

CEPS Task Force Report

“The Role of Business in the Circular Economy”

LARGE SCALE INDUSTRIAL TRANSFORMATION
Key Messages on financial aspects

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Investment & Finance for Industrial Transformation

To seize the opportunities of a circular economy as much as €320 billion should be channelled by 2025 in three circular sectors alone:

1. mobility and transport
2. food industry
3. the built environment

Internal Resources

- More a problem of confidence than liquidity
- Economic prospects are now rosier

Financial Intermediaries

- Adapting to the new risk profile of CE models
- Some have realised the potential of CE

Public Investment

- Support to industrial transformation from national and EU budgets
- Focus on technical advisory

CE challenges the financing of Industrial Renewal

Product-as-a-service transition >> change in the ownership of the asset

- A different and more uncertain cash flow dynamic
 - No asset sales imply no initial inflows to repay manufacturing
 - Market-related risk, uncertainty about consumers' behaviour
- Increasing capital needs to pre-finance clients
- Balance sheet extensions
- Maintenance contracts and costs
- Easier reuse and re-manufacturing, but of uncertain value

Industrial symbiosis, collaborative and sharing models >> multiple actors in the value chain

- High upfront costs for the industrial renewal and machine compatibility with up- & downstream partners
- Partial loss of flexibility to respond to market requests
- Cost of capital depends on the creditworthiness of the value chain, not only of the borrower:
 - Creditworthiness and reliability of partners affect the borrower's risk
 - The solidity of the value chain is not taken into account as a risk-mitigating factor

Product & process innovation models >> disruptive innovation

- High upfront costs for industrial renewal and new resource-efficient machinery (particularly for product innovation)
- Technological and operational risk remains high till project implementation
- High market risk due to the uncertainty about customer acceptance
- Uncertainty related to the residual value of new products

Can industrial synergies to be a form of guarantee,
rather than a source of uncertainty?

EU support to industrial renewal

- Through legislation, direct financial support, technical services
- No specific earmarking; funds available through a variety of programmes
 - ESIF, EFSI, COSME, InnovFIN, LIFE, Horizon2020
- Multiple products: grants, loans, equity, quasi-equity, guarantees
- Increasing focus on advisory and technical assistance to enhance the bankability of projects proposals
- The EU showed commitment and focus on CE developments:
 - Revision of the notion of ‘innovation’ to include resource-saving organisational enhancements
 - Circular Economy Finance Support Platform

1. Better Data to Contain Risk (EU, national level & private sector)

Establishing a database that facilitates the exchange of information about systemic cross-industry risk and residual values, and supports a better risk assessment of circular business models from the private sector too.

2. CE as horizontal objective (EU level)

Set the circular economy as a clear horizontal objective for EU financing, in a way similar to low carbon goals. For instance:

- establishing a dedicated thematic objective within European Structural and Investment Funds
- including resource efficiency as a key metric to award EU financing, e.g. in the EFSI Scoreboard.

3. Single Point of Entry to ease access (EU & national level)

Develop the Circular Bioeconomy Investment Platform as:

- A large coalition involving as much as possible national and regional promotional banks
- A tool to help employing different EU resources/programmes in a structured way
- A single point of entry for all circular-bio-related projects

- THANK YOU! -



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