

SUSTAINABILITY DIFFERENTIAL AND SUSTAINABILITY INVESTMENT

Hazelnut sector guidance

Version 1



**RAINFOREST
ALLIANCE**

Translation Disclaimer

For any question related to the precise meaning of the information contained in the translation, please refer to the official English version for clarification. Any discrepancies or differences in meaning due to translation are not binding and have no effect for auditing or certification purposes.

More information?

For more information about the Rainforest Alliance, visit www.rainforest-alliance.org or contact info@ra.org

Document Name:		Document Code:	Version:
Sustainability Differential and Sustainability Investment: Hazelnut Sector Guidance		RA-G-MT-28-V1	1
Date of first publication:	Date of revision:	Valid From:	Expires by:
June 4, 2021	N/A	N/A	Until further notice
Developed by:		Approved by:	
Rainforest Alliance Department Markets Transformation		Director of Standards and Assurance	
Linked to:			
SA-S-SD-1-V1.1 Rainforest Alliance 2020 Sustainable Agriculture Standard, Farm requirements SA-S-SD- 2- V1.1 Rainforest Alliance 2020 Sustainable Agriculture Standard, Supply Chain Requirements SA-S-SD-15-V1.1 Annex S14: Shared Responsibility RA-S-MT-17-V1.1 Annex S16: Investment Plan SA-G-SD-8-V1 Guidance Document G: Yield estimation SA-S-SD-22-V1 Guidance: Use of Sustainability Differential and Sustainability Investments for the benefit of workers			
Replaces:			
N/A			
Applicable to:			
Farm certificate holders and supply chain certificate holders			
Country/Region:			
All			
Crop:		Type of Certification:	
Hazelnut		Farm certificate holders and supply chain certificate holders	

Table of Contents

Executive Summary	4
Glossary	5
1. Objective of this document	7
1.1 Introduction.....	7
1.2 Scope	7
2. The Sustainability Differential and Sustainability Investment in hazelnuts	7
2.1 Towards a sustainable hazelnut sector.....	7
2.2 Introducing the Sustainability Differential and Sustainability Investment	8
3. Transitioning from premiums to SD and SI.....	9
3.1 Contextualization of the SD and SI	9
3.2 Timelines for transitioning to SD and SI.....	10
4. Guidance for the SD and SI in Hazelnuts	11
4.1 The beneficiary of the SD and the SI	11
4.2 Responsibility for payment of the SD and SI – the First Buyer	12
4.3 The value of the SD	14
4.4 Payment of the SD	15
4.5 Transparency on the SD and the SI value	15
5. Guidance for SI in Hazelnuts.....	16
5.1 The beneficiary of the SI	16
5.2 The Investment Plan	16
5.3. Developing the Investment Plan.....	16
5.4. Guidance for using the Investment Plan template	17
5.5 Value of the SI.....	19
6. Reporting the SD and SI	19
6.1 Reporting at transactional level.....	19
6.2 Annual reporting	19
7. Contracting SD and SI.....	20
7.1 Including SD and SI when contracting for certified hazelnuts.....	20
7.2 Payment by farm CH the two group members.....	21
8. Assurance of SD and SI Payments	21

EXECUTIVE SUMMARY

Sustainability Differential and Sustainability Investment

- The Sustainability Differential is a mandatory additional monetary payment made to certified farm certificate holders on top of the market price of the commodity. In case of group farm certificate holders, the Sustainability Differential is transferred in full to the group members.
- Sustainability Investment is mandatory monetary or in-kind investment from buyers of Rainforest Alliance certified products to farm certificate holders for the specific purpose of helping them comply with the 2020 Sustainable Agriculture Standard.

From UTZ Premiums to Sustainability Differential (SD) and Sustainability Investment (SI)

The new Rainforest Alliance 2020 Sustainable Agriculture Standard will transition from the UTZ premium approach in hazelnut to an SD and SI approach. This transition will require a shift in several components of current premium practices:

Premium approach	SD and SI approach
<ul style="list-style-type: none"> • Only captures monetary paid from the first buyer to the farm CH. It does not include in-kind investment 	<ul style="list-style-type: none"> • Will capture the full investments made in farm CHs. This includes both in-kind as well as monetary investments
<ul style="list-style-type: none"> • Includes both monetary to producers and monetary to the group administrator. However, the exact distribution is not mandated or reported in the certification platform 	<ul style="list-style-type: none"> • Distinguishes between value to producers (SD) and value to group/farm management (SI), thereby measuring what is reaching producers in monetary
<ul style="list-style-type: none"> • Investments are not guided 	<ul style="list-style-type: none"> • Based on investment needs identified in an Investment Plan. The mandatory template is provided by the Rainforest Alliance

Implementation in the hazelnut program:

- SD and SI value must be recorded by first buyers in the Rainforest Alliance Certification Platform from the date volumes certified against the 2020 SAS are transacted on the platform
- The transition period for all farm certificate holders to the 2020 SAS is July 1, 2021 to July 1, 2022
- The first hazelnuts will be certified against the 2020 SAS during the harvest in August/September 2020

GLOSSARY

Term	Definition
Certification Body (CB)	Entity authorized by Rainforest Alliance to conduct audits and to issue a certificate for the Rainforest Alliance Certification Program.
CBA	Collective bargaining agreement.
Certificate Holder (CH)	Any organization that is, was or wants to be certified against any Rainforest Alliance certification program (UTZ Certification Program, 2017 Rainforest Alliance Certification Program, Rainforest Alliance 2020 Certification Program). Certificate holder includes all actors (for example sites, farmers, intermediaries etc.) falling under the certification scope of the CH. Farm CHs are organizations with farming in scope and who must comply with the applicable Farm Requirements of the Rainforest Alliance 2020 Sustainable Agriculture Standard, Supply Chain CHs are those organizations that do not have farming in scope and therefore comply with the Supply Chain Requirements of the Rainforest Alliance 2020 Sustainable Agriculture Standard.
Farm	All land and facilities used for agricultural production and processing activities under the geographical scope of farm/group management. A farm may be composed of several neighboring or geographically separate farm units within one country provided that they are under a common management body.
First buyer	The initial supply chain actor legally owning the certified product after the farm certificate holder.
Group management	The entity that signs the certification agreement with the Rainforest Alliance accredited certification body and takes responsibility for the development and implementation of the group's internal management system and all member farms' management systems. The group management is responsible for assuring member farms' compliance with the Standard.
Group members	Individual producers that are part of group certification
Management plan	A detailed overview set up by the management, of the goals that are set to be compliant with the requirements (for both management, workers and/or group members) and the respective services necessary to meet these goals. The services can include training, technical assistance, access to inputs (e.g., seedling), and awareness-raising activities. The Management Plan indicates details on the services such as the timeline, the responsible person for the provision of the services, and the beneficiaries.
Non-Conformities (NC)	Incomplete fulfilment of a requirement in the Rainforest Alliance Sustainable Agriculture Standard.
Producer	A person (either male or female) who owns and/or operates an agricultural enterprise, either commercially or to sustain him or herself or his/her family.

Rainforest Alliance Certification Platform	The Information Technology system developed by the Rainforest Alliance to report transactions and activities of certified volumes throughout the supply chain.
Risk assessment	A systematic process to identify the issues that could prevent the producers from complying with the standard requirements and reaching the expected sustainability outcomes. The Rainforest Alliance has developed a tool to support this analysis – The Farm Risk Assessment Tool.
2020 SAS	Rainforest Alliance 2020 Sustainable Agriculture Standard
Small farms	Small farms primarily rely on family or household labor or workforce exchange with other members of the community. They might hire temporary workers for seasonal tasks or even hire (few) permanent workers. Small farmers are usually organized in a group to be certified and rely on the Group Management for record development and record keeping.
Sustainability Differential (SD)	A mandatory additional monetary payment made to certified farm certificate holders on top of the market price of the commodity.
Sustainability Investment (SI)	Mandatory monetary or in-kind investment from buyers of Rainforest Alliance certified products to farm certificate holders for the specific purpose of helping them comply with the 2020 Sustainable Agriculture Standard.
Workers	A person who performs labor in return for a monetary amount on a farm.

1. OBJECTIVE OF THIS DOCUMENT

1.1 Introduction

While the general principles are always applicable, the SD and SI approach warrants additional implementation guidance depending on the sector. This document explains how Sustainability Differential (SD) and Sustainability Investment (SI) are implemented in the hazelnut sector. SD and SI guidance for other sectors are published separately.

1.2 Scope

The farm certificate holders (CHs) are central to the SD and the SI approach as those organizations must negotiate the amount and payment terms of the SD with the first buyers. In the case of group certification, Farm CHs are also responsible to ensure the redistribution of the full SD amount to their members. Farm CHs are also responsible for identifying their investment needs and prioritizing the use of Sustainability Investment and negotiating the investment contributions of the first buyers.

Supply Chain Certificate Holders (first buyers for hazelnut) play an equally critical role in the SD and SI approach. They are responsible for ensuring that the Sustainability Differential is paid to the agreed amount and in a timely fashion as agreed with the farm CH. They are also responsible for making the Sustainability Investment that support the implementation of the farm CH's investment plans. First buyers are responsible for accurately recording their SD and SI contributions in the Rainforest Alliance Platform.

This guidance document is instructive for all stakeholders that play a role with regards to how SD and SI values are recorded in the Rainforest Alliance Certification Platform, transacted, and assured, including:

- Group members
- Management (either as group certification or individual certification)
- First buyers
- Internal inspectors
- Certification bodies
- Rainforest Alliance internal stakeholders and trainers
- All buyers of Rainforest Alliance certified hazelnuts further downstream, including retail, or other stakeholders who wish to understand better how the SD and SI approach is implemented in the hazelnut program

2. THE SUSTAINABILITY DIFFERENTIAL AND SUSTAINABILITY INVESTMENT IN HAZELNUTS

2.1 Towards a sustainable hazelnut sector

A sustainable hazelnut sector is one in which hazelnuts are produced and traded in a manner that allows people and nature to prosper. It is a sector in which producers have the knowledge and resources to produce hazelnuts in a way which is environmentally, economically and socially sustainable, and who are supported by other supply chain actors to implement Good Agricultural Practices and improve the living and working conditions of (migrant) workers and their families, so the entire hazelnut sector is more resilient, and risks are reduced.

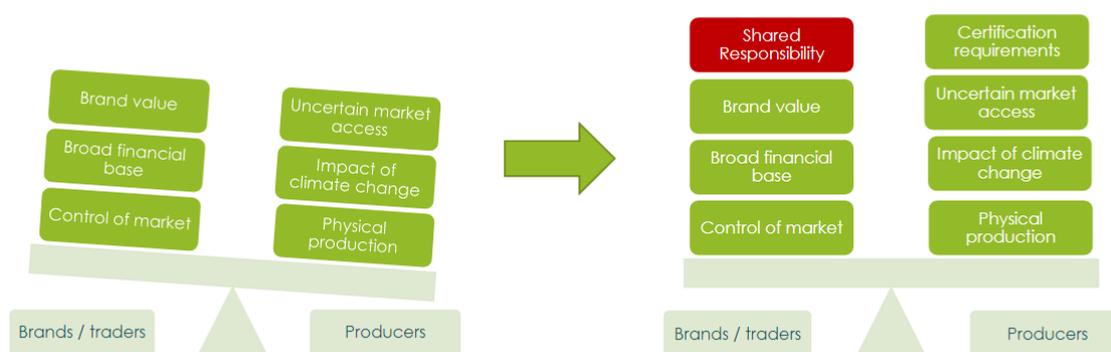
A sustainable hazelnut sector is a more balanced sector with farmers, exporters, importers, manufacturers, brands and retailers sharing risks, responsibilities and value derived from sustainable production. All buyers of sustainably produced hazelnuts are held accountable for implementing responsible business practices and focusing investment and support at the

farmer level for continuous improvement of sustainability performance. We believe this will allow the sector to address long standing challenges such as addressing the risk of child labor and the lack of decent living and working conditions of migrant workers, or declining production volumes due to neglected farms and climate change.

The responsibility for sustainable transformation cannot fall on farmers' shoulders alone. To drive deep-rooted, systemic change on a global scale, companies and governments need to take a leading role.

The new Rainforest Alliance 2020 Certification Program puts a stronger emphasis on shared responsibility in this journey. We are building on our strong partnerships and working with some of the world's biggest companies to underscore the urgency of investing in sustainability—and rewarding farmers who are making progress.

Likewise, we are working to raise awareness among consumers that choosing Rainforest Alliance products increases demand that, in turn, supports a more responsible sector.



2.2 Introducing the Sustainability Differential and Sustainability Investment

Why farm CHs need SD/SI

Despite years of investment, the introduction of trainings on Good Agricultural Practices and other initiatives to increase yields and incomes, improve social practices and embed environmental sustainability requirements in the standard, there is still a significant gap between the current status on certified farms and truly sustainable hazelnut production which is the aspiration of the Rainforest Alliance. To accelerate impact, producers must be further incentivized to adopt sustainability practices and the farm CHs must have the means to invest in themselves and their members or workers.

To help realize this vision, our 2020 Sustainable Agriculture Standard (SAS) outlines requirements around two mechanisms for the producers and buyers of Rainforest Alliance certified commodities: The Sustainability Differential and the Sustainability Investment.

The Sustainability Differential is a mandatory additional monetary payment made to certified producers on top of the market price of the commodity. In case of group farm certificate holders the Sustainability Differential is transferred in full to the group members.

The Sustainability Investments are mandatory cash or in-kind investments from buyers of Rainforest Alliance Certified products to farm certificate holders for the specific purpose of helping them reach compliance with the Sustainable Agriculture Standard.

Sustainability Differential and Sustainability Investments are intended to promote sharing of the costs and returns of sustainable production across the supply chain in a more equitable manner. While the SD is distributed as monetary payment to producers as a reward for applying sustainable production practices, the SI is to be spent in accordance with an Investment Plan developed by the management/farm CH. In the investment plan the farm CH identifies the investment needed to ensure compliance with the Rainforest Alliance Standard and enhance their sustainability journey. The farm CH uses the investment plan to agree on the value of the SI with their first buyer.

3. TRANSITIONING FROM PREMIUMS TO SD AND SI

3.1 Contextualization of the SD and SI

The approach for the SD and SI is in principle the same for all crops but the context of trade mechanisms, contracts and payment methods differs between crops and countries. Furthermore, Rainforest Alliance recognizes that the development level and the performance of producers can vary significantly between, and even within countries. The 2020 SAS aims to contextualize the requirements for higher efficiency while addressing crop, country, and producer-specific challenges.

Background: Certification premiums in hazelnuts

Paying a premium for certified supply is already a common practice in the hazelnut sector. A premium has always been mandatory for UTZ certified hazelnuts. We therefore take the payment of certification premiums as the starting point for the transition from UTZ premiums to SD and SI.

From premiums to SD and SI

This transition will require a shift in several components of current (UTZ) premium practices as shown in the table below:

	UTZ premium approach to monetary payments		SD and SI approach to monetary payments	
	Farm CH level	Producer or Worker Level	Farm CH level	Producer level
Group Certification	Includes both monetary to producers and to the group management, but the exact distribution is not captured in the certification platform.	Distribution to producers not captured in certification platform.	Distinguishes between value paid to producers (SD) and value to group (SI), ensuring that the farm CH (management) pays the full amount of SD received by buyers to producers.	Farm CHs are required to transfer the full SD monetary amount to member producers.
Individual Farm Certification		Specific benefits to workers not required.	Distinguishes between value for the producer (SD) from value to be used exclusively for investment to comply with 2020 SAS (SI).	N/A

	UTZ premium approach to investments		SD and SI approach to investments	
	Farm CH level	Producer or worker level	Farm CH level	Producer level
Group certification	Only captures monetary value paid from the first buyer (FB) to certificate holder (CH).	Types of investments made and/or benefits to workers not captured	Full investment made to CH are captured. This includes both in-kind investment and monetary investment.	Not captured but linked to the Investment Plan.
Individual Farm Certification	Does not include in-kind investment.		The Investment Plan is based on risk assessment, internal inspection, self-assessment and management capacity and thereby linked to investments needed to strengthen the quality of implementation of the Rainforest Alliance Standard.	Reporting on categories of investments made in certification platform (including benefits to workers).

Table 1: key differences between the UTZ premium and SD and SI.

This shift is visualized in the diagram below:

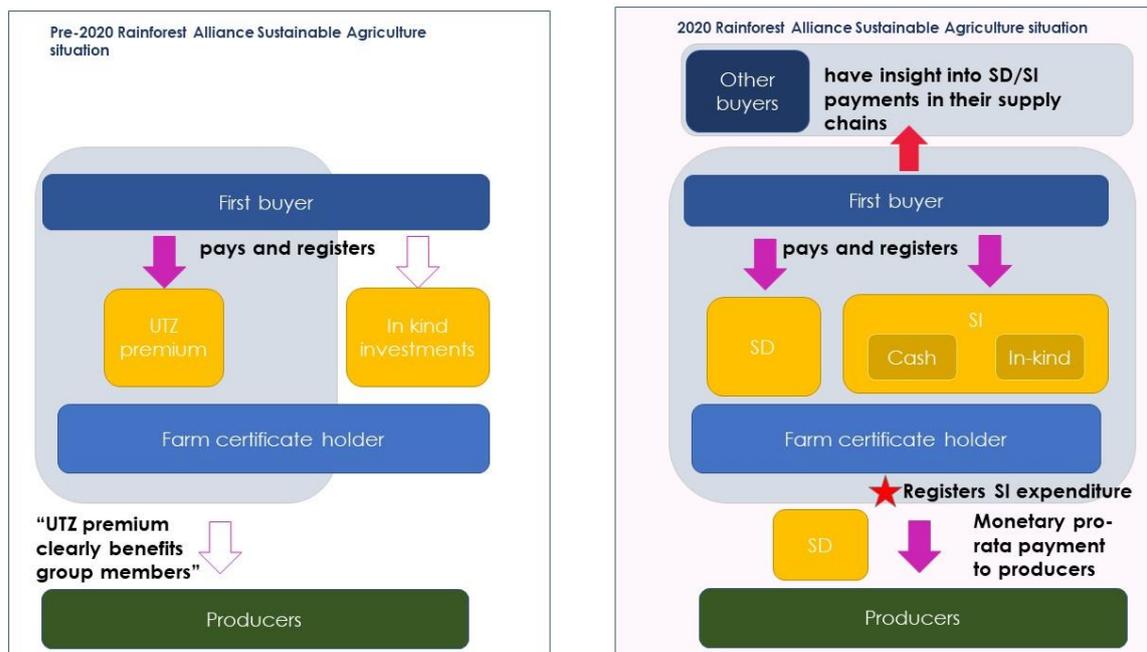


Diagram 1: difference between the UTZ premium approach (on the left) and the SD and SI approach in the 2020 Rainforest Alliance Sustainable Agriculture Standard.

3.2 Timelines for transitioning to SD and SI

- From July 1, 2021, all Certificate Holders must transition to the 2020 SAS. All farm CHs have a 12- month transition period. Any audit conducted after July 1, 2021 will be against the requirements of the 2020 SAS.
- Farm CHs must undergo a Transition Period Audit before July 1, 2022 and obtain a transition certificate before December 31, 2022.
- With their Transition Certificate, farm CHs will receive new Rainforest Alliance volumes as certified volume, equal to the audited estimated harvest for the 1 year covered by that certificate.

- **All hazelnut sold to first buyers as certified against the 2020 SAS must include the SD and SI.**
- The first hazelnuts certified against the 2020 SAS will be produced during the harvest in August-September 2021. Therefore, the first audits in the hazelnut sector against the 2020 SAS will take place in August-September 2021 and the requirements on SD and SI become mandatory for this audit already.
- Farms are also eligible for SD and SI for their carry-over volume after they obtain a Transition Certificate, **as that will be granted as new Rainforest Alliance volumes.**
- For hazelnuts bought from legacy volumes from the UTZ, bought after July 1, 2021 the buyers would not have to comply with the SD and SI requirements, but with the requirements of the corresponding certification program.
- Supply chain CHs must obtain a transition certificate against the 2020 SAS by the time their current license expires, and no later than 31 December 2022. They can buy and sell 2020 SAS certified hazelnuts during the period in which they are obtaining their Transition Certificate, but will have to comply with the requirements for SD and SI payments for all hazelnuts certified against the 2020 SAS¹

4. GUIDANCE FOR THE SD AND SI IN HAZELNUTS

4.1 The beneficiary of the SD and the SI

The SD must benefit producers as reward for implementing more sustainable practices. The SD must benefit producers as follows:

Certification type	Action after receipt of the SD by the CH
Group Certification (Requirement 3.2.1 applies)	The SD is paid in full to group members (producers). There is no stipulation about what to use the SD for; the producers can decide for themselves how the SD is spent. The farm CH cannot deduct any overhead costs related to the administration or transfer of the SD from the amount paid to the producers.
Individual Certification (Requirement 3.2.2 applies)	For individually certified SD must be spent to the benefit of the producer and/or the workers, in accordance with the Guidance: Use of Sustainability Differential and Sustainability Investments for the benefit of workers (SA-P-SD -2- V1). If the SD is spent to the benefit of workers, the CH must consult with workers on the priorities and report on the categories of expenditure.

Table 2: the beneficiary of the SD

In the logic of continuous improvement in the new standard, performance is not static. There are mandatory improvements and self-selected improvement requirements to comply with over time. Farm CHs will always need investment to continue to improve their sustainability performance because sustainability is a journey. Also, The Rainforest Alliance believes that farm certificate holders should be recognized for working towards increased sustainability, and the SI is intended to support this.

¹ For example, SC CH can purchase hazelnut from farms that comply with the 2020 SAS, but they can only sell the hazelnut as "new" volume if they comply with the 2020 SAS themselves, including payment of SD and SI.

4.2 Responsibility for payment of the SD and SI – the First Buyer

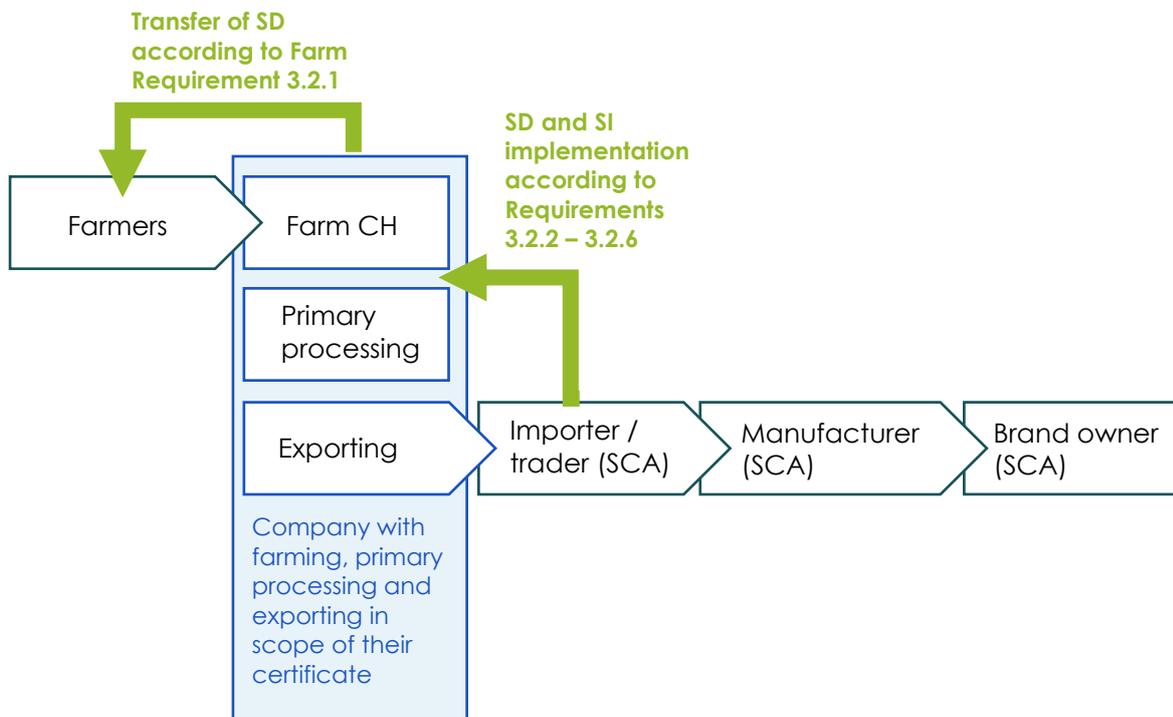
The first buyer is responsible for SD and SI payments for the volume purchased as Rainforest Alliance Certified against the 2020 SAS. The first buyer is the initial supply chain actor legally owning the certified product after the farm certificate holder.

If an organization has farming in scope, they will always be categorized as a farm CH. Farm CHs must comply with the requirements around the redistribution of the SD to their group members, if applicable.²

In case a farm CH purchases certified product from other farm CHs (and there is change of legal ownership involved), the farm CH that purchases the product additionally becomes the first buyer and must pay the SD and SI to their supplier(s).³

This leads to three typical scenarios in the hazelnut sector:

1. Company with farming, primary processing and exporting activities, all covered under one certificate

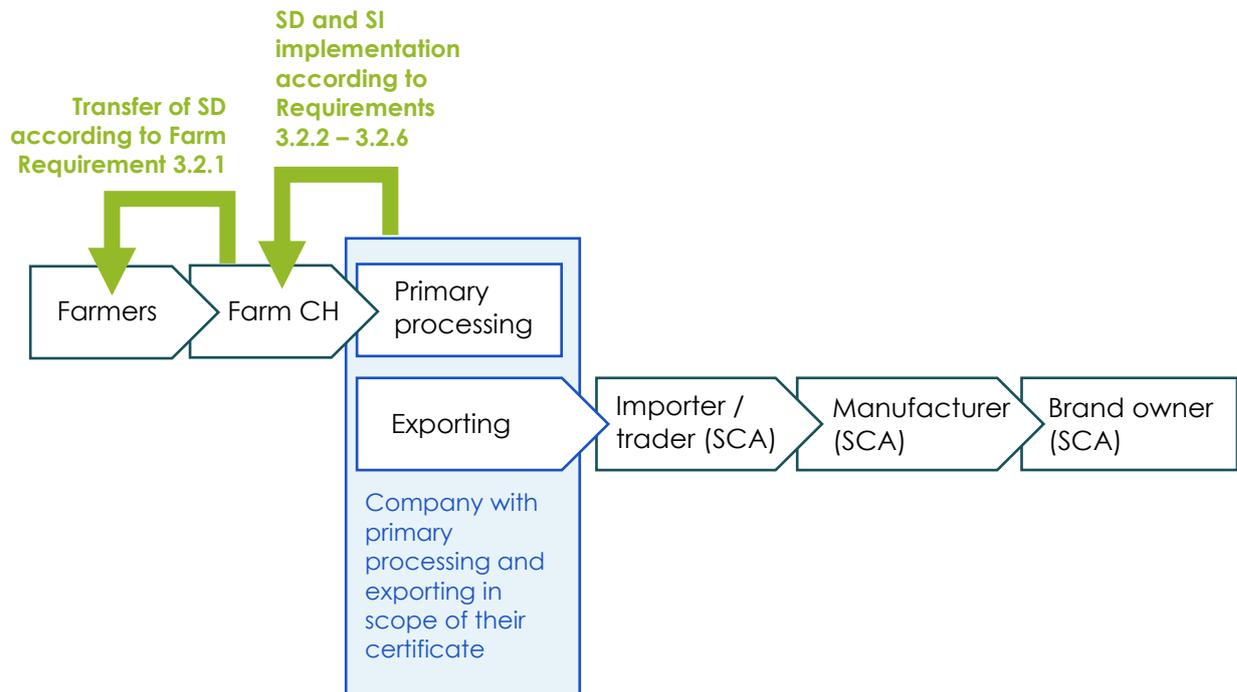


In this situation the importer is considered the first buyer and shall pay the SD and SI to the farm CH and record it in the system. The farm certificate holder shall transfer the full SD to the farmers in monetary and spent and record the SI according to the Investment Plan.

² Farm Requirements 3.2.1

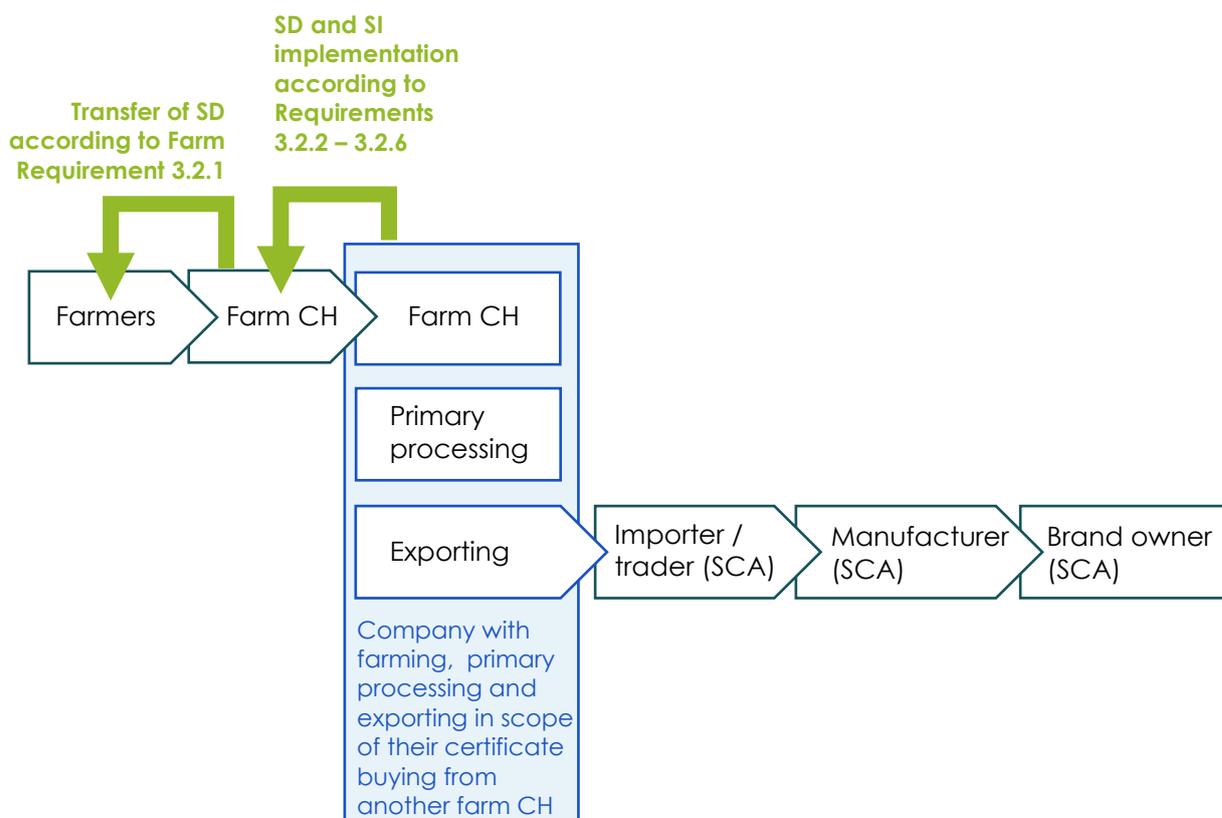
³ SC Requirements 3.2.3 - 3.2.7, 3.3.4 - 3.3.5, respectively

2. Company with primary processing and exporting activities in scope of their certificate purchasing hazelnuts from a farm CH



In this situation the company with primary processing and exporting activities covered under their certificate is considered the first buyer and shall pay the SD and SI to the farm CH and records it in the system. The farm CH shall transfer the full SD to the farmers in cash and spent and record the SI according to the Investment Plan.

3. Company with farming, primary processing and exporting activities in scope of their certificate, purchasing hazelnuts from another farm CH



In this situation the company with farming, primary processing and exporting activities in scope of their certificate is considered the first buyer and shall pay the SD and SI to the farm CH and record it in the Rainforest Alliance Certification Platform. The initial farm CH shall transfer the full SD to the farmers in cash and spent and record the SI according to the Investment Plan. The payment of the SD and SI to the initial farm CH as well as the transfer of the SD to the farmers will be verified during the annual audit.

4.3 The value of the SD

The SD amount is fully negotiable between the first buyer and the farm CH and will normally be decided through supply and demand dynamics as is currently the case. The Rainforest Alliance does not intervene in this negotiation.

The SD and any other premiums can be paid together with the market price for the hazelnuts by first buyers. However, the SD must be clearly distinguishable from market price and other premiums or differentials in contracting and in reporting in the Rainforest Alliance Certification Platform.⁴

The Rainforest Alliance expects the SD and SI to be of at least the same value as the UTZ premium and will monitor the SD and SI paid over the coming years. If analysis of the data shows a drop of SD and SI paid compared to the UTZ premium, the Rainforest Alliance may consider the introduction of a minimum or fixed SD based on sector consultations.

⁴ Other premiums and differentials include quality, crop and/or country specific.

4.4 Payment of the SD

The SD has to be paid at least six months after the delivery from the farm CH to the first buyer, but before the start of the next harvest.

The farm CH distributes the SD in cash to the producers at least annually before the start of the next harvest. The farm CH has to distribute the entire SD to the producers and is not allowed to deduct any costs, such as administration or transaction costs.

The agreement on the SD (and the SI) is documented in a contract between the farm CH and the first buyer before the delivery of the certified hazelnuts. The contract should stipulate at least:

- The amount of the Sustainability Differential to be paid, by volume, clearly distinguishing the SD from price, quality premiums
- Terms and conditions of payment, meaning:
 - Definition of the period the SD payments relates to (e.g. annual volume contracted in 2022, October harvest 2022)
 - Clear timeframe of payment (e.g. 3 weeks after receipt of certified product, annually at the end of the contract, etc., respecting requirement 3.2.5)
 - Method of payment (e.g. bank account details to which SD amount will be transferred)
 - Currency in which SD will be paid

4.5 Transparency on the SD and the SI value

The SD and SI value paid and recorded between first buyer and farm CH will be visible in the Rainforest Alliance certification platform for SC CHs beyond the first buyer involved in the same supply chain. These Supply Chain CHs will therefore be able to base their SD/SI payments on the information provided. Aggregate reports will be available for SC CHs.

Reporting on SD/SI amounts visible in the Rainforest Alliance certification platform and through supply chain and sector reports will allow Rainforest Alliance to enable and encourage all actors of the supply chain to provide greater transparency on the SD and SI paid throughout their supply chains, even if this is not yet required for Supply Chain CHs beyond those who are responsible for payment of SD and SI.

5. GUIDANCE FOR SI IN HAZELNUTS

5.1 The beneficiary of the SI

The Sustainability Investment is intended to support farm CHs to comply with the core requirements of the 2020 SAS and relevant improvement requirements.

5.2 The Investment Plan

The Sustainability Investment will be based on an Investment Plan developed by the farm CH. The Investment Plan must include a list of prioritized investments for improved performance of the farm CH and group members to meet certification requirements faster and more efficiently.

If the farm CH sources hazelnuts from farmers who employ migrant workers for the harvest of the hazelnut the Rainforest Alliance recommends that farm CH spend part **of the SI received to improve the living and working conditions of migrant workers on the farms of group members**, including on the prevention of child labor. Examples of investments to be made by the farm certificate holder are for example (not an exhaustive list):

- Providing childcare during the harvest to prevent child labor and facilitate children to close education gaps (so called summer schools)
- Improving living condition of migrant workers provided by the group members (if provided)
- Improving living conditions in tent settlements, e.g., access to drinking water, protection from floods, providing security.

In the investment plan such interventions should be rated with priority A.

5.3. Developing the Investment Plan

Before the harvest season

- The Rainforest Alliance will provide farm CH with a template for the Investment Plan and the necessary training to draw up the Investment Plan
- Farm CH will develop an initial investment plan, based on the group management plan (including risk and management capacity assessment), previous audit results (if available), results of the internal inspections and self-assessment, audit reports (as of year two) and other available information which support them to identify non-compliances or topics that require improvements⁵ (see section *Guidance for using the Investment Plan Template*)
- Additionally, based on this initial assessments, individually certified producers and large farms participating in a group need to consult with workers representatives on prioritizing the investment needs identified to improve the working conditions for workers
- The Investment Plan will stipulate the total monetary value required to implement the plan. The farm CH will estimate the volumes to be sold as Rainforest Alliance Certified, based on expected harvest volumes and expected sales. The monetary value of their investment needs is divided by the expected certified volume sales to determine a volume-based SI amount
- The final SI amount and/or certified volumes to be sold will be agreed between the farm CH and the first buyer
- The CB will verify the existence of the Investment Plan (certification year 1 onward). The CB will audit the spending against the plan (from year 2 onward)

⁵ See 5.4 Guidance to using the Investment Plan template. Also, please see Farm Requirements - Guidance Document B: Template of Management Plan

During the harvest season

- Since the SI amount is determined before transactions take place, the actual SI amounts received from different buyers can be recorded by the farm CH and confirmed by the first buyer in the Rainforest Alliance Certification Platform on transaction level⁶
- The total SI paid by the first buyers will depend on the actual volumes that were purchased as certified during the season. First buyers who wish to purchase certified hazelnuts are required to pay the SI. First buyers are free to negotiate associated contractual terms for this investment from their customers. Likewise, final buyers and brand owners should work with their suppliers to realize their ambitions on SI contributions linked to the farm CH they source from
- Total SI due is paid at least once per year⁷
- First buyers can also make in-kind investments. If in-kind investments are made, they should also be made at least on an annual basis, and they will be accounted for separately in addition to the volume-based cash SI contribution.

After the harvest season

- After completion of the crop year, the farm CH will have to report, in the Rainforest Alliance Platform, the allocation of total SI received against the different SI categories, which are: 1) Administration and management (chapters 1,2, and 3 and audit costs), 2) Agriculture (chapter 4), 3) Social (chapter 5) and 4) Environmental (chapter 6)
- At the end of the season, the farm CH will revise and adjust the Investment Plan according to the actual SI payments received (payments will be allocated based on initial prioritization and/or discussion with first buyers). This is the starting point of next year's Investment Plan
- The auditor will use the revised/adjusted plan in the audit of the following year as a basis to check consistency between the received money and the actual expenses made based on what was received

5.4. Guidance for using the Investment Plan template

In the Investment Plan template, the various investment elements are categorized and linked to the implementation of the different chapters that form the 2020 SAS.⁸ In order to properly define the areas that require investment to comply with the 2020 SAS and to define priorities, the following tools can be used:

Farm Risk Assessment

Through the results of the Farm Risk Assessment (See Annex S3 of the 2020 SAS), the farm CH will be able to identify the areas of improvement which will require investment.

Self-assessment, internal inspections and as of year 2 the audit report

Self-assessment and, in the case of group certification internal inspections, also provide a clear and comprehensive overview of which standard requirement require improvement, and in what way. In group certification internal inspections also provide important insights into the numbers of producers that require different types of support. In the Investment Plan template, the farm CH can indicate which investments will be delivered at the level of the group management and which at the level of producers, and to how many producers this will be provided to.

⁶ SI amounts received can be recorded by the Farm CH and confirmed by the first buyer on the Rainforest Alliance traceability platform on transaction level, the same way as the SD. See Chapter 4.

⁷ Requirement 3.3.4 mandates that "the full amount of the Sustainability Investment is paid at least annually and no later than payment terms defined for the relevant crop

⁸ Rainforest Alliance Investment Categories: 1. Management, 2. Farming 3. Social, 4. Environment

Capacity Assessment Tool

As it is essential that the Farm CH has the competence and capacity to develop and implement a good plan, the Capacity Assessment Tool shall be used by the Farm CH to assess their own weaknesses which must be prioritized and addressed through early (first year) Sustainability Investment.

Please note that, as investment planning is a new requirement in the 2020 SAS, groups will likely need support to develop the skills to identify investment needs and complete a feasible costed Investment Plan. Buyers who provide support directly to groups are encouraged to invest in building their capacity to develop and implement an Investment Plan as part of an effective Internal Management System. This approach will be further refined in 2021.

Based on the revision of the above documents and tools the guidance, as well as their own planning documents, Farm CHs can elaborate an Investment Plan.

Investment allocation

Not all investment needs will be able to be addressed in an Investment Plan for a single year. This means that investment needs must be prioritized. The use of SI is intended to cover the most critical investment needs that will enable the farm CH to comply with the applicable requirements in the 2020 SAS, as follows:

Core requirements	Mandatory improvement requirements	Self-selected improvement requirements
As required by the Standard	Once required by the Standard	If selected

Table 4: the intended use of the SI

Below is a visual of the Investment Plan, with the priority option in the last column.

2 CATEGORY: Agriculture		Area budget (for Investment Plan) \$ 2,115			CH investment \$ 1,088	Farm investment 1,028			
Category activities	BUDGET Year 2017	BUDGET Year 2018	ACTIVITY BUDGET Year 2019	Currency	Investment to be made at Certified Holder or at farm level	How many farms will receive investment?	ACTIVITY BUDGET Year 2019 (US\$)	%	PRIORITY (A: high B: intermediate C: low)
TOTAL CATEGORY BUDGET	-	-	154,630	Rupees			\$ 2,115	100%	
Specific training costs for agricultural topics for farmers			48,500	Rupees	Certified Holder		\$ 663	31%	A
Purchase of PPE			21,000	Rupees	Farm	54	\$ 287	14%	B
Investments for handling empty agrochemical containers			18,430	Rupees	Farm	33	\$ 252	12%	A
Soil conservation works			35,700	Rupees	Farm	56	\$ 488	23%	C

Current voluntary investments financed or supported in kind by buyers can be considered SI as long as they are based on an agreement between farm CH and the first buyer, and the investment is aligned with the Investment Plan.

Allocation of in-kind investments

Buyers can decide to make cash SI contributions but also in-kind contributions (e.g., service, training, equipment). Both pieces are to be reported through the Rainforest Alliance Platform to make it visible to the Rainforest Alliance. Reporting in-kind investments must also be allocated to categories in the investment plan. In-kind investments should not be included in the calculation of the SI per unit of hazelnuts, but should be agreed upon on a periodic, contractual basis between the first buyer and the CH. Only in-kind contributions for which an agreement has been made should be included. If in-kind Sustainability Investments are made, the monetary value (as priced in the contract between the farm CH and the first buyer) must be assigned to the in-kind investments, and the first buyer reports these in-kind values through the traceability platform as "SI (in-kind) confirmed paid."

5.5 Value of the SI

In the short term

There is no minimum set for Sustainability Investments. However, it is expected that the investment levels do not decrease from pre-SAS 2020 implementation. This will be closely monitored by the Rainforest Alliance by analyzing UTZ premium and SD and SI data over a multi-year period. If investment levels do decrease or are below expectations, then the Rainforest Alliance can take more prescriptive steps.

Long term investments and value

Specific needs in an investment plan may require significant funding, in which case a multi-year investment plan may be suitable. In this case, the SI will be calculated as the average annual investment for a longer period.

Compliance with the 2020 SAS is based on continuous improvement and therefore may entail new or additional investments. However, this does not necessarily mean the monetary value of investments has to increase annually. Higher monetary investments will not always lead to a higher impact. There must be a focus on impactful investments that result in continuous improvement and improved quality of implementation.

Indicator data will be collected for many requirements of the farm Standard to track improvements. This data can potentially be correlated to investments made through the Investment Plan.

6. REPORTING THE SD AND SI

6.1 Reporting at transactional level

Farm CHs reporting transactions for volumes sold

Both farm and supply CH are responsible for keeping data in the certification platform up to date. The Rainforest Alliance Certification Platform records transactions that are actually performed, including transaction details, such as SD and SI paid for certified sales.

Information around SD and SI payment will be collected at two moments in time:

- 1) when the farm CH makes a sales transaction to the first buyer. The transaction details will include the SD and SI amount both parties have agreed to, the system will ask the farm CH to enter "SD agreed to be paid" and "SI agreed to be paid."
- 2) when the first buyer has transacted the actual SD and SI payment to the farm CH, a confirmation of such payment is entered into the platform. This is done at regular intervals, at the latest 3 months after actual payment was made.

The first buyer has the responsibility of assigning value to in-kind investments. Farm CHs will allocate in-kind investments according to categories already defined for monetary SI. In-kind investments are not included in the SI in individual transactions on the digital platform.

6.2 Annual reporting

Farm CHs reporting on SD spent

Farm CHs with group certification are required to distribute the total SD received by their buyer on a pro-rata basis to the group members. The Farm CH is required to report that in the Rainforest Alliance Certification Platform.

Farm CHs reporting on SI spent

Once the SC CH confirms having made SI payments and in preparation of the next audit, the farm CH is required to report on how the SI received was spent according to the available

investment categories. The investment plan must be available for auditors, so that they are able to see and assess the expenditure of the SI according to what is recorded in the platform as well as in the plan.

The diagram below explains the required steps for reporting SD and SI according to the 2020 SAS:

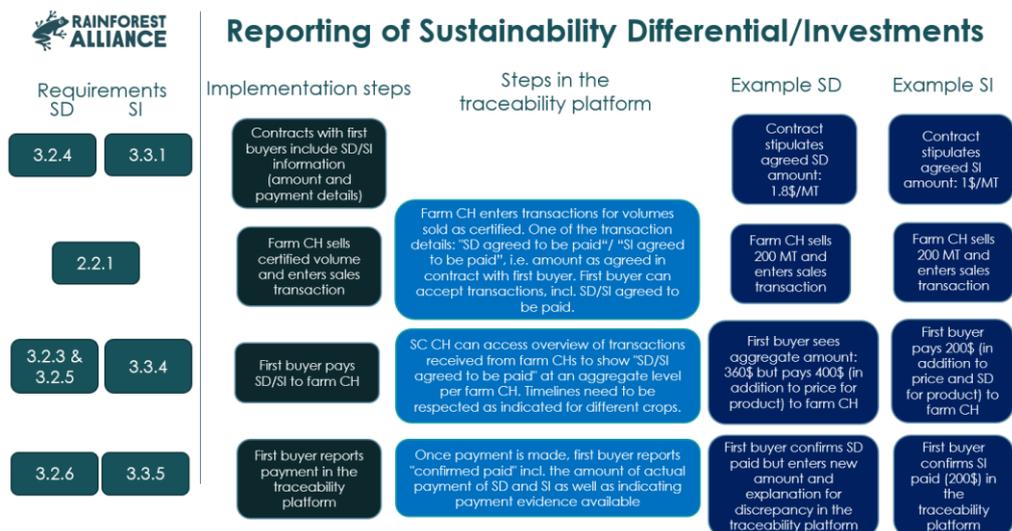


Diagram 3: reporting the SD and SI

7. CONTRACTING SD AND SI

In this chapter, guidance will be provided on the best practices for contracting SD and SI. Rainforest Alliance does not play any role in contract and/or price negotiations.

7.1 Including SD and SI when contracting for certified hazelnuts

- All contracts between farm CH and first buyer signed for volumes certified under the 2020 SAS must reflect SD and SI
- While sourcing certified hazelnuts, brand owners should work with their suppliers to understand agreements and commitments on SD and SI between the farm CH and the first buyer. The SD and SI must be clearly distinguished from price, quality and other premiums as required in the 2020 SAS⁹
- Written agreements must be transparent, should support protection for all parties, and should be mutually agreed upon. They will include roles, responsibilities, product volume, terms of payments, duration, and calculation of the SD price and the SI amount
- Invoices (or other equivalent documents such as purchase orders) must always include the following order-specific information: date, product volumes, description of certified product(s), amount of SI and how it was calculated, the SD, and delivery terms
- SD and SI payments may influence contracting terms between first buyers and their customers. These contractual terms are not captured in the Rainforest Alliance Certification Platform

Contracting timelines

- Any new contract established after July 1, 2021, should explicitly include SD and SI, according to 2020 SAS requirements 3.2.4 and 3.3.4, and be negotiated accordingly
- Existing contracts for hazelnut certified against the UTZ Code of Conduct, including premiums, will be honored until July 1, 2022. Premiums already negotiated and agreed upon can therefore be split up between SD and SI within the agreed monetary value

⁹ See 3.2.4 SC Requirements 3.2.4

- After July 1, 2022, any contract that has not yet been renewed since July 1, 2021, will require an amendment which specifies the inclusion of SD and SI in line with the 2020 SAS

Contracted Volume

- The volume contracted by the first buyer should be realistically within the maximum estimated production capacity for certified production of all members of Group Certification or all farms under Individual Certification as determined by the Rainforest Alliance yield estimate guidance
- The contracted volume for certified hazelnut may not exceed the maximum certified estimated production volume¹⁰
- Factors that influence available hazelnuts such as side-selling or low production should be considered when contracting volumes

Payment Terms

- The total value of SD and/or SI due must be paid within a one-year timeframe, and payment must be made no later than 6 months after the shipment of certified hazelnut from the farm CH to the first buyer and before the start of the next harvest¹¹
- Record of payment schedule in the agreement (or equivalent document)

Delivery Dates

- Multi-year contracts for delivery are encouraged
- By the end of the contract period the first buyer should have taken delivery of the full number of certified hazelnuts, paid the full SD and SI on these hazelnuts as per contract, and delivered on all agreed in-kind investments. If the First Buyer has not taken delivery of a contracted volume of hazelnuts for reasons other than quality defaults, then it is recommended that the First Buyer still pays the full amount of SD and SI as per contracted volume and delivers the agreed in-kind investments.

7.2 Payment by farm CH the two group members

In the case of group certification, it is recommended that the full amount of SD received by the CH from the first buyers is announced to the members on a regular basis and paid to the members either in monetary or electronic transfers and according to certified volumes delivered at least once per year and before the start of the new season.

8. ASSURANCE OF SD AND SI PAYMENTS

The assurance around SD and SI payments from first buyer to Farm Certificate Holder is regulated through various mechanisms.

As introduced in chapter 6, the Rainforest Alliance Certification Platform will request both farm CHs as well as first buyers to report the following figures:

Farm CHs must record:

- The SD/SI amounts agreed to be paid (farm CH records)
- Annual overview of allocation of SD and SI according to different categories (farm CH records).

First buyers must record:

- The confirmation of the paid SD/SI amounts (first buyer records),
- Additional in-kind investments made (first buyer records),

CBs, in preparation for farm CH as well as first buyer audits, will receive reports of those figures in order to triangulate the information reported on the platform with physical evidence such as shipping documents and payment receipts.

¹⁰ SC Requirements 2.1.6, 2.1.8, 2.1.10 and 2.2.2. See Farm Requirements 2.1.6

¹¹ See Requirement 3.2.5

In order to allow CBs to compare information recorded by both Farm CH receiving SD/SI and SC CHs paying SD/SI, CBs auditing farms will also have access to what first buyers report to have paid. CBs auditing first buyers will equally have access to reports about what farm CHs report as agreed SD/SI amounts and what they report receiving. This way CBs will have sufficient information available to verify whether the amounts are aligned and are in accordance with the Standard requirements and with agreements between both parties.

If a CB detects discrepancies between the figures reported in the Rainforest Alliance Certification Platform and the physical evidence of agreements and actual payments, the Certification and Auditing Rules prescribe the CB to further investigate the causes of such discrepancies. While there can be acceptable reasons for a delayed payment or the payment of a different amount, absence of payment will lead to sanction of the party that is responsible for SD/SI payment, the first buyer. If such non-payment is detected during the audit of a farm CH, the farm CH's CB notifies the Rainforest Alliance so that further follow up by the first buyers CB can be arranged for.

Auditing SD

First Buyers: Non-payment of the SD or misreporting on SI will be flagged as a non-conformity. Rainforest Alliance may decide to immediately cancel the current certificate of companies and/or decide not to certify the companies if they do not comply with the process of getting certified/endorsed or refuse to close non-conformities. They will not be able to sell products as Rainforest Alliance Certified.

This requirement applies to Supply Chain CHs who are identified as first buyers and responsible for paying SD and SI.¹²

Producers: In the case of group certification, farm CHs must forward the SD to their members. The auditor will revise proof of receipt at the farmer/farm group level as part of the farm group audit. These will be triangulated with proof of payment and receipt in order to validate the amount and authenticity of transactions.

Auditing of the Investment Plan:

The auditor will verify the existence of the Investment Plan and ensure that its content is consistent with the risk assessment, self-assessment, internal inspection and other relevant documents that provide the farm CH insights in investment priorities to comply with 2020 SAS, (certification year 1 onward). From year 2 onward, the auditor will also audit the spending against the investment plan.

The auditor will use the revised/ adjusted plan as a basis to check consistency between the money received and the actual expenses made based on what was received. The actual allocation of SI received will be checked against what farm CHs record in the platform to ensure that recorded data is accurate.

When there is evidence that there is misuse of the SI, the Farm CH can be suspended or decertified if they do not rectify the nonconformity.

¹² For specifics around non-conformities, please see the Certification and Auditing Rules.