



# Circular Action Hub and Circular Credits Mechanism (CCM)

## Principles & Criteria

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Developed and operated by



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## 1. INTRODUCTION

This document describes the Principles & Criteria of the Circular Action Hub and its Circular Credits Mechanism for projects involved in the recovery and recycling of Municipal Solid Waste projects.

There are seven Principles and Criteria that outline the basic philosophy of the Hub and the mechanism for all sorts of projects. Their objective is to provide the rationale behind the aims, concepts, scope, and eligibility for projects willing to participate in the Hub and/or issue Circular Credits (CCs).

Specific guidance on the implementation of the Principles & Criteria for specific projects can be found in the Implementation Guidelines and Operational Procedures for different sectoral scopes.

## 2. BACKGROUND

Early in 2013, BVRio developed a system of Reverse Logistics Credits (RLC)<sup>1</sup> to assist companies to meet their obligations under the newly created Brazilian National Solid Waste Legislation while rewarding waste pickers (Catadores) for their role in waste management activities. Reverse logistics services ensure that a certain amount of waste is removed from the environment and responsibly disposed of. RLCs are certificates which confirm that reverse logistics services were provided.

These RLCs were issued to cooperatives of Catadores that performed the reverse logistics services and were purchased by producers and/or importers that needed to comply with the Brazilian Solid Waste Legislation. Through the purchase of credits, companies effectively subcontracted cooperatives of Catadores to provide the reverse logistics services required by the law.

This effective and socially-inclusive circular economy mechanism paved the way for the creation of the Circular Credits Mechanism (CCM), an international mechanism to enable the cross-boundary support of waste collection and recycling projects through the purchase of Circular Credits. And, to support this, the Circular Action Hub<sup>2</sup>, a platform to connect buyers and sellers of environmental services related to the circular economy, was created.

The rationale of the CCM is to provide a mechanism that allows the participation of any waste management activities of any size (small and large), both existing and greenfield, with low transaction costs and no barriers to entry for participants. In effect, a simple but effective market tool to enable performance-based payments for the environmental services of collection (recovery), sorting and appropriate destination of recyclable waste materials that today pollute our environment.

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<sup>1</sup> BVRio 2015: Reverse Logistics Credits – A social and environmental innovation to address urban waste and recycling. [www.bvrrio.org/publicacoes](http://www.bvrrio.org/publicacoes). Video: [www.youtube.com/watch?v=8X5wE0DZq0](https://www.youtube.com/watch?v=8X5wE0DZq0)

<sup>2</sup> [www.circularactionhub.org](http://www.circularactionhub.org)

## 3. DEFINITIONS

### 3.1 CIRCULAR ACTION HUB (CAH)

The Circular Action Hub is an online platform to promote the circular economy, by connecting buyers and sellers of environmental services related to the circular economy including waste collection, recovery, recycling, and associated activities including awareness raising, capacity building, information dissemination and technology development.

The Circular Action Hub is an online platform to promote the circular economy, including activities directly related to waste collection, recovery, recycling, as well as awareness raising, capacity building, information dissemination and technology development.

The Circular Action Hub will also operate a Marketplace to connect organisations engaging in performance-based payments for environmental services related to waste recovery and recycling. Financial support for the projects could come in the form of sponsorship, investment, or purchase of credits that express the environmental impact created.

The Hub was created to support all types of projects and will list those that certify the impact of these activities to approved standards, including the 3R Initiative<sup>3</sup>, and the Circular Credits Mechanism described below.

### 3.2 CIRCULAR CREDIT MECHANISM AND CIRCULAR CREDITS

The Circular Credits Mechanism (CCM) is a market tool to facilitate performance-based payments for the environmental services of collection (recovery), sorting and appropriate destination of recyclable waste materials. Provided that these services are conducted in a way that meets the Principles and Criteria of the Hub, they are eligible to issue Circular Credits.

Through the use of Circular Credits, interested parties (the buyers – e.g., companies, individuals, projects) can compensate for their waste footprint, by effectively subcontracting the services provided by sellers (e.g., projects, waste pickers associations, etc.) providing the environmental service of waste recovery and appropriate destination.

A Circular Credit represents the service of recovery (removal, collection, sorting) and appropriate destination of 1 metric tonne of recyclable material that is inappropriately discarded, causing pollution of the natural environment or foregoing the opportunity of a better destination.<sup>4</sup>

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<sup>3</sup> [www.3r-initiative.org](http://www.3r-initiative.org)

<sup>4</sup> For instance, recyclable materials disposed in landfills are not causing environmental pollution but, if possible, should be sent for recycling, re-use or energy generation.

### 3.3 APPROPRIATE DESTINATION

The appropriate destination of the materials recovered varies according to local context. Nevertheless, projects should pursue the best economically feasible destination for waste recovered available.

Circular Credits can be created for two main types of activity:

- **Waste collection or removal.** Environmental service happens when waste recyclable material is collected from the environment and is appropriately disposed so that it won't return to pollute the environment. For instance, it could be sent for recycling, disposed in a landfill, or incinerated in a power plant;
- **Waste recovery.** Environmental service happens when recyclable material that would otherwise be landfilled or incinerated is recovered and recycled or reused. For example, the work that waste pickers do in recovering plastic from waste dumps or landfills and selling it to recycling plants.

The Circular Credits Mechanism does not differentiate between these processes of creation of credits, and the terms removal and recovery are used interchangeably.

A project must define the most appropriate destination for the waste materials it removes or recovers, supporting this claim by referring to local rules and legislation, financial/technical feasibility, and/or other technically reliable information. And, the most environmentally-sound destination should be adopted.

### 3.4 PROJECT ORGANIZATIONS

Any party can become a Project Organization, including companies, NGOs, informal waste pickers, etc., provided that the project meets the requirements of this standard.

Participation in the Hub and the CCM is applicable only for projects developed by organizations that (a) are formally constituted and registered; (b) have all permits that would allow its specific operation<sup>5</sup>; and (c) have formal detailed records of its operations.

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<sup>5</sup> In many cases, no permits are required (e.g. beach clean-ups), and this requirement is not applicable.

## 4. PRINCIPLES AND CRITERIA

### PRINCIPLE 1: ONE-IN ONE-OUT ACCOUNTING

The Circular Credits Mechanism is based on an equivalence between the amount of waste created by a certain entity (a company, an event, an individual), and the amount of waste recovered by the parties selling the credits. No discounts, no surcharges - one in, one out.

With relation to projects, the CCM considers that every tonne of waste recovered and appropriately disposed by the project should receive a Circular Credit.

### PRINCIPLE 2: NO DOUBLE COUNTING

The environmental benefits related to waste recovery and destination services should not be attributed to more than one entity. Therefore, Circular Credits cannot be issued for activities where this service has already been contracted and paid for. Similarly, Circular Credits can only be used once, to compensate for the footprint of the party that acquires them (i.e. the buyer).

For example, companies paid to provide municipal waste collection services are not eligible to claim Circular Credits, as the service has already been paid for.

### PRINCIPLE 3: DEMONSTRABILITY

The amount of Circular Credits to be issued to a project must be substantiated by evidence that demonstrates that the activity was conducted and that a certain amount of waste materials was indeed recovered and sent to an appropriate destination.

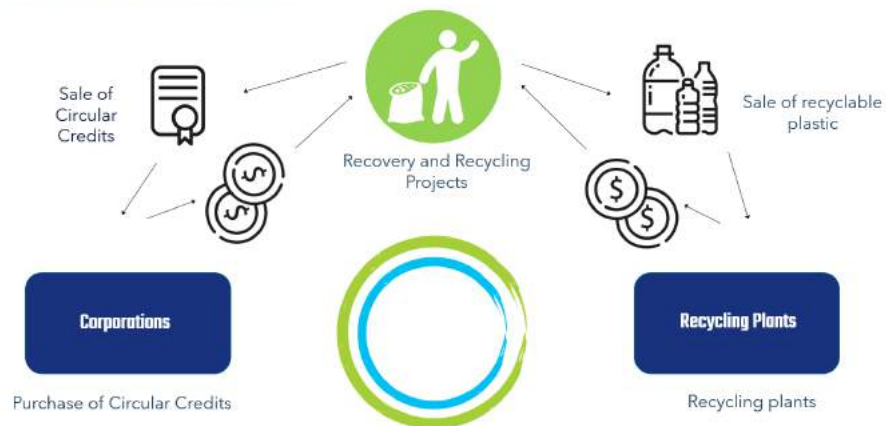
Projects must provide the description of the approach and system used to monitor the amount of waste collected, sorted and destined (i.e., a Monitoring Plan). This can be done using different types of documents, such as invoices/receipts associated with the sale of materials to recycling plants (or intermediates), bills of lading, transportation authorization, or balance records. This documentation must be kept and made available for third party verification, prior to the issuance of credits. Please see Section 7 for additional information.

### PRINCIPLE 4: NO FREE RIDING

Related to Principle 2, the CCM only recognises the environmental service of waste recovery and recycling if these activities are fairly paid for, in addition to any payment made for the acquisition of physical recyclable materials.

For instance, in the case where waste pickers are only paid for the sale of physical recyclable materials delivered to the buyer, the entity buying these materials are not entitled to claim the environmental service provided. It is understood that this is a transaction involving solely the purchase of waste materials as a feedstock for recycling plants, and not a contract for the provision of an environmental service. Payment for the environmental service must be over and above the payment for the recyclable materials purchased, creating a second revenue stream for its providers.

### The Circular Credits Pathway



### PRINCIPLE 5: FAIR REMUNERATION

Related to 'no free riding' principle, the provision of this environmental service must receive fair remuneration, commensurate with the workload and the time required for the provision of the service.<sup>6</sup>

The Circular Credits Mechanisms does not intend to establish minimum prices (prices will be determined through supply and demand market basis) but will provide an oversight to ensure that participants in the scheme do not adopt exploitative market practices.

### PRINCIPLE 6: DO NO HARM

Projects must demonstrate that they adopt minimum social and environmental safeguards (see Section 9) to ensure that the activities involved in the creation of Circular Credits do not cause harm to the parties involved.

### PRINCIPLE 7: LEARNING BY DOING

Recognising that there is a huge diversity of variation in terms of circumstances, technologies available and approaches that can be used of projects in different parts of the world, with different circumstances, the CCM does not assume that a 'one size fits all' monitoring approach can be defined at the outset. Instead, the CCM adopts a 'learning-by-doing' approach to its monitoring and verification requirements, and will strive for continuous improvement of its requirements based on the experience learned with participating projects.

<sup>6</sup> The determination of 'fair price' is subjective and variable in different parts of the world, thus the prices practiced in existing EPR schemes can be used as reference. In the EU, for instance, EPR schemes charge companies for the services of collection and appropriate destination of the residues generated by companies (ranging between ca. EUR 100 and 500 per tonne of material). While this value may not be appropriate for services provided in all countries, it provides a benchmark to calibrate the fair value for the provision of these services in different parts of the world.

## 5. SOCIAL SAFEGUARDS

As requested by Principle 6 (Do no harm), projects are expected to adopt social safeguards appropriate to its scale and circumstance and the enforcement of these safeguards must be monitored and demonstrable. Social safeguards in place are essential to prevent and mitigate undue harm to people.

When identifying and designing a project, safeguards should help assess the potential social risks and impacts (positive or negative) associated with it. Safeguards should help define measures and processes to effectively manage risks and enhance positive impacts. The process of applying safeguards can be an important opportunity for stakeholder engagement, enhancing the quality of project proposals and increasing ownership whatever of the source of financing.

The project should comply with all local, regional, and national rules and requirements. In addition, to be able to issue Circular Credits the project must also comply with the CCM's minimum social safeguards and this compliance will be verified either by the CCM team or by a third party. The minimal social safeguards from the CCM are as follows:

### i. Occupational Health and Safety (OHS)

To an appropriate extent, projects should aim at establishing, implementing, and improving occupational safety and health management systems, with the aim of reducing work-related injuries, ill health, diseases, incidents and deaths. Additional information and guidance are provided by the International Labour Organisation (ILO)<sup>7</sup>.

Whenever possible and appropriate, Personal Protective Equipment (PPE) should be provided and its use promoted in the project activity. Additional information and guidance are provided by ILO<sup>8</sup>.

### ii. Principles and Rights at Work

The project should respect and protect the fundamental rights of workers, consistent with the International Labour Organization's (ILO) Declaration on the Fundamental Principles and Rights at Work<sup>9</sup>, including:

- a. The prevention of child labor. No use of unacceptable forms of child labour (i.e., work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development

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<sup>7</sup> ILO (2001). Guidelines on occupational safety and health management systems. Available at [https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS\\_PUBL\\_9221116344\\_EN/lang-en/index.htm](https://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_PUBL_9221116344_EN/lang-en/index.htm)

<sup>8</sup> ILO (2010). WARM: Work Adjustment for Recycling and Managing Waste. Available at [https://www.ilo.org/asia/publications/WCMS\\_126981/lang-en/index.htm](https://www.ilo.org/asia/publications/WCMS_126981/lang-en/index.htm)

<sup>9</sup> Including ILO conventions 29 and 105, and the protocol to the convention 29 (forced labour), 87 (freedom of association), 98 (right to collective bargaining), 100 and 111 (discrimination), 138 (minimum age) 182 (worst forms of child labour).



and/or affects their schooling). Additional information and guidance are provided by ILO<sup>10</sup>;

- b. The elimination of discrimination, in respect of employment and occupation;
- c. Freedom of association and the effective recognition of the right to collective bargaining;
- d. The elimination of all forms of forced or compulsory labor. When appropriate, the project should demonstrate compliance with the local National Labour legislation, which establishes country-wide minimum wages and the legal contract between employees and employers.

## 6. GOVERNANCE OF THE PROGRAMME

In order to oversee the operation of the CCM, a couple of governing bodies will be created with actors involved in the circular economy. The governance bodies planned are:

### 6.1 TECHNICAL ADVISORY COMMITTEE

This committee will be formed by 4-9 participants representing industry, investors and civil society and will have the responsibility to analyse and advise on issues related to the technical aspects of the Hub's Principles & Criteria- i.e., whether to accept certain types of projects and monitoring approaches to demonstrate their impact (Principles 2 and 3).

### 6.2 MARKET SUPERVISORY COMMITTEE

The Market Supervisory Committee will be formed by 4-6 participants from industry and civil society and will have the responsibility to analyse and advise on issues related to the market practices adopted by participants - i.e., whether buyers adhere to Principles 4 (No free riding) and 5 (Fair remuneration).





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