



***Summary of 2016
Verification
Assessments
Lindt & Sprüngli
Farming Program***

March 2017

Background

The [Lindt & Sprüngli Farming Program](#) aims to improve the livelihoods of farmers and their families, by improving agricultural, social, environmental and business practices at field level. Initiated in 2008, the program forms the cornerstone of Lindt and Sprüngli’s sustainable sourcing strategy in the cocoa supply chain, and is so far in place in Ghana, Ecuador, and Madagascar. Currently more than 55,000 smallholder producers participate in the program, which works to support farmers and promote the use of sustainable farming practices.

The [Lindt & Sprüngli Verification Guidance Document](#) is the mechanism for defining principles, setting goals and prioritizing voluntary requirements to drive innovation and improve practices in the field.

The Farming Program comprises 4 key components:

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| 1. | Traceability & Farmer Organization | Farmers are organized in structures that suit to the local characteristics. Traceability is built up to community, and where feasible, up to farm level. This step also includes the gathering of baseline data, on which the capacity creation & training, as well as improvement activities are based on. | TRACEABILITY |
| 2. | Training & Capacity Building | Farmers are – if necessary – trained in good agricultural, environmental, social and business practices. Other people involved in our programs receive the required capacity creation and training. | IMPROVEMENT ACTIVITIES |
| 3. | Farmer Investments & Community Development | Farmer and community development is – if necessary – supported with investments in farm extension services (e.g. plant protection products, personal protective equipment, nurseries & new plants) and community development activities (e.g. boreholes, health services). | |
| 4. | Verification and Continuous Progress | <u>Internal Monitoring & Performance Management:</u> Internal monitoring and performance management systems verify if farmers follow good farming practices (agricultural, environmental, social and business), evaluate improvements and define corrective actions <u>External Assessments:</u> The Programs, including the functioning of the internal monitoring & performance management system is externally assessed, and corrective actions defined | VERIFICATION |

The goal of the verification is to assure the effectiveness of the Program and to monitor the progress. TFT’s role is to evaluate how local direct suppliers create, manage, and adapt systems for traceability; farmer training; farmer investments & community development, and monitoring in response to changing local conditions.

This summary of verification activities points out the most important findings (challenges and strengths) and recommendations.

2016 Overview

TFT conducted four assessments in 2016 in three different countries, Ghana, Ecuador and Madagascar, each in different stages of program implementation. In Ghana, the Lindt and Sprüngli Farming Program works with 1 supplier sourcing from over 50,000 smallholders. In Ecuador, the Program now works with 2 suppliers which source from over 3,000 smallholders in the Coastal Region. While in Madagascar, the supplier sources from 700 farmers.

Ghana

| Project Overview – Ghana Supplier 1 | | | | |
|-------------------------------------|---|------------------------|---------------------|--------------------------------|
| Farming Program initiated in | February 2008 | Visit timeframe | October 12-19, 2016 | 2 nd TFT assessment |
| General description | 52,757 registered farmers from 43 districts located in the South-West part of the country; and 1,419 societies of which 19 districts and 9 societies have been visited during the field assessment. | | | |

| | Strengths | Recommendations |
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| Traceability & Farmer Organization | | |
| | <p>The Ghanaian L&S supplier has put in place a strong traceability system with an important data collection and a tagging procedure. This is quite remarkable in a cocoa industry. In general, field visit reveal that practices comply with the SOP in place.</p> <p>The transparency of the supply chain starts at the farm level, and then at the farmer level until the district. Farmers sell the cocoa beans to Purchasing Clerks (PC) in charge of Lindt & Sprüngli dedicated societies. At the society level, the PC is tagging each bag and filling an evacuation way-bill to transport the bags to the district. All the weighting scales verified during the 2016 visit measured accurately.</p> <p>The cocoa farms mapping process is on-going. Maps will be distributed to each farmer starting Q2 2017. Farmers have been given passbooks to register their productions.</p> <p>On top of that, the Ghanaian L&S supplier has collected relevant information regarding each farmer (about their practices, their environment, their relatives, etc.).</p> | <p>It is necessary to implement an effective data collection system and to improve traceability and monitoring by providing training to Field Trainers (FT) on their important role of compliance along the traceability chain. TFT recommends to:</p> <ul style="list-style-type: none"> – ensure that farmer registration forms are properly filled with appropriate signatures in order to analyze the data – ensure continuous training for PC on how to fill and keep records and evacuation way-bill – ensure that the district store keeper cannot accept any bag if the primary evacuation waybill is not attached with the list of farmers <p>Some recommendations from the previous visit (2015) have not been implemented yet; as putting in place a monitoring system to verify the different traceability steps: farmers registration, PC data handling, scales, documentation (evacuation way-bill). The scope of the internal audit should include these items; not only the financial part.</p> |
| | <p>Farmers are organized in groups at society level. The Ghanaian L&S supplier has initiated some support to farmers who want to create Farmers</p> | <p>Farmers saving & loan groups being at an early stage, it is crucial to encourage their development and to support them in organizational and structural</p> |

| Strengths | Recommendations |
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| <p>saving & loan groups. This initiative covers almost all the districts.</p> | <p>features. Furthermore, it appeared that the existing governance system and the understanding of the functioning (pre-requisites, credit loans, etc.) by farmers are weak and unclear.</p> <p>TFT strongly recommends that the supplier provides support to these different groups to:</p> <ul style="list-style-type: none"> ▪ Clarify the rules in terms of accountability, information sharing, trust, transparency, allocation of loans, use of funds, criteria to be part ▪ Ensure that the beneficiaries understand the advantages of the group, but also the obligations ▪ Train the saving & loan group executives on group management (interest of transparency and accountability, grievance management) |
| Training & Capacity Building | |
| <p>The Ghanaian L&S supplier drastically remodeled their training program since the last visit in 2015. They have recruited and trained 207 field trainers (FT) which are in charge of the farmers training and involved in the different districts and societies. Their proximity with the farmers will maximize the adoption of the best management practices taught and would ease the expected changes.</p> <p>The Internal Management System Manual describes the kind of training that are provided to farmers. Some strong innovations were observed:</p> <ul style="list-style-type: none"> ▪ Farmers are taken through Farmer Business School (FBS) and the importance of farmer organizations for the farmers ▪ Alternative livelihoods ▪ Usage of compost ▪ Cocoa rehabilitation program <p>The Ghanaian L&S supplier has established partnership with specialized institutions for extension services (CRIG, IFDC, etc.).</p> <p>The number of Demo farms has increased.</p> | <p>TFT recommends to get the Technical Officers and Field Trainers to share their challenges in order to design specific training or refresher trainings.</p> <p>For a better continuous improvement, the teams should make sure that the planning and activities are monitored and target all the farmers. Also, it is crucial to feed the training needs with the analysis of the data and the field observations.</p> <p>From the Demo farm to the entire societies, explore an alternative to scale up :</p> <ul style="list-style-type: none"> ▪ Spatial coverage of the Demo farms ▪ Numbers of farmers attending the Demo activities ▪ Changes and impacts <p>TFT recommends to set up a plan for FT in order to strengthen their technical capacities especially on qualitative aspects and technical know-how, on their ability to connect and build trust with farmers and to follow a correct implementation of the traceability procedure.</p> |
| Farmer Investments & Community Development | |
| <p>In terms of farmer investment and community development, significant progress was observed since the last visit in 2015, as an approach to enhance entrepreneurship has been adopted, through provision of good quality inputs and working tools at affordable prices.</p> <p>The Ghanaian L&S supplier has developed an inclusive farmer shop business model that aims to</p> | <p>Continue to support on alternative livelihoods and encourage farmers to develop food crops – ensure that this kind of activities covers a large number of farmers.</p> |

| | Strengths | Recommendations |
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| | <p>make good quality agro-inputs (fertilizers and pesticides) and working tools (mist blower, pruner, etc.) at affordable and competitive prices available to farmers. One of the impact of this is to also ensure that farmer who source there have good quality of inputs for their farms.</p> <p>Farmer Field Books have been introduced (in pilot phase) with individual farm development plans to be added.</p> <p>Some initiatives aiming to support alternative livelihoods have been introduced.</p> | |
| Verification and Continuous Progress | | |
| | <p>Review of FT report demonstrated that performance of farmers is monitored (first visit and follow up visit).</p> <p>The Ghanaian L&S supplier has managed to set up child labor committees as one of the means to engage different stakeholders in fighting against child labor.</p> | <p>Establishing a grievance and feedback management system to feed the continuous improvement process would be useful.</p> <p>Spatialized information could help identifying risk areas for child labor and prioritize remedial actions. In potential risk areas, the Ghanaian L&S supplier should engage with relevant stakeholders to figure out the best strategy to alleviate child labor. It would be good to investigate more to better understand who are these children? Where are they coming from? Who are their parents?</p> <p>A vision that focuses on integrated sustainability is imperative to the project goals. To achieve this it will be necessary to engage, maintain and reinforce internal stakeholder engagement by involving the different levels of management, including the commercial team.</p> |

| Conclusion and Outlook for the Supply chain transformation |
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| <p>A lot of effort has been put in the training program and the teams involved in the different districts and societies are doing a great job. Compared to the previous year, a lot of progress was observed in the “Farmer investment & Community development” pillar. The Ghanaian L&S supplier has really understood that entrepreneurship will be key for a sustainable development.</p> <p>Some ongoing threats for sustainable cocoa production in Ghana have been identified including timber harvesting and artisanal mining without farmers’ consent. Although these issues are beyond the supplier’s responsibilities, they need to be mitigated by engaging with relevant stakeholders such as the Forestry Commission of Ghana.</p> |

Ecuador

| Project Overview – Ecuador Supplier 1 | | | | |
|---------------------------------------|---|------------------------|--------------------|--------------------------------|
| Farming Program initiated in | October 2014 | Visit timeframe | August 22-27, 2016 | 2 nd TFT assessment |
| General description | The L&S supplier in Ecuador purchases fine flavor cocoa grown along the Coast stretching from Esmeraldas to Guayas. As of August 2016, it purchases fine flavor cocoa from 22 commercial traders, who in turn purchase, process and store cocoa from 2,226 farmers enrolled in the program. | | | |

| | Strengths | Recommendations |
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| Traceability & Farmer Organization | | |
| | The supplier has a well-functioning traceability system to farm level. At the time of the visit, they have collected baseline information from an estimated 53% of farms (1,317 farms) . This baseline information is stored in a database and includes information on production and household economics. | The company must complete the database and select appropriate indicators to measure impact over time. To ensure future activities are consistent with the program’s goal of full traceability , the supplier will need to share their traceability protocol and conduct an annual internal evaluation of each commercial trader, e.g. those who buy cocoa from smallholders and sell it to this company, to ensure his compliance to and understanding of traceability. |
| Training & Capacity Building | | |
| | By hiring new and highly qualified agronomists, in one year the supplier has made substantial improvements to its farmer training program. During year 1, the supplier hired external consultants to design the training program, some of which was not well centered on the goals of the Lindt and Sprüngli Farming Program. In year 2, by hiring additional staff and developing new internal capacity to impart training, the program has been able to create a balanced program, creating trust and enthusiasm between agronomists and local farmers. The team developed and implemented a training program for the more than 70% (1,585) of farmers enrolled in the Lindt & Sprüngli Farming Program. The training program includes a training school with monthly field days focused on practical training, and has developed demonstration farms on land owned by farmers in each production region, in addition to on-farm visits to each supplier. Farmers are provided with written, verbal and practical training in all aspects of cocoa production and management. The challenge remains to have farmers apply the learned | Some differences have been noted between southern and northern production regions in terms of practices and training deliverables. As such TFT encourages the exchange of ideas and the joint creation in the outlining of key components for a combined training event for field staff . Make financial literacy a core theme of all training and activities that the supplier offers, reinforcing the importance of investing in best agricultural practices. |

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| | techniques on their individual plots. | |
| Farmer Investments & Community Development | | |
| | The L&S supplier has created an in-kind premium program in response to a risk analysis done per farm and region, and as a result responds to farmer needs unique to each region. All farmers have received an in-kind premium. Each region (north or south) selects an in-kind premium based on a general understanding of farmer needs. TFT observed that in-kind premiums include pruning tools, fertilizer, fungicides, and tools for grafting. Many times the supplier provides the premium in conjunction with a specific training session about how to best use/apply this tool/product. | Given the production of two different cocoa types in Ecuador (fine flavor and hybrid or CCN-51), the supplier must actively participate in discussions with government stakeholders to promote the continued development of fine flavor cocoa plantations. |
| Verification and Continuous Progress | | |
| | Although the supplier prohibits the use of red-label agrochemicals that are toxic to humans, TFT found that some farmers in the area apply these toxic agrochemicals and found paraquat in the storage at one demonstration plot on a privately-owned farm. | TFT recommends that a more rigorous control of the use of chemicals is carried out and that the list of agrochemicals is updated to include all their known commercial names. TFT recommends that the supplier carefully monitors land-use cover and change to ensure that in future no deforestation is occurring in producing fine flavor cocoa . TFT did not detect any deforestation, but future planned expansion on a rapidly expanding agricultural frontier will require close monitoring and clear communication with suppliers. |

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| Conclusion and Outlook for the Supply chain transformation |
| From year one and two, this supplier has embarked on a significant path of continuous improvement related to each of the core principles of the Lindt & Sprüngli Farming Program. Participants are motivated, receive adequate technical support, and hands-on training has created lasting relationships between extension staff and producers. This company is keen to expand. As both currently enrolled farmers and future participants could be eager to convert their farms into monoculture cocoa plots, this supplier must be sure to promote agro-diversity and, if appropriate, agroforestry to improve farmer resilience and soil fertility. |

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| Project Overview – Ecuador Supplier 2 | | | | |
| Farming Program initiated in | October 2015 | Visit timeframe | June 7-10, 2016 | 1 st TFT assessment |
| General description | The L&S supplier purchases fine flavor cocoa from smallholder farms located in the coastal province of Los Ríos. As of June 2016, the supplier purchased cocoa directly or indirectly from 947 farming households located in more than 99 rural communities, and expressed plans to expand. | | | |

| | Strengths | Recommendations |
|---|--|--|
| Traceability & Farmer Organization | | |
| | This L&S supplier has created a traceability system in a professional accounting system that allows the company to track the volume of wet or dry beans sold per farmer. | Farmers cultivate, harvest and sell both fine flavor and CCN-51 (or hybrid) cocoa. There is some mixing of varieties at the point of sale. TFT recommends that the supplier identifies training and other incentives that would motivate farmers to sell pure (and un-mixed) fine flavor cocoa beans. |
| Training & Capacity Building | | |
| | The supplier has created a farmer-training program incorporating information about best agricultural, social, environmental and business practices for cacao cultivation. At the time of TFT's visit, 26% (255) of farmers in the program have attended all 11 classroom training in best practices for cocoa management training modules. | <p>This training has been principally focused in the classroom and could be improved by including more practical field training and making training opportunities more accessible to farmers in terms of location and schedules. Further improvements could be made by providing more detailed Spanish-language training materials that participants carry home.</p> <p>While many farmers operate on a week-to-week basis, the program must consider the long-term risks to cocoa production and the medium and long-term training and support needs of local farmers, in order to ensure that current and future investments create resilient smallholders, able to respond to environmental, market, and social perturbations.</p> |
| Farmer Investments & Community Development | | |
| | To incentivize the application of best agricultural practices, the supplier has provided 27% (260) of farmers with some combination of the following inputs and/or tools at the time of TFT's visit: fertilizers, farming tools, personal protection equipment, and kits for first aid, cocoa diseases, and pruning. Incentives are provided based on volume sold and to recognize active participation in the training program. | In conversations with producers, many farmers identified short-term needs, but few have considered long-term ones. TFT recommends that this supplier undertakes an analysis of long-term risks to cocoa production in the region and use the results of this analysis to guide future investments, ensuring that investments also strengthen smallholder production in future generations. |
| Verification and Continuous Progress | | |
| | At the time of TFT's visit, the supplier has collected baseline data on the social, economic and technical aspects related to cocoa productivity and livelihoods at 947 farms, having scanned the datasheets from 27% (258) of farms into a computer storage system. | The supplier's baseline survey does not collect information that would permit the company to monitor progress in meeting the Lindt & Sprüngli Farming Program principles. The survey is used more as a certification check-list and less as an opportunity to observe farming conditions and record data about environmental, social, and agricultural management on the farm. Revise and update the baseline data which is |

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| | collected, aligning project goals with one or more principles defined by the Lindt & Sprüngli Farming Program. The next step would be to ensure the regular data collection and create an adequate data storage system, thereby allowing this baseline data to be used to track change over time. |
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Conclusion and Outlook for the Supply chain transformation

This supplier has begun to develop and implement elements of the core principles of the Lindt & Sprüngli Farming Program. Investing time in the continuous improvement of the program's training, data collection and storage, and incentive structure will further ensure that farmers receive the training and support required to implement improved agricultural, environmental and social practices.

Madagascar

| Project Overview – Madagascar Supplier 1 | | | | |
|--|---|------------------------|-----------------|--------------------------------|
| Farming Program initiated in | October 2015 | Visit timeframe | July 13-23 2016 | 1 st TFT assessment |
| General description | Approximately 700 producers involved and a network of 22 collectors present in Sambirano. | | | |

| | Strengths | Recommendations |
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| Traceability & Farmer Organization | | |
| | <p>The traceability system is in place. That means:</p> <ul style="list-style-type: none"> – Existence of an Excel database filled in by the L&S supplier and supplemented by information provided by the collectors – Codification of farmers and declared plots – Existence of farmer' list (producers) within the framework of Lindt & Sprüngli Farming Program – Existence of traceability documents – Good record keeping by some middlemen (collectors) – Existence of preprocessing financing contract with the collectors – Weighing bulletins with invoices delivered to middlemen (collectors) | <p>Currently, documents are tracked from the collector level only and farmers do not have any record of the quantity they have sold. Given that collectors buy for many clients including Lindt & Sprüngli, accuracy of the traceability is crucial. It has been noted that some collectors do not separate program and non-program cacao. Therefore, in order to minimize risks of traceability being distorted, TFT recommends a reorganization and segregation of collectors who are buying from program and non-program farmers.</p> |
| Training & Capacity Building | | |
| | Having a technical partner who is highly competent in capacity building, setting up the | It is highly recommended that this specific technical partner continues to work closely with the supplier and |

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| | <p>training program has been a real asset. The training conducted by the partner in charge is open to the entire community during training sessions (not just farmers listed in the program).</p> | <p>that they communicate regularly in order to adapt the training to the farmer’s level of education and capacity and to adjust the program according to the practices observed.</p> <p>For example, TFT suggests to slow down the current sustained pace of training, in such a way, that it enables a better assimilation of the content and does not diminish incentives to participate.</p> |
| <p>Farmer Investments & Community Development</p> | | |
| | <p>A strategy for farmer investment and community development is yet to be established. The approach suggested by the technical partner is based on assistance. The needs of the producers concerned by the network of collectors under the pilot project were evaluated technically and financially. Investment projects are evaluated, prioritized and meet the essential social, environmental, technical and economic conditions of producers and collectors scattered in eighteen (18) villages of the nine (9) municipalities concerned by this pilot project.</p> | <p>TFT recommends a strategy based on empowering the farmers to be autonomous and resilient entrepreneurs. However, before going ahead, a diagnostic assessment should be conducted to understand the potential communities have to adapt to this kind of approach.</p> |
| <p>Verification and Continuous Progress</p> | | |
| | | <p>The internal monitoring phase has not yet commenced and this should be seen as an opportunity to fill the information gaps and to build trust with farmers. In addition, it is an opportunity to collect baseline data from farmers that are part of the program.</p> |

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| <p>Conclusion and Outlook for the Supply chain transformation</p> | |
| <p>The Lindt & Sprüngli Farming Program in Madagascar is at its early stage. The local L&S supplier is qualified to implement a strong traceability system though they need to understand more about the concept of the program and its potential impact on the whole supply chain in the mid and long term. From the last remote¹ monitoring with the local partner, TFT appreciated some progress being achieved during the past 8 months. Conscious of complexity of the context in Madagascar, Lindt & Sprüngli has increased the number of TFT visits from one to two for the second year (2017).</p> | |

¹ By reviewing documents and conducting phone/video conferences, this monitoring that takes place in between field assessments, allows the TFT team to follow any progress made.