

CIRCULAR ECONOMY

What is it and how can you support it with your bank?



1) What does circular economy mean?

The **circular economy is a new way of thinking about economics** both in terms of our capacity to produce and our use of goods and services, with greater respect for the environment and its delicate balances. The goal of the **circular economy** is to promote **sustainable, fair and lasting growth**, which can therefore combine economic demands with environmental and social demands, through the adoption of practices that extend the life cycle of products and reduce their ecological impact.

The **circular economy** involves **keeping** as many resources as possible “in circulation” through virtuous cycles of **re-use, repair, regeneration and recovery, and creating products developed to be reused and have minimal impacts on the environment thanks to environmentally sustainable design (eco-design)**.

Waste may also be generated by the **circular economy**, but it is designed to be **fed back into the economy** at the end of the product life cycle.

Details 1

To assess environmental impacts, benefits and energy demands associated with a product or service, throughout its life cycle, an international standardised methodology has been created called Life-Cycle Assessment (LCA).

This has two parts:

- **Life-Cycle Inventory**, gathering and analysing data on environmental impacts (e.g. atmospheric and water emissions, generation of waste and consumption of resources) associated with the product, from extraction of raw materials to production and usage, and through to final disposal, considering recycling, reuse and recovery of energy.
- **Life-Cycle Impact Assessment**, forecasting indicators of environmental pressures (e.g. climate change, summer smog, depletion of resources, acidification, effects on human health, etc.) associated with the environmental impacts of the product life cycle.

This international tool can be used for the development and improvement of products and processes, to enable strategic planning and to implement suitable public policy.

2) In what context can the awareness about the circular economy be risen?

The commitment of the European Union to constantly make progress towards achieving the sustainable development goals is founded on **Agenda 2030**, signed by countries from around the globe in 2015 at the UN General Assembly.

Agenda 2030, along with the **Paris Climate Agreement**, represents a roadmap for progress combined with achievement of balance between economic, social and environmental conditions of businesses, with the goal of improving quality of life and safeguarding the planet's ecosystems, in a global scenario of international cooperation for sustainable development.

This commitment to sustainability is therefore implemented taking into account the impact of businesses on the environment and on climate change, both for communities and individuals and in terms of economic management. These three ESG (environmental, social and governance) factors form the basis for assessment and guidance for the achievement of sustainable development goals.

The 17 Sustainable Development Goals (SDGs) of Agenda 2030 include:

- adoption of best practices to promote the **circular economy**
- conservation and protection of the land and biodiversity
- promotion of renewables and efficient use of resources
- recycling and optimal management of waste
- sustainable mobility
- development of innovative technologies for the environment.



In this context, the European Action Plan for financing sustainable growth and the European Green Deal respectively establish new strategies to guide investments in sustainable economic and production activity and to promote European climate policy aimed not only at reducing emissions but at generating opportunities for employment and driving innovation.

The European strategy is also fuelling national approaches. Within the framework of the plan for economic recovery dedicated to the EU member states, the **“Italia Domani” National Recovery and Resilience Plan** has the goal of strengthening economic growth and making it more sustainable.

At the same time, it is aimed at increased inclusivity, enabling every citizen to enjoy equal conditions, in terms of safety, health, education and access to resources, for example, as well as equal opportunities regardless of generation, gender and geographical location.



Details 2

For a better understanding of the strategies and initiatives promoted by national and European institutions, supporting growth and sustainable development, you can explore these resources:

- The EU and the United Nations – common goals for a sustainable future | European Commission (europa.eu)
- New strategy to make the EU’s financial system more sustainable https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405
- Italia Domani, the National Recovery and Resilience Plan (<https://italiadomani.gov.it/en/home.html>)

3) What are the fundamental principles of the circular economy?

The **circular economy** is founded on three fundamental principles:

- to design products in order to minimise generation of waste
- to maximise the life of products, components and materials
- to regenerate natural systems.

This translates, for example, into the creation of projects to:

- **enhance and increase the yield from natural resources**, recognising that these are often limited and promoting renewable resources (e.g. replacing fossil fuels with renewable energy sources or replacing critical materials with recycled materials or bio-based materials, entirely or partially derived from plants, etc.)
- **implement eco-design principles**, reducing the environmental impact of all phases of the product life cycle, increasing usage levels and maximising efficiency of production processes (e.g. promoting reparability, regeneration, updating, reuse of products and predictive maintenance aimed at preventing faults)
- **develop new business models** that transform consumption methods (e.g. sharing platforms and hire systems).



Details 3

For an overview of the Circular Economy in Italy, refer you to the Circular Economy Network Report, available [here \(Documenti - Circular Economy Network\)](#), which highlights the important role our country plays in relation to other key European players.

A few examples



Textiles industry...

where there can be innovation of materials (using recycled and bio-based fabrics), production processes (with natural dyes and new finishing technologies) and purchasing and consumption models (through platforms for the hire of clothes and recovery and resale of used accessories)

Food & drink industry...

where there is the possibility to reduce food waste by identifying alternative distribution networks to use foods about to reach their expiry date or that are surplus



Agriculture industry...

where it is possible to incentivise short supply chains, limiting the number of production processes and intermediate steps, and implementation of the EU Food-to-Fork strategy, enabling farming systems to reduce energy consumption (less fertilizers and pesticides, and organic farming) and livestock farms to reduce CO₂ emissions

Construction Industry...

through modular design, adoption of innovative and traceable materials enabling their reuse, renovation and energy upgrading of buildings, and implementation of infrastructure for the recovery, reuse and recycling of construction materials.



Details 4

The European Union's Circular Economy Action Plan

<https://www.europarl.europa.eu/news/en/headlines/economy/20151201STO05603/circular-economy-definition-importance-and-benefits>

European Circular Economy Stakeholder Platform

<https://circulareconomy.europa.eu/platform/>

4) What are the benefits of a circular economy?

The main benefits of a **circular economy** are:

- **protecting virgin natural resources**, meaning those that have not yet been subject to processing, and increasing usage of renewable, recycled and recyclable resources
- **greater price stability for raw materials**
- **positive impact on employment** (e.g. generation of jobs dedicated to the creation of various re-usage phases of the process and ecodesign jobs)
- **creation of new virtuous production and supply chains**
- **nurturing of innovation** (e.g. new technologies serving circular business production processes and models)
- **reduction of waste in production cycles, benefiting the market and production businesses**
- **improved waste management**
- **more effective planning of family budgets** through reuse, sharing and informed selection of goods and services.



Details 5

According to the World Economic Forum, the transition towards circularity is an opportunity worth several trillions of dollars

<https://www.weforum.org/agenda/2021/01/circular-economy-trail-blazers-do-these-5-things-report/>

5) To support a circular-economy model, the contribution of various parties is required: who are they?

The progressive adoption of the **circular economy** requires a general approach rooted in innovation and cultural transformation that engages various parties, including:

- **institutions**, which can facilitate and promote the **circular economy** through economic and fiscal policy that establishes the conditions for production and purchase of sustainable and circular products
- **European and national industry regulators**, which lay down the rules for the various entities and oversee their enforcement
- **universities and the educational sphere in general**, because the **circular economy** requires cultural transformation, and it is important to raise awareness across generations
- **consumers/savers**, who can choose to purchase goods produced by companies according to **circular-economy** principles, or financial services that promote the development of such products, issued by companies themselves or by banks and other financial institutions
- **consumer associations**, which can engage with industry and contribute on the demand side
- **social organisations (such as non-profit entities and charities)**, which can launch partnerships aimed at recycling and reuse with important benefits for the local area
- **companies**, which can invest to guide their business towards a **circular-economy** model
- **employees**, who contribute to implementation of sustainable company policies
- **technical consultants**, who facilitate analysis and development of virtuous processes
- **investment companies and institutional investors** (such as investment funds, pension funds and insurance companies), entities professionally specialised in investments that offer citizens looking to invest their savings or assets the possibility to access, even with modest amounts, investments in production activity with a positive social and environmental impact, carried out directly by these institutional investors
- **banks**, to act alongside all of the parties listed, contributing to the process of change (as specified below in point 6).

All members of society therefore play their own role in facilitating progressive adoption of a circular-economy model.

6) How can banks and financial intermediaries contribute to the adoption of a circular-economy model?

Financial institutions can promote the cultural shift underway, offering financial products and services that help companies to identify and implement new business models that are more efficient and more sustainable, supporting actions aimed at the conversion of production activities (machinery, raw materials, etc.).

Specifically, banks are increasingly investing to finance circular-economy initiatives to guide customers towards ecological transition and increased efficiency of production processes, establishing partnerships with consulting entities specialised in supporting and accelerating innovative projects.

To summarise, banks can support this virtuous process by:

- **originating, executing and distributing debt** issuances on behalf of different issuers (corporates, public entities,) or issuing on behalf of themselves debt issuances aimed at raising sources to finance investments in circular economy
- **financing transformative projects** (e.g. conversion of polluting products into sustainable products)
- **evaluating and supporting strategic decisions** that have potential and are aligned with established goals for improvement
- **promoting activities that created positive external impacts in terms of the circular economy**
- **selecting financial tools to recommend to customers** in the context of consulting services (or to purchase on behalf of customers in the context of portfolio-management services), taking into account not only financial parameters but also sustainability ones
- **promoting specific initiatives for education** aimed at increasing awareness of the role of sustainable finance.

Details 6

<https://investiresponsabilmente.it/cose/>

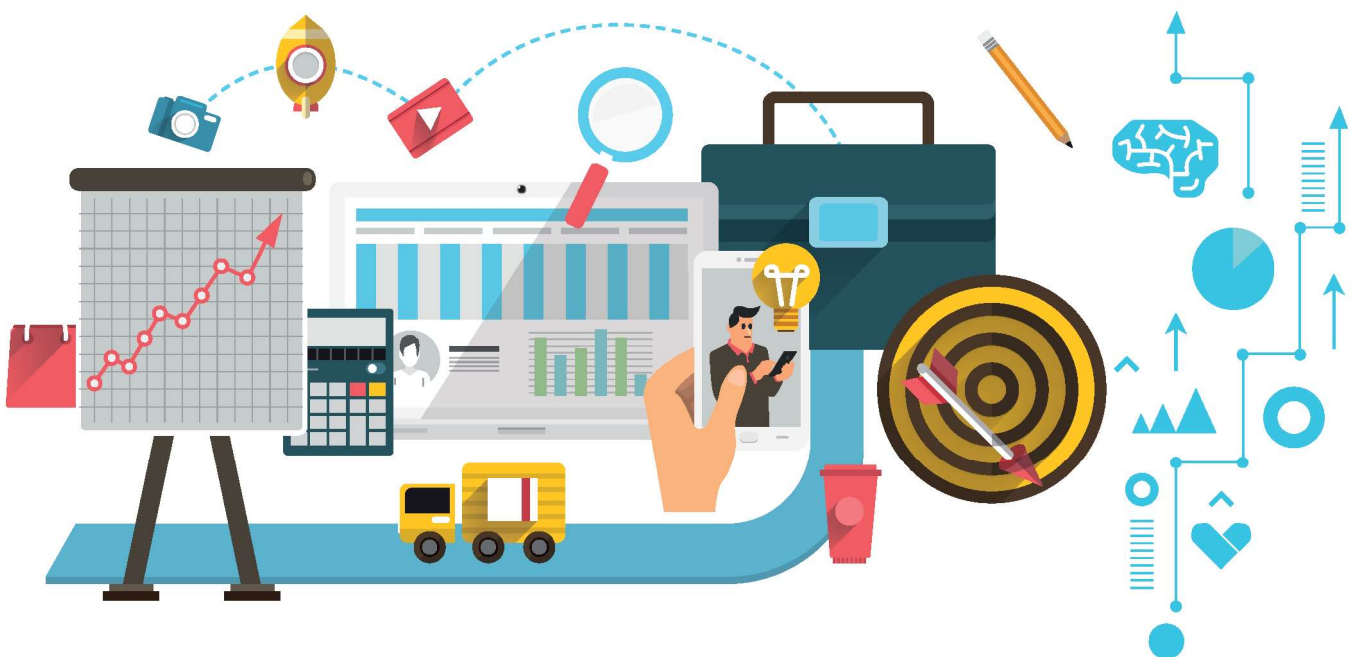
<https://finanzasostenibile.it/attivita/finanza-sostenibile-rilancio-economia/>

7) What possible barriers are there to the circular economy?

All processes requiring profound transformation encounter obstacles linked to a lack of flexibility in existing procedures and strongly rooted ways of thinking.

Here too, there are many potential obstacles, including:

- **difficulty understanding** the true scope of changes connected to the **circular economy**
- the **need for transformation** at the global level, because success cannot be achieved by an individual company or individual country
- the **need to create a new language** with concepts such as “secondary materials” and potential final value
- the **need to involve production and supply chains** and generate new production processes
- the **level of investment** necessary to comprehensively achieve this transition.



8) There is a lot that we can all do to promote the circular economy, let's take a look...

Everybody, **through their choices and behaviour**, plays a fundamental role in the development of demand for sustainable finance and promotion of the **circular economy**. For example, by targeting our investments, we can support economic sectors with low environmental impacts or high social value and transform ourselves into promoters of sustainable businesses.

According to the indications of the European Union, banks and consumer organisations can work together to promote a better understanding of information and economic aspects, disseminating a culture of sustainable growth, also through information-giving and educational initiatives, thus supporting citizens so that their economic choices are increasingly well-informed and targeted.

Awareness around new, more virtuous methods of consumption and new trends in demand from younger generations may have a positive impact on the dynamics for the offer of products and services that are increasingly sustainable and on the speed of transition towards the **circular economy**.



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