

Sustainability Assessment Framework in the International Cooperation

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1. Information on the document

1.1 Document sheet

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2. Introduction

As a Financial Institution for International Cooperation¹, CDP has the task of promoting the growth of developing countries, in particular through mitigation and adaptation to climate change, diffusion of renewable energies, support to micro, small and medium enterprises for the growth of the local productive environment.

In accordance with this role, CDP: (i) operates as manager of the Revolving Fund for Development Cooperation, the financial instrument used by the Ministry of Foreign Affairs and International Cooperation (MAECI) under the supervision of the Ministry of Economy and Finance (MEF), in favor of countries benefiting from the Italian Government's foreign cooperation policy; (ii) is authorized to use its own resources from postal savings to support the Italian system of International Development Cooperation.

The law also defines the structure of the multi-level and multi-stakeholder governance of the Italian Cooperation and binds, among other things, the investment evaluation process promoted by CDP to the opinion of a specific decision-making body, the Joint Committee², for which an evaluation analysis following the standards defined by MAECI and the Italian Agency for Development Cooperation (AICS) is foreseen. At the same time, with regard to blending activities with grant resources from international institutions (e.g. Green Climate Fund,

¹ Cfr. L. 125/2014.

² https://www.esteri.it/mae/it/cooperaz_sviluppo/comitato-congiunto.html

European Commission), CDP must also comply with specific standards. This implies that, within the initiatives promoted by the International Development Cooperation Directorate (IDCD), the impact assessment analysis follows a specifically detailed approach on these standards³.

3. Objectives and Guiding Principles

3.1 Objectives

Main objective of this document is to strengthen the role of CDP in supporting sustainable development and the promotion of the UN 17 Sustainable Development Goals (SDGs). It applies to all CDP financing projects (loans, equity and guarantees) promoted by IDCD.

It describes how Environmental, Social and Gender principles are integrated into the assessment of initiatives promoted/financed by the IDCD, establishing a comprehensive environmental and social management system, with the aim to:

1. Integrate *Environmental, Social and Governance* (ESG) principles in the criteria for evaluating IDCD's investments and projects, in order to minimize non-financial risks and maximize the positive development impact on target countries and local communities. Implement systems for measuring and reporting the social and environmental impact, as well as the economic impact of individual initiatives. CDP will apply the IFC Performance Standards⁴ and other specific counterparty policies or procedures, if more stringent than internal procedures.

3.2 Guiding Principles

IDCD will not consciously finance - directly or indirectly (through intermediaries financing institutions) - projects where own funds are used for activities relating to the following: production or trade of any product or activity deemed illegal under host country laws or

³ For CDP's internal purposes only, the results of this analysis are also recalculated in the Sustainable Development Assessment (SDA) scoring system, as provided for in the Sustainability Framework Regulation.

⁴ The IFC Performance Standards are the standards that tend to identify the main elements of assessment on environmental and social impacts and risks. The Standards are: PS1 – *Assessment and Management of Environmental and Social Risks and Impacts*; PS2 - *Labor and Working Conditions*; PS3 - *Resource Efficiency and Pollution Prevention*; PS4 - *Community Health, Safety, and Security*; PS5 *Land Acquisition and Involuntary Resettlement*, PS6 *Biodiversity Conservation and Sustainable Management of Living Natural Resources*; PS7 *Indigenous Peoples*; PS8 - *Cultural Heritage*.

https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards



regulations or international conventions and agreements, arms, pornography, gambling and asbestos fibers.

With respect to IDCD's initiatives, CDP follows few guiding principles:

(i) **Risk-based approach.** CDP follows a risk-based approach and not a one-size-fits-all approach, commensuring environmental and social requirements with the magnitude of risk (the main criteria of this approach are defined in the following paragraphs).

(ii) **Mitigation hierarchy.** CDP adheres to the mitigation hierarchy as an overall principle to managing environmental and social risks and impacts. The mitigation hierarchy aims to: (i) anticipate and avoid adverse risks and impacts on people and the environment; (ii) where avoidance is not possible, adverse risks and impacts are minimized through abatement measures; (iii) mitigate any residual risks and impacts; and (iv) where avoidance, minimization or mitigation measures are not available or sufficient, and where there is sufficient evidence to justify and support viability, design and implement measures that provide remedy and restoration before adequate and equitable compensation of any residual risks and impacts.

(iii) **Common Approach.** In case of co-financing, CDP harmonizes application of environmental and social safeguards to reduce multiple and overlapping requirements for activities through the development of common approach that considers the requirements of other co-financing institutions while providing the highest level of environmental and social protection required among the parties.

(iv) **Compliance with applicable laws.** CDP will not support operations that do not comply with applicable laws. Therefore, CDP will take all necessary measures to ensure compliance with all applicable laws, including the laws, regulations, and standards of the country in which the activities are located, and/or obligations of the country or countries directly applicable to the activities under relevant international treaties and agreements.

(v) **Stakeholders Engagement.** CDP considers the involvement of stakeholders to be fundamental, with reference to the impacts generated by its financing activities. In particular, CDP will ensure that, on projects with significant social and environmental impacts, communities potentially affected by the activities (including vulnerable and marginalized groups and individuals) are adequately consulted by the promoter, so as to facilitate the inclusion of local knowledge in the designing of the activities, giving them the opportunity to express their views on risks, impacts and mitigation measures related to the activities. To this end, an Independent Complaints Mechanism is provided (*Independent Grievance*

Mechanism) in accordance with international best practices, including the *Free Prior Informed Consent*⁵.

(vi) **Public Consultation and Disclosure.** CDP ensures, in compliance with legal obligations, disclosure of information on transactions promoted by IDCD to guarantee transparency and continuous stakeholder engagement.

3.3 Approach to environmental and social management

3.3.1 Roles and responsibilities

With respect to IDCD's initiatives CDP, through the Sustainability Unit, in collaboration with the Chief Risk Officer, carries out the Identification and Assessment of Risks and Environmental and Social Impacts, in accordance with IFC's PS1 - 8 guidelines, in order to monitor those initiatives that may have significant and material environmental and social impacts.

3.3.2 Sustainability Framework

With respect to IDCD's initiatives, CDP has a Sustainability Framework that describes the guiding principles and operating procedures for managing environmental and social issues. The Framework is designed to enable the identification, analysis, monitoring and reduction of the environmental and social impact of such initiatives and to improve performance in this area over time.

CDP will ensure that its Framework will be regularly reviewed and updated in a transparent and participatory manner to support its relevance and responsiveness to prevailing organizational, social, economic and political conditions. The Framework will also be kept in line with lessons learned and evolving international best practices and applicable standards.

3.3.3 Gender-sensitive approach

CDP commitment to gender equality is also implemented through the institution's management model, which guarantees a non-discriminatory and inclusive working environment for its employees⁶ and for any other stakeholder. CDP's ethical standards and values related to non-discriminatory principles, preventive and corrective actions are set out in the Code of Ethics⁷.

⁵ <https://www.ohchr.org/Documents/Issues/ipeople/freepriorandinformedconsent.pdf>

⁶ https://www.cdp.it/sitointernet/en/diversity_inclusion.page

⁷ https://www.cdp.it/sitointernet/en/codice_etico.page

With respect to IDCD's initiatives, CDP's gender-sensitive approach aims at promoting gender balance in projects, in terms of beneficiaries and objectives. In this perspective, the gender-sensitive approach is articulated in order to allow for an identification, analysis and control of its gender impact and to improve performance in this regard over time.

In this respect, the approach covers each stage of the project cycle through the adoption of specific assessment, monitoring and evaluation tools. In order to reach this objective, CDP envisages, where relevant, the adoption of the following procedures:

- (i) **Gender Analysis:** provides for the overview of the gender equality situation in a country and in the target sector, the description of gender issues that might be relevant to the project and gender sensitive development impact opportunities.
- (ii) **Gender Action Plan:** aims at operationalizing the opportunities identified in the Gender Analysis and the Gender Assessment, through the inclusion of Gender-responsive actions, Gender performance indicators and targets, the presentation of Gender-responsive development impacts.
- (iii) **Gender Sensitive Monitoring & Evaluation (M&E) Framework:** incorporates mandatory gender indicators in the project results framework.

CDP's gender-sensitive approach is performed consistently with the IFC Performance Standards, especially IFC PS 1, 2, 5 and 7.

4. Identification and assessment of risks and impacts

4.1 Internationally recognized standards

CDP operates in the spirit of internationally accepted good industry practices. With respect to IDCD's initiatives, CDP applies the IFC Performance Standards (PS) and Environmental, Health and Safety (EHS) Guidelines⁸. Specifically, the projects will follow the most stringent criteria if several standards and principles apply simultaneously. The 8 IFC PS cover different thematic areas defining responsibilities for managing the project's environmental and social risks, while the IFC EHS Guidelines cover pollution prevention issues specific to a wide range of industrial sectors.

⁸ www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/ehs-guidelines

4.2 Methodology

The Identification and Assessment of E&S Risks and Impacts is a process that is run in parallel with other types of analysis (e.g. economic, financial, legal) carried out by CDP on IDCD's operations, with the aim of identifying and assessing the potential environmental and social risks and impacts related to the implementation of projects. CDP conducts the assessment of the potential environmental and social impacts of these operations in accordance with all the relevant internal procedures and the principles and all the related documents. In particular, the methodology regarding the identification and assessment of risks and environmental impacts complies with the criteria and guidelines expressed in the Risk Regulation and related documents.

In screening the potential environmental and social risks and impact of these activities, CDP will consider and include direct and indirect, induced, long-term and cumulative impacts and will take into account the activities' areas of influence including associated facilities. The adverse impacts identified in the assessment, will be managed according to the principles of mitigation hierarchy to avoiding, minimizing, mitigating or providing for remedial and compensatory measures.

The environmental impacts considered include, for example, atmospheric emissions, including greenhouse gas emissions, water discharges, waste, including hazardous waste, noise and vibration, use of natural resources, and impacts on endangered animal and plant species. Social impacts consider, for instance, working conditions, health and safety of impacted communities and workers, land acquisition, forced displacement of residents, impacts on indigenous peoples, cultural heritage, human rights impact directly related to projects, such as forced or child labor, or life-threatening workplace health and safety situations.

The identification and assessment of E&S Risks and Impacts comprises: (i) ex-ante analysis of the projects, consisting of the screening of the preliminary information about the transaction and assignment of the risk category; (ii) identification of the necessary mitigation and compensation measures; (iii) monitoring, through the examination of the documents produced by the project, to identify critical situations and propose corrective actions. The ex-ante analysis, is articulated in four stages:

- **Screening** – through the completion of a screening client questionnaire. The examination of the screening questionnaire is used to understand the nature of the target project, its industrial sector and its geographical location. The questionnaire also enables the

assessment of whether the transaction involves a high probability of severe human rights impacts in relation to the target project.

- **Classification** – the information contained in the screening questionnaire together with the general information on the transaction contained in the application form, enables the classification of the transactions based on the significance of the environmental and social impacts potentially generated by them. The transactions assessed are classified into three categories that guide the next step of due diligence:
 - (i) Category A: Activities with potential significant adverse environmental and/or social risks and impacts that, individually or cumulatively, are diverse, irreversible, or unprecedented;
 - (ii) Category B: Activities with potential limited adverse environmental and/or social risks and impacts that individually or cumulatively, are few, generally site-specific, largely reversible, and readily addressed through mitigation measures; and
 - (iii) Category C: Activities with minimal or no adverse environmental and/or social risks and/or impacts.
- **Analysis** –Sustainability Unit ensures, for transactions classified as most at risk in the previous phase (A and B), that an analysis is conducted using internationally recognized instruments. Specifically, for the category A transactions, an Environmental and Social Impact Assessment (ESIA) is required, prepared in accordance with the IFC and EHS guidelines, by a subject independent from the promoter. For category B transactions, CDP will prepare an Environmental and Social Management Plan (based on a limited study). The analysis ends with an assessment of the management of the environmental and social impacts, as well as compliance with the standards, and may include the requirement for mitigation actions and monitoring plans. The results of these analyses are an integral part of the documentation submitted for the preliminary investigation phase and the potential resolution on the transaction by CDP, in accordance with the timescales and procedures laid down by internal regulations.
- **Consultation and Disclosure and reporting** – the documentation produced during the analysis phase is made available to the public as follows: for category A and B projects, at least 30 days before the final decision on the operation is taken, by means of an announcement on the CDP website. All approved and completed Category A and B transactions are published on the website every six months. Documentation will also be available in English and, in the case of GCF-supported initiatives, in the local language.

4.3 Control of Risks

CDP is committed to the proper governance of all risks identified in its activities, as a fundamental condition for maintaining the relationship of trust with its stakeholders and ensuring financial viability over time.

CDP adopts a prudent approach in monitoring project-related risks and attributes particular importance to an identified set of potential risks associated with ethical, social, gender and environmental impacts, to ensure that its approach is in line with the standards adopted by similar international organizations. In this regard, as part of the E&S due diligence process for transactions promoted by IDCD, in the ex-ante phase CDP acquires specific information with respect to risk areas with a potentially significant negative impact on the E&S outcomes of the project.

Specifically:

- ***Involuntary Resettlement and Land Acquisition*** –IDCD’s activities will be designed to avoid and minimize physical displacement (relocation, loss of residential land or loss of shelter), economic displacement (loss of land, assets or access to assets, including those that lead to loss of income sources or other means of livelihood), or both, caused by project-related land acquisition or restrictions on land use. Resettlement is considered involuntary when affected persons or communities do not have the right to refuse land acquisition or restrictions on land use that result in displacement.
- ***Indigenous Peoples*** –IDCD’s activities will avoid adverse impacts on indigenous peoples, and when avoidance is not possible, will minimize, mitigate and/or compensate appropriately and equitably for such impacts, in a consistent way and improve outcomes over time; promote benefits and opportunities; respect and preserve indigenous culture, including the indigenous peoples’ rights to lands, territories, resources, knowledge systems, and traditional livelihoods and practices, in line with the principles set out in the United Nations Declaration on the Rights of Indigenous Peoples.
- ***Biodiversity conservation***: IDCD’s activities will be designed and implemented in a manner that will protect and conserve biodiversity and critical habitats, ensure environmental flows of water and maintain the benefits of ecosystem services.
- ***Labor conditions*** –IDCD’s activities promote decent work, fair treatment, non-discrimination and equal opportunity for workers, guided by the core labor standards of the International Labour Organization (ILO).



- **Human Rights** –IDCD’s activities are designed and implemented in a manner that will promote, protect and fulfil universal respect for, and observance of, human rights for all recognized by the United Nations. CDP will require the application of an environmental and social due diligence so that the supported activities do not cause, promote, contribute to, perpetuate, or exacerbate adverse human rights impacts.

- **Gender Equality** – IDCD’s activities must ensure respect for equal rights, powers, responsibilities and opportunities for women and men, as well as equal consideration of women's and men's interests, needs and priorities; CDP identifies potential negative gender-specific and disproportionate impacts and activates mitigation measures to reduce them.

IDCD’s activities are screened, including component subprojects of programs, in order to guarantee an identification, assessment, monitoring and mitigation measures to minimize, restore, and/or for any potential risk in the areas above identified, in a manner commensurate with the nature and scale of such impacts.

5. Management and monitoring of risks and impacts

5.1 Environmental and Social Management Plan

The Environmental and Social Management Plan is prepared for IDCD’s operation according with the identification of specific E&S risks, on the basis of the results of the ex-ante E&S due diligence and following IFC Performance Standards and EHS Guidelines. The plan, where required, contains a list and a detailed description of measures that have been identified for avoiding adverse environmental and social impacts, or minimizing them to acceptable levels, or to mitigate and compensate them. The Environmental and Social Management Plan will also include the monitoring and reporting activities assigned to the specific operation and related deadlines.

5.2 Monitoring & Reporting

The extent of monitoring and reporting is based on the type and level of risks identified, including environmental and social risks. CDP will monitor the impacts of Category A and B projects.

The reporting activities might include annual performance reports and interim and final evaluation reports and will be both activity-specific and aggregated reports.



As part of the first level of control, the environmental and social risks associated with CDP's activities are subject to screening by IDCDC's and analysis, control and verification by Sustainability Unit, which assigns the category, analyses individual transactions, provides an opinion on compliance, and prepares and monitors periodic and final reports on the basis of information received from the other organizational units involved.

In addition, CDP has adopted a system of internal controls aligned with best practices that provides for the establishment of permanent and independent internal control functions.

The second level of control, which is already underway during the preliminary investigation of new transactions, is carried out by the Risk Management and Compliance and Anti-Money Laundering Functions, which report to the Chief Risk Officer. In particular, the tasks of Risk Management include defining the principles, methods and rules for monitoring CDP's risks, including climate, environmental and reputational risks. The Compliance and Anti-Money Laundering function ensures, as far as it is concerned, that reputational risk is monitored by means of prior assessment and continuous monitoring of the risk factors associated with transactions, in addition to level II controls to protect against the risk of non-compliance and money laundering.

The third level of control (i.e. Internal Auditing Division) is tasked with assessing the suitability of the internal control system as a whole, to ensure the effectiveness and efficiency of processes, the protection of company assets and investor assets, the reliability and objectivity of accounting and operating information, and compliance with internal and external rules and management instructions. Audit findings are reported on a quarterly basis, after review by the Board Risk Committee, the Board of Directors, and the Board of Statutory Auditors, to the Top Management and, at the same time, to the Supervisory Board Support Unit, which is responsible for periodically reporting to the Supervisory Bodies the results of audits relevant to Legislative Decree 231/01. Any critical issues identified through audit activities are instead notified promptly to the company units responsible for implementing improvement measures.

6. Stakeholder engagement in the field of International Development Cooperation

6.1 Stakeholder Engagement Plan

With respect to IDCD's initiatives, CDP ensures the effective engagement of communities if affected or potentially affected by its activities and project. IDCD's initiatives have a Stakeholder Engagement Plan that describes the ways in which they are disseminated and the processes of involvement, in order to allow the relevant stakeholders to be adequately informed, giving them the opportunity to express their opinions on the activities. This information will be designed and undertaken in a manner that takes into consideration the risks and impacts, including, where appropriate, transboundary impacts as well as opportunities to enhance environmental and social outcomes of the proposed activities, starting from the design and development of activities and will continue throughout the lifecycle of the activities.

6.2 National Authorities and Community Involvement

CDP aims to promote the social and economic development of the areas in which projects are implemented. This commitment is realized through a wide range of financial instruments, but also by performing, where possible, a role of proactive support, to effectively aid the generation of value for local areas and for the countries of operation.

6.3 Information Disclosure

The existence of a fair, adequate and transparent communication is a key element for improving the outcomes of IDCD's operation. Information disclosure allows a better understanding by the stakeholders of corporate's activities and values and allows for the creation of positive synergies which benefit both the projects and the communities in which the projects is implemented.

Consequently, CDP is strongly committed to establish a durable dialogue with its stakeholders, ensuring:

- a fair, appropriate and correct disclosure;
- equal treatment of all participants;
- transparent process of disclosure, based on the correctness of information;
- compliance with law and regulations;
- appropriate management of confidential information

CDP will ensure, in compliance with legal obligations, that the following documents for ID projects will be publicly disclosed:

- the environmental and social reports or core safeguards instruments: ESIA, ESMP.
- Summary of the activities, along with the environmental/social information, including:
 - (i) The purpose, nature, and scale of the activities, and the intended beneficiaries;
 - (ii) The duration of proposed activities;
 - (iii) A summary of stakeholder consultations and the planned stakeholder engagement where applicable; and
 - (iv) The available grievance mechanism(s)
- any additional environmental and social documents will be disclosed upon specific requests and circumstances or project necessities.

6.4 External Communications and Independent Grievance Mechanism

With respect to IDCD's initiatives, is foreseen in CDP an Independent Grievance Mechanisms (IGM). This mechanism aims to facilitate the presentation of claims arising from the environmental and social performance of funded projects and the search for constructive dispute resolution. To this end, CDP will outline the information on how to access it.

This mechanism will be structured according to the following principles:

- Accessibility in terms of clear and understandable operation, in a manner culturally appropriate to the segments of the affected communities.
- Transparency and accountability to all stakeholders.
- Proportionality to the magnitude of the risk and adverse impacts on affected communities.
- Centrality of commitment and dialogue in order to guarantee the active consultation of all users, enhancing their needs.
- Human rights compatibility.

Moreover, the IGM guarantees to all of its users:

- Legitimacy: Users trust the IGM and believe they will get a fair and effective hearing to their grievances.
- Predictability: Users know how a complaint will be handled and the potential outcomes.
- Equitability: Users are treated impartially and provided with information & resources so they can participate meaningfully.

Moreover, IDCD, on projects with a high environmental and social impact, will require executing entities to develop and implement their own IGM mechanism at the project level.



While waiting for this mechanism to become fully operational, the Sustainability Unit is responsible for collecting and handling any requests that may be received from stakeholders, keeping Compliance duly informed for appropriate sharing of any responses to be provided.