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Principles for
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Guidance for banks

Guidance on Resource Efficiency and Circular Economy Target Setting

Principles for Responsible Banking

Version 2

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All PRB Target-Setting Guidance for specific themes are derived from and build on the UNEP FI Impact Protocol, a step-by-step overview of how to analyse and manage bank portfolio impacts as per UNEP FI's holistic impact approach and in conformity with the requirements of the Principles for Responsible Banking. The Impact Protocol is itself in alignment with the emerging consensus-view of impact management as illustrated by the Impact Management Platform, a collaboration between the leading providers of sustainability standards aiming to clarify the meaning and practice of impact management and to drive interoperability and harmonisation.

How to use this guidance

As your bank is progressing in implementing the Principles for Responsible Banking (PRB), this Guidance aims to facilitate the processes of target setting and action plan design for banks that have identified resource efficiency, circular economy, waste, water or energy¹ as one of their most significant impact areas, as well as any other impact area for which resource efficiency and circular economy business activities are relevant and can contribute to reducing negative impacts and increasing positive impacts. The transition to a circular economy is also essential to deliver on the climate, biodiversity and pollution agenda and this Guidance can be used to set targets which will support your bank in achieving other targets such as climate mitigation or reducing biodiversity loss. For further information on interlinkages between the circular economy and other impact areas and how taking action on the circular economy might positively or negatively affect other impact areas and topics, or how the circular economy may be affected by actions taken in other impact areas, please refer to the [Interlinkages Map](#).

1 From a use/efficiency perspective (rather than from a social perspective including accessibility/affordability)

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Introduction

The business case for resource efficiency and the circular economy

The current linear “take-make-waste” economic model is reaching its limits. Continuing increasing extraction of finite resources, depleting natural capital, generating climate change and pollution is not sustainable. The circular economy, which decouples economic activity and use of natural resources, offers an alternative model beneficial to our economy, our society and our planet through reduced risks, new business opportunities and improved impact on the environment and health. Please see Annex 1 for further information on the circular economy and what it means for the banking sector.

Successful circular solutions will reduce risks intrinsically linked to our linear model, by reducing dependence on dwindling natural resources and improving resource security and resilience to price volatility, supply shocks and global supply chain disruptions, and macroeconomic challenges resulting there from.² Circular economy strategies can 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.³

Circular economy solutions can create value for companies, their stakeholders, and the finance sector and unlock a USD 4.5 trillion economic growth.⁴ By adopting circular principles, companies can generate new sources of revenue and cost saving opportunities, and spur innovation.

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. Please see Annex 2 for examples of initiatives by financial institutions to promote the transition to a circular economy.

The circular economy also offers a major opportunity for the banks to deliver on the climate, biodiversity and pollution agendas, as well as other Environmental, Social and Governance (ESG) objectives, and to contribute to a just transition.

2 [The role of international trade in realizing an inclusive circular economy](#), Chatham House, 2022

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

4 [Waste to Wealth](#), Accenture, 2015

The imperative to transition to a circular economy is increasingly incorporated in the evolving regulatory environment (please see further details in Chapter 2.1 below).

Thus, your bank is encouraged to support the transition to a resource efficient and circular economy by setting targets under the framework described below.



1. A framework for resource efficiency and the circular economy

Building on the first edition of the Guidance on Resource Efficiency and Circular Economy Target Setting, the PRB Working Group on Resource Efficiency and Circular Economy has produced this updated second version of the Guidance, taking into account UNEP FI member banks', experts' and civil society organisations' feedback. It includes a combined pathway to impact and core indicators to guide good practices in the community of PRB signatories, measure progress, and foster active collaboration to drive results for people and the planet.

The guidance has been designed to ensure that all signatory banks, regardless of geography and size, can consider and understand the opportunities to drive their clients to transitioning towards a more circular economy. It is crucial that your bank understands the key components and areas of potential focus that can improve support, financial products and services to increase the circularity of your clients' activities and foster improved outcomes towards a circular economy.

You are encouraged to follow these steps to set targets covering lending activities of your 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 your bank to increase the volume of activities covered by the targets.

1.1 Supporting clients in improving the resource efficiency and circularity of their activities

Central to the methodology in this Guidance is the use of a screening approach or categorisation-led approach, i.e. to screen your bank's portfolio against a set of [circularity criteria](#) which will help you to understand how resource efficient and circular your clients' activities are and how their resource efficiency and circularity can be improved.

Screening your portfolio against [circularity criteria](#) will not only allow to determine which clients or activities are circular ([screened positively](#)) or not ([screened negatively](#)). Identifying which circularity criteria are not met helps to understand the circular potential of an activity, i.e. whether there is an opportunity to work on certain circularity criteria to make an activity more circular and ultimately transform a non-circular activity (screened

negatively) into a circular activity (screened positively). Those are the activities that your bank should support to transition towards more circularity.

Thus, screening your portfolio against a categorisation system will allow your bank to identify:

1. the activities [screened positively](#), for which your bank should increase its support and exposure,
2. the activities [screened negatively](#) with [circular opportunities](#), for which your bank should engage with its clients and support them to materialise the circular opportunities, and
3. the activities screened negatively with no circular opportunities, for which your bank should decrease exposure and exit relationship. It will rarely be the case that an activity or a business has no possibility to improve its resource efficiency and circularity. Hence, exiting a relationship is thus the solution of last resort.

This is illustrated in the decision tree in Figure 1 below.

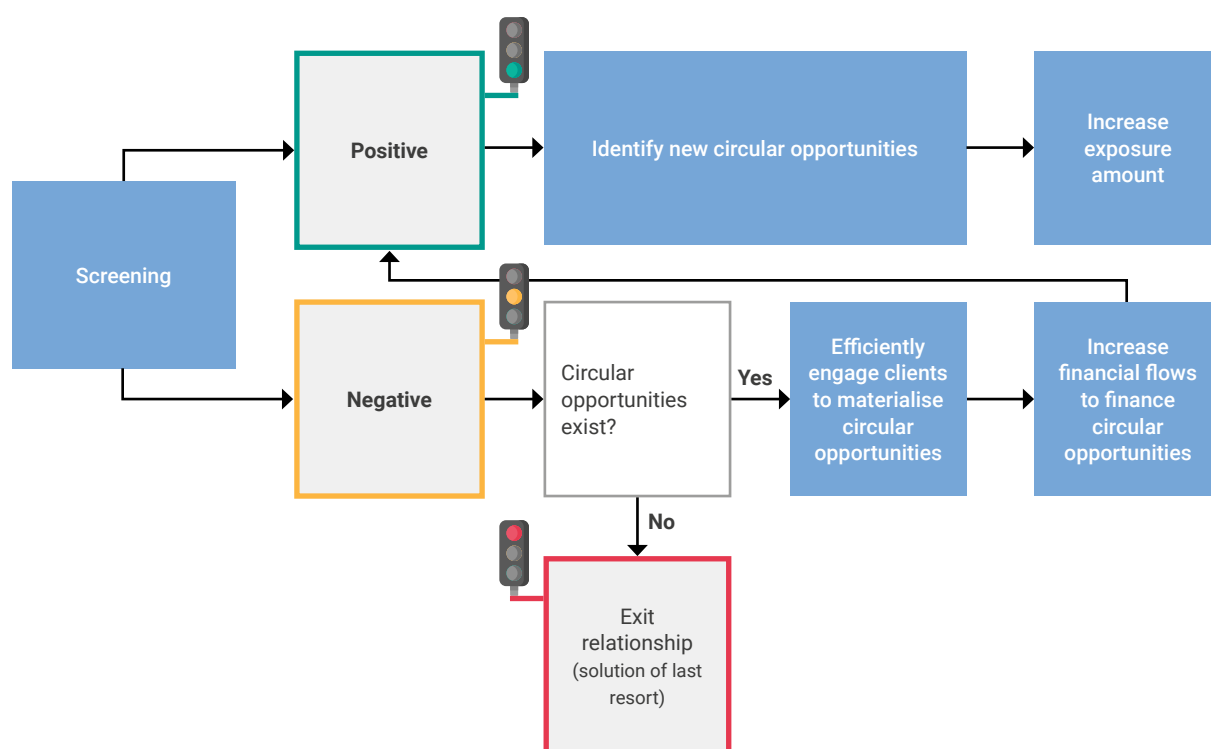


Figure 1: Decision tree to support client engagement on the basis of portfolio screening

1.2 Common pathway to impact

As a result of effective impact management, your bank can deliver positive impacts and decrease negative impacts. Based on a theory of change approach, a pathway to impact considers the relationship between **practice** (based on inputs, actions taken by your bank and its resulting outputs and outcomes) and **impact**. Practice is the conduit for achieving impacts. Hence, in order to drive impact, it is essential that your bank understands its current practice to determine how to improve it and what actions to take for which desired outputs and outcomes.⁵

⁵ [Impact Protocol, Impact analysis and management for banks](#), UNEP FI, 2022

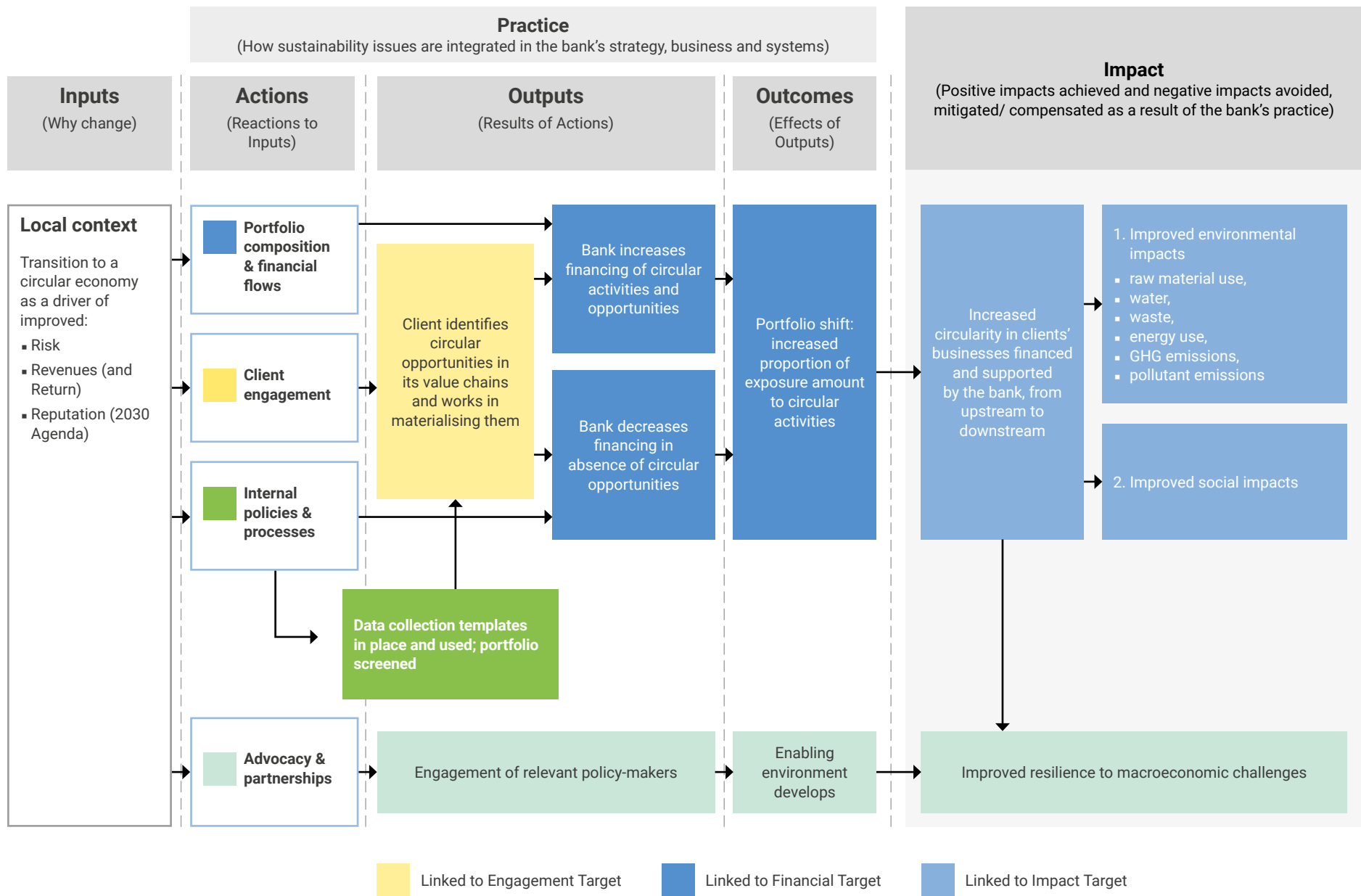


Figure 2: Pathway to impact for Resource Efficiency and Circular Economy

Different aspects on the **input** level can be considered as catalysts for change:⁶ the policy and regulatory framework and the local context that your bank operates in, including customer and investor expectations and demand, and business risk and opportunities deriving from economic, social and environmental context. The transformation of economy towards circularity leads to meaningful opportunities for the finance sector, driven by the potential to improve:

- **Risks.** The circular economy limits volatility of the economic system, as well as protects natural capital and environment. Circular business models help diversify portfolios and move away from the risks of the linear economy.⁷ This provides overall comprehensive de-risking effect.
- **Revenue** (and Return). The circular economy generates new business opportunities, with new business models and technologies, and possibly superior risk-return combinations.
- **Reputation.** The finance sector has an opportunity to redesign its role in society and contribute to an improved impact on the environment and people, by supporting the circular transition which is an essential element to deliver on the 2030 agenda.⁸

Your bank can take four different types of **actions** on the basis of this input:⁹

- Portfolio composition and financial flows
- Client engagement
- Internal policies and processes
- Advocacy and partnerships.

Portfolio composition and financial flows as well as client engagement are the two main practice areas on which your bank's actions will drive change and impact. Hence, they cannot be neglected in your bank's pathway to impact.

The actions result in the following desired **outputs**:

Actions on client engagement, following the decision tree shown in Figure 1 above, lead to identifying [circular activities](#) or [circular opportunities](#) in clients' activities or value chains, and to working on materialising circular opportunities. Priority should be given to supporting clients in their efforts to transition their activities from linear to circular, rather than to merely divesting from non-circular activities or activities with no circular opportunities. Indeed, divesting does not result in an increase of circularity in the real economy, and it might have negative consequences on its own. It should thus be the solution of last resort, and client engagement is essential to support clients in their transition.

The expected output will then be an increase of your bank's financing of circular activities and circular opportunities, and a decrease of your bank's financing of activities with no circular opportunities.

6 [Impact Protocol, Impact analysis and management for banks](#), UNEP FI, 2022

7 See also [Linear Risks](#), Circle Economy, PGGM, KPMG, EBRD, WBCSD, 2018

8 [Transformative economies: From the Circular Economy to the Green New Deal, Feltrinelli Camp 2020](#), Fondazione Giangiacomo Feltrinelli 2020; Circular Economy and Finance: either a straightforward relation or a virtuous loop? Zara C. and Bellardini L., 2023, in "The Routledge Handbook of Catalysts for a Sustainable Circular Economy", Editors H. Lehtimäki, L. Aarikka Stenroos, A. Jokinen, P. Jokine. Routledge, forthcoming.

9 [Impact Protocol, Impact analysis and management for banks](#), UNEP FI, 2022

Actions on internal policies and processes are expected to result in putting in place data collection templates, screening processes and other processes and policies that will support the actions and expected outputs on client engagement and portfolio composition and financial flows. Actions on advocacy and partnerships are expected to lead to an engagement with relevant policy-makers and other relevant stakeholders to contribute to developing the required enabling environment to foster the circular economy.

All the above leads, at the **outcome** level, to a shift of your bank's portfolio towards an increased proportion of exposure amount to circular activities—as well as to the progressive development of the required enabling environment (e.g. driving for consistent regulation and disclosure, standardised metrics and definitions).

The ultimate **impact** you are working towards is an increased **circularity impact**, i.e. an increased circularity in clients' businesses financed and supported by your bank, from upstream to downstream, and as a consequence improved **environmental impacts** (especially with regards to raw materials and water usage, waste production, energy consumption, GHG emissions and pollutant emissions) and improved **social impacts** (e.g. creation of local jobs, upskilling opportunities, tackling inequalities).

1.3 A progressive approach to target setting

Financing the transition towards a resource efficient and circular economy is a journey and most of the banks are most probably in early stages of this journey at the time of publishing this Guidance.

Setting targets requires to first determine a baseline. Your bank might be in a situation in which determining its impact baseline is not possible, for instance, because of the level of complexity of its activities and portfolio or its level of readiness on the topic of resource efficiency and the circular economy. This should not prevent your bank from starting to work and set targets on this impact area. As practice is the conduit to impact, your bank can and should start by working and setting [practice targets](#) (with impact objectives¹⁰), with the view to ultimately set [impact targets](#), which is the PRB requirement.¹¹

Under this progressive approach, practice targets are considered as acceptable targets for PRB purposes provided:

- they are set as a first step in a journey which aims at setting impact targets ultimately; practice targets should thus be accompanied with impact objectives and a clear plan to progress towards setting impact targets.
- they include at least targets on portfolio composition & financial flows and on client engagement, which are the two core practice components on which your bank should take action to drive impact. Practice targets related to internal policies and processes and to advocacy & partnerships only are not sufficient to meet PRB requirements. It

10 For further information on practice targets with impact objectives, please refer to the [Impact Protocol](#), UNEP FI, 2022

11 This progressive approach is acceptable only for nascent impact areas like resource efficiency and the circular economy, and not for more mature impact areas like climate change or financial health and inclusion. For further information please refer to the [Principles for Responsible Banking Target Setting FAQ](#), UNEP FI, 2022.

should be noted, however, that adjustments in internal policies and processes are indispensable to realising portfolio and client engagement targets.

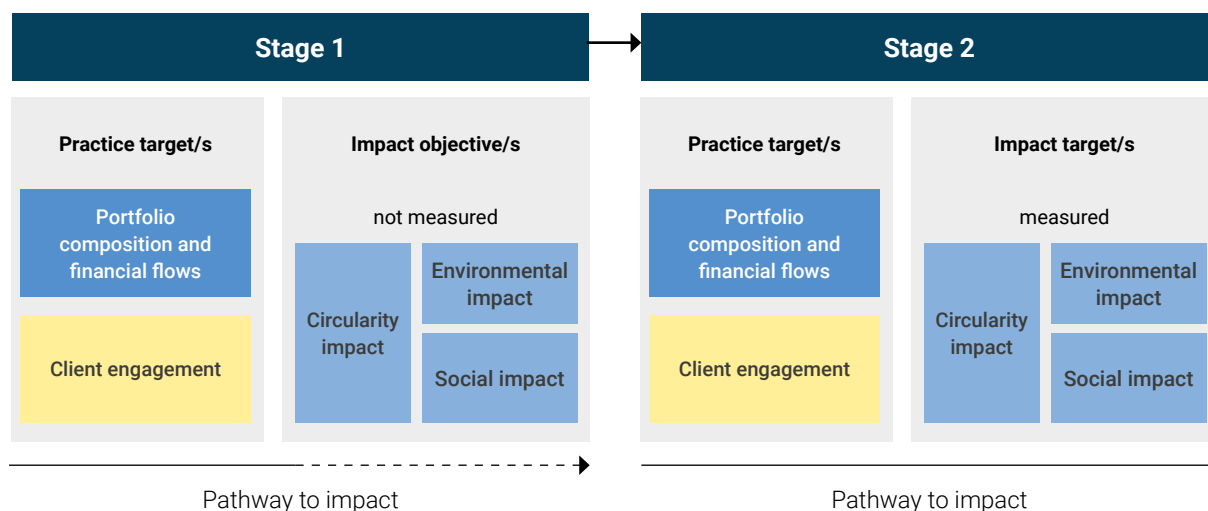


Figure 3: Progressive approach to target setting

1.4 Core set of indicators

Your bank needs to select enough relevant indicators to measure its current baseline and to monitor and report its progress towards achieving targets. You are encouraged to use a core set of indicators including both [practice indicators](#) and [impact indicators](#).

Practice indicators

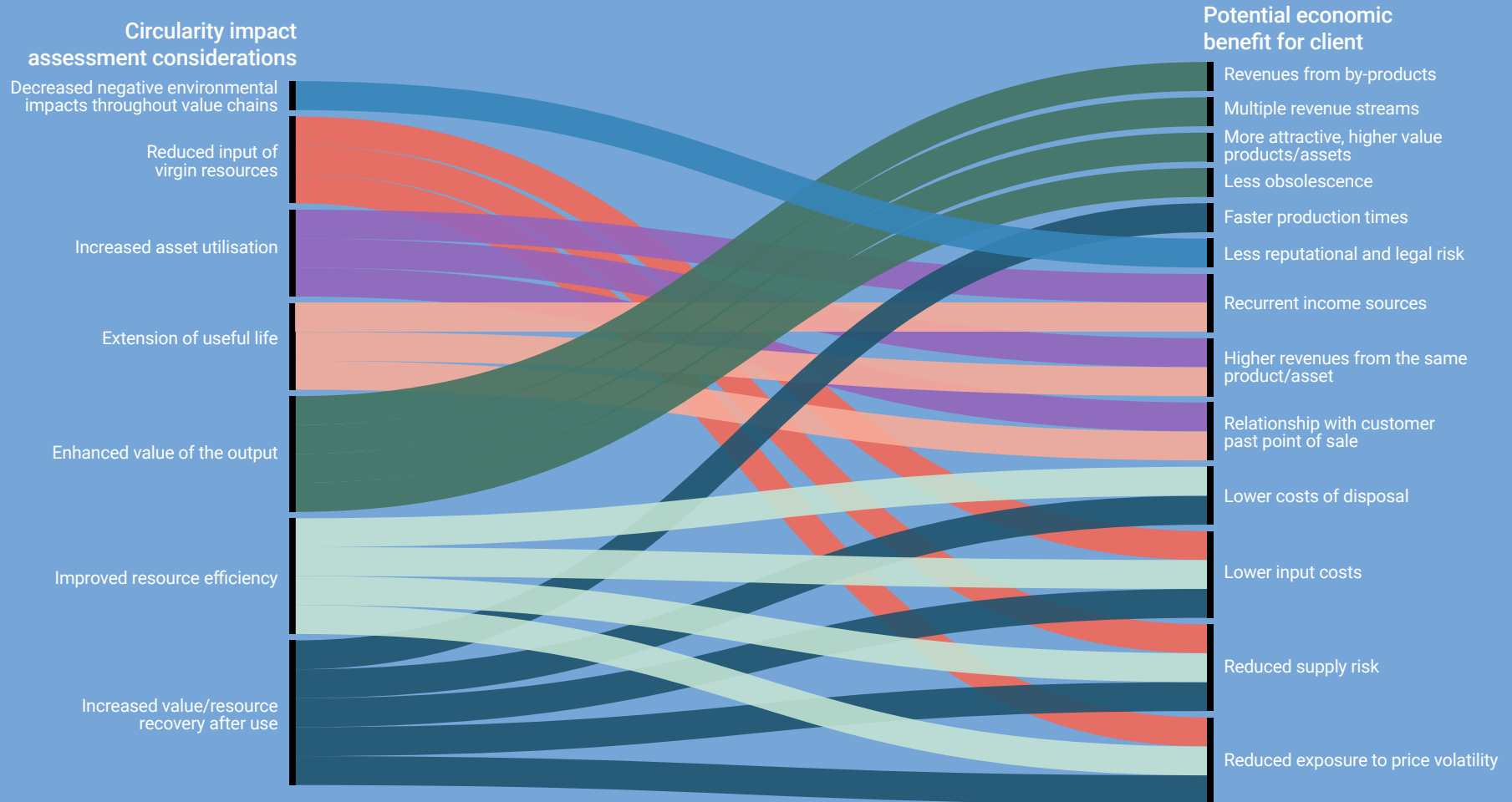
The core set of practice indicators includes indicators related to portfolio composition & financial flows and to client engagement, which are the two practice areas that your bank should set practice targets for in stage 1 of the progressive approach. However, you are also encouraged to set practice targets related to internal policies & processes, as adjusting internal policies and processes is crucial to realising portfolio and client engagement targets. Your bank may in addition set practice targets related to advocacy and partnerships. In such case, your bank should use adequate proprietary indicators.

Impact indicators

There is a high variety of impact indicators that may be used by your bank, depending on the type of client, project or activity and depending on the impact that you want to measure. A combination of several impact indicators is necessary to adequately and holistically capture the impact of a given client, project or activity, covering the circularity impact, the environmental impact and the social impact.

Box 1: Assessing circularity impact and potential economic benefit

The impact of resource efficient and circular projects, activities or clients, or circularity impact, may be assessed by one or a combination of the following considerations, which lead to potential economic benefit for client described below:



The set of impact indicators that your bank will use should **at least include circularity impact indicators and environmental impact indicators relevant for the significant impact area/topic identified by your bank** (e.g. raw materials related indicators if your bank has identified Resource efficiency/ Resource intensity, water related indicators if your bank has identified Water, waste related indicators if your bank has identified Waste, energy related indicators if your bank has identified Energy). In all cases it is recommended to also use GHG emissions related indicators as the transition to a circular economy is a crucial means to reduce GHG emissions.

Box 2: Examples of circularity impact indicators and environmental impact indicators for water¹²

- % 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.

It is also recommended to use social indicators to measure for instance livelihood (job creation, decent work), equality and justice (gender, diversity, communities), integrity and security of person (labour and human rights), health and safety. Table 3 below includes examples of possible social impact indicators and Annex 5 indicates possible sources of other social impact indicators.

¹² Please see section 2.2.1 Practice baseline, 1) Baseline for portfolio composition & financial flows, a) Identifying circularity criteria, for possible sources of circularity impact indicators

Box 3: Social impacts of the transition to a circular economy

The transition to a circular economy can contribute to the achievement of goals related to social and governance topics, including the creation of local jobs, upskilling opportunities and tackling inequalities.¹³

Particularly, the workforce will be a key lever of the transition to a circular economy, which is expected to have significant impact on the world of work and on people.¹⁴ This poses challenges and possible negative impacts, which need to be closely monitored and mitigated. But it also represents real opportunities of job creation (e.g. for instance recycling activities creating additional jobs compared to waste incineration) and improvement of working conditions (e.g. through the reduction of informal work such as in the waste collection sector), of labour and human rights. The transition to a circular economy is also expected to shift the needs for skills towards manual skills (e.g. for repair activities), soft skills (e.g. for sharing and service-related activities) but also new skills (e.g. in new technologies and digitalisation), and to require re-skilling and a general upskilling.

The circular economy will also contribute to a just transition. A Just Transition Guidance will be published by UNEP FI and ILO in the end of 2023 and will shed some light into this area. Please refer to Annex 5 for useful resources on social aspects of the transition to a circular economy.

Table 1 below shows a core set of [practice indicators](#) (Portfolio composition and financial flows shown in green, and Client engagement shown in yellow). Table 2 shows impact indicators categories (shown in blue) and Table 3 shows a core set of [impact indicators](#) (in blue).

[Impact indicators](#) measure the impact of your bank's portfolio (impact on the circularity of your bank's clients, impact on the environment and impact on people and society). They are not meant to measure the impact of your bank's own operations.

13 [Financing the circular economy. Capturing the opportunity](#), Ellen MacArthur Foundation, 2020

14 [Jobs and skills in the circular economy. State of play and future pathways](#), Circle Economy, 2020

Table 1: Core set of practice indicators

	Portfolio composition and financial flows indicators	Client engagement indicators
Action	Key sectors identified	Increase of key clients ¹⁵ identified in chosen portfolio (No or % of clients)
	Increase of portfolio screened against circularity criteria (bln/mn USD or local currency, and % of chosen portfolio)	Increase of key clients in chosen portfolio from which data relevant for resource efficiency and circular economy are collected (No or % of clients)
	Increase of portfolio screened positively against circularity criteria (bln/mn USD or local currency, and % of chosen portfolio)	Increase of key clients in chosen portfolio engaged on identifying circular opportunities in their business/value chain (No or % of clients)
	Decrease of portfolio screened negatively against circularity criteria (bln/mn USD or local currency, and % of chosen portfolio)	Increase of key clients in chosen portfolio to which technical assistance is provided (No or % of clients)
Output	Increase of financing to key clients with circular activities (bln/mn USD or local currency, and % increase)	Increase of key clients with circular activities (i.e. screened positively) (No or % of clients)
	Increase of financing to key clients with circular opportunities (bln/mn USD or local currency, and % increase)	Increase of key clients with identified circular opportunities (i.e. screened negatively but with identified circular opportunities in their business/value chain) (No or % of clients)
	Decrease of financing to clients without circular activities and circular opportunities (bln/mn USD or local currency, and % decrease)	Increase of key clients with identified circular opportunities engaged/supported (No or % of clients)
Outcome	Increase of proportion of exposure amount to circular activities (i.e. screened positively) (bln/mn USD or local currency, and % increase)	

¹⁵ Key clients are the main clients of the bank operating in key sector(s).

Table 2: Impact indicator categories (see impact indicators table below)

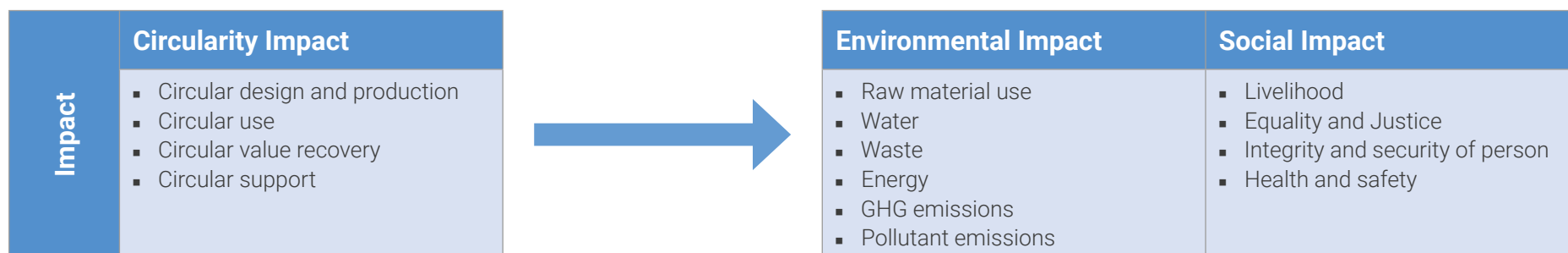


Table 3: Core Set of impact indicators

Circularity impact ¹⁶		Environmental impact		Social impact	
Circular design and production	<ul style="list-style-type: none"> ▪ 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 (t p.a. or %). ▪ 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 %). 	Raw material use	<ul style="list-style-type: none"> ▪ Reduction of non-renewable resources (t p.a. or %)/increase in % of 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 %). ▪ Increase of raw material use efficiency/productivity (USD/t).¹⁷ 	Livelihood	<ul style="list-style-type: none"> ▪ Number of new jobs created/new local jobs created/new circular jobs created (Full Time Equivalent or %)¹⁸ ▪ Decrease of number of employees with low pay rate (Full Time Equivalent or %).¹⁹ ▪ Increase in number of employees benefiting from re- and/or up-skilling, training or education opportunities (Full Time Equivalent or %).²⁰

16 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

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

18 With circular jobs being defined as jobs in key positive sectors for the transition to a circular economy, please refer to Annex 3, Sheet “key positive sectors”. You may rely on relevant existing reporting by your bank on job creation, e.g. under [GRI 401, Employment](#).

19 Defined as the percentage of employees whose hourly earnings in all jobs equal less than two-thirds of the median hourly earnings of all employees. Adapted from ILO [Decent Work Indicators. Guidelines for producers and users of statistical and legal framework indicators. ILO Manual. Second Version](#). ILO, 2013

20 This indicator aims at monitoring actions taken by clients to re- and/or up-skill employees displaced by the transition to a circular economy. Adapted from [World Benchmarking Alliance, Just Transition Methodology](#), World Benchmarking Alliance (2021). You may rely on relevant existing reporting by your bank, e.g. under [GRI 404, Training and education](#) or similar reporting

Circularity impact ¹⁶		Environmental impact		Social impact	
Circular use	<ul style="list-style-type: none"> ▪ Increase in redundant products that have been repurposed, refurbished or remanufactured (t p.a. or %). ▪ Expected extension of lifetime (compared to the equivalent linear product's expected lifetime) (years) 	Water	<ul style="list-style-type: none"> ▪ Water use reduction (m³ p.a. or %) ▪ Decrease of water use intensity (m³/product) ▪ Increase of water use efficiency (USD/m³) ▪ Increase of water reuse/recycled in production processes (m³ p.a. or %) 	Equality and Justice	<ul style="list-style-type: none"> ▪ Decrease of gender wage gap (%)²¹ /increase male-female wage parity indices ▪ Increase in proportion of women in senior and middle management (%)²² ▪ Increase of % of diversity considering all categories by gender, age, immigrants, people with disabilities/total amount of employees (%).²³ ▪ Increase in number of operations with implemented local community engagement, impact assessments, and/or development programs (no or %).²⁴ ▪ Decrease in number of operations with significant actual or potential negative impact on local communities/Increase in number of operations with significant actual or potential positive impact on local communities (no or %).²⁵

21 Defined as the difference between the gross average hourly earnings of male and female employees expressed as percentage of gross average hourly earnings of male employees. Adapted from ILO [Decent Work Indicators](#), ILO (2013). Your bank may rely on existing relevant reporting, e.g. [GRI 405 Diversity and equal opportunity](#).

22 Proportion of women in total employment in senior and middle management corresponding to the ISCO-88 category 12 (corporate managers) -which provides information on the proportion of women who are employed in decision-making and management roles in large enterprises and institutions, and to ISCO-88 Sub-major group 13 (general managers), which mainly includes managers of small enterprises. Adapted from ILO [Decent Work Indicators](#), ILO (2013). Your bank may rely on existing relevant reporting, e.g. [GRI 405 Diversity and equal opportunity](#).

23 Your bank may rely on existing relevant reporting, e.g. [GRI 405 Diversity and equal opportunity](#).

24 Adapted from [GRI 413 Local Communities](#). Your bank may rely on existing relevant reporting, e.g. GRI 413-1 under [GRI 413 Local Communities](#)

25 Adapted from [GRI 413 Local Communities](#). Your bank may rely on existing relevant reporting, e.g. GRI 413-2 under [GRI 413 Local Communities](#)

Circularity impact ¹⁶		Environmental impact		Social impact		
Circular value recovery	<ul style="list-style-type: none"> 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 %) 	Waste	<ul style="list-style-type: none"> Reduction of waste generated (t p.a. or %) Increase of waste and by-products reuse/recycling/remanufacturing rate (t p.a. or %) 	Integrity and security of person	<ul style="list-style-type: none"> Employees and workers covered by collective agreements to total employees and workers (Full Time Equivalent or %) Reduction of children below 15 years (or under the age of completion of compulsory schooling, whichever is higher) engaged in child labour by the reporting entity and all suppliers (Full Time Equivalent or %).²⁶ Reduction of people engaged in forced labour by the reporting entity and all suppliers (no or %)²⁷ Increase of workers in formal vs informal employment (%)²⁸ 	
						Circular support
	GHG emissions	<ul style="list-style-type: none"> Reduction of GHG emissions (Scope 1&2) (t of CO₂ p.a. or %)³⁰ Reduction of GHG emissions (Scope 3) (t of CO₂ p.a. or %)³⁰ 	Human health & safety			

26 Your bank may rely on existing relevant reporting, e.g. [GRI 408 Child labor](#)

27 Your bank may rely on existing relevant reporting, eg. [GRI 409 Forced or compulsory labor](#)

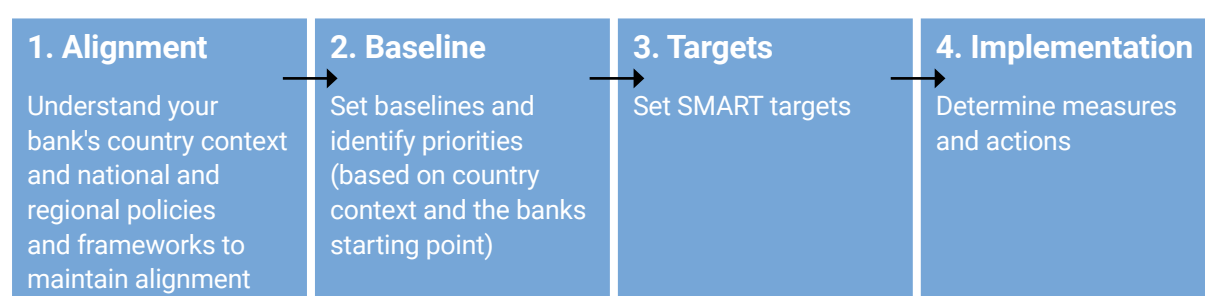
28 Adapted from ILO [Decent Work Indicators](#), ILO, 2013

29 You 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

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

2. Operational process for setting targets

When setting targets, your bank should be guided by the Principles for Responsible Banking requirements and follow a four steps process as outlined in the Impact Protocol: alignment, baseline, targets, implementation.



In this section your bank will ascertain how to put each step into practice.

Requirements of the Principles for Responsible Banking for setting targets

In accordance with the Principles for Responsible Banking requirements for target setting, your bank's targets should:

- Be Specific, Measurable, Achievable, Relevant and Time-bound (SMART).
- Address an area of most significant impact resulting from your bank's activities and provision of products and services, as identified through your bank's impact analysis.
- Link to and drive alignment with, and greater contribution to, appropriate Sustainable Development Goals, the goals of the Paris Climate Agreement, and other relevant international, national, or regional frameworks, as such as national public policies.
- Be set against a baseline, which is developed by your bank and assessed against a particular year.
- Include the identification, acknowledgment of significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals, and steps to mitigate these should be taken as far as feasible to maximize the net positive impact of the target.
- Include defined actions and milestones to meet the target.
- Include definitions of indicators to measure and monitor progress against the targets (any changes in these definitions, and any rebasing of baselines should be transparent).

2.1 Alignment

As part of its identification process, your bank will have considered needs and priorities in relevant geographies. Your bank now needs to understand more specifically the relevant frameworks and policies goals and targets with which it should align for resource efficiency and circular economy purposes. The frameworks and policies will inform the choice of indicators, as well as the level of ambition for target setting, as the targets that you will set should contribute to achieving the goals and targets of such frameworks and policies.

In order to identify the relevant frameworks and policies your bank can use the Context Module of the UNEP FI Portfolio Impact Analysis Tool for Banks³¹ and build on the context analysis and needs assessment conducted during the Impact Identification phase. Your bank should also follow the following considerations:

- There is a high variety of frameworks and policies that may be relevant, at global, regional and local level.
- They may explicitly refer to, or embed, resource efficiency or circular economy.
- They may be mandatory or non-mandatory.
- Your bank should first consider global frameworks and instruments, then go to regional and then local framework, depending on what is available.
- Your bank should first consider generic frameworks and instruments and then consider any sector-specific framework or policy, depending on what is available.
- In absence of a relevant framework, you should look for a country with a local context similar to your bank's local context and refer to the frameworks or policies relevant in such country.
- Your bank may need to combine several frameworks and policies, at global, regional and local levels.

The diagram below illustrates how to identify relevant frameworks and policies:

31 [Portfolio Impact Analysis Tools for Banks](#), UNEP FI

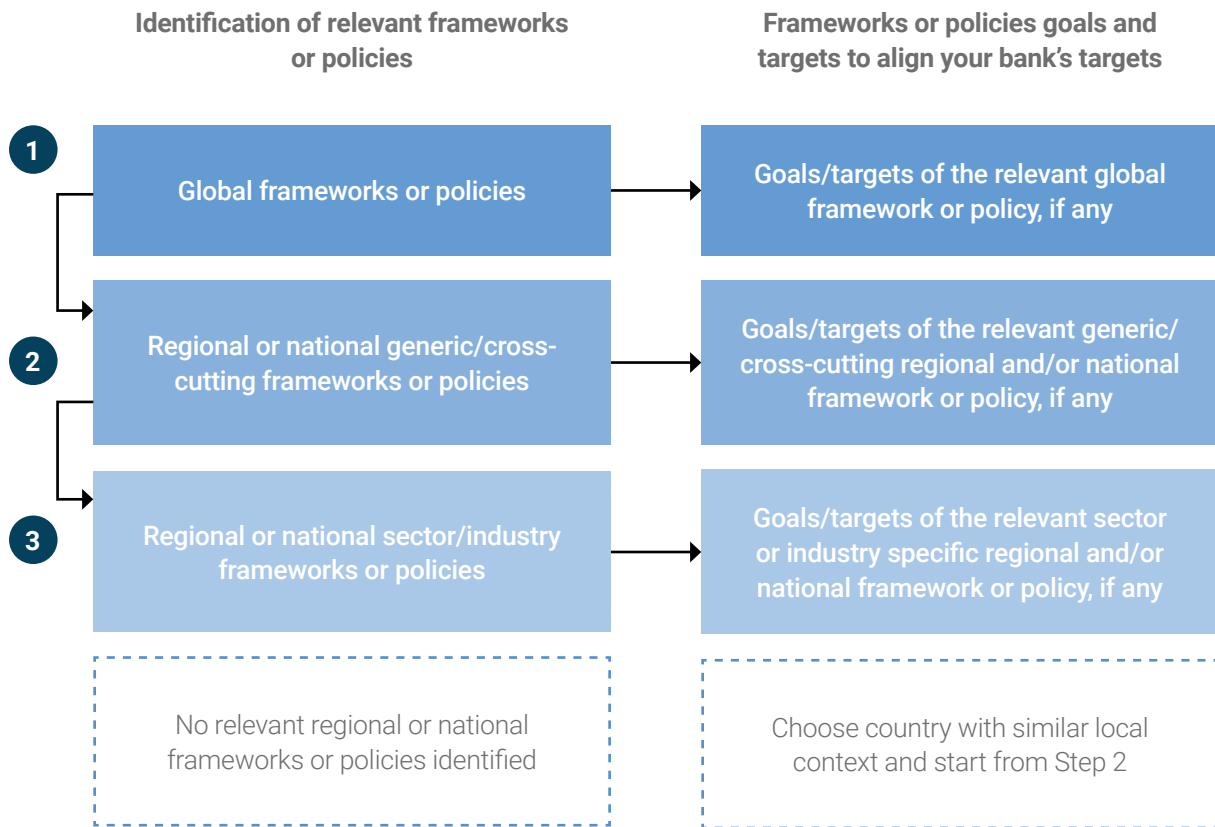


Figure 4: Identification of frameworks and policies

Your bank's targets should align with the goals and targets of the identified frameworks and policies. You should work on all goals and targets if possible, and otherwise you should prioritise the goals and targets which will generate the highest impact, taking into consideration the composition of your portfolio. For this purpose, you should be guided by the prioritisation set in the framework or policy, if any, and by circular economy principles. You should for instance not only focus on goals and targets related to downstream activities and solutions but also to upstream activities and solutions. For more information on the circular economy principles and the hierarchy of circular strategies, please refer to Annex 1.

At global level, you should take into consideration goals and targets in the Sustainable Development Goals (SDGs), especially in SDG 8.4 and SDG 12.

For further information, please refer to Annex 3, Sheet “Frameworks and policies” which includes an indicative list of frameworks and policies in a few countries represented in the Resource Efficiency and Circular Economy Working Group, as well as to the [Needs Mapping](#).



Figure 5: Main SDGs related to resource efficiency and the circular economy

Source: [UNEP Circularity Platform](#)

The circular economy agenda is more and more incorporated in frameworks and policies. It is the case for instance in the European regulatory framework, as described in Box 6 below, or in various countries of the Latin America and the Caribbean region, in Box 7 below, as analysed in UNEP FI’s report on *Unlocking Circular Finance in Latin America and the Caribbean*.³² It is also expected that the necessity to transition to a circular economy will be central in the upcoming international instrument to end plastic pollution currently in negotiation, as per the mandate given to Member States by the UN Environmental Assembly in March 2022.³³

32 [Unlocking circular finance in Latin America and the Caribbean: The Catalyst for a Positive Change](#), UNEP FI, 2023

33 [End plastic pollution: towards an international legally binding instrument](#), UNEP/EA 5/Res. 14, 2022

Box 4: Overview of the circular economy in the European regulatory framework

The European Commission adopted in March 2020 a Circular Economy Action Plan³⁴ as one of the main building blocks of the European Green Deal.³⁵

One of the 6 objectives of the European Union Taxonomy for sustainable activities (the EU Taxonomy)³⁶ is the transition to a circular economy. Once the EU Taxonomy will be fully implemented, European banks will have to publish their green asset ratio, i.e. the ratio of sustainable activities in their entire portfolios. For this purpose, an economic activity will qualify as sustainable if it substantially contributes to the transition to a circular economy and does not significantly harm any other environmental objective, or if it substantially contributes to at least one other environmental objective and does not significantly harm neither the transition to a circular economy nor any of the other environmental objectives.

A significant recent regulatory development is the entry into force in January 2023 of the Corporate Sustainability Reporting Directive³⁷ (CSRD), which requires large companies (including banks) and listed companies (including listed banks and listed SMEs) to disclose information on their risks and opportunities arising from social and environmental issues, and on the impacts of their activities on people and the environment. Reporting will have to be made according to European Sustainability Reporting Standards (ESRS), which is expected to include a standard on Resource use and circular economy.³⁸

Circular economy concepts also start to be incorporated in the European Union industrial policy, such as in the Green Deal Industrial Plan³⁹ announced in February 2023 to support Europe's transition to climate neutrality. The Plan will include a Critical Raw Materials Act aiming at ensuring access to raw materials critical to the transition through the growth in the circular economy.

34 [Circular Economy Action Plan](#), European Commission, 2020

35 [European Green Deal](#), European Commission, 2019

36 [EU Taxonomy for sustainable activities](#), European Commission, 2020

37 [Corporate Sustainability Reporting Directive](#), European Commission, 2022

38 [Exposure Draft, ESRS, E5, Resource use and circular economy](#), EFRAG, 2022

39 [Green Deal Industrial Plan for the Net-Zero Age](#), European Commission, 2023

Box 5: Overview of the circular economy policies and frameworks in some Latin America and Caribbean region countries

	Country						
	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Mexico	Peru
National frameworks on Circular Economy							
National Vision, plan or law on Circular Economy	!	✓	✓	!	!	✓	✓
CE 2020 NDC's inclusion	✗	✓	✓	✓	✓	✓	✗
Other national plans, strategies and laws mentioning CE concept	!	✓	✓	✓	✓	✓	✓
Participation in CE Coalition for LAC	✗	✓	✓	✓	✓	✓	✓
Policies for the circulation of							
Sustainable production and consumption policies	✓	✓	✓	✓	✓	✓	✓
Extended Producer Responsibility (EP) Legislation	✓	✓	✓	✓	✓	✓	✓
Waste management & pollution reduction							
Waste management	✓	✓	✓	✓	✓	✓	✓
Plastic ban	!	✓	✓	✓	✗	!	✓



Green: demonstrates the availability of a circular economy instrument, including circularity implementation measures in terms of leadership, goals, and indicators.



Blue: demonstrates the availability of a formal instrument in the country, but no current circularity implementation measures.



Yellow: discussions have started, but instruments are still under development.



Red: research did not identify any instrument or policy-related material to date.

Source: [Unlocking Circular Economy Finance in Latin America and the Caribbean: The catalyst for a positive change](#), UNEP Finance Initiative, 2023

2.2 Baseline

Determining your bank's baseline consists of determining the current performance of your bank in terms of practice (practice baseline) and impact (impact baseline) and assessing the current level of alignment with the chosen frameworks/policies goals and targets. It is a critical step as the baseline provides a starting point against which to set targets and measure progress. The information and data gathered for this purpose will inform your practice target setting and impact target setting, and the action plan to achieve targets.

Determining the baseline will involve many of your bank's employees and departments, and is an opportunity for you to initiate a new way of thinking and working on the topic of resource efficiency and the circular economy, which will help further implementation in the long run. For example, in order to gather data, you should work with clients and thus involve your bank's client facing staff. Senior management should also be involved in the process, for instance to define which portfolio and sectors to focus on to start, or advance in your bank's journey.

As per the Impact Protocol, determining your baseline means to measure and assess your bank's current impact management **practice** (broken down into portfolio composition & financial flows; client engagement; internal policies and processes; advocacy & partnerships) and your bank's current **impact** to people, socio-economic communities and to the environment. The process for specifically determining your circularity baseline is further illustrated below. The Assessment Modules of the UNEP FI's Portfolio Impact Analysis Tool for Banks⁴⁰ can be used to support your data collection and visualisation.

2.2.1 Practice baseline

In this section you will be guided on how to determine your bank's practice baseline in each of the four practice areas—portfolio composition & financial flows, client engagement, internal policies & processes, advocacy & partnerships.

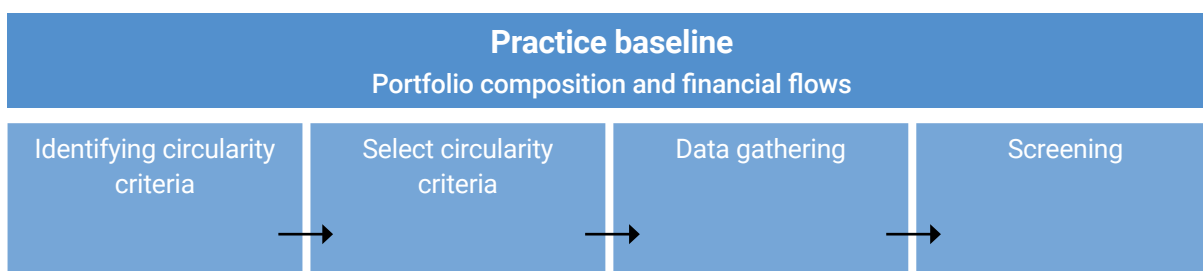
1. Baseline for portfolio composition & financial flows

Determining your bank's baseline related to portfolio composition and financial flows will allow to answer the following question: what proportion of your bank's portfolio consists respectively of [circular activities, projects and clients](#) and of activities, projects and clients with [circular opportunities](#)?

In order to identify such activities, projects and clients you are encouraged to use a categorisation-led approach, i.e. to screen your portfolio against [circularity criteria](#) in a [circular economy categorisation system](#). For this purpose, you should first identify possible circularity criteria, select the ones that you will use, then collect the relevant data and finally screen your chosen portfolio.

The process to determine your baseline is summarised in the diagram below:

40 [Portfolio Impact Analysis Tools for Banks](#), UNEP FI



The portfolio to be screened is the portfolio that you will have identified in your Impact Identification work, i.e. the portion of your portfolio which has the most significant impact, with the long-term objective to cover your entire portfolio.

Under the Impact Identification your bank will have analysed the composition of its portfolio and determined the sectors with highest proportions in the portfolio and the key sectors in its portfolio. On this basis, your bank has determined which are the key sectors⁴¹ in its portfolio for resource efficiency and the circular economy (or water, waste or energy), defined as:

- [Key positive sectors](#)/activities which are indispensable to the fulfilment of resource efficiency or the circular economy (or water, waste or energy), and/or
- [Key negative sectors](#)/activities which severely undermine resource efficiency or the circular economy (or water, waste or energy). Those are sectors which are particularly resource intensive and have high negative environmental impacts. Those are also the sectors where there are likely to be the most significant circular opportunities.

Table 4 includes an indicative list of key sectors for resource efficiency and circular economy purposes.⁴²

Table 4: Key negative and key positive sectors for circular economy purposes

Key negative sectors	Key positive sectors
Agriculture and food systems	Waste management
Mining	Water treatment
Manufacturing	
Plastics/Packaging	
Textiles and Fashion	
Construction	
Transport and vehicles	
Information & communication activities/electronics	
Chemicals	

In order to identify key positive sectors, you may also wish to refer to the activities that have been prioritised by the European Commission’s draft Environmental Delegated

41 Sectors/activities are deemed key when the probability of the impact associated to the sector/activity materialising is high and/or when the impact is likely to materialise on a large scale, or with a high intensity.

42 The [EU Circular Economy Action Plan](#) defines as key sectors electronics and ICT; batteries and vehicles; packaging; plastics; textiles; construction and buildings; food, water and nutrients.

Act⁴³ to define technical screening criteria for activities substantially contributing to the transition to a circular economy, to support the implementation of the EU Taxonomy, which are expected to be published in the second semester of 2023. Please refer to the [Sector mapping](#) and to Annex 3, Sheets “key negative sectors” and “key positive sectors” for further information on key sectors for resource efficiency and circular economy purposes.

Among key sectors identified in your bank portfolio, you will have determined which ones to prioritise based on the following criteria:

- 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)

a. Identifying circularity criteria

In order to identify the [circularity criteria](#) you will use to screen your portfolio, it is recommended to choose a [circular economy categorisation system](#), as such categorisation systems include comprehensive sets of circularity criteria. Other sources of possible circularity criteria are indicated below and in Annex 5 and can be used in addition to the categorisation system circularity criteria, or as an alternative source of circularity criteria.

A number of [circular economy categorisation systems](#) have been developed by authorities or other organisations or initiatives, which define categories of circular business models and include criteria to determine whether a business model or an activity is circular or not (“[circularity criteria](#)”). Such categorisation systems can help your bank define its set of circularity criteria, that it will use to assess the current level of resource efficiency/circularity of its portfolio.

The European Commission developed in 2020 a categorisation system for the circular economy⁴⁴ (hereafter called “the European Commission categorisation system”), defining four categories of circular business models divided into fourteen subcategories which all contribute directly or indirectly to increasing resource efficiency and decreasing environmental impacts throughout value chain:

- [Circular design and production](#): activities aiming at increasing resource efficiency through (i) design innovation, (ii) process innovation and reengineering and/or (iii) material innovation and substitution.
- [Circular use](#): activities aiming at increasing resource efficiency through (i) product and asset lifecycle extension based on reuse, repair, repurposing, refurbishment or remanufacturing strategies and/or (ii) product and asset use-optimizing leasing and sharing models.

43 Annex II to the Environmental Delegated Act identifies activities with substantial contribution to the transition to a circular economy. [Environmental Delegated Act, Annex II](#), European Commission, 2023

44 [Categorisation System for the Circular Economy, a sector-agnostic approach for activities contributing to the circular economy](#), European Commission, 2020.

- [Circular value recovery](#): activities aiming at increasing resource efficiency through the recovery of wastes in preparation for reuse and recycling or other circular economy strategies.
- [Circular support](#): activities aiming at enabling other circular activities/projects and thus indirectly contributing to increasing resource efficiency

For more information, please refer to Sheet “Circularity Criteria” of Annex 3.

Business model categories mapped on the Value Hill

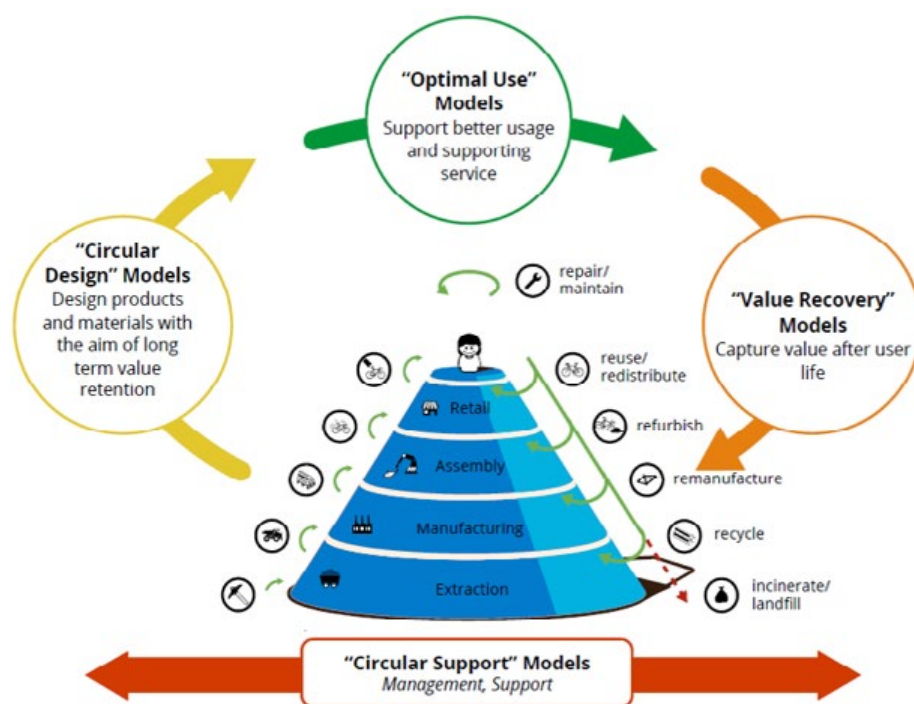


Figure 6: The European Commission categorisation system for the circular economy

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

Other [circular categorisation systems](#) have been developed under initiatives led by banks, such as the Circular Economy Finance Guidelines by the Dutch banks ABN AMRO, ING and Rabobank⁴⁵ and the methodology developed for Colombia by IADB, IDB Invest and BASE⁴⁶ with the Colombian banks Bancoldex, Bancolombia and Banco de Bogota.

You should use the [categorisation system](#), mandatory or not, already in place in your bank’s region or jurisdiction, if any. If there is no obvious categorisation system available to a bank at regional or national level, it is recommended to use the European Commission categorisation system⁴⁷ shown in Figure 6, or a similar one as appropriate in your bank’s relevant geography.

The categorisation system you will have chosen will help you determine which [circularity criteria](#) you should use to screen your portfolio. The circularity criteria will mainly

45 [Circular Economy Finance Guidelines](#), ABN AMRO, ING, Rabobank (2018); see also [The EIB Circular Economy Guide](#), European Investment Bank, 2020

46 [Financiamiento de inversiones de economía circular, Experiencia en Colombia](#), IADB, IDB Invest, BASE, 2022

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

be qualitative indicators, which will help you to define questions to be asked to your clients to collect relevant data from them to assess the circularity and/or circular potential of their activities. Circularity criteria will differ depending on business models and/or sectors. Please refer to Box 10 to see examples of circularity criteria for a number of circular business models.

The criteria under the European Commission categorisation system are sector-agnostic. It is the case as well in the current draft European Sustainability Reporting Standards E5 (ESRS E5)⁴⁸ under which sustainability reporting required under the Corporate Sustainability Reporting Directive (CSRD) will have to be made, once implemented.

Box 6: Examples of qualitative circularity criteria, for certain categories of the European Commission categorisation system⁴⁹

Circular business model categories	Circular business model subcategories	Circularity criteria
Group 1 – Circular Design and Production	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. Does the activity result in significant overall net resource savings and impact reductions?
		2. Does the activity support or enable circular value retention or recovery strategies?
		3. Do the materials/products/assets produced have comparable or increased quality, properties, technical functionality and application areas?
		4. Are bio-based materials used, if any, demonstrably traceable to sustainable biomass production?

48 [Exposure Draft, ESRS E5, Resource Use and Circular Economy](#), EFRAG, 2022

49 Adapted from the European Commission categorisation system specific circularity criteria

Group 2— Circular Use	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	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?
	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	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? ⁵⁰
		3. Does the activity increase the overall resource efficiency of the product or asset, on a lifecycle basis, as compared to existing use practice?

50 Please see Figure 6 for a categorisation of circular economy strategies and Annex 1 for further information on circular economy strategies (9Rs strategies)

Group 3— Circular Value Recovery	3.b Recovery of materials from waste in preparation for circular value retention and recovery strategies (excluding feedstock covered under 3.c)	1. Does the feedstock constitute or originate from source segregated and separately collected waste fractions?
		2. 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?
		3. Are secondary raw materials and product parts recovered suitable for reuse or recycling?
		4. Does management of residues from the recovery process follow the waste hierarchy principle? ⁵¹
	3.d Reuse/recycling of waste water	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?		
Group 4— Circular Support	4.a 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?

Other sources of circularity criteria include the Circular Economy Indicators Coalition (CEIC)'s repository of circularity indicators,⁵² Ellen MacArthur Foundation's Circulytics,⁵³ WBCSD's Circular Transition Indicators,⁵⁴ ICMA's Suggested Impact Reporting Metrics

51 The waste hierarchy principle refers to the hierarchy in waste management (such as in the EU Waste Framework Directive). Waste prevention and re-use are the most preferred options, followed by recycling (including composting), then energy recovery, and waste disposal through landfills should be the very last resort.

52 [Indicators](#), Circular Economy Indicators Coalition (CEIC)

53 [Measure business circularity: Circulytics](#), Ellen MacArthur Foundation, 2021; Circulytics is a scoring methodology which measures a company's circularity and may inform banks on the level of circularity of its clients. Circularity criteria used in this methodology are a possible source of inspiration to identify circularity criteria.

54 [Circular Transition Indicators](#) (CTI), WBCSD, 2022

for Circular Economy and/or Eco-Efficient Projects,⁵⁵ and IRIS+ by the Global Impact Investing Network (GIIN).⁵⁶

The draft Technical Screening Criteria under the EU Taxonomy⁵⁷—which are expected to be published in the second semester of 2023—include sector specific criteria. Once available, they will have to be used by European banks, and may be a source of inspiration for banks in other regions as long as they do not have circularity criteria in their regional or national frameworks.

You should select the circularity criteria that are relevant for the portfolio and key sectors you focus on. Please refer to the sheet “Circularity Criteria” in Annex 3 for further information on circularity criteria.

Once you have identified possible circularity criteria, you need to select the ones you are going to use to screen your portfolio.

b. Selecting circularity criteria

In order to select the circularity criteria that you will use to screen your portfolio, you will determine which circular business model(s) and sub-category(ies) of circular business models are the most relevant for the key sectors in your portfolio. Annex 3, Sheets “key negative sectors” and “key positive sectors” gives you information on the most relevant circular business models for some key negative and positive sectors.

Your bank is encouraged to use a holistic set of [circularity criteria](#). However, **it is also possible to limit the number of criteria by focusing on the most relevant ones for your bank’s most significant impact areas/topics.**

For instance, if your bank has identified Water as one of its most significant impact areas, for which it will set targets, you may focus on water-related criteria only and select a core set of water-related indicators, without entering into the full categorisation-led process described below. For further information on simplified criteria, please see Sheet “Simple Data Collection Templates” in Annex 3. In this case, it is however recommended that your bank progressively widens the circularity criteria and adopts a categorisation-led process, in order to progressively work on its portfolio with a circular economy lens.

Running a [circular categorisation system](#)-led analysis of your portfolio will help you to understand where and how circularity can be improved in your clients’ activities. For instance, for your clients in the manufacturing sector, it is relevant to assess how circular is the design of their products, how resource efficient is their production process, whether they develop strategies and plans to substitute virgin raw materials with recycled or reused materials. Hence it can be relevant to screen your clients in the manufacturing sector against the [circular design and production](#) criteria. It can also be relevant to assess whether such clients develop strategies to increase the reusability of their products or to extend their life, for which screening will be done using [circular use](#) criteria, or strategies to improve the recovery of waste generated by their activities, for which screening will be done using [circular value recovery](#) criteria.

55 [The GBP Impact Reporting Working Group, Suggested Impact Reporting Metrics for Circular Economy and/or Eco-Efficient Projects](#), ICMA, 2021

56 [IRIS+](#), Global Impact Investing Network (GIIN)

57 Draft [Environmental Delegated Act, Annex II: Transition to a circular economy](#), European Commission, 2023

c. Data gathering

Having determined what [circularity criteria](#) your bank will use to screen its chosen portfolio, you should gather the corresponding data and information for your new clients and projects (e.g. upon Know Your Customer processes/ due diligence and on-boarding process of new clients), as well as for existing key clients and projects in your portfolio (e.g. through periodic due diligence process or upon provision of a new financial product or service).

It is probable that you will face significant data gaps. Identifying data gaps is an important step which will help to put in place processes to collect relevant data and information from your clients. Client-facing staff will need to be involved in data collection and will probably need to be trained for this purpose.

It is recommended that your bank puts in place **data collection templates** to foster data collection efficiency and standardisation and to ease the processing of data. Data collection templates should include qualitative data requests, corresponding to the circularity criteria, and as much as possible, quantitative data requests. The same data collection templates should also be used to assess the impact of your portfolio and thus include impact data requests (please see below in Section 2.2.2). Over time, as the data collection process is refined by your bank, it can be automated to a greater extent, and integrated into formal data gathering systems and tools.

For more information on data collection templates and more examples of templates, please refer to the sheets “Data Collection Template” and “Simple Data Collection Template” of Annex 3, which include examples of data collection templates, as well as examples of **simplified data collection templates** that may be used to start by focusing only on resource intensity, water, waste or energy. For instance, if your bank has identified Water as a high impact area, you may focus on the circular economy strategies that are generally considered as the most relevant for water, i.e. reduce the use of water, reuse water and recycle water. You may thus start by focusing on circularity criteria and circularity impact criteria related to the circular design and production, circular use and circular value recovery, with a focus on criteria relevant for water. As regards environmental impact you may start by focusing on water only (and GHG emissions).

Possible data sources may include for instance the outcome of circularity assessment run by your clients using tools such as Circulytics⁵⁸ by Ellen MacArthur Foundation or CTIs⁵⁹ by the WBCSD, which provide a circularity score calculated on the basis of a number of circularity criteria. Other possible sources of information include reporting made by clients on resource use, water or waste under voluntary disclosure standards such as GRI (especially GRI 306 on Waste,⁶⁰ GRI 301 on Materials,⁶¹ etc.) and CDP (especially CDP Water Questionnaire⁶² and upcoming CDP Plastic Questionnaire, currently under development and expected to be available as from 2024). Another possible source

58 [Measure business circularity: Circulytics](#), Ellen MacArthur Foundation, 2021

59 [Circular Transition Indicators \(CTI\)](#), WBCSD, 2022

60 [GRI 306: Waste](#)

61 [GRI 301: Materials](#)

62 [CDP Questionnaire—Water security](#)

of information will be reporting made by corporates and SMEs under ESRS E5,⁶³ once implemented. Labels, certificates and material passports are other possible sources of information, such as for instance the Material Passport developed by Building As Material Banks (BAMB) for Buildings and Construction.⁶⁴

You should document data sources (primary sources, i.e. clients will be the main data source; secondary sources from data providers, publicly available data, labels and certifications and any other data source).

d. Screening

Once you have collected the relevant data and information, you should screen your portfolio against the [circularity criteria](#) in order to determine what proportion of your bank's chosen portfolio is [screened positively](#), what proportion is [screened negatively](#), and identify [circular opportunities](#).

For this purpose, you should split your chosen portfolio into:

- financial instruments with a specified use of proceeds, for which it is expected that you have enough information to determine whether a given client, project or activity is screened positively and in what proportion. A further split could be between financial instruments with use of proceeds in a whole business (e.g. green bonds) or segregated in a special purpose vehicle (SPV) legally ring-fenced, which may have different regulatory capital requirements.
- financial instruments without a specified use of proceeds (general purpose instruments), for which (i) clients, projects or activities in key positive sectors for resource efficiency and circular economy purposes will be considered as 100% screened positively and (ii) other clients, projects or activities will be screened positively for the proportion of their turnover (or other relevant financial metric) corresponding to circular activities, i.e. meeting activities which meet all circularity criteria.

The proportion of your chosen portfolio respectively screened positively or negatively is your bank's baseline for portfolio composition and financial flows, which will constitute the basis on which your bank will set targets.

Screening your chosen portfolio will also provide you with relevant insights to identify, within the clients, projects and activities that have been [screened negatively](#), which ones have a circular potential. This will be further explained under Section 2) Baseline for client engagement below.

2. Baseline for client engagement

You should determine your bank's baseline for client engagement on the resource efficiency and circular economy topic in your chosen portfolio by answering the following questions: Are clients from key sectors being identified? Are they being engaged? What is the scope of these engagement activities (biggest clients, all clients, clients with the highest impacts, especially negative impacts, etc.)? What is the nature of the engagement (collection of data on resource efficiency and the circular economy, awareness-raising, advisory services, tailored products and financing solutions to support

63 [Exposure Draft, ESRS E5, Resource Use and Circular Economy](#), EFRAG, 2022

64 [Buildings as Material Banks](#)

clients on their transition plans to more resource efficient and circular business models, other)?

Screening your chosen portfolio against a [categorisation system](#) and determining which [circularity criteria](#) are met or not met by a given client, project or activity, will allow you to better understand the opportunities to improve circularity in your client's business or value chain. Please see Box 13 for examples of identifying [circular opportunities](#).

Box 7: Examples of circular opportunities identification⁶⁵

Example 1: Client 1 is a company in Asia Pacific in the sector of plastic packaging

Client 1 produces reusable packaging for home-delivery and takeaway food companies.

In view of Client 1's activity the most relevant circularity criteria are those for [circular design and production models](#) (1.a. Design and production of products and assets that enable circular economy strategies) under the European Commission categorisation system (applied in absence of any other relevant categorisation system at regional and national level).

65 Using the [European Commission Categorisation System Circularity Criteria](#)

Circularity information	Client's answer	Criteria is met	Client has started to take steps towards meeting criteria	Client has not started to take steps towards meeting criteria	Criteria has no potential to be met
1.a Design and production of products and assets that enable circular economy strategies					
1. Does the activity result in significant overall net resource savings and impact reductions?	By means of our reusable takeaway packaging, we are reducing packaging of our clients by up to 80%		X		
2. Does the activity support or enable circular value retention or recovery strategies?	We support reuse strategies (reuse of a product that is still functioning for its original purpose) as the takeaway packaging is reused for its original purpose without generating waste	X			
3. Do the materials/products/assets produced have comparable or increased quality, properties, technical functionality and application areas?	Our takeaway boxes are microwaveable, light and stable, keep the food warm well and do not heat up so much themselves that they can still be carried comfortably.	X			
4. Are bio-based materials used, if any, demonstrably traceable to sustainable biomass production?	We do not use any bio-based materials in our reusable takeaway boxes.	N/A			
5. Are secondary raw materials used and, if yes, do they satisfy current industry specific standards and legislation?	We do not use any secondary raw materials in our boxes.	N/A			
6. 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?	We do not use any secondary raw materials in our boxes.	N/A			
Conclusion					
Does the client meet all criteria?	No				
If not, which circularity opportunities are identified?	Circularity criteria 1				

On the basis of the answers above and supporting data provided, Client 1 meets all circularity criteria except the first one, for which it has not been able to provide sufficient information for the bank to conclude that its activity results in significant overall net resource savings and impact reductions. For this reason, the client's activity is screened negatively. The client has an opportunity to improve the circularity of its business by working on assessing the resource use and impacts of its activity, with the objective to justify that it results in significant overall net resource savings and impact reductions (including by excluding the use of hazardous substances in the production of the packaging products). The bank can engage with its client to support him to materialise this circular opportunity. In addition, by engaging with its client, the bank has identified that he does not use any bio-based materials or secondary raw materials. This is another circular opportunity for which the bank can provide support to its client. In the bank's baseline this client will appear as part of the clients screened negatively but having circular opportunities. The data obtained to determine the baseline will inform the bank on how to best engage with the client.

Example 2: Client 2 is a company in Sub-Sahara Africa in the sector of waste treatment

Client 2 collects, transports, and recycles Construction and Demolition Waste (CDW), transforming it into high quality construction material

In view of Client 2's activity the most relevant circularity criteria are those for circular value recovery models, and more specifically 3.a Separate collection and reverse logistics of wastes as well as redundant products, parts and materials enabling circular value retention and recovery strategies, and 3.b Recovery of materials from waste in preparation for circular value retention and recovery strategies, under the European Commission categorisation system (applied in absence of any other relevant categorisation system at regional and national level).

The answers below and supporting data provided by Client 2 for criteria 3.a.1, 3.b.2 and 3.b.3. are not sufficient to conclude that these criteria are met. For instance, the client has not provided any detailed information regarding separate collection and transport of CDW (3.a.1), material recovery rates (3.b.2) or suitability for reuse or recycling of secondary raw materials and products parts recovered (3.b.3). Hence the client's activity is screened negatively. In order to improve the circularity of its activity, the client will need to work on these points, and those are the areas on which the bank can engage its client and support him to transition from being screened negatively to being screened positively. In the bank's baseline this client will appear as part of the clients screened negatively but having circular opportunities.

Circularity information	Client's answer	Criteria is met	Client has started to take steps towards meeting criteria	Client has not started to take steps towards meeting criteria	Criteria has no potential to be met
3.a Separate collection and reverse logistics of wastes as well as redundant products, parts and materials enabling circular value retention and recovery strategies					
1. 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?	We have our own logistics to collect CDW and we separate the waste streams ourselves in order to ensure high quality recycling.		X		
2. Are targeted communication and education programs to sensitise waste producers and the importance of waste prevention and segregation an integral part of the activity?	We engage in a regular dialogue and offer educational programs with producers in the public and private sector on how to prevent CDW, and if this is not possible, how to better separate it for recycling.	X			

3.b Recovery of materials from waste in preparation for circular value retention and recovery strategies (excluding feedstock)

1. Does the feedstock constitute or originate from source segregated and separately collected waste fractions?	Yes, as specified before, we collect and separate ourselves the material we use as feedstock to produce new construction material.	X			
2. 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?	We recover the value of CDW removing the wood, iron, plastic, or organic materials. We closely collaborate with public and private actors to inform them on how they can separate those materials in order to increase efficiency of our recycling process and quality of our output.		X		
3. Are secondary raw materials and product parts recovered suitable for reuse or recycling?	We recycle ourselves the materials and product parts we recover.		X		
4. Does management of residues from the recovery process follow the waste hierarchy principle?	We only recycle materials which have been discarded and cannot be reused.	X			
Conclusion					
Does the client meet all criteria?	No				
If not, which circularity opportunities are identified?	Circularity criteria 3.a.1, 3.b.2, 3.b.3				

Your bank can determine its baseline using client engagement indicators in Table 1 above, which allow to measure:

- at action level, the number or percentage of key clients identified and key clients engaged (depending on the form of engagement, from mere data collection to more advanced forms of engagement), and
- at output level, the increase in the number or percentage of key clients with circular activities or circular opportunities and how well your bank engages with them.

In addition, you can define indicators which allow to understand the level of advancement of your clients on resource efficiency and the circular economy. This will help you to define how to best engage with your clients. 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. For examples of engagement indicators in various sectors along the plastics value chain, please refer to PRI Investor Engagement Guides.⁶⁶

3. Baseline for internal policies and processes

In order to determine the level of coverage and integration of resource efficiency and the circular economy in the policies and processes of your bank, you can answer the following questions: What is the level of awareness and knowledge on resource efficiency and circular economy in your bank, at senior management level and throughout staff members, especially client facing staff? Is there a strategy to foster the transition to a resource efficient and circular economy or are resource efficiency and circular economy considerations included in your bank's sustainability strategy? Does it take into consideration the circular economy potential to improve resilience to shifting macroeconomic conditions such as resources supply shocks and price volatility, supply of materials critical for renewable energy, challenges posed by global supply chains? Does it contribute to decarbonisation pathways? Are there thematic and/or sector policies in place including resource efficiency and circular economy criteria, especially in key positive/negative sectors? Have resource efficiency and circular economy considerations been integrated into core systems and procedures, such as risk management systems, due diligence, data collection processes, KYC, credit policy?

Answering these questions will help you identify what to incorporate in your action plan to achieve your practice targets and ultimately your impact targets.

An important step for efficient client engagement is to collect data relevant for resource efficient and circular economy purposes, and in this perspective, it will be useful in the baseline analysis to assess existing client on-boarding and due diligence processes, as well as data collection templates, processes and systems, and to what extent they already include resource efficiency and circular economy related data or need to be adapted or completed.

66 [Investors plastic engagement guides](#), PRI, 2021

4. Baseline for advocacy and partnerships

If your bank wants to assess its public position(s) on the topic of resource efficiency and the circular economy, which will constitute the baseline for advocacy and partnerships—which is not core to the target setting process—you can answer the following questions: Is your bank proactively communicating in relation to resource efficiency and the circular economy e.g. via statements, by joining initiatives, setting up partnerships or making commitments, by publishing research papers? Is there consistency between such efforts and other activities of your bank tending to influence policy and behaviours (e.g. participation industry lobbying practices)?

2.2.2 Impact baseline

Your bank's Impact baseline will be informed by the outcome of your Impact analysis, which may need to be completed by a further analysis following the same process of understanding which indicators to use, collecting data and assessing impact.

Impact measurement requires collecting from clients a combination of data related to the circularity impact, environmental impact and social impact of their activities. It is thus critical to understand what [impact indicators](#) to use. For this purpose, you should refer to the core set of impact indicators in Table 3 above.

Using a limited set of impact indicators which overarches across portfolio assessments allows for consistency in tracking overall progress and benchmarking across peers.

However, there is a high variety of possible impact indicators, depending on the type of client, project or activity, on sector and depending on the impact that you want to capture. You may then need to adapt the core set of impact indicators and for instance only use part of the indicators in the core set or otherwise complete it with any relevant impact indicator in the frameworks with which you align. You can also refer to Annex 3 and to [UNEP FI's Indicators Library](#) developed for the Impact Analysis Tools for possible additional impact indicators.

Once you understand which [impact indicators](#) you will use and which data you will need to gather, data collection will be eased by the use of data collection templates, as described in Section c. Data gathering above. Impact data collection templates should be designed by your bank in alignment with the frameworks or policies indicators. They should include impact indicators for each of circularity impact and environmental impact, and it is also recommended they include social impact indicators. Please refer to Annex 3, Sheet "Data Collection Templates" for examples of impact data collection templates, which may be merged with practice data collection templates.

Under the progressive approach described above in Section 1.3, impact data collection can be run in parallel to the implementation plan put in place by your bank to progress towards practice targets achievement and should be part of the action plan to progress towards impact target setting.

Once available, your bank's impact baseline will be the basis for impact target setting.

2.3 Set SMART targets against baseline

Having determined the framework to align with and its baseline, your bank should set meaningful targets against its practice baseline and impact baseline with the view to deliver impact and drive alignment with and greater contribution to appropriate frameworks goals and targets.

Targets should be SMART targets. They should be substantiated and accompanied by a narrative to explain your bank's target setting. Your bank should define sub-targets as relevant, for instance for specific sectors.

In order to set targets ([practice targets](#) and [impact targets](#)), your bank needs to translate the level of ambition in the framework with which to align (see Section 2.1 above) into a level of ambition at bank level. This level of ambition at bank level is then applied by your bank to its baseline (practice baseline and impact baseline).

You should 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 your bank tends. Interim targets are necessary to define the action plan and implementation measures to put in place in order to achieve the targets. Interim targets are also necessary to check on a periodic basis whether your bank is on track for achieving its long-term target.

Nevertheless, you are encouraged to set practice targets related to client engagement (see below) with a shorter time horizon, for example focussing on one to two years, than for practice targets related to portfolio composition and financial flows and for [impact targets](#). Your 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. If your bank sets targets for internal policies and processes, the time horizon for such targets will also be shorter as adjusting internal policies and processes is a crucial step to realising portfolio and client engagement targets.

Progressive approach to target setting

If your bank starts its target setting process at Stage 1 under the progressive approach described above in Section 1.3, you will start by setting [practice targets](#) which can focus on all or most of the four categories of actions your bank can take to manage its impacts (portfolio composition and financial flows, client engagement, internal policies and processes, advocacy and partnerships) but which should include at least targets for portfolio composition and financial flows and targets for client engagement.

Under the progressive approach your bank should always support [practice targets](#) with a clear impact objective and an action plan to progress towards setting [impact targets](#).

While progressing from Stage 1 to Stage 2 under the progressive approach, you will set impact targets. You are also encouraged to keep and update as needed your practice targets, especially by:

- extending progressively the portfolio for which you will set practice targets (from covering only key sectors in a chosen portfolio to ultimately covering the entire portfolio);
- broadening the forms of client engagement (from mere data collection to awareness raising and knowledge sharing to support clients' understanding of resource efficient and circular solution and potential positive impact of resource efficiency and the circular economy on climate, biodiversity, waste and pollution, and then to technical assistance in the development and funding of activities substantially contributing to the circular economy).

2.3.1 Practice targets

[Practice targets](#) should be set using the [practice indicators](#) of the core set presented in Table 1 above, adjusted as needed by your bank.

1. Practice targets for portfolio composition and financial flows

This category of practice target aims at redirecting your bank's financial flows towards clients, projects and activities which substantially contribute to the circular economy (i.e. [screened positively](#)), by increasing the proportion of the chosen portfolio screened positively and decreasing the proportion of the chosen portfolio [screened negatively](#). This portfolio shift should be achieved through supporting your bank's clients in transitioning from non-circular activities (screened negatively) to circular activities (screened positively). This is the preferred route compared to mere divesting from non-circular activities. This requires that your bank supports clients which are screened negatively to identify [circular opportunities](#) in their business or value chain and to materialise such circular opportunities.

Examples of target:

- By **2025**, in the buildings and construction lending portfolio, increase to 20% (from 8% 2022 baseline) the financial flows directed to clients [screened negatively](#) against circularity criteria in a circular economy categorisation system which have [circular opportunities](#) in their business or value chain.
- By **2030**, in the textiles and fashion sector lending portfolio, increase to 10% (from 2% 2022 baseline) the financial flows directed to activities substantially contributing to a resource efficient and circular economy (i.e. [screened positively](#) against circularity criteria in a circular economy categorisation system).

2. Practice targets for client engagement

Client engagement targets aim at supporting your bank's clients in transitioning their activities towards circular activities, in line with the targets of the relevant frameworks or policies. Your bank's client engagement can take several forms and should progress over time as your bank progresses on its journey on the topic of resource efficiency and the circular economy, from data collection to awareness raising and knowledge sharing and then to technical assistance and proactive engagement to support clients in their transition pathways and designing and offering tailored financial products and services for this purpose.

Examples of target:

By 2025, identify in the lending portfolio at least 10 key clients in the electronics sector (key clients representing at least 15% of the lending portfolio) (from 2 clients/2% 2022 baseline) and successfully engage with them to collect circular economy related data and improve their understanding of circular solutions and circular potential in their value chain.

3. Other practice targets

In addition to targets related to portfolio composition and financial flows and to client engagement, your bank can set other practice targets related to:

- Internal policies and processes, which aim at incorporating resource efficiency and circular economy considerations in your bank's core systems and procedures such as data collection procedures, risk management processes, due diligence, KYC, credit policies, sector policies, especially in key sectors, etc.
- Advocacy and partnerships, which aim at developing public positions by your bank on the topic of resource efficiency and circular economy, for instance through partnerships, public commitments or statements, initiatives to influence policy or behaviours, etc.

2.3.2 Impact targets

Your bank should ultimately set [impact targets](#), i.e. targets to increase positive impact and decrease negative impact. This can occur in a second stage if your bank applies the progressive approach to target setting.

Your bank should set impact targets on circularity impact and environmental impact. You are also encouraged to set social impact targets. Impact targets should be set using the [impact indicators](#) of the core set presented in Table 3 above, adjusted as needed by your bank.

Examples of impact targets

Circularity impact targets

- **Circular design and production:** By 2030, in the manufacturing sector, 15m t p.a. materials, components and products are reusable, recyclable or compostable (baseline: 5m t p.a. in 2022)
- **Circular use:** By 2030, in the buildings and construction sector, 8m t p.a. redundant products have been repurposed, refurbished or remanufactured (baseline: 4m t p.a. in 2022)
- **Circular value recovery:** By 2040, in the textile and fashion sector, 50% of secondary raw materials, by-products and/or waste is reused, recycled or composted in practice (baseline: 10% in 2022)

Environmental impact targets

- **Raw material use:** By 2030, 30 % renewable and regeneratively/sustainably sourced or secondary resources in the buildings and construction sector (baseline: 5% in 2022)
- **Water:** By 2030, 60% of water is reused/recycled in production processes in the textiles and fashion sectors (baseline: 10% in 2022)
- **Waste:** By 2040, 20m t p.a. reduction of waste generated in the agriculture sector (baseline: 80m t p.a. waste generated in 2022)
- **Energy use:** Average primary energy consumption of the mortgage portfolio reaches 170 kwh/m²/year by 2025 and 130 kwh/m²/year by 2030, in line with the IEA Sustainable Development Scenario (baseline: 190 kwh/m²/year in 2021)
- **Pollutant emissions:** By 2030, 40% reduction of emissions of nitrogen oxides (NO_x) in the vehicles and transport sector (baseline: 2t p.a. emissions of NO_x in 2022)

Social impact targets

- **Livelihood:** By 2025, 300 new local jobs created by clients of the buildings and construction sector (Full Time Equivalent) (baseline: 3000 local jobs in 2022)
- **Livelihood:** By 2030 reach 1800 employees (Full Time Equivalent) benefiting from re- and/or up-skilling, training or education opportunities (baseline: 600 employees in 2022)
- **Equality and Justice:** By 2030, 50% proportion of women in senior and middle management functions in clients of the textiles and fashion sector (baseline: 12% proportion of women in senior and middle management functions in 2022)
- **Health and safety:** By 2025, 80% reduction of work-related incidents by clients in the manufacturing sector and all their suppliers (baseline: 200 work related incidents by clients in the manufacturing sector and all their suppliers in 2022)
- **Equality and Justice:** By 2030, 60% decrease in number of operations with significant actual or potential negative impact on local communities (baseline: 120 in 2022)

2.4 Implementation measures

Having set your bank's targets, you should determine the actions and implementation measures that can be taken to achieve the practice and impact targets. For this purpose, you will be able to rely on information and data gathered to determine your bank's baseline, which allow to identify data gaps and areas in which action is required.

Please find below examples of actions and implementation measures.

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Portfolio composition & financial flows	Increase financing of activities substantially contributing to resource efficiency and the circular economy (screened positively).							
	Increase financing of activities with a circular opportunity.							
	Decrease financing of non-circular activities with no circular potential.							
	Progressively expand the portfolio/sectors screened against circularity criteria, ensuring that the portfolio/sectors covered do not only include downstream activities but also upstream activities.							

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Client engagement	Engaging with clients							
	Engage with key clients to develop data collection templates incorporating circularity data and impact data.							
	Engage with clients to collect data, starting with key clients and progressively broadening to all clients.							
	Engage with clients to raise their awareness and share knowledge and expertise on the circular economy.							
	Engage with clients to determine appropriate KPIs to assess and monitor the circularity of projects or activities.							
	Proactively engage with clients in key sectors and portfolios to understand their value chain and identify and support circular opportunities.							

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Client engagement cont...	Financial products and services offering							
	Develop new financial products, e.g. resource efficiency or circular performance based financial products such as sustainability linked loans, sustainability linked bonds or green bonds including circularity criteria.							
	Develop new financial services aiming at accelerating the transition to a circular economy, e.g. technical assistance to clients.							
	Actively stimulate and scale innovation for the circular economy, e.g. by connecting growth-stage entrepreneurs to corporate clients within your bank's clients base.							
Internal policies & processes	Internal measures to raise awareness, build capacity and incentivise							
	Mobilise the senior management, and in particular the CEO and senior leadership to ensure institution-wide buy-in.							
	Develop internal awareness raising programme on the circular economy and its contribution to the overall environmental and social agenda, including on climate, biodiversity and pollution.							

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Internal policies & processes cont...	Develop and deploy capacity building on the circular economy, especially for client-facing employees.							
	Mobilise 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.							
	Incentivise employees, e.g. through remuneration incentives linked to financial flows directed to activities substantially contributing to the circular economy (screened positively).							
	Internal policies and processes							
	Develop a circular economy strategy or incorporate the transition to a resource efficient and circular economy in your bank's sustainability strategy							
	Align definitions used in internal processes, related to resource efficiency and the circular economy, with definitions in relevant policies and frameworks.							
	Develop and put 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.							

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Internal policies & processes cont...	Include resource efficiency and the circular economy in your bank's framework to track and trace sustainable or green investments and financing.							
	Build internal expertise on new financing solutions to make innovative circular business models 'bank-able' through, for example, leveraging partnerships beyond private finance, using de-risking mechanisms or guarantees, or expanding collateral eligibility.							
	Data collection processes							
	Develop data collection templates including practice data and impact data related to resource efficiency and the circular economy.							
	Include resource efficiency and circular economy related data collection in mainstream data collection processes (e.g. KYC, due diligence).							
	Automate resource efficiency and circular economy related data collection and analysis in your bank's systems.							

	Action	Indicator	Target	Target year	Responsible departments & business lines	What data systems are needed?	What human resources and capacity-building are needed?	Comments
Advocacy & partnerships	Partnering and engaging in industry initiatives							
	Partner with various stakeholders to support industry initiatives to accelerate the transition to a circular economy.							
	Engage in industry-wide initiatives to foster the financing of the transition to a resource efficient and circular economy.							
	Partnering with Development Financial Institutions							
	Partner with Development Financial Institutions to develop and implement concessional financial products targeting circular activities and innovations, e.g. blended finance solutions, financial products including de-risking mechanisms.							
	Advocacy to support the transition to a resource efficient and circular economy							
	Engage with policy makers, regulators, standard setters, etc. to support policy and regulatory developments contributing to the transition to a circular economy, such as the negotiation process of the future international legally binding instrument to end plastic pollution.							
	Conduct research and publish thought leadership pieces on the circular economy and resource efficiency topics to support reallocation of financial flows, engagement activities and impact.							

Glossary

Circular activities, projects or clients: Activities, projects or clients which substantially contribute to a resource efficient and circular economy, i.e. meet circularity criteria.

Circular opportunity(ies): Opportunity(ies) to improve the circularity of an activity, project or client. Circular opportunities may be identified by analysing whether an activity, project or client meets circularity criteria. Circularity criteria which are not met reveal areas where the client has the potential to better incorporate circular economy principles into its strategy, practice, activity, processes, etc.

Circular design and production: Activities contributing to circular design and production aim at increasing resource efficiency through (i) design innovation, (ii) process innovation and reengineering and/or (iii) material innovation and substitution. While such interventions take place early in the product lifecycle, their positive environmental impacts mostly materialise in the use and after-use phases and through reduced use of virgin materials.⁶⁷ Examples of circular design and production include design and construction of new buildings and infrastructure incorporating circular products, materials (including recycled materials).

Circular economy categorisation system: A categorisation system (or taxonomy) of circular business models and activities. Examples of circular economy categorisation system are the European Commission categorisation system for the circular economy⁶⁸ and the categorisation system developed for Colombian banks.⁶⁹

Circular use: Activities contributing to circular use aim at increasing resource efficiency through (i) product and asset lifecycle extension based on reuse, repair, repurposing, refurbishment or remanufacturing strategies and/or (ii) product and asset use-optimising leasing and sharing models. Such interventions typically take place during or at the end of the use phase of products and assets.⁷⁰ Examples include refurbishment, retrofitting and remanufacturing of end-of-life or redundant products/movable assets, reuse and repair of consumer products (e.g. clothing, furniture, bicycles, household appliances).

67 [Categorisation System for the Circular Economy](#), European Commission, 2020

68 [Categorisation System for the Circular Economy](#), European Commission, 2020

69 [Financing Circular Economy Investments—Colombia's experience](#), IADB, IDB Invest, 2022

70 [Categorisation System for the Circular Economy](#), European Commission, 2020

Circular support: Activities in the circular support category group aim at enabling other circular activities/projects and thus indirectly contribute to increasing resource efficiency.⁷¹ Examples include Information and Communication Technologies (ICT) tools for predictive maintenance and repair to extend the life of products, digital tools and applications to facilitate reverse logistics (tracking, take-back of products for reuse, repair or recycling), improve resource efficiency and avoidance of waste production (e.g. food waste in restaurants, shops), virtual marketplaces for secondary raw materials or second hand, repaired, upgraded products.

Circular value recovery: Activities contributing to circular value recovery aim at increasing resource efficiency through the recovery of wastes in preparation for reuse and recycling or other circular economy strategies.⁷² Such interventions typically take place during the after-use phase of products and assets. Examples include supporting infrastructure for waste collection, transport and temporary storage, chemical recycling plants involving various types of technologies and processes (e.g. depolymerisation, solvolysis, gasification, pyrolysis, etc), biorefinery facilities and process technology for the extraction of bio-based products and feedstock from bio-wastes and residual biomass, wastewater and sludge from organic origin.

Circularity criteria: Criteria to be met for an activity, project or client to be considered as circular/substantially contributing to the circular economy. Circularity criteria reflect the principles of the circular economy. Circular categorisation systems include circularity criteria, which differ depending on the type of circular business model. Please refer to Annex 3, Sheet “Circularity criteria” for examples of circularity criteria.

Key negative sectors: Activities which severely undermine resource efficiency or the circular economy (or water, waste or energy). Please refer to the [Sector Mapping](#) and to Annex 3, Sheet “key negative sectors” for further information on key negative sectors for resource efficiency and circular economy purposes.

Key positive sectors: Activities which are indispensable to the fulfilment of resource efficiency or the circular economy (or water, waste or energy). Please refer to the [Sector Mapping](#) and to Annex 3, Sheet “key positive sectors” for further information on key positive sectors for resource efficiency and circular economy purposes.

Impact indicators: Indicators that measure the impact of your bank’s portfolio (impact on the circularity of your bank’s clients, impact on the environment and impact on people and society). A combination of several impact indicators is necessary to adequately and holistically capture the impact of a given client, project or activity, covering the circularity impact, the environmental impact and the social impact.

Impact targets: Targets to increase positive impact and decrease negative impact. This can occur in a second stage if your bank applies the progressive approach to target setting. Impact targets are set for circularity impact and environmental impact and are recommended to be set for social impact as well.

71 [Categorisation System for the Circular Economy](#), European Commission, 2020

72 [Categorisation System for the Circular Economy](#), European Commission, 2020

Practice indicators: In your bank's pathway to impact, indicators that measure the results of your bank's actions (outputs) and the outcomes of such results for four different types of actions: portfolio composition & financial flows, client engagement, internal policies & processes, and advocacy & partnerships.

Practice targets: Targets that are set using the practice indicators of the core set adjusted as needed by your bank. Practice targets are set for portfolio composition & financial flows and client engagement (in addition they can be set to internal policies & processes and advocacy & partnerships).

Screened positively: An activity, project or client in your portfolio is screened positively if it meets circularity criteria in a circular economy categorisation system, i.e. if it is identified as having a substantial contribution to the circular economy.

Screened negatively: An activity, project or client in your portfolio is screened negatively if it does not meet circularity criteria in a circular economy categorisation system. However, a given activity, project or client which is screened negatively may present the potential to improve its circularity and ultimately be screened positively if circular opportunities in its business/value chain materialise.

UN 
**environment
programme**

**finance
initiative**

UNEP Finance Initiative brings together a large network of banks, insurers and investors that collectively catalyses action across the financial system to deliver more sustainable global economies. For more than 30 years the initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. We've established the world's foremost sustainability frameworks that help the finance industry address global environmental, social and governance (ESG) challenges.

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