# **Financing Circularity Part 2** Guidance to Unlock Finance for Circular Economy Actors



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## Financing Circularity Part 2 – Guidance to Unlock Finance for Circular Economy Actors

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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: <u>www.prevent-waste.net</u>

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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.

The report **"Financing Circularity Part 2 – Guidance to Unlock Finance for Circular Economy Actors"** provides practical advice to help circular economy organisations to access funding and overcome financial barriers. It is **part of a two-part series** and builds on Part 1, which analysed the financing needs and experiences of CE entities, by offering practical advice and strategies for aligning funding approaches with growth stages and organisational goals.

It begins by guiding CE actors in **identifying the right sources of funding and finance** by understanding their growth stage - from concept to scaling - and by tailoring financing strategies accordingly. It distinguishes strategies for for-profit and non-profit entities, highlighting the importance of aligning financing types—dilutive or non-dilutive—with organisational goals. Early-stage organisations such as start-ups can explore grants, incubators, or angel investors, while those at growth or maturity stages can consider venture capital (VC), private equity (PE), or development finance institutions (DFIs).

To navigate the complex funding landscape available for CE actors, the report offers **insights into different funder archetypes**, including angel investors, incubators, VC funds, philanthropic foundations, government funders, banks, and DFIs. It explains each funder type's investment criteria and decision-making processes, equipping CE organisations to strategically target suitable partners.

The report also provides **best practices for approaching funding opportunities**, emphasizing the need for robust **business plans**, **financial models**, **and pitches** tailored to circular economy needs and investors' expectations. As CE business models often require longer gestation periods compared to linear models, setting realistic expectations for returns is crucial. Additionally, the report offers tools for developing key performance indicators (KPIs) and measuring impact across financial, environmental, and social dimensions to effectively communicate value to funders.

Finally, the report **addresses systemic challenges in financing circularity**, particularly in underfunded regions and sectors such as plastic waste management. It advocates for stronger collaboration between CE actors and funders to bridge the financing gap and accelerate the transition to sustainable and circular economic models. This guidance empowers CE organisations to innovate, scale, and contribute to global sustainability goals.

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## **List of Abbreviations**

AfDB: African Development Bank **B2B:** Business-to-Business B2C: Business-to-Consumer BMZ: German Federal Ministry for Economic Cooperation and Development **CE:** Circular Economy **DFI:** Development Finance Institution EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization EIB: European Investment Bank ESG: Environmental, social, and governance EU: European Union EV: Enterprise Value GHG: Greenhouse gas GP: General Partner (also in the context of PE) KPIs: Key Performance Indicators LMIC: Low- and Middle-Income Countries LP: Limited Partner (used in the context of PE and buyout funds) LTV: Loan-to-Value (under bank evaluation criteria) MDB: Multilateral Development Bank NBFC: Non-Banking Financial Company NGO: Non-Governmental Organisation PaaS: Product-as-a-Service **PE:** Private Equity **RBF:** Result-Based Financing R&D: Research and Development SMEs: Small and Medium Enterprises VC / CVC: Venture Capital / Corporate Venture Capital

## 1 Introduction

Current rates of raw material extraction and processing contribute 55% of global greenhouse gas (GHG) emissions and 90% of total land use related biodiversity loss.<sup>1</sup> Trends are discouraging, with some estimates pointing to resource use up by 60% from 2020 levels by 2060.<sup>2</sup> Waste generation is expected to increase too, at more than double the pace of population growth between now and 2050.<sup>3</sup> 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.

The circular economy (CE) offers transformative solutions to address the global crises of climate change, biodiversity loss, and pollution. It is an alternative to the traditionally linear economic model by designing products and materials from the outset to be reusable, repairable, and recyclable, thereby minimizing waste and maximizing resource efficiency. Despite its potential, CE initiatives remain significantly underfunded, with investments still skewed toward linear economic models. Insights from Part 1 of this report reveal systemic barriers and mismatches between the funding needs of CE organisations<sup>4</sup> and the priorities of financial institutions.

One of the most critical gaps identified is the "missing middle" in funding. CE actors often struggle to secure amounts between \$50,000 and \$1 million—sums too large for microloans or grants but often too small to attract commercial investors such as VC or PE. This financing vacuum is particularly acute in LMICs, as detailed in the Report Part 1. Furthermore, CE organisations often face challenges in articulating their value propositions to funders unfamiliar with circular models, which can have longer gestation periods and require more patient capital than traditional linear businesses.

## 1.1 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 <u>SAGANA</u> and <u>the Canopy Lab</u>) 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.

<sup>&</sup>lt;sup>1</sup> 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. <u>https://wedocs.unep.org/20.500.11822/44901</u>

<sup>&</sup>lt;sup>2</sup> lbid.

<sup>&</sup>lt;sup>3</sup> World Bank (n.d.). WHAT A WASTE 2.0 A Global Snapshot of Solid Waste Management to 2050. <u>https://openknowledge.worldbank.org/entities/</u>publication/d3f9d45e-115f-559b-b14f-28552410e90a/full

<sup>&</sup>lt;sup>4</sup> For the purpose of this study "CE Organisations" comprise the private sector, academia, civil society organisation and public organisations that work in the circular economy. They range across circular design and production, circular use, circular value recovery and circular support models.

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 located in LMICs. This focus is due to SMEs' recognised role as global drivers of economic activity and the huge impact that their transition to CE can bring.<sup>5</sup>

## 2 How to Identify the Right Source of Financing – A Circular Economy Lens

Identifying the right type of financing is a critical step for organisations looking to secure funds while maximizing their chances of success. Financing sources are suited to **specific needs**, often also **thematic areas**, and a mismatch between the planned use of funds and the type of financing sought can lead to rejection or to high capital costs. For example, commercial banks are generally hesitant to fund early-stage or pilot projects, as these are considered high-risk. On the other hand, an early-stage VC fund may be open to such opportunities. Hence, the **risk-appetite** of the financing source is an important factor to consider. Similarly, grant-making organisations are ideal for funding activities like research and development (R&D) or initial product creation, as they normally have no expectations of monetary profit emerging from their investment, while VC funds typically focus on ventures that are ready to scale, leveraging the high-risk with high revenue expectations.

When choosing a financing source, organisations should also consider the implications of **dilutive versus nondilutive capital.** Dilutive financing, such as equity or convertible loans, involves giving up a portion of ownership or control, which may not be desirable for some founders. In contrast, non-dilutive financing, such as grants, commercial loans, or project finance, does not affect ownership but may come with other requirements, like collateral, higher cost of capital or specific terms of use. Knowledge and awareness of where the sought funding would be placed in the CE organisations' debt waterfall, i.e., the priority order or hierarchy in which cash flows are used to repay the debt obligations within a structured finance transaction, could also be helpful when assessing the suitability for a certain type of funding. **The size of the funding** sought also plays a role. Smaller amounts are often easier to secure and provide flexibility but may limit the organisation's ability to scale quickly. Larger amounts can drive rapid growth but often require more robust business cases and investor confidence.

Finally, some financing sources provide more than just money. Many include **additional benefits** such as mentorship, access to specialized facilities like laboratories, or entry into valuable networks of partners and collaborators. These added resources can be instrumental in fostering innovation and growth. By carefully evaluating these factors – alignment of funding purpose, type of capital, funding size, and non-monetary benefits – organisations can craft a financing strategy that best supports their goals and sets them up for longterm success.

The following sub-sections provide step-by-step guidance for CE organisation on how to identify suitable financial sources for their (business) context. The initial step is to determine where the organisation in question is located on a "business growth stage scale" in order to identify what financial instruments are best fitted for this stage. Then, these instruments need to be assessed and narrowed down to the most suitable options for the CE organisation in question. Finally, the overview of different funder archetypes helps to improve understanding of the structures and preferences of the identified options.

<sup>&</sup>lt;sup>5</sup> 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/

## 2.1 Determining the Growth Stage of a Business or Organisation

The first step to take is to determine where an organisation stands in terms of its growth stage. The decision flowchart in Figure 1 below provides a structure which may be helpful for an initial orientation in this matter.



Figure 1: Decision Flowchart for Determining the Growth Stage.

Once the stage of growth or business maturity has been determined, the following graph in figure 2 can be used to identify which financial instruments and financial sources are generally considered to be appropriate for this stage of the business or organisation:



\*Banks often lend to only profitable companies, which means that even if a company is more mature (say at Series C) but is not profitable, it might still face challenges in raising debt from a bank.



Figure 2: Table of Standard Business Activities and Funding Sources for Ventures at Various Stages of their Development.<sup>6</sup>

The following section provides further information about how each source of financing is tailored to each growth stage – showing CE organisations the universe of funding sources that are available. Non-Governmental Organisations (NGOs) and research institutes develop differently than for-profit organisations and are hence not applicable to the outline in Figure 2. The maturity stages for these organisations are thus clarified separately.

### 2.1.1 Guidance for For-Profit Organisations:

#### **Concept Stage and Pre-Seed**

At the concept or ideation stage, a business has a product or service idea but is not yet generating revenue. Funding needs are generally low, and businesses often rely on bootstrapping—for example, using personal savings, unpaid time, or financial support from friends and family. Additional funding opportunities at this stage may come from grant-making organisations that support start-ups or incubators offering programs like business plan competitions. Some circular economy (CE) organisations successfully use crowdfunding platforms at their early stage to raise funds, as outlined in chapter 2.3 and in annex 7.2 of Cercific and the resonance of the services.

<sup>&</sup>lt;sup>6</sup> Source: Adapted from Circular Innovation Collective (2024). A guide for accelerating circular innovation across regional value chains. Part 3: How to secure impact finance for the program and early-stage ventures. <u>https://cdn.prod.website-files.com/63761efab5db3f6927667d21/65e74e84e58ec-c64e926190d\_CIC%20Program%20Guide%202%20pager\_V12\_TJ.pdf</u>

As the business progresses into the pre-seed stage, it begins refining its product or service and improving its business model. At this point, efforts typically focus on preparing a strong pitch to attract partnerships or secure initial orders, which can serve as proof of demand when seeking financing. During this stage, CE organisations commonly continue to rely on bootstrapping and crowdfunding, including pre-product sales. They may also become eligible for non-dilutive funding sources such as government subsidies or grants that specifically support CE initiatives in their early development.

#### Seed

In addition to the funding sources at pre-seed stage, once a prototype is ready and feedback gets in, dilutive sources of finance (i.e. financing for selling equity) will become accessible for the organisation, such as angel investors and seed-stage VC funds.

#### **Series A**

During Series A maturity, a business will generate revenue and explore avenues to scale – e.g., by exploring new markets and investing in advertising. For this, in addition to funding sources available at the previous stage, businesses may also be able to attract capital from early-stage VC funds (dilutive) or secure loans from banks. The latter is non-dilutive finance but will most likely require collateral or other securities to lower the risk and / or cost of capital.

#### **Series B and Series C**

As production and sales are scaled and new markets are entered, a business will be positioned to attract the interest of late VC firms, banks, and PE firms.

### 2.1.2 Guidance for Non-Profit Organisations

While figure 2 does not immediately apply to NGOs and research institutes, it could be useful to think in stages of development for these CE organisations too:

• **Concept stage** will involve identifying the issue an organisation wants to tackle, conducting initial research and determining its mission and vision. In this stage, organisations such as NGOs and research institutions may seek financial contributions from donors or volunteers or apply for small-sized grants, including corporate grants.

• **Pre-seed stage** and seed stage will involve piloting initiatives and investing in fundraising. The organisations may explore financial opportunities from crowdfunding and consider applying for grants in partnership with other organisations.

• At **early stage of growth**, (which would be the equivalent of Series A for a for-profit entity) the organisations might be looking to secure financial contributions through corporate funds while increasing the visibility of its initiatives.

• Finally, if a non-profit organisation is seeking grants to **grow and expand** its operations, it will be seeking options that allows them to scale its initiatives, mobilise more resources (e.g. increase staff) and diversify funding sources. These may include larger grants, endowments, or large fundraising campaigns.

**Social businesses** (understood in this guidance as businesses where profit is reinvested in the businesses' mission) should be able to track their growth stage and financial sources along similar stages as for-profits organisations, as outlined in the previous section. However, such businesses may have difficulties in accessing commercially oriented dilutive finance sources (angel investments, PE, VC), given they expect a return on their investment.

Impact investments and result-based financing (RBF) are alternatives that should be considered for social businesses. Impact investors<sup>7</sup> only invest their clients' money in companies that add value to society, such as ecological or social, for example through impact funds. These are becoming more and more popular. RBF options<sup>8</sup> include a range of financing mechanisms, where financing is linked to and provided after the delivery of pre-agreed and verified results.

## 2.2 Best Practices in Selecting the Right Type of Financing

After having defined the business growth-stage and having learned about potential financial sources and instruments suitable for the growth stage and type of entity of the CE organisation in question, this section provides support to identify the most suitable options by exploring some relevant considerations and decisions to make, in particular in the CE space.

### 2.2.1 Dilutive Capital

When considering financing options, it is essential to understand the nuances of dilutive capital, which includes equity and quasi-equity funding. Dilutive capital involves **giving up a portion of ownership in exchange for funding**, which can be advantageous as it does not require regular repayments like debt. However, it also means sharing future profits and potentially losing some control over the business.

#### Advantages of dilutive capital:

- No repayment obligations: unlike loans, there are no monthly repayments, which can help with cash flow management. This is especially true for CE businesses which require greater gestation periods such as a reuse model, or a platform-based model.
- **Potential for strategic partnerships:** equity investors often bring valuable expertise, networks, and resources that can help accelerate business growth.
- Risk sharing: investors share the business risk, reducing the financial burden on the founders.

#### Disadvantages of dilutive capital:

- Loss of control: bringing in equity investors means giving up a portion of ownership and potentially influence over business decisions.
- **Profit-sharing:** future profits will be shared with investors, which can reduce the overall returns for the founders.
- **Dilution of shares**: each round of funding can further dilute the ownership percentage of existing shareholders.

<sup>&</sup>lt;sup>7</sup> KfW Development Bank. (n.d.). Impact funds – social commitment with returns. KfW Development Bank. Retrieved February 14, 2025, from https:// www.kfw-entwicklungsbank.de/Our-topics/SDGs/Impact-Fonds/; Bundesinitiative Impact Investing. (n.d.). Home. Bundesinitiative Impact Investing. Retrieved February 14, 2025, from https://bundesinitiative-impact-investing.org/en/

ing. Retrieved February 14, 2025, from https://bundesinitiative-impact-investing.org/en/ <sup>8</sup>Global Partnership for Results-Based Approaches. (n.d.). Understanding results-based financing: Delivering impact through verified outcomes. The World Bank. Retrieved February 14, 2025, from https://www.gprba.org/who-we-are/results-based-financing

## 2.2.2 Circular Economy Value-Aligned Funders

Choosing the right funders may go beyond securing capital; it could include finding partners whose values and expectations align with those of the organisation seeking financing. For example, some funders may prioritise short-term revenues and profits, potentially at the expense of innovation and long-term market penetration, which may not be aligned with the vision and mission of (impact-focused) and triple-bottom-lined<sup>9</sup> CE businesses with a focus on profit while bringing positive impact on society and environment too. Due to that, there are some aspects to consider, especially for CE organisation, when selecting financial providers and funders, as outlined below.

#### Key considerations:

• Mission alignment: ensure that the funders share the organisation's commitment to sustainability and CE principles.

• Support for innovation: look for funders who are willing to support innovative approaches and understand the unique challenges of CE businesses.

• Long-term vision: align on long-term goals and ensure that funders are patient and supportive of the time it might take a circular business model to achieve profitability and impact.

### 2.2.3 Funders Who can Add Value, Especially in Early Stages

Running a CE business involves unique challenges such as building market awareness, establishing credibility, and overcoming scepticism about new business models. Therefore, it can be highly beneficial to seek funders and financial contributors who can provide more than just capital.

#### What to look for:

• Industry expertise: funders with experience in the circular economy can offer valuable insights and guidance. For example, a CE business working in the plastic recycling space can partner or raise funds from a larger, chemicals industry player to leverage product development and testing expertise.

 Network access: funders with robust networks can facilitate connections with potential customers, partners, and other key stakeholders. For example, for a CE business operating in the reuse space, raising funds from a player in the consumer goods industry (e.g., brand owner) could be advantageous as it can help create an access to retailers and distributors in the market.

• Accelerators and incubators: these programs can be especially useful in the early stages by providing mentorship, resources, and exposure.

### 2.2.4 Time Horizon for Returns of Circular Business Models

The time horizon for achieving profitability in CE businesses can often be longer compared to traditional linear businesses. This is due to factors like the need for market education, longer development cycles for sustainable products, and building new supply chains. Investors or financial contributors might not be aware of these difference at the initial stage of discussion. To avoid spending valuable time, it is recommended to clarify misunderstandings through pro-active communication early in the negotiations, outlining details about the timeline and revenue expectations. As mentioned in the introduction to this chapter, the consideration of prioritization of financing, e.g. in the debt waterfall, should be made clear to all parties at all times.

<sup>9 &</sup>quot;Triple bottom line" refers to the idea that companies should focus on impact on society and the environment, as well as profits (people, planet, profit). I European Investment Bank. (n.d.). What is a triple bottom line? European Investment Bank. Retrieved February 14, 2025, from https://www.eib.org/en/stories/triple-bottom-line-environment Harvard Business School Online. (2020). The triple bottom line: What it is & why it's important. Business Insights Blog. Retrieved February 14,

<sup>2025.</sup> from https://online.hbs.edu/blog/post/what-is-the-triple-bottom-line

#### What to consider:

• **Realistic projections**: base timelines for repayment and exit on realistic projections of revenue and growth, considering the unique aspects of the circular economy. For instance, it usually takes time to develop, test, and launch an innovative material-based packaging solution vs. developing and launching virgin plasticbased packaging solution (which has already been tested in the market).

• **Communicate clearly:** ensure clear communication with debt providers and investors about expected timeframes for returns to avoid misaligned expectations.

• **Flexibility:** seek funders who are flexible and patient, understanding that sustainable growth may take longer but can lead to more significant, long-term impact.

### 2.3 Funder Archetypes - Profiles, Access, and Perspective on Circular Economy

To effectively approach funding organisations and appeal to their needs, it is important for CE organisations to understand their structures and preferences. This section therefore provides more details about the different funder archetypes and how they view CE within their funding / investment activities. Where possible, CEspecific examples are given. The following framework is used to present the details for each of the funder archetypes below.

> WI > Hc	Structure <ul> <li>&gt; Who controls the funding?</li> <li>&gt; How are the funds housed?</li> </ul>			> > >	Unvest What are What are What inst provide fi	stme the f the t rume nanc	nt approach funding motives? ticket sizes? ents are used to ing?	
<ul> <li>Evaluation of</li> <li>What are the of a strong p</li> <li>What do fun for in proposition</li> </ul>	e elements proposal? ders look als?	>	CE for Is CE a common funders? What specific the are prioritised?	cus prior emes	ity among within CE		Impact focus What impact metrics funders looking for?	are
Funding	process		How to resea	arch t	hem		<b>Example profiles</b>	
<ul> <li>&gt; What is the secure fundi</li> <li>&gt; What are the timelines?</li> </ul>	process to ng? e typical		How can interes organisations re funders?	ted ach		E	Examples of funders	

Figure 3: Framework for CE Funder Archetypes

## 2.3.1 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 <b>E8</b> , <b>Climate Angels</b> , and <b>EnergyLab Angels</b> 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 start-up 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)	<ul> <li>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).</li> <li>EnergyLab is a network based in Australia and New Zealand that connects start-ups 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 begins the investor of the platform that any angel investor of the platform that any endergy and solve the provide the start of the 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 begins the platform that any angel investor can join of the platform that any energy and climate technologies can be presented by a start of the 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 begins the platform that any endergo the platform that</li></ul>
	has facilitated investments in businesses such as RecycleSmart, a recycling services company, and Monty Compost, a composting technology company.

### 2.3.2 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 start-ups, 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 start-ups 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 interests of sponsors, fostering innovation that supports broader sustainability goals, e.g., PepsiCo Greenhouse Accelerator in food and beverage sustainability.
CE focus	As described in <u>Part 1 of this report</u> , 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 start-ups is rising due to sustainability imperatives. Specific material circularity focuses include food/organics, textiles, and plastics, e.g., <b>PepsiCo Greenhouse, Fashion for Good</b> , and <b>Think Beyond</b> <b>Plastic</b> accelerators.
Funding process	Accelerators require start-ups 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 start-ups.
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, <b>PepsiCo's Greenhouse Accelerator</b> 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 <b>Regenerative Blue Economy Challenge</b> , 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 <b>Mills Fabrica Incubator</b> , 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)	<ul> <li>The Circular Economy ClimAccelerator is an initiative of EIT Climate- KIC towards supporting the scaleup of start-ups 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.</li> <li>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 &amp; 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.</li> </ul>	

## 2.3.3 Venture Capital 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. 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 discussed in <u>Part 1 of this report</u> , 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 start-ups 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 **de-risked** through value chain linkages to the extent possible. For instance, they prefer to see offtake 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 Product-as-a-Service (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.

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, it emerged during the interviews discussed in Part 1 that 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.

Impact focus

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., <b>SOSV Climate Tech Summit, Climate Investor Forum, World Climate Tech Summit</b> , 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)	<ul> <li>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 postconsumer 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)</li> <li>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 start-ups 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+ start-ups. CE start-ups who have received investments in the past include Recycleye, which has developed Al-powered waste picking robots to lower the cost of sorting waste materials, and Ecoalf, a company making clothing from recycled materials</li> </ul>

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, similar to 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.

## 2.3.4 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 <b>Ellen MacArthur Foundation</b> ) 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 <b>Coca-Cola Foundation</b> , as the philanthropic arm of <b>The Coca Cola Company</b> , 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 <b>Rockefeller Foundation</b> 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, it emerged during the interviews described in Part 1 of this report that, 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 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 <b>Devex</b> . 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 <b>GrantSpace</b> by Candid Learning, <b>Nonprofit Learning Lab</b> , and platforms catered to supporting organisations in the CE space such as the <b>African Circular Economy</b> <b>Network</b> .
Example profile(s)	<ul> <li>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.</li> </ul>

**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.

## 2.3.5 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 United States <b>Agency for International</b> <b>Development</b> and <b>Horizon Europe</b> , 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 described in detail in <u>Part 1</u> of this report found focused initiatives by the Swedish and Netherlands governments, European Commission, and European Union (EU) 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.

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 <b>African Circular Economy Network</b> .
Example profile(s)	<ul> <li>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.</li> <li>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, 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.</li> </ul>

## 2.3.6 Banks

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	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 - discussed in <u>Part 1 of this report</u> - 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, that have started explicitly prioritising circular economy initiatives as part of their sustainability goals. For example, <b>Rabobank's Circular Entrepreneurship</b> <b>Desk</b> 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 <b>BNP Paribas</b> , which, as part of their participation in the <b>Ellen MacArthur Foundation's Circular Economy 100 Program</b> , provides leasing solutions for companies, including solar panels, electric vehicles, etc.
Funding process	The funding process for banks resolves around the <b>loan application</b> , 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 <b>Three Cs</b> - 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 <b>sustainability-linked instruments</b> (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)	<ul> <li>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.</li> <li>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.</li> </ul>

## 2.3.7 Development Finance Institutions and Multilateral Development Banks

DFIs (also known as promotional banks) and Multilateral Development Bank (MDBs) are specialised financial institutions 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 financial institutions 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	<b>DFIs</b> 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.
	<b>MDBs</b> 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 <b>financial and technical assistance</b> 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 <b>Asian Development Bank</b> (the Asian regional MDB) continues to fund CE projects through its larger funding portfolios, such as agriculture, climate change, and the environment. <b>The African Development Bank</b> (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 <b>European Investment Bank (EIB)</b> , the EU-founded MDB, in April 2024, along with the <b>World Bank Group</b> 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:
	<ul> <li>Projects must align with the institution's overarching goals, such as economic development or climate mitigation.</li> </ul>
	<ul> <li>Projects should demonstrate a clear path to financial sustainability and profitability. This includes sound business models, market potential, and realistic financial projections.</li> </ul>
	<ul> <li>Investments should have the potential to scale and be replicated in other regions or sectors to maximise impact.</li> </ul>
Impact focus	DFIs and MDBs make investments with <b>strong impact expectations</b> 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)	• <b>Norfund</b> , 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 <b>Green Infrastructure vertical</b> , which includes waste management and waste-to-energy projects. Norfund has supported companies like <b>Miniplast Ghana</b> , which specialises in plastics recycling, and <b>Regen Organics</b> in Kenya, which uses organic waste to create fertilisers and animal feed.
	• <b>Danida Green Business Partnerships</b> 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

## 2.3.8 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 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, <b>Decarbonisation Partners</b> , a PE fund that has arisen out of a <b>Blackrock</b> 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 <b>robustness</b> of the business model, the financial performance and <b>profitability</b> of the business, and the <b>growth potential</b> .
Impact focus	Funds, especially those with a climate or Environmental, social, and governance (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)	• <b>KKR</b> 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 <b>Global Impact Fund</b> . 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.

## 2.3.9 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.eventually exiting these investments through strategic sales, public offerings, or other means.

- 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 similar to 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 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.

## 3 How to Approach Funding Opportunities – Practical Advice Specific to Circular Economy Needs

Knowing what financing instruments and funders are preferable for a specific CE organisation is a start but does not secure any financing itself. This chapter provides advice on how to concretely approach the identified financial providers to get to the point of accessing funding. For example, by preparing for meeting investors and funders and align with their expectations of the transaction. This section includes guidance on preparing a business plan and a pitch deck, managing financial statements, assigning KPIs, and building financial models with practical advice specific to CE needs.

## 3.1 Preparing a Business Plan

A business plan serves as a foundational document that outlines the roadmap for a business' operations, strategies, and objectives. A well-articulated and clear business plan can be helpful to explain a circular business to potential funders - especially if they lack a general understanding of CE models and opportunities. Importantly, they are also a crucial internal management tool as they support businesses to keep their North Star and communicate their objectives internally. It is a document that outlines the goals and the strategies to achieve them and brings value for both start-ups and established companies: For start-ups, as already mentioned, a well-crafted business plan attracts potential investors, whereas established businesses would use them to monitor alignment with their strategies and growth objectives. Business plans typically range between 20-40 pages and can make it easier to access finance as they can be condensed into a pitch deck (see next section). It is important to highlight that most commercial investors, especially angels and VC funds mainly evaluate the pitch deck, so it is advisable for businesses aiming to raise funds from such investors to focus more on the pitch deck vs. business plan.

There is no single required format or template for how to write a business plan<sup>10</sup>. However, certain key elements are essential for most businesses and organisations. A proposed business plan structure is provided below:

Section	Content
1. Executive summary, emphasising the Why	<ul> <li>A snapshot of the business and its objectives. It should include:</li> <li>Mission statement: Define purpose and primary objectives.</li> <li>Vision statement: Describe the long-term goals and aspirations.</li> <li>Business overview: Briefly outline the business model, products/services, and target market key financial highlights: key financial projections, funding requirements, and expected returns (and in some cases impact if the funder favours that type of information).</li> </ul>
2. Business description, showing the What	<ul> <li>Company background: A brief history of organisation, including founding details and significant milestones.</li> <li>Market opportunity: Market need and how the circular solution will address it.</li> <li>Value proposition: The unique value the business offers to customers and its broader environmental and social impact. It is typical for circular businesses to impact multiple stakeholders in the ecosystem – and they should make sure that this gets captured well.</li> <li>Tips: A best practice for circular businesses is to link business objectives</li> </ul>

<sup>&</sup>lt;sup>10</sup> It may be worthwhile to search for support and business plan templates from your local or national Chamber of Commerce, e.g. from UK or Canada: Business Development Bank of Canada. (n.d.). Business plan template for entrepreneurs. BDC.ca. Retrieved February 14, 2025, from <a href="https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/business-plan-template">https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/templates-business-guides/business-plan-template</a> GOV.UK. (n.d.). Write a business plan. GOV.UK. Retrieved February 14, 2025, from <a href="https://www.gov.uk/write-business-plan">https://www.gov.uk/write-business-plan-template</a> GOV.UK. (n.d.).

to the types of sustainability priorities or goals that potential funders may prioritise. For example: impact investors may seek explicit alignment with the SDGs, or climate focused VC firms may want to ensure their portfolio is explicitly linked to the decarbonisation agenda or ESG objectives.

 Tools: Some tools that can be used to define goals and objectives include the triple\_ layered business model canvas<sup>11</sup> or the CE business model canvas that can help to articulate how to generate value beyond financial metrics, or Objectives and Key Results. (OKRs)<sup>12</sup>, a goal-setting framework that can be used to define business goals and how they will track progress. For organisations seeking to take stock of opportunities to increase their circularity from a business or product angle, they can also consult the Circularity. Assessment Tool<sup>13</sup> developed by the European Circular Economy Stakeholder Platform. Finally, for those keen to conduct an audit of their circularity and support in their reporting efforts they can use Circulytics<sup>14</sup> developed by Ellen MacArthur Foundation. Reporting in the CE sphere is further explored in this resource: Navigating the circular economy. reporting landscape.<sup>15</sup>

3. Market analysis	Businesses should conduct a thorough analysis of their market, including:
	<ul> <li>Market size and growth: Present data on the size and growth potential of the market. CE organisations may need to highlight the CE potential of the market given investors' likely scepticism.</li> </ul>
	• Target users or consumers: Define customer segments and key demographics.
	• <b>Competitive landscape:</b> Analyse competitors and highlight competitive advantages. This likely means to include linear businesses as competitors.
	Tips:
	<ul> <li>Use industry reports and market studies from reputable sources to identify trends, market size, and growth projections (including consumer preferences) within the circular economy sector. Referencing such sources shows thoughtfulness and thoroughness and creates credibility. In some cases, these will include valuable data (such as upcoming regulatory changes) which can be used to convince investors of the urgency of an offered product or service. If the idea is for a B2C which according to the research conducted in part 1 of this report is perceived as riskier than business-to-business (B2B) ideas for funders, ensure to segment users or consumers by a range of metrics including purchasing habits, values, and attitudes towards sustainability – by creating customer personas.</li> </ul>
	• For <b>competitive analysis</b> , compare solutions vs. those available in the market on parameters such as features, benefits, cost, versatility, ease of use etc. A key dimension that should be added is <b>environmental and social impact</b> , especially highlighting how <b>CE models are more resilient to risks</b> around climate change, regulatory trends, customer preferences etc.
	<ul> <li>Include results and learnings from any pilots or minimum viable products already built and launched to study customer behaviour and / or solution acceptance level.</li> </ul>
	Tools:
	• Use <u>Porter's Five Forces<sup>16</sup></u> framework to analyse the market dynamics and their positioning.

 <sup>&</sup>lt;sup>11</sup> Joyce, A., Paquin, R., & Pigneur, Y. (2015, April 17). The triple layered business model canvas: A tool to design more sustainable business models. Sustainable Business Model.org. <u>https://doi.org/10.1016/j.jclepro.2016.06.067</u>
 <sup>12</sup> Haugå, T. K., & Søfteland, T. Ø. (2023). How to implement OKRs successfully: Identifying the factors that matter [Master's thesis, NTNU].

<sup>&</sup>lt;sup>12</sup> Haugå, T. K., & Søfteland, T. Ø. (2023). How to implement OKRs successfully: Identifying the factors that matter [Master's thesis, NTNU]. NTNU Open.<u>https://ntnuopen.ntnu.no/ntnu-xmlui/handle/11250/3128904</u>.

bitstream/handle/11250/3128904/no.ntnu%3ainspera%3a187775344%3a203048354.pdf?sequence=1&isAllowed=y <sup>13</sup> European Commission. (n.d.). Circularity assessment tool. European Circular Economy Stakeholder Platform.

https://circulareconomy.europa.eu/platform/en/measuring-circular-economy/circularity-assessment-tool

<sup>&</sup>lt;sup>14</sup> Ellen MacArthur Foundation. (n.d.). Circulytics: Overview. <u>https://www.ellenmacarthurfoundation.org/resources/circulytics/overview</u> <sup>15</sup> Ellen MacArthur Foundation (2024). Navigating the Circular Economy Landscape. <u>https://www.ellenmacarthurfoundation.org/navigating-the-cir-</u> <u>cular-economy-reporting-landscape</u>

<sup>&</sup>lt;sup>16</sup> Harvard Business School. (n.d.). The five forces. https://www.isc.hbs.edu/strategy/business-strategy/Pages/the-five-forces.aspx

4. Business model	The <u>triple layered business model canvas</u> <sup>17</sup> can be used to map out key components of a business:
	<ul> <li>Key partners: Identify crucial partners and suppliers. If possible, highlight the ones where relations or commitments already exist to provide assurances to potential investors.</li> <li>Key activities: Outline the main activities necessary for business operations.</li> <li>Key resources: List essential resources such as technology, human resources, and capital.</li> <li>Value propositions: Provide details on what makes the product/service unique. Ensure that value is defined economically to show sustainability and mention how operations will create other sources of value (e.g. social and environmental) – particularly if funders expect the latter.</li> </ul>
	Customer relationships: Describe how costumers will get attracted and retained.
	Channels: Specify the channels through which customers will be reached. Show the potential to reach new customers through scale.
	• <b>Customer segments:</b> Break down the customer base into distinct segments, particularly if operating a B2C.
	<ul> <li>Cost structure: Identify major cost drivers and how they will be managed. Try to differentiate between fixed and variable costs and identify major cost components and explain how they will manage costs to maintain profitability, such as through efficiency improvements or cost-saving initiatives.</li> </ul>
	Revenue streams: Explain how the business will generate revenue.
	Tips:
	• <b>Partnerships</b> should be leveraged to strengthen the business model and <b>de-risk</b> it. For instance, a <b>recycling business</b> can de-risk its model for investors by entering long-term off-take contracts with its customers and by securing feedstock through raw material contracts with waste aggregators. Similarly, a company in the <b>reuse space</b> can benefit from building partnerships with retailers, brands, distributors, and logistics providers to develop a strong business model.
	• If the business model relies on a <b>CE specific government subsidy or a policy</b> , highlight if there is a <b>mitigation plan</b> in case the subsidy or the policy changes. Ideally, the subsidy or the policy changes. Ideally, the subsidy or policy should be one of the multiple business drivers but not the only one.
	<ul> <li>There is a need to strike a balance between showing business profitability (relevant for SMEs), and how the business contributes to non-economic objectives (e.g. environmental and social).</li> </ul>
	<ul> <li>If possible, connect the business model to a well-known model by analogy for instant understanding and brand association – like a sorted waste materials marketplace could be the "Amazon for recyclers"</li> </ul>
	• <b>Tools:</b> The <u>triple layered business model canvas</u> <sup>18</sup> can help to visually represent how to generate financial, environmental and social value. Another tool that may be useful to clarify the business model is the <u>Circular Risk Scorecard</u> <sup>19</sup> , which supports users to assess circular and linear risks more realistically. Finally, the resource <u>"Financial Accounting</u> in the <u>Circular Economy: Redefining Value, Impact and Risk to Accelerate the Circular Transition</u> <sup>"20</sup> by Circle Economy supports companies to define their value beyond pure financial metrics.

 <sup>&</sup>lt;sup>17</sup> Joyce, A., Paquin, R. L., & Pigneur, Y. (2015). The triple layered business model canvas: A tool to design more sustainable business models. Journal of Cleaner Production, 135, 1474–1486. https://doi.org/10.1016/j.jclepro.2016.06.067
 <sup>18</sup> Joyce, A., Paquin, R. L., & Pigneur, Y. (2015). The triple layered business model canvas: A tool to design more sustainable business models. Journal of Cleaner Production, 135, 1474–1486. https://doi.org/10.1016/j.jclepro.2016.06.067
 <sup>19</sup> Devederlandsche Bank. (n.d.). Circular finance through the circular risk scorecard. Retrieved January 6, 2025, from

 <sup>&</sup>lt;sup>20</sup>Circle Economy (2022). Financial accounting in the circular economy: Redefining value, impact, and risk to accelerate the circular transition. Retrieved January 6, 2025, from <a href="https://www.circle-economy/com/resources/finance-through-the-circular-scorecard/">https://www.circle-economy/sustainable-finance-platform/circular-finance-through-the-circular-circular-scorecard/</a>
 <sup>20</sup>Circle Economy (2022). Financial accounting in the circular economy: Redefining value, impact, and risk to accelerate the circular transition. Retrieved January 6, 2025, from <a href="https://www.circle-economy.com/resources/financial-accounting-in-the-circular-economy-redefining-value-impact-and-risk-to-accelerate-the-circular-transition">https://www.circle-economy.com/resources/financial-accounting-in-the-circular-economy-redefining-value-impact-and-risk-to-accelerate-the-circular-transition</a>.

5. Product or service lines	<ul> <li>Businesses should detail products or services and their link with business models, including:</li> <li>Description: Describe products or services and their lifecycle.</li> <li>Development: Outline any ongoing development or innovation efforts.</li> <li>Circularity: Explain how offerings adhere to circular economy principles (e.g., design for longevity, recycling, or reuse).</li> </ul> <b>Tips:</b> <ul> <li>It can be helpful to explain how products or services <b>solve customer problems, meet</b> needs, or create value, especially focusing on sustainability benefits. Emphasise R&amp;D efforts to create innovative and sustainable products or services and describe any proprietary technologies or sustainable materials used in products. If possible, benchmark solutions against the competition's (e.g. existing linear alternatives) and bring up scalability and growth potential, which tend to be areas where funders are most sceptical in the CE sphere. If they exist already, use customer or user testimonials.</li></ul>
	<ul> <li>A <u>Lifecycle Assessment (LCA)<sup>21</sup></u> can be of use to evaluate the environmental impacts of products/services throughout their lifecycle.</li> </ul>
6. Sales and marketing and sales strategy	<ul> <li>It is important to include a strategy to market and sell circular solutions:</li> <li>Sales strategy: Outline the sales process and any sales channels which will be used. Name the sales channels (e.g., direct sales, online sales, retail partnerships) that will best reach target customers or users. If in the PaaS business in B2B space, consider adopting a more direct consulting-led sales approach where solutions might need to be customized to the needs of customers through circular products, while on B2C side, CE organisations can approach their customers through channel partners such as retailers and distributors (or even consumer goods companies). On the other hand, circular support-based businesses such as marketplaces can focus on building an internal, on-ground sales team to establish relationships with the different users and ease their on-boarding journeys through adequate customer support mechanisms.</li> <li>Sales pipeline: Include a snapshot of the sales pipeline highlighting which customer stands where in the sales cycle along with expected volumes / revenues.</li> <li>Marketing plan: Include branding, advertising, and promotion strategies linked with the market segmentation included earlier in the business plan. Highlight circular aspects of the model based on the type of market segment targeted.</li> </ul> Tips: <ul> <li>A good way to demonstrate mitigation of sales risk for funders is by having off-take contracts and strong sales pipelines in place.</li> <li>Strike a balance between positioning a product or service as a circular vs a traditional solution. Evolution. Customer journey maps and customer personas can be useful to include. It can be helpful to demonstrate familiarity with other tools such as Google Analytics and include content related to social media management.</li></ul>

 <sup>&</sup>lt;sup>21</sup> Ecochain. (2024). Life cycle assessment (LCA) – Everything you need to know. Retrieved January 6, 2025, from <a href="https://ecochain.com/blog/life-cycle-assessment-lca-guide/">https://ecochain.com/blog/life-cycle-assessment-lca-guide/</a>
 <sup>22</sup> Noel, A. (2024). Reimagining the 4 Ps of marketing for change: A new paradigm for a sustainable future. dentsu X Global. Retrieved January 6, 2025, from <a href="https://www.dxglobal.com/insights/reimagining-the-4-ps-of-marketing/">https://www.dxglobal.com/insights/reimagining-the-4-ps-of-marketing/</a>

<ul> <li>A operations plan, explaining the How</li> <li>Production process: Outline how products will be produced, or services deliver</li> <li>Supply chain: Detail the supply ecosystem, including reverse logistics.</li> <li>Quality control: Explain measures for maintaining product/ service quality.</li> <li>Tips:         <ul> <li>Investors and funders would have more confidence in CE endeavours if the actio are based on a realistic allocation of resources specifying assumptions that n or hinder progress. If the idea relies on a circular business model the funder may familiar with or if it is innovative in the target market, pre-empt any doubts by bei about activities to lower risk of non-adoption.</li> </ul> </li> </ul>	ed. ns included nay support be less ing explicit
Ose Gantt Charts or other visual tools that will allow to clearly communicate time assign key resources to lead different actions.	ennes and
<b>8. Management and</b> Provide information about the team and organisational structure:	
organisation • Leadership team: Highlight key team members and their backgrounds.	
<ul> <li>Advisors and board members: Mention any advisors or board members who pro strategic guidance.</li> </ul>	ovide
Organisational structure: Present an organisational chart.	
Tips:	
<ul> <li>Remember that <b>people invest in people</b>, and that setting up the correct govern structure may give confidence to potential investors about the ability to scale.</li> </ul>	ance
<b>9. Social and</b> <b>environmental impact</b> It is important to articulate the social and environmental impacts of circular business refer to the section on "Designing KPIs" for more detailed guidance. CE organisations emphasise:	es. Please can
<ul> <li>Impact goals: Articulate goals related to social well-being, such as improving conserving in the such as the such</li></ul>	ommunity issions, or
<ul> <li>Impact metrics: Define metrics to measure intended social and environmental i specific metrics that reflect circular economy principles, such as material reuse diversion rate, CO2 mitigation and product lifecycle sustainability.</li> </ul>	mpact. Use rate, waste
Tips:	
<ul> <li>The research in part 1 of this report observed that in many cases, funders do not the impact of CE businesses beyond circularity and resource preservation b particular, the climate and social benefits are significantly underrated. The burde therefore lies with CE organisations to correct this and highlight the breadth and impact that they create.</li> </ul>	recognise enefits. In en of proof d depth of
<ul> <li>Include a realistic overview of h progress along the CE metrics.</li> </ul>	ow to track
Tools	
<ul> <li>Tools such as <u>Material Flow Analysis<sup>23</sup> or Social Return on Investment<sup>24</sup></u> can help to quantify the impact progress.</li> </ul>	

 <sup>&</sup>lt;sup>23</sup> Spuhler, D., & Yiougo, L. S. A. (2019). Material flow analysis (MFA). Sustainable Sanitation and Water Management (SSWM). Retrieved January 6, 2025, from <a href="https://sswm-university-course/module-4-sustainable-water-supply/further-resources-water-sources-software/material-flow-analysis-%28mfa%29">https://sswm-university-course/module-4-sustainable-water-supply/further-resources-water-sources-software/material-flow-analysis-%28mfa%29</a>.
 <sup>24</sup> Sopact (n.d.). Social return on investment (SROI): A framework that quantifies value. Retrieved January 6, 2025, from <a href="https://www.sopact.com/guides/social-return-on-investment-sroi">https://www.sopact.com/guides/social-return-on-investment-sroi</a>

10. Financial plan	In Businesses should include detailed financial projections and funding requirements. See the "Financial Statements" and "Financial Model" section for more detailed guidance, but in essenc the financial plan should include:	
	Revenue model: Explain pricing strategy and revenue streams.	
	Cost structure: Detail cost structure, including fixed and variable costs.	
	Profit and loss statement: Provide projected income statements.	
	Cash flow statement: Include cash flow projections.	
	Balance sheet: Present a projected balance sheet.	
	• <b>Funding requirements:</b> Specify the amount of funding needed and its intended use.	

### 3.1.1 Adapting the Business Plan when Applying for Grants or Subsidies

Most grant application forms will require to adapt some of the sections above to meet grant or subsidy specification requirements and eligibility criteria. Grant-makers should be viewed as clients that need to be convinced to invest in an idea or product. They may not require monetary return on their investment but will likely expect impact or results of the implemented activity to be verified, e.g. through reports. As with all investors, high return will be attractive. Spending time reviewing application instructions as well as the expected format will increase the chance of success. In practice, this means:

- Thoroughly **review the application package** both technically and in terms of compliance. This includes checking for **eligibility criteria**. Most application packages include **deadlines** for submitting questions or requesting clarifications: it is best not to leave it to the last minute to put together an application, only to realise to have missed the chance to obtain relevant information.
- Determine to what degree the grant request will emphasise CE. Depending on who the grant-maker is, they may not be familiar with CE terminology or concepts. If CE organisations apply for grants that mostly support linear organisations, **adapt language** to conventional business models, and align the mission and vision with the grant-makers' objectives.
- Customise the business plan to fit the selection criteria. While not diverting from organisational goals, some sections from the business plan may need to be adjusted, so that they highlight the intended contribution to the provided selection criteria most grant applications will include a guide on how applications are scored and a best practice. Tailor the content accordingly to help evaluators to understand the benefits of the CE business model presented and to assign as high a score as possible to the proposal.
- Engage professional service providers such as management consultants to support the application process and comply with application requirements. In many countries, there are **specialised consulting firms** for support in preparing application packages. They specialise in such services and in some instances, they may accept payment terms based on success fees.
- Grants are **an attractive source of non-dilutive finance** but applying for them and tracking the indicators the grant-maker is likely to expect to confirm the impact or result, may end up costing more resources than the grant is worth. That said, **grants can be effective in specific cases such as initial R&D or for non-profit and social organisations.**

## 3.2 Preparing a Pitch

The pitch deck is the most important document for many finance providers as it is relatively practical and concise. Most investors and funders are busy people who have constant demands on their time and money. They will not have time to dig deep into a business plan – it is the investee's job to make them want to do so by pitching to them an idea. A good pitch should be tailored to funders' interests and preferences and clearly lay out:

- **Problem statement:** The environmental or resource-related challenge that the business aims to address through CE solutions. This could include issues such as waste generation, resource depletion, or pollution.
- **Solution**: Present the innovative approach or product that contributes to closing the loop in resource use, such as PaaS or products designed for durability, reuse, remanufacturing, or recycling. Emphasise how the solution promotes sustainability and reduces environmental impact.
- Market opportunity: Describe the growing demand for sustainable products and services whether from a CE-, or a non-CE specific perspective. Highlight the market size for circular products, regulations favouring circular practices, and consumer trends towards responsible consumption.
- **Business model:** Explain how the business intends to generate revenue while adhering to CE principles. This may involve strategies such as PaaS models, leasing or subscription services, or revenue streams derived from recycling or reprocessing materials. Show avenues for value generation beyond financial values.
- **Competitive advantage:** Showcase the unique aspects of the business that differentiate it not only in the circular economy space, but also when compared to linear businesses. This could include proprietary recycling technologies, strategic partnerships with waste management companies, or innovative design for disassembly.
- **Traction and milestones**: Demonstrate progress in implementing circular practices, such as partnerships with suppliers for closed-loop sourcing, successful pilot projects showcasing material recovery, or endorsements from sustainability certifications.
- **Team:** Highlight the expertise within the team related to sustainable design, circular economy principles, environmental sciences, or related fields. Emphasize why the team is uniquely positioned to execute and scale the business within the circular economy landscape.
- **Financials and projections:** Present financial projections that reflect both economic viability and environmental impact. Showcase cost savings from reduced material inputs, potential revenue from secondary markets (e.g., recycled materials), and scalability of circular business models.
- **Call to action:** Clearly state what support the business is seeking, whether it is investment in scaling operations, strategic partnerships with industry players, or access to networks for material sourcing.

It is important to consider the organisations' growth stage (guidance in section 2.1), type of finance (explained in section 2.2), and the profiles of potential investors or funders (outlined in section 2.3) before allocating resources for investing in developing a pitch. For example, commercial banks are likely to have strict requirements that must be met before they consider loan requests or listen to a pitch – and will likely expect to see both financial projection and a detailed business plan. On the other hand, private foundations or angel investors may only expect a short overview of a business idea at an initial meeting.

Most investors would expect **two main documents**: a one-page summary of the business plan (**investment teaser**), and a **slide deck** (such as a presentation) where more detail is provided, e.g. building on the business plan structure. The length and content focus of the presentation should be tailored to the pitch receiver. Some key elements to consider for the slide deck include:

- **Brevity is key**. Recent guidance<sup>25</sup> for entrepreneurs advises to prepare 10 slides, delivered in 20 minutes with no font smaller than size 30 based on Guy Kawasaki's formula. Each slide could summarise a section of the business plan explored earlier in this chapter:
  - Title
  - Problem or opportunity the CE idea will address
  - Value proposition, showing how the CE idea will solve the problem or capitalise on the opportunity
  - Unique selling point
  - Business model
  - Marketing plan
  - Competitive analysis

- Management team
- Financial projections
- It is worth investing in visually compelling documents that are going to attract investors' attention.

#### Tips for improving the pitch:

- **Negotiate beyond financials:** Pitching can be a process that involves several rounds. Businesses may find themselves negotiating terms before having thought through important details. While financial terms are important, consider **negotiating non-financial aspects** that align with and contribute to the CE business values. This could include investor support for sustainability goals, access to networks or technical assistance in circular economy practices, or commitments to responsible governance.
- **Prepare for due diligence**<sup>26</sup>: It is important to be prepared to provide detailed information during due diligence. This may include financial records, legal documentation, environmental impact assessments, and operational plans. Organising these materials in advance demonstrates professionalism and readiness.
- Seek alignment on long-term goals: It is important to ensure that there is alignment between the pitcher's long-term vision and the investor's expectations, and to discuss how the investor can contribute beyond funding, such as strategic advice, industry connections, or access to markets.
- **Negotiate fair terms:** While it is important to secure funding, it is also important to negotiate terms that are fair and sustainable. Businesses should consider factors such as valuation, equity dilution, governance rights, and exit strategies that align with their growth plans.
- **Practicing making a pitch**: It is important for entrepreneurs to practice their pitches among friends or family first before pitching to potential investors. Moreover, it can be helpful to pitch to a few relatively low priority investors and gather their feedback before pitching to the highest priority investors. Requesting investors to listen to pitches and share their feedback can provide valuable information to tweak the pitch deck / style.
- **Turning rejections into opportunities:** In case a funder rejects a proposal, it can be useful to request feedback on the reasons for rejecting. Also consider asking the funder if they can connect to someone in their network who they believe might be interested in exploring the investment opportunity. Funders often have rich networks and are well placed to make good matches.

## 3.3 Maintaining Financial Statements

Financial statements are reports compiled by businesses in accordance to standardized accounting regulation, detailing the company's financial activities and health. Maintaining **financial accounts** involves systematically recording, summarizing, and reporting on an organisation's financial transactions. This process centres on three key financial statements: the **Income statement**, **Balance sheet**, **and Cash Flow Statement**. Traditionally, **commercial funders**—such as banks, VC/PE funds, DFIs, and MDBs—rely on these statements to assess the viability of funding candidates. Recently, also **non-commercial funders**, including philanthropic institutions and development agencies, have emphasized financial statements as indicators of **financial governance** and **institutional health**.

Financial statements provide funders with a clear picture of a business's **viability**, **financial stability**, and **growth potential**. For CE organisations, which may not initially generate profit or maintain competitive gross margins,

<sup>&</sup>lt;sup>25</sup> GIZ (2020). Scale Up! Entrepreneurs' Guide to Investment in Ghana. Page 64. <u>https://investmentguide.africa/sites/default/files/2020-08/Ghana\_Investment\_Guide.pdf</u>

<sup>&</sup>lt;sup>26</sup> Due diligence is a process to identify, prevent, mitigate, and account for potential adverse impacts: European Commission. (n.d.). Due diligence explained. European Commission. Retrieved February 14, 2025, from <u>https://single-market-economy.ec.europa.eu/sectors/raw-materials/due-diligence-ready/due-diligence-explained\_en</u>

In the financial world, due diligence requires an examination of financial records before entering into a transaction with another party: Investopedia. (n.d.). Due diligence. Investopedia. Retrieved February 14, 2025, from https://www.investopedia.com/terms/d/duediligence.asp

financial statements still offer valuable insights. These include **revenue growth trends**, **diversity in revenue sources, cash inflow and outflow patterns**, and **working capital management**, all of which help identify risks and operational resilience.

Insights from interviews with CE funders, as detailed in Part 1 of this report series, revealed that while earlystage investors do not expect **profitability** in a business's initial stages, they do look for clear **pathways to profitability** and evidence of **revenue growth** as indicators of financial viability. Effective **cash flow management** is also critical, as it reflects an organisation's ability to **sustain operations**, **manage working capital**, and **recover payables**. For organisations with a strong focus on **innovation**—characteristic of many CE businesses—funders value **strategic investments in R&D** and **assets** that align with the organisation's financial capacity.

In summary, robust **financial statements and accounts** are not just a regulatory requirement but also a vital tool for showcasing an organisation's **financial health** and **potential**, paving the way for successful financing opportunities.

#### Best practices in maintaining financial accounts:

- Maintaining regular and accurate record-keeping: Maintain detailed and accurate records of all financial transactions, including revenues, expenses, assets, and liabilities. The investors that were interviewed for the research presented in Part 1 of this report emphasised the need for CE businesses to maintain robust "data rooms" to enable a smooth evaluation process during investor due diligence.
- Monitoring revenue across diverse streams: Develop and track multiple sources of revenue from clients across industries, sizes, and geographies. Funders are sensitive to revenue volatilities that are especially common to CE businesses and organisations, due to the changing budgets, priorities, and preferences of corporate and institutional customers.
- **Monitoring cash inflows:** Monitor cash inflows to closely implement strategies for timely **revenue recovery** and maintaining a **cash reserve** for contingencies. For example, in businesses that sell to Consumer-Packaged Goods customers, funders may inspect how well an organisation is able to manage their accounts receivables, as payments may come after 30, 60, or even 90 days.
- Demonstrating an inventory management strategy: For businesses that sell goods such as recycled or upcycled materials, funders will look for an effective inventory management strategy to gauge the businesses' ability to forecast demand and manage production schedules.
- Managing strategic investments: Invest proportionately in big capital projects and technologies that align with long-term strategic goals and sustainability initiatives. For example, while evaluating recycling businesses, funders expect that organisations analyse plant, property, and equipment to determine if new technology is required to process different types of materials or improve current processes.
- Highlighting the business' unit economics: Conduct detailed unit analyses to demonstrate to funders that the business has a strong grasp of its cost structure and pricing strategy. Funders often also look at the unit economics of the business to compare it with other businesses in the same industry. Unit analyses can also help make a solid case for funding. For example, an alternative protein company that can demonstrate the need for funding to secure long-term contracts with suppliers to negotiate better pricing and build buffer stock can make a strong case for funding. The diagram below shows an example of unit economics analysis for a resource recovery-based CE business.



Figure 4: Illustrative of Unit Economics for a Resource Recovery CE Business

## 3.4 Developing Valuations

Valuations are an important metric to determine the current and potential worth of a business. There are several methods to arrive at valuations for businesses, the three commonly used methods are summarised below:

Method	Description
Comparable transactions	Based on multiples such as Enterprise Value (EV) / Sales or EV / Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) derived from mean (or median) values based on investments in the same or similar sectors in the past.
Comparable public multiples	Based on multiples such as EV/Sales or EV/EBITDA derived from publicly traded companies in the same or similar sectors.
Discounted cash flows	Based on discounting future cash flows and estimating the total value of such cash flows (linked to financial projections).

Figure 5: Common Valuation Methods

For businesses looking to raise investments from private investors such as angel investors, VC funds, and PE funds, valuations can provide clear signals on the returns that can be expected from funding the business, and therefore, it becomes even more important that valuations reflect the reality of the industry, market, and the business itself. Valuations also set benchmarks for future funding rounds: a strong initial valuation can set up the business for successful negotiations with funders in the future, whereas an initially deflated valuation can complicate future negotiation and fundraising efforts.

Through interviews with CE-focused investors treated in Part 1, the learning was that they have lately become increasingly conscious of betting on businesses that are unable to ground their valuations in a robust and realistic roadmap. When funders assess valuations of CE businesses, they look for realistic and achievable assumptions around pricing and costs that are reasonably competitive with comparable products offered by linear counterparts. Given the limitations around data in the CE sector, they also seek clear and detailed explanations around the methodologies used to arrive at valuations, and references to data points of companies in similar industries.

#### Best practices in developing valuations:

- Benchmark with relevant industries: Given the nascency of CE as a sector, investors appreciate businesses who triangulate their valuations using data from related industries e.g., waste management, environmental services, renewable energy, etc. to arrive at appropriate valuations. This also builds trust in the business' assumptions around its revenue growth, profitability outlook, and potential for scale by providing useful reference points from other industries.
- **Conduct scenario analyses to stress test the valuation:** Investors look for valuations that are grounded in comprehensive risk assessment, including market risks, operational risks, and financial risks. For example, a company specialising in recycled plastics can use several strategies to account for fluctuations in oil pricing and its impact on plastic costs and by extension, the costs of recycled plastic. By creating cost scenarios that are sensitive to varying levels of petroleum prices, the company can estimate future revenues across different scenarios, and develop valuation scenarios based on optimistic, moderate, and pessimistic assumptions about future performance. Businesses can also refer to <u>Circular Risk Scorecard</u><sup>27</sup> to further inform their risk assessment in different scenarios, and where relevant also to compare their models vs. linear ones against this scorecard to highlight the strength of their circular models.
- **Ground assumptions around historic performance**: Investors examine historical financial statements to assess revenue growth, profitability, cash flow and debt levels, and businesses that develop valuations that are self-aware of their past performance gain more resonance and acceptance.
- Focus on key value drivers: While developing valuations, it can be helpful to highlight key value drivers, such as the imminent potential for scaling operations, or the proprietary processes or technologies that reduce costs and improve margins, or the strong demand for the business' products and services (driven by regulatory tailwinds or corporate sustainability goals), or the business' commitment to innovation to drive efficiency and market differentiation.
- **Provide assumptions behind the growth plans**: Investors prefer to see the financial projections and the assumptions/rationale behind those projections. This is covered in detail in the section on financial modelling.

## 3.5 Designing Key Performance Indicators

KPIs are quantifiable measurements for a company or organisation used to assess the long-term performance against a specified comparative, such as targets, objectives or industry peers.<sup>28</sup> KPIs can be categorised into financial KPIs, operational KPIs, and impact KPIs. **Financial KPIs** might include metrics like revenue growth, profit margins, and return on investment. **Operational KPIs** could cover production efficiency, supply chain performance, and customer satisfaction rates. **Impact KPIs** focus on the social and environmental outcomes of a business's activities. For instance, a start-up focused on retrieving plastics from the oceans and developing durable materials might monitor financial KPIs such as the cost and profit per unit of material produced, operational KPIs like the monthly volume of plastics retrieved, and impact KPIs, including measurable reductions in ocean plastic pollution. Both investors and philanthropic grant providers closely examine such KPIs to evaluate the start-up's financial sustainability, operational efficiency, and social impact.

Investors are particularly interested in financial KPIs that demonstrate a business' ability to generate revenue, control costs, and achieve profitability. They also examine operational KPIs to understand the efficiency and scalability of the business model. Increasingly, many investors also seek to understand impact KPIs – this is true for green finance / climate / impact focused funders but is also becoming relevant for a broader set of funders given global attention on topics such as decarbonisation. Grantmakers place a stronger emphasis on impact KPIs, assessing how effectively the organisation addresses social or environmental issues.

<sup>&</sup>lt;sup>27</sup> EU Circular Economy Stakeholder Platform. (n.d.). Circular Risk Scorecard. <u>https://circulareconomy.europa.eu/platform/en/toolkits-guidelines/</u> <u>circular-risk-scorecard</u>

<sup>&</sup>lt;sup>28</sup> Investopedia. (n.d.). Key performance indicator (KPI). Investopedia. Retrieved February 14, 2025, from https://www.investopedia.com/terms/k/kpi.asp

While existing and upcoming regulation like the EU Taxonomy, the EU Corporate Sustainable Reporting Directive, or the EU Green Claims Directive (EU) 2024/825 are expected to create higher awareness and transparency in sustainability reporting and claims, CE organisations, given their inherent positive environmental and social impact, should aim to stay ahead of the curve by highlighting and effectively communicating their impact KPIs.

Income-basedProduction-basedEnvironmental - CE specific· Revenue growth· Cost per unit of material produced· Amount of waste reduced/recycled· Gross profit margins· Quality control metrics· Percentage of recycled materials· Net profits· Inventory turnover· Amount of waste avoidedLiquidity and funding ratios· Time to market· Amount of waste avoided· Working capital ratio· Capacity utilisation· Amount of virgin materials avoided· Debt to equity ratio· Customer· Customer· Burn rate· Customer retention rate· Amount of GHG emissions avoided· Customer acquisition cost· Other CE business-specific KPIs like i.e.· Number of permanent and temporary jobs created· Churn rate· Plastics recovery rate · Plastic waste sorting accuracy · Recycling capacity utilisation rates· Number of employees trained · Percentage of women employed	Financial KPIs	Operational KPIs	Impact KPIs
	Income-based • Revenue growth • Gross profit margins • Net profits Liquidity and funding ratios • Working capital ratio • Debt to equity ratio • Burn rate Customer • Customer acquisition cost • Customer lifetime value • Churn rate	<ul> <li>Production-based</li> <li>Cost per unit of material produced</li> <li>Quality control metrics</li> <li>Inventory turnover</li> <li>Time to market</li> <li>Capacity utilisation</li> </ul> Customer <ul> <li>Customer satisfaction rating</li> <li>Customer retention rate</li> </ul> Other CE business-specific KPIs like i.e. <ul> <li>Plastics recovery rate</li> <li>Plastic waste sorting accuracy</li> <li>Recycling capacity utilisation rates</li> </ul>	<ul> <li>Environmental - CE specific</li> <li>Amount of waste reduced/recycled</li> <li>Percentage of recycled materials used in production</li> <li>Amount of waste avoided</li> <li>Amount of virgin materials avoided Environmental - broader</li> <li>Amount of GHG emissions avoided</li> <li>Amount of energy saved Social - broader</li> <li>Number of permanent and temporary jobs created</li> <li>Number of employees trained</li> <li>Percentage of women employed</li> </ul>

Figure 6: Illustrative List of KPIs

#### **Best practices in designing KPIs:**

- Align impact with business objectives: While designing social and environmental impact KPIs for the business, prioritise the ones that clearly connect to the business's commercial and strategic objectives. Many funders, especially the ones investing with an impact lens, look for impact KPIs that are directly linked to the business' strategic goals and objectives, since they give funders the confidence that the business is committed to achieving its impact KPIs not just for the sake of impact, but also because this impact is strongly tied to business outcomes.
- Benchmark against industry standards: The CE funders that were interviewed during the research phase described in Part 1 of this report highlighted the importance of CE businesses maintaining cost competitiveness with traditional businesses to survive in the long run. In a climate where funders are still hesitant to see the business case for investing in circular models, it is even more important to compare the business' KPIs with industry benchmarks to contextualise its performance relative to competitors. For example, a business manufacturing textiles made from recycled plastic and waste organic fibres would need to benchmark its KPIs and targets related to costs of manufacturing textiles with industry standards to demonstrate cost competitiveness with other textile manufacturers.
- Be specific and measurable: KPIs should be clear, quantifiable, and easy to track. Refer to resources such as Ellen MacArthur Foundation's Material Circularity Indicator<sup>29</sup> tool, the Cradle-to-Cradle Product Standards<sup>30</sup>, and GRI 306: Waste 2020 Standard<sup>31</sup> to find indicators that can be used to measure the organisation's progress towards circularity

<sup>&</sup>lt;sup>29</sup> Ellen MacArthur Foundation (2021). Material Circularity Indicator (MCI). Retrieved January 6, 2025, from https://www.ellenmacarthurfoundation. org/material-circularity-indicator <sup>30</sup> Cradle to Cradle Products Innovation Institute. (2024). Cradle to Cradle Certified<sup>®</sup> Products Standard v4.1. Retrieved January 6, 2025,

from https://api.c2ccertified.org/assets/c2cc-v4.1-standard\_final\_092624.pdf <sup>31</sup> Global Reporting Initiative. (2020, May). GRI 306: Waste 2020. Retrieved January 6, 2025, from

https://www.globalreporting.org/standards/standards-development/topic-standard-for-waste/

## 3.6 Developing a Financial Model

A financial model is an abstraction that helps to estimate a company's future cash flows, financing requirements and valuation. It is also a tool for financial providers for deciding whether to invest in a company.32 When evaluating a financial model, funders seek a balance between pragmatism and aspiration. A financial model is only as good as its assumptions, so funders look for a pragmatic outlook towards market capture, revenue growth, cost efficiency, and enabling and hindering ecosystem factors such as regulations and feedstock availability. The aspiration of a financial model is reflected in how it can demonstrate the potential for strengthening revenues through various measures such as corporate partnerships and upselling, improve costs and margins through measures such as building long-term supplier partnerships and ensuring reliability in feedstock availability, and undertake additional measures such as innovation, team expansion, and infrastructure upgradation to set itself up for scale. CE financial models require a particular focus on ecosystem linkages and sector-specific nuances. These might include product lifecycles in reuse or PaaS models, pricing dynamics between refurbished and new products, or user and transaction growth in platform-based models.

Having an in-house finance expert to lead the modelling process is advantageous. Alternatively, fractional Chief Financial Officers or consultants can provide valuable support, depending on cost and resource constraints.

The picture below summarises why building a financial model is useful not only for financial investors but also for all organisations in general.

Financial statements	Why is it useful to model all of these?
<ol> <li>Shows profitability for period presented</li> <li>Revenue – costs = profit</li> <li>Common misconception: "shows whole picture"</li> </ol>	<ul> <li>Show holistic picture of business</li> <li>Profitability; assets and liabilities; movement in cash</li> <li>Net income (P&amp;L) – balance sheet changes (BS) = cash available (CF)</li> <li>Enables financial analysis; assessment of business health and prospects</li> </ul>
<ul> <li>Shows "snapshot" of the company positionat a particular point in time</li> <li>Assets – Liabilities = Equity</li> <li>Net Working Capital = Current Assets</li> </ul>	<ul> <li>Organizes data into easy-to-interpret form</li> <li>Shows clear picture: data worth 1,000 words</li> <li>Presents similar platform for comparison</li> <li>Enables scenario testing</li> </ul>
<ul> <li>Cash Flow</li> <li>Cash Cash Correction</li> <li>CFO + CFI + CFF = total cash movement</li> <li>Can be built from balance sheet</li> </ul>	<ul> <li>Essential for internal budgeting and investment</li> <li>Current position must be clear to develop understanding of future</li> <li>Company budget &amp; external investor decisions informed by this</li> <li>Projections determine company capital need: how much financing is required to fund future losses / investments?</li> </ul>

Figure 7: Key Elements and Purposes of Financial Statements

It is important to have realistic assumptions across three key areas:

• **Revenue projections:** one can **take a top-down approach** or a **bottom-up approach** to forecast revenues. The top-down approach involves starting the projections from the addressable market size, estimating market share, and eventually company revenues. The bottom-up approach involves projecting revenue by each customer. The bottom-up method provides good level of detail and is less abstract and hence should be preferred in cases where it is possible, at least for the immediate 12-24 months. For forecast periods beyond 12 or 24 months, one can use the top-down approach. There can be nuances specific to business models even

<sup>&</sup>lt;sup>32</sup> Mergers & Inquisitions. (n.d.). Financial modelling. Mergers & Inquisitions. Retrieved February 14, 2025, from <a href="https://mergersandinquisitions.com/financial-modeling/">https://mergersandinquisitions.com/financial-modeling/</a>

within the broader **CE space**. For instance, for CE businesses operating on models such as **PaaS**, specific attention needs to be given to elements such as revenue per use of the product, reasonable life of the product, **number of turns / cycles** per period etc. Similarly, for a **waste collection model**, attention needs to be given to **waste material composition** and expected changes to it as that would directly impact the revenues by material streams and the overall revenues. Similarly, an **online marketplace** in the business of connecting sellers and buyers of refurbished products would benefit from analysing website or app visitors, conversion rates, **average transaction values** to ground-truth its revenue estimates.

- Cost projections: critical cost components include raw materials cost and operating costs such as employee expenses, selling and marketing costs, repair costs, production losses, logistics etc. Similar to revenue projections, CE businesses would need to think about specific nuances which would vary based on the specific business model. For instance, a PaaS business would need to carefully model the repair costs, product losses, reverse logistics cost, while a CE business building alternative, planet friendly materials would need to factor in higher initial costs on the raw materials side (due to subscale) and model processing costs based on actual tests as these can be very different from the traditional / linear materials.
- Balance sheet and cash flow projections: the balance sheet modelling out the future assets and liabilities of the business should project the assets the business plans to acquire, and how the business plans to fund these assets. The model should outline required infrastructure upgrades, land costs, and capital versus working capital expenses. For example, a recycling business might want to consider purchasing infrastructure that better processes waste to productive materials and will need to reflect the direct and indirect costs of new equipment and retrofitting existing equipment in its balance sheet, and the debt it may plan to take for this. A PaaS business, on the other hand, might need to make investments in working capital to scale its business. In understanding the capacity of the business to scaling up its activities, funders also need to look for a detailed cash flow statement showing how the business plans to manage its cash outflows and inflows and maintain financial stability.

The steps for financial modelling in excel remain common across CE and non-CE businesses. There are several templates in excel available online, some free, others against a charge. The amount of available information can be overwhelming, and it is not easy to detect what might be most relevant for CE circumstances. As mentioned in the beginning of this section, it is advantageous to request support from a financial expert, in-house or externally, to assure the quality of the output.

**Example:** The pictures below explain how to build structures for the **key components of a PaaS business model** to generate values to be included as input-data in a financial model in excel. An excel template can be found <u>here</u>.



Figure 8: Example: Revenue Model for a PaaS Business



Fixed assets	<ul> <li>Cost per product unit (based on category)</li> <li>Essential to estimate how many units will be needed at any given point in time – too few will result in sales opportunity loss, too many will result in underutilisation of assets</li> </ul>
Working capital	<ul> <li>Receivables policy of the business will determine payment cycles</li> <li>There may be some flexibility in outsourcing activities such as logistics and repairs partially / fully which can create some working capital buffer</li> </ul>
Cash flows	<ul> <li>Since the product investment is recovered only over a period of time, such models usually require significant initial investments before cash flows become sustainable</li> </ul>

Figure 10: Example: Considerations for Balance Sheet / Cash Flows for a PaaS Business

#### Tips on financial projections:

- Entrepreneurs often create financial, and impact projections based on optimistic outlooks. However, some entrepreneurs may take a more conservative approach, which can sometimes result from societal norms and expectations rather than a lack of confidence or ability. Research suggests that female entrepreneurs, for example, may be more inclined toward realistic or conservative business projections, shaped by societal influences that encourage a risk-averse behaviour. A conservative business projection approach can sometimes lead to an uneven playing field when competing against projections built on highly optimistic assumptions. To address this, **adding an "upside" or "best-case" scenario** alongside realistic base-case projections can help convey the full potential of a venture to investors, ensuring fairness and a comprehensive presentation.
- Integrating impact KPIs in financial projections: it is helpful for management teams to see the result on impact KPIs when financial results are above or below expectations. This is a leading best practice, and it might

also impress impact investors when they see such an integrated approach.

• Using sensitivity analysis: entrepreneurs can use sensitivity analysis to understand the effect of changes in assumptions such as price or wage inflation on the growth and profitability metrics in the projections. It can be valuable to showcase a level of resilience in the plan to potential investors through such an analysis.

# 4 Outlook

As the global community continues to grapple with the pressing challenges of climate change, resource depletion, and biodiversity loss, the transition to a circular economy represents a transformative pathway toward sustainability. This shift not only redefines how resources are used, and waste is managed, but also underscores the importance of innovative financing solutions to unlock the potential of circular models. The insights and strategies presented in this report series underscore a critical truth: financing the circular economy requires collaboration amongst a diverse array of stakeholders, including businesses, policymakers, financial institutions, and civil society. It is no longer sufficient to rely on traditional funding mechanisms; instead, innovative and inclusive approaches must be championed to bridge the gap between capital demand and supply.

Circular economy actors—whether they are start-ups, SMEs, or larger organisations—must proactively tailor their financial strategies. From identifying the most suitable sources of funding to crafting compelling business cases that resonate with investors, these efforts are pivotal to scaling circular solutions. Equally, funders and finance providers must refine their understanding of CE-specific challenges and opportunities, fostering patient capital, value-aligned investments, and risk-sharing mechanisms that reflect the unique characteristics of circular business models.

The growing momentum for CE financing is evident in the increasing interest among VCs, DFIs, philanthropic foundations, and government agencies. However, to ensure long-term success, these funding channels must also address systemic barriers such as geographic disparities, the need for standardised metrics, and the integration of ecosystem linkages into financial models.

Looking ahead, the path to a truly circular economy hinges on the capacity to scale innovation, embrace equity in funding distribution, and build resilient partnerships. By fostering knowledge exchange, enabling supportive policies, and aligning financial incentives with sustainability goals, the global community can create a thriving ecosystem for circular solutions. This report calls upon all stakeholders to seize this moment of opportunity. Together, through strategic investments and collaborative action, we can pave the way for a more inclusive and regenerative future—one where economic prosperity harmonizes with environmental stewardship and social wellbeing.

This part 2 of the report series "Financing Circularity" aims to provide practical guidance to CE organisations for improving their ability to access finance. Feedback, comments, and additions are highly welcome. In this case, please reach out to contact@prevent-waste.net.

For more information about the underlying research, the discussion of the key findings and the recommendations drawn from it, please refer to <u>Part 1 of this report</u>: <u>"Financing Circularity – Bridging the Gap between Finance</u> <u>Demand and Supply"</u>.



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## Platforms

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