

# Circular economy in Africa: examples and opportunities

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This article is part of a collection of insights on the circular economy in Africa. The goal of this collection is to explore the potential of the circular economy in a selection of key economic sectors in African countries and highlight examples of the circular economy in action. The sectors explored in this study are: food and agriculture; fashion and textiles; plastics; e-waste; automotive; and the built environment. The collection also considers the key role of public policy and the financial sector in creating the conditions needed for the transition to a circular economy.

The collection is the result of a joint effort led by four organisations: Chatham House; the Ellen MacArthur Foundation; ICLEI Africa; and the University of Lagos, who worked closely to combine their complementary knowledge and expertise on this broad topic. While the collection was curated by the Ellen MacArthur Foundation, it reflects a plurality of views and analyses.



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# Introduction

The financial sector plays a key role in scaling up the funding needed to accelerate the shift to a circular economy and investments in this area are growing exponentially.<sup>1</sup> Combined assets under management (AUM) in public equity funds dedicated to the circular economy had grown to over USD 8 billion in June 2021 – a 26-fold increase since December 2019. Existing research provides an early indication that finance is not only a key enabler for the circular economy transition but that the circular economy is also an opportunity for the financial sector, as it can create value for asset managers, banks, and other financial services firms and help to manage risk.<sup>2,3</sup>

Over the last decade, African countries have attracted significant investment from public and private sources, alongside development finance and foreign direct investment (FDI). The majority of this investment has been in the linear economy including resource-intensive sectors such as mining and extractives, transport infrastructure (roads, airports, etc.), energy, agribusiness, and manufacturing. More recently, new investment opportunities in sectors such as telecommunications, health, financial services, creative industries, and renewable energy technologies have been emerging.<sup>4</sup> In addition, innovative financing vehicles such as impact investing with the goals of generating positive societal and environmental outcomes have gained traction across many African countries.<sup>5</sup>

The circular economy offers a number of new investment opportunities. According to the United Nations Environment Programme (UNEP), the value of the potentially recoverable resources that are not currently being collected in Africa is estimated at USD 7.6 billion per year.<sup>6</sup> Realising the circular economy opportunities, however, will not only require investments in waste management to support keeping products and materials in use, but also in innovations and circular business models in the formal and informal sectors such as repair, reuse, and sharing models.<sup>7</sup>

# Examples of finance measures for the circular economy in action

1

Public sector financing, technical assistance, and advisory programmes and initiatives

2

Blended finance

3

Impact investing by the private sector

4

Philanthropy, grants, and risk capital

1

## Public sector financing, technical assistance, and advisory programmes and initiatives

International institutions have initiated a range of circular economy-related projects in Africa, e.g. the Global Environment Facility (GEF) supports a multi-country project promoting the circular economy in the textile and garment sector in Lesotho, Madagascar, and South Africa<sup>8</sup> through grants with co-financing from national governments to enable the sustainable management of chemicals and other textile waste. In another example, UNEP and GEF support the Nigerian government in the design and implementation of the national e-waste EPR policy (see [Electronics and e-waste](#) article for more detail).

## 2

### Blended finance

Blended finance instruments include concessional capital, guarantees, risk insurance, technical assistance funds, and design-stage grants. Blended finance mechanisms can be used to de-risk investments and attract private sector capital for circular economy projects, which is particularly important in the African market. One example of how blended finance can be used to support small- and medium-sized enterprises (SMEs) is the African Agriculture and Trade Investment Fund. It raised USD 170 million through a blended structure with concessional capital (in the form of first loss capital) and a parallel technical assistance facility that helped to attract USD 106 million from private investors.<sup>9</sup> Similar approaches could be used to enable circular economy investments in African SMEs in the textile, plastics, manufacturing, and automotive sectors.

## 3

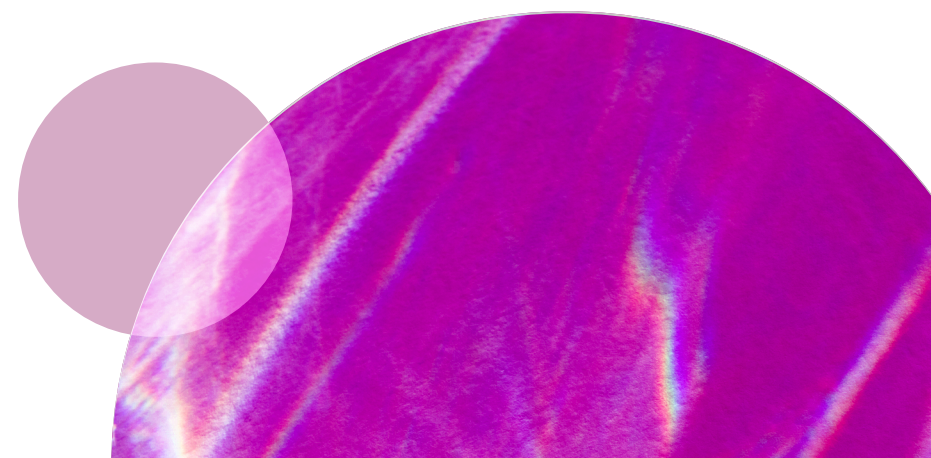
### Impact investing by the private sector

Impact investments are made into companies and funds with the intention of generating positive societal and environmental impacts alongside a financial return. The size of the global impact investing market pre-pandemic was estimated to be in the order of USD 502 billion.<sup>10</sup> In 2020, over 40 percent of impact investment funds continue to be allocated to African countries, and more than 50 percent of investors surveyed by the Global Impact Investor Network plan to increase their Africa exposure over the next five years.<sup>11</sup> Alignment on financing the Sustainable Development Goals is relevant for the circular economy, because intergovernmental bodies such as the United Nations Development Programme (UNDP) and others are realising that impact investing is critical in trying to fill the SDG financing gap. Circular economy solutions contributing to SDGs need to be linked up with impact investment and SDG finance mechanisms.<sup>12</sup>

## 4

### Philanthropy, grants, and risk capital

The African Development Bank (AfDB), through knowledge-sharing and public-private partnerships, has established the Africa Circular Economy Facility (ACEF) – a multi-donor trust fund to support the adoption and diffusion of circular practices in regional member countries.<sup>13</sup> The AfDB's Korea-Africa Economic Cooperation (KOAFEC) has funded a green investment programme for waste management and the circular economy in Algeria, Ethiopia and Rwanda to illustrate the business case for sustainable waste management activities in Africa and unlock opportunities for public, private and public-private investments.<sup>14</sup>



# Capturing the opportunity

## Shifting public funding towards circular investments

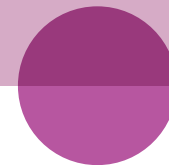
There is an opportunity to shift public funding towards circular investment in the wake of the pandemic. For the circular economy to offer a pathway for a resilient recovery it would need to be included into the economic stimulus and recovery packages that are being mobilised currently. International donors and African governments have allocated recovery budgets and mobilised domestic resources. In December 2020, African Environment Ministers launched the African Green Stimulus Programme<sup>19</sup> – a commitment to policies and programmes linking public health, pollution abatement, climate action, biodiversity conservation, ecosystems integrity, and socio-economic equity. Stepping up governmental commitment to green recoveries will provide new opportunities and reduce the risk for the private sector to invest in circular economy solutions while

contributing to the SDG agenda. Further de-risking of private sector investment in circular innovations (e.g. through blended finance mechanisms) is required to scale up pilot projects, start-up businesses, and innovations.

Combined efforts by development finance institutions (DFIs) and governments are needed to design and implement circular economy finance products that can scale up innovations and business models. These instruments have been already used widely in the SDG context, especially in financing sustainable energy infrastructure in Sub-Saharan Africa.<sup>20</sup> Increased activity from national DFIs could mobilise more local investors to invest in circular economy practices and businesses. These local actors could then play an important role in catalysing further investment in the region.

## Investments in the SDGs

There is a significant finance gap to achieve the Sustainable Development Goals (SDGs) and circular economy solutions can make a significant contribution to filling this. According to the International Finance Corporation (IFC) and the UN Sustainable Development Solutions Network (SDSN) to enable low- and middle-income countries to meet the SDGs by 2030, the funding gap is between USD 1.4 trillion and USD 3 trillion per year.<sup>15</sup> The UN identified the circular economy and zero-carbon energy as one of the six SDG Transformations which are needed to achieve sustainable development.<sup>16</sup> At the same time, the UN SDGs progress report of 2020 noted that SDG12 – Responsible Consumption and Production has historically been underfunded and yet circular economy solutions play a key role in delivering this SDG alongside 11 others.<sup>17</sup> Especially African Micro, Small, and Medium Enterprises (MSMEs) face a large finance gap which was estimated to be over USD 331 billion in 2018, according to the IFC.<sup>18</sup> Many circular economy innovations and practices can be applied to meet several SDGs, but many of these solutions are currently not being funded or invested in. Examples include circular economy solutions to address the need for clean water and sanitation (SDG6) or clean and affordable energy (SDG7). Despite these opportunities, the majority of circular economy finance initiatives and investments are still taking place in the industrialised economies of Europe, USA, and China.



## Developing and adopting circular economy taxonomies

Circular economy finance in African countries is facing many of the same constraints it is in other parts of the world, including lack of information, paucity of data, and inadequate disclosure and transparency of standardised data on circularity performance and risk (both historical and forward-looking). Furthermore, a limited understanding of circular opportunities and high-risk perception among financial institutions and fund managers is an additional barrier to providing finance for innovative start-ups and SMEs. To overcome these barriers, the development and adoption of circular economy taxonomies (e.g. similar to the EU Taxonomy<sup>21</sup>) will help investors understand and assess what is circular and what is not. Furthermore, integrating circular metrics into investment decision-making, such as those that underpin the Ellen MacArthur Foundation's Circulytics<sup>22</sup> or other dedicated circularity measurement methodologies, and setting relevant, ambitious KPIs to support impact evaluation will be necessary.

## Integrating circular economy as a key focus area for investment

DFIs need to take steps to understand how to integrate the circular economy as a key focus area for their investment and funding programmes in Africa, and build capacity among their national partners. Unless there are concerted efforts among governments, DFIs, private investors, and philanthropic sectors, circular economy finance will likely follow a similar pattern as climate finance – currently only 3% of global climate finance flows into the African continent.<sup>23</sup>

## Creating a supportive public policy environment

Strengthening political commitment towards the circular economy through government policies and regulations on waste reduction and EPR will also provide more certainty for DFIs and increase the confidence of private investors. These policies are important to de-risk investments in circular economy solutions and business models.<sup>24</sup> Furthermore, governments can set the direction through fiscal incentives and adequately pricing externalities. Regional guidelines on circular economy finance for use by financial institutions and training on the integration of circular economy considerations in credit management are tangible solutions. To find out more about policies accelerating the circular economy in Africa, see the [Public Policy article](#) in this collection.



## Case study

# Fund (GIF) investment in Mr Green Africa



Photo credit:  
Mr Green Africa

The Global Innovation Fund (GIF) is a non-profit innovation fund headquartered in London that invests in the development, rigorous testing, and scaling of innovations targeted at improving the lives of the world's poorest people.

One of the companies GIF invested in is Mr Green Africa.<sup>25</sup> GIF provided USD 1 million in equity and debt to enable testing and the scaling-up of the business. Mr Green Africa is a tech-enabled plastics recycling company which offers an in-house end-to-end process for recycling, purchasing recyclates directly from 2,500 informal workers. The processing plant processes the collected plastics and sells post-consumer recycled plastics to plastics manufacturers for use by large fast-moving consumer goods (FMCG) companies.

With GIF's investment, Mr Green Africa is developing and building the business to grow plastics processing volumes by opening further trading points, onboarding additional sourcing agents, investing in IT upgrades to run a digital cashless operation, running additional shifts on existing processing machinery, and investing in new machinery to increase the quality of their recycled plastics.<sup>26</sup>

# Endnotes

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