

DEFINITE-CCRI

Policy Brief 2

Banking on Circularity:

How EU policymakers can help circular economy start-ups and projects access private investment

(Deliverable 6.10)



Funded by the European Union

Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or REA. Neither the European Union nor the granting authority can be held responsible for them.



Deliverable Number Deliverable Name Full Project Title Lead partner for deliverable	D 6.10 Policy Brief 2 DEFINITE-CCRI - Deal Engine, with finance, investment and technical expertise for the Circular Cities and Regions Initiative ICLEI EUROPE
Due date of deliverable	30 04 2025
Actual submission data	20.04.2025
Actual submission date	30.04.2023
Dissemination level	Public (PU)
Author(s)	Leah Lazer (ICLEI), Simon Gresset (ICLEI),
	Nikolai Jacobi (ICLEI)
Reviewer(s)	(Alphabetical by last name) Luke Bailey (Circle
	Economy), Johan Bonner
	(Return2sender/Material Mastery), Tommaso
	Buso (Bankers without Boundaries), Hugo
	Delahaye (City of Roubaix), Eleni Kannellou
	(NTUA), Evi Makri (NTUA), Anna de Matos
	(Circular Library Network), Goksen Sahin (ICLEI
	Europe), Julius Wiebe (Centre international de
	formation européenne).
Contributor(s)	All partners
WP/Task related to the deliverable Document ID Document type	WP6/Task 6.7. DEFINITE-CCRI_ Policy Brief

Cite as: L. Lazer, S. Gresset, and N. Jacobi. (2025). DEFINITE-CCRI Policy Brief 2. Banking on Circularity: How EU policymakers can help circular economy start-ups and projects access private investment (Deliverable 6.10.).



Executive Summary

This policy brief offers recommendations for EU policymakers based on lessons learned from the DEFINITE-CCRI project, which brought together high-impact circular economy projects and funding institutions to boost the transition to a circular economy. We focus on three types of common and emerging circular businesses: **1) material recovery businesses**, **2) circular platform businesses, and 3) circular hubs.** For each, we identify specific challenges they face in accessing private investment, and propose EU-level policy solutions to remove those barriers, complemented with case studies of businesses that received project development assistance through the DEFINITE-CCRI project.

Material Recovery Businesses

Definition: Material recovery businesses create valuable products and materials from residual material streams that are usually thrown in landfills, burned, or down-cycled in low-value routes.

- Products made from secondary materials can face complex, expensive certification
 processes and unequal tax treatment compared to virgin materials. Policymakers can
 simplify end-of-waste (EoW) certification processes, and can revise taxes and
 subsidies to level the playing field, such as reducing VAT for secondary products and
 reflecting the unpriced externalities of virgin materials, e.g. through carbon pricing or
 more innovative measures like ecosystem service payments.
- Residual material streams today are often poorly sorted and contaminated with hazardous substances. Phasing out substances of concern from the material stream would make it easier and more cost-effective to create safe, high-quality secondary products.
- Investors may hesitate to back business models that are not mainstream or that they
 do not fully understand, and many circular businesses don't fit the usual playbook.
 Standardised metrics for assessing circular economy business models or specialised
 risk-assessment tools could help investors understand complex, multi-stage business
 models.
- Material recovery businesses' supply chains often depend on specific, local material loops. Policymakers can reduce their supply chain risks by ensuring that EU industrial and competitiveness policies integrate a territorial dimension.

Circular Platform Businesses

Definition: Circular platform businesses facilitate the sharing, rental, exchange or resale of materials and products, usually using a digital platform.



- Innovative or subscription-based business models may take longer to become profitable, as they sometimes depend on shifts in consumer behaviours. This can translate to longer payback periods for investors. Governments can help de-risk investments in circular platform businesses through co-financing or performancebased financing models, and leverage InvestEU, the European Innovation Council (EIC) and the European Investment Fund (EIF). More broadly, because these business models can reduce overall consumption – delivering environmental and social benefits that may not align with traditional profit-driven investment criteria – they should be prioritised for public funding and supported through public procurement.
- Circular platform businesses can generate benefits through avoided consumption but those impacts and "scope 4" emission reductions can be hard to quantify. Governments could support the creation of widely agreed metrics for assessing the impact of circular platform businesses, and consider them in the design of sustainability reporting frameworks at the EU and national levels.

Circular Hubs

Definition: A circular hub is a multi-use space that contributes to the circular economy by providing workspaces and support to small circular businesses, and by fostering the local circular economy community through engagement and events.

- Circular hubs bridge business and community, creating value beyond profits. They may struggle to strike the right balance between revenue-generating activities and mission-driven impact. Governments at all levels can provide or fund technical assistance to help them identify appropriate business models and financing blends, and provide funding for their non-revenue-generating activities like operations and maintenance.
- Circular hubs engage in diverse activities with indirect, long-term impacts, so they may
 struggle to measure the benefits they create through their tenant businesses and
 engagement activities, especially their social impacts. To communicate their value to
 potential investors, they would benefit from flexibility in impact measurement, enabling
 them to track indirect impact, collective impact, or use qualitative or participatory
 evaluation methods.



DEFINITE Consortium Partners

Logo	Organisation	Туре	Country
Local Governments for Sustainability	ICLEI EUROPE	Small and medium-sized enterprise	Germany
C CIRCLE ECONOMY FOUNDATION	Circle Economy	Non-governmental organisation	The Netherlands
gent:	Stad Gent	Municipality	Belgium
BwB	Bankers without Boundaries (BwB)	Non-governmental organisation	Ireland
	National Technical University of Athens (NTUA)	University	Greece



Table of Contents

Executive Summary	
DEFINITE Consortium Partners	
Table of Contents	
List of abbreviations used	7
The DEFINITE-CCRI Project in a Nutshell	
DEFINITE-CCRI Objectives	
Introduction	9
SECTION 1: Material Recovery Businesses .	
SECTION 2: Circular Platform Businesses	
SECTION 3: Circular Hubs	
Conclusion	
Acknowledgements	
References and further reading	



List of abbreviations used

- CCRI Circular Cities and Regions Initiative
- CSA Coordination and Support Action
- CSRD Corporate Sustainability Reporting Directive
- DEFINITE-CCRI Defining Investment Strategies for Circular Cities and Regions Initiative
- EIC European Innovation Council
- EIF European Investment Fund
- EoW End-of-Waste
- EPR Extended Producer Responsibility
- ESPR Ecodesign for Sustainable Products Regulation
- ESRS European Sustainability Reporting Standards
- EU European Union
- ICT Information and Communication Technology
- InvestEU Investment Plan for Europe (commonly referred to as InvestEU)
- KPI Key performance indicator
- PDA Project Development Assistance
- SMEs Small and Medium-sized Enterprises
- SRI Socially Responsible Investment
- SSE Solidarity and Social Economy



The DEFINITE-CCRI Project in a Nutshell

Effective investment and financing opportunities for circular economy projects in Europe are still few. For securing financing, circular economy projects must meet investors' requirements for bankability and display risk-return profiles to increase investors' trust in impactful projects aimed at advancing the transition to a more circular economy in cities and regions. In order to become less risky and more appealing for investments, projects need to be developed around new and re-designed finance solutions and business models. Transaction costs need to be decreased and the private finance community needs to be engaged to address legal, administrative and market related challenges. In response to this, the DEFINITE-CCRI project establishes a Deal Engine Mechanism, providing technical, financial and circular economy expertise through local Project Development Assistance (PDA) in an unprecedented and streamlined process to city and regional governments and to project developers. It aims to cocreate and prove an end-to-end PDA process, aggregating risk mitigation, EU Taxonomy compliance, circularity criteria and technical and financial engineering in a single project development service for the CCRI's service portfolio. This will inject the financial, technical and managerial know-how into urban circular transitions and ultimately contribute to lower virgin non-renewable material use, lower GHG emissions and more just and inclusive circular employment in line with the European Green Deal, the Circular Economy Action Plan and the Bio-economy Strategy.

DEFINITE-CCRI (*Deal Engine, with finance, investment and technical expertise for the European Commission's Circular Cities and Regions Initiative – CCRI*) is a Horizon Europe funded project that has started in November 2022.

DEFINITE-CCRI Objectives

The four key objectives at the foundation of the project's vision and work plan are:

- **Objective 1:** To build and operate a deal engine for the CCRI and establish it as a sustainable service offering for cities in Europe.
- **Objective 2:** To close the gap between circular economy projects in cities and regions and investors and finance partners, and to mitigate investment risks for circular economy projects.
- **Objective 3:** To increase the investment viability of innovative, high-impact circularity projects by mitigating risk and increasing their investment readiness.
- **Objective 4:** To successfully launch four investments in circular economy projects up to 20 million Euro investment volume per project in CCRI cities and regions.



Introduction

How does investment in circular start-ups relate to current EU priorities?

Today, a top EU strategic priority is securing reliable supply chains for critical materials, in part by reducing dependence on imported virgin materials. Circular start-ups—particularly those focused on secondary raw materials, repair, and localised supply chains—can play a strategic role in Europe's resilience and competitiveness amid growing trade tensions and global supply disruptions, while also driving innovation and creating quality jobs. Meanwhile, both the Letta Report (2024) and the Draghi Report (2024) identified the fragmentation of European capital markets and an over-dependence on bank financing as structural barriers to innovation that are limiting EU competitiveness and the ability of start-ups to scale and compete effectively within the Single Market (ICLEI Europe, 2025). Despite broad recognition of the circular economy's importance to strategic autonomy and economic security, current EU policy frameworks are falling short in enabling these businesses to attract the private investment they need to deliver on their potential for enhancing European competitiveness.

How do current and upcoming EU policies impact circular start-ups?

The European Union's policy framework is increasingly oriented towards accelerating the transition to a circular economy, with both existing regulations and emerging proposals shaping the landscape. Key policy instruments that are currently in effect include:

- The Corporate Sustainability Reporting Directive (CSRD), implemented through the European Sustainability Reporting Standards (ESRS), focuses on disclosure. It requires companies to report how resource-efficient their operations are (including raw materials, water, and other inputs); the extent to which their products can be reused, repaired, refurbished, or recycled; and their strategies, targets and planned actions to increase circularity. Most early-stage start-ups are not required to report, while listed SMEs on EU regulated markets have a lighter version of reporting and more time to comply (until 2028).
- The EU Sustainable Finance Taxonomy informs investors whether an economic activity is environmentally sustainable by setting EU-wide criteria. It designates the circular economy as one of six environmental objectives, focused on five sectors (manufacturing, water and waste, construction, ICT, and services) and twenty-one economic activities (InvestCEC and Greenovate Europe, 2024).
- Regulations such as the Waste Framework Directive (with its End-of-Waste criteria (discussed on page 15) and the Packaging and Packaging Waste Regulation provide



targets, legal clarity and incentives for the reuse and recycling of packaging and other materials.

While the above legislation provide the necessary framework and should be kept in place, looking ahead, policy developments signal further ambition, alongside reduced reporting burdens for start-ups and SMEs.

- The proposed <u>Clean Industrial Deal</u>, the European Commission's flagship plan for the future of EU competitiveness and decarbonisation, recognises the circular economy as a strategic priority. It continues circularity's shift from the realm of environmental strategy towards an emphasis on enhancing resilience, reducing global dependencies, and securing supply chains (Ringel and Thompson, 2025). It intends to increase financing for the clean transition, including resource efficiency, circular business models, and industrial symbiosis, though it has been <u>criticised</u> for lack of ambition and environmental and social safeguards.
- The proposed EU Circular Economy Act, expected in 2026, aims to strengthen market demand for secondary materials, support a unified internal market for waste and resources, and reduce global dependencies for scarce and critical materials (Ringel and Thompson, 2025). It aims to have <u>24% of materials circular by 2030</u>.
- The earlier Ecodesign Directive (2009) set requirements to design products to be more repairable, reusable, and recyclable, but only certain energy-consuming products. It is set to be replaced by the upcoming Ecodesign for Sustainable Products Regulation (ESPR), which will expand eco-design requirements to nearly all product categories by 2025–26. There are no exemptions based on company size, so start-ups and SMEs must comply once the rules for their product group are in force.
- As part of the Clean Industrial Deal, the European Commission in February 2025 introduced the <u>Simplification Omnibus Package</u>, which aims to reduce the administrative burden for businesses reporting under the CSRD and the EU Taxonomy. The regulation will exempt around <u>80% of companies</u> from reporting under the CSRD (Corporate Sustainability Reporting Directive) and CSDDD (Corporate Sustainability Due Diligence Directive) and exempt 90% of SMEs from mandatory taxonomy requirements (Ringel and Thompson, 2025). While welcomed by some companies, some stress the risk of green-washing and perceive a decline in Europe's climate ambition.

About the DEFINITE-CCRI project

This policy brief draws on insights and examples from the DEFINITE-CCRI project. DEFINITE-CCRI advanced systemic circular solutions in EU cities and regions, and the



development of circular business and governance models. Specifically, it supported circular start-ups and projects in securing private investment. Funded by the European Commission, DEFINITE-CCRI is part of the <u>Circular Cities and Regions Initiative</u>, the flagship collaboration and support scheme launched by the European Commission. It stems from the <u>EU Circular Economy Action Plan 2020</u>, and contributes to the policy objectives of the EU Green Deal and the EU Bioeconomy Strategy.

This policy brief is intended for European policymakers, particularly European Commission directorates and financial institutions such the Directorate-General for Research and Innovation, Directorate-General for Environment, European Investment Bank, European Research Executive Agency. Many recommendations are also relevant to Member States and subnational governments. It aims to inform policy discussions in 2025 related to the future Circular Economy Act, the Competitiveness Compass, the revision of the public procurement framework and the under development <u>EU Start-up and Scale-up Strategy</u>.

What is a circular economy business?

The circular economy encompasses all sectors and all parts of supply chains. This means that start-ups that advance the transition towards a circular economy are extremely diverse. The challenges they face often have more in common with their particular sector or business model than with other circular start-ups. This makes "circular economy start-up" (or SME, or business) a challenging concept. To provide actionable recommendations, this policy brief focuses more narrowly on three types of businesses and projects: **1) material recovery businesses**, **2) circular platform businesses**, and **3) circular hubs.** While there are many other types of circular businesses, these three were selected because they are common or emerging in the circular economy space, they operate at different points along the value chain, and they were represented in the DEFINITE-CCRI project.

What do we mean by private finance and investment in the circular economy?

The DEFINITE-CCRI project identifies private investors to include private banks, impact investors, socially responsible investment (SRI) funds, green infrastructure funds, and corporate investors. The financial instruments these investors are most likely to use include various debt financing structures—such as project finance, revolving credit facilities, impact-linked loans, and green or sustainable loans—as well as equity financing structures like angel investor setups, pooled funds, equity-to-debt convertible options, and senior or preferred equity tranches (Buso, T. and Sukhija, P., 2023; Chatham House, 2021). Many circular start-ups tend



to be more aligned with private equity or blended finance rather than venture capital, due to their longer timelines for return on investment and sometimes capital-intensive business models. According to the United Nations Environment Programme (UNEP) Finance Initiative, "financing for circularity covers any type of financial service where money is exclusively used to finance, re-finance, invest in or insure in part or in full, new and/or existing companies or projects that advance the circularity of our economies" (UNEP, 2020).

Why might circular economy businesses struggle to access private investment?

Circular economy businesses, especially start-ups or SMEs, often face structural disadvantages when seeking private investment because existing policies, financial structures, and investor norms are shaped around linear business models. These barriers can make it harder to find a profitable business model, make their operations more complex, or make them appear riskier to potential investors, making it harder for circular start-ups to secure the capital they need to launch or scale.

- Regulatory, policy or economic barriers can disadvantage circular economy start-ups relative to linear start-ups. These barriers include policies or practices that create additional risks for circular start-ups or eat into their potential profits, such as the commingling of different materials in waste streams (see page 14), or the explicit and implicit subsidies that "linear" businesses receive, such as government support for resource extraction or the ability to operate without paying for the broader environmental and health impacts (externalities) they cause. These kinds of barriers can hamper businesses' profitability, making it more difficult to attract private investors (InvestCEC and Greenovate Europe, 2024). It is also important to have consistency in policy, regulation and economic planning: when there are frequent changes or lack of clarity, investors may hesitate to fund long-term circular economy projects due to the perceived risk that policies—and returns—might shift unpredictably.
- The structure of funding and financing opportunities can make them less accessible to circular businesses. For example, circular business models (especially ones that reduce consumption) might not be categorised as "sustainable" in opportunities targeting sustainable businesses. Other challenges impact most small start-ups, but also affect circular businesses, including funding that requires high upfront expenditures that are only reimbursed later, lengthy administrative burdens for reporting or certifications, and a lack of support for businesses at certain stages of development. In addition, the EU's financial sector is more bank-dominated than the US', and regulations limit how much institutional investors can put into venture capital. This shrinks the pool of private funding for innovation. In that more competitive



environment, digital innovations are often seen as more scalable or disruptive than the material and business model innovations typical of circular economy businesses.

The norms, knowledge bases or priorities of investors can disadvantage start-ups with common circular practices or business models. These practices and models include bringing a material from one sector into another, using secondary/residual inputs, or renting items for temporary use. DEFINITE-CCRI project participants shared experiences of potential investors struggling to understand the concept of their circular start-up. More broadly, there is still too little knowledge about circular economy principles and how to manage the transition — not only among investors, but also among academics, business leaders, and policymakers. Many recognise the general R-strategies (like reuse and recycling) but cannot necessarily apply them in a range of contexts or incorporate them into developing a path for capturing value in a risk-controlled way.

SECTION 1: Material Recovery Businesses

What is a material recovery business?

Material recovery businesses create valuable products and materials from residual material streams that are usually thrown in landfills, burned, or down-cycled in low-value routes.

A primary input of a material recovery business comes from the output of another business or activity. Examples include re-manufacturing used clothing into new textiles, re-selling salvaged construction materials like lumber, or DEFINITE-CCRI project participant Return2sender, which developed a reusable pallet wrapping derived from plastic, single-use "big bags" (like these). A growing number of businesses incorporate recycled materials to some extent, making this category more of a spectrum. However, the key distinction is how much a company's core business model or unique value proposition relies on using residual material streams. This determines how strongly they experience the challenges described in this section, and how much they would benefit from the following policy solutions.



Material Recovery #1:

It's hard to make high-value products out of unsorted, contaminated material streams. Better waste sorting makes secondary materials more usable.

Challenge: Residual material streams today are often poor quality. It is difficult to make a high-value product in a cost-effective, safe way when the primary input is a mix of many materials, contaminated with dangerous substances, or based on products that were not designed with second-life use in mind.

Policy Solution: Better sorting of municipal and industrial waste. This would give material recovery businesses access to better quality materials, so they can produce higher-value products with less safety risks. Today, some material recovery businesses forge direct relationships with the producers of their input (i.e. a factory) or establish mechanisms to collect products and materials directly from consumers, or from the original producers of the material. The latter is growing especially common as producers look for ways to comply with Extended Producer Responsibility (EPR) requirements, showing how these circular SMEs are enabling the implementation of EU policy. This also highlights the role of municipal governments, who are often responsible for waste management, in facilitating EPR and supporting material recovery projects and start-ups.

Policy Solution: Phase out substances of concern from products. If material streams contain fewer hazardous substances, less resources will be needed to test and decontaminate them. This would make secondary raw inputs more accessible and affordable for material recovery businesses, and reduce the safety concerns of investors and buyers. The upcoming Circular Economy Act should incorporate health and safety considerations, aligning with the <u>EU Chemicals Strategy for Sustainability</u>. In line with the <u>Ecodesign for Sustainable Products</u> Regulation, the Circular Economy Act should phase out substances (and practices) that *inhibit* circularity, to make products easier to remanufacture and recycle.

Material Recovery #2:

Materials made from secondary materials can face unjustified scepticism from certification bodies and consumers. To ensure fair market conditions, policymakers can streamline certification processes and adjust tax policies to support circular economy goals.

Challenge: Complex, expensive processes for certifying a material made from secondary materials. The certification process for materials made from secondary (recycled) materials involves a combination of EU-wide regulations and country-specific standards. These



processes ensure that all products and materials, whether recycled or virgin, meet safety, environmental, and quality standards. However, the requirements for recycled materials are generally stricter than for virgin materials, especially concerning traceability, contamination control, and testing. There are valid justifications for this higher scrutiny, such as increased risk of contamination from materials' previous use or from the recycling process. However, in practice, they inadvertently disadvantage recycled materials compared to virgin materials.

The <u>Waste Framework Directive</u> (EC 2008/98) establishes the concept of "end-of-waste" (EoW) criteria. These criteria determine when a secondary material ceases to be classified as waste and is seen as a product or secondary raw material that can be re-integrated into the economy. The four end-of-waste criteria are:

- 1. The material is **commonly used** for specific purposes.
- 2. There is an **existing market or demand** for the material.
- 3. The material **fulfils technical requirements** for specific purposes and meets existing legislation and standards applicable to products.
- 4. The use of the material will not cause adverse **environmental or health impacts**.

Certain waste streams, particularly metals, paper, and glass, can more easily meet end-ofwaste criteria because they have well-established purification processes. EoW criteria are in development for <u>textiles</u>, and more recently for <u>plastic waste</u>, which will help to establish a single EU market for plastic waste and recycled plastics, in preparation for the upcoming <u>2026</u> <u>ban on exporting plastic waste</u> to non-EU countries.

The requirement to prove market demand is especially onerous and asymmetrical. Material recovery businesses must provide evidence like contracts or purchase agreements from buyers, whereas new virgin materials are effectively assumed to be in demand.

Policy Solutions: Level the playing field for secondary materials and products.

Tax policy: Revise taxes and government subsidies to correct the unequal tax treatment of virgin and secondary materials, and reflect the unpriced externalities of virgin materials. Recycled materials often suffer double taxation, as VAT (value-added tax) is applied when they are first used, and additionally each time they are reused. There is ongoing discussion about reducing or removing VAT from secondary materials and products. EU policymakers and national governments can also phase out subsidies for fossil fuels and raw material extraction that artificially lower the price of virgin plastics, cement and metals (UNECE, 2022). Other options include implementing carbon pricing on virgin materials and products to reflect their full environmental and social costs, which are now borne by society and the environment



at large (InvestCEC and Greenovate Europe, 2024; GIZ and Frankfurt School, 2021; UNECE, 2022).

- Simplify end-of-waste (EoW) certification processes, to reduce the time and cost of bringing secondary materials and products to market. This could include creating EU-wide, automatically recognised EoW criteria for more materials (beyond metals, glass, and paper), and shifting from a burden-of-proof model (where waste-based businesses must prove market demand) to a model of assuming demand if the material meets quality standards. Government could offer subsidies to start-ups and small businesses to offset the cost burden of safety testing and regulatory approvals, and ensure that requirements are within the reasonable capacity of a start-up. National authorities could set maximum approval times to process EoW applications.
- Certify materials based on their characteristics, not their origin source. Applying identical chemical safety limits to both virgin and recycled materials would align safety testing and standards among all types of materials. Policymakers can also encourage the use of chemical tracing and digital product passports to reduce risk assessment burdens for trusted recyclers. Cities can support this recommendation by improving their waste sorting, as discussed in #1, to reduce contamination of waste streams.
- Leverage public procurement to create and demonstrate demand for secondary materials, helping material recovery businesses meet current EoW criteria (ICLEI Europe, 2025). This could include minimum recycled content targets in public tenders (UNECE, 2022). This would likely be enacted at the municipal, state or national level.



The material recovery business <u>Return2sender</u> received project development assistance from DEFINITE-CCRI. Based in Ghent, Belgium, they produce reusable wrapping for shipping pallets made from upcycled plastic bags. In an interview with co-founder Johan Bonner, he emphasised that material recovery

businesses often face more challenges than other start-ups, because to divert residual materials from being discarded to a high-value route, several complex elements need to align. There needs to be reliable availability of a relevant waste stream that meets certain specifications, diverse safety considerations need to be met, and legal requirements need to be researched and complied with. On top of this, more creative "design power" is needed to make a high-quality product from a waste stream than from a virgin stream, and even once a product is well developed, investors may be more sceptical than if their product was made from virgin materials.



Material Recovery #3:

Investors can have sectoral and linear perspectives. Improve their awareness about the cross-sectoral nature of many material recovery businesses, and their often iterative design and innovation processes.

X Challenge: Investors may hesitate to back business models that are not mainstream or they do not fully understand, and many circular businesses don't fit the usual playbook, particularly those that move materials between industries and follow non-linear paths to develop their business models. Investors often focus their investment portfolios in a certain sector or industry. Material recovery businesses, which often transfer a material from one industry or sector to another, can be disadvantaged when investors do not understand their full value chain and therefore perceive them riskier or outside their scope (UNECE, 2022). Investors sometimes have better capabilities to assess the potential of technical innovations (like recycling processes of material recovery businesses) than of business model innovations (like sharing schemes of circular platforms). Financial risk analysis has historically been risk-averse towards biomass projects due to the risk of supply chain disruptions (Chatham House, 2021).

In addition, in the experience of Johan Bonner from Material Mastery, a circular economy consultancy that received Project Development Assistance (PDA) for Return2Sender through the DEFINITE-CCRI project, bringing a material recovery start-up from idea to fruition often ends up requiring the ad-hoc development of several new processes or products – which can themselves become additional revenue streams. Investors may be unfamiliar with this process and unsure how to factor its complexity into their assessment of a business's riskiness or future profits. In economic terms, a lack of information about circular businesses may lead to a suboptimal allocation of capital in the economy because it prevents private investors from making optimal investment decisions (GIZ and Frankfurt School, 2022).

On the other hand, some investors are informed and enthusiastic about the circular economy. However, they may set overly stringent requirements like zero use of virgin materials, which can exclude high-potential circular start-ups. In addition, a diverse landscape of definitions and requirements from investors (and governments, NGOs, etc) creates a disjointed financing environment for businesses.

Policy Solutions: The challenge of investor familiarity with circular economy concepts could be addressed by developing standardised metrics for assessing circular economy business models or specialised risk-assessment tools to help investors understand complex, multi-stage business models. <u>ESRS E5</u> offers reporting guidelines on companies' use of resources and adoption of circular economy practices, but would only provide limited



information to investors in terms of a financial assessment of the business model. Future cross-sector investment platforms like DEFINITE-CCRI could connect diverse investors and facilitate knowledge exchange. Government-led innovation funds or risk-pooling mechanisms, such as public-private co-investment funds, could help de-risk investments in waste-based start-ups, making them more attractive to private financiers.

Material Recovery #4:

Waste-based is place-based. Reduce the supply chain risks for businesses that depend on specific, local material streams or suppliers.

★ Challenge: Supply chains depend on local material loops, and access to a secondary material stream can be a victim of its own success. Often, material recovery businesses depend on a very specific secondary material, which may be controlled by one monopolistic supplier. This might mean that getting local companies onboard in long-term relationships can be essential to securing a reliable flow of input materials – a very different model from a linear business that chooses among interchangeable suppliers abroad. Connecting and embedding local partners as suppliers in their operations can be a source of collaborative synergy - or a source of risk because few alternatives would be available if the material or relationship changed. Meanwhile, risks of linear business models are rarely priced properly in business models (Chatham House, 2021). When these suppliers see how value can be derived from materials they previously discarded as waste (often at a cost), they may try to bring that function in-house and cut out the material recovery businesses.

Policy Solution: Since material recovery startups have a local footprint, EU industrial policy should integrate a territorial dimension to effectively support the circular transition. It will be crucial to ensure cities and regions are fully integrated into industrial strategies because they know the economic geography of their territories and have contact with circular businesses (ICLEI Europe, 2025). It will be important to promote approaches like <u>industrial-urban</u> symbiosis, where waste streams or by-products from one company are valorised by another, and to support the establishment of <u>hubs for circularity</u> across Europe.

Policy Solutions: Municipal or regional governments could facilitate local supply chain matchmaking by creating platforms or agencies that connect start-ups with local material suppliers, or even supporting the creation of physical places like material banks. To further mitigate risks, EU policymakers could promote chain financing models that spread the financial risk among the whole value chain, including the start-up, material suppliers, and other actors. This could include joint loans or shared investment funds where all parties invest in the infrastructure or processes for a specific material or product. National governments can provide capacity-building to support local governments in facilitating this process.



SECTION 2: Circular Platform Businesses

What is a circular platform business?

Circular platform businesses facilitate the sharing, rental, exchange or resale of materials and products, usually using a digital platform.

Some circular platforms are part of the *sharing economy, access economy,* or *product as a service* ecosystem, which shift away from classic ownership models by enabling customers to pay to temporarily use their products. Examples include shared micromobility companies like <u>Lime</u>, outdoor gear rental companies like Berlin-based <u>Outzip</u>, or can form a subset of a business's offerings, like how Philips offers <u>"lighting as a service"</u> to Schiphol Airport in Amsterdam. Other circular platforms facilitate the resale of items and earn revenue from transaction fees, advertisements, and other services within the platform, like Vinted's marketplace for used clothing.

In this policy brief, circular platforms also include businesses that sell software or infrastructure that enables the sharing or renting of products, while the products themselves come from other businesses or institutions, such as public libraries, NGOs or local governments (see box on Circular Library Network).

Circular Platforms #1:

Innovative or subscription-based business models can have longer payback periods or higher risk. Policymakers can de-risk investments in circular platform businesses to draw in private investors.

X Challenge: Higher upfront costs and longer payback periods. Circular platforms often have subscription-based business models, rather than earning revenue through one-off sales. This often means higher upfront costs for buying the shared items or developing the software, with longer payback periods as customers pay smaller amounts to use it over several years. In addition, they may take longer to become profitable, as they sometimes depend on shifts in consumer behaviours. This uncertainty about uptake, combined with the relative novelty of the business models, can increase the overall risk of the start-up or can translate to longer payback periods for investors. In some sectors, like mobility, this business model is more mature, and it is possible to make well-founded predictions about vehicle lifespan, usage rates,



maintenance costs, etc. In other sectors, like furniture, sharing and renting is less common, and the size of the customer base may be unclear.

Policy Solution: Governments can help de-risk investments in circular platform businesses. This can include co-financing circular start-ups with grants, subsidies, or lowinterest loans; or promoting performance-based financing models like revenue-sharing agreements or contingent financing, which link the repayment structure to the success of the platform. InvestEU should make the circular economy one of its strategic priorities to increase public funding and crowd in private investment, while ensuring that supported projects focus not only on recycling, but also aim to reduce consumption and reuse materials and products. Circularity should similarly be included in the revision of state aid rules by the European Commission. EU-wide circular economy investment funds or project aggregation platforms could reduce the perceived risk and fragmentation of early-stage or small-scale projects, and could serve as a pipeline builder for private capital engagement. The European Innovation Council (EIC) invests directly into high-potential start-ups, and the European Investment Fund (EIF) invests into VC funds that invest directly into start-ups, but funding is often focused on accelerator programs, with less capital available after the seed round when ventures are looking to go to market. To develop a strong venture capital market for circular economy businesses, the EIF could expand its remit to hold its own equity as a patient capital provider, rather than investing in VC funds which may then fail to finance CE ventures effectively.

Governments can encourage the development of insurance products tailored to circular business risks, such as fluctuating customer demand or product lifespan. Circular platforms would benefit from similar tax policies as material recovery businesses, like a reduction in VAT for secondary materials. Additionally, a stable, long-term policy commitment to the circular economy can give investors confidence that circular platforms are an attractive investment despite longer payback periods.

Circular Platforms #2:

It's hard to measure consumption that didn't happen. Standardise methods for measuring a circular platform business' impact on reducing resource use.

Challenge: Measuring the impact of avoided consumption from circular platform businesses. They tend to operate higher in the "hierarchy of Rs," aiming to "Reduce" consumption or the need for new products, rather than "Recycling" existing materials. Avoided consumption is difficult to monitor and its benefits can be hard to quantify, especially in traditional private finance models (Russel, 2019). Circular platforms may struggle to link these



benefits to their business case. More broadly, circular business models—especially those focused on reducing consumption—may not be recognised as 'sustainable' under current investment classifications. Sufficiency-oriented business models (e.g. reuse, sharing, repair) often fall outside of traditional sustainability taxonomies that may favour growth-oriented or deep-tech solutions.

Policy Solution: Governments could support the creation of widely agreed metrics for assessing the impact of circular platform businesses on wider environmental and social benefits such as reduced resource consumption and waste generation, social benefits like creating high-quality, accessible jobs, and avoided greenhouse gas emissions. Avoided emissions are sometimes called <u>Scope 4 emissions</u>, referring to greenhouse gases that would have otherwise been emitted in a "business as usual" scenario, but were prevented because of a given business's product or service. These metrics should be straightforward to collect and calculate, to avoid placing a heavy reporting burden on small businesses (InvestCEC and Greenovate Europe, 2024), and can build on examples like <u>Impact Shakers Ventures' metrics</u> for start-ups.

Circular platform businesses should be considered in the design of sustainability reporting frameworks at the EU and national levels (UNECE, 2022), including the CSRD. Already, "the transition to a circular economy" is one of six environmental objectives in the <u>EU Sustainable Finance Taxonomy</u> (European Commission, 2020/852). The accompanying technical screening criteria (Annex 2) clarify that circular platform business (referred to as "product-as-a-service and other circular use- and result-oriented service models" and "marketplace for the trade of second-hand goods for reuse") qualify as contributing substantially to this objective (European Commission, 2023). However, it is unclear how to consistently measure their contributions towards the transition to a circular economy. The <u>tools and documents</u> related to calculation and disclosure make no reference to circular platforms or similar "Higher-R" businesses, which circular economy included mainly as downstream activities like material recovery from waste. Looking ahead to the proposed Omnibus Package, it will be important to assess the impact of simplification measures on the CSRD, CSDDD and EU Taxonomy to ensure that reducing reporting requirements doesn't reduce corporate accountability and ultimately disincentive sustainable investment.

An additional step could be standardising circular economy reporting metrics to create a core set of CE key performance indicators (KPIs) applicable to banks, investors, and businesses. This would help ensure data comparability and consistent decision-making, and would require alignment among the EFRAG's ESRS (European Sustainability Reporting Standards), CSRD (Corporate Sustainability Reporting Directive), and ISSB & GRI frameworks (see page 9-10 for more on these policies).





The circular platform businesses <u>Circular Library Network</u> received project development assistance from DEFINITE-CCRI. Based in Reykjavik, Iceland, their self-checkout sharing system enables institutions, communities and libraries to operate their own sharing stations of items from power tools to children's toys. In an interview with founder Anna de Matos, she emphasised that as a small start-up

with limited capacity and resources, Circular Library Network experienced significant difficulties in complying with policies that seemed to be designed with larger companies in mind. She suggested solutions like a Patent Fund to cover the cost of applying for a patent or other certifications, offering smaller grants with simpler applications and reporting requirements, and writing policies in more accessible language. De Matos also noted that programs supporting Women in Tech often focus on "deep tech" and may exclude circular platform businesses. Anna de Matos also noted that circular businesses that provide hardware as part of their product offering can encounter regulatory issues regarding certifications, which prevent them from competing with larger corporations.

SECTION 3: Circular Hubs

What is a circular hub?

A circular hub is a multi-use space that contributes to the circular economy by providing workspaces and support to small circular businesses, and by fostering the local circular economy community through engagement and events. They create community support and buy-in for circular practices that reduce consumption, while increasing local social cohesion and resilience.

Circular hubs' revenue typically centres on renting workspaces and event spaces, and other income sources can include cafes, site tours, retail sales of products made on-site, makerspace memberships, and training courses. They vary significantly on their ownership and governance structures, engagement strategies, tenant selection processes, and revenue models, and they are often located in repurposed industrial sites (ICLEI Europe, 2024).

The DEFINITE-CCRI project included two circular hubs: Tissel in Roubaix, France (see box) and Tehdassaari in Nokia, Finland. Other examples include Circularium in Anderlecht, Belgium, Center Rog in Ljubljana, Slovenia, and Blue City in Rotterdam, the Netherlands (ICLEI Europe, 2024).



Circular Hubs #1:

Circular hubs bridge business and community, creating value beyond profits. Support funding models that balance financial sustainability with mission-driven impact.

Challenge: Balancing mission and profitability. Many circular hubs rely on office and event space rentals for their revenue (ICLEI Europe, 2024), leading some investors to categorise them as commercial real estate ventures. Europe's office market has struggled since COVID-19, with sales hitting their lowest levels since 2009 (Reuters, 2025). Compounding this challenge, circular hubs primarily host start-ups, which are inherently high-risk and lacking long-term stability - and circular start-ups have even less track record.

To achieve goals like supporting early-stage businesses, fostering local community, and inclusive access, circular hubs often offer affordable rates to their tenants and users. This can further limit their profitability, making public funding or other grants essential. For example, Tissel benefits from substantial subsidies from the city of Roubaix, which cover maintenance and some construction costs.

In addition, circular hubs can be a challenging concept for investors because they contain multiple businesses with different business models, and the hub's mix of businesses might change over time. It is often unclear to investors which business models promise the largest growth potential and which may perhaps constitute a liability. The fact that circular hubs often seek investment as a joint community, despite those differences, may exacerbate their challenges in attracting investment.

Policy Solution: To be both mission-driven and financially viable, circular hubs must strike the right balance between revenue-generating activities and accessible resources, as well as between private investment and public funding. EU and national policymakers can contribute to this by funding technical assistance and capacity building programs (like DEFINITE-CCRI) to help circular hubs build their business model and financing blend. They can also support circular hubs by providing public grants for their operation and maintenance, if the hubs can prove or certify their commitment to hosting circular businesses. Those grants could provide long-term stability that de-risks the investment for private financiers. Formally recognising circular hubs as social economy actors under the EU Social Economy Action Plan (2021) would help them gain access to targeted funding, public procurement, and advisory services.

City or municipal policymakers can support circular hubs by integrating them into economic development and urban planning strategies, by helping them access affordable, central spaces (such as publicly owned industrial sites), and by crafting policy and evaluation frameworks that recognise their contributions to circularity and local economies. Public-

www.definite-ccri.eu



private partnerships, municipal funding, and incentives for businesses to engage with hubs (such as tax breaks or subsidies) can also enhance their long-term viability.

Circular Hubs #2:

Impact is easier to create than to measure. Improve methods to quantify and communicate circular hubs' environmental and social benefits.

Challenge: Measuring impact. Like with circular platform businesses, circular hubs often struggle to quantify their environmental and social impacts. The challenge is amplified because most of their impact arises indirectly through the activities of their tenant circular start-ups, making it hard to demonstrate and allocate credit for the benefits they create. Within the DEFINITE-CCRI project, Tissel primarily tracked social metrics like job creation and retention of their tenant businesses, while Tehdassaari focused on the sustainable management of the physical site, including energy and water consumption, as well as the hub's public reach through site visitors and website traffic.

Policy Solution: Circular hubs would benefit from flexibility in impact measurement and reporting, enabling them to use indirect impact (e.g. material savings or job creation by tenants (especially jobs accessible to lower-skilled workers or that provide reskilling)), tracking collective impact in multi-actor hubs, or using qualitative indicators or participatory evaluation methods. Further uptake of social enterprise labels, like B Corp, SSE (Solidarity and Social Economy) recognition, or national equivalents (e.g. "entreprise à mission" in France or gGmbH in Germany) could help more stakeholders understand their role in the social business ecosystem.



In the <u>Tissel</u> project, the city of <u>Roubaix</u>, France purchased a former textile factory and transformed it into a hub for circular economy actors. Since 2022, eight tenants have moved into Tissel and it has created over 20 jobs, demonstrating how the circular economy can combine

brownfield reuse, sustainability and economic development.

Hugo Delahaye, Project Manager for Circular Economy & European Projects for the City of Roubaix, noted that while Tissel is near Belgium, their businesses have faced challenges establishing industrial symbiosis across borders because Belgium and France have different policies and regulations about when and how materials can be reused, and different fiscal incentives for doing so. Hugo Delahaye also shared that several Tissel-affiliated businesses received (limited) revenue due to <u>Extended Producer Responsibility (EPR)</u> schemes, which



require producers to take responsibility for the end of their product's lifecycle, because it enhances the material stream available for material recovery businesses. <u>La Vie Est Belt</u> sometimes received discarded bicycle tires for free, and SMEs in the construction sector are even paid to valorise construction waste. Reducing or removing VAT from these products could further boost these circular businesses (see "Tax Policy" section, page 15).

Conclusion

While each type of circular business experiences distinct challenges in accessing private investment, several policy priorities recur across circular businesses, and merit consideration in the upcoming Circular Economy Act. These include:

- Levelling the playing field for secondary materials: This entails removing structural disadvantages for secondary materials, especially related to unduly burdensome certification processes for secondary materials and financial support for virgin material extraction and production. Addressing these barriers would help create a more equitable market environment for circular solutions.
- **Prioritising reducing consumption, not just increasing reuse and recycling**: To achieve the maximum environmental, social and economic benefits, circular economy definitions, metrics, and opportunities for funding and financing should promote "higher-R" strategies that avoid the need for the extraction and production of new materials and products. These often involve business model innovations, not materials or technology innovations. Supporting these approaches is crucial for driving systemic change rather than incremental improvements.
- Capturing and communicating impact: A major barrier to private investment in circular businesses is the limited ability to measure and communicate their full impact. There is a need for innovative metrics that go beyond conventional environmental and financial indicators to capture social, economic, and system-wide value creation accompanied by increased awareness of these impacts among investors and policymakers. This links to ongoing EU policy conversations about the EU Omnibus Simplification Package and the updated <u>Circular Economy Monitoring Framework</u>.

While this policy brief focuses on how EU policymakers can help circular economy start-ups and projects access *private* investment, policymakers also have chances to channel public funding more directly through grants. A major opportunity is the upcoming Horizon Europe work programme, which will set priorities for research, innovation, and demonstration projects over the coming years. Based on the experiences from the DEFINITE-CCRI project, recommendations include:

www.definite-ccri.eu



- Providing tailored support for circular economy start-ups at different scales and points in the value chain, recognising that high-tech recycling solutions and high-R business model innovations (i.e. those that reduce material consumption) have distinct needs. This could include designing targeted support for specific sectors and business models to better match the diversity of circular economy solutions.
- Setting realistic expectations for investment volumes, especially for business models that prioritise reducing resource consumption and may not align with conventional growth metrics.
- Involving investors early in programme development to ensure financing needs are addressed from the outset.
- Supporting systemic change, with programmes explicitly aimed at shifting market structures and behaviours rather than relying on small-scale pilot actions alone.

By creating a policy and funding environment that better supports circular businesses, EU policymakers can unlock the full potential of circular economy innovators to drive systemic change. A stronger circular economy will be critical to meeting Europe's climate, resource, and social goals in the years ahead.

Acknowledgements

Thank you to the following contributors who participated in informational interviews and/or provided feedback as a reviewer (alphabetically by surname): Luke Bailey (Circle Economy), Johan Bonner (Return2sender/Material Mastery), Tommaso Buso (Bankers without Boundaries), Hugo Delahaye (City of Roubaix), Eleni Kannellou (NTUA), Evi Makri (NTUA), Anna de Matos (Circular Library Network), Goksen Sahin (ICLEI Europe), Julius Wiebe (Centre international de formation européenne).



References and further reading

Achterberg, E., Hinfelaar, J. and Bocken, N. (2016) *Master circular business models with the Value Hill.* Utrecht: Circle Economy. Available at: <u>https://www.circle-economy.com/resources/master-circular-business-with-the-value-hill</u>.

Annex 2, Commission Delegated Regulation Supplementing Regulation (EU) 2020/852 (2023). Available at: <u>https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=pi_com:C%282023%293851</u> (Accessed: 26 March 2025).

Buso, T. and Sukhija, P. (2023) 'Report on Investor Base and Financial Instruments'. DEFINITE-CCRI.

Chatham House (2023). *Making sustainable finance taxonomies work for the circular economy*. Available at: <u>https://www.chathamhouse.org/2023/06/making-sustainable-finance-taxonomies-work-circular-economy</u> [Accessed 11 Apr. 2025].

Chatham House (2021) *Financing an inclusive circular economy*. Available at: <u>https://www.chathamhouse.org/2021/07/financing-inclusive-circular-economy</u> (Accessed: 16 January 2025).

Eurostat. *Circular economy monitoring framework* (no date). Available at: <u>https://ec.europa.eu/eurostat/cache/scoreboards/circular-economy/</u> (Accessed: 25 March 2025).

European Commission (2020a) 'Circular economy action plan'. Available at: <u>https://environment.ec.europa.eu/strategy/circular-economy-action-plan_en</u> (Accessed: 25 March 2025).

European Commission (2020b) *EU Taxonomy for Sustainable Activities*. Available at: <u>https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en</u> (Accessed: 26 March 2025).

GIZ and Frankfurt School (2022) *Financing Circular Economy – Insights for Practitioners*. Available at: <u>chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.giz.de/en/downloads/giz2022-</u> <u>en-financing-circular-economy-insights-for-practitioners.pdf</u>.

Green growth revisited: The EU's Clean Industrial Deal – European Chair for Sustainable Development and Climate Transition (no date). Available at: <u>https://www.sciencespo.fr/psia/chair-sustainable-development/2025/02/28/green-growth-revisited-the-eus-clean-industrial-deal/</u> (Accessed: 11 April 2025).

ICLEI Europe (2025) *Unlocking Cities and Regions' Potential in the EU's Competitiveness Agenda*. Available at: <u>https://iclei-europe.org/publications-tools/?c=search&uid=KehbpUcH</u> (Accessed: 11 April 2025).

ICLEI Europe and DEFINITE CCRI (2024) *Benchmarking Circular Hubs*. Available at: <u>https://definite-ccri.eu/sites/default/files/media/Definite-CCRI-Benchmarking-Report-Circular%20Hubs-pdf.pdf</u>.



InvestCEC and Greenovate Europe (2024) *Mid-term policy recommendations brief*. Available at: <u>https://investcec.eu/wp-content/uploads/2024/05/InvestCEC-D3.3---Mid-term-policy-recommendations-Final.pdf</u>.

Jani (2025) *Clean Industrial Deal: Climate and decarbonisation ambitions not matched by concrete proposals, CAN Europe*. Available at: <u>https://caneurope.org/reaction-clean-industrial-deal/</u> (Accessed: 11 April 2025).

KFW (2024) 'The Joint Initiative on Circular Economy (JICE) reaches €8.9 billion and continues its efforts | KfW', 23 July. Available at: <u>https://www.kfw.de/About-KfW/Newsroom/Latest-News/Pressemitteilungen-Details_773952.html</u>.

Local Alliance (2025) *A grounded EU budget: Investing in Europe, our local communities and citizens for a competitive, resilient and fair future.* Available at: <u>https://iclei-europe.org/publications-tools/?c=search&uid=vsmJKvDW</u>.

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) (2020) OJ L. Available at: http://data.europa.eu/eli/reg/2020/852/oj/eng (Accessed: 26 March 2025).

Steinbrenner, M. (2022) 'Financing Circular Economy', 29 September. Available at: <u>https://neosfer.de/en/financing-circular-economy/</u> (Accessed: 16 January 2025).

UNECE (2022) *Mobilizing Financing for the Circular Economy*. United Nations. Available at: <u>https://unece.org/trade/publications/mobilizing-financing-circular-economy</u> (Accessed: 16 January 2025).

United Nations Environment Programme Finance Initiative (UNEP FI). (2020). *Financing Circularity: Demystifying Finance for the Circular Economy*. UNEP FI. Available at: https://www.unepfi.org/publications/financing-circularity/ [Accessed 11 Apr. 2025].

Withers, I. (2025) 'European office sales slumped to lowest since 2009 last year, data shows', *Reuters*, 30 January. Available at: <u>https://www.reuters.com/markets/europe/european-office-sales-slumped-lowest-since-2009-last-year-data-shows-2025-01-30/</u> (Accessed: 1 April 2025).



contact@definite-ccri.eu





www.definite-ccri.eu