

ITALY

Development Assistance Committee (DAC) PEER REVIEW



ORGANISATION FOR ECONOMIC CO-OPERATION AND
DEVELOPMENT

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The Peer Review Process

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

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

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

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from France and Greece for the Peer Review on 24 November 2009.

*In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.*

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

LIST OF ACRONYMS

AAA	Accra Agenda for Action
CERF	Central Emergency Response Fund
CGIAR	Consultative Group on International Agricultural Research
CHAPs	Common Humanitarian Action Plans
CICS	Inter-ministerial Committee for Development Co-operation
CINI	<i>Coordinamento Italiano Network Internazionali</i>
CIPE	Committee for Economic Planning/ <i>Comitato Interministeriale per la Programmazione Economica</i>
CSO	Civil society organisation
DAC	Development Assistance Committee
DGCP	Directorate General for Political Cooperation
DGCS	Directorate General for Development Cooperation (<i>Direzione Generale Cooperazione allo Sviluppo</i>)
DoL	Division of labour
DPC	Department of Civil Protection (<i>Dipartimento della Protezione Civile</i>)
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
EDF	European Development Fund
EU	European Union
FAC	Food Aid Convention
GAVI	Global Alliance Vaccine Initiative
GBS	General budget support
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	Gross national income
GPAFSN	Global Partnership for Agriculture, Food Security and Nutrition
HIPC	Highly indebted poor countries
IAO	<i>Istituto Agronomico per l'Oltremare</i>
IAM-B	Mediterranean Agronomic Institute of Bari
IBRD	International Bank for Reconstruction and Development
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International finance corporation
IFF-Im	International Finance Facility for Immunization
IFIs	International financial institutions
IFRC	International Federation of Red Cross and Red Crescent Societies
ITA	Italian lira
LDCs	Least developed countries
MDBs	Multilateral development banks
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MFA	Ministry of Foreign Affairs
NGO	Non-governmental organisation
ODA	Official development assistance
PCD	Policy coherence for development
PIU	Parallel Implementation Unit
SME	Small-medium enterprise
UN	United Nations

UNCCD	United Nations Convention to Combat Desertification
UNDAC	United Nations Disaster Assessment Co-ordination
UNDP	United Nations Development Programme
UNESCO	United Nations Educational Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNHCR	Office of the United Nations High Commissioner for Refugees
UNHRD	United Nations Humanitarian Response Depot
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNIFIL	United Nations Interim Force in Lebanon
UNOCHA	United Nations Office for the Co-ordination of Humanitarian Affairs
UNOPS	United Nations Organisation for Project Service
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UTC	Central Technical Unit (<i>Unità Tecnica Centrale</i>)
UTL	Local Technical Unit (<i>Unità Tecnica Locale</i>)
WB	World Bank
WGAE	Working Group on Aid Effectiveness
WHO	World Health Organisation
WTO	World Trade Organisation

Signs used:

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

Slight discrepancies in totals are due to rounding.

Exchange rates (EUR per USD) were:

2006	2007	2008
0.7967	0.7305	0.6933

Italy's aid at a glance

ITALY

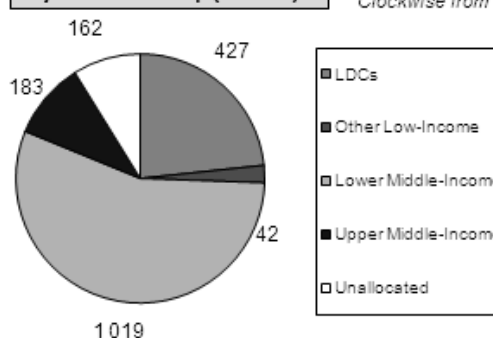
Gross Bilateral ODA, 2007-08 average, unless otherwise shown

Net ODA	2007	2008	Change 2007/08
Current (USD m)	3 971	4 855	22.3%
Constant (2007 USD m)	3 971	4 434	11.7%
In Euro (million)	2 901	3 366	16.0%
ODA/GNI	0.19%	0.22%	
Bilateral share	32%	38%	

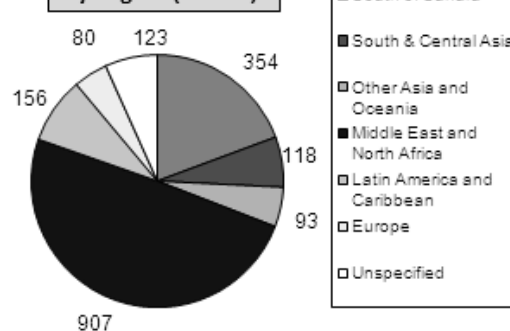
Top Ten Recipients of Gross ODA (USD million)	
1 Iraq	663
2 Afghanistan	89
3 Ethiopia	71
4 Lebanon	66
5 China	66
6 Morocco	56
7 Palestinian Adm. Areas	45
8 Mozambique	39
9 Albania	32
10 Sierra Leone	31
Memo: Share of gross bilateral ODA	
Top 5 recipients	52%
Top 10 recipients	63%
Top 20 recipients	74%

By Income Group (USD m)

Clockwise from top



By Region (USD m)



By Sector

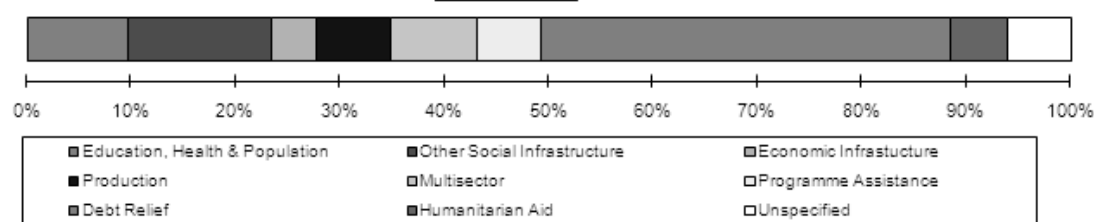


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THE DAC's MAIN FINDINGS AND RECOMMENDATIONS

As an active member of the G8 and G20 countries, a founding member of the European Union and with the 8th largest aid volume of DAC member countries in 2008, Italy holds a responsible position in the international community. Fully aware of this position, Italy actively contributes to international policy processes, such as food security, innovative financing mechanisms for health and effective aid.

The DAC 2000 and 2004 peer reviews of Italy outlined the political, structural and systemic challenges facing Italian Co-operation. In 2008 the Directorate General for Development Co-operation (DGCS), in collaboration with other players in Italian Co-operation, started to implement some of the 2004 recommendations, especially those that can be addressed through administrative acts though some steps had already been undertaken in previous years, especially as regards the process of decentralisation of responsibilities to UTLs. However, most of the previous peer review recommendations have still not been implemented (see Annex A, DCD/DAC/AR(2009)2/12/PART2). Italy needs to address the 2004 recommendations, as well as those which are new in this peer review, to ensure a high quality, transparent, accountable and results-oriented aid programme.

Overall framework for development co-operation

Legal and political orientations

Continued need for a new legislative framework...

Law 49/1987 provides the legal and political foundations for Italian Co-operation, establishing development co-operation as an integral part of Italian foreign policy, and giving the Ministry of Foreign Affairs (MFA) responsibility for development co-operation. Article 1 sets out the rationale for Italian Co-operation – international solidarity and the fulfilment of human rights – as well as objectives such as meeting basic needs, food security, environment, gender equality and responding to humanitarian disasters.

However, the law no longer reflects contemporary development co-operation paradigms and several of the articles covering organisational structure, management and procedures constrain Italian Co-operation. For example, an inter-ministerial co-ordination mechanism is needed for development policy, yet this mechanism was abolished through a 1994 amendment to the law. Strict application of the detailed articles can also prevent a fast and flexible response to changing needs in partner countries and to new ways of delivering aid, such as through partner country systems.

Italian Co-operation needs a new, simplified and clearly-targeted legislative framework. Italy has made a number of attempts to reform its aid system. In 2007, the government again proposed to parliament to prepare new development co-operation

legislation. However, months of parliamentary hearings and debate failed to achieve cross-party political consensus on the reform. The incoming (2008) foreign affairs minister, who took full responsibility for the development co-operation portfolio,¹ indicated that the summary text on the reform debate would be the basis for restarting a parliamentary discussion. He also stated that the Ministry of Foreign Affairs would undertake to submit a new proposal for legislative reform. However, the government has not yet indicated when such a proposal will be submitted to the Council of Ministers and parliament.

Strong political drive and leadership on development co-operation, as recommended in 2004, continues to be necessary if Italy is to address effectively the structural challenges facing its aid programme, have a new proposal on legislative reform approved by parliament and secure the financial resources that will enable Italy to meet its international aid commitments.

...and a national vision for development co-operation

Italy has yet to create a broadly accepted national vision for development co-operation as recommended in 2004. DAC experience shows that a legislative framework is not enough; overarching policy statements outlining the vision, purpose and objectives of development assistance help to secure a long-term interest in effective development, provide a common purpose for all institutions involved and strengthen accountability for results. According to the MFA, the multi-annual *Programming Guidelines and Directions* (2009-2011) serve this purpose. These guidelines were prepared in co-operation with the Ministry of Economy and Finance (MEF) and in consultation with other Italian Co-operation actors and civil society and serve as a point of reference for them. In reality, however, and despite their limited jurisdiction, the guidelines prepare the ground for a national vision on development co-operation. The MFA and especially DGCS should now take the lead in developing a shared national vision with other government and non-government stakeholders.

Commitment to focus on a limited number of priority countries

The *2009-2011 Programming Guidelines and Directions* identify 35 priority countries for Italian Co-operation, of which 21 are listed as Priority 1 and 14 as Priority 2. This prioritisation is an unprecedented step for Italy and one which the DAC welcomes. It also welcomes the MFA's plan to increase the scale of operations in the priority countries, especially those in Sub-Saharan Africa. In another 37 countries, Italy will either complete or hand over existing programmes and projects to the partner in a sustainable way, or else change the nature of its engagement. While it is too soon to tell whether Italy is meeting these geographical objectives, sticking to these commitments will reduce fragmentation and focus the aid programme better. This concentration on fewer priority countries is even more important given the aid cutbacks foreseen up until 2011. Italy needs to outline clearly its selection criteria for priority countries and which aid modalities will support the two categories. Italy should consult partner country governments and communicate its exit strategies for the 37 non-priority countries.

Italy will continue to focus on crisis areas and fragile and post-conflict states. In such fragile situations, to maintain the integrity of Italian ODA, Italy needs to apply whole of government approaches that promote development co-operation and principled

1 The previous government had created the new post of Deputy Minister of Development Co-operation.

humanitarian action. Italy's special focus on these situations will require more relevant expertise and analytical capacities within DGCS. Sectoral guidelines will need to address the particular challenges involved in working in environments where capacity, commitment and stability are likely to be limited and aid must be sensitive to the context.

Increase public awareness and support in a strategic manner

Italy needs to raise the public and political profile of development co-operation issues, building on a clear vision of Italian Co-operation. Despite the 2004 peer review recommendation, Italy has not yet prepared a strategy to achieve this, although it has modernised some of its communication tools and participated in public information campaigns. The Information and Communication Unit and Office VII (which finances information and development education by NGOs) should work together to prepare a comprehensive strategy and ensure that they have the necessary professional expertise. DGCS should also discuss with the Ministry of Education the provision of development education through the formal education system. When preparing its public awareness strategy, Italy should draw on best practice via the Informal Network of DAC Development Communicators.

Promoting policy coherence for development

The 2004 peer review recommended that promoting coherence between development co-operation and other domestic and foreign policies should become an explicit goal of the Italian Government. It recommended Italy to deliver a public statement to this effect and mobilise expertise and analytical capacities both within and outside government to identify policy areas incoherent with development objectives. While Italy supports EU, OECD and G8 agreements on policy coherence, it has yet to translate these commitments into a national statement or set of priorities for improving coherence.

DGCS is making some progress in disseminating information about policy coherence within the MFA and other government departments; however, embedding coherence across government departments will require more systematic monitoring and review of departmental policies. As identified in 2004, Italy needs appropriate government mechanisms to foster better coherence among policies. While the Council of Ministers could fulfil this task at the highest political level, Italy still needs a central body with the authority to review policy proposals and to monitor the performance of relevant ministries in adapting their policies. Italian authorities are aware of this.² The lack of political commitment, policy statements, and any mandate to ensure policies are coherent with development objectives, make institutional co-ordination and monitoring difficult. The Steering Committee on Development Co-operation³ has asked DGCS to continue to develop proposals for promoting and co-ordinating coherence across ministries. So far, DGCS has proposed a reflection exercise to prepare a political statement and establish implementation methodology. The recommendations of this exercise will require strong backing from the Ministers of Foreign Affairs and Economy and Finance if the government is to act on them.

2 *Memorandum of Italy Submitted to the DAC in View of the Peer Review of Italy, April 2009*, Directorate General for Development Co-operation, Ministry of Foreign Affairs, Rome.

3 The Steering Committee, which is governed by Law 49/1987 and is chaired by the Minister of Foreign Affairs, is the only inter-ministerial body regularly addressing development.

Recommendations

To build a stronger foundation for development co-operation, Italy should:

- Approve new legislation on development co-operation as a matter of priority.
- Prepare an overarching policy vision for development co-operation through broad consultation, which is endorsed at the highest political level and binds all institutional players. This should be backed by a clear performance and results approach.
- Develop clear criteria to distinguish between Priority 1 and Priority 2 countries, explain how it will engage with each category and prepare exit strategies for non-priority countries.
- Define, approve and implement (in collaboration with civil society) a well-targeted and resourced strategy – linking information, public engagement and development education – to raise public awareness and the political profile of development co-operation.
- Through a whole of government policy statement clarify mandates and responsibilities for promoting, arbitrating and monitoring policy coherence for development, and build required capacity. Italy should make demonstrable progress in promoting greater coherence across a set of priority policy areas within the EU framework on policy coherence.

Aid volume, channels and allocations

Italy's net ODA was USD 4.85 billion in 2008, equivalent to an ODA/GNI ratio of 0.22%. In 2008, Italy was 8th out of 23 DAC members in terms of aid volume but only 19th in terms of ODA as a percentage of GNI. Italy's past ODA performance – and aid cuts planned for 2009, 2010 and 2011 – mean it will not meet its EU promise to provide 0.51% of GNI as ODA by 2010. Current ODA projections suggest that Italy's aid volume will be USD 4.03 billion in 2010 (0.19% GNI). To meet the 2010 target, Italy would have to increase its aid by USD 6 billion (or 124% of the 2008 aid volume).⁴ This shortfall will have a significant impact on the EU meeting its 2010 aid target.

In 2004, the DAC recommended that Italy set out an explicit growth path to fulfil its ODA commitments announced at the Barcelona European Council meeting in March 2002. Italy has not implemented this recommendation, although the *2008-2011 Economic and Financial Planning Document* proposed a non-binding roadmap for reaching the 2010 EU aid target. Only a predictable long-term increase of financial resources, along with overall system reform, will equip Italy with a reliable and results-oriented aid programme. Italy should use the most effective tool, whether legislation or a joint statement by MFA and MEF, to define a binding growth path to meet its EU target of 0.7% by 2015.

4 Based on OECD economic growth projections for Italy.

A striking feature of Italian aid is the high share of multilateral aid

In 2008 41% of total ODA was bilateral and 59% multilateral aid. The DAC average for multilateral aid was 26% in 2007. Italy's relatively large multilateral contribution does not reflect a specific commitment to give greater support to the multilateral system. Indeed, Italian Co-operation is trying to increase allocations through the bilateral channel. Instead it can be explained by aid budgeting constraints such as assessed contributions. For example, contributions channelled through the EU (which accounts for 57% of multilateral aid) are obligatory. This means that when budgets are tight the multilateral share stays high while other parts of the aid programme, including bilateral aid, are cut. The multilateral share of Italian aid is likely to stay high until the overall aid volume increases.

The 2004 peer review stated that despite Italy's strong tradition of close co-operation with multilateral organisations, the criteria used to guide its aid allocations did not reflect a longer-term strategic vision. It also recommended stronger MFA-MEF collaboration on multilateral aid. The MFA and MEF have published separate guidelines for multilateral assistance. Developing a common multilateral strategy and objectives for Italian participation in the multilateral system could further strengthen coherence and collaboration between MFA and MEF and increase transparency to multilateral organisations and taxpayers.

The DAC welcomes the MFA's commitment to concentrate voluntary contributions on fewer multilateral organisations and to develop strategic guidelines for those international organisations with which Italy collaborates most closely. It should also ensure that multilateral agencies are consulted on and aware of the allocation strategies. Italy should participate in joint donor multilateral assessments, for example through the Multilateral Organisations Performance Assessment Network (MOPAN).

Commitment to Sub-Saharan Africa

As an EU member, Italy promised in 2005 to allocate half its ODA increases towards the 0.7% ODA/GNI target to Sub-Saharan Africa. Italy's 2007-2009 *Programming Note for Italian Co-operation* committed at least half of Italian Co-operation resources to poverty reduction in Sub-Saharan Africa. However, trends show that Italy is not on target to meet this commitment. In 2008, 30.1% of total gross bilateral aid allocable by country, excluding debt relief, was allocated to Sub-Saharan Africa. This is almost half the share allocated in 2001 (59%). The DAC welcomes the fact that the *2009-2011 Programming Guidelines and Directions* re-emphasise this commitment. Italy now needs to make significant efforts to implement it.

Greater policy dialogue with NGOs

Since the last peer review, policy dialogue and consultation between NGOs and DGCS have improved significantly and discussions are more open and frank. NGOs bring useful perspectives, experience and support to Italian Co-operation. Therefore the DAC welcomes DGCS plans to renew its framework agreement with NGOs in 2010.

The 2009 *Italian Policy and Guidelines for NGOs* clarify NGOs' role in and contribution to Italian Co-operation and define funding eligibility criteria and co-financing mechanisms. However, NGO co-financing is unstable. For example, in 2007 support to NGOs represented 5% of total net ODA, while the 2008 allocation fell to 2%, significantly lower than the 2007 DAC median of 7%. 2009 will see a further decrease in

NGO financing. Fluctuations in aid for NGOs can undermine their project planning and management.

NGO co-financing criteria stipulate that Italian NGOs should work with local partner organisations to help build their capacity. However, the peer review team noted in Lebanon that Italian Co-operation worked almost exclusively through Italian NGOs. Most Lebanese NGOs could only access funding through these NGOs. Now that Italy's Action Plan on Aid Effectiveness (2009) prioritises democratic ownership and NGOs, Italy should consider other ways of supporting local NGOs in partner countries. For example, Local Technical Units (UTLs) could have a specific budget line for local NGOs and increase opportunities for regular consultation and policy dialogue on the country programme.

Recommendations

Planned cuts to the aid budget until 2011 cast doubt on Italy's commitment to meet its international aid targets for 2010 and 2015. Italy should therefore:

- Rebuild credibility of its intention to meet its aid commitments by outlining in a binding manner how, and by when, it will reach the targets.
- Develop a joint MFA-MEF strategy for multilateral assistance, outlining clearly the objectives of Italian multilateral aid, especially for priority multilateral organisations and consider concentrating its multilateral contributions further.
- Give credibility to the agenda for concentrating bilateral aid in fewer partner countries by allocating 50% of its aid to Sub-Saharan Africa and adhering to the priority countries outlined in the Programming Guidelines and Directions.

Organisation and management

Italy's institutional framework has not changed since the peer review in 2004 with MFA remaining overall responsible for Italian Co-operation. Under the direction of the Steering Committee, DGCS is responsible for all bilateral aid (including soft loans), voluntary contributions to the UN, policy dialogue and other substantive matters with multilateral organisations, and providing development expertise for Italian Co-operation. MEF's Treasury Department has competence for institutional relations with the international financial institutions and for providing financial resources. Also, the Treasury, through its participation in the Steering Committee, has a role in the decision making process over development co-operation policies, programmes and projects presented by DGCS.

In the Italian system, the Audit Office in the MFA carries out an *ex ante* control of development co-operation expenditures on the basis of the General Accounting Regulations. This control function can constrain certain projects and programmes where partner country realities often require flexibility to adapt to changing situations. A greater flexibility and *ex post* control based on objectives for expenditures and results achieved would be desirable. This would require a change in the current legislation on expenditure controls.

Italy has made some progress on the 2004 DAC recommendation to devolve greater authority to co-operation offices (UTLs). They now have more responsibility to define country portfolios; identify, formulate and implement programmes and projects; and – to some extent – recruit local staff. This is a good start but more needs to be done. Delegating more financial and policy dialogue responsibility to UTL directors will reduce embassies' administrative workloads and simplify unnecessarily long approval procedures. Given co-operation offices' proximity to the realities and needs of partner countries, they should have a greater role in defining the strategic orientation of a country programme. There is also room to improve the sharing of experiences and institutional learning through more structured exchanges between UTLs and headquarters.

The need for organisational reform and better human resource management

As in 2004, DGCS recognises that the overall organisational and management structure of Italian Co-operation requires thorough review and reform. Italian Co-operation must evolve from an *ad hoc* approach to a system-wide, results-oriented approach. It needs clearly defined working methods at headquarters and in the field, along with knowledge management systems. While updating legislation will be necessary for a comprehensive reform, the Minister of Foreign Affairs can redefine the organisational structure by decree in advance of such reform. DGCS should therefore continue to identify ways to redefine its organisational structure within the constraints of the law.

The last peer review also recommended personnel management reform. It suggested the need to better match individual skills to responsibilities, to implement performance-based management and to rejuvenate the Central Technical Unit (UTC). The DAC regrets that Italy has not made progress with this recommendation. Two other challenges remain. First, with development co-operation integrated within the Ministry of Foreign Affairs, management and head of unit positions are held by rotating career diplomats, who often have limited specialist and technical expertise in development co-operation. A more strategic policy for staffing DGCS and appropriate training and institutional learning mechanisms will be necessary to build and sustain the capacity needed to manage development co-operation.

Secondly, development experts have a distinct career path within the ministry. They are integrated into programme cycle management and they are increasingly solicited by management to contribute to policy making and to take the lead in developing sector guidelines. While this is welcome, development experts should have more recognition for this contribution. DGCS recognises that conditions need to be improved. It has submitted a proposal to the minister to hire more experts in line with Law 49/1987, rejuvenate the UTC, raise salaries and promote existing experts. The DAC urges the MFA to clarify the status of DGCS's proposal. MFA/DGCS should also develop a staff performance management system for non-diplomatic staff and assess the skills mix, location and number of staff needed to inform its recruitment, performance management and training policies and its ways of working. Finally, DGCS also needs a policy for recruitment in partner countries which allows for flexible and effective programme implementation in the field.

The need to formalise country programming and budget allocation mechanisms

The long decision-making process for projects and programmes referred to in the 2004 peer review has been addressed mainly through decentralisation and streamlining of DGCS procedures. Italy can now formalise programme management by preparing multi-

annual country programmes for all priority countries. In doing so it should consult with key partners – partner country governments, multilateral organisations, NGOs and the private sector – and make country programmes publicly available. Moreover, country budget allocations by DGCS geographical desks should follow more formal procedures and use transparent criteria. Italy should build on the *2009-2011 Programming Guidelines and Directions* by creating a transparent multi-annual, results-oriented, budget allocation mechanism for country programmes and a monitoring system to guide headquarters in its decision making.

First steps towards an operational monitoring and evaluation unit

DGCS is in the process of establishing a regular system of monitoring and evaluation as recommended in the 2004 peer review. This is particularly welcome since DGCS has not done independent, systematic evaluations since 2002. The newly created Inspection, Monitoring and Initiatives Assessment Unit, to which a director was appointed in early 2009, is mandated to develop an institutional evaluation policy. DGCS's priorities are now to integrate monitoring and evaluation into project cycle management, secure a dedicated budget and adequate staffing, and establish a multi-year monitoring and evaluation programme which includes learning processes and communication. The DAC urges DGCS to use DAC members' evaluation policies as a model. This would save time and capitalise on extensive international experience in monitoring and evaluation.

Recommendations

Legislative reform is necessary for Italy to build an effective aid structure. In the meantime, however, MFA and DGCS can make the following management improvements:

- Prepare and publish multi-annual country programmes for priority countries and establish formal, results-oriented and transparent mechanisms for allocating resources to country programmes, and train staff in results-based management.
- Acquire leeway to create competitive employment conditions to attract and retain specialist staff. Recruit new specialists with the skills to meet current needs.
- Provide the new evaluation unit with the mandate, budget and staff to implement a modern culture of evaluation and results monitoring. This unit should develop a system for integrating policy lessons, including in Italian humanitarian action.

Practices for better impact

Implementing aid effectively

Italy's first Aid Effectiveness Action Plan was approved by the Steering Committee on Development Co-operation in July 2009. The plan reflects the commitments made at the Third High Level Forum on Aid Effectiveness in Accra, Ghana in 2008, as well as those contained in the Paris Declaration on Aid Effectiveness, with the exception of capacity development, managing for development results, mutual accountability and supporting the role of parliamentarians. DGCS will need to take further action to build

awareness and support for this plan throughout Italian Co-operation. Implementing this ambitious action plan by 2010 will be a challenge for Italy given DGCS's limited human resources and the fact that 27 outputs need to be achieved by February 2010. There is a real risk that DGCS will not have the capacity to run the working group on aid effectiveness or the ten thematic working groups which will work on specific outputs, that there will be insufficient time for consultation with UTLs and that staff will be overburdened by these additional tasks. To ensure that the entire Italian Co-operation system strives to make aid more effective and is accountable for making progress, MFA should find ways to bring other ministries and decentralised co-operation under this plan. Italy has suggested that the mandate of the Inter-ministerial Technical Working Group on Italian ODA could be enlarged to do this. The DAC considers this to be a good way forward and urges Italy to give special attention to applying the aid effectiveness principles to decentralised co-operation.

Italy can expand harmonisation by supporting joint assistance strategies, engaging in silent partnerships and delegating co-operation. Indeed, a new law allows Italy to take on a delegated role (from the European Commission and other EU Member States), though not to delegate to another donor or international organisation. Delegated co-operation and silent partnerships may be hard to achieve while Italy continues to work through projects, another reason to adopt more joint projects and programme-based approaches. At the same time, it is imperative that Italy's aid becomes more predictable, that the information it shares with partner countries on aid flows is as transparent and timely as possible and that common budgeting and reporting procedures are adopted to facilitate programme-based approaches. Finally, Italy should ensure that parallel implementation units allow for country ownership and build capacity, and that they are eventually phased out.

Untying aid: catching up with DAC averages

Article 6 of Law 49/1987 implicitly states that all soft loans should be tied to Italian suppliers, while allowing for local cost financing and regional procurement. With this provision, in 2004 Italy endorsed the DAC recommendation on untying aid to least developed countries (LDCs) and its extension to heavily indebted poor countries (HIPC). However, soft loans to other developing countries cannot be completely untied. Also, there is no provision for grants to be fully untied. Generally, Italy ties its aid to Italian services, supplies and works, mainly in the health and agriculture sectors. According to the DAC, Italy tied 36% of its total bilateral aid in 2007 (USD 1.4 billion including debt relief) (OECD, 2009).⁵ Of the remainder, 54% is untied while the tying status of the remaining 10% is not reported. While Italy has made progress in untying bilateral aid, from an average of 30% untied in 1999-2001 to 54% in 2007 (ibid), it is still below the DAC average of 79%.⁶

5 OECD (2009), Implementation of the 2001 DAC Recommendation on Untying ODA to LDCs, OECD, Paris.

6 According to the latest data submitted by Italy to the DAC, the untied share of bilateral aid in 2008 is 70%, the tied share is 20% and the unreported share is 10%.

Learning from experience on priority topics

Capacity development

Beginning in 2009, DGCS has become more engaged in the DAC dialogue on capacity development. A focal point on capacity development has been designated (currently director of the UTL in Albania), co-ordinated by the Deputy Director General, and Italy has launched a survey of UTLs to identify good and bad practice in capacity development. This survey will be used to prepare a concept note on capacity development. The DAC welcomes these initiatives as well as efforts to increase awareness and to identify training needs of staff. Nevertheless, the core concepts of capacity development need to be better understood by all staff. Once it has prepared a concept note on capacity development, Italy should define its capacity development priorities and approach in line with DAC practice and draw on DAC work to benefit from the experiences of other donors.

Capacity building is central to Italy's approach to local development in Lebanon, where it works with municipalities through Italian NGOs. However, NGOs should have clearly defined capacity development objectives and result indicators so that their performance can be evaluated. As project implementation units often also provide technical assistance, Italy should focus more on using local expertise instead of seconding Italian expatriate staff to local institutions. UTLs' capacity could also be strengthened for improving their back-stopping support on capacity development and to promote it in policy dialogue. In line with its commitment to the Paris Declaration and Accra Agenda for Action, Italy should consider co-operating with other donors to strengthen country systems – such as public financial management, monitoring and evaluation and procurement systems – so as to enhance country capacity to manage technical co-operation and, more broadly, their development programmes.

Agriculture, high food prices and donor responses

The DAC commends Italy for promoting agriculture and food security at the highest political level in international forums. This was demonstrated during its 2009 presidency of the G8, when the G8 committed to invest USD 20 billion in agriculture and food security over three years while setting policy priorities for their investment. Through Italian Co-operation, Italy has a good track record in responding quickly to global crises, such as the 2008 high food price crises. A positive and key feature of Italy's bilateral support to agriculture is that it differentiates between a wide range of entry points for investment according to geographical regions. In the Near and Middle East, for example, fruit cultivation, production of olive oil and natural resources management are central priorities. These are typical Mediterranean activities, where Italy has its own experiences to share and thus a comparative advantage over other donors. Despite this vast experience and its strategic approach Italy has no written strategy for its support to agriculture. Its commitment to prepare strategic guidelines for agriculture by February 2010 as part of its Aid Effectiveness Action Plan is particularly welcome, and should help Italian Co-operation to manage and plan more strategic interventions in this sector.

Italy is considered a consistent and reliable partner in the multilateral agricultural system. In hosting the United Nations Food and Agriculture Organisation, International Fund for Agricultural Development and the World Food Programme, it is one of the most important contributors to all three institutions. These Rome-based organisations report that they have excellent and regular contacts with the Italian administration. However,

they also report that wide annual fluctuations in Italian ODA make extra-budgetary funds allocated by Italy difficult to predict. Extra-budgetary and multi-bi priorities are negotiated regularly at central or at country level, but are sometimes prone to unforeseeable policy changes which may be in response to requests from the relevant organisations. In addition, voluntary contributions to trust funds often require separate financial and operational reports for Italian Co-operation, but they are not used for institutional dialogue or learning. The DAC encourages Italy to continue moving towards a more programmatic approach, accepting common reporting for all donors.

With six agricultural experts in the UTC, three in the UTLs and 45 staff at the *Istituto Agronomico per l'Oltremare* Italian Co-operation has a critical mass of technical expertise. Italy has a rich applied experience to offer which it is encouraged to document and share across countries and donors. Italy could also be more active in influencing bilateral co-operation in agriculture such as through its participation in the Global Donor Platform for Rural Development. It could also contribute to international working groups and think tanks exploring new directions for investment in agriculture and food security. However, obstacles include Italy's lack of a written strategy for support to the agriculture sector and the fact that while it actively contributed to the DAC guidelines on pro-poor growth and agriculture⁷, these guidelines are not well-known in the field.

Recommendations

To build on its commitment to make aid more effective and its good practice in supporting agriculture, Italy should:

- Continue to disseminate the Aid Effectiveness Action Plan and its guidelines and decisions to all Italian Co-operation stakeholders, especially diplomatic staff, UTC experts, embassies, UTLs, decentralised co-operation and the MEF.
- Ensure urgently that DGCS has the necessary human and financial resources to implement the Action Plan on Aid Effectiveness and to promote behaviour change across Italian Co-operation so that aid is delivered according to the new guidelines.
- Untie aid further and improve tied aid reporting to the DAC. Italy should implement its Accra commitments to untie remaining tied aid “to the maximum extent”. New legislation should reflect these commitments.
- Develop and implement a strategy for capacity development, provide appropriate training for staff at headquarters and in the field, and give a clear mandate and programme, including for monitoring and evaluation, to the focal point on capacity development.
- Prepare strategic guidelines for agriculture by February 2010 in line with the Aid Effectiveness Action Plan. These guidelines should help Italy to manage its strategic competence and reinforce mid-term planning by staff and its large network of partners, particularly its farmers' associations.

⁷ OECD (2006), *Promoting Pro-poor Growth: Agriculture*, OECD, Paris.

Humanitarian action

Italy has endorsed the Principles and Good Practices of Humanitarian Donorship (GHD). Article 1 of Law 49/1987 makes humanitarian action an integral part of Italian foreign policy and outlines the legal basis for bilateral emergency responses. It sanctions the involvement of Italian NGOs in providing humanitarian assistance and deployment of civil protection assets. Humanitarian concerns are represented by the principal objective of protecting life and humanitarian dignity although Law 49/1987 does not specify provisions to protect fundamental humanitarian principles of neutrality, impartiality and independence. New legislation should take account of these principles that have been accepted by Italy in the GHD initiative and EU context.

The 2004 peer review did not contain specific recommendations for Italian humanitarian action. However, it highlighted the need for a more cohesive overall policy; the need to distinguish between humanitarian and development co-operation activities as well as between “emergency food aid” and “programme food aid”; and the need for evaluation systems to support learning and accountability. These issues remain largely unaddressed. In particular, a policy statement with a strategic vision and measureable indicators is needed. The DAC welcomes Italy’s proposal to publish national guidelines for implementing commitments to GHD by the end of 2009. This is a useful opportunity to spell out priorities, to clarify its approaches to humanitarian protection and to refine the linkages between humanitarian and development assistance. As observed in Lebanon, convergence between humanitarian and development activities provides useful flexibility to initiate recovery and development activities in dynamic post-crisis environments. Italy should be mindful that humanitarian funded activities that fall outside the normal remit of humanitarian assistance do not compromise the principles of humanitarian action.

There are also extensive linkages between the Italian Armed Forces and humanitarian actors in peacekeeping contexts, for example in Afghanistan, where Italy is the lead nation in the Provincial Reconstruction Team in Herat. Italy has been a strong advocate of integrated missions in fragile and conflict-affected contexts. Italy is not alone in confronting the dilemma of maintaining its GHD commitments to the primacy of civilian authority over humanitarian action and a clear separation between civil and military functions. Building on the success in forging an agreement on civil-military co-operation in Lebanon, Italy should clarify within its defence and foreign policy statements how GHD commitments will be upheld in other complex security environments.

Italian humanitarian action is characterised by a strong sense of expediency; its capacity to draw on a considerable pool of technical expertise for overseas emergency responses and disaster risk reduction is widely appreciated. An integral component of this deployable capacity is the National Civil Protection Service. Italy should make further efforts to ensure that bilateral humanitarian action conforms to GHD commitments to co-ordinated and beneficiary-led humanitarian action. It should also ensure that global implementation and accountability standards defined by the GHD initiative are fully integrated into the systems and procedures of the National Civil Protection Service during overseas deployments. At present there is no formal mechanism for dialogue and co-ordination with the National Civil Protection Service to facilitate this. Nevertheless, there are examples of effective, informal co-ordination, e.g. in the South Asian tsunami. The Committee was also informed of the crisis mechanism set-up in the Gaza Strip in December 2008. It would be helpful to clarify in the proposed guidelines on Italian humanitarian action how GHD commitments are to be applied in bilateral humanitarian deployments.

Italy provides both core support and lightly earmarked (multi-bi) allocations to nine organisations through Emergency Bilateral Funds. These allow rapid access to Italian humanitarian support. However, Italy's contributions to its principal humanitarian partners have fluctuated significantly. Italian NGOs pointed to lengthy assessment and approval procedures that can delay release of grants for emergency activities by up to four months after the event occurred. This delayed response time – together with a shortage of humanitarian funds available to NGOs – may undermine a real opportunity to harness well-respected Italian capacities for delivery of humanitarian assistance. Italy's aid effectiveness plan aims to address these concerns.

Recommendations

The DAC welcomes Italy's commitment to prepare forthcoming guidelines for humanitarian action. Italy should:

- Translate its global humanitarian commitments into a national implementation plan, clarify its approach to humanitarian protection and identify appropriate linkages between humanitarian and development assistance.
- Aim to explain the process for deploying Civil Protection Department assets as well as for applying GHD implementation and accountability standards in bilateral humanitarian activities.
- Increase the volume of humanitarian aid and the predictability of contributions to key partners in line with its ambitions as a key humanitarian actor. In particular, Italy should streamline grant approval processes for NGOs to enable swifter mobilisation in crises.

SECRETARIAT REPORT

Chapter 1

Strategic Orientations

The DAC peer reviews of Italy in 2000 and 2004 outlined political, structural and systemic challenges faced by Italian development co-operation. The 2004 Peer Review found that there was a “striking contrast between the interest in reforming development co-operation, as expressed by a wide range of Italian officials, and the relatively limited progress made by Italy on the DAC recommendations since 2000” (OECD, 2004). The 2009 peer review team encountered a similar situation. The Directorate General for Development Co-operation (DGCS), in collaboration with other players in Italian Co-operation, has started to implement some of the 2004 recommendations since 2008, especially those that can be addressed through administrative acts though some steps had already been undertaken in previous years, especially as regards the process of decentralisation of responsibilities to UTLs. However, most of the previous peer review recommendations have still not been implemented (see Annex A). This peer review identifies throughout the report which of the 2004 recommendations remain relevant. It also welcomes efforts by the Ministry of Foreign Affairs to provide more policy direction for Italian Co-operation and to start implementing the Paris Declaration and the Accra Agenda for Action. Nevertheless, these important efforts are not a substitute for an overall reform of Italian Co-operation which requires updated legislation. New legislation will be crucial for ensuring a high quality, transparent, accountable and results-oriented aid programme.

Legal and political foundations

Law 49/1987 provides the legal and political foundations for Italian development co-operation. This detailed law, in its 38 articles, establishes development co-operation as an integral part of Italian foreign policy and gives the Ministry of Foreign Affairs responsibility for development co-operation. Article One sets out the general objectives of Italian Co-operation – international solidarity and the fulfilment of fundamental human rights. Meeting basic needs, protecting human life, food security, preserving the

environment, consolidating development processes and economic, social and cultural growth in developing countries, improving the conditions of women and children, supporting women's empowerment and responding to humanitarian disasters are all referred to as objectives.

Numerous articles outline the organisation of DGCS, its human resources and procedures. However, much of these aspects could be more flexibly handled by administrative acts and internal deliberations among specialists. The "red tape" contained in these articles creates obstacles to recruiting, managing and organising human resources according to evolving needs and new ways of delivering aid; using partner country systems; and establishing efficient inter-ministerial co-ordination mechanisms for development policy.

Italy's various development co-operation stakeholders, including parliamentarians, are very aware of the need for updated legislation. Legislative reform would also be compatible with Italy's recent initiatives to address the post-war legacy of state intervention and heavy regulation, to simplify regulation and give a strong push to the modernisation of public administrations (OECD, 2009b). The need for a clearly targeted legislative framework was the rationale for the previous government inviting parliament to prepare new development co-operation legislation in 2007. The government decided to seek bi-partisan consensus in parliament to secure long-term buy-in for the proposed objectives and institutional mechanisms for Italian Co-operation. Unfortunately, achieving cross-party political consensus on the reform proved impossible. This, along with the collapse of the 15th legislature in April 2008, prematurely ended the debate.

Key elements of the proposed new legislation in 2007

The most contentious proposals, around which agreement faltered, were the creation of a single 'extra budget aid fund'⁸, the creation of an aid agency to administer the fund, and an inter-ministerial committee for development co-operation (CICS) (Senato della Repubblica, Commissione Esteri, 2008). The bones of contention included fears that an aid agency, through its spending power, would inevitably become a bilateral political player in developing countries rather than purely being an administrative body. Parliamentarians were also concerned about the possible duplication of roles between the proposed CICS and a Deputy Minister of Foreign Affairs. There were also concerns that the Ministry of Economy and Finance (MEF) would lose its autonomy in managing its part of the aid budget if a single aid fund were established. In addition, the re-establishment of an 'extra budget aid fund' raised concerns in MEF because all extra budget funds were abolished in 1993 and a single aid fund would create accounting and administrative management problems at MEF which would still be responsible for Italy's relationship with multilateral development banks (MDBs). These concerns will need to be addressed if Italy is to respond to the urgent need for a binding development co-operation framework for the whole aid system.

The incoming (2008) Minister for Foreign Affairs indicated that the final document from the parliamentary debate (known as the *Tonini Text*) should be the basis for restarting a parliamentary discussion (Action Aid, 2009). During his first appearance before the Joint Foreign Affairs Commission in July 2008, he stated that the reform of Law 49/1987 would be one of the legislative initiatives to be taken by the Italian Ministry

8 Italian bilateral co-operation managed an extra budget aid fund in the past. This fund was abolished by the law n.559 in 1993.

of Foreign Affairs (DGCS, 2009b). However, it was unclear at the time of the peer review mission when a new proposal would be submitted to the Council of Ministers and parliament.

Political support and reform

Experience from OECD countries shows that having a champion within government helps secure and advance political commitment for development co-operation. During the 2004 peer review, the MFA, and particularly the DGCS, did not benefit from strong political leadership: development responsibilities were shared among four under-secretaries of state. The DAC thus recommended that Italy needed a designated focal point for development co-operation at the political level such as a deputy minister for development co-operation. The 15th Legislature did this, but the post was abolished by the subsequent government and responsibility for development co-operation was taken up by the Minister of Foreign Affairs. The minister is supported by a state secretary who, however, is not specifically charged with development issues. Strong political drive and leadership is necessary if Italy is to address effectively the structural challenges facing Italian Co-operation, to meet parliament's expectation that it will receive a new proposal from the government for legislative reform and to win political support to increase aid so that Italy can meet the aid targets it has committed to internationally.

Policy framework for Italian Co-operation

As outlined in the Memorandum (DGCS 2009b), Italy feels a special responsibility towards developing countries and is aware of its role in development aid as a member of the G8 and one of the founding members of the EU. The 2004 Peer Review underlined the importance for Italian Co-operation of a broadly-accepted national vision for development co-operation for securing political backing and accountability, ensuring that foreign assistance is protected from competing national and foreign policy interests and that it achieves development.

The Steering Committee, which is governed by Law 49/1987 and is chaired by the Minister of Foreign Affairs, is the only inter-ministerial body regularly addressing development (see Chapter 2 and Box 3, Chapter 4). According to Law 49/1987 (Article 9) the Steering Committee is responsible for the annual planning of activities to be carried out under the law. In practice, the committee focuses more on approving specific projects and proposals than on giving policy direction. Nevertheless, by approving the *2009-2011 Programming Guidelines and Directions* (DGCS, 2009a) and the *2009 Aid Effectiveness Action Plan* (DGCS, 2009c), the Steering Committee has started to give more strategic direction to Italian Co-operation. Other Italian Co-operation players were also consulted on the guidelines – the MEF, local and regional authorities, the Ministry for Economic Development – as well as Italian civil society. These are welcome changes since 2004. However, alignment by these players with the policies and priorities outlined in the guidelines and aid effectiveness plan are voluntary. The 2009-2011 guidelines do not replace the need for an overarching policy and medium-term vision for Italian

development co-operation. They do, however, prepare the ground for this national vision.⁹

As recommended in the 2004 peer review, Italy would benefit both from updating its legislation and creating an overarching politically-endorsed vision for Italian Co-operation. Since the Minister of Foreign Affairs is responsible for development co-operation, the MFA should take a greater lead in shaping the shared national vision for Italian Co-operation. Moreover, the Steering Committee could be strengthened to lead on Italian development co-operation policy. To free up time to do so, it could raise the threshold for programme and project approval; delegating all other approval to the Director General;¹⁰ and including other relevant aid-spending ministries and, if possible, a representative from decentralised authorities in the committee. Opening up to new membership might require an amendment to Article 9 of Law 49/1987.

Objectives of Italian Co-operation

2009-2011 Programming Guidelines and Directions

Building on the general objectives for Italian Co-operation outlined in Law 49/1987, the *2009-2011 Programming Guidelines and Directions* (DGCS, 2009a) identify Italian aid's sector and geographic priorities, as well as aid volumes and instruments. This is done in the context of Italy's commitment to the Millennium Development Goals (MDGs) and its economic and financial situation. The guidelines refer to Italian Co-operation's organisational progress: streamlining procedures and decentralising more responsibility to local technical units (UTLs) in partner countries. They point to the need for renewed efforts to reform Law 49/1987 "so as to endow Italian Co-operation with a system of strategic guidance and of project and operational management in line with the new situation and requirements of development aid". The last section, which addresses human resources, states that the guidelines "can only be implemented fully if there is a substantial readjustment of the human resources available within DGCS" (DGCS, 2009a).

In addition to the *2009-2011 Programming Guidelines and Directions*, the government outlines political priorities and strategic objectives for each ministry through the annual budgeting process. The strategic objective for 2009 was to "continue with the accomplishment of the MDGs, in the light of the 2009 G8 Italian Presidency, through a more accurate selection of initiatives, based on geographical and sector priorities and according to international commitments regarding development co-operation". The specific objectives for 2009 were to: (i) enhance women's roles in western African countries, and implement the principles of women's empowerment asserted during the Bamako Conference on the Empowerment of Women in West Africa (organised by Italy in 2007 – see below); and (ii) implement health programmes in Sub-Saharan Africa,

9 The guidelines refer to Italy's special responsibility and vocation in international aid: development co-operation is not only an ethical imperative of solidarity but also a strategic investment in Italy's own future. They outline Italy's commitment to international stability and security, the control of migration flows and the development of trade and achieving the MDGs. They state that development co-operation policy cannot be limited to ODA; instead, development and its financial modalities have to be considered comprehensively and be coherent with the financing for development agenda and shared responsibilities with partner countries.

10 All projects and programmes exceeding 1 billion Lira (ITA) or EUR 1 million must be approved by the Steering Committee.

including by creating public/private partnerships for strengthening health systems. These objectives seem to be in line with priorities outlined in the guidelines and they must be achieved by January 2010.

A defined set of priority countries

The *2009-2011 Programming Guidelines and Directions* identify 35 priority countries for Italian Co-operation. Italy is commended for identifying a set of priority countries. Of these, 21 are Priority 1 and 14 are Priority 2 countries (Table 1). The MFA's objective is to increase the scale of operations in the selected priority countries with continued special attention in crisis areas and fragile and post-conflict states. The MFA will not take on any new engagement in countries that are not referred to in the guidelines. It will also encourage NGOs, through its co-financing mechanism, to engage in priority countries (Chapter 4). Thirty-seven countries are referred to as countries where ongoing programmes and projects will be completed and handed over in a sustainable way to the partner, or where Italy's engagement will evolve (*e.g.* China and Argentina). The guidelines also define the proportion of bilateral aid that will be allocated by region from 2009. Fifty per cent of total bilateral ODA should be allocated to Sub-Saharan Africa (Chapter 3).

While the programming guidelines do not give clear criteria to justify why priority countries are categorised into group one and two, Italian officials told the peer review team that these criteria include Italy's geopolitical and national interests, including historical ties; a country's needs (human and social indicators); and Italy's capacity to contribute to meeting them. In addition, to qualify as Priority 1, the country's authorities must have a proven capacity to effectively receive and manage ODA and Italian Co-operation must have an appropriate field presence and financial resources so as to give continuity to operations. In the interest of aid transparency and predictable partnerships, both within Italy and with partner countries, Italy should clearly outline the rationale for its partner country selection and the distinctions between the two categories of priority countries, and prepare strategies for exiting from the 37 non-priority countries.

Table 1. Distinctions between Priority 1 and Priority 2 countries

Priority 1	Priority 2
Criteria for Priority 1 (based on interviews in Rome) - According to DGCS, Italy cannot cut its engagement with these countries. - If the aid budget is declining these countries will be allocated aid first. - Bilateral action will be aimed at Priority 1 countries because they have a fair degree of political stability and proven technical capacity to manage ODA.	Criteria for Priority 2 (based on interviews in Rome) - As important as Priority 1, but if funds are limited Italy will not be able to support these countries. - Situation in country is more appropriate for multilateral aid, that is, fragile/insecure. - Will use multi-bilateral channel.
Sub-Saharan Africa (Target: 50% of total bilateral ODA by 2011)	
1. Niger 2. Senegal (UTL)* 3. Sudan (UTL) 4. Ethiopia (UTL) 5. Somalia 6. Mozambique (UTL)	1. Burkina Faso (UTL) 2. Ghana 3. Sierra Leone 4. Guinea Bissau 5. Kenya (UTL)
Balkans, Mediterranean and Middle Eastern countries (target: 25% of total bilateral funds by 2011)	
7. Kosovo 8. FYROM** 9. Bosnia-Herzegovina (UTL) 10. Egypt (UTL) 11. Tunisia (UTL) 12. Palestinian Territories 13. Lebanon (UTL) 14. Iraq	6. Albania (UTL) 7. Serbia (UTL) 8. Morocco (UTL) 9. Mauritania 10. Yemen 11. Syria
Latin America, Caribbean, Asia and Pacific (target: 25% of total bilateral funds by 2011 of which 15% for LAC)	
15. Ecuador 16. Peru (UTL) 17. Bolivia 18. El Salvador 19. Guatemala (UTL) 20. Afghanistan (UTL) 21. Pakistan	12. Haiti 13. Viet Nam 14. Myanmar

Notes: * When UTL appears in brackets it means that a UTL is present in the country; **FYROM: Former Yugoslav Republic of Macedonia.

Source: DGCS (2009a), *Italian Development Co-operation 2009-2011: Programming Guidelines and Directions*, supplemento a Dipco n.13 (9 April 2009), Ministry of Foreign Affairs, Rome.

Sector priorities

Eight sector priorities and two cross-sectoral priorities are outlined in the *2009-2011 Programming Guidelines and Directions*. Sector priorities include social infrastructure and services, production sectors and economic infrastructure and services (Box 1). The sector priorities for 2009-2011 provide continuity with those outlined in the 2007 programming note as well as with the general objectives of Law 49/1987. According to DGCS, and in line with Italy's commitment to the MDGs, poverty alleviation is an overarching priority for Italian Co-operation: every initiative submitted to the Steering Committee for approval must demonstrate how it will address poverty. Moreover, Italy committed in the *2009 Action Plan on Aid Effectiveness* to update existing sectoral guidelines, including on poverty reduction, by February 2010 (DGCS, 2009c; see Chapter 5). Italy should ensure that the updated poverty reduction guidelines provide a link to the MDGs, gender equality and women's empowerment with indicators on how to monitor achievements. Guidelines will also be developed for country systems, budget support and decentralised co-operation. This plan to update guidelines is particularly welcome because staff have no written guidance for priority sectors such as environment,

agriculture and food security, governance and civil society. Italy can also ensure that these guidelines reflect DAC work in these thematic areas. Furthermore, the position of Italian humanitarian action within the current policy framework is unclear and will benefit from similar sectoral guidance (see Annex C and Output 8, Box 5, Chapter 5).

Box 1. Sector priorities for Italian Co-operation

Priority sectors:

1. Agriculture and food security.
2. Environment, land use and natural resource management with special emphasis on water.
3. Health: priority is to strengthen health systems, train doctors and health staff.
4. Education: initiatives will be taken to provide sector budget support in several priority African countries.
5. Governance and civil society (ICT and e-government).
6. Private sector development: support to small and medium enterprises.

Cross-cutting issues:*

- Gender and women's empowerment: sector and cross-sectoral priority.
- Assisting vulnerable groups (minors, the disabled).

Others:

7. Culture: protection and enhancement of cultural heritage.
8. Infrastructure (soft loan and public private partnerships referred to as a strategic sector in programming guidelines but not in the memorandum).

* Environment is not specifically listed as a cross-cutting issue in the Programming Guidelines and Directions.

Source: DGCS (2009a), *Italian Development Co-operation 2009-2011: Programming Guidelines and Directions*, supplemento a Dipco n.13 (9 April 2009), Ministry of Foreign Affairs, Rome.

The guidelines specifically refer to gender and women's empowerment and to assisting vulnerable groups as cross-cutting issues. Environment, however, is not identified as a priority cross-cutting issue. This is surprising since environment is a priority sector for Italian Co-operation, and environmental mainstreaming has long been considered good practice by DAC. Other sections of the guidelines¹¹ mention that Italy will "increasingly incorporate environmental protection into co-operation policies". Nevertheless, the peer review team considers that insufficient weight is given to this cross-cutting issue.

The programming guidelines place a strong focus on private sector development and public private partnerships. They refer to a "new relationship" with the private sector in line with a broader concept of development co-operation; that is, the need to leverage private resources for development finance. Given its comparative advantage with small and medium sized enterprise development (SMEs), Italian Co-operation intends to focus on Italian experiences and good practice to contribute to SME development in partner countries. However, as stated in its Memorandum to the DAC (DGCS, 2009b), Italy needs a well-defined framework to guarantee that human development will represent the bulk of goals pursued. As DGCS develops this framework it should look to the work of the DAC's poverty network (POVNET) on promoting pro-poor growth and private sector development.

11 These sections are: "Sectors of special importance in the G8" and "The multilateral and multi-bilateral channels".

Fragile and conflict-affected situations

Italy increasingly gives special attention to fragile and conflict-affected situations such as Afghanistan, Iraq, Lebanon, Sudan and Somalia. In practice, this will involve high levels of harmonisation with non-aid actors within the Italian administration and beyond. Italy should, therefore, ensure joined-up approaches that are conducive to development co-operation and principled humanitarian action, while simultaneously maintaining the integrity of Italian ODA. In Lebanon, the various Italian actors have developed a memorandum of understanding to define respective roles and responsibilities (Chapter 2 and Annex D). Within DGCS, the special attention being given to these situations will require greater skills and analytical capacities. The updated sectoral guidelines will also need to address the particular challenges involved in working in these fragile and conflict-affected situations. For example, capacity, commitment and stability are likely to be limited and aid must be sensitive to the context.

Renewed commitment to gender equality and women's empowerment

Gender equality and women's empowerment have been a priority for Italian Co-operation since the adoption of Law 49/1987. Italy appears to have given renewed emphasis and greater political backing to gender equality since the 2005 Paris Declaration on Aid Effectiveness and the Bamako Conference on the empowerment of women in West Africa. This progress could be explained more by efforts to put greater focus on policy makers within DGCS than on the technical implementation of the gender guidelines. Nevertheless, despite the prioritisation of gender equality, Italy faces two challenges: (i) sustaining a budget in the context of declining aid; and (ii) strengthening gender mainstreaming. With 900 projects being vetted by the Central Technical Unit (UTC, see Chapter 4) and one gender advisor, it is impossible to ensure that projects are adequately screened for gender mainstreaming, especially when there is no formal mechanism for doing this. Some progress has, however, been achieved to mainstream gender at partner country level, by locating a network of 10 gender advisors in the Local Technical Unit (UTLs). This has been facilitated by greater decentralisation to UTLs. DGCS recognises the need to monitor and report more systematically on the integration of gender equality and women's empowerment in relevant programmes and projects in order to institutionalise "lessons learned" and best practice. The peer review team encourages DGCS to set up these monitoring and reporting systems as a matter of priority.

One promising element of the new gender initiative is aid effectiveness and gender equality. This focuses on implementing international agreements, such as the Convention on the Elimination of all forms of Discrimination against Women (CEDAW) and the Protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa (Maputo Protocol, 2003).

While new gender guidelines will be prepared as part of the *Aid Effectiveness Action Plan*, the programming guidelines outline three priorities for gender equality and women's empowerment: (i) specific programmes for women's empowerment and capacity building of national institutions in conflict and post-conflict countries (with a special focus on Lebanon and the Palestinian Territories); (ii) mainstreaming initiatives in food security and environment with special attention to women's access to jobs and entrepreneurship; (iii) strengthening co-operation with multilateral agencies to promote reproductive health and combat all forms of violence against children and women. Given the emphasis on mainstreaming gender perspectives into programmes to fight endemic

poverty in Sub-Saharan Africa, and into programmes in fragile states and conflict situations, DGCS should ensure that the updated gender guidelines provide substantive guidance and concrete objectives for addressing gender in humanitarian action (Annex C).

Italy's support to the multilateral system

A striking feature of Italian development co-operation is the high proportion of aid allocated to multilateral organisations compared to other DAC countries (Chapter 3). Responsibility for multilateral aid is shared between the MFA and MEF. MFA is responsible for relations with UN agencies (including the disbursement of contributions, obligatory and voluntary), while MEF is responsible for multilateral aid through the multilateral development banks. The 2004 peer review pointed out that despite Italy's strong tradition of close co-operation with multilateral organisations, the criteria used to guide aid allocations among these organisations do not appear to be part of a longer-term strategic process. It also pointed to the need for stronger MFA-MEF collaboration on multilateral aid. Since 2004, each ministry has outlined its own approach according to areas of competence established by law: MEF prepares a report on its activities with multilateral development banks including a chapter on 3-year multilateral programming guidelines (2008-2011) as recently requested by article 15 of Law 246/2007. This report is included in the main report on development co-operation published by MFA for 2008-2011. MFA addresses multilateral programming in the 2009-2011 programming guidelines in which it identifies four priority sectors for the multilateral channel (food security, health, education and water resources) and in 2009 it prepared a multilateral programming document (to be updated annually) which outlines foreseen disbursements to UN and other multilateral agencies. However, these documents do not provide a forward-looking strategy and action plan clearly outlining Italy's multilateral co-operation objectives or criteria to guide allocations. Developing a common multilateral strategy and objectives for Italian participation in the multilateral system could further strengthen coherence and collaboration between MFA and MEF and increase transparency to multilateral organisations and taxpayers.

According to its strategy, the MEF would like to increase its impact on the boards of multilateral development banks by concentrating on specific policy issues: poverty reduction and sustainable development, energy and climate change, accountability and transparency of institutions. The *MFA's 2009-2011 Programming Guidelines* also outline the priority sectors for multilateral aid: food security, health, education and water (DGCS, 2009a). The focus on food security is in line with Italy's longstanding support to this sector and its strategy to support multilateral organisations which have headquarters in Italy (Chapter 6).

The *Aid Effectiveness Action Plan* commits the MFA to develop, by the end of 2009, specific allocation strategies for its priority multilateral organisations, though it is still unclear which organisations these are. The deadline seems tight as identifying priority organisations and developing an allocation strategy for each will require time. Nevertheless, the peer review team welcomes this commitment. At present allocation decisions are based on an assessment of the value UN agencies add in their capacity to work in post-conflict situations, humanitarian emergencies and in sensitive sectors such as governance, human rights, democracy and protection of vulnerable groups. These "light" assessments are done by Italian diplomatic representations to multilateral organisations with limited guidance from Rome. When preparing the allocation strategies

DGCS should outline the objectives of its support to these organisations. Italy should also ensure that relevant multilateral agencies are consulted during the preparation of these strategies and participate in joint donor multilateral assessments, through, for example, MOPAN.

Public awareness and education

Trends in public support and awareness of Italian aid

A poll commissioned by Oxfam International/YouGov in 2009 found that 71% of Italians agree (of which 38% strongly agree) that the Italian Government should honour its pledge to spend 0.7% of gross national income (GNI) on aid for developing countries (Oxfam International/UCODEV/YouGov, 2009). At the same time, Italians are not well informed about how much official aid Italy provides: 24% of respondents thought it gives less than 1% of GNI, 21% that it provides between 1-2% of GNI and 20% did not know how much it gave (ibid).

Italians seem concerned about global development issues, demonstrated by their charitable giving. In 2007, 45% of Italians said they had made a donation in the past year, of which one-third was donated to poverty reduction efforts in developing countries (FOCSIV, 2007). The same survey finds that Italians have been consistent between 1999 and 2007 in their views on the most urgent global problems: hunger, unemployment and peace. However, Italians are less aware of their government's role, compared to other entities, in giving aid: 73% of respondents identified the UN, 39% international NGOs, 28% the church, and only 15% the Italian Government (FOCSIV, 2007). Also, fewer Italians would consider petitioning the government about aid (14%), compared to collecting and donating clothes and food to developing countries (32%). This poor knowledge of the official aid programme demonstrates the need for more active efforts by Italian Co-operation to build public awareness and engage Italian's in official development co-operation.

Strategy to build public awareness

While Italy has not published a public awareness strategy, despite this being recommended in the 2004 peer review, the *2009-2011 Programming Guidelines* prioritise more active communication by DGCS, and the *Action Plan on Aid Effectiveness* states that messages about the effectiveness of aid will be integrated in communications. The programming guidelines outline general messages for Italian Co-operation: (i) prevention of economic inequality, (ii) conflict prevention, and (iii) reflect reality and demonstrate results. They also point to the need to improve communication between the various ministries that deliver Italian Co-operation, especially at field level.

Specific improvements are being made to MFA's communication tools: it has overhauled its website on development co-operation (*Portale della cooperazione Italiana allo Sviluppo*) to make it more user-friendly and comprehensive.¹² In line with this objective, DGCS should ensure that all pertinent policies, strategies, evaluations and other material are posted on it and are available in other relevant languages. In addition,

the development co-operation newsletter (DIPCO) is being transformed into an electronic newsletter, and in 2009 the MFA actively participated in a public campaign about development co-operation linked with the 100th anniversary of the *Giro d'Italia*. The peer review team welcomes these efforts. However, DGCS needs to do more. For example, the Communication and Information Unit is not managed by a communication professional. Moreover, the unit is not aware of the activities supported by – and therefore does not collaborate with – Office VII, which manages a budget for information and development education activities by NGOs called INFOEAS. The INFOEAS budget was EUR 7 million in 2008 (0.25% of total ODA) compared with EUR 11.6 million in 2007.

Given the low public awareness of Italian Co-operation and the need to build political support to meet international aid commitments and to reform the co-operation system, it is crucial that Italy prepare and budget for a medium-term strategy to raise the public and political profile of development co-operation. The strategy should be comprehensive by linking: (i) information (e.g. to taxpayers about aid expenditures, priorities, and results); (ii) public engagement in debates about development policy and issues; and (iii) longer-term development education. It should be informed by public opinion research so that it properly targets the information needs of various audiences. Scarce resources can also be maximised by ensuring strong collaboration between the Communication and Information Unit and Office VII. Italian NGOs, which play an important role in awareness-raising and development education, should be engaged in preparing the strategy. Italy could also evaluate the relevance and effectiveness of the communication tools it currently uses (posters, fliers, newsletters, interviews with the media, a documentation centre). These traditional tools may be less conducive to engaging the public in debates about development than, for example, blogs, seminars, and public information days. Furthermore, DGCS should consider collaborating with the Ministry of Education to provide wider access to development education through the formal education system. Several donors, including Finland and the UK, have achieved positive results in this way. Finally, both the Communication and Information Unit and Office VII can learn from other DAC members by participating in OECD and European networks on communication and development education, such as the Informal Network of DAC Development Communicators.¹³

Future considerations

- The 2004 peer review recommendation on legislative reform is still valid. Italy is urged to approve new legislation on development co-operation as a matter of priority.
- In addition to legislative reform, Italy should outline its vision for development co-operation in an overarching policy, prepared through broad consultation, endorsed at the highest political level, and which binds all institutional players.
- The peer review team welcomes MFA/DGCS efforts to improve and simplify the way it manages aid through administrative acts approved by the Steering Committee. This is a pragmatic way forward in light of the impasse on legal reform. While this

13 http://www.oecd.org/document/13/0,3343,en_2649_34101_39307533_1_1_1_1,00.html. Other networks include the EU multistakeholder group on development education, <http://www.deeep.org/deconsensusprocess.html> and Global Education Network Europe (GENE), <http://www.gene.eu/>.

approach does not replace the need for reform, MFA should continue in this manner, ensuring that approved initiatives can be applied systematically throughout the aid system and over the medium-term.

- In the interest of aid transparency and predictable partnerships, both within Italy and with partner countries, Italy should clearly outline the rationale for its partner country selection, the distinctions between the two categories of priority countries, and prepare strategies for exiting from the 37 non-priority countries.
- MFA and MEF should prepare a common forward-looking strategy and action plan outlining the objectives of Italy's multilateral co-operation. This strategy should provide a transparent rationale for future allocations to multilateral organisations and put a stronger focus on results and effectiveness.
- Italy needs to define, approve and implement a well-targeted and resourced public awareness-raising strategy that strengthens complementarities between communication and development education and is prepared in collaboration with civil society. The peer review team urges Italy to learn from and share experiences with other DAC members by participating in the informal network of DAC development communicators.

Chapter 2

Policy Coherence for Development

The 2004 peer review recommended that Italy prioritise policy coherence by making it an explicit goal of the Italian Government (Annex A). The DAC specifically recommended that Italy deliver a public statement on coherence for development and mobilise expertise and analytical capacities both within and outside government to identify policy areas that were not coherent with development objectives. Five years later, Italy has neither delivered a public statement on coherence for development, nor mobilised the expertise and analytical capacity recommended by the DAC. The recommendations of the last peer review, therefore, remain valid.

In the *Synthesis Report on Policy Coherence for Development* the DAC describes policy coherence for development as involving three building blocks (OECD, 2008c). All three need to be in place for a country to make good progress towards policy coherence:

- i. **political commitment and policy statements** that specify policy objectives and determine which takes priority if they are incompatible;
- ii. **policy co-ordination mechanisms** that can resolve conflicts or inconsistencies between policies and maximise synergies; and
- iii. **monitoring, analysis and reporting systems** to provide the evidence base for accountability and for well-informed policy making and politics.

The three building blocks in Italy

Political commitment and awareness

According to the synthesis report (OECD, 2008c), Italy had partial success with this building block in 2004 (Table 2). Italy supports policy coherence for development (PCD) internationally. In 2008 it signed the OECD Ministerial Declaration on Policy Coherence for Development, which states that successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues.¹⁴ As an EU member state, Italy is bound by the 2005 European Consensus on Development and its specific commitment to coherence. Italy also launched an initiative during its 2009 presidency of the G8 for creating a tracking tool that would consider and promote ways in which each G8 country can foster development, including but not limited to providing financial resources through a “whole of country” approach.¹⁵ G8 countries agreed to

14 [http://www.oilis.oecd.org/oilis/2008doc.nsf/LinkTo/NT000032CA/\\$FILE/JT03247171.PDF](http://www.oilis.oecd.org/oilis/2008doc.nsf/LinkTo/NT000032CA/$FILE/JT03247171.PDF)

15 Italian G8 Presidency and OECD Secretary General, Promoting a Comprehensive “Whole of Country” Approach to Development; Tracking Tool Concept Note.

promote this comprehensive approach to ensure stronger policy coherence and the mobilisation of all actors, policies and financial resources for development.¹⁶ The MFA sees this proposal as a basis for increasing Italy's own PCD efforts. While these international agreements demonstrate an Italian commitment to coherence, Italy has yet to translate them into a national statement or identify priorities for making its regulations and policies coherent with development objectives.

Table 2. The building blocks for policy coherence for development in Italy, 2004-2009

Building block	Situation in 2004 Baseline for <i>Synthesis Report on PCD</i>	Progress made since 2004
Building Block A: Political commitment and policy statements	- Commitment to development not matched by a clear commitment to policy coherence for development. - The Italian government should have a policy statement on coherence for development.	- Italy signed the 2008 OECD Ministerial Declaration on Policy Coherence for Development. It is bound by the 2005 EU Consensus on Development. - The Aid Effectiveness Action Plan (2009) mandates DGCS to share information about policy coherence for development with other ministries. - G8 leaders agree in 2009 to promote “a comprehensive whole of country approach to ensure inter alia stronger policy coherence.”
	Need to bolster the role played by parliament and civil society in raising the visibility of the policy coherence agenda among the general public.	Creation of MDG Parliamentary Committee in 2008 could provide an awareness raising forum about PCD in parliament.
	Conclusion: partial political commitment to PCD; lack of PCD policy statements	Conclusion: no change since 2004.
Building Block B: Policy co-ordination mechanisms	- No defined institutional mechanism or arrangement to promote coherence at the ministerial level. - Broadly, coherence between policies is ensured within the council of ministers. - Ensuring inter-ministerial co-ordination and exchange on coherence issues would require a more operative body. The role could be taken up by the inter-ministerial Committee for Economic Planning (CIPE).	- Italy has not identified an operative body for implementing PCD. CIPE does not address development issues on a regular basis. - Italy refers to the Steering Committee on Development Co-operation and an Inter-ministerial Working Group on ODA as spaces for promoting policy coherence, but neither is mandated to do this. - Office I in DGCS, together with the EU Affairs Unit in the MFA are de facto focal points on PCD, but neither have a formal mandate nor staff to undertake the task.
	Conclusion: partial success in putting co-ordination mechanisms in place	Conclusion: no change since 2004.
Building Block C: Monitoring, analysis and reporting	Italy lacks the capacity to analyse policy coherence for development issues.	- No improvement in Italy's capacity to monitor policies for their coherence or to analyse incoherence. - Italy has, nevertheless, responded to the two EU

systems		questionnaires on policy coherence for development.
	- Italy should mobilise expertise and analytical capacities both within and outside government to identify policy areas incoherent with development objectives. This could include special resources or a unit of government that is dedicated to this task alone. - Consultation with civil society and the research community would strengthen these actions.	Italy has strengthened engagement with civil society on development strategies but not on policy coherence for development.
	Conclusion: partial success in putting this block in place.	Conclusion: no change since 2004.

First efforts to build awareness

Italy is beginning to build awareness of PCD at the national level, as well as in embassies and UTLs. Some units within the MFA – especially DGCS Office I and the EU Affairs Unit – are knowledgeable about coherence issues. However, according to the memorandum (DGCS, 2009b), the lack of awareness politically and across the public administration is a fundamental obstacle to making progress. Recognising that building awareness is a prerequisite for making policies more coherent with development, the MFA has created a space dedicated to coherence on its website. The aim is to create a database of reports, presentations and other information.¹⁷ It has also circulated an information package within the MFA and to several ministries. These activities respond to the first action point in Italy's *Action Plan on Aid Effectiveness* (DGCS, 2009c) which commits the MFA to collecting and disseminating information on Italy's coherence obligations and international discussions on policy coherence for development (Chapter 5, Box 5). These are small but welcome steps forward. Embedding PCD concepts across government departments will mean more systematic monitoring and review of departmental policies. With diplomatic counsellors attached to several ministries, MFA could consider their role in putting PCD on the agenda of these ministries.¹⁸

Awareness of Italy's policy coherence commitments needs to be built at the political level and among parliamentarians. With increased awareness and stronger support, parliamentarians could stipulate that new bills are screened for their coherence with development objectives. Parliamentary motions, resolutions and questions, as well as parliament's monitoring and control function, can all highlight problems not specifically addressed in legislative proposals and induce the government to take an official position. Moreover, development co-operation is discussed in two foreign affairs commissions, and in the MDG Committee, established in 2008. These parliamentary fora could be important motors for increasing awareness of policy coherence for development. For

17 <http://www.cooperazioneallosviluppo.esteri.it/pdgcs/italiano/cooperazione/intro.html>

18 The following ministries all have a diplomatic counsellor (a career diplomat): Economy, Environment, Interior, Justice, Defence, Education, Economic Development, Labour and Health, Agriculture, EU Policies, Public Administration and Innovation.

example, the MDG Committee could do this through its monitoring exercises and debates on Italy's progress towards meeting MDG Goal 8 – A Global Partnership for Development – which addresses some issues relevant for PCD (e.g. trade, information and communication technologies and access to affordable drugs).

Italian NGOs have an important role to play in building public and political awareness and stimulating public demand for Italy to improve its performance on PCD. Civil society organisations seem attuned to the importance of achieving coherence. For example, the *Coordinamento Italiano Network Internazionali* (CINI) and ActionAid International Italy have conducted analysis of coherence, but so far their advocacy efforts have not succeeded in significantly elevating the issue to the political arena or winning political support.

Policy co-ordination mechanisms

Italy had partial success with this PCD building block in 2004 (Table 2). The 2004 peer review identified a range of challenges for Italy (Annex A), one of which was to shape the appropriate government institutional mechanisms to deal with PCD matters. While the Council of Ministers could fulfil this task at the highest political level, Italy still needs a central body with the authority to screen proposals before they are submitted to the Council of Ministers and to monitor performance on coherence issues. Italian authorities are aware of this. They state that the absence of political commitment, policy statements and a specific mandate for PCD makes it difficult to establish institutional co-ordinating and monitoring mechanisms (DGCS, 2009b). Consequently, Italy cannot offer a single example of a policy area which has been made more coherent with development objectives. However, there is potential for Italy to make progress in several policy areas. The latest analysis by the Centre for Global Development on commitment to policies that benefit poor nations (commitment to development index – CDI) ranks Italy 22nd amongst the world's richest countries. Italy's ranking has not changed since 2003.¹⁹ The CDI looks beyond standard comparisons of foreign aid, measuring national effort in seven policy areas of importance to developing countries: aid, trade, investment, migration, environment, security and technology. The 2008 CDI noted that Italy ranked below average on every component except trade, and performed particularly poorly in aid quality and volume, and access for unskilled migrants from developing countries.

Informally, Office I in DGCS, together with the EU Affairs Unit, are the focal points for policy coherence. Their role is to promote reflection on PCD; however, they are understaffed and have several competing priorities. Moreover, they need a specific mandate to promote policy coherence across ministries. Italy's *Action Plan on Aid Effectiveness* notes that policy coherence is broader than the Italian system's aid effectiveness focus; thus, stronger inter-connections between different policy areas, and more precise policy and formal co-ordination mechanisms, will be required (DGCS, 2009c). The Steering Committee has mandated DGCS to continue to develop ideas and proposals for achieving this. So far, DGCS has proposed, in an internal note to MFA, identifying an institutional approach for making a political statement and establishing specific implementation methodology. These outcomes will require strong backing from

19 http://www.cgdev.org/doc/2008/country_reports/Italy_2008.pdf. Other DAC peer reviews refer to the CDI.

the Minister of Foreign Affairs in order to win the necessary political support from government.

A few bodies could also improve inter-ministerial co-ordination in Italy while efforts are underway in Lebanon to improve co-ordination there (see Box 2). However, at present, they focus on aid and development co-operation, rather than on policy coherence for development:

- ***The Council of Ministers:*** political will is crucial if Italy is to respect its international commitments. The will to address development challenges should be present at ministerial level. Policy coherence needs to become an Italian political priority if the Council of Ministers is to develop the will to negotiate compromises for PCD. If the government prepares and approves a national vision for Italy's development co-operation (Chapter 1), it could also make a political statement on coherence and mandate an appropriate structure to co-ordinate coherence for development.
- ***The Inter-ministerial Committee for Economic Planning (CIPE):*** CIPE is chaired by the Prime Minister, with 12 participating ministries, including the MFA. Law 49/1987, Article 3, assigns responsibility to CIPE for defining Italian Co-operation's programmatic and geographical priorities. Italy's memorandum to DAC states that this committee also deals with policy coherence. However, in reality it gives little attention to policy coherence for development. Moreover, ministries particularly relevant for coherence, such as the Ministry of Interior, do not participate in the committee. While policy co-ordination for coherence could effectively be taken up by the CIPE, as suggested in the 2004 peer review (Annex A), policy coherence for development would have to be added to its mandate if it were to play this role.
- ***The Steering Committee on Development Co-operation:*** this inter-ministerial body chaired by the Minister of Foreign Affairs (see Chapters 1 and 4) approves development co-operation policies and initiatives. According to the memorandum (DGCS, 2009b), the Steering Committee is an important forum for achieving policy coherence for development because it takes the policies of the various represented government departments into account. However, other than its efforts to promote a more coherent aid policy within the Italian Co-operation system, there are no examples of how this committee achieves policy coherence for development. In addition, only two ministries (the ministries of economy and finance, and economic development) sit on this committee; hence its mandate and membership would have to be broadened for it to co-ordinate PCD.
- ***The Inter-ministerial Technical Working Group on ODA:*** established in 2008 to define and manage a roadmap for Italian ODA, this working group is jointly co-ordinated by DGCS and MEF. It includes the following ministries: economic development, agriculture, environment, health and defence, as well as the Civil Protection Department. Given the range of ministries involved, with the correct mandate, this working group could be a useful forum for building awareness of policy coherence for development and for reviewing incoherent policies.

Box 2. Inter-ministerial co-ordination mechanism in Lebanon

In Lebanon, a memorandum of understanding has been agreed between the Italian contingent in the United Nations Interim Force in Lebanon (UNIFIL), the MFA through the Italian Embassy, the UTL and Italian NGOs to provide a forum to define “operating principles that promote mutual knowledge and understanding as well as co-ordination among Italian actors”. The memorandum is the basis for building a common sense of purpose and a single entry point for the partner government and communities on Italian development and security strategies in southern Lebanon. However, rather than sanctioning an encroachment on departmental mandates, as some NGO commentators have suggested, the aim of the proposed *Guidelines for Civil-Military Co-ordination in Lebanon* will be to ring-fence sensitive areas of Italian Co-operation (notably humanitarian action) while maximising opportunities for information exchange and coherence. Feedback from local counterparts in southern Lebanon confirms that there are clear distinctions between the various Italian players in Southern Lebanon.

With appropriate feedback to Rome, lessons could be gleaned from this experience of inter-departmental coherence. However, Lebanon’s unique geo-political situation and Italy’s unusual role as the main troop-contributing country and lead development agency in areas of southern Lebanon may make this model less transferable to other countries where Italy is engaged in development and security. Nevertheless, the initiative could build momentum for a deeper dialogue between diplomatic, defence and development areas of the Italian administration. This could reap broader policy coherence benefits, particularly for security and development.

Monitoring, analysis and reporting systems

The third building block of policy coherence for development is a system for monitoring, analysing and reporting on the impacts of non-aid policies on development. Developing this building block will be crucial for Italy to compile a policy coherence evidence base to win political support.

Like most DAC donors, Italy struggles to analyse how new policy proposals and legislative bills promote or impede coherence. Moreover, Italy is not yet at the stage of monitoring the impact of policies on development because it has no established processes for achieving coherence. While international research provides evidence on win-win policy-making solutions in thematic areas such as migration, foreign direct investment, trade, and agriculture²⁰, the MFA, as informal focal point, should gather evidence on the coherence of Italian policy making with development objectives. The MFA could collaborate more closely with national CSOs, relevant international organisations and research organisations, as well as its own embassies and UTLs, to gather evidence and identify where Italy can advance its policy coherence for development. To start with, Italy’s response to the EU’s policy coherence questionnaire gives some idea of thematic areas where Italy could achieve coherence. This could be one input for the evidence base.

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See research by international bodies such as the EC, OECD, ILO and think tanks such as the Centre for Global Development.

Research organisations could be invited to conduct a deeper analysis into where the challenges lie in these thematic areas. Italian embassies and UTLs could also be mandated to provide more systematic feedback on how Italy's non-aid activities interact with the development objectives of partners. At present, the MFA collects data from embassies to get an overview of all Italian activities in a country; however, this is not done through the lens of policy coherence for development. Italian Co-operation's latest country level planning document (called STREAM, see Chapter 5) could also identify opportunities for achieving greater coherence. For the task to be effectively completed, the MFA will need to improve understanding of PCD at the field level and create a knowledge management system (Chapter 4).

Future considerations

- Italy needs to prepare a policy statement on coherence for development derived from its international commitments. It should publish clearly-prioritised and time-bound action agendas for achieving policy coherence for development and clarify mandates and responsibilities for promoting, arbitrating on and monitoring it.
- The MFA should take the lead in building public and political awareness about policy coherence for development, including explaining Italy's international commitments and why coherence matters. This requires a well resourced and targeted communication and education strategy which engages a broad range of stakeholders.
- Italy should establish an inter-ministerial co-ordination mechanism that can monitor and review the coherence of regulations and policies ahead of Council of Ministers discussions and parliamentary debates.
- Italy should build analytical capacity to identify and analyse policy incoherencies and assess the impact of policies on developing countries. This could help win political commitment to advance PCD nationally.

Chapter 3

ODA Volume, Channels and Allocations

Overall official development assistance

Italy falls short of meeting its international aid commitments

Italy's net official development assistance (ODA) amounted to USD 4.85 billion in 2008 which is equivalent to an ODA/GNI (gross national income) ratio of 0.22%. In 2008, Italy ranked 8th out of 23 DAC members in aid volume and only 19th in terms of ODA as a percentage of GNI. While Italy's ODA/GNI peaked in 2005 at 0.29% due to exceptional debt relief payments, the ODA/GNI ratio has tended to hover around 0.2% since 2000 (Figure 1; and Annex B, Table B.1).

Italy's past ODA performance – and aid cuts planned for 2009, 2010 and 2011 – suggest that there is no prospect of Italy meeting its international aid commitments of 0.51% ODA/GNI by 2010 and 0.7% in 2015. To meet the 2010 target, Italy would have to increase the volume of ODA provided in 2008 by 124% (approximately USD 6 billion).²¹ While Italy states that it intends to meet its international aid targets, it also acknowledges that it will have to adopt a more gradual approach to achieving them in light of the fiscal and economic difficulties it continues to face.

The 2004 peer review recommended that Italy set out an explicit growth path for 2005 and 2006 to fulfil its ODA commitments announced at Barcelona (0.33% ODA/GNI). Italy did not set out this growth path for the 2006 Barcelona target. With the exception of the *2008-2011 Economic and Financial Planning Document* (EFPD; GoI, 2007), which proposed a roadmap for reaching the 2010 aid target but is not a binding document, Italy has not presented any specific or binding path for meeting EU agreed aid targets for 2010 and 2015. Moreover, the targets given in the 2008 EFPD were not included in Italy's financial laws; subsequent EFPDs do not refer to future ODA flows and the 2008-2011 path has not been respected (GoI, 2007).²² For example, in 2008 Italy's ODA was 0.11% lower than the EFPD target of 0.33% and the 2009 financial law drastically reduced aid allocations to DGCS by 56%. Italy needs to dramatically increase its ODA in order to meet its own targets and, given its economic weight within the EU, to enable the EU to meet its overall ODA target by 2015. As per the 2004 recommendation, Italy needs to set out an explicit and binding growth path for meeting its ODA targets.

21 Based on OECD economic growth projections for Italy.

22 The EFPD is a three-year plan published annually.

Legislation similar to what has been approved for Italy's contributions to innovative financing mechanisms might be needed to achieve this (see paragraph 63).

Italy's aid budgeting process

Italy's development co-operation budget is established in the yearly Financial Law (*Legge Finanziaria*) presented by government to parliament in September for approval by December, while some items are included in the "Budget Law" (*Legge di Bilancio*). In addition, supplementary budget appropriations can be allocated during the financial year. Specific laws, such as those on Italian participation in international peacekeeping missions, often include a bilateral aid or humanitarian aid component (see Annex E). While the amount of aid committed through supplementary appropriations varies year-on-year, it can represent a substantial share of the total aid budget. This was the case in 2007 when an additional EUR 670 million²³ was allocated under several laws allowing Italy to pay its contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) in 2006/07 and 2008; to extend Italian participation in humanitarian and international peacekeeping missions, with a specific development co-operation component for Afghanistan, Sudan and Lebanon and a humanitarian component for Iraq; and to provide Italian Co-operation with additional financial resources for voluntary contributions to humanitarian organisations as well as to cover overdue arrears to IDA and other multilateral development funds (laws 222/2007 and 246/2007 allocated 800 million euro). While additional resources are always welcome, this *ad hoc* financing of development needs is not conducive to programme and project planning at headquarters or in the field in line with Italian Co-operation priorities. For example, in the case of international peacekeeping missions where supplementary appropriations for humanitarian and development aid are tied to specific countries, the country offices use this aid to finance the bilateral programme. Italy needs to improve the forward planning of these financial bills to enhance the predictability of its aid.

Italy would also benefit from an integrated aid budget which covers all the aid managed by the different government departments and by regional and local authorities (decentralised co-operation). This would enhance the transparency and predictability of Italian aid, especially if all official aid spending bodies provided forward-looking expenditure plans. The *2009-2011 Programming Guidelines* (DGCS, 2009a) are a step in this direction. They provide an overall picture of financial resources for development co-operation, including estimates of DGCS's budget over the three-year period, an indicative value of the assets in the revolving fund for soft loans, estimates of aid provided by decentralised co-operation, debt relief and indicative information on MEF contributions to multilateral organisations. DGCS should build on this effort in future three-year guidelines by including aid expenditure by other ministries such as the Ministry of Environment. However, while the guidelines give some forward information on DGCS's aid budget, they do not make Italy's aid volume more predictable because further aid cuts can still be made, and because one-off financial bills can be passed during the financial year.

23 MEF also received an additional EUR 389 million.

Better reporting to the DAC to increase the transparency of Italian aid

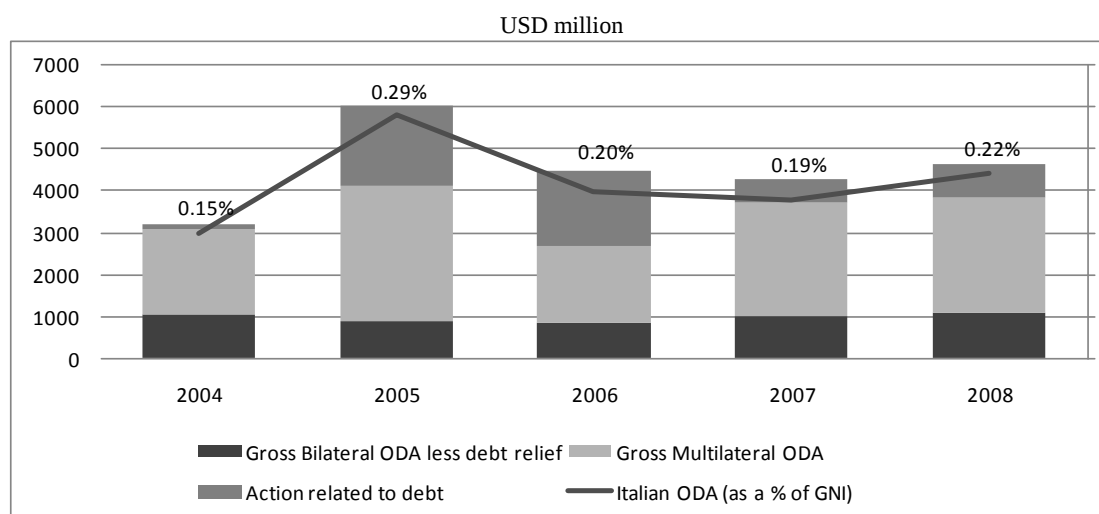
Italy's statistical reporting to the DAC has improved markedly since the last peer review. However, there is room for further improvement. Italy has not yet moved to the converged reporting format (CRS++) which was developed by the DAC's Working Party on Statistics' *Task Team on Convergence and Classifications*. Italy would benefit from this new reporting format because it improves data coherence between the DAC's two statistical systems. More comprehensive reporting will improve data transparency and quality by providing more information on both bilateral and multilateral ODA.

Composition of Italian ODA

In 2008, 56% of Italian aid was managed through MEF (two-thirds are mandatory contributions to EU budget and EDF), 20% was allocated to DGCS/MFA for bilateral co-operation and multilateral organisations, 6% was allocated by other central and local administrations and the remaining 18% counted for debt cancellation. Nonetheless, MFA has policy and management responsibility for approximately three-quarters of total ODA (see Chapter 4).

In 2008, total gross Italian ODA amounted to USD 4.9 billion, of which USD 1.8 billion (41%) was bilateral and USD 3 billion (59%) multilateral aid (see Annex B, Table B.1). Compared to other DAC donors, Italy allocates the largest share of its ODA to multilateral organisations – the total DAC average for multilateral aid was 26% in 2007 (see Annex B, Table B.2). This relatively large multilateral share can be explained by aid budgeting constraints such as assessed contributions. For example, contributions channelled through the EU (which accounts for 57% of multilateral aid) are obligatory. Therefore, when Italy decides to decrease aid, bilateral aid and voluntary contributions to multilateral organisations (DGCS's budget) as well as resources for MDBs²⁴ are most vulnerable to budget cuts.

Figure 1. Trends and composition of Italian ODA, 2004-2008



Source : OECD/DAC Creditor reporting system

24 This applies only to contributions which still have to be approved by Parliament. Italy's financial participation in the replenishment of Multilateral Development Funds has to be authorized by law.

Bilateral aid

Excluding debt relief, Italy's gross bilateral aid was USD 1.1 billion in 2008, of which USD 931 million was allocated as grants and USD 141 million as loans. USD 822 million qualified as action related to debt, which at 18% of gross disbursements is higher than the 8% DAC average. Debt relief has accounted for a relatively significant proportion of Italian ODA since the last peer review, reaching a peak in 2006 at 40% of gross disbursements. Within the grant category of bilateral aid USD 322 million was allocated to projects and programmes in 2008 and USD 140 million qualified as technical co-operation (see Annex B, Table B.2). Expenditure on projects and programmes in 2008 was three times smaller than the DAC average (7% of Italy's aid, compared to the 2007 total DAC value of 24%). Only a stable and predictable long-term increase of financial resources will allow Italy to equip itself with the aid management capacity to build a larger, reliable and professional bilateral aid programme in line with the Paris Declaration and Accra Agenda for Action.

Multi-bilateral aid

In 2008, 40% of DGCS's bilateral budget qualified as multi-bilateral aid (equivalent to USD 284 million according to data provided by DGCS). This additional use of the multilateral channel by Italian Co-operation increases the proportion of Italian aid allocated to multilaterals. According to the *2009-2011 Programming Guidelines*, Italy uses the multi-bi channel to achieve goals for which the competence and experience of international organisations are more appropriate, such as in fragile contexts or when a regional approach is needed. In the humanitarian sector, for example, Italy has established Emergency Bilateral Funds with several agencies (see Annex C). However, in Priority 2 countries (Table 1, Chapter 1), Italy will use multilateral organisations to implement its own programme due to DGCS's limited capacity; this is a pragmatic approach. However, given the tight budgetary situation up until 2011, DGCS should enhance its reliability and transparency by quickly communicating unforeseen cuts to approved programmes and projects.

Decentralised co-operation

Italy's current estimate for decentralised co-operation (see Section 4.1.4 for more details), which qualifies as ODA, is somewhere between EUR 40 - 60 million per year. Regions, provinces and municipalities are not obliged to report their aid to MFA; however, the timeliness and accuracy in data communication has improved over recent years so that most of the aid provided by decentralised co-operation is included in total Italian ODA. In February 2009, MFA signed a framework agreement with regions and local administrations which further boosts engagement on development co-operation. Likewise, efforts are underway to build a database that will record information on aid activities by decentralised co-operation as well as their future aid spending plans. At the same time, the ODA table recently set up and jointly managed by DGCS and MEF aims at recording all information on aid activities by all aid-spending bodies (see Chapters 1 and 2). The peer review team welcomes this initiative which could serve to increase predictability of these various aid flows.

Geographical distribution: concentrating on fewer countries

The share of bilateral aid allocated to the top 10 recipients increased from 60% in 2002-06 to 63% over 2007/08. This is higher than the total DAC value (47% in 2006/07). In 2007/08 74% of Italy's bilateral aid was allocated to the top 20 recipients, compared with the DAC average of 60% in 2006/07. With the exception of China, all of Italy's 2007/08 top 10 recipient countries are priority countries: six are Priority 1 (Iraq, Ethiopia, Lebanon, Afghanistan, Palestinian Administrated Areas and Mozambique) and three are Priority 2 countries (Albania, Morocco and Sierra Leone). At the same time, DAC data show that there has been limited continuity in Italian geographical priorities since 2002. Of the 2007/08 top 10 recipient countries, only 5 were also among the top 10 recipient countries in 2002-2006 and almost half (9) of countries which appeared in the top 20 in 2002/06 were no longer in the top 20 in 2007/08 (see Annex B, Table B.4).

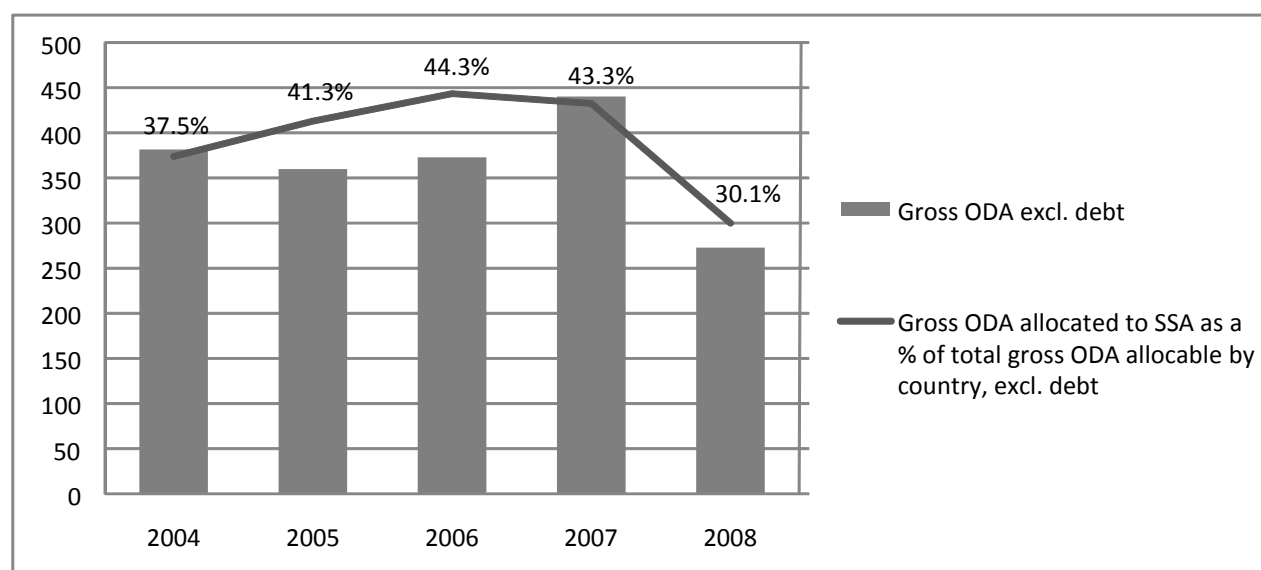
In line with its focus on conflict and post-conflict situations, Italy allocated 49% of gross bilateral ODA (excluding debt relief) to states which are defined as fragile and conflict-affected in 2008.²⁵ This percentage increases to 56% if Lebanon is included. In the last two years, Italy's major fragile and conflict-affected recipient countries have been Afghanistan, the Palestinian Administrated Areas, Ethiopia, Lebanon, Iraq, Sudan and Somalia. While the volume of ODA allocated to LDCs increased by USD 103 million between 2004 and 2008, the per cent share decreased from 36% to 25% over the same period and is lower than the DAC average of 32% in 2007 (see Annex B, Table 3).

As an EU member, Italy committed in 2005 to allocate half of its ODA increases towards the 0.7% ODA/GNI target to Sub-Saharan Africa.²⁶ Italy's 2007-2009 *Programming Note for Italian Co-operation* committed at least half of Italian Co-operation resources to poverty reduction in Sub-Saharan Africa. However, trends show that Italy is off track in meeting this commitment. Recently, the share of aid to Sub-Saharan Africa has been declining (Figure 2). The *2009-2011 Programming Guidelines and Directions* re-emphasise this commitment starting from 2009. This renewed commitment is welcome. Italy now needs to make significant efforts to achieve it.

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- 25 The list of fragile and conflict-affected states (not an official DAC list or definition) is a compilation of three lists: the bottom two quintiles of the WB's Country Policy and Institutional Assessment (CPIA) 2007; the Brookings Index of State Weakness in the Developing World 2008; and the Carleton University Country Indicators for Foreign Policy (CFIP) 2007 Index.
- 26 EU targets agreed in May 2005: EU External Relations Council, Brussels 24 May 2005, *Council conclusions: Accelerating progress towards achieving the Millennium Development Goals*, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/84945.pdf.

Figure 2. Italy's gross ODA, excluding debt, allocated to Sub-Saharan Africa, 2004-2008

Constant 2007 USD million



Source : OECD/DAC Creditor reporting system

Sectoral distribution

Italy's reporting on bilateral ODA by sectors reflects its sector priorities to a certain extent (see Chapter 1). After action related to debt the main area of intervention since 2004 has been "social infrastructure and services" in line with the Italian poverty focus and attention to the MDGs. The volume of resources spent on activities in this area increased by 50% between 2002-06 and 2007-08, from USD 280 million to USD 419 million (Annex B, Table B.5). However, Italian support to this category in 2007-08 (24% of total bilateral aid) is significantly lower than the DAC average (41%).²⁷ In 2007-08, government and civil society, health and water supply and sanitation were the main intervention sectors under this category (6% respectively of total sector allocable ODA) followed by education (3% or USD 61 million, of which only USD 11 million went to basic education; Annex B, Table B.5). ODA to "production services" (7%) mainly involved support to industry, mining and construction (4%) and agriculture, forestry and fishing (3%), in line with Italy's focus on agriculture, and. Four per cent of bilateral ODA went to "economic infrastructure and services", in particular 2% to transport and storage and 2% to energy.

Increasing attention to the environment

The environment was listed as a priority sector in the 2007-2009 programming note and in the 2009-2011 *Programming Guidelines* (DGCS, 2009a). DAC data confirm that Italy's engagement in the environment sector has significantly improved. In 2007, Italy

²⁷ Italy's action relating to debt has not been excluded from the percentage calculations. At 40% of total bilateral aid allocable by sector in 2007-08, it is 29% higher than the DAC average of 11%.

committed USD 112 million to the sector, a significant increase on 2006 when only USD 18 million was committed. Concerning mainstreaming of environment across the development programme, the share of environment-focused aid activities in sector-allocable aid increased from 30% in 2006 to 59% in 2007.²⁸ However, these data are not reliable because, according to DAC statistics, the percentage of activities screened against the environment markers decreased from 64% to 47% over the same period. Italy should further improve its reporting against the environment markers.

Increasing focus on gender equality

Italian Co-operation has been giving greater priority to gender equality and women's empowerment (see Chapter 1). However, this priority is not evident in the data reported to the DAC. Data on Italy's aid to gender are incomplete because reporting against policy markers for 2007 is still insufficient. This makes it difficult to quantify the dimension of the gender sector and gender mainstreaming in the Italian Co-operation programme. Nevertheless, in 2007, Italy committed USD 10 million to women's equality organisations and institutions; this represents an increase over the period 2003-2006, when Italy committed USD 3 million per year on average.²⁹ In addition, aid channelled through multilateral activities and global campaigns for gender-related activities amounted to EUR 9.3 million in the biennium 2007-08. The peer review team welcomes MFA plans to improve reporting against the DAC gender equality policy marker.

Multilateral ODA

Contributions to multilateral organisations are shared between MEF, which allocated 58% of multilateral aid in 2007, and MFA, which allocated the remaining 42% (see Chapter 4 for a description of their respective responsibilities). In 2008, the largest recipient of Italy's multilateral aid was the European Union (57% of multilateral ODA gross disbursement), followed by the World Bank and regional development banks (33%), the UN group (7%) and other multilateral organisations (3%) (Annex B, Table B.2). Financial laws in recent years have provided little resources for MDBs while the 2009 Financial Law did not provide any resources. This has prevented MEF from submitting bills concerning Italy's financial participation in the replenishment of Multilateral Development Funds to parliament.

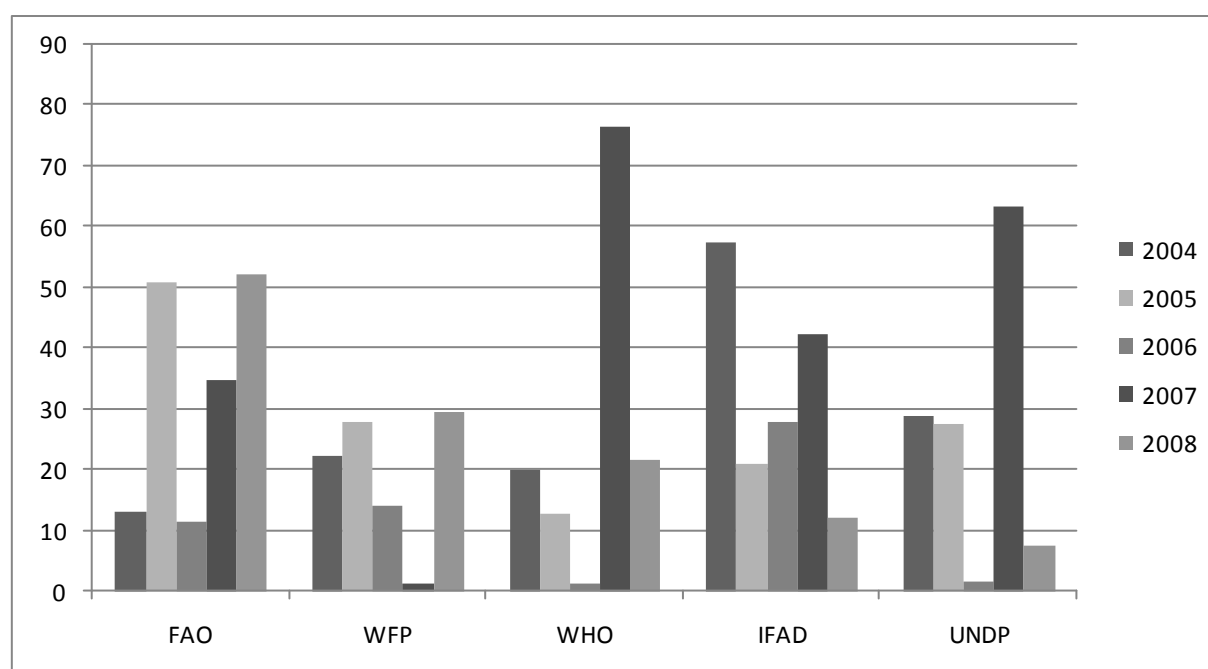
At 4% of gross disbursements in 2007, Italy's support to UN agencies is slightly lower than other DAC members (5% is the DAC average). In 2007-2008, of the UN agencies the World Health Organisation was the largest recipient of Italian ODA (15%), followed by the UN Food and Agriculture Organization (FAO, 13%), United Nations Development Program (11%), United Nations Children's Fund (UNICEF) and the Office of the United Nations High Commissioner for Refugees (UNHCR; both at 6%), and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA; 3%) (Table B.2, Annex B). Since the 2004 peer review, there have been significant fluctuations in the volume of resources allocated to UN agencies: aid allocations to Italy's priority multilateral partners change considerably from one year to the next (Figure 3). A consequence of the sharp decrease in the ODA budget in 2006 was

28 Measured as the share of activities that target environment as a "principle objective" or "significant objective" in total sector-allocable aid, excluding activities not screened against the environment marker.

29 Authors' calculation based on DAC statistics.

a large decrease in voluntary contributions to multilateral agencies. The situation in 2009 is similar: voluntary contributions to multilaterals decreased from EUR 247 million in 2008 to EUR 38.7 million in 2009.³⁰ Italy needs to manage these cuts carefully so that it does not lose leverage in negotiating its planned agency-specific strategies with selected multilateral organisations (see paragraph 60).

Figure 3. Top 5 recipients of Italian ODA, 2004-2008



Note: IFAD: International Fund for Agricultural Development.

Source : OECD/DAC Creditor reporting system

DGCS intends to concentrate its voluntary contributions on a smaller number of multilateral organisations and to develop *ad hoc* strategic guidelines for those international organisations with which Italy has the most solid and financially relevant collaboration. According to DGCS's 2009 multilateral programme, which summarises Italy's support to 32 multilateral organisations, Italy will focus on the same multilaterals in the future. This is a 50% decrease in the number of multilaterals receiving aid from Italy (approximately 60 multilateral organisations received voluntary contributions in 2007 and 2008).³¹ At the same time, the 2009 budget for multilateral voluntary contributions was EUR 38.7 million – one-sixth of the 2008 budget (EUR 247 million) and one-quarter the 2007 budget (EUR 168 million).³² Therefore, this focus on fewer multilaterals appears to be both the consequence of a lower budget as well as a specific strategy to concentrate efforts. The peer review team welcomes Italy's commitment in the *Aid Effectiveness Action Plan* (DGCS, 2009c; see Chapter 5) to develop more strategic

30 DGCS data.

31 DGCS data.

32 DGCS data.

approaches and methods of engagement with multilateral organisations by December 2009. Italy should also clarify which organisations will receive more funding and how it intends to engage with those organisations whose budgets will be cut.

According to its 2009 multilateral programme, DGCS will allocate 22% of the budget for multilateral organisations³³ to agriculture and food security in 2009. Humanitarian aid will receive 27% of DGCS multilateral aid, followed by governance and training (21%), education (10%), gender equality and children (10%), health (7%) and environment (3%). Italy intends to allocate similar shares to these sectors in future years. Excluding humanitarian aid, agriculture and food security are the major sectors for Italy's multilateral assistance (via FAO, IFAD and the World Food Programme). Coupled with Italy's long-standing support to agriculture, the fact that these organisations have headquarters in Italy motivates the country's strong support to this sector (see Chapter 6). ODA provisions for the environment in DGCS' multilateral programme are relatively low because these contributions are allocated by the Ministry of Environment. The low percentage allocation to health, another high priority for Italian Co-operation, is because Italy's annual contribution to the Global Fund to fight AIDS, Tuberculosis and Malaria had not been approved. However, the Italian Government confirmed, at the G8 Summit in 2009, that it would allocate EUR 130 million plus USD 30 million to the fund by the end of 2009.

Italy is a strong supporter of innovative financing mechanisms, particularly in the health sector. Italy is one of the founding members of the International Financial Facility for Immunization (IFFIm) (EUR 473 million approved by the Parliament in 2005). In 2007, it led donor effort to launch the Advance Market Commitments (AMCs) pilot initiative for pneumococcal diseases to which Italy's multi-year contribution is USD 635 million. The supporting laws for both contributions to IFFIm and the AMC pilot are an example of multi-annual programming, allowing for predictability of flows until 2025. Italy also participates in the GAVI alliance board. The peer review welcomes MEF's decision to appoint a public health specialist to represent Italy in this board.

NGOs

In 2007, the total estimated amount of NGO resources amounted to EUR 1 billion of which EUR 406 million (39%) were private funds (CNEL/ISTAT, 2008). The majority of Italian NGOs (72%) receive more than half of their funds from private sources, such as donations and bequests (17.3% of total inflow), sale of goods and services (9%) and members' contributions (3.1%). In 2007, USD 182 million of Italy's ODA was allocated to and through NGOs, accounting for approximately 10% of total funds available to NGOs that year. This decreased to USD 116 million in 2008. In 2007 ODA to NGOs increased significantly, representing 5% of total net ODA. The 2008 allocation fell to 2% of net ODA, bringing it back to the share allocated prior to 2007. This is significantly lower than the 2007 DAC median of 7% (Annex B, Table B.1). Italy's support to NGOs is set to decrease further in 2009, with the initial budget allocation for NGO co-financing planned at USD 64 million. While three-quarters of Italian NGOs seem successful at raising funds from private sources, the recent fluctuations in ODA for NGOs can undermine their medium term project planning and management.

33 Multi-bi contributions are included in this budget.

In 2008, DGCS's contributions to NGOs were allocated as follows: agriculture (39%), social sector (22%), health (21%) and productive activities in urban areas (18%). The main region of intervention was Latin America (36%), followed by Sub-Saharan Africa (33%), the Balkans, Mediterranean and Middle East Countries (26%) and Asia (6%). In 2008, the Steering Committee approved 134 co-financed projects, of which 99 were in developing countries (mainly three-year projects) for a total amount of EUR 83 million. The remaining 35 projects were annual development education and information projects (see Chapter 1). To ensure financial coverage of multi-year projects the overall contribution is approved by the Steering Committee when it approves the project. However, the high number of project proposals places a great administrative burden on both DGCS and NGOs. This could be reduced, and NGOs could have greater flexibility, if DGCS shifted towards programme financing for those NGOs which have demonstrated capacity to manage such programmes.

Future considerations

- In light of the 2009 aid cuts and those foreseen in 2010 and 2011, Italy will not meet its international aid targets for 2010 and 2015. Italy should give credibility to its intention to improve its performance against these commitments by making clear its plans for future aid increases and outlining in a binding manner how, and when, it will reach its aid targets.
- Italy's national budgeting process makes the aid budget rather unpredictable for DGCS, partner countries and key development partners in the multilateral system. While improving aid predictability depends on a political commitment to increase aid in line with Italy's commitments, Italy should also develop a financial planning mechanism which allows it to identify supplementary allocations ahead of the financial year. In the meantime, DGCS should inform partners of changes to its budget as early as possible.
- The *2009-2011 Programming Guidelines and Directions* provide a new opportunity for Italy to reach its goal to allocate 50% of its bilateral aid to Sub-Saharan Africa. Italy should make every effort to reach this goal and stick to the listed priority countries. This will give credibility to its agenda for concentrating bilateral aid in fewer partner countries.

Chapter 4

Organisation and Management

Institutional framework of Italian Co-operation

Italy's institutional framework has not changed since the 2004 peer review. Law 49/1987 (Article 5) gives the Minister of Foreign Affairs overall responsibility for co-ordinating Italian Co-operation within the public and the private sector. While a number of other government departments have development activities, MFA and MEF are the two key government players in Italian Co-operation. MFA is in charge of the Steering Committee (see Box 3), the main body for approving co-operation activities and defining the strategic policy lines in development co-operation.

Ministry of Foreign Affairs

Established by the same Law 49/1987, DGCS is the focal point of Italian development co-operation within the MFA. Under the direction of the Steering Committee, it is responsible for all bilateral aid (including soft loans) and voluntary contributions to the UN. It provides the thematic substance and development expertise to all other initiatives within the development system. Based on common deliberations in the Steering Committee, the DGCS is also responsible for multilateral policy and dialogue and other important matters related to multilateral activities. DGCS must produce two annual reports. The first one, attached each year to the “Financial Provisional Expenditure Document” of MFA, contains proposals and reasons for the allocation of financial resources, its geographic and sector priorities as well as envisaged co-operation activities. The second one, submitted by the Committee for Economic Planning (CIPE, see Chapter 2) to parliament, the “Annual Report to the Parliament on the implementation of the development co-operation policy”, provides an overview of the development co-operation policy and activities carried out in the previous financial year.

Box 3. The Steering Committee for Development Co-operation

The Steering Committee sits in the Ministry of Foreign Affairs, chaired by the Minister for Foreign Affairs or by the Under-Secretary for Foreign Affairs. The Directors-General of the MFA, the Director General of the MEF Treasury Department, and the Director General for International Policies of the Ministry for Economic Development all sit in the committee.

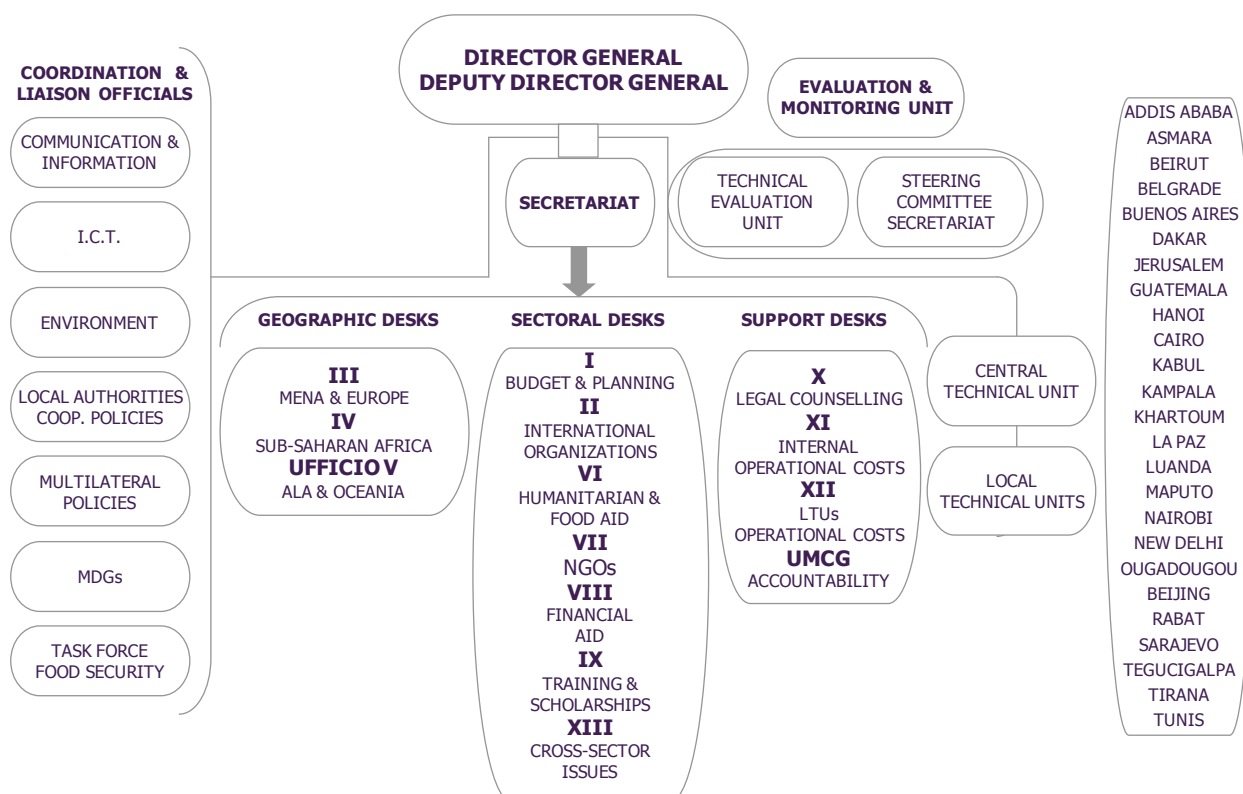
The Steering Committee:

- defines the strategic policy lines in development co-operation and annual programming;
- approves co-operation initiatives above EUR 1 million (ITA 1 billion);
- approves emergency interventions, with the exception of interventions due to natural disasters;
- approves the appointment of experts assigned to developing countries for more than four months;
- gives advice on initiatives to be financed by soft loans; and
- approves any other issues that the Chair draws to its attention.

The Steering Committee is assisted by a secretariat composed of three officials from the Ministry for Foreign Affairs and a technical evaluation unit of five experts. The Steering Committee appoints the members of the secretariat and of the technical evaluation unit and defines their organisational criteria and tasks.

DGCS is one of 13 directorates in the MFA. It is organised by ministerial decree³⁴ and its structure is very horizontal. All 20 offices and units report to the Director General and are headed by a career foreign service officer who rotates position within the ministry. Offices are grouped into three geographic, seven thematic, and four support units (Figure 4) and a number of co-ordination and liaison bodies such as the task forces for food security, environment, and ICT. Law 49/1987 established a Central Technical Unit (UTC – *Unità Tecnica Centrale*) within DGCS to provide technical support. Its experts are hired under private law and are not mobile within the ministry. There are also 25 country offices (*Unità Tecnica Locale* or UTL) that are headed by an expert from UTC. Also located in the MFA is an audit office – the *Ufficio Centrale del Bilancio presso il Ministero degli Affari Esteri* – which is overseen by the General Accounting Department (Ragioneria Generale dello Stato). Its role is to supervise MFA's financial transactions.

Figure 4. DGCS's organisational chart



Ministry of Economy and Finance

The MEF deals with the international financial institutions (IFIs), intergovernmental groups (G8, G10, G20), the European Union (the Economic and Financial Affairs Council and the Economic and Financial Committee) and the OECD, and ensures that contributions are paid to other multilateral agencies in development co-operation.³⁵ It is responsible for the institutional relationship with and financial contributions to the Multilateral Development Banks. However, while the MEF allocates ODA to the EU, it is the MFA which has primary competence for policy relations with the EU on development co-operation. The MEF takes the lead in Italy's position with regards to innovative financing mechanisms (DGCS, 2009b), and participates in the debt cancellation exercise in the Paris Club, led by MFA-DGCE. MEF monitors and supervises, from a financial perspective, the Soft Loan Revolving Fund for Development Co-operation, whose management has been outsourced to *Artigiancassa*, a private bank of the PNB Paribas Group. Soft loan projects are identified by the MFA and the partner country, are approved by the Steering Committee and MEF authorises payments. The policy guidelines, geographical and sector priorities defined by MFA also serve as a reference framework for MEF (DGCS, 2009b). The MEF prepares a detailed annual report on its participation in the IFIs, which includes a chapter on 3-year multilateral programming guidelines, prepared in consultation with MFA. This report is sent to parliament as an annex to the MFA's Annual Report on Development Co-operation.

Within the MEF's Treasury Department, the International Financial Relations Directorate is responsible for development co-operation activities. Three units deal with development in the widest sense (Offices VIII, IX and X). In particular, Office IX is responsible for IFIs (contributions to multilateral development banks) and Office X for bilateral co-operation (e.g. Steering Committee, supervision of the Soft Loans Revolving Fund), development policy (DAC, G8, EU) and innovative financing mechanisms.

Other government institutions

A number of government institutions are involved in international activities which partly count as ODA. The most important institutional actor is the Ministry of Environment, Land and Sea through its contributions to implementing the Kyoto Protocol and other Rio conventions in developing countries. The Ministry for Agriculture, Food and Forestry Policies is involved in development co-operation, mainly within the EU policy for external relations, and is also in charge of the national FAO Committee. The Ministry of Labour, Health and Welfare lends expertise to DGCS, but does not have its own development co-operation programmes. Finally, the Italian Department of Civil Protection has become an important player in Italian humanitarian action since it was mandated to operate overseas in 2004 (see Annex C).

Decentralised co-operation

Development co-operation activities carried out by regional and local authorities have increased in recent years. Several regional and local authorities have created specific laws guiding development co-operation. Given the primary responsibility of the MFA for development co-operation as part of Italian foreign policy, regions and local authorities should, as a general principle, ask for the approval of the MFA prior to any internationally relevant initiative.³⁶ Decentralised co-operation is either financed by the authorities themselves, or else by external finances, such as EU funding. It can also be funded by DGCS.

Even though regions and local authorities do not have a mandate to engage in foreign policy, they can carry out economic activities abroad. Such activities are mainly targeted at the Western Balkans and Latin America. Numerous agreements provide a framework for decentralised co-operation. For example: (i) an agreement (December 2008) between the Italian government and the regions which regulates foreign affairs matters; (ii) 18 agreements signed by the MFA and specific regions and provinces (after 2004), (iii) framework agreements between DGCS and the National Association of Italian Municipalities, and between the DGCS and the Union of Italian Provinces; and (iv) bilateral framework agreements and technical protocols guiding co-operation with Albania and Brazil, or bilateral agreements between regions and their peers in partner countries.

36 Agreements specifying decentralized cooperation with a specific regions.

Management challenges: organisational structure and human resources

DGCS recognises that its organisational structure has to be updated and strengthened in order to adapt to contemporary development challenges and that it must evolve from managing aid through *ad hoc* measures to taking more system-wide approaches. International commitments to increase aid and its effectiveness imply an organisational structure that allows results-oriented management and a transparent and clearly defined way of working at headquarters and in the field. As recommended in previous peer reviews (Annex A), the overall structure at headquarters requires a thorough review. While updated legislation is necessary for a comprehensive reform, the Minister of Foreign Affairs can redefine the organisational structure by decree. DGCS could capitalise on the Minister's authority and continue to identify ways to redefine its organisational structure to achieve flexible results-oriented management and coherent policy implementation within the constraints of the law. DGCS might want to look at how other DAC donors work, especially those which operate within the MFA.

In the MFA and MEF the number of staff is inversely proportional to their aid budgets. However, the larger numbers at MFA underline its overall responsibility and expertise in aid policy and management and the fact that it manages all bilateral programmes and projects as well as most multilateral co-operation. DGCS employs a total of 374 staff (Table 3), though this number has constantly decreased since 2000. Moreover, there has been little new recruitment. Of particular concern is the decreasing number of UTC experts – to 56 from 61 since the 2004 peer review. The law allows for 120 such experts. Personnel seconded from other ministries have also constantly decreased over recent years. The administrative staff directly employed by the MFA have remained constant. They consist of academics and support staff placed in all units, but who are not mobile within the ministry. 113 technical personnel with temporary local contracts are based in the UTLs (no data available for previous years). As stated in the 2004 peer review, DGCS continues to be understaffed when compared with other similarly sized DAC members.

Seventeen staff members are directly employed in the three offices involved in development co-operation at the MEF, while eight senior officers are seconded to as Italian Executive Directors to the Boards of Multilateral Development Banks. There has been a slight reduction in MEF staff compared to previous years (no data available) in line with general staffing cutbacks in the Italian public administration.

Table 3. Staff in the Italian Co-operation system, 2000-2009

Personnel category	Number		
	2000	2004	2009
MFA-DGCS			
MFA staff: Career foreign service officers (diplomats)	29 0	29 4	28 3
Non-diplomatic senior staff	167	159	167
Administrative staff			
Personnel seconded to MFA	158	118	98
Development professionals: UTC experts	68	61	56
Consultants and advisors	21	22	3
Other (Geographical and Thematic Offices' Experts)	24	20	19
Total MFA	467	413	374
UTL technical staff (local temporary contracts)			113
MEF			
Directors + senior officers			3 + 3
Junior officers			5
Administrative staff + secretaries			3 + 3
Staff in the Boards of Multilateral Development Banks			8
Total MEF	n.a.	n.a.	25
Total (MFA + UTL+ MEF)	467	413	512

Effective human resource management is crucial for good institutional performance and for ensuring aid effectiveness in the field. The 2004 peer review recommended a reform of Italy's system of personnel management for development co-operation (OECD, 2004; and Annex A). This was suggested in the context of a general aid management reform, with a special emphasis on personnel planning. The review stressed the importance of matching individual capability to responsibilities, the need for performance-based management and the need to rejuvenate the UTC (Box 4). While DGCS managers, that is, diplomatic staff, work according to a performance based system which evaluates results and has well defined incentives and sanctions, there is no such system for other DGCS staff, including UTC experts. Moreover, DGCS does not have a human resource planning or recruitment policy. The peer review team also saw the need for a clear human resource policy for locally recruited staff in UTLs, which should identify and secure the funding for their contracts (structural vs. project costs) and include career development and performance assessment.

Italian Co-operation, particularly within DGCS, is faced with significant human resource management challenges: (i) the pronounced differences (governed by Law 49/1987) between MFA diplomats and MFA employees, and the "experts" in terms of contract type and salary scheme, mobility and career development creates a two-tier system; and (ii) the fact that senior management responsibility is always assigned to MFA diplomats who rotate can interrupt administrative reform paths if new managers place less priority on such reforms. Furthermore, in the absence of appropriate training and institutional learning mechanisms, it can take time for new managers to become competent in development co-operation.

The experts serving with DGCS under Law 49/1987 belong to two different categories, namely: UTC-UTL experts and experts serving within the DGCS

Geographical/Thematic Offices. Experts belonging to the former category (originally 120) provide technical support to DGCS at the different stages of the project cycle. They also work in evaluation units or as UTL Directors. Experts from the latter category (30, with previous experience in international organisations) provide assistance to the Geographical/Thematic Offices of DGCS in identifying and developing initiatives to be financed under Law 49/87. At present, only 75 of the 150 experts foreseen by Law 49/1987 are in service at DGCS (59 UTC/UTL experts and 19 experts from international organisations). Experts have a distinct career path within the ministry. They are integrated into project cycle management, including monitoring and evaluation. The DGCS could make better use of their capacity and expertise through further integration into the organisational structure. Moreover, conditions of service for experts need to be competitive in order to attract – and retain – people with appropriate skills and competencies. The slow progress on reforming Law 49/1987 should not prevent Italy from modernising and organising its human resources to meet current needs. DGCS has submitted a proposal to the minister to hold a competitive exam to hire more experts in line with the law, to rejuvenate the UTC, to raise salaries and to promote the present experts to a higher rank. These are important and positive steps forward although the current status of the proposal is unclear.

Box 4. Challenges faced by Italian Co-operation's experts

Experts, based in the Central Technical Unit (*Unità Tecnica Centrale* or UTC) provide technical support to Italian Co-operation, prepare thematic guidelines and liaise with the UTLs. The law provides for the unit to be staffed by up to 120 experts under private contract, reporting to a head of unit who is a career foreign service officer. The UTC is an office within the DGCS umbrella, but is located in semi-permanent buildings outside the MFA. This physical distance from aid managers contributes to the sense that experts are not integrated in the daily functioning of Italian Co-operation. Experts working in the geographical and thematic offices coordinate planning of interventions in countries and regions of competence and are in charge of collaboration with international organisations.

UTC experts are in charge of identifying, formulating and appraising the bilateral programme (including soft loan projects). However, since the reorganisation of the MFA in early 2000, they have been focusing more on planning and are less involved in programme cycle management. These experts appear to be committed to Italian Co-operation. In addition, due to their limited mobility, they represent the institutional memory of DGCS. Experts have thematic and development methodology expertise. However, while their expertise is increasingly used for policy definition, for example, in devising the Aid Effectiveness Action Plan, elaborating innovative approaches to public-private partnerships and system wide development activities, and elaborating sector guidelines and shaping sector priorities, the experts would appreciate more formal recognition for this work through updated job profiles and, as stated in the 2004 peer review, a less rigid classification system which locks the employee into the rank at which he/she enters. Through this, experts may also feel more empowered.

The average age of UTC personnel is 59 and there is no upper age limit for retirement. In addition, Italian Co-operation has not recruited experts since 1993, leaving a number of unfilled vacancies. Experts have limited prospects for career development as they are not integrated in the public service and their contracts with MFA do not provide for career advancement.

Non-governmental actors

Italy has a large civil society landscape with about 20 000 non-governmental organisations engaged in development co-operation (DGCS, 2009b). Most of them are active in project implementation, but are less engaged in public awareness-raising than their counterparts in other OECD countries (DGCS, 2009b). DGCS has officially listed 240 NGOs which can receive financial support for project implementation and which are included in consultation processes. There is one Italian NGO association (*Associazione ONG Italiane*) with about 150 members, and five networks based on common missions and shared methodologies (e.g. CINI - *Coordinamento Italiano Network Internazionali*).

Since the last peer review, a series of rules, policy acts and guidelines has been developed to define the eligibility of NGOs for receiving financial support from DGCS and to establish the legal framework for DGCS and NGOs collaboration. Such NGOs must play a central role in the Italian Co-operation system (*Sistema Italia*). The new *Italian Policy and Guidelines for NGOs* (2009) has given NGOs a clear *modus operandum* within the Italian Co-operation. This policy defines the eligibility criteria and the co-financing mechanisms. A project can last up to three years, and the MFA will co-finance a maximum of 50% of the total amount, and up to 70% for projects in priority countries. Italian NGOs can also successfully bid for EU co-financing.

Dialogue on policy and the collaboration among NGOs and DGCS has improved significantly since the 2004 peer review with a more open and frank dialogue. In January 2009, DGCS signed a one-year framework agreement with the *Associazione ONG Italiane* and *Coordinamento Italiano Network Internazionali* so that they could participate in developing the action plan for aid effectiveness and to subsequently monitor its implementation (see Chapter 5). There is also dialogue with NGOs on EU development co-operation issues through DGCS's EU policy round table. In light of the perspective and experience that NGO participation brings Italian Co-operation, the peer review team welcomes plans to renew the framework agreement in 2010.

A specific feature of Italian Co-operation is that Italian NGOs are in close contact with UTLs. Projects are often developed together as opportunity arises, sometimes involving informal tendering (only for emergency interventions). The team noted in Lebanon that the exclusive use of Italian NGOs contributed to Italy's strong profile, with Italy operating through 20 such organisations (Annex D). However, while Italian NGOs in Lebanon receive considerable advice and support from the UTL, the NGOs felt that DGCS needs to improve monitoring and evaluation and ensure greater continuity of funding. Also, while co-financing criteria stipulate that Italian NGOs should have a local partner organisation, Italy should also consider entering into direct co-operation with Southern NGOs and increasing opportunities for local NGOs to participate in consultations and policy dialogue. This would be in line with action point on democratic ownership and NGOs in the Action Plan on Aid Effectiveness.

Towards the effective implementation of Italian Co-operation

Managing country offices

Italy's development co-operation presence abroad is assured by embassies and 25 co-operation offices (UTL). The UTLs are headed by a country director who is a technical

expert from the UTC and, in general, the only expert sent from Rome. UTLs fall under the responsibility of the ambassador, and all formal communication to Rome is made through the Embassy. Policy dialogue with the partner country is usually handled by the ambassador. When Italy does not have an embassy in a partner country, such as in Niger, the UTL in that country falls under the responsibility of an embassy in another country (Ivory Coast for Niger). The ambassador can also share or delegate this function to the director of the UTL. In Lebanon responsibilities are shared between the director of the UTL (more operational tasks) and the ambassador (political and representative tasks). They play complementary roles and the approach is well adapted to Lebanon's specific context (Annex D).

Italy is implementing the 2004 peer review recommendation that greater authority should be devolved to co-operation offices. The UTLs now have more responsibility in defining country portfolios; identifying, formulating and implementing programmes and projects; and – to some extent – local human resource recruitment policy.³⁷ This is a good beginning but more needs to be done. Delegating more responsibility to UTL directors will reduce embassies' administrative workloads as well as simplifying unnecessarily long approval procedures. Co-operation offices are – by their nature – closer to partner country realities and needs. This justifies increasing their role in defining the strategic orientation of a country programme. In 10 out of Italy's 13 priority countries,³⁸ UTLs have completed three-year country plans in line with the *Programming Guidelines 2009-2011*. The UTL director defines the country programme in close collaboration with the relevant geographic desk at headquarters and submits it to the Steering Committee for approval. So far, country programmes are informal and have not been systematically communicated within DGCS, to the partner country or the donor community in the country. While they are considered a positive step forward, they should be approved by the Steering Committee and made publicly available on the Italian Co-operation website.

UTL directors have the authority to manage the co-operation office on a day-to-day basis and receive a budget for this. However, the ambassador is responsible for signing contracts with local partners (government, NGOs, enterprises) and locally-recruited staff. Most of these administrative tasks could be delegated to the director of the UTL. As the working language in the UTLs is Italian, locally-recruited staff often need to have a profound knowledge of Italian. As a consequence, most staff are young Italians, acquiring their first development experiences. However, Italian Co-operation would benefit from the knowledge, and if contracts allow, the continuity and institutional memory that staff recruited from the partner country would provide. Italy should, therefore, consider recruiting more national staff. The peer review team was concerned that a new interpretation of Law 49/1987 on local recruitment of staff that occurred in July 2009 would restrict the recruitment of local staff and reduce the staff available to UTLs. However, since July DGCS further defined the issue: all locally recruited staff must be hired under the same conditions in terms of salaries so that there will be no differences among partner country nationals and Italians. According to DGCS this will provide more incentives to recruit local staff - the purpose of this new direction. The peer review team urges DGCS to ensure that UTL directors are well informed of the purpose of this new direction, ensure that any risks it may pose for delivering and managing aid in partner

37 Interviews in Rome and Lebanon.

38 Egypt, Tunisia, Albania, Iraq, Lebanon, Mauritania, Palestinian Territories, Syria, Afghanistan and Niger.

countries are minimised, and to build on it by developing a human resource policy and guidance for co-operation offices.

Implementing country programmes

Italy's country programmes are implemented through projects and programmes. Projects are the main approach, allowing Italy to closely monitor its financial investments and gain visibility. The implementation of projects and programmes also allows a maximum of Italian actors to be involved in technical assistance and NGOs in project implementation. Italy is, however, increasingly moving to new funding modes. For example, 80% of the total committed funds to Afghanistan in 2008/09 will be allocated to government executed trust funds.³⁹ Italy also pooled its multi-bi funding to support the One-UN efforts in Mozambique. In line with Paris Declaration and Accra Agenda for Action commitments Italy is urged to use common reporting procedures when supporting multi-donor funding mechanisms.

Tying aid can delay programme implementation. For example, in Lebanon tied aid slowed down reconstruction works. Tying contracts above EUR 300 000 to an exclusive Italian tender often results in no bids from Italy because this minimum threshold is too low to interest Italian companies. In one case the Lebanese Council for Development and Reconstruction could not even find an Italian company to implement a EUR 5 million infrastructure project. However, Italy's rules prevented it from opening the tender to Lebanese companies, which would have been more competitive. The Lebanese authorities have asked for the system to be changed; DGCS proposed to the Steering Committee that local tendering could be allowed if a minimum of three Italian companies fail to submit a bid. The proposal was approved in July 2009, and DGCS should now look at how this precedent could apply to tendering in other partner countries. Given its commitments to the AAA to ensure more local and regional procurement, Italy should explicitly promote cost-effective local procurement, especially for relatively small contracts.

The 2004 peer review noted that the decision-making process from project identification to implementation was too long (OECD, 2004). This has been mainly addressed by decentralising and streamlining DGCS procedures (see below). The UTL director can now assume the same responsibility as UTC experts (Box 4) and sign off project proposals directly before sending them to headquarters (see below). While this saves time the use of thematic experts in the UTC is no longer systematic and is at the discretion of UTL directors. In addition, staff in country offices and at headquarters invest a lot of time in quarterly operational and financial reporting, but often fail in providing performance feedback and exchanging lessons. While decentralisation to country offices needs to be continued, there is also room to improve the sharing of experiences and institutional learning through more structured exchanges between UTLs to headquarters. DGCS needs to provide the UTLs with more strategic guidance and create opportunities for institutional learning.

39 For example, the Disbandment of Illegal Armed Groups (DIAG), Law and Order Trust Fund (LOFTA) and Counter Narcotics Trust Fund (CNTF).

Headquarters' role in implementing development programmes

All projects and programmes above EUR 1 million are approved by the Steering Committee. DGCS procedures have been streamlined since 2005 by categorising support into grants and soft loans to speed up the often long project/programme approval procedures. Programme cycle management takes the following course:

The country office, in collaboration with the geographical desk, develops a project/programme proposal.

The UTC does the technical and financial evaluation (unless the country has a UTL), and submits it, through the geographical desks (Office III, IV and V), to Office I for formal vetting.

After completion of formal vetting, Office I forwards the documentation to the Steering Committee Secretariat. The Secretariat then submits the documentation to the Technical Evaluation Unit (*Nucleo di Valutazione Tecnica*) for final evaluation before submission to the Steering Committee for approval.

After approval by the Steering Committee, the programme or project is registered, the geographical desk communicates the approval status to country offices and allocates the financial resources.

A crucial role in the approval process is played by the *Ufficio Centrale del Bilancio* (Audit office), which does an *ex ante* control of expenditures. The *Ufficio Centrale del Bilancio* tends to interpret guidelines literally which can pose difficulties in certain projects and programmes where realities in partner countries often require flexibility to adapt to changing situations. For example, the Audit office would not release funds committed for a training course because DGCS wanted it to be held in Italy instead of in the targeted partner country due to lack of security. This training course would still have benefitted the partner country but the Audit office insisted that the aid should be spent in the partner country as per the approved project. Further development of the DGCS - *Ufficio Centrale del Bilancio* team spirit and flexibility, as mentioned in the 2004 peer review, is therefore still needed.

Office I co-ordinates the process for allocating financial resources among the different DGCS offices (see Figure 4). So far, country budget allocations by the geographical desks are informal and determined by the absorption capacity of a country (office) and the partner country's ability to effectively manage aid. Building on the multi-annual programming guidelines, Italy should look into ways that will allow DGCS to create a transparent, multi-annual, results-oriented budget allocation mechanism for country programmes and develop a monitoring system to guide headquarters in its decision making.

DGCS has been implementing an accountability programme since 2008 which links its annual budget allocations with its political priorities, annual strategic, structural and operational objectives.⁴⁰ Benchmarks are updated annually by MEF and entail economic, efficiency and budget indicators of performance. DGCS has defined a number of quantitative and qualitative indicators for measuring its performance as a directorate and issues a performance report every four months. This accountability programme is a positive step towards measuring accounting efficiency. Italy could take this approach

further by strengthening the focus on accountability for development results in line with the Paris Declaration and Accra Agenda for Action.

The challenge of becoming a results-focused learning institution

Monitoring and evaluation of development policies, programmes and projects are currently dealt with by two independent units (one attached to the Steering Committee – *Nucleo Tecnico di Valutazione* – and one in the regular DGCS structure) with the same UTC staff working in both units. DGCS is currently reviewing its evaluation practices, as recommended in the 2004 Peer Review. A director was appointed to the newly-created Inspection, Monitoring and Initiatives Assessment Unit (the second unit mentioned above) in early 2009 with a mandate to develop an institutional evaluation policy. The objectives are to fully integrate monitoring and evaluation into project cycle management, to obtain a dedicated budget and adequate staffing for the unit and to develop a multi-year programme and a policy that includes learning processes and communication. As a start, the head of the new unit surveyed other DAC development agencies to learn about their policies and practices. Italy has also recently started to participate in the DAC's Evaluation Network. As it prepares its evaluation policy, Italy might assess the good practices of other development agencies, such as Irish Aid, which has adopted Sida's monitoring and evaluation policy, rather than developing its own.

DGCS has expressed a renewed urgency for Italian Co-operation to monitor and evaluate the implementation of its 2009-2011 programming guidelines. This sense of urgency is particularly welcome since DGCS has not done independent, systematic evaluations since 2002. And evaluations that have been commissioned by UTLs are not available through a centralised database or the website. A key pillar in managing development co-operation is measuring performance and reporting on progress and impacts to different constituencies. This is important for quality assurance, allows evidence-based decision making and can influence donor and partner behaviour through lesson learning and by strengthening mutual accountability for results. Such systematic monitoring and evaluation does not occur within the Italian development co-operation system. Italy is therefore encouraged to pursue its efforts to institutionalise monitoring and evaluation across both MFA and MEF, including in the activities undertaken by Office VI (Emergency Operations and Food Aid Office, see Annex C).

So far, monitoring and evaluation have not been implemented systematically in the project management cycle. Monitoring of project implementation is mainly done following rather tight requirements for quarterly reporting on operational activity and financial expenses. These relate more to input-output and not systematically to predefined objectives and results. Some partners question these rigid requirements and miss regular feedback from monitoring reports and the evaluation of results. Some evaluation practices and experiences are readily available in those UTLs that undertake evaluations on their own initiative. Also, in working with NGOs, Office VII has conducted a number of *ex post* monitoring missions (73 projects in 2007). As Italian Co-operation moves towards results based management, monitoring and evaluation and results-based indicators will have to be introduced, procedures adapted and personnel trained. By institutionalising monitoring and evaluation, the accountability of Italian Co-operation and institutional learning will be strengthened and the quality of aid improved.

Future considerations

- While updated legislation is necessary for a comprehensive reform of Italian Co-operation, DGCS should make use of the Minister of Foreign Affairs' authority to re-organise the directorate by decree and exploit any administrative leeway and possibilities to amend Law 49/1987 to reform aid management as it awaits updated legislation for a more fundamental reform of the system.
- DGCS should be allowed to address the human resource challenge of development experts at the UTC by redefining terms of reference to reflect new responsibilities, recruiting new staff with relevant competencies for contemporary ways of delivering aid, and creating competitive conditions of service in order to attract - and retain – people with appropriate skills and competencies
- Italy should continue its decentralisation process by giving further responsibility to its country offices. Delegating more responsibility to UTL directors will reduce embassies' administrative workloads as well as simplifying unnecessarily long approval procedures. UTLs also require clear policy and procedures for human resource management.
- DGCS should institutionalise processes within the Italian co-operation system for systematic lesson learning, including facilitating exchange among UTLs and headquarters on country programme management and aid effectiveness.
- DGCS should provide its evaluation unit with an appropriate mandate, budget and staff resources to develop and promote a modern culture of evaluation and results monitoring. This unit should also develop a system for integrating policy lessons, including from Italian humanitarian action. This will require training personnel and adapting current procedures for programme and project management towards results-based management.

Chapter 5

Aid Effectiveness

Strengthening awareness and commitment to aid effectiveness

Italy demonstrated international leadership for making aid more effective when it hosted the first High-Level Forum on Aid Effectiveness in Rome in 2003. Through its EU membership, it is committed to the EU Code of Conduct on Complementarity and the Division of Labour in Development Policy (2007). The *2009-2011 Programming Guidelines and Directions* (DGCS, 2009a) state that Italy will continue to fully participate in the operational phase of the EU's division of labour criteria and will adjust legislation as appropriate. While Italy lagged behind many DAC donors in transforming the Paris Declaration on Aid Effectiveness into a national action plan, its first *Aid Effectiveness Action Plan* (DGCS, 2009c), approved by the Steering Committee in July 2009, is very welcome.

There is strong awareness within DGCS (especially senior management, Office I and sections of the UTC) of Italy's commitments under the Paris Declaration and Accra Agenda for Action. However, this commitment and awareness do not appear to permeate all parts of Italian Co-operation.

Italian NGOs, especially those engaged in advocacy, also seem to be aware of Italy's commitment to the Paris Declaration and the Accra Agenda for Action.⁴¹ In 2009, an Italian network of international NGOs (CINI) published comparative analysis of lessons learnt on aid effectiveness from six EU donors (CINI, 2009). This analysis provided recommendations to the government and fed into the *Aid Effectiveness Action Plan*. NGOs also play a useful role in lobbying parliament and government to make Italian aid more effective. However, it is difficult to measure their success in changing political attitudes to how aid should be managed and delivered or in influencing aid policy. Nevertheless, Italian Co-operation has recognised the value of NGO input and invited them to participate in the Working Group on Aid Effectiveness.⁴² In response, the NGOs have nominated a Civil Society Task force focal point who collaborated with DGCS in elaborating the action plan.

The *Action Plan on Aid Effectiveness* is a good opportunity for building awareness and support for aid effectiveness throughout Italian Co-operation. MFA staff in headquarters, embassies and UTLs, and development partners, need to be aware of the

41 However, awareness of the Paris Declaration was not as explicit among Italian NGOs based in Lebanon.

42 The Working Group on Aid Effectiveness was created in 2008 to develop Italy's *Action Plan on Aid Effectiveness*. It is headed by the Director General of DGCS and composed of senior officials from DGCS as well as a representative of civil society (since January 2009).

plan for it to be successfully implemented. To this end, DGCS should further disseminate it. Experience from Ireland and Sweden shows that, in addition to involving key actors in preparing the plan, internal communication strategies which focus on building ownership of plans are crucial for their success (OECD, 2009c & d). Training, workshops, electronic discussion groups and blogs are effective tools for building awareness and ownership and should help rally staff around this common objective. The planned pilot training programme on aid effectiveness for experts and young diplomats is therefore welcome. MFA should consider inviting ambassadors and staff from MEF and other ministries to future training sessions.

Italy's Action Plan on Aid Effectiveness

The objective of the action plan is to embed Italy's commitment to aid effectiveness in development policy, guidance and implementation. In light of the political impasse on new legislation for development co-operation, the action plan focuses on administrative acts that can be approved by the Steering Committee and which will make management and delivery of Italian Co-operation more effective. The plan outlines 12 action points with 27 time-bound outputs (Box 5). Developing the plan is a significant first step. It responds to the commitments agreed in Accra and Paris, with the exception of capacity development, managing for development results, mutual accountability and supporting the role of parliamentarians. The guidelines for using country systems and programme-based approaches will need to build on Italy's commitment to providing 66% of aid via programme-based approaches and should provide transparent plans for using country systems in all forms of development assistance, as agreed in Accra. This progress has also been recognised by Italian NGOs. However, NGOs comment that Italy considers predictability only in terms of timely communication of aid flows and does not deal with the problem of untying aid (ActionAid Italy, 2009). DGCS should take steps to respond to these concerns in order to maintain the goodwill of NGOs to deliver aid effectively. At the same time, aid predictability and further amendments to the law on untying must be addressed at the political level.

Box 5. Italy's Action Plan on Aid Effectiveness (2009-2010)

- **12 action points and 27 outputs:**

1. Policy coherence for development

- **Output:** (1) Collect and disseminate information, including to other government departments, on EU and OECD discussions on policy coherence for development. Deadline: December 2009.

2. Sectoral guidelines and effectiveness.

- **Output:** (2) Update sectoral guidelines in light of the criteria for aid effectiveness. Deadline: February 2010.
- (3) Develop operational guidelines for general budget support and programme-based aid. Deadline: February 2010.
- (4) Develop guidelines on the use of country systems and the acceptable level of risk. Deadline: December 2009.

3. Focus on a limited number of priority countries

- **Output:** (5) Communicate financial resources allocated to partner countries in three-year country plans. Deadline: October 2009.

4. Co-operation through international organisations

- **Output:** (6) Decide whether or not to participate in MOPAN and, possibly, apply for MOPAN membership. Deadline: October 2009.

- (7) Develop specific strategic approaches to the international bodies which will receive more funding from Italian Co-operation and standardise methods of engagement for all multilateral organisations. Deadline: December 2009.
 - 5. ***Emergencies, fragile states and effectiveness***
 - **Output:** (8) Develop guidelines on the principles and best practices of Good Humanitarian Donorship in consultation with representatives from Italian civil society. Deadline: December 2009.
 - 6. ***Efficiency and simplification of procedures***
 - **Output:** (9) Complete the simplification of procedures for project loans, apply art. 15, and revise the tendering procedures in line with aid effectiveness guidelines and relevant legislation. Deadline: November 2009.
 - (10) Draw up a roadmap for the simplification of remaining procedures, including funds allocated locally. Deadline: October 2009.
 - (11) Analyse and review the terms of reference for parallel structures. Deadline: December 2009.
 - (12) Adopt a service order requiring staff to state whether missions are joint, and if not, ask for a justification for the mission. Deadline: October 2009.
 - 7. ***Evaluation and effectiveness***
 - **Output:** (13) Adopt evaluation guidelines and prepare evaluation plan. Deadline: October 2009.
 - 8. ***Democratic ownership and NGOs***
 - **Output:** (14) Develop guiding principles to enhance civil society consultation in partner countries and undertake measures to strengthen civil society. Deadline: January 2010.
 - (15) Consider priorities and assess feasibility of encouraging co-ordinated NGO programmes rather than individual projects. Deadline: February 2010.
 - (16) Evaluate the possibilities for further simplification of procedures for NGO projects, in line with legislation. Deadline: January 2010.
 - 9. ***Untying of aid and procurement of local goods and services***
 - **Output:** (17) Propose options for the further untying of aid credits [and food aid]. Deadline: December 2009.
 - (18) Propose legislative reform for the further untying of claims. Deadline: December 2009 (NGO proposal)
 - (19) Propose the expansion – percentage and other areas – of the expenditure incurred on-site. Deadline: November 2009.
 - 10. ***Training***
 - **Output:** (20) Prepare training modules on co-operation and aid effectiveness before posting. Deadline: November 2009.
 - 11. ***Communication***
 - **Output:** (21) Submit a plan for mainstreaming effectiveness across DGCS communication tools. Deadline: December 2009.
 - 12. ***Monitoring implementation of the plan in DGCS and at country level***
 - **Output:** (22) Establish thematic working groups with service orders. Deadline: August 2009.
 - (23) Identify aid effectiveness focal points at UTL. Deadline: October 2009.
 - (24) Renew framework agreement between MFA/DGCS and NGOs. Deadline: January 2010.
 - (25) Provide information on how the plan is advancing. Deadline: September 2010.
 - (26) Review experience gained from co-ordinating the Technical ODA Table with a view to activating a connection with the *Sistema Italia*. Deadline: January 2010.
 - (27) Adopt an effectiveness marker for all initiatives that require funding. Deadline: December 2009.
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- Source: Ministry of Foreign Affairs (2009), *Piano programmatico nazionale per l'efficacia degli aiuti*, MFA, Italy.

Implementing the action plan by 2010 will be a challenge for Italy given DGCS's limited human resources and the number of outputs to be achieved. The greatest risk is that DGCS will not have the capacity to facilitate the working group on aid effectiveness

(WGAE), which is to meet every three months to monitor progress and to ensure adequate policy leadership and monitoring of the plan's implementation. Given that limited human resources could be an obstacle to implementing this plan, the MFA should ensure that sufficient additional staff and expertise are allocated to Office I so that it can facilitate the WGAE and take on the policy leadership role.

In August 2009, the MFA issued a service order to establish ten issue-specific working groups to prepare new sector guidelines, guidelines on country systems, budget support, and programme-based approaches. While UTL directors were not consulted in the preparatory phase of the action plan, despite their relevant country level experience, the peer review welcomes DGCS plans to engage them in these working groups. DGCS regularly consults with MEF on soft loan procedures and multilateral co-operation. To ensure that the entire Italian Co-operation system strives to make aid more effective and is accountable for making progress, MFA should find ways to bring other ministries and decentralised co-operation under this plan. According to Italy's submission to the DAC high-level meeting in 2009, the mandate of the Inter-ministerial Technical Working Group on Italian ODA could be enlarged to include aid effectiveness. The peer review team considers this to be a good way forward and special attention should be given to the effectiveness of decentralised co-operation.

Italy's performance against the Paris Declaration indicators

Italy participated in both the 2006 and 2008 *Monitoring Surveys of the Paris Declaration* (OECD, 2008a). Like most donors, Italy performs better in supporting country ownership and donor co-ordination than it does on alignment and managing for development results (Table 4). In particular, managing for development results and mutual accountability will require greater attention in Italian Co-operation. In the process, Italy should look to the experiences of other donors and the Joint Venture on Managing for Development Results of the Working Party on Aid Effectiveness. Nevertheless, Italy has made notable improvements in its performance, including an increase in technical assistance co-ordinated with country programmes (indicator 4) and payments that are on schedule and recorded by government (indicator 7) (Table 4). However, Italy scores below the average country effort for use of partners' public financial management systems (indicator 5).

Table 4. Monitoring Italy's performance against the Paris Declaration indicators

Indicator	2005 (33 countries)	2007		2010 Target
		(33 countries)	Average country effort*	
#3: Aid flows are aligned to national priorities	16%	35%	48%	85 %
#4: Strengthen capacity by co-ordinated support	34%	72%	60%	50% EU target: 100%
#5a: Use of country public financial management systems	29%	18%	45%	
#5b: Use of country procurement systems	51%	52%	43%	
#6: Avoid parallel project implementation structures	30	40	31	10
#7: Aid is more predictable	8%	27%	46%	54%
#8: Aid is untied	41%	--	88%	>than 41%
#9: Use of common arrangements or procedures	39%	26%	47%	66%
#10a: Joint missions	7%	16%	--	40%
#10b: Joint country analytical work	18%	42%	--	66%

Source: OECD (2008a), 2008 *Monitoring Survey of the Paris Declaration*, OECD, Paris

Making aid more effective at the country level

Italy has performed relatively well on donor co-ordination and alignment to partner country national development strategies. This can be explained by the greater delegation of authority to UTLs for project identification and evaluation since the last peer review, and peer pressure in the field from other donors and partner governments. UTL directors and ambassadors often need a deep understanding of Italy's complex procedures to convince headquarters that they can engage in new ways of working, including using new aid modalities (such as participating in general budget support in Mozambique, the Afghanistan Reconstruction Trust Fund or donor basket funds in Albania and Ethiopia). Once proposals are approved by the Steering Committee, embassies and UTLs have more flexibility in delivering aid at the field level. However, one difficulty with the Steering Committee approving more flexible arrangements on a case-by-case basis is that there is no systematic approach to implementing the Paris Declaration at the field level. The peer review team encourages Italy to address this challenge in the new *Aid Effectiveness Action Plan*.

Co-operation offices also need sufficient staff with the appropriate skills to participate in or support the embassy in policy dialogue, to take on lead donor roles and participate in joint monitoring and reporting exercises. Given DGCS and UTC's staffing constraints, UTLs tend to rely on locally-recruited Italian experts (Chapter 4). In addition, UTLs and embassies have little opportunity to learn from and emulate each others' experiences because there is no system or culture of institutional learning and experience sharing within the Italian Co-operation (Chapter 4). DGCS should look into ways of promoting such learning and knowledge management.

Italy has identified 13 priority countries where it hopes to make greatest progress with the Paris Declaration indicators.⁴³ These countries were selected by DGCS Geographic desks on the basis of embassy/UTL capacity to integrate and apply the aid effectiveness principles. Each country has been asked to identify an aid effectiveness focal point and submit a proposal to headquarters for how Italy can best engage in division of labour.⁴⁴ DGCS has also requested each embassy/UTL to complete a three-year "pathway", or, common planning framework for activities in the field. Called STREAM (synthetic, transparent, realistic, exhaustive, agreed, measurable), this document outlines co-operation activities under nine categories, five of which focus on aid effectiveness. UTLs should:

- provide indicative estimates of future aid flows, performance on alignment, base sector priorities on shared donors' analysis and consultation with local civil society;
- identify the extent to which aid is programme based;
- justify why Italy is not participating in common arrangements or using country systems;
- identify how Italy can support public financial management and statistical systems; and
- provide an input on prospects for division of labour and various aid modalities.

43 Albania (P2), Morocco (P2), Lebanon (P1), Palestinian Territories (P1), Ethiopia (P1), Mozambique (P1), Niger (P1), Senegal (P1), Sudan (P1), Afghanistan (P1), Peru (P1), Viet Nam (P2), and Bolivia (P1).

44 This exercise will be completed by the end of September 2009.

Having selected 13 special focus countries does not mean that Italy will neglect the Paris principles in other priority countries. According to Italian Co-operation, all programmes and projects approved by the Steering Committee must abide by the Paris Declaration Principles and an aid effectiveness marker should be approved by December 2009. DGCS could further promote aid effectiveness in other countries by requesting all embassies/UTLs to prepare a STREAM document, giving aid effectiveness objectives to all ambassadors/UTL country directors and providing workshops/training on the action plan.

Box 6. Implementing the Paris Declaration and Accra Agenda for Action: experience from Lebanon

Italy's engagement in Lebanon is built on two priority pillars: a major emergency initiative and a broad development programme centred on agriculture, water, cultural heritage, health and social services. The significant increase in Italian aid to Lebanon since 2006 resulted from the emergency response which provided for rehabilitation, employment, services and development in communities affected by the conflict with Israel and assistance in new emergency situations (such as the conflict in the Palestinian camp of Nahr el Bared in 2007). The ROSS Emergency Programme (see Annex D) has been implemented by Italian NGOs, UN agencies, and the Lebanese government, with significant oversight and technical contributions from the UTL. Initially, it involved short-term project responses alongside the large Italian contingent in UNIFIL and was more attuned to Italian commitments under the Good Humanitarian Donorship initiative than to the Paris Declaration principles. However, many of the activities have a discernible developmental character – particularly those associated with re-establishing public services and utilities, where sustainability and ownership come to the fore. The Paris Declaration principles therefore have some applicability to the ROSS Emergency Programme, as well as to the broader development programme.

Feedback from Italian Co-operation partners in Lebanon suggests that Italy's approach is in line with many of its commitments under the Paris Declaration and the Good Humanitarian Donorship initiative (see Annex C). Local authorities, mayors and Lebanese NGOs consider that the projects respond to the needs of the country and that there was good consultation during project design. The projects are well-aligned to the government's priorities. While Italian procurement procedures do make the use of country systems more difficult, local authorities indicate that direct management of funds by the UTL is appropriate to the Lebanese situation. As part of Italy's support to local development, the UTL is planning to develop a financing mechanism, in collaboration with the Lebanese Ministry of Interior, municipalities and other international donors, so that budget support can be provided.

With greater human resource capacity in the UTL than other donors, and in the context of EU efforts to promote co-ordination, Italy has assumed an active role in promoting co-ordination between bilateral and multilateral donors as well as other relevant stakeholders. This occurs through two working groups (local development and environment). Italy's leadership role is highly appreciated and the peer review team congratulates the UTL for its efforts. The challenge for Italian Co-operation in Lebanon now is to build on and sustain this good practice. The UTL may require stronger direction and follow-up from headquarters on the *Aid Effectiveness Action Plan*. It should also have an opportunity to share experiences with other UTLs and HQ. However, the atypical nature of Italian Co-operation in Lebanon makes it difficult to extrapolate an overall Italian approach to aid effectiveness from this Lebanon experience.

Ownership and harmonisation: becoming more systematic

Italy's memorandum to the DAC states that Italy's strategies and projects are shaped by the development strategies of partner countries (DGCS, 2009b). The *Aid Effectiveness Action Plan* and *2009-2011 Programming Guidelines and Directions* make several references to democratic ownership and the need to strengthen civil society in partner countries. Italy's selection of governance and civil society as a priority sector is therefore in line with these objectives.

On track for donor harmonisation

Italian Co-operation is mainly delivered through projects with Italian-specific monitoring and reporting procedures (see Chapter 4). The peer review team therefore welcomes Italy's plans to increase the percentage of aid disbursed through programme-based approaches as these help to reduce transaction costs for partner countries and donors alike. The memorandum states that partner country line ministries are progressively being given more responsibilities and direct management authority over activities funded by Italian Co-operation. The peer review team could not verify this in Lebanon, due to the specificities of Italy's engagement there (Box 6). Nevertheless, efforts are being made by embassies/UTLs in other priority countries where aid effectiveness is more advanced to ensure that projects are not stand-alone, that they are in line with national priorities, that they respond to the demands of partners and that they are co-ordinated through sector working groups. For example, in 2008, Italian co-operation representatives participated in 10 out of 12 technical working groups in Ethiopia and chaired four of them (one of which was on gender equality (UTL/Ethiopia, MoFED/Ethiopia, 2008)). In Albania, Italy actively participates in six sector working groups, is the focal point for the health sector and the in-country facilitator for the division of labour process.

Italy could go further with harmonisation activities by supporting joint assistance strategies, and engaging in silent partnerships and delegated co-operation. Indeed, a new law has made provisions which allow Italy to take on a delegated role (from the European Commission and other EU Member States); however, it cannot yet delegate to another donor. Plans are underway to identify which administrative procedures can be updated to enable such harmonisation. Delegated co-operation and silent partnerships may be hard to achieve while Italy continues to work through projects, further emphasising the importance of moving to more joint project and programme-based approaches. At the same time, it is imperative that Italy's aid become more predictable and that budgeting and reporting procedures are simplified so that Italy can be a reliable and helpful partner in programme-based approaches. Approximately 47% of Italy's multi-bi funds were devoted to multi-donor projects in 2008. Italian Co-operation should strive to increase this share.⁴⁵

From alignment to priorities to better use of partner country systems

Aligning development with partner country policies and strategies is proving considerably easier for donors than aligning at the operational and implementation level (OECD, 2009e). Italy reflects this experience; orienting its activities to partners' national strategies has been easier to achieve than using partner country budgeting, monitoring and reporting systems. Its choice of aid modalities, complex procedures and the overall unpredictability of its aid flows mean, for example, that Italy is not performing well on the percentage of aid flows that is reported on partner countries' budgets (Indicator 3, Table 4). Despite the challenges it faces in making Italian ODA more predictable, Italy should ensure that the information it shares with partner countries on aid flows is as transparent and timely as possible. Italy can also help partner countries to address the technical aspects of recording financial flows.

Untying

Article 6 of Law 49/1987 implicitly states that all soft loans should be tied to Italian suppliers, while allowing for local cost financing and regional procurement under exceptional circumstances. On the basis of this provision, following Steering Committee and CIPE approval, in 2004 Italy endorsed the DAC recommendation on untying aid to least developed countries (LDCs) as well as its extension to heavily indebted poor countries (HIPC). However, soft loans to other developing countries cannot be completely untied. Also, there is no provision for grants to be fully untied. The peer review team learnt in Lebanon that grant aid was tied. Italy's untying rules are not as advanced as other DAC donors which allow for total untying of aid.

Italy ties its aid to Italian services, supplies and works mainly in the health and, to a lesser extent, the agriculture sectors. According to its DAC reporting, Italy tied 36% of its total bilateral aid in 2007 (USD 1.4 billion including debt relief) (OECD, 2009a). Of the remainder, 54% is untied, while the tying status of the remaining 10% is not reported. The share of Italian untied aid has been boosted over the last two to three years due to USD 1.7 billion of debt forgiveness in 2005 and USD 1.4 billion in 2006. In 2007, however, debt forgiveness dropped to USD 0.6 billion, which reduced Italy's total bilateral ODA by almost half and consequently its share of untied aid. Excluding debt relief, the share of untied aid declined slightly (-3%) between 2006 and 2007. However, while this demonstrated Italy's continued progress in untying bilateral aid (from an average of 21% untied between 1999 and 2001 to 54% in 2007, the untied share is still below the DAC average of 79%. Only two other DAC members have lower untying ratios (OECD, 2009a).⁴⁶ To keep up with the overall DAC trend towards the complete untying of aid to all developing countries, Italy should make further improvements in both its untying and in transparent reporting on the tied status of its aid. Italy also needs to do more to report untied aid offers and contract award information in line with the terms of the 2001 Untying Recommendation.

Additional steps have been taken by the Steering Committee to pass administrative acts that improve the nature of Italy's tying. In 2008, it raised the ceiling for goods that can be procured locally in sectors supported by soft loans. The ceilings vary according to the sector. For example, 30% of goods and services can be sourced without restriction in relation to loans to small and medium-sized enterprises (SMEs), while 75% can be sourced freely in relation to loans for micro-credit (DGCS, 2009b). This positive step should be expanded (*e.g.* by raising the ceilings in some other sectors, such as SMEs). However, such steps will not significantly improve Italy's untying performance, which needs to be guided by improving its aid effectiveness (developing country ownership and value for money). Italy's action point (Box 5, point no. 9) on aid tying suggests how this can be achieved. To fulfil its AAA commitments and as part of its *Action Plan on Aid Effectiveness*, Italy should develop plans to further untie aid, including food aid, as much as possible and promote the use of local and regional procurement instead.

Country systems: public financial management and procurement

In the Paris Declaration, developing countries committed to strengthen their administrative and financial management systems and donors committed to using those

46 This positive trend seems to have continued into 2008: according to the latest data submitted by Italy to the DAC, the untied share of bilateral aid in 2008 is 70%, the tied share is 20% and the unreported share is 10%.

systems as much as possible. In the Accra Agenda for Action, donors also committed to using country systems as the first option for aid programmes to support activities managed by the public sector; to be transparent about why they have chosen to rely on aid delivery mechanisms which are outside country systems; and to establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures. Italy's *Action Plan on Aid Effectiveness* commits it to prepare guidelines by the end of 2009 for increasing the use of general budget support and country systems. At present, the core challenge for Italian Co-operation is that aid budgeting and allocation must conform to Italy's national budgeting procedures which are set up to deter corrupt practices in Italy. These rules are not always appropriate for developing country contexts and systems (see Chapter 4).

Since the last peer review, Italy has revised its procedures for using country systems so as to streamline them and to allow country-specific agreements to be defined.⁴⁷ According to the action plan, these procedures will be further simplified by November 2009. In the meantime, decisions to use country systems are taken on a case-by-case basis. Italy's participation in general budget support (GBS) in Mozambique is a good example of how bottom-up proposals can result in Italian Co-operation adopting new aid modalities. Of course, there were political imperatives at the field level: according to Italy's evaluation of GBS in Mozambique, the penalty for not participating would have been exclusion from roundtable discussions and political dialogue with the Mozambican authorities.⁴⁸ However, Italy's involvement in Mozambique's general budget support is the only case of this specific modality across the entire Italian Co-operation system. Therefore, guidelines that also outline system-wide criteria for providing budget support should help Italy move beyond such one-off approaches to using country systems.

Parallel project implementation units

Between 2004 and 2007 the number of parallel project implementation structures (PIUs) set up by Italian Co-operation increased by one-third. This is Italy's worst result in the *Monitoring Survey of the Paris Declaration* (OECD, 2008a).⁴⁹ While Italy does tend to set up PIUs to overcome complex budgeting procedures at headquarters, another possible explanation for this relatively bad performance is partner countries' classification of PIUs. According to DGCS, this classification does not fully reflect PIU's mandates and real functions. Italy is not the only donor dealing with this challenge. The Paris Declaration Evaluation found that there was considerable confusion and controversy over what actually constitutes the "parallel" types of implementation arrangements discouraged by the Paris Declaration. Not all of Italy's PIUs are parallel. For example, in Lebanon Italy integrated a PIU (basically an Italian expert) into the government's Council for Development and Reconstruction. Italy is aware that it needs to decrease its number of PIUs. Under the *Action Plan on Aid Effectiveness* it intends to assess all PIUs. For those units that are parallel, it will revise the terms of reference so that they cease to qualify as PIUs. Italy should also ensure that those units that are parallel contribute to country ownership and capacity development. They should eventually be phased out.

47 Art.15 of *Italian Development Co-operation Law, Nov 2008*; submission to OECD DAC, SLM.

48 "Italian general budget support experience" Balbo di Vinadio, Background paper for ActionAid International, Italy, 2007.

49 Forty parallel implementation units were operating in 33 countries in 2007, ten more than in 2005. This is higher than the average DAC country figure (31 in 2007; OECD, 2008a).

Future considerations

- Italy should continue to actively disseminate the MFA's *Aid Effectiveness Action Plan* and subsequent guidelines and decisions to all Italian Co-operation stakeholders, especially diplomatic staff, UTC experts, embassies, UTLs, decentralised co-operation and MEF. Participatory communication tools should be used to build greater awareness of and support for meeting Italy's aid effectiveness commitments.
- Italy should urgently ensure that DGCS has the required human and financial resources to implement the *Action Plan on Aid Effectiveness* in a systematic manner before 2011, when the next Paris Declaration Monitoring Survey will take place.
- Italy should complete and approve the proposed guidelines on budget support, use of country systems and programme-based approaches by the agreed deadlines and start to apply them systematically in all partner countries. Experiences and views should be sought from UTLs to inform the guidelines by realities on the ground. This will improve their chances of being implemented.
- In line with the overall DAC trend towards completely untied aid, Italy should further improve both its untying and its reporting to the DAC. It should implement commitments agreed in the Accra Agenda for Action to untie remaining tied aid 'to the maximum extent possible'. Italy should also consider amending Article 6 of Law 49/1987 to reflect DAC untying and the Accra commitments.
- Institutional actors other than DGCS should use the action plan and its outputs in their co-operation activities. Italy should find ways to ensure that the entire Italian development co-operation system works towards and is accountable for making Italian aid more effective.

Chapter 6

Special Issues

For the 2009-2010 biennium, the DAC has decided that all peer reviews should cover two special topics. The first – capacity development – is obligatory for all peer reviews. The second can be chosen from two options. Italy has chosen agriculture, high food prices and donor responses.

Capacity development

For many years – and especially since the Paris Declaration – the DAC has considered capacity development to be a key priority. In 2006, it issued its guidance note *The Challenge of Capacity Development – Working towards Good Practice* (OECD, 2006b), which is widely recognised as a primary international reference on this topic. In this, capacity is defined as the ability of people, organisations and society as a whole to manage their affairs successfully. Capacity development is understood as the process whereby people, organisations and society as a whole accumulate capacity over time. It is therefore more complex than technical co-operation or training alone and should be considered an outcome of development co-operation. It is primarily the responsibility of partner countries, which must lead their own capacity development processes, with donors playing a supporting role. Donors should thus not substitute for country actors, but rather assist them in reaching their own objectives. Capacity development is not a set of instruments, but rather an operational approach and a common challenge for all actors. As there are no reliable statistics on financial allocations to capacity development, the DAC often refers to its database on “technical co-operation” as a proxy.

Italian technical co-operation

The Italian co-operation system considers technical co-operation to be a priority and uses experts in a variety of ways: in UTLs, in partner institutions or as consultants. Experts are valued in the Italian system for their technical expertise, but also for their role as facilitators. Italian NGOs are often asked by DGCS to identify a local counterpart NGO, so as to strengthen the latter’s capacity in defining strategies, setting priorities, solving problems and achieving results. In the field visit to Lebanon, where the use of Italian NGOs was a priority, the peer review team saw that counterpart NGOs were often involved with project implementation (Annex D). Italy’s approach to local development in Lebanon, working with municipalities through Italian NGOs, suggests a possible model for capacity development which could apply to other programmes (Box 7). Italian NGOs are increasingly involved in mainstreaming capacity development in their activities with partner organisations; however, greater attention should be placed on defining objectives and results indicators so that performance can be evaluated.

Expertise in PIUs

Italian Co-operation is aware that it has to reduce the number of parallel project implementation units (PIU) (see Chapter 5). As PIUs often also provide technical assistance, there is a temptation to second expatriate experts to local institutions. While this might be justified in some cases, a better focus would be on the use of local expertise and improving field office capacity to provide back-stopping support and to promote capacity development for policy dialogue. Italy should consider co-operating with other donors to strengthen fundamental country systems, such as public financial management, monitoring and evaluation and procurement, to enhance country capacity to manage technical co-operation and, more broadly, their own development programmes.

Training

An important aspect of Italian capacity development is training. In fact, capacity building is a traditional feature in Italian Co-operation and almost all programmes entail a capacity-building component. In 2007 and 2008, students from Bolivia, Peru, Ecuador, Colombia, Libya, Egypt, Balkans, Sub-Saharan Africa (mainly West and East) and North Africa were trained in Italy (843 students in 2007 and 710 in 2008). Italy spends 0.25% of its ODA on scholarships and training, allocated through the ODA budget.⁵⁰ Italy has yet to evaluate the scholarship programme for its effectiveness in contributing to Italy's development objectives. Given that evaluation is now a priority (Chapter 4), DGCS should consider evaluating this programme. Another Italian Co-operation capacity-building effort involves life-long training systems for institutional capacity and creating an enabling environment. Vocational training programmes are implemented in China, Tunisia (media, public administration, e-learning), Jordan (hotels and tourism) and Lebanon (entrepreneurship). Such initiatives, which promote country ownership, are consistent with the DAC policy statement on pro-poor growth and employment.

Triangular co-operation

Italian Co-operation promotes triangular co-operation, mainly in Latin America where it signed an agreement with Argentina in 2007 to support vocational training and health in Bolivia, Colombia, Paraguay and Peru. A similar agreement has been signed with Brazil for activities in Mozambique (EUR 1 million) and Bolivia (EUR 900 000), and with Tunisia to support training of 29 hospital technicians in Niger (EUR 620 000). Even though this approach to development co-operation is at an early stage, it might be worth evaluating these experiences to draw out lessons for sharing with the DAC.

A promising way forward: developing a concept note on capacity development

Since 2009, DGCS has taken greater interest in the DAC dialogue on capacity development. A focal point on capacity development has been designated (currently the Director of the UTL in Albania), co-ordinated by the Deputy Director General. This should send signals across Italian Co-operation that capacity development is a priority. Italy also launched a survey of its UTLs to identify good and bad practices in capacity

50 Data submitted by DGCS.

development. The results of this survey will be used to prepare a concept note on capacity development. The peer review team applauds this initiative, as well as all efforts to increase awareness and to identify staff training needs. However, Italian Co-operation still needs to understand better and make use of the core concepts of capacity development. The next step after the concept note will be to define Italy's capacity development priorities and design an approach that is in line with DAC practice.

Italian Co-operation plans to become increasingly involved in new multi-donor aid modalities, where capacity development is an objective. As it participates in donor co-ordination, Italy will need to get more involved in shaping the enabling environment for capacity development. It now needs to capitalise on its existing experiences in organisational and personal capacity building.

Box 7. Capacity development in Lebanon

The donor community in Lebanon is engaged in capacity building and technical assistance. However, these activities do not fit into an overall strategy for capacity development. They are pragmatic and capacity development is not always understood as a process by itself. In the UTL there is a good understanding of capacity development and a sense that Italian Co-operation has a role to play in capacity development in Lebanon. Its commitment to local development is the backbone of its programme in Lebanon. Through this, Italy addresses all levels for the analysis of capacity development (OECD, 2006b). It recognises the respective roles, capacities and deliverables of government agencies and NGOs. Assistance and coaching are clearly considered to be long-term activities. Italian Co-operation works with central government and municipalities and employs capacity development approaches to handle specific bottlenecks. For example, in addition to contributing to the country's reconstruction efforts it also tries to build bridges between institutions. Italian Co-operation makes efforts to carry out joint assessment missions with central government to jointly define priorities and to enhance a dialogue between central and local government. It also promotes capacity development through partnerships. It links local administrations and key national NGOs as main partners for inducing change and it supports development of modern information technologies for communication. On a more micro level it focuses on the creation and support of local ownership processes, such as local water committees, and on the capacities of small economic entities and co-operatives. Italian NGOs also partner with national NGOs and local governments.

Agriculture, high food prices and donor responses

In most poor countries, agriculture is the major source of income and employment, and thus contributes directly to stability and global security. The peak in global food prices in 2008 increased awareness of the fragility of the global food security system. The DAC stresses that the trend in the last decade of declining investment in agriculture and food security has to be reversed and that short-term and long-term perspectives must go hand in hand. The DAC's policy guidance on pro-poor growth and agriculture (OECD, 2006a) suggests how to combine poverty reduction with agricultural development. These have been structured under four principles and three priorities for action (Box 8).

Italian leadership at the global level

Italy actively defends agriculture and food security at the highest political level in international forums, for which we commend it. During its presidency of the G8 in 2009, Italy gave a high profile to agriculture and food security and achieved a positive result:

the G8 nations committed to invest USD 20 billion in agriculture and food security in three years, while setting policy priorities for their investment.⁵¹ This success has also created high expectations about sustaining this priority and achieving commitments. For Italy, there are indications that agriculture and food security will remain high on the political agenda: the *2009-2011 Programming Guidelines and Directions* make agriculture a priority sector, and, consequently the Rome-based international institutions (FAO, IFAD and the WFP) are also an explicit priority (DGCS, 2009a). Italy is currently active in facilitating consultation for the Global Partnership on Agriculture, Food Security and Nutrition (DGCS, 2009b), works closely with the UN High Level Task Force on the Global Food Security Crisis, and actively participates in the ongoing reform of the global governance on food security (FAO, Committee on Food Security, CGIAR). Finally, food security will be the primary theme of the 2015 World Expo to be held in Milan (*Feeding the Planet, Energy for Life*).⁵² This will be an important opportunity to review world progress on achieving MDG One and reinvigorating the commitment to reducing hunger.

Italy's investment in agriculture

Despite Italy's high-level political commitment to agriculture, this only translates into an average financial investment compared to other DAC donors. In 2006 and 2007 Italy spent USD 45.4 million annually on aid to the sector. This corresponds to 6% of its total aid and only 1% of total aid allocated by DAC members to agriculture. Italy's contributions to all agriculture-related sectors totalled USD 70.8 million annually, with 31% allocated to Sub-Saharan Africa and 30% to Asia. Regional distribution of aid for agriculture seems equally attributed. However, according to DAC statistics, Italy invests more than the DAC average in agricultural policy and agricultural production. Besides assessed and voluntary core contributions to FAO and IFAD, Italy also contributes core contributions to IDA, EU institutions, AfDB and UNDP that can be imputed to agriculture (Table 5). Furthermore, approximately 40% of DGCS contributions to NGOs target agriculture. Italy has proven an ability to respond quickly to global food crises, which require rapid spending. During the 2008 high food price crises, Italy had committed an additional EUR 14 million to the FAO for food security by July, probably boosting its 2008 figures for agriculture.

Table 5. Total aid to agriculture, annual average 2002-2007

USD million, constant 2007 prices

	2002-2003	2004-05	2006-07
Bilateral commitments (bi and multi-bi)	48	27	45
Imputed multilateral contributions (assessed and voluntary core)	71	147	88
Total commitments to agriculture	118	173	132

Source : OECD/DAC Creditor reporting system

51 See the G8 "L'Aquila" Joint Statement on Global Food Security, available at: [http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security\[1\],0.pdf](http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security[1],0.pdf).

52 <http://www.milanoexpo-2015.com>.

Building on bilateral experience

Agriculture has always been a priority sector for Italian bilateral co-operation. Its focus varies according to geographical location. In the Near and Middle East, fruit cultivation, production of olive oil and natural resource management are central issues. Support is predominantly implemented through projects, including capacity development for co-operatives. In these typical Mediterranean sectors, Italy has its own experiences to share and thus has a comparative advantage over other donors. In Sub-Saharan Africa (particularly in the Sahel region), Italy takes a wider approach and focuses on rural development, irrigation and combating desertification. In West Africa, for example, DGCS funds five country projects, including Mali, Senegal, Guinea Bissau, Sierra Leone and Liberia, implemented within the framework of the Italian Special Contribution to the Global Trust Fund for Food Security and Food Safety. In East Africa Italy prioritises food security in a broad sense. In Ethiopia, for example, the Arsi Bale Rural Development Project (ABRDP), launched in 1996, is a multi-sector rural development project to address critical development issues in two zones of the Oromia National Regional State.

Italy has committed to prepare strategic guidelines for agriculture by February 2010 as part of its *Aid Effectiveness Action Plan*. This is particularly welcome and should help Italian Co-operation to manage and plan its interventions in this sector more strategically. Italy actively contributed to the DAC guidelines on pro-poor growth and agriculture (OECD, 2006a). While these guidelines are not explicitly followed by Italian Co-operation, they are implemented intuitively to a large extent. This is due to Italy's broad understanding of the agricultural environment and its long-term commitment to the sector. For example, in Lebanon, Italy is particularly active in all four principles listed in the DAC guidelines (Box 8).

Given its programme and project experience, Italy is a credible voice in agriculture policy dialogues. Since 2005 in Ethiopia, Italy has been participating in a rural development and food security working group to promote co-ordination within the agricultural sector and a joint development strategy. Italy has also recently moved towards larger sectoral budget contributions and larger programmes in rural development, natural resource management and food security. It contributes to pooled funding for food security in Ethiopia, as well as in fragile states such as Iraq and Afghanistan. Italy has rich applied experience to offer and is encouraged to document and share it in country-level donor dialogue.

Box 8. Implementing the DAC guidelines on pro-poor growth and agriculture in Lebanon

Italy's entry into the Lebanese agricultural sector, which has been neglected by the government, started with a variety of small agricultural projects as a short-term emergency response, implemented by Italian NGOs. Italian Co-operation then moved towards a more strategic longer-term response in collaboration with the Ministry of Agriculture. Consequently, Italy has a strong agricultural profile in Lebanon, which is pro-sustainability and innovative. Italy's more strategic approach also involved increasingly channelling funding through a trust fund managed by the FAO. Some examples of Italy's implementation of the DAC principles (1-4) and priorities for action (a-c) include:

1. **Adapt approaches to diverse contexts:** in the short-term rehabilitation of agricultural infrastructure (such as irrigation channels) in Southern Lebanon, Italian Co-operation took a holistic approach from the very beginning, promoting an integrated water resource management approach. While creating water user committees, Italian Co-operation brought different religious groups together to discuss common issues.

2. **Build institutions and empower stakeholders:** Italy promotes an institutional dialogue between municipalities and central government to identify policy gaps.

Promote diversified livelihoods on and off the farm (b): Italian Co-operation, together with the Mediterranean Agronomic Institute of Bari, supports various activities all over the country, successfully bringing together Mediterranean agricultural expertise, Lebanese and Italian knowledge centres. The linkages within the Lebanese agricultural knowledge system (university, national research, and extension) are constantly being improved.

Enhance agricultural sector productivity and market opportunities (a): an SMS service for market prices is available for farmers to improve price transparency and giving them an incentive to increase and diversify production.

3. **Support pro-poor international actions:** improving food safety will enable Lebanon to negotiate access and export certified production to the EU market. This will allow smallholder producers to enter into niche markets where they have a comparative advantage and thus get an opportunity to increase their income.
4. **Foster country-led partnerships and reduce risk and vulnerability (c):** the establishment of an agricultural observatory implemented by the Ministry of Agriculture with backstopping from the FAO will allow the Lebanese government to make evidence-based policy choices. A trust fund managed by the FAO, with financing from Italy, will give the Ministry of Agriculture access to programmatic funding.

Working with multilateral organisations

Italy is considered a consistent and reliable partner by multilateral organisations involved in agriculture. It is contributing actively and financially to the current reform process of the Consultative Group on International Agricultural Research (CGIAR). Being the host country for FAO, IFAD and WFP, Italy is one of the most important contributors to all three institutions. In 2008, Italy announced USD 80 million for IFAD, making it the second highest pledge in IFAD-VIII's recent replenishment exercise. This represents a 67% increase compared to the previous replenishment. Italy is also the main contributor to IFAD's extra-budgetary funds, allowing the organisation to maintain its portfolio in fragile states and to promote innovation and cross-country initiatives. Italy has shown great interest in the FAO's institutional reform and has given extra-budgetary financial support to this major exercise. With both IFAD and the FAO, Italy has clearly defined thematic priorities. In 2001, Italy signed a partnership agreement with IFAD to make supplementary funds easier to provide. Also, since 2005, Sub-Saharan Africa has been Italy's priority geographical focus for IFAD. These Rome-based organisations all report that they have excellent and almost daily contact with the Italian government. However, they also report that extra-budgetary funds allocated by Italy are difficult to plan for due to the large annual fluctuations in Italian ODA. For example, in 2006 IFAD did not receive any extra funding from Italy, whereas it received USD 10 million in 2005.

Overall policy dialogue with all three organisations is managed by Office II of DGCS and the Multilateral Co-ordination Unit. The UTC is involved in managing specific, approved projects related to any multilateral organisation. However, the Rome-based multilateral organisations would welcome an overall policy document outlining Italian Co-operation's longer-term perspective for agriculture and food security. Extra-budgetary and multi-bi priorities are negotiated regularly at central or at country level, but are sometimes prone to unforeseeable policy changes which may be in response to requests from the relevant organisations. A common policy document for agriculture is particularly recommended to communicate longer-term priorities, not just for those within

Italian Co-operation, but also for its large network of partners. This would be in line with the aid effectiveness action plan and similar recommendations to other priority sectors in the Programming Guidelines (DGCS, 2009a).

Italy's monitoring requirements can be burdensome for multilateral organisations. While contributions from MEF are usually easy to handle, voluntary contributions to trust funds often require Italian-specific financial and operational reporting. Moreover, this reporting does not get fed back into institutional dialogue and learning. The peer review team therefore encourages Italy to continue to develop a more programmatic approach, allowing common reporting for all donors.

Italy's knowledge network in agriculture

With six agricultural experts in the UTC, three in the UTLs, and 45 staff at the *Istituto Agronomico per l'Oltremare* (IAO) (see below), Italian Co-operation has a critical mass of technical expertise. With a clear agricultural strategy (see above), this large resource base would increase its profile and become more effective. Italy could also be more active in shaping current trends in agricultural bilateral co-operation. For example, it could take a more active role in international fora such as the Global Donor Platform for Rural Development, and contribute to international working groups and think tanks seeking to define new directions for investment in agriculture and food security.

Italy could link its important national network of agricultural expertise with national partners in developing countries. The *Istituto Agronomico per l'Oltremare* is a branch of the Italian Ministry for Foreign Affairs. It is a technical-scientific body for studying, training, consulting and providing technical assistance in the field of tropical and subtropical agriculture and environmental protection. Its mandate is to “provide support and consultancy to the Ministry of Foreign Affairs in the agricultural field and, as such, the IAO works in the field of development co-operation in Africa, Latin America, Asia and Eastern Europe”. Besides other universities, there is the Mediterranean Agronomic Institute of Bari (IAM-B), which is the Italian affiliate of the International Centre for Advanced Mediterranean Agronomic Studies. It promotes agricultural development in the Mediterranean Region through international co-operation programmes for post-graduate training to senior officers and for applied scientific research and conducts direct actions for land support. Training and research at IAM-B focus on land and water management, integrated pest management for Mediterranean fruit crops, and Mediterranean organic agriculture. Italy makes extensive use of this network in its operations in partner countries (see Box 8).

Future considerations

Capacity development

- Italy should build on its experience to develop and implement an appropriate strategy for capacity development, including training for staff at headquarters and field levels. The focal point for capacity development should be based at headquarters and have a clear mandate and a programme which includes monitoring and evaluation of capacity development. The DAC could support these efforts through its platform for collective donor insights and relevant lessons.

- At the country level, Italy should join efforts by other donors and partners to strengthen the fundamentals of country systems.

Agriculture, high food prices and donor response

- The peer review team welcomes Italy's plans to prepare strategic guidelines for agriculture by February 2010 in line with the *Aid Effectiveness Action Plan*. These guidelines should help Italy to manage its strategic competence and reinforce mid-term planning of its bilateral programme and staff.
- Technical and development expertise in agriculture is becoming rare in aid agencies. Italy should capitalise on its expertise in agriculture in its contributions to international policy dialogue.

Annex A

Progress since the 2004 DAC Peer Review recommendations

Key Issues	Recommendations 2004	Achievements since 2004
Overall framework and new orientations	Italy should define a national vision for development co-operation which is derived from a more inclusive and broad-reaching dialogue with Italian peers in development.	The <i>2009-2011 Programming Guidelines and Directions</i> which were approved by the Minister of Foreign Affairs give a direction for Italian Co-operation. They were prepared following dialogue with MEF, other ministries and Italian NGOs. However, an overarching vision endorsed nationally is still needed.
	Italy needs greater clarity in stating its aid policies, including for poverty reduction. Such policies should be made accessible to all and described more operationally. Italy needs an operational strategy for how it will contribute to the achievement of the MDGs in view of the 2015 deadline.	The <i>2009-2011 Programming Guidelines and Directions</i> set the geographic and sector priorities for Italian Co-operation. While the guidelines list the priorities, they do not clearly state Italy's policy for each sector, the MDGs or poverty reduction. The Poverty Guidelines issued in 1999 are currently being revised. The sectoral guidelines, to be completed by February 2010 as part of the Aid Effectiveness Action Plan, could provide the operational strategy for how Italy will contribute to the MDGs and poverty reduction.
	Italy needs legislative reform and, in the short term, continued action within the present framework.	Significant but unsuccessful efforts were made to reform legislation in 2007. Since 2008, DGCS has approved several administrative acts to simplify procedures and deliver aid in line with international best practice. However, legislative reform is still needed.
	The Italian government needs a designated focal point for development co-operation at the political level, for example a deputy minister for development.	A deputy minister post was created by the 15th legislature. However, it was abolished by the 16th legislature when the Minister of Foreign Affairs took up full responsibility for development co-operation.
	The DGCS should continue to develop a better defined strategy to raise public awareness of development issues,	A number of communication tools have been modernised and DGCS participates more actively in public

Key Issues	Recommendations 2004	Achievements since 2004
	including a stronger alliance with other official and non-governmental actors.	campaigns such as the <i>Giro d'Italia</i> . However, DGS has yet to outline a medium-term public awareness raising strategy.
ODA volume, channels and allocations	Italy should set out an explicit growth path for 2005 and 2006 to fulfil its ODA commitments announced at Barcelona as an important part of the global Monterrey undertaking.	Italy did not set out a growth path for the Barcelona target. It outlined a non-binding multi-annual growth path for ODA in 2009 and 2010 in the 2008-2011 Economic and Financial Planning Document. It has not met these targets. Italy is not on track to meet its Monterrey or EU ODA targets.
	Italy should emphasise more strategic and performance-based budgeting by prioritising its funding allocations. This relates to identification of priority countries or sectors and to allocations between bilateral and multilateral channels.	According to the <i>2009-2011 Programming Guidelines and Directions</i> Italy will make more strategic funding allocations to its 35 priority countries and its sector priorities. Italy has set ODA regional funding targets, notably 50% of total bilateral aid for Sub-Saharan Africa, and will prepare allocation strategies for a set of multilateral organisations. DGCS also intends to increase the ratio of bilateral to multilateral aid. This applies to new financing from 2009. Since these commitments are recent it is not possible to determine whether Italy is on track for more strategic budgeting. Italy has not made progress with performance or results-based budgeting.
Policy Coherence	Policy coherence should be an explicit goal of the Italian government. This should include a specific public statement on coherence for development, including reference to themes of special interest such as foreign direct investment (FDI) or untying.	The Italian Government has signed up to international policy coherence commitments but has not made policy coherence an explicit goal for national policy making.
	Italy should mobilise expertise and analytical capacities both within and outside government to identify policy areas incoherent with its development co-operation objectives. This could include special resources or a unit of government that is dedicated to this task alone. Consultation with civil society and the research community would strengthen these actions.	Office I in DGCS and the EU Affairs Unit in MFA are <i>de facto</i> focal points for policy coherence. Despite limited human resource capacity and competing priorities, these offices have started to raise awareness of policy coherence for development across the administration. Italy has yet to allocate resources for monitoring and analysis or to mandate a special unit for this task.
Aid management and implementation	The DGCS should initiate a broad-based discussion of the structural and process impediments in its current system of management. Together with field UTLs, ambassadors and the <i>Ufficio Centrale del Bilancio</i> it should promote an in-depth review of development	DGCS and the <i>Ufficio Centrale del Bilancio</i> are working in close collaboration, with some success, to identify the legitimacy of and opportunities to simplify procedures. However, some challenges persist, most notably in terms of interpretations

Key Issues	Recommendations 2004	Achievements since 2004
	administration from a greater “team” perspective. This could build upon current DGCS efforts to promote administrative streamlining, while simultaneously addressing the parallel need for a clear implementation strategy on harmonisation.	of Law 49/1987 which can range from very narrow to broad. Differing interpretations can undermine good practice in aid management. Field UTLs and ambassadors have not been involved in an in-depth review.
	Italy should make use of multi-year funding commitments so as to reinforce the predictability of its support and to bring it more in line with the programming needs of recipient countries. Opportunities to introduce a degree of financial autonomy to DGCS budgeting procedures should be explored.	In 2009 Italy introduced multi-year planning which enables DGCS to communicate multi-annual aid allocations, globally and by region. Multi-annual country programmes under completion will communicate an indicative budget envelope. This positive evolution towards greater predictability, however, is undermined when the government does not stick to its multi-annual budget plan and there are large cuts in the aid budget, which was the case in 2009.
	Italy urgently needs to reform its system of personnel management for development co-operation, with special emphasis on personnel planning, placing individual ability more in line with responsibility, and use a performance-based approach that is properly accompanied by rewards and incentives. The DGCS should expedite recruitment of 60 development experts. At the field level, DGCS is also urged to pay greater attention up-stream to staffing needs, to avoid gaps in presence, and to consider ways to flexibly contract additional staff, as needed.	While DGCS has submitted a proposal to the Minister of Foreign Affairs to reform and resolve some human resources challenges in the UTC, the status of this proposal is unknown. This recommendation has not been achieved.
	DGCS management should consider stronger decentralisation of decision making to the field and the parallel adjustments in resources and systems necessary to accommodate these changes, such as an improved local analytical capacity and better communications between Rome and the field.	UTLs have greater authority in preparing project proposals and submitting them for approval to the Steering Committee. However, financial authority has not been delegated to this level, not least because the Steering Committee holds financial decision-making power. While individual UTLs are in regular communication with headquarters, there is no communication mechanism to allow institutional learning and policy exchange between headquarters and UTLs or among UTLs.
	Italy must establish a regular system of monitoring and evaluation, consistent with DAC principles on evaluation. To the extent possible, programme decisions (including specific allocations of funds) should be made on the basis of the results generated by this performance feedback system.	Italy renewed efforts to establish a regular system of monitoring and evaluation in 2009. At present there is no performance feedback system in DGCS and the wider Italian co-operation system because Italy has yet to integrate results-based approaches to its planning.

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows
USD million at current prices and exchange rates

Italy	Net disbursements						
	1994-98	1999-2003	2004	2005	2006	2007	2008
Total official flows	2 948	1 778	2 968	3 966	2 684	3 710	5 263
Official development assistance	2 057	1 915	2 462	5 091	3 641	3 971	4 855
Bilateral	920	668	704	2 270	2 001	1 270	1 838
Multilateral	1 137	1 247	1 757	2 821	1 640	2 700	3 016
Other official flows	891	- 137	507	-1 125	-957	-261	408
Bilateral	901	-137	507	-1 125	-957	-261	408
Multilateral	-10	-	-	-	-	-	-
Net Private Grants	39	25	49	94	123	63	105
Private flows at market terms	3 457	3 720	221	44	2 705	649	207
Bilateral: of which	3 457	3 720	221	44	2 705	649	207
Direct investment	839	1 087	808	951	1 151	1 353	1 544
Export credits	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	6 444	5 522	3 239	4 103	5 512	4 422	5 574
<i>for reference:</i>							
ODA (at constant 2007 USD million)	3 165	3 035	2 881	5 834	4 061	3 971	4 434
ODA (as a % of GNI)	0.18	0.16	0.15	0.29	0.20	0.19	0.22
Total flows (as a % of GNI) (a)	0.57	0.46	0.19	0.23	0.30	0.21	0.25
<i>ODA to and channelled through NGOs</i>							
- In USD million	46	78	45	69	64	182	116
- In percentage of total net ODA	2	4	2	1	2	5	2
- Median DAC percentage of total net ODA	4	8	8	8	9	7	7

a. To countries eligible for ODA.

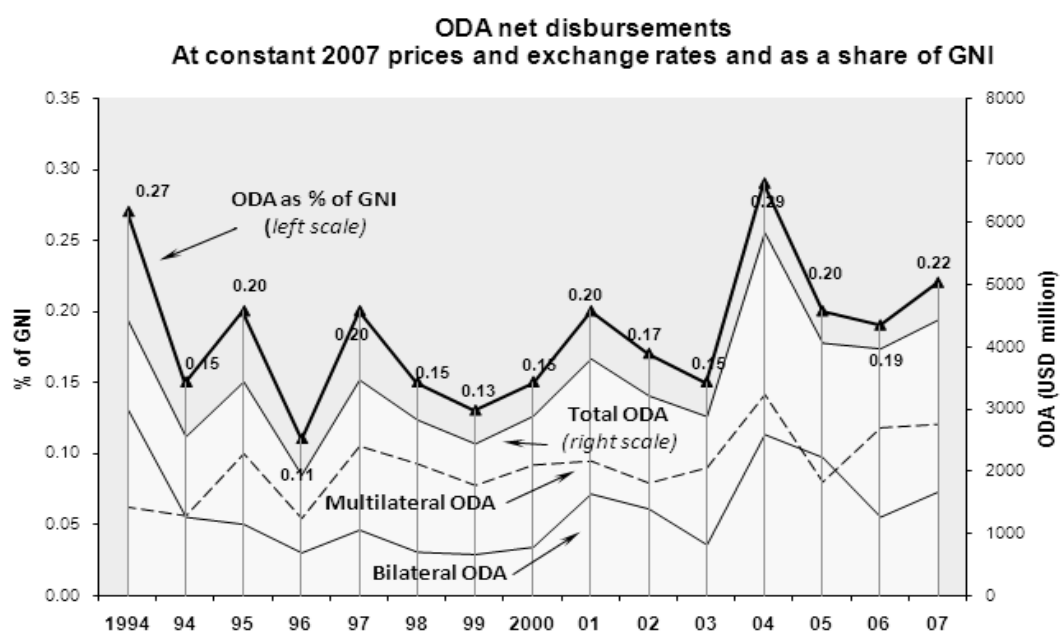


Table B.2. ODA by main categories

Disbursements											
Italy	Constant 2007 USD million					Per cent share of gross disbursements					Total DAC 2007%
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	
Gross Bilateral ODA	1 161	2 799	2 635	1 590	1 895	36	46	59	37	41	74
Grants	1 000	2 536	2 395	1 252	1 753	31	42	54	29	38	65
Project and programme aid	336	230	204	301	322	10	4	5	7	7	24
Technical co-operation	164	139	191	141	140	5	2	4	3	3	13
Developmental food aid	38	14	6	15	49	1	0	0	0	1	1
Humanitarian aid	87	76	83	83	108	3	1	2	2	2	5
Action relating to debt	135	1 913	1 780	587	822	4	32	40	14	18	8
Administrative costs	73	46	62	49	61	2	1	1	1	1	4
Other grants	166	118	69	75	251	5	2	2	2	5	10
Non-grant bilateral ODA	160	264	240	338	141	5	4	5	8	3	9
New development lending	158	250	231	338	141	5	4	5	8	3	7
Debt rescheduling	3	12	10	-	-	0	0	0	-	-	0
Acquisition of equity and other	-	1	-	-	-	-	0	-	-	-	1
Gross Multilateral ODA	2 057	3 233	1 829	2 700	2 755	64	54	41	63	59	26
UN agencies	353	350	128	480	186	11	6	3	11	4	5
EU institutions	1 388	1 446	1 468	1 494	1 565	43	24	33	35	34	10
World Bank group	20	789	108	104	589	1	13	2	2	13	5
Regional development banks (a)	198	192	17	10	321	6	3	0	0	7	2
Other multilateral	98	457	108	612	94	3	8	2	14	2	4
Total gross ODA	3 217	6 033	4 464	4 290	4 650	100	100	100	100	100	100
Repayments and debt cancellation	- 337	- 199	- 403	- 320	- 216	Contributions to UN Agencies (2007-08 Average)					
Total net ODA	2 881	5 834	4 061	3 971	4 434						
For reference:											
Associated financing (b)	-	-	-	-	-						
Net debt relief	138	1 925	1 789	570	813						
Imputed student cost	-	-	-	-	-						
Refugees in donor countries	-	1	0	34	3						

a. Excluding EBRD.

b. ODA grants and loans in associated financing packages.

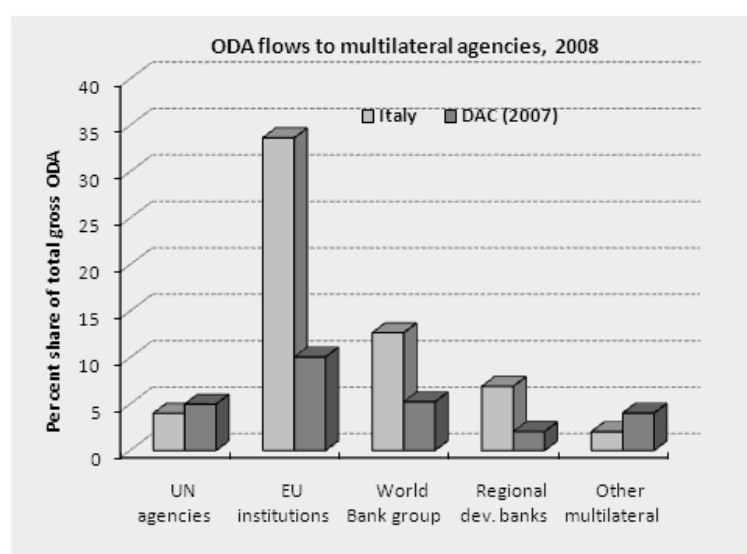
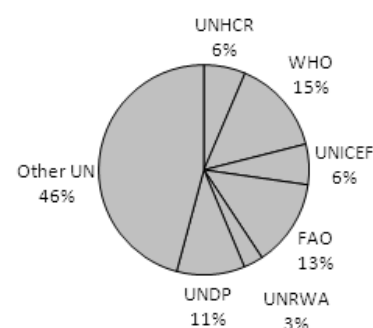
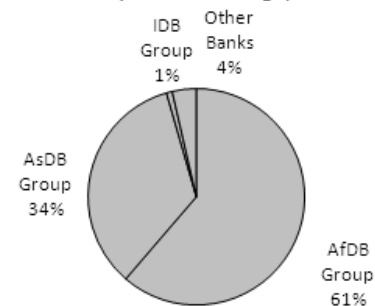
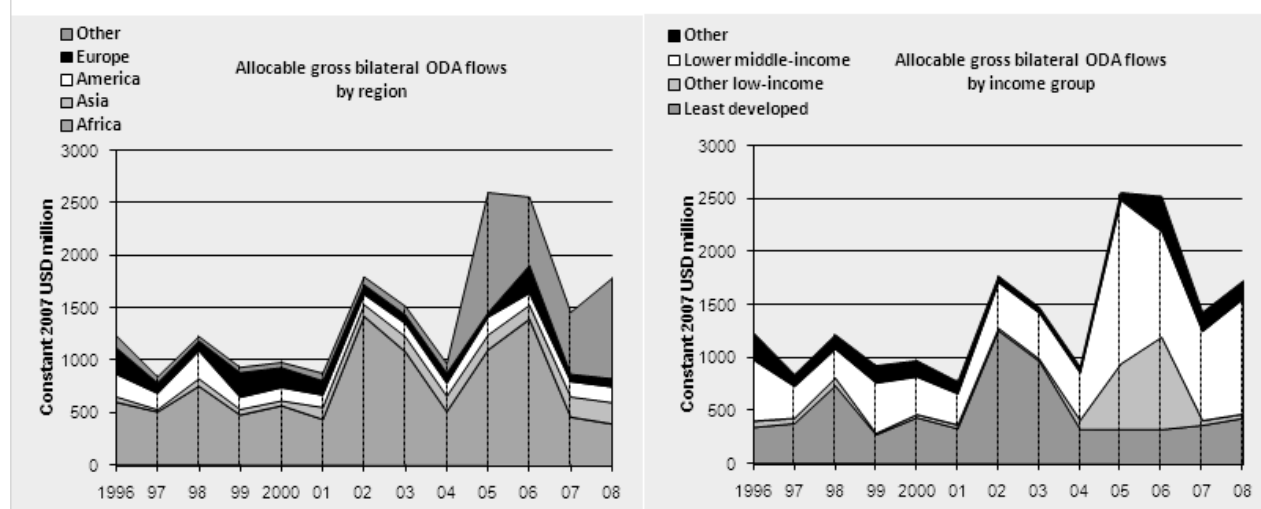
Contributions to UN Agencies
(2007-08 Average)Contributions to Regional Development
Banks (2007-08 Average)

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

Gross disbursements											
Italy	Constant 2007 USD million					Per cent share					Total DAC
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2007%
Africa	521	1 111	1 402	469	404	53	43	55	32	23	40
Sub-Saharan Africa	375	1 015	1 288	324	351	38	39	50	22	20	33
North Africa	134	95	111	144	39	14	4	4	10	2	5
Asia	150	143	134	195	206	15	6	5	13	11	29
South and Central Asia	63	66	46	71	151	6	3	2	5	8	14
Far East	87	77	88	124	53	9	3	3	8	3	14
America	123	169	114	147	151	13	6	4	10	8	9
North and Central America	51	123	25	84	62	5	5	1	6	3	4
South America	72	45	89	63	89	7	2	3	4	5	5
Middle East	91	1 136	621	587	950	9	44	24	40	53	17
Oceania	-	-	27	0	2	-	-	1	0	0	2
Europe	99	46	265	72	81	10	2	10	5	5	4
Total bilateral allocable by region	984	2 605	2 564	1 471	1 793	100	100	100	100	100	100
Least developed	336	333	333	373	439	36	13	13	26	25	32
Other low-income	83	618	870	42	37	9	24	34	3	2	11
Lower middle-income	451	1 546	1 000	845	1 090	49	60	40	59	63	48
Upper middle-income	57	68	327	180	170	6	3	13	13	10	8
More advanced developing countries	-	-	-	-	-	-	-	-	-	-	0
Total bilateral allocable by income	927	2 564	2 529	1 440	1 736	100	100	100	100	100	100
For reference:											
Total bilateral	1 161	2 799	2 635	1 590	1 895	100	100	100	100	100	100
of which: Unallocated by region	177	194	71	119	101	15	7	3	8	5	19
of which: Unallocated by income	234	235	106	150	159	20	8	4	9	8	26



1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Gross disbursements														
Italy	1997-2001 average			Memo: DAC countries' median	2002-06 average			Memo: DAC countries' median	2007-08 average			Memo: DAC countries' median ¹		
	Current	Constant	Per cent		Current	Constant	Per cent		Current	Constant	Per cent			
	USD million	2007 USD mln	share		USD million	2007 USD mln	share		USD million	2007 USD mln	share			
Uganda	35	58	5	26	Iraq	296	336	18	29	Iraq	663	626	36	30
Mozambique	34	53	5		Nigeria	259	292	16		Afghanistan	89	84	5	
Albania	32	51	5		Mozambique	108	168	7		Ethiopia	71	68	4	
Eritrea	29	48	4		Congo, Dem. Rep.	95	125	6		Lebanon	66	63	4	
Madagascar	27	42	4		Ethiopia	60	75	4		China	66	64	4	
Top 5 recipients	156	251	23		Top 5 recipients	818	996	49		Top 5 recipients	955	906	52	
Ethiopia	27	44	4	40	China	45	55	3	45	Morocco	56	55	3	44
Malta	19	30	3		Tunisia	39	49	2		Palestinian Adm. Areas	45	42	2	
Congo, Rep.	18	29	3		Afghanistan	33	42	2		Mozambique	39	37	2	
Haiti	18	28	3		Serbia	33	37	2		Albania	32	30	2	
Serbia	18	30	3		Tanzania	29	46	2		Sierra Leone	31	31	2	
Top 10 recipients	257	411	38		Top 10 recipients	996	1 226	60		Top 10 recipients	1 158	1 102	63	
Argentina	17	27	3	50	Nicaragua	27	33	2	53	Angola	29	27	2	54
China	17	27	2		Albania	25	32	1		Sudan	28	26	2	
Egypt	16	26	2		Cameroon	22	29	1		St.Vincent & Grenadines	21	21	1	
Tunisia	15	25	2		Congo, Rep.	22	25	1		Serbia	21	20	1	
Bosnia-Herzegovina	14	23	2		Morocco	21	26	1		Guinea	19	17	1	
Top 15 recipients	335	538	50		Top 15 recipients	1 113	1 370	67		Top 15 recipients	1 274	1 213	70	
Senegal	13	22	2	58	Palestinian Adm. Areas	20	26	1	58	Argentina	19	18	1	58
Somalia	13	22	2		Madagascar	19	22	1		Tunisia	18	18	1	
Angola	13	21	2		Algeria	16	21	1		St. Kitts-Nevis	17	15	1	
Honduras	12	21	2		Zambia	16	20	1		Somalia	16	15	1	
Palestinian Adm. Areas	12	20	2		Argentina	15	18	1		Brazil	15	14	1	
Top 20 recipients	398	643	60		Top 20 recipients	1 200	1 477	72		Top 20 recipients	1 359	1 294	74	
Total (122 recipients)	593	960	89		Total (125 recipients)	1 503	1 858	91		Total (128 recipients)	1 670	1 588	91	
Unallocated	75	126	11	22	Unallocated	158	198	9	22	Unallocated	162	154	9	28
Total bilateral gross	668	1 085	100	100	Total bilateral gross	1 660	2 056	100	100	Total bilateral gross	1 832	1 742	100	100

1. 2007

Table B.5. Bilateral ODA by major purposes

At current prices and exchange rates

Italy	1997-2001 average		2002-06 average		2007-08 average		2007 Total DAC per cent
	2007 USD million	Per cent	2007 USD million	Per cent	2007 USD million	Per cent	
Social infrastructure & services	222	21	280	14	419	24	41
Education	57	6	67	3	61	3	9
of which: basic education	0	0	6	0	11	1	3
Health	39	4	80	4	102	6	5
of which: basic health	14	1	40	2	37	2	3
Population & reproductive health	4	0	7	0	12	1	6
Water supply & sanitation	49	5	33	2	104	6	5
Government & civil society	27	3	40	2	108	6	13
of which: Conflict, peace & security	-	-	3	0	17	1	3
Other social infrastructure & services	46	4	54	3	32	2	4
Economic infrastructure & services	66	6	142	7	79	4	13
Transport & storage	10	1	37	2	34	2	4
Communications	28	3	3	0	3	0	0
Energy	21	2	83	4	31	2	4
Banking & financial services	5	0	12	1	5	0	3
Business & other services	1	0	6	0	5	0	2
Production sectors	88	9	48	2	128	7	6
Agriculture, forestry & fishing	36	3	27	1	61	3	5
Industry, mining & construction	48	5	17	1	63	4	1
Trade & tourism	3	0	2	0	0	0	1
Other	1	0	1	0	3	0	0
Multisector	63	6	149	7	148	8	7
Commodity and programme aid	96	9	65	3	109	6	5
Action relating to debt	278	27	1 131	56	705	40	11
Humanitarian aid	101	10	89	4	99	6	8
Administrative costs of donors	40	4	63	3	50	3	5
Aid to NGOs (core support)	75	7	56	3	12	1	2
Refugees in donor countries	7	1	12	1	19	1	2
Total bilateral allocable	1 037	100	2 035	100	1 766	100	100
<i>For reference:</i>							
Total bilateral	1 043	36	2 144	46	1 795	38	75
of which: Unallocated	7	0	109	2	29	1	1
Total multilateral	1 834	64	2 546	54	2 902	62	25
Total ODA	2 878	100	4 690	100	4 696	100	100

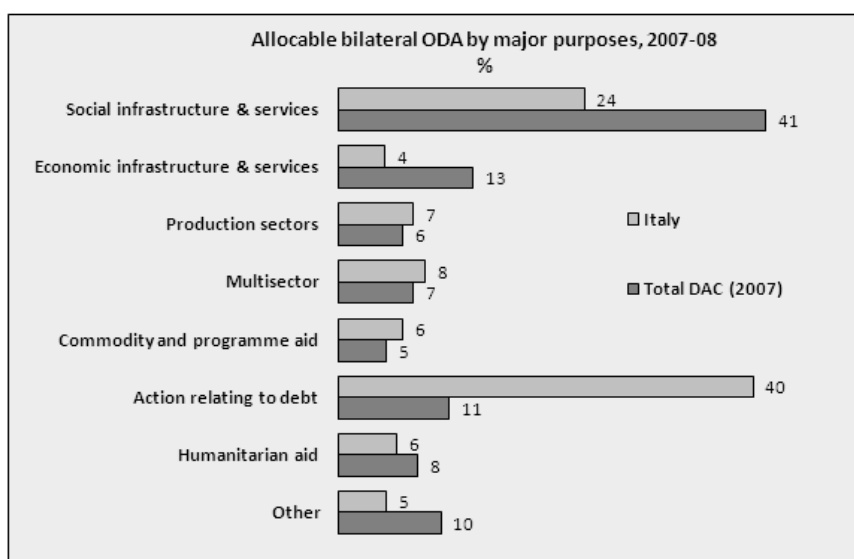


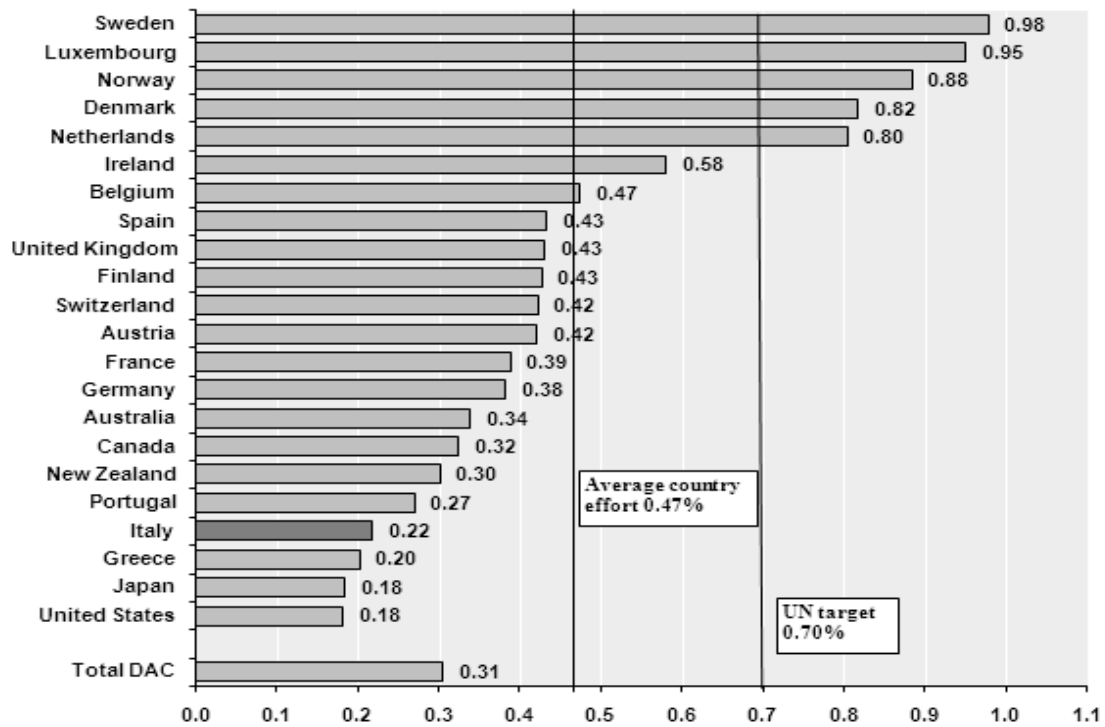
Table B.6. Comparative aid performance

Table D.0. Comparative and performance										Net disbursements	
Official development assistance				Grant element of ODA (commitments) 2007 % (a)	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies 2007		
2007		2001-02 to 06-07 Average annual % change in real terms	2007				% of ODA (b)	% of GNI (c)	% of ODA	% of GNI	
USD million	% of GNI		% of ODA (b)		% of GNI (c)						
Australia	2 669	0.32	7.2	100.0	15.0		0.05		25.8	0.08	
Austria	1 808	0.50	12.9	100.0	26.8	12.4	0.13	0.06	14.0	0.07	
Belgium	1 953	0.43	5.1	99.7	36.5	13.3	0.16	0.06	39.7	0.17	
Canada	4 080	0.29	6.1	100.0	22.7		0.07		38.3	0.11	
Denmark	2 562	0.81	-1.7	100.0	35.6	26.3	0.29	0.21	42.0	0.34	
Finland	981	0.39	7.5	99.9	40.5	22.5	0.16	0.09	37.2	0.15	
France	9 884	0.38	6.1	92.6	36.7	14.9	0.14	0.06	29.9	0.11	
Germany	12 291	0.37	8.0	95.8	35.3	15.4	0.13	0.06	24.6	0.09	
Greece	501	0.16	2.9	100.0	50.2	6.7	0.08	0.01	22.0	0.04	
Ireland	1 192	0.55	14.8	100.0	30.9	19.7	0.17	0.11	50.9	0.28	
Italy	3 971	0.19	3.7	98.9	68.0	30.4	0.13	0.06	32.6	0.06	
Japan	7 679	0.17	-0.2	86.2	24.8		0.04		32.8	0.06	
Luxembourg	376	0.91	6.1	100.0	32.5	23.6	0.29	0.21	38.9	0.35	
Netherlands	6 224	0.81	2.6	100.0	25.4	16.3	0.21	0.13	29.0	0.23	
New Zealand	320	0.27	6.9	100.0	22.7		0.06		26.1	0.07	
Norway	3 728	0.95	4.5	100.0	22.7		0.22		35.5	0.34	
Portugal	471	0.22	-2.3	85.7	42.6	12.5	0.09	0.03	43.7	0.10	
Spain	5 140	0.37	8.1	95.8	35.0	16.9	0.13	0.06	21.7	0.08	
Sweden	4 339	0.93	8.2	100.0	32.4	25.2	0.30	0.24	31.3	0.29	
Switzerland	1 685	0.37	5.5	100.0	25.0		0.09		29.0	0.11	
United Kingdom	9 849	0.35	9.7	100.0	43.1	21.4	0.15	0.07	40.7	0.14	
United States	21 787	0.16	9.9	100.0	13.2		0.02		28.1	0.04	
Total DAC	103 487	0.28	6.4	97.1	29.6	18.3	0.08	0.05	30.8	0.09	
Memo: Average country effort		0.45									

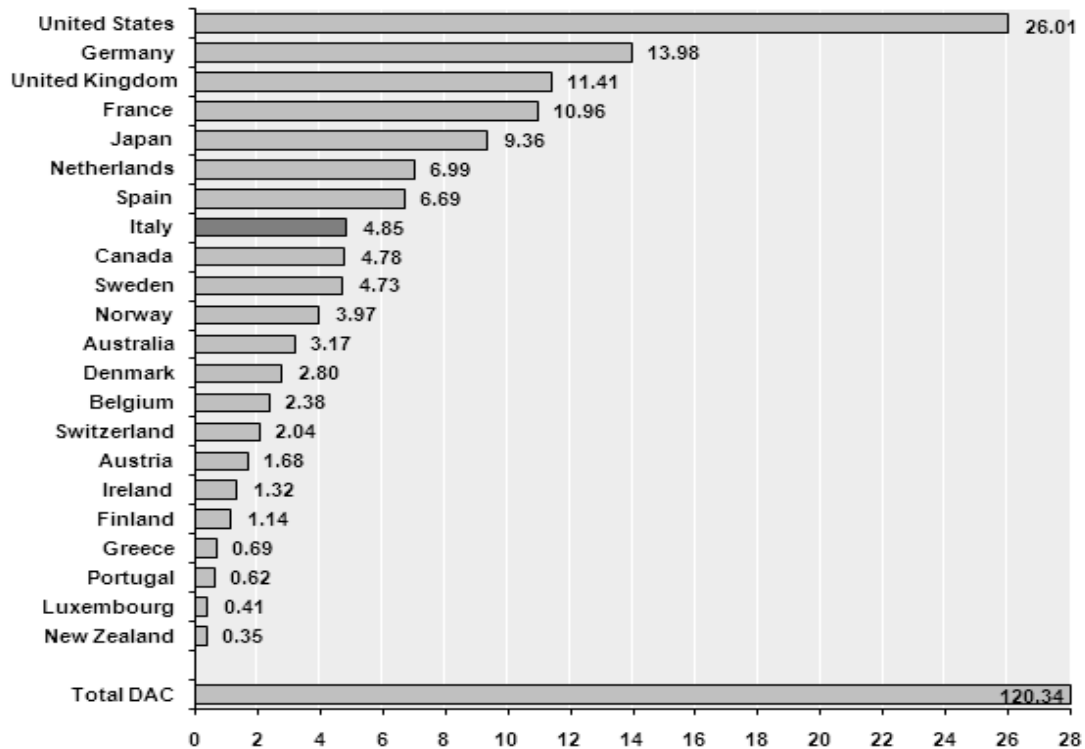
Notes:

- a. Excluding debt reorganisation.
- b. Including EU institutions.
- c. Excluding EU institutions.
- .. Data not available.

Graph B.1 Net ODA from DAC countries in 2008
Percent of GNI



USD billion



Annex C

Italy and the Good Humanitarian Donorship Initiative

Italy formally endorsed the Principles and Good Practices of Humanitarian Donorship by adopting the European Consensus on Humanitarian Aid (EC, 2007).⁵³ However, Italy has not yet developed a national implementation plan to meet its good humanitarian donorship (GHD) commitments. This peer review is the first time that Italy has been assessed against its GHD commitments. The previous peer review (OECD, 2004) provided a brief commentary on humanitarian action as a sectoral priority for the Italian co-operation programme, but did not make specific recommendations for Italian humanitarian action. However, it made some pertinent observations on the need for a more cohesive overall policy; distinguishing between humanitarian and development co-operation activities as well as between “emergency food aid” and “programme food aid”; and the lack of evaluation systems to support learning and accountability. These issues remain largely unaddressed by Italy and are still relevant to this peer review.

This assessment has been conducted in accordance with the DAC humanitarian assessment framework.⁵⁴ It is structured in line with the four thematic clusters of the GHD principles and good practices: (i) legal and policy framework; (ii) financing humanitarian action; (iii) promoting standards and enhancing implementation; and (iv) learning and accountability. It concludes by identifying issues for further consideration by the Italian development co-operation system. The report primarily draws on a series of meetings held in Rome in May 2009. Supplementary comments were also sought from a number of European-based multilateral agencies. Assessment of Italian humanitarian action was included as an objective of the field visit to Lebanon.

Legislative and policy framework for humanitarian action

Relevant legislation

As with other elements of the Italian Co-operation system, the primary legal basis for humanitarian action is Law 49/1987 (specifically, Article 1[4] and Article 11). This situates humanitarian action as an integral part of Italian foreign policy (Article 1[1]). Humanitarian concerns are represented within the principal objective of protecting life and human dignity although the law does not specify provisions to protect fundamental

53 Italy did not participate in the inaugural Good Humanitarian Donorship conference in Stockholm in June 2003. However, Article 18 of the European Consensus on Humanitarian Aid commits all member states to the Principles and Good Practices of Humanitarian Donorship and therefore represents the *de facto* instrument through which Italy endorsed and committed to GHD.

54 DCD/DAC (2008)48/REV1.

humanitarian principles of neutrality, impartiality and independence.. These strategic priorities correspond to the GHD objective for humanitarian action and should, therefore, be subject to these humanitarian principles.

Law 49/1987 (Article 11) also represents the legal basis for Italy's bilateral emergency response. It sanctions the involvement of Italian NGOs in providing humanitarian assistance, as well as the deployment of civil protection assets. Law 80/2005 regulates the mechanisms through which NGOs can access humanitarian funding, *i.e.* calls for proposals. The competencies of the National Civil Protection Service in overseas responses were encapsulated in Law 152/2005, which delegated responsibility for approving deployments to the Head of the Civil Protection Department, in collaboration with DGCS. However, it did not specify the mechanisms through which this should occur. Law 58/2001 established the Trust Fund for Humanitarian De-mining and allocated administrative responsibility to DGCS.

Humanitarian aid policy

The basis for Italian humanitarian action is the European Consensus on Humanitarian Aid. This represents a firm anchor for Italian support. However, Italy has not developed a national policy on humanitarian action, despite this being recommended in the previous peer review (Annex A). In particular, a policy statement containing a strategic vision and measureable indicators is needed to address perceptions that Italian humanitarian action is dispersed. This, in turn, limits its effectiveness. The previous peer review report also noted that “when assessing the activities financed and managed within the humanitarian portfolio, it is often difficult to distinguish between humanitarian and development co-operation activities” (OECD, 2004). This ambiguity remains; on the one hand it provides useful flexibility in responding to opportunities to initiate recovery and development activities in dynamic post-crisis environments (see, for example, Box 2). On the other hand, Italy should be mindful that humanitarian-funded activities that fall outside the normal remit of humanitarian assistance do not compromise the integrity of Italian humanitarian action.

The proposal contained in the DGCS *Aid Effectiveness Action Plan* (DGCS, 2009c), to publish national guidelines for implementing commitments to GHD by the end of 2009, is welcome. The guidelines should aim to clarify Italy's humanitarian priorities. In particular, this is a useful opportunity to spell out priorities and to clarify the linkages between Italian development and humanitarian assistance, as well as approaches to results-based management within the humanitarian sector (as throughout the Italian development co-operation system (see Section 4.5). It would also be beneficial to clarify Italy's approach to support for humanitarian protection – a key element of the GHD commitments that is notably absent from the scope of activities defined for Italian humanitarian action in Law 49/1987. Moreover, the proposed guidelines should serve as an opportunity to translate Italy's global commitments into a national implementation plan. A particular challenge will be to expand ownership of Italy's GHD commitments beyond DGCS to other actors in the Italian humanitarian system – notably the components of the National Civil Protection Service and NGOs. Ensuring that these actors have opportunities to provide input and shape the guidelines would facilitate this goal. The net outcome should be more strategic engagement with key partners, a clearer definition of roles and responsibilities, as well as improved predictability and transparency in Italian support to the international humanitarian system.

Other relevant policies and guidelines

The Guidelines for Empowerment of Women and the Mainstreaming of a Gender Perspective in Development Co-operation (DGCS, 1998) and the Guidelines of the Italian Co-operation on Children and Adolescent Issues (DGCS, 2004) are applicable to Italian humanitarian action. The former guidelines explore gender-based violence and the needs of women in crises, as well as the potential role of women in post-crisis reconstruction and peace-building activities. The latter guidelines highlight the specific vulnerabilities of children in complex emergencies and post-conflict situations. However, neither provides substantive guidance on the options for addressing these priority areas, nor do they nominate indicators to monitor achievements in these areas. It will be important to ensure that the proposed gender guidelines for Italian development co-operation (Section 1.1.3) address these omissions. In the meantime, UTLs appear to have considerable leeway in interpreting and applying the guidelines in-country. For example, in Lebanon, the Gender Guidelines for the Italian Development Co-operation Activities in Lebanon 2008-2010 (Cooperazione Italiana, 2008) recognise the different impacts of the 2006 conflict on men and women, the role of Lebanese women in the humanitarian response and the specific needs of women in Palestinian refugee camps. However, they lack more substantive guidance for addressing gender and child protection issues and indicators to monitor achievements in these areas. This may limit the transferability of critical lessons within Italian Co-operation and the scope of policy dialogues with humanitarian partners.

Disaster risk reduction

Officials frequently point out that Italy is highly prone to natural disasters and therefore has a particular empathy for disaster-affected populations elsewhere in the world. It also has a pool of expertise in reducing vulnerability to sudden onset disasters. The devastating earthquake that struck the central Italian town of L'Aquila barely one month prior to the peer review team's DGCS headquarters visit was a stark reminder of this vulnerability. Prevention and mitigation lie at the core of the national approach to risk management, under the auspices of the National Platform for Disaster Risk Reduction led by the Civil Protection Department. In the international arena, however, Italy's approach to disaster risk reduction (DRR) appears more diffused and detached from the broader objectives of Italian Co-operation. Until recently, the primary reference to DRR within Italian Co-operation appears to have been the *ad hoc* application of the principle of "building back better" in post-disaster recovery programmes. In 2008, however, there was a shift towards more pre-emptive approaches, "thanks to the commitments undertaken in support of the UNESCO initiative for the development of a preventive alerting system for tsunamis in the Indian Ocean and the contribution of EUR 3 million to the Global Facility for Disaster Reduction and Recovery" (ActionAid, 2008). DRR also featured prominently among Italy's G8 priorities, which included a proposal for "an initiative to reinforce the capacity to prevent, prepare for and manage natural disasters, focusing on coastal zones and Small Island Developing States" (Office of the Prime Minister Italian G8 Sherpa Office, 2009). While this initiative is encouraging, a corresponding plan to operationalise the G8 commitment will be needed if this proposal is to remain credible. As with its humanitarian response, Italy's engagement in DRR would also benefit from a statement of priorities to ensure transparent decision-making and avoid undue dissipation of effort.

Policy coherence with other Italian actors

The other principal actors with a stake in Italian humanitarian action are the Directorate General for Political Cooperation – Office I (DGCP) within MFA, the Italian Armed Forces and the Civil Protection Department. DGCP is responsible for Italy's political engagement with UN peace support operations and the UN Peacebuilding Commission. It is the primary conduit for advocating principled humanitarian action. Italy has contributed troops to the United Nations, NATO and EU-led peace support operations since the end of the Cold War. These deployments have frequently brought Italian armed forces into close proximity with key humanitarian actors – including under the rubric of stabilisation efforts in Afghanistan, where Italy is the lead nation in the Provincial Reconstruction Team (PRT) in Herat. Despite these extensive linkages, Italy has not published statements at a political level that clarify how GHD principles will be upheld in these complex environments. It would be helpful to clarify within defence and foreign policy statement how Italy will uphold GHD commitments in other complex security environments

Financing humanitarian action

Management

The annual financial law for international development co-operation contains three budget envelopes for humanitarian activities, *i.e.* budget lines No. 2183 for bilateral emergency responses, budget line No. 2180 for multilateral humanitarian actions and budget line No. 2210 for humanitarian de-mining. In addition, special financing laws (*i.e.* Law 38/2007, Law 45/2008 and Law 12/2009) supplement the humanitarian budget in special case countries where Italy participates in peacekeeping and/or stabilisation missions, *e.g.* Afghanistan, Sudan, Somalia and Lebanon (see Annex D). Authority for multilateral and humanitarian de-mining allocations (budget lines 2180 and 2210) of more than EUR 1 million from the humanitarian budget is delegated to the Steering Committee; decisions on allocations of less than EUR 1 million are taken by the Director General of DGCS. Prior assessment and approval by the Steering Committee are not required in either case. As far as bilateral allocations (budget line No. 2183) are concerned, decisions on all allocations are taken by the Director General upon authorization of Ministry of Foreign Affairs.

Volume

The 2004 peer review noted that Italian ODA for humanitarian action had been constantly increasing in the decade prior to that review (OECD, 2004). Unfortunately this trend has not been sustained and at 5.7% of total bilateral ODA (USD 83 million⁵⁵), Italy's bilateral humanitarian aid commitments in 2007 have not only fallen from the levels at the start of the decade, but also remained well below the DAC average (7.5%). At USD 340 million in the same year, Italy ranked 10th among DAC members in terms of

55 This figure is likely to exclude a number of GHD-eligible disaster risk reduction activities that are reported under development sector codes. It also excludes core funding for multilateral humanitarian agencies which are also separately reported to the DAC.

total official humanitarian aid⁵⁶ and 6th amongst the G7 countries. Furthermore, Italy's commitments under the 1999 Food Aid Convention (FAC)⁵⁷, which is co-managed with the Agricultural Payments Agency, *Agenzia per le Erogazioni in Agricoltura* (AGEA), are supposedly included in these figures. However, Italy has not financed its FAC commitments since 2003 and has accumulated a shortfall of 235.2 million euros through to June 2010. Proposals for refinancing Italy's commitments under the FAC in order to cancel this debt have been submitted to Parliament.

Channels

Italy provides support to the international humanitarian system by funding implementing partners and deploying Italian personnel and emergency stockpiles (Section 3.1.4). These mechanisms provide Italy with a versatile set of options for supporting the international humanitarian system. In practice, Italian humanitarian funding has been allocated to multilateral (including EC) and bilateral channels in approximately equal proportions. Direct support to the international humanitarian system includes funds for eligible Italian NGOs as well as directly implemented activities (see Section 3.1.2).

Approximately 40% of multilateral humanitarian aid was channelled within the UN Consolidated Appeals Process (CAP) in 2008. Just 5% of the 2007 humanitarian budget was fully unearmarked – to the GFDRR and to the Central Emergency Response Fund (CERF).⁵⁸ Italy has contributed nearly USD 7 million to the CERF since its inception in 2006,⁵⁹ but has not provided support to country-level pooled funds with the exception of a single contribution of EUR 545,200 in 2008 for the multi-donor pooled-fund for Ethiopia. At an agency level, Italy provides both core support and lightly earmarked (multi-bi) allocations to nine organisations⁶⁰ through Emergency Bilateral Funds (EBFs). These are allocated at the beginning of the year and are used for mutually-agreed humanitarian activities by these agencies over the course of the year. The EBFs, whose 2008 budget amounted to approximately EUR 42 million, are generally welcomed by recipient agencies as they allow rapid access to Italian humanitarian assistance – normally approvals are granted within 24-48 hours for emergency and humanitarian activities.

However, Italy's contributions to its principal humanitarian partners have fluctuated significantly (see Table C.1). In the case of UNHCR, contributions rose sharply to USD 44.1 million in 2008 largely on the back of increased public attention to migration issues,

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- 56 This includes unearmarked contributions to multilateral agencies (including the EC). As with other donors, however, these volumes do not reflect the full spectrum of GHD-eligible expenditure – notably some eligible expenditure on DRR is not included.
- 57 Italy's annual obligations under the FAC amount to 87,000 tonnes of cereals or the cash equivalent of EUR 36.2 million
- 58 In compliance with DAC reporting instructions, contributions to the CERF are reported as multi-bi (earmarked) contributions to the United Nations Office for the Co-ordination of Humanitarian Affairs (UNOCHA) although, in practice, their allocation is determined by the CERF Advisory Board – not the donor, *i.e.* they are fully unearmarked by the donor.
- 59 Italy ranks 19th in the list of donors to the CERF and 17th amongst DAC members:
<http://ochaonline.un.org/cerf/Donors/Donors/tabid/5370/language/en-US/Default.aspx> accessed 22/07/2009
- 60 FAO, International Committee of the Red Cross (ICRC), International Federation of Red Cross and Red Crescent Societies (IFRC), UNOCHA, UNDP, UNHCR, UNICEF, WFP and WHO.

with only modest impacts anticipated in 2009 from aid budget cutbacks. In contrast, Italy's contributions to the International Committee of the Red Cross (ICRC) appear set to dip sharply to around USD 9 million in 2009, just 12 months after reaching a peak of USD 18.3 million. Similarly, Italy's net contributions to the World Food Programme dropped significantly in 2006. They peaked at USD 101.7 million in 2008 as a result of the Global Food Crisis Appeal, but are expected to decrease once again in 2009. These fluctuations reduce the predictability of Italian support and therefore undermine forward planning. Italy has recently committed to strengthen initiatives with the organisations of the Roman Agricultural Pole in the humanitarian and emergency sector (DIPCO, 2009). This commitment is welcome and is an opportunity to increase the predictability as well as volume of financial commitments to these agencies. However, these commitments should also be extended to other EBF partners.

Table C.1. Total annual contributions by Italy to key humanitarian partner agencies

USD millions

Year	ICRC	UNOCHA	UNHCR	WFP
2004	8.3	5.7	12.2	47.9
2005	8.3	0.4	15.9	45.8
2006	0.1	3.9	10.5	12.4
2007	9.4	2.7	19.1	31.5
2008	16.8	4.7	44.1	101.7

Sources: ICRC: data provided by ICRC External Resources Division; UNOCHA: data from OCHA Annual Reports (excludes contributions to the CERF and in-kind contributions); UNHCR: data provided by UNHCR Donor Relations and Resource Mobilisation Service; WFP: Data from WFP website, <http://www.wfp.org/about/donors/wfp-donors/2009> accessed 30 July 2009

The funding situation for NGO humanitarian activities is rather less positive. Funds to support NGO activities are delegated to UTLs and are generally available for the “second wave” of Italian humanitarian response and for recovery programmes. Italian NGOs pointed to lengthy assessment and approval procedures that can delay release of grants for emergency activities by up to four months after the event occurred. This delayed response time – together with a shortage of humanitarian funds available to NGOs – may undermine a real opportunity to harness well-respected Italian capacities for delivery of humanitarian assistance. Indeed, many Italian NGOs appear to look to the European Commission Humanitarian Aid Office (ECHO), rather than DGCS, as the primary source of humanitarian funding.

When ratifying the International Mine Ban Treaty in 1999, Italy simultaneously established the Trust Fund for Humanitarian De-mining, which supports mine risk awareness, de-mining and victim assistance programmes in developing countries. Both bilateral and multilateral channels are used to distribute these funds, which amounted to nearly EUR 1.8 million (or 2% of humanitarian expenditure) in 2008.

Geographic priorities

In principle, Italy does not specify geographic priorities for the humanitarian programme. Rather, when determining allocations of humanitarian funding it relies on needs assessments by implementing partners, in liaison with UTLs where they exist in affected countries. Italy has indicated that, in the future, it will give special consideration to countries in Priority 1 and 2 categories (see Table 1) – particularly where there is a UTL to liaise with Italian NGOs and link to recovery and development co-operation programmes. In doing so, Italy should be careful not to compromise GHD principles of needs-based allocation of resources.

Promoting standards and enhancing implementation

Promoting standards

Italian humanitarian action is characterised by a strong sense of expediency; its capacity to draw on a considerable pool of technical expertise for emergency responses overseas is widely appreciated. The rapid reaction to the South Asian tsunami in 2004, where Italian Civil Protection teams arrived in affected areas less than two days after the event, is testament to the efficiency of the system. Nevertheless, several implementing partners expressed disappointment that Italy has not played a stronger role in promoting global standards. The peer review team did not find evidence of significant investments by DGCS or the Civil Protection Department in promoting global standards, such as the *UN Guiding Principles on Internal Displacement* and the *Sphere Humanitarian Charter and Minimum Standards in Disaster Response*, within the Italian humanitarian system. Indeed, it appeared that awareness of these GHD commitments was limited.

Civil Protection Department⁶¹

The National Civil Protection Service was established by Law 225/1992 and placed under the direct authority of the Presidency of the Council of Ministers. The Civil Protection Department is the focal point for the National Civil Protection Service, which harnesses the capacities of national organisations, regions, municipalities and the Italian Red Cross as required. The primary role of the National Civil Protection Service is to respond to catastrophes in Italy and to support MFA's Crisis Unit in helping Italians affected by overseas crises. However, in recent years it has been mobilised under Laws 49/1987 and 152/2005 to provide a bilateral emergency response capacity to assist populations in developing countries affected by conflict and natural disasters. The department's resources can also be used to assist partner governments in developing countries to build and reinforce their own disaster management systems (*e.g.* forest fire-fighting capabilities in Lebanon).

61 At the time of the DAC peer review, the OECD International Futures Programme (IFP) Project on Risk Management Policies was conducting a simultaneous peer review of Italy's national civil protection system. The primary focus of this review was the Civil Protection Department's responsibilities within Italy and in support of Italian citizens affected by overseas crises: http://www.oecd.org/document/36/0,3343,en_2649_35014780_40934308_1_1_1_1,00.html accessed 31 July 2009

Law 49/1987 stipulates that National Civil Protection Service deployments should be made in consultation with DGCS and that the costs be charged to DGCS. However, the National Civil Protection Service and DGCS are two distinct institutional bodies and the Civil Protection Department which coordinates the National Civil Protection Service, enjoys a large degree of autonomy (*e.g.* it raised considerable public donations for the tsunami response in Sri Lanka, which fell outside the immediate remit of DGCS). DGCS is informed but has little sanction – and no monitoring responsibility – in the event of deployment of elements of the National Civil Protection Service. This has led to some perceptions that DGCS’s legislated responsibilities for co-ordinating the Italian humanitarian response may, on occasions, have been usurped by the Civil Protection Department.

Furthermore, as an integral component of the Italian humanitarian system, the National Civil Protection Service is also responsible for upholding Italy’s GHD commitments. In particular, Italy should ensure that bilateral deployments conform to GHD commitments to co-ordinated and beneficiary-led humanitarian action and ensure that global implementation and accountability standards defined by the GHD initiative are fully integrated into the systems and procedures of the National Civil Protection Service during overseas deployments. At present there does not seem to be a sufficiently robust dialogue with DGCS’s Humanitarian Unit with respect to integrating core implementation standards into the procedures and practices of the National Civil Protection Service (notably the Sphere Humanitarian Charter and Minimum Standards and the UN Guiding Principles on Internal Displacement). Informal coordination mechanisms were established for recent emergency responses *e.g.* in response to the South Asia tsunami. Nevertheless, given the proposed guidelines on Italian humanitarian action (see above), it would be helpful to clarify how the GHD commitments are to be applied in bilateral humanitarian deployments and to review the processes for mobilization of civil protection assets to ensure that they conform to GHD commitments.

Civil-military co-operation

Italy has been a strong advocate of integrated missions in fragile and conflict-affected contexts. For example, in Lebanon a memorandum of understanding (MoU) established a roundtable mechanism (involving the Italian Embassy, the UTL, an Italian NGO platform and Italian military contingents serving with UNIFIL) for civil-military dialogue aimed at defining the respective roles and responsibilities of the various actors and based on a shared recognition of the importance of humanitarian principles and the criticality of maintaining humanitarian space (see Annex D and Box 2, Chapter 1). Encouragingly, local officials in southern Lebanon – as well as their national counterparts – also appear to have a good understanding of the boundaries between the roles and responsibilities of civil and military actors. However, the MoU has been criticised by some commentators, including some within the NGO community, as contributing to a further blurring of the distinction between military and civil action.

In the more adversarial environment around Herat in Afghanistan, relationships between Italian NGOs and the Italian Provincial Reconstruction Team (PRT) are apparently less genial. There are well-documented concerns that direct engagement of Italian and other troops in development and humanitarian activities may have reduced “humanitarian space” and placed aid workers at risk. These were raised again with the peer review team by some NGO and multilateral partners. However, Italy is not alone in confronting the dilemma of maintaining its GHD commitments to the primacy of civilian

authority over humanitarian action and a clear separation between civil and military functions. The Lebanese experience provides a platform for Italy to reflect on the nature of civil-military co-operation in these contrasting operational environments. However, the situation in Lebanon is not typical and the scope for replicating the model of civil-military co-operation elsewhere is likely to be limited. Documenting and jointly evaluating (with NGOs) the experiences with the roundtable mechanism in southern Lebanon would be a helpful starting place for a dialogue on generic guidance for delivery of humanitarian assistance in contested environments, as well as other crisis situations, where Italian military contingents are present.

United Nations Humanitarian Response Depot (UNHRD)

Since 2000, the United Nations Humanitarian Response Depot (UNHRD) in Brindisi has been the European hub of a global logistics network run by the World Food Programme (WFP) on behalf of the United Nations humanitarian system. DGCS provides its running costs, as well as the costs of some humanitarian flights. The UNHRD contains stockpiles of emergency relief goods, medical equipment, food, prefabricated buildings and vehicles procured by WFP, UNOCHA, WHO and a number of NGOs. The stockpiles are despatched from the nearby airfield and fully funded from Office VI (the Emergency Operations and Food Aid Office) when a humanitarian flight is specifically requested by DGCS.

Learning and accountability

Evaluation and learning systems for Italian humanitarian action remain largely undeveloped and, until recently, humanitarian action has largely been exempt from corporate evaluation systems. In early 2009, an external evaluation of an Italian humanitarian programme (the ROSS emergency programme in Lebanon, see Box 10, Annex D) was commissioned for the first time by DGCS on the initiative of the UTL and Office VI. The Civil Protection Department also commissioned an evaluation of its response to the Asian tsunami in Sri Lanka. Given the rejuvenated attention being given to monitoring and evaluation processes (see Chapter 4), it would be a timely opportunity to consider the valuable learning opportunities that could be reaped from more systematic evaluation of Italian humanitarian action. In particular, guidance on evaluating Italian humanitarian action should be included in the proposed evaluation policy. This might include contributing to – and participating in – more joint evaluations with peers and implementing partners as a means to alleviate administrative pressures and deepen learning within the sector.

Human resources

Within DGCS, Italian humanitarian action initially falls under Office VI (the Emergency Operations and Food Aid Office) while technical responsibilities relevant to the project cycle of bilateral projects falls under the Central Technical Unit. In addition, UTLs have direct involvement in implementation, monitoring and evaluation of individual humanitarian activities, especially in those countries, like Afghanistan and Lebanon, where humanitarian bilateral projects have been decentralized to UTLs. At field level, project offices are responsible for implementation, monitoring and technical assistance. They are staffed with expatriate and local personnel. Office VI comprises five

sections, which altogether employ one diplomat and 14 officers. Sections 1 and 2 are responsible for Italian bilateral and multilateral support for humanitarian action respectively. The remaining three sections have thematic responsibilities. Section 3 of Office VI is responsible for collaborating with the Agricultural Payments Agency, *Agenzia per le Erogazioni in Agricoltura (AGEA)*, to deliver food aid. Section 4 organises humanitarian flights and is responsible for UNHRD collaboration. Section 5 is responsible for managing humanitarian mine action activities supported through the Trust Fund for Humanitarian De-mining. The Central Technical Unit comprises one section fully dedicated to bilateral humanitarian action employing one UTC expert, who is also DGCS focal point for Fragile and Conflict Affected Situations, and three officers.

Future considerations

- Italy is encouraged to complete the guidelines for humanitarian action. These should translate Italy's commitments under the GHD initiative and the European Consensus on Humanitarian Aid into a national implementation plan. In particular, they should clarify how Italy will establish appropriate linkages between humanitarian and development action, as well as Italian commitments to humanitarian protection. Ownership of the guidelines should be promoted beyond DGCS (including the National Civil Protection Service) if Italy is to meet these commitments.
- Italy should increase the volume and predictability of contributions to key partners in line with its ambitions as a key humanitarian actor. In particular, Italy should streamline grant approval processes for NGOs to enable swifter mobilisation in crises.
- Italy should clarify how Civil Protection Department assets are deployed and how global implementation and accountability standards are applied in bilateral humanitarian action (including beneficiary-led humanitarian action). This could be done while preparing the guidelines for humanitarian action.
- Italy should deepen commitment to results-based learning and accountability within the humanitarian sector. It should establish more systematic evaluation processes and stronger guidance to partners on engaging beneficiaries in Italian humanitarian action. This might include greater participation in joint evaluations with other donors.

Annex D

Field visit report from Lebanon

The peer review team, comprising examiners from France and Greece and members of the OECD Secretariat, visited Lebanon between 29 June and 3 July 2009. The team met with Italian Co-operation officials and their main partners in Lebanon – including government, civil society and other donors. Lebanon’s unique context, both political and economical, has given a distinct shape to Italian Co-operation in the country. Therefore, Italy’s experiences and ways of working may not be replicable in more traditional developing contexts or fragile situations. This is especially relevant for observations on aid modalities, the size and organisation of the UTL, the use of country systems, and the Paris Declaration and Accra Agenda for Action. This annex summarises the team’s observations on the Italian Co-operation programme in Lebanon.

Lebanon’s context

Human development in Lebanon

Lebanon is a middle-income country. In 2006, it ranked 78 out of 179 countries in the United Nations Human Development Index (HDI), with an average life expectancy at birth of 71.7 years, an average GDP per capita of USD 9 757 and a combined gross enrolment rate of 76.8% (UNDP, 2008). Human development is spread unevenly across the country, with Beirut and Mount Lebanon regions performing better than the others. Economic inequality is high, with the bottom quintile of the population accounting for 7% of total consumption and the richest quintile for 43%. Eight per cent of the population suffers extreme poverty, living on less than USD 2.4 per day, and one-third of the population lives below the upper poverty line (USD 4 per day). The HDI shows considerable disparity between men and women, with women below the national average (UNDP, 2009).

A fragmented society

Lebanese society is highly fragmented, with 18 officially recognised religions. The political system is organised along the lines of group identity with the distribution of high-level positions made on a confessional-basis. As emphasised by the 2008-2009 *National Human Development Report*, “the power sharing scheme that allocates government positions to different religious groups has strengthened vertical societal cleavages and transformed communal groups into opposing parties” (UNDP, 2009). Institutional building has suffered significantly from this fragmentation. The long-term presence of a large population of stateless Palestinians has created a further fault-line for

armed conflict. Furthermore, Lebanon is a geo-politically strategic country where the influence of external regional and international powers on internal affairs (they often support different groups and interests) creates a further layer of instability.

Italian presence in Lebanon

Italian Co-operation has been present in Lebanon since 1983. Until 2006 it mainly focused on infrastructure development. After the 2006 Israel-Lebanon conflict, the Italian presence in Lebanon increased significantly and assumed a different character. United Nations Resolution 1701 called for a cessation of hostilities and enhanced the mandate and numbers of the UN interim force for southern Lebanon (UNIFIL).⁶² Italy deployed the largest number of troops (2 500) to UNIFIL II. At the same time, the international community reacted quickly to help Lebanon rebuild. Italy participated in an international conference hosted in August 2006 by the Government of Sweden to address immediate humanitarian and early recovery needs in Lebanon. The conference drew commitments of around USD 900 million for assistance. Arab donors gave the largest share of assistance (61%), followed by the European Union (10%), the US (6%) and Italy (4.2%) (MoF, 2006). In January 2007, donors came together for a second international conference known as Paris III, where USD 7.6 billion was pledged. Arab donors contributed 36% of pledges and European donor countries 38%, of which Italy represented 5% (MoF, 2007).

Italy's development co-operation programme

After the 2006 conflict, Italy launched the ROSS emergency programme to “contribute to the restoration of basic services and the improvement of living standards in the areas most heavily affected by the 2006 conflict” (UTL, 2009d). The ROSS programme has enabled Italian Co-operation to be flexible and responsive to the emergency situation and its structure has allowed Italy to quickly respond to needs on the ground. In 2007, Italy decided to open a local technical unit (UTL) in Beirut to co-ordinate the Italian development co-operation programme. In shaping its aid programme in Lebanon, Italian Co-operation intends to learn from the ROSS programme's experience and knowledge and from its staff and resources. The UTL has thus commissioned an independent evaluation of Phase 1 of the ROSS programme.

Following a request from the MFA, in 2008 the UTL created an internal working group to define a strategic approach for Lebanon and identify priority sectors for Italian Co-operation. The working group assessed progress towards the MDGs in Lebanon selecting targets and a set of indicators. It also identified the Italian comparative advantage in Lebanon. The UTL then drafted a three-year country programme for 2009-2011 based on this analysis using the STREAM framework (UTL/Lebanon, 2009e; see Chapter 5). The three priority areas identified are: (i) the economic sector, with special attention to agriculture and rural development; (ii) the health care and social sector, with a particular focus on vulnerable groups, in particular women; and (iii) the environment.

Italian Co-operation is also actively supporting Palestinian refugees in Lebanon. As emphasised by the Italian Embassy, Italy believes that supporting Palestinian refugee camps is not only a human rights issue, but is also a key element in ensuring stability in

62 UNIFIL was created by the Security Council in 1978 to confirm Israeli withdrawal from Lebanon and to restore peace and security in South Lebanon.

the country. The STREAM emphasises that the living conditions in refugee camps differ significantly from the rest of the country. For this reason, Italian intervention in the refugee camps focuses on improving hygiene and environmental standards and strengthening basic health care services, especially for vulnerable groups (see Box 9).

Box 9. Italian assistance to Palestinian refugees: a considered and balanced approach

The presence of 422 188 registered Palestinians – an estimated 10% of the population on Lebanese territory (UNRWA, 2009) – adds a special dimension to development co-operation planning in Lebanon. Some 233 000 Palestinians live in 12 official refugee camps around the country, while the remainder live within Lebanese communities where their access to services and employment opportunities is restricted. These prohibitions and the intractability of their situation means that their humanitarian and development needs differ from the host community. The burden of hosting this large population has repercussions for Lebanon's own development. Furthermore, the chronic vulnerabilities experienced by the majority of Palestinians are overlain by sporadic outbreaks of violence, such as occurred in Nahr el-Bared camp in 2007, creating additional layers of acute vulnerability and an ever-changing profile of needs.

The UN Relief and Works Agency (UNRWA) is the main provider of services – education, health, relief and social services – to the registered Palestinian population. It is also the focal point for international humanitarian responses during crises. In 2008, Italy ranked ninth among DAC members in terms of voluntary contributions to the UNRWA annual appeal (covering five countries including Lebanon) with total (regular and non-regular budget) contributions amounting to nearly USD 17 million.⁶³ However, the value of Italy's support to the Palestinian population in Lebanon cannot only be measured in financial terms. UNRWA commentators noted the consistency of support from the UTL and the catalytic role that even modest levels of Italian funding or technical assistance had often played in leveraging support from larger donors. Government interlocuteurs commented positively on Italy's balanced approach and its willingness to "look beyond aid efficiency" to consider the political dimensions to aid-giving in Lebanon. Notably, Italy has adopted a consultative and preventive approach that consciously aims to balance assistance to Palestinian refugees with support to communities in the vicinity of camps and other poorer Lebanese communities.

The "Sistema Italia"

Development co-operation in Lebanon is one component of Italy's effort to bring stability to Lebanon and the region and to improve the living conditions of all populations on its territory. This is in line with the MFA's vision of the role that development co-operation should play. Italy has a clear understanding of the fragility and fragmentation of Lebanese society and knows how to work in this context. As emphasised in the 2009-2011 STREAM document, Italian Co-operation will continue to "closely coordinate with the Italian embassy to ensure that due account is given to the Lebanese institutional and political set up; co-operation activities need to be framed as part of the overall management of co-operation relationships woven into the complex and fragmented Lebanese society" (UTL/Lebanon, 2009e). There seems to be a strong team spirit between the UTL and the embassy. The clear division of responsibilities is mutually reinforcing and appropriate to the Lebanese context, with the UTL focusing more on the technical aspects of the aid programme, and the embassy on political dialogue.

The Italian Embassy plays an important role in co-ordinating Italian organisations present in Lebanon – the *Sistema Italia*. Italian NGOs are an important group within the

63 Source: http://www.un.org/unrwa/donors/docs/top_20_state_donors_gf_2008.pdf accessed 5 August 2009.

Sistema Italia; several of them have signed a memorandum of understanding with the Italian Embassy, the UTL and the Italian military contingent within UNIFIL to create a permanent roundtable for civil-military dialogue, co-ordination of development co-operation and the delivery of assistance to civilian populations (see Chapter 2 and Annex C).

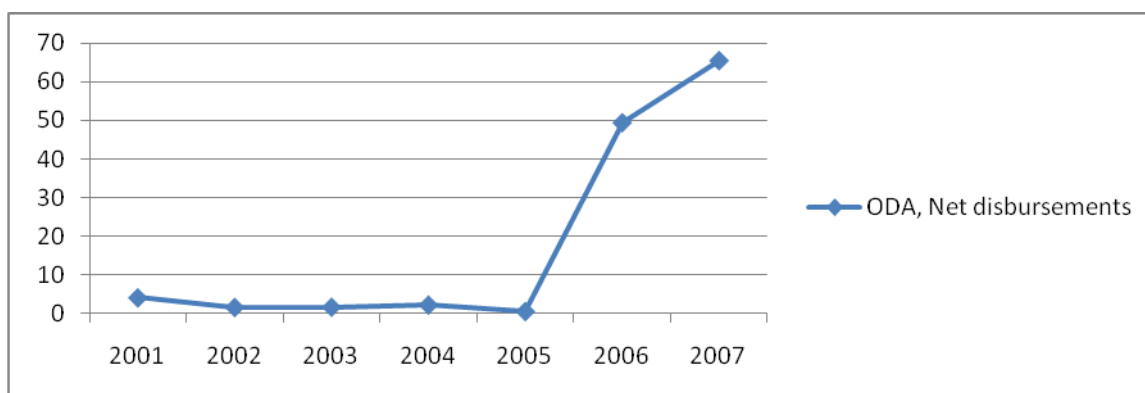
Italy is also present in Lebanon through decentralised co-operation. Italian regions, provinces and municipalities can offer important knowledge and expertise for the provision of services at the local level. This has been useful in Lebanon, for example, for waste management, forest conservation and renewable energy. A focal point for decentralised co-operation has been created by the UTL. This focal point helps local administrations to identify Italian partners, projects and priorities, taking into account the comparative advantage of the different local Italian actors involved. The existence of such a focal point is appreciated by Italian local administrations because it helps co-ordinate multiple actors and gives coherence and creates opportunities for collaboration between different activities carried out by Italy.

Aid volume and allocations

Among DAC donors to Lebanon, Italy ranks fourth in volume after the United States, France and the European Commission.

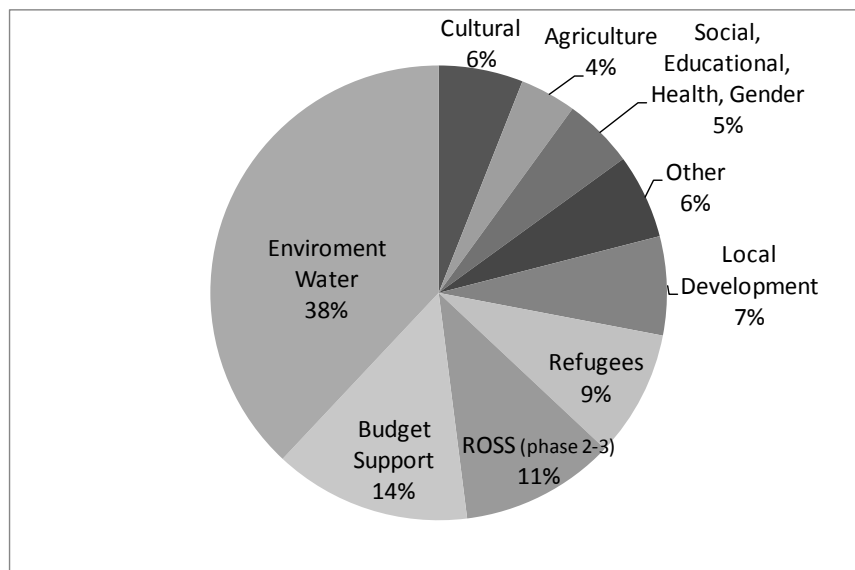
Figure D.1. Italian ODA to Lebanon, 2001-2007

USD million - constant 2007



Source: OECD/DAC Creditor reporting system

The total amount of Italian aid allocated to Lebanon is EUR 171 million, of which 56% was allocated as grants and the remaining as soft loans (Figure D.1). A further EUR 48 million for soft loans is currently under evaluation for constructing four wastewater treatment plants. Figure D.2 breaks down the current Italian aid programme to Lebanon by sector.

Figure 5. Figure D.2. Italian Co-operation in Lebanon by sector

Source: UTL Lebanon

The UTL does not have precise information on future financial resources. The STREAM document estimates Italian aid to Lebanon for 2009-2011 by sector, based on the regular budget resources. However, this estimate does not include additional funds coming from peacekeeping bills. Environment will remain the major sector (EUR 5 million grants and EUR 100 million soft loans), followed by governance and local development (EUR 3 million grants and EUR 55 million soft loans), the economic sector (EUR 3.5 million grants) and the health and social sector (EUR 4 million grants). A further EUR 2.5 million will be allocated to Palestinians refugees.

Italian contributions to Lebanon have been raised mainly through peacekeeping bills (mission decrees) and only partially through regular funds (the annual development co-operation budget). Assistance provided under these special facilities qualifies as “emergency aid” in the Italian Co-operation context. These facilities provide the UTL with greater financial authority and autonomy over project identification, approval and implementation; for emergency aid, the DG can approve all projects without referring to the Steering Committee. This has provided a level of timeliness and responsiveness that would not have been possible if the aid had been channelled through the regular development co-operation budget (under which projects above EUR 1 million should be approved by the Steering Committee). There is a risk that these critical characteristics will be lost when aid financing shifts to the regular budget, unless reforms are put in place. At the same time, a shift to more regular modalities should enhance the predictability of Italian aid to Lebanon since peacekeeping bills are currently annual, which does not permit long-term forward planning. Moreover, in 2009, the bill only covers a period of six months. The completion of Italy’s ROSS programme in 2010 could mean a significant reduction in aid unless sufficient regular funds are provided.

The overall unpredictability and volatility of Italian aid has had an impact in Lebanon. For example, cuts in the 2009 aid budget resulted in the UTL withdrawing from previous aid commitments with international organisations. This volatility undermines

financial planning and the programming of partners and risks damaging the integrity of Italian Co-operation in Lebanon.

Some of Italy's grant aid to Lebanon has been tied, despite the fact that the relevant article in Law 49/1987 only applies to loans. This has been the case for the budget support provided to the Council of Development and Reconstruction (CDR) for the rehabilitation of priority infrastructure. Under the terms of the grant, these projects could only be tendered to Italian companies (see Chapter 4).

Italy works closely with multilateral organisations present in Lebanon; 31% of the total volume of Italian on-going programmes is implemented through the multilateral channel.

Implementation of the Italian co-operation programme and aid effectiveness

Implementing the principles of the Paris Declaration in Lebanon is difficult because of the fragmented political and institutional context, characterised by weak co-ordination between central institutions.⁶⁴ These characteristics have given a unique shape to Italian Co-operation in Lebanon. This is especially relevant for the implementation of the Paris Declaration and Accra Agenda for Action, the aid modalities chosen and the use of country systems. In general, donors tend to work through project-based approaches with individual line ministries with the tacit approval of CDR. Italian Co-operation has simultaneously adopted a bottom-up approach by working at local (municipal) level to identify needs.

The emergency programme

The ROSS programme provided important opportunities to intervene right after the conflict to address critical life-sustaining needs (see Box 10). At an early stage of the programme, the scope to conduct thorough consultations with local communities was limited. The consultation improved during time and so did the Italian knowledge of the context. There is evidence (provided by the ROSS evaluation) that the intervention of Italy was aligned with the real needs of the country.

Italy started its co-operation in Lebanon in a post conflict/ emergency context in a pragmatic way driven by real needs. Based on the wide range of activities in the ROSS programme, Italy has now identified opportunities to move to a more strategic approach. In particular, it is gradually focusing on key areas where it can have a major impact, using its moderate budget to leverage collaboration by other donors or government interventions. Lebanese authorities provided the peer review team with positive feedback on its collaboration with Italian Co-operation as well as Italy's willingness to respond to diverse needs.

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While the European Commission is promoting greater donor co-ordination in Lebanon, the specific context of emergency assistance and political instability means that the aid effectiveness agenda is not well advanced in Lebanon. Therefore a specific box cannot be dedicated to this issue in this field visit report.

Box 10. The ROSS programme: evolving from emergency to development

After the 2006 conflict, Italy launched the ROSS emergency programme to address urgent humanitarian and early recovery needs caused by the conflict. The total amount of funding, EUR 32 million, was allocated over a period of three years (2007-2009): EUR 15 million for the first phase, EUR 8.35 million for the second and EUR 9 for the final phase. In the initial phase, the programme involved a rapid response to the emergency. In only three months, Italy had started implementing the programme and after three years 100 projects have been implemented. An office for the ROSS programme was created to monitor implementation. The programme has been implemented by Italian NGOs or directly managed by the Italian Co-operation while engaging many Lebanese actors. The ROSS programme has now evolved into a more long-term development initiative. It focuses on three areas: economic sector; social, educational and health sectors; and rehabilitation of basic services. Gender and environment cut across these sectors. The programme has focused predominantly on South Lebanon, the region most affected by the conflict. However, it has subsequently expanded to other regions, such as Mount Lebanon and West Bekaa region. It still also retains some capacity for emergency interventions as demonstrated through its support for UNRWA relief and recovery operations following the military assault on Nahr el-Bared camp in 2007.

The presence of Italian Co-operation in Lebanon is strongly appreciated by beneficiaries. Among the results of the programme, improvement of dialogue between communities – a key objective in a fragmented society like Lebanon – is particularly noted. One example is the creation of water users' associations among different communities for communal management of water resources.

An external evaluation of the ROSS programme (phase one) was conducted in 2009 to provide lessons for Italian Co-operation. One of the preliminary findings related to the identification of needs in Lebanon. The evaluation criticised the limited use of participatory approaches in assessing needs. However, beneficiaries and local authorities confirmed during the evaluation that the interventions have met their needs. In relation to the sustainability of the programme, preliminary evaluation findings show that the ROSS programme carried out several training activities and gave technical assistance to increase local community capacities and enable them to manage the projects. However, from the point of view of financial sustainability and the capacity of the projects to generate the financial resources needed once Italian co-operation pulls out, it is clear that local counterparts will struggle to provide sufficient resources to sustain the projects. Nevertheless, the evaluation noticed that when municipalities are involved there are more options for the ongoing financing of activities.

The majority of the funds provided by the ROSS programme were allocated through projects designed and implemented by Italian NGOs in partnership with local counterparts. While the exclusive use of Italian NGOs allowed the transfer of expertise to local counterparts, in some cases it prevented Italian Co-operation from directly employing skills already available locally. The choice of whether to use Italian NGOs or local organisations should have been based on the type of activity and the assessment of existing capacity.

Local development

One of the main features of the Italian co-operation programme in Lebanon is its special focus on local development. Italy works with local authorities, recognising their particular importance in a context where central institutions are unstable. Thanks to the experience acquired during the ROSS programme, Italy has developed positive long-term

relationships with municipalities and today has a relevant role in facilitating linkages between different actors around a common agenda for local development.

Italy has started to move towards eventually providing budget support at the local level. This has translated into a number of actions, including a conference on governance and local development to discuss the concepts and to reach a common shared definition of local development in the Lebanese context. Italy has taken the lead role in the EU co-ordination group on local development and is giving support to the Directorate General of Municipalities of the Ministry of Interior, including assistance to draft legislation on decentralisation. It supports the creation of a multi-donor, local development trust fund that could help move forward from a project-based approach. Italy gives priority to capacity development of local institutions (see Box 6, Chapter 6).

Concerning the use of country systems, representatives of municipalities whom we met during the peer review mission expressed their preference for direct project implementation by donor countries. This is because direct transfer of resources by donors to municipalities requires the involvement of the central authority. Administrative procedures mean this can create often delays in the implementation of the intervention. The creation of the local development fund will help to address these problems.

Harmonisation

Unstable institutions do not favour harmonisation among donors. There is no formal donor co-ordination mechanism led by the government. The Council for Development and Reconstruction (CDR), which is Lebanon's official interlocutor with donors, is more concerned with reconstruction of infrastructure than donor co-ordination. Moreover, it does not seem to think that there is much need for such co-ordination in Lebanon. In response, the local EC office has taken the initiative to form sectoral working groups to co-ordinate donor efforts. Italy is leading two of the working groups (local development and environment) based on the experience and knowledge it has acquired in these two sectors. The initiative provides opportunities for information exchange and aims to create co-ordination not only at the level of EU donors, but also to include multilateral organisations and Lebanese institutions.

Gender and environment: policy objectives and cross-cutting issues

The visit to Lebanon confirmed that Italy is committed to gender equality and women's empowerment. It aims to increase capacity and promote these issues as policy objectives and across project activities. The UTL organised a participatory workshop on future gender guidelines for Italian intervention in Lebanon for 2008-2011. Participants brainstormed strategies, priorities and methodologies for supporting women empowerment and gender mainstreaming in Lebanon. The process is a positive example of an inclusive dialogue that involved participants from Italian and Lebanese governmental and non-governmental stakeholders, international organisations and other donor countries. The guidelines produced through this process are a tool for planning, monitoring and evaluating projects and programmes. Local organisations whom the peer review team met during the mission commented that the guidelines were useful. Financial allocations with gender equality as a principal objective increased from 6.6% of the total programme (excluding infrastructure) in 2006-2007, to 11.7% in 2008. Financial allocations with gender equality as a significant objective increased from 14.3% of the

total programme (excluding infrastructure) to 30.5% over the same period. In 2008, the volume of activities having gender as either a principal or significant objective amounted to EUR 7.3 million.

Looking at the share of Italian ODA in Lebanon allocated by sector, environment and water are by far the largest. The environment is a critical problem in Lebanon: the civil war (1975-1990) and the 2006 war caused significant environmental damage and the sector has suffered protracted neglect. There is no national action plan on the environment, the legislative framework is weak and lack of data makes it difficult to analyse the actual situation. At national level, eight ministries are involved in environmental issues, which in the absence of strong central co-ordination, results in fragmented efforts. The 2009-2010 Italian strategy for environment aims to increase the capacity of the Ministry of Environment and improve its position in discussions with other ministries and donors. Based on the priorities of the Lebanese Government, the work already carried out by Italian Co-operation with the ROSS programme and other donors' interventions, Italy has decided to focus on three aspects of environmental development: integrated solid waste management; resources and land management; and energy efficiency and renewable energy.

Environment appears to be mainstreamed across the Italian programme and an environment expert is employed by the UTL. Between 2006 and 2009/10, 25% of activities in the economic sector had environment as a principal objective and 75% as a significant objective; 94% of activities in the environment sector had environment as principal objective and 6% as significant.

Organisation and management

The UTL consists of a director and four locally-employed technicians. It also counts on the technical staff in the ROSS programme, who are *de facto* UTL staff. All staff are managed by the UTL Director, and are involved in all the programming, definition of strategies and priorities, and dialogue with Lebanese authorities. Including both experts and administrative staff, the ROSS programme consists of nine people. Five of these are on a long-term posting from the DGCS, one is on a short mission and three are locally employed. With the closure of the ROSS Programme in 2010, the UTL will face challenges in ensuring adequate access to human resources and expertise. This modality has been used until now to strengthen the decentralisation of the Italian system and to overcome obstacles to increasing human resources in the field. There is a need for clear instructions for recruiting, managing and organising human resources according to evolving needs, new ways of delivering aid, and recruiting competent experts locally.

At present only 2 out of 14 people working for Italian Co-operation in Beirut are Lebanese. The work of the UTL would benefit from the continuity and institutional memory provided by increasing the share of Lebanese nationals in its staff. Understandably, good knowledge of the Italian language is required for staff who must deal with Italian public administration procedures, preparation of documents and communication with HQs in Italian. This can, however, make it difficult for the UTL to identify suitable Lebanese experts.

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.*⁶⁵

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

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

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

DAC LIST OF ODA RECIPIENTS: For statistical purposes, the DAC uses a list of ODA recipients which it revises every three years. From 1 January 2007, the list is presented in the following categories (the word "countries" includes territories):

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

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

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

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

65 For a full description of these terms, see the *Development Co-operation Report 2009*, Volume 10, No. 1.

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

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

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

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

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

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

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

OTHER OFFICIAL FLOWS (OOF): Transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25%.

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

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

VOLUME (real terms): The flow data are expressed in United States dollars (USD). 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 in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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