

ITALY

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

Net ODA US\$m	4,444
% of GNI	0.20%

Source: OECD/DAC, preliminary 2008 data.

Since 2001, Italian ODA has increased in absolute amount (up from US\$1627m) and relative to GNI (up from 0.15%). Over the period 2001-08, Italy's ODA volume increased by 173% in nominal terms.

1.2. Future Quantity Intent

As a member of the EU, Italy has committed in principle to give 0.33% of GNI by 2006, 0.51% of GNI by 2010, and 0.7% of GNI by 2015. According to OECD DAC estimates, this will equate to \$US 10.9 billion by 2010 (DAC, 2009). However, the likelihood that such targets will be met may be called into question by the cuts in resources managed by the Directorate General for Development Cooperation, the declining levels of debt relief anticipated in future years, and the lack of a plan for massive "scaling up" of resources (Reality of Aid, 2006, p299). Italy's 0.20% ODA/GNI ratio is below the EU (Barcelona) target of 0.33% for 2005. The Italian government itself acknowledges that under the current financial allocations, Italy will fail to fulfill its commitments on aid. As of August 2008, the government has announced that the aid budget will be cut by approximately \$US 240m in 2009 and again in 2010, and indicated that future trends will be influenced by budget constraints (DAC, 2009)

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures

Ministry of Foreign Affairs (MFA)

The MFA (www.esteri.it/MAE/EN/), primarily through the Directorate General for Development Cooperation (DGCS) (<http://www.cooperazioneallosviluppo.esteri.it/pdgcs/>), is responsible for oversight of all development co-operation, jointly with other key development institutions. It oversees 94% of Italian bilateral ODA (which represents 27% of the total ODA), whereas much of the multilateral aid is jointly overseen by the Ministry of Economy and Finance and the MFA (DAC, 2004, p44). Bilateral development assistance is implemented by the *Unità Tecnica Centrale* (UTC), a specialized development unit housed in the DGCS. Italian aid policy and decision-making is highly centralized at the headquarters level, as a result of the minimal resources and size of field offices (ActionAid, 2007a, p16).

Ministry of Economy and Finance (MEF)

The MEF (www.tesoro.it) is primarily concerned with debt relief and multilateral aid, and directly manages 18% of Italian ODA (DAC, 2004, p45).

2.2 Key Policies and Legislation*Law No. 49 of 1987*

(http://www.esteri.it/MAE/EN/Politica_Estera/Economia/Cooperaz_Finanziaria/Imprese_Miste/Scheda_Articolo7)

Italian development cooperation is firmly anchored in the 1987 law, which is widely recognized as weak by the Italian development community, because it is narrowly focused on specific operational details, leaving unclear the key objectives and principles of development cooperation (DAC, 2004, p16-17). Two examples are provided by the 2004 Peer Review (see also ActionAid, 2007a, p16 for a thorough discussion):

1. The law created a detailed framework for a Steering Committee which must approve a wide range of development related actions, including all projects above EUR 1 million. This introduces inefficiencies into the project cycle as well as bogging down senior decision-makers in micro-details.
2. The law details a list of field mission level tasks, the range of which no longer meets the needs of modern development cooperation.

1999 Poverty Reduction Guidelines

The Poverty Reduction Guidelines lay out the sectoral strategies of Italian Co-operation, emphasizing poverty reduction. The four pillars are to:

- Promote an institutional environment favourable to poverty reduction by improving governance and public sector management encouraging democratic participation.
- Encourage political and administrative decentralization and the role of local communities in development processes.
- Combine an integrated local development approach with sectoral approaches.
- Operate in co-ordination with all stakeholders of 'Sistema Italia' and other donors in the programming, implementing, and monitoring phase of the process.

Other

On January 12th 2007, the Italian Government presented a proposal to reform the Italian ODA architecture, aiming to replace law 49/87. The key features are (see ActionAid, 2007b):

- Political responsibility for all development cooperation related issues lies with the Ministry of Foreign Affairs, enabling it to establish special coordination structures to ensure coordination;
- Creation of a public Agency responsible for carrying out development cooperation activities. The agency would work with a 3-year strategic plan, previously approved by the Minister for Foreign Affairs;
- A single financial "Fund" – gathering the many financial flows now scattered under various Ministries – will fund the Agency activities. The Agency could also act as a fund-raising body to the general public;
- There is no reference to the 0.7% ODA target, nor of other volume targets;
- Italian ODA should be completely untied;

- International Development Cooperations is designated as an ‘integral’ part of Italian foreign policy. No introduction of a “Deputy Minister for development cooperation”

The reform process will probably be lengthy, with ActionAid (2007b) speculating that “*a system could be in place within 2 to 3 years*”. Even though Italy is a signatory to the Paris declaration, it has so far not presented a plan for the realisation of the Paris agenda.

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Top recipient countries	% of total ODA gross disbursements	% of bilateral ODA gross disbursements	US\$m
Iraq	20.0%	30.0%	719
Nigeria	18.0%	27.0%	649
Ethiopia	2.7%	4.0%	96
Serbia	2.0%	3.0%	73
China	1.5%	2.2%	53
Congo, Rep.	1.4%	2.2%	52
Nicaragua	1.2%	1.7%	42
Tunisia	1.1%	1.6%	38
Cameroon	0.9%	1.3%	32
Afghanistan	0.8%	1.2%	30

Source: OECD/DAC, 2005-2006 data.

The top ten recipients listed above received 74.2% of bilateral ODA in 2005-06. The top-ten recipients of Italian aid have changed rapidly and repeatedly over the past decade indicating that geographic priorities are quite weak and that aid has a strong tendency to follow natural disasters and post-conflict situations.

Distribution among different groups of recipients (% country allocated / region specified gross ODA disbursements):

Least Developed Countries	13.1%
Other Low Income Countries	35.3%
Sub-Saharan Africa	44.7%

Source: OECD/DAC, 2005-2006 data.

Only around 45.4% of Italian aid goes to least-developed or low-income countries, leaving a considerable proportion to middle-income countries.

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria*

Information on Italian pre-selection criteria is currently being compiled.

3.2.2. *Allocation criteria:*

Information on Italian allocation criteria is currently being compiled.

4) AID POLICIES

4.1. Concessional

Italian aid for the poorest and most indebted countries is now 100% grants, though middle-income countries can receive loans.

Italian aid to the private sector comes as loans, with 20-year maturity, 10 years of grace and interest of 1.5%. For loans linked to equity stakes, maturity is 10 years and the interest rate variable. Lines of credit to the private sector can be even more concessional, with 0.5% interest, 24 years of grace and 36 of maturity.

Grant element of total ODA commitments (excluding debt reorganisation)	97.1%
Grant element of bilateral ODA to LDCs	84.4%

Source: OECD/DAC, 2005-2006 data.

Terms of ODA loan commitments:

Grant element	60.3%
Average maturity	20.9 years
Average grace period	7.7 years
Average interest rate	0.7%

Source: OECD/DAC, 2006 data.

4.2. Types of Assistance

Breakdown of different types of ODA (commitments unless otherwise stated):

	\$USm	% of gross bilateral ODA
Stand-alone technical cooperation (disbursements)	0.2	0.0%
General budget support	23.5	1.2%
Sectoral projects and programmes (including some technical cooperation)	80.4	4.3%
Action related to debt	1670	88.6%
Developmental food aid	-	-
Other commodity assistance	-	-
Emergency and distress (disbursements)	-	-

Source: OECD/DAC, 2006 data.

Note: The breakdown into different types of assistance shown in the table is taken from different OECD/DAC data sources. As such, the final column does not add to 100%.

Historically, Italian aid has been highly project- and TA-based, with only a limited amount of tied budget support. Italy has shown a preference for funding many small projects (CGD, 2007). Italian cooperation has confirmed to the EC that it will in future continue to favour these two methods of allocating aid (ActionAid, 2007a, p.43). In 2004-05, Italy engaged in an untied direct budget support 'experiment' in Mozambique, the result of which was intended to reorient Italian aid modalities (DAC, 2004, p58-59). 3 years later no other country receives Italian Budget Support.

The low amount of programme support Italy gives on average, is reflected in Paris indicator 9, with only 7 out of 21 countries receiving more than 50% of programme aid including Cape Verde (100%), Yemen (87%) and Mali (86%),. This is also

reflected in the HIPC-CBP indicator, with best practice here found in Mozambique (just below top score).

On the co-ordination of technical assistance (Paris indicator 4), Italy scores best in Honduras, Mali and Vietnam (100% aligned). Best practice according to the HIPC-CBP survey is found in Gambia.

4.3. Channels of Assistance

Italy allocates 45% of its ODA through multilateral institutions of which 80% goes to the EC, 7% to UN agencies and 6% to the World Bank (2004 data, OECD DAC). This represents a significant decline in Italy's share of ODA provided to multilateral institutions since 2004.

The MFA sees an increasingly important role for non-governmental organizations in Italian development co-operation, but the size of Italian NGOs working in the development sector is very limited compared to other DAC members. The primary reason for this may be procedural difficulties confronted by NGOs in using Italian government funds (DAC, 2004, p24).

As a member of the EU, Italy signed up to commitments in Paris in 2005 to channel 50% of government-to-government assistance through country systems, which will imply a sharp increase in budget or sector support. Considering the fact that budget support arrangements are still only present in Mozambique (and reducing in terms of the total level of ODA given to Mozambique), it seems unlikely this target will be met (see ActionAid, 2007a).

Under the Berlusconi government, Italy decided to allocate $\frac{1}{4}$ of its ODA to the private sector in developing countries, by financing exports of Italian goods and technical assistance, as well as the taking of equity stakes (up to 50%) in small and medium enterprises. It is not clear whether this policy will continue under the new government.

The HIPC-CBP survey finds best practice for channeling resources through the partner country's budget in Ethiopia (top score given).

4.4. Sectors and Projects

Sector	% of bilateral ODA (commitments)
Social and Administrative Infrastructure	12.1%
Of which: Education	1.7%
Health	3.8%
Population	0.2%
Water supply and sanitation	2.2%
Government and civil society	1.6%
Economic Infrastructure	10.5%
Of which: Transport and communications	5.9%
Energy	2.6%
Production	1.8%
Of which: Agriculture	1.2%
Industry, mining, construction	0.5%
Trade and tourism	0.1%
Multi-sector	4.7%

Sector	% of bilateral ODA (commitments)
Programme Assistance	1.1%
Action relating to debt	64.0%
Emergency aid	3.0%
Administrative expenses	2.6%
Unspecified	0.4%

Source: OECD/DAC, 2006 data.

Italian aid is relatively well spread across the different economic sectors, with a slightly higher share of aid to the productive sectors than many other DAC donors. The high share of education reflects costs of scholarships in Italian universities attributed to ODA. Best practice regarding sectoral alignment with PRSP and willingness to fund PRSP priorities (HIPC-CBP survey) can be found in Gambia and Guyana.

4.5. Flexibility

The ability of Italian aid to respond rapidly to new programming possibilities is very low, largely because it is hindered by sluggish procedures. It may take up to six months or more from project or programme approval for the budget accountancy office to approve a budget (DAC, 2004, p49). The HIPC-CBP survey does not deem Italian ODA very flexible, with no country giving the two top scores.

4.6. Predictability

At the global and country level, Italian ODA is based on three-year indicative programme statements. However, budget planning is based on annual budget procedures, so multi-year country programming can be undermined by budget adjustments (DAC, 2004, p53 and p13). The 1987 law established a multi-year financing fund managed by the DGCS, but this was abolished in 1995. The HIPC-CBP indicator on multi-year commitments indicates best practice in Ethiopia (top score), even though most other countries surveyed give the lowest score possible. As for the fulfilling pledges and compatible disbursement timetable indicators, Gambia scores best. Paris indicator 7 shows Italy scoring relatively poorly in terms of predictability with only 3 countries out of 21 scoring more than 50%: Morocco (92%), Afghanistan (63%) and Niger (61%)

4.7. Conditionality

Due to the low level of budget support, Italian aid has not historically had any additional macro-economic or sectoral conditionality. This may change in future if Italian aid switches more in the direction of non-project support. The analysis in ActionAid (2007a) however shows this does not look to be happening very soon. Conditionality linked to the pilot Italian Budget support programme in Mozambique is linked to the Mozambican Performance Assessment Framework (PAF). Best practice on non-Budget Support related conditionality (non-strict enforcement and only minor delays) can be found in Nicaragua, Malawi and the Gambia.

4.8. Policy Dialogue

The degree of policy dialogue and local ownership over Italy's three-year programmes varies a great deal between countries. In Mozambique the recent three-year plan was heavily based on the national development plan, whereas in Tunisia,

primarily Italian diplomats developed the most recent three-year plan (DAC, 2004, p53-54).

Italy does not play any significant role in the macro-economic policy dialogue with its partner countries, partly due to its lack of budget support.

5) AID PROCEDURES

5.1 Conditions Precedent

Most Italian projects require the opening of a separate commercial bank account as well as the establishment of a parallel project implementation unit. Italy self-reports frequently using parallel project management units (EC, 2006, p67). This is not entirely borne out by Paris indicator 6 which shows no PIUs in 9 surveyed countries including Cape Verde, Kenya, Mali and Tanzania.

According to the HIPC-CBP survey, the lowest number of conditions precedent for Italian aid can be found in Gambia and Ghana. They give Italy the second best score. Counterpart funds are required in most partner countries. Exceptions (i.e. top score, meaning no counterpart funds required) can be found in Gambia and Ghana. Delays are kept within limits in Nicaragua, Honduras and Gambia. According to the HIPC-CBP indicator funds take only 1 to 3 months to be disbursed from submission to reimbursement claim or disbursement request.

5.2 Disbursement Methods

Information on Italian disbursement methods is currently being compiled.

According to the HIPC-CBP survey best practice for Italian aid on disbursement methods can be found in Ghana, which gets the highest possible score for this indicator (implies that 100% of disbursements are made in cash advances).

5.3 Disbursement Procedures

Information on Italian disbursement procedures is currently being compiled.

Paris indicator 5a on the use of country PFM systems in channelling aid indicates that Italian aid has a very poor average of 18% (compared to 45% for all donors). Best practice is in Morocco (89% of aid channelled through local public finance systems) and Kenya (60%). The number of disbursement procedures is quite high in most countries covered by the HIPC-CBP survey. Best practice (i.e. least number of procedures) can be found in Gambia, Ghana, Honduras and Nicaragua, which give Italy the mid-point score (2 procedures additional to those of government).

5.4 Procurement Procedures

Italy is the DAC member which has made least progress towards untying its aid. The Center for Global Development (CGD, 2007) reports that 70% of aid is either tied or partially tied, while DAC/OECD data indicates that 23% of *bilateral* aid is tied or partially tied, compared to the DAC average of 5.5%. According to Paris Indicator 5b, Italy uses partner procurement systems in half of the surveyed countries with best practice in Mali (100%), Morocco (99%) and Egypt (87%). Delays in disbursements arising because of procurement issues are smallest in Gambia (top score, implying procurement procedures are swiftly dealt with and cause delays of less than 3 months), but quite substantial overall (HIPC-CBP survey).

5.5 Coordination

Italy does not generally coordinate strongly with other donors, nor cofinance programmes, partly due to the restrictiveness of its tying rules. The exception to this is the budget support programme in Mozambique where Italy is part of the multi-donor budget support group and takes its conditionalities from the Mozambican Performance Assessment Framework (PAF). However, as a member of the EU, Italy committed in 2005 in Paris to reduce the number of uncoordinated missions by 50% by 2010.

Paris Indicator 10a shows co-ordinated donor missions above the 50% target in Yemen (100%), Ethiopia (67%) and DRC (50%). Italy does analytical work in only 5 of the surveyed countries with highest scores in Gabon, Honduras and Yemen where all analytical work is done jointly with other donors (Indicator 10b). According to the HIPC-CBP such harmonisation activities are best performed by the Italians in Sierra Leone which gives the top score to Italian cooperation activities on this specific indicator.

Key Sources *(All internet sources were accessed on 24 August 2008)*

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