In this report, we'll give you an update on the following topics:

1. Introduction
2. Background on commodities and the need for impact incentives
3. Outreach and promotional material
4. Surveys, interviews and engagement
5. Insights from surveys, interviews and engagement
6. Translating interest into pilots
PART 1

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INTRODUCTION

On July 1st, we started the scoping phase of the ‘Impact Alliance’ initiative. The goal was to understand the effective market demand and interests in our impact incentives. We were curious as to how this innovative concept was perceived in the market.

CRITICAL SUCCESS FACTORS

We had the following critical factors in mind to measure our success.

We wanted to...
- Gain insight in the potential demand for Incentives from Latin America (which represents critical biomes).
- Identify potential program partners for Impact Partnership Incentives.
- Design promotional materials to explain the concept to every stakeholder.
- Have a broader view on how Impact Incentives is perceived in the supply and demand markets.
- Gather feedback on how to adjust our concept from brands and NGOs.
- Gain insight into the (potential) impact of the pandemic on Impact Incentives.
- A view on Brands and/or Retailers commit to join 3 pilots in 2021.

OUR ACTIVITIES

In order to achieve this, we had a multi-tiered approach.

The following activities were undertaken:
- Desk research
- Development of promotional materials to explain the concept.
- Webinars and offline workshops to answer questions and gather feedback on the concept.
- Surveys, phone-interviews and one-on-one conversations with a targeted list of brands within each market.
- Translating leads to tangible new pilot projects.

In this report, we provide you an overview of the outcome of all these activities.
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BACKGROUND INFO ON SOY

Challenges in traceability
- Soy is largely not traceable to its origin.
- Physical sourcing models are often considered too expensive due to lack of mass, meaning there is simply not enough compliant soy to separate it from the rest. (IDH)
- Currently, only 2-3 percent of global soy production is certified under a market recognized scheme. (Estimate based on analysis by KPMG and IDH)

Existing tools / efforts
Many Standards (ProTerra, RTRS, CRS, ...) have been developed to promote social and environmental sustainability through the food and feed supply chains to support stakeholders in their efforts to continuously improve their day-to-day practices and help businesses engage and implement the concept of sustainable development.

Potential market size
- Last year Brazil produced 123 million metric tons (Mt) of soy. That’s 37 percent of the global total (337mil mt). The Cerrado biome accounts for 40 percent of Brazilian production.
- Last year, the US produced 96.615 Mt, Argentina 53 000 Mt, Paraguay 10.200 Mt. (Details on other regions can be provided.)

The need for Impact Incentives
The Incentives aim to facilitate uptake of GMO-free sustainable soy gradually in the coming years. In this respect, producers in a region can be actively supported by brands/feed/food producers with fixed premiums in the transitional phase. This with respect to the increased cultivation of soy certified as sustainable in accordance with the ProTerra Standard. In addition, specific social and ecological improvements at the producer level will be achieved with the premiums financed by these buyers and documented annually in an independent progress report.
BACKGROUND INFO ON BEEF

Challenges in traceability
- Many existing voluntary tools can be used for environmental traceability, but the producers are reluctant to implement them unless the market pays extra.
- Individual animal implementation has a high cost, and producers/slaughterhouses are unwilling to invest.
- The challenges vary from one region to the next. In general low-income producers are having a hard time accessing new technologies.

Existing tools / efforts
- New tools and technologies have been invented to address environmental problems such as carbon footprint calculation, LCA, etc. But the implementation is still low.
- There are many existing initiatives with similar objectives that are not yet working on a joint agenda.

Potential market size
Globally, cattle meat production has more than doubled since 1961 – increasing from 28 million tonnes per year to 68 million tonnes in 2014. The United States is the world’s largest beef and buffalo meat producer, producing 11-12 million tonnes in 2014. Other major producers are Brazil and China, followed by Argentina, Australia and India.

For Brazil the total beef production in 2019 was 10,492 thousand CWE (Carcass Weight Equivalent). The Cerrado-region produced 3,67 thousand CWE. Last year, the Gran Chaco region in Argentina produced 14,327,042 total heads, bringing the total slaughter to 1,858,013 animals. Leading to 416,195 tonnes beef (with bone) in Gran Chaco.

The need for Impact Incentives
With Impact Incentives, cattle farmers will be incentivized to improve Animal Welfare practices and set-up a traceability system for animals (e.g. Ear-tags, which is mandatory in Europe). With Impact Incentives, the amount of full traceable animals will increase. Gradually, slaughterhouses will have increased insight in their animal supply and as such be able to exclude sourcing from deforested areas.
BACKGROUND INFO ON LEATHER

Challenges in traceability
- The leather supply chain is long, complex and in many cases opaque.
- There are very few slaughterhouses that can or will match the skins to the cows they came from.
- There is minimal physical tracking of hides through production due to the costs and lack of efficient and effective systems. However, work is being done to develop more broadly usable technologies.
- Few countries in the world have traceability from farm-to-farm.

Existing tools / efforts
- The Leather Impact Accelerator.
- The Leather Working Group (LWG) has done work to identify countries of high animal welfare risk, and will help companies do risk assessments of their sourcing areas.
- The LWG requires that those sourcing raw materials in Brazil demonstrate traceability to the slaughterhouse and require that direct farms within the Amazon Biome are mapped, and deforestation-free since 2009.
- The LWG also has optional traceability ratings.

Potential market size
The top 10 countries account for 70% of the global leather production with the rest of the world responsible for the remaining 30%. China leads, Brazil is the runner up, with an annual production of 2360 million sq ft, which is a 9.5% share of global production. Argentina produced in 2020 804 million sq ft, which is 3.4% of the global production. In 2019 Brazil produced 43.3 million hides. 15.17 million hides were from the Cerrado region. Argentina produced 1,858,013 hides in 2019. (Details on other regions can be provided.)

The need for Impact Incentives
We notice similar benefits for leather as for beef. Impact Incentives will contribute to improved traceability and transparency of the leather supply.

With the continued disruption to the leather industry due to Covid-19, it is impossible to accurately gauge the impact this will have on the volume of leather production and its resultant export market for 2020. Expectations are that there will be a decline in volumes, particularly in large export markets such as China, Brazil and India. Although there is optimism that recovery will occur, bringing with it an anticipated improved action and awareness for sustainable production and manufacture.
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GET TO KNOW US!

Before we could talk to any brands, we decided to get our story straight! Talking about 'Impact Incentives' felt complex, but we managed to design a sticky storyline that makes sense for all the stakeholders. This is an overview of how we made sure that people got to know us!

What kind of **Impact** does your company have on the world?

This video already has 431 views on LinkedIn today, without any additional investment in digital campaigns.

**A story made to stick.**

We invested in professional marketing materials that explain our story: a website, powerpoints, a video, and digital toolkits for brands and farms. These capture the essence of what we do! They made us align our pitch and provide clarification for all parties through visualization.
Our website/LinkedIn: facts & figures
In the last 30 days, we had an average of 10-15 visitors per day on our website. 57% of these visitors were mainly interested in our homepage, and they spend, on average, over 2 minutes on the website. 48% of our visitors go to our website more than once, and the majority access the website through a direct link that have been provided.

When it comes to LinkedIn, the visitors are mainly business developers, and although we are still talking about a small digital reach, our video shows very good engagement rates! Let's also keep in mind that we haven't invested in online campaigns yet. It's encouraging to see regular visitors on our site, not just a spike here and there. This means that people are not coming only because of our 'push', but because our name is mentioned around.
'Get to know us' - webinars
So how did people get to know us? It all started with a very successful launch-webinar that had more than 400 registered participants. Brands like Nestlé and Kering were on the list! In addition, we organized additional webinars during the Textile Exchange Conference. You can find a recording of one of these webinars here.

'Ask me anything' & 'Break-out' sessions
Next to the webinars, Textile Exchange held a break-out session on their Annual Sustainability Conference where people could find out more about our initiative and ask their questions. One of the most important things we learned during this conference is that people get very excited by the concept of Impact Incentives, but need a lot of guidance to understand the details of how they work.
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How many people filled out the survey?
We send out surveys on the various commodities. In total, we had 39 brands who responded.

How many interviews were conducted?
We did a combination of approximately 40 formal and informal interviews.

Which companies did we talk to?
We talked to various brands, mainly targeting large companies that are the end-users of soy, leather and beef. Most of them are part of the fashion, food and retail industry like: Burberry, H&M, IKEA, Nike, Kering, Timberland, Lidl, etc. We had contact with procurement - and sustainability managers from those organizations.

How long did we run the survey for?
The survey was open for about 2 months.

What sort of questions were included in the interviews/surveys?
We asked questions on 4 levels:
1) General questions on their leather/soy/beef supply. How much are they using? From which country/region? Etc.
2) Questions on how they manage the sustainability risks that are associated with the various commodities. Do they have specific targets on deforestation, animal welfare, climate change, etc.? What are the current sustainability programs they support? In which areas will they invest in 2021 when it comes to producing more sustainably? Etc.
3) Questions regarding the challenges they are facing. Are they feeling internal/external pressure to take action? What are the difficulties they are facing when it comes to using sustainable commodities in their supply chain? Etc.
4) Questions on Impact Incentives. How do they perceive this concept? What do they like about it? What are still gaps in their understanding? How likely is it that they will invest in this? And what is keeping them from doing this? Etc.
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By doing the interviews and surveys, our confidence has grown that this project has what it takes to create an impact by working cross-commodity. So let’s start with a general overview of our lessons learned!

What is the positive feedback that we received?
What we heard over and over again is that brands are having a hard time dealing with their supply chain. They want to work more sustainably but don’t really know where to start. Often, they lack insight in 1) what their supply chain is from start to finish and 2) how to have an impact on this in a lean and feasible way. When we talk about our incentives-program, they feel relieved: “Finally, there is a way to support sustainability affordably!” They also love the idea that they are helping out farmers (smallholders) and that it isn’t limited to just one commodity, but that we work across various commodities in critical landscapes.

What are red flags to take into account?
At this time, brands feel pushed by NGOs to look mainly into the traceability of their supply chain. But that is a very complex endeavor that asks for major investments in many ‘command & control’ institutions. We want to provide a feasible add-on to their efforts on this, and also create a mindset-shift so that brands see the value in contributing to an overall change in their industry as well. By doing this, they will support a sustainable production process that makes their supply chain’s traceability easier in the long run.

How did COVID impact our mission?
COVID helped our mission because brands are becoming more and more aware that it’s their responsibility to lead people into a sustainable future and that this needs to be done NOW. Because of the pandemic, companies asked to adress the big issues as fast as possible.
FEEDBACK? YES, PLEASE!
Now let's take a deep dive into the questionnaires! What did we learn from our surveys?

What is the positive feedback that we received through the surveys? What are interesting observations we made?

Almost all brands that filled out the questionnaire feel significant pressure and have clear targets on climate change, biodiversity, and animal welfare. But only 15% of the brands looking into their (leather) supply chain could go back to their direct farm and only 4% to the birth farm! This highlights the difficulties companies have today to map their supply chains and address their impact on the farm level. Impact Incentives are a useful tool for them to start interacting more directly with farmers.

Roughly 75% of the brands actively engage with their customers on sustainability issues beyond product labeling. But even with all these positive intentions, it's interesting to see that 2/3 of the verifications that brands rely on are supplier declarations. It's a challenge for them to form credible links back to their raw material sources. Impact Incentives offer a transparant way for brands to collect (additional) useful data on this.

Over a third of the companies have signed external charters like the 'Fashion Industry Charter for Climate Action'. And 40% of the participants told us they even committed to Science Based Target objectives. While Impact Incentives don't directly deliver these goals, they perceive them as a great tool: they are part of a roadmap to achieve their sustainability promises… fast!

Most of them see the incentives as an easy way to reach their objectives because it allows them to take immediate action in their complex supply chains. They like the flexibility we offer and urge us to create a credit trading system for other materials as well.
More clarity on governance and pricing
In the survey, brands indicated that they needed more help to understand how the pricing model works and what the process looks like if they want to join. They need more operational details about our working methods and want a clear-cut roadmap on the various steps they need to follow. So this is definitely on our to-do list!

Strong link with the company's targets
The brands want to know how we will help them deliver their sustainability targets and measure the progress towards these goals. They want to know, for example, how Impact Incentives will help them achieve zero deforestation, and how they can use them towards the goals and targets they have signed up to.

Unclarity on how this interacts with established programs
Another thing that comes up is that the brands lack clarity about how Impact Incentives interact alongside already established certification schemes like RTRS and RSPO credits. We need to give them additional information on this proactively. Associations like RTRS and RSPO prove this concept works, and our credit system can operate as an add-on for a multitude of commodities.

The brands mainly focus their energy on full traceability.
Today, the brands mainly invest in building full-traceable supply-chains. Since transparency is mandatory for access to Impact Incentives, they will support this transition to more traceable supply chains by joining our initiative. But we need to further refine our storyline and guide brands towards a mindset-shift where they see the usefulness of contributing to an overall supply-chain transition as well. We want to position ourselves even more as a valuable add-on in the market, making the supply chain's traceability easier in the long run.
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TURNING MARKETING EFFORTS INTO LEADS

Our marketing efforts provided us leads we are still following up on as we speak. We conducted formal interviews but also had informal one-on-one conversations. Setting up this initiative is a process of trust. It takes time for people to get to know us and align various stakeholders within their organization through several meetings. So let’s report out on the situation as it is today.

What are barriers?
During the interviews, we noticed the same barriers as in the surveys. The main one that kept popping up is that people need help in understanding the usefulness of Impact Incentives on building a traceable supply chain. Since traceability is mandatory to make use of 'Impact Incentives', brands will gain more clarity on their supply chain.

But there is also the need for a mindset-shift. One in which brands don’t just focus on their own chain, but support an entire industry to produce more sustainably by using the landscape transitioning method.

What are the positive signs and observations?
We notice that especially food processing companies and retailers are interested in shrinking their soy footprint and are looking for tangible ways to do this. They also need a story to tell their consumers and NGOs that shows their sustainability efforts. Impact Incentives are a great way for them to do this! In general, people love the idea of joining forces, being able to cover multiple commodities with one concept, and the fact that there is external verification as well.

Another barrier worth mentioning is the volatility of the premium pricing in the commodity markets. That’s why we stimulate brands to go for contracts of multiple years, so their investment isn’t afflicted that much by market fluctuations.
Volvo has traced its supply chain for leather back to the slaughterhouse in Europe. But they don’t have any traceability yet in South America and the United States. They are looking into Impact Incentives because this would be a great tool for them to invest in animal welfare and build up traceability through these farms.

Mars Petcare shows strong interest and has agreed to get on board with a pilot in the Cerrado region in Brasil. You can find more information on this in the final pages of this document.

John Lewis is part of Waitrose (UK Retailer). Today, they are already buying Soy Credits through ACT, and it makes sense for them to broaden this and look into incentives for leather as well. We proposed a pilot with ‘Produzindo Certo’ as a next step, and they are keen to discuss this further!

We had multiple meetings with the following companies and will be discussing the details of our collaboration in the upcoming days and weeks!

These are companies that we’ve had our first meeting with or that have shown interest and asked us for more information/a meeting. We are happy and proud that there are so many companies that are showing interest! It’s even hard to come up with a conclusive list.

And many others such as: Grobest - BMP Sugarcane - Soja Livre - Wilmar - COOP Sweden - Ahold - Spar AT - Metro - COOP Trading DK - Richemont - ...
NGOs ARE LOOKING INTO IT AS WELL!

The 'International Union for Conservation of Nature and Natural Resources' is working together with Solidaridad on a project 'From blind trade to visible impact'. A project proposal has been submitted to RVO (NL) in which they suggest Impact Incentives as a partner for a pilot in Gran Chaco (Argentina). They collaborate with organizations such as the Dutch Dairy Industry (NZO), Cefetra, Fundacion Vida Silvestre, etc.

Together with WWF, we are searching for ways to use the ‘Impact Incentives’ as a tool for change in their ‘Cerrado Funding Coalition’.

Furthermore, an analysis of synergies with ‘WWF Landscape Finance Lab’ is ongoing.

Next to this, we are also working together with WWF and EDEKA. We had multiple meetings with them and are developing new concepts and ideas, so they get more grip on their soy supply chain.

Textile Exchange has set a very ambitious Climate+ goal! They want to be a driving force for urgent climate action in the textile industry to reduce GHG emissions (CO2 equivalents) 45% by 2030 in the pre-spinning phase of textile fibre and materials production. This is grounded in ‘Partnership+’ and will amplify positive impacts in soil, health, water and biodiversity.

Textile Exchange sees Impact Incentives as a key tool to accelerate change at the rate that is needed to reach this goal.

Next to these collaborations, we also met with the following NGOs and are searching for ways to work together cross-commodity. We are confident that many will follow.
LET'S WALK THE TALK: PILOTS AND PARTNERSHIPS

The future is looking bright! We are very close to commitment for 2 to 4 pilot projects and plan to move towards the implementation phase at the beginning of 2021. Three of them are cross-commodity. Below we dive a little deeper into each one of them. Next to the pilots that are coming up, we also got questions regarding potential partnerships. This wasn’t part of the scoping-phase but resulted from questions in the field. There are also 3 potential new Impact Alliance partnerships. One on sustainable rubber (GPSNR), another on sustainable aviation fuel (RSB), and a collaboration with the ‘Cerrado funding coalition’. To be explored....

1. A leather/beef pilot in the Cerrado/Amazon region (Mato Grosso - Brazil)
   In 2021 we will organize a pilot together with Mars Petcare (Beef/Soy) and at least four other fashion brands for leather (New Balance, Kering, Mulberry and John Lewis). By doing this, we’ll bring the food & fashion industry together in one sustainable and tangible project! Our partner on the ground will be ‘Produzindo Certo’, who will be working directly with farmers and ranchers to preserve natural ecosystems and improve animal welfare, as well as other key sustainability aspects.

2. A soy/beef pilot in Gran Chaco (Argentina/Paraguay)
   We’ll also experiment with a soy/beef pilot together with the Dutch Dairy Industry (NZO, incl Friesland-Campina) in Argentina and Paraguay. Solidaridad and Fundaçion Vida Silvestre will be our partners on the ground!

3. A cotton pilot in... (TBD)
   Together with Chipotle we will set up a pilot on organic and transitional cotton. The region is yet to be discussed and the plan will come together early January. They want to focus on rebuilding a strong soil module into a more organic one, and extend this to BCI and others if possible.

4. PCI Matto Grosso (Soy/Beef)
   The PCI institute is looking into Impact Incentives as alternative/complement to full certification to a standard (e.g. RTRS). This enables a swift step by step approach and an improved return on investment. As PCI is also involved in an ISEAL Landscape grant on Impact Claiming, we will investigate how this could lead to a joint pilot (Mato Grosso) in 2021.
LOOKING FORWARD TO 2021

What are our minimum requirements to be successful for 2021? We have five goals in mind to create more impact during the implementation-phase:
1) We will set up pilots to gather lessons learned in the scoping phase and refine our approach.
2) We want to formalize our policy and procedures (thresholds, guidelines for CBs, etc.).
3) We will launch the Impact Alliance Trade & Transparency IT Platform and revise it with the feedback from the pilots.
4) We will search for additional 'on the ground' partnerships to support farmers in working more sustainably.
5) We will organize shared learnings with the ISEAL member community.