

PARIS ALIGNMENT OF EXPORT CREDIT AGENCIES

Case study #6: Italy (SACE)

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Perspectives Climate Research

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Table of Contents

Key Messages	4
1. Introduction	5
2. Officially supported export finance in Italy	7
3. Climate-related policies in officially supported Italian export finance	10
4. Assessment of SACE's alignment with the Paris Agreement	12
4.1. Dimension 1: Financial and non-financial disclosure and transparency	12
4.2. Dimension 2: Ambition of fossil fuel exclusion or restriction policies	14
4.3. Dimension 3: Climate impact of and emission reduction targets for all activities	16
4.4. Dimension 4: Climate finance: Positive contribution to the global climate transition	18
4.5. Dimension 5: Engagement - Outreach and 'pro-activeness' of ECAs and their governments	21
5. Conclusions and recommendations	23
6. References	25

Key Messages

- SACE¹ is the official Italian Export Credit Agency (ECA). We assessed it with regards to its alignment with the Paris Agreement across five dimensions using the [methodology](#) developed by Perspectives Climate Research. Overall, SACE was rated **'Unaligned'** and therefore **urgently needs to speed up the progress towards aligning its activities with the Paris Agreement** (assessment score 0.22/3.00).
- The main reason for the score received by SACE is **the lack of fossil fuel exclusion policies in line with the 1.5° C objective of the Paris Agreement**, especially regarding oil and gas sectors. Despite the recent milestone commitments of ending international support for new and unabated fossil fuel projects made by the Italian government, SACE has not presented a clear plan how to implement the COP26 Statement on the Clean Energy Transition.
- **SACE's portfolio shows a significant exposure to the oil and gas sectors**, on average around 20% of the portfolio in 2015-2020. SACE is also involved in other carbon intensive value chains, such as shipping and cruising as well as heavy industry. An **official exclusion policy** exists for **thermal coal**, in line with and even preceding the new rules by the Organisation for Economic Co-operation and Development (OECD) on ceasing support for unabated coal-fired power plants.
- While the Italian ECA is among the ten European member countries of the Export Finance for Future (E3F) initiative, SACE exhibits at the same time the **largest volumes of annual support for fossil fuel value chains when compared to other E3F members** (EUR 8.4 billion, 2015-2020). This compares to about EUR 1.8 billion for renewable energy and related infrastructure.
- **SACE currently reports operational greenhouse gas (GHG) emissions (Scope 1 and 2) as well as on business travel emissions**. However, no reporting on financed emissions is provided (Scope 3) which likely represent the largest emissions category.
- **The same granular data reported to the OECD Export Credits Group** should be publicly disclosed, especially for fossil fuel- and renewable energy-related support. Only **transaction-level reporting** can increase transparency, which is a prerequisite for tracking the implementation of the COP26 Statement on the Clean Energy Transition and progress towards 1.5° C consistency more broadly. In addition, the full Climate Change Policy adopted by SACE in 2021 should be made public.

Assessment dimension	Weight	Description	Score
1. Transparency	0.2	Financial and non-financial disclosures	0.25/3.00
2. Mitigation I	0.4	Ambition of fossil fuel exclusion or restriction policies	0.33/3.00
3. Mitigation II	0.2	Climate impact of and emission reduction targets for all activities	0.00/3.00
4. Climate finance	0.1	Positive contribution to the global climate transition	0.40/3.00
5. Engagement	0.1	Outreach and 'pro-activeness' of the ECA and its governments	0.00/3.00
Assessment outcome:		Unaligned	0.22/3.00

¹ SACE = Servizi Assicurativi per il Commercio Estero S.p.A., which translates into 'insurance services for foreign trade'.

Key recommendations for the Italian government

The new Italian government² should fully align SACE with the objectives of the Paris Agreement by considering the recommendations presented in this study, including by³:

(i) **Providing specific guidance for a concrete and near-term timeline to phase out public financing of fossil fuels**, inter alia through SACE, and consistent with the Net Zero by 2050 roadmap by the International Energy Agency (IEA) (2021)⁴ as well as 1.5°C globally, **which implies an immediate phase out of support for any new fossil fuel infrastructure**. This should also include domestic financing.

(ii) Additional efforts are needed to **redirect SACE's financial support to renewable energy and other sustainable activities**, thus strengthening the competitiveness of Italy's exporters in these strategic industries and contributing to the commitment of providing around EUR 1.4 billion annually in international climate finance over 5 years (until 2025) for a total of EUR 7 billion.

(iii) **Adopting necessary complementary policies** in domestic labour markets, diversifying fiscal revenue streams away from the oil and gas industry, and massively scaling up public support for sustainable activities in line with the Paris Agreement. Due to the importance of export for the Italian economy, SACE can play an important role in the implementation of strong mitigation policies and plans, supporting truly 'green' activities. A more accurate and stringent definition of what constitutes a green activity, with specific focus on the climate impacts is suggested.

(iv) **Contributing to the creation of a new 'level playing field'** among trade partners, such as the US and within the EU, and existing 'coalitions of the willing' based on consistency with the global 1.5°C objective, e.g., by advancing a fundamental reform of the OECD Arrangement and/or by advancing high ambition climate clubs.

1. Introduction

Limiting temperature increase to 1.5°C above pre-industrial levels requires massively re-directing financial flows away from carbon-intensive activities and towards low-carbon activities. However, despite commitments made under Article 2.1c of the Paris Agreement – in which Parties agreed to making “finance flows consistent with a pathway towards low greenhouse gas emissions [...]” (UNFCCC 2015) – many countries still provide significant financial support to fossil fuel value chains, among others, through their export credit agencies (ECAs). This contributes to a global lock-in of carbon intensive infrastructures and hampers the ability of many countries in the global South to leap-frog carbon-intensive development. DeAngelis and Tucker (2021) estimated energy sector finance by major G20 ECAs at an annual average of around EUR 40.1 billion for fossil fuels between 2018 and 2020, while renewable energy was supported with only around EUR 3.5 billion annually. This implies that ECAs' financial support for fossil fuels is on average more than ten times higher for fossil fuels than renewables. Indeed,

since 2019, ECAs make up the single largest group of internationally active public finance institutions (PFIs) that support fossil fuel investments (Oil Change International 2021).

Through their financial products that include guarantees, loans, and insurances, ECAs are often decisive in whether a project can materialize (see Box 1). This 'de-risking' of investments is crucial, especially for infrastructure projects in the global South that above climate concerns also face human rights and broader environmental issues (OHCHR 2018). However, ECAs fall far behind other public institutions in providing climate finance (OECD 2021a) and their institutional mandates often remain narrowly confined to export promotion – disregarding the burden on climate and development. Several recent studies underlined the lack of climate policies for and by ECAs, vastly insufficient transparency, as well as potential legal consequences in the absence of climate action (Shishlov et al. 2020; Wenidoppler et al. 2017; DeAngelis and Tucker 2021; Cook and Viñuales 2021). At the same time, the emerging political momentum manifested in new climate-related commitments, collaborations and convergence among a critical mass of like-minded countries may foster the necessary reforms in the export finance system (e.g., Hale et al. 2021; Klasen et al. 2022).

² SACE is under direct authority of the Ministry of Economy and Finance.

³ Additional and more detailed recommendations for the government and SACE are provided under each assessment sub-dimension. An overview of all recommendations is provided in section five of this report.

⁴ For the updated scenario, see the newest report of the World Energy Outlook (IEA 2022).

Text Box 1: What are Export Credit Agencies?

ECAs are either private companies that act on behalf of a government or public entities themselves (OECD 2021b). Their *raison d'être* is the promotion of trade and national export businesses competing for riskier markets abroad (ibid., Shishlov et al. 2020). ECAs provide, for example, guarantees to hedge against risks of an exporter or lender not being repaid, e.g., due to political instability, expropriation, or unexpected currency fluctuations. They can also act as direct lenders with short-, medium- or long-term loans and may provide earmarked project finance or even equity instruments. In return, they receive risk premiums or interest payments. In the case of repayment loss, ECAs compensate exporters or lenders directly whilst being in the position to draw up a debt settlement arrangement with the Paris Club.⁵ Opting for a state-backed transaction can significantly de-risk deals for exporters and crowd in public and/or private co-finance, especially for large-scale, long-term or particularly risky infrastructure projects. Many ECAs require exporters or banks to demonstrate that private export credit insurance would not cover the deal. This situation is reflected in the fact that among Berne Union members – the largest association for the export credit and investment insurance industry worldwide – official ECAs predominantly provide long-term commitments and political risk insurance. This represents about one third of total commitments outstanding which were estimated in 2020 at around EUR 2.77 trillion (Berne Union 2021). About two thirds are short-term commitments which are predominantly insured by private insurers (ibid.). The fact that ECAs typically support larger and riskier projects that would not have been insured otherwise underlines the rationale of examining the role of ECAs with greater scrutiny in the context of achieving the objectives of the Paris Agreement.

Over the past two years, several noteworthy commitments targeting international public finance, including export finance, were made by governments. Three milestones stand out:

- The **launch of the 'Export Finance for Future (E3F) initiative'⁶ in April 2021**, a 'coalition of the willing' that consists of ten major European economies⁷ with the aim of promoting and supporting a shift in investment patterns towards climate-neutral and climate resilient export projects and the publication of their first joint energy finance transparency report (E3F 2022).
- The **agreement among participants in the OECD Arrangement to ban support for coal-fired power plants without carbon capture and storage (CCS)⁸**. While the agreement marks a historic progress for integrating climate change considerations into the OECD Arrangement, it still lacks significant additional components, including other parts of coal value chains, e.g., mining and transport, as well as entire oil and gas

value chains, for which there are currently no restrictions whatsoever.

- **The Statement on International Public Support for the Clean Energy Transition launched at COP26 in Glasgow⁹**, a UK-led initiative of 39 countries and financial institutions (as of October 2022) that commits its signatories to end new direct public support for the international 'unabated' fossil fuels, except in limited and clearly defined circumstances, by the end of 2022.

These commitments represent important steps on the way to achieving a global climate transition and are the fruit of intensive efforts by advocates for reform, especially from civil society and pro-active governments. In the context of the global energy crisis following Russia's invasion of Ukraine, however, governments of the G7 factored out "publicly supported investment in the gas sector [that] can be appropriate as a temporary response [...]" from the previous COP26 commitment (G7 Germany 2022, p.5). This is a clear backslide given the long-lived nature of liquefied natural gas (LNG) infrastructure that may well extend beyond the current crisis spur new and additional production and use of natural gas well beyond the current energy crisis, especially if 'temporary' remains a term for an undefined period. At the same time, this exception allowed Japan to endorse the G7 Leaders' Communiqué.

⁵ The Paris Club is 'an informal group of official creditors' which collects public debt owed by governments to creditor countries. Debt owed by private entities which is guaranteed by the public sector (e.g., through ECAs) is comprised by the definition of public debt (Club de Paris 2021).

⁶ <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>

⁷ The ten member states are Belgium, Denmark, Finland, France, Germany, Italy, Netherlands, Spain, Sweden and the UK.

⁸ <https://www.oecd.org/newsroom/agreement-reached-at-oecd-to-end-export-credit-support-for-unabated-coal-fired-power-plants.htm>

⁹ <https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/>

In addition to identifying the commitments of different clubs and coalitions like the G7, the OECD Arrangement Participants, the E3F or the signatories of the COP26 Statement, it is necessary to consider the highly concentrated nature of public support for fossil fuels in a limited number of countries among the G20. According to Oil Change International (2021), Canada, South Korea, Japan and China alone accounted for 78% of all reported financial support through ECAs between 2018 and 2020 to the fossil energy sector (around EUR 93.7 billion). This is followed by Germany, Italy, the United Kingdom and the United States that together provided for another 19% of the total (around EUR 22.4 billion). For some countries, like Canada, most of this support is granted at the domestic level and is therefore unaffected by the COP26 Statement (Censkowsky et al. 2022). Other G20 countries including Russia, India and Saudi Arabia either use other public or private channels to support fossil fuel energy investments, or vastly under-report on their energy sector finance.

This data snapshot demonstrates the insufficiency of commitments emerging from the current coalition and club landscape, especially in the case of Canada (high share of domestic fossil fuel support), China (outside of all commitments, no Participant to the OECD Arrangement) and South Korea (no G7 member, no COP26 Statement signatory). It is hence urgent priority of working towards enlarging existing clubs and coalitions while not backsliding on their ambition. Indeed, the IEA has already last year called for ending all new fossil fuel supply developments on the path

to Net Zero, including natural gas, by the end of 2021 (IEA 2021). Conversely, Tienhaara et al. (2022) report more than 55,000 new upstream oil and gas projects in 159 countries for which a final investment decision is expected between 2022 and 2050 that would need to be cancelled in line with the IEA Net Zero pathway. Many of these projects benefit from public support, including export finance for necessary equipment and risk insurance, or multilateral investment treaties that play a major role in protecting investments in the fossil fuel industry against all kinds of risk, including transitional climate risks (OECD 2022).

In the past, ECAs “have done little to steer their portfolios in one direction or another [...] [and] the respective portfolios to date mostly reflect the composition of the national export industry (E3F 2022, p.2). This noteworthy observation was the baseline and key motivation also for Perspectives Climate Research to develop a dedicated methodology to assess the alignment of ECAs with the Paris Agreement (Shishlov et. al 2021). Based on these assessments, we seek to inform ongoing reform processes through targeted policy recommendations for governments and ECAs to drive climate action in the global export finance system. In short, the methodology consists of five assessment dimensions, 18 key questions and 72 concise benchmarks against which an ECA portfolio and strategy as well as relevant government policy are assessed. Several case studies have already been conducted, including Canada, Germany, Japan, the Netherlands, the United Kingdom and the United States¹⁰.

2. Officially supported export finance in Italy

SACE is organized as a joint stock company, today fully controlled and supervised by the Ministry of Economy and Finance (MEF 2022). It was established in 1977 as a branch of the National Institute for Insurance (INA in the Italian acronym), a public entity, to provide credit guarantees to export finance. In 1998 it was transformed into a legal entity under public law and assumed its current name. It first became a joint stock company controlled by the Ministry of Economy and Finance in 2004 and was acquired by Cassa Depositi e Prestiti (CDP), the state-owned financial institution¹¹ in 2012. Since then, the ECA underwent several changes in governance (e.g., see SACE n.d.a). The most

important one occurred through a decree in 2020¹² that moved supervision and control of SACE from CDP back to MEF. Today SACE is governed by the Board of Directors that oversees the company management, operations and the strategic, industrial and financial plans (SACE 2020a). SACE must consult MEF regarding strategic decisions relevant for business development. MEF is, in turn, supported by the Ministry of Foreign Affairs regarding the implementation of measures that support internationalization of businesses as well as by an inter-ministerial committee¹³ (Gazzetta Ufficiale 2020a). The ownership structure of SACE is briefly described in Box 2.

¹⁰ Find all case studies under: <https://www.perspectives.cc/public/publications/>

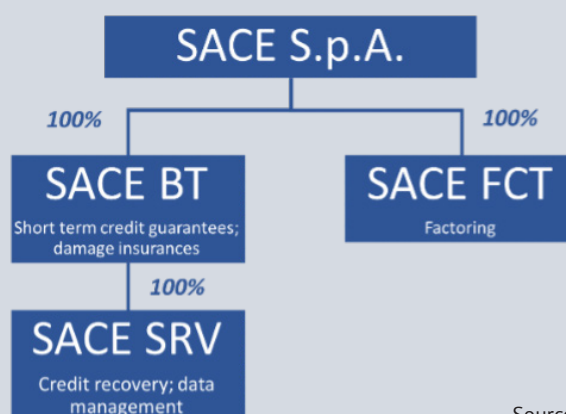
¹¹ CDP has also a role in promoting development cooperation (CDP n.d.)

¹² The 'August Decree' DL 104/2020

¹³ The Interministerial for economic planning and sustainable development (Comitato interministeriale per la programmazione economica e lo sviluppo sostenibile).

Text Box 2: SACE's ownership structure.

SACE S.p.A. holds 100% of both SACE FCT's shares (a joint-stock company established in 2009 and specialized in factoring), and of SACE BT (a joint-stock company established in 2004 and active in short term credit guarantees and damage insurance). SACE BT in turn holds 100% of the capital of SACE SRV, a limited liability company specializing in credit recovery and management of information/data assets which provides recovery services to all the companies in the SACE group and to foreign export credit agencies (SACE n.d.). The overall volume of resources mobilized by the entire Group in 2021 reached EUR 42 billion, serving around 24,000 clients (SACE 2022a). The overall composition of the SACE group is presented below.

Figure 1: SACE's group.

Source: own elaboration based on SACE (n.d.b).

Exports have traditionally played an important role in the Italian economy. Pre-2008, the total value of Italian exports of goods and services steadily increased in real terms to nearly EUR 658 billion. Even though this value strongly oscillated post-2008, Italy still ranked number eleven largest export country in the world – just after Singapore and South Korea (The World Bank 2022). Exports make about 30% of national GDP (ITA 2021). Compared to other G7 countries, Italy has experienced relatively weak export losses as a result of the COVID 19 pandemic.

Italian export is dominated by goods over services: goods represent more than 80% of the total exports in the past three years, with the highest share of around 85% in 2020 (SACE 2021a). Major export goods are divided into four categories (in brackets the share of total export in 2020): capital goods (37.4%), intermediate goods (28.7%), consumer goods (22.1%) and agricultural-food products (10.7%) (SACE 2021a). Forecasts for 2024 show similar shares of the total exports between goods and services, with an increase in value by around 31% from 2020, reaching around EUR 670 billion. When looking at the specific goods, the largest category is machinery and equipment (EUR 81 billion in 2020) followed by chemicals (EUR 57 billion) and automotive (EUR 43 billion).

The main mission of SACE is to support economic development of Italian companies including small and medium-sized enterprises (SMEs), banks, and financial institutions in Italy and abroad, with the provision of financial instruments like guarantees and insurance coverage. SACE supports Italian companies involved in international trade, from entering new markets, to consolidating and expanding business as well as promoting the growth of Italian economy. SACE's operations are regulated by the EU regulations, the Officially Supported Export Credits agreements under the OECD and follow the principles of the Berne Union (SACE n.d.b). SACE also performs, in accordance with OECD recommendations, environmental and social assessments of all export transactions.

The Italian Government, as well as the Parliament, can issue regulatory elements (decrees and laws) that can guide SACE's operations and amend its mandate. The Parliament approves both decrees and laws and can thus influence SACE and direct its financial support towards clean alternatives and away from fossil fuels. Elections that took place in Italy on September 25th, 2022, will result in a new Government and Parliament composition. It remains to be seen how they will position themselves in relation to climate change and what policy measures will be put in place to achieve the targets

under the Paris Agreement as well as other international commitments of Italy, such as the phase-out of fossil fuel subsidies. The position of both Government and Parliament can also bring new positive development for SACE in terms of clearer objectives, guidance and limitations on the type

of project/sectors eligible for SACE's support. Indeed, SACE witnessed a significant expansion of its mandate beyond its traditional role in supporting exports over the past two years (see Box 3).

Text Box 3: Recent changes in SACE's mandate.

Since the start of the economic crisis following the COVID-19 pandemic in 2020, the following decrees have been introduced by the Italian Government to provide practical aid to Italy's economy both domestically and to export activities (SACE 2021b):

- The 'Liquidity Decree'¹⁴ expands SACE's mandate to support economic activities hit by the COVID-19 pandemic (including companies not involved in export activities) up to a maximum total volume of EUR 200 billion (Gazzetta Ufficiale 2020b). 90% of the amounts provided by SACE are covered by government guarantees while the remaining 10% is covered by SACE (SACE 2021b). Support has been provided through the platform 'Garanzia Italia' that guaranteed over EUR 35 billion (SACE 2022a).
- The 'August Decree'¹⁵ provides the basis for SACE's transition under MEF's supervision from CDP, including the daughter companies SACE FCT (operating as a factoring company)¹⁶, SACE BT (providing guarantees on short term credit protection from construction risks). The company SACE SRV (specialized in credit recovery and information asset management) is fully controlled by SACE BT. With another decree (the Decree SACE), MEF and MITE¹⁷ agreed to pass SACE's participation in the company SIMEST (that is involved in the provisions of loans and equity and overall support to companies already exporting goods or services) to CDP (MEF and MITE 2022).
- The 'Simplification Decree'¹⁸ identifies SACE as the entity in charge of implementing the Green Deal (in the context of the European Green Deal) and gives it the mandate to provide support also for the implementation of 'sustainable projects' as defined by the EU Taxonomy, with the goal of facilitating and supporting the transition to a sustainable economy, support low-carbon technologies and production processes, support low-carbon mobility, protect ecosystem and water resources (Gazzetta Ufficiale 2020). SACE can earmark EUR 300 million for 'green' projects for activities that are implemented in Italy (ECCO 2022).

SACE's financial instruments include insurance services against political, economic, and other risks that national exporters face when operating abroad or at home as well as financing solutions to purchase Italian goods and services. As it is common practice in official export financing support, this results in an exposure for the Government in the event of defaults among SACE's transactions. Recent changes in mandate (see Box 2) were targeted at emergency support during the times of crisis, but at contributing to the implementation of the National Plan for Recovery and Resilience (PNRR)¹⁹ providing guarantees and other forms of

support to investment in the domestic economy. The PNRR is part of the Next Generation EU and aims at supporting large investments and reforms in the following three main areas: digitalization and innovation, ecological transition, social inclusion with a total funding of more than EUR 220 billion until 2032 (MEF 2021). So far, a total of EUR 2.9 billion has been mobilized through bonds and guarantees, including support to infrastructure investments related to the PNRR. Table 1 provides an overview of SACE's organisation and activities.

¹⁴ Decreto Liquidità, DL 23/2020.

¹⁵ Decreto Agosto, DL 104/2020.

¹⁶ A factoring company is a company purchasing a credit from a third party paying an amount equal to the value of the credits discounted by a fee. The amount is paid ahead of the payment terms and the factoring company then manages and collects the credits.

¹⁷ Ministry for Ecological Transition, in Italian: Ministero per la Transizione Ecologica.

¹⁸ Decreto Semplificazioni, DL 76/2020.

¹⁹ Piano Nazionale di Ripresa e Resilienza (PNRR).

Table 1: Overview of the Italy's ECA SACE.

Key facts EDC	
Type of ECA	Multi-purpose ECA organized as joint stock company, overseen by the Ministry for Economy and Finance
Main sectors*	Cruise ships (25.8%), Oil and gas (23%), Infrastructure and construction (14.1%), Chemical/petrochemical (11.2), Banks (6.9%), Metallurgy (4.1%), Naval industry (2.7%), Automotive (1.8%), Agricultural (1.6%) and other sectors (5.7%)
Geographic activity concentration*	America (35.7%), Other European States (non-EU) and Commonwealth of Independent States (22.6%), EU (19.6%), North Africa and Middle East (13.6%), Asia and the Pacific (4.4%), Sub-Saharan Africa (4.1%)
Commitments outstanding ^{20*}	EUR 165 billion (as of 2021)
New commitments ^{21*}	EUR 41.8 billion (2021)
Main instruments of financial support	Investments and guarantees, credit and trade covers, structured and project finance. SACE is also offering advisory services to companies on export strategies and clients' assessment (non-financial support)
Category A and B projects ^{22**}	Category A: ~ 5 projects per year EUR 2.2 billion ²³ Category B: ~ 4 projects per year EUR 317 million

Note: (*) = Data for 2021. (**) = Average annual mean for the last five years to correct for yearly fluctuations.

Source: authors based on SACE 2017, 2018, 2019, 2020b, 2021d

3. Climate-related policies in officially supported Italian export finance

In 2021, SACE adopted a climate change policy that establishes the following limitations to support to fossil fuels as part of SACE's broader non-financial reporting framework (SACE 2022b):

- Forbids investments in coal-based energy production, regardless of the technology deployed, geographical location, and for both new and existing facilities. Facilities with CCS technologies that are immediately operational will be evaluated on a case by case-basis.
- Forbids investments in new activities related to the extraction, production and transport of thermal coal, including in related infrastructures such as ports or use of ships.
- Forbids investments in new activities of liquid hydrocarbons in fields where routine flaring is in operation.
- Forbids investments in new activities aiming at the research and exploitation of liquid and gaseous hydrocarbons through fracking.

To date, the climate change policy is not publicly available. To reflect the efforts and ambition of the E3F coalition, this new policy should include ending all fossil fuel exposure as measured through the E3F Transparency Reporting (E3F 2022). This includes all major elements of the upstream, midstream and downstream phases of fossil fuel value chains. This would include, for instance, also the mining of

²⁰ Commitments outstanding is a 'stock parameter' of the total amounts under cover or for which liability is assumed at a given cut-off date (compare Berne Union 2021). This parameter is reported by SAE as portfolio value.

²¹ New commitments is a 'flow parameter' which refers to the total volume of new insurances, guarantees, loans or other ECA instruments at a given cut-off date (compare Berne Union 2021). This parameter is reported by SACE as business mobilized in a new financial year.

²² Category A projects are referred to as those likely to "have significant adverse environmental and social effects that are sensitive, diverse, or unprecedented beyond the project sites and may be irreversible" and Category B projects as those "with site-specific environmental and social effects (with only few if any irreversible effects) which in most cases can be mitigated".

²³ Values provided in USD by SACE (also for Category B projects) have been converted into EUR using the following exchange rate: USD 1 = EUR 1.00096. This exchange rate has been used to convert all figure (Where needed) in this report from USD to EUR.

metallurgical coal used for steel production, fossil-related transport infrastructure, including vessels, pipelines or trucks, as well as any support that drives new development of fossil fuels. This would be in line with the IEA (2021) Net Zero pathway.

Overall, SACE's involvement in the oil and gas sector is one of the most relevant areas, accounting for an average 24% of the total volumes over the period 2019-2021 (2019 shows the highest share, with 34.4%) (SACE 2020a, 2021a, 2022a). The second most important sector is represented by the cruise and shipping industry, which has an average value of around 23.5% over the same period. As per joint transparency reporting of the E3F initiative, Italy's support for fossil fuels amounted to EUR 8 billion during the period 2015-2020, compared to only EUR 2 billion for renewables in the same period.

In October 2021, SACE started adhering to the Poseidon Principles (PP) for the monitoring of the emissions of its own portfolio in the shipping sector and to report annually on their alignment with decarbonization trajectories

(PP n.d.a)²⁴. These Principles follow the targets set by the International Maritime Organization (IMO) that identify a target of reducing GHG emissions by 50% by 2050, compared to 2008 levels (SACE 2021e). The Principles mandate the provision of transparent data to monitor progress on GHG emissions reductions (PP n.d.c). It was reported that SACE would launch a carbon footprint study at portfolio level to support management decisions and scenario building (SACE 2022a), but its status is unknown.

SACE has developed a methodology for the quantification and evaluation of climate risks for countries. It combines, together with an assessment of the credit risk and of the political risk, also the exposure to risks related to climate change and evaluates three main dimensions: wellbeing, climate risks, and status of the energy transition. Regarding the latter element, the assessment looks at five main items: role of fossil fuels in the energy mix, penetration of renewables, energy efficiency, emissions levels, and electrification (SACE 2021f). The report recognizes the increasing importance of the effect of climate change in the risk evaluations and it has been applied and results can be seen on SACE's website²⁵.

Text Box 4: Selected climate-related commitments and practices relevant for SACE.

- SACE adopted its own Climate Change Policy in 2021, banning support to thermal coal, but only slightly limiting support for oil and gas, i.e., in cases of flaring and fracking (SACE 2022b). The policy is, however, not publicly available.
- SACE is applying a methodology to evaluate political, credit and climate change-related risks.
- Italy signed the COP26 Statement on International Public Support for the Clean Energy Transition (UK Presidency 2021).
- Commitment of the Italian Government to phase out environmentally harmful subsidies, including inefficient fossil fuel subsidies (Senato della Repubblica 2022).
- Commitment of Italy to reduce GHG emissions by 55% by 2030 and to achieve Net Zero by 2050 (Republic of Italy 2021a).
- Support activities aiming at the energy transition, circular economy, and environmental sustainability, through the mandate introduced by the 'Simplification Decree' (DL 76/2020). With the new mandate given by the Italian Government, SACE oversees supporting the implementation of sustainable projects under the Green Deal.
- The Consob²⁶- the national authority regulating the domestic securities market - endorsed the recommendations from the Task Force on Climate-Related Financial Disclosure (TCFD) and "encourages companies to voluntarily adopt the recommendations of the TCFD and to draw up the Non-Financial Declaration to increase transparency in the financial markets on the risks and opportunities related to climate" (Consob 2021).
- SACE has a specific instrument to support 'green' activities, although only within Italy (see ECCO 2022).

²⁴ The Poseidon Principles do not mandate specific emission reductions targets but only to report the emission trajectories.

²⁵ <https://www.sace.it/mappe#/mappe/risk-map>

²⁶ Commissione Nazionale per la Società e la Borsa.

4. Assessment of SACE's alignment with the Paris Agreement

We assess the 'Paris alignment' of SACE based on a methodology specifically developed to evaluate the alignment of ECAs with the Paris Agreement (Shishlov et al. 2021). This methodology conceptually and practically builds on existing approaches to 'Paris alignment' developed for other financial institutions, such as multilateral development banks (MDBs). Most notably, this includes the structure and rationale of the Public Development Banks' Climate Tracker Matrix by the environmental think tank E3G, which, in turn, is based on the

six building blocks of the Paris Alignment Working Group (PAWG) by major MDBs. The assessment of ECAs differs notably from these two approaches since it transparently underpins each assessment dimension (hereafter referred to as 'dimensions') with specific key questions (3-5 questions per dimension, in total 18 questions) as well as specific benchmarks (four benchmarks per question, in total 72 benchmarks). The four benchmarks correspond to four labels of Paris alignment (Figure 2).

Figure 2: Labels of Paris alignment and corresponding score ranges.

Unaligned	0.00 - 0.50
Some Progress	0.50 - 1.50
Paris aligned	1.51 - 2.50
Transformational	2.51 - 3.00

This methodology also notably differs from other approaches to assess the 'Paris alignment' of financial institutions since it applies a weighting approach to the assessment dimensions. This permits the emphasis of some dimensions over others as some dimensions are more imminently important to

reaching the Paris climate goals (e.g., mitigation is more important than disclosure). The selection of weights reflects a careful consideration of priorities and is based on the expertise of experts from research and civil society organizations (Shishlov et al. 2021). The final scoring for each question is carried out by evidence-based expert judgement. **SACE received an overall assessment score of 0.22 / 3.00 and therefore received the label 'Unaligned'**. The following presents a justification for the scoring of each question per assessment dimension.

4.1. Dimension 1: Financial and non-financial disclosure and transparency

The first dimension is underpinned by four key questions regarding the transparency of financial and non-financial disclosures of SACE. This dimension is a crucial prerequisite to evaluate the Paris alignment of ECAs in subsequent dimensions and to hold governments accountable for supporting businesses abroad against their commitments under international treaties, such as the Paris Agreement. Furthermore, it is especially important since ECAs were found

to be particularly lacking transparency in the past (Shishlov et al. 2020). The methodology weighs this dimension with a total of 20%, recognizing that transparency, while important, is only a precondition for decarbonization itself.

In this assessment dimension, officially supported Italian export finance was rated with 'Unaligned' with an assessment dimension sub-score of 0.25/3.00.

Q Nr.	Dimension 1 – key questions	Rating
1.1	To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)	Unaligned
1.2	In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)	Some progress
1.3	In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)	Unaligned
1.4	To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?	Unaligned

Q1.1: To what extent can the GHG intensity of all activities supported by the ECA be assessed based on publicly available data? (Non-financial disclosure)

The assessment question Q1.1 was rated with 'Unaligned'. Like the majority of ECAs, SACE is not reporting on the GHG emissions of the activities it supports (scope 3). SACE did not yet sign the Partnership for Carbon Accounting Financials (PCAF) requiring the tracking and disclosure on financed activities and their emissions within the next three years (PCAF 2021; n.d.).

We recommend measuring the attribution of GHG emissions to SACE's portfolio based on international best practices. To date this is the Partnership for Carbon Accounting Financials (PCAF) to which other ECAs, such as EDC, have already committed to (e.g., PCAF 2022). We also recommend SACE to publish actual and estimated future emissions data for both its portfolio (the stock of all emissions-intensive projects) and new commitments (the flow of new authorizations) on its website which would vastly improve its transparency.

Q1.2: In how far can the share of fossil fuel finance over total portfolio be assessed? (Financial disclosure)

This assessment question was rated with 'Some Progress'. Data on the share of fossil fuel finance is available as per the E3F joint transparency reporting, however the lack of more granularity of the publicly available data does not allow for a higher score. The information on the total amount of resources earmarked by SACE is available, but disaggregated information at project level is not publicly available. General data (not disaggregated) is available at sectoral level, although vaguely defined. SACE has a significant exposure to the oil and gas sector and has been providing a large share of finance to fossil-based projects, and the exemptions related to support to fossil fuels only focus on unabated coal-fired power plants but have only few limitations to oil and gas activities (E3F 2022, SACE 2020a, 2021a, 2022a). SACE is off track to meet the target set under the Glasgow Statement to phase out international public support to overseas fossil fuels. Indeed, Italy is one of the signatory countries of the Glasgow Statement with the largest continued support volumes for fossil fuels (IISD 2022).

We recommend that SACE improves the degree of granularity of the data and information reported, to allow an assessment at transaction level (especially for those transactions involving large budgets) as well as the full publication of the existing the Climate Change Policy (and any other relevant policy) and related targets and commitments. Ideally, however, reporting should be offered in publicly available HTML format with an option to download as Excel tables to facilitate public data accessibility and processing.

The **second recommendation** is to disclose the transaction-specific data used by the E3F initiative for the joint Transparency reporting. This could be considered a leap ahead and would make SACE a leader on climate-related transparency applying a state-of-the-art measurement methodology to both its renewable and fossil fuel portfolio.

Q1.3: In how far can the share of climate finance over total portfolio be assessed? (Financial disclosure)

This assessment question was rated as 'Unaligned'. While SACE has provided data on the supported renewable energy activities to the E3F, it is not sufficient to assess the share of broader climate finance. Moreover, similar to Q1.2, data is presented on an aggregated level only, and not at transaction-level. Even though a specific instrument, Garanzia Green, is targeting activities that comply with the EU Taxonomy (and only if located in Italy, thus not relevant for export finance), but not necessarily targeting climate mitigation. Hence, it is not possible to estimate the share of total climate finance over the total portfolio. Similarly, transactions earmarked as 'green', do not necessarily support activities that have a positive impact on climate mitigation. This is notably because

the EU Taxonomy – while providing an important starting point – includes also other activity types, e.g., sustainable activities, circular economy or water protection.

It is recommended that SACE defines 'climate finance' specifically based on project types that would qualify as such. Certainly, the decisive part of climate finance will and should be – in accordance with SACE's ambitions to support the Italian Green Deal – its renewable energy and related electric infrastructure portfolio. However, climate finance is typically considered more broadly than renewable energy finance only. Major multilateral development banks (MDBs), for instance, consider an activity-based approach with ten

separate categories to classify climate mitigation finance as well as an intention-based approach to denote climate adaptation finance (e.g., MIGA 2021). Ultimately, SACE and the Italian government should consider how SACE can contribute

to attaining international climate finance commitments under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement (Shishlov and Censkowsky 2022; OECD n.d.).

Q1.4: To what extent does the institution adhere to the Recommendations and Supporting Recommended Disclosures of the Task Force on Climate-related Disclosure (TCFD)?

This assessment question was scored 'Unaligned'. SACE does not adhere to the TCFD. To some extent, it does report information that is aligned with the TCFD recommendations, as it recently developed a methodology for evaluating (along with political and credit risks) the risk related to climate change. SACE developed together with the ENEL Foundation a methodology to include, along with policy risk and credit risks that are traditionally used for an ECA operation, also the climate change risk (see Section 3). However, the tool is applied only at country level and not at transaction level: the results indicate the country-risk but do not assess the impacts of selected investments in terms of

contribution to emissions or to the country's decarbonization. Moreover, the reporting is only partially aligned to the TCFD recommendations. For instance, there is no disclosure on the Scope 1, 2 and 3 emissions, nor on how the management utilizes the information on the climate risk to adjust its own strategy.

We recommend SACE to fully adhere to the TCFD recommendations revising its own reporting procedures and structure, thus increasing the degree of detail of the reported information and data.

4.2. Dimension 2: Ambition of fossil fuel exclusion or restriction policies

The second assessment dimension is underpinned by three key questions covering the ambition of fossil fuel exclusions and/or restriction policies by type of fossil fuel. Today, the most notable policies emerged from the signatories of the Statement on International Public Support for the Clean Energy Transition and members of the E3F coalition. However, the majority of G20 governments only vaguely committed to climate- and or sustainability-related targets, that have

substantive interpretative leeway. Due to the pre-eminent importance of rapid phase out of public support for fossil fuel value chains, the methodology weighs this assessment dimension with 40%.

In this assessment dimension, officially supported Italian export finance was rated as 'Unaligned' with an assessment dimension sub-score of 0.33/3.00.

Q Nr.	Dimension 2 – key questions	Rating
2.1	Coal: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?	Some progress
2.2	Oil: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?	Unaligned
2.3	Natural gas: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chain?	Unaligned

Q2.1: How ambitious is the ECA regarding exclusions or restrictions for support of coal and related value chain?

This assessment question was rated with ‘Some Progress’. SACE adopted a policy that bans all investments in power generation from coal (regardless of the technology used) and only facilities that apply CCS would be evaluated on a case-by-case basis (SACE 2022b). However, the exclusion of coal from the eligible activities only refers to thermal coal, and no information is provided regarding other types of coal, e.g., metallurgical coal. This type of support is still eligible as part of SACE’s portfolio and may exist in different industry sectors, including construction and mining.

We recommend SACE to comprehensively report on all elements of the coal value chain to provide clarity on the current level of support for such fuel type, in terms of number of projects and volume of finance provided both nationally and internationally. As a second step, we recommend developing a phase out plan in line with the IEA Net Zero scenario. These measures shall be coupled with increasing support to alternative technologies that can contribute to the phase out of metallurgical coal in those industries where coal is still the main source of energy and for which attractive substitutes are not yet there. Examples are the iron and steel sector, where new developments show that green hydrogen can play a more important role replacing coal.

Q2.2: How ambitious is the ECA regarding exclusions or restrictions for support of oil and related value chain?

This assessment question scored ‘Unaligned’. Italy signed the COP26 Statement on International Public Support for the Clean Energy Transition. However, within SACE’s own policies the only limitation to oil is related to avoidance of activities involving fracking or routine flaring. This leaves the door open for supporting many other investments along the oil value chain. As reported by E3F (2022) total finance provided to the oil sector in the period 2015-2020 reached almost EUR 3.26 billion (8% of the total portfolio) along the value chain supporting 14 projects. Oil and gas are always reported by SACE as one of the key sectors of interest (SACE 2021g; 2022b) raising criticism by the civil society. Most of the support to oil-related activities is expected to be within the international transactions: disaggregated data on domestic operations for 2021 (under Garanzia Italia) does not show clear indication of support to oil activities, even though polluting and fossil oil-dependent sectors such as the chemical/petrochemical or the heavy industry received support. It is interesting to note that the oil and gas sector received 2.2% of the total support provided under the Green Deal in 2021 (SACE 2022a). SACE is currently involved in different fossil fuel activities, including contested LNG extraction activities in Russia (the Arctic LNG 2), as reported by Recommon (2022a) and it just recently stopped support to activities in Russia following the invasion of Ukraine (Bloomberg 2022) while in another instance, SACE opted out from supporting the construction of the longest heated crude pipeline in Africa (Recommon 2022b).

We recommend that SACE stops any form of support along the entire oil value chain. This effort should be linked and understood in the context of phasing out subsidies to fossil fuels: the Italian government is aiming to reduce subsidies harmful for the environment including subsidies to fossil fuels. ECA support – even under competitive conditions – can be understood as subsidies following the WTO (1994) Agreement on Subsidies and Countervailing Measures (e.g., see Censkowsky et al. 2022). Harmful subsidies in Italy have been estimated at EUR 21.6 billion in 2020 (of which EUR 13.1 billion were subsidies to fossil fuels), down from EUR 24.5 billion in 2019 (of which EUR 15 billion EUR were subsidies to fossil fuels) (MITE 2021). Along with the subsidies provided domestically, MITE also highlights the importance of SACE as potential provider of indirect harmful subsidies due to the support provided by SACE to fossil fuel-related activities (MITE 2021). A full ban of direct (and indirect) support to oil-related activities by SACE would help redirect the financial flows to other less polluting activities and would contribute to the achievement of the Paris Agreement goals. Immediate stop of financial support to oil is a necessary step considering the world’s climate emergency and the responsibility of early industrialized countries for leading the transition (IPCC 2018; UNEP 2021; Censkowsky et al. 2021b).

Q2.3: How ambitious is the ECA regarding exclusions or restrictions for support of gas and related value chains?

This assessment question scored 'Unaligned'. The same justification as the one described above regarding support to oil activities applies. The overall volume of finance provided by SACE to natural gas activities in the period 2015-2020 reached EUR 4.25 billion and is thus higher than for oil. Considering the current energy situation at

global level, with fossil fuel prices increasing steadily, SACE should provide a stronger support to activities targeting energy efficiency and renewable energy generation. This would allow achieving a positive contribution to reducing emissions, as well as diversifying the energy mix and reducing dependency from costly imported fossil fuels.

4.3. Dimension 3: Climate impact of and emission reduction targets for all activities

The third assessment dimension is underpinned by three key questions regarding the climate impact and GHG emissions reduction targets for all ECA activities. To achieve the objectives of the Paris Agreement, not only rapid fossil fuel phase out is required, but other sectors also need to drastically reduce absolute emissions levels (IEA 2021). In the absence of comprehensive GHG accounting, the assessment of this dimension is difficult – however, where

possible, we look at second-best indicators to proxy the emission intensity of SACE's portfolio (e.g., fossil fuel-related energy sector finance). The dimension is assigned an overall weight of 20%.

In this assessment dimension, SACE scored 'Unaligned' with an assessment dimension sub-score of 0.00/3.00.

Q Nr.	Dimension 3 – key questions	Rating
3.1	Can a declining trend in GHG intensity of the total portfolio be observed? (tCO ₂ e/US\$, Scope 1-3 emissions)	Unaligned
3.2	How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)	Unaligned
3.3	To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?	Unaligned

Q3.1: Can a declining trend in GHG intensity of the total portfolio be observed? (tCO₂e/USD, scope 1-3 emissions)

In this assessment question, SACE was rated with 'Unaligned': there is no comprehensive GHG accounting system within SACE. This results in the lack of data to identify any emissions trend over time. SACE did not join the Partnership for Carbon Accounting Financials (PCAF) to calculate and disclose its portfolio-related emissions within the next three years. However, partial sectoral data may become available as SACE joined the Poseidon Principles to monitor GHG emissions in the shipping and cruising portfolio.

We recommend commencing the implementation of a GHG accounting system that allows SACE to monitor the evolution of carbon intensity of its portfolio thus enabling it to refine its own strategy with full consideration of the current emission levels and of the options available to reduce them. Most notably, we recommend joining the PCAF as the international best practice.

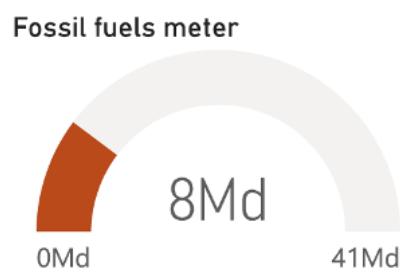
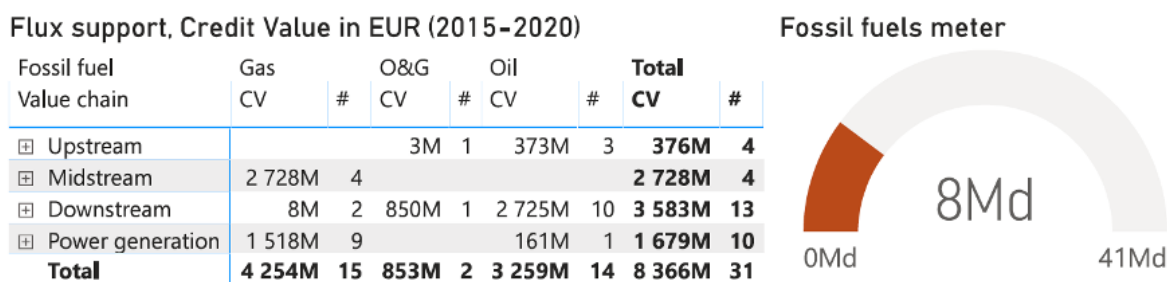
Q3.2: How significant is the fossil fuel financing relative to total energy-related portfolio? (average of the last three years of available data, where available)

The score for this question is “Unaligned”. Italy has been one of the most relevant sources of support for fossil fuels, ranking third among the signatory countries of the Glasgow Statement (IISD 2022). The most precise estimate is available from E3F (2022) that shows that SACE continues being the largest supporter of fossil fuels among the ten member countries²⁷ of the E3F initiative. The joint disclosure shows that SACE provided EUR 8 billion to fossil fuels during the reporting period 2015-2020, compared to a total portfolio exposure of EUR 42 billion today. At the same time, SACE only provided EUR 2 billion to renewables over the same period. As mentioned, oil and gas are key sectors for operations, with the highest share of financial support over the past 3 years, i.e., around 24%. To be aligned with the IEA (2021) Net Zero Energy pathway that aims at consistency with global

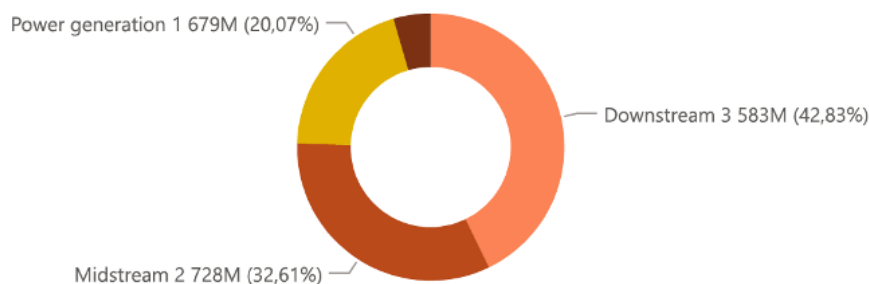
1.5°C, SACE must urgently phase down and terminate this exposure.

Thus, **we recommend** a rapid phasing out of the financial support to such activities, already in the very short term consistent with Italy’s commitment to end fossil fuel subsidies as well as the Glasgow statement. As mentioned above, a more granular reporting at transaction level, and clear information on the commitments outstanding (both project stock and flow), clearly highlighting those supporting renewables or mitigation actions as well as those supporting fossil fuels, would contribute to setting targets and monitoring progress over time towards the achievement of the mitigation goals.

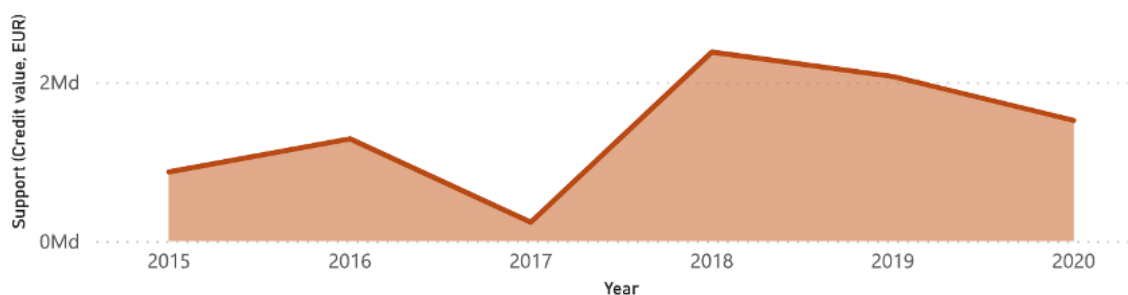
Figure 3: Fossil fuel transactions 2015-2020.



Flux support in EUR (2015-2020) - Value chain



Transactions - Recent trend



Source: E3F (2022)

²⁷ Next to Italy, this includes Belgium, Denmark, Finland, France, Germany, Netherlands, Spain, Sweden, and United Kingdom.

Q3.3: To what extent do all emission-relevant sectors have targeted GHG reduction targets and in how far are GHG reduction targets in line with benchmarks of acceptable 1.5°C pathways?

This question was scored 'Unaligned'. SACE requires the monitoring and reporting of the emissions in the shipping sector and set a goal of reducing related emissions by 50% by 2050. This engagement is part of the Poseidon Principles. However, no other emission reduction targets are available at portfolio level. SACE reports its Scope 1, 2 emissions but as described in Q1.1 does not report on financed or insured emissions (Scope 3 emissions). SACE reports business travel emissions and reported that 32 environmental targets have been introduced related to SACE's environmental direct impact (SACE 2022b). While laudable, this does not affect the lion's share of emissions that reasonably can be expected as part of the value chain emissions of third parties receiving financial support through SACE. Here, no specific target or commitment exists.

We recommend that SACE commissions an analysis to independent third-party actors to assess the consistency of its operations with a pathway towards 1.5° C by the end of the century. Under consideration of technological uncertainty, the Intergovernmental Panel on Climate Change (IPCC) (2018) P1 illustrative pathway (sector agnostic) as well as the IEA's (2021) Net Zero Energy pathway are the only pathways that can limit temperature overshoot. Having a third-party verification on targets and regarding

continuous monitoring of implementation is furthermore strictly recommended. The Science-Based Targets initiative (SBTi), for instance, supports companies in defining clear and credible mitigation targets and involves a third-party entity review process (SBTi 2022). SACE could itself establish an SBT to define the mitigation target consistent with the Paris Agreement's long-term goals. As a second step, SACE could consider offering more favourable terms and conditions to those customers that themselves have implemented SBTs.



4.4. Dimension 4: Climate finance: Positive contribution to the global climate transition

The fourth assessment dimension is underpinned by five key questions regarding an ECA's contribution to a just climate transition and sustainable development. Rapidly ramping up and improving climate finance is crucial to achieve the objectives of the Paris Agreement and contribute to a green

and just post-COVID recovery (Averchenkova et al. 2020). This dimension is weighted with 10%.

In this assessment dimension, SACE was rated 'Unaligned' with an assessment dimension sub-score of 0.40/3.00.

Q Nr.	Dimension 4 – key questions	Rating
4.1	What is the reported share of climate finance over total portfolio?	Unaligned
4.2	How can the quality/appropriateness of climate finance earmarks be assessed?	Some progress
4.3	What is the share of clean energy financing over total energy-related financing?	Unaligned
4.4	To what extent does the pricing structure take into account climate impacts of activities?	Unaligned
4.5	In how far does the institution ensure positive sustainable development contributions of its activities?	Some progress

Q4.1: What is the reported share of climate finance over total portfolio?

This assessment question is scored with 'Unaligned' due to a lacking definition of and absent granular reporting on climate finance (see Q1.3).

We recommend to report activities, both new commitments and existing ones, in a more transparent and disaggregated manner, to allow for estimates of the climate finance component and its share of the total portfolio.

Q4.2: How can the quality/appropriateness of climate finance earmarks be assessed?

This assessment question is scored with 'Some progress'. SACE performs an assessment of the activities it supports to verify its consistency with the EU Taxonomy for certain segments of its portfolio and publishes the results in the non-financial communication (SACE 2022b). However, it is not sufficient to provide a clear picture of the climate finance provided by SACE over the entire portfolio. The EU Taxonomy indicates six main objectives that one activity shall pursue to be considered green: a) Adaptation to climate change;

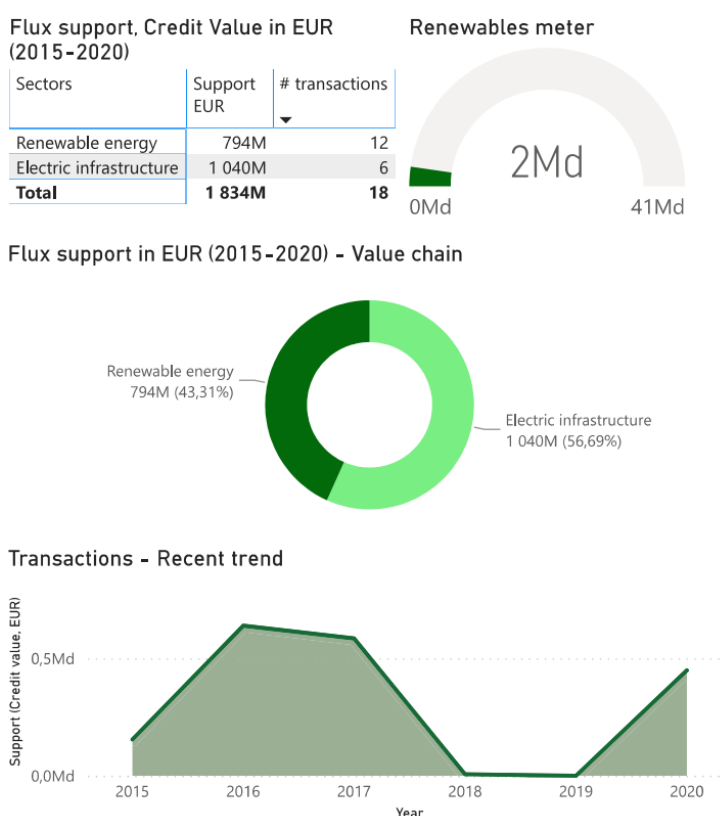
b) Sustainable use of water and sea protection; c) Circular economy; d) Pollution prevention and reduction; and e) Biodiversity protection. This means that not all activities complying with the Taxonomy have a positive climate impact. Whether this is the case would need to be evaluated on a case-by-case basis. We therefore recommend clearly defining climate finance earmarks and provide granular reporting accordingly (see more recommendations in Q1.3).

Q4.3: What is the share of clean energy financing over total energy-related financing? (average of the last three years of available data, where available)

Q4.3 was scored with the label 'Unaligned'. This assessment is the outcome of the joint transparency reporting under the E3F initiative of which Italy is part of. This allows performing an assessment of the financial flow to quantify the share of support for renewable energies over fossil fuels. The E3F

(2022) estimate shows that Italy provided around EUR 2 billion in support to renewables, over the total of EUR 41 billion (or 5% of the total) in the period 2015-2020 (Figure 4). As mentioned above, this compares to about EUR 8 billion for fossil fuels (see Q3.2).

Figure 4: Renewable energy and related infrastructure financing 2015-2020.



Source: E3F (2022)

We recommend SACE to provide stronger support to renewable energy and energy efficiency activities. This will allow the achievement of both reducing GHG emissions, while at the same time supporting the expansion of the renewable energy and energy efficiency markets for Italian exporters. Given the mandate of SACE, the ECA is well placed for playing a fundamental role both domestically (through

Garanzia Italia) and internationally (through the traditional support to export). Resources should be freed by reducing (until complete phase-out) of fossil fuel support. All new activities should aim at contributing to global mitigation, thus resulting in a significant re-direction of financial flows that is much needed, as shown by the data elaborated by E3F (see Figures 3 and 4).

Q4.4: To what extent does the pricing structure take into account climate impacts of activities?

The score to this assessment question is 'Unaligned'. SACE provides a wide range of financial instruments, but no information is available regarding different pricing structures linked to the environmental performance or to the carbon intensity of the underlying activity financed. As mentioned, earmarking sustainable activities is possible but only for activities in Italy through the Garanzia Green, and no pricing information is given.

We recommend implementing incentive mechanisms and price discrimination tools that would provide more support to mitigation and sustainable activities over carbon-intensive activities. The incentive can contribute to increase the demand from customers to be supported in the implementation of positive climate impacts. Different solutions can be introduced in each financial instrument to support positive climate activities.

Q4.5: In how far does the institution ensure sustainable development contributions from its activities?

The score to Q4.5 is 'Some progress'. SACE aligns its policies to relevant international policies, such as the 'Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence', requiring the use of the World Bank Group's safeguards and performance standards, to evaluate environmental and social impacts of the activities supported (SACE 2022b). Naturally, these safeguards apply to oil and gas transactions that can negatively affect communities in project host countries and impact sustainability more broadly. SACE also follows the Integrated Pollution Prevention and Control and the EU regulation 852/2020 (ECCO 2022). The ECA has its own ethical code that indicates the alignment of the company's operations with several United Nations Sustainable Development Goals (SDGs) and especially regarding environmental impacts, SACE aims at reducing its impacts from both the perspective of its own operations (reduce energy consumption, waste minimization and sound management, etc.) as well as in the relationship with clients and related to the investment it supports (SACE n.d.c). As mentioned, for certain oil and gas activities a specific assessment on the social and environmental impact is conducted, however (also considering the relevant share of finance directed to support fossil fuel-related activities), it is not possible to assess the actual extent towards which SACE aims to avoid polluting products or activities from its portfolio, as highlighted in the ethical code. SACE indicates

the intention to support 'sustainable' finance, and indeed the possibility of allocating resources to green activities (through Garanzia Green, although only for activities located in Italy), as well as joining the Poseidon Principles, indicate efforts in this direction. However, when considering the level of support to fossil fuels still provided by SACE, additional efforts are needed to achieve truly sustainable financing, as highlighted in several previous assessment questions. Strong concerns have been raised from non-governmental organizations on SACE's support to fossil fuel industry (e.g., Recommon 2022a). This has in some cases, for instance, the EACOP project, led to SACE stepping out of the project following pressure from civil society (Fridays for Future 2022; Recommon 2022b).

We strongly recommend that SACE revises its policies for supporting the oil and gas sector that – in all its extensiveness with which it permeates today's economic structures – lies at the root of sustainability problems, far beyond only climate change. SACE should design new instruments similar to Garanzia Green, but that can be available also for export finance, to earmark more resources towards 'clean' investments also abroad. We further recommend strengthening the environmental and social policies, applying them more consistently throughout the entire portfolio, communicating more transparently and minimizing any socio-economic and environmental risks.

4.5. Dimension 5: Engagement - Outreach and 'pro-activeness' of ECAs and their governments

The fifth assessment dimension is underpinned by three key questions aimed at capturing the engagement and ambition of climate and sustainability policies of the government and its ECA in international fora as well as with national exporters and banks. This dimension is weighted with 10%.

In this assessment dimension, SACE is rated as 'Some progress' with an assessment dimension sub-score of 0.00/3.00.

Q Nr.	Dimension 5 – key questions	Rating
5.1	To what extent does the institution itself or its government actively engage in relevant international fora (e.g., E3F, OECD, the Berne Union, WTO, or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?	Unaligned
5.2	To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?	Unaligned
5.3	To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?	Unaligned

Q5.1: To what extent does the institution itself or its government actively engage in relevant international fora (e.g., OECD, the Berne Union, WTO, E3F or the World Economic Forum) to liaise with like-minded for ambitious climate policies in the export finance system?

This assessment question was scored with 'Unaligned'. SACE reports regularly to relevant institutions, such as OECD and E3F, and currently the president of the Berne Union is the Chief International Officer of SACE (SACE 2020c). However, to our knowledge Italy did not publicly demonstrate any climate leadership in these fora. Moreover, according to informal reporting Italy was among the main countries watering down climate ambition at the latest E3F meeting in November 2022.

We recommend that SACE builds leadership as an E3F member country and pushes internationally for the introduction of climate-re-lated reform in the export finance system. In detail we suggest:

1. Enhance transparency in the communication and reporting and put pressure on peers to do the same in relevant fora.
2. Engage with like-minded partners under the OECD Arrangement pushing for more stringent definition of the Arrangement calling for a complete exclusion/restriction for oil and gas export finance and achieve a 'level playing field'.

3. Strengthen relationships with like-minded partners calling for a reform of export finance to move rapidly towards a full alignment with the Paris Agreement goals.
4. Enhance and publicly report on SACE's position in international climate-related negotiations involving policies in the export finance system.
5. Enhance and publicly report on progress on climate- and environmental diplomacy between the OECD and non-OECD members of the export finance system, through the IWG with China, the G7 and G12 Heads of ECA meetings as well as through the Berne Union.
6. Promote ambitious climate-related reforms for European competition policy with the Directorates General for Trade and Climate at the European Commission.

Q5.2: To what extent does the institution itself or its government actively engage in relevant national fora with view to implementing ambitious climate policies in the (national) export finance system?

Q5.2 was scored with 'Unaligned'. SACE's ethical code aims at transparency and collaboration with stakeholders. However, as far as we know, there is no comprehensive engagement system to involve relevant stakeholders when climate policies are defined. Relevant information on Category A and B projects are published by SACE, however, to our knowledge, a public consultation process to gather comments from the general public is not in place. No public consultation or stakeholder dialogue has been held on the alignment of export finance with the Paris Agreement's goals.

We hence recommend that SACE strength-ens outreach activities, such as roundtables or public events with the participation of NGOs, labour unions, Italian exporters as well as research institutions and academia, specifically with regards to the Paris alignment of officially supported

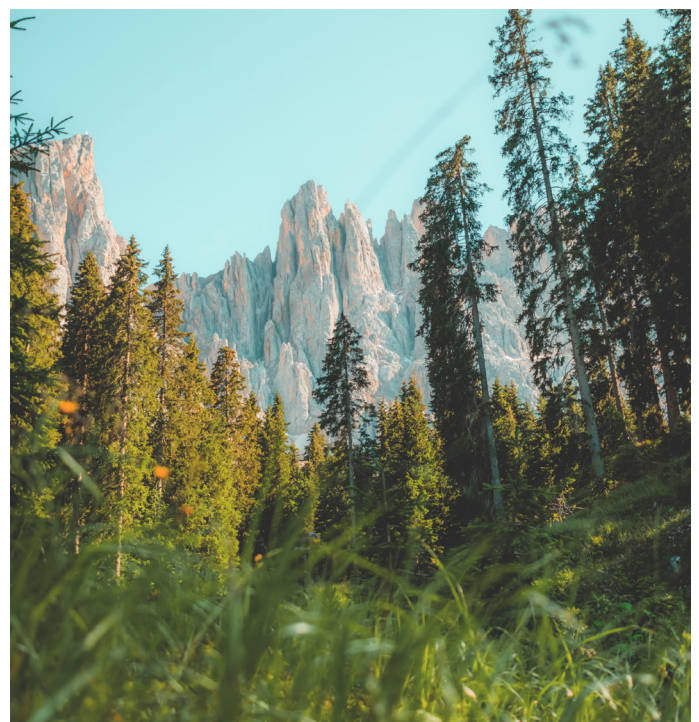
export finance through SACE and, more broadly, the status of implementation of the Italian climate commitments. SACE could for instance play a more important role in the delivery of the USD 1.4 billion (or around EUR 1.43 billion) of climate finance promised by the Italian Government last year (Republic of Italy 2021b) and leverage its strong position to support climate-friendly activities while at the same time contributing to the commitments of phasing out subsidies to fossil fuels by next year and redirecting financial flows toward renewables (ECCO 2022). SACE could also be leading an initiative that brings together academia, experts and representatives from relevant stakeholders as well as from the civil society in Italy, to contribute to defining how to align export finance, as well as other financial flows, with the Paris climate goals.

Q5.3: To what extent does the institution or its government actively engage with national companies to transform fossil fuel-related value chains and incentivize low GHG exports?

This assessment question was scored with 'Unaligned'. As shown above, SACE is still very active in the oil and gas sector and its contribution to renewables is limited in comparison. In addition, the new instrument that aims at clean projects, the Garanzia Green, has only a budget of EUR 300 million and only focuses on activities implemented in Italy and it is not related to export finance. Overall, there is no evidence to our knowledge that SACE is actively engaging with existing national customers in re-directing financial flows to less GHG-intensive activities or products, nor is there a specific form of support that can be given to companies that aim at exporting low-carbon technologies. At the same time, SACE received criticism for its support to national companies deeply involved with fossil fuels, such as ENI, for which SACE provided support for several oil and gas activities that led to controversial projects such as in Mozambique for the projects Mozambique LNG and Coral South (Recommon 2021).

We recommend that SACE works more closely with relevant national exporters and engages with new Italian customers that have the potential to export low-carbon technologies to elaborate on how to support climate-friendly exports. In addition, SACE should start discussing with its current customers involved in the oil and gas sector or involved in the promotion of polluting activities/products to rapidly transform their business fields. Since SACE provides services also to banks and financial intermediaries, it can exert pressure to phase out support to fossil fuels, in line

with national and international commitments. To reduce opposition by companies and by segments of the public and to address concerns related to the potential loss of jobs or price increases, it is suggested to work closely with other national authorities to understand in detail the socio-economic implications and the potential need to adopt complementary policies to compensate short-term economic losses and especially jobs as fossil fuels are phased out.



5. Conclusions and recommendations

In this study we applied a multidimensional methodology to assess the 'Paris alignment' of SACE, the official ECA operating on behalf of the Italian government. The study finds that the Italian export finance system is 'Unaligned' with the objectives commonly agreed under the Paris Agreement.

SACE is still providing significant support to the oil and gas sector, which has traditionally been one of the most important sectors of operation for the ECA. In comparison, support to renewables stood only at about ¼ of that provided to fossil fuels in the period 2015-2020. This stands at odds with the national and international commitments by the Italian government. To facilitate transparency towards the general public as well as to facilitate the oversight role of the Ministry of Economy and Finance which controls SACE, more granular reporting would be needed, including implementing a system to quantify the carbon intensity of the investment portfolio. Joining the Poseidon Principles is an initial step, as SACE will commence monitoring and reporting GHG emissions due to activities in the shipping and cruising sector. This practice shall be tested and then implemented at the entire portfolio level. This will enhance transparency but will also allow tracking progress towards climate goals and the overall alignment to the Paris Agreement.

A dedicated instrument, Garanzia Green, targets green and sustainable projects and exists since 2020. Its budget should be expanded and more transparent and stringent definitions of what constitutes a sustainable activity should be provided. The instrument is however only available for activities located in Italy, thus not applicable to export finance. Priority on emission reduction activities should be given, for instance through the definition of dedicated pricing structure that would incentivize and facilitate investments in low-carbon technologies and exports. This should go in parallel with the phasing out of support to any fossil fuel activity (domestically and abroad). Italy is only a small producer of fossil fuels (oil and natural gas); thus, the transition of the related companies and workers could be managed, although impacts on the economy shall be studied in detail and relevant complementary policies adopted, e.g., to mitigate potential job losses. A recent study (ENEL Foundation and European house-Ambrosetti 2022) shows that investing in the achievement of the net zero target by 2050 (and of the mid-term objective of reducing GHG emissions by 55% by 2030) would generate social, economic and environmental benefits. It highlights very high dependency of Italy on

natural gas, which in the current context of raising energy prices and lack of international stability is very dangerous for the country. SACE therefore should contribute more significantly to speeding up the energy transition phasing out support to fossil fuels as required by the international commitments taken by Italy and progressively but rapidly align its operation to the Paris Agreement goals. Best practices exist, like the UKEF (the ECA in the United Kingdom) that recently phased out nearly all financial support to fossil fuels (Shishlov et al. 2022). Moreover, it has been projected that the UKEF transition will entail positive employment effects since other industries are far more labor-intensive (e.g., Vivid Economics 2020; Molnár et al. 2022).

Recently, SACE's board of directors has been renewed (whose importance has been highlighted by the Corte dei Conti²⁸ due to the relevance of SACE operations for export and for the Italian economy) in May 2022. In addition, new elections (held on September 2022) can bring changes in the Government and thus also in the Ministry of Economy and Finance that controls SACE. Moreover, Italy is member of the G7 and G20 groups (Italy held the G20 Presidency in 2021). In this context, it is important to ensure oversight over potential new regulatory developments that may affect SACE's policies on support to fossil fuels and more broadly on climate change. For example, it remains to be seen how the new government will tackle existing and exacerbating economic impacts due to the war in Ukraine that is leading to a massive increase in the energy bills for companies and households, and what instruments it will use. SACE can be in the firing line for countering these adverse impacts, but whether this will result in an increased support to fossil fuels (e.g., to diversify the sources of natural gas imports beyond Russia) or in stronger support to renewable energy development (e.g., supporting domestic companies in scaling up installation of wind and solar capacity or in the import of specific required technologies/devices) remains to be seen. While the increasing energy costs are rightly capturing media coverage and the public's interest, the risk is that environmental impacts of the decisions made to counter the economic impacts will be underestimated.

All recommendations for the Italian government and SACE are summarized per assessment dimension in Table 2 below.

²⁸ The Corte dei Conti is the entity overseeing the legitimacy of government acts related to the management of the State Budget and participates in the oversight of over the financial management of public entities.

Table 2: Summary of key recommendations per assessment dimension

Key recommendations for the 'Paris alignment' of officially supported Japanese export finance	
Financial and non-financial disclosure and transparency (Dimension 1)	<ul style="list-style-type: none"> Track and disclose GHG emission reporting in accordance with the international best practices, e.g., PCAF Disaggregate portfolio data on fossil fuel and renewable energy support across full value chains Where possible, disclose transaction-specific data and information Define climate finance using unambiguous lists of activities following international best practices Increase relevance of climate-related assessment to the specific transaction, not only as a climate risk, but also based on the investment's contribution to (or to tackling) climate change
Ambition of fossil fuel exclusion or restriction policies (Dimension 2)	<ul style="list-style-type: none"> Expand the coal exclusion policies and phase out support to metallurgical coal, mining, transport, and related infrastructure Immediately cease support for oil and gas investments throughout the entire value chains, including LNG Reallocate resources from fossil fuels to the sustainable and clean investments, clarifying further what constitutes a 'green' activity
Climate impact of and emission reduction targets for all activities (Dimension 3)	<ul style="list-style-type: none"> Implement a GHG accounting system to monitor the evolution of the carbon intensity of portfolio Rapidly phase out of the financial support to fossil fuels, consistent with Italy's commitment to halt fossil fuel subsidies Utilize a third-party to set science-based mitigation targets consistent with Paris Agreement's long-term goals and to continuously monitor the implementation status, e.g., through the SBTi
Contribution to a just climate transition and sustainable development (Dimension 4)	<ul style="list-style-type: none"> Define climate finance and enhance the granularity of the related reporting Increase the support to renewables and climate-friendly activities, while reducing support to fossil fuels Define incentive mechanisms and price discrimination tools that would strengthen the support to mitigation and sustainable activities over carbon-intensive and unsustainable activities
Outreach and 'pro-activeness' of the ECA and its governments (Dimension 5)	<ul style="list-style-type: none"> Engage with peers to enhance transparency of the reporting Engage with like-minded partners in different fora to call for a complete phase out of fossil fuels support in export finance Engage with relevant companies to identify more appropriate manners to support climate-friendly investment and to push companies involved with fossil fuels to transform their businesses

Note: Please refer to the respective sections above for fully detailed recommendations.

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