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The new British Government has announced the creation of a £7.3 billion **National Wealth Fund** (NWF) to help drive the UK's shift towards a low-carbon economy by attracting private investment. The NWF will provide funding to British companies, reflecting a growing trend of active industrial policy in Europe.

For Italy, the NWF is an interesting foreign policy initiative as it may share similarities with Italy's recently announced **Fondo Nazionale del Made in Italy** (FNMI). While the NWF is still in the design phase, the recommendations by the NWF taskforce offer valuable insights for Italy as it prepares to launch its own Fund this year.

Britain's National Wealth Fund

The establishment of the NWF will mark a significant change in the landscape of UK publicly owned investment institutions. Traditionally, the UK has not had a large publicly-owned national development bank, unlike France's *Caisse des Dépôts* or *BPI*, Germany's *KfW*, or Italy's *Cassa Depositi e Prestiti* (CDP). Such institutions have been more prominent in other European countries with a more "coordinated market economy" compared to the UK's more liberal model.[1] These institutions are all different from each other, but they typically enable governments to retain some influence over assets considered "strategic",[2] and over channelling credit towards corporates, SMEs, and local governments.

The UK has two main domestic public financial institutions with relatively limited mandates and resources. The *British Infrastructure Bank*, established in 2021, has up to £22 billion in capital (though only £600 million was deployed by 2023) and aims to fill the gap left by the European Investment Bank

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[1] Peter A. Hall and David Soskice, Varieties of Capitalism, OUP, 2001.

[2] Governments have often transferred assets from direct ownership to indirect control through national development banks yielding net gains for public finances. These institutions typically fall within the national budget and public debt calculations. Conversely, in the UK, public investment institutions are included in the Public Sector Net Debt, constraining their capacity to scale up and leverage their balance sheets. This limitation was highlighted in a recent paper by the London School of Economics:
(https://www.lse.ac.uk/cetex/publications/designing-a-uk-fiscal-framework-fit-for-the-climate-challenge/?mc_cid=e3a1383559&mc_eid=a01f1be83c).

in the UK after Brexit. *The British Business Bank*, with £3 billion in assets (significantly expanded during the pandemic), focuses on venture capital and SME lending.[3]

The Labour party promised to create the NWF and asked the Green Finance institute, which has been working with UK asset managers and former Bank of England Governor Mark Carney, to provide recommendations on the fund's design. The recommendations were published in July and the UK Treasury will finalize the NWF setup in the coming months.

The Fondo Nazionale for Made in Italy

In December 2023 the Italian government established the Fondo Nazionale del Made in Italy (FNMI) "to support the growth, strengthening, and revitalization of national strategic supply chains, aligning with national industrial and economic policy objectives," and including "procurement, recycling, and reuse of critical raw materials to accelerate the energy transition."[4]

The FNMI is established under the Ministry of Economy and Finance with an initial allocation of 1 billion euros and the ability to raise private capital. The government appears ready to guarantee that private investors will be reimbursed and receive any additional profits generated. The public funding has been reallocated from funds previously allocated to Italy's national development bank, CDP, and its management company focused on supporting venture capital (CDP Venture Capital Sgr Spa).

The FNMI itself is not an investment vehicle. The government will appoint a fund manager, though it is unclear whether it will be CDP or another entity that will take on this role. The fund is authorized to invest, directly or indirectly, in the equity of joint-stock companies and cooperatives headquartered in Italy with the exception of banking, financial, or insurance companies. Investments will be made under market conditions and in compliance with EU state aid regulations. However, key elements of this fund's design are still to be determined: the fund's investable universe, the channel for raising private capital, the setup of the investment vehicle, and the fund manager will be established in a decree (*decreto attuativo*) by the Minister of Economy and Finance, in collaboration with the Minister of Enterprises and Made in Italy.

Insights for the design of Italy's Fondo Nazionale for Made in Italy

The preparatory work for the NWF offers helpful insights for the Italian government in implementing its FNMI. Both initiatives aim to support "nationally strategic industries" but with some differences. The UK seems more focused on supporting the shift to a low-carbon economy, whereas the FNMI's

[3] The UK also has a separate 10 billon dollar development finance institution, *British International Investments*, that invests exclusively in the private sector in developing countries.

[4] Law n. 206, 27 December 2023, art. 4:
https://www.gazzettaufficiale.it/atto/serie_generale/caricaArticolo?art.versione=1&art.idGruppo=2&art.flagTipoArticolo=0&art.codiceRedazionale=24A00002&art.idArticolo=4&art.idSottoArticolo=1&art.idSottoArticolo1=10&art.dataPubblicazioneGazzetta=2024-01-15&art.progressivo=0
Accompanying documentation to Law n.206, 27 December 2023, art:
https://www.camera.it/temiap/documentazione/temi/pdf/1411555.pdf?_1722289298302

mandate is broader and arguably less focused. Moreover, the FNMI can, by law, provide only equity (directly or via intermediaries), while the NWF is expected to have broader financial product offering. Nevertheless, five aspects are noteworthy and relevant for Italy's FNMI.

Insight 1. Mission finance needs proper industrial grounding

The British Treasury presented the NWF as an example of "mission-driven finance" – in this case, for a green industrial transition. Mission-driven finance typically means that publicly minded financial institutions should "aim to support projects and/or technologies related to specific challenges (e.g. renewable energy within the overall goal of achieving just green transitions), rather than following 'directionless' mandates such as supporting 'competitiveness' or 'economic growth." [5]

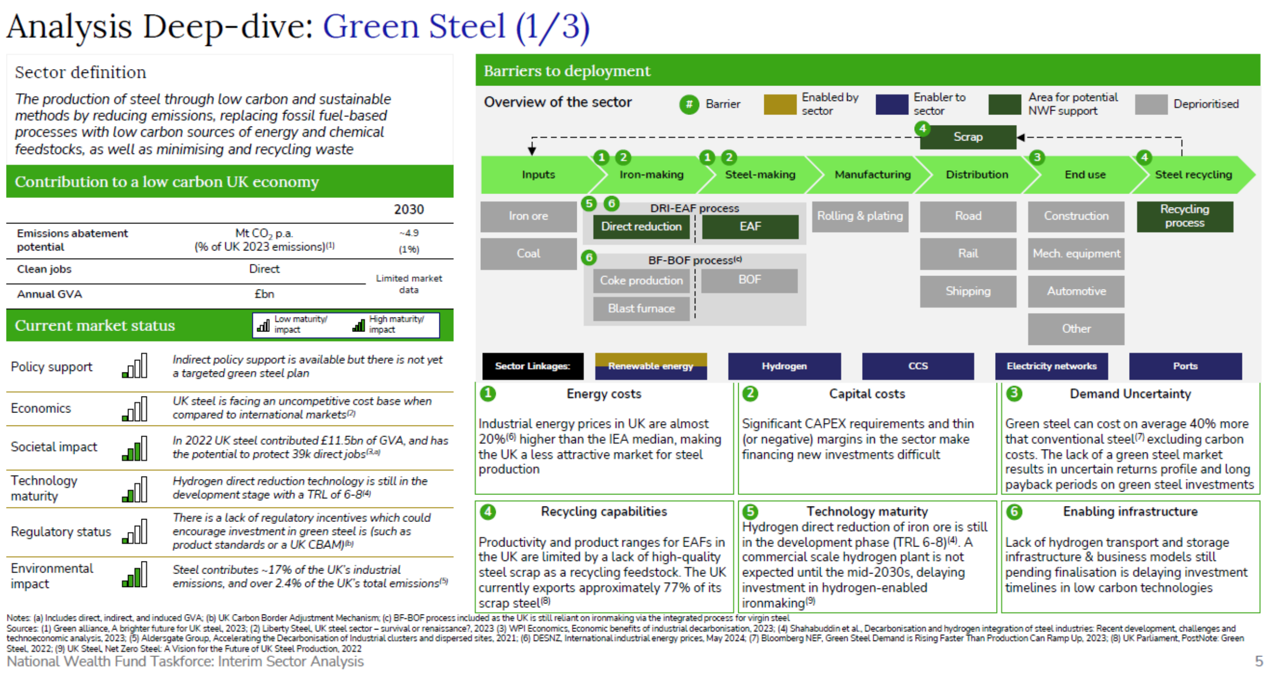
The British government already identified five initial priority sectors: Green Steel, Green Hydrogen, Industrial Decarbonisation, Gigafactories (to produce EV & grid-scale batteries). Based on this prioritisation, the NWF Taskforce published an assessment of each of these sectors' value chains. It looked at the barriers for development and in each sector it prioritised segments of the value chain to intervene in, and with which instruments. This is a critical and often overlooked part of a successful industrial policy. Industrial policy must be grounded on a thorough understanding of each industry. This expertise typically sits with industry practitioners and thus a key design aspect for these public initiatives is how the government can build in-house competences or access them while retaining policy steer. Importantly, government officials should also acknowledge the limits of their planning capacities.

The mandate of the Fondo Nazionale del Made in Italy (FNMI) includes investing in "strategic sectors," "energy transitions," "access to/recycling of critical raw materials," and the "circular economy." However, this focus is unhelpfully broad. Italy's CDP already offers a wide range of financial products, including general corporate lending and Private Equity funds/funds of funds targeting venture capital, SMEs, and infrastructure.

For the FNMI to be effective and truly additional, the government needs to narrow its focus on selected sectors and appoint a fund manager with relevant sector expertise. An investment strategy should then be developed based on a thorough understanding of the barriers of each sector's value chain. This investment strategy should be designed and owned by the appointed fund manager. It should be flexible in order to be adjusted to market conditions and expanded to new sectors over time, and regularly discussed with the government.

[5] Maria Mazzucato, *Financing the Sustainable Development Goals through mission-oriented development banks*, UN DESA 2023.

Figure 1. Example of sector analysis for the NWF



Source: National Wealth Fund Taskforce, Interim Sector analysis provided by KPMG

Insight 2. Public resources should be used for innovation, including in capital intensive sectors

The NWF task force invited the UK government to use the NWF to catalyse new industries and business models, enhancing the UK's industrial competitiveness and creating jobs. The fund should not protect struggling industries or be used to safeguard employment.

The UK government has chosen five priority sectors, which are either highly capital-intensive or require significant technological innovation to become profitable at scale. With stagnant productivity across Europe and the UK, innovation and decarbonization are the strongest reasons for directing public capital into private enterprises. For this reason, the NWF taskforce recommended that the fund should operate on commercial terms but taking higher-than-commercial-capital risk—especially project execution risk—in capital-intensive industries. At fund level the NWF might aim for portfolio-level returns similar to those of UK government bonds. However, individual deals should target commercial-level returns, to justify the risk taken, and use instruments (e.g. hybrid debt/equity products) that would allow the public fund to offset the losses that will be incurred by some failing projects with the upside from the successful ones.

Like NWF, Italy's FNMI should be willing to take on more risk than commercial investors and include also capital-intensive sectors like green steel and green hydrogen. This higher-risk appetite can help attract private capital to the companies it supports. The FNMI's investment policy should reflect this by setting a financial return target around the government's cost of funding, with the expectation that actual investment returns will be at commercial levels, but with a higher risk tolerance than typical commercial investors. Italy already has a range of instruments to support Private Equity (via funds or *direct investments managed by the Fondo Italiano di Investmento).[6] The additional value of the FNMI could be in a higher-than market risk appetite and in catalysing private capital into capital intensive sectors. Additionally, the FNMI should focus its investment policy on companies with growth potential, as it is unlikely to be well-suited for managing turnarounds of distressed assets.*

Insight 3. Investment decisions should be made independently of the government

The NWF task force recommended that the fund be managed by market professionals, making investment and operational decision at arms' length from the government. This is how the British Infrastructure Bank already operates, and there is a broad political consensus in the UK that this is critical for success. Ensuring this independence requires a rigorous approach, including the establishment of an independent Board, multi-year capital allocations aligned with a long-term strategy, and the creation of an independent investment committee.

The NWF task force recommended that the fund set up an investment committee with external sectoral experts who are not Board members and who operate within an Investment Policy formally agreed by the government with defined success criteria. Compensation should match private sector expectations, including a performance-based element, to attract individuals with credible track records. This independence is a prerequisite to mobilise private capital and ensure professional management.

It is essential that the FNMI make investment decisions at arm's length from the government and with a time-to-market coherent with its private competitors. The Ministry of Finance is expected to set by executive decree (decreti attuativi) the eligibility criteria for accessing the fund and the product offering. These should be delegated to the Fund manager or kept at minimal level. The Government should instead enshrine in an Investment Policy agreed with the Fund Manager the financial return target, the clearly defined priority sectors, and the key impact objectives. Regarding compensation, the law establishing the FNMI capped the remuneration of the fund manager to 2.5 million euro per year, which may be significantly below market rates for actively managing a 1-billion-euro portfolio. The compensation framework should be set only after the structure of the fund is finalised.

Insight 4. Strong public oversight and flexible implementation

The NWF taskforce recommended that the UK government exercise restraint in dictating the allocation of resources or defining product offerings. The NWF should have the flexibility to structure products on case-by-case basis. Off-the-shelf financial products may be too simplistic and an ineffective use of public capital for this mandate. For example, for high capital-intensive sectors like ports, debt financing on "prudent commercial" and "no-regret basis" would be preferable. New technologies for batteries and steel require patient early-stage equity, and industries with price volatility require derisking with price guarantees to become investable by private capital. This type of flexibility, the NWF task force argues, would allow the fund to be most additional and market driven. Similarly, the fund manager, and not the government, should determine the fund capital allocation. Spreading capital across several

[6] Details available at:
https://www.fondoitaliano.it/it

'pots of money' and ring-fencing them can limit the impact by restricting the types of deals the fund can undertake.

This recommendation builds on a recognised best practice for managing public financial institutions. Governments should define ex ante and enforce success criteria to hold independent management to account, rather than directing investments. Success criteria are most likely going to be a range of metrics rather than a single headline target such as "employment" or "greenhouse gas emissions avoided." The definition of success would be the creation of competitive advantage in the selected sectors and the crowding in of private capital, including by exiting the investments made.

The definition of eligibility criteria for accessing the fund (e.g., types of companies) and the product offering should be fully delegated to the FNMI fund manager. Defining these criteria with Government decree significantly reduces the ability of the fund manager to exercise commercial judgements and deploy capital effectively. Most importantly, it sends the wrong message to the fund manager, which must be assessed on its commercial and impact performance, not on the application of over-prescribed eligibility criteria. This is the model applied by the most successful public financial institutions globally, including by most private equity funds that CDP, and its Italian subsidiaries, have already invested in.

Figure 2. The recommended product offering for the NWF

- **Equity**, with the ability to invest in both **projects** and **funds** that pose higher levels of risk. The NWF could consider deploying non-control equity for greater speed to market in the immediate term.
- **Concessional debt** (providing loans below standard market rates) where this is required alongside other forms of capital that cannot be sought elsewhere.
- **Guarantees** and **wider price assurance options** (further detail on example price assurance mechanisms is provided in the appendix), deployed in a coordinated manner. This could include:
  - **Contracts for difference** to stabilise revenues at a set rate, guarding against losses in volatile markets in more established projects and industries.
  - **Off-take contracts** to ensure revenue stabilisation before production begins, particularly for less established projects and industries.

Charging for the provision of guarantees would also enable the NWF to benefit from potential upside. Where there is a clear case, and it sits within broader objectives and mandates, investment through third-party funds should also be in scope.

Source: National Wealth Fund Taskforce

Insight 5. Crowding in private capital is essential for success and should start at the deal level

To mobilise private capital, the NWF task force recommended a fund design that crowds in private capital at the 'deal level' (i.e. bringing in private capital in specific deals) rather than at the 'fund level' (i.e. raising private capital which it then invests on behalf of other investors).

This is consistent with the approach taken by the Canada Growth Fund and the Australian CEFC. It reflects the challenges of getting private investors to commit at the fund level when there is limited track record and lack of clarity on returns at the portfolio level. Fund level mobilisation can occur at a later stage.

The law establishing the FNMI allows the fund to raise private capital. Initially, however, the FNMI should prioritize mobilizing capital at the deal level, rather than at fund level. It should provide cornerstone capital in higher-risk deals, which will help establish a successful track record. Attracting private capital early on, while appealing, could be counterproductive. The involvement of institutional capital at an early stage might diminish the fund's risk appetite, as these investors tend to be more cautious. This would undermine the fund's goal of demonstrating the financial sustainability of certain types of deals to institutional investors.

The FNMI should focus on showcasing that investments in new sectors and asset classes can become financially viable at scale. This demonstration effect is essential to encourage institutional investors to allocate more resources to these areas. For long-term success, it is vital to illustrate that such deals can be profitable, thereby attracting the necessary private investment. Public resources alone will not suffice to achieve the government's policy objectives, making the attraction of private capital over time a critical component of the FNMI's strategy.

Conclusions: making mission driven finance work at EU level

In her reappointment speech to the European Parliament, Commission President Ursula von der Leyen proposed the creation of a new **European Competitiveness Fund** that would invest in "strategic technologies such as AI, space, cleantech, and biotech."[7] This appears to be the successor to the largely symbolic European Sovereignty Fund presented by the outgoing Commission, which struggled to receive the necessary capital commitment from member states.

The proposed design of the UK's NWF offers valuable insights for similar "mission driven" initiatives. Adopting a "mission driven" approach to industrial policy and finance can be a powerful choice, but it must be grounded in robust industrial expertise and in financially sustainable business models, as well as in the best practices that development banks all over Europe have been developing in the last few decades. Public financial institutions with this mission should not have overstretched mandates, nor shy away from capital intensive and high-risk sectors. They must operate at arm's length from governments and with flexible tools to attract private capital at scale, to enable the investments that can make industrial transformation possible, which is their ultimate objective.

[7] Ursula von der Leyen, Political Guidelines For The Next European Commission 2024–2029: https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf

Appendix. Product offering in organisations with similar mandate to the NWF

		Canada Growth Fund	CEFC	EIB[1]	KFW[3]
	Fund size/ assets (£)	£9 billion	£16 billion	£38.1 billion[2]	£580 billion[4]
Grants	Grants			●	
Equity (in companies)	Directly in companies	●	●		●
	Indirectly via funds	● (Prioritises delivering concessional financing across products)	●	●	●
Lending (to companies)	Lending		~Not core offer	●	●
	On-lending		●	●	●
Infrastructure	Lending	●	●	●	●
	Equity	●	●	●	
	Guarantees		●	~Not core offer[5]	●
Price assurance	Offtake contracts	●	~Not core offer		
	Contracts for difference	●	~Not core offer	~Not core offer[5]	

1. Includes funding options across EIB; 2. Fund size determined by EIB climate spending allocation; 3. Includes funding options across KfW excl. KfW development bank; 4. Based on total KfW fund size; 5. Offer through EIB Climate Bank initiative (part of European Green Deal).

Note: some organisations may offer products that are not flagged, but to a minimal extent.

Source: Canada Growth Fund Technical Backgrounder, Financial Services Commission, Australian Government, CEFC Investment Policies, CEFC Equity Investment Portfolio, CEFC About Our Finance, CEFC About Our Finance FAQs, CEFC Asset Finance, EIB Climate Bank Roadmap, KfW's Impact on the economy, KfW Energy and the Environment, KfW IPEX-Bank Infrastructure (PPP), KfW Oliver Wyman IC

Source: National Wealth Fund Taskforce.