

The linear approach does not work any more

The European Investment Bank (EIB) supports Circular Economy Projects with a wide range of financing and advisory services. EIB President Dr. Werner Hoyer explains why the future must be circular.

The European Investment Bank, which you have now chaired as president for many years, is one of the key partners of the Circular Economy. In recent years, the EIB has stepped up its initiatives around the Circular Economy. Why is the EIB so attached to a Circular Economy? The Circular Economy is the only way to achieve prosperity on a planet with a growing population consuming more and more products made out of scarce and partly finite resources. The current linear "take, make, dispose" model is unsustainable, polluting, and costly. We have learned to be mindful of our carbon footprint, but we also need to pay attention to our material footprint, the quantity of material extraction that is required to meet the consumption of a country. The EU Commission has already identified 27 raw materials as critical because of their supply shortage risk and the higher impact they have on the economy compared with other materials.

The effects of our wasteful consumption of plastics is also becoming more visible, for example with the plastic pollution of the oceans, a problem the EIB wants to help tackle thanks to the Clean Oceans Initiative, that we have set up together with our partners, the promotional institutions Agence française de développement in France and Kreditanstalt für Wiederaufbau in Germany.

The Circular Economy also makes economic sense: for the European Union, it could generate an estimated one to four percent economic growth over a ten-year period (ING 2015) and create up to an estimated two million new jobs by 2030 (European Commission 2014).

In sum, the Circular Economy is a win for the environment and the economy and this is why the EIB has provided more than two billion euros for Circular Economy projects in the last five years and wishes to do more in this area.

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Europe is a pioneer of the Circular Economy. How can Europe maintain and expand this position? First, the EU has the regulatory power and is already shaping sustainability across all sectors by regulating the transition from a linear to a Circular Economy. Secondly, the biggest asset is the single market and it can be deepened and further developed through EU actions on Circular Economy. The European Commission has adopted strategies and directives that set out

ambitious targets for a European Circular Economy. For example by 2035 a minimum of 65 percent by weight of all municipal waste shall be recycled and no more than 10 percent of municipal waste shall be landfilled. These targets will require further investments and advice to promoters and this is where the EIB can step in.

These strategies will also have to be supported by new regulatory frameworks at the European and national levels and create the right investment incentives for the private sector to embark on the circular transition. Supporting markets and demand for secondary materials is one importance aspect, not least with regard to plastics, where the recent Chinese import ban have created large stocks of poorer quality plastics for which recycling capacity and market demand needs to be created in the EU.

The Circular Economy can give Europe a decisive competitive advantage. Which economic, political, and social factors need to be further changed so that Europe can hold this position? The Circular Economy is a systemic change, which should be underpinned by a new mindset, one that seeks to design waste out of our economic system. To achieve this, all actors of our society are needed: governments to put in place the right regulation and incentives, businesses to develop new processes, business models and re-design products and finally consumers who do their share by adopting new behaviours from rethinking their consumption to avoiding waste generation.

Innovations can stimulate the necessary change towards a Circular Economy. However, global players are often too sluggish, smaller companies lack the necessary capital or market access – how can the EIB support this? I would not completely exclude the global players because several big corporations are actually stepping up to the plate and exploring innovative ways of doing business. Under the leadership of the Ellen Mac Arthur foundation, 290 organisations including many of the world's largest packaging producers, brands, retailers and recyclers, have made a commitment to support the development of a new plastics economy, starting with packaging and aiming at eliminating plastic waste and pollution at source. The EIB has endorsed this commitment.

But indeed, companies, especially smaller ones, face a number of challenges. Circular Economy projects are often comparably small, with risk profiles that may not be acceptable to commercial banks. Considering this, the EIB is developing new financial products specifically targeting Circular Economy projects. One example is the new Circular Bioeconomy Investment Platform that we have launched together with the European Commission. Circular Economy projects can also receive financing through our risk sharing instruments benefitting from EU guarantees, such as the European Fund for Strategic Investments (EFSI) and InnovFin.



Innovative Circular Economy projects are often complex, and feature unproven technologies or uncertainty regarding the supply or demand of recovered/recycled products and materials. This is why, beyond finance, the EIB also provides advisory services. We have also produced a number of guiding documents, including an EIB Circular Economy Guide, that can be found on our dedicated Circular Economy webpage (www.eib.org/circular-economy).

What hampers the transformation to the Circular Economy – which financing models or funding programs are backward-looking and, in your opinion, better off abandoned? One of the key challenges is that the new circular products or services are being launched into a linear world, where valuation through “linear” due diligence and credit risk assessment tools do not properly take into account circular value creation. For example, the full societal costs of our use of the environment and resources are not fully reflected in product prices. A proper consideration of environmental externalities and societal value creation is important to create an equal level playing field between linear and circular products and business models.

Moreover, linear risks, that include the reliance on finite or unreliable sources, are also often overlooked by the financial sector in their project due diligence. The access to resources is taken for granted. This is not realistic, especially considering the longer investment cycles. The EIB will continue working towards building and disseminating knowledge on how this can best be addressed. Taking into account

both circular value creation and linear risks should realign the capital costs more in favour of circular business models and projects.

The EIB has a special role for cities. Why? Cities can act both as cradles and catalysts for a circular transition. Today, cities consume 70 percent of global resources and generate 50 percent of all waste. Cities also have a huge potential to become circular thanks to their scale and the concentration of people, businesses and resource flows that allow for the efficient sharing of resources and goods. Municipalities can also influence the development of a Circular Economy by leading by example, e. g. by offering or procuring circular products, buildings or services.

Cities can, for example, promote modular buildings that can be disassembled instead of demolished, shared transport, urban farms that recover organic waste and connected companies that share materials. We have published a guide called “15 Circular Steps for Cities” which offers guidance on how cities can achieve a more circular city in the future.

Which project is missing? Where would you personally like to start? EIB is the largest multilateral provider of climate finance worldwide. Therefore I would favour the circular projects that also have a tangible climate impact, which fortunately most circular projects do. The fact that by targeting the right circular solutions, we can both address the urgent need to tackle climate change, and steer our production and consumption on a more sustainable and circular track, offers a win-win opportunity that we should not miss.



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As an example of the potential, the Ellen MacArthur Foundation and McKinsey have estimated that a circular transition in mobility, food and built environment could reduce emissions by 48 percent by 2030 and 83 percent by 2050 compared to 2012 levels, so thinking circular will be an important way to reaching the emission reductions under the Paris agreement on climate change.

As I mentioned earlier, through the Clean Oceans Initiative, we are also working on reducing the discharge of plastics to the oceans. Taking a more circular approach to plastics, e. g. by limiting single use plastics and increasing reuse and recycling would not only conserve resources and reduce CO₂ emissions, but also contribute to reducing the discharge and accumulation of plastics in our oceans. This is a win-win opportunity that has our full attention, and warrants further focus from other stakeholders.

Dr. Werner Hoyer, EIB-Präsident

Economist Dr. Werner Hoyer was a member of the German Bundestag for 33 years, during which he held various political offices. Werner Hoyer was Minister of State at the Federal Foreign Office on two separate occasions, as well as Whip and FDP Security Policy Spokesman, Deputy Chairman of the German-American Parliamentary Friendship Group, FDP Secretary-General and President of the ELDR. In 2012 Werner Hoyer was appointed EIB President. He commenced his second term in January 2018.

We would like to ask you one or two personal questions. If you were an entrepreneur – for which project would you like to apply for EIB financing? The EIB is unique in the sense that we are more than a bank. Take for example our Projects Directorate and Advisory Services department. More than 600 economists and engineers appraise projects to ensure they comply with high technical, environmental and social standards. At the same time, this combined expertise is put to best use to help projects get off the ground. For example, through our advisory services we offer financial advice helping promoters prepare and develop bankable projects and business cases for investment by the EIB and other investors. I would therefore approach EIB looking for help, first, in designing my investment project, and secondly, in obtaining funding through one of EIB's many financing products but also from other external sources. Experience shows that once EIB has given its stamp of approval, this crowds in more investment from the private sector.

When you think of today's children, what economic system do you want for the younger generation? A circular and sharing economy, where the value of products, materials, and resources is maintained in the economy for as long as possible, and the consumption of resources and generation of waste is minimised. This will not only preserve the planet and its resources and environment for future generations, but also create new jobs and strengthen our economy.

Which project, which funding application has particularly pleased you in the past and why? Imagine that when you are tired of your side table, you pop it in your car and go to the 3D-printing merchant at your local shopping centre, who promptly throws it into a hopper to grind it down into new raw material. Then you select the new table design you want from the merchant's terminal, and press "Print". When you come back from your grocery shopping, your brand new table is ready and waiting for you. To most of us that still sounds like a future high-tech development.

But in fact, this is the Circular Economy we are already working on. In 2016, the EIB supported Dutch producer of 3D printers, Ultimaker, with a 15 million euro loan. This will be used to further strengthen the research and development activities of Ultimaker and rolling out new products. _