



**THE  
CIRCULAR ECONOMY  
AND SUSTAINABLE  
DEVELOPMENT:  
POLICY OPTIONS TO  
MOBILISE FINANCE FOR  
CIRCULARITY**

Policy Brief

April 2024



We are a global impact organisation with an international team of passionate experts based in Amsterdam.

We empower industries, cities and nations with practical and scalable solutions to put the circular economy into action. Our vision is an economic system that ensures the planet and all people can thrive.

**To avoid climate breakdown, our goal is to double global circularity by 2032.**

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## KEY INSIGHTS FROM THIS BRIEFING

The [Circularity Gap Report 2024](#) highlighted the importance of the circular economy as a means for Build and Grow countries,<sup>1</sup> broadly equivalent to low- and middle-income countries, to address both socioeconomic and environmental objectives. This briefing emphasises that reforming international financial architecture is an essential step to enable a fairer and more accessible financing environment that Build and Grow countries can use to pursue circular investments.

**Although multilateral institutions have the bulk of the responsibility for providing more equitable access to development finance for Build and Grow countries,** these countries' national governments can also undertake impactful action. Driving the circular transition will require a more intentional form of government that shifts the remit from correcting market failures to setting and shaping collective goals. There are a number of policy options that Build and Grow countries can use to leverage the circular economy as a means to meet societal needs without putting strain on planetary boundaries, while also improving the efficacy of public finance.

This policy brief demonstrates how governments can be more strategic with public spending, ultimately to embrace the circular economy and achieve sustainable development objectives. It does so through four key steps:

1. Pinpointing the key sectors of the economy where the application of circular approaches would support existing policy priorities and maximise social impact.
2. Developing a mission-oriented industrial development strategy for these target sectors, engaging industries to collectively work towards valuable socioeconomic outcomes.
3. Recognising public spending as a powerful tool to shape these outcomes, reorient incentives and create markets for the private sector to engage. By strategically leveraging public procurement, strict conditionality and fiscal reform, governments can level the playing field for high-impact circular solutions while ensuring far more stringent oversight on spending.
4. Explore opportunities for deeper collaboration and targeted technical support, especially with Multilateral Development Banks (MDBs), but critically also with industry, academia and other governments.

A close-up photograph of a person's hands planting a small green seedling into a hole in the soil. The person is wearing a dark green long-sleeved shirt and a black wristband. The background is a blurred field of similar seedlings under bright, natural light.

# DEBT BURDENS ARE FORCING A TRADE-OFF BETWEEN FUNDING ESSENTIAL SERVICES AND MAKING CRUCIAL INVESTMENTS IN CLIMATE

Governments around the world often feel that they are faced with an impossible choice between funding essential services for development or addressing the climate crisis at the scale required.<sup>2</sup> According to figures from Jubilee Debt Campaign, 34 of the world's poorest nations spend a substantial \$29.4 billion annually on debt repayments, while only \$5.4 billion is allocated to combatting the climate emergency.<sup>3</sup> Similarly, another report from the IIED stresses that Least Developed Countries (LDCs) and Small Island Developing States (SIDS) spent \$33 billion on servicing in 2021,<sup>4</sup> far exceeding the \$20 billion received in climate finance. Additionally, approximately half of the climate funding allocated to these countries is provided as loans, exacerbating their already significant debt burdens. These large volumes of debt come with significant servicing costs, meaning countries can face a trade-off between funding essential services and making crucial investments in climate mitigation with the public finance that is left.

In many of these cases, the levels of debt are not accrued because of macroeconomic mismanagement, but rather as a result of these countries bearing the brunt of climate impacts, as well as their heightened exposure to volatile international markets for finance and trade.<sup>5</sup> The structure of international lending, in many cases, means that rising interest rates globally drastically increases the cost of borrowing. For *Build and Grow* countries, where credit ratings are typically weaker, these are amplified further still, rendering it incredibly difficult to mobilise finance for other obligations other than servicing debt. Required to operate with such tight budgets after debt obligations are made, it is no wonder that governments feel bound by a choice of addressing immediate welfare concerns or future environmental ones.

## INTERNATIONAL FINANCIAL ARCHITECTURE MUST ADAPT TO MEET THE NEEDS OF BUILD AND GROW COUNTRIES MOST IMPACTED BY CLIMATE CHANGE

Recent positive developments are noteworthy: Ajay Banga's appointment as World Bank President in June 2023, for example, as well as a commitment from several development banks—including the Asian and African Development Banks—to align all financial flows with the *Paris Agreement*.<sup>6</sup> However, without substantial debt relief and restructuring measures, as well as a significant increase in concessional lending, governments in *Build and Grow* countries cannot be expected to achieve crucial sustainable development objectives. To address the issue at the scale required, wealthy governments and national and multilateral development banks need to come together to align public development finance around explicit goals. Strategic public investment should shape climate challenges into shared investment pathways and develop new markets for the private sector to engage.

## KEY FINDINGS FOR MDBS FROM THE *CIRCULARITY GAP* *REPORT 2024*

- MDBs must play a crucial role in spearheading the adoption of circular economy solutions by leveraging guarantees to shoulder some of the associated risks and by demonstrating how they can advance both developmental and environmental objectives.
- MDBs can look to leverage their policy-based lending to support client governments in aligning policy with sustainability ambitions. In doing so, they can engage in collaboration with client countries to collectively support specific outcomes in service of the circular economy. This shift requires a comprehensive approach, encompassing strategies to boost alternatives to borrowing, improve borrowing and lending practices, and enhancing accountability mechanisms.
- MDBs can leverage their unique position to facilitate collaboration among countries and across value chains, thereby maximising the impact of circular economy initiatives. Recognising that each country has specific priorities and needs, MDBs should adopt approaches that support or advise national development plans, rather than imposing their own agendas.





# THE CIRCULAR ECONOMY OFFERS A PROMISING SOLUTION TO MITIGATE THE TRADE-OFF BETWEEN DEVELOPMENT AND ADDRESSING THE CLIMATE CRISIS

For governments in *Build* and *Grow* countries, the problem of what to prioritise with the little public finance available—funding essential services for development or addressing the climate crisis—presents significant challenges. **The circular economy provides an approach to mitigate the perceived trade-off between supporting development and addressing the climate crisis, by instead addressing both issues as one.**

By embracing circular economy principles in key sectors, policymakers in *Build* and *Grow* countries can unlock a multitude of low-cost policy solutions that foster greater resilience and deliver wellbeing within planetary boundaries. In many *Build* countries, for example, their largely agrarian biomass-based economies have huge potential to benefit from adaptive and regenerative food systems that build ecosystem health and yield multiple sources of income for producers.<sup>8</sup> Partnered with scalable infrastructure to ensure food supply to surrounding communities, these efforts can further support the alleviation of malnutrition and starvation.<sup>9</sup>

For *Build* and *Grow* countries looking to tap into new or adapted channels of development finance, beginning to integrate circular economy principles into national development strategies—and particularly Nationally Determined Contributions (NDCs)—is a valuable starting point. From here, there are a host of other options to reorient existing flows of domestic finance, embed principles of circularity in industry, and engage in far more ambitious forms of collaboration—each in service of both development and climate, rather than either/or. **Governments working to integrate circular economy national development strategies and NDCs can take inspiration from the following steps:**

## 1. BEGIN BY IDENTIFYING KEY IMPACT SECTORS, AND DELVE INTO SPECIFIC AREAS RATHER THAN COVERING A WIDE RANGE

Each country possesses its own distinct characteristics and priorities, requiring a tailored approach to adopting the circular economy as a development strategy. Rather than treating circularity as a separate and novel concept, it is essential to first align it with existing policy priorities. This can include integrating circular economy principles into national agendas, such as the NDCs, and identifying existing synergies with established plans and initiatives.<sup>10</sup> By framing the circular economy within the context of existing policy frameworks, countries can leverage their resources more effectively and minimise.

To effectively implement circular strategies, countries must undertake initial assessments to determine the scale of opportunity within key sectors. This must begin by understanding the levels and types of material use in different areas of the economy, and then may involve a prioritisation exercise based on the potential of circular and regenerative solutions to more effectively meet local needs. Circularity is then best pursued as a bespoke approach in the specific sectors where it is deemed impactful and aligned with existing policy aims, rather than as a more generic economy-wide strategy. This process of assessment and prioritisation can be used as a guide to coordinate efforts and orient policy so that it ensures more optimal resource allocation.

## 2. SHAPE A MISSION-ORIENTED INDUSTRIAL DEVELOPMENT STRATEGY AROUND THE CIRCULAR ECONOMY

In contrast to the economies of high-income *Shift* countries, which are often more 'locked in' to linear models of production and consumption, *Build* and *Grow* countries have the opportunity to embed circular principles early in the development cycle. This prevents the need for expensive transitions in the future. Instead of depending on conventional manufacturing methods fraught with extraction, waste, and loss of value, governments can look to circular economy solutions and regenerative practices aimed at avoiding leakages of resources in the supply chain, optimising resource value throughout their lifecycle and fostering resilience along the supply chain.

Engagement with key industry stakeholders is paramount to the success of circular economy transitions, as demonstrated by countries such as the Netherlands, which boasts an ambitious circular economy roadmap co-designed with industries.<sup>11</sup> Collaborating with businesses, organisations and other relevant actors allows for the development of action plans that are grounded in real-world challenges and opportunities, and focus on key strategic outcomes or missions'.<sup>12</sup> Together, stakeholders can set ambitious yet achievable aims for transformation, determining the roles of different actors therein, and ensuring that industries as a whole align to meet both developmental and environmental goals.

## 3. LEVERAGE PUBLIC SPENDING MORE STRATEGICALLY, THROUGH PUBLIC PROCUREMENT AND FISCAL REFORM

For governments in *Build* and *Grow* countries, adopting a remit to shape collective goals rather than fix market failures provides significantly greater control over the way public investment supports inclusive and sustainable outcomes in the real economy. Conditionality provides the most effective means of ensuring this is the case, while more tactile use of public procurement and fiscal policy can actively shape markets to meet specific goals.

### Conditionality

Having identified key opportunities where materials can be used more effectively to meet public needs, governments should look to engage with the businesses that are willing and able to realise them. With these goals in mind, governments should issue what investment is available with stringent measures of conditionality, ensuring that value is shared evenly and activities are in line with predetermined mutual outcomes.<sup>13</sup> Such conditionalities might relate to the direct use of funds meeting a specific circular economy-related objective or equitable access to resulting products and services, and may also set target reinvestment requirements for any excess profits made.

### Public procurement

In certain *Build* and *Grow* countries, procurement accounts for a significant portion of the Gross Domestic Product (GDP): from 10 to 25%.<sup>14</sup> As such, it represents a valuable mechanism to alter business as usual, set new standards, and stimulate market demand for circular economy solutions. As well as applying conditionality to investments, governments can commit to contracting service providers that emphasise waste reduction, material reuse and proper recycling practices.

Public spending can support existing goals in a number of ways: requiring the integration of circular design and building materials in public construction projects, procuring locally sourced and organic food for all public sector institutions and functions, or opting for product-service systems instead of owning products, such as furniture, electronics or vehicles. Integrating lifecycle cost assessments into public procurement efforts is also a good practice, although this will necessitate training and awareness-raising efforts within governmental staff.

### Fiscal reform

Several fiscal measures can be leveraged to steer economies away from extractive practices while simultaneously generating government revenue. Although it is crucial to proceed cautiously, considering the limited tax potential in *Build* and *Grow* countries, recognising the importance of (re) directing finances is very important to achieving strategic aims.

The implementation of landfill taxes is imperative for the realisation of a circular economy: as long as discarding waste bears no financial cost, the problem will continue to grow. Another crucial step involves reducing or eliminating Value Added Taxes (VAT) on circular goods and services, which serves to recalibrate incentive structures and create a more level playing field. For instance, exempting repaired goods from VAT can make them a more affordable option compared to new ones. Only once such measures have been established can a country begin to turn to more comprehensive and extreme policies, such as exploring the benefits of material taxes.

While in *Shift* countries ideas around a shift in the tax burden from labour to materials are gaining traction, economies in *Build* and *Grow* countries generate very limited revenue from income tax. Instead, governments in these countries can consider other environment-related taxes, such as fuel taxes. In Costa Rica, for example, environment-related taxes comprise 10% of all tax revenue, with proceeds from the fuel tax then used directly to fund conservation and regeneration efforts which in turn generate wellbeing improvements, jobs, and local development.<sup>15</sup>

## 4. EMBRACE MORE OPPORTUNITIES FOR COLLABORATION AND TARGETED TECHNICAL SUPPORT

Developing a mission-oriented industrial strategy that leverages the circular economy to address developmental and environmental aims requires an active form of government that identifies key challenges and determines innovative ways of addressing them. But no single entity can enact a circular approach entirely on its own. Embracing the circular economy as a new paradigm in sustainable development is a wide-scale challenge that must involve coordination across government ministries, industries and countries. Given the novelty of this approach, collaboration with multilateral institutions, industry, academia, and other states are all essential parts of the learning process. While most governments should have the resources to undertake initial assessments of the circular potential and the development of the strategy around that, external support is likely required to move to stages of implementation.

MDBs are especially well-positioned to facilitate this collaboration and can provide targeted technical support where required. However, they are explicitly demand-driven institutions and can only do so if client countries make the request. MDBs are developing the expertise in deploying circular economy solutions as an approach to sustainable development and have the means to ensure the success of such approaches—but it's up to the governments in *Build* and *Grow* countries to signal where help is required, and ask for targeted support for specific goals.

Embedding circular economy principles in the NDCs is a highly important first step to access this support. Take, for example, the need to address the various costs associated with material transfer in the circular economy. The public sector can adopt a role in overseeing exchanges and promoting the proximity of relevant value chain partners to reduce these costs, but efforts will almost always require input from multilaterals and key industry players. The Government of China has implemented successful industrial symbiosis practices to generate collaboration between industries, redesign material flows and create pipelines for waste-to-resources, leveraging direct support from the World Bank to drive this process.<sup>16</sup> The government initially set a target that 75% of their state-initiated industrial parks would apply industrial symbiosis practices,<sup>17</sup> and by 2020, 129 industrial parks were supported by the state. Governments should not shy away from outreach beyond their own ministries and recognise the importance of shaping sustainable development outcomes collectively.

An aerial photograph of a modern city featuring several large, multi-story buildings with glass facades and green roofs. The buildings are surrounded by lush green trees and a winding river. The overall scene is bright and clear, suggesting a sustainable urban environment.

# THE WAY FORWARD

## ACHIEVING SUSTAINABLE DEVELOPMENT THROUGH CIRCULAR ECONOMY PRINCIPLES

By prioritising the adoption of circular practices, countries can chart a course towards a more resilient and sustainable future for generations to come. National governments in *Build and Grow* countries looking to converge development and environmental aims must embrace the following priorities:

1. **Governments can create an environment where sustainable initiatives are economically viable** by placing workers at the forefront of the transition and clearly articulating how they will use green and circular policies to create jobs. Ensure that this transition will truly leave no one behind.
2. **There are several low-cost but extremely effective policy tweaks** that can play a crucial role in directing financial flows towards desired outcomes, such as public procurement policies that prioritise environmentally friendly products and services. Fiscal reforms can also incentivise investment in sustainable practices by implementing landfill taxes, extended producer responsibility (EPR) schemes and lowering or eliminating VAT for circular goods. Engaging private finance is essential, as it brings additional resources and expertise to the table.
3. Finally, governments can collaborate with **MDBs on financing sustainable development initiatives and demonstrating their success**. Collaborating with MDBs allows countries to **leverage technical support and access funding for projects** that align with their sustainability goals. This collaboration strengthens the global effort to address pressing challenges such as climate change and resource depletion, paving the way for a more sustainable and resilient future.

## ENDNOTES

1. *Build* countries, for example, include countries in Sub-Saharan Africa and South Asia such as Bangladesh, Ethiopia, Nigeria, Pakistan and the Philippines, and some small island states, for example. *Grow* countries are larger Southeast Asian countries and countries in Latin America and Northern Africa, as well as those with an economy in transition in Eastern Europe, the Caucasus and Central Asia. Main examples include China, Indonesia, Brazil, Mexico, Vietnam, Myanmar and Egypt.
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For more insights on the circular economy strategies to be scaled in *Shift* Countries and how to use policy, finance and labour to unlock them, check out the

[Circularity Gap Report 2024](#)

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