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Principles for Responsible Banking

Guidance for banks

Resource Efficiency and Circular Economy Target Setting

Getting Started Guidance

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.

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This guidance is designed to support signatories of Principles for Responsible Banking who are just starting out in their efforts to set targets for resource efficiency and the circular economy and should be read in conjunction with the full Guidance on Resource Efficiency and Circular Economy Target Setting (hereafter called "the full Guidance").

This guidance is primarily intended to be used by any bank that identified resource efficiency[1] (or any other closely related impact area like waste,[2] water[3] or energy) as an area of significant impact in its portfolio and proposes to banks **to shift from a resource efficiency approach of their portfolio to a circular economy approach** or **to get started using a circular economy approach** rather than a resource efficiency only approach. A circular economy approach is more holistic and 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 material and regenerating nature.

This guidance proposes an operational process and practical recommendations to set targets for lending and on-balance sheet investment activities, guided by the Principles for Responsible Banking requirements, following 5 steps: Alignment, Baseline, Targets, Implementation and Monitoring and Key Performance Indicators (KPIs).

The process proposed in the full Guidance is progressive and depends on the level of advancement of banks regarding resource efficiency and the circular economy. **This "Getting Started" guidance is focused on providing a process overview for banks which are starting their journey on resource efficiency and the circular economy (referred to as Tier 3 banks).**[4] Banks are also invited to refer to the full Guidance to understand the long-term direction towards which to tend and the process they will be encouraged to follow while progressing on their journey, and for any further information on the complete methodology, recommendations, reasoning, examples, references and case studies.

This guidance was developed jointly by a working group of banks 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 this 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 UNEP FI Secretariat.

Summary of the target setting process >>

Alignment		
What?	**How?**	**Outcome**
One of the first tasks is to understand the potential frameworks and policies that are relevant to the bank (i.e. understand the context), and determine which frameworks or policies are the most appropriate to align with.	Banks are encouraged to take into account the priorities in (i) global frameworks such as the Sustainable Development Goals and the Paris Agreement on Climate Change and (ii) regional and national frameworks which are relevant based on the location of the bank and where it operates, i.e. where its clients are located and run their business. Banks are invited to explore any initiatives, frameworks or policies in place to manage resources more effectively and to foster the transition to the circular economy. Such frameworks may be mandatory or voluntary, sector-specific or not, with explicit or embedded/implicit resource efficiency or circular economy considerations. Please refer to the full Guidance, Section 1, for examples of frameworks.	Banks get clarity on the policies and frameworks with which to align, that will inform the approach to take for determining a baseline, setting targets, implementation and KPIs. This will enable banks to determine the appropriate level of ambition to consider when setting their targets.

Baseline		
What?	**How?**	**Outcome**
The baseline provides a starting point against which targets can be set and progress can be measured. It serves as the necessary preparation stage to understand where and how to begin and what elements of the portfolio to focus on. For some banks starting out, the baseline will be 0. For some, it will make sense to begin by assessing a selection of clients or deals.	Banks which start their journey on resource efficiency and the circular economy will probably focus on only a portion of their portfolio, with the long-term objective to determine their baseline for their entire portfolio. Banks are encouraged to identify the activities they finance or invest in that substantially contribute to the circular economy by screening a high impact portion of their portfolio against a categorisation system of circular business models and activities. They are also invited to assess their engagement with clients. A 6 steps process is recommended to determine a bank's baseline: **1.** Self-assessment **2.** What to assess **3.** Choice of portfolio **5.** Indicators **5.** Data gathering **6.** Screening	The baseline will allow banks to answer two questions: ▪ what proportion of my portfolio consists of activities, projects and clients which substantially contribute to resource efficiency and the circular economy? ▪ what is my bank's level of engagement with clients on resource efficiency and the circular economy?

Baseline - Step 1: Self assessment		
What?	**How?**	**Outcome**
Banks are invited to determine what their baseline assessment will encompass. Banks will self-assess their knowledge and awareness on the circular economy and resource efficiency, which may be manifested in various ways, 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. This step will provide a picture of what is currently happening across the bank.	It is recommended to gather insights from a range of stakeholders across the bank and to use the set of questions suggested in the full Guidance (Section 2, Step 1). Banks are encouraged to use their own judgement and to determine the Tier that best describes their current situation, which is expected to be substantiated. Tier 3 banks, to which this “Getting Started” guidance is directed, are banks which have identified resource efficiency as a high impact area in 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, to set resource efficiency and circular economy targets and to implement an action plan.	Banks determine they are a Tier 3 bank. This will then guide the subsequent steps to follow to determine their baseline. Banks will have an understanding of what is known within the bank about resource efficiency and the circular economy, anything that is currently being done, and by whom.

Baseline - Step 2: What to assess		
What?	**How?**	**Outcome**
Banks are invited to assess which of their activities substantially contribute to the circular economy and resource efficiency. It is suggested that this is done through the use of a circular economy categorisation system, which will enable banks to map their activities to categories of circular business models or strategies. Banks are also invited to assess their engagement with clients on resource efficiency and the circular economy.	The categorisation-led approach consists of assessing whether financial flows are directed to activities, projects or clients which fall into one of the categories of a taxonomy or categorisation system for circular business models or activities. This allows banks to shift from a resource efficiency approach to a circular economy approach. Several categorisation systems have been developed by different authorities, organisations or initiatives. Which one is the most appropriate for a bank will depend on a number of factors. For instance, it may be appropriate for a European bank to refer to the European Commission categorisation system for the circular economy[5] ("the European Commission categorisation system") at the moment of publishing the guidance and to the European Union Taxonomy Technical Screening Criteria for the environmental objective "Circular Economy", once published. If there are no obvious categorisation systems available to a bank, it is recommended to use the European Commission categorisation system[6], or a similar one as appropriate in the bank's relevant geography. In addition, banks 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.	Banks determine that the assessment of their portfolio will consist of (i) a categorisation-led assessment for which they have selected the categorisation system against which they will screen their portfolio, and (ii) an assessment of their engagement with clients.

Baseline - Step 3: Choice of portfolio		
What?	**How?**	**Outcome**
For banks just starting out, it is appropriate to identify a portion of a portfolio as the starting point. This is likely to be a new portfolio, or a selection of existing clients or deals that have been identified as relevant to the circular economy. Banks are urged to focus on the portion of their portfolio which has the most significant impact, and to provide insight into how they decided what to screen and what percentage of the portfolio was screened. It is expected that over time, banks increase the proportion of their portfolio that is screened with the long-term objective to screen the entire portfolio.	Banks that are just starting out can define the relevant portfolio by including only new clients, loans or investments, by making a selection of existing clients, loans or investments, or by a combination of the two. In order to determine what portfolio to include, banks may decide to use resource efficiency as an entry point and to focus on clients/deals for which resource efficiency (or related topics like waste, water or energy) has been identified as a significant impact area. It is expected that the portfolio to be screened will cover at least 2 relevant key sectors, that banks are invited to select by using the following prioritisation criteria and by substantiating their choice: ▪ Impact/circular potential, i.e. potential to drive positive impact in terms of resource efficiency and the circular economy, ▪ Relevance in portfolio, ▪ Relevance against the framework with which to align, ▪ Momentum (policies, sectoral commitments, corporate actions, consumption behaviours) Please refer to the full Guidance, Section 2, Step 3, for an indicative list of key sectors.	Banks determine which clients, loans or investments they will be incorporating into their circular economy work at this point in time, whether new or existing.

Baseline - Step 4: Indicators		
What?	**How?**	**Outcome**
Banks need to understand which qualitative indicators about clients, projects or activities they will use to screen the chosen portfolio against a circular economy categorisation system. Banks also need to determine what indicators to use for assessing their client engagement practices.	Indicators for portfolio screening in 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 selected categorisation system. Please refer to the full Guidance, Section 2, Step 4, for examples of qualitative indicators. Banks will then use a quantitative indicator (amount or %) to reflect the proportion of the portfolio screened positively against the circular economy categorisation system. As for 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 on the circular economy or resource efficiency and from which they are collecting data related to resource efficiency and the circular economy.	The bank will have identified a selection of indicators that are relevant to gain the necessary insight into (i) the nature of the clients, loans and investments being considered for resource efficiency and the circular economy by the bank, (ii) the proportion they represent in the bank's portfolio, and (iii) the proportion of clients with which the bank is engaged.

Baseline - Step 5: Data gathering		
What?	**How?**	**Outcome**
Having determined which indicators they will use, banks know what data they need to collect to be able to assess their portfolio. For banks gathering data from new clients, loans or investments only, it is expected that this will take place over several months, once the preparatory 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 categorisation-led assessment recommended for all banks requires the collection of mainly qualitative data at this stage. It is recommended to use a data collection template, which can be shared with clients, in order to foster data collection efficiency and standardisation and to ease the processing of data, with the long-term objective to automate such processes to a greater extent. Banks are invited, to the best extent possible, to align such templates with relevant frameworks once they are or become available. 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. Please refer to the full Guidance, Section 2, Step 5, for an example of data collection template. 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. Banks are expected to collect data mainly from primary sources, i.e. directly from clients, on a best effort basis, and to document data sources.	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.

Baseline - Step 6: Screening		
What?	**How?**	**Outcome**
The final step to determine the baseline is to actually screen the chosen portfolio, in order to establish what proportion of the bank's financial flows can be considered as substantially contributing to resource efficiency or the circular economy, and how many, or what proportion of relevant clients it is engaging with.	In order to run the categorisation-led screening, it is recommended to split the selected portfolio into financial instruments with a specified use of proceeds (for which available data may allow to determine whether the use of proceeds substantially contributes to the circular economy and in what proportion) and general-purpose financial instruments (for which less information is expected to be available). Banks are encouraged to run a high-level screening using activity codes such as NACE, ISIC or similar ones to check whether the activity *per se* is expected to contribute substantially to the circular economy or to fall into one of the categories of the categorisation system. It is likely to be necessary to then move to a more granular analysis on the basis of data collected under Step 5, in order to determine which clients, projects or activities can be deemed to be circular, and in what proportion. In order to run the engagement assessment screening, banks are encouraged to make a qualitative and quantitative analysis 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 with.	Banks have a clear baseline of their circular and resource efficiency activities already contained within their portfolio, and the extent of existing client engagement. The baseline will constitute the basis on which banks will set targets.

Targets		
What?	**How?**	**Outcome**
Banks are invited to set meaningful targets under the target framework presented in the full Guidance.	Targets should be SMART targets, linked to and driving alignment with the relevant framework(s) determined in "Alignment" above, and ambitious against the bank's baseline. Targets should be substantiated and are expected to be set under the target framework recommended in the full Guidance (Section 3). Banks are encouraged to set a target in each of the three categories: ▪ **Engagement target** – 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[7] with them within a defined timeframe. ▪ **Financial target** – 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). ▪ **Impact target** – Annual reporting of the change in % of at least one impact area (waste/water/raw material/energy,[8] etc.) in a given sub-portfolio and in the selected key sectors. Banks are encouraged to define sub-targets as relevant, for instance for specific sectors or areas of action, and to set targets with a long-term time horizon and interim targets. Nevertheless, engagement targets are expected to have a shorter time horizon than financial targets and impact targets as the client engagement needs to scale up at an accelerated pace in order to progressively build a pipeline of projects.	Banks have set targets in each of the three categories, with sub-targets and interim targets as relevant, and can now define implementation measures to take action towards achieving the targets.

Implementation		
What?	**How?**	**Outcome**
Banks are invited to determine the actions and implementation measures that can be taken to achieve their resource efficiency and circular economy targets.	In order to determine their implementation measures, banks are encouraged to take into account the information gathered when determining their baseline, which allows them to identify data gaps and areas in which action is required. 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: ▪ Internal measures to raise awareness, build capacity and adapt policies and processes ▪ Collecting data ▪ Developing and scaling-up new financial products and services ▪ Engaging with clients ▪ Partnering and engaging in industry initiatives Please refer to the full Guidance, Section 4, for examples of implementation measures.	Banks determine an action plan and implementation measures which will allow to progress towards achieving their resource efficiency and circular economy targets.

KPIs

What?	How?	Outcome

Banks need to select indicators to measure their current baseline and to monitor and report their progress towards achieving their targets.	Banks need to select engagement indicators to monitor their engagement with clients on resource efficiency and the circular economy (e.g. number of clients or proportion (%) of clients with which the bank engages).
	Banks need financial indicators to measure what proportion of their portfolio is directed to clients, projects and activities substantially contributing to the circular economy (e.g. % of portfolio screened positively against the selected categorisation system).
	Banks also need to define impact indicators to report the impact of their portfolio and of their clients' activities. Banks are encouraged to define impact indicators aligned with those in the relevant frameworks already in force or to be published, and which should ideally meet as many of the following criteria as possible; indicators which:
	▪ are both feasible and relevant,
	▪ connect clearly to the target,
	▪ can be easily quantified,
	▪ can realistically be measured,
	▪ are something that the bank's actions can make a difference to,
	▪ are straightforward to understand,
	▪ will be relevant in the future,
	▪ are both sector-agnostic and sector-specific as required,
	▪ should aspire, in isolation or in combination, to
	  ▫ capture environmental impact and the impact of circularity (please see below),
	  ▫ take a full value chain approach, inclusive of upstream and downstream aspects, prioritising upstream elements (eg. product design, business models, innovation etc).
		Banks have a robust set of indicators to monitor and report their progress on engagement target, financial target and impact target. Banks have clarity on a core set of impact indicators that they will be invited to use when progressing on their journey towards becoming a Tier 1 bank.

	The impact of resource efficient and circular activities (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. Please refer to the full Guidance, Section 5, for examples of KPIs and for a recommended core set of impact indicators.	

Endnotes

1 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*

2 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*

3 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*

4 Tier 2 banks are intermediate banks which have started to systematise their approach to the circular economy and Tier 1 banks are advanced banks which have made significant progress against their commitments and take innovative action or contribute to wider systemic change.

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

6 The recommended categorisation system will be updated if and when more comprehensive or widely accepted categorisation systems are released. Please refer to the full Guidance, Section 2, Step 2 for an overview of the European Commission categorisation system.

7 Engagement will at least include sending to clients data requests to understand alignment of economic activities with the circular economy.

8 Banks are encouraged though 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.

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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