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# Review of the Nestlé Palm Oil Upstream Supply Chain Management Program in Malaysia and Indonesia

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April 2021



# Introduction

In recent years, labor practices in the palm oil sector in Southeast Asia have drawn significant attention from both media and civil society actors. While a comprehensive prevalence study has yet to be carried out, articles from media outlets such as the Wall Street Journal and reports from organizations, such as Amnesty International, the Danish Institute for Human Rights, Fair Labor Association, SOMO, and CNV International have documented serious problems at Malaysian and Indonesian palm oil mills and plantations, the two countries which account for nearly 85% of global production of the commodity. Such accounts have raised concerns about forced labor and poor working conditions among others, including practices such as unethical recruitment and labor trafficking, restrictions to workers' freedom of movement, underpayment of wages, excessive working hours, widespread exploitation of the seasonal employment system, gender-based discrimination, inadequate access to potable water, and provision of substandard worker accommodations.<sup>1</sup>

Nestlé has publicly acknowledged the existence of such problems in the palm oil sector, and recognizes the role that responsible sourcing of palm oil by consumer goods companies has to play in helping to address them at the industry level.<sup>2</sup> In 2017, Nestlé commissioned the Danish Institute for Human Rights (DIHR) and The Forest Trust (TFT, now Earthworm Foundation) to carry out an assessment of labor and community-rights impacts in their direct and indirect palm oil supply chain in Indonesia, in collaboration with one Tier 1 supplier.<sup>3</sup> The findings and recommendations from this assessment were incorporated into the [Nestlé Action Plan on Labour Rights in Palm Oil Supply Chains](#), first published in 2017, and updated in 2021 taking into account the recommendations made in this report.

In June 2018, Nestlé began a partnership with Verité on a multiyear program to improve working conditions across its palm oil supply chains globally, with a focus on both Malaysia and Indonesia. Nestlé was joined in the exercise by two major suppliers in Indonesia and Malaysia. All three organizations actively collaborated with Verité.

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1 See Al-Mahmood, Syed Zain, "Palm-Oil Migrant Workers Tell of Abuses on Malaysian Plantations," The Wall Street Journal, July 26, 2015. <https://www.wsj.com/articles/palm-oil-migrant-workers-tell-of-abuses-on-malaysian-plantations-1437933321>; Amnesty International, "The Great Palm Oil Scandal: Labour Abuses Behind the Big Brand Names, 2016. <https://www.amnesty.org/download/Documents/ASA2151842016ENGLISH.PDF>; Danish Institute for Human Rights, "Labour rights assessment: Nestlé's palm oil supply chain in Indonesia," April 30, 2018. <https://www.humanrights.dk/publications/labour-rights-assessment-nestles-palm-oil-supply-chain-indonesia>; Fair Labor Association, "Assessing Forced Labor Risks in the Palm Oil Sector in Indonesia and Malaysia," November 2019, [https://www.theconsumergoodsforum.com/wp-content/uploads/2018/11/201811-CGF-FLA-Palm-Oil-Report-Malaysia-and-Indonesia\\_web.pdf](https://www.theconsumergoodsforum.com/wp-content/uploads/2018/11/201811-CGF-FLA-Palm-Oil-Report-Malaysia-and-Indonesia_web.pdf); SOMO, "Governmental action against the Indonesian palm oil industry," Somo Paper, May 2019. <https://www.somo.nl/wp-content/uploads/2019/10/Rapport-Governmental-action-against-the-Indonesian-palm-oil-industry.pdf>; CNV International, "Palming Off Responsibility Labour rights violations in the Indonesian palm oil sector," April 2017. [https://www.cnvinternationaal.nl/\\_Resources/Persistent/494a6d41ea4525468b46072a02e31f21e85a59c6/CNVI-0118%20Palmolie%20Indonesie-rapport-Low%20Res.pdf](https://www.cnvinternationaal.nl/_Resources/Persistent/494a6d41ea4525468b46072a02e31f21e85a59c6/CNVI-0118%20Palmolie%20Indonesie-rapport-Low%20Res.pdf).

2 Nestlé, "Nestlé, "Tackling labor rights issues: our palm oil action plan." <https://www.nestle.com/stories/nestle-launched-action-plan-palm-oil>

3 DIHR, "Nestlé takes further steps to improve labour conditions in Indonesia's palm oil industry." <https://www.humanrights.dk/news/nestle-takes-further-steps-improve-labour-conditions-indonesias-palm-oil-industry>

The objectives of the ongoing program are to:

- Understand and assess the nature and dynamics of actual and potential human rights impacts, and in particular those related to labor practices, in Nestlé's upstream supply chain;
- Strengthen Nestlé's supplier management program for its upstream supply chain, in alignment with the [Nestlé Responsible Sourcing Standard](#) (RSS); and
- Build the capacity of Nestlé and its palm oil suppliers to identify, diagnose and remediate labor issues.

To achieve these objectives, Verité reviewed the policy commitments of Nestlé, and two suppliers related to due diligence on labor issues in their upstream supply chains; examined how those policies are being implemented in practice through specific processes and procedures; and verified the effectiveness of the supplier monitoring programs currently in place for controlling upstream labor risk and remediating issues.

The first phase of the program took place over approximately 18 months in 2018 and 2019. Verité conducted a series of comprehensive field assessments of labor conditions and management practices at independent mills and estates within Nestlé's upstream palm oil supply chains in Malaysia and Indonesia, to evaluate the state of labor conditions and probe the effectiveness of existing supplier management systems. In total, Verité conducted comprehensive labor and Occupational, Health & Safety (OHS) assessments of seven mills and 11 estates, employing about 4,400 workers. Of these, Verité interviewed 97 mill workers and 113 estate workers. Verité also interviewed management and reviewed documents at mills and estates. The assessments were conducted using the following combined (and cross-referenced) standards: the Nestlé RSS, the Roundtable on Sustainable Palm Oil (RSPO) Principles & Criteria, NDPE (No Deforestation, No Peat, No Exploitation) commitments, and relevant supplier policies.

In addition to the field assessments of mills and estates, Verité conducted comprehensive management systems assessments of all three companies' supplier monitoring programs to understand how upstream supply chain monitoring is conducted by Nestlé and its suppliers.

By interviewing key personnel and carrying out a careful review of policies and procedures being used, Verité identified good practices as well as various gaps and potential reasons why current due diligence systems are not adequately detecting and addressing upstream labor and OHS issues.

On the basis of the findings from the management systems assessments and field research, Verité developed recommendations for improvements in the upstream supplier monitoring systems for the three companies. In Phase 2 of the program, which began in 2020, Verité is working with Nestlé and its two suppliers to strengthen their capacity to implement these recommendations through the development of tools, provision of trainings, and consulting support.

# Good Practices Observed

## *Policies in place*

Verité's review revealed that at the policy level, Nestlé and its two suppliers all demonstrate strong commitments to sustainability, including environment, labor, land rights, and other standards. Nestlé's RSS covers its entire upstream supply chain, including the expectation that its direct suppliers cascade Nestlé's sustainability requirements to third-party (independently owned) mills and estates and smallholdings from which they directly or indirectly purchase or with whom they have a trading relationship. Nestlé and the two participating suppliers have ethical recruitment commitments that are based on the principle of "employer pays" and include prohibitions on the retention of workers' passports or identity documents. The companies also all have grievance mechanisms in place for reporting and tracking issues, complaints, and stakeholder actions. Clear KPIs and targets have been developed for their internal sustainability teams.

## *Efforts to achieve supply chain visibility*

To implement due diligence systems in practice, Nestlé and its two suppliers have embraced a risk-based approach through the use of Earthworm Foundation's Aggregator/Refinery Transformation (ART) program and collaboration with other NGO partners to identify and respond to issues at the level of mill, plantation, or producer group. In the ART program, mills and estates are clustered within the supply chain map in relation to the refineries that aggregate and process their produce. Approximately 10% of the mills supplying aggregator refineries are selected for "deep engagement" under ART, which typically results in creation of time bound action plans to address sustainability issues identified, with implementation of the plans tracked by Nestlé jointly with its Tier 1 suppliers. Active engagement of priority suppliers (including all non-RSPO Segregated Certified suppliers) is generally done through Earthworm Foundation or another external partner, and may include field visits and closer monitoring of action plans. The ART program also includes broader engagement to identify common issues and problematic practices in the entire supply shed, a systemic approach embraced by Nestlé more broadly.

## *Multiple sources of insight into issues*

Nestlé and the two participating suppliers additionally rely on the oversight processes associated with RSPO certification in RSPO member mills and associated supply bases for risk and impact assessment. Other sources of information on risks and issues include Tier 1 supplier self-assessments, their own field visits, complaints filed through the RSPO Complaints Panel, and NGO or stakeholder reports. In addition, in 2018, Nestlé collaborated with Elevate and the Responsible Business Alliance and a Tier 1 supplier to launch a worker helpline in Malaysia to enable workers to report directly on working conditions, recruitment, safety and other labor issues, through the use of mobile platforms.<sup>4</sup>

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<sup>4</sup> Nestlé, "Nestlé and Sime Darby Plantation launch worker helpline to tackle human and labor rights issues in palm oil supply chain," November 7, 2018. <https://www.nestle.com/media/pressreleases/allpressreleases/nestle-sime-darby-plantation-worker-helpline-human-labor-rights-palm-oil-supply-chain>.

# Labor Issues Identified

Despite Nestlé and its two suppliers having these positive practices in place, Verité assessments in 2018 and 2019 found widespread labor issues throughout the companies' independent supplier supply chains in both Indonesia and Malaysia. Specific findings uncovered during the research at the mills are listed in Appendix 1, and at the estates in Appendix 2.

These findings reinforce what has been publicly acknowledged by various stakeholder groups as systemic labor issues in the palm oil industry. In Malaysia, the regulatory gaps around ethical recruitment and hiring drive incidence of forced/trafficked labor, especially assigning foreign workers to labor contractors. Other issues include excessive recruitment fees, excessive working hours, underpayment of wages, nonconformances related to worker accommodations, lack of access to potable water, and serious health and safety concerns. In Indonesia, issues include widespread violation of the seasonal employment system, risk of child labor, wage and work hour violations, excessive working hours, opaque payment practices, piece-rate payments (which pose risk of underpayment and incentivizing of family labor), lack of freedom of association, discrimination and harassment, and nonconformances related to worker accommodations and occupational health and safety standards.

Verité's assessment focused on understanding the management practices associated with such problematic labor issues, so as to identify areas for improvements in Nestlé's and its Tier 1 suppliers' upstream supply chain management systems, and in the systems used by managers further upstream, so as to strengthen their ability to identify, remediate, and prevent labor violations going forward.

## Elements to be Strengthened

### *Depth of Systematic Monitoring Systems*

A core limitation to the effectiveness of the current approach to upstream supply chain supplier monitoring is that it does not reach deeply enough into the supply chain. Verité found that neither Tier 1 supplier had assessed 100% of their supplier mills and estates. Doing so can be a challenge for any supplier sourcing from many mills, estates, and smallholdings, but finding ways of addressing this challenge is an essential element of an effective upstream supplier management framework, because it provides critical visibility into the issues needing to be addressed. A related limitation is that neither Tier 1 supplier had established regular supplier monitoring programs at the estate/plantation level, which are where the majority of the most serious labor violations and nonconformances are found. Assessment of vertically-integrated estates may happen as part of broad engagement, and there may be closer scrutiny of independent estates that have been the subject of grievances, but there is not yet any systematic approach to monitoring third-party estates. These gaps in supplier monitoring and management significantly increase risk exposure, as there is insufficient visibility into the mills and even less visibility into the estates.

## ***Ownership of Responsibility***

In addition to improving the penetration of visibility and oversight into the supply chain, Nestlé's upstream supplier monitoring system could also be strengthened by increasing the sense of ownership and responsibility on the part of Nestlé and its Tier 1 suppliers. This could be accomplished by developing a broader human rights due diligence strategy for palm oil, which should include a framework for management-system orientated and risk-based supplier engagement, in conjunction with a systematic approach to verification/assurance of the due diligence systems implemented by suppliers.

During the assessment period, Nestlé and the two participating suppliers all primarily relied on external partners to implement their upstream supplier engagement on sustainability issues, but did not have systematic quality assurance or alignment processes in place to ensure that corrective actions are being managed effectively through this outsourced approach. Given that the ART program only reaches 10% of the supply shed, more needs to be done to establish comprehensive oversight.

Similarly, the reliance of all three companies on RSPO certification to ensure sustainability requirements are being met is also a concern. While RSPO human rights standards are robust in principle, experience has shown that RSPO certification processes are currently unreliable for surfacing serious labor issues and their causes in the mills and supply base.

## ***Active Communication of Labor Rights Expectations Directly by Nestlé***

Verité suggests that a more active role on the part of Nestlé in communicating and reinforcing expectations would also help strengthen upstream monitoring and remediation of issues. Nestlé needs to work with its direct suppliers to ensure that awareness of the Nestlé RSS extends to all relevant parties, and that clear guidance is provided on how to meet expectations. Nestlé should support its Tier 1 suppliers to move beyond a reactive, "fire fighting" approach to human rights risk management to a more proactive and sustained strategy. The importance of doing so should be backed up by the articulation and consistent application of clear consequences for repeat violations and non-remediation of core issues— particularly forced and trafficked labor, child labor, excessive working hours, unlawful and unexplained deductions.

## ***Improvements to Nestlé Policies and Systems***

The gap analysis conducted by Verité of Nestlé's management systems revealed several specific elements needing strengthening:

While **discrimination and harassment**, which are endemic in the palm oil sector, are in Nestlé's RSS requirements, they are not on the list of priority issues. Given the prevalence of verbal abuse and gender discrimination at mills and on estates, Verité recommends adding these to the list of focus issues in palm oil.

Similarly, while Nestlé prioritizes living wage as a standard, there is in practice significant failure on the part of its suppliers to guarantee **legal minimum wages** as a starting point, with wage violations found at the level of both the mills and estates. The standard on **premium pay for overtime**, also an issue area, is similarly not strong enough, and Verité recommends concentrated attention on meeting these basic levels first before moving to living wage.

Another issue is that Nestlé's expectations on **worker accommodations** and provision of basic services are not clear enough, resulting in gaps in its Tier 1 suppliers' corresponding policies and messaging to sub tiers. Verité notes that degrading living conditions, where commonly found, is one indicator of forced labor. Verité recommends that a specific guidance on minimum accommodation standards for workers is developed and communicated to its suppliers.

**Remediation timelines** need to be better calibrated for specific issues. Non-compliances with the Nestlé RSS requirements are classified as Urgent (necessitating remediation within six months of identification) or Important (remediated within 36 months of identification). Verité recommends adjusting these timelines for specific categories of findings, particularly forced labor. A delay of repayment of recruitment fees and/or deductions for board and lodging (both of which were found during the field assessments) represents a significant financial burden on workers.

**Grievance mechanisms** have been implemented at the Tier 1 level, but are largely passive/reactive and are not effectively embedded at the operational level to ensure remediation of grievances for workers. Of particular concern is the lack of non-retaliation provisions in the policy statements and standard operating procedures of existing mechanisms, to ensure workers are able to file grievances safely, without risk of reprisals.

### ***Support for Implementation***

There is a need for technical support for suppliers and NGO partners to implement effective monitoring and remediation of issues at the level of the mills and estates. Capacity building should focus on understanding of legal standards and Nestlé requirements, and on translating them into operational practices and procedures grounded in solid understanding of the issues, their root causes, and how risks relate to each other.

# Recommended Next Steps

Based on the above analysis, Verité recommends the following next steps:

## *Program Assurance Framework*

Nestlé should develop a program assurance framework that is management-system oriented and risk based to guide how it evaluates the robustness and maturity of the labor management systems of its suppliers, starting from its Tier 1 suppliers. The framework should enable Nestlé to segment suppliers on the basis of their profiles for country risks, workforce risks, and operational risks, and then guide the succeeding supplier engagement strategies, so as to ensure continuous improvement in Nestlé's supply chain. Supplier engagement strategies should include the following elements:

- **Refinery Level:** Labor standards training; performance improvement plans for both own operations and supply chain programs; capacity building and technical assistance in setting up supply chain monitoring; and development of corrective action programs.
- **Supply Chain Level (Mills and Estates):** Roll out of labor standards training; capacity building on risk assessment and risk management plans; identification of focused areas/issues for performance improvement; and capacity building based on maturity levels of the mills/estates, or targeted interventions based on high-risk issues.

## *Pilot Program on Upstream Supply Chain Oversight*

While it is critical for Nestlé to find a way to monitor upstream suppliers to ensure labor issues are being identified, addressed, and prevented appropriately, the current breadth and number of sub-tier suppliers makes it prohibitive for Nestlé to visit and monitor all sites itself, or for Nestlé's Tier 1 suppliers to do so directly at scale. Verité has found that effective extended supply chain management depends on empowering and strengthening the capacity of actors in every tier (refinery, mills, estates and smallholders) to be agents of change and contribute to meeting sustainability goals.

Verité therefore recommends that Nestlé support its Tier 1 suppliers in a pilot to trial a system-based approach that cascades capacity to the mills within their supply base, so that the mills gain the capability to improve their own human rights performance and to monitor conditions at the estates themselves. The approach should emphasize continuous improvement by the mills, with a focus on prioritizing and beginning to address the most salient issues, using legal compliance as a minimum guide. A priority element of this approach should be engagement of workers in a safe, accessible multi-channel worker voice system, including community-level and employment site-based grievance mechanisms.



## ***Capacity Building for Suppliers***

Nestlé should work with its partners to strengthen the capability of Nestlé's Tier 1 suppliers to understand and communicate Nestlé's standards, expectations, and requirements to their own suppliers at the mill and estate levels. This should include technical capacity building with suppliers' sustainability and operations teams to help them identify and implement system-based risk controls to manage systemic root causes of recurring issues on a prioritized basis, and to implement effective corrective action and remediation. Each standard should be operationally defined to ensure common and consistent understanding and eliminate differences in interpretation. Toward this end, trainings, tools, and implementation guidance should be developed for mills and estates on how to incorporate these standards into their operations by building or strengthening supply chain management systems, with an emphasis on targeted risk controls.

In addition, Nestlé should collaborate with other consumer goods brands to make these trainings and tools publicly available to use for capacity building purposes, to help improve practices across the industry as a whole. Nestlé is a member of the Consumer Goods Forum's Human Rights – Working to end forced labor Coalition of Action, and one of the Coalition's work streams is on tackling forced labor in the palm oil sector.<sup>5</sup> The collaboration with CGF offers an opportunity for Nestlé to work collectively with other buyers to share knowledge and best practices, and to promote transparency about challenges and progress in reporting.

Coordination with other buyers through industry forums such as CGF could also be used to engage the Malaysian and Indonesian governments and with major palm oil certification schemes, such as the RSPO, to build an enabling environment to deliver on companies commitments to address labor abuses, and to provide technical support as needed to harmonize efforts.

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<sup>5</sup> Consumer Goods Forum, "Palm Oil: Tackling Human Rights Abuses Behind the World's Most Sourced Vegetable Oil." <https://www.theconsumergoodsforum.com/social-sustainability/human-rights-ending-forced-labour/key-projects/palm-oil/>.

# Appendix 1: Verité's Findings and Recommendations

## Intent

### Findings

- » While discrimination and harassment are in Nestlé's Responsible Sourcing Standard, they are not considered priority issues, which requires reconsideration given the findings of verbal abuse and age and gender discrimination at the mills and estates.
- » While Nestlé's emphasis on living wage is commendable, there should be as strong if not stronger emphasis on meeting legal wages as a starting point, which was a failing in both the mills and estates. The standard on premium pay for overtime is similarly not strong enough.
- » The standard/expectations on effective grievance mechanisms is inadequate, with significant gaps in the ability of workers to safely grieve or gain access to remedy resulting.

### Verité Recommendations

Consider developing guidance clarifying and strengthening Nestlé's requirements on grievance mechanisms, premium pay for overtime and other key tenets of the RSS.

### Findings

- » While Nestlé's expectation on worker accommodations and provision of basic service needs appears in the social and environmental policy of one of the participating suppliers, it is missing from that of the other supplier. While both participating suppliers are members of the RSPO and therefore bound to comply with RSPO P&C 6.2.4, there is no such policy guidance for their upstream suppliers.

### Verité Recommendations

Align Nestlé's expectation on worker accommodations and provision of basic service with policies of Tier 1 Suppliers, bearing in mind that degrading living conditions is one indicator of forced labor. In the absence of law, Nestlé has to articulate their expectation in more detail in order to guide their suppliers.

### Findings

- » The expectation on the period of compliance for what is Urgent (within 6 months) or Important (within 36 months) needs to be reviewed, especially in terms of recruitment fees and deductions for board and lodging that seriously impact on the income of foreign workers. 36 months to repay excessive recruitment fees is unacceptably long.

### Verité Recommendations

The classification of requirements between Urgent and Important needs to be rationalized, especially in terms of recruitment fees and deductions for board and lodging that seriously impact on the income of foreign workers.

### Findings

- » Since one participating supplier's suppliers are only referencing NDPE commitments and not the Nestlé Responsible Sourcing Standard, there needs to be guidance from Nestlé on how its expectations can be met by its Tier 1 supplier and its upstream suppliers.

### Verité Recommendations

Support further development of implementation guidance for mills and estates, either by working with Earthworm Foundation or Nestlé's Tier 1 supplier in expanding the [Tools for Transformation](#) project, an online system that helps refineries engage their suppliers to improve their practices.

## Implementation

### Findings

- » The supplier management programs of Tier 1 suppliers do not go deep enough. Neither participating supplier has assessed all its supplier mills. Instead, they have relied heavily on RSPO certification, which is unreliable for surfacing serious labor issues and their root causes in the mills and supply base – and Earthworm Foundation’s ART, which is limited to 10% of the mills supplying to the refinery.

### Verité Recommendations

Develop a Program Assurance Framework to vet and strengthen supplier monitoring and management programs of the Tier 1 Suppliers.

### Findings

- » Neither of the participating suppliers have systematic supplier monitoring programs at the estates/ plantations level, which are their second-tier suppliers and where most of the serious legal violations and nonconformances come from. Assessment of vertically-integrated estates may happen as part of broad engagement, or there may be closer scrutiny of independent estates subject of grievance, but there is no programmatic approach to monitor third-party estates. These gaps in supplier monitoring and management significantly increase the risk exposure, as Nestlé’s Tier 1 suppliers have insufficient visibility into the mills and practically zero visibility into the estates.

### Verité Recommendations

Nestlé should support its Tier 1 suppliers in a pilot to trial a system-based approach that cascades capacity to the mills such that they are ultimately capable of monitoring conditions at the estates, prioritizing and beginning to address the most salient issues.

### Findings

- » Socialization of the Nestlé RSS is low: None of the mill and estate management we interviewed for this review have heard about the Nestlé Responsible Sourcing Standard.
- » While the policies/commitments extend to the entirety of the upstream supply chain, there is insufficient guidance developed for mills and estates on how to incorporate these standards into their operations.
- » Tier 1 suppliers do not have clear penalty or consequence imposed for repeat violations and non-remediation of core and legal elements – child labor, trafficked labor, excessive working hours, unlawful and unexplained deductions.

### Verité Recommendations

Given that the Nestlé RSS is fairly new, awareness raising on the Standard and its requirements needs to be conducted with all Tier 1 suppliers, with the expectation that the principles embedded in it will be cascaded to sub-tier suppliers.

Each requirement should be operationally defined to ensure common and consistent understanding of compliance/conformance and non-compliance/non-conformance, to eliminate grey areas and differences in interpretation. Clear protocols should be established to incentivize compliance and manage repeat offenders.

### Findings

- » One of the participating Tier 1 suppliers has the structure in the place to potentially have an effective supplier management program, but currently has inadequate staffing with expertise on labor to ensure that issues are detected and addressed in its upstream supply chains.

### Verité Recommendations

Nestlé should support its Tier 1 suppliers in a pilot to trial a system-based approach that cascades capacity to the mills such that they are ultimately capable of monitoring conditions at the estates, prioritizing and beginning to address the most salient issues.

### Findings

- » There is a lack of preventive interventions so that most of the actions of Tier 1 suppliers are geared towards “fire-fighting”.
- » The RSPO certification has proved to be unreliable on detecting labor violations especially at the supply base, so that Tier 1 suppliers need to have a system in place to verify labor conditions and address labor issues in certified mills and their supply base.
- » In terms of both supplier risk assessment and monitoring, both participating suppliers heavily rely on external/public/stakeholder reports to alert them to potentially problematic third-party suppliers. This passive approach increases risk exposure to Nestlé.
- » While Nestlé and the two participating suppliers are all working with Earthworm Foundation as their implementing partner, there is no quality assurance or alignment process in evidence to ensure Earthworm Foundation is applying the criteria and managing the corrective actions consistently.

### Verité Recommendations

This will likely include a technical capacity building program for the two participating Tier 1 suppliers sustainability and operations teams focused on identification and implementation of system-based risk controls to manage chronic root causes of recurring issues on a prioritized basis, corrective action and remediation.

### Findings

- » Both participating suppliers only started to focus on labor in the last two years, and due to the increased attention given to labor, they will need support to ramp up correcting practices that are in violation of labor laws and standards at the mills and estates.

### Verité Recommendations

Align understanding of legal standards and Nestlé requirements among both its implementing partners and Tier 1 suppliers to close the gap in the framing/ understanding of issues, their root causes, and how risks relate to each other.

# Appendix 2: Common Nonconformances Found at Mills

The following nonconformances were identified in at least half of the mill facilities visited by Verité investigators:

## *Forced labor indicators and related issues*

- » No anti-forced labor policy and procedure
- » Legally mandated leaves are not granted
- » No procedure on recruitment and hiring of foreign workers
- » No service agreements with labor agents
- » Recruitment fees being paid by some workers
- » Lack of/ incomplete information in the employment contracts
- » Employment contracts are not in workers' language, and no briefing conducted on employment terms and conditions
- » Punitive fines and deductions
- » Low worker awareness of rights and company policies and procedures
- » Grievance mechanism is not anonymous and no protection against reprisal

## *Wage and work hour violations*

- » Excessive work hours
- » No premium for work on rest day
- » Underpayment of overtime
- » Overtime work is not always voluntary
- » No rest day
- » Involuntary/ automatic/ illegal deductions
- » Automatic union membership

## *Discrimination and harassment issues*

- » Age discrimination
- » Harassment and abuse

## *Risks to children*

- » High risk of child labor in the absence of policy and/ or procedures
- » Day care staff are not trained, even on basic first aid
- » Children in day care sleep on the floor due to unserviceable mats

## *Degrading living conditions*

- » Dirty and inadequate water supply in the workers' housing
- » Waste water from the housing is released directly to the ground
- » Inadequate access to affordable food

### ***Inadequate health and safety protections***

- » PPEs are inadequate
- » Workers pay for PPEs
- » Workers do not understand accident or emergency procedures
- » Various health and safety hazards (e.g., broken emergency eye wash, gas cylinders not properly secured, no drinking water test report, no follow up on abnormal audiometric test, open electrical control panels, expired medicines in the clinic, no accident report, snake serum is kept with food items)

## **Appendix 3: Common Nonconformances Found at Estates**

**The following nonconformances were identified in at least half of the estates visited by Verité investigators:**

### ***Informality of employment***

- » Illegal short-term contracting; protracted status as casual workers
- » No employment contracts
- » Undocumented workers/ unpaid helpers/kernet

### ***Forced labor indicators and related issues***

- » No policy respecting freedom to associate
- » Retention of identity documents
- » Recruitment-related costs are borne by workers
- » Punitive fines
- » Involuntary/ automatic/ illegal deductions
- » Deposit for tools
- » Automatic union membership
- » Low worker awareness of rights and company policies and procedures
- » Grievance mechanism is not anonymous and there is no protection against reprisal

### ***Wage and work hour violations***

- » Legal minimum wage is not met
- » Opaque payment practices
- » Lack of freedom of association
- » Excessive working hours
- » No rest day

### ***Risks to children***

- » Two incidences of child labor were found
- » For the rest, risk of child labor is high, as age verification is absent
- » No procedure at the estate in place when child labor is found

### ***Discrimination and harassment issues***

- » Age discrimination
- » Gender discrimination: pregnancy as ground for termination
- » No clear reassignment procedure for breastfeeding workers
- » Discriminatory pregnancy testing
- » No policy and procedure on antiharassment and abuse
- » Verbal abuse

### ***Degrading living conditions***

- » Inadequate supply of water
- » Some workers' houses do not have toilets

### ***Inadequate health and safety protections***

- » Various health and safety hazards: (e.g., inadequate vehicle inspection procedure, workers not using PPEs, poor and hazardous road condition, chemicals at warehouse not properly labeled, no periodic medical check up for workers working with/ exposed to chemicals, poisonous and venomous reptiles at both work site and housing, no adequate washing facility for workers who work with/ exposed to chemicals, , no fire drill or fire safety system at workers' housing, no fire or smoke detectors in areas with fire risks, e.g., machine room, control room, inadequate procedure to evaluate the effectiveness of PPEs, no health monitoring in place)