



Accelerating Private Investment in the Circular Economy

Joint Policy Recommendations

**By
RESOURCE and InvestCEC**



Introduction

Transitioning to a circular economy is crucial for achieving Europe's environmental, industrial, and economic goals. Yet, private investments remain limited due to market fragmentation, regulatory barriers, and perceived financial risks.

The RESOURCE and InvestCEC projects, both funded by Horizon Europe, have developed methodologies to accelerate private financing of circular economy initiatives. This joint policy brief summarizes our key findings and policy recommendations to strengthen the financial ecosystem and scale up circular solutions across Europe.

For detailed analysis and examples, please refer to the full RESOURCE Policy Brief and InvestCEC Policy Report, available on the projects website or upon request.

Barriers to circular economy investments

Despite growing momentum for circular economy initiatives across Europe, the transition remains too slow to meet environmental and economic goals. Four major types of barriers were identified as limits to private investment:

- **Cultural barriers:** Established industrial stakeholders show significant resistance to testing and adopting new circular solutions. Traditional linear business approaches remain deeply entrenched, and there is a limited understanding of circular economy benefits and opportunities among various stakeholders, which hinders adoption and investment
- **Financial barriers to investment:** Circular economy projects face significant financial hurdles, particularly in securing heavy initial investments required for infrastructure, equipment, and production capacity. Limited access to diverse funding sources, the need for substantial R&D investment, and the complexity of market entry create additional burdens. The lack of specialized funding mechanisms tailored to circular initiatives exacerbates these challenges.
- **Political and administrative barriers:** Projects must navigate complex, often misaligned legal and regulatory frameworks across jurisdictions. The absence of standardized frameworks for assessing circular projects, insufficient policy incentives, and regulatory uncertainties create confusion and impede project development and long-term investment decisions. Strict criteria for public procurement compliance can also hinder the development of circular markets, thus further delaying investments in the sector
- **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 thin interconnected ecosystems, where multiple players depend on each other



for materials, production processes, and waste management. If one entity in the cycle fails or experiences disruptions, the entire supply chain may collapse.

- **Lack of knowledge, awareness, and visibility:** There is a critical lack of awareness and information regarding circular economy opportunities, successful business models, and governance practices. Limited visibility of circular projects and a lack of reliable data reduce investor confidence and hinder the scalability of circular initiatives.

These barriers form a systemic challenge that prevents circular economy solutions from reaching their full potential. Without urgent, coordinated action to overcome them, the circular transition risks remaining fragmented and underfunded.

EU Regulatory and policy landscape

Circular economy is a central priority for the new European Commission, embedded across major policy initiatives such as the Competitiveness Compass, Clean Industrial Deal, Steel and Metals Action Plan, Vision for Agriculture and Food, Critical Raw Materials Act, and the Ecodesign Regulation.

Despite these efforts, progress remains limited. The latest data show 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 current Circular Economy Action Plan (CEAP), adopted in 2020 and building on the 2015 Plan, targets key value chains—electronics, batteries, packaging, plastics, textiles, construction, and food. It also proposes extending legislation (e.g., the Ecodesign Directive), phasing out single-use packaging, and advancing a circular textiles strategy. Support for regional transitions is emphasised through dedicated EU funding instruments.

To meet Green Deal objectives, the EU aims to mobilise at least **€1 trillion in sustainable investments** between 2021 and 2028. Monitoring tools have also been upgraded, with a revised Circular Economy Monitoring Framework introduced in May 2023 to track key indicators such as material footprint and GHG emissions.

Looking ahead, the circular economy will gain further momentum. A consultation in June 2025 will inform the **Circular Economy Act** (expected in 2026), which will aim to boost recycling, reform End-of-Waste rules, digitalise EPR schemes, and facilitate the movement of circular materials across the EU.

Complementary strategies, including a revised **EU Bioeconomy Strategy** and the **New European Bauhaus**, will further promote circularity, innovation, and the use of bio-based materials.



Policy recommendations

1. EU level

1. Policy recommendation 1 - Promote and strengthen the service economy and functional economy through public procurement and public-private partnerships:

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. Establishing public-private partnerships (PPPs) is equally critical; PPPs can share financial and operational risks, enabling circular innovations to move from pilot stages to full-scale implementation. By creating favourable conditions through procurement policies and partnerships, public authorities can demonstrate leadership, catalyse market transformation, and establish a reliable demand for circular services. This systemic approach can significantly boost investor confidence in emerging service-based circular models.

2. Policy recommendation 2 – Develop and implement common EU-wide circular economy measurement tools for citizens and investor awareness:

A harmonized "circular score" system across Europe would enhance transparency and comparability among circular economy initiatives. Such a system should assess key parameters like material reuse, product lifespan, recyclability, and overall resource efficiency and climate mitigation. Introducing standardized indicators would help investors evaluate projects based on clear and reliable performance metrics. To fully unlock private investment, financial and corporate evaluation frameworks should include innovative tools like the "climate dividends" or the Contingent Valuation Method. Having EU-wide circular economy measurement metrics would also empower consumers to make informed purchasing decisions, driving market demand for circular products and services. Promoting consumer awareness of the non-environmental benefits of circularity, such as reputational advantages, cost savings, and perception of higher quality, will further enhance market adoption. The integration of these tools into corporate reporting and public procurement processes would establish a level playing field, incentivize innovation in circularity, reduce investment risk perception, and ultimately direct more private capital towards sustainable, high-impact circular economy ventures.

3. Policy recommendation 3 - Fund territorial diagnostics and create collaborative mapping platforms:

Comprehensive territorial diagnostics are essential to identify material flows, industrial synergies, and resource potentials within regions. Funding the development of digital collaborative mapping platforms would facilitate connections between businesses, research centres, and public authorities, promoting industrial symbiosis and resource-sharing initiatives. These platforms would offer real-time insights into available secondary materials, skills, and infrastructure, enabling more efficient circular project planning and investment



targeting. Such localized intelligence would not only reduce transaction costs and uncertainty for investors but also foster the emergence of robust, place-based circular ecosystems that maximize local value creation and resilience.

4. Policy recommendation 4 - Create a "Circular Valley" Innovation Hub:

A "Circular Valley" Innovation Hub would serve as a dynamic ecosystem dedicated to advancing circular economy technologies, business models, and investment opportunities. By concentrating startups, corporates, investors, researchers, and public actors in one location, the hub would accelerate innovation scaling and market uptake. It would offer shared infrastructure, financing support, demonstration projects, and matchmaking services, creating an environment conducive to rapid testing and commercialization of circular solutions. Such a flagship initiative would enhance Europe's global competitiveness in the circular economy, attract international capital, and strengthen the pipeline of investment-ready circular ventures. In parallel, industrial symbiosis networks 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 promotion of good practices, EU policymakers can create thriving circular ecosystems and support knowledge sharing between regions and cities.

5. Policy Recommendation 5 – Establish a European high-level expert group on circular economy to strengthen strategic alignment, awareness, and investment confidence

The establishment of a European High-Level Expert Group on Circular Economy would provide independent, evidence-based advice to policymakers, businesses, and investors. Modelled after successful initiatives like the IPCC for climate change, the group would monitor progress, assess best practices, and identify scalable circular solutions. It would act as a trusted source of data, forecasts, and investment guidance, fostering transparency and confidence across the financial and industrial ecosystems. By providing strategic insights and policy recommendations, the expert group would help align regulatory frameworks, market instruments, and innovation agendas to support an accelerated circular economy transition.

6. Policy Recommendation 6 - 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 in this field, 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. By fostering a more supportive regulatory landscape, EU policymakers can unleash the entrepreneurial potential necessary to drive Europe's circular transition.

2. National and regional level

1. Policy Recommendation 7 - Implement comprehensive tax incentives for circular economy initiatives:

Fiscal measures can play a pivotal role in driving circular economy adoption. Governments should introduce tax incentives that reward companies implementing certified circular practices—such as using recycled materials, offering repair services, or designing products for longevity—as well as investors who provide capital to circular ventures. Reducing VAT rates on repair services or secondary materials, providing tax credits for R&D in circular innovation, and offering investment tax breaks would make circular business models more financially attractive. These incentives would lower upfront costs, improve project bankability, and stimulate broader private sector participation in circular economy development.

2. Policy Recommendation 8 - Streamline regulations to foster circular economy innovation

Circular startups and SMEs often face disproportionate regulatory hurdles that limit their ability to scale and attract investment. Authorities should simplify certification procedures, harmonize standards across sectors, and offer technical assistance to help circular businesses comply with environmental regulations. Reducing administrative burdens—for example, by establishing "one-stop-shops" for circular economy project approvals—would accelerate time-to-market for innovative solutions. Additionally, regulatory sandboxes could be created to allow experimentation with new circular business models in a controlled environment. Simplifying procurement processes will also be crucial to enhance competitiveness of circular economy companies, particularly SMEs. By fostering a more supportive regulatory landscape, governments can unleash the entrepreneurial potential necessary to drive Europe's circular transition.

3. Policy Recommendation 9 - 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. Potential incentives 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, increased financial commitments 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. For example, 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 attractiveness of circular economy SMEs and cooperatives, particularly for impact-focused or funds aligned with the Sustainable Finance Disclosure Regulation (SFDR).

4. Policy Recommendation 10 - Mandate Life Cycle Assessments for local permit applications:

Integrating Life Cycle Assessments (LCAs) into permitting processes for construction, industrial, and infrastructure projects would ensure that circularity principles are embedded from the earliest stages. Requiring LCAs would promote the selection of sustainable materials, energy-efficient designs, and modular construction methods, fostering a systemic shift toward resource efficiency and waste minimization. This policy would also create a clear framework for comparing project proposals based on environmental performance, aligning public sector decision-making with circular economy objectives. For investors, mandatory LCAs would provide greater transparency, improving risk assessment and strengthening the business case for sustainable investments.

Call for action

Accelerating private investment in the circular economy is a strategic necessity for Europe's sustainable future. We call on EU, national, and regional policymakers to urgently:

- Stimulate public demand through procurement, awareness raising, and collaboration with the private sector
- Foster enabling environments through stable regulation, fiscal incentives, streamlined administrative processes, and targeted support to companies and public authorities
- Remove barriers to circular investment and foster enabling environments through stable regulation, fiscal incentives
- Build investor confidence through transparency, collaboration, and long-term vision

By acting decisively, Europe can lead the global transition to circularity, unlock new industrial value chains, create millions of sustainable jobs, and build a resilient, competitive economy for the 21st century.

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