



D3 – National Guidelines for DNSH

REFORM/SC2022/063

DO NO SIGNIFICANT HARM (DNSH) GUIDELINES FOR IMPLEMENT-
ING THE GREEN TRANSITION IN FINLAND

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ACCEPTED



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List of Abbreviations

Abbreviations	Descriptions
AVI	Regional State Administrative Agency
BAT	Best Available Technique
CAP	Common Agricultural Policy
CP	Climate Proofing
CPR	Common Provisions Regulation
CSRD	Corporate Sustainability Reporting Directive
CT	Climate Tagging
DNSH	Do No Significant Harm
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EGD	European Green Deal
EIA	Environmental Impact Assessment
EIB	European Investment Bank
ELY	Centre for Economic Development, Transport and the Environment
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment funds
ESF	European Social Fund
EU	European Union
GHG	Green House Gases
JTF	Just Transition Fund
LTS	Long-term strategies
MS	Member State
NECP	National Energy and Climate Plan
NFRD	Non-Financial Reporting Directive
NIB	Nordic Investment Bank
RDI	Research, Development, and Innovation
RDP	Rural Development Programmes
RRF	Recovery and Resilience Facility
RRP	Recovery and Resilience Plan
SEA	Strategic Environmental Assessment
SGP	Sustainable Growth Programme
SYKE	Finnish Environmental Institute
TEG	Technical Expert Group
TSC	Technical Screening Criteria
TSI	Technical Support Instrument



Glossary

Term used in guidelines	Meaning	Finnish equivalent when needed
Administrative branch		Hallinnonala
Detailed project level DNSH assessment	A project level DNSH assessment with a more substantive assessment for all or particular Taxonomy environmental objectives.	Yksityiskohtainen DNSH-arviointi/selvitys
DNSH assessment	DNSH assessment provides evidence of the compliance with DNSH principle / criteria. DNSH assessment can be done by the applicant (self-assessment) or by the authority based on project information.	DNSH-selvitys ja DNSH-itsearviointi.
DNSH criteria	Criteria as part of the EU taxonomy technical screening criteria (TSC), specifying the minimum environmental impact requirements for the economic activity/activities considered for Taxonomy alignment. The DNSH criteria are specified in the Delegated Acts.	
DNSH evaluation	DNSH evaluation is the step when authority evaluates the adequacy of the DNSH assessment.	DNSH-arviointi
DNSH principle	Non-specific term (i.e. not specified by the EC) to cover the idea of not causing significant harm to EU Taxonomy six environmental objectives even in cases where the level of significance is not defined, or the action is not in the Taxonomy.	
EU Taxonomy six (6) environmental objectives	The six environmental objectives for which the DNSH principle applies, under the Taxonomy Regulation, i.e. climate mitigation, climate adaptation, circular economy transition, water and marine resources, biodiversity & ecosystems, pollution prevention and control.	
Evidence list	List of necessary documentation to provide evidence on one or all EU Taxonomy six (6) environmental objectives are passing DNSH criteria/principle.	

	The need for evidence list and the content of the list is done during programme design phase.	
Funding authority	An authority that provides funding to either private companies, households, municipalities or NGO's. Note: Finnish Climate Fund (CF) is not a funding authority but a special assignment company. In the report and guidelines CF is listed and treated as a funding authority despite the difference in status.	Virasto, rahoitusviranomai- nen, tukiviranomainen
Taxo2 objectives	The two climate-specific objectives as part of the 6 environmental objectives under the Taxonomy Regulation. (At time of writing have DNSH criteria.)	
Taxo4 objectives	The four non-climate related environmental objectives under the Taxonomy Regulation. (At time of writing do not have DNSH criteria.)	
Technical Screening Criteria (TSC)	All criteria established in the Climate and Complementary Delegated Acts under the Taxonomy Regulation, jointly forming the "EU Taxonomy".	
Substantial Contribution (SC) criteria	Criteria being part of the TSC, specifying the level of ambition for the economic activity/activities considered in order to be Taxonomy alignment. For the latter, the SC criteria of the activity needs to be met together with the DNSH and MSS criteria. The SC criteria are specified in the Delegated Acts.	
Minimum Social Safeguards (MSS) criteria	Criteria being part of the TSC, specifying the minimum requirements in terms of social aspects and governance.	
Programme level DNSH assessment	Assessment of the whole programme even when there is no need to go into project level. Programme level DNSH assessment is done by using the SYKE questions.	
Simplified project level DNSH assessment	Simplified assessment for the projects uses the same assessment questions as the Priority Law.	Yleispiirteinen DNSH-arvi- ointi/selvitys

Executive summary

Summary of D3 tasks as outlined in Request for Services	Main results from D3 and structure in the report
<p>Reviewing the scope of national and EU funds and programmes to which DNSH guidelines will initially apply.</p>	<p>The results of the review are described in Chapter 2 of the report. They list the requirements from EU funds and programmes as well as the status of implementation of the DNSH principle in Finland.</p>
<p>Analyzing relevant national and EU environmental legislation in order to assess the “coherence of legal frameworks” with the DNSH principle.</p>	<p>The review and its results are provided in Chapter 4 of the report. Coherence is analyzed from the perspective of national environmental assessments and permitting processes (4.1), of regulatory basis for DNSH compliance (4.2.), and of the priority order law for environmental permitting (4.3.).</p>
<p>Identifying good practices in relevant EU Member States and gathering of lessons learned from the RRP preparation in Finland.</p>	<p>The relevant practices identified and lessons learned from other EU Member States are incorporated in throughout the report in separate Information Boxes. Finnish lessons learned are described in Chapter 3 (see summary in the next row).</p>
<p>Conducting a critical review of existing guidelines/mechanisms for the application of the DNSH principle in the context of the RRF in Finland and in identified good practices in EU Member States</p>	<p>Information on the existing guidelines and current practices in Finland were collected through extensive rounds of interviews and written material. The results are described in Chapter 3.</p> <p>The main challenges identified were the following:</p> <ul style="list-style-type: none"> • The decentralized structure of Finnish public funding system poses challenges for national coordination. There are about 90 state-aid funding authorities under different administrative branches; a third of them have been involved in the RRF and have thus developed their DNSH implementation practices. • There is a lack of programme-level instructions for DNSH assessments. The Finnish approach to DNSH integration goes beyond the RRF and other EU funding sources, and aims at being future proof for further investments. This calls for instructions to integrate and embed the DNSH principle from the programme design phase, and applicable to various types of public funding.

	<ul style="list-style-type: none"> • The lack of DNSH criteria setting an absolute and generic “significance threshold” generates frustration amongst applicants and funding authorities. The main barrier is the unclarity of technical screening criteria under the EU Taxonomy. This is subject for review and updating by the Commission services in 2023-2024. • DNSH is a complex notion. Conceptual complexity leads to increased costs for evaluating and verifying compliance with the DNSH principle. • Finding the right expertise is a challenge emerges as a hurdle. This is due to the fact that DNSH assessments require a solid knowledge of the DNSH principle, of environmental objectives, along with an in-depth sectoral expertise. The combination of these skills appears difficult, partly due to the fact that the national resources available on for specific expertise are thin. • The implementation of the Finnish RRP covers a diversity of funded projects. It is obvious that all these projects do not require the same level of details or type of DNSH assessment. It has been a challenge for authorities to identify tailored and relevant guidelines for different types of projects. • The complex interlinkages between environmental permitting processes and the DNSH principle are not yet clearly defined and understood. At best, these processes and related tools support each other. • Monitoring and verification practices for DNSH are underdeveloped.
<p>Analysing how to best govern and steer (by the national authorities) the implementation (by the practitioners) of the DNSH guidelines.</p>	<p>Main recommendations from the work and further details are provided in Chapter 6:</p> <ul style="list-style-type: none"> • The DNSH principle is an appropriate tool for different purposes, but its efficient implementation requires more experience from other practical applications. For instance, the use of the DNSH principle in a “fast lane” for environmental permitting has allowed to deepen Finnish expertise about the DNSH principle. This unique example in the EU will be closely followed over the coming years. • A central entry-point for coordinating the application of the DNSH principle within the Finnish administration is needed.

	<ul style="list-style-type: none"> • Coordination and information exchange networks among funding authorities should be strengthened. • The application of the DNSH principle calls for a combination of technical competencies under the umbrella of a DNSH knowledge hub. • DNSH criteria are not yet complete. Further criteria should be conceptualized and developed with a view for cost-efficiency. Currently, the guidelines developed by the Finnish Environment Institute SYKE and the national environmental legislation provide the most complete set of criteria. • Monitoring systems and verification mechanisms need to be further developed and strengthened. They should primarily focus on those projects with high risks of significant impact on the EU Taxonomy objectives. • It is too early to extend the application of the DNSH principle to public procurement.
<p>Developing 2 sets of guidelines – one for authorities managing public investments and one for project implementers/grant beneficiaries – on the application of the DNSH principle.</p>	<p>The project created two sets of guidelines: (i) the programme level guidelines for future national funding programmes (Annex 1) and (ii) the project level guidelines that are applicable to both applicants and funding authorities applying DNSH assessments (Annex 2).</p> <p>In addition to these, the project resulted in a set of instructions for the application of the DNSH principle for the Priority Law. These are currently in use.</p>

1 Introduction

1.1 Developing DNSH guidelines in Finland

This project, funded by the Technical Support Instrument (TSI) of the European Commission, provides guidance to Finnish public authorities on the implementation of the “Do No Significant Harm” (DNSH) principle in public funding decisions and to funding applicants on how to follow the principle. The project will contribute to the implementation of the European Green Deal by providing the Commission, the EU Member States as well as the wider community of DNSH practitioners lessons learned from a variety of pilot cases and clear guidelines.

Specific expected impacts of the project are the following:

- Finnish public sector authorities have good comprehension of the orientation of public funds towards climate and environmental objectives and understanding of the DNSH principle (at which points environmental harm becomes significant) and have clear guidelines, materials, and efficient data and monitoring systems. Long term impacts are visible in, e.g., clear progress towards reaching national climate and energy targets.
- There is an increased capacity to integrate the DNSH principle into relevant funding/public sector organisations in Finland (for relevant organizations see Chapter 2). This requires clear guidelines, and successful training sessions organised with relevant participants who have then capabilities to take the knowledge ahead in building the capacities further. Long-term impact is achieved when funding organizations are able to integrate the DNSH principle into their funding procedures and processes when seen appropriate.
- Project will contribute to the implementation of the European Green Deal (requires that the results produced within the context of the project are useful for other EU Member States, good practices and lessons learned are shared, and there are clear follow-up plans to take ahead the results). The long-term impact will be shaped by the progress made by the EU Member States in taking forward the guidelines and the lessons learned.

The project started in July 2022, and it will continue until April 2024. The detailed work plan is described in the Inception Report (D1), which was accepted in October 2022. The work is structured around eight deliverables (D1 – D8) divided over three Work Packages:

- 1) Identifying investment needs and gaps for the green transition in Finland (D2);
- 2) Creating DNSH guidelines for Finnish managing authorities, applicants, and funding beneficiaries, and providing training for the Finnish funding authorities. This phase also looks at data management and the governance needed for successful DNSH implementation (D3, D4 and D5);
- 3) Providing ad-hoc support for applying the DNSH guidelines in selected pilot cases, and organising two seminars to present the results of the project. The final seminars will be organised in March 2024 (D6, D7 and D8).

The main Finnish beneficiaries are the Ministry of the Environment, together with the Ministry of Agriculture and Forestry, the Ministry of Economic Affairs and Employment, and the Ministry of Finance. In addition the beneficiaries may include state agencies and regional authorities.

1.2 Objectives and structure of the report

This report contains the main results from D3 – National guidelines for DNSH. Chapters 2 and 3 provide a general overview of the DNSH principle and the status of its implementation in Finland. Chapter 4 presents a short summary of the relevant Finnish environmental regulatory framework in support of the application of the DNSH principle. Chapter 5 summarises the different sets of DNSH guidelines developed by the project team and their intended use. The actual DNSH guidelines are provided as annexes to D3 as standalone documents. Main recommendations responding to the questions presented in the Request for Services (RfS) are summarised in Chapter 6. D3 work is closely linked with D4, which focuses on data governance, and to D5, which will provide training to funding authorities and applicants on the usability of the DNSH guidelines. D3 also provides inputs to D6, where the created DNSH guidelines will be piloted in practical test cases.

The implementation of the DNSH principle in EU public funding is constantly evolving and experiences gained from various Member States are being accumulated. The DNSH guidelines produced as part of the D3 work reflect the legislative and administrative status of the application of the DNSH principle by the end of 2022. In other words, the project team has worked with the Climate Delegated Acts under the Taxonomy Regulation in order to reach the detailed assessment guidelines of the DNSH, but not with the Delegated Act of the Environment (Taxo4), which is expected to be consulted during spring 2023. The DNSH guidelines are presented as annexes to this D3 report. In developing the guidelines, the project team incorporated lessons learned and potential methodological approaches from peer-learning with other DNSH-related projects from different EU Member States. This has enabled “live learning” of DNSH guidance development. More specifically, the project team has benefited from practical examples and good practices of DNSH implementation from other TSI projects funded by DG REFORM, which the team is delivering in other EU countries. Some of these examples are also incorporated in this report as additional information boxes.

An important addition to the scope of the project, which was not foreseen at the design phase of the project, is the new law in Finland for speeding up the environmental permitting process in selected green transition areas. As part of this priority treatment of permit applications for green transition projects in regional state administrative agencies, hereafter “Priority Law”, the DNSH principle is to be taken into account in providing the priority status for applicants of an environmental permit. The project’s Steering Committee decided that some resources within the project’s budget should be re-directed to help creating guidelines for the DNSH part of the law’s implementation, which is documented in the Inception Report (D1) as well. The work has been highly prioritised in the project in order to have completed guidelines and implementation practices for this particular application of the DNSH principle in place as of 1.1.2023 and it has taken somewhat more resources than anticipated. The details related to the new Priority Law are explained in Chapters 2, 3 and 4.

2 Overview of the use of DNSH

This chapter provides an overview of the mandatory and voluntary national uses of the DNSH principle, as well as a summary of the relevant public authorities in Finland who have responsibility for implementing the DNSH. Details of governance and processes are presented in Chapter 3.

2.1 DNSH in EU programmes and funds

The EU regulatory framework background on DNSH

Within the EU context, the European Green Deal (EGD) formulates Europe's ambition to be climate neutral by 2050, including an interim target for 2030 to cut greenhouse gas (GHG) emissions from 1990 levels by 55%. For this, the Commission adopted a set of proposals aiming to make the EU's climate, energy, transport, and taxation policies fit for this target.¹ As a precursor to the EGD, Finland pledged to become carbon neutral by 2035 in 2019 and Finland to become the world's first fossil fuel free welfare state. To finance the climate transition, Finland outlines investment needs in its Integrated Energy and Climate Plan and related hereto, the Sustainable Growth Programme (SGP) for Finland sets out to support the government's programme by boosting e.g., competitiveness and investment to this objective. The SGP for Finland is funded by the Next Generation EU Recovery and Resilience Facility (RRF).

The criticality of the DNSH for the Finnish context materializes here, as the EU regulation establishing the RRF determines that no measure (i.e., reform or investment) included in a Member State's Recovery and Resilience Plan (RRP) should result in significant harm to any of the six environmental objectives as defined in Article 17 of the Taxonomy Regulation. The Article determines when an economic activity is considered to do significant harm to an environmental objective, that varies from objective to objective. Illustratively, for the climate mitigation objective the defining factor for causing significant harm is whether an activity leads to significant GHG emissions, while for pollution prevention and control (PPC) objective, an activity is considered to do significant harm where that activity leads to a significant increase in the emissions of pollutants into air, water or land compared with the situation before the activity started.²

It is crucial to include a DNSH assessment (within the context of the RRF) for investments and reforms as defined by Article 17 of the Taxonomy Regulation. Even though the measures proposed in the RRP need to comply with relevant EU legislation, it does not imply that no significant harm is done to any of the Taxonomy's environmental objectives.³ Similarly, conducting environmental impact assessments (EIAs), strategic environmental assessments (SEAs), climate proofing (CP) or sustainability proofing (SP), despite suggesting the absence of significant harm to the environment⁴,

¹ [A European Green Deal | European Commission \(europa.eu\)](#) retrieved on 29-11-2022.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN> retrieved on 19-11-2022.

³ [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0218\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0218(01)&from=EN) retrieved on 29-11-2022.

⁴ This is thought to be the case for Environmental Impact Assessments (EIAs) under Directive 2011/92/EU, Strategic Environmental Assessments (SEAs) under Directive 2001/42/EC and sustainability/climate proofing in line with the Commission Guidance on sustainability proofing under the InvestEU Regulation. See [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0218\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0218(01)&from=EN)

do not substitute DNSH assessments. Their scope and objectives differ to the extent that DNSH assessments are required for each measure to ensure their compliance with the DNSH principle.

Overview of EU funds/programmes and their DNSH component

In line with the specificities of each EU fund and programme, the modalities for applying the DNSH principle largely differ across funds. Variations can be observed in the scale of application, in the sources of the DNSH criteria, in the legal sources of guidance, and in the steps of application. Figure 1 provides an overview of these differences for the RRF, InvestEU, and the Cohesion Policy Funds, while the remainder of the sub-section offers more detail about the steps of application of the DNSH principle in each of these funds.




	 Mandatory assessment	 Source of DNSH criteria	 Application of environmental methodologies
RRF	At the level of measures From appraisal to decommissioning	EU Taxonomy Member States (MSs') methodology	For measures: climate tagging mandatory For projects: SP/CP may be applicable For projects: EIA and SEA recommended for appraisal
InvestEU	At the level of investments From appraisal to decommissioning	EU Taxonomy Sector-specific guidance on sustainability proofing	For investments: DNSH appraisal authorized for climate/environmental tagging For investments: DNSH application integrated in SP/CP For investments: DNSH appraisal depends on EIA, SEA can inform DNSH appraisal
Cohesion Policy Funds	At the level of types of actions For appraisal	Member States (MSs') methodology	For types of actions: no climate tagging For projects: SP/CP may be applicable For projects: EIA and SEA may be applicable

Figure 1. Overview of the key differences in DNSH application across RRF, InvestEU, and the Cohesion Policy Funds

Under the RRF, Member States (MSs) can rely on dedicated Technical Guidance⁵, and, where relevant, on the DNSH technical screening criteria (TSC) provided by the Delegated Acts of the EU Taxonomy. At the appraisal stage, and for activities that are not excluded, MSs must clarify whether the measures of the national RRP might have a significant impact on one of the Taxonomy’s environmental objectives, whether they substantially contribute to one of these objectives, whether they are tagged as “100% climate”, and whether they pertain to a sector with higher risk potential⁶ or to a horizontal scheme (e.g. tax scheme). This screening allows MSs to determine whether the measures must undergo a simplified or a detailed DNSH assessment (including detailed assessments with sectoral specificities⁷), and, if so, for which EU Taxonomy objective(s) the detailed DNSH

⁵ https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AC%3A2021%3A058%3ATOC&uri=uris-erv%3A0J.C_.2021.058.01.0001.01.ENG#nr5-C_2021058EN.01001201-E0005

⁶ These include natural gas for power or heat generation, transmission and distribution infrastructure of gaseous fuel.

⁷ The DNSH assessments are those that are applicable to riskier sectors. Annex III to the Technical Guidance on the application of the DNSH principle under the RRF provides indications as to how to conduct such assessments. One should also note that the terminology of different types of DNSH assessments vary across documents and Member States, and that this type of detailed assessment is specific to the RRF.

assessment must be conducted⁸. At the implementation stage, the institutions or stakeholders responsible for implementation should ensure that any corrective actions identified in the Operational Arrangement with the Commission and with the Council Implementing Decision (CID), or identified at project level by project implementors are indeed in place. This may include actions at the decommissioning stage.

Under InvestEU, the application of the DNSH principle is fully intertwined with sustainability proofing. At the appraisal stage, the identification of investments to be excluded, to be assessed, and to be proofed (i.e., for investments that require corrective actions) should be done based on the *Technical Guidance on sustainability proofing for the InvestEU Fund*⁹ and on the Regulation establishing the InvestEU¹⁰. Importantly, the Technical Guidance requires to use technical screening criteria for DNSH in the EU Taxonomy on a “best-effort basis”. The Technical Guidance applies to all investments and puts forward additional conditions for riskier sectors¹¹. At the implementation stage, Member States and the institutions or stakeholders responsible for the investments must check that the actions required by the EU Taxonomy DNSH criteria used are indeed implemented – including, where relevant, at the decommissioning stage. They must also assess the potential for further alignment with the EU Taxonomy DNSH criteria applicable to the investment, and, if necessary, develop subsequent corrective actions.

Unlike the RRF and InvestEU, the **Cohesion Policy Funds are assessed at a higher level, i.e. at the level of types of actions defined in the programmes. The application of the DNSH assessments described in the Technical Guidance for RRF is only a recommendation for use under the Cohesion Policy Funds. DNSH relevant criteria at the level of projects may be necessary, depending the conclusions of the DNSH assessment carried out for the programme.** For the European Regional Development Fund (ERDF) and the Cohesion Fund (CF), Member States must first ensure that the types of actions that they propose are eligible for funding¹². At the implementation stage, Member States and the institutions responsible for the actions must select projects that align with the types of actions defined in the programmes. The naming alignment is expected to indirectly ensure that the projects respect the DNSH principle themselves. The DNSH assessment of the projects is not required under the Common Provisions Regulation (CPR); however, in the DNSH assessment of the types of actions in the programmes, Member States may have committed to apply specific criteria (e.g., mitigating measures) when selecting projects which must be duly followed up during the project selection phase.

⁸ The Regulation caters the possibility to use the results of the assessments to identify any need for corrective actions, mitigation measures and commitments that will ensure compliance with the DNSH principle. In Finland, no need to corrective actions or mitigation measures and commitments were identified.

⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2021:280:FULL&from=EN>

¹⁰ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R0523>

¹¹ These include anaerobic digestion of bio-waste, landfill gas capture and utilization, transport and underground permanent geological storage of CO₂.

¹² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1058>

Overview of the fund specific requirements for DNSH beneficiaries

Table 1 presents an overview of the requirements for applying the DNSH principle.

Table 1: Overview of requirements for applying the DNSH principle per fund and per stage

Fund	Type of Assessment	Applicability	Exclusions
Recovery and Resilience Facility	Simplified. Justify that the measure is not expected to harm the DNSH principle for each objective	1) Activities with no or insignificant impact on all or several objectives 2) Activities tracked with a 100% climate coefficient 3) Activities contributing substantially to environmental objectives as defined in Taxonomy regulation	Measures related to power and/or heat generation using fossil fuels, and related transmission and distribution infrastructure (with case-by-case exceptions for Member States that face significant challenges in the transition away from coal, lignite or oil, and where a particularly large and rapid reduction in GHG emissions is possible ¹³)
	Detailed. Assessing the potential risks for each objective and possible mitigation actions	1) Activities that do not fall under a simplified nor specific assessment 2) Activities for which the simplified assessment does not cover all objectives	
	Specific 1. Implement any requirement set up in the Council Implementing Decision	Horizontal measures covered by the CID	
	Specific 2. Assess the measures and implement corrective actions following sectoral guidance	Measures related to power and/or heat generation, related transmission and distribution infrastructure using natural gas	

¹³ These exceptions are outlined in Annex III of the Technical Guidance on the application of ‘do no significant harm’ under the Recovery and Resilience Facility Regulation 2021/C 58/01. Accessed on 24/03/2023: https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AC%3A2021%3A058%3ATOC&uri=uris-erv%3AOJ.C_.2021.058.01.0001.01.ENG#ntr5-C_2021058EN.01001201-E0005

InvestEU	<p>Simplified. Consider the potential risks that the investment jeopardizes the DNSH principle and ensure that they do not realize from appraisal to decommissioning</p>	Investments that do not fall under a detailed or specific assessment	Activities ¹⁴ jeopardizing human rights and ethics, activities related to financial trading, nuclear power-related activities, mining or extraction, processing, distribution, transport, storage or combustion of solid fossil fuels and oil, as well as investments related to the extraction of gas, activities related to landfills, mechanical biological treatment plants, and waste incineration.
	<p>Detailed. Check the need for corrective actions in the EU Taxonomy DNSH criteria, or, if applicable, in the EIB's Paris alignment low-carbon criteria or equivalent; implement the actions</p>	Investments that pertain to economic activities listed in the EU Taxonomy	
	<p>Specific. In addition to a detailed or simplified assessment – where applicable – develop and implement specific monitoring plans</p>	<p>1) Investments in anaerobic digestion of bio-waste and in landfill gas capture and utilization</p> <p>2) Investments covering transport of CO₂ and underground permanent geological storage of CO₂</p>	
Cohesion Policy funds	<p>Programme level. Assess the compliance of the type of actions defined in the programme with the DNSH principle. If necessary, apply project-level criteria</p>	All types of actions	<p>Activities¹⁵ related to the transport of fossil fuels.</p> <p>Specifically for the ERDF and the Cohesion Fund, activities¹⁶ related to the production, processing, transport, distribution, storage or combustion of fossil fuels, nuclear power, harmful activities for emissions reduction, tobacco-related activities, undertakings in difficulty, airports, disposal of waste in landfills, and facilities increasing the treatment of residual waste.</p>

¹⁴ The list of exclusions (and exceptions to exclusions) is catered by Annex V (B) of the RRF Regulation 2021/523. Accessed on 24/03/2023: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R0523#d1e32-86-1>

¹⁵ This exclusion is outlined in the Common Provisions Regulation 2021/1060. Accessed on 24/03/2023: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1060>

¹⁶ The list of exclusions (and exceptions to exclusions) is catered by Article 7 of the Regulation 2021/1058 on the ERDF and Cohesion Fund. Accessed on 24/03/2023: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1058#d1e829-60-1>

2.2 EU funds and DNSH in Finland

2.2.1 EU Recovery and Resilience Facility

Finland's Recovery and Resilience Plan (RRP), also called the Sustainable Growth Programme (SGP), received EUR 1.8 billion¹⁷. Finland updated its RRP and EC accepted the changes in March 2023¹⁸ for grants from the Next Generation EU recovery and resilience facility (RRF)¹⁹. As described in Section 2.1, each reform and investment in Finland's SGP therefore needs to comply with the DNSH principle. The funding from SGP is used both for governmental internal development projects as well as for project funding. Preceding the appraisal of Finland's RRP, a centralized information collection and programme level DNSH assessment was carried out for the plan by the Ministry of Finance, with contributions from other ministries. At an implementation stage of the SGP, each funding organization has conducted DNSH assessments for all internal development and applicant projects.

Funding decisions for the SGP are distributed across six government administrative branches in ministries, regional administrations, and funding authorities. Administrative branches, respective funding authorities and the funded project types are described in table 2. The existing DNSH related guidelines and governance practices of these organizations are described in more detail in Chapter 3.

Table 2: Administrative branches, funded project types and funding authorities for RRF

Administrative branch	Examples of funded project types	Funding authorities
Ministry of Agriculture and Forestry	RDI and investment support	Ministry of Agriculture and Forestry
		Regional authorities
Ministry of Economic Affairs and Employment	RDI, investment support, services, and digital services	Ministry of Economic Affairs and Employment
		Business Finland
		Energy Authority

¹⁷ The original sum was 2.1 billion but was lowered to 1.8 billion in 2023.

¹⁸ European Commission, COUNCIL IMPLEMENTING DECISION amending the Council Implementing Decision of 29 October 2021 on the approval of the assessment of the recovery and resilience plan for Finland. Accessed on 23.3.2023: <https://data.consilium.europa.eu/doc/document/ST-6991-2023-INIT/en/pdf>

¹⁹ European Commission, n.d. Finland's recovery and resilience plan. Accessed on 12.12.2022: https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/finlands-recovery-and-resilience-plan_en

Administrative branch	Examples of funded project types	Funding authorities
		Centers for Economic Development, Transport, and the Environment (ELY-centers)
Ministry of Education and Culture	RDI, investment support, digital services	Ministry of Education and Culture
		National Board of Education
		Ministry of Economic Affairs and Employment
		KEHA Center
		Academy of Finland
		Service Centre for Continuous Learning and Employment
Ministry of the Environment	RDI, investments, services	Ministry of the Environment
		Centers for Economic Development, Transport, and the Environment (ELY-centers)
		Housing Funding and Development Center
		Business Finland ²⁰
Ministry of Social Affairs and Health	RDI, services, digital services	Ministry of Social Affairs and Health
Ministry of Transport and Communications	RDI, investment support, administrative development projects, such as the train control system development	Finnish Transport and Communications agency (Traficom)
		Regional councils

²⁰ In RRF, the low carbon built environment programme was shared with Business Finland and the Ministry of the Environment. Apart from this, Business Finland operates under the Ministry of Economic Affairs and Employment.

2.2.2 Cohesion Policy Funds

The Innovation and Skills in Finland 2021-2027 – programme receives funding from the Cohesion Policy Funds: European Regional Development Fund, the European Social Fund Plus (ESF+) and Just transition Fund.²¹

European Regional Development Fund (ERDF) & ESF+

Finland receives roughly EUR 837 million of ERDF funding for the programme.²² The purpose of the ERDF is to reduce economic, social and territorial inequalities. The Centres for Economic Development, Transport and the Environment (ELY centers)²³ and regional councils implement the Innovation and Skills in Finland 2021-2027 programme. The funding decisions for the ERDF are made by four ELY centers, 14 regional councils and the Finnish Food Authority for the part of the ESF+ funding. The preparation to start DNSH assessments over autumn 2022 when the information was collected for the project showed varying practices for DNSH assessment among the Cohesion Policy Funds. For ERDF funding, project level DNSH assessments have been carried out for investment projects as a pre-emptive response by a number of ELY centers. Some regional councils have reported preparations for carrying out project level DNSH assessment for relevant parts in ERDF and JTF funding²⁴.

Just Transition Fund (JTF)

Finland's contribution from the JTF is roughly EUR 466 million²⁵. The aim of the activities funded through the JTF is to reduce the adverse effects of the climate transition and reduce the use of peat by 50% in Finland until 2030. Based on the Government decision on 20.10.2022, the Just Transition Fund was approved to be added in the Innovation and Skills in Finland 2021-2027 programme with the expectation that European Commission approves the JTF measures in the programme by the end of the year 2022.^{26 27} The current understanding is that a project level DNSH assessment will be required for restoration projects and investment projects for JTF.²⁸ Based on existing instructions for funding under the EU Regional and Structural Policy Programme in 2021-2027, it is expected that projects funded with public business development aid²⁹ or material investments funded under the Innovative

²¹ The innovation and Skills in Finland programme has three priority areas for ERDF funding: the Innovative Finland (Priority area 1), Carbon neutral Finland (Priority area 2), and More accessible Finland (Priority area 3).

²² TEM, 2022. European Regional Development Fund (ERDF), Structural funds. Accessed on 14.12.2022. <https://rakennerahastot.fi/en/european-regional-development-fund-erdf->

²³ The Centres for Economic Development, Transport and the Environment (ELY Centres) are responsible for the regional implementation and development tasks of the central government. Finland has a total of 15 ELY Centres, which are tasked with promoting regional competitiveness, well-being and sustainable development and curbing climate change.

²⁴ Based on interviews with ELY centers and regional councils in autumn 2022.

²⁵ TEM, 2022. Just Transition Fund (JTF), Structural funds. Accessed on 14.12.2022: <https://rakennerahastot.fi/en/just-transition-fund-jtf->

²⁶ TEM (2022). Oikeudenmukaisen siirtymän rahaston (JTF) liittäminen Uudistuva ja Osaava Suomi 2021–2027-EU:n alue- ja rakennepolitiikan ohjelmaan. <https://valtioneuvosto.fi/paatokset/paatokset?decisionId=0900908f807e7893>

²⁷ The JTF measures will be added to the Innovation and Skills in Finland 2021-2027 programme with a later amendment.

²⁸ Unconfirmed information, Ministry of Economic Affairs and Employment, 2022.

²⁹ Public business development aid is distributed under the Act on Business Development Aid (758/2021).

and Competent Finland programme's priority action area 3³⁰ need to align with the DNSH principle³¹.

2.2.3 InvestEU

Bringing together EU loan and guarantee programmes, the InvestEU programme consolidates the European Strategic Investment Fund (ESIF) running between 2014-2020, and 13 EU funding instruments. In Finland, Finnvera, the Finnish Climate Fund, Nordic Investment Bank (NIB) and Tesi (Finnish Industry Investment Ltd) form the group of potential implementation partners of InvestEU funds³². In 2020 Finnvera, Tesi and NIB went through the pillar assessment for becoming an implementing partner organization already. Of the previous, Finnvera is currently applying to become an implementation partner of the InvestEU programme. The Technical Guidance on Sustainability Proofing of the InvestEU Fund calls for compliance to national environmental legislation and permits for the construction and operation of projects, including those identified by DNSH criteria of the EU Taxonomy³³.

2.2.4 European Agricultural Fund for Rural Development

The European Agricultural Fund for Rural Development (EAFRD) is channelled through national and regional rural development programmes, the RDPs³⁴. From 2023 onwards, national CAP strategic plans will include the rural development activities³⁵. The budget envelope of Finland's CAP plan for the period 2023-2027 is EUR 10.1 billion, of which EUR 1.77 billion comes from EAFRD.³⁶ There are no obligations to follow the DNSH principle for EAFRD funds set by the Commission, but the selection criteria can and in some cases need to ensure that no harm is done to the environment. The Finnish selection criteria accepted in January 2023 take into account the principles of sustainable development.

³⁰ Priority Action Area 3 (More Accessible Finland) funds road infrastructure projects in rural Finland.

³¹ EURA (2021). Yleiset valintaperusteet Euroopan unionin alue- ja rakennepolitiikan ohjelman varoista rahoitettavissa hankkeissa ohjelmakaudella 2021-2027. https://static.eura2021.fi/hakuilmoitus/Yleiset_valintaperusteet-2022-2-10.pdf

³² Valtioneuvoston kanslia, 2021. Kasvuyritysten rahoitus Suomessa: InvestEU- ohjelman hyödyntäminen ja mahdollisuudet - Valto (valtioneuvosto.fi) HYPERLINK "https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/162964/VNTEAS_2021_18.pdf?sequence=1&isAllowed=y" [Kasvuyritysten rahoitus Suomessa. InvestEU-ohjelman hyödyntäminen ja mahdollisuudet \(valtioneuvosto.fi\)](#)

³³ [Commission Notice – Technical guidance on sustainability proofing for the InvestEU Fund \(europa.eu\)](#)

³⁴ RDPs have been conditionally extended for the years 2021-2022 with rules laid out in the CAP transitional regulation.

³⁵ European Commission, n.d. CAP Strategic Plans. Accessed on 14.12.2022: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans_en

³⁶ Valtioneuvosto, 2022. Suomen esitys Suomen CAP-suunnitelmaksi 2023—2027. <https://valtioneuvosto.fi/paatokset/paatos?decisionId=0900908f8077e05f>

2.3 DNSH principle use in Finland beyond EU funding

Applying the DNSH principle to other (national) funds and means other than those EU funds requesting the application of the principle by EU Regulation should not be considered as default. The use and application of DNSH as a tool to advance the green transition is recognized but remains to be considered case by case³⁷. However, there are some cases in Finland where the DNSH principle is applied beyond EU funding. For instance, the Finnish Climate Fund includes the DNSH criteria as one of their preconditions for their funding, guiding the investment decision making processes. Moreover, Finland has expanded the DNSH principle beyond funding as well by using it in the new Priority Law for the environmental permitting process of green transition projects, as described earlier in this report. Although beyond the scope of this TSI project, an interesting example of applying DNSH can be found in the City of Turku which is developing their climate budgeting for their investment portfolio based on the EU Taxonomy and the DNSH principle. These cases are briefly described here and further elaborated in Chapters 3 and 4. Generally in green financing field there are efforts going on to apply EU Taxonomy and DNSH principle. Municipal financing (MuniFin)³⁸ is the biggest issuer of green bonds for municipalities and they aim to have their portfolio taxonomy eligible, but also note that availability and lack of information is a challenge. At the moment comprehensive or reliable project data does not exist for them to verify DNSH compliance³⁹.

The Finnish Climate Fund

The Finnish Climate Fund is a Finnish state-owned special-assignment company. Its operations focus on combating climate change, boosting low-carbon industry and promoting related digitalization by providing investment funding for companies. The Finnish Climate Fund mainly uses capital loans as a funding instrument but can also invest in funds or use other debt instruments. The company does not award direct grants or subsidies. The Fund's ticket size is typically between EUR 4 and 40 million. The annual financing volume of Climate Fund is approximately EUR 130 million. The Finnish Climate fund applies the DNSH principle in all its investments. The details of the Fund's practices to apply DNSH are described in Chapter 3.

³⁷ Valiokunnan lausunto SuVL 3/2022. https://www.eduskunta.fi/FI/vaski/Lausunto/Sivut/SuVL_3+2022.aspx

³⁸ <https://www.kuntarahoitus.fi/>

³⁹ https://www.kuntarahoitus.fi/app/uploads/sites/2/2022/03/MuniFin_Green-Impact-Report_2021.pdf

Priority Law in environmental permitting for green transition projects

In April 2022, the Finnish Government proposed that a new temporary law should be established to speed up the environmental permitting process for green transition related investment projects⁴⁰. Green transition related projects have been identified and include, e.g., renewable energy sectors. An additional requirement set was that the investment projects should also *take into account* the DNSH principle.

The new temporary law was accepted by the Parliament on 20.12.2022 and it came into force on 1.1.2023. The law identifies the sectors that are eligible for requesting priority status in their environmental permitting process. The environmental permitting process itself is not affected, only the order in which the applications are dealt with in the application phase and in courts. Next to the law, also additional resources are provided for permitting authorities. The temporary law will be valid 2023 – 2026 for Regional State Administrative Agencies (AVIs) and 2023 – 2028 for Administrative Courts.

With respect to DNSH requirements, the law states that DNSH criteria need to be taken into account, but the law does not specify the manner in which this should take place. During autumn 2022, a working group led by the Ministry of the Environment has developed specific guidelines for a “*light version*” of DNSH assessment to be used by AVIs for the Priority Law purposes. DNSH in Finland project team has been involved in this development work. The implementation and revision of the guidelines will continue in 2023 based on the experiences and expected demand for getting a priority status. A short summary of the DNSH guidelines developed for the Priority Law as a part of the project is provided in Section 5.4.

Case of climate budgeting at City of Turku

City of Turku has taken the initiative to use the EU Taxonomy as the framework for their climate budgeting. Turku Group (city owned companies) is implementing its largest investment programme in the Group’s history (around EUR 2 billion), which will concentrate on new school and daycare buildings and city exercise locations. The Low Carbon Circular Economy City (VÄKI) project will develop climate budgeting as a tool for the preparation, steering and monitoring of the city group’s investment programme, combining the implementation of climate targets and the circular economy. At the same time, it will improve the guidance of annual management and significantly extend the steering effect of financial planning through the investment programme.

The project will provide training for all the project managers in the building sectors to consider the EU Taxonomy and DNSH application in their projects. The city has received a loan promise from the European Investment Bank (EIB), and for this promise the city had to prove compliance with the DNSH principle. The EIB did not request any official, third party verified data or reports but relied on the materials that the city provided them in documents and

⁴⁰ Government proposal to Parliament for legislation concerning the temporary priority of certain green transition projects in the permit procedure of Regional State Administrative Agencies in 2023-2026 and in Administrative Courts in 2023-2028, Available at: <https://valtioneuvosto.fi/hanke?tunnus=YM019:00/2022>

interviews. So far, there is no further information on how the EIB will monitor the DNSH principle during implementation phase.

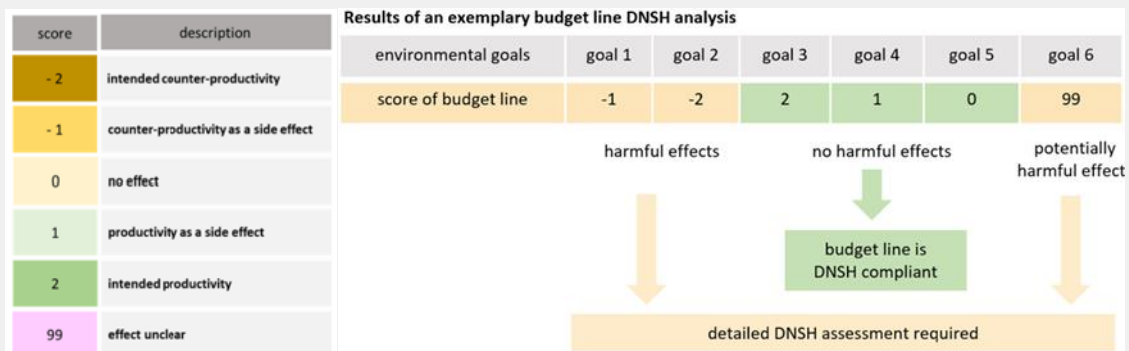
Information Box 1: Example from other Member States - Green budgeting in Austria

DNSH in Finland project is requested also to provide examples and lessons learned from other Member States. Austria presents an interesting point of reference on the use of DNSH in green budgeting.

The Austrian Ministry of Finance has initiated an exercise of green budgeting covering all national expenses. This work has led to the tagging of 38 000 budget lines, based on their relevance to climate objectives, and on their “productivity effects” towards these objectives.

The Ministry is currently exploring the interlinkages between green budgeting and the DNSH principle. The aim is to identify to what extent each budget line complies with the DNSH principle, based on a “green budgeting scorecard”:

- Budget lines considered directly or indirectly counter-productive for climate objectives, are deemed not compliant with the DNSH principle;
- Budget lines considered as relevant, neutral, directly or indirectly productive for climate objectives, are deemed compliant with the DNSH principle;
- Budget lines for which the productivity effect is unclear are subject to a specific DNSH assessment to ascertain their effect.



This methodology will be gradually refined to strike a balance between granularity and usability, and to acknowledge the possibility of changing scores and rebound effects.

3 Current status of implementing DNSH in Finland

3.1 Existing DNSH guidelines in Finland

During 2021 and 2022, various Finnish organizations and authorities have established different kind of guidelines for applying the DNSH principle in their public funding allocations. One of the first funding authorities to develop guidance for applying the DNSH principle was Business Finland, which utilized the RRF Regulation and the Commission's Technical Guidance as the backbone for the evaluation of DNSH in RDI investment project applications. Being the first institution developing guidance and due to the practical need to fulfill the requirements set by RRF, Business Finland's guideline (2021) has formed one basis for later DNSH guidance materials that have been further developed in collaboration with different authorities that were creating their own guidance. Particularly, besides the RRF requirements, the first version of Business Finland guidance was one starting point for guidelines that were further developed by the Finnish Environmental institute (SYKE).

In 2022, both the Finnish Environmental Institute (SYKE) and the State Treasury published their guidelines for applying the DNSH principle in RRP^{41,42}. Ministry of the Environment commissioned the guidelines from SYKE, which were developed in close collaboration with several ministries and e.g., Business Finland and Centre for Economic Development, Transport and the Environment (ELY) representatives. The guidelines from SYKE mainly focus on evaluations for Research and Development Investments (RDI) and investments. With respect to RDI the guidelines give specific guidance on 1) research and desk research, 2) applied RDI projects, 3) piloting and demonstrating, 4) research infrastructure projects and 5) industrial-scale investment projects. The guidance for investments is general and can be applied to large-scale plants (e.g., commercial-scale bio-product plants) to smaller investments. The developed general assessment principles can and have also been used in other projects and programmes requiring DNSH assessments.

The State Treasury guidelines are largely based on SYKE's work but they present the official national guidelines on how to apply DNSH for all RRF funding. State Treasury, under the Ministry of Finance, has the main responsibility for implementing and monitoring Finnish RRF finance. Since their publication, these two guidelines have formed the backbone for DNSH assessments for RRF in many funding authorities. The guidelines from SYKE and State

⁴¹ Forsius et.al. (2022) Implementation of the DNSH principle for measures set out in Finland's recovery and resilience plan. Available at: https://helda.helsinki.fi/bitstream/handle/10138/343044/SYKEre_3en-2022_DNSH.pdf?sequence=1&isAllowed=y

⁴² State Treasury 2022, <https://vkazprodwordpressstacc01.blob.core.windows.net/wordpress/2022/04/ohje-ei-merkittavaa-haittaa-periaate.pdf>

Treasury have presented a solid base against which individual funding authorities have developed their own programme specific guidelines and instructions for the applicants (Figure 2).

Other funding authorities that have programme specific DNSH or other DNSH guidance (based on SYKE guidelines) include Ministry of Economic Affairs and Employment, Finnish Transport and Communications Agency (Traficom), Centers for Economic Development, Transport and the Environment (ELY-centers) and the Finnish Climate Fund. In addition, during this TSI project specific guidance has been developed for the Regional State Administrative Agencies (AVIs) for assessing the priority order of the handling of environmental permit applications (see. section 4.2). Also here, the SYKE guidelines formed the basis for the guidance prepared by the project team.

All the above-mentioned authorities have used the SYKE guidelines directly as a basis for their own guidelines or as a complementary framework, as in the case of the Finnish Climate Fund. The guidance and the implementation of the DNSH principle in the Finnish Climate Fund is primarily based on directly applying the economic activity related technical screening criteria specified in the Delegated Acts of the EU Taxonomy. The fund utilizes SYKE guidelines only in the case if the Taxonomy Regulation does not cover the activity and provide the activity specific criteria for DNSH assessment.

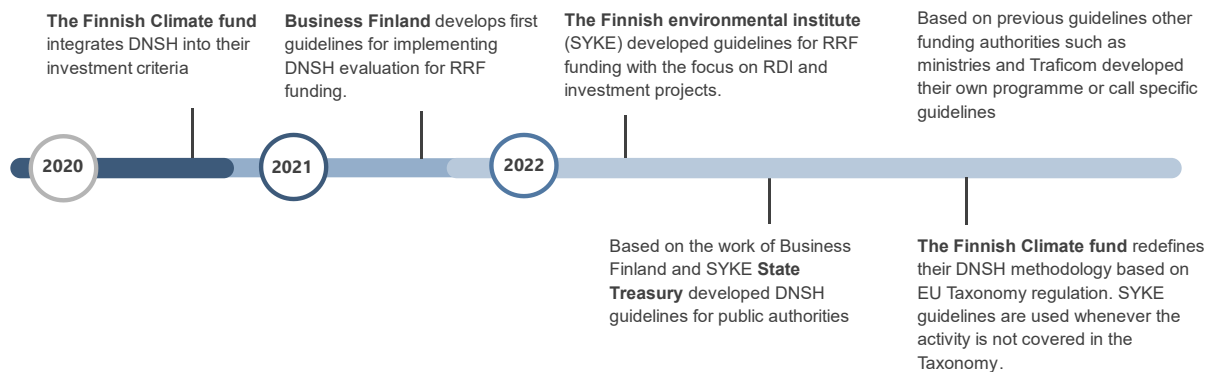


Figure 2. Approximate evolution of Finnish DNSH guidelines on a timeline

All existing guidelines follow a **two-stage process** (based on the guidelines of Business Finland and SYKE), which divides the DNSH assessment into a general and a detailed assessment. The general assessment (first stage) aims to determine whether the project has potential impacts on any of the six environmental objectives. If the project may have such impacts, a detailed assessment (second stage) is conducted. The detailed assessment aims to evaluate whether the impacts are significant enough to disqualify the project from funding based on the DNSH principle. In the SYKE model, in practice, the applicant first answers general evaluation assessment questions related to each environmental objective. If potential impacts are identified based on the general assessment questions for one or more objectives, the applicant responds to detailed assessment questions related to those potential environmental impacts.

Most guidelines suggest a model where the applicant completes a DNSH self-assessment including the assessment questions for the general and detailed assessment. In the self-assessment, the applicant is required to give short descriptive answers to each of the questions on each environmental objective and to answer whether or not significant harm is caused with respect to each objective. The self-assessment is evaluated by the managing authority and acts as the basis for the funding decision. The existing guidelines have focused on the pre-appraisal of projects mainly with limited or no emphasis on monitoring and verification of DNSH principle during project implementation. Existing guidelines are written mainly for public funding authorities' use and in a manner that both the assessment and the evaluation can be made by the funding authority (rather than the applicant).

In general, the DNSH assessment can be done on a programme level and/or on a project level (evaluating of all applicant projects). So far, existing Finnish guidelines are primarily developed for applying DNSH principle in RRF funding (in some cases also ERDF has been included) that has put emphasis on project level assessments rather than programme assessments. There are also a rather limited number of examples of programme level instructions and guidelines for RRF from other EU Member States, due to the recent and evolving nature of the conceptualization and application of the DNSH principle. Information Boxes 2 and 3 provide examples from Czechia and Slovakia that include elements of programme level guidance, for both applicants and managing authorities.

Information Box 2: Programme level guidelines in Czechia

The Operational Program for Competitiveness, nested in the Czech Ministry of Industry and Trade, has developed two programme level guides. While the Operational Program primarily manages the implementation of the Cohesion Policy funds, and while the screening for DNSH assessments is conducted in parallel with the screening for climate proofing (applicability of climate proofing and need for mitigation proofing) by the same teams, the following practice remains relevant for the implementation of the RRF in Finland.

The programme level guides are fully built on the national approach towards the DNSH principle. They provide additional guidance to applicants by offering sector-specific support. They take shape in:

- A FAQ document. As the number of DNSH evaluations increase, the FAQ will gradually provide more targeted questions that are specific to the issues of the competitiveness programme;
- An example of filled-in DNSH assessment form. It provides indications of the type of answer and level of detail expected from the applicant, for an investment that is typical of the programme.

Information Box 3: DNSH guidelines in Slovakia

Led by the Office of Government and supported by a TSI project funded by DG REFORM, Slovakia has developed national DNSH guidelines (or “handbook”) for the construction sector in particular. The handbook was developed specifically for the implementation of RRF calls in relation to buildings and the renovation wave, under which a large portion of funding targets the construction sector.

The handbook adheres to the RRF Regulation and incorporates green tagging conditions that establish verification mechanisms. It ensures consistency with climate mitigation efforts and with the minimum safeguards required under the other five environmental objectives of the EU Taxonomy. An important building block of the handbook consists of a checklist for Slovak Ministries that assists them with the DNSH assessment of open calls for projects. The checklist covers:

- Indications to ensure that the criteria used for the assessment are relevant;
- Exclusion criteria;
- Technical criteria specific to the construction sector (e.g., regarding the quality of the materials used, or the minimum recycling rate of 70% set up by the EU Taxonomy);
- Criteria to ensure the alignment with relevant national legislation.

Despite its sectoral specificities, this handbook is expected to provide replicable lessons for designing guidelines on other investment areas.

3.2 Governance of DNSH implementation in Finland

Information on the current DNSH governance practices and use of guidelines were gathered by contacting and getting information by written format or by interviews from 22 most relevant funding authorities responsible for RRF funding.

Processes to carry out DNSH assessments and evaluation

By the end of 2022, Finnish funding authorities have applied DNSH principle mainly for RRF funding. However, some have started to prepare for applying DNSH principle also for other EU funding, mainly JTF and ERDF. These preparations have included e.g. developing governance processes and data management practices. At the time of writing of the report, only the Finnish Climate Fund uses DNSH criteria to evaluate all its investments (beyond EU funding). During RRF funding, the largest organization to carry out DNSH evaluations was Business Finland, with about 40 people involved in this work⁴³. However, for ERDF and JTF funding, the biggest pressure will be on the regional ELY-centers.

⁴³ Based on information provided in the interview.

Current practices in applying DNSH principle in Finland have focused strongly on project assessments. Programme level evaluations have so far only been conducted in the context of RRF funding in preparing the Finnish RRP and as requested by the European Commission at that time. As a standard practice, most of the programme assessments have been done by the individual funding authorities. However, there have also been cases where the funding authority has not carried out the evaluations themselves but have provided the necessary information to the relevant ministry, which has executed the evaluation based on the information collected.

Project level DNSH evaluations in Finland are carried out at the appraisal stage and have typically been based on the applicant's DNSH self-assessment and, where necessary, additional data requests (exception with ELY-centers see information Box 5.).

Practices in the implementation and management of the DNSH principle between different funding authorities vary in many respects. For example, there is no common practice regarding who should carry out the DNSH evaluation and whether it should be done simultaneously with other evaluations for other funding criteria. In some organizations, e.g., Business Finland, the DNSH evaluation is carried out by the same officials who carry out the general processing of the funding application as well. Within other institutions, the general processing of applications is done separately from the DNSH evaluation, often so that the organization has appointed specific civil servants who carry out all the DNSH evaluations. In this way, the expertise in conducting DNSH evaluations can be evenly distributed among officials or concentrated in one or a small team of officials. In some cases, sector experts within the organization have also been used for specific DNSH evaluations. Regarding the timing of the evaluation, some organizations have done DNSH evaluations concurrently with other application processing, while others have moved to DNSH evaluation as the last step if the application meets all other funding criteria. Examples of different processes to implement DNSH principle are provided in the Information Boxes 4-6 in this chapter.

Funding authorities also differ in their practices regarding the possibilities of applicants to provide additional information related to the DNSH evaluation. For example, some organizations consulted with applicants by telephone, while others requested written clarifications and documentation.

Monitoring of DNSH

The implementation of the DNSH principle has not yet included follow-up and monitoring practices beyond the requests set by the RRF. The request for monitoring outlined in the Technical Guidance for applying the DNSH principle to the RRF may only apply in cases where the DNSH assessment identifies a need for mitigative measures after the launch of the project (e.g., development monitoring plan, measures during decommissioning). The implementation of these mitigation measures is the responsibility of the project implementers; the Technical Guidance does not state that authorities have an obligation to follow-up on project implementers. The same applies to Cohesion Policy funds, while monitoring responsibilities also falls on implementing partners (i.e., financial institutions) in the case of InvestEU. In Finland, almost all authorities and organizations contacted state that they have no plans or possibilities to establish follow-up and monitoring practices for DNSH once the project has been accepted for funding. There are several review points, but practically all of

them are done before the project starts or receives funding. However, different funding authorities have their own funding reporting and monitoring practices where they might have slightly different requirements for the applicants and for example, on the information and documentation they must provide for the authority. An exception to the current limited monitoring practices is the Finnish Climate Fund, where the project has to fulfil DNSH criteria throughout the investment period. To monitor this, the Fund requires the clients to monitor and report on possible infringements on the environmental targets within the DNSH principle annually. This information is also made publicly available.

At the national level, the State Treasury has the responsibility to collect all DNSH related information (instructions used, data management practices, details of each funding decision). The State Treasury has created an information system for funding authorities to follow-up and monitor RRF related indicators and also additions to national financial monitoring systems to cover RRF-specific financial monitoring⁴⁴. These are the official information systems used for fulfilling the reporting obligations towards the European Commission (EC). All DNSH evaluation documents related to each RRF-funding decision are uploaded into the system. These are either individual files or with some agencies larger databases (an example is the larger amount of data from Business Finland). However, at the moment this information is not used, and the platform is not intended for long-term monitoring or review of the implementation phase.



Information Box 4. DNSH governance in Business Finland

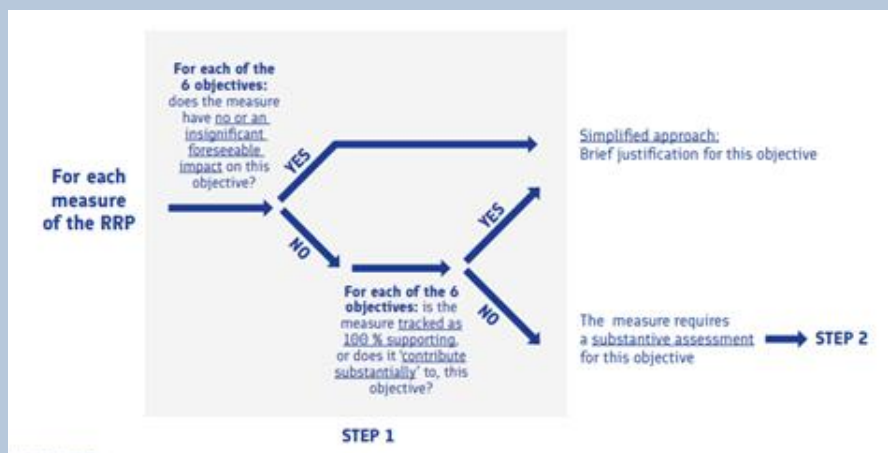
Who: Around 40 officials carrying out DNSH evaluations. Some officials do both general evaluation of the funding application as well as the DNSH evaluations.

Funding instruments: RRF

Guidelines used: Own guidelines based on RRF regulation and technical guidance.

⁴⁴ <https://www.valtiokonttori.fi/maaraykset-ja-ohjeet/suomen-elpymis-ja-palautumissuunnitelman-rrp-talousseuranta-kiekussa/#suomen-elpymis-ja-palautumissuunnitelman-rrp-talousseuranta-kieku-tietojarjestelmassa>

How: Project level DNSH evaluation is carried out for each project that qualifies funding criteria for RRF and are eligible for funding. Business Finland has developed very functional websites for applicants including also a web bot for pre-screening the eligibility for RRF funding and answers to frequently asked questions (FAQ)⁴⁵. These include also explanations of DNSH requirements. Business Finland also offers personal advice for applicants before submission of applications. The evaluation of DNSH compliance is based on applicant's self-assessment following Business Finland's guidelines and template taking into account RRF specific conditions based on two steps (see the following figure). Business Finland has evaluated its processed of implementing RRF after the first year in spring 2022. In that evaluation DNSH processes got generally positive feedback from applicants⁴⁶.



Follow-up and monitoring: No current follow-up or monitoring practices specific for DNSH beyond normal auditing processes of following the funding contractual conditions. However, the DNSH compliance is in some cases with larger investment projects conditional to the project receiving the environmental permit, if it is required.

⁴⁵ <https://www.businessfinland.fi/kampanjasivut/suomen-kestavan-kasvun-ohjelma>

⁴⁶ Business Finland (2022), Business Finland and Sustainable Growth Programme for Finland – Design Evaluation, <https://www.businessfinland.fi/julkaisut/business-finland-and-sustainable-growth-programme-for-finland---design-evaluation>



Information Box 5: DNSH governance in ELY-centers

Who: In ELY-centers the funding applications are handled by sector experts relative to the project's sector. The same official carries out the general and detailed DNSH evaluation. There are around 100 ELY funding officials in Finland.

Funding instruments: RRF and ERDF

Guidelines used: SYKE and State Treasury guidelines have formed the basis. In addition, ELY-centers have developed separate call specific guidelines (e.g., for a call on water expertise and internationalization).

How: In the case of RRF funding, the DNSH evaluation was based on the applicant's self-assessment. However, in the case of ERDF funding, the DNSH evaluations were partly carried out by ELY officials themselves, without applicant self-assessment. The ELY centers have a wide network of sector-specific expertise that the officials have used in the DNSH evaluation when needed. Through the network, the officials have contacted other experts who have done similar evaluations or have specific expertise on the applicant.

The ELY centers have followed the two-step evaluation, with only the first step being required if the project has a 100% significant contribution to climate change mitigation as assessed for RRF. The general evaluation was also considered sufficient in cases where the investment project didn't increase the facility's capacity. In cases where production increases significantly, a detailed evaluation was also required. The full two-stage (general and detailed) evaluation was required directly of all projects for which an environmental permit would be required.

Follow-up and monitoring: No current follow-up and monitoring practices.



Information Box 6. DNSH governance in the Finnish Climate Fund

Who: The adequacy of the DNSH evaluation is validated by an external expert in the Climate Fund.

Funding instruments: The Climate Fund requires that all its investments (regardless of the funding instrument) are aligned with the DNSH principle. DNSH compliance is one of the three preconditions in the Funds investment criteria, guiding the Fund's investment process and decisions, rather than an additional administrative assessment.

Guidelines used: Own guidelines based on the technical screening criteria listed in the Delegated Acts of the Taxonomy Regulation ((EU) 2020/852). If the activity (or sector) is not covered by the Delegated Acts, or when the Delegated Acts do not specify specific DNSH screening criteria for the activity in relation to an environmental objective, the fund uses the SYKE guidelines.⁴⁷

Governance practices: DNSH evaluation is initially based on applicant DNSH self-assessment. The DNSH self-assessment is typically evaluated as a part of the ESG due diligence analysis. The DNSH evaluation is made in light of the information reasonably available before the actual investment decision is taken. Unresolved issues at the time of the decision and uncertainty about the future will be managed through follow-up measures and monitoring obligations in the financing agreement.

Follow-up and monitoring: As part of the funding decision and agreement, the Climate Fund requests the client to monitor and report on possible infringements on the environmental targets within the DNSH principle annually. The project needs to fulfill DNSH criteria throughout the investment period. Climate Fund publishes the summary of environmental impacts from their funding targets in their annual report including also the status of DNSH compliance⁴⁸. The recipients of funding are aware that the information they provide in their annual reporting will become public.

3.3 Lessons learned and identified challenges

This section provides a summary of the main lessons learned and challenges related to governance of DNSH in Finland. The summary is based on the written materials and interviews with funding authorities in Finland. The project team also used lessons learned from other EU Member States provided through peer-learning exchange activities as part of other TSI projects funded by DG REFORM. The summary of main challenges noted in other EU countries is provided in Information Box 7. In comparison with lessons learned in Finland, one can conclude that many of the most pressing challenges found in other EU countries are similar to those in Finland.

Finnish decentralized public funding system adds challenges for national coordination. There are about 90 state aid funding authorities under different administrative branches and about 30 of them have been involved in the RRF and have thus developed their DNSH implementation practices. Different funding organisations have different functions and main missions which are logical in the overall Finnish public funding system. This complexity in

⁴⁷ If an activity has been subject to a previous DNSH assessment approved by an authority, it is in principle also approved by the Climate Fund.

⁴⁸ Finnish Climate Fund Annual Report 2022: https://www.ilmastorahasto.fi/wp-content/uploads/Ilmastorahaston_vuosiraportti_2022.pdf

the structure increases the risk of inefficiency when all authorities are creating guidance themselves in isolation and makes it impossible, or would even not be desirable, to request all to follow exactly the same guidelines. Flexibility needs to be maintained but next to that, national information exchange and coordination is needed.

Lack of programme level instructions for DNSH assessments. There is no common understanding of when project level assessments (besides instructions provided in the Technical guidance by the Commission services for RRF) are needed and when programme or call level assessments would be sufficient or more appropriate. This project looks beyond RRF and other EU funding to unravel in which cases there is a need for instructions that can be used for integrating and embedding the DNSH principle at the programme design phase for various types of public funding also in the future, either due to potential future requirements in EU funding under the next Multiannual Financial Framework (MFF) or due to national ambitions to apply the DNSH principle for national funding programmes as well.

Slow progress of EU Taxonomy. Lack of DNSH criteria for a “significance threshold” creates frustration in both applicants and funding authorities. Partly due to this, there has not been any rejections of applications based on not fulfilling the DNSH principle. This renders the principle somewhat obsolete, especially if the DNSH evaluation is done at an early appraisal phase. The main barrier is the unclarity of technical screening criteria under the EU Taxonomy. This is subject for review and updating by the Commission services in 2023-2024.

Complexity of DNSH. SYKE guidelines are the basis for many guidelines used in Finland, but those were developed for RRF’s RDI and investment projects and the instructions tend to be too “heavy” for average project applicants and authorities. RDI projects are also particularly challenging for DNSH assessments because the environmental impacts are simply unknown at the appraisal stage, given the nature of these projects. Another frequently mentioned complexity arises from the request to take into account the “life-cycle” aspects for which the precise instructions do not yet exist in technical annexes. In addition, the DNSH requirements and relevant concepts such as *significant harm* and *substantial contribution* have been unclear and difficult to understand for the applicants. Complexity of DNSH also leads to the increased costs of evaluating and verifying the DNSH compliance, such as increased additional staffing requirements. These costs are additional to the existing processes and resources are not necessarily provided to the authorities.

Need for getting relevant sector and environmental objective specific expertise. DNSH assessments require in addition to understanding DNHS principle also in-depth expertise both on the sectors that the projects are targeted to as well as on each of the environmental objectives. The funding authorities have had various ways of obtaining expertise (e.g., separate teams focused on DNSH assessment, use of national networks of sector-specific or environmental impact-specific expertise, use of scientific panels). However, finding the right expertise remains a challenge and also the national resources available on a specific expertise are thin.

Vast variation in types of projects. The implementation of the Finnish RRP covers large variation of funded projects from simple development, networking and knowledge sharing project to large facility investment ranging from few thousands euro -grants to tens of millions

euros investments blending different financial instruments. It is obvious that all these projects do not require the same level of details or type of DNSH assessment. SYKE guidelines have been applied, but those were not the most straightforward for all types of projects. It has been a challenge to authorities to identify correct guidelines for different types of projects. The variation of projects for which DNSH could be applied gets even larger if the principle would be applied to other national funding.

Linkages between DNSH and environmental permits. DNSH principle and national environmental permit processes clearly overlap. The compliance with DNSH principle for some of the environmental objectives is conditional for the applicant to get an environmental permit. This will create needs for follow-up monitoring and may create challenges when the funding period of the project is shorter than the time to get the environmental permits for a new investment. On the other hand, the DNSH principle is used as a tool for speeding up the permitting process as is the aim with the new Priority Law. The public funding authorities and the authorities responsible for environmental permitting processes are also different. The complicated interlinkages with environmental permitting processes and DNSH are not yet clearly defined and understood. At best, these processes and related tools support each other.

Monitoring and verification practices are underdeveloped. DNSH assessments focus mainly on appraisal phase only and the monitoring and verification processes have not yet received much attention. The monitoring is also linked to the timeline and life-cycle aspects of DNSH assessments. For how long into future the verification of the DNSH compliance should be kept on-going?

Information Box 7: Main challenges identified in other Member States (MSs)

A review of the DNSH practices across varied European MSs reveals three main types of challenges:

- **Striking a balance between a uniform level of environmental integrity and a granular recognition of investments' specificities.** Because DNSH methodologies vary according to the fund, the programme, and the sector of the investments, it is highly complex to impose a standardized level of environmental integrity and consistent practices on all investments. Not only does this challenge apply to the methodological level, but it also emerges at the governance level, where MSs grapple with the repartition of responsibilities between central authorities and line Ministries.
- **Developing an effective and efficient repartition of knowledge.** While capacity building and the involvement of diverse stakeholders are appreciated by authorities and private parties, the broad dissemination of complex DNSH-related knowledge must be limited to preclude the administrative burden. The limited capacity of teams managing the application of the DNSH principle reinforces this challenge; it makes it crucial to target capacity building efforts, but also makes it necessary to lessen the teams' duties in the DNSH application (i.e., relying more intensely on other parties).

- **Building on European regulations and guidelines that do not cover all the steps and aspects of the DNSH application.** Typically, technical guidelines for the application of the DNSH principle do not provide sufficient indications on the monitoring stage. The responsibilities of MSs and the time boundaries that should apply to monitoring are not specified. This poses difficulties to the implementation of RRF and Cohesion Policy investments, especially in the construction sector. A similar issue arises for sectors that are instrumental to RRF and Cohesion Policy investments (e.g., green innovative technologies), and which are not covered by Delegated Acts.

4 National environmental legal framework related to DNSH

The Climate Delegated Acts under the EU Taxonomy include technical screening criteria for DNSH on the six environmental objectives for multiple economic activities. Some of the DNSH criteria presented in the Delegated Acts are (directly) interlinked with existing EU regulations, and thus are also in part covered by Finnish national environmental legislation, assuming that EU regulation has been transposed to national legislation. However, compliance with applicable EU and national environmental legislation does not exempt authorities from DNSH assessment when that is required. Although compliance with the EU legislation suggests that the project will not cause substantial environmental damage, it does not automatically imply compliance with the DNSH principle, since not all environmental objectives have yet been included in EU environmental legislation⁴⁹. In addition, not all DNSH criteria are directly linked with existing legislation. Thus, current legislation provides only benchmarks against which compliance with the DNSH can be verified. These benchmarks may include legally defined thresholds, for example, for chemical use or emissions from manufacturing operations. While existing legislation and its thresholds form the basis for DNSH, they should not be considered as equivalent to DNSH compliance until the EU legislation and the corresponding national regulations have been reviewed against all six environmental objectives.

As described above, the DNSH criteria have many interlinkages with other EU and national environmental regulations, such as the Finnish Environmental Protection Act and its environmental permitting procedures, as well as the EU and national regulations on environmental impact assessments. The connections between specific EU and national environmental regulations are briefly described in Chapter 4.1. In chapter 4.2, Finnish environmental legis-

⁴⁹ Finnish Environment Institute, 2022, Implementation of the DNSH principle for measures in the Finnish recovery and resilience plan.

lation is reviewed against each environmental objective to summarize the legislative backbone for DNSH assessments as well as to highlight the gaps in legislative coverage with respect to DNSH. The review does not suggest that specific regulations are to be considered sufficient for DNSH compliance. Rather it clarifies the points of references that the DNSH evaluation should be based on, and sheds light upon those legislative areas, where the DNSH environmental objectives are clearly not yet considered. In chapter 4.3, the report describes the recent legislative links between DNSH and application of an environmental permit.

4.1 DNSH and national environmental assessments

The Finnish Environmental Protection Act (527/2014) is in many ways well aligned with the DNSH principles. The Act obliges the duty of disclosure, where the operator must be aware of their environmental impacts, and sets the principles of prudence and diligence, where the activities must be conducted in safe manner that prevents the negative impacts and possible accidents and failures that may cause harm for the environment. The Act defines four levels of authorization for activities with different level of environmental impacts and risks. The highest level is the requirement for the Environmental Impact Assessment (EIA), which is described in its own law (Act on the environmental impact assessment procedure, 252/2017⁵⁰), next level is the requirement for environmental permit, that covers sectors and project types that are deemed to pose a risk of causing environmental harm. Both the EIA and environmental permit requirements are listed in the law⁵¹. Activities of smaller scale and lower environmental risks may require general notification procedure or registration. In Finland, Regional State Administrative Agencies (AVIs) act license the environmental permits while Centres for Economic Development, Transport and the Environment (ELYs) act as a supporting authority in advancing the implementation of the law.

The EIA procedure and the environmental permit process provide information relevant for the DNSH procedure and ensure good conducts and techniques in incorporated sectors and activities. However, the permitting and monitoring of the Finnish Environmental Protection Act or EIA do not cover all the environmental objectives and criteria to the same extent as DNSH, nor do they automatically ensure that the project meets all the relevant DNSH criteria. The EIA procedure and environmental permitting have partly different coverages with respect to DNSH requirements. Environmental permitting mainly covers the environmental objectives of sustainable use and protection of water and marine resources, pollution prevention and control, and ecosystem restoration (to some extent). In Finland, other objectives such as the transition to a circular economy and the protection and restoration of ecosystems are covered by other laws (see section 4.2).

⁵⁰ Act on the environmental impact assessment procedure:
<https://www.finlex.fi/fi/laki/ajantasa/2017/20170252#P3>

⁵¹ Activities requiring environmental permitting: <https://www.finlex.fi/data/sdliite/liite/6410.pdf>

With respect to some environmental objectives such as the objectives on climate change mitigation and adaptation, the EIA Act has a broader scope than the Environmental Permitting Act. For example, climate impacts are not assessed in the environmental permitting process, although they are included in the EIA. However, even the EIA Regulation does not set specific emission thresholds or requirements for assessing climate-related risks⁵². The same issue of different coverage of EIA and environmental permitting follows when considering DNSH requirements for assessing impacts throughout the value chain. In EIA, an assessment of the use of energy, natural resources and raw materials is required by law. Environmental permitting does not consider either upstream or downstream (e.g., sold products or their disposal) impacts in the value chain. As a result, many activities, particularly in primary production, where the environmental impacts are often significant, are not considered in the permitting process even though according to the EIA Act, the results of the EIA has to be taken into account in the environmental permit.

The objective of the EIA process is to identify the most ecologically sound approach to implement a project, and an environmental permit should be granted to any activity that adheres to legal prerequisites. As a result, numerous contemporary practices, methodologies, and technologies are considered permissible, even if they pose substantial environmental consequences, as long as the project does not break the law. It is essential to note that the aim of these procedures is not to impede the utilization of natural resources but to promote competent practices. Nevertheless, certain projects, such as those that entail modifications in land use or those that are considered socially significant, may have significant direct and indirect environmental impacts, despite their compliance with legal protocols.

Compared to environmental permitting, DNSH principle forms a different kind of framework that aims to investigate the environmental effects beyond specific technological or other regulatory requirements. Similarly, to environmental permitting, the environmental impact assessment is used to minimize the environmental impacts, and choose the overall best scenario for the projects, not to ensure no negative impacts to the nature. In addition, programme level DNSH has similarities with the Finnish national Act on the Evaluation of the Public Plans and Programmes (200/2005). The aim of the Act is to identify the possible environmental effects from the programmes and advance their consideration in the programme design. Besides to the programme's impact on nature and natural ecosystems, the Act's assessments include the study of social impacts and impacts on the built environment. However, the objective of the Act is not directly to ensure that the plans or programmes do not have significant environmental effects, but to identify the effects in order to design the mitigation actions for the programme.

⁵² In 2021, the Finnish Government published a guidance on assessing climate impacts in EIA processes, which gives more specific guidance compared to the EIA Act: <https://julkaisut.valtioneuvosto.fi/handle/10024/163178>

Information Box 8: Interlinkages between the DNSH principle and climate tagging⁵³, sustainability and climate proofing, EIA and SEA⁵⁴

Climate and environmental tagging, climate and sustainability proofing (CP and SP), and environmental assessments (EIAs and SEAs) interlink with the DNSH principle. Beyond the mandatory requirements to use these interlinkages, they can be used strategically to make the most of synergies and limit the administrative burden for project proponents and managing authorities.

1. Under the RRF

Under the RRF, the use of climate tagging is mandatory, while SP, CP, EIA and SEA remain recommended methodologies for applying the DNSH principle.

- **Climate tracking directly informs the type of DNSH assessment needed: a 100% climate tag leads to a simplified DNSH assessment, while 0% or 40% calls for a justification of alignment with the DNSH principle or in-depth assessment.** At a later stage, interventions with an “uplifted” coefficient must meet the conditions for uplifting throughout implementation and decommissioning to remain compliant with the DNSH principle.
- SP and CP can be used to support DNSH assessments, by showing that risks have been identified, measured, and mitigated. In particular, the use of CP is recommended to support the DNSH assessment of infrastructure projects, and is supported by dedicated, sectoral guidelines¹. The conduction of an EIA or SEA can support or give an indication of the application of the DNSH principle, particularly for objectives related to biodiversity and the protection of marine and water resources². In practice, the results of an EIA or SEA can be used to identify and gauge the impacts that the measure might incur on the objectives of the EU Taxonomy, but they cannot substitute a DNSH assessment, because their respective scopes differ. At the implementation and decommissioning stages, the application of the DNSH principle would translate into the implementation of the mitigative measures identified during the EIA or SEA.

2. Under InvestEU

InvestEU presents the highest degree of integration between the DNSH principle and environmental methodologies.

⁵³ Climate tagging refers to the process of identifying and measuring expenditures that are aligned with EU's climate and environmental goals. The Commission has created its own methodology based on "EU coefficients" to better capture the EU budget contribution to these objectives. The coefficients are determined by the expected impacts of each intervention rather than the intervention's purpose. As such, they differ from other objective-based techniques. This enables the Commission to uniformly mark each type of project (i.e., with the same EU coefficient), independent of whatever expenditure program funds it. This methodology establishes intervention fields to be implemented across the EU budget, building on existing laws (such as the Common Provisions Regulation or the Recovery and Resilience Facility Regulation), and can be found in section 2.7 of (accessed on 29/03/2023) https://commission.europa.eu/system/files/2021-01/document_travail_service_part1_v2_en.pdf

⁵⁴ Strategic Environmental Assessments apply to large infrastructure projects, public plans and programs listed in the SEA Directive (see <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32001L0042>). They consist in scoping, in evaluating impacts and alternatives, in a public consultation, and in a monitoring phase. They assess the likelihood that projects have significant environmental effects and they ensure the highest level of environmental protection. The environmental scope of SEAs differs from the one put forward by the DNSH principle, as it does not cover all six environmental objectives.

- **The application of the DNSH principle is ensured through SP and CP³.** At the appraisal stage, DNSH assessments must be done through sustainability and climate screening (i.e., first stages of SP and CP). At the implementation and decommissioning stage, the DNSH principle is applied through corrective measures identified during the SP and CP.
- This link is further closely integrated with EIAs: **the obligation to conduct an EIA affects the obligation to conduct** a sustainability proofing – and thus **a DNSH assessment⁴**. The link with SEA is looser; SEA and climate proofing feed into each other (e.g., by helping to measure and scope risks) and may thus feed into the DNSH assessment, but the SEA does not substitute a DNSH assessment due to differing scopes. Finally, the results of SF can inform the rationale for climate tagging projects.

3. Under Cohesion Policy funds

Unless types of actions and projects require a CP to align with the DNSH principle, there are no mandatory interlinkages between environmental methodologies and the application of the DNSH principle.

- **There is no methodological connection between the DNSH principle and climate tagging;** the two are fully parallel and do not intertwine, but the Commission Explanatory Note for applying the DNSH principle under the Cohesion Policy offers the possibility to Member States to use climate tagging as a tool to simplify DNSH assessments of types of actions in the Cohesion Policy.
- Because DNSH assessments are done at the level of types of actions in the programme, while CP is applicable at the investment level, the application of the DNSH principle and CP are separate. At the same time, in the cases where DNSH alignment of the types of actions in a programme is justified by the future CP of the individual investments, the CP process becomes an integral part of the process through which the DNSH alignment of the programme can be justified ex-post. Finally, EIA and SEA can be integrated and integrate DNSH assessments by providing relevant evidence for each other.

4.2 Regulatory basis for DNSH compliance in Finland

Climate change mitigation and adaptation

EU Taxonomy criteria on climate change mitigation vary largely between sectors and sub-sectors. Currently there are no national laws or other regulation that would oblige private actors with respect to climate change mitigation^{55,56}. Taxonomy criteria on climate change

⁵⁵ Finland has a national Climate Act (609/2015) that sets national climate targets and defines the role of different authorities with respect to climate change mitigation and adaptation. However, the Climate Act does include regulation for private actors.

⁵⁶ Similar to the Finnish Climate Change Act, the new European Climate Law (EU, 2021/1119) sets ambitious climate neutrality and emission reduction targets to guide emission reductions in EU member states. However, the law does not impose any obligations on private actors in the member states.

adaptation are related to the identification of climate risks (chronic and acute) that are material for the economic activity⁵⁷. Currently there are no general regulatory requirements for private actors on identifying climate risks or planning/executing of precautionary actions.

Pollution prevention and control

The aim of the DNSH-criteria on pollution prevention and control is to control the use of environmentally harmful substances as well as to restrict manufacturing operations that would lead to their use⁵⁸.

Key national regulations for pollution prevention and control include the Environmental Protection Act (527/2014), the Regulation on Substances Hazardous and Harmful to the Aquatic Environment (1022/2006) and the Act on Environmental Impact Assessments (525/2017). The Environmental Protection Act on Seafaring (1672/2009) is applied with activities occurring in marine habitats. Environmental protection Act and the regulation on environmental permitting could in the future provide emission reference levels required for DNSH compliance. For example, with respect to manufacturing, a portion of the taxonomy DNSH criteria are explicitly linked with EU best available techniques (BAT) and reference levels (BAT-conclusions)⁵⁹. However, whether BAT levels are nationally considered the minimum requirement for DNSH compliance with respect to some activities has not been agreed upon.

Sustainable use and protection of water and marine resources

Taxonomy criteria on sustainable use and protection of water and marine resources are based on identifying and addressing the environmental degradation risks related to preserving water quality and avoiding water stress⁶⁰. The aim of the criteria is to achieve good water status and good ecological potential as defined in Directive 2000/60/EC⁶¹ and respectively in the Finnish Water and Marine Resource Management Act (1299/2004).

Key national environmental regulations for protecting of water resources include the Environmental Protection Act (527/2014), the Water Act (587/2011), the Regulation on Substances Hazardous and Harmful to the Aquatic Environment (1022/2006) and the Act on Environmental Impact Assessments (525/2017). The Environmental Protection Act on Seafaring (1672/2009) is applied with activities occurring in marine habitats. The above-mentioned regulations include many restrictions and thresholds for several economic sectors that could in the future be linked with DNSH compliance if they are to be considered sufficient.

Transition to a circular economy

Taxonomy DNSH criteria on transition to a circular economy vary largely between sectors and sub-sectors with respect to their applicability. Generally, the sector specific criteria aim to minimize waste and to increase recyclability and re-use of materials resulting from different activities. With respect to construction activities the criteria require that at least 70 % (by

⁵⁷ Stated in Delegated Act (EU) 2020/852 Annex 1 appendix A.

⁵⁸ Stated in Delegated Act (EU) 2020/852 Annex 1 appendix C.

⁵⁹ Delegated Act (EU) 2020/852, Annex 1, Section 3

⁶⁰ Stated in Delegated Act (EU) 2020/852 Annex 1 appendix B.

⁶¹ See also EU Marine Strategy Framework Directive 2008/56/EC.

weight) of the non-hazardous construction and demolition waste generated on the construction site is prepared for reuse, recycling, and other material recovery.

At the EU level, end-of-life considerations are addressed in the Waste Framework Directive (2008/98/EC), which is implemented in Finland in the Waste Management Act (646/2011) and the Waste Management Regulation (978/2021). The waste management act establishes regulatory framework based on waste hierarchy and provides regulatory requirements for waste management reporting for some actors. However, DNSH criteria for increasing recyclability and re-use are not directly covered by national legislation.

Protection and restoration of biodiversity and ecosystems

With respect to protection and restoration of biodiversity and ecosystems, Taxonomy DNSH-criteria are based on protection of conserved areas and habitats, as well as designated for conservation or habitats specifically sensitive to biodiversity loss or with high conservation value. For example, the activities must not conflict with EU or national conservation objectives or cause conversion of sensitive habitats. In addition, the criteria aim to prevent the spread of non-indigenous species.

On a national level the of protection and restoration biodiversity and ecosystems are largely based on the Nature Conservation Act (1996/1096) and the Regulation on Nature Conservation (160/1997). With respect to restoration, relevant regulation also includes the Environmental Protection Act (527/2014) as well as the Act on Environmental Liability (2009/383). The Environmental Protection Act on Seafaring (1672/2009) is applied with activities in marine habitats. The Act on Managing Non-indigenous species (1709/2015) includes regulation for preventing the spread of harmful non-indigenous species. In addition, sector specific legislation (e.g., the Forestry Act (1093/1996)) may provide specific regulatory requirements that could in the future be utilized in the evaluation of the impacts on biodiversity and ecosystems.

4.3 Priority in environmental permitting process and DNSH (Priority Law)

In December 2022, the Finnish Parliament passed a temporary law on giving priority to green transition projects in environmental permitting (hereafter referred to as the Priority Law). The Law came into force on 1.1.2023. The background of the Priority Law is explained in Section 2.3. The Priority Law explicitly mentions DNSH, and for the applicant to get the priority in the application process, they have to show that they have taken the DNSH principle *into account*. The Law does not explicitly state what would constitute sufficient evidence for taking the DNSH principle into account. To support the applicants in the DNSH considerations, guidelines for implementing DNSH in the Priority Law were developed (see. Section 5.4).

From the point of view of the EU and national environmental regulation, the following principles in applying DNSH in the Priority Law are relevant. These principle were formulated based on the Law and its background papers and conditions set for the implementation, as defined by the working group which has taken forward the implementation of the law.

- Article 17(2) of the EU Regulation (life cycle assessment) has been excluded from the Priority Law on the basis of Article 2 a (1) of the Act on the Procedures of the Regional State Administrative Agencies (809/2009).
- The application for the priority status is voluntary for the applicants and the status should not affect in any way the actual environmental permitting process.
- The applicant can request for the priority status at any point of the process, e.g., in the very beginning while filing some environmental permit applications or later during the on-going process. The priority status can also be taken away at any point of the environmental permitting process.
- The main aim of the new law is to speed up the process for environmental permitting. The requirement of taking DNSH into account should not cause any delays in the permitting process. The authorities need to monitor the implementation of the Law to ensure this.
- The opportunity to get the priority status should be equal to all eligible applicants and not depend on, e.g. the existence of previous DNSH assessments for investments, although those can be used.

The main responsibility for the implementation of the legislation is with the AVI centers (Regional State Administrative Agency), but they contact and co-operate with ELYs (Centre for Economic Development, Transport and the Environment) which often are the first contact points for applicants. The details of the implementation responsibilities are described in the instructions developed for the Priority Law. The guidelines are described further in Section 5.4.

5 Summary of the DNSH guidelines developed in the project

The DNSH guidelines developed in the project build on the existing practices and guidelines in Finland with the DNSH application and on lessons learned from other EU Member States. The guidelines have been developed with the challenges identified in the review of the status of applying DNSH principle in Finland, kept in mind (see Section 3.3).

This project differs from other ongoing TSI funded projects on developing DNSH guidance by the specific focus **to look at the applicability of DNSH in public funding beyond EU funding**. The guidelines developed in the project are not developed for the RRF or any one specific EU fund and therefore do not go into details of DNSH implementation for specific EU funding mechanisms. The scope of the project sets some limits to the guidelines developed: They need to be general (enough) at a level that ensures their applicability for various funding instruments and types of programmes, yet precise enough for practical purposes in the Finnish context. These guidelines do not in themselves replace any current existing guidelines, since apart from the Finnish Climate Fund, all the guidelines are directly linked to RRF funding. Authorities should always honor the guidance that is based on EU regulation, like it is in

the case of RRF. Authorities should also not replace any given guidance for on-going programmes that is done based on SYKE or State Treasury guidance in order to not to confuse applicants or treat them differently based on their application date. These guidelines are intended to be used in the future, for those funding programmes that don't have specific EU guidance. In that sense also those funding authorities who have made their own guidance for RRF could adapt that guidance to follow these guidelines, if they ever have another case where DNSH principle should be considered, and there is no existing EU guidance.

The use of the guidelines will depend on the intended purpose set for the application of the DNSH principle in the future. These intended aims may, for example, come from the government programmes or national strategies that provide a basis for funding programmes. The different needs identified that may benefit from DNSH application are, for example:

- **Mandatory requirement view** - Next to RRF there are also other large EU investment packages and programmes which set the mandatory requirements to follow DNSH principle. Despite of the evolving details, the application of the DNSH principle will most likely remain to be an integrated part of EU funding programmes and funds in the future. For these EU funding windows, mandatory DNSH requirements need to be always followed and adhered to.
- **Compliance view** – The DNSH principle is intended to make sure that no environmental harm is done, and this basic purpose can be taken to a high priority level when designing public funding programmes. This view would also require that DNSH assessments are also audited and verified at the implementation phase.
- **Mainstreaming view** – DNSH or similar green financing criteria are communicated to all applicants receiving public funding as tools to stimulate consideration of all six EU environmental objectives under the Taxonomy Regulation and advance the green transition.
- **Efficiency and sensibility view** – Finland, among other countries are thinking and developing different criteria and mechanisms for public funding to stimulate the green transition. Since there already exists a framework developed and agreed upon at EU level, why not use that for various purposes?

The guidelines developed in the project emphasize the role of programme level design and DNSH assessment to tackle two identified challenges. First, a lot of mitigating actions are decided when the programmes are designed and at that phase also decisions are made for implementing the necessary DNSH processes. At the programme design stage, the most efficient and appropriate ways to implement DNSH are selected and integrated. There have not been, to date, guidelines for programme level DNSH assessment. Second, the variation of projects to be funded is large, and the programme design phase is the right step to decide which projects need most attention in ensuring that no harm is done.

The following sections explain the logic of the developed guidelines and summarise the main features of them. Guidelines developed for implementing the Priority Law is a special case and those instructions are briefly summarised in Section 5.4. The actual guidelines are separate documents which are annexes to this D3 report.

In general, the guidelines need to be modified and customised to fit the needs of any specific programme and project they are being used, since the guidelines cannot comment on the differences between funding authorities' regular practices. The guidelines should be always integrated into the regular programme and project practises the authority has as much as possible and for this reason the guidelines cannot be forwarded as such to applicants.

The guidelines presented here and in annexes as deliverables from D3 will be tested and piloted in D6 phase of the project and feedback is also collected as a part of trainings organised in D5. Based on those learnings, the guidelines, examples, and templates will be updated to better fit the needs. Priority Law related training was already organised in January 2023 and the instructions were modified based on that feedback.

5.1 Overview of DNSH guidelines

During the project, several different sets of guidelines were developed. Table 3 provides a summary of all guidelines developed and their documentation. Guidelines are developed mainly from public funding manager point of view and for public authorities, but project level guidelines are directly applicable to funding applicants.

Table 3: Summary of the guidelines

Guideline	Notes
Priority Law guidelines	<ul style="list-style-type: none"> Guidelines for AVIs, ELYs, and applicants, completed in January 2023 The DNSH guidelines are integrated in the general instructions for the Priority Law in environmental permitting. The DNSH section resembles the guidelines for project level simplified assessment, and these are intentionally streamlined.
Programme level guidelines (Annex 1 to D3)	<ul style="list-style-type: none"> Guidelines for programme designers and managers. Including guidelines for making a DNSH assessment for a programme and to design possible project level DNSH assessment Guidelines focus on presenting questions and instructions that help in programme design phase to include DNSH in programme in the most efficient and fit for purpose manner.
Project level guidelines (Annex 2 to D3)	<ul style="list-style-type: none"> Guidelines are aimed towards project applicants to make the DNSH assessment but include sections for funding authorities evaluating project DNSH assessments. Screening tool: Instructions to use a simple questionnaire to facilitate the decision which type of DNSH assessment a project should follow. Simplified assessment: Instruction for applicants on how to make a straight forwards DNSH assessment. Intended use for simplified assessment is in a situation where a programme includes a big mass of projects that individually are not likely to cause significant harm. Detailed assessment: Detailed instructions based on EU Taxonomy for bot the applicants and authorities. Intended use is for projects that most likely have impacts on environment.

The guidelines developed in this project differ from existing Finnish guidelines depicted in Chapter 3 in following ways:

- Programme level DNSH guidelines are a new addition. All the funding programmes that will consider DNSH in any ways, would go through a programme level DNSH assessment and based on this define what type of DNHS assessments are needed at the project level, if any.
- There are generally speaking only one-step assessments for a project. A project will either have no assessment, a simplified assessment, or a detailed assessment. Based on the interviews and discussions with funding authorities as well as the received DNSH data, the two-step assessment has not created a lot of added value as almost none of the simplified assessments resulted into the need of conducting a detailed DNSH assessment as a second step. In these guidelines, the decision what type of project level assessment is needed is made at the programme level by the authority. In case a decision cannot be made by the authority at programme level, for instance due to the broad nature and scope of the programme, a project screening questionnaire can be filled to help make the decision. Screening questionnaire can be filled by the applicant, or the authority based on the project description and other information provided by the applicant. A template of the project screening questionnaire is provided in the project guidelines. The best use for the screening questionnaire is in a programme where different projects need different types of DNSH assessments, and the programme manager is able to sort the projects into different categories based on project descriptions.
- All assessments follow the formula and questions determined in the Priority Law, which are based on the SYKE guidelines with some modifications. This was done to decrease the amount of different assessment structures and questions circulating around.
- The simplified assessment for a project follows the same formula as the Priority Law fully.
- The detailed assessment includes the assessment questions and mitigation actions that the applicant will take on each environmental objective and verification of claims.

Figure 3 provides an overview on the whole process and different end results of considering DNSH. The possible end results are:

1. No DNSH assessment is done at any level
2. Only programme level assessment is done
3. Programme level and project level assessment is done
 - Simplified project level assessment for all project
 - Detailed project level assessment for all projects
 - A mix of simplified and detailed assessments are done based on project screening questions

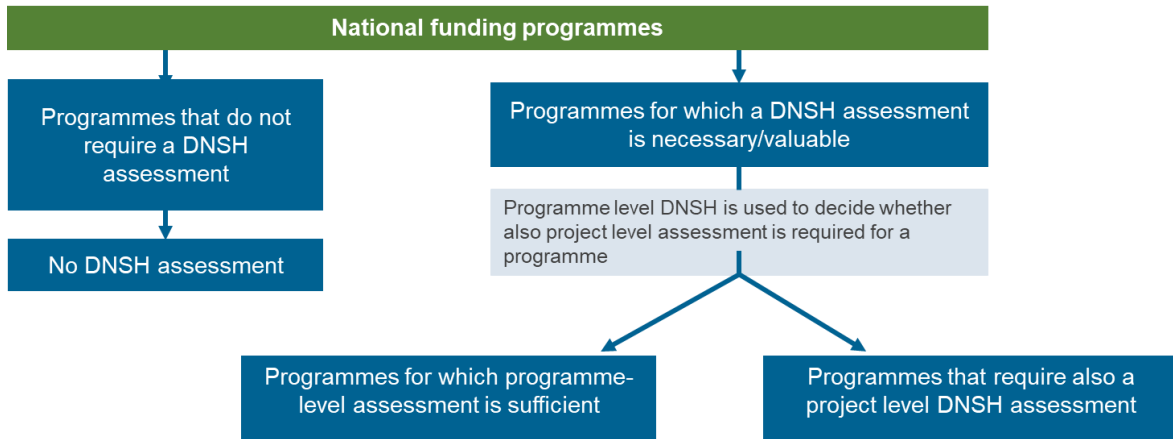


Figure 3. Different programmes and link to DNSH assessment

What are programme level DNSH guidelines?

The programme level DNSH guidelines provide instructions to complete DNSH assessment for a programme. Furthermore, the guidelines include questions and instructions to characterize different kind of programmes for DNSH assessment and guidance to determine what type of assessment, and level of detail, is needed for each programme and for the projects funded by the programme. Figure 4 presents the structure of the programme guidelines.

”Programme” in this guideline can be any type of programme that involves public funding to other actors (public and private) ranging from large EU funds as a whole (such as RePowerEU or RRF) to specific calls under the responsibility of a (national) funding agency (such as a specific, targeted call). One should note that the guidelines do not include detailed instructions requested by specific EU funding instruments.

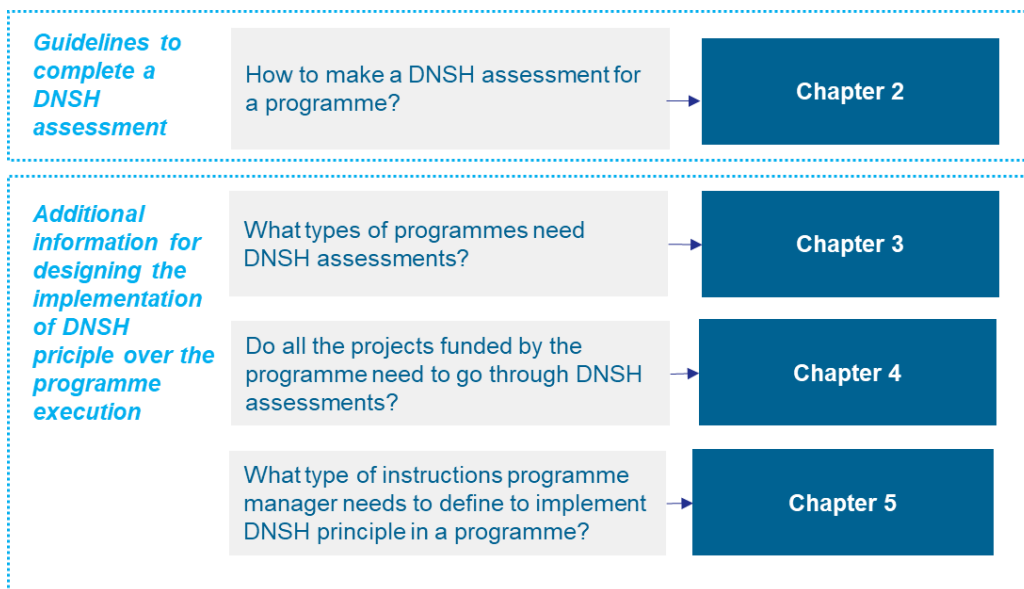


Figure 4. Content of the programme guidelines

What are the project level DNSH guidelines?

The project level DNSH guidelines provide assessment questions that assist in characterising different kinds of projects and provide guidance to determine what type of DNSH fits the project (project screening questionnaire). Most often it is decided already as a part of programme level DNSH assessment which type of DNSH assessment needs to be done for projects. Project level guidelines then provide instructions to complete different type of DNSH assessments for a project. Either a simplified, detailed, or no DNSH assessment might fit the project, dependent on the risk of adverse impacts the project poses on one or more of the six environmental objectives as determined by the EU Taxonomy.

“Project” in these guidelines refers to any type of project under a programme that involves public funding to other actors (public and private) ranging from projects falling under large EU funds (such as the RRF) to projects of smaller size that fall under a programme of a (national) funding agency.

5.2 Guidelines for funding authorities

Guidelines for funding authorities include both programme and project level guidelines. A large number of national funding programmes and funding authorities design their respective programmes or calls in a de-centralised manner in Finland. The generic instructions presented in the guidance documents provide a basis for applying and implementing the DNSH principle in various programmes and through funding decision making at the project level.

Programme level DNSH assessment should be done during programme design phase before moving to project level DNSH assessments. It is an ex-ante evaluation of the whole programme’s DNSH compliance. The goal here is to identify possible environmental risks the programme as whole might have. Based on the assessment done the authority can include mitigating actions, like exclusion lists or specific request for projects in order to avoid those possible risks. The main mitigation action to be decided is whether the projects funded need to go through DNSH assessments and which type of assessments. The authorities should identify those projects that benefit from DNSH assessment will undergo more substantial process. This will ensure that most resources are spend on those programmes that have more risks of causing environmental harm and that DNSH won’t be an additional administrative step that brings no value to the authorities or applicants.

Project level DNSH assessment guidelines provide guidelines to authorities for making DNSH evaluations based on DNSH assessments provided by applicants. In some cases the authority may also make DNSH assessments themselves based on project application using the project level guidelines. Project level guidelines include also a screening tool for authorities to use for classifying project types if needed.

5.3 Guidelines for applicants applying for funding

The project guidelines are generic and include parts relevant only for authorities. Guidelines can be adopted to be just for applicant, after the funding authority has made decisions on which parts of the project level assessment the authority completes and which the applicant does. Guidelines are built in a manner that they give the option in many stages for both. Typically, the applicant only needs guidelines for either simplified or detailed assessment and in some cases, the screening questionnaire.

Project guidelines provide applicants templates for the simplified or detailed DNSH assessment. Authority can conduct the simplified assessment on behalf of the applicant if it has enough information from, i.e., the project description, if it so chooses. Detailed assessment needs to be always completed by the applicant.

Simplified assessment

The simplified DNSH assessment in a straightforward manner assesses the possible adverse impacts of projects to the environmental objectives by asking **two types of questions**. The first (general) type is the main question concerning the objective, on whether the project is likely to have a significant adverse impact on the environmental objective concerned. The second type, consisting of more specific questions for each of the environmental objectives, provides assistance in answering the main question. For each environmental objective, the main question and specific questions are answered with a short justification.

Detailed assessment

The questions asked as part of the detailed DNSH assessment are designed to assess the possible adverse impacts of a project to the environmental objectives, as well as to show which mitigation actions are taken to avoid these adverse impacts. The latter part distinguishes the detailed assessment from the simplified one.

As a detailed DNSH assessment is required in case the risk of adverse impacts on an environmental objective is deemed higher by the funding authority, the detailed assessment asks a more thorough evaluation by the project applicant of the possible risks and which actions to take in case the risk materializes. It is for this reason, and to encourage awareness amongst the applicant, that the detailed assessment questions should be answered by the project applicant.

If the authority is not sure, whether the individual project should undergo simplified or detailed assessment, it can either fill in, or request the applicant to fill in **a project screening questionnaire**. Based on the questionnaire, the authority makes the final decision between simplified and detailed assessment. This is not a necessary step, authority can also decide to request all projects in one programme to do simplified or detailed assessment or mix of these without this step.

In some rare cases, the authority may request the applicant to fill also he detailed assessment, if it evaluated based on the simplified assessment, that mitigating actions are needed. This is not the intended situation, and the applicant should only make either simplified or

detailed assessment, but moving from simplified to detailed assessment is a way for the authority to make sure the project is not causing environmental harm, if during the assessment process some more significant risks came to light.

5.4 Guidelines developed for implementing Priority Law

In April 2022, the Finnish government proposed a new temporary law to accelerate the environmental permitting process for green transition-related investment projects (see. section 2.3). The law identifies the projects that are eligible for priority handling in the environmental permitting process.

A working group led by the Ministry of the Environment developed guidelines for the implementation of the Priority Law during the fall of 2022. The working group included representatives from the Regional State Administrative Agencies (AVIs) and the Centers for Economic Development, Transport and the Environment (ELYs), as well as the Finnish Environment Institute (SYKE). AVIs have the main responsibility for implementing the Priority Law, but ELYs are often the first contact points for applicants and are responsible for monitoring environmental permits. Members of the DNSH project team in Finland were invited as experts to the working group.

The guidelines for the Priority Act are available in Finnish, Swedish and English. In addition to the guidelines for DNSH, they also cover the detailed list of eligible sectors and project types for the Green Transition, as well as clarifications on the roles and responsibilities of the relevant authorities. The guidelines are subject to change and will be revised based on practical experience. Below is a brief summary of the DNSH-related guidelines, representing their status at the end of February 2023.

To qualify for the priority handling the applicant's activity should not impose any adverse environmental effects against any of the environmental objectives. The applicant declares any possible environmental impacts of the activity in a self-assessment form where the activity is assessed against each environmental objective. The assessment is based on questions stemming from the SYKE guidelines. On the form, the applicant answers main question as well as specific questions with respect to each objective. The answers are evaluated by an AVI official.

SYKE guidelines formed the basis for the Priority Law guidelines. However, in the Priority Law some of the RRF specific requirements (e.g. exclusion lists, two-stage assessment) were excluded.

The law states that the DNSH principle should be taken into account and the process of ensuring this should not slow down the handling process overall. Thus, the implementation of the DNSH principle was made as straightforward as possible. The key simplifications for the implementation of DNSH principle compared to public funding are:

- The applicant for priority status submits a general level self-assessment indicating how the DNSH principle has been taken into account. AVI evaluates the self-assessment and its sufficiency. A two-stage DNSH evaluation (general and detailed evaluation) method is not applied.
- AVI does not ask for additional and complementary material if the self-assessment does not provide sufficient information for the evaluation. In such case, the applicant will not be given priority in the process. The applicant may not file an official appeal of AVI's priority decision. However, the applicant is free to resubmit the applications as many times as they wish. Priority Law does not establish threshold levels for the significant harm.
- The requirement for life-cycle assessment was excluded from the Priority Law. Thus, the applicant does not need to provide evidence on, for example, the indirect environmental effects from material sourcing.

Governance practices under the Priority Law are at the moment still under development. The template for applicants' self-assessment will be created for applicants to use in their priority status application. It is planned that AVIs create a dedicated national team that makes the assessments and decisions for applicants. The demand for the priority status is unknown and the need for resources will be seen over the course of 2023.

6 Recommendations for governing DNSH implementation

Finland and other EU Members States are progressing steadily with finding the most efficient and effective ways to govern and implement the DNSH principle. This TSI project continues until Spring 2024 and it will include a dedicated piloting phase in which each of the DNSH guidance sets will be tested and updated based on the practical experience from the pilots and feedback from trainings organised. Lessons learned will also accumulate from, e.g., the implementation of the Priority Law. The recommendations will also evolve as the project proceeds.

The general recommendations listed at this stage are based on the set of interviews done with the Finnish funding authorities, desk studies, and discussions with Finnish beneficiaries. The recommendations also use experiences, practices and lessons learned from peer countries, shared as part of the peer-learning exchange among EU Member States, organized as part of another TSI project supporting the Czech authorities in developing national DNSH guidelines.

6.1 Recommendations towards unified way to govern and steer DNSH in Finland

DNSH principle is an appropriate tool for different purposes, but the use of it needs more experience from other practical applications. It is foreseeable that there is an increasing need for screening criteria for green financing and related practical tools. There exist many different, and even competing, frameworks. Since the EU created the EU Taxonomy as a wider framework for sustainable economic activities, of which the application of the DNSH principle is a part, it makes sense to continue developing and adapting DNSH to be a framework that can be used in Finnish public funding. It is obvious that this applies to forthcoming EU funding packages, but the applicability of the DNSH principle for various types of other national public funding needs to be carefully assessed and practical application experiences collected. The Finnish case of using DNSH principle as a part of providing a “fast lane” in environmental permitting process is an interesting and unique example that will be closely followed over the coming years. Finland has a history of developing climate budgeting at the state level and further developing ex-ante evaluation in the state budget would help to ensure that all funded activities would have positive climate impacts. Adding DNSH principle to the climate budgeting and making it a more general, green budgeting framework, would ensure that also topics like biodiversity, ecosystems, water, and circular economy would be covered in the budgetary reviews. This would lessen the burden of DNSH analysis in the programme and project level. Inspiration for this can be taken from the Austrian green budgeting showcased in Information Box 1 in Chapter 2.

A central entry-point for coordination within the Finnish administration is needed. Finland is a small country with relatively decentralised public funding system. Different funding authorities have a lot of freedom to design their operational practices but are also used to close cooperation and information exchange. To get a common national framework such as DSNH to work efficiently and to be used in a consistent manner, a national main coordination point is needed. Over the current government period there has also been various ministerial and inter-ministerial working groups that have dealt with EU Taxonomy and sustainable financing more broadly. The inter-ministerial working group on financing the green transition has been the main working group providing recommendations for future actions in Finland. In their final report they recommend that the green transition should be a factor in all decision making involving the use of public funds and also that stronger links need to be forged between the green transition and economic policy drafting and decision making⁶². The working group also recommends that clear implementation responsibilities need to be defined. These governmental working groups have stopped their work or will do so by the end of March 2023. New ones will be created based on the new Government Programme after elections in April 2023.

⁶² The final report of the working group: Publications of the Finnish Government 2023:5, <https://julka-isut.valtioneuvosto.fi/handle/10024/164654>

Coordination and information exchange networks among funding authorities should be strengthened. Finnish public funding system contains a lot of processes and practices where DNSH can be implemented in a uniform? manner, and areas where different processes are needed. There is no need to force all to follow same practices, but efficient information exchange is needed. In Finland there typically exists well-functioning informal networks among people working in funding organizations. For example, the EU Taxonomy related information exchange takes place in an informal inter-ministerial network, and the Ministry of Employment and Economic Affairs has an active working group on green transition funding with the funding authorities and special bureaus in their administrative branch (Business Finland, Climate Fund, Finnvera, and Tesi)⁶³. For DNSH related information exchange, a coordinating network representing ministries, but also funding agencies and regional authorities as well as cities is needed.

DNSH is a complex structure and requires technical competencies to be brought together under the umbrella of a DNSH knowledge hub. A challenge identified in Finland as well as in other EU countries is the complexity of the EU Taxonomy and DNSH principle as part of that. Next to understanding the purpose and structure of DNSH, the implementation of the principle in public funding requires also competencies related to specific industries (sectors), environmental impacts, and regulation. In Finland, there exist good practices like the direct support for funding applicants by experts in Business Finland and ELY-centers, and the teams of sector experts across ELY-centers that help colleagues with DNSH evaluations. However, a challenge for national public authorities is also to make the national interpretations of the EU Taxonomy and they are limited in what guidance they can give to applicants. The underlying competencies requested for DNSH implementation need to be strengthened and some clear structure is needed for access to information and to get help. Some other Member States have set up, or are thinking of setting up, dedicated competence centers for DNSH implementation, which also would monitor the EU level development and share that information nationally. Information Box 9 presents such an example from Belgium. Ensuring the accumulation of knowledge and experiences, continuous training is needed. The DNSH in Finland project will develop over next phases one training package that is intended to be usable also in the future.

DNSH criteria are not yet complete and the development of national criteria should be thought through also from the cost-efficiency point of view. DNSH principle is based on sector specific threshold values that define if the environmental impact is “significant”. EU Taxonomy evolves and the DNSH criteria are being developed by the Commission services, building on the recommendations of the Platform on Sustainable Finance, but the progress is slow. The roadmap for developing the criteria extends over years ahead. Also, EU Taxonomy does not cover all sectors and activities that need to be taken into account. There is need to develop DNSH assessment criteria that can be used nationally or for specific areas that are of national importance (e.g., Arctic mining projects in Finland) and ensure national

⁶³ The working group summarised their analysis and recommendations in a report TEM Julkaisuja 2022: 41, Financing of the Green Transition as Part of Growth Policy, <https://julkaisut.valtioneuvosto.fi/handle/10024/164262>

coordination of practical use of these in consistent manner. The amount of required work for the development of national criteria goes beyond DNSH in Finland project and needs to be carefully coordinated based on the need for national criteria. The guidelines developed by Finnish Environment Institute SYKE in addition to the environmental legislation in Finland provides the best estimates to be used for time being.

Information Box 9: Knowledge sharing in Belgium

DNSH expertise centers and helpdesks have been set up in Spain (under the Ministry for Ecological Transition and the Demographic Challenge) and in Belgium (under the Federal Public Service Health, Food Chain Safety and Environment). Due to the decentralized Belgian context, the latter is particularly relevant to Finland.

The Belgian DNSH helpdesk is responsible for capacity building of both federal authorities and private proponents (trainings, guidance, practical publications), and for the analysis of RRP's measures with the DNSH principle. It consists in a team of six individuals with varied profiles (experts and coordination roles), and it largely supports the alignment of DNSH practices across the country. Importantly, the helpdesk represents the federal government in the national network for DNSH – which functions similarly to the Finnish DNSH network. The lessons learnt with private applicants and with federal RRP measures are thus shared with regional authorities, without precluding the latter's autonomy in the application of the DNSH principle.

6.2 Monitoring and verification of DNSH implementation

Monitoring systems and verification mechanisms need to be further developed and strengthened. At this point in time, the national monitoring framework for the application of DNSH is underdeveloped. There has been a lot of work to fulfill the mandatory requirements related to especially RRF funding, and monitoring aspects have not received very much attention. Also, the needs for using DNSH related data collected through monitoring, appears to be quite limited. This will be further elaborated in the D4 report. However, the fulfilment and impacts of implementing the DNSH principle would remain quite shallow if there would not be any monitoring and verification mechanisms beyond the regular and existing auditing practices of public funding.

Focus the monitoring of DNSH compliance to those projects which have the highest risks of potential significant environment impacts. There should be a process for clear identification of larger projects (investments) which would require also verification and follow-up monitoring of the fulfillment of the DNSH principle. The most straightforward way would be to focus on projects that have undergone the detailed DNSH assessment and on those projects where the operations are also subject to having an environmental permit. The recommended time period for monitoring would be linked to the funding period and the regular auditing processes. Verification and mitigation actions should also focus on the potentially most risky projects to ensure that not only the applicant's assurance is used as a justification

for being DNSH compliant. It is important that funding authorities follow their existing reporting process as far as possible so as not to add unnecessary burden to either the beneficiaries or the funders. The normal reporting cycle should simply include a segment on DNSH issues. Funding might be withdrawn from the beneficiary if any clear violation of DNSH principle is found. For instance, if an environmental permit is violated or the funder finds out another channel through which DNSH is being violated against. DNSH compliance can also be connected with environmental permits in a way that the DNSH compliance is conditional to the environmental permit.

6.3 Data management related recommendations

There are a number of information systems and portals for funding. DNSH related data and documentation is typically collected as separate templates or documents. The State Treasury is responsible for collecting all RRP-related data and, as part of this, also DNSH documentation is collected and stored in the national system they maintain. At the moment that data and information is not further used in any other process. The potential uses and needs for that data are analysed further in the D4 report.

The larger renewal of state aid system should be kept in mind for the future data management. Since 2019 a large governmental development project has been going on with an aim to move the entire state administration gradually to the new operating model of state aid operations and implement the common national online services for state aid operations that support it⁶⁴. The aim is, for example, to create a single portal for applicants to get access to all public funding. The project will continue until the end of 2023, and has had several sub-projects that are also relevant for thinking about future governance structures related to DNSH. The actual implementation will gradually continue years ahead. Most likely, EU funding will also require in the future its own information system, but the new state aid system is an obvious location to deliver and maintain DNSH related guidelines for all public authorities and applicants. The details will be further elaborated in the D4 report.

6.4 Public procurement and DNSH

It is too early to extend DNSH principle and practices to public procurement. The implementation of DNSH principle is generally at the development and experimentation phase. Public procurement has a separate legislation and governance basis than financing projects for which the taxonomy is intended, so its efficient application to procurement would require quite a lot of modification and further analysis. This development should go hand in hand with other criteria and approaches considered with green procurement. In Finland KEINO – Competence Centre for Sustainable and Innovative Procurements, supports and helps Finn-

⁶⁴ Project for the development and digitalisation of state aid. <https://vm.fi/hanke?tunnus=VM212:00/2018>

ish public procurement experts and authorities with the development of sustainable and innovative procurement⁶⁵. KEINO specifically follows and develops green procurement practices and criteria in Finland and provides also a material bank of case examples. In discussions with KEINO representatives the conclusion was that the DNSH principle and the use of it in practical terms for procurement is an interesting development, but for time being the framework is not yet directly operational for various types of public procurements⁶⁶. Generally speaking, there is an obvious link between taxonomy and public procurement. As the taxonomy evolves, more and more companies will have to comply with it and in time, the criteria will move down to new processes, like public procurement.

⁶⁵ <https://www.hankintakeino.fi/en>

⁶⁶ RRF is here an exception since State Treasury has provided guidance that the procurements done with RRF funding need to include DNSH self-assessment similar to project funding. State Treasury guidance "RRP-hankintoihin liittyvät erityispiirteet" VK/94944/00.00.00.01/2022, dated 28.11.2022

Annexes

Annex 1 – Programme level DNSH guidelines

Annex 2 – Project level DNSH guidelines

