CREATING A SIMPLER AND MORE FOCUSED EU BUDGET

Operationalising the 'Do No Significant Harm' principle in the next MFF

Joint statement by 29 organisations

The next multiannual financial framework will have to address a multitude of crises – from climate change and biodiversity loss to the cost of living, industrial transformation and energy independence. At the same time, the national fiscal space to address these challenges is severely constrained by the EU fiscal rules. Public resources will therefore have to be used in an ever more targeted and effective manner. In that spirit, European Commission President Ursula von der Leyen promised a new long-term budget that will be more focused, simpler and more impactful.[1]

A key lever for creating a simpler and more effective budget is the "[harmonisation of] rules and horizontal requirements (e.g. environmental requirements) across funding programmes and EU financial instruments", as pointed out in the report on the future of European competitiveness by Mario Draghi.[2] One eligibility requirement that would significantly benefit from further harmonisation is the operationalisation of the "do no significant harm" (DNSH) principle. While the application of the DNSH principle in itself represents an important step towards safeguarding the use of scarce EU funds from wasteful and unsustainable activities, its implementation so far has been both inconsistent and insufficient to filter out investments beyond the most obviously harmful ones.[3]

A more consistent application based on clear criteria would significantly reduce the administrative burden on managing authorities and beneficiaries alike. Clear and harmonised conditionality criteria are also key for successful industrial policy making to enhance "the strategic use of public funds to achieve common public policy objectives" as highlighted in the recent report on the single market by Enrico Letta.[4] Furthermore, a more impactful use of the DNSH principle would contribute to phasing out environmentally harmful subsidies, in line with the 8th Environment Action Programme and the EU's international commitments. This would create additional fiscal space for EU green and just transition priorities, reducing the related investment gaps.

Until now, the European Commission has largely relied on programme-specific guidance to define significant harm to environmental objectives. At times, no guidance was produced at all, leading to significant difficulties in implementation. In the spirit of simplification, a first layer would be a clearly defined horizontal list applicable to all EU programmes and funds, that includes activities and investments that can never be supported by the EU budget.

[1] Ursula von der Leyen. 2024. Political Guidelines for the Next European Commission. Link.

[2] Mario Draghi. 2024. The future of European competitiveness. Link. p. 295.

[3] CEE Bankwatch Network. 2024. From theory to practice. A case-based analysis of the EU's 'do no significant harm' principle. Link.

[4] Enrico Letta. Much more than a market. Link. p. 39.

A precedent already exists for exclusion lists in various spending programmes, such as the InvestEU programme, the Just Transition Fund, the European Regional Development Fund and the Cohesion Fund, and they are generally considered "effective and low-bureaucracy instruments to set guardrails".[5]

Consolidating these eligibility rules in one single, horizontal exclusion list makes sense given the potential reduction in the number of programmes under the next long-term budget. Such a list would serve as an easy-to-use tool for managing authorities and project promoters alike to filter out activities that cannot be funded by the EU budget. Furthermore, this approach would be in line with the principle that public spending should be held to a higher standard than private finance.

The exclusion list would have the significant benefit of limiting ex-ante the need to individually assess funding proposals against detailed DNSH criteria to just a few projects.

Since 30 September 2024, the revised Financial Regulation requires all EU funds to be implemented in respect of the DNSH principle.[6] The proposed exclusion list could become the basis of a two-layer architecture to operationalise this new critical DNSH requirement. As outlined above, it would serve as a first effective and low-bureaucracy layer to filter out all obviously harmful investments.

This common exclusion list would be complemented by a second layer: sector-specific guidance on what qualifies as harmful investments. A sector-based approach would make it easier to focus on high-impact activities where DNSH assessments can add the most value. At the same time, given the likely reduction in the number of programmes under the next MFF, a sector-based approach would significantly enhance coherence and consistency across programmes, management modes or types of support. A starting point for developing sectoral guidance could be the 40 priority sectors identified by the European Financial Reporting Advisory Group for reporting under the Corporate Sustainability Reporting Directive.

Where available and applicable, the Commission's guidance should be based on the screening criteria adopted in line with the Taxonomy regulation. In the specific cases where those criteria created public controversy because they are not science-based as required by the Taxonomy regulation, the Commission should review and tighten the criteria based on the recommendations from the Platform on sustainable finance[7] and from the Independent Science Based Taxonomy.[8] If a more high-level approach is needed, criteria should be concrete, measurable and science-based.

To ease the administrative burden on beneficiaries and managing authorities, the sector-specific guidances could set thresholds based on impact to exclude smaller projects from ensuring DNSH. Anchoring thresholds at objective level is crucial since monetary thresholds do not capture the environmental harm of an activity well.

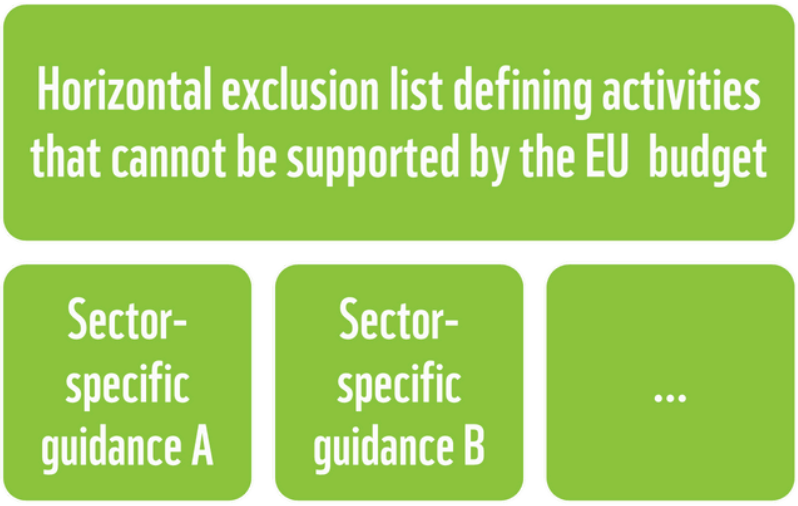
[5] Joint statement of the German Federal Government and the Länder on EU cohesion policy beyond 2027. Link. p. 15.

[6] Regulation (EU, Euratom) 2024/2509. Link.

[7] In January 2025 the Commission's expert group launched a public consultation on its technical recommendations to update some existing taxonomy criteria.

[8] Independent Science-Based Taxonomy. Link.

Furthermore, technical guidance by the Commission would be needed for those activities that are not covered by sector-specific guidances. The guidance would set out rules and principles on how to assess significant harm, for instance by showing alignment with Taxonomy screening criteria. This would include clear transparency requirements and mechanisms for stakeholder consultation.



The current review of the DNSH principle in light of the revised Financial Regulation and the preparation of the next MFF provides a crucial opportunity for reform. As part of the agreement on the next MFF, co-legislators should empower the European Commission to adopt this new DNSH guidance including a horizontal exclusion list as well as common rules and principles. Specific empowerments would be needed in the MFF regulation and potentially in the regulations establishing the relevant programmes that will make up the next MFF.

Signed by:

1. AbibiNsroma Foundation
2. Agent Green
3. Alliance of Associations Polish Green Network
4. AnsvarligFremtid
5. Biodiversity Conservation Center
6. Biom Association
7. BirdLife Europe and Central Asia
8. BirdLife Sweden
9. BirdWatch Ireland
10. CEE Bankwatch Network
11. Clean Air Action Group
12. Climate Action Network (CAN) Europe
13. Climate Strategy
14. Compassion in World Farming
15. eco-union
16. Eurogroup for Animals
17. EuroNatur
18. European Environmental Bureau
19. Eurosite - the European Land Conservation Network
20. Greenpeace
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