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Memorandum of Understanding between Ferrero (Trading Lux S.A.) and IFAD

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraphs 19 and 20 of this document.

I. Background and purpose of the memorandum of understanding

1. IFAD seeks approval from the Executive Board before entering into a formal partnership agreement with Italy's Ferrero Trading Lux S.A. (hereinafter "Ferrero").
2. In August 2021, IFAD's Executive Management Committee endorsed a proposed partnership between IFAD and Ferrero through an institutional agreement/memorandum of understanding (MoU), subject to approval by the Executive Board. This followed an internal review and due diligence on the environmental, social and governance performance of Ferrero by IFAD's technical working group¹ on the private sector

Establishment, history and activities of Ferrero Group

3. Founded in the 1940s, Ferrero Group is an industrial success story that tells of how three generations of a Piedmontese family turned a pastry shop into an agro-food multinational. Following on the company's success in Italy, in 1956 Michele Ferrero, the founders' son, opened a plant in Germany – a prelude to the company's rapid expansion in Europe. In the following decades, Ferrero went global, establishing companies and plants in North and South America, South-East Asia, Eastern Europe, Africa, Australia and, more recently, Turkey, Mexico and China.
4. Ferrero has always balanced innovation with quality to meet consumer needs. Brands like Nutella, Kinder, Ferrero Rocher and Tic Tac are household names around the world today.
5. The Ferrero Group approved consolidated financial statements for the year ended 31 August 2020 with a turnover of EUR 12.3 billion, an increase of 7.8 per cent over 2019. With this approval, Ferrero consolidated 105 companies and 31 manufacturing plants established in over 170 countries. In 2019–2020, the group employed an average of 34,121 people, up from 33,003 in 2018–2019. The headcount as of 31 August 2020 was 37,122.
6. **Governance.** Ferrero is a family-owned private company. In 2017, the Ferrero Group reorganized the management team reporting directly to Executive Chairperson Giovanni Ferrero.
7. **Structure.** According to its annual report, the group has more than 105 subsidiaries worldwide, with 31 manufacturing plants, of which three are operating as social enterprises. Ferrero Trading Lux S.A. is the group's global operational corporate branch. The group is constantly investing in innovation, research and development.
8. **Social responsibility.** Through its Social Enterprises scheme, Ferrero has contributed to the development of some of the poorest areas in the world. The company is now considered a leader in terms of engagement with local communities and is noted for its strong support of sustainable agricultural practices and environmental protection.
9. **Commitment to sustainable global agro-food supply chains.** Ferrero aims for excellence along the entire hazelnuts value chain, with particular focus on the

¹ Includes members of the Global Engagement, Partnership and Resource Mobilization Division (GPR), Office of the General Counsel, Communications Division, Sustainable Production, Markets and Institutions Division, Private Sector Advisory and Implementation Unit, Environment, Climate, Gender and Social Inclusion Division, Programme Management Department and Financial Management Services Division, and is chaired by the Director of GPR.

social and environmental quality of the raw materials it uses. Through its Hazelnut Charter² and its policies on sustainable production and sourcing, the company tries to ensure its products are good for people and for nature. Ferrero's sustainability strategy rests on four strategic pillars: (i) protect the environment; (ii) promote responsible consumption; (iii) source ingredients sustainably; and (iv) empower people.

10. **Ferrero and the "Cocoa and Forests Initiative" to end deforestation in the global cocoa supply chain.** At the United Nations Climate Change Conference (COP23) in Bonn in November 2017, Ferrero, together with 11 leading cocoa and chocolate companies, signed a statement pledging to work together to end deforestation and forest degradation in the global cocoa supply chain, with an initial focus on Côte d'Ivoire and Ghana.
11. As part of its corporate social responsibility strategy, Ferrero continues to engage in product certification programmes and projects and partnerships with the aim of safeguarding the future of the global food and agriculture system.³
12. **Ferrero and the United Nations.** Ferrero and the International Labour Organization (ILO) started a partnership in November 2020 to eliminate child labour in hazelnut harvesting in Turkey. Ferrero is supporting the ILO in a 40-month project in the country to help eliminate the worst forms of child labour from the sector. Additionally, the company is using the ILO's 11 indicators on forced labour to take appropriate steps to identify, prevent and address the problem. Ferrero is a founder member of, and has participated in, the United Nations Global Compact – the world's largest corporate sustainability initiative – since 2011. Participants in the compact agree to uphold a series of principles on human rights, labour, the environment and corruption.
13. **Background, objectives and nature of the partnership.** Following discussions between Ferrero and IFAD's subregional office in Istanbul, in 2021 the Fund started to explore the possibility of collaborating with the group to support the development of joint initiatives. In line with IFAD's partnership strategy and policies on engagement with the private sector, a framework agreement discussed with Ferrero aims at: (i) mobilizing private funding and investments in smallholder agriculture and in rural small and medium-sized agricultural enterprises; and (ii) expanding markets, and increasing income and job opportunities for the Fund's target groups (particularly women and youth). Discussions will conclude with the signing of an MoU between the Vice-President of IFAD and the legal representative of Ferrero.
14. This MoU will present several opportunities of cooperation between IFAD and Ferrero, mainly in Europe and Central Asia (particularly Azerbaijan, Turkey and Georgia). Joint initiatives will focus on designing and implementing small-scale pilot projects on sustainable and inclusive hazelnuts value chains. It is subsequently envisaged to scale up successful activities at national and subregional levels on the basis of lessons learned and best practices achieved.
15. Piloting a joint project between IFAD and Ferrero will accelerate the modernization of hazelnut production systems as well as the integration of smallholder farmers into the global and regional sustainable hazelnuts value chain, with new technologies, cost-effective digital solutions and a clearly defined market.
16. **Benefits of signing a MoU with Ferrero.** The signing of the MoU will provide a major opportunity for IFAD to: (i) demonstrate the ability and capacity of smallholder farmers to meet the quality and quantity requirements of a high-end

² <https://www.ferrero.com/sustainability/hazelnut-charter>.

³ More information on Ferrero commitment on sustainable food value chains and sustainability commitments can be found in the below links:

<https://www.ferrero.com/sustainability/for-the-better>.

<https://www.ferrerosustainability.com/int/en/sustainability-reports>.

agro-food product; (ii) increase visibility for the Fund's work in supporting rural development and smallholder agriculture integration into global agro-food value chains; (iii) influence Ferrero's operations towards even better social, environmental and governance outcomes; (iv) support the delivery of corporate commitment to deepen and expand the Fund's impact; (v) create more market opportunities for smallholder farmers through IFAD's programme of loans and grants, and pilot a private sector engagement instrument/model for upper-middle-income countries; and (vi) showcase IFAD's capacity and commitment to establish new concrete and innovative partnerships with global agro-food companies actively involved in the 2021 United Nations Food System Summit.

II. Alignment with IFAD strategies

17. The development principles and objectives set forth in IFAD's Strategic Framework 2016-2025 are aligned with those of Ferrero Trading Lux S.A.
18. In addition, the proposed MoU is well aligned with the two main objectives of IFAD's Private Sector Engagement Strategy 2019-2024: (i) use IFAD's programme of loans and grants to crowd in private sector investments coherent with IFAD's strategic and operational approach; and (ii) expand regional and global markets, and increase income and job opportunities for IFAD's target groups, including women and youth, by testing and scaling up new technologies. These may relate to conservation agriculture, agri-tech and the cost-effective modernization and transformation of family farming.

III. Recommendation

19. In accordance with IFAD's Delegation of Authority Framework, the President is the authority responsible for submitting memorandums of understanding to the Executive Board for approval and the competent authority to sign them. However, considering a potential and perceived conflict of interest due to the involvement of the ILO, the Vice-President is submitting the memorandum of understanding to the Executive Board.
20. In accordance with article 8, section 2 of the Agreement Establishing IFAD, the Executive Board is invited to authorize the Vice-President of IFAD to finalize and sign the memorandum of understanding between IFAD and Ferrero Trading Lux S.A., along the lines described above.
21. The signed MoU will be submitted to the Board for information at a subsequent session.