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Financing the transition to circularity

Steve Wallace, Director, the Aldersgate Group

On 1st October 2014, the Aldersgate Group hosted a workshop to explore the challenges in financing the transition to the circular economy and more resource efficient business models (REBMs). Aldersgate Group Director, Steve Wallace reflects on the outcomes of the roundtable discussion.

Whilst most commentators agree that such a transition is required given the growing pressures on global resource use, it must be done in a way that is supported by investors, keeps or grows markets and maintains the viability of the business during the transition.

We have lived in a linear, take-make-use-dispose economy since the start of the industrial revolution, albeit with an increasing emphasis on end of life recycling, so the challenge of breaking the habit of generations should not be underestimated. Confidence is going to be key because real money, jobs and businesses are at stake. Our recent workshop, which was attended by members of the banking and investor sector as well as NGOs and business, made it clear that investors can regard changes in business models as high-risk strategies and price that risk into their lending terms, creating a disincentive for businesses to make the change. This necessitates more case studies (through projects like REBus) and trusted, consistent data backed up by auditable standards so that investors are not scared away by the unknown.

We are at a critical juncture. Some leading businesses have successfully adopted REBMs but, if there is to be a real impact, these must become mainstream. For this to happen, markets that offer a stable, long term financial return must be apparent. Central government and regional authorities could play a vital role in stimulating these markets through their huge buying power by mandating resource efficiency requirements in their own procurement activities, creating a momentum and base load that businesses could use to spread into other markets.

Government also has a policy role to play. Circular Economy cuts across many different policy areas that weren't designed to work as a single coherent unit so unintended consequences abound. For example, once a material or component has been designated as a waste, it can be very hard to remove the stigma and use it in preference to virgin material, the production of which produces greater environmental impact and would have cost more if the externalities had been factored into the price. Goal setting policy requirements—fiscal and environmental—such as those that have been so successful in improving automotive engine emissions and efficiency could be adopted and backed up with more demanding restrictions on landfill disposal. The tax system should also be reviewed as we are in the unhelpful position where, for example, tax breaks that exist for new build do not exist for refurbishment projects. An office for resource responsibility should be set up to deliver an integrated approach that creates real and stable incentives for change.

Finally, although it would be nice to get everything done at once, there is a danger of spreading the effort too thinly. We need to prioritise. We should first identify the most critical sectors, create the momentum to make the transition, and then move on. If we get this right, businesses and investors will see the value; it will enhance domestic growth and job opportunities and lead to more prosperity for all. Get it wrong and others will reap the rewards.

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