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# Toolkit Zone 2 Navigating EU Sustainability Frameworks

## Taxonomy logic explained

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.



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