

Earth, Air, Water: The challenges of financing the circular economy.

Speech by Katherine Garrett-Cox, CEO GIB (UK) at Responsible Business Forum on Sustainable Development, Singapore 2019

The world we live in has changed tremendously. Looking back a hundred years ago, the average life expectancy was 47 years, the Eiffel Tower was the tallest structure in the world and only 8% of homes had a telephone. Economic growth has led to great change. Today, the average life expectancy is 71 years, Burj Khalifa is two and a half times the height of the Eiffel Tower and mobile phone penetration is around 67%. Unfortunately, economic development has come at a significant cost to our environment. For years, we polluted our planet without thinking twice. I'm not surprised that younger generations blame our generation for passing on a damaged planet and troubled economic system. Reviving our planet is imperative.

To put it simply: if we do not have healthy land we will face hunger and famines; if we don't have sufficient clean water we will face dehydration; and if we don't have clean air we won't be able to breathe. These are essentials. Life expectancy is more important than tall buildings and mobile phones. One way to revive our planet is through adopting – or in fact re-adopting – a circular model.

This would decouple economic growth from environmental degradation. Unfortunately, as it stands today, less than 10% of our consumption is estimated to be circular. I will focus my remarks on the role of the finance sector in supporting the transition to a more circular approach, and in particular how we can overcome the challenges in doing this. To illustrate the financing challenges experienced by circular businesses, I will use three examples – earth, air and water.

The first challenge that I am going to address is the mismatch of time horizons.

Circular business models often involve the whole life-cycle of a product, and can therefore be more long-term in nature. However, private finance typically looks for returns over relatively short periods. A previous speaker spoke about bees earlier, these and other pollinators such as birds and butterflies have been declining in numbers due to agricultural practices. Such practices, which used to be inherently traditionally circular in nature, are now more often linear. Indeed, they have become more linear – for example, with the use of chemical pesticides and insecticides.

The use of these chemical pesticides and insecticides sadly has adverse consequences for bees and birds. Today, over a third of pollinators suffer the risk of local extinction due to their use.

The declining population of pollinators has a negative impact on biodiversity and on the environment, but also has serious implications for our own survival. Food production, medicines, biofuels, fibres and construction materials are all affected. And it doesn't stop there. Butterflies, bees and birds are used as a source of inspiration. So even art, music, and literature will be impacted imagine a world without Rimsky-Korsakov's "flight of the bumblebee".

Many environmental conservation projects are severely underfunded. It is estimated that approximately USD 300-400 billion is needed every year to fund ecosystem restoration and environmental conservation projects. However, only 15% of this is received every year, mainly from philanthropic sources.

The private financial sector is often reluctant to fund environmental projects. Frequent excuses are that conservation is slow, it takes time to realise the benefits, and that it is often perceived as too risky. I think it's too risky not to finance conservation activity for our earth. We need agricultural business to take a circular approach, and we need to ensure that long-term investment is available.

The second challenge facing the circular economy is the lack of data and standards on circular matters.

Lack of data has made it difficult for financiers to understand and assess the opportunities. In the absence of information, the default is to assume that risks are too high. My illustrative example here is air quality.

Air is fundamentally circular in nature. It has the capacity to clean itself from pollutants. But air quality is in crisis. 91% of the world's population live in areas where air quality exceeds the World Health Organisation guideline limits and air pollution is responsible for a staggering 4.2 million deaths every year. This is a cause especially close to my heart since I recently became Chair of the Clean Air Fund, which has been newly established to tackle the challenges of air quality. Without good data, we are struggling to understand the possible solutions, and ensure they have sufficient finance.

But we are making some progress. For example, CDP (previously the Carbon Disclosure Project) encourages organisations to disclose their direct carbon emissions, and to improve the quality of the information disclosed. It provides a standard approach, education and guidance for companies. CDP now has 650 investors and approximately 6.3 thousand corporations reporting through their platform annually.

The third challenge for financing the circular economy is that it is dependent on significant supply chain collaboration.

Multiple stakeholders are more often involved in a circular rather than linear approach. Here, I am going to use the example of water and specifically, the River Thames in London. Whilst the Thames is now cleaner than it was in the 1950s, new challenges to its cleanliness have emerged. In 2015, a study showed that up to 70% of flounder fish had plastic waste in them. Addressing plastic waste is complex and involves financing multiple stakeholders across the waste hierarchy. In order for the plastic waste problem to ease, product design and packaging, reverse logistics, end of life use, business models changes and consumer and political mind-set changes need to be addressed and financed.

The circular economy cannot reach its full potential without the collaboration of all supply chain partners. But private sector finance is provided to a single firm, not to an ecosystem. This means a radical re-design is needed to ensure that circular financing requirements can be met. But before I depress you, there is hope: so how can we resolve these challenges?

My answer – and main message for you today is through collaboration.

Only together can we safeguard the future of our earth, air and water. In order to ensure investment capital is available for the long term – like my example of conservation – we need deeper understanding and engagement between those solving the problems and those financing them. In order to raise the quality and volume of data disclosures, there needs to be partnership between those setting standards and those producing and publishing information.

In order to bridge the financing gaps, we need to move away from thinking about individuals and specific firms to thinking about systems-change and ensuring all parts of the inter-dependent system have adequate financing.

The industry in which I work recognises the benefits of transitioning into a circular economy and has started to devise measures to encourage this.

Last year, we at GIB (UK) had the honour of supporting The Circularity (an initiative of the World Economic Forum and the Forum of Young Global Leaders), which recognises outstanding contributors to the circular economy.

But there is much further to go. We need to create and scale effective public/private partnerships, something we are very focused on at GIB (UK). We need to get the basics right and unlock the power of finance in finding solutions for a circular economy to create a more sustainable future for all in order to achieve the SDG's for 2030.

Organisations and financing institutions need to adapt to change and leaders need to be brave enough to step up to the challenge.

In the words of Greta Thunberg *“Change is coming, whether you like it or not”*. At GIB (UK), we choose to be part of that change. We ask that you join us to mobilise capital and help to save our planet for us and for future generations.