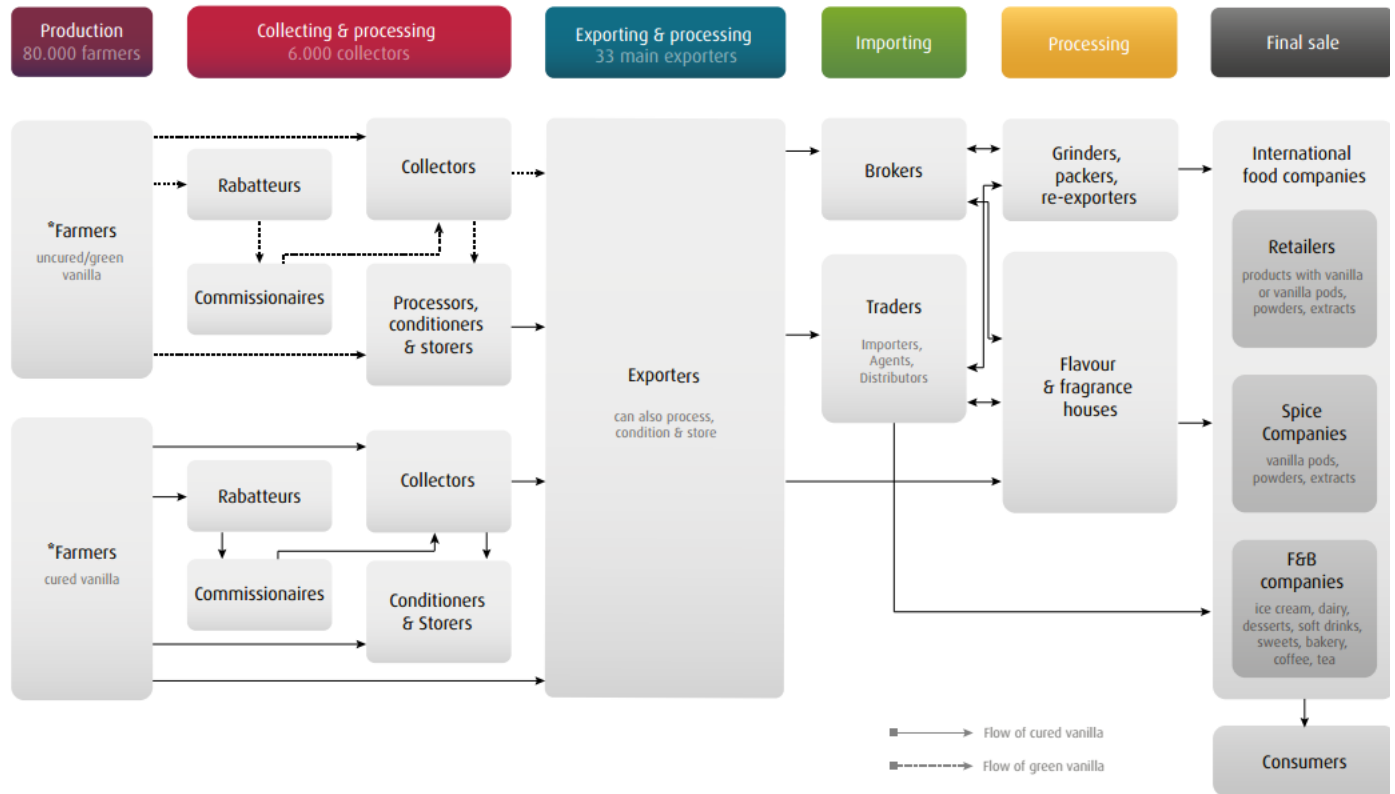
Nestlé understands that to ensure responsible sourcing of natural vanilla we need to first understand the supply chains by achieving traceability back to the plantation.

10% Responsibly Sourced – 2014 Target

Once traceability back to the plantation has been achieved, the next step is to sponsor suppliers' projects (RSG improvement projects) in order to improve the livelihoods of farmers and create shared value.

Background

Madagascar, the world's fourth-largest island located in the Indian Ocean (Southeast Africa, east of Mozambique), is the world's largest exporter of vanilla. Agriculture, including fishing and forestry, is a mainstay of the economy, accounting for more than one-fourth of GDP and employing 80% of the population. The vanilla spice comes mainly from the SAVA region (Sambava, Antalaha, Vohemar, Andap). As there are no bees, each orchid flower has to be pollinated by hand. Combined with harvest and then curing, it makes vanilla a labour intensive crop and therefore, it is more suited for small-scale farmers. There are about 80,000 farmers cultivating vanilla, living on an average of USD 2 per day. Most vanilla farmers rely almost exclusively on vanilla for their income. Sometimes, farmers harvest vanilla earlier than recommended because they may need some cash to buy food. This may also result from a lack of access to resources and expertise. In addition, farmers have little visibility on the prices. Because of this complexity, they are the most vulnerable actors in the supply chain.



Source: Fair Food International "Recipe for Change – The Need for Improved Livelihoods of Vanilla Farmers in Madagascar"

With such a low level of income, smallholder farmers struggle to meet their basic needs. As a result, children start helping on the family farms. But mainly older children (from 16 years old) help their parents during the pollination phase (the most labour intensive phase of the vanilla crop cycle). These tasks are considered as training for the children to learn about vanilla production, and to ensure continuation of the family business. The children are not forced to work, however, and are not paid for it, as it remains within the family unit. With the above conditions in mind, Nestlé works with its partners to find appropriate solutions to address any form of child labour and also for farmers to diversify their crops so that they are less dependent on vanilla for income.

Givaudan's role in supporting our approach **Givaudan**[®]

Back in 2013, Nestlé decided to launch its Responsible Sourcing Prize for Vanilla. The approach was to better understand first our suppliers' initiatives. Therefore, Nestlé requested all global natural vanilla suppliers to present in details their projects, vision and current/expected benefits. After this prospect stage, Givaudan was awarded and has received fundings for the 2014-2016 period. In 2014, Nestlé's operation teams were in Madagascar to monitor the programme and see the real benefits for the vanilla farmers.

Vanilla is obtained through a complex supply chain, relying on thousands of small producers. 80% of the world's vanilla comes from Madagascar, so it is vital to ensure that Malagasy farmers have sustainable resources and optimized skills to produce crops of high quality and value, today and in the future.

The majority of vanilla beans are produced by small growers in rural villages, where social and educational infrastructures are poor.

The development programme initiated in 2010 by our direct supplier Givaudan (tier 1) and its supplier Henri Fraise Fils (HFF, tier 2), now supported by Nestlé, encourages the sustainable development of vanilla producing villages in the SAVA region. The main objectives cover all aspects of the industry, from the quality of the product to the living conditions of the vanilla farmers. Targets are interconnected and the achievements rely on a strong involvement of the villagers:

1. Givaudan supports villagers strengthening their food security, by promoting the System of Rice Intensification (SRI) (to increase the yield of locally grown rice, without pesticides or fertilizers).
2. Farmers are introduced to alternative sources of revenue (beekeeping, fishery, small livestock such as ducks and rabbits, handicrafts).
3. Givaudan also works to improve access to water by building wells for drinking water and hydro-agricultural infrastructures such as irrigation dams. Givaudan supports the improvement of educational and health infrastructures of the villages: 14 schools have been built or repaired and one health centre has been created up to now.
4. Actions are undertaken to support Malagasy farmers in improving vanilla bean quality by providing technical assistance.

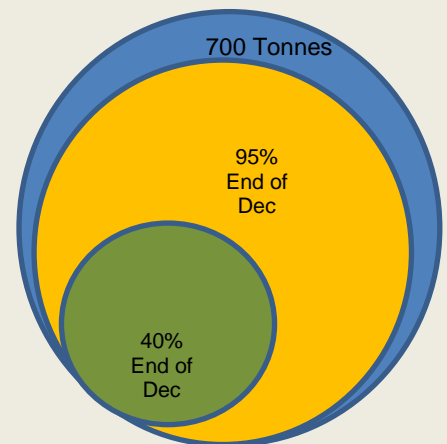
The Givaudan and HFF development programme has so far benefited 2,500 schoolchildren and provided support to almost 2,000 Malagasy families.

In 2014, Nestlé's Responsible Sourcing involvement enabled the extension of a high school and the building of a new school, fully operational since November 2014:

- In Anjinjaomby, the CEG (high school), representing 8 villages has now 3 new classrooms. It benefits 550 schoolchildren.
- In Antakôly village, the existing school, has been complemented by a new one, with 2 equipped classrooms, which benefits 170 schoolchildren.

The classrooms are being built using local, renewable materials whenever possible. Each school is equipped with benches, tables, chairs, cabinets, blackboards, water wells and restrooms. To ensure ownership, families in the villages participated in the construction and are trained to maintain it.

RESULTS TO DATE (December 2014)



Blue: Total **volume** in scope*
 Orange: **Traceable** (back to plantation)
 Green: **Responsibly Sourced**
 (RSG improvement projects; i.e. fund suppliers' initiatives)

*Volume sourced for Ice Cream and Confectionary Businesses

SPOTLIGHTS



Centre d'éducation Général d'Anjinjaomby (high school)



Antakôly village (school)



Rice fields applying SRI technique

Nestlé next steps and Action Plan

The 2014 Responsible Sourcing activities and fund allocation have enabled to better understand where support and resources are required in Madagascar. In 2015 Nestle will increasingly direct resources and fund to:

- Sponsor the building of 2 additional schools close to our sourcing locations and origins,
- Support the creation of the infrastructure for a health center, in order to provide basic health services to village and surrounding communities (experience to be replicated in 2016 based on success),
- Record and shoot vanilla sourcing activities at farm level, through the assistance of a professional film crew, to better educate and sensitize Nestle employees and consumers on the opportunities and challenges of vanilla sourcing.

Farmer Stories



Collector's house selling to Henri Fraise Fils

Brizitte Tombosoa, farmer, 4 children

"We depend on agriculture for living. I am a farmer who does not have large fields to grow rice. Fortunately we benefited from System of Rice Intensification (SRI) trainings. Since we apply the SRI techniques, we improved our rice crop; therefore we do not suffer during vanilla intercrops. Two of my children are about to start the secondary school. We were worried because the CEG in Anjinjaomby was not going to accept a lot of new students due to the lack of new classrooms. Thanks to Nestlé my children will be able to go to the CEG Anjinjaomby next year. I am very happy because it helps us a lot and it allows us not to spend money to send my children in private school."

Benoît Leroy, Henri Fraise Fils (Nestlé's tier 2 supplier)

"We are proud to be working in partnership with Givaudan and Nestlé. We operate side-by-side with local farmers to improve the quality and traceability of the vanilla supply chain and to increase yields for rice cultivations. The villagers participated in building schools for their children. Involving villagers and the school's parent association on a voluntary basis is a challenging but rich experience and everyone's dedication has truly paid off."



Mane's role in supporting our approach

After 2000, the combined effects of the Hudah cyclone, only half the plants flowering, the arrival of the Fusarium disease and the genetic thinning of the vineyards led to a dramatic speculation which put the Madagascar vanilla industry in danger. Some of the main companies acting downstream in the vanilla business decided to invest in direct and more controlled sourcing. Initially the main challenges were to get constant vanilla bean supply, price stability and better quality in terms of cured vanilla black beans. Following that, came a real concern about the social responsibility of the vanilla industry, with specific focus on child labour. The main issue however was that there was a lack of organization of the farmers and their communities.

Since 2004, our direct supplier Mane decided to explore 3 avenues to optimize its involvement in the vanilla business:

1. Creation of a 30 ha plantation company in Vohemar with vanilla hybrid plants resistant to diseases. This plantation, named Floribis (Nestlé's tier 3 supplier; vertical integration in Mane), applies good agricultural practices in terms of quality and traceability for the vanilla curing process. Floribis has committed to the UN Global Compact since 2006, has signed the MANE Purchasing & Sustainable Development Charter and the MANE Corporate Social Responsibility questionnaire. In this respect, Floribis has applied a strict policy and fought against child labour. In 2013, upon Nestlé's request, Floribis joined the SEDEX platform. Floribis has been successfully audited by SGS against SMETA ethical standards. According to Mane's Sustainable Development Policy, SGS conducted a CSR assessment of Floribis in 2014.



Mane's vanilla plantation (Floribis)

- Participation in a major local project, called the “Community Vanilla Initiative”. This involves 4 communities of 50 to 200 farmers, the Madagascar NGO Fanamby and Floribis. Based on the previous experience led with the FITAMA cooperative, the farmers’ communities are organized into cooperatives supported by Fanamby in terms of management and organization, with financing and assistance provided by Floribis & Mane. The purpose of this initiative is to have full control of the traceability, quality and availability of the vanilla and to build a sustainable partnership with the farmers. The 4 cooperatives are in place since beginning of December 2014 and will be audited by a relevant organization (i.e. SGS) in 2015. The assistance provided by Floribis & Mane mainly concerns the financing of stocked rice granaries, agricultural training, providing school furniture and the creation of a banking system.
- Partnership with major customers in order to pay a fair price for the vanilla to the farmers. The purpose is to stabilize sourcing in the long term and to motivate the farmers to improve the quality of the vanilla crops. This will enable full transparency and traceability from farm to fork.



Pupils from the FITAMA cooperative supported by Mane/Floribis

Key figures

- Of the global vanilla bean purchases made by Mane approximately 30% comes from the plantation or fully controlled source, 20% comes from known farmers and 50% from the conventional market.
- Mane invests 40,000 dollars per year in the “Community Vanilla Initiative” representing 430 to 500 farmers.
- In 2013, the Fairtrade premium was partially reinvested in building a school village for the 400 children of the FITAMA community. Mane provided them with sufficient school supplies to equip 15 classes (18 teachers) with second-hand school books, blackboards, tables and chairs. In 2014, MANE employees made a donation of 4,921 books.

Farmer Stories

Michel Hery Randrianatoavina, FITAMA's cooperative



Traditional curing of vanilla beans

“The commercial relationship we have with Floribis, since 2009, has positively impacted our life into the bush. It has reduced the rate of illiteracy among adults and has also given us the opportunity to provide education to our children. With the Fairtrade premium¹ we received, we have built in our village, school buildings for our boys and girls”

Key facts & figures to illustrate challenges in Madagascar

- Children underweight (under the age of 5): 36.8%.²
- In rural areas, 64.6% of the population don't have access to drinking water.²
- “In 2013, Madagascar made a moderate advancement in efforts to eliminate the worst forms of child labour. However, children in Madagascar continue to engage in child labour in agriculture and in the worst forms of child labour in mining.”³

¹ Minimum price paid to the farmers through the FITAMA cooperative. The premium is being used for social projects and the money left over is distributed to farmers which have to meet the [Fairtrade standards](#) to deliver the cooperative.

² Source: <https://www.cia.gov/library/publications/the-world-factbook/geos/ma.html>

³ Source: <http://www.dol.gov/ilab/reports/child-labor/madagascar.htm>