



Study overview and recommendations

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Partners



- The study was commissioned by **UNEP FI, UNEP, GO4SDGS**, in close cooperation with the **IDB and IDB Invest**.
- Co-funded by **Germany (BMUV) and European Commission**.
- **Research and analysis** carried out by **Instituto Escolhas and Exchange4Change Brasil**.

Partners



Technical support



Interest group



OBJECTIVE: facilitate a peer to peer exchange and develop knowledge on technical and policy issues relating to financing resource efficiency and the transition to a circular economy.

REPRESENTATIVES: from financial institutions, development banks, sector and banking associations, governments, and relevant stakeholders from different countries.

ACTIVITIES: peer to peer knowledge exchange sessions, workshops, guidance and feedback on initial text and final recommendations

Brazil	BNDES FINEP CNI
Chile	Ministerio del Medio Ambiente Banco Estado CORFO
Colombia	Bancolombia Bancoldex
Costa Rica	Banco Promerica BAC Credomatic
México	BBVA
Perú	COFIDE
Republica Dominicana	Banco Popular Dominicano
Members of the global working group	Banco Pichincha(Ecuador) Sudameris(Paraguay)
Partners and Technical Support	UNEP UNEP FI IDB IDB Invest Instituto Escolhas Exchange4Change Brasil

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Study objectives



1. Presents an overview of the **existing circular economy practices** in Latin America.
2. Provides **recommendations** to financial institutions, regulators, and policymakers towards implementation
3. Highlight **how circular economy can contribute to the net-zero** global agenda.

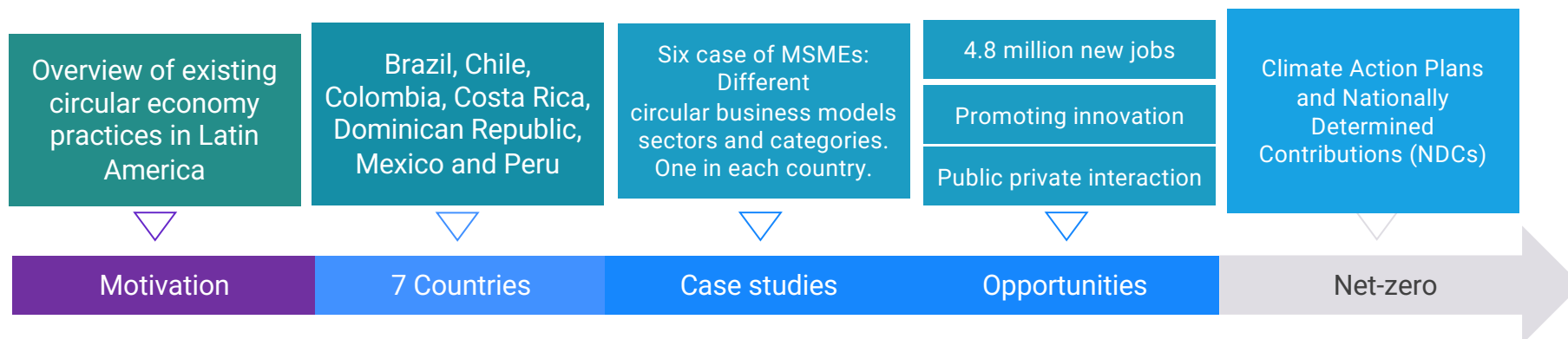
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Study overview



KEY MESSAGES

- The region is on the right path toward circularity
- Financial instruments can catalyze CE implementation
- Proper classification of circular economy projects is needed
- MSMEs are game changer
- The Financial Market must join forces

- ✓ policies and local regulations are under discussion enabling a long-term vision on the circular economy expected returns.
- ✓ The research has identified 6 types of financial instruments
- ✓ CE demands a new mindset and assessment boundaries
- ✓ MSMEs cannot do it alone, they need collaborative support models, market engagement facilitation and incentives
- ✓ this is key to overcome barriers and and foster a CE finance ecosystem. There is a lack of knowledge integration among financial institutions and ambiguity on the definition

FROM LINEAR TO CIRCULAR

New assessment boundaries and the circular mindset



The circular economy requires **an amplified vision of value generation**, **new risk assessment methods**, **long term thinking** and **mutual collaboration**;

- We need to expand the **project valuation methodology** to ensure predictability and transparency - crucial elements often raised by banks to define risks and rates of return;
- We need to **elaborate new financial instruments, tax of returns and guarantees** suitable to new circular economy business models and multisectoral systemic projects. New questions must be asked and new connections made along the value chain;
- We need to consider **the use and post use phases of a product**. Targets for the use of recycled raw materials are not enough if we do not invest in infrastructure and consumer education.
- We need to **quantify the residual value of waste materials** to guarantee the return on investment of reverse value chains moving from a cost based analysis to an investment analysis

The cost of avoiding linear economy risks, climate mitigation, waste disposal and pollution must be incorporated into financial decision-making , environmental and social risk systems
(Credit Risks / Operational Risks)



How the Circular Economy Can Help Nations Achieve Their Climate Goals



November 5, 2021 By **Stientje van Veldhoven** and **Carolina Schmidt** Cover Image by: Henry & Co./Unsplash

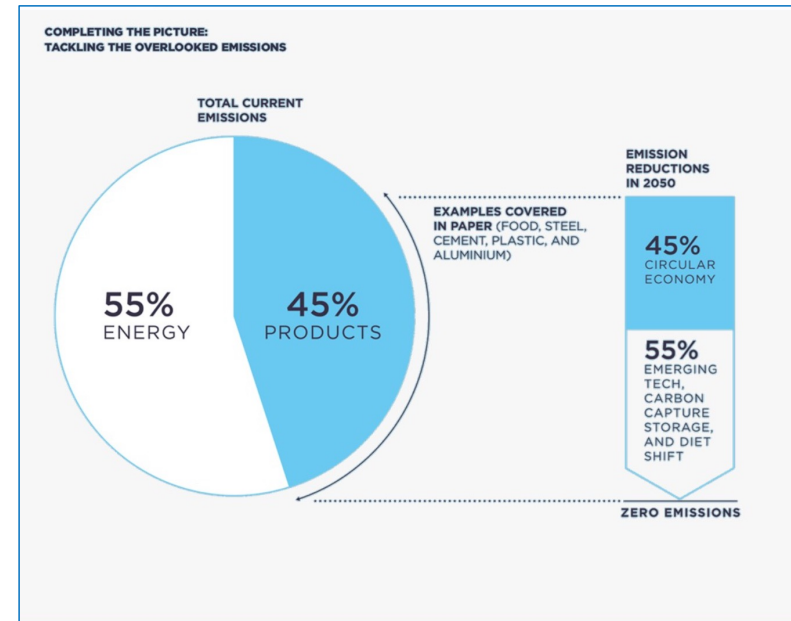
The Circular Economy promotes a systemic and viable model for combating climate change.

Targets for 2050:

- **In a linear system:** the production of steel, aluminum and plastic can increase emissions by up to 4%
- **In a circular system:** emissions can be reduced by 9.3 billion tonnes - 45% closer to net zero emissions targets.



If we double circularity in the global economy, we can reduce total emissions by 40% by 2050.



Public policies and legal instruments landscape

Circular centrality



	Country						
	Brazil	Chile	Colombia	Costa Rica	Dominican Republic	Mexico	Peru
National frameworks on Circular Economy							
National Vision, plan or law on Circular Economy	!	✓	✓	!	!	✓	✓
CE 2020 NDC's inclusion	✗	✓	✓	✓	✓	✓	✗
Other national plans, strategies and laws mentioning CE concept	!	✓	✓	✓	✓	✓	✓
Participation in CE Coalition for LAC	✗	✓	✓	✓	✓	✓	✓
Policies for the circulation of							
Sustainable production and consumption policies	✓	✓	✓	✓	✓	✓	✓
Extended Producer Responsibility (EP) Legislation	✓	✓	✓	✓	✓	✓	✓
Waste management & pollution reduction							
Waste management	✓	✓	✓	✓	✓	✓	✓
Plastic ban	!	✓	✓	✓	✗	!	✓

- ✓ **Green:** demonstrates the availability of a circular economy instrument, including circularity implementation measures in terms of leadership, goals, and indicators.
- ✓ **Blue:** demonstrates the availability of a formal instrument in the country, but no current circularity implementation measures.
- ! **Yellow:** discussions have started, but instruments are still under development.
- ✗ **Red:** research did not identify any instrument or policy-related material to date.

The analysis shows that all seven countries are on the right path toward circularity.

Incorporating such a business model will create a just, regenerative, and global circular economy.

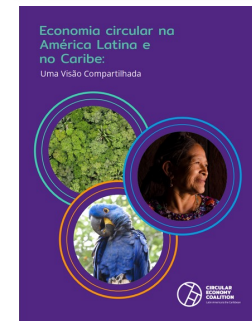
CHECK POINT: some governments link circular economy with waste management only while others already connect with their climate action plans and Nationally Determined Contribution (NDCs) promoting innovation and job creation by shifting to the circular economy.

Public policies and legal instruments landscape

Opportunities

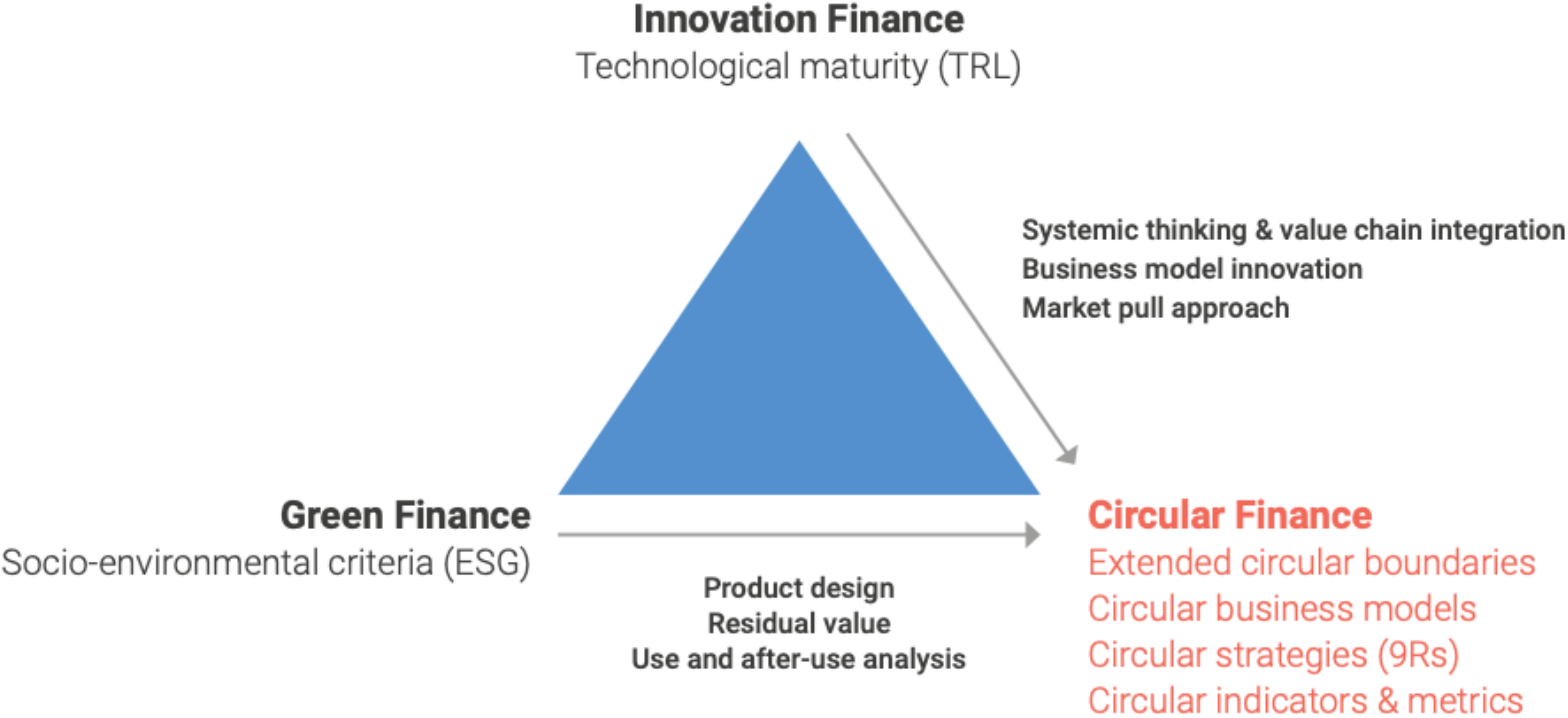


1. **Knowledge exchange** with other countries, learning from best practice and engagement of key local stakeholders since the start of the process
2. **Develop intersectoral strategies** which will help to strengthen the country's economic, environmental and social development model, as well as, the understanding of a systemic mindset
3. **The active participation in** the Latin America and the Caribbean Circular Economic **Coalition** could be a potential starting point to accelerate the discussion in the region and creating a common agenda and CE taxonomy.



Circular Finance

A different mindset



Opportunities for financial instruments

6 different types and 4 categories for different applications

Debt-based instruments			Equity-based instruments	Hybrid instruments	Non-reimbursable instruments
Banking credit	Long-term loans	Green bonds	Private equity & venture capital	Convertible debt & equity, Structured, Mezzanine	Grants
Bancolombia Banco Estado de Chile	Bancoldex BNDES CORFO COFIDE Sistema Banca para el Desarrollo IDB/IDB Invest	FEMSA-Coca cola Bancolombia Green bonds wwith CE KPIs and related categories	FINEP BNDES Kapin Capital Rise Ventures Global Ventures Inversor FONADE Fondo de Capital para emprendimientos inovadores (FOF)	Pomona Impact/IDB	CORFO Innovate Peru/Ministry of Finance PROPYME Fund, Costa Rica's Ministry of Science ERA-MIN Program (FNEP/BNDES)
					Blended finance
					Latitud R

It was mapped **25 deals**.

Each financial instrument with and **unique characteristics**, focused on a specific opportunity for the region, and challenges to overcome;

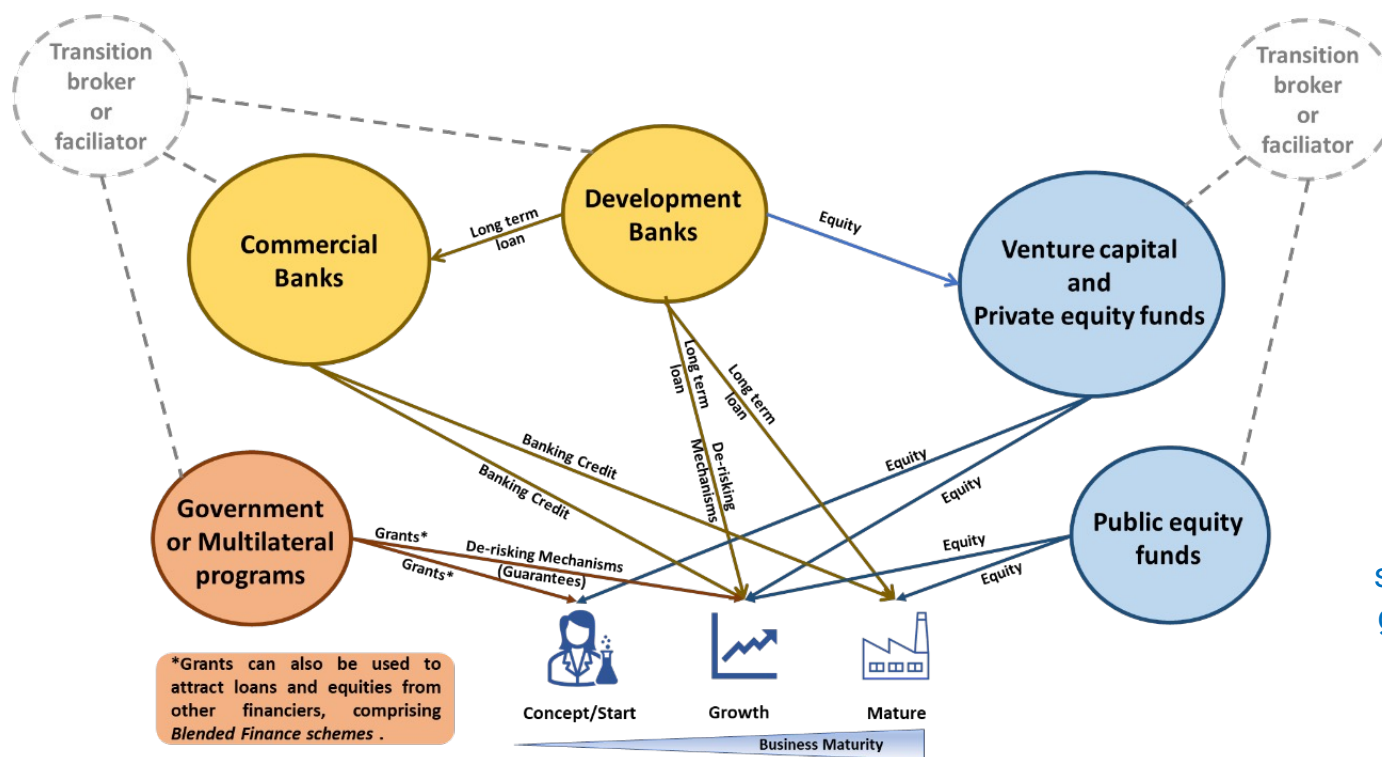
68% of the deals have a **partial or high level of centrality** in the circular economy;

Much effort is still required for their expansion and incorporation of circular economy full conceptual foundations.

Most common clients in our sample:

Large and medium corporations	Corporations and SMEs	Large corporations and startups	SMEs and startups (growth)	Corporations and SMEs (incl. co-finance)
Risk appetite				

Proposition for Circular Economy Finance Ecosystem



*Grants can also be used to attract loans and equities from other financiers, comprising *Blended Finance schemes* .

The circular finance ecosystem is essential to build capacities, raise clients' awareness, and contribute to policy framework development.

All play a crucial role in paving the way to structured blending finance, guarantees, and mezzanine instruments in circular economy projects leveraging commercial banks.

New financing models

The 3 key CE motivators

1. Risk-based finance model:
driven by risk or necessity



An **impact-focused investment management firm** that aim to catalyse investment solutions to stop ocean plastic in emerging markets.

They currently have 2 funds: Circulate Capital Ocean Fund (CCOF I) that provides debt and equity to finance waste management, recycling and circular start ups and SMEs and the Circulate Capital Disrupt which is a companion venture and private equity fund to CCOF that invests globally in disruptive technology at the nexus of climate tech and circular plastics.

2. Mission-based finance model:
driven by mission or value proposition:



National Development Banks must support projects that are in alignment with national development strategies, leading the financial system to meet the nationally established goals.

In 2018, **the Chilean national development agency CORFO** has gained prominence in the regional arena through its **CE-focused innovation programs**. CORFO launched "Prototipos de Innovación en Economía Circular" to co-finance companies aiming to develop circular product prototypes.

3. Opportunity-based finance model:
driven by competitive advantage



This driver comes from the organization choosing to use circularity as a distinctive market proposition. **Private financial institutions** are seeking greater interaction with circular experts. They have launched a **€6 billion credit facility** dedicated to circular economy projects with the support of EMF which led to the development of a Circular Economy Lab, where technical support is provided to clients.



Circularity Capital is a **specialist private equity firm** investing in growth stage circular businesses.

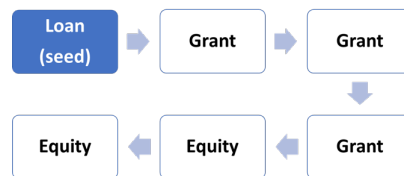
Its founder has long-term experience in the circular economy, and has therefore developed a unique governance and assessment model, which selects projects sotely based on the five OECD-approved circular business models.

Case studies: MSMEs as game changers

Financial Journey:



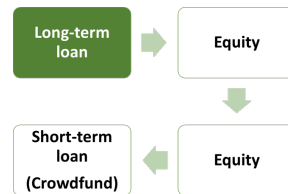
Algramo



**Inclusive solution for optimal use of packaging:
Venture capital with expert support to expand
successful circular business models.**



Tobasa
BIOINDUSTRIAL
Uma companhia ecológica



**Bioeconomy and diversification:
The financial industry as a driver for change**



ecoins

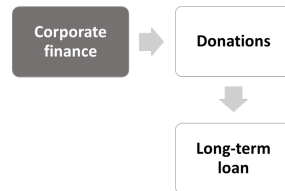


**Technology and new commercial relationships
strengthen the recycling value chain and circular
economy adoption:
Private-Public Alliance for green tech development**

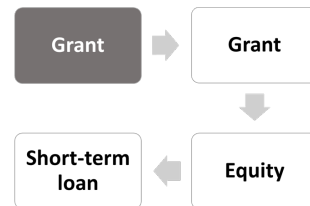
Case studies: MSMEs as game changers



Financial Journey:



Make social businesses flourish:
Long-term loans and hands-on growth support

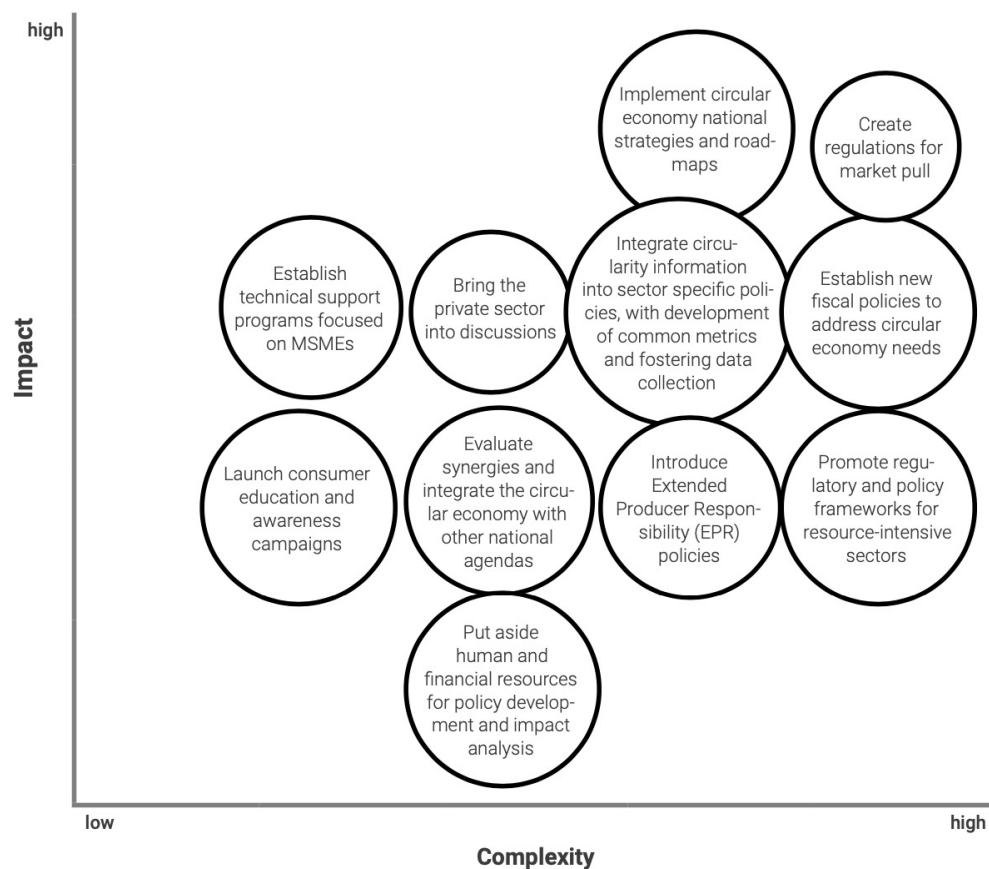


Circular products from Construction and Demolition Waste (CDW):
The investment journey and the market pull



Corporate investment in circular business model development:
New business revenues with Product-Service System (PSS)

Recommendations for Policymakers

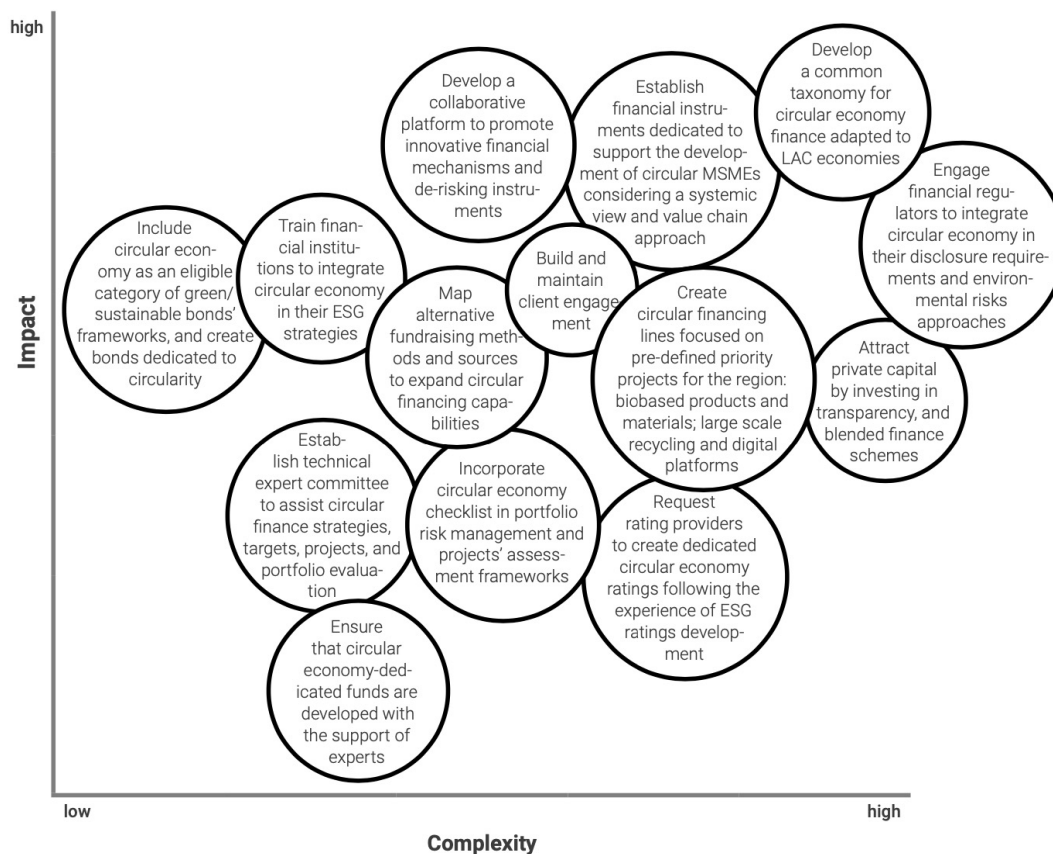


In terms of the policy framework, policymakers must **create the appropriate conditions for the region's circular transition by implementing measures involving different stakeholders.**

Such changes may include implementing circular economy **national strategies and roadmaps; developing or improving policies and regulations in line with circular economy principles; and supporting other public policies** that may affect the circular transition, such as the urban planning process, sustainable production and consumption, and procurement guidelines.

Practical tools, educational programs, and international knowledge exchange must also be in place to facilitate business engagement.

Recommendations for the Financial System



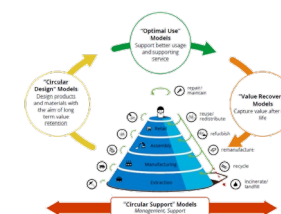
Developing a taxonomy for circular finance adapted to LAC economies is an important step. This should be a joint effort involving different stakeholders, as it is critical to engage and include all stakeholders in the value chain to work together when redefining roles and responsibilities.

Financial institutions can shift the balance towards circular projects by **phasing out incentives for non-circular products, creating attractive loan conditions, and developing purchase guarantees that can mitigate risks.**

Priority projects for Latin America

CE Business models categories within the value hill by EIB

	Circular Design Models	Optimal Use Models	Value Recovery Models	Circular Support Models
	Technological demand for alternative raw materials and products with long term value retention	Support better usage and supporting service	Capture Value after user life	Management support and tools
Priority projects for LAC	Bio-based products and materials There is a large potential for bio circular economy considering the regional natural ecosystem. Circular design should be considering when developing new bio-based products on the use and after use phase.	Durable, modular, reusable and repairable products New and more qualified jobs in the region could be generated through capacity building and new skills. Durable and modular designed products aiming at repair / remanufacturing and sharing models will bring social benefits for the region.	Large scale recycling facilities and biorefineries Waste material from the agricultural sector and post-consumer could be transformed into new raw materials avoiding cities waste and pollution.	Information & communications technologies Circular business models that require digital platforms, blockchain structures, materials' traceability and sensor systems can maintain and add value to materials and create new consumption experiences .
	R-behaviours	Refuse, Rethink, Reuse, Repurpose	Refuse, Rethink, Reuse, Repair, Repurpose, Refurbish and Remanufacture	Rethink, Reduce, Repurpose, Recycle, Recovery
Examples	Compostable packaging, renewable energy, regenerated fibers, biofertilizers, starch-based packaging, etc...	Computer remanufacturing and leasing, clothes repair, repair cafés, secondhand market, refilling systems, and facilities, etc...	Large automatic facilities for materials separation, biorefineries to produce multiple products, new molecules, energy, and materials from agro-industrial residues for example nanocellulose from mango seeds.	Product as a service and leasing like bike sharing, uber and technologies that are enablers of new consumption habits and business models.



Different financial schemes for each category and a guided pathway for risk management highlighting new questions and assessment elements.

In summary: partnerships are key



The establishment of long-lasting partnerships has laid the ground for the development and promotion of Circular Economy Strategies around Europe.

Scaling up Circular Economy products will require continuous collaboration in this type of platform where members can seek to implement pilots and instruments.

We need to move beyond innovation finance, green & ESG finance and understand that circular economy demands new business models.

We need different KPIs to measure progress and partnerships to leverage the agenda.



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Technical support

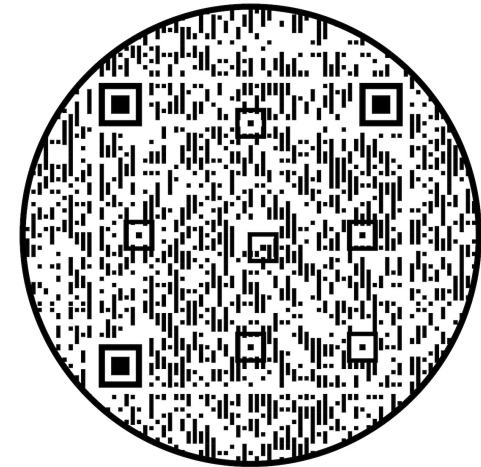
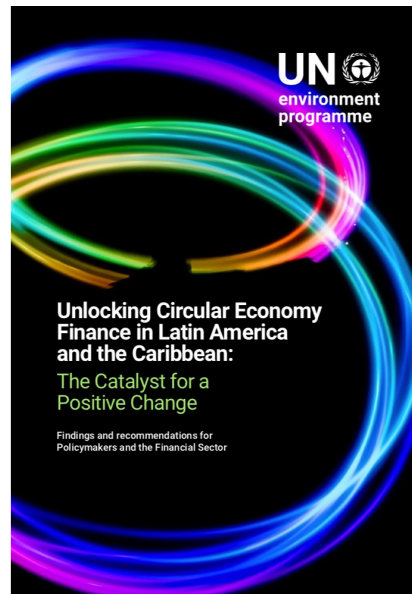


Download
the full report here

Thank you

Beatriz Luz

Founder and Business Director
Exchange 4Change Brasil



<https://www.unepfi.org/publications/unlocking-circular-economy-finance-in-latin-america-and-the-caribbean-the-catalyst-for-a-positive-change/>