NATIONAL GUIDELINES ON THE APPLICATION OF THE DNSH PRINCIPLE

PROJECT PROPONENTS

DELIVERABLE 5

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Contract details

REFORM/SC2022/112 - Methodology for the application of the DNSH principle at the national level in Czechia

Presented by

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Date

Rotterdam, 13/02/2024

This project is carried out with funding by the European Union via the Technical Support Instrument and in cooperation with the Directorate General for Structural Reform Support of the European Commission

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Rotterdam, 13/02/2024

REFORM/SC2022/112

[Title]

In association with:

ISFC INTERNATIONAL SUSTAINABLE FINANCE CENTRE

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---------- *Note for COs: Delete the text box bellow before attaching these guidelines to the application documentation* ----------

Note for Funding Managers

Annex I to III are to be included solely as part of the application documentation within the context of the Recovery and Resilience Fund (RRF), in instances where funding managers were unable to thoroughly assess the DNSH principle at the call level (refer to step 2.1 of the funding manager guidelines). For all other scenarios, funding managers are instructed to remove Annex I to III.

---------- *Note for COs: Delete the text box above before attaching these guidelines to the application documentation* ----------

1. About this document

Adhering to the Do-No-Significant-Harm (DNSH) principle is essential for obtaining EU funding. By following this principle, project proponents guarantee that their proposed projects do not inflict significant harm on any of the European Union's six environmental goals. This document **explains the DNSH principle and its relevance to funding applications. Additionally, should the funding call necessitate a project-level DNSH assessment, Annex I to III are included in this document to aid project proponents in conducting the assessment effectively**[1].

2. Relevant information about DNSH for project proponents

2.1. What is the Do-No-Significant-Harm (DNSH) principle?

The European Union committed to a set of objectives established by European Green Deal, in order to achieve net greenhouse gas emissions by 2050 or before. To contribute to this, the EU created a classification system named **EU Taxonomy**[2], to help classify and understand which activities are considered sustainable. The EU Taxonomy also established a principle called **Do-No-Significant Harm (DNSH),** which means that **any economic activity should not cause significant harm to any of the six specific environmental objectives.** These objectives are defined in Article 17 of the Taxonomy Regulation, and they outline the areas where harm should be avoided.

2.2. What are the specific environmental objectives that DNSH upholds?

The **six environmental objectives** introduced by the Taxonomy Regulation that the DNSH principle seeks to safeguard are:

- Climate change mitigation: Reducing greenhouse gas emissions and increase of their absorption to make the EU climate-neutral by 2050.
- Climate change adaptation: Enhancing the EU's resilience to the negative impacts of climate change.
- Sustainable use and protection of water and marine resources: Protecting and restoring the health of EU water and marine resources.
- Transition to a circular economy: Moving to a model where waste is prevented, and resources are reused and recycled.

[1] Specifically for funding related to the Recovery and Resilience Fund (RRF)

[2] European Commission (2020), EU Taxonomy Regulation

- Pollution prevention and control: Preventing pollution and reducing it to levels that are not harmful to human health or natural ecosystems.
- Protection and restoration of biodiversity and ecosystems: Halting and reversing the loss of biodiversity and protecting and restoring ecosystems.

Assessing whether a project complies with the DNSH principle involves identifying and minimizing any negative effects of a project to the EU's overall environmental and sustainability goals, throughout the lifecycle of the project.

2.3. How can DNSH impact the success of my project application?

The DNSH principle is crucial for the project, as compliance with this principle is a **mandatory requirement for obtaining EU funding**. **Non-compliance with DNSH will result in rejection of the funding application,** regardless of other merits of the project. Therefore, ensuring the project does not significantly harm any of the EU's environmental objectives is a **critical step in securing funding through this call**.

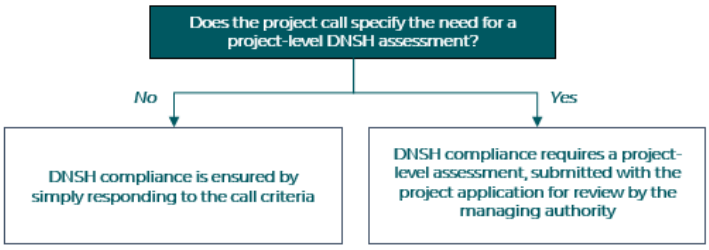
It is also important to note that DNSH has implications in project's monitoring and decommissioning as the **principle has to be ensured throughout the project's lifecycle (i.e. sustainability period).** Non-compliance at any stage could result in disciplinary measures that could impact the project's funding.

2.4. How to ensure my project application aligns with DNSH?

In the majority of cases, project proponents can guarantee adherence to the DNSH principle of their project application by simply responding to the funding call criteria and answering to any additional inquiries from the funding authority.

However, merely responding to the call criteria may not always suffice for DNSH compliance. In those cases, project proponents are requested to perform a DNSH assessment for the specific project and to submit the assessment together with the project submission. If this requirement applies it will be clearly stated in the application call, and detailed instructions on how to conduct such assessment will be annexed to this document as Annex I to III.

Figure 2-1 Guaranteeing adherence to the DNSH principle



In both cases project proponents may need to make adjustments to their project proposal to ensure it remains in compliance with the DNSH principle throughout the project's lifecycle (e. g. by favoring a more environmentally friendly option).

2.5. How will DNSH be monitored throughout the projects' lifecycle?

Funding authorities may include contractual clauses that define monitoring responsibilities related to DNSH. As such, project proponents may be required to provide regular reports demonstrating continuous compliance with these standards. Non-compliance at any stage could result in disciplinary measures that could impact the project's funding.

Additionally, decommissioning obligations aligned with environmental legislation may be relevant to the project. These obligations, when applicable, are defined by the legislation itself, and you must adhere to them to ensure compliance with both the environmental laws and the DNSH principle. It is important to note that funding authorities have the authority to review the compliance of projects they've previously supported with environmental legislation. This ensures ongoing adherence to requirements of both environmental methodologies and DNSH.

------Note for COs: Delete Annex I to III if for the specific call project proponents DO NOT need to submit a project-level DNSH assessment------

1. Annex I – Conducting a project-level DNSH (RRF)

1.1. Why are you being requested to perform a project-level DNSH assessment as part of your application?

If you have received these guidelines as part of the documentation of the project call, it indicates that **the funding authority was not able to fully evaluate the DNSH principle at the level of the call.** Therefore, project proponents are required to submit a project-level DNSH assessment and to provide supporting documentation along with their application to demonstrate that their project adhere to the principle.

1.2. What type of DNSH assessment should you perform? And for which environmental objectives?

The specific environmental objectives that project proponents must address in their DNSH assessment are detailed in the funding call. Additionally, the funding call delineates the type of DNSH assessment that is required for each objective. For each objective, there are two types of DNSH assessments that may be requested:

- **Simplified DNSH assessment:** The simplified DNSH assessments requires less detailed information than a Detailed DNSH Assessment, making it less demanding in terms of data collection and analysis. It is typically requested if the call's funding objectives are cantered on activities that are not expected to cause significant environmental harm on that specific objective.
- **Detailed DNSH assessment:** Unlike the Simplified DNSH Assessment, the Detailed DNSH Assessment requires a more comprehensive data collection and in-depth analysis, demanding more resources and time. It calls for an exhaustive evaluation of the project's potential impact on environmental objectives. The Detailed DNSH Assessment is typically requested if:
  - The call pertains to funding of activities that could potentially have a significant impact on one or more of the European Union's environmental objectives. Given the potential scale of impact, a detailed examination of the project's environmental implications is crucial.
  - After reviewing the simplified assessment of a project application that has been submitted, the funding manager determines that it does not provide sufficient information to fully understand the project's environmental impact. In such cases, the funding manager may request a detailed DNSH assessment.

1.3. How should I conduct a simplified DNSH assessment for a specific objective?

1.3.1. Step 1: Understanding the Assessment

Annex II refers to the Simplified DNSH checklist template. This template should be used for conducting a simplified assessment for the objectives mentioned in the funding call that require such assessment. The completed template, along with any supporting documentation that substantiates the responses should be submitted together with the application.

The funding call specifies which environmental objectives require a Simplified DNSH assessment. Typically, this assessment is mandated for objectives where the project is expected to have no or an insignificant foreseeable impact. As such you are requested to affirm that your project will not significantly harm the specified environmental objective(s). This is done by answering *"no"* to the main question: *"Is the project likely to have significant adverse impacts on the environmental objective of [name of the objective]?"* and justifying this with a concise answer that considers solely the direct adverse impacts of the project. To aid in this evaluation, specific sub questions are provided to help guide justifications.

Should you find it challenging to conclusively argue that the project does not pose significant harm to the specific objective, they should attempt to modify the project so you can still respond "no" to the primary question. This may involve foe example altering the scope of the project activities

1.3.2. Step 2: Consult information and documents

What should be considered relevant information or documents?

In certain cases, the inherent characteristics of the project itself can sufficiently demonstrate that it poses no significant harm to the specified environmental objectives (for example, an education and training program). However, in other situations, justifications might necessitate the presentation of documentary evidence to support claims of no significant harm. In these scenarios, it is important that such documents are referenced within the justification text in the template.

Any document or piece of information related to the project that might assist in answering the main and sub questions can be considered relevant. Information can vary from an accounting document showing the NACE code of the project to documents related to the project's raw materials. In some cases, the funding authority will specify in the funding call the type of documents that can support the assessment.

Using results from environmental methodologies to fill in the DNSH assessment

Did you complete, or are expected to complete, other environmental methodology assessments such as Sustainability Proofing (SP), Climate Proofing (CP), Environmental Impact Assessments (EIA), or Strategic Environmental Assessment (SEA)? These may provide useful information for efficiently completing the DNSH assessment and maintaining consistency in the evaluation of environmental risks. Check section 1.5 for more information on how to do this.

1.3.3. Step 3: Filling in the simplified DNSH checklist template

An empty template of the DNSH checklist template (Annex II) is provided by the responsible funding authority. During the form completion process, you should include all pertinent information regarding the project and its potential environmental impact. It is important to note that the information provided will be utilized by the funding authority to assess project's eligibility.

Do your best to answer each question as thoroughly as possible. If there are questions you cannot answer, provide a clear justification for your inability to respond or consider seeking assistance from the funding manager before submitting your assessment.

How to manage documents for compliance and monitoring?

You are advised to maintain a comprehensive record of all information and documentation mentioned in the assessment, as this evidence may be requested by funding managers at any time. This recordkeeping practice will not only aid in demonstrating ongoing compliance with the DNSH principle but may also prove valuable for project monitoring.

1.4. How should I conduct a detailed DNSH assessment for a specific objective?

1.4.1. Step 1: Understanding the Assessment

Annex II refers to the Detailed DNSH Assessment template. This template should be used for conducting a detailed assessment for the objectives mentioned in the funding call that require such assessment. It is important to submit the completed form along with the project's application and any other documentation requested by the call.

The funding call specifies which environmental objectives require a Detailed DNSH assessment. The Detailed DNSH assessment is a comprehensive evaluation of a project's potential impact on specific environmental objectives. Differing from the simplified assessment, the detailed assessment **accounts for both direct and indirect adverse impacts of a project[3] and it is required for objectives where the funding authority anticipates the project will have a significant impact.**

For the question on whether the project causes significant harm to the specific objective, you are asked to confirm that the answer is 'no', and to provide a substantive explanation and justification of their reasoning in the right-hand column, on the basis of the corresponding questions. This justification may include:

- **Presenting an analysis to further substantiate their response**, substantiated as possible by supporting documents (as referred in step 2), and/or;
- **Detailing the measures the project will adopt to mitigate, avoid, or neutralize potential negative environmental impacts.** These measures can include:
    - A preventative solution, avoiding potential impacts before they occur (e. g. the adoption of a more environmentally friendly solution) ,
    - A corrective solution, reducing impacts to acceptable levels, or
    - A compensatory solution, offsetting unavoidable impacts.

Table 1-1 provides examples of mitigating actions that project proponents can be used to substantiate their claim of no significant harm.

Table 1-1 Examples of mitigating actions

Examples of potential DNSH mitigating actions for project proponents

[3] Direct impacts occur at the project (e.g. production plant, protected area) or system level (e.g. railway network, public transport system) during the implementation of a measure, while primary indirect impacts extend beyond specific projects or systems and may materialize after implementation. Examples of direct impacts include the use of materials during the road construction, and the emissions generated during the construction and operations of a production plant. Examples of direct indirect emissions include the increased traffic and subsequent greenhouse gas emissions resulting from the use of a newly constructed road or the reduction in carbon emissions in the region due to the adoption of renewable energy sources

- **Environmental Impact Mitigation Plan:** Developing and implementing a plan to lessen potential adverse impacts on the environment can be an effective measure. This may include strategies to reduce pollution, enhance biodiversity, or minimize carbon footprint.
- **Obtaining Relevant Environmental Permits**: Adherence to local and national environmental regulations, demonstrated through obtaining necessary permits, can help ensure compliance with DNSH principles. However it is important to note that usually this not sufficient to ensure compliance with DNSH.
- **Optimization of Resource Use**: This could include measures to improve water and energy efficiency, increase the recycling rate, or reduce waste production.
- **Selection of Environmentally Friendly Materials and Processes: Where** possible, the use of sustainable materials and environmentally conscious processes can mitigate harm to environmental objectives. For instance, material substitution with greener alternatives, use of energy-efficient technologies, or adopting a different, less impactful building process can all help to minimize environmental harm.

If you are not able to provide a sufficient substantive justification, the funding manager may consider that the project is associated with possible significant harm the specific objective. If this is the case, the funding manager may disqualify the project application (see section 1.7).

1.4.2. Step 2: Consult information and documents

What should be considered relevant information and documents?

The substantiative justifications provided likely necessitate the presentation of documentary evidence to support claims of no significant harm. This should be referenced within the justification text in the template.

In some cases, funding managers will indicate specific documentation that should be presented to substantiate the claims of no harm. However, this does not prevent the need for you to proactively identify and gather additional evidence that further supports your assertions. The following constitute d*ifferent types of documentation that, if existing, can potentially be used to justifying DNSH compliance:*

- **From key environmental legislation**: permits, rights to operate, registrations to the relevant local and national authorities
- **From the SEA**: The Environmental Report, which includes recommendations, mitigation measures, and monitoring plans identified[4]
- **From the EIA:** The final EIA report, which includes conclusions on the significant environmental impacts, proposed mitigation measures, and any conditions for approval or specific commitments made by the project proponent[5]
- **From the CP:** Documentation steaming from CP assessment, namely regarding climate neutrality and climate resilience screening and proofing documentation[6]
- **Company documents:** an accounting document showing the NACE code of the project and/ or documents related to the project's raw materials or water use
- **Project / company policies**

[4] As per the European Directive on Strategic Environmental Assessment (SEA) Directive

[5] As per the European Directive on Environmental Impact Assessment (EIA) Directive

[6] As per the Technical guidance on the climate proofing of infrastructure in the period 2021-2027

- Various audits

It is important to note that while results from environmental methodologies such as Sustainability Proofing (SP), Climate Proofing (CP), Environmental Impact Assessments (EIA), and Strategic Environmental Assessment (SEA) do not replace the need for a DNSH assessment, they can contribute with valuable information for completing the DNSH assessment.

> ⚠ *Using results from environmental methodologies to fill in the DNSH assessment*
> Did you complete, or are expected to complete, other **environmental methodology assessments** such as Sustainability Proofing (SP), Climate Proofing (CP), Environmental Impact Assessments (EIA), or Strategic Environmental Assessment (SEA)? These may provide **useful information for efficiently completing the DNSH assessment** and maintaining consistency in the evaluation of environmental risks. Check section 1.5 for more information on how to do this.

1.4.3. Step 3: Filling in the detailed DNSH assessment

How should I fill in the questionnaire?

An empty template of the DNSH checklist template (Annex II) is provided by the responsible funding authority. During the form completion process, you should include all pertinent information regarding the project and its potential environmental impact, as well as information about the mitigation measures identified to avoid or minimize potential environmental harm .

It is important to note that the information provided will be utilized by the funding authority to assess project's eligibility. Do your best to answer each question as thoroughly as possible. If there are questions you cannot answer, provide a clear justification for your inability to respond or consider seeking assistance from the funding manager before submitting your assessment.

What if I can't answer a question?

Do your best to answer each question as thoroughly as possible. If there are questions you cannot answer, provide a clear justification for your inability to respond. Additionally, consider seeking assistance from the funding manager before submitting your assessment.

How to manage documents for compliance and monitoring?

You are advised to maintain a comprehensive record of all information and documentation mentioned in the assessment, as this evidence may be requested by funding managers at any time. This recordkeeping practice will not only aid in demonstrating ongoing compliance with the DNSH principle but may also prove valuable for project monitoring.

1.5. (How) can results from environmental methodologies be a source of information for filling in the questionnaire?

Some projects require or are recommended to apply other environmental methodologies, such as Sustainability Proofing (SP), Climate Proofing (CP), Environmental Impact Assessments (EIA), or Strategic Environmental Assessment (SEA), While these methodologies DO NOT replace the need for a DNSH assessment, their outcomes can be employed to substantiate responses in the detailed DNSH assessment for the different environmental objectives

In practical terms, any results from these methodologies that pertain to climate or environmental objectives should be factored into the DNSH assessments. This integration aids in:

- Identifying and appraising further the risks that the DNSH principle is jeopardised
- Identifying measures to mitigate the risks that the DNSH principle is being jeopardized (only if you are required to fill in the DNSH detailed assessment)

It is however key to note that the timeline of environmental methodology processes may differ from the detailed DNSH assessment. If a completion of an environmental methodology process will provide information required to a specific DNSH environmental objective, then the DNSH assessment could be approved conditionally upon successful completion of the environmental methodology assessment[7] .

1.6. How will the DNSH assessment and documentation be reviewed by the funding authority?

Upon submission of the application, the **funding authority will undertake a review of your responses**. Should any doubts or uncertainties arise regarding the potential adverse impacts of the project on an environmental objective, the funding manager will reach out to you for further clarification. **This may include requests for additional information or for further elaboration** on the provided responses.

In the event that the potential risk remains too high, or if uncertainties persist even after the additional clarifications, **the funding authority reserves the right to decline the application**. The rationale behind such a decision will be communicated to you, primarily indicating that the project does not meet the funding criteria due to non-compliance with the DNSH requirements.

1.7. In what circumstances can my project be rejected in the context of DNSH?

Projects may be denied approval if they pose a significant risk to an environmental objective, thereby breaching the DNSH principle. This decision typically results from one or more of the following reasons:

- The project does not align with the specified economic activities outlined in the funding call or falls under sectoral and national exclusions.
- The risk of the project having an adverse impact on one of the environmental objectives is too high.
- The mitigation measures presented by the project proponent to mitigate environmental risks are insufficient to avoid or reduce the risk of the project having an adverse impact on one of the environmental objectives (only relevant for objectives that require a detailed DNSH assessment).

[7] This does not apply to SEA and EIA as these assessments are conducted a priori.

2. Annex II: Simplified DNSH assessment template

Indicate which of the environmental objectives require a substantive DNSH assessment for the project, by filling in the form bellow. Please complete the questionnaire only for those environmental objectives specifically requested in the funding call for a simplified DNSH assessment.

Table 2-1 Simplified DNSH assessment questionnaire

Main question: Is the project likely to have significant adverse impacts on the environmental objective of...	No	Justification	Specific sub questions[8] *Your answers to these questions can help substantiate your answer to the main question.*
Climate change mitigation			➔ *Will the project lead to significant greenhouse gas (GHG) emissions?* ➔ *Will the project cause any other adverse effects that can negatively impact the objective?*
Climate change adaptation			➔ *Will the project lead to an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets?* ➔ *Will the project concern an activity at risk of averse impacts due to climate change (e. g. building in a flood-prone area)? If so, does the project mitigate those risks?* ➔ *For projects that concern an adaptation solution that protects one area ('people, nature or assets'), can the project proponent prove that the project will not increase risks in another areas?* ➔ *Will the project cause any other adverse effects that can negatively impact the climate change adaptation*

[8] The guidance is derived from the Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation

The sustainable use and protection of water and marine resources			➔ *Will the project be detrimental to the good status or the good ecological potential of bodies of water, including surface water and groundwater, or to the good environmental status of marine waters?* ➔ *Will the project cause any other adverse effects that can negatively impact the objective?*
The circular economy, including waste prevention and recycling			➔ *Will the project lead to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources[9]?* ➔ *Will the project significantly increase the generation, incineration or disposal of waste?* ➔ *Will the long-term disposal of waste cause significant and long-term environmental harm?* ➔ *Will the project cause any other adverse effects that can negatively impact the objective?*
Pollution prevention and control to air, water or land			➔ *Will the project will lead to a significant increase in emissions of pollutants[10] into air, water or land?* ➔ *Will the project cause other adverse effects that negatively impact the objective?*
The protection and restoration of biodiversity and ecosystems			➔ *Will the project be significantly detrimental to the good condition and resilience of ecosystems?* ➔ *Will the project be detrimental to the conservation status of habitats and species, including those of Union interest?* ➔ *Will the project cause any other impacts that reduce or harm biodiversity?*

[9] Natural resources comprise energy, materials, metals, water, biomass, air and land.

[10] Pollutant means a substance, vibration, heat, noise, light or other contaminant present in air, water or land which may be harmful to human health or the environment.

3. Annex III - Detailed DNSH assessment template

Please respond by specifically addressing those environmental objectives identified as requiring a detailed assessment in the funding call or as determined by your project-level simplified assessment.

Table 3-1 Detailed DNSH assessment questionnaire

Questions	No	Substantive justification
Climate change mitigation: Is the project expected to lead to significant GHG emissions?		
Climate change adaptation: Is the project expected to lead to an increased adverse impact of the current climate and the expected future climate, on the measure itself or on people, nature or assets?		
The sustainable use and protection of water and marine resources: Is the project expected to be detrimental: • the good status or the good ecological potential of bodies of water, including surface water and groundwater; or • to the good environmental status of marine waters?		
The transition to a circular economy, including waste prevention and recycling: Is the project expected to: • lead to a significant increase in the generation, incineration or disposal of waste, with the exception of the incineration of non-recyclable hazardous waste; • lead to significant inefficiencies in the direct or indirect use of any natural resource[11] at any stage of its life cycle which are not minimised by adequate measures[12]; or • cause significant and long-term harm to the environment in respect to the circular economy[13]?		
Pollution prevention and control: Is the project expected to lead to a significant increase in the emissions of pollutants[14] into air, water or land?		
The protection and restoration of biodiversity and ecosystems: Is the project expected to be:		

[11] Natural resources comprise energy, materials, metals, water, biomass, air and land.

12 For instance, inefficiencies can be minimised by significantly increasing the durability, reparability, upgradability and reusability of products or by significantly reducing resources through the design and choice of materials, facilitating repurposing, disassembly and deconstruction, in particular to reduce the use of building materials and promote the reuse of building materials. Additionally, transitioning to 'product-as-a-service business models and circular value chains with the aim of keeping products, components and materials at their highest utility and value for as long as possible. This also comprises a significant reduction in the content of hazardous substance in materials and products, including by replacing them with safer alternatives. This further includes significantly reducing food waste in the production, processing, manufacturing or distribution of food.

[13] Please refer to Recital 27 of the Taxonomy Regulation for more information on the circular economy objective.

[14] Pollutant means a substance, vibration, heat, noise, light or other contaminant present in air, water or land which may be harmful to human health or the environment.

• *significantly detrimental to the good condition[15] and resilience of ecosystems; or* • *detrimental to the conservation status of habitats and species, including those of Union interest?*		

[15] In line with Article 2(16) of the Taxonomy Regulation, "'good condition' means, in relation to an ecosystem, that the ecosystem is in good physical, chemical and biological condition or of a good physical, chemical and biological quality with self-reproduction or self-restoration capability, in which species composition, ecosystem structure and ecological functions are not impaired".

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