

Annex I: Description of the Action



**UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION**

**Global Project**

<b>Project number:</b>	190161
<b>Project title:</b>	SWITCH to circular economy value chains
<b>Thematic area code:</b>	GC31, Resource efficient and low carbon industrial production
<b>Duration:</b>	60 months
<b>Project site:</b>	Global
<b>Implementing agency:</b>	UNIDO
<b>Project Inputs:</b>	
- <b>Direct costs:</b>	€17,757,009
- <b>Support costs (7%):</b>	€1,242,991
- <b>Counterpart inputs:</b>	In-kind contribution by global value chain leading EU multinational companies-will be added at end of inception phase
- <b>Grand Total:</b>	<b>€19,000,000</b>

**Brief description:**

The global “SWITCH to circular economy value chains” project aims to support enterprises within selected value chains to adopt circular economy practices. The project recognises that the application of circular economy practices requires coherent practices by all actors of the value chains, from SMEs to leading companies in the Global Value Chains. Close cooperation is required for multinational companies and SME suppliers in developing countries to meet their circularity goals.

This “last mile” of working with their suppliers in the developing economies is difficult for multinationals in global value and supply-chains. However, at the same time a multinational company has sufficient influence and resources to encourage, assist and/or convince the private sector in a developing country to make the necessary changes to their practices to become more circular in order to keep acting as their supplier.

The project will assist tier 1, 2 and, when feasible, tier 3 suppliers of EU Multi National Companies (MNCs) to make the switch towards circularity: such suppliers face significant challenges (technical and financial) in adopting new circular economy practices and the project is aimed at supporting them in this process.

The overall objective of the project is to support the “**Transformation towards a circular economy**”, including to contribute to sustainable growth, low carbon and climate resilient development, decent jobs creation, and safer, healthier and pollution-free environment.

The project will achieve this overall objective through two outcomes (specific objectives): Outcome 1: Improved business environment for the uptake of circular economy approaches in targeted countries; and Outcome 2: Improved circularity amongst private operators of selected value chains.

The Project will contribute to multiple SDGs, especially SDGs 8 (Decent Work and Economic Growth), 9 (Inclusive and sustainable Industrialization), 12 (Responsible Consumption and Production), and 13 (Climate Action).

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## A. CONTEXT

### A1. Background

The world's population was 7.7 billion people in 2019 and is predicted to rise to 8.5 billion in 2030 (10% increase), further to 9.7 billion by 2050 (26%) and to 10.9 billion in 2100 (42%)<sup>1</sup>. Forecasts suggest that there could be up to an additional 3 billion new middle-class consumers primarily in the Asia Pacific region by 2030<sup>2</sup>. They will drive demand for food, consumer goods and urban infrastructure and the energy needed to produce them to levels unheard of in human history.

There is a strong relationship between resource consumption and GDP: historically for every 1 percent increase in GDP, resource usage has risen on average by 0.4%.<sup>3</sup> On its present course, the use of material resources (such as biomass, fossil fuels, metals and non-metallic minerals) is expected to reach 167 billion tons by 2060 from the 2017 total of 89 billion tonnes<sup>4</sup>. The projected increase in materials use implies a significant increase in a wide range of environmental impacts, including acidification, climate change, eutrophication, and land use, as well as water, human and terrestrial eco-toxicity<sup>5</sup>.

Progress to address the environmental crisis and to achieve relevant SDG targets is largely insufficient. While resource extraction and processing currently account for more than 90% of global biodiversity and water stress impacts, and approximately half of greenhouse gas emissions, global material productivity has declined since about the year 2000, as a result of a “large shift of economic activity from very material-efficient economies such as Japan, the Republic of Korea and Europe to, at this time, the much less material-efficient economies of China, India and Southeast Asia”<sup>6</sup>. Consequently, the majority of terrestrial ecosystems in developing countries and their biodiversity are degrading at alarming rates, with a corresponding loss of nature's contributions to people's livelihoods and to socio-economic development<sup>7</sup>.

As estimated by the International Resource Panel (IRP), effective policies to improve resource efficiency and tackle climate change could reduce global resource extraction by up to 28%, cut global greenhouse gas emissions by around 60%, and boost the value of economic activity by 1.5%<sup>8</sup> by 2050.

According to the UN, “the challenges associated with preventing, managing and resolving natural resource-induced conflicts may well come to define global peace and security in the 21<sup>st</sup> century.”<sup>9</sup>

Ever since the Industrial Revolution, all economies have been extracting raw materials, using those raw materials as inputs to manufacture products, and selling and distributing those products to as many customers as possible. Those customers then use the products and discard them when they have served their purpose. This “take-make-use-discard” or linear economy practice is enormously inefficient and encourages increasing levels of pollution and waste.

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<sup>1</sup> [https://population.un.org/wpp/Publications/Files/WPP2019\\_10KeyFindings.pdf](https://population.un.org/wpp/Publications/Files/WPP2019_10KeyFindings.pdf)

<sup>2</sup> <https://siteresources.worldbank.org/EXTABCDE/Resources/7455676-1292528456380/7626791-1303141641402/7878676-1306699356046/Parallel-Session-6-Homi-Kharas.pdf>

<sup>3</sup> Accenture analysis based on data from SERI and Dittrich, M. (2014). Global Material Flow Database. 2014 version and World Bank GDP data, <http://data.worldbank.org/>

<sup>4</sup> Global Material Resources Outlook 2060, OECD, 2019, p. 19.

<sup>5</sup> Ibid., p. 23

<sup>6</sup> IRP 2016, Global material flows and resource productivity. Summary for Policymakers, pp. 26-27

<sup>7</sup> Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) report 2018.

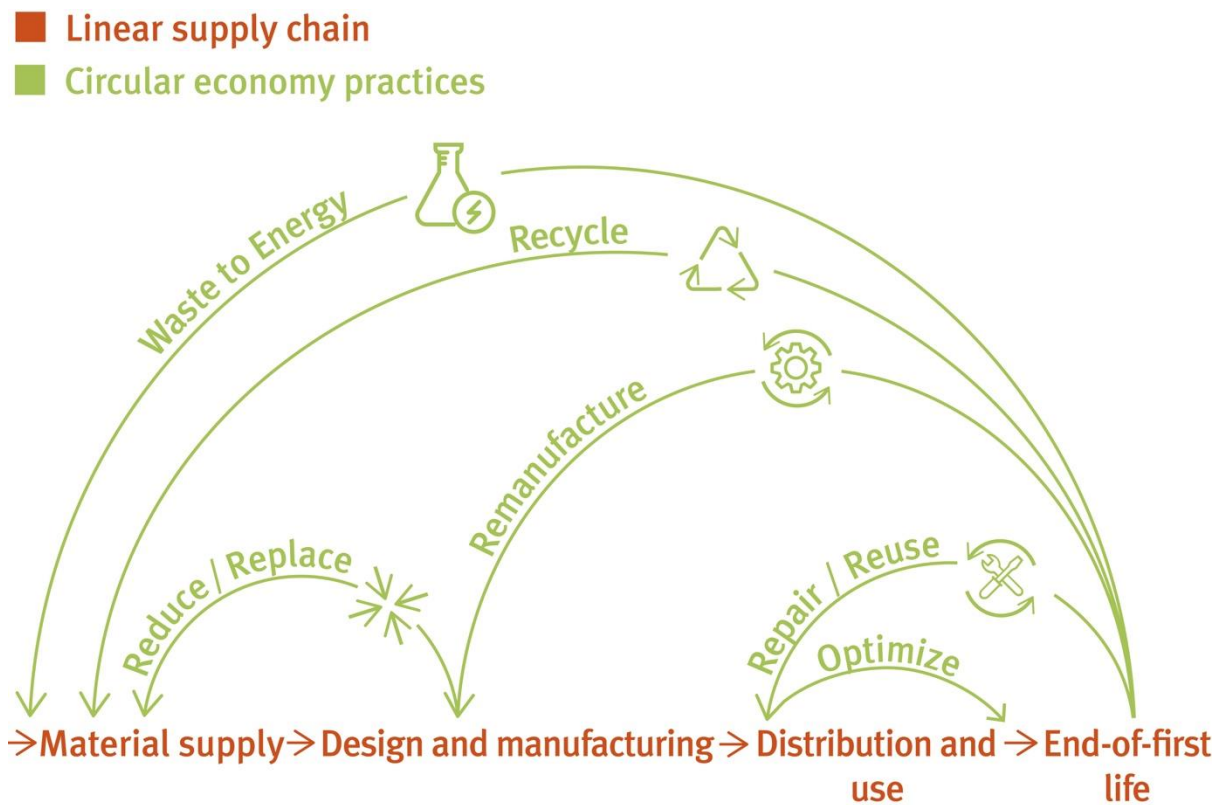
<sup>8</sup> Resource Efficiency: Potential and Economic Implications. A report of the International Resource Panel (IRP), 2017, pp. 285-286

<sup>9</sup> The EU-UN Partnership of Land, Natural Resources and Conflict Prevention; see [www.un.org/en/land-natural-resources-conflict](http://www.un.org/en/land-natural-resources-conflict)

Application of circular economy practices would reduce the waste and pollution that creates the situation whereby 9 million people die of diseases linked to mismanagement of waste and pollutants each year: six times as many as die from AIDS-related illnesses, and 20 times more than die from malaria.<sup>10</sup> Tragic loss of life and time spent with disabilities due to diseases linked to pollution and waste create tremendous economic losses, particularly in developing countries. Moreover, economic losses are also associated with wasted production capacities, wasted product lifecycles and wasted embedded values of all sorts in products anywhere in the world.

This understanding has given rise to the concept of circular economy and its associated practices as constituting “an industrial system that is restorative or regenerative by intention and design. It replaces the ‘end-of-life’ concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair reuse, and aims for the elimination of waste through the superior design of materials, products, systems, and, within this, business models”.<sup>11</sup> Figure 1 depicts the differences between a linear supply chain and the case for circular economy practices along the same.

Figure 1: Linear versus Circular Economy practices



Source: UNIDO, 2019

The 2030 Agenda for Sustainable Development responds to the need for global action towards environmental sustainability, while economies create prosperity and development reduces social inequalities. Transforming our economies to balance the economic, social and environmental dimensions of development is imperative to successfully implement this Agenda.

<sup>10</sup> <http://www.thelancet.com/commissions/pollution-and-health>, an initiative supported by the EU and UNIDO, October 2017

<sup>11</sup> <https://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf>

Circular Economy practices are among the important tools necessary to achieving the SDGs. Firstly, the circular economy underpins efforts to achieve SDG 1 (no poverty) by shielding growth from the long-term upward trend in resource prices and volatility. It should also make significant contributions to SDG 2 (zero hunger) and SDG 6 (clean water and sanitation) by reducing agricultural, food waste and all other forms of pollution. There is a close link between the circular economy and “good health and well-being” (SDG 3), particularly Target 3.9 which aims to “substantially reduce by 2030 the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination”, most of which originate in materials extraction and processing, agriculture and industrial production, transportation and use of goods and services and their unsustainable disposal.<sup>12</sup>

SDG 9 addresses aspirations of almost all developing countries by “promotion of inclusive and sustainable industrialization, infrastructure and innovation”. Target 9.4 of SDG 9 defines how to achieve sustainable industrialization: “upgrade infrastructure and *retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes*”. Since resource inefficiencies create significant climate impacts, circular economy practices that offer ‘sustainable products’ and new business models that extend product lifetimes are bound to create major climate benefits.

Secondly, the circular economy also reduces the tension between SDG 8 (decent work and economic growth) and SDG9 (inclusive and sustainable industrialization) and those related to pollution (SDGs 11, 13, 14 and 15): by weakening the link between growth, industrialization and environmental damage, circular economy practices make these goals much more compatible. It can also be a significant contributor to the targets of SDG 8 and SDG9<sup>13</sup>.

Thirdly, the Circular Economy will make a major contribution to SDG 7 (affordable and clean energy). Circular economy practices can help to reduce overall energy needs and achieve higher rates of energy efficiency, for instance through resource efficient and cleaner production, industrial symbiosis and recovery of waste heat of industrial processes or biogas production through anaerobic digestion and by a generic shift towards renewable energy sources.

Finally, the adoption of circular economy practices is the most sensible way of achieving SDG 12 (responsible consumption and production): its achievement will require a switch from the linear to the circular model of production and consumption informed by a major shift in business practices and models and policies globally. SDG 12 is a crosscutting goal that is connected to a wide range of other SDGs as also shown above. The crosscutting nature of sustainable consumption and production (SCP) requires a life cycle approach and will ultimately need to be reflected in economic and environmental policies of high, middle and low -income countries and future business models.

The importance of SCP is also reflected in the new European Consensus on Development adopted in 2017, which identifies SCP practices and circular economy as important priorities, for not only the Planet priority but also the Prosperity priority. “The EU and its Member States will promote an economic transformation that creates decent jobs, increases productive capacity, generates sufficient revenues for public services and social protection, fosters sustainable value chains and

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<sup>12</sup> E-waste recovery and recycling is a case in point: it significantly lowers the total life cycle impacts of electronic waste compared to other options such as incineration or landfilling, and reduces emissions to air, water and soil. However, e-waste recyclers in low and middle-income countries are highly exposed to a wide range of toxins detrimental to human health, including heavy metals such as cadmium, lead and mercury.

<sup>13</sup> For example, Target 8.2: “Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors”, Target 8.3: “Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small and medium-sized enterprises, including through access to financial services”, Target 9.3: Increase the access of small-scale industrial and other enterprise, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

diversification, including sustainable industrialisation. This includes promoting sustainable consumption and production patterns in a circular economy...<sup>14</sup>

In summary, the project will contribute to multiple SDGs, in particular:

- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- Goal 12. Ensure sustainable consumption and production patterns (SCP).
- Goal 13. Take urgent action to combat climate change and its impacts.

By contributing to the decoupling of economic growth from environmental degradation, the project will also contribute to SDGs related to pollution (Goals 11, 13, 14 and 15).

Finally, the 2019 European Green Deal<sup>15</sup> aims, among others, to mobilise industry for a clean and circular economy. The new EU Action Plan on Circular Economy adopted on 11 March 2020 as part of the Green Deal, includes a ‘sustainable products’ policy, with particular focus on resource intensive sectors such as textiles, construction, electronics and plastics. It will encourage businesses to offer, and allow consumers to choose, reusable, durable and repairable products and deploy new business models based on renting and sharing goods and services. The European Green Deal also underlines the promotion of collaboration with industry, and investments in strategic value chains as essential and emphasizes the role of digital technologies among critical enablers for attaining sustainability of Green deal goals in many different sectors.

EU’s new CE Action Plan has an external dimension and as such reflects the EU’s ambition to contribute to set global standards on CE.

The intervention described in this Project Document aims to promote circular economy practices in developing countries through industry collaboration, public-private dialogue and capacity development of stakeholders in selected value chains.

## A2. Problem analysis/priority areas for support

Both UNIDO’s experience through its resource efficient and cleaner production programmes implemented since 1994 and EU’s experience promoting green business development, e.g. under the SWITCH regional programmes (including the EU funded SwitchMed programme that UNIDO continues to lead), have documented the positive outcomes of environmentally sustainable practices by the private sector. These positive outcomes include financial savings from more resource efficient production processes, market access opportunities, reduced resource consumption and greenhouse gas emissions, more decent working conditions and reduced number of work-related accidents, etc.<sup>16</sup>.

Despite this evidence, the pace of progress towards the adoption of greener business practices, contributing notably to the circular economy transition and to the sustainable management of natural resources, is largely insufficient. Barriers are multiple, and include gaps or incoherence in

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<sup>14</sup> [https://www.consilium.europa.eu/media/24004/european-consensus-on-development-2-june-2017-clean\\_final.pdf](https://www.consilium.europa.eu/media/24004/european-consensus-on-development-2-june-2017-clean_final.pdf)

<sup>15</sup> Communication from the Commission on “the European Green Deal”, 11.12.2019 COM (2019) 640 Final, Brussels

<sup>16</sup> Illustrations of those impacts are provided in Evaluation of EU international cooperation on Sustainable Consumption and Production; Europe Aid/ 137211/ DH/ SER/ Multi Lot 1; Final Report. See <https://europa.eu/capacity4dev/public-environment-climate/documents/scp-evaluation-full-package-publications>

policy frameworks, a lack of awareness and capacities of business operators, the protection of vested interests by those benefiting from unsustainable models, insufficient market demand for certified products, and unavailable or prohibitive access to finance, particularly for MSMEs.

Therefore, the project was designed with certain key factors being carefully considered:

- The transition towards a circular economy is complex and multi-faceted but imperative in view of its potentially substantial economic, environmental and societal benefits, which can significantly contribute to poverty reduction.
- The transition to a circular economy in developing countries requires a systemic perspective, with attention for the broader framework conditions, including regulatory, and the build-up of intelligence, knowledge and awareness of the specific characteristics of circularity in a given country and value chain. This should also include an overall focus on compliance with market requirements<sup>17</sup>.
- Whilst there is significant interest in establishing circular economy practices in developing countries to address these problems<sup>18</sup>, these have – so far – been fragmented and, often at the research rather than the implementation level<sup>19</sup>. This stresses the need for action going beyond standard Resources Efficiency and Cleaner Production (RECP), to also promote circular economy practices such as repair, reuse and remanufacture. There is an urgent need for interventions that will progress the circular economy agenda in developing countries from the abstract to the practical through effective, independently verifiable and replicable demonstration of the benefits of the approach and related practices.
- The need for well-designed pilots in selected value chains, involving a selected number of countries and MSMEs across the full chain, to demonstrate how MSMEs can implement circular economy practices in developing countries, to monitor the performance of those pilots carefully to learn lessons and then to institute an extensive awareness raising campaign to encourage replication of proven success to the full value chain and beyond (e.g. in value chains of other sectors). The pilots will identify and test circular economy practices in a specific part of the global value chains that EU MNCs operate in, involving a realistic number of MSMEs and countries across the full value chain. Then the project will encourage the replication of these practices: (i) to the remaining parts of the same value chains (MSMEs and countries involved in the value chain), and (ii) into broader areas (i.e. in VCs of other EU MNCs, including in other sectors, if applicable).
- Global value chains (GVC) bring together large number of firms of various types and sizes. Large-scale manufacturing or retail firms serving large consumer markets in high-income countries lead the GVCs. These leading firms have supply lines extending to low- and middle-income countries. To achieve their circularity goals and for some significant impact, these GVC leading firms and their suppliers have to take action together. Thus, partnerships between EU based GVC leaders and their suppliers in developing countries are essential for implementation of circular economy practices along value chains.

### A3. Main target groups

In line with the above analyses, the project will target the following groups of beneficiaries:

- Micro, Small and Medium-sized enterprises (MSME) will be the main final beneficiaries of the project. They will receive support directly or indirectly (e.g. through business development

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<sup>17</sup> Market pressure from GVC leaders to their suppliers is a significant factor for change.

<sup>18</sup> They include, for example, the announced establishment of the African Alliance on Circular Economy and the publication of 'Circular Economy in India'.

<sup>19</sup> This is to be differentiated from cleaner production practices, which are applied widely.



service providers and financial intermediaries). In line with lessons from UNIDO's green industry and EU's green economy cooperation, support will cover both thematic issues (e.g. practices contributing to the circular economy) and business management issues (e.g. access to finance). Depending on the nature of value chain, Tier 1 suppliers of MNCs are usually a small number of firms that work with the lower tier suppliers to produce components and directly supply these to the MNC. In progression, Tier 2 suppliers do not directly supply the MNCs, but procure parts/inputs from Tier 3 suppliers to supply Tier 1 suppliers of the MNC. The focus will be on tier 1, 2 and, when feasible, tier 3 suppliers of EU MNCs. For relevant activities, the project will also engage with companies involved in the repair, reuse and remanufacturing of products at the end of first life, and in the recycling of products which cannot be repaired, reused or remanufactured anymore, with a view to engaging MSMEs from all elements of a circular economy.

- Consumers of products (first-life and later life uses) of the MNCs.
- Business development service (BDS) providers and intermediary organisations, including sector-specific business membership organizations in developing countries will play an important role in the delivery of the project. They will receive support to improve their services, contributing to the sustainability of the project, and will deliver support to MSMEs. Relevant service providers such as, *inter alia*, the National Cleaner Production Centres are already in place in many countries, but they often require external support.
- EU multinational companies (MNCs), including manufacturers and/or retailers playing a key role in selected value chains will not receive support directly. They will be involved in the project as players influencing the development of global value chains and able to stimulate the adoption of greener, circular economy practices by upstream industries along these chains. The project will target in particular EU MNCs committed to environmentally sustainable practices.
- Local financial institutions will be part of the core stakeholders' group. Local financial institutions will both receive technical assistance (e.g. to develop green financial products, to assess relevant projects, to adopt environmental and social safeguards), and act as intermediaries to finance eligible projects. In many countries, there is a lack of appetite and capacity from local financial institutions to scale up investments in green sectors, hence the need for capacity building, as well as financial incentives and improved regulatory frameworks to promote these investments.
- Government institutions: while the project will focus on practices by private sector operators, lessons will also feed into policy development and implementation. Business membership and consumer organizations will also be engaged in policy dialogue and advocacy on adoption of greener, circular economy practices by the private sector and consumer awareness on sustainable products.

#### A4. Other stakeholders

Project will engage the EU Delegations (EUDs) and UNIDO Field Offices in countries where the selected pilot projects will be working with the targeted beneficiaries.

EUDs will be consulted during the detailed pilot project design stage to ensure complementarity with EU activities in the country. Similar inputs will be provided by UNIDO Country Offices.

EUDs are expected to play a significant role, for instance, in supporting complementarities with the EU External Investment Plan (EIP), as this project could help identify / develop bankable projects, which may then be supported through the EIP.

UNIDO Country Offices will provide local knowledge and support and contribute to monitoring efforts, as needed.

## B. REASONS FOR UNIDO ASSISTANCE

### B1. Extensive and specialized experience

UNIDO is the specialized agency of the United Nations that promotes inclusive and sustainable industrial development (ISID) by creating shared value, advancing competitiveness, safeguarding environmental sustainability and strengthening knowledge and institutions in developing countries. With this mandate, the Organization engages with its Member States through four core functions:

- (i) Technical cooperation
- (ii) Analytical and research functions, and policy advisory services
- (iii) Normative functions and activities related to setting standards and guidelines
- (iv) Convening and partnerships for large-scale investment, knowledge and technology transfer, networking, and industrial cooperation

UNIDO has an extensive and proven record of accomplishment in working with governments, industry and other major stakeholders in environmental sustainability, energy access, quality infrastructure and standards, entrepreneurship, including for women and youth, enterprise development, public-private partnerships and gender mainstreaming under the broader theme of ISID.

The Directorate for Environment and Energy (EAE) of UNIDO is responsible for providing technical cooperation services to enhance the capabilities of developing countries and economies in transition to promote ISID.

The Department of Environment (EAE/ENV) contributes to ISID and the implementation of the SDGs by greening existing industries and products, as well as by facilitating creation of new green industries and products, and by minimizing resource use along value chains and during the lifetime of products to facilitate uptake of circular economy practices. Priorities and programs involve circular economy practices; for instance, sustainable design of products using less materials, being easy to maintain and incorporating longevity. Promoting industrial resource efficiency to improve the effective use of natural resources, in particular materials and water, sustainable access to water for production, reducing release of industrial pollutants to the environment and assisting Member States to achieve the objectives of and compliance with multilateral environmental agreements are cornerstones of technical cooperation and policy advisory services.

The Industrial Resource Efficiency Division (EAE/ENV/IRE) in the Department of Environment supports capacity development of industry, government, environmental service providers, INGOs and NGOs. Services to scale up and mainstream the production of greener products and adoption of resource-efficient and cleaner patterns of production and circular economy policies and practices that save costs for industry, while creating social and environmental benefits are core to technical assistance and policy advice from the Division. Greening of products and industrial processes through Resource Efficient and Cleaner Production (RECP), Transfer of Environmentally Sound Technologies (TEST) and introduction of new business models (for example, chemical leasing, a product-as-service practice) along supply and value chains, promotion of Eco-Industrial Parks and sustainable access to water for productive purposes are among core activities. The Division contributes to Partnership for Action on Green Economy (PAGE)<sup>20</sup> of the Department.

This project will be implemented by EAE/ENV, led by the Industrial Resource Efficiency Division (EAE/ENV/IRE). The Division is currently implementing, as leading partner, the second phases of

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<sup>20</sup> <https://www.un-page.org>

SwitchMed<sup>21</sup> and EU4Environment programs funded by the EU. Among others, the Industrial Resource Efficiency Division is leading UNIDO's Global Eco-Industrial Parks Program funded by Seco, the Water Stewardship program in collaboration with MNCs in the beverage sector as well as the global Chemical Leasing program in developing countries, a product-as-service business model, in collaboration with Ministries of Environment of Austria, Germany and Switzerland.

UNIDO's other Departments offer various investment promotion services, for instance through a) Investment and Technology Promotion Offices (ITPO) on technology solutions, e.g. ITPO Japan's Sustainable Technologies Promotion Platform (STePP); b) COMFAR (Computer Model for Feasibility Analysis) services; c) Subcontracting and Partnership Exchange (SPX), buyer identification and supplier-buyer matchmaking; d) through investment promotion agencies (IPAs) attracting FDI and facilitating joint ventures, and e) contributions from agribusiness services, should a relevant value chain is selected. Opportunities to integrate some of these services and/or knowledge and experience gained as relevant will be sought, particularly during the detailed design of pilot projects.

The achievement of the triple wins (economic, environmental and employment) that circular economy practices potentially offer to developing countries requires in-depth skills and knowledge in all three areas linked to practical implementation experience on the ground. UNIDO is the only organisation globally that has the skills and expertise in these fields. UNIDO is used to dealing with systemic change and institutional strategies aimed at collaboration with industry chains, governments, and customers to create joint value. Its global networks allow it to collaborate with its Member State partners and innovate using new technologies and business models.

## B2. The Partnership for promotion of circular economy practices

The project will be implemented by a Partnership comprising UNIDO (as lead), the European Investment Bank, Circle Economy (the Netherlands) and the Royal Institute of International Affairs (Chatham House, United Kingdom).

### ***European Investment Bank (EIB)***

The EIB was created by Articles 129 and 130 of the Treaty establishing the European Economic Community (EEC), signed by six countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) on 27 March 1957 in Rome. Its founding objective is to promote sound projects, especially for the development of the less-developed regions, this being financed by borrowing on the international capital markets and from its own resources. It is the only bank owned by and representing the interests of the European Union Member States.

EIB's activities focus on four priority areas:

- Innovation and skills
- Access to finance for smaller businesses
- Infrastructure
- Climate and environment

The EIB is a major partner for circular economy investments in the EU and provided EUR 2.38bn in co-financing for circular projects between 2012 and 2016 on industry and services, water management, agriculture and bioeconomy, waste management and product-to-service.

In this project, EIB will have a technical assistance provider role for building capacity of financial sector institutions in developing countries where the pilot projects will take place. Technical assistance to the local financial sector will focus on assessment of green financing project proposals and bankability and development of green financial products. EIB will also support and bring to the

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<sup>21</sup> <https://www.switchmed.eu/en>

table local financial institutions, the Central Banks, Ministries of Finance for policy dialogue, and contribute to technical assistance to local consultancy companies on development of bankable proposals for investments in circularity.

### ***Circle Economy (the Netherlands)***

Circle Economy ([www.circle-economy.com](http://www.circle-economy.com)) is a social enterprise, organised as a cooperative, whose goal is to accelerate the transition to circularity. Based in Amsterdam, Circle Economy works for the last 7 years on the transformation of cities and regions, sectors and supply chains<sup>22</sup> as well as individual companies from a linear to a circular economy.

Circle Economy is focusing on solutions that support the transition to a circular economy along various streams:

- Systemic Initiatives (circular finance and capital goods circular platform)
- CE Cities Programme
- CE Textile Programme
- CE Built Environment Programme
- CE Finance Programme
- CE Design Programme
- CE & International Development
- CE Business + Insights Programme

Circle Economy also has strong links with major multinational companies through its Membership Programme. These include enterprise such as ABN-AMRO, Phillips, DHL, Canon and the Port of Rotterdam. Its financial sponsors include organisations such as the eBay Foundation, the C&A Foundation, the Netherlands National Postcode Lottery, and the Goldschmeding Foundation.

Circle Economy will be working with developing country suppliers, business consulting companies and other BDS providers in building capacity of MSMEs to understand and implement circular economy practices in collaboration with other partnership members.

### ***The Royal Institute of International Affairs (Chatham House, United Kingdom)***

The Royal Institute of International Affairs, hereinafter, the Chatham House has been actively involved in policy conversations around the sustainable production and consumption of natural resources going back as far as the 1970s. Circular economy has been on the agenda of the Energy, Environment & Resource (EER) department since the publication of a widely cited policy briefing paper<sup>23</sup> in 2012, followed by a briefing paper supported by UNIDO and RECPnet in 2017<sup>24</sup>, and a 2019 paper on circular economy in developing countries<sup>25</sup>.

The EER has an extensive policy consultations network of governmental and non-governmental stakeholders at the international level. The Department's research focuses on energy, environment and resources policy and aims to support decision-makers and stakeholders to take well-informed decisions that contribute to both achieving sustainable development and mitigating potential future climate and resource-related insecurities. Chatham House has also an international policy communication infrastructure and media capability, summarizing project findings and developing recommendations for decision-makers. It is currently exploring new thinking about innovation in the

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<sup>22</sup> <https://www.circle-economy.com/case/on-the-road-to-the-circular-car/>

<sup>23</sup> <https://www.chathamhouse.org/publications/papers/view/182376>

<sup>24</sup> <https://www.chathamhouse.org/sites/default/files/publications/research/2017-12-05-circular-economy-preston-lehne-final.pdf>

<sup>25</sup> <https://www.chathamhouse.org/publication/inclusive-circular-economy-priorities-developing-countries>

circular economy, supported by the MAVA Foundation and examining the circular economy alongside a range of other disruptive business models, technology trends and demand-side shifts underway in the global economy through its new Hoffman Centre for Sustainable Resource Economy.

The role of Chatham House through its EER Department will involve analysis of policy frameworks, development of policy recommendations, and building capacity of selected institutions to undertake mapping and analysis of circular economy opportunities in developing countries where pilot project will take place.

## C. THE PROJECT

### C.1. Objective and expected outcomes

The overall objective of the project is to support the “*Transformation towards a circular economy*”, including to contribute to sustainable growth, low carbon and climate resilient development, decent jobs creation, and safer, healthier and pollution-free environment.

The project will put emphasis on engagement with the private sector and scaling-up investments in green businesses, sustainable value chains and the creation of green jobs, along the DEVCO Green Economy Results Chain in Annex 1.

The project aims to achieve two specific objectives (outcomes):

***Specific Objective (Outcome) 1: Improved business environment for the uptake of circular economy approaches in targeted countries***

This outcome will be achieved through the production of two outputs. Output 1 where knowledge on circular opportunities in selected value chains will be developed and disseminated and Output 4 where private sector dialogue and networking in selected value chains will be facilitated. Dialogue with Central Banks and Ministries of Finance under Output 5 will also contribute to policy dialogue and uptake.

***Specific Objective (Outcome) 2: Improved circularity amongst private operators of selected value chains.***

Three outputs will lead to achievement of outcome 2. Pilot projects will be designed and implemented in two value chains in a number of countries under Output 2. Capacities of supported MSMEs to adopt circular economy practices and to access finance will be improved under Output 3. Output 5 on financial products aimed at investments in circularity to be developed by financial institutions in countries in target countries will also contribute to this outcome.

Note: the outputs of the project will contribute both outcomes in differing degrees. The allocation of specific outputs to specific outcomes is essentially to facilitate UNIDO internal project management.

### C.2. Results Based Management (RBM) code and thematic area code

The RBM code is IC3 Safeguarding the environment. Thematic code is IC31 Resource efficient and low-carbon industrial production. Assignment of these codes are needed to link the project to UNIDO’s results based management framework.

### C.3. Outputs and activities

#### Outputs leading to Outcome 1

Two outputs will lead to the achievement of Outcome 1:

**Output 1: Knowledge on circular opportunities in selected value chains<sup>26</sup> developed and disseminated**

No	Activity
1.1	Analysis and mapping of existing economic, business and environment policy and regulatory frameworks related to the chosen value chains, and identification of policy and regulatory recommendations, including on repair, reuse and remanufacture.
1.2	Mapping of circular opportunities in the specific value chains to support production of

<sup>26</sup> Two sectors involving value chains of several EU MNCs will be identified during the inception phase.

	policy recommendations and capacity building.
<b>1.3</b>	Development of the capacity of a selected institution <sup>27</sup> in each target country <sup>28</sup> to undertake the mapping and analysis of circular economy opportunities to ensure sustainability. This will involve continuous regular engagement (initial training and ongoing action learning) from the consortium with the selected institution.
<b>1.4</b>	Encouragement, through a mix of events, and publications of the take up of successful practices in other value chains within the target countries and of the overall CE approach by neighbouring and other countries.
<b>1.5</b>	Transfer (during the exit phase of the project) to partners identified and trained (Activity 1.3) the responsibility for ongoing mapping of circular opportunities.

**Output 4: Dialogue and networking in selected value chains facilitated**

No	Activity
<b>4.1</b>	Establishment and support to an information exchange and policy consultation network of selected MNCs, the governments of the target countries and other key stakeholders to support adoption of circular economy policies and practices.
<b>4.2</b>	Encouragement of establishment of effective collaboration platforms between the selected EU MNCs and their Tier 1, 2, and, if feasible, the tier 3 suppliers.
<b>4.3</b>	Design and implementation of two large-scale surveys, at the inception and exit phases, to identify trends in stakeholder awareness, understanding and uptake of circular economy practices in the target countries and consumer attitudes <sup>29</sup> in key EU countries and linkage of these to a communications campaign.
<b>4.4</b>	Launch and continued operation, in target countries, of an information and awareness campaign based on the results of inception stage survey in activity 4.3, and assessment of changes based on the exit stage, stakeholder survey.
<b>4.5</b>	Transfer of responsibility for the continued operation of the information exchange and consultation network to a local partner in each target country

**Outputs leading to Outcome 2**

Three outputs will lead to the achievement of Outcome 2:

**Output 2: Pilot projects designed and implemented**

No	Activity <sup>30</sup> .
<b>2.1</b>	Selection of two value chains based on a carefully designed basket of criteria.
<b>2.2</b>	Selection through an open and transparent process of the pilot circular economy projects to be supported.
<b>2.3</b>	Detailed design and agreements on the supported pilot projects in collaboration with stakeholders in each target country

<sup>27</sup> Selected following consultation with the Government and other key stakeholders in the target country.

<sup>28</sup> A target country will have been identified as the result of the selection of a joint project proposal from an EU MNC and its supplier[s] in a value chain during the inception phase. It will be possible to have more than one target country in a project proposal.

<sup>29</sup> Consumer trends related to circular economy policies and practices in the selected value chains.

<sup>30</sup> See the details of these activities in section C5 on implementation strategy.

2.4	Implementation, monitoring and detailed quarterly reporting on supported pilot projects in target countries, including contracting an independent monitoring service provider to create and operate a full-scale monitoring system.
2.5	Close each pilot project and transfer all remaining responsibilities, if any, on a shared basis to the the EU MNC and its key suppliers.

**Output 3: Capacities of supported MSMEs to adopt circular economy practices and to access finance improved**

No	Activity
3.1	Assessment of the capacity (technical and financial) of the EU MNC’s suppliers (goods and services) in target countries to implement circular economy practices.
3.2	Capacity building of the EU MNC’s suppliers and MSMEs in other value chains to implement circular economy practices.
3.3	Support to the EU MNC’s suppliers (goods and services) to prepare bankable proposals for commercial funding to implement circular economy practices in target countries.
3.4	Development of the capacity of BDS providers in each target country to enable them to provide ongoing support on the implementation of circular economy practices, including but not limited to practices relevant to pilot projects.
3.5	Transfer responsibility for the provision of ongoing support to MSMEs to BDS providers trained.

**Output 5: Financial products aimed at investments in circularity developed by financial institutions**

No	Activity
5.1	Assessment of the capacity (technical and financial) of commercial banks to design and deliver financial products aimed at supporting investment in the circular economy in each target country.
5.2	Development of the technical capacity of commercial banks to apply financial products aimed at supporting investment in the circular economy in each target country.
5.3	Development of the capacity of local consultancy companies in target countries so that they can provide ongoing support to banks with the application of circular economy financial products.
5.4	Advocacy with and support to the Ministries of Finance/Central Banks in the target countries to build government support for the introduction of circular economy financial products and to build the capacity of the Ministries/Central Banks to regulate such products effectively.
5.5	Transfer responsibility to the specialist consultants trained provision of ongoing support to banks to apply circular economy financial products.

**Communication and visibility plan implemented.**

**Efficient and effective project management and coordination achieved.**

**Independent monitoring and reporting, midterm and terminal evaluations implemented.**



## C.4. Institutional responsibilities

The planned split of responsibilities between the Partnership members is shown in Table 1.

Table 1: Planned split of responsibilities in the Partnership

Output area	Partnership lead partner
Output 1: Knowledge on circular opportunities in selected value chains developed and disseminated	The Royal Institute of International Affairs (Chatham House)
Output 2: Pilot projects designed and implemented	UNIDO
Output 3: Capacities of supported MSMEs to adopt circular economy practices and to access finance improved	Circle Economy
Output 4: Private sector dialogue and networking in selected value chains facilitated	UNIDO
Output 5: Financial products aimed at investments in circularity developed by financial institutions	European Investment Bank
Project Management, coordination and monitoring	UNIDO

## C.5. Implementation strategy

The project will be implemented in three distinct phases: inception, implementation, and exit.

### ***In the inception period (first 6 months)***

The pilot circular economy projects, which will then determine where they take place, i.e. the target countries, will be selected during the 6-month inception phase. In addition, mobilization activities will be conducted:

1. Selection by the Steering Committee, of two target value chains based on a carefully designed basket of criteria, with advisory input from a technical advisory group as shown below (Activity 2.1).
2. Selection by the Steering Committee (through an open and transparent process) circular economy project proposals submitted jointly by EU multinational companies (MNCs) and their developing country based supplier[s], which are likely to have significant impact and lead to replication across value chains and national borders, with advisory input from a technical advisory group as shown below (Activity 2.2).
3. Engagement with the public and private sectors in the target countries to obtain their “buy-in” to the project and the circular economy approaches, policies and practices (Activity 4.1).
4. Detailed design of pilot projects in collaboration with the EU MNCs, their suppliers, the governments, the EU Delegations, and the UNIDO Field Office, where they exist, in target countries. The detailed design will ensure that capacity development focuses on business intermediaries and MSMEs in the target countries (Activity 2.3).
5. Start analysis and mapping of existing development and environment policy frameworks and regulations in the target countries to identify policy recommendations (Activity 1.1).
6. Start assessment of the capacity (technical and financial) of the EU MNC’s suppliers in target countries (see Activity 3.1).
7. Design of two large-scale surveys (one in inception, one in exit) to identify trends in stakeholder attitudes towards awareness, understanding and uptake of circular economy practices in the target countries and consumer attitudes in key EU countries and linkage of these to a communications campaign (Activity 4.3).

8. Start assessment of the capacity (technical and financial) of commercial banks to design and deliver financial products aimed at supporting investment in the circular economy (see Activity 5.1).
9. Selection and recruitment of the Chief Technical Advisor and establishment of the Steering Committee (Activity 6.1).
10. Engage an independent monitoring service provider and create a full-scale monitoring system for the project, identifying baselines, indicators, sources of verification, etc. UNIDO’s integrated results and performance framework (IRPF) indicators will be incorporated into the monitoring framework at this stage (Activity 6.1).
11. Review and revise the sustainability and exit strategy and communications and visibility plan.
12. Revise the project document and budget with the approval of the Project Steering Committee and undertake necessary action for approval by the European Commission.

### Technical Advisory Group

Value chain selection will be supported by a technical advisory group by utilising independent technical expertise. Group members will be drawn from among experts with demonstrated understanding of both circular economy approaches and expertise on industrial sectors, industrial design, and finance. They will review the shortlisted value chains using weighted selection criteria to consider the economic, environmental and social dimensions of each value chain.

The technical advisory group will then provide a prioritised recommendation to the Project Steering Committee, which will select the value chains[s] to be the focus of pilot project activities.

### Selecting the Value Chains

The short list of possible value chains has been agreed to be those named as “Key Product Value Chains” in the EC’s “Circular Economy Action Plan” – namely:

- Electronics and ICT
- Batteries and vehicles
- Packaging
- Plastics
- Textiles
- Construction and buildings
- Food, water and nutrients

The EU Task Manager, in consultation with the UNIDO Project Manager, may add value chains to this shortlist for assessment. The shortlisted value chains will be narrowed down to two (2) value chains using criteria proposed in Table 2.

Table 2: Proposed value chain criteria

Criterion	Sub-criterion
Economic dimension	The value chain will need to offer good prospects for success (low hanging fruits) in relation to circular economy practices and replication to other actors within the value chain
	The value chain must include EU MNCs with an intrinsic drive to increase circularity in the value chain and reduce environmental footprint (“go the last mile”)
	Innovation and value addition potential of the value chains at the level of developing countries should be significant

	The value chain has potential to support developing countries in their economic recovery and resilience.
Environmental dimension <sup>31</sup>	Environmental impact of production and end-of-life (CO <sup>2</sup> , water, solid waste, chemicals, etc.)
	The level of resource use by the value chain and potentials to reduce resource use in the value chain through use of circular economy practices.
Social dimension <sup>32</sup>	Employment generation potential of circular economy practices in the value chain should be significant so as to allow for sufficient social impact, including on poverty reduction
	The value chain should offer potentials to improve social and working conditions (e.g. gender empowerment, OHS, etc.), and potentials to align green jobs agenda with CE
	The extent to which the EU MNCs in the value chain demonstrated a fair, transparent and responsible behaviour towards their suppliers and their suppliers' workforces during the COVID-19 lockdown phase and the extent to which it could contribute towards crisis preparedness and resilience within the developing country

### Selecting the Pilot Projects

An open call for Expressions of Interest will be launched by UNIDO. The objective of this Open Call is to identify pilot project proposals, which could assist the developing country suppliers of EU MNCs in the selected value chains to switch to more circular economy practices with appropriate support from the Partnership. Policy dialogue with Governments, in collaboration with stakeholders, to identify and take circular economy action in target countries will benefit from these pilots as their point of departure.

The lead applicants must be EU MNCs, which are active in a selected value chain and which source products for that value chain from a developing country. Direct support may only be provided to the suppliers (of both goods and services) of the EU multinational company and only those whose primary place of business is in a low- or middle-income country. The supplier[s]<sup>33</sup> identified by the multinational company to be the beneficiary of support are therefore an integral part of the project and must be included as co-applicant[s].

Direct support may only be provided in a selected value chain and must take place in one or more developing countries and territories, (included in the OECD-DAC list of ODA recipients<sup>34</sup>).

Support may comprise

- Technical support (research/analysis, technical assistance, i.e. advice and capacity building) and training relating to the implementation of the approved circular economy project, that will pay attention to environmental sustainability, social responsibility and economic viability all at the same time. This support may include feasibility studies, diagnostic studies, factory audits, resource efficient and cleaner production (RECP) assessments, technology needs assessments, support to networking between the applicant and its associated parties, promotion of public-private dialogue, study visits and staff exchanges, technical training on circular management practices, etc.
- Advice on access to finance and on the loan application process for investment required to implement the approved circular economy project.

<sup>31</sup> This will include consideration of operational safeguards identified in the UNIDO Environmental Safeguards Policies and Procedures (ESSPP).

<sup>32</sup> See above.

<sup>33</sup> In some cases, this may include a large number of SMEs, and so may also be representative bodies such as industry associations.

<sup>34</sup> [http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC\\_List\\_ODA\\_Recipients2018to2020\\_flows\\_En.pdf](http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC_List_ODA_Recipients2018to2020_flows_En.pdf)

- Limited direct financial support: not including investment support.

It is expected that support provided under the pilot projects will lead to investments by the lead applicant and/or its co-applicant[s] utilising commercial funding or funding from a development finance institution. Applications that clearly demonstrate that intention will be favoured.

Compliance with environmental and social safeguards (ESS) of pilot projects that go on to invest will follow established rules and regulations of the target country and of the financial entity (e.g. a local commercial bank, a local/international policy bank) that invests in upgrading of technologies and of the enterprises involved.

The applicants will be expected to provide approximately 25% of the cost of the pilot project activities as co-financing to ensure commitment. “In kind” contribution of co-financing is allowed, including the cost of staff of the lead and co-applicants assigned to the project, reasonable overheads<sup>35</sup> and associated costs.

Expressions of interest will be assessed against pre-defined, clear and transparent selection criteria, as shown in Table 3. A technical advisory group will undertake the assessment and make recommendations to the Project Steering Committee accordingly.

Table 3: Proposed pilot project assessment criteria

Sub-criterion	Score
<b>1. Lead Applicant’s commitment to circular economy (CE) practices</b>	<b>15</b>
1.1 Does the applicant have a published CE/sustainability strategy and has it demonstrated that it is serious about implementing it?	5
1.2 Has the applicant successfully implemented CE projects with a demonstrable environmental impact?	5
1.3 Has the applicant demonstrated a commitment to improve social/employment conditions and reduce poverty in the developing countries from which it sources products?	5
<b>2. Lead Applicant’s capability with respect to circular economy practices</b>	<b>10</b>
2.1 Does the applicant have proven circular economy practices/ technologies/ systems, which can be transferred to their suppliers in a developing country?	5
2.2 Does the applicant employ specialist staff involved in improving their circular performance?	5
<b>3. Applicant’s ability to ensure impact in the value chain</b>	<b>20</b>
3.1 Is the applicant’s role in the value chain sufficiently significant that suppliers will implement their CE recommendations <sup>36</sup> ?	20
<b>4. Relevance of the applicant’s project</b>	<b>20</b>
4.1 How relevant is the proposal to the objectives of the call?	5
4.2 How relevant is the proposal to the particular needs and constraints of the target country/countries?	10
4.3 Is the project likely to lead to a significant commercial investment in the developing country[ies] involved?	5
<b>5. Planned methodology</b>	<b>20</b>
5.1 How coherent is the overall design of the project and are high-level plans in place to sufficiently mitigate the project risks (e.g. supply chain)?	5
5.2 Are the activities proposed appropriate, practical, and consistent with the objectives and expected results of the project?	5
5.3 Is the role of the co-applicant[s] clearly defined and is it realistic?	5

<sup>35</sup> Overheads (indirect costs incurred in carrying out the project) are eligible for inclusion as co-financing at a flat-rate funding fixed at 5% of the value of the applicants eligible direct in-kind costs.

<sup>36</sup> The relationship between the MNC and their suppliers during the COVID-19 lockdown period will be a critical factor to be considered.

5.3 Is the support requested reasonable and realistic?	5
<b>6. Potential for replication/sustainability</b>	<b>15</b>
6.1 To what extent is the project capable of wider replication to achieve real impact at scale?	10
6.2 Are the expected results of the project sustainable beyond the project implementation period?	5
<b>Maximum Total Score</b>	<b>100</b>

The promoters of those pilot projects selected for support will then enter into discussions with the Partnership to agree the detailed design of the project. This may involve amendments (additions and/or deletions) to the pilot project to ensure that it meets the development objectives of the European Commission and of the Government[s] of the country[ies] in which the project is located. Should the applicants not agree to proposed revisions then their project or have not passed the due diligence screening by UNIDO will not be deemed accepted and will be replaced by the next best-placed proposal.

The lead applicant and co-applicant[s] will enter into a Memorandum of Understanding with UNIDO (as lead partner of the Partnership) setting out their mutual rights and obligations. Only when this agreement is signed can support be provided by the Partnership.

#### ***In the implementation period (next 48 months)***

13. Implementation of all activities under Outputs 1, 2, 3, 4 and 5 in selected pilot projects along the two sectors involving EU MNC value chains in target countries. Integration and coordination of activities under each output and between outputs will be ensured through integrated and consolidated annual work plans of the consortium members led and continuously monitored by the Chief Technical Advisor. Furthermore, in the way of an example, EIB, the lead consortium member for Output 5 will provide the input on the specific requirements regarding bankability of CE investment proposals in target countries for Output 3, led by Circle Economy during the preparation and implementation of train the trainer programs for BDS providers that will also address wider audiences beyond the pilot projects.
14. Continuous monitoring of results achieved, challenges faced, and remedial action taken and documentation of these.
15. Encouragement of the take up of successful practices in other value chains within the target countries and of the overall circular economy approach by neighbouring and other countries, focusing on both scaling up and replication.
16. Independent mid-term review around the 24<sup>th</sup> month of implementation, with recommendations focusing on improvements in the rest of project duration.
17. On-going communication and visibility activities to promote circular economy practices and results achieved vis-à-vis target groups.

#### ***In the exit period (last 6 months)***

18. Implementation of exit activities (Activities 1.5, 2.5, 3.5, 4.5 and 5.5) as per the sustainability and exit strategy
19. Independent terminal evaluation of the project, including recommendations on potential follow-up actions.

## **C6. Gender mainstreaming strategy**

Despite progress in various fields, women's participation rates in economic life including employment and business opportunities vary from country to country and is typically well below parity. This is mainly due to socio-cultural, institutional and legal barriers that hinder the economic integration of women. Even with economic incentives, women may remain unable to benefit from

opportunities due to high demand on their time, as well as differential access to productive assets such as land, credit, networks, education and skills, and infrastructure, utilities and services (for example, health, transport, water, and electricity).

The project’s overarching principle is to support the equal participation of both women and men in the implementation of project activities. Depending on the value chains selected (e.g. garment and textiles is usually dominated by female workers and male supervisors), and the target countries where the value chain projects and most project activities are to take place, measures to support the equal participation of both women and men will be ensured, e.g. through gender analysis and documented as part of the monitoring effort.

It is expected that application of circular economy practices will create new business opportunities and jobs. In such cases, women’s participation will enjoy preferential treatment in trainings and capacity building activities and benefit from other supporting measures so as to enable women to take advantage of these new opportunities and jobs.

Throughout the project implementation, sex disaggregated data collection and analyses will be carried out in line with UNIDO’s 2019 Gender Policy and 2020-2023 Gender Strategy for specific project components, to the highest extent possible. Sex disaggregated data will also be used for monitoring the project’s performance. Wherever possible, links with government agencies, NGOs, community-based organizations, and women’s associations or groups whose work focuses on gender and the specific area of the project’s interventions will be strengthened with specific capacity building activities adjusted to women’s needs. National trainers will deliver such activities to ensure enhanced comprehension. Initially unanticipated risks and/or negative gender impacts of the project will be discussed with relevant groups and mitigating strategies developed, if necessary.

All project staff will complete the mandatory, on-line “I know gender” course and project’s recruitment of international and national experts will be undertaken to ensure women and men are given equal opportunity.

The progress and performance indicators of the project, which will be refined during the inception phase when the monitoring system is to be set up, will be sex disaggregated, as relevant.

## C7. Environmental and social assessment

As per UNIDO Environmental and Social Safeguards Policies and Procedures (ESSPP), the Environmental and Social Screening template has been completed and this project has been categorized as a *Category C project* as the focus is on capacity building. Accordingly, the proposed project is likely to have minimal or no adverse social and/or environmental impacts. No further specific environmental and/or social assessment is required during Project Formulation. However, environmental and social risks will be a key consideration in the selection of pilot projects. Moreover, pilot projects that go on to invest will follow established rules and regulations of the target country and of the financial entity (e.g. a local commercial bank, a local/international policy bank) with regards to environmental and social safeguards.

Should unforeseen risks be identified during project implementation, they will be appropriately mitigated.

## C.8. Risks

Risks	Probability of Risk (H/M/L)	Severity of Risk (H/M/L)	Mitigating measures
<b>Insufficient high-quality applications for support</b>	L	H	Undertake rigorous research and analysis linked to in-depth consultation with EU MNCs

Risks	Probability of Risk (H/M/L)	Severity of Risk (H/M/L)	Mitigating measures
<b>from EU MNCs</b>			in selected value chains to ensure the business case for greener practices in the selected value chains is made strongly and that private operators are therefore willing to apply circular economy practices.
<b>Insufficient private and public financing available for the adoption of green business practices</b>	L	H	EIB technical support to the commercial banks linked to careful explanation of the business case for circular economy practices and support to commercial banks to apply for Development Finance Institution funding support.
<b>Vested interests and an inappropriate enabling regulatory environment may slow down the adoption of green/circular economy practices</b>	L	M	The involvement of the EU MNCs should introduce positive pressure to adopt circular economy practices by their suppliers. Careful involvement of the Government and other key stakeholders in target countries should increase buy in and understanding of the need to create a favourable environment for CE practices.
<b>Possible overlap/competition with other key players, including donors.</b>	L	M	The planned Project Steering Committee and Project Consultative Forum should reduce the risks involved with overlapping or competing initiatives.

Risk assessment will be updated in the inception phase and on a regular basis during implementation.

### C9. Sustainability and exit strategy

The project's sustainability and exit strategy is based firstly on building capacity of domestic institutions, including relevant Ministries and Agencies, BDS providers and financial institutions and the local private sector, particularly MSMEs for understanding and adoption of circular economy policies and practices in the target countries. Tools and actions developed at target countries will be used for wider uptake and replication in neighboring countries.

Secondly, the project does not aim to create new structures financed by the project during its implementation period which will have little or no chances for survival upon the closure of the project and the ending of project funding. Instead the project will work with existing government entities, commercial banks, private sector consultancies and possibly some institutes and/or think tanks that are already institutionally and financially viable.

Technical assistance and/or limited direct support will be provided to MSME suppliers of the EU MNCs in target countries. UNIDO's long-term experience provides sufficient proof that environmental sustainability measures, such those that improve resource efficiency result in on-going cost savings over the lifetime of technologies and management practices adopted and invested in, and in cases where green finance is available and accessible, encourage additional investments with good returns. As such, effort (and funds) allocated to encourage MSME suppliers

of EU MNCs to adopt circular economy practices will have lasting institutional and financial sustainability. Replication of successful pilots will increase the sustainability of actions.

On the policy front, identification and formulation of policy recommendations supported by the project will be a participatory and consultative effort based on public-private dialogue, networking among EU MNCs, their suppliers and other relevant stakeholders, such as the BDS providers trained by the project, institutions that have gained capacity in identifying circular economy opportunities as well those that have gained capacity to analyse regulatory barriers and mitigating measures in each target country. Capacity building efforts that will empower actors to take action will be complemented by an advocacy and communications campaign to gather additional support from relevant stakeholders and strengthen willingness to take action.

Each activity cluster will be launched with an advance targeting of actors/groups/institutions that could continue to carry out circular economy activities on an ongoing basis along the project's broad exit strategy of transferring responsibilities to suitable parties at the end of the project.

The sustainability and exit strategy will be reviewed and revised, as needed, during the inception phase upon the completion of the selection of pilot projects and the target countries at which they will take place.

## C10. Project management and governance

### **Project Management**

UNIDO will appoint a Project Manager who will have overall responsibility for the implementation of the project, the achievement of its targets in a timely manner and the coordination and quality control of the inputs of all members of the Partnership. The Project Manager will be supported by a Chief Technical Adviser and other project staff, some of which located in target countries.

The EIB, Circle Economy and the Royal Institute of International Affairs (Chatham House) will be responsible to the Project Manager for all aspects of the design and delivery of their inputs towards the production of outputs and outcomes of the project. Each Partnership member will appoint a Senior Adviser who will coordinate such activities with the UNIDO Project Manager. Detailed terms of reference will identify tasks, responsibilities and resources allocated to each Partnership member upon the identification and design of pilot projects in target countries and be the basis of contractual relationships between UNIDO and the other Partnership members.

The UNIDO Project Manager will be supported by the UNIDO Country Office network to maintain regular liaison with the Governments of target countries.

### **Project Governance**

#### *Project Steering Committee (PSC)*

The Project will receive oversight and policy direction from a PSC. The PSC shall meet at least once annually and may be convened as necessary at the call of the UNIDO and EU Project / Task Managers.

The PSC shall be co-chaired by the European Commission and UNIDO. UNIDO will also act as Secretariat of the PSC and will support EC in the organization and logistics of the meeting. Initially it will be comprised of the following members:

- UNIDO and European Commission, as co-chairs;
- European Investment Bank, Circle Economy and the Royal Institute of International Affairs (Chatham House);
- Representatives of Governments of target countries: the representatives should be high level and ideally be from a cross-sectoral coordinating ministry;



- Representatives at senior level of the EU MNCs, which have responsibility for the selected projects.

The membership of the PSC will be finalised following the selection of the projects submitted by EU MNCs and their target country supplier[s].

The PSC may also at any time act to amend its membership, as it deems necessary.

The general function of the PSC will be to monitor the overall progress during project implementation, make recommendations regarding ways in which the Project could be more effectively implemented, identify lessons learned, and problems encountered and remedial action.

PSC will convene each time in two sessions: a session where management and administrative issues would be discussed between the European Commission and the Partnership led by UNIDO, and a session with the full PSC membership, including representatives of the Governments of the target countries and EU MNCs to discuss substantive issues.

The PSC meetings will be held in parallel with the Project Consultative Forums at the same location.

#### *Project Consultative Forum (PCF)*

The Project will organise a broad consultative forum with a wide range of stakeholders (Governments (both politicians and officials, both national and local), NGOs, and the private sector) to present circular economy practices and the specific findings, results and ongoing activities of the project. As such, PCF will also act as a tool for communications and visibility vehicle for circular economy practices both in target countries as well as in neighboring countries and support replication efforts.

The PCF will be held annually with its location varying to encompass the different regions in which the project is operational.

C.11. Timeline of the activities

Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Inception Phase	1.1: Launch analysis and mapping of existing development and environment policy frameworks and regulations in target countries (upon agreements on pilot projects as per 2.3)																						
	2.1: Selection of two value chains																						
	2.2: Selection of the pilot circular economy projects to be supported																						
	2.3: Detailed design and agreements on the supported pilot projects in collaboration with stakeholders in each target country																						
	3.1: Assessment of the capacity (technical and financial) of the EU MNC’s suppliers in target countries																						
	4.1: Establishment and support to an information exchange and policy consultation network in target countries																						
	4.2: Encourage the establishment of effective collaboration platforms between the selected EU MNCs and their Tiers 1, 2, and, if feasible, the tier 3 suppliers																						
	4.3: Design of two large-scale surveys (one in inception, one in exit) to																						

Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Inception phase	identify trends in stakeholder attitudes towards awareness, understanding and uptake of circular economy practices in the target countries and consumer attitudes in key EU countries and linkage of these to a communications campaign																						
	5.1: Assessment of the capacity (technical and financial) of commercial banks to design and deliver financial products aimed at supporting investment in the circular economy																						
	Project management, coordination, monitoring: <ul style="list-style-type: none"> <li>• Recruitment of CTA</li> <li>• Organize and conclude selection of value chains and pilot projects</li> <li>• Lead pilot project design and finalization of agreements in target countries</li> <li>• Contract the monitoring company and coordinate design of the monitoring system</li> <li>• Arrange Steering Committee meetings (may be virtual)</li> <li>• Lead review and design of exit strategy</li> <li>• Lead review and design of</li> </ul>																						

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Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	communications and visibility plan <ul style="list-style-type: none"> <li>Revise the project document and budget to specify activities, targets, indicators for selected pilot projects</li> </ul>																						
Implementation Phase	1.1: Analysis and mapping of existing development and environment policy frameworks and regulations in target countries to identify policy recommendations																						
	1.2: Mapping of circular opportunities in the value chains in target countries to support production of policy recommendations and capacity building																						
	1.3: Development of the capacity of a selected institution in each target country to undertake the mapping and analysis of circular economy opportunities to ensure sustainability.																						
	1.4: Encouragement of the take up of successful practices, including policies in other value chains within the target countries and of the overall CE approach by neighbouring and other countries.																						
	2.4: Implementation and detailed reporting on each pilot project in																						

Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	target countries																						
	3.1: Assessment of the capacity (technical and financial) of the EU MNC’s tier 1, 2, and 3 suppliers in target countries																						
Implementation phase	3.2: Capacity building of the EU MNC’s suppliers and MSMEs in other value chains to implement circular economy practices																						
	3.3: Support to the EU MNC’s suppliers (goods and services) to prepare bankable proposals for commercial funding to implement circular economy practices in target countries																						
	3.4: Develop the capacity of BDS providers in each target to enable them to provide ongoing support on the implementation of circular economy practices, including but not limited to practices relevant to pilot projects.																						
	4.1: On-going support to the information exchange and policy consultation network in target countries																						
	4.2: Support to collaboration platforms between EU MNCs and their Tier 1,2, and, if feasible, the tier 3 suppliers																						

Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Implementation phase	4.3: Results of survey at inception disseminated																						
	4.4: Launch and continued operation of an information and awareness raising campaign based on the results of the survey undertaken during the inception phase in the target countries (stakeholders) and EU Member States (consumers).																						
	5.2: Development of the technical capacity of commercial banks to apply financial products aimed at supporting investment in the circular economy in each target country																						
	5.3: Development of the capacity of local consultancy companies in each target country so that they can provide ongoing support to banks with the application of circular economy financial products.																						
	5.4: Advocacy with and support to the Ministries of Finance/Central Banks in the target countries to build government support for the introduction of circular economy financial products and to build the capacity of the Ministries/Central Banks to regulate such products effectively.																						

Phase	Activity	Inception Phase		Implementation Phase																Exit Phase			
		Year 1				Year 2				Year 3				Year 4				Year 5					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Implementation phase	Project management, coordination, monitoring and reporting throughout the implementation phase, covering																						
	<ul style="list-style-type: none"> <li>Quarterly monitoring</li> <li>An annual “portfolio review” on the performance of all selected projects and the project (undertaken by independent monitor) and the Annual Report of the project</li> </ul>																						
	<ul style="list-style-type: none"> <li>Annual meetings of the Project Steering Committee.</li> <li>Annual Project Consultative Forum.</li> </ul>																						
	Independent mid-term review																						
	Communications and visibility in implementation and exit phases																						
Exit Phase	1.5: Transfer to partners identified and trained (during the implementation phase) responsibility for ongoing mapping of circular opportunities																						
	2.5: Close each pilot project and transfer all remaining responsibilities, if any, to the EU MNC.																						
	3.5: Transfer responsibility for the provision of ongoing support on the implementation of circular economy practices to the BDS																						





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Phase	Activity	Inception Phase		Implementation Phase																Exit Phase							
		Year 1				Year 2				Year 3				Year 4				Year 5									
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
	<ul style="list-style-type: none"> <li>Final “portfolio review” on the performance of all selected projects (undertaken by independent monitor)</li> <li>Consolidated monitoring report</li> <li>Closing meeting of the Project Steering Committee.</li> <li>Annual Project Consultative Forum.</li> </ul>																										
	Independent terminal evaluation																										

## D. INPUTS

### D.1. Counterpart inputs

Counterpart inputs cannot be identified at this stage, but each pilot project will be expected to be co-financed, in-kind, by an EU Multi National Company (MNC).

### D.2. UNIDO inputs

Project implementation team at UNIDO HQ

- International staff
  - A UNIDO staff member at P4 level responsible for the overall strategic steering and managerial supervision of the project, including contract management with the European Commission and the partners. The Project Manager will also undertake alignment of technical inputs with international best practices and UNIDO quality standards. The time input of the Project manager will be charged as direct cost to the project at 25% of his/her working time.
  - Chief Technical Adviser-CTA is a full time, UN staff at L5 level, contracted for the duration of the project and located at the UNIDO HQ. The CTA will be responsible, under the overall guidance and direct supervision of the UNIDO Project Manager, for consolidated operational planning and reporting, and backstopping of the independent monitoring, will provide substantive, technical inputs towards the design of pilot projects and their implementation; establishment of effective collaboration platforms between EU MNCs and their suppliers and information exchange and policy consultation networks at country levels; policy recommendations, and ensure coordination, and provide substantive inputs and quality assurance for knowledge management, and communications and visibility activities.
  - TA experts: covering all the required expertise areas necessary for the implementation of the project's UNIDO components (Members of the Partnership to deploy expertise under their contracts with UNIDO). A part-time (50%) Communications and visibility expert will establish and manage operations of the communications and visibility infrastructure, including coordination of Partnership's contributions with respect to content.
  - Senior Project Assistant: A UNIDO staff member at G6 level will assist in financial management of the project by booking of expenditures in line with UNIDO financial rules and procedures, preparing financial reporting, including consolidating financial data from partners, and in organization of events, procurement of goods and services, and maintaining filing system and project database. The time input of the Senior Project Assistant will be charged as direct cost to the project at 35% of his/her working time.
- National staff
  - National consultants: contracted by the project to coordinate and support project implementation, including contributing to communications and visibility activities at a national level and act as the main interface with national stakeholders; support the work of the internal and external expert teams at country levels. Where available, the national consultants will be accommodated within UNIDO Offices or in suitable shared office spaces. UNIDO offices are usually co-located with other UN offices in One UN Houses or in some cases, in offices provided to UNIDO by counterparts or in rented space. In all cases, depending on the country, costs of accommodating the project's national staff will be covered by the project and substantiated appropriately.
- Sub-contracts

- To EIB, Circle Economy and Chatham House
- For independent monitoring, mid-term review, and terminal evaluation
- For inception and exit surveys
- For awareness raising and communications
- Training
  - Training for beneficiaries;
  - Training for national and local government officials and other key stakeholders in the beneficiary countries;
  - Workshops: national, regional and global.
- Small grants
  - To support pilot project implementation.

## E. BUDGET

The budget is presented in a separate document, which is also appended to the European Union Contribution Agreement, as Annex III. Budget of the Action. Subject to the provision of Annex II – General Conditions for Contribution Agreements, it is likely to require update and revision following:

1. The selection of the pilot projects – which will allow a more detailed allocation of costs.
2. The entry into the COVID-19 recovery phase when it will be clearer as to the practicalities of international travel. Limited knowledge of CE practices in developing countries places a large burden on international expertise (at least initially) and this is reflected in the budget.
3. A clear delineation of the tasks allocated to the consortium partners: this will become clear following the selection of value chains, pilot projects and the countries of implementation as each consortium partner has a different balance of expertise. Funds currently allocated under budget lines 1100, 1500 and 1700 may then be largely redeployed into budget line 2100 contracts with the exception of the expertise provided by UNIDO international and national experts.

## F. MONITORING, REPORTING AND EVALUATION

### F.1. Reporting

The following reporting will be undertaken during the implementation of the project:

Annual Progress Report (APR): The APRs are composite reports combining information on the status of implementation with an assessment of the current situation, identifying such factors as additional measures required and synergies achieved. They should meet EU requirements, as per annex II of the EU Contribution Agreement. The project results are assessed against project outcomes (immediate objectives) and outputs as a means of continually improving project performance and productivity (results-based management). The APRs will be:

- Prepared every twelve months, i.e. at the end of December of each year,
- Accompanied by an annual report prepared by the independent monitor—see section F2.

### F.2 Monitoring

The monitoring of the project will be sub-contracted to an independent, specialist project monitoring company. The monitoring company will:

- Establish, in discussion with the project team and the PSC, the indicators of success for the whole project, including relevant indicators from UNIDO's Integrated Results and Performance Framework (IRPF);
- Determine the baselines for each defined indicator;
- Determine, in consultation with the PSC, the targets for each indicator;
- Design, establish and operate an online computerised Project Monitoring System once approved by the PSC;
- Prepare inputs on progress for the annual progress reports and *ad hoc* monitoring reports as requested by the UNIDO Project Manager and/or the PSC;
- Undertake quarterly site visits to the projects selected for support to confirm the validity of reporting.

The Team Leader of the independent monitoring team will be an ex officio, non-voting observer at the PSC and is expected to attend all PSC meetings.

### F.3. Evaluation

#### **Mid-term evaluation**

The project will undergo an independent Mid-Term Evaluation. The Mid-Term Evaluation will determine progress being made toward the achievement of outcomes and will identify course correction, if needed. It will focus on the relevance, effectiveness, efficiency and prospects for impact and sustainability of project implementation; will highlight issues requiring decisions; and will present initial lessons learned about project design, implementation and management. Findings of this review will be incorporated as recommendations for enhanced implementation during the final half of the project's term. The organization, terms of reference and timing of the mid-term evaluation will be decided after consultation between the parties to the project document.

#### **Independent terminal evaluation**

An independent terminal evaluation will take place three months prior to the final PSC meeting and will be undertaken in accordance with UNIDO's Evaluation Policy and Regulations. The terminal evaluation will focus on the delivery of the project's results as initially planned (and as corrected after the mid-term evaluation, if any such correction took place).

The terminal evaluation will look at impact and sustainability of results, including the contribution to capacity development, the achievement of environmental benefits/goals and contain recommendations for future work.

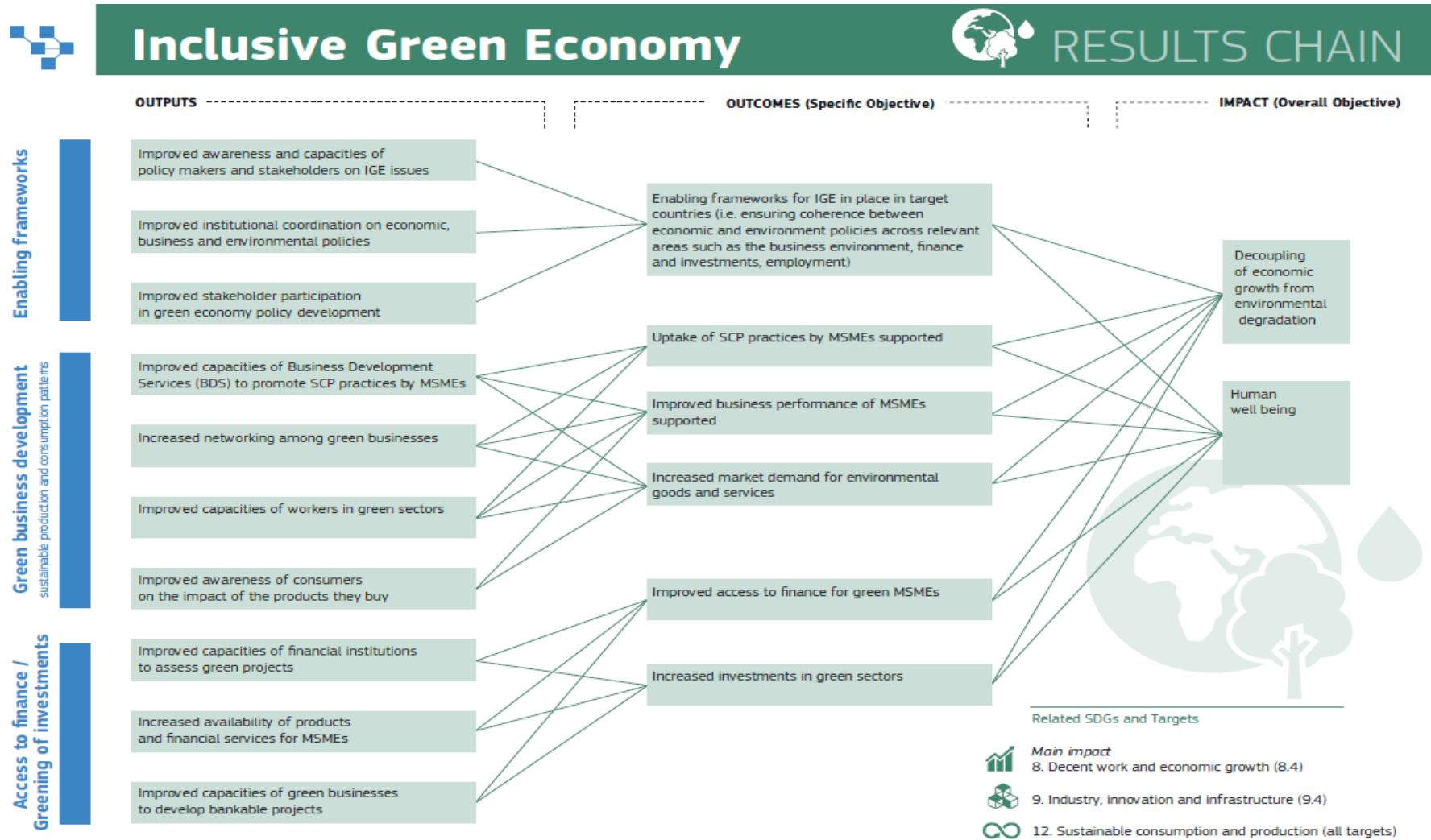
## G. PRIOR OBLIGATIONS AND PREREQUISITES

None.

## H. LEGAL CONTEXT

It is expected that each set of activities to be implemented in the target countries will be governed by the provisions of the Standard Basic Cooperation Agreement concluded between the Government of the recipient country concerned and UNIDO or – in the absence of such an agreement – by one of the following: (i) the Standard Basic Assistance Agreement concluded between the recipient country and UNDP, (ii) the Technical Assistance Agreements concluded between the recipient country and the United Nations and specialized agencies, or (iii) the Basic Terms and Conditions Governing UNIDO Projects.

## Annex 1: DEVCO inclusive green economy results chain



Annex 2: Indicative logical framework matrix<sup>37</sup>

Results chain: Main expected results		Indicators	Sources of data	Assumptions
<b>Impact (Overall Objective)</b>	Transformation towards an inclusive green and circular economy and mainstreaming of environmental sustainability, climate change and disaster risk reduction	OO1: Reduction in cumulative resource usage by supported MSMEs (20-25% reduction in energy, 15-20% reduction in water and 5% reduction in raw material use) over the duration of the programme. <sup>38</sup> OO2: 5% average increase in employment amongst supported MSMEs and 5% increase in the average earnings of workers, to be disaggregated by sex, in the supported MSMEs over the duration of the programme <sup>39</sup>	OO1: Programme reports/ Independent monitor reports  OO2: Programme reports/ Independent monitor reports	<b>Not applicable</b>
<b>Outcomes (Specific Objectives)</b>	SO1: Improved business environment for the uptake of circular economy approaches in targeted countries.  SO2: Improved circularity amongst private operators of selected value chains.	SO1.1: 10 countries with circular economy policy instruments adopted / implemented and barriers removed <sup>40</sup>  SO2.1: 500 supported MSMEs adopting circular economy practices with EU support (numbers will be disaggregated by countries once pilot projects are selected) <sup>41</sup>  SO2.2: €6,250,000 Investment in circularity	SO1.1: Government official publications and Programme reports  SO2.1 and 2.2: Programme reports/independent monitor reports	<ul style="list-style-type: none"> <li>- EU Multinational Companies (MNCs) engage effectively with their suppliers to adopt circular economy approaches</li> <li>- No significant downturn within selected value chains</li> <li>- Finance Institutions in target countries are responsive to the need to establish special circular economy</li> </ul>

<sup>37</sup> Indicators, baselines and targets will be revised upon identification of pilot projects in the inception phase of the project.

<sup>38</sup> Reductions are for overall average usage for all supported MSMEs from an average baseline established by assessing existing usage by each supported MSME on project commencement.

<sup>39</sup> Increases are for overall average employment and earnings from an average baseline established by assessing existing employment and earnings of each supported MSME on project commencement.

<sup>40</sup> This assumes that each project will be implemented in two countries. The target does not assume cross-border replication although this will likely be achieved.

<sup>41</sup> This assumes that 50 MSMEs in each country in which the project is active will be directly supported. Indirectly supported enterprises (through replication actions) can be expected to multiply this by a factor of 10.

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		by supported MSMEs (numbers will be disaggregated by countries once pilot projects are selected) <sup>42</sup>		financing lines
<b>Outputs</b>	<p>O1: Knowledge on circular opportunities in selected value chains developed and disseminated</p> <p>O2: Pilot projects designed and implemented</p> <p>O3: Capacities of supported MSMEs to adopt circular economy approaches and to access finance improved</p> <p>O4: Private sector dialogue and networking in selected value chains facilitated</p> <p>O5: Financial products aimed at investments in circularity developed by financial institutions</p>	<p>O1: 20 country-level reports on selected value chains with 20 communication events organised to disseminate these reports</p> <p>O2: 5 project proposals developed each with budget expenditure (cash and in-kind) of approximately €2.2 million per project</p> <p>O3: 70% of supported MSMEs state they have improved understanding of the circular economy principles and practices;</p> <p>50 bankable proposals developed for supported MSMEs<sup>43</sup></p> <p>O4: 10 national and 1 international dialogue and networking mechanisms put in place; 1,000 participants, disaggregated by sex, in physical networking events and 10,000 involved through virtual social networks</p> <p>O5: 4 relevant financial products and circular economy initiatives established by financial institutions<sup>44</sup></p>	<p>O1: Programme reports</p> <p>O2: Programme reports</p> <p>O3: Programme reports/online survey of beneficiaries</p> <p>O4: Programme reports/ minutes of physical networking events</p> <p>O5: Programme reports</p>	

<sup>42</sup> This assumes 50% of bankable proposals (25 no.) are approved for a loan or other form of finance and that the average investment is €250,000, as per advice from the European Investment Bank (EIB) partners of the Project.

<sup>43</sup> This assumes that 10% of supported MSMEs will require investment and will receive support in developing a bankable proposal.

<sup>44</sup> Such products are likely to be replicable in different value chains and countries.