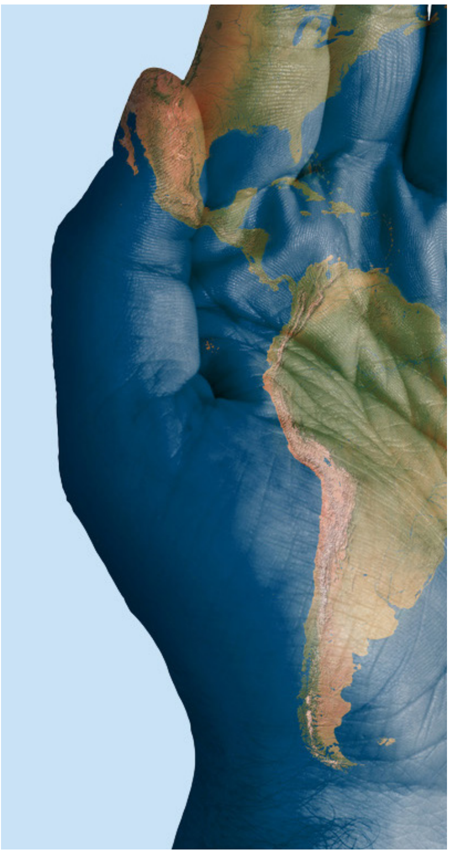
INTERNATIONAL COOPERATION AND DEVELOPMENT FINANCE

Sectoral Strategic Guidelines



cdp

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KEY MESSAGES

- The main objectives of International Cooperation and Development Finance are to **promote sustainable and inclusive growth**, to **protect the climate and the environment in emerging and developing countries** ("**partner countries**"), with positive impacts on geopolitical stability and on the strengthening of global political and economic relations.

- The **financial resources** required to reach these objectives are considerable, with a financing gap estimated at more than **4 trillion euro per year**. Public resources alone are not able to cover this. In 2015, through the **Addis Ababa Action Agenda**, developed countries committed to mobilising 0.7% of their Gross National Income (GNI) in the form of Official Development Assistance (ODA). In 2021, at the **COP26 Conference**, the same countries recommitted to mobilising 100 billion dollars per year in Climate Finance. Currently, these objectives have only partially achieved.

- In this context, the **development finance institutions** can offer long-term capital and skills to promote initiatives with a significant socio-economic and climate impact in partner countries, by entering a multi-stakeholder system that involves international organisations, governments, financial institutions, civil society and the private sector.

- Its **multi-stakeholder** nature is also one of the main strengths of the **Italian Cooperation System**, established by Law no. 125/2014, which identified **Cassa Depositi e Prestiti (CDP) as the Italian financial institution for Development Cooperation**. In this role, CDP acts as both a **manager of public resources** and as a **lender using its own resources**.

- By leveraging this integrated system, Italy - through CDP's action, which is complementary with respect to the public actors of the Cooperation - can **bridge current gaps** with respect to the other European countries in terms of the **amount and type of financial resources** mobilised for sustainable development and climate protection, contributing to **strengthen Italy's international positioning** and the **political and economic relations** with partner countries.

- In accordance with the priorities of the Italian institutions and the other development finance institutions, and **with a particular focus on the sectors in which the Italian production system can contribute significantly**, **two macro-areas of focus** are identified for CDP's action in partner countries:

  - **climate and environmental protection** in its many aspects: clean energy, improving energy efficiency, circular economy, ecosystem-based and community-based adaptation to climate change;

  - **sustainable and inclusive growth** through the development of the local agriculture and manufacturing supply chains, the development of sustainable and resilient transport infrastructures, the improvement of access to credit and essential services for the local communities.

- In this context, CDP can take action according to **additionality and complementarity criteria**. With coordinated action at national, European and international level, CDP can contribute substantially to the **fight against climate change** and to the **sustainable development of partner countries, broadening the scope of intervention** of the Italian Cooperation System through the **efficient management of public funds and the use of its resources for financing and investments.**

- **Special attention shall be paid to supporting Italian entrepreneurial excellences in their sustainable growth journey in partner countries** and their inclusion in global value chains, not only with **financial products**, but also with **information campaigns on the instruments provided** by CDP, the Italian Cooperation System and co-financing partners.

- To ensure **transparency** and **accountability** of decision-making processes, CDP measures the quality and impact of the projects it supports. To do this, CDP uses a **set of monitoring and assessment KPIs** designed for each area of action.

1. Reference context

1.1 International Framework of Reference for International Cooperation and Development Finance

1.2 Italy's positioning: strengths and gaps

1. CONTEXT

1.1 INTERNATIONAL FRAMEWORK OF REFERENCE FOR INTERNATIONAL COOPERATION AND DEVELOPMENT FINANCE

The main objectives of **International Cooperation and Development Finance** are to **promote sustainable and inclusive growth**, to **protect the climate and the environment in 140 emerging and developing countries** identified by the OECD (**"partner countries"**[1]).

The **framework of reference** for international cooperation and development finance is represented by the **UN 2030 Agenda**, comprising **17 sustainable development goals** (SDGs), broken down into **169 targets.** The action of the UN Agenda aims to tackle global challenges of a socio-economic and environmental nature with a strong focus on fighting poverty and reducing inequalities.

In this context, **International Cooperation** consists of **Official Development Assistance (ODA)** which represents the **commitment of the donor countries**[2] (i.e. members of the OECD Development Assistance Committee - DAC) **to support cooperation activities and projects in partner countries** through the use of **public resources under the framework of international agreements**.

In 2015, through the **Addis Ababa Action Agenda**[3], the main actors in international cooperation - including national governments and international organisations, development finance institutions (e.g. World Bank) and civil society (predominantly non-governmental organisations and other non-profit parties) - committed to increasing the **ODA to Gross National Income (GNI) ratio from 0.3%** (2015 average) **to 0.7%.**

However, at a global level, the **ODA/GNI ratio has remained almost stable** from 2015 to today, reaching an average of **0.33%**[4] in 2021.

Between 2019 and 2021, at a global level, an **average annual allocation of 164 billion dollars in ODA was recorded for the 29 Countries of the OECD-DAC**, approximately **85% of which was issued by the top 10 donor countries**. The majority of these funds are attributable to the **bilateral ODA (71%) channel**, while **multilateral ODA amounted to around 29%**[5].

The ODA is issued primarily through **grants** (around 80% of total global bilateral ODA in 2021) and **concessional financing**, that is, under more generous financial terms. Such terms include lower interest rates and/or extended grace periods as compared to typical market conditions.

In the two-year period 2019-2020, **the main regions receiving bilateral ODA** were **Sub-Saharan Africa (35%)**, **Asia (31%)** and **North Africa and the Middle East (18%)**, followed by Latin America and the Caribbean (9%), Eastern Europe (4%) and Oceania (3%) (Figure 1).

[1] Partner countries are all those countries and regions that can receive ODA (ODA-Recipients) as they are on the list drawn up by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) and updated every three years. With regard to 2022, said list includes a total of 140 countries classified by level of development, from the Least Developed Countries, identified by the UN as Countries with the lowest levels of socio-economic development in the world, to the Upper-Middle Income Countries, that is, those that have a higher level of development among the ODA-Recipient countries.

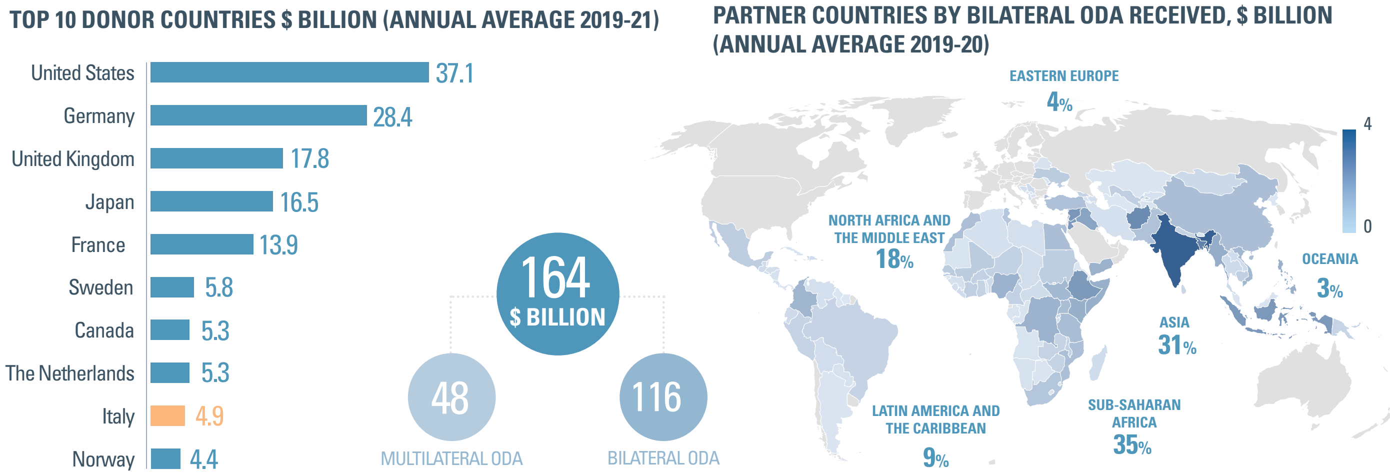
[2] Donor countries are all those countries that contribute in terms of global official development assistance. In particular, reference is made to the OECD DAC, which includes the 29 countries with the largest contribution (to which the European Institutions are added).

[3] United Nations (2015), Addis Ababa Action Agenda of the Third International Conference on Financing for Development, July 2015.

[4] Only five donor countries achieved the target of 0.7% in 2021: Luxembourg, Norway, Sweden, Germany and Denmark. Source: OECD (2022), Trends and insights on development co-operation.

[5] Bilateral ODA represents direct flows of resources transferred directly from institutional sources of the donor country to the receiving country. Multilateral ODA, on the other hand, represents flows of resources that the donor country allocates to specialised international organisations to carry out activities aimed at promoting development in the partner countries.

FIGURE 1 – INTERNATIONAL COOPERATION IN NUMBERS



Source: CDP calculations based on OECD data

Three quarters of the ODA between 2019 and 2020 were allocated to support **four main areas**: **38% to social infrastructure and access to basic services** (e.g. water, sanitation services, health, education); **17% to the energy, transport and communications sectors**, **13% to humanitarian aids** and **7% to production activities**.

Failure to reach the target ODA/GNI ratio of 0.7% falls under a larger framework characterised by the **need for investments for pursuing the SDGs that public resources on their own are not able to satisfy**.

In fact, the latest estimates show there is currently a **financing gap greater than 4 trillion euro per year** up to 2030, with a significant widening of the gap (scissor effect) due to the impacts of the pandemic[6]. To bridge this gap, public capital is necessary but not sufficient. The involvement of the private sector with its skills and resources is fundamental.

To this end, **Development Finance** supports initiatives in the private sector oriented towards sustainable and inclusive growth and climate and environmental protection in the partner countries, through **financing, investments and guarantees** used according to a **trade-off** between **return, risk and impact**.

In this context, the role of the **development finance institutions** becomes essential. These institutions are represented by **multilateral development banks** (MDBs - e.g. World Bank, EIB, EBRD), **national public development banks** (PDBs - e.g. AFD[7], KfW[8] Development Bank) and **development finance institutions** (DFIs - e.g. Proparco, DEG[9], BII[10]) - with the latter institutions focused on the private sector.

The **development finance institutions** contribute **long-term capital** and **skills** for the implementation of initiatives with a significant socio-economic impact in the partner countries. These institutions have also established numerous **partnerships** with each other, with the aim of defining common approaches and methodologies and for sharing project opportunities. The following are among the main partnerships:

- the **International Development Finance Club** (IDFC), an association comprising 27 development banks which has also set up the Finance in Common coalition[11], and which mobilises approximately 800 billion in resources per year;
- the association of the **European Development Finance Institutions** (EDFI), which includes 15 members and has an established portfolio of **48 billion euro in more than 6,000 loans or investments in the private sector** (of which 800 are new loans or investments issued in 2021, equivalent to 8.6 billion euro).

[6] In 2019, the financing gap was estimated at around 2,500 billion dollars per year. Source: OECD (2021), Closing the SDG Financing Gap in the COVID-19 era.
[7] Agence Française de Développement.
[8] Kreditanstalt für Wiederaufbau.
[9] Deutsche Investitions- und Entwicklungsgesellschaft.
[10] British International Investment.
[11] Finance in Common is a global network which represents more than 500 public development banks and whose goal is to align global finance with the UN 2030 Agenda and the Paris Agreement on the Climate.

In pursuing the SDGs, a **cross-cutting area of action** which has assumed an increasingly central role in recent years is represented by **climate and environmental protection**.

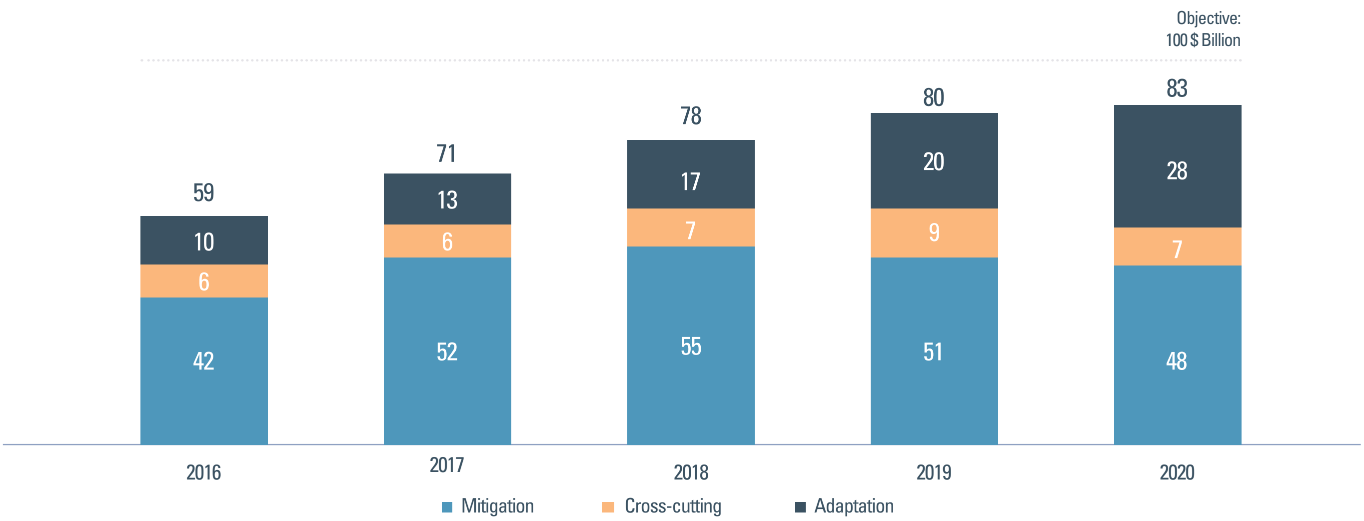
In fact, the fight against climate change and its effects on the environment and on communities represents **one of the main challenges of our century**, which comprises environmental and socio-economic aspects and that is **particularly significant in partner countries** (80% of the economies most affected by extreme climate-related weather events are indeed developing countries) **equipped with fewer resources** with which to tackle it.

In order to increase the action to fight climate change, the countries participating in the **26th UN Climate Change Conference of the Parties (COP26)** held in Glasgow in 2021 committed to:

- work together to **limit the increase in annual global average temperature to within 1.5°C** above pre-industrial levels through the **mitigation** of the causes of climate change;
- **support vulnerable countries** in increasing their capacity for **adaptation** and **resilience** to climate change and in preserving **biodiversity**;
- **ensure a fair and equitable ecological transition**, while taking action to combat climate change, support poverty eradication and the creation of quality jobs;
- reach and surpass the goal of **mobilising 100 billion dollars per year by 2025**in "Climate Finance"[12].

In 2020, **the developed countries mobilised 83.3 billion dollars of Climate Finance for partner countries**, of which only a third was for projects oriented towards adaptation to climate change impacts. Despite an increase of 4% as at 2019, **this amount is therefore still far from the collective goal set for 2025** (Graph 1)[13].

GRAPH 1 - CLIMATE FINANCE MOBILISED 2016-2020, BY TYPE ($ BILLION)



Source: CDP calculations based on OECD data

Moreover, the acceleration of climate change and the worsening of the effects of extreme weather events have also led to an **increase** in **resources necessary to promote carbon neutrality by 2050**. In the energy sector, even if all countries fully implement the currently defined and/or introduced national policies for achieving a green transition by 2050, it is estimated that a **financing gap** of more than **a trillion dollars per year**[14] would remain.

[12] That is, financing of any kind and grants, from the most advanced economies, for actions to combat climate change, for the benefit of partner countries and other vulnerable countries.
[13] OECD (2022), "Climate Finance Provided and Mobilised by Developed Countries in 2016-2020".
[14] IRENA (2021), World Energy Transitions Outlook: 1.5°C Pathway.

1.2 ITALY'S POSITIONING: STRENGTHS AND GAPS

Strengths	Gaps
Multi-stakeholder cooperation system that includes multiple entities with **complementary skills and roles**	**ODA allocated** to **International Cooperation activities still not consistent** with European peers
Experience of the national DFI gained on the domestic market and applied in partner countries	**Mobilized resources** in **Development Finance still lower** than other European countries
	Contribution to global **Climate Finance still limited**

The **Italian International Cooperation System**, established by Law no. 125/2014 (general legislation on international development cooperation), includes multiple public and private stakeholders with skills and roles that are complementary to each other. These entities are: State administrations, universities and Public Bodies; Regional Authorities, Autonomous Provinces and Local Authorities; civil society organisations and other non-profit entities; for-profit entities, should they act in a manner compliant with the principles of the aforementioned law, adhere to the social responsibility standards and environmental clauses and comply with the human rights standards for international investments.

The stakeholders of the Italian Cooperation System are represented by the National Council for Development Cooperation (CNCS), which expresses its opinion on the proposal of the **"Three-Year Programming and Policy Planning Document for Italian Development Cooperation"** drafted by the Ministry of Foreign Affairs and International Cooperation in concert with the Ministry of the Economy and Finance. The above mentioned three-year document identifies the thematic and sectoral priorities - referring to the Sustainable Development Goals and Targets - that the Italian Cooperation System intends to help achieve, as well as the geographic priorities and the action objectives[15].

Within this group of actors, Law no. 125/2014 focuses in particular on **4 parties**:

- the **Ministry of Foreign Affairs and International Cooperation** (MAECI), which defines the policy priorities of Italian Cooperation and ensures the coordination of its initiatives;
- the **Ministry of the Economy and Finance** (MEF), which provides public resources through the Revolving Fund for Development Cooperation (FRCS); this fund is endowed with 5.2 billion euro and is dedicated to providing concessional loans to sovereign entities of the partner countries and in the future, once the reference regulatory framework is complete, to the private sector;
- the **Italian Agency for Development Cooperation** (AICS), responsible for the technical implementation of Italian Cooperation programmes through the execution and monitoring of activities in partner countries; the AICS uses non-repayable grants from public resources;
- **Cassa Depositi e Prestiti** (CDP), which is authorised by Law no. 125/2014 to perform the tasks of Italian Financial Institution for International Cooperation and Development Finance. In this capacity, CDP has two main roles:
  - **manager of national, European and international public resources**, including non-repayable grants, for the purpose of international cooperation and development finance. In particular, CDP manages the Revolving Fund for Development Cooperation (FRCS) on behalf of the Ministry of the Economy and Finance (MEF) and in accordance with the implementing decisions defined by the MAECI, and is accredited to the European Commission and the Green Climate Fund;
  - **lender using its own resources** financing initiatives responding to international cooperation and development finance purposes, up to a limit of 1 billion euro per year[16]. The above mentioned initiatives can be directed towards both the public sector and the

[15] "International Development Cooperation - Three-Year Programming and Policy Planning Document 2021-2023".
[16] Annual limit established by the agreement stipulated between CDP and the Ministry of the Economy and Finance on 22 December 2016, pursuant to and for the purposes referred to in Article 22, paragraph 4 of Law no. 125/2014.

private sector of partner countries, and can be carried out through co-financing with private, public or international entities. In accordance with the provisions of CDP's Articles of Association, each action using its own resources is subject to evaluation in terms of its economic and financial sustainability.
In addition to these two roles, CDP may also carry out advisory activities towards the MAECI and the AICS for the preliminary investigation and management of the financial profiles of cooperation initiatives and for the structuring of development finance products in specific areas[17].

The **Joint Committee for Development Cooperation** is comprised of the representatives of the Ministry of Foreign Affairs and International Cooperation (MAECI), the Italian Agency for Development Cooperation (AICS) and the Ministry of the Economy and Finance (MEF)[18], lead by the MAECI. The Committee defines the annual plan for Italian Cooperation, in terms of country and priority sectors of action. It approves the cooperation initiatives financed using public resources and provides its opinion on the initiatives financed with CDP's own resources.

In accordance with the reference framework represented by Law no. 125/2014, and in the plan of action outlined by the UN 2030 Agenda, the **Ministry of the Environment and Energy Security (MASE)** defined its own "Policy and Planning Act for International Environmental Cooperation"[19]. This document defines the strategic lines of action, the instruments and the thematic sectors of action on which the MASE focuses its environmental cooperation activities, within the context of the role that Italy is called upon to play on an international level for the protection and restoration of the environment and for combating climate change.

The MASE also holds the main Italian public instrument aimed at contributing to the global commitment of developed countries, to mobilise 100 billion dollars per year in Climate Finance. This is the **Italian Climate Fund**, a revolving fund established by Law no. 234/2021, managed by CDP and introduced to the international community at the 27th Climate Change Conference of the Parties (COP27) held in Sharm el-Sheikh in November 2022.

The Italian Climate Fund shall support **initiatives contributing to climate and environmental protection in partner countries**[20] by financing public and private entities. The strategic and investment decisions of the Italian Climate Fund lie with the two interministerial committees[21], which are led by the MASE and composed of representatives of the MASE, MEF and MAECI.

With an allocation equal to **4.2 billion euro** over five years (2022-2026)[22], the Italian Climate Fund will be able to operate through a **wide range of financial instruments**: financing, investments in funds, guarantees and non-repayable grants[23]. In addition to fulfilling the role of manager of the Fund, CDP shall also be able to act as a financing partner alongside the Fund itself, on specific projects.

The features of the Italian Cooperation system, characterised by **multi-stakeholder governance**, represent one of the **strengths** which can be leveraged to accelerate the mobilisation of dedicated resources. In this context, the latest OECD Peer Review conducted in 2019, in addition to demonstrating the quality of this approach, indicated it as a possible **model to be followed by other countries**[24].

In addition to this, **another strength** is the possibility to utilise the **experience of the national DFI** in structuring projects with a significant impact and innovative financial solutions, **gained on the domestic market** and applied in partner countries.

As mentioned above, through Law no. 125/2014, the legislator granted **CDP** the role of **Italian financial institution for International Cooperation and Development Finance**. The main value added that CDP can bring to this role is linked to **its experience as National Promotional Institution**, gained from decades of activity on the domestic market, in which it has always structured projects with a significant impact and innovative financial instruments.

Through its role as DFI, CDP can apply the relevant experience and skills gained on the domestic market in partner countries, including in particular:

[17] Article 22 of Law no. 125/2014: Without prejudice to the provisions of Articles 8, 21 and 27, the Ministry of Foreign Affairs and International Cooperation and the Agency can stipulate a special agreement with Cassa Depositi e Prestiti SpA in order to utilise the same company and its controlled companies for the preliminary investigation and management of the financial profiles for international cooperation and development finance initiatives, for the purposes referred to in Article 8 as well as for the structuring of financial products for development in the context of agreements with European or international financial organisations or participation in EU programmes.
[18] With reference to matters included in the initiatives contained in Article 8 and Article 27 of Law no. 125/2014.
[19] Italian Ministerial Decree no. 170/2020, Policy and Planning Act for International Environmental Cooperation (2020-2022).
[20] The 140 ODA-Recipient countries, as defined in note 1, and any other countries that are vulnerable to climate change to be identified with a subsequent decree.
[21] According to Law no. 234/2021, Article 1, Paragraph 496: i) the Steering Committee defines the strategic direction and the investment priorities of the Italian Climate Fund and decides, as proposed by CDP, the Fund's action plan, also through the definition of the amount of resources allocated to distinct intervention methods, including any limits for geographical areas and country categories and for interventions carried out for private entities or having private entities as intermediaries, and the relative system of risk limits; ii) The Steering Committee of the Fund decides on the financing and guarantees granted from the resources of the Fund itself, as proposed by CDP.
[22] Up to 40 million euro per year may be used for non-repayable grants and Fund management expenses.
[23] This allocation may possibly be increased through third-party contributions from public or private, national or international entities.
[24] OECD Development Cooperation Peer Review, Italy 2019, taken from Italy's Three-Year Programming and Policy Planning Document for Development Cooperation.

- the **ability to structure financial transactions with a significant socio-economic impact**. Historically, in Italy, CDP has fulfilled its role providing "long-term capital" to support initiatives for infrastructure and for the growth of Italian companies. To leverage this consolidated experience, legislation authorises CDP to allocate 1 billion euro per year of its own resources to initiatives consistent with International Cooperation and Development Finance purposes, such as supporting the development of infrastructures and production and financial systems of the partner countries, with clear synergies in terms of skills;

- the **ability to acquire and manage national, European and international public resources**, and to combine these with their own resources (blended finance) for International Cooperation and Development Finance activities. In particular, in addition to the Revolving Fund for Development Cooperation (FRCS) and the Climate Fund mentioned, CDP manages public resources for the purpose of:

  - **blended finance.** On the Italian market, CDP has supported various initiatives under the Investment Plan for Europe (Juncker Plan), by leveraging European guarantee funds with an impact estimated at more than double their own resources used. On the strength of this experience, CDP has acquired the management of the European Commission's resources, particularly for programmes aimed at promoting the development of small and medium-sized enterprises (SMEs) and renewable energy sources in Africa under the European External Investment Plan (EIP);

  - **technical assistance and advisory activities.** In Italy, CDP provides advisory services to the public administration to assist in the implementation of projects with a significant impact on local communities. Similarly, CDP manages the financial resources of donors - particularly the European Commission and the Ministry of the Environment and Energy Security (MASE) - dedicated to technical assistance programmes with a significant impact in partner countries[25].

Although the current structure offers powerful levers for Italy's growth in the area of international cooperation, **some significant gaps remain**. These gaps mainly concern the **size and type of Italy's financial contribution**, particularly: **less ODA allocated compared to other European countries**; limited **resources mobilised** in **Development Finance**; limited contributions in global **Climate Finance**.

Historically, Italy has provided lower ODA compared to the international commitments adopted through the **Addis Ababa Action Agenda** (ODA/GNI equal to 0.7%), and also compared to that of other European countries. From 2019-2021, the average ODA/GNI ratio was equal to 0.2% for Italy, compared to values between 0.5% and 0.7% for France, Germany and the United Kingdom[26]. Nevertheless, Italy has embarked on a growth trajectory in this area, bringing the **ODA to GNI ratio** to 0.3% in 2021 (graph 2).

Moreover, the **type** of ODA provided by Italy is characterised by:

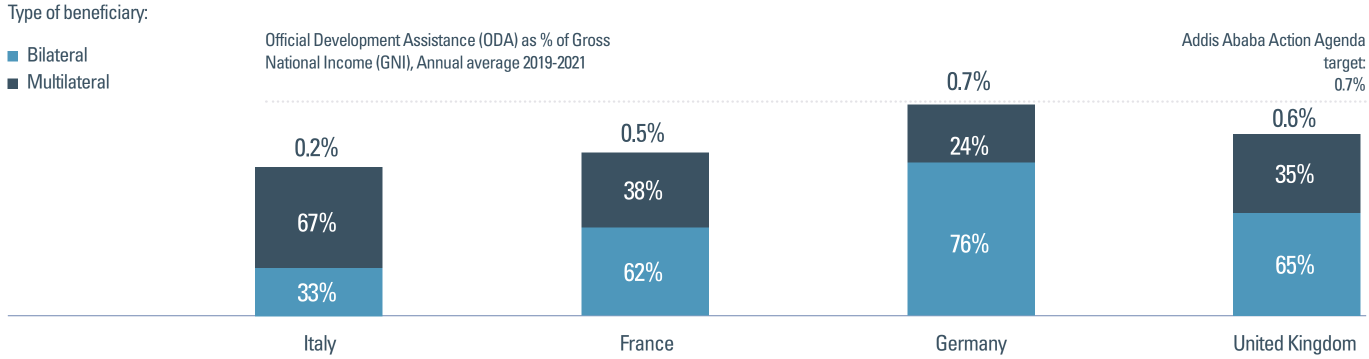
- **a much smaller bilateral component than in other European countries**, demonstrating a greater recourse to indirect instruments (e.g. trust funds or multilateral financial institutions). In 2019-2021, Italy only allocated 33% of their aid to bilateral ODA, compared to values between 62% and 76% for the main European peers;

- **a smaller share of ODA allocated to partner countries characterised by significant political and economic relations.** In the two-year period 2019-2020[27], the 10 main countries receiving bilateral ODA from Italy represented 15% of Italy's economic exchange with partner countries, compared to 24% for France and 50% for Germany[28]; this attests to the greater efforts of other European countries to use international cooperation also as an active instrument of foreign policy, in addition to humanitarian aid;

- **a greater incidence of grants compared to France and Germany**, countries that can leverage national development banks (AFD, KfW Development Bank) with decades of operation and are able to access public resources to structure concessional financing. In 2021, 92% of ODA in Italy was represented by grants, compared to 56% and 80% in France and Germany.

[25] In particular, in the context of the EU External Investment Plan (EIP), CDP manages donor resources for the implementation of activities including: qualified management training activities to support the development and sustainable growth of high-potential African SMEs, to facilitate their access to capital markets, also through support to policy makers; support to local financial institutions (LFI) through technical financial advisory services to improve their risk management system and the customer portfolio; capacity building activities for the development of innovative financial instruments, which promote the financial inclusion of young people and women. In the context of the Italian Climate Fund, up to 40 million euro per year are available for non-repayable grants which may be allocated to various forms of support to financed projects, including technical assistance.
[26] Calculations based on OECD data, Official Development Assistance.
[27] Latest data available with bilateral ODA details, source: OECD, Official Development Assistance.
[28] Calculations based on OECD data, Official Development Assistance and UNCTAD, UNComtrade data.

GRAPH 2 - OFFICIAL DEVELOPMENT ASSISTANCE



	Italy	France	Germany	United Kingdom
ODA 2021, $ Billion (%GNI)	6.0 (0.3%)	15.5 (0.5%)	32.2 (0.7%)	15.8 (0.5%)

Source: CDP calculations based on OECD data

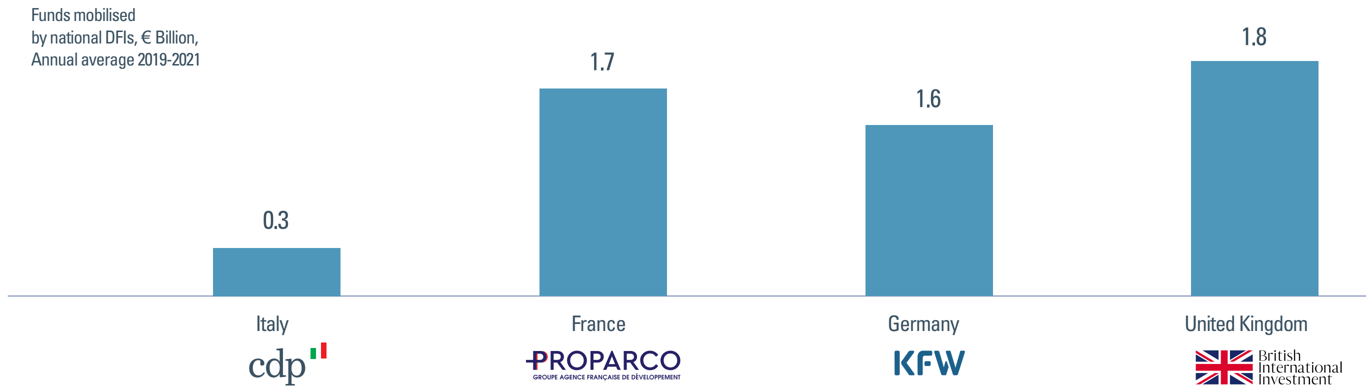
In the area of Development Finance - by way of Law no. 125/2014 - Italy has a **Development Finance Institution** able to operate in support of **private sector** initiatives in partner countries, through **financing and investment instruments**.

In this context, the Italian DFI does not yet operate at full capacity. This is demonstrated by the amount of **new lending, which is still lower than the main European peers**.

In its **first three years of operation as a DFI** (2019-2021), CDP has mobilised an average of 300 million euro per year in development finance, compared to 1.6-1.8 billion euro per year by the French, German and British DFIs, which can instead leverage their decades-long experience and regional facilities abroad (Graph 3).

On the other hand, the results achieved represent a starting point **for expanding and strengthening the activities of the DFI**, to enhance the contribution to Development Finance in accordance with the capabilities of the national economic system.

GRAPH 3 - DEVELOPMENT FINANCE



For British International Investment, conversion to Bank of Italy rates. Average rate 2021 equal to 1 GBP = 0.85960 EUR
Source: CDP calculations based on own data and on financial reports from main European DFIs

So far, **in the cross-cutting area of Climate Finance**, Italy has **provided a limited contribution to the global goal** of mobilising 100 billion dollars per year, both in terms of commitments made (commitments as at 2020 were equal to an annual average of 0.7 billion dollars, vs. 6-7 billion each for France and Germany, of both financial resources actually mobilised (0.5 billion dollars per year), vs. 6-8 billion each for France and Germany)[29].

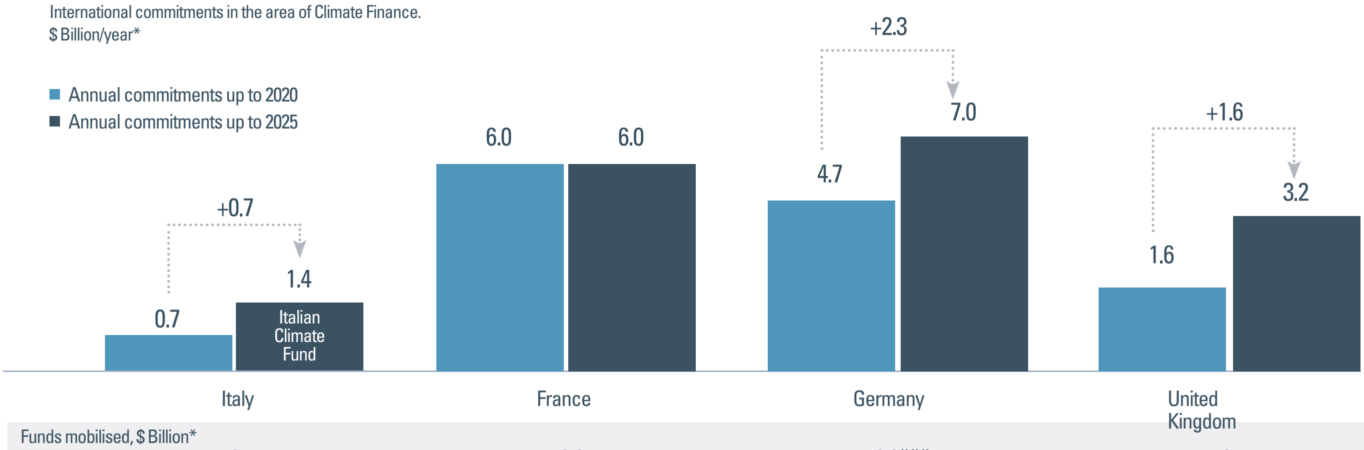
[29] Source: Calculations based on United Nations Framework Convention on Climate Change (UNFCCC) data, and on commitments disclosed by Countries during international events (e.g. "Conference of Parties" (COP) on climate change, G7/G20, etc.).

Furthermore, unlike other Countries, **the main share** (50-70% in 2017-2018) of financial resources mobilised by Italy in Climate Finance has so far concerned **grants** for international organisations, financial institutions and relevant multilateral funds, or local beneficiaries. Financing and investments thus represented a smaller portion.

In order to increase its contribution to global action to combat climate change, in October 2021 - at the G20 Summit and COP26 - Italy introduced its **commitment to mobilising 1.4 billion dollars per year for 5 years** in Climate Finance (Graph 4). This commitment was confirmed in November 2022, during COP27.

The recent establishment of the **Italian Climate Fund** responds to this commitment. This important instrument represents a **unique example within a European context in terms of size, breadth of the scope of intervention and diversity of financial instruments** (financing, investments in funds, guarantees and non-repayable grants), and it represents an opportunity for a change of pace for Italy in global Climate Finance.

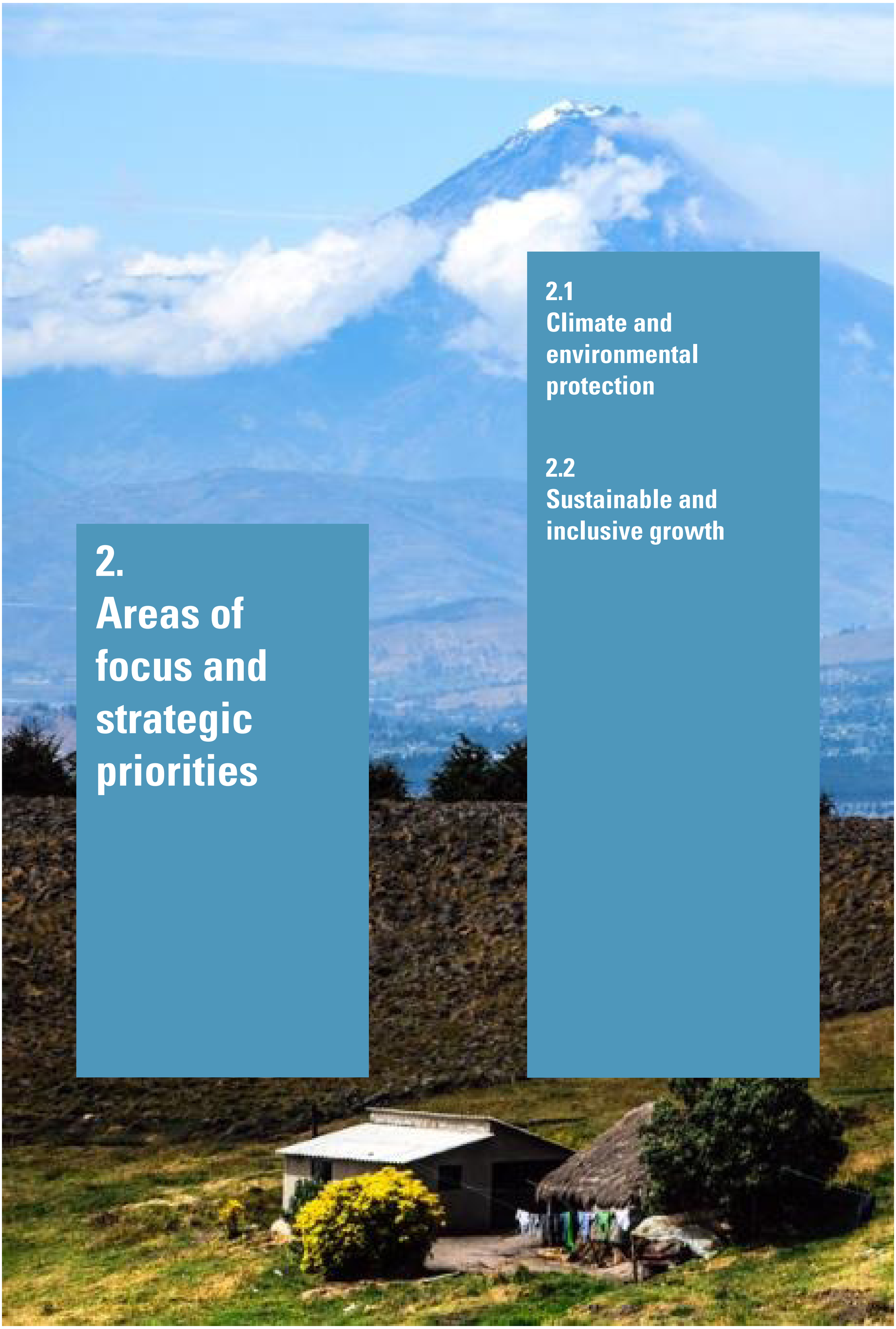
GRAPH 4 - CLIMATE FINANCE



	Italy	France	Germany	United Kingdom
Funds mobilised, $ Billion* (latest available data**)	0.5	6.0	8,3***	1.6

*Where commitments and funds mobilised have been expressed in euro, these have been converted using the exchange rate 1 EUR = 1.18270 USD (2021)
** 2018
*** Including the contribution of the national development finance institutions KfW Development Bank and Deutsche Investitions- und Entwicklungsgesellschaft (DEG)

Source: CDP calculations based on UNFCCC data



2. Areas of focus and strategic priorities

2.1 Climate and environmental protection

2.2 Sustainable and inclusive growth

2. AREAS OF FOCUS AND STRATEGIC PRIORITIES

- The definition of the areas of focus and the strategic priorities for CDP in International Cooperation and Development Finance is inspired by **the sustainable development goals outlined by the UN 2030 Agenda**: to combat climate change and to protect the environment and biodiversity; to provide access to sanitation services, education, water and clean energy for all; to reduce social inequalities, with particular focus on gender equality; to promote decent work and entrepreneurship; to develop infrastructures and sustainable urban fabrics; to eradicate hunger and poverty. All of this in a context of promoting peace and justice, and global partnerships for sustainable development.

- These strategic priorities take into account the **dual role of CDP** as manager of public resources and as lender for initiatives using its own resources.

- **In the role of manager of public resources**, CDP shall act in accordance with the strategic priorities defined, from time to time, by the national, European and international holders of the funds being managed. More specifically:

  - in the management of the **Revolving Fund for Development Cooperation**, CDP will participate in the execution of decisions on assets defined by MAECI, which will be the subject of resolutions by the Joint Committee, in accordance with the policy commitments and policy strategy for Italian Development Cooperation;

  - in the management of the **Italian Climate Fund**, CDP shall act in accordance with the strategic direction and action priorities which shall be defined, from time to time, by the Steering Committee of the Fund[30];

  - in the management of the resources of the European Commission, CDP shall act in accordance with the strategic objectives of the Commission's External Action, as defined from time to time by the individual programmes approved by the competent EU bodies.

- **In the role of lender using its own resources**, CDP shall guide its own action towards **areas of focus and strategic priorities** identified according to the following criteria:

  - **consistency in relation to the priority sectors for action identified by the Italian institutions**, determined - in particular - by the Three-Year Italian Cooperation Document[31];

  - **alignment with the priorities of the development finance institutions and the international donors**, which represent CDP's key partners for co-financing operations and for blended finance;

  - **emphasis on climate and environmental protection**, also in the light of Italy's strengthened commitment to this issue in an international context;

  - **emphasis on themes and sectors in which the Italian production system can contribute significantly**, by enhancing its entrepreneurial excellences active in some of the strategic global value chains[32].

[30] Article 1, paragraph 496, Law no. 234/2021.

[31] The criteria and the conditions for the actions of CDP using its own resources for international cooperation and development finance are regulated by the Decree of the Minister of the Economy and Finance of 28 September 2016 ("Own Resources Decree"), which refers - among other things - to the alignment of CDP's sectors of action using its own resources with respect to the sectoral priorities specified in the Three-Year Italian Cooperation Document.

[32] For an analysis of the Italy's strategic supply chains, see the relevant Sectoral Strategic Guidelines document

- In the light of these criteria, **two macro-areas of focus have therefore been defined for CDP's action using its own resources** in International Cooperation and Development Finance. These are **Climate and environmental protection and Sustainable and inclusive growth**.

2.1 CLIMATE AND ENVIRONMENTAL PROTECTION

- To support climate and environmental protection in the partner countries, contributing to promote a **fair and equitable ecological transition**, **four priority strategies for action for CDP using its own resources** have been defined:

    - **supporting the increase in power generation capacity from clean energy sources, through the installation of new plants or by repowering/revamping existing plants (SDG 7, 13)**. In the energy sector alone, between now and 2030, investments of 5,700 billion a year would be necessary to support the green transition. This amount represents more than double the resources currently mobilised[33]. It is necessary to invest both to expand the diffusion, in partner countries, of plants based on technologies which are now mature, such as photovoltaics and wind, and to support the development of more innovative technologies such as hydrogen. These projects are typically financed through project finance instruments. Moreover, regarding the emerging economies with a high rate of $CO2$ emissions, the increase in generation capacity from clean energy sources must necessarily be accompanied by socially sustainable decarbonisation, which makes it possible to convert jobs in sectors based on fossil fuels (e.g. coal-fired power plants, extractive industry); in view of this objective, participation in international programmes to support sustainable decarbonisation is essential. Among these programmes, the **Just Energy Transition Partnerships** stand out, which are promoted by the G7 governments with the participation of the main national development finance institutions[34]. In the Least Developed Countries, it is necessary to support the construction of clean energy power plants, to help these countries to set up a green growth path right from the start, avoiding subsequent costs for conversion and transition to cleaner energy sources;

    - **supporting initiatives for improving energy efficiency of production processes, homes and cities (SDG 11, 13)**. Reducing global energy intensity is essential for limiting the increase in the temperature of the planet to within 1.5 degrees Celsius by 2050. Therefore, it is necessary to support partner countries - and particularly those with a high rate of emissions per capita - to improve the energy efficiency of production processes, cities and buildings. With regard to the first issue, there is a need to promote technological upgrade initiatives, which make it possible to increase output, reducing emissions, improving the energy intensity of industrial sectors and safeguarding jobs. In relation to the second issue, it is now common knowledge that to achieve sustainable and green development, initiatives are required to reducing the $CO2$ emissions of urban systems. To this effect, it is vital to provide financial support - through a mix of public and private resources - for investments in the climate transition and sustainable development of urban systems of partner countries, especially in contexts with high urbanisation growth rates. Development finance institutions have promoted various initiatives in this direction, such as the **"Resilient Cities"** coalition with which CDP collaborates, which arose under the Finance in Common[35] network;

    - **supporting initiatives for the development of the circular economy and the promotion of the responsible use of resources (SDG 11, 12)**. As specified by the UN Agenda, by 2030 it shall be necessary to significantly reduce global waste generation through prevention, reduction, recycling and reuse. To achieve these objectives, the support to partner countries may take the form of integrated programmes for the waste cycle management, which ensure hygiene-health and environmental protection and ensure the recovery and valorisation of sorted waste (such as waste management projects and sanitation systems) with the participation of both the public sector and private actors;

    - **contributing to improving the adaptive capacity of the communities and ecosystems to the effects of climate change (SDG 13, 14, 15)**. As mentioned above, the share of climate finance allocated to climate adaptation projects remains a minority. In 2021, at the COP26 in Glasgow and the G7 Summit held in the United Kingdom, the developed countries - including Italy - ratified their commitment to support vulnerable countries to increase their capacity for adaptation and resilience to climate change, increasing the dedicated financial resources and transferring skills and technologies. The investments in adaptation

[33] IRENA, World Energy Transitions Outlook, 2022 (ISBN: 978-92-9260-429-5).
[34] The first JETP with the South African government was launched at COP26, with the participation of the governments of France, Germany, the United Kingdom, the United States of America and the European Union, which together form the International Partners Group (IPG). The IPG is committed to mobilising an initial 8.5 billion dollars in the next 3-5 years in the South Africa JETP initiative to advance the partnership. At the 2022 G7 Leaders' Summit, G7 members confirmed their intention to move forward in negotiations with Indonesia, India, Senegal and Vietnam. All partnerships are open to the accession of other donor countries.
[35] FMDV (2022), Financing the Local Climate Transition Through Local Climate Funds.

projects span across multiple sectors, including water supply, hygiene-health services, agriculture, forestry and fisheries, and infrastructures, and generally require a significant input of donor or concessional resources, to be blended with those of the development finance institutions. To this effect, some initiatives have been promoted, such as the **"Adaptation & Resilience Investors Collaborative"**, an ambitious action plan established in the context of the Finance in Common network, within which the Development Finance Institutions and the G7 Countries - including CDP- committed to significantly increasing their investments in projects for adaptation and resilience to climate change in partner countries, in accordance with the commitments made by the respective governments.

2.2 SUSTAINABLE AND INCLUSIVE GROWTH

- To support sustainable growth in partner countries, while at the same time helping to promote an **increase in pro capita income** and greater **socio-economic and financial inclusion of women, young people and the most vulnerable populations**, **four strategic priorities for CDP's action using its own resources** have been defined:

  - **supporting initiatives for the sustainable and inclusive growth of local agri-food and manufacturing supply chains (SDG 2, 5, 8).** More specifically:

    - **local agri-food supply chains (SDG 2, 5, 8).** As indicated by the UN Agenda, by 2030 it will be necessary to ensure the sustainability of the food production systems and implement resilient agricultural practices, capable of increasing productivity and at the same time protecting the ecosystems and strengthening the capacity for adaptation to climate change. To this effect, it is vital to support integrated programmes that promote diversified, efficient and ecologically sustainable agricultural production systems in the partner countries, ensuring the continuity of the sectors involved in the production, processing, conservation and distribution of food. These programmes take the form of both direct and indirect financial support through the financial institutions, to companies active in partner countries in the agriculture, livestock farming, fishing and food processing sectors, increasing their productivity and incomes, focusing especially on companies managed by women and young people. These are sectors in which **Italy can boast numerous excellences** capable of providing fundamental skills, technologies and financial resources, thus also contributing to strengthening economic cooperation with partner countries. Furthermore, the development of resilient and sustainable agriculture supply chains in partner countries represents an instrument for promoting food security in these countries, considering that more than 2 billion people in the world suffer from hunger and approximately 700 million are severely malnourished[36].

    - **local manufacturing supply chains (SDG, 5, 8).** According to the International Labour Organization (ILO), more than 2 billion people work in the informal economy, mainly in emerging and developing countries, without benefiting from adequate working conditions or social protection systems[37]. To promote sustainable and inclusive growth in the partner countries, it is necessary to promote programmes for the development of local manufacturing supply chains that allow for the creation of jobs and quality entrepreneurial initiatives, paying special attention to the inclusion of women and young people in the labour market. These programmes take the form of both direct and indirect financial support through financial institutions, to local companies, or to local branches of companies based in donor countries. In this context, the Cooperation System can also leverage **Italy's entrepreneurial fabric** capable of contributing significantly to the sustainable and inclusive growth of local manufacturing supply chains in partner countries, providing technological know-how and skills, particularly in the Made in Italy sectors of excellence;

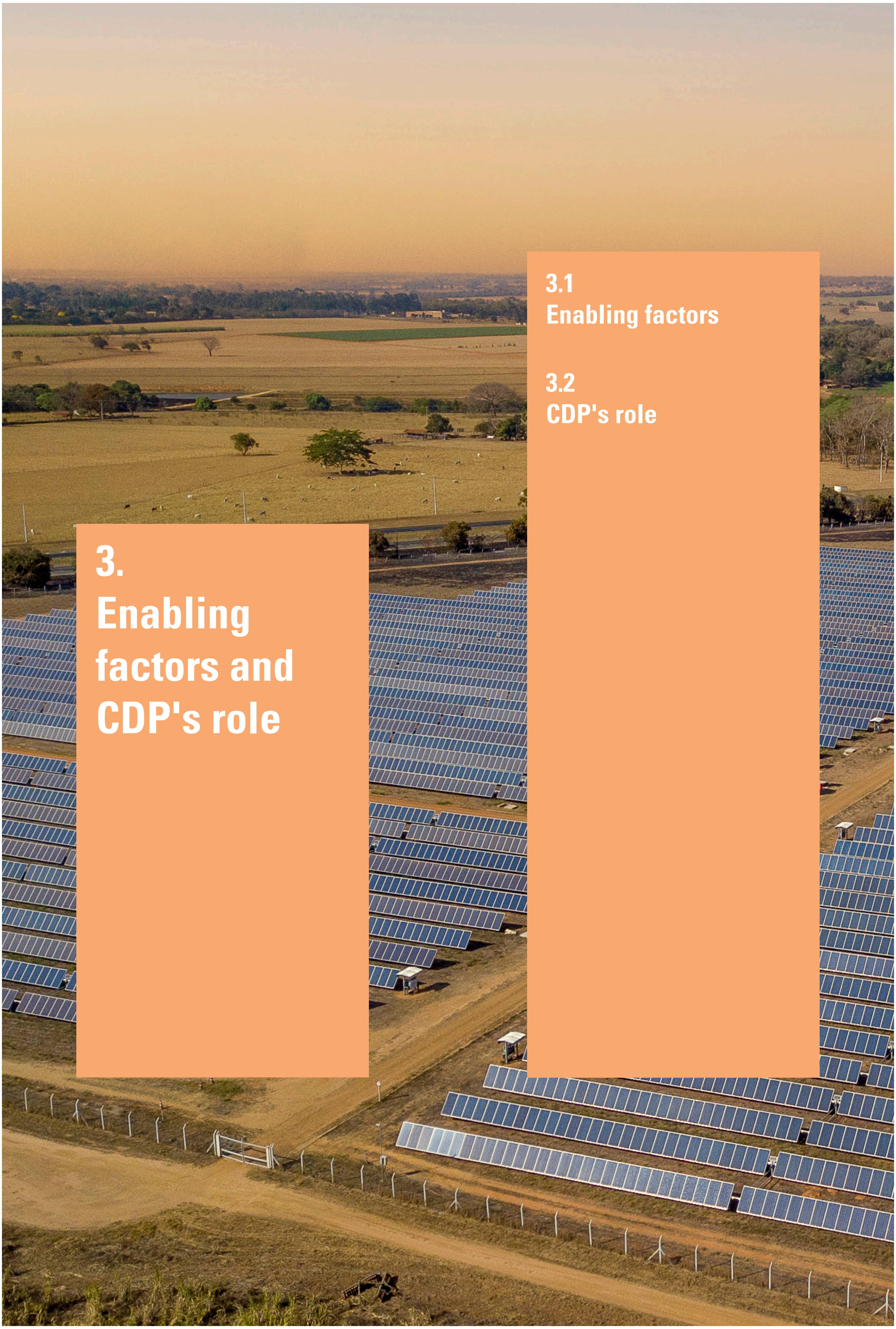
  - **supporting initiatives for the development of sustainable and resilient transport infrastructures (SDG 9, 11, 13)**. In a context of global uncertainties and risks of economic slowdown, it is vitally important to help emerging and developing countries to finance their investments in sustainable and resilient transport infrastructures, to promote sustainable and inclusive global growth and to support the fight against climate change. The pursuit of this objective presents two main critical issues: the risk/return profile is often not in line with the risk appetite of the international investors; the design of large transformational infrastructures, which incorporate characteristics of sustainability and resilience to climate change, requires financial resources and competences which are often not available in partner countries. In this context, the development finance institutions play a key role, **catalysing financial resources** from the private sector and the public sector, structuring innovative **blended finance** solutions to mitigate the risk of projects, and setting up **technical assistance** programmes with resources from public donors allocated to the planning of actions and to the development of local skills;

[36] The State of Food Security and Nutrition in the World 2020.
[37] https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang--en/index.htm

- **contributing to improving access to credit, also through the development of local financial intermediaries (SDG 8, 10).** Both in agriculture and manufacturing supply chains, support for local micro, small and medium enterprises (MSMEs) is essential for the promotion of true socio-economic inclusion. In partner countries, the MSME sector is in fact perceived by private lenders and investors as one of low-return and high-risk, thus causing difficulties in the access to credit and a consequent limited capacity to develop skills, technologies and product and process innovations. To mitigate these critical issues, the actions of the development finance institutions are typically carried out through the **financing of locally active intermediaries**, which - due to this funding - structure microfinance programmes aimed at MSMEs in partner countries. These interventions leverage mechanisms that blend their own resources, resources of the private sector and public resources; the latter also make it possible to structure de-risking mechanisms and to provide - to both financial intermediaries and final beneficiaries - grants for technical assistance and capacity building;

- **contributing to improving access to services (i.e. water, sanitation facilities, health, education, energy, telecommunications/ digital - SDG 1, 2, 3, 4, 6, 7, 10)**, also through the **construction of the necessary infrastructures**. A considerable part of the world's population lacks essential services. As an example, 770 million people worldwide do not have access to electricity[38] and just as many to safe drinking water[39]. Approximately 50% of the world's population does not have access to essential sanitation services, of which the pandemic crisis has further highlighted the importance. To ensure sustainable and inclusive growth, it is therefore important to ensure the availability of these services and support the development of the necessary infrastructures. In this area, the interventions of development finance institutions are typically carried out through project finance instruments - particularly in the energy and telecommunications sectors - or through financing of sovereign or quasi-sovereign entities, blending these with public resources to achieve concessional financing conditions, in the case of water, hygiene and health services and education, for example.

[38] International Energy Agency, https://www.iea.org/reports/sdg7-data-and-projections/access-to-electricity.
[39] Unicef, https://data.unicef.org/topic/water-and-sanitation/drinking-water/.



3. Enabling factors and CDP's role

3.1
Enabling factors

3.2
CDP's role

3. ENABLING FACTORS AND CDP'S ROLE

3.1. ENABLING FACTORS

- The effective pursuit of the strategic priorities outlined above is linked to at least two enabling contextual factors, which cut across the areas of focus considered:

  - **the development work of the Italian Cooperation System**, through stronger integration and synergy between all actors involved: from the public and private sector to the third sector, increasingly leveraging the skills of each of them also in the context of strategic planning exercises at geographic and thematic level. Moreover, it will be increasingly important to **support the traditional approach** - based on development aid promoted by the public sector with the support of the third sector (grants or concessional financing) - **with an approach that also fully utilises financial instruments** (financing, investments, guarantees) as well as the financial resources, skills and technologies of the private sector;

  - **the full implementation of public instruments supporting the operation of CDP using its own resources**, also highlighted by the previously mentioned OECD Peer Review, which would allow the Italian Cooperation System to significantly increase its action capacity. CDP's potential for action in international cooperation and development finance is not yet fully expressed, also as a result of the structurally less competitive financial conditions compared to those of European peers, associated with the statutory obligations of economic and financial sustainability. In accordance with the best practices of the European PDBs and DFIs, Law no. 125/2014 has provided for the activation of **government guarantee mechanisms** on CDP exposures to the public and private sector of partner countries; however, these instruments are not yet operative, as the adoption of appropriate implementing directives are necessary. In particular, the above-mentioned mechanisms consist of:

    - a guarantee fund, from FRCS resources, which covers the exposures for loans granted by CDP using its own resources in the area of international cooperation and development finance activities[40];

    - the government guarantee of last resort to cover exposures assumed by CDP using its own resources to governments, central banks, State public entities and international financial organisations[41];

    - a guarantee fund, from FRCS resources, for loans to companies in the partner countries issued by CDP using its own resources[42].

  Furthermore, Law no. 234/2021 provides that CDP exposures relating to climate and environmental protection actions in partner countries will be able to benefit from the guarantee of the Italian Climate Fund[43]; however, in order to activate this mechanism, it will be necessary to adopt a specific implementing decree.

3.2. CDP'S ROLE

- In this context, CDP may participate in International Cooperation and Development Finance with different objectives depending on the role it holds from time to time, whether this be a manager of public resources or lender for actions using its own resources.

- In its role as **manager of national, European and international public resources**, CDP pursues the following objectives:

  - **achieving the efficient use of managed resources**, through any leverage available based on the nature of the specific mandate:

    - CDP shall carry out the financial and administrative management of public resources, ensuring their efficient use;

    - in cases where the mandate also provides, for CDP, for a preliminary investigation and presentation of the project

[40] Article 8, paragraph 1-bis, Law no. 125/2014.
[41] Article 22, paragraph 4-bis, Law no. 125/2014.
[42] Article 27, paragraph 3, letter c), Law no. 125/2014. In addition to CDP, the following entities will be able to benefit from the guarantee: i) banks of the European Union; ii) banks of countries outside the European Union if subject to the prudential supervision of the competent authority of the country in which the intervention is carried out; iii) funds directly or indirectly held or promoted by the aforementioned entities.
[43] Article 1, paragraph 494, Law no. 234/2021.

opportunities to the public administrations (as in the case of the Italian Climate Fund), CDP shall carry out this activity to achieve the objectives set by the administrations themselves concerning the use of resources, in compliance with the strategic priorities set by them;

- **ensuring the sound and prudent management of the portfolio of financial assets** (financing, investments, guarantees);
- **supporting the Public Administrations in identifying strategic partner countries** also with a view to supporting the creation of new opportunities for the Italian production system;
- **effectively managing donor resources allocated for technical assistance and capacity building activities**, for example, by structuring programmes aimed at improving the technical quality of projects and the skills of local actors in partner countries, or to support the achievement of specific impact objectives. This will also take place through collaborations with leading financial institutions, international organisations and consultants who can provide unique know-how.

- In the role of **lender for actions using its own resources**, CDP must be able to multiply its commitment to mobilise the amount of resources envisaged by the reference regulatory framework (up to one billion euro per year), by pursuing the following objectives:
  - **expanding the scope of intervention of the Italian Cooperation System**, through financing, investments and guarantees aimed at supporting initiatives with a positive impact on the SDGs and on the fight against climate change, from the point of view of complementarity with the action of public actors which is based on grants and concessional financing;
  - **acting as a catalyst for private capital, by further contributing to bridging the financing gap** towards the goals of sustainable development and climate and environmental protection in partner countries, through the blending and structuring of innovative financial products, also in collaboration with other public and private actors in International Cooperation;
  - **contributing to the sustainable development of local markets**, at the same time supporting the strengthening of economic relations between Italy and the partner countries and the creation of a business environment that is beneficial to the Italian production system, in the most strategic supply chains and geographic areas for exports and internationalisation;
  - **supporting Italian entrepreneurial excellences in their sustainable growth journey in partner countries** and their inclusion in global value chains[44]. This action is carried out not only through **financing and investments**, but also through **information campaigns on the instruments provided** by CDP, the Italian Cooperation System and co-financing partners. In this perspective, the initiatives that aim to encourage business opportunities between Italian companies and the local counterparties in partner countries become especially important. These include the match-making events organised together with the development banks and CDP's Business Matching platform[45].
  - **playing an active role in European partnerships (e.g. TeamEurope, Global Gateway[46], EDFI) and international partnerships (e.g. Finance in Common, IDFC)** that involve the public development banks and the development finance institutions, supporting sustainable and high-quality investments in partner countries and participating in initiatives aiming to strengthen the security of global supply chains;
- In this context, CDP shall be able to further develop its operations in the area of international cooperation and development finance through the **gradual creation of foreign non-EU regional facilities** in collaboration with the diplomatic network and the other entities in the "Italian System". The opening of such facilities will be necessary to support the origination of financing and investment projects in more strategic geographical areas.
- To specifically assess the relevance, priority and strategic alignment of actions with its own resources in the areas of focus identified, CDP applies **additionality and complementarity** criteria, selecting the most appropriate operational tools according to the characteristics (type, size, etc.) and the nature of the counterparties, the geographical location and the sector-specific features (e.g. degree of maturity, profitability).

[44] For further details please refer to the Strategic Guidelines for Support to the Strategic Supply Chains document.
[45] The CDP Business Matching platform is the digital tool launched in November 2021 by the MAECI and CDP, with the collaboration of SIMEST, to promote the development of business relations between Italian and foreign companies. The goal is to support exports and the internationalisation of Italian companies, particularly SMEs, by overcoming the barriers of the most distant markets and putting them in contact, through a matchmaking algorithm, with foreign companies of possible business interest. The platform is already in operation in the leading economies of the Mediterranean, Africa, Asia and South America and is undergoing further expansion.
[46] TeamEurope: https://www.acc.team-europe-partners.eu/home; Global Gateway: https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_it

4. Recommenda-tions

4. RECOMMENDATIONS

For each area of focus, we provide below a non-exhaustive summary of the **specific strategic guidelines** spelling out CDP's **priority** actions for **International Cooperation and Development Finance**.

AREAS OF FOCUS

FIGHT AGAINST CLIMATE CHANGE

STRATEGIC PRIORITIES

A.1	Supporting the increase in power generation capacity from **clean energy sources**, through the installation of new plants or by repowering/ revamping existing plants	7 AFFORDABLE AND CLEAN ENERGY; 13 CLIMATE ACTION
A.2	Supporting initiatives for **improving energy efficiency** of production processes, homes and cities	11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
A.3	Supporting initiatives for the development of the **circular economy** and the promotion of the responsible use of resources	11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
A.4	Contributing to improving the capacity of **communities and ecosystems to adapt** to the effects of climate change	13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND

AREAS OF FOCUS

SUSTAINABLE AND INCLUSIVE GROWTH

STRATEGIC PRIORITIES

B.1	Supporting initiatives for the sustainable and inclusive growth of **local agri-food and manufacturing supply chains**	2 ZERO HUNGER; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH
B.2	Supporting initiatives for the development of **sustainable and resilient transport** infrastructures	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
B.3	Contributing to improving **access to credit**, also through the development of local financial intermediaries	8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
B.4	Contributing to improving **access to services** (i.e. water, sanitation facilities, health, education, energy, telecommunications/digital), also through the construction of the necessary **infrastructures**	1 NO POVERTY; 2 ZERO HUNGER; 3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 6 CLEAN WATER AND SANITATION; 7 AFFORDABLE AND CLEAN ENERGY; 10 REDUCED INEQUALITIES