EU Green Week

How investors see innovative circular projects?

Jorge Rodrigues de Almeida
RdA Climate Solutions is a Portuguese advisory boutique focused in bridging finance with projects.
How investors see innovative circular projects?
The HOOP project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 101000836.
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Financial gap

We’ve got projects, but... we’re looking for money!

project developers

We’ve got money, but... we’re looking for projects!

Financial sector

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Why?

- **Circular business model innovation** can involve developing a completely new business model, or introducing a business model that is new to a company, even if it is considered fairly common in other companies or sectors.

- There is a lack of **financing tools** (e.g. standard evaluation methods or due diligence schemes) for **circular economy projects** in the market.
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The sustainable finance puzzle

Provide finance

Develop pipeline

Build capacity

Standardisation
The sustainable finance puzzle

- **Provide finance**
  - Project development finance e.g. equity, soft loans, etc.
  - Long term project finance e.g. debt

- **Develop pipeline**
  - Technical Assistance
  - Aggregate projects through procurement frameworks

- **Build capacity**
  - Build capacity in demand side (end users)
  - Build capacity on supply side (supply chain)
  - Build capacity in finance industry

- **Standardisation**
  - Standardised documentation
  - Standardized systems, underwriting and risk management

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From a risk perspective, observations in the financial sector demonstrate a higher perceived risk of circular business models as some are new-kid-on-the block.

Circular business models are considered risky with uncertain returns and require de-risking tools. This is due to the higher (perceived) risks of innovative business models in general.

Financial institutions need to understand and integrate CE terminology and indicators into operations, including risk models, in order to mitigate risks, as well as to identify business opportunities.
Business models - risk management

• Risk to be analysed / mitigated:

  • Credit risk promoter/contractor
  • Credit risk implementor/end client
  • Regulatory risk
  • Market risk
  • Currency risk
  • Technical risk
  • Performance risk
  • O&M risk
  • Prepayment and payment risk
  • Management risk
  • Construction risk
  • …
Finance (e.g. depending on the development stage)

Feasibility Study
- €X00.000
- Equity
- Quasi-equity
- Grants

Project development
- €X.000.000
- Equity
- Partnerequity
- Incentivised contracts
- Soft loans

Implementation
- €€.000.000
- Equity
- Loans
- Guaranties
- Green Bonds

Operation
- €€.000.000
- Refinancing

Partners
- Municipality
- Municipal Company
- State Funds
- EU Funds

Partners
- Municipal Company
- Investors
- O&M Partner
- Suppliers
- “Green” Banks

Partners
- Banks
- Structural Funds
- Investors
- O&M partners

Partners
- Banks
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**Finance**

**Alternative funding:** alternative forms of funding such as crowd funding, leasing, etcetera.

**Equity:** funder invests money for a share in a project/company, earning a return from dividends or sale or share at increased value.

**Grants:** funder gives money to support a project and stimulate a certain development.

**Guarantees:** funder takes over (part of) the obligations if the debt cannot be repaid.

**Debt:** funder lends money to project/company that is repaid in instalments with interest.

**Financial instruments**

Financial instruments can provide additional opportunities for project promoters to finance their circular city projects. Some of these instruments have been developed recently, while others are well established. It should be noted, however, that there is little practical experience with applying these instruments in the circular context.

Source: www.circularcityfundingguide.eu
Circular economy financing market is taking off

Number of private market funds with circular economy focus

Conservative estimate. Includes venture capital, private equity and private debt funds with sole or partial focus on circular economy.

- 3 funds in 2016
- 5 funds in 2017
- 14 funds in 2018
- 25 funds in 2019
- 30 funds in H1 2020

Source: Analysis carried out by the Ellen MacArthur Foundation

x10 increase in the number of private market funds from 2016 to H1 2020

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Don’t reinvent the wheel
EU taxonomy for sustainable activities

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### EU taxonomy

List of **economic activities** that make a substantial contribution to climate change mitigation

<table>
<thead>
<tr>
<th>Classification</th>
<th>Environmental Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>NACE Activity</td>
<td>Own performance</td>
</tr>
<tr>
<td>Water collection, treatment and supply</td>
<td>✓</td>
</tr>
<tr>
<td>Centralized wastewater treatment</td>
<td>✓</td>
</tr>
<tr>
<td>Anaerobic Digestion of Sewage sludge</td>
<td>✓</td>
</tr>
<tr>
<td>Separate collection and transport of non-hazardous waste in source segregated fractions</td>
<td>✓</td>
</tr>
<tr>
<td>Anaerobic digestion of bio-waste</td>
<td>✓</td>
</tr>
<tr>
<td>Composting of bio-waste</td>
<td>✓</td>
</tr>
<tr>
<td>Material recovery from non-hazardous waste</td>
<td>✓</td>
</tr>
<tr>
<td>Landfill gas capture and utilization</td>
<td>✓</td>
</tr>
</tbody>
</table>

Financial gap

We’ve got bankable projects!

We’ve got a pipeline of circular investments!

project developers

Financial sector
Circular Investor Board

- A group of European banks, financiers, investors, etc. as a sounding board for the development of tools for valuing and prioritizing initiatives, projects and business plans.
Questions
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Thank you for your attention!

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