

CIRCULAR TRANSITION INDICATORS V2.0

Metrics for business, by business



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Thank you to the companies and organizations that have contributed to CTI's development and implementation!



Advisory group :



The Circular Transition Indicators framework was developed by the Circular Metrics working group as a part of Factor10, the flagship project of WBCSD's Circular Economy Program.



We are proud to continue to partner with WBCSD to further business progress toward a more circular economy. As a participant in the Circular Transition Indicators project, we helped identify tools to better self-assess our use and reuse of resources. We can now prioritize and establish targets to monitor our progress within the circularity space.

Stephan B. Tanda
President and CEO, Aptar



At CHEP, we know that our share & reuse business model is inherently circular. The challenge is how to measure it! We initially welcomed the CTI Tool with a view to finding a company wide circular performance KPI. We soon realized it is actually much more and also found their approach to material flows analysis complement other circularity measurement systems. We are also able to quickly identify risks at an appropriate level of detail and prioritize actions to improve our circularity.

Juan Jose Freijo
Vice President, CHEP



Transforming towards sustainable mobility the Mercedes-Benz way means taking the lead in electric drives while at the same time taking on responsibility as a company and in terms of products and production. Therefore, we drive the conversion of the value chain into a value cycle, to get closer to our goal of CO₂-neutral mobility. By implementing the CTI framework into our business structures, we are able to measure and improve the circularity of our processes in a comprehensive and standardized way in order to derive appropriate measures to accelerate our transformation into a circular economy.

Markus Schäfer
Member of the Board of Management, Daimler AG and Mercedes-Benz AG



At Dow we believe that our materials have a key role to play in enabling the transition to a more circular economy. While we are still at the very beginning of this transition, it is important that we define the yardstick to help us measure progress. The CTI framework can help companies define the baseline and prioritize areas of focus to act. We are collaborating closely with WBCSD to pilot and evolve the framework to help Dow and our peers make business decisions with circularity in mind.

Mary Draves
Chief Sustainability Officer and VP EH&S and Sustainability, Dow



The research is clear. A future based on a take-make-waste economy is simply not viable. Companies that adopt the CTI guidelines and baseline their circularity are taking an uncommon step towards actively creating a more sustainable future for people and planet.

Andreas Fibig
Chairman and CEO, IFF



KPMG is proud of our continuous involvement in the development of the CTI Framework v2.0. As an implementation partner we see the added value that this framework brings to our clients to help assess circular performance, identify risks and opportunities and steer towards resilient and future-proof business practices.

Richard Threlfall
Global Head of KPMG IMPACT, Partner, and Global Head of Infrastructure, KPMG



The circular economy is not just about recycling – it is about a transformation of the entire value creation system by decoupling growth from finite resources. At LANXESS, we support this transformation. Being in the middle of long value chains, we are not only working on alternative raw materials, but are also exploring different recycling technologies for our products. For example, our engineering materials are suitable for mechanical and multiple chemical recycling pathways.

Anno Borkowsky
Board member responsible for value-chain circularity, LANXESS





I believe in the circular economy. Today LafargeHolcim is one of the world's leaders in this area, recycling 50 million tonnes of waste into our products and processes. By 2030, I set the target to double this rate, to recycle 100 million tonnes across our business. I see a big opportunity in recycling construction and demolition waste, as concrete can be infinitely recycled. Using WBCSD's Circular Transition Indicators (CTI), we are closing materials' loops and measuring our revenue from green products and solutions. With the CTI framework we are actively measuring our contribution to building greener cities to keep on raising the bar.

Jan Jenisch
CEO, LafargeHolcim



The Circular Transition Indicators (CTI) framework developed by the World Business Council for Sustainable Development (WBCSD) provides a universal global definition and measurement method to make circular entrepreneurship understandable, measurable and manageable. The framework brings us the right focus and encouraged us to move from a waste-report to an inflow-report and outflow-report. At this moment, e.g. we use the framework to measure the level of circularity of our trains, and to steer decision-making during procurement to achieve our goal: 100% circular trains in 2030.

Marjan Rintel
Chair of the Board, NS



The agreement on measuring circular efforts in a standardized way is critical to bring large scale adoption of circular economy practices across global businesses. It's encouraging to see the progress made measuring circularity across the value chain to retain maximum value throughout the lifetime of materials and products, and closing the loop with confidence. We fully support the inclusion of financial indicators into the framework to drive circular decision making in the investment process.

Frans van Houten
CEO, Philips



The Port of Rotterdam, as a key hub for resources in Northwestern Europe, has used the CTI framework to assess the circularity of production and throughput in the port. This exercise has resulted in a baseline for improvements in the future. The scan made it clear that there is enormous potential to improve the circularity of our port and industrial cluster. The circular economy is an increasingly important component of our strategy and we are actively working with our partners to make supply chains more circular.

Allard Castelein
CEO, Port of Rotterdam



In order to take the next step in the transition towards a circular economy, measurement and steering is key. Together with our clients who want to be the frontrunner in circular economy we are eager to provide strong support and collaboration through our network, sharing knowledge and financial solutions. We have experienced in our pilot that CTI can actually enhance our clients' decision making. CTI provides insights in better risks and returns for business and their financial partners. We encourage the inclusion of CTI into business and the financial solutions we offer.

Alain Cracau
Head Sustainable Development, Rabobank



Security Matters (SMX) supports and acknowledges the leadership role of WBCSD and the importance of the Circular Transition Indicators (CTI) framework as it complements SMX's digital twin technology and blockchain platform solutions enabling companies to successfully transition to a truly circular economy in a tangible, credible and measurable way – where every material is fully utilised and nothing goes to waste.

Haggai Alon
CEO, Security Matters Ltd



Transitioning to a circular economy is about much more than just reducing the waste inherent in the linear economy. It's about sustainable growth that creates economic opportunities, environmental and social benefits and increases business resilience. This transition requires a systemic shift that closes, optimises and values resource loops across the value chain which makes collaboration across companies pivotal.

Alistair Field
CEO, Sims



Foreword

Few people could have predicted 2020 would turn out the way it did. And although this has been a highly unusual time, if you take a step back, it is part of a wider pattern of volatility and uncertainty. More and more, the impact of our linear consumption of material resources has left the world facing a series of defining, complex and interdependent environmental challenges.

And while the global pandemic will leave a permanent scar for many people, communities, and businesses, it does offer us a once-in-a-generation opportunity to reset our collective thinking, pivot in new directions, and build back better. During 2020, through our collective pandemic response, we saw the impossible made possible – now it's time to accelerate this momentum.

The circular economy paves a path to a better, more sustainable world. Businesses who embrace circularity will be able to futureproof their offerings and do well financially by doing good for people and the planet.

Together, we must strive for a world where our resource use meets society's needs without compromising the planet's ability to regenerate and provide them anew.

The size of this challenge should not be underestimated. Currently, the world's economy is only 8.6% circular. To close this gap, we will need new approaches, diverse perspectives and purpose-built tools. The Circular Transition Indicators are an important step forward for business and society at large.

With the Circular Transition Indicators, businesses now have a clear and common language for circularity; a set of quantitative metrics for companies to consistently measure their circular performance and understand the associated linear risks and circular opportunities. Built by business for business, the framework itself is simple and comprehensive, complementing a company's existing sustainability efforts.

What's more, the Circular Transition Indicators offer a greater level of consistency in measuring and tracking organizational circularity efforts and provide meaningful information for internal steering and decision making.

At DSM, as we continue to drive the transition toward renewable bio- and recycled-based resources, adopting this framework has helped our organization's performance and to understand specific circular gaps.

Ultimately, this will drive our organizational resilience.

Moving forward, we need to encourage more organizations – across all industries, regions and levels – to accelerate their circular journey by using the Circular Transition Indicators.

It's no exaggeration to say that, when it comes to transitioning to a circular economy, our world depends on it.



Helen Mets
Executive-Vice President
Materials, DSM

Executive summary

As the circular economy builds momentum, it is imperative for companies to prepare for their transition based on insights into their circular performance and associated risks and opportunities. To do this, business needs a universal and consistent way to measure its circularity.

According to the Circularity Gap Report, the global economy is only 8,6% circular today.¹ The Circular Transition Indicators (CTI) shaped by 30 WBCSD member companies help answer questions like:

- How circular is my company?
- How do we set targets for improvement?
- And how do we monitor improvements resulting from our circular activities?

CTI is simple, applicable across industries and value chains, comprehensive yet flexible, complementary to a company's existing sustainability efforts and agnostic as to material, sector or technology.

Central to CTI stands a self-assessment that determines a company's circular performance. It focuses primarily on the circular and linear mass that flows through the company, in which design, procurement and recovery models are crucial levers to determine how well a company performs. In addition to the ability to close the loop, CTI provides insights into overall resource use optimization and the link between the company's circular material flows and its business performance.

The framework does not evaluate the environmental and social impacts of the company's circular activities. However, understanding mass flows is a major step to knowing their impacts.

Although the use of common indicators for circular performance is essential to accelerating the transition to the circular economy, the value of CTI for a company goes beyond the calculation in the guidance, analysis and explanation for how circularity drives company performance. The CTI process helps companies' scope and prepare the assessment and interpret its results, understand its risks and opportunities, prioritize actions and establish SMART targets to monitor progress.

CTI is inward-facing, objective, quantitative and based on demonstrable data. This data may sit in hidden corners of the company or even outside the company, with its value chain partners. In order to support and guide companies through this process, we have partnered with Circular IQ to develop the CTI Online Tool available at www.ctitool.com. Through the tool, CTI initiates value chain discussions, which are essential to accelerating the transition to the circular economy.

As customer, investor and regulatory pressures to demonstrate circular performance increase, it is in each company's best interest to respond credibly. CTI delivers a framework to prepare this response.

ANNOTATIONS

- New content
- Examples
- Notes

The framework does not provide a rating but leaves it to the company to determine whether the results are in accordance with its ambitions, putting the company in the driver's seat of its own circular transition.

We invite companies of all sizes and industries worldwide to demonstrate their commitment to the circular economy by measuring their circular baseline with the launch of this updated version of CTI in February 2021.

CTI VERSION 2.0: WHAT'S NEW

CTI v2.0 includes three main additions to the existing methodology:

Water Circularity:

As promised in CTI v1.0, this version now includes calculations for circular water inflow/outflow and onsite water circulation.

CTI revenue:

Acknowledging growing investor interest for metrics that link circular and financial performance, the new CTI revenue provides a consistent way to credibly respond to investor inquiries.

Bioeconomy Guidance:

CTI now includes extensive instruction and interpretation on the bioeconomy across all indicators and process steps.

If you have already completed an assessment with CTI v1.0, the new content will not affect your performance. CTI only became easier and more valuable with these changes.

Part 1.

Circular Transition Indicators: Framework



Circular Transition Indicators

Today the world is only 8.6% circular.² Not only is it clear that this is not sustainable, the urgency to step away from a take – make – waste economic model is growing. If this wasteful trend continues, we will need the natural resources of two Earths by 2030, making achieving the Sustainable Development Goals (SDGs) and Paris Agreement virtually impossible.³

Where some see waste, we see value, opportunity and a business case to use resources for as long as they can last. As the pressure to shift from linear to more circular ways of doing business increases, the good news is that the opportunity to improve stands at over 91%.

The momentum to transition is growing and both the private and public sector are beginning to set ambitious circular targets. For example, the European Commission is promoting an accelerated transition and the Netherlands introduced a government-wide program to reduce primary raw material use by 50% by 2030 and transition to a full circular economy by 2050. Transparency and alignment are critical to establishing a common language across industries and governments to develop strategies and measure progress.

For this reason, 30 global companies have come together through WBCSD's Factor10 project to develop Circular Transition Indicators (CTI). Our aim was to develop an objective, quantitative and flexible framework, identifying risks and opportunities to determine circular priorities and set targets. We do not intend for this framework to replace existing sustainability frameworks already used by industry; rather, we endeavor to provide additional insights into circularity performance.

This CTI framework is based on an assessment of material flows within company boundaries, combined with additional indicators on resource efficiency and efficacy, as well as the value added by circular business. Through this lens, the framework can guide companies in gaining concrete insights into how they can most effectively transition to a circular economy and the associated opportunities.



Need for circular metrics

Linear business models may be profitable in the short run, but over time, they will expose companies to market, operational, legal and business risks. At the heart of the business case for circularity sits the opportunity for companies to create more value by being smarter about how they use resources. Through circular business models, companies can accelerate growth, enhance competitiveness, and mitigate risk.

TRANSITION

While a circular economy is an economic model that provides opportunities for companies across industries, the transition to a circular economy is not straightforward. Companies must change business models, adapt strategies and evolve the skills of their workforces, and governments must adjust policies to enable the circular economy.

This makes it difficult to plan for and set clear targets for a coordinated transformation. To understand where a company currently stands in its circularity and allow for the setting of targets monitored by clear key performance indicators (KPIs), companies need a system of metrics that can guide their decision-making when adopting circularity in their corporate strategy.

ONE COMMON APPROACH

No company can drive the transition to a circular economy on its own.

The circular economy requires a larger industry, value chain and cross-sector effort. To transform, companies must speak the same language, regardless of size, industry or value chain position. Having a common approach to measuring and monitoring circular performance is essential. This will allow value chains to become value cycles, progressing towards a shared vision.

This initiative started as the [Circular Metrics Landscape Analysis](#),⁴ in which we carefully studied and reviewed existing protocols and standards for circular metrics. The analysis and subsequent conversation identified several ways to calculate circularity, such as the [Material Circularity Indicator](#) and [Circulytics](#) by the Ellen MacArthur Foundation;⁵ the [Circle Scan](#) and [Circularity Gap Report Initiative](#) by Circle Economy⁶ or the [Circularity Check](#) by Ecopreneur.eu for a qualitative circularity self-assessment. These methodologies converge on material flows – establishing a common language for circularity across industry and government.

The analysis concluded that there was an existing need for an inward facing, quantitative approach and guidance to measure circularity for the whole company, business unit or product (group) with a framework that complements assessments and tools used by companies today. Building upon material flows, CTI incorporates water, renewable energy and business value into its scope to create a multidimensional perspective of a company's circular performance.

CIRCULAR ECONOMY DEFINITION

The circular economy is an economic model that is regenerative by design.

The goal is to retain the value of the circulating resources, products, parts and materials by creating a system with innovative business models that allow for renewability, long life, optimal (re)use, refurbishment, remanufacturing, recycling and biodegradation.

By applying these principles, organizations can collaborate to design out waste, increase resource productivity and maintain resource use within planetary boundaries.

Note: CTI is in alignment with the Ellen MacArthur Foundation circular economy principles:

- Design out waste and pollution
- Keep products and materials in use
- Regenerate natural systems.

Use of CTI

CTI offers companies insights into their circular economy performance, allowing them to:

- **Identify circular opportunities and linear risks**, with the aim of improving company longevity and resilience
- **Set a baseline and monitor progress** on their circular transition
- **Respond to customers and external stakeholders** (e.g., investors or civil society organizations)
- **Start value chain conversations** on shared circular priorities
- **Attract new business** by simultaneously advancing customers' circular objectives.

We designed this framework to be easy to implement and versatile in scope. It allows business to measure circularity at any level, from product and product level to the entire business, so that companies can use the indicators at the level that best suits their business. With CTI, we aim to empower companies in their circular transition by allowing them to better understand their circular economy potential.

As such, we endeavor to be as non-prescriptive as possible. WBCSD does not play a role in a company's CTI assessment, which it developed as an inward-facing tool for companies to gain insights into their circularity. As such, CTI does not:

- **Determine full sustainability performance** CTI measures the circular and linear mass flows through a company and evaluates its effectiveness in using resources. With these insights, it complements existing and commonly used sustainability frameworks that cover a company's wider sustainability impact (e.g., greenhouse gas (GHG) emissions, biodiversity, human capital, etc.). Circularity is not the only goal.

This framework does not evaluate the environmental and social impacts of the company's circular activities. However, understanding the mass flows is a major step in knowing their environmental impacts and pathways to mitigation.

- **Compare industries, companies or products** Each company's circularity journey is unique. It is therefore only possible to make comparisons in a relevant context and upon careful consideration.

- **Target non-sustainability marketing and promotional materials.** Circular economy is an important and necessary pathway to more sustainable production and consumption. However, its influence on a company's sustainability performance depends on the larger context of other sustainability indicators. Companies are discouraged from communicating the results of the framework externally unless they present them in the appropriate context.

SHARED PRIORITIES

One of the key drivers behind the aluminum industry's highly effective recycling infrastructure was a coalition of aluminum value chain stakeholders that realized the material was at risk of both depletion and reduced competitiveness if linear consumption rates continued their trajectory. Their combined commitment and resources to develop a powerful recycling infrastructure lay at the core of today's 70% recovery rate for aluminum cans.

In 2015, the Aluminium Stewardship Initiative (ASI) incorporated as a non-profit entity to develop and operate an independent third-party certification program to drive a material stewardship approach for aluminum throughout the value chain.

Source: [Aluminium Stewardship Initiative](#)

We consider the following to be an appropriate context:

- The company carefully discloses the scope of the assessment to give the reader a comprehensive view of its circularity performance;
- The company clearly states that the “Circular Transition Indicators are not a full-scope sustainability assessment and that results should not be used to benchmark companies or industries on their full scope sustainability performance”;
- An independent third party assures the results.

THE CTI ONLINE TOOL

Data is a crucial ingredient in CTI. This includes data that may be readily available, as well as data hidden in pockets of the company or even data that exists outside your company with supply chain partners. Obtaining this data and performing the calculations constitute the most resource-intensive parts of the framework. To optimize CTI accessibility and usability, we have partnered with Circular IQ to develop the CTI online tool: www.ctitool.com.

This tool structures data collection and calculates the outcome per indicator. It includes functionality that can support users as they contact internal stakeholders or value chain partners for data requests to avoid confidentiality issues.

Additionally, it documents the exact scope and steps taken, allowing for consistency and monitoring over subsequent cycles. The CTI Online Tool serves a facilitating function and stores outcomes in a structured manner; it supports decision-making and allows companies to keep track of progress. However, we recommend that companies first read the methodology and user manual within this document for optimal results and a smooth process. Further, we recommend to involve different experts from the company in the implementation of CTI’s seven steps rather than attempting to complete the tool in isolation.

The CTI tool guarantees data security and confidentiality⁷ and we are continuously improving it for user experience and actionable and meaningful outcomes.

FRAMEWORK PRINCIPLES

Simplicity

Be as simple as possible within the context of the circular economy.

Consistency

Use one common, cross-industry language and provide consistent insights into circular opportunities and linear risks regardless of organization size, sector or value chain position.

Completeness and flexibility

Offer a complete set of metrics with the flexibility of accommodating diverse business needs.

Complementarity

Given that circularity is one pathway to more sustainable production and consumption, assessments should never take place in isolation and should always complement other existing sustainability and business metrics.

Neutrality

Refrain from prioritizing specific materials over one another insofar as they all contribute to the circular economy.

A value chain effort

The circular economy requires collaboration. The entire value chain must work together to maximize the value created for every unit of resource.

Figure 1 illustrates a simplified value chain. The further a company is from the red arrows, the more difficult it can be to obtain information.

CTI is a catalyst in the initiation of cross value chain conversations. It provides a process for value chain partners to collectively pursue shared goals.

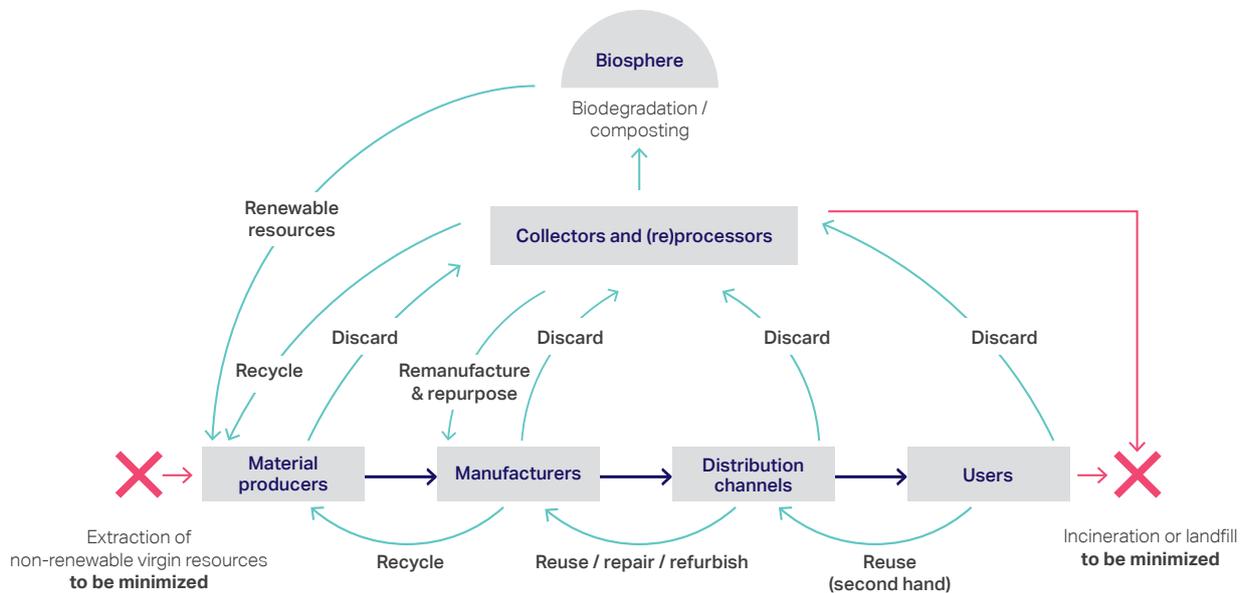
The CTI online tool helps companies obtain required data from value chain partners without raising privacy or confidentiality concerns.

SHARED PRIORITIES

A Dutch telecom company engages with its supplier through a Circularity Manifesto, ensuring upstream value chain partners conduct their business in the same circular way the telecom company does.

Source: [KPN Circular Manifesto and Appendix 2017](#)

Figure 1: Simplified representation of the value chain recovery system



The CTI methodology logic

CTI is based on material flows through the company. By analyzing these flows, the company determines its ability and ambition to minimize resource extraction and waste material. It entails the assessment of the flows within the company's boundaries at three key intervention points:

INFLOW

How circular are the resources, materials, products and parts sourced?

OUTFLOW – RECOVERY POTENTIAL

How does the company design its products to ensure the technical recovery of components and materials at a functional equivalence

(e.g., by designing for disassembly, repairability, recyclability, etc.) or that they are biodegradable?

OUTFLOW – ACTUAL RECOVERY

How much of the outflow does the company actually recover?

The outflow includes products, by-products and waste streams. Companies can improve actual recovery rates through closed loop business models or mandatory or voluntary open loop recovery scheme efforts.

The results will illustrate how effectively a company closes the loop.

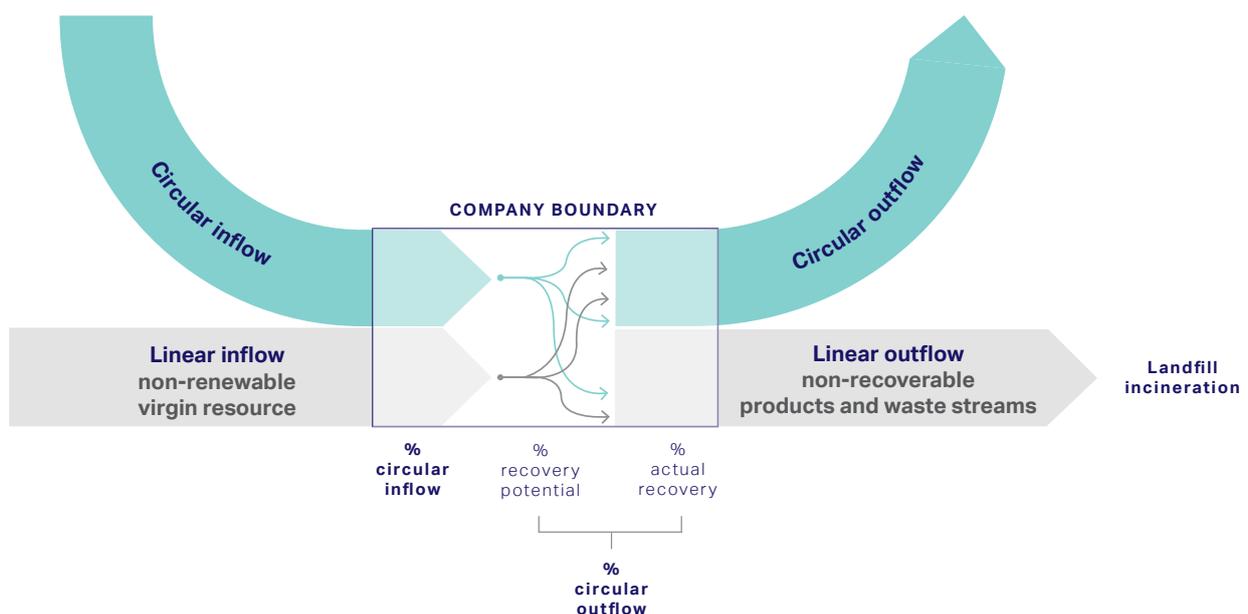
MATERIAL FLOWS

Material flows can include nutrients, compounds, materials, parts, components or even products. For readability, this report refers to all of these as material flows.

RECOVERY

Recovered refers to the technically feasible and economically viable recovery of nutrients, compounds, materials, parts, components or even products (depending on the organization) at the same level of functional equivalence through reuse, repair, refurbishment, repurposing, remanufacturing, recycling, biodegradation (including composting).

Figure 2: Illustration of material flows



The indicators

Any company, regardless of size, sector or position in the value chain, can use this framework. As such, the selection of indicators relevant for any business will vary. CTI provides a menu of indicators, some of which are optional.

Assessments start with the completion of the full Close the Loop module. Companies may then calculate indicators from Optimize the Loop and Value the Loop for additional insights.

MORE INFORMATION
For more detailed and specific information on the indicators, see page 28 in the user manual.

Close the Loop
% circular inflow
% circular outflow
% water circularity
% renewable energy

Optimize the Loop
% critical material
% recovery type
Onsite water circulation

Value the Loop
Circular material productivity
CTI revenue



1. CLOSE THE LOOP

This module calculates the company's effectiveness in closing the loop on its material flows.

This can be assessed on the level of the company, a business unit, facility or product (group) level.

% Circularity

A company's performance in closing the loop is expressed in the % circularity, which is the weighted average between % circular inflow and % circular outflow, as outlined in the formula structure below. The % circular inflow is determined by the % non-virgin content and % renewable content (sustainably grown bio-based sources). The % circular outflow is determined by the % recovery potential (which is focused on design) and the actual recovery. These three pillars address different aspects of the business: procurement for inflow, design for potential recovery and business model innovation (closed) and legal and partnerships (open) for the actual recovery.

BIOLOGICAL CYCLE GUIDANCE

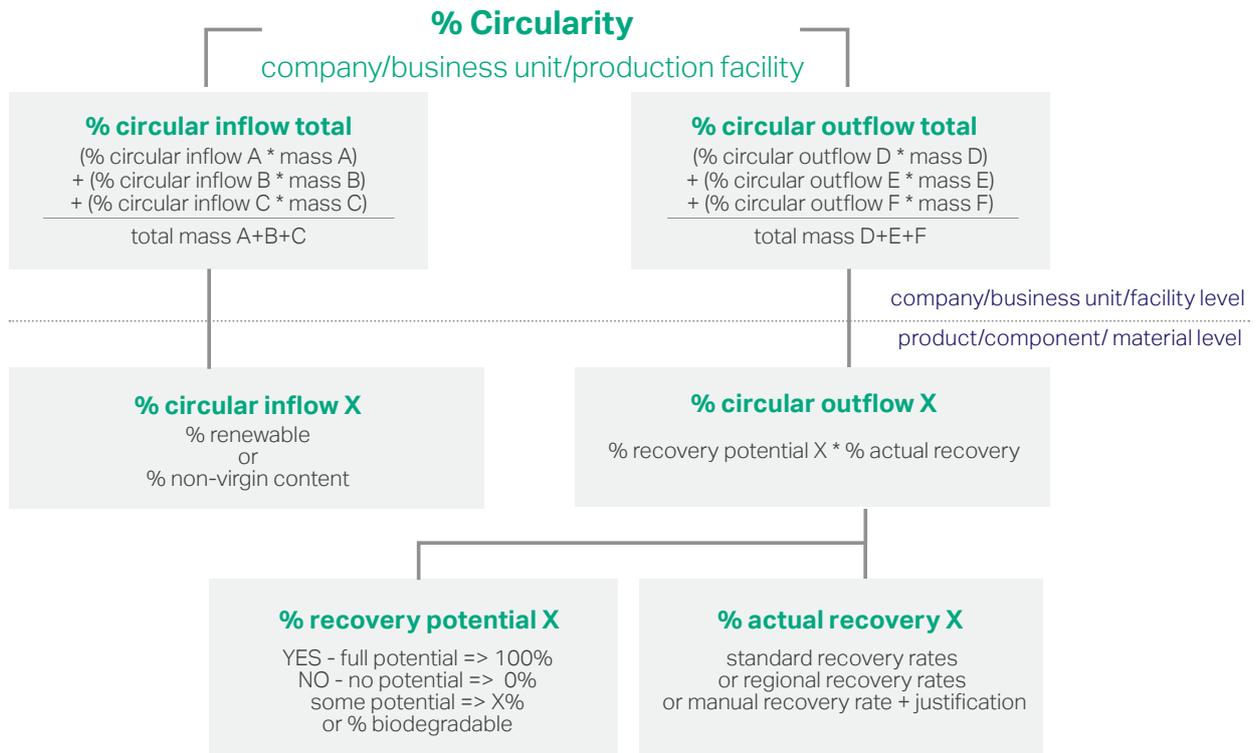
The CTI v2.0 user manual now includes specific guidance for the assessment of materials in both technical and biological cycles.

SEPARATE INDICATORS

The resulting outcomes from the Close the Loop module are:

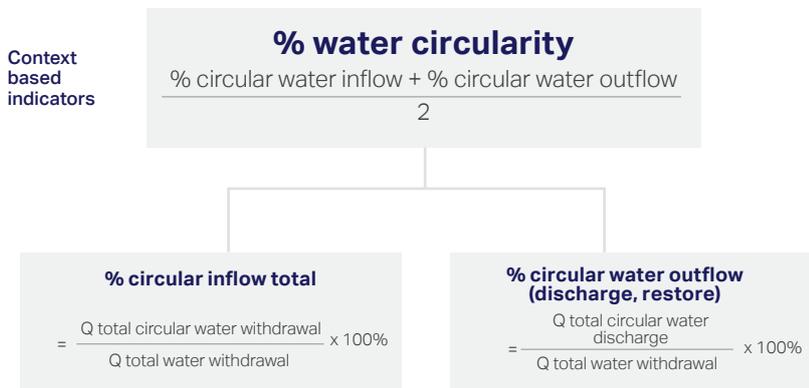
1. % circularity, which is the weighted average of:
 - % circular inflow
 - % circular outflow
2. % water circularity;
 - % circular water inflow
 - % circular water outflow
3. % renewable energy

Figure 3: % Circularity

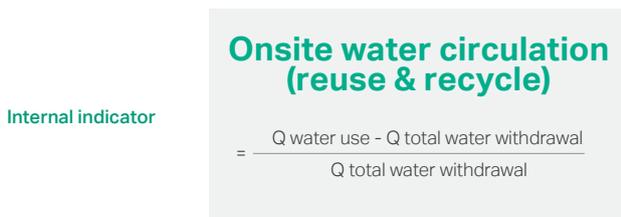


Water circularity

In addition to material flows, we consider the circularity of freshwater to be an important element of the circular economy. What sets water apart from other materials and resources is the scale of the relevant ecosystem. Where materials can circulate in a global system, it is necessary to assess water circularity on a local level for a water catchment area or local watershed. The purpose of water circularity is to lower freshwater demand and ensure water resource availability for all users and the environment. Circularity of water is therefore determined through the % circular water inflow and % circular water outflow, which in turn depend on local water conditions.



In addition, the water circularity section offers an internal facing indicator focusing on internal facility circulation through reuse and recycling.



Renewable energy

The circular economy requires the transition to renewable energy. As most companies already have metrics in place to measure renewable energy consumption for business operations, CTI considers energy separately for which companies can use this existing data. The % renewable energy calculation is as follows:

% renewable energy

$$\frac{\text{renewable energy (annual consumption)}}{\text{total energy (annual consumption)}} \times 100\%$$

WORKING GROUP FOR METRICS FOR WATER CIRCULARITY

The water circularity metric development resulted from a collaboration between the WBCSD Factor10 Circular Metrics working group and WBCSD's Global Water Solutions Project and BIER (Beverage Industry Environmental Roundtable), who joined their expertise to develop a solid and meaningful set of indicators to assess the circularity of water at the facility level. Supplementary guidance and a water circularity metrics tool that provides more granular detail and guidance on the water indicators are available from WBCSD and BIER.

2. OPTIMIZE THE LOOP

This module provides insights on resource-use efficiency. This module and the indicators are optional.

Critical materials

The **% critical inflow** highlights the share of the inflow considered critical. Companies can refer to internal critical materials lists or existing public lists such as those compiled by the European Commission or the United States Geological Survey.⁸ This allows companies to assess the risk level of specific material flows and to prioritize accordingly.

The calculation is:

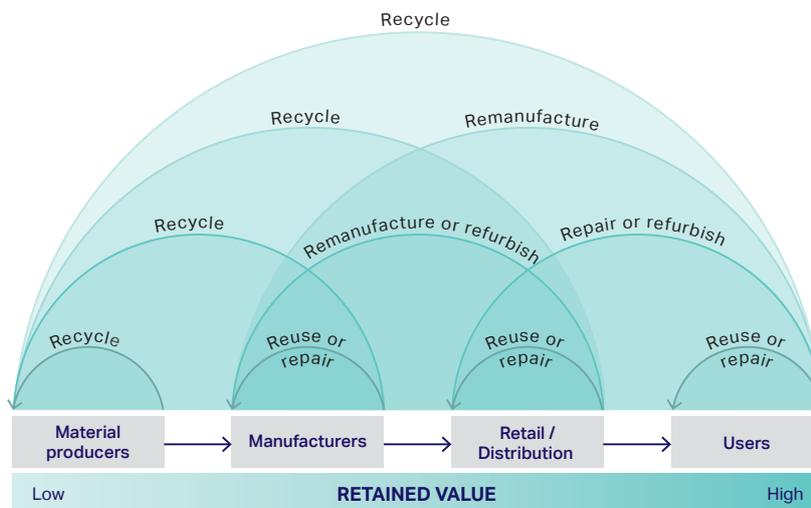
$$\text{\% critical inflow} = \frac{\text{mass of inflow defined as critical}}{\text{total mass of linear inflow}} \times 100\%$$

Recovery type

The other indicator of the Optimize the Loop module **% recovery** type focuses on how the company recovers outflow and recirculates it into the value chain. The results provide a breakdown of the recovered outflow in shares reused/repaired, refurbished, remanufactured recycled or biodegraded. The CTI online tool automatically generates this breakdown based on the Close the Loop data entered.

Depending on the value chain position of the company, the possibilities for optimization in recovery loops may vary.

Figure 4: Recovery types and retained value



CASCADING

- CTI v2.0 includes both a model for cascading in the technical sphere and one for the biosphere.

3. VALUE THE LOOP

This module illustrates the added business value of a company's circular material flows. The indicators are optional.

While the Close the Loop and Optimize the Loop modules focus on material flows, the Value the Loop module goes beyond material flows to address how circularity creates maximum value with minimum resources.

Circular material productivity

This indicator illustrates the company's effectiveness in decoupling financial performance and linear resource consumption. Companies can calculate circular material productivity by dividing revenues generated by the mass of linear inflow as considered in the Close the Loop module.

The calculation is:

circular material productivity

$$\frac{\text{revenue}}{\text{total mass of linear inflow}}$$

The greater the circular material productivity, the better a company is at decoupling financial performance from linear resource consumption. Insights stem from looking at historic data to understand the evolution of material productivity and by monitoring progress over time to demonstrate a decoupling (or increasing dependency).

CTI revenue

Financial institutions increasingly recognize the value that the circular economy presents in terms of risk mitigation, financial opportunity and positive environmental and social impacts. A solid grasp of value created through circular investments allows investors to proactively recognize and reward companies that make progress on circularity.

However, the lack of a consistent methodology to measure circular performance in terms of both resource efficiency and its associated financial benefits has served as a barrier in scaling up circular investments.

Using the Close the Loop results, a company measures its circular CTI revenue by multiplying the sum of a product (group) or business unit's weighted average of the % circular inflow and % circular outflow and multiplying that by the revenue generated by that product (group) or business unit. As outlined under Close the loop, calculate both % circular inflow and % circular outflow based on weight of the material flows.

In other words, a company's CTI revenue is its revenue adjusted for the percentage circularity of its product portfolio. To calculate CTI revenue for a product:

CTI revenue (product)

$$\left[\frac{(\% \text{ circular inflow} + \% \text{ circular outflow})}{2} \right] \times \text{revenue}$$



To calculate CTI revenue for a business unit or company, sum up all product CTI revenues calculated:

CTI revenue (company)

CTI revenue A
+CTI revenue B
+CTI revenue C +...

The greater the CTI revenue, the better a company can generate revenues from its circular products/business. This metric also reflects decoupling as revenues increase from circular flows.



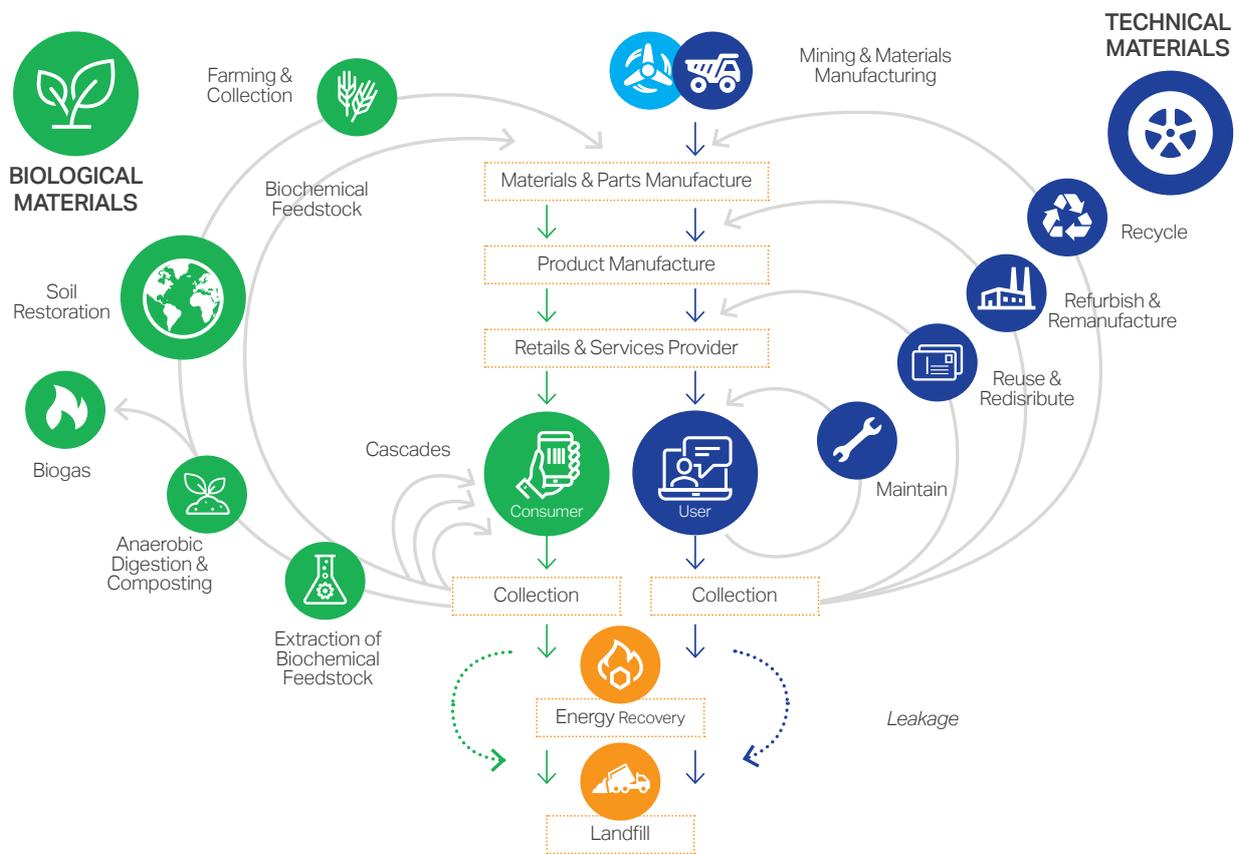
The technical and biological recovery cycles

The circular economy recognizes two distinct sides, as shown in Figure 5. The technical and biological recovery cycles. It is possible to recover technical materials through the technical cycle by means of different loops: maintenance and repair, reuse and redistribution, refurbishment and remanufacturing, and finally recycling.

Bio-based resources follow a different recovery path, as depicted on the left side of the graph. They circulate back into the biological cycle at their end of life for the reuse of their nutrients for a new cycle. It is important to note that bio-based resources are not unlimited in supply and need to originate from sustainably managed sources.

- **BIOLOGICAL CYCLE GUIDANCE**
- CTI v2.0 offers more guidance on how to understand both biological and technical cycles and what that means for the circularity of the material flows.

Figure 5: Technical and biological recovery cycles



*Adapted from EMF <https://www.ellenmacarthurfoundation.org/>

The classification of technical materials and biological resources

For optimal consistency between different circularity measurement frameworks, the classification of materials in either cycle draws from the Ellen MacArthur Foundation:

Materials suitable for the technical cycle

Those that companies can use, reuse/redistribute, maintain/prolong, refurbish/remanufacture or recycle. This includes all inorganic and fossil materials, such as metals, plastics and synthetic chemicals, as well as bio-based materials designed to be used within the technical cycle. Note that this category also includes materials of biological origin used as reactants in chemical processes and that form the basis of another material or product that behaves as a technical material.

Materials suitable for the biological cycle

Those that the company consumes or otherwise safely recovers into the biological cycle for conversion into nutrients, fibers or non-nutrient-rich materials in the next cycle.

Bio-based resources can move between cycles. For example:

- Wood is bio-based and potentially biodegradable but can also be reused or recycled like any other technical material in the technical cycle;
- Bio-based plastic can behave like its fossil-fuel-based counterpart in the technical cycle.

It is necessary to maximize the number of lifetimes that a biological material has in the technical cycle. However, after exhausting all lifetimes, the company's ambition should be for the safe return of the nutrients to the biological cycle.

Please read the additional guidance provided in the user manual for more information.



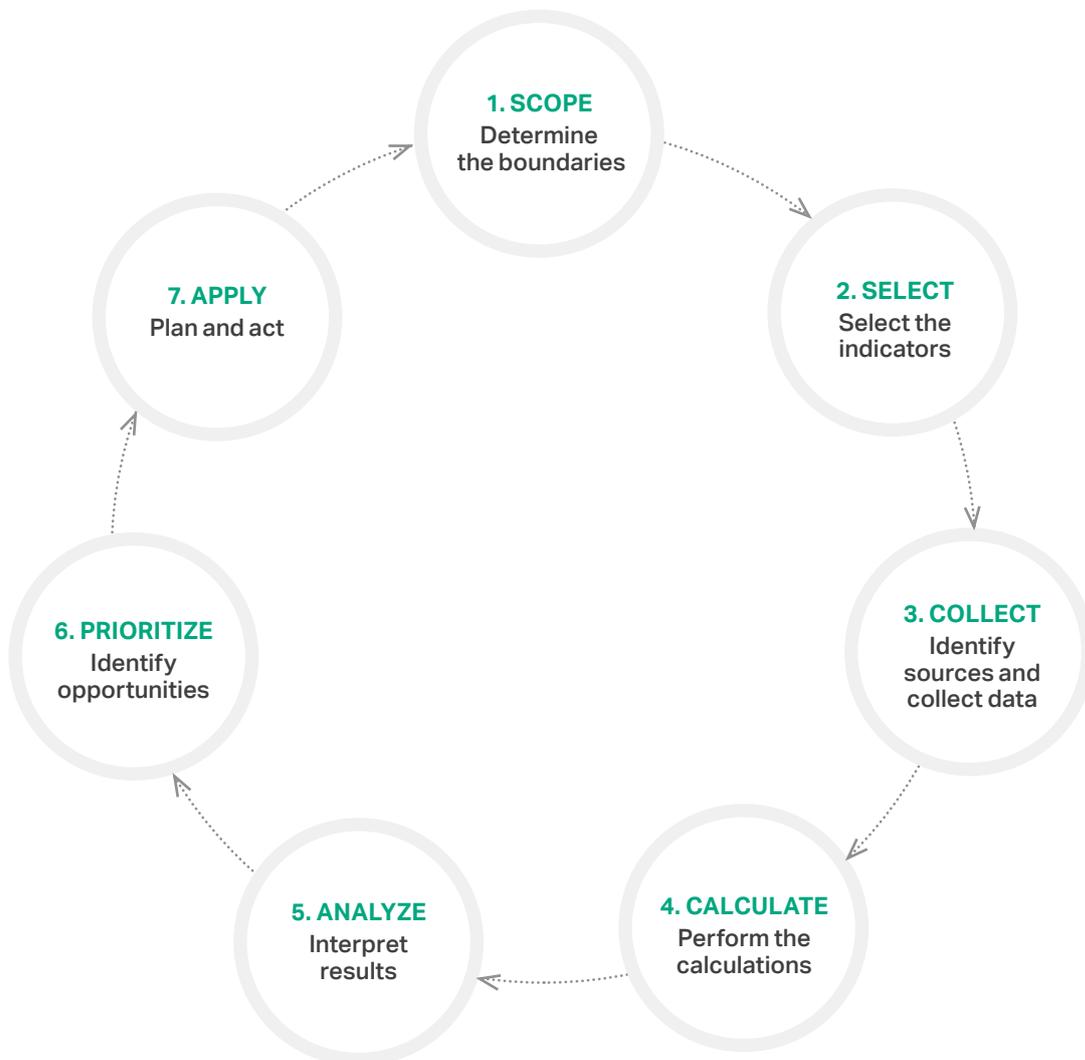
The CTI process cycle

The framework outlines seven process steps that cover one assessment cycle. Running the assessment for the first time will be informative and insightful.

However, repeating the cycle regularly allows the company to monitor progress in its circular transition.

COMPATIBILITY
This process step approach is adapted from and consistent with other industry frameworks, like the [Natural Capital Protocol](#).

Figure 6: The process cycle



Getting started

If you are interested in learning more and/or potentially using CTI and the online tool to start calculating your company's circularity, we have a few recommendations.

It may seem like a challenging exercise, but there are many free resources available to you to facilitate the process. We recommend the following:

1. Review the user manual for more instructions on how to find data, interpret outcomes and convert insights into action (see page 29).
2. Visit the CTI Academy at www.wbcSD.org/ctice to watch webinars, access case studies and sign up for upcoming events like training sessions and interactive webinars.
3. Then sign up for your free Essential CTI Online Tool license at www.ctitool.com to help you start your assessment.
4. Start a simple and small scoped test assessment, something you may already have the data for.

KEEP IN TOUCH

These are the ways to stay informed or involved.

Stay informed

Regularly check www.wbcSD.org/ctice for updates on the framework.

- Sign up for [CTI circular](#) and receive notifications on framework updates.
- Keep an eye on the events calendar for planned webinars and training opportunities and sign up.

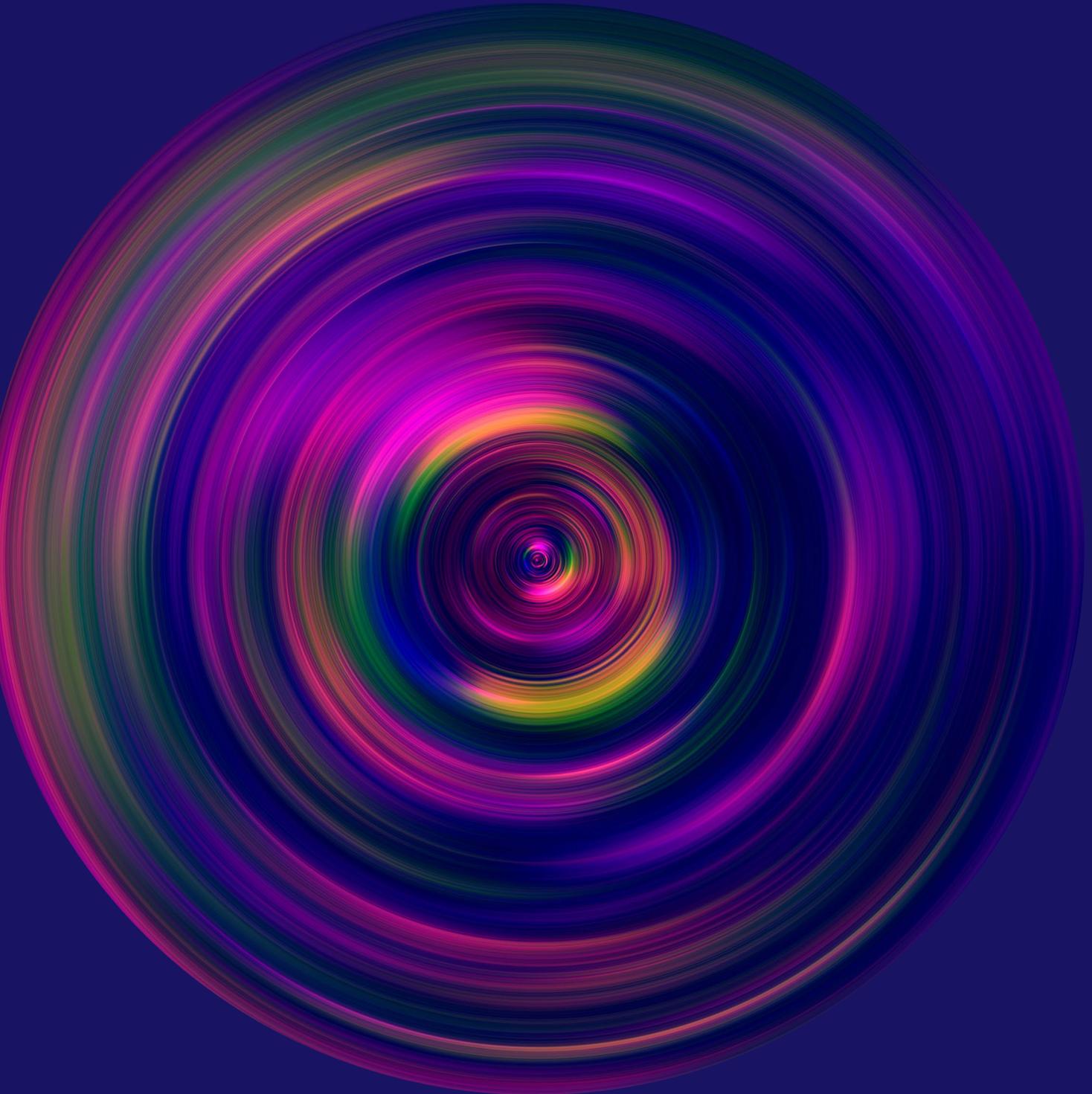
Get involved

Share your insights and ideas through the feedback functionality in the CTI online tool www.ctitool.com

Actively help shape future CTI developments by joining WBCSD and the Factor10 Circular Metrics working group. cti@wbcSD.org

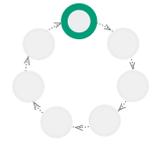
Part 2.

Circular Transition Indicators: User manual V2.0



① Scope

Determine the boundaries



Before choosing indicators from the indicator menu, we recommend planning your circularity assessment to ensure you:

- Invest your time in finding the right data sets for the right reasons;
- Know what insights you are looking for in the outcome of the assessment; and
- Have a plan for how you can take them forward.

Starting question: **What is the intent for the assessment?**

Consider the following questions in setting the objectives:

- Why is circularity important for the company?
- Which questions do we want to answer by doing this assessment?
- Who is the audience of the assessment's outcomes and insights? What do we want this audience to do with these insights and information? What other questions are they likely to ask after seeing the results?
- What business unit, product group or even specific materials should we focus on to start with? Where could impact drive optimal value for all stakeholders?

Stakeholder dialogue and collaboration here may be valuable. Once the objectives are set, use these questions to establish your scope:

1. **What level of the business do we assess?**

You can assess the full company, but also specific parts of the company, such as a business unit, production facility or product line.

2. **What is the timeframe?**

A yearly timeframe consistent with annual financial cycles will be a natural choice. However, it could be useful to use a production cycle or another more meaningful timeframe (such as one that is relevant to the construction sector or for capital equipment). Give this consideration some serious thought and choose something that complements the other scope parameters.

3. **What do we include and exclude?**

For most companies, it will be extremely difficult to get all data on 100% of all material flows. This means that you might not include some flows in the assessment or that you may have to use proxies and assumptions. The company is free to set these proxies, assumptions and excluded streams, but must carefully document and fully disclose them if it intends to share the results.

Questions

- Where do I start and what are my opportunities?
- Which business unit is the most circular and how can we adopt cross-learnings?
- How do I assess whether my circular activities are good for my business?

Audience

Who do we want to talk to about this: the board, our employees, our suppliers, our clients? And what do we expect from them after we present our findings?

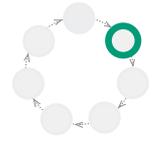
Focus materials

This mass-based methodology presents a risk of overlooking potential in material streams that are inherently light in weight (e.g., plastics and packaging). This is the moment where your team should determine any material streams you want to put extra focus on to ensure you capture opportunities.

Excluded flows

For manufacturing companies, the relative mass of operational materials (e.g., office supplies) as compared to production resources may be negligible. It could make sense for such a company to decide to not include such relatively small flows in the assessment.

② Select Select the indicators



Once your company understands its objectives, CTI offers a menu of indicators that enable the company to answer the questions from the scoping step.

Close the Loop

A company's ability to close material loops sits at the heart of the framework.

Consequently, companies start their assessment with these indicators:

- % circular inflow
- % circular outflow
- % water circularity
- % renewable energy

Optimize the Loop

These indicators illustrate how companies perform in maximizing resource efficiency beyond ensuring material loops.

The module includes two indicators:

- % critical materials
- % recovery type
- Onsite water circulation (facility reuse and recycle)

Value the Loop

This module provides insights into the value the circular business creates.

It connects the material flow indicators with conventional financial metrics. Indicators included in this module are:

- Circular material productivity
- CTI revenue

While selecting your indicators, we recommend considering each indicator carefully and document why you have chosen to assess each one, as well as why you have excluded any.

Question A

How can two business units learn from each other's circularity performance?

Running the assessment for both business units can help compare them and allow for the replication of best practices across units.

Question B

How can we present the circular business performance to our CFO?

Circular material productivity can help determine the financial and economic performance of circular business, enabling communication with internal stakeholders.

Question C

Which materials could provide a starting point for our circular procurement strategy?

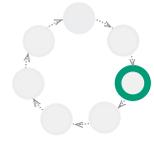
% critical materials gives an indication of which materials the organization could prioritize to reduce its supply risks.

Questions?

Does your organization have questions that these indicators don't help answer? Contact the WBCSD Circular Metrics team at cti@wbcsd.org to explore if additional indicator development could be beneficial.

③ Collect

Identify sources and collect data



Data collection is likely to be the most labor-intensive part of the process. Some data points might be relatively easy to obtain, while others will require collaboration with other departments. It is likely that companies will have to connect with value chain partners to gather the relevant data, particularly on inflow and actual outflow recovery numbers. The following is the list of data sets required for each indicator module.

Close the Loop

% circular inflow (per material flow)

- % of renewable content or % non-virgin content per inflow type (see guidance on determination on page 32)
- Mass of each inflow type

% circular outflow (per material flow)

- % of the recovery potential per outflow type (see guidance on determination on page 35)
- Material recovery rates per outflow type
 - > Regional recovery rates
 - > Sector-specific recovery rates
 - > Material recovery rates from own buy-back/take-back contract, partnership system, collection and recovery programs, etc. (if applicable)
 - > Mass of outflow per outflow type

% water circularity

- Volume, quality and source of water inflow
- Source vulnerability of water withdrawn
- Volume, quality and source of water outflow
- Local regulatory standard for discharge

% renewable energy

- Renewable energy used (annual consumption)
- Total energy used (annual consumption)

MFA

Performing a material flow analysis (MFA) could be helpful in preparing for a structured assessment. This would increase the robustness of the assessment and may be a good option for some companies. However, to optimize accessibility, we have not included it nor considered it necessary in the framework as a required process step. Results from existing MFAs could be valuable to start an assessment with.

ONLINE TOOL

The CTI online tool helps to collect data to minimize the burden of this step.

DOCUMENTATION

When collecting data, we recommend to document sources and provide justification. Uploading this documentation in the tool will help retrieve data in upcoming cycles and will enhance the robustness of the results and institutional memory.

Optimize the Loop

% critical flow

- A company's internal critical materials list or
- Existing public national or regional lists (e.g., European Commission 30 critical raw materials list or United States list of 35 critical minerals)⁸

% recovery type

Recovery type per recovered outflow. For example:

- Reused, repaired, refurbished, remanufactured, recycled for products moving in the technical cycle.
- Consumption by an organism, extraction of biochemical feedstock, biodegradation, biogas or biomass energy recovery under set conditions for products moving in the biological cycle.

Onsite water circulation

- Required water volumes per process in the facility.
- Required water quality level per process in the facility.

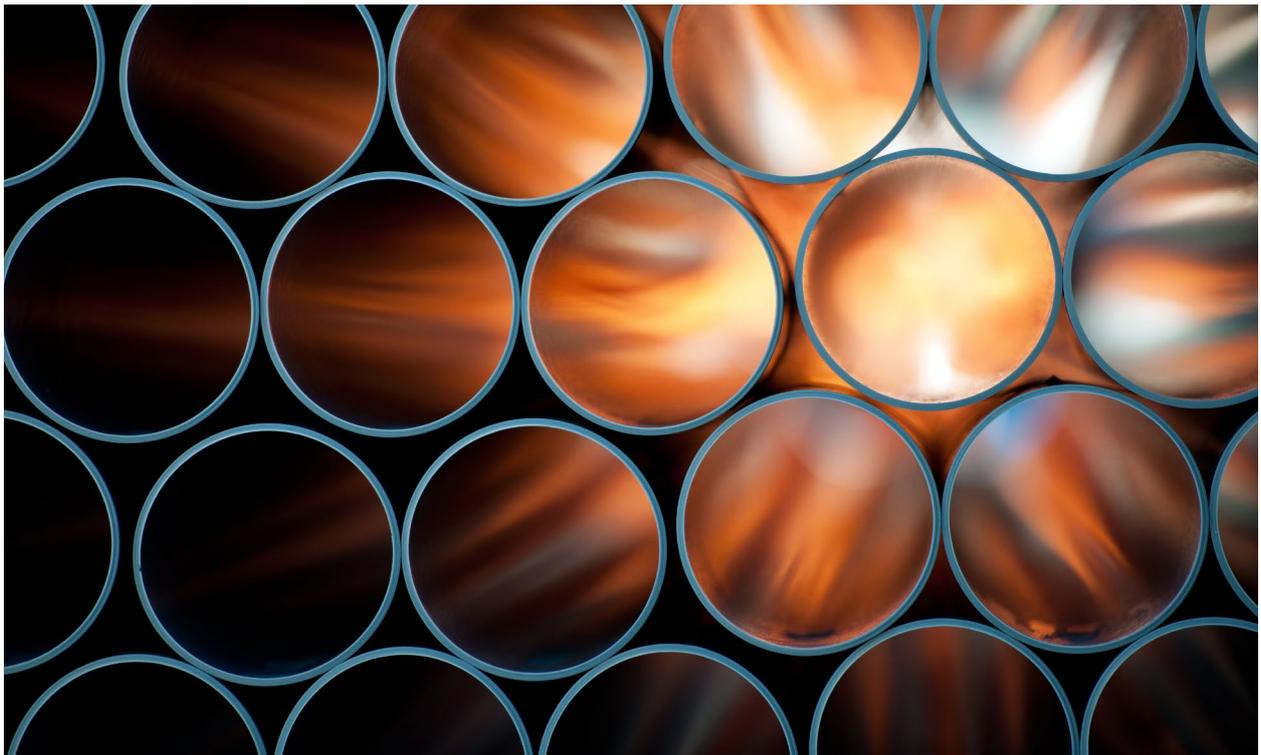
Value the Loop

Circular material productivity

- Revenue of assessed part of the business

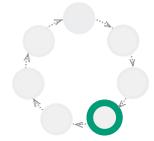
CTI revenue

- Revenue per product (group)
- Level of circularity per product or product group (based on the Close the Loop indicators)



④ Calculate

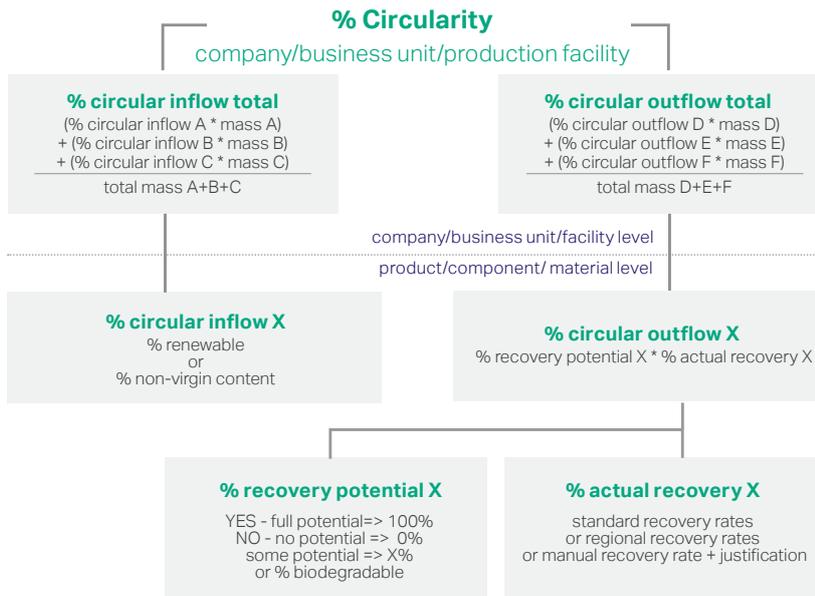
Perform the calculations



CLOSE THE LOOP

Figure 7 shows the high-level methodology to calculate % circularity.

Figure 7: % Circularity



The percentage circularity – the weighted average between the % circular inflow and the % circular outflow – reflects the ability of a company to Close the Loop.

Figure 8: Four main material flows



Both the % circular inflow and the % circular outflow include the weighted average of the flows' % circularity. Therefore, it is necessary to assess the % circularity at a flow level.

Figure 9: Circularity formula



ASSESSMENT LEVEL

CTI can assess the full company, as well as specific parts of the company, such as a business unit or production facility.

WEIGHTED AVERAGE

The percentage circularity is based on the average of the weight-based circular inflow and circular outflow divided by the total inflow and outflow. In most cases, this will be around 50%/50% but in specific cases (e.g., high stock) it is necessary to correct that difference by taking the weighted average.

MATERIAL FLOWS

Material flow can include nutrients, compounds, materials, parts, components or even products (depending on the organization).

WATER

Water is a unique resource companies use for different purposes. Due to its weight and the quantities companies use, water may distort the outcome of the assessment. Water is therefore not part of overall % circularity. Rather, it has its own indicator.

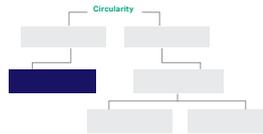
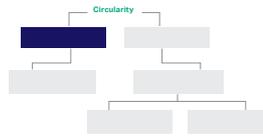
% Circular inflow

This indicator assesses the total circularity of inflowing materials:

% circular inflow total

$$\begin{aligned} & (\% \text{ circular inflow A} * \text{mass A}) \\ & + (\% \text{ circular inflow B} * \text{mass B}) \\ & + (\% \text{ circular inflow C} * \text{mass C}) \\ & \text{total mass of all inflow (A+B+C)} \end{aligned}$$

This means that **% circular** inflow needs to be determined on a material level



GUIDANCE FOR THE TECHNICAL CYCLE

Technical inflow can be either

- **Virgin/primary: linear**

These materials have not been used before. For these materials:

$$\% \text{ circular inflow V} = 0\%$$

- **Non virgin/secondary: circular**

These materials have been (partially) used in a previous cycle (for example reuse, remanufacturing, recycling). For these materials

$$\% \text{ circular inflow NV} = \% \text{ recovered content}$$

For the % circular inflow it makes no difference whether a material is considered circular because it is renewable or non-virgin. Both classifications count as equally circular.

In some cases, inflow can be both renewable and non-virgin. In such cases, only count the inflow in one of the circular categories to prevent double counting.

CLASSIFICATION

Depending on the company and its position in the value chain, it may be challenging to determine the amount of each of the three streams. The most important distinction here is to separate circular from linear flows.

WASTE MANAGEMENT

It may not be possible to identify whether waste streams that flow into the company are renewable or secondary.

Inherently this incoming waste is not virgin; therefore, in this case, companies can count this material as non-virgin or secondary. As long as you account for any additional flows (like process materials), you can consider the rest of the total as circular.

MATERIAL PRODUCTION

On the other end of the value chain, for material producers it can be much easier to identify virgin renewable and secondary inflows. In this case companies can account for all remaining inflows as linear.

GUIDANCE FOR THE BIOLOGICAL CYCLE

Bio-based inflow can be either

- **Renewable: circular**

Companies can consider bio-based inflow as circular if it is sustainably grown and replenished or regrown through natural cycles after extraction. It is preferably regenerative and at a minimum sustainably managed. (See the glossary on page 70 for complete definitions and references.)

Inflow may consist of fully or partially renewable content. In this case:

% circular inflow R = % Renewable content

- **Non-renewable: linear**

CTI does not consider unsustainably managed bio-based resources as renewable; therefore they are not circular. For these resources

% circular inflow NR = 0%

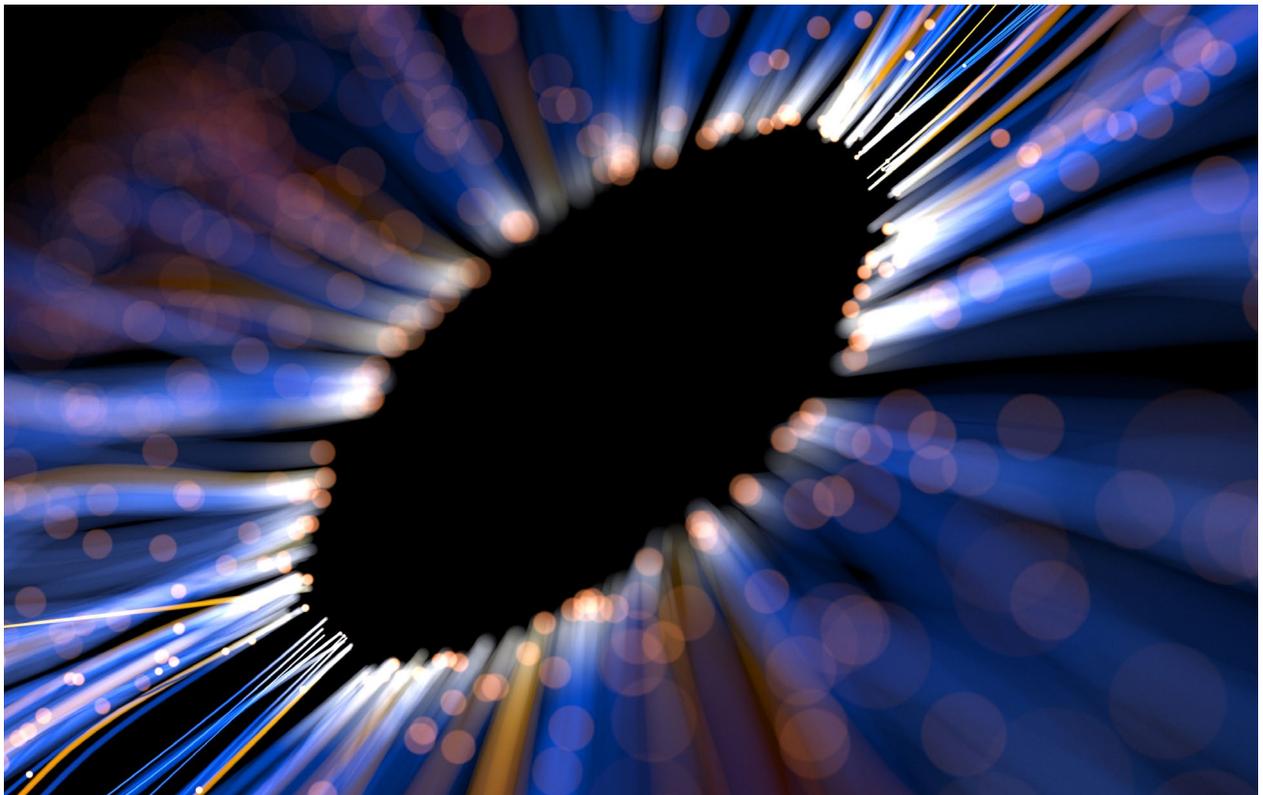
CIRCULAR ECONOMY, REGENERATIVE OR SUSTAINABLE?

The circular economy is a full restorative model in which ecosystems are relieved of their current pressure and managed to have a chance to restore and become self-regenerative systems. As a result, they will automatically produce sustainable resources.

The renewable inflow in CTI, for now, focuses on preferably regenerative but at least sustainably managed resources.

For companies that have the ambition to go beyond sustainability and want to measure their regenerative performance in restoring ecosystem health, WBCSD is considering developing an additional indicator set.

If you are interested in participating in this development, please contact CTI@wbcSD.org



Alternative calculation method % circular inflow

In addition to the bottom-up calculation of % circular inflow, CTI offers a top-down calculation for the % circular inflow, which may be easier for some companies to use:

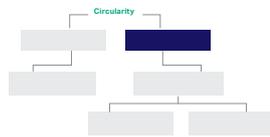
$$\frac{\text{mass of renewable inflow} + \text{mass of non-virgin inflow}}{\text{total mass of all inflow}} \times 100\%$$

The required data set is the same and the outcome of the two approaches should be the same as well.

% circular outflow

Like total % circular inflow, this formula assesses the total circularity of outflowing products, by-products and waste streams:

$$\frac{(\% \text{ circular outflow D} * \text{mass D}) + (\% \text{ circular outflow E} * \text{mass E}) + (\% \text{ circular outflow F} * \text{mass F})}{\text{total mass of all outflow (D+E+F)}}$$

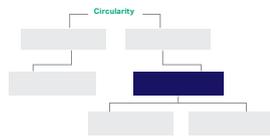


This means that the % circular outflow needs to be determined per type of outflow.

% circular outflow reflects the combined effectiveness of your company to:

1. Design or treat its outflow to be recoverable. For example, the outflow should be repairable, refurbishable, manufacturable or recyclable for the technical cycle and biodegradable for the biological cycle. This is the % recovery potential.
2. Demonstrate that the economy or biological cycle recovers products, by-products and waste streams that leave the company. This is the % actual recovery.

$$\% \text{ circular outflow X} = \% \text{ recovery potential X} * \% \text{ actual recovery X}$$



If the materials are neither treated in such a way that they have any technical recovery potential, nor able to be reintroduced into the value chain or biological cycle, consider the outflow as linear.

DOUBLE COUNTING
 Companies should account once for inflow that is both renewable and non-virgin. It is up to the company to select which one the material should qualify for.

OUTFLOW INCLUDED
 Flows to consider as outflow include sold product (including packaging), by-product and waste, either in solid, liquid or evaporated form. This can include process or operational by-product or waste.

HIGH POTENTIAL, LOW ACTUAL RECOVERY
 Old information and telecommunication equipment can often be partially dismantled, meaning it can have high recovery potential.

However, its incineration (either with or without energy recovery) destroys the materials. They lose their value and potential for reuse, refurbishment or recycling and will therefore score 0% in actual recovery, resulting in 0% circular outflow.

% recovery potential

The % recovery potential reflects the ability of the company to design its outflow to ensure it is technically recoverable through either the technical or biological cycles.

For most flows, the typical categorization is:

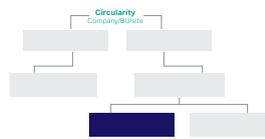
YES, this outflow is fully recoverable – resulting in 100% recovery potential.

Or

NO, this outflow is not recoverable – resulting in 0% recovery potential.

% recovery potential X

YES - full potential = 100%
NO - no potential = 0%
some potential = X%
or % biodegradable



GUIDANCE FOR THE TECHNOLOGICAL CYCLE

For technical outflow that can consist of (by-)products or waste, the company must determine the recovery potential. Should you require support in determining this for your company, please contact us for additional guidance.

As new technologies develop, drawing the line between circular and linear for the recovery potential becomes more difficult. Since debates are raging worldwide on what qualifies as circular for processes such as chemical recycling, this framework does not offer a universal answer. As a temporary guiding principle: if a technical material on any level (potentially molecular) can remain a functional equivalent material in a second life in a technically feasible and economically viable manner, it is circular. If the company downcycles inorganic or fossil material or turns it into a fuel or burns it in any shape or form, it is linear.

PANELS

Construction panels produced by gluing metal and plastic sheets together will have no recovery potential as, after the product's technical lifetime, it is not possible to separate and recover these materials. The recovery potential is 0%.

In comparison, panels connected with screws or rivets can have 100% potential, since it is possible to separate and recover both materials (depending on the individual material characteristics). The screws or rivets may even be reusable or recyclable.

PAPER

Natural paper can be 100% recovered through the biosphere.

However, contamination by bleaching, dyeing, printing or coating with inorganic substances can disturb its biodegradability, making it unrecoverable, and could therefore cause it to have 0% recovery potential.

GUIDANCE FOR THE BIOLOGICAL CYCLE

What does recovery potential mean for resources that are suitable for absorption in the biosphere? Two criteria – biodegradability and toxicity – determine this.

Biodegradability

To what extent can the product or material flow biologically decompose?

The % recovery potential is the weighted average of the % biodegradability of its components or compounds, under the condition that it is possible for the consumer to separate bio-based resources from technical components at end of life. Consider so-called hybrids designed in a way that intertwines technical and bio-based materials and the consumer cannot separate them (for example a garment with both cotton and synthetic yarns or shower scrubs containing microplastics) to have a 0% recovery potential.

The [Organisation for Economic Co-operation and Development \(OECD\) biodegradability testing standard](#) describes biodegradability and other International Standards Organization (ISO) and Royal Netherlands Standards Institute (NEN) norms are also available for reference (e.g., compostability).

Companies may freely choose their standard of preference based on what best represents their business needs.

Toxicity

Is the product or material flow (solid, liquid or evaporated) free from harmful substances to the biological cycle?

Only consider a product to have recovery potential if its levels of toxins or hazardous substances fall within predetermined thresholds.

For the purpose of consistency across the metrics landscape for the circular economy, CTI refers to the [Cradle to Cradle Certified Products Program, DRAFT v4 Restricted Substances List \(RSL\)](#).

The RSL includes acceptance thresholds for all identified substances and it can be used to check the acceptance levels of harmful substances in your biodegradable outflow.

FOOD WASTE

By default, consider food waste as biodegradable. If local authorities (e.g., U.S. Food and Drug Administration) clear it for human or animal consumption, you can safely consider **recovery potential** to be 100%.

For food, the focus within CTI will be on whether that food is in fact used for its purpose (consumed and so providing its nutrients to other life forms in the biosphere or repurposed) or whether it is wasted or lost.

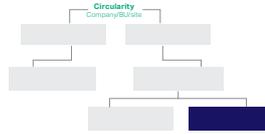
Therefore the % **actual recovery** will be the key indicator to determine success in closing the loop on food products.

% actual recovery

The % actual recovery indicator captures the amount of outflow recovered at the end of its initial life cycle.

% actual recovery X

standard recovery rates
or regional/sector recovery rates
or manual recovery rate + justification



Recovery is not the same as collection. After collection, materials can still end up in landfill or incinerated. Therefore, this indicator is not based on estimates but requires actual data. If your company keeps control and tracks its product flows after they leave your facility, this data should be available. For transparency and robustness, when using internal recovery data for the calculation, we recommend to secure the appropriate supporting documentation.

In case your company does not keep track of its outflows, it can refer to standard (often national or regional) recovery rates available for a wide range of product groups (for example specific electronic equipment, food, textiles, etc.).

GUIDANCE FOR THE TECHNOLOGICAL CYCLE

Recovery data for many technical materials is dependent on region or sector. For an accurate view, we recommend considering default rates for the product/material based on the geographic scope of sales/use and/or sector-specific data, where available. Recovery for technical materials includes only material recovery, not energy recovery.

In step 1, companies establish a timeframe for their CTI assessment, usually one year. Recognizing that many products go into products and use stages that last over a year, companies should use the actual recovery rates for that year in their calculations.

As recovery rates generally improve over time due to regulations, taking the current recovery rates serves as a worst-case scenario assumption for the actual recovery of those products, components and materials.

If a product is going into stock for years or decades, the focus of CTI should be on circular inflow and recovery potential to ensure that all possible measures for the company to take today are in place.

FASHION

Some clothing brands collect old garments with the ambition to recycle them. This framework only considers the actual fabric and fibers that find their way back into another used garment, accessory, household cloth, etc. as recovered.

SELLING LIGHT

In addition to buying lightbulbs, it is now possible to solely buy light. In a maintenance contract, the lighting company retains ownership of the light fixtures, allowing it to maintain control of outflow and data on repaired and reused material and making it available internally.

T-SHIRT

When a biodegradable product (like a cotton t-shirt with no toxic dyes) ends in a landfill, the toxic mix of combined waste contaminates it and it can no longer serve as nutrients in the biosphere. Although it had a recovery potential of 100%, it is considered linear outflow.

GUIDANCE FOR THE BIOLOGICAL CYCLE

Like the technical cycle, CTI proposes different loops in which the biological cycle can absorb biological resources. The Optimize the Loop section outlines this further.

Consider a product or material flow as actually recovered in the biological cycle only if it biodegrades as intended during design (e.g., composting).

Biofuel and energy recovery from biomass

One important difference with the technical cycle is that bio-based resources can, through the natural process of combustion, return to the biological cycle. However, the conditions in which this occurs can only be considered circular for CTI under specific criteria drawn from the [Ellen MacArthur Foundation Material Circularity Indicator framework](#):

1. Other end-of-life options, besides landfill, must have been exhausted (in terms of technical capability and economic viability.)
2. The material must be from a biological source.
3. The biological material must be demonstrably from a source of sustained production (i.e., regeneratively produced).
4. The biological material must be uncontaminated by technical materials – except where these are demonstrably inert and non-toxic.
5. Energy recovery must be optimized and the energy usefully employed to displace non-renewable alternatives.
6. The by-products of the energy recovery must themselves be biologically beneficial and must not be detrimental to the ecosystems to which they are introduced.

Consider landfill and incineration in mixed waste as linear. Even though 50% may still consist of biological matter, it does not follow the above-mentioned criteria for classification as circular. In cases where no data is available for a flow AND there is no downstream tracking, consider the actual recovery as 0%.

The challenge in monitoring flows, particularly multiple steps up or down the value chain, is recognized. Only through value chain collaboration is it possible to effectively communicate the importance of collecting and sharing this data. The hope is that the CTI provides a consistent process and reason to initiate these discussions if they have not started already.

FOOD WASTE

Except for food and feed, consider most biological resources as circular as long as their nutrients return safely to the biological cycle.

The purpose of food is to nurture human beings and animals and simply returning it to the biological cycle is insufficient for classification as circular. Therefore, consider only consumed food as 100% recovered (circular).

Consider the valorization of food waste through biodegradability or biofuels/biogas as only 50% circular.

Consider landfill and incineration of food waste (with and without energy recovery) as linear.

Cascading

Recovery goes beyond giving a material a second life. The current criterion for technical circular flows is that the material can technically achieve a functional equivalence state of inflow at which it entered the company (whether it is a material, part, product, etc.). This same functional equivalence means that the company or other companies can use it for the same or similar purpose.

Technical flows turned into energy through incineration are not circular in this framework as they do not return at the same functional equivalence after incineration.



PLASTIC

If a high-grade plastic in small IT equipment is not reusable in the same product but is reusable in the body of a coffee machine and can loop multiple times as recycled content, it is circular since this is functionally equivalent.

RUBBER

Consider ground-up tires used in playground floor tiles as circular when, after their life as playground flooring, they could be used again, either as new playground flooring or something else.

CO-PROCESSING

Co-processing refers to the simultaneous use of residual waste as a source of mineral resources (material recycling) and as a source of energy to substitute fossil fuels in a single industrial process. In this case, the residual waste would qualify as circular inflow but the only portion of the outflow that would be circular is the residual fully recovered and used in another process while maintaining functional equivalence. Consider the rest of the outflow as linear as it is a technical cycle or a mixed waste stream that is incinerated, prohibiting its reuse.

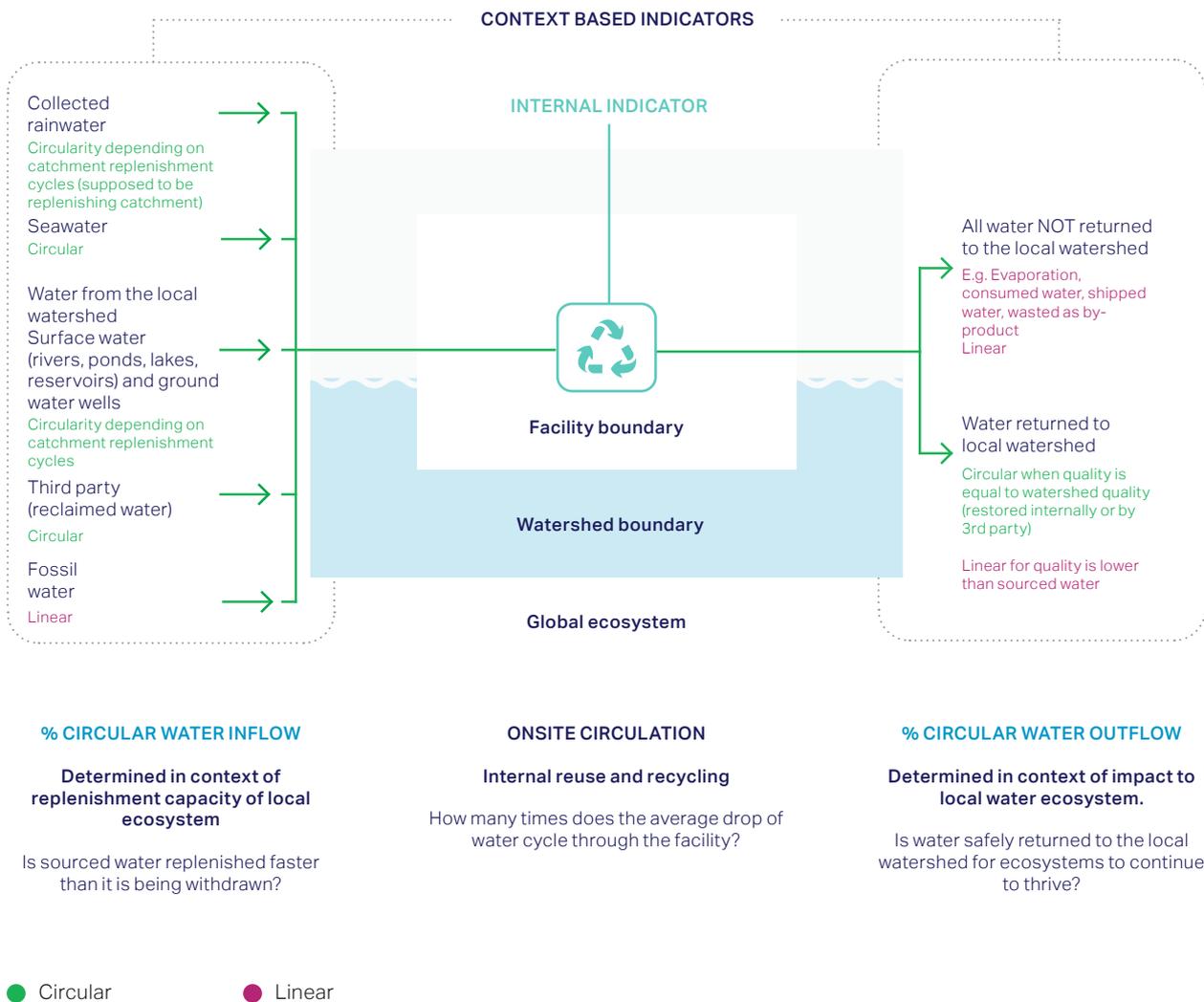
% water circularity

Freshwater is a finite yet vital resource. It is critical to use it responsibly and to apply circular principles where possible.

What sets water apart from other materials and resources is the scale of the relevant ecosystem. Where materials can circulate in a global system, it is necessary to assess water circularity on a local level for a water catchment area or local watershed. This will determine the actual availability of water for the company facility and all surrounding stakeholders depending on water supply in the water catchment. The purpose of water circularity is to lower freshwater demand and ensure water resource availability for all.

In Figure 10 below, note how the company (facility) boundary resides within the watershed boundary.

Figure 10: Water system diagram

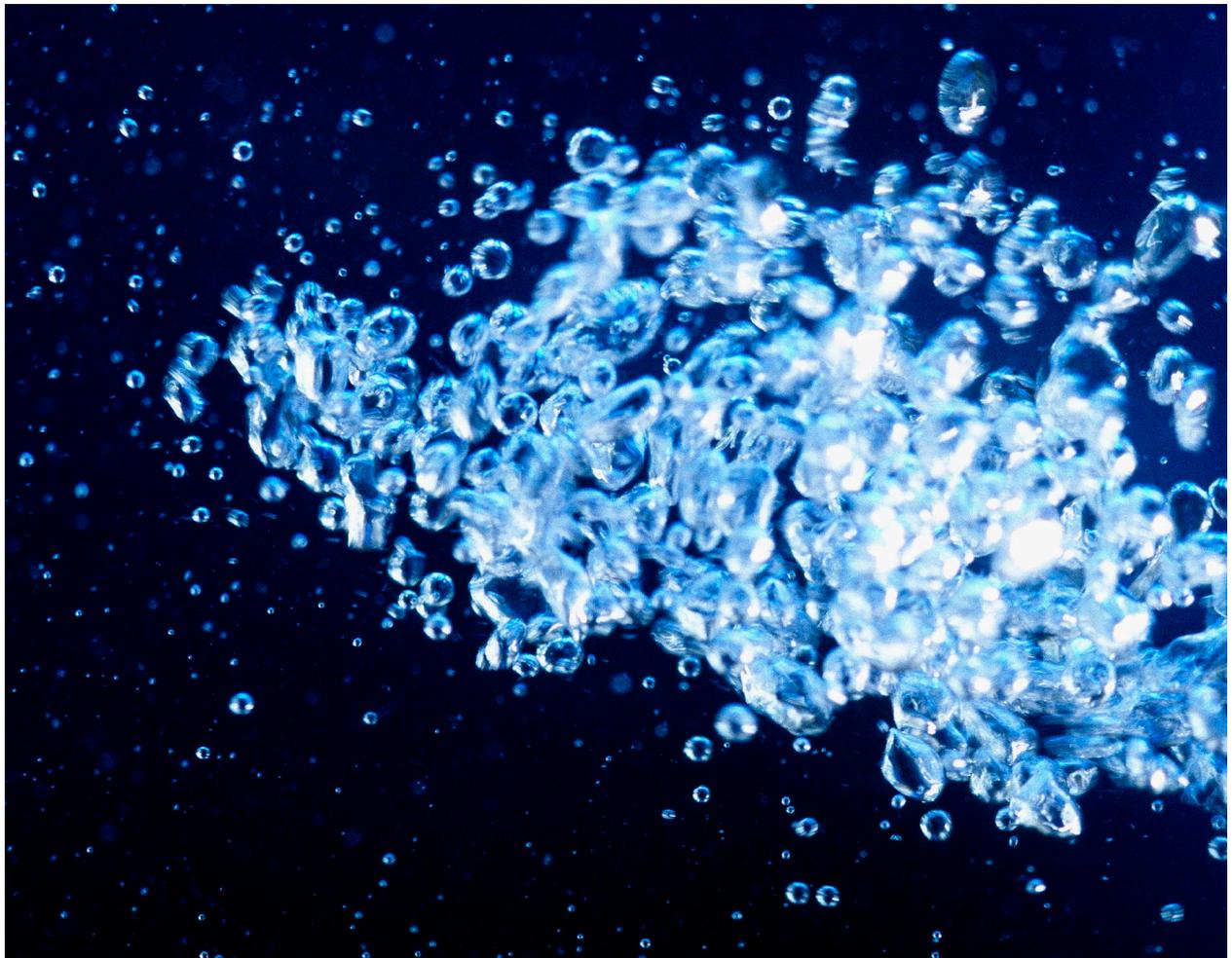
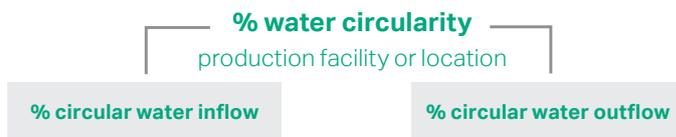


Basic principle for water circularity

To assess water circularity, CTI offers two **context-based indicators** and **one internal indicator**. While the context-based indicators are necessary, the internal indicator is optional. The two types of indicators are based on the same data set.

Context based water indicators

The water circularity of a product facility or the location of the company is the average between % circular water inflow and % circular water outflow (assuming the volume is the same).

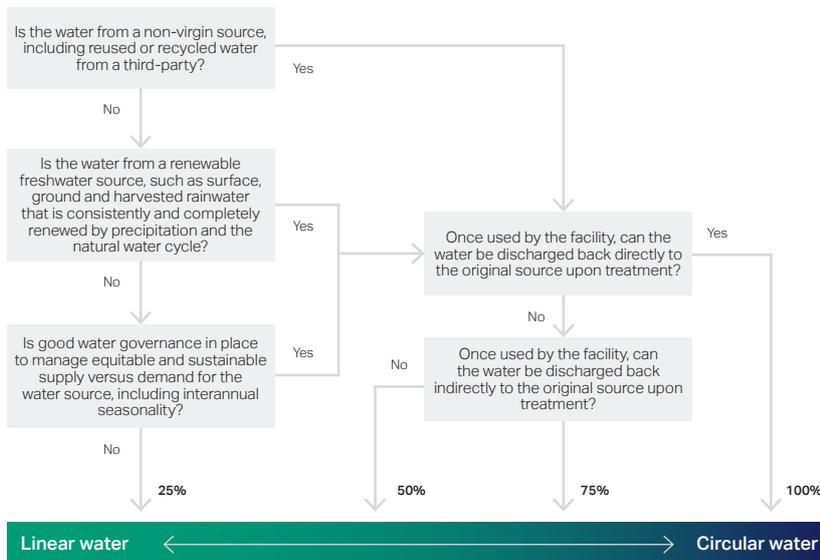


% circular water inflow

This indicator determines the total circularity of all water inflow over the chosen timeframe. Its calculation is as follows:

$$\frac{\text{Q total circular water withdrawal}}{\text{Q total water withdrawal}} \times 100\%$$

Determine the circularity of water inflow by using the following decision tree:



% circular water outflow

This indicator determines the total circularity of all water outflow over the chosen timeframe. Its calculation is as follows:

$$\frac{\text{Q total circular discharge}}{\text{Q total water withdrawal}} \times 100\%$$

Following the basic principle for water circularity, circular outflow has three criteria:

1. Water outflow is circular if it is recycled (offsite) by other sites, this includes drinking water supply to communities within the basin.
2. Discharged water is circular if it returns to the local watershed at a quality that makes it readily available for environmental, social, agricultural or industrial purposes.
3. Product water is circular if returned to the local watershed to a quality that makes it readily available for environmental, social, agricultural or industrial purposes.

CIRCULAR WATER INFLOW DECISION TREE

The decision tree can help to define whether the source of inflow is circular or linear. Ultimately, it aims to drive decision-making towards more circular inflow options. In using the decision tree, it is important to have access to credible local data on freshwater sources.

WATER QUALITY

Water quality is a measure of the suitability of water for a particular use based on selected physical, chemical, and biological characteristics. Different water uses, such as drinking water, irrigation or industrial processes, will have specific quality thresholds or parameters as determined by an appropriate authority (e.g., government ministry) and/or industry standards.

HUMAN-MANAGED VERSUS NATURE-MANAGED WATER

In a rudimentary way, it is possible to divide the water cycle into what nature manages and what humans manage. Within a given basin, the natural water cycle acts to reoptimize, reuse and replenish water. On the human-managed side, human actions impact water's circularity when we alter the natural water cycle through withdrawal, use and replenishment.

The facility itself or a third party can do the necessary water treatment before discharge.

Facility internal indicators

Onsite water circulation

This indicator expresses the number of times the company uses the average drop of water onsite before it leaves the facility as outflow.

The calculation is as follows:

$$\text{Onsite water circulation (reuse \& recycle)} = \frac{Q \text{ water use} - Q \text{ total water withdrawal}}{Q \text{ total water withdrawal}}$$

The total quantity of water used by the facility is the sum of all water required by all its processes (e.g., washing, cooling, ingredient water, tap water, etc.).

Energy and nutrient recovery

It may be possible to recover energy and/or nutrients from water before discharging it. CTI recognizes this as circular practice; however, the water circularity indicator does not include it. Both types of recovery can contribute to either % renewable energy or % circular outflow. Process the absolute values of either data set in these chapters.

WATER CIRCULARITY, WATER STEWARDSHIP AND SUSTAINABILITY

Several approaches and initiatives aim to measure different aspects and impacts of water management: sustainability, stewardship and circularity. It is important to frame these aspects as not the same yet related. For example, circularity can help realize water stewardship goals, which in turn can lead to more sustainable water use; but circularity is not equal to sustainable water use. Other methodologies – current or under development – aim to measure these aspects. For sustainability, the Science Based Targets Network is developing guidance to apply science-based targets for nature, including freshwater. And for water stewardship, WRI and others have published a method for implementing and valuing water stewardship activities: Volumetric Water Benefit.



% renewable energy

In a circular economy, energy production depends on renewable sources and shifts away from fossil fuels.

Because of the complexity involved in calculating it and the potential to cloud the results, CTI measures renewable energy used for business operations separately.

The formula for the % renewable energy is:

$$\frac{\text{\% renewable energy}}{\text{renewable energy (annual consumption)}} \times 100\% = \frac{\text{renewable energy (annual consumption)}}{\text{total energy (annual consumption)}} \times 100\%$$

Most companies already use globally recognized and generally adopted protocols for measuring and reporting renewable energy consumption.

In line with WBCSD's approach, CTI allows companies to use existing policies and procedures, permitting the reuse of existing data sets.

Should you need guidance on the definition of renewable energy, please refer to the energy sources published by [IRENA](#) (International Renewable Energy Agency).⁹

- Solar energy
- Wind energy
- Hydropower energy
- Geothermal energy
- Ocean (tidal) energy
- Bioenergy

Measurement expresses the energy content and includes all the energy carriers that flow into the company (including, but not limited to, gas, electricity and fuels).

For the purposes of CTI, it is not possible for a company to achieve greater than 100% renewable energy in this indicator. Consequently, even if a company generates more renewable energy onsite than it uses and sells it back to the grid (utility), it's necessary to cap the renewable energy indicator at 100%. The intent here is to maintain a relatively simple focus on encouraging the shift to renewable energy consumption.

: MATERIAL FLOWS AND ENERGY GENERATION

: Classify inflow for energy generation as circular inflow if it is renewable or non-virgin

: Always classify outflow that is either used as fuel and/or incinerated as linear.

: ENERGY CARRIERS

: If the energy carriers enter the company as a physical material flow, consider them within the inflow calculation of the company. If these are non-virgin or renewable, consider them as circular inflow. Alternatively, consider any energy entering the company as energy content (i.e., electricity for processes delivered by the grid) within the % renewable energy calculation.

OPTIMIZE THE LOOP

Critical materials

This indicator provides a first impression of the percentage of inflow at risk by making an initial distinction between critical and non-critical materials.

The first step is to identify, within the inflow, what mass of the total inflow is critical. Critical materials are prone to becoming scarce in the relatively near future and are difficult to substitute without hampering functionality. Several institutions have identified critical raw materials. For example, the European Union (EU) lists [30 raw materials](#) as critical.¹⁰ In addition, the United States has developed a list of [35 mineral commodities](#) deemed critical to US national security and the economy.¹¹

These lists do not include criteria on problematic supply chains, such as from human rights violations perspectives. Time may see the addition of other sources, including human and environmental capital-related supply chain issues.

Other authorities may be developing or have already published comparable lists of critical or scarce materials. Although regional lists can deviate, materials that appear on any list warrant a second look.

: CRITICAL MATERIALS

: Obtaining this information
: may be challenging for
: industries with high
: product complexity (e.g.,
: in the electronics sector).
: Additionally, critical materials
: might exist in very low
: quantities in components that
: travel through the value chain.

: The company can decide
: whether to assess the
: exposed risk associated with
: a dependency on any of these
: materials. Efforts to gain
: supply chain transparency at
: this level could be significant.
: On the other hand, the risks
: involved could be worth
: looking into.

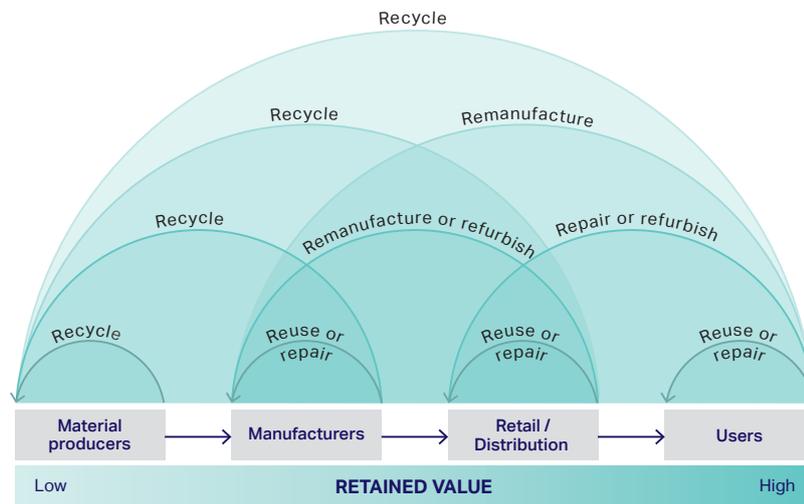
% critical material

$$\frac{\text{mass of inflow defined as critical}}{\text{total mass of linear inflow}} \times 100\%$$

Recovery type

Within the Close the Loop module and the % circularity, the scoring for the recovery types for flows moving in the technical cycle is not different when excluding downcycling and energy recovery. This position is necessary as each strategy may need to take place at some time at some place in the value chain.

Figure 11: Retained value



For example, it is not possible to recover a product endlessly and at some point it might require the recycling of its materials. For the Optimize the Loop module the % recovery type provides a deep exploration of higher value retention strategies within company reach. As illustrated in Figure 11, tighter recovery loops typically require less energy or processing and are more efficient forms of material/product recovery providing more retained value. For example, repairing instead of recycling a product requires fewer logistics and less reproduction and retains more product value.

Generally, it is in the best interest of a business to explore opportunities to keep recovery loops as tight as possible.

The CTI online tool includes optional data entry at the outflow level, specifying the type of recovery used for recovered products, by-products, waste streams, etc. The feedback provides a breakdown of the shares of recovered material reused/repared, refurbished, remanufactured, recycled or biodegraded.

Cascading hierarchy for the biological cycle

CTI recognizes different types of recovery in both technical and biological cycles. Figure 12 shows the generic cascading hierarchy according to their valorization levels for biodegradable products, by-products or waste streams returning to the biological cycle.

Note that this hierarchy only accounts for recovery through the biological cycle (left side of EMF's butterfly diagram). The top bar summarizes recovery through the technical cycle but could entail any of the strategies in Figure 12.

ALL LOOPS ARE EQUALLY CIRCULAR

Although tighter loops are generally preferable, all types of recovery are equally circular in CTI.

As such, all recovery types contribute to a company's circularity performance equally in the Close the Loop calculations. This means that a shift in recovery type will not change the % circular outflow. **The circular material productivity indicator** would, however, capture this.

Figure 12: Cascading hierarchy for the biological cycle

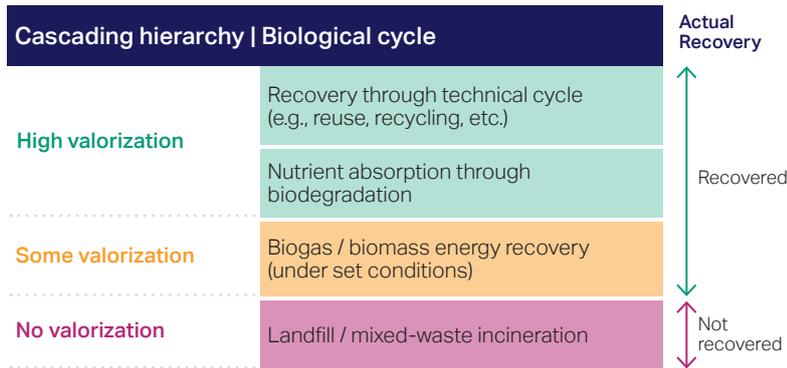
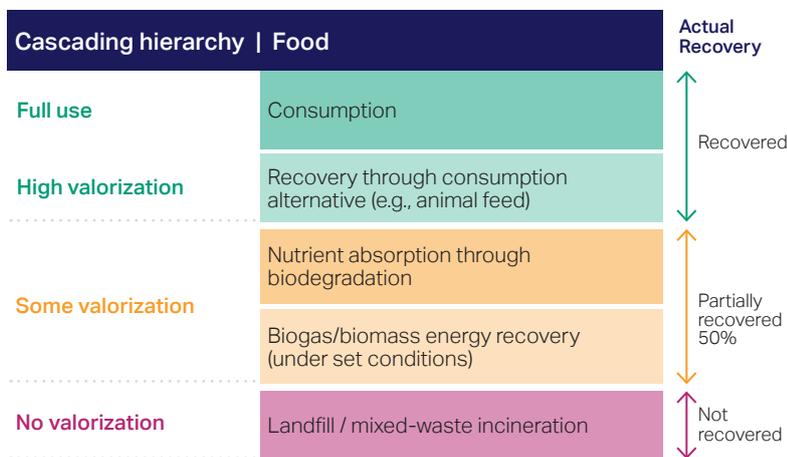


Figure 13: Cascading hierarchy for food and food waste



Looking at the cascading of biodegradable products, by-products or waste streams suitable for recovery through the biological cycle, there is one stream that needs a modified approach: food. Since food growth and production are for the sole purpose of consumption, do not consider recovery through biodegradation instead of consumption as an equally circular recovery model. Specifically, for food the valorization hierarchy looks like Figure 13.

Note that this hierarchy only covers edible food parts. The main biological cycle cascading hierarchy covers non-edible food waste streams such as eggshells, orange peels and coffee grounds.

It is up to the company to assess the improvement opportunities to optimize the loop. Upgrading food waste recovery from partial recovery to high recovery or full use will result in a higher score on the % actual recovery and therefore the % circular outflow. The reasoning for this is that it is different from the recovery strategies in the technical cycle, where we assume that all recovery strategies take place at some time and at some place in the value chain. This is not the case for the edible streams in the biological cycle. For example, consumed food can no longer biodegrade (as food). Therefore, for biological cascading, there is a clear hierarchy of activities varying in circular nature.

VALUE THE LOOP

This module helps companies gain insights into how effective they are at generating revenue per unit of material they depend on.

Circular material productivity

The first indicator launched in this module is circular material productivity, which expresses the value a company generates per unit of linear inflow. The outcome produces a value that companies can monitor over time. The calculation is:

circular material productivity

$$\frac{\text{revenue}}{\text{total mass of linear inflow}}$$

An increase in this indicator demonstrates a successful decoupling of financial growth from (linear) resource dependence.

CTI revenue

A new addition in CTI v2.0 is the CTI revenue indicator, which creates an objective and quantitative bridge between a company's performance in closing the loop on the resources it uses and how that affects a company's financial performance.

To calculate CTI revenue for a product:

CTI revenue (product)

$$\frac{\% \text{ circular inflow} + \% \text{ circular outflow}}{2} \times \text{revenue}$$

To calculate CTI revenue for a business unit or company, sum up all the product CTI revenue calculated:

CTI revenue (company)

$$\sum \begin{array}{l} \text{CTI revenue A} \\ + \text{CTI revenue B} \\ + \text{CTI revenue C} + \dots \end{array}$$

This calculation allows a company to attribute more of its revenues as circular through product portfolio steering by (1) innovating new products that are more circular, (2) improving the circularity of the existing product portfolio, and (3) driving sales of more circular products in the portfolio.

CURRENCY SELECTION

- The company should use the same currency that it uses in its financial reporting. In cases where the company uses multiple currencies, consider the scope of the CTI assessment and the objective to determine the most effective currency for informing the targeted decision-makers.

CTI REVENUE

- A product that qualifies as 25% circular (weighted average of its circular inflow and circular outflow) and generates USD \$1 million in sales would contribute USD \$250,000 towards the company's total CTI revenue.

Companies should input their CTI revenue into a table like the one below, allowing them to observe how their revenues fall across circular performance tiers (e.g., deciles). The more bottom-heavy a company's revenues are in this table, the less the portfolio depends on a linear economic model. Note that the 0% and 1-10% performance tiers are (largely) linear and do not add much to the CTI revenue amount. The ambition should be for companies to move their product portfolios down the table over time.

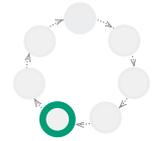
In calculating circular revenues with this method, the CTI revenue indicator:

- Directly links circular performance between mass flows and financial results
- Allows companies to identify new and continuous improvement opportunities and set quantitative targets (i.e., a 60% circular product still has the potential to move to higher tiers)
- Enables consistent communication with executives and investors
- Minimizes additional effort by using the results from the Close the Loop indicator
- Avoids subjective qualification of defining a "circular product"
- Complements binary-qualification (YES/NO) circular indicators by providing more granularity through the three pillars of circularity: circular inflow, recovery potential (design) and actual recovery
- Provides more granular insights into linear risk and circular opportunities of a company's portfolio.
- When using the CTI online tool, automatically calculate this indicator based on the data collected through the circular inflow and circular outflow indicators supplemented with product (group) revenues.

Table 1: CTI revenue

	% Circularity (Close the Loop indicator)	Revenue (\$)	Weighted average revenue" (% circularity x revenue)
Company A - CTI revenue	0%	\$400M	\$0M
	1-10%	\$150M	\$7.5M
	11-20%	\$200M	\$30M
	21-30%	\$150M	\$37.5M
	31-40%	\$50M	\$17.5M
	41-50%	\$30M	\$13.5M
	51-60%	\$20M	\$11M
	61-70%	-	-
	71-80%	-	-
	81-90%	-	-
	91-100%	-	-
	Total revenues		\$ 1B
CTI revenue			\$117M (11.7%)

⑤ Analyze Interpret results



This section focuses on interpreting the results for decision-making. Companies should involve the relevant decision-makers in this part of the process.

The results from the CTI calculation provide the quantitative foundation for identifying, prioritizing and implementing circular initiatives.

CURRENT PERFORMANCE AND PERFORMANCE OVER TIME

Current performance

We developed CTI for wide applicability across various companies, industries and value chains. As performance is likely to vary substantially depending on the company's characteristics, the model does not subjectively judge what "bad" or "good" performance is. CTI empowers companies to study their own potential for improvement by examining the percentage of their business still considered linear. Analyzing the underlying indicators is relevant to understanding what is necessary to increase the level of circularity.

Performance over time

The most valuable insights might come from tracking performance over time. A company can compare progress to any time-bound goals, objectives or targets that it has formulated. While a different methodology, a company could also compare an increase or decrease in circularity to the change in performance on a global level (such as Circle Economy's [Circularity Gap Report \(CGR\)](#)¹²) or on an industry level (either via governments or via aggregated data from companies or industry associations). If performance does not meet the expectations, the company may further analyze the underlying indicators and parameters that influence their outcomes.

MEASURING CIRCULARITY

WBCSD often cites Circle Economy's Circularity Gap Report (CGR) as a benchmark for how circular the global economy is. However, due to their respective objectives, there are key differences in the CTI and CGR methodologies that make it difficult to directly compare results.

Whereas WBCSD developed CTI to inform and enable companies in their circular transition, Circle Economy devised CGR to establish a macroeconomic understanding (e.g. national, regional or global). Specific differences between the two methodologies include:

- CGR includes the entire material footprint of the specific economic system or value chain. CTI focuses on the inflow and outflow of a single company.
- CTI makes a distinction between potential and actual recovery, where CGR only observes actual recovery.
- CGR considers a stream circular only when it is coming from a circular origin AND it is fully recovered again. CTI makes a split between inflow and outflow, each of it contributing to roughly 50% of the total score.
- CGR includes the resources consumed for energy use. These resources are captured by CTI in a separate indicator on renewable energy use.

WBCSD and Circle Economy are currently exploring options to align the two metrics to provide users with the benefits of both approaches.

ANALYSIS OF THE UNDERLYING INDICATORS: CIRCULAR INFLOW AND CIRCULAR OUTFLOW

The results are often based on a broad range of flows that enter and leave the company, which can differ significantly on the mass and circularity parameters.

The mass of flows

A mass-based indicator means heavier material flows have a greater contribution to the percentage. A relevant assessment is to list the linear flows from largest to smallest mass. Closing the loop on the larger mass streams will provide a larger contribution to the level of circularity. However, this may result in the overlooking of other parameters, such as critical or priority.

The circularity of flows

GUIDANCE FOR THE TECHNICAL CYCLE

The circularity of the inflow in the technical sphere depends on the characteristics of the flows to be non-virgin. The opportunity for improvement is in assessing the characteristics of linear flows and exploring renewable (moving towards the biological cycle) or non-virgin alternatives.

The circularity of the outflow contains two components: recovery potential and actual recovery. To improve recovery potential, the analysis focuses on opportunities to optimize the design. For example, modular design, design for disassembly, repairability, high recyclability by using mono-materials, etc.

Improving actual recovery requires different actions. For example, adopting new business models, such as product-as-a-service or buy-back/take-back schemes, will likely significantly improve actual recovery rates. Another option is to collaborate with value chain partners that drive circularity, bringing more clarity into mass flows down the value chain and a greater ability to develop a shared value proposition.

GUIDANCE FOR THE BIOLOGICAL CYCLE

Bio-based flows are not circular by definition. Bio-based materials need to be at least renewable and preferably regenerative. Consider bio-based inflow as circular and label it as renewable if it is sustainably grown and harvested at a rate that natural growth and replenishment can occur after extraction. The circularity of flows in the biological cycle therefore depends on the stream management characteristics: if streams are not minimally sustainably managed, label them as non-renewable. Therefore, the opportunity for improvement to have more circular inflow for bio-based streams is to increase the share of sustainably grown materials, for example by using certified sources.

The circularity of the outflow contains the same two components in the biological cycle as for the technological cycle: recovery potential and actual recovery. In the biological cycle biodegradability and toxicity determine the recovery potential (see the Organisation for Economic Co-operation and Development (OECD) biodegradability testing standard). Therefore, the improvement potential is to ensure that the bio-based product is biodegradable and does not contain restricted substances beyond threshold levels. In the case of hybrids (products containing both bio-based and technical flows) it is possible to improve the recovery potential through the design: separating the bio-based and technical components should be made possible by design.

Improving actual recovery for products, by-products and waste streams moving in the biological cycle will depend on the type of valorization (refer to the hierarchy for the bioeconomy on page 47). For non-edible bio-based flows the company can consider valorization through technical cycle strategies and explore the related new business models. As these strategies are unlikely to be endless for bio-based materials (i.e., paper fiber loses length and strength with each recycling loop, leading to maximum recycling of around seven times) the flow needs to be prepared for recovery in the biosphere as well (i.e., through biodegradation and/or nutrient recovery). For edible flows, the key is for an actual living organism to consume it to be considered recovered. Therefore, avoid food waste and losses within the value chain and at the end-consumer to increase circular outflow. Although not fully circular, biodegradation of edible flows will provide a 50% recovery score (whereas for non-edible biodegradable streams, biodegradation is 100% recovery) and therefore could provide a slightly better alternative over landfill.

IMPORTANT CONSIDERATIONS ON BIODEGRADABILITY

Not all biodegradable products are bio-based or made from renewable resources: some fossil-based polymers are fully biodegradable (e.g., polybutylene adipate-coterephthalate (PBAT) or polycaprolactam (PCL)).

Not all bio-based products are biodegradable. While biodegradability is a property inherent to some bio-based products, many of them are durable and do not biodegrade. Biodegradation is a chemical process while disintegration is a physical process. For a product to decompose completely both must occur.

Biodegradation is highly dependent on factors such as temperature, time and the presence of bacteria and fungi. Higher temperatures and controlled conditions make industrial composting the most ideal environment for plastics to decompose.

Source:

This content is drawn from an EU project funded by the Horizon 2020 program InnProBio: [Biodegradability, Exposing some Myths and Facts](#)

EXAMPLES FOR THE TECHNICAL CYCLE

Non-virgin inflow

A construction company could increase circularity levels by replacing virgin steel beams with reused beams or recycled steel.

Renewable inflow

A cosmetics company could increase circularity levels by replacing virgin synthetic ingredients with renewable content.

Recovery potential

An ICT company could change the design of a product to enable disassembly, allowing for repair, reuse and refurbishment.

Actual recovery – business model

An ICT company could change to a pay-per-use-business model, enabling higher collection and reuse rates.

Actual recovery – collaboration

A company producing electronic equipment could collaborate with a retailer to collect used equipment by stimulating the consumer with a take-back scheme, ensuring the recovery of parts and materials.

EXAMPLES FOR THE BIOLOGICAL CYCLE

Non-virgin inflow

A paper company could increase the recycled content of paper and card box.

Renewable inflow

A furniture manufacturer could only use Forest Stewardship Council (FSC)-certified wood to ensure renewability and alignment with a cycle of growth and replenishment.

Recovery potential

A cosmetics company could change the design of a product to ensure the separation of biological and technical streams of hybrid products, allowing for biodegradability of the bio-based streams.

Actual recovery

A fragrances company could change to a higher valorization type, enabling full recovery of its residual streams by using them as input for the food industry.

A supermarket could provide almost expiring products to food banks to avoid food waste and increase the recovery.

WATER AND ENERGY

Water circularity

A company can improve its water circularity in two ways:

1. Better demand management, reducing the overall use of water, with a focus on reduction of linear water in- and outflows;
2. Substitute linear water in- and outflows with circular water in- and outflows.

Since local water source demand is a combination of all local stakeholder needs (other businesses, communities, the ecosystem itself) it is important to consider opportunities for improvement at a catchment scale and look through a wider lens when considering any opportunities for improvement. Companies must engage with other stakeholders in the water catchment area to collaborate on potential circular solutions.

Renewable energy

This indicator demonstrates the percentage of renewable energy used. In theory, a fully circular economy runs on renewables and therefore the goal should be to reach 100%. Opportunities for improvement are:

- Decreasing overall energy consumption (relative to increasing the % of renewable energy used), or
- Substitute fossil fuels with renewable alternatives.

OPTIMIZE THE LOOP INDICATORS

% critical materials

The results of this indicator demonstrate to what extent a company is dependent on materials identified as critical. Even if the percentage of critical materials is small, it may be relevant to further analyze it to understand:

- The diversity in critical materials
- The substitutability of critical materials
- The absolute use of critical materials
- Revenue dependent on critical materials (revenue at risk).

The characteristics of the critical materials

A company may have multiple critical materials in its inflow. It is important to understand the nature of these materials. Not all materials defined as critical have the same score on criticality, which is a combination of supply risk and regional economic importance. It can be relevant to evaluate the critical material flows based on size, revenue dependent on the flow, and the relative criticality of the material.

WATER CIRCULARITY

Increase circular water inflow

If located in a water-scarce area, a company can explore opportunities to contact other businesses to explore sourcing third-party water directly from other users.

Increase circular water outflow

When outflowing water circularity is low, an easy step the company can take is to either treat all its discharge water to the standards of the local water regulations or make sure of its outsourcing to a third party (water treatment plant) that upholds the same standards.

Increase internal circulation

Exploring opportunities to reuse or recycle water flows from the company's own processes both increases internal circulation and improves demand management, automatically reducing the need for potential linear water in- or outflow.

NATURE OF A CRITICAL MATERIAL

- What material is it?
- What is the respective criticality of the material?
- Is the material virgin or secondary?

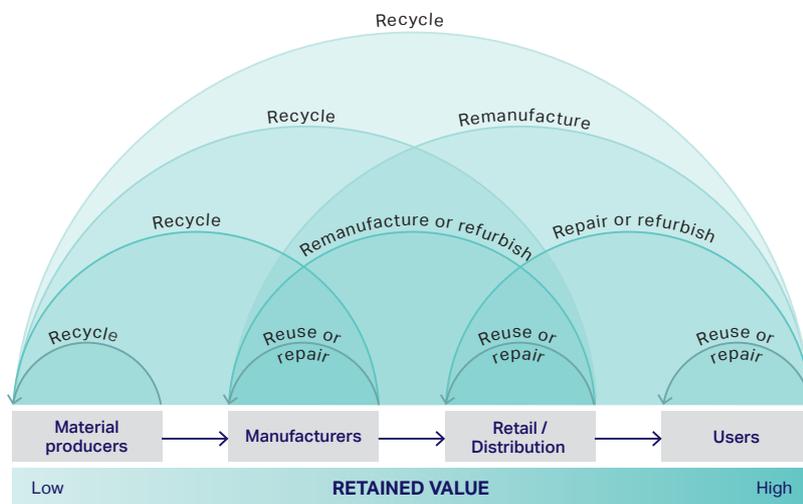
Substitutability of the critical materials

If it is possible to substitute the critical materials with alternative, non-critical materials with the same or similar functionality, a company may partly mitigate its risk. Therefore, it is relevant to assess whether any substitutes are available.

The absolute use of critical materials

Even if the relative use of critical materials (in percentage) is low, the absolute amount or costs of critical materials could reach a point where absolute scarcity, price increase and price volatility affect business continuity. Therefore, it can be relevant to also monitor the absolute use of critical materials.

Figure 14: Recovery types



Recovery types

GUIDANCE FOR THE TECHNICAL CYCLE

In the technical cycle, the assumption is that all recovery strategies should take place at some time at some place in the value chain. The opportunities for an individual company to shift between recovery types will largely depend upon the type of company and its position in the value chain. Nonetheless, a company may evaluate the opportunities to ensure the outflow retains the highest value possible by moving towards higher value maintaining strategies (i.e., reuse over recycling). A company explores the effects of innovative business models such as product-as-a-service or sell-and-buy-back and also less-radical changes such as new value chain collaborations on enabling the shift towards higher value-retaining recovery strategies.

GUIDANCE FOR THE BIOLOGICAL CYCLE

In contrast to the technical cycle, the assumption that all recovery strategies take place at some time at some place in the value chain does not hold for the biological cycle. Therefore, the driver of every individual company should be to climb up the hierarchy to enable high valorization strategies. A company may collaborate with other partners in the value chain to look for alternative recovery types or set up adjusted logistics itself to achieve higher valorization of its outflow.

VALUE THE LOOP INDICATORS

Circular material productivity

This indicator expresses monetary value per unit of mass. This absolute value will vary greatly across companies and it is best to use it to compare performance over time. An increase in circular material productivity demonstrates a decoupling of financial growth from material consumption.

In addition, it is relevant to compare a decrease or increase in circular material productivity externally. For example, if enough anonymized and aggregated data is available, one possible insight is that the company had a 2% increase in circular material productivity over one year while the sector had a 5% increase, which could indicate that the company has additional opportunities to seize.

Companies should consider how different factors like exchange rates, inventory and CTI revenue will affect circular material productivity over time and measure the calculation's sensitivity to such factors.

Even though the calculation for circular material productivity is not the same as that for domestic material consumption (DMC)/gross domestic product (GDP), both metrics demonstrate decoupling. Therefore, it might be interesting to compare changes in circular material productivity with the increase in DMC/GDP on a national or sector level.

CTI revenue

This indicator can illustrate a few insights for the company:

- Understanding the percentage of the company's total revenues derived from circularity
- How the company's revenues of more circular products compare to less circular ones
- How the company's product portfolio breaks down across Close the Loop performance tiers, highlighting where the company may want to focus improvement efforts on product circularity or sales.

On this last point, charting the company's or business unit's product portfolio across the table below will help bring each of these insights to light. Within the analysis phase the company can use opportunities for portfolio steering by:

- Innovating new circular product (groups)
- Increasing the circularity of existing products, and/or
- Driving sales of more circular alternatives over less circular alternatives.

In doing this exercise, a company may find that its overall circularity score (based on mass of % circular inflow and % circular outflow) may be different from the percentage of total company revenue quantified as circular as per the CTI revenue indicator.

If a company finds that its CTI revenue as a percentage of total revenue is greater than the (mass-based) circularity %, this may imply that the company makes disproportionately more revenue off more circular products or services.

If % CTI revenue / total revenue is less than % circularity, the company likely depends on more linear products in its portfolio to generate most of its revenue.

To analyze this further, Table 2 below allows the company to observe how its revenues fall across circular deciles (e.g., 0%, 1-10%, etc.). This will show how linear its revenues are (and vice versa). The company can then use this table to adopt targets for improving the product portfolio to become more circular.

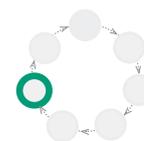
Table 2: CTI revenue

	% Circularity (Close the Loop indicator)	Revenue (\$)	Weighted average revenue* (% circularity x revenue)
Company A - CTI revenue	0%	\$400M	\$0M
	1-10%	\$150M	\$7.5M
	11-20%	\$200M	\$30M
	21-30%	\$150M	\$37.5M
	31-40%	\$50M	\$17.5M
	41-50%	\$30M	\$13.5M
	51-60%	\$20M	\$11M
	61-70%	-	-
	71-80%	-	-
	81-90%	-	-
	91-100%	-	-
Total revenues		\$ 1B	
CTI revenue			\$117M (11.7%)

The company can implement this analysis at the product group level (if there is sufficient variation within the group) or higher, including business unit or the whole company portfolio. Taking this table further, the company may wish to add additional columns on stock keeping units (SKUs) or % of total product portfolio to capture more relevant insights side-by-side. This will allow the company to see both where its revenues fall across % circularity performance tiers and where most of its products reside.

Companies should illustrate the findings of this table in graphical form, including histograms, bar and a combination of bar and line.

⑥ Prioritize Identify opportunities



The insights gathered on circular performance indicate which flows have the greatest potential for improvement. However, to use this information to make decisions and prioritize, the company might want to understand how circular performance relates to linear risks. By assessing company exposure to risks, and by subsequently evaluating opportunities via a business case, companies can start prioritizing actions. For this section, we refer to [WBCSD's 2018 Linear Risks](#) report,¹³ which explains circular risk and opportunities.

IDENTIFY LINEAR RISKS AND CIRCULAR OPPORTUNITIES

As it is possible to link the indicators used in the assessment to linear risks and circular opportunities, these connections can give the company an initial picture of what kind of risk and opportunities are relevant (see Table 3).

Table 3: Examples of risks and opportunities (might contain overlap; list is not exhaustive)

Type of risk	Market	Operational	Business	Legal
Definition	Involve market- and trade-related factors that impact business assets and liabilities	Involve factors that impact a firm's internal operations	Are a result of emerging societal, economic and political trends that impact the firm's strategic business objectives	Arise from current and future regulations, standards and protocols
	Opportunity Tech: cost advantage non-virgin resources Bio: premium for certified bio-based resources	New partnerships Tech: set-up take-back and collection schemes in value chain Bio: food waste reduction program within value chain	Disruptive new technologies Tech: tracking and tracing for return logistics Bio: increased technology for supply chain transparency	Tech: subsidies for secondary material use Bio: subsidies for renewable (certified resources)
% circular inflow	Resource price volatility Tech: scarcity of certain inorganic materials with specific functionality (i.e., critical minerals) Bio: scarcity of renewable resources – i.e., competition in land use between food crops and crops for renewable energy	Supply chain failures	Changing consumer demand Tech: growing demand for second-hand products Bio: growing demand for plant-based diets	Fines or lawsuits Tech: eco-design directives requiring a minimum % recycled content Bio: new regulations and policies for bio-based materials

% circular outflow	Opportunity	<p>Tech: valorizing waste as secondary resource</p> <p>Bio: valorizing waste to distill bio-nutrients</p>	Attracting and retaining talent	<p>Tech: New business models such as product as a service or sell and buy back</p> <p>Bio: higher valorization and avoidance of valuable food loss</p>	<p>Governmental stimulation of circular solutions</p> <p>Tech: subsidies and incentives for business model innovation</p> <p>Bio: subsidies and incentives for high valorization of biodegradable flows</p>
	Risk	<p>Trade bans (on resources & waste)</p> <p>Tech: i.e., Basel convention for border crossing of electronics</p> <p>Bio: discrimination between edible and non-edible waste stream handling</p>	Internal process failures	<p>Changing consumer demand</p> <p>Tech: right to repair movement</p> <p>Bio: consumer-driven initiatives to combat food waste</p>	<p>Extended producer responsibility</p> <p>Tech: mandatory contribution to open-loop collection and recycling schemes</p> <p>Bio: new regulations or policies for avoidance of food loss</p>
% water circularity	Opportunity	Trading water rights in states with formal water markets	Reliability of water inflow with consistent flow and pressure	Advantage over competitors	Potential for more secure water rights due to demonstrable sustainable management
	Risk	Dependency on low water prices, which can rise when scarcity increases	Water shortages disrupting operations and unforeseen mitigation cost	Local reputation and loss of social license to operate Local activism	Upcoming tightening of regulations with rising water scarcity
% renewable energy	Opportunity	Abundance of renewable resources	New partnerships	Decreasing cost of renewables	Renewable energy subsidies
	Risk	Resource scarcity	Worker safety issues	Increasing fossil energy prices	More stringent laws
% critical materials	Opportunity	Closing the loop	Job creation	Disruptive new technologies	(New) government policies
	Risk	Lower investor interest	Worker safety issues	Changing consumer demand	Sourcing rules and regulations
CTI revenue	Opportunity	More resilient and steady cash flows from portfolio	Drive internal competition across business	Brand equity and reputation benefits	Preparedness for reporting and disclosure
	Risk	Lack of insights responding to investor inquiries	Avoidable layoffs due to failure to improve portfolio	Competitive disadvantage due to inaction	Upcoming regulations on more linear products

LINEAR RISK ASSESSMENT

We recommend that companies assess the identified risks to prioritize actions. The risk assessment can be as simple (half-day workshop with experts in the company to go through the steps) or as elaborate (days to weeks with detailed data for thorough analysis) as desired, depending on the needs and resources of your company. Either way, we recommend the following steps.



1. Scenario planning

The endless scenarios for a transition to a circular economy all bring different risks and opportunities. By researching and forecasting different scenarios, the company will be able to include future developments into its business case assessment. Include the following scenarios:

- Business-as-usual (BAU)
- In line with targets set at a national or international level
- Combination of global trends

Within these scenario analyses, companies can decide upon the metrics to use to assess the impact that these linear risks have on the business: either monetary, quantitative or qualitative metrics. Suggestions:

- Costs
- Revenues (including CTI revenue)
- Profit
- Customer relationships
- Employee relationships
- Supply chain collaboration

In addition to scenario analysis, other tools might be useful, including expert input, forecasting and valuation and other environmental, social and governance (ESG)-specific tools. [The COSO Enterprise Risk Management \(ERM\)](#) framework elaborates on all of these.¹⁴

• NATIONAL OR INTERNATIONAL LEVEL TARGETS SCENARIO

• Various countries and international authorities, like the European Commission, have set goals and targets to adopt a circular economy. Policy packages describe (potential) policy measures over time. It is relevant to describe how those would influence the four risk categories and how it relates to the targets formulated at the company level.

• POLICIES

• For an overview of circular economy policies, refer to [Factor10's policy work stream](#).

2. Threat and vulnerability assessment

To use the information gathered for decision-making, rank and prioritize the risks. Common criteria for risk prioritization are severity of adverse impact and likelihood; however, relying on these factors alone might limit the accuracy of the prioritization. Therefore, we suggest using two more-elaborate criteria defined by the COSO ERM framework:

- Threat (inherent risk), where the impact (the consequences) and the velocity or speed of onset (the speed at which risk impacts an entity) determine the magnitude of the threat.
- Vulnerability (residual risk), defined in terms of adaptability and recovery. The magnitude of the vulnerability depends on adaptability (the capacity of an entity to adapt and respond to risks) and recovery (the capacity of an entity to return to tolerance).

3. Prioritization visualization

As a last step, companies can visualize the above-mentioned risk factors in one overview to enable final prioritization. Figure 15 illustrates the threat of a hypothetical company's linear risk (y-axis) versus vulnerability (x-axis).

The graph only shows the main risk categories for demonstration purposes. However, it can be more specific and include all linear risk subcategories, including resource scarcity and changing consumer demands.

This visualization can help prioritize which risk to address first. Based on this prioritization, and in combination with the insights obtained during the analysis phase, companies can plan the roll out and next steps.

• **COSO**
• The Committee of
• Sponsoring Organizations of
• the Treadway Commission
• (COSO) is a joint initiative
• bringing together five private
• sector organizations. It
• is dedicated to providing
• thought leadership through
• the development of
• frameworks and guidance on
• enterprise risk management,
• internal control and fraud
• deterrence.

• **Source:** www.coso.org

Figure 15: Plotting the risks



LINK RESULTS WITH LINEAR RISKS AND CIRCULAR OPPORTUNITIES

In the previous steps, companies identify:

1. Material flows with improvement potential
2. Linear risks and circular opportunities.

Subsequently, companies assess circular solutions that address the prioritized risks and opportunities.

Some recognized circular solutions in this framework are:

For inflow

- Replace current linear inflow with non-virgin alternatives
- Replace current linear inflow with renewable alternatives
- Replace non-renewable bio-based resources with renewable alternatives (for example through certification for sustainably managed bio-based resources)
- Reduce resource use through light-weighting of products
- Reduce resource use through use optimization, digitalization, replacing physical products with services (called “servitization” in some sectors), durability, etc.
- Reduce resource use through optimize nutrient consumption (i.e., avoiding food waste and replacing nutrients/protein with less resource-intensive alternatives)

For recovery potential

- Redesign to incorporate, among others, modular design, design for disassembly, high recyclability by using mono-materials (technical cycle) and/or biodegradability and non-toxicity (biological cycle)

For actual recovery

- Increase actual recovery by selling a product as a service or instituting pay per use (technical cycle)
- Increase actual recovery through buy-back/take-back schemes (technical cycle)
- Increase the actual recovery through value chain collaboration and partnerships for collection and recovery programs
- Increase biodegradable outflow that is actually consumed (i.e., by avoiding food waste or high valorization) (biological cycle)

REPLACING VIRGIN INFLOW WITH SECONDARY OR RENEWABLE INFLOW

Replacing virgin inflow with secondary inflow or renewable inflow reduces linear inflow mass. If the price of the product remains the same, the performance on the indicator improves.

LIGHT-WEIGHTING A PRODUCT

Light-weighting a product should not affect the price of the product and therefore will not impact company revenue. If the material removed from the product (partly) consists of linear inflow, the linear inflow will decrease. This results in a higher circular material productivity.

DIGITALIZATION FROM HARDWARE TO SOFTWARE

If software is offered in addition to hardware, the absolute revenue grows. The software can provide additional functionality to the hardware or can replace part or all of the hardware. If this is (partly) made from linear inflow, the linear inflow will decrease. This results in higher circular material productivity.

For water circularity

- Replace linear water sources with circular alternatives like third-party water or reused wastewater from the facility's own processes where possible
- Increase treatment of wastewater (either onsite or through a wastewater treatment facility) to regional regulatory quality levels before discharge into the local watershed
- Find alternatives to minimize transportation of water out of the local watershed (either through shipping of product, evaporation or discharge in the sea)

For CTI revenue

- Improve product portfolio circularity by implementing solutions highlighted under "for inflow", "for recovery potential" and "for actual recovery"
- Drive increased sales in more circular products (compared to less circular products)

This list is not exhaustive and could grow over time, but it is a good starting point to look at possible solutions to consider. The examples on this and the following page illustrate what some of these solutions could look like.

TRANSITION TO PAY-PER-USE MODEL

In the transition from a product sales model to a pay-per-use model, circular material productivity increases as the business model will enable the cycling of products and payment as a service (therefore the linear inflow goes down relative to revenue generated).

SELLING MORE DURABLE PRODUCTS

The assumption is that products made at a higher quality are more durable, thus the price per product can increase. Therefore, the relative revenue in relation to linear material use will improve if linear material use remains similar.



CIRCULAR OPPORTUNITIES: EVALUATING THE BUSINESS CASE

At this stage in the process, companies have more clarity about:

- The circular solutions that can help the company to act
- Its prioritized risks and opportunities by applying them
- The material flows with improvement potential.

Evaluating the business case can help, either by selecting potential options or by verifying their expected business outcomes. The WBCSD's eight business cases for the circular economy report¹⁵ emphasizes that circular business practices can accelerate growth, enhance competitiveness and mitigate risk. To seize circular opportunities, it is necessary to demonstrate the business case.

In principle, the circular business case is like any other business case; but there is potential to overlook some circular business case characteristics when applying business-as-usual. Therefore, we list some relevant considerations when evaluating the business case for circularity below.

Evaluate as any other business case

The first step is to assess it like any other business case. If there is already a clear case, there may be no need to demonstrate the circular added value.

Consider potential cost savings in a circular business case

- Savings can be related to the inflow by replacing linear (virgin non-renewable) by circular inflow (either renewable or non-virgin).

"cost savings = costs 100% linear inflow – costs current inflow"

"potential cost savings = costs current inflow – costs 100% circular inflow"

- Savings can be related to better client retention and acquisition (either by the "green image" or by fostering long-term relationships in product-as-a-service or buy-back/take-back contracts), which can reduce marketing costs.
- Savings can be related to better retention and attraction of talented employees (driven by the "purpose" of circular business).
- Savings can be related to the avoidance of losses (for example nutrient loss related to food waste for the biological cycle or reusing rest streams for the technical cycle).

Identify increases in revenues

- New customers attracted by circularity, convenience and/or sustainability.
- New segments because of lower initial investment for a service than a product (pay-per-use model) by clients.
- New revenues related to high valorization of waste streams and (by-) products.

Anticipate and respond to growing investor interest

As investors increasingly become aware of circular economy opportunities, companies should proactively communicate with investors about their commitments to the circular economy and be prepared to demonstrate performance when approached by investors.

Account for the long(er) term perspective

Product-as-a-service or trade-in offers are based on longer term service contracts or buy-back/take-back offers. Adopting these business models may stabilize profits over time and improve future cash flow predictability.

- By maintaining ownership of the products or regaining access, the company secures future supply and hedges against future resource inflow price volatility.

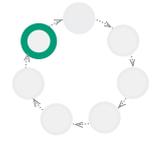
The societal shift to a circular economy may create future changes in costs savings, profitability and legal requirements (see also the section on scenario planning).

Sanity check: ensure circular economy is the means to achieving sustainable development

To avoid adversely impacting other externalities when at scale, it is important to ensure that the company avoids tunnel vision in pursuing circular ambitions and instead accounts for the broader sustainable impacts. Complete the picture by complementing circular performance assessments with environmental and social life cycle assessments (LCAs) and other tools. LCAs and other product-related indicators remain key tools to assess or compare circularity between different products. Always implement these considering the local context to account for all intermediary steps and to identify the most appropriate solutions. This will ensure that the company recognizes any potential trade-offs that may present themselves in analyzing circular strategies across different environmental and social impacts and dependencies.



7 Apply Plan and act



After analyzing the results, prioritizing the risks and opportunities, assessing the circular solutions and defining the business case, the next step is to formulate targets for improvement and execute related actions.

Formulate targets

Based on the analysis, the potential opportunity for improvement has become apparent. In addition, the prioritize phase has identified the risk and opportunities to address. When combined, this information provides relevant evidence to formulate SMART targets.

Roll out actions

It is necessary to create actions in order to achieve the targets. Although it is up to the company to further define the specific actions per target, the following is some guidance on elements to consider.

Define what needs to happen

The target gives direction on what needs to happen. As described in the analysis section and in the first column of the tables below, there are high-level examples of possible directions to take. It is up to the company to further formulate specific actions based on the nature of the company and the outcomes of the analysis.

Define when it needs to happen

Companies should set up an action plan through back casting. With the time-bound target in mind, companies can roll out intermediate targets and actions based on a roadmap. It is important to define the timelines within the roadmap to ensure the alignment of assessment cycles with the intermediate targets.

Define who needs to take action

To ensure action, it is necessary to identify an owner to drive action. The tables below list the possible actions from the analyze phase, with the relevant departments internally, the external parties to consider and considerations to take into account when executing the action.

Assess the actions and progress on formulated targets

It is important to recognize that this phase is not the final phase of the Circular Transition Indicator framework. As visualized in Figure 16, the process steps follow each other in a cycle and this phase will feed into the scoping phase to start the next assessment and monitor improvement on the targets resulting from the actions executed in the apply phase.

Table 4 below provides some additional insights into elements for consideration when planning and rolling out some of the circular solutions as discussed earlier.

SMART TARGETS

Specific: focus on one element of the indicator at a time (formulate separate targets for the % non-virgin inflow and the % renewable inflow)

Measurable: focus on quantitative targets captured within the framework

Ambitious yet achievable: based on the controllability assessed in the planning phase, focus on targets that largely depend on internal factors to ensure achievability

Relevant: focus targets on the most relevant areas based on the analysis (i.e., the largest flows or the most critical materials)

Time-bound: define deadlines for meeting targets and plan the assessment cycle accordingly

Figure 16: The process cycle

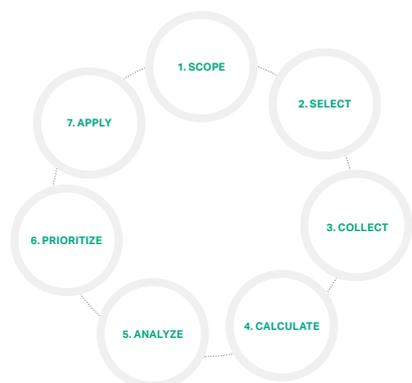


Table 4: Elements for consideration when planning and rolling out circular solutions

Departments to involve	Other parties to consider	Considerations when executing	Example target	Example action
Reduce linear inflow by replacing it with renewable inflow				
Sustainability Procurement Product design Product management R&D	Suppliers Certification bodies	Suppliers	Launch a new fashion line using natural materials by 2023	Explore how certificates consider sustainability and land use and explore the functionality of certified materials for purpose
Reduce linear inflow by replacing it with secondary inflow				
Sustainability Procurement Product design Product management R&D	Suppliers	Sustainability Technical feasibility Acceptance by customer Functionality	Product category X should contain 40% recycled content by 2025	Discuss technical feasibility and availability with supplier Switch supplier if needed
Sustainability Product design Product management R&D	Clients	Functionality Acceptance by the customer	Double the lifetime use of product category X by 2025	Discuss technical feasibility with design department Research bottlenecks for product use among consumers (i.e., technical limitations, fashion, status, etc.)
Increase recovery potential by optimizing product design (for modularity, disassembly, mono-material's biodegradability)				
Sustainability Product design Service and maintenance Product management R&D	Clients Suppliers	Technical feasibility Economic viability	60% of bottles produced consist of mono-materials by 2022 20% less in food waste residues by optimizing packaging by 2025	Change supplier Set up research with supplier
Sustainability Product design R&D	Clients Suppliers	Technical feasibility Economic viability	Ensure the replacing of all technical materials in the "hybrid product" with biodegradable alternatives	Request supplier overview of biodegradable (according to OECD) alternatives
Increase actual recovery by maintaining ownership or buy-back/take-back schemes				
Sustainability Product design Sales Account management Customer relations Service and maintenance Legal Product management	Clients Financiers	Financial implications, e.g., on balance sheet and cash flow Legal implications	30% of revenues from high-value assets should come from pay-per-use models by 2025	Pilot with a supplier for return logistics Market research to understand client needs and barriers for the new model

Increase actual recovery by setting up take-back/buy-back or recovery schemes with third parties in the value chain

Sustainability Product design Sales Account management Customer relations Product Management R&D	Clients Suppliers	Collaboration forms with other parties	Set up a take-back or buy-back scheme for all newly sold phones by 2023	Set up an agreement with a refurbishment company
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Sustainability Account management Customer relations Marketing	Clients	Collaboration with other parties	Set up a program with retailers to give discounts on almost expiring food products to increase high valorization by consumption	Explore collaboration partners for such a program
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Increase actual recovery by investing in and advocacy for public schemes

Sustainability Public relations	Customers Public authorities	Achievable influence and impact	Support public scheme advocacy in 95% of offset markets by 2025	Join forces with peers on advocacy
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Increase actual recovery by investing in and advocacy for public schemes

Utilities/ engineering, Procurement, Product quality, Manufacturing Facility management, Public affairs, Government affairs	Local stakeholder community in watershed Municipal wastewater service provider Universities/ research institutions Civil society Regulators	Acceptance by customer (flavor, safety) Watershed water balance, Regulatory permit compliance
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CTI Glossary

% Circularity

The weighted average of the % circular inflow and % circular outflow for a given product (group or portfolio), business unit or company.

Biodegradable outflow

Outflow of material or substance that microorganisms can decompose and that degrades to organic molecules that living systems can use further,¹⁶ for example via composting and anaerobic digestion. A product can only be considered biodegradable if its levels of toxins or hazardous substances fall within recognized thresholds (e.g., Cradle to Cradle Certified Products Program, DRAFT v4 Restricted Substances List (RSL)). Companies can refer to existing testing standards on biodegradability and compostability such as the OECD, the International Standards Organization (ISO) or the Royal Netherlands Standards Institute (NEN) among others.

By-products

Unintended but inevitable additional material stream of material processing that is not the intended main product.

Co-processing

The simultaneous use of residual waste as a source of mineral resources (material recycling) and as a source of energy to substitute fossil fuels in a single industrial process. During co-processing the mineral part of the waste replaces primary materials (such as limestone, clay or iron) and the combustible part provides the energy needed for the industrial process (e.g., cement production).

Circular economy principles

- Design out waste and pollution
- Keep products and materials in use
- Regenerate natural systems

Circular inflow

Inflow that is:

- Renewable inflow (see definition) and used at a rate in line with natural cycles of renewability

OR

- Non-virgin

Circular outflow

Outflow that is:

- Designed and treated in a manner that ensures products and materials have a full recovery potential and extend their economic lifetime after their technical lifetime

AND

- Demonstrably recovered.

Circular performance

The multidimensional results of a product (group), business unit, including % circularity (% circular inflow and % circular outflow) and at least one other CTI indicator. This indicator may be from any of the three modules.

CTI revenue

The revenue generated by a product (group or portfolio), business unit or company multiplied by its % circularity.

Company boundary

Physical or administrative perimeter of the organization, consistent in scope with financial and sustainable reporting.

Downcycling

Recycling "something in such a way that the resulting product is of lower (economic) value than the original item."¹⁷ It indicates a loss of the material/product's original characteristics that precludes use in a similar function to its previous cycle (functional equivalence). Downcycling is usually used to describe a product's material properties, their level of degradation or, in the case of metals, if they have become impure, which leads to a loss of economic value.¹⁸

Functional equivalence

"The state or property of being equivalent" (or equal) in function.¹⁹

In the context of CTI, this defines an outflow (a product, product part, waste stream, etc.) designed so that it is technically feasible and economically viable to bring it back to inflow (as a material, product part, etc.) preserving a similar function to its previous cycle. For example, it is possible to recycle the plastics used in mobile phones for kitchen appliances because properties like strength and esthetics are equivalent.

Inflow

Resources that enter the company, including materials, parts or products (depending on a company's position within the supply chain). Not included are water and energy, which are part of the specific water and energy indicators.

Linear inflow

Virgin, non-renewable resources

Linear outflow

Outflow that is not classifiable as circular. This means that the outflow:

- Is not circular in design/ consists of materials treated in a manner that they have no recovery potential

OR

- Neither demonstrably recovered nor flowing back into the economy.

Linear risk

The exposure to the effects of linear business practices – use scarce and non-renewable resources, prioritize sales of new products, fail to collaborate and fail to innovate or adapt – which will negatively impact a company's license to operate.²⁰

Non-virgin inflow

Inflow previously used (secondary), e.g., recycled materials, second-hand products or refurbished parts.

Outflow

Material flows that leave the company, including materials, parts, products, by-products and waste streams (depending on a company's position within the supply chain).

Recovery

The technically feasible and economically viable recovery of nutrients, compounds, materials, parts, components or even products (depending on the organization) at the same level of functional equivalence through reuse, repair, refurbishment, repurposing, remanufacturing, recycling or biodegrading.

This excludes energy recovery from waste and any biological cycle waste that does not satisfy all criteria as outlined on p. 38.)

Recovery types

The different forms of material recovery, such as (in order of the recirculation loops in the Ellen MacArthur Foundation's Circular Economy System Diagram²¹ or butterfly diagram):

Reuse

To extend a product's lifetime beyond its intentional designed life span, without changes made to the product or its functionality.

Repair

To extend a product's lifetime by restoring it after breakage or tearing, without changes made to the product or its functionality.

Refurbish

To extend a product's lifetime by large repair, potentially with replacement of parts, without changes made to the product's functionality.

Remanufacture

To disassemble a product to the component level and reassemble (replacing components where necessary) to as-new condition with possible changes made to the functionality of the product.

Recycle

To reduce a product back to its material level, thereby allowing the use of those materials in new products.

Biodegrade

Microbial (bacteria and fungi) breakdown of organic matter in the presence of oxygen to produce soil with high organic (humus) content.

Regenerative

To have the ability to restore material resources and improve ecosystem health to ensure productivity and other benefits (e.g., carbon capture, biodiversity, and other ecosystem services). Note that regeneration goes beyond retaining the status quo of natural systems that may already have degraded from their initial state.²²

Renewable inflow

Sustainably managed resources, most often demonstrated by internationally recognized certification schemes like the Forest Stewardship Council (FSC), Programme for the Endorsement of Forest Certification (PEFC), Roundtable on Sustainable Palm Oil (RSPO), etc.²³ that, after extraction, return to their previous stock levels by natural growth or replenishment processes at a rate in line with use cycles. Therefore, they are replenished/regrown at a faster rate than harvested/extracted.²⁴

Virgin inflow

Inflow not previously used or consumed (primary).

Endnotes

- ¹ Based on Circle Economy's 2020 Circularity Gap Report, which states that only 8,6% of the world's current economy is circular. For more information, see <https://www.circularity-gap.world/2020>
- ² Circle Economy (2020). Circularity Gap Report 2020. Retrieved from: <https://www.circularity-gap.world/2020>
- ³ Based on the WWF Living Planet Report 2012. Retrieved from: https://wwfint.awsassets.panda.org/downloads/lpr_living_planet_report_2012.pdf
- ⁴ WBCSD (2018). Circular Metrics – Landscape Analysis. World Business Council for Sustainable Development (WBCSD). Retrieved from: <https://www.wbcsd.org/Programs/Circular-Economy/Factor-10/Metrics-Measurement/Resources/Landscape-analysis>
- ⁵ Ellen MacArthur Foundation (2020). Material Circularity Index. Retrieved from: <https://www.ellenmacarthurfoundation.org/resources/apply/material-circularity-indicator>
- ⁶ Circle Economy (2020). Circularity Gap Report 2020. Retrieved from: <https://www.circularity-gap.world/2020>
- ⁷ For more information, see CircularIQ General Terms of Service at <https://s3.eu-central-1.amazonaws.com/ctitool.com/2020-01-20+GTC-TLF.pdf>
- ⁸ European Commission (n.d.). "Critical raw materials". Retrieved from: ec.europa.eu/growth/sectors/raw-materials/specific-interest/critical_en. United States Geological Survey (USGS) (2018). "Interior Releases 2018's Final List of 35 Minerals Deemed Critical to U.S. National Security and the Economy". Retrieved from: www.usgs.gov/news/interior-releases-2018-s-final-list-35-minerals-deemed-critical-us-national-security-and
- ⁹ See IRENA International Renewable Energy Agency at www.irena.org/
- ¹⁰ European Commission (n.d.). "Critical raw materials". Retrieved from: ec.europa.eu/growth/sectors/raw-materials/specific-interest/critical_en
- ¹¹ United States Geological Survey (USGS) (2018). "Interior Releases 2018's Final List of 35 Minerals Deemed Critical to U.S. National Security and the Economy". Retrieved from: www.usgs.gov/news/interior-releases-2018-s-final-list-35-minerals-deemed-critical-us-national-security-and
- ¹² See Circle Economy's 2018 Circularity Gap Report at www.circularity-gap.world/
- ¹³ WBCSD (2018). Linear Risks. Retrieved from: <https://www.wbcsd.org/Programs/Circular-Economy/Factor-10/Resources/Linear-Risks>
- ¹⁴ Committee of Sponsoring Organizations of the Treadway Commission (COSO) and WBCSD (2018). Enterprise Risk Management: Applying enterprise risk management to environmental, social and governance-related risks. Retrieved from: www.coso.org/Documents/COSO-WBCSD-Release-New-Draft-Guidance-Online-viewing.pdf
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²¹ See the Ellen MacArthur Foundation's circular economy infographic at: <https://www.ellenmacarthurfoundation.org/circular-economy/concept/infographic>

²² Definition adapted from the Ellen MacArthur Foundation: <https://www.ellenmacarthurfoundation.org/explore/the-circular-economy-in-detail>

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DISCLAIMER

This report is released in the name of WBCSD. Like other reports, it is the result of collaborative efforts by WBCSD staff and experts from member companies. Factor10 Circular Metrics work stream participants reviewed drafts, ensuring that the document broadly represents the majority of Factor10 members. It does not mean, however, that every member company of WBCSD agrees with every word. Please note that the data published in the report are as of November 2020.

ACKNOWLEDGEMENTS

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WBCSD would like to thank the following companies for providing their insights and collaboration:

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Royal DSM

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CTI SOFTWARE DEVELOPMENT PARTNERS

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Suzanne Kuiper, Arnoud Walrecht, KPMG; Eva Carranza, Michael Scharpf, LafargeHolcim; Wendy Phippen Microsoft; Harald Tepper, Sophie Thornander, Royal Philips N.V.; Bas Ruter, Björn Aarts, Rabobank; Krisada Ruangchotevit, Poramate Chairat, Siam Cement Group Thailand; Zeren Browne, Security Matters; Alissa Cotton, Shell; Erica Ocampo, Sims Metal Management; Dominique Debecker, Isabelle Gubelmann-Bonneau, Solvay; Roy Antink, Collander, Kenneth, Riikka Paarma, Stora Enso; Catherine Chevauché, Jean-Pierre Maugendre, Suez; Amelie Rouvin, Veolia; Roberta Bernasconi, Whirlpool.

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CIRCULAR METRICS WATER WORKING GROUP

Tom Williams, WBCSD, Nick Martin, BiER; Oliver Maennicke, Independent Consultant; Alistair Wyness, BP; Jader Loureiro Cravo, Heineken; France Guertin, Dow; Andre Fourie, AB InBev; Deniz Dogan, The Coca-Cola Company; Natalia Quisel, Veolia; Duncan Wall, Diageo; Beth Holland, Aptar

ABOUT FACTOR10

The future of business is circular and there is no room for waste in it. Factor10, WBCSD's circular economy program, aims to bring circularity into the heart of business leadership and practice. Our goal is to build a critical mass of engagement within and across business to move the circular economy to deliver and scale solutions needed to build a sustainable world.

To reach Vision 2050, in which not a particle of waste exists, eco-efficiency of materials must improve by a factor of 10. The Factor10 Institute previously referenced this target in 1994 when it called for a ten-fold improvement in resource efficiency. Learn more about Factor10 at <https://www.wbcd.org/Programs/Energy-Circular-Economy/Factor-10>

ABOUT WBCSD

WBCSD is a global, CEO-led company of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than \$8.5 trillion and 19 million employees. Our Global Network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than nine billion people are all living well and within the boundaries of our planet, by 2050.

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