

Brussels, 6 November 2025

## Recommendations to create robust business cases and unlock private financing for the EU Circular Economy

Geopolitical tensions and growing resource scarcity highlight the urgency of reducing primary material use and prioritising circular strategies such as reduce, reuse, redesign, repair and recycling. More efficient use of finite resources can help decarbonise the industries, reduce the use of fresh water, combat biodiversity loss, and secure Europe's long-term economic development and competitiveness. Furthermore, there are also social co-benefits of circular approaches, such as job creation, SME participation, and community resilience. A well-designed enabling framework should also help financial institutions channel capital toward circular activities within their portfolios.

**The EBF therefore welcomes the European Commission's initiative for a Circular Economy Act (CEA).**

### Key messages:

- **Strong business cases for circularity:** The Circular Economy Act must correct market failures to create robust, profitable business cases on a large scale. Transitioning to a circular economy not only requires clear recycled content standards and phasing out high-impact materials, but also strong structural economic incentives to reward circularity and stimulate demand, including through public procurement, ensuring that these measures create a permanent level playing field rather than temporary subsidies.
- **Financing for circularity:** We recommend explicitly and systematically integrating circular principles (durability, repairability, and recyclability) into the eligibility criteria for EU public financing instruments and replicating initiatives, such as the Hydrogen Bank or Decarbonisation Bank for circularity. A Bank for Circularity could be offering off-take guarantees for recycled inputs in industry sectors or for new technologies. Guarantees or other forms of de-risking and deployment of public-private financing schemes would also enhance the bankability of the circular business models, projects, or activities, given the limited public money. The CEA should deploy and promote blended finance mechanisms, especially for financing innovation in disruptive technologies, which often have a higher level of risk and long maturation periods. Simplicity,

replicability and scalability should be the key features of the blended financing.

- **Support, recognize and reward products as service-oriented business models:** European banks have extensive experience in asset-based financing and are well-positioned to scale circular leasing and products as service models. However, this scaling requires a supportive regulatory framework that recognizes and rewards the circular characteristics of these portfolios and provides the data infrastructure necessary for robust risk assessment.
- **Data and capability building:** Advancing the circular economy requires consistent, reliable, and forward-looking data. Given the limited CSRD scope, voluntary reporting of simple and essential KPIs should be incentivized. Member States should also make every effort to provide access to data already available at the national level and support the development of searchable data platforms, enabling a more efficient, transparent, and harmonized ESG data ecosystem.

## Introduction

The transition to a Circular Economy (CE) is a strategic lever for meeting EU sustainability commitments. It drives emissions reduction, enhances resource efficiency, safeguards ecosystems, and mitigates pollution. At the same time, it reduces reliance on raw materials, strengthening the EU's resilience by lowering dependencies on supplies from third countries.

Considering the scarcity of critical raw materials in the EU and the high reliance on other countries for such materials, the development of the European circular economy is one of the conditions not only for securing the EU's competitiveness but also its sovereignty.

While the primary focus on secondary raw materials and waste is crucial, **we would encourage the CEA to adopt a holistic scope that encompasses the full spectrum of circular strategies**, such as 'Rethink', 'Reduce', and 'Reuse', as conceptualised in frameworks like the 9R Hierarchy model.

There is evidence that Circular Economy generates de-risking of the whole economic system through four given drivers:

- a) decoupling growth from finite resources exploitation and in favour of secondary/renewable ones,
- b) enabling the right natural capital management,
- c) promoting economic resilience through business models and revenue models innovation and diversification,
- d) better hedging of the internalization of the negative externalities (Zara and Bellardini, 2023).

**De-risking of the real economy also implies more stability for the financial and banking system.**

Furthermore, considering that efficiency improvements alone may be insufficient to reduce Europe's material footprint, the CEA should apply the circular economy principles by first focusing on **avoiding or substantially reducing waste through smart and durable product design**, and tackling overconsumption, rather than starting with recycling or reuse. This means designing products to last longer, be easily repaired, and be made from safe and high-quality materials.

**To truly transform the EU's economy and unlock major financing opportunities, the EU needs a comprehensive strategy** – one that combines smart product design, innovative business models, and efficient use of resources.

To create robust business cases for circular economy and increase the bankability of circular economy-related projects, the EBF makes the following recommendations.

### **1. Creating robust business cases for circularity: correcting market failure**

We call for EU policy measures to improve the economics of circular business models, either by reducing costs, stimulating demand for circular products or ensuring that linear alternatives reflect their true social and environmental costs. **A gradual transition from a linear economy to a circular economy is needed across sectors, yet today circular products with either recycled materials or made for longevity are often more expensive than virgin-based or traditional alternatives**, placing them at a competitive disadvantage, including in attracting private capital.

The absence of a level playing field puts circular businesses at a competitive disadvantage. Where this is the case, it is also reflected in the risk evaluation and financial conditions. It should therefore become economically unattractive to produce or import single-use, disposable products and rely on virgin materials, while circular solutions should be incentivised.

To address the market failure and internalize the positive externalities, we propose several concrete measures and actions to establish a level playing field:

- **Economic incentives for circularity.** Circular models should be incentivised. Circular business models can reduce reliance on imported raw materials by promoting the use of locally sourced and recycled inputs. This can reduce systemic risk for the EU and help improve supply stability, reduce price volatility, and strengthen the EU's strategic autonomy in raw material access. While the EU allows Member States to apply reduced VAT rates on second-use products, a development of a common framework to accelerate and standardize implementation across member states would be helpful. Such a framework could simplify the margin scheme for taxing used goods and encourage member states to introduce tax incentives for repair and reuse activities.

- Additionally, the prudential framework for credit institutions should be reviewed to ensure it does not represent an undue barrier for cash flow-based financing models and does not disincentivise banks from financing beyond purely asset-based financing, which is not always the best fit for the business models needed for the transitioning EU economy.
- **We support the CEA's aim to:**
  - **Explore market-based instruments that would make circularity the more economically attractive choice, either by reducing costs or ensuring that linear alternatives reflect their true social and environmental costs (price negative externalities).** As highlighted by the World Bank, fiscal incentives should also be considered by member states to incorporate negative externalities in the cost-benefit analysis.
  - **Develop technologies that allow the replacement of virgin materials with secondary ones at competitive costs.** We see a strong need to focus also on supporting technological innovation during the development and investment stage, not only once technologies are already in use (scaling up).
  - **Focus on public procurement. The use of circularity criteria in public procurement would be a powerful measure to stimulate demand.** Alongside price, environmental impact and circular potential should be decisive factors when awarding contracts. Integrating these criteria simply and straightforwardly would stimulate market transformation, create demand for sustainable alternatives and give entrepreneurs the confidence needed to secure financing for innovative, circular solutions. Public procurement could create the stable, large-scale offtake agreements needed to de-risk private investment in new technologies and infrastructure and improve bankability. Given that public procurement represents around 14% of EU GDP ([Letta Report](#)), it can play a decisive role in creating stable demand and scaling circular solutions across sectors. The EU should set clear Circular Public Procurement (CPP) targets.
- **We call for setting minimum recycled content requirements for products containing critical raw materials.** To stimulate demand, strengthen the EU's strategic autonomy and reduce dependency on third countries, **we propose introducing minimum recycled content requirements for products containing critical raw materials, such as lithium, cobalt, rare earths, tin, and copper, that face a high risk of depletion.** These requirements would complement existing or forthcoming mandatory recycled content targets (e.g. for plastic packaging or textiles). Limiting ambition in target-setting undermines secondary market development and slows down circular investment. This more ambitious policy approach would boost recycling and the demand for its feedstock, cut

demand for virgin extraction, and make the EU more competitive and resource secure.

- **We support phasing out high-impact materials.** A compelling, actionable vision for the clean industry of the future must begin with clarity about which materials have a place in the future, and which do not. **We recommend that the European Commission and/or national governments build on existing frameworks, such as the Science Based Targets Network's High Impact Commodity List, to identify priority materials and product groups.** Based on this, phase-out roadmaps should be developed where feasible (e.g., PFAS and ultra-low durability textiles), while for other materials, the focus should be on prioritising and restricting their use to essential applications (e.g., certain plastics or rare earths in the energy transition). These roadmaps and prioritisation frameworks should be guided by two core criteria: 1) Environmental impact, including climate, biodiversity, freshwater use, and chemical pollution; and 2) Circular potential, i.e., the extent to which circular strategies can realistically be applied.
- **We call for creating a Harmonised Single Market:** A well-functioning single buying and selling market for secondary raw materials is a prerequisite for circular business models to scale in different industries. We encourage the development of clear, harmonised EU-wide standards and end-of-waste criteria to provide legal certainty and reduce cross-border administrative burdens. There is heterogeneity in the interpretation of regulations in different member States, and this could be an obstacle to the single market for waste and secondary materials. This risk of a "regulatory gap" adds uncertainty, which could increase the cost of capital or discourage cross-border projects. For instance, **there are still barriers regarding waste transportation across the EU: it might be difficult to transport waste across borders.** These inefficiencies must be addressed at the EU level.

The CEA's effectiveness depends on consistency with complementary frameworks, including the codesign for Sustainable Products Regulation, the Critical Raw Materials Act, the Waste Framework Directive, the CSRD and the EU Taxonomy. Clear alignment and cross-referencing would maximise synergies, minimise administrative overlap, and ensure that the CEA becomes a coherent part of the EU's wider sustainability architecture. A predictable, coherent, and supportive policy framework is essential to provide businesses and their financial partners with the confidence to make the necessary long-term investments.

## **2. Enabling circular business models through use-oriented services**

The transition to a circular economy fundamentally requires a shift from ownership-based to service(use)-oriented consumption patterns. Leasing shared and rental models represent critical enablers of this transformation that should be explicitly supported within the CEA framework.

**However, not all leasing should automatically be considered sustainable:** traditional leases resemble standard loans and do not extend asset lifetimes or support

shared use. Leasing can be deemed sustainable only when it finances use-oriented service models ('product as-a-service'), actively contributing to either prolonging an asset's life through refurbishment or increasing its utilization via sharing schemes (e.g., car sharing).

**Service-oriented business models create inherent circular incentives by fundamentally realigning economic interests.**

When companies retain ownership of products, they become directly incentivized to:

- **Optimize product longevity and durability:** Extended product lifespans directly improve return on investment, naturally encouraging design for durability rather than **planned obsolescence**.
- **Facilitate maintenance, repair, and refurbishment:** Asset ownership makes preventive maintenance and product upgrades economically rational, extending useful life and reducing resource consumption.
- **Enable end-of-life material recovery:** Retained ownership ensures products return to the manufacturer, guaranteeing access to secondary materials and enabling closed-loop material flows at scale.
- **Drive sustainable innovation:** Performance-based contracts shift competition from lowest acquisition cost to lowest total cost of ownership, rewarding resource efficiency and product quality.

Leasing and rental models, where purchase at the end of the contract is not an option, generate measurable circular benefits:

- **Material intensity reduction:** Studies show that product-service systems can reduce material consumption by 30-50% compared to ownership models through improved utilization rates and extended product lifespans (Tukker, 2015).
- **Waste prevention:** Products designed for multiple use cycles and retained by manufacturers show lower end-of-life waste generation, with recovery rates exceeding 90% in mature leasing markets (Ellen MacArthur Foundation, 2016).
- **SME accessibility:** Leasing reduces upfront capital requirements, making advanced, resource-efficient equipment accessible to SMEs that might otherwise opt for cheaper, less sustainable alternatives.

To unlock the full potential of use-oriented circular business models, the EBF recommends the CEA consider:

- **Recognizing leasing in sustainable finance when used to finance use-oriented business models:**
  - Sustainable finance frameworks (including the EU Taxonomy Regulation, the EU Green Bond Standard, and InvestEU) should explicitly recognize and incentivize use-oriented business models, including eligibility criteria.
  - Circular leasing portfolios should qualify for enhanced access to public funding where it is demonstrably shown to extend product lifecycles or usage intensity.



To this end, emphasis should be placed on cash flow analysis through contract-based finance rather than asset-based finance.

- **Capacity building:** Support initiatives that build expertise among financial institutions in assessing and financing service-oriented business models, including residual value estimation and circular product design evaluation. It is particularly important to recognize PaaS (Product-as-a-Service) in the EU Taxonomy, as it is an important point for servicing models.

European banks have extensive experience in asset-based financing and are well-positioned to scale circular leasing and products as a service model. However, this scaling requires a supportive regulatory framework that recognizes and rewards the circular characteristics of these portfolios and provides the data infrastructure necessary for robust risk assessment and evaluation.

By explicitly supporting service-oriented business models, the CEA can catalyse a fundamental shift in consumption patterns while creating attractive, de-risked investment opportunities for the financial sector.

### 3. Unlocking private financing for circular economy solutions

The absence of a level playing field, with circular products often coming at a premium, makes it necessary to scale up public–private (blended finance) solutions. **The CEA could facilitate the scaling of public-private financial instruments** such as loan guarantees, first-loss facilities and other de-risking instruments that can play a catalytic role in mitigating risks and mobilising the required volume of private capital.

To achieve this, the CEA should:

- **Promote blended finance mechanisms:** actively promote and deploy blended finance mechanisms, especially for financing innovation in disruptive technologies, which often have a high level of risk and long maturation periods. However, loan guarantees alone are not sufficient if repayment capacity is limited. To enhance the ability to repay Senior Debt (the capital at risk) and make bank financing viable, the CEA should focus on providing risk-bearing capital tailored to support circular economy investments.
- **Support the transition from virgin to secondary materials** and from finite to regenerative resources typically requires significant technological innovation. **However, financing such innovation through debt is often unsuitable due to strict prudential requirements, high technological risk, and uncertain market demand.** To address this, it is essential to offer well-designed blended finance solutions, including those involving equity financing, to support the development of enabling technologies. Supporting the investment phase, not only the operational phase, combined with appropriate blended finance mechanisms, can help close the investment gap and lead to the advancement of technological solutions for replacing virgin/finite materials with second/regenerative ones.

- **Expand EU-backed guarantees and embed resource use and the circular economy into public-private investment vehicles.** Embedding circularity directly into the EU financial architecture is essential. We recommend:
  - **Explicitly and systematically integrate circular principles (durability, repairability, and recyclability) into the eligibility criteria for EU financing instruments.**
  - **Replicate initiatives such as the Hydrogen Bank for circular infrastructure, e.g., creation of a Circular Economy Bank,** offering offtake guarantees for recycled inputs in industry sectors or for new technologies. In this context, these criteria mustn't be applied too rigidly in blended financing instruments, especially at this stage of transition. **Simplicity, replicability and scalability should be the key features of the blended financing.** We would recommend reviewing the effectiveness of the EU Taxonomy in incentivising additional investments in the circular economy. Blended financing should enable and accelerate meaningful steps towards circularity, while maintaining ambition for higher standards over time.
- **Support Capacity Building:** We see value in supporting initiatives that build technical expertise, both within the financial sector on assessing circular business models, and among companies as well as SMEs on developing bankable, investment-ready projects. **We propose that the CEA include measures for the creation of a European-level training program that connects knowledge to risk teams, to banks with companies (especially SMEs), thus facilitating the development of bankable projects.** The transition towards a circular economy requires an integrated ecosystem linking policy, finance, industry, and research. The CEA should promote partnerships and circular innovation clusters that connect SMEs, financial institutions, and technology providers. This would strengthen capacity, ensure data exchange, enable matchmaking between demand and supply, and build trust in secondary raw material markets as a key enabler.

#### 4. Creating the right data infrastructure

**To measure progress towards a circular economy, financial actors need access to consistent, reliable, and forward-looking data** on how companies manage material inputs and design for circularity. As President Ursula von der Leyen underlined in her 2025 State of the Union: *‘Only what gets measured, gets done’*.

Given that the CSRD, including ESRS E-5 on Circular Economy, which provides standardised metrics that go beyond waste management, is limited to large undertakings, **it is necessary to encourage and incentivise the uptake of voluntary reporting standards, including a small number of important KPIs on circular economy that could be voluntarily reported easily.**

Furthermore, there are already various ISO standards that contain circular economy-related KPIs and that market participants use to track the progress:



- ISO 59040: product circularity data sheet
- ISO 59202: measurement and evaluation of circularity performance
- ISO 59010: recommendations for the transition of business models and value networks
- ISO 50014: Environmental management and circular economy, sustainability and traceability of the recovery of secondary materials, principles and requirements.

We call for facilitating harmonisation of these voluntary standards to reduce process costs for all stakeholders and to enable effective comparison and benchmarking. Also, it would be important to remove unnecessary barriers that hinder data collaboration initiatives.

**We also urge the Member States to make all efforts to provide access to data already available at the national level, facilitate the creation of data platforms that could be made accessible to authorised users and encourage the use of existing data to enable a more efficient, transparent, and harmonized ESG data ecosystem.**

**The following resources, among others, were used:**

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9. **UNEP Finance Initiative** (2024). The Climate-Circular Economy Nexus: A guidance document for banks on the integration of circularity into climate action. [Link](#)
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12. **Zara C, Iannuzzi M, Ramkumar S** (2022). The impact of Circular Economy on Public Equity in Europe. *Bancaria - Forum Section*, 2022(9):1. [Link](#).
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