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Toolkit Zone 2 Navigating EU Sustainability Frameworks

EU Taxonomy Reference

Green and Circular Economy in Business by
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3.2.2 EU Taxonomy for Sustainable Activities

The **EU Taxonomy for Sustainable Activities** is the EU's official dictionary of what counts as an **environmentally sustainable economic activity**. It does **not** label whole companies as “green” or “brown”; instead, it classifies specific activities and links them to **financial metrics** such as turnover, capital expenditure (CapEx) and operating expenditure (OpEx) (EU Platform on Sustainable Finance, 2025).

For SMEs, the Taxonomy can feel abstract and technical. But it already shapes **how banks lend, how investors allocate capital and how large customers assess their suppliers**, so it increasingly influences which firms are financed and which remain in key value chains (Amoedo, 2025; Coolset, 2025).

What the EU Taxonomy classifies

The EU Platform describes the Taxonomy as a “**breakthrough tool**” and the **cornerstone of the EU sustainable finance framework**, covering **six environmental objectives** and more than **150 economic activities** (EU Platform on Sustainable Finance, 2025). For each activity, it sets **technical screening criteria**, “Do No Significant Harm” (DNSH) requirements for the other environmental objectives, and **minimum social safeguards**.

The Taxonomy classifies **activities, not companies**, distinguishing between:

- **Taxonomy-eligible** activities – in scope of the Taxonomy; and
- **Taxonomy-aligned** activities – those that meet all technical criteria, DNSH and minimum safeguards.

It then **translates this into numbers** by requiring companies to disclose the share of **turnover, CapEx and OpEx** associated with eligible and aligned activities, while financial institutions disclose ratios such as the **Green Asset Ratio** and **Green Investment Ratio** (EU Platform on Sustainable Finance, 2025). In just a couple of reporting cycles, this has already revealed large volumes of “green” revenue and investment, showing that the Taxonomy is actively **mobilising capital** rather than just sitting on paper (EU Platform on Sustainable Finance, 2025).

A simple way to put it for SMEs is:

CSRD tells companies to report on sustainability; the EU Taxonomy tells them which activities count as environmentally sustainable; and Article 8 of the Taxonomy Regulation turns that into hard numbers on green turnover and green investment (Coolset, 2025; EU Platform on Sustainable Finance, 2025).

How the Taxonomy connects financing, investment and business operations

The Taxonomy sits inside a wider **sustainable finance ecosystem** that also includes CSRD and ESRS, SFDR (fund disclosures), the EU Green Bond Standard, MiFID sustainability preferences, due-diligence rules and banking regulations on ESG risk (EU Platform on Sustainable Finance, 2025). Together, these tools are designed to **reorient capital flows** towards a climate-resilient, net-zero economy.

The key link for SMEs is the connection between **CSRD and the Taxonomy**:

- The **Taxonomy Disclosures Delegated Act** (Article 8) requires large financial and non-financial companies that report under CSRD to disclose **how and to what extent** their activities are associated with environmentally sustainable activities.
- In practice:
 - **CSRD/ESRS** define *what* sustainability information must appear in the management report.
 - The **Taxonomy** defines *which activities qualify* as environmentally sustainable.
 - **Article 8** defines *the KPIs* (percentages of turnover, CapEx, OpEx and banking ratios linked to Taxonomy-aligned activities).

This creates a **direct bridge** between **operations** and **finance**: what a company actually does on the ground is mapped against the Taxonomy; part of its revenue and investment is labelled “green”; and those percentages are then used by banks, investors and rating agencies when they evaluate the company (Coolset, 2025).

For in-scope mid-sized firms, ignoring Taxonomy expectations can mean regulatory issues, **harder access to green financing**, greenwashing concerns and messy, last-minute corrections to data (Coolset, 2025). That same logic trickles down to smaller suppliers and borrowers who may not report themselves, but whose activities influence their customers’ and lenders’ Taxonomy numbers.

Why SMEs must understand the Taxonomy: supply chain alignment, funding access, credibility

The Taxonomy was not written with SMEs as the main audience and, in its full technical detail, it is **too complex for most SMEs to apply directly** (Amoedo, 2025; EU Platform on Sustainable Finance, 2025). Yet SMEs generate more than half of EU GDP and around two-thirds of enterprise greenhouse-gas emissions, so Europe’s transition goals depend heavily on them (Amoedo, 2025). At the same time, many SME green projects remain **self-financed** because

sustainable finance frameworks are hard to navigate and usable data are lacking.

Supply chain alignment: being “Taxonomy-friendly” for large customers

As CSRD expands the scope of mandatory sustainability reporting, more **mid-market firms and their SME suppliers** are pulled into Taxonomy-related questions (Coolset, 2025). Even if an SME never issues a Taxonomy report, its **key customers and banks do**, and they must explain how far their activities and value chains are Taxonomy-aligned (EU Platform on Sustainable Finance, 2025).

For SMEs, this shows up as:

- questions about which of their **products, services or projects** could qualify as environmentally sustainable.
- requests for **evidence** such as labels, certifications, energy or emissions data; and
- pressure to **shift away from clearly non-aligned activities** that undermine customers’ Taxonomy and CSRD KPIs.

In other words, **supply-chain alignment** becomes a competitive factor: SMEs that can present themselves as “**Taxonomy-friendly partners**” are easier to keep in the value chain.

Funding access: SME-specific Taxonomy approaches and standards

Recognising that the full Taxonomy is not workable for most smaller firms, the EU Platform has proposed **SME-specific approaches** built on Taxonomy concepts but tailored to their reality (EU Platform on Sustainable Finance, 2025):

- A **Simplified Approach** for **listed SMEs**, focused on applying existing Taxonomy criteria in a lighter, less document-heavy way.
- A **Streamlined Approach** for **unlisted SMEs**, offering a voluntary framework to show climate-related efforts and support access to finance. This starts with **climate change mitigation and adaptation** and is designed to extend over time to all six environmental objectives.

The Streamlined Approach suggests practical simplifications for unlisted SMEs, such as:

- using **NACE codes flexibly** rather than rigidly,
- simplifying life-cycle assessment demands, and
- relying on a **short exclusion list** (e.g. no fossil-fuel expansion) plus basic legal compliance as environmental and social safeguards.

Unlisted SMEs could then report a **small set of KPIs** under this approach, which banks and value-chain partners can use alongside Taxonomy data to identify and

support credible transition efforts (EU Platform on Sustainable Finance, 2025). In parallel, the **SME Sustainable Finance Standard** proposed by the Platform is designed as a **voluntary, simplified framework** that allows SMEs to:

- demonstrate their **environmental and climate performance**, and
- make it easier for **banks and investors to classify SME loans and investments as green or transition finance** (Amoedo, 2025).

It focuses on a limited number of climate-related KPIs and is intended to be implemented via a user-friendly online “**SME Sustainability Checker**”. The standard is **inspired by the Taxonomy** (DNSH, minimum safeguards, climate objectives) but **less strict** than the full Climate Delegated Act: an SME meeting it would be “SME-standard aligned” rather than fully Taxonomy-aligned, but that is still enough to unlock **green or transition funding** and to signal seriousness to lenders (Amoedo, 2025).

Credibility and greenwashing risk

Because Taxonomy-style metrics are increasingly used to test whether a company’s sustainability claims are real, weak or inconsistent data fuel **greenwashing concerns**. Larger companies risk reputational and regulatory consequences; smaller suppliers risk being seen as **too risky or**

opaque to include in green or transition strategies (Coolset, 2025).

SMEs that can provide **Taxonomy-aware, even if simplified, data**:

- strengthen their **credibility** with banks and major customers,
- fit more easily into **sustainable finance products and ESG-driven supply chains**, and
- show that they are actively contributing to the transition, not just reacting under pressure (Amoedo, 2025; Coolset, 2025).

A practical takeaway for SMEs

SMEs **do not need to master every technical detail** of the EU Taxonomy. But it is increasingly important that they:

- understand that **banks and large clients are using Taxonomy logic to steer capital**.
- have a basic sense of **which of their activities could qualify as environmentally sustainable and what proof might be needed**.
- know that **simplified and streamlined SME standards** are emerging as **Taxonomy-inspired, SME-friendly routes** to green funding; and
- treat Taxonomy-related data as part of their **overall ESG information system**, which also serves CSRD-driven supplier

questionnaires, internal efficiency
and long-term strategy.

Seen this way, the EU Taxonomy is not
just a distant regulation in Brussels but a
shared language connecting **what SMEs
do** with **how money flows**. SMEs that
learn to speak this language—using
proportionate tools and standards—will
be **easier to finance, easier to keep in
supply chains and more credible partners**
in Europe’s sustainability transition.



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