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ERIA POLICY BRIEF

Closing the Gaps: Enabling Philippine SMEs to Adopt Circular Practices to Reduce Plastic Pollution

Key Messages:

- Philippine SMEs are essential to reducing plastic pollution but face financial, regulatory, technical, and infrastructure constraints that current policy does not address.
- CIRCONOMICS training improved participants' knowledge and confidence on every indicator measured, but knowledge gains alone do not drive implementation.
- SMEs identified four priorities: clear and SME-inclusive regulation, financial incentives, continuous capacity building, and enabling infrastructure.
- Policymakers should build an SME-responsive enabling environment combining these measures, and link domestic action to ASEAN's plastic circularity agenda.

Small and medium-sized enterprises (SMEs) are important actors across plastic packaging-intensive Philippine value chains. In 2023, the country had 114,675 SMEs employing 3.1 million people, about a third of employment in registered establishments (DTI, 2024). Yet circular economy policy is built around large producers, leaving SMEs outside the obligations, incentives, and guidance it creates.

The CIRCONOMICS (Circular Economics for Business Transformation) training workshop in Manila on 30 September 2025 shows that targeted capacity building works: participants' weakest areas at baseline, extended producer responsibility (EPR) and policy awareness, improved most. It also shows its limits. Participants left better informed but still constrained by unaffordable finance, fragmented regulation, and missing recycling infrastructure.

Capacity building is necessary but not sufficient. The Philippines should simplify circular economy regulation for smaller firms, prioritise tax incentives and a dedicated SME financing window, invest in co-ordination and infrastructure, and treat capacity building as a complement to these measures rather than a substitute.

The SME Gap in the Philippines' Circular Economy Transition

Plastic continues to leak into the Philippines' land and marine environments despite an established legal framework, including the Ecological Solid Waste Management Act of 2000 and the Extended Producer Responsibility Act of 2022, which amends it (Republic of the Philippines, 2022). This pollution threatens marine ecosystems, public health, and livelihoods, particularly in coastal communities. The Philippine National Plastic Action Roadmap 2026–2040, newly launched in September 2026, aims to reduce plastic pollution by 85% by 2040 (DENR, 2026). The gap is less one of legislation than of reach.

Most firms shaping the country's everyday packaging choices remain largely outside the framework. In 2023, the Philippines had 109,912 small and 4,763 medium enterprises – 114,675 in total – employing 3,132,064 people, or approximately 33% of employment in establishments recorded by the Philippine Statistics Authority (DTI, 2024). They cluster in retail, food service, manufacturing, and agriculture, where single-use plastic choices are made daily.

Their barriers differ in kind from those facing large firms: limited capital, thin technical capacity, little information on alternatives, and no compliance support. The EPR Act compounds this, placing mandatory obligations on large enterprises – and on smaller firms only where all enterprises carrying the same brand together exceed the medium-enterprise asset threshold – while MSMEs may take part voluntarily. Most SMEs that use plastic packaging therefore sit outside the incentives and guidance the Act creates, even as SMEs in collection and recycling supply the recovery market it generates.

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This is not a uniquely Philippine problem. Micro, small, and medium-sized enterprises (MSMEs) dominate the enterprise base of every ASEAN Member State. The ASEAN Regional Action Plan for Combating Marine Debris (ASEAN Secretariat, 2021) and the ASEAN Declaration on Plastic Circularity (ASEAN Secretariat, 2024) commit Member States to promoting circular business models and deepening public–private co-operation. Neither is achievable without smaller firms. As ASEAN Chair in 2026, the Philippines can demonstrate how regional commitments can be translated into SME-level implementation.

Findings: What CIRCONOMICS Reveals about SME Readiness

The CIRCONOMICS workshop, convened by ERIA's Regional Knowledge Centre for Marine Plastic Debris in Manila in September 2025, provides direct evidence of where SMEs stand. Participants were SME owners and managers from plastic-intensive sectors, alongside representatives from business associations, government agencies, and civil society organisations. Pre- and post-training surveys and facilitated discussions produced three findings.

1. Conceptual knowledge is established; policy literacy is weaker

Before training, participants reported reasonably strong familiarity with circular economy concepts (mean 3.93 of 5) but markedly lower awareness of the policies governing them (3.30) and of EPR principles (3.41). The pattern is diagnostic: participants understand what circularity asks of them commercially, but not what the regulatory framework requires of them or offers them. This indicates a gap in policy communication and accessibility.

2. Training narrows the knowledge gap, not the implementation gap

Training moved every indicator upward (Figure 1), and moved them furthest where the baseline was weakest: EPR understanding rose by 0.87 points and policy awareness by 0.80 points on the five-point scale, against 0.46 for plastic-impact awareness, which was already high. Relative to the room each indicator had to improve, however, these indicators also had the lowest baseline scores and remained the lowest-scoring indicators after training. These figures are the authors' calculations from the means in Figure 1. The pattern suggests that targeted training can narrow policy literacy gaps that may persist despite existing regulatory communication.

The gain did not extend to implementation. When asked what would stand in their way, participants named constraints outside their control: financing, affordable suppliers, market access, and the willingness of counterparties to change.

3. Structural barriers that knowledge cannot resolve

Facilitated group discussions identified four:

- **Finance**. SMEs cannot access capital for sustainable packaging, equipment upgrades, or business model change. The Organisation for Economic Co-operation and Development (OECD, 2025) finds that smaller firms rely disproportionately on internal resources and struggle more than large enterprises to obtain affordable green finance. Participants added a Philippine point: existing green incentives are designed around corporations, and most SMEs cannot meet the eligibility requirements.
- **Regulation**. Participants reported confusion about EPR obligations, available incentives, and compliance procedures, compounded by inconsistency between national rules and local government requirements.
- **Infrastructure and markets.** Collection, sorting, recycling, and reverse logistics are uneven, and circular products remain costlier and less accessible than conventional alternatives, which constrains supply-side options and consumer demand alike.
- **Capacity and time**. Few SMEs have staff able to design and run circular initiatives alongside daily operations.

When asked what would change this, participants prioritised the mirror image of these barriers: **financial incentives, clear and SME-inclusive regulation, continuous capacity building**, and **enabling infrastructure**.

From Capacity Building to an Enabling Policy Environment

The CIRCONOMICS results support one policy conclusion: capacity building is necessary but insufficient on its own.

SMEs that complete training are willing to act and know what to do. What they lack is an environment in which acting is affordable, legally clear, and operationally possible. Where that is absent, knowledge decays: participants return to businesses where sustainable packaging costs more, the nearest recycler is unreliable, and the incentive scheme they just learned about excludes firms of their size. Training then produces awareness rather than adoption.

This poses a real trade-off. Government can spread support thinly across many instruments, reaching more firms but changing few decisions, or concentrate it on the few measures that unlock investment. The evidence favours concentration. Capacity building should be sequenced with, and measured against, the regulatory, financial, and infrastructure measures that determine whether trained firms can act.

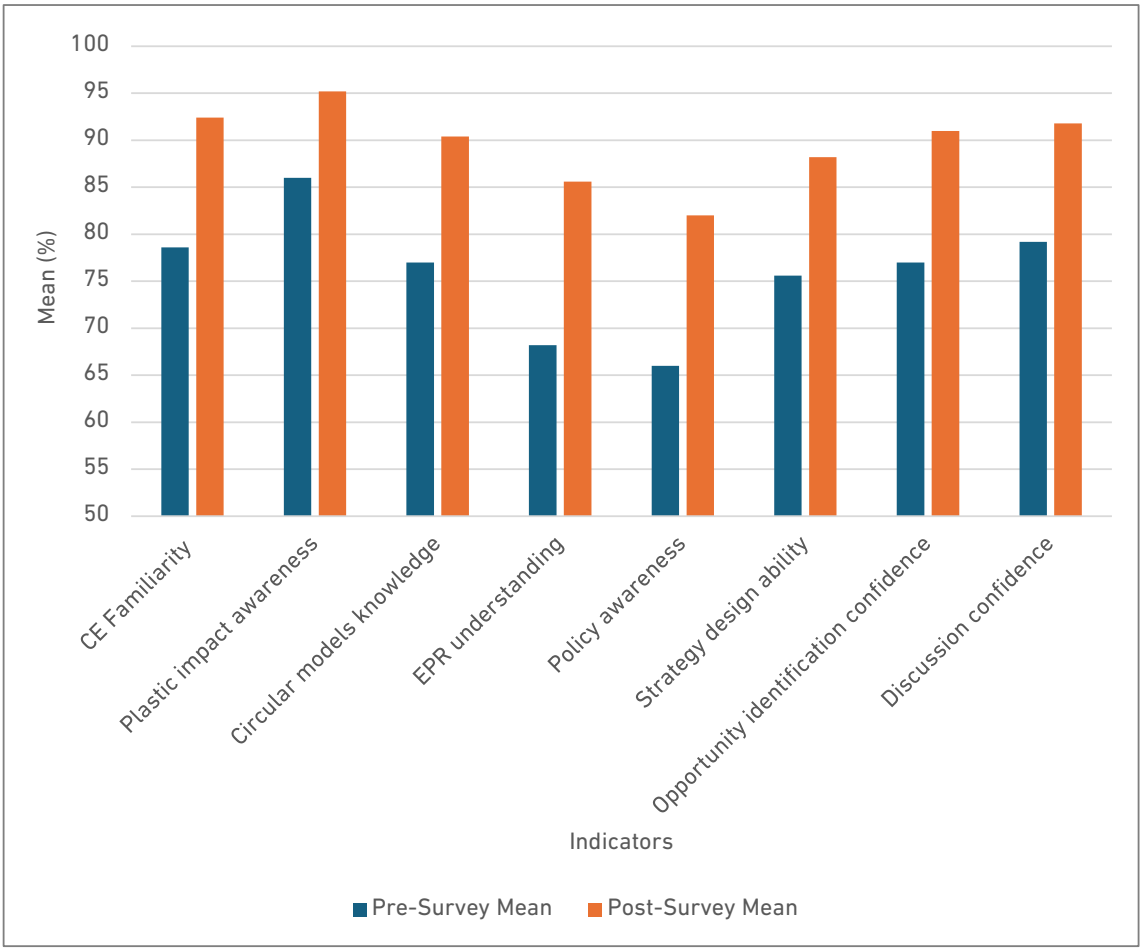
The sequencing problem is regional. Every ASEAN Member State that has endorsed the Declaration on Plastic Circularity faces the same question of how to reach smaller firms. The Philippine case suggests that the answer lies less in how much training is delivered than in whether the policy environment lets trained firms act.

1. Harmonise and simplify circular economy regulation for SMEs

Issue SME-specific EPR and circular economy guidance setting proportionate obligations, defined transition periods, and simplified compliance procedures, and align national requirements with local government rules so firms do not face conflicting demands across jurisdictions.

The Department of Environment and Natural Resources (DENR) and the Department of Trade and Industry (DTI)

Figure 1. Pre & Post Survey Results from CIRCONOMICS Training Workshop



Indicator	Pre-Survey Mean (5-point Likert scale)	Post-Survey Mean (5-point Likert scale)
CE Familiarity	3.93	4.62
Plastic impact awareness	4.3	4.76
Circular models knowledge	3.85	4.52
EPR understanding	3.41	4.28
Policy awareness	3.3	4.1
Strategy design ability	3.78	4.41
Opportunity identification confidence	3.85	4.55
Discussion confidence	3.96	4.59

Note: green = high (≥4.50), yellow = moderate (3.50–4.49), orange = low (<3.50)
Source: Authors, from CIRCONOMICS pre- and post-training surveys (pre-training n = 27; post-training n = 29).

should lead jointly, consulting the National Solid Waste Management Commission, local government leagues, industry associations, and civil society. Begin with institutional role clarification and develop a plain-language compliance toolkit for SMEs. This guidance could then be piloted in the two sectors where SME plastic use is most concentrated – food service and retail – before being refined for wider national rollout.

2. **Prioritise tax incentives and a dedicated SME circular financing window**

Two instruments should come first. Extend the tax exemptions already available under the Barangay Micro Business Enterprises Act (Republic Act No. 9178) to SMEs making verifiable circular investments, and open a dedicated circular economy financing window within existing SME finance institutions rather than building new machinery.

Finance was the barrier CIRCONOMICS participants raised most often, and the one the international evidence identifies most consistently (OECD, 2025). This should then be paired with targeted technical assistance to help SMEs identify viable investments and circular solutions.

The Department of Finance and the Bureau of Internal Revenue should lead on the fiscal measures; DTI, through its existing SME financing and support institutions, should lead on the financing window. Eligibility should rest on simple, verifiable criteria, and the application process should be designed for firms without compliance staff.

3. **Strengthen institutional co-ordination and circular economy infrastructure as separate priorities**

Designate a lead agency, or strengthen the existing inter-agency mechanism, so an SME has one point of contact rather than several, and establish a Circular Economy Information Portal consolidating policies, incentives, accredited recyclers, and compliance guidance, with digitalised application and reporting. On physical infrastructure, expand collection, sorting, and reverse-logistics capacity through public–private partnerships, prioritising regions with the highest SME density.

DENR and the National Solid Waste Management Commission should lead nationally, with local government units integrating circular targets into local development plans and supporting community-based collection and reuse. The portal should be the single entry point for both regulation and incentives, so that the clarity created under Recommendation 1 and the finance under Recommendation 2 reach SMEs through one channel.

4. **Institutionalise capacity building as a complement to regulation, finance, and infrastructure**

Make continuous, sector-tailored capacity building a standing component of circular economy policy, complementing rather than substituting for the measures above. Scale DTI's Green Economic Development programme and embed it in circular economy frameworks; add voluntary certification or labelling so trained firms can convert compliance into market advantage; and pair training with public awareness work so consumer demand supports the shift.

DTI and DENR should lead, with the Department of Education on public education, and industry associations and local governments hosting demonstration projects and circular economy fairs. Capacity building should be sequenced with regulatory, financing, and infrastructure support, not treated as a standalone intervention.

Conclusion

SMEs can contribute significantly to plastic circularity, but training alone will not overcome the financial, regulatory, technical, and infrastructure barriers they face. The Philippines should combine SME-responsive regulation, prioritised financial and technical support, stronger infrastructure and governance, and sustained capacity building, sequenced so each reinforces the others. Together, these measures would give the Philippines a working model for SME-level implementation, offering practical lessons for other ASEAN Member States.

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