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Textile Exchange LIA Impact Partnership Pilot – Leather - Brazil

The Impact Partnership Concept

While Impact Incentives work in a similar way to existing book & claim systems by rewarding already certified producers, Impact Partnership Incentives allow brands and retailers to support on-the-ground Program Partners to help producers transition towards best practices and certification. Program Partners engage with producers that do not yet meet certification requirements. Over a period of up to three years, the Program Partner may provide technical support and training, data collection, financial support for necessary investment to the producers as well as financial incentives for their participation and commitment.

The Program Partner is also responsible for annual third-party verification to confirm key data points, the number of Impact Incentives being generated each year, and the minimum requirements for participation (e.g. Deforestation/Conversion-Free). Impact Partnership Incentives are issued upon successful verification and once they are sold, provide funding for the necessary actions, investments, and financial incentives. The goal of the Impact Partnership is for producers to become certified and meet all requirements to sell Impact Incentives directly to brands and retailers moving forward, or to receive rewards through selling their physical goods as certified.

The Pilot Program Partner

For the LIA Impact Partnership pilot, Textile Exchange partnered with Produzindo Certo, a Brazil-based organization that works on transforming agribusiness chains with producers and businesses committed to proper management of natural resources and respect for society.

Produzindo Certo has a growing network of currently over 1,500 producers in Brazil, with different levels of engagement. With their deep understanding of the local industry and strong producer relationships, Produzindo Certo was well positioned to step into the role of Program Partner, add their experience and insights to the development of the Impact Incentives concepts, and play a key role in the first pilot.

The Scopes and Standard

The Impact Partnership pilot was set to address both Impact Alliance scopes; animal welfare and deforestation/conversion-free (DCF).

The animal welfare scope requirements for Impact Incentives include certification to an animal welfare standard that meets the LIA animal welfare standards benchmark.
Produzindo Certo started engaging with SBC, a Brazil-based certification body. As a result of this, SBC developed an animal welfare standard that meets (and in parts exceeds) the LIA animal welfare standard benchmark, to be used for and piloted through the LIA pilot. The DCF scope requirements are pass-fail. All participating farms that sell Impact Incentives or are part of an Impact Partnership must meet the requirements set forth in the LIA Deforestation/Conversion-Free Protocol.

Pilot Description

Produzindo Certo recruited five cattle farms across the Brazilian states of Mato Grosso and Goia to participate in the LIA pilot. The value proposition to these producers was to receive technical support to work toward animal welfare certification and a financial incentive to participate in the Impact Partnership, funded through the purchase of Impact Partnership Incentives by fashion brands. In addition to having their DCF status and key farm data verified annually by an approved third party, the planned outcome of the Partnership is for the farms to become certified to a LIA-approved animal welfare standard within three years.

While the on-the-ground pilot work took shape, the Impact Alliance entered a very active phase of policy discussions and development. This continued to inform the development of the ChainPoint online registry for Incentives trading as well as the processes and tools that Textile Exchange and Produzindo Certo tested during the pilot implementation. The role and responsibilities of the Program Partner were defined in more detail, a gap analysis and workplan/budget tools were created, and the LIA farm questionnaire filled in by farmers was refined.

In January and February 2022, Produzindo Certo conducted field visits to all participating farms, collected farm data, and conducted a gap analysis comparing the current farm practices to the SBC animal welfare standard requirements. Produzindo Certo then created a three-year work plan with the objective to have all five farms SBC certified and able to sell Impact Incentives to brands moving forward.

As a final step of the pilot implementation, Textile Exchange engaged a third-party verifier to conduct the initial verification. The verification included the LIA DCF requirements (e.g., zero-gross deforestation as defined by the Accountability Framework initiative), legal compliance, and confirming the number of Impact Incentives to be issued.

Three major fashion brands (Ralph Lauren, H&M and Capri) purchased the LIA pilot Impact Partnership Incentives. Contract and pricing negotiations with the brands and the Program Partner were conducted by ACT Commodities, acting as a facilitator for the transactions.
The revenues from the Impact Incentives sales funded Produzindo Certo to begin implementing the three-year workplan as well as direct financial incentives paid to the participating farmers.

**Pilot Timeline**

- **2019**: Produzindo Certo joins Textile Exchange as Program Partner
- **2020**: Produzindo Certo, Textile Exchange and ACT begin marketing the Impact Partnership to brands
- **2021**: Textile Exchange/LIA develops policy and work tools
- **2022**: Produzindo Certo conducts field visits & baseline assessment, develops 3-year workplan

**Main Pilot Results and Learnings**

- Successful proof of concept on the demand side was delivered by three major brands supporting the pilot and the concept of the Impact Incentives and Impact Partnerships
- Successful proof of concept on the supply side was delivered by Produzindo Certo and five cattle farms to undergo the implementation phase of the Impact Partnership
- ACT Commodities (facilitator) aligned expectations and timing for sellers and buyers and, by adding liquidity and commitment to the process, played a key role in the pilot initiation
- The collection of initial farm data and the continued discussion with the Impact Alliance and within Textile Exchange informed the revision of the LIA farm questions to provide a more concise yet relevant set of data
- Live test of tools such as the gap analysis and workplan/budget tools informed the revision of LIA Program Partner tools
- Challenges in the draft LIA verification manual (specifically the depth of legal compliance verification) were identified and will inform the revision of the manual
Impacts supported by the Textile Exchange LIA Impact Partnership pilot

- The Pilot in Numbers:
  - 5 farms (Brazil: Mato Grosso, Goia)
  - ~85,000 hectares of total farm area
  - ~37,000 hectares of forests and natural ecosystems
  - ~46,000 heads of cattle
  - 83 animal welfare indicators evaluated with an average of 22 non-conformities identified

- Five cattle farms were formally DCF verified under the LIA Deforestation/Conversion-Free Protocol and are working towards improved animal welfare practice (and SBC certification)

- The participating cattle farms for the first time, received a financial reward relating to the leather, not the beef they produce

- Beyond the financial incentive, the farmers are being recognized for their DCF status and their commitment to reach SBC certification by the end of the Impact Partnership

- The Impact Incentives concept was tested and improved throughout the pilot.

- Impact Alliance and Textile Exchange used the pilot experience to develop policies, processes for global application.

- LIA specific tools were developed and tested within the critical Brazilian context.