CCES 2025 Session Summary

Financing the Shift: De-risking Investments to Scale Circular Economy Solutions

The circular economy offers a major opportunity for the financial sector to deliver on climate commitments and other environmental and social objectives, while benefiting from sources of new investment and long-term value creation. This session will explore work underway in Canada to better understand the role of the finance sector in supporting the scale up of solutions, and the potential to further de-risk the flow of capital and insurance to circular economy businesses, projects, and infrastructure.

Date / Location: Wednesday, April 16, 2025 / Montreal, Canada

Speakers

- **Garrett Jones**, Vice President, Corporate Sustainability & Finance, Delphi (moderator)
- **Patrycja Drainville**, Director, Sustainable Finance, Scotiabank
- **Chad Park**, Vice President, Sustainability & Citizenship, Co-operators
- **Mathieu Sasseville**, Director, Sustainable Investments & Impact, Fondaction
- **Chrystal Healy**, AVP, Sustainability, BDC

SESSION SUMMARY

Garrett Jones, Delphi

Garrett Jones, VP of Corporate Sustainability and Finance Sector Lead at Delphi, a strategic consulting firm, welcomed attendees to a panel discussion centered on the financial sector's crucial role in supporting the transition to a circular economy. He noted the high anticipation for the session, emphasizing the need for investment to scale circular economy initiatives. Conversely, he pointed out the significant opportunities the circular economy offers financial institutions in terms of de-risking investments, meeting sustainability and climate commitments, accessing new markets, and creating long-term value.

Garrett introduced the diverse panel of experts representing commercial and corporate banking (Patrycja from Scotiabank), insurance (Chad from Co-operators), small and medium-sized venture capital (Mathieu from Fondaction), and business development (Chrystal from BDC). He mentioned that each panelist would provide a more detailed introduction later.

The core objectives of the 75-minute session are to explore the risks and opportunities associated with circular finance, highlight the strategic importance of the financial sector in scaling circular solutions, and investigate opportunities to de-risk financial capital flows through circular economy principles.

Garrett then shared his work with Circular Economy Leadership Canada and UNEP FI in developing a user-friendly circular finance guidance document for financial institutions. This sector-led initiative, through the [Circular Finance Working Group], aims to help financial institutions identify circular economy criteria and develop appropriate financial instruments and frameworks. He explained that circular finance fundamentally aligns capital flows with the circular economy, enabling value creation, de-risking financial flows, and assisting institutions in achieving their sustainability and climate goals.

The Working Group is currently in its second phase, focusing on operationalizing the guidance. A key aspect of this involves understanding the risks and opportunities associated with both the linear and circular economies. While the risks of the linear economy, such as resource scarcity and supply chain vulnerabilities, are well-known, the session will also delve into the financial risks and perspectives on the circular economy. Ultimately, the discussion aims to illustrate how circular economy initiatives can mitigate traditional linear economy risks, thereby facilitating capital mobilization and acting as a de-risking tool for financial flows.

Patrycja Drainville, Scotiabank

Patrycja Drainville from Scotiabank's Capital Markets team outlined the bank's efforts to integrate sustainability across its diverse range of financial products, including loans, bonds, securitization, supply chain finance, trade finance, deposits, and advisory services. Her team operates product-agnostically within capital markets, focusing on embedding sustainable investments throughout the capital structure.

Patrycja highlighted the significance of labeled bonds like green bonds, sustainability bonds, and sustainability-linked instruments, which are structured following frameworks such as those by the International Capital Markets Association. These instruments direct capital towards specific environmental or social projects over a defined period. While governments have long been issuers, the corporate sector has increasingly adopted this approach. Green bonds, though broadly labeled, specify the allocation of funds in their frameworks, including categories relevant to the circular economy such as circular adapted products and processes, eco-efficient products and building materials, pollution prevention and control, and waste diversion.

The global market for sustainable bonds has reached approximately $1.1 trillion, encompassing green, social, sustainability, and the emerging transition bonds. Frequent issuers include power and utilities and real estate companies. Beyond bonds, sustainable debt also includes loans.

Scotiabank has publicly committed to mobilizing $350 billion by 2030 towards climate-related lending and other financial activities. The bank's Climate-Related Financial Framework (CCRF) guides their approach to these transactions, prioritizing investments that contribute to this goal and offering potential incentives like a reduced cost of funding for green initiatives. The CCRF includes a specific section on the circular economy, and Scotiabank has supported various client projects in areas like remediation, recycling, CO2 recovery, and bio-waste management.

Patrycja emphasized the shift in decision-making at Scotiabank where, alongside traditional credit quality assessments, the contribution of transactions to their sustainability goals is now a significant factor. This encourages greater participation in the green economy.

She provided examples of use-of-proceeds instruments and sustainability-linked instruments. The latter ties the cost of capital (e.g., bond coupons or loan interest rates) to the borrower's achievement of future sustainability targets, such as reduced packaging or food waste (Carrefour) or increased use of recycled materials (Gildan).

Patrycja concluded by highlighting the exciting growth of the sustainable finance market and the widespread adoption of financing frameworks and goals by banks globally, including Canadian and international institutions. This collective effort aims to significantly redirect capital towards sustainable investments and integrate sustainability into core financial decision-making processes.

Chad Park, Co-operators

Chad Park is VP of Sustainability and Citizenship at Co-operators, a multi-line financial services cooperative owned by 46 other cooperatives, credit unions, and agricultural co-ops representing millions of Canadians. Chad emphasized that Co-operators' commitment to the circular economy, like all their initiatives, is driven by their core purpose: financial security for Canadians and their communities. They view the linear economy as a threat to this security, making sustainability and circularity central to their strategy, not a peripheral concern.

One key lever for driving change is their investment portfolio. Co-operators is a significant investor in green bonds and similar instruments, aligning with Patrycja's earlier points. Their asset management company, Addenda Capital, manages a substantial portfolio, and Co-operators has a target to invest 60% of its assets in impact and climate transition investments by 2030, currently standing at 52.6%. While they don't have specific circularity targets within their investments, it's a theme integrated into their broader impact investing goals.

Another critical lever for Co-operators is their insurance operations, particularly claims management. Chad highlighted that the property and casualty insurance industry contributes significantly to waste through the claims process. Co-operators is actively reimagining this by incorporating more circular practices into their claims operations. These practices aim to reduce waste, lower costs, and, importantly, decrease claim settlement times for clients. Their enterprise innovation team has identified several such practices. Given that Co-operators paid out $3 billion in claims in 2024, with a significant portion in property and auto, this represents a substantial capital flow that could be directed towards circularity, distinct from traditional investment but akin to material sourcing.

Chad presented their "grand vision of a circular operating model" for insurance. This model focuses on circular claims practices that reduce waste and generate cost savings, which can then be reinvested into more resilient product offerings. By helping clients become more resilient, Co-operators aims to lower risks, improve loss ratios, and enhance the affordability of insurance, ultimately contributing to the financial resilience of Canadians. This circular model for insurance, which is a significant departure from the current linear process, guides their innovation efforts.

Mathieu Sasseville, Fondaction

Mathieu Sasseville, an Investment Director at Fondaction, humbly shared his five-year journey into the circular economy. Fondaction, established in 1996, has integrated sustainability into its investment process since inception. The fund challenges the traditional triple bottom line by aiming for financial returns alongside measurable extra-financial impact, focusing on inclusivity, environmental responsibility, fairness, and performance to attract capital for innovative projects. With approximately $4 billion in assets under management across various strategies, Fondaction directly invests in companies and circular projects.

As a sustainable and impact fund, Fondaction prioritizes both external impact through its investments and internal impact through its operational practices and treatment of people. Key themes guiding their investments include: climate change; health and wellness; sustainable agrifood; sustainable communities; biodiversity; reduced inequalities; and greater social justice. Mathieu believes that the circular economy not only offers economic benefits but also fosters resilience and positive social impact through collaboration.

Fondaction has been "betting" on the principles of what is now known as the circular economy for about 25 years, even before the term was widely adopted and a formal framework existed. In 2021, they formalized their internal framework and launched the Circular Economy Fund, the first dedicated venture capital fund for circular economy companies in Canada, in partnership with RECYC QUEBEC and the City of Montreal. This Fund strategically focuses on three key sectors: agrifood, construction, and material recovery, aiming to leverage Fondaction's understanding of these areas and accelerate the implementation of circular initiatives.

The Circular Economy Fund invests in companies with existing circular models and those looking to adopt and accelerate circular practices. Mathieu showcased a few examples of their investments, spanning both venture capital and more mature companies, acknowledging the distinct challenges associated with each. He concluded by mentioning one of their portfolio companies represented in the audience.

Chrystal Healy, BDC

Chrystal Healy, Assistant Vice President of Sustainability at BDC (Business Development Bank of Canada), introduced BDC as a key supporter of Canadian entrepreneurs. With 100,000 clients across various growth stages and sectors, including many with green business models, BDC works with 1 in 12 small and medium-sized enterprises (SMEs, with less than 500 employees). Chrystal emphasized BDC's unique role through its higher risk tolerance, flexible terms and conditions, and specific advisory services, including sustainability integration. BDC also offers patient lending and support during challenging times, exemplified by their recent $500 million "pivot to grow" envelope to assist entrepreneurs facing uncertainties.

Sustainability is deeply ingrained in BDC's DNA, though they acknowledge ongoing learning in this area. Chrystal highlighted three main ways BDC supports entrepreneurs: traditional long-term financing (noting five circular economy clients met just at this conference), capital investment through BDC Capital (one of Canada's largest venture capital investors with $1.1 billion in clean tech and a $150 million sustainability fund), and crucial advisory services tailored to entrepreneurs' business needs, including sustainability, with 3,000 mandates served last year.

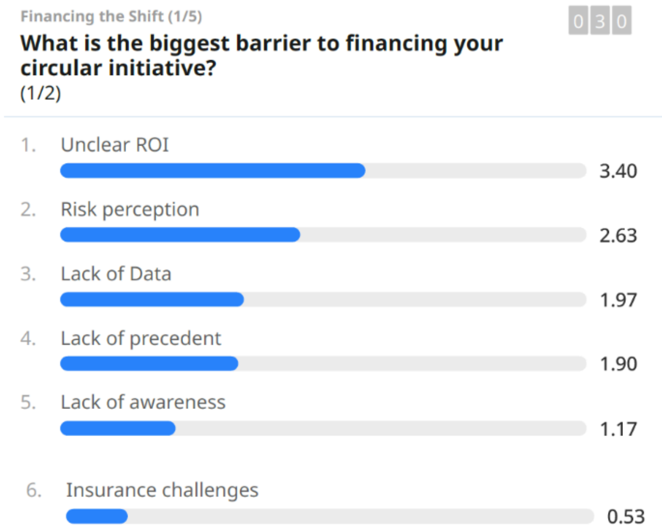
Chrystal passionately advocated for buying Canadian as an integral part of the circular economy, urging attendees to support local businesses not just in challenging times but always. She cited a study indicating that replacing just five foreign items with Canadian products and spending an extra $25 monthly could create 60,000 jobs and increase Canada's GDP by 0.7%. She encouraged everyone to commit to this and spread the word.

In closing, Chrystal reflected on how the panel had showcased the ubiquitous nature of finance and its crucial role in supporting entrepreneurs at all stages in the transition to a more circular economy. She underscored the importance of connecting risks and opportunities while maintaining financial viability in this endeavour.

PANEL DISCUSSION & AUDIENCE POLLS

The panel discussion began with a Slido poll asking small businesses and entrepreneurs about the biggest barriers to financing their circular economy initiatives. The top responses were unclear, return on investment, risk perception, lack of data, and lack of precedent, which the panel agreed were closely linked.

Mathieu highlighted the challenge of competing with virgin material prices, emphasizing that investors need to understand how circular initiatives plan to be price-competitive as they scale.

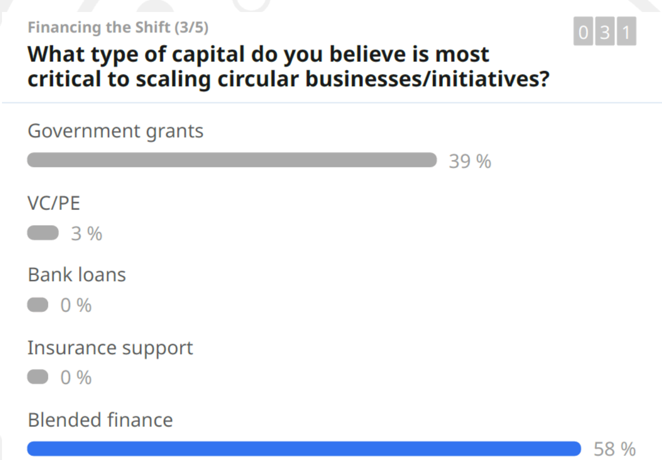


Garrett then directed a question to Chad about insurance-related barriers. Chad, while not an insurance expert, noted that insurance tends to follow and reflect the economy, making it a lever for change but not necessarily the primary decision-making factor for financing. A key challenge is insurance's reliance on historical data to assess risk, which is difficult to apply to new, innovative circular models. This backward-looking approach contrasts with the forward-thinking nature of circular economy initiatives. Chad pointed to the need for more data and scale to provide insurers with better insights into the risks and opportunities.

The next poll asked about the most critical type of capital for scaling circular businesses. Blended finance and government grants emerged as the top choices, which Garrett agreed with, emphasizing the need for cooperation and collaboration to de-risk innovative technologies.

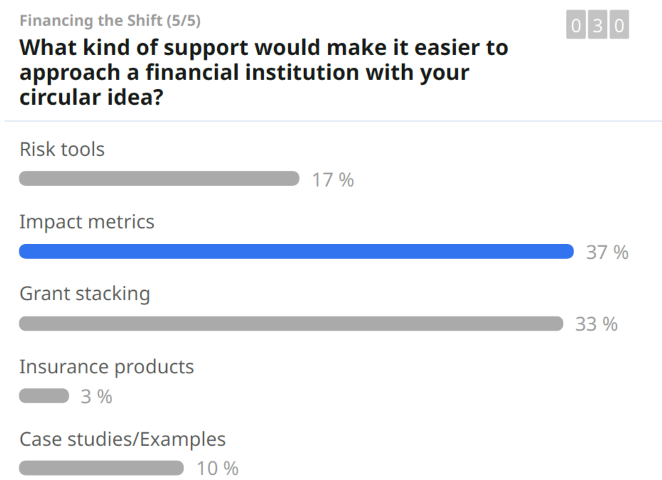
Another question revealed that a significant portion of the audience had abandoned a project due to a lack of financing, underscoring the importance of access to capital.

The final audience question asked what support would make it easier to approach financial institutions. Responses included grant stacking and clearer impact metrics, which Garrett highlighted as crucial, especially given the less mature state of impact metrics outside of climate.



The panel then discussed common misconceptions about financing circular business models. Patrycja noted the misconception that bankers don't understand circular economy. She emphasized the need for education within financial institutions, highlighting Scotiabank's climate college as an example of building climate competency.

Patrycja suggested framing circular solutions within the context of climate impact, such as avoided emissions, which is becoming more understood by traditional banks. She also pointed out the overlooked role of strategic partners in validating business models and the bank's role in connecting businesses.



Chad addressed the misconception that insurance has no role in the circular economy. He argued that the traditional insurance model of restoring clients to their previous state might not be sufficient in the face of rising risks. Co-operators' "Tomorrow Strong" product, which provides more resilient replacements, aims to break this mold. He also noted the challenge of convincing clients to embrace circular practices in claims, like drying in place, when their expectations are based on traditional replacement models.

Mathieu countered the misconception that implementing circular economy is too complicated. He argued it's often about rethinking existing processes and can lead to stronger supply chains and collaborations, which are valuable risk management tools.

Chrystal addressed the need to distinguish between disruptive innovators and established companies seeking to adopt circular practices. Financing and risk assessment will differ significantly for these two groups. She also emphasized that companies don't need to achieve complete circularity immediately; incremental steps are important.

Garrett then asked Patrycja and Chrystal how they assess risk differently for circular businesses. Patrycja stated that fundamentally, risk is risk, but there's a need for capacity building among frontline bankers to understand new circular economy ideas. Clear communication from clients about their operating cycles and potential risks, such as inventory management in bio-based businesses, is crucial. Chrystal echoed this, emphasizing that credit quality is paramount for bank loans. However, BDC also has a clean tech arm to support equity raising and connects companies with investors, fostering relationships that can evolve as the company grows. Patrycja highlighted the role of their team in connecting large corporates with innovative circular economy clients. She noted that climate commitments can sometimes provide additional impetus for funding projects with strong climate benefits.

Finally, the panel discussed policy and regulation changes to better enable capital flow into circular solutions. Mathieu suggested streamlining permitting processes for testing new initiatives and rethinking the treatment of residual materials to facilitate their repurposing. Chad advocated for building codes that incentivize circularity and for policies that allow for experimentation and innovation. He highlighted the impact of extended producer responsibility (EPR) legislation in driving innovation in Sweden and cautioned that even well-intentioned policies can inadvertently inhibit innovation if not carefully designed.

AUDIENCE Q&A

The audience Q&A began with a question highlighting a fundamental challenge in institutional financing: credit assessment often prioritizes profitability over negative externalities like pollution and may overlook the positive attributes of environmentally beneficial but financially riskier ventures. The questioner argued that this systemic issue hinders access to capital for circular economy initiatives that don't meet traditional credit approval standards, as positive impacts aren't adequately factored into risk assessment.

Patrycja acknowledged the validity of the concern and stated that Scotiabank does integrate environmental and social risks, including reputational risk and compliance, into their due diligence beyond just financial materiality. She mentioned the ongoing evolution of their enterprise risk framework to address emerging environmental and social risks. Patrycja also highlighted the importance of impact-related funds and programs to level the playing field for initiatives with green premiums and mentioned the financial community's collaborative efforts to integrate the value of green assets into risk assessments.

Garrett added that while credit risk fundamentally assesses the borrower's ability to repay, financial institutions are increasingly considering transition risks, such as the impact of carbon pricing on high-emitting companies' creditworthiness. This demonstrates an evolving, though still developing, integration of environmental factors into financial risk assessment.

A follow-up question explored whether framing circular economy in purely economic terms, focusing on reduced material inputs, waste diversion, and regeneration – concepts already embedded in manufacturing and waste management – would be more effective for financiers than using the "repackaged" and potentially jargon-heavy term "circular economy," even while appreciating the climate lens.

Garrett, drawing on his experience in commercial banking, agreed. He suggested that focusing on the tangible benefits like reduced resource reliance and waste reduction resonates more directly with bankers than abstract terminology. He recounted that framing initiatives around supply chain resilience and reduced inputs tends to be more successful in securing financing.

Mathieu echoed this sentiment, stating that emphasizing the economic opportunities of circular solutions often yields better results with financial partners. Highlighting cost savings and efficiency gains, with environmental benefits as an added bonus, aligns with the economic language that financiers understand.

The session concluded with thanks to the audience and panelists for an engaging and important discussion. The moderator emphasized the ongoing nature of the conversation as the financial sector continues to evolve in its support of circular economy solutions.