

**FERRERO**

# **COCOA ACTION PLAN**

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## FERRERO RESPONSIBLE SOURCING APPROACH

Responsible sourcing is embedded in the way Ferrero does business. At Ferrero we take a continuous improvement approach to responsible sourcing. Our approach is built around supplier management and a robust due diligence, traceability and transparency, certification and standards. We know more can be achieved together and long-term partnerships and collaborations are essential. We take a risk-based approach and when needed we invest in our supply chains through targeted programmes to improve their environmental, social and governance (ESG) conditions and their overall standards. Through the activities of our sustainability programme, Ferrero Farming Values (FFV), we work to make a difference to the supply chains in which we operate.

Our responsible sourcing approach is founded on four steps (illustration on the right). **Our Supplier Code** reflects our basic requirement of Supplier Risk Management (Due Diligence). The building blocks above this step refer to our Charters being developed for our key raw materials, including hazelnuts, palm oil, cocoa and others. Learn more in our **Ferrero Group Sustainability Report**.

The Cocoa Charter sets out our vision for a truly sustainable cocoa industry which, through continuous improvement, is good for people and nature and creates value for all. The Charter outlines our long-term commitments, with specific mid-term objectives (2023). This Action Plan sets out how we will work towards achieving them.

At Ferrero we don't simply buy products, we manage and nurture our supply chains. Our ambition is to be a driving force behind the transformation towards a responsible cocoa sector where the livelihoods of smallholders and farming communities are improved, children's rights are respected, and the environment is protected and enhanced through sustainable agricultural practices.

## FERRERO COCOA ACTION PLAN

## THE FOUR-STEP RESPONSIBLE SOURCING APPROACH IS ALIGNED TO OUR POLICIES AND GUIDES THE CHARTERS FOR OUR KEY RAW MATERIALS:



Applicable to all our suppliers: Due Diligence

Applicable to all our key materials



# HOW WILL FERRERO IMPLEMENT THE COCOA CHARTER

## COCOA CHARTER

The **Cocoa Charter** lays out our **Responsible Sourcing Ambitions** and **Commitments** through 2023

## COCOA ACTION PLAN





A related **Action Plan** transforms our Ambitions and Commitments into **concrete actions**, highlighting key milestones.

## COCOA PROGRESS REPORT

Periodic **Progress Reports** will share the **latest evidence** and **challenges** on our journey to achieve the milestones outlined in our Action Plan.

The Charter lays out our requirements and commitments for sourcing cocoa responsibly.

Within this Action Plan we outline the steps we're taking to meet our commitments. Additionally, we will transparently share not only our progress, but also the challenges we face along the way. Every year, we will do this by publishing a Progress Report.

RESPONSIBLE SOURCING APPROACH	CHARTER REQUIREMENTS AND COMMITMENTS	KEY ACTIONS
 Programme(s)	<b>PILLAR I:</b> Sustainable Livelihoods	Number of farmers with Farm Development Plan Number of people supported with IGA <sup>1</sup>
	<b>PILLAR II:</b> Human Rights and Social Practices	Percentage of farmers' groups with Child Protection Systems such as CLMRS <sup>2</sup> Number of children reached via holistic Community Development programmes <sup>3</sup> Number of VSLA <sup>4</sup> groups established
	<b>PILLAR III:</b> Environmental Protection	Hectares of cocoa farms with agroforestry in development
 Standards and Certifications	<b>PILLAR I:</b> Sustainable Livelihoods	Percentage of cocoa sourced responsibly <sup>5</sup> Percentage of cocoa sourced with LID <sup>6</sup>
 Supply Chain Visibility	<b>PILLAR IV:</b> Supplier Transparency	Percentage of cocoa sourced traceable to farm level
 Supplier Risk Management Due Diligence	Basic Requirements - Due Diligence	Percentage of Supplier Code acknowledged

<sup>1</sup>Income Generating Activities

<sup>2</sup>Child Labor Monitoring and Remediation System

<sup>3</sup>Implementing partners: Save the Children and suppliers

<sup>4</sup>Village Savings and Loans Associations

<sup>5</sup>Sourcing is done through certification and independently managed standards

<sup>6</sup>Applies to Ivory Coast and Ghana only





# 01

## SUSTAINABLE LIVELYHOODS

**Foster a more equitable value chain for the people involved in cocoa production**

**Commitment:** *Support cocoa farmers to prosper.*

### What does this commitment mean?

Cocoa farmers face significant challenges to secure a sustainable living. We recognise that poverty is among the main root causes of systemic issues in the cocoa sector such as child labour and deforestation. To be a driving force behind a cocoa sector where cocoa production creates value for all, we have to put farmers at the centre of our efforts.

We commit to contribute in a meaningful way to ensure the necessary conditions are in place to make cocoa farming a profitable business for farmers and to improve their resilience to climatic, natural resource, and market shocks.

### How will we work towards our commitment?

Improving farmers' livelihoods needs a mix of strategic interventions. Through our Cocoa Programme, we will provide targeted support to farmers through Farm Development Plans and Income Generating Activities to help increase their cocoa productivity and diversify their income. We also pay a cash premium to farmers on top of the commercial price for the purchased cocoa and we have committed to pay the USD 400/mt Living Income Differential.

We know that change can only happen if the right enabling environment is also there for farmers to prosper. Key aspects to this are: implementing policies on land tenure and other key areas; targeted land-use planning; reducing pressure on forests, ecosystems, biodiversity, and natural resources; and ensuring collaboration at local, national and international level with other key stakeholders to drive lasting change at scale.



# 02

## HUMAN RIGHTS AND SOCIAL PRACTICES

**Contribute to the holistic wellbeing and development of children in cocoa - growing communities by reducing the risk factors for child labour in cocoa farming.**

**Commitment:** *Protect children and provide joyful growth.*

### What does this commitment mean?

We are strongly committed to promoting human rights throughout the global supply chain and supporting families to enable joyful growth for children. It is critically important that children are not involved in any form of child labour, **particularly its worst forms**, as this can seriously damage their physical and mental wellbeing. Children also need to have access to quality education, good nutrition and basic necessities like clean drinking water.

Although it is much less prevalent, we also recognise the issue of adult forced labour in the cocoa sector and we commit to taking action together with our key stakeholders to mitigate and prevent it.

### How will we work towards our commitment?

The prerequisite for tackling child labour effectively is to have reliable Child Protection Systems in place that can 1) identify households at risk of child labour in our cocoa supply chain; and 2) remediate any cases that are identified. The objective is to integrate the systems we implement in our cocoa supply chain into the broader national systems.

**Already today, 96% of Ferrero-dedicated farmer groups are covered by the Ferrero CLMRS or an equivalent system.**

In addition, together with our strategic partner Save the Children, we are implementing a holistic Community Development approach that has a strong focus on child labour prevention in communities in our cocoa supply chain. To ensure coordinated action and maximize the impact of this, we are actively engaging with key stakeholders including local and national authorities, industry and NGOs.

Save the Children also helps ensure that all sustainability programmes implemented by our suppliers in Ivory Coast and Ghana take a harmonised approach to child protection.

Our Cocoa Programme has a strong focus on women's empowerment. We acknowledge the critical role of women as agents for economic, environmental and social change, and for ensuring child protection.

We strive to contribute to positive change across the entire cocoa value chain, so also beyond our own supply chain. We do this through multi-stakeholder platforms such as the World Cocoa Foundation, the International Cocoa Initiative and collective initiatives like the [Child Learning Education Facility \(CLEF\)](#).



# 03

## ENVIRONMENTAL PROTECTION

**In partnership with our suppliers, actively protect standing forests and/or restore natural forest areas, and support farmers to convert to agroforestry systems and become more climate resilient**

**Commitment:** *Contribute to end deforestation and promote biodiversity.*

### What does this commitment mean?

We recognise the role that forests, ecosystems, soil, pollinators and water play in regulating our climate and ensuring a healthy, biodiverse home for humans, plants and animals. The rate of deforestation and forest degradation threaten to undermine the resilience of the cocoa sector and negatively impact the livelihoods of the millions of smallholder farmers who depend on cocoa for their income.

We commit to having a cocoa value chain – and in particular cocoa production – that not only preserves the environment (particular focus on High Conservation Value (HCV) areas), but also becomes a best practice for the conversion to agroforestry and climate-smart farming systems. It should also be a positive driver to preserve and regenerate biodiversity, soils, and water sources.

### How will we work towards our commitment?

The governments of the Ivory Coast and Ghana and a growing number of leading cocoa and chocolate companies including Ferrero have joined together in the Cocoa and Forests Initiative (CFI) since 2017. Through our activities under the CFI we strive to contribute to end deforestation in the cocoa sector and to promote socially and environmentally sustainable cocoa production.

A key priority within CFI is to support the transition towards "[climate smart cocoa](#)" and the conversion of cocoa farms to agroforestry systems to enhance farm biodiversity, improve soil health, support income diversification and make farmers more resilient to climate change.



# 04

## TRACEABILITY, RISK ASSESSMENTS AND TRANSPARENCY

**Know where our raw materials come from and foster data management and reporting**

**Commitment:** *Realising a transparent and compliant value chain, traceable to the farm level.*

### What does this commitment mean?

Traceability is essential to build a sustainable value chain. It enables us to monitor where our cocoa comes from and to verify the conditions under which it is produced.

For us, traceability is more than a numbers exercise. It is a commitment to foster a deep understanding and relationship with our partner businesses and farming communities. It will give us a more precise understanding of the challenges to be addressed, and will generate benefits across the sector.

Transparency also enables us to accurately inform our stakeholders of our progress and the challenges we face along the way.

### How will we work towards our commitment?

We will work towards further enhancing the visibility of our value chain by strengthening partnerships with our suppliers and by leveraging the most advanced technology available.

We will develop a cocoa-dedicated platform that gives us visibility over our entire supply chain. This platform will make it possible not only to trace the cocoa we source from the farm – an area where Ferrero has already made a lot of progress in the past years –, but also to perform risk assessments and check compliance.

Each year we will update the public list of [tier-1 suppliers and farmer groups](#) in our cocoa supply chain on our website and will publish a progress report on the implementation of our Cocoa Charter.



# GLOSSARY

TERM	DEFINITION
Agroforestry	<p>“Cocoa agroforestry” describes production systems that incorporate and maintain non-cocoa tree species on the same plot as cocoa production. There is no single model for how cocoa agroforestry systems can be implemented or designed, and the many options available make it possible to achieve multiple benefits. The design of cocoa agroforestry systems should reflect the broader landscape and enabling environment as well as farmer preferences and capacity. Depending on the design features of the system, cocoa agroforestry has the potential to deliver a range of benefits to the environment, climate, cocoa production, and socio-economic systems. In doing so, it can address deforestation, farmers’ livelihoods, and forest restoration.</p>
CLMRS	<p>A Child Labour Monitoring and Remediation System is a proven concept targeting prevention, mitigation and remediation assistance at children involved in or at risk of child labour, their families, and communities. The objective is to have these supply chain or community-based systems integrated into national systems, in order to create fully integrated systems</p>
ESG	<p>Environmental, Social, and Corporate Governance is an evaluation of how an organisation takes social and environmental factors into account. Typically, it is a score assigned by data surrounding specific metrics related to intangible assets within the enterprise. Supplier Chain Visibility: Ferrero works with Sourcemap on the journey to full traceability to farm level.</p>
Farm Development Plan	<p>Together with our partners, we provide individual farm and financial management coaching to selected cocoa farmers. Following a thorough assessment, we develop Farm Development Plans that are tailored to their specific situation, socio-economic position, and motivation level. FDPs have a strong focus on improving productivity but also support farmers to diversify their farms and implement agroforestry systems. The duration of the FDP can vary from three to seven years. During this period, farmers are monitored to track the implementation of their FDP and given support where relevant.</p>
Ferrero Farming Values programme	<p>Through the Ferrero Farming Values programme, we support farmers in adopting sustainable agricultural practices aimed at increasing cocoa productivity by protecting both people and the planet.</p>
High Conservation Value (HCV)	<p>High Conservation Value Areas (HCVAs) are natural habitats that are of outstanding significance or critical importance due to their high biological, ecological, social or cultural values. <a href="https://hcvnetwork.org/">https://hcvnetwork.org/</a></p>



# GLOSSARY

TERM	DEFINITION
Income Generating Activities	IGAs are small businesses managed by individuals or groups to diversify and increase household income. Examples include on-farm activities such as the production of fruit and vegetables that can be used for own consumption or to sell locally, or off-farm activities such as beekeeping or running small shops. IGAs help farmers to be more resilient and to cope better with cocoa price fluctuations.
Living Income Differential (LID)	The governments of Ivory Coast and Ghana introduced the LID in 2019 to increase cocoa farmers' income to help them achieve a living income. As of the 2020/2021 season, companies that source cocoa from these two countries pay USD 400/mt to the Conseil du Café-Cacao and Ghana Cocoa Board, the cocoa-regulating bodies of Ivory Coast and Ghana, as a premium on the export price of cocoa. Ferrero has publicly committed itself to the LID.
Polygon farm mapping	Ferrero requires its suppliers to map the farm boundaries of the farmers in the cocoa supply chain. One of the main reasons for this is to verify that there are no farms located in protected forest areas and to avoid illegal cocoa entering the supply chain. The maps are also used to calculate more accurate cocoa yield estimates and to measure historical forest loss and future deforestation risk.
Satellite monitoring system	Combination of satellite imagery and on-the-ground expertise to monitor land cover change and forest cover disturbance in near real time.
Supplier Code	Across our supply chain, suppliers are required to sign our Supplier Code, which sets out our responsible sourcing expectations. Acknowledgement for Ferrero means the supplier has signed the Supplier Code.
Standards and Certifications	Ferrero remains committed to credible external verification for both its own operations and those of its suppliers along the value chain. This involves recognised certifications and other independently managed standards.
Traceability	Ferrero works closely with all its suppliers on the journey to achieve traceability to the farm level by sourcing physically traceable cocoa from dedicated farmer groups. For cocoa beans processed in-house, responsible sourced cocoa beans are kept separate from ordinary cocoa beans throughout the supply chain, also called "Segregated". Ferrero has also committed to have all farmers in its supply chain mapped.
Village Savings and Loans Associations	VSLA groups are self-managed groups of usually about 15-25 individual community members who meet regularly to save their money in a safe space and have access to small loans that can be used for purposes such as setting up small business activities and paying for children's schooling. VSLA groups have also proven to be an effective way to contribute to women's empowerment.



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