



**Definite
CCRI**

DEFINITE-CCRI

Report on methodology for the FIB and financial due diligence

(Deliverable 3.1.)



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Deliverable Number	D 3.1.
Deliverable Name	Report on methodology for the FIB and financial due diligence
Full Project Title	DEFINITE-CCRI - Deal Engine, with finance, investment and technical expertise for the Circular Cities and Regions Initiative
Lead partner for deliverable	BwB
Due date of deliverable	31.08.2023
Actual submission date	31.08.2023
Dissemination level	Public
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Contributor(s)	All partners
WP/Task related to the deliverable	WP3/Task 3.1
Document ID	DEFINITE-CCRI_D3.1_Report on methodology for the FIB and Financial due-diligence_FinalVersion
Document type	Report

Cite as: T. Buso, P. Sukhija et al. (2023). Report on methodology for the FIB and Financial due diligence (Deliverable 3.1.)

Executive Summary

The current document details the key elements and timeline of the Financial and Investment Baseline assessment (FIB) for the received and shortlisted 10-15 circular economy projects, in the framework of the DEFINITE-CCRI initiative. The document is split in 3 sections:

1. Project Selection Methodology

Starting from a step-by-step assessment of the financial rationale behind the selection of projects for the current stage, the document clarifies that, in a preliminary assessment phase, the selected financial criteria for project shortlisting were the following:

- Business Model Rationale and Justification
- Revenue Generation Capabilities
- Current Project Development Stage
- Rationale for Application to the DEFINITE-CCRI PDA
- Existing Funding and Financing

2. Establishing the steps of the Financial and investment Baseline (FIB)

The FIB assessment, which is the core of Task 3.2, is split in 7 key steps, that allow for the collection of the data, a first exchange and establishment of contact between the project teams and the DEFINITE-CCRI consortium, and preparation for the Due Diligence Review and Project Appraisal. The key steps are the following:

- STEP 1: Creating a Project Development Team
- STEP 2: Defining the scope of the assessment
- STEP 3: Understanding the full scope of the business model
- STEP 4: Collection and assessment of financial statements
- STEP 5: Study of revenue streams to be mobilized
- STEP 6: Missing information and data gaps
- STEP 7: Reporting on FIB for every project

3. Offered services for the financial and legal due diligence support

Finally, once the data has been collected and a decision is being made on the four projects which will be moved on to the next phase, three main services are offered to selected projects. In particular:

- A 2-day intensive bilateral and onsite consultation session for each project accepted for the Due Diligence phase
- Continuous assistance and support for financial, legal and risk-related activities and preparation work
- The possibility of accessing local experts through subcontracting offered by DEFINITE-CCRI

This section is concluded with the drafting of a due diligence report for each of the projects.

All in all, these activities provide a very thorough assistance to the shortlisted projects in order to set them up for success when structuring their own work and preparing for their project appraisal phase

DEFINITE Consortium Partners

Logo	Organisation	Type	Country
	ICLEI EURO	Small and medium-sized enterprise	Germany
	Circle Economy	Non-governmental organisation	The Netherlands
	Stad Gent	Municipality	Belgium
	Bankers without Boundaries (BwB)	Non-governmental organisation	Ireland
	National Technical University of Athens (NTUA)	University	Greece

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List of abbreviations used

- BwB Bankers without Boundaries
- CCRI Circular Cities and Regions Initiative
- CapEx Capital Expenditures
- GEIP Gender Equality and Inclusivity Plan
- FIB Financial and Investment Baseline
- OpEx Operational Expenditures
- PDA Project Development Assistance
- TIP Technical and Impact Potential
- NTUA National Technical University of Athens

1. Purpose of the document

The purpose of this document is to outline the objectives, scope, and methodology of Tasks 3.2 and 3.3 within the DEFINITE-CCRI project. Led by BwB, with contributions from all project partners, the delivery of this methodology is focused on the development of financial and legal-related elements to support the successful execution of the Financial Impact Baseline Assessment (FIB) and financial Due Diligence Support. The primary goal is to align these elements with investor interests and facilitate a comprehensive Investor Project Appraisal to attract potential investors to the project.

The scope of this document encompasses the design and establishment of a robust financial and legal framework that will govern the FIB and financial Due Diligence support processes. This framework will define the methodologies, risk assessment criteria, and specific guidelines for conducting the necessary financial and legal support to ensure the projects' viability and appeal to potential investors. The framework will address key aspects such as funding sources, risk mitigation strategies, compliance with legal regulations, and stakeholder agreements.

The document will also outline the responsibilities of each partner involved in Task 3.1, including BwB as the lead, to collaboratively contribute their expertise, knowledge, and resources to the successful development of the financial and legal framework. Finally, it will establish the timeline for completing the tasks within this phase of the project, ensuring a systematic and efficient execution of the defined activities.

In particular, the document will be broken down in the following three main sections:

Section 1: Project Selection Methodology

This section of the document will provide an overview of the process employed to assess the nine project applications received as of July 25th, 2023, from a financial perspective. It will clarify the specific information sought during this preliminary phase, which is crucial to inform the financial and investment base (FIB) assessment for the subsequent stages of the assignment. The shortlisting process involved carefully evaluating each project based on several key criteria, including: the current stage of the project and its timelines, the estimated overall size of investment required, capital costs, outright expenses for the project, operating and maintenance costs, financing gaps, and estimated revenue generation potential. Additionally, a thorough analysis of risks associated with each project was conducted, along with proposed mitigation actions to address these risks effectively. By detailing this shortlisting process and the key criteria used, the document will provide valuable insights into the financial aspects of the selected projects, guiding the FIB assessment and aiding decision-making in the forthcoming stages of the assignment.

Section 2: Establishing the steps of the Financial and investment Baseline (FIB)

In this section of the document, the framework for the financial and investment base (FIB) assessment between months 10 and 18 will be outlined. During this phase, the consortium will engage in collecting comprehensive project-related data from local project owners and their partners. The main focus of this task is to address the financial aspects of the DEFINITE-CCRI Project Finance Deal Engine methodology, specifically dedicated to the FIB. An initial risk analysis will be conducted, specifically associated with the revenue and costs of the projects, taking into account the risks outlined in the previous section. To facilitate this assessment, a simple analysis framework comprising qualitative and quantitative indicators has been developed, in line with the requirements of financial institutions partnering with DEFINITE-CCRI for deal brokerage. The assessment outcome will be shared with each local project owner, providing them with valuable feedback and an opportunity to make necessary adjustments to their project outline based on the evaluation. The financial information will be provided alongside the Technical and Impact Potential (TIP) which will be delivered through Work Package 4,

with a focus on circular economy technological and impact potential information and required actions. Special attention will also be paid during this phase to ensure an effective execution of the Gender Equality and Inclusivity Plan (GEIP) as drafted at the inception of this project. To do so, we will be looking at multiple factors such as a diverse composition of the project team, both gender and ethnicity-wise, the gender risk assessment and mitigation taken across the overall project, as well as the inclusion of gender-related considerations in the execution of the projects themselves.

This framework will play a pivotal role in guiding the decision-making process and ensuring the financial viability and success of the selected projects within the DEFINITE-CCRI project. The drafting of the FIB reports by the end of this process will allow the consortium to shortlist the received projects down to 4, which will be the ones receiving the full support in the framework of the due diligence support (Work Package 3.3).

Section 3: Services to be offered for financial and legal due diligence support

This section will provide clarity on the services that will be offered to the shortlisted projects during the period between months 14 and 24 of the DEFINITE-CCRI project. Notably, project owners will receive comprehensive financial expertise support, adjusted proportionally to the size and needs of the project. This due diligence process will involve iterative assessments to identify data gaps and find effective solutions to bridge them, while also extending financial assistance to the cities and/or project teams involved. A crucial aspect of this support entails two-day intensive onsite bilateral consultation sessions for the four projects selected for the Due Diligence Phase, where financial consortium partners will collaborate closely with project owners to develop risk profiles for the projects, essential for appraisal in WP5 (D3.3). Furthermore, ad-hoc support will be provided by the consortium to capture any additional support requests. This support can be deployed through ad-hoc bilateral meetings between the DEFINITE-CCRI and the Project Development Teams, response to specific requests by email or ad-hoc deliverables where necessary for the 4 selected projects. If challenges to data collection or legal/specialist services arise ahead of the Investor Appraisal Phase, the consortium will consider engaging additional suitable support via subcontractors. Overall, this process will play a pivotal role in preparing the groundwork necessary for Work Package 5 and ensuring the success and financial viability of the selected projects within the DEFINITE-CCRI project.



Figure 1 DEFINITE-CCRI Deal Engine illustrating the steps of, TIP, FIB and Due Diligence Support

2. Section 1 – Project Selection Methodology

2.1 Criteria for project shortlisting

To better build for and prepare the groundwork for the information that will be collected during the Financial and investment Baseline (FIB), as well as the Financial Due Diligence process, this section aims to clarify the process that was adopted to shortlist the seven selected projects from a financial perspective. This will clarify the role that each criterion requested has had in making the final decision about the project selection process.

Through Annex I, circulated alongside the main document for the application of the process, the information requested included the following information. The table below indicates the rationale to request each piece of information and how it maps against the needs and the objectives of the DEFINITE-CCRI project.

Assessment Criterion	Rationale in light of the DEFINITE-CCRI project
Current Stage of Project/Timelines <ul style="list-style-type: none"> - Current stage of project - Current stage of development (prefeasibility/feasibility/implementation/other) - Expected Start and Completion Date - Stage of timeline of project vs DEFINITE-CCRI PDA timeline 	<p>While DEFINITE-CCRI did not explicitly seek a specific stage of development, it primarily considered projects that had already passed the initial level of technical development and demonstrated the capability to undergo a comprehensive project appraisal by the conclusion of the DEFINITE-CCRI project development assistance. This approach allowed the program to focus on projects that had already achieved some level of maturity and were more likely to progress successfully. By targeting projects that had crossed the initial technical hurdles, DEFINITE-CCRI aimed to maximize the impact of its assistance and ensure that the selected</p>

	projects had the potential to advance to the next stages of implementation
Budget <ul style="list-style-type: none"> - Estimated Overall Size of Investment - Main costs (including expected use construction, development, and maintenance costs) - Identified Funding and Financing Sources, Directions - Capital and Operational Costs - Outright expenses for the project 	<p>DEFINITE-CCRI sought a sufficiently articulated budget, along with a rough idea of how investor capital would be spent, in keeping with its commitment to promoting transparency, accountability, and project viability. For investors, understanding the allocation of funds is of utmost importance as it provides insights into the project's financial prudence and potential return on investment. A detailed budget allows investors to assess the project's financial needs, identify potential risks, and evaluate whether the funding is allocated wisely across various aspects of the project. Additionally, a clear breakdown of how investor capital will be utilized fosters confidence in the project's management team and their ability to execute the plan effectively. By having a comprehensive view of the budget and expenditure, investors can make well-informed decisions, align their interests with the project's financial objectives, and ascertain that their capital will be utilized optimally, ultimately increasing the likelihood of attracting investors and securing the necessary financial support for project success.</p>
Financing Gaps of Project <ul style="list-style-type: none"> - Estimated financing gap - Costs neither covered by own/already secured resources nor revenue generation from the project - Existing Loans/Grants 	<p>The team sought to identify projects that had already received some kind of funding or financing from external sources, ideally 10-20% overall, for the following reasons:</p> <p>(1) Demonstrated Viability: Securing initial financing indicates that the project has already undergone some level of due diligence and has gained the confidence of at least one investor or funding source.</p> <p>(2) Reduced Risk: Projects with existing financing have already passed through an initial risk assessment by investors or lenders and are therefore perceived as lower risk.</p> <p>(3) Leverage and Credibility: Having already secured a portion of the required financing can provide leverage when negotiating with other investors or financial institutions.</p> <p>(4) Lower Financing Gap: With a portion of the financing already secured, the remaining funding gap becomes relatively smaller. This can be seen as a more manageable and less daunting financial requirement.</p> <p>(5) Cost Savings: If a project has secured a portion of the financing, it may have already incurred some costs related to the development and preparation of the project.</p>
Estimated Revenue Generated <ul style="list-style-type: none"> - Existing or potential revenue streams 	<p>The presence of viable revenue streams is a critical indicator of a project's financial sustainability and long-term viability. Projects with diversified and steady revenue streams are better equipped to withstand economic fluctuations and external challenges, reducing the overall financial risk.</p>

<ul style="list-style-type: none"> - Regularity of the existing or potential revenue streams 	<p>Additionally, a well-established revenue generation plan ensures that the project can cover operational and maintenance costs, ensuring smooth project implementation and paying back investors in the agreed timeframes. By carefully assessing revenue streams, DEFINITE-CCRI can identify projects that have a higher probability of achieving financial self-sufficiency and delivering positive environmental and social impacts, making them more attractive and suitable for investment and long-term support.</p>
<p>Risks and Mitigation Actions</p> <ul style="list-style-type: none"> - Physical Risks - Transitional Risk - Mitigation Actions 	<p>At least some level of understanding of risk, both financial and legal, will increase the likelihood that the entire operations run smoothly.</p> <p>In case those are well identified and present, some level of mitigation measures is recommended to understand the preparedness of the project lead</p>
<p>Impact Metrics</p> <ul style="list-style-type: none"> - Innovation and Potential - Reduced material consumption - Increased self-sufficiency - Jobs created 	<p>On top of pure financial considerations, the role of impact metrics was key to determine the projects that could make it to the end of the selection, since they display the potential impacts that those actors would be able to deliver to the environment and society.</p>

Table 1 Relevance of assessment criteria in project selection

2.2 Hierarchy of criteria for project shortlisting

The receipt of project applications allowed us to test the criteria in action and provided the team with clear awareness on the overall quality of the projects. It should be noted that, compared to what had originally been forecasted, the project applications turned out to be fewer in number and, on average, less mature / developed than originally predicted. For this reason, clear comparisons between the financial information provided in each application could not be established in a harmonised fashion.

The team therefore iterated its approach and focused instead on assessing the following criteria in order of importance, collected both from Annex I requested information, and from the general survey application filled in by applicants, from the most to the least important feature that each project needed to justify with a view to selecting the more impactful projects out of the existing pool of applicants:

1. **Business Model Rationale and Justification:** The factor that the team adopted as being the more critical was the business model rationale and justification. A well-defined and sound business model provides a clear understanding of how the project will generate value, attain profitability, and achieve its long-term financial objectives. It showcases the project's strategic approach, target market, revenue streams, cost structure, and competitive advantage. A strong and well-justified business model indicates that the project is built on a solid foundation, increasing the likelihood of successful implementation and attracting investors. Only a few projects did that in a consistent fashion and were rewarded accordingly for doing so with high scores.
2. **Revenue Generation Capabilities:** A project's ability to generate sustainable revenue is vital for its long-term success. Revenue generation not only ensures financial stability but also reflects the project's ability to meet market demand and create value for stakeholders and investors. Projects with clear and realistic revenue generation potential are more likely to be financially viable and sustainable in the long run, making them attractive to investors and financial institutions. This is why the team scored more favourably those projects which managed to

justify consistent and steady revenue generation capabilities over those with high impact potential but insufficient pathways to revenue generation.

3. **Current Project Development Stage:** As mentioned previously, all the received projects are either at pre-feasibility or feasibility stage apart from one which is already fully operational. The stage of development influences the timeline for implementation, providing insights into the project's overall maturity, investment readiness, and potential for timely completion. Some projects are meant to unfold over 10-15 years, which does not necessarily disqualify them for receiving PDA support, but which might represent a problem over time, especially in preparation for WP5, for the investor appraisal activity.
4. **Rationale for application to the DEFINITE-CCRI PDA:** This criterion helps evaluate the alignment between the project's objectives and the assistance program's goals. Projects that can demonstrate how the assistance will address specific challenges, enhance their impact, or accelerate their progress are more likely to be considered favourably. The team was forced to discard a project whose requests were not aligned with what DEFINITE-CCRI could offer, such as grant money for a feasibility study. The reasons to apply therefore played a crucial role in the selection process.
5. **Existing funding and financing:** Projects with some level of existing funding or financial commitments demonstrate the interest and support they have already garnered, which can be positive indicators of potential success, for all the reasons we have already reviewed in advance. A lack of funding or financing is not exclusionary per se, but it might represent a significant positive factor that is also appreciated by investors if present.

3. Section 2 – Establishing the steps of the Financial and investment Baseline (FIB)

3.1 The FIB objectives within the DEFINITE-CCRI initiative

In this section of the document, the framework for the financial and investment base (FIB) assessment between months 10 and 18 will be outlined in detail. During this phase, the consortium will actively engage in collecting comprehensive project-related data from local project owners and their partners, aiming to address the financial aspects of the DEFINITE-CCRI Project Finance Deal Engine methodology, with a specific focus on the FIB. The primary goal of this task is to conduct an in-depth analysis of the financial components of the selected projects, evaluating their revenue generation capabilities, cost structure, funding needs, and potential risks. To ensure a robust assessment, an initial risk analysis will be conducted, specifically identifying and analysing the risks associated with revenue generation and project costs, considering the risks previously outlined in the project evaluation. This risk analysis will serve as a critical component of the FIB, helping stakeholders identify and mitigate potential financial uncertainties.

To facilitate this assessment, the consortium has developed a simple yet effective analysis framework comprising qualitative and quantitative indicators. These indicators are tailored to meet the specific requirements of financial institutions partnering with DEFINITE-CCRI for deal brokerage, ensuring that the assessment aligns with the expectations of potential investors and funding partners. By incorporating relevant qualitative and quantitative metrics, the framework provides a holistic view of each project's financial situation, highlighting areas of strength and areas that may require further attention.

The assessment outcome, along with the Technical and Impact Potential (TIP) information delivered through Task 4, will be shared with each local project owner by the end of the process. This feedback will be instrumental in assisting project owners in making the necessary adjustments and improvements to their project outlines based on the evaluation. The financial information provided will complement the circular economy technical information delivered through Task 4, ensuring that both financial and technical aspects are well-integrated in the decision-making process.

The FIB framework plays a pivotal role in guiding the decision-making process within the DEFINITE-CCRI project. By conducting a comprehensive financial assessment, stakeholders can gain valuable insights into the financial viability and feasibility of each project, supporting the selection of projects with strong financial prospects and positive environmental and social impacts. Through this rigorous evaluation, the consortium aims to ensure that the selected projects are well-prepared and financially sound, increasing their attractiveness to potential investors and enhancing their chances of success within the DEFINITE-CCRI project.

3.2 The Financial and Investment Baseline (FIB) Assessment Process

Right after the project selection and the kick-off meeting with project leaders expected to take place in early September 2023, the FIB process will get started, with the objective of collecting the fundamental financial baseline information.

STEP 1: Creating a Project Development Team. The FIB methodology begins by reviewing the existing relevant personnel for the creation of a Project Development Team. This step ensures that the right stakeholders are involved in providing necessary financial data and insights, contributing to a comprehensive assessment. By involving the right personnel, including project managers, city officials, relevant partners and other decision-makers, the FIB team gains access to invaluable expertise and knowledge pertaining to the project's financial landscape. Moreover, engaging the relevant personnel ensures that all aspects of the financial analysis are adequately addressed, promoting a comprehensive and well-rounded evaluation of the project's financial viability and potential. The establishment of "working groups" that will then be maintained throughout the entire project development period can be significant to ensure the continuity of the work across the 20-month collaboration between the DEFINITE-CCRI project partners and the shortlisted project leaders. As per our recommendations and guidelines outlined by the Gender Equality and Inclusivity Plan, efforts should be made to ensure that the team is not only technically skilled and experienced in the field, but that it is also sufficiently diverse in its composition. This includes having an equal repartition between male and female team members, and ensuring the representation of ethnic and religious minorities where possible.

STEP 2: Defining the Scope of the Assessment: The second step of the framework is to clearly define the scope of the assessment, outlining the key financial parameters and metrics to be considered. This step ensures that all relevant financial aspects are thoroughly examined. This step is determined by the original situation of the selected projects. As mentioned in section one of this document, significant data gaps have been identified across the different projects. Before the establishment of the first contact, the DEFINITE-CCRI team will already have outlined the key information gaps and will have provided an overall assessment of the areas to be explored. A bilateral agreement between the DEFINITE-CCRI team and the project's work team on the timelines of such data retrieval and of who is in charge of supplying each piece of information will be fundamental. This step, alongside step 1, should not exceed the end of Month 1 after the kick-off meeting.

To ensure the confidentiality and the smooth data exchange between the DEFINITE-CCRI consortium and the Project Development Teams, the possibility of signing an NDA (Non-Disclosure Agreement) will be discussed with the relevant parties and executed in accordance with the members' preferences and legal status.

STEP 3: Understanding the Full Scope of the Business Model: One of the critical steps in the FIB process is to gain a comprehensive understanding of the business model adopted by each project. This involves analysing the strategic approach, target market, revenue streams, cost structure, and competitive advantage to assess the project's viability and long-term sustainability. Paragraph 2.2 of this document emphasised that, given the stage of development of these projects, the most fundamental piece of information is understanding the full scope and functioning of the business model, as well as the possible evolution or changes that might have occurred between the application and the first meeting between teams. On top of the core financial information and overall structuring of the project, the DEFINITE-CCRI team will encourage the project development team to include gender-related considerations in their business structure. This might include, among others, the selection of a gender diverse set of collaborating stakeholders within the supply chain, the inclusion of women and minorities in all the operations of the project development, or the presence of effective strategies to ensure more diversity, equity and inclusion across all the operations.

In preparation for this step, a questionnaire will be sent out to make sure the project team can have all the necessary time to collect and prepare the required information that will be asked from them. The information will then be reviewed during the bilateral work meeting. The questionnaire to be shared with the working team will be sent out in accordance with Work Package 4 members in order for the client to receive a single document and provide a joint response, thereby reducing the burden on the project team. The questions that are expected to be shared with the project managers are outlined in Annex 1.

Ideally, the request for information would result in up to 2 iterations between the DEFINITE-CCRI team and the work team to ensure a thorough submission and completion of the requested tasks.

As part of this steps, which will be closely coordinated with Work Package 4, the elements that will be reviewed include, but not exclusively, the following points:

1. **Value Proposition:** Understanding the unique value that the project offers is crucial. This involves identifying the specific environmental or social challenges the project addresses and how it contributes to resource efficiency, waste reduction, and circularity at large.
2. **Market Analysis:** Assessing the target market and demand for the circular economy project's products or services is essential. This involves understanding customer needs, market trends, and potential competition to gauge the project's market fit and potential for growth. DEFINITE-CCRI will ask each project team to share all the information already produced and collected on local markets, existing features, and the positioning the project would like to take in respect of their target market. The DEFINITE-CCRI team, especially BwB, could potentially help identify and estimate the size of the target market, especially during Task 3.3 - Financial and Due Diligence support, but it would have to rely on existing sources and the information already in possession of the project team.
3. **Revenue Streams:** Identifying and analysing the various revenue streams that the circular economy project will generate is vital. This may include product sales, leasing models, service fees, or recycling revenues. The received projects have already demonstrated to be able or willing to leverage a variety of revenue streams, although not all of them seem viable. This point is so fundamental that it will be assessed independently as part of step 4 below.
4. **Cost Structure:** Understanding the project's cost structure is crucial to assess its financial feasibility. This includes identifying production costs, supply chain expenses, waste management costs, and other operating expenses. Particular attention will be paid to understanding the approach that the project leaders and founders have taken to identify the

DEFINITE-CCRI - Deal Engine, with finance, investment and technical expertise for the Circular Cities and Regions Initiative

most efficient (even tax efficient way) to allocate capital between Capital Expenditures¹ and Operational Expenditures². Some projects in the application process have placed significant emphasis on Operational Expenditures versus Capital Expenditures. While this is not a negative choice per se, it might lead to a rather short-term approach to the use of capital, and it could lead investors to question whether the investment provided could be better utilized to encourage growth and capital-generation in the business.

5. **Stakeholder network:** Evaluating potential partnerships and collaborations with other organizations, businesses, or stakeholders is crucial for the correct execution of the project. Most projects clarified in their applications the members belonging to their stakeholders' network, whom they would like to collaborate with and be supported by. From this standpoint, more details should be clarified on the work subdivision, the legal arrangement between each entity and the value added provided by each potential stakeholder. Additionally, not only should the participating stakeholders prove their expertise and value across the project development, but they should also be selected in accordance to equitable and fair presence of gender and inclusion policies, demonstrating diversity in the team members' composition and attention to their operations.
6. **Regulatory and Policy Landscape:** Understanding the regulatory and policy environment relevant to each project is critical, especially in the circular economy field. Compliance with relevant laws and regulations is essential for the project's long-term sustainability and avoiding potential legal risks. This review will be performed initially by project team members and verified by the DEFINITE-CCRI team, with the further possibility of hiring external subcontractors in case this is needed. It is key to understand and review the potential hurdles that might arise from a lack of compliance with existing laws and regulations, but also the need to best leverage existing regulations to the advantage of the project itself, whether through tax incentives or support in the development. Emerging sectors, such as the circular economy one, often benefit from a solid regulatory support, tax breaks, innovation grants and similar. An in-depth review of such elements could support the development of the project and the establishment of effective synergies with the local rules and regulations.
7. **Risk Analysis:** Identifying and evaluating potential risks associated with the circular economy project is necessary. This includes market risks, technological risks, financial risks, and potential barriers to adoption. The work on risks will also be furthered during the Financial Due Diligence phase, going through an in-depth review of all the potential risks that might arise from the development of the project. As part of this phase, the risk analysis will remain a high-level one and will be based on common sense understanding of potential work paths and similar activities, to avoid extending the duration of the FIB assessment. To avoid incurring in potential hurdles related to the project development and to increase the diversity of thoughts and approaches in carrying out the project activities, gender and inclusion considerations shall be taken into account across technological, financial and market barriers to project adoption. Identification of such risks should also be followed by potential mitigation techniques as well.

¹ Capital expenditures, often abbreviated as CapEx, refer to significant investments made by a business or organization to acquire, upgrade, or maintain long-term assets with the expectation of generating future benefits and returns. These expenditures are typically made to enhance the capacity or efficiency of the business, improve its competitive position, or extend the useful life of existing assets. They can include: Purchase of Property, Plant, and Equipment (PP&E), Infrastructure Development, Research and Development (R&D) Expenses, Intangible Assets, investments in Subsidiaries or Joint Ventures, Upgrades and Improvements

² Operational expenditures, often abbreviated as OpEx, refer to the day-to-day expenses incurred by a business or organization to maintain its regular operations and support its ongoing activities. These expenditures are necessary for running the business and do not involve acquiring or upgrading long-term assets. Employee Salaries and Benefits, Rent and Utilities, Office Supplies and Consumables, Advertising and Marketing Costs, Insurance Premiums, Travel and Entertainment, Maintenance and Repairs

8. **Scalability and Replicability:** Assessing the project's scalability and potential for replication in different contexts is important for its long-term success and wider impact. The projects have already provided an assessment of how scalable and replicable each of their initiatives are based on self-assessment, but a more structured approach will be required since investors will be inquiring about real estimates and models showing their potential in this regard.

The DEFINITE-CCRI team is aware of the complexity and granularity of the information requested, which is why the forecasted time expected to complete this step, including the iterations to be performed will be of 3 to 4 months for all projects (ideally to be completed by the end of month 14 of the DEFINITE-CCRI work schedule).

STEP 4: Collecting and Assessing Relevant Financial Statements. Alongside the request for answering questions as indicated in Annex 1, which will be provided in preparation for one of the first meetings, project managers and owners will also be asked to provide all their relevant financial statements. For projects which are already operational, these will include:

1. **Income Statement (Profit and Loss Statement):** The income statement presents the revenues, expenses, and profits or losses of the business over a specific period, typically a quarter or a year. It starts with the total revenue generated from sales and other income sources and then deducts various expenses, including cost of goods sold, operating expenses, and taxes, to arrive at the net income (profit or loss).
2. **Balance Sheet (Statement of Financial Position):** The balance sheet provides a snapshot of the company's financial position at a specific point in time. It shows the company's assets, liabilities, and shareholders' equity.
3. **Cash Flow Statement:** The cash flow statement reports the cash inflows and outflows during a specific period. It categorizes cash flows into three main activities: operating activities, investing activities, and financing activities. The cash flow statement helps assess a company's ability to generate cash and its cash management practices.
4. **Notes to Financial Statements:** The notes provide additional explanations, details, and disclosures that support and complement the information presented in the primary financial statements. They include information on accounting policies, contingent liabilities, significant events, and other relevant details.

Based on the applications received, since many projects are still in a feasibility or pre-feasibility phase, it is expected that they will not be able to provide any of the aforementioned statements. However, within their current state of development, each project will be asked to produce a summary of their present financial position, any existing funding and financing sources, Capital and Operational Expenditures and any other expenses they might have.

During the following phase, the Financial Due Diligence process, support will be provided to each project on how to formulate and structure their financial position, and they will also receive guidance on how to best prepare in light of an upcoming due diligence being performed by investors during the appraisal phase. It should be clarified however that, for the purpose and scope of the DEFINITE-CCRI project, the production of any financial statement and its potential review will have to be produced internally by the Project Development Team or outsourced to external professionals.

STEP 5: Understanding the Revenue Streams to be Mobilized: An essential aspect of the FIB framework is to understand the revenue channels that the project intends to mobilize. This involves assessing the potential sources of income for each project. Analysing these revenue channels helps determine the project's ability to generate steady income over time.

The DEFINITE-CCRI team suggests holding a separate meeting from the previous one to focus exclusively on the revenue streams and the capacity of each project to work out not only the revenue sources from the selling or provision of services, but also leveraging existing programmes to support their growth through grants or additional frameworks.

Circular economy revenue streams can be diverse and innovative, focusing on sustainable practices and creating value from waste or used materials. Having reviewed the received projects, some of the most commonly expected revenue models will include:

1. **User/Service Fees (Repurposing and Offering Used Materials):** In a circular economy model, businesses can charge users or customers fees for repurposing used materials or products. For instance, a company that refurbishes and resells electronic devices can charge customers a service fee for the refurbishment process, extending the lifecycle of the products and reducing electronic waste.
2. **Platform User Fees:** Circular economy platforms that facilitate the exchange or sharing of goods or services can generate revenue through user fees. These platforms connect individuals or businesses looking to sell, rent, or share products, enabling a more efficient use of resources and reducing the need for new purchases.
3. **Transaction Fees:** Circular economy businesses that act as intermediaries in material or product exchanges can charge transaction fees. For example, a company that facilitates the exchange of recyclable materials between businesses may charge a fee for each successful transaction, incentivising resource recovery and recycling.
4. **Commodity Selling (i.e., Fuel by Bioreactors):** In some circular economy models, waste or by-products are converted into valuable commodities. For instance, bioreactors can convert organic waste into biogas or biofuels, which can then be sold to industries or consumers as a renewable energy source.
5. **Other internal revenue streams:**
 - **Subscriptions and memberships:** Businesses offering access to a pool of shared resources or services can charge recurring subscription or membership fees.
 - **Product-as-a-Service (PaaS):** Companies can lease products to customers, providing ongoing maintenance and upgrades while retaining ownership and responsibility for the product's end-of-life.
 - **Upcycling and value-added products:** Businesses that transform waste materials into higher-value products can charge premium prices for the unique and sustainable offerings.

On top of “internal” revenue streams that can be produced by offering a service, selling products or similar, an exploration of existing programmes offering funding or grants should also be performed. Investors are particularly appreciative of revenue streams such as this one, even if disbursed in a one-off fashion, since they can reduce the need for capital injection and can provide a “seal of approval” validation from an external institution.

An initial review of this point can be initiated by project leaders and can then be enhanced and supported by the DEFINITE-CCRI team.

The DEFINITE-CCRI team suggest working on this portion of the work between months 15 and 16 of the project, as one of the final steps before the drafting of the FIB report for each of the shortlisted projects.

STEP 6: Identifying Data and Information Gaps: During the FIB process, data and information gaps are identified to ensure a comprehensive assessment. As mentioned, the objective will be to collect all the information requested through the questionnaire by month 14 and hold conversations on revenue streams between months 15 and 16.

By this date, any missing or incomplete data point will be highlighted for further investigation to enhance the accuracy of the financial baseline and will be included in the report.

It is possible that, for some projects, the information will simply not be available, and it will either need to be produced or it will have to wait for the unfolding and development of the project before it can be collected. Some data points will be addressed during the Financial Due Diligence process, while some others will simply remain incomplete until some milestones are achieved.

STEP 7: Reporting on the Financial Baseline for Every Project: Once the data collection and analysis process is complete, a comprehensive financial baseline report is generated for each project. This report outlines the financial position, projected revenues, and overall financial viability of the project, providing crucial insights for further decision-making and for the structuring of the Financial Due Diligence piece of work.

Based on the information collected so far, each report will include:

- **Project Overview:** A brief overview of the project received, including its objectives, scope, and target market. In particular, it will open with an assessment of the project within the overall framework of the market it is trying to position itself in, and the customers/final users it is targeting.
- **Financial Projections:** Where possible, some financial projections for the project, including revenue forecasts, cost estimates, and cash flow projections based upon the financial statements or, more broadly, financial information received. It will consider various scenarios and assumptions to assess the project's financial sustainability and profitability over time.
- **Revenue Streams:** A thorough assessment of the different revenue streams the project aims to generate, such as product sales, service fees, subscriptions, or other income sources as listed previously. It will provide a snapshot of the project at that point in time, with a brief analysis of the potential demand for the project's offerings and the pricing strategy.
- **Risk Analysis:** A preliminary risk analysis, identifying potential financial risks and uncertainties that could impact the project's financial performance. This will be then further developed during the Due Diligence process.
- **Regulatory and Policy Landscape:** Based on the information received, the report will include an understanding of the regulatory and policy environment, especially highlighting the gaps that should be addressed and closed during the Financial Due Diligence phase. The collected information will not be of any binding nature but rather a simple understanding and overview of the existing policies and potential relevance to the project itself.
- **Assumptions and Limitations:** Clearly stating the assumptions made during the financial projections and highlight any limitations or uncertainties in the data or methodology used.
- **Required steps to prepare for project appraisal.** Since the document will be fundamental to structure the rest of the operations and activities, especially the Financial Diligence and the project appraisal phases, (T3.2 and T3.3), it will also include a section on the fundamental data gaps and the actions for their completion. This will be particularly crucial for the pieces of information sought by investors through their own due diligence.

- **Gender considerations:** As mentioned across this section, this chapter will include all the gender considerations and mitigation techniques deployed in the project execution and planning. In particular, it will assess: (1) the diversity of the project development team and of the related stakeholders (2) the identification of gender-related risks and relative mitigations (3) the effective integration of gender factors within the very business model and operations of the project

In order for the task to remain manageable by the DEFINITE-CCRI team, the reports for each project will try and follow a schematic structure built upon the received information, and it will aim to stay within a limit of 10 pages each. The objective of the reports is to allow the consortium to produce a final decision on the 4 shortlisted projects which will be then moved to the next due diligence phase. Such decision will be performed and communicated by month 17 to the relevant Project Development Team Contacts.

The delivery of such reports, with the opportunity of discussing them directly with the project teams, will happen between months 17 and 18 of the DEFINITE-CCRI timeline, or March/April 2024. Both successful and unsuccessful projects will be given the opportunity to exchange with the DEFINITE-CCRI team to understand the result of the financial assessment and/or to understand the necessary information for the following steps of the project.

Figure 3 reported below shows the GANTT chart for the seven steps of the FIB assessment. The project teams should be aware of such timeline and do their best to respect a timely delivery of the questions, the financial statements and scheduling of bilateral conversations to go through the documents and the receive feedback on what is submitted by each deadline.

DEFINITE-CCRI Work Months	M10	M11	M12	M13	M14	M15	M16	M17	M18
STEP 1 Creating a Project Development Team									
STEP 2 Defining the scope of the assessment									
STEP 3 Understanding the full scope of the business model									
STEP 4 Collection and assessment of financial statements									
STEP 5 Study of revenue streams to be mobilized									
STEP 6 Missing information and data gaps									
STEP 7 Reporting on FIB for every project									
Decision and communication on the									

chosen 4 projects which will receive due diligence support									
Bilateral exchange with each project on the outcomes of the FIB report									

Figure 2 GANTT Chart of the FIB Assessment for shortlisted projects (WP3.2)

4. Section 3 – Offered services for the financial and legal due diligence support

4.1 The Financial Due Diligence within the DEFINITE-CCRI initiative

This section aims to outline the range of services that will be made available to the 4 shortlisted projects between months 14 and 24 of the DEFINITE-CCRI project. During this period, project owners will receive financial expertise support. Larger projects in terms of overall size of financing needed, will receive proportionally more assistance than smaller ones, both in terms of allocated time in equivalent person months and in terms of direct exchanges.

The Due Diligence process will be a thorough and iterative assessment, carefully identifying any data gaps and proactively devising effective solutions to bridge them, while also extending much-needed financial assistance to the cities and/or project teams.

An integral part of this support involves conducting four two-day onsite bilateral consultation sessions, fostering close collaboration between the financial consortium partners and project owners and their partners as needed. These sessions are designed to facilitate the development of detailed risk profiles for the projects, crucial for their eventual appraisal in WP5.

The assistance provided in this phase encompasses legal, and financial support aimed at guiding and aiding project owners and their partners to meet the criteria set by investors and finance partners for successful investment applications. The aid includes comprehensive, hands-on guidance, tailored to each project's specific needs and targeted investor requirements. This may involve enhancing and refining business and financial models, optimising processes, designs, and technical specifications, and providing direction in creating detailed supporting documents such as market analyses, feasibility studies, circularity assessments, and environmental impact evaluations, among others. Further support will be accessible through the community of practice, particularly to involve local experts and assist project owners in overcoming capacity limitations, especially concerning data and information collection essential for robust project development. Specially allocated funds for subcontracting will be used to provide targeted funding for local expertise. A risk profile will be formulated for each project, with the aim of minimising all pertinent types of project risks to boost investor confidence. Additionally, a due diligence report for each project will compile all information and documents in alignment with investor prerequisites, to be utilized during the final project appraisal.

4.2 Detailing the Financial and Legal Due Diligence Support

The Due Diligence Support encompasses the core of the assistance that projects will receive by the consortium. While Task 3.2 is mainly focused on retrieving the required information, including some iterations with the project owners and managers, this section insists on hands-on assistance.

Additionally, while the FIB assessment is subdivided in key steps whose timelines can be followed by all the project teams at the same time, the financial and legal Due Diligence Support offers a much more ad-hoc set of services, which can be fulfilled using an on-demand approach.

This document will then set out the key blocks of assistance, which will be conducted in parallel and with adjustable timelines by the different projects based on their needs. The offered assistance in this framework can be split in three key categories based on the types of services that can be accessed, as it is described below.

4.2.1 The 2-day intensive bilateral consultation session

As clearly laid out in the grant agreement, a key element of the DEFINITE-CCRI value proposition is the possibility of accessing financial, technical and legal experts for extensive periods of time. In particular, the 2-day bilateral onsite consultations will be useful to sort out all the required information after the data collection, or to discuss the project appraisal and the needed steps for approaching investors.

Based on the level of development and independence of each project, the most effective times to schedule the consultation would be either:

- a. After the delivery of the FIB reports and the shortlisting of the 4 projects that will be moved to the full due diligence support, therefore during months 19 and 20, which would allow for a clear review of all the data gaps and the collaboration on the needed pieces of work to lead.
- b. At the end of the due diligence process, between months 21 and 24 with the aim of producing a specific financial or legal output needed for investor appraisal, potentially alongside the subcontracted entities where needed.

The 2-day in-person review of the activities could entail the following steps, ideally attended by all members of the project team. We will tailor the type of services according to each project's needs, this way ensuring the possibility of offering as much value as possible to the shortlisted projects through this consultation session.

Day 1 sample schedule:

- Financial Expertise Support: Understanding individual project financial needs, refining business and finance models, and addressing financial gaps for successful investment applications. (2h)
- Legal Framework and Due Diligence Support: Explaining legal requirements, ensuring compliance, and preparing necessary documentation for due diligence. (2h)
- Technical Development Assistance: Evaluating project designs, identifying opportunities for improvement, and incorporating circular economy principles. (2h)
- Risk Profiling and Mitigation: Developing risk profiles for projects and minimising risks to enhance investor confidence. (2h)

Day 2 covered topics:

- Supporting Documents Preparation: Providing guidance on market analyses, feasibility studies, and circularity assessments to create robust supporting documents for investors. (2h)

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- Collaboration with Local Experts: Reviewing the local community of practice members to address capacity shortages in data and information gathering, and understanding the need for subcontracting. (2h)
- Subcontracting and Funding Allocation: Clarifying the process for obtaining targeted funding for local expertise and allocating funds from the earmarked subcontracting budget. (2h)
- Final Project Appraisal Preparation: Running through all information and documents for the due diligence report, ensuring alignment with investor requirements, and discussing next steps. (2h)

The suggested schedule offers an overview of all the services that could be provided. The project leaders can decide to go through all such elements, or to opt out of some of them in case they might feel they already have access to sufficient information on one of these topics.

4.2.2 Parallel Assistance Blocks

Conducted remotely after the end of the data collection, especially the review of the business model, regulatory and risk-related information, between months 14 and 22 of the DEFINITE-CCRI schedule, ad-hoc remote consultations and remote written requests can be scheduled with BwB for the topics mentioned below in addition to the technical circular economy-related support provided by Work Package 4 on the technical circularity aspects. The number and duration of such exchanges will have to be tailored to the size and complexity of the project, but in general can include, on top of calls and bilateral consultations, requests for research, work on the legal and financial documents, review of produced material and training for the Project Development Team. To ensure the effective and tailored delivery of such services to the shortlisted projects, the parallel assistance will not start before month 18, when the final decision on the selection of the 4 chosen projects will move forward.

More details will be added below. The BwB-offered assistance blocks include:

BLOCK 1 – Financial support

As well illustrated in the grant agreement, and as part of the BwB unique expertise, the work that had been started with the research and identification of data as part of the business development and the revenue streams identification can be furthered and deepened as part of this assistance block.

As part of the interventions that could be performed as part of this block, project managers can request assistance for:

a. Business models

As we saw previously, multiple sub-sectors can be leveraged when talking about business model. At this stage, the main categories that could benefit from BwB's support in this framework would be:

- **Revenue Streams:** identification, improvement and streamlining of existing and future revenue streams
- **Market Analysis:** review of the existing market players and their development conditions
- **Cost Structure:** usage and deployment of capital across CapEx and OpEx in a tax and growth-efficient fashion

- **Scalability and Replicability:** Ensuring to maximise the chances of project scalability and replicability through the right business choices and adoption of interoperable approaches across national and European markets

b. Process optimization

From a financial standpoint, financial process optimization can focus on the following areas:

- **Identifying Key Financial Processes:** Through the identification the critical financial processes within the project management, such as budgeting, financial reporting, invoicing, procurement, accounts payable and receivable, and cash flow management
- **Analysing Current Processes:** Once the key financial processes are identified, a detailed analysis is conducted to understand how they currently operate. This involves mapping out the steps involved, data flows, decision-making points, and the roles of different stakeholders.
- **Identifying Inefficiencies and Areas for Improvement:** During the analysis, inefficiencies, bottlenecks, and areas for improvement are identified. These could include manual and redundant tasks, delays in approvals, data entry errors, or complexities that hinder smooth operations.
- **Setting Objectives and Targets:** Clear financial objectives and targets are established based on the identified issues. This could include goals for cost reduction, improving accuracy, speeding up processes, or enhancing financial decision-making.
- **Designing and Implementing Improvements:** After analysing the current processes and setting objectives, new and improved processes are designed to address the identified issues. These improvements could involve automation, digitization, better workflow designs, standardized procedures, or enhanced collaboration between departments.
- **Monitoring and Measuring Performance:** Once the improved processes are implemented, their performance is continually monitored and measured. Key performance indicators (KPIs) related to financial efficiency and effectiveness are tracked to evaluate the impact of the optimization efforts.

c. Support in document preparation

Further support will be accessible through the community of practice, particularly to involve local experts and assist project owners in overcoming capacity limitations, especially concerning data and information collection essential for robust project development. Project managers are most likely aware of the fact that, when interacting with investors, they would need to prepare a set of documents, for which DEFINITE-CCRI can and will provide ongoing assistance. Among the documents that BwB, within the DEFINITE-CCRI framework, will be able to assist with include the following:

1. **Project Proposal or Business Plan:** This document provides a detailed overview of the project, including its objectives, scope, implementation plan, and expected outcomes. It outlines the market opportunity, value proposition, and the competitive advantage of the project.
2. **Financial Projections:** Financial projections are crucial for investors to understand the potential return on their investment. This includes projected revenue, costs, and profitability over the project's lifecycle, typically presented in the form of income statements, balance sheets, and cash flow statements.
3. **Market Analysis:** A market analysis assesses the target market's size, growth potential, competition, and customer demographics. It helps investors understand the market demand for the project's offerings and the competitive landscape.

4. **Feasibility Study:** A feasibility study evaluates the technical, economic, and operational viability of the project. It assesses the project's technical feasibility, potential risks, and the viability of achieving the projected financial outcomes.
5. **Legal and Regulatory Compliance:** Ensure that all legal and regulatory requirements are met and provide documentation showing compliance with relevant laws and regulations. This will be addressed as part of BLOCK 2.
6. **Risk Analysis and Mitigation Plan:** A comprehensive risk analysis identifies potential risks that could impact the project's success. It also outlines a plan to mitigate these risks and demonstrates how the project team will handle unforeseen challenges. This will be developed as part of BLOCK 3.
7. **Team Credentials:** Highlight the qualifications and experience of the project team members, demonstrating their ability to successfully execute the project.
8. **Use of Funds:** Clearly outline how the investment funds will be utilized in the project. Provide a breakdown of the capital expenditures and operational expenses.
9. **Executive Summary:** Prepare a concise summary of the project and its potential, summarising the key highlights from the larger documents.

These documents will be developed both in the framework of Work Package 3 and Work Package 5, due to their crucial role in the project appraisal and in establishing the relationship with investors.

BLOCK 2 – Regulatory and Legal Support

As mentioned in BLOCK 1, investors are expected to request documents to facilitate a legal and regulatory review of the project as part of their investment due diligence process.

To fulfil this requirement, BwB will support the work from project managers in the following areas. In particular, DEFINITE-CCRI will aid through internal or subcontracted activities. If necessary, in particular for regional scenarios and additional information sharing, especially in the legal field, DEFINITE-CCRI will be able to mobilise local experts for subcontracting, as indicated in point 4.2.3, which will be explored in a few paragraphs. The key activities will be:

1. **Collecting Relevant Legal Documents:** Gather all pertinent legal documents related to the initiative and project, including national and regional laws, regulations, statutes, policies, guidelines, and industry standards, paying particular attention to environmental, sustainability, waste management, and resource efficiency laws that directly impact circular economy projects.
2. **Analysing Legal Frameworks:** Conduct an in-depth analysis of the legal framework relevant to the assisted projects. Identify the key laws and regulations that govern circular economy practices and explore how they interact with other environmental and economic regulations. Consider how circular economy principles align with broader sustainability and climate action agendas.
3. **Identifying Regulatory Authorities:** Determine the relevant regulatory authorities responsible for overseeing and enforcing circular economy-related laws and policies. Identify government agencies, environmental protection bodies, and other authorities involved in promoting and regulating circular economy practices.
4. **Evaluating Compliance Requirements:** Assess the compliance requirements imposed by the applicable circular economy laws and regulations. Identify specific obligations, permits, certifications, eco-labelling requirements, and reporting obligations that circular economy projects must adhere to. Evaluate the extent to which the project aligns with circular economy best practices.

5. **Identifying Potential Risks and Challenges:** Analyse the legal landscape to identify potential risks and challenges that may impact circular economy projects. Consider any legal uncertainties or ambiguities related to circular economy definitions, waste classification, or sustainability standards. Address potential obstacles that could hinder the implementation of circular economy practices.

BLOCK 3 – Risk Management Support

A risk profile will be formulated for each project, with the aim of minimising all pertinent types of project risks to boost investor confidence. To this end, BwB will support in the drafting of a risk analysis, identifying and evaluating potential risks associated with the 7 shortlisted circular economy projects. This includes market risks, technological risks, financial risks, and potential barriers to adoption.

The mitigation of risks will be particularly useful to reassure investors about the necessary work that will be performed to counter the identified risks. Circular economy projects, in particular, might be exposed to different kinds of unique risks, that DEFINITE-CCRI will help identifying and mitigating, for example:

Technical risks:

1. **Technology Viability:** The chosen circular economy technology or process may not be technically feasible or may face challenges in implementation, leading to inefficiencies or higher costs.
2. **Resource Availability:** The availability of essential resources, such as recycled materials or renewable energy sources, may be limited or unreliable, affecting the project's continuity.
3. **Integration Challenges:** Integrating circular economy practices into existing infrastructure or supply chains might pose technical difficulties or require significant modifications.
4. **Quality and Durability:** Recycled or repurposed materials may not meet required quality standards or exhibit reduced durability compared to conventional materials.
5. **Waste Management:** Effective waste management practices and recycling infrastructure might not be available or adequately developed in the project's location.

Market risks:

1. **Market Acceptance:** The target market may not fully embrace circular economy products or services, leading to slower adoption rates and market penetration.
2. **Competitive Landscape:** Intense competition from traditional, non-circular economy products or services may challenge the project's market positioning and pricing.
3. **Regulatory Uncertainty:** Changes in environmental regulations or sustainability standards could impact the project's market viability and require additional compliance costs.
4. **Consumer Awareness:** Low consumer awareness and understanding of circular economy benefits may hinder demand for circular products or services.
5. **Changing Market Trends:** Rapidly evolving market trends and consumer preferences may render certain circular economy solutions obsolete or less attractive.

Financial risks:

1. **Capital Intensity:** Circular economy projects may require significant upfront investments in technology, infrastructure, and supply chain restructuring, leading to higher financial risks.

2. **Funding Constraints:** Securing adequate funding for circular economy initiatives can be challenging due to perceived higher risks or unfamiliarity with circular business models.
3. **Cost Volatility:** Fluctuations in the prices of raw materials, recycled inputs, or renewable energy sources can impact project profitability and financial stability.
4. **Return on Investment (ROI):** Longer payback periods or lower ROI in comparison to traditional projects might deter potential investors or financiers.
5. **Policy and Incentive Changes:** Changes in government policies or incentives related to circular economy projects could affect project economics and financial viability.

As part of the mitigation strategy, some techniques might be used to provide investors with reassurance on the overall due diligence performed by the appraisal team:

1. **Risk Management Standard ISO 31000:** The use of certifications such as the ISO 31000 standard, which is also applicable to projects, shows that the team has provided sufficient insights and research for risk identification, risk assessment, risk treatment, and continuous monitoring
2. **Failure Modes and Effects Analysis (FMEA):** FMEA is a systematic approach used in engineering and various industries to identify potential failures in a process or product and evaluate their consequences. It assesses the severity, likelihood, and detectability of failure modes to prioritize risks and focus on prevention and mitigation strategies.
3. **Hazard and Operability Study (HAZOP):** HAZOP is a structured method used mainly in the process industry to identify potential hazards and operability problems in a system or process. It involves a systematic review of deviations from the intended design and operation.

All the documents generated by the work in BLOCKS 1, 2 and 3 will be compiled into a due diligence report for each project, in alignment with investor prerequisites, to be utilized during the final project appraisal.

4.2.3 Locally Provided Assistance through subcontracting

Lastly, DEFINITE-CCRI does offer specially allocated funds for subcontracting which will be used to provide targeted funding for local expertise on an ad-hoc basis.

To ensure the timely agreement between the interested parties and the local subcontractors, given that the budget and the framework of the agreement will also have to be negotiated, we suggest the interest for reaching out to local subcontractors should be communicated to the DEFINITE-CCRI team at the latest by month 18 of the DEFINITE-CCRI schedule, for consultancies to take place between months 20 and 24. The DEFINITE-CCRI team will then be in charge of reviewing the value added to be produced by subcontractors and of approving the contracts between project managers and the subcontractor to ensure the appropriate use of funding.

While there will be freedom on what subcontractor to reach out to and for what kind of activity, the DEFINITE-CCRI team suggests the potential fields of intervention might be, but not limited to, the following depending on resource availability and in conjunction with the other project partners, NTUA and ICLEI, as part of Work Package 4.3:

- **Legal Review:** review of legal documents for project appraisal and due diligence, company background, contracts and agreements (including leases, licenses, vendor agreements,

employment contracts), regulatory compliance, data privacy and security, regulatory approvals and tax compliance.

In case all these elements have been covered and additional budget is left, the remaining budget could be allocated towards additional third-party reviews or advisory where necessary.

While there is no obligation on part of project developers to utilize subcontractors, budget is available, and we therefore will recommend project developers take advantage of the opportunity.

DEFINITE-CCRI Work Months	M14	M15	M16	M17	M18	M19	M20	M21	M22	M23	M24
2-day intensive bilateral consultation sessions											
Parallel assistance blocks overarching period											
Preliminary preparation for BLOCK 1-3 support											
BLOCK 1 Financial support											
BLOCK 2 Legal and Regulatory support											
BLOCK 3 Risk management support											
Deadline to request a subcontracted local assistance											
Subcontracted local assistance execution period											
Document finalization for project appraisal phase											

Figure 3 GANTT Chart of the Due Diligence for shortlisted projects (WP3.3)

Figure 5 shows the overlap between actions and milestones of Work Package 3.2 and 3.3 to ensure the right coordination between the two work streams.

DEFINITE-CCRI Work Months		M14	M15	M16	M17	M18	M19	M20	M21	M22	M23	M24
STEP 1 Creating a work team	WORK PACKAGE											
STEP 2 Defining the scope of the research												
STEP 3 Understanding the full scope of the business model												
STEP 4												

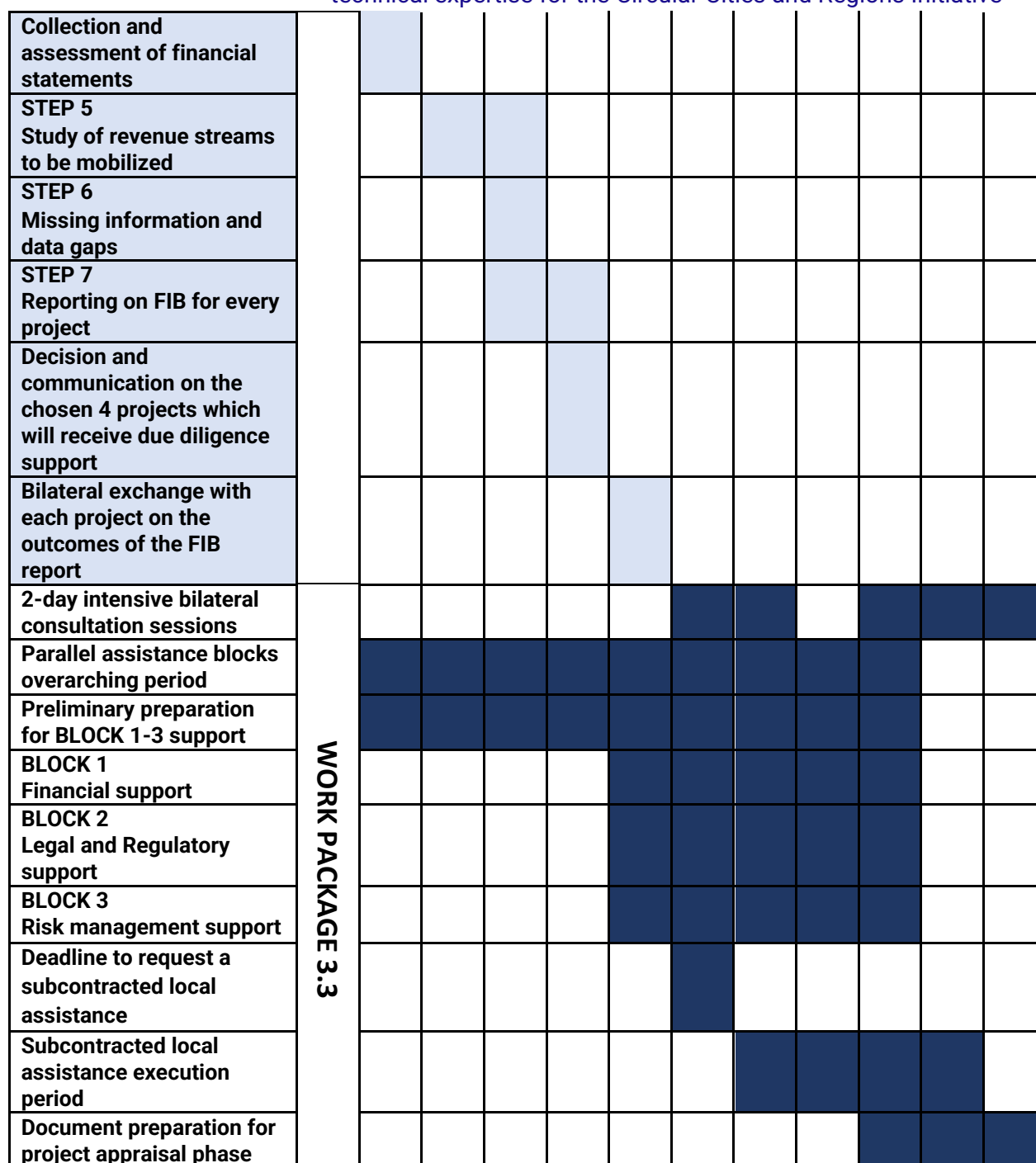


Figure 4 Overlapping GANTT Chart for Work packages 3.2 and 3.3

5. Deal engine brokerage

Starting month 20 onward, and as part of Work Package 5, the investor project appraisal phase will kick off for a variable duration between 10 and 12 months, closing at the end of the overall project, at month 30. This project phase will be necessary to review projects' potential to be favourably accepted by investors, which will result in either a reception of a "stamp of approval" by the DEFINITE-CCRI consortium or a request for improvement. Projects carrying a stamp of approval will proceed to bilateral contracting processes between project owners and investors. Rejected projects will receive additional PDA support to improve the submission.

Based on the collected information during the preliminary investor engagement and the information collected on projects through the FIB assessment and due diligence, BwB will determine the right investor(s) for each shortlisted project, and it will broker the relationship between the Project Development Team and investors.

On top of that, BwB will be also in charge of creating a document, called Project Preparation Framework, which will be used by project owners and city officials to receive guidance in applying for funding opportunities on top of the financing solutions which will be offered by private investors. City officials will be guided through the contract preparation process including the establishment of required MRV tools and processes to ensure cities and their project partners are ready for implementation based on contracting investor requirements. The support is based on desk work (funding options & sign-off) by involved partners and a one-day virtual contract facilitation workshop on contract preparation and MRV procedures as well as additional virtual meetings on a need's basis.

Finally, BwB will lead the creation of a project evaluation tool and guidebook (Deliverable 5.5) to consolidate the methodologies of the Deal Engine, developed in T3.1, T4.1 and T5.1 and applied and tested throughout the project into a robust web-based tool that can be applied autonomously by project owners beyond the DEFINITE-CCRI project. The project evaluation tool and guidebook will be designed to coach city and region officials and local project owners through the project development process towards bankability. The use of the tool will facilitate project sign-off and contractual commitment in an effective and efficient way.

Overall, the planned public deliverables for this piece of work in the overall CCRI activity will be:

- D5.1: Report on Project Appraisal Event and Final Conference [expected on month 24] - partially public, physical event including closed-door appraisal sessions for projects supported by DEFINITE-CCRI with investors.
- D5.2: Report on Project Appraisal Proceedings [due on month 26] - outlines all proceedings of the project appraisals as well as their results and justifications and it will be shared only with the project owners
- D5.3: Summary of bankable projects ready for investment [due on month 26] - summarises all projects reaching the stage of investor sign-off, including focus and scope, process of "how and why they got there" as well as the investors' rationale for funding them.
- D5.5: Project evaluation tool and guidebook [due on month 24] - compiles a guidebook on the project evaluation tool, aimed at providing guidance to users on how to use the tool via portal.

6. Conclusion

This document serves as a comprehensive guide for the Financial and Investment Baseline (FIB) assessment and the Financial and Legal Due Diligence within the DEFINITE-CCRI Project Finance initiative. By outlining the objectives, methodology, and scope of Tasks 3.2 and 3.3, the document has provided a solid foundation for the development of financial and legal-related elements crucial for the success of circular economy projects. The rigorously structured project selection methodology,

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encompassing key criteria such as business model rationale, revenue generation capabilities, and existing funding, has enabled the shortlisting of seven promising projects for further evaluation.

The establishment of the FIB assessment steps offers a systematic approach to collect and assess essential project-related data, ensuring an efficient and thorough evaluation process. The step-by-step process allows for close collaboration between the consortium and project owners, fostering a fruitful exchange of insights and expertise. Furthermore, the financial and legal due diligence support services offered to the shortlisted projects demonstrate the commitment of the DEFINITE-CCRI initiative to provide hands-on assistance, nurturing the projects' potential and attractiveness to potential investors.

The document emphasizes the importance of creating a robust financial and legal framework to align projects with investor interests and ensure their viability. By addressing potential risks, offering local subcontracting expertise, and guiding project owners through due diligence processes, the DEFINITE-CCRI initiative aims to create a positive impact on the circular economy landscape.

In summary, this document serves as a key resource in advancing the goals of the DEFINITE-CCRI Project Finance initiative and propelling circular economy projects towards a successful and sustainable future. Through collaborative efforts, the consortium and project owners stand poised to unlock the full potential of the 7 shortlisted circular economy initiatives, allow them to structure themselves and to attract potential investors.

Annexes

Annex I – FIB assessment questions

The following questions will be shared with the project teams alongside the technical, circular economy questions, prepared by Work Package 4.

	Question category	Listed questions
1	Business Model	1.1. Please explain in detail the rationale behind the project and clarify its value proposition
		1.2. Briefly outline the market competitors and the overall market situation when relating to your project
		1.3. Clarify your cost structure and provide an itemized breakdown of your costs divided in Capital Expenditures and Operating Expenditures
		1.4. Clarify the involvement of each of your project partners and clarify the legal agreement between all of them
		1.5. Clarify the target client for your service or product
		1.6. Provide a clear assessment of replicability and scalability of your project according to your estimates of the target users/clients of your product or service
2	Revenue Streams	2.1. Please list the existing revenue stream for your project (commodity selling, platform fees, PaaS (Product as a Service)...))
		2.2. Do you think more revenue streams could be leveraged? If yes, which ones?
		2.3. Are most of your revenue streams (both existing and hypothetical) recurrent or one-off?
		2.4. Have you already identified any sources of funding or financing from other entities? Whether in the form of grant or some other kinds of investments
3	Financial Statements	3.1. Please provide your Income statements for the past 3 years
		3.2. Please provide your balance sheets for the past 3 years
		3.3. Please provide your cash flow statements for the past 3 years
		3.4. If you don't have access to or have not produced any of the previous statements, please clarify to the highest possible level of detail your expenditures, your plan for capital usage and current financial situation
4	Legal Assessment	4.1. Are there any specific regulations or policies related to circular economy practices in the project's location?

		4.2. What are the potential liabilities related to your operations?
		4.3. Are there any intellectual property rights concerns related to circular design or innovative processes used in the project?
		4.4. Are there any permits or licenses required for the project's circular practices, and have they been obtained
		4.5. How does the project handle compliance with environmental regulations and sustainability standards?
5	Risk Assessment	5.1. What are the estimated potential risks for this project?
		5.2. What are the technological hurdles that might represent a problem?
		5.3. What are the financial issues that might cost the project its growth?
		5.4. For the listed issues, has a mitigation plan been put in place? If no, why?

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