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Agenda



1. What is a circular economy target?
2. How to set a circular economy target?

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What is a circular economy target?



- An **impact target** for the circular economy is a target to improve the impact of a bank's portfolio on the society and on environment through an increased circularity:

- circular impact,
- environmental impact,
- social impact.

- For this purpose, a bank needs to engage with its clients and increase its financing of circular activities:

- **engagement target,**
- **financial target.**

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What is a good target?

A good target:

- is **ambitious**
- aims for **impacts** on the society and environment
- is Specific, Measurable, Achievable, Relevant and Time-bound (**SMART**)
 - Specific
 - Measurable
 - Achievable
 - Relevant
 - Time-bound
- considers **interlinkages** between climate, biodiversity loss, pollution, financial health, and any other impact area
- is derived from a **process**.

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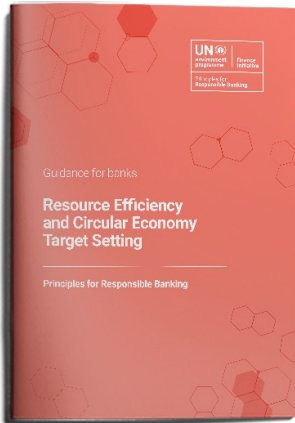


How to set a circular economy target?

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Target Setting Guidance



UNEP FI, Principles for Responsible Banking, Resource Efficiency and Circular Economy Target Setting Guidance

- A comprehensive step-by-step and progressive guide for banks
- Includes a unique process for banks to define baseline and set targets
- Includes an illustrative case study

A three-tiered and three-category target framework

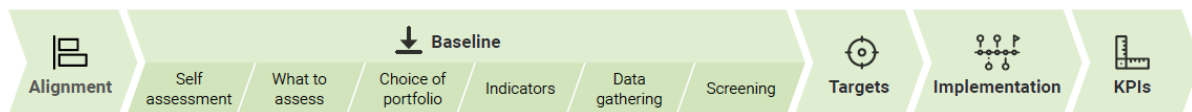
	Tier 3 banks Beginners	Tier 2 banks Intermediate	Tier 1 banks Advanced
Engagement target	Extend the scope of the portfolio covered by the target and increase the variety of ways the bank is engaging with clients		
Financial target	Extend the scope of the portfolio covered by the target		
Impact target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

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Target Setting Methodology

A **step-by-step** practical methodology





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Alignment


Alignment


Baseline


Targets


Implementation


KPIs

Self assessment
What to assess
Choice of portfolio
Indicators
Data gathering
Screening

What

- Identify potential frameworks and policies relevant to the circular economy
- Identify targets of the relevant frameworks to align with

How

Relevant frameworks or policies may:


- Be global, regional and/or national,
- Explicitly refer to, or embed, resource efficiency or the circular economy,
- Be mandatory or non-mandatory,
- Be generic or sector/industry specific.

Outcome

Get clarity on the policies and frameworks with which to align, that will inform the approach to take and the appropriate level of ambition to set targets.

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Alignment (Methodology)

Identification of relevant frameworks or policies

1 Global frameworks or policies

2 Regional or national generic/cross-cutting frameworks or policies

3 Regional or national sector/industry frameworks or policies

4 No relevant regional or national framework or policies identified

Frameworks or policies targets with which your bank will align its targets

Targets of the relevant global frameworks or policies, if any

Targets of the relevant regional or national generic/cross-cutting frameworks or policies, if any

Targets of the relevant regional or national sector/industry frameworks or policies, if any

Choose country with similar local context and start from Step 2

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Alignment (Examples)

Examples of relevant national frameworks

Nationally Determined Contributions (NDCs)

- Chile’s updated NDCs, 2020
- Mexican updated NDCs, 2020

Circular Economy Roadmaps

- Colombia: National Circular Economy Strategy, 2018
- Chile: The National Circular Economy Roadmap 2020–2040

Waste Policies

- Brazil, National Policy on Solid Waste Management, 2010 & National Zero Landfill Program, 2019

Sectoral Policies

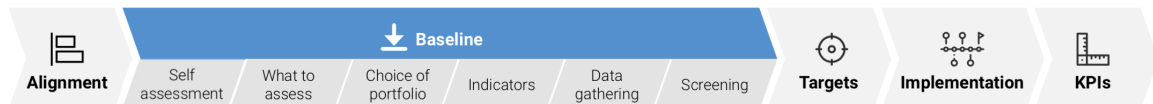
- Peru, Roadmap towards the Circular Economy in the Agricultural and Irrigation Sector, 2021

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Baseline



What

A bank’s baseline shows its current performance in terms of financing of circular activities, projects and clients.

How

Banks choose a portion of their portfolio for which they will assess to what extent they currently align with the identified targets.

- **How engaged is the bank with its clients on circular economy?**
- **How circular is the bank’s portfolio?**
- **What is the current impact of the bank’s portfolio?**

Outcome

- The Baseline provides a starting point against which to set targets and measure progress.
- It provides valuable insight into the current status of a bank’s portfolio and practices and informs how to take action to achieve targets.

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Baseline (choice of portfolio)

How to get started?

- Choose which **portfolio / portion of portfolio** and which **key sectors** will be screened.

Prioritisation criteria to choose sector:

1. Impact/circular potential,
2. Relevance in portfolio,
3. Relevance against the framework with which to align,
4. Momentum.

Indicative list of key sectors

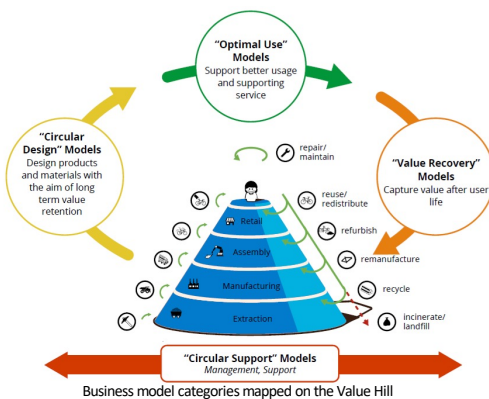
- Buildings & Construction
- Plastics / Packaging
- Textiles & fashion
- Food systems & Agriculture
- Electronics
- Vehicles & Transport
- Manufacturing
- Waste Management
- Water
- Mining
- Chemicals

Baseline (taxonomy-led approach)

How to identify circular clients and activities in my portfolio?

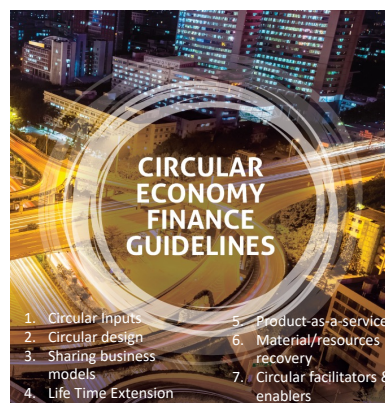
- Use of a taxonomy / categorization system of circular economy activities

European Commission system



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

Circular Economy Finance Guidelines



Source : "Circular Economy Finance Guidelines" ABN Amro, ING, Rabobank, Ellen Mac Artur Foundation; July 2018



Baseline (data and screening)

What data are needed to determine a bank’s baseline?

Engagement Data

Examples:

- Number of key clients
- Number of key clients from which circular economy related data are collected

Data on circularity of clients/activities in portfolio

The taxonomy indicates which data and information to collect to measure the circularity of a client/activity

Impact data

Data on the impact of financed activities:

- Circular impact
- Environmental impact
- Social impact

Example for reuse/recycling of wastewater circular business models in the Food and Agriculture sector

1. Does the activity satisfy standards for reused/recycled wastewater?
 2. Does the activity not increase pollution, safety and health risks for users and the environment?
 3. Are appropriate measures and/or instruments in place or planned to improve resource efficiency in the overall water use cycle?
 4. Does the activity increase water recovered for agricultural activities?
-
1. What is water use reduction (m3 p.a. or %)?
 2. What is the volume of water recovered for agricultural activities (m3 p.a.)?

Based on the data available or collected the portfolio is screened. **The outcome of the screening is the bank’s baseline.**


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Impact Indicators (examples)

Circular impact indicators			
Circular Impact	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 %)	
	Circular Support	Increase in new materials derived from secondary raw materials, by-products and/or waste (t p.a. or %) Increase in number of clients for tools or services enabling circular economy strategies	
		% increase of annual income derived through tools and services enabling circular economy	
Environmental impact indicators			
Environmental Impact	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) Water use reduction (m3 p.a. or %) / Water use intensity (m3/product)	
	Water	Water use efficiency (USD/m3) Water reuse / recycled in production processes (m3 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 %) Energy efficiency (USD/GWh) Increase in renewable energy % (%)	
	GHG emissions	Reduction of GHG emissions (Scope 1&2) (t of CO2 p.a. or %) Reduction of GHG emissions (Scope 3) (t of CO2 p.a. or %)	
	Pollutant emissions	Reduction of pollutant emissions (%)	
	Social impact indicators		
	Social Impact	Labour and human rights	The health, safety, and rights of all people involved are respected
		Job creation	Number of new jobs created Number of new local jobs created
		Health	Reduction of pollutants released which pose risks to human health (%)

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Targets



Alignment

Self assessment

What to assess


↓ **Baseline**

Choice of portfolio

Indicators


Data gathering

Screening



Targets

Implementation



KPIs

What

Banks set SMART* and substantiated targets in each of the 3 categories – **Engagement, Financial and Impact** – with sub-targets and interim targets as relevant.


How

- Translate the goals in the relevant framework into a level of ambition,
- Apply the level of ambition to the bank's baseline,
- Make sure that targets are **aligned** with the relevant framework, **SMART** and **ambitious** when compared to baseline.

Outcome

Targets will help banks to **foster the financing** of circular projects, activities and clients, and to **understand the direction** and long-term goals which their strategy and action plan should tend towards.

* SMART targets are Specific, Measurable, Achievable, Relevant and Time-Bound 17



Illustrative Case Study Targets (1/2)

Alignment*

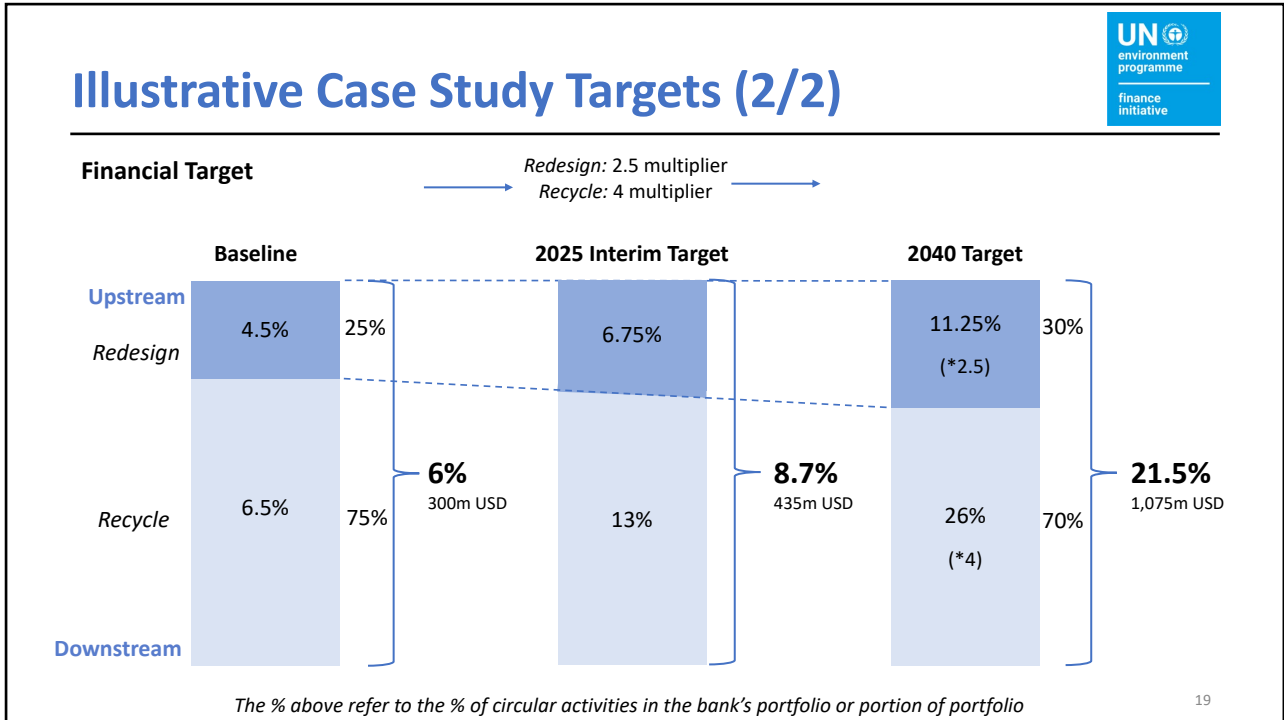
Redesign: Redesign plastic products and packaging with an increase from 20% today to almost 50% of non-recyclable plastics switched to recyclable formats by 2040 => Multiplier of **2.5 by 2040**

Recycle: Increase share of plastics actually recycled into new materials from 10% today to 40% by 2040 => Multiplier of **4 by 2040**


Impact:
Prevention of **16m t of plastic leakage** into waterways and the ocean
Reduction of **20m t GHG emissions** per year (27% reduction)

	Baseline	Target
Engagement	25 key clients engaged	100 key clients engaged by 2025
	5 clients from which data collected	100 clients from which data collected by 2025
Financial	Redesign: 4,5%	Redesign: 11,25% by 2040
	Recycle: 6,5%	Recycle: 26% by 2040
Impact		x% increase in % renewable and regeneratively / sustainably sourced or secondary resources
		x% reduction of waste generated (or t p.a.)
		x% increase in % of waste and by-products reuse / recycling / remanufacturing rate
		x% reduction of GHG emissions

* Indonesia National Plastic Action Partnership (NPAP) Roadmap



From targets to implementation



How does the bank translate targets into action plans?

All targets should be supported by business strategies, internal policies, engagement and advocacy.

Examples of action plan components that should also come with indicators to measure progress:

Portfolio composition and financial flows	Internal policies and processes	Client engagement	Advocacy and partnerships
Development and implementation of transition plans to align portfolio Development of services and products (e.g. advisory, credit lines) Strategy to grow client base for some specific sectors or type of clients	Set up or amend credit policies for specific sectors or types of clients (e.g. innovative circular projects), Exclusion or sectoral policies for key sectors or activities, Reinforcement of risk management processes (e.g. to include linear vs circular risks), Set up circular economy related data collection processes Refinement of KYC processes	Capacity building Awareness raising campaigns Engagement on impact profile, supporting clients on identifying circular opportunities and developing transition finance plans, Structure financing solutions for clients' transition and/or investment in circular opportunities Process for managed phase out	Advocate governments or regulators Issue policy positions Participate in sector commitments (e.g. plastic)

Q&A



Thank you for your attention!

If you have further questions, do not hesitate to contact us.

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