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Toolkit Zone 1 Foundations of the Green & Circular Economy

What is the Green Economy?

Green and Circular Economy in Business by
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Chapter 2 - Understanding the Green Economy

The green economy is an economic system that seeks to expand growth and employment while operating within environmental limits. It creates value through activities that minimize impact and use resources efficiently, supported by green economic incentives—such as tax reliefs, subsidies, and innovation grants—that internalize environmental costs and spur investment in cleaner technologies and circular processes (Arsawan et al., 2024; European Commission, 2020). As a strategic agenda, it integrates economic prosperity, social inclusion, and environmental protection, positioning sustainability not as a trade-off with growth but as the foundation of long-term competitiveness through efficiency, innovation, and resilience (Lavrinenko, Rybalkin, Danileviča, & Sprūde, 2022; European Commission, 2020). In practice, environmental improvements—such as waste reduction, energy conservation, and process optimization—strengthen cost efficiency and risk management, while social practices like fair work, employee well-being, and community engagement build legitimacy and brand trust (European Commission, 2023b; Jenkins, 2009).



2.1 What Is the Green Economy?

Building on this premise, the green economy functions as a strategic framework that aligns economic growth, social inclusion, and environmental protection within planetary boundaries (Lavrinenko et al., 2022; European Commission, 2020). This framework reflects a shift from short-term gains toward systemic efficiency, innovation, and resilience, where environmental stewardship enhances competitiveness through lower costs, reduced risks, and improved market adaptability.

At the enterprise level, the green economy represents a new business paradigm that shapes how value is created, delivered, and sustained. For SMEs, integrating environmental and social considerations into their operations fosters innovation and differentiation, enhancing both performance and reputation.

Green innovation—through cleaner production, eco-design, and efficient resource use—acts as a bridge between sustainability goals and competitive advantage (OECD, 2021b; Porter & van der Linde, 1995).

Within this paradigm, sustainable consumption and production (SCP) aim to decouple growth from environmental degradation by improving productivity across product life cycles through circular material flows and responsible consumption patterns (UNEP, 2011).

Innovation and knowledge sharing play a pivotal role in accelerating this transition. The Quintuple Helix Model offers a systemic lens for understanding how sustainable innovation emerges from collaboration among five interacting spheres—government, business, academia, civil society, and the natural environment (Carayannis, Barth, & Campbell, 2012).

It highlights that advancing a green economy requires not only technology and finance but also cooperation, education, and public awareness. Viewed through this lens, a green economy is prosperity within planetary limits, powered by innovation, efficient resource use, and inclusive collaboration (UNEP, 2017).

Building on these conceptual foundations, the following section examines how green economy principles are operationalized within SMEs, focusing on their readiness to adopt circular economy practices.