The Social Climate Fund and the ‘do no significant harm’ principle

Lessons for Ukraine’s public investment management system

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Contents

1. Summary 4
2. Introduction: Why environmental safeguards matter for Ukraine's reconstruction 4
3. Methodology and relevance for Ukraine 5
4. Social Climate Fund Guidelines 7
4.1. Governance and verification 8
4.2. Why focus on the Social Climate Fund? 8
4.3. The 'do no significant harm' principle: Definition 9
4.4. DNSH vs environmental impact assessment 11
4.5. Environmental safeguards in the Social Climate Fund 11
5. Ukraine's public investment system 12
5.1. Broader climate change considerations 14
5.2. The DREAM platform and Single Project Pipeline 15
6. Opportunities to integrate SCF lessons into Ukraine's system 16
6.1. Simplified DNSH screening 16
6.2. Introduction of exclusion lists 17
6.3. The EBRD as a practical reference 17
6.4. Current Ukrainian practice 18
7. Conclusions 19
8. Policy recommendations 19
8.1. Introduce standardised DNSH screening tools 20
8.2. Adopt a hybrid system of exclusion criteria 20
8.3. Align environmental screening with EU sustainability frameworks 20
8.4. Strengthen environmental verification and monitoring 21

1. Summary

This briefing examines how Ukraine can strengthen the environmental safeguards in its public investment system by learning from the EU's Social Climate Fund (SCF). It finds that the SCF applies the 'do no significant harm' (DNSH) principle in a comprehensible way: a short self-assessment, clearer screening, and lists of activities that cannot be funded. Ukraine has made a start, as it names the DNSH principle in its public investment reform and has built the DREAM (Digital Restoration Ecosystem for Accountable Management) platform – a public online platform used to submit, track and monitor reconstruction and public investment projects; but its safeguards are still mostly a formality. Screening relies on yes/no checklists that project initiators fill in themselves and that are only reviewed inside the administration, with no agreed upon list of excluded activities and no independent analysis. As a result, projects can pass the checks even when their environmental risks have not truly been assessed.

To close this gap, the briefing recommends that Ukraine:

- introduce standard DNSH screening tools;
- adopt a hybrid list of excluded activities;
- align environmental screening with EU sustainability frameworks such as the taxonomy; and
- strengthen verification and monitoring, including independent and civil society oversight through DREAM.

Acting on these steps would help ensure that reconstruction becomes a green and EU-aligned recovery, rather than locking in environmental harm.

2. Introduction: Why environmental safeguards matter for Ukraine's reconstruction

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. These investments will shape the country's economic and environmental future and lock in infrastructure patterns for decades, which will be difficult to reverse. As Ukraine is also moving towards European Union membership, its investment decisions need to align with EU environmental and climate standards. Reconstruction projects should therefore avoid three major risks: locking the country into fossil-fuel infrastructure, causing environmental damage, and creating socially unjust outcomes.

For this reason, environmental safeguards must become an integral part of how public investment projects are designed, selected and ultimately 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' principle (DNSH principle).[1] It requires that projects supported by public funds do not significantly harm environmental objectives such as climate change mitigation and adaptation, biodiversity protection, pollution prevention and control, sustainable use and protection of water and marine resources, and transition to a circular economy.

In practice, however, even in the EU, applying the DNSH principle can be challenging; nevertheless, it helps developers to avoid related risks. Project developers often rely on several complex tools and procedures, such as environmental impact assessments and climate screening methods. Although these instruments are important, complicated procedures may create confusion for project initiators and do not always encourage environmentally sustainable investments. Recent EU guidance with the Social Climate Fund (SCF)[2] provides useful lessons on how the DNSH principle can be applied more practically and accessibly.

This briefing examines how the lessons of the EU's Social Climate Fund approach to the DNSH principle could strengthen environmental safeguards in Ukraine's public investment system as reconstruction accelerates and EU accession advances. It is aimed at the Ukrainian authorities responsible for public investment and reconstruction financing, as well as the EU institutions, international financial institutions, and civil society organisations supporting Ukraine's recovery. Firstly, it sets out the methodology and explains why the SCF is a useful reference. It then defines the DNSH principle and shows how the SCF makes it workable, before turning to Ukraine's emerging public investment system and the DREAM platform. Finally, it identifies opportunities to integrate SCF practices, such as simplified screening, exclusion lists, and closer alignment with EU frameworks, closing with recommendations for making environmental safeguards more systematic and verifiable. As the analysis shows, Ukraine already has important building blocks in place; however, its safeguards remain largely procedural. Therefore, the recommendations are intended to give them practical effect.

3. Methodology and relevance for Ukraine

This paper combines analysis of EU regulatory frameworks, Ukrainian legislation and practical instruments used by international financial institutions active in Ukraine.

EU regulatory and policy sources. The analysis draws on the core legal acts shaping the application of the DNSH principle, in particular Regulation (EU) 2020/852 on the EU Taxonomy,[3] Regulation (EU) 2023/955[4]

[1] European Parliament, Council of the European Union, Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance), Article 17, 18 June 2020.

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

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

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

establishing the Social Climate Fund, and the European Commission's technical guidance on DNSH application under the SCF as of March 2025.[5]

It is worth noting that the DNSH principle is set to evolve at the EU level. As part of its proposals for the 2028–2034 budget, the European Commission has put forward a budget expenditure tracking and performance framework (the 'Performance Regulation') that would standardise the application of DNSH horizontally across the entire EU budget.[6] As this proposal is still being negotiated by the European Parliament and the Council and its final version remains uncertain, this paper does not examine it, focusing instead on the Social Climate Fund, whose DNSH guidance is already in force and provides a reference point.

Ukrainian legal framework. On the Ukrainian side, the analysis covers the public investment management reform established by the Resolution of the Cabinet of Ministers of Ukraine No. 527 of 28 February 2025 'On Certain Issues of Public Investment Management', as amended by Resolution No. 1049 of 26 August 2025[7] and its accompanying subordinate acts. These include the Methodological Recommendations on the environmental and climate analysis of public investment projects, adopted by the Ministry of Economy, Environment and Agriculture in August 2025;[8] the Methodological Recommendations for prioritising projects addressing the consequences of the Russian Federation's armed aggression,[9] which already contain pre-filtering and exclusion logic for a specific reconstruction fund; and the new Methodological Recommendations on the selection of public investment projects for donor-funded preparation programmes, approved on 10 April 2026.[10] The Strategy for the Formation and Implementation of State Policy in the Field of Climate Change for the period up to 2035,[11] approved by the Cabinet of Ministers on 30 May 2024, is also taken into account as a broader climate policy framework.

Practical instruments of international financial institutions. As a comparative reference, the paper examines the exclusion and risk-categorisation framework applied by the European Bank for

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

[6] European Commission, Proposal for a Regulation of the European Parliament and of the Council establishing a budget expenditure tracking and performance framework and other horizontal rules for the Union programmes and activities, 16 July 2025.

[7] 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, 28 February 2025.

[8] Ministry of Economy, Environment and Agriculture of Ukraine, Наказ від 28 серпня 2025 р. № 353 «Про затвердження Методичних рекомендацій щодо проведення аналізу екологічних наслідків та впливу реалізації публічного інвестиційного проєкту на навколишнє природне середовище та аналізу дотримання вимог щодо інклюзивності та безбар'єрності, а також щодо відповідності Цілям сталого розвитку від час підготовки публічного інвестиційного проєкту на державному, регіональному та місцевому рівні», 28 August 2025.

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

[10] 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 підготовки публічних інвестиційних проєктів», 10 April 2026.

[11] Cabinet of Ministers of Ukraine, Розпорядження Кабінету Міністрів України від 30 травня 2024 року № 483-р «Про схвалення Стратегії формування та реалізації державної політики у сфері зміни клімату на період до 2035 року та затвердження операційного плану заходів з її реалізації у 2024–2026», 30 May 2024.

Reconstruction and Development (EBRD). This includes the EBRD's list of sectors that it does not finance – the Environmental and Social Exclusion List under the 2019 Environmental and Social Policy[12] – its policy on labelling certain investments as 'green' under the Green Economy Transition (GET) approach,[13] and the Environmental and Social Risk Categorisation List organised by NACE Rev. 2 codes.[14] These instruments are relevant because the Bank already applies them to a significant share of reconstruction-related financing in Ukraine.

Empirical data on Ukraine's investment pipeline. The paper relies on publicly available information from the DREAM (Digital Restoration Ecosystem for Accountable Management) digital platform[15] and the Single Project Pipeline (SPP) for 2026,[16] which provide data on which projects have been selected for public funding. This is complemented by Bankwatch's own SPP sectoral analysis, [17] which tracks how environmental and climate criteria are applied in practice, and by a 2026 study by DiXi Group and the Green Transition Office[18] assessing 89 SPP projects and 318 Invest Portal projects against the EU Taxonomy.[19]

The combined use of these sources allows the paper to compare regulatory texts with how environmental safeguards are being applied, and to identify opportunities for Ukraine to strengthen its public investment system using the most recent EU model available.

4. Social Climate Fund Guidelines

The Social Climate Fund (SCF) was established under Regulation (EU) 2023/955 as part of the EU's response to the social impacts of expanding the Emissions Trading System (ETS) to buildings and transport.[20] The Fund aims to support the most vulnerable households and micro-enterprises during the green transition in order to alleviate the impacts of the forthcoming ETS2 and avoid exposing these groups to even higher levels of energy and transport poverty. According to article 4 in the regulation (EU) 2023/955 on establishing a Social Climate Fund and amending Regulation (EU) 2021/1060, EU Member States must prepare national social climate plans to access the Fund's resources, which amount to at least EUR 86.7 billion for the period 2026–2032.

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[12] European Bank for Reconstruction and Development, Environmental and Social Policy, April 2019.

[13] European Bank for Reconstruction and Development, Methodology to determine the green finance attribution of EBRD investments, accessed 14 May 2026.

[14] European Bank for Reconstruction and Development, Environmental and Social Risk Categorisation List – Revised 2014, accessed 14 May 2026.

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

[16] Ministry of Finance of Ukraine, Unified portfolio of public investment projects (list of priority public investment projects), accessed 14 May 2026.

[17] 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.

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

[19] The EU taxonomy's technical screening criteria are not yet fully science-based in all sectors and are likely to be tightened in the coming years. See WWF, ECOS, ChemSec, Independent Science Based Taxonomy, accessed 16 June 2026.

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

Member States can use the Fund to finance measures that structurally reduce these impacts and support the transition. These measures may include:

- building renovations
- cleaner heating and cooling systems
- the installation of renewable energy in buildings
- improvements to low- and zero-emission transport options such as public transport and shared mobility
- investments in biking infrastructure.

The Fund may also provide temporary and limited direct income support to help vulnerable groups manage increased energy bills within a specific time period.

4.1. Governance and verification

The implementation of the Social Climate Fund relies on a multilevel governance and verification system. Member States are responsible for designing measures through national social climate plans, and the European Commission oversees compliance and progress.

Key elements of the system include:

- **national authorities:** project selection and implementation
- **monitoring systems and committees:** tracking progress towards milestones and targets
- **reporting mechanisms:** ensuring regular communication with the European Commission
- **audit and control procedures:** verifying the proper use of funds and compliance with requirements.

This governance structure is designed to ensure flexibility and accountability. Although Member States have discretion in designing measures, they must demonstrate compliance with EU rules and performance targets.

Importantly, formal monitoring committees, which are multi-stakeholder bodies overseeing implementation, including civil society and independent experts, are not mandatory under the SCF. Making them obligatory would strengthen transparency and accountability.

4.2. Why focus on the Social Climate Fund?

The SCF deserves particular attention in the context of Ukraine's reconstruction.

Firstly, it is the most recent major EU funding instrument with a dedicated DNSH application framework, which incorporates lessons learned from earlier instruments such as the Recovery and Resilience Facility (RRF)[21] and the Just Transition Fund.[22]

Secondly, the sectors it finances mirror the priority sectors for Ukraine's reconstruction, in particular the rebuilding of energy infrastructure, housing and municipal services.

Thirdly, the SCF addresses the social dimension of the green transition. This is relevant for Ukraine, as vulnerable households and communities face compounded energy and economic pressures.

Fourthly, the SCF's combination of sector-specific annexes and performance-based financing offers a practical model for applying environmental safeguards in a way that is less bureaucratic than project-by-project review, but that is still consistent with EU sustainability standards.

Hence, the SCF demonstrates that environmental safeguards can be rigorous and, at the same time, workable. The structured screening procedures and sector-specific guidance offer a concrete example of how DNSH can be applied without creating an excessive administrative burden. The practical focus makes the SCF a useful reference point for Ukraine, as reconstruction projects need to be both environmentally sound and feasible to prepare under real operational constraints. Such constraints include limited local capacity, tight implementation timelines, and the need to coordinate multiple sources of public and international financing.

4.3. The 'do no significant harm' principle: Definition

The DNSH principle is a relatively new but increasingly important requirement in the European Union's environmental and climate policy. It aims to ensure that economic activities and projects financed with EU funds do not significantly undermine environmental objectives. The DNSH principle is defined in Article 17 of the EU Taxonomy Regulation[23] and is designed to serve as a safeguarding tool to prevent economic activities from harming key environmental goals.

The DNSH principle has so far been applied across several European Union financial instruments, including the Recovery and Resilience Facility,[24] cohesion policy funds,[25] InvestEU[26] and the Social Climate Fund.[27]

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

[22] European Commission, Just Transition Fund, accessed 14 May 2026.

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

[24] European Parliament, Council of the European Union, Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, 12 February 2021.

[25] European Parliament, Council of the European Union, Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund, 24 June 2021.

[26] European Parliament, Council of the European Union, Regulation (EU) 2021/523 of the European Parliament and of the Council of 24 March 2021 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017, 24 March 2021.

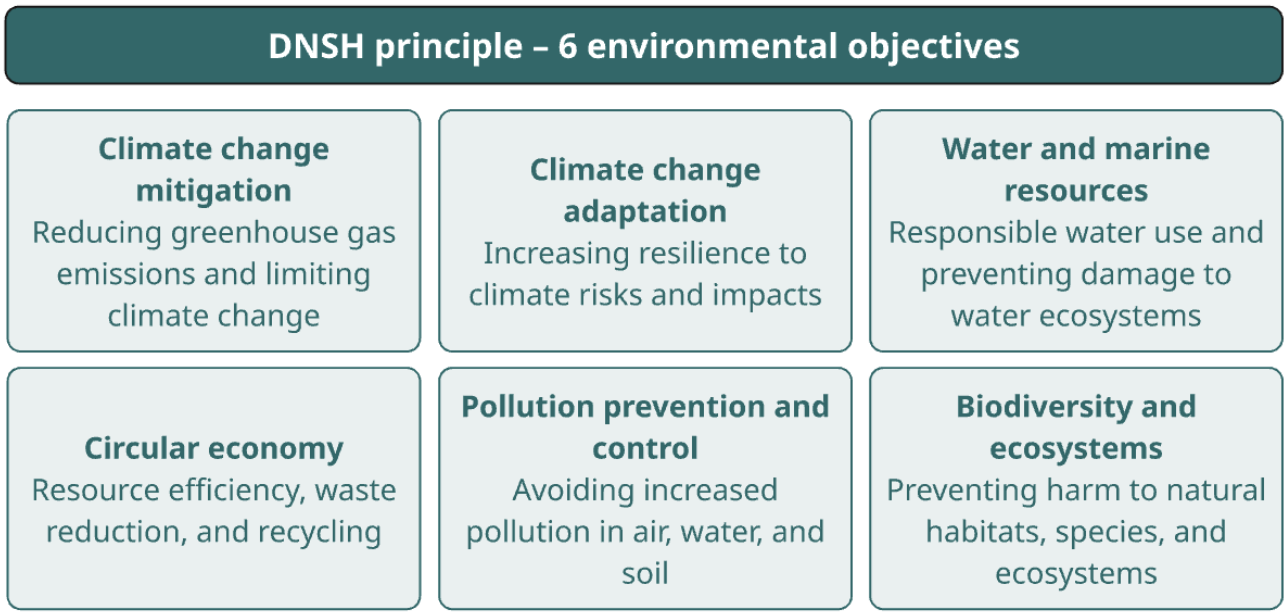
[27] European Parliament, Council of the European Union, Regulation (EU) 2023/955.

Across these programmes, DNSH acts as a horizontal requirement to ensure that investments supported by EU funds do not undermine environmental objectives and are consistent with the EU's sustainability goals.[28]

According to the EU Taxonomy Regulation, an activity complies with the DNSH principle only if it does not significantly harm six environmental objectives:

- **Climate change mitigation** – reducing greenhouse gas emissions and limiting climate change;
- **Climate change adaptation** – increasing resilience to climate risks and impacts;
- **Sustainable use and protection of water and marine resources** – preventing damage to water ecosystems and ensuring responsible water use;
- **Transition to a circular economy** – promoting resource efficiency, waste reduction, and recycling;
- **Pollution prevention and control** – avoiding increased pollution in air, water, and soil;
- **Protection and restoration of biodiversity and ecosystems** – preventing harm to natural habitats, species and ecosystems.

Figure 1. Six environmental objectives under the DNSH principle.



Member States must demonstrate that investments financed through EU programmes comply with the DNSH requirement. Depending on the project, authorities may apply either simplified or more detailed assessments to ensure compliance.

[28] Manuel Beltran Miralles, Thomas Gourdon, Isabelle Seigneur, Maria Arranz Padilla, Nicolas Pickard Garcia, The implementation of the 'Do No Significant Harm' principle across the EU policy, Publications Office of the European Union, European Commission, 19 December 2023.

4.4. DNSH vs environmental impact assessment

The DNSH principle should not be confused with an environmental impact assessment (EIA). Even though both 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	EIA
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

As described in Table 1, DNSH aims to ensure that projects receiving public funding are aligned with environmental and climate objectives before financing is granted. By contrast, EIAs are required under national and EU environmental law for projects that may have significant environmental effects. They provide a more detailed analysis of potential impacts and define measures to prevent or reduce environmental harm before implementation. The two approaches are complementary: DNSH filters out harmful investments at an early stage, and EIA ensures that approved projects are environmentally assessed and managed in detail.

In cases where an EIA study is already available for a project proposed for EU funding, the EIA may help to assess whether the project complies with the 'do no significant harm' criteria. But the EIA procedure is not a substitute for DNSH screening, as it does not involve deciding whether a project harms the six objectives described above, nor does it include specific criteria or thresholds of what constitutes significant harm.

4.5. Environmental safeguards in the Social Climate Fund

Under the SCF, environmental safeguards are applied through:

- **simplified screening procedures,** which allow for faster identification of compliant or non-compliant activities;
- **clear eligibility rules,** including predefined conditions for supported measures;

- **structured technical guidance,** including sector-specific criteria and examples of compliant activities.[29]

The technical guidance applies these features through three pathways for demonstrating DNSH compliance:

- sector-specific annexes with predefined criteria and excluded activities for areas such as transport, buildings and energy (Section 2.1),
- a standard DNSH self-assessment table against the six environmental objectives, for activities not covered by the annexes (Section 2.2),
- automatic recognition for activities meeting the EU Taxonomy 'substantial contribution' criteria under the Delegated Acts (Section 2.3).

This approach reduces the need for case-by-case interpretation. Although some of the taxonomy criteria are not sufficiently science-based,[30] this method at least helps ensure a more consistent application of environmental requirements across projects. In particular, the introduction of clearer rules and examples supports decision-making at the early stages of project design.

The SCF applies performance-based financing. This means that financial support is not granted upfront, but is linked to the achievement of predefined milestones and targets set out in national social climate plans. Member States receive payments only after demonstrating progress in implementing agreed-upon measures. Such an approach creates incentives for timely implementation and ensures that funded measures contribute to both social and environmental objectives.

5. Ukraine's public investment system

The Ukrainian public investment management reform introduces a structured project life cycle, which covers preparation, evaluation, prioritisation and monitoring. It applies to projects at national, regional and local levels.[31]

Table 2 summarises the key environmental and climate-related questions included in the Ukrainian evaluation checklists. These checklists are set out in the Procedure for the evaluation of public investment projects and programmes, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 527 of 28 February 2025 'On Certain Issues of Public Investment Management', as amended by Resolution No. 1049 of 26 August 2025.[32]

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

[30] WWF, ECOS, ChemSec, Independent Science Based Taxonomy.

[31] Cabinet of Ministers of Ukraine, Постанова Кабінету Міністрів України від 28 лютого 2025 р. № 527 «Деякі питання управління публічними інвестиціями», as amended by Постанова № 1049 of 26 August 2025, consolidated version, available at https://zakon.rada.gov.ua/laws/show/527-2025-п, accessed 12 June 2026.

[32] Cabinet of Ministers of Ukraine, Постанова Кабінету Міністрів України від 26 серпня 2025 р. № 1049 «Про внесення змін до постанови Кабінету Міністрів України від 28 лютого 2025 р. № 527», 26 August 2025.

Table 2. Environmental and climate questions in Ukraine's project checklists.

Area	Examples from Ukraine's checklists	Answer format / weight
Environmental and climate contribution	'Has a basic assessment of the project's contribution to environmental and climate goals been conducted?'	yes/no – 4 points
DNSH-type screening	'Has a basic analysis of compliance with the DNSH principle been conducted?'	yes/no – 4 points
Life-cycle climate contribution	'Has the project's potential contribution to environmental and climate goals been assessed across the entire life cycle, including construction, operation, and the products or services it provides?'	yes/no – 2 points
DNSH life-cycle analysis	'Has the project's compliance with the "do no significant harm" principle been analysed across the entire life cycle (construction, operation and outputs)?'	yes/no – 2 points
GHG quantification	'Have Scope 1–2 greenhouse gas emissions, or their reduction, been quantified for a typical year and across the life cycle?'	yes/no/not applicable – 2 points
EIA requirement	'Does the project require an environmental impact assessment under the Law of Ukraine "On Environmental Impact Assessment", and has it been carried out for the selected technical solution?'	yes/no/not applicable – 2 points

As shown in Table 2, Ukraine's system includes several important blocks for environmental screening. The explicit reference to the DNSH principle is also important in the context of alignment with EU standards.

However, the key issue is the way environmental criteria are applied. In practice, this screening is carried out by the project initiator itself, which can be a state authority, a local self-government body, or a legal entity that is majority state- or community-owned.[33] They prepare the project electronically in the Unified

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

Information System behind DREAM and complete the environmental and climate questions as a self-assessment, following the methodical recommendations on analysing environmental consequences approved by the Ministry of Economy.[34] These self-declared responses are then reviewed only through the internal sectoral (expert) assessment conducted by the administrative units responsible for environmental protection at the relevant level, or by the Ministry of Economy, Ministry of Finance, and Ministry of Development at the state level. The procedure does not provide for any independent or external verification of the results.

In addition, the current checklists rely largely on yes/no questions, which focus on whether an analysis has been conducted rather than on its quality or on the outcome of the assessment. A 'yes' answer confirms that an assessment took place, but it does not reveal whether the assessment concluded that the project complies with environmental and climate objectives, or whether it identified significant risks. This means that projects may formally comply with requirements even if environmental assessment is limited in scope. Furthermore, environmental criteria are often formulated in broad terms without clear thresholds or benchmarks, so harmful projects may proceed as long as they have been subject to the assessments in question.

5.1. Broader climate change considerations

The public investment system does not operate in isolation from Ukraine's broader climate policy framework. On 30 May 2024, the Cabinet of Ministers approved the Strategy for the Formation and Implementation of State Policy in the Field of Climate Change for the period up to 2035, along with an operational plan of measures for its implementation in the period 2024–2026.[35] The Strategy is structured around four implementation stages (2024–2026, 2027–2029, 2030–2032 and 2033–2035) and focuses on three strategic areas: mitigation of greenhouse gas emissions, adaptation to climate change, and strengthening of institutional capacity for climate governance. It was adopted in response to European Commission recommendations and as part of Ukraine's obligations under the Ukraine Facility.[36] For this paper, the key issue is the integration of state climate policy goals into Ukraine's post-war reconstruction. This means that public investment decisions should also align with the Strategy and consider climate change. At the same time, the Strategy does not set project-level exclusion criteria or sector-specific eligibility rules.

[34] 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 навколишнє природне середовище та аналізу дотримання вимог щодо інклюзивності та безбар'єрності, а також щодо відповідності Цілям сталого розвитку під час підготовки публічного інвестиційного проєкту на державному, регіональному та місцевому рівні».

[35] Cabinet of Ministers of Ukraine, Розпорядження Кабінету Міністрів України від 30 травня 2024 року № 483-р «Про схвалення Стратегії формування та реалізації державної політики у сфері зміни клімату на період до 2035 року та затвердження операційного плану заходів з її реалізації у 2024–2026».

[36] European Commission, Ukraine Facility, accessed 14 May 2026.

5.2. The DREAM platform and Single Project Pipeline

Project initiators are required to prepare feasibility studies, which include strategic, economic, financial and risk assessments. All project proposals must be submitted through the Unified Information System for Public Investments, which is the DREAM digital platform,[37] where each project receives a unique identifier and is subject to reporting and monitoring requirements throughout its life cycle. In addition, DREAM serves as a coordination tool for international partners and investors.

Notably, the platform provides all the information about the proposed project and the fulfilled questions from the checklists mentioned in the reform, which will be discussed later in this document. It allows for a visual representation of key stages of the project cycle. However, it lacks clear quantifiable targets and numerical information on emissions and other potential environmental risks, as they are not required to be provided under the current public investment law of Ukraine.

Importantly, a Single Project Pipeline (SPP) of public investment for 2026, formed on the basis of the Medium-Term Plan of Priority Public Investments of the State for 2026–2028, was adopted in August 2025 and included 89 projects and 60 programmes.[38] The SPP is presented to the public in a tabular format, and it contains projects and programmes that have undergone evaluation and selection according to established procedures and are considered eligible for public funding. It covers sectors such as energy, transport, housing, municipal infrastructure, environment, healthcare and digitalisation. The pipeline continues to grow, because as of April 2026, it accounted already for 145 projects and 61 programmes.[39]

The numbers confirm how limited the environmental screening currently is in practice. For example, under the new Single Project Pipeline, 208 national-level projects and programmes were screened, of which 101 were recommended to proceed. In 68 of those cases there had been no basic assessment of how the project would contribute to environmental and climate goals, and no basic analysis of DNSH compliance. Similarly, out of the 66 investment programmes registered, 37 were recommended for inclusion, yet in 24 the economic, environmental and social risks had not been defined at all, and in a further 3 they had been assessed only in part.[40]

Notably, Ukraine has already developed a specialised prioritisation methodology for a specific reconstruction instrument. Order No. 964[41] of the Ministry for Communities, Territories and Infrastructure Development of 20 October 2023 approved Methodological Recommendations for prioritising projects addressing the consequences of the Russian Federation's armed aggression, which govern the use of resources from the Fund for the Elimination of the Consequences of Armed Aggression.

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

[38] Cabinet of Ministers of Ukraine, Ministry of Economy approves the Single Project Pipeline of public investments for 2026, 29 August 2025.

[39] DREAM Analytics, Єдиний проєктний портфель держави, accessed 14 May 2026.

[40] Ibid.

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

This methodology already contains elements that are close to exclusion and pre-filtering logic, such as an annex listing sectors and permissible types of operations considered universally aligned with the Paris Agreement goals (Annex 3) and a set of pre-filtering questions applied before the scoring stage (Annex 7). This indicates that filtering logic by sector and activity is already present in Ukrainian practice, although it is limited to a single dedicated fund (the Fund for the Elimination of the Consequences of Armed Aggression) rather than applied as a horizontal rule across the public investment system.

Additionally, on 10 April 2026, the Ministry of Economy, Environment and Agriculture approved new Methodological Recommendations setting out how public investment projects are selected and distributed among donor-funded preparation programmes.[42] However, the selection criteria focus on project readiness, financing needs and prioritisation, while DNSH and environmental considerations are not built in as gating criteria. Thus, each new procedural layer refines pipeline management without giving environmental safeguards a decisive role.

6. Opportunities to integrate SCF lessons into Ukraine's system

6.1. Simplified DNSH screening

One of the main challenges in Ukraine's system is the reliance on broad and open-ended environmental criteria. This creates uncertainty for project initiators and increases the risk of inconsistent assessments. The SCF approach addresses this by introducing structured screening tools. They include step-by-step guidance and predefined criteria. As mentioned earlier, the SCF has three pathways for demonstrating DNSH compliance, which include sector-specific annexes for common activities, a standard self-assessment table against the six environmental objectives for activities outside the annexes, and automatic recognition for activities aligned with the EU Taxonomy. This gives project initiators a clear entry point depending on the type of activity, instead of an open-ended assessment.

Still, even structured pathways leave room for interpretation, especially for activities that fall between categories, which can lead to uneven application across Member States.

For Ukraine, a similar layered structure could improve usability for local authorities and community projects, provided that each pathway is supported by clear definitions and practical examples adapted to reconstruction priorities.

In the context of Ukraine, simplified screening tools could improve usability, especially for local authorities and community projects. At the same time, such tools should be provided with clear definitions and examples.

[42] 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 підготовки публічних інвестиційних проєктів».

6.2. Introduction of exclusion lists

Currently, Ukraine's system does not include a clear mechanism for automatically ruling out harmful activities based on the environmental criteria. As a result, projects may still be entered and assessed on a case-by-case basis, even when they are potentially inconsistent with environmental objectives.

In European practice, exclusion lists are widely used as low-bureaucracy tools for setting boundaries for public investment. However, the SCF does not rely on a single horizontal list. Instead, SCF methodology combines sector-specific annexes, identifying excluded or conditional activities, and a general DNSH framework to be applied to activities outside those annexes. Ukraine could adapt the EU practice. This means preparing annexes for the reconstruction priorities and keeping the same logic: clear exclusions beforehand (a specific list of activities that are never funded), activities allowed only under certain conditions defined by sector, and a general environmental check applied to all other activities to make sure they do no significant harm.

6.3. The EBRD as a practical reference

The European Bank for Reconstruction and Development (EBRD),[43] which is one of the main international financial institutions active in Ukraine's reconstruction, applies a layered exclusion and categorisation system that offers another reference point.

The Bank has an Environmental and Social Risk Categorisation List organised by NACE Rev. 2 codes. It assigns each activity to a high, medium or low risk level for environmental, social and overall risk, which in turn determines the depth of due diligence required.[44] These instruments illustrate three useful design principles:

- a clear and short horizontal list of hard exclusions,
- a longer, more conditional list that targets specific harmful practices rather than entire sectors,
- a risk-proportionate categorisation that scales the level of scrutiny to the nature of the activity.

The sectors the Bank does not finance include the production or trade of tobacco products, arms and military equipment, warships and intercontinental ballistic missiles, distilled alcoholic beverages, and gambling facilities. In addition, the EBRD Environmental and Social Exclusion List [45] (under the Environmental and Social Policy 2019) excludes specific activities and practices. For example, such activities include fur production, drift net fishing, upstream oil and gas development, thermal coal mining, the manufacture of transformers using PCBs, the use of ozone-depleting substances in cooling equipment, and transboundary movements of hazardous waste. Last but not least, there is a set of specific criteria

[43] European Bank for Reconstruction and Development, Home page, accessed 14 May 2026.

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

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

under the EBRD Green Economy Transition (GET) approach,[46] which applies additional conditions for activities that are labelled as 'green'. For instance, the Bank excludes transport dedicated to fossil fuels, thermal coal-fired electricity generation, and fossil fuel extraction and refining from being labelled as 'green', and in most cases excludes them from financing altogether.

This layered architecture is particularly relevant for Ukraine, as the Bank already applies these standards to a significant share of reconstruction-related financing on the ground.

6.4. Current Ukrainian practice

In the Ukrainian context, recent analytical work has begun mapping the investment portfolio against EU sustainability standards. A 2026 study by DiXi Group and the Green Transition Office[47] assessed 89 projects in the state Single Project Pipeline and 318 projects on the Invest Portal against the EU Taxonomy, using the European Commission's EU Taxonomy Compass.[48] The study concluded that 67% of SPP projects and 45% of Invest Portal projects were 'taxonomy-eligible', meaning they include activities described in the Climate[49] or Environmental Delegated Acts.[50] This provides empirical baseline data on the potential alignment of Ukraine's investment pipeline with EU sustainability frameworks.

At the same time, the methodology used in the DiXi report has deliberate limitations. The study only applies a positive-screening approach: it identifies activities that could potentially contribute to the taxonomy's environmental objectives, but it does not verify DNSH compliance, minimum social safeguards, or the technical screening criteria set out in the Delegated Acts. The authors themselves acknowledge that taxonomy-eligibility does not equal taxonomy-alignment, which would require activities not only to make a substantial contribution to one or more environmental objectives, but also to comply with the DNSH criteria.

Importantly, the study does not apply exclusion lists at all. This reflects a structural gap, as Ukraine currently has no horizontal exclusion list for public investment that the study could apply, and the EU Taxonomy Compass does not include exclusion logic. This means that harmful activities could potentially

[46] European Bank for Reconstruction and Development, Methodology to determine the green finance attribution of EBRD investments.

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

[48] European Commission, EU Taxonomy Compass, accessed 14 May 2026.

[49] European Commission, Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic acti, 4 June 2021.

[50] European Commission, Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards public disclosures for these economic activities, 27 June 2023.

appear among ‘taxonomy-eligible’ results without being flagged as problematic from a DNSH or social-safeguards perspective.[51] Until a Ukrainian list is developed, future assessments of this kind could apply external reference lists, such as the activities excluded under the SCF DNSH guide[52] and the EBRD Environmental and Social Exclusion List.[53] Both are already used by institutions financing Ukraine’s reconstruction.

Thus, this illustrates a broader pattern in current practices in Ukraine. Considerable effort is going into identifying green investment opportunities, but at the same time, structured exclusion and DNSH screening remain underdeveloped. Combining support for sustainable projects (‘positive screening’) with clearer exclusion rules and DNSH application, as in SCF and EBRD practices, would provide a more complete picture and a stronger foundation for sustainable reconstruction financing.

7. Conclusions

Ukraine’s emerging public investment management system already contains important building blocks for integrating environmental safeguards, including explicit references to the DNSH principle in the public investment reform and the DREAM digital platform. What remains underdeveloped is the operationalisation of these safeguards, as the checklists rely mostly on yes/no questions, exclusion criteria are not systematised, and environmental screening relies on the project initiator’s own self-assessment, reviewed only within the public administration and without any independent verification step.54

The SCF demonstrates that these gaps can be addressed without creating an excessive bureaucratic load on project initiators. Its combination of basic screening, predefined eligibility measures, sector-specific criteria, and performance-based financing offers a practical template. The EBRD’s layered exclusion and risk-categorisation framework also provides a useful reference model that is already being applied to reconstruction financing in Ukraine.

8. Policy recommendations

The following recommendations incorporate the lessons from the SCF guidance and the EBRD and are aimed at strengthening environmental safeguards and keeping procedures workable for project initiators.

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

[52] European Commission, DNSH technical guidance under the Social Climate Fund.

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

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

8.1. Introduce standardised DNSH screening tools

Ukraine should complement its existing checklist-based approach with simplified and structured DNSH screening tools, such as standardised criteria or decision trees. These tools should help project initiators clearly identify environmental risks at an early stage and distinguish between low- and high-impact projects. Importantly, simplified screening should be supported by clear definitions and practical examples in order to ensure consistent application across sectors.

8.2. Adopt a hybrid system of exclusion criteria

Clear exclusion criteria should be introduced in order to prevent environmentally harmful investments from receiving public funding. However, rather than relying on a single list, a hybrid model is recommended.

Firstly, a limited horizontal exclusion list could be defined for clearly harmful activities, such as new fossil fuel infrastructure, extraction and fossil-based heating systems, and environmentally destructive industrial projects.

Secondly, this horizontal list should be complemented by sector-specific criteria, for example in the energy, transport and building sectors. This would allow for a more nuanced assessment of activities.

Finally, exclusion screening should be integrated early in the project cycle, ideally before feasibility studies are prepared, to reduce the administrative burden and avoid unnecessary project development.

8.3. Align environmental screening with EU sustainability frameworks

One of Ukraine's key strategic priorities is EU accession. Therefore, it is crucial to ensure consistency with European standards. The environmental screening should be based on EU frameworks, especially the EU sustainable finance taxonomy.[55] This means that public investment projects should:

- contribute to at least one environmental objective (climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems);
- not significantly harm other objectives, as covered by the DNSH principle;
- meet basic social and governance safeguards.

This alignment would improve comparability with EU-funded projects and facilitate access to international financing.

[55] European Commission, EU Taxonomy for sustainable activities, 17 March 2026.

8.4. Strengthen environmental verification and monitoring

To move beyond procedural compliance, Ukraine should strengthen the environmental screening itself, alongside its verification and monitoring mechanisms. At the screening stage, replacing the yes/no checklist with substantive criteria that capture the outcome of the assessment, rather than only confirming that it took place, would strengthen the DNSH safeguard. As tools such as the DREAM digital platform emerge, the mechanisms should build on it. This could include using DREAM to track environmental indicators (such as emissions or compliance with conditions) and introducing milestone-based checks linked to project financing.

In addition, to allow for external oversight of environmental safeguards and additional verification, two further measures should be introduced:

- opening DREAM profiles to civil society organisations and independent experts, who currently have no access to the platform, so that they can verify the environmental and social data submitted during project screening;
- including civil society organisations and independent experts in monitoring committees at the national and regional levels to ensure independent tracking of the implementation of environmental conditions throughout the project cycle.

Although DREAM already improves transparency and reporting, its potential as an accountability tool has not yet been fully realised, and it has been acknowledged that the platform is still developing and improving. Further improvements would help ensure that environmental and sustainability commitments are implemented in practice and not only declared at the project appraisal stage.