

CLIMATE REPORT 2017

PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and CO₂ emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

ITALY

Italy has become a pioneer in terms of environmental protection and sustainability during the last years. Almost 50 percent of Italian companies have adopted advanced environmental standards and the Green Act, launched in 2015, is a concrete approach for the funding of development measures. Yet the only thing that could become a hindrance is the size of the financial players, so the investments needed for sustainable development can thus become a challenge.



The glazing of the railway station Porta Susa Torino is equipped with mono-crystalline photovoltaic cells. Besides generating electricity, they also act as a sun shield. Source: © Dario Egidi, iStockPhoto

THE IMPORTANCE OF PRIVATE SECTOR CLIMATE FINANCE IN ITALY

One of the national studies conducted within the United Nations Environment Programme's (UNEP) initiative Inquiry into the Design of a Sustainable Financial System was that by the "Italy's National Dialogue for Sustainable Finance", launched in February 2016 and concluded a year later. The final report "Financing the Future" has been released by Italy's Ministry of Environment, Land and Sea (MATTM) and the UNEP, with the contribution of over 100 experts from the banking, insurance, and capital markets sectors, and financial regulators, academics, and civil society. According to the report, "Italy faces a strategic opportunity to align its financial system with sustainable development. [...] This can contribute to wider financial stability and long-term economic recovery" (UNEP, 2017).

The stakeholders from the private sector involved in the green financial reform in Italy are banks, institutional investors, private equity, and capital markets, although a crucial role is played by the corporate sector. In Italy, this sector is characterised by a vast prevalence of small and medium-sized enterprises (SMEs), consisting to a disproportionate extent of small companies in terms of number (99.9 percent of the total, out of which 95 percent has fewer than 10 employees). Most Italian companies (42 percent according to OECD data) are oriented towards green production and services, or have adopted advanced environmental standards in production processes or product design. The most important drivers of climate-friendly investments by the Italian business sector are both reputational and economic. The need to enhance competitiveness, both on internal and external markets, by raising the quality of products and productive models has been driven by the awareness of environmental degradation and climate change impacts caused by a business-as-usual economic system. Despite the financial crisis, between 2007 and 2014, the number of Italian companies with Environmental Management System (EMAS) registration

rose by 74 percent. On the other hand, the transition towards a sustainable energy system has been mainly driven by the impact of policies and investments aimed at climate change mitigation. For instance, the Italian feed-in tariff scheme granting incentives over a period of 20 years for electricity generated by solar PV plants connected to the grid, known as "Conto Energia", was first introduced in 2005 and has been amended five times. Feed-in tariffs have also been granted to electricity from wind and other sources.

Other important private sector actors in Italy are banks and insurance companies. The Italian financial system is bank-centric: fewer than 16 percent of financial intermediaries in 2010 were independent from banking groups. In global terms, Italy's banks are relatively small: the biggest Italian bank ranks 28th in the world (UniCredit) whereas the biggest insurance company ranks eighth (Generali). The relatively small size of the financial players makes the investment needed for sustainable development a challenge. Italy's banks lent 27 billion euros between 2007 and 2014 for renewable energy, and over 22 percent of Italy's insurance market is covered by companies that have signed the UN Principles for Sustainable Insurance.

CONCRETE INITIATIVES

One of the most important initiatives undertaken in Italy is the Green Act launched in January 2015. This is still under discussion, although it is expected to be adopted by the end of 2017. The Green Act is a law on the efficient use of resources, protection of natural ecosystems and financing for development that is aimed at structuring a national sustainable finance strategy. Other than the Green Act, it is worth mentioning the Non-Financial Reporting EU Directive 2014/95/EU and its transposition in Italy by Legislative Decree 254/2016. Companies listed on regulated markets, banks, and large insurance and reinsurance companies are required to prepare, on an annual basis, a Non-Financial Statement that must include

**SOLAR PV GLOBAL CAPACITY
AND ADDITIONS (TOP COUNTRIES IN 2016)**

| Ranking by Additions | Added 2016 (GW) | Total End 2016 (GW) |
|----------------------------------|------------------------|----------------------------|
| China | 34.5 | 77.4 |
| USA | 14.8 | 40.9 |
| Japan | 8.6 | 42.8 |
| India | 4.1 | 9.1 |
| Great Britain | 2.0 | 11.7 |
| Germany | 1.5 | 41.3 |
| South Korea | 0.9 | 4.4 |
| Australia | 0.9 | 5.8 |
| Ranking by Total Capacity | | |
| China | 34.5 | 77.4 |
| Japan | 8.6 | 42.8 |
| Germany | 1.5 | 41.3 |
| USA | 14.8 | 40.9 |
| Italy | 0.4 | 19.3 |
| Great Britain | 2.0 | 11.7 |
| India | 4.1 | 9.1 |
| France | 0.6 | 7.1 |
| Australia | 0.9 | 5.8 |
| World Total | 75 | 303 |

Source: REN21 2017

information related to the use of energy resources (renewable vs. non-renewable energy), water use, greenhouse gas emissions and air pollution, and the environmental impact of the principal risks linked to the company's operations.

Another important initiative is the one undertaken in 2015 by the Italian Parliament in which the government was asked to start a profound renewal of the 2002 National Strategy for Sustainable Development, by means of Law 221/2015. Article 68 sets up a national catalogue on environmentally harmful subsidies. Connected to the topic of subsidies, the Italian Ministry for Economic Development created a study committee to introduce some green reform in the fiscal policy. This could be a driver for SMEs to invest in more sustainable business models and management systems, and to progressively remove the environmentally harmful subsidies (estimated about three trillion euros).

In Italy there is strong engagement by civil society for sustainable development and special mention is deserved by the Italian Alliance for Sustainable Development (ASviS), established in 2016 and gathering over 160 Italian civil society institutions with the aim of mobilising Italian society on the Sustainable Development Goals. The report issued by ASviS in 2016 on the situation in Italy, with respect to the wide range of economic, social, environmental and institutional objectives contained in the 2030 Agenda, puts forward several proposals for placing this commitment at the centre of debate for the entire country, and for contributing to the new Italian Strategy for Sustainable Development that is today under study at government level.

From the research standpoint, *Fondazione Eni Enrico Mattei* (FEEM) has been conducting the project Disclosure, Measurement, Management and Mitigation of Climate Related Risks for Companies (De Risk-CO) aimed at stimulating a scientifically sound public debate on the risks associated with climate change for Italian firms. The research results will be the subject of a final workshop which will discuss the ways in which scientific knowledge can support improvement in the capability of firms to manage climate-related risks, and of the FEEM publication *Rischi climatici: mitigazione e disclosure nelle imprese italiane*.

THE POTENTIAL OF TRANSNATIONAL FORA

As part of China's G20 presidency in 2016, a Green Finance Study Group (GFSG) co-chaired by China and the UK was established to develop options on how "to enhance the ability of the financial system to mobilise private capital for green investment" (G20, 2016). The fact that Germany announced that it will continue the work of the GFSG during its presidency of the G20 in 2017 was perceived very positively by the Italian financial community. However, in Italy, the green finance theme is relevant not only in the framework of the G20 but especially within the current Italian G7 presidency, where the role of financial institutions in sustainability and the role of SMEs in the implementation of the 2030 Agenda will be investigated.

In 2014, a G7 Energy Ministerial Meeting held in Rome ended with a joint statement in which it was agreed to work with institutions such as the International Energy Agency (IEA), the International Renewable Energy Agency (IRENA) and international financial institutions for leveraging the private sector finance to develop renewable energies and improve energy efficiency. The importance of multilateral development banks in the facilitation of quality energy investments was reiterated at the G7 Energy held in Kitakyushu (Japan) in 2016 and is acknowledged by Italian financial actors.

In conclusion, the debate around green finance and the role of the private sector is very active in Italy, both at the state level and among the financial actors, civil society and research centres. In light of the limited public financial budgets, mobilising private capital is key. A clear regulatory context, streamlined administrative procedures, and a stable long-term policy

strategy would give investors a positive sign about the future for their returns on investments, limiting policy and regulatory risk. Public-Private Partnership agreements should be highly encouraged because they would provide important private capital investment, the necessary public guarantees, private sector technological innovation, and management expertise in project financing. Finally, the Green Act could offer a new window of opportunity for shifting the tax burden from companies and labour to pollution and resource depletion.

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FURTHER READING

- ASviS 2016: *Italy and the Sustainable Development Goals*, ASviS Report.
- Italian Ministry of the Environment and Protection of Land and Sea (MATTM)/United Nations Environment Programme (UNEP) 2017: *Financing the Future, Report of the Italian National Dialogue on Sustainable Finance*, in: <http://bit.ly/2u958JH> [6 Jul 2017].
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- Pareglio, Stefano (ed.) 2017: *Rischi climatici: mitigazione e disclosure nelle imprese italiane*, FEEM, Collana Percorsi, in: <http://bit.ly/2tzclX> [10 Jul 2017].
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- Virdis, Maria Rosa et al. 2015: *Pathways to Deep Decarbonization in Italy*, Sustainable Development Solutions Network (SDSN/Institute for Sustainable Development and International Relations (IDDRI), in: <http://bit.ly/2v3kXhu> [6 Jul 2017].