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Toolkit Zone 2 Navigating EU Sustainability Frameworks

SME relevant implications

Green and Circular Economy in Business by
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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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