



ECOPRENEUR.EU

EUROPEAN SUSTAINABLE BUSINESS FEDERATION

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Paper

WHY SUSTAINABLE SMEs  
HOLD THE KEY TO THE  
CIRCULAR ECONOMY

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# DISCLAIMER

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### About the author - [Ecopreneur.eu](http://ecopreneur.eu)

Ecopreneur.eu is the European Sustainable Business Federation of currently seven national associations representing over 3000 sustainable companies - mostly SMEs. We show best practice examples, bring concrete experience from our companies into the political debate and represent their needs. Ecopreneur.eu is the only cross-sectoral EU business organisation advocating ambitious measures, rules and regulations to create a new framework for a sustainable economy.

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“If used clothes could be sold for low or zero VAT on a temporary basis, second hand fashion market companies would finally be rewarded for their efforts. Meanwhile, the unfair competition from fast fashion should be permanently eliminated by adding taxes and levies to these polluting products”

– Jolijn Creutzberg, Van Hulley



# EXECUTIVE SUMMARY

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## EXECUTIVE SUMMARY

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Ecopreneur.eu's key messages are:

1. SMEs hold the key to the circular economy. With a total number of 19 million in the EU, small and medium sized enterprises (SMEs) are widely recognised as the backbone of our economy. Given their economic and environmental importance and their potential to bring radical, disruptive and highly necessary innovations to the market, they are vital players in the transition to a new economy that is low-carbon, circular and inclusive. While targeting multinationals in the most polluting sectors to create mass scale is valid and necessary, it covers less than half of the total picture because SMEs have the largest footprint and are much better at realising sustainable solutions.

2. The full innovation potential of SMEs is not unleashed. Only the full mobilisation of SMEs can achieve the resilient, climate neutral, resource efficient and fair economy that the European Green Deal seeks to realise. Existing and planned policies fail to do this. New approaches to mobilise all SMEs should be an absolute priority.

3. Sustainable SMEs or “ecopreneurs” are already successful on small scale. SMEs form a very diverse group of enterprises. About 3% are leading and dedicated to sustainability; we call them “Ecopreneurs”. Ecopreneurs are successful and have proven the viability of sustainable business models in the market but face numerous barriers to grow and become mainstream. About 21% of the SMEs are pro-active, or fast followers. The majority of 76% are reactive and lag behind with implementing sustainable models.

4. Ecopreneurs face numerous barriers to grow and become mainstream including lack of demand, additional costs, difficult access to funding, lacking transparency, complexity of circular design, regulations, taxation disadvantages, and EU market fragmentation.

(See other side)

## EXECUTIVE SUMMARY

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To enable mainstreaming of the new economy, Ecopreneur.eu recommends a sustainable recovery program with six pillars to foster ecopreneurs:

Pillar 1: Launching regional Circularity Hubs, public-private partnerships to assist SMEs with implementing circular models

Pillar 2: Active engagement of ecopreneurs as front-runners to create a "race to the top" as leading examples and a basis for new standards

Pillar 3: 100% Green implementation of the European Recovery Plan: attach 100% green strings to EU recovery funding in order to avoid lock-in into the fossil economy

Pillar 4: Rewarding ecopreneurs by introducing economic incentives based on True Pricing such as harmonised Extended Producer Responsibility (EPR) schemes with eco-modulation of fees, low VAT rates, green and circular public procurement, and an effective carbon border adjustment levy to end unfair competition from abroad

Pillar 5: Innovation funding and subsidies that are attractive to SMEs, including SME vouchers for circular business models

Pillar 6: Enacting progressive EU legislation including Rapid implementation of the Sustainable Products Initiative (SPI), a mandatory gate-to-gate Life Cycle Analysis (LCA) for all companies, a second SME impact assessment, an improved Competition Law and further EU harmonisation.





CHAPTER 1

# INTRODUCTION

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## CHAPTER 1 - INTRODUCTION

With a total number of 19 million<sup>1,2</sup> in the EU, small and medium sized enterprises (SMEs) are widely recognised as the backbone of our economy. Given their economic and environmental importance and their potential to bring radical, disruptive and highly necessary innovations to the market, SMEs are vital players in the transition to a low-carbon, circular and inclusive economy. Only the full mobilisation of SMEs can achieve the resilient, climate neutral, resource efficient and fair European economy that the European Green Deal seeks to realise. However, despite their key importance, SMEs dedicated to sustainability form a group of about 3 per cent only. They are successful and have proven the viability of sustainable business models in the market but face numerous barriers to grow to mainstream. Eco-innovation and eco-turnaround by all businesses are key. This paper discusses how the growth and mainstreaming of sustainable SMEs can be enabled. Ecopreneur.eu specifically recommends the EU and member states to launch a sustainable recovery program for SMEs with six pillars.

Photo: BONPAIN





## CHAPTER 2

# HOW TO UNLOCK THE TRANSFORMATIVE POWER OF SMEs

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## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

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In 2020, the European Commission presented the European Green Deal (EGD) with the new Circular Economy Action Plan (CEAP). It was preceded in December 2019 by the Sustainable Finance Rulebook (“Taxonomy”) concerning climate investments. The taxonomy which was scheduled to come into effect as of 2021 - but was delayed by a veto of 10 member states due to fierce debates on green energy definitions. While the taxonomy is set to allocate more assets to financing climate solutions, avoid greenwashing and increase the transparency of financial markets - thereby, targeting two out of the three major hurdles to the circular economy - the CEAP is hoped to solve the first and largest barrier: the lack of demand for circular products and services.

Ecopreneur.eu welcomes the European Green Deal, the CEAP, taxonomy, InvestEU and the European recovery plan. The EU paints a grand vision with them, which is in itself giving direction. However, the approach is not yet truly systemic.<sup>3</sup> Based on the collective experience of approximately 3000 “ecopreneurs”\* in our joint membership as well as expert opinions, the current set of measures is insufficient to meet the ambitious goals. In particular, greater effort on the development of truly transformational and ambitious policy will be needed.<sup>3</sup>

This paper advocates to enable SMEs to realise the transition by introducing specific EU and member states policies. Our current system has to be changed from one that favours big companies on the back of SMEs to one that allows big companies to fail and SMEs to compete and grow.<sup>5</sup> It must be recognised that SMEs, especially circular SMEs, as key economic actors in the effort toward climate mitigation and sustainable development. Failing to bring them on board or designing strategies that do not consider the obstacles they face, significantly reduces the chances of successfully attaining the United Nations Sustainability Goals (SDGs) and the Paris Agreement.<sup>6</sup> This will inevitably contribute to maintain the competitiveness of the European economy and allow to play a leading role in the global green and just transition.<sup>5</sup> These should be policies that are able to be translated and linked to the local level, as SMEs are usually embedded in local ecosystems, mostly focussing on national markets.<sup>6</sup>

\*Ecopreneurs are entrepreneurs whose business efforts are not only driven by profit, but also by a concern for the environment [4]. For a further description see Key message 3 (p.14) and Figure 1 (p.17)

## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

As a result, SMEs may be better able to quickly capitalise on innovative and sustainable practices than larger firms.<sup>12</sup> Many ecopreneurs are (far) more innovative than multinationals in their product group, able to rapidly develop radically new business models. Even micro companies can reach productivity levels above those of large companies.<sup>6</sup> Accelerating the upscaling of their eco-innovations can strengthen the economy at local, regional and national levels, the competitiveness as well as the labour force.<sup>18,19</sup> On a business level, innovation is a crucial factor for business development, growth in size and impact, resilience, higher productivity, long-term economic stability, market power and competitive advantage.<sup>14,15</sup> Innovative enterprises are also able to sustain higher financial results than non-innovative ones<sup>15</sup>; estimated cost reduction from making business model circular in the manufacturing sector are roughly around 23% of the sectors' total input costs<sup>10</sup>.

In order to achieve this high level of innovation, and to overcome the lack of human and financial capacity, ecopreneurs have since long time practiced new organisational models, such as collaboration and open innovation with “peers”, or differently-sized and specialised companies. Especially the collaboration with larger companies is interesting<sup>14</sup>, as in fact, start-ups best

enlarge their impact by collaboration and replication<sup>20</sup>, while the success of green SMEs is as well based on their ability to collaborate and to use external networks more efficiently<sup>18</sup>. Thus, working together with “peers” or differently sized- or specialised companies on new ideas, giving each other access to networks and/or finance, can be enabling means to continue or initiate innovating. However, engaging in open-innovation still entails investing resources and being exposed to a certain risk such as questions around intellectual property rights, which can form another crucial reason for SMEs not to innovate<sup>5</sup>.

The combination of their economic importance, large environmental footprint, and potential to provide solutions by bringing radical and disruptive innovations to the market makes SMEs key players for the transition to a sustainable economy.

To add to that, SMEs are also able to leverage inclusive or just criteria in the workplace<sup>21</sup>. As SMEs operate and create opportunities across a wide array of geographic areas and sectors, employing different labour force segments, including low-skilled workers, and providing skill development opportunities, their impact is crucial and relevant on horizontal (geographic) and vertical (sector/skills) levels<sup>10</sup>.

### Key message 1: SMEs hold the key to the New Economy

Small and medium sized enterprises (SMEs) form the backbone of our economy. With a total number of 19 million in 2020 after Brexit, SMEs account for approximately 99% of all enterprises in the EU-27.<sup>1,2</sup> The vast majority of these are micro-enterprises with only up to 9 employees.<sup>9</sup> Though small in size, their large number makes SMEs hold the largest part of the workforce: In 2017, SMEs in the EU employed two-thirds of the total labour market, i.e. over 94 million people.<sup>1</sup> Also, SMEs contribute a value of about 56% to the EU economy<sup>1</sup>. Certain SMEs, such as social and sustainable enterprises, are driven by social and sustainable impact goals and the triple bottom line, and thus contribute directly to inclusive growth.<sup>10</sup> In addition, start-ups and SMEs create 85% of all new jobs. The share of young SMEs in total job creation is about twice as large as their share in total job destruction or in total employment.<sup>8</sup> In the context of circular economy it is estimated that between 1.3

- 2 million jobs will be created by 2030,<sup>11</sup> with small firms strongly involved. At the same time, SMEs contribute 60-70% of industrial pollution in Europe<sup>10</sup>. SMEs are responsible for a large proportion of global environmental stresses. They contribute around 60% of total carbon emissions and 70% of the total global pollution.<sup>12</sup> While their individual environmental footprint may be low, their combined environmental impact outweighs that of large firms.<sup>12</sup> Key sectors where SMEs have a significant environmental impact include livestock farming, construction, metal finishing, waste treatment, food and drink industry, textile and leather and manufacturing.<sup>13</sup>

At the same time, SMEs also form the solution to the problem we as society collectively face. The drastic and fast transformations our economies need to achieve to meet the global sustainability and climate goals require radical and disruptive innovation. SMEs are broadly recognised as global drivers and main stakeholders of (technological and social) innovation, both in industrialised and developing economies.<sup>14,5,15</sup> Due to their small and flexible nature, SMEs are able to act nimbly. This puts them into the unique position to pioneer sustainable and eco-innovations, especially in local, emerging and specialised market segments.<sup>16,17,12</sup>

## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

By innovating and increasing their productivity and value proposition, thereby, being able to pay better wages and contribute to more value delivered to their customers, SMEs can invigorate local economies, address social inequalities and create healthier, more sustainable communities.<sup>7,8</sup> Finally, the “social economy” and the “green economy” are increasingly connected. Social companies can have environmental objectives, and ecopreneurs can implement social practices.

The European Commission has the importance of SMEs for Europe’s economic and social fabric in mind and supports SMEs with several recent legislative initiatives.<sup>22</sup> Ecopreneur.eu welcomes the Next Generation EU recovery fund recently agreed upon by the European Council. However, European and national policymakers have not yet fully unleashed the innovative potential of SMEs when it comes to building a resilient and sustainable society by 2050. Besides continuing support measures to avoid a liquidity crisis among SMEs and ensuring that the gradual phase out of this emergency support does not create an SME solvency crisis, effective policies need to be introduced that foster SME recovery and “build back better”.<sup>22</sup>

Only the full mobilisation of SMEs can achieve resilient, climate neutral, resource efficient and fair European economy that the European Green Deal seeks to realise.<sup>16</sup> Current policies and planned actions under the Green Deal will not achieve this because of a one-sided approach: they focus on creating mass scale by targeting multinationals in the most polluting sectors. While this is valid and necessary, it covers less than half of the total picture because the SMEs have the largest footprint and are much better at realising sustainable solutions (see key message 4 on p.18). In addition, as long as SMEs face difficulties in scaling up to the EU Single Market, their full innovation potential is being compromised. New approaches to mobilise all SMEs should therefore be an absolute priority.

Key message 2:  
The full  
innovation  
potential of  
SMEs is yet to  
be unleashed

### Key message 3: Sustainable SMEs are already successful on small scale

SMEs are not a group of uniform stakeholders, but form a variety, each of them exhibiting different opportunities and challenges in achieving the green transition.<sup>10</sup> Generally, we can differentiate between three types of SMEs: leading, proactive and reactive companies.<sup>23</sup> Leading SMEs radically redesign products, processes, and/or transform entire business models and markets from a product life cycle perspective. Proactive SMEs deliberately and systematically follow them by implementing proven solutions to realise competitive advantages. Reactive SMEs only respond to external pressure, with minimum improvements.<sup>23</sup>

Focusing on eco-innovation, 24% of SMEs in Europe are already offering green products and services, with a further 9% planning to do so in the next two years since 2017.<sup>24, 16</sup> Most of these have done so for more than 3 years,

so it is not just start-ups. 14% of those SMEs indicate that the share of annual turnover from green products and services is more than 75%. This brings the estimate of leading, green SMEs at 3% (=14% of 24%) of all SMEs. These are front-runners that are dedicated to sustainability. They implement new business models by significantly improved products, services, processes or methods that reduce the environmental impact, “green SMEs”. This can also include social and institutional changes and benefits, as in social enterprises. Many of them are family-owned companies or start-ups. The group also encompasses “regenerative champions”, profitable companies that are already realising sustainable production, distribution, consumption and recycling, thus generating positive externalities for the climate and the environment. They are active in many markets including the 50+ champions orientations identified by Systemic and the Club of Rome.<sup>3</sup> We will further refer to this leading group of sustainable SMEs as “ecopreneurs”. The positive effects and impacts of these ecopreneurs can vary across their heterogeneously in age, size or level of innovation.

The second group, proactive SMEs, form a “peloton” of SMEs that develop or commercialise a solution to a newly identified opportunity. Forming about 21% of all SMEs, they typically have sustainability as one goal of their entrepreneurship and may move between sustainable and conventional business models.



# CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

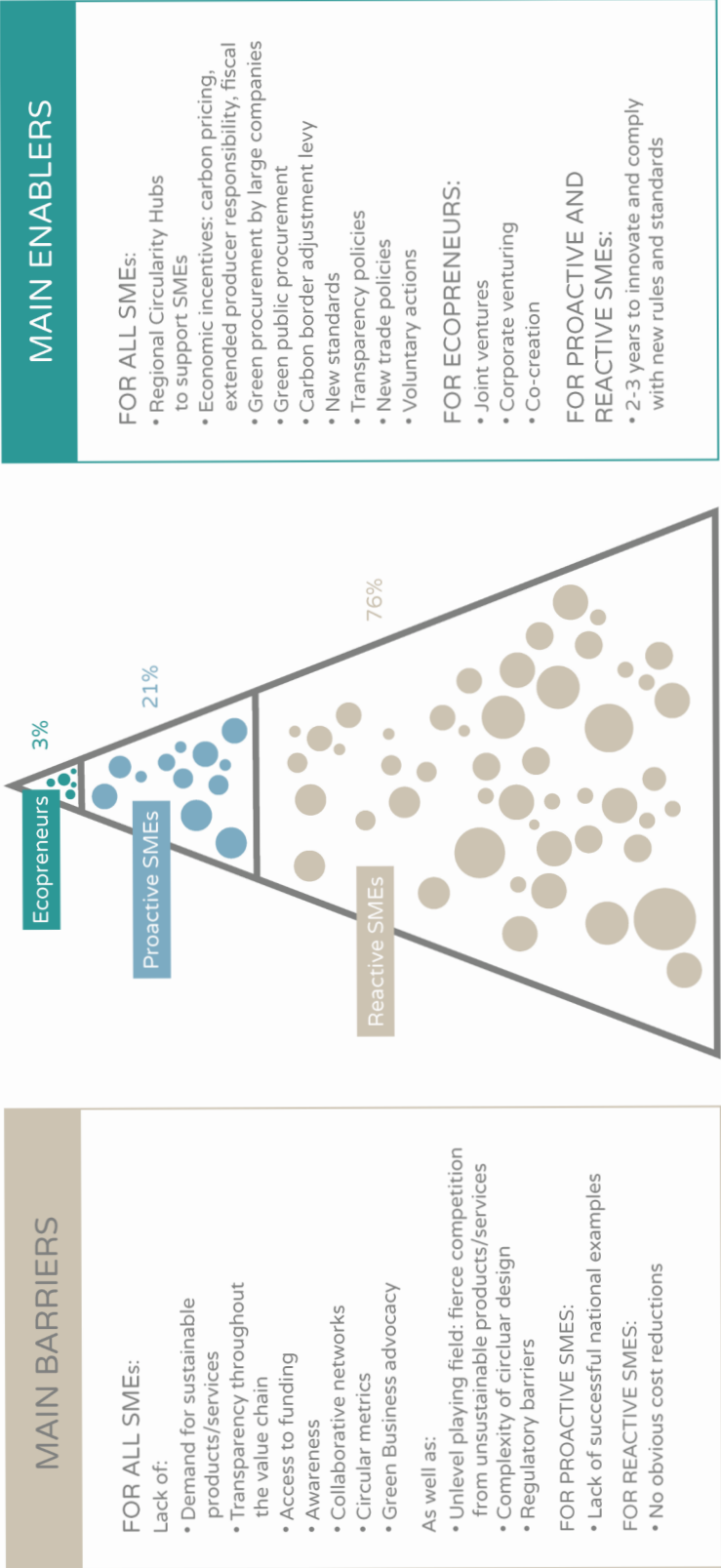


Figure 1. Schematic overview of three types of SMEs. The main barriers and enablers are discussed in key message 3 and in the paragraph on Six Policy Pillars to Support SMEs. Source: Ecopreneur.eu, 2021

## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

They are often called fast followers.

Finally, the large majority of SMEs (at least 76%) are reactive: they will uptake environmental technologies and sustainable best practices as an act of being compliant with their client's requirements and/or environmental legislation, or realising cost reduction, rather than having sustainability at their core. They generally have a piecemeal approach to sustainability with end-of-pipe solutions.<sup>10</sup> And while many of them acknowledge the importance of switching to sustainable business models, they lack the necessary tools to do this. As a result they lag behind with implementing them.

The distinctive nature of these three types of SMEs makes it important to differentiate. While ecopreneurs should be incentivised to scale up their circular solutions, proactive and reactive SMEs should be supported in implementing these solutions to realise a fast company turnaround during the next few years. This task is enormous and requires implementation of all elements of the European Green Deal and Circular Economy Action Plan – and more.

Regardless of which type of SME, all do face immense barriers to growing their business, impact and market share (see Figure 1 on p.17).<sup>25</sup> These barriers are structural and systemic, reflecting that our “ecopreneurs” have more or less “hacked” the old economic system to get a decent financial return from selling circular solutions.

Key message 4:  
Ecopreneurs  
face numerous  
barriers to  
grow and  
become  
mainstream

These barriers include the lack of demand for low-carbon circular products and services, additional costs for realising circular models, lack of economic incentives to create strong market demand, the complexity of circular design, regulatory barriers, and lack of transparency throughout the supply chain, awareness, collaborative networks, national examples of successful circular business models, circular metrics and sustainable business advocacy for circular policies.<sup>26</sup>

## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs

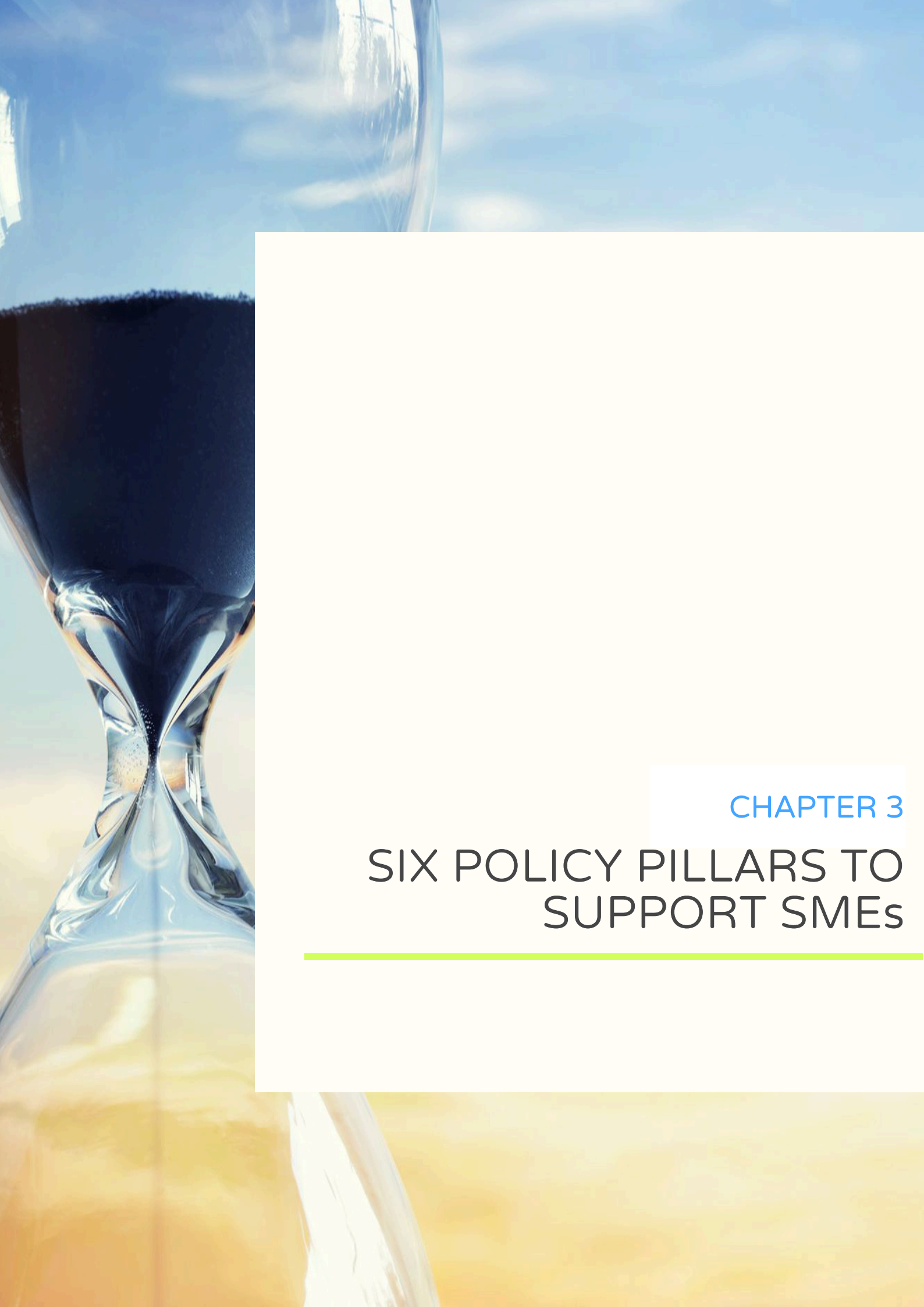
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The global tax system leads to an imbalance because multinationals can legally evade taxation whereas SMEs cannot. The use of patents by SMEs is subject to specific barriers, including the lack of awareness of the benefits of patenting, the cost, length and complexity of the related procedures, the risk of potential litigation, and difficulties enforcing intellectual property rights against violations by multinational corporations.<sup>27</sup>

On top of this, most European SMEs today focus on domestic markets. Those willing to operate cross-border are facing additional obstacles, including the remaining fragmentation of the EU market compared to that of the US. National differences in regulation including registration and approval procedures are hindering transnational activities, especially for innovative SMEs. Only 17% of all the European manufacturing SMEs export to other EU member states, and only 600,000 SMEs export goods outside of the EU.<sup>16</sup> In addition, global markets, especially for green tech products and services where Europe is a world leader, are important for the further growth of SMEs. Additional support for green SMEs to scale up to the EU market level should be a top priority.

Last but not least, lack of access to funding is a major bottleneck for innovation and growth for many sustainable small and medium-sized enterprises (SMEs) and start-ups. Europe only has one third of successful scale-ups when compared to the United States. There could be up to 1 million new jobs created and up to €2000 billion added to GDP in the EU over the next 20 years if the share of scale-ups would match that of the USA.<sup>28</sup> Whilst there are many reasons for this situation, one essential prerequisite surely is the easier access to finance in the United States. In the EU, 18% of SMEs do not obtain the full bank loan they had applied for<sup>16</sup> and only 10% of businesses in Europe have access to capital market financing, compared to over 25% in the United States. Existing schemes do not match the SMEs needs and capabilities.

Struggling with such challenges besides being generally short on human, financial and technical capacity, impedes the process, decelerates the pace of innovation in all SMEs. For many reactive SMEs, it eliminates innovation completely from their activities.<sup>7</sup>



## CHAPTER 3

# SIX POLICY PILLARS TO SUPPORT SMEs

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## CHAPTER 3 - SIX POLICY PILLARS TO SUPPORT SMEs

To enable mainstreaming of the new economy, Ecopreneur.eu recommends a sustainable recovery program with six pillars to foster ecopreneurs. Europe's timely transition to a circular economy, including our continued leadership in green tech, will largely depend on enabling ecopreneurs to scale up from their current size to mass markets, while assisting and supporting all SMEs to implement new business models. Given the right regulatory framework, many ecopreneurs and proactive SMEs do have the potential to grow from a start-up or established company to a scale-up, and subsequently to a larger company or new multinational. At the same time the real environmental impact reduction of SMEs has to come from the company turnaround of reactive SMEs - and multinationals.

Figure 2 (see p.23) presents a schematic overview of the transition to a new economy which is low-carbon, circular and inclusive by implementing new policies that will lift the current barriers. These new policies will foster ecopreneurs and pioneering companies using new business models to grow and mainstream, and conventional SMEs and multinationals to turnaround and implement them as well. The new economy will be scaled up and mainstreamed while the use of old, linear business models disappears.

Supported by Bauwens et al.<sup>20</sup> and the OECD<sup>10</sup>, Ecopreneur.eu recommends the following six policy pillars to tackle the challenges SMEs face and to finally level the playing field by creating a framework fostering new economic models:

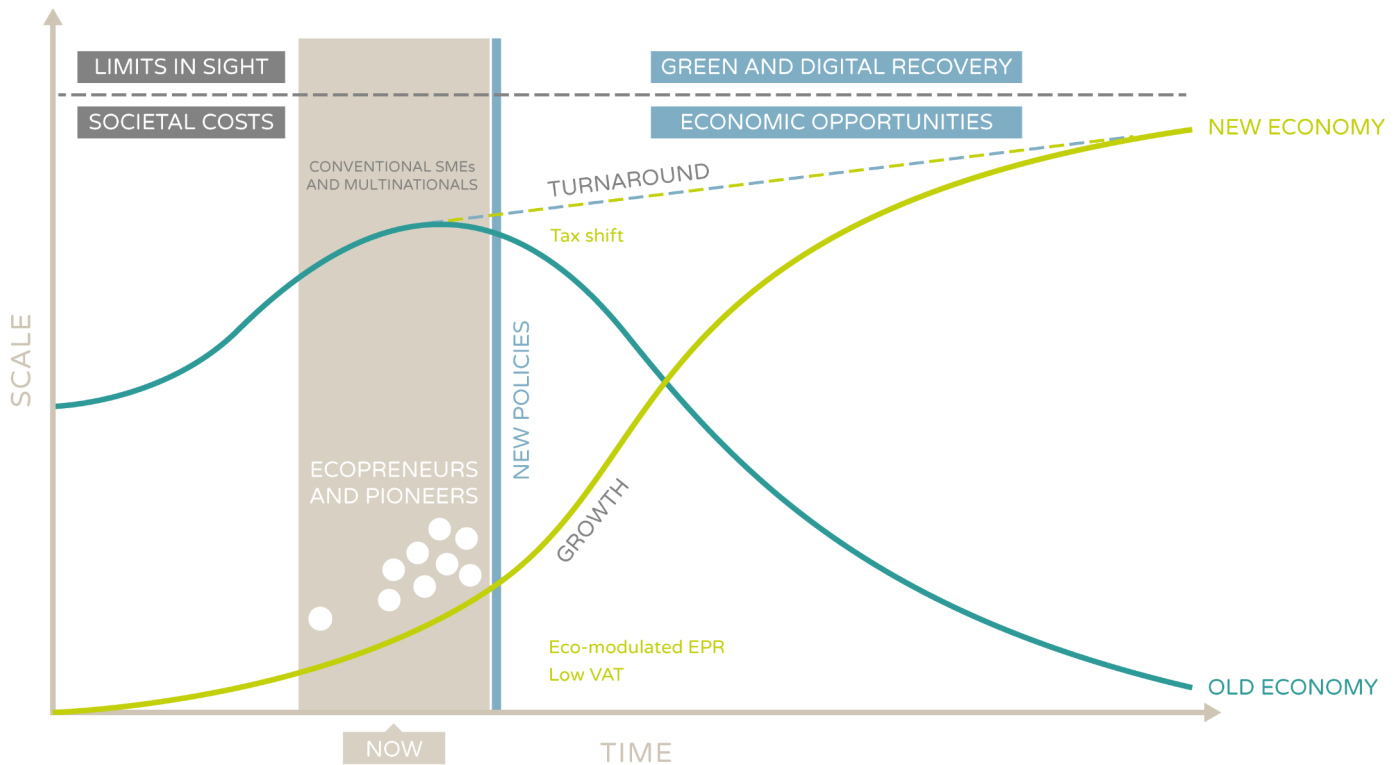
### Pillar 1: Launching regional Circularity Hubs

EU policies need to guide and support ecopreneurs more distinctly<sup>31</sup> while acknowledging their heterogeneity. This can be accomplished by the creation of national and regional Circularity Hubs in all member states<sup>32,33,34,35</sup> as explicitly supported by the European Parliament<sup>36</sup> These public-private partnerships, to be funded by the EU, will assist SMEs (including ecopreneurs) and larger companies with implementing circular models. They foster collaboration, co-creation, access to finance (see pillar 5), education and training on circular design<sup>37</sup>, sustainable advocacy, business support and tools, and collaboration at the EU level.

“ Supporting SMEs to switch to sustainable business models is essential for the success of the EU Green Deal”

– Guido Lena, SMEUnited

## CHAPTER 2 - THE TRANSFORMATIVE POWER OF SMEs



Source: Ecopreneur.eu, 2021

Figure 2. Schematic overview of the transition to a new economy which is low-carbon, circular and inclusive. The “free” market forces of the old economy have optimised all activity to grow beyond our planetary limits (horizontal dotted grey line). This has resulted in huge and increasing societal costs which include those of the COVID-19 and climate crisis. A new economy is emerging but faces multiple barriers. New policies (some of them indicated, in green) including eco-modulated Extended Producer Responsibility (EPR) and temporary low VAT regimes are needed to enable ecopreneurs and other pioneering companies to grow and mainstream. Similarly, a tax shift from labour to resources will have to be introduced to enable conventional SMEs and multinationals and to turnaround (dotted grey line) into the new economy as well (rising blue line), with the use of old economy models decreasing to zero (decreasing blue line). Conventional SMEs include proactive and reactive SMEs. With the new policies, the societal costs make way for green and digital recovery and economic opportunities. Collaboration, co-creation, corporate venturing and investment support from the financial sector are key. See Figure 1 (p.17) for an overview of the new policies and enablers of the transition and characterisation of SMEs.

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For instance, collaboration with existing multinationals – e.g. as launching customers via joint ventures – can help SMEs to gain faster access to these market masses. At the same time corporate venturing can accelerate the company turnaround of multinationals by implementing new business model solutions that were first developed by SMEs. Incubators help start-ups. Multinationals can also develop new solutions with ecopreneurs, like Philips developed “light-as-a-service” with Turntoo. The hubs are accompanied by national/ regional Circular Economy Roadmaps aligning stakeholders to a common agenda. Circularity Hubs are crucial to create regional eco-innovation networks, associating local governments and research / R&D innovation clusters, to generate demand and increase supply – and also to convince all stakeholders that “circular” is good for the economy. EU-wide collaboration can be fostered by experimenting with INTERREG to promote interregional / cross-border cooperation. Collaboration policies with non-EU bordering countries and regions (East, North, United Kingdom, Switzerland, Mediterranean Africa) could also be involved to help promote regional innovation environments. The Circularity Hubs should also launch a “Go Europe” programme for green SMEs that decide to scale to the European level with financial, linguistic, administrative support. In this respect, Ecopreneur.eu welcomes the Circular Cities and Regions Initiative (CCRI) under Horizon Europe, which can support proposals for pilots to set up and improve Circularity Hubs. At the same time,

Ecopreneur.eu urges a separate action aligned with the Cohesion Fund to set up Circularity Hubs immediately, in parallel with the research projects and using the results when they come available.

Pillar 2: Active engagement of ecopreneurs as front-runners to create a “race to the top”

The resource and energy efficiency realised by revolutionary sustainable products and services from ecopreneurs can play a crucial role in the transition as “regenerative heroes” with inspirational examples, some of which can form a basis for new standards (see also Pillar 6). This is crucial to achieve a 50% reduction in the use of primary raw materials (minerals, fossil and metals) by 2030. Highlighting successful, national examples of sustainable businesses is also important to



## CHAPTER 3 - SIX POLICY PILLARS TO SUPPORT SMEs

to convince stakeholders in all member states of the economic opportunities. Finally, their unique experiences with delivering circular products and services can provide crucial input for the policy making process and counter unjustified resistance from conventional industry.

### Pillar 3: 100% Green implementation of the European Recovery Plan

The pandemic has only increased the relevance of the actions in the European Green Deal. Ecopreneur.eu therefore advocates rapid implementation. Furthermore, while we welcome that 37% of EU recovery funds will be reserved for climate action, Ecopreneur.eu advocates to have 100% green strings attached to EU recovery funding in order to avoid lock-in into the fossil economy. For instance, demanding a company or sector plan to become much more sustainable by 2030 should be a minimum requirement even if economic survival is a priority and spending requirements form a sensitive issue for some member states. Our recommendation extends

to include EUInvest. Complementing existing public funding available in Europe for R&D and start-ups with additional funding for scale-up operations, such as foreseen in the Pan European Venture Capital Fund of Funds alongside major private investors<sup>28</sup>, can provide the necessary capital to finance the green transition. However, this will only work if other barriers are lifted as well, including a reduction of the EU internal market fragmentation.

### Pillar 4: Reward ecopreneurs by introducing economic incentives

Creating new markets for sustainable products and services is crucial to ensure high returns for the investments. External costs such as air pollution along the value chain resulting from placing products on the market are currently not included in the product price. Capturing these impacts through “true pricing” will make circular products and services cheaper and linear ones more expensive. This is crucial for SMEs and for the economy as a whole.

Ecopreneurs can be rewarded for their efforts by:

- Harmonised Extended Producer Responsibility (EPR) schemes with eco-modulation of fees in all waste-intensive sectors as to incentivise circular design for waste prevention by, for instance, longer product lifetimes, reuse, and uptake of recycled content. They should ensure that specific take back systems developed by individual front-runner companies can co-exist with mandatory regulated systems. EPR is strongly preferred over national taxes to ensure member states meet the plastic packaging recycling goal of the Plastic Tax.
- Introducing low VAT rates for repair services, resold goods and transactions with clearly defined social reasons. Also switch to majority voting in the EU Council and then discuss and adopt the 2018 EU VAT rate proposal (COM 2018/0005 (CNS)) as adopted by the European Parliament in the context of the circular economy. This would enable member states to implement no or low VAT for circular products and services across the EU on a temporary basis – until 2030 or 2050.

## CHAPTER 3 - SIX POLICY PILLARS TO SUPPORT SMEs

- Fostering green and circular public procurement, making it mandatory for all authorities, ensuring good access for SMEs, and creating a level playing field for all organisations. Public procurement, a €2 trillion market, represents a great potential for start-ups and scale-ups to grow [28]. However, compared to their weight in the European economy, start-ups and scale-ups currently do not get a proportionate share of public contracts. Reforming and streamlining public procurement procedures in the single market and combining them with strategic public anchor investments would offer additional financial opportunities to SMEs to consolidate their growth especially during the first hard years. At the same time, multinationals should also be assisted in green and circular private procurement. If they make the switch, all their suppliers will follow. Many reactive SMEs are active in business-to-business supply chains dominated by multinationals offering end products to the consumer market. Besides hard regulation, private procurement forms the most important lever to trigger reactive SMEs into action. Good examples of national and regional actions which include assisting municipalities and commitments by large companies can be found in the Netherlands, Belgium and elsewhere. <sup>26,38,39</sup>
  - An effective border adjustment levy to create a level playing field. This instrument should prevent the import of goods from foreign companies which distort the EU internal market for sustainable products, e.g. by carbon pricing corrections to end their unfair competition.
- At the same time, all other companies can be incentivised to shift from linear to circular models by:
- A tax shift from labour to resources, adding a high tax on resource-intensive products and services while reducing the taxation of labour, thereby lowering the demand for unsustainable products and services
  - CO<sub>2</sub> pricing, making materials and products with high, embedded carbon more expensive by either the EU-ETS, taxes or other measures. The pricing system should be predictable and designed for the long-term to provide stability on which company decisions can be based, especially for SMEs
  - End all EU and government support for the fossil economy, including subsidies, lack of taxation, grants, loans and guarantees
  - Prevent tax evasion, which is hindering the transition for SMEs by distorting the level playing field in favour of multinationals.

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- Integration of the social and circular dimension in the EU Sustainable Finance Rulebook (“Taxonomy”). The ecological and fiscal transition can only be achieved if it is fair at the same time, integrating the requirement of social justice as well as circularity.

### Pillar 5: Innovation funding and subsidies that are attractive for SMEs

- Regional innovation funds should be created issuing small grants of 5.000 - 50.000 EUR with low administrative and reporting requirements in form of SME vouchers [40, 41] as well as other mechanisms providing easy, quick, reliable and long-term access for SMEs via banks, venture capitalists and regional authorities to funding for investments in circular business models. The SME vouchers can be distributed by Circularity Hubs (see Pillar 1).

- The access for SMEs to equity and loans in the EU should be strongly improved to become as good as in the USA and other competing regions.
- Substantially increase EU funding for green innovative solutions. The recent cuts in EU research funding should be reversed into a substantial budget increase.
- At the same time, restrict the use of EU subsidies for recycling to processes with net positive CO2 emissions for otherwise unrecyclable (plastic) residues, as such funding is widely used to finance incinerators and waste-to-energy plants, thereby reducing the incentive to collect municipal waste separately for recycling.

### Pillar 6: Enacting progressive EU legislation

- Rapid implementation of the Sustainable Products Initiative (SPI) with extension of the ecodesign regulation to all resource- and waste-intensive products and services, including minimum requirements for circular design such as the ease of repair, reuse, recyclability and recycled content.

## CHAPTER 3 - SIX POLICY PILLARS TO SUPPORT SMEs

- The minimum sustainability requirements should be reviewed every five years to be adapted to reflect technological and economic progress of circular models and raise the bar - similar to Best Available Technologies (BAT) reviews.
  - Analysis (LCA) for all companies including SMEs – except maybe the smallest ones - to identify both positive and negative social and environmental impacts along their value chain, integrating it as well in risk management systems. These LCAs can also provide crucial information for implementing the carbon border adjustment mechanism compliant to WTO rules.
  - A second SME impact assessment at the end of the policy making process for all new EU legislation, ensuring that any additional administrative burden of new or amended regulations will be put on all companies and not just on SMEs / companies delivering sustainable products and services.
  - For each sector, a comprehensive package of green recovery and innovation support, economic incentives, regulation, trade policies and voluntary agreements [26]
  - A ban on landfilling in combination with a waste treatment fee system following the EU waste hierarchy. Together with EPR and other pricing mechanisms this is important to promote zero-waste approaches.
  - The EU Competition law should strengthen the access for innovative green SMEs to markets such as energy, water and waste-treatment which often have national agreements protecting large "old-economy" companies.
  - National differences in regulation hindering transnational activities need to be eliminated.
- Without these additional policies including circularity hubs and economic incentives, there will be no circular economy. Circular solutions can only mainstream when a strong market is created. Incentive policies will also ensure that the huge investments in Green Recovery bring economic returns and contribute to the transition to a circular economy. The Taxonomy alone cannot accomplish that.

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