



CIRCULAR ECONOMY FINANCE GUIDELINES

Amsterdam, July 2018

ABN AMRO | ING | RABOBANK



Introduction

The transition towards a circular economy is expected to generate multiple economic, social and environmental benefits. Financiers play an important role in accelerating this transition by facilitating finance for businesses and projects applying circular economy business models.

In December 2014 the FinanCE working group was founded by PGGM and brought together a group of organizations¹ related to the world of finance that were interested in the transition to a more circular economy. The group was supported by the Ellen MacArthur Foundation.

For this publication the FinanCE members ABN AMRO, ING and Rabobank sought active support and feedback from all FinanCE Working Group Members. The overarching goal is to create and stimulate a common understanding of circular economy finance.

This common understanding will accelerate financing and investing in circular business models. Especially since the market lacks guidance on how to uniformly define and apply circular economy thinking.

These Circle Economy Finance Guidelines aim to enable, stimulate and develop the key role finance can play in the transition towards a circular economy.

Circular Economy Definition

In a circular economy, the value of products and materials is maintained for as long as possible. Waste and resource use are minimized, and when a product reaches the end of its life, it is used again to create further value. This can bring major economic benefits, contributing to innovation, growth and job creation².

A circular economy aims at decoupling economic growth from the consumption of finite raw materials and resources and in this way increasing societal welfare. This can be achieved by gradually designing out waste from economic activities, keeping products and materials in economic use and regenerating natural systems³.

Circular Economy Finance Definition

Circular Economy Finance is any type of instrument where the investments will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible companies or projects in the circular economy (see section 1 Use of Investments).

Circular Economy Finance Guidelines

The Circular Economy Finance Guidelines are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the debt and equity market for the circular economy. It does so by clarifying the approach for debt and equity issuance towards companies in the circular economy ('circular companies') and projects that support the transition to a circular economy ('circular projects').

The Circular Economy Finance Guidelines apply to all equity and debt products. In case the financial instrument is ring-fenced to a specific circular economy project or project component (e.g. structured finance to a circular project or a project component), it can be classified as circular economy finance. In case the instrument is not ring-fenced (e.g. general lending or an equity stake at company level) it can be classified as circular economy finance if:

1. The company in total can be classified as a circular company; or
2. The investment amount is fully dedicated to support projects or project components that support the transition to a circular economy.

The Circular Economy Finance Guidelines have four core components:

1. Use of Investments;
2. Process for Project Evaluation and Selection;
3. Management of Investments;
4. Reporting.

¹ FinanCE working group members in Alphabetical order: ABN Amro, Banco Intesa San Paolo, BNP Paribas, CDC, Circle Economy, Circularity Capital, Danish Business Authority, EBRD, EIB, Ellen MacArthur Foundation, ING, KPMG, PGGM, Rabobank, Sitra, Suez

² https://ec.europa.eu/growth/industry/sustainability/circular-economy_nl

³ <https://www.ellenmacarthurfoundation.org/circular-economy/overview/concept>

1. Use of Investments

The cornerstone of debt and equity finance for the circular economy is the utilisation of the investments for the circular economy. To assess whether a company or project contributes to the Circular Economy or not, the Circular Economy Finance Guidelines propose to assess three elements for the use of investments:

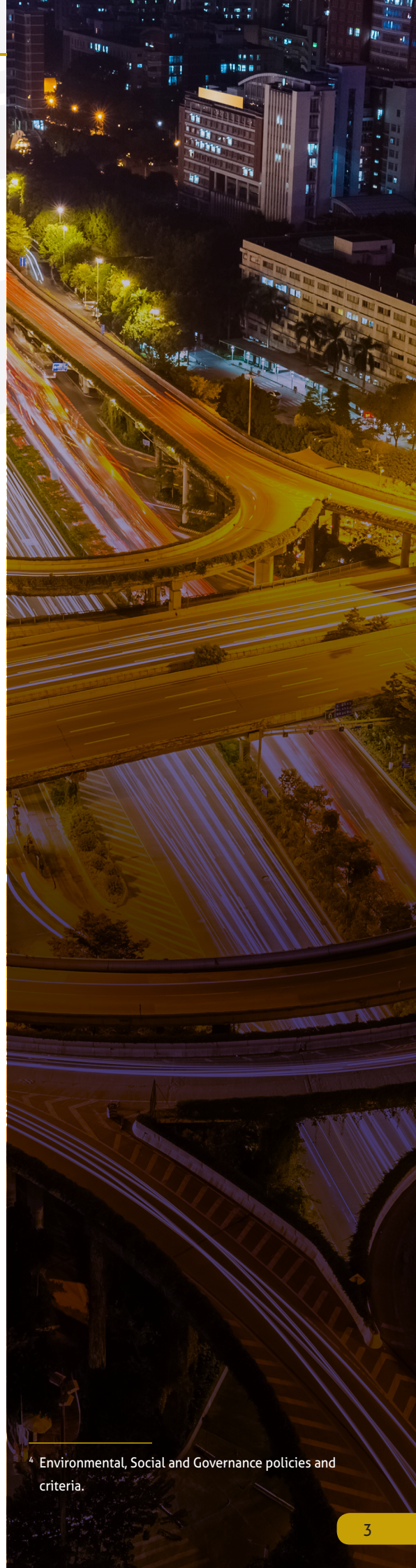
1. Business model assessment (future and current);
2. Impact assessment;
3. Exclusions and conditions.

The Guidelines propose to consider both the business model and the socio-economic impacts (includes environmental impact) in the circular assessment of the company or project. Only propositions based on a circular business model that generate long-term positive impact should be considered circular propositions. The following are typical business models of the circular economy, circular economy business models:

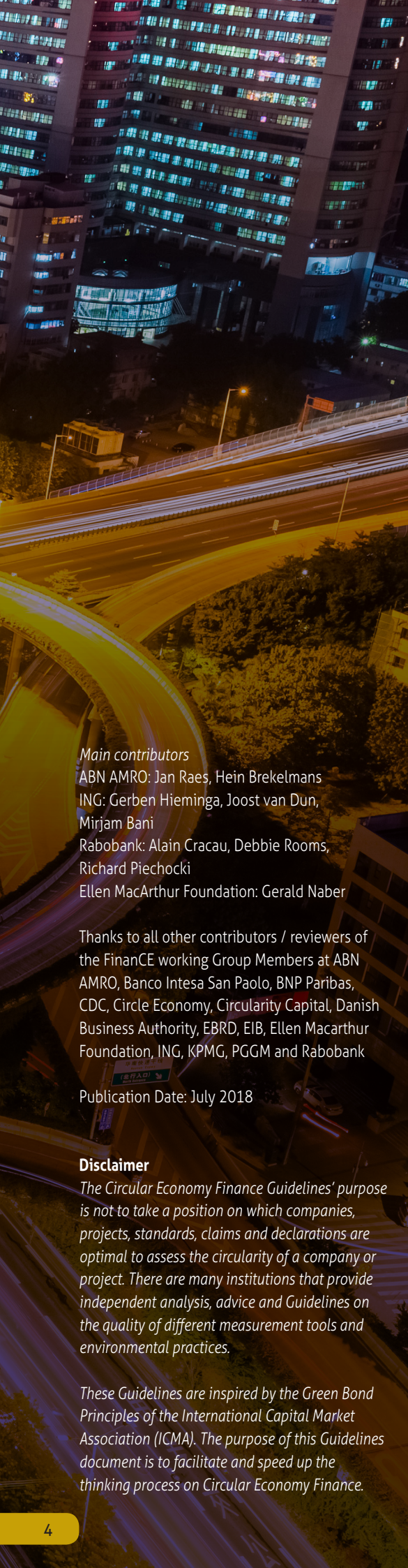
1. Circular Inputs: Companies/projects that substitute virgin raw materials with secondary (recycled) materials originating from materials and resources recovery.
2. Circular design: Companies/projects that eliminate/reduce input of hazardous/toxic materials and design for modularity, easy disassembly and repair to facilitate recycling, reuse, life time extension.
3. Sharing business models: Companies/projects that increase the capacity utilisation of a product or asset during its useful life (e.g. through sharing and/or predictive maintenance). Sharing is circular when it optimizes the utilisation of the product or asset.
4. Life Time Extension: Companies/projects that increase Reuse/Refurbishment/Remanufacturing to extend the useful life of products and assets.
5. Product-as-a-service: Improve the circularity of the whole supply chain through product-as-a-service offerings based on
 - a changed ownership structure, where the ownership of an asset remains with the supplier;
 - improved collaboration and alignment of interests between partners in the value chain (e.g. sharing of costs and benefits);
 - improved traceability of products and materials.
6. Material/resources recovery: Companies/projects dealing value recovery from wastes, be it materials, heat, bio-wastes or waste waters. These Guidelines consider recycling as a circular economy business model that recovers value from end-of-life materials and products.
7. Circular facilitators and enablers: Establish networks and collaborate with facilitators in the circular economy such as consultancy, engineering, knowledge and data providers or accounting firms, facilitating the shift to a circular economy. These facilitators include their role in the circular economy in their business purpose or strategy. Some examples are:
 - Development of key enabling technology with circular economy applications (e.g. 3D printing);
 - Facilitation of reverse logistics;
 - Knowledge gathering and sharing on organizing the circular economy;
 - Designing (measurement) tools for the circular economy;
 - Setting up and/or operating marketplaces for used materials;
 - Setting up and/or managing data repositories for material passports.

Impact Assessment

1. The Guidelines recommend to qualitatively and quantitatively assess the (expected) environmental impact of the company or project (e.g. by use of the LCA method or equivalent accepted by investors) focusing on material, energy and water use, waste generation, pollutant emissions, CO₂ and other climate relevant emissions.
2. The Circular Economy Finance Guidelines recognise the overarching importance of working conditions, human rights, gender equality, health and other determinants of wellbeing. These social aspects apply to all types of economy, both the circular and the linear economy. The Guidelines therefore propose:
 - to cover these social aspects in the overall ESG⁴ policies and human rights statements of debt and equity providers;
 - to monitor the company's ESG performance over time.



⁴ Environmental, Social and Governance policies and criteria.



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Thanks to all other contributors / reviewers of the FinanCE working Group Members at ABN AMRO, Banco Intesa San Paolo, BNP Paribas, CDC, Circle Economy, Circularity Capital, Danish Business Authority, EBRD, EIB, Ellen Macarthur Foundation, ING, KPMG, PGGM and Rabobank

Publication Date: July 2018

Disclaimer

The Circular Economy Finance Guidelines' purpose is not to take a position on which companies, projects, standards, claims and declarations are optimal to assess the circularity of a company or project. There are many institutions that provide independent analysis, advice and Guidelines on the quality of different measurement tools and environmental practices.

These Guidelines are inspired by the Green Bond Principles of the International Capital Market Association (ICMA). The purpose of this Guidelines document is to facilitate and speed up the thinking process on Circular Economy Finance.

Exclusions and conditions

1. Waste projects that use landfill techniques, without going to the fullest effort to divert recyclable materials are excluded i.e. all recycling that is both economically and technically feasible. Projects that monetise by-products of fossil fuels and create further lock-in for fossil fuel usage are also excluded from the Guidelines, since they are part of the more traditional linear take-make-waste value chains.
2. Responsibly managed projects with a positive socio-economic impact that are part of larger circular value chains aiming at closing resource loops for fossil based wastes, i.e. recovery and recycling of fossil fuel wastes or plastics-to-fuel conversion, may be considered as circular.
3. The Circular Economy Finance Guidelines recommend not to classify renewable energy projects – for example solar, wind and hydro energy - as circular economy projects. However, the production/use of renewable energy is a vital ingredient of a circular economy.
4. Biomass and bio-waste to energy projects can be classified as circular economy projects under certain conditions:
 - if they are part of larger circular value chains that aim to close material loops i.e. feedstock is separately collected at source and byproducts are used as fertilizers;
 - where the biomass originates from sustainable sources and/or is a non-recyclable and non-hazardous waste.
5. Resource efficiency measures are only considered circular where these incorporate the closure of material and resource loops. Resource efficiency measures that are linear in nature are excluded.

2. Process for Project Evaluation and Selection

Financiers should clearly communicate to stakeholders either per project/deal or for the entire finance portfolio:

- The process by which the issuer determines how financial products fit within the eligible circular economy business model or impact categories identified above;
- The related eligibility criteria, including exclusion criteria or any other process applied to identify and manage material risks;
- The environmental and social sustainability objectives and performance of the project/deal or portfolio.

3. Management of Investments

The Guidelines recommend that the investments (or an amount equal to the investments) from the Circular Economy Financing should be transparently tracked in the accounts of the receiver of these funds, in order to verify that investments keep contributing to the shift towards a circular economy during the lending/investment period.

4. Reporting

Financiers that want to prepare their finance administration for traceability and auditability should make, and keep, readily available up to date information on their debt and equity activities to support the transition towards a circular economy. Transparency is of particular value in communicating the expected impact of projects or portfolios. The Circular Economy Finance Guidelines propose the use of performance indicators – qualitative and, where feasible, quantitative and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. These Guidelines encourage further initiatives, to help establish additional references for impact reporting in the circular economy that others can adopt and/or adapt to their needs.

External Review

It is recommended that financiers use an external review to confirm the alignment of their circular economy portfolio with the key features of the Circular Economy Finance Guidelines as defined above, for example by 'second party opinions' or through verification by qualified parties, such as auditors. Review can be optional. Note that, as of to date, no globally recognized circular certifications exist for circular companies, projects or products. The cradle to cradle certification might come closest but this is only on product level, not on a project or company level which is more relevant for finance. As a result, financiers cannot have their procedures or products certified by a circular economy standard which is tested by qualified third parties. The Circular Economy Finance Guidelines encourage the exploration of certification initiatives.