

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



البنك المركزي المصري
المعهد المصرفي المصري



CURRENT TREND
CIRCULAR ECONOMY
OCTOBER 2023

Circular Economy in the Financial Sector

Background

In our current economy, we take materials from the Earth, make products from them, and eventually throw them away as waste – the process is linear. In a circular economy, by contrast, we stop waste being produced in the first place. As the economy curves inwards, a circular approach takes the spotlight, sparking a revolution for greener practices. This signifies a departure from repeating patterns and behaviors, propelling us into a new realm focused on sustainability. Through this we begin to prioritize practices like reusing, repairing, recycling, and extending product life.

In the financial sector the circular economy refers to an economic model that aims to support and invest in sustainable and regenerative businesses. With successful implementation, it's not only addressing pressing sustainability challenges but also offering tangible benefits to financial institutions, clients, and society as a whole. This makes the transition to a circular economy, a strategic move linked to profitability, as well as sustainability.

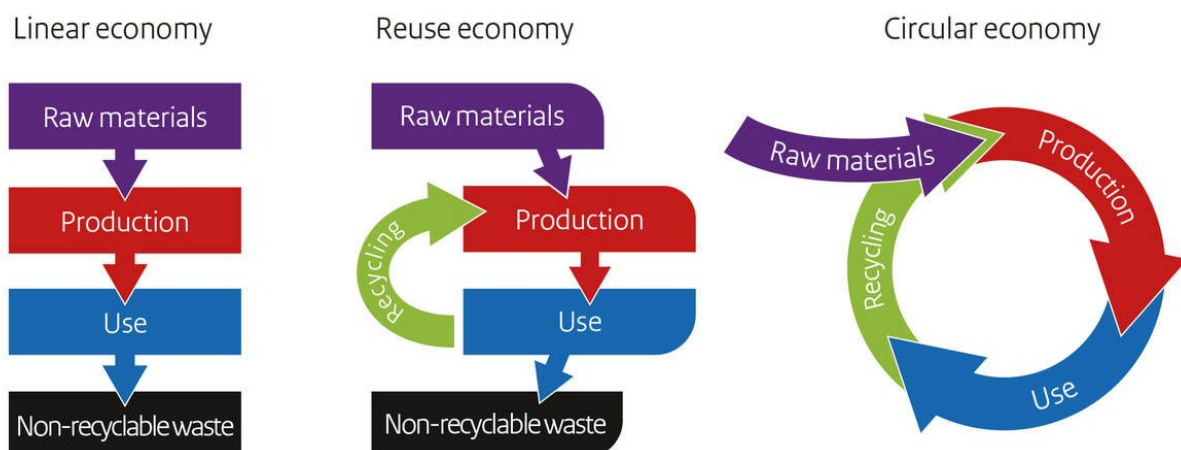
Concept and Definition:

A circular economy is an economy where the value of materials in the economy is maximized and maintained for as long as possible; the input of materials and their consumption is minimized; and the generation of waste is prevented and negative environmental impacts reduced throughout the life-cycle of materials.

The circular economy is a positive disruption to business models across industries. By redefining the approach to value creation and designing out waste from the production system, it prolongs products' lives and encourages repair and recycling over disposal. It aims to transform economic activity by reducing the unnecessary use of finite natural resources.

The circular economy offers a systemic response to the climate crisis. It is about rethinking how we use our raw materials and resources to create a sustainable economy free of waste and emissions. It means shifting from the current linear model of 'take, make, waste' to an economy where we 'reduce, reuse, recycle'.

From a linear to a circular economy



Importance:

The circular economy offers a major opportunity for the banks to deliver on the climate, biodiversity and pollution agendas, as well as other environmental, social and governance (ESG) objectives, and to contribute to a just transition.

A circular economy is a way of making business models crisis-proof. It aims to use resources more efficiently, to use products for as long as possible, to reuse materials and to recycle. This protects the environment, reduces CO2 emissions and decreases dependence on finite resources. The circular economy also offers economic opportunities and promotes innovation.

According to the UNEP Finance Initiative, circular economy finance can be defined as “any type of instrument in which the investments will be applied exclusively to finance, re-finance, invest in or insure in part or in full, new and/or existing eligible companies or projects that advance the circularity of our economies

Among the multitude of financial instruments, there are several types that can support the circular economy transition:

- Green bonds and transition/sustainable bonds
- Sustainability-linked loans and sustainability-linked bonds
- Impact investing by the private sector for the SDGs
- Blended finance
- Public-private partnerships

The transition to a circular economy is important in two complementary ways:

- A fundamental requirement to achieve economic development with a positive environmental and social impact
- A value creation opportunity that is driven by the redesign of industrial processes and business model innovation.

Practices in the banking sector

Banks can contribute to the circular economy by playing a crucial role in financing and supporting circular businesses. They can develop a common understanding of the circular economy and issue guidelines on circular economy finance. Banks need to adapt their existing finance models to fit into a circular economy model and offer credit lines to circular businesses. They can also create a green bank and promote a strong culture of waste reduction and material re-use. Additionally, banks can train their staff to be knowledgeable about circular economy principles and ensure that their board risk committee is competent in circular risk management and control. By taking these steps, banks can act as leaders in circular economy finance and provide the necessary financial resources for the transformation from a linear to a circular economy.

- Banks in European countries such as ING Bank, Dutch banks, ABN, AMRO, ING and Rabobank, have begun to lead the finance community in the global campaign for a circular economy.
- Promoting and supporting the circular economy is of primary importance to Intesa Sanpaolo.

To seize the circular economy opportunity, Intesa Sanpaolo has taken four key actions:

- Setting circular economy as a strategic priority
 - Innovating in financial products, credit policies and lending strategies
 - Actively supporting the development of the circular economy market
 - Exploring the integration of circular economy into risk assessment models
- Intesa Sanpaolo's specific circular products and activities include:
 - The Plafond – a dedicated EUR 6 billion credit facility for innovative companies of all sizes with practices aligned to circular economy principles.
 - A EUR 750 million green bond focused on the circular economy, with the proceeds allocated to financing circular economy companies and projects through the Plafond.
 - A Circular Economy Lab in Milan, in collaboration with Fondazione Cariplo, designed and managed by Intesa Sanpaolo Innovation Center and Cariplo Factory. The Lab supports the circular transformation of corporates and SMEs through education and open innovation programs.
 - In 2020 the group allocated more than EUR 2.5 billion to the green (e.g. renewable energy, energy efficiency, sustainable management of natural resources) and circular economy, corresponding to 2.9% of all group loans.

- Finally, the group is also strongly committed to accelerate the circular transition, thanks to its advocacy and stakeholder engagement, both at national and international level. One example is represented by a three-year Memorandum of Understanding signed with the Ministry of Economy of the United Arab Emirates in 2020, to encourage cooperation in innovation and circular economy.
- BNP Paribas Wealth Management has made the circular economy one of its five investment themes for 2022; as a precursor, in May 2019, BNP Paribas Asset Management launched an ETF index-linked fund dedicated to circular economy, which now has €578 million in assets under management: a great success for this first circular economy ETF in the world.
- In 2021, BNP Paribas also contributed towards reducing food waste by participating in emitting SLBs (sustainability linked bonds) for two actors in the food distribution sector: the European group Ahold Delhaize and Tesco, the UK supermarket chain.
- BNP Paribas also supports, with its own funds, numerous companies active in the field of the circular economy. The BNP Paribas Solar Impulse Venture Fund, launched in May 2021 with the Solar Impulse Foundation, is managed by BNP Paribas Agility Capital. To accelerate the development and scaling up of high-potential start-ups committed to the ecological transition and in particular the circular economy, this fund will initially invest €150 million, half of which will come from BNP Paribas.
- ING finances circular deals and investments, such as E-bike-to-go, a young and fast-growing company offering a circular subscription model for e-bikes to both business and consumer markets in the Netherlands.
- ING has also provided several loans to recyclers and companies that produce goods using recycled resources. Some of these deals have been with ground-breaking circular businesses, like the La Trappe brewery with a closed loop water system and the world's first energy neutral and circular hotel, Breeze.
- ING regularly hosts Circular Economy Business Simulation games, as a start of their journey with clients, but also with employees and cities.
- The European Investment Bank (EIB) has partnered with five of Europe's largest national promotional banks and institutions to launch an almost USD 11.8 billion loan and investment initiative dedicated to the circular economy (Ellen MacArthur Foundation, 2020).




HOTLINE
15200
One number to better serve you!


Headquarters – Nasr City

22 A, Dr. Anwar El Mofty St., Tiba 2000
P.O.Box 8164 Nasr City, Cairo, Egypt
Tel.: (+2) 02 24054472
Fax: (+2) 02 24054471

Working hours: 9:00 am - 5:00 pm
www.ebi.gov.eg

 **Like us on**
facebook.com/EgyptianBankingInstitute

 **Follow us on**
twitter.com/EBItweets

 **Join us on**
linkedin.com/company/egyptian-banking-institute

 **Watch us on**
YouTube Channel: Egyptian Banking Institute (EBI)