

Palm Oil Responsible Sourcing at Nestlé 2019 Progress Report

Report Summary

In 2019, Nestlé sourced approximately 455,000 MT of palm oil and palm kernel oil, achieving 62% traceability to plantation, 93% traceability to mill, and 79% Responsibly Sourced palm oil. We maintain a commitment to 100% Responsibly Sourced palm oil by 2020. To support transformation in our supply chains to meet our commitments, we spent 2019 directly engaging with our supply chain on transformation work around 45 refineries of origin in 11 countries. We focused in particular on addressing deforestation and peat development, exploitation, and smallholder inclusion.

To **address deforestation and peat development** we monitored our global palm oil supply chain with [Starling](#) satellite monitoring system to identify deforestation cases and risks, and to prioritize actions. We also supported the development of a public radar monitoring system, [Radar Alerts for Detecting Deforestation \(RADD\)](#). To support forest conservation and restoration, we supported forest protection and replanting initiatives in Malaysia, Indonesia, and Mexico.

To address **exploitation**, we continued to implement our [Action Plan on Labor Rights in Palm Oil Supply Chains](#). We worked with Verité on an in-depth review of our management systems and approach, and supported initiatives in the areas of worker voice, ethical recruitment, fair targets and payments, children in plantations, access to clean water, and conflict management.

To ensure **smallholder inclusion** in our supply chains and help build their resilience, Nestlé supported eight palm oil smallholder projects in Indonesia, Malaysia, Cote d'Ivoire, Ghana, Brazil, Peru, Ecuador, and Mexico. These projects aim to enable sustainable livelihoods for farmers while helping them produce responsibly. Seven of these projects are through the Earthworm Foundation Rurality initiative, an approach to engaging smallholders that focuses on helping them develop their own capacity through strategic use of market links and supply chains. The eighth project is in Mexico, implemented by Proforest.

This report provides further information on our progress and these initiatives.



Earthworm Foundation's Rurality team and Nestlé Global Responsible Sourcing Leader for Palm Oil, Emily Kunen, at a smallholder training in Sabah, Malaysia.



CONTENTS

Our Ambition and Commitment	3
Our Approach and Progress	3
Supply Chain Transformation	5
No Deforestation and No Peat Development	6
No Exploitation	9
Smallholder Inclusion	12
Industry Partnerships	15
Looking forward	17

Our Ambition and Commitment

We rely on agricultural ingredients for our products. **In 2010, Nestlé committed to using 100% Responsibly Sourced palm oil by 2020.** When produced responsibly, palm oil can support millions of livelihoods globally and reduce pressure on forests and sensitive ecosystems since it is a uniquely efficient crop, producing more oil per land area than any other equivalent vegetable oil crop. We remain positive about achieving our 100% Responsibly Sourced palm oil target by year end.

For us, “Responsibly Sourced” means that we know **where our ingredients come from** and that they are produced in a manner that **respects people and the planet**. The [Nestlé Responsible Sourcing \(RS\) Standard](#) describes the requirements and ways of working that we apply together with our suppliers throughout our supply chain, focusing on critical social, environmental, economic and animal welfare challenges that can affect supply, livelihoods and sustainability in our sourcing activities. It sets out basic non-negotiable standards as well as important and urgent sustainability practices that we ask our suppliers, their employees, agents and subcontractors to respect and to adhere to at all times when conducting business.

Because effective management of risks requires industry-wide action, Nestlé is also committed to driving innovation and industry transformation through partnerships with industry associations and multi-stakeholder platforms.

Our Approach and Progress

Our approach: To address social and environmental challenges in our palm oil supply chains, we partner with our suppliers and expert organizations, such as Earthworm Foundation (previously The Forest Trust (TFT)) and Verité. They help us map our supply chains back to the origins (i.e., plantations in the case of palm oil), assess and verify the sites in our supply chain (e.g., refineries, mills, plantations) against our RS Standard or equivalent standard, and develop and implement innovations to transform practices on-the-ground.

We drive our responsible sourcing operations with the objective of continuously improving the sustainability practices of operations in our upstream supply chain, all the way up to the farm level, and our preferred way of working is to partner on transformation. However, we take decisive action in the event that a supplier does not comply with effectively managing identified risks or meeting agreed deadlines for action plans.

Measuring progress: We measure our progress in two key areas: traceability to plantation and mill, and performance against our Responsible Sourcing Standard.



Figure 1. How we work on responsible sourcing of palm oil through our upstream supply chains

Traceability Responsible sourcing starts with knowing where our ingredients come from. We began tracing our palm oil supply chains to the mill in 2010 and in 2016 we increased our focus to the plantation level [see definition in the right text box]. To be able to monitor any land use change linked to palm oil in our supply chain, it is important to know not only the location of the plantation, but as well the boundaries of the concession areas in which this palm oil grows. In 2019, we started obtaining concession maps to improve the accuracy of our use of satellite monitoring to verify [no deforestation](#).

Nestlé Definition of Traceability

Traceable to Mill

- Name of Mill
- Name of Parent Company
- GPS coordinates
- Certification status

Traceable to Plantation

- Estates:
 - Name of Plantation
 - Parent Company name
 - GPS coordinates
 - Certification status
- Dealers/collectors:
 - Dealer names
 - % of overall FFB tonnage mill receives from dealer
 - Estate info (see above)
 - Smallholder info (see below)
- Smallholders:
 - No. of smallholders
 - % of FFB tonnage mill receives from smallholder annually

Responsibly Sourced We consider palm oil to be Responsibly Sourced when:

- It is verified as aligned with our Responsible Sourcing Standard by an independent assessor or audit body (such as Earthworm Foundation or a Certification Body); or
- It originates from supply chains that have shown substantial evidence of progressing towards our Responsible Sourcing Standard requirements, supported by a robust time-bound action plan. We include this in our definition of Responsibly Sourced because we believe committed suppliers can transform supply chains to meet our requirements and supporting this transformation is key to achieving a responsible palm oil industry.

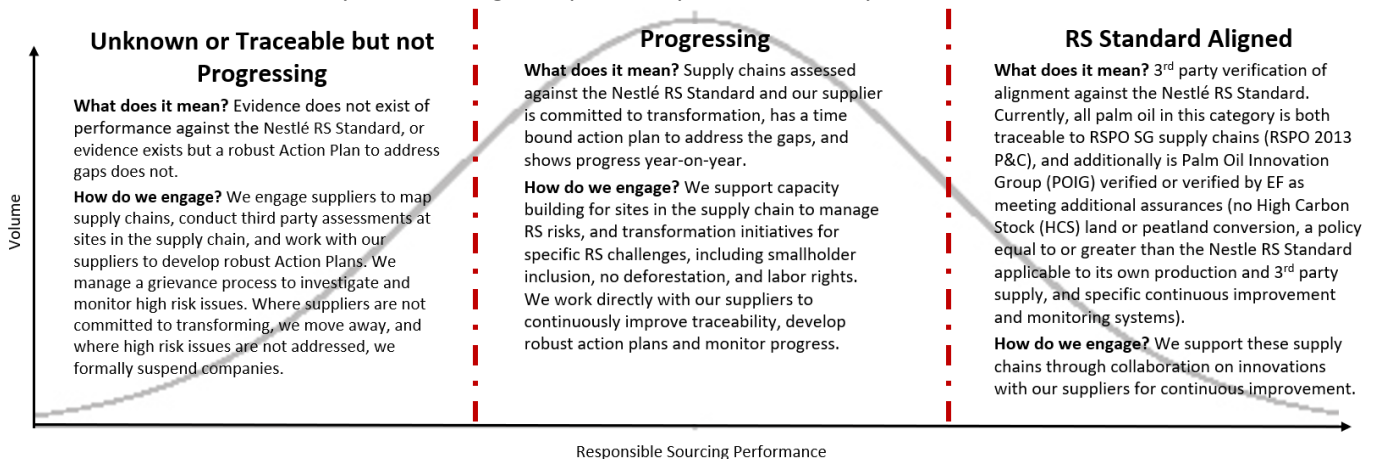


Figure 2. Depiction of Nestlé categorization of palm oil supply chain performance against the Nestlé Responsible Sourcing Standard requirements. Palm Oil in both “Progressing” or “RS Standard Aligned” is considered to be Responsibly Sourced.

Performance in 2019:

In 2019, **62% of the palm oil volumes we sourced were traceable to plantation and 93% were traceable to mill**. The palm oil we sourced came to us through 88 suppliers, originating from at least 1,624 mills in 24 countries. Most of the palm oil that we source originates in Malaysia and Indonesia, however there are also origins across Latin America, West Africa, and other parts of Asia.



Figure 3. Map from Nestlé’s Starling Satellite monitoring platform indicating the locations of palm oil mills identified in our supply chain. Numbers in the circles represent number of mills in each region.

In 2019, 79% of the palm oil volumes we sourced were Responsibly Sourced.

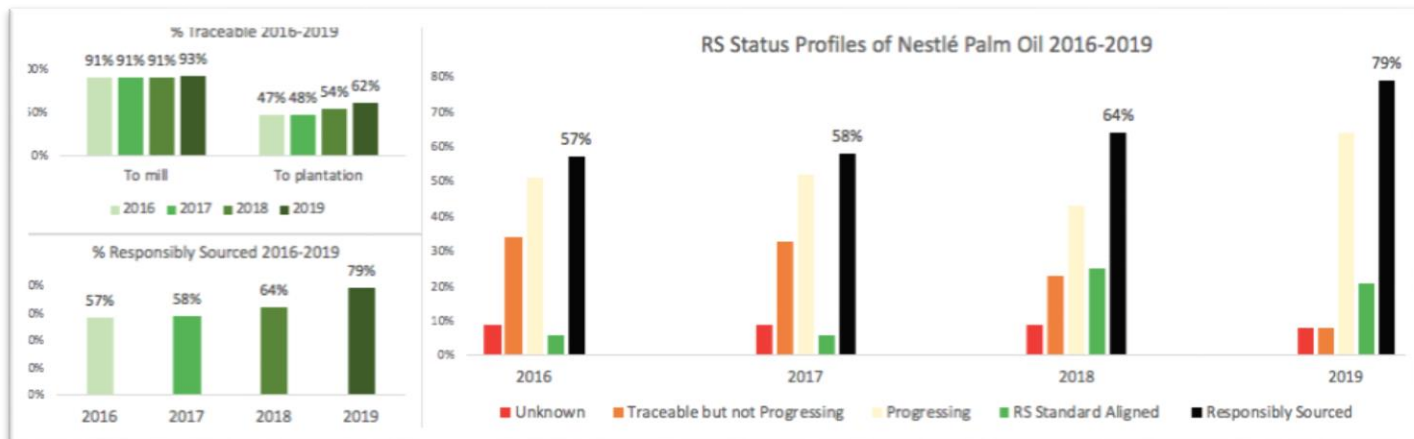


Figure 4. Progress in traceability and Responsibly Sourced performance from 2016-2019

Commitment to Transparency

Earlier this year, we updated our public list of Nestlé palm oil Tier 1 (direct) suppliers’ names and a list of the mills that supply us further upstream, each listed with their country of origin. This [list](#) represents our second public mill list, the first being published in 2018. The mills in this list represent the 91% of volume that was traceable to mill in 2018.

In 2019, we also initiated a [blockchain pilot with OpenSC](#), a platform founded by WWF-Australia and The Boston Consulting Group Digital Ventures that has the capability to give anyone, anywhere access to independently verifiable sustainability and supply chain data. The initial palm oil pilot began in the Americas and is intended to test the scalability of the system.

Aligned with our commitment to supply chain transparency, we launched a palm oil [Transparency Dashboard](#) in April, 2019. The Transparency Dashboard shares more detailed information about how we are using Starling satellite monitoring to advance our strategy to end deforestation.

Supply Chain Transformation

We engaged directly with our suppliers and sites in our supply chain in 2019, including engagement on time-bound roadmaps for 45 refineries at origin. 35 of them meet our requirements while the rest are in the process of meeting them. To address specific challenges, we supported targeted transformation activities as described below.



Figure 5. Locations of Nestlé Palm Oil Responsible Sourcing Transformation Activities in 2019

No Deforestation and No Peat Development

In 2010, [Nestlé committed to ending deforestation in our supply chain by 2020](#). Since 2010, we have been working across our supply chains to make no deforestation a reality.

An important breakthrough in 2019 was achieving global [satellite monitoring](#) coverage of our palm oil supply chain with Starling. This tool was developed by Airbus and Earthworm Foundation as a global verification system evidencing that no deforestation is taking place throughout the supply chain. We had been piloting the system in our palm oil supply chain since 2017.

Since the beginning of the year, Starling data has helped us increase our understanding of deforestation patterns around palm oil producing areas, including where deforestation occurs, what may be the drivers and who may be involved. We are using this information to identify deforestation cases and risks, and to prioritize actions within our supply chain. This has truly changed the way we manage deforestation risks in our palm oil supply chains. We shared initial findings from our work on a new [Transparency Dashboard](#).

Starling sends alerts when it detects forest cover change (deforestation) within a 50km radius of the mills in our supply chain using 31 December 2015 as the cut-off date. Based on these alerts we:

- Engaged our suppliers on Starling deforestation alerts. This engagement helped us understand their efforts to address deforestation and led to constructive discussions on where we could collaborate to accelerate progress.
- Investigated Starling alerts directly on the ground. This allowed us to gather information to inform decision making about the alert, as depicted in Figure 7.

The granular risk information from Starling allowed us to have very specific engagements with our suppliers around deforestation alerts, including to investigate several cases of potential deforestation, achieve new commitments to full traceability to plantation, and to verify no deforestation in many cases. At the same time, engagement with suppliers around specific alerts revealed significant gaps in the tools available today to mitigate deforestation risks at scale in palm oil supply chains. For this reason, we began, together with some of our suppliers and partners, to develop or improve existing tools to address deforestation where we see these gaps:



Figure 6. 2019 Starling Journey

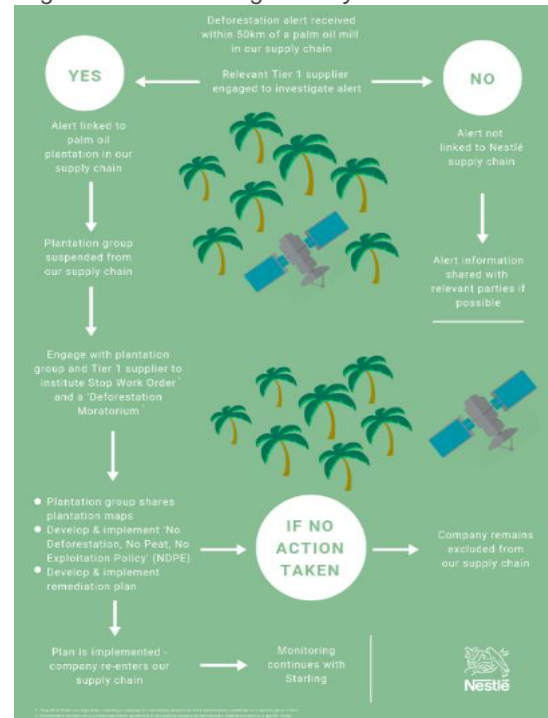


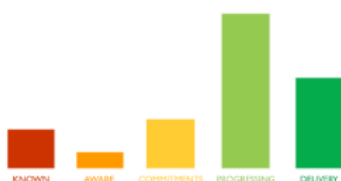
Figure 7. Starling supplier engagement process

- We funded Earthworm Foundation to develop a targeted approach to engage suppliers and mills on traceability to plantation and corresponding deforestation verification. We will roll this out in 2020.
- To address the challenge of deforestation linked to smallholders, we initiated a series of stakeholder engagements with civil society, technical advisors, suppliers, and mills in Q4 to build a tailored strategy for this challenge.
- We also reviewed all of the smallholder initiatives we are funding to integrate or strengthen their forest protection component, using Starling to prioritize smallholder communities where deforestation risks are higher and using High Carbon Stock Approach (HCSA) mapping to identify areas for conservation. This action takes place in parallel to livelihood activities, as building smallholders' resilience and forest conservation must go hand-in-hand (see [Smallholder Inclusion](#)).
- We scaled-up resources for field verifications to better respond to the data we received through Starling.



Figure 8. Field investigations of Starling alerts in Mexico (above) and Malaysia (below)

However, we believe that achieving real transformation will require increased supply chain transparency across the industry, moving beyond no deforestation towards forest conservation and achieving greater collective action on the ground. This is why we welcome and have joined an industry collaboration to develop a radar monitoring technology for deforestation, [Radar Alerts for Detecting Deforestation \(RADD\)](#). RADD will allow users to see deforestation alerts in near real time. This will complement our work with Starling through increased collaboration. This will also increase transparency within the palm oil sector as the tool will be publicly accessible. We encourage all palm oil buyers to use satellite monitoring.



NDPE Implementation Reporting Framework

commitments in palm oil supply chains. From 2020, we will encourage all of our suppliers to report no-deforestation progress using this framework.

We also believe that reporting progress towards no deforestation commitments is critical for industry transparency, progress, and accountability. Therefore, Nestlé has been working with a multi-stakeholder group, coordinated by Proforest, on the development of a reporting tool called the [NDPE Implementation Reporting Framework](#). The framework is designed to systematically and transparently track and report on progress towards delivering their NDPE policy

Monitoring and halting deforestation in our supply chains is not enough. This is why we continued to support several initiatives to conserve and restore critical forest areas. This will become an increasing part of our strategy moving forward.

- Nestlé Malaysia continued tree plantings as part of [Project RiLeaf](#) for protection of the Kinabatangan River in Sabah, **Malaysia**. To date, **880,000 forest seedlings have been planted** in degraded or deforested areas in the Kinabatangan wetlands, covering both riparian zones and forest-corridors. Since 2018, in collaboration with Sabah Forest Department, Project RiLeaf's operational area includes riparian zones within designated REDD+ sites. The project also carries out forest corridor plantings in collaboration with [HUTAN](#), and several oil palm plantations that serve to connect isolated forest areas for wildlife migration and to minimize human-animal conflict. RiLeaf remains on track to achieve its target of 1 million riparian forest plantings in 2020.



Figure 9. RiLeaf replantings

- Nestlé supported two **landscape initiatives** in **Indonesia** with Earthworm Foundation and several other companies, aimed to end deforestation via multi-stakeholder sustainable land use planning and support for local communities. The initiative in [Southern Aceh](#) obtained the first formal support from the local government, a foundational step for the work in this landscape. In the initiative in [Aceh Tamiang](#), the company owning the largest number of concessions in the district signed a forest protection and no-exploitation agreement. The work in these landscapes includes ongoing analysis and use of information from Starling satellite monitoring to inform the land use planning.



Figure 10. Indonesia landscape program training in Aceh Tamiang

- In East Kalimantan, **Indonesia**, we supported awareness raising on **protecting High Conservation Value (HCV) forest habitat for orangutans** via a workshop organized by one of our suppliers with support from Earthworm Foundation in which seven plantation companies participated. The workshop resulted in a commitment from these companies to protect orangutan habitat and the establishment of a dedicated 'Orangutan Security Taskforce.' Since the workshop, the team conducted a survey of orangutan population in the area to better understand their habitat needs, and participants in the workshop socialized their learnings about orangutan habitat protection to plantation staff and harvesters. Monitoring visits conducted in November 2019 found good progress made on the action plans developed in the workshops.
- In North Sumatra, **Indonesia** in a Rurality project with Earthworm Foundation, over 600 farmers have been involved in the development of a participatory community land use plan that includes **agreement for the protection of 3,830 hectares of forest** (see [Smallholder Inclusion](#)).

- **La Encrucijada Biosphere Reserve in southern Mexico** protects critical mangrove and wetland habitats and is also home to hundreds of families who produce a variety of crops, including palm oil. Nestlé, Grupo Bimbo, palm oil supplier Oleofinos, Earthworm Foundation, and La Encrucijada Biosphere Reserve Staff are working together on a conservation initiative for this Biosphere that includes **farmer resilience, conservation and restoration** (including eliminating invasive palm oil), and **land use planning** (including no expansion of palm oil in the biosphere reserve). In November 2019, this plan was shared with all six mills in the region and a smallholder field officer was hired to work with farmers on resilience and diversification.



In early November 2019, Nestlé, Grupo Bimbo, and Oleofinos received a "[Boscarea](#)" award from Mexican NGO "Reforestamos Mexico" for their collaborative work protecting forest ecosystems in La Encrucijada. Reforestamos emphasized the importance of supply chain collaboration and hope that this project will inspire other such collaborations in the country.



No Exploitation

In 2019, we continued to implement our [Action Plan on Labor Rights in Palm Oil Supply Chains](#), which originated with the Labor Rights Impact Assessment conducted by the Danish Institute for Human Rights (DIHR) and Earthworm Foundation in our palm oil supply chain in 2017.

Systems Review

In 2018, Verité conducted a systems review of how we manage labor rights challenges in our palm oil supply chain. In 2019, they went one step further by conducting in-depth reviews of our direct suppliers. The objective was to understand how our Responsible Sourcing Standard translates to practices throughout the supply chain. Verité conducted comprehensive labor and occupational health and safety assessments of seven mills and 11 estates in Indonesia and Malaysia that collectively employ over 4,000 workers, including interviews with over 200 workers. The assessment found that there are appropriate policies within Nestlé and our assessed suppliers that do cover the entire supply chain, however gaps inhibit that policy being realized at all upstream sites. In 2020, Verité will work with Nestlé to update our Action Plan on Labor Rights in Palm Oil Supply chains, and to strengthen these supplier management systems to more effectively address labor rights challenges.



Worker Voice

In 2018, we partnered with our supplier, Sime Darby Plantation, to create a helpline for palm oil workers in Malaysia to report human and labor rights abuses. Co-developed by the Responsible Business Alliance and solution developer ELEVATE, the helpline uses the cutting-edge Laborlink platform to enable workers to safely report on working conditions, recruitment, safety and other rights issues. The pilot of this tool was completed in 2019 and we are now developing a plan to scale it up throughout our supply chain.

Demonstrating Best Practice: An Example

A deep dive with one of our supplier's operations (one mill and one estate) in Indonesia with Earthworm Foundation resulted in 51 casual and temporary workers obtaining permanent contracts. The site is also upgrading its work target-setting system to ensure wages and working hours are in accordance with regulations. Other project outcomes include renovation and improvements to worker housing, provision of personal protective equipment to 411 plantation workers, school transportation for 90 students, septic tank installation in houses for 60 families, well installations for improved access to clean drinking water for 62 families, and empowerment of workers to participate in the labor union.

Ethical Recruitment

Deception in recruitment and debt bondage are common in the palm oil sector, in particular in the recruitment of migrant workers in Malaysia. These practices are also indicators of forced labor. This is why we undertook a series of initiatives to support ethical recruitment across our supply chains.

We sponsored twelve assessors to attend Verité's four-day Ethical Recruitment Auditor workshops in Malaysia, focused on assessment practices at employment sites. The objective of this training is to build assessment team competencies in identifying forced labor risks in migrant workers' journey, with a focus on the recruitment process, as indicators of these risks can easily be missed in employment site assessments. Amongst those trained were five internal assessors from our direct palm oil suppliers who conduct sustainability assessments of their suppliers' (Nestlé's upstream supply chain) practices; five third-party assessors from our NGO partners who conduct independent assessments in our supply chains; and two auditors who conduct Sedex Members Ethical Trade Audits (SMETA) and Roundtable on Sustainable Palm Oil (RSPO) audits of our suppliers.

We also co-funded the development of a [Human Rights Based Due Diligence Tool on Ethical Recruitment](#), to support palm oil producers to establish transparency in their recruitment practices and identify risks. This tool was launched in 2019 and will be piloted with our suppliers in 2020.



To retain migrant workers, companies may employ negative retention practices (e.g., withholding of identity documents) that could result in forced labor or labor exploitation.

Nestlé funded the production of a [video](#) to promote good employee retention practices to combat forced labor to inspire change amongst other companies.

In Malaysia, we participated in the Ethical Recruitment Multi-Stakeholder Forum, organized by Earthworm Foundation and International Organization for Migration (IOM). This forum helped raise awareness of ethical recruitment related issues, root causes and solutions, among 31 palm oil companies employing approximately 86,365 migrant workers. We also supported research by Earthworm Foundation into the recruitment practices and costs amongst small and medium sized third-party suppliers, involving 58 workers, one recruitment agent and four companies/employers. The research will be made public in 2020.

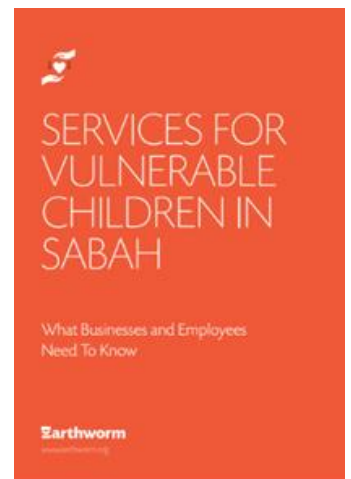
Targets and Payments

Plantations may have target-based payment systems where workers are paid based on daily targets that may be unrealistic. This system can result in payments below minimum wage, excessive working hours, or bringing family members, including children, to assist. In 2019, we supported a project to improve these systems for plantation workers, a key area for improvement identified in our 2017 Labor Rights Impact Assessment. The project was carried out by Earthworm Foundation with 13 companies in our upstream supply chain. The resulting guideline on targets and payments systems will be published in early 2020 to enable more small and medium sized palm oil companies in Indonesia to set appropriate targets and fair compensation policies for their workers.

Children in Plantations

Palm oil workers in Sabah, **Malaysia** are predominantly Indonesian migrants moving to plantations with their families. Therefore, thousands of children live on palm oil plantations, often undocumented and without access to basic services such as education and schooling. In 2019, we continued the work started in 2018 with Earthworm Foundation to raise industry awareness. A [Directory of Services for Vulnerable Children](#) in plantations in Sabah was launched, with 1500 copies printed and dissemination on-going. A [report](#) of 2018 multi-stakeholder consultations was also published. A child risk assessment framework has been developed and is now in the consultation phase to gather input from stakeholders including Civil Society Organisations and Government authorities.

In East Kalimantan, **Indonesia**, we supported Earthworm Foundation to conduct multi-stakeholder engagements with government and suppliers on two themes: Children in Plantations and the Fair Employment for Casual Workers. These consultations included a multi-stakeholder workshop in April 2019 bringing together 54 representatives from palm oil companies, government, civil society organizations and labor unions. Workshop participants discussed challenges related to these topics and co-created a draft action plan laying out how they can address these issues. Further consultations informed the development of two guidelines for suppliers, one on each topic. Both tools are a preliminary means to raise awareness for identifying child labor or the exploitation of casual workers and the immediate steps suppliers can take for reducing such risks. These documents will be socialized with suppliers over coming months and will be publicly released in Q1 2020.



Along with other palm oil buyers and our supplier, Wilmar, we launched a [program to protect children living in plantations](#), in collaboration with Business for Social Responsibility (BSR). The collaboration includes developing Child Protection and Safeguarding Implementation Manual and a series of capacity building workshops to enable suppliers to learn, discuss and implement pragmatic measures to strengthen the rights and protection of children.

Access to clean water

In 2019, the [drinking water access project](#) in Oro Province of Papua New Guinea with our palm oil supplier, New Britain Palm Oil Limited (NBPOL) and Earthworm Foundation, was completed with support from Nestlé Germany. This project is part of supporting our supplier in the implementation of their One Hour Partnership Principle, which aims to help communities within the operational footprint of NBPOL with access to drinking water, health services and education within one hour walking distance.

Twenty-eight water pumps were installed in villages in Oro province, around the plantations supplying Higaturu Oil Palm, part of Nestlé's supply chain. Approximately 7,350 people use these pumps. Water quality testing is ongoing, and community trainings on how to maintain and repair pumps, and general Water and Sanitation and Hygiene practices are planned for early 2020. People in the communities report positive feedback, such as increased time to do other activities by not needing to walk to the river to collect water and improved quality of drinking water.



Figure 11. Newly installed clean water pump

Conflict mitigation

In Guatemala, we were part of a first of its kind conflict mitigation initiative led by Advisors Social License to Operate ([ASLO](#)) and Earthworm Foundation consisting of three workshops for over 25 participants to build the industry's understanding on community and worker engagement aspects of palm oil production. Workshops covered topics such as communication channels, grievance mechanisms for local communities and workers, and building trust. Ten companies operating palm oil mills in Guatemala participated in the program.

In South America, we supported a social mapping study of governance in the Amazon involving one palm oil company and an indigenous community focusing on finding ways of improving their relationship and establishing a better social management approach for the company.

Smallholder Inclusion

Smallholders produce around 40% of oil palm globally. To ensure their inclusion in our supply chains and help build their resilience, Nestlé is supporting eight palm oil smallholder projects across regions we source from. These projects aim to enable sustainable livelihoods for farmers while helping them produce responsibly. Seven of these projects are through the Earthworm Foundation Rurality initiative, an approach to engaging smallholders that focuses on helping them develop their own capacity through strategic use of market links and supply chains. The eighth project is implemented by Proforest in Mexico. Progress with these initiatives is detailed below.



Figure 12. Locations of Nestlé funded palm oil smallholder projects in 2019



Figure 13. Participatory Land Use Planning process to identify conservation areas and areas for production

In **Indonesia**, Nestlé and our supplier, Golden Agri-Resources (GAR), support a Rurality initiative in North Sumatra. In 2019, 558 farmers were engaged in this project, totalling 2,086 farmers since the project began in 2016. This year, the GAR and Rurality teams provided **technical support on oil palm cultivation** to 351 farmers through trainings and individual coaching. The project also supported value-added activities with dealers, resulting in one third of dealers now providing **access to fertilizer** to farmers in addition to their traditional role as fruit collectors. For long-term sustainable land use planning that delivers sustainable livelihoods and forest conservation, five villages are participating in a **Participatory Land Use Planning (PLUP)** process, which aims to clarify the

legal status of ownership and land use across the region. To date, communities have agreed to **conserve 3,830 hectares of forest** through this process. Additionally, over 6,000 hectares were identified for conservation but further PLUP consultations will continue in 2020 for final agreement. For the conservation areas selected by the communities, the next step for the project is to obtain district government recognition and support for the forest conservation management activities.

In Sabah, **Malaysia**, the Rurality project continued to focus on **improved interactions and more stable relationships between supply chain actors** through the creation of WhatsApp groups involving more than 187 farmers and 16 face-to-face gatherings at dealer and collection centre sites. The participating mill reported 200% volume increase compared to previous years that they attribute to these improved interactions. 71 smallholders participated in an **alternative livelihoods** program, to increase resilience to shocks in the palm oil market. This program consists of trainings on market studies, establishment of farmer groups, and support for market connections for alternative livelihoods, such as handicraft making, goat rearing, bee farming, and birds nest production. As productivity and farm practices were key needs identified in the initial project diagnostic in 2015, 84 farmers in the project were engaged this year to implement best management practices on their farms, and 186 smallholders were supported in obtaining Malaysian Sustainable Palm Oil (MSPO) Certification. Lastly, the project continues to address the Human Elephant Conflict (HEC) in the region to protect the elephants and farmers as elephants increasingly travel through farms and plantations. The teams continue to monitor 7,580 hectares of land in conflict with elephants and in 2019 a new HEC committee was established to lead and manage long term strategies.



Figure 14. Field demonstration in Sabah, Malaysia



Figure 15. Farmer meeting in Ghana

In **Ghana**, Nestlé supported Rurality's transformation phase for three and a half years, culminating in 2019. Transformation work focused on (i) group trainings and individual on-farm coaching on best management practices, safe chemical usage, and sustainable environmental land use, (ii) better access to information, inputs, tools, and services for farmers, (iii) support for farmers' associations and groups and (iv) increased farmers' resilience through alternative livelihood support. 350 farmers were engaged in total. In 2019, the focus was to transfer successful Rurality solutions to project partners for continuation of activities after the project end. As part of this work, the mill appointed one full time staff to work on incorporating Rurality solutions into the mill's smallholder engagement strategy.

In **Côte d'Ivoire**, the Rurality team trained 35 technicians from cooperatives and six representatives from the participating mill on geolocation and mapping, enabling the mill involved to obtain 100% **traceability to plantation**, with geolocation of 4000 farmers, and full mapping of 221 of those farms. In addition, the work facilitated greater exchanges between different actors in the supply chain, which improved relationships and information exchange between mills and cooperatives. Farmers benefitted from these exchanges by obtaining **more accurate and regular price information**. The Rurality team also established a number of community projects to increase resiliency and diversify livelihoods, including **food crop cultivation and tree planting**. As an example, 25 women were trained in vegetable production for market as an additional source of income. Lastly, the project focused on Best Management Practices for farms, training over 200 farmers in **better agricultural practices and business practices**, with the result of more than 50% average increase in productivity from farmers who implement these practices. This work was accompanied by setting up **community-based oil palm nurseries** to give farmers access to quality seedlings for replanting



Figure 16. Cote d'Ivoire Rurality Project Participants

In **Peru**, our Rurality project focused on carrying out a High Carbon Stock (HCS) and High Conservation Value (HCV) trial study at a landscape level in an area with a high concentration of smallholder farms. The field team designed the study, engaged stakeholders, and began the fieldwork. In parallel, 62 farmers were trained on conservation and HCS and HCV. To scale this impact, a strategy was developed with our supplier in the region to raise awareness among the rest of the farmers who have been preliminarily identified as having HCS and HCV areas on their property. To build sustainable

livelihoods with these conservation activities, initial groundwork was completed to identify livelihood diversification opportunities, including the preparation of business profiles on bamboo, pig and poultry farming, and socialization of these profiles with farmers.

In **Ecuador**, an oil palm disease is threatening smallholder livelihoods that depend strongly on their income from oil palm. To address this key challenge, Rurality is taking a two-fold approach: it works on a replanting program for affected smallholder farmers while strengthening farmer resilience through livelihood diversification, environmental protection, and increased participation by younger generations. A pilot **replanting** programme was developed with a network of stakeholders including the private sector, a bank and public sector authorities from national and local level. The pilot includes 31 farmers who expressed interest in replanting their oil palm. Lessons learned from the pilot will allow application of this programme at a larger scale. To reduce farmer dependency on palm oil, 15 farmers started **livelihood diversification** activities and received trainings on comprehensive farm plans and preparation of bio-inputs and family farms. With the aim to generate alternative business opportunities for farmers, Rurality started collaboration with companies that can provide



Figure 17. Farmer training in Ecuador

relevant inputs or provide access to alternative markets. For sustainable livelihoods, **watershed protection** is critical in this region and so the project included the formation of a group of 18 farming families working on watershed preservation, including reforestation and activities for river and estuary protection.



Balancing smallholder livelihoods and forest conservation

In 2019, data provided through Starling satellite monitoring showed us the prevalence of small-scale forest clearance patterns within and around our supply chain. This corroborates scientific literature pointing out to an increase of clearances by small-scale farmers. Based on this, we reviewed all the smallholder initiatives we are funding this year to integrate or strengthen their forest protection component, using Starling to prioritize smallholder communities where deforestation risks are higher and using High Carbon Stock Approach (HCSA) mapping to identify areas for conservation. This action takes place in parallel to livelihood activities, as building smallholders' resilience and forest conservation must go hand-in-hand. In November, we participated in a panel on this topic at the Innovation Forum Sustainable Landscapes and Commodities Forum in London and a subsequent [Innovation Forum Podcast](#) with our supplier Golden-Agri Resources and partner Earthworm Foundation.

In **Brazil**, three capacity building workshops were held with pilot farmers to address previously identified challenges: property management, family business, financial management, and oil palm agricultural practices. The workshops were followed by direct technical assistance to 60 smallholder farmers. In addition, 28 smallholders were trained in sustainable production practices to achieve higher productivity. Preparations were made for training in diversification through agroforestry systems and strategies to build associations and cooperatives. A partnership was formalized between Rurality and the Federal Institute of Technology of Pará (IFPA) for support in training and coaching with cooperatives and associations. Previously, a financial tool was developed to enable farmers to better control costs and monitor household income. After the first post-training visits, it was observed that the participants were not using this tool. For this reason, a monitoring plan was prepared to provide support to use the tool and the tool will be reviewed.

In Chiapas and Tabasco **Mexico**, the Mexico Palm Oil Holistic Program is a collaborative effort from Nestlé, Pepsico, [Oleopalma](#), RSPO, [Proforest](#), and [Femexpalma](#) to support the sustainable development of the Mexican palm oil sector. This program was launched in 2017 and Nestlé joined in 2018 with the objective to increase the smallholders' resilience to market changes and develop new tools that will help conserve forests, while improving livelihoods. The program goals are to achieve sustainability in the Mexican palm oil sector, create the business case for the inclusion of smallholders in responsible supply chains, and to implement best practices to prevent deforestation and exploitation.



Figure 18. Training as part of the Mexico Palm Oil Holistic Program

In 2019, a livelihoods assessment was conducted to understand smallholder needs and opportunities. The 2019 work then started with a focus on one of the main challenges for the participating palm oil smallholders: lack of access to fertilizer and resources to increase yields. To support a long-term solution, this program conducted soil and foliar analyses and mapped fragile and marginal soils to determine practices that protect soil and water, while increasing fertility in a cost-efficient way. The program

developed a financial guide to support smallholders in understanding how they can access credit and finance their agricultural inputs. Additionally, several farmer trainings were held on best agricultural practices and social and environmental practices, and farmer associations were supported on organizational and management skills. To advance health and safety conditions, personal protective equipment was distributed. Lastly, demonstration farms were established where smallholders and local communities joined hands-on trainings on sustainable oil palm production within their own communities.

Industry Partnerships

To address the key challenges in our supply palm oil supply chains, we cannot work alone, and therefore we continue to increase our collaboration with industry partners to achieve lasting change.



High Carbon Stock Approach (HCSA) Steering Group: Nestlé joined the [HCSA Steering Group](#) in October 2018 with the ambition to help make the HCS Approach, which is a core part of the Nestlé Responsible Sourcing Standard, the norm in tropical forest conservation. In 2019, we funded three initiatives to advance this ambition:

- In **Mexico**, we provided funding to support a landscape-scale HCSA pilot with Earthworm Foundation. This project is conducted in partnership with another brand, and covers a 240,000 hectare landscape dominated by smallholder farmers who produce a variety of crops, including palm oil. In 2019, a preliminary indicative HCS map was created for a key conservation landscape, along with mapping the land tenure in the project area to clarify communal and private land.
- In Tocache, **Peru**, we funded Earthworm Foundation to conduct a study similar to the 'social baseline study' required in the HCSA Toolkit for large-scale concessions, followed by land cover mapping. The objective of this work is to develop a land-use planning tool and methodologies to support conservation areas in a smallholder agricultural context using a landscape approach.
- Lastly, to support the use of the HCSA with smallholder farmers, we provided co-funding for the trialling in **Indonesia** of a simplified approach to identify, manage and monitor HCS forest and HCV areas through a practical guidance and checklist for smallholders.

Roundtable on Sustainable Palm Oil (RSPO): We continue to increase our sourcing of RSPO certified palm oil, with a preference for physically segregated RSPO SG certification, towards our commitment of 100% RSPO certification by 2023. In 2019, we reported our 2018 certified sourcing: 135,617 MT of RSPO SG palm oil and palm kernel oil (31%) and an addition 75,250 MT Book & Claim Credits (18%). In 2019, we joined the newly formed RSPO Assurance Standing Committee as its Consumer Goods Manufacturer representative, and actively participated in the various consultation processes around RSPO's Smallholder Standard (new in 2019) and Shared Responsibility principles.

Consumer Goods Forum (CGF): As Board members of the CGF, we are actively involved in various of its initiatives, including those addressing challenges in the palm oil sector. For example, we are actively working with other members as part of its Palm Oil Working Group, which seeks to address both environmental and labor rights challenges at industry level. Through our participation in the working group, we contribute to shaping the CGF's agenda and drive



best practices within the industry. In 2019, we actively provided feedback and shared key learnings to help develop CGF's post 2020 [deforestation](#) and [human rights](#) strategies. On the topic of deforestation, we shared our learnings and challenges in addressing deforestation within our supply chains based on our experience using Starling satellite monitoring data. Among other things, we highlighted the tools that are currently missing to addressing the most complex deforestation patterns we are witnessing and called for more industry collaboration to come up with innovative solutions. On the topic of Responsible Recruitment, we participated in a series of regional roundtables on driving responsible recruitment in Myanmar, Malaysia, and a global forum in Thailand, hosted by the CGF, Institute for Human Rights and Business (IHRB)'s Leadership Group for Responsible Recruitment, Humanity United, and the Responsible Business Alliance's Responsible Labor Initiative.

One Planet for Biodiversity (OP2B) coalition: In 2019, we [joined](#) the newly created OP2B, an international business coalition on biodiversity with a specific focus on agriculture. One of the three pillars of the coalition aims to eliminate deforestation and enhance the management, restoration and protection of high value natural ecosystems. Specific actions within the value chains of the coalition members will be defined in 2020.



Looking forward

We are committed to achieve 100% Responsibly Sourced palm oil by the end of 2020, including ensuring that the palm oil we buy is in line with our commitment to No Deforestation, No Peat, and No Exploitation.

For the last ten years, we have been using a combination of tools, including supply chain mapping, certification, Starling satellite monitoring, and on-the-ground verification, to ensure that the palm oil we buy is not linked to deforestation. We will continue to work with smallholder farmers and large suppliers alike to close the gap towards our no deforestation commitment. However, achieving real transformation on the ground will require moving beyond a focus on no deforestation towards forest conservation and restoration, achieving greater collective action on the ground. We will increase our work in conservation and restoration as well as increase our focus on work in specific landscapes at a jurisdictional level. Our recent commitment to the [‘Business Ambition for 1.5°C’ pledge](#), under which we committed to net-zero greenhouse gas (GHG) emissions by 2050, will also push us to seek new innovations to reduce our GHG emissions through restoration and conservation activities among others with our palm oil suppliers.

Our work on human rights in palm oil started in 2017 with a [labor rights impact assessment](#) focusing labor rights in our upstream supply chain. Since then, we have developed and implemented an [Action Plan on Labor Rights in Palm Oil Supply chains](#), supported the development of a number of tools and continued to engage with our suppliers to raise awareness and help them develop their own action plans. In 2020, we will work with Verité to update our Action Plan on Labor Rights in Palm Oil Supply chains and we will focus on the following:

- Strengthen our supplier management systems to more effectively address labor rights challenges.
- Expand workers’ access to worker voice systems based on our successful pilot with Sime Darby Plantation and ELEVATE.
- Continue to raise awareness and build the capacity of our suppliers to implement responsible recruitment processes within their operations.
- Drive the implementation of fair compensation systems for palm oil workers in our supply chains.
- Raise awareness and build the capacity of our suppliers to address risks of children in plantations.

Smallholders will remain a core focus of our palm oil responsible sourcing work. Going forward, we will focus on approaches to scale up the initiatives and approaches that we fund today to ensure that smallholders in our supply chains have resilient livelihoods and produce according to responsible production practices.

Supply chain transparency is key to accountability and demonstrating progress. This is why we make public the list of our [palm oil suppliers and mills](#) in our supply chain, report progress against our [no-deforestation](#) commitment, and published our palm oil [Transparency Dashboard](#). We will continue to report on progress and challenges and will continue to participate in the development and roll out of the [NDPE Implementation Reporting Framework](#).

Effective collective action and collaboration on the ground as well as engagement with governments at national and regional levels are also key. This is why we are actively involved in a number of collaborative initiatives, including the Consumer Goods Forum’s palm oil working group, the HCSA Steering Group, the RSPO’s Assurance Standing Committee, and the OP2B Coalition. We will continue to use our voice to drive positive change through these groups, including advocating for greater sector transparency and traceability, the development of missing tools, and greater collaboration for the inclusion of smallholders in supply chains.

For additional information We appreciate your continued engagement on the responsible sourcing of palm oil at Nestlé. If you have any questions, comments, or suggestions, please contact us at creatingsharedvalue@Nestlé.com.