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Italy and the fight against world poverty



2007 Report

Waiting for the
changes ahead

April 2007



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ActionAid is an international, independent organisation, involved in the fight against poverty, which bases its work on the respect of human rights. It works together with the most marginalised people and communities through long-term programmes in Asia, Africa and Latin America. It also works to fight against the causes of poverty, involving people, businesses and institutions in the world's wealthiest countries. ActionAid operates thanks to the commitment of thousands of people who contribute through their activities and donations. Present in Italy since 1989, it is a non-governmental organisation (ONLUS) recognised by the Ministry of Foreign Affairs.

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Italy and the fight against world poverty

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Summary

“Italy and the fight against world poverty” is the second ActionAid report on Italian development cooperation that assesses the progress Italy has made in honouring commitments made in 2000 in the fight against global poverty. One year into Italy's new premiership, the report takes stock of the government's achievements so far. One of the government's objectives is for Italy to become a significant contributor in the fight against world poverty by increasing financial resources and reforming the cooperation system. **“Italy and the fight against world poverty”** questions policy makers on this year's results and on their future plans to resolve past shortcomings before 2010. In 2010, Italy will be called upon by the donor community to report on the quantity and quality of its official development aid. By then, Italy will be required to spend 8.7 billion Euros every year in a “more effective” way to fight global poverty.

In 2007, the world of Italian politics is once again enthusiastically talking about international aid and the reform of the aid system, but there has still not been any clear and coherent change. The financial resources allocated and planned are still small, while the reformed aid system being proposed does not deal with several important issues. The most crucial of these is the “coherence” between development cooperation objectives and other external policies – such as trade, safety and migration. Other issues, such as the unified management of resources, are dealt with in a limited way compared to the solutions that might be possible.

The national debate on aid reform has actually been in stalemate since 1996; the same institutional elements are still being proposed, although the international community of donors and developing countries have drafted new approaches and methods of cooperation that favour local

decentralisation. The national debate seems to lag behind these new developments. This report highlights that there has been no general change of direction: after the first year in office, progress in implementing the government manifesto for development cooperation is still inadequate in many areas. Here is our assessment:

- » political focus for development cooperation: adequate;
- » institutional body managing resources: inadequate;
- » increase in the financial resources towards 0.7%: inadequate;
- » promotion of new debt cancellation: just adequate;
- » promotion of international currency transaction taxation systems: inadequate.

Italy and Europe

Italy is the ninth largest economy in the world, yet its lack of commitment to fighting world poverty risks jeopardising the efforts of the international community. Due to a series of political and management factors (such as postponement of reform and lack of political interest), Italian development cooperation has drifted away from Europe, by becoming irrelevant and limiting European Union (EU) objectives and ambitions.

Italian development cooperation has been officially excluded from Europe since 1 January 2007, as it has not reached the European objective established in Barcelona in 2002 of allocating 0.33% of Gross Domestic Product (GDP) to official development assistance (ODA). Italy has allocated 0.20% (0.11% net of debt cancellation). Unfortunately, the 2007 budget law has not laid the foundations for a guaranteed re-entry of Italian cooperation

into Europe by the end of this government's term of office. The budget law has not planned sufficient resources to allocate 8.7 billion Euros (0.51% of the GDP) by 2010.

On closer examination, Italian cooperation is not just lagging behind Europe in financial terms, but also in many of the elements of the *European consensus* on development – that is the common approach to cooperation approved by the EU in December 2005. In the light of the European consensus, all the negative aspects of Italian cooperation emerge, with the added burden that planning in the last few years has not been followed by coherent implementation. Here is our assessment:

- » quantity of aid: inadequate;
- » innovative mechanisms to find new resources for development: adequate;
- » more stable and predictable aid modalities: inadequate;
- » increase in aid to sub-Saharan Africa: inadequate;
- » debt cancellation: adequate;
- » coordination and complementarity: adequate;
- » prevention of disasters: inadequate;
- » further untying of aid¹: barely adequate;
- » support of basic social services: inadequate.

In terms of “phantom aid” – activities that may be listed as aid but not involving any financial flow to developing countries (DCs) – both Europe and Italy have achieved disappointing results: about 70% of bilateral aid in the last six years has been “phantom aid”.

Overall, Italian cooperation, excluded from Europe for almost five years, needs a strategy to regain its place at the European table. But future predictions

¹ Tied aid means making the granting of aid conditional on the purchase of goods and services from the donor country.

are worrying: the extreme incoherence of Italian cooperation could drag the whole of Europe backwards, preventing any of the commitments from being honoured and nullifying EU aspirations of being a worldwide reference point for development cooperation.

The coherence of policies

For Italy, the donor community has complained about the lack of coherence between the objectives of development cooperation policies and other policies, especially policies on the trade of sugar and olive oil and migration. According to the “commitment to development index”,² Italy has been the **most “incoherent” European donor** after Greece since 2003, because of:

- » the low level of aid;
- » non-participation in initiatives to improve governance in developing countries;
- » the low level of reduction of CO₂ emissions in the last ten years;
- » non-willingness to welcome refugees during humanitarian crises;
- » the high level of arms exports to poor or undemocratic governments;
- » the high percentage of tied aid.

Another example is the relationship between debt cancellation and the granting of new loans. Since 2000, Italy has cancelled 5.9 billion Euros of bilateral credit in 30 countries that had an “unsustainable” level of debt (59% in Africa). However, Italy continued giving loans to countries where debt had been cancelled, with the risk of reigniting their debt problems. The data for 2000-2005 indicates that Italy has granted more aid loans than other European

countries, which are more oriented towards grants.

Effectiveness

The image that African governments have of Italian cooperation is of a “not very effective” system. Italy is one of the donors that, in general, does not financially support development priorities, but is more interested in supporting its own priorities. Interventions are inflexible, highly unpredictable and follow complex procedures with excessive delays in disbursement. In the eyes of African governments, Italian, Austrian and Saudi aid are all similarly ineffective.

In the 2005 Paris Declaration, donor and beneficiary countries subscribed to a management reorganisation plan for aid to make it “more effective” by 2010. Italy has not yet presented a plan for the realisation of the Paris agenda, though the records for the effectiveness of Italian aid are not encouraging. According to the Development Assistance Committee (DAC), the aid provided by Italy is less effective on average than other donor countries: aid is tied to the condition of buying Italian products, financial aid is not disbursed when promised and the priorities of intervention by the beneficiary country are not accepted.

The *European Consensus* highlights general budget support (GBS) as the preferred means of aid to achieve the objectives of the Paris Declaration on aid effectiveness. Member states have been asked to assess the possibility of increasing the share of aid channelled via “budget support”, while expanding the list of beneficiary countries. Together with Austria, Italy is the only European donor that will not re-orient its aid according to the Consensus. Questioned

officially by the European Commission on how it will channel any aid increase, the Italian cooperation services expressed a preference for two modalities that are strongly criticised in terms of effectiveness for their high transaction costs: project aid and technical assistance. The only country where Italy provided GBS aid was in Mozambique, for only 9 million Euros over three years. Mozambique is considered to be an example of successful GBS.

Despite its potential, this GBS pilot project has never been assessed and remains an isolated example in Italian cooperation. Italy is in the position to innovate in terms of GBS, drawing on its experience in support of local autonomy. For example, Italy could support the budgets of local authorities in developing countries, as others donors are already doing in Uganda and Vietnam.

In the next four years, Italian development cooperation must become European once again. In other words, Italy must put into practice the values, commitments and strategies that have been shared with the EU over the last five years. This does not mean simply returning from isolation and increasing its effectiveness, but also recognising that Italy is crucial to Europe. Without Italy, Europe could not be a worldwide leader in development cooperation because there would be no real European cooperation.

Recommendations

In the discussion on the reform of the law on development cooperation, ActionAid recommends that the Italian parliament should:

- » recognise the centrality of the fight against poverty and the Millennium

Development Goals;

- » ensure coherence between Italy’s foreign policies and other international policies (not only cooperation), recognising the centrality of the general cabinet of Ministers;
- » ensure the unity and coordination of initiatives, by clearly referring to an appointed government figure exclusively dedicated to development cooperation policies;
- » guarantee the centrality of the state taxation system to fund Italian cooperation policies;
- » create a single fund for the entire management of all Italian ODA, including Ministry of the Economy funds and the funds dedicated to loans;
- » clearly indicate the quantitative objective to be reached by the financial allocations for development cooperation: 0.7% of GDP by 2015;
- » create an agency with good implementing capabilities, to unify all development cooperation initiatives, including emergencies, although recognising the role of Civil Protection as implementing partner;
- » recognise the role of civil society in international solidarity and cooperation policies, by making explicit that civil society actors from developing countries have direct access to Italian cooperation financial resources.

Further, ActionAid recommends that the Italian government should:

- » indicate the ODA/GDP ratio for the next four years in the next Economic and Financial Planning Document;
- » issue a budget listing all development cooperation initiatives;
- » plan financial payments to beneficiary countries on a five-year basis;
- » indicate the financial allocation forecast for sub-Saharan Africa and basic social services;

- » promote the assessment of the effectiveness of innovative financing methods for development cooperation;
- » promote the review of international criteria for ODA accounting, by excluding debt cancellation and other forms of “phantom aid”;
- » approve through the Council of Ministers a declaration of intent on policy coherence for development cooperation objectives;
- » guarantee that the quota of bilateral ODA for social services is more than that dedicated to technical assistance;
- » favour the purchase of goods and services from DCs, thus untying aid;
- » assess the possibility of increasing the quota of financial resources for GBS in Mozambique;
- » expand the GBS experiment to other countries, such as Tanzania and Uganda;
- » pilot experiences of direct budget support of local authorities through the United Nations Capital Development Fund to strengthen local autonomy in DCs;
- » favour the decentralised management of development interventions as one of the central elements of a reformed aid system;
- » analyse opportunities and risks of direct budget support for Italian development cooperation.

² Drafted by the Center for Global Development (CGD), the index attempts to measure, although in a limited manner, the coherence of donor’s development policies.

Chapter 1

Reasons for the crisis in Italian development cooperation: from international to provincial cooperation

This first section analyses the development of the Italian international cooperation system, highlighting how, since 1987, the Italian system has been characterised by institutionally innovative and pioneering experiences compared to other donor countries. This first phase was characterised by fixed-term laws regulating international cooperation. These were “pilot” laws that committed institutions to get together periodically to discuss new regulations to avoid a complete lack of legal discipline. In this period, the political world had to deal with new challenges and introduced a series of innovations/adjustments, which are all contained in Law 49 (dated 1987) on the discipline of development cooperation policies.

The 1987 law was supposed to provide a definitive institutional framework for Italian development cooperation, but five years later a number of elements were partially modified. Less than ten years later (1996), a complete review was already demanded. Institutional difficulties were exacerbated by the operational and quantitative crisis of Italian cooperation.

Since 2000, the national debate on a new legal discipline for cooperation has continued to raise issues proposed in 1996, although the international community of donors and developing countries has developed new approaches, to which Italy has unfortunately remained indifferent. Italian cooperation has not only become marginal in the challenge to combat global poverty, but could indirectly lead to the failure of these shared international strategies.

In 2007, the political world in Italy once again turned its attention to international aid and the reform of the cooperation system. However, instead of innovating, this time the same elements as proposed in 1996 are being put forward again. It would be preferable to avoid the philosophy of the old

approach, dividing the reform into two parts: initially aiming to clear up the system and only subsequently injecting new resources. **Investment is vital to improving the administration's absorptive capacities, but this can only occur together with a progressive and predictable increase in financial resources. Without the allocation of a critical mass of resources, there will never be tangible results justifying further investment.**

[A] The first laws on international cooperation

Law 1222 (dated 1971) was the first Italian law concerning cooperation with DCs, attempting to outline general regulations on the matter and setting up a dedicated structure for the purpose. The text concentrated on technical cooperation, limiting interventions to the transfer of know-how and technology. The strategic guidelines were drafted by the Interministerial Committee for Foreign Economic Planning (CIPE). In 1979, Law 38 created the Department for Development Cooperation (DIPCO), which had greater managerial autonomy and more financial resources than in the past. A Special Fund for Development Cooperation was also established for the implementation of bilateral cooperation initiatives. However, DIPCO failed in its attempts to plan interventions, and following the serious food crisis in sub-Saharan Africa at the time, the Radical Party pushed for the creation of the Italian Aid Fund (FAI) in 1985.

[B] The innovative experience of the Italian Aid Fund

On 18 March 1985, Law 73 was approved, setting up the Italian Aid Fund (IAF). This

was an extraordinary fund worth 1,900 billion Lire (current value 1.3 billion Euros), to be spent by an Under-Secretary for Foreign Affairs in 18 months. It was to be used – to quote the title of the law itself – for the “implementation of integrated multi-sector programmes in one or more under-developed areas characterised by endemic emergencies and high mortality rate” (art. 1). In truth, the law initially aimed at an extra budgetary allocation of 1,400 billion Lire “to save 3 million people threatened by famine” and the establishment of an Extraordinary Commissioner for three years with an independent technical staff. This law basically eliminated all clear reference to the impact on beneficiary populations, reduced the fund to 18 months, increased its financial allocation (by 500 billion Lire), and changed the proposed Commissioner, who was only responsible to the government, into an Under-Secretary. The IAF never coordinated with the DIPCO and, because of its fixed-term administrative structure, only managed to pay out half of the available funds to the 29 countries listed as “areas for intervention”.

[C] Law 49/87: the current law

On 26 February 1987, the “New Discipline of Italy's Cooperation with Developing Countries” law was approved, and is still in force. Law 49 states:

- » that development cooperation is “an integral part of Italian foreign policy”;
- » that the coordination of cooperation policies are ensured by the Interministerial Committee for Development Cooperation (CICS), which was subsequently disbanded in 1993 and merged into the Interministerial Committee for Economic Planning (CIPE). This wider-ranging mandate has marginalised discussions

- » on development cooperation;
- » that the Treasury is the Ministry responsible for the management of the contributions made to banks and development funds (the resources of the Ministry of the Economy, formerly the Treasury, currently constitute 60% of those provided in the budget for ODA);
- » the centralisation of administrative and technical functions;
- » the creation of an extra-budget Special Fund to finance donor interventions (ended in 1995);
- » the setting up of a Revolving Fund managed by a bank to administer aid loans;
- » the setting up of a commission for non-government organisations (NGOs) and a consultative committee, abolished in 1996;
- » the regulation of NGOs.

[D] The slowing down of reform discussion

Two decades have passed since its approval and law 49/87 continues almost by inertia to regulate the international cooperation sector. Removing the risk arising from the lack of any legislative discipline, law 49/87 has had a counter-productive effect because the urgent need to reform the legislative framework goes unheeded. In truth, the law has been modified bit by bit and not uniformly. Since 1994, while there was a lack of parliamentary interest on the issue, law 49/87 has been progressively stripped of various elements guaranteeing visibility and autonomy to international cooperation. After the initial changes, the aid system started to visibly malfunction: in 1994 and 1995, Italian ODA plummeted from \$3.5 billion to \$2 billion.

In 1996, point 29 of the centrist Ulivo Party's Manifesto stated that the only possible solution for Italian cooperation was “to separate the political element of cooperation activities from its planning and operational aspects”. The agency concept was thus created (see below), an innovative step for other donor countries, and this became a central element of the bill approved by the Senate, whose first signatory was the Hon. Stefano Boco.

The Boco bill aimed at separating “the political element from planning and operational aspects” by setting up an agency mandated to manage all bilateral interventions. Specifically, Article 1 introduced the quantitative objective of committing 0.7% GDP to overseas aid.

In addition to totally “untying” aid, Article 3 of the Boco bill included specific mention of the untying of food aid. According to Article 6, the planning of interventions had a three year timeline with the establishment of a Single Fund to implement all bilateral interventions. Articles 7 and 8 specified that the Ministry of Foreign Affairs should ensure coherence between international cooperation and foreign policy and set up a specific Under-Secretary for cooperation issues. Article 9 confirmed the interministerial Committee for Economic Planning, and Article 11 stated that parliamentary control fell under the existing two branches of Parliament.

The Boco bill got stuck in the Chamber of Deputies in December 2000. For the past seven years, there has not been enough political debate to implement any reform of development cooperation, which since then has plummeted into ever deeper crisis. The most significant evidence of the crisis is its financial records: the share of national budget allocated to ODA was never more than 0.20% of Italian GDP between 1994 and 2004, under both centre-left and

centre-right governments. In 1997, it was just 0.11% of GDP, with an 0.22% as a DAC average.

The Boco bill seems to have brought to an abrupt end a cycle where policy intercepted and brought innovative ideas into matters of international cooperation. This innovative/ reformist role in the debate on cooperation matters has thus passed to civil society. The question of the legislation on debt cancellation, pushed by the *Sdebitarsi* anti-debt campaign, is a case in point. At the same time as the paralysis of the Boco bill in parliament, Law 209 on debt cancellation was approved. Law 209 was a new element that put Italy in the vanguard among donor countries once again. Thanks to the application of this law, Italy had cancelled 5.9 billion Euros of bilateral credit in 30 countries (approximately 59% in Africa) by 2006 and had raised its levels of ODA.

[E] A new global pact against poverty ... unheeded in Italy

From 2000 to 2005, at a global level and especially in Europe, a new consensus emerged leading to the redefinition of development cooperation policy. In Italy, however, this new direction went unheeded: not only was there no debate on reform of the law, but the pleas made expressly to this country by the community of donors were ignored. Italy appears to have chosen isolation, deeming cooperation to be irrelevant.

The main events organised by the founding members of the *global pact against poverty* will be analysed below and the inertia of the Italian system highlighted:

- In September 2000, during the United Nations Millennium Summit, 189 heads of state and government signed a global



pact between rich and poor countries, unanimously approving the Millennium Declaration. The Declaration establishes eight objectives (Millennium Development Goals – MDGs) which form the basis for the planning of a more equal, safe and sustainable world by 2015. The Declaration is the first element in a global pact for development, binding donor and beneficiary countries to certain shared objectives and strategies. The Millennium Declaration encourages donors to solve the problem of debt in developing countries and quickly allocate 0.7% of their GDP to aid and 0.15% to less developed countries.

► In 2000, the review carried out by the Development Assistance Committee (DAC) highlighted that, to increase the quota of bilateral aid, Italian legislation on international cooperation must open up to increased decentralisation and guarantee an increase in personnel in the sector.

► In 2001, the members of the DAC committed themselves to not tying aid in least developed countries to the purchase of goods and services from the donor country – the so-called “untying of aid”. In the same year, the percentage of tied bilateral Italian aid was 92%.

► Until the 13th legislature (1996-2001), a single Under-Secretary was named for

cooperation. However, since 2001, this office has been shared by four Under-Secretaries, which is a real anomaly compared to other donors and has led to greater difficulties in coordination.

► In 2002, EU countries committed themselves to individually allocating 0.33% of their GDP to official development assistance, with the objective of collectively allocating 0.39% by 2006. In the Monterey conference on financing development, a global partnership was started between donor countries and developing countries. The final declaration combined the adoption of policies by DCs with the increased supply of aid by donor countries and a joint commitment to promote policies coherent with the development of poor countries.

► After two years of intense international debate on the new system of development cooperation, certain elements seem to have passed into the Italian system as well. The Economic-Financial Planning Document (DPEF) for 2003-2006 gave a strong signal, indicating a year by year progression in the ratio of Official Development Assistance (ODA) to GDP (0.20% in 2003; 0.23% in 2004; 0.27% in 2005 and 0.33% in 2006). However, this a commitment has never been fulfilled.

► In 2004, when Italy achieved the lowest rating among donor countries, allocating only 0.15% of GDP to aid,³ the DAC again assessed Italian cooperation. The new peer review by the DAC recommended:

- » the undertaking of responsibilities by the Italian government regarding the process of reforming the cooperation system;
- » greater strategic allocation of resources and better management of aid channels;
- » better cooperation at all levels between the Ministry of Foreign Affairs and the Ministry of the Economy and Finance;
- » improving planning, monitoring and assessment capacities in multilateral investments;
- » slimlining the structure and method of managing aid for greater efficiency;
- » creating a Deputy Minister for Development Cooperation;
- » specific planning of the steps to be taken to fulfil financial commitments concerning ODA;
- » the untying of aid;
- » the decentralisation of decision making.

³ This low percentage was due to the limited cancellation of debt in 2004. In the same year, the DAC warned Italy of the risk of being involved exclusively in the cancellation of debt without mobilising the resources required to sustain the level in DCs.

► In March 2005, facing the risk of a proliferation of uncoordinated interventions – which could potentially result from the quantitative increase of aid in order to progressively reach the 0.7% level – 162 countries signed the Paris Declaration on the effectiveness of aid. This constitutes the end point of the pathway begun during the Rome Conference on harmonisation in 2003. The signatory countries are bound to initiate a series of reforms in the management of development assistance, with the objective of maximising effectiveness and quality. The Declaration recognises the leadership of developing countries in the drafting of national development strategies – to which all interventions by donor countries must conform. DCs will thus be able to exercise their decision-making powers in the realisation phase of interventions, avoiding the creation of systems that are extraneous to the beneficiary country. The Paris Declaration aims at reciprocal trust between donor and beneficiary countries, thus overcoming the unilateral and contradictory conditions imposed by donor countries.

► In December 2005, the EU Council for General Affairs approved the EU

consensus on development cooperation (*European consensus*), which describes the “common vision” of development cooperation shared by member states and represents a guideline for national development cooperation policies towards “cooperation from Europe”, which includes:

- » achievement of 0.7% ODA/GDP by 2015, with the intermediate target of 0.51% by 2010;⁴
- » strategic priority for the MDGs;
- » coherence between development, immigration, trade and security policies;
- » focus on Least Developed Countries (LDCs);
- » identification of Africa as the privileged beneficiary: from now until 2015, Africa must be the beneficiary of half of all increases in the allocation of ODA;
- » reduction of transaction costs, also through the increase in budget support in developing countries;
- » regularisation of aid flow, to make it more predictable and less volatile;
- » untying of all aid, including food aid.

► In Italy, a Consolidation Act for reform – the Provera Law – was only presented for discussion in 2005, at the end of the

⁴ The quantitative objectives of 0.51% and 0.7% were proposed by the member states to the General Council in May 2005.

14th legislature (2001-2006). In spite of the changes that had occurred over the previous five years, the act re-proposed many elements of the Boco draft law, limiting its innovative aspects. The Provera law, contrary to the Boco draft law, did not make any reference at all to the financial objective of 0.7%, or to the untying of food aid.

► In the face of the lack of political proposals, ideas from civil society have multiplied. These are mainly ideas characterised by a high level of institutional innovation, capable of returning the model of Italian cooperation to a pioneering role compared to other donor countries.

► All the proposals from Italian civil society are based on a shared premise that recognises international developments over the last five years as the origin for a new development cooperation policy, separate from foreign policy, which heralds a sort of global welfare system. This interpretation leads at an institutional level to the request to nominate a ministerial figure dedicated exclusively to development cooperation, who is capable of discussing cooperation proposals with the Council of Ministers and comparing them to proposals made in other policy areas.

► In February 2006, on the eve of the

ActionAid proposals for the 2006 elections

ActionAid believes that the international fight against poverty is an emergency that needs to be dealt with in the short term, through long-term shared strategies, the drafting of a specific policy and the predisposition of dedicated public resources. On the eve of the political elections, ActionAid proposed some fundamental elements to change the Italian approach to the fight against poverty:

Basic principles

- » predispose a target law that guarantees a proper contribution by Italy to the fight against world poverty through specific policies that recognise the centrality of the Millennium Objectives and their achievement on the basis of the drafting of plans of action in the next five years;
- » reviewing the legislative discipline five years after its entry into force;
- » completely untying aid, including food aid;
- » only providing grants to least developed countries.

Millennium Objectives Fund

- » the setting up of a Millennium Objectives Fund with accounting and administrative autonomy, financed by the state coffers or specific taxes;
- » the centralisation of all resources (bilateral, multilateral, food aid, aid credit, development banks) in the Millennium Objectives Fund;
- » the payment of 7.5 billion Euros through the Millennium Objectives Fund in 2010, the only resources accounted as ODA.

Extraordinary Delegate for the fight against poverty

- » the appointment of an Extraordinary Delegate for the fight against poverty, with ministerial functions and powers of delegation from the Prime Minister's Office and the Ministries of the Economy, Foreign Affairs, Foreign Trade, Health, the Environment and Agriculture for all initiatives concerning the Millennium Objectives;
- » the Delegate would be responsible for the distribution of 7.5 billion Euros in aid by 2010;
- » the Delegate would draft a triennial plan of action and order the cancellation of debt.

Italian Millennium Objectives Agency

Setting up a "mission body" – the Italian Millennium Objectives Agency – which:

- » manages the Millennium Objectives Fund;
- » implements the objectives provided for the Delegate;
- » drafts a triennial plan of action with the Delegate, to be approved by the Council of Ministers. This is a binding means of coordination between ministries in which the financial requirements are indicated, together with the list of priority countries – exclusively LDCs – and the intermediate impact results. The Agency would privilege local partnerships, decentralise the management of interventions and be responsible for the triennial assessment of activities.

Operating methods

- » increase the workforce of the Agency, compared to the current structure of the Ministry of Foreign Affairs, to strengthen absorption capacity, keeping administrative costs under 5% of bilateral costs, in line with the European average;
- » present a homogeneous budget, providing a framework for all official development assistance;
- » give autonomy to the local offices of the body for the management and approval of a triennial budget (management decentralisation).

political elections, the two sides in the electoral battle appeared to begin to acknowledge part of the claims made by civil society. While the centre-right did not make any reference to international cooperation in its programme (some of its members simply made statements on planning), the electoral programme of the centre-left did contain a paragraph on international cooperation. This paragraph acknowledged that Italian development cooperation policies had become irrelevant in the international context and, to give some international credibility back to Italy, the centre-left was committed to:

- » appointing a strong leader for the new system of cooperation, a clearly defined political authority with full responsibility for all aspects of cooperation, circumscribing proposals and submitting them for approval by parliament;
- » ensuring that the new system of cooperation provides for the constitution of a separate body for the management of resources;
- » ensuring that the harmonisation of resources is guaranteed through a clear increase, even if modulated, bringing Italy closer to the other European countries, in order to achieve the 0.7% GDP objective;
- » considering the possibility of the unitary management of all funds available for cooperation, especially those used through the World Bank and the International Monetary Fund (IMF);
- » promoting and supporting equitable and transparent processes for the reduction and/or cancellation of foreign debt in developing countries, on the basis of Law 209/2000;
- » undertaking action in all contexts – EU and international – in order to create

the conditions for the introduction on a vast geographical scale of systems for the taxation of international financial transactions – according to the spirit of the so-called "Tobin Tax".⁵ This would be capable of discouraging financial speculation and obtaining resources in support of developing countries and financing programmes for the fight against AIDS and world hunger.

However, in the programme, certain terms remain ambiguous and leave scope for different interpretation. For example, in referring to "strong political authority", two different figures can be imagined: the appointment of a Minister for Development Cooperation or a Deputy Minister. Reference to a "separate body for the management of financial resources" leaves the question of total or partial management open. The statement concerning "unitary management" leaves open at least two options of reform: the centralisation of all financial resources for cooperation in a single "account" with single control, or alternatively the coordination of all accounts containing the resources. Lastly, in quantitative terms – the weak point of Italian cooperation in the last 13 years – "the clear increase, even if modulated, bringing Italy closer to the other European countries, in order to achieve the 0.7% GDP objective" is ambiguous: it could indicate either a willingness to achieve the 0.7% objective in five years of legislature, as indicated by Prime Minister Romano Prodi in his letter to the *Corriere della Sera* newspaper on 2 April 2006, or alignment with other European countries, reaching 0.51% in 2010.

Even with these limitations, the points made in the programme indicate the

willingness to re-enter cooperation in Europe; **Romano Prodi** himself has stated that "the first reference point is Europe and Italian cooperation must pursue synergies and integration with European cooperation".⁶

[F] The first results: few resources and little institutional innovation

Once in office, the Prodi government nominated a Deputy Minister of Foreign Affairs assigned specifically to development cooperation – more than an Under-Secretary in practice but not a Minister with the right to sit in the Council of Ministers. The DAC 2004 recommendation was thus acknowledged. The Deputy Minister for Development Cooperation is also responsible for sub-Saharan Africa, but cannot participate as the deputy of the Minister of Foreign Affairs in the Interministerial Committee for Economic Planning (CIPE). This is an incomprehensible omission, given that the financial resources for development cooperation represent the largest portion (33%) of the Ministry of Foreign Affairs expenditure. The coordination of development cooperation policy between the various offices involved in development cooperation is the responsibility of the CIPE, but in the last few years, the absence of a figure dedicated to development cooperation within the CIPE has meant that the committee has not dealt with questions concerning the fight against poverty since 2002.

Resources

Since 1 January 2007, Italian development cooperation policy has officially fallen outside Europe, as the European objective of 0.33% was not reached. The only other

⁵ Tobin Taxes are simple sales taxes on currency trades across borders pioneered by Nobel laureate economist James Tobin.

⁶ *Corriere della Sera*, 2 April 2006.

European country to fail in this objective was Portugal. In the Chamber of Deputies session on 18 October 2006, the Deputy Minister Patrizia Sentinelli mentioned 0.25%-0.26% for 2006 – 0.19% net of debt cancellation – compared to 0.29% in 2005.⁷ The official data published in April 2007 is even lower: ODA/GDP 0.20% - 0.11% net of debt cancellation. Unfortunately, the 2007 budget law did not lay down the foundations for a safe re-entry of Italian cooperation into Europe by the end of the legislature, given that the law did not allocate sufficient resources to pay out 7.5 billion Euros (0.51% ODA/GDP) by 2010. In a January 2007 document sent by Italy to the EC on the future direction of cooperation, the Ministry of Foreign Affairs believes it will only be possible to reach 0.33% in 2008.

The budget law allocates approximately 649 million Euros for Law 49/87 – about 597 million Euros net of “linear cuts”⁸ – an increase of 57% compared to the current budget. However, according to a statement made by the Under-Secretary to the Treasury Hon. Cento, this includes the simultaneous reduction of about 70 million Euros for Italian participation in development banks and funds, with contributions from the Ministry of the Economy and, in particular, does not provide for any significant increase in the triennium. Examination of the State Budget indicates that the resources allocated for cooperation in 2007 will be about 1.3 billion Euros – about 0.11% ODA/GDP.

Paragraph 1310 of the 2007 budget law also modifies Article 5 of Law 209 (debt

cancellation), which provides for the partial or total cancellation of debts from countries affected by disasters or humanitarian crises. This modification further broadens the scope of application of Article 5, going beyond emergencies. In fact, debts may also be cancelled or unilaterally converted, not only in the case of humanitarian crises but also to finance “development” projects. The new Article 5 opens up new possibilities for cancellation and conversion, thus avoiding the drastic reduction in the volume of Italian ODA. Estimates from the Ministry of the Economy indicate that debts that can be cancelled could reach 1.5 billion Euros, a significant amount (0.11% of the GDP). According to experts from the Ministry of the Economy, this could be concentrated on countries in the Mediterranean basin.

Aid reform

On 12 January 2007, the Council of Ministers presented a delegating law for the reform of the regulations governing development cooperation, authorising the government to introduce one or more decrees over the subsequent 24 months implementing the principles of the delegating law. This legislative instrument enables the reform of the new cooperation discipline to be maintained, with the possibility of presenting new implementing decrees within one year. The contents of the draft law indicate circumscribed institutional innovation, which re-interprets the existing relations between offices rather than radically changing them.

The delegating law indicates, among other things:

- » that international cooperation and solidarity policy is still an “integral” part of Italian foreign policy;
- » that the unitary nature of cooperation initiatives is the responsibility of the Minister of Foreign Affairs;

- » the need to guarantee coherence with the principles of the DAC;
- » the need to privilege the use of goods and services in areas in which the interventions are realised, thus completely untying aid;
- » the recognition of the role of national and local people involved in cooperation;
- » that the allocations for cooperation must not be able to be used for operations of a military nature;
- » the political responsibility is with the Minister of Foreign Affairs, who establishes the aims of interventions, in consultation with civil society;
- » the need to regulate emergency humanitarian interventions immediately following those aimed at enabling the protection of the integrity of the lives of those affected, through the coordination of the regulations in force, saving the competences of the Department for Civil Protection;
- » the Ministry of the Economy retains competence on matters concerning participation of development banks and funds, together and in coordination with the Ministry of Foreign Affairs;
- » the creation of a public agency for implementing the aims of the interventions in question.

The Agency in question:

- » will implement cooperation policy;
- » will be chaired by a director, appointed by the Council of Ministers, supported by a steering committee;
- » will be active in the collection of funds from private subjects;
- » will have a “Single Fund” at its disposal, containing the financial resources for official development assistance registered in the state budget, excluding those for development banks and funds, which will remain in the Ministry of the Economy’s budget. In

truth, the “Single Fund” is merely a fund for intercepting the Law 49/87 resources, those of the Ministry of the Environment and those allocated for food aid and managed by the agency for payments to agriculture (AGEA), with the possibility of adding others. Aid credit is excluded from the fund, and its extra-budget management remains the responsibility of the rotating fund. Briefly, due to the lack of innovation, the Single Fund is no more than a mere return to the old “special fund” initially provided by Law 49/87;

- » will partly absorb personnel of the Directorate-General for Development Cooperation;
- » will be a public body, and thus committed towards achieving public objectives, subject to the regime of administrative law which, following the latest reforms, provides for the joint existence with private law regulations. The agency will thus have regulatory and financial autonomy.

The synthetic nature of the delegating law leaves some relevant questions open, which have been dealt with in detail in the various draft laws deposited in parliament. Comparing the contents of this law with the draft reform laws of previous legislatures highlights the strengthened role of the Ministry of Foreign Affairs towards both the agency and other ministries involved, especially the Ministry of the Economy. The Single Fund has fewer resources than those provided by the draft Boco law, as it does not include loaned resources. On the one hand, the Agency proposed in 2007 has more powers of coordination than ten years previously, as it ensures coherence with the purpose and aims of cooperation initiatives – including those by local bodies. On the other hand, it has less weight during emergencies than proposed by the Boco bill, sharing management responsibilities with the Department of Civil Protection.

It is also possible to assess the direction given to the reform by the delegating law on the basis of the orientation suggested to Italy by the DAC and *European consensus*.

The DAC has asked the Italian government to take a proactive role in the reform process, outlined in the delegating law, in which the executive undertakes full responsibility. The delegating law also guarantees greater certainty and speed in the reform – 24 months – avoiding the risk of getting bogged down in parliament, as occurred for the Boco proposal during the 13th legislature.

The delegating law respects, indeed exceeds, the limits set down by the DAC on the untying of aid. The institutional involvement of civil society and anchoring of development cooperation policy to shared international development paradigms are aspects merely touched upon in the law. Civil society will be consulted during the planning phase and reference is made only to general international development strategies, without mentioning the Millennium Objectives. Lastly, as regards the DAC recommendations, the delegating law ignores certain elements recommended, such as the appointment of a delegated Deputy Minister, the greater predictability of the financial resources allocated for cooperation and decentralisation.

As regards conformity with the prescriptions indicated in the Consensus, the delegating law does not untie the knot of the coherence of foreign relations policies with development cooperation policies, does not give centrality to partnerships with developing countries and does not mention the objective of 0.7% of the GDP – all crucial elements for cooperation and strategy on a European level. The dispositions of the delegating law on the untying of aid are more positive and in line with European orientation.

As already mentioned, despite renewed activity in the context of cooperation, there are two limits to this first year of legislature as regards development cooperation policies:

- 1) the lack of a plan for coming into line with international standards and re-entering European parameters;
- 2) the re-proposition of management solutions from ten years ago, ignoring other questions that have emerged since then, first and foremost that of coherence. The history of cooperation shows that, without the simultaneous presence of these two elements, it is probable that the cooperation system will stall or not even begin.

⁷ Speech by Deputy Minister Patrizia Sentinelli, Foreign Commission, Chamber of Deputies, http://www.camera.it/_dati/lavori/stencomm/03/audiz2/2006/1018/s000r.htm

⁸ Linear cuts are intended as the proportional reduction of allocations to all items registered in table C of the budget law, so as to enable a pre-established total saving to be achieved. It is not clear whether the current linear cuts apply to law 49/87, and the 2007 Provisional Report indicates allocations to Law 49 of 650 million Euros.

The mini-reform of European assistance

The new EU budget for 2007-2010 is subdivided by action "instruments". The allocations for development cooperation are part of the Development Cooperation instrument (DCI). The DCI simplifies and increases the unitary nature of management as it replaces more than 15 balance items in the old EU system, which were dedicated to development cooperation in Asia and Latin America, grouping them together into a sort of "unified fund". Assistance to Africa is excluded from the EU budget, and thus from the DCI, and is covered by the European Development Fund. After fierce debate, it has been decided that the DCI will operate on the basis of the strategic lines indicated in the European Consensus for development. Furthermore, 20% of the allocations are pre-allocated for financing interventions in support of health and education.

The mini-reforms in the Netherlands, Sweden and Denmark

Since 2003, Holland has identified 36 priority countries for its assistance, which is concentrated on two or three sectors. An office has been created within the Ministry of Foreign Affairs to assess the coherence of Dutch foreign relations with respect to the guidelines of cooperation policy. Lastly, the ministerial personnel dedicated to development cooperation has been increased and greater financial autonomy given to embassies, which manage 19% of bilateral aid, in the approval and local management of projects.

In 2003, the Swedish parliament approved the multi-annual policy guidelines for global development aimed at ensuring the maximum coherence between the foreign relations of the country in question and priorities in development cooperation. Furthermore, an independent assessment body is being set up and 15 offices in Africa are being decentralised. During the same period, Danish cooperation has given managerial autonomy to embassies in 16 African countries.

Country	Minister in the Council of Ministers	Agency	Decentralisation	Personnel	Individual management volume of ODA: millions/person	% local personnel
Austria	No	Yes	No	125	12,6	8,8
Belgium	Yes	Yes	Local tender competitions	270	7,3	3,3
Denmark	Yes	No	Yes	2324	0,9	41,9
Finland	Yes	No	Local assessment	255	3,5	8,6
France	Yes	Several ministries + agencies	Local project approval	2070	4,8	0
Germany	Yes	Yes	No	6550	2,9	51,2
Ireland	No	No	Local project approval	409	1,7	61,2
Italy	No	No	Local monitoring	448	11,3	0
Holland	Yes	Yes	High, even for budget	1365	3,7	23,8
Portugal	No	Più ministeri e agenzie	Low	171	2,2	0
Spain	Yes	Yes	Local planning	1159	2,6	40,2
Sweden	Yes	Yes	High, even for budget	937	3,6	9,4
United Kingdom	Yes	Autonomous Agency	High, even for budget	2938	3,6	31,3

Facts and promises

Points in the EU Programme	Action by the Prodi Government	Grade
Strong powers of delegation, clearly defined political authority with full responsibility for all aspects of cooperation, which circumscribes guidelines and submits them for approval by Parliament.	The government has appointed a Deputy Minister with powers of delegation for development cooperation, who does not sit in the Council of Ministers and is not part of the CIPE. The division of competences in the current legislation does not allow anyone to have responsibility for all aspects of cooperation. In particular, the guidelines with respect to international financial institutions are established by the Ministry of Finance, which operates "in agreement and coordination" with the Ministry of Foreign Affairs. The delegating law makes the Minister of Foreign Affairs responsible for the unitary nature of actions, but does not create a delegated Deputy Minister.	Adequate
The setting up of a separate body in charge of the management of resources.	The delegating law provides for the setting up of an agency with the financial resources of law 49/87 and those destined to the Ministry of the Environment and AGEA at its disposal, in addition to possible private donations.	Inadequate
There should be a harmonisation of resources with a clear if modulated increase, bringing Italy closer to other European countries, in order to progressively achieve the 0.7% GDP objective.	The 2007-2011 Economic Financial Planning Document DPEF does not make any reference to a progressive increase of resources for development cooperation in order to achieve the European objective of 0.51% GDP (about 7.5 billion Euros) by 2010. The 2007 budget law has allocated 649 million Euros on the basis of law 49/87 (+275 million compared to the legislation in force). There will be no substantial increase in resources in the triennium. According to statements by the Under-Secretary to the Treasury Hon. Cento, total financial availability for Italian participation in development banks and funds will be reduced by about 70 million Euros compared to the previous period.	Inadequate
The possibility of the unitary management of all funds available for cooperation, especially those used through the World Bank and IMF to be considered.	The 2007 budget has forced the Ministry of the Environment to agree with the Ministry of Foreign Affairs on the use of financial resources for cooperation initiatives registered in its budget. The delegating law provides for a "Single Fund", which in truth can only use resources registered in the state budget, excluding those of the Ministry of the Economy and the rotational fund. The question of the unitary nature of management is partially dealt with: the competences of the Ministry of the Economy are maintained but exercised "in agreement and coordination" with the Ministry of Foreign Affairs, prefiguring a system where the Ministry of Foreign Affairs must give its agreement before the Ministry of the Economy can pay out the funds.	Inadequate
On the basis of law 209/2000 (the law on debt cancellation), equitable and transparent processes are promoted and supported for the reduction and/or cancellation of foreign debt in developing countries.	Modification of Article 5 of Law 209/00 broadening its scope of application beyond emergencies and disasters. Debts may be cancelled or converted unilaterally, even to finance development initiatives. No position has been taken officially to support more equitable processes for debt cancellation, for example announcing the cancellation of illegitimate debt.	Barely adequate
Action should be taken in all contexts – EU and international – in order to create the conditions for the introduction of taxation systems for international financial transactions – such as the "Tobin Tax" – aimed at discouraging financial speculation and obtaining resources to support developing countries.	Italy has participated as an observer in the last two meetings of the group of 43 countries aiming to promote forms of global taxation to finance development, but as yet Italy does not seem orientated towards the promotion of a sort of Tobin Tax (see footnote 5). During the discussions for the budget, certain amendments presented – and rejected – by majority groups were aimed at the introduction of a tax on transactions in foreign currency in order to finance development initiatives in Italy and in developing countries.	Inadequate

The first year of legislature according to “politicians”*

|| * The report is a collation of the interviews given by politicians and members of the government interviewed by ActionAid between January and March 2007. The list of the politicians interviewed is in the bibliography.

Romano Prodi, Prime Minister

“In this first year of government, we have adopted certain measures which will enable us to invert the decline which had started. I would like to make three examples: with the 2007 Budget Law, we have doubled the donation resources available (from 382 to 650 million Euros); we are honouring our commitments undertaken towards international organisations, for example, paying off the 2005-2007 arrears to the Global Fund for pandemics (280 million Euros); and we have presented the guidelines for cooperation reform to Parliament.”

Patrizia Sentinelli, delegated Deputy Minister for Development Cooperation

“The reform project comes twenty years after the approval Law 49 and takes into account the profound changes that have occurred in both the regulatory framework and the reality of international cooperation. Very briefly, the basic idea is that of greater coherence of aid policies thanks to the unitary nature of the policy guidelines of the Ministry of Foreign Affairs, a simplification of procedures and the allocation of funds thanks to the setting up of an Agency for this purpose and the recognition of the new actors involved in cooperation, including NGOs, the protagonists of decentralised cooperation, equitable and solid market movement and the migrant community.”

Tommaso Padoa-Schioppa, Minister of the Economy and Finance

“There is a need for the coordinated and efficient use of the resources of international institutions and to eliminate the duplication and overlapping of competences, saving administrative expenses and pursuing the Millennium Objectives. Criticism of the effectiveness of aid, the coherence of programmes and the weight of administrative budgets is sometimes unjustified.”

Francesco Rutelli, Deputy Prime Minister

“We want to give legislative and financial support to volunteer work and international cooperation. From the legislative viewpoint, we would like a law on cooperation that modifies the current Law 49. As regards financing, these will, out of necessity, be maintained and then progressively increased.”

Enrico Letta, Under Secretary to the Prime Minister's Office

“A major step forward has, however, been made towards political coordination by this government with the appointment of an ad hoc Deputy Minister. We have also attempted to re-establish fruitful working relations with NGOs. Although there are problems concerning a difficult budget, we have dedicated over 600 million Euros to development cooperation and respected the commitments undertaken and not fulfilled by the previous government as regards the Global Fund for the fight against AIDS, tuberculosis and malaria. For example, a new initiative, not only Italian, concerns the supply of vaccines to poorer populations.”

Alessandro Forlani, Foreign Affairs Commission of the Chamber of Deputies, Union of Christian Democrats (UDC)

“I would have preferred a parliamentary examination of the detailed regulations and comparison with it rather than the delegating law chosen by the government. Another controversial point is that of the agency for the implementation of cooperation policies. We would like to avoid a new wagon train, with the duplication of expenses, but are not prejudiced against this. Convergence on the commitment to ensure the unitary nature of cooperation policy with the responsibilities of the Ministry of Foreign Affairs, the exclusion of military activities from those that receive allocations and favouring the use of goods and services produced in the countries in which interventions are carried out.”

Alfredo Mantica, Foreign Affairs Commission of the Senate, Alleanza Nazionale (AN)

“The proposal for reform is not acceptable, unless one is convinced that cooperation must operate like civil protection, because that is what the government's delegating law proposal is.”

Francesco Martone, Foreign Affairs Commission of the Senate, Rifondazione Comunista - Sinistra Europea (RC-SE)

“The positive elements are:

- Reform of cooperation: a delegating law has been approved which, although it has major limitations, is a significant step forward, providing for the creation of an agency, the identification of a strong political figure for coordination and direction (the Deputy Minister), a single fund to enable the coherent management of the various contributions to development cooperation and a sort of untying of aid.
 - The promise to finance the arrears of the Global Fund for the fight against the great pandemics, and, independently of the latest OECD-DAC data, which pegs Italian ODA at around 0.20% - an increase in table C of the Ministry Foreign Affairs of cooperation funds of about 300 million Euros.
 - A strong message concerning the detachment of civil cooperation from military cooperation, culminating in the decision to remove civilians involved in cooperation from the PRT in Herat (Afghanistan).
 - The commitment to shed light on certain recent cases of “bad cooperation”, such as Advance Post 55 in Darfur and other projects, including a hospital in Albania.
 - The commitment to represent the Italian government in international institutional circles at a higher level, from the OECD-DAC, to the decision to adhere to the Rio group for the implementation of innovative systems to finance development.
- Certainly, the missed opportunities include not fulfilling the commitments undertaken for a substantial increase of the quota of the GDP to be allocated to cooperation, and the decision to use the delegating law to give some momentum to the process of parliamentary discussion on reform, where the opposite would have been hoped for.”

Patrizia Paoletti Tangheroni, Foreign Affairs Commission of the Chamber of Deputies, Forza Italia (FI)

“There should be no delegating law on international cooperation. They asked for delegation... this is unacceptable. A white paper cannot be a substitute for foreign policy. There are three weak points in Italian cooperation, one strong point and two potentially strong points. It is serious that Law 49 dates back to 1987, one geological era ago. Planning is done annually, which is folly, given that the meetings of donors to countries occur on a five-yearly basis. The strong point is that our colonial past is pretty much non-existent and we are seen as a touch above other countries, even by Libya and Somalia.”

Sabina Siniscalchi, Foreign Affairs Commission of the Chamber of Deputies, Rifondazione Comunista - Sinistra Europea (RC-SE)

“A major reason to be proud is the fact that, for the first time in the history of this country, a Deputy Minister for Cooperation has been appointed. This is a political act of great significance, which gives great hope for the reform of the law and the increase of aid. I think that we can be proud of the attention that both the government and parliament have dedicated to this matter. In particular, the budget provides for a substantial increase in donor aid from this country. The missed opportunities concern the entirety of the allocations, which are still insufficient to respect the commitments undertaken and to contribute to the achievement of the Millennium Objectives.”

Valdo Spini, Foreign Affairs Commission of the Chamber of Deputies, Ulivo

“I am satisfied with the approval of the delegating law to the government for the reform of the discipline of cooperation by Italy with developing countries, which provides for the implementation of the reform within 24 months. I also agree on the attribution of a specific and strong proxy to the Minister, or the Deputy Minister competent for these matters. The modification of Article 5 of Law 209 dated 25 July 2000, ‘Measures for the reduction of foreign debt in low income countries and those with heavy debts’, which provides for the reduction or cancellation of aid credit agreed by Italy for countries affected by natural disasters or serious humanitarian crises, is a positive element.”

Vasco Errani, Chairman of the State-Regions conference

“The part concerning the role of local communities and governments must be improved. Firstly, we have proposed that promoting both the responsibility and active participation of the national community in development cooperation policies, improving the role of regional councils, autonomous provinces and local authorities, should be explicitly indicated in the objectives of the law. Basically, due acknowledgement must be made to the new phenomenon that has developed over the last few years: the active participation of hundreds of local communities and local institutions in solidarity and development initiatives. I think this will increasingly be cooperation of the future.”

Luciano Vecchi, Foreign Relations Head, Democratici di Sinistra:

“The main point for us is the idea that cooperation policies between people and countries should be the basis of international relations and Italy's international commitments.”

Lapo Pistelli, Foreign Relations Head, Margherita

“Once the reform has been carried out and the agency set up, a significant part of Italian commitment in terms of GDP for ODA will have been recovered. In parallel with the expanding role of Italy in international relations, Italian involvement in ODA should also be strengthened. What are the strengths and weaknesses of the reform? Strengths: the agency; the Ministry of Foreign Affairs sticking to strong policy guidelines; the possibility of synergy between public and private subjects. Weakness: the unclear (for now) solution to the responsibilities of the Ministry of Foreign Affairs and the Treasury.”

Walter Veltroni, Mayor of Rome

“The weakness is in the economic entity of our investments. However, I believe that the cooperation sector must make an effort to move away from the system of managers. International cooperation with poor countries must become a ‘broad’ theme capable of entering into daily political and social debate. If this should happen, the adequate finances would also become ‘the norm’ in the commitments of a civil country.”

Recommendations

On the eve of the 2006 political elections, ActionAid proposed some fundamental elements for Italian action in the fight against poverty in the world that had gone unheeded. ActionAid hoped that parliamentary discussion would strengthen the institutional innovation of the delegating law presented by the government and deal with certain aspects often mentioned by the international community, such as the coherence of policies, the appointment of a delegated Deputy Minister, increasing the predictability of financial resources allocated for cooperation and decentralisation.

In discussing the reform of the discipline of development cooperation, ActionAid recommends that the Italian parliament:

- » acknowledge the centrality of the fight against poverty and the Millennium Objectives;
- » ensure coherence between all Italy's foreign relations policies with that of international solidarity – not only cooperation policies – acknowledging the centrality of the Council of Ministers;
- » ensure the unitary nature and coordination of initiatives, introducing the reference point of a government figure exclusively dedicated to development cooperation policy;
- » affirm the centrality of the general state fiscal system for the realisation of a cooperation policy;
- » create a Single Fund for the unitary management of all Italian official development assistance, which includes the funds currently available to the Ministry of the Economy and those of the rotational fund;
- » clearly indicate the quantitative objective on which the financial resources available for development cooperation must be based, in other words allocating 0.7% of the GDP to aid by 2015;
- » create an agency with strong capacities for implementation, leading to the unitary nature of all cooperation initiatives, including emergency initiatives, although acknowledging the possibility of using civil protection funds;
- » acknowledge the role of civil society in solidarity and international cooperation policies, and explicitly refer to the possibility of those involved in cooperation in the Southern hemisphere having direct access to Italian cooperation resources.

Chapter 2

The Italian way: non-european cooperation

The management structure of Italian cooperation today is no longer capable of making a significant and effective contribution to actions agreed internationally in order to definitively consign poverty to history. Italian isolation has had repercussions on global efforts: Italy is the ninth largest economy in the world and its lack of effort risks derailing the efforts being made by the international community. Reforms that have been postponed for too long and a lack of political interest are also reasons why Italian development cooperation has tended to ignore the European guidelines and become isolated, indirectly blocking the development objectives shared by the international community. It would appear to be a paradox that the new international cooperation scenario has taken Italy by surprise, as it has participated in and subscribed at various levels to all the commitments leading to both the new global pact for the fight against poverty and a common European policy of development cooperation.

This chapter aims to assess the extent to which Italian cooperation falls in line with the common European policy on this matter. Analysis of the commitments undertaken and comparison of European performance shows that, in addition to having few innovative elements, Italian cooperation is excluded from Europe, and, for more than five years has required a strategy to re-enter Europe.

The future scenario is worrying: the extreme incoherence of Italian cooperation means that Europe may not respect some of the commitments undertaken in proposing itself as a global reference point for development cooperation. The example of the financial resources allocated to official development assistance should be a lesson to all. In 2010, if Italy is still at the same level as the last five years – 4 billion Euros dedicated to development annually instead of the 9 billion

Euros that were promised – Europe will also fail in the collective European quantitative objective: 0.56% of the GDP to aid.

To avoid this risk of jeopardising common objectives, the EC sends to all member states a list of all commitments undertaken in development cooperation each year, asking them to indicate the achievement or not of strategies for the future. The replies provided by the member states are grouped together in the European Monterey Report, an annual publication that provides a summary of what cooperation means in Europe.

Common objectives of European cooperation:

- » allocate 0.33% of the GDP to Official development assistance (ODA) in 2006 and, with a progressive increase, achieve the intermediate objective of 0.51% in 2010, to then reach 0.7% in 2015 (European Council Conclusions, March 2002, May 2005);
- » assess the possibility of introducing innovative mechanisms to increase the financial resources available in a sustainable and predictable manner for development cooperation (European Council Conclusions, May 2005);
- » ensure more stable and predictable methods of aid, also through the allocation of multi-annual resources to be paid out on the basis of the performance of the beneficiary (European Consensus);
- » allocate between 0.15% and 0.20% of GDP to LDCs by 2010 (European Consensus);
- » allocate at least 50% of the increase in ODA until 2010 to sub-Saharan Africa (European Council Conclusions, May 2005);
- » fully support the initiative aimed at solving the question of debt in Heavily Indebted Poor Countries – HIPC

- (European Consensus);
- » full financial support of the initiative for solving multilateral debt (Multilateral debt relief initiative – MDRI) financing the deficit generated by the non-receipt of payments from the resources of the World Bank and African Bank (European Consensus);
- » promote the coordination and complementary nature of African donors through the rafting of multi-annual country strategies, based on the requirements and choices of the country in question, using common methods of implementation (European Consensus);
- » increasing efforts to prevent natural disasters (European Council Conclusions, May 2005);
- » make progress in “untying” aid;
- » protect common assets, assessing how to finance them (European Council Conclusions, May 2005).

From the information made available during the preparation of the EC communiqué on the “state of progress of the European Union with respect to Monterey”, it is obvious Italy is some way from respecting the European objectives.

Quantity of aid: inadequate

Italy was the only European country together with Portugal not to respect the objective of 0.33% GDP spent on development in 2006. In fact, the allocation for aid was 0.20% of the GDP, but 0.11% net of debts. Italy hopes to reach 0.33% only in 2008, with the intention of reaching 0.51% in 2010 and 0.7% in 2015. This country seems to have accepted without reserve the new quantities of aid indicated a year and a half ago. In May 2005, together with Germany, Italy bound the achievement of 0.7% to the recovery of the national economy, in other words bringing the deficit down to less than 3%. On close examination, there was no

reason for reserve in 2005: as of 2007, the deficit/GDP ratio will be below 3%, and it is especially important to consider that 0.7% is not only an international obligation, but also a point for which the government has received a popular mandate. Having confirmed the objective of 0.51%, the path towards its effective achievement is more dubious: between 2008 and 2010, Italian cooperation should pay out and manage not 4.5 billion Euros but 7.5 billion.

Innovative mechanisms to find new resources for development: adequate

Among the innovative mechanisms for obtaining additional resources for the fight against poverty, Italy is participating in:

- International Finance Facility for Immunization (IFF-Im) – a mechanism that issues shares on the international financial market, guaranteed by donors to finance ODA, and
- Advanced Market Commitments (AMC) – a mechanism that should provide an incentive for research into vaccines through the commitment to purchase a fixed number of doses once the vaccine has been tested and registered.⁹

 The amounts of money available to the two mechanisms are too low to enable Italian ODA to reach 0.51% of Italian aid, representing 50 million Euros annually on average for twenty years. Italy has also shown a willingness to participate in other similar initiatives, such as the Tobin Tax and the lottery to finance development cooperation initiatives.

More stable and predictable aid: inadequate

According to the Ministry of Foreign Affairs, the quantitative increase in aid will be channelled through technical assistance

⁹ During the pilot phase, AMC concentrates on pneumococcus - a common bacterial cause of ear infections, pneumonia, sepsis and meningitis.

initiatives and aid to multilateral thematic programmes, for example, the Global Fund for the fight against AIDS, tuberculosis and malaria. The “project aid” method is critically assessed in the debate on the effectiveness of aid, as it determines the proliferation of initiatives that are difficult to coordinate. Directing the planned increase in aid mainly through projects would lead to congestion in the current administrative structure of Italian cooperation, exponentially increasing the approval procedures. The annual outgoing payments are almost 60 million Euros in arrears to NGOs alone over the last five years. Furthermore, the focus on technical assistance ignores the concerns expressed by the DAC on this form of aid: excessive expatriate costs, marginalisation of local capabilities already present and no assessment of effectiveness. Lastly, merely participating in global programmes does not ensure that the resources promised will be paid out in a predictable manner: Italian contributions to the Global Fund have already been postponed twice, in 2004 and 2006.

Least Developed Countries: inadequate

In the information made available, Italy declares simply that it already allocates 0.15% of its GDP to LDCs. According to the DAC data, it only allocates half of this (0.08%), compared to a European average of 0.11%.

Sub-Saharan Africa: inadequate

In 2006, the overall decrease in ODA consequently reduced aid to sub-Saharan Africa. In 2005, a year in which aid doubled, the increase was of particular benefit to the Middle East: +900 million Euros compared to the additional 594 million dollars¹⁰ for sub-Saharan Africa.

¹⁰ These are financial resources that also include debt cancellation and are considered as forms of “phantom aid” (see box) (ed.).

Italian aid as seen by Africa

The image of Italian cooperation that African governments have is of a system that is “not very effective”. According to the results of the 2004 survey by the consultancy firm Development Finance International,^{*} Italy is one of the donors that does not in general financially support the development priorities indicated by the beneficiary country, focusing more on its own priorities. Italian aid loans are paid out at unfavourable rates; the interventions are not very flexible and highly unpredictable, in part because of the amount of conditions to be satisfied before the payments are made. Lastly, again according to African governments, the procedures are the main cause of excessive delays in payment. In the eyes of African governments, Italian cooperation is as inefficient as Austrian and Saudi cooperation.

^{*} Development Finance International, *The effectiveness of aid to Africa since the HIPC initiative*, August 2004.

Debt: inadequate

As regards the question of debt, Italy had guaranteed full financial support of the initiative for the cancellation of multilateral debt (Multilateral Debt Relief Initiative – MDRI). In truth, financial participation in the initiative, of a four-year duration, is only guaranteed until 2008. Italy has stated to the EC that the Ministry of the Economy will shortly present a law to guarantee full Italian participation. It is not simply a question of extending participation but making it more suitable to the financial needs of the initiative. The December 2005 budget law established the Italian contribution for 2006 as 30 million Euros, which will

then be reduced to only 4 million Euros in 2008. In 2006, the Italian coalition against poverty (Gcap) deemed that Italian financial allocations were inadequate and asked that the government pledge to finance the World Bank MDRI with a quota equal to the Italian contribution to the World Bank (3.5%) – in other words allocating at least 35 million Euros per year over the next 40 years.

Coordination and complementarity: inadequate

Italy is only involved in joint planning with two countries – Ethiopia and Somalia – while European joint planning involves 13 countries. Italy states that it has filled a role of primary importance in coordinating the actions of other European partners on the question of water in Ethiopia. There is a willingness to be actively involved in European cooperation, expanding coordination to other beneficiary countries.

Disaster prevention: inadequate

In the replies sent to the EC, Italian cooperation states that it does not deal with disaster prevention, merely intervening in the post-emergency phase, ignoring the fact that one Euro invested in prevention saves 4 to 10 Euros during the intervention phase.¹¹

Further untying of aid: barely adequate

Italian cooperation has acknowledged to the EC that it did not make any progress on the matter of untying aid during 2006 and refers to the article on untying aid contained in the delegating law on reform in order to deal with the matter. If approved, the delegating law will enable significant steps to be made towards the complete untying of aid from the purchasing of Italian goods.

Protecting common assets: adequate

Italy has expressed its interest in the International Finance Facility for Immunization (IFF-Im) and indicated it as the most suitable means to finance the protection of health. At the same time, it has stated it is interested in exploring the potential of the Tobin Tax or a global lottery, leaving the choice of financing to the people, while it has rejected the idea of global premium bonds for development. It should be pointed out that the UN task force for the protection of common assets has clearly stated that the financing of common assets must be separate from and additional to official development assistance. Italy does not appear to guarantee this distinction between financing for ODA and that for common assets. The IFF-Im is indicated as the mechanism to guarantee both greater ODA and financing for initiatives for the protection of common assets.

This summary indicates the more critical aspects of Italian aid at the beginning of 2007 where intervention is needed – in terms of quantity, predictability, geographical and sectoral division – to bring Italian cooperation in line with other European countries. The next section of the report compares Italian cooperation with European cooperation from 2000, the year in which the new global pact for the fight against poverty was started, attempting to clarify whether the modest Italian results in 2006 were due to chance or a decline that has been underway for some time.

The quantity of aid: never at European levels

In 2000, there was already a significant gap in the ratio between Italian ODA/GDP and the average in other members of the EU, which will be difficult to overcome in the short term. The commitment undertaken

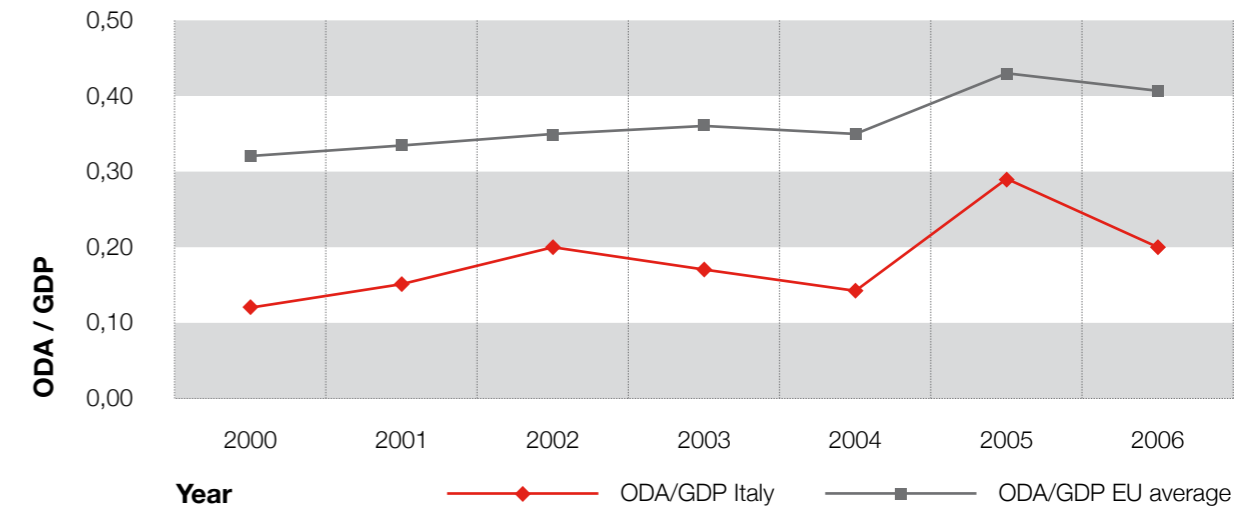
in Barcelona in 2002 – to reach 0.33% by 2006 – is an intermediate objective, which at a European level indicates a limited quantitative goal: the European average was already 0.35% in 2002. In a sense, the commitment undertaken in Barcelona is an attempt to limit the gap between cooperation in the member states, indicating a sort of minimum level, establishing four years as the time for coming into line.

For Italy, the programme for coming into line by 2006 is contained in the 2003-2006 Economic and Financial Planning Document (DPEF), which provides for 0.19-0.20% to be achieved in 2003; 0.23-0.24% in 2004; 0.27-0.28% in 2005 and 0.33% in 2006. Although this plan is very clear, the document does not state the obligatory nature of the calendar provided, stating that it will be reviewed year by year on the basis of the equilibrium of public finances. The timeline for the increase in aid from 2003 to 2006 has not been updated, but has been disproved by facts.

The above figures also highlight the variable performance of Italian aid, which differentiates it from the greater linearity of European aid. The peaks reflect the massive cancellation of debt made by Italy as of 2000 – 5.9 billion Euros as at June 2006 – which has prevented aid from remaining at around 0.15-0.17% of the GDP, due to the lack of increases in financial resources. In 2005, the cancellation of Iraqi and Nigerian debt, which represented 33% of total aid, enabled the objective of the DPEF 2003 to be respected.

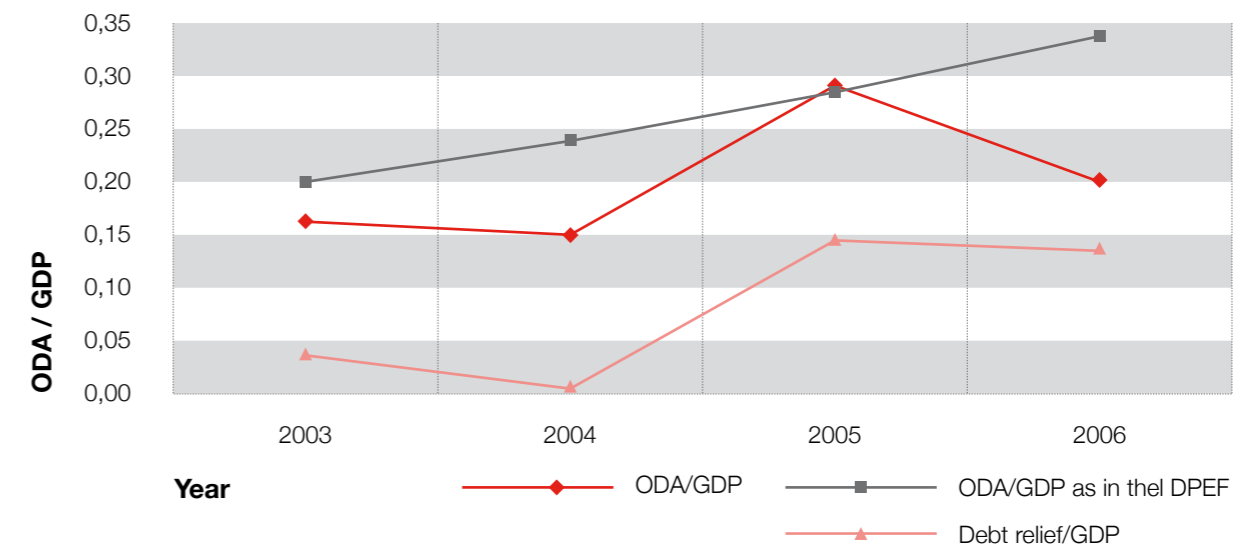
The complete accounting of debt cancellation as aid, although allowed by the reporting regulations of donor countries, is highly controversial. The cancellation of debt is a form of “phantom aid”, in other words financial resources accounted as aid but never transferred to developing countries; a sort of “creative accounting of aid” (see

Figure 1: ODA/GDP performance in Italy and European average, 2000-2006



Source: ActionAid processing of DAC data.

Figure 2: Gap between Italian ODA/GDP and planned DPEF values



Source: ActionAid processing of DAC and DPEF data.

Table 2: Percentage of debt cancellation and EU contributions of total ODA, 2000-2005

* Europe is considered as the 15 member states that are also members of the DAC (ed).

		2000	2001	2002	2003	2004	2005	Total
Italy	% debt cancellation	14,63	0,60	26,50	22,95	4,68	33,00	19,82
	% EU contributions	46,32	38,00	32,67	38,73	48,18	24,77	35,84
EU average*	% debt cancellation	6,30	6,40	11,80	13,70	9,10	24,70	12,75
	% EU contributions	19,10	19,80	16,60	16,08	18,40	14,23	17,00

Source: ActionAid processing of DAC data.

Box on phantom aid). Contributions to the European development fund and EU budget are less controversial and more significant for support at the level of Italian aid. Their obligatory nature enables Italy to maintain a guaranteed level of aid even in the face of national political disinterest towards development cooperation. During 2000-2005, the obligatory contributions to EU development initiatives represented 35% of Italian ODA and debt cancellation approximately one-fifth, compared to much lower European averages. This data indicates a fairly paradoxical situation: Italian aid is not European in size and approach, but it is in its distribution.

“Phantom aid” or the creative accounting of aid

The problem of phantom aid derives from the definition of ODA as the absence of an independent mechanism to verify the expenses that donors register as aid. The DAC defines ODA as the total monetary flows towards developing countries and multilateral institutions provided by public bodies, including state and local government bodies, or their executive bodies. Each transaction must satisfy the following conditions:

- (a) it is administered with the objective of promoting economic development and well-being in DCs;
- (b) it is provided under facilitated conditions and contains a donation element of at least 25%.

As well as providing this definition, the DAC also points out that the final criteria for establishing whether an activity is classifiable as ODA depends upon the aim of the activity. In other words, if it has been planned to respond to the development needs of the country in question. In truth, many activities that may be classed as aid do not involve any monetary transfer to DCs and are definable as “phantom aid”.

The categories of phantom aid are:

- » **Debt cancellation:** does not involve a real flow of resources to DCs in as much as it is more of an ordering of the accounts books in the Ministry of the Economy of the donor country. Cancellations are entirely accounted as aid. In the case of cancellation due to concessionary loans, which are already accounted as aid at the time of payment, the same amount is in practice registered as aid twice, once on payment of the loan and then on cancellation of the debt in question.
- » **Administrative costs of the donor country:** these are management expenses sustained by the government agency for the realisation of aid initiatives, including the possibility of accounting for employee salaries and costs of the main organisation, which remains at the discretion of the donor.
- » **Scholarships for foreign students:** include university exchange programmes with DCs. These are more twinning exercises deriving from uncertainty as to the real benefits for the beneficiary country rather than initiatives aimed specifically at the fight against poverty.
- » **Support for refugees:** living, accommodation and education expenses for refugees in the donor country are accountable as ODA for one year; repatriation expenses may also be included.
- » **Technical assistance:** is justified on the basis of the need to provide support for local capacities, the effectiveness of which has never been assessed. This is criticised as a form of donor management control by sending costly experts, completely ignoring local administration systems. In Cambodia in 2002, the cost of 700 expatriates was the same as that for 160,000 Cambodian refugees. The DAC also asks that the effectiveness of technical assistance should be assessed, proposing to discount part of the cost from ODA.
- » **Security expenses:** Since 2005, Holland and Canada have been pushing for the accounting of aid for humanitarian activities carried out by the military and military training in DCs for regional peace-keeping activities. The risk has for the moment been decreased by the opposition of donors, although there is a precedent: the EC peace facility, a mechanism set up in 2003, providing 250 million Euros to finance military training activities in Africa for regional peace-keeping activities – activities that are not accountable as ODA. The peace facility is financed through the European development fund, to which member states contribute annually and is accounted entirely as ODA.

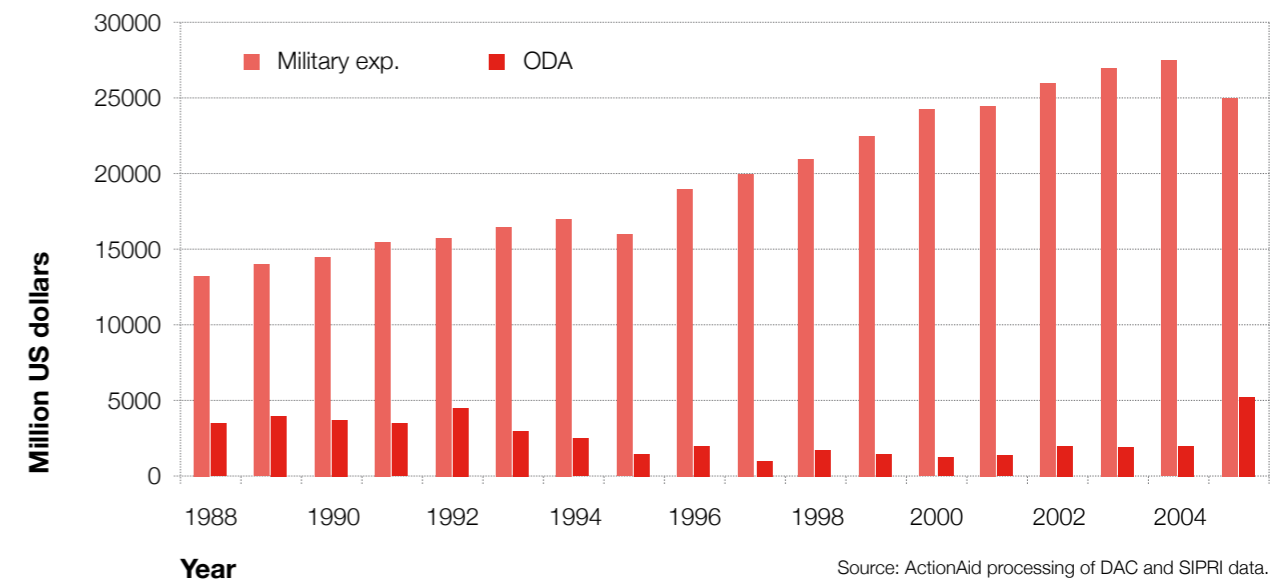
In terms of phantom aid, Italy is in line with the European averages. The high percentages are an indicator of the lack of interest shown until now by the EU to the question of “what constitutes aid”. Over the next two years, the DAC intends to redefine the criteria for the classification of aid, running the risk that the expected increase of aid will simply be increases in phantom aid.

Table 3: Percentage of “phantom aid” in terms of bilateral aid, 2000-2005

	2000	2001	2002	2003	2004	2005	Totale
UE average	59,43	60,57	61,38	72,86	65,60	74,40	68,25
Italy	67,46	33,95	75,32	75,14	45,20	80,68	70,92

Source: ActionAid processing of DAC data.

* ActionAid, *Real aid*, May 2006.



Source: ActionAid processing of DAC and SIPRI data.

Figure 3: comparison of Italian military expenses and ODA, 1988-2005, millions of dollars, real value in 2003

Why so little money?

For many, the main cause of the financial crisis in Italian aid is attributable to the difficult economic situation in the country. Interviewed by ActionAid in 2006, Minister of Foreign Affairs **Gianfranco Fini** said that “budget restrictions, linked to the unfavourable economic scenario, have not enabled us to allocate the amount we had hoped to allocate to development cooperation”. From this point of view, the increase in resources allocated to ODA would encounter an insurmountable obstacle in the European parameter of the Stability Pact, which establishes the deficit/GDP ratio as 3%. ODA is accounted as expenses, and is thus makes up part of the deficit, so its increase would also negatively affect the European parameters of the Stability Pact.

The idea that the Maastricht Treaty is preventing Italy from being part of European cooperation must be looked at more closely. During 2000-2005, debt cancellation constituted approximately 20% of Italian aid, which does not affect the state budget. Finally, the Stability Pact, reformed in 2005, contains a dispensation concerning the assessment of the level of international cooperation during the analysis of a country's financial situation. This would enable the partial exemption from some parameters of the pact in the case of an increase in ODA. Blaming public finances in Italy as the only culprit for the reduction of ODA is also unconvincing. Other countries in the EU that have undergone the same economic difficulties have shown a different level of commitment. This is the case of Germany and Portugal, which, in spite of economic problems, have managed to increase the ODA/GDP ratio, reaching 0.26-0.27% in 2004, while Italy crashed to 0.17%.

Other economic explanations have been

provided by studies attempting to assess the relationship between certain dimensions of the domestic economy and the level of aid. A study¹² by Professor Faini in 2006 identified a significant correlation between the level of aid and those of debt and deficit, while there would appear to be no influence from per capita earnings or the side taken by the coalition in government. Therefore, in the Italian case, given the high deficit, the cut in aid would appear to have been inevitable and bi-partisan, an action aimed at saving to limit expenses. The definition of aid as a discretionary expense that may undergo arbitrary cuts to reduce the deficit remains questionable. The choice of which expenses may be considered discretionary appears to depend on political will. Comparing the volume of aid with military expenses highlights the fact that, while the volume of aid oscillated between \$2 billion and \$3 billion since 1998, military expenses have constantly increased, reaching a peak of \$27.4 billion in 2004 – the year in which least aid was allocated.

The figure highlights how the reduction in the quantity of aid has been a political choice and not only an economic necessity, to which increase in other sectors correspond. **Vasco Errani**, Chairman of the Conference of Regional Presidents and President of the Emilia Romagna Region, summarised the ambiguity in the difference between military and obligatory expenses: “We spend \$900 billion each year on defence and only \$60 billion in development aid. If we spent \$900 billion in development aid, we wouldn't need to spend more than that on defence”.

Another study published by Cesinfo¹³ indicates a more complex relationship involving more variables in the domestic

¹² Faini, R., *Foreign aid and fiscal policy*, CERP, 2006.

¹³ Chong, Gradstein, *Who is afraid of foreign aid?*, Cesinfo, October 2006.

economy: the GDP, domestic inequality in the distribution of income, the level of corruption within the country and fiscal income. According to the conclusions of the study, applied to the Italian case, the low levels of aid have been determined by the law, GDP, the increased inequality in levels of income, the high level of internal corruption and low fiscal income. The model outlines a scenario that at least partially reflects the economic situation in this country over the last few years.

The quantity of aid in future: the great leap forward?

As the economic obstacles that have often been recalled in the past have become less significant, the prospects for aid appear to be more encouraging. Estimates for the increase in GDP are more positive than in the past,¹⁴ with a boom in fiscal income and control of the deficit. The Deputy Prime Minister, **Francesco Rutelli**, is also optimistic: “We are at the beginning of a legislature, we want to overturn the trend of the last few years. We want to give legislative and financial support to international cooperation. Finances will for now be necessarily maintained and then increased bit by bit. There is willingness on the part of the government to help the sector. Positive results will be seen during the course of the legislature.”

Perhaps the most significant new fact emerges from the words of Francesco Rutelli: the acceptance of political responsibility and respecting international commitments. The question of the quantity of aid is part of the coalition's programme, questioning the discretionary nature and who authorised the cutting of funds for cooperation when expenses should have

¹⁴ IMF, *World Economic Outlook*, April 2007.

The great leap forward: risks for DCs or excuses for donors?

Civil society's demands for a rapid increase in donor aid are frequently countered by the "five obstacles", which would not only nullify all efforts and good intentions but would trigger economic effects and corruption that would be counterproductive for the beneficiaries of the aid. The economist Owen Barder believes that the "five obstacles" are especially linked to the methods of managing aid by donors and not the limitations of the beneficiaries. For each obstacle, Barder proposes management and planning solutions to donors, concluding that none of the "five obstacles" justifies stalling the level of aid.

Table 4: obstacles and solutions for increasing aid

Problem	Solution
Increase in administrative costs generated by the increase in the number of development initiatives.	<ul style="list-style-type: none"> ▶ limiting the proliferation of minor projects; ▶ using and strengthening administrative systems in the beneficiary countries.
Lack of sufficient local management personnel.	<ul style="list-style-type: none"> ▶ increase the predictability of aid; ▶ limit the procedural conditions for paying out aid; ▶ improve technical assistance.
Investments in activities with lesser development returns, given the abundance of resources.	<ul style="list-style-type: none"> ▶ improve assessment; ▶ support successful initiatives.
Increase in prices and salaries and deterioration in the trade balance of DCs.	<ul style="list-style-type: none"> ▶ invest in production sectors; ▶ increase imports; ▶ increase the predictability of aid.
Less government responsibility towards citizens.	<ul style="list-style-type: none"> ▶ increase support to the budgets of beneficiaries; ▶ introduce conditions to guarantee democratic participation; ▶ increase the transparency of information concerning aid supplied to the government.

Source: O.Barder, *Donor reforms for aid increase*, Center for Global Development, July 2006.

been cut. This is not really a huge saving when one considers that in 2006, Italian aid, including the cancellation of debt, was 3,073 million Euros, only 30 million more compared to the taxpayers cost of maintaining politicians' cars and drivers.¹⁵

Beyond political commitment, paying out 7.5 billion Euros in 2010 would mean doubling the levels of aid in 2005, which were already exceptional for Italian cooperation. The commitments and difficulties in achieving the 0.51% goal have been well summarised by the Deputy Minister **Patrizia Sentinelli**: "The objective is ambitious, considering our starting point, but must certainly be our goal in order to be

a credible country in international circles as regards the fight against poverty. I believe that this country can achieve the quota of 0.7% in the ODA/GDP ratio by 2015, as provided by the European objectives."

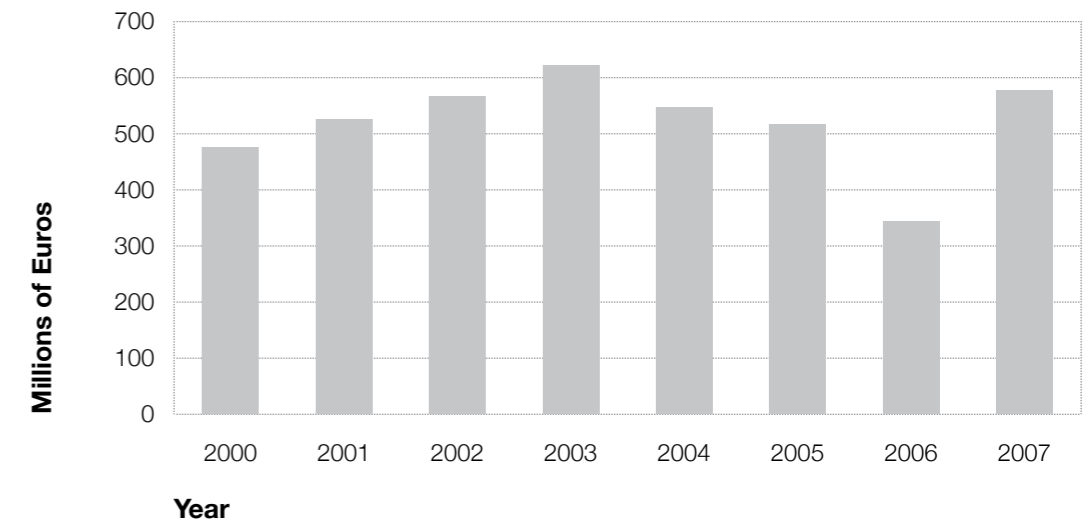
For the moment, there is no existing plan of payments like the DPEF 2003-2006. Italy has indicated to the EC that, leaving aside the idea of a multi-annual calendar of increases, it will in any case reach 0.51% through the constant annual increase in resources and involvement in innovative mechanisms for financing development, such as the IFF-Im and Advanced Market Commitment.

Romano Prodi has indicated some measures for obtaining resources: "We are already working so that:

- » the complex of free resources is more involved in achieving the commitments undertaken on the Official Development Assistance/Gross Domestic Product ratio;
- » additional resources are obtained from donations, currently being discussed in parliament, allocated to specific countries in connection with international missions, in which the role of civil and social cooperation is increasing in processes of reconstruction in countries devastated by conflict;
- » the use of credit aid is expanded, taking into account the specific situations in the beneficiary countries;
- » initiatives for the cancellation and conversion of debt are carried forward;
- » the contribution towards decentralised cooperation is maximised."

Figure 4: Budget allocations for Law 49/87, 2000-2007*, real value 2003.

* 2007 allocations do not consider linear cuts, as their effects on the allocations for Law 49/87 are not yet exactly quantifiable.



Source: ActionAid processing of Ministry of the Economy and Finance data (budget laws), March 2007.

The budget law increases resources on Law 49/87 for 2007 by 57%, bringing them to about 600 million Euros, 649 million without applying the cost reduction provided by the budget for many ministries. Even without applying the cuts, the resources allocated in real terms have not yet reached the peak achieved over the last six years, touched in 2003, but the absence of expected increases over the triennium is worrying. Freezing at 600 million does not guarantee 0.51%, as this represents only 0.04% of the Italian GDP. The budget could have drafted a credible timetable of increases at least for Law 49/87, which benefits from one third¹⁶ of the ODA registered in the budget,¹⁷ so

¹⁶ This is a working hypothesis based on the indications of the DAC in 2004 (ed).

¹⁷ Unless otherwise indicated, this is intended as the State budget (ed).

as to guarantee it 2.5 billion Euros for 2010, one third of 0.51% of the GDP. Deputy Minister **Intini** stresses the importance of increasing aid, also recognising its symbolic value: "A moral choice has been made before a political choice, in a context in which all the expenses have been cut and aid has almost doubled. This is still of minor significance, it is still not enough, but it is a tendency which is moving in a clear direction for public opinion."

Although the budget could define a calendar of increases for law 49/87, it would be more difficult to plan increases for the remaining 2/3 of ODA registered in the draft budget and even more difficult for the defined levels of ODA, given the weight of debt cancellation which does not appear in the budget. The complexity in planning budget resources depends on the fact

that cooperation activities and the financial resources are fragmented between several ministries, especially those responsible for the Economy, Economic Development, Agriculture, Health, the Environment, Internal Affairs, Social Solidarity, International Trade and Equal Opportunities. More than anything, we cannot accurately estimate the resources available to the Ministry of the Economy for development banks and funds because they are registered together with other allocations within the Special Fund of the Ministry of the Economy. There is no document to clarify this complex division of resources which summarily indicates all the ODA available under expense items at the start of the fiscal year – a sort of homogeneous budget for ODA.

The document summarising Italian ODA could also be limited simply to the Ministry

¹⁵ In Italy, there were 43,481 such cars, excluding those for the regions and local bodies. The cost of maintaining one car and driver is 70,000 Euros per year net. Source: *L'Espresso*, 25 May 2006.

The unified budget in other European countries

To guarantee greater transparency and more complete planning, other European countries have started to produce documents that organise all the resources available for aid. Holland has been presenting a homogeneous budget since 1995, indicating for each item (safety, European integration, sustainable development, bilateral relations and international order) the quota dedicated to ODA (for example, 5% of expenses for safety and 60% of expenses for sustainable development). The Dutch experience is merely limited to the analysis of expense items for the Ministry of Foreign Affairs; a more complete framework is that presented annually by Spanish cooperation in its provisional reports. The homogeneous budget for Spanish ODA includes all the ministries and local authorities, subsequently dividing the financial assets available for each different category of aid. It is interesting to note that Spanish cooperation already indicates the debt cancellations it plans to carry out.

Table 5: Spanish homogeneous cooperation budget for 2007, in thousands of Euros

Source: AECl, 2007.

Ministry	Multilateral				Bilateral					Total
	EU Contribution	Financial institutions	Trust funds	Non-financial institutions	Credit	Debt remission	Donations	Humanitarian aid	Development education	
Public functions	0	0	0	0	0	0	758	0	0	758
Agriculture	0	0	0	830	0	0	7.348	0	0	8.178
Foreign Affairs	0	194.893	330.000	149.234	89.796	0	691.455	68.947	20.046	1.544.731
Culture	0	0	0	600	0	0	719	0	0	1.319
Defence	0	0	0	0	0	0	33.324	5.070	0	38.394
Economy	689.301	332.162	0	2	0	350.000	1.141	0	0	1.372.606
Education	0	0	0	266	0	0	10.236	0	0	10.502
Industry	0	0	0	361	100.000	0	11.356	0	0	111.717
Internal Affairs	0	0	0	0	0	0	2.149	0	0	2.149
Environment	0	0	0	0	0	0	8.998	0	0	8.998
Presidency	0	0	0	0	0	0	0	20.000	0	20.000
Health	0	0	0	3.065	0	0	1.665	15	30.000	34.745
Social Affairs	0	0	0	876	0	0	9.077	26.873	0	36.826
Other	0	0	0	0	0	0	12.943	0	0	12.943
Total Admin.	689.301	527.055	330.000	155.234	189.796	350.000	791.169	120.905	50.046	3.203.506
Autonomous Community	0	0	0	0	0	0	401.327	31.036	35.403	467.766
Local Bodies	0	0	0	0	0	0	99.143	10.127	9.591	118.861
Total ODA	689.301	527.055	330.000	155.234	189.796	350.000	1.291.639	162.068	95.040	3.790.133

Tabella 6: Esempio di Budget omogeneo dell'APS italiano, costruito sui capitoli di bilancio Esteri e Economia, le disponibilità finanziarie indicate sono quelle del Bilancio pubblicato all'inizio dell'anno fiscale, 2002-2007, espresso in euro.

Budget items	2002	2003	2004	2005	2006	2007
Ministry of Foreign Affairs						
2180	286.671.287	458.573.000	383.894.000	365.523.000	120.278.000	299.138.000
2181	30.987.414	38.360.000	73.000.000	68.292.000	34.565.000	149.607.000
2182	70.754.596	70.755.000	94.755.000	88.643.000	125.071.000	119.392.000
2183	27.372.216	20.000.000	20.000.000	18.710.000	18.072.000	17.859.000
2184	7.746.853	7.747.000	774.700	9.118.000	8.974.000	8.929.000
2195	798.959	3.799.000	3.799.000	3.554.000	2.482.000	2.976.000
2201	2.959.025	2.796.000	3.132.000	2.930.000	2.744.000	2.722.000
2202	4.131.656	4.131.000	4.663.000	6.000.000	6.013.000	6.134.655
UNIDO 2203	4.939.394	4.788.000	4.701.000	5.114.000	5.114.000	5.539.000
UNICRI 2205	464.811	464.000	464.811	464.000	464.811	464.000
UNICEF 2206	1.549.371	2.065.371	1.549.000	1.549.000	1.549.000	1.549.000
2210	9.812.681	2.582.285	2.582.000	2.415.000	2.254.000	2.236.000
IDLI 2301	1.032.913	1.032.913	1.032.000	1.032.913	1.032.913	1.110.382
FAO IFAD WFP 2302	353.050	353.000	425.000	36.600.000	37.127.136	37.127.136
2303	77.469	77.469	77.000	77.000	77.469	0
Ministry of the Economy						
7175	7.301.668	247.000.000	247.000.000	1.723.000	1.975.000	1.980.000
7179	5.164.569	5.164.569	5.164.000	5.164.000	5.164.000	0
7180	200.643.247	12.394.000	12.394.000	12.394.000	44.448.000	0
7400 SACE	51.645.690	50.000.000	50.000.000	0	0	0
7415	20.658.276	20.000.000	20.000.000	20.000.000	0	0
7416	0	0	0	7.230.396	0	0
1647-FES	309.874.139	320.203.000	320.203.000	350.000.000	462.000.000	420.000.000
1527 - food aid	0	0	0	0	18.000.000	0
7259 - G8 debt cancellation	NA	NA	NA	NA	30.000.000	29.000.000
1649 IFF-im	NA	NA	NA	NA	3.000.000	6.000.000
TOTAL	1.044.939.284	1.272.285.607	1.249.609.511	1.006.533.309	930.405.329	1.111.763.173
% GDP	0,11%	0,12%	0,12%	0,09%	0,07%	0,11%

Source: ActionAid processing of Ministry of the Economy and Finance data (budget laws), March 2007.

of the Economy and the Ministry of Foreign Affairs, which account for about 90% of budgeted aid. Since 2005, ActionAid has worked on a possible model for a homogeneous ODA budget, based on the expense items of the two Ministries. Due to the lack of detail in the available sources, the table excludes some fundamental components of Italian ODA: the obligatory

payments to the EU budget, partly re-accounted as ODA, contributions to development banks and funds and debt cancellation.

With these financial resources budgeted, always around one billion Euros over the last few years, the worries expressed by those who believe that having almost 7.5 billion

Euros available in less than three years can be shared. In truth, this amounts to one Euro a day per family,¹⁸ or the cost of 57 of the 99 Eurofighter fighter-bombers to be delivered to Italy in 2015.

¹⁸ Number of families estimated: 21,500,000, Italian National Institute of Statistics (ISTAT) figures 2002.

Innovative mechanisms to fund development: many ideas, little money

Given the limited resources available, Italy is looking for ways of mobilising additional funds. The list of proposals for mechanisms to support ODA with additional financial resources, obtained voluntarily or through the introduction of taxes, is long, but only in 2006 were some of these finally implemented.

Unrealised mechanisms for financing development cooperation:

- » De-tax dates back to 2002; this was a percentage withholding of 1% – to be deducted from VAT and expressly re-directed to concrete social initiatives. It should have been implemented in a pilot phase in October 2003 and would have been valid for three years (2003-2005) and should have raised 11 million Euros, but was never started.
- » Since 1985, the quota of the 8/00 destined to the state should have been used for extraordinary interventions on world hunger, natural disasters, assistance to refugees and the preservation of cultural assets in Italy. Since April 2004, the state funds have been re-directed to finance the mission in Iraq, but even so, allocations to the state have only rarely exceeded 100 million Euros. In principle, the 8/00 cannot be accounted as ODA because it is not ordinary financial assets indicated in the state budget but donations from citizens to the state bound by a specific purpose.
- » In 2005, an amendment to the budget (Giorgetti-Landi di Chiavenna) proposed the introduction of a tax on immigrants, with the setting up of a development

and solidarity fund at the Directorate General for Development Cooperation (DGCS). This fund should have been partly financed by the payment of a contribution of 30 Euros to be applied to every entry visa and permit of stay, be it a simple renewal or first issue of the document in question. The fund should have also used part of the proceeds from tobacco tax.

- » In September 2006, the head of the Ulivo Party in the Chamber, Franceschini, put forward a proposal to introduce an additional 0.1 cent tax in every text message sent, which would have made 600 million Euros a year towards financing development cooperation.
- » During the discussions for the 2007 budget, the Senate budget commission proposed the introduction of a contribution of 0.1 cent for each plastic bottle of mineral water sold to the public to fund the “Water as a common asset fund” set up by the Prime Minister’s office. The financial resources available would have supported projects to favour access to water in Italy and developing countries, an ambitious mandate given the modest finances available to the Fund – about 5 million Euros per year. The amendment was rejected and became the Zanella-Balducci law proposal, which limits use of the fund to developing countries.
- » Again in 2007, the Barbato-Cucumano amendment to the budget proposed the introduction of a tax on monetary transactions of more than 77,000 Euros, amounting to 0.55% of the value of the transaction: 10% of the proceeds would have been destined towards financing development cooperation activities. The amendment was an attempt to introduce a sort of Tobin

Tax, implementing one of the points in the centre-left’s election programme.

Civil society has made other proposals¹⁹ to obtain new resources for development cooperation:

- » a 5% increase in the withholdings from profits in the advertising sector, with the double objective of repositioning its obtrusiveness and obtaining resources for schools and cultural activities for everyone. Revenues would have been about 450 million Euros;
- » a 20% reduction of the defence budget, to be achieved by reducing expenses for armaments and military personnel (currently 190,000 people; the proposal was to reduce this to about 120,000). This reduction in expenses would allow a saving of about 3.6 billion Euros;
- » the cancellation of 1.7 billion Euros provided for interventions in support of high tech arms industries and 400 million Euros for “defence maintenance requirements”;
- » an increase in the cost of arms licences; an increase in licences for hunting guns to 200 Euros (compared to 168 currently) would lead to an additional 160 million Euros in income (800,000 licences); the increase in income for personal defence weapons would be less significant (42,000 licences); 6 million Euros;
- » the use of returns from the reimbursement of interest on “credit aid granted”, about 100 million Euros annually, to financially support “donation aid” initiatives, which require a predictable and constant flow of

¹⁹ Sbilanciamoci, “Controfinanziaria 2007”, October 2007.

Aid that works

In 2002, German cooperation approved a rapid intervention involving 6 million Euros in Sierra Leone, aimed at supporting the reintegration of former fighters through professional training activities and reconstructing the infrastructures in villages. After three years, the courses have involved 2,300 people in 15 villages, 150 kilometres of roads have been reconstructed and new schools have been built for 3,300 children. More than 50% of the individuals involved still work in the same profession for which they were trained. An independent assessment has recognised that the programme has made a significant contribution towards the peace process in Sierra Leone.

With a triennial allocation of 15 million Euros approved in 2003, Italy has sustained 3% of the costs for a programme to strengthen the water and sanitation sector in Ethiopia, concentrating on the regions of Tigray, Oromia, Afar and Somali. By the end of 2004, 1,960 health assistants and 560 nurses had been trained and 30 clinics built in Oromia.

In Uganda, the Global Fund for the fight against AIDS, Tuberculosis and Malaria has approved a five-year programme for \$51 million to improve national health capacity to respond more effectively to the AIDS epidemic. In the first two years, \$36 million was paid to finance the creation of 1,406 new distribution points for condoms, the training of 1,278 new health assistants, 82 new counselling centres and 106 new clinics capable of providing life-saving medicines. A similar programme in Rwanda costing \$8.5 million has enabled the mother-baby transmission of HIV to be prevented in 168,000 patients, life-saving medicines to be provided for 4,000 patients and 2.6 million condoms to be purchased.

Since 2003, the Global Fund has provided \$10 million to Ethiopia for a programme for the prevention and control of tuberculosis. In the first three years, 179,000 patients have received anti-tuberculosis medicine and 80,000 new cases have been diagnosed.

A study by the International Monetary Fund (IMF) in 2005 found a significant level of correlation between the aid provided by NGOs financed by the EC and the reduction in infant mortality in the beneficiary countries. According to the study, a 1% increase in NGO aid corresponds to a 0.01% reduction in the infant mortality rate. The closest correlation is that between health expenses in the country and infant mortality: an increase of 1% corresponds to a reduction five times greater than NGO aid.

resources in the long term, such as the fight against the AIDS pandemic.

Mechanisms for financing development cooperation involving Italy:

- » The December 2005 budget authorised Italy’s participation in the **International Finance Facility for Immunization (IFF-Im)**, a mechanism that anticipates contributions by donors by issuing premium bonds on the international financial market, making the resources for the purchase of vaccines to send to poor countries immediately available. In addition to the immediate availability of resources, the mechanism seems to be especially promising in guaranteeing the certainty of contributions. The countries involved are bound to payment by signing a contract, which is impugnable in the case of non-payment of the annual fee. The United Kingdom, Italy, France, Norway, Spain and Sweden are involved. After the United Kingdom, Italy is the second largest financial supporter of the IFF-Im, with total contributions of 504 million Euros, divided into annual instalments until 2025: 3 million Euros in 2006, 6 million Euros in 2007 and 27.5 million Euros as of 2008. The IFF-Im premium bonds are valid for five years, have an annual rate of 5% and are considered “very reliable” by international rating

agencies. The international rating agency Fitch has predicted that Italy, which has a lesser rating than the IFF-Im, will not honour its financial commitment to the IFF-Im, and will accrue 104 million Euros in debts.

- » On 9 February 2007, **Advance Market Commitment (AMC)** was launched in Rome, for which Italy was the main promoter during the 2005 G8 summit. In brief, AMC is a financial undertaking by the industrialised countries to pay for the future purchase of a vaccine that is not yet available, on two conditions: 1) that a reasonable and sustainable price in the long term is established in advance with each producer of pharmaceuticals; 2) that the vaccine meets the requirements of the developing countries (DCs) that need it. Currently in its pilot phase, AMC aims to create incentives for pharmaceutical research into illnesses common in DCs. The vaccine that AMC is concentrating on is for pneumococcus and will be available from 2012. Italy, the United Kingdom, Canada and Norway are involved in the initiative. As with the IFF-Im, Italy’s commitment is for 20 years, for a total of 500 million Euros, with the first payments to be made in 2008.²⁰ The AMC mechanism will authorise payment only when the vaccine has been approved. The independent

assessment of the mechanism commissioned by Norway has highlighted some critical areas: difficulty in establishing the “correct price” and avoiding the major pharmaceutical producers being the only beneficiaries of AMC. Lastly, the assessment recommends that donors commit themselves to increasing the support of systems for the distribution of vaccines (basic health systems), which are a crucial means of transforming the market availability of the vaccine into availability for patients.

These are pilot experiences for the financial resources they mobilise. Their effectiveness has yet to be assessed, but donors have been willing to associate their name with these experiments: the United Kingdom for IFF-Im, Italy for AMC, and France for a tax on airline tickets. This mix of prudence and protagonism by donors has, on the one hand, diversified risks and increased experimentation. On the other hand, it has further crowded the aid system with new actors with modest financial resources. In the last two years, three new mechanisms have been created with the aim of solving the problem of the lack of billions of dollars in aid annually. However, in truth these will not be able to obtain even a billion more dollars, creating more costs and coordination problems.

²⁰ ActionAid Communiqué with the Ministry of the Economy.

Tabella 7: Volatility* of UE donor aid, 2000-2005

* Volatility of donor aid has been calculated as the difference between commitments undertaken and amount paid out in the period 2000-2005, to minimise the burden of the circumstances in which payments were only delayed by one year.

Donor	% paid/committed
Finland	86,65
Italy	88,92
Austria	93,22
Canada	93,36
Germany	93,48
France	98,31
Switzerland	98,74
Belgium	99,46
Greece	100,00
Ireland	100,00
Portugal	100,00
Spain	100,00
U.K.	100,00
Luxembourg	100,59
Denmark	103,33
Holland	105,83
Sweden	106,75

Source: ActionAid processing of DAC data.

Country	Difference
Malta	27,97
Syria	19,29
Egypt	18,85
Honduras	18,63
China	16,15
Mozambique	15,58
Sierra Leone	11,14
Bolivia	10,96
Macedonia	6,66
Senegal	6,41
...	...
Angola	-21,63
Iraq	-24,91
Lebanon	-25,83
Eritrea	-27,52
Morocco	-45,17
Palestine	-65,89
Argentina	-82,28
Albania	-122,51
Ethiopia	-178,74

Source: ActionAid processing of DAC data, March 2007.

Predictability of Italian aid: “shocking” interventions

The effective planning of interventions in the fight against poverty in LDCs needs stable and predictable flows of aid. In many African countries, aid constitutes a significant proportion of welfare expenses: in Burkina Faso, 40% of state expenses for social services are financed by international assistance. For a country that is highly dependent on aid, in other words where ODA constitutes at least 10% of its GDP, the cessation of aid has a devastating effect on the possibility of continuing to guarantee essential basic services. Aid that is promised and not provided is “volatile aid”, and when the difference between promises and payments is too high, “aid shock” occurs. Burkina Faso is an example of the seriousness of the problem: in 2001, due to the non-fulfilment by donors in paying out the contributions promised, the government had to deal with aid shock amounting to 4% of the GDP. In other words the state coffers were missing 20% of their expected income.

In 2000-2005, Italy had been the worst payer of aid among EU members after Finland, paying out only 88.92% of the aid they had promised. Greece, Ireland, Portugal and the United Kingdom paid out the planned amount, while Sweden paid out more than planned.

Overall in the period under consideration, Italy has failed to pay out \$2.1 billion of aid promised to countries and multilateral organisations: Ethiopia, Albania, Argentina, Palestine and Morocco have suffered the most “shock” due to Italian aid. Many of these are countries in which aid provides a significant part of national wealth and where unforeseen interruptions may cause significant cuts in the supply of services. In Albania, aid constituted 4.8% of the GDP in 2004, in Angola 5.8%, in Ethiopia 18% and in Eritrea as much as 28% of

the GDP. On the other hand, Malta, Syria, Egypt, Honduras and China benefited from unforeseen generosity, in excess of commitments undertaken.

There are several reasons for excessive delays in paying out by donors: including bureaucratic-administrative delays and not respecting the political conditions prior to payment in the beneficiary countries. Weak administrative systems or not taking into account certain political pre-conditions in beneficiary countries may lead the planned aid to be drastically reduced. As regards the responsibility of donors in payment delays, aid commitments are undertaken for at least three years, but these are payment promises that must have a purpose officially approved each year. For example, in 2006, Italy was committed to paying out 453 million Euros for interventions concerning the allocations as per law 49/87, but the total allocations for ODA interventions only amounted to 365 million Euros.

Destination of aid: less and less to Africa

Less developed countries and sub-Saharan Africa are priority areas for EU development cooperation, to which 0.15% of the GDP and at least half of the aid increase must be destined respectively. In terms of planning, Italian cooperation appears to be aligned to EU geographical priorities at least since 2000. Sub-Saharan Africa is among the priority geographical areas in the annual planning documents drafted by Italian cooperation.

Table 8: disbursement-commitment differences in Italian aid, 2000-2005, millions of dollars, real value 2003**Table 9: Quota of bilateral donor aid net of debts disbursed to sub-Saharan Africa, 2000-2005**

	2000	2001	2002	2003	2004	2005	Total 2000-2005
UE	33,42%	32,48%	31,98%	31,22%	32,46%	31,48%	32,15%
Italy	36,01%	35,54%	34,40%	28,49%	25,42%	23,14%	30,59%

Source: ActionAid processing of DAC data, March 2007.

Table 10: Italian bilateral aid net of debts, millions of dollars, real value 2003

	2000	2001	2002	2003	2004	2005
Sub-saharan Africa	155,46	254,85	196,85	161,77	166,32	108,99
Aid to DCs	431,65	716,91	572,21	567,74	654,09	470,81

Source: ActionAid processing of DAC data, March 2007.

Table 11: percentage of bilateral aid/GDP to LDCs, 2000-2005

	2000	2001	2002	2003	2004	2005
Italy	0,02	0,01	0,07	0,06	0,02	0,02
UE average	0,05	0,05	0,07	0,09	0,08	0,06

Source: ActionAid processing of DAC data, March 2007.

In truth, as highlighted in provisional reports since 2000, very few areas are excluded. According to **Emma Bonino**, Minister for International Trade and European Affairs, the inability to prioritise is the main weakness of Italian cooperation: “the multitude of interventions or random interventions are the real weaknesses in our international cooperation policy...”. In effect, something in the past was not functioning, as Deputy Minister **Sentinelli** stated that “for the first time since 2002 we have presented the plan of priorities for cooperation over the next three years... and we have decided to allocate 50% of the funds made available by the budget to sub-Saharan Africa, taking care over the balance between multilateral and bilateral channels.”

In fact, judging by the 2000-2005 data, planning in those years was not followed by coherent implementation. In comparison with European choices, we can see that as regards the division of “fresh” bilateral donor resources for Africa, the expectations have been completely reversed. While in the case of Italy, Africa is constantly losing aid, European aid is constantly around 30%.

To make the context even more worrying, not only the quota of aid but also the transfer of fresh donor resources have decreased since 2001.

As regards the destination of bilateral aid towards less developed countries,²¹ Italy is very often to be found below the EU average.

In directing aid, Italy is motivated by reasons different from those of the EU. By analysing allocations per country, according to research published by Wider,²² Italy appears to direct its aid towards small countries, with a more egalitarian distribution of income, greater civil liberty and low infant mortality rate. Italy indicated 15 priority countries to the EC in 2006: Egypt, Tunisia, Burundi, Uganda, Mozambique, Kenya, Ethiopia, Eritrea, Rwanda, Somalia, Sudan, Iraq, Palestine, Albania and Serbia and Montenegro. However, in reality finances have also been directed to Afghanistan and

Planning allocations as well

Holland has established a series of criteria for working out the number of allocations per country during the planning phase. In 2003, the Dutch list of beneficiary countries indicated 36 possible countries with which to start a long-term partnership (3-5 years). The level of aid is assessed below on the basis of performance, the level of poverty, debt and ODA. The British DFID merely indicates the percentage of bilateral aid to be destined towards LDCs (90%).

many countries in Central America and are also directed to another 90-100 countries, sometimes through micro-interventions. In 2004, 107 out of 234 interventions financed were below one million Euros. Furthermore, the list of the ten main beneficiary countries of Italian aid, net of debts, for the period under consideration is not the same as the list of priority countries.

²¹ The percentage obtained does not consider the achievement of the UN objective of 0.15% GDP to DCs, which is calculated on the total ODA, taking into consideration the re-allocation of multilateral aid.

²² Isopi, Mavrotas, *Aid allocations and aid effectiveness*, WIDER, January 2006.

Table 12: The top 10 beneficiaries of Italian assistance, 2000-2005, real value 2003

* Italy has a governance index of 68 and a human development value of 0.940.

Millions of \$	Human development index	Governance index	Country
865,00	NA	4	Iraq
643,61	0,390	38	Mozambique
462,45	0,448	14	Nigeria
459,10	0,391	3	Dem. Rep. Congo
246,41	0,371	18	Ethiopia
176,06	0,430	36	Tanzania
167,06	0,502	30	Uganda
160,41	ND	5	Afghanistan
158,99	0,454	20	Eritrea
130,84	0,736	15	Palestine

Source: ActionAid processing of DAC data, March 2007.

Table 13: The top 10 beneficiaries of Italian assistance, net of debt cancellation, 2000-2005, real value 2003

* Italy has a governance index of 68 and a human development value of 0.940.

Millions of \$	Human development index	Governance index	Country
241,20	0,371	18	Ethiopia
160,41	NA	5	Afghanistan
159,00	0,454	20	Eritrea
130,84	0,736	15	Palestine
125,31	0,390	36	Mozambique
124,94	0,784	34	Albania
100,88	NA	35	Serbia and Montenegro
82,87	NA	NA	Somalia
67,22	0,683	33	Honduras
62,29	0,516	5	Sudan

Source: ActionAid processing of DAC data, March 2007.

Future geographical priorities according to political experts

Romano Prodi: "More focus on sub-Saharan Africa, but also areas in which peace-making is necessary (Iraq, Afghanistan, Lebanon, Sudan, Somalia). Not forgetting the countries in which Italian cooperation traditionally intervenes, or those in the list of Least Developed Countries, especially in the Mediterranean and Balkan regions, the Middle East and Latin America. Palestine must receive special attention."

Patrizia Sentinelli: "In planning cooperation for the next three years, interventions in agriculture, for the protection of the environment and access to water and energy and global health will be given priority."

Patrizia Paoletti Tangheroni: "The Mediterranean and sub-Saharan Africa are priority areas."

Lapo Pistelli: "The priority areas for Italy are the Mediterranean, the Western Balkans and the Middle East."

Alfredo Luigi Mantica: "The priorities must be dictated by Italian foreign policy strategies (of which cooperation is a part) and accompanied by a careful analysis of ongoing changes. When the OECD states that Africa is a two-speed continent and foresees an increase of 5.5% in the average continental GDP, the question must be raised whether several Africas deserve one and the same policy, one strategy for intervention, whether human assistance should merely be the supporting structure for cooperation, which operates to create the conditions for economic development and not maintain emergency situations."

Francesco Martone: "I believe that priority geographical areas must be chosen according to the specific contributions that Italy could offer in terms of excellence, for example, if this country has developed significant capacities in providing essential common services such as education, health and basic infrastructures, then it must use these in order to define the geographical areas for intervention."

Sabina Siniscalchi: "Italian cooperation must support especially those countries in which the people are suffering because of the reduction in social investments, the burden of foreign debt, AIDS and other pandemics. I believe that Italy must concentrate on its support of countries that adopt serious national plans to achieve specific objectives."

Walter Veltroni: "I believe that the challenge of the fight against poverty will be won and lost in Africa. Other areas of the world are living in conditions of under-development, such as certain urban areas in Latin America and certain Asian countries, but Africa is the continent that suffers most, even statistically speaking."

Table 14: The bottom 10 beneficiaries of Italian assistance, 2000-2005, real value 2003

* Italy has a governance index of 68 and a human development value of 0.940.

Millions of \$	Human development index	Governance index	Country
- 137,06	0,611	46	India
- 124,34	0,768	36	China
- 37,74	0,763	41	Philippines
- 35,60	0,767	38	Peru
- 26,68	0,757	52	Turkey
- 23,49	0,491	26	Kenya
- 19,84	0,751	42	Dominican Republic
- 18,92	0,724	48	Jamaica
- 18,91	0,863	41	Argentina
- 14,23	0,851	68	Uruguay

Source: ActionAid processing of DAC data, March 2007.

To give the whole picture, it is important to consider those countries that, during the period under consideration, are at the bottom of the list of beneficiaries, with a negative balance. In these countries, paying off debt has not only annulled all the aid transfers but has, paradoxically, actually provided resources to Italian cooperation in the past five years.

The sectors of Italian cooperation: few basic social services, heavy debt and technical assistance

If one excludes the significance given to the prevention of disasters (which Italy ignores), the European Consensus does not indicate sectors for specific attention. However, there is no shortage of international reference points on which to orient allocation choices. In 1995, on conclusion of the World Summit on Social Development, donor countries and beneficiaries undertook to guarantee universal access to basic social services. To finance this effort, donors should have allocated the objective 20% of their ODA. After ten years, the DAC attempted to assess which donors had achieved this objective. Calculating the division of bilateral and multilateral ODA destined towards essential services in 2003-2004, the DAC study²³ indicated that Italy is not one of the donors to have reached 20%, unlike half of the DAC member states. Comparison of Italian and European support (only bilateral) for essential services since 2002 indicates that Italy has drastically reduced its support for such services and is drifting further and further from the European average.

From analysis of the provisional reports, the sectors that seem to benefit from constant attention in planning are the fight against AIDS and the great pandemics and food safety. In the last five years, Italy appears form a strategic viewpoint to have found its added value in these two sectors. However, as with the geographical areas, strategy

²³ DAC, *Aid activities for Basic Social Services in 2003-2004*, 2006.

Table 15: % bilateral aid directed to basic social services, 2000-2005

Donor	2000	2001	2002	2003	2004	2005	2000-2005
EU average	15,59	15,54	13,36	13,59	15,29	10,15	13,59
Italy	13,36	13,55	4,84	9,46	9,48	5,03	8,20

Source: ActionAid processing of DAC data, March 2007.

Italian cooperation and women

The last provisional report on development cooperation indicates the empowerment of women as one of the priorities of Italian cooperation activities. According to a DAC study, in 2003 and 2004, Italian cooperation allocated \$10 million and \$37 million respectively to activities in support of women. This amount could underestimate the effective allocations, as only 60% of the aid initiatives have been assessed as regards their implications for women.

Afghanistan, Mozambique, Iraq, Syria and India are the main beneficiaries of activities in support of women by Italian cooperation. The Italian allocations are significantly less than those of other EU countries. During the same period, Germany allocated \$2 billion and \$2.5 billion to activities benefiting groups of women; Belgium and Denmark also mobilise more resources than Italy in support of women – \$400 million and \$128 million respectively in 2004. Italy's financial commitment is comparable to Austria's.

* DAC, *Aid in support of gender equality in 2003-2004*, 2006. The DAC classification enables donors to highlight activities that have the support of women as one of their aims.

does not always equate to resources. Analysis of the breakdown gives a different outlook to that from planning, in which, in the last six years and excluding debt cancellation (41% of bilateral aid), the most financed sector has been that of technical assistance.

It is important to note that technical assistance receives more funding than initiatives in support of education in DCs. If theoretically technical assistance aims to provide support to the limited capacities of a country, no independent assessment has

proven the effectiveness of this form of aid. Technical assistance very often is reduced to simply sending well-paid consultants (in Ghana, an expatriate education expert costs \$20,000 per month, while a civil servant earns \$300), who bypass and compete with local experts, ignoring local needs.²⁴ According to the EU Donor Atlas, Italy is one of the few countries in the EU that does not employ local personnel as experts and that conditions the granting of technical assistance to the sending of Italian expatriates.

²⁴ ActionAid, *Real Aid*, May 2006.

Table 16: Percentage of Italian bilateral aid by sector, 2000-2005

Sectoral priorities according to political experts

Romano Prodi: "Sectors such as health, education and training must be maintained and strengthened. Focus on the environment and common goods (for example water) must be increased."

Francesco Rutelli: "I am particularly interested in the right to access water, for which the Italian government could and should mobilise resources."

Patrizia Paoletti Tangheroni: "We are starting from the premise that development and emergency are counter positions that no longer make sense and that we need to study something different."

Alessandro Forlani: "Not only in terms of economic support, but also in terms of training, know-how, technology and infrastructures. Particular attention must also be placed on the fight against pandemics and desertification."

Valdo Spini: "As we know, on 18 July 2005, I was nominated by the chairman of the European Socialist Party Poul Nyrup Rasmussen as an Ambassador for the fight against AIDS. The fight against the spread of the HIV virus is still one of the main challenges facing humanitarian aid policies."

Walter Veltroni: "The criterion should be that which aims at guaranteeing these minimum conditions: drinking water for everyone, and thus better hygiene, health and alimentary conditions; basic education and training for everyone; equal trade and economic policies that return a minimum of sovereignty to these countries and do not lead to them being, once again, lands of conquest."

“Incoherent” aid

The question of tied aid is a dimension of the coherence of policies that determines the quality and effectiveness of aid. The index of commitment of aid created by the Center for Global Development (CGD) is at the moment the only index capable of measuring the coherence of all policies with respect to the objectives of development cooperation – making comparisons between donors possible. The index classifies donor countries on the basis of the net flow of aid and its selectivity, excluding debts and the percentage of “tied” aid and penalising uncoordinated interventions. In 2003, Italy was in second-last place, and in 2004 it became the least effective donor, then regained second-last position in 2005 and climbed to third-last place in 2006. In all these years, Italy has always remained, after Greece, the most “incoherent” European donor. The CGD indicates as the reasons for Italy’s mediocre position:

- » the high percentage of “tied” aid;
- » the financing of projects that are too small in scale;
- » the low level of aid;
- » non-participation in initiatives to improve governance in DCs;
- » the low levels of reduction of CO2 in the last ten years;
- » an unwillingness to accept refugees during humanitarian crises;
- » the high level of arms exports to poor and undemocratic governments.

In assessing Italian cooperation in 2004, the DAC complained about the lack of focus on the questions of coherence as to the consequences of different policies on the objectives of development cooperation policies, especially trade policies on sugar and olive oil. For the DAC, this lack of interest is attributable to the absence of structures, ministerial

personnel and pressure groups reporting cases of incoherence. According to the DAC, a temporary solution would have been to write a joint ministerial statement confirming the need for coherence among the consequences of policies and the objectives of development cooperation. The Council of Ministers has still not approved any declaration of intent in this regard and the proposal for reform appears to ignore or be incapable of solving the problem of coherence between policies. **Emma Bonino** has intervened on the question of the crucial importance of coherence between policies: “We must not simply talk about the question of the quantity of aid, but trade policies must also be changed, and Europe-Africa trade relations re-negotiated.”

The expensive incoherence of tied aid

Conditioning the paying out of aid to the purchase of goods and services in the donor country increases the cost of intervention by 30-50%, slows down the development of local capacities, bypasses tenders and prejudices compatibility with local requirements.²⁵ According to the 2005 Human Development Report, for each Euro this country directs to Ethiopia, 14 cents are spent for the purchase of Italian goods. In 2001, the percentage of tied Italian bilateral aid was 91%, which was reduced, after three years of blackout in sending Italian data to the DAC, to 7.9% in 2005. The good result achieved in 2005 is distorted by the high level of debt cancellation (62.5% of bilateral aid) untied by definition. The percentage rises to 38% considering bilateral aid net of debt cancellation. Still in 2005, in comparison with a European average of 10.33%, Italy was the European country with most tied bilateral aid, after

25 UNDP, *Human Development Report*, 2005.

The Dutch institutional solution to the problem of coherence

In 2002, Holland created an Office for Coherence within the section of the Ministry of Foreign Affairs dealing with development cooperation. The office was asked to deal with the questions of coherence at all levels, including EU policies. The office mainly identifies cases of incoherence that the Minister for Development Cooperation could raise during meetings of the Council of Ministers. Thematic interministerial tables have been created, where Ministers meet to discuss the more problematic questions in order to achieve the objectives of development cooperation: migration, trade, intellectual property and agriculture.

Country	Percentage of tied aid
Austria	64,02%
Belgium	9,24%
Denmark	14,06%
Finland	4,91%
France	12,99%
Germany	16,03%
Greece	26,39%
Ireland	0,00%
Italy	38,12%
Luxembourg	0,92%
Holland	3,04%
Portugal	26,02%
Spain	28,12%
Sweden	1,72%
United Kingdom	0,00%
EU average	10,33%

Source: Save the Children, April 2007.

Table 18: Percentage of tied bilateral aid, net of debts, 2005

Austria.

This data is not unsurprising, as the Ministry of Foreign Affairs website states that aid in support of programmes is tied to the purchase of Italian goods,²⁶ which is also due to Article 6, paragraph 4, of Law 49, obliging a derogation to be obtained for untying aid credit:

- » In Morocco, aid credit worth 15 million Euros supports an initiative to facilitate the purchase of Italian equipment by local entrepreneurs.
- » In Angola, an initiative worth 20 million Euros aims at the exclusive purchase of Italian produced goods.
- » Ethiopia has been granted 15.9 million for the purchase of Italian machinery for use in the leather and textiles sectors.
- » Nepal has been granted one million Euros to promote olive plantations.

In 2001, Italy was committed to progressively “untying” aid to LDCs, excluding food aid and technical assistance. On signature of the recommendation, only 30% of Italian aid to LDCs was untied, and in 2003, this rose to 78%, reaching 80% in 2004. This data is distorted by the quota of debt cancellation. Recalculating these figures net of debt, more modest progress has been made: in 2003, 79% of aid to LDCs was still tied. According to Italy’s response to the EC, the delegating law fully solves the problem of untying aid. While Italy has been slow in fully implementing the 2001 recommendation, it has made proposals to the DAC to go beyond this. It has not only discussed the possibility of expanding the group of countries, also including countries with high debts, and eliminating exceptions for technical assistance and food aid, but

26 http://www.esteri.it/ita/4_28_66_73_23_6.asp
The following examples are taken from the report on the status of implementation of the development cooperation policy, 2004.

Other cases of incoherence: arms sales and indebtedness

Between 2000 and 2005, Italy exported arms worth over \$2 billion: Italy has provided more arms than aid in Pakistan and Brazil, while Peru has not only purchased arms worth 343 million Euros but, by paying for debt services, has financed Italian cooperation to the tune of 35 million Euros.

Table 19: Arms exports to DCs, in millions of dollars, real value 2003, total 2000-2005

Millions of \$	Paese
343	Peru
256	Pakistan
111	Brasil
72	Turkey
48	India
26	Chile
26	South Africa
21	Venezuela
20	Nigeria
14	Bangladesh
11	Colombia
11	Tunisia

Source: Sipri, 2006.

Table 20: comparison of % loan/ grants aid Italy – European average on total ODA, 2000-2005

	2000	2001	2002	2003	2004	2005	Totale
EU average							
% Grants	89,10	89,56	89,03	89,41	89,75	94,13	90,44
% Loan	10,89	10,43	10,96	10,58	10,24	5,86	9,55
Italy							
% Grants	87,54	86,81	89,81	86,75	86,19	90,58	88,27
% Loan	12,45	13,18	10,18	13,24	13,80	9,41	11,48

Source: ActionAid processing of DAC on line data, March 2007.

would also like to overcome the problem of “untying” aid. To be defined as untied, it is sufficient to start competitions for the awarding of tenders, of which 70% are won by businesses in DAC countries. Therefore, the possibility of privileging the purchase

of goods and services in the beneficiary countries should also be discussed, as expressed by the delegating law for reforming Italian cooperation.

Recommendations

Over the next five years, Italian cooperation will have the responsibility of returning to European levels, in other words putting into practice values, commitments and strategies that have been shared within the EU over the last five years. This is not simply a case of coming into line to wave goodbye to isolation and ineffectiveness, but recognising the crucial role of this country in Europe. Without Italy, Europe cannot be a worldwide reference point for development cooperation, as there would be no real European cooperation.

ActionAid recommends that the Italian government should:

- » indicate the level of ODA/GDP ratio for the next four years in its next "Economic and Financial Planning Document";
- » present a unified budget estimate for development cooperation;
- » plan financial disbursements towards beneficiary countries on a five-yearly basis;
- » indicate during the planning phase the allocations expected for sub-Saharan Africa and for basic social services;
- » start the assessment of the effectiveness of innovative financing mechanisms;
- » promote a review of the international criteria for accounting ODA, for example excluding the cancellation of debt and other forms of "phantom aid";
- » approve at the Cabinet level a declaration of intent on the coherence of policies with respect to development cooperation objectives;
- » guarantee that the quota of bilateral ODA dedicated to each social sector shall be more than that dedicated to technical assistance;
- » favour the purchase of goods and services in DCs, thus going beyond untying aid.



Photo: Alice Grecchi/ActionAid

Chapter 3

Effective aid: management reform to avoid chaos

In 2005, European countries undertook commitments to increase aid. If honoured, these commitments would lead to a 30% increase in the financial resources available to the global aid system in only five years, increasing from the \$100 billion paid out in 2005 to \$130 billion in 2010. The implicit risk is the congestion of the aid system.

In 2005, the United Nations Development Programme (UNDP) stated that the mechanisms for financing development initiatives are often superimposed on the beneficiary countries, and are at times contradictory. For example, more than 40 donor countries operate in Uganda, and it is estimated that there are more than 648 means of financing the national budget; Vietnam is host to 400 planning and assessment missions annually, which, because of the bureaucracy involved and transaction costs, reduce the effectiveness of aid. In 2005 alone, donor countries undertook over 10,000 missions, more than one a day per country. On the basis of their experiences as beneficiaries, African Commonwealth and Francophone countries assessed that the contribution of donors is effective if certain conditions are met,²⁷ in other words if it is:

- » flexible to the requirements of the country, and thus not extremely bureaucratic or tied to excessive conditions;
- » in line with the development priorities of the beneficiary country;
- » registered in the budget systems of the beneficiary countries, which are aware of the quantity and timing of payments to be made;
- » predictable, in other words capable of reaching the country in the times and quantities provided during planning;
- » participatory, where geographical areas

and sectors of intervention are decided following discussions;

- » quickly transferred once promised;
- » untied, in other words not bound to the purchase of goods and services in the donor country.

The Paris Declaration on the effectiveness of aid, signed in April 2005, is the response of the actors involved in development – donor countries, beneficiaries and civil society – to the risk of probable chaos and congestion of the aid system in the light of the proposed increases. In substance, it is an ambitious plan to reform the management of aid to be achieved at the same time as the aid is increased. Its basic principle is the recognition of leadership to beneficiary countries, from the strategic planning phase to the actual realisation of the interventions planned. Should the objectives of the Paris Declaration be achieved by 2010, the positive effects deriving from this would include: the improvement of the purchasing and financial management systems in more than half of the developing countries; 85% of aid will figure in the budgets of the beneficiary countries, with significant administrative simplification; donors will have reduced uncoordinated missions to beneficiary countries by 75%; and 84% of aid will be effectively paid out in the year in which it is promised and will be, for the most part, untied.

Many consider these objectives to be more difficult to achieve than the increase in aid, given that, as the EC itself has acknowledged, they require the reorganisation of ongoing activities and changes to the typical methods of managing aid by the various donors. For example, at a European level, a real division of work could occur, in which each member state should limit its own interventions in DCs to a few sectors, on the basis of their attitude and past experience. Italy has already proclaimed itself to be a protagonist in the

sectors of environmental protection, access to water and the support of agriculture, although in the past, these sectors had not been indicated as priority sectors.

The assessment carried out in March 2007 by the DAC on the current situation in 31 beneficiary countries²⁸ compared to the indicators contained in the Paris Declaration indicates that:

- » in none of these countries does technical assistance take into consideration the real needs and capacities already present, but simply sends expatriates on missions;
- » there are 1,631 management structures created by donors to implement their projects without any contact whatever with structures in the beneficiary country;
- » only 65% of the aid promised has been paid out in the agreed time frame and, in six countries, over \$400 million is missing;
- » 47% of aid is channelled through programme initiatives,²⁹ compared to the objective of 66%.

This assessment has laid down new challenges to DAC countries in the reorganisation of aid mechanisms. This has led to many donors drafting plans of action to quickly reform their methods of managing aid, so as to achieve the planned effectiveness objectives by 2010.

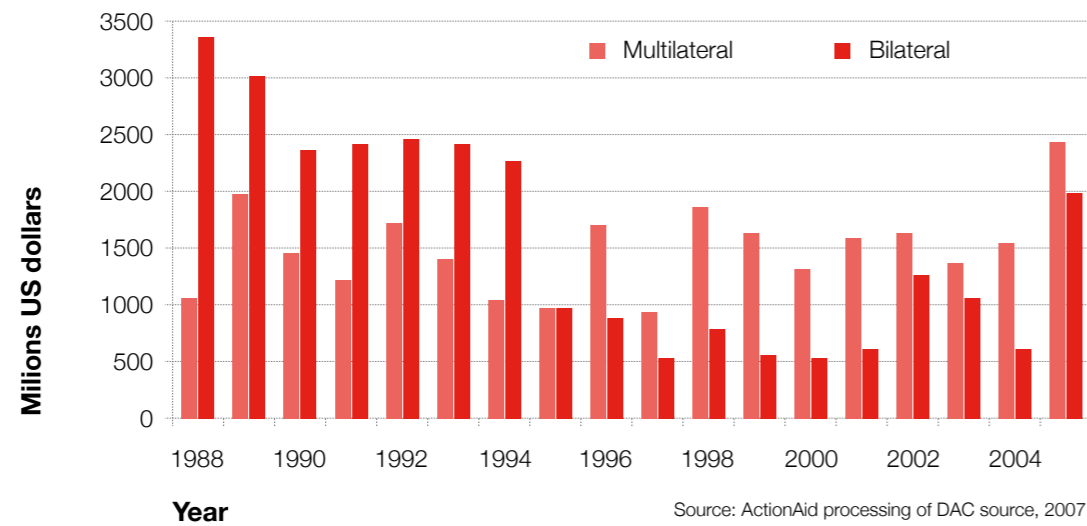
And Italy? This country has not yet presented a plan for the realisation of the

²⁸ Albania, Tanzania, Honduras, Mali, Mongolia, Uganda, Vietnam, Bolivia, Ethiopia, Ghana, Kenya, Moldova, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Bangladesh, Dominican Republic, Kyrgyzstan, Malawi, Yemen, Zambia, Burundi, Cambodia, Democratic Republic of Congo, Mauritania, Afghanistan, Egypt, Peru and South Africa.

²⁹ Programme aid is basically a form of financial support to governments in beneficiary countries, generally the opposite of project aid, which finances specific initiatives, often bypassing government systems.

²⁷ Conclusions taken from *Development Finance International*, op. cit.

Figure 5: Bilateral/multilateral allocation of Italian ODA 1987-2005, US dollars, real value 2003



Paris agenda. This shortcoming could in part be justified by the fact that the management of Italian cooperation already meets the standards of effectiveness provided by the Declaration. In effect, the high percentage of debt cancellation – a method that responds well to the criteria of coordination and support of national development strategies – and the high quota of multilateral aid – in which operational effectiveness is not attributable to Italy but to multilateral organisations – could lead to Italian aid being seen as not completely efficient. In the period 2000-2005, the quota of Italian multilateral aid was 62%, compared to the European average of 36%. It is obvious from the allocations made over the last 20 years that Italy's preference for multilateral aid dates back a long way.

Since 1995, multilateral allocations have been superior to bilateral allocations. The "mani pulite" scandals have led to a tightening of administrative control

The reform of effectiveness of Swedish aid management*

In 2006, Sweden presented a plan clearly indicating the reforms to be implemented in order to achieve the planned objectives by 2010:

- » increase programme aid;
- » increase delegated local management;
- » develop a management system based on results;
- » concentrate on sectors in which past experience of Swedish cooperation has a comparative advantage;
- » support the management capacities of fiscal and budget systems in beneficiary countries.

* SIDA, Action plan for increased aid effectiveness, June 2006.

on bilateral outgoings and the "Italian multilateral choice" has been more an administrative measure to enable funds not to be blocked rather than a truly strategic option. In some ways, this is "multilateral without multilateralism", often directed towards small-scale agencies. Interviewed by ActionAid in 2006, **Emma Bonino** said she was convinced that "Italy has abdicated from a true policy of cooperation, focusing almost exclusively on the multilateral channel."

To adjust the distortions in the effectiveness assessments generated by the high quota of cancellation and multilateral aid, the DAC study concentrates solely on the flow of resources transferred to the countries. According to the results, Italy is below the average of other DAC countries, strongly penalised by the tying of aid, the high number of assessment missions not coordinated with other donors, the creation of parallel independent structures for managing projects and especially by the choice of priorities for intervention that do not reflect the strategies in the fight against poverty adopted by the country. Any possible misunderstandings must be eliminated: bilateral aid does not mean ineffective aid. By analysing the breakdown and effectiveness of other donors' aid, it is obvious that a significant quota of bilateral aid does not automatically mean the Paris standards are not being met, but effectiveness is determined by the method of management of aid. For example, the United Kingdom is better placed than Italy as regards the effectiveness standards, although 75% of its aid in 2005 was bilateral; this result is attributable in part to the fact that 22% is managed by a method that respects the Paris Declaration: direct budget support.

In terms of the effectiveness of Italian aid, **Romano Prodi** acknowledges that there is work to be done: "We must work to

increase the transparency, efficiency and operational effectiveness of cooperation, maintaining a balance between multilateral and bilateral components, to be modified in relation to the progressive increase in effectiveness in our interventions. With our partners, we must once again find continuity in relations, also supporting their responsibilities in the management of aid."

Innovating management: direct budget support

The Paris Declaration is of crucial importance in sanctioning the change from project aid to programme aid. Project aid is a method by which donors finance a specific initiative and establish all the methods of management of aid. These are mainly one-off financing projects, such as the construction of infrastructures, without undertaking the subsequent costs, such as salaries for personnel. Project aid has been criticised as it leads to the proliferation of parallel structures extraneous to the beneficiary country, which limit its freedom of action (ownership), undermine the coherence of development plans and increase transaction costs.

Programme aid is a form of financial support to the governments of beneficiary countries and, according to the criteria of the Paris Declaration, includes other means: "sector wide approaches", "sectoral support" and "general support" to the country's budget. In the sector wide approach, donor and beneficiary agree upon a multi-annual strategy for a certain sector, split the costs and subdivide the realisation of interventions. Sectoral budget support is the support of a specific budget expense, for example, health. But donors see general budget support (GBS) as the method of aid that best responds to the principles of the Paris Declaration (see Box).

GBS represents the latest development in programme aid, which binds aid to the financing of multi-annual national programmes for the reduction of poverty (Poverty Reduction Strategy Papers – PRSPs). With GBS, aid is channelled directly to the beneficiary country through the allocation and accounting system of the receiving partner country and is not tied to any type of specific project. This method of aid is not merely a transfer of finances, but also includes a package of complementary elements: dialogue on policies and on the conditions for the paying out of aid; harmonisation and alignment of interventions to the strategy of the beneficiary country; technical assistance aimed especially at capacity support.

Table 21: GBS and the Paris principles

Paris Principles	Relationship with budget support
Full control of the country – Ownership	Budget support (national/local) contributes to ownership in the developing country thanks to its links with the (PRSP) and dialogue on policies.
Alignment	Budget support strengthens the management of the budget in the country, ensuring that aid is included in the state budget, improving its management capacity through the use of accounting systems of the beneficiary and contributing to increasing the predictability of aid.
Harmonisation	Budget support is a form of aid programme, which contributes towards a clear division of work and the reduction of fragmentation in donor projects.
Management of results	Budget support includes a mechanism of assessment of national and local government performance in the developing country and donor countries.
Reciprocal responsibility	Donors that provide budget support on the basis of the national implementation of the PRSP.

Source: ActionAid.

Nel 2004 i membri del DAC hanno erogato circa 5 miliardi di dollari tramite "budget support" - 5% dell'aiuto complessivo. Sono quattro i paesi - Regno Unito, Svezia, Olanda e Norvegia - che destinano al GBS la percentuale più alta del loro aiuto bilaterale.

Table 22: Percentage of total bilateral aid allocated to budget support

Source: NORAD, 2005.

Country	2004
Norway	4,9
Sweden	5,2
Holland	20,4
United Kingdom	22,0

Table 23: Assessment of the propensity of some EU member States towards GBS

Country	Propensity towards GBS
Austria	Low
Belgium	Increasing
Denmark	High
Finland	High
France	High
Germany	Increasing
Ireland	High
Italy	Low
Holland	High
Portugal	High
Spain	Average
Sweden	High
United Kingdom	High

Source: Donors Atlas, 2005.

At a European level, the approach shared by the consensus on development cooperation policy indicates GBS as the preferred method to support national strategies in the fight against poverty. It requests that member states assess the possibility of increasing the quota of aid channelled through budget support, increasing the number of beneficiary countries, but maintaining other methods of providing aid.

Together with Austria, Italy appears to be the European donor that is most loath to reorient its method of providing aid according to the consensus. Italian cooperation has confirmed to the EC that it will in future favour two methods of allocating aid, which have been strongly criticised in terms of efficiency, due to the high costs involved: project aid and technical assistance.

Advantages and disadvantages of General Budget Support (GBS)

The joint evaluation conducted by various donors in seven countries – Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam – and published in 2006 represents the first exercise in comparative evaluation of GBS.³⁰ There are positive elements and criticisms in the analysis.

Positive elements:

- » there is a strengthening of “ownership” in economic and financial planning by the beneficiary governments. Contrary to the approach in projects managed directly by external agents, GBS enables the beneficiary countries to autonomously use additional funds included in their national budgets to finance ongoing expenses or investments, for example, to pay the salaries of nurses and teachers;
- » there are positive effects on public expense and budget procedures. The funds provided through GBS are additional resources for the beneficiary country, which acquires greater discretionary power over them. In this way, GBS strengthens and improves budget systems, simplifying them and making them more effective;
- » GBS adds to the resources available to the national budget and increases the economic and financial planning capacity of the government and the Ministry of Finance compared to other ministries, thus strengthening the main government offices in beneficiary countries;
- » the reciprocal trust between the donors and the government of the beneficiary country is consolidated. GBS is based on continuous dialogue between these

Civil society and GBS: enemies or allies? ActionAid analysis

The 2006 *Where to go now?* study conducted by ActionAid in three countries – Uganda, Malawi and Tanzania – on the existing relations between civil society and the donation mechanism called GBS highlights how the use of GBS does not necessarily lead to the marginalisation of civil society with respect to decisions made by national governments. On the contrary, it is highlighted that there are often more meetings between institutions and civil society on the strategic guidelines for the fight against poverty. It is more difficult to measure the influence of civil society on the final decision and content. Once the consultations on the strategic guidelines are concluded, civil society laments the cessation of meetings during the realisation and payment phase and the lack of a transparent policy for accessing information. But the lack of control on executive expense decisions is not only perceived by part of civil society. The lack of capacity, resources and legitimacy also determine the exclusion of national parliaments from control over the executive. Lastly, one worrying consequence concerns the relations between donor countries and local organisations in beneficiary countries: research worryingly indicates that, with the increase in GBS, donors have reduced strategic consultation with local organisations, which are told to seek dialogue with their government. This means the loss of an opportunity for vulnerable and impoverished groups to give voice to their own priority development choices. The only country in which Italy has been involved in GBS is Mozambique, considered by many analyses and assessments to be one of the successes of GBS.

- two actors on the contents, ranging from the main economic planning documents of the developing country to the development policies and performance indicators established by common accord;
- » thanks to a single discussion and meeting forum between beneficiary and donors, it also improves coordination among donor countries;
- » the reduction in the cost of transactions has not been passed over either: in the case of project aid, 30 cents are needed to pay out one Euro, in the case of GBS, only 20 cents are needed to pay out one Euro;
- » there is also greater transparency and better control in the transfer of finances. By unifying their payment procedures, donors enable the beneficiary

governments to simplify estimates of the finances effectively available and national parliaments to increase democratic control over executive expenses.

Criticism:

- » *political preconditions* are necessary for the realisation of GBS, such as the willingness to implement development policies, good relations with donors, a non client-based political structure and ongoing economic reforms;
- » there is still a *fiduciary risk*, in other words the abuse of the resources available. Before GBS can be used in developing countries, these must have a reasonably structured budget and public expense system with short, medium and long-term financial

planning means capable of organically defining the guidelines for the management of investments;

- » there are still too many delays in the creation of a *cartel of donors* capable of intervening on all policies in the beneficiary countries;
- » there is still an *unpredictability of funds*: war and human rights abuse can force donors to block the payment of funds to the government, with humanitarian repercussions for the entire population, as has been the case in Uganda and Ethiopia, for example;
- » the *marginalisation of civil society and local authorities* continues, as the development strategies are discussed and managed exclusively by governments.

The ignored Italian experience in Mozambique³¹

During the second half of the 1990s,³² certain donors – Sweden, Norway, Denmark and Switzerland – started to pay funds through the GBS system in Mozambique, and now one fifth of all ODA is channelled through GBS. In the opinion of the donors, the fiduciary risks involved were less compared to the potential advantages connected to strengthening of the freedom of the country in choosing its own development strategies, government planning and responsibility towards parliament. In particular, the Mozambique government has proven that it could guarantee reform and economic stability, develop strategic policies for the fight against poverty, possess good management

³¹ The opinions on the Italian experience in Mozambique have been gathered during specific interviews; the list of experts contacted is in the bibliography. ActionAid would like to thank them for giving up their time.

³² Until 2001, GBS was in the form of support to the balance of payments, a similar form to that in previous structural adjustment programmes.

Structure of GBS in Mozambique

GBS in Mozambique is governed by a Memorandum of Understanding signed by donors and the Mozambique government in April 2004. At the heart of the GBS process is continuous political dialogue on planning, implementation and performance. The “Plan of Action for the Reduction of Absolute Poverty” (PARAP), adopted in April 2001 by the government, represents the reference planning document for the inter-sectoral planning and programming of government interventions aimed at the reduction of poverty in the country. With a lifespan of five years, this document established the fundamental sectors of intervention for government action. The annual Joint Review is of crucial importance in the structure of GBS, in which donors and the Mozambique government are involved and which assesses both the performance of the government’s development choices and the collective performance of donors. The monitoring and assessment of performance is more complex compared to project aid, as not only are the end results measured, but the implementation of the PARAP is also assessed. The final document of the Joint Donor Review is called “*Aide Memoire*”, the positive outcome of which is the condition necessary for the continuation of GBS. The process leading to the paying out of funds is then decided by common accord between the government and the donors prior to the start of each fiscal year and provides that donors declare their plan of payments for the following year.

and state administration systems and have a consolidated basis for dialogue on policies with donors.

The provision of GBS was formalised in 2000 with the creation of a “Joint Donor Programme for Macro-Financial Support”. Subsequently, donors and the Mozambique government signed a “Memorandum of Understanding” (MoU) establishing the principles and procedures for the GBS process for the next five years. The number of donors increased from the original 10 to 18.

In 2002, Mozambique was the number one beneficiary of Italian ODA, thanks to debt cancellation. Italy is the fourth largest donor by number of ongoing projects in Mozambique – 59 projects as at 19/2/2007, worth an average of 3 million Euros – but only thirteenth for total aid (\$23,485,450)

paid out in 2005.³³ Italian aid in Mozambique is aimed at farming (66.95% of funds paid out in the first semester of 2006), health (17.18%), training (6.79%) and good government/public administration sectors. The Italian government, in coordination with local NGOs, concentrates its action in certain provinces – especially Sofala province – for both logistical reasons and to avoid the dispersal of financial resources. From a strategic viewpoint, Italian cooperation in Mozambique follows the planning guidelines identified in the Plan of Action for the Reduction of Absolute Poverty (PARAP) and the European Commission Strategic Plan.

The idea that it was possible, and hopeful, for Italy to adhere to the programme of direct budget support in Mozambique was created in 2001, but adherence to the

³⁰ IDD and Associates, *Evaluation of General Budget Support*, May 2006.

³³ *Overseas Development Assistance to Mozambique Data Base*, available on the website: <http://www.odamoz.org.mz/reports/indexsub.asp>

Joint Programme only occurred in 2003. Participation was possible in spite of the extremely centralised management of Italian cooperation and there are many reasons for participation. The Directorate-General for Development Cooperation (DGCS) and Local Technical Unit (LTU) were interested in the possibility of providing aid more effectively to a country that guaranteed a favourable political-economic scenario. The crucial reasoning appears to have been political. The LTU believes it was necessary to adhere to the GBS process or otherwise be excluded from a political “discussion table” with the Mozambique government and isolated from cooperation initiatives. This country had to adjust to change made necessary by the decisions of other donors. The choice of participation in the budget support process was shared not only with the LTU in Mozambique and the DGCS, but the Ministry of the Economy was also in favour, on the basis of the political influence of GBS and the international commitments concerning harmonisation.

In 2003, Italy therefore decided to allocate 9.6 million Euros (0.6% of the annual budget expenses in Mozambique), to be paid out in three equal annual instalments, plus 400,000 Euros for technical assistance. Payment depends strictly on the positive outcome of the Joint Review. In 2006, confirmation of the positive performance by the Mozambique government enabled Italy to decide upon the approval of additional financing amounting to 11.4 million Euros for the triennium 2006-2009, plus 538,000 Euros in technical assistance.

The impact of GBS on Mozambique according to Italy

The overall judgement expressed by the interviewees on Italian GBS in Mozambique³⁴ is positive and in line with that of other donors:

- » GBS has supported the strengthening of ownership by the government, collaboration between donors and the government and the latter's capacity to identify priority objectives. Thanks to GBS, public expense has made good progress in the priority sectors of health, education, agriculture and reform of the public sector;
- » the LTU in Mozambique also underlines the importance of dialogue on development policies between the government and donors concerning the finalisation of the national plan to reduce poverty. According to Italy, donors maintain control over national and foreign policy in the country through dialogue, and also on fundamental questions such as the fight against corruption, the development of reforms and democratic growth;
- » GBS has also enabled the easier payment and greater predictability of funds compared to other methods of aid. Currently, over \$300 million are transferred by the 18 participants in the Mozambique programme, with only 18 bank transfers required;
- » the costs of transactions are reduced in the long term, given that donors have chosen to use the budget, accounting and evaluation systems of the beneficiary country;
- » Mozambique has proven that it can profitably use the aid at its disposal: from 1997 to 2003, the rate of absolute poverty fell from 69% to 54%.

In addition to the advantages of GBS, Italian officials working on and involved in the process have underlined the risks involved:

- » there is a certain inadequacy in the Mozambique government staff in following the complex process of budget support;
- » there is a risk of it being a means of interference towards the Mozambique government, given the presence of a single bloc of donors who could threaten the suspension of GBS. In Mozambique, this has occurred in the case of the recapitalisation of the two main banks in the country involved in corruption scandals, which led to the suspension of GBS for several months;
- » the political agreement for GBS with the Mozambique government assumes greater importance in discussing questions of governance and development with donors who are not willing to withdraw money, even in the case of Mozambique honestly not wanting to implement the PARAP;
- » the predictability of funds represents a significant problem for GBS in Mozambique, given that they represent one-third of the national budget. Its suspension would cause serious setbacks to government planning. Because of this, donors are asking questions on forms of compromise before the total suspension of funds, on how to establish the start of GBS and the reasons, methods and timeframe for its suspension; setting up a guarantee fund managed by third parties in which to keep other methods of aid active in the case of suspension; supporting the budgets of local authorities.

³⁴ The following points have been taken from the assessments given by the LTU and interviews to experts – list attached.

Table 24: Countries benefiting from Italian assistance and possible candidates for Italian GBS

Source: ActionAid processing of DAC data, March 2007.

Country	Position in table of beneficiaries of Italian aid net of debt cancellation 2000-2005	% of ODA destined by donors to GBS
Ethiopia	1 th	29%
Afghanistan	2 nd	24%
Mozambique	5 th	27%
Albania	6 th	1%
Honduras	9 th	20%
Dem. Rep. Congo	18 th	22%
Uganda	19 th	31%
Bolivia	25 th	15%
Tanzania	26 th	40%

GBS and Italian cooperation: lessons learned and progress to be made

GBS is currently a tool that is subject to analysis and debate in the community of donors but, as regards the national scene, no assessment has been made by the Ministry of Foreign Affairs on the experience in Mozambique analysing its potential and defects. The only public documents on GBS appears to be an interesting leaflet written by the local technical units (LTU) in Maputo and an article in the journal on International relation - LIMES.³⁵

It is interesting to note how the GBS experience could represent an incentive for the mini-reform of the *modus operandi* of Italian cooperation towards the implementation of the principles established in Paris.

In truth, Italy's presence in Mozambique is complex: Italy still favours the project method of aid and, in spite of the advantages highlighted, has decreased the resources allocated to GBS. In 2004, Italy allocated 20.68% (\$4,199,616) of the total aid in Mozambique (\$20,300,180) to GBS; in 2005, this quota remained pretty much the same. It appears obvious that Italy is a long way from one of the objectives established in Paris in particular: channelling 66% of aid through the programme method. In 2005, the UK already allocated 79.05% of aid to Mozambique by programme (67.57% by GBS), Switzerland 84.42% to programme aid – of which 57.04% to GBS – and Holland 76.76% to programme aid – of which 43.58% to GBS. As regards the EC, the figure is around 67.38% of aid to Mozambique channelled through programme aid.

Greater commitment to GBS could also

³⁵ Gianturco, L., *Et Dona Ferentes: Il paradigma degli Aiuti tra Maschera e Volto*, LIMES, no. 3, 2006.

contribute towards overcoming certain limits in Italian cooperation identified in the DAC review document: the lack of commitment in respecting the payments promised, the dispersal of resources that are distributed at random and the lack of clear country strategies. For example, in 2005, Italy paid out 100% of the amounts promised in GBS, as it did in the first triennium of GBS management; the third instalment was actually paid in advance of the deadline planned. As regards the lack of a strategic framework, by participating in GBS, Italy would adopt the strategy agreed by the community of donors.

It would be opportune for Italian cooperation to begin expanding the Mozambique experiment to other countries. In general, all those countries in which donors use GBS and where Italy could join the system would be candidates, independent of the financial quota involved. In particular, Tanzania and Uganda, which for years have received a high proportion of ODA through GBS and are among the beneficiaries of Italian bilateral aid, appear to be prime candidates.

The fact remains that, in order to use GBS to its full potential, Italy should solve its structural and organisational shortcomings and overcome the excessive centralisation of management:

- » in Mozambique, there is only one expert in the LTU to deal with a difficult and complex process such as GBS. According to the Italian technicians in Maputo, the main difficulty is represented by the fact that there are not sufficient human resources to support the activities of the Donor Working Group, thus forcing Italian cooperation to limit its participation to the study, research and assistance activities carried out by the group of donors;
- » the 2004 DAC peer review claims

that the LTU in Maputo could become a pilot experiment for greater decentralisation in decision-making, as the embassies currently do not appear to have the capacity or the interest to monitor complex development processes.

GBS for local authorities in developing countries? Suggestions for Italy

For many years, decentralisation has been one of the most debated subjects in the international community. It is interesting to note that more than 85 developing countries are pursuing processes of administrative decentralisation.³⁶ Despite the fact that it is difficult to establish the link between decentralisation and economic growth, it is generally recognised that, under certain specific conditions, this process can guarantee greater efficiency in the allocation of resources, democratic governance and the responsibilities of the government and the people.

In many DCs, local governments spend a significant amount of the public budget and have become the main actors in the distribution of basic services such as education and health – which are also priority sectors for Italian cooperation. Decentralisation processes have an enormous potential in reducing poverty and the achievement of the Millennium

³⁶ The process of decentralisation involves the transfer of planning, administrative and decision-making activities from the central government to local governments. The term may be used to refer to a government system in which power is granted to local authorities or a process during which governance is shifted from a centralised to a decentralised system. The main forms of decentralisation discussed in literature are mainly de-concentration and devolution. De-concentration occurs when the central government transfers part of its responsibilities to local offices. Devolution involves the transfer of powers of planning, resource mobilisation and implementation of development plans from the central government to local governments.

Objectives. However, most donors concentrate their attention and almost all of their resources on supporting central governments. Unfortunately, the debate on the effectiveness of aid also omits specific references to the role of local governments and the Paris Declaration itself only refers to the possibility of donor countries working with regional governments when dialogue with the national government is impossible.

The statement made on the occasion of the launch of the "White Paper on Cooperation" in 2006 by **Patrizia Sentinelli** was innovative and against the current tendency, highlighting how Italian cooperation is assessing different methods of aid to support local authorities in developing countries. The statement by the Deputy Minister is in line with the significant commitments undertaken by Italian cooperation to support the development of local capacities through special programmes such as the Anti Poverty Partnerships Initiative (APPI),³⁷ which have sometimes been parallel initiatives not including the local authorities.

Examples of financial support to the budgets of local authorities

Domestic GBS frequently has close connections with the support of local authorities,³⁸ given that most of these

³⁷ The Fiduciary Fund APPI (Anti Poverty Partnership Initiatives) was formed by the UNDP in June 2000, when Italy was the only financier with a triennial contribution of \$7 million. As of September 2001, the formation in Rome of the UNDP Programme Support Unit was formalised, and includes an APPI Management Unit. The Fund intended to "promote a new form of multilateralism, in which local communities are the protagonists". Its mandate includes a duplicate of the more significant UNCDF. <http://appi.nazioniunite.it/modules.php?name=Sections2&sop=viewarticle2&artid=28>.

³⁸ The theme of decentralisation has received little attention in the debate on GBS, which is mainly based on dialogue between the beneficiary government and donors.

GBS and local authorities in Uganda

The decentralisation process in Uganda is occurring in accordance with the implementation of the Local Government Development Programme (LGDP). The aim of this programme is to achieve some of the objectives established in the Poverty Eradication Action Plan (PEAP). GBS is one of the main methods of financing the implementation of the PEAP, which therefore indirectly subsidises the local governments. Furthermore, a significant amount of GBS is allocated to the Poverty Action Funds (PAF), a state budget item of which 75% goes to local governments.

The Poverty Action Funds, which are also financed by GBS, have contributed towards increasing local government finances. GBS has also played an important role in supporting the local authorities in the use of the funds in the priority areas identified in the Poverty Eradication Action Plan. However, in this way the mechanism has led to the dependence of the local authorities on the central government: in Uganda, only 10% of the local budget comes from a local taxation system and the central government has a crucial role in deciding upon the allocation of resources at a local level. 80% of transfers from the central government to local governments are conditioned by the implementation of specific local services.

funds are directed at the various local governments that use between 20% and 40% of the state budget for ODA. The correct implementation of GBS and support to the process of decentralisation, indicated as a development priority, could also give more space to local participation mechanisms. The quota of management of resources is not an adequate indicator of fiscal autonomy. In the case of Tanzania, the local authorities are in fact dependent upon the central government (and donors), as they receive more than 80% of their budgets in the form of subsidies.³⁹

Donors have recently begun experimenting with systems of supporting local governments directly, a sort of GBS at a local level. In truth, such methods involve

³⁹ In general, it is thought that transfer from the central government is the major source of income at a local level in all DCs (60% in DCs compared to 30-35% in OECD countries). The state taxation capacity as regards the taxation of imports are reorienting towards forms of imposition.

numerous problems. Some academics believe that the direct support of local bodies is merely the initial phase of a process that will in the end bring GBS to a national level. The direct support of local authorities appears to be more practicable in countries with a greater level of local political, financial and administrative autonomy. In the case of the direct support of local budgets, these governments would have sufficient autonomy in managing their own budgets and should be capable of implementing their own development plans.

However, research has highlighted the management limitations when local governments are given a certain amount of autonomy. It is therefore extremely important that the process of decentralisation should be accompanied by capacity building.

The United Nations Capital Development Fund (UNCDF) is a semi-autonomous UNDP agency, set up in 1966 by the United

Direct support of local budgets: the Vietnam case

Vietnam is a strongly decentralised country, with about 44% of its budget allocated to provincial authorities, and with an increasing number of decisions made at a local level. The Vietnamese provincial authorities are very much autonomous, leading to very different provincial contexts and considerable decentralisation at a provincial level. In Vietnam, local governments are responsible for more than 50% of expenses concerning the reduction of poverty.

Canada financed three Vietnamese provinces for five years through small-scale investments for a total budget of \$11.2 million. The funds were allocated to the Ministry of Finance, which then transferred them to the provincial authorities for the implementation of initiatives, but financing was conditioned by a pre-established framework. British cooperation has also experimented with GBS in two Vietnamese provinces. In 2005, the United Kingdom financed Phu Tho and Lao Cai provinces with \$500,000 each for their development plans in the transport sector. Direct support at a provincial level has reduced the level of state bureaucracy and speeded up the process of paying out funds, and has also enabled the provincial authorities to choose the most appropriate activities for the needs of their people and to distribute the available funds appropriately.

Nations General Assembly. The UNCDF focuses essentially on Local Development Programmes, with the aim of reducing rural poverty and strengthening the management capacity of local institutions in developing countries. The implementation of UNCDF projects occurs through the local authorities and not through the central government or specific units, in turn supported and flanked by the agency. The subsidies paid out by the latter are decided according to a mechanism involving the stakeholders in the project to be financed and the local authorities subsequently contribute a percentage of the total project cost. Therefore, the UNCDF is especially interested in the fact that the local authorities develop their own capacity to plan and manage the resources available.

The UNCDF also provides incentives for the creation of partnerships between local and national authorities, civil society and the private sector. The direct financing of

the local authorities, the issue of technical assistance and the focus on dialogue on the planning strategy promoted by the UNCDF are the main similarities with the GBS mechanism at a national level. Like GBS, the Local Development Programmes attempt to promote greater efficiency in the management of local budgets and expenses.

According to an analysis conducted by Denmark, one of the main problems of the UNCDF is the fact that it is dependent upon a small number of donors (Belgium, Denmark, France, Japan, Norway, Sweden, Switzerland and Holland).

UNCDF: a multilateral actor supporting local authorities

The experiment begun by the UNCDF aims to improve the decentralisation process and the use of funds by local governments, supporting the development of local capacity. The UNCDF has attempted to tie access and the size of subsidies to performance in pre-determined sectors. The elements (subject to the assessment of performance by local authorities) include good governance – for example, tied to the management of expenses – or performances in achieving certain pre-established objectives, for example the number of classrooms built. In this system, the local governments are given incentives to improve their financial management capacity and their revenue system. According to some academics, the system is an incentive to local governments to work in a more discretionary manner.

It is obvious that the UNCDF programme uses some of the mechanisms involved in GBS at a national level: performance, the achievement of pre-established objectives and continuous dialogue with local governments.

As regards the process of defining programmes, the programme methods are discussed by the person responsible nationally for the sector in question, for example the health sector, and the association of local governments. The group then decides the exact amount to be subsidised by the local governments (the Ministry of Finance plays an important role in this) and donors are only involved in discussions on the definition of the amount of finances to be paid out. Certain minimum conditions for payment of the subsidies are also established. For example, the local government must have a solid development plan, there must be a link between the development plan and the budget and there must be control of the expenses of local bodies. This scheme of direct subsidies based on performance has been used in Kenya (2001), Bangladesh (2003), Tanzania (2004) and Nepal (2004).



Photo: Alice Grecchi/ActionAid

Recommendations

In order to have a mechanism of official development assistance capable of responding to the challenges of the Paris Declaration, ActionAid asks the Italian government to:

- » assess the possibility of increasing the

resources to be allocated to GBS in Mozambique;

- » expand the GBS experiment to other countries, such as Tanzania and Uganda for example;
- » begin experiments for the direct support of budgets of local authorities, also through the United Nations Capital Development Fund, to increase local autonomy in Southern hemisphere

countries;

- » favour the local management of interventions as one of the main elements in the reform of the discipline of development cooperation;
- » carry out an analysis of the opportunities and risks involved in direct budget support for Italian cooperation.

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Glossary

Source: Ministry of Foreign Affairs, 2007.

Term	Definition
Programme aid	Type of aid consisting in providing assistance or cash, on condition that the beneficiary carries out a development plan in the sector in question. Includes, for example, contributions used to carry out wide-ranging development plans in a given sector (agriculture, education, transport). Also includes support to the payment balance and the state budget.
Tied aid	A form of Official Development Aid that provides for the respect of certain conditions for the realisation of initiatives by the beneficiary. In particular, the latter is bound to obtain goods and services concerning the project exclusively from the donor country or a restricted group of countries, in which all DCs are not usually included.
Untied aid	A form of Official Development Aid that enables the beneficiary to obtain goods and services concerning the project freely from any country whatever.
Official Development Assistance (ODA)	Aid which, in the form of donations or credit, is granted by governments and public bodies to developing countries.
Debt Cancellation	An action connected to the HIPC (Heavily Indebted Poor Countries) initiative aimed at favouring extraordinary aid to the poorer DCs in debt with foreign governments, by annulling or reducing debt to a sustainable level.
Finalised contributions	Finances paid to international organisations for the implementation of specific initiatives or projects, considered as bilateral aid.
Obligatory contributions	Finances granted to international organisations in order to pursue objectives concerning the growth of DCs. The quantifying of such contributions is established by the law.
Voluntary contributions	Finances granted to international organisations and development banks and funds for the realisation of interventions in DCs with development purposes, on the basis of international agreements and protocols.
Technical cooperation	The supply of resources the main aim of which is to increase the stock of human capital, in other words the level of knowledge, technical know-how or production attitude of the populations of beneficiary countries.
Credit aid	Financing granted for cooperation activities from the Rotational Fund of the Ministry of the Economy and Finance and managed by the granting body. Credit aid is allocated: a) for the realisation of a specific project, on request of the beneficiary country (project aid initiatives); b) in support of the balance of payments of the beneficiary country or in support of projects promoted by local small and medium enterprises (programme aid initiatives).
Donation	Form of aid destined to DCs free of charge to deal with emergency situations and/or to support the general economy. It may be in various forms, such as financial contributions, the supply of goods and services and debt cancellation.
Payment	Actual payment of funds or purchase of goods and services for a beneficiary country; corresponds to the amount effectively spent.
Commitment	Commitment undertaken in written form and supported by the required funds, subscribed by an official donor, who provides specific assistance to a beneficiary country or a multilateral organisation.

List of acronyms

Italy and the fight against world poverty

AA: ActionAid
AGEA: Agenzia per le erogazioni in agricoltura (Agency for aid to agriculture)
AMC: Advanced Market Commitment
CDI: Commitment to Development Index
CICS: Comitato Interministeriale per la Cooperazione allo Sviluppo (Interministerial Committee for Development Cooperation)
CIPE: Comitato Interministeriale per la Programmazione Economica (Interministerial Committee for Economic Planning)
CIPES: Comitato Interministeriale per la Politica Economica Estera (Interministerial Committee for Foreign Economic Planning)
DAC: Development Assistance Committee
DCs: Developing countries
Ddl: Disegno di legge (Draft Law)
DFID: Department for International Development, UK
DGCS: Direzione Generale per la Cooperazione allo Sviluppo (Directorate-General for Development Cooperation)
DPEF: Documento di Programmazione Economico-Finanziaria (Economic-Financial Planning Document)
FAI: Fondo Aiuti Italiani (Italian Aid Fund)
FAO: Food and Agriculture Organization
GBS: General Budget Support
GDP: Gross Domestic Product
HIPC: Heavily Indebted Poor Country
IFF-Im: International Finance Facility for Immunization
IMF: International Monetary Fund
ISTAT: National Statistics Institute
LDCs: Least developed countries
LTU: Local technical units
MAE: Ministero degli Affari Esteri (Ministry of Foreign Affairs)
MDG: Millennium Development Goal
MDRI: Multilateral Debt Relief Initiative
NGO: Non-government organisation
ODA: Official development assistance
OECD: Organization for Economic Cooperation and Development
ONLUS: Organizzazione non lucrativa di utilità sociale (non-profit social organisation)
ODA: Official Development Assistance
PRSP: Poverty Reduction Strategy Paper
UNDP: United Nations Development Programme

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sides with poor people to end
poverty and injustice together.**

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