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Principles for Responsible Banking

Guidance for banks

Resource Efficiency and Circular Economy Target Setting

Principles for Responsible Banking

Disclaimer

This document is based on discussions and work undertaken with the Principles for Responsible Banking (PRB) Resource Efficiency working group. It is designed to address the needs of Signatories who have identified resource efficiency (or a closely related impact area) as one of their significant impact areas within the PRB implementation process. Acknowledgement of contributions does not imply endorsement of this guidance on Resource Efficiency and Circular Economy Target Setting nor of the materials referred to. Working group participation does not imply any liability or commitment to any particular policy or course of action.

Published by UNEP Finance Initiative in December 2021

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Acknowledgments

The content of this document is based on discussions and work undertaken with the Principles for Responsible Banking (PRB) Resource Efficiency working group.

We wish to acknowledge contributions made by the Expert Review Panel members:

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We want to thank the Government of Norway which sponsored this guidance.

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Introduction

This guidance supports banks that are signatories of Principles for Responsible Banking in their efforts to set targets for resource efficiency and circular economy financing. By using this guidance, banks can understand how to align their portfolios with the UN Sustainable Development Goals (SDGs), focusing on SDG 8.4[1] and SDG 12 (Responsible Consumption and Production), and can contribute to financing the transition to a more resource efficient and circular economy.

The circular economy is a significant part of the solution to deliver on the global environmental and social agenda. It is a crucial means with which to address climate change, biodiversity loss, water scarcity, pollution and other major global challenges.

This guidance (hereafter called the "Guidance") was developed jointly by a working group of banks that are signatories of the Principles for Responsible Banking and the Secretariat of the United Nations Environment Programme—Finance Initiative (UNEP FI), with the support of an Expert Review Panel. It is expected that the Guidance will be further developed and completed in the future, in order to reflect the progress made by the Principles for Responsible Banking signatories and ramp up on ambition as technical advances are made to accelerate the transition. If you have any comment or suggestion or if you are interested to participate to future work to further develop and complete the Guidance, please contact the UNEP FI Secretariat.

This Guidance is primarily intended to be used by any bank that identifies resource efficiency[2] as an area of significant impact in its portfolio during its impact analysis (as required by Principle 2 "Impact Analysis and Target Setting" of the Principles for Responsible Banking). The Guidance may also be used by any bank that identified waste,[3] water[4]

1 SDG 8.4: Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead.

2 Resource Efficiency is defined by UNEP FI Impact Radar as the "Efficient use of limited, non-renewable natural resources (which cannot be regenerated after exploitation) and renewable natural resources (which can return to their previous stock levels by natural processes of growth or replenishment) in the process of exploiting nature for production and consumption purposes. Can also be read as resource security", Source: Impact Radar, UNEP FI (2018), *International Source: United Nations Glossary, International Resource Panel*

3 As defined by UNEP FI Impact Radar, as the "Ability to manage waste, including the control, monitoring and regulation of the production, collection, transport, treatment and disposal of waste, and the prevention of waste production through in-process modifications, reuse and recycling during a project lifecycle. This includes waste reduction." Source: Impact Radar, UNEP FI (2018), *International Source: United Nations Glossary, United Nations General Assembly*

4 As defined by UNEP FI Impact Radar, as the "Quality, understood as the physical, chemical, biological, and taste-related properties of water, as well as the quantity of surface water and groundwater." Source: Impact Radar, UNEP FI (2018), *International Source: United Nations, European Commission, International Monetary Fund, OECD, World Bank*

or energy as significant impact areas, and any other impact priorities for which resource efficiency and circular economy business activities are relevant and can contribute to reducing negative impacts and increasing positive impacts.

The purpose of this Guidance is to propose a practical approach for a bank to set targets to finance resource efficient and circular projects, activities and clients.

Resource efficiency solutions focus on specific resources and explore ways to reduce their use and the negative impact of their use. A circular economy approach is more comprehensive than a resource efficiency approach. It contributes to increasing resource efficiency and, beyond resource efficiency, builds upon value retention loops. The circular economy is expected to tackle the root causes of our three planetary crises, climate change, biodiversity loss and pollution, by eliminating waste and pollution, circulating products and materials and regenerating nature. The circular economy also entails new sustainable business opportunities and better risk assessment and management for the banks (see Box 1 "Business Case for the circular economy for banks"). Please refer to Annex 2 and to UNEP FI's report "*Financing Circularity: Demystifying Finance for Circular Economies*"[5] for further information on the circular economy.

Box 1: Business Case for the circular economy for banks

By adopting circular principles, companies can generate new sources of revenue, reduce costs, spur innovation, increase resource security, and mitigate certain risks. Circular economy expertise and financial products are becoming key draws for CEOs and boards and can help engage corporate and institutional clients. Many leading global banks have already started supporting clients in their transition to a low carbon, circular economy through expert advisory services, capital raising, and direct financing and investment. Examples include tailored products and technical and financial advisory support by ABN AMRO, BNP Paribas, EIB Advisory, ING, Intesa Sanpaolo (e.g. through its Circular Economy Lab), and Rabobank, among others.

Circular economy strategies can also lower investment risk and drive superior risk-adjusted returns. Analysis by Bocconi University of 200+ listed European companies across 14 industries has shown that the more circular a company is, the lower its risk of defaulting on debt, and the higher the risk-adjusted returns of its stock.[6] The adoption of circular practices reduces risk and increases resilience through business model diversification, decoupling economic growth from resource use and environmental impact, and better anticipation of stricter regulation and changing customer preferences.

The circular economy also offers a major opportunity for the banks to deliver on climate commitments and other Environmental, Social and Governance (ESG) objectives, whilst responding to client demands for financial products that support a low carbon, circular economy.

5 *Financing Circularity: Demystifying Finance for Circular Economies*, UNEP FI, 2020

6 *The circular economy as a de-risking strategy and driver of superior risk-adjusted returns*, Bocconi University, Ellen MacArthur Foundation, Intesa Sanpaolo (2021)

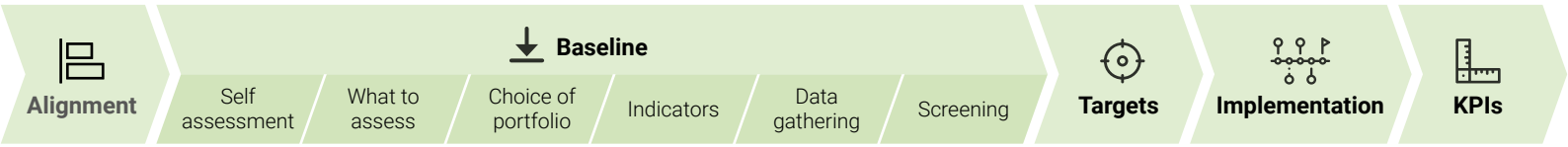
Banks have a crucial role to play in financing the transition to the circular economy. The objective of this Guidance is to guide banks on how to get started or how to accelerate and scale up their financing of the transition towards the circular economy, by setting appropriate targets. Thus, the Guidance proposes that the banks which have identified resource efficiency as a significant impact area of their portfolio (or another closely related topic such as waste, water or energy) **shift from a resource efficiency approach of their portfolio to a circular economy approach** and that banks which have not yet engaged in an effort to improve resource efficiency of their portfolio seize the idea of the circular economy and **get started using a circular economy approach** rather than a resource efficiency only approach.

Steps to set targets and scope of targets

This Guidance suggests an operational process that banks can follow to set targets, guided by the Principles for Responsible Banking requirements.

The operational process consists of 5 steps: Alignment, Baseline, Targets, Implementation and Monitoring and Key Performance Indicators (KPIs).

The process to determine a bank's baseline consists of 6 steps which are described in further details below. The diagram below provides an overview of the complete process that banks are invited to follow.



The Guidance provides practical recommendations to support banks in the implementation of each of the steps.

Banks are encouraged to follow these steps to set targets covering lending activities of the bank and on-balance sheet investment activities. On-balance sheet positions held for client facilitation and market-making purposes (as opposed to held for investment) are excluded. Over time, the aim will be for banks to increase the volume of activities covered by the targets.

The Guidance also includes in Annex 1 a step-by-step illustrative case study which shows, in a pragmatic approach, how to apply the operational process proposed in the Guidance.

A progressive approach

Financing the transition towards a resource efficient and circular economy is a learning journey and banks are at different levels of maturity in terms of understanding, awareness and financing of resource efficiency and the circular economy. Most of the banks are most probably in early stages at the time of publishing this Guidance and their policies and practices are expected to evolve over time. That is why this Guidance proposes

a multi-tier approach, depending on the level of awareness, knowledge and action on resource efficiency and the circular economy in the bank. Banks are invited to self-assess whether they are beginner (Tier 3), intermediate (Tier 2) or advanced (Tier 1) on resource efficiency and circular economy financing (see below Section 2, Baseline, Step 1).

Tier 3 banks Beginners	Tier 2 banks Intermediate	Tier 1 banks Advanced
→	→	→
Just getting started	Taken some action	Well-established on the journey

Banks which get started on this journey will determine their baseline and set targets for only a portion of their portfolio in most impactful sectors and, as they progress through Tiers, they are invited to shift towards determining their baseline and setting targets for their entire portfolio. Furthermore, baseline determination and types of targets tend to be more comprehensive through Tiers. This is further outlined in Sections 2 and 3 below.

The objective of a progressive approach is both to guide banks on how to get started on this journey and to indicate the direction to take while making progress in positioning their businesses for the transition to the circular economy, in order to increase the positive impact and decrease the negative impact of their portfolio.

1. Alignment

What is alignment?

One of the first tasks to undertake is to understand the potential frameworks and policies that are relevant to the context of a bank, and determine which frameworks or policies are the most appropriate to align with. The goal is to ensure that the approach to the circular economy and resource efficiency is developed in line with a bank's operating context. This will provide banks with an understanding of any international, national or regional frameworks that define goals or offer guidelines relevant to a bank's operating context. It is important that where such frameworks, policies and strategies exist, banks consider how their work can align with or contribute to them and how to set targets that align with the targets of a relevant framework or policy, with a level of ambition consistent with such framework or policy.

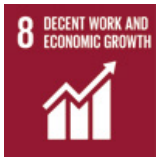
How can a bank assess frameworks for alignment?

In order to understand what a bank's circular economy and resource efficiency approach could be aligned with, there are a number of factors to consider.

Global priorities

All banks are encouraged to take into account the priorities encapsulated in the UN Sustainable Development Goals (SDGs) and in the Paris Agreement on Climate Change when considering their approach to resource efficiency and the circular economy. These frameworks can provide an important reference point for understanding global priorities, and the facets of them that have been identified as key ways of driving change. Aligning with the SDGs and the Paris Agreement on Climate Change, for example in the nature and extent of a bank's targets, ensure that the work undertaken is part of the global effort to create positive change.

More specifically, in order to contribute to the transition to a more resource efficient and circular economy, banks are invited to align their targets with:



8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead

12.2 By 2030, achieve the sustainable management and efficient use of natural resources

12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses

12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment

12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse

12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

Resource efficiency and the circular economy also contribute to other SDGs, such as:

3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally

6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

7.3 By 2030, double the global rate of improvement in energy efficiency

9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

13 Take urgent action to combat climate change and its impacts

14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans

15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

The priorities in a bank's location

Where a bank is located, and where it operates, i.e. where its clients are located and run their business, will determine geography-based considerations. It is important to consider the priority challenges in the relevant regional and national context, and to explore any regional and national initiatives, frameworks or policies in place to manage resources more effectively and to foster the transition to the circular economy.

It may be appropriate to consider several relevant frameworks and policies, and to explore how to work with all or parts of them in combination to inform a bank's approach. For example, combining a regional or national framework with another framework operating at an international level, or combining several national policies covering various areas or sectors (see Box 2 for examples of national policies and frameworks, including an example of combination of relevant policies in Peru and Kenya).

Some frameworks may explicitly refer to resource efficiency or the circular economy. In some cases, the resource efficiency or circular economy considerations may be embedded, like for instance in strategies to address issues such as sustainable waste and resource management.

Mandatory or non-mandatory frameworks

A bank may operate in a location where there are already mandatory frameworks in place. This Guidance assumes that banks will build on any existing obligations when developing their approach. Some of these may explicitly relate to circular economy or resource efficiency considerations, or they may have related principles embedded within them.

There are also some mandatory regional frameworks that may be important to consider. For example, the EU taxonomy[7], which defines the circular economy as one of the six environmental objectives, will be an obligation for banks to use in relation to their European operations once it comes into force.

Banks are also encouraged to consider any non-mandatory framework that includes strategies, goals or guidelines related to resource efficiency and the circular economy, such as national circular economy strategies that have been adopted in a number of countries across regions (see Box 2 for a few examples).

Sector/industry

This Guidance sets out as a starting point a sector agnostic approach to target setting. This means applying a generic approach that is relevant in relation to any and all sectors and industries.

However, some sectors benefit from a sector-specific approach and may be covered by a sector-specific framework or policy, for example where there are particular issues that cannot be dealt with in a generic framework. This may be in addition to generic considerations, or it may be instead of them. Hence banks are also invited to consider any relevant sectoral framework or policy.

Listing all policies and frameworks at global, regional and national level goes beyond the scope of this Guidance. A few examples of national frameworks and examples of types of policies are provided in Boxes 2 and 3.

Box 2: Examples of national frameworks

- Some Nationally Determined Contributions (NDCs) include circular economy related objectives, for example NDCs for Japan, India, China, Turkey, Chile, Costa Rica.
- Netherlands: A Circular Economy in the Netherlands by 2050.
- Norway's circular economy strategy—including strategies for circular economy in bio-based, industrial and retailers, wholesalers and other service industries.
- Colombia: National Strategy for the Circular Economy.
- Peru: Roadmap towards a Circular Economy in the Agricultural and Irrigation Sector, updated Law of Integrated Solid Waste Management, Law regulating single-use plastics and disposable containers.
- Kenya: Solid Waste Management bill (including an extended EPR policy); Ban on single-use plastic carrier bags; Ban on single-use plastics on protected areas; Revision of the building code.
- Canada: A Healthy Environment and a Healthy Economy.

7 Sustainable finance taxonomy, Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (2020).

Box 3: Examples of types of policies

1. Extended Producer Responsibility (EPR)
2. Fiscal Policy
3. National Circular Economy Policy
4. Product Policy
5. Waste Management and Recycling (including waste from electrical and electronic equipment)

Outcome

Banks get clarity on the policies and frameworks with which to align, that will inform the approach to take in prioritising and decision-making in relation to establishing a baseline, setting targets, implementing an action plan and defining KPIs. This will enable banks to determine the appropriate level of ambition to consider when setting their targets. Banks can now proceed to establishing a baseline.

Case Study NBC—Aligning with the SDGs

National Bank of Canada, via its investment fund management firm National Bank Investments (NBI), contributes to resource efficiency and to the circular economy through its investment activities, more precisely through the manufacturing of sustainable investment solutions.

In recent years, NBI developed a lineup of investment solutions—actively managed Exchange Traded Funds (ETFs) and mutual funds—based on the 17 UN Sustainable Development Goals (SDGs). To be part of these solutions, securities must contribute significantly to the achievement of one or more of the SDGs. Such an assessment depends in part on the degree to which companies' revenues are aligned with the SDGs. NBI sustainable investment solutions can include securities such as government bonds that will be used to finance the development of public transportation infrastructure or shares in a company that generates a significant portion of its revenues by developing renewable energy infrastructure.

One of these investment solutions focuses on three primary themes: climate, health, and empowerment. Within the climate theme the focus is on cleaner energy, resource efficiency, sanitation & recycling and sustainable transportation. It is within the climate theme that the strategy invests in resource efficiency and the circular economy by investing in companies that align with SDGs specific to this theme. Currently, over a third of the portfolio is allocated to companies aligned with SDG 7 (Affordable and Clean Energy) and SDG 12 (Responsible Consumption and Production). The allocations to specific SDGs will vary over time as new investment opportunities arise and are reported and reviewed on a quarterly basis with the portfolio manager.

NBI chose the SDGs as a point of reference when developing the sustainable investment solutions as they enable to allocate capital to global priorities, provide flexibility when building diversified portfolios, and enhance investment processes across a forward-looking framework. NBI did look at alternative approaches before concluding that aligning with SDGs was the best approach. For example, NBI considered that assessments of compliance with environmental, social and governance criteria do not yet have objective industry reporting standards, which can therefore lead to very different conclusions depending on the chosen measurement methodology.

NBI acknowledged alignment with the SDGs would drive a number of benefits such as better capturing growth opportunities, encouraging a more efficient use of the planet's resources, mitigating investment risks and aiming to deliver better risk-adjusted returns, all while contributing to the 2030 UN agenda.

2. Baseline

Why establish a baseline?

The baseline provides a starting point against which to set targets and measure progress. It provides valuable insight into the current status of the bank's portfolio, and where there is opportunity to advance financing towards resource efficiency and circular economy activities, or a need to start new initiatives.

The baseline is also an opportunity for the bank to initiate a new way of thinking and working on the topic of resource efficiency and the circular economy. Establishing a baseline will involve many of the bank's employees and departments and this will help further implementation in the long run.

What is a baseline?

The baseline shows a bank's current performance in terms of financing of resource efficient and circular economy activities, projects and clients. It enables the bank to answer three questions:

- what proportion of my portfolio consists of activities, projects and clients that contribute substantially to a resource efficient and circular economy?
- what is my bank's level of engagement with clients on resource efficiency and the circular economy?
- what is the impact of my portfolio directed to activities, projects and clients that substantially contribute to a resource efficient and circular economy?

How to establish a baseline?

The methodology to determine a baseline follows a progressive approach. Banks start their journey by focusing on a high impact portion of their portfolio. Over time when they progress through Tiers, they are invited to expand the scope of their baseline to the entire portfolio and to include an impact assessment.

All banks are encouraged to identify the activities they finance or invest in that substantially contribute to the circular economy and resource efficiency by screening their full portfolio or a selected high impact portfolio against a categorisation system of circular business models and activities.

In order to determine their baseline, banks are recommended to follow these six steps:

1. Self-assessment: Understand the level of awareness and knowledge on the circular economy and resource efficiency in the bank
2. What to assess: Determine what to assess and how
3. Choice of portfolio: Determine what portfolio to screen
4. Indicators: Decide which indicators to use
5. Data gathering
6. Screening the portfolio

Who might be involved?

In addition to the core team leading this work, e.g. the sustainability team, it is likely that a number of internal and external stakeholders will be drawn in at various stages. For example, in order to gather data, it is likely that there will be a need to work with clients and to involve the relationship managers, or their equivalent. Senior management needs to be involved in the process, for instance to define which portfolio and sectors to focus on to start, or advance in the bank's journey.

Establishing the baseline is not only valuable for the information it provides about the current position of the bank, but is also an important step in bringing internal and external stakeholders into a process that is most likely to be extended far beyond the baseline setting itself.

Step 1.

Self-assessment

What?

Knowledge and awareness on the circular economy and resource efficiency are manifested in various ways within the bank, from the way the bank defines and understands these topics, and communicates on them with employees and clients, to the policies and practices it has.

How?

We recommend gathering insights from a range of stakeholders across the bank to explore the institutional knowledge and activity to date. Box 4 shows some suggestions of questions that can be used to gain the relevant insight.[8]

8 Adapted from Ellen McArthur Foundation's Circulytics Indicators, Enablers Category, Ellen Mac Arthur Foundation (2021)

Box 4: Example of guiding questions for a self-assessment

- Does my bank have an explicit policy on and a definition of the circular economy and resource efficiency?
- Is there a common understanding of the impacts that my bank could potentially have on resource efficiency or the circular economy not only via my bank's operations (e.g. water consumption or waste production in our office buildings), but also via our financing and investment activities?
- To what extent are the circular economy and resource efficiency present in my bank's strategy and planning:
  - in the CEO's agenda, in risk assessment and policy, in the strategy?
  - has the bank set circular economy and resource efficiency targets for its financing and investment activities?
  - does the bank have a resource efficiency or circular economy implementation plan?
- To what extent are the circular economy and resource efficiency present in the People & Skills agenda:
  - is there circular economy or resource efficiency related training (e.g. for client-facing staff or portfolio assessment staff)?
  - are there staff dedicated to the circular economy or resource efficiency?
- To what extent are the circular economy and resource efficiency present in my bank's sustainability and risk assessment?
- To what extent are the circular economy and resource efficiency present in Operations and IT:
  - are IT systems in place to track circular economy and resource efficiency financial flows?
- To what extent are the circular economy and resource efficiency present in the data collected by my bank from clients?
- To what extent are the circular economy and resource efficiency present in external engagement:
  - with clients?
  - with investors?
  - with policymakers or through a participation of my bank to industry-wide circular economy and resource efficiency related initiatives?

Does my bank specifically mention its circular economy and resource efficiency impact in its integrated annual report or sustainability report?

This Guidance is not proposing a specific way of scoring the answers to these questions. It is suggested that banks use their own judgement and determine the Tier that best describes their current situation (see table below[9]).

Tier 3 banks Beginners	**Tier 2 banks** Intermediate	**Tier 1 banks** Advanced
Tier 3 banks have identified resource efficiency as a significant impact area of their portfolio and acknowledge or start to acknowledge resource efficiency and the circular economy as important issues. These banks wish to start or have started: ▪ to take some initial actions to understand the relevance of resource efficiency and the circular economy to their business, ▪ to build their organisational capacity by setting up teams or defining responsibilities in teams, or by setting up data processes, ▪ to set resource efficiency and circular economy targets, and ▪ to implement an action plan.	Tier 2 banks, in addition to undertaking the actions outlined in the beginner category, have started to systematise their approach to the circular economy by: ▪ setting ambitious objectives and targets, ▪ undertaking actions and measures to achieve those targets, ▪ delivering against those targets and providing comprehensive, credible reporting on their ambitions and performance, and ▪ making meaningful commitments.	Tier 1 banks, in addition to undertaking the actions outlined in the previous categories: ▪ have made significant progress against their commitments, and ▪ can provide clear evidence of taking innovative action or contributing to wider systemic change.

It is expected that banks substantiate their self-assessment, on the basis of the answers and information received from relevant internal and external stakeholders.

Outcome

At the end of this step, banks should be able to define which of the three Tiers they fit into. This will then guide the subsequent steps to follow to determine the baseline. Next, banks need to consider what aspects of their portfolio and of their resource efficiency and circular economy work to assess and how.

9 Adapted from PRI's engagement guides on plastic packaging, PRI (2021)

Case Study FirstRand—Running a self-assessment to determine the bank's Tier

FirstRand, a South African bank, is embarking on its circular economy journey. The first steps are to determine the bank's baseline in terms of knowledge, understanding and practice. To do this, FirstRand has utilised the approach outlined in the Guidance.

Policies, definitions and common understanding on resource efficiency and the circular economy

In terms of the bank's current policies, the bank has definitions, methodologies and targets for resource efficiency for its own operations but not to guide financial flows for the same and the circular economy. However, the expertise from the group's carbon and energy management specialist can be leveraged when beginning to design a process for resource efficiency and the circular economy.

Employees current skills and agenda on resource efficiency and the circular economy

There are several key specialists within the bank that can be leveraged when beginning to finance investment activities in resource efficiency and the circular economy, for example the Sustainable finance team structure sustainability linked bonds with resource efficient outcomes. The agriculture portfolio relationship managers are open to learning more about regenerative agriculture so as to offer climate finance solutions to clients. The Environment, Social and Climate Risk team at FirstRand group are the thought leaders and work to create internal awareness and advice on the circular economy with the aim of adopting the target setting Guidance for channeling finances towards circular activities.

CEO's agenda and current implementation plan

Amongst the C-suite, climate change is a key focus area. The unsustainable use of resources and biodiversity loss are considered to be emerging risks within the group which means the C-suite supports the Environment, Social and Climate Risk team's efforts to engage on these and generate awareness. However, it will become a focus area at a later stage. In the meantime, the Environment, Social and Climate team will begin with the initial phases outlined in the Guidance such as understanding the relevance of resource efficiency and the circular economy to FirstRand, determining the policies and frameworks on which to align with the aim to ultimately set targets and to implement an action plan.

Potential data collection mechanisms

Currently, resource efficiency and the circular economy are not explicitly present in the environmental and social risk assessment (ESRA) process for screening of transactions. However, a long-term objective would be to integrate resource efficiency and circular economy considerations into the ESRA process so that FirstRand can efficiently screen these transactions to measure and monitor progress against the targets set. Currently, the bank is working to incorporate climate considerations into the ESRA process and so the largest challenge they face is not making the process too onerous for the relationship managers.

External engagement

Finally, FirstRand is yet to engage any external stakeholders. This would be one of the bank's first next steps in order to determine relevance and alignment within a South African context.

Conclusion

Based on the self-assessment, FirstRand determines that they are a Tier 3 (beginner) bank.

Case Study Sovcombank—Running a self-assessment to determine the bank's Tier

Sovcombank, a bank based in Russia, undertook its impact analysis as Step 1 of implementing the Principles for Responsible Banking, which identified resource efficiency and the circular economy as an area of significant impact for the bank. It then undertook the self-assessment to identify what Tier it fits into.

Internal understanding and support

With support from the CEO and senior leadership, the bank has established a dedicated Environmental, Social and Governance (ESG) working group, involving representatives from several teams including Sustainability, Investor Relations, Public Relations, Compliance, Corporate Governance and Corporate Investment Bank specialists. Sovcombank does not have an internal definition of or specific staff dedicated to resource efficiency and the circular economy. However, resource efficiency and the circular economy are part of the areas of focus of the working group.

One of the priorities of this group is to develop a taxonomy—including circular economy and resource efficiency considerations—for the corporate lending portfolio. It is also supporting the implementation of a client assessment framework to facilitate ESG screening—including resource efficiency and circular economy considerations.

Sovcombank has introduced resource efficiency and circular economy topics into its mandatory basic ESG training, which is being rolled out to all staff.

Strategy and policies

The bank has been reporting on resource efficiency and the circular economy in its sustainability reports since 2019. Sovcombank sees the circular economy as an important part of its climate strategy. The bank is in the process of developing comprehensive policies in green finance for corporate lending and of integrating ESG factors—including resource efficiency and circular economy factors—into lending and risk management methodologies. For instance, the bank has ESG-linked loans where some reporting indicators are related to resource efficiency and the circular economy and to their impact, such as compliance with standards for wastewater discharge and emissions, annual monitoring of the state of land and water bodies of flora and fauna, and certification requirements for suppliers working on the project.

The bank has specific priorities relating to resource efficiency and the circular economy. One, related to its own operations, is to develop a "green office" concept by 2023, and work towards articulating Sovcombank's vision for this is underway. As regards its portfolios, the bank has set a financial target relating to ESG-linked loans, but no specific financial target for projects contributing to resource efficiency and the circular economy.

Data and systems

At this point, the bank has not yet developed the systems it needs to measure and monitor its circular economy and resource efficiency work. Data is collected as needed from clients, and managed manually. The intention is to formalise and automate this process as much as possible in the coming period.

External engagement

Sovcombank has undertaken a number of client engagement initiatives in line with the bank's interest in resource efficiency and the circular economy. An example is the programme to collect and recycle plastic cards, such as credit, discount, club and gift cards. This initiative provides an opportunity to take action with retail clients.

In addition, Sovcombank is working with ASROS, the Association of Russian Banks, to provide learning and development opportunities to the banking community in Russia. One element of this is a series of webinars on sustainability issues, and there are plans to use this to explore resource efficiency and circular economy issues.

Conclusion

While Sovcombank's work in relation to resource efficiency and the circular economy is already underway, it is still in early stages and the self-assessment process led the bank to conclude that it is a Tier 3 bank.

Step 2.

What to assess

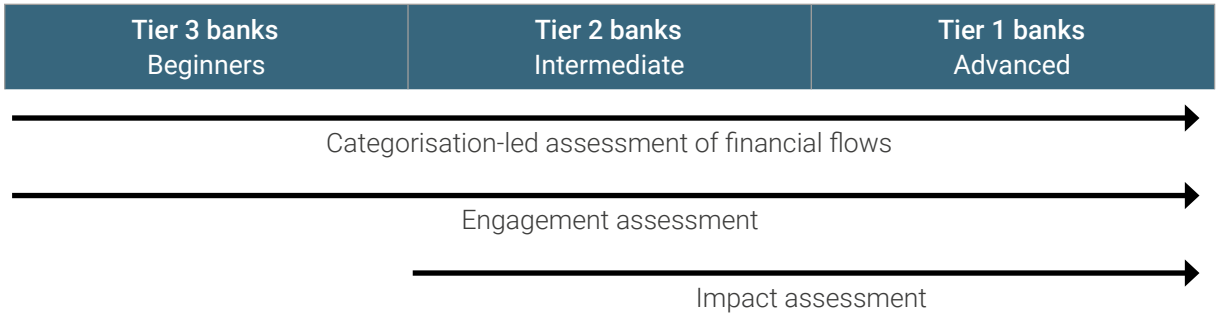
What?

Having determined their level of knowledge and awareness, banks are encouraged to next establish what their baseline assessment will encompass, which is dependent on their Tier.

At this point, all banks are also invited to select the methodology they will use to assess which of their activities contribute substantially to the circular economy and resource efficiency. It is suggested that this is done through the selection and the use of a circular economy categorisation system, which will enable banks to map their activities to categories of circular business models or strategies.

How?

The approach a bank is encouraged to take depends on the Tier it is in. The expectations about the depth and sophistication of its assessment increase with the progression of the Tiers.



Categorisation-led assessment of financial flows

All banks, whatever their Tier, are invited to follow a categorisation-led approach to understand and assess whether their portfolio substantially contributes to the circular economy. This consists of assessing whether a bank's financial flows are directed to activities, projects or clients which qualify as circular, i.e. which fall into one of the categories of a taxonomy or categorisation system for circular business models or activities. Such portfolio screening against a circular categorisation system allows banks to shift from a resource efficiency approach to a more holistic circular economy approach.

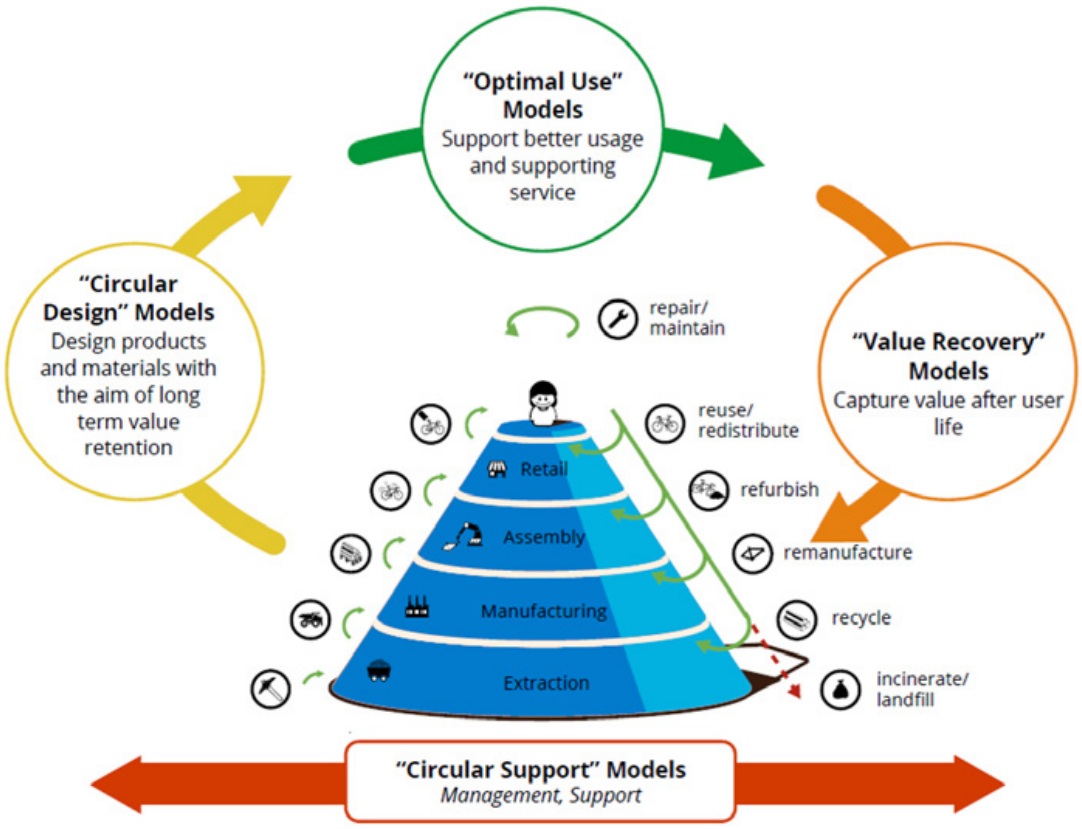
Several categorisation systems have been developed by different authorities, organisations or initiatives, such as the European Commission categorisation system for the circular economy[10] (hereafter called "the European Commission categorisation system") and the Circular Economy Finance Guidelines developed by the Dutch banks ABN AMRO,

10 *Categorisation System for the Circular Economy, a sector-agnostic approach for activities contributing to the circular economy*, European Commission (2020).

ING and Rabobank.[11] The selection of the most appropriate categorisation system for a bank will depend on a number of factors.

It is important to determine if there are any categorisation systems already in place in the bank's region or jurisdiction, whose use may be mandatory or not. In cases where their use is not mandatory or not yet mandatory, banks will need to select the most appropriate system to use. For instance, at the moment of publishing the Guidance it may be appropriate for a European bank to refer to the European Commission categorisation system. Once the European Union Taxonomy Technical Screening Criteria for the environmental objective "Circular Economy"—currently under development—are implemented, European banks will have to use such Taxonomy and Technical Screening Criteria.

Figure 1: The European Commission categorisation system for the circular economy



Business model categories mapped on the Value Hill

Source: "Categorisation System for the Circular Economy", European Commission (2020)

If there is no obvious categorisation system available to a bank, it is recommended to use the European Commission categorisation system[12] shown in Figure 1, or a similar one as appropriate in the bank's relevant geography.

11 *Circular Economy Finance Guidelines*, ABN AMRO, ING, Rabobank (2018); see also *The EIB Circular Economy Guide*, European Investment Bank (2020)

12 The recommended categorisation system will be updated if and when more comprehensive or widely accepted categorisation systems are released.

The European Commission system has 4 categories of circular business models, divided into 14 subcategories which all contribute, directly or indirectly, to increasing resource efficiency and decreasing environmental impacts throughout value chains (see table 1). Practical recommendations on how to use the chosen categorisation system are provided in Steps 4 and 6 below.

Table 1: The 14 subcategories of the European Commission Categorisation System for the Circular Economy

Group 1: Circular Design and Production Models
1.a Design and production of products and assets that enable circular economy strategies, through e.g. (i) increased resource efficiency, durability, functionality, modularity, upgradability, easy disassembly and repair; (ii) use of materials that are recyclable or compostable
1.b Development and deployment of process technologies that enable circular economy strategies
1.c Development and sustainable production of new materials (including bio-based materials) that are reusable, recyclable or compostable
1.d Substitution or substantial reduction of substances of concern in materials, products and assets to enable circular economy strategies
1.e Substitution of virgin materials with secondary raw materials and by-products
Group 2: Circular Use Models
2.a Reuse, repair, refurbishing, repurposing and remanufacturing of end-of-life or redundant products, movable assets and their components that would otherwise be discarded
2.b Refurbishment and repurposing of end-of-design life or redundant immovable assets (buildings/ infrastructure/facilities)
2.c Product-as-a-service, reuse and sharing models based on, inter alia, leasing, pay-per- use, subscription or deposit return schemes, that enable circular economy strategies
2.d Rehabilitation of degraded land to return to useful state and remediation of abandoned or underutilised brownfield sites in preparation for redevelopment
Group 3: Circular Value Recovery Models
3.a Separate collection and reverse logistics of wastes as well as redundant products, parts and materials enabling circular value retention and recovery strategies
3.b Recovery of materials from waste in preparation for circular value retention and recovery strategies (excluding feedstock covered under 3.c)
3.c Recovery and valorisation of biomass waste and residues as food, feed, nutrients, fertilisers, bio-based materials or chemical feedstock
3.d Reuse/recycling of wastewater
Group 4: Circular Support
4.a Development/deployment of tools, applications, and services enabling circular economy strategies

Source: "Categorisation System for the Circular Economy", European Commission (2020)

Case Study BNPP—A categorisation-led approach for an ETF dedicated to the circular economy

In April 2019, BNP Paribas launched an Exchanged Traded Fund (ETF) dedicated to the circular economy. It replicates the ECPI Circular Economy Leaders Equity index and offers investors exposure to the performance of 50 international large caps selected for their active participation in a business model based on the circularity of goods, materials and raw materials.

The ECPI Circular Economy Leaders Equity index offers investors exposure to listed companies in global developed markets characterised by a positive environmental, social and governance (ESG) profile and their good ability to grasp the benefits of circular economy models.

The Index methodology is based mainly on ESG criteria. Companies are selected in industrial sectors most exposed to the circular economy either because they are circular by nature or because they are most likely to benefit from the adoption of practices and business models typical of the circular economy (e.g. energy-intensive sectors or industries that make use of finite raw materials). Companies are then classified, under a categorisation-led approach, according to 5 categories:

- circular design,
- material recovery,
- extending product lifecycles,
- sharing platforms,
- products as services.

The index integrates several exclusions in the armaments, tobacco wholesale trading, specific aspects of oil & gas extraction industries.

The index selects 50 companies with the largest market caps, while ensuring continued diversification in sectors deemed eligible by analysts at ECPI.

The assets held in the ETF amounted to EUR 480 million at mid-October 2021, two years after its launch, suggesting the circular economy starts to gain investors' interest, from both individual and professional investors.

Engagement assessment

All banks, whatever their Tier, are invited to assess their level of engagement with clients on the resource efficiency and circular economy topic and the proportion of clients from which they collect data relevant for resource efficiency and the circular economy. For Tier 3 banks, those just starting this work, engaging with clients might involve, having initial and informational conversations with them on the circular economy and resource efficiency and collecting data from them on these topics. For more advanced banks, particularly those in Tiers 2 and 1, it may also include, consulting and accompanying clients on their transition plans to more resource efficient and circular business models.

Impact assessment

Tier 3 banks are not expected to make any impact assessment in their process to establish their baseline. As banks progress through the Tiers to 2 and 1, they are encouraged to focus more on the impact of the activities identified under the categorisation-led approach by running an impact assessment.

Outcome

Banks determine which of the three elements of the assessment (financial flows, engagement and impact) they will be undertaking. They will also have selected the categorisation system they will be using. They now need to determine what portfolio to screen.

Step 3.

Choice of portfolio

What?

All banks are encouraged to screen their entire portfolio. However, particularly for banks just starting out, this may not be feasible. In this case, banks are urged to focus on the portion of their portfolio which has the most significant impact, and to provide insight in their reporting into how the decisions were made about what to screen and what percentage of the portfolio is screened. It is expected that over time, banks increase the proportion of their portfolio that is screened with the long-term objective for Tier 1 banks to screen their entire portfolio.

How?

Even though the aim is for all banks to screen their entire portfolio, it is probable that it will not be possible for Tier 3 and Tier 2 banks. Thus, banks which are new to the circular economy and resource efficiency are expected to incorporate into their screening only new clients, loans or investments, depending on the focus selected by the bank. There is only an expectation that more experienced banks, i.e. those that have progressed to Tier 1, will screen existing clients, loans or investments. In all cases, it is likely that there will not be a perfect data set. Banks are encouraged to make reasonable efforts to gather data, and not to strive for a perfect data set at the expense of moving forward with the work.

In the event that a bank is proposing to establish a new dedicated circular economy or resource efficiency portfolio, it is expected that the whole of this portfolio will be screened.

Where banks are going to work within their existing structures and portfolio, it may make more sense to identify specific loans, investment or clients for screening. In this instance, data gathering for the screening will take place over several months from the start of the screening process. For more detail, please see Step 5, Data gathering.

The expectations about the portfolio to be screened increase with the progression of the Tiers.

Tier 3 banks Beginners	Tier 2 banks Intermediate	Tier 1 banks Advanced
New portfolio only	New portfolio only	New and existing portfolio
A selected portfolio expected to cover at least 2 relevant key sectors	A selected portfolio expected to cover around half of relevant key sectors	Aim to screen entire portfolio Screened portfolio expected to cover all relevant key sectors

In order to determine what specific portfolio or portion of portfolio to screen, banks may decide to use resource efficiency as an entry point and decide to focus on that portion of their portfolio for which resource efficiency (or related topics like waste, water or energy) have been identified as a significant impact area.

It is expected that the portfolio to be screened will cover at least 2 relevant key sectors for Tier 3 banks and will cover around half of the relevant key sectors for Tier 2 banks and all the relevant key sectors for Tier 1 banks (for which the portfolio to be screened aims to be the entire portfolio). Banks are invited to determine key sectors as described below.

Key sectors

The key sectors may be identified by banks using a series of criteria such as:

- Impact/circular potential, i.e. potential to drive positive improvements and positive impact in terms of resource efficiency and the circular economy (resource intensity, inefficiency or scarcity, high GHG emissions or other negative environmental impacts—e.g. deforestation, biodiversity loss, waste, pollution),
- Relevance in portfolio (in terms of financial volume or similar),
- Relevance against the framework with which to align,
- Momentum (policies, sectoral commitments, corporate actions, consumption behaviours).

Box 5: Indicative list of key sectors

- Buildings & construction
- Plastics/packaging
- Textiles & fashion
- Food systems & Agriculture
- Electronics
- Vehicles & Transport
- Manufacturing
- Waste Management
- Water
- Mining
- Chemicals

The indicative list of key sectors in Box 5 is not intended to be an exhaustive list, but to provide a starting point for prioritising where banks can focus when embarking on this work.

Banks are invited to substantiate their choice of key sectors on which they will focus screening their portfolio.

Outcome

Ultimately, this step will enable banks to determine which portion of their portfolio they will be screening and incorporating into their circular economy work at this point in time. They now need to determine which indicators they will screen this portfolio against.

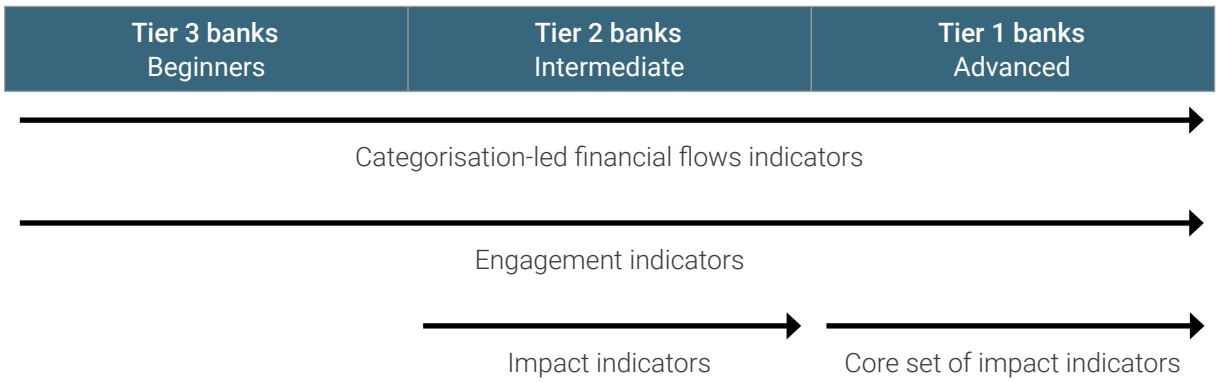
Step 4.
Indicators

What?

In order to screen the financial flows, client assessment and impact[13] of the chosen portfolio, banks need to determine the most appropriate indicators to use. At this stage, banks need to use qualitative indicators about clients, projects or activities. These will provide the necessary insight into the degree and nature of their circularity. Banks also need to use indicators for assessing their client engagement. In addition, Tier 2 banks and Tier 1 banks need to determine what impact indicators to use.

How?

The indicators to be used by banks depend on their Tier and the type of assessment they are invited to make in the selected portfolio. The recommendation is that the depth and extent of the indicators increases with the sophistication and experience of the bank, i.e. as they progress from Tier 3 to Tier 1.



Indicators for the categorisation-led assessment of financial flows

Indicators for screening the financial flows in a portfolio using a categorisation-led approach will mainly be qualitative indicators which will allow to understand and assess whether a client, project or activity falls into one of the categories of the categorisation system selected under Step 2. If a bank has decided to screen its portfolio against the European Commission categorisation system, it may be most relevant to define indicators on the basis of the specific circularity criteria provided in the European Commission categorisation system.

13 For Tier 2 and Tier 1 banks

It is recommended that banks align their qualitative circularity indicators with those in any relevant framework identified under Step 1 above. For instance, European banks are expected to use indicators aligned with the EU Taxonomy Technical Screening Criteria[14]—currently under development—once published and implemented.

Examples of qualitative circularity indicators, adapted from the European Commission categorisation system specific circularity criteria, are provided in Box 6. Other examples of qualitative circularity indicators are shown in the Illustrative Case Study below in Annex 1.

Banks will then use a quantitative indicator (amount or %) to reflect the proportion of the portfolio screened positively against the circular economy categorisation system.

Box 6: Examples of qualitative circularity indicators, for certain categories of the European Commission categorisation system[15]

Category 2a (Reuse, repair, refurbishing, repurposing and remanufacturing of end-of-life or redundant products, movable assets and their components that would otherwise be discarded)

1. Would the products or assets otherwise be redundant and discarded?
2. Does the activity achieve significant overall net resource savings and impact reductions, on a lifecycle basis, compared to a new, replacement product?
3. Are the products or assets put back to their original use possibly with extended properties, or in case they have outlived their original purpose, to an adaptive re-use (by repurposing)?
4. Will efforts made to promote the life extension not compromise the ability to recover or recycle the products or assets or their associated materials at the end of a new life-cycle?

Category 2c (Product-as-a-service, reuse and sharing models based on, inter alia, leasing, pay-per-use, subscription or deposit return schemes, that enable circular economy strategies)

1. Does the contractual model show that the entity carrying out the activity retains responsibility for the upkeep, maintenance and end- of-life management of the product or asset?
2. Does the business model enable circular economy strategies?
3. Does the activity increase the overall resource efficiency of the product or asset, on a lifecycle basis, as compared to existing use practice?

14 Platform on Sustainable Finance Technical Working Group. Taxonomy pack for Feedback, August 2021, Platform on Sustainable Finance, (2021)

15 Adapted from the European Commision categorisation system specific circularity criteria.

Category 4a (Development/deployment of tools, applications, and services enabling circular economy strategies)

1. Do the circular support tools, applications and services demonstrably enable circular economy strategies and result in significant overall net resource savings?

Engagement indicators

It is envisaged that banks will identify quantitative engagement indicators, for example the number of clients or proportion of the portfolio, with which they are communicating or engaging about the circular economy or resource efficiency and from which they are collecting data related to resource efficiency and the circular economy.

In addition, banks, particularly Tier 2 and Tier 1 banks, are invited to define indicators which allow them to understand the level of advancement of their clients on resource efficiency and the circular economy. This will help banks to define how to best engage with their clients.[16] Examples of indicators could be the number or share of clients that have approved circularity approaches or that have plans in place for transition towards more resource efficient and circular models and practices.

Impact indicators

Tier 3 banks do not need to choose impact indicators at this stage of the process, as they are not expected to run an impact assessment to determine their baseline. They will need to do so later on in the process, when setting their impact reporting target (please see Section 3 below).

In order to run the impact assessment of their portfolio or chosen portfolio, Tier 2 and Tier 1 banks will need to define what impact indicators to use.

There is a high variety of impact indicators that may be used by banks, depending on the type of client, project or activity and depending on the impact that they want to capture through the indicator. Section 5 of the Guidance includes recommendations on the choice of impact indicators. Tier 2 banks are encouraged to use relevant and feasible impact indicators following the guidance provided in Section 5, whereas Tier 1 banks are invited to use a core set of common impact indicators, which is further described below in Section 5.

16 The forms of engagement with clients is broader for Tier 2 and Tier 1 banks as for Tier 3 banks, please see below Section 3 Setting SMART targets

The use of a core set of common impact indicators would overarch across portfolio assessments, which would allow for consistency in tracking overall progress and benchmarking across peers. This progression between Tiers reflects a direction of travel that is increasingly comprehensive and consistent, as the capacity of the bank evolves with experience.

Outcome

At the end of this step, banks will have identified a selection of indicators that are relevant to gain the necessary insight into the nature of the clients, loans and investments being considered for resource efficiency and the circular economy by the bank, the proportion they represent in the banks' portfolio and the impact they have. The next step is to gather the relevant data.

Step 5.

Data gathering

What?

Having determined what indicators they will use, banks know what data they need to collect to be able to assess their portfolio.

For banks gathering data relating to existing clients, loans and investments (Tier 1 banks) in addition to new clients, the process may involve data collection from existing systems. However, it is likely these will need to be reviewed and potentially refined in light of Steps 1 to 4.

For banks gathering data from new clients, loans or investments only (Tier 3 and Tier 2 banks), it is expected that this will take place over several months, once the work has been done to put the relevant data gathering processes in place. The time allowed for data gathering should be sufficient to collect meaningful and representative data. The extent of this will depend on various factors, including for example deal flow or new client acquisition rates.

How?

It is expected that some of the required data will already be available to banks, especially after they have run their impact analysis as requested under the Principles for Responsible Banking. However, it is probable that banks will face significant data gaps. Identifying data gaps is an important step in the process, which will then allow banks to define what data need to be gathered and to put in place data gathering processes. Relationship managers, or other client-facing staff will probably need to be involved in data gathering and will probably need to be trained for this purpose.

The categorisation-led assessment of financial flows recommended for all banks requires at this stage the collection of mainly qualitative data related to the qualitative indicators identified by banks in Step 4. Sufficient information is required to determine what the client, project or loan/investment is and whether it falls into one of the circular categories from Step 2, as well as quantitative data to measure exposure.

Banks also need to gather data to identify which clients to engage with and the current level of engagement with them on the resource efficiency and circular economy topic. The required data is both qualitative and quantitative, as it should allow for instance to identify clients in resource intense activities or sectors (qualitative data), to identify clients on which the bank has a significant exposure in certain sectors (quantitative data) or to measure the numbers of clients engaged with (quantitative data).

Where Tier 2 and Tier 1 banks are moving into more impact-based data gathering, the data, particularly for impact, is likely to be increasingly quantitative. For Tier 1 banks it is expected that the data collected will cover the impact indicators of the core set.

In either case, it may be that implementing a data collection template (see Box 7), which can be shared with clients through relationship managers or their equivalent, is the most effective way to start. Using a data collection template is recommended as fostering data collection efficiency and standardisation and easing the processing of data. It is recommended, as much as possible, to align such templates with relevant frameworks when they are or become available. Over time, as the data collection process is refined by a bank, it can be automated to a greater extent, and integrated into formal data gathering systems and tools.

Given the specialised context of resource efficiency and the circular economy, it is understood that resources will need to be spent to initially upskill, and subsequently to update, relationship managers on the expectations of the information required from clients.

It is expected that a data collection template will include generic data requests, as well as data requests which are specific to certain sectors or types of activities and business models. It is also expected that a data collection template will include both qualitative and quantitative data requests. An example of generic data collection template is shown in Box 7. Box 8 shows an example of specific data collection template for reuse/recycling of wastewater circular business models in the Food and Agriculture sector.

Data are expected to be mainly collected from primary sources, i.e. directly from clients. It is likely that some of the requested data, especially data related to impact, are not commonly produced by or available to companies, especially as long as the provision of such data is not mandatory. In this case, it is recommended that banks acquire data from their clients on a best effort basis.

Banks may also collect data from other sources including data providers, publicly available data (e.g. by country or sector) or labels and certifications (e.g. Energy Performance Certificates for mortgages).

Banks are encouraged to document data sources in all cases.

Box 7: Example of Generic Data Collection Template

- Sector
- NACE/ISIC Code or similar activity code
- Client
- Business/activities of the company
- Branches or subsidiaries of the company and information on their activities
- Turnover (or other financial metric) of the company and of relevant branches/ subsidiaries[17]
- Nature of exposure (general purpose loan or use-of-proceeds loan)
- Amount of exposure
- For use-of-proceeds loans, description of the project financed
- Are data related to resource efficiency or circular strategies collected from the client?

Box 8: Example of Specific Data Collection Template for reuse/recycling of wastewater circular business models in the Food and Agriculture sector[18]

1. Does the activity satisfy relevant legal provisions or recognised international standards and user specifications for reused/recycled wastewater?
2. Does the activity not increase pollution, safety and health risks for users and the environment?
3. Are appropriate technical measures and/or economic instruments in place or planned to improve resource efficiency in the overall water use cycle, subject to technical and economic viability?
4. Does the activity increase water recovered for agricultural activities?
5. What is water use reduction (m^3 p.a. or %)?
6. What is the volume of water recovered for agricultural activities (m^3 p.a.)?

Outcome

When the data gathering is complete, banks will have a collection of qualitative and quantitative information about the clients, products or activities being scrutinised as part of their resource efficiency or circular economy work. It will relate to as many of the indicators selected in Step 4 as possible, making it comprehensive enough to draw reliable conclusions. The final element of establishing the baseline is to screen the portfolio.

17 This will be used to determine the % of a general purpose loan exposure that may be considered as substantially contributing to resource efficiency and the circular economy, please see below Step 6.

18 Adapted from the European Commission categorisation system specific circularity criteria for category 3d

Case study ABN AMRO—Development of data collection

At ABN AMRO the first steps on data collection in regards to the circular economy were quite simple. To get started they first built a manual method to measure their progress. This consisted of a few simple steps:

1. Choose a definition to test new deals by (on the basis of Circular Economy Finance Guidelines[19])
2. Choose focus sectors (Commercial Real Estate & Manufacturing)
3. Make an editable pdf with relevant metrics & information on deal/client
4. Apply a 4 eyes principle on all new deals
5. Collect data

After doing this for about a year they also started collecting data on a few specific deals in regards to impact of the circular economy. They did this with a partner consulting firm to help them in this journey, with 3 steps:

1. Identify
   - Reduced material inputs
   - Reduced energy consumption due to better efficiency
   - Longer lifespan
   - Easier reuse
   - Easier refurbishment and/or recycling
2. Calculate
   - Determine baseline case (life cycle assessment)
   - Compare with circular case (life cycle assessment)
3. Allocate
   - What is ABN AMRO's share in the debt financing of the client?
   - Allocate according to ABN AMRO's share.

They did this with the help of a questionnaire for the clients involved, and subsequently looking for Life Cycle Assessments themselves. This allowed to collect data relevant to assess increase or decrease in Co2 emissions and energy, land and water usage.

ABN AMRO is currently in the process of identifying circular clients in an automated way with the help of data. Certain activities can be seen as inherently circular, with only a few checks left. If the bank has specific data on the clients' activities, some of the steps can be automated.

19 *Circular Economy Finance Guidelines*, ABN AMRO, ING, Rabobank (2018)

Step 6.
Screening

What?

The final step in determining a baseline is to establish what proportion of the bank's financial flows can be considered as substantially contributing to resource efficiency or the circular economy, how many, or what proportion of relevant clients it is engaging with and, for Tier 1 banks only, what is the impact of their portfolio.

How?

Categorisation-led screening of financial flows

In order to be able to determine whether a given exposure is screened positively against the selected categorisation system, and in what proportion, it is recommended that banks split their portfolio to be screened into financial instruments with a specified use of proceeds and those without. This could be at client, activity or project level, whichever is the most appropriate in each banks' specific context.

For financial instruments with a specified use of proceeds, it is expected that banks will have enough information and data to be able to determine whether the use of proceeds contributes to the circular economy and, as the case may be, in what proportion. This will be determined on a case-by-case basis.

For general purpose financial instruments, it is expected that banks will not be able to consider their exposure as fully related to an activity substantially contributing to the circular economy, except in the cases where the client's activity by nature contributes to the circular economy. This would for instance be the case for a client with a refurbishment or repair business. In other cases, banks are invited to identify within the client's activities, which one(s) contribute(s) to the circular economy and in which proportion. The proportion may be determined on the basis of the % of turnover (or other relevant financial metric).

Banks are encouraged to run a high-level screening of the selected portfolio using activity codes such as NACE, ISIC or similar ones. Indeed, certain codes correspond to activities that *per se* are expected to contribute substantially to the circular economy or to fall into one of the categories of the categorisation system.[20]

20 Examples (ISIC+): E-38-383-3830-Materials recovery, C-33-331-Repair of fabricated metal products, machinery and equipment, S-95-Repair of computers and personal and household goods, C-477-4774-Retail sale of second-hand goods, M-72-721-7212 Research and experimental development for non-polluting and resource efficient technologies (Source: *Portfolio Impact Analysis Tool for Banks, Version 2*, UNEP FI (2021))

It is likely to be necessary to then move to a more granular analysis of the nature of the clients, loans or investments in the relevant portfolio. This would draw on the data gathered in Step 5, which will provide a qualitative picture of the activities being funded or invested into by the bank. In this way banks can determine which clients, projects or activities can be deemed to be circular, and establish the proportion of the portfolio this represents, and the loan or investment value.

Client engagement screening

In addition to the categorisation-led screening of financial flows, banks are also recommended to make a qualitative and quantitative analysis of their portfolio to identify which clients to engage with (e.g. relevant clients in key sectors) and a quantitative analysis of the absolute number, or proportionate value, of the clients already engaged by the bank in relation to matters of circular economy and resource efficiency.

Impact screening

Tier 3 are not expected to run an impact screening of the selected portfolio.

Tier 2 and Tier 1 banks are invited to consolidate data collected under Step 5 corresponding to each of the impact indicators—preferably using the core set for Tier 1 banks (as the case may be adjusted as considered relevant and documented by the bank , please see Section 5 below)—and thus to determine their baseline for each of the impact indicators.

Outcome

At the end of this Step, banks will have a clear baseline of the circular and resource efficiency activities already contained within the portfolio, and the extent of existing client engagement. For Tier 2 and Tier 1 banks, there will also be insight into the current impact of that activity. The baseline will constitute the basis on which banks will set targets, which is the next step.

3. Set SMART targets against baseline

Banks are invited to set meaningful targets under the target framework presented below.

What is a meaningful target?

Targets and their level of ambition should be linked to, and drive alignment with and greater contribution to appropriate SDGs, the goals of the Paris Agreement on Climate Change and other relevant international, regional, national or subnational frameworks that banks determine as the relevant framework to align with in Section 1 above.

Targets should be set against the bank's baseline as determined in Section 2 above.

Targets should be SMART targets.

Targets should be substantiated. Banks are encouraged to develop a narrative to explain their target setting.

SMART targets

Specific,
Measurable,
Achievable,
Relevant,
Time-bound.

Target framework

Defining a target framework

A three-category target setting structure has been developed to provide a framework that addresses the key elements of implementing a resource efficiency or circular economy approach.

Financing the transition towards a resource efficient and circular economy is a long journey. Most signatory banks are probably in the early stages of this journey at the moment of publishing this Guidance (Tier 3 banks). Over time banks will evolve from Tier 3 to Tier 2 and Tier 1 and the target framework is designed to facilitate this.

The three-category target framework

The three-category target framework reflects the priorities for banks to:

- **Increase the financial flows** directed to resource efficient and circular activities,
- **Improve the impact** of the resource efficient and circular activities financed.
- **Actively engage with clients** and support them in their transition to resource efficient and circular business models. Indeed, engaging with clients is crucial to raise their awareness on the importance to transition to resource efficient or circular business models and to improve their understanding of how to operate such transition. Engaging with clients is also crucial to provide them with technical assistance in the development and funding of resource efficient and circular activities and to get from them the required data for assessment, monitoring and reporting purposes.

The three facets above are intrinsically linked and designed to work together to collectively contribute to the transition towards the circular economy and hence to contribute to an increase of positive impact and decrease of negative impact.

Hence, the three-category target framework includes:

- **engagement targets**, i.e. a target of identification of and engagement with key clients for resource efficiency and circular economy purposes.
- **financial targets**, i.e. a target of % of financial flows directed to activities substantially contributing to resource efficiency and the circular economy, i.e. screened positively against a given circular economy categorisation system.
- **impact targets**, i.e. a target related to the increase of positive impact and/or decrease in negative impact of the financed activities.

Banks are encouraged to set a target in each category. It is expected that combining the three categories would allow banks to set meaningful targets to foster the financing of resource efficient and circular projects, activities and clients.

A progressive target framework

A progressive target framework guides Tier 3 banks on how to get started on their journey to finance the transition towards a resource efficient and circular economy. It enables all banks, whatever their Tier, to understand the direction and long-term goals which their strategy and action plan should tend towards.

The progressivity of the target framework consists mainly in a progressive widening of the portfolio for which banks are invited to set a combination of targets (engagement target /financial target/impact target). The progressivity is also reflected in the forms of engagement with clients, which broadens over time, from mere data requests to awareness raising and knowledge sharing, and then technical assistance.

- A Tier 3 bank sets targets for only a portion of its portfolio (covering key sectors with high impact) and its engagement with clients will at least include sending data requests to their clients to understand the alignment of economic activities with the circular economy principles.

- Over time a Tier 2 bank extends progressively the scope of the portfolio for which it sets targets. Furthermore, its engagement with clients will at least include improving clients understanding of resource efficient and circular solutions and potential positive impact of resource efficiency and the circular economy on climate, biodiversity, waste and pollution.
- The long-term objective for Tier 1 banks is to set targets for their entire portfolio and all sectors. Their engagement with clients will at least include providing technical assistance in the development and funding of activities substantially contributing to the circular economy.

The progressivity of the target framework also appears in the impact target category, for which Tier 3 banks and Tier 2 banks are encouraged to set targets to report impact whereas Tier 1 banks, in addition to reporting impact, are encouraged to set actual impact targets. It is expected that setting a target to report impact will allow Tier 3 banks and Tier 2 banks to progressively gain experience in defining, choosing and using impact indicators, in collaboration with their clients and then to be able to set actual impact targets once they become a Tier 1 bank.

A bank in a given Tier may decide, for one or several target categories, to set a target corresponding to a more advanced Tier. For instance, a Tier 2 bank may decide to set a Tier 1 engagement target. However, it is expected that banks will not set targets corresponding with a lower Tier than theirs. For example, a Tier 2 bank is not expected to set a Tier 3 engagement target.

Overview of the Target Framework

	Tier 3 banks Beginners	Tier 2 banks Intermediate	Tier 1 banks Advanced
Engagement target	→ Extend the scope of the portfolio covered by the target and increase the variety of ways the bank is engaging with clients		
Financial target	→ Extend the scope of the porfolio covered by the target		
Impact target	→ Extend the scope of the porfolio covered by the target—reporting target only		
			→ Impact target

Detailed Target Framework

Target Category	Tier 3 banks	Tier 2 banks	Tier 1 banks
Engagement Target Engagement with clients	Identify key clients in a given sub-portfolio and in the selected key sectors* (target number of clients or clients representing at least a target % of portfolio) and engage with them within a defined timeframe. Engagement will at least include sending data requests to clients to understand alignment of economic activities with the circular economy.	Identify key clients in a given sub-portfolio or the selected key sectors* (target number of clients or clients representing at least a target % of portfolio) and engage with them within a defined timeframe. Extend the client base towards clients substantially contributing to the circular economy in key sectors. Engagement will at least include the same engagement as for Tier 3, and also improving clients understanding of circular solutions and potential positive impact on climate, biodiversity, waste and pollution.	Engage with key clients in whole portfolio and all relevant key sectors (target number of clients or clients representing at least a target % of portfolio) within a defined timeframe. Extend the client base towards clients substantially contributing to the circular economy in all sectors. Engagement will at least include the same engagements as for Tier 3 and Tier 2, and also providing technical assistance in the development and funding of circular activities.
Financial Target Financial flows directed to activities substantially contributing to the circular economy	Within a defined timeframe, increase the financial flows directed to activities substantially contributing to a resource efficient and circular economy (% of a given sub-portfolio and in the selected key sectors*)	Within a defined timeframe, increase the financial flows directed to activities substantially contributing to a resource efficient and circular economy (% of a given sub-portfolio or the selected key sectors*)	Within a defined timeframe, increase the financial flows directed to activities substantially contributing to a resource efficient and circular economy (% of whole portfolio and all relevant key sectors*)
Impact Target Impact of Financial flows	Annual reporting[21] of the change in % of at least one impact area (waste/water/raw material/energy,[22] etc.) in a given sub-portfolio and in the selected key sectors.*	Annual reporting[21] of the change in % of a set of impact areas (waste/water/raw material/energy,[22] etc.) in a given sub-portfolio or the selected key sectors.*	Annual reporting[21] of the change in % of a set of impact areas (waste/water/raw material/energy,[22] etc.) in whole portfolio and all relevant key sectors.* % or absolute amount target within a defined timeframe in a core set of common impact areas at least in relevant sub-portfolios and key sectors.*

* Key sectors selected using the sector prioritisation criteria described above in Section 2, Step 3

How?

In order to set targets, banks need to understand the level of ambition in the framework with which to align (see Section 1 above) and to translate that level of ambition, which may be global, regional or national, into a level of ambition at bank level in terms of engagement with clients, increase of financial flows directed to activities substantially contributing to the circular economy, and impact. This level of ambition at bank level is then applied by banks to their baseline.

The baseline to take into consideration to set targets is as follows:

- The % of the portfolio or chosen portfolio screened positively under the categorisation-led assessment of financial flows constitutes the baseline for the financial target,
- The current level of engagement with clients in the portfolio or chosen portfolio constitutes the baseline for the engagement target,
- The current impact of the portfolio or chosen portfolio (for Tier 1 and Tier 2 banks) for each of the selected impact indicators constitutes the baseline for the impact target.

Tier 3 banks, which have not run an impact assessment when determining their baseline, are nevertheless expected to set an impact target, which consists of reporting the impact of the chosen portfolio in at least one impact area. For this purpose, Tier 3 banks will need to choose the impact indicators that they will use to report the chosen portfolio impact. To do so, they are invited to follow the recommendations included in Section 5 and they may wish to use some of the indicators suggested in the core set of impact indicators in Section 5.

Banks are invited to define sub-targets as relevant, for instance for specific sectors or for certain areas of action that will contribute to achieving the target.

Banks are encouraged to set targets with a long-term time horizon, for example ten years, and to define interim targets, for example to be delivered in one, two and five years. Where aligning with an external policy or framework, the timeframe should be taken into account. A long-term target allows to set the direction towards which a bank tends. Interim targets are necessary to define the action plan and implementation measures to put in place in order to achieve the target. Interim targets are also necessary to check on a periodic basis whether a bank is on track for achieving its long-term target.

21 Banks are invited to provide reporting in each of the key sectors.

22 Banks are encouraged not to use energy as the only impact area. If a bank decides to report on energy, it is invited to also report on another impact area. Indeed, a purely energy driven impact target (eg. % increase in energy efficiency or % energy use reduction) does not necessarily make sense from a circular economy perspective as operating a circular business model may in fact use more energy in the reverse supply chain than a linear model where the product is simply thrown away after its use. The transition to the circular economy goes hand in hand with the energy transition, with growth increasingly decoupled from extraction of non-renewable resources, including fossil fuels, and the depletion of the stock of renewable resources being reversed.

Nevertheless, banks are invited to set engagement targets with a shorter time horizon, for example focussing on one to two years, than for financial targets and impact targets. Banks' engagement with clients must scale up at an accelerated pace in order to progressively build a pipeline of projects and financings. This is necessary to generate an increase of financial flows directed to the circular economy over time.

Outcome

Banks have set targets in each of the three categories, with sub-targets and interim targets as relevant. They can now define implementation measures to take action towards achieving those targets.

4. Implementation measures

What?

Under this step banks are invited to determine the actions and implementation measures that can be taken to achieve the resource efficiency and circular economy targets set under Step 3.

How?

When determining their baseline under Section 2, banks gather useful information and data which allow them to identify data gaps and areas in which action is required. Banks are encouraged to take into account the information gathered at that stage to determine their implementation measures.

Banks are invited to combine actions and measures from various categories below in order to foster awareness raising, build capacity, share knowledge and facilitate collaboration and innovation within their organisation, within the financial sector and more broadly with all relevant stakeholders.

Examples of implementation measures in various categories of action are shown below.

Internal measures to raise awareness, build capacity and adapt policies and processes

- Aligning definitions used in internal processes, related to resource efficiency and the circular economy, with definitions in relevant policy and regulation.
- Mobilising the senior management, and in particular the CEO and senior leadership to ensure institution-wide buy-in.
- Raising awareness internally on the importance of resource efficiency and the circular economy to deliver on the overall environmental and social agenda, including on climate, biodiversity and pollution.
- Capacity building, especially for client-facing employees.

- Incentivising employees, e.g. through remuneration incentives linked to financial flows directed to activities substantially contributing to the circular economy.
- Developing and putting effective policies and processes in place regarding resource efficiency and the circular economy e.g. exploring how to integrate the circular economy framework into credit risk assessment processes.
- Including resource efficiency and the circular economy in the bank's framework to track and trace sustainable or green investments and financing.
- Conducting research and publishing thought leadership pieces on the circular economy and resource efficiency topics to support reallocation of financial flows, engagement activities and impact.
- Building expertise and developing new financing solutions to make innovative circular business models 'bankable' through, for example, leveraging partnerships beyond private finance, using guarantees or expanding collateral eligibility.

Collecting data

- Developing data collection templates.
- Mobilising client-facing staff to use the data collection template for clients and projects in the portfolio for which resource efficiency and circular economy targets are set.
- Including resource efficiency and circular economy related data collection in mainstream data collection processes (e.g. KYC, due diligence).
- Automating data collection and analysis in the bank's systems.

Developing and scaling-up new financial products and services

- Increasing financing of activities substantially contributing to resource efficiency and the circular economy.
- Developing new financial products, e.g. resource efficiency or circular performance based financial products.
- Developing new financial services, e.g. technical assistance to clients.
- Actively stimulating and scaling innovation for the circular economy, e.g. by connecting growth-stage entrepreneurs to corporate clients.

Box 9: Sustainable and Performance based financial instruments to finance circularity

Most of existing sustainability-linked or performance-based financial instruments such as green bonds, transition bonds, sustainability linked bonds or sustainability linked loans may be used to finance resource efficient or circular projects and activities. Indeed, the environmental, social and governance criteria they use have progressively extended and are broad enough to measure and report the contribution to resource efficiency and the circular economy. Thus, the first green bond dedicated to the circular economy was issued by Intesa Sanpaolo in 2019. In June 2021 the International Capital Market Association (ICMA) published metrics to report impact of circular and eco-efficient projects under the umbrella of the Green Bond Principles.[23]

Engaging with clients

- Developing qualitative and quantitative data gathering processes, in consultation with key clients.
- Proactively engaging with customers in key sectors and portfolios. As mentioned above in Section 3, the forms of engagement are varied and range from mere data collection to awareness raising and knowledge sharing, or technical assistance.

Partnering and engaging in industry initiatives

- Partnering with various stakeholders
- Engaging in industry-wide initiatives to foster the financing of the transition to a resource efficient and circular economy.

Outcome

Banks determine an action plan and implementation measures which will enable progress towards achieving their resource efficiency and circular economy targets. The final step is to select appropriate performance indicators to enable banks to monitor their progress towards achieving their targets.

23 *The GBP Impact Reporting working Group—Suggested Impact Reporting Metrics for Circular Economy and/or Eco-efficient Projects*, International Capital Market Association (2021)

Case Study ABN AMRO—Increasing awareness and adapting processes

Back in 2014, the circular economy was not a subject that had a significant focus within ABN AMRO. One of their first main steps was to create awareness on the circular economy within the bank.

To be able to increase awareness within the organisation and adapt processes to be able to capture circular economy considerations, they needed to make a decision on what definition to use. This has been a journey for ABN AMRO, during which in succession they have used:

1. 2014–2018 Accenture "Circular Advantage" business models[24]
2. 2018–2020 "Circular Economy Finance Guidelines"[25]
3. 2021–now European Commission Categorisation System for the Circular Economy[26]

With these definitions as a common base of work, several teams within the bank have been focusing on increasing knowledge within the organisation on the circular economy as a whole through means of:

1. Giving internal and external presentations on the circular economy
2. Actual development of the "Circular Economy Finance Guidelines"
3. Publishing reports on the opportunities of a circular economy
4. Televised commercials which showed a "circular airplane home"
5. Online client cases on circular clients which have been financed by the bank

All these actions link with ABN AMRO's purpose of: "Banking for better for generations to come" which is currently supported by 93% of the employees according to the bank's latest Employee Engagement survey.

24 *Circular Advantage. Innovative Business Models and Technologies to Create value in a World without Limits to Growth*, Accenture (2014)
25 *Circular Economy Finance Guidelines*, ABN AMRO, ING, Rabobank (2018)
26 *Categorisation System for the Circular Economy, a sector-agnostic approach for activities contributing to the circular economy*, European Commission (2020).

Case Study Romerike Sparebank—Developing new financial products and services for energy efficiency

The building and construction industry is one of the major contributors to CO_2-emissions in the world and in the bank's home market, Norway. From a resource efficiency perspective, it is favourable that property owners improve energy efficiency and from a circular economy perspective it is a better solution to renovate an existing property rather than building a new one.

Romerike Sparebank has developed, in cooperation with their co-owned banking alliance Eika, a product with the ambition to stimulate clients to engage in renovation projects, to improve the energy efficiency of their house, and in a broader context, to prioritise energy efficiency improvements over more cosmetic works–such as changing a fully functioning kitchen or bathroom–in their property renovation projects.

All private homes in Norway must have an energy efficiency grade from A-G, when being sold in the first or secondhand market, where A is the best grade. The grade is given based on considerations like construction year, heating system, etc.

Romerike Sparebank has developed a new type of mortgage, the "green mortgage", under which clients who renovate their home or another housing property and achieve a minimum 30% energy efficiency improvement benefit from a preferred interest rate on a portion of the total mortgage amount.

In order to support its clients in their energy efficiency improvement projects, Romerike Sparebank has developed a specific tool in cooperation with an external technical consultant. This tool helps the clients to identify what measures can be taken to improve energy efficiency, e.g changing windows, installing solar panels, isolating walls, or roof. The tool takes into account inter alia construction year and property location and measures energy efficiency improvement.

The green mortgage gives clients incentive to enter into renovation projects and improve the energy efficiency of their home, and thus to contribute to increasing energy efficiency and improving the circular economy in Norway. The green mortgage qualifies for being included in the bank's green bond framework, which may potentially reduce its funding cost when issuing green bonds.

Case Study Intesa Sanpaolo—Proactive engagement with clients under the StartUp Initiative

Intesa Sanpaolo StartUp Initiative (SUI) is an end-to-end programme for high-tech startups.

The startups are selected on the basis of different criteria and since 2016, start-ups are evaluated and selected based on their circular approach, developing new technology solutions or proposing new products/business models.

Circular economy approach is evaluated in the pre-screening phase and gives extra points for being selected to participate in the initiative. Moreover, for each SUI program one startup is chosen for a specific Award on the level of circularity, in partnership with the Ellen MacArthur Foundation.

The bank provides coaching, networking and direct contact with international investors via focused events.

The driving idea of the project is "Think Big. Start Small. Scale Fast." It is based on three main actions:

i. Competence: to *learn the ropes* from tutors and mentors and improve a business plan;
ii. Connections: to enter the bank's network of incubators, accelerators, research centers and science parks; and
iii. Capital: to engage with committed venture capitals, business angels and corporate investors.

With more than 134 initiatives since 2009, SUI's events have been hosted in Italy as well as all around Europe, in Israel, Russia, USA and Asia. Technology startups have come from sectors like Fashion & Design, Automotive, Foodtech, Biotech, Healthcare, Social ventures, Cleantech, Media & Entertainment.

Every StartUp Initiative is divided into four main steps:

- Scouting (call to action and application),
- Boot camp (training),
- Deal line-up (selection) and
- Investors arena (meeting & networking).

Selected startups are invited to teaching and discussion days with professional coaches. They receive support to effectively present their startup to investors and business angels. Coaches and sector experts are involved in the intermediate selection phases and provide participants with feedback along all the stages of the process. Finally, a selection of startups identified as ready to go to market are introduced to potential investors or business partners.

Case Study BNPP—3stepIT, a partnering example

In October 2019, BNP Paribas Leasing Solutions and 3stepIT created a joint venture which offers comprehensive and sustainable solutions for managing the lifecycle of technological equipment (computers, smartphones, servers, etc.).

This new entity combines the strengths, knowhow and geographical coverage of the two partners: 3stepIT is the Finnish specialist in technology lifecycle management (management, refurbishment in their own logistics centers and remarketing) and BNP Paribas Leasing Solutions is the European leader in equipment finance. The joint-venture combines the skills of both partners and aims to deploy 3 stepIT's approach in Europe, beyond the Scandinavian countries where it is already well established.

The combination of expertise through the joint venture provides companies with a comprehensive service based on circular concepts for managing their technological equipment:

- analysis of their needs to propose a fleet management plan;
- support in choosing and acquiring equipment, via adapted financing;
- monitoring and management of equipment use (location, cost, billing, date of replacement, etc.);
- handling equipment returns at the end of the contract, followed by the secure destruction of data, refurbishment and resale of equipment—with the resale value helping to reduce rental costs.

This integrated approach across the entire equipment lifecycle generates environmental benefits through:

- the refurbishment and remarketing of 97% of the assets received at the end of contract, with the remaining 3% being recycled responsibly;
- a life extension of equipment, which allows to delay the production of new equipment and thus helps to reduce the carbon footprint associated with its production between two users;
- the remarketing of previously used equipment, which enables companies to contribute to a CO_2 emissions reduction by around 36%.

Case Study Intesa Sanpaolo—Circular Economy Plafond, an industry-wide initiative

The 2018–21 Business Plan of Intesa Sanpaolo includes a specific action to support the Circular Economy: the launch of a € 6 bn Credit Plafond (the Circular Economy Plafond).

The Circular Economy Plafond provides the most innovative clients/projects with credit at favorable terms. Access to this facility is evaluated against a framework of five eligibility criteria developed in partnership with the Ellen MacArthur Foundation and three additional criteria related to green projects.

The framework is useful to consider whether a given sector supports the transition towards the circular economy. It can also provide a single customer with a boost to transform its business. While it helps engaging customers, it also helps to gather data and to reflect about the impact of products and processes.

The Circular Economy Plafond can encompass businesses ranging from startups to SMEs to big corporates, in any geographies where the bank operates, and in any industry sector. The fundamental requirement is to comply with at least one of the following criteria:

For the **circular framework**—which provides the best financial terms—they refer to:

i. Solutions that extend the product-life of goods and/or materials,
ii. Utilisation of renewable/recycled resources,
iii. Increase in efficiency and effectiveness of resources' consumption,
iv. Products that can be fully recycled or composted, and
v. Innovative technologies to enable circular business models;

For the **green framework** they refer to:

vi. Renewable energy not for self-consumption,
vii. Energy efficiency and
viii. Environmentally sustainable management of living natural resources and land-use or biodiversity.

To set up the Circular Economy Plafond, Intesa Sanpaolo engaged the C-Level structure and then started defining the Circular Economy and the framework, in collaboration with the Ellen MacArthur Foundation. The framework is intended to be used by the business units of the bank to engage customers, gather data and set KPIs and targets. It is also intended to be used by the Circular Economy Desk, a support structure, part of Intesa Sanpaolo Innovation Center, which evaluates data and information received from the business units and gives a binding opinion on the eligibility of the loans to the Plafond.

5. Monitoring and key performance indicators (KPIs)

What?

All banks need to select sufficient relevant indicators to measure their current performance (under the baseline methodology suggested in Section 2) and to monitor and report their progress towards achieving the targets set under Section 3.

How?

In line with the three categories target framework, banks need to determine, for their selected portfolio and key sectors or for their entire portfolio as applicable:

- Engagement indicators to assess their engagement with clients,
- Financial indicators to measure the volume or % of financial flows directed to activities substantially contributing to a resource efficient and circular economy, and
- Impact indicators to first report and then assess the impact of their portfolio.

Engagement indicators

All banks need to select engagement indicators to monitor their engagement with clients on resource efficiency and the circular economy.

Possible engagement indicators are the number of clients or proportion (%) of clients with which the bank engages and the proportion (%) of clients engaged with under each type of engagement described in the target framework.

Financial indicators

Banks need to measure what proportion of their portfolio is directed to clients, projects and activities substantially contributing to the circular economy.

An example of a potential indicator is the % of portfolio screened positively against the selected categorisation system.

Impact indicators

Banks, whatever their Tier, need to define impact indicators that they will use to report the impact of their portfolio and of their clients' activities. In addition, impact indicators will allow Tier 1 banks to assess and report their progress towards achieving their actual impact targets.

There is a high variety of impact indicators that may be used by banks, depending on the type of client, project or activity and depending on the impact that they want to measure. Impact indicators may be general or sector specific. A combination of several impact indicators is often necessary to adequately and holistically capture the impact of a given client, project or activity, covering both the environmental impact and the impact of circularity. This Guidance focuses on environmental impact and impact of circularity. The social impact is another important dimension of circular strategies that goes beyond the scope of this Guidance and may be explored further in future work and publications to identify potential social impact indicators.

Banks are recommended to align their impact indicators with those in any relevant frameworks already in force or to be published that have been selected for alignment under Section 1, such as the Technical Screening Criteria currently under development for the EU Taxonomy and ICMA's Suggested Impact Reporting Metrics for Circular Economy and/or Eco-Efficient Project,[27] or any framework identified as mandatory or selected for alignment under Section 1.

Banks are invited to follow the recommendations shown in Box 10 when selecting impact indicators.

27 *The GBP Impact Reporting working Group—Suggested Impact Reporting Metrics for Circular Economy and/or Eco-efficient Projects*, International Capital Market Association (2021)

Box 10: How to set good impact indicators for resource efficient and circular projects and activities

A good KPI usually has the following characteristics:

- It is both feasible and relevant
- It connects clearly to the target
- It can be easily quantified
- It can realistically be measured
- It is something that the bank's actions can make a difference to
- It is straightforward to understand
- It will be relevant in the future
- It can be sector-agnostic or sector-specific as required

In isolation or in combination, a set of key performance indicators for resource efficiency and the circular economy should aspire to:

- Capture environmental impact and the impact of circularity
- Take a full value chain approach, inclusive of upstream and downstream aspects, prioritising upstream elements (e.g. product design, business models, innovation etc).

The impact of resource efficient and circular projects, activities or clients, or impact of circularity, may be assessed by one or a combination of the following considerations:

- The reduced input of virgin resources,
- The increased asset utilisation,
- The extension of useful life,
- The enhanced value of the output,
- The increased value/resource recovery after use,
- The improved resource efficiency,
- The decreased negative environmental impacts throughout value chains.

Box 11: What is behind a good KPI for the circular economy?

The selection of key performance indicators requires a systematic process to determine how best to capture the holistic impact and the circular considerations of a given activity or project.

This may require the use of a combination of indicators rather than a single indicator. For instance, when measuring virgin raw material use, it is important not only to understand the overall reduction of virgin raw material use but also how much of that reduction is driven by improvements in recovering value of the materials after use. Hence, it is better to use an indicator measuring raw material use efficiency or productivity in combination with an indicator measuring for instance the reduction in non-renewable resources or the increase of renewable and regeneratively / sustainably sourced or secondary resources.

When trying to measure the impact of waste, indicators should not only capture the reduction of waste generated. They should also track the value recovery out of waste. Their use should enhance the recognition of waste as a material in the post-use phase. Hence an indicator of reduction of waste generated should be combined with an indicator measuring waste and by-products reuse, recycling and remanufacturing.

A general rule to consider specifically in relation to the circular economy is that positive action higher up the value chain (eg. upstream circular design of products, services and business models) is generally going to generate greater positive impact than actions further down the value chain (eg. end-of-pipe value recovery and recycling), and selected indicators should reflect this.

So, for example, a bank that is focusing on increasing its financing of waste reuse projects would experience a decrease in its performance if it chose waste recycling rate as its indicator. Nevertheless, in reality, the bank's contribution to the circular economy has improved. This would be more effectively captured by tracking performance against an indicator such as the reduction of virgin materials used (as an increased waste reuse in the bank's portfolio would result in a decrease of virgin materials used).

Case Study ABN AMRO—A journey towards defining impact indicators in the circular economy

In 2017 ABN AMRO launched the ambition to do 100 circular deals for a total of 1 billion euros of outstanding amount, leading to a reduction of 1 million tons of GHG gasses by 2020. This was ABN AMRO's first interaction with impact indicators for the circular economy.

However, while they launched this initiative, they did not yet have a specific way in mind of actually measuring the impact of circular economy deals. Quickly they came to realise that just GHG emissions would be too narrow a definition.

ABN AMRO understood circularity to be about minimising the impacts of material consumption in a comprehensive manner, which can have a number of positive impacts, including reducing water, energy, and land use. At the same time, they were aware that some circular businesses may end up decreasing some negative impacts (such as energy use and emissions), while increasing demands on land and water. ABN AMRO recognized it was important to take a holistic look at the implications of financing these business models.

ABN AMRO came to this realisation when looking at a bioplastics-producer which was circular in terms of the Circular Economy Finance Guidelines[28] definition. When comparing the base-case plastic with the bio-plastic they realised water use increased dramatically, and land use also increased significantly. ABN AMRO also took note that this was without the implications of plastic waste, which is nonexistent when comparing with biodegradable plastics.

All in all, the impact factors to consider for each type of circular economy deal differ, some are measurable, others not so much. Deploying the correct set of impact indicators for each specific circular deal is therefore crucial to adequately capture impacts in a holistic approach.

28 *Circular Economy Finance Guidelines*, ABN AMRO, ING, Rabobank (2018)

Box 12: Examples of KPIs

Examples of Water related KPIs:[29]

- % reduction in water withdrawals per business unit
- % reduction in water consumption per unit of production
- % reduction of water discharge per business unit
- % reduction of product water intensity per business unit
- % increase in water use met through recycling/reuse
- % increase in extraction and reuse/recirculation of surplus nutrients, metals, chemicals, heat and similar valuable resources from water used in operations
- % increase in water which is either recirculated internally, reused elsewhere (as part of symbiosis/cascading) or returned to natural eco-systems or used for societal purposes after volume monitoring and quality monitoring has taken place, ensuring the same or higher quality than the surrounding (healthy) ecosystem

Examples of KPIs for Agriculture:

- % of ingredients grown using regenerative production practices
- Acres of soil converted to regenerative agriculture, or using recognised regenerative practices such as no till, cover cropping, intercropping and/or crop rotation / % of total land for food production employing regenerative agriculture
- % reduction in use of synthetic fertilisers / % increase in use of organic fertilisers
- Ratio of monocropping vs multicropping
- % increase in diversity of crops
- % of inedible food by-products used as inputs for bioeconomy products (incl. food production)
- Edible food waste prevented (tonnes)
- Number / % of food products integrating circular principles into design
- % / litres reduction in freshwater demand
- Amount of organic waste used for agriculture/food production (tonnes)
- Amount of animal protein replaced by plant protein in products
- % increase in use of by-products as ingredients
- KPI for increase in biodiversity
- Soil health KPIs, including micronutrients, water holding capacity, infiltration rate, organic carbon, earthworm count and soil Ph, among others

29 CDP Water Indicators; Ellen MacArthur Foundation's Circulytics

Examples of KPIs for Chemicals:

- % recycled content of total material input
- % renewable content from rapidly renewable, sustainably managed sources of total material input
- Reduction of amount of non-recyclable materials put on market / used
- Share of business from reuse models out of total business
- Increase in amount of material recycled as a result of innovation in post-use processing and recycling technologies (tonnes)

Examples of KPIs for Building and Construction:

- Decrease in the amount of material sent to landfill from construction sites
- % increase in recycled materials sourced for construction
- Mass of materials from deconstruction sites which can be reused and repurposed or resold in its current state (kg)
- Increase in building utilisation (%)
- Reduction in time taken to fit out/maintain a building due to modular design
- Improved energy & water consumption and air quality of buildings

Case Study Intesa Sanpaolo—Impact indicators for a Croatian SME

A Croatian SME, founded in 2006, packages herbs and tea that are further sold both directly to customers and to other companies.

While investing in new production technology, the company decided to rethink its production processes to find new ways to achieve its sustainability targets.

The company realised that its investments in new tech could be done in a way that increased production capacity, and efficiency, positively impacting energy efficiency. They found ways to reduce waste, through the purchase of new equipment that will enable them to remove the non-degradable foil from the packaging process. In addition, the glue that was used to seal the packaging will be replaced by a new biodegradable glue.

The company's financing request was considered under Intesa Sanpaolo's circular framework under its Circular Economy Plafond, because of its alignment with the sub-criteria related to "products that substitute critical materials with biological or bio-based materials" in input (tonnes/year) and with the sub-criteria related to "compostable products" in output (tonnes/year). Furthermore, another minor impact was considered, under Intesa Sanpaolo's green framework under its Circular Economy Plafond, because of the project alignment with the criteria regarding "energy efficiency" (kWh/year).

Among the main benefits resulting from the investment were the elimination of more than 5 tonnes/year of virgin plastics and an improved energy efficiency resulting in an increase of production of 26% with the same energy usage.

Core set of Impact Indicators

Tier 1 banks are invited to use a core set of impact indicators with the objective to consolidate their impact assessment. Tier 1 banks may not be able to use all of the impact indicators in the core set for all their portfolio, as some indicators may not be relevant for specific projects or activities. In this case banks are expected to explain why the indicator is not relevant. On the contrary, Tier 1 banks may find it relevant to use additional impact indicators. In such cases, the expectation is that additional impact indicators will be chosen following the recommendations provided above and will be limited in number.

On the basis of the above considerations, a core set of indicators has been developed to provide guidance for banks about the kinds of insight it is recommended that they gather and monitor. Not all the indicators will be relevant in all circumstances, and a banks' own judgment must be used to determine which ones it should focus on. However, the more detailed and transparent the approach taken, the more robust it is likely to be.

Environmental impact indicators	
Raw material use	Reduction of non-renewable resources (t p.a. or %) / increase in % renewable and regeneratively/sustainably sourced or secondary resources (% of total)
	Reduction/reversal in the depletion of the stock of renewable resources (t p.a. or %)
	Raw material use efficiency/productivity (USD/t)[30]
Water	Water use reduction (m^3 p.a. or %) / Water use intensity (m^3/product)
	Water use efficiency (USD/m^3)
	Water reuse / recycled in production processes (m^3 p.a. or %)
Waste	Reduction of waste generated (t p.a. or %)
	Waste and by-products reuse / recycling / remanufacturing rate (%)
Energy use	Energy use reduction (GWh p.a. or %)[31]
	Energy efficiency (USD/GWh)[31]
	Increase in renewable energy % (%)
GHG emissions	Reduction of GHG emissions (Scope 1&2) (t of CO_2 p.a. or %)[32]
	Reduction of GHG emissions (Scope 3) (t of CO_2 p.a. or %)[32]
Pollutant emissions	Reduction of pollutant emissions (%)
Other indicators of impact of resource efficient and circular projects and activities[33]	
Circular Design and Production	Increase in materials, components and products that are reusable, recyclable or compostable (t p.a. or %)
	Increase in products designed and produced for reuse which displace single use alternatives (%)
	Increase in virgin raw materials substituted by secondary materials and by-products from manufacturing processes (t p.a. or %)
	Increase in products offered in a circular business model (eg. Resale, product-as-a-service or sharing model) (t p.a. or %)
Circular Use	Expected extension of lifetime (compared to the equivalent linear product's expected lifetime) (years)
Circular Value Recovery	Increase in secondary raw materials, by-products and/or waste that is reused, recycled or composted in practice (t p.a. or %)
	Increase in new materials derived from secondary raw materials, by-products and/or waste (t p.a. or %)

30 Banks are invited to be cautious against using this indicator in isolation. It is important for banks to be aware of trade-offs between raw material efficiency and ability to recover the value of materials after use.

31 Banks are invited not to use these indicators in isolation, as they do not capture the circularity of a portfolio. It is recommended to use these indicators together with the indicator related to the increase in renewable energy.

32 Like for other impact indicators, GHG emissions indicators apply at the bank's clients level and not at the bank's level (reduction of clients' Scope 1&2 GHG emissions, reduction of clients' Scope 3 emissions)

33 Adapted from "The GBP Impact Reporting working Group—Suggested Impact Reporting Metrics for Circular Economy and/or Eco-efficient Projects", International Capital Market Association (2021)

Monitoring progress towards targets

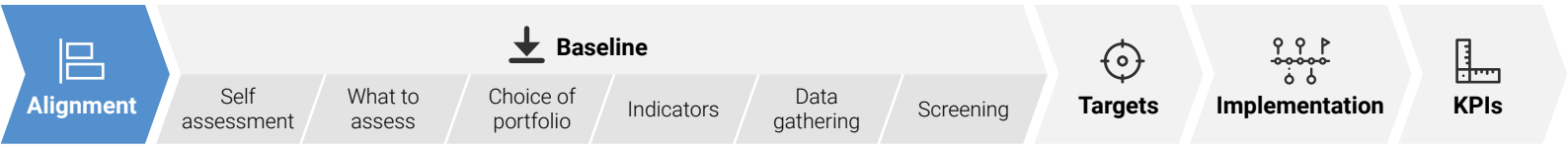
While the focus of this Guidance is on describing the target-setting process, this is just the first step. On-going monitoring of progress towards the targets and against the key performance indicators is a critical next step, and one that will be a permanent part of a bank's work to progress towards financing the transition to the circular economy. The cadence of this monitoring is likely to be most effective when done with consideration of the bank's existing monitoring rhythms and, as much as possible, banks are invited to use their existing monitoring and reporting frameworks.

Over the course of working towards the achievement of five or ten year targets, banks will likely face many changes, for example to the composition of their portfolios, or the extent of a bank's engagement in the circular economy. Responding to these changes is an important part of ensuring a circular economy approach thrives within the bank. Acknowledging what has happened and substantiating the decisions made will facilitate transparency and accountability, in accordance with Principle 6 of the Principles for Responsible Banking.

For information about reporting requirements for the Principles for Responsible Banking, please refer to the Reporting Guidance published by UNEP FI in February 2021.

Annex 1. A step-by-step illustrative case study

The fictitious Case Study below aims at illustrating the practical implementation of the methodology and recommendations included in the Guidance to Bank B, a bank located in Indonesia which, after running its Impact Analysis under the Principles for Responsible Banking, identified waste[34] as a significant impact area. Bank B follows the 5 steps of the Guidance (Alignment, Baseline, Targets, Implementation, KPIs).



1. Alignment

What?

Bank B first needs to determine with what relevant framework or policy to align its efforts to improve its positive impact and reduce its negative impact in the area of waste.

How?

Bank B is in a country in which plastics pollution is a significant issue. In 2019, Indonesia produced 4.5 million tons of plastic packaging waste, and is expected to produce 6.2 million tons annually by 2030, and only 10% of plastic packaging waste is recycled.[35]

Through desktop research and engaging with relevant internal and external stakeholders, Bank B determines the frameworks with which to align as follows:

- **UN Sustainable developments goals:** SDG12—Sustainable production and consumption which includes sub-goal 12.5 to substantially reduce waste generation by 2030 through prevention, reduction, recycling and reuse.
- **Regional framework:** no relevant regional framework is identified by Bank B.

34 As per UNEP FI's Impact Radar

35 "The Economic, Social, and Environmental Benefits of Circular Economy in Indonesia", Ministry of National Development Planning, Indonesia (Bappenas), United Nations Development Programme (UNDP), Government of Denmark, January 2021

- **National framework:** Indonesia National Waste Management Policy and Strategy (Presidential Decree No. 97/2017) and the Plan of Action on Marine Plastic Debris 2018–2025 (Presidential Decree No. 83/2018).

Indonesia joined the Global Plastic Action Partnership, a public-private collaboration platform hosted at the World Economic Forum. At the World Economic Forum's Annual Meeting in Davos in January 2020, Indonesia presented its plan for tackling plastic pollution, with the objective to reduce marine plastic leakage by 70% by 2025 and to achieve near-zero plastic pollution by 2040. Indonesia has created a platform, Indonesia Plastic Action Partnership (NPAP) which has developed a Roadmap[36] relying on a System Change Scenario which combines 5 system changes whose combination would reduce leakage of plastic into the ocean in Indonesia by 70% by 2025:

1. **Reduce or substitute:** reduce or substitute plastic usage
   - **Redesign:** redesign plastic products and packaging for reuse or high-value recycling
   - **Collect:** double plastic waste collection by 2025; this implies expanding plastic waste collections to 4 million new households each year until 2025 with a focus on medium and small cities (which represent ¾ of plastic pollution).
   - **Recycle:** double current recycling capacity by 2025
   - **Controlled disposal:** Build or expand controlled waste-disposal facilities to safely manage an additional 3.3 million tonnes of plastic waste per year by 2025

The longer-term ambition, for the period 2025–2040, is to transition from a linear to a circular economy with the following system changes:

1. **Reduce or substitute:** reduce or substitute 6.5m t per year of avoidable plastic use by 2040
2. **Redesign:** redesign plastic products and packaging (from 20% today to almost 50% of non-recyclable plastics switched to recyclable formats by 2040)
3. **Collect:** Extend plastic-waste collection to almost all communities
4. **Recycle:** Recycling rate from 10% today to 40% by 2040 (share of plastics actually recycled into new materials)
5. **Controlled disposal:** Build or expand controlled disposal facilities

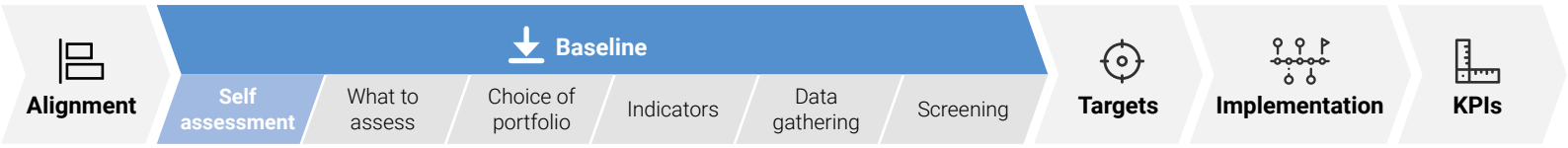
The expected impact is shown below:

- Prevention of 16m t of plastic leakage into waterways and the ocean
- Reduction of 20m t GHG emissions per year (27% reduction)
- Positive social impact (especially on jobs and health)

Outcome

Bank B determines it will align its efforts on waste with the Indonesia Plastic Action Partnership Roadmap which defines clear objectives for 2025 and 2040.

36 *Financing System Change to Radically Reduce Plastic Pollution in Indonesia: a Financing Roadmap Developed by the Indonesia National Action Plastic Partnership*, NPAP Indonesia (2020)



2. Baseline

In order to determine its Baseline, Bank B follows the 6 steps methodology recommended in the Guidance.

Step 1. Self-Assessment

What?

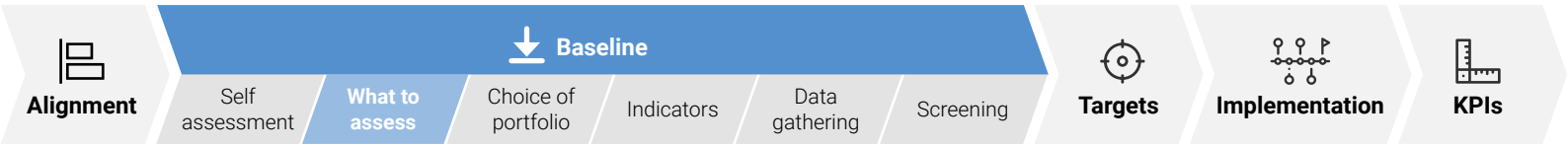
Bank B runs its self-assessment to determine its level of knowledge and advancement on the topic of resource efficiency and the circular economy.

How?

The self-assessment is run by Bank B's sustainability team using the guiding questions included in the Guidance and its own judgment. In order to be able to answer a number of the guiding questions, the sustainability team organises interviews with relevant teams as needed (Strategy, Risk, Client-facing teams, IT, etc.).

Outcome

Bank B concludes it is a Tier 3 bank, on the basis that it has not embarked on any specific circular economy work to date, it has no internal definition of the circular economy and is not collecting any circular economy related data. As a result, Bank B will apply the Baseline methodology for Tier 3 banks.



Step 2. What to assess

What?

Bank B needs to establish what its baseline assessment will encompass. Bank B also needs to determine which categorisation system to use to identify resource efficient and circular activities, projects and clients.

How?

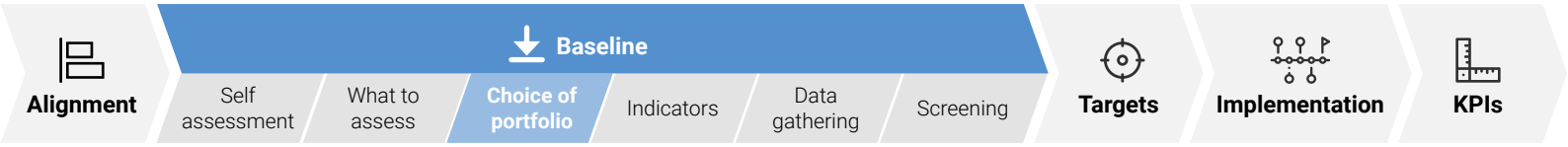
As a Tier 3 bank, Bank B will run a categorisation-led assessment of financial flows. The sustainability team, on the basis of the recommendations in the Guidance and desktop

research, determines that no categorisation system is in force in its country or region. Bank B decides to follow the recommendation in the Guidance and to use the European Commission categorisation system for a circular economy published in March 2020.

Bank B will also assess its engagement with clients. As a Tier 3 bank, Bank B does not need to run an impact assessment.

Outcome

Bank B determines it will undertake a categorisation-led assessment of financial flows and an engagement assessment. Bank B understands the categorisation system against which it will screen its portfolio.



Step 3. Choice of portfolio

What?

Although Bank B aims to screen its entire new portfolio, it is not possible, especially due to a lack of resources, capacity and experience on circular business models and activities. Bank B considers that piloting the screening exercise on a limited portfolio will help to build expertise, so that in the future they can expand this work to screen a wider portfolio. Bank B decides to focus on key sectors throughout its corporate lending portfolio.

How?

In order to determine which key sectors to focus on, Bank B refers to the indicative sectors list and to the sector prioritisation criteria mentioned in the Guidance[37] to determine key sectors for which it will screen its portfolio:

- Impact/circular potential
- Relevance in portfolio
- Relevance against relevant framework
- Momentum

The Sustainability team runs desktop research and engages with the relevant teams as needed (especially with the Corporate Lending Back Office to get the breakdown of the corporate lending portfolio by sector). The Sustainability team also decides to engage with external stakeholders to better understand the impact and circular potential of a number of sectors and the momentum in such sectors. Bank B takes into account the strong momentum on plastics pollution reduction at global level.[38] It also considers the priority given by Indonesia to reducing plastic pollution (existing policy framework and

37 Buildings & construction; Plastics/packaging; Textiles & fashion; Food systems & Agriculture; Electronics; Vehicles & Transport; Manufacturing; Waste Management; Water; Mining ; Chemicals

38 See e.g. the New Plastic Economy Global Commitment, Ellen MacArthur Foundation, UNEP

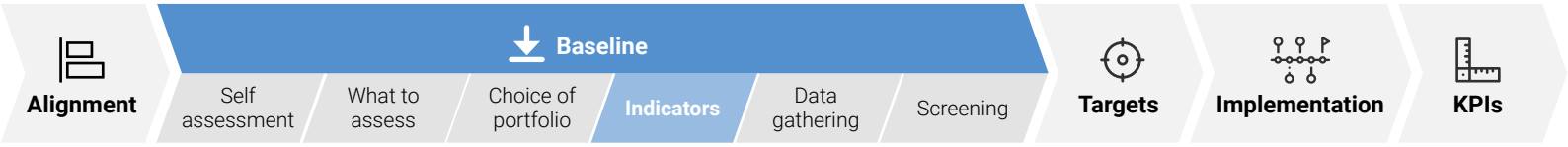
strong momentum with NPAP Roadmap), and the high circular potential of plastics.[39] A further consideration is its exposure to the plastic value chain throughout its portfolio (key clients and significant amount of exposure). As a result, Bank B selects the Plastics/packaging sector.

The Guidance invites Bank B to select at least two key sectors. Bank B would ideally want to screen its exposure to each of the main types of actors along the Plastic value chain. This includes the sectors of Petrochemicals, Containers and Packaging Producers, Fast-Moving Consumer Goods and Waste Management. Bank B decides to focus on the Containers and Packaging Producers and Waste Management sectors.

Bank B determines this portion of its portfolio represents 10% of its corporate lending portfolio and 5% of its entire portfolio.[40] This confirms that the two selected sectors are material in its portfolio and confirms Bank B in its choice of these two key sectors.

Outcome

The portfolio that Bank B will screen against the European Commission categorisation system is the portion of the Corporate Lending portfolio with exposures to the two selected key sectors (Plastics/packaging and Waste Treatment). As a Tier 3 bank, Bank B will not screen its legacy portfolio but only its new portfolio.



Step 4. Indicators

What?

Bank B determines the indicators it will use to screen the chosen portfolio. As a Tier 3 bank, Bank B does not need to use impact indicators as it has no impact assessment to make to determine its Baseline. Bank B will use qualitative indicators to screen the chosen portfolio against the European Commission categorisation system ("Qualitative Indicators") and quantitative indicators to assess its engagement with clients ("Engagement Indicators").

How?

For the Qualitative Indicators, the Sustainability team needs to understand well the European Commission categorisation system in order to be able to identify which clients, activities or projects in the chosen portfolio fall into one of the 14 subcategories. As Bank B's objective is to align with the Indonesia NPAP Roadmap, the Sustainability team starts by mapping the NPAP five key actions (Reduce and substitute, Redesign, Collect, Recycle and Controlled disposal) with the European Commission categorisation system.

39 See e.g. Ellen MacArthur Foundation's plastic overview

40 Assuming Bank B's entire portfolio amounts to USD 10,000m and its corporate lending portfolio amounts to USD 5,000m.

This mapping results as follows:

NPAP key actions	European Commission categorisation system
1. Reduce and substitute	2.a, 2.c[41]
2. Redesign	1.a, 1.b, 1.c, 1.d, 1.e[42]
3. Collect	3.a, 3.b[43]
4. Recycle	3.a, 3.b
5. Controlled disposal	3.a, 3.b

Bank B decides it will focus its screening on the categories flagged through the above mapping exercise for 3 of the 5 key action areas of the Indonesia Roadmap:

- key action 2 (Redesign), which corresponds to Circular Design and Production activities (1.a to 1.e), and
- key actions 3 (Collect) and 4 (Recycle), which correspond to Circular Value Recovery activities (3.a and 3.b).

Bank B defines qualitative indicators for the categories 1.a to 1.e, 3.a and 3.b by reference to the specific circularity criteria defined in the European Commission categorisation system,[44] that will be used by Bank B to define questions to be asked to the clients (see below in Step 5).

For the Engagement Indicators, Bank B decides to use the following indicators:

- number (or %) of key clients identified;
- number (or %) of key clients from which Bank B collects plastics-related data or circular economy relevant data.

Outcome

Bank B determines the indicators it will use to screen its selected portfolio under the categorisation-led assessment of financial flows and the assessment of engagement with client. It can now collect data relevant for each of the indicators.

41 2.a Reuse, repair, refurbishing, repurposing and remanufacturing of end-of-life or redundant products, movable assets and their components that would otherwise be discarded; 2.c Product-as-a-service, reuse and sharing models based on, inter alia, leasing, pay-per-use, subscription or deposit return schemes, that enable circular economy strategies

42 1.a Design and production of products and assets that enable circular economy strategies through e.g. (i) increased resource efficiency, durability, functionality, modularity, upgradability, easy disassembly and repair; (ii) use of materials that are reusable, recyclable or compostable; 1.b Development and deployment of process technologies that enable circular economy strategies; 1.c Development and sustainable production of new materials (including bio-based materials) that are reusable, recyclable or compostable; 1.d Substitution or substantial reduction of substances of concern in materials, products and assets to enable circular economy strategies; 1.e Substitution of virgin materials with secondary raw materials and by-products.

43 3.a Separate collection and reverse logistics of wastes as well as redundant products, parts and materials enabling circular value retention and recovery strategies; 3.b Recovery of materials from waste in preparation for circular value retention and recovery strategies (excluding feedstock covered under 3.c).

44 *Categorisation System for the Circular Economy, a sector-agnostic approach for activities contributing to the circular economy*, European Commission (2020), Table 1 "Circular Design and Production", "specific circularity criteria" & Table 3 "Circular Value Recovery", "specific circularity criteria"

Step 5. Data gathering

What?

In order to identify the clients, activities and projects in the chosen portfolio that fall into the categories of the European Commission categorisation system identified in Step 4, Bank B needs to gather data and information which will facilitate understanding of the nature of the activity and the type of business model. It will then need data to measure its exposure and to identify key clients and whether the Bank is already engaging with such clients on resource efficiency and the circular economy.

How?

As a Tier 3 bank, Bank B will only screen its new portfolio. So, it will collect data relevant to this work on resource efficiency and the circular economy for all new transactions in the chosen portfolio over a defined period of time. In order to facilitate and harmonise data collection, the Sustainability team designs a generic data collection template based on the example provided in the Guidance, as follows:

- Sector
- NACE/ISIC Code or similar activity code
- Client
- Business/activities of the company
- Branches or subsidiaries of the company and information on their activities
- Turnover (or other financial indicator) of the company and of relevant branches/subsidiaries[45]
- Nature of exposure (general purpose loan or use-of-proceeds loan)
- Amount of exposure
- For use-of-proceeds loans, description of the project financed
- Are data related to plastics or to circular strategies collected from the client?

In addition, the Sustainability team completes the data collection template with specific questions which aim to identify activities that fall under the relevant subcategories of the European Commission categorisation system. Some of the specific questions relevant for clients from the Plastics/packaging and Waste treatment sectors are shown below:

45 This will be used to identify whether the client is a key one and to determine the % of a general purpose loan exposure that may be considered as substantially contributing to resource efficiency and the circular economy, please see below Step 6.

Plastics/packaging:

These questions aim to identify clients, projects and activities that may fall under NPAP key action 2 (Redesign), i.e. subcategories 1a to 1e of the European Commission categorisation system:[46]

- Does the activity result in significant overall net resource savings and impact reductions?
- Does the activity support or enable circular value retention or recovery strategies (R4–R9 in the 9R categories[47])?
- Do the materials/products/assets produced have comparable or increased quality, properties, technical functionality and application areas?
- Are bio-based materials used demonstrably traceable to sustainable biomass production?
- Are secondary raw materials used and, if yes, do they satisfy current industry specific standards and legislation?
- Does the company track whether secondary raw materials used, if any, have a negative impact on safety and health risks for users and the environment throughout value chains?

Waste treatment:

These questions aim to identify clients, projects and activities that may fall under NPAP key actions 3 and 4 (Collect/Recycle), i.e. subcategories 3a and 3b of the European Commission categorisation system:[48]

- Are wastes, redundant products, parts and materials collected and transported separately and otherwise managed in a way to enable reuse, high quality recycling and/or valorisation?
- Are targeted communication and education programs to sensitise waste producers and the importance of waste prevention and segregation an integral part of the activity?
- Does the feedstock constitute or originate from source segregated and separately collected waste fractions?
- Does the activity contribute to increasing material recovery rates and does the client collaborate with other actors in the value chain to increase the quality of recovered materials to the extent that is both technically feasible and economically viable?
- Are secondary raw materials as well as product parts recovered suitable for reuse or recycling?
- Does the management of residues from the recovery process follow the waste hierarchy principle?

The Sustainability team shares the data collection template with the relationship managers covering the Plastics/packaging and Waste Treatment sectors and with the Corporate Lending back-office. During the next 5 months, the relationship managers and the back-office will collect and consolidate the data using the data collection template for every new transaction, project or client in the Plastics/packaging and Waste Corporate Lending portfolio.

46 Adapted from the European Commission categorisation system, Table 1 "Circular Design and Production", "specific circularity criteria"

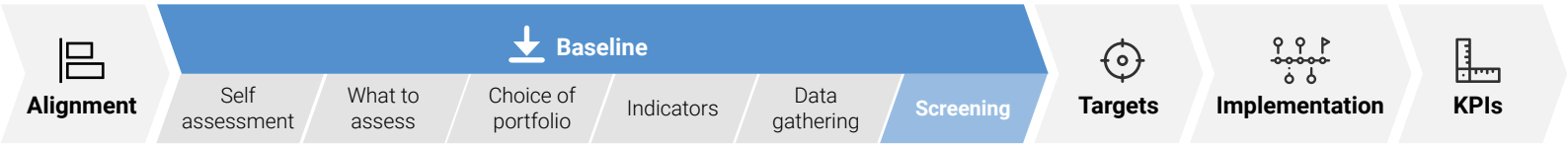
47 Please see Annex 2 for further information on the 9R categories

48 Adapted from the European Commission categorisation system, Table 3 "Circular Value Recovery", "specific circularity criteria"

In view of the number of Corporate Lending transactions closed each year in the Plastics/packaging and Waste Treatment sectors, it is expected that in a 5 month period a representative portfolio will be originated and sufficient data will be collected. At the end of the 5 month period the Sustainability team consolidates all data collected with the support of the relationship managers and back office.

Outcome

Over 5 months Bank B collects data relevant to run the categorisation-led assessment of financial flows and the engagement assessment for the chosen portfolio.



Step 6. Screening

What?

Bank B will now screen the chosen portfolio against the European Commission categorisation system and assess its engagement on resource efficiency and the circular economy with clients of the chosen portfolio. As a Tier 3 bank, Bank B does not need to make an impact assessment of its chosen portfolio.

How?

On the basis of the practical recommendations provided in the Guidance, Bank B screens the chosen portfolio as follows:

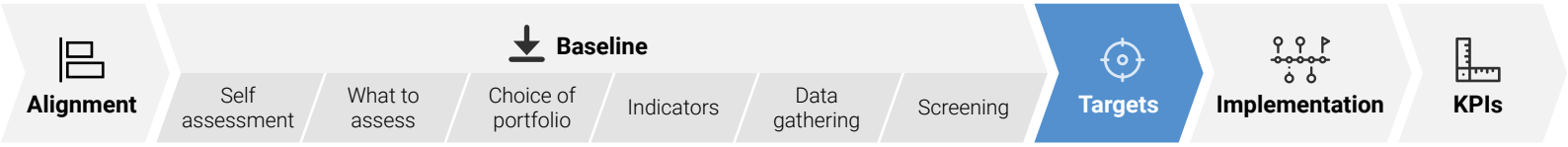
- Bank B first splits the chosen portfolio into general purpose loans and use-of-proceeds loans. General purpose loans represent 80% of the chosen corporate lending portfolio and use-of-proceeds loans represent 20%.
- Bank B starts its screening with its portfolio of use-of-proceeds loans. Bank B decides to first screen by NACE/ISIC code (or similar activity code).
    - For this purpose, Bank B establishes a list of NACE/ISIC activities codes that per se contribute positively to the circular economy or fall into one of the categories identified in Step 4.[49] All exposures on a client or project falling into one of the listed NACE/ISIC codes are considered 100% screened positively.
    - Bank B completes its screening by running a more detailed analysis of the projects and activities, relying on the description of the projects included in the data collected during the data gathering phase under Step 5. Bank B determines that 8% of its use-of-proceeds loans finance an activity or a project falling into one of the circular categories identified in Step 4.

49 e.g. ISIC 3811 "collection of non-hazardous waste", 3821 "treatment and disposal of non-hazardous waste", 3900 "remediation activities and other waste management services"

- Bank B screens its general purpose loans portfolio, following the same approach, i.e. first relying on NACE/ISIC codes and then running a more detailed analysis of the activity of the client. In order to determine whether the client activity may be screened positively and in what proportion, Bank B relies on the data collected under Step 5 and on the practical recommendation from the Guidance for general purpose loans. Bank B determines that 5.5% of its general purpose loans finance a client or an activity falling into one of the circular categories identified in Step 4.
- Hence 6%[50] of Bank B's chosen portfolio, including both general loans and use-of-proceeds loans, is screened positively against the European Commission categorisation system. This corresponds to 90 clients. This constitutes Bank B's baseline for financial target setting.
- Bank B now assesses its engagement with clients. Within the 90 clients screened positively, Bank B considers that 25 are key clients, representing 20% of its chosen portfolio.[51] Bank B substantiates its choice of key clients.
- Bank B now checks, in the database gathered under Step 5, whether data related to plastics and/or to circular practices and strategies are available for the key clients identified. Bank B finds that partial data are available for 5 key clients. This constitutes Bank B's baseline for engagement target setting.

Outcome

Bank B has determined the % of its chosen portfolio screened positively against the European Commission categorisation system. This constitutes its baseline for financial target setting. It has also determined its current engagement with clients, which will constitute its baseline for engagement target setting.



3. Targets

What?

Bank B sets targets in each of the three categories: Engagement, Financial and Impact. In its target setting process, Bank B makes sure that targets are aligned with the relevant framework (i.e. Indonesia NPAP) and ambitious when compared to its baseline.

50 8%*20% + 5.5%*80%. Bank B determines that the split of the chosen portfolio between Circular Design and Production activities and Circular Value Recovery activities is currently 25%/75% and that 4.5% of the Circular Design and Production portfolio is screened positively against the European categorisation system (sub-categories 1a to 1e) and 6.5% of the Circular Value Recovery portfolio is screened positively (sub-categories 3a and 3b).

51 20% of the "entire" chosen portfolio, i.e. screened positively or not against the European Commission categorisation system

How?

The teams involved include the Sustainability Team, the Strategy Team and the Senior Management. For each category of target, Bank B first identifies what is the corresponding target in the Indonesia Roadmap, if any. Bank B then translates such target, set at national level, into a meaningful target at bank level, i.e. into a level of ambition applied to its baseline in the context of the roadmap. This is further described below for each target category.

Engagement target

How?

Bank B translates the Indonesia Roadmap objectives into a level of ambition for the bank in terms of engagement with clients. The Indonesia Roadmap sets objectives which consist in multiplying between 2.5 and 4 the current baseline by 2040, depending on the action area (eg. multiply by 2.5 the proportion of redesign plastic products and packaging for reuse or high-value recycling; multiply by 4 the recycling rate).

Bank B acknowledges that engaging with clients is the necessary first step to shift its portfolio towards more circularity, so it decides to set ambitious targets using the multiplier of 4. It also decides to set a shorter time horizon for the engagement target than for other target categories, i.e. 2025 vs 2040.

In addition, Bank B acknowledges the importance of data collection. Even though data collection is currently quite limited, it wishes to collect relevant data from all the clients with which it is going to engage on resource efficiency and the circular economy. Hence Bank B decides to align its target of clients from which relevant data is collected with its target of clients with which to engage on resource efficiency and the circular economy.

Outcome

Bank B sets its engagement target as follows:

- Increase the number of identified clients with which to engage from 25 key clients to 100 clients by 2025
- Increase the number of clients from which plastics related and/or circular economy relevant data is collected from 5 to 100 by 2025
- Bank B defines sub-targets and/or interim targets as follows:
  - Increase number of identified clients with which to engage from 25 to 60 by 2023 and to 100 by 2025
  - Increase number of clients from which plastics related and/or circular economy relevant data is collected from 5 to 60 by 2023 and to 100 by 2025.

The corresponding increases by 2025 are aligned with the Indonesia Roadmap and ambitious enough compared to baseline.

Financial Target

How?

For each of the 3 key action areas of the Indonesia Roadmap on which Bank B has decided to focus, it translates the Indonesia Roadmap objectives into a level of ambition at bank level.

For key action 2 (Redesign), the Indonesia Roadmap objective is to redesign plastic products and packaging with an increase from 20% today to almost 50% of non-recyclable plastics switched to recyclable formats by 2040, ie to multiply by 2.5 by 2040. Bank B sets the target to multiply the financial flows directed to Circular Design and Production activities by 2.5 by 2040.

For key actions 3 (Collect) and 4 (Recycle), the Indonesia Roadmap objective is to double the current baseline by 2025 (doubling respectively the plastic collection and the recycling capacity), with the 2040 objective to extend plastic-waste collection to almost all communities (without a multiplier being defined in the Roadmap) and to multiply its recycling rate by 4. Bank B decides to translate this into a level of ambition at bank level consisting in multiplying by 4 by 2040 the financial flows directed to Circular Value Recovery activities.

The above constitute sub-targets, for which Bank B sets interim targets by extrapolating today's and 2040 levels.

Bank B's sub-targets and interim sub-targets are compared to the Indonesia Roadmap below:

	2021	2023	2025	2030	2040
Indonesia Roadmap—Redesign*	20%	24%	30%	40%	50%
% of positive screening for Circular Design and Production	4,50%	5,40%	6,75%	9,00%	11,25%
Indonesia Roadmap—Recycling*	10%	15%	20%	30%	40%
% of positive screening for Circular Value Recovery	6,50%	9,75%	13,00%	19,50%	26,00%

* Interim % have been extrapolated on the basis of today's % and % in 2040

Bank B combines sub-targets into a single financial target, using the split of the chosen portfolio between Circular Design and Production clients and projects and Circular Value Recovery clients and projects.[52] Bank B wishes to increase the financing of upstream solutions in its portfolio, hence the proportion of Circular Design and Production.[53] This results in a 2040 target of 21.5% of its chosen portfolio screened positively. Interim targets are set by Bank B at 8.7% in 2025 and 16.5% in 2030.[54]

52 The split is currently 25% Circular Product and Design and 75% Circular Value Recovery.

53 Bank B decides to increase such proportion from 25% to 30%. Hence Bank B's combined target for 2040 is to have 30% of its chosen portfolio screened positively at 11,25% (Circular Design and Production) and 70% of its chosen portfolio screened positively at 26% (Circular Value Recovery).

54 considering the split of the portfolio will be unchanged in 2025 and will be 28%/62% in 2030.

Outcome

Bank B sets financial target and interim targets as follows:

Increase % of its chosen portfolio screened positively from 6% to 8.7% by 2025, 16.5% by 2030 and 21.5% by 2040 (hence from 3% to 4.35%, 8.25% and 10.75% of its entire portfolio), corresponding to an increase of exposure to clients, projects and activities substantially contributing to resource efficiency and the circular economy from USD 300m today to USD 435m by 2025, USD 825m by 2030 and USD 1,075m by 2040.

Bank B defines sub-targets and interim targets which contribute to NPAP key actions, as follows:

- Redesign: multiply by 2.5 its chosen portfolio screened positively against Circular Design and Production business models by 2040, with the interim targets to increase by 20% by 2023, 50% by 2025 and 100% by 2030. This is aligned with NPAP key action 2.
- Multiply by 4 the % of its chosen portfolio screened positively against Circular Value Recovery business models by 2040, with the interim target to increase by 50% by 2023, double by 2025 and triple by 2030. This is aligned with NPAP key actions 3 and 4.

The corresponding increases by 2040 are aligned with the Indonesia Roadmap in 3 of its 5 key actions and ambitious enough compared to Bank B's baseline.

Impact Target

How?

As a Tier 3 bank, Bank B does not need to define actual impact targets but only target to report impact. Bank B chooses to report impact by aligning with the impact areas and indicators used in the NPAP. Over time, as Bank B progresses towards being a Tier 2 and then Tier 1 Bank, it will review its impact targets. As a Tier 1 bank, it will be expected to set an actual impact target.

In order to define the impact indicators that Bank B will use to report on the impact of its chosen portfolio, Bank B first identifies impact indicators under the Indonesia Roadmap. On this basis, Bank B selects impact indicators which allow, at bank level, to capture the same impact areas as the ones captured at national level under Indonesia Roadmap. Furthermore, when selecting impact indicators, Bank B applies the recommendations included in the Guidance, especially the recommendation to use indicators from existing frameworks. Bank B also aims to use indicators from the core set of impact indicators recommended in the Guidance.

Outcome

For now, Bank B sets the target to report impact using the following indicators:

- increase in % renewable and regeneratively/sustainably sourced or secondary resources (% of total)
- Reduction of waste generated (t p.a. or %)
- Waste and by-products reuse / recycling / remanufacturing rate (%)

The impact reporting target set by Bank is aligned with the relevant framework and ambitious compared to Bank B's baseline.

4. Implementation measures

Bank B decides to focus on the following implementation measures and defines a detailed implementation timeline:

- Capacity building of the Sustainability team and client facing staff, starting with staff covering Plastics/packaging and Waste Treatment sectors, on circular business models and categorisation systems for the circular economy and on relevant framework.
- Preparation of a plastics-related data collection template to be shared with clients. This template will at least include a request for qualitative information to better understand client activity and a request for quantitative data informing impact reporting by reference to the Impact KPIs above.
- In collaboration with the client facing staff, preparation of client engagement and assessment templates (for instance through a client questionnaire to be adapted from the PRI Plastic Packaging Investor Engagement Guides[55]).

  Examples of questions to understand whether clients have started to take actions to reduce plastic pollution and to what extent are shown below for clients in the packaging sector:[56]

  - Have you set targets related to your use of plastics for packaging?
  - Do you report on your plastics use? What metrics do you use to track and assess your plastics use?
  - Have you set a target to eliminate problematic or unnecessary plastic packaging? How will you eliminate problematic or unnecessary plastic packaging? Have you eliminated any yet?
  - Have you set a target for all your plastic packaging to be reusable, recyclable or compostable? What proportion of your current plastic packaging is reusable? How will you increase this proportion?
  - Have you set a target related to the use of post-consumer recycled content in your plastic packaging or to decrease the use of virgin plastics? What proportion of your current plastic packaging is from post-consumer recycled sources? How will you increase such proportion?

55 *A Guide to Investor Engagement on Plastic Packaging*, Principles for Responsible Investment (PRI) in collaboration with Ellen MacArthur Foundation, July 2021

56 Questions adapted from *A guide to investor engagement on plastic packaging: Containers and Packaging Producers*, PRI in collaboration with Ellen MacArthur Foundation, July 2021

Examples of questions for clients in the waste treatment sector are shown below:[57]

  - Have you set targets to increase the quantity and proportion of plastics you recycle/compost, and reduce the amount that are landfilled or incinerated?
  - Do you report on your plastics collection, sorting and/or recycling/composting?
  - How much collected plastic is recycled or composted, rather than sent to landfill or incinerated?
  - How are you increasing the amount of plastics that are reused, recycled or composted?
  - How are you increasing the quality of your recycled output?

- Inclusion in the data collection template of impact indicators that will be used by Bank B to report impact as per its impact target.
- Systematic engagement with clients on resource efficiency and the circular economy for all new transactions.
- Setting financial targets/sales targets to client facing staff covering the chosen sectors.
- Awareness raising at senior management level.
- Adjustment of risk assessment and internal approval processes to include plastics-related impact.
- Capacity building of risk staff.
- Participation in initiatives/partnerships to fight plastic pollution in Indonesia and/or at global level, for example engaging with Indonesia NPAP (especially with NPAP Financing Task Force), engaging in the dialog between government and businesses regarding the implementation and funding of the Roadmap for Waste Reduction by Producers issued by the Minister of the Environment and Forestry in 2019, endorsing or joining the New Plastic Economy Global Commitment led by Ellen MacArthur Foundation in collaboration with UNEP.
- Exploring blended finance and co-financing solutions in coordination with multinational banks and government/local authorities.

57 Questions adapted from *A guide to investor engagement on plastic packaging: Waste management*, PRI in collaboration with Ellen MacArthur Foundation, July 2021

5. Monitoring and KPIs

Bank B monitors annually its progress towards achievement of its targets using the following KPIs:

Engagement KPIs:

- number of clients identified to engage
- number of clients from which plastic-related or circular economy relevant data is collected

Financial KPI:

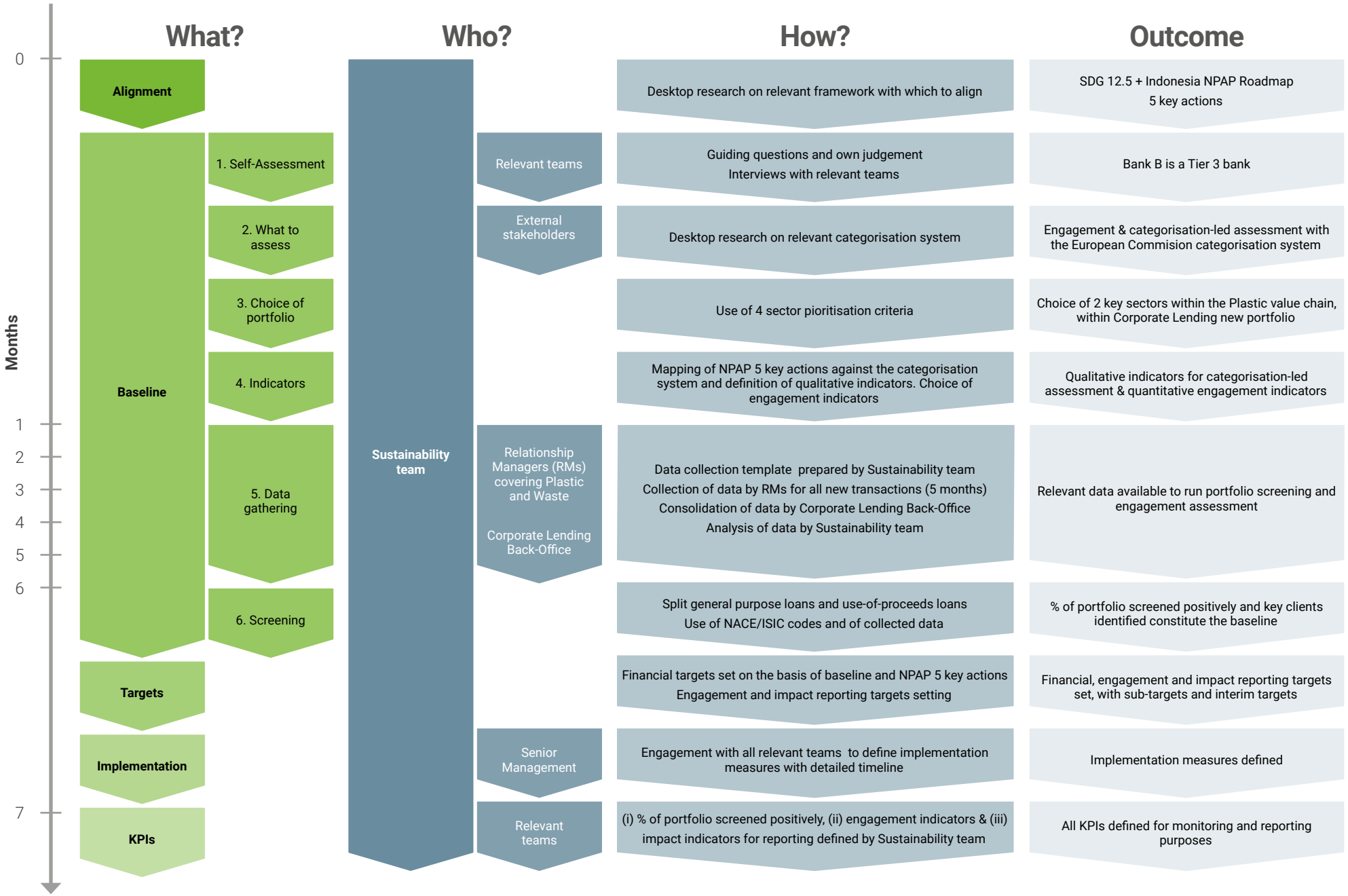
- % of portfolio screened positively against the European Commission categorisation system and corresponding exposure amount (USD m)

Impact KPIs:

- increase in % renewable and regeneratively/sustainably sourced or secondary resources (% of total)
- Reduction of waste generated (t p.a. or %)
- Waste and by-products reuse / recycling / remanufacturing rate (%)

Bank B reports annually its progress towards achievement of its targets as part of its regular Principles for Responsible Banking reporting cycle.

Illustrative case study—Detailed target setting process


What?
Who?
How?
Outcome
Months
0
1
2
3
4
5
6
7
Alignment
Desktop research on relevant framework with which to align
SDG 12.5 + Indonesia NPAP Roadmap
5 key actions
Baseline
1. Self-Assessment
Relevant teams
Guiding questions and own judgement
Interviews with relevant teams
Bank B is a Tier 3 bank
2. What to assess
External stakeholders
Desktop research on relevant categorisation system
Engagement & categorisation-led assessment with the European Commision categorisation system
3. Choice of portfolio
Use of 4 sector pioritisation criteria
Choice of 2 key sectors within the Plastic value chain, within Corporate Lending new portfolio
4. Indicators
Mapping of NPAP 5 key actions against the categorisation system and definition of qualitative indicators. Choice of engagement indicators
Qualitative indicators for categorisation-led assessment & quantitative engagement indicators
5. Data gathering
Sustainability team
Relationship Managers (RMs) covering Plastic and Waste
Corporate Lending Back-Office
Data collection template prepared by Sustainability team
Collection of data by RMs for all new transactions (5 months)
Consolidation of data by Corporate Lending Back-Office
Analysis of data by Sustainability team
Relevant data available to run portfolio screening and engagement assessment
6. Screening
Split general purpose loans and use-of-proceeds loans
Use of NACE/ISIC codes and of collected data
% of portfolio screened positively and key clients identified constitute the baseline
Targets
Financial targets set on the basis of baseline and NPAP 5 key actions
Engagement and impact reporting targets setting
Financial, engagement and impact reporting targets set, with sub-targets and interim targets
Implementation
Senior Management
Engagement with all relevant teams to define implementation measures with detailed timeline
Implementation measures defined
KPIs
Relevant teams
(i) % of portfolio screened positively, (ii) engagement indicators & (iii) impact indicators for reporting defined by Sustainability team
All KPIs defined for monitoring and reporting purposes

Annex 2. What is the circular economy and what does it mean for the banking sector?

Our current linear economy is based on a take-make-waste model which relies on resource extraction and generates a depletion of natural capital. The world's reliance on natural resources has continued to accelerate over the last two decades, with a 17.4% increase of global material footprint[58] between 2010 and 2017.[59] UNEP International Resource Panel[60] estimates that global material resource use is likely to more than double by 2050 based on the current linear economy trends and that our linear model aggravates the global challenges of climate change, biodiversity loss and pollution.

Sustainable consumption and production are thus at the heart of the Sustainable Development Goals.[61] The circular economy is a model of sustainable production and consumption which entails a gradual decoupling of economic activity and use of finite resources. The circular economy is based on the principles of designing out waste and pollution, keeping products and materials in use, and regenerating natural systems.[62]

Circle Economy estimate in their "Circularity Gap Report 2021"[63] that our current economy is only 8.6% circular and that, enacted globally, the circular economy can close the emissions gap. It would require roughly a doubling of the circularity of our current economy. The circular economy also contributes to controlling and reducing pollution, enhancing biodiversity and achieving a number of SDGs.[64] As climate change, biodiversity loss and pollution become ever more immediate risks to businesses and our society across the globe, a systemic shift in our economy is necessary.

58 The material footprint is the amount of primary materials required to meet basic needs for food, clothing, water, shelter, infrastructure and other aspects of life. It is an indicator of the pressure put on the environment to support economic growth and to satisfy the material needs of people.

59 United Nations, Statistic Division

60 *Global Resources Outlook 2019: Natural Resources for the Future We Want*, UN International Resource Panel (IRP) (2019)

61 *Financing Circularity: Demystifying Finance for Circular Economies*, UNEP FI (2020)

62 Ellen MacArthur Foundation

63 *The Circularity Gap Report, 2021*, Circle Economy (2021)

64 *Financing the circular economy. Capturing the opportunity*, Ellen MacArthur Foundation (2020)

Many definitions of the circular economy exist and there is not a globally accepted one. One of the most widely utilised definitions is that from Ellen MacArthur Foundation:[65] "A circular economy is a systems solution framework that tackles global challenges like climate change, biodiversity loss, waste, and pollution. It is based on three principles, driven by design: eliminate waste and pollution, circulate products and materials (at their highest value), and regenerate nature. It is underpinned by a transition to renewable energy and materials. Transitioning to a circular economy entails decoupling economic activity from the consumption of finite resources. This represents a systemic shift that builds long-term resilience, generates business and economic opportunities, and provides environmental and societal benefits."

A number of definitions of the circular economy, like the UNEP circularity approach,[66] rely on the 9Rs circular strategies presented in the table below and build upon value retention loops as described in the figure below.

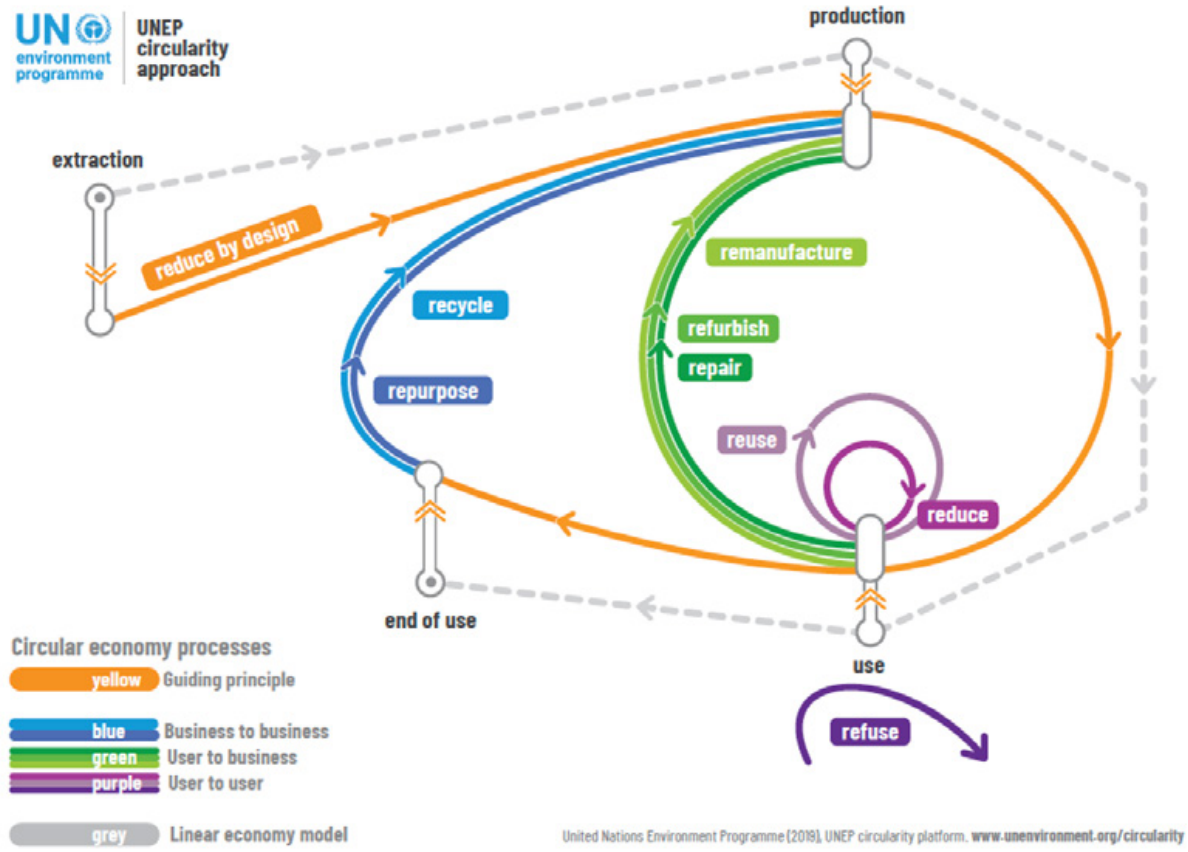


Figure 1: The UNEP circularity approach using the 9Rs circular strategies

65 Ellen MacArthur Foundation, Glossary
66 unep.org/circularity

Reduce by increasing resource efficiency during manufacturing or use less natural resources;
Refuse and abandon the use of a resource or product through elimination without losing function;
Redesign the product or service as a product-as-a service or sharing business models;
Reuse of a product that is still functioning for its original purpose;
Repair a product in disrepair so it can be reused for its original purpose;
Refurbish Restore and increase the quality of an otherwise obsolete product to quality standard;
Remanufacture used parts into a just-as-new condition through combination of parts;
Repurpose Use a redundant product considered as waste, reprocess and give it a different function;
Recycle Recover materials from waste to be reprocessed as inputs for production, excludes energy recovery.

Table: The 9Rs circular strategies[67]

The European Commission categorisation system for the circular economy also refers to the 9Rs circular strategies. All 14 circular categories referenced in its categorisation system contribute to increasing resource efficiency and decreasing environmental impacts throughout value chains and this can be achieved by applying or enabling one or more of the 9Rs.[68]

The circular economy is an invitation to see value creation in a different way, one that functions within the planetary boundaries,[69] and which considers the whole life cycle of a product and a value chain approach; one that prioritises transition to renewable resources, efficient use of finite resources, and recovery of resources at the end of a product's useful life. Essentially, the circular economy describes an economic system designed to be regenerative.

Ideas key to value creation in the circular economy are based on keeping resources at the highest possible value during their lifetime, including sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the **life cycle of products is extended.** In practice, it implies **reducing waste** to a minimum. When a product reaches the end of its life, its materials are kept within the economy wherever possible. These can be productively used again and again, thereby **creating further value**.[70]

There is a strong momentum in the market to develop tools and frameworks to assess circular opportunities, such as WBCSD's Circular Transition Indicators[71] and Ellen MacArthur Foundation's Circulytics.[72] More and more reporting frameworks are embedding circularity. It is the case for instance of SASB,[73] which has included in its framework

67 Source: *Financing Circularity: Demystifying Finance for Circular Economies*, UNEP FI (2020), The 9Rs Framework, adapted from Potting et al (2017, p.5)
68 *Categorisation system for the circular economy*, European Commission (2020)
69 kateraworth.com/doughnut/
70 europarl.europa.eu/news/en/headlines/economy/20151201STO05603/circular-economy-definition-importance-and-benefits
71 *Circular Transition Indicators v2.0. Metrics for business, by business*, WBCSD (2021)
72 *Measure business circularity: Circulytics*, Ellen MacArthur Foundation (2021)
73 sasb.org/standards/download/

performance indicators related to the circular economy, CDP[74] which has included some circularity concepts in its Water Security Questionnaire, GRI[75] which has included circularity and waste prevention concepts in its latest standard on waste (GRI 306) or ISO[76] which is currently developing a new standard on the circular economy (ISO/TC 323). Such tools and frameworks may be useful to banks looking to seize circular opportunities.

Transitioning to the circular economy represents a systemic shift relying on a profound change of our production and consumption models. This requires significant funding, directed to business models and activities which are often innovative. Insufficient financing is one of the most commonly cited barriers to transitioning to the circular economy.[77] The magnitude of this barrier is suggested by the proportion of official development assistance (ODA)[78] spending directed to SDG 12—the SDG which is the most closely related to the shift to the circular economy.[79] According to the OECD SDG Financing Lab,[80] this represented USD 2.6bn in 2019 and only 1.35% of all ODA spending between 2012 and 2019, which ranked SDG 12 number 16 out of the 17 SDGs.

Hence the financial sector has a pivotal role to play in achieving the transition to the circular economy.

There is some movement in the right direction, as banks and other financial institutions have started to take advantage of the opportunities the circular economy offers. Thus, in the 18 months to June 2021, assets under management in public equity funds with a circular economy focus grew 26-fold. Over the same period, the number of outstanding corporate and sovereign bonds with a circular economy focus increased 5-fold.[81] This Guidance also includes examples of approaches to the circular economy that banks are already taking.

UNEP FI's publication, "Financing Circularity: Demystifying Finance for Circular Economies" identifies a number of strategies and actions that financial institutions can take to accelerate financing of the transition towards the circular economy. It highlights ways in which financial institutions can scale up innovation and opportunities related to products, services and financial instruments or investments in circular activities and projects.

74 CDP Water Security 2021 Questionnaire
75 *GRI 306: Waste 2020*, GRI (2020)
76 iso.org/committee/7203984.html
77 Identified by cities and regions in the OECD, *OECD Survey on Circular Economy in Cities and Regions*, OECD (2020)
78 Official Development Assistance is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries.
79 *Financing an inclusive circular economy. De-risking investments for circular business models and the SDGs*, Chatham House (2021)
80 sdg-financing-lab.oecd.org/explore?country=DAC%20members&distribution=providers&finance=commitment&from=2019&oda=true&oof=false&other%20private%20flows=false&private%20grants=false&target=All%20Recipients&to=2019
81 Ellen MacArthur Foundation

Recommendations for banks, insurers and investors to accelerate financing circularity include:

1. Integrate the transition into the organisation's strategy.
2. Manage linear and circular risks and opportunities by applying the circularity or 9Rs concept in the financial institution's risk policies, product development and client engagement.
3. Develop sectoral competences in the financial institution and integrate with commercial activity.
4. Monitor job creation and destruction from the transition.
5. Raise awareness of the implications of resource efficiency and material flows in the organisation and among clients.
6. Evaluate how the institution can contribute to financing the transition under key financial industry frameworks.
7. Measure circular economy finance on the balance sheet and grow the circular economy finance footprint of lending, investment and insurance activities.
8. Contribute to standardisation of circular economy metrics and financial instruments.

The global financial system has a crucial role to play and a tremendous opportunity to scale up financing of circular solutions to tackle society's critical challenges, while managing downside risks from changes in business models and economies. Financial institutions that take risks and opportunities related to resource use, scarcity and effects on pollution and people into account in their financial decisions will be well-positioned to be part of an economy fit for the future.

Annex 3. Recapitulation of all steps for Tier 3 banks

Step		What?	How?	Outcome
Alignment		Understand relevant frameworks and policies and determine which to align with	Consider relevant global, regional and national frameworks, that may be mandatory or non-mandatory and sector-agnostic or sector-specific	Bank gets clarity on the policies and frameworks with which to align
Baseline	1. Self-Assessment	Self-assess knowledge and awareness on resource efficiency and the circular economy	Gather insight from a range of stakeholders across the bank – Use guiding questions and own judgment	Bank identifies itself as a Tier 3 bank
	2. What to assess	Determine what the assessment will encompass and how to assess which activities contribute to the circular economy	Bank will assess financial flows directed to activities which substantially contribute to the circular economy by using a categorisation system e.g. the European Commission categorisation system, and will assess client engagement	Bank knows what to assess and determines which circular categorisation system to use
	3. Choice of portfolio	Identify the portfolio or portion of a portfolio to screen	The relevant portfolio can be chosen using resource efficiency as entry point, i.e. focusing where resource efficiency is of high impact. Portfolio to cover at least 2 key sectors (see sector selection criteria)	Bank determines which portfolio will be considered for screening
	4. Indicators	Understand what indicators will be used to screen the portfolio and to assess client engagement	Choice of indicators, mainly qualitative, to screen the chosen portfolio against the categorisation system, and choice of engagement indicators	Bank choses indicators that give insight into the resource efficient or circular nature of assets in the chosen portfolio, the proportion of the bank's portfolio they represent, and into clients with which the bank is engaged
	5. Data gathering	Collect data relating to the chosen indicators, from new clients, loans or investments only	Data collection takes place over several months to gather sufficient insight on clients, loans and investments. Use a data collection template for efficiency and standardisation purposes. Include generic and sector specific data requests, as appropriate. Gather data on current and potential client engagement	Bank has collected qualitative and quantitative data about the clients, products or activities relating to the chosen indicators, that will be used to run portfolio categorisation-led screening and engagement assessment
	6. Screening	Screen the chosen portfolio to establish the proportion of financial flows substantially contributing to resource efficiency or the circular economy, and the level of client engagement.	Split the portfolio into general purpose and use-of-proceeds financial instruments. Use activity codes e.g. NACE, ISIC or similar to identify activities that are expected to contribute per se to the circular economy & then move to a more granular analysis. Use qualitative & quantitative analysis to identify clients engaged with/to engage with.	Bank determines the % of the chosen portfolio screened positively against the categorisation system and the extent of its existing client engagement. This constitutes its baseline
Targets		Set meaningful targets	Targets should be SMART and substantiated. Set a target in each of the three categories - Engagement, Financial, Impact. Define sub-targets, long-term and interim targets, as appropriate.	Bank has set targets in each of the three categories, with sub-targets and interim targets as relevant
Implementation		Determine the actions and implementation measures	Identify areas in which action is required and define implementation measures with detailed timeline	Bank determines an action plan and implementation measures which will allow to progress towards achieving its targets
KPIs		Select indicators to measure, monitor and report progress towards targets	Select engagement indicators to monitor engagement with clients, financial indicators to measure proportion of portfolio directed to contributing clients, projects and activities & impact reporting indicators for portfolio and clients' activities	Bank gets a robust set of indicators to monitor and report progress on engagement target, financial target and impact target

Annex 4. Useful resources

A few examples of useful resources on resource efficiency and the circular economy are shown below.

Resource efficiency

UNEP, Resource Efficiency.

Global Resources Outlook, UNEP International Resources Panel, 2019.

Resource Efficiency and Climate Change. Material Efficiency Strategies for a Low-Carbon Future, UNEP International Resources Panel, 2020.

Global Material Resources Outlook to 2060, Economic Drivers and Environmental Consequences, OECD, 2019.

The Business Case for Eco-innovation, UNEP, 2021.

Databases

Global Material Flows Database, UNEP International Resource Panel Global (IRP).

Resource Watch, World Resources Institute (WRI).

What a Waste Global Database, World Bank.

Circular economy

UNEP circularity platform

The Circularity Gap Report, 2021, Circle Economy, 2021.

Improving resource efficiency and the circular economies for a greener world, OECD Environment Policy Paper N° 20, 2020.

Using Life Cycle Assessment to achieve a circular economy, Life Cycle Initiative, 2020.

Completing the Picture: how the circular economy tackles climate change, Ellen MacArthur Foundation, 2018.

An Inclusive Circular Economy. Priorities for Developing Countries, Chatham House, 2019.

The key elements of the circular economy, Circle Economy.

Linear risks, Circle Economy, PPGM, KPMG, WBCSD, EBRD, 2018.

Financing the circular economy

Financing Circularity: Demystifying Finance for Circular Economies, UNEP FI, 2020.

Financing the circular economy. Capturing the opportunity, Ellen MacArthur Foundation, 2020.

The circular economy as a de-risking strategy and driver of superior risk-adjusted returns, Bocconi University, Ellen MacArthur Foundation, Intesa Sanpaolo, 2021.

The EIB Circular Economy Guide. Supporting the circular transition, European Investment Bank (EIB), 2020.

Financing an inclusive circular economy. De-risking investments for circular business models and the SDGs, Chatham House, 2021.

Circular economy business models and categorisation systems

Circular Advantage. Innovative Business Models and Technologies to Create Value in a World without Limits to Growth, Accenture Strategy, 2014.

Circular Economy Finance Guidelines, ABN AMRO, ING, Rabobank, 2018.

Categorisation system for the circular economy, European Commission, 2020.

Circular Business Models: Overcoming Barriers, Unleashing Potentials, Circular Economy Initiative Deutschland (Ed.), 2020.

Circular Economy Business Models: A Review, M. Geissdoerfer et al., Journal of Cleaner Production 277, 2020, 123741.

Circularity and impact measurement—tools and metrics

Measure business circularity: Circulytics, Ellen MacArthur Foundation, 2021.

Material Circularity Indicator, Ellen MacArthur Foundation, 2015.

Circular Transition Indicators v2.0. Metrics for business, by business, WBCSD, 2021.

GRI 306: Waste 2020, GRI, 2020.

Performance Standard 3. Resource Efficiency and Pollution Prevention, International Finance Corporation (IFC), World Bank Group, 2012.

ISO / TC 323. Circular Economy, ISO, 2021.

The GBP Impact Reporting working Group—Suggested Impact Reporting Metrics for Circular Economy and/or Eco-efficient Projects, International Capital Market Association (ICMA), 2021.

Circular Metrics for Business, Circle Economy, PACE, 2020.

Circular Metrics Landscape Analysis, WBCSD, Climate-KIC, European Institute of Innovation and Technology (EIT), 2018.

One Planet Network Indicators of Success Framework, *Indicators of Success. Demonstrating the shift to Sustainable Consumption and Production. Principles, process, methodology*, UNEP, One Planet Network, 2018.

Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, World Economic Forum, 2020.

Measuring what matters most. Seven systems transformations for benchmarking companies on the SDGs, World Benchmarking Alliance, 2019.

SDG Indicators. Metadata repository, United Nations, Department of Economic and Social Affairs, Statistics Division, 2021.

Useful resources for some key sectors

Sustainable Consumption and Production Hotspot Analysis Tool (SCP-HAT), Life Cycle Initiative, One-Planet Network, UNEP International Resource Panel (IRP).

Buildings and construction

2021 Global Status Report for Buildings and Construction, Towards a zero-emission, efficient and resilient buildings and construction sector, UNEP, 2021.

Circular Economy Action Agenda. Capital Equipment, Platform for Accelerating the Circular Economy (PACE) in partnership with Accenture and Circle Economy, 2021.

Chemicals

An Assessment Report on Issues of Concern: Chemicals and Waste Issues Posing Risks to Human Health and the Environment, UNEP, 2020.

Global Chemicals Outlook II (see Chapter 4: Global supply chains, chemicals in products, and circularity), UNEP, 2019.

Green and Sustainable Chemistry: Framework Manual, UNEP, 2020,

Electronics

Circular Economy Action Agenda. Electronics, Platform for Accelerating the Circular Economy (PACE) in partnership with Accenture, 2021.

Food systems and agriculture

Food systems and natural resources, UNEP International Resource Panel (IRP), 2016.

Circular Economy Action Agenda. Food, Platform for Accelerating the Circular Economy (PACE) in partnership with Resonance, 2021.

The Big Food Redesign: Regenerating nature with the circular economy, Ellen MacArthur Foundation, 2021,

Manufacturing

Re-defining Value, the Manufacturing Revolution—Remanufacturing, Refurbishment, Repair and Direct Reuse in the Circular Economy, UNEP International Resource Panel (IRP).

Mining

Mineral Resource Governance in the 21st Century. Gearing Extractive Industries Towards Sustainable Development, UNEP International Resource Panel (IRP), 2020.

The circular economy in mining and metals, International Council on Mining and Metals (ICCM), 2020.

Plastics/Packaging

The Global Commitment 2021 Progress Report, Ellen MacArthur Foundation, UNEP, 2021.

A Guide to Investor Engagement on Plastic Packaging, Principles for Responsible Investment (PRI) in collaboration with Ellen MacArthur Foundation, 2021.

Circular Economy Action Agenda. Plastics, Platform for Accelerating the Circular Economy (PACE) in partnership with Accenture, 2021.

Textiles and fashion

Circular Economy Action Agenda. Textiles, Platform for Accelerating the Circular Economy (PACE) in partnership with Accenture, 2021.

Circular Business Models: redefining growth for a thriving fashion industry, Ellen MacArthur Foundation, 2021.

Waste management

Global Waste Management Outlook, UNEP, 2015.

What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050, World Bank Group, 2018.

UN environment programme

finance initiative

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members—banks, insurers, and investors—and over 100 supporting institutions– to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

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