INTERNATIONAL PLATFORM FOR INSETTING

A PRACTICAL GUIDE TO INSETTING

10 lessons learnt and 5 opportunities to scale from a decade of corporate insetting practice

March 2022

ABOUT THE GUIDE

This guide shares insights and provides recommendations from insetting practitioners to help companies transform their supply chains towards a net zero, resilient and regenerative future. This includes 10 learnings, from internal mobilisation to collaboration with partners on the ground, and five opportunities to scale insetting as a strategic practice. This guide is written for insetting practitioners – sustainability professionals that would like to take their companies on an insetting journey – and for stakeholders that want to learn more about the concept. When the guide uses "we", it speaks from the perspective of the practitioners who provided their input, while "you" refers to the reader.

Included in this guide is the Insetting Manifesto. The Manifesto collates the views of the organisations that were interviewed for this guide and declares what this community of practice is advocating for in order to reach insetting's full potential.

ACKNOWLEDGMENTS

This guide was authored based on interviews with the following five companies, in alphabetical order: Accor, Chanel, H&M Group, Kering and Nespresso.

Further input was provided during a workshop and through direct engagement with the following companies, organisations and individuals, in alphabetical order: Burberry, ClimatePartner, Ecosphere+, Native – a Public Benefit Corporation, Patagonia, PUR Projet, South Pole, Timberland, Tom Poole and WWF US.

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Disclaimer: This guide does not promote specific partners or service providers. Readers interested in learning more about potential partners and stakeholders active in the insetting space are invited to contact the International Platform for Insetting for more information.

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CONTEXT

The growing importance of insetting

In order to prevent catastrophic climate change and to be on track for a 1.5°C future, science tells us we need to halve our annual greenhouse gas (GHG) emissions by 2030 (UNEP 2021). Achieving a net zero economy by 2050 requires ambitious decarbonisation strategies and a fundamental transformation of value chains. Furthermore, we are losing biodiversity at an alarming rate, and we can't address our current climate crisis without reversing the loss of nature.

The science and **why** we need to act urgently are very clear and the majority of the private sector is on board. An increasing number of companies are committing to ambitious science-based targets for climate (SBTi 2021). In addition to climate, a framework for setting science-based targets for land, biodiversity, water and oceans is imminent and will provide further guidance for companies on how they can address the twinned climate and biodiversity crises (SBTN 2020).

We are reaching a critical 'tipping point' for climate action and have less than a decade to half our emissions. The transformation of business models needs to happen now.

The bad news is that we are running out of time. We are reaching a critical 'tipping point' for climate action and have less than a decade to half our emissions. The transformation of business models needs to happen now. The good news is that we have the solutions at hand. We must accelerate the use of tools that support companies with **how** they can deliver against their commitments whilst building more sustainable value chains.

Intensive agricultural practices drive biodiversity loss and climate change and, along with forestry and other land use, account for almost a quarter of global GHG emissions (IPCC 2020). There is increasing acknowledgement from land-dependent companies that while traditional approaches focusing on due diligence and sustainability certification in their supply chains plays an important role, it is not enough to achieve transformation at the depth and speed needed to effectively tackle climate risks, nature loss and to deliver against the Sustainable Development Goals (SDGs).

For over a decade, a group of forward-thinking companies with agricultural value chains have combined climate action with addressing socio-economic issues in a strategic approach known as insetting. It enables businesses to invest directly into their sourcing areas, creating positive impacts for farmers, communities, landscapes and ecosystems. This guide consolidates valuable learnings from some of these companies and identifies opportunities for how insetting can achieve its full potential in supporting businesses in their transformational change to net zero and nature positive value chains.

GLOSSARY

Adjacent sourcing landscapes
Landscapes that are connected bio-physically, ecologically and/or socio-economically to the supply chain such that it may provide direct or indirect benefits to the sustainability and socio-economic health of the sourcing area.

Climate benefit
A GHG emissions reduction or removal, regardless of its certification status.

Carbon broker
A company that facilitates the sales of carbon credit to an offset buyer against a fee.

Carbon credit
A unique, tradeable unit representing an emission reduction or removal of one tCO_2e, issued by an independent carbon credit standard. The reduction or removal can be claimed by retiring the carbon credit in a public registry. Retired carbon credits can no longer be traded or claimed.

Carbon finance
A funding mechanism that provides financial resources to a project that is designed to generate GHG emissions reductions or removals. Carbon finance typically involves agreement on a carbon price between involved parties.

Carbon/climate neutrality
A claim that is achieved through CO_2/GHG emissions being balanced by CO_2/GHG emission reductions or removals over a certain period of time. Emission reductions or removals typically need to be certified carbon credits.

Carbon removal
Sequestration of CO_2 from the atmosphere, either biogenic, i.e. in biomass or soils or technical, e.g. through direct carbon capture technologies.

Carbon credit standard
An independent organisation issuing carbon credits based on approved and publically available accounting methodologies, safeguarding principles and third-party audit.

Decarbonisation
Achieving emissions reductions and carbon removals in own operations and value chain.

Emissions reduction
The reduction of GHG emissions from an emissions source compared to a without-intervention scenario.

Insetting
Interventions by a company in or along their value chain that are designed to generate GHG emissions reductions or carbon removals, and at the same time create positive impacts for communities, landscapes and ecosystems.

Net zero
A status where emissions are reduced to the absolute minimum through a deep decarbonisation, typically around 90-95% of the baseline emissions (SBTi 2021a). Remaining emissions are neutralised by carbon removals, which can also be from outside the entity's own value chain.

Offsetting
Compensation of the climate impact of a company or product by claiming the climate benefit of projects unrelated to the company's value chain. This is achieved by retiring carbon credits that are verified by a third-party according to a carbon credit standard.

ABBREVIATIONS

CAPEX	Capital expenditures
GHG	Greenhouse gases
IPI	International Platform for Insetting
KPI	Key performance indicator
NGO	Non-governmental organisation
tCO_2e	Tonne of carbon dioxide equivalent
SBTi	Science Based Targets initiative
SBTN	Science Based Targets Network
SDGs	United Nations Sustainable Development Goals
TCFD	Task Force on Climate-related Financial Disclosures
VCS	Verified Carbon Standard

INTRODUCTION

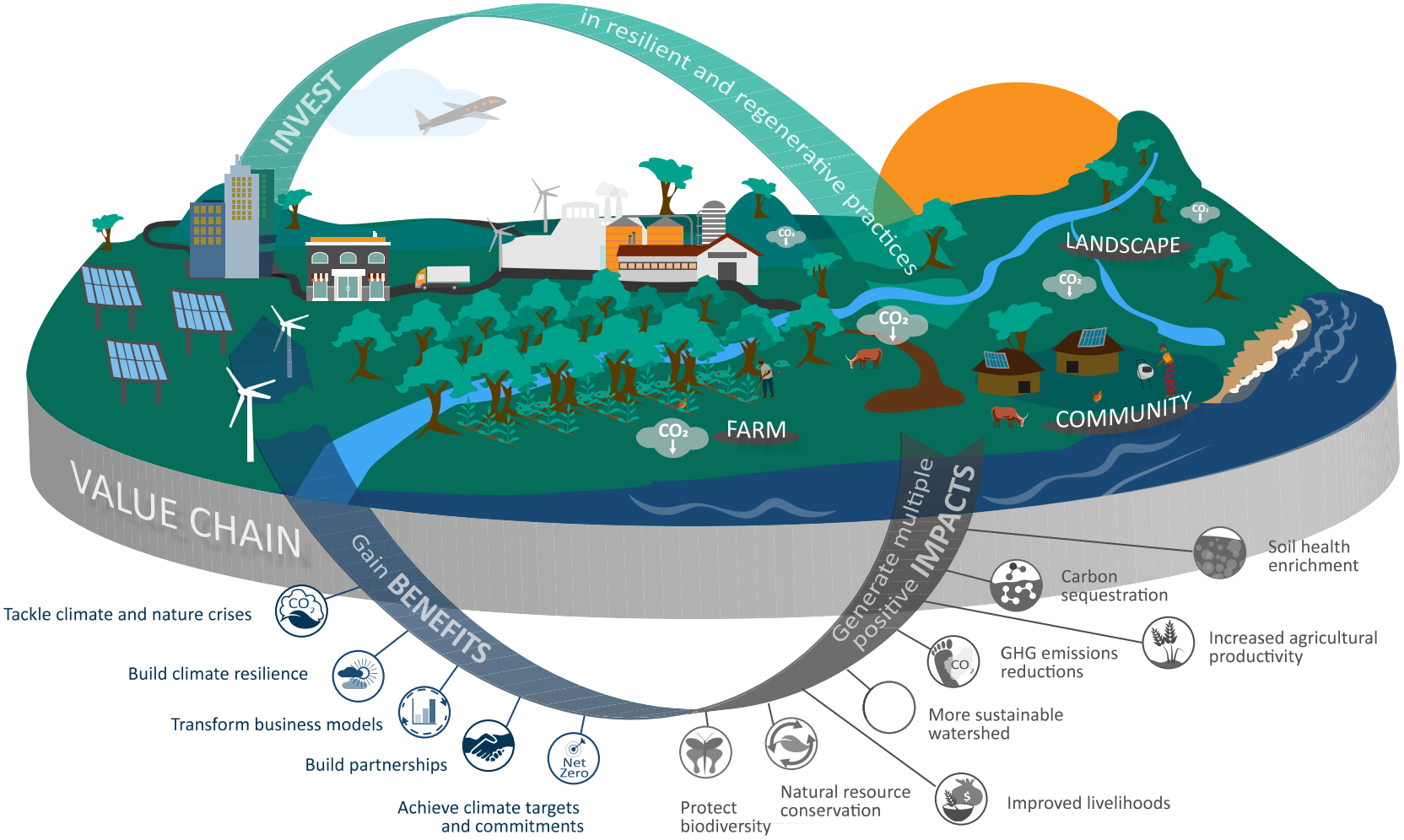
Understanding insetting

Companies need to play their part in tackling the global climate and nature crises through creating positive impacts where they matter most to them; in their own value chains.

In recent years, insetting has emerged as a way for businesses to address climate risk and to deliver against their climate goals, whilst creating positive benefits for nature and transitioning to more sustainable and resilient business models.

Insetting allows businesses to invest directly into their value chain, typically through carbon finance, and in close collaboration with partners on the ground. In order to drive transformation, insetting strategies must be long-term and responsive to local needs.

Insetting aims to create carbon removals and emissions reductions in agricultural supply chains, mostly through nature-based solutions such as agroforestry, reforestation and regenerative agriculture. Some insetting interventions also involve energy and community activities that aim to improve livelihoods and reduce pressures on natural resources, such as introducing clean cookstoves. Insetting projects can be implemented on farms, in communities or in adjacent landscapes.



A SHORT HISTORY OF INSETTING

2008

Alter Eco is among the first companies to develop reforestation and agroforestry projects in collaboration with small-scale cocoa farmers, laying the foundation for the concept of insetting. Alter Eco's first insetting project in Peru later also achieves full VCS certification.

2009

The term "insetting" is described publicly for the first time in a report by UK-based carbon consultancy Ecometrica as an "emission reducing activity within the sphere of influence or interest of a company (outside Scopes 1 and 2)" (Ecometrica 2009). The description leans on carbon offsetting but underlines the importance of taking responsibility and ownership of climate change along a company's own value chain.

2010

First companies to launch insetting projects include Accor, Ben & Jerry's, Coop Switzerland and Nespresso. The most commonly applied activities include improved agricultural practices, agroforestry and clean cookstoves.

2014

The carbon credit standard Plan Vivo organises the first ever conference fully dedicated to insetting, in London.

2015

The International Platform for Insetting (IPI) is launched by PUR Projet along with Accor, Chanel, Kering, L'Oréal and Nespresso as corporate founding members. The platform brings together leaders and supporters of insetting and advances the approach through regular conferences, thought leadership and knowledge sharing.

The Science Based Targets initiative (SBTi) is launched off the back of the Paris Climate Accord. It is the first initiative that requires committed companies to significantly reduce their value chain emissions. This boosts interest in insetting activities across industries.

2017

The International Platform for Insetting launches the Insetting Program Standard to provide guidance and the option of benchmarking and third party certification to companies on the practice of insetting.

2018

Gold Standard releases its draft Value Chain Interventions Guidance for pilot testing. The guidance aims to develop rules to account for the climate benefits of insetting activities and is supported by many major companies in the food and beverage, and later by the fashion industry.

2020

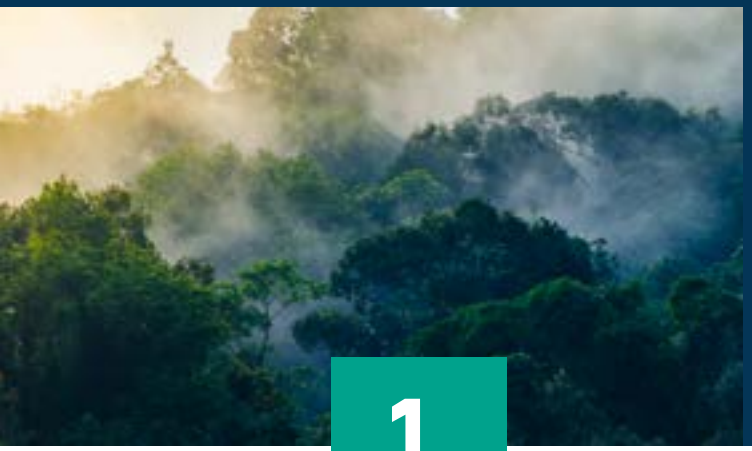
The Science Based Targets Network (SBTN) publishes its first business guidance, emphasising the need for companies to understand and act upon their interdependencies with and impacts on nature, including the landscapes adjacent to their value chains. This further strengthens the case for insetting.

WRI and WBCSD launch the Greenhouse Gas Protocol Carbon Removals and Land Sector Initiative which aims to further clarify the GHG accounting rules for land-based value chains. The initiative aims to publish the final guidance toward the end of 2022.

2021

SBTi's Net-Zero Standard underlines the relevance of value chain reductions (Scope 3) and carbon removals.

OVERVIEW



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The internal insetting journey

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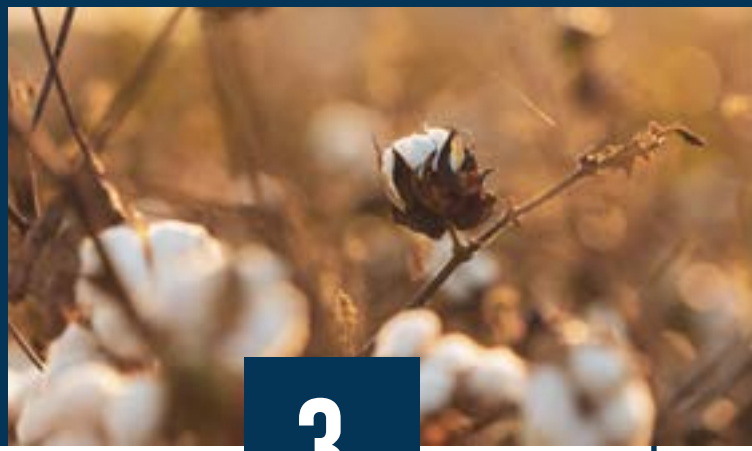

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CHAPTER 3:

Five opportunities for realising insetting's full potential

OPPORTUNITIES 1 - 5

CHAPTER 1:

The internal insetting journey

Introducing and scaling insetting inside a company is a major endeavour and one in which not enough insights have been shared to date. We attempt to close this gap, providing some of the most important lessons we have learnt in the hope that it encourages others to explore insetting as a way to achieve ambitious climate and sustainability commitments as well as helping to make their insetting journey a success.

Introducing and scaling insetting inside a company is a major endeavour and one in which not enough insights have been shared to date.

LESSON 1:

Understand materialities and set clear priorities

Insetting goes far beyond climate and delivers a wealth of other sustainability benefits in biodiversity, water and community livelihoods. And it does so where it matters most to your company - in your own value chain. In order to realise these multiple benefits and make insetting a success, **every project needs to be tailored to the real material issues in your supply chain**.

Take your time to thoroughly understand materialities and to discuss them with experts and stakeholders. If possible, conduct site visits to get your own impression as such visits often give much better insights than yet another expert review. Catalogue the priority needs of the communities and ecosystems in your supply chain and design your insetting activities to address them. Traceability and long-term commercial relations with participating parties can be instrumental for insetting as they provide transparency, reliability and also emotional links. While these ingredients are important, perfect traceability and supplier relations are not an absolute pre-requisite, and it is possible to start insetting with imperfect information (more on this in lesson 8).

You can't transform your supply chains all at once, so prioritise before you start. **Good candidates for insetting are supply chains with a high strategic relevance for your company**. Strategically relevant supply chains typically have high volumes and value, low replaceability and high level of risks and public scrutiny. Also, take into account the level of support that your supply chain needs. Where your suppliers are smallholder cooperatives with low technical and financial capacity, a proactive insetting approach is most needed. On the other hand, with well organised and financially capable suppliers, you might be able to mostly rely on leveraging your negotiation power and expressing clear expectations in order to improve their performance on climate and sustainability.

Good candidates for insetting are supply chains with a high strategic relevance for your company.

TYPICAL PHASES OF AN INSETTING PROJECT

Designing and implementing an insetting project often follows four phases:

1. **Scoping study:** Identifying priority supply chain or material and understanding local challenges and stakeholders as well as evaluating potential project types that might fit the local context.
2. **Feasibility study:** Detailed needs assessment, stakeholder consultation, local partner selection, and collaborative project design with project budgeting and planning. Delivers a full technical and financial project plan.
3. **Project initiation and implementation:** Execution of legal agreements and local project implementation. Subject to the project type and scale, the implementation can be spread out over several years, e.g. tree planting seasons.
4. **Operation, monitoring and certification:** Ongoing operation, periodic monitoring and certification of impacts. Insetting projects can last over 10 years and climate benefits often start to be delivered after one or two years.

LESSON 2:

Use supply risks, co-benefits and marketing potential to demonstrate the business case

For most companies, investing in communities and ecosystems at the beginning of the supply chain has not been part of the traditional way of doing business. While the awareness of the importance of such investments is steadily increasing, you will still need to formulate a strong business case including both risks and opportunities to gain the required internal support from key stakeholders.

We recommend using a climate risk lens that shows how insetting can help to tackle physical and transitional climate and other risks. The framework provided by the Task Force on Climate-related Financial Disclosures (TCFD) and the evolving Task Force on Nature-related Financial Disclosures (TNFD) are backed by many investors and can be powerful tools as they directly focus on financial risks induced by climate change and land use. While physical risks are the direct consequences of a changing climate including temperature rise and extreme weather events, transitional risks refer to the potential impact of a changing political, economic and social system in order to decarbonise the economy. There are also important reputational risks linked to not acting credibly on climate. The pressure by the Fridays for Future movement and other environmental NGOs provide strong arguments.

Understanding the supply chain risks can show the full risk-mitigating effect of insetting. Beyond climate risks, further supply risks come from increasingly vulnerable farming communities, water shortages, and poor agricultural practices that are depleting soils. Well-designed insetting interventions can help to mitigate all of these. Insetting projects typically take a more holistic approach to climate action, with interventions that are aimed at creating positive impacts not only for climate, but also enhancing natural assets and addressing socio-economic issues. **Insetting interventions generate multiple benefits that can support your company in delivering against its sustainability commitments and policies, as well as improving the long-term resilience of your company's supply chain.** This could include a no-deforestation policy, increasing biodiversity or improving livelihoods through providing additional sources of income. Future risks constitute a "cost of inaction" - if your company doesn't act today, it will be more costly tomorrow.

Developing and implementing a fully-fledged insetting program takes time and affects many aspects of a company. It is critical that you **bring your colleagues with you on the journey in order to receive the support needed for your programme to be effective.** After senior management, sourcing teams are particularly important as they often constitute gatekeepers to relevant suppliers. Compared to today's typical price premiums for sustainable raw materials, insetting provides clearly quantifiable impacts, transparent financial flows, and fosters positive relationships between the company and the communities or stakeholders at the other end of the supply chain. These advantages can help to get the buy-in from sourcing teams.

Insetting has immense marketing potential which can help to get buy-in from colleagues and senior management. An insetting strategy with a strong link to your company's products, geographies and purpose provides positive, tangible and company-specific messages and is thus a very powerful marketing and branding tool. If possible, translate the impacts of insetting into product level claims to enable bold and credible marketing statements. You could also consider inviting consumers to participate in your program or come up with entirely new sustainable products that lean on insetting strategies. Nespresso's AAA Sustainable Quality Program provides a good example for consumer engagement around insetting.

When formulating the business case for insetting, **using benchmark carbon prices can help to monetise the value of positive impacts**. Keep in mind that compared to regular offsetting, insetting has historically been more expensive. However, it delivers important risk reductions, contributes to achieving your sustainability commitments, provides additional benefits through its marketing potential and supports your value chain decarbonisation. The last point is very important and has gained significant traction through the SBTi, which explicitly rejects the role of offsetting for decarbonisation (SBTi 2021b). Insetting also allows companies to have more transparency and control over risks related to non-permanence and non-additionality compared to offsetting. This reduces the reputational risks of projects not succeeding. There are some helpful initiatives that give guidance on the quality of carbon credits, which are also relevant for insetting, such as the Carbon Credit Quality Initiative and the Carbon Offset Guide.

Compared to offsetting, where developed projects are readily available, insetting typically requires much more time to realise the full breadth of its benefits. Thus, you will need to **advocate for a longer-term view with your colleagues by highlighting the critical importance of risks and opportunities over longer-term horizons**. Where supply chains and business cycles are altering quickly, you can refer to a systemic change perspective. Luckily, the emergence of the global Net-Zero-by-2050 agenda fosters long-term thinking with regards to climate change which plays in insetting's favour.

Celebrating early successes can help to build traction. Once you have shown internally that insetting works, you can leverage strategy review cycles to strengthen the role of insetting in your company and increase the ambition level.

TYPICAL FEATURES OF A COMPANY POLICY ON INSETTING

Scope: Which geographies and raw materials fall under your insetting approach?

Eligibility: What types of interventions (e.g. agroforestry, regenerative agriculture, cookstoves, forest conservation, etc.) will you include in your insetting strategy?

Certification: Do you require full carbon credit certification for insetting projects or do you allow for other approaches, e.g. an internally developed (carbon) standard? If you rely on your internal standards, does the project still require external verification?

Accounting and claims: How will climate benefits of insetting projects be accounted for? Will they be claimed as value chain decarbonisation or as compensation toward climate neutrality?

Co-benefits and safeguards: Which other sustainability benefits are you particularly looking for in your insetting projects beyond carbon and how do you measure these? What are your criteria to prevent negative side effects on other sustainability criteria beyond climate (safeguards)?

Financing: How does your company finance insetting? Is there a corporate budget line or are regions and business units asked to finance insetting independently?

Governance: Who needs to sign-off insetting projects, and what is the internal and external reporting structure?

LESSON 3:

Establish a scalable governance for insetting

Insetting aims for profound transformation and impact, which requires a broad governance structure around it. This can be achieved through setting up a new committee or building on existing structures, as long as it involves all relevant functions (more on this in lesson 2). A broad governance is also important to avoid a misconception of insetting as a purely "philanthropic" endeavour. Company functions most relevant for insetting include sourcing, finance, legal and sustainability. Senior management buy-in is crucial, particularly when taking insetting to scale. This must include functions outside sustainability, with ideally clear CEO backing. It can be helpful to have one strategic and one operational committee, with the latter meeting more regularly. Individuals can be engaged by including insetting in their personal targets and ideally also linking their compensation to it.

In order to systematically finance and scale insetting, an internal insetting fund is a promising approach. Kering's Regenerative Fund for Nature, Burberry's Regeneration Fund and Danone's Ecosystem Fund are great examples of funds which contribute to insetting goals. A fund can help to secure the long-term commitment that is needed for insetting. Beyond climate, it can also bring in other strategic objectives such as farmer livelihoods and capacity, resilience and biodiversity conservation. **Oversight by external experts can help to increase the strength and integrity of an insetting strategy and fund**. As with other centralised budget lines, a fund reduces the financial burden put on business units and thus facilitates buy-in. However, a fund needs to fit existing structures and your company's culture.

Another powerful approach to financing insetting could be an internal carbon price. In order to be effective, it should be in the form of a carbon fee that is internally charged on business units and/or brands. Such a fee could contribute towards an internal fund as described above. Microsoft uses a carbon fee but the proceeds are invested in offsetting rather than insetting. If the carbon price is a shadow price and thus not charged, it needs to cover relevant sourcing decisions. However, often such sourcing decisions lack the full picture of climate and nature relevant information which makes this approach difficult. Today, many internal carbon price schemes focus on shadow prices for CAPEX decisions only and are thus not effective for insetting. We have seen better results if it is internally charged.

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LESSON 4:

Develop a system that can track and consolidate the benefits of insetting

The positive impacts of insetting are its key strength but it can be challenging to bring together data and information from a number of projects around the world with a range of partners. There are a few ways of tackling this challenge.

Develop a company-wide policy or guidance document which clarifies key requirements such as the scope, eligibility, certification, monitoring of co-benefits of your insetting projects. This is particularly helpful when your company consists of a number of brands or business units that will independently engage in insetting. It also helps to clarify the "rules of engagement" with senior management and other colleagues.

Link your insetting projects to company-wide targets and key performance indicators (KPIs). These KPIs are typically also used in reporting schemes such as CDP. In addition to climate-related KPIs, they can include farmer and community livelihoods, biodiversity and water. A good example of an holistic environmental accounting approach is Kering's Environmental Profit & Loss tool, which includes KPIs beyond climate such as water, waste and land use. As well as these quantitative parameters, don't forget the relevance of qualitative data for both risk management and story-telling. When it comes to socio-economic issues such as gender equality and other human rights, it is not straightforward to develop meaningful quantitative KPIs. However, hard-to-measure doesn't mean that these topics are not material. They can be very relevant from both a resilience as well as a reputational perspective.

Make your system as digital as possible from local data collection all the way to reporting. There are a range of tools for local data collection such as the Cool Farm Tool and FARM-TRACE as well as others currently under development. You will probably need to collect local KPIs that are in addition to the typical carbon standards, for example on governance and social development.

The monitoring and accounting for insetting is currently being developed and refined, including the GHG Protocol on Removals and Land Use and the upcoming SBTs for Nature framework. You will likely need to keep exploring new approaches as they emerge and use whichever works best for your company. This can also be done as part of pilot programs that allow testing of new approaches while communicating your involvement. Despite ongoing developments in regards to accounting of the benefits created through insetting, **the achievements of companies who are using insetting to transform their supply chains show that there is no better time to start insetting than right now.**

ACCOUNTING FOR CLIMATE BENEFITS OF INSETTING

The IPI does not specify its own accounting rules for insetting, but collaborates with partners to identify and improve best practices in carbon accounting relevant to insetting. Key considerations and pointers for accounting the climate benefits of insetting are as follows.

- Technically, most climate benefits from insetting constitute so-called removals, i.e. CO_2 that is sequestered in biomass or as soil organic matter. However, some activities might also lead to emissions reductions (also referred to as "abatement"), where no carbon is sequestered, but existing emissions are reduced. This is the case for example with low-carbon technologies in the early stages of processing agricultural products, such as boiling, distilling or fermentation processes. Reduced use of mineral fertiliser can also lead to reductions. Emissions reductions can be accounted towards a science-based target as long as they occur directly on farm land or in the further processing with the value chain.
- Removals from insetting can be used to neutralise emissions towards net zero claims. According to the SBTi, removals from within or beyond the value chain are eligible for this "neutralisation". Other offsetting or compensation measures that rely on emissions reductions outside the value chain are not eligible (SBTi 2020).
- The IPI suggests following carbon credit certification for insetting projects set by standards bodies such as Gold Standard and Verra. As an exception, on-farm emissions reductions can apply the GHG Protocol.
- The release of the GHG Protocol's Land Sector and Carbon Removals Guidance (release expected in late 2022) is highly relevant for many insetting projects, and will likely reduce the requirements for certification, particularly for on-farm removals.
- The certification space is evolving rapidly and should be closely observed. Besides the developments within the GHG Protocol, Gold Standard's Value Change Initiative provides a particularly helpful resource.

LESSON 5:

Develop a holistic sustainability strategy beyond insetting

Achieving positive impacts through insetting is a powerful approach to advance a company's climate and nature strategy. In order to be effective and credible, the insetting projects must be embedded in a broader corporate sustainability strategy.

Most importantly, **a holistic strategy should follow a clear mitigation hierarchy for climate and nature**. A company's insetting approach should not delay the decarbonisation of its operations. For example, implementing cookstove projects in communities that overuse and thus degrade nearby natural forests might be a good idea for an insetting approach in a certain supply chain, and would lead to carbon reductions. However, this does not mean that the company engaging in such an insetting project should reduce its endeavours to eliminate fossil fuels from the energy mix powering their operations. The SBTi provides useful guidance by separating out operational (Scope 1 & 2) and value chain emissions (Scope 3).

Insetting should not lead to the delay of other critical mitigation activities either within or outside the climate sphere. For example, agroforestry-based insetting cannot substitute an effective zero-deforestation strategy to protect remaining natural forest. It's important to keep a holistic perspective on nature, considering synergies and trade-offs with concerns such as biodiversity loss and water shortage. For example, monoculture plantations of exotic species might deliver many climate benefits, but can be disastrous for local biodiversity. Frameworks such as the upcoming SBTs for Nature and the Natural Capital Protocol will facilitate such holistic approaches. An effective insetting strategy does not mean that your company should not also engage in solving material socio-economic challenges such as labour conditions.

If your company aims to achieve short-term climate neutrality claims, it will likely require a mixed approach of offsetting and insetting, as offsetting projects are often more immediately available. In this case, you can **aim to increase the share of insetting in your compensation portfolio over time by substituting offsetting with insetting**. Since insetting projects take time, this transition might easily take 10-15 years for a whole company. Starting off with specific brands or product lines can be a good angle to start the transition and scale from there.

Insetting should not lead to the delay of other critical mitigation activities either within or outside the climate sphere.

Insetting supports us at Kering with our goal of converting one million hectares of farms and rangelands in our supply chain landscapes into regenerative agriculture by 2025.

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KERING

MOVING FROM REDUCING IMPACTS TO RESTORATION AND REGENERATION

"Our first foray into insetting was from a risk lens, and meant to address the scarcity of raw materials, because we depend on particular qualities and rare materials. Over time, this has evolved, and insetting is more an integrated part of our approach to 'do more good and not just less bad', which has become our sort of modus operandi. We are always looking for how we can move beyond merely reducing impacts, and instead restore and regenerate ecosystems, as well as take whatever action is needed to improve our sourcing practices.

We have always viewed our impacts through the lens of multiple drivers of impact. We've never just looked at climate impacts. And that's really because of the power of natural capital accounting and our Environmental Profit & Loss (EP&L), which shows us we've got to focus on land use change and water pollution. For us an insetting approach isn't just about carbon. That is one of the many co-benefits, but it is also about stopping destructive land use change practices and enhancing biodiversity outcomes. This also means prioritizing actions to ensure that rural livelihoods are enhanced as well.

But before you can even make insetting a real thing, you have to have a framework in place which tells you why you are doing what you are doing, and why it's important, like our EP&L does. There has got to be a strategic vision and an understanding of how this relates to your Scope 3 emissions, working at farm level, and working with nature-based solutions.

Another important initiative at Kering is our Regenerative Fund for Nature, which funds projects that are implementing and scaling regenerative agriculture in key sourcing landscapes. Ultimately, we hope that the materials being produced by these projects will move into our supply chain."

YOANN REGENT,
Head of Sustainable Sourcing & Nature Initiatives, Kering

CHAPTER 2:

Working with external insetting partners

Insetting is always a collaborative effort by actors from within the value chain and external partners. Identifying and managing all stakeholders required to make an insetting project a success can often be challenging, but is a critical aspect of your insetting journey. The following five lessons are topics to consider when working with external partners.

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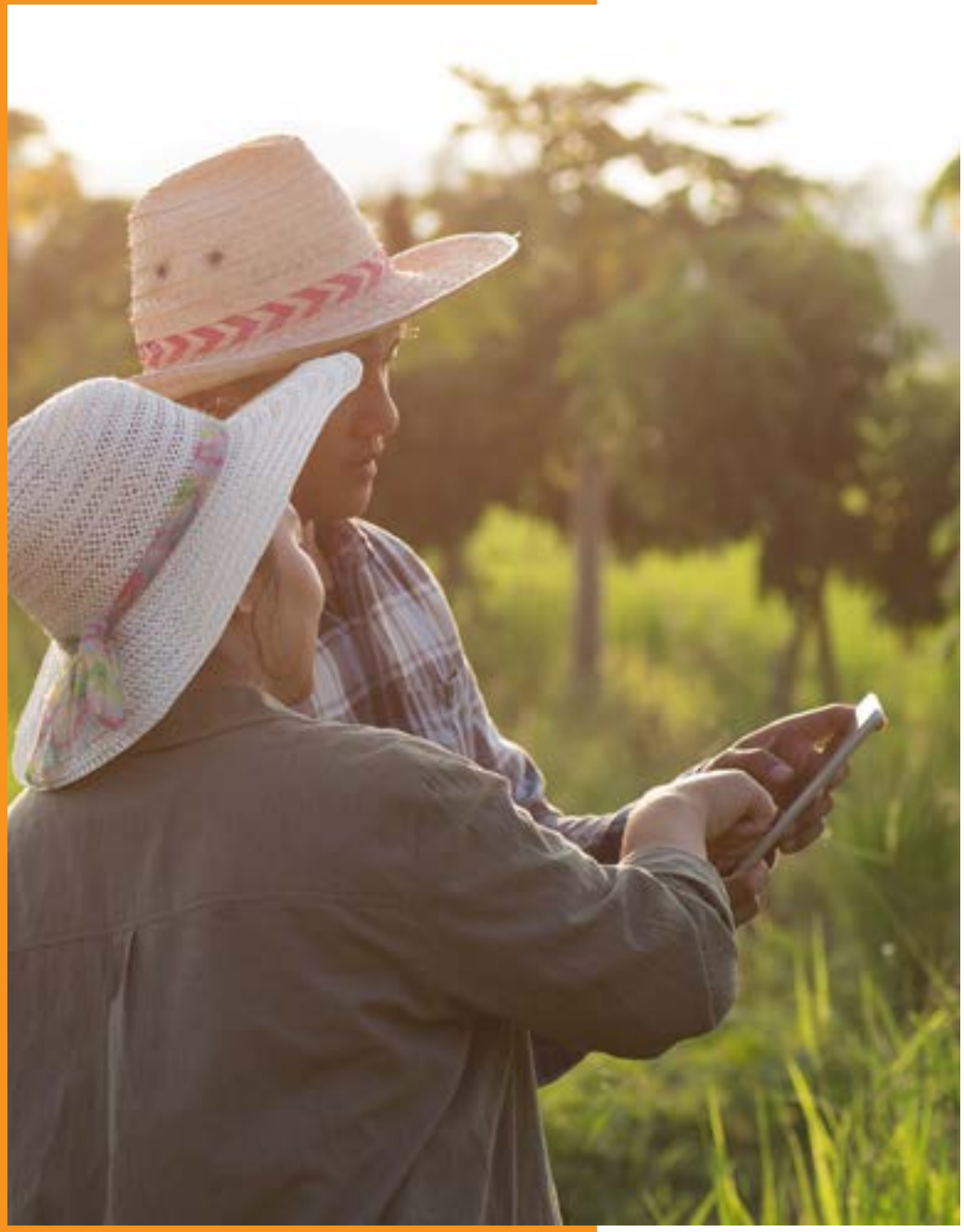


LESSON 6:

Go the extra mile when selecting and managing project developers

Companies are not typically (or not yet!) natural insetting project developers, thus working with capable and willing partners is a key success factor for insetting programs. There are increasingly more project partners with insetting experience in the market. Some project developers might not refer to the term insetting, but they may still be good collaborators, potentially in partnership with carbon monitoring and certification experts.

Good insetting project developers have technical and geographical experience, so **your partner should have a significant and relevant track record**. A local presence in key regions of your supply chain is of immense value. On the other hand, a partner with a global reach can help you to scale your insetting program quickly. In selecting partners, it can be helpful to look behind the facade and engage with peers who might have experience in working with these potential partners. Good marketing does not necessarily mean strong capacities but it can be very helpful to have a partner that can also support you in engaging your consumers and other stakeholders through data platforms and marketing tools. You might well decide to choose a range of partners, particularly if you are more advanced in your insetting journey.

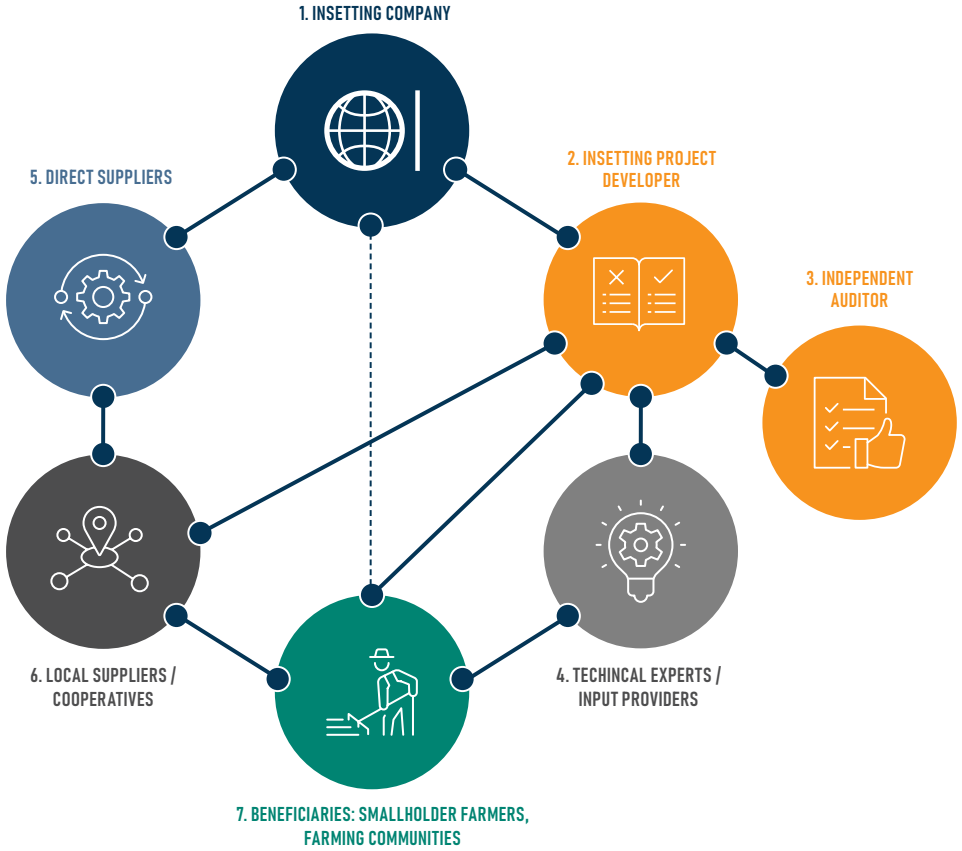
To ensure the success of projects, applying your own due diligence and getting engaged beyond certification is critical. In insetting practice we sometimes refer to this as the mindset of "going beyond ticking the box". A due diligence process is key when selecting partners and projects, but ideally also entails periodic site visits in intervals that depend on the type of intervention. Video calls with on-site staff and other stakeholders can help you to get closer to the projects. Hiring independent local experts can help to cover potential gaps in your in-house expertise. Due diligence should cover social, environmental and governance elements beyond carbon, but also include questions on the climate benefits themselves, even if the project is carbon certified. Some key questions to consider should be: Would the project happen without your support (additionality)? How do your partners ensure that e.g. planted trees are left in-place for the long-term and/or are re-planted after harvesting them (permanence)?

To ensure the success of projects, applying your own due diligence and getting engaged beyond certification is critical.

When initiating a partnership, it is key to formulate clear expectations upfront that outline what you expect from your partner and to which level you plan to be involved. This includes certification status, KPIs and frequency of reporting, insights into financials, risk management and contingency planning, site visits and due diligence.

OVERVIEW OF TYPICAL INSETTING PARTNERS

An insetting project is always a collaborative effort. Though the ideal project set-up can be quite different across different projects, here is a typical project structure which includes the different actors and their roles.



1. Insetting company
- Typically a consumer-facing company that finances the majority of the insetting project and contracts the insetting project developer.
- Oversees the overall project and holds the project developer and involved supplier accountable.
- Even though it usually has no direct contract with beneficiaries, it stays connected to them, e.g. through site visits.

2. Insetting project developer
- A technical service provider specialised in project development in the relevant geographies and technical approaches.
- Manages projects financially and technically, reporting regularly to the insetting company.
- Manages and contracts other project participants such as technical experts, independent auditors and local cooperatives.
- Directly interacts with local beneficiaries for stakeholder engagement, training etc. If the project includes direct payments to the beneficiaries, these are usually managed by the project developer and channelled through the local supplier. In some cases they are also made directly from the project developer to the beneficiary.

3. Independent auditor
- An auditing company that assures the accuracy of the reporting to the insetting company.
- The auditing can be against external carbon standards, such as Gold Standard or VCS, or according to internal standards developed by the insetting company, typically with support of the insetting project developer.
- Carbon standards often publish lists of their accredited auditors, these are good places to look for auditors with relevant expertise.

4. Technical experts / input providers
- Providers of know-how and/or hardware to the project. Examples might include local agroforestry or restoration experts, input providers such as cookstove manufacturers, or local tree nurseries.
- Project developers typically have the relevant network of such partners.

5. Direct supplier
- The direct business-to-business supplier to the insetting company.
- Depending on the level of traceability of the supply chain and technical capacity of the supplier, the level of involvement can vary greatly. While some direct suppliers merely support the coordination, others start to become the driving force behind insetting and start to proactively develop insetting projects, contract insetting project developers and/or even substitute those with in-house expertise.

6. Local suppliers / cooperatives
- Based in the host country, these organisations typically manage the relationship with the participating farmers and communities and support the project during its stakeholder engagement, monitoring and by providing technical expertise and training capacities.
- If direct payments are made to the beneficiaries, they are often channelled through the local supplier.

7. Beneficiaries
- Local farmers or farming communities are typically the ultimate beneficiaries of an insetting project.
- They receive inputs such as seedlings or cookstoves and technical support to implement activities such as agroforestry. Inputs are provided for free or at reduced costs either directly by the input provider or indirectly from the project developer, often in collaboration with the local supplier's field staff.
- Based on the project design, beneficiaries also receive direct payments. These are typically subject to their continued support of the project, such as tree survival rates over the initial project years. Such schemes are often referred to as Payments for Ecosystem Services.

LESSON 7:

Work with local stakeholders to 'Design for Need'

Engaging local stakeholders is crucial for effective project design. They should be involved very early during the process, typically during the feasibility stage. Important local stakeholders include not only participating farmers and other community members, but also other experts such as academics, field technicians, nurseries, and colleagues from your sourcing team. The landscape concept provides a good way of thinking here – stakeholders in the area around your specific farms and communities can be closely related to your project and need to be involved. In order to make the project a success, it needs to address the local material sustainability challenges (see lesson 1) and be co-designed with local stakeholders. The Gold Standard provides extensive guidance on consulting local stakeholders, but you probably need to go beyond and adjust the process to your specific project. Your insetting project developer should lead on this.

The engagement process can create a sense of ownership for local stakeholders, which helps to avoid creating new dependencies, whilst still supporting local communities. It is key that communities understand that they can shape the project while also needing to contribute to it actively, typically in the form of in-kind work. In order to achieve the engagement of these stakeholders, it is critical to create an ongoing project governance to **involve local stakeholders and make sure their voices are heard throughout the project.**

When designing insetting projects, local needs and costs of carbon should be balanced. Some activities might make sense from a climate perspective, but are relatively expensive, such as biochar. Some activities might make sense from the perspective of project longevity and permanence, but do not directly contribute to climate benefits, such as the development of saw mills and sales channels to improve the longterm business case of sustainable forestry in social forestry projects. Other activities might focus on livelihoods and have no direct climate benefits at all. When designing insetting projects, it is important that you carefully balance the different activities needed on the ground in order to develop long-lasting, holistic and inclusive projects, while still meeting your benchmarking from a carbon price perspective.

It is critical to create an ongoing project governance to involve local stakeholders and make sure their voices are heard throughout the project.

LESSON 8:

Actively engage your suppliers

2.

The role of suppliers in insetting can vary greatly. At the very least, they should endorse and facilitate your insetting project. Some suppliers might even take on a big part of the project development. To select the right participating suppliers, you can start with existing suppliers and identify the most motivated and capable ones. For multi-tier supply chains, you can work your way from direct ("Tier 1") suppliers upwards or from local farmers ("Tier 4") downwards. You can also work towards connecting existing projects to your supply chain by starting to source from the project area. The benefits of this approach are that existing projects are often more mature and it might be an easier way to challenge the status quo in your existing supply chain. However, shifting supply chains to a meaningful extent requires time, hard work and the correct partnerships and incentives. **The right approach (top-down, bottom-up or new supply chain) often depends on the willingness and proactiveness in your specific supply chain.**

Where you work with existing suppliers, they can potentially take a very strong role in supporting and implementing your insetting strategy. In order to unlock such collaboration, it is key to **align with your suppliers on the benefits of insetting.** Suppliers and sub-suppliers are often particularly prone to local risks such as climate change impacts, negatively impacted communities and degrading natural resources. The mitigating effects of insetting on such risks provide important leverage to get your suppliers' buy-in. Some suppliers might also have their own climate targets, which makes it easier to engage them. However, you need to keep in mind rules for accounting climate benefits along supply chains. As a rule of thumb, climate benefits claimed as value chain decarbonisation can be simultaneously shared by different partners along the chain. Climate benefits used for compensation of other emissions (e.g. emissions related to manufacturing) can only be claimed by one party, and therefore clear communication with your suppliers need to be ensured. Further guidance on this "double-claiming" is provided by Gold Standard's Value Chain Intervention Guidance.

Strongly engaged and financially capable **suppliers might also agree to co-fund the project.** Co-funding may come in-kind, in-cash, or a combination of both. When co-funding is provided in-cash, the majority of the funding typically still comes from the insetting company downstream. A typical form of in-kind co-funding is through support on-the-ground of the supplier's local network of field technicians. Field technicians have existing strong relationships with farmers and understand the local context. They can help by creating access, building trust, providing training and facilitating data collection. Where suppliers are significant co-funders, they need to be involved in the project governance as well, e.g. in a regular steering committee. Where suppliers co-fund and climate benefits cannot be co-claimed, there needs to be an agreement of how climate benefits are shared. This could well be pro-rata according to the different funding contributions, but it is up for negotiation by the involved parties.

The last element to keep in mind when engaging suppliers is traceability. **Traceability is a strong enabler for insetting, but you can work with more opaque supply chains as well.** Knowing which farmer produces your product is not only important for risk management, it also creates emotional links. In very volatile and opaque markets, you may also work with farmers in the wider region that you know is relevant to you (the "supply shed"*) without full traceability to farm-level. You can then still claim climate benefits, following a mass balance logic, which ensures that you don't claim more climate benefits than your project has resulted in.

*This concept is further described in Gold Standard's Value Chain Intervention Guidance.

LESSON 9:

Align payments with performance

The financial management of insetting projects can be complex, so most insetting companies let the dedicated project developer manage the project funding. This process is efficient but requires careful oversight and reporting.

In order to ensure that the motivations of all partners are the successful achievement of positive impact, **payments should be as much as possible linked to performance, often demonstrated by the delivery of climate benefits.** As this delivery is often only achieved several years after the project starts, it might require internal fund structures to reserve the budget upfront. Also, project developers can take the role of retaining funds until their final dispersal. Even with incentivising good performance, your company will most likely need to provide some up-front funding. Almost all project developers will require significant funding at the time of project initiation. This needs to be covered by early funding linked to meaningful and verifiable milestones of project implementation. Such milestones might include for example "X trees planted" or "Y cookstoves distributed". Upfront funding over the first 1-3 years typically includes over 50% of the total project funding for newly started insetting projects. Direct performance-based payments to smallholder farmers, e.g. in a scheme that provides Payment for Ecosystem Services related to tree survival and growth are still rarely used in insetting, but potentially promising tools to incentivise long-term performance.

In order to prioritise among potential insetting projects, benchmark carbon prices can be very helpful. Due to the high diversity of insetting project types and designs, costs vary widely. Historically, insetting projects in the global south have been typically in the range of 15-30€/tCO_2e, whereas many offsetting projects were around 5-10 €/tCO_2e. It is expected that in future carbon prices will go up. Insetting prices might be more stable compared to offsetting due to longer time horizons and less exposure to the global carbon markets.

Carbon markets can provide an additional source of income for insetting activities. Buyers on the carbon markets might be from entirely different industries, such as an IT company buying carbon credits from a food company. In order to access carbon markets, carbon credits must be generated, which entails a full certification under e.g. VCS or Gold Standard. Since the market still is relatively opaque, it might require a carbon broker or specialist to access the market. Keep in mind that climate benefits sold as carbon credits on the market cannot then be claimed by other parties, including the insetting company or involved suppliers. This means that interventions leading to carbon credits sold on the market are on top of the activities needed to achieve the own climate targets of the insetting company (in other words, the "excess" credits are sold). Accessing carbon markets might make sense as the additional funding in-flow allows for larger projects. These in turn are more cost-effective due to lower fixed costs (e.g. certification, project design, etc.) and economies of scale (e.g. in sourcing seedlings or equipment).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LESSON 10:

Communicate progress to your stakeholders

As you advance on your insetting journey, don't forget to **communicate your successes to your stakeholders** beyond the company. Consumers, investors, NGOs, activists and regulators are among the strongest drivers in the transformation to a sustainable economy. Stay connected to them throughout your journey, talking about both your achievements and challenges. You can engage with consumers through numbers and metrics, but also through sharing powerful stories to make your positive impact more tangible and relatable. Great stories involve putting people at the centre, these could be farmers or other beneficiaries or indeed colleagues discovering the projects. Or you can speak directly about your insetting projects' positive impacts, for example on tree planting and growth, farmer livelihoods and biodiversity.

Currently the term "insetting" is still unknown to consumers and probably many investors. **Educating your investors and other stakeholders about the concept of insetting is an important aspect of your insetting journey.** Investors increasingly care about climate and nature-related risks (see more in lesson 2). Insetting can help to mitigate these and is thus highly relevant for initiatives such as SBTi, TCFD, TNFD or CDP. Use these reporting standards as well as direct interactions to inform and engage your investors in order to secure their support.

Sharing valuable learnings with your peers and interested parties through collaborative platforms, conferences and other initiatives can inspire others and contribute to catalysing action.

Insetting is still a relatively new approach. **Sharing your experiences with other companies that apply insetting strategies is therefore extremely helpful.** Sharing valuable learnings with your peers and interested parties through collaborative platforms, conferences and other initiatives can inspire others and contribute to catalysing action.

NESPRESSO®

UNLOCKING INVESTMENTS INTO NATURE

"Everything starts with the mitigation hierarchy. There is no way you can be serious with insetting if you don't avoid and reduce negative practices, and then go the extra mile by generating positive ones. Through our insetting programme, we want to drive the regenerative transition of agriculture for coffee through using nature-based solutions.

Coffee originates from the humid, tropical forests in southern Ethiopia and South Sudan. It flourishes when grown under shade. With our agroforestry insetting program we invest in tree planting within coffee farms and the surrounding landscapes to bring these forests back into the coffee fields. Those trees stabilise ecosystems by storing water, protecting soil, circulating soil nutrients and enriching biodiversity – as well as offering new income opportunities to farmers through the sale of timber and fruits.

We have scoped our insetting program to generate the carbon removal potential to achieve science based carbon targets as part of our climate commitment.

Insetting for us is about taking a holistic approach to climate action. One that is building resilience across communities and the supply chain while restoring the ecosystems our business depends on. That is why our insetting program is also helping us to deliver against our biodiversity strategy and goals. It unlocks the financial mechanism to invest in nature-based climate solutions with powerful ripple effects: capturing carbon from the atmosphere and transitioning agriculture to agroecology systems – which enable low carbon practices."

JULIE RENEAU,
Sustainability strategy and stakeholder relationship manager, Nespresso

Since 2014, Nespresso has supported community-based actions with smallholder coffee farmers in Colombia, Ethiopia and Guatemala to introduce both shade and economically productive trees within their coffee parcels, and to drive the restoration of forest ecosystems at the landscape level.

Nespresso farm in Guatemala Huehuetenango transitioned into agroforestry
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CHAPTER 3:

Five opportunities for realising insetting's full potential

When the first companies started implementing insetting projects about ten years ago, these were relatively small-scale "lighthouse projects". These projects were experimenting with new approaches, helping to demonstrate ambition and early successes, and were creating engaging stories, but were far from affecting entire supply chains. Since then, the levels of both challenge and ambition have changed considerably. Achieving a net zero world by 2050 requires significant emissions reductions every year. Since the launch of the SBTi the focus of companies' climate strategies has gone far beyond their own operations, now covering entire value chains. For many companies, a huge part of emissions occurs during the raw material production phase, where insetting offers a strategic lever for achieving positive impact, in particular with the help of nature-based climate solutions. Over the last few years insetting has proven to be a promising strategic mechanism to support the transformation of companies' raw material sourcing areas. We have identified five opportunities that will help to evolve and scale insetting in order to act as a catalyst to decarbonise entire supply chains.

OPPORTUNITY 1:

Using data and technology to drive scale and efficiency

There is a plethora of opportunities for innovation in insetting based on digitalisation. **Remote sensing can help to massively reduce monitoring costs.** Increasingly, parameters such as tree cover can be observed well from space or through air-borne systems. Today, most insetting monitoring approaches are still ground-based and require extensive human resources. Complementing ground-work more strongly with remote sensing has great potential to reduce monitoring costs and increase scale. High resolution imagery such as taken from drones can also help to create engaging material like interactive maps.

Automatised monitoring through smart sensors and the Internet of Things can deliver close to real time data and can help to strongly improve monitoring of some insetting activities. Examples include heat sensors on cookstoves and soil sensors that can be used in regenerative agriculture projects.

Blockchain technologies have the potential to drastically reduce costs of verification. This is particularly true when combined with automated systems such as smart sensors and remote sensing, as well as ensuring chain of custody and traceability in multi-tier supply chains. It could also help to bundle climate benefits from big groups of smallholder farmers, while avoiding double-counting. The Food and Agriculture Organization of the United Nations (FAO) and the Wageningen University provide a recent overview of applying blockchain to climate action in agriculture.

Project design and implementation can strongly benefit from artificial intelligence. For example, algorithms might help to select specific tree species and inform farming practices. This can strongly increase efficiency as in the case of precision farming. Providing farmers with new data as part of an insetting project can be an important motivation driver for participating farmers. Sharing insight with farmers can help them to manage their farms better. UNDP's recent report on the topic is a great starting point for further investigations.

Project design and implementation can strongly benefit from artificial intelligence.

OPPORTUNITY 2:

Evolving insetting from projects to sourcing strategies

The project-by-project approach that insetting has traditionally followed is unlikely to get us to where we need to be at the pace that we need to get there. A promising approach is to embed insetting projects into a wider sourcing strategy, where their impact is further amplified. Ultimately, suppliers are closer to the farmer and thus ideally positioned to roll out insetting strategies. Direct supplier engagement, development of best-practice guidelines, new reporting approaches and preferential sourcing can all help to encourage suppliers to adapt and scale up insetting. This is particularly true to technically and financially capable big suppliers. While it is not realistic that suppliers will be able to bear the full burden of insetting in the short-term, **putting suppliers in the driver's seat reduces the resources needed by insetting companies.**

Translating carbon prices into price premiums for low-carbon raw materials can help to reduce the transaction costs of insetting and embed it in the sourcing strategy. In order for this approach to be effective, a reliable and verifiable GHG accounting scheme at the supplier level needs to be in place to avoid double counting and ensure traceability. Following this approach, the climate benefits of insetting will ultimately be an integral part of a raw material or products specifications and be tracked along the supply chain as such. Gold Standard's work on an Impact Factor Tracking Mechanism is an interesting recent development in this direction.

Compared to entire supply chains, the perimeter of insetting projects is often relatively small. The limiting factor is often the training and follow-through of farmers by external experts. **Peer learning among farmers and train-the-trainer approaches can help to rapidly increase the adoption of insetting practices**, particularly when combined with smart monitoring technologies and sourcing incentives for farmers, which can both be scaled very well. This will also help to inspire actors outside the project boundary to adopt the same practices, and will eventually enable the catalysing effect of insetting projects.

A promising approach is to embed insetting projects into a wider sourcing strategy, where their impact is further amplified.

OPPORTUNITY 3:

3.

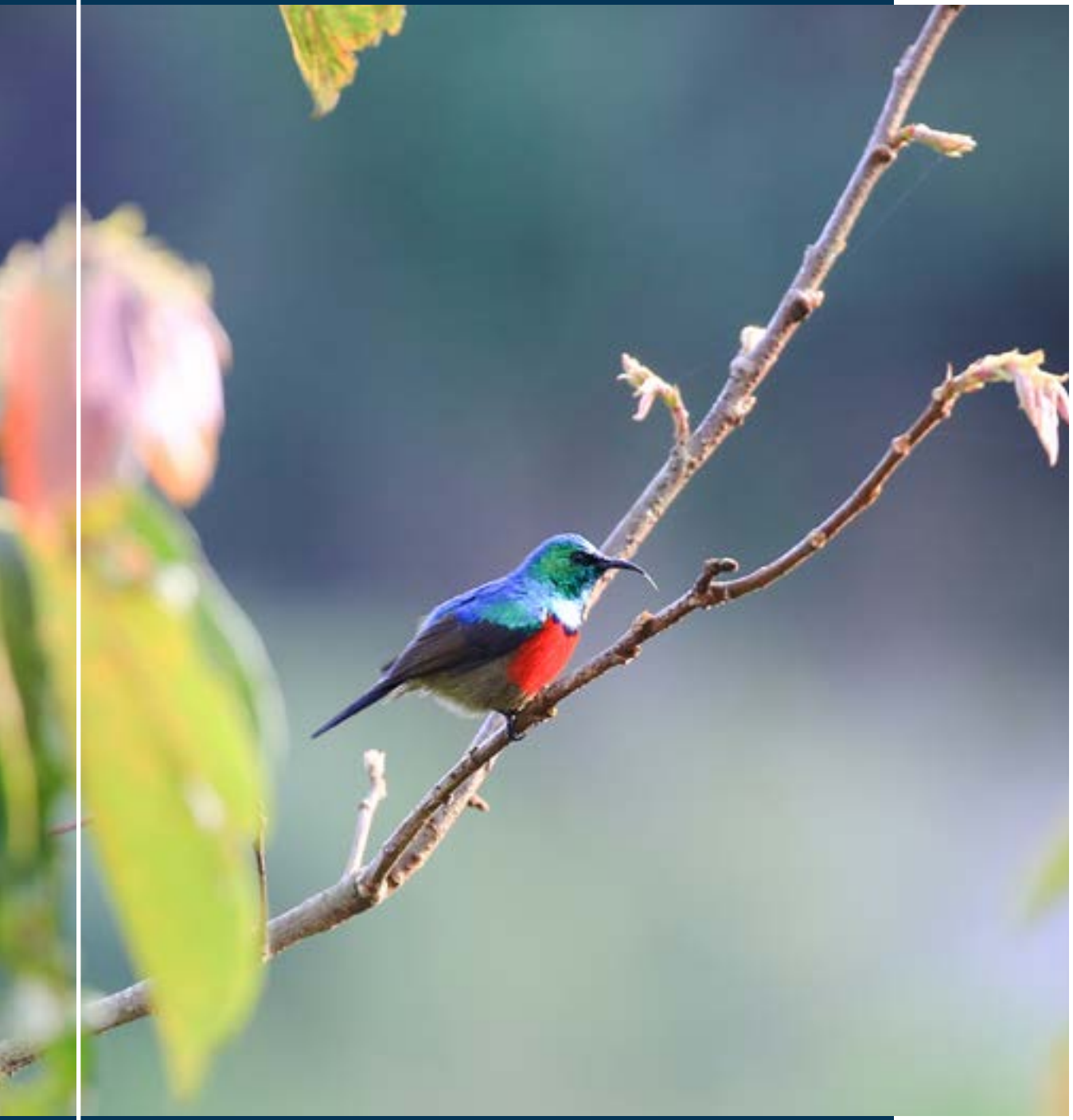
Scaling insetting from projects to landscapes

Multi-stakeholder landscape projects between peers can increase scale and reduce costs. Scale can result from pooling efforts and resources. For insetting companies, this means teaming up with peers that source from the same landscapes, in a pre-competitive manner. Global supply chains overlap in many geographical hotspots around the world. Be it soy in Brazil, cocoa in West Africa, cotton in India or palm oil in Indonesia, there are plenty of opportunities for collaboration – both in terms of (1) companies sourcing the same material from the same region, as well as (2) taking a "whole-farm" approach, whereby different companies source different materials that are produced in the same landscape (e.g. farmers who grow multiple crops).

Moving to landscape level not only means addressing farming at a larger scale beyond the own supply chain, it also means tackling challenges beyond the farm perimeter. Whereas on-farm activities are often relatively small-scale, at landscape level, there are often opportunities for protecting forest and restoring degraded lands at a large scale. **Inclusion of activities around forest conservation and large-scale restoration at landscape level can deliver significant climate benefits.** Going beyond the farm is important for the productivity and resilience of the farms themselves, for instance by protecting upstream watersheds, providing erosion control or securing pollination.

Unconventional partnerships, for example with actors from other industries, can help to further increase the scale of landscape activities by bringing in additional funding and capabilities. For example Microsoft is supporting restoration projects worldwide through their Climate Innovation Fund and can provide relevant IT expertise. Nevertheless, all partners should follow a holistic climate strategy involving ambitious decarbonisation targets in order to be credible climate stewards.

Insetting is a relatively young concept that has vast potential for catalysing transformational climate action beyond the land-dependent sector. Although insetting has typically been applied by land-dependent companies to support different types of interventions with a focus on nature-based climate solutions, the way it enables collaboration and funding of the business model transformation has created momentum around the concept and led to companies exploring its potential to accelerate other climate supply chain action. We have seen some promising concepts and first discussions around insetting at factory level to act as a catalyst for circularity and for pooling resources by stakeholders to achieve a successful transformation to more sustainable processes.



OPPORTUNITY 4:

Unleashing insetting's potential for biodiversity and nature positive strategies

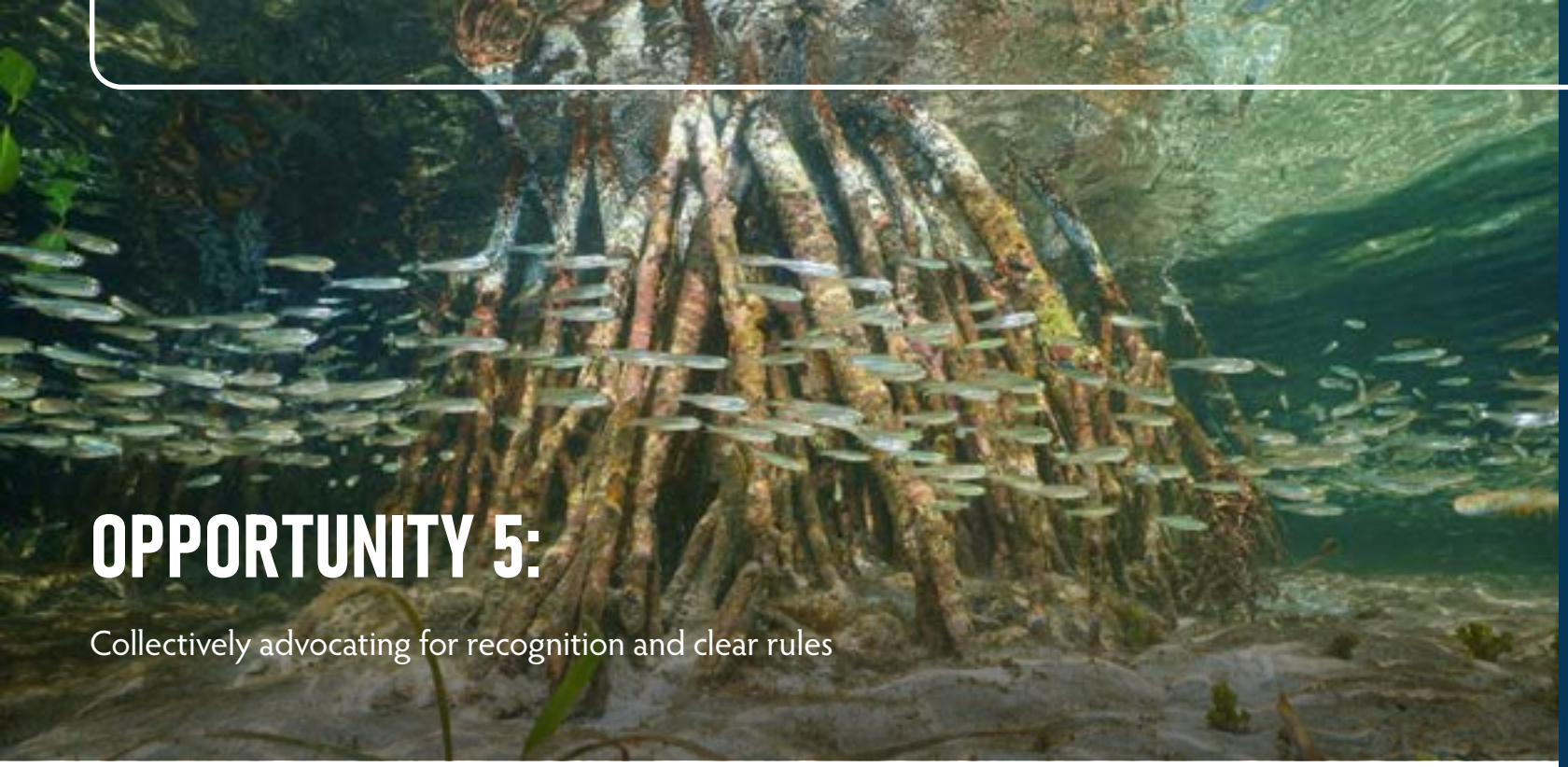
The science is clear, we cannot address our planet's current climate emergency without reversing the loss of nature. This explicit connection between the climate and nature agendas is much more pronounced in the Glasgow Climate Pact than it was in the Paris Agreement. **The recognition by governments and the private sector alike that our race towards net zero emissions will only succeed if we race equally fast towards nature positive has created a strong momentum for insetting.**

Insetting is a way to address climate change and nature loss at the same time. Insetting projects are typically designed to help protect, value and reverse the loss of nature and create regenerative processes in companies' operations. **This allows businesses to integrate their investment in nature into their sustainability strategies and goals, providing a way to scale nature-based climate solutions.**

For businesses to adequately address impacts and dependencies on nature, and to tackle complex issues such as the drivers of deforestation, they must act beyond their value chains and invest in landscapes, seascapes, and watersheds that are geographically adjacent and ecologically linked to their value chain. Looking at the last decade of insetting in practice this integrated approach has always been at the centre of the concept of insetting. Insetting enables companies to take a holistic and integrated approach to climate action through a connection to the communities and landscapes they source from. We are seeing this approach gain traction and strong support through the development of the Science Based Targets for Nature, which will further enhance the momentum for insetting. **There is substantial potential for companies to apply insetting as a strategic method to achieve biodiversity and other nature related targets, whilst delivering towards their ambitious climate goals.**

Insetting is a way to address climate change and nature loss at the same time.

The collaboration between Nespresso and IUCN to pilot their new Guidelines for Planning and Monitoring Corporate Biodiversity Performance provides a great example of how an insetting programme supports a company's biodiversity strategy. Read more here: Nespresso and Biodiversity.



OPPORTUNITY 5:

Collectively advocating for recognition and clear rules

Insetting in practice involves a wide range of projects from on-farm level interventions to investments in value chain adjacent landscapes and communities. Although the practice of insetting has been around for more than a decade now, there is still no aligned and globally recognised definition. However, the concept of insetting is rooted in a clear vision of transforming business models and that has led companies to pioneer this promising approach. Today, the approach is more widely applied than the term "insetting" itself. Many companies are doing it without knowing it, or they don't refer to it as insetting. In order to scale the concept of insetting it is necessary to mature and align the terminology and language. **Insetting companies need to enhance collaboration to collectively provide more proof of concepts and demonstrate credible practice.** Clear principles and streamlined language will lead to a broader adoption, the exchange of lessons learnt and ultimately recognition of its strategic relevance.

To strengthen the business case for insetting and to scale it as an effective practice, **it is critical to establish clear rules for how the climate benefits of insetting interventions can be claimed against guiding climate frameworks that acknowledge the interconnectedness of supply chains with their landscapes and communities.** The absence of an aligned and recognised definition of insetting also provides challenges for establishing clear accounting rules for how companies can claim the impacts their insetting projects are generating. This is true in particular for climate benefits and how these can be accounted for within SBTs for climate and net zero. Initiatives such as Gold Standard's Value Change Initiative have been addressing some of the open questions around how insetting companies can account for the generated climate benefits. More clarity on accounting methodologies and rules will also come from the SBTi FLAG project as well as the GHG Protocol Removals Guidance that are currently in development and will be released in 2022. However, open questions around climate claims should not hold back companies in getting started with insetting, as it is an effective tool that supports the decarbonisation of supply chains, and supports a company in their transition to a more climate resilient and regenerative business model.

Beyond GHG accounting rules, there is a need to educate other important stakeholder groups on insetting, particularly investors and consumers. **Investors need to be more informed to enable them to better understand the long-term risk reductions achieved by insetting.** New non-financial accounting approaches such as "environmental balance sheets" might help to close this gap. Lastly, it's important for consumers to appreciate the difference that insetting makes in the transformation of companies' business models, the decarbonisation of value chains, and the ability to provide more sustainable products. This can be achieved through linking the insetting strategy of a company to their products.

As part of this guide we share the Insetting Manifesto (see page 35) which outlines what we, as an insetting community of practice, are advocating for in order to enable insetting's full potential as a catalyst for our transformation towards a net zero and nature positive future.

The Insetting Manifesto outlines what we, as an insetting community of practice, are advocating for in order to enable insetting's full potential as a catalyst for our transformation towards a net zero and nature positive future (see the Manifesto on page 35).

Since 2009, Accor has planted over 7 million trees, restoring agricultural ecosystems, improving the living conditions of local communities, and enabling carbon sequestration. Hotel restaurants in France, Morocco and several Asian countries serve products from the farms where they financed tree planting.

ACCOR

TOGETHER, LET'S HELP RESTORE OUR EARTH

"Initially our insetting program Plant for the Planet was mainly focused on reforestation projects with partners close to our hotels. However, in the last few years, we have been refocusing our insetting strategy towards agroforestry and regenerative agriculture practices with our existing suppliers. The food and beverage that we serve within our hotels is a substantial part of our Scope 3 emissions, and probably the most complex one to decarbonise. With our net zero commitment, we see a huge opportunity in working with our suppliers to transition to regenerative agriculture practices and to focus on soil carbon and sequestering carbon. The aim is to move from a conventional food model to a more sustainable one that helps us with our climate ambition, but also creates multiple positive impacts on the ground for watersheds, biodiversity and livelihoods.

The next question comes from a practical perspective – as we are operating in 110 countries, and buying from independent producers through to some of the world's largest multinational food manufacturers – how do you do that at scale and embed this practice across all our purchasing processes? Cross-sector collaboration in the land use sector is a big topic for us and will be key if we want to achieve the transformation of agriculture and food systems and restore critical ecosystems. We have always seen a great potential in the concept of insetting as a tool for us to adopt more positive practices and to explore new ways of collaboration. That's why we have been one of the first to embark on this journey and to join the movement with other members of the IPI."

TOM MALLET,
Carbon Management Lead, Accor

CONCLUSION

Insetting has tremendous potential to tackle the most critical challenges around supply chain sustainability including climate change, biodiversity loss and farmer livelihoods. Over the last decade, a significant body of insetting experience has been gained by practitioners in the field. We distilled this experience into ten lessons learnt which we hope will inspire other companies to embark on their own insetting journeys.

The recent traction that discussions around decarbonisation of value chains, nature-based climate solutions and regeneration are getting will enhance the momentum of insetting. We looked beyond the climate agenda and highlighted the contributions that insetting can make to truly transform agricultural value chains and sourcing landscapes. In the third part of this guide, we have collated what we believe are the five most promising opportunities to scale insetting as a strategic mechanism to support companies in their transformation towards net zero and nature positive value chains.

An interconnected world needs all its actors to achieve change. This is particularly true for insetting. Brands, suppliers, farmers, consumers, governments, project developers, standard providers and experts all have their role to play in achieving the transformation of our economy at the speed and scale needed. Collective cross-sector action and new ways of collaboration, further proof of concepts, clear rules of credible practice and incentives by leading climate frameworks will be key for bringing insetting to its full potential.

Insetting has tremendous potential to tackle the most critical challenges around supply chain sustainability including climate change, biodiversity loss and farmer livelihoods.

SUMMARY: INSETTING AT A GLANCE

What is insetting?

INSETTING PROJECTS are interventions along a company's value chain that are designed to generate greenhouse gas emissions reductions and carbon storage, and at the same time create positive impacts for communities, landscapes and ecosystems.

INSETTING INTERVENTIONS are typically based on regenerative agriculture practices and agroforestry programmes both at farm level, within the adjacent landscapes and with local communities. They protect and re-establish natural carbon sinks through conservation and restoration of forests, wetlands, coastal and marine ecosystems. Some insetting interventions also involve energy and community activities that aim to improve livelihoods and reduce pressures on natural resources. These interventions allow companies to reduce their climate impacts, whilst building climate resilience and supply chain stability at the heart of their value chains, future proofing their businesses, and improving the quality of raw materials.

10 LESSONS LEARNT AND 5 OPPORTUNITIES TO SCALE FROM A DECADE OF CORPORATE INSETTING PRACTICE

THE INTERNAL INSETTING JOURNEY

LESSON 1: Understand materialities and set clear priorities

- Every insetting project needs to be tailored to the real material issues in your supply chain.
- Good candidates for insetting are supply chains with a high strategic relevance for your company.

LESSON 2: Use supply risks, co-benefits and marketing potential to demonstrate the business case

- Use a climate risk lens that shows how insetting can help to tackle physical and transitional climate and other risks.
- Insetting interventions generate multiple benefits that can support your company in delivering against its sustainability commitments and policies, as well as improving the long-term resilience of your company's supply chain.
- Bring your colleagues with you on the journey.
- Insetting has immense marketing potential which can help to get buy-in from colleagues and senior management.
- Using benchmark carbon prices can help to monetise the value of positive impacts.
- Advocate for a longer-term view by highlighting the critical importance of risks and opportunities over longer-term horizons.
- Celebrate early successes to help build traction.

LESSON 3: Establish a scalable governance for insetting

- Insetting aims for profound transformation and impact, which requires a broad governance structure around it.
- An internal insetting fund is a promising approach to systematically finance and scale insetting.
- Oversight by external experts can help to increase the strength and integrity of an insetting strategy and fund.
- A powerful approach to financing insetting could be an internal carbon price.

LESSON 4: Develop a system that can track and consolidate the benefits of insetting

- Develop a company-wide policy or guidance document.
- Link your insetting projects to company-wide targets and KPIs.
- Make your system as digital as possible.

LESSON 5: Develop a holistic sustainability strategy beyond insetting

- A holistic strategy should follow a clear mitigation hierarchy for climate and nature.
- Insetting should not lead to the delay of other critical mitigation activities both within or outside the climate sphere.
- Aim to increase the share of insetting in your compensation portfolio over time by substituting offsetting with insetting.

WORKING WITH EXTERNAL INSETTING PARTNERS

LESSON 6: Go the extra mile when selecting and managing project developers

- Your partner should have a significant and relevant track record.
- Applying your own due diligence and getting engaged beyond certification is critical.
- When initiating a partnership, it is key to formulate clear expectations upfront.

LESSON 7: Work with local stakeholders to 'Design for Need'

- Engaging local stakeholders is crucial for effective project design.
- Involve local stakeholders and make sure their voices are heard throughout the project.
- Local needs and costs of carbon should be balanced.

LESSON 8: Actively engage your suppliers

- The right approach (top-down, bottom-up or new supply chain) often depends on the willingness and proactiveness in your specific supply chain.
- Align with your suppliers on the benefits of insetting..
- Suppliers might also agree to co-fund the project.
- Traceability is a strong enabler for insetting, but you can work with more opaque supply chains as well.

LESSON 9: Align payments with performance

- Payments should be as much as possible linked to performance, often demonstrated by the delivery of climate benefits.
- In order to prioritise among potential insetting projects, benchmark carbon costs can be very helpful.
- Carbon markets can provide an additional source of income for insetting activities.

LESSON 10: Communicate progress to your stakeholders

- Communicate your successes to your stakeholders.
- Educating your investors and other stakeholders about the concept of insetting is an important aspect of your insetting journey.
- Sharing your experiences with other companies that apply insetting strategies is extremely helpful.

FIVE OPPORTUNITIES FOR REALISING INSETTING'S FULL POTENTIAL

OPPORTUNITY 1: Using data and technology to drive scale and efficiency

- Remote sensing can help to massively reduce monitoring costs.
- Automatised monitoring through smart sensors and the Internet of Things can deliver close to real time data and can help to strongly improve monitoring of some insetting activities.
- Blockchain technologies have the potential to drastically reduce costs of verification.
- Project design and implementation can strongly benefit from artificial intelligence.

OPPORTUNITY 2: Evolving insetting from projects to sourcing strategies

- Putting suppliers in the driver's seat reduces the resources needed by insetting companies.
- Translating carbon prices into price premiums for low-carbon raw materials can help to reduce the transaction costs of insetting and embed it in the sourcing strategy.
- Peer learning among farmers and train-the-trainer approaches can help to rapidly increase the adoption of insetting practices.

OPPORTUNITY 3: Scaling insetting from projects to landscapes

- Multi-stakeholder landscape projects between peers can increase scale and reduce costs.
- Inclusion of activities around forest conservation and large-scale restoration at landscape level can deliver significant climate benefits.
- Unconventional partnerships, for example with actors from other industries, can help to further increase the scale of landscape activities.

OPPORTUNITY 4: Unleashing insetting's potential for biodiversity and nature positive strategies

- The recognition that our race towards net zero emissions will only succeed if we race equally fast towards nature positive has created a strong momentum for insetting.
- Insetting allows businesses to integrate their investment in nature into their sustainability strategies and goals, providing a way to scale nature-based climate solutions.
- There is substantial potential for companies to apply insetting as a strategic method to achieve biodiversity and other nature related targets, whilst delivering towards their ambitious climate goals.

OPPORTUNITY 5: Collectively advocating for recognition and clear rules

- Insetting companies need to enhance collaboration to collectively provide more proof of concepts and demonstrate credible practice.
- It is critical to establish clear rules for how the climate benefits of insetting interventions can be claimed against guiding climate frameworks that acknowledge the interconnectedness of supply chains with their landscapes and communities.
- Investors need to be more informed to enable them to better understand the long-term risk reductions achieved by insetting.

"The future of climate action, and to a larger extent, economic growth, depends on ecosystem regeneration. Integrating these strategies into our core business models and along supply chains will benefit all involved."

Tristan Lecomte,
Co-Founder of the IPI

INSETTING MANIFESTO

We call for guiding climate frameworks to;

1. acknowledge the significant opportunity that insetting provides to businesses,
2. provide clear methods and guidance for companies on how to claim the generated carbon benefits through insetting interventions, and
3. help accelerate the transformation of value chains, industries and geographies towards a net zero and nature positive global economy.

We invite land-dependent companies to join the IPI to collectively drive the uptake of insetting through enhancing collaboration and demonstrating proof of concepts and credible practice of innovative and promising new approaches to supply chain climate action.

We encourage companies with a land footprint to embrace insetting at a landscape level around their sourcing areas and value chains to keep within a 1.5 degree future.

Accelerating the transformation towards net zero and nature positive value chains through insetting

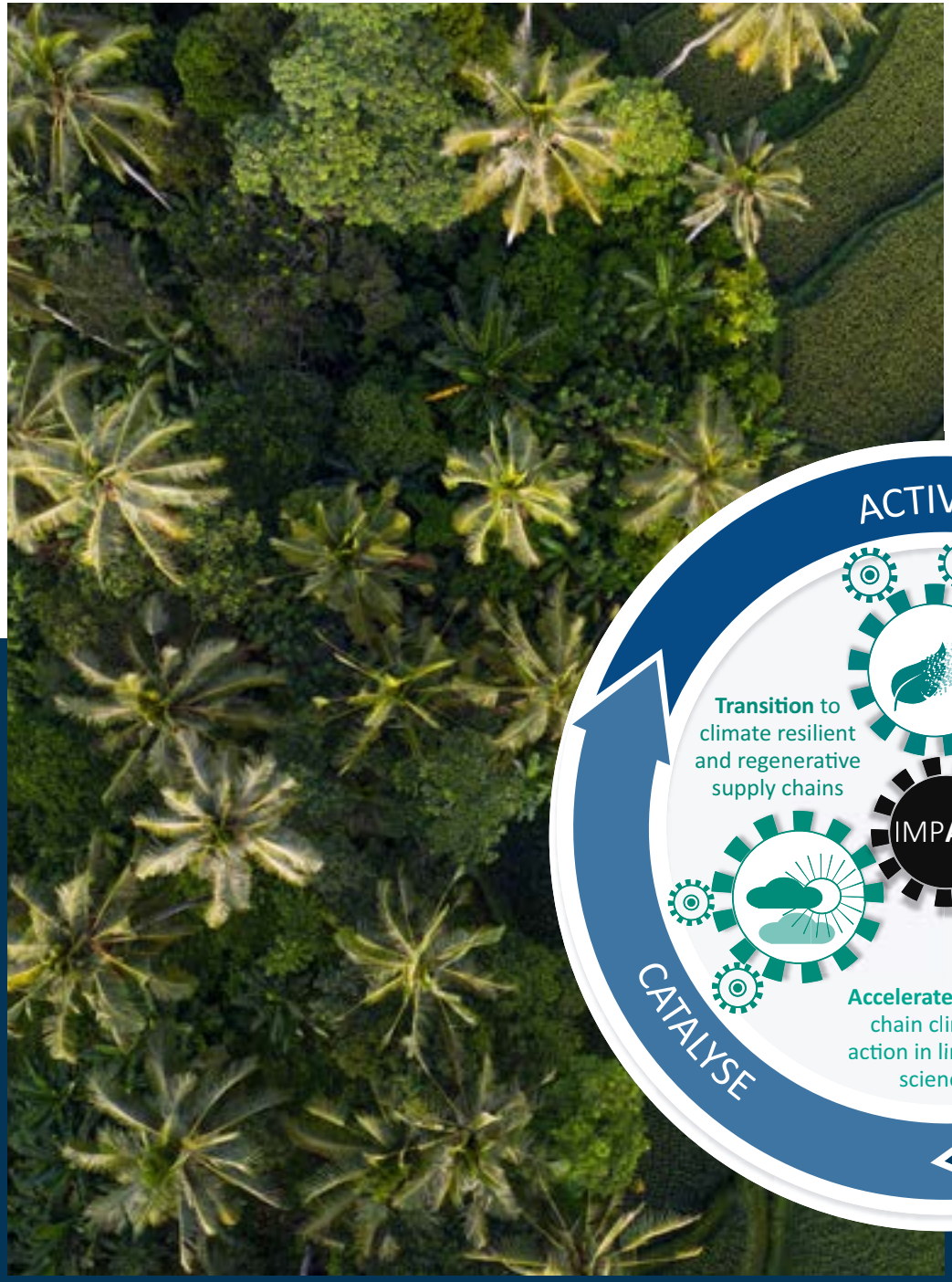
We cannot address our planet's current climate emergency without reversing the loss of nature. **For a just transition to a net zero and nature positive economy, businesses need to take an integrated and science-based approach that recognises the nexus between climate, nature and people.**

Businesses must follow the mitigation hierarchy that prioritises a reduction of greenhouse gas emissions within value chains over activities to mitigate emissions beyond their value chains. However, most value chains are deeply connected to the communities and ecosystems in the landscapes that businesses operate in and source from. **For land-dependent industries to truly decarbonise and transform their business models and to keep within a 1.5 degree future, it is important to recognise the role of interventions within supply chains as well as in supply chain adjacent* communities and sourcing landscapes**, especially when there is an environmental and socio-economic relevance to the business operations.

Insetting represents a strategic mechanism for businesses to implement effective and scalable climate solutions at the heart of ther value chains. It is an effective tool for businesses to drive direct action and investment in landscapes and ecosystems, thus supports the transformation towards net zero and nature positive value chains. In order to scale these investments that are helping to build climate resilient communities and regenerative landscapes, **it is critical that the climate benefits generated through insetting interventions can be claimed by companies against existing and emergent frameworks such as the Science-based Targets and Net Zero**.

Furthermore, **we need to enhance our community of practice to collectively provide proof of concepts and demonstrate credible practice of insetting strategies and mechanisms** to encourage businesses in land-dependent sectors to embrace this promising concept.

*Adjacent sourcing landscapes can be defined as landscapes that are connected bio-physically, ecologically and/or socio-economically to the supply chain such that it may provide direct or indirect benefits to the sustainability and socio-economic health of the sourcing area.



What is insetting?

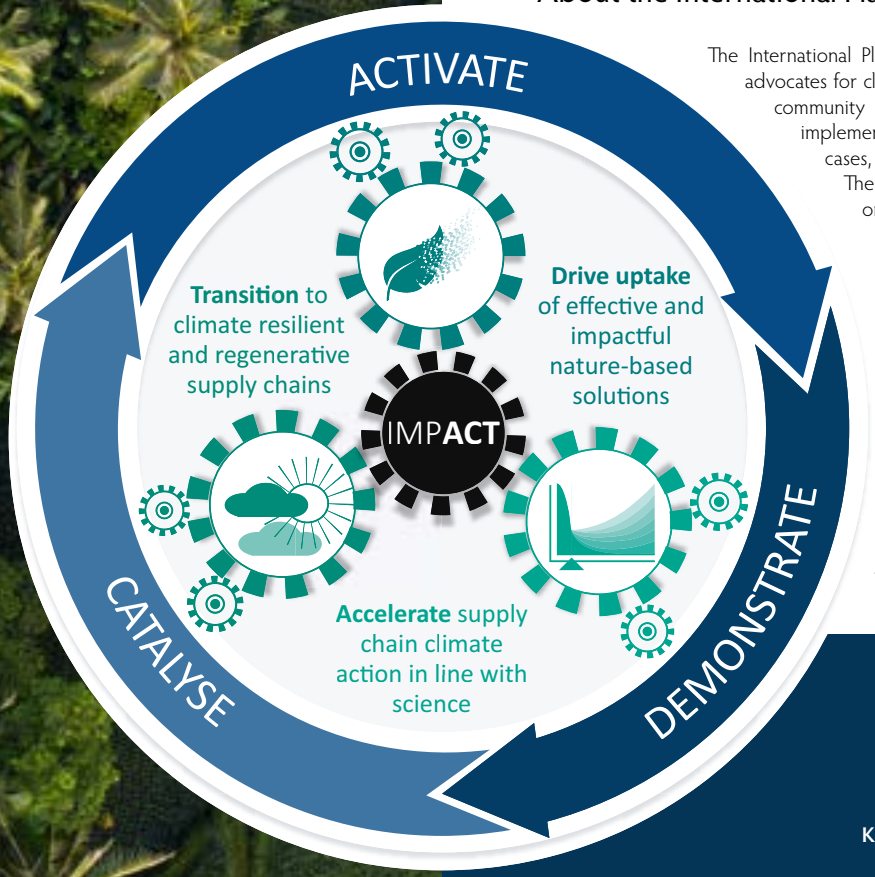
INSETTING PROJECTS are interventions along a company's value chain that are designed to generate greenhouse gas emissions reductions and carbon storage, and at the same time create positive impacts for communities, landscapes and ecosystems.

INSETTING INTERVENTIONS are typically based on regenerative agriculture practices and agroforestry programmes both at farm level, within the adjacent landscapes and with local communities. They protect and re-establish natural carbon sinks through conservation and restoration of forests, wetlands, coastal and marine ecosystems. Some insetting interventions also involve energy and community activities that aim to improve livelihoods and reduce pressures on natural resources. These interventions allow companies to reduce their climate impacts, whilst building climate resilience and supply chain stability at the heart of their value chains, future proofing their businesses, and improving the quality of raw materials.

About the International Platform for Insetting

The International Platform for Insetting (IPI) is a business-led organisation which advocates for climate action at the source of global value chains. It is a diverse community of practice, including mostly corporate organisations and implementation partners, who regularly convene to share real-world cases, best practices and challenges as they work on insetting projects. The community is open to new members and we invite corporate organisations to join us to collectively:

- **ACTIVATE** the implementation of insetting projects through facilitating a knowledge exchange between experts, practitioners and pioneers.
- **DEMONSTRATE** how investing in nature is an effective and strategic approach to achieving ambitious corporate targets and makes economic sense.
- **CATALYSE** the transition to a climate resilient and regenerative economy through engaging with key stakeholders that help businesses implement nature-based adaptations to climate change.



«OUR THEORY OF IMPACT

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