ECCO

THE ITALIAN CLIMATE CHANGE THINK TANK

THE NATIONAL ENERGY AND CLIMATE PLAN

A plan for action

CROSS-CUTTING DIMENSIONS

Finance and investments

CROSS-CUTTING DIMENSIONS OF THE PLAN

Both the 2019 Plan and the latest 2023 proposal identify a very large number of policies and measures to achieve the objectives, with brief descriptions and few further details. The Plan therefore places the emphasis on **'what'** to do.

As the climate and energy targets become more challenging and lower-cost, higher-impact decarbonization solutions are exhausted, the Plan should increasingly serve as a **place of synthesis** of various dimensions and provide a strategic framework for **'how'** to implement policies. Which policies and what are the elements needed to achieve the transition? From identifying objectives and proposals on paper, moving on to the implementation phase is anything but trivial. With this in mind, those that are often dismissed as 'ancillary' dimensions of climate and energy policies become central. How to effectively involve the territories and all the actors that should be involved (*governance*)? How to finance the transition? How to assess and govern the socio-economic impacts of the proposed measures to maximise the benefits and minimise the risks of the transition (social dimension)?

The tables of the NECP (National Energy and Climate Plan) should always include explanations of the elements necessary for their implementation, in addition to listing the measures. Without these elements, the Plan will inevitably suffer of an implementation gap which cannot be addressed solely with contingent measures. Such measures, by their nature, are non-organic and emergency-based, and therefore ineffective.

Integrating cross-cutting dimensions with sectoral policies can enable:

1. to **prioritise** actions with respect to effectiveness criteria (e.g. effectiveness towards the objectives of the Plan, effectiveness of public spending, etc.)
2. to clearly identify, alongside the **objectives,** the **strategy** to achieve them.
3. to **reduce** the risk of **inconsistency** within the overall framework in relation to individual measures.

These cross-cutting dimensions are described below, i.e. the financing strategy, the assessment and socio-economic impacts, and the dimension on which all these elements should be based in order to be effective, meaning the governance of the Plan.

FINANCE AND INVESTMENTS IN THE PLAN

The NECP estimates the amount of investment needed to achieve the decarbonisation targets at € 830 billion cumulatively, between 2023 and 2030 (i.e. € 119 billion on average per year). This value, although underestimated compared to the estimate developed by ECCO, confirms the extraordinary importance of the financial effort necessary for Italy to achieve the decarbonisation objectives defined at European level. This means that approximately 25% to 30% of the national overall investments, totaling around € 400 billion/year[1] should be redirected towards transition. It should be

[1] ISTAT 2022 data, National Accounts

noted that this this total value fails to adequately consider the socio-economic dimension of the Plan and its implications (see also the chapter about the socio-economic dimension of the Plan).

It's clear that this significant economic and financial commitment cannot solely rely on public resources from the NRRP (National Recovery and Resilience Plan) and REPowerEU[2]. **Therefore, any strategy for the transitioning of the economy cannot exclude a concrete and independent financial strategy acting as a lever within an enabling regulatory environment that allows the achievement of European objectives[3].**

In addition to the overarching financial strategy, it is crucial to adopt a detailed approach, **delving into specific financial instruments suitable for supporting each individual policy and measure.**

This strategy should be integrated in the NECP itself and must be meticulously structured with a high level of specificity for each identified measure and policy outlined in the Plan. This involves establishing a well-structured *governance*, creating a coherent and supportive legislative framework, clearly defining roles and responsibilities, as well as primary and secondary funding sources.

Outlined below are the main public and private finance policies that could serve as the foundation for developing a strategy to facilitate the financing of the transition and the NECP measures.

The Role of Public Finance and National Promotional Banks[4]

The public sector plays a pivotal role, mainly through direct investments in enabling infrastructures, in supporting innovation, as well as through tax and financial incentives that crowd-in private investments toward the desired direction.

Private finance has traditionally been driven solely by the principles of risk and return, which often do not naturally incentivize the advancement of decarbonization within the country's system and the attainment of European climate objectives. Consequently, public finance should step in to bridge this gap between public objectives and private financial incentives. This can be achieved through two main instruments: **guarantees and tax incentives.** Guarantees can reduce risk for private investors interested in *green* projects (consequently reducing interest rates), while tax incentives (e.g. tax credits, tax breaks on returns) can make investments in activities with low environmental impact more attractive.

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[2] The Italian government has recently updated and amended the National Recovery and Resilience Plan (NRRP) to incorporate the new objectives arising from REPowerEU: the total funds of the plan are equal to € 194.86bn. The additional chapter, stemming from REPowerEU, has a budget of € 19.2 billion. The resources for this chapter come from the reallocation of funds from other measures of the plan totaling € 15.9 billion and additional EU resources. Specifically, out of the approximately €5 billion additional funds from REPowerEU, €2.7 billion are non-repayable grants, €3 billion come from Cohesion Funds, and €0.15 billion stem from changes in GDP. Analyzing individual expenditure items reveals an increase in green spending within the PNRR (primarily Missions 2 and 3), rising from 16% in 2021 to 22% in 2023. It is estimated that 70% of the new funds will have a highly positive climate impact, while 50% of the defunded projects would have had marginal mitigation effects. Cf. "A Year of REpowerEU: Effects on the Italian NRRP" ECCO (September 2023)

[3] ECCO Policy Brief, "Quale strategia finanziaria per la transizione climatica in Italia?" (21/9/2023), https://eccoclimate.org/it/quale-strategia-finanziaria-per-la-transizione-climatica-in-italia/

[4] See also "Il ruolo delle banche del clima nella strategia del Green Deal europeo" (November 2021), https://eccoclimate.org/wp-content/uploads/2021/12/Il-ruolo-delle-banche-del-clima_Rapporto.pdf

To speed up the process of re-directing investments toward the objectives of the NECP, tax incentives and guarantees must be carefully developed and integrated into well-defined policies for each financial instrument. These policies should favor the use of green financial instruments, incentivising private finance to align with the public sector direction, i.e. decarbonisation.

In fact, it is possible to envision **the implementation of a tailored tax incentive system linked to certain instruments already established in our legal framework**[5], provided that they finance investments in sectors and/or projects aimed at the energy and ecological transition: for example, the reduction of withholding tax on Green bonds, Minibonds, Basket bonds, Individual Savings Plans (PIR), European Long-Term Investment Funds (ELTIF), Sustainability-Linked Bonds, Sustainability-Linked Loans, Energy Efficiency Mortgages, securitisations, etc.
In this context, the official designation of Climate Banks to Italian NPBs (National Promotional Banks) and ECAs (Export Credit Agencies) like CDP, SACE, Invitalia, plays a pivotal role in the financial strategy of the NECP. Through their primary activities (granting guarantees, direct financing, loans, equity, etc.) and supported, as mentioned, by a coherent regulatory incentive framework, they would be able to effectively channeling financial resources towards the achievement of the objectives of the European Union.

The activities of the Italian NPBs must therefore be officially conditioned to the pursuit of the national and European climate targets:

- ***Mission-oriented*:** SACE, CDP and Invitalia should adopt a perspective focused on pursuing clearly defined long-term climate objectives clearly that align with Italy's and Europe's strategic priorities. This approach is essential for effectively addressing climate challenges and supporting the transition.
- **Sustainability Criteria:** NPBs should adopt criteria and methods for selecting investments and projects that are consistent with this climate mission, i.e. consistent with the decarbonisation strategy of the NECP. These criteria may include instruments of environmental sustainability, the impact on climate change, and the promotion of low-carbon technologies and practices. It should be a key element in the evaluation of any proposal or investment.
- **Impact assessment:** Institutions should focus on the ultimate impacts of their activities. This entails assessing not only the financial aspects of their exposures but also the environmental (and social) impacts. The effectiveness of initiatives should be measured not only in terms of financial returns but also in terms of greenhouse gas emissions reduction, promotion of renewable energies, industrial efficiency improvements, etc.

A valuable regulatory perimeter for outlining the prerequisites necessary for Italian NBPs to become the focal point of the NECP's financial strategy can be drawn from the technical experience gained during the efforts to combat the economic and financial impacts of the pandemic crisis:
D.L. "Liquidità" no.23/2020 and D.L. "Semplificazioni" n.76/2020 for SACE and MCC public guarantees; D.L. "Rilancio" no. 24/2020 and D.L. no. 26/2021 for the "Patrimonio Destinato" entrusted to CDP[6].

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[5] See ECCO, "Mappatura degli strumenti finanziari per la transizione green" (October 2023).

[6] See ECCO, "Cassa Depositi e Prestiti: National Promotional Bank del Clima?" (January 2022), https://eccoclimate.org/wp-content/uploads/2022/01/CDP_20220110.pdf ; ECCO, "SACE: Export Credit Agency of the Climate?" (January 2022), https://eccoclimate.org/wp-content/uploads/2022/01/SACE20220110.pdf ; ECCO, "Invitalia-MCC: Regional Development Financial Institutions of Climate?" (January 2022), https://eccoclimate.org/wp-content /uploads/2022/01/SACE_20220110.pdf

Given this conditionality, the formal recognition of the role of Italian NPBs (National Promotional Banks) and ECAs (Export Credit Agencies) as Climate Banks offers numerous and diverse benefits:

- **reducing the cost of capital for private investors through guarantees and risk-sharing**
- pursue **long-term investment strategies** through a variety of financial instruments, along side guarantees (*investment platforms*, *European Long-Term Investment Funds*, equity investments or guarantees on the securitisation of loans to businesses)
- **enhance the "leverage" effect** by implementing a cumulative multiplication process onto the resources distributed by different European funds, not only direct sources from EU funds or through EIB, but also indirectly, through the guarantees that each individual State can grant to NPBs (*national cofinancing*)
- **ensure that funding is tied** to the pursuit of specific objectives and monitor the progress of the financed projects
- **focus investments** towards initiatives that the market would typically overlook (such as financing of SMEs (Small and Medium Enterprises), thereby stimulating positive emulation by private capital
- **provide assistance** to beneficiaries during both the preliminary phases of the projects and subsequent implementation stages.

Directing private financial resources

The European Commission has already developed Directives, Regulations and voluntary tools to improve (at European level) the reporting of ESG (Environmental, Social and Governance) data, establishing common criteria and aiming for an adequate granularity of data and information. Starting from the assumption that exhaustive information is needed on the actual compliance of investments with sustainability criteria, theultimate goal of this "regulatory package" is the reorientation of private financial flows towards technologies, processes, and activities aimed at decarbonisation. **It is therefore necessary for the NECP to be consistent with the European strategy, acknowledging these instruments, both mandatory and voluntary, as tools to support financial market players to mobilising and guiding private investment towards the *net-zero objectives* by 2050.**

Indeed, to facilitate the shift of private portfolios towards sustainable finance, the EU *Green Deal*[7] strategy defines three main objectives: (1) to redirect capital flows towards a more sustainable economy; (2) promote transparency and long-term vision; (3) foster a broad adoption of sustainability criteria in the investment and risk management practices of intermediaries.

Some of the Directives and Regulations of particular interest include: **CSRD[8]** (Corporate Sustainability Reporting Directive - a new European Directive aimed at reporting ESG information of companies, which significantly broadens the scope of application compared to the current Non-Financial Reporting Directive (NFRD), encompassing a wider range of companies required to disclose their

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[7] 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://finance.ec.europa.eu/publications/strategy-financing-transition-sustainable-economy_en

[8] Corporate Sustainability Reporting Directive - Directive (EU) 2022/2464

non-financial information); the **EU Taxonomy** Regulation[9] (a regulation aimed at classifying economic activities with sustainability criteria for each specific sectors); **SFDR[10]** (Sustainability Finance Disclosure Regulation requiring financial market participants, such as asset managers and insurance companies, to report ESG risks and impacts at entity and product levels) and **CSDDD[11]** (Corporate Sustainability Due Diligence Directive – a not yet in force Directive which mandates European companies to adopt due diligence procedures aimed at promoting sustainable business practices that prioritize environmental protection and human rights across their entire value chain.

To guide the development of a financial strategy aligned with European objectives, the NECP should:

a) **Adopt the objectives set out in the European *frameworks* and regulations, creating coherence between national and European policies.** For example, the EU Taxonomy defines criteria for assessing the sustainability level of an economic activity, providing investors clear guidance on which projects and activities to support to contribute to net zero emission targets. The EU Taxonomy acknowledges that transitioning to a sustainable economy requires allocating financial resources for both initial investments (CapEx - as the creation of low-carbon infrastructure), and operating costs (OpEX - as maintaining and operating this infrastructure), requiring reporting of both associated KPIs: the percentage of CapEX and OpEX aligned with EU Taxonomy targets. Consequently, the NECP's financial strategy **must consider financing both CapEx and OpEX** associated with the transition to a low-carbon economy. Integrating this perspective into the NECP's financial strategy enables a more accurate assessment of the financial needs linked to the transition and ensures an appropriate resource allocation. Reporting both CapEX and OpEX facilitates also monitoring and evaluating the efficacy of investments in achieving net zero emission targets. Furthermore, it aids in comprehending the long-term costs of decarbonization, allowing for more accurate planning of sustainability initiative financing.
b) **explicitly recognize and encourage the adoption of tools such as the Science-Based Targets** (SBTs)[12], **the TPT Disclosure Framework** (*Transition Plan Taskforce*)[13], **the TCFD (Ta*sk Force on Climate-related Financial Disclosure*)[14]** and the **Green Bond Standard[15].** These tools, currently voluntary but internationally recognized, can guide companies, investors and NPBs towards effective decarbonization investments. The National Plan should mandate to all market actors (including companies and the financial entities) to disclose information related to transition plans based on reliable criteria such as those defined by the SBT[16] and the TPT. These plans could be audited by an independent third party and include commitments from investors and boards of directors to facilitate emission reduction strategies. They could also be used by investors, as well as NPBs, as criteria for the preliminary assessment of a *"green"* investment. Similarly, the NECP could require companies, investors and NPBs to report in accordance with the *TCFD Framework*, i.e. **disclosing information on the assessment and management of climate risks and opportunities, such as 1) efficiency and cost reduction, 2) enhanced competitiveness through**

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[9] Regulation (EU) 2020/852
[10] Sustainability Finance Disclosure Regulation – Regulation (EU) 2019/2088
[11] Corporate Sustainability Due Diligence Directive (amendment to Directive (EU) 2019/1937)
[12] https://sciencebasedtargets.org/
[13] https://transitiontaskforce.net/disclosure-framework/
[14] https://www.fsb-tcfd.org/
[15] https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard_en
[16] Targets are considered "science-based" if they are in line with the goals of the Paris Climate Agreement, which are to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit warming to 1.5 degrees.

exploring new markets and products, 3) improved stakeholder engagement (including investors, employees, and customers) facilitated by transition policies. This approach would incentives private investments in sectors and projects that exhibit improved management of climate risks and greater resilience to environmental challenges.[17] Ultimately, **incorporating the European Green Bond Standard into the NECP as an official instrument for green bond issuance** and, consequently, for defining the essential criteria for labeling a project as "green," would guarantee that financing is directed towards technologies that play a significant role in the country's decarbonization efforts, without compromising efforts to effectively address climate change (i.e. avoid the "*green washing*").

c) The TESG on SME (Technical Expert Stakeholder Group on Small and Medium Enterprises) has underlined[18] the need for European and national policies to support and collaborate with European small and medium enterprises in the communication of ESG information aimed at addressing and mobilising financial resources. This need is particularly relevant if we refer to the Italian landscape, characterized by a high number of micro and **SMEs** that represent 57% of the added value generated[19]. It is therefore relevant that the National Plan remains aligned, once again, with European directives and takes into account the significant presence of SMEs in the Italian industrial market. Developing a financial strategy that considers the specificities and needs of these enterprises is crucial. This may involve **establishing financial incentives, facilitating access to funding for sustainable projects, and promoting partnerships between SMEs and financial sector actors. Alternatively, a support program could be established to offer resources, reporting models, and training to help SMEs understand requirements and adopt sustainable practices.**

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[17] For example, the Bank of England and the UK Government believe that climate financial disclosures are key to enabling consumers, businesses, financial firms, investors, policymakers and other stakeholders to make informed decisions. Such reporting is important not only for transparency and risk management, but also as a way to enable the flow of capital towards investments consistent with an orderly transition to net-zero emissions.

[18] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions empty - Strategy for Financing the Transition to a Sustainable Economy, 2021

[19] ISTAT data 2019 Industry in the strict sense

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