

## Firmenich and Danida in Uganda: Sustainable Vanilla Sourcing through an Innovative Partnership <sup>1</sup>

### Abstract:

It's been over seven years since a strategic partnership was established between Firmenich, a leader in the flavour and fragrance industry and one of the world's largest buyers of sustainable vanilla<sup>1</sup>; DANIDA, the development arm of the Danish Government; and Uvan Ltd., Uganda's local vanilla processor. This partnership, rooted in the core competences of each partner, aimed to create a sustainable supply of Ugandan vanilla. The partners believed there was a great opportunity in Uganda to establish and secure long-term and high-quality vanilla production, and in turn create a better business for everyone involved. Firmenich was trying to reduce the risk of relying too heavily on vanilla imports from Madagascar. Uvan wanted to expend its vanilla business by engaging farmers in a more holistic way. DANIDA saw an opportunity to support commercially oriented partnerships between global and local businesses in order to mitigate some of the risks inherent in the pursuit of new business opportunities in developing countries. While the initiative has clear commercial objectives, it also has strong social and environmental goals. Moving forward, each partner has been considering how to best utilize the main learnings from this initiative to further improve its core competences and business model, strengthen its reputation, and share the experience with other business and development actors. The partners have been exploring how to develop innovative models for strategic partnerships between donor agencies, global, and local businesses with support from NGOs. These models can also provide an important contribution to the ongoing global debate on the Post 2015



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<sup>1</sup> Dr. Djordjija Petkoski prepared this case study with the assistance of Dr. Berangere Magarinos-Ruchat. The case study, based on interviews with Firmenich's, DANIDA's and UVAN's management teams, was developed solely as a base for class discussion and is not intended to serve as an endorsement of a specific management approach.

Dr Petkoski is a Lecturer and Senior Fellow at the Wharton School, University of Pennsylvania, and the founder and managing director of Global CDL, a strategy consulting firm. Dr. Petkoski serves as an advisor and consultant to the World Bank, the Organization of American States, national governments, corporations, and other institutions. He has co-authored several Harvard Business School case studies and has engaged with over 100 leading global companies with consulting experience across a broader range of industries including agribusiness, food and beverage, and high technology industries. He also provides consulting services to governments on various development issues. Dr. Petkoski was a Fulbright Scholar at Harvard University in the early 1990's and a Visiting Scholar at Massachusetts Institute of Technology in 1979-80. In addition to two Ph.D. (one in Economics and one in Electrical Engineering), he has a MPA from the Kennedy School of Government, Harvard University.

Development Agenda and Sustainable Development Goals. The forthcoming event in AgroFoodPark, Aarhus, Denmark is an opportunity for the partners to compare notes and agree on the next steps<sup>ii</sup>.

*When I set out to lead Firmenich, my vision was to keep our unique spirit of creativity and innovation alive, while operating according to the highest standards of governance and ethics. The project in Uganda is just one example of the implementation of this vision in practice. The innovative partnership initiative has been about sustainable vanilla production and bringing shared prosperity on the ground through sustainable business models. We wanted communities to be positively impacted, we wanted to grow business and we wanted to meet the demand of global consumers. It has also been a real discovery of Uganda and its potential.*

*Patrick Firmenich, CEO, Aarhus, September 2014.*

In the spring of 2014, Patrick Firmenich, the CEO of Firmenich, invited his senior management team to a preparatory meeting for the forthcoming event in September at the AgroFoodPark, Aarhus, Denmark<sup>iii</sup>. The event's main objective is to reflect on the results achieved and celebrate the success of the partnership with relevant stakeholders. David Shipman, Firmenich President, North America, the most senior member of the team who was directly involved in the Sustainable Vanilla Sourcing in Uganda project, made the introductory remarks. At the meeting everybody agreed that this was an opportunity to reflect on and systematize the experience and knowledge that has been accumulated over the last 7 years. So much has happened during this period, from an uncertain first step on how to engage with a DANIDA in a complex partnership, all the way to revitalization of the vanilla production in Uganda. Many unique challenges and opportunities had been addressed in a continuing process of experimentation and problem solving on the ground<sup>iv</sup>. Everybody in the team was excited as the time came to systematize the lessons learned, share them through a friendly, open discussion and conduct strategic brainstorming on possible next steps.

After listening to David's introductory comments and other team members' interventions, Patrick was even more convinced that it was worth spending quality time to capture the main lessons learned from this unique journey. The lessons are not just beneficial for Firmenich and its clients and partners, but also for many companies around the world, as well as the global development community.

The challenge for Patrick was to summarize the main learnings and propose specific, strategic follow up activities. This was a unique opportunity to reconfirm that responsible sourcing is a core value and strategy of Firmenich; that innovative public private partnership is an effective and comprehensive approach to responsible sourcing; and to use the example of vanilla to illustrate how sourcing practices have dramatically evolved over recent years. He knew that the other two partners in the project were also preparing to present their key insights at the forthcoming event. Patrick wondered what unique value Firmenich could add at the event that was going to take place in just a couple of weeks.

## Background

### Diversified Sourcing Strategy

Everything started when Firmenich, one of the world's largest buyers of sustainable vanilla, purchased the Flavor Division of Danisco<sup>v</sup>, a Danish company, which sourced vanilla from Uganda. While Firmenich had previously sourced most of its vanilla from Madagascar<sup>vi</sup>, the idea was to make Ugandan vanilla a key part of its diversified sourcing strategy. This happened at a time when climatic, political, and market instabilities in Madagascar, the biggest vanilla producing country in the world, was causing variations in the global supply and price of vanilla<sup>vii</sup>. Firmenich needed a second vanilla region to better manage supply risk. Firmenich considered that Uganda, while only producing less than 10% of the world's supply, was a good alternative source. However, the challenge was that Uganda has not historically produced the same quality vanilla product as Madagascar. Many Ugandan farmers are extremely poor, lack essential skills to produce high-quality vanilla, and suffer serious social deprivation, leading to unreliable production and inconsistency in the crop quality. There were limited quality control practices and the focus was exclusively on volume. The decline in the price of vanilla early in this decade resulted in a significant disinterest in the crop with many farmers abandoning plots or replacing vanilla with other crops<sup>viii</sup>.

For Firmenich, the move to Uganda was not simply to find a second supplier but to develop and test a more holistic approach to vanilla sourcing. The goal was to secure long-term sustainable vanilla production and reliable quality and quantity of beans, by focusing on supply chain economics and concurrent investments in socioeconomic and environmental improvements. This was an opportunity to innovate and develop an entirely different approach to sustainable vanilla sourcing and change the way vanilla is produced in Uganda. It was more difficult to change the rules of the game for sustainable sourcing in Madagascar, a country characterized by much longer tradition, by far larger production of vanilla, and numerous local and global players.

*Responsible sourcing is always a complex equation between business requirements, positive social impact, and environmental protection. This equation will continue to be at the center of Firmenich's responsible sourcing and sustainability strategy in the future. (Firmenich Senior Manager)*

### Consumers' and Clients' Demand

Globally, consumers have increased their demand for responsible natural products, including vanilla. Initially, this was primarily related to food and beverage products, but now it is also the case with perfumery products, as vanilla is often used in perfumery as well. Responsible vanilla sourcing is also a requirement of many of Firmenich's clients who have either developed their own responsible agriculture codes or require certifications such as Rainforest Alliance or Fairtrade. Firmenich had to be ready to adapt to clients' different requirements. Clients are also very concerned about traceability and fair conditions for communities. Other key drivers in the fast growing market for responsible vanilla are large retail chains who have set high ethical standards on products such as vanilla. Big retailers have tremendous market power to motivate their suppliers to pay closer attention to improved transparency and traceability and the social and environmental impact of their supply chains. With this new experience the clients are even more appreciative of the value co-creation opportunities that Firmenich offers to them.

## Partnership Initiatives

To assure the long-term viability and reliability of its vanilla supply chain in Uganda, the first task for Firmenich was to identify areas for improvement. This required a systematic and holistic diagnosis of the entire supply chain, from farmers to retailers, including in-depth engagements with local players, such as government institutions, exporters, trade associations, local project partners, agricultural extension workers, vanilla farmers and communities, and NGOs. It was also necessary to analyze the value creation by and value distribution among all participants of the supply chain. The key was to get a better understanding of the overall business and policy ecosystem; take a close look at the quantity and quality of production; price stability; and the economics of the vanilla supply chain. Designing and implementing such a complex program is a tremendous challenge for any company. From the very beginning, Firmenich realized that the implementation of the innovative approach to vanilla production and sourcing that covers critical economic, social, health, and environmental issues would face serious constraints. It was necessary to bring in other partners.

Firmenich had not only inherited a sustainable vanilla program in Uganda through the acquisition of the Flavor Division of Danisco, but also a partnership initiative. In 2008, a strategic partnership was established between Firmenich; DANIDA, the development arm of the Danish Government<sup>ix</sup>, who has a particular interest in the role of business in development and has a long-standing relationship with Uganda; and Uvan Ltd., Uganda's local vanilla producer<sup>x</sup>. This partnership aimed to create a sustainable supply of Ugandan vanilla, creating a better business for everyone involved. Uvan wanted to expand its vanilla business and to engage with local farmers in a more holistic way. The initiative allowed DANIDA to support commercially oriented partnerships between global and local businesses in order to mitigate some of the risks inherent in the pursuit of new business opportunities in frontier markets. Some of the specific steps that the partners took to strengthen the vanilla supply chain and implement relevant and effective social programs, included: improving and monitoring the production practices, improving traceability, and payment and price envelope<sup>xi</sup>.

To ensure that the project outcomes were truly sustainable, in addition to addressing commercial objectives, the initiative also comprised of social and environmental goals that reinforced the value created through the supply chain. The partners developed and implemented several social programs, including women's empowerment and village savings and loans groups; income diversification schemes; and health provisions<sup>xii</sup>.

### Innovative Partnership Model

The partnership is characterized by several unique features.

**Core Competences and Alignment of Different Interests:** From the very beginning, the partners realized that for the partnership to create most and lasting value it was important to have a clear understanding of the partners' core competences, capabilities, and skills; and a well-defined division of labor<sup>xiii</sup>. It was also important to make the partnership flexible enough to quickly adjust to the changing circumstances on the ground, particularly in the case of countries with weak institutions, such as Uganda. The partners were also ready to go beyond their traditional way of

doing business and further develop competences needed to facilitate the partnership.

**Donor Competences:** Even with best of intentions, some donors tend to be more interested in social issues and community engagements than in economic benefits of the business partners. They have limited capabilities and interest in measuring economic impact. For many of them, scaling-up meant expanding the engagement with communities, not with the business partners' clients and suppliers. DANIDA was well positioned to move from a traditional donors' approach of co-financing to a real partnership with the private sector<sup>xiv</sup>. DANIDA has not only strategic interests but also capabilities to engage with business.

**Presence on the Ground and "Partnership Outsourcing":** DANIDA and Firmenich were aware that the responsibility for sustainable and fair vanilla sourcing couldn't be fully outsourced and that they couldn't exclusively rely on "external implementation support" from a consulting firm or an NGO. The role of the external consultant *CSI plus* was important to support the partnership. Still, the project was not outsourced. Outsourcing would (i) weaken the business dimension of the engagement; (ii) limit the opportunity to directly and productively engage with local farmers; and (iii) undermine the efforts to build a sustainable vanilla supply chain. Traceability and certification also require corporate presence on the ground to better understand the processes and interactions among the key players. Firmenich's senior management was engaged from the very beginning of the project and travelled early and frequently to Uganda. Direct and substantive partners' engagement is particularly critical in low income markets and countries with underdeveloped governmental institutions. Weak institutions particularly affect the business dimension of the partnership and its impact on the ground.

*For a partnership to succeed, you can't simple" follow manuals" or "outsource" the engagement with local stakeholders, you have to be part of the process and actively reinvent it. I went myself many times to Uganda as well as many of my colleagues, from different groups in the company. This partnership is not about simplicity but continuing engagement through innovation. This has been a living example of Firmenich's Fundamentals<sup>xv</sup> and core competences (David Shipman).*

Jointly with UVAN, Firmenich has utilized its regular presence on the ground to actively and productively interact with the local farmers and communities. Firmenich was not a passive observer , as many companies often are. At the heart of this was a strategic engagement with the farmers, including talking to people; visiting their homes; engaging with their families and neighbors; and listening to them and transforming their ambitions and hopes into reality.

**Local Commercial Partner:** To make sure that the economic side of the partnership was well understood and implemented, Firmenich and DANIDA selected a strong and passionate local commercial partner. Uvan has been most actively engaged with the local farmers and communities and has taken a leadership role in coordinating activities on the ground.

**Strong International and Local NGOs:** Proper selection and engagement with knowledgeable NGOs with strong presence on the ground allows partners to deal with the complexity of implementation in a more holistic way. NGOs can bring new insights and better understanding of the local circumstances and excellence in implementation. Firmenich already had a good experience with working with NGOs in other countries, such as India<sup>xvi</sup>. This was very helpful in the selection of NGO partners in Uganda. As mentioned, the consultant *CSI plus* was also important to support the partnership.

**Client Engagement:** Firmenich knew that bringing its clients into a “broadly defined partnership” can further support the sustainability and the impact of the initiative. Firmenich brought some of its perfumery and flavor clients to Uganda. The clients had opportunities to better understand how frontier markets operate and the challenges of doing business in low income segments. Local companies in many of these countries are part of the supply chain of big retailers.

### **Firmenich’s Key Success Factors**

The “Firmenich Fundamentals”, and clearly defined corporate strategy have contributed to the success of the innovative partnership model. Firmenich’s unique values, culture, grassroots employee engagement, long term strategy<sup>xvii</sup>, excellent reputation, utilization of cutting edge technology and innovation, visionary leadership and the authenticity of doing sustainable business, and excellence in delivery have been nurtured for over 120 years. All these factors have contributed to the success of the vanilla project in Uganda.

**Tone from the Top:** From Firmenich’s perspective, one of the key success factors was support from the top. Initially, Firmenich lacked experience and expertise to directly engage with local smallholder farmers and communities and to partner with development agencies. Firmenich had to make the project a success and quickly developed a sense of urgency to move fast. It was not just about Firmenich’s Fundamentals and core competences that allowed them to forcefully move with the project. Of equal importance was strong, timely, and strategic support that came from the top of the company<sup>xviii</sup>. Senior management was engaged from the very beginning of the project<sup>xix</sup>.

Passionate CEOs with open eyes, hearts, and minds can not only lead their organizations but can easily support the efforts of corporate clients who are equally passionate about engaging in frontier markets and understand the business necessity for innovative partnerships. Patrick and David have been providing this type of leadership. The support from the top has been instrumental for Firmenich to demonstrate not only thought leadership but also implementation excellence. Firmenich has been able to come out with new business and partnership models with strong implementation relevance. This kind of innovation is much easier to come from companies like Firmenich that continuously invests in innovations<sup>xx</sup> and never considers itself to be a follower but rather an industry leader.

### **Measuring Impact**

Measuring the impact of this kind of complex and holistic project requires properly capturing the economic and social dimensions from both the business and society perspective. As these two dimensions have quite different dynamics – “sometimes it takes generations for real social progress” – it is very important to understand the time dimension of the impact. The effectiveness of the measures and what constitutes success also depends on the stakeholder’s perspectives and expectations. Partners may use similar or different measures.

**Local Farmers and Community:** Through regular interaction with farmers, Firmenich, DANIDA, and Uvan have been shaping farmers’ behavior and decision making practices. On several occasions, for example, Firmenich helped the farmers “see and touch the final products” in which their vanilla was one of the main ingredients. The farmers felt empowered and proud of their

contribution to “the better lives of millions of people globally”. From the local farmers’ perspective, the project has been very successful as approximately 4,400 farmers improved their vanilla and alternative crops production<sup>xxi</sup>. The extension services, provision of seeds to the farmers, and close monitoring of the production has led to consistent delivery of premium quality beans in the past seven years. Now, up to 40 per cent of Uganda’s beans are of gourmet quality, that is, whole bean grade A. After a decade of unstable prices and declining production, vanilla farmers in Uganda are finally experiencing growth. With a minimum price guarantee offered by Firmenich and significant outreach and promotional efforts by Uvan, it has been possible to re-engage the farmers in vanilla production. More young vanilla farmers were attracted to become vanilla producers. It is worth mentioning that the high involvement of women farmers in the project has been contributing to the changing role of women in the community and at the same time changing the local community in a more sustainable way. At the same time, the project has improved the livelihood of the local community by addressing priority health, gender, environment, and financial issues<sup>xxii</sup>.

**Firmenich:** The goal for Firmenich was to secure long-term sustainable vanilla production by focusing on supply chain economics and socioeconomic and environmental improvements and to develop an entirely different approach to sustainable vanilla sourcing. At the most basic level, Firmenich succeeded in reducing the risk of over-relying on vanilla imports from Madagascar. Far more importantly, the sustainable vanilla sourcing project has been a transformational engagement for Firmenich organizationally. It has been a flagship project with Firmenich teams globally and has motivated many other colleagues to do more in their own area. The partnership project has helped the management to (i) better position and lead the organization in the new space of engagement with low income producers, clients, and consumers; (ii) strengthen its relationship and reputation with key suppliers, clients, and partners; and (iii) build innovative partnerships with donor agencies and local stakeholders.

*I see three levels of impact: Staff motivation, clients’ interest, and change management. Our people love this project and it has been an inspiration for many of them to engage in other similar projects that we have in other countries. Our clients in perfumery and flavors have shown a very high level of interest. One of our large perfumery clients even decided to engage directly on microfinance for women in the vanilla community. I believe this project contributed to further integrate sustainable business practices into the sales and purchasing departments in addition to my team in Compliance. This has been one of the key first steps in integrating sustainability into our business. (David Shipman)*

**Strengthening and Expanding Core Competences:** The project has been supportive of Firmenich’s global strategy that started a cultural transformation that goes beyond Firmenich Fundamentals and systematically reaches excellence in execution and process<sup>xxiii</sup>. The experience from Uganda has made it easier for Firmenich to interact with smallholder farmers in a more productive way and further developed passion for exploring opportunities in low income markets. This has contributed to Firmenich’s efforts to strengthen its core competences; to initiate and implement innovative partnerships to deal with the complexity of a globalized world; and to expend its business in frontier markets. Firmenich’s senior management knew that to address the new global and local challenges and opportunities, it was not enough to reposition the company solely on the base of its technical excellence, innovations, and traditional values.

**Client Relationship:** When Firmenich started working on responsible vanilla sourcing in mid-2000 it was a very niche market but today more and more it is becoming the norm. Consumers and big

retailers globally have increased their demand for responsible natural products, traceability and fair conditions for local farmers and communities. With this project, Firmenich has been better equipped to (i) listen to its clients and transform their ambitions into reality; (ii) anticipate consumer desires, continually reinventing the world of smell and taste and (iii) deliver the winning combination of products, service and value for money, placing authority and accountability close to its clients. With this new experience clients are even more appreciative of the value co-creation opportunities that Firmenich offers to them. Being able to offer top quality delightful and responsible vanilla products to its clients is at the center of Firmenich's strategy. Now Firmenich is better prepared (i) to accommodate clients' emerging interest in sustainable vanilla supply sourcing<sup>xxiv</sup> and (ii) for new opportunities involving sustainable consumption, not only around vanilla but around other tonalities.

Managing Risk and Internal Processes: The project has also helped Firmenich to better manage risk associated with vanilla sourcing. However, this was not only about risk management through alternative vanilla sourcing. The project has helped Firmenich to better integrate some of its internal processes. In the 2010 sustainability report Patrick Firmenich wrote that sustainability is the responsibility of everybody, every day, and everywhere in the Firmenich world. To make this a reality, Firmenich launched internal capacity development programs. The sustainability team is spending time with the commercial people to share sustainability projects and to discuss clients' sustainability strategy and how to jointly co-create new value. This is part of the strategy to unite the finest talents and encourage an entrepreneurial team spirit to attain the company's strategic goals. The team in Denmark that has played a key role in project management went to Uganda a few times and tremendously benefited from the hands on experience.

*The Uganda project has been a life changing experience for me. It was the time when I had been asked to run sustainability for the company and it was ideal to have a concrete project on the ground to start. It was my first time in Africa and I have been very touched by our supplier Uvan and its leader Mr. Aga Sekalala. This company is so close to the communities that it helped me to get a good understanding of the challenges and the opportunities for all of us. I have to say it was a discovery process in the early days but today , several years later I am still excited to repeat the experience in other countries. For instance I go often to visit our project in Haiti. To me it is critical to show to our government partners, to our clients, and to our business partners that we are serious about this project at all levels of the company. (David Shipman)*

As the project required involvement of various Firmenich departments, it has made it easier to search for more effective "organizational structure and processes" that will support the sustainable vanilla initiative. It was necessary to have an integrated approach that included many Firmenich teams including creation, innovation, purchasing, sustainability, marketing, communication and sales<sup>xxv</sup>. As a result, Firmenich reorganized the vanilla department to better support and benefit from the new partnership. Furthermore, the project has contributed to further integrate sustainable business practices into the sale and procurement departments' activities. A new senior manager position – End-to-End Business Model – was also created to better coordinate the efforts at the corporate level. A seasoned manager, Benoit Petit was asked to take this position.

Supply Chain and Vertical Integration: Firmenich revisited the vertical integration of the vanilla supply chain, its new role in it, and the way to engage with partners and clients. This was not anymore just about sourcing but a holistic engagement across the integrated value chain. The vision is to have control over all the steps from "the farm to the fork". Firmenich is in the middle of the supply chain and is a critical connector from its suppliers to its clients. The sustainable



vanilla sourcing initiative has also been used as a testing ground for new forms of vertical integration supported by innovative partnerships. For example, although vanilla is a relatively small part of Firmenich's overall business, it has provided an opportunity for the company to understand and redefine its engagement with smallholder farmers and some of its clients<sup>xxvi</sup>.

*What I see in responsible sourcing is vertical integration. Firmenich recently announced a new joint venture in India in the sourcing of floral extracts and we might do more in this direction in the future. Vertical sourcing is a way to fully control our supply chain down to the field level and to ensure good governance from the farm to the final product. (Benoit Petit)*

Managing External Pressures and Demands: Firmenich has developed competences to proactively act to sometimes unrealistic external expectations and demands. The impact of social media on companies' reputations has increased dramatically. There are numerous stories of social media campaigns against companies in particular in the area of sourcing of natural raw materials. Such campaigns can be destructive for corporate reputation but they also push the industry to keep on improving and to constantly monitor the work of suppliers. For Firmenich, partnerships with suppliers and with public partners are a safety net against such challenges as they are helping to address complex issues in responsible sourcing. Furthermore, it has been a silver lining balancing act for Firmenich to shape and meet the expectations of the local farmers and not always identical interest of the local communities. The more resources are invested in the local communities' activities, the higher the farmers' expectations to receive higher prices as "Firmenich and Danida have a lot of money to spend". In this context, clearly separating business and philanthropic spending has been of critical importance<sup>xxvii</sup>.

Knowledge Exchange: The project has also strengthened Firmenich's capabilities for more systematic, problem solving, and action oriented Knowledge Exchange<sup>xxviii</sup>. The project was not just about integrating the vanilla value chain to facilitate the flow of products but also about knowledge transfer along and beyond the supply chain. *In the past three years, Firmenich has invited its strategic suppliers to visit the Firmenich headquarters in Geneva to engage them in its sustainability strategy and has requested them to report on their progresses against environmental and social indicators<sup>xxix</sup>.* The knowledge transfer from Uganda to Madagascar has not been limited to sharing narrowly defined business practices but has included helping farmers to improve the quality of vanilla production, community engagement, and how to engage with local companies. This is a good example of South-South Knowledge Exchange<sup>xxx</sup>.

New Partnerships and Engagement with other Donor Agencies: Working with DANIDA, Firmenich has learned a lot on how to develop and implement innovative partnerships, based on sustainable business models and core competences; not because of "PR or social pressure". The learning has helped Firmenich to work with other donor agencies and foundations. For example, Firmenich is conducting game changing programs with the Bill and Melinda Gates Foundation on an affordable toilet initiative and with the Clinton Foundation on smallholder farmers and sustainable agriculture<sup>xxxi</sup>. Firmenich is working with the Swiss government<sup>xxxii</sup> in Haiti on the sourcing of vetiver. All this has helped Firmenich strengthen its core competences to redefine the meaning of business contribution to development<sup>xxxiii</sup>.

*For Firmenich, innovative partnerships are not a fashion but rather the manifestation of increasing convergence between public and private interests. Businesses cannot succeed in a society that fails. We are all aware that our planet is under tremendous pressure for natural resources. If we maintain our current*

*consumption pattern, we will need 2.5 planets by 2050 to meet our needs. This is not sustainable for our communities, for our eco-systems, for humanity and... neither is it for our companies. (Patrick Firmenich)*

**Transparency and Accountability:** Being an industry thought leader, Firmenich has been contributing to the efforts to redefine the fundamental rules of engagement in the flavor & fragrance industry<sup>xxxiv</sup> and to make the market, particularly the market for low income producers, consumers, and clients, a more transparent and accountable place, thus improving the conditions for fair competition and shared prosperity. In many aspects of transparency and sustainability Firmenich has been first to take action and has seen others replicating its approaches<sup>xxxv</sup>. *Transparent and responsible sourcing is a clear market trend today. Competing on sustainability work is certainly very healthy and it is good for business and for the world.*

*When I set out to lead Firmenich, my vision was to keep our unique spirit of creativity and innovation alive, while operating according to the highest standards of governance and ethics. One of the aspects of good governance is to ensure transparency in our supply chain and to partner with our suppliers on sustainability principles. The project in Uganda is just one example of the implementation of this vision in practice. (Patrick Firmenich)*

**DANIDA:** DANIDA has played an important role as a catalyst in the partnership, by providing “seed financial resources” and thus reducing the initial risk of the business partners. From DANIDA’s perspective, the overall project was a success. The project has made it easier to address some of the traditional donors’ dilemmas when partnering with business and to test its B2B strategy. The project has helped DANIDA to better leverage resources with partners and to have much higher impact on the ground.

**Uvan:** The project helped Uvan expand its vanilla business by engaging the farmers in a more holistic way. This has considerably broadened the supply base and access to higher quality vanilla beans. Now, Uvan is better prepared to face the local competitors and those from Madagascar and Comoros. Uvan has played a critical role in bringing Ugandan vanilla onto the international markets with the support of Firmenich. This is well recognized and appreciated by the Ugandan government as a complementary initiative to the Agribusiness Initiative (aBi) Trust<sup>xxxvi</sup>.

**NGOs:** The partnership has helped the NGOs strengthen their core competences and reputation. It has also created several new opportunities for them to work with other companies and donor agencies<sup>xxxvii</sup>.

**The Government of Uganda:** The Government of Uganda is aware that it cannot transform agriculture alone. It needs businesses to stimulate the economy, create employment, transfer knowledge and technology, generate profits and pursue ethical practices, which will leave a positive and lasting impact on the country and the people. The partnership project, which is part of a broader cooperation with Denmark<sup>xxxviii</sup>, has made important contributions to the development of agriculture. After a decade of unstable prices and declining production, vanilla farmers in Uganda are finally experiencing growth and shared prosperity. The expertise and experience that the vanilla farmers and local NGOs gained in this project is easily transferable to other commodities and products. Furthermore, the project has attracted interest from several Firmenich clients and several other purchasers of Ugandan vanilla. All this has been supporting Ugandan government efforts to make the agricultural and agribusiness sector a key driver of economic development.

*When I see successful public-private partnerships like the one we are discussing here today – a partnership that has seen Firmenich and Uvan work so successfully together with support from DANIDA – it gives me real hope for the future. Not just the future of our vanilla industry but of agribusiness in Uganda in general – and the lives of so many of my fellow Ugandans. (Ugandan Ambassador Kibedi)*

**Shared Understanding of the Impact:** The partners and the other stakeholders have been differently affected by the project and there are differences in the perception of impact. Firmenich and Uvan have been mostly interested in the economic dimensions of the impact. In addition to the benefits of the business partners, DANIDA has been primarily interested in the broader impact on local community<sup>xxxxix</sup> and has pushed for higher reach to community in addressing their social needs. Local community and vanilla farmers have a similar and at the same time different understanding of the impact that the project has had on their lives and business activities. The farmers wondered why the rest of the community was receiving “free social services” although they were not directly contributing to the vanilla production.

There were even differences in the perception of the impact between the business partners. From Uvan’s perspective, Aga, its leader, made several interesting observations. He wondered to what extent the Uvan competitors were receiving a “free ride” as they were not making any “charitable donations in support of the social services”. He has been struggling to answer some important questions: Did this put Uvan at a competitive disadvantage in respect to the other buyers of vanilla? To what extent did the social engagement start to dominate the Uvan business rather than supporting it? Should the scale and scope of the social services be sufficiently flexible to reflect changes in the scale of the commercial operation?

### **Lessons Learned: Challenging Questions**

The Firmenich management team quickly realized that capturing and systematizing the lessons learned is a complex and challenging exercise as the project has offered so many new insights. Some of the main learnings summarized in the section **Innovative Partnership Model: Core Competences and Alignment of Different Interests; Donors Competences; Presence on the Ground and “Partnership Outsourcing”;** Local Commercial Partner; Strong International and Local NGOs; Clients Engagement; and Tone from the Top, were relatively straightforward to capture. However, many of the learnings did not come as “definite answers” but rather as better defined questions. For example, the utilization of the resources that DANIDA made available to the local farmers and to the broader community raised a number of intriguing and complex questions:

Was the local population overwhelmed by the fact that the partners put so many financial resources at a single location? Did this send a wrong signal to the local community and create unrealistic expectations and demand<sup>xi</sup>? Should the community’s members, who are not directly engaged in vanilla production, be equally supported by the project? How to make sure that providing more “free money” of “philanthropic type” to local communities will not undermine sustainability and the business case of the initiative? How to balance investment in the immediate needs of the individuals/communities - “the human side of the problem” vs. more sustainable engagement through entrepreneurship and job creation? How to engage in strengthening the

policy and business ecosystem and what should be the role of the government?

Many other interesting questions and dilemmas emerged during the process of summarizing the lessons learned: How to properly balance the economic and social engagement? Should the local business partners take on the main burden of providing social services to the broader community in areas such as health and education, women empowerment, financial literacy, access to finance, etc.? Or should this be done by specialized NGOs financed through separate channels? Will overwhelming the local business partner with the delivery of social services be counterproductive and even discourage him to engage in similar projects? Is this approach sustainable once DANIDA terminates its engagement with the project?

### Next Steps

Moving forward, David and his team have been brainstorming on how to best utilize the main learnings from this initiative to further improve Firmenich's core competences and fine tune its corporate strategy; strengthen its reputation; and share the experience with its business partners and other development actors. Brainstorming on the next steps focused on several priority areas.

**Uvan:** Firmenich and Uvan both have a significant interest in ensuring that Uganda remains one of the principal markets for sourcing sustainable vanilla. The question remains, how to redefine the relationship with Uvan in a situation when DANIDA is not anymore part of the project<sup>xlii</sup>? How to better "separate" the business and community engagement in the relationship with Uvan? Should Firmenich engage in a more strategic way with other local companies, in addition to Uvan?

**Donors and Partners in Uganda:** Firmenich needs to decide on how to make sure that the main social components of the project are preserved. For example, the activities related to fighting malaria and HIV/AIDS can't be discontinued overnight. As DANIDA will not be involved in the follow up activities, the question of financial sustainability of the community engagement initiatives needs to be readdressed. Is there a need to establish additional partnerships? As neither Firmenich nor Uvan are in the business of providing social services to local communities, should Firmenich and Uvan more strategically engage with local NGOs? Should the NGOs take a lead and thus make the delivery of the services more sustainable? Do Firmenich and Uvan need alternative partners so they do not exclusively rely on NGOs?

It was not clear how to identify and approach new potential partners, such as the government of Uganda, other donor agencies and foundations, the World Bank, African Development Bank, etc. How to make sure that they will be interested in taking over the social aspects of the initiative? For example, should Firmenich engage more actively with the government, a key player in shaping the business and policy ecosystem in Uganda? This can also include some more specific issues such as the deforestation that undermines the production of vanilla<sup>xliii</sup>. Firmenich and Uvan are not in the business of planting trees.

**Clients:** Is there a potential role for Firmenich's clients to contribute to the social dimensions of the project and the overall financial sustainability of the initiative, particularly the community engagement? How should Firmenich approach this possibility? Is increasing the price of vanilla that Firmenich charges its client a potential source to cover the cost of the social services<sup>xliiii</sup>? Should Firmenich employ a different strategy for clients from the luxury goods industry and for those

from the food and beverage sector? How to make sure that some of the clients will not use this potential partnership as a primarily PR tool instead of a more substantive engagement in frontier markets, and thus undermine Firmenich's reputation and authenticity of engagement?

**Global Strategic Partnerships:** The success of the vanilla project has strengthened Firmenich's reputation as a leader in expanding business in frontier markets through innovative partnerships. This has triggered increased interest from other big development actors and foundations<sup>xliv</sup> to partner with Firmenich. These new actors with substantive financial resources, expertise, and leverage power have become key players in shaping the global development agenda. Should Firmenich expand its partnership strategy and more strategically engage with them? Is it time for Firmenich to more forcefully explore opportunities for partnerships in other countries? Should Firmenich explore possibilities to partner with DANIDA in other countries? Should the next step include partnerships with new donors and cooperation agencies, such as those from the BRICS countries<sup>xlv</sup>?

**Reputation Challenge:** Obviously there is no lack of opportunities for Firmenich's innovative global partnerships. However, the key question is, how to make sure that the reputation that took nearly 120 years to build is not exposed to any risk in these complex engagements and that partnerships are in line with Firmenich's overall corporate strategy and values?

**Investor Relationships:** Although Firmenich is a private company<sup>xlvi</sup> there are important lessons to be shared with other publicly traded companies. Many of Firmenich's clients have complex relationships with their shareholders who do not necessarily have shared views on how much "a company should engage in social, environmental, and development issues". Some investors have wondered whether this kind of engagement undermines the profitability of the company and the value of its shares.

*I think we all have to accept that responsible sourcing has a cost. We can find different innovative business models to integrate the cost. We know that even if consumers are demanding more sustainable products they are not always ready to pay more. Sustainable business models have externalities such as delivering health prevention solutions to farmers like we did in Uganda on HIV/AIDS and malaria but they also need better training and many other services and infrastructures that are difficult to integrate in our business models. To have partners like DANIDA is a chance to go beyond business as usual and have more impact. (Patrick Firmenich)*

Can Firmenich co-create value for some of its clients, by engaging them on the issue of investor relationships thus contributing to the current discussion on the role investors should play in sustainable business practices and shared prosperity?

**South-South Knowledge Exchange:** Firmenich has already developed expertise in a more systematic, problem solving, and action oriented South-South Knowledge Exchange (SSKE)<sup>xlvii</sup>. The transfer of knowledge from Uganda to Madagascar is a good example of SSKE. The question remains - Should Firmenich devote necessary resources to be an active player in SSKE and is this in line with its corporate strategy?

**Post 2015 Development Agenda:** Firmenich has been developing innovative business models to expand its activities in frontier markets, carefully balancing economic and social impact. At the same time, Firmenich has been utilizing new partnership models for strategic engagement with

donor agencies, foundations and global and local businesses with support from NGOs. These models can also provide an important contribution to the ongoing global debate on the Post 2015 Development Agenda<sup>xlviii</sup>. Should Firmenich take part in this debate and what is the best strategy of engagement that will fully utilize its core competences, corporate strategy and values?

### The Challenge

The list of lessons learned from the Ugandan project and possible next steps is quite long. Patrick felt overwhelmed with all these opportunities and was aware that Firmenich just started a new journey. The event in Denmark is not the end of a process but rather an important first step. The journey in Uganda started at a time when donors and private companies were not used to collaborating. At that time the experiences in responsible sourcing were limited. Firmenich was discovering Uganda and starting to engage in innovative partnerships.

*All of us were pioneering a new way of doing business. All of us took risks to create game changing sourcing approaches. We had different reasons for committing to this process but we all had one common goal: improving the lives of vanilla farmers in Uganda through sustainable business models. Communities which are not striving cannot be productive, they cannot develop and they cannot make us feel proud of offering a sustainable product to our clients and to global consumers. Did we succeed? Did we make a difference? The event in Denmark will help us take stock of our actions and results. (Patrick Firmenich)*

Patrick wondered to what extent Firmenich's insights also reflect the opinions of DANIDA and Uvan<sup>xlix</sup>. His challenge is to prioritize the main learnings and propose more specific, strategic follow-up activities for Firmenich. It has never been easy to determine how to secure resources for these kind of activities and make sure that they are in line with the overall corporate strategy. Of course, these are not decisions that need to be made overnight. However, the immediate challenge for Patrick is to decide what unique value Firmenich can add at the event that is to take place in just a couple of weeks. Time was running out. He started to work on his notes.

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<sup>i</sup> Firmenich is the world's largest privately owned company in the flavor and fragrance industry with 6,300 employees around the world. Founded in 1895, and headquartered in Geneva, Switzerland, Firmenich has created many of the best known perfumes and flavors enjoyed around the world every day. In 2012, the global market for flavors & fragrances was \$23 billion. The top 4 companies control 56% of the global market, and Firmenich is one of them.

<sup>ii</sup> "Partnerships for Sustainable Sourcing: The Case of Vanilla in Uganda", Co-Hosted by Firmenich and Danida Business Partnerships, Tuesday 23 September 2014. [http://www.agrofoodpark.dk/NR/rdonlyres/6CFEB660-B919-4B6C-8614-A9F2613D7B0E/0/Invitation\\_for\\_Vanilla\\_Event\\_Denmark.pdf](http://www.agrofoodpark.dk/NR/rdonlyres/6CFEB660-B919-4B6C-8614-A9F2613D7B0E/0/Invitation_for_Vanilla_Event_Denmark.pdf)

<sup>iii</sup> Ibid.

<sup>iv</sup> *Uganda was a bit like a discovery laboratory for us to engage in responsible vanilla conversations with many clients.* Aldo Uva, former President of Firmenich Flavor Division

<sup>v</sup> Web link: <http://en.wikipedia.org/wiki/Danisco>

<sup>vi</sup> Madagascar dominates the world in vanilla production with its singular Bourbon variety, followed by Indonesia, Uganda, and India. Comoros and Réunion, once major players in the vanilla market, today play small, supporting roles—though their vanilla is still coveted by aficionados of the spice.

<sup>vii</sup> **Vanilla Market Volatility:** There is a 'boom and bust' cycle in vanilla farming driven by both natural disasters and volatility in supply and demand. The vanilla crop is very vulnerable to the weather, and many important vanilla producing regions are subject to hurricanes, typhoons, cyclones and periodic droughts. Such extreme weather can destroy the vanilla vines and reduce yields and this can rapidly elevate vanilla prices on the global market. Prices often stay elevated for some time because it takes three years for a newly planted vanilla vine to produce pods, so growers can't immediately respond to the loss of crops by increasing production. Conversely, after a succession of good harvests, when there is a surplus of beans prices begin to fall. Farmers often become discouraged by the hard work needed to maintain their vanilla vines and turn to other less labor-intensive income generating crops, and let their vanilla gardens wither and die. If this happens on a regional scale (as it often does) production falls and prices begin to rise again. (Source: Vanilla Book, Firmenich)

<sup>viii</sup> **Agricultural business in Uganda:** Sustainable vanilla sourcing can't be address in isolation, independently of the overall challenges agricultural sector has been facing in Uganda. Similar problems were experienced across the Ugandan agricultural sector. Agriculture is the most important export sector in Uganda contributing nearly 46 % of the total exports in 2010. The sector provides employment to over 70 % of Uganda's labor force. However, there are significant barriers to increasing production and productivity, as well as value addition, especially to the export crops. The agricultural production of Uganda is dominated by smallholder farmers operating on less than two hectares. 70% of these smallholder farmers are women producing 70% of the agricultural GDP. Uganda's agriculture sector has been stagnating due to low funding. There is a need to improve the business and policy ecosystem to support the development of the physical and institutional infrastructure. (Source: DANIDA)

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<sup>ix</sup> For the Danish government, Uganda is one of the 10 top aid recipient countries, with over 30 years of continuing cooperation.

<sup>x</sup> The local business partner also included the Uganda Vanilla Growers Association.

<sup>xi</sup> **Improving and monitoring the production practices and improving traceability:** The partners invested heavily in professional extensions services and pre-financing, improving vanilla processes and quality management systems, and providing training workshops.

**Payment and price envelop:** The fact that Uvan has been paying in cash and on time was very important for the farmers' commitment to vanilla production. In addition, a price envelop was defined that could (i) provide a viable income to smallholder farmers through fair pricing agreements with them and (ii) avoid rapid price variations that had led to social unrest a few years earlier.

<sup>xii</sup> **Women's empowerment and village savings groups:** The project encouraged involvement of women in vanilla farming. This was facilitated by the fact that although the production was labor intensive it did not require "physical strength". **A time consuming crop:** Vanilla is one of the most labor-intensive crops in the world due to its long growing and curing times, and it is the world's second-most expensive spice after saffron. Because vanilla orchids bloom ever so briefly and must be pollinated by hand, growers must inspect and pollinate their plantations each day. The European Development Research Network estimates farmers need to spend 260 days (6,240 hours) per hectare (100 acres) during the first year and about 460 days (11,040 hours) during the next four to eight years to maintain a vanilla crop. By comparison, a typical rice harvest requires an average of 120 hours per year per hectare.

Furthermore, as women are considered to be more "trustful and relationship oriented" their involvement also supported the efforts to secure higher commitment from the farmers. In many cases this also motivated non vanilla growers to grow vanilla. In addition, training workshops and creation of Village Savings and Loans associations, with support from the charitable organization CARE (<http://www.care.org/>), improved local community's financial literacy and access to finance.

**Income diversification schemes:** The project helped farmers diversify their production so that they would have other sources of income and avoid full dependence on a single crop. The improved agricultural skills that the farmers learned from growing vanilla were easily transferable to other crops. Farmers were trained to raise chickens and grow sweet potatoes and cassava.

**Health provision:** The program supported information campaigns about malaria and HIV/AIDS prevention and provided 4,500 mosquito nets.

<sup>xiii</sup> For example, partnership between a big company like Firmenich and a small local company like Uvan should take under consideration the limited delivery capacity of the smaller partner. Overwhelming the local business partner, for example, with too many social activities can undermine its capacity to focus on the core business activities.

<sup>xiv</sup> For more information on DANIDA B2B program see: <http://um.dk/en/danida-en/activities/business/partnerships/b2b-programme/>



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<sup>xv</sup> Firmenich's Fundamentals:

CLIENTS: We fragrance and flavor our clients' products for our mutual success.

PEOPLE: People are the heart of our Company. They are recognized for their passion, talent and integrity.

CREATIVITY: Creativity is our essence.

SUSTAINABILITY: Our sense of individual and collective responsibility ensures our long-term success.

INDEPENDENCE: Our independence gives us the freedom to control our destiny

See: <http://www.firmenich.com/m/company/about-us/core-value/index.lbl>

For example, Firmenich's has found that, increasingly great people want to work for companies that are committed to sound principles of sustainability. Attracting talented people who share its passion for sustainability is important for Firmenich's future success, and new talent brings with it new ideas that help to continually improve.

Sustainability Strategy: Firmenich's commitment to sustainable development is not recent. The company has been formally committing to sustainability since 1991 when it signed the International Chamber of Commerce Declaration on Sustainable Development. In 2010, Firmenich developed a companywide strategic plan that covered all divisions, and set seven sustainability goals for 2015:

- Improve our industry-leading safety performance by 50%
- Reduce CO2 emissions in absolute terms by 15%
- Reduce water usage rate by 15%
- Power 90% of our manufacturing sites in part with renewable energy
- Review and rank 400 key ingredients through our Sustainability Index
- Complete sustainable natural ingredient sourcing projects in eight countries
- Impact the lives of one million children through improved nutrition and hygiene.

<sup>xvi</sup> See: Firmenich in India: Changing the Role of Engagement with Low Income consumers:

<http://www.wbcso.org/Pages/EDocument/EDocumentDetails.aspx?ID=16334&NoSearchContextKey=true>

<sup>xvii</sup> As a family company, Firmenich believes that its sustainable business success is anchored in the long-term interest of its employees, clients, suppliers, local communities, and the environment. This can be illustrated by Firmenich's engagement in Haiti. Since 2010, Firmenich has been engaged in an innovative multi-stakeholder collaboration with the Swiss Agency for Development and Cooperation (SDC) and local organizations to source sustainable vetiver (a tropical grass used to make fragrant oil) from the Débouchette farming community in Haiti. Many companies that started business activities in Haiti immediately after the earthquake left the country as soon as international focus on Haiti started to vanish. However, companies with longer term strategy do not go to countries because they are "the flavor or the color of the day" and get place in the media, high visibility, and access to emergency relief money. Firmenich came to Haiti with intentions to do business there and stay for years to come. See: Firmenich News Release. "Firmenich CEO Confirms Long-Term Commitment To Farmers In Haiti," April 4, 2013; <http://www.firmenich.com>

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<sup>xviii</sup> For example, just couple of weeks after reading an article in Financial Times on Rainforest Alliance, Patrick immediately reacted by tasking David with Firmenich to join the alliance. With the initial experience from Uganda and many other countries before, it was easier for the senior management to understand the importance of joining the Rainforest Alliance. Firmenich was among the first members and also motivated other vanilla purchasers and consumers to join the alliance.

<sup>xix</sup> The senior management's early engagement in the project has reduced the burden on their time later on in the implementation phase.

<sup>xx</sup> Firmenich invests 10% of its revenue in R&D every year, to maintain its position as the lead supplier of unique ingredients, and to concentrate on:

- Product biodegradability
- Green chemistry
- Responsible sourcing

*We lead our industry in research & innovation, capturing break through ideas around the world. We constantly strive to discover new ways to improve all that we do. (Firmenich's manager)*

<sup>xxi</sup> More specifically, a total of 4,396 farmers were trained in improved crop production, better disease management, tree planting techniques and eco-friendly practices, through twenty-two workshops held in vanilla-farming communities. Twenty-two radio programs were broadcast to inform farmers about crop management, disease control, vanilla prices and correct harvest times. 355 farmers are benefiting from improved varieties of sweet potato and cassava, which are grown on a four-acre nursery that is managed by Uvan. The new cultivars are boosting income generation and home consumption. The families of 66 permanent and seasonal Uvan employees also benefit from this nursery.

<sup>xxii</sup> 6,500 anti-malarial bed net have been distributed. 3,549 farmers benefited from HIV prevention, counseling and care through 24 specially designed workshops. \$199,000 has been cumulatively saved by a total of 4,880 members of the VSLAs. 70% of VSLA members are female; this effort has contributed significantly to the financial empowerment of women in the communities.

Firmenich has also helped Madagascar vanilla farmers to get Rainforest Alliance certification. In 2011, Firmenich started an ambitious program to support the largest vanilla farmers' cooperative, Savanille, in Antsirabe Nord, which comprises more than 1,500 small farmers in 38 villages. In partnership with its supplier, AUTHENTIC, Rainforest Alliance (RA) certification was obtained in 2012, the first-ever RA certification for vanilla. RA certification ensures that the three components of sustainability—environmental protection, social equity, and economic viability—have been addressed in the production of crops.

<sup>xxiii</sup> As part of our global strategy, we have started a cultural transformation to go beyond Firmenich Fundamentals and also systematically reach excellence in execution and process. To meet these expectations and foster sustainable growth, we have equipped the organization with new capabilities, delivered a program focused on senior leaders and middle management as change agents, and optimized our performance, reward and recognition programs. We have also developed an appropriate communications strategy to support our program<sup>18</sup>

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and further drive behavioral change. (Source Firmenich)

<sup>xxiv</sup> The clients' interest in sustainable vanilla sourcing was more clearly articulated and expressed only 3-4 years after Firmenich had already embraced these issues. Firmenich was well positioned to reach and touch the hearts and the minds of its clients and meet their new needs and requirements. In that context, Firmenich is not another supplier for its clients but a partner helping them meet their own sustainability KPIs. Now, Firmenich is much better equipped to co-create value with its clients and other stakeholders and capture the business benefits of this new form of partnership. For example, in 2013 Firmenich joined the World Business Council for Sustainable Development and continues to collaborate with a number of leading partners, including academic institutions, governments, NGOs, customers and communities around the world to help maximize the impact of its efforts through shared learning. Firmenich actively supports the ten principles of the Global Compact, the CEO Water Mandate elements, and the Women's empowerment principals. Firmenich will continue to work with its clients, suppliers, and all of our stakeholders on sustainability issues, and is planning to develop and publish new sustainability goals through 2020 and beyond.

<sup>xxv</sup> In 2010, we created a model, the "3G" (for Governance, Green and Growth), that conceptualized our approach, helped us visualize the breadth and the depth of our sustainability actions, and illustrated the important connections between the three platforms. In 2014, as our sustainability strategy became more integrated into our business, we added a fourth platform, "Groups," to reflect our engagement with our employees, communities, and many stakeholders within our value chain. This new 4G framework better encompasses our sustainability strategy. (Source Firmenich)

<sup>xxvi</sup> The vanilla experience is easily transferable to other commodities and countries. Some of Firmenich's clients in the global food sector, have had long experiences in dealing with smallholder farmers but this is not the case with many other Firmenich clients. Traditionally, Firmenich's industry had little knowledge on how to engage with low income producers and consumers and to partner with development agencies. Furthermore, what has been learned about vanilla is transferable to other commodities and other countries, making the experience relevant to many other clients.

<sup>xxvii</sup> As the head of Firmenich Foundation and North America operations David has been well positioned to reinforce the needs to clearly separate the philanthropic activities from Firmenich's core business.

<sup>xxviii</sup> Aarhus event is also an integral part of Firmenich's knowledge sharing strategy.

<sup>xxix</sup> *With* consumers' increased demand for responsible natural vanilla not only related to food and beverage products, but also perfumery products, Firmenich's Perfumery Division's ambition is to continue being the preferred fragrance house of clients around the world, creating and capturing value with clients and their consumers. Sustainable Lifestyles: In the past year, there has been a strong reinforcement of the "sustainable lifestyle" movement, with many of Firmenich's perfumery clients taking on a leadership role. This transformative trend will help shape the perfumery industry's future with noticeable implications not only in home care and body care products, but also in fine fragrance products through the "sustainable luxury" concept. In FY14, Firmenich conducted many presentations for its clients, sharing insights on consumer behavior, sustainable

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consumption and sustainable luxury, and positing long-term scenarios on the future of perfumery. Firmenich also started working with the World Business Council on Sustainable Development (WBCSD) on “sustainable lifestyle,” one of the nine priority areas defined by its platform, Action2020, that sets the agenda for 2020 and beyond.

In FY14, Firmenich remained a sustainability thought leader and was asked by one of its fine fragrance clients to directly contribute to their sustainability strategy and training, while also advising another client on its new responsible sourcing charter as a selected strategic supplier. This is in line with Firmenich’s Perfumery Sustainability Strategy that aims to:

- Increase responsibly sourced naturals in the perfumer palette
- Create “eco design” fragrances
- Support sustainable consumer lifestyles
- Build a better life for local communities

Firmenich has also improved its capabilities for sharing knowledge with clients, by providing them with opportunities to visit and learn from Uganda. *One of the future opportunities for Firmenich will be to continue reinforcing this kind of partnerships with its suppliers and clients.*

<sup>xxx</sup> At the same time, Firmenich had been able to perform a balancing act of engagement with Madagascar’s vs. Ugandan farmers and partners. The focus was not on how to take advantage of using supply from both countries to increase competition and get lower prices. An exclusive focus on short term gains from lower prices and cost are not a sustainable approach as it can lead to price fluctuation and instability, lower quality, risk of supply shortages, etc.

<sup>xxxi</sup> The world today is starting to put in place global instruments that will facilitate the participation of small farmers in global trade. The Food and Agriculture Organization estimates that nearly 870 million people in the world are going to bed hungry each day. The majority of the malnourished communities are the farmers themselves. Firmenich will continue with its efforts to inverse that number with projects like the one in Uganda.

<sup>xxxii</sup> The cooperation with the Swiss government is not exclusively limited on single projects. As the international community is engaging more and more with the private sector to redefine development aid, Firmenich is involved in the Swiss Government consultations around the United Nations Sustainability Development Goals. This is the first time business is consulted like that. This global political process might seem far away from responsible sourcing but it is not. Principles around sustainable agriculture have been defined by the UN Global Compact and they relate directly to responsible sourcing.

<sup>xxxiii</sup> This year Firmenich is announcing five new partnerships and will have a total of 24 sustainability partnerships. Most of them have been partners for more than five years. In 2013, Firmenich became an investor of the Livelihoods Fund, whose mission is to support the efforts of poor rural communities in the developing world to restore their natural ecosystems, which improves their food security, increases their revenues, and raises their livelihoods. The Livelihoods Fund is an investment fund supported by socially responsible, private sector companies committed to reducing their environmental footprint. Since its creation in 2011, the fund has already 20

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planted more than 130 million trees in Senegal, India,

Kenya, Indonesia and Burkina Faso.

<sup>xxxiv</sup> For example, after Firmenich took a different approach to sustainable vanilla sourcing and was the first company to talk about vanilla in its annual report other companies have followed a similar approach.

<sup>xxxv</sup> Firmenich has been, even as a private company, producing sustainability reports since 2007. The rest of the industry started only 3 or 4 years ago and it is now a must have for the industry to report on its environmental and social impact.

Firmenich even sets goals and standards well beyond compliance levels for:

- Health and safety
- Quality
- Regulatory and compliance
- Stakeholder engagement

Furthermore, the company strictly maintains the highest level of personal integrity and ethical values; practices a sustainable business model for the well-being of present and future generations, and adopts the strictest international standards on quality, safety and the environment.

<sup>xxxvi</sup> aBi was founded by the Governments of Denmark and Uganda, to support agribusiness development in order to help achieve the long term sustainable objectives of the country.

<sup>xxxvii</sup> For example it helped CARE expend its activities in other countries.

<sup>xxxviii</sup> Denmark was one of the first donors to return to Uganda in 1986 after President Museveni came to power following years of conflict and insecurity. Until recently Uganda was the second biggest recipient of Danish assistance. Denmark has contributed significantly to Uganda's impressive social and economic progress over the last three decades. One of the major achievements has been reviving the agricultural sector. Over 80% of Uganda's population is employed in agriculture, which makes it an absolutely critical sector for the transformation of the country.

<sup>xxxix</sup> While the first phase of the project, from 2008-2011, primarily focused on vanilla farmers, the second phase, from 2012-2014, reinforced the focus around improved livelihoods of the local community

<sup>xl</sup> There was some concern by Uvan's and Firmenich's management that once they start to implement the project, with such a strong social component supporting the broader community, that the farmers would think that the business must be making a lot of money from vanilla and could afford to pay more for the green beans. This will encourage them to seek higher and unrealistic prices.

<sup>xli</sup> As mentioned, in the second phase of project implementation more emphasis was given to community engagement and this was not fully appreciated by Uvan.

<sup>xlii</sup> The vanilla production is dependent on government's sustainable forestry policy and the overall assistance to agricultural sector. Deforestation in Uganda undermines vanilla production.

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<sup>xliii</sup> This is a very complex issue. Theoretically, it is possible to increase the price of luxury products to compensate for higher farmer's prices but this can't be done with food and beverage products. This will require different pricing strategies for different clients.

<sup>xliv</sup> For example with Gates and Clinton Foundations.

<sup>xlv</sup> Brazi, Rissia, India, China, and South Africa.

<sup>xlvi</sup> Firmenich's Annual Report:

- We are a family-owned company, committed to our independence.
- We take a long-term view of our business.
- We pursue a policy of financial strength, profitable growth and return on assets.
- We practice a sustainable business model for the well-being of present and future generations.

<sup>xlvii</sup> Being one of the key drivers of inclusive growth and shared prosperity, business could play an important role in SSKE. For years, development agencies and multilateral development banks have been trying to utilize the SSKE platform to support knowledge sharing among development practitioners. Still, limited efforts have been made to take full advantage of corporate experience and expertise in this area. The development community can benefit from Firmenich's and its partners' experience in action based SSKE, as this experience has been immediately tested on the ground.

<sup>xlviii</sup> Several global, "high level events" on Global Partnership have already taken place that address the new role business can play in inclusive growth and shared prosperity. Still there has not been major progress in developing ground breaking frameworks to support innovative partnerships between development agencies and business. Very few global companies have capabilities and competences that can help redefine the ongoing debated on the Post 2015 Development Agenda and make sure that business engagement will be rooted in corporate core competences. This is a critical precondition for business sustainable contribution to inclusive growth and shared prosperity what will create economic and social value and preserve the environment.

<sup>xlix</sup> For example, on several occasions, Uvan leader Aga already shared a slightly different perspective on the lessons learned. As the overall project was not exclusively linked to vanilla farmers and also generated benefits for the general community – "whoever wanted to participate" – he felt that the project (i) did not help to generate sufficient loyalty to Uvan from the vanilla farmers; (ii) did not bring a sufficient number of other vanilla farmers to Uvan; and (iii) did not deliver sufficient benefit to the business. At the same time, according to Aga, the engagement in providing social services has reduced Uvan focus on its core business of buying and processing vanilla. Aga felt that there must be a more direct link between the social dimension of the project and the core business of the company. The project has to be more clearly connected with Uvan business and its farmers.