

Guidance for banks

Impact Analysis

Principles for Responsible Banking

Acknowledgements

This document was developed by a working group of Principles for Responsible Banking Signatory Banks and UNEP FI Member Banks, under the leadership of the UNEP FI Secretariat.

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INTRODUCTION

Following the launch of the Principles for Responsible Banking in September 2019, Signatories have been working together to deliver on the commitments made and to develop practical guidance and tools to help all banks implement the requirements of the Principles. A working group of Signatory Banks and UNEP FI Member Banks, working with the UNEP FI Secretariat, have developed this Guidance Document and the Portfolio Impact Analysis Tool for Banks which can guide banks through their impact analysis.

Conducting an in-depth impact analysis is the [first key step](#) for effectively implementing the Principles for Responsible Banking. Signatory Banks are required to assess in which areas they have significant positive and negative impacts on society, the environment and the economy.

This document provides guidance on how your bank can approach its impact analysis, starting with a more detailed explanation of the requirements for conducting an impact analysis, what data is required, and who in your bank you should reach out to. This guidance will empower Signatory Banks to set targets in the areas where they can make the most significant contributions to sustainable development. Over time, the document will provide examples of good practices and resources that your bank can use for undertaking its impact analysis, as developed or identified by your peers. The Portfolio Impact Analysis Tool for Banks is one resource that is already available.

The Portfolio Impact Analysis Tool for Banks, which has been developed over the last ten months by Signatories of the Principles for Responsible Banking and UNEP FI Member Banks, under the leadership of the UNEP FI Positive Impact Initiative, guides banks through a holistic analysis of their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios. See details on the step by step process followed by the Portfolio Impact Analysis Tool for Banks on page 5.

REQUIREMENTS FOR **CONDUCTING** **AN EFFECTIVE** **IMPACT ANALYSIS**

The Principles for Responsible Banking require banks to conduct an impact analysis that:

- covers the bank's core business areas
- takes into account the:
 - scale of the bank's activities with regards to specific industries, technologies and geographies
 - context, i.e. the most relevant challenges and priorities related to sustainable development in the countries/regions in which the bank operates
 - scale and intensity/salience of the social, economic and environmental impacts identified.

GUIDANCE ON THE REQUIREMENTS FOR CONDUCTING AN IMPACT ANALYSIS

While a bank can choose how to approach its impact analysis, the team responsible for undertaking your bank's impact analysis must ensure that the requirements set out above for conducting an impact analysis are fulfilled. In the following section, we take a closer look at these requirements and provide guidance on how they may be approached. This guidance will be developed further as good practices emerge from Signatory Banks, in order to provide support for the analysis across all of your bank's activities.

1. The bank's core business areas

Banks' impacts are associated with both their operations (the building you operate out of, energy consumption, suppliers etc.) and the economic activities they facilitate through the provision of financial products and services. While it is important for banks to understand the impacts associated with their operations and to responding to them, it is expected that the more significant impacts will be associated with the products and services provided by banks. The requirements for conducting an impact analysis therefore focus on the latter.

The analysis should include products and services provided across your bank's business, including retail, corporate, investment banking, as well as wealth management, private clients, and capital markets.

While the bank may not have all data available at first, your bank should proceed with the analysis using the information that is available. Your bank's analysis should become more detailed as more information becomes available.

2. Scale of the bank's activities with regards to specific industries, technologies and geographies

2.1. An essential step to impact analysis is collecting information on the activities for which your bank provides financial products and services. This includes how much financing your bank is providing to specific sectors and economic activities, its market share in relation to services it provides, and the countries your bank operates in. The team should begin by collecting data on:

- which countries your bank operates in
- the products and services provided by your bank
- the main sectors and economic activities your bank provides products and services to, the allocation of financing to these, and the market share your bank has regarding each sector
- in which sectors your bank is amongst the leading providers of financial services and products

To the extent that this information is not available to the team, the team will need to engage with colleagues who can share the required information. These colleagues may include:

- Heads and senior managers in each business area and country of operation that your bank offers financial products and services in, for granular details about the

activities and technologies being financed, and the loan exposures across these sectors, activities, and technologies;

- Credit Risk teams that work with each business area and country, to confirm information about your bank's exposures to relevant sectors, activities, and technologies, and to confirm the sectors or economic activities that your bank is a leading financier in.

- 2.2.** Once your team has obtained the available information, your bank will need to identify the social, environmental and economic impacts that are associated with the sectors and economic activities it provides products and services to. A systematic and objective approach is required.

The Portfolio Impact Analysis Tool for Banks, referenced below, uses Impact Areas (eg. water, climate, soil, biodiversity, resource efficiency) to identify how sectors and industry activities impact sustainable development (see [Impact Radar](#)). Your bank could for example investigate the association between farming cattle and Climate (an Impact Area). It would find that farming of cattle contributes to greenhouse gas emissions, therefore contributing to climate change. This approach to identifying impacts can be applied systematically across 22 Impact Areas (the Impact Radar has 22 Impact Areas across the economic, environmental and social pillars of sustainable development). The Portfolio Impact Analysis Tool has a built-in mechanism that provides this analysis (Sector Impact Map).

3. Scale and intensity/salience of the social, economic and environmental impacts identified

Once the impact areas that are associated with the sectors and economic activities your bank provides products and services to have been identified, your bank will need to gain a deeper understanding of the scale of the identified impact areas, and which of them are the most salient or intense.

Intensity and salience refer to the extent or strength of an impact area. For example, both gas and coal have an impact on greenhouse gas emissions, however, the impact of coal is significantly higher than that of gas. To determine which impact areas are the most intense or salient, your team should determine:

- for each impact area, which sectors or economic activities are the main contributors?

Engagement with stakeholders will be crucial for understanding the scale and intensity/salience of the identified impact areas. Your team may approach the analysis by engaging experts and doing some research:

- internal experts could include your bank's sector analysts, sustainability experts, risk experts, economists;
- external experts could include civil society organizations, policy-makers, think tanks, academia, and other institutions with the relevant experience and expertise in the field of sector and industry impacts and risks;
- reports and studies consulted could include:
 - the [EU Taxonomy](#), which is a green classification system for determining if an economic activity is environmentally sustainable (based on harmonised EU criteria), provides guidance on how best to support and invest in economic activities that contribute to achieving a climate neutral economy;
 - [Global Resources Outlook \(2019\)](#), which looks at the demand for natural resources, including their extraction, processing and consumption, and how this affects the environment, provides science-based and policy-relevant recommendations for the sustainable management of natural resources that enables economic prosperity and human well-being, while remaining within planetary boundaries;
 - the [IPCC special report](#) on the impacts of global warming of 1.5°C above pre-industrial levels, which also provides a comparison between global warming of 1.5°C and 2°C above pre-industrial levels, with the aim of strengthen the response to the threat of climate change and sustainable development;

- UN Environment [International Resource Panel Material Flows Database](#), which presents direct and consumption-based material flow indicators for seven world regions and for individual countries.

4. The most relevant challenges and priorities related to sustainable development

To understand the relevance of the impact areas that are associated with the products and services your bank provides, it is essential to understand the social, environmental and economic challenges of each country your bank operates in. This is the case because the identified impacts may have an effect, whether positive or negative, on critical national or regional challenges and objectives.

To undertake this assessment, the team should research the challenges that have been identified as priorities in each country your bank operates in. The team will need to consult:

- Sustainability experts, risk analysts, economists within your bank
- National policy documents, development plans etc.
- Global reports that reflect challenges to sustainable development across the world, which could include:
 - [UNDP Gender Inequality Index](#)
 - [World Bank Gini Index](#)
 - [UN Biodiversity Lab](#)
 - [World Health Organization, Global Ambient Air Pollution](#)
 - [World Resources Institute, Water Stress by Country](#)
- Civil society organizations and policy-makers, who can assist with refining your bank's understanding of each country's challenges and priorities, and how it is contributing to those challenges and priorities through its products and services.

Your bank's most significant impact areas

Where your bank identifies impact areas that (i) are on a large scale, (ii) are salient or intense, and (iii) have an effect on critical national or regional challenges and objectives, these impact areas will be your bank's **areas of most significant impact**.

- **For example:** The bank is a major financier of agriculture, which can use a large amount of water. In the country in which the bank finances agricultural activities, water scarcity is a key challenge. Hence, access to or availability of water is a significant area of impact, which the bank should focus on. Through working with its clients and customers it can drive a significant improvement in impact, e.g. through more efficient irrigation practices, switch to less water-intensive crops, relocation of production to more water-abundant regions, etc.

RESOURCES FOR IMPACT ANALYSIS

This section of the Guidance Document will develop over time into a repository of resources that banks can use for undertaking their impact analysis. The Portfolio Impact Analysis Tool for Banks is one resource that is already available. A description of the Tool is provided on page 5.

THE PORTFOLIO IMPACT ANALYSIS TOOL FOR BANKS

The community of Principles for Responsible Banking Signatories and UNEP FI Member Banks is breaking new ground as banks jointly develop and share approaches to analyzing and understanding the impacts that are associated with their business activities. Signatory Banks and UNEP FI Member Banks, under the leadership of the UNEP FI Positive Impact Initiative, have developed the Portfolio Impact Analysis Tool for Banks.

The Portfolio Impact Analysis Tool for Banks is a resource for conducting a holistic impact analysis on bank portfolios. The Excel-based Tool will guide banks through an analysis of the impacts associated with their retail (consumer and business banking) and wholesale (corporate and investment banking) portfolios. The scope of the Tool extends to the following products and services:

- **Consumer Banking:** Consumer credit & overdraft, current accounts, savings accounts, payment services, home loans and other housing-related credit, education-related loans, leasing, student accounts, microcredit
- **Business Banking:** Credit & overdraft, payment services, leasing, property lending/real estate, interbank loans, letters of credit, correspondent accounts
- **Corporate Banking:** Corporate credit & overdraft, payment services (e.g. cash management), trade finance, export credit, asset finance (e.g. ships, aircraft, fleets, property), project finance, interbank loans
- **Investment Banking:** Primary capital markets—debt (bond issuances), primary capital markets—equity (IPOs), custodian banking, advisory services in mergers and acquisitions, and project finance

Through a number of steps and processes, the bank is guided through an assessment of its impacts, which incorporates the business areas and sectors that the bank provides financial products and services to, how these sectors affect the environment, society and economy (broken down across 22 'Impact Areas'), and how these impact areas relate to the challenges and needs within the bank's countries of operation.

To access the Portfolio Impact Analysis Tool for Banks, please follow this [link](#). To find out more about the Tool, contact Carreen Abb (carreen.abb@un.org)

Below is the step by step process followed by the Portfolio Impact Analysis Tool for Banks:

1. Gather the relevant information on what your bank is financing and where

Complete the **Bank Cartography** worksheet by inserting the information on:

- which **business areas** your bank provides products and services in
- which **countries** your banks provides these products and services in
- the **sectors and industry activities** your bank provides financial services to
- the **proportion/level of financing** across the portfolio

2. Understand the positive and negative impacts that are associated with what your bank is financing

Once the team has collected the necessary data, the next step is to understand how the sectors and industry activities your bank provides financial products and services to impact:

- the societies the bank operates in
- the environment
- the economies that the bank does business in

I. Impact Radar

The **Impact Radar** (developed by the Positive Impact Initiative) is used to understand how the bank's business impacts sustainable development. The Impact Radar has 22 Impact Areas (eg. water, food, housing), which reflect the social, environmental, economic dimensions of sustainable development. These Impact Areas are used to understand how the products and services provided by banks affect sustainable development.

II. Determining which impacts are associated with sectors and economic activities

Based on research, the Positive Impact Initiative has identified associations between sectors and Impact Areas. These associations can be found in the 'Sector Impact Map'. The mapping of associations between sectors (using the International Standard Industrial Classification system) and Impact Areas in the Sector Impact Map is informed by the International Finance Corporation's Environmental, Health, and Safety Guidelines and UNEP FI's Environmental and Social Risk Briefings.

Outputs:

- A determination of which Impact Areas are associated with the sectors and industry activities your bank provides financial products and services to.
 - Based on these associations, the Tool generates a diagram and table showing the associations between sectors or industry activities that the bank provides financial products and services to and the Impact Areas. It does this for each country your bank operates in, and across all the business areas that financial products and services are offered in.
 - For each business area (consumer, business, corporate, investment banking), it also generates a visual and table that shows your bank the Impact Areas associated with the sectors and industry activities it provides financial products and services to across all countries it operates in.

3. Determining which impacts are the most significant

To determine significant impact areas, the Tool guides banks through an assessment of (i) which Impact Areas are the most intense/salient across the bank's portfolio, and (ii) which needs and challenges are the most pressing in the countries the bank operates in.

I. Determining the intensity of the impacts from the different sectors and industry activities

The Tool determines intensity of associations between Impact Areas and sectors by developing a list of '**Key Sectors**'. Some sectors and industry activities contribute critically to achieving or not achieving sustainable development because they are responsible for driving greater impacts when compared with others. Key Sectors are sectors that have more intense

associations with Impact Areas. For example, electricity generation from coal (a sector) has an intense effect on climate change (climate is an Impact Area) through the release of GHG emissions.

The selection of Key Sectors is informed by various reports published by the UN, World Bank, WHO, ILO, OECD, FAO, IEA, WEF, ILO European Commission, amongst others. The list of Key Sectors, references and explanations can be found under the 'Key Sectors Map' tab of the Tool.

Output: The Tool ranks Impact Areas in a bank's portfolio based on:

- The number of Key Sectors they are associated with, and
- The proportion of finance provided to Key Sectors

II. The most relevant challenges and priorities of each country of operation

The Country Impact Map provides built-in resources and indicators that guide a bank's analysis of the needs and challenges related to sustainable development in its countries of operation. While a broad spectrum of resources are provided in the Tool, banks are encouraged to consult further resources to ensure accuracy of the challenges and needs in their countries of operation.

Mapping of needs can also be done for regions/provinces within a country (eg. British Columbia in Canada).

Output: A list of needs or challenges that are priorities for sustainable development in each country your bank operates in.

The **Tool** indicates which Impact Areas correspond with needs or challenges that are priorities for a country. Where an Impact Area corresponds with a high-level country need, this indicates that those Impact Areas are the most significant.

Output: A list of your bank's **areas of most significant impact** based on key sectors and country impact needs

4. Performance/ Prioritizing most significant Impact Areas

Once the bank has determined its most significant Impact Areas, the next step is for the bank to consider how it is performing in relation to those Impact Areas. This part of the assessment is important because a bank's response to the different Impact Areas that have been identified as the most significant will not be the same, and it may be essential for the bank to set targets in the areas of impact where its performance is weak.

The **Performance** worksheet in the Tool guides the bank through this assessment, focusing on its areas of most significant impact. Banks are invited to capture quantitative and/or qualitative data relating to how they are performing in each of these Impact Areas. They are then invited to consider how they are performing in relation to benchmarks such as peer performance and, most importantly, government policies and international frameworks and targets. In the process the bank will also get helpful information that will assist it in determining its baseline, and what policy targets it should align with. Areas where more data collection is needed will also become apparent.

Once the performance worksheet is completed, the bank concludes its analysis by determining which **areas of most significant impact to prioritize** for target setting.

Output: A list of your bank's areas of most significant impact which should be prioritized.



United Nations Environment Programme – Finance Initiative (UNEP FI) is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 200 financial institutions, including banks, insurers, and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance, and how to actively participate in addressing them.

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