

DAC Peer Review

ITALY

Development Assistance Committee



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- To achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy.
- To contribute to sound economic expansion in member as well as non-member countries in the process of economic development.
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In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the Development Assistance Committee, whose Members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, Members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The Members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and efforts of each member are critically examined approximately once every four years. Five or six programmes are examined annually. The OECD's Development Co-operation Directorate (DCD) provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination. A recent innovation is to organise "joint assessments", in which the activities of several members are reviewed in a single field mission.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions posed by DAC members led by the examiners. These questions are formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from France and Sweden for the Peer Review on 28 September 2004.

LIST OF ACRONYMS

AGEA*	Agriculture Payments Agency (<i>Agenzia per le Erogazioni in Agricoltura</i>)
CAP	Common Agricultural Policy (of the EU)
CILSS*	<i>Comité Inter-Etat de lutte contre la Sécheresse au Sahel</i>
CIPE*	Interministerial Committee on Economic Planning (<i>Comitato Interministeriale per la Programmazione Economica</i>)
DAC	Development Assistance Committee (of the OECD)
DGCS*	Directorate-General for Development Co-operation (<i>Direzione Generale per la Cooperazione allo Sviluppo</i>)
EU	European Union
EDF	European Development Fund
FDI	Foreign direct investment
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GNI	Gross national income
GONG*	Non-Governmental Organisation Group (<i>Gruppo Organizzazioni Non-Governative, Mozambique</i>)
ICE *	Institute for Foreign Trade
INSME	International Network for Small and Medium-sized Enterprises
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MENA	Middle East and North Africa region
MFA	Ministry of Foreign Affairs
MIT	Ministry for Innovation and Technologies
NGO	Non-governmental organisation
ODA	Official development assistance
PCD	Policy Coherence for Development
PARPA*	Mozambique national strategy for poverty reduction (<i>Plano de Acção para a Redução da Pobreza Absoluta</i>)
PRSP	Poverty Reduction Strategy Paper
SMEs	Small and medium-sized enterprises
UTC*	<i>Unità Tecnica Centrale</i> (Central technical office in Rome)
UTL*	<i>Unità Tecnica Locale</i> (Country development co-operation office)
*	Denotes acronym in original language.

Signs used:

EUR	Euro
USD	United States dollar
()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding

Exchange rate (Euro per USD)

2002	2003
1.0611	0.8851

Italy's Aid at a glance

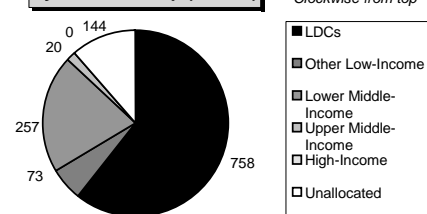
ITALY

Gross Bilateral ODA, 2002-03 average, unless otherwise shown

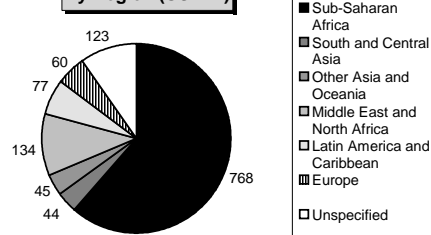
Net ODA	2002	2003	Change 2002/03
Current (USD m)	2 332	2 433	4.3%
Constant (2002 USD m)	2 332	1 976	-15.3%
In Euro (million)	2 475	2 153	-13.0%
ODA/GNI	0.20%	0.17%	
Bilateral share	43%	44%	
Net Official Aid (OA)			
Current (USD m)	-	497	-

Top Ten Recipients of Gross ODA/OA (USD million)	
1 Mozambique	231
2 Congo, Dem. Rep.	225
3 Tanzania	67
4 Ethiopia	48
5 Tunisia	35
6 Guinea-Bissau	35
7 Afghanistan	33
8 China	33
9 Palestinian Adm. Areas	31
10 Albania	26

By Income Group (USD m)



By Region (USD m)



By Sector

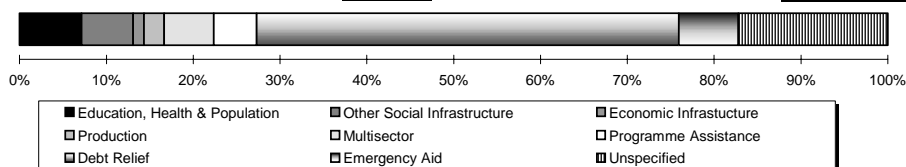


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DAC'S MAIN FINDINGS AND RECOMMENDATIONS

General framework and current directions

New commitments to development

Italy is one of a handful of the world's key actors in development co-operation. It exercises this role as a member of the G8 leading industrialised countries and of the European Union (EU), and is active in a variety of other international fora. In terms of the volume of its aid, Italy is the seventh largest OECD Development Assistance Committee (DAC) donor, with a 2003 official development assistance (ODA) volume of USD 2 433 million, representing 0.17% of its Gross National Income (GNI). Italy's national interests are closely intertwined with many other developing nations in proximity to its borders and elsewhere in the world, a fact that is often recognised in its statements of foreign policy. To address this political reality, Italy has made a range of commitments to development since the 2000 Peer Review. It agreed in Barcelona (2002) to more than double the volume of its ODA by 2006. It has become one of the world's most active and innovative donors on debt relief since passage of a law on the topic (2000). It similarly took a lead position in launching its support for the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) in 2001, played a lead role in the OECD Bologna process for Small and Medium-sized Enterprises and, at Palermo, hosted an initiative on e-government (2002). Finally, it has made active contributions to the crises in both Afghanistan and Iraq, and it hosted the Rome High-Level Forum on Harmonisation (2003).

The need for high level political resolve

To implement the Italian political vision on development issues, the 2000 Peer Review saw a need for significant reforms in its system and procedures of development co-operation. Four years later, most recommendations contained in the 2000 Peer Review had not progressed significantly. The diplomatic and technical administrators of Italian development co-operation stress that most key reforms depend on the national political process. Of particular relevance in this respect is the 1987 Law, which was identified in previous Peer Reviews as too detailed and prescriptive at the level of aid administration (personnel types and levels, management systems, ability to delegate) and too cursory on topics of basic strategy. Extensive parliamentary debate on this topic has not yet produced a clear, alternative legislative framework to date. Appropriate legislative reform is a priority, but this should not delay actions that can be taken within the present framework. Lacking clarity, the national vision for aid is now increasingly influenced by crisis and special initiatives. This approach runs the risk of diluting the direction of Italy's longer-term development co-operation and ultimately detracting from effectiveness in the field.

In addition to the need for legislative action to move the strategy reform agenda, the Italian government needs to assert more proactive leadership, both at the political level and at the level of its aid organisation. Current political leadership is located essentially in the Ministry of Foreign Affairs (MFA), with development responsibilities shared among four under-secretaries of state. Public dialogue on issues of policy and strategy is limited, although the ongoing dialogue with parliament, appears to be picking up because of the flurry of recent legislative proposals for new directions in aid.

Within the MFA, statements of official development policy have not been updated consistently in recent years. While the current approach to development strategy permits flexibility in dealing with a rapidly evolving political climate, a clearer framework for a more focused operational strategy within the MFA could help to bring the different parts of Italy's development co-operation system together more effectively. It would also give clearer priority to topics of international consensus such as poverty reduction or the Millennium Development Goals (MDGs).

The important role of public awareness

National political support for development co-operation depends upon a supportive public. Current Italian public opinion strongly supports development co-operation but shows scepticism towards the public aid system. The Directorate-General for Development Co-operation (DGCS) has begun to take stronger action in this area over the last year, however, it has yet to develop a modern, transparent and effective information policy for development co-operation, which includes strategic alliances with Italian newspapers and television, co-ordinated outreach at the level of parliament, expanded public education and enlarged public dialogue.

Recommendations

- Italy should define a **national vision** for development co-operation which is derived from a more inclusive and broad-reaching dialogue with Italian peers in development.
- Italy needs greater clarity in stating its aid **policies**, including that for poverty reduction. Such policies should be made accessible to all and described more operationally. Italy needs an operational strategy on how it will contribute to the achievement of the **MDGs** in view of the 2015 deadline.
- Italy needs legislative reform and, in the short term, continued action within the present framework.
- The Italian government needs a designated **focal point** for development co-operation at the political level, for example a deputy minister for development.
- The DGCS should continue to develop a better defined strategy to raise **public awareness** of development issues, including a stronger alliance with other official and non-governmental actors.

Aid volume and distribution

The challenge of effectively implementing future ODA growth

Over the last few years, growth in ODA has been restrained due to government-wide budget austerity, but has periodically accelerated following special political initiatives. At the Barcelona Summit (2002), Italy committed to an ODA/GNI target of 0.33% by 2006. This is estimated to require a 113% budget increase in real ODA (USD 2.7 billion) over the 2003-06 timeframe, representing an estimated 15% share of the global Monterrey undertaking. Simultaneously, the potential for future ODA growth is complicated by the fact that debt relief, which has been a significant factor in recent ODA growth, will be exhausted by 2006. Finally, the current political preference to favour the bilateral channel to absorb these increases will prove challenging, given the shortage of staff resources and limited use of new funding modalities.

The Need for a more strategic allocation process

It is important to note Italy's continuing allocation focus on Africa; however, attention to a more strategic allocation of ODA resources has not taken place since the 2000 Peer Review. Today's list of country recipients of Italian ODA is actually longer than that of the previous review, up from 113 to 118. Only 11 of Italy's 20 priority recipient countries in the 2000 Peer Review remain on the 2004 list. At the level of individual recipient partners, interest in allocating Italian ODA around substantive, locally-led country strategy planning appears to have diminished.

Italy continues to be the DAC member with the highest percentage of multilateral aid (51% of total ODA in 2003), even though that portion declined from 65% at the time of the previous Peer Review. The trade-offs between funding of the multilateral and bilateral channels should be made more explicit and could be based more effectively on strategic considerations related to performance-based feedback. In every case they should be consistent with the capacities of aid management in either channel. This may require stronger MFA-Ministry of Economy and Finance (MEF) co-operation at different levels and an improved MEF capacity to monitor, evaluate and plan its multilateral investments.

At the level of sector priorities, the Italian programme similarly tends to disperse funding. Its attention to a wide range of sectors permits flexibility in taking on the challenges of development cooperation, but the broadening of its portfolio further stretches its already limited staff capacity. Finally, in the bilateral context, cross-cutting issues such as gender, HIV/AIDS and poverty reduction tend to be managed through the simpler project modality, rather than being mainstreamed through the programme, despite Italy's demonstrated intellectual capacity to address their multidimensional complexities.

Recommendations

- Italy should set out an explicit growth path for 2005 and 2006 to fulfil its **ODA commitments** announced at Barcelona as an important part of the global Monterrey undertaking.
- Italy should emphasise more **strategic and performance-based budgeting** by prioritising its funding allocations. This relates to identification of priority countries or sectors and to allocations between bilateral and multilateral channels.

Policy coherence for development

Making policy coherence a priority

Italy is well placed to understand the benefits of a more joined up approach to the wide range of policies affecting the recipients of its development assistance. Consequently, the approach to inter-ministerial policy co-ordination piloted in Albania could equally be applied to other prominent aid recipients or to inter-ministerial policies in such areas as trade (*e.g.* olive oil, sugar), foreign direct investment, untying or migration, among others.

Special attention is drawn to the opportunity to revise Italy's policy on development co-operation and Foreign Direct Investment, away from an approach focused on encouraging Italian FDI through credit schemes and facilitation, to one centred on supporting the enabling environment for investment in developing countries.

It was noted that the current level of untying of Italian ODA does not appear to have improved since the 2000 Peer Review, when it was 62% tied. Italy has yet to provide updated data, but the last estimation was 92% in 2001, a year of limited debt relief. Conclusions in this respect are difficult, but a revision of policy in favour of further untying would contribute to the greater effectiveness of its aid.

In order to increase the scope for a more integrated and regular attention to policy coherence for development issues, several opportunities exist. While Italy regularly considers coherence issues in preparation for major international events, it does not yet have a formal policy for Policy Coherence for Development (PCD), nor does it have specifically allocated analytical talent. Its institutional arrangements on this topic are limited primarily to very broad policy debates in the Council of Ministers or in the Interministerial Committee on Economic Planning (CIPE - *Comitato Interministeriale per la Programmazione Economica*). Parliament does not have a specific commission on development co-operation, whilst the non-governmental organisation (NGO) community, normally an active advocate of policy coherence in other DAC member states, so far has refrained from playing a major policy role. As an active member of the European Community, Italy has a special opportunity and even responsibility to proactively encourage all European member states to work in the direction of policy coherence for development in all of the areas noted above.

Recommendations

- Policy coherence should be an **explicit goal** of the Italian government. This should include a specific public statement on coherence for development, including reference to themes of special interest such as foreign direct investment (FDI) or untying.
- Italy should mobilise **expertise and analytical capacities** both within and outside government to identify policy areas incoherent with its development co-operation objectives. This could include special resources or a unit of government that is dedicated to this task alone. Consultation with civil society and the research community would strengthen these actions.

Aid management and implementation

Working toward efficient Italian aid management

Based on experience elsewhere in the DAC, significant efficiency gains can be realised through improved collaboration and co-ordination at all levels, including relationships among all Italian official and non-governmental development institutions (*Sistema Italia*), between headquarters and the field, and even among various entities/representatives in the field. Italian institutions remain compartmentalised at all these levels.

Criticisms are frequently voiced over the complexity of Italian decision making and the timeliness of its funding. In an effort to expedite aid decision making, the DGCS is now attempting to simplify certain administrative procedures at the level of headquarters and to improve official collaboration for private sector activities in the field. Additional system wide thinking is still needed, however. The project and budget approval process inside the MFA remains a major issue for many observers, as is the role of the *Ragioneria Centrale*. Also, budget planning is still based on Italian annual budget procedures, while field needs are shaped on a multi-year basis and increasingly demand predictable donor funding. Interestingly, the 1987 Law (Article 15) actually set up a special fund that granted the DGCS a degree of financial autonomy and permitted multi-year funding (an exception to Italian budget law), but the fund was abolished in 1995.

Donors and recipient countries alike agree upon the importance of increasingly harmonised aid implementation procedures in the field. While Italy played an important facilitating role by hosting the High-Level Forum on Harmonisation (Rome, 2003), it has yet to develop an operational strategy to implement the commitments covered by the Declaration. It needs to open a dialogue with its field missions on this topic.

Personnel needs

Few issues of Italian development co-operation are as contentious and persistent as those of personnel management. Though a major issue in the 2000 Peer Review, little reform of the system was registered since that time. The overall size of DGCS staff has slowly declined over the last decade and no technical experts have been recruited since 1994. Its implementation arm (UTC - *Unità tecnica Centrale*) currently consists of only half of the modest pool of 120 experts allowed by the 1987 Law and 52% of this group are over the age of 55. DGCS is understaffed in comparison with most other similarly sized DAC members, although it plans to recruit 60 new experts in the coming year. These staff limitations will represent a constraint on Italy's capacity to absorb future ODA growth through the bilateral channel.

As is true for some other DAC donors, but unlike most other G7 countries, Italy does not yet have a specific personnel system or plan for development co-operation. The assignment process requires substantial advance planning and action, and gaps in staff coverage are frequent, including the key position of UTL (*Unità Tecnica Locale*) Director in the field. Italy has a personnel system which makes rigid distinctions between the roles of diplomats and development professionals. A weakness in this system is that its leadership (diplomats) and the large category of staff seconded from other ministries (29% of total personnel) rotate in and out of development co-operation frequently, while the less empowered experts remain at the core of the national development co-operation effort. Italy has yet to develop a personnel system that is characterised as performance based, whether relating to staff assignments of responsibility or to individual merit promotions. Neither does the system have a strategically shaped and regularly used system of training in key themes of development co-operation.

Decentralised operations for greater implementation efficiency

Unlike a number of DAC members, no formal process has been launched yet to examine the opportunities to improve implementation efficiency through greater operational decision making in the field, despite Italy's formal recognition of the importance of partner country ownership and the fact that several key Italian recipients use the Poverty Reduction Strategy Paper (PRSP) or other similar national priority-setting strategy. Examples of very limited project level delegation of authority were noted in both Tunisia and Mozambique field missions, but in general the concept is restrained by the management prescriptions contained in the 1987 Law.

Performance measurement

The 2000 Peer Review advocated substantial improvement in the Italian monitoring and evaluation system. While new initiatives are underway, much remains to be put in place, even though the majority of international donors recognise the growing importance of performance feedback in today's aid programming and decision making. The DGCS Evaluation Unit contains five persons responsible for maintaining the integrity of Italy's aid system. They now are essentially occupied with their role in providing pre-project appraisal. In the field, it was found that project feedback is heavily oriented to financial reporting.

Recommendations

- The DGCS should initiate a broad-based discussion of the **structural and process impediments** in its current system of management. Together with field UTLs, ambassadors and the *Ragioneria Centrale*, it should promote an in-depth review of development administration from a greater “team” perspective. This could build upon current DGCS efforts to promote administrative streamlining, while simultaneously addressing the parallel need for a clear implementation strategy on harmonisation.
- Italy should make use of **multi-year funding commitments** so as to reinforce the predictability of its support and to bring it more in line with the programming needs of recipient countries. Opportunities to introduce a degree of financial autonomy to DGCS budgeting procedures should be explored.
- Italy urgently needs to reform its system of **personnel management** for development co-operation, with special emphasis on personnel planning, placing individual ability more in line with responsibility, and use a performance-based approach that is properly accompanied by rewards and incentives. The DGCS should expedite recruitment of 60 development experts. At the field level, DGCS is also urged to pay greater attention up-stream to staffing needs, to avoid gaps in presence, and to consider ways to flexibly contract additional staff, as needed.
- DGCS management should consider stronger **decentralisation of decision making** to the field and the parallel adjustments in resources and systems necessary to accommodate these changes, such as an improved local analytical capacity and better communications between Rome and the field.
- Italy must establish a regular system of **monitoring and evaluation, consistent with DAC principles on evaluation**. To the extent possible, programme decisions (including specific allocations of funds) should be made on the basis of the results generated by this performance feedback system.

SECRETARIAT REPORT

CHAPTER 1

STRATEGIC FOUNDATIONS AND NEW ORIENTATIONS

Context

Italy is a key actor in international development co-operation. It is a member of the Group of Eight (G8) leading industrialised countries, a founding member of the EU and the seventh largest DAC donor in terms of aid volume. Italy fully understands that its national interests are closely intertwined with a number of neighbouring developing nations and elsewhere in the world, a fact consistently reiterated in its foreign policy statements. To implement this political vision, the 2000 Peer Review recognised that Italy needed to substantially reform its development co-operation systems and procedures. It urged overhaul of the 1987 law which governs Italy's development co-operation. It also made several recommendations to further improve official development assistance (ODA) volume, professional staffing, use of country strategy, delegation of authority to the field, procedural simplifications and better use of evaluation and enhancement of programmes for public awareness.

Progress since the 2000 Peer Review. The 2004 Peer Review found a striking contrast between the interest in reforming development co-operation, as expressed by a wide range of Italian development officials, and the relatively limited progress made by Italy on the DAC Recommendations since 2000 (see Annex A for key findings of the 2000 Review). The expected legal changes embodied in the 2000 Law were not enacted, leaving in place the same structural obstacles to change noted in the previous Review. Some operational modifications were carried out and are discussed in this report, but simpler, alternative actions recommended in the event the Law failed (staff, decentralised additional decision-making, improved feedback and evaluation) have yet to be substantively addressed. Of particular operational importance is the critical issue of professional staff.

Italy is one of the few G8 members which has yet to adjust its policies and delivery tools in support of the new paradigms of development co-operation. There is now considerable peer pressure to transform its ODA programme into a more co-ordinated operation, keyed to the Millennium Development Goals (MDGs) and tracked on the basis of results. To do this, the highest level political resolve will be needed.

The current legislative foundations

Current legislation governing development is firmly anchored in the 1987 Law and subsequent amendments (see Box 1). As was the case in 2000, the weaknesses of the 1987 Law are still widely recognised within the Italian development community. While it may not be yet politically possible, the Italian government is encouraged to collaborate with parliament over the longer term toward a new text of law which would put Italian development co-operation on a more modern and effective footing.

Box 1. Law 49 of 1987 - An enabling environment for Italy's development co-operation?

Italy's aid programme is carried out under the authority of Law No. 49 of 1987. Although both the 1996 and the 2000 DAC Peer Reviews noted the problematic aspects of the law, successive parliamentary attempts at reform have failed.

The 1987 Law is characterised by the striking attention it pays to the managerial detail of the Italian programme, much of which could be more flexibly handled by administrative decrees and internal deliberations among specialists. It is also marked by relatively less attention to "bigger picture" issues which might normally merit legislative scrutiny (e.g. systemic, policy or strategic topics). For instance, the law specifies the entire, detailed operational framework for a specific programme, but leaves open the general principles of development co-operation in that field (Art. 7). More specific examples:

- **Personnel.** The 1987 Law limited the number of development experts to be employed at 120 positions (Art. 12), plus 30 generalists from international organisations (Art. 16), and specified the type of contract for their recruitment. Almost two decades later, this number appears increasingly arbitrary and mismatched with the growing needs of Italian development co-operation. Simultaneously, the law does not suggest the principles of personnel organisation or management system which would encourage standards or the development of a performance-based personnel system (career progression, responsibility and incentives).
- **Management.** The 1987 Law establishes a detailed operational framework for a Steering Committee which includes the Ministry of Foreign Affairs (MFA) Minister, all the MFA Directors General, and officials from the Treasury and the Ministry for Productive Activities. The committee approves a wide range of development related actions, including all projects above EUR 1 million. Highly centralised and high level, its decision-making processes engender inefficiencies in the project cycle, while using the scarce time of its most senior decision makers with issues that could frequently be delegated to a lower level.
- **Decentralisation.** The 1987 Law mandates a detailed list of field mission (*Unita Tecnica Locale* - UTL) level "tasks". This list no longer matches the scope of development activities required in modern development co-operation, nor does it permit the degree of authority needed to carry them out.

The Directorate-General for Development Co-operation (DGCS - *Direzione Generale per la Cooperazione allo Sviluppo*) views today's key issues of Italian development co-operation (e.g. funding, procedures, staff) to be fundamentally political. Italian aid reform has been discussed, however, extensively in parliament for over 10 years without coming to a meaningful conclusion. These endless discussions have even prevented some useful interim reforms from taking place. For example, a new law due to be voted in 2000 is cited as a primary reason why the long-overdue recruitment of new staff has continually been postponed. Political parties are now discussing a variety of different proposals for development co-operation law (see Box 2), but many specialists interviewed by the Peer Review team were pessimistic about any new text of law being passed in the immediate future.

Clarity on national interests. The DAC has long advocated that due attention be given, both in development co-operation and other government policies, to the long-term development interests of partner countries. Underlying this is the conviction that, ultimately, development interests and donor countries' national interests will coincide. Indeed, effective development progress is a necessary component of inclusive globalisation which, in turn, reduces worldwide tensions and risks. Good development policies are therefore fundamentally compatible with national interest. In the short term,

however, these interests can diverge. In the case of Italy, the 1987 Law describes development co-operation as an integral part of national foreign policy, but defines national foreign policy in the longer term context of "...the ideals of solidarity among peoples...". The DAC consistently encourages national political leaders and those who fashion development policy to remain vigilant that domestic political interests do not become the driving force behind programmes of development assistance. To give national legitimacy to these aims and to better communicate development objectives to the Italian public, **DGCS is encouraged to devise a more collaborative, public approach that clarifies the role of Italian national interests in its aid programmes.** Some DAC donors have very successfully utilised this approach by drawing on the most highly respected national specialists in development and other elements of civil society to forge a more accepted national strategic vision for development co-operation.

Box 2. Parliamentary proposals on development co-operation reform

As many as 10 separate proposals for reforming Italian Development Co-operation Law - coming from the full spectrum of political parties - are currently circulating within both chambers of the Italian parliament. This demonstrates a widespread awareness of the need for urgent reform. Points of convergence among these proposals include: higher levels of ODA; greater bilateral share of ODA; the need to reform operating modalities according to criteria of efficiency and effectiveness.

A number of themes emerging from the debate are also of interest, including:

- Calls for an enhanced role of parliament (e.g. through a permanent parliamentary commission for development co-operation) which could help raise the level of political attention to development issues.
- Proposals to establish a high-level position dealing with development co-operation in the government (e.g. development vice minister, undersecretary of state or minister without portfolio) to help bolster political leadership of development co-operation.
- Suggestions for improved administrative and accounting procedures (e.g. restitution of a single fund for development co-operation which would permit greater autonomy and multi-year budgeting and planning) to overcome internal procedural constraints to modern management and enhanced effectiveness.

Promote operational leadership

Policy. In the absence of a new law, properly formulated policies can, and have, served as useful basic guidance to the national aid system. The 2000 Peer Review noted several key policy statements issued in the late 1990s (see Chapter 3). Several of these statements were state of the art at that time. For example, the principles of ownership and partnership were advocated in Italy even before the major OECD policy statement "*Shaping the 21st Century*". Since the 2000 Peer Review, however, the DGCS has generated few written development policies, essentially because of lack of time and human resources, and because of the desire to maintain maximal policy flexibility in a fast moving and increasingly political environment. Current DGCS practice is to refer to the content of political speeches as the principal expression of latest policy, without systematically interpreting their implications at field level, nor diffusing them widely. DGCS policy leaders are conscious of the importance of their system losing its sense of vision, particularly as current priorities are shaped increasingly by crises and initiatives, and aid system operations tend to evolve in an *ad hoc*, rather than strategic manner. Communication of clearly established policies and priorities at the leadership level will be critical to fostering continuity in a national aid system that can lack institutional memory.

The DGCS is encouraged to reassert operational leadership by shaping and communicating national development policy. DGCS policies could be disseminated via the MFA website; this would permit worldwide reach and could be easily amended as policy changes are effected over time.

Encourage a system approach. The DAC encourages its members to view all national development co-operation actors as part of a larger national approach. This way key actors share a common sense of vision which will be more cohesive and co-ordinated and ultimately will function more effectively and efficiently. The “*Sistema Italia*” for development co-operation¹ is well understood by the Italian government as not only including official government actors, but those in business, NGOs, decentralised regions, universities and research and training centres. Within this larger system the key official actors (see Figure 1) are the MFA and the MEF. The organisation and management of the Italian development co-operation system will be presented more fully in Chapter 5.

Promote system leadership. According to the 1987 Law, developmental leadership in the Italian development co-operation system lies heavily in the MFA, particularly the DGCS. However, current policy leadership for development issues is split among four under secretaries of state, who supervise 13 Directorate-Generals and a variety of other services and institutes (see Annex C). This means that the DGCS has little direct authority to take on the pressing broader issues noted above, and for which a stronger voice in the political circles of parliament is needed. The fact that the DGCS is relegated essentially to operational issues deprives it of the powers to address the political reforms needed for the future. When it comes to providing a balanced “system” view or effective global leadership in the development area, those who are most experienced and who actually practise development are not in a position to lead effectively or even extensively participate in the important development debates of the future. One practical suggestion that could help in this respect would be to return to a system of “deputy minister” for development co-operation by consolidating development co-operation leadership around one, full-time under secretary.

Public awareness

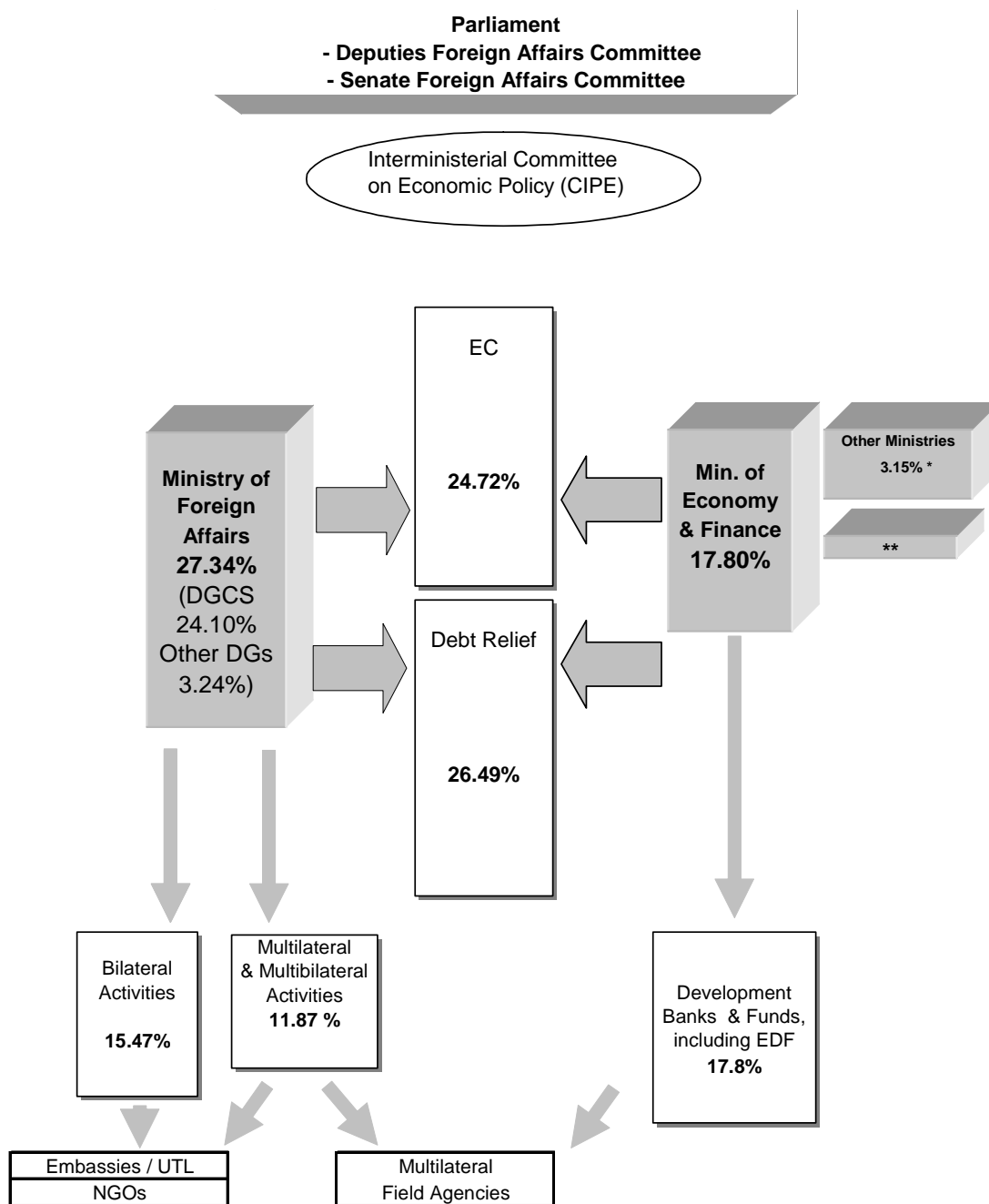
Public awareness today is often driven by *ad hoc* exposure to issues in the national media, frequently relating to crises or scandal. Of particular note in this respect, Italian development co-operation experienced a major loss of public confidence in the 1990s because of alleged irregularities in aid contracts with Italian private companies. However, public opinion appears to have evolved somewhat more favourably in relation to NGOs, municipal and regional government development efforts. In 2002 more than 90% of the Italian public expressed support for development co-operation, but showed scepticism towards the public aid system.²

1 . See http://www.esteri.it/ita/4_28_66_71_52_39.asp .

2 . OECD Development Centre, “Mobilising Public Opinion Against Global Poverty”, *Policy Insights* No. 2, April 2004. This publication reports that 92.5% of Italian public opinion considers development co-operation to be either “very” or “rather” important.

Figure 1. Key actors of Italy's Development Co-operation System

By % share of total ODA, 2002



* Including: Ministries of Agriculture 1.82%; Interior, 0.57%; Environment 0.40%; Productive Activities 0.17%; Justice 0.13%; Education & Research, 0.06%; Presidency of the Council of Ministers, 0.02%.
 ** Regional Municipalities and Public Research Institutes 0.03%.

Source: MFA.

Public awareness will ultimately affect the political processes that are needed to resolve a variety of today's issues in development co-operation. Growth in public awareness is an important issue for the future of Italian development co-operation and the MFA needs to become more proactive in addressing it, especially given current plans to increase the volume of aid funds. The current approach, using small NGO development education programmes, is not enough to shape public and political opinion. An effort should be made to develop a modern, transparent and effective information policy on development co-operation, including well conceived public information campaigns, pragmatically focused on the results of aid programmes. This policy should also aim to establish strategic alliances with Italian newspapers and television, both public and private. One key audience is parliament, where DGCS, NGOs and other partners could mount a regular campaign to analyse and explain the logic of development co-operation. Similarly, Italian civil society could benefit from an expanded public education programme and an enlarged development policy dialogue with partners. Over the last year, the DGCS has taken stronger action (publications, video, public discussion) to give development co-operation a broader audience.

Future considerations

- Italy needs to define a broadly accepted **national vision** for development co-operation which could serve as a basis for overhauling the 1987 Law. Italy also needs clearly expressed official statements of its aid policies, which are accessible to all and described in terms of their operational implications.
- The Italian government needs to identify a clearer locus of public **leadership** for development co-operation at the political level, potentially a deputy minister for development.
- The DGCS should continue its efforts to develop a better defined strategy on **public awareness**, including a stronger alliance with other official and non-governmental actors. By reaching out to Italian institutions and civil society, it should be possible to define a more consensual vision for national development co-operation.

CHAPTER 2

AID VOLUME, CHANNELS AND ALLOCATIONS

A growing international donor

Italian ODA volumes slowly declined through late 1990s, but have risen slightly since the 2000 Peer Review, as Italy reasserts its role as an international political force (see Table B.1). Despite Italy's best political intentions, growth of the nation's official development assistance has been irregular, generally restrained due to government-wide budget austerity policies, but periodically accelerated following major political initiatives (*e.g.* debt relief, Global Fund, Iraq). ODA levels will undoubtedly continue to fluctuate unless Italy is able to generate a clear consensual vision and ambition for its development co-operation, as suggested in Chapter 1. For purposes of comparison within the DAC, current (2003) ODA volume is USD 2 433 million, a decline in real terms of 15% from 2002, which makes Italy the 7th largest donor. This volume represented 0.17% of Gross national income (GNI), down from 0.20% in 2002. In comparison, the Total DAC average was 0.25% in 2003. Italian ODA is almost entirely in the form of grants, with the exception of a small number of development loans (5% of total ODA).

At the Barcelona Summit in 2002 Italy committed to an ODA target of 0.33% of its GNI by the year 2006. Attaining that level will require an impressive doubling of its aid volume over the next three years. That level of effort is certainly perceived by many in and out of government as an ambitious and difficult one, given today's era of budget restraint. Recent OECD simulations of ODA prospects for 2006 for all donors suggest that Italy would become the sixth largest donor if it were able to attain current projected commitments, but that it has the farthest to go of all donors, requiring a daunting 113% (USD 2.7 billion) increase in real ODA between 2003 and 2006. Future debt forgiveness will be one aspect of the next three years of ODA growth (see section on debt relief, below), although once forgiven, "fresh" ODA will be needed to make up the difference in future years if Italy is to maintain its level of effort. A major additional constraint to this level of expansion in aid volume noted elsewhere is the current political interest in increasing the bilateral share of Italian ODA, in spite of Italy's limited capacity to implement this type of funding.

ODA channels

A modest, but growing bilateral channel. While still modest in relation to the Total DAC average of 73% in 2002 (the most recent year for which figures are available), Italy's share of gross ODA using bilateral channels (49% in 2003) has grown since the 2000 Peer Review (35% in 1998).³

The predominant role of the multilateral channel. Italy is the DAC donor that makes most extensive use of the multilateral channel for its development co-operation. In 2003 an estimated 51%

3 . For reference, it is worth noting that bilateral funding may include many types of activities, including ones linked to multilateral organisations. A detailed analysis of Italian ODA in the 2000 Peer Review concluded that, after subtracting out debt actions and loans, food aid, emergency relief, NGO core support, administrative costs, scholarships and "multi-bi" implementation arrangements, less than 7% of Italy's total gross disbursements was provided on a direct, bilateral basis.

of its gross ODA used this channel (down from 65% in the 2000 Peer Review), in comparison to a Total DAC average of only 27% in 2002. Reasons for this special dependence on the multilateral channels vary, but include: the low transaction costs of using the multilateral channel; political desire to maintain Italy's international standing; Italy's interest in fulfilling broader, international obligations; lingering Italian domestic distrust of bilateral management systems; and a lack of bilateral capacity to utilise additional funds. For whatever the reason(s), it is worth noting that Italian officials consider the multilateral channel to function reasonably well, while it offers Italy the opportunity to simultaneously harmonise and align its aid in response to the 2003 Rome Declaration on this topic.

According to 2003 DAC statistics (see Table B.2), the European Commission absorbs the bulk of Italian multilateral ODA with 35% of total gross ODA (almost 70% of the multilateral total), followed by much smaller allocations to United Nations (UN) agencies (8%), the World Bank Group (1%), regional development banks (1%) and "other" multilaterals (6%). Table 1, below, identifies the percentage of Italian gross ODA going to individual agencies or banks within "UN" and "regional development bank" sub-categories. Allocations of funds among these various international organisations can vary significantly from one year to the next.

Table 1. Contributions to UN agencies and Regional Development Banks

Recipient	1997-98	2002-03
1. UN agencies (total % of ODA)	7	8
Of which (% share of total contributions to UN agencies)		
• UN	6	n.a.
• UNDP	10	10
• UNICEF	9	7
• WHO	10	n.a.
• WFP	4	9
• UNHCR	4	5
• UNRWA	-	5
• UNDCP	5	n.a.
• ILO	6	n.a.
• FAO	9	n.a.
• UNIDO	11	n.a.
• IAEA	15	n.a.
• Other UN	11	60
2. Regional dev. banks (total % of ODA)	3	1
Of which (% share of total contributions to regional dev. banks)		
• African Development Bank	50	53
• Inter American Development Bank	2	22
• Asian Development Bank	48	-
• Other Regional Banks	-	25

Italy has had a strong tradition of close co-operation with the multilaterals, but the criteria used to guide allocations of ODA funds among these institutions do not appear to be part of a longer-term strategic process. Some DAC members with strong multilateral programmes have developed explicit multilateral strategies, sometimes including close collaboration with other like-minded donors in order to better track the results of key multilateral recipients in the field. Given Italy's particularly large and varied use of the multilateral channel, it is suggested that the DGCS and its counterparts in the MEF explore a more pro-active, performance-based approach to multilateral budgeting. It also would enhance the credibility of these large multilateral contributions if the DGCS and MEF were able to explain publicly the logic of its allocation process. This would be true for allocation choices among multilateral implementing partners, as it would for earlier decision-making on the ODA breakout between bilateral and multilateral channels. This would imply a special analytical and monitoring capability for the multilateral contributions and an even closer operational collaboration between the two channels in the name of greater system effectiveness and efficiency.

A slow growth of the NGO sector. The MFA sees an increasingly important role for non-government organisations in Italian development co-operation. Nevertheless, the size of the Italian NGO sector working with official ODA funding is still quite small in comparison to other DAC members. OECD statistics suggest that aid to and channelled through NGOs only accounts for 2.9% of total gross ODA (see Table B.2). This limited use of the NGO channel may relate to the procedural difficulties confronted by NGOs in using Italian government funds as noted in Chapter 5, some of which are now being examined by the DGCS.

The special, short-term use of debt relief

Italy is one of the leading international donors to address debt relief in its development co-operation. In the years that followed the "Enhanced Heavily-indebted Poor Country (HIPC) Initiative" of 1999, Italy took increasing action on debt relief. Strong support for the initiative within civil society, political parties and the Catholic Church led the way in transforming a social issue into national policy, and eventually into a law approved in 2000. The content of Italy's law on debt relief is in many ways innovative. It goes beyond the HIPC initiative by allowing not only the cancellation of ODA related debt, but also 100% of commercial debt. Moreover, in the case of Interim Debt Relief operations, Italy cancels 100% of all interim scheduled payments (contrasted with the 90% level established by the "Enhanced HIPC Initiative"). In line with the principles of Italian development co-operation, the law also makes debt relief conditional on criteria related to good governance, renunciation of war, and a commitment to poverty reduction and to social and human development.

In 2002, Italy cancelled a total USD 985 million of developing country debt (Benin, Bolivia, Cameroon, Chad, Ethiopia, Ghana, Guinea Conakry, Malawi, Mali, Mauritania, Mozambique, Sierra Leone, Tanzania, Uganda) and "converted" another USD 548 million into development activities (Algeria, Ecuador, Egypt, Jordan, Morocco, Peru).

Italy will need to take care not to over rely on debt relief to bolster aid volume. Debt relief can contribute to achieving the MDGs if the beneficiary country has the right policies and commitment to use the released funds for poverty alleviation. But poverty reduction also requires additional resources, which will have to come from fresh ODA. Without sustained support from the donor community in the form of tangible assistance, debt relief will not make a lasting impact on poverty. In Italy's case, such additionality appears to be missing. In fact, the increased attention to debt relief in Italy has paralleled the decrease in fresh resources allocated to development co-operation. The ODA/GNI ratio for the four years between 2000 and 2003 was respectively 0.13, 0.15, 0.20 and 0.17, but if debt relief is subtracted, these ratios decline to 0.11, 0.15, 0.14 and 0.13 respectively.

Geographical allocation priorities

An overview of country allocations over the last decade, with a few notable, longer-term exceptions, shows a trend of rapidly shifting country targeting of Italian aid. In 2003, 72% of Italian allocable bilateral aid was disbursed in Africa (see Table B.3). This included 63% of disbursements in sub-Saharan Africa, and 9% in North Africa. Asia (10%) and America (7%), Europe (5%), and the Middle East (6%) make up the remaining bilateral aid. This geographic emphasis has meant that 66% of bilateral disbursements in 2003 took place in least developed countries, down from 71% in 2002. At the level of strategy, the choices of recipient countries and their budget levels are not undertaken based on a specific set of criteria or a performance driven process (see Table 2 below). The DGCS is encouraged to explore the potential of this type of more strategically driven approach, including a transparent exit strategy.

Table 2. Top ten recipients of bilateral ODA (% share)

Gross disbursements, two-year averages

1991-92		1996-97		2002-03	
Albania	10	Malta	6	Mozambique	21
Mozambique	9	Uganda	6	Congo, Dem. Rep.	20
Tunisia	7	Bosnia & Herzeg.	5	Tanzania	6
China	6	Ethiopia	5	Ethiopia	4
Argentina	6	Jordan	4	Tunisia	3
Morocco	6	Albania	4	Guinea Bissau	3
Egypt	5	Nicaragua	4	Afghanistan	3
Tanzania	4	Mozambique	4	China	3
Ethiopia	3	Argentina	4	Palestinian Adm. Areas	3
Ex-Yugoslavia	2	Congo, Rep.	4	Albania	2
Total Top 10	46	Total Top 10	46	Total Top 10	69

Sector allocation priorities

OECD statistics (see Table B.5) show Italy's bilateral aid sector allocation priorities over 2002-03 as heavily marked by actions related to debt (54%, against a Total DAC average of only 13%). Other notable priority sectors include social infrastructure and services (15%), commodity and programme aid (6%) and emergency assistance (8%). One noticeable trend of interest is the reduction in economic infrastructure investment, down to 1% from a high of 24% one decade earlier. Chapter 3 delves more specifically into the strategic basis of Italian sector emphasis.

Future considerations

- Italy is encouraged to fulfil the **ODA commitments** announced at Barcelona in 2002, and to give early attention to the role of debt relief as a major component of ODA growth. Italy should make routine use of multi-year funding commitments so as to reinforce the predictability of its support.
- Italy is encouraged to think more strategically about the rationale and the relative percentages of its ODA that are allocated through **bilateral or multilateral channels**. Both of these channels should be more fully staffed and managed, including a stronger MFA-MEF co-operation at all levels and the improvement of MEF capacity to monitor, evaluate and plan investments in the multilateral institutions.
- Italy is encouraged to take a more strategically driven approach to identifying **priority countries** for receipt of its aid.

CHAPTER 3

SECTOR PRIORITIES

Recent attempts at defining priorities

In the latter part of the 1990s Italian development co-operation went through a process of clarification of its sector and thematic priorities, which resulted in a set of policy statements. In 1995 the Interministerial Committee on Economic Planning (CIPE - *Comitato Interministeriale per la Programmazione Economica*) approved the *Guidelines for a New Policy on Development Co-operation* which listed different sectors of intervention according to political, economic and humanitarian objectives. The subsequent adoption by the DGCS of the *Poverty Reduction Guidelines* in 1999 further refined the policy framework of the Italian development programme, putting it in line with DAC work on poverty reduction, and paving the way to a series of policy documents covering various areas of DGCS work.

Since this prolific phase, however, Italy has struggled to maintain a strategic focus for its aid. The vision laid out in the sector guidelines has not been updated to incorporate lessons learned. Nor has any assessment been carried out to check their current validity against the changing needs of partner countries. More importantly, little attention has been given to the operationalisation of the guidelines, particularly in light of DGCS declining capacities and the emergence of new modalities and frameworks of aid delivery, such as sector approaches, budgetary support, and Poverty Reduction Strategies. Despite a general commitment to working towards the MDGs, Italian action towards the achievement of the MDGs is currently not oriented by any policy statement or strategic framework.

This pause in strategic and policy guidance on sectoral concerns has given way to an increased reliance on political events and official statements to set sector priorities, and has encouraged a tendency to concentrate on “initiative” areas.

This chapter identifies some of the main sector areas on which Italian development co-operation focuses. Special attention is given to recent developments in sectors where Italy has traditionally been involved - such as poverty reduction, humanitarian aid, and private sector development - as well in fields where Italy has a recently developed a special interest, such as HIV/AIDS and e-government.

The central place of poverty reduction

Poverty reduction has long been at the centre of Italian development co-operation. The 1995 CIPE guidelines already referred to poverty reduction as one of the chief objectives of Italian foreign aid. The adoption of the 1999 *Poverty Reduction Guidelines* - based on the work undertaken by the DAC Informal Network on Poverty Reduction – constituted a change in the level of attention to, and the way of thinking about, poverty reduction. From being one among many different goals, poverty eradication became the main concern of Italian development co-operation. As the 2000 Peer Review noted, the guidelines had the potential to sharpen Italy’s focus on poverty, endowing it with a

multidimensional, cross-sectoral character. Besides making specific reference to inter-sectoral programmes aimed at reducing poverty in various regions (see Box 3), the guidelines listed four main objectives of this area of intervention:

- Promote an institutional environment favourable to poverty reduction by improving governance and public sector management and encouraging democratic participation.
- Encourage political and administrative decentralisation 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 phases of the process.

Box 3. Poverty reduction in the Sahel: Italy’s integrated approach

The Fund for the Fight against Desertification and Poverty reduction in the Sahel provides an example of Italy’s approach to poverty. Initially consisting of a piloting phase focused on three countries (Niger, Burkina Faso and Mali) the Fund aims to act as a catalyst for the DGCS intervention strategy in the region. The programme will disburse EUR 23 million over three years, including EUR 15.5 million for activities directly related to the anti-desertification fund as well as other initiatives at local, national and regional level.

Two features characterise the Sahel programme for poverty reduction. The first is a participatory perspective whereby local administrations, rural communities and farmers’ associations will jointly contribute to the identification, formulation and implementation of the initiatives supported by Italy’s NGOs and its Overseas Agricultural Institute. This approach will benefit from Italy’s long-standing collaboration with the *Comité Inter-Etat de Lutte contre la Sécheresse au Sahel* (CILSS), through which further partnership initiatives can be developed. Secondly, the programme is characterised by a strong multi-sectoral approach. Besides supporting revenue generating activities to vulnerable rural communities, it also aims to provide institutional support to national institutions in devising poverty reduction policies which include sustainable strategies on food security and natural resource management and decentralisation.

The Sahel Programme is characterised by multidimensionality and attention to partnership principles. These demonstrate that Italy has the capacity to move from a conception of poverty reduction as centred on individual programmes and projects to an approach whereby poverty reduction concerns are mainstreamed across the entire portfolio of activities of its development co-operation.

Today attention to poverty reduction remains a major aspect of the Italian programme, through substantial allocations and initiatives. Yet, despite the manifest capacity to conceptualise and tackle the different dimensions of poverty, Italy seems to be lacking a coherent approach aimed at mainstreaming the poverty reduction focus throughout its overall aid portfolio (infrastructure, private sector development, etc.). Symptomatic in this respect is the fact that while in 1997 poverty reduction was at centre of the DGCS annual report to parliament, the 2002 report contains few references to poverty reduction as the overarching theme of Italian aid. With poverty conceived as a sector among many, the risk is that Italy’s action become “projectised” instead of being mainstreamed.

Humanitarian action

Italian ODA devoted to the field of humanitarian action has been constantly increasing during the last decade, pushed both by the challenges of a changing global environment and the attention the Italian public dedicates to humanitarian themes. Italy allocates approximately EUR 100 million annually to what is referred to as Emergency Humanitarian Initiatives. In terms of volume and share of ODA, as well as donor share of total humanitarian aid, Italy is placed within the middle segment

among DAC donors.⁴ Interventions in this field are managed by Office VI, a branch of DGCS responsible for humanitarian and emergency interventions and food aid. Its staff comprises two diplomats and 13 administrators. The office is responsible for: i) the identification, management and monitoring of emergency aid directly and in collaboration with international agencies; ii) food aid, in collaboration with the Agricultural Payments Agency (AGEA - *Agenzia per le Erogazioni in Agricoltura*); iii) auditing the accounting documentation from the Embassy *Unità Tecnica Locale* (UTL) involved in emergency programmes and providing auditing and technical/administrative counselling to the embassies.

Italy's support is, to a large extent, managed through a system of funds with divided budget allocations: i) bilateral funds for humanitarian interventions managed by Office VI and the embassies; ii) multilateral funds for emergency interventions carried out through international bodies; iii) multilateral emergency funds for support to international bodies (six UN agencies: World Food Programme (WFP), United Nations High Commission for Refugees (UNHCR), United Nations Children's Fund (UNICEF), World Health Organization (WHO), Office for the Co-ordination of Humanitarian Affairs (OCHA) and United Nations Development Programme (UNDP) as well as FICROSS or the International Federation of Red Cross and Red Crescent Societies (IFRC). Italy provides food assistance through the AGEA in the framework of the London Convention on Food Assistance to Developing Countries. The geographic distribution of this component is: Africa: 30%; Asia: 25%; Latin America: 21%; Mediterranean and Middle East: 20%; Eastern Europe: 4%. A fund on humanitarian demining was recently established both to assist the victims and to promote advocacy and awareness. In order to improve its bilateral response capacity, Italy contributes to United Nations Humanitarian Response Depot (UNHRD) located at an Italian military airport in Brindisi, seen with pride by Italy as a centre of excellence in the field of humanitarian aid. The UNHRD contains stocks of emergency food aid, medicine, shelter materials, water treatment systems, and rapid response and logistics equipment that can be immediately dispatched in response to man-made crises or natural disasters.

Beside applying the principles of impartiality and ethnic, racial or religious non-discrimination, Italy firmly believes in ownership for its humanitarian assistance. Initiatives generally follow a request by a struck community or an international appeal, and aim at intervening in the initial emergency and rehabilitation phases by involving the local community in identifying the problems that regard them and possible solutions. Despite these general principles and specific guidelines regarding cross-cutting themes in emergencies, such as, for instance, the "Gender in Emergencies" manual, Italy is encouraged to better shape its programmes in the context of a more cohesive overall policy on humanitarian action. Given Italy's active role in conflict resolution and peace building it would be of use to further develop measures and policies to clarify the distinction and relation between humanitarian action, conflict prevention and peace building activities and issues of transition from emergencies. When assessing the activities financed and managed within the humanitarian portfolio, it is often difficult to distinguish between humanitarian and development co-operation activities. Similarly, in relation to food aid it would be useful to distinguish between "Emergency food aid" and "Programme food aid". These efforts could be eased by the establishment of appropriate feedback systems. The DGCS send periodic missions to monitor implementation and impact of humanitarian assistance. However, there seems to be a lack of evaluation systems to support learning and accountability for the effective and efficient implementation of humanitarian action. The "Principles

4 . Development Initiatives (2003), *Global Humanitarian Assistance 2003*, pp. 21, 26 and 27.

and Good Practices of Humanitarian Donorship”⁵, if endorsed, would also provide constructive guidance.

Private sector development

Private sector development has traditionally been the privileged focus of Italy’s development co-operation for three main reasons. First, Italy’s extensive experience in small and medium-sized enterprises (SME) development and industrial districts gives it a comparative advantage in the support of the private sector of developing countries. Second, private sector growth is seen as an element of political stability important to Italy’s security concerns, particularly in relation to the Middle East and North Africa (MENA) region and the Balkans. Third, the goals of private sector development in partner countries can also serve the internationalisation of Italy’s domestic business.

This special interest makes for substantial resources and a diversified portfolio of activities. In 2002 the Steering Committee approved 50 initiatives in support of the private sector: 44 grants totalling EUR 130 million, four soft loans (EUR 130 million) and two initiatives supporting Italian foreign direct investments (EUR 7 million). Italy’s action in this field can be divided into financial and non financial support, and can be grouped in three areas: i) commodity aid and credit lines to SMEs; ii) support to Italian foreign direct investment (FDI) for the creation of joint ventures; and iii) capacity building mainly in the form of technical assistance, technology transfer and training.

The 2000 DAC Peer Review already noted “the potential value of comprehensive Italian action in the field of private sector development” but also remarked the need for “defining a private sector development strategy with specific objectives, and adequate implementation mechanisms. In fact, the adoption of the DAC Guidelines *Support of Private Sector Development* in 1995 by the CIPE was not followed by any document containing a statement of vision or by an operational framework aimed at translating the guidelines in practice. Today Italy’s support to private sector development still lacks strategy and planning, which, together with an absence of clearly defined operational modalities, risks undermining the objectives pursued in this important area. Box 4 describes Italian support for SMEs in Tunisia.

By hosting the OECD Bologna Process⁶ Italy was provided with an opportunity to renew its commitment to play a leading role in the area of private sector development. Together with Spain, Switzerland and Romania, Italy has been one of founding members and the main financial sponsor of the International Network for Small and Medium-Sized Enterprises (INSME). Based in Rome, INSME aims to meet SMEs by establishing an international network of related enterprises benefiting from innovation and technology transfer. By promoting cross-border dialogue through and public private partnerships, INSME helps SME capitalize on common strategies for distribution, sales and marketing. The Network brings together governments, international organisations and NGOs from OECD and partner countries, as well as intermediary organisations (research centres, industrial promotion facilities, etc.).

5 . In 2003 the largest official humanitarian donors and major humanitarian organisations agreed on measures to strengthen co-operation, coherence and efficiency in the planning and delivery of humanitarian aid, and endorsed the “Principles and Good Practice of Humanitarian Donorship”.

6 . The term "Bologna Process" refers to the international initiatives undertaken to take forward the political recommendations adopted during the first OECD Ministerial Conference on SMEs and Globalisation held in Bologna, Italy, in June 2000 and co-organised by the Italian government.

Box 4. Support to SMEs in Tunisia

Private sector support is among Italy's priorities in Tunisia. Italy's portfolio in this field is diverse, including assistance to technical centres and support to the Office for the Promotion of the South. But for more than a decade the lion's share of Italy's support in this sector was absorbed by concessional loans to SMEs. Since 1989 Italian development co-operation has granted five credit facilities to Tunisia for a total of EUR 160 million. They aim to help the country's emerging SMEs gain access to credit for the acquisition of goods and services. Projects in line with the national guidelines to upgrade the industrial sector and especially those characterised by technological development, employment creation and adherence to environmental safeguards, are generally preferred.

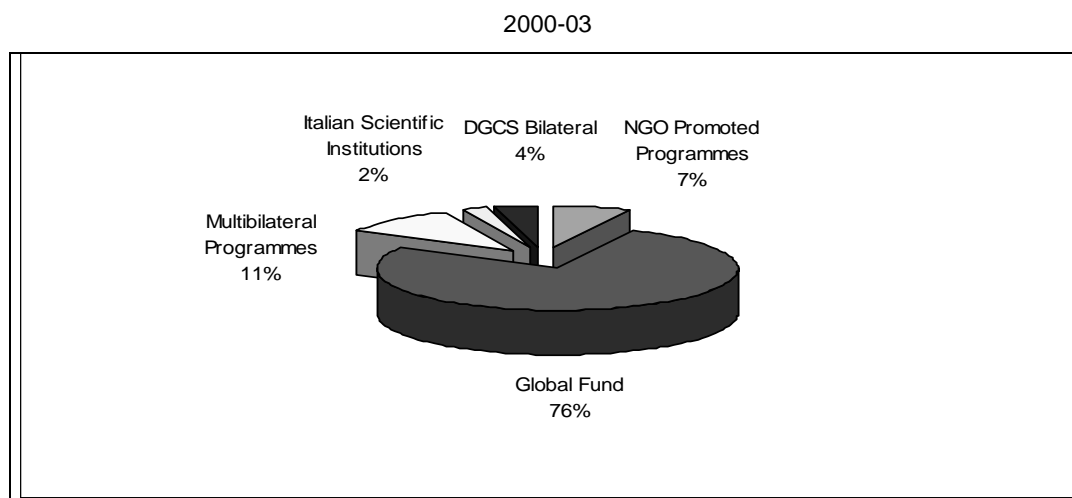
This type of operation has so far been successful, as shown by the interest of both the government and the direct beneficiaries and, more recently, the other donors. Some drawbacks, however, remain. The first concerns the fact that the credit lines are to be used for the sole purchase of Italian goods and services in Italy. This form of tying does not necessarily allow beneficiaries to get the goods and services they desire at the best market price. This condition is going to be partially relaxed in the new credit facility which will allow 35% of the loan to be spent in Tunisia or in another developing country. The second downside concerns those excluded by the programme. Because the concessional loans are administered by the banking sector, only fairly established companies or individuals capable of providing collateral can benefit from the programme. Start-ups are usually left out. In this way, the programme benefits those who already have access to credit, but not those who do not. To solve this problem, Italy is now collaborating with the Tunisian authorities towards the creation of a start up fund.

Facing the challenge of HIV/AIDS

Italy's contribution to the fight against HIV/AIDS and the other pandemics dates back to the late 1990s. The geographic focus of Italy's development co-operation has always been sub-Saharan Africa, where it spends more than 80% of Italian ODA to fight HIV, tuberculosis and malaria, mainly through NGOs, Italy's National Health Institute, and multilaterals. Italy is also active in the WHO "Roll Back Malaria" initiative, which is partly funded by Italy, as well as the WHO "Stop TB" and "Initiative Against AIDS".

The creation of the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) at the Genoa G8 Summit in 2001 constituted a step change in Italy's commitment to fight the pandemic. Italy, which at the time presided the G8, sent a strong signal to the donor community by immediately pledging USD 100 million to set up the fund. Over the period between 2000 and 2003 Italy disbursed EUR 204 million and committed itself to a further EUR 300 million over 2004-06. This level of commitment made Italy the third largest donor and gave it a seat at the GFATM board. This, together with Italy's participation in the various working groups and committees, permits it both to co-ordinate with other interventions on the bilateral side as well as to have a strong role in the management and of the Fund itself (see Figure 2).

Figure 2. Share of Italy's contributions towards HIV/AIDS, tuberculosis and malaria by channel



Source: MFA/DGCS. *Italy and the fight against HIV/AIDS, Tuberculosis and Malaria (2000-03)*, January 2004.

The rationale behind Italy's strong support to the Global Fund lies in the perceived need for a facility allowing for the rapid disbursement of funds, and an innovative approach, as demonstrated by GFATM, to be integrated in the international organisational framework. Italy believes that, in the future, the Fund should pay increased attention to reinforcing partner country national health systems, evaluating the effectiveness of allocations, and integrating the Funds' disbursements within existing institutional arrangements. A considerable effort has been made by the government to reach out to civil society, including the participation of an Italian NGO representative in the Italian delegation at the board meetings. This is an important innovation for Italian development co-operation, which facilitates national dialogue on this development issue and improves public understanding and awareness of it.

As Figure 2 shows, Italy's contribution towards the fight against HIV/AIDS and other pandemics has relied on a variety of channels, mostly NGOs and multilaterals. At the same time, Italy's limited bilateral management capacity has not prevented a continued effort to cover an extensive range of countries. This broad spectrum of target countries, delivery modalities and channels of allocations certainly allows Italy to reach out to many stakeholders and geographical areas, but also creates a risk of dispersion and low impact. This could be aggravated by a persistent lack of clear strategy and prioritisation and attention to gathering and taking stock of the development results on the ground. The field visit in Mozambique showed Italy's contribution to successful HIV/AIDS care and support operations and interesting awareness raising initiatives. Yet Italian efforts in Mozambique did not appear to be situated strategically in the broader context of overall combat against HIV/AIDS in the country. Considerations here could have included a statement of Italian policy in the area of HIV/AIDS, or an analysis of the Global Fund's activity in the country, all of which would logically relate to Mozambique. Finally, Italy should consider de-compartmentalising its approach to HIV/AIDS, away from one-off operations and toward a cross-cutting approach to HIV/AIDS prevention that could be mainstreamed throughout the programme portfolio, in line with international practice.

Gender, minors and handicapped

Since the 1998 Guidelines on enhancing the role of women and introducing a gender perspective into development co-operation policy, Italian development co-operation has been characterised by an approach aimed at mainstreaming gender concerns across the various sectors of intervention. Gender perspectives have been introduced in poverty reduction programmes, regarding in particular access to resources in agriculture, the promotion of female entrepreneurship in small-scale enterprises as well as access to credit and professional training. The promotion of women's participation in decision-making structures has been given more emphasis in governance programmes, by stressing the importance of gender concerns in political dialogue and by highlighting their role in the reconstruction of countries affected by conflict. Recently, the DGCS emergency sector has produced a "Gender in Emergencies" manual aimed at mainstreaming gender concerns in humanitarian aid. Similarly, programmes aimed at protecting the civil and human rights of minors have featured an integrated and multi sector-approach designed to tackle a wide range of factors.

Human resources constraints within the DGCS and the subsequent deficiencies in analytical and management terms have weakened Italy's marked orientation towards gender mainstreaming. A new office on gender, minors and handicapped was created in 2000 within the DGCS (Office XIII). This can contribute to raising the profile of gender activities and give fresh impetus to a traditional area of interest within Italian development co-operation. However, care should be taken that the creation of a new office does not lead to a more "compartmentalised", self-contained approach to gender and child protection, away from Italy's positive tradition of mainstreaming.

Information technology and e-government

Italy's e-government initiative stems from the commitments made by the G8 countries at the Genoa and Kananaskis Summits in 2001 and 2002 to reduce the digital divide between industrialised countries and the developing countries. The 2002 *Palermo International Conference on E-Government for Development* organised by Italy's Ministry for Innovation and Technologies (MIT) followed up on such commitments and provided the launching platform to Italy's initiative.

As a joint action of the DGCS and the MIT, the e-government programme represents an important example of how interagency collaboration for development can happen in Italy, once the right opportunity arises. At the same time it also gives the sense of the extent of Italy's strong multilateral orientation. The MIT co-ordinates the implementation of this USD 16 million initiative through four Trust Funds set up with UNDP, United Nations Department of Economic and Social Affairs (UNDESA), Gateway Foundation/World Bank and Inter-American Development Bank.⁷

Building on its long-standing tradition in capacity building for statistics, Italy's e-government programme aims to enhance the modernisation and digitalisation of the public administration in partner countries in order to:

- Promote democratic development by enhancing citizens' relationship with government through increased transparency of procedures and decision-making.
- Encourage administrative efficiency to improve the capacity of developing countries to attract foreign direct investments.

7 . MFA/DGCS "Le Attività nel Settore dell'ICT".

Italy is aware that sustainability is a critical issue in this sector. In this respect, interventions are selected in full collaboration with partner countries by ensuring consistency with their wider process of institutional development and appropriateness to their needs.

Future considerations

- Italy should consider establishing clear operational strategies on how its development co-operation activities will contribute to the achievement of the **MDGs** in view of the 2015 deadline.
- A clear sense of **sector priorities** should be determined, in line with the needs of Italy's priority countries, as expressed in their own policy documents (*e.g.* PRSPs), the DGCS' actual capacity for analysis and management, and Italy's proven comparative advantage in the sector.
- In order to maintain poverty reduction, gender and HIV/AIDS as **cross-cutting** priorities, they should be mainstreamed more fully throughout the overall sector portfolio.

CHAPTER 4

POLICY COHERENCE FOR DEVELOPMENT

The growing consensus on enhancing policy coherence for development

The OECD and its members recognise that attaining the MDGs and reducing poverty in developing countries requires mutually supportive policies across economic, social and environmental fields. In adopting the “Action for a Shared Development Agenda” in 2002, OECD countries acknowledged the importance of giving increased attention to the impact of their policies on partner countries. This built on earlier endeavours within the DAC (OECD/DAC, 1996 and 2001) to make policy coherence for development a general concern in OECD countries’ policies and to develop the necessary means for promoting it across government.

The relations that Italy has with several priority countries of its development co-operation programme – such as for instance those from the Mediterranean and Balkan regions – stretch beyond aid, to include environmental, migration, security and business concerns. This fact makes policy coherence for development (PCD) an urgent necessity, but like most DAC members, Italy faces major obstacles when it comes to strengthening it. Policy coherence issues often involve domestic interest groups and government agencies whose primary objectives and responsibilities do not always coincide with fighting global poverty. In addition, scope for direct action in several PCD areas is partly influenced by Italy’s membership of the EU. Authority on areas such as trade and agriculture rests with the European Commission and Council while some other policies (such as security policy) reflect common positions formulated through consultative processes within the EU (see Box 5). This means that Italy’s efforts to enhance policy coherence require actions at both the national and EU levels.

The following section discusses four areas of special interest to Italy – trade in agricultural products, foreign direct investment, aid untying and migration. As these examples show, Italy is: a) supportive of actions that promote policy coherence for development; b) capable of moving quickly towards greater coherence at the national level, when there is a clear and emerging need; and c) able to act strategically at the EU level to shape special efforts. Although Italy’s potential for a proactive stance on PCD is clear, a range of challenges need to be taken into account. These include the need to enhance Italy’s position *vis-à-vis* EU policy coherence efforts, to bolster the role played by parliament and civil society in raising the visibility of the policy coherence agenda among the general public, and to shape appropriate institutional mechanisms at government level to deal with PCD matters.

Box 5. Policy coherence in the European Union

Policies adopted by the European Union can have a substantial impact on developing countries, both positive and negative.

Given the size of the EU economic area, the capacity to access European markets is fundamental for emerging economies. The “Everything but Arms” initiative adopted in 2001 removed all quantitative and tariff barriers to the EU market for least-developed countries’ exports (with the exception of bananas, rice and sugar for which full liberalisation will take place gradually). However, as other developing countries, least-developed countries still find it difficult to meet requirements such as rules of origin and the sanitary safeguards on agricultural trade designed to protect human, animal and plant health, which amount to non-tariff barriers.

Internal EU policies designed to support rural livelihoods in Member States, such as for instance the Common Agricultural Policy (CAP), can also impact substantially on developing countries. The CAP subsidises agricultural production within the EU. Export subsidies then allow overproduction to be sold in other markets at less than production cost, which depresses world prices. Evidence suggests that subsidised EU farm products create unfair competition in some local markets, including in developing countries where agriculture may provide livelihoods for the majority of people and where few alternative sources of income exist for the rural poor. EU Member States and the European Commission continue to negotiate reforms to the CAP so as to reduce its trade distorting aspects. For example, in June 2003, EU farm ministers agreed that the majority of subsidies will, in future, be paid independently from the volume of production.

Trade in agriculture: the effects of the CAP on Italy’s development co-operation priorities

MDG 8 and the CAP. In signing the Millennium Declaration in 2000, OECD countries recognised that the achievement of the Millennium Development Goals would require policy reforms in their own countries. MDG 8 specifically calls for “... further developing an open trading and financial system that includes a commitment to good governance, development and poverty reduction – nationally and internationally”. Agricultural policy is one of the areas in which Italy, together with other EU members, will need to reconsider in order to honour this commitment. The EU Common Agricultural Policy provides European farmers with incentives that tend to affect the viability of developing countries’ agriculture sectors and diminish their comparative advantages on world markets. Italian farmers are amongst those deriving the most benefit from the CAP regime. At the same time, several of those developing countries mostly affected by the CAP are also amongst the priority countries of Italy development co-operation. The way the EU agricultural policy affects Tunisia’s olive oil sector and Mozambique’ sugar exports provides an example of potential incoherence between the objectives of the aid and trade policy.

The Tunisian olive oil sector. Italian development co-operation supports Tunisia’s rural development. Its natural resource conservation programme covers several regions, stretching from the hilly planes around Tunis down to the Sahara region. In the fertile region of Zeghouan, characterised by extensive olive oil production, Italy finances micro-interventions aimed at preventing soil erosion and water management, and at transferring expertise on natural resources management to local communities. The programme’s objectives and type of interventions are in line with the development plans of the authorities. So far, its results have been judged as highly satisfactory by the beneficiaries, mainly small farmers and agriculture co-operatives. The main concern regards sustainability. Although the actual costs of the programme are limited, local communities will find it difficult to take on the burden of the interventions unless rural incomes rise considerably. This would require higher profits on local (olive oil) production, which remain unrealistic whilst EU policy keeps world markets swamped with over-production and subsidised prices. The EU is by far the largest olive oil producer and consumer in the world and Italy is the second largest EU producer after Spain. Yet some of the most competitive producers of olive oil are to be found on the southern and western shores of the Mediterranean, including two of Italy’s priority aid destinations: Tunisia and Morocco. Traditionally

characterised by a low level of capital and technology, the olive oil sectors of Southern Mediterranean countries can today boast not only low production costs, but also an ability to modernise in support of higher quality production and greater competitiveness on the world market. Because of the EU agriculture regime, however, these countries currently face major obstacles in penetrating the European market, which slows the development of their sectors. EU subsidies can therefore impact negatively on poor farmers' livelihoods and prevent the development of local agro-industries capable of competing on world markets. In light of the importance of this sector for Tunisia, Italy could encourage greater access for Tunisia's olive oil exports to EU markets. Tunisia will enter a Free Trade Agreement with the EU in 2008, but the quota on its olive oil exports to the EU will remain fixed at 56 000 tons. The right incentives for a more progressive EU stance on Tunisia's quota could be found, for instance, in the further development of upstream and downstream linkages with Tunisian producers for transformation and refining activities in Italy and Europe.

Mozambican sugar production. A similar situation applies to other commodities and countries, such as sugar production in Mozambique. Italy plays an important role in the development of Mozambican agriculture, both through its contribution to rural development interventions, as well as through its support to the Office for the promotion of the commercial agricultural sector (GPSCA). The latter is intended to enhance the analytical capacity within the Mozambican government to bolster the country's exports, including sugar. The authorities commend Italy's direct support to Mozambique's agriculture, but they also recognise that its final objectives (the development of the country's export capacity) will not be met unless EU over-production stops. In fact, whilst Mozambique's sugar production costs are amongst the lowest in the world, subsidised European sugar on the world market contribute to keeping its exports out of potential African markets. Conversely, although its sugar production is one of the less competitive in the world, the EU is the second largest exporter thanks to export refund systems and cross-subsidies. EU subsidies allow sugar to be sold at prices far below production costs, contributing to oversupply on world markets, depressing world market prices and pushing low cost producers from developing countries like Mozambique out of third markets. As in the case of Tunisia's olive oil exports, Italy's efforts at EU level can be proactively geared towards encouraging more attention for one of its priority countries. The ongoing process towards reform of the European sugar market provides the right context and timing for such action.

Foreign direct investment for development

The relevance of foreign direct investment for development. OECD members and development countries alike see foreign direct investment (FDI) as a source of growth, modernisation and employment. FDI enhances enterprise development by facilitating technology transfer and human capital development and helps create a more competitive business environment. Italy ranks among the 10 highest net exporters of FDI⁸ and its geographic position facilitates access by Italian investors to the Middle East and African economies. It is therefore normal that, in line with its traditional attention to private sector support for development, Italy fully recognises the role of foreign direct investment in developing countries' business sectors.

Co-ordination within the Italian system. Several public or semi-public institutions are in fact tasked with supporting Italian companies in the global market. Beside the Ministry for Productive Activities, the Institute for Foreign Trade (ICE) helps Italian enterprises establish better economic ties with developing country counterparts. Relying on a wide network of field offices, it provides information, technical assistance on legal and financial issues and assistance in liaising with the local business community. The Italian Society for Enterprise Internationalisation (SIMEST) provides financial, technical and organisational support to Italian companies intending to start operations in non

8 . UNCTAD FDI/TNC Database.

EU markets, while the Italian Export Credit Agency (SACE) provides insurance cover against political risks related to Italian investments abroad. Mediocredito Centrale acts as a development bank for Italian investors, mainly through project finance and corporate finance schemes and the provision of technical assistance towards financing arrangements.

Integrating investment and development policies. The Directorate General for Development Co-operation actively promotes Italian investments in priority countries through bilateral and multilateral channels. Article 7 of the 1987 Law lays out a detailed framework allowing for concessional loans to finance Italian enterprises' share of equity in joint ventures for developing countries. On the multilateral side, Italy relies on the Investment and Technology Promotion Office (ITPO) of the United Nations Industrial Development Organisation (UNIDO). Created in 1985 on the basis of an agreement signed by UNIDO and the Italian government, ITPO promotes industrial co-operation between Italian companies and their developing countries' counterparts by providing a range of services covering the different stages of the investment process, such as economic-financial evaluation, search for suitable partners, and identification of appropriate financing opportunities. The ITPO co-ordinates a structure of five Investment Promotion Units in Egypt, Tunisia, Jordan, Morocco and Uganda as well as two desks on Vietnam and India.

Especially in the case of its bilateral programme, the effectiveness of Italy's actions in this area remains to be proved. A recent evaluation of Art. 7 programmes noted "particularly negative results" regarding the efficiency, relevance and effectiveness of the programme.⁹ Despite a detailed description of this specific type of programme, the 1987 Law fails to state the general principles of development co-operation in the area of foreign direct investment. As a result, policy is left unclear, leaving development aid as a tool to encourage investments with no analysis of the long-term needs of beneficiaries or the specificities of the areas of intervention. The evaluation also claims that the programme engendered "no additional investment flows" to developing countries and was deemed "not decisive for the strategic and geographic choice of investment" by all Italian entrepreneurs benefiting from the soft loans. Lengthy approval time, excessive red tape and generally burdensome procedures hardly compatible with standard investment decision making, combined with the lack of related investment promotion activities added to the ill-conceived formulation of the programme. The under utilisation of earmarked funds proves these limits. In 2002 the DGCS Steering Committee approved only two financing proposals for a total of EUR 6.4 million under Art. 7 of the 1987 Law. In Tunisia, only eight Joint Ventures benefiting from Art. 7 have been established to date, representing small percentage of the total Italian investment in the country.

Moving to FDI for development. These considerations point to the need for a revision of Italy's policy on development co-operation and FDI, in line with national and international strategies for private sector development in developing countries. This suggests moving away from a "supply side" logic focused on encouraging investments through credit schemes and facilitations, to a demand side focus centred on encouraging the enabling environment to invest in developing countries. This would include: i) addressing developing country's legal and institutional frameworks; ii) supporting the creation of local financial institutions; and iii) providing technical and entrepreneurial assistance to local companies. To this effect, further attention to the synergies between the various stakeholders could be required. The Peer Review field visits suggest that the impact of "*Sistema Italia*" in the field could be bolstered by better co-ordination, particularly between the local ICE mission, the Development Co-operation Office and the Embassy. One important innovation in this respect may now be on the horizon. The Ministry for Productive Activities and the MFA recently signed an

9 . MFA/DGCS Ex-Post Evaluation of Law 49/87 – Article 7, "Joint Ventures in Developing Countries", October 2001.

operational agreement to better integrate the works of embassies, UTLs and ICE offices. Development co-operation objectives in this area cannot take place in isolation from future policy changes regarding Italian FDI in general. Although in the course of the 1990s Italian enterprises considerably reinforced their external exposure,¹⁰ Italy's share of FDI outside the OECD area remains well below other comparable OECD economies. Attempts at filling this gap by further internationalising the domestic business sectors would certainly benefit by increased attention to the needs of developing countries.

Untying aid

The Italian government recognises the developmental advantages of untying aid. Italy has supported recent initiatives within the OECD and the EU to enhance the effectiveness of development co-operation programmes through furthering untying, notably by signing the 2001 DAC Recommendation on untying aid to 49 least-developed countries. The 2000 Peer Review noted Italy's intention to "... consider extending the untying Recommendation beyond the Least developed countries (LDCs)", however, this more progressive interpretation of the DAC Recommendation encountered resistance in Italy, notably from the business sector. The 2002 CIPE deliberation which integrated the Recommendation into Italian law did not go beyond the scope of the DAC Recommendation.

In terms of actual disbursements and excluding technical assistance and administrative costs (which are always tied), in 2000 the level of tied aid in Italy was estimated at 62%. In 2001, a year of low debt relief, this share increased to 92%. It seems that a large share of Italian aid still remains tied today. At least 30% of Italian development co-operation funds in Mozambique are tied, due to the fact that the programmes were approved before the DAC Recommendation was signed. In Tunisia, a lower middle-income country to which the Recommendation does not apply, but where other donors have already started untying most of their assistance, the share of Italian aid which remains tied is much higher. Further untying ODA in Italy presents some challenges, but also some opportunities. Although the DAC Recommendation was welcomed by Italian business representatives from the OECD business and Industry Advisory Council, further untying could potentially remove support of parts of the domestic business sector for development co-operation, at a stage when Italy needs advocates to make the case for future increases in ODA. On the other hand, moves towards a revision of Italy's untying policy to bring it in line with best practice at international level would undoubtedly add to the donor community's joint efforts towards a greater effectiveness of aid. And by contributing to a more effective aid, untying could help revive the image of official development co-operation among Italian taxpayers.

Migration: achieving mutual benefits

Migration has long been an important factor in the development of OECD countries. In the past, migrants from many of today's industrialised economies left their homes to look for economic opportunities abroad, as migrants from developing countries do today. Italy is a good example of this transformation. Particularly over the last 20 years, Italy changed from being a country of origin to a destination for immigrants (see Table 3). This reflects both the growth of Italy's economy and its geographic position, lying at the crossroads between North Africa, the Balkans and continental Europe, as well as the economic consequences of its ageing population, notably mounting labour shortfalls in many sectors and a declining tax base. This recent passage from origin to destination places Italy in a privileged position to understand the mutual benefits that migration can bring to both

10 . "OECD Reviews of Foreign Direct Investment: Italy", 1994, OECD, Paris.

its economy and that of developing countries, and to correct the potential incoherence between its migration policy and the objectives of its development assistance.

Migration is in fact recognised as an important factor in development. Through their work in OECD countries, migrants often have an undeniable impact on their country of origins. Transfers from migrants are today greater than total international development assistance. Remittances not only can provide an important element in support of the balance of payments, but they also have a direct impact at household level, tending to effectively reach the poorest. Moreover, further evidence suggests a link between migration and investments, as former migrants seem likely to engage in productive activities when returning home. On the other hand, migration flows can have a negative effect on developing countries, notably when outflows of highly skilled labour migrants deplete home countries of essential human capital. This partly explains why the level of attention to the effects of migration on development is gradually increasing, as the discussions within the General Agreement on Trade in Services show.

Table 3. Regularised immigrants in Italy by country of origin

Romania	240 000	Peru	49 000
Morocco	227 000	India	48 000
Albania	224 000	United States	48 000
Ukraine	127 000	Egypt	46 000
China	98 000	Yugoslavia	46 000
Philippines	74 000	Sri Lanka	43 000
Poland	69 000	Moldavia	38 000
Tunisia	61 000	Bangladesh	34 000
Senegal	51 000	Macedonia	32 000
Ecuador	49 000	Pakistan	32 000

Source: Caritas, Ministry of the Interior, January 2003.

Integrating migration into Italian development co-operation. Italian development co-operation is paying increasing attention to the challenges and opportunities arising from migration flows. In North African and the Balkan countries, its focus lies on revitalising productive activities in high unemployment and areas of migration. Innovative solutions aimed at encouraging co-development (facilitating the voluntary return of migrants and their reintegration in the countries of origin) are also being piloted by decentralised co-operation and NGOs. Successful examples of these programmes aim at supporting former immigrants to establish SMEs in their countries of origin, both through training programmes and financing schemes.¹¹ Since 2002 various Italian government agencies and municipalities support the workshop of the International Organisation for Migration (IOM), particularly in the reception of and assistance to migrants, pilot projects for the identification and skills assessments of potential migrants and the reintegration of migrants, refugees and asylum seekers. One notable example of the collaboration between IOM and the Italian government is “Migration for Development in Africa” (MIDA), which aims at strengthening the institutional and economic capacity of African countries through the financial and human capital of the African diaspora in Italy. Government, municipalities and NGOs are also paying increasing attention to migrants’ remittances as source of development funds.¹² In 2001, remittances of immigrants in Italy peaked to EUR 749 million, a 27.4% increase over the previous year. 54% of these transfers reached developing countries.

11 . MFA/DGCS (1999), “Promoting local development through small size enterprise clusters: the role of migrants”.

12 . “Migrant banking in Italy: remittances and development”, 2004.

A migration policy? The preceding examples show that in Italy the linkages between migration and development are clear to central and local government as well as to civil society stakeholders. However, these efforts risk being offset by Italy's approach to migration management. Partly because of the political tensions associated to increasing migrant flows, Italy has struggled to come to terms with its increased need for foreign workers. Since 1999 the estimated demand for migrant workers has increased by 200 000 units per year, but successive quotas have established entry limits well below job market needs. Low quotas combined with constraining application and access procedures have encouraged illegal immigration, both from the demand and the supply side. This led to the adoption of six successive regularisation schemes to legalize the status of irregular migrants over the last twenty years.

The effects of such an erratic approach to migration governance are felt not only on Italy's capacity to match the labour shortfall with suitable human capital, but also on developing countries and particularly on their unemployment management efforts. Tunisia for instance will face 80 000 new qualified job seekers in 2004. To manage employment demand Tunisian authorities rely on migration arrangements with host countries establishing systems of quotas, like the one signed with Italy in 1998. However, in the past, the authorities have observed a large discrepancy between the formal and the actual limits applied to Tunisian immigration to Italy.

Another type of impact concerns "brain drain". The potential benefits which migration can bring to Italy's economy depend on appropriate skills' assessment and candidate selection procedures. In this framework Italy is gradually introducing professional training and pre-departure orientation schemes performed in countries of origin. Nevertheless, although Italy's economy does not only need skilled labour, but also workers in the agriculture and day care sectors, skilled candidates in full employment at the time of departure are generally given priority. Although this rule is obviously motivated by the necessity to ensure an adequate level of migration, its outcome on developing countries in terms of the loss in human capital and returns on social and education investments should also be considered.

Promoting policy coherence for development in Italy

The examples above show that the diverse relationships that Italy entertains with the countries benefiting from its aid programmes place it in an optimal position to understand the benefits of a more interconnected approach to the wide range of policies affecting them. In the past Italy has shown the capacity to respond to policy coherence challenges through *ad hoc* co-ordinated action among different government departments. For example during the Albanian crisis Italy addressed multifaceted issues ranging from migration, security and investment.

Public awareness. Because addressing policy coherence challenges often involves competing political interests, action in this field requires a high degree of public awareness and a vigorous debate within Italian society. With few exceptions, Italian NGOs have so far refrained from taking on the advocacy role played by their counterparts in other OECD countries. Their development education programmes and their fundraising schemes could constitute an important tool to sensitise Italian public opinion on these issues. Parliament also has an important role to play. The fact that currently there is no specific parliamentary commission on development co-operation should not be seen as a disadvantage. Including development in the range of thematic competences of the Foreign Affairs Commissions of the Senate and the Chamber of Deputies could in fact lead to a more prominent role of parliament in stimulating debate and making recommendations on a broader range of policy coherence issues.

Analytical capacity. It will be important to strengthen the analytical capacities of Italian development to assess the impact of domestic policies on poverty reduction, and to ensure that developing country interests are taken into account. Experience in other DAC members shows the usefulness of having a specialised unit tasked with analysis in policy areas related to development co-operation. Such a unit also could bring this information to the attention of non-development departments within government, in order to facilitate joint approaches. Instituting broader consultation processes beyond purely governmental channels in order to benefit from the expertise of the research community would also be a positive step in this regard.

Institutional mechanisms. Italy lacks a defined institutional mechanism/arrangement to promote development co-operation coherence at the interministerial level. However, a gamut of already existing bodies could lend themselves to improve co-ordination. Broadly, coherence between government policies is ensured within the Council of ministers. Although the political commitment to address the wide range of development challenges should manifest itself at this level, ensuring inter-ministerial co-ordination and exchange on coherence issues would require a more operative body. This role could effectively be taken up by the CIPE which reviews overall priorities of various ministries. However, since CIPE established the guidelines on development co-operation in 1995, its attention to development issues has declined considerably. This trend would have to be reverted.

EU membership – a special opportunity. It is sometimes argued that European Commission authority on areas such as trade and agriculture policy reduces individual EU Member States' leeway for autonomous action to tackle coherence issues. Yet, reducing the negative impact of OECD policies on developing countries does often require collective action. In this sense EU membership can help achieve greater coherence, as it provides members with a clearly defined normative framework, institutional mechanisms and co-ordination arrangements. The EU recognises the principle of policy coherence through 130 U and 130 V of the Maastricht Treaty. In November 1992 the EU Council of ministers of development cooperation also recognised the linkage between development co-operation policy and other European Community (EC) policies and urged the Commission to consider impact assessments in this area. Such recognition is reaffirmed through Art. 178 of the Amsterdam Treaty, according to which EC policies that may affect developing countries should embrace the objectives of the EC development policy.

Some EC institutional mechanisms are geared towards achieving greater coherence, notably the Maastricht "3 C" principles (Coherence, Complementarity and Co-ordination), and the EU framework has permitted foreign relation directorates to meet in the Relex cluster. An **informal network** of EU Member States has been established to connect focal points with responsibility for PCD. It shares information, facilitates co-ordination and improves communications with respect to PCD issues of relevance to EU level decision-making, *e.g.* in relation to EC trade regimes affecting developing countries or the formulation of EC positions in international negotiations. Lastly, the rotating presidency of the EU provides each Member State with a special opportunity to move matters forward in specific areas.

Italy is clearly aware of the opportunities for greater coherence offered by the EU framework. In the area of trade and market access in agricultural products, despite serious domestic opposition, Italy has backed the June 2003 CAP reform centred on de-linking subsidies from production volumes. Further progress can be achieved on the issue of Mediterranean products. Regarding migration policy, the 2003 Italian presidency developed a series of initiatives centred on the productive co-operation with the countries of origin and transit, even though poverty reduction was not part of the agenda *per se*. Italy is not yet part of the EU informal network on PCD.

Future considerations

- The Italian government should have a **policy statement** on coherence for development, and seek ways to inform the public on this issue. A transparent policy on the links between **FDI and development co-operation** should be devised, aiming at enhancing the developmental impact of Italian business investments abroad.
- Italy should mobilise **expertise and analytical capacities** both within and outside the government to identify areas where Italian policies are manifestly incoherent with its development co-operation objectives. Broad consultation with civil society and the research community, as well as the creation of a specific unit within the DGCS, are possible ways to achieve this. Strengthened analytical capacity of Italian development co-operation field missions is essential.
- Extend **parliamentary interest** and involvement in development issues from mere aid to non-aid policies having a substantial impact on developing countries' prospects.
- Consider ways to enhance **inter-ministerial co-ordination** to bolster government action in policy coherence for development areas.

CHAPTER 5

ORGANISATION AND MANAGEMENT

Contemplating the management needs of tomorrow

In the context of its agreement in Barcelona (see Chapter 2), Italy is now contemplating a possible doubling of the size of its ODA by 2006, while simultaneously recognising that the recent opportunity to use massive debt relief as a substitute for real ODA growth will be exhausted in that same year. In the past, the easiest approach to using ODA increases would have been to place them in the multilateral aid portfolio. Italian leadership today has made clear that it expects future ODA increases to be used primarily in a bilateral format. Yet, based on Peer Review comparisons with other bilateral donors, staff and management capacity appears already to be over-extended at the current level of ODA, which means that any increase in this category will risk potential operational vulnerabilities. The DGCS is now faced with the choice of either using the multilateral conduit as the implementation mode of convenience or of reforming the bilateral organisation and management system so as to be able to absorb a new influx of funds.

The MFA is aware of many shortcomings of its bilateral aid. The DGCS is now attempting to simplify certain administrative procedures, within the context of the 1987 Law, and hopes to implement them by October 2004. A new Commission to examine options for administrative reform was set up earlier this year by the minister, with high level representation but a limited mandate. Perhaps this body could be a useful starting point in establishing momentum for more profound reforms of the existing system.

A development network: “*Sistema Italia*”

Operational development co-operation among DAC members is viewed increasingly in broad “system” terms that inclusively address the widest possible national audience of advocates of development co-operation. They include official ODA related institutions, NGOs, specialised institutes or think tanks, media and individual citizens. Current donor innovation in this area now views this range of similarly motivated members of society as a form of ongoing national partnership, which dreams, plans and implements together, where appropriate or necessary. The DGCS has already identified one such system – “*Sistema Italia*” - briefly described in Chapter 1. However, only modest progress appears to have been made to date in operationalising it. As Italian administrative and legislative thinkers now contemplate new forms of Italian development co-operation for the needs of the future, they are encouraged to think in these broader terms. With this approach based on inclusion and dialogue, Italy can generate a common sense of national vision around a more strategic and results-focused – and therefore more popular – aid programme. This process of broad based consultation and partnership should start now but will require the attention of leaders and managers at all levels of the aid system.

Current institutional actors. Today’s development co-operation in Italy is the shared responsibility of institutional entities essentially located in the government sector (ministries,

implementation agencies) but increasingly includes a number of important groups outside of government (NGOs, private sector entities, academic institutions). The two key players in government are the MFA and the MEF. Actual implementation for Italian bilateral assistance is the responsibility of the *Unità Tecnica Centrale* (UTC), a specialised development unit housed in the DGCS. The administrative units within the MFA and MEF that are responsible for ODA programmes are highlighted in organigrammes for these ministries in Annexes D and E.

Ministry of Foreign Affairs. The MFA, and particularly the DGCS, is responsible for oversight of all development co-operation, in collaboration with other key development institutions, primarily the MEF. Table 4 describes the functional distribution of responsibilities within the DGCS. It should be remembered that the MFA also has a wide range of other national functions, including the EU, cultural affairs, consular affairs and anti-terrorism, which occupy a large portion of its professional staff and represent 12 out of its 13 administrative Directorate-Generals. In total, some 27% of Italian ODA is the direct responsibility of the MFA and another 51% is jointly managed with the MEF.

Table 4. Functional distribution of responsibilities within the DGCS

Functions	Structure
Policy analysis, planning and statistical reporting	Office I. Sector policies, planning and programming financial resources, statistical reporting and database, annual reporting to parliament and public information activities and the activities related to the Global Fund on AIDS, Tuberculosis and Malaria.
Relationships with international organisations and the EC	Office II. Relationships with the agencies of the UN family (including the planning of voluntary contributions) and the EC, including the implementation of the Italy-EC framework agreement in collaboration with the MFA DG for European Integration.
Negotiations with partner countries	Offices III, IV and V Respectively responsible for aid initiatives in Europe, the Mediterranean Basin, the Middle East; Sub-Saharan Africa; Asia and Latin America each office in collaboration with the respective MFA geographical DG. Particular responsibility for country programming and disbursement of funds pledged within bilateral, multilateral and multi-bi agreements.
Emergency operations and food aid	Office VI. Response to man-made and natural disasters, through emergency actions and food aid planning (including relationships with specialised international organisations).
Relationships with Italian NGOs	Office VII. NGOs activities, granting official recognition and access to DGCS funding, co-financing NGO-promoted projects, verifying the status of volunteers and other expatriate experts employed by NGOs within co-financed projects.
Relationships with IFIs	Office VIII. "Financial co-operation," including private sector development and balance of payment support, soft loans and debt reduction actions.
Training and scholarships in Italy	Office IX. Funding of training courses organised in Italy on development co-operation issues and for the management of the scholarships programme.
Legal affairs	Office X. Legal advice related to bidding procedures, contracting and managing claims against the administration.
Procurement	Office XI. Procurement related to both the operations of the DGCS and the implementation of directly managed DGCS projects in partner countries.
Personnel	Office XII. Personnel with fixed-term contracts or seconded to the DGCS, and of the DGCS administrative management of development co-operation field offices.
Gender, minors and handicapped	Office XIII. Analyses and proposals aimed at promoting the role of women in developing countries. Protection of minors and handicapped in development co-operation.
Technical advice	UTC technical support related to project identification, formulation, appraisal, monitoring and evaluation.
Quality control	Secretariat and Technical Evaluation Unit (<i>Nucleo di Valutazione Tecnica</i>) of the Steering Committee.

Source: MFA, June 2004.

Ministry of Economy and Finance. The MEF's Treasury Department is responsible for managing and monitoring some 18% of overall Italian ODA, to which can be added approximately one-half of ODA which is jointly managed with the MFA. The Ministry is also responsible for a wide range of domestic functions, mostly unrelated to development co-operation. It has limited professional staff who work directly on development co-operation issues, mainly in the Treasury's International Financial Relations Directorate, and more specifically Office IX (debt, HIPC, export credit, investment protection, limited technical assistance), Office X (multilateral development banks) and Office XI (development co-operation in international fora – EU, G7, DAC, etc., bilateral development issues, monitoring of soft loans, European Development Fund - EDF).

Other important official institutions. Many other ministries and institutions of government play a small role in terms of their management of ODA. Worthy of mention in this respect are the ministries of Agriculture, Interior, Environment, Productive Activities and Justice. Several other agencies dealing mainly with financial and commercial matters (such as SIMEST, Mediocredito Centrale, SACE and ICE) are also constantly involved in development co-operation (see Chapter 4).

Decentralised co-operation. In Italy, this refers to development co-operation projects funded by local government in the regions and municipalities. Decentralised projects are frequently of a multi-bi nature (implemented by an international organisation) or carried out by NGOs. An important element of decentralised co-operation relates to immigrants and development activities within their countries of origin. A constitutional reform in 2000 defined the powers of the regions, but failed to discuss development co-operation. The MFA is attempting to derive a mutually acceptable description of the development role of the regions. The percentage of Italian ODA represented by decentralised co-operation is small, less than 1%.

Non-governmental actors. Italy has a very active community of NGOs and they are seen as an increasingly important partner of the DGCS. The majority of Italian NGOs have joined one of the three national NGO federations,¹³ themselves organised along religious, political, or development approach themes. They now participate in one umbrella association (*Associazione ONG Italiane*) which offers a platform for policy dialogue and negotiation on issues of common interest with the DGCS and European institutions. In terms of overseas development co-operation, they tend to draw their funding from official sources, either the DGCS, other ministries, decentralised co-operation or the European Community. NGOs work primarily in humanitarian assistance, development assistance, and public awareness. The number of NGOs in Italy has grown steadily in recent years although they tend to be small in size¹⁴ and limited in capacity. The number of NGOs accredited by the DGCS has steadily grown in recent years, 146 in 2000 to 171 in 2003. The number of NGO projects approved by DGCS has declined somewhat, however, from 127 in 2000 to 116 in 2003. The majority of Italian NGOs on official funding work in Latin America. The NGO community has long complained of the unnecessary complexity of DGCS internal procedures, long project approval delays (36 months minimum) and of unnecessary financial controls and accounting requirements. One aspect of the current administrative reform in the DGCS should help in this respect. The text of a law regarding the streamlining of administrative procedures for NGOs has been finalised and is now being approved by the competent parliamentary committees.

13 . FOCSIV (Catholic, Christian), CIPSI (politically left), COCIS (emphasis on partnership and local NGOs).

14 . Perhaps in part due to the EUR 1 million DGCS ceiling set for funding of NGO projects.

Co-ordinating the aid system

The co-ordination of development programmes and initiatives is the responsibility of the Minister for Foreign Affairs, as specified by the 1987 Law. Opportunities for co-ordination within the Italian government can occur at several levels, including: a) the CIPE, for policy level co-ordination among ministries active in development; b) the Steering Committee for Development Co-operation, housed in the MFA (see below), for project approval and a variety of other development co-operation tasks.

The most critical issue of inter-ministerial co-ordination is that of the special working relationship between two key development ministries, the MFA and the MEF, which appears to have improved recently. The MEF takes direct strategic decisions in relation to the public funds for which it is responsible (development banks and funds), but in co-ordination with the MFA. Consultations between the two ministries are frequent, whether in the Steering Committee or around topical issues such as EDF – EU development policy issues, but are very frequently informal in nature. Because of their common developmental mandate, it would appear that there is considerable scope for more strategic and more regularly established co-ordination between these two major ministries.

Co-ordination between Rome and the field. The field visits (Chapter 6) demonstrated a number of outstanding headquarter-field issues which require the attention of development decision-makers. Possible suggestions for improvement of this level of co-ordination range from the simple clarification of operational roles and relationships between these two extremes of the Italian aid system or improved communications between them, to a more profound reform of the system through operational decentralisation. The currently accepted international practice of working within field partnerships around locally owned strategies would prudently suggest that leadership and decision-making at the country level be moved increasingly to the field, where development staff is closest to the realities of Italian programming.

A large number of world donors recognise the positive impacts of greater decentralisation of operational authority to the field,¹⁵ particularly in countries with a tradition of highly centralised administrative systems. Although no formal process has been launched to examine the opportunities for greater delegation and operational decentralisation, DGCS leaders have shown an interest in reviewing the topic and believe that some forms of decentralisation are possible. The DAC would encourage Italy (as it did in 2000) to develop its organisational reform thinking in this direction. The extensive experience of other DAC members in the decentralisation of their own systems could be helpful in exploring alternative models and options. It should be noted that the principle of decentralised operational authority does not only apply to physical considerations, such as staff and support infrastructure. An important initial step could be to test certain forms of decentralisation and the establishment of simple rules and procedures to support it. Because of the active and organised local decision-making context of Mozambique, this country may offer one opportunity for Italy to test different approaches to operational decentralisation (see Chapter 6).

15 . DAC guidelines on decentralisation note: “Locally-owned country development strategies and targets should emerge from an open and collaborative dialogue by local authorities with civil society and with external partners, about their shared objectives and their respective contributions to the common enterprise. Each donor’s programmes and activities should then operate within that local framework, and respect and encourage strong local commitment, participation, capacity development and ownership.”

Structure vs. flexibility: a management system with more than one option

The broad contours of strategy

The DGCS Office of Policy (Office I), despite its very limited staff and resources, demonstrated that it is conversant with latest thinking on international development policy and strategy. It already has a structured outline for a DGCS mission statement and an approach to development vision and guidelines that, if developed and diffused, could shape overall Italian development programmes more strategically.

Currently, the various strategy statements are little known nor actively diffused or used within the broader Italian aid system and to Italy's partners. Many expressed the opinion that there is little need for clear strategy in a system that is driven by crisis and political initiatives, rather than statements of principle. This is perhaps one of the reasons why Italy's general approach is described as one of "flexibility". For the moment, the best codification of Italian strategy and policy is that embodied in the annual "*Report on Development Co-operation*" to the parliament. Currently more of an annual inventory of the status of development co-operation in Italy, this document could be used as a document that regularly shapes the current strategic priorities and policies of the DGCS for the use of parliament (and others). At the level of the country programming (see Chapter 6) Italian aid envelopes are shaped according to three-year plans, the best of which will have some analytical foundation. Greater attention to this level of strategy management, as was suggested in the previous Peer Review, is highly recommended.

Programming and budgeting

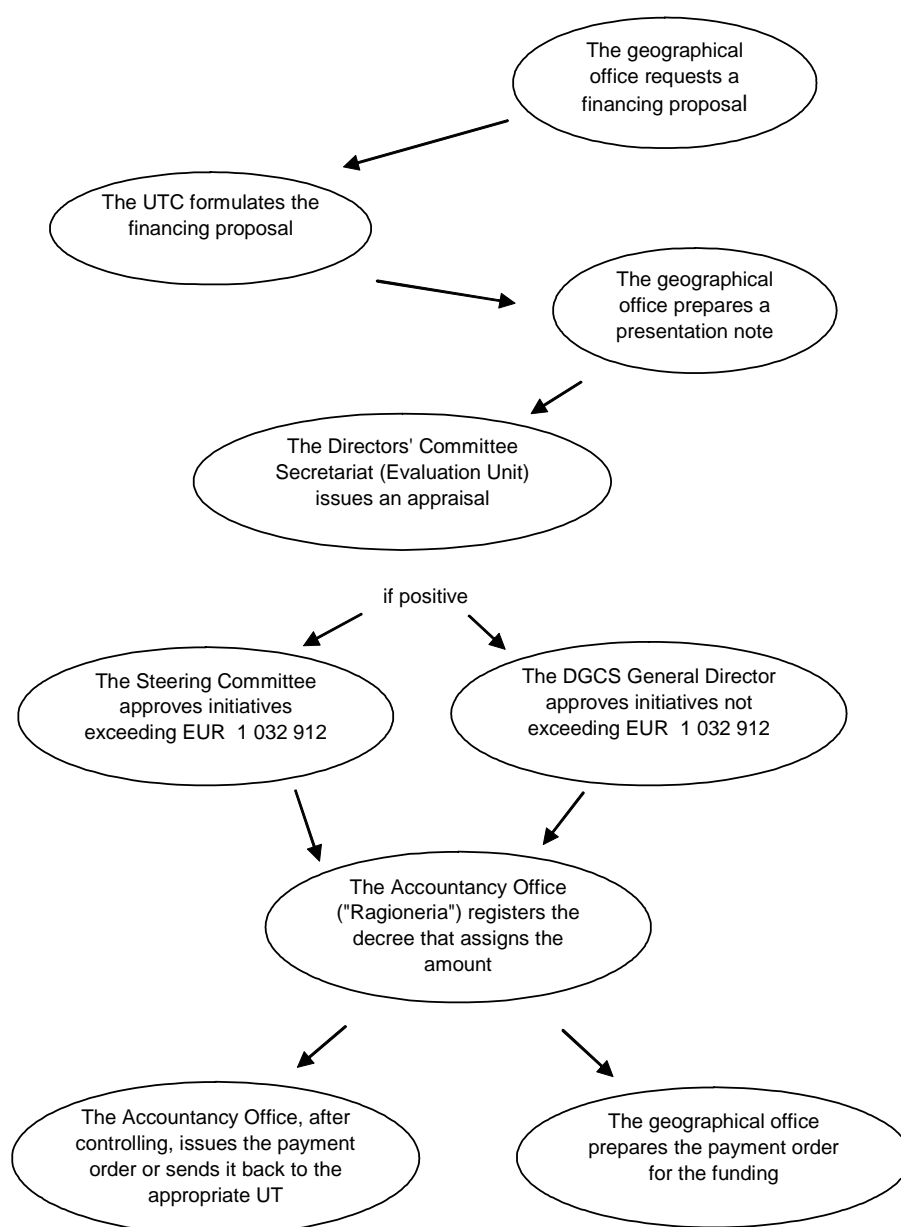
The bilateral programming process at the level of headquarters is initiated by a request from the field embassy, itself product of any number of consultative processes at the level of the country and influenced by a variety of factors, including strategic guidance from the host country, from headquarters in Rome or other frameworks (international agreements, EU agreements, etc.).

Once in Rome, the project must be approved by the DGCS Steering Committee, a body chaired by the minister and which approves projects above EUR 1 million, provides general guidance on Italian development co-operation and a variety of other functions that are specifically defined in the 1987 Law. The Steering Committee is assisted by a secretariat who ensures the management of the approval process (see Figure 3).

While once a common practice, this multi layered and highly centralised approval process is gradually falling out of favour with a number of key international donors. **First**, at the lower end of this process, individual project preparation is often the work of one single expert in the UTC who may consult with relevant Italian staff in the field to complete the project design. Relatively lean preparation at this end implies more extensive review at the upper end of the process, and time consuming checks by persons who are the farthest from the realities of the field. From a management perspective, current practice would encourage Italy to ensure that the expert in charge works within the context of a broader project team, including the field, to examine issues of feasibility and conformity with relevant strategy and practice before the proposal is sent to the higher levels. Indeed, a basic principle for many donors is that project design is only realistic and effective when designed in the field, by the field. Many have already delegated this type of responsibility to the field, a decision which has implications, of course, for the human capacity placed in field missions. **Second**, the 1987 Law confers responsibility on the Steering Committee, chaired by the minister, as the ultimate arbiter and decision-maker in matters of project approval. Remembering that this Committee is responsible

for approval of any project over EUR 1 million¹⁶ this implies a tremendous amount of preparation and investment on the part of the minister and other high-level officials around the table, for which their scarce time could ultimately be used on issues of far higher strategic and policy importance. Finding the time on the schedule of the highly solicited participants is so difficult that meetings often only take place with two, three or even six-month intervals.

Figure 3. Project approval process



Source: DGCS.

16 . To be precise, the threshold is actually EUR 1 043 million, an anomaly stemming from the official conversion from Lira to Euros.

This centralised programming approach appears structurally unable to expedite project approval, while downstream, dozens of interested parties – Italian aid officials in Rome and the field, other financial partners, host country officials and other project beneficiaries in the field – wait over extended time frames for high-level clearance. Many DAC members have already greatly reduced approval time frames and increased programming efficiency and timeliness by eliminating these layers in their own systems, relegating project design leadership to lower levels or, more recently, simply decentralising much of this decision-making to the field level. Some donors have even moved totally away from projects and in headquarters only focus attention on agreement at a more strategic level. Although the 1987 Law appears to create a legal impediment to any major reform of this system, it also may be that the DGCS has been too strict in its legal interpretation of the terms of the Law.

Another frequently cited impediment to the subsequent budget allocation process involves the budget accountancy office (*Ragioneria*, located inside the MFA although administratively part of the MEF) whose approval of the budget may take up to six months or more, once the project has been approved by the Steering Committee. Co-operation officials were not able to explain why the *Ragioneria* functions in this manner. Many donors have done away with this extra step, often by closely associating the budget office with the project approval process. This appears to be an area where the MFA and the MEF could join forces to investigate jointly the issue and obtain joint agreement on procedure. At a minimum, the *Ragioneria* should be asked to publish the criteria that it will routinely apply to these budget requests so that delays in approval can at least be understood. Perhaps the DGCS could draw inspiration from the emergency assistance programmes, for which there were successful negotiations to put in place a special expedited budgeting and disbursement process. All of these bureaucratic procedures will need to be addressed and simplified as the government recognises the difficulties of applying Italian budget and accounting processes to a developing world environment.

Monitoring and evaluation

As DAC members, encouraged by the public and political constituencies, move increasingly in the direction of results-based development co-operation, the role of performance feedback becomes proportionately important. One of the most visible recent examples of this trend, the multi-billion dollar Millennium Challenge Account (MCA) now being established in the United States, expects to dedicate the second largest portion of its staff to the evaluation function.

The 2000 Peer Review report on the monitoring and review systems of Italian development co-operation provided background to information that is still valid today. In fact, the “1997-99 planning document for the ongoing and *ex post* evaluation activities” appears to be the last major attempt to prioritise targets of intervention and to promote more systematic feedback in the Italian system. One of the written products funded at that time, a comprehensive “Operations Manual for the Monitoring and Evaluation of Development Co-operation Initiatives” was only recently published (January 2004) and is not yet utilised. The five-person DGCS Evaluation Unit responsible for ensuring the integrity of the system proposed in this manual is occupied with a totally different role now, *i.e.* members of a quality control unit (“*Nucleo Tecnico di Valutazione*”) which provides a pre-project checking function for the Steering Committee (see Figure 3). The creation of this Unit was another specific requirement of the 1987 Law.

As was confirmed in the field visits (see Chapter 6), the project feedback process is currently very oriented to financial reporting, a practice which evolved out of the traumatic period in the 1990s when suspicions of misuse of aid funds were rampant. Organised evaluation, impact measurement and reporting have largely been bypassed in the desire to reassure all parties of the financial integrity of

the Italian aid system. Consequently, the MFA primary reporting document to parliament, the Annual Report, is strongly oriented to disbursement reporting but contains little information on impact.

The 2004 Peer Review echoes the suggestion of the 2000 Review: “The DGCS should address the information needs of various actors, like parliament, civil society, the private sector and the wider public, for greater and more systematic communication on aid policies and programmes. This should be closely related to the strengthening of the evaluation function and the implementation of a coherent monitoring and evaluation system.” Particularly in this new era of results-based aid systems, Italy needs to re-examine its current approach to feedback management, preferably in a broader context of overall legal and institutional reform. Properly conceived, it can be harnessed to directly impact on management decision making and budget allocations.

Personnel management

Few issues in Italian development co-operation are as contentious and persistent as that of human resource management. While this was a major issue in the 2000 Peer Review, curiously little changed in the interim four years, suggesting that this issue has a depth and complexity which can only be treated superficially in this Review. The broader issues related to human resource management are organised into two general themes: i) characteristics and size; and ii) personnel system management. The organisation of Italian government statistics do not readily permit an integrated view of all official staff responsible for development co-operation. For simplicity’s sake, the following description is limited to DGCS human resources only.

Characteristics and overall size

The three categories of essential DGCS staff can be described broadly as follows.

- **Career foreign service officers** (“diplomats”). Diplomats hold all senior management positions, with the exception of some administrative functions in Rome and UTL Director positions in the field. In addition, a second category of MFA civil servants provide other forms of administrative support, in Rome or in the field.
- **Personnel on secondment.** Secondees come from other ministries and public administration for a limited rotation. They are generally programme officers or administrative support staff.
- **Development professionals.** The 1987 Law identifies two types of development professionals: i) sector or thematic experts in the UTC; and ii) generalists with a previous record of service in international organisations assigned to DGCS thematic or geographic desks. The 1987 Law specifies a maximum of 120 UTC experts and 30 generalists. All experts are hired by a process of national competitive selection on a fixed-term, renewable, contract basis.

The overall size of DGCS staff has slowly declined over the last ten years, from 580 staff in 1993 to 448 in 2003. Increasing emphasis has been placed on short-term technical or junior experts to implement projects or complete a range of other operational tasks. Table 5 illustrates the general size of staffing for each of the essential categories registered in this and the previous peer reviews. The DGCS is understaffed, even at current funding levels, and has little capacity to expand its level of bilateral programming because of these human resource constraints.

Table 5. DGCS staff

Personnel category	Number	
	2000	2004
1. MFA staff, of which:		
• Non-diplomatic senior	0	4
• Foreign Service officers ("diplomats")	29	29
• Administrative staff	167	159
Sub-total MFA	196	192
2. Personnel seconded to MFA	158	118
3. Development professionals, of which:		61
• UTC experts	68	61
• Other (generalists)	24	20
Sub-total development professionals	92	81
4. Consultants and advisors	21	22
Total	467	413

Source: DGCS.

Of the 150 expert positions specified in the 1987 Law, 61 were located in the UTC or in the 21 field missions (UTL) and another 20 of the second category (ex-international institution) in the DGCS as of 2003. As part of the current DGCS management reform, directorate leadership has noted its hope to recruit 60 new experts in the upcoming year. This would be a major breakthrough for the DGCS, as most of its experts were recruited in 1987-90, and it has not recruited any since 1994. This action was anticipated in the previous Peer Review, as well, but was ultimately postponed in the expectation of a new law in 2000. Because the numbers of experts has slowly declined, 98% of UTC experts are now over the age of 45 and 52% are over the age of 55. Furthermore, morale is low due to a rigid classification system which locks the employee into the rank at which he/she enters.

Personnel system management

As with some other DAC members, Italy does not have a development co-operation specific personnel system or personnel plan. The MFA has its own personnel office and the DGCS has an office (Office XII) which deals with the mechanics of fixed-term contract or seconded staff and with UTL administrative management. It undoubtedly would prove useful for the DGCS to promote a more specific vision of personnel management, perhaps by reinforcing the professional planning capacity of its own personnel office, especially whenever significant organisational reforms (*e.g.* decentralisation to the field, major expert recruitments, etc.) are anticipated. Experience elsewhere in the DAC confirms that competent development co-operation staff planning and recruitment requires specialised knowledge of development issues and requires advance planning so as to efficiently cope with the lead times necessary to proper recruitment. This could also help resolve frequent problems of extended UTL director vacancies, as noted in Chapter 6.¹⁷

Italian development co-operation has a practice of assigning senior management responsibility to MFA diplomats, and technical backstopping to contracted experts. A weakness in this system is the fact that most diplomats (and the large category of staff seconded from other ministries) rotate in and out of development co-operation fairly quickly, while the less empowered experts remain. Therefore, aid leadership at many levels can have fewer professional skills/experience in development than those

17. As of April 2004 only 14 out of a total 21 UTLs had a nominated director. Candidates were going through selection procedures for four other UTLs and three UTLs were without a director (Bolivia, India, Senegal).

who they manage. It is recommended that the Italian government rethink this working arrangement so as to better align responsibility and ability (*e.g.* better delegation of authority to experts while retaining ultimate authority at the level of diplomats; rethinking basic personnel management principles). Alternatively, and less radically, the government could consider creating a career track for diplomats in “development” or offer special career enhancements in the development field, so as to attract and maintain the kind of experienced diplomatic staff needed to carry out substantive leadership.

Overall, Italy should consider moving toward a performance-based personnel system that is supportive of development co-operation objectives and which regularly tracks the output and behaviour of diplomats and experts alike. Any decision to promote or otherwise reward DGCS staff should attempt to do so in a manner related to the individual’s performance. Better performance monitoring is also one simple approach to identifying training needs for the ministry’s development co-operation staff. At the current time, neither orientation nor on-going training of staff is well developed and is *ad hoc*.

Future considerations

- Italy should invite a broad-based discussion of the issues and impediments in its current system of management. Special attention should be given to the cumbersome **project and budget approval** processes inside the MFA and the need to streamline procedures more generally, including those involving the *Ragioneria Centrale*.
- To improve the effectiveness and efficiency of Italian aid, DGCS management should consider stronger **decentralisation of authority** to the field and promote the parallel adjustments in resources and systems necessary to accommodate these changes.
- As a matter of priority, Italy should reform its current system of **personnel management** for development co-operation. If possible this should be done in the broader context of general aid management reform, with special emphasis on personnel planning, placing individual ability more in line with responsibility, and use of a performance-based approach that is properly accompanied by rewards and incentives. As an interim measure towards achieving adequate staffing levels, DGCS is urged to expedite its current attempt to recruit 60 development experts.
- Italy must establish a regular system of **monitoring and evaluation**. To the extent possible, programme decisions should be made on the basis of a results-based system of management.

CHAPTER 6

COUNTRY OPERATIONS

Country strategy and field organisation

Limited attention to strategy

The underlying logic of Italian development co-operation in Mozambique and Tunisia reflects two different historic and geographic realities. Italian-Mozambican relations are identified with Italy's active and important role in favour of the 1992 Peace Agreement, marking the end of a bloody civil war and the beginning of an era of reconstruction and economic development. In Tunisia, with only 80 kilometres separating the two nations, Italian development co-operation is influenced by the simple realities of proximity, and is related to historic ties, trade interests and the creation of a buffer to clandestine immigration and other illegal activities.

Italy does not have a formal country "strategy" in place for Mozambique or Tunisia. Instead, the field missions in both countries use a more loosely formulated and less analytical, three-year programme statement. These programme statements are produced by the local embassy in time for the triennial meetings of the Joint Commissions in the recipient countries. The general perception by development staff and partners in both countries was that Italian leadership does not see the utility of formal country strategies nor of significant strategic analysis in the three-year programme statements.

In the case of **Mozambique**, the current country programme¹⁸ (2001-03) was the product of selected strategic analysis and collaboration between the DGCS geographical office, the UTL and local partners. Although completed before the local national strategy for poverty reduction (PARPA - *Plano de Acção para a Redução da Pobreza Absoluta*), it ultimately was significantly linked to it and now uses the PARPA organisational framework to co-ordinate with local partners, including sector working groups. The current programme was extended an additional year to use up the significant remaining pipeline of funds (USD 30 million, about 46% of the total three-year programme). Unfortunately, no organised planning is currently underway beyond the end of this additional year, aside from a recent political commitment to assist in building a EUR 25 million bridge over the Zambezi River. Several local partners, including the Mozambican government, feel that it is important for Italy to pursue some form of advance planning and programming, both to stay in synch with the significant number of carefully co-ordinated local partners of PARPA and to ensure the timely availability of Italian funds. The level of trust and quality of partnership that Italy has been able to build in this country will, in future, depend on further improvements to the predictability and continuity in its development funding.

18. Does not include EUR 77.5 million for flood emergency in 2001, nor EUR 1.5 million for special election funding in 2003.

Similarly, in **Tunisia** the current three-year programme (2002-04) is coming to an end with a significant pipeline of outstanding funds. The new three-year programme was finalised in Rome in June 2004 without major preparatory analysis. It contained three points of reference: i) initiatives from the previous programme that were not completed; ii) exigencies of the Tunisian government from the previous programming cycle; iii) new suggestions from the Italian side. Officially, it is the strongly directive Tunisian government that proposes a new programme to the Italian side at their Joint Commission meeting, but in reality, background preparation comes from a variety of formal and informal contacts between the two parties, including contacts at the highest political level. Undoubtedly a reflection of this political visibility, this year's three-year programme was shaped almost exclusively by Italian diplomats. Lead responsibility in Tunis was that of the Ambassador, and in Rome the Minister of Foreign Affairs. The development staff of the UTL was not invited to participate in the elaboration of programme content in Tunis, nor to attend the discussions at the Joint Commission meeting in Rome.

Perhaps because of its very limited capacity at the field level, Italy appears to promote administrative simplification by increasingly relying on a political dialogue between Italian diplomatic leadership and that of the host country to establish a country programme. Subsequent implementation of the country programme continues the decision-making dialogue and frequently implicates Italian diplomatic leadership in Rome. This ongoing strategic "flexibility" to develop and implement its programmes was mentioned as one of Italy's greatest strengths by Italian officials in Rome and in the two field missions visited. Local government officials also cited this flexibility as one of the strong, positive features of Italian aid, although they simultaneously called attention to weak advance joint planning and particularly the frequent delays in timely funding. Italy should rethink these approaches to strategy and programming more extensively.

Field organisation and staffing

Mozambique and Tunisia field organisation for Italian development co-operation is built around the Embassy and the aid mission (UTL) located within it. In both field missions visited, the official staff resources allocated to the local development effort were extremely thin, especially considering that Mozambique and Tunisia are two of Italy's largest development missions. In both missions, the highly personalised nature of Italian co-operation was readily noticeable – the abilities and style of Italian local leadership, especially the UTL director, was a defining factor of aid quality for most of Italy's partners. In both cases, general staff turnover was rapid and gaps in coverage at the director level were cited as obstacles to a more effective local collaboration. Turnover also affected the quality of institutional memory in each UTL. Supplemental resources routinely arrived from Rome, particularly from the UTC or its contracted specialists. Both missions noted the difficulties they had in communicating with the heavily centralised decision-making processes in headquarters, who also frequently responded late or not at all. Neither UTL used local professional staff in managing its programmes although, particularly in Tunisia, highly qualified and inexpensive local expertise was readily available.

In **Mozambique** (Box 6), the UTL has been without a director for almost a year, leaving the ambassador alone in handling all major administrative or representational responsibilities. The UTL team contains one official (expert), the director, who is currently assisted by five Italian contract consultants, two temporary Italian interns and eleven local support staff.

Box 6. Mozambique - a development co-operation anchored in the past

Between 1982 and 2003, Italy has provided some EUR 750 million in grants and loans to Mozambique, a large part of which was provided prior to the 1992 Rome Peace Agreement which launched the country on the new path of nation building and economic development. Historically, the single most important sector of investment by Italy was infrastructure (dams, railway, water supply, telecommunications), which represented 27% of total funding over this same time frame.

The latest three-year programme for Italian development co-operation (2001-03) provides an average of EUR 60 million per year, primarily in commodity aid (28%), agriculture (26%), health (21%). Although one of Italy's largest aid missions, the *Unità Tecnica Locale* (UTL) in Maputo is staffed with only one full-time official (the director). The ambassador also has past experience in development co-operation and is able to substantially augment the representational presence of Italy in Mozambique.

Suggestions made to the Maputo Mission:

- **IMPROVE ORGANISATIONAL RELATIONSHIPS.** (i) Italian leadership in Rome should review the role and responsibilities of the field mission within the overall Italy team. The field is not connected to Rome in a structured and collaborative way. This poses problems for efficiency and effectiveness of its aid. (ii) At the Maputo level, improved "team" organisation would better valorise the considerable skills of mission staff.
- **INCREASE DECENTRALISATION.** Given the particularly collaborative donor environment in Mozambique, Maputo could be considered as a pilot mission to test the utility of greater decentralisation of development decision making. Empowerment of Maputo to act locally would require a parallel enhancement of the UTL human and financial capacity. This includes a more organised and responsive system of communication between the field and headquarters.
- **IMPROVE STAFF.** Italian aid in Maputo is understaffed, even at present levels of decision-making authority. The UTL lacks the broader analytical capacity it needs to be proactive and engaged. Rome needs to make its field staff a higher priority, or face the consequences of declining morale and subsequent staff turnover. Pilot testing of new staff approaches could be attempted in Maputo, including the greater use of local professionals, to compensate for the lack of institutional memory and the regular loss of critical skills through the current practice of short-term contracting.
- **BETTER MULTI-YEAR PLANNING AND BUDGETING.** The UTL has not been encouraged by Rome to use multi-year programme and budget planning. The approach to programming should be reviewed by Rome so as to support indicative planning and budgeting that matches that of local partners (usually a five-year cycle, built around sector plans and PARPA). It would seem plausible to delegate a greater programming role to the field, and thereby simplify and speed up procedures, while improving the effectiveness and efficiency of Italy's aid.
- **THINK ABOUT LEARNING.** Current systematic feedback is limited to "accounting reports", which leaves Italy in a situation where it has only a limited understanding of what it has achieved. A substantive learning system could be structured largely around project level feedback from its contract and NGO implementation agents and at the macro level, including MDG reporting, from feedback generated (currently funded by Italy) in the context of PARPA and sector groups.
- **IMPROVE THE HARMONISATION OF AID.** Maputo has yet to receive a clear mandate from Rome to work proactively on the harmonisation of its aid to Mozambique. The special, highly collaborative circumstances of partnership offered by Mozambique suggest that the Maputo UTL could be in the forefront of such an agenda should it be authorised by headquarters.
- **INVOLVE ITALIAN NGOS.** The fairly large Italian NGO community present locally maintains an interest in working with the embassy as part of the broader Italian team in Mozambique. In a future pilot context, the UTL could involve these NGOs in country strategy development. Authority to locally approve and oversee officially funded NGO projects could be one immediate decentralisation action.

Italy has an active and well established NGO community in Mozambique, initially funded from home constituencies or the Italian government (most funding is now from the European Commission), and a small Italian private sector, initially funded by Italian or development bank infrastructure programmes and now increasingly linked commercially to the major markets of nearby South Africa. Both communities, with encouragement from the last UTL director, formed themselves into small federations. Mozambique's 15 Italian NGOs created GONG ("Non-Governmental Organisation Group"), which meets monthly with the UTL to share ideas and learn about official Italian development co-operation. GONG also produces a regular newsletter and is contemplating use of the Internet. On the private sector side, the UTL and the ambassador helped the 70 Italian-led companies in Mozambique to form an "Association of Italian Entrepreneurs" with local NGO legal status. The association has a small secretariat and is organised around three commissions: i) relations with the Mozambique Business Association; ii) relations with external institutions (especially the business related actions of groups in Italy, the UTL, NGOs or religious groups); iii) member services (*e.g.* in accounting).

In **Tunisia** (Box 7), the current director has been in place for one year, although his position was also vacant for the entire year prior to his arrival. The director is the only official (expert) in the UTL, but has creatively negotiated short-term funding for four junior professional assistants. He is also attempting to negotiate funding for four senior professionals but has been successful in obtaining only one to date.

No Italian NGOs were identified in Tunisia. This was particularly unexpected because of the geographic proximity of the two countries, but was apparently largely due to Tunisian government distrust of this form of development assistance. On the other hand, and as would be expected, Italian business interests in Tunisia were largely represented through direct investment or joint ventures. The political importance of Italian business here is attested to by the simultaneous presence of a commercial attaché in the embassy, a large private sector aid programme, the active local Foreign Trade Institute office (ICE - *Istituto per il Commercio Estero*) and existence of a visible Tunisia-Italy Chamber of Commerce. Surprisingly, little internal co-ordination of these different official Italian programmes is undertaken, which has permitted overlaps in responsibility among the actors. For example, pending some form of joint deliberation of Italian private sector strategy and implementation, it may be possible for the small UTL in Tunis to shed its responsibilities for the procurement of Italian imports so as to focus more of its energies on the issues of Tunisian development policy. Conscious of these shortcomings, the Italian government recently chose Tunisia as a test country for a "guichet unique" to better co-ordinate private sector Italian institutions in this country.

Reference made in the field to "*Sistema Italia*" was an indication that Italian development strategists are aware of the broader community of Italians, official (embassy, UTL, ICE) and non-official (NGOs, private sector, Italian-local country chamber of commerce), who collectively represent Italian interests and support for development in-country. In both Mozambique and Tunisia, "*Sistema Italia*" collaboration was weak and not visible. Italian co-operation in these countries would benefit from a greater recognition of the mutually reinforcing synergies that could exist among these different groups.

Box 7. Tunisia - development co-operation close to home

Tunisia is a priority country for Italian development co-operation, given its geographic proximity and a long history of economic, cultural and political exchange. Italy sees a prosperous and stable Tunisia as vital to its own national interests. Tunisia was the first country in its region to sign an Association Agreement with the European Union (1995). Tunisia sees its preparation for an open trade arrangement with the EU in 2008 (*"mise à niveau"*) as a high priority for donor assistance.

The latest Italian three-year programme for Tunisia (2002-04) provides some EUR 60 million per year, primarily in the private sector, including a large tied procurement credit (52%), environment/agriculture (18%), infrastructure (14%).

Suggestions to the Tunis Mission:

- **EMPHASIS ON STRATEGY.** The context of Tunisian development is one of complex and rapidly evolving change. These include challenges to Tunisia, such as 2005 (end of the Multi Fibre Agreement) and 2008 (eradication of trade barriers and open trade zone with Europe). Italy also requires a strategic approach to nascent policy coherence issues, such as those relating to Italian investment, olive oil or migration. These rapidly evolving issues suggest the need for Italy to put in place a local capacity for strategic analysis and feedback.
- **MULTI-YEAR PROGRAMMING AND FINANCING.** Italy needs a longer-term vision for its aid. This would help local partnerships, would encourage a more analytical and structured approach to Italian aid and would help to plan and budget its funding in a more timely manner.
- **CO-ORDINATION AND HARMONISATION.** Little informal, operational co-ordination takes place among development partners in Tunisia. Because the local donor community is small and largely European, significant "complementarity" and improved donor co-ordination should be possible today within the context of the European Community. Virtually no effort to harmonise Italian aid with that of other donors has been made to date.
- **MULTI-BI ARRANGEMENTS.** Multi-bi implementation arrangements should be used selectively and according to local circumstances. In some cases, multi-bi arrangements can lead to an additional level of bureaucracy and confusion over the separation of responsibilities among the partners.
- **ORGANISATIONAL RELATIONSHIPS.** Italian aid in Tunisia needs a more clearly defined and synergistic relationship between the UTL and Rome, and within the Italian official community in Tunis. Between the field and Rome, improvements could be made at the level of lines of authority (e.g. exclusion of local UTL from the current three-year programming exercise) and in communications. As for the embassy, greater attention should be focused on creating a team management environment (e.g. better internal co-ordination and shaping of internal teams around key cross-cutting themes like private sector development).
- **DECENTRALISATION OF AUTHORITY.** UTL staff appeared very competent and dedicated but, because of the highly centralised nature of the Italian system, its capacity is under-utilised. Slow decision making in Rome results in weaker local co-operation, frustration and budget delays in the field. The fast evolving social and economic context of Tunisia requires a local analytical capacity. The Tunisian government made clear its interest in having a strong local Italian development partner with whom it can carry out a development dialogue and maintain a daily operational relationship.
- **LEARNING AND RESULTS ORIENTATIONS.** Italian development co-operation in Tunisia does not maintain a results-based management system. It has only an anecdotal idea of what is working and why. Feedback measurements that are made appear heavily oriented to "accounting" issues.
- **PERSONNEL NEEDS.** At current personnel levels, Italy can only maintain a symbolic local presence in today's Tunisian development partnership. A reassessment of staff needs should be based on the principles of team management, including experts, diplomats and contractors and allocating responsibility to the most qualified, irrespective of their bureaucratic status. Italy should consider the local use of abundant Tunisian professionals as well. Building on the EU principle of complementarity, one final possibility could be shared, collaborative approaches to projects with EU partners.

Country implementation

Limited implementation modalities

The packaging of Italian development co-operation is largely built around projects. These projects are often related to the general context of local strategy. For example, the Mozambique poverty strategy PARPA and the Tunisian five-year plan are cited as an important point of reference in the general attribution of these projects. In Mozambique, this concept was carried further and implementation is actually co-ordinated in the context of PARPA sector strategies and work groups. Although considered a project in the administrative sense of the word, an important portion of Italian co-operation is packaged in the form of tied budget support (see Chapter 4). In Tunisia 45% of the Italian programme 2002-04 was used to purchase Italian products and in Mozambique, this amounted to 28% for the 2001-03 programme. It has now been announced that this type of budget support will be phased out in the future.

Debt relief is also a major feature of both programmes. In 2002, the tenth anniversary of the Rome Peace Agreement, Italy fully cancelled USD 525 million of Mozambican debt (see Box 8). Tunisia has not experienced debt sustainability problems in recent years, and therefore was not the object of debt treatment by the Paris Club. However, in 2001 Italian co-operation reduced the interest rate of Tunisia's debt to 4%, and simultaneously established a EUR 15.6 million counterpart fund for use in mutually acceptable project activities. Activities agreed upon to date have been in the area of environmental protection.

Box 8. Field capacity for debt relief: the Mozambique example

Weak capacity at field level affects all aspects of the aid programme, putting the achievement of its objectives in jeopardy even when their implementation is simple. Italy's cancellation of Mozambique's debt provides an example. Following the Multilateral agreement reached at the Paris Club on 17 November 2001, the Italian government proceeded with the cancellation of USD 525.3 million of Mozambique's pre and post cut-off date debt, representing the totality of commercial credits and aid soft loans. On the basis of the agreement signed in Rome on 11 June 2002 and the commitments undertaken by both governments, the freed resources will be re-inscribed in the internal budget to finance investments in agriculture, education and health, sectors considered to be key for the reduction of poverty in the country.

One problematic issue concerns the capacity of the field mission to make sure that debt relief achieves its expected results. Ensuring that the resources released by debt forgiveness are effectively used towards poverty reduction activities is notoriously tricky. To make such resources traceable, donors often resort to complex requirements such as establishing counterpart funds where resources are gathered and managed jointly with the local authorities. This allows not only a stricter control over the expenses but also a monitoring system necessary to ensure that the programme's objectives are achieved. To address this issue the initial agreement stated the presence of a monitoring system of a financial and substantive character, involving financial accounting procedures as well as monitoring missions to the project sites concerned. This provision was nevertheless modified in the final version of the agreement, and discarded in practice. Lack of human resources at the level of the Italian field mission made the establishment of the counterpart fund and adequate auditing, monitoring and evaluation activities impossible. Italy resorted to use Mozambique's PARPA implementation reports as monitoring tool.

One, non-projectised experiment is now being carried out in Mozambique, where there has been extensive donor interest and involvement in different forms of **direct grant budget support**. The Italian ambassador and UTL director have obtained authorisation to undertake a pilot participation (USD 10 million over three years) in the Macroeconomic Budget Support of the PARPA poverty reduction scheme. Although the first year of this experiment is now underway, it is noteworthy that no structured learning system has yet been put in place by Italy. Based on the growing interest of other DAC members in the use of budget support, Italy is encouraged to take this learning experiment

seriously. If this approach is successful it could also allow for increased bilateral funding without requiring a lot of new staff.

Implementation realities

Programming and budgeting. The previously noted need for more transparent and collaborative programming and, particularly, more timely budgeting and release of funds, were widely held perceptions in the field. Frequently, local partners were not familiar with Italian aid objectives and attributed much of what they did know to their personal interaction with the local UTL director. Informed interlocutors repeatedly cited cases in which they had to work with the local UTL director (or ambassador in his absence) to expedite the delivery of late funds, then describe their common frustration at the lack of responsiveness of “Rome” to their pleas for expediency. In several examples, local officials simply gave up on waiting for a response, abandoned the activity in question or found alternative funding. In the course of interviews, local partners encouraged Italy to maintain a multi-year budgeting perspective, in spite of the Italian national practice of annual appropriations, as a way of more rigorously following up with budget officials in Rome. It is interesting to note that the 1987 Law (Articles 14 and 15) actually set up a special fund for development co-operation activities that granted the DGCS a degree of financial autonomy and permitted multi-year funding - an exception to Italian budget law. The fund was abolished in 1995 and overseas development co-operation has had to conform with national Italian budget procedure ever since. Given the drawbacks witnessed in the field, it would seem important for Italy to revisit the budget flexibility offered by the 1987 Law, in the name of more efficient and effective Italian aid delivery.

Monitoring and evaluation. Italian development co-operation in Mozambique and Tunisia currently does not have a regular system for performance monitoring or evaluation of its projects, which nevertheless can take place on an *ad hoc* basis. Perhaps in large part stemming from the corruption allegations of the 1990s, the only regularly collected feedback in these two countries is financial accounting. Projects are required to provide regular financial information at the input level and audits are frequent. In Mozambique the UTL attempted to set up a monitoring and evaluation system with short-term contract support, but abandoned the effort failing sustained encouragement from Rome and in the absence of local development leadership. This leaves Italy with minimal information with which to do future programming and to justify its programmes in Mozambique. Italy does provide considerable support for the national capacity to gather statistics. The future development of common impact reporting through this national capacity may give Italy and other donors the kind of impact information on MDGs and general national development that they require.

NGO procedures. In Mozambique (no Italian NGOs were identified in Tunisia), local Italian NGOs were unanimous in their complaint over the difficult procedures of the Italian government. Largely because of the lengthy and time consuming programming procedures, most NGO funding now comes from the European Community, which is preferred by Italian NGOs as easier to implement. An outline of a typical programming sequence for an NGO project was provided in Mozambique (see Annex E) and offers interesting insights to the complexities of the Italian programming cycle and the long delays they imply.

Harmonisation and aid effectiveness viewed from the field

While Italy played an important facilitating role by hosting the 2003 High-Level Forum on Harmonisation in Rome, little progress on harmonisation was visible in either field missions visited. Italian officials in both Mozambique and Tunisia were aware of the commitments made in the Rome Declaration, but neither mission yet has the capacity nor the delegation of authority to undertake exceptional measures in this respect.

Of the two countries visited, only Mozambique had an organised approach to harmonisation. There, donors are currently working toward a common Performance Assessment Framework, in which conditions and the means of assessment will be harmonised. Harmonised or semi-harmonised financing schemes have been developed in planning, agriculture (budget support), education, public sector reform, policy research, health and health policy formulation, police academy, water, sanitation, and housing. A detailed study of donor procurement and disbursement procedures has been carried out and, under the education sector programme, some donors are expected to agree on common procedures and reporting formats. Progress has been made in building common donor procedures across sectors and within sectors, which has had an impact on common government-led procedures. Nevertheless, the costs of setting up pooling arrangements have been high and progress has been slow in all sectors. Small, carefully designed sector-level technical assistance pooling schemes have been more successful, but overall the lack of local capacity has been a major constraint. One key aspect of harmonisation in Mozambique relates to the use of common programmes for budget support. Some donors have agreed on pooled funding while others support a gradual move toward budget support as the government improves its financial management capacity. Direct budget support is governed by a joint programme and an *Aide Memoire* signed between government and participating donors. There are common arrangements in place for disbursing budget support through a simple mechanism that provides untied, un-earmarked financing. There is regular dialogue between donors and with government. Donors have conducted an Annual Joint Donor Review.

Although some of the conditions for harmonisation improvements exist in Mozambique and Tunisia, the principle has been furthered only modestly by initiatives from the Italian side. As noted in Chapter 5, Italy supports the principle of local country **ownership** of its aid programmes. This has been greatly facilitated in Mozambique by the strong leadership role the Ministry of Plan and Finance takes in relation to the overall donor community through the PARPA strategy and implementation processes. Italy helps to facilitate this leadership role through funding the development of a national statistical capacity to track developmental learning. This tracking capacity is viewed as fundamental to PARPA ability to monitor and evaluate sector approaches to poverty reduction in the country. Tunisia does not maintain the same collaborative structures, but insists on a strong leadership role (and Italy supports this) through its Ministry of Development and International Co-operation, itself structured around the current five-year national development plan.

Alignment of programmes is also assisted in Mozambique by the PARPA process, which prods donors to situate themselves according to common development strategy and along sector lines. Italy has joined this alignment process in Mozambique and is actively involved in most PARPA fora, including membership of at least 15 local sector work groups (assistance to parliament, public sector reform, statistics, private sector, agriculture, education, health, drug control, water, de-mining, environment, elections, HIV/AIDS, gender, administrative issues). As a general observation, its local staff capacity was too limited to participate as actively as most major donors. Similarly, the weak forward planning and budgeting characteristics of Italian co-operation were structural weakness in this respect and slowed efficient co-ordination with partners in both Mozambique and Tunisia.

Italy has virtually no local authority to act independently of headquarters to **streamline** its programmes in relation to its partners. Communications with Rome on this type of issue is limited, and Rome yet has to offer a specific policy or strategy with the field in this area. One important exception to this is Italy's recent decision to contribute USD 10 million over three years to the budget support initiative in Mozambique. Although this is Italy's only experiment with developmental budget in the world, no organised system yet has been put in place to track the Italian effort and provide broader policy learning for the Italian system.

Future considerations

- Re-examine what is needed for Italy to remain strategically aware of local development realities. Place greater emphasis on local **strategic analysis** as part of the three-year programming cycle and ensure full participation, even leadership, of the UTL in programme development.
- Consider revisiting national legislation on **aid budgeting** to make it more in line with local programming needs (*e.g.* five to six years) and establish an indicative budgeting process over a similar time frame.
- Together with field UTLs and ambassadors, promote an in-depth review of **development administration** from a “team” perspective (*Sistema Italia*, relations embassy-UTL, between field and headquarters). Build upon the current effort in Rome to promote administrative streamlining and reform, including those relating to Italian commitments to the Rome Declaration on Harmonisation, perhaps via time-bound specific action plans.
- Consider a pilot **decentralisation** effort in a key beneficiary country such as Mozambique. Review the experience of other DAC donors with their own decentralisation efforts and consider opportunities to further delegate authorities to the field and to reinforce local UTL capacity, including human resources and improved quality of communications between Rome and the field.
- Pay greater attention to **staff** needs at the field level. Avoid gaps in presence, consider ways to contract additional Italian or local professional staff, chosen by the field mission according to the qualifications needed to get the job done.
- Establish a requirement for regular monitoring feedback from the field and activity evaluation, to be collaboratively set up with **monitoring and evaluation** specialists in Rome. Re-examine the need for current levels of financial accounting.

ANNEX A

THE 2000 DAC PEER REVIEW AND ITALY'S ACHIEVEMENTS

Key Issues	Concerns Expressed in 2000	Progress Achieved by 2004
Need for strengthened management	Legislation is urgently needed to permit an organisational framework which fosters professional development management and decentralisation.	2000 Law was not approved. Outstanding need for comprehensive legislative reform to achieve progress on fundamental structural weaknesses.
ODA level	Should increase in order to attain DAC average over the next three years.	Political commitment in Barcelona (2002) to more than double ODA volume.
Professional staff	Increase the number of professional staff in development and adjust skill mix to exploit use of recent reforms.	Staffing levels continue to decline. Currently investigating possible recruitment of 60 experts in 2004. Outstanding need to establish a career structure based on merit, functions and responsibility.
Country strategy	Broaden use of country strategy to more recipients.	Field emphasis on 3-year programme statements (minimal reference to strategy or analysis). Limited linkages to local development plans (e.g. PRSP or 5-year plan).
Programme selection criteria	Refine objectives and criteria to guide selection of partner countries, programmes and projects, in coherence with country strategy.	Little clear guidance on country and sector priorities. Need to clarify Italian policy and strategy through widely distributed statements.
Sustainability	Pay increased attention to sustainability in project design and implementation.	Little focused attention to or analysis of sustainability considerations in project design and implementation.
Delegation of authority	Provide greater delegation of authority to field posts.	Field posts continue to function under the limited authority in 1987 Law. Greater accounting oversight and reassertion of political objectives from headquarters further limit authority in field.
Procedures	Streamline operational and administrative procedures.	Streamlining of some operational and administrative procedures now underway. Cumbersome project and budget approval processes inside the MFA still exist.
Evaluation	Strengthen evaluation function to provide lessons learned and promote dialogue with partners.	Monitoring function essentially one of accounting reporting. Small number of evaluation specialists used for project appraisal support to the Steering Committee.
Public information	Strengthen public information programme, especially to address link between development and immigration.	Progress has been noted over the last year and Italy has pledged to focus on this issue.

ANNEX B

OECD/DAC STANDARD SUITE OF TABLES

Table B.1. Total financial flows

USD million at current prices and exchange rates

Italy	<i>Net disbursements</i>						
	1987-88	1992-93	1999	2000	2001	2002	2003
Total official flows	3 790	5 067	1 915	1 875	1 990	1 988	2 583
Official development assistance	2 904	3 583	1 806	1 376	1 627	2 332	2 433
Bilateral	2 143	2 180	451	377	442	1 007	1 061
Multilateral	761	1 402	1 355	999	1 185	1 326	1 372
Official aid	n.a.	288	92	406	281	1	497
Bilateral		76	8	213	21	1	494
Multilateral		212	84	193	260	-	3
Other official flows	886	1 196	18	93	82	-345	-347
Bilateral	881	1 231	18	93	82	-345	-347
Multilateral	5	-34	-	-	-	-	-
Grants by NGOs	18	79	28	37	33	-	28
Private flows at market terms	- 257	162	15 621	12 358	-2 933	- 763	2 603
Bilateral: <i>of which</i>	- 257	162	15 621	12 358	-2 933	- 763	2 603
Direct investment	714	143	1 446	1 557	1 855	836	830
Export credits	- 925	- 555	- 992	2 128	481	2 120	1 905
Multilateral	-	-	-	-	-	-	-
Total flows	3 552	5 308	17 564	14 270	- 910	1 226	5 213
<i>for reference:</i>							
ODA (at constant 2002 \$ million)	3 357	3 225	1 721	1 486	1 759	2 332	1 976
ODA (as a % of GNI)	0.37	0.33	0.15	0.13	0.15	0.20	0.17
Total flows (as a % of GNI) (a)	0.45	0.40	0.97	1.01	-0.02	0.12	0.29

a. To countries eligible for ODA.

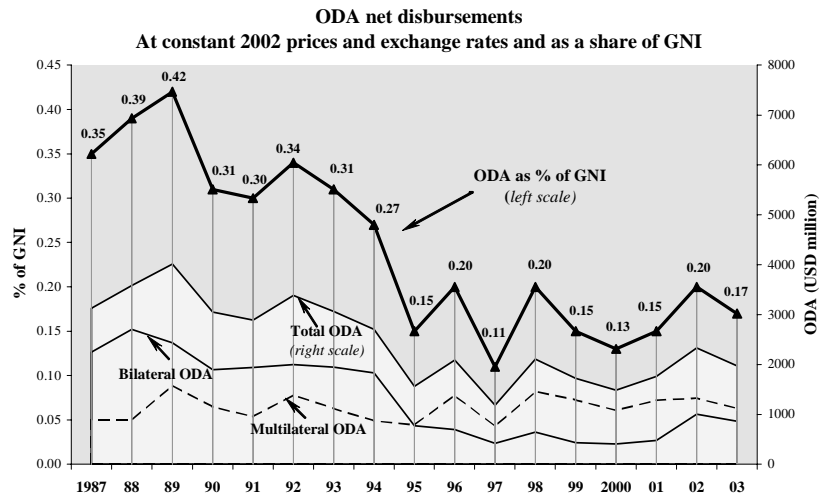
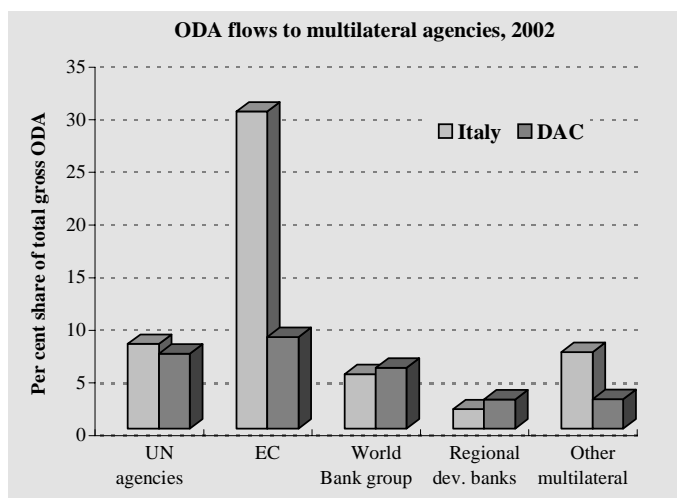


Table B.2. ODA by main categories

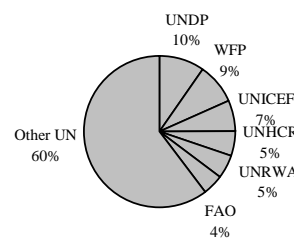
Italy	Constant 2002 USD million					Per cent share of gross disbursements					Total DAC 2002%
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
	Gross Bilateral ODA	614	647	680	1 206	1 054	32	37	35	48	
<i>Grants</i>	<i>525</i>	<i>567</i>	<i>590</i>	<i>1 083</i>	<i>915</i>	<i>28</i>	<i>33</i>	<i>30</i>	<i>43</i>	<i>42</i>	<i>61</i>
Project and programme aid	155	115	191	135	137	8	7	10	5	6	12
Technical co-operation	51	29	100	102	120	3	2	5	4	6	24
Developmental food aid	42	34	82	42	41	2	2	4	2	2	2
Emergency and distress relief	98	78	70	82	72	5	5	4	3	3	6
Action relating to debt	97	217	11	620	453	5	13	1	24	21	8
Administrative costs	22	24	34	37	39	1	1	2	1	2	5
Other grants	61	68	102	66	52	3	4	5	3	2	4
<i>Non-grant bilateral ODA</i>	<i>89</i>	<i>81</i>	<i>90</i>	<i>123</i>	<i>140</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>6</i>	<i>12</i>
New development lending	86	64	85	91	107	4	4	4	4	5	10
Debt rescheduling	3	16	4	32	33	0	1	0	1	1	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
Gross Multilateral ODA	1 291	1 079	1 281	1 326	1 114	68	63	65	52	51	27
UN agencies	144	218	197	203	168	8	13	10	8	8	7
EC	647	688	669	762	765	34	40	34	30	35	9
World Bank group	289	20	273	130	31	15	1	14	5	1	6
Regional development banks (a)	140	82	82	46	27	7	5	4	2	1	3
Other multilateral	72	70	60	184	122	4	4	3	7	6	3
Total gross ODA	1 905	1 726	1 961	2 532	2 168	100	100	100	100	100	100
Repayments and debt cancellation	- 184	- 240	- 202	- 199	- 192						
Total net ODA	1 721	1 486	1 759	2 332	1 976						
<i>For reference:</i>											
<i>ODA to and channelled through NGOs</i>	<i>35</i>	<i>81</i>	<i>169</i>	<i>43</i>	<i>63</i>						
<i>Associated financing (b)</i>	-	-	-	-	-						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.



Contributions to UN Agencies (2002-03 Average)



Contributions to Regional Development Banks (2002-03 Average)

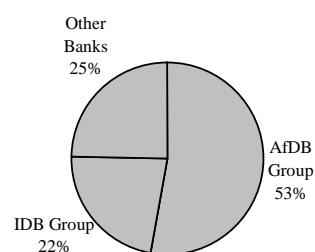


Table B.3. Bilateral ODA allocable by region and income group

Italy	Constant 2002 USD million					Per cent share					Total DAC 2002%
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	
	<i>Gross disbursements</i>										
Africa	295	349	240	868	660	52	58	50	80	72	37
Sub-Saharan Africa	254	308	195	807	580	44	51	41	74	63	31
North Africa	41	41	45	60	80	7	7	9	6	9	6
Asia	34	30	63	69	89	6	5	13	6	10	35
South and Central Asia	8	12	40	38	41	1	2	8	3	4	17
Far East	27	18	24	31	49	5	3	5	3	5	19
America	69	75	58	55	66	12	13	12	5	7	13
North and Central America	26	31	27	25	48	5	5	6	2	5	5
South America	42	44	30	30	18	7	7	6	3	2	8
Middle East	31	30	39	46	51	5	5	8	4	6	4
Oceania	-	0	-	-	-	-	0	-	-	-	2
Europe	144	115	81	53	49	25	19	17	5	5	9
Total bilateral allocable by country	572	599	480	1 091	914	100	100	100	100	100	100
Least developed	172	271	208	776	600	30	45	43	71	66	29
Other low-income	99	58	34	74	59	17	10	7	7	6	26
Lower middle-income	249	206	211	221	237	43	34	44	20	26	41
Upper middle-income	27	41	26	19	17	5	7	6	2	2	5
High-income	-	-	-	-	-	-	-	-	-	-	0
More advanced developing countries	25	23	1	0	-	4	4	0	0	-	0
<i>For reference:</i>											
<i>Total bilateral</i>	614	647	680	1 206	1 054	100	100	100	100	100	100
<i>of which: Unallocated</i>	41	48	200	116	140	7	7	29	10	13	22

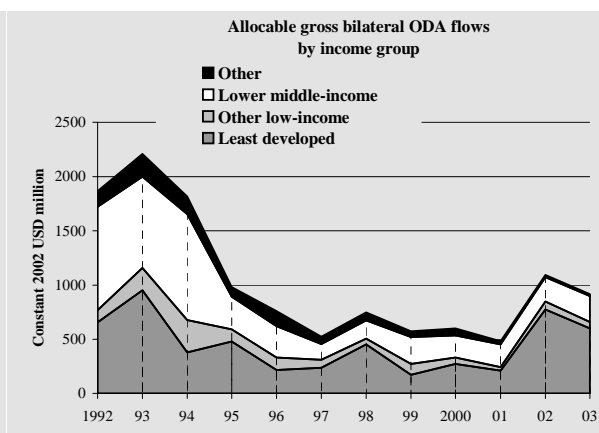
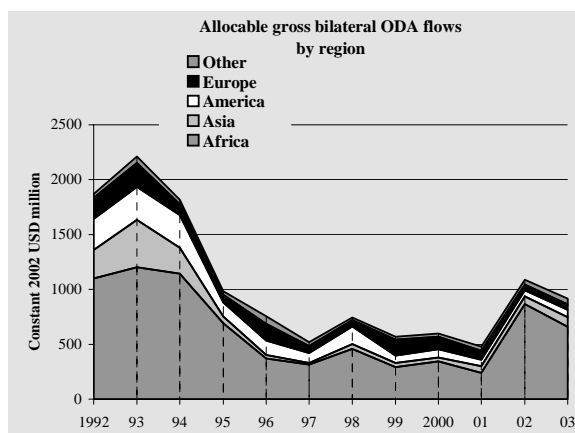


Table B.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

Italy	1992-93		1997-98		2002-03		Per cent share
	Current USD million	Constant 2002 USD mn.	Current USD million	Constant 2002 USD mn.	Current USD million	Constant 2002 USD mn.	
Mozambique	209	181	68	62	231	229	21
Tanzania	195	185	65	61	225	183	20
China	172	154	45	41	67	67	6
Egypt	143	131	40	37	48	44	4
Argentina	115	106	39	36	35	32	3
Top 5 recipients	833	757	257	238	606	555	55
Tunisia	110	95	24	22	35	28	3
Morocco	97	82	22	21	33	30	3
Sierra Leone	95	93	20	19	33	29	3
Sis Ex-Yugoslavia unsp.	88	85	20	18	31	27	3
Albania	87	76	20	18	26	24	2
Top 10 recipients	1 311	1 188	363	337	764	693	69
Somalia	61	59	19	17	24	20	2
Philippines	58	54	17	16	22	22	2
Indonesia	44	43	15	14	20	16	2
Zambia	41	41	14	13	18	17	2
Angola	41	37	13	12	18	15	2
Top 15 recipients	1 555	1 421	441	409	866	783	78
Senegal	39	35	12	12	15	13	1
Djibouti	38	35	12	11	15	14	1
Peru	35	32	11	10	14	12	1
Turkey	33	28	11	10	10	9	1
Viet Nam	31	29	11	10	9	8	1
Top 20 recipients	1 731	1 580	498	462	929	839	84
Total (108 recipients)	2 234	2 038	683	634	1 108	1 002	100
Unallocated	259	231	50	47	144	128	
Total bilateral gross	2 493	2 269	734	681	1 252	1 130	

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Two-year averages

Italy	1992-93		1997-98		2002-03		2002
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	348	16	97	16	164	15	35
Education	97	4	27	5	42	4	9
of which: basic education	0	0	0	0	0	0	2
Health	83	4	15	3	43	4	5
of which: basic health	13	1	5	1	33	3	3
Population programmes	0	0	1	0	4	0	4
Water supply & sanitation	115	5	32	5	6	1	3
Government & civil society	10	0	11	2	21	2	8
Other social infrastructure & services	43	2	10	2	48	4	7
Economic infrastructure & services	340	16	65	11	15	1	13
Transport & storage	82	4	5	1	6	1	6
Communications	121	6	45	8	1	0	0
Energy	137	6	14	2	2	0	4
Banking & financial services	-	-	0	0	0	0	1
Business & other services	1	0	0	0	5	0	1
Production sectors	315	14	28	5	29	3	7
Agriculture, forestry & fishing	154	7	21	4	19	2	5
Industry, mining & construction	156	7	5	1	7	1	1
Trade & tourism	5	0	2	0	3	0	1
Other	-	-	0	0	-	-	0
Multisector	112	5	16	3	72	6	8
Commodity and programme aid	186	9	47	8	62	6	5
Action relating to debt	472	22	267	45	609	54	13
Emergency assistance	240	11	27	5	86	8	8
Administrative costs of donors	109	5	24	4	42	4	6
Core support to NGOs	58	3	20	3	39	3	6
Total bilateral allocable	2 179	100	591	100	1 118	100	100
<i>For reference:</i>							
Total bilateral	2 182	61	597	33	1 252	48	74
of which: Unallocated	2	0	6	0	135	5	3
Total multilateral	1 402	39	1 196	67	1 349	52	26
Total ODA	3 584	100	1 793	100	2 601	100	100

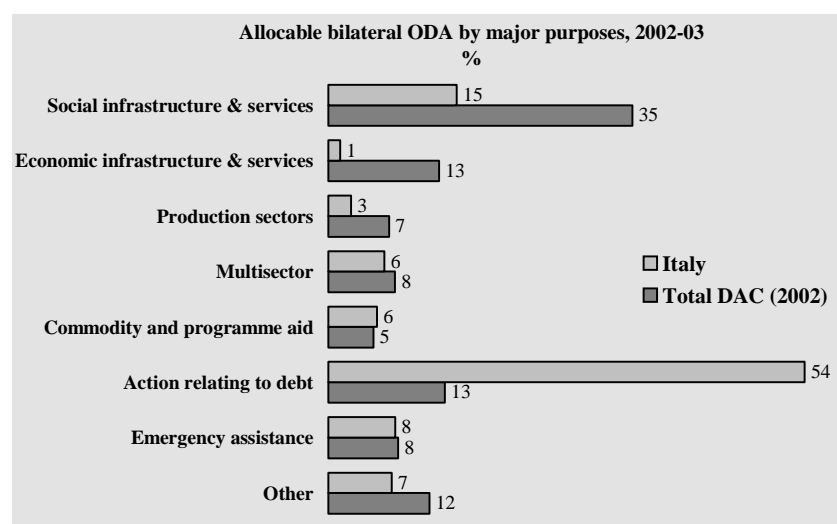


Table B.6. Comparative aid performance

	Official development assistance		96-97 to 01-02 Ave. annual % change in real terms	Grant element of ODA (commitments) 2002 % (a)	Share of multilateral aid			ODA to LDCs Bilateral and through multilateral agencies 2002		Official aid	
	2002				2002			% of ODA		2002	
	USD million	% of GNI			(b)	(c)	(b)	(c)	% of ODA	% of GNI	USD million
Australia	989	0.26	2.4	100.0	21.8	0.06	0.06	19.4	0.05	7	0.00
Austria	520	0.26	7.1	96.1	30.0	11.2	0.08	32.6	0.08	196	0.10
Belgium	1 072	0.43	7.2	100.0	33.6	14.1	0.15	32.9	0.14	97	0.04
Canada	2 006	0.28	-0.6	99.9	25.1	0.07	0.07	17.4	0.05	104	0.01
Denmark	1 643	0.96	2.8	100.0	36.8	30.2	0.35	33.3	0.32	167	0.10
Finland	462	0.35	5.2	100.0	45.6	31.9	0.16	33.3	0.12	67	0.05
France	5 486	0.38	-2.7	99.6	34.1	10.7	0.13	29.6	0.11	1 464	0.10
Germany	5 324	0.27	-0.4	99.4	37.5	13.9	0.10	25.0	0.07	780	0.04
Greece	276	0.21	9.6	..	61.3	15.8	0.13	13.4	0.03	16	0.01
Ireland	398	0.40	14.4	100.0	32.8	17.0	0.13	52.8	0.21	26	0.03
Italy	2 332	0.20	4.6	100.0	56.8	24.2	0.11	44.8	0.09
Japan	9 283	0.23	3.0	87.7	27.9	0.06	0.06	19.5	0.04	99	0.00
Luxembourg	147	0.77	13.3	100.0	21.2	11.5	0.16	39.6	0.30	10	0.05
Netherlands	3 338	0.81	3.7	100.0	26.6	20.4	0.22	35.3	0.29	211	0.05
New Zealand	122	0.22	3.5	100.0	24.7	0.06	0.06	25.0	0.06	1	0.00
Norway	1 696	0.89	2.9	100.0	32.5	0.29	0.29	36.9	0.33	45	0.02
Portugal	323	0.27	6.6	100.0	42.3	19.6	0.11	37.3	0.10	33	0.03
Spain	1 712	0.26	9.5	100.0	41.7	17.4	0.11	14.7	0.04	11	0.00
Sweden	2 012	0.84	5.4	100.0	36.8	32.7	0.31	31.3	0.26	107	0.04
Switzerland	939	0.32	2.3	100.0	18.6	0.06	0.06	26.6	0.08	66	0.02
United Kingdom	4 924	0.31	6.8	100.0	28.8	10.0	0.09	23.4	0.07	494	0.03
United States	13 290	0.13	6.8	100.0	20.5	0.03	0.03	22.7	0.03	2 313	0.02
Total DAC	58 294	0.23	3.5	97.8	30.1	20.3	0.07	26.0	0.06	(6317.2)	(0.03)
Memo: Average country effort		0.41									

Notes:

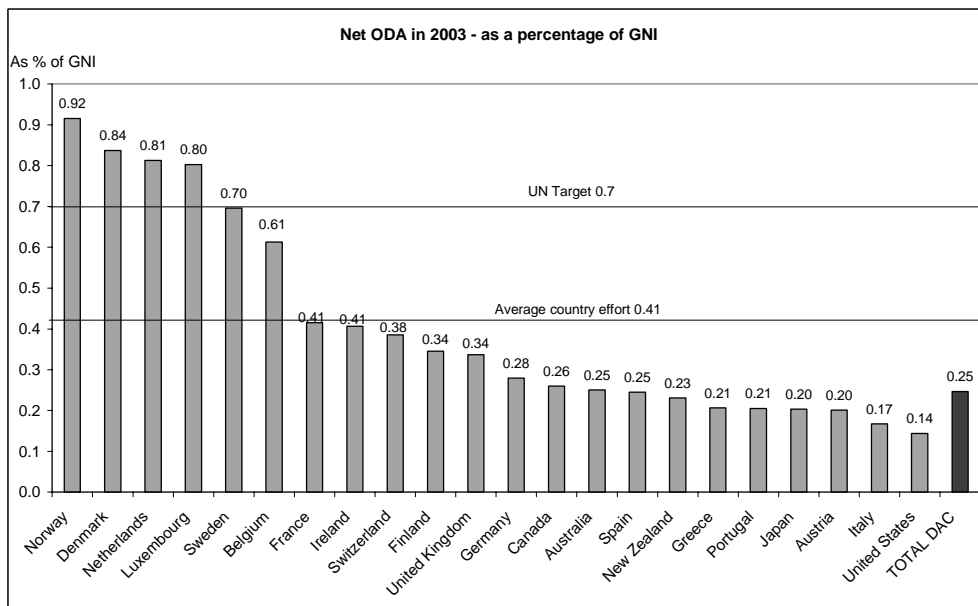
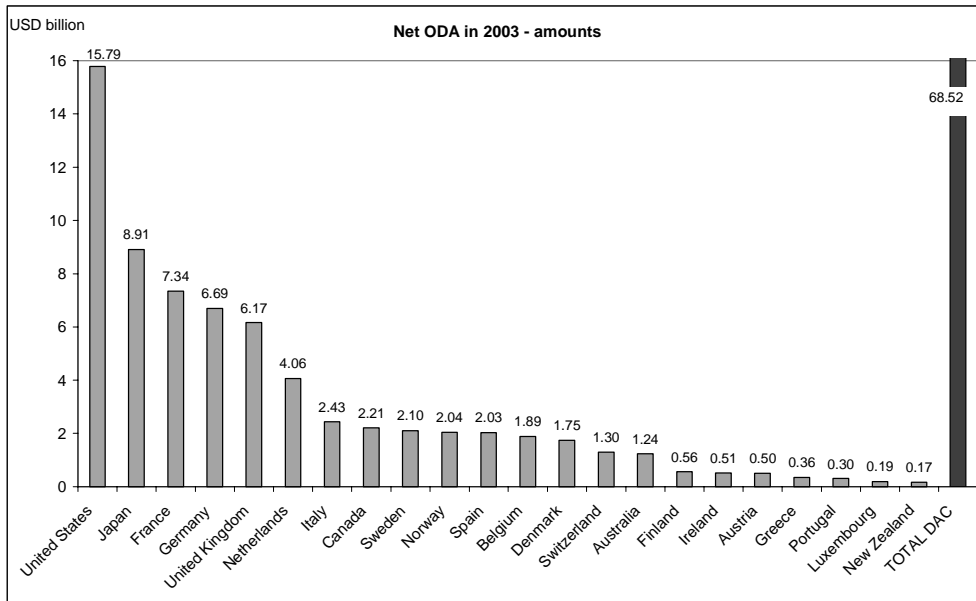
a. Excluding debt reorganisation.

b. Including EC.

c. Excluding EC.

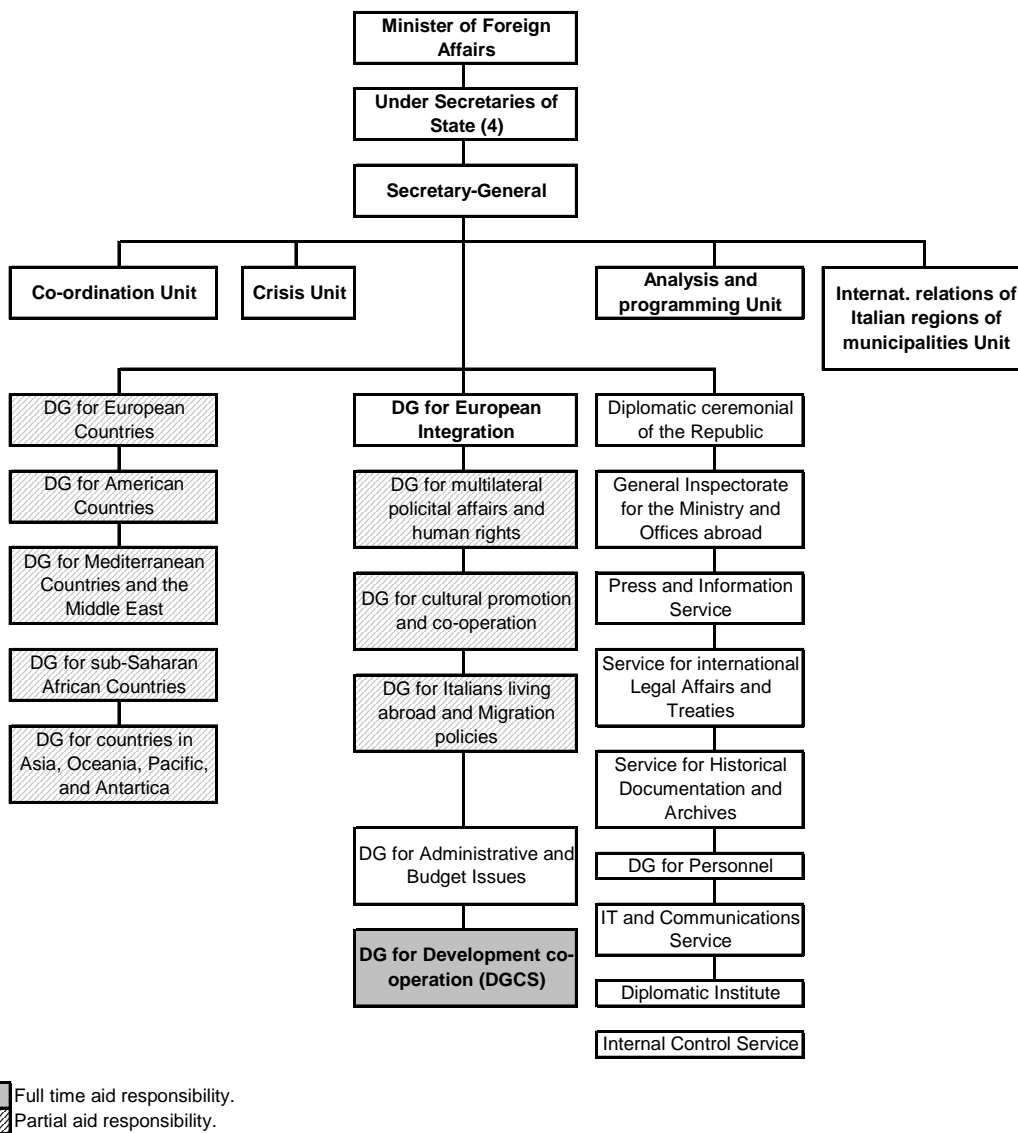
.. Data not available.

Graph B.1. Net ODA from DAC countries in 2003 (preliminary data)



ANNEX C

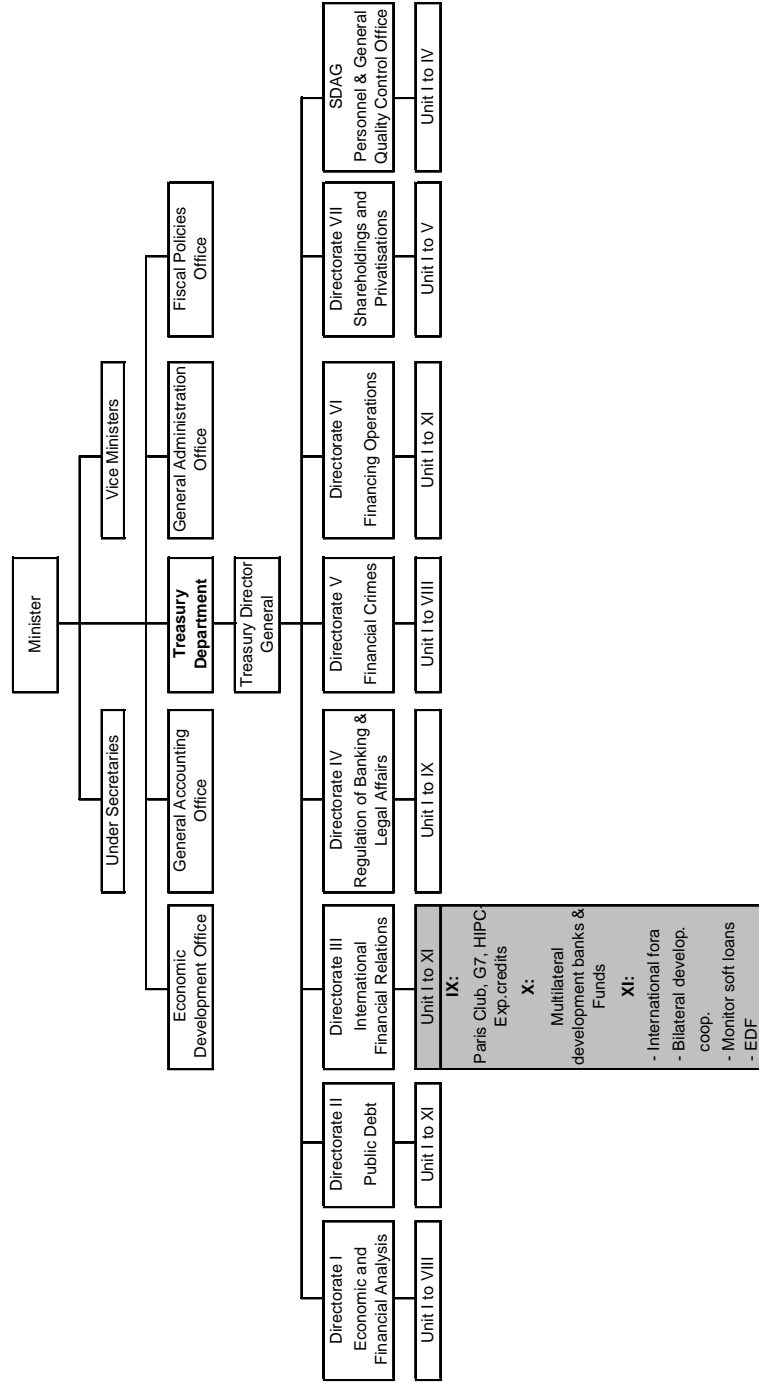
ORGANISATIONAL CHART OF THE MINISTRY OF FOREIGN AFFAIRS (MFA)



Source: MFA, June 2004.

ANNEX D

ORGANISATIONAL CHART OF THE MINISTRY OF ECONOMY AND FINANCE (MEF)



Source: MEF, June 2004.

ANNEX E
NGO PROJECT CYCLE

NGO Italy and Field	DGCS ROME	Co-operation Office Field	Process Duration
			Highly variable
Project Design	↔	Collaboration on project design	
Project Proposal Submission			>12 months
↙	Conformity Appraisal (Office VII)	↘	
Adjustments to Project Proposal	↔	Technical Appraisal	
	Final Appraisal (Evaluation Unit)	↙	
	↓		3-4 months
	Approval (Steering Committee)		
↘	↓		
	First Disbursement		
First Year Activities	↔	Collaboration	15/20 Months
↓			
First Year Report on Financial Activities			6/12 Months
↙	Report analysis		
↘	↓		
	Second Disbursement		
Second Year Activities			

Source: Italian Development Co-operation Office, Maputo, and DGCS, Office VII.

PRESS RELEASE OF THE DAC PEER REVIEW OF ITALY

ITALY REMAINS DETERMINED TO DOUBLE ITS AID

Italy's net official development assistance (ODA) in 2003 was USD 2.4 billion, making it the world's seventh largest donor. This level represented 0.17% of Italy's Gross National Income (GNI). Italy committed in Barcelona (2002) to an ODA/GNI target in 2006 of 0.33%, representing a massive estimated 113% increase in real ODA (USD 2.7 billion) over the 2003 level.

The OECD Development Assistance Committee Peer Review of Italian development co-operation noted that obstacles to achieving this target will include the ongoing, government-wide pressure for budget austerity and the exhaustion of remaining debt relief as an element of ODA by 2006. The Committee noted Italy's continued resolve to achieve this target and encouraged it to make every effort to do so. Also the DAC noted current government preference to use the bilateral channel. In view of recognised shortages of bilateral staff and the limited use of new funding modalities, it will be necessary also to make use of multilateral channels for such a major increase in ODA.

In its Review, the DAC commended Italy's international initiatives for development. New commitments have included substantial debt relief, a lead role in the Global Fund to Fight AIDS, Tuberculosis and Malaria, the hosting of both the Palermo initiative on e-government and the Rome High-Level Forum on Harmonisation, as well as an active role in the reconstruction of Afghanistan and Iraq. The Committee welcomed Italy's continuing focus on Africa.

These initiatives have created expectations in the international community which will be difficult to attain unless substantive reforms in Italian aid are undertaken, such as those advanced in the previous DAC Peer Review in 2000. Progress in implementing reform has been limited and a 1987 Law still constrains aid administration, while providing little strategic guidance. The Committee still believes that appropriate legislative reform is a priority, but this should not delay actions that can be taken within the present framework. In this connection, the DAC recommends that Italy now act to affirm a clearer sense of **strategy** in its development co-operation, including an effort to make other policies across government more coherent from a developmental perspective. This could entail a more clearly stated government vision for development co-operation based on Italy's strong support for the Millennium Development Goals, a more strategic allocation of Italian ODA resources based on this vision, and the assignment of authority for development at a more political level (*e.g.* Deputy Minister for Development). The Committee also encouraged a higher level and more organised public dialogue, including Parliament, on policy and strategy. The Committee welcomed initiatives taken to broaden public support and encouraged the government to develop a strategy to this end.

The DAC suggested that Italy could realise significant **efficiency** gains through improved collaboration and co-ordination at all levels - among all Italian official and non-governmental development institutions, between headquarters and the field, and among various entities in the field. In Rome and in the field, procedures could be streamlined. Funding, once decided, could be delivered in a timelier manner. And all procedures should be revised in tandem with ongoing efforts to comply with harmonisation principles agreed to in Rome in 2003 and to facilitate co-operation with other donors. The Committee urged that longstanding personnel issues, including the need to increase professional development staff, to increase flexibilities among various personnel categories and to develop a performance-based system for allocation of staff responsibilities and incentives. Finally, and

consistent with development experience elsewhere in the world, the DAC urged Italy to establish a routine system of performance feedback for its aid programming, including a robust, independent evaluation function.

The DAC Peer Review of Italy's development co-operation policies and programmes took place on 28 September 2004. The meeting was led by the DAC Chair Richard Manning and the Italian Delegation was headed by Giuseppe Deodato, Director-General for Development Co-operation, Ministry of Foreign Affairs. The examiners for this Peer Review were France and Sweden.

DESCRIPTION OF KEY TERMS

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funding to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e.* the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as "official aid". These comprise (i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and (ii) more advanced developing countries.

DEBT REORGANISATION (OR RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of Aid Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (less any repayments of loan principal or recoveries of grants received during the same period).

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable financial instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). The grant element is calculated against a fixed interest rate of 10%. Thus the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL AID (OA): Flows which meet the conditions of eligibility for inclusion in official development assistance, except that the recipients are on Part II of the DAC List of Aid Recipients.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e.* the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of Aid Recipients which do not meet the conditions for eligibility as official development assistance or official aid.

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid recipient countries receiving education or training at home or abroad, and (ii) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

THE DEVELOPMENT ASSISTANCE COMMITTEE



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Organisation for Economic Co-operation and Development
Development Co-operation Directorate
Communications and Management Support Unit
2, rue André-Pascal
75775 Paris Cedex 16
France

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