WCEF 2021

CANADA

WORLD CIRCULAR ECONOMY FORUM | FORUM MONDIAL DE L'ÉCONOMIE CIRCULAIRE

Accelerator Session: Financing the Circular Economy Transition

WHAT WE HEARD REPORT

CIRCULAR ECONOMY LEADERSHIP CANADA

UN environment programme | finance initiative

GLOBE SERIES

This project was undertaken with the financial support of:
Ce projet a été réalisé avec l'appui financier de :

Environment and Climate Change Canada | Environnement et Changement climatique Canada

BACKGROUND

On September 15, 2021, the United Nations Environment Programme Finance Initiative (UNEP FI) partnered with Circular Economy Leadership Canada (CELC) to host a virtual World Circular Economy Forum 2021 (WCEF2021) Accelerator Session focused on *"Financing the Circular Economy Transition."*

Powered by GLOBE Series, the two-hour event highlighted the pathways to advancing and scaling up circular economy financial solutions from both global and Canadian perspectives. Part one of the session, organized by UNEP FI, featured a globally focused panel that included:

- **Jan Raes**, Global Sustainability Advisor, ABN AMRO
- **Marisela Alvarenga**, Chief of the Financial Intermediaries Division, IDB Invest
- **Jean Luc Lavergne**, Founder, Lavergne Group
- (Moderator) **Peggy Lefort**, Resource Efficiency Coordinator, UNEP FI

Part two of the session focused on the opportunities for advancing circular finance in Canada and included the following speakers:

- **Jonathan Hackett**, Co-Head, Energy Transition Group / Head, Sustainable Finance and Managing Director, BMO
- **Michela Gregory**, Director ESG Services, NEI Investments
- **Gildas Poissonnier**, Director, Sustainability and Responsible Finance, Desjardins
- **Michelle Bonner**, Community Investment Portfolio Manager, Vancity
- (Moderator) **Elizabeth Shirt**, Managing Director, GLOBE Series

Close to 300 attendees tuned in for the session, including individuals from business, governments, NGOs, academia, and consultancy firms in over 30 countries, including Canada, the United States, the United Kingdom, India, Germany, Italy, South Africa, and Bangladesh.

This report summarizes the key takeaways from the session, and highlights the important near-term actions required to finance the circular economy.

WHAT WE ASKED

The following questions were used to guide the dialogue with speakers:

- What circular financing solutions are being implemented today?
- How can we accelerate the scale-up of circular finance within the financial sector and engage financial institutions not yet actively involved in circular financing, as well as players across the supply chain, including small and medium enterprises (SMEs)?
- What are the potential returns and associated risks of investing in circular products, services, and solutions?
- How can we leverage the intersection of the circular economy with broader environmental, social and governance (ESG) investment opportunities, the UN Sustainable Development Goals (SDGs), net-zero climate commitments, and green economic recovery objectives?

SESSION HIGHLIGHTS & KEY TAKEAWAYS

Participants were invited to respond to a poll on the role of the finance sector in supporting the transition to a more circular economy. Below is a snapshot of the results:

Beyond funding what do you think is the primary role of the finance sector in supporting the circular economy transition? (n=100)

- **47%** Supporting their clients to identify and implement circular opportunities
- **37%** Identifying new/innovative financing solutions and products
- **12%** Contributing to standardization of frameworks
- **4%** Contributing to data collection

The current state of circular finance

Despite the lack of harmonized frameworks, taxonomies, and metrics, financial institutions are beginning to move forward with initiatives to advance circular finance solutions in various ways. Globally, some financial institutions have set multi-billion-dollar targets for investing in circular deals. Large multilateral development banks are supporting financial institutions in developing structured frameworks to accommodate innovative financial solutions through third-party financiers and advisory services. A report authored by Patrick Schröder and Jan Raes and published by Chatham House titled, *"Financing an inclusive circular economy: De-risking investments for circular business models and the SDGs,"*[1] highlights the importance of public investment and stimulus packages to de-risk and incentivize financial investments in circular models.

The United Nations Environment Programme Finance Initiative's (UNEP FI) *'Demystifying Finance for the Circular Economy'*[2] report calls for the use of innovative financial solutions to accelerate the shift to circular business models. Opportunities include (1) rethinking the design and manufacturing of products and services, (2) reducing inputs in agricultural production, and (3) transforming industry with digital solutions, coupled with waste management models designed to close material and resource loops.

New financial instruments and innovative models are fundamental to progressing the circular economy. In tandem with conventional lending, micro financing has proved to be valuable in facilitating smaller community-led circular initiatives. Blended financing models, such as concessional financing, can help de-risk emerging technologies. As a result of these models, innovative circular start-ups have been able to catapult their business growth.

Within Canada, funding support for pilot projects and innovation labs has been pivotal for enabling circular business models and start-ups. For example:

- Desjardins is supporting the Center for Intersectoral Studies and Research on the Circular Economy (CERIEC) at the École de technologie supérieure ÉTS in Montreal through a CAD2.1 million investment to catalyze the transition to circular economy through research and pilot projects.
- Vancity is mobilizing initiatives like the Synergy Foundation's Project Zero incubator, which helps launch and scale circular businesses in British Columbia.

[1] Source: Financing an inclusive circular economy: De-risking investments for circular business models and the SDGs

[2] Source: Demystifying Finance for the Circular Economy

Accelerating the scale-up of circular finance

Financial institutions can accelerate the financing of circularity through a variety of mechanisms:

- **Setting targets.** Setting financial targets for circular deals, even if targets are small compared to targets for more "linear" deals, can be a helpful first step.
- **Capacity building efforts through workshops and courses.** Many financial stakeholders don't yet fully understand circular business models, in comparison with more traditional linear models. Financial institutions may perceive that investing in circular businesses is higher risk, with higher costs and potentially lower performance.

  Some European banks are successfully accelerating circular financing through capacity building efforts that increase basic understanding of circular business models. These include workshops with clients on how to move from linear business models to circular business models. They are also educating their own employees on the subject, especially client-facing staff, so that they are better equipped to engage with clients and are aligned with organizational circularity goals.

  ABN AMRO has a group of dedicated relationship managers who are trained on circular business opportunities, enabling them to proactively engage with clients on deals involving circular solutions. The bank also offers online workshops and certification courses to its broader range of employees to increase their awareness of the circular economy.
- **Building strategic partnerships and collaborations.** Financial institutions, including multilateral development banks, can leverage their vast networks of stakeholders to increase momentum around the circular economy. They can advocate for favourable policy and legal changes by facilitating dialogue and knowledge exchange with key actors in the financial sector and with policy makers. Additionally, strategic partnerships with regional coalitions and collaboration among financial institutions are fundamental to making meaningful progress in circular financing. Investors can also encourage their clients to consider strategic partnerships with other key players to facilitate industry-wide changes.

  The IDB Group has helped several countries in the Pacific Alliance to develop a roadmap for sustainable plastics management, and has assisted Colombian banks with developing circular taxonomies and indicators.

- **Leading by example** and learning from others. Leadership buy-in and commitments can be crucial to mobilizing project generation and financing opportunities in the circular economy. For instance, Desjardins has collaborated with the Québec Federation of Chambers of Commerce to conduct a series of 17 workshops that help educate and build capacity, as well as highlight opportunities for investors. Additionally, case studies and success stories can demonstrate best practices for risk mitigation, which can motivate and educate other organizations that have yet to integrate circularity into their business strategies. Peer networks are another great example of learning from circular economy leaders and facilitating knowledge exchange. For example, Vancity, in partnership with the Vancouver Economic Commission and the Share, Reuse, Repair Initiative, is convening a series of online events to foster a peer network and learning.

Supporting SMEs to identify circular and transition funding opportunities

SMEs are driving forces of innovation and entrepreneurship in any economy. Supporting SMEs who are advancing circular business models is crucial to enabling a whole-of-economy movement towards circularity. However, SMEs often face diverse challenges that require equally diverse solutions. Some of the ways in which SMEs can seek financing to advance their circular businesses include:

- **Strategic value-chain partnerships to unlock new opportunities.** SMEs and start-ups facing low growth and limited access to financing often find it difficult to break into existing industries and supply chains. Such companies can benefit from working with more established players within the value chain who can provide support, capacity, and auxiliary services. For example, in the agile chemical catalysts industry, SMEs may benefit from collaborating with larger labs. Québec-based Lavergne Group has been partnering with HP Inc. for over 20 years on their efforts to optimize the use of post-consumer recycled plastic.

  Given their role as intermediaries, financial institutions can help facilitate these partnerships by connecting SMEs in their networks to their more established clients who could benefit from specific circular solutions. Multilateral development banks can also support SMEs by unlocking financing and developing technical assistance to anchor companies in the SMEs' value chain.

- **De-risking investment decisions through transparency and awareness building.** Investors and risk committees involved in financing decision-making often lack an understanding of the long-term benefits of circular products, services, and/or business models, and often consider them higher risk. To help educate investors, business owners should look to build confidence by adequately showcasing their business models and product manufacturing processes.

- **Making a solid business case.** SMEs need to develop a credible business plan with supportable cash flow projections to secure financing. Basic knowledge of key performance indicators (KPIs) and monitoring tools can help them demonstrate the progress and positive impact of their project. When making their case to investors and lending institutions, businesses should be prepared to communicate about the environmental and social impact of circular models, and how that aligns with the broader sustainability goals of financial institutions. They should also be willing to work with the financial sector to educate and co-develop solutions and flexible options.

Understanding the potential risks of investing in circular products, services, and their solutions

There are significant barriers in the current financial ecosystem that hinder the acceleration of circular financing. In the absence of formal taxonomies and performance metrics, which will take time to develop, it will be key to coordinate efforts to establish a common understanding of risks and expected returns. Leveraging lessons learned from more established sustainability priorities, including climate change, biodiversity preservation, and waste management can help to formulate baseline metrics. More robust dialogue can further inform how to evolve those measures to meet the current need of the industry.

A key challenge with circular finance is the absence of more traditional financing mechanisms. For example, it may be more challenging to enter into long-term offtake agreements for some circular business model inputs. Such challenges could be addressed by learning from the tools and the structures of more traditional markets; for example, through guarantees and insurance solutions that may lower near-term returns but provide more long-term stability (e.g., guaranteed payment for non-delivery, performance guarantees on new technologies, guaranteed delivery of inputs at contracted prices). Additionally, contracts may need to take into account external policy and regulatory considerations that arise when procuring circular inputs so that baseline risks are properly reflected. For example, with carbon-to-value solutions, competition for carbon dioxide may increase with policy or regulatory changes, and companies may need to employ tools to hedge against such risks.

Circular businesses also often face larger upfront costs compared to conventional competitors. This can make it difficult for start-ups to overcome the "valley of death" and catapult into success. Additionally, the circular value chain may limit the geographical expansion required to scale up and achieve economies of scale. Equity investors need to shift their focus to long-term sustainable value creation to enable financing for innovative entrepreneurs and early-stage ventures.

Leveraging ESG and net-zero objectives with circular financing

Circular economy opportunities and priorities are increasingly intersecting with broader ESG considerations such as biodiversity, equity, diversity and inclusion, and climate action goals, although the intersections are not yet well understood. Investment in circular business strategies and operations can result in significant positive social, environmental, and economic benefits. Circular businesses are creating more resilient green jobs and skills that will be needed in a low-carbon future. For instance, the Share, Reuse, Repair Initiative's *Just Circular Recovery and Transition* project[3] brings together circular innovators and community organizations to advance employment opportunities within marginalized communities. Additionally, circular businesses are prompting consumers to have conversations around lighter living and to make more sustainable choices.

A study by the Ellen McArthur Foundation shows that 45% of greenhouse gas (GHG) emissions are associated with products and food.[4] Achieving net-zero commitments will require reducing embodied carbon through circular strategies, such as designing for reuse and remanufacturing, product-as-a service models, and advanced recycling. For instance, the Ellen McArthur foundation estimates that remanufacturing and reusing an engine reduces carbon intensity by 85%.[5]

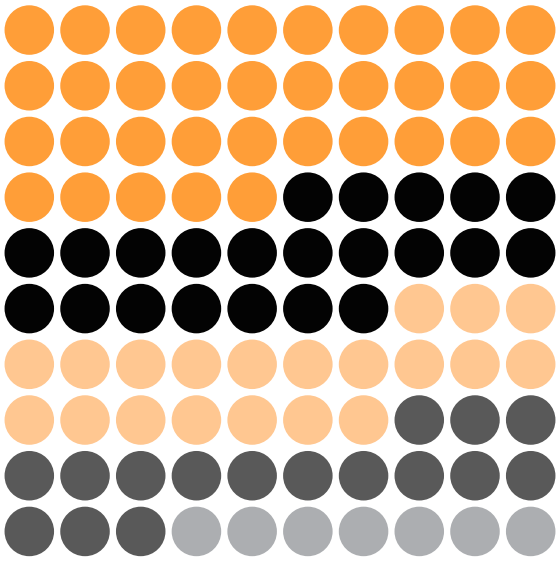
While circular solutions often align with ESG goals and net-zero commitments, it is important to consider the risk of unintended negative consequences. For example, while a significant increase in the manufacture and deployment of solar panels, wind turbines, or electric vehicles could have positive climate impacts, the result could be an increase in material being landfilled upon decommissioning. Such "rebound effects", where an increase in the availability of more sustainable products and services may actually cause consumers to demand and consume more, could negatively offset some sustainability advantages. To ensure sustainable growth, investors should employ methodologies like life cycle assessments that consider impacts of business solutions across whole value chains, as well as potential externalities. Additionally, establishing contract requirements related to product and service inputs and outputs with embedded ESG indicators can help.

[3] Source: Just Circular Recovery and Transition
[4] Source: Completing the picture: How the circular economy tackles climate change
[5] Source: Climate change and a circular economy for transport

CALL TO ACTION

Participants were invited to take part in a closing poll on the highest priority actions needed to scale up circular finance. The responses are summarized in the chart below:

Based on what you've heard today, what do you think is the most important next step required to enable the scale up of circular finance? (n=45)



35% Increased collaboration and partnerships

22% Awareness raising and building capacity

20% Enhancing policy and regulation

16% Better standardization data, indicators, and metrics to help investors estimate returns and risks

7% Linking the circular economy transition with the overall environmental and social agenda

Speakers closed the session by highlighting the key actions that should be taken in the next 12-18 months to accelerate circular finance in Canada and around the world.

The actions identified were:

1. Advocate for a cohesive strategy that will accelerate momentum around circular financing.
2. Demonstrate the business case for circular businesses through more case studies and success stories.
3. Develop collaborative partnerships amongst financial institutions to facilitate knowledge exchange on best practices and to foster a peer-to-peer network.
4. Consider value driven approaches to investments that go beyond traditional financial metrics, and take into account all dimensions of sustainability including natural and human capital and incorporate measures of social, environmental, and economic prosperity.
5. Practice a holistic approach to financing that incorporates not only financial institutions but the whole value chain and ecosystem.
6. Push for a harmonized, definitional framework with key indicators and information to allow financial institutions to better understand circular economy opportunities, risks, and returns.
7. Make a stronger linkage between circular finance and its potential to support broader sustainability related goals around ESG and climate / net-zero objectives.

These actions can be considered opportunities for further engagement and the focus for the next round of deeper dive discussions over the coming months.