InvestCEC

Final Policy Recommendation Brief

Greenovate! Europe

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1. Introduction

1.1. About the Final Policy Recommendation Brief

The Final Policy Recommendation Brief is the end-of-project policy recommendation report, outlining InvestCEC's experience-based advice for policy makers to promote the transition towards a circular economy at the EU and city/region level. Preliminary policy recommendations were drafted in Deliverable 3.3 – Mid-term Policy Recommendation Brief. During the project, Greenovate! Europe engaged in a revision process to expand these recommendations.

Inputs for the revision of this final policy recommendation brief were gathered through several activities:

- **Collaboration with other CCRI projects** to align and highlight common policy topics and challenges.
- **Organisation of events** by InvestCEC, such as webinars and policy workshops. Notably, valuable input was gathered from speakers and participants during the policy workshop 'Addressing Barriers to Circular Investment'.
- **Insights from InvestCEC project partners**, collected through surveys distributed by Greenovate! Europe.
- **Desk Research** based on latest comprehensive reports, such as the The Circular Economy in Cities and Regions of the European Union (OECD, 2025)
- **Participation in external events**, including EU Green Week and CCRI gatherings, to identify key takeaways and recurring themes relevant across multiple CCRI projects.

In this report, you can find all of the insights that the project received for policy recommendations.

2. EU Policy Context

2.1. Recent EU Policy Developments

Circularity is at the centre of the Commission's policy framework, reflected in key initiatives such as the Competitiveness Compass, the Clean Industrial Deal, the Steel and Metal Action Plan, the Vision for Agriculture and Food, Critical Raw Materials Act, and the Ecodesign Regulation. **Despite these efforts, progress remains limited.** The latest data shows that the EU circularity average is around 11,8% (in 2023), which indicates only a 1,1% percentage point increase since 2010. With the EU's circularity target set at 23,4%, this signals a slow advancement and highlights the need for a systemic change.

The EU's current Circular Economy approach focuses on several key value chains, including electronics, batteries, packaging, plastics, textiles, construction, and food. The current **Circular Economy Action Plan (CEAP),** adopted in March 2020, and building on the 2015 Plan, is a key piece of legislation for the circular economy. The CEAP proposed amending legislation (e.g., Eco-design Directive), phasing out single-use packaging, and launched the sustainable and circular textiles strategy. The CEAP also emphasises urban action, promoting EU financing to support circular transitions at the regional level.

The **Waste Framework Directive** established the legal framework for treating waste in the EU, with the intention of protecting the environment and human health, and emphasising the importance of proper waste management, recovery and recycling techniques. The directive was amended in 2018, setting minimum operating requirements for extended producer-responsibility schemes. **New municipal waste recycling targets were introduced; by 2025, at least 55% to be recycled, reaching 60% by 2030 and 65% by 2035**.

In 2024, the **Directive on Common Rules Promoting the Repair of Goods set a "right to repair" for consumers**, both within and beyond the warranty period, which will make it easier and more cost-effective for them to repair products instead of simply replacing them with new ones. This will result in savings for consumers, boost the circular economy and support the objectives of sustainable consumption and of the European Green Deal by reducing waste.

At the EU level, corporate accountability in sustainability reporting are rising. Regulations such as the **Corporate Sustainability Reporting Directive (CSRD)** and EU Taxonomy are driving greater transparency, requiring companies to disclose their environmental and circular economy impacts. This will create more investment clarity and risk assessment tools for investors.

Financially, the EC pledged to mobilise at least EUR 1 trillion between 2021 and 2018 in sustainable investments to achieve the goals set by the European Green Deal, including those of the circular economy. **Monitoring tools have also evolved.** In May 2023, the EU launched a revised **Circular Economy Monitoring**

Framework to track indicators such as material footprint, resource productivity, and GHG emissions from production activities.

Looking ahead, the circular economy is expected to become increasingly important in the EC's current work programme. A call for evidence/consultation process in June will inform the **Circular Economy Act** (proposal in 2026), which is expected to be a game changer in the circular strategy of the EU. The upcoming Circular Economy Act will aim to boost recycling, reform End-of-Waste rules and digitalise EPR schemes, and enhance the free movement of circular products. **Additional initiatives include a revised EU Bioeconomy strategy, and the new European Bauhaus**, which will focus on innovation, bio-based materials and will incorporate circular economy principles.

2.2. Uptake of EU Policy Instruments in Regions and Cities

The Circular Economy Action Plan (CEAP) has been instrumental in driving progress on the circular economy across different levels of government. Since the 2015 CEAP, 24 Member States have adopted **national circular economy strategies**, roadmaps and action plans. The **Circular Economy Monitoring Framework** has been tracking progress towards the CE in the EU since 2018.

According to a recent report by the OECD, **the 2020 CEAP is the most influential EU policy guiding cities and regions towards a circular economy.** Although the CEAP primarily targets national governments, with limited reference to the role of regions and cities, it serves as an inspirational framework for local initiatives, having been integrated in the preparation of **municipal circular economy plans**.

Beyond the CEAP, there are several EU strategies which are considered a source of inspiration by cities and regions. These are, for example, the **EU Strategy on Sustainable and Circular Textiles, the EU Strategy on Plastics**, and the EU Strategy on Biodiversity. Additionally, the **EU Ecolabel** is widely regarded as a fundamental tool by several local and regional authorities, with the number the EU Ecolabel certified products increasing from 21.300 in 2010 to over 98.000 in 2024.

In the field of legislation, the **EU Waste Framework Directive is the most influential EU directive relating to the circular economy for subnational governments**. Although the Directive does not set specific targets for municipalities, the transposition of the Directive into MS' national law creates obligations for local governments. Additionally, the **Single-Use Plastics Directive** is recognised as a relevant piece of legislation at the subnational level, having been integrated in regional waste prevention and management plans, circular economy laws, and dedicated plastics strategies.

Other relevant pieces of legislation for circular transitions in region and cities include the Eco-design Directive. In particular, the new Ecodesign for Sustainable Products Regulation, which was adopted in 2024, aims to reduce the overall environmental and climate impact of products on the EU Market by ensuring products last longer, are easier to repair, and contain fewer problematic chemicals.

Despite progress, the transition to a circular economy in the EU is held back by structural, economic, and governance barriers across different levels of government. Regions and cities should work to decrease their

over-reliance on downstream waste management. Currently, producers have very little obligations to ensure their products are designed for durability, reuse, and material recovery, as policy targets continue to focus on waste disposal and recycling. **Additionally, a territorial approach is hampered by misaligned economic incentives**. For example, producers have little financial motivation to use secondary materials, which are often more costly and less readily accessible than virgin resources. Public procurement policies, which are a crucial element to stimulate the market for circular products, still prioritises the lowest-cost option to preserve public finance and often do not include circular criteria.

3. Barriers to Circular Investment in Regions and Cities

Through the project InvestCEC, it has been confirmed that circular economy investments have the potential to offer long-term sustainability and attractive financial returns, however, they also have a set of specific challenges connected to the circularity aspect. These include **financial, technological, political, and regulatory** barriers, all of which are directly relevant for the InvestCEC model development.

Overall, despite the growing interest in sustainable investments, investor confidence in the circular economy is often hindered by perceived risks, misconceptions, and uncertainty about long-term returns. This is confirmed by the fact that despite strong incentives provided by recent sustainable finance regulations**,** sustainable investment funds experienced reduced inflows in 2022 and 2023, reflecting weak market sentiments. The challenges below are drawn from desk research and the project-specific experience while implementing the model.

3.1. Financial, market, and technological barriers

MARKET AND TECHNOLOGICAL BARRIERS

Some industries lack the necessary technologies for efficient resource recovery, recycling, and remanufacturing, or at least lack technologies and processes that can result in optimal, cost-competitive and quality recycled products and materials. In addition, **circular businesses typically operate within interconnected ecosystems**, where multiple players depend on each other for materials, production processes, and waste management. If one entity in the cycle—such as a recycling facility, remanufacturer, or raw material supplier—fails or experiences disruptions, the entire supply chain may collapse.

By contrast, in linear supply chains with many upstream suppliers and many downstream customers, the business case of a company is not severely impacted if an upstream supplier or downstream customer vanishes. During the InvestCEC project, G2G identified gaps in the business plan of several companies, which are largely due to inadequate handling of business interdependency in circular value chains. This served as one of the key indicators and insights of the project about this barrier.

Furthermore, InvestCEC project partners have found that while many companies conduct excellent analyses of the material flow within the value chain, **they often underestimate the inclusion of the economic viability of each individual legal/economic entities in the circle responsible for securing these flows**. This oversight

highlights an important dimension of risk in investing in these companies, particularly those engaged **in direct circularity**.

Circular businesses often face difficulties in securing consistent revenue streams, particularly if they rely on emerging markets or consumer behavioral shifts toward sustainable products. Fluctuating **prices of secondary raw materials** can create financial instability for these companies, potentially disrupting investments. This challenge is exacerbated by persistently **weak market demand for circular products driven by limited consumer awareness and the price gap** between circular products and services and their linear counterparts.

As specified in the InvestCEC guide "Investing in the Circular Economy", **investment risks are higher in the case of Direct Circularity Investments** – that is, investments in companies which physically close material loops. While their approach delivers environmental benefits, it also comes with higher risks due to supply chain interdependencies and fluctuating market demand. On the other hand, **Enabling Circularity Investments**, which support companies offering technological or service-based models solutions that facilitate circular practices, tend to be more attractive to investors. These companies provide technological solutions to a broader client base, rather than relying on a single circular supply chain, and therefore they are more resilient to disruptions.

FINANCIAL BARRIERS

The financial system remains tooled toward the traditional linear economy, and existing financial risk assessment models do not adequately reflect the risks and benefits of circular businesses and products. As previously identified by InvestCEC in D3.2 – Financial Barriers and Potential Measures to address them, traditional valuation methods often fail to accurately reflect the value and complexity of circular economy businesses. Therefore, business cases might appear weaker compared to conventional infrastructure projects, even when long-term social and environmental returns are substantial. This is exacerbated by the lack of adequate valuation of negative externalities, such as greenhouse gas emissions, resource depletion, and waste, which disadvantages circular solutions when evaluated using traditional financial models. Furthermore, the absence of standardised metrics for assessing circularity and the intangible benefits it generates makes it difficult to accurately value these initiatives.

Additionally, it was observed that the public sector currently offers only limited leverage instruments to support early-stage, circular economy-oriented businesses in attracting private investment. This gap in available mechanisms can reduce the visibility of circular ventures for investors and limit access to growth capital at a critical stage. While the circular economy model and the InvestCEC approach were generally well-received by investors, the absence of public co-investment structures was perceived as a barrier, as it weakened the signalling effect typically expected in blended finance settings and offered limited incentives for private sector engagement.

In many small and medium-sized cities, such as Klagenfurt, **financial constraints pose significant barriers**, particularly given the **high initial cost of circular economy infrastructure and uncertain financial viability for the potentially relevant circular solutions**. In addition, **budget limitations** force the city to make difficult trade-offs between competing priorities, such as upgrading wastewater treatment plants versus expanding

renewable energy capacity. Although private sector involvement might solve this issue, attracting private funding options remains challenging without clear revenue models, as many circular projects require long payback periods.

3.2. Administrative, political, and regulatory barriers

Regulatory uncertainty can significantly deter investment in green sectors by creating an unpredictable environment for investors. When policies are unstable, complex, uncertain or unpredictable, the cost of borrowing will reflect the higher perceived risk. In addition, in countries where government **incentives for circular businesses are weak or unstable**, companies may struggle to remain financially viable, increasing risk exposure for investors.

While public-private partnerships are essential for advancing circular economy projects, a lack of political commitment remains a key barrier to investments in this sector. In **medium-sized cities**, municipal leaders often struggle to prioritise circular economy projects due to limited political will, especially when short-term electoral cycles demand visible, immediate outcomes rather than long-term systemic change. In addition, due to budgetary constraints and absence of a strong political will, it is often not possible to get the required political resolutions to implement sustainable projects.

Furthermore, administrative complexity are a barrier to circular investments. Effective circular economy implementation requires planning and cooperation across multiple municipal departments, including procurement, urban planning, waste management, and economic development. In particular, organizational silos, divergent KPIs, and separate budget lines can strongly undermine integrated circular strategies.

Finally, strict criteria for public procurement compliance can hinder the development of circular markets, thus further delaying investments in the sector. Although many circular economy startups aim to provide sustainable solutions to public sector clients, these businesses often lack the scale, experience, or resources to meet strict public procurement requirements, such as certifications, financial guarantees, and bidding procedures. In some technology and market segments, young SMEs may also face discrimination due to favoritism toward established suppliers. The lack of transparency in procurement processes, for instance, can disproportionately affect SMEs that do not have the same lobbying power as larger companies.

In Austria, the basic rules of the **Federal Procurement Act (in Austria: BVergG)** are based on well-established companies. Contracting authorities may only award contracts to “authorized, capable and *reliable (suitable)*” contractors (Section 20 (1) BVergG). In order to prove this suitability, bidders are typically required to show a minimum turnover over the past three years or provide evidence of successfully completed reference projects. In addition to the Federal Procurement Act, public companies and cities are subject to financial control by courts of audit or supervisory bodies, which prevents them from taking risks that are not compatible with the duty of care and the principle of economic efficiency. Consequently, high project risks or investments in immature technologies are difficult to justify.

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Public utilities like Stadtwerke, which operate as part of the critical infrastructure, must exercise particular caution when it comes to interventions in their systems. Even innovative solutions, if they lack the certified operational maturity necessary to ensure system security and resilience, may be deemed too risky for implementation in such sensitive environments. This can limit their ability to secure contracts, reducing growth potential, and investment returns. During the InvestCEC call for entrepreneur phase, participating companies displayed impressive technological concepts. However, only a minority demonstrated a solid track record, or were able to furnish robust financial projections, performance guarantees, or interoperability with existing municipal systems – key prerequisites for adoption by risk-adverse public stakeholders.

In conclusion, public sector financing instruments alone are structurally unable to meet the significant funding requirements of potentially risky circular projects. Due to the high level of investments required for a sustainable energy transition and the associated high future investment and financing volume, it is clear that new strategic financing partners and new financial solutions are still needed.

4. Learnings from the InvestCEC model

Over the course of the project, InvestCEC has gathered several learnings that form a solid basis for the development of policy recommendations presented in the next chapter.

Overall, the implementation of the InvestCEC model faced challenges arising from the differing operating cultures of the key stakeholder groups involved—public sector entities, entrepreneurs and project developers, business support organisations, and investors. Each group operates within its own framework of policies, values, priorities, procedures, and work rhythms. During the project, actions were taken to address these different approaches and complexities, avoid conflicting situations and secure a better shared vision and common agenda.

Handling these challenges proved valuable for refining the model. Recognizing and addressing these stakeholder misalignments became critical for shaping a more effective final structure. The learnings from the project outlined in this chapter can shape practical solutions to foster alignment among stakeholders and to manage the inherent complexity of multi-actor collaboration within circular economy initiatives.

4.1. Needs definition

TRANSLATING CIRCULAR GOALS INTO LOCAL NEEDS REMAINS A CHALLENGE FOR STARTUPS

One of the main challenges in implementing InvestCEC was the **conflict between the long-term benefits of circular economy initiatives and the short-term priorities of municipal decision-making**. Circular economy projects typically only yield economic and environmental benefits after several years, making it difficult for them to respond to more short-term local needs that are often vaguely defined or driven by **immediate political and budgetary pressures**. Despite these gaps, in the case of Stadtwerke Klagenfurt, there is an emerging awareness of the importance of circular economy principles, and initial discussions have taken place across departments to explore how circular thinking could be integrated into future planning processes. InvestCEC also developed a structured methodology to help cities and regions identify circular needs based on their strategies and technical capacities.

PHASED IMPLEMENTATION HELPS MANAGE RISK AND BUILD CONFIDENCE IN CIRCULAR BUSINESSES

Another key learning from InvestCEC is the importance of **carrying out a phased implementation to mitigate the technical and operational risks and increase potential investments in circular businesses.** These small-

scale initiatives serve as living laboratories, generating critical data on cost efficiency, public acceptance, and technical feasibility. For medium-sized cities like Klagenfurt, this **incremental approach is vital.**

MEDIUM-SIZED CITIES CAN BE ENABLERS OF CIRCULAR INNOVATION

Despite the challenges presented above and in the previous chapter, **medium-sized cities have unique characteristics** that make them productive ground for circular innovation. These cities operate at a scale where systemic changes remain achievable without overwhelming complexity. Medium sized cities can achieve transformative impact through **incremental, high-leverage interventions**. In particular, medium-sized cities with populations around 100,000 inhabitants, like Klagenfurt am Wörthersee in Austria, represent a **distinct urban ecosystem** characterized by their intermediate scale and unique position within regional networks. This intermediate scale offers a delicate yet **powerful balance** between complexity and manageability, enabling these cities to function effectively as hubs for regional economic and environmental activities while maintaining closer community ties and social cohesion that larger cities often struggle to preserve.

4.2. Selection process

BROAD ENTREPRENEUR ENGAGEMENT HELPS VALUABLE CIRCULAR SOLUTIONS TO SURFACE

A major challenge in advancing circularity is identifying innovative solutions that public authorities may not yet be aware of. The InvestCEC project addressed this by testing two broad calls for entrepreneurs. The first call, which was used to test the call format, resulted in a limited number of applications with very different types of solutions and business focus. The second call was improved in two ways. The call was formulated in broad terms, but with specific examples for inspiration, and was supported by increased use of social media.

This open approach yielded **40 diverse applications**—including solutions directly tied to circularity, as well as those related to climate and energy efficiency. Interestingly, **the most qualified applications did not directly respond to the initially defined needs of STW Klagenfurt**. One of the cases selected even sparked internal discussions around the planned reconstruction of a local building, where a proposal introduced a novel method for high-recovery demolition and material reuse. This highlights the value of keeping calls open-ended, as it can surface unexpected solutions with **strong local relevance and potential for impact**. The fact that the most relevant outcomes came from other areas was mainly due to the low number or limited quality of applications in the originally defined focus areas.

4.3. Investment readiness

INVESTMENT READINESS IS CRITICAL FOR CIRCULAR VENTURES TO COLLABORATE WITH THE PUBLIC SECTOR

Circular economy ventures often struggle to generate stable positive cash flows in the short term. However, public utilities and the city are restricted by municipal credit rules and internal regulations that prevent financial involvement with unproven startups and exposure to unpredictable risks. As a result, their support is

often limited to non-financial contributions such as pilot testing, controlled data access, or testbed environments. This is rarely enough support to help companies to cross the "valley of death" and may lead to situations where innovations stall at the pilot phase without a clear path to scale. To address this, **circular businesses must strengthen their investment readiness**. They need to demonstrate financial viability under different market reaction scenarios and have clear value propositions. Furthermore, moderate company valuations can improve investor confidence and attract aligned funding partners.

PROMOTE CAPACITY-BUILDING FOR ENTREPRENEURS

Municipalities prefer to collaborate with market-tested companies, such as ventures at later growth stage with a validated product and strong income streams. To manage risk, cities often establish internal investment criteria to assess potential partners based on technological maturity, scalability, financial health, and alignment with local infrastructure needs. However, InvestCEC found that **circular startups often struggle to meet these operational demands of municipal partners**. While many of the cases possessed technical expertise or innovative concepts, **they also lacked essential components such as cost analyses, scalability plans, or proven pilot projects – all critical criteria for risk-averse public utilities when evaluating the attractiveness of a new solution.**

To bridge this gap, **training programs are needed to help entrepreneurs understand public procurement processes, regulatory frameworks and collaboration opportunities with municipalities and/or public utilities**. Entrepreneurs presenting circular solutions would greatly benefit from learning about the priorities, constraints, and decision-making structures within government entities. The training should show pathways for public-private collaboration beyond traditional supplier relationships. In InvestCEC, the two calls for entrepreneurs have demonstrated a strong interest from participating companies in supplying solutions to the public sector. However, **their presented funding requirements also highlight a clear demand for investor readiness coaching.**

4.4. Investment model

INVESTORS AWARENESS ON CIRCULAR ECONOMY PERFORMANCE SHOULD BE INCREASED

There is a lack of seed funding since **the circular economy is not yet fully recognized as a distinct investment sector by many investors**. **To increase investment in circular companies, it is crucial to raise investors' awareness on key indicators for positive performance from an environmental, financial, and business perspective**. These include, among others, Life Cycle Assessment for environmental impact, material efficiency ratio, CO_2 reductions, and revenue diversification indicators to increase resilience. **The development and use of tailored financial evaluation tools** for circular economy startups would further boost investors' confidence by providing clearer insights into their viability and growth potential. Finally, while many investors include general Environmental, Social, and Governance (ESG) criteria to assess a company's sustainability and ethical standards, it is especially important to contextualize ESG considerations for circular economy startups—distinguishing between those that deliver direct circularity (e.g., reuse, recycling, remanufacturing) and those

that enable circularity (e.g., platforms, technologies, services). This nuanced approach is explored in depth in the **InvestCEC Circular Economy Fundraising Guidebook**.

BLENDED FINANCE AS A TOOL FOR FINANCIAL RISK MITIGATION IN THE CIRCULAR ECONOMY

Municipal budgets can provide baseline funding for program development and initial pilot projects, but most medium-sized cities face significant constraints on their general funds. Therefore, **private sector investment and market-based financing mechanisms** should play increasingly important roles in circular economy implementation. A blended finance approach, combining public and private investments with community contributions can create more robust financial foundations. The InvestCEC model indicates that diversifying funding sources can reduce financial risk for cities and empowers them to target their resources towards high-impact, environmentally sustainable, and strategic projects. However, in the context of the InvestCEC project, the establishment of the fund has been delayed at present due to prevailing financial and market conditions as well as public sector budget constraints described in the previous chapter.

PUBLIC CO-INVESTMENT AND STRONGER INCENTIVES ARE CRITICAL TO SECURE INVESTMENT FROM PRIVATE AND INSTITUTIONAL ACTORS

While private investment is crucial to de-risk circular investments for cities, public engagement remains critical to build investor confidence. The lack of public co-investment undermine trust and limit the flow of private capital into circular economy projects. The experience from InvestCEC shows that there is a need for the public sector to take a more proactive investment role, particularly in supporting first-time funds, as this field is still new and evolving—especially through instruments like the European Investment Fund. **By increasing public investments in first-time funds such as the InvestCEC Fund, public actors could help address the current financing gap.** Additionally, institutional investors would also be more engaged if stronger incentives—such as tax benefits or guarantee schemes—were available for circular economy investments.This observation is based on repeated feedback collected through investor interactions in the context of the InvestCEC project, especially during discussions facilitated by Venionaire Capital with potential investors. Investors highlighted that beyond public co-investment, specific instruments such as tax incentives (e.g. on capital gains or targeted deductions) and guarantee mechanisms (e.g. first-loss coverage or revenue guarantees) are important enablers to lower risk perception and make emerging circular economy markets more investable. These tools help align the risk-return profile of circular economy investments with institutional expectations and could play a catalytic role in mobilizing private capital at scale.

SUPPLY CHAIN GAPS UNDERMINE CIRCULAR VALUE CREATION

One of the underlying structural challenges observed during the InvestCEC project lies in the fragmentation of local circular supply chains. In many cases, public actors (e.g. municipalities or utilities) collect or aggregate secondary resources, but there is a **critical gap at the stage of value-added processing or recycling**—where the material is supposed to be transformed into investable secondary raw materials. This often results in inefficiencies or material losses, as the link between resource origin and potential industrial reuse remains weak or undefined. In conversations facilitated by Venionaire Capital with local companies and investors, it became clear that private engagement increases significantly when there is **clear visibility of downstream use**

cases—i.e. when recycled materials can be directly linked to specific industrial customers or applications. Policymakers should set clear requirements for public tenders and contracts, obliging recyclers to align processing outputs with defined industrial standards. They can facilitate pre-market dialogues between public collectors, recyclers, and producers to agree on specifications before procurement. Creating this "**bridge" between raw material input and final market demand** is essential to de-risk private investment and unlock viable public-private partnerships (PPPs). Circular infrastructure only becomes bankable if its position within a functional supply chain—both upstream and downstream—is well defined.

5. Policy Recommendations

Drawing from the lessons of InvestCEC's learnings and the collaboration with other CCRI projects such as **RESOURCE**, the InvestCEC project would like to make the following recommendations.

5.1. EU-level Policy Recommendations

Strengthen the circular economy through public procurement and public-private partnerships

Integrating circular criteria into public procurement can stimulate the market and boost investments in circular businesses. Public procurement should prioritize service-oriented models such as leasing, maintenance, and performance-based contracts over traditional product ownership. This shift would stimulate the development of circular business models that focus on **durability and reuse** rather than disposability. By setting clear circular requirements and partnering with the private sector, public authorities lead by example, creating stable demand for circular services, and boost investor confidence, a core goal of the InvestCEC project. Existing tools such as the **EU Green Public Procurement (GPP)** criteria and the EU Ecolabel already provide a strong foundation for integrating sustainability into procurement practices, but need stronger and more enforceable standards. For example, introducing a "buy circular or explain why not" obligation, which would require contracting authorities to justify deviations from circular options, would make circular options the norm. Simplifying procurement processes is also key, especially for SMEs. An example is **Denmark's Partnership for Green Public Procurement,** which integrates market dialogue and broad outcome-based specifications, making it easier for innovative SMEs to participate in tenders while promoting green and circular solutions.

Develop and implement EU-wide circular economy metrics to raise citizen and investor awareness

To speed up the transition to a circular economy, the EU must promote reliable measurement tools that serve both investor confidence and consumer awareness. For example, introducing standardized indicators that measure the **net added value of circular economy** ventures would help investors evaluate projects based on clear and reliable performance metrics. Although metrics for circularity already exist, a harmonized "**circular score**" system across Europe would enhance transparency and comparability among circular economy initiatives. Such a system would include key parameters like material reuse, product lifespan, recyclability, and overall resource efficiency. The integration of these tools into corporate reporting and public procurement processes would establish a level playing field, incentivize innovation, and ultimately direct more private capital towards sustainable, high-impact circular economy ventures. **Stimulating consumer demand**

for circular products also requires increased awareness of the non-environmental benefits of circularity, such as reputational advantages, cost savings, and perceptions of higher quality. For example, designing for longevity and durability allows companies to build strong reputations for quality and reliability and save money for consumers. Circularity also has social benefits, as offering remanufactured products at lower prices increases accessibility and generates employment opportunities in repair, refurbishment, and secondary markets. This creates new revenue streams and supports a more inclusive, job-rich economy.

Provide targeted support to de-risk early-stage circular economy pilots

Cities and regions, especially mid-sized municipalities, face major hurdles in initiating circular economy initiatives. Limited liquidity and credit metrics often prevent them from participating in early-stage pilot projects, making it difficult to attract private investment at early stages. To complement private investment and encourage replication of such models, the EU could consider establishing a **Circular Innovation Pilot Facility**. Rather than simply increasing funding volumes, this facility would strategically deploy grants or quasi-equity to de-risk high-potential early-stage pilots. It would prioritise projects demonstrating strong cooperation between municipalities, utilities, and local industry. To strengthen bankability and ensure long-term value creation, the facility should integrate technical assistance and require collaboration with accredited incubators. These incubators would help startups and municipal partners develop sound cost-benefit analyses and scalable business models. By shifting from broad public financing to targeted support, the EU can expand the pipeline of investable circular economy pilots and thereby demonstrate how cooperation and private capital can be effectively mobilised for systemic change.

Promote knowledge transfer in innovation hubs and industrial symbiosis networks

Scaling up circular economy strategies in regions and cities requires knowledge transfer and mutual learning. For example, "**Circular Valley" Innovation Hubs** could serve as dynamic ecosystems dedicated to advancing circular technologies, business models, and investment opportunities. By supporting the concentration of startups, corporates, investors, researchers, and public actors in one location, the EU can create hubs to accelerate knowledge transfer, innovation scaling and market uptake. These hubs would offer shared infrastructure, financing support, demonstration projects, and matchmaking services, creating an environment conducive to rapid testing and commercialization of circular solutions. In parallel, **industrial symbiosis networks** — such as the Kalundborg Symbiosis — show how companies can collaborate in practice by exchanging energy, water, and materials, turning one company's waste into another's resource. By supporting both models through targeted funding and collection of best practices, EU policymakers can create thriving circular ecosystems and support knowledge-sharing between regions and cities.

Boost the use of secondary materials in the EU

A crucial strategy to increase investments in circular companies is to stimulate the market of secondary materials through targeted legislative measures. While the EU has made progress, gaps remain. For example, harmonised end-of-waste criteria are essential to reduce uncertainty for waste operators and increase the use of secondary materials. EU-wide harmonisation of end-of-waste criteria would address disparities between

Member States and across different actors in the value chain, ultimately increasing the uptake of high-quality secondary raw materials in manufacturing processes. Similarly, the **Directive on Common Rules to Promote the Repair of Goods** needs improvement to ensure a true right to repair. These include, among others, the **limited scope of products** covered by the Directive, the absence of a **reparability score**, and the lack of a **consumer right to obtain internal products**. In this sense, stronger right to repair policies can increase demand for spare parts, open new markets, and stimulate investment and innovation in repair technologies.

5.2. Regional- and national-level recommendations

Cities and regions play a crucial role in accelerating the transition to a circular economy and enhancing the governance conditions required to support this transition. When it comes to circular economy investments, a crucial component is a timely and stable national framework that promotes circular economy companies, for example, through tax incentives for companies and investors, and capacity building activities.

Implement comprehensive tax incentives for circular economy companies

Fiscal measures can play a pivotal role in driving circular economy adoption and create a level playing field for circular companies. Therefore, it is important to design tools that specifically address the unique needs and challenges of circular economy initiatives. Governments should introduce tax incentives that reward companies implementing certified circular practices—such as using secondary materials, offering repair services, or designing products for longevity. **Reducing VAT rates on repair services or secondary materials, providing tax credits for R&D in circular innovation, and offering investment tax break**s would make circular business models more financially attractive. Furthermore, national authorities could shift taxes from labour to virgin material use to encourage uptake of circular alternatives. These incentives would lower upfront costs, improve project bankability, and stimulate broader private sector participation in circular economy development. Finally, it is important that national governments further coordinate their strategies at the EU level and harmonise their taxing systems to avoid competition and races to the bottom.

Introduce targeted tax incentives, guarantee schemes, and stronger sustainability reporting to mobilise private investment

Private investors need incentives and policy support to reduce investment risk to provide capital to circular ventures. In practice, such incentives could include tax deductions on investments into qualifying circular funds or ventures, similar to existing national schemes in renewable energy and research and development. National guarantee instruments—such as capped first-loss guarantees or revenue-backed schemes—could complement EU-level programmes like InvestEU, especially for regional or first-time funds. Furthermore, an increased financial commitment from the public sector, such as increased investments in first-time or early-stage circular economy funds, will be critical to attract private and institutional capital into circular economy projects. A public anchor investment combined with a partial guarantee could unlock significant additional private capital. Finally, strengthening ESG-related reporting, such as by lowering thresholds under the Corporate Sustainability Reporting Directive, would also improve transparency and increase the investability of circular economy SMEs and cooperatives, particularly for impact-focused or SFDR-aligned funds.

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Promote public-private collaboration and capacity building for entrepreneurs and public authorities

The InvestCEC experience showcases the value of having a mentor providing businesss coaching for startups to be ready to work with municipalities and investors. **To promote the adoption of circular economy initiatives at the regional and national level, it is essential to invest in training and capacity-building for both public authorities and companies**. On the one hand, startups often lack municipal partnerships and struggle to scale due to limited operational capacity. Conversely, municipalities need credible, cost-transparent proposals. Bridging this gap through structured collaboration can accelerate the promotion of circular economy initiatives. One promising approach would be the **creation of a municipal circular economy partnership accelerator program that matches circular economy startups with qualified municipal mentors**. SMEs could be offered targeted workshops and mentoring programs to guide them through the public procurement processes. This could include training in how to respond to tenders, how to meet requirements, and how to identify opportunities. Equally important is the training of public authorities' staff to apply circular procurement practices and developing the skills to collaborate with entrepreneurs. By increasing mutual understanding of constraints and requirements, both municipalities and startups can co-create solutions with realistic cost structures, thereby reducing perceived risk and streamlining procurement.

6. Annex

6.1. Policy Workshop with RESOURCE project

On April 3rd 2025, the InvestCEC project held an online policy workshop "Addressing Current Barriers to Circular Investment: Policy Approaches for success" in partnership with another CCRI project, RESOURCE. The policy workshop gathered over **60 policymakers, industry leaders, and circular economy practitioners** and focused on developing policy recommendations to accelerate investments in circular business models across Europe. Over the course of the workshop, participants were asked to rate project policy recommendations, identify barriers for circular investment, and propose policy recommendations to address the identified barriers.

6.1.1. POLICY RECOMMENDATION RATING

When rating preliminary policy recommendations proposed by RESOURCE and InvestCEC, attendees identified circular taxation systems and mandatory circular public procurement as top priorities for driving systemic change. The participants gave the following scores (1-10) to the policy recommendations presented during the workshop:

EU Level

- Develop a pricing mechanism for externalities – 7,6
- Expand the scope of the EU Taxonomy – 6,8
- **Further develop circular economy indicators and labelling** – 8,4
- **Communicate the non-environmental benefits of the circular economy** – 8,4
- Expand the scope of the EU Right to Repair Policy – 7,8
- Promote and Strenghten the Service/Functional Economy – 7,5
- Develop and Implement Common EU-Wide Circular Economy Measurement Tools for citizens awareness – 7,4
- Boost the use of market and non market tools for the circular economy – 7,3
- Fund Territorial Diagnostics and Create Collaborative Mapping Platforms – 7,2
- Create a Circular Valley Innovation Hub – 7,4

Local level

- Tax Incentives for Circular Economy Initiatives – 8,8
- Mandate Life Cycle Assessments – 6,6
- **Promote Multi-Stakeholder Collaboration –** 8,3

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6.1.2. MAIN OBSTACLES TO PRIVATE INVESTMENT IN CIRCULAR BUSINESSES

Regarding obstacles to private investment in circular businesses, participants highlighted **high perceived risk, lack of clear regulatory frameworks, and insufficient financial incentives as key challenges.** The participants aligned with many of the barriers identified by the InvestCEC and RESOURCE projects. Main barriers identified:

FINANCIAL AND INVESTMENT CHALLENGES

- **Unclear return on investment**, making it difficult for investors to assess long-term value.
- **Need for instant returns**, which conflicts with the longer timelines often required by circular business models.
- **Limited scalable models in CE businesses**, restricting opportunities for replication and growth.

POLICY AND REGULATORY BARRIERS

- **Policy uncertainty**, which creates an unstable investment environment.
- **Lack of tax incentives** to encourage circular business practices.
- **Need to amend legislation**, particularly in sectors such as **waste management**, to support circular operations.
- **Lack of government support**, both in policy and funding mechanisms.
- **Inadequate investment infrastructure** to connect EU green tech companies with local communities and supply chains.

AWARENESS AND CULTURAL BARRIERS

- **Lack of awareness** among investors and the public about circular economy opportunities and benefits.
- **Cultural change is needed**, including greater visibility of successful examples to build confidence and momentum.

OPERATIONAL COMPLEXITY

- **Complexity of circular value chains**, which adds layers of difficulty to business planning, financing, and implementation.

6.1.3. POLICY RECOMMENDATIONS PROPOSED BY THE PARTICIPANTS

To address these challenges, their proposed solutions included several policy actions across different sectors. These include regulatory clarity and stability, fiscal and financial incentives, increased support from the public sector and capacity building.

REGULATORY CLARITY AND STABILITY

- Establish **clear and stable regulations** to reduce policy uncertainty.

- **Create trust in a long-term policy vision** to foster investor confidence.
- **Avoid de-regulation disguised as simplification**, ensuring sustainability standards are maintained.

FISCAL AND FINANCIAL INCENTIVES

- Implement **tax incentives for second-hand goods** to promote reuse.
- **Detax secondary materials** to make recycled inputs more competitive.
- Introduce **circular taxes on virgin material use** to encourage sustainable alternatives.
- Promote **blended finance mechanisms** (combining public and private capital) to de-risk investments.
- **Reduce costs for life cycle assessments (LCAs)**, especially for start-ups.

INSTITUTIONAL SUPPORT AND CAPACITY BUILDING

- Enforce **mandatory circular public procurement** to drive market demand.
- Strengthen **extended producer responsibility (EPR)** to ensure accountability across the value chain.
- **Streamline administrative processes** and **reduce bureaucratic burdens** for circular businesses.
- Encourage **collaboration among EU tech universities, international development actors, and the private sector** to foster innovation and cross-sector investment.

STANDARDS AND INFRASTRUCTURE

- Develop **standardised certification systems** for circular products and services.
- Further advance **eco-labelling schemes** to improve product transparency and consumer trust.
- **Mainstream the right to repair** to extend product lifespans and reduce waste.

6.2. EU Green Week 2025 and CCRI Stakeholder Event

Greenovate! Europe and ENSPIRE took part in EU Green Week 2025. The event provided an excellent opportunity to engage with diverse stakeholders and gain insights into the key challenges and solutions discussed across various sessions. These sessions served to further refine InvestCEC policy recommendations.

In particular, the CCRI Stakeholder Workshop demonstrated that other projects, as well as the CCRI-CSO, are aligned with several recommendations put forward by InvestCEC in both its Mid-Term and Final Policy Recommendation Briefs. Notably, there was broad consensus—reflecting InvestCEC's recommendations—that adopting circular procurement practices and shifting taxation from labour to virgin materials are essential to creating a more level playing field for circular economy businesses.

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