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Sustainable Banking: Finance in the Circular Economy

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Abstract

Banks and other financial institutions can make an important contribution to the transition towards a circular economy. Within the banking sector—in particular within the remit of the FinanCE Working Group—studies were performed to monitor the actual implementation and performance of new circular business models and value networks that arise, and evaluate how these differ from the linear business models and how this impacts finance. These studies provide a better understanding of how investors could actually support circularity deployment. Financial institutions can contribute in two ways: first by enabling companies to make the transition to a circular economy on a financial level by providing

the appropriate financial and legal structures, network development services, and advice; and second by looking at their own business models and risk assessment frameworks to better balance linear and circular risks. It should also be noted that a coherent accompanying policy framework is essential to speed up the transition. Circular economy involves different policy areas and legal settings which should be aligned to work together to design out waste and incentivise circular design, production, and consumption.

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Notes

1. The members of the Finance Working group have evaluated the impact of a circular economy on the business and financing models of companies and how banks can support and stimulate the transition towards a circular economy in March 2016: 'Money makes the world go round'. The EIB has published a first report in December 2015 on the topic: 'Assessment of access-to-finance conditions for projects supporting the Circular Economy', prepared for Directorate-General (DG) Research and Innovation European Commission by the Innovation Finance Advisory division of the EIB.
2. Risk premium is the premium you receive for the risk being taken. In the case of debt, this is the interest rate (minus the risk-free interest

rate), in the case of equity, this is the return on equity.

3. Particular risks; since some of the risks discussed in this chapter are similar for innovation projects as such and do not solely relate to circularity.
4. <http://www.eib.org/products/blending/innovfin/> (last accessed July 2017).
5. More info: <http://www.eib.org/products/advising/innovfin-advisory/> (last accessed July 2017).
6. More info: <http://www.eib.org/eiah/> (last accessed July 2017).

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Ethics declarations

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