THE ITALIAN INDEPENDENT ENERGY AND CLIMATE CHANGE THINK TANK

THE ROLE OF CLIMATE BANKS IN THE EUROPEAN GREEN DEAL STRATEGY

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1 Introduction and executive summary

1.1 The Challenge of Cop26 in Glasgow

- It is by now generally accepted that the 2021-2030 decade will be decisive in reducing the drift towards global warming levels incompatible with the balance of the earth's ecosystem. The G7 Summit in June 2021 recognised for the first time that the impacts of climate change would be far less if temperatures increase by less than 1.5°C rather than 2°C (compared with pre-industrial levels), as shown in the IPCC Special Reports . On the basis of this conclusion, **the decision was taken at the G7 in July 2021 and Cop26 in Glasgow the following October/November to step up action to ensure the 1.5°C limit on global warming can be achieved during the coming decade.**
- The United Nations International Energy Agency (IEA) estimates[1] that in order to maintain the increase in the average temperature of the earth below the threshold of 1.5°C by the end of the century, net CO2 emissions will need to be reduced to zero by the end of 2050, and that achieving this objective requires not only a vast and extremely rapid concentrated global effort to reconvert production systems and consumer habits - mainly within the next decade - but also a major acceleration in the wide-scale adoption of technologies that are still at the prototype stage[2]. **Reconciling the expected doubling in global income (+40%) with world population growth (+2 bn) requires three times as much energy efficiency (energy consumption per product unit) as that achieved in the last decade, five-six times as much energy from renewable sources (wind, solar power, etc.) (at least 70% of energy production, compared with 15% as things stand) and a drastic reduction in energy from fossil fuels (from 80% to less than 20%).**
- The Glasgow climate conference (Cop26) of November 2021, jointly organised by the British and Italian Governments, and the difficult negotiations that took place highlighted the complexity of the challenge and showed that **the issue will be played out along two parallel, complementary levels over the next few years. The first is agreement on adequate and binding decarbonisation targets governing timing and volumes. The second is the willingness of the richer countries to support the efforts of poorer and more vulnerable countries both financially and technically.** In fact, although more than half of emissions currently come from a small number of large, economically advanced countries (China, the US and Europe[3]), for the other half, successful climate change control will depend on the ability of these other countries to pursue the same targets with equal determination.

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[1] See IEA, *Net-Zero by 2050.A Roadmap for the Global Energy Sector* (May 2021).
[2] The IEA estimates that almost 50% of the reduction in greenhouse gases (GHG) may be obtained from technologies that are currently at an experimental stage (e.g. hydrogen, CCUS, DACCS, etc.).
[3] In 2018 China was responsible for 27% of CO2 emissions, the US and Canada for 18% and Europe for 17%.

- The challenge to decarbonise economies is crucial in order to save the planet from the damaging effects on climate of global warming. It will inevitably also **become an issue that will redeploy international value chains and redistribute the comparative benefits of the leap in technology needed to tackle it.** In other words it will be the arena in which the global economic hierarchies will be redrawn over the coming decades. In this situation each country will have to play its cards independently and devise its best strategy.

1.2 The European Strategy

- With this prospect in mind, the European Union has redefined its industrial strategy priorities[4], launched a far-reaching project to support the "green" transition (the European Green Deal or EUGD)[5] and, due to the Covid-19 pandemic, allocated large amounts of public resources to both initiatives in its Next Generation Fund, or NGEU[6]. Italy has received the largest amount of European funding, with €205 bn to be invested between 2021 and 2026, and developed its own National Recovery and Resilience Plan (NRRP)[7]. However, the NRRP does not place sufficient emphasis on decarbonisation goals or on reducing climate-altering greenhouse gas emissions[8], not is it sufficiently in line with European industrial policy priorities[9]. Furthermore, the technical documents to which the NRRP refers - the Integrated National Energy and Climate Plan (INECP) of December 2019[10] and the Italian long-term strategy on the reduction of greenhouse gas emissions of January 2021[11]- have yet to be updated to incorporate the new emission reduction targets set out by the EU (55% rather than 40% compared with 1990). **Italy risks being left behind in the forced decarbonisation of the economy, suffering direct and indirect negative effects on certain important areas of its industrial system and at the same time failing to reposition itself in order to benefit from the positive impacts on production and employment.**

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[4] European Commission, *A new industrial strategy for Europe* COM(2020) 102 final (10/3/2020); *Updating the 2020 New Industrial Strategy*, COM(2021) 250 final (5/5/2021).

[5] European Commission (2018), *Action Plan: Financing sustainable Growth* COM (2018) 97 final (8/3/2018); *The European Green Deal* COM (2019) 640 final (11/12/2019) and the resulting package of European Commission draft legislation *Fit for 55* (14/7/2021), https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en .

[6] European Commission, *The EU's 2021-2027 Long-Term Budget and Next Generation EU. Facts and Figures* (April 2021). https://ec.europa.eu/info/publications/multiannual-financial-framework-2021-2027-commitments_en

[7] Piano Nazionale di Ripresa e Resilienza # Next Generation Italia. *"Italia Domani"* (April 2021)

[8] A preliminary study carried out by the Green Recovery Tracker showed that of the €192 bn of the Recovery and Resilience Facility (RRF), only 24% of the projects could have an undoubtedly positive impact on climate transition, whereas the remaining 76% consisted of projects without a significant impact (50.1%) and projects the impact of which is uncertain (26%). See Wuppertal Institute, E3G, *Green Recovery Tracker Report: Italy*(3/6/2021) https://www.greenrecoverytracker.org/country-reports-overview

[9] Maranzano, P., Noera, M, Romano, R., *The European Industrial Challenge and the Italian NRRP,* PSL Quarterly Review (forthcoming)

[10] PNIEC, *Piano Nazionale Integrato per l'energia ed il clima* (December 2019), https://www.mise.gov.it/index.php/it/notizie-stampa/2040668-pniec2030

[11] *Strategia italiana a lungo termine per la riduzione dei gas ad effetto serra* (January 2021) https://www.mite.gov.it/sites/default/files/lts_gennaio_2021.pdf

- The fight against climate change requires action on numerous fronts also in Italy[12]. It means the decarbonisation of primary energy (by moving from fossil fuels to renewable energy) and of energy consumption by end users (heating, transport, etc.) This will require the electrification of much of land transport and the adoption of new fuels and propulsion technology for air and sea transport (e.g. hydrogen and biofuels), making a significant number of existing buildings energy-efficient and autonomous (and not just new builds), and making all the main production chains climate-neutral, often by adopting innovative technologies and processes. Improving the absorption of CO2 also requires limiting land take, promoting large-scale reforestation and reorganising urban environments by restoring green areas in cities and supporting sustainable private transport projects.
- **A vast amount of investment is therefore required for the "green" transition and requires a major mobilisation of private finance.** The Green Deal estimates that for the green transition, private finance one and a half times as much as the total public resources directly or indirectly provided by the EU is required (approximately €1060 bn against a total estimated requirement of at least €2,600 bn to €2,700 bn in the decade from 2020 to 2030). No official estimates are available for Italy, but an analysis of the investments necessary for meeting Europe's new energy and climate goals indicates that the total resources necessary (€178 bn compared with the €92 bn originally set out in the INECP) are more than four times the NGEU resources allocated to Italy (€40 bn/year)[13]. **Mobilising and reorienting private financial resources towards the priorities dictated by climate transition is therefore strategic whether in Italy or in Europe and the rest of the world**[14].
- **Faced with the need to mobilise such huge private finance resources, the EU has developed a two-pronged strategy**. This aims to create a system of incentives to encourage asset managers, insurance companies, banks, etc.[15] voluntarily reorient their investment portfolios towards ESG (Environment, Social and Governance) and at the same time to extend the effect of the NGEU resources by means of leveraging, mobilising private

[12] See IEA (021); PNIEC (2019), cit.
[13] See Italian Climate Network- Està, *The Green Deal Is Advantageous. Benefits for the Economy and Employment at 2020* (October 2020).
[14] The importance of aligning financial flows with the 2015 Paris Agreement (point 2.c.1) and its goals was also recognised at the G20. G20 Naples, 22 July 2021 Joint communiqué, point 22: *"We highlight the urgent need to align financial flows to sustainable development , as well as for additional financial flows from a wide variety of sources (...)"*
[15] European Commission (2021), *Strategy for Financing the Transition to a Sustainable Economy*, COM (2021) 390 final and SWD (2021) 180 final (6/7/2021). https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en

finance by providing public and European Investment Bank guarantees to the National Promotional Banks, and via these, to the ordinary banks[16].

1.3 The strategic role of climate banks

- The European Investment Bank (EIB) and the NPBs (National Promotional Banks) play a decisive role in the financial architecture of Europe's Green Deal, and this also explains the major efforts being made by other countries to transform their NPBs into instruments for channelling and leveraging public resources dedicated to climate transition. The EIB and some of the leading European NPBs are in fact being turned into Climate Banks and have officially adopted protocols that require them to bring all their investments and loans flows in line with the Paris Agreement climate goals (net zero CO_2 emissions by the end of 2050). The British Government, which co-organised the Glasgow climate conference (COP26) together with the Italian Government, has set up its own public Green Investment Bank (UKIB), in order to accelerate decarbonisation of the economy and support the effort to convert the UK's infrastructure and industry.
- Equally, the Italian NPBs (Cassa Depositi e Prestiti and Invitalia) and Italian Export Credit Agency SACE are being called upon to play a key role also in our country.
- Three other dedicated reports[17] will examine the institutional and legal profile of these institutions, their organisational and financial set up and (as far as possible based on public data) their current level of involvement in sustainability and decarbonisation policies. Here we merely present some guidelines (toolkit) based on a review of European best practice for fully qualifying these institutions as Italian Climate Banks.

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[16] European Commission (2018), *Action plan: Financing sustainable Growth* COM (2018) 97 final (8/3/2018). https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en; European Commission, *The European Green Deal* COM (2019) 640 final 11/12/2019. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

[17] See ECCO, *CDP: NPB italiana del clima?, SACE: ECA italiana del clima?* and *Invitalia: Regional DFI del clima?* (November 2021)

2 The strategic role of national climate banks in the EU Green Deal (EUGD)

2.1 The role of National Promotional Banks (NPB) in the financial architecture of the Sustainable European Investment Plan (SEIP)

With the European Green Deal Investment Plan or Sustainable Europe Investment Plan (SEIP)[18], the European Commission has set out a broad range of actions to achieve climate neutrality by the end of 2050, with both initial estimates of the necessary investments and indications about financing methods. The Commission proposes:

- Restructuring the EU budget towards investments aiming to combat global warming and protect the environment, and towards financing by the *European Investment Bank* (EIB), the *National Promotional Banks* (NPBs) and international financial institutions guaranteed by the EU under the *InvestEU* programme.
- Reorienting private capital flows towards sustainable energy investments (ESG - Environment, Social and Governance) by defining common metrics for measuring and certifying climate and environmental impact (*taxonomy, benchmarking and eco-labelling*), obligations for listed companies and financial intermediaries to provide environmental footprint information (disclosure) and factoring physical and transitional climate risks into the prudential supervisory criteria of banks and institutional investors.

In 2020-2021 the many components of the European Green Deal (EUGD) began to take shape, and to be translated into specific proposals by the European Council and Parliament. The most important elements of the financing strategy have been the approval of NGEU funding by the European Council and Parliament in July 2020 (approved together with the new EU multiannual financial framework) and the set of Directives and Regulations of the Strategy for Financing the Transition to a Sustainable Economy[19].

[18] See European Commission (2018), *Action plan: Financing sustainable Growth* COM (2018) 97 final (8/3/2018). https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en and European Commission, *The European Green Deal* COM (2019) 640 final 11/12/2019. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

[19] See European Commission (2021), *Strategy for Financing the Transition to a Sustainable Economy*, COM (2021) 390 final and SWD (2021) 180 final (6/7/2021). https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en

2.2 EU resources: Next Generation EU and the new Multiannual Financial Framework (MFF)

After a long period of preparation, the EUGD financial strategy was finalised in July 2020[20]. After deciding the quantity of public resources to be allocated, the decisive step was paradoxically taken due to the need to tackle the effects of the Covid-19 pandemic using shared resources. The European Council and Parliament approved an extraordinary plan of funding for the Member States known as the Next Generation EU (NGEU) or recovery fund. The package is worth more than €800 bn (€750 bn at constant prices, to be spent over six years (2021-2026), part of which is tied[21] to funding energy-climate transition projects [22]. The resources set aside with the NGEU are in addition to those of the EU Multiannual Financial Framework 2021-2027, which has been revised in part to absorb existing programmes. Unlike the MFF funds, which depend on internal resources[23]), the resources for the NGEU will be sourced by issuing bonds (€250 bn a year), 30% of which to be in the form of green bonds[24]. The SEIP will mobilise the (public and private) EU funding needed for the Green Deal through three main channels [**Fig.1**]:

a) Revision of the EU Multiannual Financial Framework (2021-27) to bring it in line with projects to combat climate change, with the introduction of a new Recovery and Resilience Facility and redirection of some existing projects[25]. These include the Just Transition Mechanism (JTM), i.e. Funds and guarantees for projects to mitigate the economic and social effects of climate change (co-financed by the individual Member States)[26]. All in all, 30% of the total resources allocated by the EU in 2021-2027 (€1210 bn from the MMF + €807 bn from the NGEU) is for projects connected with the climate transition (i.e. €605 bn)[27]. These projects are part of the individual Member State NRRPs. The Member States receive the funds from the EU and are directly responsible for their

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[20] See Special European Council, 17-21 July 2020. https://www.consilium.europa.eu/it/meetings/european-council/2020/07/17-21/

[21] See European Commission (2020b), *Guidance to Member States Recovery and Resilience Plans* SWD part 1 & 2, 2020/205 final (Brussels, September 17)

[22] The Recovery and Resilience Facility (RRF) totals €724 md (€673 bn at 2019 prices) and the Regulation requires Member States to allocate 37% of this to its green transition.

[23] The EU Multiannual Financial Framework funding comes mainly from customs duty (which account for approximately 70% of the total) and VAT transferred by the Member States (12%), and in 2021-27, also the new tax on non-recycled plastic packaging.

[24] See European Commission, *A New Funding Strategy for the Next Generation Fund*, COM (2021) 250 final. https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2021:250:FIN

[25] Territorial Cohesion Fund (ReactEU), Agricultural Fund for Rural Development, Agricultural Guarantee Fund. Regional Development Fund, Horizon Europe Programme, Fund for Sustainable Development (*NDCI*), environment and climate action programme (*LIFE)*, EU4Health and EU Civil Protection Mechanism (RescEU).

[26] https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en

[27] See European Commission, *The EU's 2021-2027 Long-Term Budget and Next Generation EU. Facts and Figures* (April 2021). https://ec.europa.eu/info/publications/multiannual-financial-framework-2021-2027-commitments_en

implementation. Part of the EU budget and the NGEU is specifically focused on exercising a multiplier effect on private investment (InvestEU Mechanism).

b) The mobilisation of more than private investment through funding guaranteed by the InvestEU programme[28]. The programme provides EU guarantees for funding from the European Investment Bank (EIB) and other financial institutions able to access public and private resources for a further **€372 bn** in 2021-27. Also in this case, at least 30% of investments covered by the InvestEU programme (€112 bn) must focus on reaching European climate goals.

   InvestEU is a programme that links public and private finance. It is specifically designed to mobilise private capital by providing guarantees in order to encourage investment in four main policy windows (a process known as crowding in): (1) sustainable infrastructure, (2) research, innovation and digitalisation of enterprises, (3) small and medium-sized enterprises (SMEs), (4) special investments and professional skills.

   European guarantees provide very impoortant leverage to boost the funding potential of private investment in the implementation of NRRPs[29].

   The ability to provide funding guaranteed by the EU, previously a prerogative of the EIB (which set up and manages the EFSI), was extended to other international financial institutions[30] (implementing partners) and especially to the NPBs (National Promotional Banks)[31], placing the latter in a core position for implementing the NRRPs and for providing assistance in managing their energy transition to enterprises. Furthermore, these funds have been made exempt from the European laws on state aid[32].

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[28] InvestEU is a programme that was launched based on the 2015 Juncker Plan which operated until 2020 through the European Fund for Strategic Instruments managed by the EIB. The InvestEU Fund, set up as part of the InvestEU Mechanism, brings together various MFF funds and programmes under a single roof: the EFSI (European Fund for Strategic Investments), CEF (Connecting Europe Facility), COSME (Competitiveness and Small-Medium Enterprises) and EaSI (Employment and Social Innovation). See European Parliament, *InvestEU Programme. The EU's New Investment Support Scheme*, Briefing EU Legislation in Progress 2021-27 MFF (March 2021)

[29] The InvestEU Fund uses a multiple-lever mechanism. The allocation of €10.5 bn in the EU budget enables the fund to provide guarantees of €26.2 bn (2.5 leverage). In addition to this the partner financial institutions assume at least 25% of the risk, for total guarantees of €37.75 bn, the basis for the financial leverage of the lender financial institutions, which is estimated to be at least 11.4 (historically the EFSI multiplier was 15).

[30] Such as the EBRD (European Bank for Reconstruction and Development), CEB (Council of Europe Development Bank) or NIB (Nordic Investment Bank)

[31] The expression National Promotional Bank (NPB) was introduced by the European Commission in a communication dated November 2014, which defined them as: "legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities". NPBs are public or partly state-owned. Banks that fit into the category of NPBs are KfW in Germany, CDC and BpiFrance in Germany, British Business Bank and Green Investment Bank in the UK and CDP and MCC-Banca del Mezzogiorno in Italy. See Annex B, European Parliament, *New Financial Instruments and the Role of National Promotional Banks*, Directorate-General for Internal Policies, Policy Dept (2016).

[32] EU law on state aid is considered compatible with the funding guaranteed by InvestEU if the financial projects meet all of the programme's eligibility criteria, and: (a) address market failures; (b) need EU backing in order to get off the ground; (c) achieve a multiplier effects and crowd-in private investment; (d) help meet EU policy objectives. See GBER *General Block Exemption Regulation on State Aid Control Amendment* (July 2021) https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3804

c) The injection of an estimated total of **€25 bn** into the *Modernisation Funds*[33] through the sale of carbon allowances under the European Emission Trading System (ETS)[34]. The Modernisation Fund is one of the key instruments of the Green Deal to support the transition to climate neutrality in lower-income European Member States[35]. Italy therefore does not qualify. The fund is financed by the allocation of 2% of revenues from the sale of ETS carbon allowances and voluntary contributions from the beneficiary countries. It operates under the responsibility of the beneficiary Member States, but is administered by the EIB.

Tab.1a - MACRO REDISTRIBUTION OF THE EU MULTIANNUAL FINANCIAL FRAMEWORK (MFF) AND OF THE NGEU
(2021-27 extrapolated to 2030)

					Projected to 2030		
		MFF	NGEU	TOTALE	MFF	NGEU	TOTALE
		2021-27	2021-26	2021-27	at 2030	at 2030	at 2030
Heading #		bn €	bn €	bn €	bn €	bn €	bn €
1	Single Market Innovation and Digital	149,5	11,5	161,0	213,6	19,2	232,7
2	Cohesion Resilience and Values	426,7	776,5	1203,2	609,6	1294,2	1903,7
3	Natural resources and Environment	401,0	18,9	419,9	572,9	31,5	604,4
4	Migration and Border management	25,7		25,7	36,7		36,7
5	Security and Defence	14,9		14,9	21,3		21,3
6	Neighbourhood and the world	110,6		110,6	158,0		158,0
7	European Public Administration	82,5		82,5	117,9		117,9
	TOTAL	**1210,9**	**806,9**	**2017,8**	**1729,9**	**1344,8**	**3074,7**
	of which: Green transition			605,3			922,4

Source: Recovery plan for Europe | European Commission (europa.eu)

[33] https://ec.europa.eu/clima/policies/budget/modernisation-fund_en
[34] https://ec.europa.eu/clima/policies/ets_en
[35] The Modernisation Fund currently benefits ten countries: Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia, especially in view of their dependence on coal.

Tab.1b - NGEU BREAKDOWN
(2021-27 extrapolated to 2030)

	NGEU 2021-26 bn €	Projected NGEU at 2030 bn €	
RRF - Recovery and Resilience Facility	723,8	1206,3	
of which: Loans	385,8		
of which: Grants	338,0		
ReactEU (grants)	50,6	84,3	Cohesion
Horizon Europe (grants)	5,4	9,0	Research
InvestEU (grants)	6,1	10,2	Health and environment
Rural Development (grants)	8,1	13,5	Rural development
JTF Just Transition Fund (grants)	10,9	18,2	Energy transition
RescEU (grants)	2,0	3,3	Civil protection
TOTAL NGEU	**806,9**	**1.344,8**	
of which: Grants	421,1	701,8	
of which: Green transition	267,8	446,3	

Source: Recovery plan for Europe | European Commission (europa.eu)

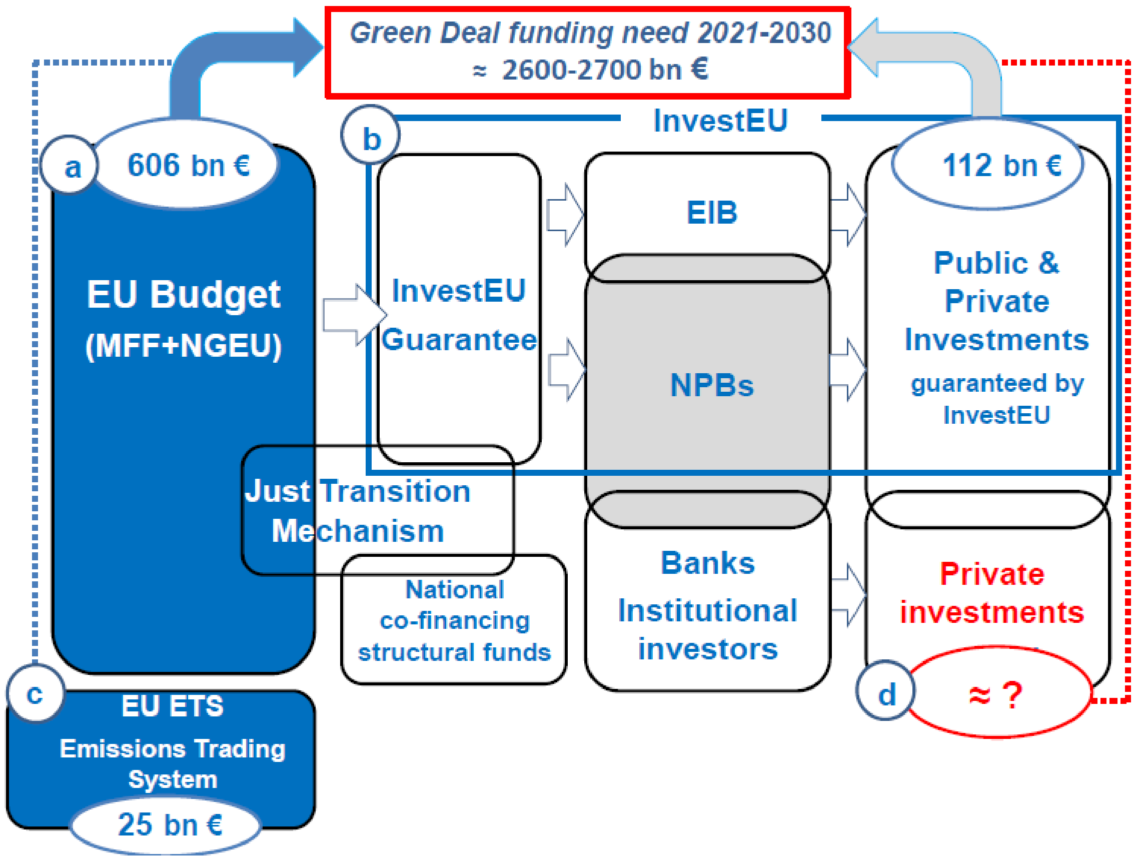
2.3 The reorientation of private capital as a strategic level of the EUGD

2.3.1 The financial gap and size of the private financial contribution to the EUGD

The financial architecture of the European Green Deal (EUGD) is based on the European Commission's estimate that reaching the climate goals set out in the strategic plan[36] would require additional investment worth approximately **€260 bn a year before 2030**[37] (therefore no less than **€2600-2700 bn** during the decade) and, with the SEIP, estimated mobilisation of at least €1000 bn in public and private funding over the same period of time. The subsequent negotiation of the EU Multiannual Financial Framework and setting up of the NGEU in 2020-21 led to a reworking of the structure of direct and indirect EU funding, and set the official total, which for 2021-27 is €2018 bn (€1211 bn MFF + €807 bn NGEU), 30% of which is dedicated to climate transition, or **€606 bn**. As well as the sums allocated from the EU budget, **€372 bn** can be mobilised as leverage by the InvestEU programme European guarantees, 30% of which will be dedicated to decarbonisation projects (**€112 bn**), and **€25 bn** from the Modernisation Fund has been dedicated to the decarbonisation of lower-income Member States. In total, for the 2021-27 period, the resources directly or indirectly available from the EU budget, or MFF, therefore come to approximately **€2415 bn** (€1211 bn MFF + €807 bn NGEU + €372 InvestEU), of which only **€743 bn** (just over 30%) is dedicated to the climate/energy transition. Extrapolating this last figure over ten years[38], the resources directly or indirectly dedicated to achieving the goals for reducing climate-altering emissions by 2030 are therefore in the region of **€1060 bn.** (606 MFF/NGEU+25 ETS+112 InvestEU) **[Fig 1].** We can use these figures, based on the European Commission's own estimates, to calculate that over the 2020-30 decade during which an estimated **€2600-2700 bn** will be required in total, the funding specifically dedicated to the climate transition from the EU budget is approximately **€1060 bn**, leaving a <u>gap in resources of around €1540-1640 bn</u>. This gap will need to be filled by reorienting vast amounts of private resources towards green investments or by further increasing national public debt[39].

[36] See European Commission, *A Clean Planet for All-A European Strategic Long Term Vision for a Prosperous, Modern, Competitive and Climate Neutral Economy* and *In-Depth Analysis in Support of the Commission Communication*, COM 2018 773 (28/11/2018)
[37] The same European Commission has presented the estimate as very conservative, in that it does not take into account the investments needed for climate adaptation or mitigation of the adverse effects of other challenges (such as protecting biodiversity). It also excludes the estimate of the public investment needed to minimise the social costs of energy transition as well as the costs of inaction. See COM 2019 640 Final (11/12/2019) p.15
[38] The data has only been normalised to be able to compare the NGEU figures with the decarbonisation target of the Green Deal which sets a CO_2 emission reduction target of -55% (on 1990) by 2030. The figure is only an estimate based on the assumption that the EU will confirm its budget commitments also for the next 2027-34 MFF. However, the assumption is currently only academic in that when the Commission presented the NGEU it pointed out that this is a one-off extraordinary allocation of funds.
[39] These additional resources could be provided by national budgets and involve increases in public sector net debt, which would in any case require refinancing with the issue of public bonds. Alternatively (e.g. In the event that that the Stability and Growth Pact continues to apply) these resources would require the direct mobilisation of private capital only.

Fig.1 – STRUCTURE OF THE EU GREEN DEAL SOURCES OF FINANCE



Source: our calculations are based on the European Commission's *The European Green Deal* (2019)

2.3.2 The European regulatory framework

The estimated size of the gap explains the emphasis the Commission has placed on the reorientation of private financial flows towards green investments. The Strategy for Financing the Transition to a Sustainable Economy[40] (the general framework of which was drawn up right from the March 2018 Action Plan[41]) therefore has a decisive complementary role in the success of the European Green Deal (EUGD)[42].

The EU strategy for facilitating this major reorienting of private portfolios to favour sustainable finance has three main objectives: (1) to reorient capital flows towards a more sustainable economy; (2) to encourage transparency and long-term vision; (3) to make the adoption of sustainability criteria in the investment and risk management practices of financial intermediaries a mainstream activity.

The general logic behind the European strategy is therefore to provide investors and businesses with reliable, relevant information about the opportunities offered by environmental sustainability and the risks of energy transition throughout the value chain and is based on three pillars, each of which is safeguarded by specific legislative and regulatory initiatives: The European Taxonomy (which defines the criteria for the standard classification of sustainable activities); non-financial reporting (Disclosure); and tools for assessing financial investments (Toolbox) **[Box 1].**

The European strategy can work providing the non-financial information available at source is reliable, sufficiently detailed and comparable. After the Taxonomy, the second pillar of the strategy is therefore the Disclosure of information by enterprises so that investors can make a consistent assessment of their investments also as regards the sustainability of the business and the conduct of the issuer companies. The quality of assessment and information tools also depends on the quality of company disclosures (non-financial reporting standards). At present, companies are granted considerable flexibility in the drafting of non-financial reporting, as the law (the 2014 NFRD Directive) does not set out definite standards, and there

[40] See European Commission (2021), *Strategy for Financing the Transition to a Sustainable Economy"*, COM (2021) 390 final and SWD (2021) 180 final (6.7.2021). https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en

[41] See European Commission (2018), *"Action Plan: Financing sustainable Growth"* COM (2018) 97 final (8.3.2018). https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en

[42] See European Commission, *The European Green Deal* COM (2019) 640 final 11.12.2019. https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en In fact further increasing public debt does not seem to be a simple option given the extremely high levels of public debt/GDP of European countries that have had to support their economies during the Covid-19 pandemic.

are currently many different guidelines and criteria than can potentially apply on a national and international level[43].

Box 1 – The Regulatory Framework of the EU Green Deal

> **Taxonomy.** A European Taxonomy (proposed by the Commission in June 2020) [44] is considered vital in order to meet the Green Deal targets. The Taxonomy identified common standards for classifying and measuring the contribution of the various economic activities to the decarbonisation and environmental goals, providing a single definition of sustainability.
>
> **Non-financial Reporting (Disclosure).** The criteria set out in the Taxonomy is then integrated with those set out in additional European regulations setting out disclosure requirements for financial and non-financial institutions. The most significant is the recent proposal to update the Non-Financial Reporting Directive (NFRD) with the Corporate Sustainability Reporting Directive (**CSRD**)[45] proposed by the Commission in April 2021 and expected to come into force from 2023, which extends reporting obligations on sustainability and alignment with the Taxonomy to all listed companies (including small and medium-sized enterprises, or SMEs). The CSRD on non-financial reporting will be complemented by legislation on sustainable corporate governance, expected by the end of 2021[46]. As part of the process of reviewing financial and non-financial reporting standards, on 7 July 2021 the Commission also issued a **Delegated Act**[47] specifying the content of Article 8 of the Taxonomy Regulation as regards the reporting methods for the various types of companies and institutions (non-financial enterprises, assets managers, lending institutions, investment companies and insurance

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[43] The non-financial reporting models most commonly used internationally are those of: the Global Reporting Initiative (GRI), Sustainable Accounting Standards Board (SASB), International Integrated Reporting Framework (IIRC), Task Force on Climate Related Financial Disclosures (TCFD), UN Guiding Principles Reporting Framework, UN Global Compact, OECD Guidelines for Multinational Enterprises, ISO 26000 and, in Germany, the German Sustainability Code (DNK). See also: Ehlers, T., Mojon, B., Parker, F., (2020) *Green Bonds and Carbon Emissions: Exploring the Case for a Rating System at the Firm Level* BIS Quarterly Review 31-47

[44] Cfr. European Parliament and Council, *"Regulation on the Establishment of a Framework to Facilitate Sustainable Investments"* Regulation 2020/852 (18.6.2020). See: https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en and https://ec.europa.eu/info/business-conomy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

[45] See European Commission, *Proposal for amending Directives 2013/34/EU, 2004/109/EC; 2006/43/EC and Regulation 537/2014* COM (2021) 189 final (21/4/2021). If approved, the CSRD would require all listed companies (including SMEs) to provide structured sustainability reporting. It has been estimated that in Europe application of the CSRD would bring the number of companies required to include Financial and Non-Financial Reporting to 50 thousand (from the 6 thousand covered by the current NFRD). The Commission proposes adopting different, proportional standards for SMEs. That unlisted SMEs will be free to adopt on a voluntary basis. On this subject, see also: European Parliament Research Service (EPRS), *Non-Financial Reporting Directive. Briefing Implementation Appraisal* (Legislative Train 06/2021) https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-review-of-the-non-financial-reporting-directive

[46] See Commission Work Programme 2021 *A Union of Vitality in a World of Fragility* COM (2020) 690 final 19/10/2020, Annex 1 p.3.

[47] See Commission Delegated Regulation supplementing Regulation (EU) 2020/852 of the European Parliament and Council by specifying the content and presentation of information to be disclosed by undertakings subject to Article 19a or 29a of Directive 2013/34/EU.

companies), applicable between 2022 and 2024[48]. For savings products, the SFDR (Sustainable Finance Disclosure Regulation[49], operational since March 2021, regulates the subscriber disclosure requirements for qualified financial intermediaries with regard to the sustainability impact of the investment products they sell. Similarly, an EU Green Label project is currently under development[50]. This should act as a quality certification system for financial products sold to retail clients by financial intermediaries. The sustainability data of listed companies and investment products should also be published and easily accessible online under the European Single Access Point (ESAP) project the Capital Market Union plans to set up.

Financial investment assessment tools (Toolbox) The European Commission's legislative and regulatory initiatives also extend to the implementation of a Toolbox to support enterprises, financial intermediaries and financial market participants in the definition and development of investment solutions compatible with the Taxonomy criteria and designed to eliminate the risks of greenwashing.

Green bonds. The Green Bonds (GB) system proposed by the Commission, based on the recommendations of the Technical Expert Group (TEG) of June 2019 and March 2020[51], sets out the criteria for managing and checking the alignment of projects funded by Green Bonds with the Taxonomy.

Climate Benchmarks. The regulations on Climate Benchmarks, adopted in November[52], introduce two types of benchmark: *EU Climate Transition Benchmarks* (EU CTBs) and *EU Paris-aligned Benchmarks* (EU PABs), and sets out the appropriate disclosure rules applicable to each[53].

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[48] Non-financial enterprises will be required to calculate and publish three key performance indicators (KPIs) applicable to the share of net turnover, capex and opex dedicated to products and services connected with sustainable economic activities.
KPIS and calculation methods congruent to the specific types of financial business carried out will apply to financial enterprises for which the above KPIs are not appropriate.
[49] See European Parliament and Council, Regulation (EU) 2019/2088 (9/12/2019)
[50] The EU Green Label is based on the EU Ecolabel Regulation 66/2010
[51] See Proposal for Regulation of the European Parliament and Council on European Green Bonds, COM/2021/391 final; EU TEG, *Report on EU Green Bond Standard* (June 2019) and *EU Green Bond Standard Usability Guide* (March 2020) https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/european-green-bond-standard_en
[52] The benchmark construction and monitoring criteria aim to ensure that the underlying financial instruments are selected in line with the Taxonomy. According to European law, benchmarks must: (a) demonstrate a significant decrease in GHG emissions intensity (minimum decarbonisation of 30% for EU CTBs and 50% for EU PABs) compared to their underlying investment universes and/or comparable market indices; (b) the exposure to 'high impact sectors' (e.g. energy, transport and industry) must be aligned to that of the underlying investable universe to ensure that decarbonisation measurement is not altered through a shift in the allocation to sectors with inherently limited impact (e.g. healthcare and media); (c) climate benchmarks must demonstrate their ability to reduce their GHG emissions oN an annual basis in accordance with the trajectory of the 1.5°C IPCC scenario. See European Parliament and Council, Regulation (EU) 2019/2089 (27/11/2019) which amended the previous Regulation (EU) 2016/1011 on Climate Transition Benchmarks. *https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en*.
[53] See Law 317/9.12.2019 p.17 Official Journal

2.4 The pivotal role of National Promotional Banks (NPB) in the SEIP

The expression National Promotional Bank (NPB) was introduced by the European Commission in a communication dated November 2014, which defined them as[54]: "*legal entities carrying out financial activities on a professional basis which are given a mandate by a Member State or a Member State's entity at central, regional or local level, to carry out development or promotional activities*". NPBs are public or partly state-owned. The notion of an NPB therefore to a great extent overlaps with those adopted elsewhere, such as Public Development Banks (PDBs) or Development Financial Institution (DFIs). We will use the abbreviation NPB to encompass PDBs and DFIs.

According to the Commission, *"The principal economic rationale for a promotional bank is that market failures may lead to less investment and, thus, slower future growth than would be economically efficient, and that an institution with a public mandate is better placed than private operators to overcome these market failures".*

<u>The financial architecture of the EUGD (SEIP) assigns National Promotional Banks (NPB) the key role of mobilising private capital to support the European Green Deal</u> [See Fig.1][55]. In this role, NPBs are legally comparable to the European Investment Bank (EIB) or European Investment Fund (EIF), as they are entrusted entities of a Member State pursuing public interest aims[56].

> *"Due to their complementary product ranges and geographic reach, NPBs play an important role in the implementation of the Investment Plan for Europe. [...] The proposals of the working group on enhanced cooperation between the EIB Group and NPBs [...] reflect these preferences. [...] While calling for flexible cooperation models, the group recognises the complementarities between the EIB and NPBs, where the latter can bring particular value-added based on their knowledge of the local context, business and investor communities as well as national policies and strategies. Cooperation can take place both on a bilateral and multilateral (e.g. via investment*

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[54] European Commission, *Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe*, COM (2015) 361 final of 22/7/2015 p. 3

[55] See European Parliament, *New Financial Instruments and the Role of National Promotional Banks*, Directorate-General for Internal Policies, Policy Dept. (2016) and: European Commission, *Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe*, COM (2015) 361 final of 22/7/2015

[56] See article 58(1)(c) EU Financial Regulation (EU, Euratom) N 966/2012 of the European Parliament and of the Council of 25/10/2012 on the rules applicable to the EU budget (which repeal Council Regulation (EC, Euratom) No 1605/2002).

platforms) basis. Leveraging private sector resources constitutes a key objective in both cases[57]*.*

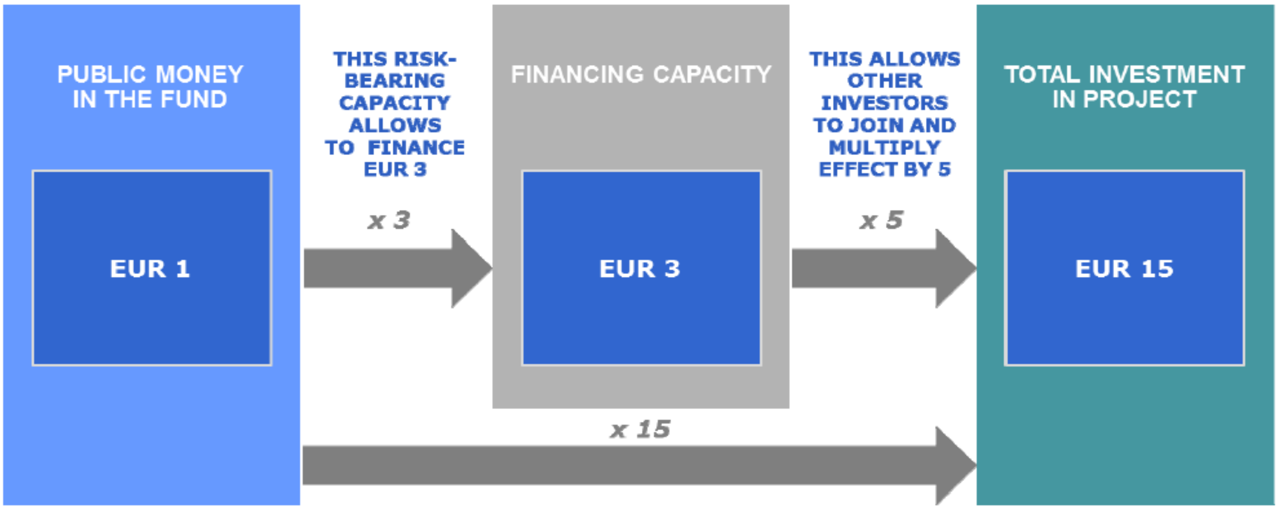
The general structure of the SEIP essentially reflects that of the Juncker Plan launched in 2014[58], which recognised NPBs' role as catalysts for long-term funding in synergy with both the EU and EIB budgets, in order to crowd in private capital through a wider and smarter use of public resources[59]. Since the 2014-20 Multiannual Financial Framework (MFF), the NPBs have been called upon to play a role complementing that of the national and regional public authorities in allocating investment and structural funds, by means of risk sharing financial instruments, partial loan guarantees, the acquisition of shareholdings and mezzanine financing. The functional structure of the Juncker Plan involved setting up a guarantee fund, the European Fund for Strategic Investments (EFSI), which ended in 2020 and has now been replaced by the InvestEU Fund, which is technically similar, while its aims are more in line with the goals of the Green Deal[60].

The fact that NPBs could participate in the allocation of EU budget resources had three major benefits compared with the traditional method of providing grants. Allocations were more efficient; the investment horizon was long term; and, above all, the resources could be multiplied (leverage). Every euro provided as a guarantee set aside in the EU budget permitted a funding extension three times greater to the EFSI and an additional multiplication by 5 by the qualified financial institutions, for a total multiplier effect 15 times the original amount set aside **[Fig.3]** [61]. The new EU 2021-27 MFF dedicates €10.5 bn to the *InvestEU* Fund (which replaced the ESFI). This enables the fund to provide guarantees worth €26.2 bn (2.5 leverage). In addition to this, the partner financial institutions assume at least 25% of the risk, for total guarantees worth €32.75 bn. This is the basis for triggering the

[57] European Commission, *Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe*, COM (2015) 361 final of 22/7/2015 pp. 9-10
[58] European Commission, *An Investment Plan for Europe* COM (2014) 903 final (26/11/2014)
[59] The European Commission also wanted the Export Credit Agencies to play a comparable and complementary role, in their dual capacity as investors, guarantors and underwriters of long-term risk. They can in fact play a crucial role in supporting cross-border investments within the EU and supporting the export of capital goods outside of the EU, where the sovereign risk exercises pressure on long-term investments. European Commission, *On Long-Term Financing of the European Economy* SWD (2014) 105 final 23/3/2014, p. 7
[60] The EFSI was designed to fund infrastructure projects and to support SMEs.
[61]. The fund decided to offer a total of €315 bn against guarantees of €21 bn. The leverage is therefore 15. The estimated leverage of the EFSI guarantees was based on the historical evidence of comparable initiatives. The recapitalisation of the EIB in 2012 resulted in a multiplier effect of 18, and the guarantees on the COSME fund loans had had a multiplier effect of 20. See European Commission, *An Investment Plan for Europe* COM (2014) 903 final (26/11/2014). CDP, the only qualified Italian financial intermediary, invested €9 bn, mobilising a total of €22 bn in investments in 2015-20.

financial leverage of the financial institutions providing funds (4.5 leverage). The total leverage of the InvestEU Fund is therefore, at a prudential estimate, at least 11.2[62].

Fig. 3 – THE MULTIPLIER EFFECT OF THE JUNCKER PLAN



Source: European Commission, *An Investment Plan for Europe* COM (2014) 903 final

NPBs therefore appear to play a decisive role in mobilising and channelling private resources towards Green Deal objectives. <u>EU resources have the greatest and most effective impact when the NPBs are involved on a national level, particularly during implementation of National Recovery and Resilience Plans (NRRPs) linked to the NGEU</u>. The benefits of channelling NRRP funds through NPBs are efficient in a number of different ways[63].

<u>In financial terms</u>, the involvement of NPBs delivers the following benefits:

- It sets a limit on the cost of capital for private investors by means of guarantees and risk sharing.
- It enhances leverage by triggering a cumulative process of multiplication of the resources provided by the various European funds. The process is not only direct from EU funding or through the EIB, it is also indirect, via the guarantees that each Member State can grant the NPBs and that the latter can in turn transform into guarantees to the financing banks or into risk sharing by means of specialised funds.

From a technical and operational point of view, the vocation and local nature of NPBs means they can:

[62] The Commission's estimate of the InvestEU guarantee is more conservative than that of the EFSI, to take into account the fact that some Green Deal investment projects have a lower potential profitability level and could attract less interest from the private sector.

[63] See European Parliament, *New Financial Instruments and the Role of National Promotional Banks*, Directorate-General for Internal Policies, Policy Department D Budgetary Affairs (16/5/2016)

- Pursue long-term investment logics using a variety of financial instruments[64];
- Direct finance towards the pursuit of specific objectives and monitor the status of financed projects;
- Focus projects onto initiatives that the market would spontaneously ignore (such as finance for SMEs)[65], triggering virtuous processes of imitation on the part of private capital;
- Assist beneficiaries in the preliminary stages of projects as well as the subsequent implementation stages.

[64] In addition to granting guarantees and directly financing projects, NPBs can operate through investment platforms or support specialist instruments like the ELTIF (European Long-Term Investment Funds), acquire equity investments or back the securitisation of business loans).

[65] One of the principal missions of NPBs is to offset any market failures, which is also one of the conditions that means their finance is not subject to European law on state aid. See European Commission, *Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe*, COM (2015) 361 final of 22/7/2015

3 The strategic importance of climate banks in the Italian context

3.1 The NRPP, INECP, and the financial gap in Italy

The NRRP (National Recovery and Resilience Plan) [66] is the plan adopted by the government to activate the European Recovery and Resilience Facility (RRF), comprising €122.6 bn in loans and €68.9 bn in subsidies. In addition to the €191.5 bn of the RRF, there is the ReactEU programme[67] (€13 bn) and the Complementary Fund (€30 bn) set up by the Italian Government and funded by the Public Budget (Spring 2021). In total this comes to €235 bn to be allocated by 2023 and used by 2026. The Italian plan is not only more financially substantial than those of other European countries, it includes both loans and subsidies. Many European countries have preferred to access grants only, rather than the more costly "loans" component[68]. Allocation of the Plan resources, at least with respect to RRF resources (€191 bn), is formally consistent with European requirements, with 40.8% of the financial resources allocated to the green transition (as opposed to the European indication of 37%) and 26.9% to the digital transition (compared with the 20% requested by Europe)[69]. The Italian Government's scope of action is therefore far wider than that required by the European programmes **[Table 2]**.

Tab. 2 – NRRP (April 2021) Breakdown of Resources by Mission (2021-26)

		RRF bn €	NGEU bn €	NGEU+CF* bn €	NGEU+CF* +Bgt 2021 bn €
M1	**Digitalization**	40,7	41,53	50,07	61,24
M2	**Green revolution and ecological transition**	59,3	60,64	69,96	78,16
M3	**Infrastructures and sustainable mobility**	25,1	25,13	31,46	32,62
M4	**Education**	30,9	32,81	33,81	36,76
M5	**Inclusion and cohesion**	19,8	27,06	29,62	84,95
M6	**Health**	15,6	17,34	20,23	21,24
	TOTAL	**191,5**	**204,5**	**235,2**	**315,0**

* CF = Complemetary Fund specifically dedicated to integrate NRRP funding out of the Italian Budget

Source: our calculations based on NRRP and 2021 Italian Budget figures

The general framework of the NRRP is imposing and complex in structure, at least as far as the financial resources are concerned. However, it appears to lack an overall strategic focus

[66] See National Recovery and Resilience Plan # Next Generation Italia. *"Italia Domani"* (April 2021) https://www.governo.it/sites/governo.it/files/PNRR_InvestimentiProgrammazioneComplementare.pdf

[67] The NextGeneration EU (NGEU) finance package includes seven different programmes, the largest of which is the Recovery and Resilience Facility (RRF) of €650 bn (of which €312 bn are grants and €360 bn are loans). ReactEU is one of the NGEU programmes (worth a total of €47.5 bn) that aims to tackle the negative economic impacts of the Covid-19 pandemic. It must be spent within the 2021-23 three-year period (unlike RRF resources, which may be implemented up to 2026).

[68] For example, the funds included by France (€49 bn), Germany (€26 bn) and Spain (€70 bn) in their national plans only refer to RRF funds. Spain and Portugal also only activated the grant component. See Darvas, Tagliapietra (2021). For in-depth analyses also: Wuppertal Institute, E3G, *Green Recovery Tracker Report* https://www.greenrecoverytracker.org/country-reports-overview

[69] Many projects have an impact on more than one mission. Reallocation of the individual NRRP projects to the green transition mission (M2) and digital mission (M1) is described in the table attached to the NRRP: https://www.governo.it/sites/governo.it/files/PNRR_RiformeInvestimentiMissioni.pdf

on decarbonisation and climate change adaptation goals. A more granular analysis of the individual projects suggests that the plan's efficacy with regard to climate transition is uncertain and often inadequate[70].

In the NRRP there is no indication enabling projects to be directly linked with climate impact goals[71]. The lack of indications about their impact in terms of energy efficiency and emissions of climate-altering gases (GHG) means that no analytical assessment can be made of the quantitative alignment of the planned projects with European climate neutrality goals. The only energy and climate impact estimates available are those in the Integrated National Energy and Climate Plan (INECP)[72], which have been superseded by the new EU decarbonisation goals (a reduction of 55% rather than 40% on 1990 GHG emission levels)[73]. The INECP is currently being revised and therefore no official updated estimates are available. However, preliminary simulations indicate that the total investments Italy needs to bring itself in line with the new European emission goals are significantly greater than the estimates of the old INECP of late 2019. Adjusting the parameters of the GHG reduction goals sector by sector, the annual investments from 2020 to 2030 needed to achieve them double, to an average of €178 bn a year compared with the €92 bn indicated in the 2019 INECP). Provisional estimates therefore indicate that Italy's total financial needs are more than five times higher than the total European funding available (NGEU+ReactEU)[74].

The ability to mobilise private capital and to reorient it towards investments in decarbonisation and energy/environmental sustainability therefore appears to be even more strategic for Italy (which already suffers from an excess of public debt) than for Europe as a whole.

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[70] A preliminary study carried out by the Green Recovery Tracker showed that of the €192 bn. of the Recovery and Resilience Facility (RRF), only 24% of the projects could have an undoubtedly positive impact on climate transition, whereas the remaining 76% consisted of projects without a significant impact (50.1%) and projects the impact of which is uncertain (26%). See Wuppertal Institute, E3G, *Green Recovery Tracker Report: Italy*(3/6/2021) https://www.greenrecoverytracker.org/country-reports-overview

[71] From a methodological point of view, the NRRP is completely out of line with the European requirements. In addition to the macro areas requiring action, the Commission also indicates a highly structured method requiring quantitatively measurable results (targets), precise interim and final deadlines (milestones) and a clear definition the qualitative and quantitative starting points (baselines) in order to be able to accurately measure the results, impacts of the individual projects and the entire plan. European Commission (2020), *Guidance to Member States Recovery and Resilience Plans* SWD part 1 & 2, 2020/205 final (Brussels, September 17)https://ec.europa.eu/info/sites/default/files/3_en_document_travail_service_part1_v3_en_0.pdf e https://ec.europa.eu/info/sites/default/files/3_en_document_travail_service_part2_v3_en_0.pdf

[72] MISE Ministry of Economic Development (2019) Integrated National Energy and Climate Plan (INECP) (December), https://www.mise.gov.it/images/stories/documenti/PNIEC_finale_17012020.pdf

[73] The data was extrapolated to 2050 in the document *Strategia italiana di lungo termine sulla riduzione delle emissioni dei gas a effetto serra*(Italian Long-term Strategy on Greenhouse Gas emissions) drawn up by the previous government. See MIATTM Ministry of the Environment, Land and Sea Protection (2021), *Strategia italiana di lungo termine sulla riduzione delle emissioni dei gas a effetto serra* (January) https://www.minambiente.it/sites/default/files/lts_gennaio_2021.pdf

[74] See Italian Climate Network- Està, *The Green Deal Is Advantageous. Benefits for the Economy and Employment at 2020* (October 2020).

The financial architecture the European Commission has constructed around the European Investment Bank (EIB), examined in the previous chapter, may reasonably be used as an archetype to be rolled out nationally with the Italian NPBs, i.e. CDP, SACE and Invitalia.

3.2 Potential climate banks in Italy

The Cassa Depositi e Prestiti (CDP) group is the Italian National Promotional Bank; SACE (Insurance Services for Foreign Trade) is the Italian Export Credit Agency (ECA); Invitalia (whose official name is the National Agency for Attracting Investments and Business Development) is a public agency that is majority owned by Mediocredito Centrale-Banca del Mezzogiorno (MCC), whose mission is comparable to that of a Development Financial Institution (DFI) mainly dedicated to development in Southern Italy.

The current institutional and corporate structure of CDP and SACE is a hybrid one. Despite mainly carrying out activities in the public interest, they are joint stock companies that are managed like private enterprises. CDP is a joint stock company majority owned by the MEF (which owns 83%), but the resources backed by state guarantees (post office savings and guaranteed bonds) are managed separately from the core business and are subject to MEF guidelines and parliamentary scrutiny. Thanks to this separation, interventions by the CDP do not have an impact on the public accounts. The CDP was therefore institutionally designed not only as a tool for funding public entities, but also as a vehicle for acquiring equity investments in enterprises of strategic importance to the country and for funding infrastructures of public utility by means of project finance or in a public-private partnership (PPP), as well as for channelling debt and capital resources towards the world of business using a variety of ad-hoc vehicles.

SACE is an insurance group providing insurance cover for exports and financial investment in Italian companies abroad as well as various forms of financial and technical assistance with Italian companies' foreign operations. Until 2020, SACE was part of the CDP group (which wholly owned it) and therefore enjoyed the status of a joint stock company whose shareholder was formally not a public entity. However, as a result of the pandemic, in 2020 its mission was extended to include supporting the liquidity of companies in temporary financial difficulty by means of counter-guarantees granted to banks on their loans. It became one of the channels the Italian Government used to manage the financial emergency of companies affected by anti-pandemic measures. The other channel was the guarantee fund managed by Mediocredito Centrale. At the same time, it was decided that SACE's shareholding would be transferred from the CDP to the MEF. This took place in 2021, and brings SACE back into the public sphere.

The Invitalia Group is a joint stock company wholly owned by the Ministry of the Economy and Finance (MEF), which comes under the umbrella of public administration[75]. The Group took on its new name in 2008[76], but was established in 1999 (under the original name of *Sviluppo Italia S.p.A.*) as a result of the merger and reorganisation of several existing entities and companies, with the mission to relaunch industrial development in the regions of Southern Italy after the closure of the Cassa del Mezzogiorno[77]. Invitalia offers EU and national fund management services to the Public Administration; it manages public incentives for SMEs and innovative enterprises; it supports the Government in tackling industrial and employment crises; it is involved in managing public reclamation and redevelopment (industrial and environmental) works in areas in crisis and it has taken on the role of body qualified to support central and commissioner-led administrations in public investments (from project design to realisation) implementing Institutional Development Contracts with Regions and local entities especially those located in Southern Italy[78]. The Group also has the mission to attract foreign investment into Italy[79]. In this context, Invitalia assists foreign companies wishing to set up or expand their business in our country. It assists both during the preliminary exploration and planning stage (context analysis, assessment of incentives and feasibility studies), and in the subsequent stages of structuring (location opportunities, authorisations, access to subsidies and relations with the Public Administration) and establishing the business[80]. Invitalia S.p.A. wholly owns Mediocredito Centrale-Banca del Mezzogiorno (MCC), a banking group mainly dedicated to providing support for SMEs (by providing finance and managing public guarantee funds) and to promoting and managing infrastructure projects and financial interventions to complement public incentives. MCC is

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[75] ISTAT classifies Invitalia as an "*Entity providing financial services to public administrations*" and it is therefore on the list of public administrations included in the consolidated income statement in accordance with the Public Finance and Accounting Law (Article 1(3) of Law 196 of 31/12/2009). See ISTAT Notice 30/9/2019.

[76] See article 460 of the 2007 Finance Law

[77] See Legislative Decree 1 of 9/1/1999 *("Restructuring of entities and promotional companies and establishment of the company Sviluppo Italia),* which merged the following organisations into a single entity: *RIBS* or *Risanamento Agro-Industriale Zuccheri S.p.A.* (an operational tool of the Ministry of Agericultural and Forestry Resources); FINAGRA (promotion of the food & agriculture sector); *SPI* (*Società di Promozione e Sviluppo Industriale S.p.A.*); *Insud S.p.A.* (*Società finanziaria nuove iniziative per il Sud S.p.A.*, for the promotion and development of tourism and spa enterprises); Progetto Italia S.p.A.; IG or *Imprenditorialità Giovanile* S.p.A.; *Itainvest* or *Italia Investimenti S.p.A.* (Fomerly GEPI or *Società per le Gestioni e le Partecipazioni Industriali*); Investire Italia S.p.A.. https://www.gazzettaufficiale.it/eli/id/2000/04/13/S-12016/p2

[78] See Ministerial Decree 9/12/2014 article 8-*bis*, amended by Ministerial Decree 23/3/2018. In the Regions where an Institutional Development Contract (IDC) for relaunching industrial factories of significant size has been signed (Abruzzi, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily) the Decree allows Invitalia to acquire a minority stake in the capital. Invitalia may also make investments in bonds and issue guarantees to the investee company. To do so, Invitalia employs the financial resources made available by the MISE under the Development Contracts.

[79] See https://www.esteri.it/it/diplomazia-economica-e-politica-commerciale/diplomaziaeconomica/l-attrazione-degli-investimenti/

[80] See https://www.invitalia.it/cosa-facciamo/sosteniamo-grandi-investimenti/attraiamo-investimenti-esteri/i-servizi-per-le-imprese-straniere

to all intents and purposes a second-level regional development bank focused on Southern Italy and therefore fits the European definition of a National Promotional Bank (NPB)[81].
In three other dedicated reports[82] we will examine the institutional and legal profile of these institutions, their organisational and financial set up and (as far as possible based on public data) their current level of involvement in sustainability and decarbonisation policies. Here we merely present some guidelines (roadmap) based on a review of European best practice for fully qualifying these institutions as Italian Climate Banks.

[81] See paragraph 2.4 below.
[82] See ECCO, *CDP: NPB italiana del clima?, SACE: ECA italiana del clima?* and *Invitalia: Regional DFI del clima?* (November 2021)

4 *Toolkit* for Italian climate banks

4.1 International commitments of financial institutions

Article 2.1(c) of the Paris Agreement states that its aim is to strengthen the global response to the threat of climate change *"in the context of sustainable development"* and *"making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"*[83] A large number of financial institutions across the globe are making commitments aiming to achieve convergence on zero net emissions by 2050.

The 2018 Commitment of the MDBs At the climate conferences held in Katowice in 2018 (COP24) and in Madrid in 2019 (COP25), the World Bank and eight other Multilateral Development Banks (MDBs)[84] announced that they would be reforming their business to bring it in line with the objectives of the 2015 Paris Agreement (COP21). The commitment was based on six building blocks:

1. Alignment with the climate-altering emission reduction objectives of the Paris Agreement[85];
2. Proactive mitigation of the physical climate change risks in line with the principles of adaptation and climate-resilience;
3. Financial contribution to acceleration of the climate transition, by actively supporting low-emission and climate-resilient project development;
4. Engagement at policy level and support for the national plans and other clients to put in place long-term strategies to accelerate climate transition;
5. Development of common monitoring and reporting on the results of Paris-alignment activities;
6. Alignment of internal activities and policies with the objectives of the Paris Agreement.

Under the third building block, the MDBs committed to scale up the provision of climate finance to bridge the finance gap, in order to support countries in their climate transition and adaptation plans. The MDBs therefore committed to: (i) prioritise, target and report on climate finance, (ii) mobilise private sector investments, (iii) support clients' access to

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[83] UNFCCC, *Paris Agreement*, https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

[84] *"The MDBs Alignment Approach to the Objectives of the Paris Agreement: Working Together to Catalyze Low-Emissions and Climate-Resilient Development"* signed by: ADBG (African Development Bank Group), ADB (Asian Development Bank), AIIB (Asian Infrastructure Investment Bank), EBRD (European Bank for Reconstruction and Development, EIB (European Investment Bank), IADBG (Inter-American Development Bank Group), IDB (Islamic Development Bank), NDB (New Development Bank) and the World Bank group (IFG; MIGA and WB).

[85] For further details, see: *Mainstreaming Principles*, https://www.mainstreamingclimate.org/

concessional finance, including for leveraging private capital, and (iv) provide technical assistance for the climate transition[86].

The Joint Declaration of the PDBs in 2020 In the autumn of 2020[87], in the middle of the pandemic, 450 Public Development Banks (PDBs) signed a similar commitment at the Finance in Common Summit (FICS)[88]. The declaration affirmed their "*determination to collectively shift our strategies, investment patterns, activities and operating modalities to contribute to the achievement of the United Nationals Sustainable Development Goals (SDGs) and the objectives of the Paris Agreement, while responding to the Covid-19 crisis*". The declaration started with the recognition that *"finance is a major trigger for change*" and that PDBs *"have a unique role in the system"*, building *"bridges between governments and the private sector, between domestic and international agendas; between global liquidity and microeconomic solutions; and between short-term and longer-term priorities"* and can therefore *"significantly contribute to reorienting global finance towards climate and SDGs".* Specifically, by contributing to:

- The preparation and implementation of common measurement metrics[89]
- The development and implementation of sustainable policies at national and regional level
- Extending private investment involvement (crowding in) in order to extend the scale and impact and help achieve alignment with the Paris objectives and the SDGs
- Reorienting international trade finance towards climate and SDGs
- Reinforcing the governance, openness and transparency of investments[90]
- Applying best practice, regulations and internationally accepted ESG standards[91]

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[86] The comparative monitoring of compliance in application of the principles by the MDBs and NDBs was carried out by E3G. See https://www.e3g.org/matrix/how-each-metric-is-assessed/

[87] At the "Finance in Common Summit", held on 9-12 November 2020 in Paris

[88] The signatories of the joint declaration included some MDBs that had signed the 2018-19 commitment, including the EIB and EBRD. The PDB signatories included the European EDFI (Association of European Development Bank Institutions), EAPB (European Association of Public Banks) and ELTI (European Long-Term Investors Association) See https://financeincommon.org/declarations.

[89] Based on the work carried out by OCSE, UNDP, the MDB and IDFC on Common Principles for Climate Tracking (https://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-for-climate-mitigation-finance-tracking.pdf and https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf) and on taxonomies of sustainable investments, see https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_en

[90] In particular in the fight against corruption, money laundering and terrorism.

[91] The references are: G20 *Principles for Quality Infrastructure Investments* (Tokyo 2019) https://www.g20-insights.org/related_literature/g20-japan-principles-quality-infrastructure-investment/; ILO, *Conventions and Recommendations*, https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang--en/index.htm; UN, *Guiding Principles on Business and Human Rights* (2011) https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf; WB-IFC, *Environmental and Social Performance Standards*, https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards

- Debt sustainability[92]
- The direct and indirect management of the risks and opportunities in relation to climate, biodiversity, the environment and social conditions[93].

For this purpose the declaration expressed the hope that:

a) Government mandates to the PDBs would be updated, finally specifically integrating the contribution to the goals of the Paris Agreement and UN SDGs.
b) Their shareholders and regulators would be engaged in updating the business model and regulatory framework in order to optimise balance sheets along the lines of the Action Plan developed by the G20 for MDBs[94] and reinforce the guarantee and political risk insurance mechanisms.
c) There would be participation in international financial architecture for sustainable development, through governmental capacity-building programmes and the construction of national platforms in accordance with the G20[95].

The Export Finance for the Future (E3F) Statement of Principles. In April 2021, at the initiative of France, the economics and finance ministers of seven European countries launched the E3F coalition Export Finance for the Future[96], with the aim of making export finance one of the main tools to combat climate change, by increasing support to sustainable and climate-friendly projects and by setting restrictions on the use of fossil fuels in their business abroad. The signatories specifically committed to:

- Developing incentives to support the development of sustainable export projects in all areas of the economy;
- Ending all forms of financial support to foreign trade and exports linked to the use of coal as a source of energy;
- Reviewing their financial support for fossil fuels and setting out the best ways of phasing these out, taking into account the specific characteristics of each sector;
- Launching a climate-oriented review of their export finance practices, in order to gain a shared, documented understanding of their climate impacts and working to improve

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[92] The reference is to the *G20 Operational Guidelines for Sustainable Financing* (Addis Ababa 2017), https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/g20-operational-guidelines-for-sustainable-financing.pdf?__blob=publicationFile&v=1

[93] See FSB-TCFD, https://www.fsb-tcfd.org/about/; TNFD, https://tnfd.info/; Climate Action in Financial Institutions, https://www.mainstreamingclimate.org/

[94] See G20, *Multilateral Development Banks Action Plan to Optimize Balance Sheets* (Toronto 2015) http://www.g20.utoronto.ca/2015/Multilateral-Development-Banks-Action-Plan-to-Optimize-Balance-Sheets.pdf

[9595] See G20, *G20 Reference Framework for Effective Country Platforms* (February 2020), http://www.mof.gov.cn/en/Cooperation/mulid/202011/P020201104581749367491.pdf; see also http://www.dt.mef.gov.it/en/news/2020/g20_03122020.html

[96] The seven countries that launched the E3F initiative are: France, Denmark, Germany, Netherlands, Spain, Sweden and UK. See https://www.tresor.economie.gouv.fr/Articles/2021/04/14/seven-countries-launch-international-coalition-export-finance-for-future-e3f-to-align-export-finance-with-climate-objectives

transparency of information about the climate impact of projects defined as sustainable;

- Promoting and engaging with other institutions active in export finance, in every relevant forum and in particular the OECD, in order to create a level playing field that takes the climate emergency into account.

The Glasgow Financial Alliance for Net Zero (GFANZ) of 2021. In the run-up to the COP26 in Glasgow, an initiative entitled the Glasgow Financial Alliance for Net Zero (GFANZ)[97] was launched in April 2021[98], in conjunction with the United Nations Race to Zero campaign[99]. Its aim was to expand and coordinate the action of the entire financial system to help meet the Paris Agreement climate neutrality goals. The GFANZ acts as a coordinator, collecting the United Nations' many different sector-based initiatives into a single place[100], from the Collective Commitment to Climate Action (CCCA)[101] and Principles of Responsible Banking (PRB)[102], to the Net-Zero Banking Alliance (NZBA)[103], Net-Zero Asset Managers Initiative (NZAM) [104], Net-Zero Asset Owners Alliance (NZAO)[105] and Net-Zero Insurance Alliance (NZIA)[106].

Signatories of the CCCAs committed to:

- Focusing their efforts where they would have the greatest impact (e.g. initially concentrating their actions on the most carbon-intensive and most vulnerable sectors)
- promoting and supporting clients' climate transition
- cooperating and supporting each other in developing the necessary competences and methodologies for measuring impact and alignment with global and local climate goals

[97] GFANZ numbers 160 financial institutions among its members, grouped into the various initiatives of the UN Race to Zero. See https://unfccc.int/news/new-financial-alliance-for-net-zero-emissions-launches
[98] Organised by Mark Carney, (UN Special Envoy on Climate Action and the UK Government's finance consultant for COP26), Nigel Topping and Gonzalo Muñoz (both High Level Climate Action Champions for COP25 and COP26)
[99] See https://unfccc.int/climate-action/race-to-zero-campaign
[100] *United Nations Environment Programme Finance Initiative* (UNEP FI)
[101] See https://www.unepfi.org/banking/bankingprinciples/initiatives/ccca/. The CCCA signatories do not include any Italian banks or financial institutions.
[102] See https://www.unepfi.org/banking/bankingprinciples/ . Only five Italian banks have adopted the PRB: MPS (Oct. 2020), BPER Banca (Jun. 2021), Fineco (Nov. 2020), Mediobanca (May 2021) and Unicredit (Mar. 2021).
[103] NZBA is an initiative of the UNEP FI and FSTF (Financial Services Task Force) of the Sustainable Markets Initiative (SMI) whose patron is the Prince of Wales (https://www.sustainable-markets.org/taskforces/financial-services-taskforce/). NZBA members include an initial group of 43 of the largest banks in the world, which together hold USD 28.5 tn. in assets See https://www.unepfi.org/net-zero-banking/
[104] NZAM members include 87 international asset managers, which together hold USD 37 tn. in assets. See https://www.netzeroassetmanagers.org/
[105] NZAO has 58 members representing USD 7.4 tn. See https://www.unepfi.org/net-zero-alliance/
[106] NZIA on the other hand is a recently launched initiative that is attracting members from among the world's leading insurance companies. See https://www.unepfi.org/net-zero-insurance/

- engaging with governments and the relevant institutional bodies to develop clear and achievable sector-specific roadmaps in order to meet the Paris climate goals in all relevant sectors and every geographical location
- defining sector-specific and scenario-based targets to align their asset portfolios (within three years of signing the CCCA)
- committing to launching immediate action (within 12 months of joining) both internally and with respect to clients
- committing to reporting on progress (annually as individuals and every two years collectively)

4.2 *A* climate bank checklist

A climate bank[107] is an patient investor of the first instance, which opens up new market spaces also for the private sector. It is an institution[108]:

– that is mission-oriented, i.e. focuses on specific long-term goals, aligned with the country's strategic priorities;
– that adopts investment and project selection criteria and methods consistent with its mission;
– that is focused on the ultimate impacts of its activity.

Specifically:

A) The general aims of a climate bank must be focused on achieving article 2.1(c) of the Paris Agreement[109]:
   - Increasing the impact of finance in the decarbonisation process;
   - Helping strengthen the capacity for resilience of the system;
   - Integrating and developing the prospect of climate change into its policies, methods, process and governance.

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[107] The OECD defines a Green Investment Bank (GIB) *"a public entity established specifically to facilitate private investment into domestic low-carbon, climate-resilient infrastructure through different activities and interventions. Using innovative transaction structures, risk-reduction and transaction-enabling techniques, and local and market expertise, green investment banks are channelling private investment, including from institutional investors, into low-carbon projects".* OECD-Bloomberg Philanthropies, *Green Investment Banks: Policy Perspectives* (December 2015)
[108] E3G, *Green Bank Design Principles* (July 2019)
[109] Article 2.1(c) of the Paris Agreement states that its purpose is to bolster global effors against the threats of climate change *"making finance flows consistent with a pathway towards low greenhouse gas emissions and cliamte-resilient development".* See UNFCCC, *Paris Agreement*, https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/paris_agreement_english_.pdf

B) From an operational viewpoint the road map towards a climate bank must take into account several parameters[110] [111] [112]

- The alignment of its policies with the 2015 Paris Agreement emission reduction targets and international commitments subsequently signed by the Government (G7 and G20);
- The alignment of its project and financing assessment activities with the criteria of the EU Taxonomy and analytical revision of existing support for activities using fossil fuels;
- The adoption of impact assessment processes and methods to measure its physical and transitional climate risk exposure, resilience and ability to adapt as well as that of its counterparties;
- The definition of quantitative targets and deadlines for reducing its financing and/or support for sectors and activities directly and indirectly related to fossil fuels[113];
- The integration of counterparty resilience and mitigation assessment into its sector-based strategies;
- The adoption of methods and processes for tracking and reporting on its lending and investment activities with regard to decarbonisation and climate transition goals;
- The adoption of the best international non-financial reporting standards for its work as a whole.

C) A climate bank must also play an important orientation and support role in the management of the energy and climate transition with respect to its counterparties (particularly public administrations and SMEs) through:

- Financing/co-financing and de-risking instruments (guarantees and counter-guarantees) conditional on the implementation of decarbonisation programmes;

[110] See PCAF, *The Global GHG Accounting and Reporting Standard for the Financial Industry* (November 2020) https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf

[111] See FMO, *Deriving a 1.5° Pathway for a Financial Institution* (November 2019), https://www.fmo.nl/l/en/library/download/urn:uuid:0728adec-a305-40df-b91b-6724e337b03a/methodology+report+final+version+nov+2019.pdf

[112] IIGCC, *Net-Zero Investment Framework 1.5°: Implementation Guide* (2021) (https://www.parisalignedinvestment.org/media/2021/03/PAII-Net-Zero-Investment-Framework_Implementation-Guide.pdf

[113] For example, the World Bank has committed to dedicating 35% of its funding to supporting the reduction of greenhouse gases (GHG) and 50% to providing financial support to adaptation and resilience (WBG, *Climate Change Action Plan 2021-2025*, 2021); the European Investment Bank has committed to providing €1000 bn to supporting investments in climate action and environmental sustainability, to increasing the share of its climate and environmental investments to 50% by 2025 (EIB, *Climate Strategy*, 2020); and the Dutch development bank FMO has committed to allocating 80% of its energy sector loan portfolio to renewable sources (FMO, *Taking Climate Action*, 2021).

– Alignment of counterparties' goals by developing products/services index-linked to the impact of decarbonisation and planned production conversion (e.g. sustainability bonds/loans);
– Capital (e.g. via private/venture capital) and debt support (e.g. green bonds/loans) for technology innovation specifically focused on the green transition;
– Consultancy and technical assistance to its counterparties (businesses and banks) during the project assessment, planning, measurement and monitoring stages (based on the InvestEU Hub model managed in Europe by the EIB).

Progress is working towards the aims of the general goals under A) must be identified and measured based on specific KPIs.
Specific targets and timelines must be set out for implementation of each of the operational tools under B) and each of the activities under C).

4.3 The EIB[114]'s climate bank roadmap

Areas and Tools and Intervention Under the EU Green Deal, the European Investment Bank (EIB) is committed to supporting investments connected with the climate transition and sustainability for an estimates total of €1000 bn. in the 2021-2030 decade, and to increase the percentage of its funding in this area to at least 50% by 2025 (approximately €30 bn a year)[115]. As part of its mission, in November 2020 the EIB developed a detailed roadmap base on the six building blocks of the 2019 Madrid MDP Framework focusing on 11 environmental, energy and climate-related macro areas of intervention, identifying the financial requirements and impacts of each[116].
The proposed initiatives operate in three complementary areas of action: not only investing adequate capital, but also bolstering advisory support and developing specific products..

Provision of advisory services to offer technical and financial skills to counterparties (banks, public administrations, businesses and other MDBs and NPBs) and consolidate the bases of

[114] EIB, *"Climate Bank Roadmap 2021-25"* (November 2020), https://www.eib.org/en/publications/the-eib-group-climate-bank-roadmap
[115] The EIB typically cofinances 50% of projects (with a ratio of 1:1 to private co-financing), but some project finance projects also support much higher leverage (1:3 or 1:5). In addition, technical advisory services to public administrations educating them about bankable projects is a multiplier mobilisation channel. See EIB, *Climate Bank Roadmap* (Nov 2020), p. 11
[116] The EIB's 11 focus areas are: (1) Building greater resilience and adaptability to climate change; (2) Making homes energy-efficient; (3) Promoting clean and renewable energy; (4) Smarter, more sustainable transport; (5) Supporting the industrial sector's transition to decarbonised production processes and a circular economy; (6) Eliminating pollution; (7) Protecting nature and biodiversity; (8) Supporting the transformation of the food supply chain (the Farm to Fork strategy); (9) Encouraging sustainable cities and regions; (10) Greening the financial system; and (11) Leading the green change globally.

the investment for the entire project life-cycle and over a wide range of sectors and, through this, catalyse finance from third-party sources (private and public)[117].

Development of specific financial products to increase the scale of funds to finance projects in the new strategic focus macro areas and fill market gaps or make specific investment initiatives possible by providing additional capital (additionality).

A significant part of EIB initiatives are implemented by means of mandates, or partnerships with institutional third parties (such as the European Commission or NPBs) which commit to co-finance or guarantee projects of common interest. By sharing the risk, mandates increase the capacity for financial intervention, while the provision of specialised advisory services allows input into the quality of the projects. The scope of mandates, in terms of eligibility (by sector, geographical area or means of intervention) is typically decided by the third parties involved[118].

Using these decentralised finance instruments enables the efficient use of public resources (which are scarce and subject to final use restrictions) and, through the involvement of private capital, also generates significant financial leverage[119].

Box 2 – The EIB's Main Green Financial Product Types

The menu of instruments/products activated by the EIB include:

- **Green Bonds**, **Green Loans** and **Green Hybrid Bonds.** These are standardised, transparent debt instruments linked to specific projects and subject to precise certification and monitoring rules. The EIB participates in the Green Bonds market as both an issuer and a subscriber, including through Green Hybrid Bonds (financial instruments that replace existing unconditional loans).
- **Performance-Based Lending.** Credit instruments that are index-linked to project performance indicators and/or to impact indicators (impact investing).
- **Intermediated Lending Products.** Instruments which aim to facilitate access to free investments for SMES, through bank loans funded by (low-cost) EIB direct deposits. Each product (or tranche) is dedicated to specific project aims in line

[117] Examples of EIB project support include: (A) the JASPERS platform (Joint Assistance to Support Projects in European Regions), which offers early-stage project advisory services on decarbonisation and climate resilience. See https://jaspers.eib.org/https://jaspers.eib.org/; (b) the EPEC platform (European PPP Expertise Centre), which provides support to public administrations in the establishment and management of public-private partnerships (PPP). See https://www.eib.org/epec/

[118] Examples of conventions include the External Lending Mandate (ELM) https://www.eib.org/en/projects/regions/eastern-neighbours/instruments/index.htm; European Fund of Strategic Investment (EFSI) https://www.eib.org/en/publications/evaluation-of-the-efsi-2021; Green Climate Fund, https://www.greenclimate.fund/ae/eib; FELICITY, https://www.giz.de/en/worldwide/52753.html . In the new EU long-term budget (MFF 2021-27): the Neighbourhood Development and International Cooperation Instrument (NDICI) fund, https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628251/EPRS_BRI(2018)628251_EN.pdf and the *InvestEU* fund, https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_1045

[119] In the case of the *InvestEU* fund (set aside in the EU multiannual budget) the leverage forecast is 11 times higher.

with the EIB climate and/or energy targets, and financial intermediaries may take advantage of technical support programmes as part of the Climate Action Support Facility (CASF)[120].

- **EIF Intermediated Debt Financing Products.** European Investment Fund (EIF)[121] guarantees and counter-guarantees to banks on funding to PMIs, conditional on projects being in line with EU climate and energy targets.
- **EIF Intermediated Equity Activities.** The European Investment Fund (EIF) may acquire equity investments in private equity funds[122] dedicated to developing sectors of the economy in line with the EIB Roadmap (agritech-foodtech, renewable energies, bioeconomy, environment and natural resources; information and communication technologies; sustainable transport and mobility)
- **Thematic Transactions and Innovation Finance***.* Thematic finance with a high entrepreneurial risk (between the demo and sale phases) in areas of strategic importance but with limited access to ordinary sources of funding, in energy transition[123] and transport[124].
- **Venture Debt**. Long-term financial support (quasi-equity) for innovative green start ups[125]

The Policy of Alignment with the Paris Goals The EIB is committed to making all its financial activities (lending, capital, guarantees, treasury and advisory services) compliant with the goals of the Paris Agreement, in particular point 2.1(c), which commits the signatories to *"making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"*[126]. The alignment process requires:

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[120] The Climate Action Support Facility (CASF) is a technical support programme of the EIB for banks, and is part of the EUropean Union EIAH (European Investment Advisory Hub) programme (https://eiah.eib.org/stories/finance-for-climate-action-in-europe). The programme includes: (a) The development and roll-out of online instruments to support financial intermediaries in origination and assessing project eligibility for the thematic allocation of funding (such as checking tools, e-learning modules, libraries of projects relating to climate action etc.); b) customised assistance for financial intermediaries to develop their internal systems with regard to climate action, lending to support environmental sustainability, risk analysis, monitoring and reporting.

[121] The European Investment Fund (EIF) is a fund to support SMEs managed for the European Union by the EIB (it originally focused on innovation, developing entrepreneurship and growth) See https://www.eif.org/who_we_are/index.htm

[122] Until now the EIF's intermediated equity has focused mainly on supporting innovative technology (through technology transfer at the pre-listing stage) and infrastructure funds.

[123] Such as support for the *InnoFin Energy Demonstration Project* (https://www.eib.org/attachments/thematic/innovfin_energy_demo_projects_en.pdf)

[124] Such as the *Connecting Europe Facility* (CEF) https://www.eib.org/en/products/mandates-partnerships/cef/index.htm

[125] See https://www.eib.org/en/products/equity/venture-debt.htm

[126] See EIB, *Climate Bank Roadmap* (Nov 2020), chapter 4.2, p. 37

- Exclusion criteria for its proprietary portfolio financial investments[127] and credit policy[128];

- Impact analysis of all new projects (from January 2021) and gradual review of all the key sectors. Analysis is carried out not only of the EIB's direct financing activities, but indirect activities as well, and the alignment test does not just extend to individual projects, but to the entire business of individual counterparties.

- Review of the risk assessment criteria and instruments, including assessment of both physical and transitional climate risks[129].

Alignment assessment does not just apply to new projects and advisory services, but must also be gradually phased in for:

(a) Assessment of the entire business of counterparties receiving finance. Regardless of the compliance of the project in question, they could be involved in other business incompatible with the decarbonisation and climate sustainability goals[130]. In this case the decarbonisation plans of the borrower (or parent company/subsidiary) must be included with the application documentation.

(b) Projects indirectly funded by other financial intermediaries (banks, NPBs and investment funds). In this case the financial intermediary is the partner responsible for ensuring compliance with alignment criteria.

Appraisal Tools Projects are appraised as part of standard procedures to check that the expected benefits of each project (including social, environmental and other benefits) are greater than its costs[131]. The criteria of alignment with the Paris goals are taken from the EU Taxonomy (and the wider spectrum of the UN Sustainable Development Goals) and require the identification of sector-relevant decarbonisation pathways expressed in terms of the development of emission intensity over time[132].

One of the most important tools for the appraisal decarbonisation pathways is the shadow cost of carbon, i.e. the technical cost of carbon that incorporates the cost of the economy converging with an emissions level compatible with the goals of keeping temperature below

[127] Alignment of the proprietary portfolio investments takes place on two levels. The first level excludes issuers of conventional bonds by sector (mining, oil and natural gas, steel, cement and civil aviation). The second level selects the best in class, i.e. Only issuers with an environmental sustainability rating in the top 75% (with proportionally larger allocations to the best issuers).
[128] See EIB, *Energy Lending Policy* (November 2019), https://www.eib.org/attachments/strategies/eib_energy_lending_policy_en.pdf
[129] See European Central Bank, *Guide on Climate Related Environmental Risks: Supervisory Expectations on Risk Management and Disclosure* (November 2020)
[130] The EIB is required to publish its Counterparty Alignment Guidelines by the end of 2021
[131] EIB, *The Economic Appraisal of Investment Projects* (March 2013)
[132] For example: GHG/KWh of electricity; GHG per Km per passenger; GHG per tonne of product, etc.

a certain threshold[133]. The shadow cost of carbon is a benchmark that includes all the costs per tonne of CO_2 (ETS prices, carbon tax, the impacts of present and future policies and regulation). It is therefore a broader and more all-encompassing concept than other measurements, such as the social cost of carbon or other common market indicators like the list prices of cap and trade emission certificates (e.g. ETS). The shadow cost of carbon identifies a minimum and maximum corridor of the total costs of decarbonisation which can be used to measure the cost opportunity of a project[134]:

Policies of adaptation and resilience to climate risks are instead analysed using the Climate Risk Assessment (CRA) system as a basis. The purpose is to incorporate the "physical" climate risks into the appraisal of lending operations[135]

Energy Lending Policy[136]**.** In January 2019 the EIB launched a public consultation to review its policy of lending to the energy sector. The document containing the proposed new policy for lending to the energy sector (ELP) took into account the report of the public consultation within the context of the European Union Multiannual Financial Framework negotiations.

Generally speaking, the EIB energy sector lending policy is important for achieving the ambitious goals the EU has set itself for 2030 and beyond, to reduce emissions and achieve long-term carbon neutrality, energy efficiency and use renewable energy[137]. The Bank therefore aims to support Member States' INECPs (Integrated National Energy and Climate Plans) and to fund activities in line with the NDCs (National Domestic Contributions) of third countries (while taking into account the SDGs). As a state-owned Bank, the EIB will prioritise investments that would be unlikely to be made by the markets, directing its efforts towards investments where there is market failure.

In the four key areas identified in its new energy sector lending policy (unblocking energy efficiency, decarbonisation of energy sources, new energy technologies and infrastructures and guaranteeing enabling infrastructure), the EIB aims to achieve the following goals, among others:

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[133] See Quinet Report, *The Value for Climate Action*, France Stratégie (February 2019) and CPLC, *HLCCP Report on Carbon Prices* (March 2017), https://www.carbonpricingleadership.org/report-of-the-highlevel-commission-on-carbon-prices

[134] See EIB, *Energy Lending Policy* (November 2019), Annex 5 pp.40-41.

[135] The CRA system involves two preliminary appraisal levels and more in-depth investigations for projects classified as risky. The first level involves automatic screening and is based on the sector and geographical location of the project. Medium to high-risk projects then undergo detailed analyses to highlight exposure to specific risk factors. Finally, the residual risk of the project is quantified. The process includes assessing the adaptation and resilience measures adopted by the promoter of the project and its ability to take climate risk into account. See https://climate-adapt.eea.europa.eu/knowledge/tools/adaptation-support-tool/step-1-t/ressources/bank-eib

[136] See EIB, *Energy Lending Policy* (November 2019), https://www.eib.org/attachments/strategies/eib_energy_lending_policy_en.pdf

[137] At the end of 2018, the European Commission presented its Clean Planet for All strategic vision for a climate-neutral economy, with the aim of achieving zero emissions in the EU by 2050.

- To launch a new **European Initiative for Building Renovation**, EIB-R), including by exceptionally financing 75% of the allowable capital expenditure;
- To support the market integration of projects for producing electricity from **renewable** sources, including innovative technologies (renewable, nuclear, surplus conversion, bioenergy and CCS), also providing financial advisory services for replicating investment programmes;
- To support new types of **energy infrastructures** making their entry on the market, flexible energy systems to reduce the volatile energy production typical of renewable sources, and production decentralisation and digitalisation;
- To reinforce electricity **distribution networks**, including connecting the network to low-emission gas energy production (to 2021) and the heating network.

The Bank <u>will gradually withdraw its support for activities based on fossil fuel sources</u>, which have been excluded *a priori* from the Bank's Board of Directors since the end of 2020. This includes upstream investments (extraction of gas, oil, coal and peat) for the distribution networks and the energy production plants.

In order to cater to the needs of potentially more vulnerable Member States, the Bank will set up an Energy Transition Package for countries encountering the greatest difficulties in their energy transition, providing more support beyond the energy sector, for economic development and employment.

The Bank adopted a **climate strategy** in 2015, and aims to play a leading role in mobilising the necessary finance for achieving the temperature goals set in the Paris Agreement. The new proposal is in line with this strategy and applies equally to other sectoral policies and the Bank's general requirements, which include the **carbon footprint methodology**, and the **list of activities** that contribute to climate action (which could be revised in line with the ongoing discussions about sustainable finance and the EU regulatory framework).

Each of the four key areas identified for the new energy sector lending policy has an annex to the document containing details of projects that the Bank will finance (and those most in line with the new policy) and the economic criteria applicable, by type of activity. The following is an extract of the projects as listed in the technical annexes, clarifying the activities the EIB will fund under the new policy.

Energy Efficiency

- Renovation projects that improve the energy efficiency of existing buildings;
- For new buildings, those that more than meet the minimum legal requirements, promoting best market practice and contributing to broader public policy objectives like urban redevelopment, education, public research or healthcare services;
- Investments in public lighting, industrial plant and SMEs focused on energy efficiency.

Energy Supply

- Production of electrical and thermal energy from low-carbon energy sources. Production from fossil fuels only permitted is combined with abatement technologies;
- Production of electrical and thermal energy from high-efficiency gas cogeneration plants;
- In the case of nuclear energy, in addition to the production of electricity, the nuclear fuel cycle, decommissioning and waste management;
- Production and storage of gaseous, liquid and solid energy vectors from low-carbon energy sources;
- Supply of critical raw materials (CRM) in the EU for low-carbon technologies.

Innovation and New Types of Energy Infrastructure

- Corporate or national research/development/innovation programmes;
- Demonstration projects and innovative production processes;
- Renewable energies, carbon capture and storage, nuclear fission and fusion;
- Batteries, electric public transport, heating, digitalisation.

Enabling Infrastructure (oil, transport and gas distribution infrastructures not permitted)

- All distribution networks, except for links to coal/lignite production plants;
- District heating and district cooling infrastructures;
- Gas infrastructures, connection with low-carbon gas sources.

Tables showing excluded sectors The financial investment and credit policies also set out some areas that are not supported[138]:

Energy	Coal mining Oil: exploration and production, refining, transmission, distribution and storage Natural gas: exploration and production, liquefaction, regasification, transmission, distribution and storage Coal/peat/oil for industrial use in energy-intensive industries Large-scale heat production based on fossil fuels, with the exception of: o Technologies using electricity, renewable sources of low-carbon fuels and/or combined technology platforms (CCHP and CHP) o Gas boilers and micro CHP for high energy efficiency buildings (A-rated or with ≥ 90% efficiency) o Peak/reserve boilers operating on natural gas (or oil), as a necessary part of a renewable energy plant. o Any boiler operating on natural gas (or oil) when it is a necessary part of a supported industrial activity and meets the energy efficiency coefficients for dedicated heat production (Energy Efficiency Directive 2012/27/EU) o Any non-boiler technology to produce heat using natural gas (or oil) when it is a necessary part of a supported industrial or agricultural activity.

[138] See EIB, *Climate Bank Roadmap* (Nov 2020), Annex 2 pp. 87-94

Industry	<u>EII/ETS Sectors</u> New initiatives (greenfield) or expansions of existing EII production based on high-carbon processes without accompanying abatement technology such as CCS or recourse to renewable energy sources. This category includes: o Primary steel production with conventional coke-based blast furnace (BF/BOF) o Fully fossil-based production of chemicals and plastics o Nitrogen fertiliser synthesis o Production of ordinary Portland cement clinker <u>RDI and associated manufacturing</u> Product dedicated exclusively to the coal, oil and natural gas sectors including transport, exploration, use and storage) Internal combustion engine (ICE) passenger vehicles and dedicated components. Ships and conventional aircraft using carbon-intensive fuels (HFO, MDO, MGO, kerosene, etc.) and dedicated components Fossil-based power generation and dedicated components (e.g. gas turbines)
Transport	Vehicles and infrastructure dedicated to the transport and storage of fossil fuels (dedicated vessels and railcars, coal and oil terminals, LNG break bulk facilities, i.e. port service splitting shipments into smaller parcels Maritime vessels using conventional fossil fuels (HFO, MDO, MGO) Conventionally fuelled aircraft Airport capacity expansion
Buildings	Buildings associated with the extraction, storage, transportation or production of fossil fuels
Bioeconomy	AFOLU/LULUCF investments (soil consumption) and/or other projects that aim to produce or make use of agricultural or forestry products associated with unsustainable expansion of agricultural activity into land that has the status of high carbon stock and high biodiversity areas Biomaterials and biofuel production that make use of raw materials that can serve as food or compromise food security Export-oriented agribusiness models that focus on long-haul air cargo for commercialisation (e.g. intercontinental shipment of fresh, perishable agricultural goods). Meat and dairy industries based on intensive farming systems or that lead to increased GHG emissions.

5 Annex : International best practices

European Multilateral Development Banks (MDBs)

The European promotional bank par excellence is the European Investment Bank, or EIB. The EIB provides finance for projects that help deliver EU goals, both inside and outside the EU. To do this it borrows money on capital markets and lends at favourable terms to projects that support EU objectives. The EIB provides three main types of products and services: lending, 'blending' and advising, and technical assistance.

In the economic crisis caused by the Covid-19 pandemic, under the guidance of the EIB, the Italian NPBs played a crucial role, acting as financial intermediaries, providing specific guarantee programmes to banks, special cash flows and programmes dedicated to acquiring asset-backed securities (ABS) to enable the banks to transfer the risk onto portfolios of loans to small and medium-sized enterprises and therefore mobilise additional support.

Furthermore, together with the EIB, the European Bank for Reconstruction and Development (EBRD) has made considerable progress in climate finance, especially as regards investments in energy efficiency - with the aim of becoming a green bank by 2025 (with at least half of its investments available for investment in the green economy). Through its Green Economy Transition (GET) 2.1, the EBRD is also stepping up work on its green policies to ensure that its 38 emerging economies can effectively reach the climate and environmental goals. As mitigating climate change is a key goal of GET 2.1, the Bank will try to achieve a cumulative reduction in greenhouse gases (GHG) of 25 to 40 million tonnes a year by 2025. Unfortunately, this ambition is not matched when it comes to adaptation to climate change, where the percentage of finance is below 15%.

National Promotional Banks (NPB)

National promotional banks and institutions are legal entities carrying out financial development and promotional activities on a professional basis which are given a mandate by a Member State at central. Regional or local level. Their role is different from that of commercial lenders and other available sources of credit. In general, the fact that NPBs are backed by governments, they provide a higher level of legal security and guarantee, which in turn give investors the necessary confidence to invest and fund the transactions. NPBs aim to support their national or regional government goals by investing in projects, funds and companies. Although NPBs make investments with a commercial interest, they are not in competition with commercial banks, but mainly focus on increasing the volume of investments and on high-risk investments.

National Promotional Banks have a lot of potential in climate finance, and have made considerable progress since the Paris Agreement, in many cases changing their sectoral strategy and revising the climate risk of their investments. Of these, the EIB, renamed the European Climate Bank by the European Commission, has published a roadmap of alignment with the 2021-25 climate policies. In 2020 alone, the EIB disbursed €24.2 bn in the fight against climate change (37% of its total annual portfolio).

Other NPBs that have stood out for their commitment to the fight against climate change include the German state bank Kreditanstalt für Wiederaufbau (or KfW), which in 2019 published an exclusion list139 of projects involved in coal exploration and mining and coal-fired electrical and thermal power stations. Bpifrance, the French state investment bank, has also not supported coal-related projects since 2016. Bpifrance also stands out for having issued a green bond completely aligned with the European Taxonomy in May 2021[140]. The French bank has already announced that its portfolio will be in line with the criteria of the Taxonomy, even if it did not comment on the inclusion of important sectors such as nuclear and aviation. Finally, the United Kingdom recently launched a new NPB, the UK Infrastructure Bank (or UKIB). This will develop its own taxonomy for measuring the sustainability of businesses, after a Green Technical Advisory Group was created in September 2021[141].

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[139] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/Ausschlussliste_EN.pdf?redirect=525312

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[141] https://www.gov.uk/government/publications/independent-expert-group-appointed-to-advise-government-on-standards-for-green-investment

European Investment Bank

EIB			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*EU*	Complete alignment from 2030 based on a 55% reduction in emissions
		Non-EU	Open to interpretation (apart from the energy lending policy which is rigorously applied)
EU Taxonomy Alignment	Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)	*Mitigation*	Full alignment
		Adaptation	Interim definitions until the part on adaptation to the Taxonomy is produced
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	The EIB has systematically screened projects using its climate risk assessment system (CRA) since 2019 The Climate Bank Roadmap has ambitious risk assessment foals to be applied throughout the institution, but the implementation of and compliance with the plans remain to be seen.	
Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	In 2016-18, for each USD 1 the EIB provided to fossil fuels, USD 2.7 went to renewables and USD 1.2 to the energy transmission and distribution networks. This should change in the next few years due to the EIB's new energy lending policy.	
Integration of Climate Mitigation and Resilience into Key Sectoral Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	Climate resilience has been integrated into the water and urban sectors, but progress is needed in the energy and transport sectors. Mitigation is good in the energy and cities sectors, but progress is needed to integrate mitigation in the transport and water sectors.	
International Monitoring of Climate Finance	The use of shared methodologies to trace and report on climate finance investments as set	Yes (to be reported to the OECD and UNFCCC). However, in 2021 BEI will propose migrating to the EU Taxonomy in order to monitor EIB Group climate action and the financing of environmental sustainability.	

	out by the OECD and the UNFCCC.	
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	Yes (E&S for the EIB, ESG for the EIF) revision of the EIB's environmental and social standards, including updating the specific climate standards, will be carried out publicly in 2021 and the new environmental and social policy will be introduced.
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	A review of the EIB's carbon pricing policy is scheduled for 2021 in order to bring it fully in line with the 1.5 degree target.

<u>European Bank for Reconstruction and Development (EBRD)</u> The European Bank for Reconstruction and Development (EBRD) is a financial institution that was founded in 1991. The organisation was set up to help Eastern European and former Soviet Union countries in the transition to democracy by developing free market economies after the end of communism. The EBRD, based in London, has continued its work in around 40 countries from central Europe to central Asia (including 13 EU Member States), mainly investing in banks and private enterprise, including new initiatives and existing companies.

EIB			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*EU*	Dedicated strategies and tools used to manage climate risk at project level. The climate strategy adopts and approach that assesses the client's climate resilience, as well as the project. The Green Economy Transition (GET) 2.1 actively sets out the Paris alignment process for the EBRD with concrete goals and a final date at the beginning of 2023.
		Non-EU	*Ibid.*
EU Taxonomy Alignment	Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)	*Mitigation*	Alignment with the Taxonomy starts with a two-step selection process. Each project involving a substantial contribution to the Taxonomy is considered to be Paris-aligned. After which a specific assessment of the project is carried out, including NDCs and low-carbon pathways.
		Adaptation	Interim methodology
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	The EBRD screens all projects for climate vulnerability. A subset of these are offered financed climate risk assessments if deemed climate-sensitive.	

Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	The EBRD financed fossil fuels from 2016-2018. From 2016 to 2018, for every USD provided for fossil fuels by the EBRD another USD 1.9 went to renewables and USD 0.3 to transmission and distribution (T&D). However, in its 2018 energy sector strategy the EBRD declared that it "will not finance any upstream oil exploration; and not finance upstream oil development projects except in rare and exceptional circumstances where the projects reduce greenhouse gas emissions or flaring".
Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	Clear efforts have been made to steer clients towards climate resilience and beyond, to climate proofing. The EBRD collaborates with the Global Centre of Excellence of Climate Adaptation (GCECA) to reinforce the financial sector's resilience to climate impacts. One of the objectives is to further develop climate risk metrics for investors.
International Monitoring of Climate Finance	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	Monitoring of projects according to the individual country's NDCs and low carbon pathways (LCPs). Reports data to the OECD and in its sustainability report.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	The EBRD has its own ESG standards and reports in line with GRI (Global Reporting Initiative) standards.
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	Prices are in line with the High-Level Commission on Carbon Prices (HLCCP) and are applied to all projects over the emission threshold

__Germania: Kreditanstalt für Wiederaufbau__. KrW is a German bank, founded in 1948 after the Second World War under the Marshall Plan. It is divided into various subsidiaries, including an investment promotion bank - particularly active in promoting energy efficiency investments, a bank for small and medium-sized enterprises, a development bank, and an export finance bank.

<table>
<tr><th colspan="4">KfW</th></tr>
<tr><td rowspan="2">Paris Agreement Alignment</td><td rowspan="2">Alignment of public and private financial flows with the Paris Agreement goals</td><td>EU</td><td rowspan="2">KfW's TranSForm project aims to successfully introduce sectoral guidelines compatible with Paris, starting from high emission intensity sectors.</td></tr>
<tr><td>Non-EU</td></tr>
<tr><td rowspan="2">EU Taxonomy Alignment</td><td rowspan="2">Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)</td><td>Mitigation</td><td>KfW has been closely involved in work flows on the EU Taxonomy and a possible standard for the EU Green Bonds, but it is not yet clear how it will be used by the Bank.</td></tr>
<tr><td>Adaptation</td><td>Ibid.</td></tr>
<tr><td>Climate Risk Assessment, Resilience and Adaptation</td><td>Assessment of the bank/organisation's climate risk</td><td colspan="2">Under the TranSForm project, KfW aims to systematically reinforce ESG risk assessment in risk management and to further expand notification of climate risk.</td></tr>
<tr><td>Fossil to Non-Fossil Energy Finance Ratio</td><td>The ratio between investments in fossil fuels and investments in non-fossil fuels</td><td colspan="2">In 2019 KfW introduced an exclusion list in all of its branches prohibiting financing coal-fired power stations and their associated infrastructure, as well as non-conventional oil exploration and extraction.</td></tr>
<tr><td>Integration of Climate Mitigation and Resilience into Key Sector Strategies</td><td>The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies</td><td colspan="2">Climate integration is part of the sectoral strategies in accordance with the KfW Exclusion List and Sectoral Guidelines.</td></tr>
</table>

International Monitoring of Climate Finance	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	KfW reports separately on its climate risk management in line with TCFD recommendations as part of its KfW Roadmap on Sustainable Finance.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	KfW reports based on its own ESG criteria following the best-in-class approach (investing only in bonds from issuers whose sustainability score is among the top 50% of their sector).
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	No policy in place.

<u>Francia: BPI France.</u> Bpifrance is the French national promotional bank, innovation agency, sovereign fund and export credit agency. It is owned by the French government and Caisse des Dépôts, which have 49% each. Its overarching mission is to promote the financing and development of enterprises operating in France, particularly SMEs.

Bpi France Assurance Export			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*EU/Non-EU*	Complete alignment from 2030 based on a 40% reduction in emissions. However, there is a lack of publicly available documentation on the sectors and projects supported.
EU Taxonomy Alignment EU Taxonomy Alignment	Alignment of activities with the criteria EU Taxonomy for sustainable finance (defined at the level of economic activities) Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)	*Mitigation*	First green bond fully aligned with the EU Taxonomy issued in May 2021. Commitment to alignment with the Taxonomy criteria, but some important sectors for French exports have not yet been revised (nuclear and aeronautical).
		Adaptation	Ad-hoc methodology for transition purposes
Climate Risk Assessment, Resilience and Adaptation	Assessment of the organisation/bank climate change related risk	Commitment (but not complete strategy) to assess the carbon footprint, climate exposure and climate change risks of investments.	
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	Bpifrance has not supported coal-related projects since 2016. In 2018 hydrocarbons and petrochemicals accounted for 13% of projects submitted for impact assessment. At the end of 2018, Bpifrance did not have any financial commitments in fossil fuels (extraction and production).	

Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	The Caisse des Dépôts Group aims to integrate climate risk in its risk management assessment procedures. There is not yet any specific information about Bpifrance's activities.
Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	Bpifrance is committed to supporting and promoting the ACT project by ADEME, the French agency responsible for environmental transition and energy management, and the Carbon Discloaure project. However, Bpifrance does not report on its greenhouse gas emissions.
International Climate Finance Monitoring	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	The export bank does not have its own ESG standards, but it is also committee to carrying out environmental and social impact assessments for the majority of environmentally and socially sensitive projects (in line with IFC environmental and social performances standards).
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	No carbon pricing policy in place.

<u>Regno Unito: UK Infrastructure Bank (UKIB).</u> The new UK Infrastructure Bank (UKIB) is a new bank that was founded in 2021 owned by the British Treasury (although independent from it). UKIB has two main goals: to support the fight against climate change (in particular the net zero emissions by 2050 target), and to promote regional and local economy growth. The bank will have £22 billion in financial capacity to reach its goals, consisting of £12 billion in debt and equity capital, and the ability to issue £10 billion in guarantees.

UK/GIB Infrastructure Bank			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*EU/Non-EU*	One of the Bank's main objectives is to assist in tackling climate change (including achievement of the net zero emissions target by 2050)
EU Taxonomy Alignment	Alignment of activities with the criteria EU Taxonomy for sustainable finance (defined at the level of economic activities)	*Mitigation*	Development of its own green taxonomy defining which activities are environmentally sustainable (creation of the Green Technical Advisory Group which will deliver its initial recommendations in September 2021).
EU Taxonomy Alignment	Alignment of activities with the criteria EU Taxonomy for sustainable finance (defined at the level of economic activities)	*Adaptation*	
Climate Risk Assessment, Resilience and Adaptation	Assessment of the organisation/bank climate change related risk	Introduction of mandatory climate-related financial reporting for the whole UK economy by 2025 with the majority of the requisites applicable by the end of 2023.	
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	Exclusion of fossil fuel use and exploration, large-scale hydroelectricity and vehicles powered by fossil fuels or ethanol combustion.	

Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	n/a
Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	n/a
International Climate Finance Monitoring	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	The Bank has not yet developed an environmental and social governance strategy but is expected to do so.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	n/a

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6 Annex 2 : European *Export Credit Agencies* (ECA)

Francia: Bpi France Assurance Export Bpifrance Assurance Export is a French export credit agency that guarantees financial operations both nationally and abroad. It is governed by the Caisse des Dépôts et Consignations, a French public financial institution with the task of implementing public interest objectives for the state and local communities.

Bpi France Assurance Export			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*Within the EU*	Complete alignment from 2030 based on a 40% reduction in emissions. However, there is a lack of publicly available documentation on the sectors and projects supported.
		Outside the EU	n/a
EU Taxonomy Alignment	Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)	*Mitigation*	First green bond fully aligned with the EU Taxonomy issued in May 2021. Commitment to alignment with the Taxonomy criteria, but some important sectors for French exports have not yet been revised (nuclear and aeronautical).
		Adaptation	Ad-hoc methodology for transition purposes
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	Commitment (but not complete strategy) to assess the carbon footprint, climate exposure and climate change risks of investments.	
Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	Bpifrance Assurance Export has not supported coal-related projects since 2016. In 2018 hydrocarbons and petrochemicals accounted for 13% of projects submitted for impact assessment. At the end of 2018, Bpifrance did not have any financial commitments in fossil fuels (extraction and production).	

Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	The Caisse des Dépôts Group aims to integrate climate risk in its risk management assessment procedures. There is not yet any specific information about Bpifrance's export activities.
International Climate Finance Monitoring	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	Bpifrance Assurance Export's export credit is subject to the OECD Common Approaches and the requirements of the World Bank Group.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	The export bank does not have its own ESG standards, but it is also committee to carrying out environmental and social impact assessments for the majority of environmentally and socially sensitive projects (in line with IFC environmental and social performances standards).
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	n/a

Germania: Euler Hermes Aktiengesellschaft. Euler Hermes is a financial company with the mandate to manage export credit guarantees for the German government. In addition, KfW-IPEX complements the activity of Euler Hermes providing financing both for exports and for investments and projects outside of the EU. Euler Hermes and KfW-IPEX Bank often work together, with IPEX providing financing and preparing the guarantees for Euler Hermes.

Euler Hermes Aktiengesellschaft			
Paris Agreement Alignment	Alignment of public and private financial flows with the Paris Agreement goals	*EU*	Paris Agreement Alignment
		Non-EU	n/a
EU Taxonomy Alignment	Alignment of activities with the criteria EU Taxonomy for sustainable finance (defined at the level of economic activities)	*Mitigation*	EU Taxonomy Alignment
		Adaptation	Incerto
Climate Risk Assessment, Resilience and Adaptation	Assessment of the bank/organisation's climate risk	n/a	
Fossil to Non-Fossil Energy Finance Ratio	The ratio between investments in fossil fuels and investments in non-fossil fuels	No specific political climate-related commitment for fossil fuel divestment (only the application of more rigorous export coal-powered electricity production regulations, following the OECD coal-powered electricity generation sectoral agreement)	
Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	Np specific integration of climate mitigation and resilience policies.	

International Climate Finance Monitoring	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	OECD sectoral agreements, the CCSU and CFSU.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	It has no ESG standards of its own, but follows environmental and social due diligence using the OECD common approaches.
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	There is an incentive system developed for renewable energy projects and the promotion of climate-friendly technology which lists the OECD Climate Change Mitigation and Adaptation e Water Projects Sector Understanding (CCSU) as a guiding principle for granting export guarantees.

Regno Unito: UK Export Finance (UKEF)

UK Export Finance (UKEF), part of the Department for International Trade, provides credit and financial insurance to protect exporters from commercial and political risk. UKEP also offers loans to foreign purchasers of UK goods and services. The majority of UKEF's activities involve underwriting long-term loans to support the sale of capital goods, mainly for the export of infrastructure and aircraft, bridges, machinery and services.

<table>
<tr><th colspan="4">UK Export Finance (UKEF)</th></tr>
<tr><td rowspan="2">Paris Agreement Alignment</td><td rowspan="2">Alignment of public and private financial flows with the Paris Agreement goals</td><td>EU</td><td>No public Paris Agreement alignment strategy, but the UKEF plans to public its first climate strategy in September 2021.</td></tr>
<tr><td>Non-EU</td><td>n/a</td></tr>
<tr><td rowspan="2">EU Taxonomy Alignment</td><td rowspan="2">Alignment of activities with EU Taxonomy criteria for sustainable finance (applicable to economic activities)</td><td>Mitigation</td><td>No specific alignment with the Taxonomy but commitment to bring financial reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). In 2021 UKEF published its first TCFD report.</td></tr>
<tr><td>Adaptation</td><td>Ibid.</td></tr>
<tr><td>Climate Risk Assessment, Resilience and Adaptation</td><td>Assessment of the bank/organisation's climate risk</td><td colspan="2">n/a</td></tr>
<tr><td>Fossil to Non-Fossil Energy Finance Ratio</td><td>The ratio between investments in fossil fuels and investments in non-fossil fuels</td><td colspan="2">From 2013 to 2017, 96% of export transactions in the energy sector went to fossil fuel projects, especially in low-to-average income countries. However, the UK government recommended that UKEF gradually eliminate all support for fossil fuels by the end of 2021.</td></tr>
</table>

Integration of Climate Mitigation and Resilience into Key Sector Strategies	The extent to which climate mitigation and resilience are integrated into the Bank's sectoral strategies	No specific integration of climate mitigation and resilience policies.
International Climate Finance Monitoring	The use of shared methodologies to trace and report on climate finance investments as set out by the OECD and the UNFCCC.	The UKEF applies the OECD Common Approaches and the Equator Principles.
ESG Standards	Use of own environmental, social and governance standards for reporting and the extent to which these are aligned with international standards	It has no ESG standards of its own, but follows environmental and social due diligence using the OECD common approaches.
Carbon Pricing Model	Whether the bank has adopted carbon pricing policies and whether this includes the shadow cost of carbon	There is an incentive system developed for renewable energy projects and the promotion of climate-friendly technology which lists the OECD Climate Change Mitigation and Adaptation e Water Projects Sector Understanding (CCSU) as a guiding principle for granting export guarantees.

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