

Development Co-operation Review

**ITALY**

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## FOREWORD

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every four years. Some six programmes are examined annually.

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, 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. Brief field visits investigate how Members have absorbed the major DAC policies, principles and concerns, and examine operations in recipient countries, particularly with regard to sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main Issues for the Review". These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 7 June 2000 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing Canada and Sweden, on the development co-operation policies and efforts of Italy. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure  
DAC Chairman

## ACRONYMS

ABRDP	Arsi-Bale Rural Development Project (Ethiopia)
CeSIA *	<i>Centro di Studio per l'Applicazione dell'Informatica in Agricoltura</i>
CILSS*	<i>Comité Inter-Etats pour la Lutte contre la Sécheresse au Sahel</i>
CIPE*	<i>Comitato Interministeriale per la Programmazione Economica</i> (Inter-ministerial Committee for Economic Planning)
CIPSI*	<i>Coordinamento di Iniziative di Solidarietà Popolare</i>
COCIS*	<i>Coordinamento delle ONG per la Cooperazione Internazionale allo Sviluppo</i>
CP	Country Programme
DAC	Development Assistance Committee
DG	Directorate-General
DGCS*	<i>Direzione Generale per la Cooperazione allo Sviluppo</i> (Directorate-General for Development Co-operation)
DIPCO*	<i>Dipartimento per la Cooperazione allo Sviluppo</i> (Department for Development Co-operation)
EC	European Commission
EC-ACP	European Commission-African, Caribbean and Pacific States
EMU	European Monetary Union
EU	European Union
EUROSTAT	Statistical Office of the European Communities
FAI*	<i>Fondo Aiuti Italiani</i> (Italian Aid Fund)
FAO	Food and Agriculture Organization
FICROSS	International Federation of the Red Cross and Red Crescent Societies
FOCSIV*	<i>Federazione Organismi Cristiani Servizio Internazionale Volontario</i>
G-7	Group of Seven Industrialized Countries
GNP	Gross National Product
HIPC	Heavily-Indebted Poor Countries
IADC	Italian Agency for Development Co-operation (proposed)
IAEA	International Atomic Energy Agency
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFI	International Financial Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
IMG	International Management Group
IOM	International Organization for Migration
IsIAO*	<i>Istituto Italiano per l'Africa e l'Oriente</i> (Italian Institute for Africa and the Orient)
ISTAT*	National Institute of Statistics, Italy
ITL	Italian Lira
IUCN	World Conservation Union
LLDC	Least Developed Country
MEPP	Middle East Peace Process
MFA	Ministry of Foreign Affairs
MOFT	Ministry of Foreign Trade
NGO	Non-governmental organisation

ODA	Official Development Assistance
OCHA (DHA)	United Nations Office for the Coordination of Humanitarian Affairs (formerly the Department of Humanitarian Affairs)
OOF	Other official flows
PCM	Project cycle management
PHARPE	Public Health and Rehabilitation Programme in Eritrea
PRIMOCA*	Rural Development Program in the Middle Casamance Region (Senegal)
PRSP	Poverty Reduction Strategy Paper
PT	Palestinian Territories
SACE*	Italian Export Credit Agency
SADC	Southern Africa Development Community
Sida	Swedish International Development Agency
SMEs	Small- and medium-sized enterprises
SWAP	Sector-wide approach
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
USD	United States Dollar
UTC*	<i>Unità Tecnica Centrale</i> (Central Technical Unit)
UTL*	<i>Unità Tecnica Locale</i> (Local Technical Unit)
WBG	West Bank and Gaza
WFP	World Food Programme
WHO	World Health Organization
WID	Women in Development
WMO	World Meteorological Organization

\* Denotes acronym in original language.

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Exchange rates (ITL per USD) were:

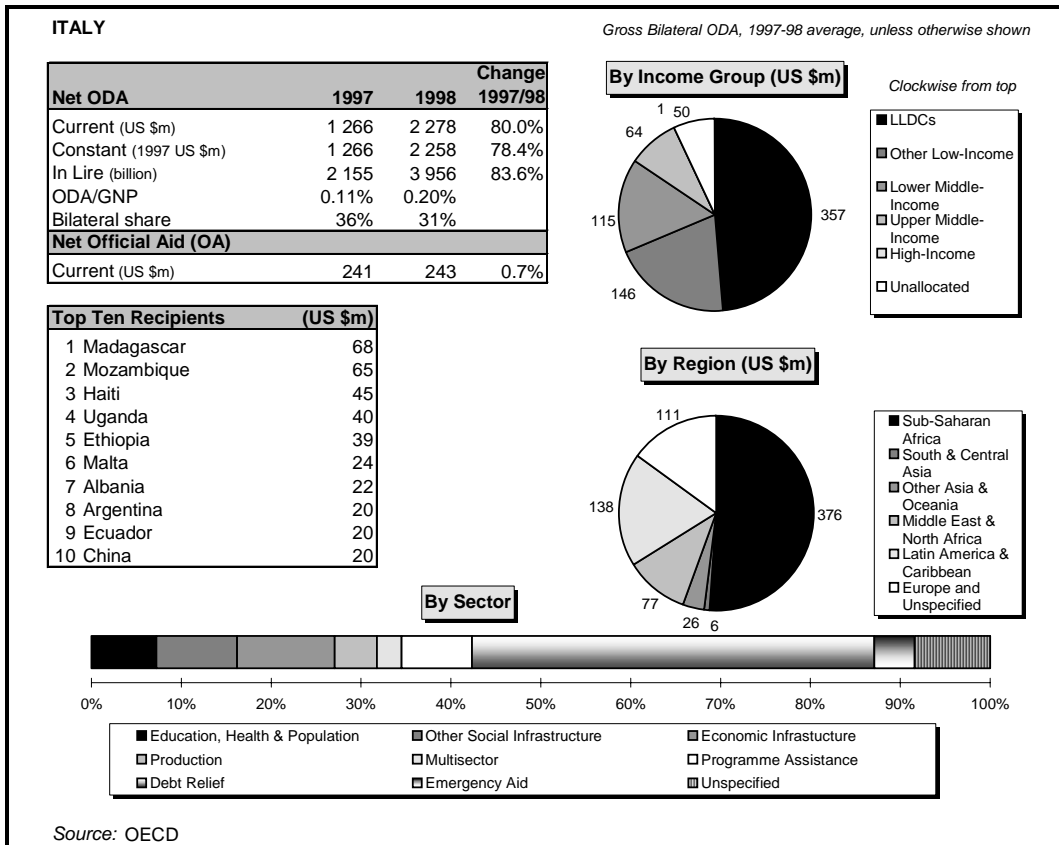
1993	1994	1995	1996	1997	1998	1999
1571.7	1612.7	1629.0	1543.0	1703.0	1736.4	1817.3

**Signs used:**

()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

## Italy's aid at a glance



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## SUMMARY AND CONCLUSIONS

### Overall rationale and policy

With its geographical location and its international role as a member of the Group of Seven Leading Industrialized Countries (G-7), the European Union (EU) and all of the major multilateral institutions, Italy is an important actor in the international development co-operation system. The rationale for Italy's development co-operation programme is not only set out in its basic law of 1987 and governmental guidelines; it also inescapably emerges from current realities, which call for comprehensive action by Italy:

- To provide effective, poverty-oriented, partnership driven development co-operation programmes in countries with strong political and economic ties to Italy in the Mediterranean, Southeastern Europe, the Horn of Africa, Southern Africa and other developing areas where Italy has traditionally played a key role. This includes contributing to humanitarian aid disaster relief activities.
- To contribute to the stabilisation and economic development of countries that are important to Italy's security and well-being, and be targeted to prevent and solve conflicts in developing countries and regions that might affect Italy's security (e.g. the Balkans).
- To support Italian foreign policy aimed at protecting the environment, addressing global population problems, and fighting drug trafficking, AIDS and other diseases.
- To meet demographic challenges arising from an ageing and declining population. Italy attracts immigrants from developing countries. The role of development co-operation in this equation is subject to analysis both by the government and academic researchers. This is a complex and sensitive issue with important ramifications for Italy and partner countries.

### Considerable progress has been made in the management of Italian aid

Considerable progress has been made since 1996, during a reform process in Italian development co-operation concerning, primarily, some of the basics of its aid management. The reforms include:

- The launching of a USD 120 million programme for poverty reduction.
- Development of specific guidelines in a number of areas and sectors and a decision to mainstream poverty reduction in the Italian aid programme consistent with the International Development Strategy.
- The improved and generalised application of project cycle management.
- The institution of strict quality control of projects at the approval stage.

- The beginning of a programme of country strategies in partnership with recipient countries.
- The gains made during the recent reform process based on a more results-based management system.
- Enhanced policy coherence through better co-ordination between the Ministry of Foreign Affairs and the Treasury.
- More open and competitive bidding procedures.
- The establishment of field offices in 20 countries.
- Stronger participation in aid co-ordination at the local level.
- Closer co-operation with multilateral institutions.
- Supporting peace and conflict resolution activities with humanitarian and development aid.

Development Assistance Committee (DAC) field missions to Ethiopia and West Bank and Gaza (WBG) determined that, particularly since the establishment of the UTLs in 1998, Italy has developed stronger partnership relationships, intensified work in aid co-ordination and developed country strategies in those two recipients of Italian official development assistance (ODA), with more underway. Italian aid programmes reflect more involvement of non-governmental organisations (NGOs), participation of women and local communities, in addition to the building of partnerships with other actors through decentralised co-operation. Italy is backing some well-chosen projects in basic education, reproductive and primary health and food security. These types of activities, which reflect sound gender sensitivity, are in-line with the international development strategy, are impressive and should be replicated.

The gains made in the reform process over the past three years are however still fragile and not yet firmly institutionalised. Systematic problems remain:

- Insufficient long-term professional staff and unbalanced skill mix, both in headquarters in the Directorate-General for Development Co-operation (DGCS) of the MFA and in the field.
- No long-term career structure exists for professional staff, who are on fixed term contract.
- Operational and administrative procedures, while now strong on accountability, are cumbersome.
- Delegation of decision-making authority to the field is very limited, although recently more responsibilities for project design have been delegated.
- Sustainability is not always sufficiently considered.
- Due to lack of staff, the country strategy papers will cover only a few major partners.
- The evaluation system is insufficient to fully capture lessons learned. Evaluations are not used to promote dialogue with partners.

- The review of NGO proposals is slow. There is inadequate attention to the actual impact of NGO activities.
- The budget for public information on development co-operation is insufficient.

**Moving forward –a major strengthening of the management structure and capacities for Italy’s development co-operation programme is urgent**

The Italian authorities have concluded that the systemic problems that hold back the development co-operation programme need to be tackled by a major institutional reform. This is urgently required if Italy is to have a well-adapted organisational framework fostering professional development management capabilities and decentralisation.

A major reform would give the Italian programme a strong boost. By remedying the major bottleneck: professional staffing within a well-adapted organisational framework, the Italian aid system would be in a position to manage a significant increase in ODA. Once sufficient professional staff can be assured, in headquarters and in the field and appropriate career incentives are established, many of the longstanding problems of Italian aid can be solved. Not only could the basics of aid management be more firmly institutionalised, including country programming, project appraisal and evaluation, project cycle management, competitive procurement, and evaluation and feedback mechanisms, but also improved and more flexible field management could be introduced. Of equal importance, a culture of modern aid management based on a sense of common purpose and *esprit de corps*, with a high degree of accountability and professionalism, could be more strongly embedded into the Italian aid management system.

**a) The proposed new law**

Italian Parliamentarians have drafted a new law embodying such a reform. This has involved a major commitment of time and effort and wide consultations with civil society in Italy. The Parliamentarians visited the OECD/DAC in their preparations to study, from a comparative standpoint, the organisational and legal frameworks of other DAC Members. The Senate has passed the new law. The legislative process has been inaugurated in the Italian Chamber of Deputies, but remains pending at this point. If approved, the law would establish a new agency under the MFA to implement the Italian aid programme and enhance Italy’s ODA in many ways, *inter alia*, through more adequate staffing structures, decentralised management and additional NGO programmes.

Establishment of the new agency would pave the way for recruiting additional professional staff to carry out the development co-operation programme and permit Italy to strengthen the entire development co-operation effort, which in recent years has been channelled, to an exceptional extent, through multilateral organisations. In fact, for 1996-98, Italy provided 62% of its ODA through the multilateral channel, the highest percentage among DAC Members. While the MFA would continue to provide policy guidance, the new agency would be responsible for all phases of implementation and evaluation of the programme.

**b) Reform if the new law is not passed in the near future**

If the new law is not passed in the near future, the Italian authorities are giving some thought to how to proceed. Without tackling the constraints and deficiencies of the current aid system, it must be recognised that the scope for expanding the current stock of direct bilateral programmes and projects is extremely limited. Continuing and accelerating the reform process seen in the past three years, is therefore essential. There is scope within the present legal framework to make the system function

better through changes in the implementing regulations. Additional staff, further decentralisation of the decision-making, improved feedback and evaluation would be important steps forward.

In 1998, Italy's net ODA disbursements jumped 80% from 1997, from 1.27 billion United States Dollar (USD) to USD 2.28 billion. The ODA/Gross National Product (GNP) ratio recovered to 0.20% after an exceptional dip to 0.11% in 1997 (due to late parliamentary budget approval, many multilateral contributions were made in 1998 instead of 1997), but was still below the DAC average of 0.24%. Italy was third from last among DAC members in 1998 in ODA/GNP ratio, trailed only by Greece and the United States. In absolute volume, Italy ranked seventh in the DAC. Provisional estimates for 1999 show that Italy's ODA dropped over 20% compared to 1998 to USD 1.75 billion, with an ODA/GNP ratio of 0.15%.

In the case of Italy, increases in ODA need to be matched by improved performance through the implementation of management reforms as described above. The passage of the pending legislation and the establishment of a new implementing agency for development co-operation offers a way forward in this respect. However, even without the new law, progress can and must continue to be made in the areas noted.

## **Summary**

### **To implement the main recommendations resulting from this peer review, Italy should:**

- Strengthen the management structure and capacities of the Italian aid programme. This is urgently required if Italy is to have a well-adapted organisational framework fostering professional development management capabilities and decentralisation. A new legislative framework and major innovations in the management structure would be a highly desirable step forward.
- Increase its ODA level in order to reach the DAC average, currently 0.24%, over the next three years.
- Increase the number of long-term professional staff working on development co-operation, and adjust their skill mix so as to institutionalise gains made in the reform process over the past several years.
- Broaden the country strategy programme to involve more partner countries.
- Further refine objectives and criteria of the development assistance programme to guide the selection of partner countries, programmes and projects in coherence with country strategies and partner country plans.
- Pay increased attention to sustainability in project design and implementation.
- Provide greater delegation of authority to field posts.
- Streamline operational and administrative procedures.
- Strengthen the evaluation function with a view to providing feedback on lessons learned and use evaluations to promote dialogue with partners.
- Strengthen the public information programme, in particular to include the close connection between development education and immigration.

**PART I**  
**GOALS, PRIORITIES AND PROGRAMME STRUCTURE**



## CHAPTER 1

### ORIENTATIONS, LAW, GUIDELINES AND PRIORITIES

#### **Italy's development co-operation programme: context and challenges**

Italy faces major development co-operation challenges from several directions. These include:

- Formulating effective, poverty-oriented, partnership driven development co-operation programmes in countries with strong political and economic ties to Italy in the Mediterranean, Southeastern Europe, the Horn of Africa, Southern Africa and other developing areas where Italy has traditionally played a key role. This includes contributing to humanitarian aid disaster relief activities.
- Contributing to the stabilisation and economic development of countries that are important to Italy's security and well-being and targeted to prevent and solve conflicts in developing countries and regions that might affect Italy's security (e.g. the Balkans).
- Supporting Italian foreign policy aimed at protecting the environment, addressing global population problems, and fighting drug trafficking, AIDS and other diseases.
- Confronting demographic challenges from an ageing and declining population. Italy, once a notable source of emigrants, has attracted immigrants in the last 20 years. Many immigrants arrive from countries with which Italy has development co-operation programmes. The role of development co-operation in this equation is subject to analysis, both by the government and academic researchers. This is a complex and sensitive issue with important ramifications for Italy and partner countries (see Box 1).

As a member of the Group of Seven Leading Industrialized Countries (G-7), the European Union (EU) and all of the major multilateral institutions, Italy is one of the linchpins of the international co-operation system. The remarkable talent of Italian diplomats, aid officials and communicators for opening contacts and bridging differences in difficult situations around the world, have been exemplified recently by openings made with Iran, helping to bring North Korea out of isolation, contributing to the search for peace in Central America, the Middle East and the Balkans, building a dialogue with Libya and Algeria, as well as Italy's contribution to peacekeeping operations (10 000 troops in Kosovo, Bosnia, East Timor, and other parts of the world). Italian officials had a major input into the Development Assistance Committee (DAC) *Guidelines on Conflict, Peace and Development Co-operation on the Threshold of the 21<sup>st</sup> Century*.

Since the last DAC Peer Review in 1996, important reforms have been implemented. Commitment and progress are evident in a number of areas of aid management. At the same time, many of the issues flagged in DAC Peer Reviews in 1993 and 1996 still persist, so that Italy is not contributing all that it could, from the standpoint of development co-operation, to help resolve the challenges raised above.

## Box 1. Demographic trends, immigration, and development co-operation

### *Demographic trends*

The Annual Review of Italy by the OECD Economic and Development Review Committee (March 2000) included a special chapter on the economic implications of the ageing population. Ageing in Italy will be more marked than for the average OECD country over the next half-century. Along with Spain and the Czech Republic, Italy currently has the lowest fertility rate of all OECD countries. All else held equal, this will lead to slower labour force growth over the coming decades. At the same time, life expectancy is high compared to other OECD countries and rising. As the baby boom generation moves into retirement, these trends will contribute to an increasing share of pensioners relative to those of working age, and more so as women's labour market participation rates are low and older men have increasingly withdrawn from the labour market. These factors will place pressure on government pension spending while the capacity to pay will weaken. The costs of health care and care for the elderly are also likely to increase, particularly if a larger share of women enter the labour force (in the past much support for the elderly has been carried within the family).

### *Immigration*

While there is broad agreement about the direction of changes in population and its structure over the next half-century, there remains considerable uncertainty about the magnitude of the change. Italy's population in the year 2000 is estimated at 57.5 million. Estimates by the United Nations (UN), the National Institute of Statistics, Italy (ISTAT) and the Statistical Office of the European Communities (EUROSTAT) (using different assumptions about immigration, growth rates and other factors) place the population between 52.9 and 56.5 million in 2020, and between 41.1 and 49.3 million by 2050. However, such projections are sensitive to assumptions about fertility, average lifetimes and immigration. The low UN projections reflect, in particular, the assumption that there will be virtually no immigration after 2015. Seen from another vantage point, recent UN projections suggest that to keep the working age population stable over the next 50 years new immigration of 260 000 per year will be required (12.9 million immigrants from 2000-2050). As the numbers suggest, there will be increasing pressures for immigration over the coming years.

Italy was previously a source of emigrants, but has become a magnet for immigrants in the past 20 years, although at a level much less than that which is needed in the long run to compensate for the fall in fertility. An Italian Minister of the Interior told Parliament that: "Italy has a vocation as a country of immigration." Italy has an estimated 1.2 million foreign legal residents as of 1997, a relatively modest figure compared to some other European countries. The stock of foreign population in Italy comes from many places: the Mediterranean basin (notably Morocco, Tunisia and Egypt), Albania, the Philippines, the former Yugoslavia, Romania, China, Senegal, Poland and Sri Lanka, as well as smaller communities from many other countries (e.g. Cape Verde, Somalia, Ethiopia, and Kurds from Iraq). Of those holding a residence permit, the overwhelming reason for their presence in Italy is employment, followed by family reunification (see *Trends in International Migration – Annual Report 1999*, OECD). In June 1998, the government estimated the number of illegal immigrants at nearly 235 000, mostly from Morocco, Albania, Tunisia, Romania, Poland and Brazil. Immigration policy is highly controversial in the Italian Parliament and in public opinion. Recently, some political parties campaigned partly on an anti-immigration platform.

### *Nexus of immigrants and development co-operation*

For years, informal networks in the immigrant communities themselves, private support groups, non-governmental organisations (NGOs) and local authorities have organised the reception of immigrants. Initiatives have also been made by government agencies. In health care, "cultural mediators" who know the language and the culture of the community concerned act as go-betweens to facilitate access to health care. Attempts to integrate foreign pupils are made through multi-cultural education. A new immigration law (March 1998) established a more coherent legal framework for admission to Italy and renewal of expired residence permits. Remittances made by immigrants play an important economic role in their countries of origin. Moreover, many of the immigrant communities have organised themselves to provide a type of development co-operation directed at their countries of origin.

These factors have been recognised by the Directorate-General for Development Co-operation (DGCS) and one of the activities in *Prospective 2000* addresses the consolidation of existing programmes of DGCS for the development of small and medium enterprises, for which the Maghreb countries will be priority targets. These programmes aim at fighting poverty with specific attention paid to development of micro-credit and income-generating activities. *Prospective 2000* says: "Finally, actions shall be carried out to enhance the resources and capabilities of immigrants by promoting small enterprises in their home countries." Thus, DGCS will work with immigrants as a mechanism for promoting private enterprise in countries of origin of immigrants. Some municipalities and regions using decentralised co-operation mechanisms are already involved in these types of activities, although with limited funding. Given these trends, the nexus of demography, immigration and development co-operation will no doubt become increasingly important and will offer opportunities for enhancing development co-operation with selected countries.



## **Lessons from DAC Peer Reviews**

The last two DAC Peer Reviews of Italy in 1993 and 1996 took place, at the beginning and towards the end of political upheavals in Italy, with judicial investigations of entrenched corruption in Italian public life and a collapse in public confidence in official development assistance (ODA). Although no evidence of corruption was found at the operational level of aid administration, aid management tools were inadequate to ensure the integrity and effectiveness of an aid programme that expanded too rapidly in the 1980s. Most of the recommendations of the 1993 Peer Review touched on the basics of aid management [country programming, project appraisal and evaluation, improving project cycle management (PCM), establishing competitive procurement, creating capacity to design and implement private sector development policies and providing necessary staff and training opportunities for effective aid administration]. The 1996 Peer Review took place at the beginning of a rebuilding and reform of the development co-operation system. It found progress in remedial actions and suggested continued administrative reform, amendment of budget provisions to permit financing of aid programmes to extend over several years, more flexibility while emphasising accountability for financial integrity, reinforcement of interdepartmental co-ordination, enhancement of consultation arrangements with regions, municipalities, NGOs and civil society, more bilateral aid funding consistent with Italy's foreign policy aims and improved aid management capacity.

Since 1997, progress has been made in most of these areas, and in policy orientations. For instance, the Foreign Minister's 1999 presentation to Parliament marked a watershed, making poverty reduction a central priority with the allocation of USD 120 million for the fight against poverty in several regions. In the field of untying, Italian policy has evolved so that it not only supports the untying for least developed countries (LLDCs), but also would consider extending it beyond LLDCs. However, some systemic issues noted above in past aid reviews remain. These continue to hold back Italy's aid management and efficiency. Nonetheless, some basic building blocks are in place: improved country analyses and the solid beginnings of a programme for country strategies, better planning, the use of PCM and the existence of a functioning quality control unit for the early stages of the project cycle. Starting from 1999, a new approach has been launched, delegating more responsibilities in project preparation and appraisal, to field offices. Consolidating these gains is increasingly difficult because the initial improvements have begun to run up against some basic limiting factors, *inter alia*: insufficient staff within the DGCS, particularly development experts, little incentive for long-term career development, skill shortages and insufficient use of external expertise. Little progress has been made in these critical areas. Moreover, difficulties have been experienced in finding flexible, efficient ways of carrying out bilateral programmes and delegating of greater responsibilities to often understaffed field offices, while retaining adequate accountability.

## **Present co-operation law and guidelines**

The Italian aid programme is administered pursuant to Law No. 49/87 of 1987. It affirms that "development co-operation is an integral part of Italian foreign policy and pursues the ideals of solidarity among peoples, seeking the fulfilment of fundamental human rights, in accordance with the principles sanctioned by the UN and the European Commission-African, Caribbean and Pacific States (EC-ACP) conventions" (Article 1). Aims of the law include: satisfying basic needs, safeguarding human life, encouraging food self-sufficiency, enhancing human resources, environmental conservation, promoting self-reliant economic, social and cultural development and improvement of women's living conditions.

### **Poverty alleviation: from indicative target to the main objective**

The guidelines governing Italian development co-operation were set by the Inter-ministerial Committee for Economic Planning (CIPE) in June 1995 (text included in the 1996 Peer Review). The CIPE Guidelines define Italian aid policy in terms of political, economic and humanitarian aims. Contributing to the international fight against poverty is one of several aims noted. Thus, as noted in the *DAC Scoping Study of Donor Poverty Reduction Policies and Practices* (OECD, 1999), Italy is among the countries where poverty reduction is one of several overarching goals. It was listed as a DAC Member having no specific guidance on poverty reduction.

However, this gap has since been filled when the DGCS adopted guidelines in late 1999 for the design and implementation of poverty reduction programmes, consistent with the preparatory DAC work on the poverty reduction guidelines.

The Minister of Foreign Affairs presented his annual report, *Prospective and programmatic report on development co-operation activities for the year 2000 (Prospective 2000)*. In this report, the Minister of Foreign Affairs established poverty alleviation as the main priority of the Italian aid programme. The report calls for the implementation, during 2000-02, of nine regional programmes to fight poverty in the Mediterranean countries in Sub-Saharan Africa, South and Central America, as well India. Such programmes will incorporate an integrated approach, paying specific attention to the empowerment of women, as well as the protection of minors. They will be implemented in close co-operation with international organisations.

Other major themes in international development co-operation are covered by the CIPE Guidelines including the environment, population, the fight against drugs and organised crime, basic education, women in development (WID), and the fight against AIDS. *Prospective 2000* calls for a programme to fight AIDS, particularly in Africa, to be implemented in co-operation with the Joint United Nations Programme on HIV/AIDS (UNAIDS) and the World Health Organization (WHO) in prevention, education and research. Moreover, the DGCS has prepared a set of guidelines on a range of specific issues (health, gender, minors, private sector, demining and decentralised co-operation). These have been adopted by the Steering Committee and are considered part of Italy's poverty reduction strategy. The intention of the DGCS is to have a comprehensive set of such guidelines to turn over to the development agency when it comes into being under the new co-operation law currently under discussion by Parliament.

The CIPE Guidelines provide policy on the geographic distribution of interventions, with priority given to the Eastern Mediterranean, Western Mediterranean and Albania, former Yugoslavia, the Horn of Africa and Southern Africa [Southern Africa Development Community (SADC) area], and more selectively in Latin America and Asia. The tools or instruments of Italian development co-operation are outlined in the CIPE Guidelines: ordinary co-operation in the form of grants, direct management, multi-bilateral contributions, voluntary contributions, soft loans, mixed credits, funding of joint venture risk capital, NGOs and volunteers.

The sectoral priorities outlined in the policy include emergency aid, food aid, integrated human development, measures to support private companies, human rights and democracy, institution building, vocational training and technical assistance, cultural heritage (an Italian speciality), the environment, balance of payments support, debt reduction and social infrastructure or infrastructure devoted to the development of a market economy. Interestingly, *Prospective 2000* calls for the consolidation of the existing programmes for the development of small- and medium-sized enterprises (SMEs) with Maghreb countries being priority targets of the consolidation.

## **Partnership approach**

Partnership is woven into policy at various points, such as where CIPE Guidelines call for Italy's co-operation to be carried out "jointly with the developing countries themselves." Under the section regarding "economic aims," the guidelines refer to support for governments undertaking economic reforms. An interesting section, "the counterparts of Italian co-operation in Italy and in developing countries" (Part III), has a reference to the concept that Italian co-operation should be carried out with different levels of Italian civil society, such as companies, banks, universities and NGOs (Italian, international and local). In particular, the involvement of decentralised institutions is growing in response to the specific needs and requests of developing countries in the areas of public sector decentralisation, urban planning, environmental policy and cultural heritage. The Italian conception of partnership includes partnership at different levels of civil society in developing countries, in particular with targeted population groups and communities.

## **Managing priorities**

The basic Italian policy statements are broad, even beyond some of the broader policies of other DAC members. Cultural heritage is included for example.

The difficulty of prioritising different actions under the present broad framework has been an issue. Italian authorities have attempted in successive *Prospective* documents 1998, 1999 and 2000 to narrow a tendency towards dispersion that such a framework seems to encourage. For instance, *Prospective 2000* states that for the past three years there has been an attempt at geographic concentration and a reduction in an excessive number of projects. The report notes that "to be effective, actions need to have a minimum critical mass that cannot be achieved if resources are allotted in an excessive number of countries and projects." *Prospective 2000* also places priority on: poverty reduction (including the programme to fight AIDS and drugs), education, private sector development and cultural heritage. Thus, Italian authorities have identified a problem, that of geographic and project dispersion, and are taking steps to remedy it. The annual planning discipline marks a significant improvement in setting priorities for Italian aid and should be pursued vigorously. *Prospective 2000* asserts that 80% of the resources allocated to the MFA will be concentrated in 20 countries. The remaining 20% will concern initiatives in non-priority countries, such as in Latin America and Asia where activities will be limited to the poorest areas.

## **Public support for overseas aid and public information**

In Italy, development co-operation and international public awareness on development issues are linked to the international volunteer movement of the 1960s and subsequent years. This does not make Italy different from other DAC Member countries. Other events did make Italy somewhat unique, perhaps encouraging a greater interest in private voluntarism and solidarity: high rates of emigration, particularly in the 1950s and 1960s, and recent immigration from the Mediterranean area, as well as the Balkans; the social and cultural costs associated with accelerated development in parallel with the persisting gap between the northern and southern part of the country; and the fact that after World War II, Italy itself had been the recipient of development support.

In the mid-1990s, Italy experienced a major loss of public confidence in ODA based on large public sector contracts with Italian private companies and entities as major implementing actors of the aid system. This had a negative impact on the image of the official Italian aid administration. Such a trend has been accompanied by sustained and growing grassroots support for NGO activities and for

increasingly active development co-operation efforts by selected municipalities and regional governments. Since the early 1980s, the growing strength of Italian NGOs, research institutes and universities, and more recently the initiatives of local governments, have added to Italy's capacity to design and implement aid programmes, based on social capital approaches and partnerships between civil society organisations.

The 1996 DAC Peer Review of Italy noted that "The basis exists for restoring public confidence and building a new consensus around a style of aid which reflects Italy's concern for international solidarity, uses Italy's special talents and civic traditions, and helps achieve its foreign policy goals. This consensus should be consolidated in a new law to govern development co-operation based on the major progress in aid management over the past three years and taking account of the lessons learnt in the course of the recent parliamentary enquiries."<sup>1</sup>

The recent findings of *Barometro della Solidarietà internazionale degli italiani* (2000) (Barometer of Italian International Solidarity) are enlightening, in terms of what the Italian public thinks about international solidarity; their perception of and propensity towards international solidarity; their understanding of development issues in poor countries and transition economies; international priorities on global issues; which priority countries should receive the most aid from Italy; who should deliver aid; the importance of debt reduction; and the role that migration can play in the development process; etc. According to this survey of public opinion organised by *Volontari nel mondo - Federazione Organismi Cristiani Servizio Internazionale Volontario (FOCSIV)* almost two-thirds of Italians contributed recently to a specific NGO or development project. More than two-thirds of the people interviewed, while agreeing that Italian ODA should be increased, consider it equally important that this should only happen if aid is used in more effective and efficient ways. Among poor countries that should receive help from Italian taxpayers, more than one-third believe that those countries respecting human rights, having a democratic system and doing the right thing in the fight against poverty should receive more assistance than the others. Most interestingly, 66% of Italians believe that the UN system is the most efficient institution in delivering aid, followed by international and national NGOs (41%), the EU (41%), the Catholic Church and the missions (37%) and in a distant fifth place, the central government (18%). More than two-thirds of the people interviewed are ready to trust international and national NGOs. Debt reduction receives the support of more than 75% of the people. Almost 60% also consider that it is essential to link such a debt reduction scheme with appropriate macro-economic and social policies. Finally, only slightly more than one-quarter of Italians are ready to consider that immigrants should have more generous access to Italy and that this would be helpful for the development of their countries of origin.

Such findings suggest that Italian public opinion is relatively well-informed about current international trends affecting developing countries and development aid, and has a reasonable, rather pragmatic orientation towards international solidarity. The findings also corroborate some qualitative observations made during the DAC review by Italian journalists indicating that, especially among young people, there is a high degree of interest in such topics. In public opinion, there is still a degree of scepticism towards the public aid system and the perceived lack of effectiveness and efficiency of its official main delivery mechanisms. Restoring public confidence, therefore remains a challenge to the Italian aid system and will require major efforts from the Italian authorities in the coming years. The approval of the new law by Parliament could represent a major step in the right direction, accompanied by appropriate measures aimed at ensuring the quick establishment of the new Italian Agency for Development Co-operation (IADC).

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1. OECD (1996), DAC Development Co-operation Review Series, No. 16: Italy, Paris, 1996, p. 9

The importance of having a modern, transparent and effective information policy on development co-operation, with an appropriate budget, in the Italian aid system cannot be overemphasised. Well-conceived public information campaigns, pragmatically focusing on the results of aid programmes, would be helpful. An information policy should also aim at establishing strategic alliances with Italian newspapers and television, both public and private. Media often deal with the scourge of poverty, but not enough with development issues and hardly ever with matters of development co-operation, not to mention 'aid success stories.' This general neglect of development issues is often accompanied by stories and images of humanitarian activity, especially in the Balkans, that make direct, and not always positive links with Italian social problems. Identifying the media as an important interlocutor for transmitting information and financing well-conceived training projects for journalists and communication experts in conjunction with NGOs and civil society organisations would help strengthen public information and the understanding of development issues and aid activities. In particular, the close connection between development education and issues concerning the immigrants represent a difficult challenge but also an opportunity to benefit from the diversity of immigrants and their experience, both in Italian society and their countries of origin.

### **Future scenarios**

As this review takes place, two scenarios can be envisioned for Italy's development co-operation programme. They are:

#### ***New co-operation law***

There is virtually universal agreement that the present legal framework is a constraint on the efficiency of Italy's development co-operation programme, although the extent of that constraint is subject to discussion. The constraint is primarily because of cumbersome, inefficient procedures and insufficient staff as detailed in this report. In the past few years, there has been an effort to review the existing law and draft a new overall law for development co-operation. This included consultations with the DAC/OECD by a high-level Italian Parliamentary Delegation that studied, on a comparative basis, the legal and organisational frameworks of other DAC Members. This effort resulted in a draft law, which has already been approved by the Italian Senate. Adoption of the pending legislation by the Italian Parliament would launch a revitalisation of the entire development co-operation enterprise, including the establishment of a new executing agency, IADC, under the MFA, permit untying and improve prospects for NGO financing. Other important features of the new law include: its clear reference to the international development strategy; the country programme (CP) as the conceptual framework for partnership; the reliance upon national institutions in developing countries for aid delivery; debt relief; an increased role of local autonomous entities for the delivery of aid; and the prohibition of using ODA to promote Italian exports and finance military peacekeeping activities. The process of setting up IADC and implementing a new-style bilateral programme will be a major challenge. However, the proposed law would inject new vigour into the programme.

#### ***Persevere with reform under the present co-operation law***

Without new legislation, a determined effort could be made to pursue staffing and management reform under the existing legal framework. While far from being optimal, Italy cannot halt the process of reform, otherwise many of the challenges facing the programme would remain unmet.



## CHAPTER 2

### AID VOLUME, CHANNELS AND ALLOCATIONS

#### Aid volume and bilateral/multilateral share

In 1998, Italy's net ODA disbursements jumped 80% from 1997, USD 1.27 billion to USD 2.28 billion. The main reason for the low figure in 1997 was the late approval by Parliament of the budget, which pushed disbursements for the International Development Association (IDA) replenishment, regional development banks and some debt relief into 1998. The ODA/Gross National Product (GNP) ratio recovered to 0.20% in 1998, after the exceptionally low 1997 performance of 0.11%, but it was still below the DAC average of 0.24%. Italy was third from last among DAC members in 1998 with respect to ODA/GNP ratio, trailed only by Greece and the United States. In absolute volume Italy ranked seventh in the DAC. Since the early 1990s (1992-93), Italian ODA in 1998 has declined 12.7% on an average annual basis in real terms. Provisional estimates for 1999 show that Italy's ODA dropped almost 21% compared to 1998, with net disbursements of USD 1.75 billion and an ODA/GDP ratio of 0.15%, the lowest among DAC Members, with the exception of the United States of America at 0.10%. The government has set a goal of bringing Italian ODA disbursements up to the DAC average. ODA is not expected to have increased to that point in 2000, but may move closer to the DAC average in 2001-02. Italy subscribes to the UN goal of allocating 0.7% of GNP to ODA when economic conditions will permit, but the target is not expected to be met in the near future.

One of the most striking features of Italian aid is the fact that such a high percentage of it, 65% in 1998, is provided through multilateral channels. The proportion of multilateral ODA has grown from 31% in 1994. This policy to provide such a high proportion of ODA through the multilateral channel is not explicitly set out in the CIPE Guidelines, although *Prospective 2000* states that 60% of Italian co-operation will be implemented in co-operation with international organisations. It says: "This percentage, being higher than other OECD countries, was an issue for criticism in Italy because it was considered an indication of its insufficient capability to implement a bilateral policy. There is no need to deny a lack of capability to carry out technical-economic research for bilateral programmes, but it should be considered that two-thirds of the programmes we implement with international organisations are the result of trilateral negotiations between the MFA, the governments of developing countries and international organisations. In this way Italy, in a time of limited resources, ensures a better synergy of its actions with the ones of the other donors."

At 65% in 1998, the share of Italy's multilateral contributions of its ODA was the highest among DAC Members, far above the DAC average of 29%, and even the nearest DAC member, Finland at 47% (Greece, which joined the DAC in 1999, provided 64.7% in multilateral contributions in 1998 and can be regarded as an exception). As shown in Annex I Table I-2, in 1998, the largest multilateral share of Italian ODA was 29% for the European Commission (EC), with 20% to the World Bank Group, 7% each to regional banks and the UN [International Atomic Energy Agency (IAEA), United Nations Industrial Development Organization (UNIDO), WHO, United Nations Development Programme (UNDP), and the Food and Agriculture Organization (FAO), being the largest UN family

recipients]. In addition, Italy implements part of its bilateral programme through the multilateral channel by contributing liberally to trust funds, to multilateral-bilateral projects, and to other multilateral mechanisms. In 1994, multilateral ODA was 31%. The ratio between multilateral and bilateral aid was inverted between 1994-98.

Some DAC Members have had an explicit policy in support of multilateral institutions, which accounts for the relatively high proportion of their multilateral contributions. Members of the EC, such as Italy, tend to have a higher share of their ODA in multilateral contributions. Italy's case is somewhat different in that the multilateral channel is favoured, at least in part, because it is the most practical option available when the lack of staff makes it difficult to carry out direct bilateral activities, although it has benefits in terms of aid co-ordination (see Box 2).

For 1997 and 1998, Italy is in compliance with the 1978 DAC *Recommendations on Terms and Conditions*, covering the overall grant element and the grant element of bilateral ODA commitments to LLDCs with two alternative norms. It did not meet the volume test, being under 75% of the average level of DAC Members' ODA commitments. According to two indicators Italy falls below the DAC average (e.g. ODA per capita in 1997-98 was USD 31, compared to a DAC average of USD 62 and the grant equivalent of total Italian ODA as a percentage of GNP was 0.17% compared to a DAC average of 0.24 %).

### **The bilateral channel: policies and allocations**

Bilateral geographic policies are defined in the CIPE Guidelines outlined above. The top five recipients of Italian ODA (1997-98 two year average – see Table I-4) were Madagascar, Mozambique, Haiti, Uganda and Ethiopia. The next five recipients were Malta, Albania, Argentina, Ecuador and China. The third tier was Eritrea, Egypt, Senegal, Ivory Coast and Kenya. Emergency aid, NGO programmes and debt relief which represent a considerable share of bilateral aid, are not intended to follow geographical priorities set by the CIPE Guidelines.

Italy provides the largest share of its ODA to Sub-Saharan Africa (57% in 1998), far above the DAC average of 36%. Aid to North Africa has declined considerably from 40% in 1994 to only 4% in 1998. America (mainly North and Central America) received 22% in 1998 while other regions received smaller shares (Europe 8% and Asia 6%).

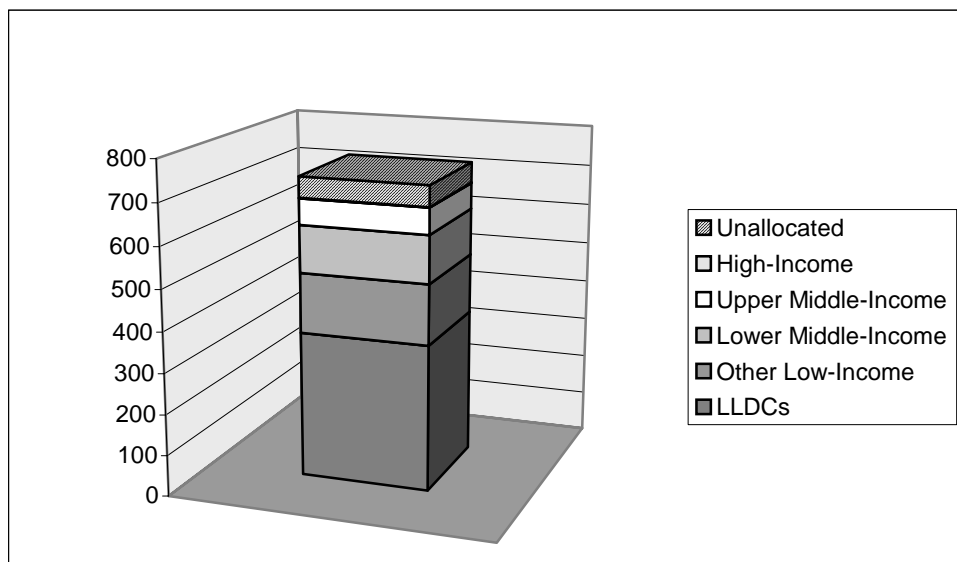
Italy provided 78% of its gross disbursements to least developed and low-income countries, far above the DAC average of 55%. The geographic allocation patterns of Italian aid reflect a poverty orientation insofar as they tend to be directed at poorer countries, this being one indicator to consider in a poverty reduction strategy (see Figure 1).

Overall, it seems that the problem Italian authorities underlined in *Prospective 2000*, namely, of a tendency toward dispersion and lack of critical mass resulting from spreading aid over too many programmes and projects, tends to be borne out by the statistics. As analysed in Chapter 5, the shortage of staff resources argues against dispersing efforts in too many directions.



Figure 1. **Gross disbursements of ODA by income group, 1997-98 average**

USD million



Source: OECD.

*Prospective 2000* represents a step in the right direction by indicating that 80% of resources available to the MFA will be concentrated in 20 countries. The 20 concentration countries in question are as follows (see Table 1):

Table 1. ***Prospective 2000* countries of concentration**

<b>Balkans</b>	<b>Middle East</b>	<b>North Africa</b>	<b>Horn of Africa</b>	<b>SADC</b>	<b>Asia</b>
Albania	Palestinian Territories (PT)	Egypt	Eritrea	Angola	India
Kosovo	Jordan	Tunisia	Ethiopia	Mozambique	China
Bosnia	Lebanon	Algeria	-	South Africa	-
Macedonia	Syria	Morocco	-	Uganda	-

Source: DGCS.

Another striking aspect of Italy's bilateral aid is the high level of debt relief (USD 267 million, or 11% of bilateral aid in 1998, the third highest among DAC Members). Italy's bilateral loans have steadily decreased in absolute terms, 1994-98, from USD 1.4 billion (46% of total gross ODA disbursements) to USD 239 million in 1998 (10% of total gross ODA disbursements). These loans mainly finance private sector development, programme aid and are made from a revolving fund so that repayments can be used to fund new loans. With respect to social infrastructure and services (see Table I-5), Italy provides only about one-half of the DAC average for these types of activities.

## NGOs and decentralised co-operation: policies and allocations

Italian NGOs can receive funding for development co-operation activities from the DGCS if eligible by decree under defined criteria (i.e. have institutional development co-operation objectives, be non-profit orientated, be capable of implementing activities in an effective manner, demonstrate three years of experience, submit to controls and inspection, present financial record-keeping capability and make annual reports to retain eligibility). Approximately 136 NGOs are presently eligible for funding. The majority of Italian NGOs have joined one of the three national NGO federations [FOCSIV, *Coordinamento di Iniziative di Solidarietà Popolare* (CIPSI), *Coordinamento delle ONG per la Cooperazione Internazionale allo Sviluppo* (COCIS)]. There is a tendency towards the creation of NGO consortia. Italian NGOs also receive funding from the EC, selected ministries other than foreign affairs, regions, municipalities and churches. Southern NGOs are not funded directly by the DGCS, but can work with Italian NGOs as local counterparts, which is encouraged by Italian policy.

NGOs can be funded for projects they identify and design (*promossi*), usually up to 50% of the project budget, but in special cases up to 70%, the remainder matched by the NGO. Maximum funding over three years for a project is Italian Lira (ITL) 1.5 billion (about USD 750 000), or ITL 3 billion (about USD 1.5 million) for project proposals submitted by a consortium of NGOs. Projects are screened relative to compliance with local priorities, sustainability, beneficiary involvement and local partnership, which is essential. Geographical priorities do not apply in attributing NGO projects. In fact, activities tend to be concentrated where NGOs have a tradition of working and have counterparts, often in countries where other forms of ODA are not present.

NGOs can also receive grants as implementing agencies for DGCS identified and designed projects (*affidati*). Selection for these grants, under the responsibility of the relevant geographical office of the DGCS, is made based on cost and previous experience.

According to Italian statistics, the number of NGO *promossi* projects funded increased from 20 in 1997, to 64 in 1998, and to 81 in 1999, for a total contribution of USD 65 million in the three-year period. Italian authorities report that commitments for NGO projects are currently increasing, which will later be reflected in disbursements. Nevertheless, DAC disbursement statistics show a decline in support to NGO programmes with only USD 20 million, or 1% of gross disbursements in 1998, half the DAC average. Funding for NGOs is as shown in Table 2.

Table 2. ODA disbursements from Italy to and through NGOs, 1996-98

USD million

	1996	1997	1998
Support to NGO projects	38.1	22.6	20.4
Aid channeled through NGOs as executing agencies	n.a.	45.7	20.8
Total	38.1	68.3	41.2

Source: Elaboration based on OECD data.

NGOs work on implementation of development projects; selection, training and use of volunteers; training; public information; and development education. Requests for grants by NGOs can be made at any time and if positively appraised, go into the pipeline and subject to availability of funds are

approved by the *Comitato Direzionale* (Steering Committee) yearly. Activities for public information and development education include sensitisation activities and dissemination of information on development issues for the general public or selected groups for publications, seminars, conferences and exhibitions. Themes that NGOs have been addressing in recent years include emerging issues on the global economy, globalisation and development and UN Global Conferences on environment, food security, gender, population, social development, human rights and intercultural relations.

The Italian NGO programme is on the upswing in number of activities, although the funding trend is not yet clear. NGOs would like to receive more rapid and definitive responses to their applications, either positive or negative to save time, but the DGCS' limited staffing availability seems to prevent this. The Italian system does not provide for block grants, a tool, which should be considered in the future and would contribute to speed up the process.

The most important remaining issue concerning NGOs is the question of impact, evaluation and lessons learned. The DGCS, and the NGOs themselves, devote considerable energy to satisfying administrative and financial requirements, leaving little time to address the issues: what is actually being accomplished in the field? What is the impact of NGO projects? Are NGO activities sustainable? What improvements could be made, or lessons learned? This is the next major area that needs to be tackled in the NGO sector. The field visits made for this Peer Review to Ethiopia and the West Bank and Gaza (WBG) suggest that much valuable work is being accomplished by Italian NGOs in the field, but not enough information on this is reported, analysed and disseminated.

### **Decentralised co-operation**

Decentralised co-operation in Italy refers to the international development co-operation projects financed by local government levels by regions and municipalities (see Annex II). This type of aid is included in ODA. Until 1993, local authorities looked to the DGCS for financing and co-ordination, but the drop in ODA in the early 1990s made this no longer possible. Legally, municipalities can allocate up to 0.8% of their budgets for development co-operation activities while regions can allocate to ODA as much of their budgets as is compatible with their financial resources. Since the mid-1990s, local government levels have financed and co-ordinated their own programmes. They have provided modest inputs into a number of programmes (e.g. to the World Bank led *African Municipal Development Programme*, the *Prodere Programme* in Central America, humanitarian relief in former-Yugoslavia under the *Tavolo di coordinamento* set up by the Prime Minister's Office. The DAC mission to WBG noted some decentralised activities there).

In March 2000, the DGCS issued guidelines on decentralised co-operation (*Linee di indirizzo e modalità attuative, Marzo 2000*) which will set the framework for work in this field. Decentralised projects are typically of a multi-bilateral character (where an international organisation is charged with implementing the project) or are carried out by NGOs. An important element of decentralised co-operation relates to immigrants and their activities for their countries of origin. This is particularly true where there are large pockets of immigrants in Italy. For instance, some 200 000 immigrants are believed to live in the municipality of Rome. Their presence provides an impetus to build links with their countries of origin (see Box 1). In addition, the active involvement and participation of civil society at various levels, including local NGOs, associations, businesses and ordinary citizens, is encouraged in decentralised programmes.

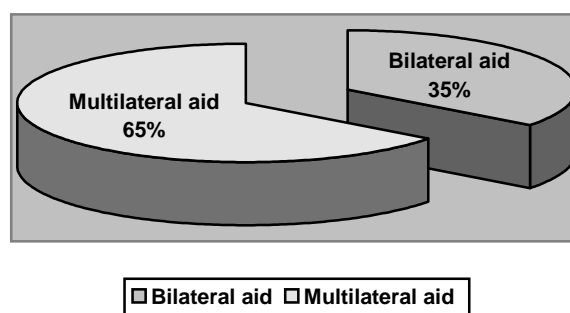
The DGCS intends to carry out a consultation with regions before making its annual presentation to Parliament. No special budget lines in the DGCS will be set up, because local governments (regions and municipalities) co-finance international co-operation projects. However, having consultations will

open up the possibility of dialogue, the discussion and dissemination of main ideas, consensus at the local level and promote a dialogue on the main orientation of selected country strategies for given recipients.

### The multilateral channel: policies and allocations

Italy's aid programme is strongly multilateral (see Figure 2 and Box 2).

Figure 2. **Multilateral-bilateral split of Italian gross ODA, 1998**



Source: OECD.

#### Box 2. **Importance of the multilateral aid of Italy (1998)**

##### ***Strong multilateral aspect of Italian aid***

A salient feature of Italian ODA is the large multilateral share - 65% in 1998. This ratio was almost the opposite in 1994. The three-year average (1996-98) is nearly 62%, the highest multilateral share of any DAC Member, far above the nearest DAC Member.

##### ***Bilateral programmes are often linked to multilateral organisations***

Looking at bilateral gross disbursements in 1998, USD 267 million was action relating to debt, almost 31% of bilateral gross disbursements. These disbursements are closely co-ordinated with the World Bank/ International Monetary Fund (IMF) and the Paris Club. Some USD 239 million was provided in loans, equal to almost 28% of bilateral gross disbursements. These are always in tandem with international financial institutions (IFIs). Thus, those two elements, loans and debt reduction, represented 59% of bilateral aid and are closely aligned with multilateral aid organisations.

Other bilateral disbursements went towards: food aid (5%), emergency relief (2%), NGO core support (2%), administrative costs (3%) and technical co-operation, which include scholarships (5%). All of these elements combined with debt action and loans represented 76% of bilateral aid.

Of the remaining 24% (approximately USD 202 million), an estimated USD 37 million, or over 18% of the remainder, was channelled through multilateral organisations in multi-bilateral projects, which although implemented through the multilateral channel, are reported as bilateral in DAC statistics since the final beneficiary is known. The remainder, less than USD 165 million, or less than 7% of Italy's total gross disbursements, was provided on a direct bilateral basis.

*Continued*

No DAC Member channels as much of its programme as multilateral aid as Italy does. In the Italian case, the multilateral option has been a virtual necessity since the mid-1990s, because of the insufficient direct bilateral capacity. However, the CIPE Guidelines on development co-operation policy strongly reinforce this direction. They call for “always” inserting CPs and major measures into the framework of an international activity and require the DGCS to maintain close dialogue with the major international institutions. The CIPE Guidelines stress Italy’s role in EU policy in support of complementarity, co-ordination and participation in EU mechanisms.

***Italy’s policies towards multilateral institutions***

Italian authorities have done some work to capture Italy’s extensive experience with multilateral institutions and to distil it into policies and, more specifically, policies with respect to given activities financed by Italy through multilateral organisations. This work is not usually shared with other donors. However, in presentations to the Steering Committee for Development Co-operation (*Comitato Direzionale per la Cooperazione allo Sviluppo*) which approves all financing proposals, DGCS and Treasury staff prepare analyses of proposals, including the roles and capabilities of international organisations. Many issues regarding international organisations are raised in such presentations. Italy communicates its policies to multilateral institutions through representation in governing bodies and direct dialogue. In some cases, particular issues relating to control have arisen. It has for instance been reported that some Italian contributions (such as for rapid response in humanitarian relief situations), which are included in larger programmes carried out by an international organisation, cannot be effectively evaluated because such contributions are mixed into an overall programme and are not identifiable *per se*.

The logical solution to the tracking problem would be to pursue joint evaluations of selected multilateral institutions or of selected multilateral programmes to which Italy makes major contributions. Joint evaluations like this were made by some bilateral donors of United Nations Population Fund (UNFPA) in 1993, the World Food Programme (WFP) in 1994, and the United Nations Children’s Fund (UNICEF) in 1992. Another example is the series of evaluations of EU aid. The DAC Working Party on Aid Evaluation has reviewed these types of evaluations and will shortly publish a study on effective practices in conducting such joint multi-donor evaluations.



**PART II**

**IMPLEMENTATION: STRATEGIES AND BROADER INSTRUMENTS**





## CHAPTER 3

### POLICIES AND ALLOCATIONS FOR KEY SECTORS AND CROSS-CUTTING AREAS

#### Overview

The current phase of the Italian Co-operation underway in the DGCS consists of a conscious and innovative effort to build a coherent and structured set of aid policies focusing on priority cross-cutting areas and sectors. Since 1998, the Steering Committee has approved new sectoral and thematic guidelines on gender, minors, decentralised co-operation and actions against land mines. For other areas, such as health, private sector development, emergency and humanitarian aid, cultural heritage and tertiary education, policy documents have been prepared and discussed in national conferences or other public events. Poverty reduction is the focus of another major policy document currently under preparation.

In all these areas, the DGCS has improved consultation with NGOs and collaboration with relevant ministries to benefit from lessons learned in Italy's development experience, while building partnerships with a range of actors in Italian civil society. Another feature of the current effort is the importance attached to capacity building as opposed to past emphasis on building infrastructures, which was characteristic of the 1980s and early 1990s.

The DGCS aims at supporting action at the policy level through increased consistency in allocation processes, greater investment in country programming and more effective feedback from synthesis evaluations. The new guidelines are expected to have an impact on selected country programmes, in particular, through a number of pilot experiences in sector-wide approaches (SWAps) in the social sectors, like health and education. This is another innovative aspect, in light of the past prevalence of a project-by-project approach. At the same time, Italy is about to launch special international initiatives on the multilateral channel to stress its commitment to the achievement of key policy goals.

A preliminary assessment of such efforts is encouraging: the process started by the DGCS is filling a gap in policy elaboration, in-line with recommendations expressed in previous DAC Peer Reviews. The objectives and approaches proposed by the guidelines and policy documents are generally consistent with the principles adopted by the international community. If sustained over time by an increase of ODA flows, and if adequately supported by putting the principles into practice throughout the aid management system, this process could contribute to an enhanced role for Italy in the international setting. In light of a new law on development co-operation, these efforts would constitute a helpful experience to pass on to the new institutional setting.

Some important elements of the Italian aid programme that shed light on priority areas and the main issues for action include:

- Streamlining the programme to increase its focus on key policy goals.

- Effectively mainstreaming cross-cutting and thematic issues in aid planning and programme implementation at the country level.
- Developing accountability mechanisms, adequate tools and instruments to bring together and put into practice the guidelines and policies adopted, including mechanisms to monitor and assess their actual operational use.

### **Poverty alleviation**

The Italian normative framework for development co-operation mentions a wide range of specific aims (Article 2 of Law No. 49/87): satisfying basic needs, safeguarding human life, encouraging food self-sufficiency, enhancing human resources, environmental conservation, promoting self-reliance, social and cultural development and improvement of women's living conditions. The guidelines on Italian foreign aid, approved in 1995 by CIPE, referred to the fight against poverty as one of the economic objectives that, together with political and humanitarian ones, are singled out as the main goals of the Italian Co-operation. In CIPE's 1995 framework, poverty reduction was therefore considered as one among many different goals.

In 1998, an independent assessment of Italian poverty reduction policies was carried out within the OECD-DAC stocktaking of current Members' policies. According to that assessment, a multidimensional view of poverty prevailed in perceptions of DGCS staff interviewed. The study noted that the fight against poverty took a central place in an official DGCS document in the *1997 Annual Report to Parliament*. This document stressed that by fight against poverty, the DGCS did not mean a new sector of intervention, but rather "a fundamental dimension of development co-operation, to be integrated in the design and implementation of all co-operation policies, programmes and projects."<sup>2</sup>

The 1998 independent assessment identified some promising experiences like the innovative elements of country programming in Ethiopia and the partnerships built with the Ethiopian government, both at the regional and federal levels - an element confirmed by the DAC field mission. However, the assessment recommended action for filling the gaps between policy papers and statements and their actual implementation by identifying a number of issues on mainstreaming poverty reduction. These included lack of codified procedures to institutionalise poverty reduction goals and performance monitoring in DGCS operations; lack of staff incentives within DGCS for poverty reduction mainstreaming; the need to strengthen technical skills relevant to effective social development work on poverty reduction-related activities, and to increase team work.

The DGCS is addressing these issues by developing specific guidelines on poverty reduction, based on the work undertaken by the DAC Informal Network on Poverty Reduction. It has established a poverty reduction task force and has produced a working paper based on the draft DAC guidelines. The paper summarises the first two chapters of the DAC draft guidelines and provides a multidimensional definition of poverty and its causes. It identifies the main areas for action, the need to build partnerships with governments and civil society actors, criteria for country assistance strategies and improved aid management mechanisms.

The DGCS working paper outlines the approach and contents of an Italian poverty reduction initiative to be implemented with an initial allocation of USD 120 million. The initiative will consist of regional

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2. MFA/DGCS, *Relazione annuale sull'attuazione della politica di cooperazione allo sviluppo nel 1997*, Rome, 1998, page 51.

programmes in Central America, South America (Brazil and Andean countries), the Maghreb, the Middle East, the Horn of Africa, Sahel, Southern Africa and India. The initiative aims to provide support to the poverty reduction strategies in two/three partner countries in each of the above regions, within the framework of a consistent regional and international approach. Such programmes will build on the experience gained in previous initiatives, known as decentralised human development programmes, financed by the Italian Co-operation through trust funds to international organisations, mainly the UNDP, and executed by the United Nations Office for Project Services (UNOPS). In operational terms, it is a multi-bilateral initiative subject to direct monitoring by the DGCS. It aims at defining broad poverty reduction frameworks that should co-ordinate different types of projects financed by Italy through bilateral and multilateral assistance, NGO-promoted projects and decentralised co-operation activities involving Italian local administrations and civil society. The projects would share a common approach: area-based interventions, central and local counterparts, participatory mechanisms for poverty reduction planning in the areas of good governance, economic development, health and social services, education and vocational training and infrastructures for sustainable management of natural resources. Cross-cutting issues should also be considered, such as gender equality and minors. According to the DGCS, the Italian poverty reduction initiative is an initial step towards the fulfilment of the Italian commitment to poverty reduction goals, as highlighted in the *Prospective 2000*.

Two main points should be stressed in this respect. Firstly, area-based programmes are just one of the modalities used by partner countries in implementing their national strategies. Instruments for poverty reduction are not limited to such a modality, and Italy itself, besides area-based poverty reduction initiatives, is using other instruments (SWAps, mainstreaming in CPs) to pursue its poverty reduction objectives. Due account should therefore be given to integrating and mainstreaming poverty reduction concerns in country assistance strategies and in SWAps, assessing the poverty reduction impact of both grants and soft loans and enhancing the overall coherence of Italy's foreign policy in terms of poverty reduction.

Secondly, the growing Italian efforts through multi-bilateral channels should be balanced by appropriate bilateral efforts. While recognising the potential impact of channelling Italian aid through multilateral organisations in building partnerships frameworks for poverty reduction, this should not diminish the equally important role of the Italian bilateral channel in consistently supporting partner countries' poverty alleviation strategies. Sustained support to such strategies implies a concerted action at both the multilateral and bilateral levels. It is expected, however, that the normative and operational framework provided by the new law will allow an increase of the share of bilateral assistance in the Italian ODA.

Main areas for future action should include:

- Focusing the Italian aid programme on poverty reduction goals.
- In light of the emerging framework of the Poverty Reduction Strategy Paper (PRSP) process:
  - Mainstreaming poverty reduction across the overall aid portfolio by ensuring proper targeting of CPs on poverty reduction goals for a consistent implementation of policy guidelines.
  - Testing and applying tools aimed at enhancing co-ordination of the Italian aid programme with other donors' activities for an effective dialogue with partner countries on poverty reduction strategies.

- Strengthening the skill mix, both at the headquarters and at the field level, in the areas of poverty reduction and social development and providing appropriate incentives for poverty reduction mainstreaming.
- Enforcing management and organisational reforms addressing decision making, accountability mechanisms, monitoring and evaluation, in order to enhance the poverty reducing impact of Italian aid.

## **Social infrastructure and services**

### ***Health***

A process to redefine Italian strategies for development co-operation in the health sector is underway. The modified international scenario and the experience and lessons learned gained in this area are being taken into account. It aims to achieve a more effective synergy, both with other international partners and with the Italian national health system. According to the DGCS, in 1998, the Italian Co-operation managed more than 100 health programmes in 47 countries, with global bilateral and multilateral disbursements of approximately USD 37 million.<sup>3</sup> However, according to DAC statistics, if only bilateral flows are taken into account, the average in the 1997-98 period was USD 15 million (3% of total bilateral ODA).

The DGCS works closely with the Italian Ministry of Health, in particular in priority areas such as Albania. Partnerships are built with many public institutions, such as the National Institute of Health, the National Institute of Nutrition, universities, research institutes, local health authorities and agencies, and NGOs.

In the health sector, Italy recognises the importance of poverty reduction and social exclusion with special attention to the most vulnerable groups, and stresses that existing differences in economic, social and health conditions, between and within countries, are human rights issues. Italy promotes a systemic, rather than a disease-oriented approach to health, so that HIV/AIDS, malaria and tuberculosis are recognised as high priority issues to be tackled by efficient, effective, universally accessible health systems. Control of communicable diseases is pursued through adequate integrated strategies and actions in national and local health plans. Capacity and institution building are mainstreamed in health programmes.

Since 1997, an interesting development in the Italian approach to health in development co-operation is the progressive shift from traditional project assistance to SWAp. For the first time, some elements of a SWAp were tested using the multi-bilateral channel through the WHO in the Public Health and Rehabilitation Programme in Eritrea (PHARPE). SWAps are now increasingly applied. Recent examples include some important contributions, as the Ethio-Italian Country Programme with a National Health Sector Development Programme, the new Sectoral Country Programme in Mozambique, and similar approaches in Angola, Swaziland and Zimbabwe. In Uganda, Italian aid is supporting decentralisation and integration among government and non-profit health services within a comprehensive SWAp and poverty reduction approach. In some priority countries, as in WBG, this reflects Italy's lead role as shepherd in the public health sector.

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3. Ministry of Health/WHO, *Health in Italy in the 21<sup>st</sup> Century*, Rome, 1999, page 11.

In recognition of the threat HIV/AIDS poses to sustainable development, well beyond the health sector, Italy has launched a major “Initiative for the fight against HIV/AIDS in Africa” through a specific voluntary contribution of USD 10 million to the WHO. The initiative will be carried out in partnership with Italian NGOs. At the same time, Italy’s voluntary contribution to UNAIDS was recently increased from USD 0.35 million to USD 2 million. A similar programme is being prepared with specific focus on Burundi, Rwanda and Uganda. The initiative, worth USD 2 million, is in line with the guidelines of the national HIV/AIDS operational plans, the UNAIDS/WHO strategies and the Great Lakes Initiative for AIDS. The programme is based on an integrated approach to reduce the prevalence of HIV in the region and is aimed at improving the social and economic conditions of the population. It will be carried out in the wider contexts of support to public health systems at regional, national and decentralised levels.

Major areas for future action should include:

- Strengthening SWApS in country programming by building on the experience gained in selected priority countries.
- Reinforcing focus on institutional and capacity development in the health sector.
- Increased attention to the issues of effectiveness and sustainability of health service delivery systems.

### ***Education and training***

In 1997-98, about 5% of bilateral ODA was allocated to the education sector, only half of the DAC average. Italy has traditionally had a large programme in the field of tertiary education and, to a lesser extent, vocational training. Basic education is supported mainly through multilateral channels or by contributions to NGO-promoted projects. This does not include training components of initiatives in other sectors, a common feature of the Italian Co-operation in the fields of health and rural development.

In December 1996, a policy document on new approaches to Italian Co-operation in the tertiary education sector was presented at a national conference, and was discussed with NGOs, universities and research and training institutions.<sup>4</sup> The document proposed a framework for university co-operation by linking it to institutional and capacity development strategies. It also stressed the need to rationalise and streamline the scholarships programme for students from developing countries. Another recommendation concerned the need to strengthen the capacity of the Italian university system to deliver qualified training on development co-operation by building partnerships with local administrations, NGOs and other institutions of civil society.

In 1997, the Italian Co-operation supported 702 scholarships. In 1998, their number decreased to 533, and dropped further to 497 in 1999. This trend can be partly explained by the completion of graduate programmes financed in the previous years, and the enforcement, by the DGCS, of a new scholarship policy focusing on priority sectors (agriculture and food security, health, public administration) and on short term post-graduate studies (DGCS, *1998 Annual Report to Parliament*). However, in 1998, previous priorities still prevailed: 49.3% of the 533 scholarships was granted to the health sector, followed by public works (12%) and law and economics (9.9%). As to the territorial concentration,

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4 . MFA and the Ministry for University and Scientific and Technological Research, *Atti del Convegno “L’Università nella nuova cooperazione allo sviluppo,”* Istituto Italo-Latinoamericano, Rome, 1998.

though the programme still has wide geographical coverage, it has increased focus on priority areas. In 1999, for example, the 202 scholarships granted to Africans were distributed to 27 countries; however, 76.7% of them were entrusted to nationals from only eight countries: Eritreans (40 scholarships), Somalis (27), Angolans and Mozambicans (19 each), Cameroonians, Ethiopians and Sudanese (13 each), and Ugandans (11).

In 1999, a synthesis evaluation of Italy's action in the training and education sectors since 1987 was launched by the DGCS. Its findings could help provide guidance for the Italian Co-operation on how to focus more of its programmes on basic education, recognised as crucial for the attainment of poverty reduction and gender equality goals and a key element of the *Shaping the 21<sup>st</sup> Century* strategy. Experience in applying SWAps in the education sector could also prove useful to increase the cost-effectiveness of aid investments, ownership of programmes and sustainability of the services supported.

Major areas for future action should include:

- Focusing education sector policies on basic education.
- Focusing assistance at higher levels of the education sector on key institutional and capacity development issues.
- Building on innovative experiences in SWAps already tested in some country programmes.

### ***Basic social services***

According to DAC statistics, in 1998, only 0.8% of total bilateral ODA was allocated to basic health and 2.3% to water supply and sanitation, while bilateral aid did not focus on basic education. However, it should be considered that a substantive amount of Italian funding to basic social services is channelled through multilateral organisations.

In view of the above, the main challenge will be an increased focus on basic social services in Italian ODA.

### **Rural development and food security**

In the 1980s, Italy financed many integrated rural development programmes in Sub-Saharan Africa. Major programmes were launched in Angola (Green Belt of Luanda), Ethiopia (Arsi-Bale Rural Development Project - ABRDP), Mozambique (Technical Assistance Programme in the Green Areas of Maputo and Rural Development Programme in the Umbeluzi River Basin), Niger (Integrated Rural Development Programme in the Ader Doutchi Maggia, Keita Valley) and Senegal (Rural Development Programme in the Middle Casamance Region - PRIMOCA). They applied mostly area-based approaches based on building rural infrastructures, providing agricultural inputs and improved services to small peasants, supporting grass-roots organisations and strengthening regional offices of the Ministry of Agriculture. Often, they created parallel project structures. In the drought-prone Sahelian areas, they focused on environmental protection actions.

While showing substantive impacts at the local level, the programmes have not always had the expected influence on national policy reforms. In-line with the findings emerging from evaluations of

similar programmes supported by donors in other developing countries in the 1990s, the major challenge is the lack of sustainability of parallel project structures for weak local institutions. During 1994-98, independent evaluations of rural development programmes were carried out in Ethiopia, Senegal and Mozambique. In 1998, the evaluation of the Keita Programme in Niger provided key lessons learned for the design of the third phase of the programme. Overall, evaluations recommended that the DGCS focus on strengthening local institutions and building local capacities.

In the 1980s, the Italian Co-operation stressed the importance of food security in the context of sustainable natural resources management, as in the case of the Italian Initiative for the Sahel, aimed at assessing structural and non-structural vulnerabilities of regional production systems. Since the World Food Summit (Rome, 1996) the DGCS' focus on food security has increased. Italy contributed to the Special Programme in Support to Food Security executed by the FAO. Italy also strengthened its partnership with Italian NGOs on food security issues and supported capacity building programmes in collaboration with Italian research centres and public institutions, like the *Istituto Agronomico per l'Oltremare* of Florence.

An interesting approach to capacity development is based on establishing and using geographic information systems as planning instruments both at local, national and regional levels. An example is provided by the Agrhymet programme, sponsored by Italy with the *Comité Inter-Etats pour la Lutte contre la Sécheresse au Sahel* (CILSS) and the World Meteorological Organization (WMO), with the involvement of the *Centro di Studio per l'Applicazione dell'Informatica in Agricoltura* (CeSIA) of the *Accademia dei Georgofili* in Florence.

In the past, administrative constraints had prevented a greater Italian involvement with SWAps. In the last two years, the DGCS, in consultation with other Italian ministries (in particular the Treasury), has tried to modify the existing normative framework with the objective of introducing, where possible, new implementation modalities. In some cases (notably Eritrea and Ethiopia), Italy is testing modalities of support to SWAps in rural development and food security.

Major areas for future action should include:

- Mainstreaming poverty reduction strategies in development assistance aiming at increasing food security in rural areas.
- Strengthening institutional and capacity development.
- Building on the lessons drawn from SWAps in country programmes.

## **Gender and minors**

### ***Gender and development***

In 1998, the Steering Committee approved the DGCS Gender Guidelines. The guidelines were the result of a consultative process involving a wide range of Italian institutions and actors: gender specialists, development NGOs, women's organisations, researchers and development practitioners. The document affirms the guiding principles, goals and objectives of Italian aid in light of the "Platform for Action" of the 1995 UN Women's Conference in Beijing. It defines intervention strategies and methods, and identifies priority actions and operational instruments. From a gender perspective, the Gender Guidelines focus on the need to determine in-depth cultural changes in society

and to bring about a substantive impact on women's economic conditions in order to fight poverty. The main thrust of the document was presented in 1998 by the Under-Secretary of State at an international seminar, "A Changing Co-operation: The Role of Women," jointly organised by the DGCS and the Ministry for Equal Opportunities, at the FAO headquarters in Rome.

Law No. 49/87 called for the creation of a WID office in the DGCS, and in previous practice, an earmarked budget was attributed to that office for financing key WID activities, including the production of gender training material. In its new structure (January 2000), gender issues are no longer the responsibility of a separate office. The DGCS aims at mainstreaming gender in country bilateral programming and the new organisation of the UTC (approved in 1998) recognises equal opportunities as a prominent issue in human development.

In recent years, there has been an enhanced co-ordination between the DGCS/MFA and other ministries, particularly the Ministry of Equal Opportunities. In institutional terms, this has implied a greater recognition of gender analysis in PCM. A major change since the 1996 Peer Review can therefore be seen in the adoption of a gender mainstreaming and empowerment approach. At the operational level, mainstreaming focused on emergency programmes addressing the needs of war victims and strengthening the role of women in Albania, Algeria, Mozambique and Rwanda. It was also introduced in human development programmes in Angola, Cuba and South Africa. As a follow-up to the 1994 UN Conference on Population and Development, reproductive health was another priority mainly through UNFPA integrated programmes in Honduras, El Salvador and the Palestinian Territories. Gender analysis was used in assessing the Ethio-Italian Country Programme, and the WBG CP reflects gender sensitivity. As for empowerment, the DGCS supported public institutions and NGOs with emphasis on job creation, institution building and women's rights in Africa (Angola, Ethiopia, Mozambique, Tanzania, and Zimbabwe), Southeastern Europe (Albania) and Latin America (Peru). The communications dimension was considered through NGO programmes on women and Mediterranean culture (Morocco) and through the continuation of an information campaign on female genital mutilation.

At the international level, the DGCS has launched a new partnership with the United Nations Development Fund for Women (UNIFEM) and UNFPA. The DGCS supports the key role of UNIFEM in mainstreaming gender through the United Nations Development Assistance Framework (UNDAF), in close collaboration with selected UNDP Resident Co-ordinators. The DGCS stresses the role of UNFPA in the Cairo+5 process, with particular attention to reproductive health and advocacy in the Mediterranean Basin and the Middle East, which was reflected in the DAC field mission to the WBG. Italy's voluntary contributions have increased accordingly, from USD 0.2 million to USD 2.9 million in 1999, and USD 3.25 million in 2000 for UNIFEM, and USD 3 million in 1999-2000 for UNFPA.

Major areas for future action should include:

- Establishing visible accountability mechanisms for gender mainstreaming.
- Increased practice of the Gender Guidelines to bring about effective change of DGCS procedures, in order to make use of the proposed instruments.
- Further integration of gender into country programming, to foster mainstreaming beyond the project level.
- Strengthening technical capacities in social development and gender in the DGCS.



## ***Minors***

In November 1998, the “Guidelines on the Protection of Children and Adolescents” were approved by the Steering Committee. Their preparation involved many actors of Italian society, including other relevant ministries, trade unions, NGOs and local administration representatives. The guidelines drew on the experience gained by the Italian governmental and non-governmental co-operation in the 1990s through a number of initiatives on children’s rights, children in difficult circumstances and institution building in priority countries, in particular in Sub-Saharan Africa and Latin America.

The guidelines’ conceptual framework proposes rights-based approach to the problems of children and adolescents, who are viewed as people, rather than mere recipients of assistance. Main priority areas for action include the elimination of the worst forms of child labour, the elimination of the trafficking of human beings, the promotion of basic education and training, the empowerment of children and the promotion of a culture of peace in conflict-prone situations.

Italy promotes programmes focusing on children and adolescents in partnership with international organisations, like the International Labour Organization (ILO), UNICEF, the World Bank and with Italian NGOs and regional and local administrations through modalities of decentralised co-operation. Since the adoption of the guidelines, 11 new programmes were approved, amounting to USD 16.5 million, nine of which are executed by international organisations (USD 11.3 million) and two are bilateral programmes (USD 5.2 million). Future action should focus on the mainstreaming of issues related to the conditions of children and adolescents in the implementation of sector assistance strategies and country programmes.

## **Private sector development**

In June 1995, the CIPE approved the DGCS Guidelines for private sector development. The Guidelines recognise the crucial role of private sector as the engine of partner countries’ economic development and the need to integrate financial support with institution building and technical assistance aimed at creating an enabling environment for private sector development. The guidelines stated four principles governing the Italian action: supporting institutional and juridical frameworks, strengthening financial institutions through capacity building, encouraging foreign investments and providing technical assistance and financial support to local enterprises. Grants, multilateral funds, credit lines and credit for the Italian equity share in joint-venture activities (Article 7 of Law No. 49/87) were identified as the main instruments to enforce these principles.

According to the latest DGCS data, the 1993-2000 portfolio totals 75 initiatives: 27 projects on micro-enterprises and 48 on SMEs. The greater concentration of projects was in North Africa and the Middle East (25 initiatives), followed by Sub-Saharan Africa (17), Southeastern Europe (13), Latin America (7), and Asia (8). Italy financed also five regional projects. The portfolio amounted to about USD 570 million, out of which USD 400 million were soft loans and USD 170 million were grants. About 45.3% of grants consisted of commodity aid, 38.2% multilateral funding, 8.8% contributions to NGO-promoted projects, 3% DGCS-executed projects and 4.7% other executing arrangements. The portfolio can be grouped in three main types of projects:

- Financial services: financial instruments aimed at supporting SMEs. They include non-sectoral aid to partner countries’ balance of payments, credit lines (for which local governments and central and credit banks request collateral, and goods and services are provided on a tied basis) and support of selected joint ventures.

- Non-financial services: programmes offering local (micro, small and medium) entrepreneurs a wide range of non-financial services: training, consulting, establishment of business development services, support to the creation of business associations, marketing, information systems, technology development, etc. In some cases (Zimbabwe, WBG) projects are implemented through local chambers of commerce, with the involvement of Italian institutions operating in this field (*Unioncamere*, Italian banks).
- Integrated approach: combining delivery of both financial and non-financial services, for a total amount of USD 145 million in China, Jordan, India, Tunisia and Egypt.

The Italian Co-operation differentiates between income generating projects based on small-credit schemes targeted at the poorest people and vulnerable groups, and micro-credit programmes, providing financial services, often linked to non-financial services, aimed at facilitating the transition from the informal to the formal sector. The former type of projects refers to targeted components of poverty reduction projects, while the latter mostly consists of NGO-promoted projects co-financed by the DGCS in countries such as Argentina, Brazil, Columbia, Ecuador, Morocco and WBG.

An evaluation about the use of Italian equity share in joint-venture activities is underway. The results should be useful in assessing the developmental impact of such an instrument. Recent studies, however, have highlighted the potential value of comprehensive Italian action in the field of private sector development. They also stressed the risks linked to a mechanistic transfer of the most peculiar aspects of the Italian industrial development experiences, as the industrial districts, to the context of developing countries. The DGCS aims at identifying the conditions that can stimulate an exchange of expertise at both micro- and macro- levels, in some cases through partnerships arrangements involving the private sector. Experiences were reviewed in a national seminar organised in June 1999 by the DGCS.

Approval of the new draft law would introduce some important innovations. The draft law lists support to local SMEs among the basic principles of the Italian Co-operation. It also provides for untied supply of subsidised credit lines for procurement of equipment and services that could be used to address the needs of local SMEs, as well as those of micro-entrepreneurs. It will also allow the co-financing of NGO-promoted and decentralised co-operation projects aimed at creating and strengthening micro-credit and micro-finance institutions, by contributing up to 75% of total costs. Decentralised co-operation would also strengthen the management capacities of local financial institutions.

The current situation, however, shows the need for defining a private sector development strategy with specific objectives, adequate implementation mechanisms and a clear articulation of resources and instruments across regions. Such a strategy would allow the DGCS to use the most appropriate tools taking into account the peculiarity of local conditions. It would also prove extremely useful for partners, as it should provide a clear and comprehensive policy, its goals, the main actors involved and the conditions for their involvement.

### **Humanitarian assistance**

The Italian Co-operation has a consolidated experience of intervention in emergency situations, both man-made and natural disasters. Because of lessons learned in this field, particularly in complex emergencies, Italy actively participated in the process that led to the approval of the DAC *Guidelines on Conflict, Peace and Development Co-operation on the Threshold of the 21<sup>st</sup> Century*. The main

DGCS principles on humanitarian assistance include: fostering beneficiaries' participation in the relief process; ensuring timeliness and cost-effectiveness in humanitarian aid delivery; linking emergency to development action; reducing vulnerability through preventative action; promoting integrated area-based approaches; considering the impact of aid on conflict; and building partnerships with actors in civil society and local administrations through decentralised co-operation.

About 5% of Italian bilateral ODA is allocated to emergency assistance. Within the current framework, the length and complexity of administrative procedures hampers DGCS capacities of rapid response. Italy therefore uses other channels, mainly the multilateral one, to mobilise technical resources and goods needed in the immediate aftermath of an emergency. Nevertheless, many projects are directly executed by the DGCS, through the transfer of funds to Italian Embassies and the use of Italian experts, particularly in situations of complex emergencies, in which the Italian assistance can extend over years.

During 1995-99, a total of USD 196 million was used for emergency operations, 35.2% of which was used for DGCS-implemented projects. UN agencies [mainly the WFP, WHO, UNICEF, United Nations High Commissioner for Refugees (UNHCR), Office for the Coordination of Humanitarian Affairs (OCHA, formerly the Department of Humanitarian Affairs, DHA) and UNDP/UNOPS] managed 47% of Italian emergency funds. Other international organisations, in particular the International Organization of the Red Cross and Red Crescent Societies (FICROSS), the International Organisation for Migrations (IOM), the International Management Group (IMG), and the International Federation of the Red Cross (ICRC), implemented projects accounting for 13% of total emergency assistance. Other agencies managed 3.6% and Italian NGOs accounted for only 1% of the total portfolio. In terms of geographical distribution, 40.9% of emergency funds were allocated to Southeastern Europe and 32.3% to Africa.<sup>5</sup>

In addition to the humanitarian assistance managed by the DGCS, Italian society has actively reacted to international emergencies, particularly in the Balkans. Fundraising for the Kosovo crisis provides an example of the importance attached to international solidarity by Italian citizens and NGOs. Private contributions exceeded USD 60 million, which financed the so-called Rainbow Mission (*Missione Arcobaleno*), as well as those organised by the Italian government, under the direct responsibility of the Office of the Prime Minister, and USD 9 million for UNHCR operations.

Italy stresses the relevance of aid with respect to conflict, in line with DAC orientations. The Italian Co-operation specifically referred to the DAC *Guidelines on Conflict, Peace and Development Co-operation* in defining its humanitarian aid programmes in the Kosovo crisis, and more broadly in the Balkans. Conflict prevention is considered as an essential element of Italian foreign policy coherence and consistency, as underlined by the MFA Policy Analysis Unit. In 1999, the National Committee for Humanitarian Actions against Land Mines approved guidelines on this subject<sup>6</sup> that, in line with the Ottawa Convention, focus on co-ordination of actions. Specific reference is made to actions such as social mobilisation, demining, treatment of victims, rehabilitation of the social and economic environment and peacekeeping. A draft bill on the establishment of a humanitarian demining fund has been submitted to the Senate.

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5. DGCS, *La cooperazione italiana e le emergenze. Attività 1995-1999*, Roma, 2000, pages 16-17.

6. Comitato nazionale per le azioni umanitarie contro le mine antipersona, *Le azioni umanitarie contro le mine antipersona nell'ambito della cooperazione internazionale dell'Italia*, in DIPCO No. 1/2000.

Main areas for future action should include:

- Simplifying procedures and achieving a greater degree of decentralisation of the humanitarian aid programme to cope with the administrative constraints that are particularly affecting humanitarian aid delivery and implementation.
- Enforcing a monitoring and evaluation system to better assess the effectiveness and impact of Italian humanitarian aid.
- Increasing the coherence of humanitarian/emergency action and broad development objectives and policies, in particular in situations of complex emergencies and conflict-prone areas, with a view at enhancing an effective co-ordination with other donors.

## CHAPTER 4

### BROADER POLICIES AFFECTING DEVELOPING COUNTRIES

#### Policy coherence mechanisms

There is no specific inter-ministerial mechanism for dealing with coherence in development co-operation *per se* in the Italian government. Within the MFA, the Council for International Affairs, chaired by the Foreign Minister, was recently set up to analyse the main lines of foreign affairs policy and to advise on overall foreign policy, including how to improve co-ordination and coherence. To date, it has met once, in January 2000. If it functions well, it could provide suggestions for improving coherence within the ministry. The CIPE, which approved the guidelines for a new development co-operation in 1995, is an inter-ministerial mechanism for reviewing budgets and plans of ministries. In theory, it is a mechanism that could be used for improved coherence, but in fact, does not do so. Of course, on the broadest level, the Council of Ministers exists to assure coherence within the government itself. As a practical matter, coherence and co-ordination between ministries is maintained on specific issues, such as the co-ordination that exists on a permanent basis between the Ministry of Foreign Trade (MOFT), the Treasury and the MFA on multilateral policies.

Since the last Peer Review in 1996, co-operation between the MFA and the Treasury has significantly improved. The Treasury is a permanent member of the Steering Committee and bears full responsibility for IFIs. It regularly consults with the DGCS through its Directorate for Economic and Financial Multilateral Affairs on policy issues as well as operational aspects, such as harmonising criteria for the management of trust funds with the World Bank and multilateral replenishment negotiations. An increased attention to poverty reduction strategies has emerged in recent years in the dialogue between the MFA and the Treasury. This was also reflected in the preparatory process for G-7 summits.

Within the current framework, the Parliament discusses ODA allocations, at different stages, that are managed by the MFA and the Treasury. The new law would address this.

When Italy has become involved in specific programmes of wide import, involving two or more ministries, co-ordination is instituted on a regular basis between them, such as was seen in Albania (with defence, foreign affairs, treasury and other relevant ministries).

#### Italy and debt relief

At the end of 1998, the stock of ODA debt owed to Italy amounted to USD 5.3 billion. This is only 3% of total ODA debt outstanding. Compared with the overall geographical distribution of ODA debt, Italy has loaned nearly equal amounts to each of the major regions, whereas the other major creditors have preferred to concentrate on Asia (which owed 60% of total ODA debt in 1998).

Since 1995, Italy has cancelled USD 650 million to 11 countries. The main beneficiaries of this forgiveness were: Tanzania (USD 258 million of ODA debt was cancelled in 1993) and

Mozambique (USD 166 million in 1996). Angola, Cyprus, Gabon, Mali, Nicaragua, Senegal, Sierra Leone, Somalia and Zambia were the other beneficiaries.

The most recent development in debt relief was the announcement in April 2000 of a debt swap of ITL 200 billion (about USD 100 million) with Morocco, with the local counterpart fund to be used for social development purposes. This was Italy's first announced debt swap, but others are expected to follow with Heavily-Indebted Poor Countries (HIPC). The agreement between Italy and Morocco for the conversion of USD 100 million of debt into public investment states that eligible expenses will be accounted for in the state budget, or in the budget of other Moroccan public institutions. The conversion will take place through instalments (one every six months), beginning on 31 December 2000. Every six months, Italy will cancel an amount correspondent to the certified eligible expenses incurred by Morocco. The financial resources made available by the conversion will be used to support programmes and projects in the social and environmental sectors, in accordance with the priorities of the Italian Co-operation. The parties have set up a technical management committee in charge of the approval of the programmes and projects formulated by the Moroccan side, of monitoring the implementation and certifying the completion of the programmes.

A draft new law on debt relief is being discussed in Parliament, which would allow debt relief for countries other than HIPC below USD 300 per capita, with a ceiling of USD 150 million. Under this new law, debt cancellation is dependent on progress being made on key issues such as poverty reduction, governance and human rights. Following the *Jubilee 2000* campaign for increased debt relief, supported by the Catholic Church, NGOs and institutions of civil society, the government proposed the extension of debt relief to all HIPC eligible countries, with an increased ceiling. According to the DGCS, implementation of these measures would lead to debt relief of at least USD 2.5 billion, of essentially commercial non-ODA debt.

The Italian Export Credit Agency (SACE) guarantees export credit loans of about USD 17 billion to Part 1 countries, but of these outstanding loans, nearly half have been rescheduled through the Paris Club, either at concessional or market conditions, depending on the type of arrangement. In the case of debt reduction (Naples, Houston, Lyons terms), Italy has preferred to apply the Debt Service Reduction option rather than Debt Stock reduction. This leaves amounts covered by the agreement to be repaid over a long maturity period at lower interest rates, leading to a net present value equivalent to the agreed level of debt reduction. In the past, Italy has followed the DAC Guidelines in reporting these amounts as ODA flows in the DAC, when the concessionality level was equal or over 25%. Following the new directives, the equivalent to the debt reduction amount will be reported as an ODA grant and the rest of the loan reported as other official flows (OOF). It should be noted that the ODA debt mentioned above does not include rescheduled export credits.

### ***HIPC Initiative***

Italy, like all major creditors, is participating in the HIPC Initiative through the Paris Club. It may be noted that Italy is second only to France and Belgium in the importance of the 41 HIPC countries in its total loans to all Part 1 countries. This is in part due to the choice of the debt service reduction option, but also reflects past policy of loans to poorer countries (Source: *External Debt Statistics 1997-98*, Table E).

Italy has also pledged USD 70 million to the HIPC Trust Fund, one-third of which is to be provided by June 2000 and the remainder in 2001. Since Italy is also contributing USD 92 million as a Member of the EU, based on its contribution to European Development Fund, Italy's total contributions to the HIPC Trust Fund amounts to USD 162 million.

**PART III**

**IMPLEMENTATION: MANAGEMENT, COUNTRY OPERATIONS AND PERFORMANCE**





## CHAPTER 5

### ORGANISATION, STAFFING AND MANAGEMENT SYSTEMS

#### Overall organisational structure

The Italian Parliament has always opted for integrating the technical structure responsible for the management of Italian ODA within the MFA. The first comprehensive framework regulating Italian international development co-operation dates back to the 1970s, with Law No. 1222 (1 December 1971) on “Technical co-operation with developing countries.” This law established a “Service for technical co-operation with developing countries” in the Directorate-General for Cultural, Scientific and Technical Relationships of the MFA.

Law No. 38 (9 February 1979) provided for the “Co-operation of Italy with developing countries” and strengthened the previous structure by creating a Department for Development Co-operation (DIPCO) (*Dipartimento per la Cooperazione allo Sviluppo*). DIPCO was no longer a service within an existing Directorate-General, but an autonomous body, though its status was not equal to that of a Directorate-General in the MFA.

Law No. 73 (8 March 1985) created a special body, the Italian Aid Fund (FAI, *Fondo Aiuti Italiani*) as a *de facto* parallel structure to the existing DIPCO directly accountable to an under-secretary of state of the MFA. The FAI aimed at carrying out quick-impact, multi-sectoral integrated projects in third world countries affected by emergency situations and high mortality rates, with a mandate of eighteen months and a budget of USD 1 billion.

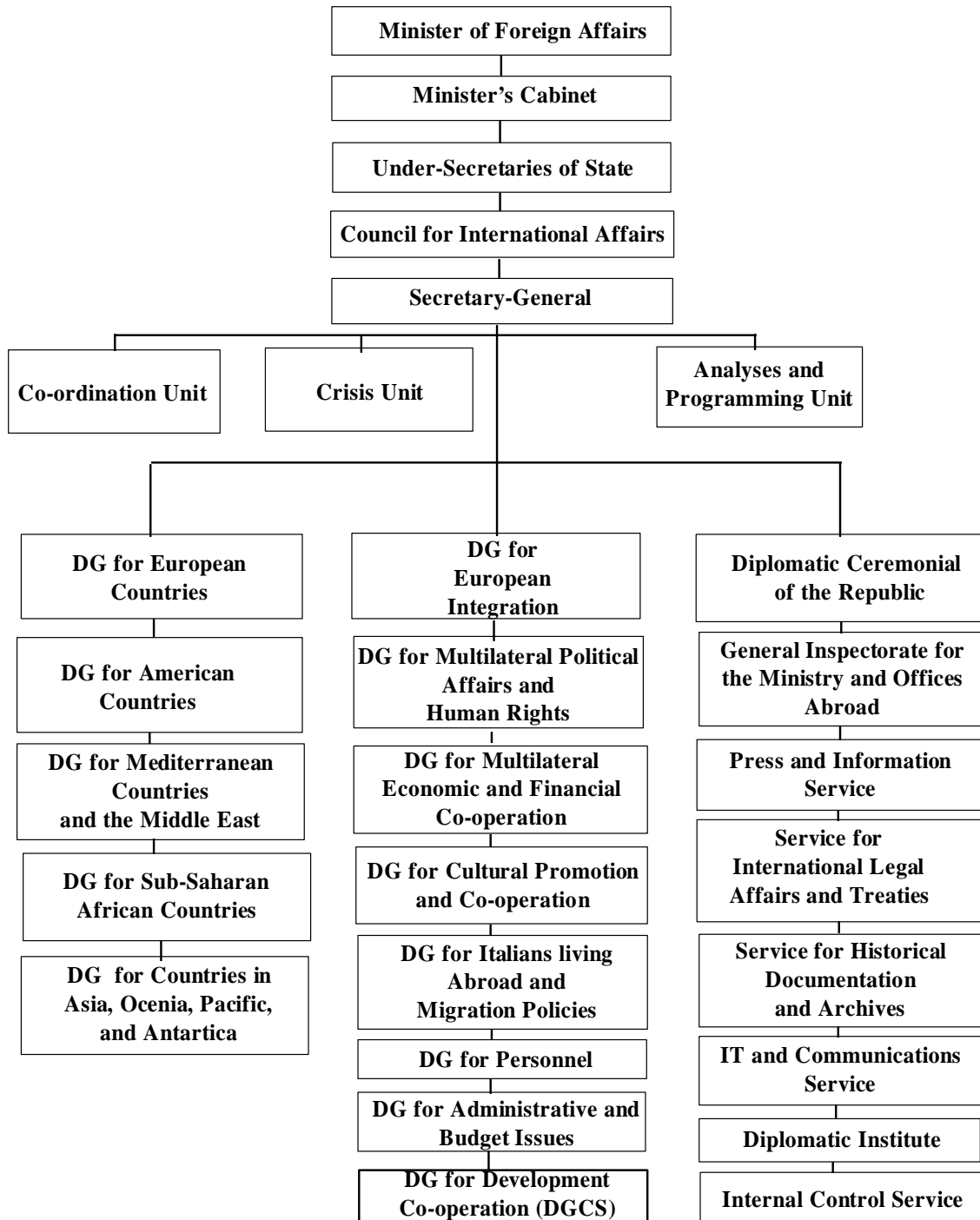
Law No. 49 (26 February 1987) upgraded the institutional status of the body responsible for the management of Italian ODA. It in fact created a new DGCS in the MFA, which absorbed the functions of the former DIPCO and was entrusted with the task of completing the initiatives launched by the FAI.

If approved, the new law under discussion in Parliament would create a new autonomous IADC, fully responsible for the implementation of the Italian aid programme. In the proposed new framework, the MFA would retain responsibilities over aid policy guidelines, country programming, and overall control of the compliance of the agency’s action with aid policy objectives (the new law would provide, *inter alia* for the possibility of untying, enhanced NGO participation, more decentralised management, and improved procedures).

Until 31 December 1999, the DGCS was one of the main “thematic” Directorate-Generals of the MFA. Since 1 January 2000, MFA reform has created a mixed structure that combines “thematic” and “geographical” Directorates (see Chart 1).

Chart 1. New structure of the MFA

Effective 1 January 2000



Source: MFA.

Until 1996, each under-secretary was entrusted with the responsibility of a region of the world, including the aspects related to development co-operation. Since 1996, though political responsibilities are still attributed to the under-secretaries on a geographical basis, the Foreign Minister has entrusted the responsibility of Italian Co-operation to only one of them, thus favouring an increased consistency between the overall aid programme and Italian foreign policy in the various regions.

With the approval of the new law under discussion in Parliament, the DGCS would disappear. The competencies pertaining to the MFA would be directly entrusted by the Minister of Foreign Affairs to an under-secretary. According to the new law, in case of the need of technical support, which would not be available within the MFA, the under-secretary could use technical expertise seconded by the agency.

In the current reformed structure of the MFA, the DGCS appears to be the only “thematic” Directorate-General that still has geographical desks. In the current situation, enhancing co-ordination between the DGCS and the geographical directorates will be crucial for ensuring coherence of aid and foreign policy objectives. This is particularly true for the Italian action in priority regions of the Italian Co-operation, like the Mediterranean, Middle East, Sub-Saharan Africa and Southeastern Europe.

In January 2000, parallel to the general restructuring of the MFA, the structure of the DGCS was adjusted (see Table 3). The new structure of the DGCS is now composed of twelve offices, two technical units at the headquarters [Central Technical Unit (UTC) and the Evaluation Units] and Local Technical Units (UTLs) in the field. The main changes were the reduction of the number of geographical desks (from six to three) and the establishment of an evaluation unit. As in many other aid institutions, the DGCS structure reflects a combination of geographical, thematic and sectoral functions.

In addition to the above structure, the Secretariat and Technical Evaluation Unit of the Steering Committee should be considered. This is a body directly accountable to the Chairman of the Steering Committee (i.e. the Under-Secretary of State) that controls the quality of the project preparation, or design of all new co-operation initiatives submitted to the Steering Committee for approval.

At the field level, Italian Co-operation has established twenty UTLs, attached to the local Italian Embassies, in the following priority countries:

- **Sub-Saharan Africa (8 UTLs):** Angola, Eritrea, Ethiopia, Kenya, Ivory Coast, Mozambique, Senegal, Uganda.
- **Mediterranean and Middle East (4 UTLs):** Egypt, Morocco, Palestinian Territories, Tunisia.
- **Asia (3 UTLs):** China, India, Vietnam.
- **Latin America (3 UTLs):** Argentina, Bolivia, Guatemala.
- **Europe (2 UTLs):** Albania, Bosnia.

**Table 3. Functional distribution of responsibilities within the DGCS**

<b>Functions</b>	<b>Structure</b>
Policy analysis, planning and statistical reporting	<b>Office I</b> is responsible for defining sectoral policies, planning and programming financial resources, statistical reporting and database, annual reporting to Parliament and public information activities
Relationships with international organisations and the EC	<b>Office II</b> is responsible for the 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	<b>Offices III, IV and V</b> are responsible for aid initiatives in Europe, the Mediterranean Basin, the Middle East; Sub-Saharan Africa; Asia and Latin America, respectively [each office in collaboration with the respective MFA geographical DG]. They are in particular responsible for country programming and disbursement of funds pledged within bilateral agreements
Emergency operations and food aid	<b>Office VI</b> is responsible for the response to man-made and natural disasters, through emergency actions and food aid planning (including relationships with specialised international organisations)
Relationships with Italian NGOs	<b>Office VII</b> is responsible for assessing activities of NGOs, in view of granting official recognition and therefore access to DGCS funding, co-financing NGO-promoted projects, verifying the status of volunteers and other expatriate experts ( <i>Cooperanti</i> ) employed by NGOs within co-financed projects
Relationships with IFIs	<b>Office VIII</b> is responsible for the so-called “financial co-operation,” that includes private sector development and balance of payment support, including soft loans and debt reduction actions
Training and scholarships in Italy	<b>Office IX</b> is responsible for the funding of training courses organised in Italy on development co-operation issues and for the management of the scholarships programme
Legal affairs	<b>Office X</b> provides legal advice related to bidding procedures, contracting and managing claims against the administration
Procurement	<b>Office XI</b> is responsible for procurement related to both the operation of the DGCS and the implementation of DGCS-directly managed projects in partner countries
Personnel	<b>Office XII</b> is responsible for the personnel with fixed-term contracts or seconded to the DGCS, and of the DGCS administrative management of UTLs
Technical advice in PCM	<b>UTC</b> is responsible for the technical support related to project identification, formulation, appraisal, monitoring and evaluation
Evaluation	The <b>Evaluation Unit</b> is responsible for carrying out evaluation activities and providing elements for feedback from evaluation results
Quality control	Secretariat and Technical Evaluation Unit ( <i>Nucleo di Valutazione Tecnica</i> ) of the Steering Committee

Source: MFA, March 2000.

## **Staffing**

### ***Human resources***

There are four main categories of personnel in the DGCS:

- **Career foreign service officers:** They hold all senior management positions in the structure, with the exception of some administrative functions and the UTLs in the field, whose directors are experts of the UTC.

- **Other civil servants from the MFA:** who provide other forms of administrative support, and are subject to turn over as well, as they are also assigned on a shift basis to duty stations abroad and/or other offices of the MFA.
- **Personnel on secondment:** by other Ministries and public administrations to the MFA, who are employed either as programme officers or administrative support staff.
- **Development experts (*Esperti*):** Law No. 49/87 identified two types of such experts: sectoral or thematic specialists who work in the UTC, and specialists with a previous record of service in international organisations assigned to other DGCS thematic or geographical desks. Law 49/87 has provided for 120 UTC experts' posts, and 30 posts of the latter type. Both are hired on a fixed-term basis based on a national competitive selection.

### *Reduction of staff*

The aggregate data on DGCS staffing shows a trend towards reduction of personnel, with 467 staff at present, 530 in 1996 during the previous review, and 580 in 1993<sup>7</sup>, with an overall decrease of more than 11.8% in the four-year period 1996-99. An increased workload by technical staff – despite the relative decrease of the aid volumes that took place in the same period - can be inferred by the composition of the personnel according to the above categories, as shown in Table 4.

**Table 4. DGCS staff**

As of 31 December 1999

<b>Personnel</b>	<b>Number</b>
Of the MFA, of which:	<b>196</b>
• Foreign service officers	(29)
• Administrative staff	(167)
Personnel seconded to the MFA by other public administrations (all administrative staff)	<b>158</b>
Development experts (Law No. 49/87) of which:	<b>92</b>
• UTC	(68)
• Other offices of the DGCS	(24)
Consultants and advisors	<b>21</b>
<b>Total</b>	<b>467</b>

Source: MFA, March 2000.

Indeed, after a decrease from USD 2.416 million in 1996 to USD 1.266 million in 1997, Italian ODA reached USD 2.278 million in 1998, and the Italian authorities do not expect that 1999 ODA flows will exceed the previous year's level. In terms of personnel, therefore, the Italian Co-operation totalled twice the rate of decrease in terms of ODA volumes (-11.8% as opposed to -5.7%).

7. OECD/DAC, *Italy*, Development Co-operation Review Series, Paris, 1996, No. 16, page 13.

Out of 150 expert positions provided for by the current Law 49/87, only 92 are actually filled. Furthermore, out of the 68 experts who provide the main technical support for PCM-related appraisal activities, 21 have been assigned to UTLs, thus leaving only 47 development experts with the responsibility of technical backstopping at the headquarters level. Even the 30 positions of experts hired from international organisations, who play an essential role in providing technical advice in the country programming-related activities as well as programme officers in thematic desks, are not completely filled.

The DAC missions to Ethiopia and WBG suggested that the technical expertise at headquarters is insufficient and is one factor explaining the delays in Italian aid project implementation. In addition, at the field level, UTLs appear to be understaffed as both field missions stressed. It would be reasonable to expect UTLs to have professional officers in each of the priority sectors of the Italian Co-operation. In addition to supervising aid programme implementation, donor co-ordination is a time-consuming - albeit necessary - activity.

The DGCS management is aware of these needs. In view of the approval of the new law, hiring of new experts was frozen in 1998, when the last national competitive selection for 18 positions of UTC experts was cancelled. Both DAC missions to Ethiopia and WBG assessed the impact of the shortage of technical capacity at the field level, and the consequences of insufficient backstopping by the headquarters, due to the limited amount of DGCS experts at headquarters, on the implementation of the aid programmes. It was observed, for example, that the Swedish Agency for International Development (Sida) has about 165 professionals for an overall programme smaller – in absolute terms – than that of Italy.

### *Incentive structure*

The incentive/disincentive structure of the various categories of personnel should also be considered:

- The service of foreign service officers is characterised by a high turn-over, as their career structure implies periodic assignments to diplomatic missions abroad. An even coverage of the various fields of the Italian diplomatic service favours career advancement, while an excessive specialisation in development co-operation is seen as a potential disincentive. Consequently, there is little incentive for foreign service officers to chose development co-operation as their main field of professional interest. This could partly explain the decrease of foreign service officers in the DGCS, from 47 in 1996 to 29 in 1999 (-38.3%).
- DGCS institutional memory is hindered by the high turn-over of MFA staff. Moreover, their duty stations are not necessarily in developing countries or in UTLs. Again, specialisation on development co-operation issues is not favoured by the institutional culture. The MFA administration staff in the DGCS, other than foreign service officers, decreased from 202 in 1996 to 167 in 1999 (-17.3%).
- The secondment of public service personnel to the DGCS is periodically subject to the approval of the respective administrations, and secondment of civil servants has become increasingly difficult recently as a consequence of the reform of the Italian public administration. Though there was a slight increase in the seconded staff, from 139 in 1996 to 158 in 1999 (+13.6%), it is difficult to assess how many staff went back to their administrations, and therefore, the extent of actual turn-over in this category. The relative

increase in the number of seconded staff is explained by the use by the DGCS of the instrument of secondment to fill the gaps created by defaults in other categories.

- A structural disincentive consists of the lack of a career structure for development experts. Another disincentive lies in the fact that in 1998, in view of the discussion in Parliament of the new law on development co-operation, the duration of their fixed-term renewable contract was shortened by the MFA from four years to one year. In 1995, there were 138 experts in the DGCS, 89 in the UTC and 25 from international organisations in 1999. The “attrition” rates, i.e. development experts that left the DGCS from 1995 to 1999 are -23.6% (UTC) and -4% (other DGCS offices), respectively.

Foreign aid management is a profession that needs to be fostered and nurtured. Staff careers in aid management need to be encouraged. Increased professionalism should be favoured through field experience, rotation between headquarters, service at UTLs and work on projects in the field.

The modification of existing legislation would be a crucial element to enable a new aid management culture to emerge.

### *Skill mix*

An analysis of the UTC’s skill mix provides information on the sectoral or thematic expertise used by the DGCS to pursue the priorities of the Italian aid programme. Data on UTC’s skill mix are analysed by the DAC *Scoping Study on Poverty Reduction*. The study assessed the adequacy of skill availability in the DGCS with respect to the overarching objective of poverty reduction. The independent assessment identified strengths in health care, agriculture and physical infrastructures, an adequate level of skills related to effective poverty reduction in the fields of institution building, environment, natural resources, and education/training, and weaknesses in the areas of social development, economics, gender and governance<sup>8</sup>.

The same study described the distribution of UTC experts’ professional specialisation as of November 1998. The highest incidence regards inter-disciplinary specialists, i.e. task managers or experts who focused on integrated programmes or NGO programmes. Apart from them, four specialisations (health, agriculture, industry/energy and civil construction) accounted for 55% of the total. The survey also showed low percentages of experts specialised in priority areas for the Italian Co-operation, like social development, gender and environment (see Table 5).

The Italian Co-operation should pay more attention to building a more balanced skill mix in its structure, consistently with the priorities adopted in its aid programme, particularly in the fields of country strategy elaboration and social development. This will apply either to the scenario of a new law, or to the perspective of continuing to manage aid within the existing legal framework.

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8. *Foreign Aid and Poverty reduction Policies. The Case of the Italian Development Co-operation*, OECD-DAC Scoping Study on Members’ Poverty Reduction Efforts, Final Draft, Rome, December 1998, page 17.

**Table 5. Professional specialisation of UTC experts**

November 1998

<b>Specialisation</b>	<b>Number</b>	<b>Percentage</b>
Inter-disciplinary	13	18.3%
Health	11	15.5%
Agriculture	11	15.5%
Industry/Energy	9	12.7%
Civil Constructions	8	11.3%
Hydraulics	4	5.6%
Economics	4	5.6%
Training	2	2.8%
Environment	2	2.8%
Transport and Communications	2	2.8%
Informatics	1	1.4%
Fishery	1	1.4%
Women	1	1.4%
Social Development	1	1.4%
Telecommunications	1	1.4%
<b>Total</b>	<b>71</b>	<b>100.0%</b>

*Source: DAC Scoping Study on Members' Poverty Reduction Efforts.*

### ***External professional expertise***

An important element of the management of any aid agency is its capacity to mobilise the necessary professional expertise needed to perform its duties. Another aspect related to this issue is the capacity to deploy both international and national expertise at a country or regional level for the execution of the various tasks related to the definition of country or sector strategies, as well as the design, appraisal and implementation of programmes and projects.

The DGCS management stressed that some constraints need to be removed under the current normative framework to fully mobilise all the necessary expertise, other than that which is available in-house. In this perspective, the new law could be crucial in providing the agency with the necessary degree of autonomy and flexibility in recruiting consultants that the current laws regulating public administration do not allow the DGCS. In the present setting, individual consultants can be hired for the completion of tasks within development projects abroad. The DGCS management has recently reformed its procedures for the selection of individual consultants. Clear job descriptions and terms of reference are drafted for each new position in the field and vacancy notices are regularly published in national newspapers, which is a substantive improvement with respect to previous procedures. In the past, consultants were selected by a roster updated by the DGCS. While the new system has increased the transparency of the selection process, it could not solve what appears to be a “structural” administrative constraint. In fact, any service rendered before or after what the public administration defined as a co-operation mission cannot be procured without undertaking a complex bidding procedure.



In this respect, it will be crucial to find forward-looking solutions that will allow a systematic use of professional expertise - irrespective of the scenario for the future development of Italian aid – for all the technical activities that need to be performed by external consultants. Procedures for hiring consultants and for the procurement of consultant services should be streamlined in compatibility with practices adopted in the EU. Experienced local consultants should be used, not only for cost-effectiveness, but also to build local capacities. In a partnership perspective, Italian ODA could focus its capacity development action on building institutional capacities in partner countries for an increased ownership of the aid programmes.

## **Management procedures**

### ***Objective and target setting***

CIPE sets the guidelines for development co-operation objectives, while the Minister of Foreign Affairs defines strategic objectives in an annual report to Parliament.

Based on that report, the Director-General for Development Co-operation submits to the Minister of Foreign Affairs a proposal for planned actions with a projection over a three-year period. Once the Minister has approved the proposal, the DGCS submits to the Steering Committee's approval, a planning document for the three-year period. The planning document contains three-year indicative forward projections, subject to annual review, and consistent with the strategic objectives established by the Minister.

### ***Budgetary procedures***

The Italian public sector is undertaking a wide-ranging reform as of the second half of the 1990s, aimed at rationalising public expenditure, streamlining administrative procedures, introducing criteria of quality control and accountability in public management, reforming the range of responsibilities of senior management and decentralising responsibilities to peripheral levels. This package of measures is known as the "Bassanini Reform," after the minister who led the reform process in the Italian cabinet. In the same period, public expenditure processes have been closely monitored in order to comply with the criteria set forth in the Maastricht Treaty, thus allowing Italy to join the European Monetary Union (EMU) and the Euro Zone.

Both of the above factors have affected budgetary processes in the management of Italian ODA. Cost-effectiveness is systematically considered in defining budgets by geographical and thematic desks. Since 1993, efforts have been made at enhancing administrative procedures and they have increased transparency and accountability of the Italian ODA. This confirms the positive trend already assessed by the 1996 DAC Peer Review.

However, the existing administrative procedures are still too complex. In line with the Italian public sector reform, further administrative simplification would allow the Italian Co-operation to increase its efficiency. Both at the headquarters and at the field level the workload of staff is greatly increased by cumbersome administrative requirements, not always justified in terms of the results achieved. Overall, there is a tendency to multiply administrative *ex ante* controls without focussing on impacts and results on the ground. Audit control requirements require formal compliance with administrative rules that are perhaps valid for the Italian public administration, but are not adapted to local legal frameworks in partner countries.

Another aspect that deserves attention is decentralisation. One of the dominating trends in modern management in general, and aid management in particular, is delegation of authority. The rationale being that decisions will be better if they are taken as close to where the action takes place as possible. In aid management, this means that there is a trend toward increasing the authority of donors' field missions. This trend obviously manifests itself differently for different donors, but is a general pattern across the donor community.

In the case of the Italian Co-operation, UTLs have no formal authority for decision-making. All decisions concerning approval of new initiatives and/or amendments to ongoing projects are taken at central level by the DGCS in Rome. Funds transferred locally can be spent only within the limits of project documents previously approved by the DGCS. A certain degree of flexibility has already been introduced, and headquarters takes most suggestions made by the UTLs and diplomatic missions into account. An active and positive collaboration exists between headquarters and the field. Nevertheless, no formal authority is vested in the UTL to, for instance, adjust approved projects to take into account changed circumstances on the ground. However, a new approach has been recently launched delegating more responsibility at the local level, including project preparation and appraisal.

The DAC field missions recommended further rationalisation of administrative procedures, by delegating authority to field missions, increasing ownership of aid programmes by partner countries, and avoiding the stop and go of disbursements related to annual parliamentary approval of aid budget.

#### ***Guidance, direction and screening procedures***

After the 1996 DAC Peer Review, the DGCS launched a five-day briefing sessions for its new staff. This has improved their knowledge of the aid structure, its objectives and procedures.

In 1995, the Steering Committee approved the adoption of a PCM system consistent with the one used by the European Commission and other international organisations. A set of documents, produced by an internal Task Force, was also approved on that occasion. This includes a PCM manual, a glossary of terms used in PCM, and a handbook for the use of logical framework analysis in project/programme appraisal.

The use of PCM and logical framework approach has improved the quality of financing proposals submitted to the Steering Committee for approval. The Secretariat and Technical Evaluation Unit (*Segreteria e Nucleo di Valutazione Tecnica*) of the Steering Committee ensure quality control of such proposals, by using a checklist drawn on the basis of the key questions posed within a logical framework approach. The Technical Evaluation Unit is a multidisciplinary team composed of five UTC experts who, upon their appointment by the Steering Committee, should leave their operational assignments to work full-time on quality control. In 1998, the *Nucleo* assessed 318 proposals submitted to the Steering Committee. Based on its remarks, the Secretariat of the Steering Committee sent 19.8% of the proposals back to the DGCS for revision. However, about 99% of the proposals assessed by the *Nucleo*, were finally approved by the Steering Committee, as compared to 87.5% in 1996. This trend shows an improvement of the quality of the financing proposals since the last Peer Review, and indirectly confirms that the structure has increasingly been applying the new PCM tools introduced in 1995.

However, an operational manual for DGCS, providing a clear and coherent picture of the complex body of procedures used by the Italian Co-operation to manage its programme is not yet available. Such a tool could be helpful for DGCS staff and for professionals and international institutions involved in the implementation of the programme, and for partner countries, local administrations and

NGOs, by clarifying the implementation modalities of Italian aid. An example of this approach is in the Ethio-Italian Country Programme, whose annex on implementation modalities provides such information with specific reference to the Ethiopian context.

### ***Monitoring and review systems***

In 1995, an Evaluation Group directly accountable to the Director-General for Development Co-operation was established in-line with the provisions of the PCM adopted by the Steering Committee in the same year and with the DAC principles on aid evaluation. The Evaluation Group prepared the first comprehensive planning document for evaluation activities, the “1997-1999 Planning document for the ongoing and *ex post* evaluation activities,” approved by the Steering Committee in March 1997. As already mentioned, in January 2000, the DGCS has established an Evaluation Unit.

Since 1997, the DGCS selects evaluation consultants through competitive bidding procedures. Major changes included a greater care in the preparation of terms of reference, the involvement of local consultants in evaluation activities and the production, for the first time, of evaluation reports in English and French. Further changes concerned the launching of three major synthesis evaluations of the Italian aid to Sub-Saharan Africa, of aid in the education and training sectors and of the financial instruments to promote the setting up of joint ventures in developing countries.

Areas for improvement include an enhanced feedback of evaluation activities within the DGCS structure, an increased partnership with local partners in aid evaluation and a systematic dissemination of evaluation results to the wider public. In addition, the Evaluation Unit appears to be understaffed, with only five experts who are also involved in the quality control work as members of the Technical Evaluation Unit of the Steering Committee.

Italy is active in mid-term reviews and joint supervisory missions of multi-bilateral projects co-financed with, or entrusted to, international organisations and the IFIs. Monitoring and aid co-ordination at the country level has improved with the establishment of the UTLs though, as already observed, a greater delegation of authority to field offices would make feedback more effective. Further improvement is expected by the preparation of the first monitoring and evaluation manual, to be completed by the end of the year.

The new draft law recognises the essential role of evaluation. It requires the establishment in the agency of “a monitoring and evaluation system aiming at verifying relevance, effectiveness, efficiency, impact and sustainability,” from an institutional, economic, financial, social, cultural and environmental point of view of the financed projects and programmes. It also provides for feedback and dissemination of evaluation results (Article 13).

### ***Accountability procedures***

The Minister of Foreign Affairs submits an annual report of aid activities to Parliament. It provides a comprehensive account of the main trends, objectives, aid volumes, policy guidelines and programme activities performed during the year.

However, Parliament expressed an interest in playing a more pro-active role with respect to the control of the Italian aid. During the discussion of the new draft law, the Senate Foreign Affairs Committee took into account the possibility of assigning evaluation functions on the overall programme

performance to a joint commission. Though this proposal was not approved, the final draft stresses that the parliamentary committees dealing with foreign affairs, finance and treasury issues can carry out “investigations, inspections and monitoring activities on whatever co-operation initiative” (Article 11).

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.

Aid management needs to be consolidated within the DGCS, building on reforms made since the 1996 DAC Peer Review. The DGCS still lacks the autonomy and flexibility an aid agency needs. Cumbersome operational and administrative procedures have posed problems to the efficient implementation of bilateral aid programmes. While many improvements have been made in recent years, the body of administrative rules and regulations is still too complex. This prevents the DGCS from focusing on impact and results on the ground, and seems to play a role in the increasing resort of Italian aid to multilateral and multi-bilateral channels. Greater delegation of authority to field missions and a strengthened technical structure would increase efficiency.

The draft law points to a new direction, leading to the creation of an IADC. Virtually everyone consulted by the DAC Mission urged a speedy approval of the new law to overcome the constraints posed by the current institutional and legal framework.

However, efforts should not be spared to continue to improve the performance of the DGCS within existing constraints. Even the most optimistic scenario of approval of the law would imply a transition period, with an essential role played by the existing structure.

## **CHAPTER 6**

### **COUNTRY OPERATIONS**

#### **Country strategies and programming**

Italy's country programming, involving the budgeting, selection and design of projects, is relatively well-defined. On the other hand, country analysis and country strategy work is still taking shape. Bilateral CPs are jointly formulated with partner countries, with the added element that a large share of CPs is channelled through multilateral institutions so that trilateral consultation and agreement are required. Sometimes, Italy makes joint appraisal missions with international organisations.

Italy's national budget is based on a three year planning cycle, but actual appropriations are made on an annual budget cycle. The DGCS has learned that preparing CPs is a complex exercise, requiring time and effort by the donor and partner country. CPs also risk becoming quickly out of date because of internal upheavals in developing countries. One prepared for Albania in 1996 quickly became out of date when Albania's domestic events overtook it. The DAC Missions to WBG and Ethiopia found that field offices in those locations and DGCS geographic desks had taken up the challenge of preparing country strategies and that these have been finalised and approved. In addition, country strategies are in various stages of preparation and approval for Albania, Mozambique, Tunisia, Morocco and Uganda. The Steering Committee has approved CPs for South Africa and Eritrea. Lack of staff prevents the preparation of country strategies for other partner countries.

The sectoral guidance documents that are in various stages of preparation and approval, and in some cases have already been approved and published, provide appropriate policy guidance for country strategies. Eventually, specific, practical guidance on the preparation of country strategies, based on checklists and lessons learned, would be helpful to field posts. The DAC report on the mission to WBG suggested that the process adopted by Italy's UTL there could be used as a model.

#### **Approach in relations with partners**

The Ethiopian case shows that, if a stable and peaceful environment is ensured, five factors are crucial in the preparation of high quality, comprehensive and country-owned CPs:

- The priority attributed by the Italian Co-operation to a partner country.
- Clear, national development policies favouring SWAPs.
- A high level of donor co-ordination.
- The availability of committed staff, at both the central and field level.

- The possibility to recruit experienced consultants, with a good knowledge of the local context and an appropriate skill mix.

The DAC field missions to WBG and Ethiopia suggest that Italy practices partnership principles in its bilateral programmes (Box 3). Basically, Italy attempts to respond to partner country needs to the extent possible within Italy's own procedures and accountability mechanisms as well as the trilateral nature of so many of its programmes.

### Box 3. Field Missions to Ethiopia and WBG provide insights into Italian aid management

To prepare the DAC Peer Review of Italy, joint missions of DAC Examiners (Sweden and Canada) and the OECD Secretariat visited Ethiopia and WBG to view Italian development co-operation in the field. The development challenges differ: Ethiopia, having pervasive poverty, while the WBG, under Palestinian administration, is emerging from the complex Middle East Peace Process (MEPP) with a level of economic development and GNP per capita, considerably higher than that of Ethiopia. However, conclusions about the conduct of Italian aid development co-operation were quite similar.

**UTLs and CPs:** In both Ethiopia and WBG, the creation of UTLs in 1997 were watersheds, bringing stronger partnership and improved planning, leading to the preparation of CPs (the Ethiopian-Italian CP 1999-2001 was signed in June 1999 and the Palestinian-Italian CP was finalised and signed in May 2000). Both CPs were prepared in partnership and mark major improvements in the programming of Italian aid, which moved from a project-by-project approach to a more strategic, programmatic approach.

**Some promising activities and well-chosen niche projects:** In both places, Italy has backed some promising activities. In Ethiopia, the Arsi-Bale Rural Development Programme and North Wollo Rural Infrastructure and Basic Services Rehabilitation are both aimed at alleviating rural poverty, including women. In Gaza, an innovative women's health and family planning project in the Jabalia Refugee Camp is helping to empower Palestinian women, and there are income-generating activities for women's enterprises. The Palestinian NGO Project with the World Bank and Saudi Arabia, a demand driven programme in which NGOs, in consultation with beneficiaries put forward poverty alleviation projects, provides services to the poor and builds Palestinian NGO capacity. These are examples from among a number of well-chosen activities that the missions encountered in the field.

**Gender Sensitivity:** The DGCS has improved in integrating gender considerations into its programmes, and in some cases promotes excellent WID projects, such as in Gaza. Gender sensitivity seems to be progressing in Italian aid.

**Partnership and poverty alleviation:** Indications from both missions were that Italy is working hard to promote partnership and to put poverty alleviation on a higher priority than before.

**Aid co-ordination:** Italy plays a strong leadership role as Shepherd for public health in WBG, and in both WBG and Ethiopia, co-ordinates well with local authorities and donors. The multilateral orientation of Italy's programme tends, almost automatically, to assure strong co-ordination with the major donors.

**Peace, conflict and development:** As in other parts of the world, notably Central America, Italian officials have been involved in the peace processes both in Ethiopia in conflict with Eritrea, and in WBG as part of the MEPP. The DGCS and development co-operation have played an important role in these peace processes.

*However, both field missions noted some systemic problems in the aid management:*

**Aid administration:** There are considerable delays in implementation and disbursements due to the chain of review and approval stretching back to headquarters. Bilateral projects are excessively complicated to implement.

**Lack of field delegation of authority:** Field representatives, who are all on contract and are not permanent staff, lack any real authority. This hampers field administration because too many decisions must be referred to headquarters.

*continued*

**Shortage of capacity in UTLs:** Based on an analysis of the workload, size and complexity of the programmes, both UTLs were understaffed.

**Cumbersome procedures:** It is a testimony to the perseverance and abilities of Italy's UTL staff that the links are maintained and activities go forward in such a difficult system. Both missions felt administrative improvements should be sought to streamline the aid system.

**Institutional outsourcing arrangements for project implementation:** Partnership calls for implementing projects with partners. Outsourcing arrangements avoid this by creating, or using a separate organisation for project implementation. This was a prevalent practice in both instances.

**Use of evaluations to promote dialogue with partners:** In neither case were project evaluations used to promote dialogue.

**Sustainability:** Some past infrastructure projects - roads, hospitals, clinics – were of doubtful sustainability, but even some grass roots community projects were in the same category. The DGCS programme will need to pay more attention to sustainability, through more government involvement or income generation. No opinion about sustainability could be made about major loan programmes to the Palestinian Authority by *Mediocredito* for an energy project and another loan yet to be finalised for commodity imports.





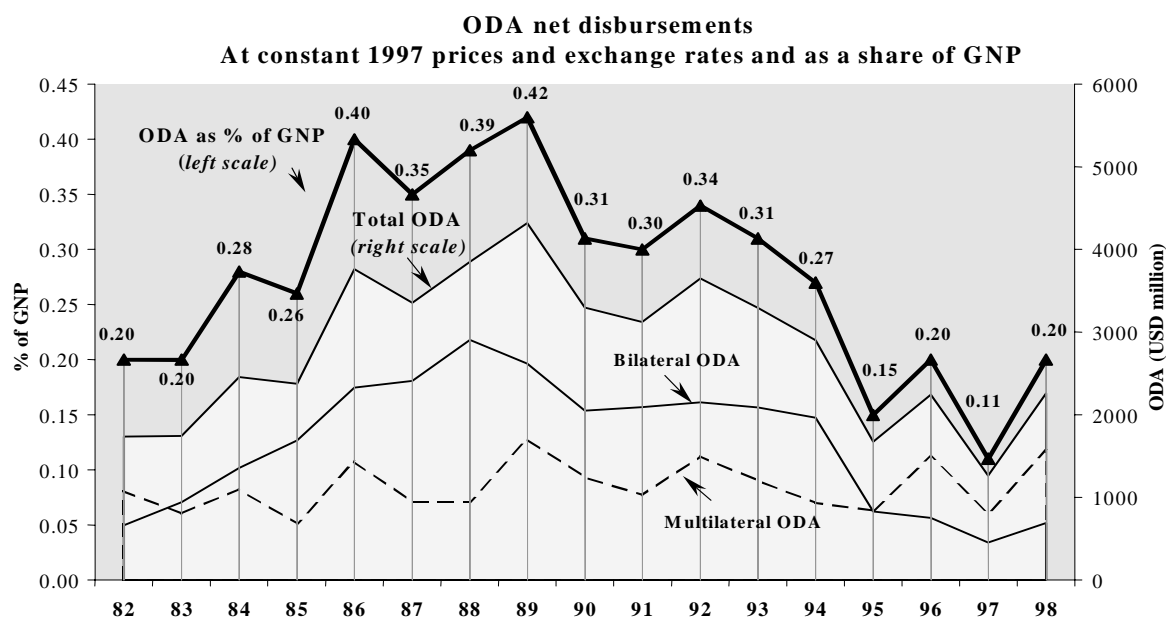
**ANNEX I**  
**STATISTICS OF AID AND OTHER FLOWS**

Table I.1. Total financial flows

USD million at current prices and exchange rates

Italy	Net disbursements						
	1982-83	1987-88	1994	1995	1996	1997	1998
<b>Total official flows</b>	<b>1 428</b>	<b>3 790</b>	<b>4 656</b>	<b>5 050</b>	<b>4 752</b>	<b>2 483</b>	<b>2 333</b>
Official development assistance	822	2 904	2 705	1 623	2 416	1 266	2 278
Bilateral	379	2 143	1 834	806	811	454	697
Multilateral	443	761	870	817	1 604	812	1 581
Official aid	n.a.	n.a.	196	286	294	241	243
Bilateral			13	12	12	6	3
Multilateral			183	274	283	235	240
Other official flows	606	886	1 756	3 141	2 043	977	- 188
Bilateral	609	881	1 802	3 146	2 043	977	- 188
Multilateral	- 3	5	- 46	- 5	-	-	-
<b>Grants by NGOs</b>	<b>3</b>	<b>18</b>	<b>57</b>	<b>25</b>	<b>31</b>	<b>41</b>	<b>43</b>
<b>Private flows at market terms</b>	<b>2 614</b>	<b>- 257</b>	<b>-2 143</b>	<b>-2 325</b>	<b>507</b>	<b>9 116</b>	<b>14 900</b>
Bilateral: <i>of which</i>	2 614	- 257	-2 143	-2 325	507	9 116	14 900
Direct investment	620	714	230	437	609	2 404	2 841
Export credits	1 933	-1 851	-3 208	-1 748	-2 451	-1 503	950
Multilateral	-	-	-	-	-	-	-
<b>Total flows</b>	<b>4 046</b>	<b>3 552</b>	<b>2 570</b>	<b>2 750</b>	<b>5 290</b>	<b>11 640</b>	<b>17 276</b>
<i>for reference:</i>							
ODA (at constant 1997 \$ million)	1 741	3 603	2 903	1 674	2 245	1 266	2 258
ODA (as a % of GNP)	0.20	0.37	0.27	0.15	0.20	0.11	0.20
Total flows (as a % of GNP <sub>d</sub> )	0.99	0.45	0.34	0.26	0.39	0.71	1.13

a. To countries eligible for ODA.



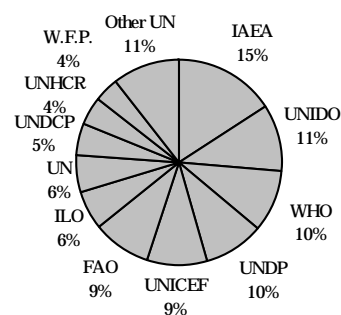
Source: OECD.

Table I.2. ODA by main categories

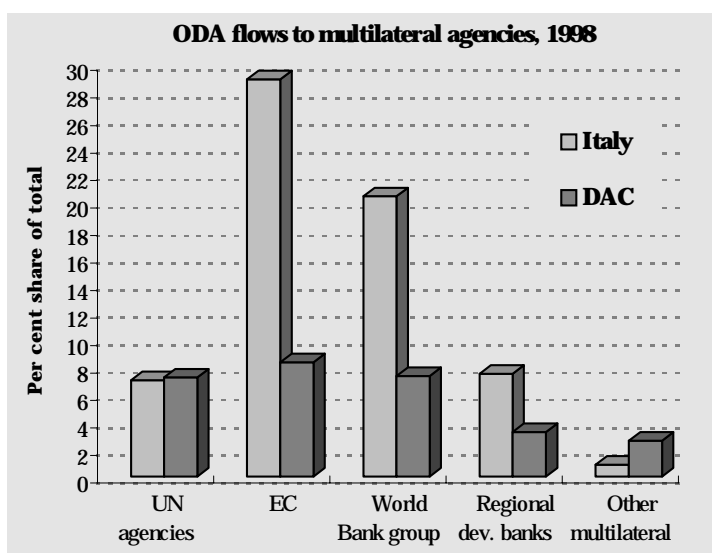
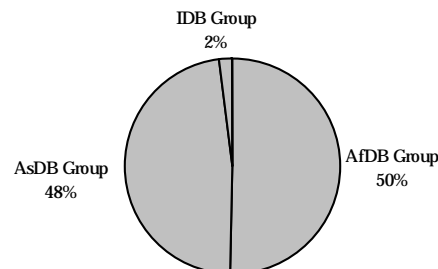
Italy	Constant 1997 USD million					Per cent share					Total DAC 1998%
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
	<b>Bilateral</b>	<b>2 125</b>	<b>1 175</b>	<b>876</b>	<b>601</b>	<b>858</b>	<b>69</b>	<b>58</b>	<b>37</b>	<b>43</b>	
Project and programme aid											
Grants	265	139	221	168	151	9	7	9	12	6	13
Loans	1 411	547	383	241	239	46	27	16	17	10	16
Technical co-operation	135	84	55	58	40	4	4	2	4	2	22
Developmental Food aid (a)	76	53	55	16	39	2	3	2	1	2	2
Emergency and Distress relief (a)	113	91	90	50	21	4	4	4	4	1	5
Action relating to debt	15	174	-	20	267	0	9	-	1	11	6
Core support to NGOs	35	37	35	23	20	1	2	1	2	1	2
Administrative costs	74	49	35	26	30	2	2	1	2	1	5
Other grants	5	1	1	-	51	0	0	0	-	2	2
<b>Multilateral</b>	<b>934</b>	<b>843</b>	<b>1 491</b>	<b>812</b>	<b>1 567</b>	<b>31</b>	<b>42</b>	<b>63</b>	<b>57</b>	<b>65</b>	<b>29</b>
UN agencies	204	152	201	164	170	7	8	8	12	7	7
EC	658	654	512	614	701	22	32	22	43	29	8
World Bank group	23	20	407	17	494	1	1	17	1	20	7
Regional development banks (b)	4	2	315	1	181	0	0	13	0	7	3
Other multilateral	45	15	56	16	21	1	1	2	1	1	3
<b>Total gross ODA</b>	<b>3 059</b>	<b>2 018</b>	<b>2 367</b>	<b>1 413</b>	<b>2 425</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Repayments	- 156	- 343	- 122	- 148	- 167						
<b>Total net ODA</b>	<b>2 903</b>	<b>1 674</b>	<b>2 245</b>	<b>1 266</b>	<b>2 258</b>						
<b>For reference:</b>											
<i>Aid channelled through NGOs</i>	12	6	-	46	21						
<i>Associated financing (c)</i>	146	121	-	-	-						

a. Emergency food aid included with Developmental Food Aid up to end 1995.  
 b. Excluding EBRD.  
 c. ODA grants and loans in associated financing packages.

UN Agencies  
(1997-98 Average)



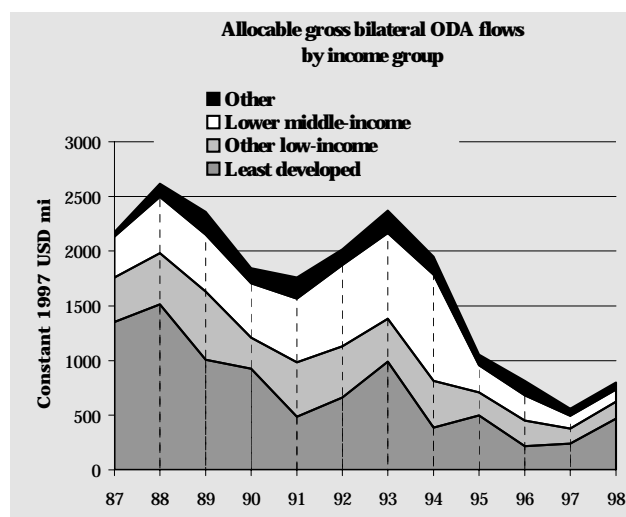
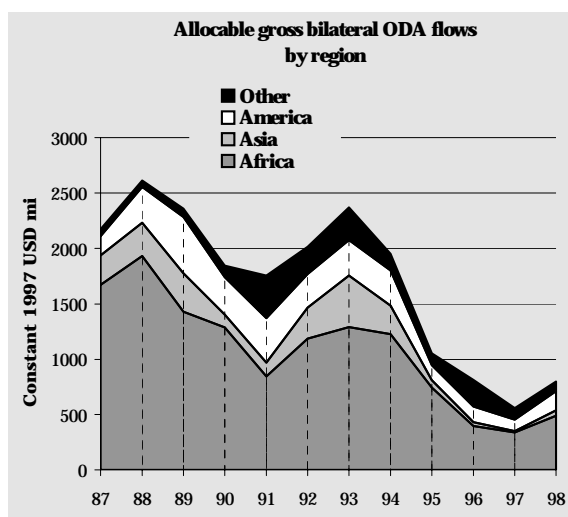
Regional Development Banks  
(1997-98 Average)



Source: OECD.

Table I.3. Bilateral ODA allocable by region and income groups

Italy	Constant 1997 USD million					Per cent share					Total DAC
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	1996%
<b>Africa</b>	1 228	746	398	338	491	63	71	49	60	61	<b>36</b>
Sub-Saharan Africa	443	603	310	291	456	23	57	38	52	57	<b>28</b>
North Africa	785	143	89	47	34	40	14	11	8	4	<b>8</b>
<b>Asia</b>	256	65	35	16	48	13	6	4	3	6	<b>39</b>
South and Central Asia	27	26	11	6	6	1	2	1	1	1	<b>14</b>
Far East	229	39	24	10	42	12	4	3	2	5	<b>24</b>
<b>America</b>	318	136	140	101	173	16	13	17	18	22	<b>13</b>
North and Central America	164	45	46	39	118	8	4	6	7	15	<b>7</b>
South America	154	91	94	62	55	8	9	12	11	7	<b>7</b>
<b>Middle East</b>	43	32	75	38	27	2	3	9	7	3	<b>4</b>
<b>Oceania</b>	0	0	-	-	-	0	0	-	-	-	<b>5</b>
<b>Europe</b>	106	76	165	67	62	5	7	20	12	8	<b>4</b>
<b>Total bilateral allocable</b>	<b>1 951</b>	<b>1 054</b>	<b>814</b>	<b>559</b>	<b>800</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Least developed</b>	387	498	216	241	469	20	47	27	43	59	<b>24</b>
<b>Other low-income</b>	427	209	237	136	155	22	20	29	24	19	<b>31</b>
<b>Lower middle-income</b>	974	251	229	120	110	50	24	28	21	14	<b>35</b>
<b>Upper middle-income</b>	163	95	132	63	64	8	9	16	11	8	<b>6</b>
<b>High-income</b>	0	0	0	-	3	0	0	0	-	0	<b>3</b>
<b>More advanced developing countries</b>	1	1	0	-	-	0	0	0	-	-	<b>-</b>
<b>For reference:</b>											
<i>Total bilateral</i>	2 125	1 175	876	601	858	100	100	100	100	100	<b>100</b>
<i>of which Unallocated</i>	174	121	62	42	58	8	10	7	7	7	<b>22</b>



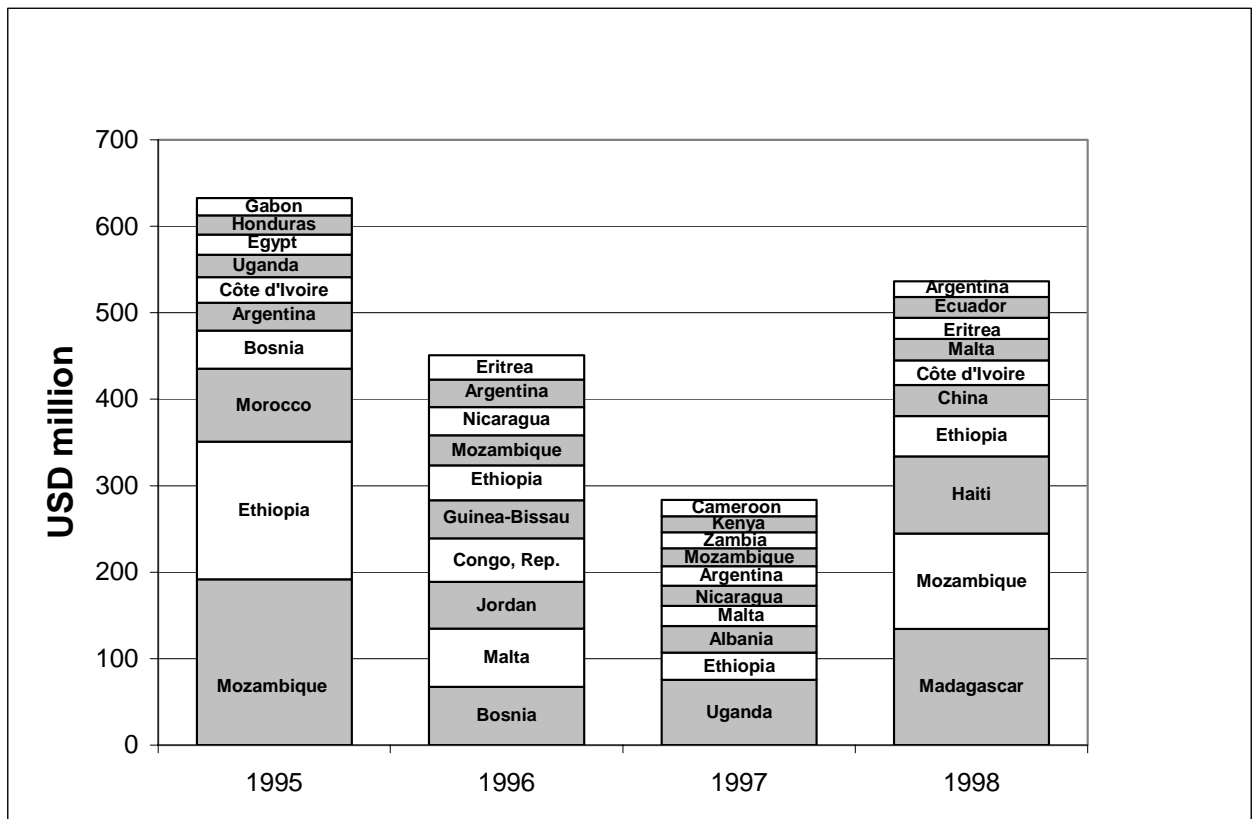
Source: OECD.

Table I.4. Main recipients of bilateral aid

Italy	1987-88			1992-1993			1997-1998				
	Current USD million	Constant 1997 USD mn.	%	Current USD million	Constant 1997 USD mn.	%	Current USD million	Constant 1997 USD mn.	%		
Mozambique	217	266	11	Mozambique	209	195	9	Madagascar	68	67	10
Somalia	215	268	11	Tanzania	195	199	9	Mozambique	65	65	10
Ethiopia	181	223	9	China	172	166	8	Haiti	45	44	7
Tanzania	138	174	7	Egypt	143	141	6	Uganda	40	40	6
China	110	136	6	Argentina	115	114	5	Ethiopia	39	39	6
<b>Top 5 recipients</b>	<b>860</b>	<b>1 068</b>	<b>45</b>	<b>Top 5 recipients</b>	<b>833</b>	<b>815</b>	<b>37</b>	<b>Top 5 recipients</b>	<b>257</b>	<b>255</b>	<b>38</b>
Tunisia	84	104	4	Tunisia	110	103	5	Malta	24	24	4
Sudan	78	97	4	Morocco	97	89	4	Albania	22	22	3
Egypt	77	94	4	Sierra Leone	95	100	4	Argentina	20	20	3
India	51	63	3	Sts Ex-Yugoslavia unsp.	88	91	4	Ecuador	20	20	3
Senegal	48	59	2	Albania	87	81	4	China	20	20	3
<b>Top 10 recipients</b>	<b>1 197</b>	<b>1 485</b>	<b>62</b>	<b>Top 10 recipients</b>	<b>1 311</b>	<b>1 279</b>	<b>59</b>	<b>Top 10 recipients</b>	<b>363</b>	<b>361</b>	<b>53</b>
Congo, Dem. Rep.	46	57	2	Somalia	61	63	3	Eritrea	19	19	3
Pakistan	38	47	2	Philippines	58	58	3	Egypt	17	17	2
Zambia	38	47	2	Indonesia	44	46	2	Senegal	15	15	2
Kenya	35	44	2	Zambia	41	44	2	Côte d'Ivoire	14	14	2
Argentina	28	34	1	Angola	41	39	2	Kenya	13	13	2
<b>Top 15 recipients</b>	<b>1 383</b>	<b>1 714</b>	<b>72</b>	<b>Top 15 recipients</b>	<b>1 555</b>	<b>1 529</b>	<b>70</b>	<b>Top 15 recipients</b>	<b>441</b>	<b>438</b>	<b>64</b>
Angola	28	35	1	Senegal	39	39	2	Nicaragua	12	12	2
Mali	28	34	1	Djibouti	38	38	2	Bosnia and Herzegovina	12	12	2
Peru	28	34	1	Peru	35	38	2	Algeria	11	11	2
Burkina Faso	26	32	1	Turkey	33	34	1	Zambia	11	11	2
Niger	24	30	1	Viet Nam	31	30	1	Honduras	11	10	2
<b>Top 20 recipients</b>	<b>1 516</b>	<b>1 879</b>	<b>78</b>	<b>Top 20 recipients</b>	<b>1 731</b>	<b>1 709</b>	<b>77</b>	<b>Top 20 recipients</b>	<b>498</b>	<b>495</b>	<b>73</b>
<b>Total (108 recipients)</b>	<b>1 931</b>	<b>2 394</b>	<b>100</b>	<b>Total (108 recipients)</b>	<b>2 234</b>	<b>2 193</b>	<b>100</b>	<b>Total (108 recipients)</b>	<b>683</b>	<b>680</b>	<b>100</b>
Unallocated	255	315		Unallocated	259	248		Unallocated	50	50	
<b>Total bilateral gross</b>	<b>2 186</b>	<b>2 710</b>		<b>Total bilateral gross</b>	<b>2 493</b>	<b>2 442</b>		<b>Total bilateral gross</b>	<b>734</b>	<b>730</b>	

Source: OECD.

Figure I.1. **Gross ODA from Italy to top ten recipients, 1995-98**



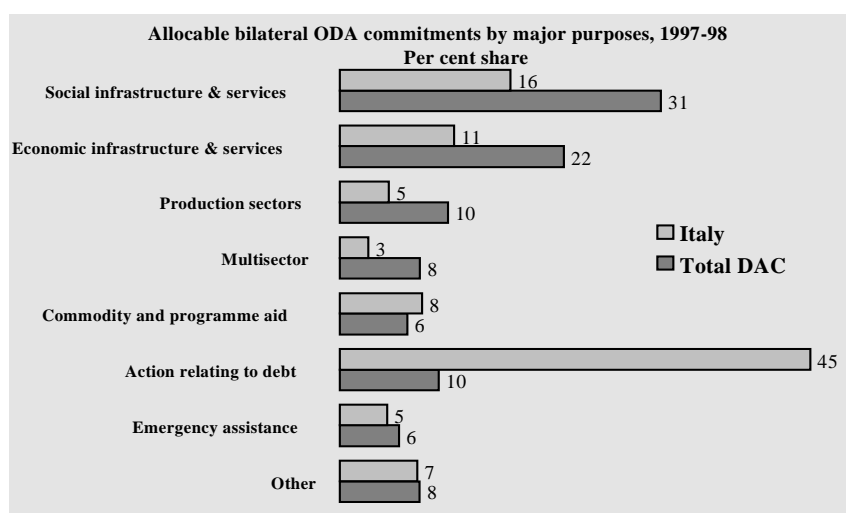
Source : OECD.

Table I.5. **Bilateral ODA by major purposes**

At current prices and exchange rates

*Commitments, two-year averages*

Italy	1987-88		1992-93		1997-98		Total DAC per cent
	USD million	%	USD million	%	USD million	%	
<b>Social infrastructure &amp; services</b>	<b>796</b>	<b>26</b>	<b>348</b>	<b>16</b>	<b>97</b>	<b>16</b>	<b>31</b>
Education	141	5	97	4	27	5	11
of which: basic education	-	-	0	0	0	0	1
Health	263	9	83	4	15	3	4
of which: basic health	-	-	13	1	5	1	1
Population programmes	62	2	0	0	1	0	2
Water supply & sanitation	201	7	115	5	32	5	6
Government & civil society	33	1	10	0	11	2	4
Other social infrastructure & services	95	3	43	2	10	2	4
<b>Economic infrastructure &amp; services</b>	<b>622</b>	<b>20</b>	<b>340</b>	<b>16</b>	<b>65</b>	<b>11</b>	<b>22</b>
Transport & storage	105	3	82	4	5	1	9
Communications	154	5	121	6	45	8	1
Energy	360	12	137	6	14	2	8
Banking & financial services	-	-	-	-	0	0	1
Business & other services	2	0	1	0	0	0	2
<b>Production sectors</b>	<b>817</b>	<b>27</b>	<b>315</b>	<b>14</b>	<b>28</b>	<b>5</b>	<b>10</b>
Agriculture, forestry & fishing	524	17	154	7	21	4	8
Industry, mining & construction	289	9	156	7	5	1	2
Trade & tourism	4	0	5	0	2	0	0
Other	-	-	-	-	0	0	0
<b>Multisector</b>	<b>130</b>	<b>4</b>	<b>112</b>	<b>5</b>	<b>16</b>	<b>3</b>	<b>8</b>
<b>Commodity and programme aid</b>	<b>314</b>	<b>10</b>	<b>186</b>	<b>9</b>	<b>47</b>	<b>8</b>	<b>6</b>
<b>Action relating to debt</b>	<b>176</b>	<b>6</b>	<b>472</b>	<b>22</b>	<b>267</b>	<b>45</b>	<b>10</b>
<b>Emergency assistance</b>	<b>142</b>	<b>5</b>	<b>240</b>	<b>11</b>	<b>27</b>	<b>5</b>	<b>6</b>
<b>Administrative costs of donors</b>	<b>72</b>	<b>2</b>	<b>109</b>	<b>5</b>	<b>24</b>	<b>4</b>	<b>6</b>
<b>Support to NGOs</b>	<b>2</b>	<b>0</b>	<b>58</b>	<b>3</b>	<b>20</b>	<b>3</b>	<b>2</b>
<b>Total bilateral allocable</b>	<b>3 070</b>	<b>100</b>	<b>2 179</b>	<b>100</b>	<b>591</b>	<b>100</b>	<b>100</b>
<i>For reference:</i>							
Total bilateral	3 077	69	2 182	56	597	39	72
of which: Unallocated	6	0	2	0	6	0	4
Total multilateral	1 389	31	1 727	44	927	61	28
<b>Total ODA</b>	<b>4 466</b>	<b>100</b>	<b>3 909</b>	<b>100</b>	<b>1 524</b>	<b>100</b>	<b>100</b>



Source: OECD.

Table I.6. Comparative aid performance

	Official development assistance			Grant element of ODA (commitments) 1998 % (a)	Share of multilateral aid				ODA to LLDCs Bilateral and through multilateral agencies 1998		<i>Net disbursements</i> Official aid	
	1998		92-93 to 97-98 Ave. annual % change in real terms		1998		1998		1998		1998	
	USD million	% of GNP			% of ODA (b)	% of GNP (c)	% of ODA (b)	% of GNP (c)	% of ODA	% of GNP	USD million	% of GNP
Australia	960	0.27	-0.3	100.0	21.7		0.06		16.5	0.04	1	0.00
Austria	456	0.22	-2.6	93.6	36.0	18.4	0.08	0.04	18.9	0.04	191	0.09
Belgium	883	0.35	-0.8	99.6	39.2	17.1	0.14	0.06	27.5	0.10	68	0.03
Canada	1 691	0.29	-3.9	100.0	28.6		0.08		20.0	0.06	157	0.03
Denmark	1 704	0.99	3.8	100.0	40.5	34.0	0.40	0.34	32.5	0.32	118	0.07
Finland	396	0.32	-5.6	99.8	47.3	30.9	0.15	0.10	26.4	0.08	82	0.07
France	5 742	0.40	-5.7	92.2	27.1	13.5	0.11	0.05	17.5	0.07	823	0.06
Germany	5 581	0.26	-4.7	97.2	37.5	15.3	0.10	0.04	20.9	0.05	654	0.03
Greece	179	0.15	..	..	64.7	14.3	0.10	0.02	3.8	0.01	15	0.01
Ireland	199	0.30	19.8	100.0	37.8	13.1	0.11	0.04	45.6	0.14	-	-
<b>Italy</b>	<b>2 278</b>	<b>0.20</b>	<b>-12.7</b>	<b>99.8</b>	<b>69.4</b>	<b>38.4</b>	<b>0.14</b>	<b>0.07</b>	<b>35.8</b>	<b>0.07</b>	<b>243</b>	<b>0.02</b>
Japan	10 640	0.28	-0.8	81.3	19.6		0.05		14.6	0.04	132	0.00
Luxembourg	112	0.65	18.2	100.0	31.3	14.4	0.20	0.09	26.0	0.17	3	0.02
Netherlands	3 042	0.80	2.3	100.0	29.9	19.8	0.24	0.16	26.4	0.21	130	0.03
New Zealand	130	0.27	3.9	100.0	24.3		0.06		21.1	0.06	0	0.00
Norway	1 321	0.91	2.7	99.6	28.1		0.26		37.3	0.34	52	0.04
Portugal	259	0.24	-1.2	96.9	31.8	8.8	0.08	0.02	54.5	0.13	22	0.02
Spain	1 376	0.24	0.3	90.3	39.1	12.2	0.10	0.03	9.1	0.02	5	0.00
Sweden	1 573	0.72	-3.7	100.0	33.8	27.7	0.24	0.20	28.4	0.20	105	0.05
Switzerland	898	0.32	-2.1	100.0	29.5		0.09		29.3	0.09	76	0.03
United Kingdom	3 864	0.27	0.6	100.0	44.8	23.2	0.12	0.06	25.8	0.07	435	0.03
United States	8 786	0.10	-8.3	99.1	31.8		0.03		15.2	0.02	2 726	0.03
<b>Total DAC</b>	<b>52 068</b>	<b>0.24</b>	<b>-3.5</b>	<b>93.5</b>	<b>32.4</b>	<b>22.8</b>	<b>0.08</b>	<b>0.05</b>	<b>20.7</b>	<b>0.05</b>	<b>6 040</b>	<b>0.03</b>
Memo: Average country effort		0.39										

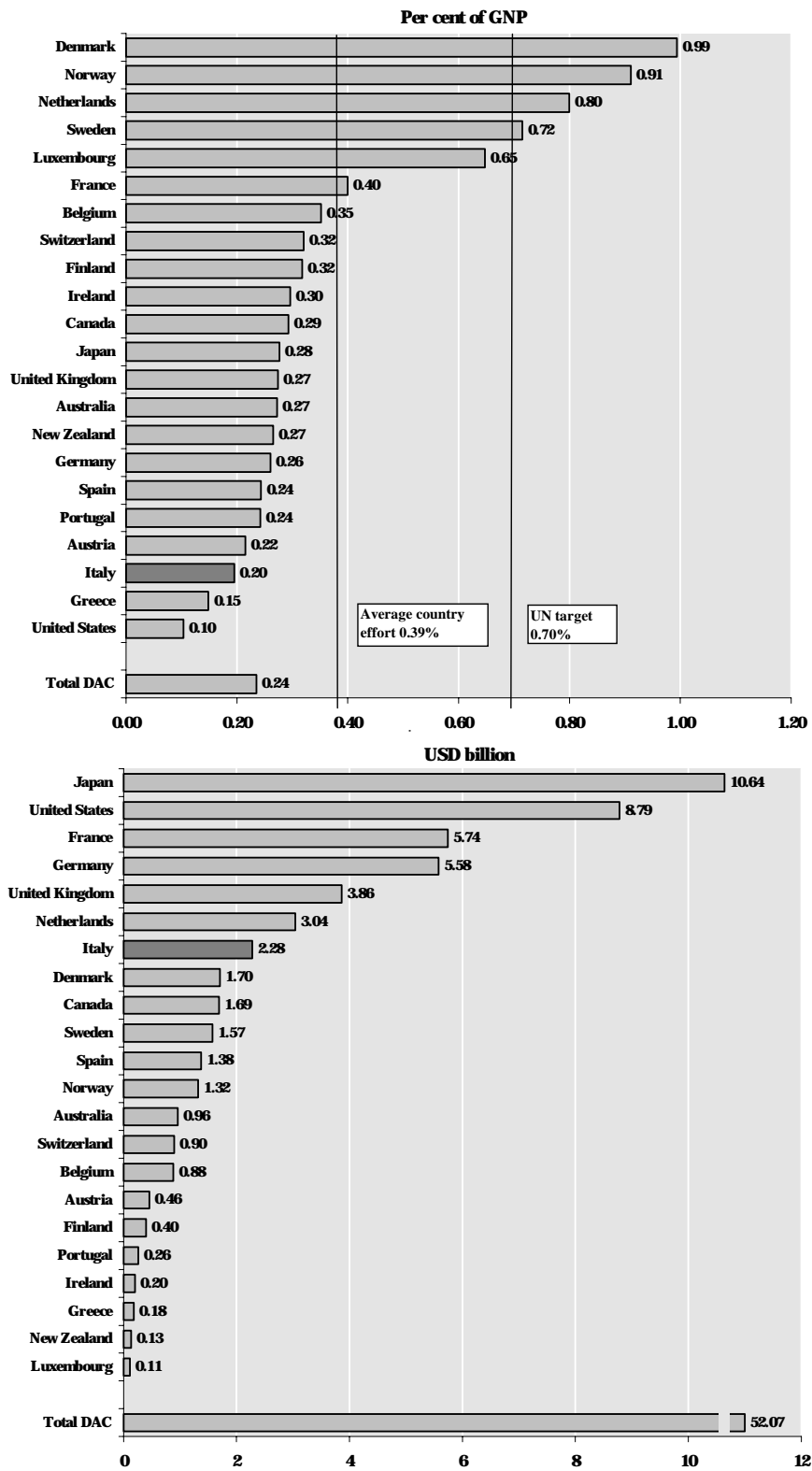
*Notes:*

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.
- .. Data not available.

Source: OECD.



Figure I.2. Net ODA from DAC countries in 1998



Source: OECD.



**ANNEX II**  
**DECENTRALISED CO-OPERATION**

Table II.1. Decentralised Co-operation

USD thousand

Administrative areas	Total disbursements 1997-99	1997	1998	1999 Preliminary data
<b>Municipalities:</b>				
ALESSANDRIA	32.1	-	32.0	-
BERGAMO	111.6	111.6	-	-
BOLZANO	16.5	-	-	16.5
BRESCIA	-	-	-	-
CASTELNUOVO SCRIVIA	2.2	-	2.2	-
FERRARA	-	-	-	-
FORLI	25.6	-	11.8	13.7
FOSSANO	29.5	-	-	29.5
FROSINONE	126.6	-	-	126.5
GENOVA	80.2	-	-	80.2
LODI	-	-	-	-
MESSINA	-	-	-	-
MILANO	924.4	466.6	86.4	371.4
MODENA	49.5	-	-	49.5
NOVARA	19.2	-	-	19.2
NOVI LIGURE	11.0	-	11.0	-
OVADA	4.6	-	4.6	-
PADOVA	125.5	-	63.3	62.1
PALERMO	-	-	-	-
PAVIA	14.4	-	14.4	-
PERUGIA	63.3	-	-	63.3
PESARO	8.2	-	-	8.2
PISTOIA	2.7	-	-	2.7
PORDENONE	82.5	-	-	82.5
RAVENNA	11.0	-	-	11.0
RIMINI	56.0	-	23.0	33.0
<b>Total Municipalities</b>	<b>2 117.2</b>	<b>580.2</b>	<b>558.2</b>	<b>980.9</b>
<b>Provinces:</b>				
ALESSANDRIA	32.0	-	32.0	-
FORLI-CESENA	4.0	-	4.0	-
PARMA	8.6	-	8.6	-
RAVENNA	8.6	-	8.6	-
<b>Total Provinces:</b>	<b>36.0</b>	<b>-</b>	<b>53.4</b>	<b>-</b>
<b>Regions:</b>				
ABRUZZO	206.2	-	106.0	100.1
BASILICATA	59.2	59.2	-	-
EMILIA-ROMAGNA	240.3	-	45.0	195.4
LIGURIA	738.4	131.0	221.7	385.7
LOMBARDIA	2,085.0	544.8	1 540.3	-
PIEMONTE	223.3	223.3	-	-
SARDEGNA	693.0	-	-	693.0
TOSCANA	1 284.8	678.9	340.6	265.3
VALLE D'AOSTA	742.1	106.0	137.4	498.7
VENETO	1 247.3	312.6	436.0	498.7
<b>Total Regions:</b>	<b>7 519.8</b>	<b>2 055.8</b>	<b>2 827.0</b>	<b>2 637.0</b>
<b>GRAND TOTAL</b>	<b>9 673.1</b>	<b>2,635.978</b>	<b>3,438.519</b>	<b>3,617.927</b>

Source: DGCS.

## **PRESS RELEASE OF THE DAC PEER REVIEW OF ITALY**

With its geographical location and its active international role as a Member of the G-7, the European Union and all of the major multilateral institutions, Italy is an important actor in the international development co-operation system. A reform process in recent years has brought considerable progress in the overall policy orientation and management of Italian aid and a proposed new law is being considered by the Italian Parliament at present, to strengthen Italy's development co-operation programme.

Provisional estimates for 1999 show that Italy's official development assistance (ODA) dropped over 20% compared to 1998 to 1.75 billion United States dollars (USD) from USD 2.3 billion. Expressed as a share of gross national product (GNP), Italy's ODA dropped from 0.20% in 1998 to 0.15% in 1999. Since 1996, this aid has been channelled to an exceptional extent through multilateral organisations. During 1996-98, Italy provided 62% of its ODA through the multilateral channel, the highest percentage among DAC Members.

It is against this background that the OECD's Development Assistance Committee reviewed Italy's development co-operation policies and programme on 7 June 2000 under the chairmanship of Mr. Kelly Kammerer, Vice Chairman of the DAC, who summarised the results of the meeting.

Among the reforms implemented in Italian development co-operation in recent years, the DAC welcomed:

- The launching of a USD 120 million programme for poverty reduction.
- Development of specific guidelines in a number of areas and sectors and a decision to mainstream poverty reduction in the Italian aid programme consistent with the International Development Strategy.
- The improved and generalised application of project cycle management.
- The institution of strict quality control of projects at the approval stage.
- The beginning of a programme of country strategies in partnership with recipient countries.
- The gains made during the recent reform process based on a more results-based management system.
- Enhanced policy coherence through better co-ordination between the Ministry of Foreign Affairs and the Treasury.
- More open and competitive bidding procedures.
- The establishment of field offices in 20 countries.
- Stronger participation in aid co-ordination at the local level.

- Closer co-operation with multilateral institutions.
- Supporting peace and conflict resolution activities with humanitarian and development aid.

In addition, field mission reports from the Examiners and Secretariat on Italian development co-operation programmes in Ethiopia and Palestinian Territories indicated that Italian aid is making substantial contributions to development objectives in many areas.

However, the DAC noted that a number of systemic problems remain, meaning that the gains made in the reform process over the past three years are still fragile and not yet firmly institutionalised. For their part, the Italian authorities have concluded that the systemic problems that hold back the development co-operation programme need to be tackled by a major institutional reform.

With this in mind, the DAC encouraged Italy to:

- Strengthen the management structure and capacities of the Italian aid programme. This is urgently required if Italy is to have a well-adapted organisational framework fostering professional development management capabilities and decentralisation. A new legislative framework and major innovations in the management structure would be a highly desirable step forward.
- Increase its ODA level in order to reach the DAC average, currently 0.24%, over the next three years.
- Increase the number of long-term professional staff working on development co-operation, and adjust their skill mix so as to institutionalise gains made in the reform process over the past several years.
- Broaden the country strategy programme to involve more partner countries.
- Further refine objectives and criteria of the development assistance programme to guide the selection of partner countries, programmes and projects in coherence with country strategies and partner country plans.
- Pay increased attention to sustainability in project design and implementation.
- Provide greater delegation of authority to field posts.
- Streamline operational and administrative procedures.
- Strengthen the evaluation function with a view to providing feedback on lessons learned and use evaluations to promote dialogue with partners.
- Strengthen the public information programme, in particular to include the close connection between development education and immigration.

The Italian Delegation for the peer review was led by Mr Vincenzo Petrone, Director-General of Development Co-operation, Ministry of Foreign Affairs. The examining countries were Canada 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. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.*

**ASSOCIATED FINANCING:** The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

**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:** A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

**LLDCs:** Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.

**Other LICs:** Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than USD 765 in 1995 (World Bank Atlas basis).

**LMICs:** Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 766 and USD 3 035 in 1995.

**UMICs:** Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 3 036 and USD 9 385 in 1995.

**HICs:** High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than USD 9 385 in 1995.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and the New Independent States of the former Soviet Union; and ii) more advanced developing countries.

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

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

**EXPORT CREDITS:** LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

**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 (i.e. the interval to the first repayment of principal). 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 loans** include deductions for repayments of principal (but not payment of interest) on earlier loans.

**OFFICIAL AID:** 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%).

**OTHER OFFICIAL FLOWS (OOF):** 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.

**PARTIALLY UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

**PRIVATE FLOWS:** Consist of the following flows at market terms financed out of private sector resources:

**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.

**Bilateral portfolio investment:** Includes bank lending, and the purchase of shares, bonds and real estate.

**Multilateral portfolio investment:** This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

**Private export credits:** See EXPORT CREDITS.



**TECHNICAL CO-OPERATION:** Includes both i) GRANTS to nationals of 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 recipient countries.

**UNTIED AID:** OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

**VOLUME:** 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. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.