Conclusioni

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Conclusions

Starting from the studies presented by the authors of the Report, in this last chapter we try to outline the pillars of a financial system model able to face the current challenges and seize all the opportunities provided at national and European level to lead the territories towards sustainable development paths.

Of course, it is difficult to convey all the ideas and considerations arisen throughout the Report; therefore, in the following pages, we just highlight the most important features for the aims previously explained, referring to the various chapters for an in-depth study.

A special thanks to all the authors for their contributions in suggesting ideas to develop a sustainable and subsidiary financial model that we define as follow.

Financial system, subsidiarity, and sustainable development

Despite being conceived before the pandemic, this Report provides some considerable suggestions to face new economic and financial scenarios that may take place. It has been developed to analyse how the financial system might contribute to the common good and which is its relation with the Sustainable Development Goals and then it also became a chance to fulfil this aim in a new and unpredictable context.

The authors answer to these questions examining the current trends within the financial system, that is analysing the role that the different actors of this system may play and introducing examples of projects and organisations implemented to reach the common good.

The first fundamental feature that emerges from the Report is the importance of finance and of private financial resources to encourage the transition towards a more resilient, inclusive and green European economy.

The second element refers to the nature of an appropriate financial system. The Report reveals that this system is characterised by an intrinsic pluralism and diversity of actors, who contribute to the common good and the Sustainable Development Goals, adopting an appropriate subsidiary approach. In this respect, the Italian case studies (Intesa Sanpaolo, Arpinge, Fondazione Cariplo, Fondazione Sviluppo e Crescita CRT, Sefea Impact Sgr and Cassa Depositi e Prestiti) presented in the second part of the Report are paradigmatic. The authors of such studies share the answer to how the financial system can contribute to the common good and sustainable development, but they highlight different enabling conditions that should encourage the transition towards a sustainable financial system or the implementation of diverse, subsidiary and sustainable financing model. These conditions are complementary but share a raising need for a better educational and formative path. Some important conditions follow.

Brugnoli and Matraia underline the role of information, project pipelines and public procedures that guarantee sustainable investments. Moreover, according to the authors, a concerted effort by public and private actors of the financial system is necessary at all territorial levels. At the end of this contribution, the different measures identified at national level to promote the transition towards a sustainable financial system are explained.

According to Erzegovesi, the concrete attempts made to apply the established principles to the real world, through projects, organisations and associations represent the fundamental issue. Moreover, since the bias of the financial system are challenging for a sustainable finance, the author thinks that it is necessary to prevent abuses and preserve the competitive conditions on the market in order to promote forms of intermediation for public purposes that represent appropriate answers to behaviours which produce negative effects.

Amelio, Romeo and Milici state that the path towards a finance oriented to the common good requires a global intervention in all economic and industrial sectors that lead to fast and far-sighted actions. The authors show the importance of the disclosure and scenario analysis and their contribution to sustainable finance. Dealing with the issue of climate change, in particular, the authors believe that public and private organisations should adopt a new approach, based on pragmatism and innovation, which enables to switch from a carbon-footprint (ex-post) assessment to a measurement of the carbon-risk (ex-ante) investments.

Broccardo and Mazzucca introduce the international background of impact investing and highlight some challenges that should be faced to encourage the use of this instrument and ensure a growing tendency towards measurable-impact projects. The authors, in particular, assign a key role to governments that should provide financial incentives, such as tax benefits to companies able to produce positive impacts, and develop clear regulatory frameworks and tailor-made policies to promote impact investing, also in the light of what have already been done by other European Countries.

The chapter related to the new EU instruments for sustainable investments also outlines how public financial players, especially EIB and CDP in the Italian context, contribute to the Sustainable Development Goals. Boffo and Ciferri analyse the nature of these public institutions that actually operate like private markets, and identify the strengthening of the subsidiary culture as the main condition which enables sustainable finance, since it ensures a better and deeper capacity to intervene in the entrepreneurial system and on the territory. The peculiar CDP shareholder structure, composed of government and bank foundations, is the concretisation of a public-private partnership in which the maximisation of the shareholders' value corresponds to the maximisation of the community's value.

Eventually, Morganti shows how the greater bank groups contribute to implement impact investing and which rules should be adopted. According to the author, "if credit is light, it is not interested in watt and lumen; it marks with a "plus" each dark room it lights, enabling someone to see, to be a citizen".

Then, he identifies three rules that contribute to the common good, through the financial system: generativity, regulation of sources and sustainability. Generativity refers to a transformative action oriented towards the common good, which use standard banking products and services to show that it is possible to affect the way of banking. The regulation of sources refers to the fact that the financial system has not to make donations, since it is typical of other actors. In the end, sustainability means that the supported initiative must produce both economic and social benefits by a long but pre-set time.

Covid-19 pandemic, financial system and sustainable finance

The Covid-19 pandemic has suddenly and deeply changed our way of living and working, putting a strain on the social and economic organisation and stability. Everyone is called to sacrifice their freedoms in favour of the common good.

A public health problem has rapidly turned into an economic crisis. Draghi, former president of the ECB, defined the pandemic as "a human tragedy of potentially biblical proportions"[295]; Von der Leyen, president of the European Commission what we are experiencing is an "urgent and exceptional crisis"[296].

In Italy, for several weeks, the suspension of production activities has affected different sectors that represent the 30% of the nation-

295 See Mario Draghi, *We face a war against coronavirus and must mobilise accordingly*, in *Financial Times*, 25th March 2020, https://www.ft.com/content/c6d2de3a-6ec5-11ea-89df-41bea055720b.

296 See Speech by President von der Leyen at the European Parliament Plenary on the EU Recovery package,
https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_941

al value added and the 30% of total employment, according to the Bank of Italy[297] data. The immediate effects have been considerable especially for the transport and hospitality sectors, leisure and cultural activities, personal service activities and trade. On the basis of different potential scenarios, the Bank of Italy estimates that the fall in production activities in 2020 may be between 9% and 13%.

The debate on the effects and necessary solutions to overcome the consequences of the Covid-19 pandemic has been launched at European level by Draghi who, during his latest interview[298] to the Financial Times, wondered about how "to act with sufficient strength and speed to prevent the recession from morphing into a prolonged depression". Answering to this question, Draghi thought that an immediate liquidity support was essential through the only possible and efficient way to reach every crack of the economy and avoid red tape, that is mobilising the whole financial system. Moreover, according to Draghi, the capital required to ensure such liquidity must be provided by public balance sheets in the form of government guarantees on loans and additional overdrafts, transforming the financial system into a driver of interventions of general economic interest.

The Italian government, like other European Countries, has implemented different measures to support the liquidity of SMEs and larger companies and to preserve the Italian social and productive fabric. 500 billion of public guarantees have been activated in order to facilitate the access to credit, and measures to favour the companies' capital strengthening has been adopted, in order to avoid an unbalanced financial structure[299]. As reminded by Erzegovesi, governments have called upon banks to convey unconditional aids to families and companies through the credit. They appeal to the banks of all categories, starting from shareholder-oriented banks, but actually limiting the subsidiary initiatives promoted by stakeholder-oriented banks.

297 See The Governor's Concluding Remarks, Bank of Italy, 29th May 2020, https://www.bancaditalia.it/pubblicazioni/interventi-governatore/integov2020/en-cf_2019.pdf?language_id=1
298 Cf note 3.
299 Cf note 5.

Changing perspective and wondering what we should expect in the future, both in the mid and long term, we all agree that the economic shock caused by the Covid-19 pandemic has brought extreme uncertainty and so it has made difficult to determine the new post-crisis scenarios in the economic and financial sectors and to understand how this will lead to a transition towards a sustainable finance.

However, these "extra-ordinary times" also represent an opportunity to change the development model, enabling the new generations to rely on a more inclusive and green future and leaving them the chance to develop and implement their own talents. This issue is fundamental if we consider that the European and Italian measures will be "debit interventions". If we need to borrow from future generations, we must have a certain level of conditionality towards sustainable development to ensure better prospects to future generations.

The authors' viewpoint about the scenarios of this transition differently emphasize the efforts and difficulties that could emerge. However, they all agree on the importance of a sustainable finance and of the various players of the financial system to restart and recover.

In the first chapter, Brugnoli and Matraia highlight that the UN agencies believe that the Covid-19 pandemic has worsen the multilateralism crisis, the dissatisfaction about globalisation and the risk of increasing non-performing loans, making the transition towards a sustainable finance and towards the SDGs harder. The authors also remind that according to other international institutions, such as the European Commission[300], there is the potential to plan a different future for the new generations.

Examining the effects of the pandemic, Erzegovesi points out important food for thoughts for the creation of a new subsidiary and sustainable financial system, in particular the temporary suspension of the shareholders' return in favour of public interest purposes. Indeed, as stated by the governor of the Bank of Italy during the an-

300 European Commission (2020), Consultation on the renewed sustainable finance strategy, https://ec.europa.eu/info/consultations/finance-2020-sustainable-finance-strategy_en.

nual report[301], intermediaries have been invited not to distribute dividends, not to buy their own shares and to be prudent in paying the variable parts of remuneration to executives. In this way, we count on additional resources to keep financing the economy and to cope with any potential losses on loans.

In their contribution about climate changes impacts on the financial sector, Amelio, Romeo and Milici prove that the crisis has produced several opportunities to accelerate the ongoing macro-trends and back the transition from a shareholders to a stakeholders capitalism. Nonetheless, the authors highlight that this path requires a global intervention in all economic and industrial sectors.

Focusing on the impact investing international framework, Broccardo and Mazzucca underline that the Covid-19 pandemic seems to foresee the need for efficient measures to face the new social challenges worldwide and that sustainable finance may play a key role by optimising the allocation of resources activated by an expansionary fiscal policy.

Moreover, the authors point out that impact investing is a successful approach when it is necessary to tackle health and social emergencies through effective programmes which channel public interventions and fiscal expense towards specific goals.

According to Boffo and Ciferri, who examine the new EU instruments for sustainable investments and the role of CDP, the crisis demonstrates the ability of society and the economic system to change their functions, goals and behavioural choices rapidly and concertedly. Once the emergency ends, the authors believe that the same effectiveness, rapidity and coordination should be at the basis of a recovery that leads to a context consistent with social and environmental sustainability.

Examining the role of the major bank groups in the transition towards a sustainable finance, Viganò and Ghitti present the Covid-19 effects on banks. According to the authors, banks are dealing with

301 Cf note 5.

a new condition of credit portfolio, with critic conditions of clients' liquidity and profitability. The pandemic has questioned an already fragile system and has highlighted the necessity of rethinking business models. Moreover, the pandemic has underlined that the social impact is a precondition to work effectively and that environmental protection is strictly connected to the prevention of phenomena like Covid-19. In the end, the authors pointed out that stakeholders have never been considered so important to reach the common good.

Thus, the economic shock caused by the pandemic has strengthen the awareness that sustainability is not a greenwashing or an invention of the high finance, rather "the cornerstone on which to build a new development model"[302]. The need to shift focus on the social and environmental dimensions and to establish a public-private pact to implement such model has emerged. If a higher public presence in economies represents a distinctive element of future growth models, the countries able to make the public-private cooperation more effective will be rewarded.

Biodiversity of the financial system and sustainable finance

We have already highlighted that the Italian financial system is characterised by pluralism and biodiversity of actors with different stories, regulations and features, who can contribute to reach the common good and the SDGs of the 2030 Agenda, adopting an appropriate subsidiary approach. Biodiversity is fundamental for a balanced, resilient, capillary, and sustainable financial system. Thus, we wonder which role the different financial actors may play to create a financial system that faces the current challenges.

As pointed out by Boffo and Ciferri, the national development banks aim at creating value in the long period and this is why they can convey the European policies to implement the 2030 Agenda, according to the vertical subsidiary principle, and operating as sustainable de-

302 Cf Mazzucchelli M., Mariotti W., Caselli S., *Investimenti, una questione di risorse umane*, in *Corriere della Sera*, 25th May 2020.

velopment leverages within their relevant local contexts.

In the chapter related to the major bank groups, Viganò and Ghitti show how these players are orienting towards a sustainable finance. First, the authors underline that they are composed of intermediaries with different origins and with a stakeholder-oriented tradition. Then, the authors analyse the products and projects implemented by the major bank group in terms of sustainability and the initiatives carried out in terms of their "internal sustainability", that is the relations between stakeholders. The results show that they have made considerable efforts towards sustainability, despite their different dimension, activity and nature. Every bank includes sustainability and the goals to promote it in its industrial plan, balance sheets and reports; this demonstrates that they can play a key role and that consider sustainability as part of business success rather than a way to be appreciated by the others.

In his contribution about cooperative credit, mutual and savings banks, Erzegovesi points out their importance in terms of pluralism, biodiversity and their intrinsic tendency towards a sustainable finance that also focuses on the local dimension. Moreover, these subjects were affected by reforms which aimed at their demutualisation and merging. Considering the transition towards sustainable finance, the local communities feel the need for closer banks, able to quickly meet their needs with autonomous decision-making. According to the author, however, the future scenario is uncertain so, on the one hand, these actors should count on their creative adaptability to make their way in the future banking market through new models and avoid marginalisation and the distortion of their identity, and, on the other hand, on the fact that their historical legacy is partly preserved by the major bank groups they belonged to.

In the chapter about credit consortia and microcredit providers, Vescina affirms that it is important to support micro, small and medium-size enterprises and social actors that are experiencing credit rationing thanks to their ability to reduce information asymmetries, hence their role and interventions are fundamental for a sustainable finance. Moreover, the author suggests expanding the activities of such intermediaries in order to enhance their subsidiary role within the financial system.

In his contribution about institutional investors and social security institutions, Merola points out that the centralistic Italian government and the delay in transforming the social security system limited both the quantitative and qualitative growth of these players, who have not yet emerged as autonomous intermediary bodies and as protagonists of the economic, financial and social system. Additionally, the author highlights the importance of advanced social-security investors and of responsible investment principles able to deeply change the relation between finance and real economy.

Castellani and Garofalo explain the role of fintech and its characteristics referring to the entrepreneurial initiatives in terms of social and environmental issues and, generally, to inclusive finance. The use of alternative sources of information and the application of technologies such as Internet of Things and machine learning enable to reach those subjects that do not meet the loan requirements requested by banks.

Eventually, in his contribution about bank foundations, Falomi presents their positioning within the impact investing market. Moreover, it is clear which role bank foundations will play in the future, thanks to their research experience, the opportunity to act as hubs of ideas and innovative projects, the deep knowledge of the local development dynamics, their ability to manage more effective instruments to generate and measure impacts and to attract resources producing a financial leverage effect.

Community initiatives and new financial instruments

How can we promote a financial system that facilitates an economic recovery based on the principles of sustainability and subsidiarity, and that represents the most appropriate mechanism to activate the resources provided by the EU?

An important premise is what Erzegovesi calls "sustainability of sustainability" that requires realism and prudence. As previously mentioned, we need appropriate means to achieve the Sustainable Development Goals and this requires the implementation of the established principles and ideas, through projects and organisations.

Considering the appropriate means to be deployed, the president of the European Commission Ursula von der Leyen has recently launched an European instruments to favour the recovery: the Next Generation EU[303], which provides 750 billion euro to build a more sustainable, resilient and fair Europe for the future generations. This instrument will boost some key programmes of the new 2021-2027 Multiannual Financial Framework, for which the European Commission has proposed to allocate 1100 billion euro and it will integrate the measures taken for workers, enterprises and governments, adopted by the European Council on the 23th April 2020 with a 540-billion-euro package.

According to the European Commission "Our generational challenges - the green and digital transitions – are even more important now than before the crisis started"[304]. Within the Commission's plan the financial system plays an important role also in strengthening the InvestEU programme[305] and, in the second part of 2020, a new strategy for sustainable finance will be defined.

What does it mean to frame a plan that solves both present and future needs? it means to rely on the real economy, on work and on entrepreneurial and social creativity and search for different financial instruments and models to avoid wasting economic resources in unproductive activities.

In the regulation proposal[306] that establishes measures for the recovery and resilience, the EU plans to provide the member States

303 Cf https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1603039713401&uri=CELEX-:52020DC0442.
304 European Commission, Europe's moment: Repair and prepare for the next generation, 27th May 2020, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0456&from=EN.
305 Cf. COM(2020) 403 final, 29th May 2020.
306 Cf. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020P-C0408R%2802%29.

with part of the 750 billion euro of the Next Generation EU programme: 335 billion euro will be used for grants and 268 billion euro for loans. These resources are intended for fields of application that include economic, social and territorial cohesion, green and digital transition, health, competitiveness, resilience, productivity, education and skills, research and innovation, sustainable and inclusive growth, employment and investments, and financial system stability.

Member States must submit their recovery and resilience plan, which defines the programme of investments and reforms for the following four years, in order to use the non-repayable financial support. The plan must contain measures to implement reforms and public investment project through, coherent with the relevant challenges and priorities identified in the European semester and in the national reform programmes. Moreover, the plan must be an annex of the national reform programme and officially transmitted to the Commission by 30th April, although Member States could submit a plan project from 15 October of the previous year.

Furthermore, part of the Next Generation EU resources, in particular 33 billion euro, flows into the InvestEU programme[307], whose resources have been increased up to 75 billion euro for the 2021-2027 period. Through the use of the guarantee facility provided by the InvestEU, new investments up to 400 billion euro should be activated.

According to the new proposal, 31 billion euro will be allocated to European strategic investments in the form of guarantees, in view of the digital transition and of the increasing resilience in areas such as essential health services and critical infrastructures in the fields of energy, transport, environment, health, digital communication, 5G, Internet of Things, online service platform, cloud computing, data processing and storage, finance, aerospace, defence, communication, media, education and training, elections and sensitive facilities. Such guarantees could produce 150-billion-euro investments. 45 billion will be allocated to sustainable infrastructures, research, innovation and digitalisation, SMEs, social investments and exper-

307 Cf. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0403.

tise. These guarantees could produce 250-billion-euro investments.

It is clear that the identification of territorial characteristics and needs and the planning skills or an adequate proposal of project pipeline to obtain financial support represent the critical elements regarding the use of resources and the achievement of sustainable development.

From this viewpoint, the InvestEU programme includes considerable resources (700 billion euro) to create an Advisory Hub, which aims at supporting the preparation, development, structuring, implementation and procurement procedures of investment projects. It is also expected that the Commission makes advisory agreements with EIB and other potential partners such as the national promotional institutes as CDP. Moreover, the Advisory Hub should support the development of capabilities, skills and organisational processes and accelerate the investment preparation of organisations, so that public institutions and project developers may represent an investment project pipeline.

Furthermore, in its latest Report "The European Investment Advisory Hub – Launched to boost investments in the EU", the European Court of Auditors offered some suggestions to strengthen the future Advisory Hub of the InvestEU programme:

- steering the provided advisory on the basis of unmet relevant needs and developing projects that may be supported by InvestEU guarantees
- strengthening the cooperation with national promotional institutes to improve the geographical coverage of advisory services
- developing a proactive and local support to increase requests for advisory services

The European Commission welcomed these recommendations; hence they should be implemented in developing the InvestEU Advisory Hub.

A new sustainable and subsidiary financial system

The sustainable and subsidiary financial model we have proposed provides the opportunity to involve the different territorial financial actors, so that the skills and expertise of all relevant players are available and it should be easier to reach every crack of economy and society.

Moreover, it is necessary to involve not only public actors, banks and companies but also the third sector and the civil economy, including other financial players such as bank foundations, social-security institutions, credit consortia, microcredit organisations, cooperative credit institutions, fintech platforms. Thus, we need to enhance the biodiversity of the financial system and create new subsidiary entities able to involve heterogeneous actors to conceive a new sustainable development model. We expect that the variety of actors share different plans and methods, strengthening subsidiarity between actors who work at different levels, thus promoting impactful forms of intervention on the territorial and decentralised dimension carried out by central institutions. This dual dimension – central and territorial – could enhance local experiences and development without ceasing the transversal relation between actors active at national and European level.

Moreover, the proposed model highlights the increasing importance of impact investing, which favours the development of a subsidiary financial model that combines incentives and goals from different players to produce a specific and shared impact.

We can somehow conclude that impact investing should become the main investment approach, rather than a niche strategy. The model is strictly connected to the SDGs, endorsed by the EU, thus they could really be achieved through the adequate use of the public resources provided by the Next Generation EU programme, besides those offered by other financial players, also thanks to the implementation of public guarantees at national and European level. As supported by the findings of this Report, the role played by public financial actors reduces the existing risks, facilitating SMEs’ access to credit and promoting projects that produce major impacts on sustainable development but that could be subjected to market failure conditions without the interventions of the public sector.

The proposed model is subsidiary by design, since it considers biodiversity as a value of a sustainable financial system and strengthens the role and skills of the different institutional actors while meeting community needs.

The Report suggests that a subsidiary financial system already exists and involves different financial institutions that act at national global, national, regional and local level and both banking (public development banks, bank groups, cooperative credit system) and non-banking actors (investment funds, bank foundations, credit consortia and microcredit, fintech).

Furthermore, the model is highly scalable since it may be adapted according to the territorial needs, boosting the hubs composed of different financial players, who act in their relevant area, and the network dimension.

First, the proposed model includes the financial instruments provided by the EU that support investment projects suggested by financial actors both at European level, such as EIB, and at national level, such as CDP or other executive partners, through the budget guarantee; thus increasing risk capacity and the ability to finance sustainable investments raising private resources. In details, the EU provides 75-billion guarantees with a 45% coverage rate, which should activate new investments up to 400 billion euro. Moreover, according to the InvestEU programme, 700 billion euro are destined to the Advisory Hub that should provide adequate advisory especially to project promoters.

Second, the model considers CDP as a key partner to implement the InvestEU programme at national level.

The regulation proposal imposes that the member states identify the potential executive partners: while selecting them, the Commission considers their ability to participate using their own resources, to attract private investors to provide an appropriate geographical and sectoral coverage and contribute with new solutions to make up for market failures and suboptimal investment conditions.

Cdp may represent the key player of a national financial system based on a subsidiary approach and able to channel the EU and private-saving resources on the territory, pouring them into the different economic sectors, into the social welfare system and local public authorities, in order to "encourage talents".

Third, besides activating the private financial sector through banking and non-banking actors, the model proposes that CDP develops a strong cooperation with bank foundations that already represent strategic partners of CDP, taking advantage of their capacity to generate and develop projects, their knowledge of the territory and needs, their expertise in the use of impact-investing instruments.

Together with bank foundations, CDP could play a fundamental role in turning ideas into concrete projects and in using the available resources efficiently, thus developing and financing a high-quality project pipeline, also thanks to the resources provided by the InvestEU programme for the Advisory Hub.

Thanks to their close relationship with CDP, their possibility to act for the common good as private-law entities, their deep knowledge of local development situations, and their expertise in managing the most efficient instruments to produce positive impacts, Bank foundations represent hubs of ideas and innovative projects and can play a key role in using EU resources in the best possible way and in implementing this sustainable and subsidiary financial model.

The "extra-ordinary times" we have been experiencing have deeply and suddenly changed our way of living and working together. At European level, the need for a joint action that is proposing unprecedented financial resources to recover from the pandemic and prepare the future for the next generation has emerged. Therefore, sustainable finance becomes the pillar for the creation of a new European development model.