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**Sustainability
analysis becomes
a condition for access
to financing**

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Sustainability reporting obligations extend beyond the statutory group of entities covered by the CSRD and in practice cover increasingly wider groups of enterprises through the mechanism of cascading transfer of requirements from financial institutions, EU funds and large entities to their partners, suppliers and beneficiaries of financing.

I. Cascading mechanism for transferring ESG obligations

The financial sector is currently the most regulated area in terms of ESG, which is a direct reason for the transfer of analytical requirements to entities from the real economy. Banks and fund managers must demonstrate the share of assets compliant with the EU Taxonomy in their portfolios, manage ESG risks, and qualify financial products in accordance with the SFDR regulation, which requires obtaining hard data from customers and beneficiaries of financing. Large companies subject to reporting obligations collect data from supply chains, contractors and project partners, including small and medium-sized enterprises that are not officially required to report ESG. As a result, the statutory reporting obligation is losing its primary importance – what becomes more important is whose sphere of influence a given entity operates in, what scale of influence it has and whether the data related to its activities are crucial for other entities in the value chain.

II. DNSH analysis as a condition for project eligibility for financing

DNSH (Do No Significant Harm) analysis results directly from the EU Taxonomy Regulation. Its purpose is to demonstrate that the project, while supporting the selected environmental objective, does not negatively impact the other five environmental objectives identified in the Taxonomy. The EU taxonomy defines when an economic activity is environmentally sustainable by specifying that it must make a significant contribution to at least one of six environmental objectives – climate change mitigation, climate change adaptation, water protection, transition to a circular economy, pollution prevention and biodiversity protection – while not causing significant harm to the other objectives. The technical qualification criteria specify both the condition of significant contribution and the detailed DNSH tests for each activity category, which means that DNSH is not a declaration but an analytical exercise requiring reference to technical solutions, design data and environmental analyses carried out in accordance with a specific methodology. As a result, in practice, financing a solar park or building modernisation requires demonstrating that the project will not significantly deteriorate water quality, will not increase pollution, will not threaten biodiversity, and that the investor manages climate and environmental risks according to a specific methodology.

III. Linking DNSH to financial products and the GAR ratio

The DNSH principle also appears in the SFDR regulation – products labelled as sustainable investments must demonstrate that they do not cause significant harm to other environmental or social objectives and meet the criteria for good corporate governance. Products subject to Article 8 of SFDR promote

environmental or social characteristics, while products subject to Article 9 of SFDR have an explicit sustainable investment objective, which requires fund managers to obtain detailed ESG data from issuers and funding recipients, including information on DNSH, material adverse impacts, and corporate governance. The Green Asset Ratio (GAR) is a ratio disclosed by banks in accordance with Article 8 of the Taxonomy Regulation, showing the share of assets compliant with the EU Taxonomy in the lending and investment portfolio. Many exposures – for example to small and medium-sized enterprises not covered by CSRD – end up solely in the denominator of the indicator, which structurally lowers the GAR and creates pressure on banks to acquire exposures for which compliance with the Taxonomy can be demonstrated, which in turn forces clients to provide detailed analytical data.

IV. The New European Bauhaus as a qualitative criterion for project evaluation

The New European Bauhaus (NEB) is an initiative of the European Commission combining ecological transformation with aesthetics and inclusiveness, summarised by the slogans "beautiful / sustainable / together". NEB has become a qualitative assessment criterion in many infrastructure programs, in particular those related to public space, revitalisation and urban planning, where projects are supposed to be



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not only low-emission, but also visually attractive, socially inclusive and co-created with users, promoting innovation in material, technological, process, industrial, social and educational dimensions. The initiative uses dedicated instruments financed through, inter alia, Horizon Europe, Cohesion Policy and the LIFE programme, and tools such as the NEB Compass serve project promoters as a practical guide to the assessment criteria. From a regulatory perspective, the NEB is a qualitative layer complementing the classic Taxonomy tests – it strengthens the assessment of the project in the social and aesthetic dimensions, which financing institutions are increasingly including in their competition guidelines and application evaluation criteria.

V. Sustainable Development Goals (SDGs) as a framework for describing investment projects

The UN 2030 Agenda establishes 17 Sustainable Development Goals and 169 related targets, covering three dimensions of sustainable development: economic, social and environmental, including eradication of poverty and hunger, health, education, gender equality, access to water and energy, sustainable cities, responsible consumption and production, and protection of the climate and biodiversity. For investment projects, the SDGs provide a universal language for describing impacts, which financing institutions increasingly require in the form of mapping the project to selected goals and ratios, which provides both analytical depth – in terms of assessing whether the project does not harm other goals – and a broad context indicating which global goals the project contributes to. Combined with DNSH analyses, SDG mapping creates a complete analytical package that financing institutions treat as evidence of compliance with the Taxonomy and SFDR regulations and as a basis for internal risk assessment and green character of financed assets.

VI. ESRS 2 standard as an integrator of ESG analyses with strategic management

ESRS 2 is cross-cutting and applies to all companies covered by the CSRD, requiring disclosure of information about the business model and value chain, stakeholders and their expectations, and the material impacts, risks and opportunities associated with the strategy. A key role of ESRS 2 is to formalise the dual materiality assessment process, whereby a company identifies both material environmental and social impacts and material ESG-related financial risks and opportunities, and then links these to strategic and management decisions. The results of analyses required for obtaining financing – DNSH, climate risks, supply chain resilience – can and should be incorporated into the management knowledge base as a permanent element of the management system, creating a coherent structure of management information covering the mission, vision, strategy, policies, key performance indicators and internal reporting system. Practical guidelines and guides for preparing individual analyses also serve as educational materials for assessing organizational maturity, understood as the ability to identify one's own areas of influence, analyze environmental and social impacts, assess climate risks, and examine resilience to crises and environmental variability.

VII. Changing the management standard and practical consequences for enterprises

From a management perspective, the described changes involve a shift in focus from passively fulfilling reporting obligations to active management of ESG risks and opportunities, strongly integrated with finance and strategy. When applying for an investment loan, a bond issue, or an application for EU funds, an increasingly repetitive analytical package is emerging, including an analysis of qualifications and compliance



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with the EU Taxonomy, an analysis of climate and environmental risks, mapping to the SDGs, and NEB quality criteria in infrastructure projects. Sometimes, sustainability reporting is an opportunity to obtain cheaper financing due to the consideration and mitigation of specific risks, in particular climate and physical risks related to extreme weather phenomena, and readiness for transformation understood as the implementation of a specific efficiency policy throughout the entire life cycle of a project or product. The mission, vision, strategy, policies and management information system must be consistent with the results of sustainability analyses, because this consistency determines not only the organization's reputation, but also the cost and availability of external financing.

VIII. Practical conclusions for entities seeking financing

Entities seeking bank or EU financing should treat ESG analyses not as a separate regulatory obligation, but as an

integral element of preparing an investment project, regardless of whether they are subject to the statutory reporting obligation under CSRD. The immediate cause of additional analytical requirements when obtaining financing is the reporting obligations of the financial sector, which include CSRD reporting according to ESRS standards, the application of product classification according to SFDR and the calculation of the GAR indicator, and these requirements are then passed down the chain to clients, grant beneficiaries and business partners. The conducted DNSH analyses, climate risk assessments and SDG mappings constitute a valuable management knowledge base leading to a better understanding of the dependency processes in value chains, even if the entity decides not to voluntarily report sustainability. This changes the perspective of project evaluation – in addition to the financial profitability criterion, additional elements related to broadly understood ESG appear.



The information presented herein does not constitute comprehensive information or opinion. Consult your adviser before making any decisions.



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