



QUICK TIPS

INTEGRATING THE ENVIRONMENT AND CLIMATE CHANGE IN PRIVATE SECTOR AND TRADE COOPERATION

Greening businesses and value chains to achieve a circular and climate neutral economy

As spelled out in the Green Deal, the EU's new growth strategy, the EU aims to achieve a climate-neutral, resource-efficient and competitive economy where economic growth is decoupled from emissions, resource use and environmental degradation. By aiming to maintain the value of products, materials and resources for as long as possible, to reduce resource use, waste and greenhouse gas emissions, and thus give back to the planet more than it takes, a low carbon, circular economy (CE) is at the heart of this ambition.

The transition to a circular and carbon neutral economy is key to tackle the environment and climate crisis, as half of greenhouse gas emissions and more than 90% of biodiversity loss and water stress come from resource extraction and processing of materials, fuels and food. It is also key to growth and job creation, as greener models often deliver higher economic

returns (e.g. by saving on material and other resource losses), as well as employment opportunities (e.g. by prioritising economic sectors with high job creation potential such as sustainable agriculture or waste management), while they also prove more resilient to shocks.

The integration of environment and climate change into EU international cooperation on private sector development and trade should be seen in this context. This entails, in particular, greening businesses and value chains through engagement with the private sector - notably Micro Small and Medium Enterprises (MSMEs) and through measures to improve the policy, regulatory and business environment, as well as support to trade in environmental goods and services, e.g. through standards development.

This note provides quick practical tips to integrate environment and climate change across entire value chains and into private sector development and trade policies and cooperation.



Build the case for the transition

Develop knowledge and convey a convincing narrative for the circular and climate neutral economy

- **Collect data and develop knowledge on the circular and climate neutral economy**, notably at country and sector level, covering, for example, the environmental footprint (including greenhouse gas emissions) of relevant products and services, policy frameworks, EU norms and standards, consumption trends (including in energy), green/circular/low-emitting/resilient technologies, economic, environmental, or social impacts of disasters on industrial policy, planning and programmes, disaster risk impacts of investments in industrial development, etc.
- **Build the case for the circular and climate neutral economy transition by developing relevant knowledge**, identifying, in particular, opportunities for job creation, growth in key sectors and value chains at national/regional level, and benefits for businesses such as material and energy savings from resource efficient production processes, security of supply chains (procurement of secondary materials), improved image and reputation, market access, business viability (sustainable management of the natural capital on which they are based), etc.



Yestadt Production in Haiti



Shoe production in Ethiopia

- ▶ **Raise awareness of policy makers, businesses, workers, consumers and the wider public** on the benefits arising from the implementation of circular, resilient, and resource efficient activities, notably 'growth and jobs' opportunities, new and innovative products and production processes, but also benefits to people's welfare such as reduced exposure to pollution or availability of more sustainable and long-lasting products.
- ▶ **Transfer knowledge in support of evidence-based decisions** made by governments and the private sector, particularly through circular and carbon neutral economy empirical studies and related work by academia, the preparation of strategies, plans and programmes (notably on the circular economy and on national disaster risk reduction), and by convening relevant stakeholders.
- ▶ **Transfer EU domestic experience in the circular and carbon neutral economy**, including within programmes such as [LIFE](#), [Eco-innovation](#), and H2020, with activities such as policy dialogue, study visits and twinning projects.



Promote conducive policies and an enabling business environment and investment climate

Develop a conducive investment climate and business environment for circular and climate neutral economy projects, by:

- ▶ **promoting environmental fiscal reform measures, such as tax incentives for investments in greener practices and technology and the phasing out of harmful subsidies**
- ▶ **phasing-out of trade tariffs for environmental goods and services** including for trade in recyclable materials) and introducing taxes on polluting products and technologies
- ▶ **promoting Green Public Procurement (GPP)** as an effective tool to boost demand for low carbon and circular products (notably in priority value chains like agri-food, textiles, furniture, etc.)
- ▶ **clearly specifying existing standards and (national) Best Available Techniques (BATs) for businesses to comply with**, including concrete and enforceable product requirements promoting design for reuse, repair or recycling and energy and resource efficiency
- ▶ **promoting the use of high environmental standards across Global Value Chains**, related to recyclable waste, trade in minerals and other material resources, notably secondary raw materials
- ▶ **promoting the development and use of credible sustainability schemes such as the EU Ecolabel** to encourage local producers to adopt sustainable business practices, including e.g. the use of renewable energy, a more efficient use of resources such as raw materials, life-cycle approaches, and to develop products that are durable, easy to repair and recyclable.
- ▶ **applying extended producer responsibility schemes** (as the basis for a product policy framework contributing to the CE – see also [SWD\(2019\)19 final](#)) **in accordance with general good governance principles**, to provide an impetus for more efficient product design
- ▶ **supporting reforms to improve regulatory and legal frameworks in the energy sector** in order to encourage investments in sustainable energy and promote PPP frameworks for sustainable energy

Develop enabling institutional frameworks, through:

- ▶ **the promotion of cross-ministerial involvement in concerted government interventions and stakeholders participation in policy development**, facilitating both CE and climate action coordination at national level and widespread ownership, including from the private sector and civil society
- ▶ **the encouragement of partnerships between local and European private sector actors, researchers and other stakeholders** to share and scale-up best practices available for MSMEs investing in efficient, low carbon and circular business practices



Foster access to finance/financing for green investments

Facilitate access to finance for circular and climate neutral economy businesses to scale-up investments, through:

- ▶ **increased availability of financial products and services** for MSMEs investing in sustainable business models by providing capacity building, technical assistance and financial assistance to the local financial sector to be able to reach the private and informal sector financial needs
- ▶ **Support MSMEs in the access to green finance** by supporting capacity building, policy reforms and technical assistance to local financial regulators, collateral systems and the central bank
- ▶ **clear labelling and harmonised credible standards for financial instruments fit for financing the green transition**, to enable both simplicity and transparency, including by supporting the use of the EU taxonomy in disclosures by financial market participants, and of minimum green standards by local enterprises
- ▶ **enhanced finance knowledge on the circular and climate neutral economy**, for entrepreneurs, local municipalities and the private sector to develop bankable projects, and for financiers, sovereign institutions, local banks and investors to correctly value the business models and their longer-term economic potential
- ▶ **the development of local financial markets and especially green financing issuance such as green bonds**, to facilitate access to long-term, cheaper financing, in local currency, for green projects or for business with sustainable business models
- ▶ **support structures offering technical assistance & capacity-building to individual companies**, e.g. in accessing finance, developing bankable investment projects, match-making with financiers (for instance through B2B events).
- ▶ **promoting dedicated risk-sharing financial mechanisms for green investments**, including support to financial institutions in the assessment of innovative circular economy technologies/business models and practices
- ▶ **increasing investors' appreciation of and appetite for long-term value creation**, to benefit financing of business models integrating product longevity considerations

Redirect financial flows away from linear business models and polluting sectors or from investments based on the unsustainable use of resources, by:

- ▶ **improving the risk assessment of linear business models** by governments and financial institutions, including by adjusting credit risk assessment methods to take into account linear risks
- ▶ **assisting in the development of disaster risk transfer/insurance initiatives**, including disaster risk insurance schemes for productive sectors
- ▶ **securing a level playing field with regard to financing conditions** for circular and carbon neutral businesses against competition from companies operating linear/polluting business models, including by duly considering the full cost of negative externalities and the benefits of positive externalities
- ▶ **developing and/or endorsing a taxonomy clearly defining green activities**, building on the EU's sustainable finance action plan and taxonomy
- ▶ **Promoting a framework of local incentives for sustainable companies and projects**, incentivizing sustainable economic transformation of local companies
- ▶ **strengthening the screening process applied by financial institutions when assessing loan applications by MSMEs for sustainable investments (but also by the EU in its Calls for Proposals involving support to MSMEs)**, notably by considering circularity and including ESG standards within the selection criteria
- ▶ **promoting the use of Strategic Environmental Assessments (SEA)** as a safeguard in the provision of budget support to the PSD / trade sectors, and using SEA findings to inform the support programme and the selection of appropriate performance indicators



Implement circular and climate neutral business models and practices

Enhance the capacities of the private sector to integrate low-carbon and circular models in business plans and operations, and embrace sustainability standards, by providing:

- ▶ **technical support to Business Membership Organisations** (business associations, chambers of commerce, industry groups, etc.) on sustainable production practices and business models, as well as on climate-proofing business infrastructure and Disaster Risk Management (DRM)
- ▶ **training** on low-carbon technologies and models, energy audits, circular economy business models, sustainability standards, and implementation of Sustainable Consumption and Production (SCP) practices
- ▶ **support to MSMEs to invest in eco-efficient innovations**, including in the creation of partnerships with research institutes, universities and European companies, to bring new eco-innovations to market

Roll out sustainable business models, by:

- ▶ **engaging with Business Development Service providers** to facilitate sustainable business models uptake among MSMEs
- ▶ **supporting pilot projects** and the replication and upscaling of promising sustainable business models and practices, through programmes such as SWITCH-Asia, SWITCH Africa Green, and SwitchMed.
- ▶ **promoting green start-ups** through business incubation and access to green finance.
- ▶ **increasing networking among green businesses**, with events, roadshows, etc.
- ▶ **engaging with brown industries** (still the majority of industry) to increase circularity across their value chains and reduce pollution, waste and resource consumption.
- ▶ **supporting the greening of Industrial Parks/Special Economic Zones** to reach larger groups of industries, facilitate local replication and synergies and promote industrial symbiosis
- ▶ **working with social partners (employer organisations, trade unions)** to promote green jobs in support of green business models

Improve the business performance of MSMEs embracing circularity principles, through:

- ▶ **the uptake of existing and well-tested practices**, including Best Available Techniques (BATs)
- ▶ **the integration of renewable energy and resource-efficient** (incl. energy efficient technologies into production processes), as a means to achieve better competitiveness (profit margins) and trade opportunities (market access with better standards)
- ▶ **the diversification of local supply/value chains**, in terms of variety of local processing and production options, **to increase resilience to external shocks**
- ▶ **the sustainable sourcing of materials within supply/value chains**, including by considering secondary (recycled/reused) materials and local sourcing
- ▶ **initiatives to formalise the operation of informal MSMEs**, notably in the waste management sector of developing countries
- ▶ **training to MSMEs** on demonstrating accountability and adherence to circular economy principles, energy audits, sustainability standards, and environmental regulation.



Further information and support:

- ▶ DEVCO C2 SWITCH to Green Facility: www.switchtogreen.eu
- ▶ DEVCO C6: Technical Assistance Facility Sustainable Energy (TAF)
- ▶ DEVCO Guidelines [“Integrating environment and climate change into EU international cooperation and development”](#)
- ▶ DG DEVCO (2018), [‘The inclusive green economy in EU development cooperation – An innovative approach at the intersection of the EU’s planet, people and prosperity objectives’](#), Tools and Methods series, Reference document No 25.
- ▶ The [EU Circular Economy Action Plan factsheet](#)
- ▶ DG DEVCO publication [‘Supporting the circular economy: illustrations from the EU SWITCH programmes’](#) and [mini-website](#)
- ▶ EU [Green Public Procurement](#) case study
- ▶ DG Research & Innovation (2019), [‘Accelerating the transition to the circular economy – Improving access to finance for circular economy projects’](#), ISBN 978-92-79-99324-4
- ▶ European Commission DG DEVCO, [Results and Indicators for Development](#), Results chain diagrams and guidance on [the Circular Economy](#), and [the Green Economy](#)
- ▶ DG DEVCO publication [‘Circular economy links to global trends and challenges’](#)
- ▶ DG DEVCO publication [‘Circular economy at country level’](#)
- ▶ [EIB Circular Economy Guide](#)
- ▶ Green Growth Working Group of the Donor Committee for Enterprise Development (DCED): [Overview](#) and [Green Growth resources](#)

* All documents are available on capacity4dev (public group: [Environment, Climate Change and Green Economy](#))

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