

SUSTAINABILITY DIFFERENTIAL AND SUSTAINABILITY INVESTMENTS

Coffee sector guidance

Version 1



**RAINFOREST
ALLIANCE**



The Rainforest Alliance is creating a more sustainable world by using social and market forces to protect nature and improve the lives of farmers and forest communities.

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This guidance document is non-binding. This means that this document provides important information to help readers understand, interpret and implement the requirements set out in the documents listed in the section "linked to" above. However, following the guidance in this document is not mandatory.



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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.
- Sustainability Investments are mandatory monetary or in-kind investments 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 Premiums to Sustainability Differential (SD) and Sustainability Investments (SI)

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

Premium approach	SD SI approach
<ul style="list-style-type: none"> • Only captures cash paid from the first buyer to the farm CH. It does not include in-kind investments 	<ul style="list-style-type: none"> • Will capture the full investments made in farm CHs. This includes both in-kind as well as cash investments
<ul style="list-style-type: none"> • Includes both cash to producers and cash 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 cash
<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 Timeframe: July 2021 – July 2022

- SD and SI must be paid (and recorded) by first buyers for all purchases of volume certified against the 2020 Sustainable Agriculture Standard
- The transition period for all farm certificate holders to the 2020 Sustainable Agriculture Standard is from July 1, 2021 to July 1, 2022



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.
Certificate Holder (CH)	Any organization that is 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.
Farm Unit	A piece of continuous land that is part of a farm. A farm unit can include both agricultural and non-agricultural land with buildings, facilities, water bodies, and other features.
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.
Mass Balance	Administrative traceability that allows a supply chain actor to claim product as Rainforest Alliance Certified when the equivalent quantity was sourced as Rainforest Alliance Certified.
Non-Conformities (NC)	Incomplete fulfilment of a requirement in the Rainforest Alliance 2020 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)	S mandatory additional monetary payment made to certified farm certificate holders over and above the market price of the commodity.
Sustainability Investments (SI)	mandatory cash or in-kind investments 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 AND SCOPE

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 the Sustainability Differential (SD) and Sustainability Investments (SI) are implemented in the coffee sector. SD and SI guidance for other sectors is published separately.

1.2 SCOPE

Farm certificate holders (CHs) are central to the SD and the SI approach those organizations must negotiate the amount and payment terms of the SD with the first buyer. In the case of group certification, Farm CHs are also responsible for ensuring 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 Investments and negotiating the investment contributions of the first buyers.

The first buyers play an equally critical role in the SD and SI approach. They are responsible for ensuring that the agreed amount of Sustainability Differential is paid in a timely fashion as agreed with the Farm CH. They are also responsible for making sustainability investments 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 Certification Platform.

This guidance document is instructive for all stakeholders that play a role with regards to how SD and SI values are agreed, paid, used, recorded in the Rainforest Alliance certification platform, and assured, including:

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

2. THE SUSTAINABILITY DIFFERENTIAL AND SUSTAINABILITY INVESTMENT IN COFFEE

2.1 Towards a sustainable coffee sector

A sustainable coffee sector is one in which coffee is 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 coffee in a way which is environmentally, economically, and socially sustainable. Producers should be able to earn a living income, so the entire coffee sector is resilient to the impacts of price volatility and climate change. Producers are able to attain a decent price for their coffee because the market chooses to invest only in and source sustainably produced coffee and rewards this better product with a better price.



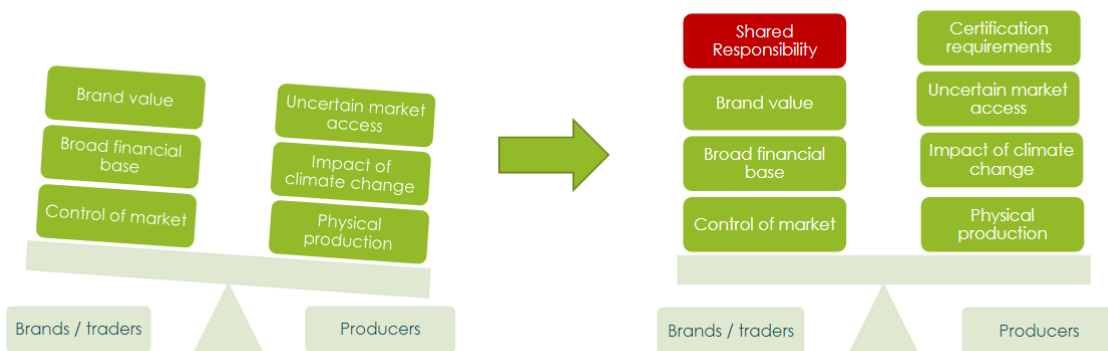
The responsibility for sustainable transformation cannot fall on farmers' shoulders alone. To drive deep-rooted, systemic change on a global scale, companies and governments need to take a leading role.

Shared responsibility refers to the joint efforts required by supply chain actors, governments, donors, NGOs, and other stakeholders to support sustainable production at farm level. This includes promoting a living income for coffee producers through targeted investment and support for income diversification, access to safe water, education and healthcare, implementation of good agricultural practices including wastewater treatment and coffee leaf rust control, the protection of the environment and the provision of good working conditions for workers in coffee growing communities.

A clear call for action exists in the sector¹ to address financial insecurity of coffee producers which is the root cause of issues such as migration, gender inequality, and generational succession that are undermining the sustainability of the sector.

The Rainforest Alliance 2020 Certification Program puts a stronger emphasis on shared responsibility on 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 investments, 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 to achieving truly sustainable coffee 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 and workers.

To help realize this vision, our 2020 SAS outlines requirements around two mechanisms for the buyers of Rainforest Alliance certified commodities: The Sustainability Differential and Sustainability Investments.

¹ As is expressed by the industry-signed London Declaration for example: <http://www.ico.org/documents/cy2018-19/pr-306e-london-declaration.pdf>



The Sustainability Differential is a mandatory additional monetary payment made to certified producers on top of the market price and other differentials such as quality differentials.

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 the sharing of the costs and returns of sustainable production across the supply chain in a more equitable manner.

2.3 Transitioning from Premiums to SD and SI

Contextualization of 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 whilst addressing crop, country, and producer-specific challenges.

Background: Certification Premiums in Coffee

Paying a premium for certified supply is already a common practice in the coffee sector. A premium has always been mandatory for UTZ certified coffee. While premiums were not mandatory for Rainforest Alliance certified coffee, paying a premium for certified supply has been common practice for Rainforest Alliance coffee as well. We therefore take the payment of certification premiums as the starting point for the transition from premiums to SD and SI.

From Premiums to SD and SI

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

	Premium approach to payments		SD -SI Approach to Cash payments	
	CH level	Producer or Worker Level	CH level	Producer level
Group Certification	Includes both cash 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), thereby 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 amount to member producers in cash.
Individual Farm Certification		Specific benefits to workers not required	Distinguishes between value for the producer (SD) and value to be used exclusively for investments to comply with 2020 SAS (SI)	N/A



	Premium Approach to Investments		SD -SI Approach to Investments	
	CH level	Producer or Worker Level	CH level	Producer or Worker Level
Group certification	Only captures cash paid from the first buyer (FB) to certificate holder (CH). Does not include in-kind investments.	Types of investments made and/or benefits to workers not captured	Full investments made to CH are captured. This includes both in-kind investments and cash investments.	Investments made at the farmer level as specified in the investment plan. Reporting on categories of investments made in certification platform (including benefits to workers)
Individual Farm Certification			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.	

Table 1: key differences between Premium and SD – SI

3. SD AND SI TIMELINES

3.1 Transitioning to SD and SI

- From July 1, 2021, all certificate holders must start to transition to the 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
- Farm CHs may sell their legacy UTZ and Rainforest Alliance coffee until they obtain a transition certificate
- With their Transition Certificate, Farm CHs will receive new RA volumes as certified volume, equal to the audited estimated harvest for the 1 year covered by that certificate
- **If during their Transition Period Audit, Farm CHs have any remaining legacy volumes, they can carry them over to their Transition Certificate in the form of new RA volumes**
- The transition period audits will happen until June 30, 2022
- Supply chain CHs must obtain a transition certificate against the 2020 Rainforest Alliance Sustainable Agriculture Standard by the time their current license expires, and no later than 31 December 2022. They can buy and sell 2020 SAS certified coffee, during the period in which they are obtaining their transition certificate, but will have to comply with the criteria for SD and SI payments for all coffee certified against the 2020 SAS²
- All coffee sold as certified against the 2020 SAS to first buyers must include the SD and SI
- Farms are also eligible for SD/SI for their carry-over volume after they obtain a Transition Certificate, **as that will be granted as new RA volumes**
- The SD and SI value will be paid by first buyers. The payment is confirmed in the Rainforest Alliance Certification Platform
- For coffee bought from legacy volumes from the UTZ and 2017 SAS systems, bought after July 1, 2021 the first buyer would not have to comply with the SD/SI requirements, but with the requirements of the corresponding certification programs

² For example, SC CH can purchase coffee from farms that comply with the new Standard, but they can only sell the coffee as "new" volume if they comply with the 2020 SAS themselves, including payment of SD and SI.



- SD and SI requirements start to apply for all coffee purchased as certified under the new program after July 1, 2021. First buyers will comply according to their buying cycles³

3.2 Transparency

- The SD and SI value paid and recorded between first buyer and farm CH will be transparent and 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.

4. GUIDANCE FOR THE SUSTAINABILITY DIFFERENTIAL IN COFFEE

4.1 The beneficiary of the SD

The Rainforest Alliance believes that farm certificate holders should be recognized for working towards increased sustainability and the SD is intended to support this.

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. Nothing is kept by group management.
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 document on the Use of Sustainability Differential and Sustainability Investments for the benefit of workers. 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

4.2 Who qualifies as the First Buyer

The first buyer is responsible for SD/SI payments for the volume purchased as Rainforest Alliance Certified.

If an organization has farming in scope, it will always be categorized as a farm certificate holder. Farm Group CHs must comply with the requirements around the redistribution of the SD to their group members.⁴

³ If the buying cycle is August-December, they need to start complying from August 2021. If the buying cycle is January-July, they must comply starting in January 2022. By July 1, 2022, SD and SI will always be paid.

⁴ Farm Requirements 3.2.1



If a farm CH purchases certified product from other farm CHs (and there is change of legal ownership involved), the farm CH who purchases the product additionally becomes the first buyer and must pay the SD and SI to their supplier(s).⁵

Type of CH	Situation 1 SC CH buys from Farm CH who only sells own coffee		Situation 2 SC CH buys from Farm CH who sells own coffee and also buys coffee from other farm CHs	
	Activity	Responsibility regarding SD/SI	Activity	Responsibility regarding SD/SI
SC CH	Purchase coffee in the role of first buyer (first legal owner after farm CH)	Pay SD/SI ⁶ to Farm CH	Purchase coffee partly as first buyer, partly as second buyer	Pay SD/SI ⁷ for coffee they purchase as first buyer that comes directly from a farm CH
Farm CH (group)	Collect coffee from their own group members	Receive SDSI from first buyer. Redistribute SD ⁸ to group members Use SI to support the group Investment Plan	Purchase coffee from certified individuals/groups outside the group management scope → first buyer role as they are the first legal owner after another farm CH	Receive SDSI from first buyer. Pay SD/SI ⁹ for coffee purchased from other farm CHs
			Collect coffee from their own group members	Receive SD/SI from first buyer. Redistribute SD ¹⁰ to group members Use SI to support the group's Investment Plan

Table 3: first buyer example

4.3 The monetary 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 price premiums can be paid together by first buyers. However, the Sustainability Differential must be clearly distinguishable from market price and other premiums or differentials in contracting and in reporting in the Rainforest Alliance Certification Platform.¹¹

5. GUIDANCE FOR SUSTAINABILITY INVESTMENTS IN COFFEE

5.1 The beneficiary of the SI

Sustainability Investments are intended to support Farm CHs to comply with the core requirements of the 2020 SAS and relevant improvement requirements.

⁵ SC Requirements 3.2.3 - 3.2.7, 3.3.4 - 3.3.5, respectively

⁶ SC Requirements 3.2.3 - 3.2.7, 3.3.4 - 3.3.5

⁷ SC Requirements 3.2.3 - 3.2.7, 3.3.4 - 3.3.5

⁸ According to Farm Requirements 3.2.1

⁹ Farm Requirements 3.2.3 - 3.2.7, 3.3.4 - 3.3.5

¹⁰ According to Farm Requirement 3.2.1

¹¹ Other premiums and differentials include quality, crop and/or country specific.



5.2 The Investment Plan

Sustainability Investments will be based on an investment plan developed by the farm certificate holder. 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.

5.3. DEVELOPING THE INVESTMENT PLAN

Annex 16 of the 2020 Sustainable Agriculture Standard is a template for the Investment Plan. Farm CHs can categorize the various investment elements and link them to the implementation of the different chapters of the 2020 Sustainable Agriculture Standard on this template.¹² A training module on how to use this tool will also be made available to Farm CHs.

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:

Risk assessment

Through the results of the certificate holder's Farm Risk Assessment (See Annex S3 of the 2020 SAS), the farm CH will be able to identify the areas of improvement.

Internal inspection and the audit report

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

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 Investments.

Based on the revision of the above documents and tools the guidance, as well as the own planning documents of the farm CH, an Investment Plan can be drawn up, applying the following logic:

Before the harvest season

- A first draft of the Investment Plan will be drawn up before the audit. This version will have to be updated with the results of the audit, to include the costs of corrective actions related to non-compliance identified by the auditor, which had not yet been included in the investment plan. This corrected version will be the basis for negotiation between the farm CH and the first buyer.
- Additionally, based on this initial assessments, large farms need to consult with workers representatives on the prioritization of the investment needs identified to improve the working conditions for workers.
- This 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 yield, 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.

¹² Rainforest Alliance Investment Categories: 1. Management, 2. Farming 3. Social, 4. Environment



- The final SI amount and/or certified volumes to be sold will be agreed between the farm CH and the first buyer. There is no obligation for the farm CH to share the detailed investment plan with their buyers but sharing at least a summary of the breakdown of investment categories is strongly encouraged, in the spirit of promoting transparency at all levels.

During the harvest season

- After a year, the Farm CH will have to report the allocation of total SI received against the different SI categories: 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) in the Rainforest Alliance Certification Platform.
- 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 level.¹³
- 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 coffee 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 year.¹⁴
- 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 monetary SI contribution.

After the harvest season

- 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 adjusted according to the actual amount received. Moreover, the investment plan will be updated for the next year based on the results of the first audit and the planning of the CH according to its own defined priorities. This is the starting point of the following year's plan.

Investment allocation

Farm CHs are responsible for investment prioritization, according to their most critical needs that will enable them to comply with the applicable requirements in the 2020 SAS, as follows:

Below a visual of the investment plan can be observed, 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

¹³ 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.

¹⁴ 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".



Buyers can decide to make monetary SI contributions but also in-kind contributions (e.g., service, training, equipment). Both types are to be reported through the digital platform to make it visible for 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 coffee, 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.

5.4 Value of Sustainability Investments

Short term value

There is no minimum set for Sustainability Investments. However, it is expected that the investment levels would not decrease from pre-2020 Rainforest Alliance standard implementation. This will be closely monitored by the Rainforest Alliance by comparing the total premiums (2018-2021) to the combined value of SD and SI (2021 onward). If investment levels do decrease or are below expectations, then the Rainforest Alliance will look into ways to drive them up through a continuous improvement process.

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. 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 track improvements on farm alongside investments received.

The value of in-kind investments

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

6. REPORTING THE SD AND SI IN THE RAINFOREST ALLIANCE CERTIFICATION PLATFORM

6.1 Reporting at transaction level

Farm CHs reporting transactions for volumes sold

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

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/SI amount both parties have agreed to, the system will ask the farm CH to enter "SD agreed to be paid"/"SI agreed to be paid."



- 2) when the first buyer has transacted the actual SD payment/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.

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, in the case of groups.

Once the SC CH confirms having made SD payments and in preparation for the next audit, the farm.

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:

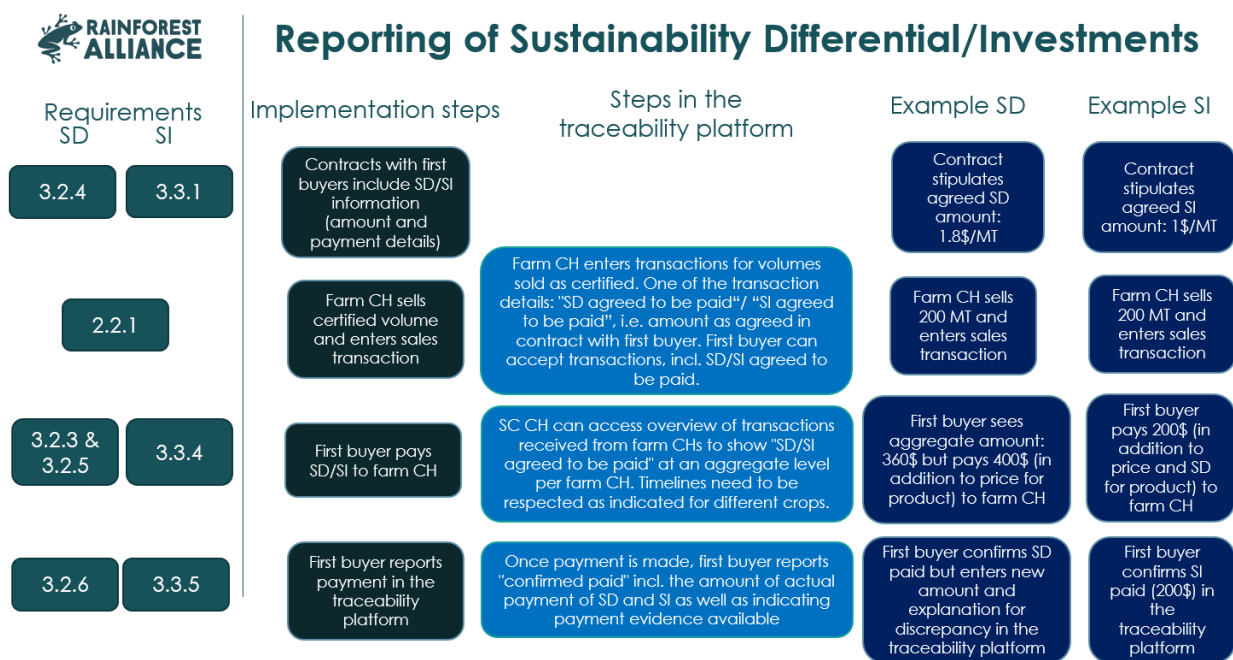


Diagram 3: reporting of the SD and SI

7. CONTRACTING SD AND SI

This chapter provides guidance 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 certified coffee

- All contracts between farm CH and first buyer signed for volumes certified under the 2020 SAS must reflect SD and SI



- When sourcing certified coffee, brand owners should work with their suppliers to understand agreements and commitments on SD/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 Standard¹⁵
- Written agreements must be transparent, should support protection for all parties, and should be based on mutual agreement. 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 SD, and delivery terms

Contracting timelines

- Any new contract established after July 1, 2021 should explicitly include SD and SI for coffee certified under the 2020 SAS according to Standard requirements 3.2.4 and 3.3.4, and be negotiated accordingly
- Existing contracts will be honored. Premiums already negotiated and agreed upon can therefore be split up between SD and SI, in order to report in the Rainforest Alliance Certification Platform, within the agreed monetary value. Based on the negotiations between the farm CH and the first buyers and with the input of the investment plan as a reference, the agreed premium can be split and assigned to SD and to SI. Those agreed amounts would have to be registered in the Rainforest Alliance Certification Platform

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 coffee may not exceed the maximum certified estimated production volume¹⁶
- Factors that influence available coffee 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 12 months after the shipment of certified coffee from the farm CH to the first buyer¹⁷
- The payment schedule should be included 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 amount of certified coffee, paid the full SD and SI on these beans as per contract, and delivered on all agreed in-kind investments

7.2 Payment by Farm CH (Group Management) to Members of Group Certification

In the case of group certification, 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 cash or electronic transfers and according to certified volumes delivered. The full SD amount must be paid latest before the start of the new season.

¹⁵ See 3.2.4 SC Requirements 3.2.4

¹⁶ SC Requirements 2.1.6, 2.1.8, 2.1.10 and 2.2.2. See Farm Requirements 2.1.6

¹⁷ See Requirement 3.2.5



8. ASSURANCE OF SD/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.

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 buyer's CB can be arranged for.

Auditing Supply Chain

First Buyers: Non-payment of the SD or misreporting on SI will be flagged as a non-conformity. This requirement applies to Supply Chain CHs who are identified as first buyers and responsible for paying SD.¹⁸

Auditing Farm CHs

SD for groups: In the case of group certification, Farm CHs must forward the SD to its 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.

Failure to pass on the amount in full will be considered a non-conformity and farm CHs can be suspended or decertified if they do not correct this non-conformity.

Investment plan (groups and individual CHs): 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 the 2020 Rainforest Alliance standard,

¹⁸ For specifics around non-conformities, please see the Certification and Auditing Rules.



(certification year 1 onward). From year 2 onward, the auditor will also audit the spending against the investment plan.¹⁹

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

If a non-conformity is identified, either during the Supply Chain or Farm audit, the certificate holder must take corrective action to close the non-conformity to be certified. Failure to close the non-conformity will result in a non-certification decision which means that the CH will not be able to sell products as the Rainforest Alliance certified.

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.