



Circular Economy Regional Initiative (Near Zero Waste)

Part I: Project Information

GEF ID

10328

Project Type

FSP

Type of Trust Fund

GET

CBIT/NGI

CBIT

NGI

Project Title

Circular Economy Regional Initiative (Near Zero Waste)

Countries

Regional, Albania, Bosnia-Herzegovina, Montenegro, North Macedonia, Serbia, Turkey

Agency(ies)

EBRD

Other Executing Partner(s)

Private Sector Companies

Executing Partner Type

Private Sector

GEF Focal Area

Multi Focal Area

Taxonomy

Focal Areas, Chemicals and Waste, Plastics, Waste Management, Industrial Waste, Hazardous Waste Management, eWaste, Persistent Organic Pollutants, Polychlorinated Biphenyls, Unintentional Persistent Organic Pollutants, Emissions, Eco-Efficiency, Industrial Emissions, Best Available Technology / Best Environmental Practices, Climate Change, United Nations Framework Convention on Climate Change, Paris Agreement, Climate Change Mitigation, Renewable Energy, Financing, Technology Transfer, Energy Efficiency, Sustainable Development Goals, Influencing models, Deploy innovative financial instruments, Demonstrate innovative approaches, Stakeholders, Type of Engagement, Participation, Consultation, Information Dissemination, Beneficiaries, Private Sector, Capital providers, Individuals/Entrepreneurs, Non-Grant Pilot, Large corporations, Project Reflow, Financial intermediaries and market facilitators, SMEs, Communications, Behavior change, Awareness Raising, Gender Equality, Gender Mainstreaming, Sex-disaggregated indicators, Gender results areas, Capacity Development, Capacity, Knowledge and Research, Knowledge Exchange, Innovation, Knowledge Generation

Rio Markers

Climate Change Mitigation

Climate Change Mitigation 2

Climate Change Adaptation

Climate Change Adaptation 1

Duration 6

0 In Months

Agency Fee(\$)

1,238,532

Submission Date

8/15/2019

A. Indicative Focal/Non-Focal Area Elements

Programming Directions	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
CW-1-1	GET	10,321,100	106,410,000
CW-1-2	GET	2,064,220	21,282,000
CCM-1-3	GET	1,376,148	14,188,000
Total Project Cost (\$)		13,761,468	141,880,000

B. Indicative Project description summary

Project Objective

The Project's objective is to catalyze the scale up of circular economy initiatives by addressing barriers to investments in circular economy technologies and processes, and adoption of circular economy strategies and business practices.

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
Component 1: Implementation of Circular Economy Performance-based Financing	Investment	Outcome 1: Increased Investment in Circular Economy Initiatives	Output 1: Investment in 10 Circular Economy projects with a total investment of c. US\$ 153m	GET	13,711,468	140,000,000
Component 2: Technical Assistance for Adopting Circular Economy Technologies and Strategies	Technical Assistance	Outcome 2: Circular economy technologies and strategies mainstreamed in corporate processes and business models	Output 2.1: Technical assistance to identify technologies and processes Output 2.2: Circular economy strategies developed	GET		1,500,000
Component 3. Monitoring and evaluation	Technical Assistance	Outcome 3: Project monitoring and evaluation and ensuring effective achievement of intended results	Output 3.1 Project monitoring and evaluation	GET	50,000	30,000
Sub Total (\$) Project Management Cost (PMC)					13,761,468	141,530,000
				GET		350,000
				Sub Total(\$)	0	350,000

Project Management Cost (PMC)

Total Project Cost(\$)	13,761,468	141,880,000
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C. Indicative sources of Co-financing for the Project by name and by type

Sources of Co-financing	Name of Co-financier	Type of Co-financing	Investment Mobilized	Amount(\$)
GEF Agency	EBRD	Loans	Investment mobilized	140,000,000
GEF Agency	EBRD	Grant	Investment mobilized	1,500,000
GEF Agency	EBRD	In-kind	Recurrent expenditures	380,000
Total Project Cost(\$)				141,880,000

Describe how any "Investment Mobilized" was identified

EBRD loans related to circular economy investments will be mobilized. For grants, the EBRD will mobilize funding through Austria and the EU. In-kind contributions from the EBRD will be confirmed during full project preparation.

D. Indicative Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
EBRD	GET	Regional	Chemicals and Waste	NGI	12,385,320	1,114,679	13,499,999
EBRD	GET	Regional	Climate Change	NGI	1,376,148	123,853	1,500,001
Total GEF Resources(\$)					13,761,468	1,238,532	15,000,000

E. Project Preparation Grant (PPG)

PPG Amount (\$)

PPG Agency Fee (\$)

Agency	Trust Fund	Country	Focal Area	Programming of Funds	Amount(\$)	Fee(\$)	Total(\$)
Total Project Costs(\$)					0	0	0

Core Indicators

<p>Indicator 5 Area of marine habit under improved practices to benefit biodiversity (excluding protected areas)</p>	<p>Indicator 5.3 Amount of Marine Litter Avoided</p> <ul style="list-style-type: none"> ○ Expected metric tons of marine litter avoided = 50,000 ○ Anticipated start year of accounting = 2021 ○ Duration of accounting = 10
<p>Indicator 6 Greenhouse Gas Emissions Mitigated</p>	<p>Indicator 6.2 Emissions Avoided Outside AFOLU (Agriculture, Forestry and Other Land Use) Sector</p> <ul style="list-style-type: none"> ○ DIRECT <ul style="list-style-type: none"> ▪ Expected metric tons of CO₂e (direct) = 6,250,000 ▪ Anticipated start year of accounting = 2021 ▪ Duration of accounting = 10 ○ INDIRECT <ul style="list-style-type: none"> ▪ Expected metric tons of CO₂e (direct) = 15,625,000
<p>Indicator 9 Reduction, disposal/destruction, phase out, elimination and avoidance of chemicals of global concern and their waste in the environment and in processes, materials and products (metric tons of toxic chemicals reduced)</p>	<ul style="list-style-type: none"> ● Indicator 9.1 Solid and liquid Persistent Organic Pollutants (POPs) removed or disposed (POPs type) Hexabromocyclododecane (HBCDD) 1,632.00 tons Per_uorooctane sulfonic acid, its salts and per_uorooctane sulfonyl fluoride 333 tons Polychlorinated biphenyls (PCB) 35 tons Total Metric Tons (Expected at PIF) = 2,000 metric tonnes ● Indicator 9.5 Number of low-chemical/non-chemical systems implemented, particularly in food production, manufacturing, and cities <ul style="list-style-type: none"> ○ Expected numbers of systems to be implemented ; 5 ● Indicator 9.6 Quantity of POPs/Mercury containing materials and products directly avoided <ul style="list-style-type: none"> ○ 10,000 tonnes products
<p>Indicator 10.2 Reduction, avoidance of emissions of POPS to air from point and non-point sources(grams of toxic equivalent gTEQ)</p>	<p>Expected reduced, avoided; 75 grams of TEQ over 10 year period</p>

Indicator 11 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment	Indicator 11 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment <ul style="list-style-type: none">○ Number (Expected at PIF)○ Female = 160○ Male =640○ Total = 800
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Provide additional explanation on targets, other methodologies used, and other focal area specifics (i.e., Aichi targets in BD) including justification where core indicator targets are not provided

Details are provided in Part II, section 6 “Global Environmental Benefits”.

Part II. Project Justification

1a. Project Description

1) Global environmental and/or adaptation problems, root causes and barriers that need to be addressed (systems description)

1.1 Circular economy

To address unsustainable resource use and environmental pollution, circular economy models must be adopted at scale.

The global economy has been largely based on a linear model in which raw materials are extracted, processed, sold, used and discarded. The products we consume are being produced with increasingly shorter lifetimes. The resulting environmental impacts are wide ranging and include: hazardous chemicals released to the environment, increased greenhouse gas emissions, plastics entering the ocean, increased use of land for landfill and greater water usage.

To address these challenges it is necessary to transition to a circular economy. A circular economy is a system that is restorative or regenerative by intention and design. It replaces the 'end-of-life' concept with restoration, shifts material and energy systems towards closed-loop models, eliminates the use of toxic chemicals that impair reuse, and aims for the elimination of waste through the superior design of materials, products, systems and business models.¹

¹ The Ellen MacArthur Foundation (2012), Towards the Circular Economy.
<https://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf>
<https://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf>

The benefits of transitioning to a circular economy are significant. If implemented worldwide, the material cost savings have been estimated as nearly US\$ 1 trillion per year by 2025² and with business opportunities of US\$ 4.5 trillion.³ In the EU alone, it is estimated that the transition to a circular economy would result in savings of US\$630 billion per year for just medium-life products, with significant job creation and increase in GDP of between 3 to 4% compared to 2010 levels.⁴

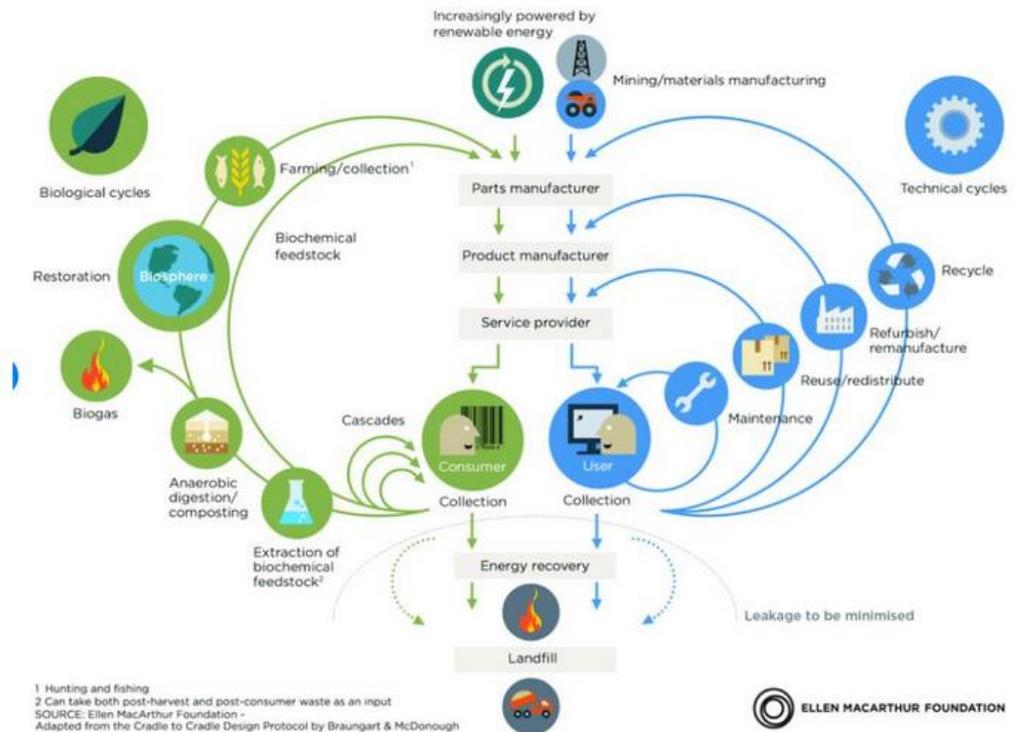


Figure 1. Visualization of a circular economy⁵

² World Economic Forum (2014). Towards the Circular Economy: accelerating the scale-up across global supply chains. http://www3.weforum.org/docs/WEF_ENV_TowardsCircularEconomy_Report_2014.pdf?wb48617274=73C950F6

³ World Business Council for Sustainable Development (2017). CEO Guide to the Circular Economy. <https://www.wbcsd.org/Programs/Circular-Economy/Factor-10/Resources/CEO-Guide-to-the-Circular-Economy>

⁴ The Ellen MacArthur Foundation (2012), Towards the Circular Economy.

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

⁵ <https://www.ellenmacarthurfoundation.org/circular-economy/infographic>

1.2 EBRD and the Circular Economy

With increasing population, economic growth, resource consumption and unsustainable use of materials, there is a significant opportunity to adopt circular economy approaches in the EBRD region.

The EBRD has established expertise in identifying and financing circular economy opportunities. From 2014 – 2018, the Bank financed more than 100 projects supporting circular economy products and business models, contributing more than EUR€ 1 billion in finance. These projects are predominantly focused on private sector clients, with the majority of finance benefitting clients in the manufacturing and services and agribusiness sectors.

With population increase and economic growth, the use of resources in the EBRD region has accelerated considerably and there is great potential for transitioning to a circular economy. Besides its contribution to addressing climate change and resource scarcity, transitioning to a circular economy in the EBRD region can improve the security of the supply of raw materials, increase competitiveness, promote innovation and boost economic growth while addressing material intensity.

The EBRD defines the circular economy as a market economy that preserves the added and inherent value of physical resources while keeping resources within the economy for as long as possible and captures value at the end-of-life, with the intention to minimise virgin material consumption, waste and value chain risks. While not developed specifically for this Project, the guidance note is a working document that outlines the EBRD's general approach to circular economy. Therefore, a project is considered as contributing to the circular economy if it falls under one of these categories (please refer to Annex 2 for details on these categories):

- (i) Circular design and production
- (ii) Circular use and life extension of products or materials
- (iii) Circular value recovery strategies after use
- (iv) Circular support (i.e. services targeted for extending the life of products, deployment of tools for tracing and trade of secondary raw materials etc.).

These criteria are subject to change based on on-going discussions between the EBRD, EIB and EU. As a part of these discussions, the group has consistently incorporated the reuse, refurbishment and repair of buildings and infrastructure into the strategies contributing to a circular economy strategy. EBRD's approach to these criteria is in line with the Ellen MacArthur Foundation's butterfly diagram, where the criteria represent multiple stages of value chains from pre-consumer to end-of-life.

1.3 Chemicals and plastics waste management

The growing use of plastics in the EBRD region must be managed in a sustainable manner. Circular economy investments and capacity building are crucial instruments to tackle the problem.

While plastics and plastics packaging are a crucial component in the global economy, in the EBRD region in particular there has been a significant increase in plastics production and consumption combined with inefficient use of resources and subpar waste management practices. Significant environmental problems stem from the following:

- Plastics are persistent and slow to degrade in the environment.
- With over 90% of plastics produced being derived from virgin fossil fuel feedstocks, if the current strong growth of plastics usage continues as expected, the plastics sector will account for 20% of total oil consumption.⁶
- Plastics that are not recycled and re-used end up on land and eventually make their way to rivers, seas and oceans. Although plastics are not the only route for toxic chemicals to pollute the marine environment, there is compelling scientific evidence that plastics make a significant contribution to exposures to complex mixtures of chemical contaminants. Chemicals found in plastic marine litter can be classified in the following four categories of origin:
 - Chemicals intentionally added during the production process (additives such as flame retardants, plasticizers, antioxidants, ultraviolet stabilisers, and pigments);
 - Unintentional chemicals coming from the production processes (e.g. vinyl chloride, BPA, etc.);
 - Hydrophobic chemicals adsorbed from environmental pollution onto the surface of the plastics. Hydrophobicity is a property common to most of the persistent organic pollutants (POPs).⁷
- In many developing countries with inadequate infrastructure for managing solid waste, a significant proportion of plastics end up in open dumps where they are usually burned. The open burning or incineration of plastics has three negative effects: (i) burning plastics, especially containing chlorinated and brominated additives, is a significant source of air pollution, including the emission of unintended POPs such as chlorinated and brominated dioxins, furans, and PCBs; (ii) it releases CO₂ and black carbon – two very potent climate-changing substances; and (iii) burning plastic poses severe threats to plant, animal and human health, because toxic particulates can easily settle on crops or in waterways, degrading water quality and entering the food chain.⁸

The transition to circular economy principles is essential for tackling the global plastics and chemical waste problem. The main goals for achieving circularity in the plastics sector are:

- Promoting innovation, research and development activities to identify alternative and sustainable materials that degrade on land and in water bodies without being subjected to specific conditions through EBRD's current technical assistance

6 The Ellen MacArthur Foundation (2016) The New Plastic Economy. Available at https://www.ellenmacarthurfoundation.org/assets/downloads/publications/NPEC-Hybrid_English_22-11-17_Digital.pdf

7 Gallo et al. Marine litter plastics and microplastics and their toxic chemicals components: the need for urgent preventive measures, Environmental Science Europe (2018) 30:13. Available at https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5918521/pdf/12302_2018_Article_139.pdf

8 Scientific and Technical Advisory Panel (2018). Plastics and Circular Economy. Available at <http://www.stagef.org/sites/default/files/documents/PLASTICS%20formatted%20for%20posting.pdf>

programmes such as the Innovation Vouchers⁹, Turkey Materials Marketplace, Circular Vouchers¹⁰, etc.; Recovery of plastics waste and re-use;

- Change plastics production processes or re-design plastics products in line with circular economy principles;
- Raise awareness of the end-users to reduce the demand for plastics products, by promoting a culture of reuse, refill, repair, resale, service-as-product and other virgin raw material reducing measures.

Within the broad term of bio-degradability; industrially compostable materials are a category of biomaterials defined by different standards in different regions (EN13432¹¹ for Europe, ASTM D6400¹² and D6868¹³ for the United States). Such standards include criteria for whether or not a material is industrially compostable, that is, if it biodegrades by at least 90% by weight within six months under controlled composting conditions, it fragments into pieces smaller than two mm diameter under controlled composting conditions within 12 weeks and the compost obtained at the end of the process has no negative effects on plant growth. In addition to industrially compostable materials, home compostable materials are defined as well. These are industrially compostable, but can be treated at ambient temperatures and the timeframes for biodegradation and disintegration can be longer. Moreover, parameters such as moisture content, aeration, acidity and the carbon-to-nitrogen ratio do not need to be controlled.

Compostable or biodegradable material litter is not desirable, as compostable materials are designed to decompose under controlled circumstances in industrial composting facilities and biodegradable materials decompose in a specific medium (water, soil or air). If the materials do not decompose fully in natural ecosystems, the littering of such materials is generally more detrimental to the environment than collection and proper waste treatment.

Several concrete areas for improvement of the environmental potential of bio-based and biodegradable materials can be identified. Although they replace fossil or mineral resources, their treatment is often not truly circular on account of being mixed with non-biodegradable materials, and because of inadequate disposal and waste management systems. Consumer behaviour, technical and logistical innovations and new business models should go hand in hand to optimise environmental performance. Therefore, the use of bio-based and biodegradable materials should be promoted only where they can be effectively recycled or properly treated at the end of life.

The circular economy is about building value chains from all lifecycle stages that design, use and recover materials to decouple material intensity from economic productivity. The EBRD will seek to create an enabling environment for transitioning to a circular

9 <http://inovacionivauceri.ebrd.rs/>

10 <http://turkey.materialsmarketplace.org/the-circular-vouchers>

11 http://docs.european-bioplastics.org/publications/bp/EUBP_BP_En_13432.pdf

12 <https://www.astm.org/Standards/D6400.htm>

13 <https://www.astm.org/Standards/D6868.htm>

economy through targeted investment and capacity building. Designing products that can be recovered either through recycling, composting, or modular reuse supports the demand of recovery solutions.

1.4 Climate change and materials use

Integrating circular economy models can significantly reduce GHG emissions and material use.

The quantity of raw materials extracted and used in the industrial sector is correlated with embodied energy use and GHG emissions, with more than half of the global GHG emissions are related to materials management activities.¹⁴ Integrating circular considerations into products and business models, extending lifetimes of products and recovering the existing value has significant potential to reduce the demand for extracting and processing virgin raw materials.

Reducing the amount of virgin raw materials as inputs in the economy will address this global environmental issue and unlock the potential for reducing GHG emissions from waste and underutilized materials. Measures such as increased re-use and recycling, reduction in the use of resources and extending the lifetime of end-products will contribute to improving resource efficiency and related energy savings.

1.5 Barriers to the circular economy

There are significant barriers to implementing circular economy initiatives in the EBRD region that need to be overcome.

Table 1 summarizes the key barriers to investments in circular economy initiatives by barrier type: financial, technological, knowledge and capacity, and policy/regulatory.

Table 1. Summary of barriers to investment in circular economy initiatives

Barrier type	Details
Financial barriers	1. Limited access to commercial funding: Limited funding from commercial banks for resource efficiency and circular economy business models in the participating countries.

¹⁴ OECD (2018) Global Material Resources Outlook to 2060 – Economic Drivers and Environmental Consequences. Available at <https://www.oecd.org/environment/waste/highlights-global-material-resources-outlook-to-2060.pdf>

Barrier type	Details
	<p>2. Early movers disadvantage: Early adopters of technologies and processes face unaffordable or expensive terms of loans for funding new technologies. Transaction costs of developing resource efficiency and circular economy investments, especially those faced by small and medium-sized enterprises (SMEs), are usually high. Such costs can arise from the need for market assessments, resource audits and feasibility studies. These costs are further increased by the lack of adequate familiarity and necessary experience to identify and prepare projects both within industry and the financial sector.</p> <p>3. Limited access to commercial funding that is structured in a way to incentivise sustainability and green investments: Limited empirical evidence linking environmental, social and governance performance and credit risk. As a result, financiers are not in a position to incentivise and reward superior environmental performance.</p>
Technological barriers	<p>4. Low penetration rates: There is a lack of technology transfer across sectors (e.g. wastewater sludge as fuel for private sector companies). Lack of established communication channels within and across sectors, national boundaries, and institutions (including different levels of government) undermines the development and consolidation of regional knowledge and regionally appropriate best practices.</p> <p>5. Risk perceptions: New technologies and change in practices often incur high upfront costs due to underdeveloped supply chains and associated infrastructure and services, amplifying perceived risk.</p> <p>6. Underdeveloped supply chains: There is often a lack of competition among service providers and technology suppliers resulting in information asymmetries, high implementation costs and limited availability of service solutions.</p>
Knowledge and capacity-barriers	<p>7. Lack of knowledge and awareness: Investments in circular economy business models and resource efficiency technologies with low market penetration are perceived to be financially and technically risky, and unable to yield commensurate financial returns. There are information asymmetries among stakeholders and knowledge is not transferred effectively to end-users.</p> <p>8. Lack of reliable data: Lack of reliable baseline data and statistics on circular economy business models and market penetration weakens the investment case for prospective projects.</p> <p>9. Weak capacity to develop bankable waste minimisation technology projects: Lack of experienced project developers and in-house technical expertise to complete the full project cycle (including administrative procedures to access financing), particularly in the municipal sector, where technical know-how and financial resources are limited.</p>

Barrier type	Details
Policy and regulatory barriers	10. Lack of adequate regulatory framework: Regulatory and legal frameworks do not provide the full incentives for waste minimisation and circular economy investments. For example, despite the harmonization efforts with the European Union Waste Framework Directive, the regulatory framework in the target countries does not encourage use of secondary raw materials.

2) Baseline scenario and any associated baseline projects

2.1 Progress towards improving resource efficiency and transitioning to circular economy in the target countries

While advanced economies have started to adopt circular economy approaches, there is the urgent need to transition CE models to emerging and developing economies. Companies operating in more advanced economies have begun to incorporate circular economy measures in their operations. Enabled by access to technical know-how and finance to implement advanced resource management practices, these companies benefit from decreased costs of raw materials that are often imported. The European Union (EU) market, in particular, is currently spearheading a shift towards a circular economy in line with the aim to transition to a low-carbon economy and align with the Paris Agreement. The EU's policy is to facilitate this shift with the recently announced 2018 Circular Economy Package, which establishes several ambitious targets for all EU member states:

- The recycling rate for all types of packaging to be increased (to 70 %), plastic (to 55 %), wood (to 30 %), ferrous metals (to 80 %), aluminum (to 60 %), glass (to 75 %) and paper and cardboard (to 85 %) by 2030.
- 55 % of municipal waste must be prepared for re-use and recycling by 2025, 60 % by 2030, and 65 % by 2035.
- The amount of municipal waste landfilled must be reduced to 10 % or less of the total amount of municipal waste generated by 2035.
- As of 2030, all waste suitable for recycling or other recovery, in particular in municipal waste, must not be accepted in a landfill, except for waste for which landfilling delivers the best environmental outcome.
- By December 31, 2023, Member States must ensure that bio-waste is either separated and recycled at source or is collected separately and not mixed with other types of waste.

However, as the immediate neighbours and important counterparts for the value chains of the EU market, the proposed Project's target countries are not in a position to respond to these demands. Indeed many companies – especially those in less advanced economies and SMEs – struggle to manage inefficiencies in their supply chain and to improve their resource efficiency due to financial, technical and capacity barriers outlined above.

In the **Western Balkans** (i.e. Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia), where SMEs dominate the private sector,¹⁵ there is great potential to improve resource efficiency and introduce circularity by supporting recycling and re-use activities (especially recycling plastic products and recovery of chemicals used in production processes) as well as stimulating the private sector to re-design their products for circular use and extension of their lifetime. Currently, the economic development in the region is stressing the environment due to inefficient resource use and poor waste management. The main option for management of waste in the region still relies almost solely on landfilling: in many cases existing facilities are inadequate, posing considerable risks to public health, soil and water resources. While establishing recycling infrastructure in each of the Western Balkans countries for certain types of wastes/materials (with low waste volumes) may not be feasible due to economies of scale, the potential may be realized through regional projects.

In **Turkey**, there is significant potential for scaling up circular business models (e.g. industrial symbiosis, use of secondary raw materials, alternative fuels etc.), and adoption of technologies and processes for material efficiency. While SMEs are the driving force of the economy accounting for 80 % of employment and 60 % of exports,¹⁶ there are also large enterprises with regional presence that are able to take advantage of economies of scale for productivity and resource efficiency. Recently the Turkish government has shown interest in strengthening the regulatory framework to improve waste management in Turkey by setting higher rates for recycling of packaging wastes (60 % by 2020). However, avoiding waste generation by re-designing products, separating waste at the source, and recycling and recovery of wastes all remain as challenges due to lack of incentives and enforcement.

2.2 Associated baseline projects

The EBRD has a strong track record in green investments and has prioritized support for the development of circular business models. The EBRD has a strong track record in green investments via its Green Economy Transition (GET) approach. The EBRD launched the GET approach in 2015 to put investments with environmental benefits at the heart of its mandate. Building on a decade of successful green investments, the GET approach seeks to increase the EBRD's green financing volume to 40 % of annual business volume by 2020.

The EBRD has also prioritized support for the development of circular business models. The EBRD is actively engaged in both market development and in lending/investment activities to support the public and private sectors in implementing energy/resource efficiency strategies contributing to energy production, waste minimization and GHG emissions reduction.

¹⁵ SMEs account for about two-thirds of value added on average. See: EBRD (2018). The Western Balkans in transition: diagnosing the constraints on the path to a sustainable market economy. Available at <https://www.ebrd.com/documents/eapa/western-balkans-summit-2018-diagnostic-paper.pdf>

¹⁶ EBRD (2019). Turkey Country Diagnostics.

In particular, the EBRD has recently carried out a Near Zero Waste (NOW)/circular economy pilot in Turkey focused on the circular economy, which provides an important baseline for the proposed Project. In line with circular economy principles, in 2015 the EBRD initiated a pilot project in Turkey to support state-of-the-art waste minimisation, and resource efficiency technologies and processes. This pilot had four components:

1. Financing for waste minimisation and resource efficiency projects, combining EBRD funds with concessional finance, to support early movers in replicable investments currently hindered by market failures.
2. Technical assistance support for project developers.
3. Policy dialogue to enable and mainstream the concept of waste minimisation in different economic sectors.
4. Knowledge sharing to promote awareness and knowledge of relevant technologies and best practice.

The EBRD's work in Turkey to date provides strong learnings and a solid platform to launch the proposed regional Project. This pilot demonstrated the approach to introducing technologies with low market penetration in Turkey and helped create models for circular businesses across industrial sectors. Lessons learned included:

- Additional financial barriers exist for early movers of innovative technologies and an impact-based incentive could be used.
- There is a need to engage with the private sector at the strategic level to enable transformational changes towards circular business models.
- There is a need to further develop circular business models so that they are transferable to other EBRD Countries of Operation.
- There was a need to operationally simplify the approach to enable more cost-effective implementation.

The EBRD has participated in the GEF-6 NGI Program under the "Green Logistics Program" (GEF ID 9047) that has the objective to enhance implementation of green logistics in the Black Sea and Mediterranean regions. This Program has provided valuable lessons related to the internal operationalization of a NGI initiative within the Bank.

3) Proposed alternative scenario with a brief description of expected outcomes and components of the project

3.1 Project objective

In the proposed alternative scenario, the Circular Economy Regional Initiative's **objective** is to scale up circular economy initiatives by addressing barriers to investments in circular economy technologies and processes, and adoption of circular economy strategies and business practices.

3.2 Project Design

The Project adopts a two track approach including:

1. Circular Economy Investments, in the Western Balkans and Turkey, with a strong focus on SMEs
2. Circular Economy Capacity Building aimed at the corporate sector to complement and maximize impact and ensure sustainability.

The Project has been designed to align with the criteria of the GEF-7 NGI Program and the specific selection criteria. Box 1 summarizes the proposed Project's alignment with these criteria.

Box 1. Summary of the Project's suitability for the GEF NGI	
NGI Selection Criteria	Summary of Project's suitability
1. Scalability	The Project is expected to have a demonstration effect in the target countries where circular economy investments are currently undeveloped. The Project will catalyse a market-level transformation towards circular economy in the private sector by promoting the companies to re-consider their production processes, technologies, products and business model. Scale-up will be further supported by targeted knowledge and awareness raising, and linking the Project's beneficiaries and learnings with existing platforms such as the Materials marketplace.
2. Appropriate and enhanced co-financing ratios	Investments co-financing provided by the EBRD will be USD 140 million. Additional co-financing for technical assistance will be: USD 1.5 million grant and USD 0.35 million in-kind.

Box 1. Summary of the Project's suitability for the GEF NGI	
NGI Selection Criteria	Summary of Project's suitability
3. Attractive financial terms	An instrument that targets and incentivizes technology implementation through lower interest rate is very innovative and is otherwise not available to the beneficiaries. A 10-year tenor is not available in the participating countries
4. High financial additionality	<p>NGI support for the proposed Project is incremental, and is targeted to enable the provision of finance that will incentivize companies to implement circular economy investments. Without dedicated GEF financing for the NGI, the participants are unlikely to be offered suitable financing and they would most likely not include circular economy-related milestones. Investments in circular economy initiatives (either through technologies or practices) are relatively undemonstrated in the target region, and therefore the perception of risk would remain high (see section on barriers).</p> <p>The co-financing provided by the EBRD is integral to the design of the Project. The high leverage provided by the co-financing will enable beneficiaries to commit to circular economy principles and governance practices, and adopt circular business models, resulting in clear demonstrations of the environmental and business benefits.</p> <p>The Project is based on a milestone approach that incentivises behaviour by providing financing with interest rate linked to the achievement of agreed performance milestones. The design of the Project ensures that the minimum level of concessionality will be used (by the loan size, pricing) and that the NGI funds are tied to performance.</p>
5. Capacity to generate reflows	The EBRD has the capacity to generate reflows. Reflows are summarized in the NGI's Annex B.
6. Innovative financial solutions	The Circular Economy Regional Initiative is innovative in its approach to accelerate the uptake of circular economy initiatives by incentivizing participating entities to not only implement resource efficient technologies, processes or products, but also to consider how their business practices to integrate circular economy at the strategic level. The innovative financial mechanism will catalyse investments and thereby incentivize a shift to circular economy mindset by providing the minimum level of concessionality required to drive behavioural change.
7. Global environmental benefits	The Project will avoid over 6.25 million tonnes CO ₂ e (direct) and 2,000 tonnes of POPs and 10,000 tons of POPs-containing material. More details on GEBs and co-benefits are provided in Part II Section 6.

3.3 Geographic focus and target beneficiaries

The EBRD's circular economy analysis and lessons learned from the pilot in Turkey have identified the Western Balkans and Turkey as key countries for support under the Project.

The EBRD proposes that the Circular Economy Regional Initiative targets Albania, Bosnia-Herzegovina, Montenegro, North Macedonia, Serbia and Turkey. Importantly, Turkey will also be included in the proposed Project to enable testing of the new concessionality methodologies; demonstration of new support technologies/circular models; and to facilitate sharing of lessons learned.

The Project targets private sector entities that are early movers or adopters, with the entry point being their interest in adopting new technologies and process changes and to benefit from a circular economy model. The Project will focus primarily on SMEs across two types of companies:

- “Champion” companies that operate in less advanced market contexts, and have high potential for resource efficiency and circular economy through demonstrated technologies, processes and business models. These are primarily in Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia.
- “Frontier” companies that operate in more advanced market contexts where innovative circular economy business models, practices and technologies can drive a transformative impact in the market. Frontier companies are targeted primarily in Turkey.

Each potential participant will also be assessed for their potential to collaborate both down and upstream on circular economy interventions (e.g. willingness to collaborate), and potential to trigger systemic change within their supply chains. Furthermore, to be eligible to participate, the companies must also meet the following criteria:

- Willingness to adopt a sustainable corporate strategy
- Equity contributions from the project sponsor
- Alignment with the circular economy objectives of the sector and country
- Willingness to participate in knowledge-related activities to showcase their work as a pilot.

3.4 Expected outcomes, components and outputs

The proposed Project will be structured under three Components, as outlined in the summary diagram (Figure 2) and described in the section below. There are three expected outcomes:

Outcome 1: Increased investment in circular economy initiatives

Outcome 2: Circular economy principles mainstreamed in technologies and processes, and in business strategies and practices

Outcome 3: Project monitoring and evaluation to ensure effective achievement of intended results.

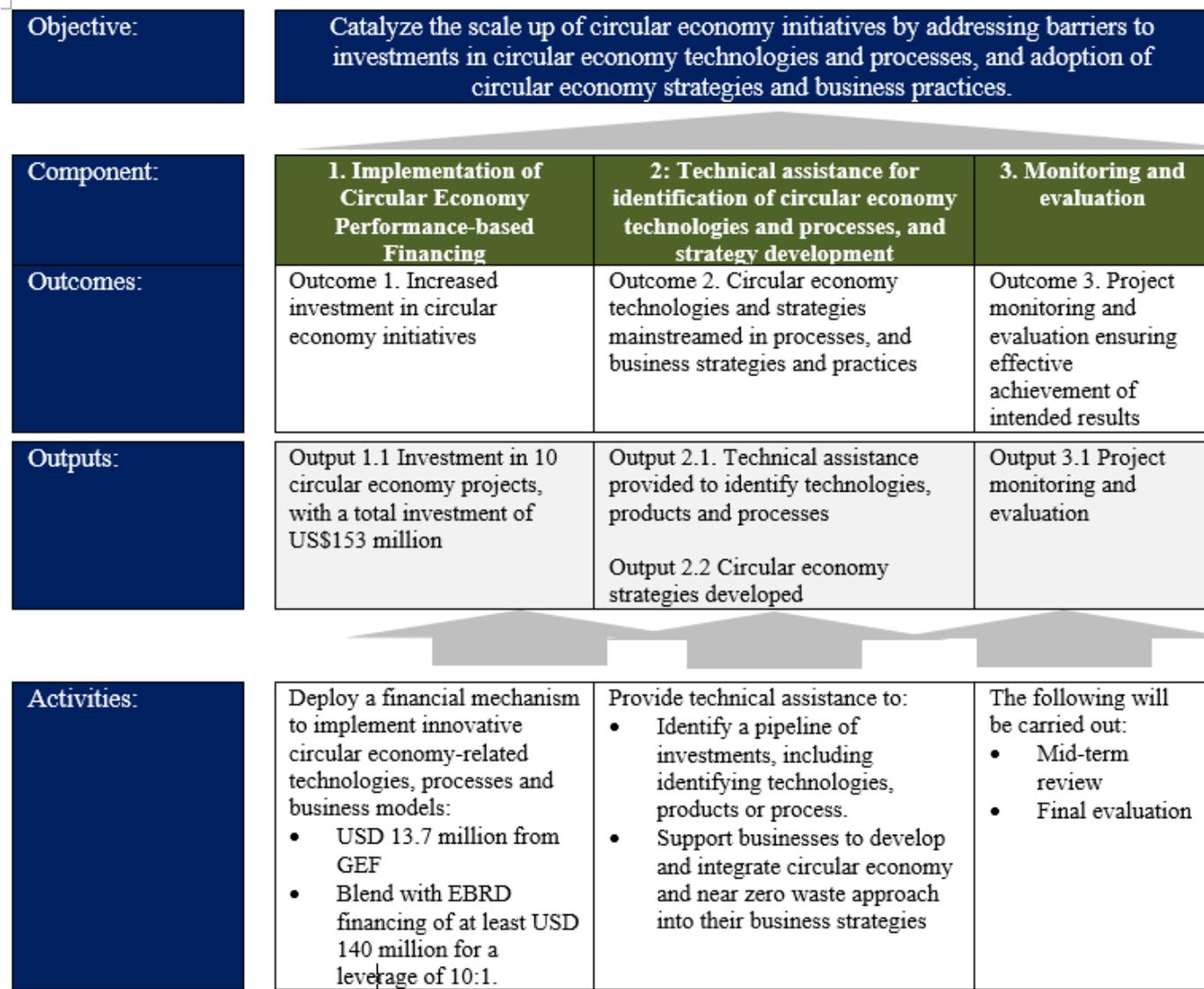


Figure 2. Overview of Circular Economy Regional Initiative

Component 1: Implementation of Circular Economy Performance-based Financing

Output 1.1: Investments in c. 10+ circular economy projects with a total investment of USD 153 million

The expected outputs are investments in at least 8 innovative resource efficiency technologies and circular models in the Western Balkans, and support to at least 2 technologies/circular models in Turkey with limited to low local market penetration. The investments will address the full life cycle of products.

Delivery Model: The non-grant instrument under this Component will be deployed through the following steps:

1. *Offer incentives through concessional funds of up to USD 13.7 million from the GEF NGI aimed at developing circular business models through projects.*
2. *Provide co-financing by blending GEF NGI funding with EBRD financing of at least USD 150 million for a leverage of 10:1.*
3. *Allocate concessional funds according to four key eligibility criteria:*
 - a) Adoption of innovative technology, product or approach. The projects in those sectors, which release POPs; such as construction, chemicals, plastics, textile and metals will be targeted.
 - b) Environmental benefits including: sound management of raw materials during full lifecycle of products (including industrial or agricultural chemical inputs and their waste) through control/reduction/elimination; GHG emissions reductions through energy efficiency adoption; and at least 1,000 tons/year material savings or materials diverted from landfill.
 - c) Sustainability and replication potential.
 - d) Adoption of innovations on business and governance models that move beneficiaries towards circular economy in line with EBRD's Guidance Note on Circular Economy (please see Annex 2), which considers interventions on all phases of product lifecycle.
4. *Provide finance according to the following financial structure (shown in Figure 3):*
 - a) Initial pricing of GEF loan tranche at market rate of parallel EBRD loan.
 - b) 2 covenanted circularity milestones to be achieved and are paired with an interest rate discount on the GEF tranche.
 - c) For the 1st milestone (M1: technology installation) a first discount on the original all in margin can be achieved, for the 2nd milestone (M2: transformational change to circular economy) an additional discount on all in margin can be achieved.

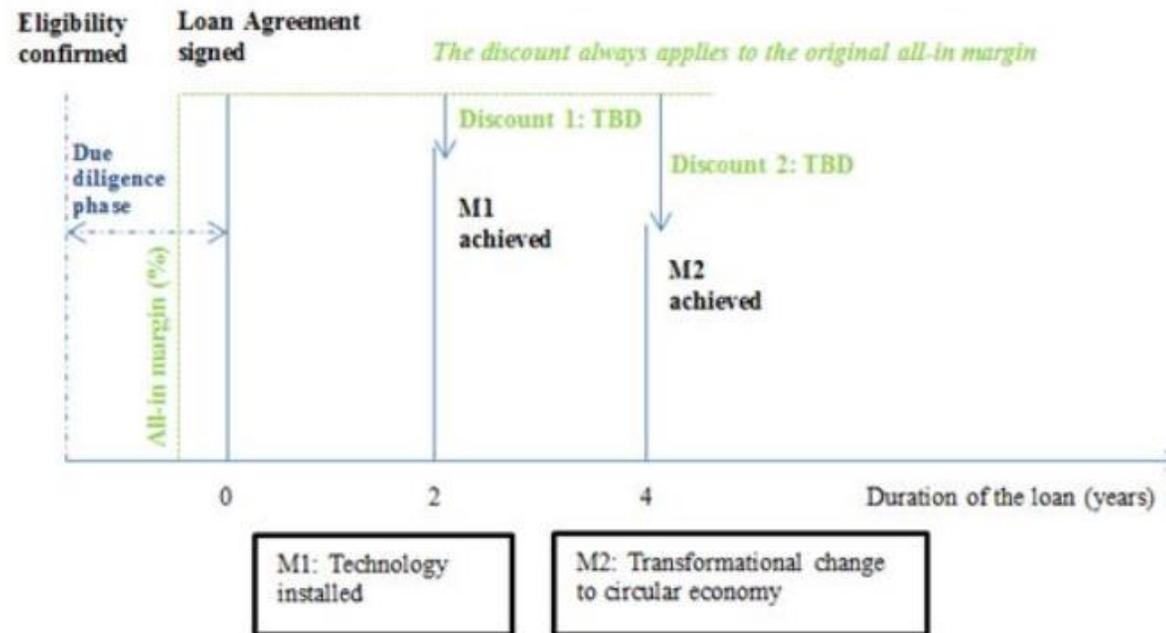


Figure 3. Concessional finance structure

5. *Concessional element per project.* The Project has taken into account lessons learned from the Turkey pilot and will ensure that the Project is able to support c.10 projects in the target Countries.
6. *Finalize financing terms on a project-by-project basis,* alongside the EBRD finance for each project, by EBRD's internal approval committee. To support this committee, the Circular Economy Regional Initiative will develop and implement a cost-

effective methodology that builds off the recent pilot and uses a simplified approach, allowing for consideration of the environmental impact of the technology over the life time of project. 17

7. *Assess criteria for transformational change to circular economy according to the assessment matrix.* The assessment criteria for Milestone 2 will be developed in line with the EBRD's definition of circular economy (please see the EBRD's description of circular economy in Part II: Project Description section) as well as the Multilateral Development Banks' joint guidelines for circular economy which are currently being developed (expected to be published by Q1 2020).
8. *Reflow funds to the GEF Trust Fund* (see Annexes A and B).

Additional information on the terms and conditions is provided in the NGI Annexes A and B.

The co-financing ratio (i.e. amount of Non-GEF financing EBRD and any B-lender to GEF financing) dedicated for the circular economy investments will be 10:1. Any financing for working capital, refinancing or other capex would be outside of this ratio calculation definition. Accordingly, in the Project we target a co-financing ratio of 10:1 for the GEF funding.

In case the co-financing ratio of an individual project is higher than 10:1, the interest rate reduction mechanism would be adjusted (higher interest margin reduction would be applied) so that the total benefits of the project would be equivalent to that of a co-financing ratio of 10:1. Thus, the benefits of GEF funding would not be diluted from a higher co-financing ratio.

Co-Financing: Approximately USD 140,000,000 will be provided by the EBRD under this component.

Component 2: Technical assistance for identification of circular economy technologies and processes, and strategy development

Output 2.1 Technical assistance provided to identify c.10+ technologies, products and processes

Technical assistance will be provided to support the identification and integration of circular technologies, products and processes into their activities. Support may include process redesign; identification of innovative technologies and processes; identification of

17 The pilot programme in Turkey has been implemented based on the principle that the NPV of the concessional loan amount is equal to or lower than the early mover cost of eligible investment. However, the economic analysis for estimation of early mover costs during the single-country pilot proved to be significantly complex and time intensive.

alternative feedstocks¹⁸; information platforms. Overall support will be provided to approximately 10 or more beneficiaries, ensuring the technical and financial feasibility of the investments under Component 1.

Note that policy dialogue to support key regulatory changes necessary to support investments is part of the EBRD's regular delivery model. The EBRD, including through its Resident Offices, is in regular contact with the relevant Ministries in all of the participating countries, including through policy dialogue. This extensive involvement at the national level, coupled with experience in private sector engagement, will be harnessed and used during Project implementation to support the successful achievement of Project targets. While the regulatory environment is well understood in the participating countries, should additional policy dialogue be identified as needed to address local regulations or frameworks directly related to a targeted investment under the Project, the EBRD would source additional co-financing and ensure that these activities are conducted.

Output 2.2 Circular economy strategies developed

The Project will support the beneficiaries to develop and integrate circular economy and near zero waste approaches into their business strategies and models. This activity includes supporting selected companies to identify business opportunities, as well as roles and responsibilities at the management level to integrate sustainability strategy into the company. Overall support will be provided to at least 7 beneficiaries.

The Project will provide post-signing technical assistance to the borrower to assess the company's current operations and business model (base case) and develop a roadmap and action plan for introducing/enhancing circular economy aspects into the Company's business strategy in line with EBRD's Guidance Note on Circular Economy.

The Project will support companies to prepare circular economy roadmaps, which will include identifying the baseline status for all products and activities with the products' life cycle, and review and identify intervention points from the design to production, use and materials recovery. Priority actions will then be identified covering both technical solutions and governance issues (e.g. accountabilities, internal processes and tools, competencies, disclosure). This roadmap will include potential interventions with both suppliers (e.g. requirements for material intensity, sustainable sourcing of material) and customers (e.g. customer awareness campaigns to reduce environmental impact of products during useful life, understanding of take-back schemes).

¹⁸ Alternative feedstock use refers to utilisation of alternative or secondary raw materials for production of goods in the corporate sector. For switching to alternative feedstock use, particularly in plastics production, the EBRD will assess if the alternative material is truly bio-degradable through its technical assistance before supporting the investment.

Co-Financing: Approximately EUR 0.5 million for technical assistance will be provided by the EBRD via the European Union Instrument for Pre-Accession Assistance (EU IPA) for sub-projects in Turkey and approximately EUR 1 million from Austria's DRIVE Fund (Delivering Resource efficiency INVEstments) to support investments in resource efficiency in the Western Balkans.

Component 3: Monitoring and evaluation

Output 3.1 Project monitoring and evaluation

To ensure that the Project is effective in achieving its intended results, monitoring will be conducted at the mid-term and an independent evaluation held near the end of the Project's lifetime. These activities will be in addition to the regular annual reporting requirements of the GEF and the monitoring cycle of the EBRD.

Co-Financing: Approximately USD 30,000 in-kind will be provided by the EBRD.

4) Alignment with GEF focal area and/or Impact Program strategies

The proposed Project is submitted under the GEF-7's Chemicals and Waste focal area, in particular *CW 1-1 Strengthening the sound management of industrial chemicals and their waste through better control, and reduction and/or elimination*; and *CW 1-2 Strengthening the sound management of agricultural chemicals and their waste through better control, and reduction and/or elimination*. The Project will contribute to Indicator 9, which is the reduction of chemicals of global concern, and addresses in particular the Stockholm Convention related to POPs. POPs (e.g. SCCP, PCBs, and PBDEs including tetraBDE, pentaBDE, octaBDE and decaBDE) are used as chemical additives in some plastics, particularly in the electrical and electronic, automotive, furniture and toy manufacturing sectors¹⁹. In addition, dioxins and furans are by-products of PVC manufacture used the construction and building sector. New POPs and endocrine disruptors related to plastics and e-waste (e.g. dioxins and furans) stem primarily from burning (indicator 9.1) with unintentional release.

The Project is also aligned with the GEF's climate change mitigation focal area strategy's *CCM 1-3 Promote innovation and technology transfer for sustainable energy breakthroughs for accelerating energy efficiency adoption*, aiming to address the barriers to wider-scale application of innovative technology through the cleantech innovation window. In particular, the Project will contribute to the development and implementation of innovative circular economy business models; supporting innovation; and transferring and disseminating technologies.

¹⁹ Scientific and Technical Advisory Panel (STAP) (2018) Plastics and the circular economy: as STAP document. <https://www.thegef.org/sites/default/files/publications/PLASTICS%20for%20posting.pdf>

While not targeted directly under this NGI proposal, there are synergies anticipated with Sustainable Cities Impact Programme, which may offer opportunities to implement circular economy initiatives (e.g. waste management systems, waste collection and disposal) including via public-private partnerships.

5) Incremental/additional cost reasoning and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and co-financing

GEF NGI support for the proposed Project is incremental, and is targeted to enable the provision of finance that will incentivize companies to implement circular economy investments. Without dedicated GEF financing for the NGI, the participants are unlikely to be offered suitable financing and they would most likely not include circular economy-related milestones. Investments in circular economy initiatives (either through technologies or practices) are relatively undemonstrated in the target region, and therefore the perception of risk would remain high (see section on barriers).

The co-financing provided by the EBRD is integral to the design of the Project. The high leverage provided by the co-financing will enable beneficiaries to commit to circular economy principles and governance practices, and adopt circular business models, resulting in clear demonstrations of the environmental and business benefits.

The Project is based on a milestone approach that incentivises behaviour by providing financing with interest rate linked to the achievement of agreed milestones. The design of the Project ensures that the minimum level of concessionality will be used (by the loan size, pricing) and that the NGI funds are tied to performance.

6) Global environmental benefits (GEFTF) and/or adaptation benefits (LDCF/SCCF)

The proposed Project aims to achieve global environmental benefits contributing to the GEF's focal areas targets of: Chemicals and Waste, and Climate Change Mitigation.

Based on EBRD's prior experience, and assumptions regarding the type of projects and technologies to be supported under the Project, the following are estimated:

GEF Indicator	Direct Annual	Direct Lifetime	Direct Secondary	Indirect
Sub-Indicator 5.3 Amount of Marine Litter Avoided		50,000 metric tons		
Sub-Indicator 6.2 CO ₂ Emissions avoided	500,000 tons CO ₂	5,000,000 tons CO ₂	1,250,000 tons CO ₂ e	15,625,000 tons CO ₂ e
Sub-Indicator 9.1 POPs - Solid and liquid Persistent Organic Pollutants (POPs) and POPs containing materials and products removed or disposed (POPs type)	20	1,600 metric tons	400 metric tons	
Sub-Indicator 9.5 Number of low-chemical/non-chemical systems implemented, particularly in food production, manufacturing, and cities	N/A	5 systems	N/A	
Sub-Indicator 9.6 Quantity of POPs/Mercury containing materials and products directly avoided		10,000 tonnes products		
Sub-Indicator 10.2 Number of emission control technologies/practices implemented (grams of toxic eqv. g TEQ)	6 gTEQ	60 gTEQ ²¹	15 gTEQ	

The output- based targets are estimated as direct annual/lifetime and direct secondary. Direct annual/lifetime targets represent immediate benefits of implementation of eligible technology and processes (Milestone 1) whereas direct secondary benefits refer to the expected benefits from transformational changes towards circular business models (Milestone 2). The Project is structured to promote and support moving towards circular business models rather than promoting only stand-alone technologies and processes. The project team estimates these transformational changes will enable secondary environmental benefits particularly for the output-

²⁰ The reduction target is given only as lifetime as some of the sub-projects will have one- time benefits whereas others might have life- time impacts.

²¹ The estimated reduction target is provided at the time the project is proposed. The target is based on the baseline calculation of the emissions against the expected reductions that will result from the implementation of the project. At project completion, a final emissions number — in grams of toxic equivalent (gTEQ) — will be subtracted from the baseline emissions number to determine the reduction.

based indicators of 5.3, 6.2, 9.1 and 10.2. The team estimates 25% additional benefits will be achieved for each sub-indicator, which are captured under direct secondary impacts.

Persistent Organic Pollutants (POPs)

The proposed Project aims to promote a circular economy approach to enable multiple environmental benefits by reducing resource consumption, introducing innovative technologies with low or no toxic chemicals, and facilitate reuse and recycling. Reducing the prevalence of harmful chemicals and waste by supporting the implementation of clean alternative technologies is becoming increasingly important for the transition to circular economy in EBRD COOs. Recycling materials containing toxic chemicals contaminates the resulting products and continues the legacy of hazardous emissions and increases exposures. To be able to develop a circular economy, material loops are required to be free of toxic chemicals. POPs are a special group of substances of very high concern that require specific attention when designing strategies and measures to close material loops in a circular economy.

In this context, the Project will ensure POPs reduction/prevention in both upstream production side and downstream disposal side by supporting sub-projects, which is consistent with EBRD's Circular Economy Approach and enables substantial global environmental benefits.

Based on the targeted industries and experiences with circular economy-type project in particular in Turkey, the project team used an indicative approach for estimation of the expected environmental benefits of the projects by using the current project pipeline. This approach is consistent with the Bank's circular economy approach and the objectives of GEF Chemical and Waste Programme.

Regarding POPs relevant to products and the circular economy, relevant examples include:

- **Hexabromocyclododecane (HBCD)** is a brominated flame retardant primarily used in polystyrene building insulation. HBCD is highly toxic to aquatic organisms and is listed in the Stockholm Convention for global elimination with a five-year specific exemption for use in building insulation that should expire for most Parties in 2019. Approx. 80% of HBCDD produced is estimated to be used as a flame retardant in expanded polystyrene (EPS) and extruded polystyrene (XPS) insulation products for buildings and construction.
- **Perfluorooctane sulfonate (PFOS)** is both lipid- and water-repellent and has been used in a wide variety of applications, often to supply a surfactant function. PFOS and related substances are extremely persistent, toxic to aquatic organisms. PFOS and PFOS-related substances have an extensive usage area which is limited by the Convention, permits to intended purposes and special exemptions. According to NIPs, there is no PFOS production in the target countries whereas PFOS is coming into the countries via import.

Turkey, which has a more developed manufacturing industry in comparison to other target Countries have around 12 M tonnes of products containing PFOS in textile, apparel, synthetic carpet, paper and cardboard and aviation industries and around 1,400 tonnes of HBCDD in EPS, XPS and HBCDD amounts in EPS and XPS and waste polystyrene.

The Project will target main industries, particularly textile, paper and cardboard and construction products, using PFOS and HBCDD in Turkey for the implementation alternative technologies to phase out these chemicals.

Overall, it is estimated that the Project will support achievement of around **10,000 tonnes of reduction** in products using POPs.

GHG Emissions Reductions

The proposed Project is designed to be opportunity driven and milestones will be bilaterally determined with the private sector partners, thus GHG emissions reductions are estimates at this time. Given the tentative pipeline at this stage, the calculations are based on the EBRD's portfolio EBRD of projects financed and are therefore a benchmark for the performance of the proposed Project.

Using the methodologies of the GEF and its Scientific and Technical Advisory Panel, two values will be reported for the Core Indicator: (i) lifetime direct GHG emissions mitigated, and (ii) lifetime indirect GHG emissions mitigated. Lifetime direct project GHG emissions mitigated are attributable to investments either during the project's supervised implementation period or after it, but supported by financial facilities or regulatory interventions by the GEF project, totaled over the respective lifetime of the investments. Lifetime indirect GHG emissions mitigated are those attributable to the long-term outcomes of GEF activities that remove barriers, such as capacity building, innovation, and catalytic action for replication.

Direct: To date, discussions of industry emissions has focused on abatement of emissions under a company's direct ownership or operational control and from a company's purchase of electricity, heat and steam, both of which relate to supply-side. However, there is need to also account for GHG emissions along the value chains and product portfolios (scope 3 or direct secondary) to comprehensively manage GHG-related risks and opportunities. Far less attention has been paid to demand-side: how a more circular economy could reduce emissions through better use and reuse of the materials that already exist in the economy. Therefore, the Regional Circular Economy Initiative aims to unlock further GHG emissions reduction by promoting interventions on all phases of product lifecycle and the full value chain of a company.

Based on the actual results of the Near Zero Waste/ Circular Economy pilot programme in Turkey, the expected GHG mitigation from the Regional Circular Economy Programme is estimated as 5,000,000 tCO₂eq over a 10-year period.

Please refer to Annex 4 for climate benefits examples from two of the Near Zero Waste/ Circular Economy pilot child projects in Turkey as well as the physical impact of the pilot programme's portfolio.

Direct secondary emission reductions are expected due to enhanced transformation change towards circular economy (i.e. Milestone 2) in the beneficiaries. The potential for direct secondary emission reductions will primarily depend on the type of investments and specific segments there are implemented in, and have been estimated as 1,250,000 tons CO₂ eq.

Indirect: The potential indirect GHG impacts of the proposed Project have been indicatively assessed through a bottom-up approach using GEF methodology, specifically using the financial instruments module that is suitable when projects involve investments or financing mechanisms where GEB may result from activities where the specific technologies, sectors or end use may be difficult to predict (loan instruments), and/or when there is replication of pilot or demonstration activities. This Project involves demonstration activities related to the use of a new non-grant instrument under Component 1 and its anticipated outcome of increased investment in circular economy initiatives. This is supported by Component 2's technology demonstration and capacity building, and technology development and diffusion, through Component 2 has not been included in indirect estimate as it is not funded by the GEF Trust Fund (co-financed only).

The number of expected replications during the post-project influence period related to Component 1 is at least 2.5, which assumes more than a doubling the original Project investment in the relevant sector during 10 years after Project completion). This estimate is based on the EBRD's understanding of the market potential for similar types of circular economy investments in the range of sectors involved, and also considers the anticipated impact of the Project as a pilot/demonstration and its contribution to addressing the targeted barriers in the beneficiary countries.

Therefore, with the direct GHG mitigation impact of around 6.25 MtCO₂ and a potential conservative replication factor of 2.5, the indirect emission reductions are estimated at around 15.625 MtCO₂.

These preliminary assessments will be reviewed prior to the Request for CEO Endorsement, and the assumptions and projections reviewed during implementation and reported as part of the Mid-term Review and Terminal Evaluations.

Marine litter

The methodology focuses on the assumption that about 60-90 per cent of marine litter consists of mismanaged plastics. Marine litter originating from the maritime sector comprises on average roughly 20 per cent weight of total marine plastics while the balance of 80 per cent coming from land-based sources.²²

The main sources of marine litter in the Western Balkans and Turkey are:

- Uncontrolled dumping of waste, which is common in developing countries where the waste collection infrastructure is inadequate;
- Littering;
- Fly-tipping as illegal dumping of waste without waste management licence;
- Leaking of waste from mismanaged legal landfills;
- Waste generated by the industrial sector can become marine litter during disposal or transport. Industries such as the automotive, furniture, textile and large packaging manufacturing companies are thought to be key sources of microplastics in the marine environment. 86 per cent of the Danube River's plastic load originates from the activities of plastics manufacturing and processing companies operating near the banks of the river.²³

In the light of this, sound solid waste management, resource efficiency and transition to circular economy are the only major effective prevention measures. While solid waste management focuses on the collection and treatment of discarded materials, there is also a need to act further 'upstream' in the value chain of products to extend the lifetime of the products and promote re-use and recycling.

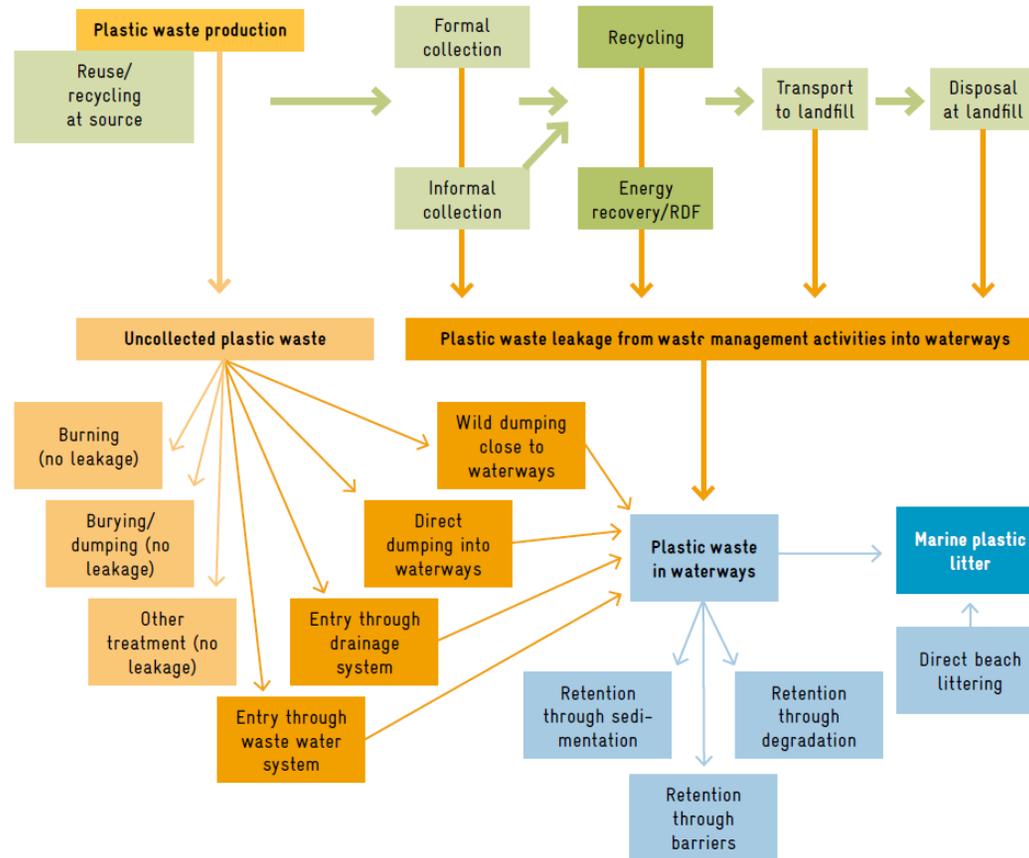
It is important to note that the municipal waste collection rate in the target countries is around 65-80 per cent, combined with fly-tipping, uncontrolled dumping, littering practices and inadequately managed legal landfills. This indicates a significant risk for transmission of large amounts of waste into the marine environment. Some recycling activities take place in the target countries (ranges from 1 to 10 per cent of the collected municipal waste) which has a direct effect to the abatement of marine litter.

Based on EBRD's experience in the Near zero Waste/ Circular Economy pilot programme in Turkey, the Regional Circular Economy Initiative targets reduction of waste landfilled and increased packaging waste recycled at 5,000 tonnes. If waste does not end up in

²² https://marinelitter.iswa.org/fileadmin/user_upload/Marine_Task_Force_Report_2017/ISWA_report_interactive.pdf

²³ A. Lechner, H. Keckeis, F. Lumesberger-Loisl, B. Zens, R. Krusch, M. Tritthart, M. Glas, and E. Schludermann, "The Danube so colourful: A potpourri of plastic litter outnumbers fish larvae in Europe's second largest river," *Environmental Pollution*, vol. 188, pp. 177–181, 2014.

the landfills and maintain its value in the economy due to avoidance/re-use/recycle at source or during waste treatment, then it will not end up in the marine environment. Please see below for a chart on the transmission pathways of plastic waste into the marine environment. This applies to other types of waste/debris (in addition to plastics) such as glass, metal etc.



Transmission pathways of plastic waste into the marine environment²⁴

²⁴ https://www.giz.de/en/downloads/giz2018_marine-litter-prevention_web.pdf

As the Project is designed to be opportunity driven and the circularity milestones will be bilaterally determined with the private sector partners, the global environmental benefits are estimates. The calculations of direct and indirect global environmental benefits will be further reviewed and refined during preparations for CEO Endorsement.

Co-benefits

Significant co-benefits are anticipated to include:

- Reduced materials usage
- Reduced water usage.
- Decreased demand for new landfills resulting in improvement of land management practices, due to diversion of waste from landfills. Reduced leakages of plastics waste into the water bodies due to reduced landfilling of plastics.
- Diversion of waste (especially plastics and chemicals) from landfills will indirectly contribute to increasing the area of landscapes under improved practices.
- Reduced costs for companies due to improved process efficiencies.
- Improved reputation of the participating companies, which can result in their better positioning in the market.

In addition, the anticipated number of **direct beneficiaries disaggregated by gender** (Indicator 11) as co-benefit of the GEF investment is: 800 in total, with 160 female and 640 male beneficiaries.

7) Innovation, sustainability and potential for scaling up

Innovation

The Circular Economy Regional Initiative is innovative in its approach to accelerate the uptake of circular economy initiatives by incentivizing participating entities to not only implement resource efficient technologies, processes or products, but also to consider how their business practices to integrate circular economy at the strategic level. The innovative financial mechanism will catalyse investments and thereby incentivize a shift to circular economy mindset by providing the minimum level of concessionality required to drive behavioural change.

Sustainability

By mainstreaming circular economy considerations into the participating companies' business strategies (i.e. promoting change in the mindset and behavior) and offering new concessional finance instruments to support investments (i.e. promoting technology, process or product change), the Project is expected to support a sustainable transformation towards circular economy and low carbon pathway across sectors in the Western Balkans and Turkey.

Once the Project's investments have been made and these initial investments are proven to be effective, it is anticipated that financing from commercial lenders will follow. The EBRD will showcase the results of the Circular Economy Regional Initiative to ensure that other lenders understand the potential of this market.

Scaling-up

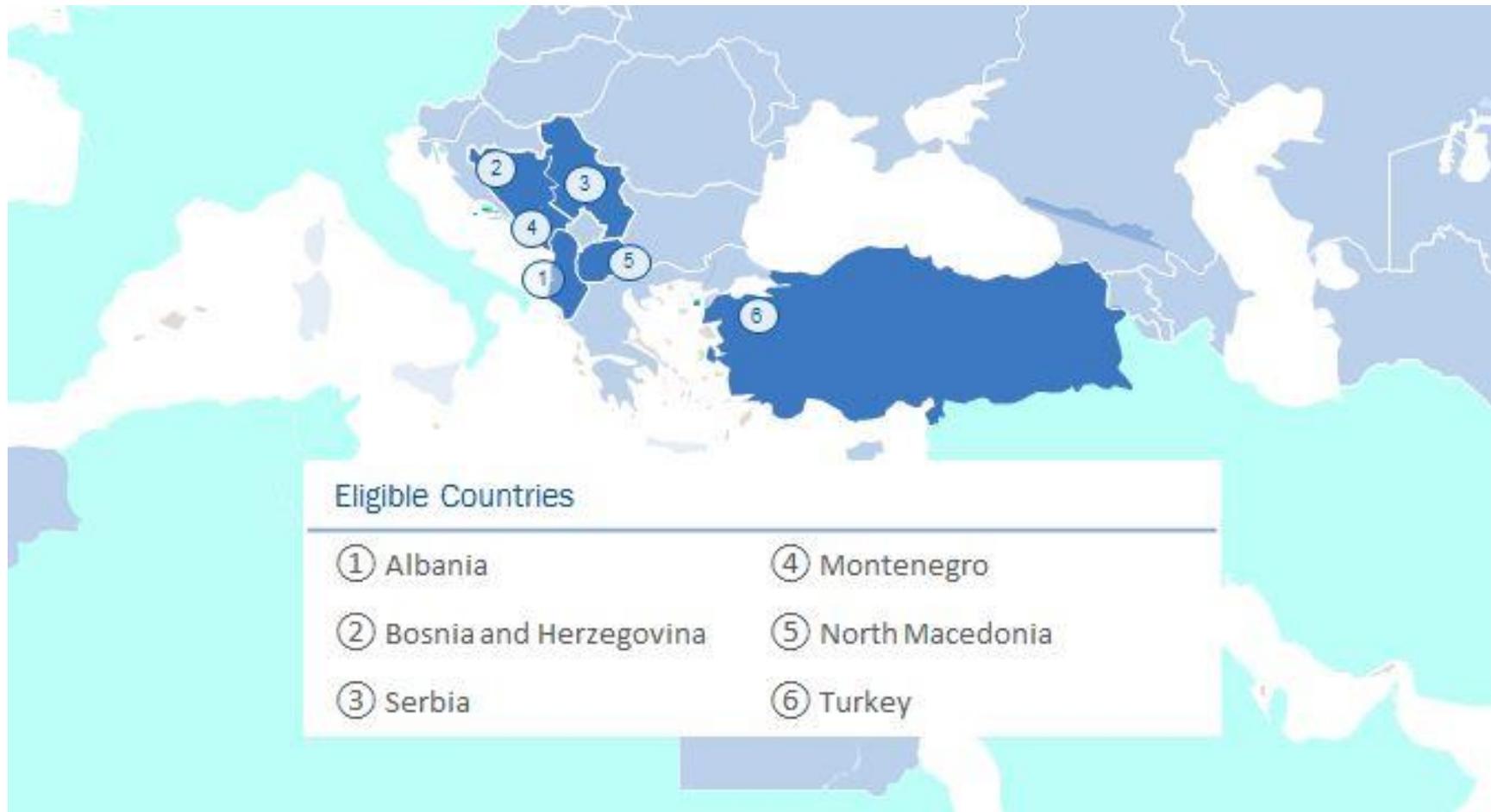
The Project is expected to have a demonstration effect in the target countries where circular economy investments are currently undeveloped. Through demonstration effect, the Project can catalyse a market-level transformation towards circular economy in the private sector by promoting the companies to re-consider their production processes, technologies, products and business model.

Scale-up will be further supported by targeted knowledge and awareness raising, and linking the Project's beneficiaries and learnings with existing platforms such as the Materials marketplace.

1b. Project Map and Coordinates

Please provide geo-referenced information and map where the project interventions will take place.

Country	Geo-Coordinates
Albania	N 41° 19' 39"/ E 19° 49' 8"
Bosnia and Herzegovina	N 43° 50' 55" / E 18° 21' 23"
Montenegro	N 42° 26' 28"/ E 19° 15' 49"
North Macedonia	N 41° 59' 47" / E 21° 25' 53"
Serbia	N 44° 48' 14" / E 20° 27' 54"
Turkey	N 41° 0' 49" / E 28° 56' 58"



2. Stakeholders

Select the stakeholders that have participated in consultations during the project identification phase:

Indigenous Peoples and Local Communities:

Civil Society Organizations:

Private Sector Entities: Yes

If none of the above, please explain why:

In addition, provide indicative information on how stakeholders, including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.

The proposed Project has developed from dialogue between the EBRD and key stakeholders in the participating countries, including the private sector. The Project's key stakeholders are expected to be the private sector in industry and agriculture, as well as municipalities and municipal enterprises to a lesser extent.

The GEF Operational Focal Points have been engaged regarding the proposed Project, and feedback received will be incorporated in the full proposal design.

Other relevant entities – including government agencies, business associations, NGOs – will be identified and engaged during the development of the full proposal and during implementation.

Key stakeholders to be involved and the nature of their involvement are described below.

National and local institutions and public sector entities – Partnership and dialogue with relevant national governments and national and local public sector entities are considered critical for transitioning to Circular Economy. The EBRD has already established close links with governments in all of its countries of operation, including Turkey and Western Balkans, and will continue to foster these relationships through policy dialogue and networking.

Private sector - The private sector is the primary stakeholder during design and implementation of the Project. Private enterprises will play a key role in identifying, developing and implementing projects, and will benefit directly from the financing mechanism established. The EBRD is also committed to building public-private partnerships to promote transition to circular economy where applicable.

NGOs, business associations, civil society and local communities – The Project aims to raise awareness about sustainable production and consumption and its role in climate change mitigation. The information resources will be accessible to NGOs, civil society and local communities, including women’s groups, in the region and beyond for use in their own activities. As such, the resources generated will benefit from, as well as enhance, the expertise of these groups related to addressing the challenges of climate change. Through its local offices, the EBRD has already established close links with the NGOs and business associations in Turkey and the Western Balkans.

Research institutions, regional thematic experts and institutes – During Project preparation and implementation, relevant expert stakeholders from academia, private research and other thematic experts will continue to be identified. These stakeholders will be consulted based on their technical, policy and regional expertise.

The nature of the involvement of all stakeholders will be detailed fully prior to the request for CEO Endorsement.

3. Gender Equality and Women's Empowerment

Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis).

Based on the EBRD's internal policy promoting gender equality of opportunities across its full range of investment and donor-funded activities, all Project Components and their activities will be fully gender inclusive. Gender equality is considered an integral part of sound business management and also key in the EBRD's activities to advance sustainable growth in its Countries of Operations. The EBRD's Strategy for the Promotion of Gender Equality 2016-2020 sets out how the Bank will continue to work to prevent gender discrimination, and to promote gender equality within its mandate. (Note: the EBRD's Gender Strategy is available at: <https://www.ebrd.com/gender-strategy.html>)

Within this Project, all investments will be screened for any gender issues which should be addressed within Child Project implementation – including identification of gender market distortions. There will be several specific Child Project activities that explicitly address gender alongside the Project main objectives. When relevant, those activities will be carried out in coordination with the Gender team of the GEF, and developed at Child Project level when appropriate:

- **At investment project-level, identification of gender issues** in the selected child projects. The impact of the proposed investments on men and women in the project areas will be assessed in the context of their economic activities in specific sectors. Gender differences in terms of vulnerability to the impacts of chemicals and waste, due to occupational roles, household structures, and in waste management responsibilities, will also be assessed. Collection of sex-disaggregated data throughout the project will be critical to identify the main gender gaps, with a focus on economic activities, and where feasible, including epidemiological health data on pollution exposure.
- **Development and Implementation of Gender Action Plans** aimed at addressing gender issues at the project level and contributing to the broader Project objectives and outcomes. Technical cooperation grants will be utilized, if necessary, to support gender activities and contribute to the achievement of the broader project objectives and outcomes. This will build on concerted efforts from different actors at the project-level to ensure gender stakeholders are engaged, capacity and consensus are mobilized, and resources are used to target beneficiaries to leverage both socioeconomic and environmental co-benefits. To provide some examples, potential gender activities at the project level could include the design and implementation of trainings for women in the project areas on issues of use of chemicals and management of waste.
- **Stakeholders' awareness-raising and capacity building** to address gender issues in the context of chemicals and POPs management. Gender aspects will be integrated in education and outreach efforts on management of waste. Gender-sensitive awareness-raising, targeting stakeholders outside of the supply chain, especially governments and civil society representatives, will be carefully designed and implemented. Following the identification of gender issues at the project-level, opportunities for

policy dialogue engagement with local authorities to promote gender co-benefits in the context of addressing hazards and risks with particularly harmful impacts on women may arise. Relevant stakeholders and implementing partners will take into consideration gender differences in the sector and ensure participation of different groups in policy development and decision-making processes, by identifying which stakeholders can support advocacy for sound chemicals, waste management, and gender priorities at the same time. Therefore, the design of interventions will be done with a gender perspective integrated throughout.

Additionally, all investment projects financed by the EBRD are subject to the EBRD's internal procedures, which include an Environmental and Social Action Plan (ESAP) that ensures that all environmental, social, gender and other issues are taken into consideration prior to or during project/investment implementation. Relevant studies, assessments, consultations and approvals will also be undertaken as necessary during the preparation for CEO Endorsement.

Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? Yes

closing gender gaps in access to and control over natural resources;

improving women's participation and decision-making; and/or

generating socio-economic benefits or services for women.

Will the project's results framework or logical framework include gender-sensitive indicators? Yes

4. Private sector engagement

Will there be private sector engagement in the project?

Yes

Please briefly explain the rationale behind your answer.

Consistent with the EBRD's comparative advantage as a GEF Agency, the main beneficiary of the Project is expected to be the private sector, as well as municipalities and municipal enterprises to a lesser extent.

The Project adopts a two-pillar approach to engage the private sector:

- (1) deployment of an innovative financial instrument that facilitates investment by the private sector in circular economy initiatives; and
- (2) support to the private sector to ultimately mainstream circular economy practices in processes and business practices.

Under the first pillar, the proposed Project will address financial barriers by incentivizing investments in circular economy projects.

Under the second pillar, companies will be supported to integrate circular economy and near zero waste approaches into their business strategies. These companies will be able to showcase achievements, thereby building investment appetite for new circular economy investments by other market players.

5. Risks

Indicate risks, including climate change, potential social and environmental risks that might prevent the Project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the Project design (table format acceptable)

Risk category	Risk description	Rating	Risk Mitigation Measure
Political/Regulatory risk	Host country government may be uninterested in improving the regulatory framework supportive of circular economy investments and related initiatives	Medium	As the Project targets several (6) countries political/regulatory risk is spread. This risk is also mitigated by the participating countries selected as those most conducive to adoption of circular economy processes and practices. Companies in the region are increasingly under pressure to adopt more sustainable production processes and produce “greener” products. This is especially evident for those companies who are working in the EU market.
Market risk	Lack of interest/engagement from the corporate sector in the Project	Low	The proposed Project deals with the private sector and aims to scale up the market for circular economy-related investments through an innovative market mechanism. There is a risk that companies may be uninterested in taking out loans under the proposed Project. EBRD’s experience is that concessional loans will incentivize the private sector to participate in this type of Project. The EBRD will engage in providing technical assistance related to understanding the benefits of circular economy approaches, including benefits of cutting costs related to resource efficiency and the increased reputation of companies that are pioneers in reducing their carbon footprint. Additionally, adopting circular

Risk category	Risk description	Rating	Risk Mitigation Measure
			economy strategies and implementing resource efficiency investments will help companies cut their costs significantly due to reduced use of virgin raw material. The Project also targets a range of countries (6) to ensure that a robust pipeline of projects can be identified.
Implementation risk	The regional approach provides additional complexity in implementation i.e. delay, country coordination, and private sector uptake etc.	Low	The EBRD will draw upon its demonstrated knowledge of the markets and track record in the participating countries. The Project will target companies and investments that meet specific criteria (see the description of Component 1).
Climate change	Climatic events may impact the Project directly depending on the sector involved (e.g. agricultural supply chains may be impacted by climate change)	Low	The risk of climate change impacting the Project's sustainability target is addressed in the Project's design. Circular economy-related technologies and processes invested in must be climate resilient.

6. Coordination

Outline the institutional structure of the project including monitoring and evaluation coordination at the project level. Describe possible coordination with other relevant GEF-financed projects and other initiatives.

The EBRD will act as the GEF Agency responsible for the overall management, monitoring and reporting on the Project. The Project will be led jointly by the Energy Efficiency and Climate Change department in EBRD headquarters and the EBRD Resident Offices in the participating countries. A dedicated team, based at EBRD Headquarters and in the EBRD Resident Office (tentatively in Turkey), will be formed of experts with a track record of supporting and implementing environmental projects in the Region, including experts in sustainable energy financing tools and technical experts in process technologies, waste treatment and resource efficiency.

Monitoring and evaluation of the Project will follow the EBRD's Results Based Management approach which uses the project results framework (to be fully developed with relevant indicators and targets at the CEO Endorsement stage) as the basis for planning and adaptive management. The performance indicators will be monitored at regular intervals throughout the project lifetime. To assess the Project's progress toward targets, identify necessary corrective measures and lessons learned, a mid-term review and a final evaluation will be carried out by an independent party at the mid-point and at the end of intervention, respectively.

Assessment of potential synergies and identification of suitable coordination options (including, e.g., by mutual participation in coordination bodies or networks) will be undertaken during the development of the full project for CEO Endorsement, with a view to avoiding duplication and maximizing complementarity of efforts. In addition, the EBRD participates regularly (every quarter) in a national working groups of MDBs and development agencies to ensures synergies and coordination of programming in the participating countries.

7. Consistency with National Priorities

Is the Project consistent with the National Strategies and plans or reports and assessments under relevant conventions

Yes

If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc

The proposed Project is in full alignment with national priorities among the six participating countries to increase the implementation of circular economy technologies and practices related to both chemicals and waste management (specifically to reduce POPs pollution) and climate change mitigation.

Specific national strategies, plans, and reports which are applicable for this Project include the various national implementation plans for the waste management, reduction of POPs, climate change mitigation as well as other environmental strategies – with specific correlation to plans within each country as follows:

Country	National Strategy/plan/ report	How this project is consistent with these documents
Albania	Review and Update of the National Implementation Plan (NIP) for the Stockholm Convention on POPs (2017)	<p>Key sectors identified by the 2006 NIP for Reduction and Disposal of POPs, and the 2017 review and update of the NIP for Albania are: Construction - particularly the energy sector, accommodation and transportation, mineral processing, cement industry, steel industry, waste management, electronics and telecommunications, healthcare and agriculture.</p> <p>POPs in Annexes A and B of the Stockholm Convention including DDT, Heptachlor, Aldrin, Dieldrin, Toxafene (Melipax) and Chlordane have been imported, formulated and used in Albania. Hexachlorane and Lindane have also been produced. PCBs were never produced in Albania. Unintentionally produced POPs such as PCDD and PCDF are a major environmental concern in Albania. The uncontrolled open burning of waste in Albania remains the main source (with 40%) of PCDD and PCDF emissions, which are unintentionally released into the environment.</p>
	Sixth National Report to the Convention on Biological Diversity (2019)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target. Currently all targets outlined in the National Biodiversity Strategy and Action Plan (NBSAP) of Albania are on track (please see below for details).
	Document of Strategic Policies for the Protection of Biodiversity to 2020 (NBSAP), prepared in 2015	The Action Plan presents national objectives aimed at: transposing and implementing the EU acquis on nature protection by 2020; adopting a revised NBSAP (achieved); designating 17% terrestrial protected areas and 6% marine and coastal protected areas, sustainably managed through the adoption of an integrated approach, by 2020; establishing the national ecological network as an integral part of the Pan European Ecological Network by 2020; rehabilitating at least 15% of degraded areas through conservation and restoration activities, including through implementation of management plans for protected areas, and action plans for species, and especially for habitats; increasing activities in the areas of sustainable agriculture and forestry; implementing the Nagoya Protocol on ABS (Albania is a Party to the Protocol); and raising awareness of biodiversity.

Country	National Strategy/plan/ report	How this project is consistent with these documents
	Third National Report on the Implementation of the Cartagena Protocol on Biosafety (2015)	Report outlining the information on the progress for complying with the obligations under the Protocol. One major challenge to implementation was identified as limited financial and human resources.
	National Waste Management Plan 2010-2025	Improve management of municipal solid waste (MSW) in Albania by increasing the availability of public recycling sites for separate collection of waste and other technologies for the use of materials from waste. The Plan sets the target of increasing recycling/composting to 55% of the MSW generated by 2020.
	Third National Communication to the UNFCCC (2016)	The entire process of Third National Communication development, finalized in 2016 served to build the institutional capacity and to raise public awareness on climate change issues in Albania.
	UNFCCC Nationally Determined Contribution (NDC) of the Republic of Albania (2016)	Albania commits to reduce CO ₂ emissions compared to the baseline scenario in the period of 2016 and 2030 by 11.5%. This reduction means 708 kT CO ₂ emission reduction in 2030.
Bosnia & Herzegovina	Bosnia and Herzegovina National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (2015)	The key private sectors identified by the NIP from 2015 are: the metallurgical industry, electricity supply, supply of natural gas, mining, importers and exporters of pesticides, electronics and consumer goods, landfills, producers of mineral products, and manufacturers of chemicals and consumer goods.
	Sixth National Report of Bosnia and Herzegovina to the Convention on Biological Diversity (2019)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target. Currently all targets outlined in the National Biodiversity Strategy and Action Plan (NBSAP) of Bosnia and Herzegovina are on track and main challenges for implementation are identified (please see below for details).
	Strategy and Action Plan for Protection of Biodiversity 2015-2020 (NBSAP)	While the revised NBSAP (2015-2020) has been adopted at state level and represents the basic document for CBD implementation in Bosnia and Herzegovina (BiH), nature protection is regulated at entity level (Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS)) and at district level (Brčko (BD)). Significant progress has been achieved to date towards Aichi Target 1 (awareness increased), Aichi Target 2 (biodiversity values integrated) and Aichi Target 17 (NBSAPs). Areas in which progress is most weak

Country	National Strategy/plan/ report	How this project is consistent with these documents
		relate to Aichi Target 3 (incentives reformed) and Aichi Target 10 (pressures on vulnerable ecosystems reduced), while modest progress has been made towards the remaining targets.
	Second National Report on the Implementation of the Cartagena Protocol on Biosafety (2011)	Report outlining the information on the progress for complying with the obligations under the Protocol.
	Environmental Approximation Strategy of Republika Srpska (2016)	The strategy identifies the gaps in the environmental policy of the Republika Srpska within Bosnia and Herzegovina in order to harmonise it with that of the EU (known as Chapter 27).
	Solid Waste Management Strategy of Republika Srpska 2017–2026	<p>The National Assembly of the Republika Srpska approved the strategy, but the draft of the Republic</p> <p>Waste Management Plan is in the process of preparation. Some EU waste directives have already been transposed (e.g. the Waste Incineration Directive), but by-laws governing the management of certain waste streams have not yet been approved, so their transposition is incomplete. Recycling rates remain at a low level and many of the other key targets remain to be established.</p>
	The Third National Communication and Second Biennial Update Report on Greenhouse Gas Emissions of Bosnia and Herzegovina under the UNFCCC (2017)	The report states that in the last five years, Bosnia and Herzegovina has been facing with several significant extreme climate and weather episodes that have caused substantial material and financial deficits, as well as casualties.
	UNFCCC Nationally Determined Contribution (INDC) of the Republic of Bosnia and Herzegovina (2016)	According to the scenarios - the peak of energy consumption occurs in 2030; according to the baseline scenario (BAU) in 2030 expected emissions are 20% higher than the level of emissions in 1990. Emission reduction that BiH unconditionally might achieve, compared to the BAU scenario, is 2% by 2030 which would mean 18% higher emissions compared to the base year 1990. Significant emission reduction is only possible to achieve with international support, which would result in emission reduction of 3% compared to 1990, while compared to the BAU scenario it represents a possible reduction of 23%.
Montenegro	Montenegro National Implementation Plan for the Stockholm Convention	Key private sectors identified by the NIP from 2014 are: forestry, waste management, construction, and transport. Risks related to

Country	National Strategy/plan/ report	How this project is consistent with these documents
	on Persistent Organic Pollutants (2014)	implementation of the NIP are mainly connected to financial difficulties that are equally encountered with by polluters and those mostly bearing the costs of improving POPs management and state administration authorities that are responsible to ensure suitable POPs management.
	Sixth National Report of Montenegro to the Convention on Biological Diversity (2018)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target. Currently all targets outlined in the National Biodiversity Strategy and Action Plans (NBSAP) of Montenegro are on track. Several important steps have been made towards providing support mechanisms for the new NBSAP, such as the revision of the existing and adoption new legislation related to nature protection and natural resource use.
	National Biodiversity Strategy Action Plan for the 2016-2020 (2016)	Montenegro set the following 7 strategic targets to be achieved by 2020: the de facto practice of biodiversity protection (identified as one of the most important social and political priorities for overall development); biodiversity protection by all stakeholders and by employing a multi-sectoral approach; development of an efficient financing mechanism for biodiversity protection and adaptation for a sustainable biodiversity economy (as part of a green economy); significant reduction in identified direct pressures on biodiversity; creation of preconditions and implementation of targeted measures for biodiversity protection; creation of environmental infrastructure as the basis for national biodiversity conservation; and improvement, systematization and wide and equitable availability of biodiversity knowledge through developed mechanisms.
	National Strategy for Chemicals Management with Action Plan 2019-2022 (2019)	The Action Plan aims to ensure a high level of protection of human and environmental health and improve free trade with the EU and other countries, while encouraging the competitiveness of the Montenegrin economy through the introduction more secure chemicals and technological processes.
	Technology Needs Assessment for Climate Change Mitigation and Adaptation for Montenegro - National Strategy and Action Plan (2012)	Priority sectors are identified as agriculture, forestry, energy and tourism. Barriers that slow down or hinder deployment of technologies at desired scale were identified. In response to identified barriers, solutions were proposed and measures were defined to create enabling environment and accelerate deployment of technologies.

Country	National Strategy/plan/ report	How this project is consistent with these documents
	National Strategy for Sustainable Development by 2030 (NSSD)	Guided by the decision to establish an ecological state, Montenegro is among the first states from South-Eastern Europe region that established strategic and institutional framework for sustainable development in accordance with the standards of developed countries of the EU. Solid waste management is identified as one of the priority areas.
	Second National Communication to the UNFCCC (2015) and the Second Biennial Update Report on Climate Change to the UNFCCC (2019)	In order to improve climate change governance and meet the challenges that Montenegro will face as a result of climate change, there is a need to mainstream climate change concepts into national and sectoral development plans. As part of its ultimate and long-term objectives, this project contributes to mainstreaming of climate change concepts by strengthening the institutional capacity.
	The National Climate Change Strategy (2017)	It provides guidance and direction for climate-change policies, as well as analysis of the mitigation policies measures and actions that will be implemented until 2030 to reduce GHG emissions. The strategy has a strong focus on harmonization with the EU's climate-change legislative framework, as well as mitigation measures, while it is relatively vague on adaptation to climate change.
	UNFCCC Nationally Determined Contribution (INDC) of Montenegro	Montenegro aims 30% emission reduction by 2030 compared to the 1990 base year.
North Macedonia (the former Yugoslav Republic of Macedonia until 2019)	The former Yugoslav Republic of Macedonia National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (updated in 2017)	<p>The action plan implementation strategy will be based on the following objectives:</p> <ul style="list-style-type: none"> - Detailed inventory of all Annex C POPs; - Established system for control of releases from unintentional production; - Established system for long-term permanent monitoring and reporting on the releases from unintentional production.
	The Fifth National Report to the Convention on Biological Diversity (2014)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target. Currently all targets outlined in the National Biodiversity Strategy and Action Plan (NBSAP) of North

Country	National Strategy/plan/ report	How this project is consistent with these documents
		Macedonia are on track and one of the main challenges for implementation is identified as lack of financial resources (please see below for details).
	National Biodiversity Strategy with Action Plan 2018 -2023 (2018)	Priority to the following biodiversity issues: sectoral mainstreaming; information/knowledge of status and trends; legislative and institutional strengthening; conservation; sustainable use of biodiversity components; monitoring, assessment and evaluation, prevention and mitigation of impacts; education (formal and informal); public awareness-raising, information and dissemination; and access and benefit-sharing.
	Third National Report on the implementation of the Cartagena Protocol on Biosafety (2018)	Report outlining the information on the progress for complying with the obligations under the Protocol.
	Waste Management Strategy 2008 - 2020	Waste management is one of the most serious environmental issues in Macedonia. Basic principles for development of Macedonian waste management scheme include; separation at source, separate collection of waste at source, utilise waste as a resource and use waste as a substitute for non-renewable fuel.
	The National Strategy for Nature Protection (2017- 2027)	The strategy integrates geodiversity and biodiversity protection and interconnects actions developed under the related strategies on water, biodiversity, mineral resources, tourism, energy and other sectors, as well as obligations stemming from the ratified international conventions.
	UNFCCC Nationally Determined Contribution (NDC) of the former Yugoslav Republic of Macedonia	To reduce the CO2 emissions from fossil fuels combustion for 30%, that is, for 36% at a higher level of ambition, by 2030 compared to the business as usual (BAU) scenario. The CO2 emissions from fossil fuels combustion cover almost 80% of the total GHG emissions in the country with a dominant share of the following sectors: energy supply, buildings and transport.
Serbia	National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (2010)	<p>During NIP preparation several priorities were identified such as:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Complete establishment of relevant legislation and strengthening of stakeholders capacities for rising of public awareness regarding all POPs;

Country	National Strategy/plan/ report	How this project is consistent with these documents
		<ul style="list-style-type: none"> <li data-bbox="968 232 1814 289">☐ Preparation of overview of import, production and use of new POPs; <li data-bbox="968 334 1885 391">☐ PCB management and phase out management of PCB equipment until 2015 for the equipment above 5 dm³; <li data-bbox="968 436 1885 565">☐ Sound waste management for proper handling of POPs waste and in order to avoid uPOPs; Implementation of BAT/ BEP for avoidance of emission of uPOPs in relevant industrial and other sectors; <li data-bbox="968 610 1871 699">☐ Identification and remediation of POPs contaminated sites on the environmentally sound manner; Addressing the obsolete pesticide issue and prevention of generation of new waste.
	Fifth National Report to the Convention on Biological Diversity (2014)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target.
	The Biodiversity Strategy of the Republic of Serbia (NSBAP) (2011-2018)	The strategy establishes basic principles for biodiversity protection in Serbia, which are harmonized with the principles of EU within the process of harmonization of Serbian legislation with the EU legislation.
	Second National Report on the Implementation of the Cartagena Protocol (2012)	Report outlining the information on the progress for complying with the obligations under the Protocol.
	The National Waste Management Strategy 2010-2019	Prioritizes reducing waste generation and increasing recycling and reuse.
	UNFCCC Nationally Determined Contribution (NDC) of the Republic of Serbia	The target is GHG emission reduction by 9.8% until 2023 compared to base-year (1990) emissions.
Turkey	National Implementation Plan for the Stockholm Convention on Persistent Organic Pollutants (2014)	Identifies that financial resources and mechanisms should be identified as the priority for the NIP. The Regulation on POPs was published in the Official Gazette on 14 November 2018 and became immediately effective. It is fully aligned with EU requirements.
	The Fifth National Report to the Convention on Biological Diversity (2014)	Report outlining the information on the targets being pursued at the national level, implementation measures taken and assessment of progress towards each national target. Currently all targets outlined in

Country	National Strategy/plan/ report	How this project is consistent with these documents
		the National Biodiversity Strategy and Action Plan (NBSAP) of Turkey are on track (please see below for details).
	National Biodiversity Strategy and Action Plan	Turkey's National Biodiversity Action Plan (2018-2028) is an addendum to the NBSAP (2007-2017). It's new objectives are biodiversity pressures and threats; biodiversity components and conservation approaches; biodiversity conservation in agricultural, forestry and fishing areas; awareness of ecosystem services by the public and administrators and sustainable management; ecosystem rehabilitation and restoration and the filling of related legislative gaps; development of high value-added products aligned with the principles of conservation and sustainable use; and establishment of required technical infrastructure.
	Third National Report on the Implementation of the Cartagena Protocol (2015)	Report outlining the information on the progress for complying with the obligations under the Protocol.
	National Waste Management Action Plan (2016-2023)	Identification and prioritisation of strategies for recycling and recovery of waste to be utilised as secondary raw materials.
	Zero Waste Project	The Ministry of Environment and Urbanisation launched the Zero Waste Project in 2018. Awareness campaigns are being held across the country. As a result, Zero Waste Regulation came into effect on 2019; obligating all ministries, public institutions, municipalities and public spaces to comply with establishing zero waste system as described in the regulation.
	UNFCCC Nationally Intended Determined Contribution (INDC) of Turkey	Turkey is yet to ratify Paris Agreement. The INDC targets up to 21% reduction in GHG emissions from the Business as Usual (BAU) level by 2030.
	National Climate Change Action Plan (2011-2023)	The action plan provides a roadmap for the implementation of target for mitigation and adaptation. The priority sectors are identified as energy, industry, buildings, transport, waste, agriculture, land use and forestry.

8. Knowledge Management

Outline the Knowledge management approach for the Project, including, if any, plans for the Project to learn from other relevant Projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.

The Project will engage in raising the capacity of beneficiaries to understand and achieve the benefits of circular economy technologies, process and practices. This knowledge will include how to reduce costs through enhanced resource efficiency. In addition, the Project will support the participating companies in identifying opportunities for resource efficiency and circular economy business models.

The project will bring together corporates, as direct beneficiaries of the financing instrument, which are entities that may range from SMEs to large and influential corporates. The EBRD recognizes the importance that larger corporates play in the circular economy “ecosystem” and their ability to trigger and influence systemic change. These entities can, for example, act as system aggregators in terms setting materials requirements or circularity standards for their suppliers. Therefore, the Project will actively seek to link these corporates through the knowledge management and information platform component activities.

In particular, the Project’s Component 2 - Technical Assistance for Adopting Circular Economy Technologies and Strategies – seeks to consolidate and spread knowledge throughout the value chain of the beneficiary company. Due to the nature of circular economy initiative it is understood that one company’s change in business practices can influence or affect others in the value chain. Further, given the lack of models for financing circular economy initiatives, the experiences of the GEF NGI will provide valuable knowledge to the international community.

The EBRD will monitor and assess the Project and capture lessons learned including through Component 3 – Monitoring and Evaluation. The EBRD will identify key case studies and share them via existing channels. The EBRD will seek to share lessons learned at relevant industry events and may encourage beneficiaries to participate in a non-monetary award. The case studies and other lessons learned materials will be shared with EBRD’s partners and online knowledge platforms.

The EBRD is part the FinanCE Working Group, convened by the Ellen McArthur Foundation in 2015. Together with other financing institutions, pension funds, equity investors and researchers in the Circular Economy, the EBRD focuses on developing the knowledge and tools that the financial sector needs to drive the shift to circular economy. The group has issued two publications, titled “Money makes the world go round” that defined circular economy business models and their competitive advantages, and “Linear risks” that articulated the currently under recognised risks assumed by business when operating according to a take-make-waste paradigm.

The EBRD is also a member of the EU RTD CE Expert Group, with the mission of defining incentives for financing the circular economy and developing a common taxonomy for categorising circular economy activities.

The Project will also seek to connect with global initiatives such as PACE (Platform for Accelerating the Circular Economy). PACE is a public-private collaboration platform and project accelerator for the circular economy. This platform brings together a large global community of public and private sector actors committed to driving public-private action and collaboration on the circular economy.

To further accelerate uptake of knowledge, the Project will link with on-going initiatives and leverage existing networks. Since 2016, the EBRD has funded the first national circular economy network in Turkey called the Turkey Materials Marketplace (TMM). TMM is developed by the EBRD for the private sector and managed by the Business Council for Sustainable Development of Turkey. It is a platform through which participating companies can exchange underutilized materials, by-products and wastes; turning one company's waste into raw material for the other. TMM holds at least two network events in Turkey every year with participation of about 100 people each time, focusing on sharing knowledge, showcasing best practices, as well as "match-making" sessions to facilitate finding material exchange synergies among companies. The TMM is also in close contact with other national circular economy networks, such as the Circular Hotspot in the Netherlands, to retrieve knowledge on the best practices and diffuse it in the market. As part of the knowledge activities of TMM, "Circular Vouchers" scheme was introduced in 2018. Circular Vouchers (up to EUR 20,000 each) are awarded to selected TMM member companies on a competitive basis for purchasing customised consultancy activities to (i) identify the technological options available to introduce alternative raw materials in the production process (ii) and/or transforming by-products in the production, (iii) to process material streams to ensure their marketability in TMM, and (iv) in general to promote innovation in the area of material efficiency.

Additionally, the EBRD is currently in collaboration with various stakeholders in relation to plastics pollution. In Albania, Bosnia and Herzegovina, and Montenegro, EBRD is focusing the food and producers, and relevant business support organizations, to define measures for tackling plastic packaging. The three countries are Contracting Parties to the Barcelona Convention. A technical assistance project is implemented in cooperation with the UN Environment's Center for Sustainable Consumption and Production (SCP/RAP). The activities are aligned with the objectives of the Mediterranean Marine Litter Regional Action Plan.

Serbia is among five selected countries where EBRD is conducting a study on the state of plastic packaging management applied by the largest retailers in the country. The assignment includes preparation of country-specific Roadmaps for retailers and their suppliers for improved management of plastic packaging - including avoidance, reuse, recycle, redesign. Priority actions will cover both technical solutions and governance issues (e.g. accountabilities, internal processes and tools, competencies, disclosure).

In this context, EBRD Circular Economy Project will also seek for opportunities for collaboration with Global Plastic Action Partnership via knowledge sharing and dissemination activities. The GPAP is a structured global platform focused on plastic pollution, with the intent of enabling leaders from public, private and civil society to come together and to develop action plans. While the GPAP priority countries do not include those covered by the Project or the EBRD's Countries of Operation, the Project will seek opportunities for collaboration, including via knowledge sharing and dissemination activities. Potential collaboration modalities will be explored during preparation for CEO Endorsement.

Part III: Approval/Endorsement By GEF Operational Focal Point(S) And Gef Agency(ies)

A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S): (Please attach the Operational Focal Point endorsement letter with this template).

Name	Position	Ministry	Date
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ANNEX A:

Instructions. Please submit an indicative termsheet in this section. The NGI Program Call for Proposals provided a template in Annex A that can be used by the Agency. Agencies can use their own termsheets but must add sections on Currency Risk, Co-financing Ratio and Financial Additionality as defined in the template provided in Annex A. Termsheets submitted should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. Please ensure that by copying the termsheet in the section of the PIF/PFD, the format allows reviewers to read the content.

GEF – INDICATIVE TERMSHEET

Project/Program Title	Circular Economy Regional Initiative
Project/Program Number	TBD
Project/Program Objective	Catalysing transformational change in the target countries' waste management framework under the circular economy concept. The Project takes a full cycle approach, from minimisation at the source to waste valorisation, reduction and elimination. The Regional Project also aims to scale up the market for waste minimisation investments by addressing existing market barriers as well as mobilising funds for investments with high potential for replicability and minimal market penetration where markets will be defined on a project-by-project basis.
Countries	Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, Turkey
Agency presenting the Project	EBRD
Project Financing	GEF: USD 13,761,468
Currency of the Financing	All local currencies provided by the EBRD [EUR, USD, TRY, RSD, ALL, MKD, and BAM]
Currency risk	The EBRD provides mostly hard currency loans in the Western Balkans and Turkey. In principle, the proposal aims to finance in hard currency. Loans will be made in a currency, where available, which matches the currencies of the Borrowers' cash flows and debt service. If requested by the clients, providing concessional loans in local currency can be considered. In that case, a currency risk would arise. In the last 10 years all local currencies depreciated against USD with the following approximate ratios; TRY 78%, RSD 40%, ALL 15%, MKD 27%, and BAM 25%.
Co-financing ratio	1:10

	<p>The co-financing ratio refers to the amount of Non-GEF financing (EBRD and any B-lender) to GEF financing dedicated for the circular economy investments. Therefore, any financing for working capital, refinancing or other capex would be out of the ratio calculation definition. Accordingly, in our proposal we target a co-financing ratio of 10:1.</p> <p>In case the co-financing ratio of an individual project is higher than 10:1, the interest rate reduction mechanism would be adjusted (higher interest margin reduction would be applied) so that the total benefits of the project would be equivalent to that of a co-financing ratio of 10:1. Thus, the benefits of GEF funding would not be diluted from a higher co-financing ratio.</p>
Financial additionality of GEF resources	An instrument that targets and incentivizes technology implementation through lower interest rate is very innovative and is otherwise not available to the beneficiaries. A 10-year tenor is not available in the participating countries.
Use of proceeds	Development of at least 8 projects (investments) focused on innovative resource efficiency technologies and circular models in the Western Balkans, which will be able to create examples across industrial sectors; and at least 2 projects (investments) technologies/circular models in Turkey that have not been demonstrated to date.
Financing instruments	Loans
Terms and conditions for the financing instruments	<ul style="list-style-type: none"> • GEF pricing will be initially aligned with EBRD terms, which would be parallel to commercial terms on the market and at fair market price. The interest rate will step down once two (2) milestones (technology installation and transformational change to circular economy) are achieved; however, it will not be less than 0.5% (floor). The maximum interest rate will depend on the market conditions. Overall, the average interest margin would depend on the achievement and timing of the milestones. Please see attached Annex 3 for an example on indicative interest rate discounts. • The margin reduction mechanism would be attractive enough to incentivize the companies to implement the circular economy projects. On the other hand, if a company does not achieve the milestones, the interest margin would stay at market level, which prevents crowding out other private sector financiers at the initial phase. Different amortization schemes would not change the result, since bullet repayment would also interpolate interest margins depending on the date of achieved milestones.

	<ul style="list-style-type: none"> • The approach for observing/monitoring milestone achievements is different for each milestone and is additional to the regular EBRD portfolio monitoring, which takes place in six month intervals after financial closure. <p>Milestone 1 – Technology Installation: The borrower is to notify EBRD after technology installation by submitting satisfactory documentation as evidence; such as technical description, commissioning and start-up protocol, invoices and photos etc.</p> <p>Milestone 2 – Transformational change to circular economy: EBRD will provide post-signing technical assistance to the borrower in order to assess the company’s current operations and business model (base case) and develop a roadmap for introducing/enhancing circular economy aspects into the Company’s business strategy in line with EBRD’s Guidance Note on Circular Economy. Since each company’s base case is different, the monitoring will be conducted on a case by case basis.</p> <ul style="list-style-type: none"> • Security: secured or unsecured • Tenor: 10 years • Covenants: certain financial ratios; restrictions on capex, dividends, new borrowings, negative pledge, etc., customary to this kind of transactions. • Policy: The companies invested will not include financial intermediaries. Nevertheless, the EBRD takes a robust approach to assessing prospective projects. Integrity Due Diligence includes, but is not limited to, examining and assessing integrity risks and issues, such as: <ul style="list-style-type: none"> - the ownership structure and the identity of ultimate beneficial owners; - the origins of a company and the source of wealth of key figures; - business practices and associations with counterparties; - the presence of politically exposed persons; - the quality of AML and CFT controls; - government-issued licences and permits; - the use of offshore jurisdictions; - links to countries or individuals subject to international sanctions.
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	<ul style="list-style-type: none"> • B-lenders: Participation of B-lenders is not foreseen in the Western Balkans, since the projects are expected to be small to medium size. In Turkey B-lenders may be involved, and in such cases the GEF's additionality would be assessed case by case. B-lenders would finance the working capital or other capex which would not involve circular economy investments. Therefore, GEF's financial additionality would not be affected.
Financial Barriers Addressed	<ol style="list-style-type: none"> 1. Limited access to commercial funding: 2. Early movers disadvantage: 3. Limited access to commercial funding that is structured in a way to incentivise sustainability and green investments: 4. Risk Perceptions

ANNEX B:

Instructions. Please submit a reflows table as provided in Annex B of the NGI Program Call for Proposals. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.

Item Data	Item Data
GEF Project Number	TBD
Estimated Agency Board approval date	TBD
Investment type description	Loan
Expected date for start of investment	1 January 2021
Amount of investment (USD GEF funds)	GEF: USD 13,761,468
Amount of investment (USD co-financing)	USD 140m from EBRD
Estimated interest rate/return	0.5% - 6.0% annually depending on the market conditions. Initial interest rate will be parallel to EBRD loan; discount subject to achievement of two milestones (technology installation and transformational change to circular economy) In case co-financing ratio of a project is higher than 10, the interest rate reduction mechanism will be adjusted (higher interest margin reduction would be applied) so that the total benefits of the project would be equivalent to that of a co-financing ratio of 10. Thus, the benefits of GEF funding would not be diluted from a higher co-financing ratio.
Maturity	10 years

Estimated reflow schedule	From 30 June 2021
Repayment method description	Amortizing or bullet
Frequency of reflow payments	Semi-annual repayments if amortizing; 1 repayment if bullet
First repayment date	Depending on the repayment schedule of the first loan structured; however, not earlier than 30 June 2021
First repayment amount	Depending on the size of the first loan structured
Final repayment date	Depending on the repayment schedule of the last loan structured; however, not later than 31 December 2035
Final repayment amount	Maximum payment would be USD 13,761,468+ accrued interest
Total principal amount to be paid- reflowed to the GEF Trust Fund	USD 13,761,468
Total interest/earnings amount to be paid- reflowed to the GEF Trust Fund	Depends on the average interest rate; however, not lower than USD 375,000 (assuming minimum interest rate of 0.5% and amortizing loans)

Reflows Schedule

Reflows schedule for amortizing and bullet loans according to the following assumptions;

GEF loan amount: USD 2.0 million

First disbursement date: 1 January 2020

Initial interest margin: 3.0%

Euribor: nil

First milestone achievement date: 30 June 2021

Second milestone achievement date: 1 January 2023

		Amortizing Loan Structure (m USD)			Bullet Loan Structure (m USD)		
Date	Interest Rate	Outstanding Balance	Principal Repayment	Interest Repayment	Outstanding Balance	Principal Repayment	Interest Repayment
01-Jan-20	3.00%	2.00			2.00		
30-Jun-20	3.00%	1.90	0.1000	0.0298	2.00		0.0298
01-Jan-21	3.00%	1.80	0.1000	0.0289	2.00		0.0304
30-Jun-21	1.50%	1.70	0.1000	0.0266	2.00		0.0296
01-Jan-22	1.50%	1.60	0.1000	0.0129	2.00		0.0152
30-Jun-22	1.50%	1.50	0.1000	0.0118	2.00		0.0148
01-Jan-23	0.75%	1.40	0.1000	0.0114	2.00		0.0152
30-Jun-23	0.75%	1.30	0.1000	0.0052	2.00		0.0074
01-Jan-24	0.75%	1.20	0.1000	0.0049	2.00		0.0076
30-Jun-24	0.75%	1.10	0.1000	0.0045	2.00		0.0074
01-Jan-25	0.75%	1.00	0.1000	0.0042	2.00		0.0076
30-Jun-25	0.75%	0.90	0.1000	0.0037	2.00		0.0074
01-Jan-26	0.75%	0.80	0.1000	0.0034	2.00		0.0076
30-Jun-26	0.75%	0.70	0.1000	0.0030	2.00		0.0074
01-Jan-27	0.75%	0.60	0.1000	0.0027	2.00		0.0076
30-Jun-27	0.75%	0.50	0.1000	0.0022	2.00		0.0074
01-Jan-28	0.75%	0.40	0.1000	0.0019	2.00		0.0076
30-Jun-28	0.75%	0.30	0.1000	0.0015	2.00		0.0074
01-Jan-29	0.75%	0.20	0.1000	0.0011	2.00		0.0076
30-Jun-29	0.75%	0.10	0.1000	0.0007	2.00		0.0074
01-Jan-30		-	0.1000	0.0004	-	2.0000	0.0076
TOTAL			2.0000	0.1608		2.0000	0.2400

ANNEX C:

The GEF Agency submitting the PIF or PFD is required to respond to the questions in Annex C of the NGI Program Call for proposals in order to demonstrate its capacity and eligibility to administer NGI resources as established in the Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017 (Annex 5).

Overview: EBRD & Concessional Finance

The EBRD has worked with donors since its start and currently manages relations with a broad and varied donor community of some 50 different partners, primarily governments and multi-lateral organisations. In aggregate terms since 1991, the cumulative amount of extended support stands at about EUR 6.6 billion²⁵ [1] (EUR 7.6 billion when including allocated net income).

Access to grant funds and concessional finance has proven critical for enabling business operations and to achieve the Bank's transition aims, especially in areas and regions with higher risks and deeper challenges. Not only do they unlock investment opportunities that would not be financed on purely commercial terms, they also make it possible to overcome market and institutional failures where they persist, and address externalities. To safeguard against market distortions, the use of co-investment grants is subject to similar discipline as the use of the Bank's ordinary resources, i.e. promoting the transition to market economies while observing the requirement of additionality.

The Bank's donor-funded portfolio has continued to grow in recent years and grants have become a vital tool to support many of the Bank's operations with many business lines making active use of such resources.

Chart 1: Inflows of Donor Funds, by type 2014-2018

The EBRD's work with donors and their funds is guided by a number of Board approved documents²⁶[2], notably the "Future Directions for Grant Co-financing" paper (BDS15-079/F), which outlines how the Bank should use grants selectively and strategically, operate as a modern development partner acting in line with best international practice, and be an efficient manager of a sustainable grant business.

²⁵[1] Including contributions to the EBRD managed funds

²⁶[2] This includes the Strategic and Capital Framework 2016-2020 (BDS15-013/F), Strategy Implementation Plan: 2017-2019 (BDS16-190/F), Future Direction for Grant Co-Financing (BDS15-079/F), Arrangements for Cost Sharing between Donors and Clients – Policy Review (BDS14-024/F), Staff Guidelines for the Use of Co-Investment Funds in EBRD operations (2015), Fees for Donor Funds Policy Review (BDS16-014, BDS16-014/Rev 1), the Bank's Operational Manual as well as Country and Sector strategies.

For an Overview of our Financial Processes and other relevant information, please see the following documents:

- EBRD Disbursement Handbook for Public Sector Loans <https://www.ebrd.com/documents/operation-administration/disbursement-handbook.pdf?blobnocache=true>
- Guidelines to Loan Disbursement for Non-Sovereign Operations <http://www.ebrd.com/downloads/research/guides/guidelines.pdf>
- Please see the following Webpage “EBRD projects: the financing process” and associated links: <https://www.ebrd.com/work-with-us/project-finance/funding-process.html%20>
- EBRD Project Finance: <https://www.ebrd.com/work-with-us/project-finance.html>
- EBRD Loans Overview: <https://www.ebrd.com/work-with-us/project-finance/loans.html>
- EBRD Basic Documents: <https://www.ebrd.com/News/Publications/Institutional-Documents/Basic-Documents-Of-The-Ebrd.Html>
- Investor Information webpage with Relevant Links Related To Credit Ratings (Moody’s, Fitch, Standard & Poor’s), Local Currency; Investor Presentations; And Financial Statements: <https://www.ebrd.com/Work-With-Us/Capital-Markets/Investor-Information.Html>

GEF Queries and EBRD Response

(a) Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;

The EBRD has a long and demonstrable track record to accept financial returns and transfer these to donors, including climate funds such as the GEF, GCF and CTF, amongst others.

The EBRD currently reflows principal, interest and other related fees to the GEF Trust Fund on a quarterly basis per Section 7.1 and Section 12.2 (e) of the FPA.

As required, we can provide examples of these reflow statements from the EBRD to the GEF Trust Fund.

Please see below an overview of the EBRD organisation, including relevant Banking, Donor-Co Financing, Finance & Operations, and Risk & Compliance departments that are involved in the operational use of GEF NGI Funds.

b) Ability to monitor compliance with non-grant instrument repayment terms;

The EBRD is obliged to manage donor funds as prudently as its own funds. In practice, this means that the same broad principles to donor fund risk management as those applied to EBRD's Treasury funds.

Where GEF NGI funds are utilised, these are placed within our loan agreements. Controls are in place to ensure this is the case, whereby both the Donor Co-Financing Team and the Operational Banking Team check these during our review process before these are issued.

The core responsibility for monitoring compliance lies with the Operational Banking Team who oversee repayment terms. The Donor Co-Financing Team also has the capacity to view the status of payments via our DTM banking software. In addition, the Operations Administrations Department oversee the compliance with covenant and conditions precedent, which are specified in the loan agreement. In the eventuality of non-compliance, there are controls and systems in place to escalate the compliance of repayment terms with appropriate teams (i.e. Risk and Corporate Recovery).

Please see below an overview of our investment decisions. GEF NGI terms will be reviewed at project conceptualisation, and will pass through a number of control processes prior to first disbursement. From an operational perspective:

- The monitoring phase begins immediately after Board Approval and continues until repayment or, for equity, divestment
- The monitoring focuses not only on credit elements, but also development milestones agreed with the client (related to e.g. business or environmental targets, changes in corporate governance)
- The additional monitoring elements ensure in-depth understanding of the client's business and increase the probability of identifying problems early.

c) Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;

The EBRD provides project finance, mainly to the private sector. In 2018 EUR 9.8 billion was invested across 395 projects. Of this 75% was in the private sector and 83% was debt financing. The EBRD has 1,962 active investments. The average loan is EUR 16m. The

average equity investment is EUR 15m with a holding period of seven years. Key sectors include: energy, infrastructure, financial institutions, manufacturing and services, agribusiness, equity funds, ICT and property & tourism.

The EBRD has very strong credit strengths, namely: strong support from diversified global shareholder base; conservative risk management and financial policies; and AAA/Aaa/AAA rating with stable outlook. As a result, the EBRD has the capacity to track financial returns. This is performed by the Banking Operations team. The Summit and DTM software tools help to track expected cashflows and the project status across all funds. The Donor Co-Financing Team may also view the status of the returns via the DTM Banking Software and raise queries in periodic meetings related to the use of GEF Funds, where required.

d) Commitment to transfer reflows twice a year to the GEF Trust Fund:

The EBRD has the systems in place to transfer reflows to the GEF Trust Fund. We currently reflow principal, interest and other related fees to the GEF Trust Fund on a quarterly basis, as per Section 7.1 and Section 12.2 (e) of the FPA.

e) And, in case of NGI for private sector beneficiaries: Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency

The EBRD has a very strong track record in repaid principal and financial returns from the private Sector. Again this would be tracked and overseen by the banking teams who would follow set processes and controls. As the GEF is aware, this is Business as Usual for the EBRD, so please advise if you require further information. Please see the links provided within the document, including the investor presentation.

f) And, in case of concessional finance for public sector recipients: Track-record of lending or financing arrangements with public sector recipients

The EBRD also lends for public sector recipient. The same processes and controls are applied to all EBRD operations and clients.

g) And, in case of concessional finance for public sector recipients: Established relationship with the beneficiary countries' Ministry of Finance or equivalent.

The EBRD has Resident Offices in every country where we lend. It is the responsibility of these offices to maintain strong and constant relationships with the Governments of these countries, including the Ministry of Finance or equivalent. Given the nature of public sector operations, intensive dialogue takes place before any loan is signed to ensure that sovereign or sub-sovereign loans can be guaranteed.