



# How Intesa Sanpaolo bank embraced the circular economy

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Saïd Business School Cases

This case was prepared by Mark Hughes-Morgan and Dennis West

Case study editor: Mark Hughes-Morgan

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## Introduction

The circular economy (CE) is a school of thought – in fact, a number of related schools of thought<sup>1</sup> – that proposes the remodelling of fundamental business structures and practices, such as supply chains and production methods, to replace linear consumption of resources, creating instead a new economic system based on virtuous circles of sourcing and design for continuous use, thereby aiming to eliminate waste and environmental impacts. In 2014-15, Intesa Sanpaolo, Italy's largest and best capitalised bank<sup>2</sup>, began to consider the potential of this area of activity. In January 2020, the bank hosted its second annual Social Day<sup>3</sup>, convened to underpin its self-declared mission to be “one of the most sustainable banks in the world”<sup>4</sup>, and a new priority for social impact that had been heralded in its 2018-21 strategic plan<sup>5</sup>. Several hundred of the bank's business associates, NGOs, journalists and politicians gathered to listen to the bank's CEO, Carlo Messina, chairman Gian Maria Gros-Pietro, and guests, including Rob Kapito, the President of BlackRock, the world's largest asset manager<sup>6</sup>, speak on the sustainability and pro-social initiatives in which the bank was engaged. Messina, the architect of the bank's social and sustainability strategies, summed up the bank's commitment as follows: “Intesa Sanpaolo is committed to being [Italy's] engine of the real economy and the social economy, and to leave no one behind”<sup>7</sup>. The majority of the day consisted of round table discussions on reducing inequality, preserving art and culture, investing in young people, impact banking for social inclusion and, Item 3: “The circular economy as a new growth paradigm”.

The discussions on CE were prefaced by a reminder of the bank's recent initiatives in that space: its partnership with the Ellen MacArthur Foundation (EMF – see Appendix A), launched by the eponymous, record-breaking round-the-world yachtswoman in 2010<sup>8</sup> to identify and promote CE initiatives globally; prioritising CE in its 2018-21 strategic plan; progress with a groundbreaking five billion euro credit *plafond* specifically for CE enterprises that Intesa had launched in 2018; and the successful issuance of a 750-million-euro sustainability bond “focused on circular economy” in November 2019 (see Appendix D). The day confirmed Intesa Sanpaolo as one of the most engaged financial institutions in the CE space. What were the incentives for this, how had that progress been managed, and what were the reputational challenges along the way?

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<sup>1</sup> [www.ellenmacarthurfoundation.org/circular-economy/concept/schools-of-thought](http://www.ellenmacarthurfoundation.org/circular-economy/concept/schools-of-thought)

<sup>2</sup> [www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/where-europe-s-banks-stand-on-capital-liquidity-ahead-of-q2-earnings-59293723](http://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/where-europe-s-banks-stand-on-capital-liquidity-ahead-of-q2-earnings-59293723); and for the bank's own updated declaration, see [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/en\\_gruppo/Brochure\\_istituz\\_uk.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/en_gruppo/Brochure_istituz_uk.pdf)

<sup>3</sup> <https://group.intesasanpaolo.com/en/newsroom/press-releases/2020/1/intesa-sanpaolo--the-driver-of-sustainable-and-inclusive-develop>

<sup>4</sup> Intesa Sanpaolo press release boilerplate, Jan 2020 (<https://group.intesasanpaolo.com/en/newsroom/press-releases/2020/1/intesa-sanpaolo--the-driver-of-sustainable-and-inclusive-develop>)

<sup>5</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/risultati\\_2017/CNT-05-0000004FBAEB.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/risultati_2017/CNT-05-0000004FBAEB.pdf)

<sup>6</sup> [www.spglobal.com/marketintelligence/en/news-insights/trending/CxrKyPgB7fj9eKhv5MTtwg2](http://www.spglobal.com/marketintelligence/en/news-insights/trending/CxrKyPgB7fj9eKhv5MTtwg2)

<sup>7</sup> Translated from the Italian by the authors. See: <https://group.intesasanpaolo.com/it/sala-stampa/news/il-mondo-di-intesa-sanpaolo/2020/intesa-sanpaolo-motore-della-crescita-sostenibile-e-inclusiva>

<sup>8</sup> [www.ellenmacarthurfoundation.org/our-story/the-team/ceo-trustees/ellen-macarthur](http://www.ellenmacarthurfoundation.org/our-story/the-team/ceo-trustees/ellen-macarthur)



Dame Ellen MacArthur and Carlo Messina, CEO of Intesa Sanpaolo, meet in 2016

## Intesa Sanpaolo and a reputation for sustainability

Thanks to its financial performance in recent years, and its enviable level of capitalisation, Intesa Sanpaolo currently has a reputation as arguably the top bank in Italy and Europe<sup>9</sup>. It was created on 1 January 2007<sup>10</sup> from the merger of Banca Intesa and Sanpaolo IMI, which had in their turn been formed from the successive mergers of a number of banks and lending organisations over centuries. Its history goes back to 1563 to the brotherhood of Compagnia di San Paolo and the foundation of the Monte di Pietà, an institution that offered loans to the poor “at extremely low interest rates”<sup>11</sup>. This history is often invoked as the underpinning of its mission as an “Impact Bank... making investments that are not only financially profitable but also socially responsible and that have a positive impact on society more broadly”<sup>12</sup>. “It is in our DNA to be an impact bank to make a better world,” as Alessandro Lolli, Head of Group Treasury, put it in the course of the research for this case study.

Under Legislative Decree No. 254 of 2016<sup>13</sup>, the bank has been obliged to produce a consolidated non-financial statement once a year (it also provides a six-monthly update). “[This has] forced a lot of companies to get in line,” said Elena Flor, Head of Corporate Social Responsibility at the bank since 2016. “Non-financial reporting was not compulsory, now it is the duty of the board to approve the non-financial statement. That has transformed the document and the importance of non-financial reporting for the board.”

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<sup>9</sup> [www.ft.com/content/da99d497-c7d9-4c09-bace-748c679be1ba](http://www.ft.com/content/da99d497-c7d9-4c09-bace-748c679be1ba) - “Intesa Sanpaolo is the EU’s most prized bank: why?”

<sup>10</sup> [www.world.intesasanpaolo.com/intesa-sanpaolo-10-years-milestones-history/](http://www.world.intesasanpaolo.com/intesa-sanpaolo-10-years-milestones-history/)

<sup>11</sup> <https://group.intesasanpaolo.com/en/about-us/history/sanpaolo-torino>

<sup>12</sup> <https://group.intesasanpaolo.com/en/newsroom/indepth/all-indepth/2020/impact-banking>

<sup>13</sup> The Italian government’s enactment of the European Parliament’s Non-financial Reporting Directive of 2014 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>)

The report showcases the bank's many social impact programmes<sup>14</sup>: including providing banking services to previously “unbankable” communities, those who under normal circumstances may not be in a financial position to access them; providing millions of free meals to the disadvantaged; the maintenance and operation of a number of notable museums, galleries and art collections; and issuing unsecured loans towards further education.

Every three years the bank publishes a strategic plan covering the next three years. In its 2018-2021 iteration, it set itself the goal of becoming “the world’s leading impact bank”. Within that plan, CE appeared for the first time as one of the four key planks of social impact, with a commitment to both a dedicated *plafond* credit facility for companies working within CE principles, and an investment fund focused on CE at some point in that current strategy cycle. According to Alessandro Lolli, when outlining the three-year strategy, CE had moved to the “top of the agenda because it was clear it was not so far in the future. We saw growing interest from investors for more sustainable and less risk. We understood that it was going to change very fast from Green to Green 2.0. It is a very simple concept. You are going to see a bifurcation between businesses [that do and don’t understand the relationship between] the cost of funding and the cost of risk.” It was a new paradigm, not a CSR add-on: “This is not going to be on top of the usual way of doing business: it’s going to be so purposive that it’s going to percolate any metrics.”

This priority had also been driven by the increased visibility of sustainability issues in the assessment of banks, with more than 20 sustainability rating agencies and disclosure initiatives requesting or requiring data to assess the bank<sup>15</sup>, according to Elena Flor. In recent years the bank’s approach to sustainable investment, pro-social activities and reporting has changed markedly. Its communications also reflect this change in emphasis<sup>16</sup>. The function for which she is responsible now sits within the office of the CFO, not, as before, as a separate entity. “We decided to have a change of speed regarding CSR and moved [responsibility] from a chief governance officer to the CFO, because [he] has the levers of risk, profits and governance managed together,” explained Lolli.

Flor is responsible for the integration of ESG into all areas of the bank’s business, as well as the relevant ratings and disclosures and investor relations, including CE. “In the beginning this was a niche market, with an asset manager focused on ESG. Now it is mainstream, most of the investors would be interested in [this] perspective, and most

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<sup>14</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/sostenibilit%C3%A0/dcnf-2019/eng/DCNF%202019\\_en.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/sostenibilit%C3%A0/dcnf-2019/eng/DCNF%202019_en.pdf)

<sup>15</sup> Including Dow Jones Sustainability (<https://www.spglobal.com/esg/csa/indices/djsi-index-family>); MCI ([www.mcisustainability.com](http://www.mcisustainability.com)); Moody’s (<https://esg.moody’s.io>); S&P (<https://www.spglobal.com/ratings/en/products-benefits/products/sustainable-finance>); Sustainalytics ([www.sustainalytics.com](http://www.sustainalytics.com)); Carbon Disclosure Project ([www.CDP.net](http://www.CDP.net)); Task Force on Climate-related Financial Disclosures ([www.fsb-tcfd.org](http://www.fsb-tcfd.org)); and UN Principles for Responsible Investment ([www.unpri.org/climate-change/climate-related-disclosure-/3971.article](http://www.unpri.org/climate-change/climate-related-disclosure-/3971.article))

<sup>16</sup> <https://group.intesasanpaolo.com/en/newsroom/indepth/all-indepth/2020/the-circular-economy-and-sustainability-in-intesa-sanpaolo>

have ESG analysts,” she said. The leading ratings agencies Moody’s<sup>17</sup> and S&P<sup>18</sup> have recently been engaged in a “race” to buy companies with sustainability data expertise.

There are also a variety of sustainability performance and reporting initiatives and obligations arising at the global and European level, against which the bank benchmarks its activities, which governs – or which it chooses to govern - its operations and disclosures. These range from the high level, such as the UN Sustainable Development Goals (SDGs) and related commitments such as the United Nations’ Principles for Responsible Banking<sup>19</sup> - to initiatives designed to drive specific actions, most relevantly the EU Sustainable Finance Action Plan on Financing Sustainable Growth (Action Plan)<sup>20</sup>. As an illustration of the evolving scene, in June 2017 the bank launched a 500-million-euro green bond<sup>21</sup>, the first Italian bank to do so. It followed the green bond framework as laid down by the International Capital Markets Association<sup>22</sup>, but the European Commission has also appointed an expert group to develop a new Green Bond Standard<sup>23</sup> for its legislative agenda as part of the Action Plan.

The growing challenge for the bank, said Flor, is to be able to measure the improvement in both its direct and indirect impacts. In relation to CE, the challenge is to drive a new kind of business model and identify its impact in a way that is widely accepted. In conventional assessment methodology there is currently “no way to capture circular economy”. “[It] is not a widespread concept within the assessments,” said Flor. “They make reference to green finance more generally.” Circular is referred to in the key EU initiative in this area, its Taxonomy on Sustainable Finance<sup>24</sup>, whose Technical Expert Group reported in March this year, but the technicalities around defining and measuring circular are particularly challenging. “Progress on the criteria within the taxonomy will make it easier for everyone,” said Flor. “Standardisation always has advantages.”

## Engaging with the circular economy

CE began to “gain strategic momentum” within the bank in 2014-15, with growing momentum injected by the bank’s CEO, Carlo Messina, and its Chief Innovation Officer Maurizio Montagnese. In the autumn of 2014 Massimiano Tellini, a banker working within

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<sup>17</sup> [www.bloomberg.com/news/articles/2019-11-22/moody-s-s-p-race-into-esg-rating-business-in-acquisition-binge](http://www.bloomberg.com/news/articles/2019-11-22/moody-s-s-p-race-into-esg-rating-business-in-acquisition-binge)

<sup>18</sup> [www.ft.com/content/098258d6-0bc6-11ea-bb52-34c8d9dc6d84](http://www.ft.com/content/098258d6-0bc6-11ea-bb52-34c8d9dc6d84)

<sup>19</sup> [www.world.intesasanpaolo.com/hp-news/intesa-sanpaolo-signs-un-principles-responsible-banking/](http://www.world.intesasanpaolo.com/hp-news/intesa-sanpaolo-signs-un-principles-responsible-banking/)

<sup>20</sup> Overseen by the High-Level Expert Group on sustainable finance appointed by the European Commission in 2016, published in January 2018; [https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy\\_en](https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en)

<sup>21</sup> <https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/Contenuti/RISORSE/Documenti%20PDF/Green%20Bonds/CNT-05-0000004DAFC7.pdf>

<sup>22</sup> [www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/](http://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/)

<sup>23</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf)

<sup>24</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf)

the corporate investment division, cold-called Stuart Whitman – now Production Lead at EMF - having become interested in the Foundation through its online publications and Disruption Innovation Festival<sup>25</sup>. In March 2015 representatives of the bank met the organisation’s CEO, Andrew Morlet, after the latter had given a speech at an event in London. Three months later the bank was to join the EMF as a member of the Circular Economy 100, a network of organisations supporting EMF and aligned with its mission. The bank was then selected as the first Financial Services Strategic (then called Global) Partner of the Foundation in December 2015, when the organisations’ leadership met for an official signing<sup>26</sup>. The new focus on CE was particularly energised by the formation of a new CIO governance area focused on innovation, headed by Montagnese.

In 2015, Intesa Sanpaolo was also a principal sponsor of the World Expo in Milan, which EMF attended. During the event Andrew Morlet had discussions with a number of the bank’s senior executive team. “We were pitched Italy and we were pitched the bank in that environment,” said Hugh McCann, now Strategic Partners Lead, Europe, who had recently joined the Foundation. They were also given a tour of the brand new, Renzo Piano-designed Innovation Centre building in Turin that the bank had recently completed. The mission statement of the Intesa Sanpaolo Innovation Centre, under the leadership of Guido de Vecchi, is: “To explore and learn new future business models to create the assets and skills necessary to support the long-term competitiveness of the Group and its customers and act as the engine and stimulus of the new economy in Italy.”<sup>27</sup>

The bank “had also historically had a strong commitment to social and environmental sustainability as outlined in various sustainability rankings like DJSI<sup>28</sup> and *Corporate Knights*<sup>29</sup>,” said McCann. “[It was] at the time as good as any bank if not better positioned to really embrace this. The picture that they painted was compelling.” While the circular economy “may sound dry, it comes down to people, and there was a very strong connection with the people at Intesa”. EMF carried out its own due diligence before committing itself to a relationship. “There was a lot of information available publicly. We work with leading blue-chip firms and they are by their nature more transparent,” said McCann.

There was a particular challenge in assessing the degree to which Intesa prioritised CE, as with any financial institution, since its business is concerned with capital flows rather than material flows.<sup>30</sup> “I wouldn’t expect to see many sustainability rankings that really focus on circular economy and then understand how Intesa ranks according to this circularity

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<sup>25</sup> [www.ellenmacarthurfoundation.org/our-work/activities/live-online-events](http://www.ellenmacarthurfoundation.org/our-work/activities/live-online-events)

<sup>26</sup> [www.ellenmacarthurfoundation.org/news/the-ellen-macarthur-foundation-announces-intesa-sanpaolo-as-a-global-partner](http://www.ellenmacarthurfoundation.org/news/the-ellen-macarthur-foundation-announces-intesa-sanpaolo-as-a-global-partner)

<sup>27</sup> [www.intesasanpaoloinnovationcenter.com/it](http://www.intesasanpaoloinnovationcenter.com/it)

<sup>28</sup> Dow Jones Sustainability Indices – Intesa Sanpaolo has been in the DJSI Index Europe and Index World since 2010: [www.spglobal.com/esg/csa/indices/djsi-index-family](http://www.spglobal.com/esg/csa/indices/djsi-index-family); and <https://group.intesasanpaolo.com/en/newsroom/press-releases/2011/09/CNT-04-000000066DE2>

<sup>29</sup> *Corporate Knights* magazine publishes an annual ranking of thousands of companies worldwide on a range of sustainability criteria. Intesa Sanpaolo has been in the Global 100 since 2017 ([www.corporateknights.com](http://www.corporateknights.com)).

<sup>30</sup> The launch of EMF’s Circulytics tools in January 2020 - “the most comprehensive circularity measurement tool for companies” - is intended to provide robust metrics for the assessment of circularity, and EMF is working together with Intesa on the next version with a view to addressing the specific difficulties in assessing financial companies ([www.ellenmacarthurfoundation.org/resources/apply/circulytics-measuring-circularity](http://www.ellenmacarthurfoundation.org/resources/apply/circulytics-measuring-circularity)).

criteria,” said McCann. At the time the bank joined the CE100 (subsequently the EMF Network), Intesa Sanpaolo declared that from 2007 to 2014 it had financed over 11 billion euros of investments with an environmental and renewable focus, and “in 2014, 2.3 per cent of loans related to the green economy sector. There was above average visibility,” said McCann.

While recognising how much EMF had achieved since its inception, Intesa Sanpaolo representatives were struck by how little finance had figured in the reckoning of the Foundation in its mission up to that point. “Finance was not on the [EMF] radar,” said Tellini. The initial agreement between Intesa Sanpaolo and EMF was for three years, until 2018, when it was renewed for a further three. “What’s important, and this was especially the case with Intesa Sanpaolo, was reinforcing of each other’s narrative,” said McCann. “For Intesa to do promotion of the circular economy and the Foundation and vice versa.” McCann identified numerous important benchmarks in the relationship, including occasions where EMF and the bank shared platforms:

- The initial agreement was signed by the CEO, Carlo Messina. “It was a strong indicator of their seriousness,” according to McCann
- Over 18 months from the autumn of 2016, EMF ran a series of circular economy start-up initiative events in London, sponsored by Intesa Sanpaolo.
- November 2017, Hugh McCann spoke at the launch of the Italian Government’s position paper on circular economy in Rome, hosted by the Italian Alliance for the Circular Economy<sup>31</sup> - the bank was a co-promoter and a co-signatory.
- Inclusion of CE in the 2018-2021 Intesa Sanpaolo Strategic Plan, including the commitment to the *plafond* credit facility, and an investment fund for CE.
- May 2018, Intesa Sanpaolo was lead partner to the EMF Cities and Circular Economy for Food Report <sup>32</sup>, launched at the World Economic Forum in Davos, on the back of which EMF launched its Food Initiative<sup>33</sup>.
- September 2018, Intesa Sanpaolo launched its CE Lab in Milan, with Cariplo Factory (see below), and its five-billion-euro CE *plafond* - dedicated credit facilities for companies fulfilling a set of five circular economy criteria (see Appendix B).
- January 2019, inaugural Intesa Sanpaolo Social Day event in Milan, hosted by Carlo Messina, at which Andrew Morlet, CEO of EMF, was one of the speakers. The event was also repeated, and scaled up, in 2020<sup>34</sup> (see above).

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<sup>31</sup> <http://consultazione-economiacircolare.minambiente.it/sites/default/files/TOWARDS%20A%20MODEL%20eng%20COMPLETO.pdf>

<sup>32</sup> [www.ellenmacarthurfoundation.org/assets/downloads/Cities-and-Circular-Economy-for-Food\\_280119.pdf](http://www.ellenmacarthurfoundation.org/assets/downloads/Cities-and-Circular-Economy-for-Food_280119.pdf)

<sup>33</sup> [www.ellenmacarthurfoundation.org/our-work/activities/food](http://www.ellenmacarthurfoundation.org/our-work/activities/food)

<sup>34</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/newsroom/comunicati-stampa-en/2020/1/Final\\_Intesa%20Sanpaolo%20the%20engine%20of%20sustainable%20and%20inclusive%20growth\\_16%20January%202020.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/newsroom/comunicati-stampa-en/2020/1/Final_Intesa%20Sanpaolo%20the%20engine%20of%20sustainable%20and%20inclusive%20growth_16%20January%202020.pdf)

- Intesa Sanpaolo is a regular attendee at the EMF annual summit in London. In June 2019 the bank's chief economist Gregorio de Felice spoke on a panel along with an executive representative from BlackRock. The evening before, Hugh McCann had joined Intesa Sanpaolo's head of corporate investment banking, Mauro Micillo, on a panel at the Italian Embassy to discuss the circular economy.
- June 2019 – Rob Opsomer, EMF's lead on Systemic Initiatives (plastics, fashion and finance) joined the bank's CFO Stefano Del Punta at the Fund Forum International, a leading asset management conference, in Denmark.

“Those are a series of reinforcing events, moments, articles, messages, showcasing the importance of circular economy and finance and the role of the Foundation and the role of Intesa,” said McCann. Since the first introduction of the CE Topic in 2014 EMF has been a regular presence at the World Economic Forum (WEF) at Davos , co-hosting a CEO breakfast, and launching reports and programmes, with Intesa as a lead partner.

The relationship with Intesa Sanpaolo has since helped EMF develop “an Italian ecosystem”, according to McCann. Other Italian companies partnering with EMF include Enel, “one of the biggest producers of renewable energy in the world”, energy companies Hera Group and A2A, the chemicals and plastics company Novamont, and a number of major fashion companies including Gucci and Ferragamo. It also works closely with the city of Milan on both its food initiative and in relation to its broader circular economy objectives. “Many of these organisations are international as well, [and] the fact that there was a large European bank working with us was a signal of intent to dedicate more resources and focus on circular economy and finance,” said McCann. In October 2019 BlackRock was announced as a (top-tier) Global Partner of EMF, and launched its first circular economy fund<sup>35</sup>.

## **Making the case for the circular economy**

The case for circular economy has had to be made both within the bank and outside it. From the bank's point of view, it had made a key declaration of intent, but there was still a gap between the internal understanding and the external commitment, and initial progress in advancing the development of circular initiatives was slow. “The external dimension was of course of paramount importance, and it had to help to move the internal dimension,” said Tellini, now Global Head of Circular Economy based within the Innovation Centre. The most visible element of the commitment externally, after the bank becoming a CE100 member with EMF in mid 2015, was the inclusion of Intesa as a Global Partner starting from January 2016<sup>36</sup>.

In June 2016, Carlo Messina and Ellen MacArthur met during the EMF Annual summit in London. A video of both of them talking about the partnership to support the acceleration of the transition towards the CE was circulated internally within the bank, which Massimiano Tellini identified as an important internal influence. Messina said: “We chose Ellen MacArthur because she is the person who best represents this new frontier of the circular economy... We believe that she is the person who can best allow us to position ourselves

<sup>35</sup> [www.ft.com/content/15fc8468-e9b3-11e9-a240-3b065ef5fc55](http://www.ft.com/content/15fc8468-e9b3-11e9-a240-3b065ef5fc55)

<sup>36</sup> [www.ellenmacarthurfoundation.org/news/the-ellen-macarthur-foundation-announces-intesa-sanpaolo-as-a-global-partner](http://www.ellenmacarthurfoundation.org/news/the-ellen-macarthur-foundation-announces-intesa-sanpaolo-as-a-global-partner)

towards the international world, therefore the international image, and towards our corporate clients.” MacArthur said: “We chose Intesa Sanpaolo as our global partner for two reasons. The first is that Intesa Sanpaolo is a company that thinks big and pursues the progress of the economic system. We talk to many financial institutions and in Intesa Sanpaolo, we have found a broad vision capable of considering different options such as the circular economy. The second reason is that the contribution of the banks is crucial for the evolution of the circular economy. To support the transition of the linear economy we need different financial systems... new formulas able to help companies financing different business models. Having Intesa Sanpaolo bank on board helps us to better understand all this.”

In addition to the substantive initiatives that have happened since, including the two showcase Social Days, Messina has made a point of highlighting CE at times in the media, writing an op-ed on the subject in *The Banker* in 2019<sup>37</sup>, and in June 2020 as a co-signatory of an advertisement/statement<sup>38</sup> in the *Financial Times* placed by the EMF and designed to position CE as a key driver of recovery post-COVID 19, headed: “A solution to build back better: the circular economy.” Messina is also a member of the most high-profile community of around 200 “public, private and civic leaders” endorsing CE, PACE (Platform for Accelerating the Circular Economy)<sup>39</sup>.

Efforts to design innovative and proper CE assessment tools for use within the organisation to embed the benefits of CE into financial performance are today a work in progress. The bank has devised a tool for circularity and derisking potential with the support of the bank’s Chief Risk Officer team. Since circular and linear business models are still being considered in the same way, investment in circular which has a longer time frame is having to be considered at a discount on the balance sheet, until the benefits of the de-risking element of CE are properly accounted for. “Here we are talking about a future-proof competitiveness agenda, not just a traditional green agenda,” said Tellini.

The effort to establish standards and norms around the circular economy accelerated in 2017. After a call from the EU for expert engagement, the bank was asked to sit on the Support to Circular Economy Financing Expert Group in 2017, appointed by the European Commission to provide advice that would later indirectly feed into the EU Taxonomy.<sup>40</sup> In May 2020 one of the world’s largest climate finance providers, the European Investment Bank (EIB), published a report: “The EIB Circular Economy Guide – Supporting the circular transition”<sup>41</sup>. There is still no agreed set of standards for circular economy, however. The bank also joined with the Italian government, and companies including Enel, to produce the Alliance for the Circular Economy manifesto, calling for an “acceleration of the transition towards a circular model”<sup>42</sup>, as part of the Italian National Strategy for

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<sup>37</sup> [www.thebanker.com/Comment-Profiles/Why-more-banks-must-support-the-circular-economy?ct=true](http://www.thebanker.com/Comment-Profiles/Why-more-banks-must-support-the-circular-economy?ct=true)

<sup>38</sup> <https://digital.olivesoftware.com/Olive/APA/FinancialTimesUK/Default.aspx#panel=document;www.ellenmacarthurfoundation.org/news/more-than-50-global-leaders-pledge-to-build-back-better-with-the-circular-economy>

<sup>39</sup> <https://pacecircular.org>

<sup>40</sup> <https://circulareconomy.europa.eu/platform/en/knowledge/categorisation-system-circular-economy-contribution-future-eu-taxonomy>

<sup>41</sup> [www.eib.org/en/publications/the-eib-in-the-circular-economy-guide](http://www.eib.org/en/publications/the-eib-in-the-circular-economy-guide)

<sup>42</sup> <http://consultazione-economiacircolare.minambiente.it/il-documento>

Sustainable Development.<sup>43</sup> The bank is lobbying to have a member on the European Commission's formal Sustainability Working Group who is focused on circular economy, to ensure that any future sustainability standards recognise how it differs from other measures of ESG. In June the European Central Bank – in whose working groups ISP was actively involved<sup>44</sup> - put out a call to the European Banking Federation in relation to a new policy on climate change that they want to produce by the end of 2020.

## **A bold credit initiative and a flagship innovation partnership**

One of Intesa Sanpaolo's most significant shareholders is the Fondazione Cariplo (the Cariplo Foundation). It is a product of the wholesale re-organisation of Italy's banking system under the Amato-Carli act of 1990<sup>45</sup> under which banks were obliged to give a proportion of their shares into the ownership of new non-profit entities dedicated to enabling pro-social initiatives. The Foundation – essentially a grant-making body - now has some seven billion euros of assets, the income from which is distributed largely to fund projects, in research and education, environment and welfare, with aims and outcomes that are not catered for by other public and private entities. In 2017 it set up a separate entity, Cariplo Factory, that could operate on commercial terms. The remit of Cariplo Factory is “to boost collaboration between private and public actors in the innovation ecosystem, focused on open science and innovation”. It was also specifically to promote economic growth in the Lombardy region of Northern Italy – capital Milan - where it is based.

After an initial grant of 10 million euros from the Foundation in 2017, to cover its first three years, it now functions as an independent entity, funded by consultancy fees from the corporations which it advises. Its foundational pillars were: capacity building; connection (across different disciplines and sectors); and open innovation (proof of concept, managerial and financial support, and execution). “Our model is very peculiar in Italy,” said Riccardo Porro, Chief Operations Officer of Cariplo Factory<sup>46</sup>. “We do not take equity. We don't want to have accusations of bias when we present proposals to corporations because we are a shareholder. Start-ups look to us in an open and collaborative way because we do not take money.” It also has research partners at Manchester University and advises the venture capital company Indaco Venture Partners<sup>47</sup>.

Every three years Intesa Sanpaolo presents its three-year strategic plan to the steering committee of the Foundation. During this process in the autumn of 2017, “there was a clear demand from the foundation to give attention to the circular economy”, according to Porro. In 2018 the Innovation Centre created its own dedicated CE Lab, housed within the Cariplo Factory<sup>48</sup>. It is “a catalyst in the Italian innovation ecosystem to help foster the transition [to CE]”, said Porro; a place to advise start-ups interested in CE, and potentially a source of project investment by the bank. At the same time as the launch of the CE Lab, Intesa

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<sup>43</sup> [www.oecd.org/gov/pcsd/20181016%20Italy\\_country%20profile.pdf](http://www.oecd.org/gov/pcsd/20181016%20Italy_country%20profile.pdf)

<sup>44</sup> <https://group.intesasanpaolo.com/en/sustainability/our-commitment/institutional-relations/at-european-level>

<sup>45</sup> <https://www.fondazione-cariplo.it/it/la-fondazione/le-origini/le-origini.html>

<sup>46</sup> [www.cariplofactory.it](http://www.cariplofactory.it)

<sup>47</sup> [www.indacosgr.com](http://www.indacosgr.com)

<sup>48</sup> <https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/investor-relations/comunicati-stampa-en/2018/09/CNT-05-0000000513D19/CNT-05-0000000513D20.pdf>

Sanpaolo announced a first-of-its-kind, five-billion-euro fund, or *plafond*, for investment in CE companies. Start-ups and corporations transitioning to CE principles that wanted to access funding for proposals founded on CE had to satisfy five criteria that had been worked out between Intesa Sanpaolo and the EMF and validated by the CE Desk of the Innovation Center:

- Product life extension
- Renewable resources
- Resource optimisation
- Recyclable products
- Technologies that enable the circular model<sup>49</sup>

After the circularity validation, the granting of credit is at the discretion of Intesa Sanpaolo's Group Credit departments, in the usual way. All the companies funded through the CE Plafond are granted advantageous credit terms, according to the bank<sup>50</sup>, although those terms are confidential.

The coronavirus pandemic has leant added force to proponents of circular to push to re-frame the economy of Italy. In April 2020 the managing director of the Cariplo Factory, Carlo Mango, wrote a piece in the leading Italian newspaper *Corriere della Sera*, "Five strategic actions to relaunch the economy of the country"<sup>51</sup>, asking for government-led change to support CE, specifically:

- Facilitate innovation
- Create a 10-year plan to accelerate the transition to the circular economy
- Tax breaks for investments in innovation
- Financial support for startups
- Match venture capital funds with public finance

As of March 2020, Intesa Sanpaolo had lent 936 million euros to 94 companies<sup>52</sup>, in circular economy businesses and in green businesses that met the revised criteria of its 2019 green bond, using "a sustainability-based framework focused on circular economy" (see below).

## Engaging with investors on the circular economy

In an effort to highlight the potential of CE to minimize external risk factors such as supply-chain scarcities and environmental impacts, and ensure secure long-term viability – and thereby stimulate investor interest - Intesa Sanpaolo has commissioned a research project from Bocconi University Business School, one of Italy's top business schools, which is currently in progress, "the first international publication about the de-risking component linked to the circular economy in finance", according to a spokesman for the bank. Provisionally titled "*The Impact of Circular Economy on Public Equity. Understanding De-*

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<sup>49</sup> [www.world.intesasanpaolo.com/circular-economy-lending-building-new-world-finance/](http://www.world.intesasanpaolo.com/circular-economy-lending-building-new-world-finance/)

<sup>50</sup> <https://group.intesasanpaolo.com/en/sustainability/environment/green-products/support-to-circular-economy>

<sup>51</sup> [www.corriere.it/economia/aziende/20\\_aprile\\_24/cinque-azioni-strategiche-rilanciare-l-economia-paese-d95bc502-8645-11ea-9ac6-16666bda3d31.shtml](http://www.corriere.it/economia/aziende/20_aprile_24/cinque-azioni-strategiche-rilanciare-l-economia-paese-d95bc502-8645-11ea-9ac6-16666bda3d31.shtml)

<sup>52</sup> Intesa Sanpaolo podcast: [www.world.intesasanpaolo.com/circular-economy-lending-building-new-world-finance/](http://www.world.intesasanpaolo.com/circular-economy-lending-building-new-world-finance/)

*Risking Effect and Superior Risk-Adjusted Performance*<sup>53</sup>, one key section of the research study, led by Professor Claudio Zara, is testing the potential upsides that advocates of CE proclaim in contributing to “a better risk-return combination for circular asset classes”, testing against more than 200 European circular shares focused on manufacturing, construction, energy, and oil and gas, between 2013-2018, and using a new “explanatory variable... the Circularity Score (CS), a brand-new indicator computed following the methodology adopted by Thomson Reuters for calculating ESG score and based on the selection of material variables pertinent to CE included in its database.”

To cover some of the bank’s investments through discounted credit as part of the CE *plafond* credit arrangements, in November 2019 it launched a 750 million euros bond, with “a sustainability-based framework focused on circular economy”<sup>54</sup> – necessarily couched in those terms since there was and is still no agreed framework for investment rating along CE principles, and most importantly not yet by the International Capital Markets Association (ICMA)<sup>55</sup>. The bond had not been included in the 2018-2021 strategic plan.

While the bank’s treasury had accepted and supported the CE proposition, it had to be communicated to the market, and to investors still working within existing criteria for sustainable or “green” investment. This was most acutely brought into focus with the “road show” engagement with potential investors in Paris and the Netherlands prior to the launch of the bond. The roadshow had to meet the usual complex regulatory requirements that goes into an investment prospectus<sup>56</sup>. “It was the hardest I have ever had to do, and the first for a specific bond,” said Alessandro Lolli.

There were around 30 large investors – predominantly European – “since the US investor base is less interested”. “[They] said, ‘We have guidelines for green funds, but not circular.’ The reservations were extremely technical and detailed, given that the CE focus had no universally accepted criteria in its own right (see Appendix C). Once the investors had accepted that the definition of the bond met their green portfolio criteria, they accepted the Intesa Sanpaolo proposition, and the bank received 200 orders amounting to 3 billion euros, 70 per cent from pure ESG investors.

In the event, due to the limited capacity of CE investment - given the criteria that Intesa is applying – the bank restricted the bond to 750 million euros. Encouragingly for future initiatives, the coupon was set at “five to seven basis point below what we could have paid in a ‘brown’ bond, which shows that investors were willing to accept less return,” said Lolli. “They appreciated that the bank had put in real money – and we were very cautious about ‘greenwashing’ [the practice of making environmental claims without substance].” The investors were also persuaded, according to Lolli, by a narrative combining the strategic plan, the Innovation Centre, the process by which the Circular Lab and the Cariplo Factory were vetting potential investment according to the criteria agreed with EMF and Intesa’s healthy capital position and wider reputation for financial performance. “Our cost-to-income ratio is best in class,” said Lolli.

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<sup>53</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3481775](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3481775)

<sup>54</sup> [https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/sostenibilit%C3%A0/italiano/Sustainability%20Bond%20Framework\\_final.pdf](https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/sostenibilit%C3%A0/italiano/Sustainability%20Bond%20Framework_final.pdf)

<sup>55</sup> [www.icmagroup.org/green-social-and-sustainability-bonds/](http://www.icmagroup.org/green-social-and-sustainability-bonds/)

<sup>56</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32010L0073>

The investment fund referenced in the 2018-21 strategic plan has yet to be launched. Its aim is different from that of the credit *plafond*: to boost SMEs through an injection of equity rather than debt. The idea is to reinforce companies that want to go circular for the medium and long term. In the meantime, according to the bank, CE is now “one of the levers that treasury is using to position Intesa with investors,” On a recent call with the corporate and investment banking division to discuss with an ESG component, many questions were related to clarification around circular. “They are asking about it because it is something in turn that their clients are asking for,” said Tellini.

## APPENDICES

### A) The Ellen MacArthur Foundation (EMF)

Founded by Dame Ellen MacArthur and based in the UK on the Isle of Wight, the Ellen MacArthur Foundation was launched in 2010 with a mission “to accelerate the transition to a circular economy”<sup>57</sup>. It was initially sponsored by five corporations that had supported MacArthur’s sailing career: B&Q (Kingfisher), Renault, BT, Cisco and National Grid, and now has 12 Strategic Partner Companies and three Strategic Philanthropic Organisations, 27 Partners and 134 Members<sup>58</sup> in its network, with appropriate levels of subscription, obligation and involvement. The Foundation focuses on six areas of activity:

- Learning – developing the vision, skills and mindsets needed to transition to a circular economy
- Business – catalysing circular innovation and creating the conditions for it to reach scale
- Institutions, governments and cities – creating the enabling conditions for a circular economy to thrive
- Insight and analysis – providing robust evidence about the benefits and implications of the transition
- Systemic initiatives - transforming key material flows to scale the circular economy globally
- Communications - engaging a global audience around the circular economy

To establish the business rationale for the circular economy, EMF has commissioned the leading management consultancy McKinsey to compile a number of reports on different aspects of the CE proposition. The first in 2012, “Towards the circular economy – economic and business rationale for an accelerated transition”. It set out how “economies will benefit from substantial net material savings, mitigation of volatility and supply risks, positive multipliers, potential employment benefits, reduced externalities, and long-term resilience”.

[www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf](http://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf)

The second, in 2015, was titled “Growth within: a circular economy vision for a competitive Europe”, which addressed five questions:

1. Is Europe’s current resource model effective?
2. Will the technology revolution solve Europe’s resource issues?
3. What would a circular economy in Europe look like?
4. What economic outcomes could a circular model achieve in Europe?
5. If Europe decided to shift towards a circular model, how could policymakers and business leaders accelerate the transition?

[www.ellenmacarthurfoundation.org/assets/downloads/publications/EllenMacArthurFoundation\\_Growth-Within\\_July15.pdf](http://www.ellenmacarthurfoundation.org/assets/downloads/publications/EllenMacArthurFoundation_Growth-Within_July15.pdf)

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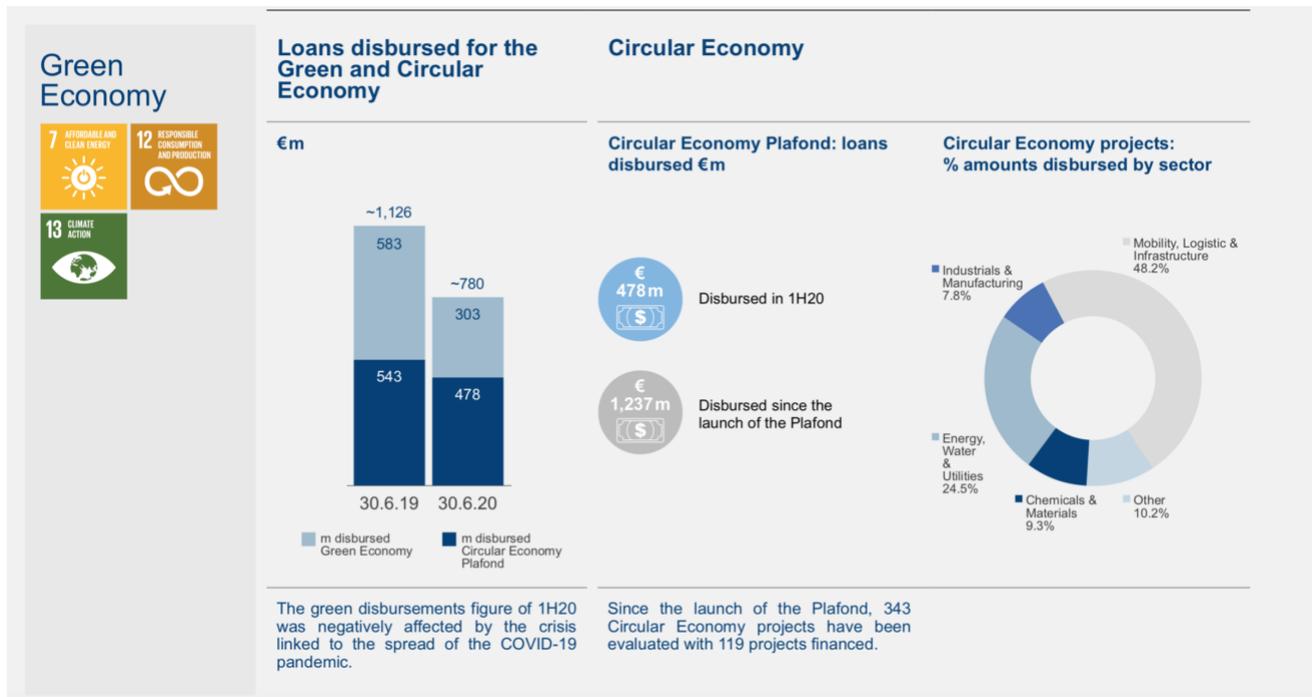
<sup>57</sup> [www.ellenmacarthurfoundation.org/our-story/mission](http://www.ellenmacarthurfoundation.org/our-story/mission)

<sup>58</sup> [www.ellenmacarthurfoundation.org/our-story/our-network/strategic-partners](http://www.ellenmacarthurfoundation.org/our-story/our-network/strategic-partners)

**B) The eligibility criteria for projects to be considered under the Intesa Sanpaolo CE *plafond* credit facility:**

1. Solutions that extend the product-life or cycles of use of goods and/or materials:
  - a) Applying modular design or design for disassembly
  - b) Take-back schemes and redeploying products (reverse logistics)
  - c) Reuse, repair and/or products regeneration/refurbishment
  - d) Servitisation (pay-per-use) and/or models aiming at sharing goods (sharing economy)
2. Production processes fuelled by and/or products made of renewable or recycled resources:
  - a) Products that substitute critical materials with biological or bio-based materials
  - b) Circular activities fuelled by energy from solar, wind or conversion of biomass to energy (circularity is evaluated by CE Desk)
3. Products and/or services that significantly increase effectiveness of the resources' consumption, within the company or along its supply chain:
  - a) Applying principles of industrial symbiosis and realising an integrated supply chain that makes waste streams into feedstock
  - b) Closing loops and/or apply circular economy and systemic design principles
  - c) Creation or promotion of a circular supply chain
4. Design and/or manufacture products that can be fully recycled or composted within an efficient framework of collection, separation and recycling after use:
  - a) Compostable products
  - b) Recyclable products
5. Innovative technologies to enable circular business models:
  - a) IoT to empower traceability services (reverse-logistic) and/or predictive maintenance
  - b) Additive manufacturing/3D printing to increase the easy-to-repair degree and the materials efficiency
  - c) Big data analytics, artificial intelligence, cloud computing and digital solutions aiming at dematerialisation services and/or marketplaces development for secondary raw materials or reuse practices
  - d) Blockchain technology which allows certified traceability of the supply chain, quality and quantity check purposes, and origin derivation (material passport)
  - e) Hydroponic/aeroponic agricultural practices for urban farming, to produce food closer to where it will be consumed, and cultivate in areas with unfavourable conditions
  - f) Other innovative technologies that enable circular economy principles

### C) Intesa Sanpaolo's CE activities in 2019-2020



See: <https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/sostenibilit%C3%A0/semestrare-2020/CNFS%2030%20June%202020.pdf>.

### D) Further reference on circular economy initiatives:

- Reports from PACE (Partnership for accelerating circular economy): <https://pacecircular.org/resources>
- EU policy: [https://ec.europa.eu/environment/circular-economy/pdf/leading\\_way\\_global\\_circular\\_economy.pdf](https://ec.europa.eu/environment/circular-economy/pdf/leading_way_global_circular_economy.pdf)