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SUSTAINABLE FINANCE TAXONOMIES AROUND THE WORLD: AN EMPIRICAL LEGAL ANALYSIS

A first global assessment of sustainable finance taxonomies reveals an alignment on overall framework design despite distinct embeddings in legal systems and resulting market consequences, suggesting a process of gradual convergence rather than full harmonisation.

BACKGROUND AND STUDY RATIONALE

Sustainable finance taxonomy as a structured framework for policy operationalisation

Private capital markets play an increasingly important role in financing the transition to low-carbon and socially inclusive economies around the world. This has led to the proliferation of dedicated sustainable financial products. However, the lack of a shared definition around what qualifies as "sustainable" limits the reach of this emerging class of financial products and poses significant greenwashing risks, in turn undermining market credibility and investor confidence.

As a result, national and regional jurisdictions have been developing sustainable finance (SF) taxonomies. These structured frameworks establish rigorous criteria for determining whether given economic activities support sustainability goals. They act as **operational tools for translating broad sustainability policy ambitions into specific, verifiable and market-relevant benchmarks,** thereby providing a common language for legislators, investors and corporations alike.

While SF taxonomies vary across jurisdictions, they share **a set of defining features:**

1. **Their objectives and scope of activities,** which define the policy goals addressed, alongside the economic activities, sectors and financial instruments covered;
2. **Their methodological design,** which sets the criteria, thresholds and benchmarks used to assess and classify a given economic activity;
3. **Their governance structure,** which founds their institutional legitimacy and robustness;
4. **Their legal embedding,** which determines their regulatory function (e.g. voluntary or legally binding).

The need to appraise the impact of these features on the interoperability and role of taxonomies in the broader SF landscape becomes particularly relevant amid efforts to develop a global SF taxonomy at the Conference of the Parties (COP) 30[1].

RESEARCH QUESTION AND METHODOLOGY

Comparing the design, scope and governance structure of sustainable finance taxonomies

This study explored the extent to which SF taxonomies around the world are converging in their overall structure. A **qualitative content analysis**[2] was adopted to compare the scope, design, governance and regulatory function of 50 SF taxonomies globally, including 28 adopted frameworks and 22 under development or formally announced (as of December 2025).

[1] https://www.unepfi.org/

[2] A systematic research method to analyse large textual data with a focus on content categorisation and interpretation.

Primary legal and policy documents were obtained from online searches on government websites, central banks, regulatory bodies and dedicated SF units, complemented by publications from relevant international institutions (e.g. OECD, the World Bank) and validated by expert input. Taxonomies were classified according to the World Bank's 2024 income group categories to further contextualise inter-jurisdictional variation.

RESULTS

Towards a convergent global regulatory framework design

- **The comparative analysis of SF taxonomies reveals a convergence in their core design towards a global regulatory model.** The universal adoption of environmental objectives, including climate change mitigation and adaptation, reflects the influence of the EU's pioneering framework. While less consistent, 88% of taxonomies incorporate social objectives. High-income countries tend to prioritise environmental objectives, while efforts to expand beyond environmental dimensions are led by middle- and lower-income countries, spearheaded by the Association of Southeast Asian Nations (ASEAN) and the Latin American and Caribbean (LAC) taxonomies.
- **Taxonomies also tend to favour a combination of quantitative thresholds** (employed by 80% of taxonomies) and qualitative criteria (84%) alongside principle-based methodologies (82%). This hybrid methodological design reflects a desire to balance **scientific robustness with contextual flexibility.** Taxonomies thus acknowledge national and sectorial differences, functioning as dynamic instruments rather than as static lists of compliant activities.
- **A key difference among taxonomies lies in their embedding in legal systems** and the **extent to which they produce legal or market consequences or not.** Taxonomies remain descriptive where they serve as objective classification systems, without triggering legal or market obligations (i.e. merely defining compliant activities). In contrast, they become regulatory labels when definition alignment leads to binding consequences, such as disclosure requirements, prudential treatment, or product certification. Thus, the concept of a taxonomy does not necessarily trigger legal obligations; instead, the inclusion or exclusion of activities from regulatory recognition, investor demand, or better financing terms is merely a **design choice.**

LOOKING AHEAD

Balancing framework comparability with flexibility

1. **Taken together, the analysis highlights a convergent but not uniform trajectory**
Although many frameworks are moving in similar directions, they continue to reflect domestic priorities, regulatory capabilities and socio-economic realities. While this variation reflects differences in priorities rather than fundamental incompatibilities between taxonomies, it may still generate practical frictions for cross-border investors, particularly where thresholds, legal effects and sectoral coverage diverge. The balance between the benefits of comparability and the need for flexibility is thus a necessity and will continue to shape how taxonomies evolve in the future.

2. **Taxonomies must remain dynamic instruments**
The global landscape enters a phase of simplification and regulatory recalibration, amid concerns about over-regulation and its potential to stifle innovation. Maintaining credibility will depend on striking a balance between robustness and usability, ambition and proportionality, stability and adaptability. Jurisdictions will need to grapple with an emerging question at the heart of debate: should SF taxonomies merely *describe* existing practices, or *prescribe* how classifications ought to be made?

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