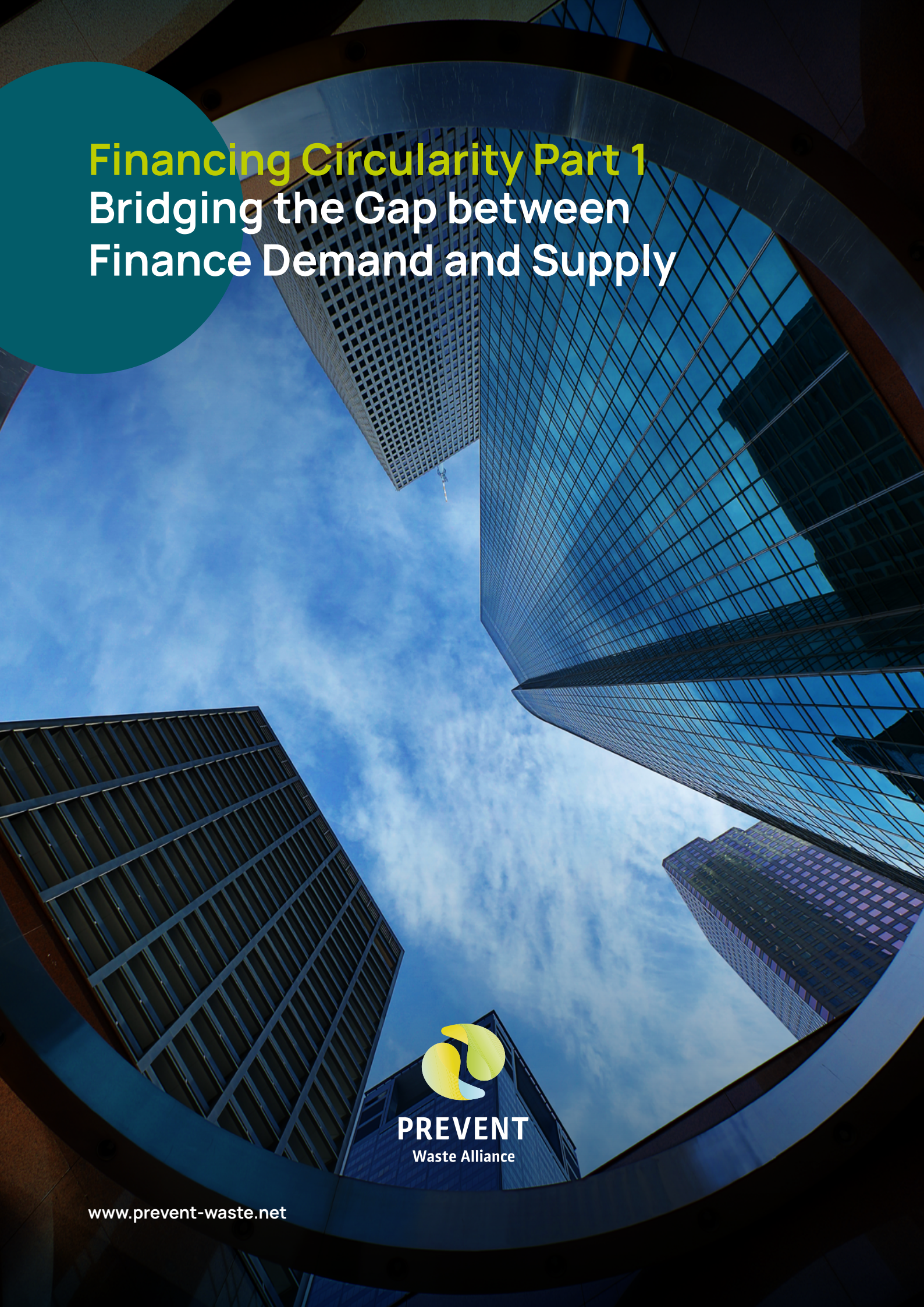

Financing Circularity Part 1
Bridging the Gap between Finance Demand and Supply

PREVENT
Waste Alliance

www.prevent-waste.net

Financing Circularity Part 1 – Bridging the Gap between Finance Demand and Supply

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PREVENT Waste Alliance

Launched in 2019, the PREVENT Waste Alliance serves as a platform for exchange and international cooperation for circular economy practitioners worldwide. It brings together more than 500 organisations from the private sector, academia, civil society, and public institutions. The PREVENT members contribute to minimizing waste, eliminating pollutants, and maximizing the re-utilization of resources in the economy worldwide.

They strive to reduce waste pollution in low- and middle-income countries (LMICs) and work together for the prevention, collection, and recycling of waste, as well as the increased uptake of secondary resources. The alliance focuses on three material streams: plastics, electrical and electronic equipment and organic waste.

More information available at: www.prevent-waste.net

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SAGANA is a global impact investment advisory firm working to unleash the potential of people, capital and business to create a better future for all. Sagana leverages decades of experience in private equity, impact investing, and entrepreneurship to discover, invest in and grow companies that are successfully solving some of the biggest challenges of our time - in topics like climate change, sustainable fashion, food technology, circularity, health and wellness, education and gender and diversity.

The Canopy Lab is a small consultancy driven by curiosity and the understanding that the world's greatest challenges require fast learning, rigorous iteration and pragmatism. We help our clients think deeper and work smarter to solve today's complex problems.

Executive Summary

The circular economy (CE) represents a critical contribution to overcoming global environmental crises, yet it remains significantly underfunded. Current financial flows traditionally favour linear models, with only a fraction of government and private sector spending directed toward CE initiatives. This disparity leaves CE organisations, especially small and medium enterprises (SMEs) in low- and middle-income countries (LMICs), struggling to secure capital for research, operations, and scaling. Barriers to finance include high collateral requirements, limited availability of risk-tolerant capital, and a lack of awareness among funders about the unique benefits and revenue alleys of circular business models. Grant funding is available to some extent, but often entails complex application processes and opaque decision-making, resulting in low success rates. These challenges disproportionately affect organisations in emerging markets, exacerbating global inequities in financing access, thereby substantiating the gap between finance demand and supply for the CE sector.

Research Focus
This report summarizes the results from a comprehensive mixed-methods study aimed at identifying barriers to financing CE and proposing actionable solutions. The research involved:

- **Surveys:** A global survey of CE organisations, with 78% of respondents representing LMICs. The organisations vary across sectors and business models, including circular value recovery, circular design, and circular use.
- **Interviews:** In-depth interviews with over 50 CE organisations and funders, providing qualitative insights into financing challenges, such as difficulties in communicating the CE value proposition and the high-risk nature of unproven business models.
- **Landscape Analysis:** A review of 1,224 funding institutions globally, assessing their CE focus, investment strategies, and appetite for risk.

Key Findings
The research findings reveal a systemic mismatch between the needs of CE organisations and the criteria for funding from financial institutions (FIs). Only 5% of funders explicitly prioritize CE, and most evaluate CE projects through traditional lenses, failing to account for the distinct advantages of circular models. CE organisations in LMICs reported particularly acute challenges, specifically pointing at a lack of funding for amounts between $50,000 and $1 million. This phenomenon is known as the "missing middle."

Coordinated action, by all stakeholders, is required to bridge the existing financing gap. CE organisations need to develop strong business cases, build partnerships, and adapt proven models from high-income countries (HICs) to local contexts. Funders, in turn, should adopt specialized frameworks to better assess CE opportunities, including metrics like Circular Transition Indicators. Policy innovations are equally crucial. Governments can support CE initiatives by implementing regulations that mandate recycled content, penalize unsustainable practices, and incentivize innovation. Development organisations and grant-makers should provide technical assistance and promote collaborative funding models to support ecosystem-wide transitions to circularity.

This report, Part 1 of a two-part series, focuses on identifying financing gaps and proposing solutions. Part 2 provides detailed guidance for CE organisations to access suitable financing and navigate the complexities of the funding ecosystem. Together, these report insights aim to empower CE stakeholders to overcome financial barriers and accelerate the transition towards a global circular economy.

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List of Abbreviations

B2B: Business-to-Business

B2C: Business-to-Consumer

BMZ: German Federal Ministry for Economic Cooperation and Development

CAPEX: Capital Expenditure

CE: Circular Economy

CSO: Civil Society Organisation

DFI: Development Finance Institution

ECB: European Central Bank

EIB: European Investment Bank

EPR: Extended Producer Responsibility

FI: Financial Institutions

GP: General Partners

HICs: High-Income Countries

KIIs: Key Informant Interviews

LAC: Latin America and the Caribbean

LMICs: Low- and Middle-Income Countries

LPs: Limited Partners

LTV: Loan-to-Value

MDB: Multilateral Development Bank

NBFC: Non-Banking Financial Company

PaaS: Product-as-a-Service

PE: Private Equity

ROI: Return on Investment

R&D: Research and Development

SMEs: Small and Medium Enterprises

USAID: United States Agency for International Development

VC / CVC: Venture Capital / Corporate Venture Capital

1 Introduction

1.1 Context

Current rates of raw material extraction and processing contribute 55% of global greenhouse gas emissions and 90% of total land use related biodiversity loss.[1] Trends are discouraging, with some estimates pointing to resource use increasing 60% from 2020 levels by 2060.[2] Waste generation is expected to increase too, at more than double the pace of population growth between now and 2050.[3] Consequently, our planet is grappling with a waste issue. Circular economy (CE) presents a promising approach to address the triple planetary crises of climate change, pollution, and biodiversity loss by minimising waste and maximising resource efficiency.

However, while there are efforts towards standardisation such as ISO 59000,[4] there is not yet a universally acknowledged definition of what the CE is, which poses a challenge[5] for the proponents of a transition towards a CE. Due to, in part, the absence of a clear conceptual consensus, there is limited data on the barriers to circularity encountered by CE organisations.[6] For example, while it is generally accepted that there is a CE financing gap, this gap has not yet been quantified in a way that informs action. There is also a lack of research on the specific financing barriers faced by CE organisations and the strategies to address them. Moreover, the literature review confirmed that there is limited research capturing the experiences of CE organisations on their funding needs, and there is an absence of CE focused funder databases. Although existing databases and matchmaking platforms may list some CE organisations, they offer limited coverage of the various types of funding entities and lack clarity regarding their focus on circular economy initiatives or their geographic reach.[7]

While data on the total supply of financing for CE initiatives from various actors remains limited, indicative evidence suggests that funding for CE efforts falls significantly behind that directed toward the linear economy. For instance, in 2019 it was estimated that only 4% of government spending and 3% of the total value of the corporate sector went into financing CE.[8] The financing gap in developing countries alone to implement measures to end plastic pollution is estimated at USD 300-500 billion.[9] Although several investment funds have been created to invest in CE projects and businesses (i.e. the Circular Economy Investment Fund managed by BlackRock) and assets in public equity funds with a CE focus have increased sixfold over the last years - outperforming non-CE funds by an average of 5 percentage points - spending on CE organisations remains limited. Most sustainability-oriented financing is concentrated on traditional elements of the greening agenda, such as decarbonisation or renewable energy.[10] [11] The lack of investment in CE projects is particularly concerning for startups, which often struggle to secure capital for research, product development, and pilot testing before achieving profitability. This funding gap is most notable in sectors like plastic waste management, where investments tend to focus on developed countries and downstream processes such as recycling while little attention is paid to upstream solutions like product design and manufacturing.

[1] United Nations Environment Programme. (2024). Global Resources Outlook 2024: Bend the Trend – Pathways to a liveable planet as resource use spikes. International Resource Panel. Nairobi. https://wedocs.unep.org/20.500.11822/44901
[2] Ibid.
[3] World Bank. (n.d.). WHAT A WASTE 2.0 A Global Snapshot of Solid Waste Management to 2050. https://openknowledge.worldbank.org/entities/publication/d3f9d45e-115f-559b-b14f-28552410e90a/full
[4] ISO. (2024). ISO 59004 Circular economy — Vocabulary, principles and guidance for implementation 2024. https://www.iso.org/standard/80648.html
[5] The European Commission (EC). (2020). Categorisation System for the Circular Economy: A sector-agnostic approach for activities contributing to the circular economy. https://circulareconomy.europa.eu/platform/sites/default/files/categorisation_system_for_the_ce.pdf
[6] For the purposes of this study, "CE organisations" comprise the private sector, academia, civil society organisations and public sector organisations that work in the circular economy (across circular design and production, circular use, circular value recovery, and circular support models)
[7] Morseletto, Piero & Haas, Willi. (2023). Perspective A call for high-quality data to foster a decisive transformation towards a circular economy. Resources Conservation and Recycling. https://www.researchgate.net/publication/373953918_Perspective_A_call_for_high-quality_data_to_foster_a_decisive_transformation_towards_a_circular_economy
[8] Just Economics & Chatham House. (2021). Circular investment: A review of global spending and barriers to increasing it. https://static.resourcetrade.earth/JE-07-Circular-Economy-Report-vf.pdf?utm_source=chatgpt.com
[9] Charles D. & Cumming P. (2024). The Polymer Premium: A Fee on Plastic Pollution, Minderoo Foundation. https://cdn.minderoo.org/content/uploads/2024/04/21232940/The-Polymer-Premium-a-Fee-on-Plastic-Pollution.pdf
[10] Ellen MacArthur Foundation. (2020). Financing the circular economy - Capturing the opportunity. https://bbia.org.uk/wp-content/uploads/2020/12/Financing-the-circular-economy.pdf
[11] Schroder, P., & Raes, L. (2021). Financing an inclusive circular economy. Chatham House. https://www.chathamhouse.org/sites/default/files/2021-07/2021-07-16-inclusive-circular-economy-schroder-raes_0.pdf

Additionally, CE investments are largely concentrated in HICs, leaving emerging markets—many of which are the biggest contributors to plastic pollution—underfunded and thereby creating regional imbalances.[12] [13]

Another recurring theme in the literature is the need for policy innovations to level the playing field for CE businesses in competition with linear solutions. As European Investment Bank (EIB) (2015) highlights, the transition to a circular economy presents access-to-finance challenges, requiring coordinated actions across various policy areas for successful implementation. While the report primarily focuses on Europe, its recommendations—such as enhanced labelling and certification, increased consumer awareness, and the development of secondary markets— are relevant to improving the bankability of CE initiatives globally too.

1.2 Aim and Structure of the Report

This report is produced by the PREVENT Waste Alliance, a global platform for circular economy practitioners. Launched in 2019, it brings together over 500 organisations working to reduce waste and promote resource reuse, especially in LMICs. Most of the surveyed sample organisations (demand side) are members of this alliance.

Within this context, the aim of the study is to explore how CE organisations can improve their chances of obtaining finance. For this purpose, the research team (comprising experts from SAGANA and the Canopy Lab) examined CE organisations' financing needs and experiences and assessed the views of funders and finance providers to gain insights from both the demand- and the supply-side angles of unlocking finance for CE initiatives. The results are presented in two reports:

Part 1 "Financing Circularity - Bridging the Gap between Finance Demand and Supply" focuses on the research and the conclusions to be drawn from it. It summarises the findings from the above-mentioned assessments and includes recommendations for the most relevant stakeholder groups for circular economy to address some of the financing gaps and mismatches identified.

Part 2 "Financing Circularity - Guidance to Unlock Finance for Circular Economy Actors" includes detailed and practical step-by-step guidance for CE organisations to access finance, based on the results presented in part 1. It gives orientation for selecting and approaching suitable sources of financing, while pointing out specific challenges and recommendations for CE organisations.

The research approach for the study is explained in more detail in the methodology section included as annex in part 1 of the report series. Nevertheless, it is important to highlight that the scope of the demand-side assessment included global CE organisations from civil society, academia, the public sector, and the private sector. Still, the research-work focused on private sector firms, mostly SMEs[14] located in LMICs. This focus is due to SMEs' recognised role as global drivers of economic activity[15] and the huge impact that their transition to CE can bring.[16]

[12] The Circulate Initiative. (2024). The Private Investment Landscape for a Global Circular Economy for Plastics: Insights from the Plastics Circularity Investment Tracker.
https://www.thecirculateinitiative.org/wp-content/uploads/The-Private-Investment-Landscape-for-a-Global-Circular-Economy-for-Plastics_Jul-2024.pdf
[13] Global Plastic Action Partnership. (2021). Financing Plastic Action in Emerging Markets Addressing Barriers to Investment.
https://www.circulatecapital.com/wp-content/uploads/2022/11/circulate-capital-WEF-SMI-white-paper-May-21.pdf
[14] While it is acknowledged that the exact definitions of what constitutes a SME can vary by country and context, they have shared characteristics like a limited number of employees and annual revenues. For the purposes of this study, OECD guidelines have been followed, which provide the following: 1 to 9 persons employed (micro enterprises), 10 to 19 and 20 to 49 (small enterprises), 50 to 249 (medium-sized enterprises), and 250 or more persons employed (large enterprises). (Source: OECD Data on Employees by Business Size). For the purposes of this research, the SME set includes start-ups.
[15] Ecopreneur.eu. (2021). Why Sustainable SMEs hold the Key to the Circular Economy.
https://circulareconomy.europa.eu/platform/en/knowledge/why-sustainable-smes-hold-key-circular-economy
[16] OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) Blog (2024). Can SMEs square the circle?
https://oecdcogito.blog/2024/01/26/can-smes-square-the-circle-how-small-businesses-can-boost-their-contribution-to-the-circular-economy/

2 Assessment of Circular Economy Organisations'Finance Needs (Demand Side)

This chapter provides an overview of the key findings from a survey and interviews conducted amongst CE organisations.

2.1 Characteristics of Surveyed Sample

The surveyed organisations represent a diverse group of CE organisations across different regions, as shown in figure 1, thereby reflecting PREVENT's geographic diversity as 78% of the survey respondents were PREVENT members They are headquartered across 38 different countries, with 58% representing LMICs.[17] Given that 52% of PREVENT's membership is headquartered out of Europe, the fact that most survey respondents hailed from LMICs indicates that the survey was able to capture diverse perspectives. Asia- and Africa-based organisations represented 23% and 22% of respondents, respectively.

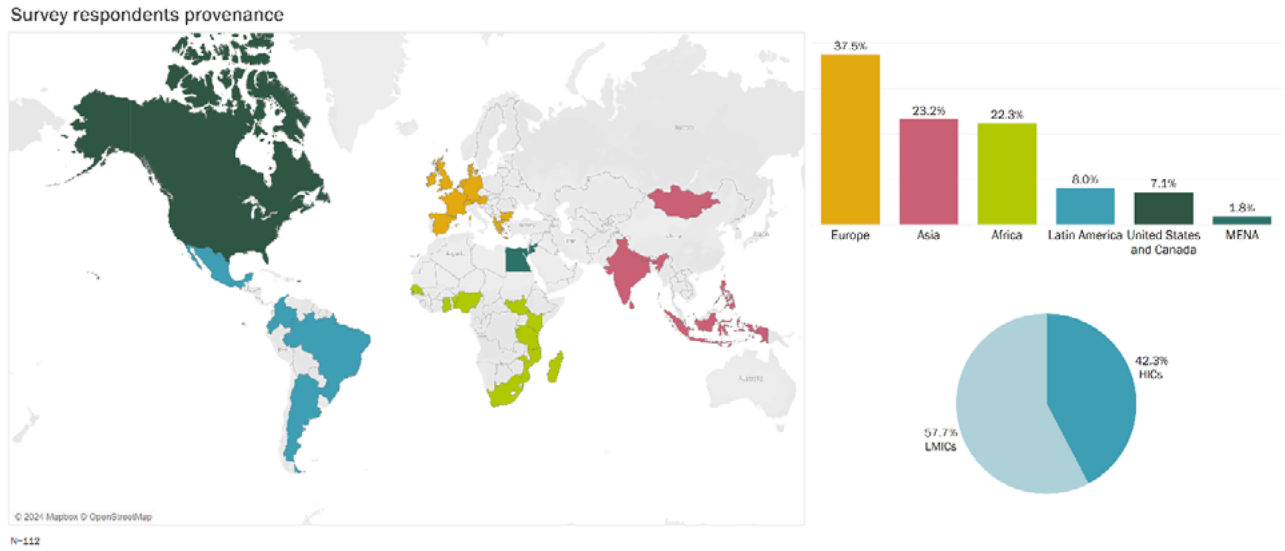

Figure 1: Survey Respondents' Provenance

The majority of respondents represent the private sector (63%), have less than 50 employees (77%, with 46% having less than 10 employees), and are primarily dedicated to CE activities – meaning they can broadly be categorised as small enterprises operating in the CE space – as shown in figure 2.
This distribution of respondents by organisation type is aligned with the research objective that sought to focus on CE financing needs of SMEs as one of PREVENT's main target audiences. Besides the private sector, other organisations that took the survey self-identified as academia, civil society, or public institutions. Compared to the total respondent sample, the private sector respondents are smaller in size (with 79% having less than 50 employees) while being more dedicated to CE activities (75% dedicating more than 75% of their efforts). The analysis also revealed that 59% of the private sector respondents were yet to be profitable.

[17] It is important to note that many organisations operated across multiple geographies, including in the Global South. For example, a Netherlands-based for-profit company explained that "We only have an office in the Netherlands, but all our partners and service suppliers are in Africa."

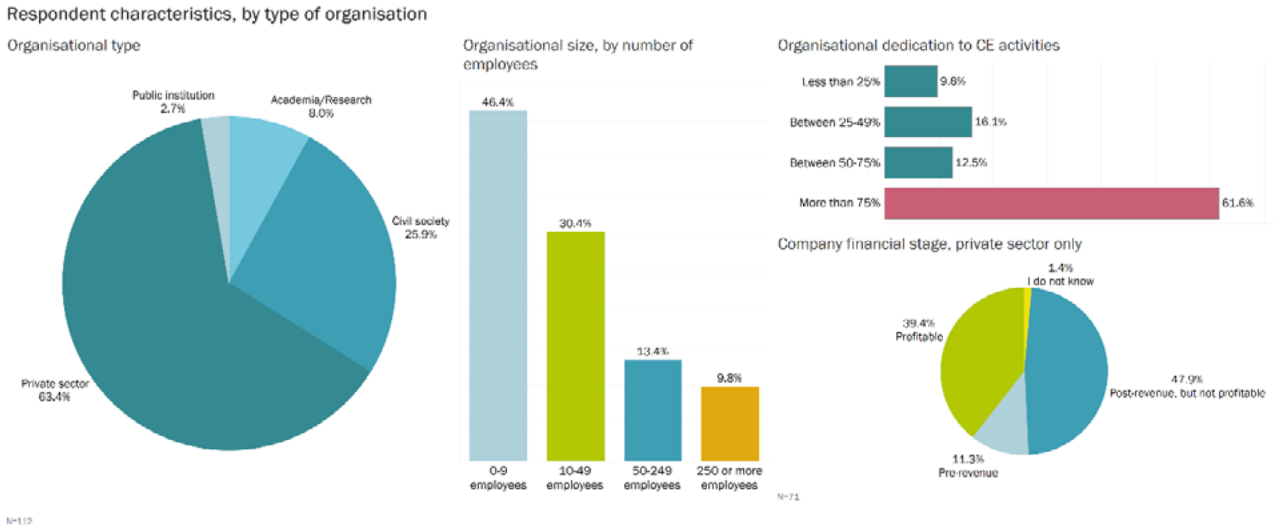

Figure 2: Survey Respondents by Organisation Type

A large subset of the participants operates within circular value recovery and circular support models and is positioned within the downstream segment of circular economy value chains – over 50% of private sector respondents operate in this space, followed by upstream as figure 3 shows. The main materials with which participants work include plastics (25%), organics (14%) and e-waste and batteries (12%) – which map against PREVENT's focus material streams. The private sector is most likely to be engaged in circular value recovery, whereas the focus of civil society lies in circular support, and academia is likeliest to be involved in circular use.

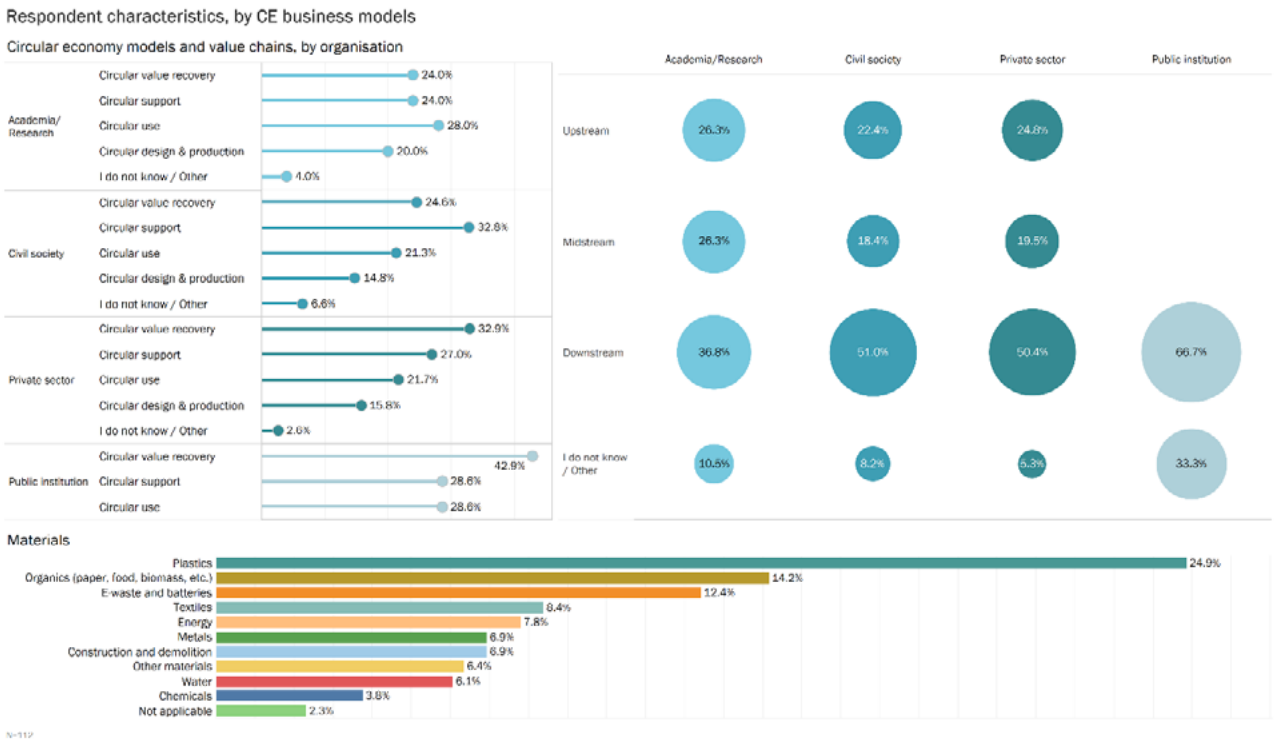

Figure 3: Survey Respondents' CE Business Models

2.2 Experiences with Financing: Between Grants and Commercial Viability

Different types of CE organisations obtain funding and financing from different sources: grants are the most common source of funding overall for all surveyed organisations, while access to commercial financing sources such as bank loans or equity capital is limited. This is illustrated in in Figure 4 below.

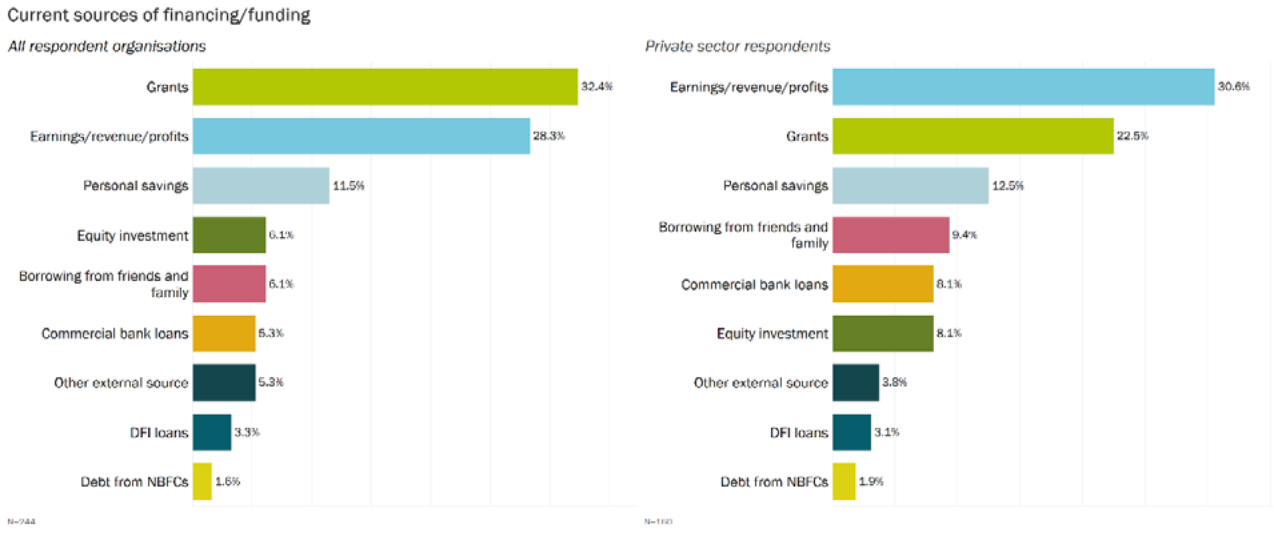

Figure 4: Current Sources of Financing per Organisation Type

Only 13% private sector respondents (and 10% overall respondents) reported using loans (from banks, development finance institutions (DFIs), non-banking financial companies (NBFCs)) as a source of financing. This is in sharp contrast to 46% of SMEs in Europe reporting loans as a relevant source of financing, as per European Central Bank (ECB) survey on access to finance of enterprises (SAFE).[18] [19]

The gap also exists for equity capital but is significantly narrower. 8% private sector respondents reported using equity as a financing source vs. 10% of SMEs in Europe, as per the ECB survey. This indicates there might be a need to derisk the CE business models to improve their viability for commercial forms of capital. Additionally, commercial financing institutions (FI), especially banks, sometimes lack awareness and expertise on CE principles and their financial risk. Hence, such FIs are not able to offer products and services aligned to CE organisations requirements, leading to lower financing of CE organisations. [20]

> As a Europebased project developer with several CE initiatives starting out in Latin America explained, "for the pilot project, we are looking for grants because we see our work as being very innovative. Investors will not invest money in something which is not proven on the ground."

[18] "Relevant" was defined as financing sources either used or currently considered for use.
[19] ECB and European Commission. (2023). Survey on the access to finance of enterprises. https://single-marketeconomy.ec.europa.eu/document/download/498e0a83-f1db-4a1f-8cc7-b20fa9a7effd_en?filename=Analytical%20Report%20SAFE%202023.pdf
[20] UNEP FI. (2024). Circular Economy as an enabler for responsible banking. https://www.unepfi.org/wordpress/wpcontent/uploads/2024/07/PRB_CE-Nexus_Guidance-Doc.pdf

The problem is more prominent in LMICs, where there is greater prevalence of collateral-based lending (especially against land), which may be difficult for CE organisation in these countries to adhere to.[21] Generally, there are more investment barriers for CE in LMICs compared to HIC due to financial market imperfections in these countries. For example, a lack of available blending instruments (e.g. risk mitigation instruments), market uncertainties and political uncertainty, often paired with insufficient regulatory environment, leads to underinvestment in circular activities compared to a situation without barriers or market imperfections.

While grants are an attractive source of non-dilutive finance for the private sector, there are several reasons why they are viewed with scepticism. Interviewed organisations felt that obtaining grants necessitated a level of effort that was not justified given convoluted application processes and high rejection rates. Several interviewed businesses shared that they avoid applying for grants due to difficulties in terms of identifying suitable options, determining eligibility criteria, and filling lengthy application forms.One of the companies that participated in the interview reported having to prepare over 1,000 pages of documentation for a grant donor, which distracted them from their core activities. The common thread from interviews is that the resources required to apply for grants— where processes are often lengthy and unclear—combined with perceptions of opaque decision-making mechanisms and lack of feedback on rejections, make grants an unattractive option for resource-strapped businesses. For these businesses, the opportunity cost of grant applications is substantial, as the due diligence requirements linked to applying for a grant can be quite demanding. Across interviews, there was consensus that while grants are supposed to derisk innovation, they are generally not applicant friendly.

> Summing up a widely shared frustration, an Africa-based start-up explained they had just been unsuccessful in securing a grant after several discussion rounds because "eligibility criteria were hidden in page 74 of the tender small print".

Additionally, some interviewees were intentional about not wanting to become solely dependent on grants. A startup founder that participated in the interviews shared their reluctance to build a company reliant on grants, acknowledging that while grants are useful (as they do not dilute equity), they can disconnect a business from the real economy and distract entrepreneurs from their core objectives. Similarly, other participants added that grants, despite being an attractive source of non-dilutive finance, come with conditions that often distort their original business model. For instance, an advisory firm in Africa observed that many entrepreneurs focus on securing the next grant rather than making their business financially sustainable. This issue is particularly relevant to CE businesses, where the time to market can be slow due to underdeveloped demand. These businesses often hop from one grant program to another to build a cash buffer while testing their market, which can be highly distracting and misaligns them from their mission.

> One of the recurring themes that emerged through the KIIs was that of a missing middle in financing that could be addressed through innovative financing solutions, as suggested by an impact investor based in Asia "But smaller businesses do not want equity: they want patient capital, blended finance, and technical assistance"

[21] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. (2022). Financing circular economy: Insights for practitioners. https://www.giz.de/de/downloads/giz2022-en-financing-circular-economy-insights-for-practitioners.pdf

From a financing journey perspective, the goal for most interviewed for-profit CE organisations is to reach a stage where they become commercially investable, which they perceive as a key step in their growth path. Regardless of whether SMEs use grant funding or not, most expressed a wish to eventually become commercially "financeable",e.g. by raising commercial capital. One of the barriers to commercial financing that several interviewed organisations mentioned was the necessity to "speak the language" of investors. Indeed, most surveyed organisations believe that while public and development funds can be utilised for start-up financing, private capital becomes essential at a certain growth stage. As explored in the next chapter, private capital is more likely to flow if a company has a compelling narrative and a strong financial track record, and if it can effectively communicate both to investors. For instance, this perspective was echoed by the founder of a firm operating in the e-waste sector, who highlighted that investors often struggle to understand new business models with limited track records. When a product is both unfamiliar and communicated in unconventional business language, it creates significant barriers to obtaining commercial finance.

Domicile and organisation registration to unlock finance:
Several interviewed CE organisations were aware of the conditions for accessing funding associated with different types of business status and registrations and thus registered their businesses accordingly. For example, a Latin American-based businessowner had relocated their company's headquarters to a US jurisdiction more attractive for VC funders; two others decided to switch from non-governmental organisation status to for-profit status; and two participants had registered as social businesses in European jurisdictions even if their operations were in Africa and Asia to access attractive forms of funding. These decisions to register in US/EU jurisdictions also help to mitigate currency risk that might deter some global investors from investing in LMICs. This speaks to long-term visions – but it also speaks to the capacity that some firms have in terms of accessing the legal advice and mobilising appropriate networks to conduct these moves, which is not an option for all CE organisations.

2.3 Current Financing Sources: Unpacking Reasons for Rejection

Regarding satisfaction levels with accessibility of existing financing sources: Across all types of surveyed organisations, respondents were most satisfied with financing obtained from angels in their personal networks and crowdfunding (grouped as "other sources" in figure 5 below), followed by grants. The level of satisfaction dropped when the financing sources became more commercial and institutional in nature. This might indicate relatively lower access or preparedness of CE organisations towards commercial sources of finance. For example, an Africabased CE start-up emphasised the need for personal connections: they found it almost impossible to engage with large VC or debt organisations on a personal level, leading them to seek financial contributions from private individuals or families through their networks.

> For example, an organisation that supports CE entrepreneurs in Africa shared that when businesses start out, "they rely on bootstrapping, family, and friends. Loans are too expensive for a small business. Unless they have big visible volumes of contracts coming in, it is hard for them to take on debt".

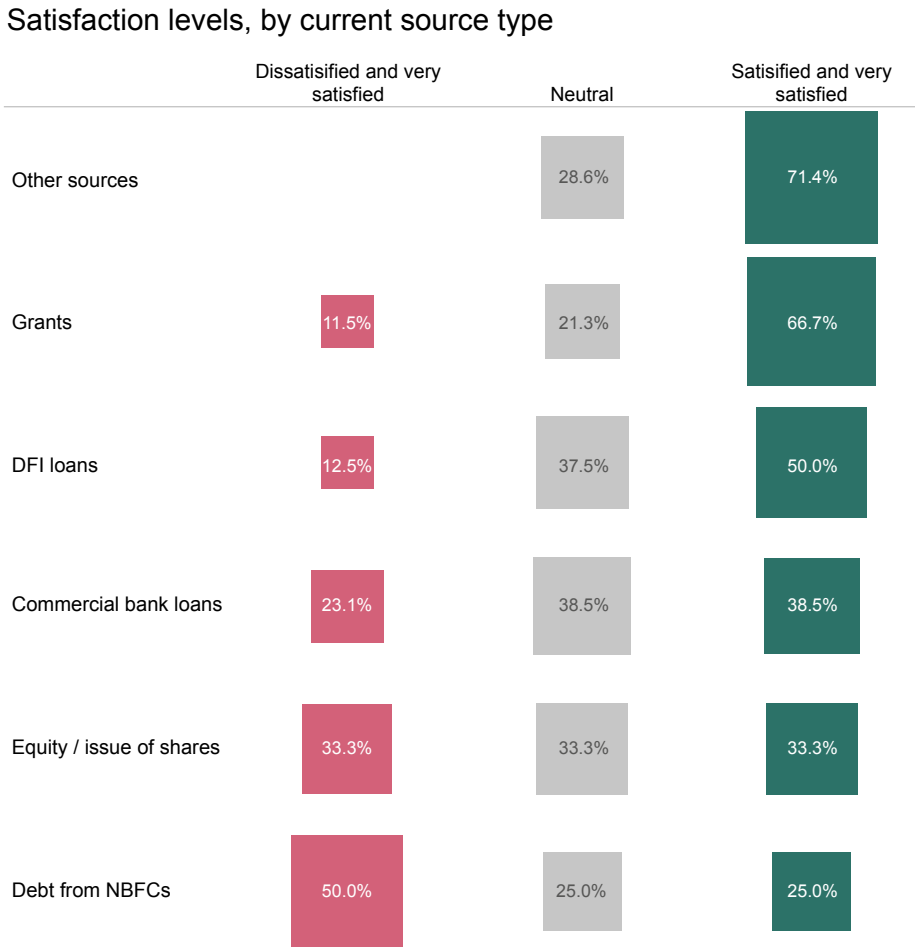

Figure 5: Satisfaction with Existing Financing Sources

Three fifths of respondents shared that they applied for, but were denied, financing for their CE activities during the last two years. As shown in figure 6, grants and equity investment comprised the top two sources of financial rejections. Private sector respondents were more likely to report receiving denials from non-grant sources, potentially because they are likelier to seek non-grant sources of finance.

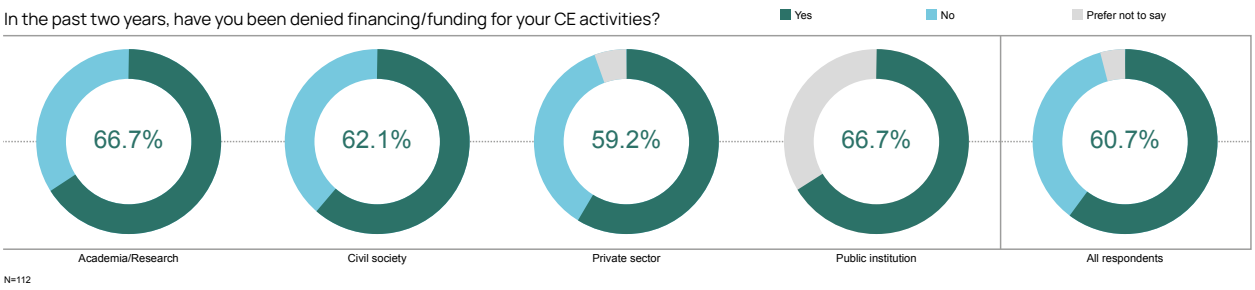

Figure 6: Rejected Applications for Funding

The top reasons cited for funding denials were a highly competitive selection process, but there was also a lack of explanation for the denial of financing (32% and 22% respectively). Qualitative interviews revealed that CE organisations found this lack of specificity or useful feedback from the financing sources unhelpful. These responses do not benefit or contribute to future requests for finance, considering the heavy efforts for applying to grants or engaging with equity investors.

Interestingly, upon a closer look at the cases where clear reason for denial was cited, the following emerge as the top reasons: insufficient collateral, lack of impact alignment, and unclear business plans – as shown in figure 7. Collateral is a key aspect of commercial finance, it is an asset that a borrower pledges as security for a loan, thereby reducing the risk of loss for the investor. Financial rejections based on insufficient collateral thus suggest either a gap in risk-based lending practices or that companies may approach banks prematurely, such as before achieving stable cash flows or reaching maturity. Lack of impact alignment with funders' vision and unclear business plans point to a potential lack of preparation when identifying potential funders or in approaching finance providers, as well as difficulties adapting business plans and communication strategies to individual funders' expectations. Part 2 of this report series responds to these hurdles and delivers hands-on guidance for CE organisations to identify the most appropriate financing sources and outlines steps to increase their prospects for receiving funding.

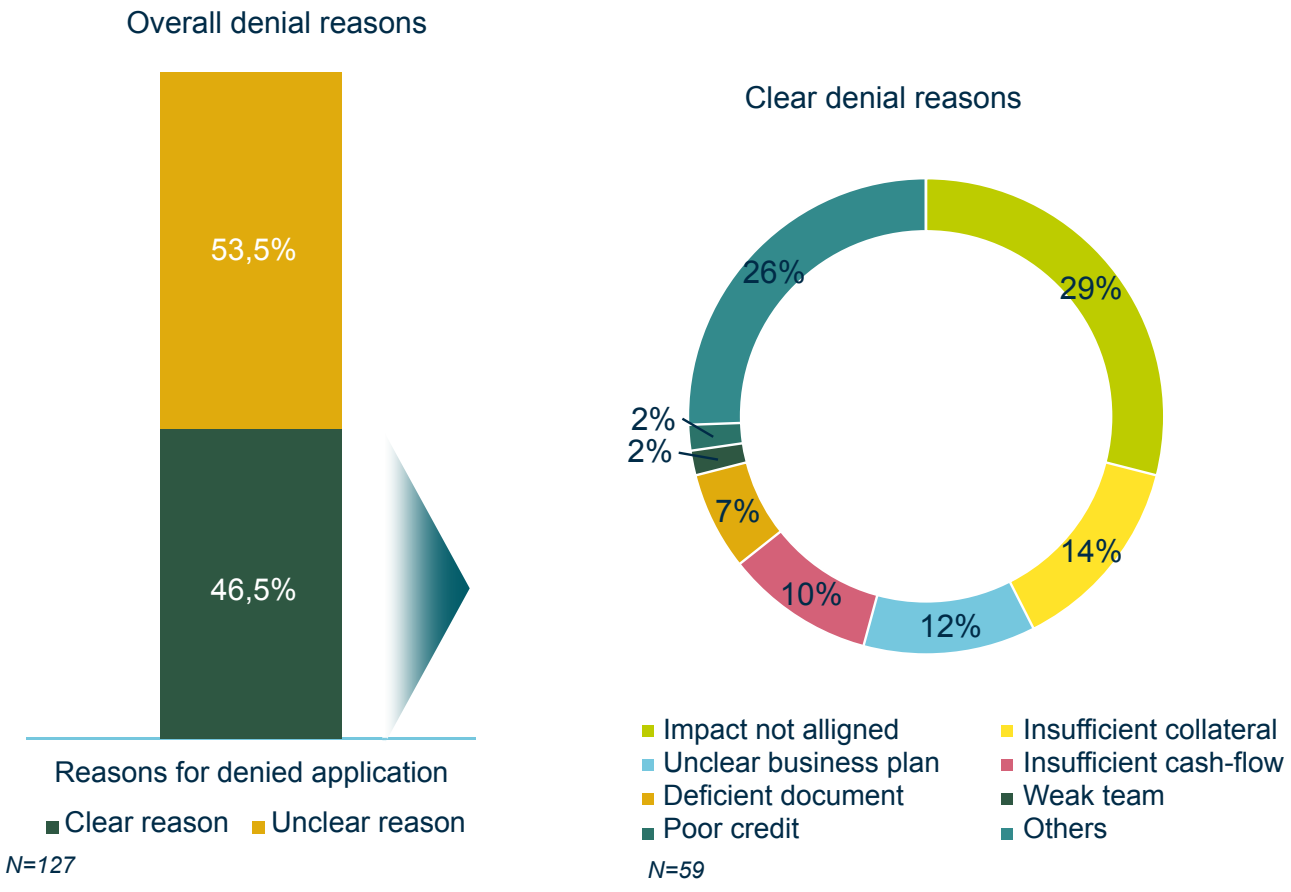

Figure 7: Reasons for Denied Application (Overall and by CE Organisation Archetype)

When asked about what they thought the reasons for rejection were, several interviewed CE organisations perceived a lack of awareness among financiers about CE's impact potential for a sustainable development. A few interview respondents highlighted that while there seems to be funding available for sustainability initiatives, it is disproportionately concentrated on topics such as clean energy. Several participants mentioned lack of knowledge of the links between CE and the decarbonisation and climate change agenda: for example, an EU-based firm explained that many of the investors they approached, despite having established sustainability

funds, declined to engage with them. The approached investors were fully focused on carbon-focused portfolios and struggled to understand the connection between plastic, carbon, and climate. According to other interviewed participants, a stronger focus on climate is perceived compared to CE, mainly because of established climate reporting standards and regulations. When investors do have CE opportunities on their radar, they mostly focus on waste only. The interviews also revealed more broader challenges faced by CE organisations in accessing financing which are discussed later in this chapter.

> A feeling by others who shared their frustration that "CE financing does not clearly tick the boxes of sustainability for some investors".

2.4 Projected Financing Needs: Looking Ahead

86% of respondents of the survey are seeking additional funding within the next 12-18 months – private sector CE organisations are more likely to do so in comparison to other types of surveyed CE organisations. As figure 8 shows, while most respondents desire grant funding, private sector organisations are comparatively less keen on it – 19% of them are seeking equity investment, and 16% are seeking debt (across banks, NBFCs, DFIs). This is in line with the observations from the previous section that an increasing number of private sector CE organisations approach different commercial sources and instruments for their financing needs.

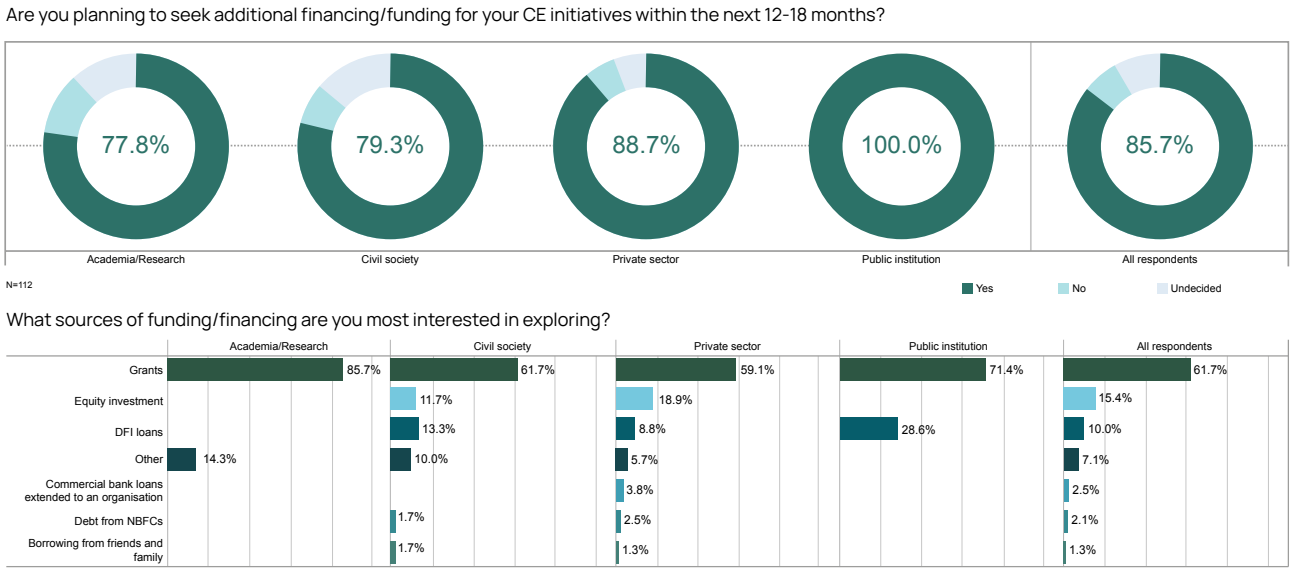

Figure 8: Plans to Seek Additional Financing over the next 12-18 Months and Targeted Sources

Most surveyed organisations across different archetypes seek funding in a range where there is a lack of available finance.US$100-$500,000 is the most desired financing range. Figure 9 shows that US$100-$500,000 is the ticket size desired by most private sector respondents (38%), followed by US$1-5 million (18%) and US$500,000-$1 million (17%) tickets. This is notably higher compared to their non-private sector counterparts who, excluding public institutions[22], predominantly look for financing tickets below US$500,000.

[22] Given low response rate of public institutions this finding cannot be generalized.

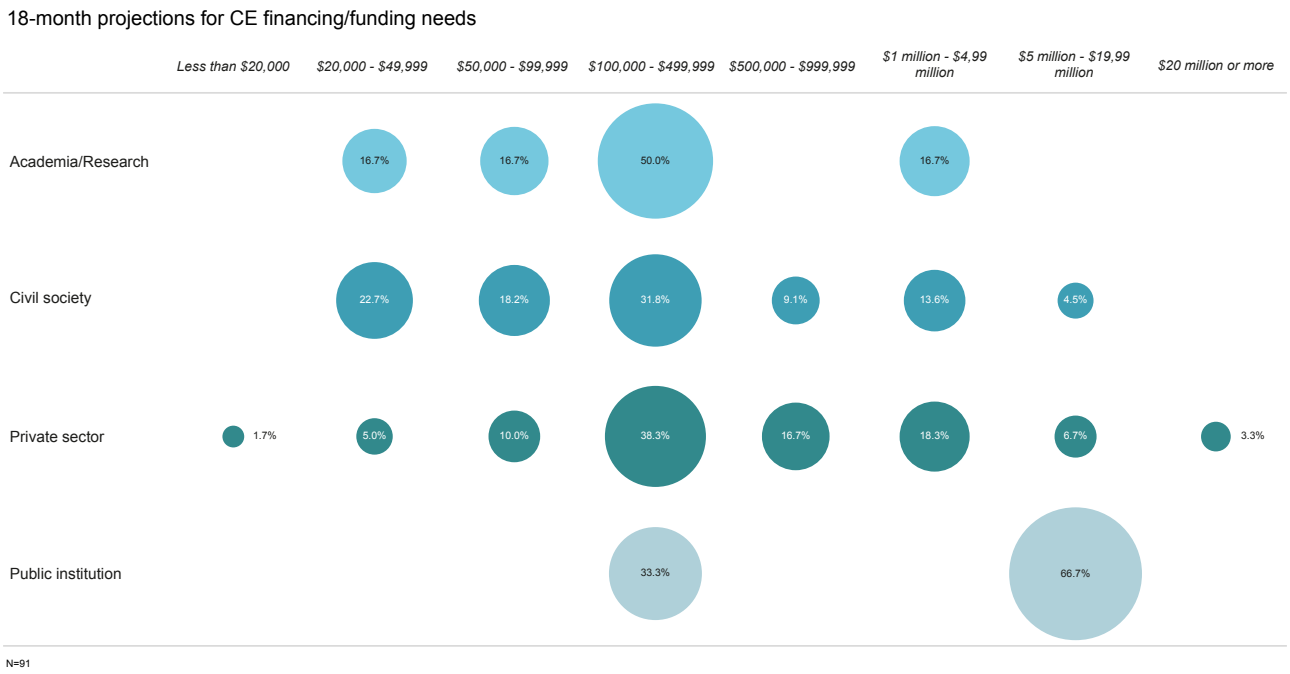

Figure 9: Projections for Funding Needs

There is an observable difference between financing needs stated by for-profit CE organisations located in LMICs versus in HICs. Most of the surveyed private sector CE organisations in HICs (over 60%) seek an amount upwards of US$500,000 while majority (over 60%) of the companies in LMICs seek an amount below US$500,000, as shown in figure 10 below.

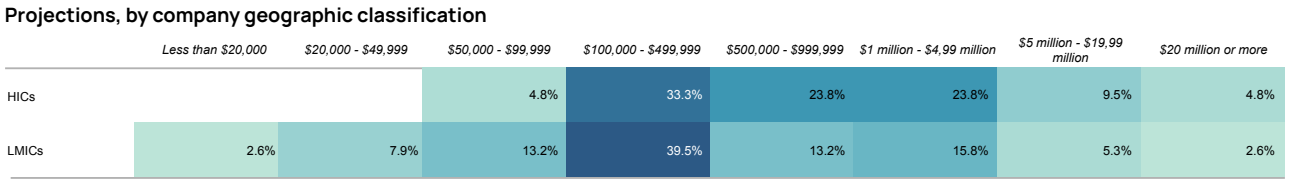

Figure 10: 18-Months Projections by Geography

According to the survey responses, the primary purposes for which the surveyed CE organisations seek funding and financing are expansion, research and development (R&D), and operations (figure 11). Private sector respondents reported expansion as their main reason (32% respondents). This was followed by research / product development and operations. These top reasons remain broadly similar for civil society respondents whereas, not surprisingly, R&D emerged as the biggest reason for seeking funding among academia and research-based CE organisations (reported by 44% of such respondents).

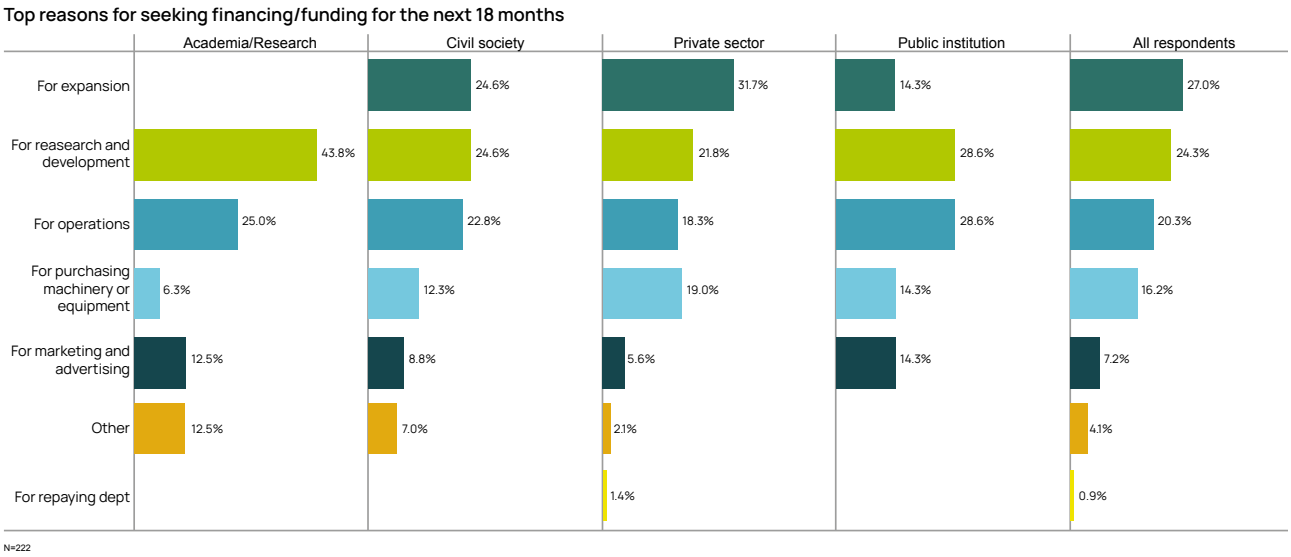

Figure 11: Top Reasons for Seeking Financing

2.5 Challenges for Accessing Finance

From the interview and survey responses, a pattern of similar or related challenges for accessing financing could be observed when assessing the data. These challenges have been clustered in 4 categories below, based on the specific characteristics and stakeholders for each of them.

1. Challenges Shared with Other Sustainability-Linked Business Models
While sharing their perceived challenges, interviewers also highlighted a gap in existing regulatory policies when it comes to pricing the externalities of business models (such as the negative impacts of using forever chemicals like Per- and polyfluoroalkyl substances (PFAS) in products). This is in alignment with previous studies (such as the 2015 report from EIB[23]) and indicates the need to bring more balance in the regulatory frameworks across regions for a more levelled market.

2. Challenges Specific to Organisational Archetypes
There are differences when it comes to anticipated challenges to access financing depending on organisational archetypes, for example, non-private sector respondents are citing lack of internal resources as the main challenge. When asked about their top three anticipated challenges or accessing finance, academia, and public institutions were most likely to cite limited time available to find and apply for funding or financing. Civil society organisations (CSOs) identified their primary challenge as limited awareness of financing opportunities.

In contrast, private sector organisations highlighted a supply-side issue as their primary concern for accessing finance: specifically, the lack of financing options available to support CE models as well as the lack of understanding CE impact and business models by funders. As explored above, surveyed SMEs perceive a limited understanding of the benefits of CE models and their contribution to climate mitigation and other sustainability issues amongst finance providers. CE as a sector is still not considered a priority for many sustainability-focused, let alone more generalist, investors and financiers.

[23] EIB. (2015). Access-to-finance conditions for projects supporting Circular Economy.
https://www.eib.org/en/publications/access-to-financeconditions-for-financing-the-circular-economy

3. Challenges Differing Between HICs and LMICs

In the private sector, anticipated challenges to accessing finance differ between organisations based in HICs and those in LMICs. However, the top challenges are consistent across regions, such as the perception of limited financing options for CE models, difficulty in articulating the value proposition, and a belief that funders and lenders lack an understanding of CE. As shown in Figure 11, private stakeholders based in LMICs were more likely to indicate challenges around limited financing options for their CE models than their HICs counterparts. This may partly be explained by the fact that there is comparatively less awareness (or focus) around CE amongst finance providers located in LMICs. In addition, most FIs and commercial lending organisations in LMICs rely solely on collateral as security for commercial lending, which is difficult for many CE businesses to provide.[24] Large upfront costs, e.g. for circular infrastructure investments, or absence of tracked (cash-flow) records further limit access to credit facilities for the private sector in LMIC, as financial markets are less mature (more market imperfections) than in HICs.

Anticipated challenges expressed by private sector companies, by economic classification of headquarter

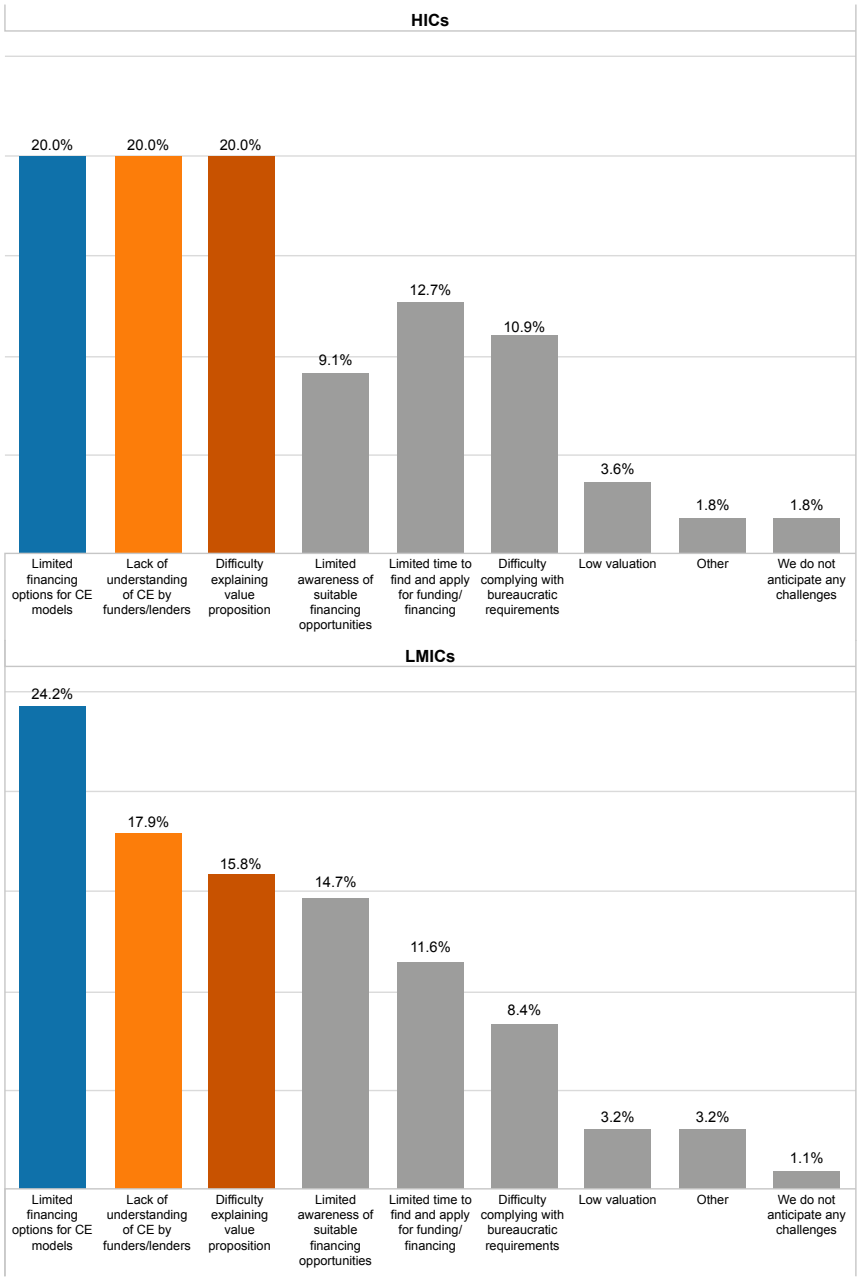

Figure 12: Anticipated Challenges in Seeking Funding, Maximum of Three

[24] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. (2022). Financing circular economy: Insights for practitioners. https://www.giz.de/de/downloads/giz2022-en-financing-circular-economy-insights-for-practitioners.pdf

Another challenge that emerged in the interviews affecting geographies to varying degrees is the status of relevant CE-aligned regulatory framework adoption. For example, an Africa-based informant shared that in HICs, Extended Producer Responsibility (EPR) is a strong financing mechanism for businesses in the waste sector – while in Africa, EPR only exists in a few countries and even then, is not necessarily implemented. Regulations such as EPR serve several purposes: they unlock finance as businesses and finance providers are encouraged to support compliance with such regulations, and they level the playing field by rewarding compliance and penalising lack thereof. While EPR was commonly mentioned, participants also mentioned difficulties obtaining finance because of misplaced subsidies that price environmental costs as externalities; as well as rigid legal frameworks that discouraged innovations for the repurposing of waste materials into sectors such as construction, for example.

4. Challenges Shared with Linear Business Models
Interviewed CE organisations also shared a few challenges that could be seen as being common to organisations based on linear economic models:

- **They perceive hesitation from investors and commercial financing organisations to finance initiatives that require capital expenditure (capex) given risks associated with long-term viability and sustainability.** This can hinder the growth of CE businesses and even local ecosystems that require capex for building infrastructure such as waste sorting or recycling facilities. In many cases, loans from banks are also difficult to obtain for such cases due to the requirement of collateral and lack of sufficient equity investment against such capex investments.

- **The interviews indicated the potential existence of a "missing middle" of financing options.** An interviewee working in Asia noted that while in their opinion there are sufficient US$10,000 - US$20,000 micro loans, crowdsourced funding, or grants, smaller businesses struggle to find appropriate funding beyond US$50,000. These businesses typically need patient capital, blended finance, and technical assistance. This sentiment was echoed by several businesses in Europe and Africa, who noted that the funding they need often falls into a vacuum: amounts too high for subsidies yet difficult to secure through commercial means. The hardest amounts to finance according to surveyed organisations range from US$50,000 to US$1,000,000.

- **Some participants, especially from the private sector, also indicated that financing institutions often ask for proven business models which becomes a bottleneck** as funds are needed in the first place to prove the models. While this preference of financing institutions is not unique to the CE sector, there is a need to increase the availability of risk-tolerant capital or blended finance in this sector.

Some of these challenges are mirrored in the assessment of CE finance providers. Their viewpoints and perspectives are explored in the next chapter.

3 Assessment of Finance Available for Circular Economy (Supply Side) – Key Insights

This chapter provides an overview of key findings from the CE finance landscape review and the interviews conducted amongst CE funders and potential financiers.

3.1 Overview of Circular Economy Finance Landscape

Consistent with the findings from the demand-side assessment in the previous chapter, the supply-side analysis identifies a significant gap in financing dedicated to the circular economy. As discussed in the introduction, the availability of financing for CE continues to fall short compared to the resources allocated to the linear economy. While there is no comprehensive quantitative data on the quantum of financing for CE, recent

reports have estimated that 4% of government spending and 3% corporate value have gone towards financing CE.[25] There is a lack of comprehensive data on the overall supply of finance towards CE and the gap between demand and supply.

The types of institutions financing the circular economy today are largely like those that have traditionally funded other sectors. However, their funding strategies for CE exhibit some notable differences. As part of this assessment, 1.224 funding institutions who have funded at least one CE project/investment were reviewed for their funding track record and financing considerations.[26] Institutions funding the circular economy span across all common funder archetypes, including venture capital (VC) funds, banks, philanthropic organisations, and government funders. However, these funders vary significantly in their focus on CE, forming a continuum. At one end are institutions exclusively dedicated to CE funding, while at the other end are those with no specific focus on CE. This variation is illustrated in figure 13 below.

High Focus ← Continuum of Circularity Focus of Financing → Low Focus

	Exclusively CE-focused	CE as one of several focus areas	CE covered implicitly but not core	Agnostic to CE
Description	These funders have an explicit and exclusive investment or philanthropic giving mandate focused specifically on CE. Such financiers may also have specific interests in circular materials e.g., chemical waste or ewaste, or specific problems they would like circular solutions to address e.g., ocean health or fashion circularity.	These funders have circular economy as an explicit but one-among-multiple focus areas within a broader mandate. Typically, these would include sustainability and climate funds that have CE or sustainable production, waste management, etc. as one among multiple focus areas.	These financiers do not have a circular economy mandate, but their investments in sustainability-related areas support circular economy principles. These would include funders of traditional sectors that are seeing a growing emphasis on circularity e.g., agriculture & food investors, infrastructure investors, broader climate tech investors (where CE is not explicitly identified as a theme).	These financiers are neutral regarding circular economy principles. They do not specifically focus on or exclude circular economy initiatives but may finance them opportunistically in case of a strategic fit.
# of funders within the assess-ment group	Only 67 financing organisations (5%) of the review of 1.224 VC funds and accelerators dominate: 67% (45 of the 67 identified funders).	222 (18%) of the reviewed 1.224 financing organisations, VC funds make up 50% (114) of the funders, and philanthropic foundations, development funders, and national/regional funders together make up 18% (41).	933 organisations from the landscape review (77%).	This category covers the broader universe of funders (goes beyond the funders assessed as part of this exercise). An estimated 13,000 or more VC and PE funds do not have any clear focus on CE as a funding theme.[27]
Risk appetite[28]				

[25] Just Economics and Chatham House (May 2021). Circular investment: A review of global spending and barriers to increasing it. https://www.justeconomics.co.uk/circular-investment-a-review-of-global-spending-and-barriers-to-increasing-it
[26] Public databases and portals such as Dealroom, Crunchbase, and the EU Funding & Tenders portal were used as sources of information.
[27] The numbers given here are drawn from secondary data and were not part of this landscape review. The numbers on active PE and VC funds are based on the number of PE investors from Preqin's global database: https://www.preqin.com/data/our-data
[28] For commercial funders i.e., angel investors, VC funds, banks, and PE funds

High Focus — Continuum of Circularity Focus of Financing — Low Focus

	Exclusively CE-focused	CE as one of several focus areas	CE covered implicitly but not core	Agnostic to CE
Flexibility in supporting CE investments[29]	Most willing to take technology and business model risks. Funders may be open to investing in greenfield projects (e.g., new recycling operations) or innovative projects (e.g., innovative alternative materials), or can support relatively untested business models such as early stages of productas-a-service (PaaS).	Focus on tested innovations looking to commercialise but can selectively take higher technology and business model risks, much like exclusively CE focused funders. Funders may be open to supporting innovative models such as waste marketplaces which require network effects to succeed, or new material innovations such as food waste-derived proteins.	Focus on tested and commercialised innovations with revenue potential but with a specific need to either see positive environmental / social impact or strong commercial returns. Funders may be open to investing in a battery recycling business with reasonably mature technology which can reduce the need for mining for rare earth metals, or an early stage agri-waste waste-toethanol business which can reduce GHG emissions.	Require a robust, financially attractive model with revenue and scalability potential before considering investment; CE or any other impact is often not relevant. Funders may be open to funding an alternative / circular material-based business with strong commercial traction or an industrial recycling and waste management businesses if they can provide stable cash flows and growth visibility with limited or no technology risks.
Relevant funder archetypes and examples	**Venture capital:** • Circulate Capital • Regenerati on VC • Closed Loop Partners **Accelerators:** • Think Beyond Plastic • Plug and Play End Plastic Waste • The Circulars Philanthropic **Foundations:** • Ellen MacArthur Foundation **Banks:** • Intesa Sanpaolo • Rabobank	**Venture capital:** • Bestseller Foundation[30] • Seaya, Sofina Group **Philanthropic foundations:** • Laudes Foundation • Coca-Cola Foundation **Development agencies and government funders:** • United States Agency for International Development (USAID) • EU's Horizon **Europe PE:** • Decarbonizati on Partners • Swen Capital	**Venture capital:** • Avaana Capital • Novo Holdings **Philanthropic foundations:** • Bloomberg Philanthropies • Oak Foundation **DFIs and Multilateral Development Banks (MDBs):** • Norfund • IFU • Nordic Investment Bank • ADB • Finnfund **Banks:** • HSBC • Barclays	**Venture capital:** • Accel • Sequoia • Blume Ventures **Philanthropic foundations:** • Visa Foundation **Private equity:** • Qatar Investment Authority • Goldman Sachs Asset Management • M&G Investments

Figure 13: Funder Descriptions by Level of CE Focus

To effectively approach funders and appeal to their needs, it is important for CE organisations to understand their structures and preferences. A detailed description of the different archetypes is to be found in the annex as well as in Part 2 of this report.

[29] For commercial funders i.e., angel investors, VC funds, banks, and PE funds
[30] While Bestseller Foundation primarily makes investments, it also gives grants.

3.2 Supply of Financing for Circular Economy

Based on the assessment, only a few funders were found to have an exclusive focus on CE; Europe leads the way in terms of government funding mechanisms to support CE organisations.

- As highlighted in the previous section, **only 5% of the funders covered in the landscape review are exclusively focused on funding CE.** From the assessment of 1.224 funders, only 5% (67 funders) were found to have CE as the exclusive focus of their funding. 18% of funders (222 = 18%) who consider CE as one among many priority areas. However, most funders in the broader financing universe (outside of the study) do not have any focus on CE and continue to back and invest in linear businesses.

- **Europe leads the way in terms of government funding mechanisms supporting CE.** 68% (24 out of the 35) government initiatives promoting CE are of European country/regional government bodies. Given that Europe has also been leading the way in passing regulations to promote CE, it is not surprising that they are also at the forefront of introducing new financing mechanisms to foster innovation and growth in CE.Europe emerged as the most prominent region of focus among circular economy (CE) funding organisations that have made at least two CE investments, as identified in the CE finance landscape assessment.137 out of 427 such organisations reviewed included Europe as part of their focus geographies, 107 Asia, 41 Africa, and 32 South America.

- **Commercial funds focus on growth stage investments.** With respect to stage of investments for commercial funds – VC/PE, most organisations were found to be active in the growth stage (233 of the 244 VC/PE funds reviewed as part of the assessment) with comparatively fewer organisations in early growth (210) and seed (163) stages[31].

3.3 Preferences of Funders when Financing Circular Economy

- Most funders, particularly commercial ones, **lack comprehensive circular economy investment theses** or a distinct approach to CE investments. Instead, they evaluate CE businesses in much the same way as traditional, linear businesses or other impact ventures, in the case of impact investors. Most funders, notably VC/PE funds, including many that focus on CE, do not have in-depth investment theses for circular economy ventures.

- Most funders, except for those focused exclusively on specific causes like circularity in the fashion industry (textiles) or ocean health (plastics), do not have particular preferences regarding the types of materials (e.g., organics, plastics, e-waste) or circular activities (e.g., sustainable production, repair, recycling) they wish to fund. For instance, 305 out of 428 funding organisations reviewed in this assessment did not specify any particular focus material as part of their investment approach. Among the remaining organisations that did mention a focus, the majority (90) named organics, followed by plastics (34), chemicals (19), textiles (13), and metals and e-waste (10). Many funders that were interviewed also **did not fully understand the technical lexicon of the CE sector** to effectively leverage CE sector-specific categorisations such as the European Commission's 14 'Circular Categories' framework.[32] This suggests a potential need for greater funder education on the nuances of circular economy activities and business models, enabling them to better understand the unique offerings of different organisations and make more informed funding decisions.

- **National and regional government financing vehicles, particularly those being launched by country governments in Europe have strong appreciation for high-impact circularity projects.** These institutions are the most knowledgeable on CE lexicon, and leverage categorizations such as Technology Readiness Levels,[33] the EU Circular Categories framework,[34] etc. while outlining the eligibility requirements and evaluation criteria for their financing vehicles.[35]

[31] It must be noted that VC/PE funds typically do not have an exclusive focus stage of investment but usually cover a range of investment stages.
[32] European Commission. (2020). Categorisation System for the Circular Economy. https://circulareconomy.europa.eu/platform/sites/default/files/categorisation_system_for_the_ce.pdf
[33] The Technology Readiness Level (TRL) is a scale used to assess the maturity of a particular technology, ranging from basic research to full deployment.
[34] This is an EU-developed framework that includes 14 categories of circular economy activities, ranging from circular design and production models to circular use models and circular value recovery models.
[35] Sorwar, G. (2023). Investment opportunities in sustainable circular economy. Cutter Consortium. https://www.cutter.com/sites/default/files/Amplify/2023/ADL_CUTTER_Investment%20Opportunities%20Sustainable%20CE.pdf

- **There is a growing preference among investors for asset-light business models over capital-intensive models, and Business-to-Business (B2B) models over Business-to-Consumer (B2C) models.** Certain CE businesses (such as waste recycling facilities) can be capital-intensive. Many funders, however, are shifting their focus towards asset-light investments, such as digital marketplaces for circular support (e.g., Recykal in India) or licensingbased business models for circular value recovery (e.g., Green Lion in Singapore). Given that capital-intensive businesses typically have longer gestation periods and require higher investments to scale, investors perceive these models as riskier, particularly in the current macroeconomic environment. Further, interviewed funders also stated a slight preference towards B2B over B2C models, due to the time needed and costs involved in brand building and market traction for B2C businesses.

- **Investors and funders emphasise the importance of circular economy projects becoming truly competitive with linear models.** While some VC investors expect cost competitiveness from the outset, others are more flexible, provided there is a clear roadmap towards achieving cost parity with traditional, linear counterparts. For instance, some CE businesses in the circular value recovery models such as mechanical recycling of plastic or lead acid battery recycling can offer recycled products which are priced closer to virgin products.
  On the other hand, businesses engaged in models such as development of sustainable alternative materials for packaging or PaaS based models might not always be able to achieve cost parity with linear models and might need to depend on an additional price premium from customers or brand owners to sustain.

- **Grant opportunities, while difficult to generalise, have a perceivable emphasis on evidence-backed impact.** The grant opportunities identified during the landscape review varied significantly in their eligibility and evaluation criteria, making it difficult to draw any general conclusions about what grant funders prioritize. However, as is typical with grant opportunities in other sectors, there was a strong emphasis on impact across nearly all circular economy grants. The impact priorities of grant providing institutions were diverse, e.g., some funders emphasised their desire to support impact around dignified jobs dealing with waste, and others emphasised their desire to support impact around natural ecosystem rejuvenation. However, almost all had a strong bias towards supporting CE organisations with demonstrated or strong potential for impact.

3.4 Challenges for Funding Circular Economy

During the interviews, funders cited certain common challenges which were in line with some of the observations from the demand-side assessment in the previous chapter.

Funders believe that regulations and market practices do not adequately capture and "price" the negative externalities of linear models. Despite this awareness, they still express reduced confidence in investing in circular economy models, often due to perceived uncertainties or challenges related to scaling and the current macroeconomic environment. All interviews included a resounding call for policies to level the playing field between circular and linear businesses. Funders explained that prevailing policies have accorded an unfair advantage to linear models, enabling them to continue their extractive and polluting processes without deterrence. Moreover, funders highlighted the need for more stability in policies and their implementation. For instance, EPR regulations in India have seen several changes in the last five years; and similarly, the implementation of EPR regulations in the African region has been inconsistent – countries like Ghana and Cameroon have limited EPR programs while a country like Nigeria is dependent on voluntary EPR[36] mechanisms without enough regulatory support. The lack of planning security increases the cost and the risk for a timely return on investment (ROI), as detailed below.

Specific to resource-recovery-based models, funders expressed concern towards supply-chain-linked challenges around the availability of raw materials and market-level challenges of fluctuating demand for recycled materials. Investors, particularly early-stage VCs look for robust actions to mitigate risks around feedstock unavailability in view of inability of sourcing and collection infrastructure to keep up with rising demand for certain recyclable materials such as polyethylene terephthalate (PET).

Some investors were sensitive to any kind of dependence of CE business models on green premiums or voluntary waste collection fees (voluntary EPRs) which are paid by off-takers. Investors believe that since organisational strategies or the CEOs behind such institutional customers are not permanent, a change in the strategy or the people backing it may result in the green premiums and voluntary fees being rolled back, affecting the revenues of CE businesses adversely.

[36] Based on secondary sources: Lorax Compliance. (2021). EPR in Africa – what to expect in the next few years. https://www.loraxcompliance.com/blog/env/2021/07/07/EPR_in_Africa_-_what_to_expect_in_the_next_few_years.html and Renewable Matter. (n.d.). Homepage. Renewable Matter. https://www.renewablematter.eu

Consistent with the findings from the demand-side assessment, some investors, particularly VC funds, expressed challenges in backing circular economy businesses that seek funding but have not yet demonstrated the economic viability or scalability of their business models.

4 Recommendations

The previous chapters have highlighted the key findings from the demand and supply side assessments of circular finance based on the conducted survey and interviews. In this chapter, these findings are translated into recommendations for improving access to financing for relevant stakeholder groups in the circular economy.

4.1 Recommendations for Circular Economy Organisations

To improve their chances of successful fundraising, CE organisations need to first make an informed choice about which instruments and financing institutions are most suitable and aligned to their funding needs. In this aspect, CE organisations should not forget to include planning for sufficient resources required for the application and reporting processes. The effort for preparing applications and data when approaching different financing sources are often underestimated, in particular for grants.

Challenges discussed in both the demand and the supply side assessments of financing the CE mention lack of collateral, unproven business models, insufficient cash flows, misaligned impact, etc. These challenges point towards potential gaps in appropriate selection of funding sources as well as inadequate readiness for financing, but also difficulties in the communication with potential funders. Additionally, a key takeaway from this study is that, while some funders have a specific focus on circular economy, most do not. Instead, they expect CE business models to perform at least on par with, if not better than, traditional linear business models. The implication for CE businesses is that they should **approach funders with a plan that is not only compelling in terms of CE impact, but which also demonstrates broader impact and strong financial potential, including ROI.** This requires building a strong business plan and pitch deck, forging credible ecosystem partnerships, identifying and monitoring the right KPIs, and clearly forecasting business growth and profitability potential. Part 2 of this report series provides further orientation and step-by-step instructions for selecting and approaching suitable sources of financing for CE stakeholders.

Funders prefer to back circular businesses that can compete with, or outperform, linear businesses. In some cases, this is feasible to achieve. For instance, a refurbish or reuse model where logistics or repair costs form a smaller component of the overall value of the product (e.g. a used cars business) can be an economically viable business model. However, this may not be easy for all types of CE businesses. For instance, a CE organisation working on alternative materials to replace the plastic used in food packaging with home-compostable material may find it extremely difficult to match the costs of the plastic packaging material in the short-term and possibly even in the long-term. In such cases, CE organisations need to focus on innovation either in terms of technology or business models to be able to compete with the traditional linear models. HICs usually see greater funding in innovations vs. LMICs, where funding is usually allocated to implementation. This implies that CE innovators in LMICs should aim to tap into funding organisations in HICs as part of their fundraise efforts. Additionally, while developing novel business models, CE organisations in LMICs can draw inspiration from proven models in other markets, particularly in HICs, and adapt them to suit local contexts. For example, Grover[37], a technology subscription provider, is scaling a reuse model across HICs, which could potentially be customized for LMICs.

[37] Grover. (n.d.). About us. Grover. https://www.grover.com/us-en/g-about/us

4.2 Recommendations for Development Organisations, DFIs, and Grant Makers

Assessing the financing demand side in this study highlighted difficulties faced by CE organisations in accessing finance in early stages of their growth. Especially when they do not have enough collateral, or when there are substantial risks involved in their business models. There is a need to increase the availability of risk-tolerant capital to incentivise the flow of more commercial capital into CE businesses. Development organisations, DFIs, and grant making organisations can play a key role in this regard. Blended finance can be used to **de-risk** different tranches of investment or certain aspects of the financing structure (e.g., payment from a local government body in case of a waste management business) and thus reduce risk, lower cost of capital and improve investor confidence. As an example, USAID and the US International Development Finance Corporation have set up a US$ 35 million loan portfolio guarantee structure for Circulate Capital to de-risk the latter's investments in CE organisations fighting against plastic pollution in South and Southeast Asia. Providers of concessionary capital could also consider supporting the capacity building of early-stage businesses and social enterprises through technical assistance funds, thereby increasing these organisations' ability to attract larger investments from impact or even commercial investors. De-risking instruments such as loan guarantees, public-private-partnerships and insurances are well suited for CE investments with high initial capital needs and could help reduce the perceived risk in such cases, especially in LMIC[38].

CE organisations inherently need business-maturity at the eco-system level to flourish. For example, a waste collection and management business cannot thrive if the recycling ecosystem does not exist for the different material streams. Conversely, a recycling business cannot operate efficiently if the waste collection system is deficient in a region. For such purposes, development agencies and other grant making organisations can consider introducing grants that can support ecosystem-wide financing, for example, by supporting applications by groups of actors spanning businesses, public sector, and CSOs.

Civil societies and other non-private sector players in CE have highlighted difficulties in identifying and applying for grants, mentioning highly cumbersome and resource-intensive application processes. Such CE organisations could benefit from access to support organisations or advisory bodies that pool resources—such as experts, knowledge bases, and relevant tools—which could be offered to CE organisations for end-to-end grant application support at a fraction of the cost. Alliances (such as PREVENT Waste Alliance) or development organisations can play a role in building and supporting such pooled resources groups.

4.3 Recommendations for Banks and VC/PE Funds

Commercial banks should increase awareness about CE impact potential and business principles and develop product solutions catering to CE organisations. Many banks are not just less aware of the benefits of CE businesses (e.g., the higher the circularity of a company, the lower the risk of default),[39] but also do not truly incorporate the risks of linear models in their assessment. Risk assessment frameworks, such as the Circular Risk Scorecard,27 have been developed to evaluate these risks, enabling a fair comparison between the risks associated with linear versus circular economy businesses. Beyond more comprehensive risk assessment methods, banks can also benefit from incorporating CE goals in their portfolio mix and from an execution standpoint, training their officers for better assessment of CE models and more effective engagements with CE businesses. Banks can play a major role in advancing circular economy if they improve their participation in its financing. Some relevant examples on how this can be done already exist. For instance, Bancolombia established a dedicated team to develop their CE strategy in 2021, developed an internal taxonomy for CE, and financed 1.200 projects (amounting to USD 538 million) between 2021 and 2023.[40]

[38] Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. (2022). Financing circular economy: Insights for practitioners. https://www.giz.de/de/downloads/giz2022-en-financing-circular-economy-insights-for-practitioners.pdf P.28
[39] Ilen MacArthur Foundation, Bocconi University, and Intesa Sanpaolo. (2021). Circular Economy as a derisking strategy. https://www.ellenmacarthurfoundation.org/the-circular-economy-as-a-de-risking-strategy-and-driver-of-superior-risk
[40] UNEP FI. (2024). Circular Economy as an enabler for responsible banking. https://www.unepfi.org/wordpress/wp-content/uploads/2024/07/PRB_CE-Nexus_Guidance-Doc.pdf

As highlighted earlier in this report, capital flows are disproportionately directed towards linear businesses, with very few funding organisations focusing on circular economy financing. **There is a need to drive greater investments from commercial organisations such as banks, VC funds (including corporate venture capital (CVC)), and PE funds into circular businesses.** While the de-risking mechanisms mentioned above would be helpful in this regard, a closer involvement and cooperation would also be required from the institutional investors (such as large asset managers, endowment funds etc.) who are providers of capital (e.g., as limited partners (LPs)) to funding institutions such as VC and PE funds.

> **The following excerpt from an Asia-based interviewee provides some avenues that finance providers could explore:** "We need to start thinking about financing the system as opposed to financing individual actors within the system. VC is trying to privilege and pick a winner, a singular company. Systems investing needs to explore how we get more capital into these businesses, and how we capture the value and circulate that capital in new ways."

It will be key to **build agreement on common metrics for CE in the financing sector** (there exist some metrics for CE such as Circular Transition Indicators and Circulytics) to evaluate the level of circularity (or lack of it) in the current portfolios of investments of commercial investors. Such data could then be disclosed in the spirit of transparency by the investors as well as the institutional investors backing them. In the future, this could enable creation and declaration of targets by investors who would like to play a more active role in advancing circularity, ultimately creating peer-pressure to align with CE goals. As an example from a related sector, key asset managers have come together to fight climate change and built a coalition comprising of 89 institutional investors who manage US$ 9.5 trillion in assets and have pledged to reach net zero through their investment activities by 2050.[41]

53% of the CE organisations surveyed as part of this study had indicated that they did not receive clear feedback when their funding application was declined. **Lack of clear feedback or rejection reasons takes away the opportunity for CE organisations to critically review and improve their operating models, their funding source selection, as well as their approach.** Funding organisations should provide feedback on any gaps or areas for improvement when rejecting funding requests, while also highlighting the strengths of the proposals. This will eventually result in improvement in the quality of applications over time and support overall CE growth.

4.4 Recommendations for Regulators and Policy Makers

As mentioned earlier in this chapter, innovation can sometimes bring CE organisations to outperform linear models. **Greater support from public funders and other grant making organisations towards innovation would benefit CE development, as well as other sectors. However, initial subsidies from governments can also play an important role for certain CE models, which have the potential to become economically viable once they scale.** For instance, for an alternative-materials-based packaging company, it might become less expensive to procure and process raw materials if they reach critical volumes in sales but might need support in the form of subsidies until this happens. Regulations should also be leveraged to drive innovation and incentivise corporate funding towards CE initiatives. For example, the EU Packaging and Packaging Waste Regulations[42] requiring minimum recycled content in plastic packaging and reuse of packaging might lead to higher investments and support from larger corporations into redesign and reuse alternatives. Regulations can also be used to mandate that products and materials include negative externalities into their pricing, forcing unsustainable products to lose their unfair price advantages.

[41] Net Zero Asset Managers Initiative. (n.d.). About the initiative. Net Zero Asset Managers. https://www.netzeroassetmanagers.or
[42] European Parliament. (2024). New EU rules to reduce, reuse, and recycle packaging. European Parliament. https://www.europarl.europa.eu/news/en/press-room/20240419IPR20589/new-eu-rules-to-reduce-reuse-and-recycle-packaging

5 Outlook

This part 1 of the report series on "Financing Circularity" aims to contribute to closing the data gap on circular finance – particularly regarding mismatches between demand and supply side – but also to inform the current CE discussions on international, regional, and national levels. Feedback, comments, and additions are highly welcome. In this case, please reach out to contact@prevent-waste.net.

The findings of this report underline an urgent need for targeted interventions to bridge the financing gap for circular economy (CE) initiatives. Despite the growing recognition of CE as a critical tool to address global environmental challenges and driver for sustainable development, significant structural barriers to financing persist. As identified and assessed throughout this report, these challenges range from limited access to risk-tolerant capital to a lack of mainstream funders understanding of CE's multifaceted value.

To catalyse change, the insights and recommendations outlined in this study provide a solid foundation for stakeholders across sectors—CE organisations, funders, and policymakers—to align efforts and reimagine financing frameworks. **The transition to a CE requires innovative funding mechanisms, strengthened by collaboration and supported by tailored policy interventions.**

Part 2 of this series: "Financing Circularity - Guidance to Unlock Finance for Circular Economy Actors" provides actionable guidance for CE organisations, equipping them with practical tools and strategies to navigate the complexities of the funding ecosystem. It includes **step-by-step orientation** for identifying suitable financial partners, aligning financial proposals with funders' expectations, and insights on building resilience against common financial bottlenecks. This next instalment aims to empower CE actors to not only overcome immediate financing hurdles but also to contribute to shaping an ecosystem conducive to circularity at scale.

Together, these two reports serve as a roadmap for addressing the current disparities in CE financing. By fostering systemic collaboration and adapting lessons from global best practices, stakeholders can accelerate progress toward a more inclusive and sustainable circular economy.

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7 Annex

7.1 Methodology

Through a consultative process involving frequent engagement with PREVENT members and regular coordination with the PREVENT Secretariat during December 2023 and January 2024, the research team codeveloped a sequential mixed-methods explanatory design methodology. The process began with a desk review of existing literature, followed by the administration of a remote quantitative survey targeting CE organisations. Subsequently, qualitative interviews were conducted with CE organisations to provide deeper insights.

In parallel, the team undertook secondary research on financing organisations to identify those most active in the CE financing sector. To complement this research, interviews were conducted with selected financing organisations to gain a better understanding of their investment styles and preferences. In addition to informing this study, the collected information was used to compile a comprehensive database of the most active financing organisations in the CE space.

Each step of the methodology is described in greater detail below.

Throughout this report, the team follows the European Union's CE categorisation system, which builds on the Value Hill Business Model Tool[43] – outlining models that "contribute, directly or indirectly, to increasing resource efficiency and decreasing environmental impacts throughout value chains."[44]

- 1. **Desk review:** the survey design was informed by a high-level literature review (see Chapter 6 References for a full list of reviewed resources), which was conducted to ensure that the focus of the demand and supply side assessments were additional to other research work already conducted in the field of financing the CE.

- **2. Online survey: the online survey[45] explored**

  1) current financing options favoured by CE organisations, including different types of mechanisms, satisfaction levels and their use,

  2) financing rejections and provided reasons and,

  3) desired future financing options, anticipated challenges, and projections. The questionnaire was completed by 112[46] unique organisations

[43] Elisa Achterberg, Jeroen Hinfelaar, and Nancy Bocken (2016). This categorisation is also used by the European Commission under its Categorisation System for the Circular Economy: A sector-agnostic approach for activities contributing to the circular economy (2020).
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[45] EC, The survey was live between 21 February and 21 March 2024 (inclusive)
[46] EC, There were 119 entries in total, but after data cleaning to remove double entries, the total number of respondents was 112.

While confidentiality agreements prevent the team from disclosing the names of surveyed CE organisations, the lists below provide an overview of numbers, types and locations of organisations that participated in the online survey:

Surveyed Participants

Sector and region	Number of surveyed participants
Academia/Research	**9**
Africa	1
Asia	1
Europe	7
Civil society	**29**
Africa	10
Asia	6
Europe	8
Latin America	2
Middle East and North Africa	1
United States and Canada	2
Private sector	**71**
Africa	13
Asia	19
Europe	26
Latin America	7
United States and Canada	6
Public institution	**3**
Africa	1
Europe	1
Middle East and North Africa	1
Total	**112**

Figure 14: Surveyed Participants

3. Qualitative Interviews amongst CE Organisations: the team then conducted qualitative interviews, which were used to specifically capture diverse voices and perspectives to enrich the analysis. The research team, with support from the PREVENT Secretariat, conducted 23 Key Informant Interviews (KIIs) amongst CE organisations as shown in the table below:

Sector and region	Number of surveyed participants
Business	**15**
Africa	1
East Asia	1
Eastern Europe	1
Europe	6
Latin America and the Caribbean	1
North America	1
South Asia	8

Academia/Research	**8**
Africa	2
Europe	4
Latin America and the Caribbean	1
North America	1
Total	**23**

Figure 15: Surveyed Participants

4. Demand-side analysis: In conducting the analysis, the research team disaggregated findings by various characteristics, including stakeholder group (i.e., private sector, civil society, academia, public sector), geographic economic classification, organisational size, CE business model, and value chain. The primary focus of disaggregation occurred at the stakeholder group level, with a focus on the private sector.

5. Qualitative interviews amongst finance providers: The supply-side assessment included a landscape review of 1,224 funding vehicles with a proven track record in CE projects and investments, as well as interviews with representatives from 14 CE funding organisations. These interviewees were carefully selected to ensure representation from various categories of funding organisations, including VC funds, philanthropic foundations, and MDBs.

The selection criteria also aimed to achieve a balance between funders from LMICs and HICs, with a particular focus on covering diverse regions such as Latin America, Africa, and Asia for LMICs. In addition to offering insights into the financing supply side, the interviews contributed to the development of a database of 427 funders.

While confidentiality agreements prevent the team from disclosing the names of surveyed funders, the tables below capture the mix of organisations that were interviewed for the supply side assessment:

By funder archetype:

Archetype	Number
Total	**14**
Venture Capital / Private Equity	8
Philanthropic foundations (corporate backed and non-profits)	4
Government funders and Multilateral Development Banks	2

By funding geography:

Archetype	Number
Total	**14**
Funding Global North and Global South	7
Exclusively funding Global South	5
Exclusively funding Global North	2

Figure 16: Qualitative Interviews amongst Finance Providers

Limitations:
The survey methodology primarily targeted responses from the 488[47] PREVENT member organisations, complemented by a few non-members to diversify inputs, received through recommendations from the PREVENT network. As a result, the **responses predominantly reflect the experiences of PREVENT members,** who accounted for most contributions (87 inputs from PREVENT members versus 25 from non-members). Learn more about the PREVENT Waste Alliance and its work towards minimizing waste and promoting circular economy practices globally.

Efforts were made to intentionally include the perspectives of CE organisations in LMICs and the private sector, ensuring their meaningful representation. This goal was successfully achieved, with substantial input from these groups. However, participation was lower among other types of CE organisations, such as academia (9 responses out of 112) and public institutions (3 responses).

Similarly, PREVENT played a role in identifying informants for the KIIs among CE organisations. The selection process prioritized representation from LMICs and the private sector. Due to resource limitations, no interviews were conducted with representatives from academia or the public sector. Consequently, this study provides less nuanced insights into organisations in HICs or those from academia and the public sector compared to SMEs from LMICs.

For the supply-side financing analysis, insights were primarily drawn from publicly available information on funders' websites and databases.[48] These insights were further enriched by interviews with FIs, though the number of interviews was limited to 14.

While the insights generated by this report align with expert consensus and offer valuable information, their broader applicability is constrained by the methodological limitations outlined above.

7.2 Funder Archetypes: Profiles, Access, and Perspectives on Circular Economy

This section provides **details about the different funder archetypes and how they view CE within their funding / investment activities.** Where possible, CE-specific examples are given. The following framework is used to present the details for each of the funder archetypes below.

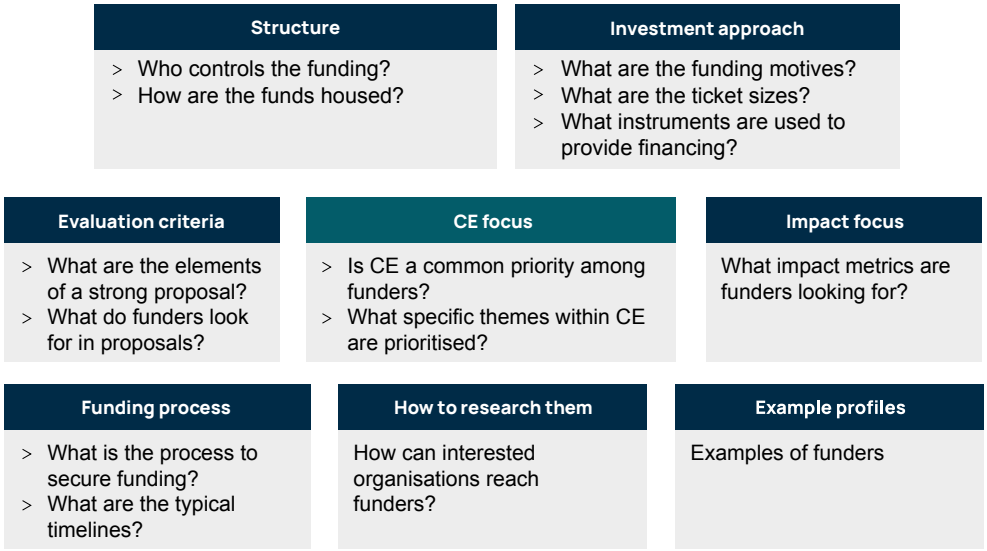

Figure 17: Framework for CE Funder Archetypes

[47] Membership data from December 2023
[48] Public databases and portals such as Dealroom, Crunchbase, and the EU Funding & Tenders portal were used for data collection.

Angel Investors

Angel investors typically invest their own personal or family wealth, unlike VC funds who invest money pooled from multiple sources. While their primary objectives are profit and capital growth, some angel investors are driven by a passion for specific themes, leading them to support investments even when the profit potential is uncertain or not immediate. They are usually wealthy individuals who can carve out a part of their wealth to invest in private organisations.

Aspect	Description
Structure	Angel investors may either invest individually or through angel funds/platforms managed by members, using debt or equity instruments. They operate under local securities and exchange commissions in countries like the United States, the United Kingdom, and India.
Investment approach	They typically invest in early-stage companies, where businesses may be pre-revenue. Individual angel investments are usually in the range of US$ 25,000-US$ 100,000. Typically, they have no thematic focus, though angel investors are also known to invest based on their own interest areas and expertise, where they can support innovation, mentor entrepreneurs, and contribute to the development of new industries. Interest areas may be related to their primary business activities, or in some cases to even a cause that they want to be a part of. Of late, several angel investor networks dedicated to climate tech, such as **E8, Climate Angels,** and **EnergyLab Angels** are also being set up that are also investing in CE businesses.
CE Focus	Angel investors do not usually categorize themselves as investing based on specific themes but rather tend to prioritise themes or sectors in which they have prior experience in (e.g., through their own businesses) or those which are gaining momentum in the market. As mentioned above, angel investment networks have emerged in recent 3-5 years that focus on climate and occasionally invest in CE-based themes. However, their general understanding of CE specific challenges and opportunities is not highly nuanced, and they place significant emphasis on factors such as business traction, scale and exit potential even for CE businesses.
Funding process	In many cases, the angel investor would already know about the entrepreneur either directly or through a reference. The stronger the relationship with the entrepreneur, the faster the financing process is typically completed. In cases where the entrepreneur is already well known, an angel investor would usually invest based on trust and track record of the entrepreneur. In cases where the entrepreneur is not as well known to the angel investor (e.g., while connecting through an angel network), the entrepreneur can take their investment opportunities to angel investors by first developing an investment case through a pitch deck (highlighting aspects such as their product/service, business model, market opportunity, competitive landscape, and financial projections) and then presenting the pitch to the angel investors identified through the networks or references. If the investor is interested in supporting the business, they will conduct a due diligence to assess the viability of the business and verify the data and facts provided by the entrepreneur. This process is usually short and includes reviewing the company's financials, understanding the market, and evaluating the management team.
Evaluation criteria	Angel investors typically look for founders that they can trust and for businesses in markets that they understand well. Those interested in supporting CE businesses may also assess the underlying CE technology and its social and environmental impacts. Given that businesses tend to be in early stages of startup while raising funding from angel investors, the due diligence process conducted by investors tend to be mostly into checking compliances and financial records.
Impact focus	Angel investors, as a general group, do not prioritise impact while making funding decisions or as part of post-investment reporting. However, individual angel investors, if driven by a personal cause, or angel investor platforms, if focused on themes such as climate, seek strong impact potential while evaluating businesses to invest in.

How to reach them	Global angel investor networks are fragmented; businesses often connect through personal/professional networks or angel funds/platforms. Formal application channels are emerging, requiring initial pitch materials for screening before direct engagement with angels.
Example profile(s)	• **E8** is a US-based network of angel investors investing in climate solutions. It focuses on early-stage companies across sectors such as renewable energy, energy efficiency, sustainable agriculture and waste reduction, all of which have strong underlying CE potential. It has, in recent years, invested in CE businesses such as Algenesis (a sustainable bio-materials company). • **EnergyLab** is a network based in Australia and New Zealand that connects startups in the clean energy and climate technologies space to angel investors in the region. As a free platform that any angel investor can join, EnergyLab invites angels interested in deploying check sizes of at least AUD 5,000 to register for access to EnergyLab's deal pipeline. In recent years, it has facilitated investments in businesses such as RecycleSmart, a recycling services company, and Monty Compost, a composting technology company.

Figure 18: Angel Investors

Incubators and Accelerators

Incubators and accelerators provide funding as part of a longer engagement with organisations, although most do not provide investment capital, especially in LMICs. While both aim to support startups, incubators typically focus on nurturing early-stage companies through mentorship and resources over a longer period, whereas accelerators fast-track the growth of existing companies through intense, short-term programmes. It is generally a good practice to seek partnership with accelerators or incubators that are backed by experienced entrepreneurs themselves or supported by corporate firms who can add strategic value.

Aspect	Description
Structure	Incubators are typically operated by universities, government entities, or independent institutions, offering early-stage startups resources such as office space, mentoring, and training to refine their business models. Accelerators, often run by corporates or industry/ government consortia, provide structured programs including mentorship, and networking opportunities to accelerate growth, and sometimes seed capital.
Investment approach	Funding is primarily through grants or equity investments. Incubators may offer smaller grants or in-kind support, while accelerators may provide larger seed investments, ranging from US$ 10,000 to US$ 1 million. Corporate or academic accelerators align with the strategic interestsof sponsors, fostering innovation that supports broader sustainability goals, e.g., **PepsiCo Greenhouse Accelerator** in food and beverage sustainability.
CE Focus	Among the more than 400 funding opportunities in the database, there were approximately 50 accelerators focused on CE, either exclusively or as part of broader climate/sustainability agendas. Interest in CE startups is rising due to sustainability imperatives. Specific material circularity focuses include food/organics, textiles, and plastics, e.g., **PepsiCo Greenhouse, Fashion for Good,** and **Think Beyond Plastic** accelerators.
Funding process	Accelerators require startups to submit applications with business plans and pitch decks. Selected candidates undergo interviews and evaluations over a timeline of up to 3 months. Each cohort typically accommodates 10-20 startups.
Evaluation criteria	Accelerators are highly selective due to the limited number of spots available. They seek strong product ideas and tested innovations with revenue potential. Focusing on early-stage organisations, they do not prioritise businesses with already tested financial models. There is a strong emphasis on the capabilities of the founding team, particularly the entrepreneurs who will participate in the incubator or accelerator. Accelerators with an impact focus may also look for quantifiable social and environmental impacts and evidence. For example, **PepsiCo's Greenhouse Accelerator** evaluates innovations for their disruptiveness and responsiveness to circular economy, climate action and sustainable agriculture. Additionally, some accelerators may be geographically selective if they run in-person programmes requiring participants to attend mentorship sessions.
Impact focus	Accelerators and incubators seek strong impact narratives from participating organisations and evaluate the qualitative and quantitative evidence of impact while evaluating applications. While the focus on quantitative evidence is not high, accelerators and incubator programs will often expect information that demonstrates the environmental and social impact of the organisation and the potential for further depth and scale. For example, the **Regenerative Blue Economy Challenge**, an accelerator aimed at promoting innovations that can solve marine pollution, has a stated focus on scale of impact: it seeks for-profit and non-profit organisations that can be scalable in their local contexts and be replicable in other parts of the world. The **Mills Fabrica Incubator**, an incubator that is supporting innovations in the fashion industry, clearly states that among the key selection criteria is the potential of the innovation to transform the textile industry, indicating the emphasis placed on systemic impact.
How to reach them	Accelerators usually launch their application calls for upcoming cohorts on their websites. Accelerators often also maintain mailing lists, where they keep subscribers informed of new calls for applications.

Example profile(s)	• **The Circular Economy ClimAccelerator** is an initiative of EIT Climate-KIC towards supporting the scaleup of startups working in climate innovation, including circular solutions. They partner with businesses and consortiums to run accelerator programs across Europe and Asia. In 2024, the ClimAccelerator has shortlisted three focus areas for its accelerators globally: agriculture, blue economy, and industrial decarbonisation. In previous editions, ClimAccelerator has provided mentorship, training resources, and financing to its participants, with a focus on providing equity-free support to help businesses access the benefits of the program without giving up ownership in the early stages of their business. • **The PepsiCo Greenhouse Accelerator** seeks to support innovations that will receive funds and mentorship and get the opportunity to partner with PepsiCo to accelerate its growth. Since 2017, they have been running regional editions of accelerator programs as well as special editions of programs such as the Nutrition edition and Hispanic food & beverage businesses edition. As a key value proposition for businesses participating in the Accelerator, business experts from PepsiCo such as procurement managers, agricultural experts, etc. are paired with accelerator participants to advise them on their product development and go-to-market strategies, and potentially explore avenues to introduce and test the business' products in PepsiCo's own value chains.

Figure 19: Incubators and Accelerators

Venture Capital (VC) Funds

VC funds invest from a pool of capital into companies that align with the VC's investment thesis. The primary objective of traditional VC funds is maximisation of profit. However, for CE-focused funds, there is a dual objective of maximising profit and promoting circularity, which can be measured in various ways such as improving resource efficiency and reducing waste. Of late, there is also a notable presence of **corporate VCs (CVCs)** i.e., VC arms of businesses who are making investments in businesses. These CVCs look for strategic alignment with their parent company's business objectives and invest with the intention to test new product lines, innovate existing product lines, or gain further leverage in their own industries, both for revenue and sustainability benefits. For example, **Henkel Tech Ventures**, the CVC arm of Henkel, has been investing in waste recycling and new material technologies that directly complement its existing consumer products and adhesive businesses.

Aspect	Description
Structure	For **VCs,** funds are pooled from capital allocators, known as Limited Partners (LPs), which can include DFIs, endowments, pension funds, family offices, and high net worth individuals (HNIs). The funds are managed by General Partners (GPs), who are experienced investors responsible for making investment decisions and managing the portfolio. Profits from investments are distributed between LPs and GPs based on pre-defined terms, typically through an incentivebased structure (carried interest). For **CVCs,** funds come directly from the corporate's balance sheet.
Investment approach	**VCs** can invest through equity, debt, or quasi-equity instruments such as preferred stocks and convertible loans. The range of investment ticket sizes can vary widely, typically from as low as US$ 100,000 for early-stage investments to US$ 20m for growth-stage companies.
CE Focus	Circularity as a separate focus area is not always explicitly articulated in many funds' investment theses. However, as a positive development, in the database of 427 funders, there were around 40 VC funds globally with an exclusive focus on circularity. In addition, there were many climate funds that mentioned circularity and synonymous themes (e.g., waste reduction, sustainable consumption) as priority areas of funding. There were funds with industry-specific but related themes such as sustainable food, future of fashion, or blue economy, that in practice, invest in businesses promoting circularity within these ecosystems.
Funding process	The funding process with VC investors begins with providing a pitch deck and introductions to representatives at VC funds. If there is interest, entrepreneurs proceed to a due diligence phase where financials, market potential, team capabilities, and product feasibility are scrutinised. Successful due diligence leads to deal negotiation, outlining the investment terms. Once investment terms are agreed upon, the deal moves to legal review and final closing. The entire process to close funding can take 3-6 months.
Evaluation criteria	The evaluation process typically begins with an initial screening where the business is assessed for basic eligibility criteria matching the fund's thesis, including geography and stage of funding. Many VC funds have specific geographic regions they focus on, often due to the logistics of post-investment monitoring and support and ensuring compliance with fund mandates or local regulations. VC funds also have defined stages at which they invest. Seed and early-stage funds target companies in pre-revenue or early revenue stages, focusing on startups with innovative ideas that need funding to develop. Growth funds, on the other hand, look for companies that have already achieved market validation, with established revenues and a proven business model, ready for scaling up operations. It was observed during the interviews that VC investors have a common set of criteria that are true across different sectors or themes. These include: • Strong preference for **robust business models** that can scale well in the future while generating good margins. • Clear actions and a **roadmap** that can move a company **towards profitability.** While immediate profitability is not a strict requirement for VCs, most VC funds need a clear roadmap towards achieving profitability. Investors seek assurance that the business has a viable path to financial sustainability. • Consideration of investments as **investments in people**, not just businesses. VCs are attracted to founding teams that are well-rounded in their mix of skills and experience and coachable in their attitude towards engaging investors.

	A few CE specific nuances are listed below: • VC investors prefer CE models that are **derisked** through value chain linkages to the extent possible. For instance, they prefer to see off-take agreements secured through customer contracts or at least demonstration of strong customer interest through their involvement in the product development / pilot stages. • CE businesses that are based on **network effects** such as PaaS or reuse models need to demonstrate early traction and perform well on indicators such as customer acquisition costs, customer churn and customer lifetime value. • CE businesses that display competitive unit economics and cost competitiveness with their linear counterparts are viewed favourably. VC funders are increasingly wary of CE businesses that seek funding to subsidise their costs of production and operations. Instead, they look for businesses that are **cost-competitive with traditional businesses**, have a reliable and steady feedstock channel, and are generally operationally robust. • CE businesses that **rely on regulations** to maintain their revenues and market standing are **viewed as riskier**. While regulations can be seen as supportive factors or secondary business drivers, investors generally prefer business models that do not rely primarily on regulatory measures for their viability and growth.
Impact focus	While not all VC investors prioritise impact, the ones that focus on CE or broader sustainability/ climate themes, do prefer businesses that can demonstrate positive impact. Below is some important impact metrics related to CE organisations that such VC investors would find relevant: • **Environmental impact:** Amount of waste diverted from landfills / incineration, amount of material recycled, amount of virgin material production avoided, amount of water saved, tonnes of carbon emissions avoided (very critical metric for climate-oriented funds). • **Social impact:** Creation of dignified jobs, improvement in wages, any other social benefits for the community. • **Regulatory compliance:** such as adhering to local pollution control laws, obtaining permits, etc. are hygiene for funders and can become bottlenecks in fundraising if there are noncompliance issues. As part of post-investment reporting as well, VCs that have a strong climate or CE focus expect regular reporting on quantitative metrics. For example, a European impact VC fund which invests in CE among other focus areas, requires businesses to supplement their funding application with quantitative evidence of the impact they have already seen to date. While negotiating the terms of investment, the fund and its investee partner co-develop an Impact 'Theory of Change' that outlines the direct outputs and longer-term outcomes that the business can see as it goes about its commercial operations. Like many other VC investors, the fund ties business outputs (such as sales of recycled plastic products) with impact outcomes (such as carbon emissions avoided). It also bears noting that in cases where VCs are funded by **DFIs (as LPs)**, they will – by virtue of DFIs' impact focus – expect a strong impact value proposition aligned with the impact priorities of the DFI. It can therefore help to **research the LPs of a VC fund** that a business is approaching to get a sense of what its impact priorities are in case these are not immediately obvious from the VC fund's online presence.
How to reach them	VC funds have a strong online presence and usually welcome email introductions to businesses that are aligned with their investment approach and criteria. Businesses interested in exploring opportunities to raise VC funding can visit the VC fund's website to find the fund's contact details (usually provided as an email ID or as a 'Contact us' form) and introduce themselves. However, finding a mutual contact to introduce them establishes a measure of quality that is noticeably advantageous, though not necessarily deserved. In addition, VC funds also often participate in online and offline conferences and events e.g., **SOSV Climate Tech Summit, Climate Investor Forum, World Climate Tech Summit**, etc. to meet new businesses – such platforms can be helpful to establish touchpoints with VCs as well. An effective approach for introductions is through mutual contacts, such as someone from a portfolio company of the fund or other shared acquaintances, which can enhance a business' credibility.

Example profile(s)	**Circulate Capital** is a VC firm focused on advancing the circular economy, particularly by tackling plastic pollution and promoting sustainable solutions in mature and emerging markets. Their investment approach focuses on transforming recycling and waste management supply chains and funding innovations that represent significant advances towards circularity. They invest via two strategies: Recycling Supply Chains (focusing on investments in South and Southeast Asia) and Disruptive Innovations (focusing on global investment with a potential to be transferred to emerging markets in Asia and Africa). They provide equity, quasi-equity, and debt, with investment sizes ranging from US$ 2-30m for plastic waste management and recycling and US$ 1-5m for disruptive innovations in the plastic circularity space. Notable investments include **Lucro Plastecycle** (which is developing post-consumer recycled flexible plastic packaging solutions in India) and **Recykal** (which provides digital solutions that connect waste generators, processors, recyclers and brand owners and facilitate material flows and transactions across the recycling value chain). **Seaya Ventures** is a VC firm with multiple funds investing in multiple sectors, including sustainability and CE. Its EUR 300m climate tech fund, **Seaya Andromeda**, is focused on supporting startups in Europe and the United Kingdom delivering technological solutions to problems in the energy, sustainable food value chains and CE sectors. They provide equity funding of check sizes ranging from EUR 7-40m to Series A, Series B and Series C+ startups. CE startups who have received investments in the past include **Recycleye**, which has developed AI-powered waste picking robots to lower the cost of sorting waste materials, and **Ecoalf**, a company making clothing from recycled materials

Figure 20: Venture Capital (VC) Funds

While **family offices** have been mentioned above as potential investors in VC funds, there may be cases where family offices invest directly into companies. In such cases, the investment approach and process are very similar to VC funds; in many cases the investment teams of family offices making such investments come with a VC investment background and hence have a similar approach. Moreover, like some VC funds, there may also be family offices who consider the impact potential of their capital and prefer to back impact driven businesses – such family offices are more likely to appreciate and support CE organisations. For example, **PFC (Partners For Change)** family office provides investments and grants for an inclusive and sustainable economic development including circular systems and has invested in a waste management company in Norway **(Norsk Gjenvinning)** as part of its mission.

Philanthropic Foundations

Philanthropic foundations are non-profit organisations established to provide financial support for various social, environmental, and cultural causes. Their primary objectives include addressing poverty and inequalities, promoting community welfare, and fostering sustainable development. These foundations achieve their goals typically through grant-making. The funding provided by philanthropic foundations is typically aimed at creating long-term social and environmental impact and supporting innovative solutions to local issues.

Aspect	Description
Structure	Philanthropic foundations can either be independently governed or part of a larger corporate group. Independently governed foundations often receive funding from multiple sources, including individual and institutional donors. They may also be endowed with a founder's personal wealth or an initial endowment. Corporate-owned foundations, on the other hand, are typically funded by the profits of the parent corporation(s).
Investment approach	Philanthropic foundations primarily make grants to governments, academic institutions, and other non-profit organisations. Strategic grants to accelerate innovation, however, are often made to SMEs as well. These grants are designed to support research, policy development, capacity building, and programme implementation. The funding provided can vary significantly, with grant sizes starting at US$ 50,000 and sometimes reaching up to US$ 20m.
CE Focus	Most philanthropic foundations investing in CE have it as one of many other funding priorities. As a result, few foundations (such as **Ellen MacArthur Foundation**) exclusively focus on funding CE projects. There is a significant pattern where the philanthropic arms of corporations, particularly those with extensive and resource-dependent supply chains, are demonstrating a heightened commitment to circular economy initiatives. This is driven by the need to transition from linear to circular models to ensure long-term sustainability and resource efficiency. This trend is evident across sectors such as food production, mining, plastics, and consumer goods, where the reliance on natural material extraction necessitates sustainable practices. For example, the **Coca-Cola Foundation**, as the philanthropic arm of The **Coca-Cola Company**, which relies heavily on natural resources for beverage production and product packaging, is supporting sustainable packaging, sustainable agriculture, and community recycling programs. Even general philanthropic foundations are increasingly recognising the importance of the circular economy as part of their broader sustainability efforts. For example, the **Rockefeller Foundation** has included circular economy objectives within its broader environmental sustainability goals.
Funding process	The funding process for philanthropic foundations, especially those focused on the circular economy, typically begins with the submission of a detailed concept note. If the concept note aligns with the foundation's strategic priorities, the applicant is invited to submit a full proposal. This proposal goes through several stages of review, including initial screening by program officers, due diligence checks, and evaluation by a selection committee. Throughout this process, the foundation may request additional information or clarifications. Successful proposals are then presented to the foundation's board or executive committee for final approval. This process can take anywhere from 3 months (for smaller grants up to US$ 2m) to 6 months (for large grants up to US$ 20m). For larger grants, organisations may hire grant writers that specialise in submissions to a specific funder.
Evaluation criteria	Philanthropic foundations evaluate funding proposals based on a few key criteria. Social impact is of paramount importance to foundations, and proposals must explain how the project will benefit communities and contribute to broader societal goals. For funding towards CE projects, proposals should also clearly provide targets for waste reduction, emission avoidance, and other environmental metrics, as well as targets for social metrics such as job created, incomes improved, etc. In addition, foundations also look for achievable objectives and realistic plans for implementation, privileging proposals that have existing partnerships in the communities where they want to work. Sustainability is another critical factor, and foundations seek long-term viability of the program's activities even after the program implementing organisation exits the program geography. Foundations also assess the capability and track record of the implementing organisation, ensuring they have the expertise and capacity to deliver the proposed outcomes.

Impact focus	Philanthropic foundations have a strong impact focus and evaluate funding opportunities, both for the impact they have already achieved and seek to achieve in the future. As part of program monitoring, they also require funding recipients to continue reporting along quantitative and qualitative impact indicators. For example, in its quarterly progress reports, a Dutch foundation requires its grantees to report along indicators CO2 emissions avoided/ reduced, number of jobs created, quantum of energy saved/conserved, etc. in addition to completion of program activities, reflecting their equal focus on program efficacy and impact realisation. Some foundations struggle to right-size their data-gathering request to the size of the organisations they target, creating frustration on both sides.
How to reach them	Many foundations issue open calls for proposals, which are often listed on their websites or through grant platforms such as **Devex**. Regularly checking foundation websites and subscribing to their newsletters can help keep track of new funding opportunities and deadlines. In addition to open calls, some foundations operate on an invite-only basis, where proposals are solicited from organisations within their network or based on recommendations from trusted advisors. To access these opportunities, building relationships with foundation staff can be beneficial. Organisations in need of advice or connections to apply to or secure funding can also seek support from capacity building and network facilitation platforms such as **GrantSpace** by Candid Learning, **Nonprofit Learning Lab**, and platforms catered to supporting organisations in the CE space such as the **African Circular Economy Network**.
Example profile(s)	The **IKEA Foundation** is a foundation established and funded by the INGKA Foundation, which is the owner and sole shareholder of Ingka Group which owns and operates most IKEA stores globally. It provides grants supporting research, policy development, capacity building, and program implementation to tackle global challenges such as climate change and poverty. The IKEA Foundation has a strong commitment to the circular economy, integrating it as a key focus within its sustainability efforts. For example, the foundation supports the **Circular Economy Catalyst** program in India and Kenya, which helps entrepreneurs develop sustainable businesses and partnerships to foster inclusive and regenerative economies. Additionally, the foundation funds the **O-Farms initiative** in Kenya and Ethiopia, which supports circular agribusinesses to reduce waste and enhance livelihoods. Another notable project is the partnership with the World Resources Institute to promote a circular economy for food in Rwanda, aimed at accelerating business growth for SMEs and creating an enabling policy environment. **H&M Foundation** is a foundation established and privately funded by the founders and main owners of the H&M Group. The foundation focuses on driving long-term positive change in areas such as education, water, equality, and the circular economy. The H&M Foundation provides grants primarily to governments, academic institutions, and non-profit organisations. The foundation has launched several initiatives aimed at promoting circular fashion and sustainable practices. Notably, the **Global Change Award**, initiated by the foundation, supports innovative start-ups in the circular fashion sector. This award has funded projects such as dissolvable thread and new materials from food by-products. Additionally, the foundation has partnered with the Global Fashion Agenda to accelerate circularity within the fashion industry through initiatives like the **Global Circular Fashion Forum**, which supports textile waste recycling and sustainable material use in multiple countries including Bangladesh, Cambodia, Vietnam, Turkey, and Indonesia.

Figure 21: Philanthropic Foundations

Development Agencies and National/Regional Government Funders

These are public sector entities established to promote economic development, social upliftment, and environmental sustainability. These agencies and funders provide financial support to projects that address critical challenges such as poverty alleviation, infrastructure development, healthcare, education, and climate change mitigation. Their primary objective of these institutions is to facilitate inclusive growth and sustainable development by mobilising resources and expertise to underfunded regions and sectors.

Aspect	Description
Structure	Development agencies and government funders are typically set up as statutory bodies, funded by national or regional government budgets. Examples include agencies like the **USAID** and **Horizon Europe**, which receive substantial funding from their respective governments to support development initiatives domestically and internationally.
Investment approach	Historically, development agencies and government funders have provided grants to support a wide range of projects. However, they are increasingly experimenting with more innovative financing mechanisms such as debt, equity, loan guarantees, and blended finance. This approach has allowed them to attract private sector investments into sectors that traditionally rely on government funding. Development agencies and government funders provide funding to a variety of entities, including non-profit organisations, SMEs, academic institutions, community groups and cooperatives, and even other governments. Development agencies and government funders deploy funding within a diverse range of ticket sizes, from US$ 100,000 to US$ 20m or even higher (especially in the case of funding for government bodies).
CE Focus	Most institutions in this category implicitly consider CE as part of their sustainability and climate goals and not as an exclusive and dedicated focus area. However, development agencies and national/regional government institutions based in Europe are increasingly showing interest in funding CE programs and investments. For example, the landscape review found focused initiatives by the Swedish and Netherlands governments, European Commission, and European Union that fund solutions in the circular economy.
Funding process	The funding process for development agencies and government funders starts with the submission of a detailed proposal. This proposal outlines the project's objectives, expected impact, budget, and implementation plan, and in most cases, also requires the applicant to share additional documents such as self-declarations, client/grantee references, and team CVs. Since different funding opportunities have different application formats, it can be a timeconsuming exercise to develop a fresh proposal for each funding application. Proposals undergo rigorous review for technical and financial model robustness. The entire process from application to funding approval can take up to 6 months or longer for larger funding opportunities.
Evaluation criteria	Funding proposals are evaluated on a few key criteria. Strategic alignment with the agency's mission and priorities is crucial. The potential social and environmental impact of the program is also assessed, requiring clear and measurable outcomes. Financial viability and sustainability are essential, and the program must demonstrate sound financial planning and the ability to sustain program impact beyond the funding period. Evaluators also examine the feasibility of the proposed activities and gauge technical readiness. Additionally, the track record of the organisation is scrutinised to ensure it has the expertise and experience necessary for successful program execution.
Evaluation criteria	Funding proposals are evaluated on a few key criteria. Strategic alignment with the agency's mission and priorities is crucial. The potential social and environmental impact of the program is also assessed, requiring clear and measurable outcomes. Financial viability and sustainability are essential, and the program must demonstrate sound financial planning and the ability to sustain program impact beyond the funding period. Evaluators also examine the feasibility of the proposed activities and gauge technical readiness. Additionally, the track record of the organisation is scrutinised to ensure it has the expertise and experience necessary for successful program execution.

Impact focus	Development agencies and government funders place a strong emphasis on impact. They require detailed impact assessments and reporting on various social and environmental metrics (refer to the list of indicative impact related parameters in the deep dive on VC funds above), both during the time of funding applications and for program monitoring once the funding has been made.
How to reach them	Interested organisations can regularly check agency websites and funding portals for open calls for proposals. Building relationships with agency representatives through networking events and conferences can also be beneficial. Some agencies also offer pre-application consultations or proposal workshops to help applicants strengthen their submissions. Organisations in need of advice or connections to apply to or secure funding can also join capacity building platforms such as the **African Circular Economy Network**.
Example profile(s)	• **The LIFE Programme** is the European Union's funding instrument dedicated to the environment and climate action. Its **Circular Economy and Quality of Life sub-programme** aims to support the transition to a sustainable, circular, toxic-free, energy efficient, and climate-resilient economy while also focusing on protecting, restoring, and improving the environment. This sub-programme primarily offers EUR 2-10m action grants for projects that implement innovative and best practices through Standard Action Projects. Standard Action Projects in CE can include innovative solutions for value-added recycling, such as the separate collection and recycling of waste electrical and electronic equipment, bio-waste, textiles, and composite and multilayer materials, etc. and programs that implement new business and consumption models, focusing on key product value chains to enhance durability, reparability, reusability, upgradability, and recyclability of new products. • **The United States National Science Foundation's Future Manufacturing program** is the US government's initiative to support inventive approaches that can change the manufacturing ecosystem in various industries such as technology, health, energy, agriculture and industrials. It has three focus areas: future cyber manufacturing, future eco manufacturing, and future biomanufacturing. The program offers two types of awards: research grants of up to USD 3m for up to four years, and seed grants of up to USD 500,000 for up to two years. The program invites innovations that are low on technology readiness levels, that can demonstrate (through their proposals) that their technologies explore new transformative capabilities of manufacturing processes in the intended industries and protect the environment.

Figure 22: Development Agencies and National/Regional Government Funders

Banks

Banks are FIs that provide a range of financial services, including loans and investments. In recent years, banks have expanded their offerings beyond traditional loans to include debt guarantees, bonds, and other innovative financing instruments. The primary objective of banks in financing is to earn interest income from loans and other credit facilities.

Aspect	Description
Structure	Banks can be national or government-owned and funded by public capital, or privately owned while sourcing their capital from private investors and depositors.
Investment approach	Banks invest in a diverse range of businesses, from SMEs to large corporations. Historically, banks focused primarily on providing debt capital, but they now offer a broader suite of products, including project financing, debt guarantees, sustainability-linked loans, and even asset and real estate leasing solutions. Banks can fund ticket sizes along a broad range, ranging from US$ 50,000 or even lower to US$ 100m.
CE Focus	In emerging and developed markets, many commercial banks are agnostic to CE and finance CE businesses as they would traditional businesses. They often do not make any special considerations for their circular business models or circularity benefits. On the other hand, the banks prominently funding CE businesses do so as part of their green loan offerings. As a positive development, there were a few banks based in Europe that the landscape review surfaced, that have started explicitly prioritising circular economy initiatives as part of their sustainability goals. For example, **Rabobank's Circular Entrepreneurship Desk** finances enterprises having circular business models and has to date funded EUR 270m in loans to businesses largely in the manufacturing, food & agriculture, plastics, and construction & real estate sectors. Another notable example is that of **BNP Paribas**, which, as part of their participation in the **Ellen MacArthur Foundation's Circular Economy 100 Program**, provides leasing solutions for companies, including solar panels, electric vehicles, etc.
Funding process	The funding process for banks resolves around the **loan application**, which includes business financials and information on the use of proceeds. Based on this loan application, banks assess the financial health, revenue projections, and repayment capacity of the business. Based on this evaluation, the bank offers a set of terms, including interest rates, principal amount, and repayment schedule. The approval process can vary in duration: smaller loan applications of up to US$ 50,000 may be processed within a month, medium-sized loans of up to US$ 2m within three months, and larger loans may take up to six months.
Evaluation criteria	Banks primarily evaluate loan applications for the viability of the business seeking funding and the repayment capacity of the borrower, looking to metrics such as Loan-to-Value (LTV) ratio, which is the ratio of the loan to the value of the asset being invested in using loan proceeds (with a higher LTV ratio indicating higher risk to the banker, resulting in a greater interest rate). Most banks assess the **Three Cs** - credit (company's track record and credit worthiness), character (of the borrower), and collateral, as part of their evaluation process. The prominence of collateral, LTV, and other risk assessment measures in bank financing poses roadblocks to securing financing for CE enterprises. The problem is greater in LMICs where most banks heavily rely on hard collateral such as land and do not easily lend based on cashflows. This typically leads to many CE businesses, especially SMEs, facing challenges in securing the required loan amounts with limited collateral to offer.
Impact focus	While impact metrics are not a primary concern among banks, banks that have established green lending programs require environmental indicators to ensure the business aligns with the sustainability priorities identified by the financier. In case of **sustainability-linked instruments** (e.g., green bonds), provisions may incentives such as reduced interest rates if impact milestones are met by the companies as per the agreed timelines. It also bears noting that in cases where banks are funded by DFIs, they will – by virtue of DFIs' impact focus – expect a strong impact value proposition aligned with the impact priorities of the DFI.
How to reach them	Businesses seeking loans from banks can approach them through various channels, including bank branches, online portals, and dedicated business development teams. Many banks also have relationship managers and corporate banking divisions that specialise in assisting businesses with their financing needs.

Example profile(s)	• **Intesa Sanpaolo Group** is an Italian banking group that operates both as a national and international financier. Since 2018, it has a **dedicated credit line to finance CE businesses** in Italy and internationally. In 2023, the bank assessed 384 project applications and validated 366, committing EUR 11.7 bn to CE initiatives. The funding process starts with the submission of a loan application, which includes detailed business financials and a proposal outlining the circular economy initiative. The **Intesa Sanpaolo Innovation Center** also performs a technical assessment based on specific Circular Economy criteria defined with the **Ellen MacArthur Foundation**, against which the loan is assessed. • **HSBC's Go Greener SME Rewards** provides commercial business loans to SMEs working in circular economy, renewable energy, waste management, sustainable water and wastewater management, etc. in the United Kingdom. By providing evidence of the intended use of loan funds, the bank can support investments in equipment for the manufacture of products made of recycled materials or products that enable resource efficiency.

Figure 23: Banks

Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs)

DFIs (also known as promotional banks) and MDBs are specialised FIs established to support economic development, particularly in emerging and developing markets. DFIs are typically government-backed entities that provide funding and expertise to promote private sector investment in high-impact sectors. MDBs, on the other hand, are international FIs owned by multiple countries, and they aim to drive economic growth, reduce poverty, and promote regional cooperation by funding large-scale development projects. The primary funding objectives of DFIs and MDBs include financial returns catalysing private sector investment, creating employment opportunities, fostering sustainable economic growth, and addressing market failures where commercial financing is insufficient. While DFIs and MDBs seek to be financially viable and DFIs seek to generate returns on their financing, the profits made by both types of entities are reinvested into further development projects.

Aspect	Description
Structure	**DFIs** are usually owned by a single or a group of country government(s), or a mix of public and private stakeholders. They are usually established as statutory corporations through specific legislation or as state-owned enterprises, and they source their capital from national or international development funds. In many cases, DFIs invest in VC/PE funds and banks that themselves go on to invest in or lend direct to companies. Such funds and banks with DFIs as investors are more likely to consider CE due to the impact requirements of the DFIs. **MDBs** are typically owned by multiple country governments, which are their shareholders, and are established through international treaties or agreements that are ratified by member countries.
Investment approach	These institutions invest in a range of businesses, from SMEs to large enterprises, as well as in governmental projects. Their investments in businesses typically span from the growth stage to mature/late stages. DFIs and MDBs deploy financing through a variety of financial instruments, including equity, grants, debt (including sustainability-linked loans), loan guarantees, bonds, quasi-equity (e.g., convertible notes), and project finance. They provide both **financial and technical assistance** to ensure the success and sustainability of their investments. Ticket sizes of financing for businesses range from US$ 10m to US$ 100m, with some recent initiatives to invest smaller amounts.
CE Focus	Currently, CE investments often fall under broader climate and sustainability portfolios of most DFIs and MDBs, and CE is not always a dedicated investment area. For example., the **Asian Development Bank** (the Asian regional MDB) continues to fund CE projects through its larger funding portfolios, such as agriculture, climate change, and the environment. The African Development Bank **AfDB**, similarly, funds CE projects from capital allocated to sectors such as agriculture & agro-industries, water supply & sanitation, etc. As of late, the AfDB has been seeing an institutional push towards making CE part of its green growth agenda. In the recent years, DFIs and MDBs (especially Europe-based DFIs and MDBs) have increasingly been recognising CE as an environmental and social imperative for governments and businesses. For example, the **EIB**, the EU-founded MDB, in April 2024, along with the **World Bank Group** and AfDB recently announced a shared vision towards facilitating the uptake of CE approaches, with the EIB committing EUR 1 trillion to climate action, including CE. Some have defined climate investments via GHG reductions, causing CE to sit outside their investment strategy – thus, it is important to check definitions.

Funding process	The funding process begins with the submission of a detailed proposal, which is often codesigned with the investment team to ensure alignment with the institution's strategic priorities and impact objectives. Following the submission, an extensive due diligence process is conducted, involving thorough assessments of the project's financial viability, environmental and social impact, and alignment with the institution's goals. Once due diligence is satisfactorily completed, the proposal is reviewed by the investment committee. Approval from this committee leads to the drafting and negotiation of legal agreements, which outline the terms and conditions of the funding. Given the extensive legal, regulatory and compliance requirements, this process can take from 6 months to over a year.
Evaluation criteria	The evaluation process typically begins with an initial screening where the proposal or concept note is assessed for basic eligibility, such as alignment with geographic focus, sectoral priorities, and the maturity of the business. **When considering CE investments, DFIs and MDBs evaluate projects based on several key criteria:** • Projects must align with the institution's overarching goals, such as economic development or climate mitigation. • Projects should demonstrate a clear path to financial sustainability and profitability. This includes sound business models, market potential, and realistic financial projections. • Investments should have the potential
Impact focus	DFIs and MDBs make investments with **strong impact expectations** in mind. While evaluating funding proposals, they require that the environmental benefits of the project, such as waste reduction and reduction/avoidance in carbon emissions, and the social impact such as job creation is demonstrated.
How to reach them	DFIs and MDBs typically do not issue open calls for grants and investments. Instead, they rely on the extensive networks of their seasoned investment teams. Businesses interested in raising funding from DFIs and MDBs can contact the investment teams of MDBs and DFIs to engage in preliminary discussions before being asked to submit a formal proposal or a shorter concept note.
Example profile(s)	• **Norfund**, the Norwegian DFI, focuses on investments in areas with high development impact potential, such as renewable energy, financial inclusion, scalable enterprises, and green infrastructure. Its investment approach involves deploying equity capital, loans, and quasi-equity instruments across various stages of business development, from growth to mature stages. Norfund's CE interest is reflected in the investments it has made from its **Green Infrastructure vertical**, which includes waste management and waste-to-energy projects. Norfund has supported companies like **Miniplast Ghana**, which specialises in plastics recycling, and **Regen Organics** in Kenya, which uses organic waste to create fertilisers and animal feed. • **Danida Green Business Partnerships** is a challenge fund of Denmark's DFI to support innovations that take part in the green transition. The program funds partnerships between for-profit international and national and non-commercial organisations in Danida's partner countries and provides grants for two types of projects: Full Partnership Projects (for 3-5-year projects involving commercial and non-commercial partners from the project country) or Maturation Projects (for projects lasting up to 18 months to assess the business model or technological solution before qualifying for Full Partnership Projects). Ticket sizes range from DKK 800,000 to 15m.

Figure 24: Development Finance Institutions (DFIs) and Multilateral Development Banks (MDBs)

Private Equity and Buyout Funds

PE and Buyout Funds are investment vehicles that acquire majority equity ownership in companies with the aim to enhance their value over time through strategic management, operational improvements, and financial restructuring. These funds are driven towards generating substantial returns on investment for their LPs by eventually exiting these investments through strategic sales, public offerings, or other means.

Aspect	Description
Structure	PE and buyout funds are structured similarly to VC funds, where the GPs manage the fund and make investment decisions, while the LPs provide the capital.
Investment approach	PE and buyout funds typically invest in large, mature businesses that have already reached profitability. These investments are characterised by substantial capital requirements, often exceeding US$ 20m. PE firms may employ various financial instruments, including equity and leveraged buyout funds (LBOs) to structure their investments. They typically take a majority (>50%) stake, taking control of the company.
CE Focus	Compared to VC funds, there are relatively few PE and buyout funds exclusively dedicated to CE. However, many funds have integrated climate objectives into their investment strategies, thereby addressing CE as a sub-category under climate. For example, **Decarbonisation Partners**, a PE fund that has arisen out of a **Blackrock** and **Temasek Partnership**, is a late-stage VC and growth equity fund that seeks to drive significant decarbonisation outcomes through investments in clean energy, electrification, green materials, and a circular, digital economy.
Funding process	PE and buyout funds typically proactively identify target companies and investments through market research and industry networks. Once a potential target is identified, the PE firm conducts thorough due diligence, including financial analysis, market assessment, and operational evaluation. They determine the value they can create over the investment period and identify the exit pathway to ensure probability of high financial returns. If the target meets the investment criteria, the PE firm negotiates the terms of the acquisition, which may involve complex financial arrangements and legal documentation. The process from initial identification to final acquisition can take 6-12 months or longer, depending on the complexity of the transaction.
Evaluation criteria	PE and buyout funds evaluate potential investments for the **robustness** of the business model, the financial performance and **profitability** of the business, and the **growth potential**.
Impact focus	Funds, especially those with a climate or ESG mandate consider environmental and social metrics related to sustainability, resource transition, emission reductions and waste reduction to ensure that the investment aligns with their broader environmental objectives.
How to reach them	Businesses seeking financing from PE and buyout funds can approach these firms through various channels. Networking at industry events and conferences can provide connections to these funds. Additionally, companies can use the help of investment bankers and corporate brokers who specialise in facilitating such introductions.

Example profile(s)	• **KKR** is one of the world's leading investment firms and specialises in PE, infrastructure, real estate, and other alternative assets. In recent years, KKR has significantly expanded its focus on climate-related investments, particularly through its Global Impact Fund. The **Global Impact Fund** has four investment areas, two of which are climate action and sustainable living. As of 2022, KKR had invested more than US$ 1.5 bn in 17 investments across 10 countries under this fund. The firm collaborates with **BSR**, a global sustainability business network, to ensure that its investments generate **measurable impacts**. CE companies that have received investment from KKR include **CMC Packaging Automation**, an Italian company specialising in sustainable packaging solutions to reduce e-commerce waste, **Viridor**, a UK-based recycling and waste management company, and **Re Sustainability**, an Indian company that manages municipal, industrial, and biomedical waste. • **Swen Capital Partners** is a PE firm investing across manufacturing, industrials, consumer products and services sectors. It has an **Ocean Strategy**, under which it invests in innovations that foster ocean biodiversity, and climate impact strategy called **SWIFT** that invests in solutions that decarbonize industries. Recent investments have included **Vireo**, a Norwegian biomethane manufacturing company, and **Hub.Cycle**, a company transforming industrial waste intro ingredients for the food, pharmaceutical and cosmetics industries.

Figure 25: Private Equity and Buyout Funds

Additional Funders

Below, a few funders are outlined that may be relevant to early-stage CE businesses and organisations. It must be noted that these funders, unlike the ones outlined above, are less standardised in their approach to funding. Therefore, organisations can decide whether to approach them on a case-by-case basis.

1. **Crowdfunders:** Crowdfunding enables organisations to raise small amounts of funding from many individuals. These efforts are typically conducted on crowdfunding platforms, which offer visibility to a broad audience and a secure means to access funds in exchange for a nominal fee. Crowdfunding can take various forms. For example, it can be used to raise equity, where a business sells shares of its business to multiple investors in exchange for their investment - like how common stock is traded on a stock exchange or through VC. Alternatively, crowdfunding can be donation-based, where individuals donate money with no material returns in exchange, or rewards-based, where individuals contribute to a project or business with the expectation of receiving a non-financial reward, such as goods or services, at a later stage. Some of the crowdfunding platforms that have previously supported CE businesses include **Seedrs**, **Crowdcube**, **CrowdAboutNow**, and **Oneplanetcrowd**. Crowdfunding is usually relevant in early stages and involves a fair degree of uncertainty with respect to both amount and timelines.

2. **Corporate grants:** In addition to development agencies and governments, corporate firms, through CSR (Corporate Social Responsibility) programmes, offer another source of grants that CE organisations, especially not for profit organisations, can benefit from. While there is not much standardisation in terms of investment process, ticket sizes or focus areas, most of such corporate grants are provided to organisations that are broadly aligned to the corporate's business line(s) and / or positively impact the communities that are associated with such business lines. Accordingly, the evaluation criteria often centre around the impact potential (social and environmental) of the organisations and the scalability of their models. The funding process typically involves diligence of the team, operating model, and a detailed, typically on-ground assessment of impact. Linkages with the corporate entity's business, supply chains, and communities are usually prioritised. For instance, **Unilever** in India partnered with United Nations Development Programme to advance circular economy for plastic in India supporting social inclusion of thousands of workers in the informal waste picking sector. Similarly, **Enfinium**, a waste to energy operator in the UK provided funds to local Repair Cafes to support repair of household items and reduce unrecyclable waste.

3. **Non-Banking Financial Companies (NBFCs):** There also exist some non-bank lending organisations including fintech companies who can provide loans to private sector businesses including CE businesses. While their approach and investment criteria can be similar to banks, they differ from banks in terms of their comparatively **higher risk appetite** and **relatively simpler lending / leasing processes**. They may be able to offer loans with **reduced collateral requirements** (vs. commercial banks), ease out the upfront down payments (in case of leases), or in some cases may also offer **lending solutions based on cashflows** and borrower's track record. However, they are usually **more expensive than commercial banks** in terms of their interest rates and in most cases have their internal set of parameters or benchmarks based on which they evaluate the different applications. They can be of use in cases where banks are less willing to lend but cashflows can support a relatively more expensive debt. For example, **Northern Arc Capital** is an NBFC based in India which provides supply chain financing to organisations creating positive environmental and social impact. Similarly, there are fintech companies which are providing cash-flow based loans to SMEs e.g., **Branch**, a fintech company active in the Kenyan SME landscape provides loans to SMEs without collaterals, enabling them to access funds to grow their businesses.

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