Green at heart

Supporting SMEs in the Green Transition: Policy Recommendations for Advancing Sustainability

2025

Co-funded by the European Union

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Terminology Note

Throughout this document, we use Small and Medium Enterprises (SMEs) as a practical shorthand to refer to the wide range of entities operating within or aligned with the social economy. This includes micro-, small-, and medium-sized enterprises, cooperatives, associations, and other mission-driven actors whose primary objective is to generate social and/or environmental value alongside economic activity. This terminology reflects the one used in the Green at Heart project application form, with social SMEs being the primary target of the implementing partners from Impact Hub Network. It acknowledges the diversity of organisational forms contributing to the social economy, and the definition provided by the European Commission recognises social enterprises based on their adherence to values and to the social or environmental impact generated.

"Even the smallest business can be part of the sustainability movement... share that, so others can find their next step too."

Evelina Lundqvist, The Good Tribe - Austria

"Green at Heart has been a brain shaker and an action enabler."

Elsa Rodríguez Felipe, Pueblos Remotos - Spain

"This programme helped us turn ESG into clarity, transparency and measurable results."

Casparis Beyer, Bikeflip - The Netherlands

Executive Summary

The problem: Why greening social SMEs is urgent

Social SMEs are at the heart of Europe's just and sustainable transition. Representing a significant share of impact-driven businesses and deeply embedded in local communities, they are uniquely positioned to accelerate a green and circular transition that is not only environmentally sustainable but also socially inclusive and economically resilient. Through their participatory governance, community orientation, and reinvestment of profits into social aims, social SMEs embody the integrated spirit of ESG: Environmental, Social, and Governance sustainability. As highlighted by the European Commission's Social Economy Action Plan, empowering social economy actors is essential to achieve a fair and inclusive Green Deal implementation across Europe.

Yet despite their potential, many social SMEs risk being left behind. The growing complexity of regulations such as the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD), coupled with rising market expectations for ESG compliance, presents significant challenges, particularly for micro and small enterprises with limited resources. Support for ESG integration is often perceived as complex, time-consuming and costly, especially by organisations operating with constrained capacity and lean teams

While the European Union Omnibus Package, discussed on 26 February 2025, aims to simplify and streamline the complex regulatory framework on corporate sustainability by amending multiple directives and regulations through a single legislative process with limited resources navigation such regulations would be still a challenge for small businesses. In the light of these developments, some businesses, particularly SMEs, see this initiative as an opportunity to reduce bureaucratic burdens and ease adaptation, while others, including impact-oriented SMEs, note that too much simplification could weaken sustainable progress. Against this backdrop, this policy brief explores how regulatory adjustments can be paired with targeted support, enabling social SMEs to adopt ESGs suited to their specific realities while focusing on environmental responsibility and the social issues.

Investing in the ESG transition of social SMEs is therefore not only critical for achieving Europe's climate neutrality and sustainability goals, but also a strategic lever for enhancing economic diversification, social cohesion, and inclusive growth. Social SMEs contribute to a more resilient economy by creating jobs, revitalising communities, and addressing systemic inequalities, making them indispensable actors in a transition that leaves no one behind.

Failing to provide adequate support to social SMEs risks deepening existing inequalities. The costs of compliance with ESG regulations, along with the added administrative burdens of new EU frameworks such as the European Green Deal, can be particularly overwhelming for small, mission-driven enterprises. Without tailored support systems, these businesses may struggle to keep pace, facing exclusion from value chains, funding opportunities, and markets increasingly shaped by ESG requirements.

Our Intervention: a transnational action-based approach

This policy paper addresses local and national policymakers as its primary audience, alongside business support organisations (BSOs), offering actionable insights and evidence-based recommendations to support the green and circular transition of social SMEs and other social economy actors. In doing so, it pays particular attention to the practical challenges these enterprises face in improving their environmental, social, and governance (ESG) performance.

Drawing on real-world findings from the Green at Heart project, it examines the regulatory, financial, and knowledge barriers hindering social SMEs' adoption of ESG practices and compliance with European regulations and sustainability frameworks. It showcases effective support mechanisms, such as *Data collection tools* and *Strategy Design & Action Plan tools* piloted through the project. These tools were co-developed with and tested by a diverse group of social SMEs, generating over 120 organisational assessments and resulting in measurable improvements in ESG integration, strategy alignment, and internal awareness.

The paper outlines a streamlined and effective methodology that combines targeted ESG analysis and reporting, validated through the identification of over 60 high-impact interventions and their implementation by social SMEs. These were supported via a subgranting scheme providing €8,000 per initiative (of the social SMEs) to improve their green and sustainable practices. It also highlights the cost-effectiveness and economic value generated by focused support instruments such as **Go Sustainable** and the **Circular Transition Indicators** (CTI) tool, which helped SMEs translate circular goals into actionable roadmaps without overwhelming their operational capacity.

Building on the results of the tools outlined above and interviews, this paper aims not only to inform policy and support structures, but also to influence social SMEs and actors in the proximity economy as key beneficiaries. At the same time, it seeks to engage EU institutions, regional and local authorities, financial actors, and conventional businesses to foster broader systemic change. By highlighting the ecological, social, and economic potential of these initiatives, the paper encourages the adoption of ESG practices among SMEs.

By connecting local experiences with European policy objectives, it aims to promote more coherent, accessible, and impactful strategies for building resilient and sustainable entrepreneurial ecosystems from the bottom up across Europe.

Finally, the paper draws on local experiences from nine countries to demonstrate how city-level and grassroots innovations can inspire stronger, more responsive EU policies. By elevating the lessons from local projects and stakeholder feedback, Green at Heart shows the value of closing the loop between top-down directives and bottom-up practice. This bridging of levels is essential to designing policy environments that are both ambitious and achievable.

Our Key findings and recommendations

The Green at Heart project demonstrated that with appropriate tools, capacity-building support, and targeted funding, social SMEs can significantly advance their environmental and social performance.
In this project we were working with social impact enterprises as frontrunners of ESG driven entrepreneurship, who - although founded with E (environmental) and/or S (social) performance at the core, were already facing some significant restrictions. This implies an even more severe barrier for regular SME's. It is of high importance to scale learnings of this project to the broad economy to foster ESG adaptation not for ESG frontrunners only.

In particular, some sub-grantees (or Green at Heart FSTP grant recipients) reported that participating in Green at Heart increased their credibility with funders and partners, while others used the process to develop or refine their first ESG strategies. One participant noted:

"This was the first time we looked at ESG not as a compliance burden, but as a source of alignment between our values and operations." (FSTP Report, 2025).

The combination of diagnostic assessments, peer learning, and small-scale financial incentives proved effective in building green capacity and operational efficiencies at the grassroots level. Notably, the Green at Heart project funded 62 social SMEs across nine countries, demonstrating that even micro-grants, when coupled with coaching and peer exchange, can activate significant ESG improvements. Yet persistent challenges remain. Many social SMEs struggled to navigate sustainability-linked regulations and funding streams, often perceiving them as too complex, competitive, or misaligned with their size and mission. Several also reported losing procurement opportunities due to a lack of ESG credentials, despite having strong social impact models. To address these barriers, policy responses must promote more accessible and context-sensitive frameworks, improve the availability of mission-aligned finance, strengthen advisory support systems, and introduce standardised yet proportionate tools to track sustainability progress.

1. The Role of Social SMEs in the Green Transition

Small and medium-sized enterprises (SMEs), particularly those operating within the social and local economy, are central to Europe's transition towards a more sustainable, inclusive, and resilient future. Most are micro and small enterprises, representing the vast majority of businesses in the EU. Social SMEs contribute not only to economic stability and job creation but also to social cohesion and environmental innovation rooted in local communities.

To fully capture and guide the sustainability efforts of these enterprises, the Environmental, Social, and Governance (ESG) framework has emerged as a comprehensive approach. ESG serves as a unifying lens that encompasses key aspects of what is often referred to as "green," "sustainable," or "circular" practices, ensuring that environmental integrity, social impact, and responsible governance are addressed together. This framework has been increasingly institutionalised through EU policies and regulations, including the **Corporate Sustainability Reporting Directive (CSRD)** and the **Corporate Sustainability Due Diligence Directive (CSDDD)**, which make ESG considerations not just aspirational but increasingly expected, especially through supply chain obligations and evolving stakeholder demands.

This becomes even more relevant in the current policy landscape, as the European Commission's **Omnibus simplification** proposal may change the scope of the CSRD, potentially raising the thresholds for mandatory reporting. While such changes might ease short-term burdens for some businesses, they underscore the value of a proactive approach to ESG. Regardless of such regulatory changes, integrating ESG principles remains a sound business strategy that drives operational efficiency, enhances brand reputation, and attracts investors and talent. For the social economy and impact ecosystem, enabling SMEs to put ESG into the heart of their business is essential, as it turns compliance into a strategic opportunity for inclusive growth and collective resilience.

That is why recognising the strategic importance of SMEs, the European Commission, through initiatives such as the COSME programme, the Social Economy Action Plan, and the European Green Deal, has prioritised strengthening their capacity to integrate ESG principles into their operations.

However, the evolving regulatory landscape, including the ***Fit for 55*** package, poses new compliance challenges, particularly for smaller enterprises with limited resources. Supporting SMEs navigating these developments is therefore critical to achieving EU climate and social goals.

Against this backdrop, the Green at Heart project was launched to empower social SMEs by providing practical tools, capacity building, and financial support to facilitate their green transition. This section explores the essential role of social SMEs in driving sustainable development in Europe. It outlines how targeted support initiatives can bridge the gap between policy ambitions and entrepreneurial realities.

Why social SMEs matter for EU sustainability and circular economy goals

Social SMEs are key actors in Europe's transition towards a greener, fairer, and more resilient economy. Operating at the nexus of economic activity and societal impact, social SMEs embody sustainable business models that contribute to the resilience of local economies, to the cohesion of communities, placing people and planet before profit, while still contributing significantly to growth, innovation, and job creation across the European Union. They are the *frontrunners* of a shift that should reach the whole regular economy.

The European Green Deal, the updated EU Industrial Strategy, and the Social Economy Action Plan (2021) highlight the essential role of SMEs, and social economy actors in particular, in driving the twin green and digital transitions.

Social SMEs are often pioneers in fields such as renewable energy, organic agriculture, sustainable mobility, circular production and consumption models, food service, and community-led housing solutions. Their participatory governance structures and focus on local value creation (including inclusive job creation), position them as key drivers of an inclusive green transition, envisioning and implementing an economic transformation that leaves no one behind.

More in detail, the EU Social Economy Action Plan (2021) acknowledges that the social economy, including social SMEs, play a vital role in supporting fair and sustainable transitions. Social economy entities help reduce inequalities, revitalise rural and marginalised areas, promote gender equality, and advance the Sustainable Development Goals (SDGs) within Europe and globally.

Based on the European Commission data, with around 2.8 million entities employing over 13.6 million people across the EU, the social economy sector has untapped potential for scaling economic and environmental impact, particularly if supported through enabling frameworks, access to finance, and targeted capacity building. Moreover, social SMEs, through their participatory governance structures and reinvestment of profits into societal aims, demonstrate how entrepreneurship can align economic performance with social and environmental value creation.

Despite their actual contribution and their untapped potential, many social SMEs face significant systemic barriers to growth, scale their impact and drive the green transition. These include limited access to finance tailored to their models, fragmented support ecosystems, and challenges in meeting increasingly complex regulatory requirements such as the Corporate Sustainability Reporting Directive (CSRD), the proposed Corporate Sustainability Due Diligence Directive (CSDDD), and the Fit for 55 legislative package.

Supporting social SMEs is not only a social imperative, it is also a strategic investment in Europe's future competitiveness. Strategic investments in capacity building, access to sustainable finance, regulatory simplification, and market access initiatives are critical levers for strengthening their role in industrial value chains and ensuring a just, inclusive green transition. Supporting social SMEs is therefore not only aligned with Europe's climate and social ambitions but is also instrumental in building more resilient, diversified, and future-ready economies.

Connection to key EU policies

Green at Heart aligns with key EU policies that drive the transition towards a greener, more resilient, and more inclusive economy. Through practical tools, coaching, and funding, the project supports social economy SMEs in adopting sustainable practices, complying with evolving regulatory frameworks, and accessing financial resources. It also connects local initiatives in Amsterdam, Vienna, and Madrid with broader European strategies, ensuring that policies reflect the realities of small enterprises across different sectors and countries.

One of the leading frameworks guiding this transition is the **EU Green Deal**, the EU's overarching framework to achieve climate neutrality by 2050. The Green Deal promotes the decarbonisation of the economy, the development of clean technologies, and the adoption of circular business models. Social and local SMEs are key enablers of this shift. Yet, they often face significant challenges, including resource constraints, complex regulatory environments, and limited technical capacity that risks excluding them from green transition opportunities.

The importance of focusing on SMEs is underscored by their structural and strategic role in the European economy. SMEs account for 99% of all businesses in the EU, generate more than half of Europe's GDP, and provide two out of every three private sector jobs (European Commission, SME Strategy 2020). Their embeddedness in local economies and supply chains makes them indispensable actors in delivering the systemic transformation required by the European Green Deal. Furthermore, SMEs are often closer to communities and markets, making them agile innovators and early adopters of sustainable practices, especially within the social and circular economy sectors. In recognition of this, the development of tailored frameworks such as the **Voluntary SME Sustainability Reporting Standard (VSME)** by EFRAG plays a key role in supporting SMEs to engage meaningfully with ESG reporting. While not mandatory, the VSME helps lower the entry barriers to sustainability disclosure, ensuring that smaller enterprises can align with future-oriented expectations in a proportionate and accessible way.

Even though CSRD was intended to eliminate ambiguity around terms by establishing ESG metrics and definitions of circularity, in reality it is adding more complexity. According to the 2023 Annual Report on European SMEs, many SMEs, particularly micro and small enterprises, lack the resources, technical expertise, and regulatory clarity needed to fully engage with the green transition. If left unsupported, they risk facing competitive disadvantages, exclusion from emerging green value chains, and financial penalties under new regulatory frameworks.

But there is also a great opportunity: by using the CSRD as an instrument, entrepreneurs can accelerate their transition towards sustainable and responsible entrepreneurship. By going through the CSRD 'scheme', they gain insights themselves, also into their own business operations. This responds to the growing demand for products and services from customers, but also from talent and financiers, which brings both cost savings and access to new markets and investments. So even though deregulation is currently expected, the benefits are there for SMEs to grab.

Targeted investment in SMEs green transition capacity is therefore not only a matter of environmental policy, but a fundamental economic necessity for ensuring the EU's competitiveness, innovation leadership, and social resilience. These objectives are shared between all political parties. Empowering SMEs to successfully navigate the green transition will determine whether Europe can meet its climate neutrality targets by 2050 while maintaining sustainable growth, economic cohesion, and inclusive prosperity.

Beyond the ESG framework already introduced above, several other regulatory initiatives directly and indirectly impact SMEs.

The **Corporate Sustainability Reporting Directive (CSRD)** imposes enhanced ESG reporting obligations on large and listed companies, but its ripple effects reach far beyond them. Specifically, large companies that meet at least two of the following criteria, more than 250 employees, €50 million in turnover, or €25 million in total assets, will be required to report in 2025 on their 2024 data. A second wave of companies will begin reporting in 2026 (on 2025 data), while listed SMEs will need to comply by 2027 (on 2026 data). However, from 2025 onwards, all SMEs participating in supply chains will be expected to provide ESG-related data to their larger clients and partners to fulfil these companies' reporting obligations. This means that social SMEs, even if not directly subject to the CSRD, must be able to deliver transparent, verifiable information on their environmental practices (e.g. emissions, energy use, circularity), social policies (e.g. working conditions, inclusivity), and governance structures.

However, from 2025 onwards, all SMEs participating in supply chains will be expected to provide ESG-related data to their larger clients and partners to fulfil these companies' reporting obligations. This means that social SMEs, even if not directly subject to the CSRD, must be able to deliver transparent, verifiable information on their environmental practices (e.g. emissions, energy use, circularity), social policies (e.g. working conditions, inclusivity), and governance structures. While the proposed Omnibus Directive could potentially reduce the formal requirements for SMEs, particularly in relation to data delivery within value chains, it has not yet been adopted. Regardless, being ESG-ready remains a strategic advantage for SMEs, opening up access to sustainable finance, procurement opportunities, and long-term supply chain inclusion. Without proportionate tools, user-friendly templates, and dedicated advisory support, smaller actors risk exclusion from procurement processes and supply chains increasingly shaped by ESG compliance. Tailored guidance and practical support are therefore essential to ensure they can remain competitive and actively contribute to a sustainable European economy.

Similarly, the proposed **Corporate Sustainability Due Diligence Directive (CSDDD)** requires companies to identify, prevent, and mitigate adverse impacts on human rights and the environment across their operations and supply networks. While targeted at large companies, the directive will indirectly impose new expectations on SMEs, requiring them to demonstrate transparency and responsible business practices in order to maintain commercial relationships. Looking at the first [analysis of 250 European corporates' CSRD reports by PWC,](#) they are reporting high materiality on climate and workforce in the value chain, making data from suppliers very important, and contributing to a higher value for high performing suppliers.

Percentage of companies disclosing material impacts, risks or opportunities for each ESRS topic
(Number of company sustainability statements analysed)

	Consumer markets (56 companies)	Energy, utilities and resources (42)	Financial services (54)	Health industries (13)	Industrial and services (53)	Technology, media and telecoms (32)
Climate change	100%	100%	100%	100%	98%	97%
Pollution	55%	64%	11%	77%	58%	0%
Water and marine resources	46%	52%	15%	62%	45%	9%
Biodiversity and ecosystems	54%	64%	37%	54%	51%	9%
Circular economy	84%	71%	33%	92%	83%	53%
Own workforce	98%	100%	96%	100%	100%	100%
Workers in the value chain	79%	81%	35%	85%	74%	56%
Affected communities	29%	55%	22%	23%	36%	16%
Consumers and end users	70%	26%	80%	77%	42%	66%
Business conduct	82%	82%	93%	100%	92%	94%

Base = 250 CSRD corporate sustainability statements.
Note: *ESRS* refers to European Sustainability Reporting Standards. Sample size for health industries companies is small, and thus results may not generalise.

Pic 01 - Source: [PwC analysis](#)

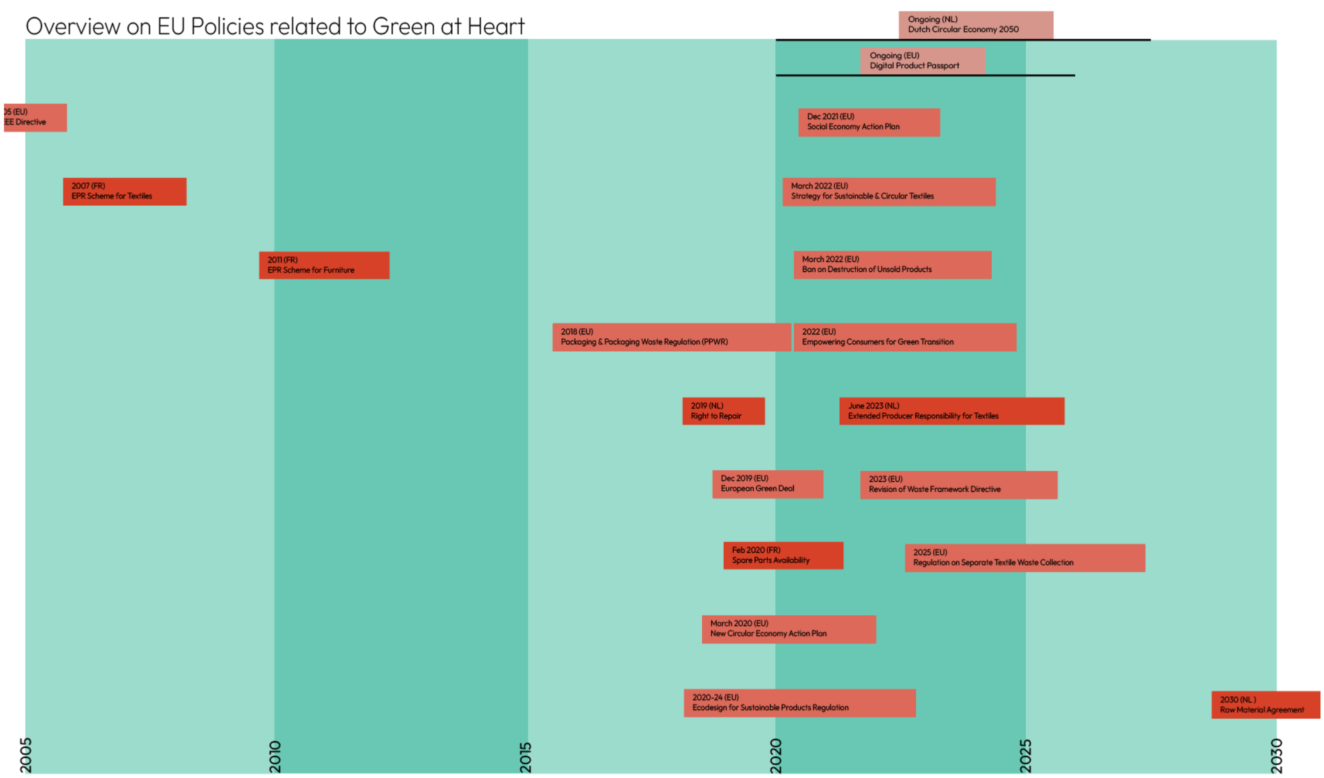
The **Fit for 55 Measures** is a set of EU policies setting ambitious targets for reducing greenhouse gas emissions by 55% by 2030 compared to 1990 levels. It includes higher carbon pricing, stricter energy efficiency targets, and incentives for businesses that invest in sustainable solutions. These policies will increase costs for unsustainable business models but create financial opportunities for SMEs that will be able to invest to embrace circularity, resource efficiency, and green innovation.

At the same time, recent developments such as the proposed *Omnibus Directive* revisions highlight the ongoing debate around the regulatory burden on SMEs. These revisions may soften or delay certain green obligations, particularly regarding supply chain reporting under the CSRD, raising concerns about potential rollbacks in environmental ambition. However, even in this shifting landscape, advancing ESG integration remains a strategic investment for social SMEs. Beyond compliance, embracing circularity, environmental stewardship, and social responsibility can enhance credibility, unlock new market opportunities, and build long-term resilience. As regulatory momentum is expected to regain strength, forward-looking enterprises that act now will be better positioned for future frameworks and stakeholder expectations.

In this context, Green at Heart plays a critical role in preparing social and local SMEs to navigate these regulatory shifts and seize sustainability-driven opportunities. By offering tailored diagnostic tools, capacity-building support, and access to targeted funding, the project operationalises the ambitions of the **EU Social Economy Action Plan**. The Action Plan is the key framework guiding this transition in the social economy sector, and recognises social enterprises as essential actors in advancing fair, green, and digital transitions and calls for improved access to finance, specialised business development services, and enabling policy frameworks.

Green at Heart addresses the persistent barriers faced by social SMEs—regulatory complexity, financial limitations, and technical knowledge gaps—by supporting the integration of circular economy principles, strengthening ESG performance, and fostering innovation and resilience. It demonstrates how targeted interventions can bridge the gap between EU policy ambitions and entrepreneurial practice on the ground.

Overview on EU Policies related to Green at Heart



Importance for local policy makers

Local policymakers (like municipalities) are uniquely positioned to drive a two-way exchange—translating top-down policy into local practice and feeding bottom-up insights into the EU. They foster the effective implementation of ESG practices among SMEs, serving as a critical bridge between EU-level ambitions and the day-to-day realities of entrepreneurs. Their direct engagement with local businesses allows them to identify practical barriers and opportunities early on, enabling them to tailor support that aligns with both SME capacities and broader regulatory objectives. Local authorities play a vital role in initiating and showcasing the success of national and EU policy through tangible, place-based pilots—such as awareness-raising events and cross-sector matchmaking initiatives that connect SMEs with peers, corporates, social enterprises, or socio-ecologic innovators. Beyond implementation, local governments also act as agenda-setters, surfacing grassroots experiences that can influence higher-level policymaking and ensuring that ESG strategies are grounded in real economic and social contexts. As the paper concludes, we return to the EU level to reflect on how these local lessons can inform more effective, inclusive, and scalable ESG policy frameworks across the Union.

Green at Heart project: supporting social SMEs through tools, funding, and capacity building.

The Green at Heart (GaH) project was launched to empower social economy SMEs across Europe to become key drivers of the green transition. Recognising the structural barriers faced by smaller enterprises, limited resources, regulatory complexity, and knowledge gaps, the project offered a comprehensive, step-by-step support system combining practical tools, capacity building, and direct funding opportunities. One major challenge SMEs face is the lack of standardisation in reporting tools and the data they are required to supply to clients. For example, many are expected to conduct materiality analyses with the same complexity as large corporations, despite lacking comparable capacity or resources. While the forthcoming **Voluntary Sustainability Reporting Standard for SMEs (VSME)**, developed by EFRAG, offers a more flexible and proportionate approach, particularly in reducing the burden of materiality assessments, many SMEs still lack visibility into their full value chains. Moreover, they often struggle to navigate the growing number of tools available, making it difficult to identify which are most appropriate to their needs. Crucially, SMEs also lack **'meta' insights** into their **collective or systemic impact** alongside peers within their ecosystems. Generating such shared intelligence requires integrated impact measurement tools capable of aggregating and analysing data across organisations. In response to these challenges, the Green at Heart project piloted two specific tools, **Go Sustainable** and the **Circular Transition Indicators (CTI)** framework, to assess their applicability, user-friendliness, and capacity to support meaningful reporting and tailored advice for SMEs.

At the heart of Green at Heart's approach were two diagnostic tools tailored to the needs of social SMEs:

- The **Go Sustainable Tool**, adapted and expanded through EU funding, enables enterprises to self-assess their environmental, social, and governance (ESG) practices and develop targeted action plans. The tool, available in Spanish, English, Dutch, and German, was adapted to national contexts through collaboration with sustainability experts to reflect country-specific legislation and EU frameworks such as the CSRD and Voluntary ESRS standards.

- The **Circular Transition Indicators (CTI)** Tool, provided by CircularIQ, supports manufacturing-focused enterprises in analysing and enhancing the circularity performance of their products and materials.

Between 2023 and 2025, the project delivered a structured capacity-building programme, engaging over 180 social SMEs across 9 European countries. More than 70 targeted webinars, troubleshooting sessions, and peer learning activities about the tool, its use, discussing the report with findings, and deciding on how to organise actionable plans, created a structured process which ensured that participating SMEs could not only understand the new ESG and circular economy requirements but also build actionable strategies around them.

A key innovation of the project was the **Financial Support to Third Parties (FSTP)** scheme. Through a competitive call, 62 grants out of 128 applications were awarded to social economy actors to implement green transitions based on the recommendations generated through the diagnostic tools. These micro-grants enabled SMEs to invest in specific measures such as supplier sustainability assessments, carbon footprint calculations, eco-design innovations, and staff capacity building on ESG topics.

While the initial focus was on Austria, Spain, and the Netherlands — including early consultations on alignment with national regulations and translations into multiple languages — the call for applications was open to social economy SMEs from all EU member states to maximise reach and learning. This international dimension was further strengthened through the Impact Hub Network, which connected local initiatives with broader European strategies and enabled rich peer-to-peer learning across countries and sectors.

Examples of funded actions include carbon footprint assessments that led to more energy-efficient operations, the development of sustainable packaging solutions, and the creation of internal ESG policies. One enterprise used the grant to design a circular textile product line, while another invested in creating an internal code of conduct, covering all aspects of ESG. Find a more detailed overview of the established action plans in Chapter 3 (practical insights from SMEs that received funding or coaching).

Green at Heart not only demonstrated that social SMEs can be rapid adopters of sustainable practices when provided with the right support, but also highlighted systemic barriers that require further policy attention, such as the need for proportionate reporting frameworks for small enterprises, accessible financial instruments, and tailored technical assistance. Ultimately, the project proved that relatively modest, well-targeted investments in tools, coaching, and funding can significantly accelerate the green transition of the social economy, turning SMEs into agents of change for Europe's sustainable future.

2. Challenges for social SMEs in Embracing Circularity & ESG

The Green at Heart project provided a significant opportunity to systematically assess, at transnational level, the challenges that social SMEs face in adopting circular economy practices and improving their environmental, social, and governance (ESG) performance. A comprehensive picture emerged based on data collected through the Go Sustainable Tool, the Circular Transition Indicators (CTI) Tool, the Financial Support to Third Parties (FSTP) programme, and extensive coaching activities.

While many social SMEs show strong intrinsic motivation towards sustainability, the assessments highlighted a consistent set of barriers that limit their capacity to translate ambition into action. These barriers span regulatory complexity, financial limitations, knowledge and skills gaps, and market-related challenges. Moreover, insights from Go Sustainable revealed notable differences in sustainability perceptions among founders, employees, and customers, suggesting that internal alignment is also critical for successful transitions.

Understanding these challenges is essential for designing policy interventions, funding programmes, and support mechanisms that are genuinely responsive to the realities faced by social SMEs across Europe.

Key barriers social SMEs face

Regulatory complexity – policies are hard to navigate

One of the most persistent challenges faced by social SMEs participating in the Green at Heart project was the overwhelming complexity of sustainability-related regulations. The Go Sustainable diagnostics revealed that SMEs often struggled to understand new frameworks such as the CSRD and sector-specific circular economy guidelines, whether they are subject to such regulations or not. Furthermore, social SMEs reported difficulty translating high-level EU legislation into practical, actionable steps for their size and operations. Furthermore, the tailored coaching sessions confirmed that many small businesses lacked the in-house legal expertise to confidently align with evolving national and European requirements, creating a gap between ambition and action. SMEs need tools that offer value and insights for improvement, not just add to the administrative burden.

Financial constraints – lack of tailored funding

Despite their strong motivation to improve sustainability performance, many social SMEs struggle to access appropriate funding mechanisms. Feedback from the Green at Heart subgrantees revealed that existing financial tools often fail to accommodate the scale, pace, and specific needs of mission-driven micro and small enterprises. For instance, several participants reported that navigating mainstream funding streams was overly complex and not adapted to hybrid business models or circular initiatives.

The 62 FSTP subgrants piloted in the project, averaging just €8,000 per SME, proved that even small, low-barrier funds can unlock significant progress in environmental upgrades, internal well-being initiatives, and value chain greening. However, the experience also underscored a broader gap: SMEs need easy-to-access, action-oriented financial instruments with minimal bureaucracy. As highlighted in project recommendations, these include simplified ESG microgrants, subsidised access to advisors, and recognition of "soft" ESG dimensions such as inclusive branding, ethical marketing, and regenerative practices. Without these, even the most committed SMEs face disproportionate obstacles in turning intent into action.

Moreover, some micro-enterprises expressed a need for access to subsidised ESG expertise, particularly for legal support and data analysis. Others suggested lightweight, result-based financing mechanisms that would allow SMEs to access capital linked to measurable ESG improvements. This is consistent with broader evidence from the field recommending simplified grant schemes, such as ESG vouchers, to reduce bureaucratic burden while enabling swift, action-oriented results.

Knowledge gaps – limited awareness, skills, tools, and advisory support

The Green at Heart diagnostic tools also revealed substantial knowledge gaps among social SMEs regarding ESG and circular economy practices. First, there is limited awareness of the economic potential of implementing ESG principles. Secondly there were discrepancies between internal perceptions of impact (e.g. between management vs staff and customers), and actual proven impact. And thirdly, while many enterprises expressed commitment to sustainability, a detailed understanding of environmental footprinting, supply chain due diligence, and circular product design remained limited. The tools we used brought much needed insight and allowed entrepreneurs to take direct action. Through troubleshooting webinars and individual coaching, it became clear that social SMEs required more hands-on advisory services and practical tools to move from sustainability awareness to operational change. The need for locally adapted, SME-friendly capacity building emerged as a critical enabler for ESG compliance and innovation.

Market challenges – aligning with business and consumer demand

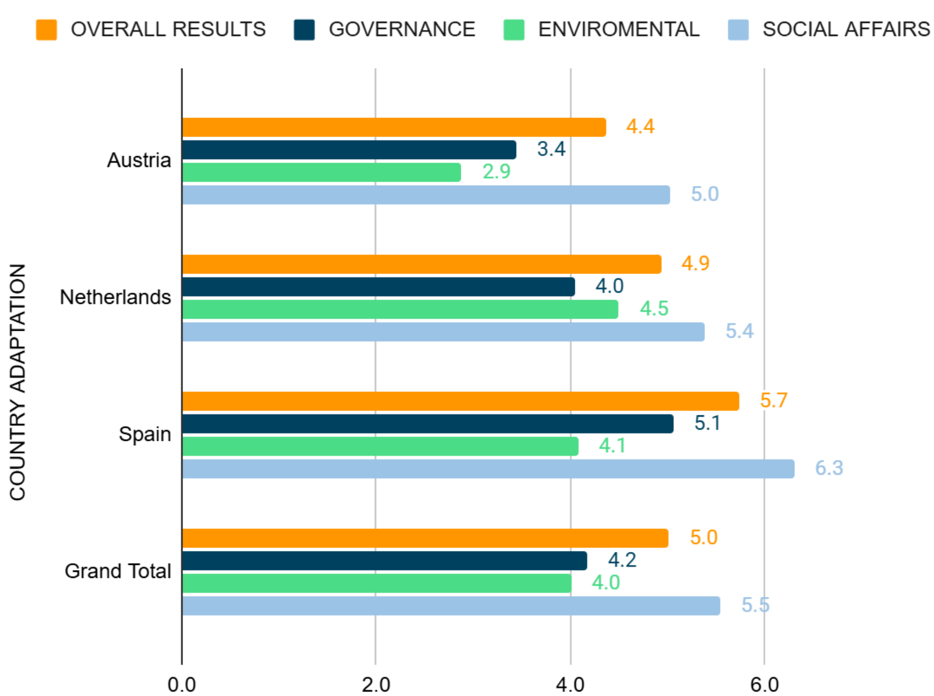
Social SMEs also face external challenges in embedding sustainability in their operations. Analysis from Go Sustainable feedback and coaching sessions suggested that many social SMEs operate in markets where customer demand for green products or services remains underdeveloped. Moreover, pressure from larger supply chain actors, such as corporate buyers imposing ESG requirements, can create new opportunities and burdens simultaneously. Some social SMEs highlighted difficulties in differentiating themselves sustainably without clear market incentives or recognised sustainability certification pathways, underlining the need for market-shaping policies and consumer education.

Bridging Perspectives: Insights from Go Sustainable

Key Results and Policy Implications from the Self-Assessment

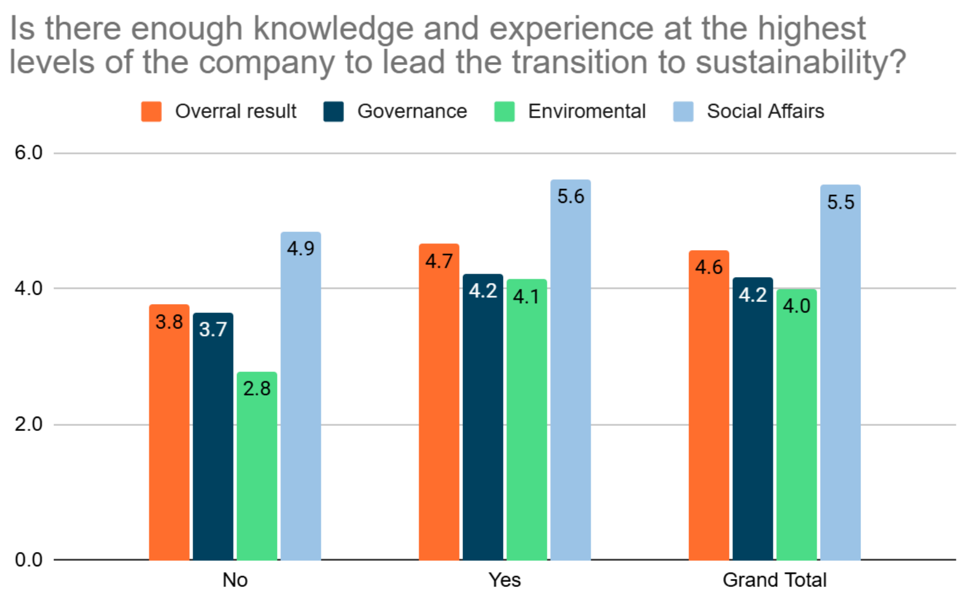
The analysis of 124 self-assessments from the first tool offered to participants, called Go Sustainable, provides crucial insights into the current state of ESG integration. A key finding reveals that overall environmental performance was the weakest pillar across all project countries, with an average score of just 4.0. This widespread deficiency, particularly notable in Austria (2.9), underscores a critical area for targeted intervention. Furthermore, the data highlights significant national variations; Spain leads in overall ESG performance with a score of 5.7, driven by strong scores in Social Affairs (6.3) and Governance (5.1). While Austria shows the most significant gaps, with scores of 3.4 in Governance and 2.9 in the Environmental pillar. This suggests that policy initiatives must be tailored to address the unique strengths and weaknesses of each country, rather than adopting a one-size-fits-all approach.

Table 1 - Overall ESG Results



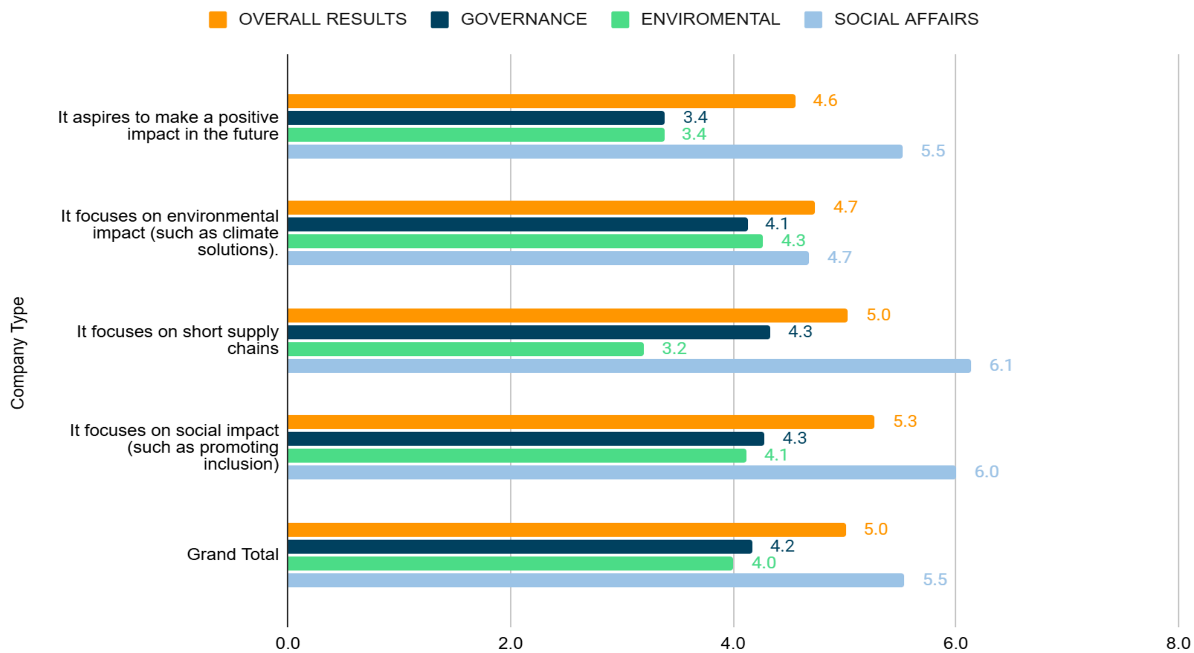
One possible explanatory factor for these differences is the stage of national transposition of the Corporate Sustainability Reporting Directive (CSRD). Both Spain and the Netherlands have already adopted CSRD into national law, potentially offering a clearer regulatory context and support mechanisms for ESG-related performance. In contrast, Austria had not yet transposed the directive by the July 6, 2024 deadline, which may partly explain lower average scores, particularly in the environmental domain. This highlights the role of national regulatory maturity in creating enabling conditions for sustainability adoption among SMEs. Rather than highlighting disparities, these variations underscore the importance of contextualised, locally tailored support mechanisms that reflect national priorities, legal environments, and sectoral characteristics.

The self-assessment results also point to the pivotal role of leadership and knowledge in driving ESG progress. Companies that reported having sufficient sustainability knowledge at the C-level consistently outperformed their peers, scoring an average of 4.7 compared to 3.8 for those without. The most dramatic gap was in the environmental pillar, where informed leadership correlated with a 47% higher score (4.1 vs. 2.8). This robust correlation underscores the need for policies that promote leadership capacity-building and executive education in sustainability. Interestingly, while Regional Directors showed the highest overall scores at 6.2, CEOs and Managing Directors underperformed with scores of 3.9 in Governance and 5.4 in Social Affairs, indicating a potential engagement gap at the highest executive level that needs to be addressed through targeted programs and incentives.



Further analysis based on the reported impact focus areas of participating companies reveals a more complex picture. For instance, companies prioritizing social impact (5.3) and social affairs (6.0) scored highest overall, demonstrating strong stakeholder engagement, but did not lead in other areas. Conversely, short supply chain companies ranked second overall (5.0) and led in social affairs (6.1), but had the lowest environmental score (3.2), indicating a gap between social proximity and eco-efficiency. Meanwhile, environmental specialists excelled in their niche with the highest Environmental score (4.3) but underperformed in social affairs (4.7), suggesting a siloed focus.

Table 2 - Sustainability Performance by Company Impact Focus



The consistent underperformance in governance across all types (with scores below 4.5) signals a systemic deficiency in transparency and accountability. This data highlights a crucial policy implication: no single company type leads in all three ESG pillars.

Social SMEs tend to perform better in *social* and *governance*-related ratings, as they prioritize not only their impact or purpose agenda but also the way they operate. However, this strategic focus often comes at the expense of attention to *environmental* goals and impact. The reverse is true for environmentally focused startups, which prioritize ecological outcomes but may underperform in social and governance areas. Policies should champion a "triple-balance" approach, encouraging companies to integrate governance improvements with more balanced environmental and social initiatives to unlock stronger, coherent and holistic performance and avoid the risks associated with a narrow focus.

Progress and a Path Forward

The second round of assessments was done for the FSTP recipients. A total of 62 companies validates the effectiveness of the program and reveals a clear path for future policy. Overall, **financed companies showed a remarkable 16.3% increase in their sustainability scores**, with the largest gains in environmental performance (+25.6%), greening their operation and business. This success demonstrates that financial incentives and strategic support are highly effective catalysts for ESG improvement, especially in the most critical areas identified by the initial diagnostics.

Table 3 - Changes in ESG scores following program participation

	2024	2025	Dif.
Governance	4.5	5.1	13.3%
Environmental	4.3	5.4	**25.6%**
Social Affairs	6.1	6.7	9.8%
Overall Results	4.9	5.7	16.3%

The progress data also reveals important trends by country and company impact focus. Spain maintained its leadership, showing strong year-over-year growth with a remarkable 46.0% improvement in the Environmental pillar. Austria also made significant strides, with notable gains in Governance (+33.9%) and Environmental (+30.0%), indicating structural progress despite a stable overall score. While the Netherlands saw a slight decline in its overall score (-2.2%), it still showed modest improvements across all ESG pillars.

Table 4 - Results change by country

Country	Overall result Diff.	Governance Diff.	Environmental Diff.	Social Affairs Diff.
Austria	0.0%	33.9%	30.0%	18.4%
Netherlands	-2.2%	7.1%	16.3%	3.9%
Spain	2.3%	13.2%	46.0%	17.2%
Total	-0.3%	14.2%	25.5%	10.3%

Looking at company impact focus, those with aspirational impact goals achieved the largest overall score growth (+27.1%), driven by substantial gains in both Social Affairs (+33.8%) and Environmental (+27.9%) performance. This suggests that while these companies may have started with a gap between ambition and execution, the program successfully helped them close it. Furthermore, short supply chain specialists, despite starting with the lowest environmental scores, made the biggest leap with a remarkable +66% improvement in this pillar, showing the potential for rapid progress when focused on specific areas.

Table 5 - Company impact focus improvements

Company impact focus	Overall result Diff.	Governance Diff.	Environmental Diff.	Social Affairs Diff.
It aspires to make a positive impact in the future	**27.1%**	18.7%	27.9%	**33.8%**
It focuses on environmental impact (such as climate solutions)	17.6%	14.2%	23.4%	15.3%
It focuses on short supply chains	21.9%	18.7%	66.0%	8.0%
It focuses on social impact (such as promoting inclusion)	13.1%	13.3%	22.6%	6.5%
TOTAL	15.9%	14.2%	25.5%	10.3%

These findings present a powerful case for focusing on capacity-building. Companies that started with insufficient internal knowledge showed a 33.7% improvement in overall ESG performance, far surpassing the 15.1% progress made by companies with a higher baseline. This is particularly encouraging as it suggests that the program is most impactful for those who need it most. It serves as a clear call to action: policy should not just support the most advanced companies but must intentionally focus on building foundational knowledge and skills within organizations that lack internal expertise. This targeted approach is essential to close existing gaps and accelerate the overall transition toward a more sustainable economy.

Table 6 - Perception of internal knowledge

Question: is there sufficient knowledge and experience at the highest level of the company to lead the sustainability transition?

Sufficient internal knowledge?	Overall result Diff.	Governance Diff.	Environmental Diff.	Social Affairs Diff.
No	**33.7 %**	20.4 %	78.1 %	25.4 %
Yes	15.1 %	13.8 %	24.0 %	9.6 %
TOTAL	15.9 %	14.2 %	25.5 %	10.3 %

Key insights from the CTI tool

The use of the CTI tool, which measures a company's circular performance and provides guidance with the Circular Transition Indicators, has helped a number of participating SMEs identify clear, actionable pathways to strengthen the circularity of their products. For some, it served as the foundation for an end-of-life (EOL) strategy, guiding collaborations with EOL specialists, certification bodies, and research centres to validate material recovery assumptions. Others used it to integrate EOL considerations into the design phase, leading to product simplifications—such as removing non-recyclable components—and experimenting with lower-impact recycled materials. In another case, the tool highlighted a 75% recovery potential if certain virgin materials were replaced, prompting the switch to more sustainable paper alternatives and a re-evaluation of biodegradable versus recyclable plastic options. Together, these insights have informed targeted action plans that reduce environmental impact while improving traceability and recovery rates. In six cases the FSTP budget in this project was used to (start) realize (realizing) these goals.

3. Learnings & Solutions from Green at Heart

What worked well

A total of 124 companies finalized the self assessment of 271 companies that were engaged with the *Go Sustainable* tool, designed to provide SMEs with initial insights into their ESG performance and circularity potential. In addition, 8 companies completed the Circular Transition Indicators (CTI) tool — a more advanced methodology that delivers structured analysis of material flows and circular performance.

Notably, interest in the Go Sustainable extended beyond the duration of the open call for funding. Several companies expressed their willingness to use the tools independently, even after the formal funding window had closed. This highlights the growing demand among SMEs for practical, accessible solutions to assess and improve their sustainability practices. It also demonstrates that, when given the right tools, companies are willing to take the first steps in their ESG and circularity transition, even without immediate financial incentives.

Regarding the Go Sustainable tool used for ESG measurement and management, we can showcase data coming from the participants to an international in-presence bootcamp in March 2025 in Vienna, with selected participants among the beneficiaries of the subgranting scheme. 19% of the bootcamp participants found them extremely effective, and 44% effective. Only one international bootcamp participant noted the tools were helpful (less than the average) but challenging for small, busy teams; this note reflects the talent and financial gap that SMEs face.

The experience of piloting the CTI tool revealed a tension between its analytical value and its practical accessibility. To complete the tool you need quite some data about the type and quantity of materials you use in your products, and the degree to which they are renewable or recycled. We offered quite some hand holding with an onboarding, explanatory videos and individual sessions to discuss the outcomes and potential next steps, which was highly valued. One result coming from this circularity analysis was that the companies did not have a strategy for material return logistics, so this is an important area to focus on. Many participants managing small SMEs found the CTI tool quite complex and time-consuming, which prevented some from completing it. We learned that this tool is most useful for larger manufacturing companies and less so for the wider social economy sector, where a large percentage of actors is represented by not-for-profit CSOs, cooperatives, and service-based rather than product-based businesses.

Peer learning and community building → Entrepreneurship can often be a lonely journey, especially when tackling complex sustainability challenges. To foster a sense of connection, mutual support, and peer learning among participants, we introduced structured group check-ins. These sessions were designed to encourage open sharing of current challenges and to tap into the collective intelligence of the group for feedback and advice. Over two rounds of check-ins, we engaged with 59 out of 62 entrepreneurs (the other three entrepreneurs provided a written update and received support from the Impact Hub and Green at Heart networks). The sessions sparked meaningful transnational and cross-industry exchanges, enabling participants to learn from one another's experiences while building a sense of community and belonging within the Green at Heart consortium.

In addition to the check-ins, we actively promoted peer learning during the bootcamp by creating space for participants to shape the agenda and lead discussions on topics they found most relevant. Peer facilitation was encouraged, and formats such as the World Café—an accessible and adaptable method for hosting large group dialogue—were particularly well received. One participant especially emphasised that the impact of such peer moments as "Speaking with other SMEs face to face has inspired so much collaboration and good feedback, and the dynamics facilitated by the team have really helped to achieve this goal." Such peer-driven elements not only enhanced learning outcomes but also reinforced trust and collaboration among participants.

In-person training and networking are always more effective → participants who attended the boot camp in Vienna recorded that the sessions that took place during the event were really helpful in enriching their action plans and helping them understand how to implement their sustainability strategy within the broader vision for their organizations. In-person gatherings always add an extra dimension that cannot be compared to online sessions because of the synergies created between participants who could share and learn from each other. This is evident especially when the bootcamp received strong positive feedback, with 99% of participants satisfied or extremely satisfied.

Flexible and adaptive funding scheme → The fact that the funding requirements allowed a wide range of solutions to be implemented by the SMEs made the whole process of implementation a lot easier, as each organization got the opportunity to use this financial support for what they really needed. Each participant was at a different stage in their sustainable strategy when joining the program, so this flexibility is key in such projects. This also respects and supports the wide variety of types of companies that can fall under the SMEs categorisation, but who are completely different in nature.

Policy alignment → Building on the recently concluded multi-stakeholder national workshops and the evaluation of FSTP beneficiary reports, the Green at Heart project has both validated preliminary findings and gathered additional insights to inform policy reflection. These engagements confirmed key trends already identified in the activities' report, while also enriching them with contextual feedback from diverse actors across the participating countries.

What was more challenging

Adapt the learning process to a different typology of companies → what we have learnt with the use of the Go Sustainable Tool is that most of the SMEs that participated in the program (especially applicable to social enterprises) took more advantage of the capacity building sessions compared to the self-assessment provided by the platform. The diverse nature and internal organisation of social SMEs makes it hard for them to adapt to a static tool such as the Go Sustainable, and make use of this resource to learn and improve their sustainable performance. It seems clear that the legislation for SMEs needs to dive deeper into other company sizes within this group (for example, in Spain we worked with some microenterprises of 1 or 2 employees whose business model was hard to adapt), and try to make a more flexible and customized process that accepts and supports this diversity.

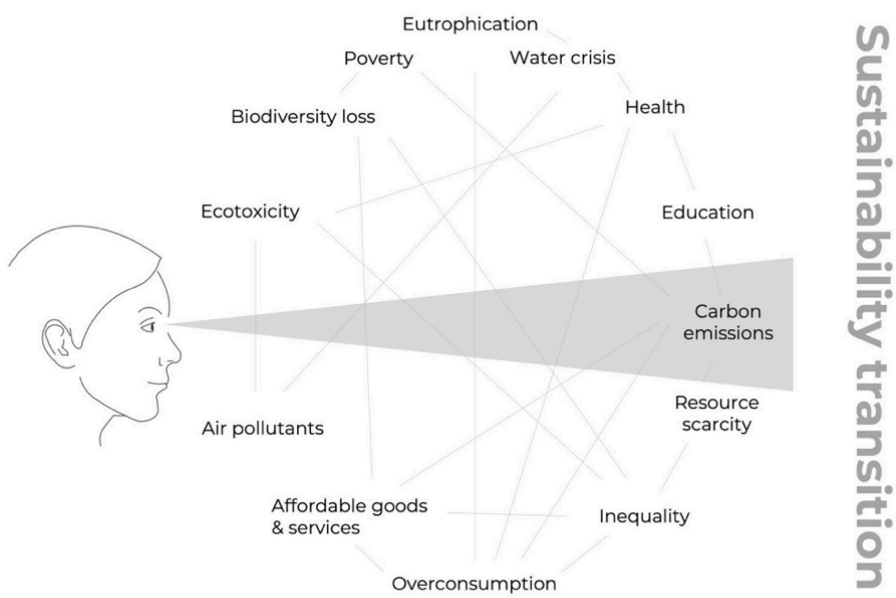
Significant difference in the ease of ESG reporting and impact tracking → The cohort included a diverse mix of companies—differing in type, maturity, location, industry, and sustainability focus. The GoSustainable tool was used for impact measurement and was designed to support SMEs in tracking their sustainability performance. One key insight was the stark contrast between service-based and product-based SMEs when it comes to ESG reporting and impact tracking. Product-focused companies, with more tangible value chains and identifiable stakeholders, found it significantly easier to assess and report their environmental and social impact. In contrast, service-oriented SMEs struggled to quantify their contributions due to the less visible and more diffuse nature of their operations and outcomes. A recurring issue was the uncertainty around how to accurately measure carbon footprints when operations lack a tangible product or supply chain. This adds a layer of complexity not sufficiently addressed in existing reporting standards, leaving many service-based companies behind in ESG adoption.

Lack of broader industry infrastructure to advance circularity → A major barrier to advancing circular value chains emerged in industries that rely on waste valorisation and upcycling, such as fashion and textiles. While many SMEs are eager to implement circular practices, the broader industry infrastructure is often not yet equipped to support them. For instance, small-scale fashion brands aiming to upcycle textile waste frequently face challenges due to the minimum volume requirements imposed by recycling or upcycling facilities. These facilities typically require large, consistent quantities of specific materials to operate efficiently, which individual SMEs can rarely offer. As a result, circular ambitions of smaller players are hindered by structural bottlenecks in the value chain.

Lack of standardised, accessible reporting tools and cost transparency → SMEs highlighted a strong need for more accessible, user-friendly ESG reporting tools. Many are unsure what a "good" ESG report looks like and report a lack of transparency around the financial and time investments required. Without benchmark data or streamlined tools, ESG compliance becomes an opaque and resource-intensive process that is particularly challenging for smaller teams.

Narrow focus on carbon reduction ("Carbon Tunnel") limits holistic sustainability thinking → Many companies remain fixated on reducing carbon emissions, a mindset often referred to as the "carbon tunnel vision." While important, this narrow focus risks overlooking broader aspects of sustainability, including biodiversity, social impact, and circularity. SMEs would benefit from a more holistic and integrated approach to sustainability that aligns with the realities of their sector and scale.

Carbon Tunnel Vision



Graphic by Jan Konietzko

Despite a strong commitment to sustainability, many social SMEs still struggle to integrate structured ESG reporting into their operations. For growing businesses, pressing priorities such as ensuring operational stability, building teams, and delivering quality services often take precedence. As a result, ESG reporting, while acknowledged as important, frequently does not receive the resources, data infrastructure, and strategic attention it requires. SMEs commonly face barriers such as the absence of baseline metrics, limited capacity to track and report KPIs, and the complexity of aligning with formal ESG frameworks. In dynamic environments, like seasonal or site-based operations, measuring impact consistently across areas such as energy use, biodiversity, or social engagement proves especially difficult. Moreover, without sector-specific guidance or user-friendly templates, ESG reporting can feel like a bureaucratic checkbox exercise, detached from actual business value or decision-making.

While green funding, such as the Green at Heart grant making, has been instrumental in enabling tangible sustainability upgrades, many SMEs pursue these actions based on intrinsic motivation or practical needs rather than regulatory compliance. These reflections highlight the urgent need for simplified, sector-relevant ESG knowledge, tools and support mechanisms tailored to the realities of SME operations. To truly support SMEs, ESG reporting must be made sector-specific, light-touch, and narrative-driven—providing simplified templates that help entrepreneurs articulate their impact journey, even when full data isn’t yet available, and rewarding progress as much as performance.

Practical insights from SMEs that received funding or coaching.

The table below provides an overview of the action plans created to advance the transition of social SMEs in their ESG journey. We awarded a total of €487.955,- to 62 social SMEs in small grants of max €8.000,- per initiative.

Table 7: Clustering of Action plan and grant spending

Action Plan Topic	Description	#companies	% companies
Internal ESG Frameworks & Policy Development	These companies are working on setting up internal sustainability policies, guidelines, or certification systems to formalise ESG commitments.	13	20,97%
Measurement, Footprint Analysis & Impact Tools	These companies focus on measuring environmental impact (e.g. CO_2, carbon footprint, CTI, LCA) or are building tools to do so.	13	20,97%
Circular Products, Recycling & End-of-Life (EOL)	These initiatives aim to develop products or systems based on circular economy principles, often focusing on materials reuse or product EOL strategies.	10	16,13%
Sustainable Packaging & Materials	Companies focusing on switching to environmentally friendly packaging or sourcing sustainable materials.	5	8,06%
Sustainable Production / Agriculture / Ingredients	These projects aim to improve sustainability in production processes, ingredients, or sourcing.	4	6,45%
Education, Awareness & Team Capacity Building	Focus on training, workshops, and stakeholder engagement to raise awareness and enable team transformation	6	9,68%
Product Development with Sustainability Goals	Developing or improving products with explicit sustainable design or material goals.	7	11,29%
Energy Reduction & Efficiency	These companies are taking action to reduce energy consumption, either through infrastructure, renovation, or behaviour.	4	6,45%

Strong focus on formalizing sustainability through policies and measurement: Nearly half the companies are working on ESG frameworks, impact tracking, or certifications. This indicates a foundational phase of sustainable transition where structure and metrics are key.

Circularity and packaging are practical entry points: Many product- and service-based companies are tackling waste and recyclability through EOL design, circular models, and sustainable packaging, likely due to visible customer demand and tangible impact.

Tool building and AI-driven solutions are emerging trends: Some companies are developing internal tools or dashboards, signaling a shift toward scalable, tech-enabled sustainability practices.

Social enterprises are integrating sustainability into their mission. In education, fashion, or tourism, sustainability is paired with stakeholder engagement, showing that these companies see ESG as part of broader value creation, not just compliance.

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Case Study 1
SME: Hemptastic, Elena Yaneva, Austria

Product: Hempstatic develops and manufactures insulation from plants. Their first products are sound insulation and absorption panels for reducing echo and noise transmission in interior spaces.

Go Sustainable ESG result: The company improves its Overall Go Sustainable score by ~33% from 5.1 (2024) to 6.8 (2025)

● Governance: from 5.1 → 6.8
● Environment: from 6.3 → 6.5
● Social Issues: from 5.2 → 9.8

CTI Improvement advice: The CTI Too served to create the base for the purpose and goal of the funding application. The results motivated us to push forward the agenda related to the most impactful stage of our material – the EOL. Transition from virgin to non-virgin raw materials, which, as indicated by the tool, has the potential to reduce impact. The inflow improvement potential was estimated at 486,240.00 kg CO_2-eq in the value chain.
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Case study 2
SME: Showee Smart Wellness, Eloi Mirambell. Spain

Product: The company designs and develops smart, eco-friendly shower solutions that promote autonomy, safety and comfort while reducing potable water consumption and other consumables, such as soapy sponges.

Go Sustainable ESG result: The company improved its overall Go Sustainable score from 5.7 (2024) to 6.3 (2025).

● Governance: from 4.4 → 4.8
● Environment: from 5.1 → 5.9
● Social Issues: from 8.4 → 9.3

Notable gains were made through carbon footprint analyses, ESG governance guidelines, and stronger awareness of employee well-being and accessibility.

Go Sustainable improvement advice: Conducting annual carbon emissions analyses to track and reduce greenhouse gas emissions, developing a comprehensive five-year sustainability strategy covering all aspects of the business, and introducing regular ESG meetings
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Increasing this could improve the product's circularity and reduce dependence on primary raw materials.

FSTP project activities: We aimed at increasing the circular inflow and recovery of primary and secondary raw materials as of the CTI Tool.

- Write a detailed draft on the handling and treatment possibilities within the 4 pre-identified R's
- Verify the possibilities by conducting tests and studies on technical parameters and consulting with bodies responsible for the further treatment of the respective component/material and EOL experts
- Embed all verified assumptions and findings into a single document
- Outline a step-by-step handbook containing specific guidelines for the respective relevant target groups (customer, production team, EOL partners) and our EPD.

Improvements:

- Built a strong foundation for understanding end-of-life (EOL) scenarios of biobased materials.
- Gained clarity on current limitations of assessing EOL performance within accelerated timeframes.
- Improved awareness of the need for harmonised testing and certification standards in the application field.
- Strengthened processes by engaging external experts (EOL specialists, certification bodies, research institutes) early and consistently.
- Validated assumptions and gained insights into the practical constraints of test execution.

to evaluate operations and take corrective actions when needed. Additionally, SSW will establish a clear code of conduct and ethical guidelines to define its core values, while strengthening ESG standards for suppliers and service providers to ensure alignment with the company's sustainability and ethical commitments.. Build internal capacity to manage future compliance obligations and reporting demands.

FSTP project activities:

- Conducted carbon footprint analysis of business (scope 1 & 2) in line with UNE-ISO 14064
- Measured product carbon footprint (cradle to door) according to ISO 14067
- Joined SCRAP PUNTO GRETA, aligning with extended producer responsibility laws for product packaging
- Reallocated budget from long-term sustainability strategy to foundational impact measurements
- Engaged internal staff in data collection, improving internal awareness and ESG integration

Improvement:

- Verified emissions data strengthens ESG credibility and enables climate action
- Waste management compliance reinforces sustainable business practices
- Eco-conscious branding supports future growth, funding access, and customer trust
- Cultural shift within the company enhances staff engagement and retention
- Social score reflects high awareness of inclusivity, safety, and accessibility

Appreciation: Showee demonstrates how an SME with a clear social mission can elevate its environmental and governance performance through targeted actions. By focusing on measurable impact and regulatory compliance,

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<td>Appreciation: This project helped sharpen their understanding of how to align ESG-driven design with actual technical and market constraints. It gave them the tools to engage national and international institutions on a more credible level and prepared them for the next stages of scaling responsibly.</td>
<td>SSW laid the groundwork for long-term sustainability while reinforcing its ethical positioning. This case also highlights the importance of flexible grant use, allowing SMEs to pivot toward what matters most in their ESG journey.</td>
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<td>Case study 3
SME: KITEC Educations Ltd., Orsolya Carrick, Hungary

Product: An innovative social enterprise combining language education with ecological literacy. KITEC runs two boutique English language schools and the Mandala Eco-Education Garden, where learners engage with permaculture practices while improving their English.

Go Sustainable ESG result:

KITEC significantly improved across all ESG pillars:
Governance: from 2.6 → 4.9
Environment: from 5.3 → 7.3
Social Issues: from 5.0 → 6.8
Driven by impact tracking, reduced resource use, staff training, and community involvement, these results reflect both operational upgrades and a cultural shift.

Go Sustainable improvement advice:
Maintain momentum by continuing weekly impact reflection sessions, deepening ESG literacy among staff, and sharing learnings with local and international peers. Formalise risk assessments and integrate stakeholder feedback to further refine governance practices.

FSTP project activities:
Developed weatherproof outdoor classroom with kitchen and child-safe zones
Completed Permaculture Design</td>
<td>Case study 4 SME: City Games Vienna KG, Tamer Aslan, Austria

Product: A creative game studio transforming cities into interactive playgrounds through analogue card games and low-carbon digital experiences. Their flagship “Monster Hunt” combines storytelling and exploration, offered in printed map-packs, a mobile app, and WhatsApp-based games.

Go Sustainable ESG Result:

City Games Vienna achieved measurable ESG improvements:
Governance: 4.7 → 6.6
Environment: 1.7 → 2.2
Social Issues: 5.8 → 6.4
These improvements were driven by better sustainability integration into management and procurement, FSC-certified printing, reusable packaging, and inclusive, accessible digital formats.

Go Sustainable Improvement Advice:
To build on this progress, City Games should:

Continue embedding ESG in supplier selection, digital product design, and internal planning.

Formalize digital sustainability metrics and advocate for policy recognition of low-carbon formats.

FSTP Project Activities:
Switched to FSC-certified paper for all printed products</td>
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Certificate (PDC) for lead trainer ● Engaged 38 volunteers for 120 hours, reducing subcontracting costs ● Acquired sustainable equipment (e.g. compost bins, eco-kitchen gear) ● Expanded summer camps with circularity and biodiversity modules Implemented safety upgrades in line with national regulations **Improvement:** ● Boosted seasonal enrolment from 45 to 72 children ● Strengthened community ownership and visibility (local media & authorities) ● Reduced reliance on packaged goods and increased composting ● Created inclusive programming for neurodivergent children and single mothers ● Staff well-being and internal motivation measurably improved **Appreciation:** KITEC is a pioneering example of how education and sustainability can merge into a circular, inclusive, and impactful model. Through Green at Heart, they transformed not only their facilities but their organisational DNA. The garden is now recognised locally as a model for ecological learning, and KITEC stands out as Hungary's first permaculture-powered language school.	● Designed replayability kits to reset and reuse analogue games ● Published Monster Hunt app on iOS and Android ● Launched WhatsApp-based narrative games ● Completed two Go Sustainable assessments ● Integrated ESG into internal decision-making and supplier relationships **Improvement:** ● Expanded digital product line, increasing reach while cutting emissions ● Reduced single-use game waste Strengthened team capacity for sustainable design and ESG-aligned partnerships ● Stimulated market interest from cultural institutions and tourism boards **Appreciation:** This case highlights how a small creative enterprise like City Games Vienna can drive meaningful environmental progress through low-cost, high-impact actions. Despite modest starting points, the project achieved a 29% environmental score increase by introducing FSC-certified materials, reusable game kits, and low-data digital formats.

Green at Heart impact so far

The case studies offer compelling evidence that targeted FSTP support can accelerate the ESG transition of social SMEs in both strategic and operational dimensions. While the nature of the funded actions varied, ranging from carbon footprint assessments and permaculture-based curriculum design to getting sustainable certifications and circular product development, a recurring pattern emerges: the funding enabled these SMEs to move from intention to implementation. Across the cases, ESG improvements were not only technical or infrastructural, but cultural. KITEC, for example, embedded weekly impact reflection into their governance practice and saw ESG scores increase by more than two points across all pillars. Showee translated sustainability ambitions into tangible governance and product-level improvements, raising its Environment and Social scores significantly. Meanwhile, a creative industry player, City Games Vienna has used the funding to green their supply chain through sustainable packaging and labeling to lower the use of virgin materials for their product line though low-cost high impact interventions.

A second important observation is that many SMEs used the funding to formalise ESG thinking internally. From written policies and monitoring frameworks to risk assessment protocols, team roles, and procurement guidelines, the grants allowed companies to build structural foundations for long-term sustainability. This is particularly important in early-stage social enterprises or microbusinesses, where time and financial resources are often stretched. The opportunity to pause, assess, and institutionalise sustainability thinking was repeatedly cited by beneficiaries as one of the most valuable aspects of the support received.

Finally, the ripple effects extend beyond individual companies. Several SMEs reported increased visibility in their local ecosystems, interest from municipal authorities, or requests from other organisations to collaborate or replicate their approach. This suggests that small-scale interventions, when strategically targeted and community-rooted, can generate outsized impact. As such, the Green at Heart project not only fostered organisational change, but also contributed to a broader culture shift toward regenerative business practices, inclusive, and values-driven business practices across sectors like hospitality, wellness, education and design, tech, and the creative industries.

4. Policy Recommendations: Strengthening Support for social SMEs

Building on the Green at Heart project findings, it is evident that social SMEs hold strong potential to drive the green and circular transition, but continue to face substantial barriers. Real-world insights gathered through diagnostic tools, coaching sessions, and the Financial Support to Third Parties (FSTP) grants underline the need for targeted, user-friendly, and scalable support mechanisms. The following recommendations address key bottlenecks and propose practical steps for policymakers to foster a greener, more resilient SME sector.

Clarity and ease in navigating regulations

SMEs need clearer, SME-friendly ESG & circularity frameworks.

Social SMEs require regulatory environments that are clear, proportionate, and accessible. Current ESG and circularity frameworks, while well-intentioned, often overwhelm small enterprises with their complexity and language. They have to fill out large questionnaires and supply a lot of data, when oftentimes it’s not clear why certain questions are being asked. There can be more agreement on which questions and data are really necessary. Based on Go Sustainable feedback, entrepreneurs need regulations to be translated into practical guidance that aligns with their capacity, avoiding the risk of regulatory fatigue.

Most social SMEs are micro-enterprises, with fewer than 10 people and often no formal governance structures like a board. For them, sustainability implementation must be simple, actionable, and directly aligned with their existing operations, not about aspiring to something they're not, but about improving based on who they already are. Policy efforts should focus on developing SME-friendly guidelines, formats, simplified compliance pathways, and clear communication around obligations under EU initiatives like the CSRD and CSDDD. Providing simple to understand and/or follow guidelines or simplified versions of regulations can help SMEs to comply and implement these regulations.

Existing social standards and tools (e.g. impact accounting, GRI, code for social entrepreneurs) should be allowed to coexist and be respected within dual-track reporting frameworks. If member states give legitimacy to these small standards, they will take root. Advocate for broader definitions of impact—e.g. certification (like bio), second and third-tier value chain reporting.

However, even the clearest regulations will fall short if SMEs lack both the financial resources and the practical support needed to comply. These must go hand-in-hand.

Financial incentives & funding

Grants, tax breaks, and green finance for social SMEs.

Access to finance remains a significant hurdle. Although the FSTP grants demonstrated that relatively small funding amounts (e.g., €8,000 per enterprise) can drive substantial green shifts, there is a pressing need for broader and more flexible financing instruments tailored to the social economy. Policymakers should expand micro-grants or loans, develop result-based funding, introduce targeted tax incentives for sustainable investments, and encourage financial institutions to create green lending products specifically adapted to SME profiles.

In addition, tax incentives could be extended to large corporations that actively support ESG integration among SMEs within their value chains, for instance by co-financing sustainability audits, sharing tools and data, or mentoring smaller suppliers. This would not only ease the burden on public budgets but also strengthen supply chain resilience and foster shared responsibility across business ecosystems.

Reporting as a driver of operational and financial performance

If sustainability reporting is standardised and simplified it can serve as a strategic tool for SMEs, enabling clearer identification of operational improvements and cost-saving opportunities. These insights not only enhance internal efficiency but also strengthen the business case for accessing external funding by demonstrating measurable impact.

Strategic procurement to catalyse ESG integration

Public procurement has significant potential to drive ESG integration across local economies. To fully realise this, local authorities should act as strategic buyers rather than project owners focusing on clearly defined outcomes rather than micromanaging delivery processes. Prioritising ESG-compliant suppliers as the Municipality of Amsterdam does (*ESG Preference-position practice*), is a results-based approach which respects the autonomy of service providers while ensuring responsible use of public funds, and helps embed sustainability expectations within market practices.

Procurement

Governments should include ESG in procurement. The purchasing power of the government should not be underestimated.

Capacity-building & tailored support

Accessible training & hands-on support at the local level.

Knowledge gaps remain a key barrier for many social SMEs, particularly in areas such as ESG reporting, circular innovation, and sustainable operations. These gaps not only hinder environmental progress but also obscure the economic value that sustainable practices can unlock, through cost efficiencies, market positioning, and resilience. Feedback from diagnostic tools and coaching revealed a strong demand for practical, hands-on support rooted in local ecosystems and tailored to SMEs' daily realities.

However, feedback also showed that founders often overestimate their sustainability impact. As noted during local coaching sessions, many assumed their practices were already sustainable without measurement. Training must therefore go beyond tool usage, embedding a mindset of reflective learning and transparent measurement, even among micro-enterprises. As one Portuguese founder remarked, *“Impact is not measured by the size of a team or budget, but by the power of intention and commitment – and the tools to prove it.”*

The project piloted two types of diagnostic tools, Go Sustainable for covering ESG data collection, performance self-assessment, and CTI tool for circularity metrics, which were largely well-received by participating SMEs for their clarity, usability, and actionable guidance. Further investment is needed to refine, scale, and integrate such tools into broader communities of practice, ensuring they remain adaptable, comparable, and complementary to other existing frameworks. Policy interventions should therefore continue to fund advisory services, training programmes, and peer-learning networks that are embedded locally and supported by accessible high-quality tools that drive measurable impact.

Moreover, many founders tend to overestimate their impact without concrete evidence. Training must therefore include capacity-building on measurement and verification, enabling SMEs not only to track progress but also to substantiate their impact claims with credible data.

Finding the right tools

It’s important to help entrepreneurs find the right ESG tool to fit their situation, such as ESG data gathering, reporting tools, and strategic insight tools. High-quality tools that are accessible, applicable, and scalable are essential to scale these efforts. In this project, we implemented two tools that were rated positively, bearing in mind that they are most suitable for product-based companies. The results are clear, understandable, and give applicable advice for improvements. However, these tools often reflect how regulations that are not tailored to the realities of SMEs can complicate their use. For example, some sections may be difficult for SMEs to understand or even impossible for them to complete (due to lack of operational capacity or lack of funding to access such tools). Therefore, it is essential to accompany such tools with appropriate training to lower the knowledge gap or reduce the regulatory complexity.

A wide range of tools, advisory services, and support opportunities exist for SMEs; however, these resources are scattered and often difficult to locate. There is a clear need for greater visibility and consolidation of available support in a central, accessible platform. For example, actors such as PwC and similar organisations provide pro bono workshops tailored to small entrepreneurs, while Chambers of Commerce could play a more active role in signposting and coordinating access to relevant tools and services.

To address this, policy should support the development of a unified, visible entry point for ESG tools and resources, particularly curated for SMEs. The idea of **standardised digital badges** for specific ESG achievements (e.g., “low-carbon certified” or “inclusive employer”) was positively received in stakeholder consultations and could enhance visibility while reducing complexity.

Participating entrepreneurs also voiced that accessible peer networks and real-life case studies were crucial in understanding and applying ESG practices. As one Dutch participant put it, *“The Green at Heart programme helped us transform ESG from a reporting exercise into a source of strategic insight.”* This highlights the importance of making ESG tools not only visible and accessible but also contextualised and peer-driven.

Sharing data responsibility

Entrepreneurs wonder why all costs and admin burden are placed on them alone, and if it could be shared more equally with their clients. It feels like they’re doing all the work for someone else without having any benefits for their own business.

Also, all companies are busy gathering data individually, whilst 80% of the datapoints for companies in a sector / value chain are the same. We see industry organisations starting to build shared data sets to provide data for the materiality analyses. This could be shared at a European level.

Another suggestion is to create a library of simple, standardised impact protocols per impact domain.

Tailored support for different business models and business model innovation

The economic context is just as important as making an impact; the commercial aspect should not be overlooked. In reality, price often outweighs sustainability in decision-making. Many initiatives depend on subsidies, and budgets are often too limited. The group that places intrinsic value on sustainability needs to become more entrepreneurial; coaching and guidance are required.

An important insight raised by participating SMEs is the need to differentiate between product-based and service-based businesses when designing support mechanisms.

- Product companies (e.g., manufacturers, retailers) often face challenges related to materials, production processes, packaging, and supply chains. They may benefit most from support in eco-design, circular sourcing, waste reduction, and logistics optimisation.
- Service companies (e.g., consultants, IT firms, repair services) typically have a smaller direct environmental footprint, but may struggle more with understanding and communicating their sustainability impact, or aligning intangible services with circularity and ESG frameworks.

To be effective, capacity-building programmes should be adapted to the realities of different business models. Diagnostic tools, training, and funding criteria must reflect the distinct pathways each type of SME can take towards a greener future. A one-size-fits-all approach risks missing these nuances.

To ensure that support systems leave no one behind, inclusion must be built into their design.

Municipalities can serve as local, accessible points of contact to direct SMEs to the right tools and service providers.

Inclusion & equity considerations

These programmes should also be inclusive and accessible to entrepreneurs from underrepresented backgrounds, including women, migrants, and rural SMEs. Targeted outreach and inclusive programme design can help ensure that the green transition benefits all communities equally.

Cultural relevance & behavioural insight

Designing policies that resonate with how SMEs actually work. Beyond financial and regulatory tools, policies must acknowledge the social, cultural, and behavioural dimensions that shape how small businesses engage with green and circular transitions. Insights from anthropology show that entrepreneurs' decisions are often grounded in identity, trust, local norms, and daily survival pressures, not just rational cost-benefit analysis.

To be effective, policy design should:

- **Respect entrepreneurial identity and pride.** Many small business owners see their work as part of a family tradition or local reputation. Green policies that are framed as enhancing craftsmanship, legacy, or community value are more likely to be embraced.
- **Work through trusted intermediaries.** Small enterprises often rely on peer networks or familiar support organisations rather than formal authorities. Policymakers should collaborate with local business hubs, sector networks, or respected peers to translate green ambitions into relatable guidance.
- **Acknowledge time and survival constraints.** The pressure to stay afloat day-to-day makes it difficult for SMEs to plan long-term. Policies should break down green actions into manageable, short-term steps with visible impact to reduce psychological and operational barriers.
- **Foster peer learning and practical exchange.** Entrepreneurs tend to learn best from each other. Funding peer-led workshops, local learning circles, and storytelling formats can foster more authentic and durable change than top-down instruction.

By recognising SMEs not only as economic units but also as social and cultural actors, policy interventions can become more relevant, effective, and equitable.

Many SMEs still perceive sustainability as a cost, not an opportunity. Policy should also invest in communication strategies that shift this narrative and showcase relatable role models.

Monitoring & data-driven policy

Standardised - but adaptable - tools for tracking SME progress

Effective policy design depends on robust, standardised data on SME sustainability progress. Green at Heart highlighted the value of diagnostic tools, like Go Sustainable and CTI in providing baseline and post-intervention measurements. Policymakers should invest in the development and deployment of simple, harmonised monitoring instruments that help SMEs track their progress while feeding anonymised data into national and EU-level policy evaluation frameworks.

Support for intermediary networks

Local hubs, social enterprise incubators, and innovation networks play a vital intermediary role. These actors help translate national policy into context-specific action and build trust with SME communities. Policymakers should strengthen these networks through core funding and long-term partnerships.

The findings from Green at Heart confirm that SMEs are critical drivers of a sustainable and inclusive economy. By designing supportive, accessible, and forward-looking policy frameworks, governments can help unlock this potential and ensure that no SME is left behind in the green transition.

Sharing success stories

Traditional SMEs must start seeing this shift as an opportunity; we need to clearly communicate the potential benefits of ESG and circularity to them. How can we engage the broader SME sector and get them on board? This is necessary for a meaningful transition. Social SMEs are setting the example, and can be put in the spotlight for it.

5. From Local Learnings to EU Action

The Green at Heart project demonstrates that local initiatives are not only implementing European sustainability frameworks but are also generating policy innovations that could meaningfully shape future EU approaches. Local ecosystems, driven by the realities of entrepreneurs and proximity economy actors, serve as dynamic laboratories where new models of regulation, funding, and market incentives are tested. Strengthening the systematic integration of local experiences into EU policy making is essential for achieving a green transition that is not only ambitious but also grounded in practical context-sensitive impact.

This becomes even more relevant in the current policy landscape, as the **Omnibus proposal** currently under discussion by the European Commission may significantly alter the scope of the **CSRD**, potentially removing mandatory ESG data requirements for SMEs. While this could ease short-term reporting obligations, it risks slowing the momentum of sustainability-driven innovation. It is important to reaffirm that **ESG frameworks, such as those operationalised through the CSRD—offer both ecological and economic value**. They support transparency, attract investment, strengthen brand positioning, and offer insights that help businesses optimise operations and access emerging markets. For the social economy and beyond, enabling SMEs to engage meaningfully with ESG reporting, therefore, remains essential. Since the social and economic resilience objectives of ESG are shared across the political spectrum, this should be a non-political, continuous effort that could be executed by a dedicated task force. Rather than scaling back ambition, policymakers should reinforce support systems that make ESG integration accessible and beneficial, turning compliance into an opportunity for growth and resilience.

How local policies can inform EU-level frameworks

Local policies serve as valuable laboratories for ESG and circular economy implementation. They translate abstract policy ambitions into context-sensitive action, offering grounded insights into what works in practice. Rather than calling for entirely new frameworks, many of these initiatives demonstrate how existing EU regulations, such as the Corporate Sustainability Reporting Directive (CSRD), can be more effectively localised through targeted awareness-raising, capacity-building, and stakeholder facilitation.

Local authorities are especially well placed to engage SMEs that may otherwise be overlooked by national or EU-level strategies. Their proximity to the local entrepreneurial ecosystem enables them to promote uptake of ESG frameworks, connect businesses to relevant support tools, and broker collaborations across public, private, and civic sectors. Clear delineation of roles between local and national actors, alongside coordinated support systems, is key to ensuring that implementation efforts are coherent and scalable.

Local policy initiatives provide concrete, operational models that can inform not only the design but also the practical implementation and adaptation of EU-level frameworks. Rather than creating new policies per se, a key first step is often to work more effectively with existing ones, through bottom-up approaches that define local success factors for implementation. In the case of the Corporate Sustainability Reporting Directive (CSRD), local governments can play a vital role in raising awareness, fostering tools, and facilitating networks, especially among SMEs. Clear delineation of roles between local and national actors is crucial here, as is the involvement of public-private partnerships in supporting policy uptake.

Across Europe, several examples illustrate how local action can both complement and inform EU-level policymaking:

- **Amsterdam** demonstrates how municipalities can align with national and EU frameworks while tailoring support to local needs. Its recent policy paper proposes actions such as an *impact meta measurement pilot* and enhanced exchange across governance levels. In doing so, the city emphasises guidance rather than duplication—connecting SMEs to national and EU offers, especially on socially-oriented ESG reporting, where smaller enterprises often require the most support. This article highlights some efforts, and a recently adopted policy paper includes actions such as the impact meta measurement pilot and structured exchange on information via local, national and international networks.
- **Madrid's community-driven circular hubs** highlight the need for **EU policies to embed local ecosystem-building measures**, supporting not just individual SMEs but the wider value chains and networks they depend on, to advance localised green transitions.
- **Vienna** has integrated circularity requirements into local funding programmes, setting a precedent for how EU funding instruments such as the Single Market Programme or InvestEU, might more effectively target small-scale innovation within the social economy.

The three above local governments have played a crucial role in bridging the gap between national ESG frameworks and local SME needs. By acting as guiding partners, they help contextualise national and EU tools like CSRD through tailored support, awareness-raising, and ecosystem-building. For example, Amsterdam's recently adopted policy paper exemplifies how cities can drive uptake and alignment from the ground up.

Moreover, across the Netherlands, regional government initiatives are playing a key role in strengthening social business models by facilitating value chain collaboration and clarifying the needs and opportunities for ESG-driven innovation. These initiatives are not only improving the matching of offers and demands but also shifting entrepreneurial mindsets, from passively awaiting support to actively creating new opportunities through ESG integration. A critical success factor has been the involvement of experienced entrepreneurs who act as trusted connectors or "local heroes," opening doors for peers, sharing practical examples, and helping others avoid reinventing the wheel. This peer-led infrastructure has made certain regions more attractive for social SMEs to expand into, creating positive spill-over effects. These developments are supported by national-level research, such as the Dutch Ministry of Economic Affairs' study on [The impact of CSRD on SME](recommendations in English), and the [Canvas by Utrecht University of Applied Sciences] on effective corporate–startup collaboration—which further illustrate the potential of coordinated, multi-level action to accelerate sustainable entrepreneurship.

Several of these local efforts already inform national debates, for example, through research by the Dutch Ministry of Economic Affairs on the impact of CSRD on SMEs, or the Utrecht University of Applied Sciences' work on corporate–startup collaboration models. In parallel, the **Circulaw** platform launched by Amsterdam provides a growing repository of over 300 legal instruments for anchoring circularity in procurement, permits, and local policy, potentially inspiring the development of an EU-wide circular procurement framework.

These examples underscore the importance of structured pathways for local insights to feed back into EU-level decision-making. From procurement design to reporting support, local governments help shape how European SMEs experience the ESG transition. To maximise policy impact, EU frameworks should actively integrate successful local innovations into regulatory updates, funding criteria, and business support programmes, ensuring that policies remain connected to entrepreneurial realities on the ground.

Importance of cross-border collaboration in supporting SME green transition

The Green at Heart project also highlighted the value of cross-border learning among SMEs, support organisations, and policymakers. Exchange of best practices, shared diagnostic tools, and joint capacity-building activities across countries have helped reduce fragmentation and accelerated SME green transition. Cross-border collaboration fosters peer learning, creates economies of scale for advisory services, and strengthens the European Single Market for sustainable businesses. EU initiatives should therefore continue to invest in transnational networks, harmonised tools, and cooperative projects that empower SMEs across different member states.

A coherent and impact-driven green transition for SMEs requires active policy alignment and structured mechanisms for local-to-EU learning transfer. Misalignment between regulatory ambitions and on-the-ground realities risks undermining SME participation in the transition. Policymakers should institutionalise mechanisms for capturing and scaling local policy innovations, ensuring that successful local interventions inform European Green Deal implementation, the revision of SME support strategies, and circular economy roadmaps.

The combination of multi-stakeholder and public-private engagement, including SMEs, support organisations, local governments, and financial actors, must be embedded in all stages of policy design, implementation, and evaluation to ensure that sustainability ambitions translate into tangible, measurable results across Europe's diverse entrepreneurial ecosystems.