The EU's Social Climate Fund and the 'do no significant harm' principle

Lessons for Ukraine's public investment management system

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Ukraine can strengthen the environmental safeguards in its public investment management system by learning from the EU's Social Climate Fund. The Social Climate Fund applies the 'do no significant harm' (DNSH) principle in a practical and accessible way, combining a short self-assessment, clearer screening, and lists of activities that are ineligible for funding. Ukraine has taken initial steps in this direction, as it refers to the DNSH principle in its public investment management reform and has developed the Digital Restoration Ecosystem for Accountable Management (DREAM).[1]

However, environmental safeguards remain largely a formality. Screening currently relies on yes/no checklists that project initiators fill in themselves, without independent analysis. Available evidence indicates that projects have been

[1] Ministry for Communities, Territories and Infrastructure Development of Ukraine, DREAM platform, accessed 14 May 2026.

selected despite environmental risks not having been adequately assessed, as confirmed by our analysis of DREAM data, the Single Project Pipeline for 2026,[2] Bankwatch's sectoral analysis of the Pipeline[3] and a study by non-governmental organisations.[4]

To close this gap, we recommended introducing standardised DNSH screening tools, adopting a hybrid list of excluded activities, aligning environmental screening with EU sustainability frameworks such as the EU taxonomy, and strengthening verification and monitoring, including independent and civil society oversight through DREAM. Implementing these actions would help reconstruction become a green and EU-aligned recovery effort.

State of play

Ukraine is undergoing large-scale reconstruction while also reforming its public investment management system. In the coming years, billions of euros are projected to be invested in infrastructure, energy systems, housing and public services. With Ukraine moving towards EU membership, its investment decisions need to align with EU environmental and climate standards.

Environmental safeguards must therefore become an integral part of how public investment projects are designed, selected and implemented. One of the key screening tools used in EU funding at the very early stages of project preparation is the 'do no significant harm' (DNSH) principle.[5] Recent EU guidance under the Social Climate Fund provides useful lessons on how it can be applied in a more practical and accessible way.[6] It requires projects supported by public funds to avoid causing significant harm to environmental objectives, including climate change mitigation and adaptation, biodiversity protection, pollution prevention and control, and the sustainable use of water and resources. In practice, applying the DNSH principle can be challenging; nevertheless, it helps developers avoid related risks.

Our analysis of EU regulatory frameworks (in particular the EU Taxonomy Regulation, the Social Climate Fund Regulation, and the European Commission's DNSH technical guidance under the Social Climate Fund),[7] Ukrainian legislation (including the public investment management reform, methodological recommendations, and the Strategy for State Climate Policy up to 2035), as well as the exclusion and risk-

[2] Ministry for Communities, Territories and Infrastructure Development of Ukraine, Єдиний проєктний портфель публічних інвестицій, accessed 14 May 2026.

[3] Mykola Kobets, Anastasiia Nahorna, Kostiantyn Krynytskyi, Ukraine's public investment management reform: Sectoral analysis of the Single Project Pipeline, CEE Bankwatch Network, 20 February 2026.

[4] DiXi Group, Green Transition Office, Оцінка інвестиційних портфелів України на відповідність Таксономії ЄС: аналіз державних та приватних проєктів, February 2026.

[5] European Parliament, Council of the European Union, Regulation (EU) 2020/852 of 18 June 2020 (EU Taxonomy Regulation), Article 17.

[6] European Parliament, Council of the European Union, Regulation (EU) 2023/955 of 10 May 2023 establishing a Social Climate Fund and amending Regulation (EU) 2021/1060.

[7] European Commission, DNSH technical guidance under the Social Climate Fund, 5 March 2025.

categorisation framework applied by the European Bank for Reconstruction and Development (EBRD), provides guidance on how Ukraine's public investment management reform can better address the needs of the project initiators – particularly communities – through optimised methodologies. This briefing summarises the findings of a more detailed analysis set out in our accompanying report on the Social Climate Fund and lessons for Ukraine.[8]

Why focus on the Social Climate Fund?

The Social Climate Fund was established as part of the EU's response to the social impacts of extending the Emissions Trading System to buildings and transport (ETS2).[9] It aims to support the most vulnerable households and microenterprises during the green transition while helping to prevent increases in energy and transport poverty. To access the Fund's resources, EU Member States must develop national social climate plans outlining the measures they will implement. The Fund provides at least EUR 86.7 billion for the period 2026–2032. Eligible measures include building renovations, cleaner heating and cooling systems, renewable energy installations in buildings, low- and zero-emission transport, and cycling infrastructure.

The Social Climate Fund is the most recent major EU funding instrument with a dedicated DNSH application framework, incorporating lessons from earlier instruments such as the Recovery and Resilience Facility[10] and the Just Transition Fund.[11] The sectors it finances mirrors priority sectors for Ukraine's reconstruction, including energy infrastructure, housing and municipal services. It also addresses the social dimension of the green transition, which is highly relevant for Ukraine, where vulnerable households face overlapping energy and economic pressures. By combining sector-specific annexes with performance-based financing, the Fund offers a practical model that reduces the bureaucracy associated with project-by-project reviews while remaining consistent with EU sustainability standards.

Environmental safeguards under the Social Climate Fund

The DNSH principle is a relatively new but increasingly important requirement in EU environmental and climate policy. Defined in Article 17 of the EU Taxonomy Regulation,[12] it aims to ensure that economic activities do not undermine key environmental goals. An activity complies with DNSH only if it does not significantly harm any of the following six environmental objectives: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a

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[8] Anna Rudzinska, Vladlena Martsynkevych, The Social Climate Fund and the 'do no significant harm' principle: Lessons for Ukraine's public investment management system, CEE Bankwatch Network, 24 June 2026.

[9] European Parliament, Council of the European Union, Regulation (EU) 2023/955.

[10] European Commission, The Recovery and Resilience Facility, 8 October 2025.

[11] Ibid.

[12] European Parliament, Council of the European Union, Regulation (EU) 2020/852.

circular economy; pollution prevention and control; and the protection and restoration of biodiversity and ecosystems.

The DNSH principle should not be confused with an environmental impact assessment. While both instruments aim to protect the environment, they serve different purposes and are applied at different stages of the project cycle.

Table 1. Comparison between DNSH and EIA in the EU.

	DNSH	Environmental impact assessment
Nature	A screening tool	A detailed environmental assessment
Application	Used to assess whether a project is eligible for EU funding	Part of national permitting procedures
Purpose	Identifies and excludes activities that could significantly harm environmental objectives at early stages	Identifies, evaluates and mitigates environmental impacts before project approval

The two approaches are complementary: DNSH filters out harmful investments at an early stage, while environmental impact assessments ensure that approved projects are assessed and managed in greater detail. Where an environmental impact assessment has already been completed, it may inform the assessment of DNSH compliance; however, it cannot replace it, as it does not determine whether a project causes harm to the six objectives or establish thresholds for what constitutes significant harm.

Under the Social Climate Fund, environmental safeguards are applied through simplified screening procedures, clear eligibility rules with predefined conditions, and structured technical guidance containing sector-specific criteria and examples of compliant activities. The guidance offers three pathways for demonstrating DNSH compliance: sector-specific annexes with predefined criteria and excluded activities for transport, buildings and energy; a standard DNSH self-assessment table covering the six objectives for activities not included in the annexes; and automatic recognition for activities meeting the EU Taxonomy's 'substantial contribution' criteria under the relevant Delegated Acts.[13]

This approach reduces the need for case-by-case interpretation. Although some EU Taxonomy criteria have been criticised as not yet being sufficiently science-based,[14] this structured approach provides a practical way to improve consistency in environmental screening. The Social Climate Fund also applies performance-

[13] European Commission, EU Taxonomy Compass and EU Taxonomy for sustainable activities, 17 March 2026; Commission Delegated Regulations (EU) 2021/2139 and (EU) 2023/2486 establishing the technical screening criteria.

[14] Some EU taxonomy technical screening criteria are not yet fully science-based in all sectors and are likely to be tightened. See: WWF, ECOS, ChemSec, Independent Science Based Taxonomy, accessed 16 June 2026.

based financing, linking support to predefined milestones and targets, with payments released only after Member States demonstrate progress.

A similar approach to project screening and risk categorisation can be found in the practice of the EBRD, one of the main international financial institutions actively supporting Ukraine's reconstruction. The EBRD applies a layered exclusion and categorisation system. Its Environmental and Social Risk Categorisation List, organised according to the EU's statistical classification of economic activities (NACE revision 2), assigns each activity a high, medium or low risk level, which determines the depth of due diligence required.[15] The EBRD also maintains a short list of sectors it does not finance (including tobacco, arms, distilled alcoholic beverages and gambling), as well as an Environmental and Social Exclusion List under its 2019 Environmental and Social Policy,[16] which covers activities such as fur production, upstream oil and gas, thermal coal mining and ozone-depleting substances. In addition, criteria under the EBRD's Green Economy Transition Strategy (2026–2030) determine which activities can be classified as 'green'. These criteria exclude, among others, transport dedicated to fossil fuels, thermal coal-fired electricity generation, and fossil fuel extraction and refining from green labelling and, in most cases, from financing altogether. This experience is particularly relevant for Ukraine, as these standards are already applied to a significant share of reconstruction-related investments.

Ukraine's public investment management system

Ukraine's public investment management reform introduces a structured project life cycle covering preparation, evaluation, prioritisation and monitoring at national, regional and local levels.[17] All project proposals must be submitted through DREAM,[18] where each project receives a unique identifier and is subject to reporting and monitoring requirements throughout its life cycle. DREAM also serves as a coordination tool for international partners.

The current system features several important elements of environmental screening, including an explicit reference to the DNSH principle. In practice, however, screening is carried out by the project initiator itself – typically a state authority, local self-government body, or majority state- or community-owned entity. The initiator completes environmental and climate-related questions in the form of a self-assessment in line with recommendations from the Ministry of Economy.[19] These self-declared responses are then reviewed

[15] European Bank for Reconstruction and Development, Environmental and Social Risk Categorisation List – Revised 2014.

[16] European Bank for Reconstruction and Development, Environmental and Social Policy.

[17] Cabinet of Ministers of Ukraine, Постанова Кабінету Міністрів України від 28 лютого 2025 р. № 527 «Деякі питання управління публічними інвестиціями», as amended by Постанова Кабінету Міністрів України від 26 серпня 2025 р. № 1049.

[18] Ministry for Communities, Territories and Infrastructure Development of Ukraine, DREAM platform.

[19] Ministry of Economy, Environment and Agriculture of Ukraine, Наказ Міністерства економіки, довкілля та сільського господарства України від 28 серпня 2025 р. № 353 «Про затвердження Методичних рекомендацій щодо проведення аналізу екологічних наслідків та впливу реалізації публічного інвестиційного проєкту на навколи, 28 August 2025.

through internal sectoral assessment within the administration, but the procedure does not provide for independent or external verification.

In addition, the screening checklists rely largely on yes/no questions – for example, 'Has a basic analysis of compliance with the DNSH principle been conducted?' – which confirm whether an assessment has been carried out rather than evaluating its quality or outcomes. A positive response (yes) indicates only that an assessment took place, not whether it found the project compliant or identified significant environmental risks. Criteria are often formulated in broad terms and without clear thresholds, creating a risk that environmentally harmful projects may proceed as long as the required assessments have been completed.

The Single Project Pipeline for 2026, developed on the basis of the Medium-Term Plan of Priority Public Investments for 2026–2028, includes 145 projects and 61 programmes covering energy, transport, housing, municipal infrastructure, the environment, healthcare and digitalisation. [20] The data illustrate the limitations of the current environmental screening approach. Of the 208 national-level projects and programmes reviewed under the new Single Project Pipeline, 101 were recommended for inclusion. Yet in 68 of these cases, no basic assessment of the project's contribution to environmental and climate goals had been carried out, nor had any basic analysis of compliance with the DNSH principle. Similarly, of the 66 investment programmes registered, 37 were recommended for inclusion, even though economic, environmental and social risks had not been defined at all in 24 cases and had been assessed only partially in a further 3 cases.[21]

Notably, Ukraine has already issued two sets of methodological recommendations focused on public investment screening. The first set of recommendations, adopted in October 2023, was developed for the prioritisation of reconstruction projects and contains elements resembling exclusion and pre-screening mechanisms, including an annex listing sectors and operations considered aligned with the Paris Agreement (Annex 3), as well as pre-screening questions applied before the scoring stage (Annex 7).[22] The second set of recommendations, adopted in April 2026 as part of Ukraine's public investment management reform, provides guidance on the preparation and appraisal of public investment projects more broadly, with a focus on project readiness, financing needs and prioritisation. However, DNSH and environmental considerations are not included in the minimum gating criteria.[23]

[20] Ministry for Communities, Territories and Infrastructure Development of Ukraine, Єдиний проєктний портфель публічних інвестицій.

[21] Mykola Kobets, Anastasiia Nahorna, Kostiantyn Krynytskyi, Ukraine's public investment management reform: Sectoral analysis of the Single Project Pipeline.

[22] Ministry for Communities, Territories and Infrastructure Development of Ukraine, Наказ Міністерства розвитку громад, територій та інфраструктури України від 20 жовтня 2023 р. № 964 «Про затвердження методичних рекомендацій щодо пріоритезації проєктів ліквідації наслідків, спричинених збройною агресією Російської Федерації проти України, 20 October 2023.

[23] Ministry of Economy, Environment and Agriculture of Ukraine, Наказ Міністерства економіки, довкілля та сільського господарства України від 10 квітня 2026 року № 4901 «Про затвердження Методичних рекомендацій з питань організації підготовки публічних інвестиційних проєктів та їх розподілу між програмами для підготов, 10 April 2026.

Recommendations

Ukraine's emerging public investment management system already contains important building blocks for environmental safeguards, including explicit references to the DNSH principle and the DREAM platform. What remains underdeveloped is their operationalisation, which can be achieved through:

Introducing standardised DNSH screening tools. Ukraine should complement its checklist-based approach with structured DNSH screening tools, such as standardised criteria or decision trees, that help project initiators identify environmental risks early and distinguish low- from high-impact projects. Screening should be supported by clear definitions and practical examples to ensure consistent application across sectors.

Adopting a hybrid system of exclusion criteria and conditional activities. Clear exclusion criteria should be introduced to prevent environmentally harmful investments from receiving public funding. First, a limited horizontal exclusion list could cover clearly harmful activities such as new fossil-fuel infrastructure, extraction, fossil-based heating systems, and environmentally destructive industrial projects. Second, this should be complemented by sector-specific criteria for energy, transport and buildings. Finally, exclusion screening should be integrated early in the project cycle, ideally before feasibility studies, to reduce the administrative burden and avoid unnecessary project development.

Aligning environmental screening with EU sustainability frameworks. Given that EU accession is one of Ukraine's key strategic priorities, environmental screening should be based on EU frameworks. Public investment projects should contribute to at least one environmental objective, not cause significant harm to others (DNSH), and meet basic social and governance safeguards. This would improve comparability with EU-funded projects and facilitate access to international financing.

Strengthening environmental verification and monitoring. Ukraine should strengthen the screening itself, alongside verification and monitoring. At the screening stage, replacing the yes/no checklist with concrete criteria that capture the outcome of the assessment would strengthen the DNSH safeguard. Mechanisms should build on DREAM, using it to track environmental indicators and milestone-based checks linked to financing. Two further measures would allow external oversight, which include opening DREAM profiles to civil society organisations and independent experts, who currently have no access, and including them in monitoring committees at national and regional levels.

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This publication has been financed by the Swedish International Development Cooperation Agency (Sida). Responsibility for the content rests entirely with the creators. Sida does not necessarily share the expressed views and interpretations.