The Green Deal

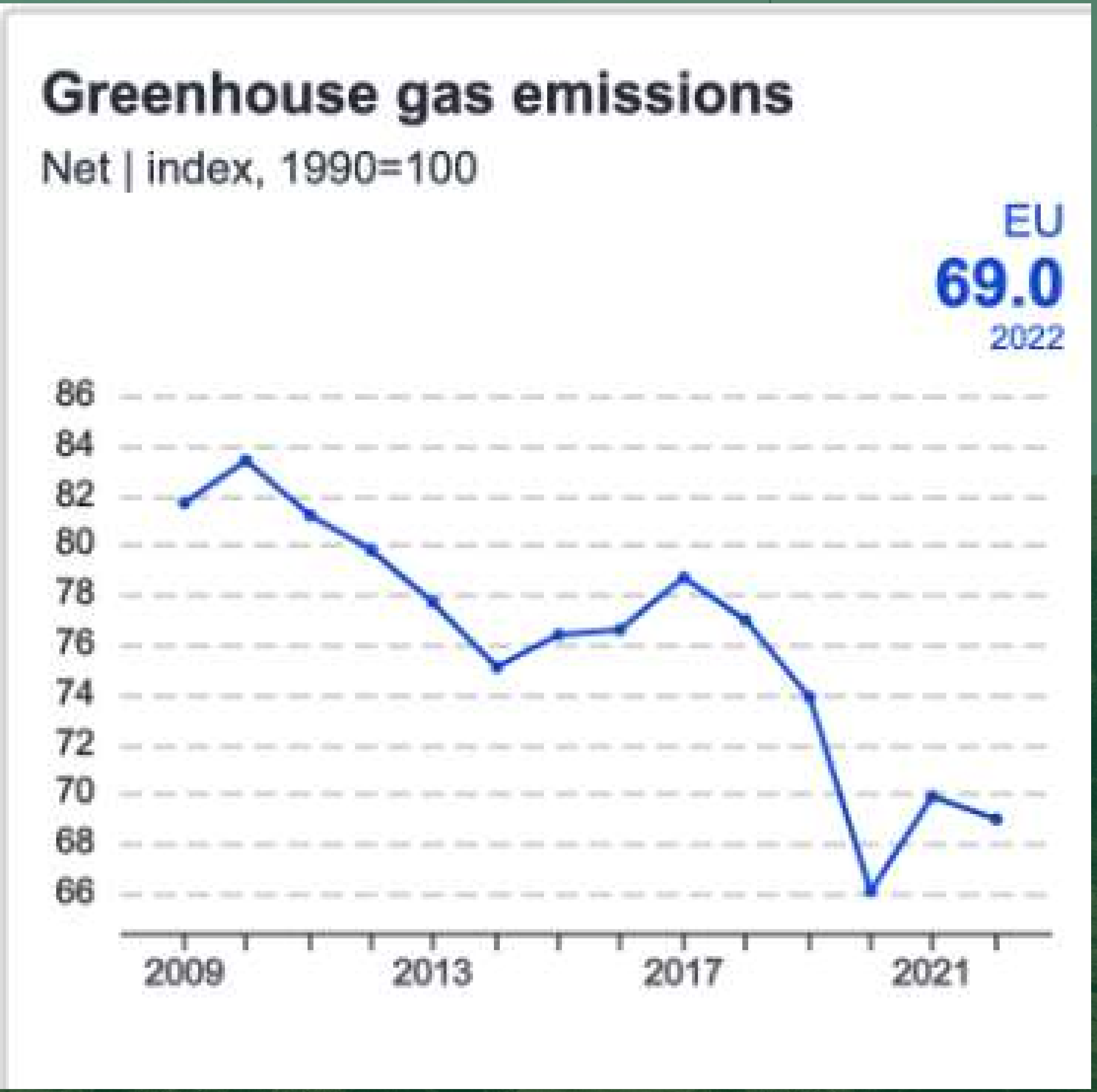
Funding the future: Challenges and Solutions

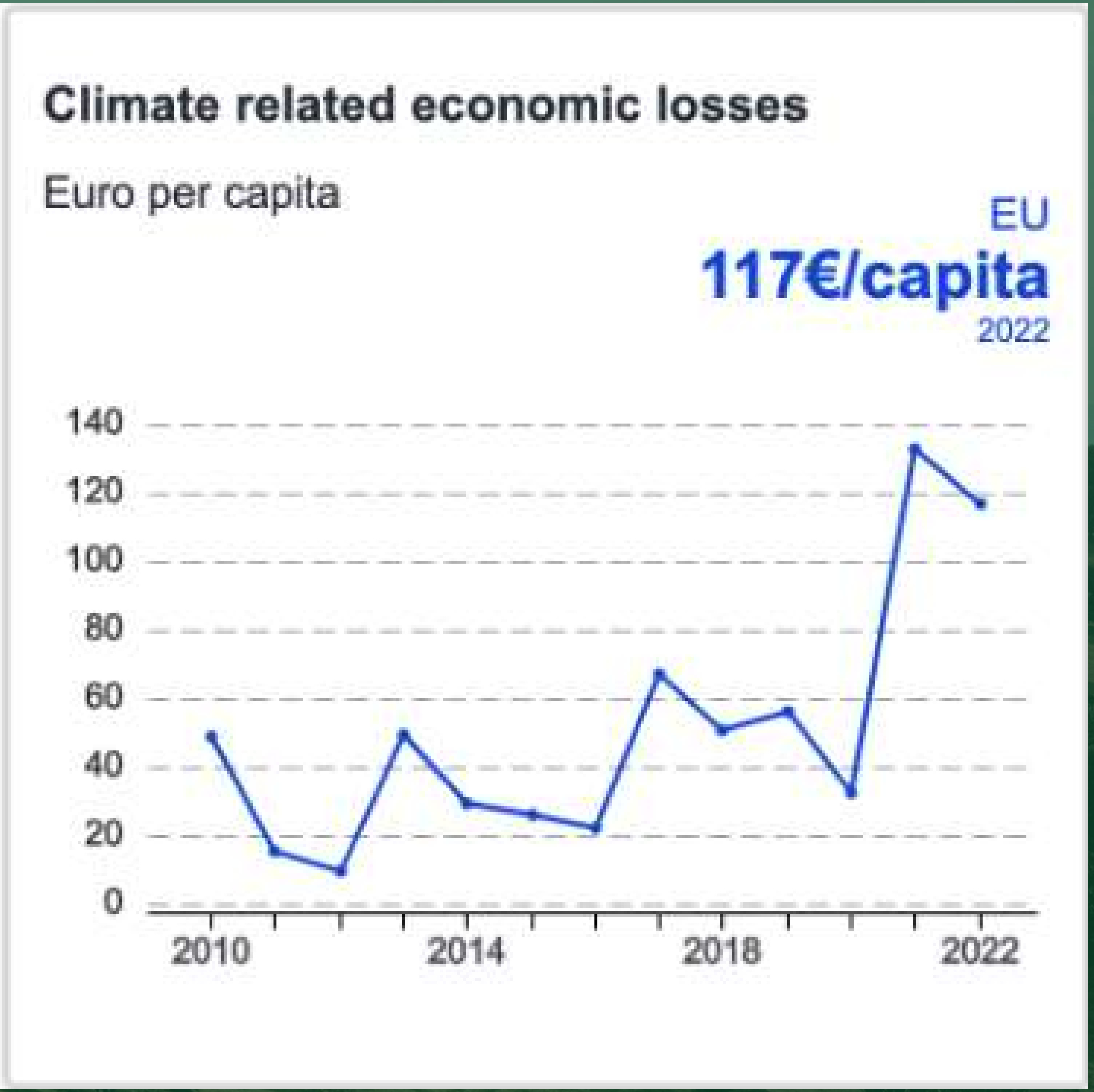
Bocconi students for ESG- policy analysis team

Main criticalities

- **Lack of private investment** to support renewable energy, cleantech innovation, and transition of "hard-to-abate" industries (EIIs).
- EIIs contribute 21% of EU emissions and face high costs in transitioning to greener technologies, making them uncompetitive against state-subsidized foreign competitors.
- The decarbonization efforts without sufficient private investment can lead to **deindustrialization** and increased reliance on imports for key materials, such as steel and chemicals.

Climate related losses





Current approach

InvestEU:
To raise €372 billion by 2027, focusing on green projects.

EU Budget & NextGenerationEU fund:
Contributes €427.5 billion as of 2023

European Investment Bank (EIB):
It supports projects aligned with the Paris Agreement.

Just Transition Mechanism (JTM):
Mobilizes €55 billion to support regions and industries reliant on fossil fuels.

Project	Advantages	Disadvantages
InvestEU	Provides guarantees to lower investment risks and attract private financing.	Investment levels remain insufficient, and the complexity of access limits full private sector engagement.
EU Budget & NextGenerationEU Fund	Supports large-scale public projects; foundational to the Green Deal's funding.	Heavy reliance on debt issuance, which risks long-term economic sustainability.
European Investment Bank (EIB)	Pledged 58% of its 2022 financing (€36.5 billion) to climate-related projects.	Limited scope for private sector engagement, primarily focuses on large-scale public projects.
Just Transition Mechanism (JTM)	Helps regions at risk of economic decline due to the transition.	Funding has been reduced from initial projections, limiting its impact.

Policy options

Regulation of ESG Credit Rating Agencies

Sustainability-linked green bonds

Amend the Sustainable Finance Disclosure Regulation (SFDR):

A % of pension fund investments should be in high ESG rating instruments

Regulation of ESG Credit Rating Agencies

- Ensure ESG rating methodologies align with the EU Taxonomy, providing transparency and comparability.
- Mandate minimum disclosure requirements for ESG rating agencies.
- Introduce data validation guidelines to standardize ratings.

Sustainability-linked green bonds

- Offer a flexible hybrid financial instrument to attract private investors.
- Align SLGBs with Green Bond standards while allowing flexibility in the use of proceeds.
- Encourage market participation by simplifying compliance for companies.

Amending the SFDR

- Require financial market participants to disclose ESG credit ratings for bonds.
- Introduce measurable criteria for ESG and sustainability claims in bond names to prevent greenwashing.
- Establish a quantitative threshold of EU Taxonomy alignment for ESG terms.

Pension fund investments

- The EU should improve pension fund development by encouraging household savings to flow into long-term investment products, such as private pension funds, to support capital markets.
- The EU should promote second-pillar (employment-based) pension schemes.

Final recommendations

- **Monitor & Report**: The European Commission should monitor implementation progress and publish biennial reports starting in 2026.
- **Incentivize High ESG Ratings**: Develop an incentive structure to reward companies achieving high ESG ratings, stimulating private investment flows into sustainable sectors.