EUROSIF RESPONSE

CONSULTATION ON THE CONCEPT PAPER FOR THE DNSH PRINCIPLE UNDER THE NEXT MFF

September 2026

As the EU prepares its next Multiannual Financial Framework (2028-2034), the future application of the "Do No Significant Harm" (DNSH) principle will play a key role in determining how public funding supports Europe's climate and environmental objectives.

For investors, a clear and credible DNSH framework is essential to ensure that public and private capital are directed towards the same transition objectives. By providing a common reference point across EU spending programmes, DNSH can strengthen policy coherence, support long-term investment decisions and help mobilise capital towards a resilient and competitive European economy.

Eurosif has responded to the European Commission's consultation on the concept paper for the future application of DNSH under the next MFF, outlining investors' priorities for the future framework and the guidance that will underpin its implementation.

Eurosif key messages

- **Preserve DNSH as a robust safeguard for sustainable investment and public spending.** DNSH remains an important tool to ensure that EU funding supports the Union's climate and environmental objectives and avoids creating long-term environmental risks, lock-in effects or stranded assets.
- **Maintain a single, horizontal DNSH framework across the MFF.** A common approach across EU spending programmes can reduce complexity, increase legal certainty and streamline implementation for public authorities, beneficiaries and investors.
- **Ensure that exemptions and carve-outs remain targeted and proportionate.** While Eurosif supports the proposed list-based approach as a basis for simplification, broad exclusions and automatic exemptions could undermine the effectiveness and credibility of the framework.

The Commission's consultation questions are highlighted in blue, while Eurosif's responses appear on white. Only the questions to which Eurosif provided a response are included.

General questions on the proposed approach

Overall, do you think that the framework presented in the concept paper strikes a good balance between ensuring an adequate level of environmental protection and remaining proportionate and simple to apply?

To some extent.

Eurosif supports a single DNSH framework across the EU budget, as it can reduce complexity, and increase consistency and legal certainty for public authorities implementing EU funds, beneficiaries and final recipients, including companies and financial market participants involved in EU-supported operations.

However, simplification should not weaken DNSH as a safeguard for the effective use of public resources consistent with the EU climate and environmental objectives. The main risk lies in the proposed combination of the limited list of activities subject to specific DNSH criteria, broad carve-outs and exceptions and automatic compliance for activities outside the list. This could create a concrete risk that MFF still supports activities that generate long-term climate and environmental risks, carbon lock-in or stranded assets, thereby undermining the EU's own climate and environmental objectives and competitiveness.

The list should remain the primary, simple eligibility check. For listed activities, the guidance should clarify how compliance with any carve-out will be demonstrated and verified. "Where feasible and appropriate" exceptions should be narrowly defined, transparently justified and subject to appropriate safeguards. Activities outside the list should not be deemed automatically compliant but subject to a proportionate second screening, where environmental risks or negative impacts are identified. For financial instruments, this second layer should build on the approach already established: the InvestEU Regulation and the Technical Guidance on Sustainability Proofing.

Compliance should be demonstrated ex ante and verified during implementation, with clear consequences in cases of non-compliance, including corrective measures, suspension or recovery of funding where appropriate.

DNSH should also go beyond mere compliance with other existing environmental law: legal compliance should be the baseline, while DNSH should provide an additional safeguard.

General principles applicable to the DNSH approach (section 1 of the concept paper)

Do you think that the proposed approach in the concept paper, relying on a single list of DNSH criteria that are included in a guidance and are known upfront, is simpler and reduces administrative burden compared to the ways the DNSH principle is currently applied across the EU budget?

To some extent.

A single guidance can improve usability and reduce administrative burden for the users, i.e. companies, financial market participants benefiting from EU funding incl. grants or blended finance operations, as well as for the competent authorities. However, its effectiveness depends on the right mix of sufficient ambition of the criteria and their usability as well as exhaustiveness (coverage of the criteria). Relying only on a list risks leaving unassessed activities that are not listed but may still raise material environmental or transition risks. The list should serve as the primary eligibility check. Activities outside it should undergo proportionate screening for material climate or environmental impacts, with further proofing and mitigation required only where such impacts are identified. For financial instruments, this second step could build on the established InvestEU approach under Articles 8(5) and 8(6) of Regulation (EU) 2021/523 and Commission Notice 2021/C 280/01.

Do you think that the proposed approach in the concept paper allows to achieve the set objectives of the relevant programmes or instruments in line with the Union's policy priorities?

To some extent.

We understand the question as asking whether DNSH can prevent EU funding from undermining the policy priorities that programmes are meant to support. The concept paper goes in the right direction by seeking a simpler and unified framework. However, the proposed exhaustive list may fail to capture activities that are not listed but still present environmental or transition risks. This could allow spending to be formally compliant while still undermining EU climate objectives, for example by creating lock-in effects or stranded assets.

Do you think that the proposed approach in the concept paper avoids duplication with existing EU environmental legislation?

To some extent.

It is appropriate to take existing EU environmental law as the baseline and avoid reassessing requirements that are already legally prohibited or controlled. However, this should not turn DNSH into a mere legal compliance check. Existing law should be a prerequisite, while DNSH should remain an additional safeguard for the use of EU public funds.

The final guidance should set out a clear operational sequence: compliance with applicable EU environmental law should be a prerequisite (e.g. Strategic Environmental Assessment); DNSH should then operate as an additional safeguard for EU public funding where material environmental or transition risks may remain; and existing EU tools, including Taxonomy alignment and the Commission's Guidance on environmentally harmful subsidies, should be used as evidence and consistency checks to avoid duplication while preserving the added value of DNSH. This would avoid duplication while preserving the added value of DNSH.

Do you think that the proposed approach in the concept paper to applying the proportionality principle is adequate and operational?

To a limited extent.

The concept paper identifies relevant proportionality factors; however, the final guidance should clarify how these factors will be weighted in practice. In particular, proportionality should be operationalised primarily as a risk-based tool: simplified requirements should be reserved for genuinely low-risk cases, while activities with material environmental impacts, sensitive locations, cumulative effects or lock-in risks should remain subject to stronger scrutiny, regardless of their size or cost.

Small or low-cost activities can still have significant impacts, particularly in biodiversity-sensitive or water-stressed areas, or where similar activities create cumulative effects. Approaches for specific territories or third countries may be justified, but should not lower safeguards where local rules are weaker or EU funding risks supporting activities with biodiversity, land-use or lock-in impacts.

The final guidance should include a risk-based methodology, with stronger scrutiny for material environmental, territorial or lock-in risks, and simplified requirements only for genuinely low-risk cases.

Do you think that a specific approach should be developed for applying the DNSH principle to financial instruments and budgetary guarantees?

Yes.

A specific approach is needed where financial instruments, budgetary guarantees or equity-type products do not finance a single identifiable project or activity. However, a dedicated approach should not mean weaker safeguards.

The final guidance should clarify how DNSH will be assessed where funding is not clearly linked to specific activities, including general-purpose financing, equity products or working capital. It should address the risk that EU public support could indirectly support companies with significantly harmful activities. For example, a company receives general-purpose support because it has a renewable investment line while it continues to rely on high-impact activities. Safeguards could include a cap on revenues from activities excluded under the DNSH list, with a forward-looking assessment for pre-revenue companies. Moreover, entity-level credible, science-based transition plans with time-bound targets should be required and their implementation verified. Transition plans would demonstrate how a company intends to reduce its impacts and align future capital expenditure with its climate and sustainability targets. This could build on the CSRD/ESRS requirements, the EC recommendation on Transition finance and the existing InvestEU sustainability proofing of equity investments in ETS companies.

Do you have any comments on the concept paper's section on the principle of 'where feasible or appropriate' (section 1.B)?

Yes.

Please provide your comment on the definition of crisis

The proposed crisis exemption would be too broad if it applied to any intervention field merely because it has a link to a crisis. A crisis should not in itself mean that applying DNSH is unfeasible or inappropriate. The exemption should be limited to measures that are strictly necessary, directly and demonstrably respond to the crisis, and can be delivered within the time frame required to address it. It should not support long-lived investments that create environmental harm or lock-in without providing an effective crisis response. Existing carve-outs for emergency needs and the separate defence and security exemption should also be considered to avoid overlapping derogations. Each use of the exemption should be justified ex ante and subject to the Commission's scrutiny.

Please provide your comment on the definition of defence, including dual-use activities.

A blanket exemption for entire defence and security intervention fields could allow environmentally harmful investments to escape scrutiny even where applying DNSH safeguards would remain feasible and compatible with the relevant defence or security objective. Exemptions should therefore be limited to activities where applying DNSH would demonstrably impede that objective, rather than applying automatically to all expenditure classified under a broad intervention field.

Please provide your comment on the application of the 'where feasible or appropriate' principle

The principle should be applied cautiously. While some flexibility may be necessary, the final guidance should ensure that exceptions remain clearly defined, narrowly interpreted and justified case by case. Crisis, overriding public interest or defence/security should not become broad blanket exemptions from DNSH.

Otherwise, there is a risk of uneven implementation across Member States and exceptions for crisis, overriding public interest and defence applied too broadly, rather than remaining case-specific exceptions to the application of DNSH.

Member State justifications should be subject to evidence requirements and Commission scrutiny. Exceptions should not become a catch-all for sectors or project types. Where DNSH is considered not feasible or appropriate, the guidance should require transparent justification and safeguards to limit environmental harm, to avoid a priori exemptions for entire sectors or project types.

This is essential to preserve the credibility of DNSH while allowing genuinely exceptional cases to be addressed.

DNSH areas and criteria (section 2 of the concept paper)

Final questions

Do you consider that any of the criteria included in the concept paper are not necessary?

No, they are all necessary.

Do you see the need to include any additional criteria or areas not covered in the concept paper?

Additional targeted criteria should be considered for:

Agriculture and land use, particularly activities involving conversion of biodiversity-rich land, intensive irrigation in water-stressed areas, or practices causing material soil degradation or biodiversity loss. Agriculture is not entirely absent from the concept paper, but the current criteria mainly address irrigation and selected energy-related activities rather than the sector's wider impacts on climate, water, soil and biodiversity.

Large-scale digital infrastructure, particularly data centres supporting AI and cloud computing. These investments may create significant electricity demand, water consumption, grid constraints and location-specific impacts, especially where powered by carbon-intensive electricity or located in water-stressed areas.