



UNEP
FINANCE
INITIATIVE

PRINCIPLES FOR
RESPONSIBLE
BANKING

Guidance for Banks

Reporting on Impact Analysis

Draft for
public consultation

Acknowledgments

The content of this document is based on discussions and work undertaken in the Principles for Responsible Banking Reporting Working Group



Published by UNEP Finance Initiative
in February 2021

Copyright © UNEP Finance Initiative

UNEP Finance Initiative
International Environment House
11–13 Chemin des Anémones
CH-1219 Châtelaine, Geneva
Switzerland

Introduction:

This example how to report on impact analysis can be used by banks to guide their reporting on impact analysis. The example created is not considered as mandatory to follow, but aims to provide a comprehensive illustrative example of how to report on impact analysis. It is based on an imaginary bank whose reporting on impact analysis can be considered as a best practice example. Banks are able to draw guidance from the relevant sections of the example and adapt them as appropriate for their business.

Over time, there will be more and more “real-life” examples of how to report on impact analysis, best-practice examples will be collected.

Methodology

In order to perform our impact analysis, we used the UNEP FI Portfolio Impact Analysis Tool for Banks ([“Portfolio Impact Tool”](#)) which covers the four requirements for undertaking impact analysis, being scope, scale of exposure, context & relevance, and scale & intensity/salience, as they are described in the [Reporting and Self-Assessment Template](#), combined with other tools and methodologies for specific segments of the analysis, namely as regards measurement and accounting techniques.

The Portfolio Impact Analysis Tool¹ is an iterative input-output workflow to help banks determine their most significant impact areas in three steps. First, the process starts with a scoping exercise to ensure the scope of the analysis is meaningful, i.e. reflective of core business lines and geographies, as well as mindful of any areas where the bank may be systemically important. Second, the analysis then proceeds with an impact identification phase, where users input data to describe their portfolio (e.g. percentage of gross income per business line, percentage of drawn outstanding loans for a given sector and in a given country, etc.), enabling the tool to produce ‘impact profiles’ per business line and country, drawing from in-built resources (a sector/impact map and a country needs assessment framework). Third, based on a review of these profiles, users proceed to an assessment of their performance vis a vis their significant impact areas. At this stage data can be drawn from a variety of measurement frameworks and methodologies and users are invited to assess this data vis a vis relevant thresholds and goals per topic and geography. Once this is completed users can conclude as to what their most significant impact areas are and have holistically gathered a wealth of objective information and data that enables them to proceed to setting appropriate strategies and targets.

[Please note: if other methodology is used, a more detailed description or reference to a description of methodology is necessary]

Scope

The impact analysis focused on the bank’s core business areas, covering our retail and corporate banking business in our main markets Ireland and Russia (see table 1). Our investment banking and asset management business will be included in the next few months, when we further expand our impact analysis. The bank undertook its impact analysis based on data that was available for the last fiscal year.

Business Lines			
Corporate banking	Retail banking	Investment banking	Asset management
50%	30%	10%	10%
Russia 60%	Russia 40%		
Ireland 40%	Ireland 60%		

¹ The Tool is available in open-source on the UNEP FI website, along with a [guide](#) and [demo](#).

Table 1: Breakdown of business lines and portfolios

Scale of exposure

As described, our corporate portfolio accounts for ca. half of our loan book. The sectors and industries we provide finance to can be seen in table 2. In our electricity portfolio the main technologies financed are natural gas, coal and oil-fired power stations, wind turbines and biomass (please note: the more detailed breakdown of technologies in the energy portfolio can be found further below).

Sectors					
Corporate banking		Retail banking		Investment banking	Asset management
Electricity generation	20%	Residential real estate	45%	Currently not yet assessed	
Agriculture	15%	Vehicle finance	25%		
Transport	15%	SME lending	25%		
Commercial real estate	10%				
Wholesale and retail	9%				
Human health and social work	8%				
Steel	8%				
Cement	5%				
Information and communication	3%				
Manufacturing	3%				
Other	4%				

Table 2: Exposure of corporate and retail portfolios to different sectors (2019)

In order to identify the social, environmental and economic impacts that are associated with the sectors our bank finances and provides products and services to, we used the Sector Impact Map built in the Portfolio Impact Tool which systematically maps the associations for each of the sectors, industry activities and technologies above and also highlights sectors that are ‘key’ to the different impact areas.

We found that impact areas that are prominent across our portfolios were climate, biodiversity, water, resource intensity, employment, housing, and mobility. This was attributable to our portfolio having high emitting technologies and sectors (for example coal, oil, gas electricity production, agriculture, transport and real estate); the agriculture and energy sector which are leading contributors to biodiversity loss and degradation; energy and agriculture sectors being amongst the most water intensive and polluting sectors, while also providing food and energy thereby supporting economic growth and well-being of societies in this way; numerous sectors including agriculture, energy, and transport are resource intensive, requiring substantial amounts of water, land, natural resources for their production processes; financing of the residential real estate sector is driving greater access to housing for our communities, and the transport sector is supporting mobility. While the sectors and products we finance contribute substantially to employment, we identified that many of these sectors are associated with fewer career prospects, lower levels of skills and discretion, poorer working time quality, and a less safe physical environment, namely agriculture, wholesale and retail, transport, human health and social work² (see also table 2).

² Our finding is based on an analysis of sectoral differences in terms of decent employment of to the European Foundation for the Improvement of Living and Working Conditions: https://ec.europa.eu/international-partnerships/topics/employment-and-decent-work_en

To be able to determine which of these impact areas were our most significant impact areas, we also had to take the national contexts into account.

Context and relevance

Our bank operates mainly in an Irish and Russian context. With the use of the Country Needs resource in the Portfolio Impact Tool, we were able to determine that the most relevant challenges and priorities in Ireland included climate change, biodiversity loss and degradation, air pollution, affordable housing, decent employment, and in Russia, climate change, biodiversity loss and degradation, water pollution, and decent employment. The Country Needs resource uses a number of international resources and provides guidelines on how to leverage additional resources, that enable an assessment of the priorities and challenges in different countries. Through a review of these resources we were able to identify the abovementioned priorities and challenges.

Once we had identified these priorities and challenges, we engaged with policy-makers in both Ireland and Russia to test our findings with them. They confirmed our findings and indicated that amongst these they were both prioritizing climate change, biodiversity loss and degradation, and decent employment on the basis that e.g. climate change and biodiversity loss and degradation will have major effects on both the Russian and Irish economy and sectors highly affected by climate change such as energy generation or agriculture. As an island nation Ireland is particularly vulnerable to increasing sea levels with coastal regions facing issues of flooding, whereas Russia faces increasing risks of massive forest fires posing a risk to Russian citizens' health or of the Siberian permafrost melting.

We also engaged with civil society organisations in both countries with a focus on social issues and environmental conservation, namely xx and xx, to discuss our findings with them, and to get their perspective on these and any other impact areas they considered relevant for our impact analysis. They advised us that the priorities and challenges we identified were appropriate, and the most pressing from their perspectives were climate change and decent employment, because climate change is expected to become increasingly disruptive for society through more extreme weather events and wildfires, decreased air quality, and diseases transmitted by insects, drought and food insecurity, and because labour force participation in Eastern Europe and Central Asia is low and unemployment is generally high, especially among young people, women, and ethnic minorities, which is a relevant finding for our portfolio in Russia.³ In addition, they advised us of the importance of ensuring the preservation and creation of decent jobs through the transition of these economies.

Scale & intensity/salience of impact: extent of the impact

The outcome of our assessment of the challenges and priorities in Ireland and Russia led us to look more closely at climate change and employment, among other significant impact areas, in particular the impact topics of climate change mitigation and decent employment, because these were identified as key priorities in our countries of operation, and due to the scale of our exposures in sectors that are key contributors to these areas of impact.

Impact area climate change

To determine the impact of our corporate and retail portfolio on climate change, we follow a sector approach, where we focus on the sectors in our loan book that generate the most climate impact⁴: electricity generation, agriculture, transport and real estate. Taking a sector-based approach means that each sector must be treated, steered and monitored separately, having its own methodology,

³ https://ec.europa.eu/international-partnerships/topics/employment-and-decent-work_en

⁴ According to (for example): United Nations Environment Programme (2020). *Emissions Gap Report 2020*. Nairobi.

portfolio targets and metrics, because each sector’s transition pathway differs in terms of Paris climate alignment.

Electricity generation

To assess the carbon intensity of our electricity generation portfolio, we look at what type of technology is producing the power (e.g. gas-fired power stations or wind turbines), see table 3.

Electricity generation portfolio in Russia	Exposure (%)	Electricity generation mix in Russia ⁵
Natural Gas	60%	54%
Coal- and oil fired power stations	25%	34%
Hydro power	10%	6%
Other renewable sources	3%	0
Nuclear	0	6%

Table 3: Comparison of corporate electricity generation portfolio to Russian average

Oil and coal fired power stations are the most GHG intensive emitting in our electricity generation portfolio, followed by natural gas. Comparing it to the Russian average, our portfolio is slightly less GHG intensive than the national average. Due to the scale of exposure to technologies (an estimated 85%) and in absence of better data, we found that our electricity generation portfolio in Russia would not be aligned with the Paris climate goals, and we need to work towards reducing our exposures. We are currently working on improving the data bases for our Russian electricity generation portfolio by collecting GHG-data from our biggest clients, i.e. utilities.

For our electricity generation portfolio in Ireland (see table 4), we used the PACTA methodology [could be other methodology as well] to calculate the GHG-intensity per megawatt hour using emission factors, since we do not have sufficient project level data of clients at this stage.

Electricity generation portfolio in Ireland	Business volume (mn)	Exposure or corporate energy portfolio (%)	GHG-intensity (est., kg CO ₂ e / MWh)
Natural Gas	690	69%	xx
Coal-fired power stations	120	12%	xx
Oil-fired power stations	60	6%	xx
Wind power	100	10%	xx
Biomass	30	3%	xx

Table 4: GHG-intensities of the Irish corporate electricity generation portfolio

We used scenario xx [could e.g. be IPCC or IEA scenarios]⁶ to assess the degree of alignment with the Paris goals, and found that the portfolio is currently not aligned with the Paris goal of well below 2 degrees striving for 1.5 degrees either. While coal- and oil-fired power generation constitute 18% of the electricity portfolio, their emissions intensity require that we work towards further reducing our exposure, in addition reducing our exposure to natural gas.

Agriculture

Our agricultural portfolio is concentrated in cattle farming (40%) and crop farming (30%). While we have limited data on the actual emissions associated with these activities, and there are no well-established methodologies for measuring the associated impacts, the leading science has identified that agricultural activities, and associated land use change are primary contributors to climate

⁵ According to IEA data of 2018

⁶ <https://www.iea.org/reports/energy-technology-perspectives-2017>, <https://www.iea.org/data-and-statistics/charts/co2-emissions-to-2100-by-scenario>, https://report.ipcc.ch/sr15/pdf/sr15_spm_fig3b.pdf

change. In addition to releasing CO₂ into the environment, these activities release methane gas (CH₄) and nitrous oxide (NO₂) into the atmosphere, which have significantly higher global warming potential than carbon dioxide.

In absence of better data for our cattle farming portfolio, we used the average farm sizes in Ireland and Russia in terms of livestock kept. We assumed that the national averages represent the mix in our agricultural portfolio. According to the GHG Protocol Agricultural Guidance⁷, CH₄ emissions from enteric fermentation (the digestive process in ruminant animals) may be estimated by multiplying the number of dairy cattle by an emission factor that specifies how much CH₄ is emitted per head of dairy cattle. By using this methodology (average farm size in terms of dairy cattle * emission factor = CO₂e per head dairy cattle), we were able to roughly estimate the GHG-emissions caused by our agricultural portfolio to be xx tCO₂e/number of dairy cattle.

The data basis to determine the carbon footprint of our crop farming agricultural portfolio is more elaborate, as we are able to determine the farm sizes in terms of hectares farmed on a loan basis. Because the deposit or application of fertilizer and/or wastes to soils is the biggest GHG contributor for arable land⁸, we used emission factors for NO₂ which is emitted either directly or indirectly from stored or treated manures (aggregate hectares of farm land in the agricultural crop farming portfolio * emission factor for NO₂ = CO₂e/hectare land). We thus found that crop farming in our agricultural portfolio causes emissions of xxx CO₂e/hectare land. The next step will be to set this into context of the national average and a transition scenario towards Paris Climate alignment.

In order to build up a better data base, we have started to include information on the number of cattle in our agricultural client review process.

The clearing of forests for agriculture is another key driver of climate change as a result of the loss of carbon sinks and release of CO₂ through this process. We found that 15% of the transactions in our agriculture portfolio were directly or indirectly (through supply chains) linked to land use change.

Transport

Our transport portfolio is comprised of automotive and aviation. We did not have sufficient data to assess the intensity of our transport portfolio, which is why we compared our automotive portfolio to the average automotive fuel mix in both countries. The fuel mix for our bank's automotive portfolio is 10% electric /low emission vehicles and 90% internal combustion engine vehicles, which is slightly better than the national averages of 7% electric/low emissions vehicles and 93% internal combustion engines. Based on estimations (building on EU databases) we calculated a CO₂-footprint of our automotive portfolio that is slightly above the EU average (i.e. xx kg CO₂/km).

Our aviation portfolio solely consists of bigger airlines that were able to provide us with their measured GHG emissions as well as other data necessary to calculate the emission intensities (such as aircraft-specific information like e.g. the age of their planes or kerosine consumption per km, and flight data such air route distances); we therefore found the carbon footprint caused by our aviation portfolio to be xx g CO₂/ passenger km which is almost equal to the global fleet's average of xx g CO₂/ passenger km. As a next step we will reference this to a climate scenario and derive targets for our aviation portfolio from there.

Real estate

To measure the energy efficiency of our real estate portfolio (both commercial and residential), we are collecting data on the average (estimated) energy consumption of buildings on a loan basis by asking for EPC label information or energy efficiency information (kWh/m²/a) with every new client business relationship. By building this data base of our real estate portfolio, we are able to derive the GHG-emissions per sqm from the energy efficiency values using emission factors.

⁷ World Resources Institute (WRI) and World Business Council for Sustainable Development (wbcscd): Greenhouse Gas Protocol Agricultural Guidance, available here:

https://ghgprotocol.org/sites/default/files/standards/GHG%20Protocol%20Agricultural%20Guidance%20%28April%2026%29_0.pdf; p. 53

⁸ *ibid*; p. 26

We looked at the share of our commercial real estate portfolio that are certified as green buildings (either by renowned (national) building certification systems or by having an EPC label of B or better). For the buildings we could assess, we found that 12% of our Irish and 5% of our Russian commercial real estate portfolio meet these requirements. In case of our residential real estate portfolio, 8% of the Irish and 2% of the Russian private buildings financed by our bank are considered as green.

From those values we derived the GHG-intensity in our real estate portfolio, using emission factors from xx data providers, and found it to be xx kg CO₂/m² for commercial and xx kg CO₂/m² for residential real estate.

To be able to determine the Paris alignment of our real estate portfolio, we used the PCAF methodology [could be other methodology] and found that currently 6% of our real estate portfolio is aligned with the Paris climate goals.

To validate our findings across all these sectors, we asked stakeholders with climate expertise in different sectors (from university xx, from climate initiative xx) to review our methods and assumptions made. Their feedback was to use intensity metrics per physical output where possible, which fed into the impact analysis process by using e.g. CO₂e/m² or CO₂e/km etc. They also strongly recommended to further improve data quality especially for our agricultural portfolio in order to less have to rely on national averages as benchmarks for our own portfolios in the future and arrive at more accurate values of GHG emissions caused by our financed portfolio. According to the climate researchers consulted, an important aspect in that matter is more detailed information on the location of cattle and farmland, especially in a country with the size of Russia, with many different climate zones and soil types.

The outcomes of the impact analysis also help us identify business opportunities in relation to the increase of positive and reduction of negative impacts associated with our portfolio.

We have thus started to identify business opportunities in our electricity generation portfolio and are working on a green credit line in order to support our customers in financing renewable energy projects. We have identified clients in the most carbon intense sectors to work with and support in their transition. We also aim to increase our renewable energy portfolio and build up expertise around specific types of renewable energy finance projects in both countries.

For our real estate portfolio, we are working on granting energy-efficient mortgages to our retail customers and are developing credit lines for commercial buildings that meet certain energy thresholds.

Impact area decent employment

That the field of decent employment was determined as one of our most significant impact areas, was determined by the sectoral assessment and the impact associations of sectors. To determine our impact in terms of decent employment, we do not follow a sector approach though, but have decided to undertake the analysis on a portfolio level, starting with corporate portfolio (we will expand this to the retail portfolio in our next iteration of our analysis), because we first focus on the bigger companies being large-scale employers. SMEs which account for the majority of companies and play an important role in employment in both countries are assigned to both portfolios, depending on their revenue.

In order to be able to assess the working conditions and quality of jobs within the companies we finance, we first had to determine the average size of our corporate clients in terms of the number of persons working for the company. We had that information for 53% of our corporate clients (looking at the absolute number of corporate clients), who account for 75% of our corporate loan book. For the remaining 47% of our corporate clients we had to estimate that number by using the average size of companies broken down by different sizes (according to revenue) in Ireland and Russia. We found

that ca. xx persons were employed by our corporate clients. To be able to improve the data situation in the future, we have decided to ask for the number of jobs within a company when beginning new client relationships automatically and released an internal guideline to collect the data of our existing customer base.

Decent employment in general features several aspects: employment security, minimum living wages, maximum working hours, workers' and employees' access to social security, freedom of association and the right to collective bargaining, health and safety standards for employees, training for the unskilled and youth etc. (see ILO standards). We determined the key aspects of decent employment within our portfolio to be training for the unskilled and youth (as youth unemployment is high in Eastern Europe), employment security (because sectors as agriculture are e.g. particularly prone to temporary/seasonal employment) as well as health and safety standards for workers of the companies (as the energy sector and manufacturing sectors for example account for one third of work-related accidents).

In case of our biggest corporate clients (both by revenue as well as headcount, which account for 30% of our corporate loan book) we were able to collect the data: 81% of the jobs within their companies are permanent, 80% have internal health and safety standards that are regularly monitored, and 8% of the companies have training program focusing on young people and/or unskilled employees. That is, that 19% of the jobs are temporary and therefore might be prone to less employment security, 20% of the companies have not started to set up a health and safety program for their workers who might as a consequence find less safe working conditions, and 92% of our biggest clients have not started to focus on young people.

We have therefore decided to engage with our bigger clients on those topics, discussing our conclusions with them. We thus want to minimize potential negative impacts in our corporate portfolio and increase our positive impact trying to foster decent employment practices within these companies.

For the majority of our corporate clients (70% of our corporate loan book), we were not able to gather data on employment security, health and safety standards or training for unskilled and/or youth. We are currently working on expanding our internal guideline for decent employment for our own employees to new corporate clients and thus also want to gather more of the relevant data (number of jobs, number of temporary vs. permanent positions, financial volume spent on training of certain groups, health & safety standards within the company, number of work accidents). To be able to quantify our impact via SME clients, we estimated the number using national averages/data base xx. Similar to the findings for our bigger corporate clients, we found that ca. 1/5 do not have health and safety standards, 1/5 of the jobs are temporary, and working with youth is most likely not a priority for those companies. These will be the companies that qualify for an engagement process, starting with the bigger SME clients.

To validate our findings across our corporate portfolio, we asked stakeholders representing workers and employees (such as Civil Society Organisations etc.) to review our methods and assumptions made. Their feedback was to expand the impact analysis to our retail portfolio as well, because a lot of the smaller SMEs who play a big role as employers are assigned to the retail portfolio and thus include the workers employed by those SMEs in the impact analysis, too. They endorsed our approach to focus on the abovementioned three aspects of decent employment and recommended to especially engage with the biggest employers in the agricultural and manufacturing sector. We will factor that feedback into our next steps to improve the quality of the impact analysis.