Chapter 3: Allocating Italy's official development assistance

Overall ODA volume

Indicator: The member makes every effort to meet ODA domestic and international targets

Italy remains committed to reach the UN target of 0.7% ODA/GNI eventually. However, Italian ODA experienced a steady decline between 2008 and 2012, dropping from USD 4.86 billion to USD 2.74 billion. Italian ODA represented 0.14% of its gross national income (GNI) in 2012, down from 0.22% in 2008. The government has reversed this negative trend: it increased the ODA level in 2013 and 2014 and committed to steadily raise the ODA/GNI ratio to 0.28/0.31% in 2017 – a positive signal. It is also encouraging that Italy has taken steps to provide forward-looking information on ODA.

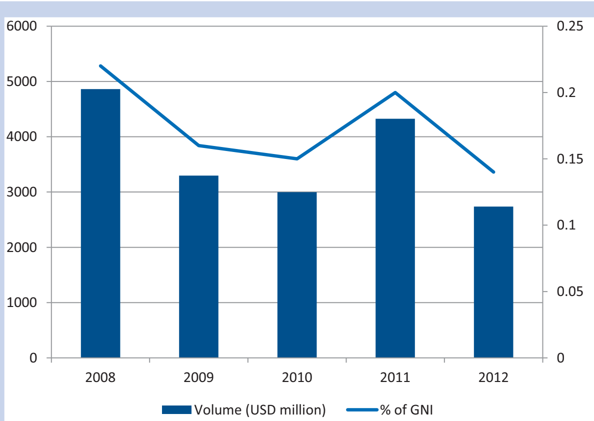
Decreasing levels of ODA mean Italy is unable to meet its international ODA/GNI commitments

Italy's net ODA in 2012 amounted to USD 2.74 billion. Overall, Italian ODA underwent a process of steady decline since 2008, when it was USD 4.86 billion. As a result, Italy ranked 12th in the DAC in terms of ODA volume in 2012 compared to 8th in 2008. Meanwhile, annual levels fluctuated significantly: Italian ODA increased by 36% in real terms between 2010 and 2011 – mostly due to high levels of ODA to refugees arriving from North Africa and debt relief grants – and then fell by 35% the following year.

Italy's ODA represented 0.14% of its gross national income (GNI) in 2012, down from 0.22% in 2008. Italy has not met the 2010 EU target of 0.51% of GNI allocated to ODA, and is far from reaching the 0.7% ODA/GNI target for 2015 (Figure 3.1)[1].

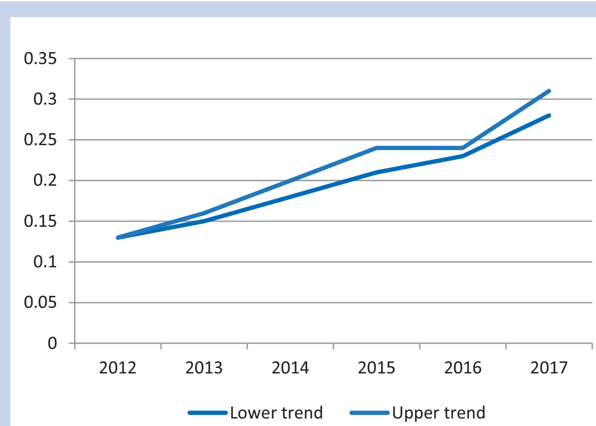
Figure 3.1. Italy's net ODA

Volume and percentage of GNI, 2008-12



Source: OECD/DAC statistics.

Projections of ODA/GNI ratio, 2013-17



Source: Italy, economic and financial documents, 2013.

Italy plans to reverse the trend of declining ODA

ODA cuts for 2009, 2010 and 2011 had already been announced at the time of the last peer review, and Italy did not have a roadmap for increasing its aid levels. The review therefore recommended that Italy outline how, and by when, it would reach its aid commitments. In 2012 the Italian government took action to reverse the ODA declining trend. Its economic and financial document set out an ambitious path for increasing ODA by 10% each year, with the ODA/GNI ratio brought up to 0.28-0.31% in 2017 (Figure 3.1).

The budget laws adopted by the Italian parliament for 2013 and 2014 indicate an annual ODA increase of 22% and 1% respectively[2]. If confirmed in the coming years, the increase would give Italy the means to have more impact in partner countries. Ensuring that its volume of aid is commensurate with the size of its economy would also strengthen Italy's credibility as a G8 and G20 member engaged in global development debates. Public and parliamentary support will be crucial if the increase is to be sustainable, especially given the constraints of Italy's fiscal policy.

Nearly all Italian ODA consists of grants: they represented 97% of total ODA in 2011. However, Italy also provides soft loans, using a revolving fund made up of repayments from earlier loans.[3] It plans to disburse around EUR 180 million over 2013-15 as soft loans in low-income or middle-income countries and to develop blending mechanisms to do so. The revolving fund allows high levels of concessionality. The average grant element of Italian ODA loans amounted to 88.2% in 2011, and the grant element of its total ODA was 99.6% (OECD, 2013b). Italy can also provide concessional loans for setting up joint ventures in partner countries, a mechanism it has not used extensively so far.[4] Together with blending mechanisms, these are promising tools, if carefully managed to avoid debt sustainability issues.

Italy also signed six debt conversion agreements with partner countries between 2010 and 2012. The largest were with Ecuador (EUR 35 million) and Albania (EUR 20 million). These agreements totaled EUR 95 million. Italy plans to pursue the debt conversion initiatives for a total of EUR 122 million over 2013-15 (MFA, 2013).

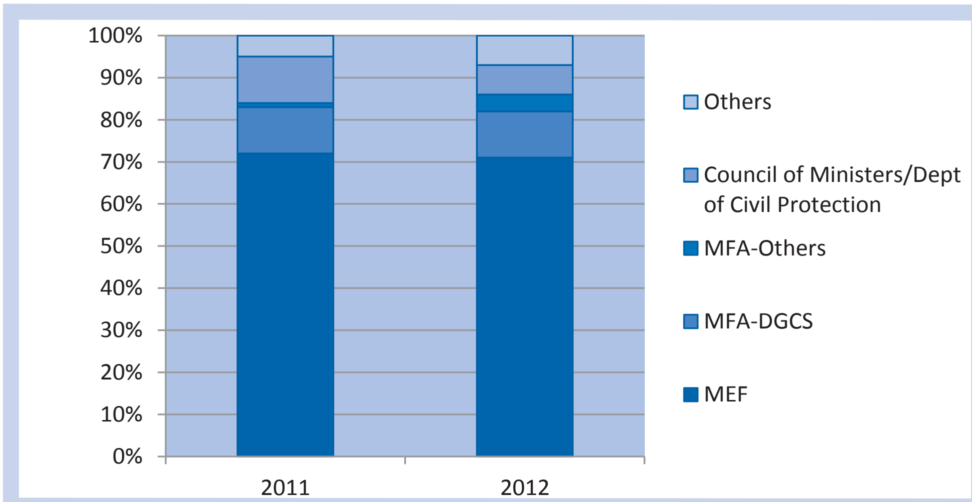
A large share of Italian ODA is channelled through the multilateral system

Up to 77.6% of Italian gross ODA was channelled to the multilateral system in 2012. Most of these funds are managed by the Ministry of Economy and Finance, including ODA going through multilateral development banks, innovative funding mechanisms[5], the International Fund for Agricultural Development (IFAD) and the European Development Fund (EDF). This leaves a limited share to be directly managed by the Ministry of Foreign Affairs (15% in 2011-12) – although the latter is responsible for policy choices that concern the EU budget and the EDF (Figure 3.2).

The MFA is in charge of bilateral development co-operation, debt relief and aid channelled through most of the UN organisations. Funds managed by DGCS decreased dramatically in the last six years, from EUR 1 333 million in 2007 to EUR 455 million in 2009 and EUR 199 million in 2012. However, the budget of DGCS increased to EUR 350 million in 2013, reflecting the overall ODA increase.[6]

Among the other official stakeholders, the Department of Civil Protection (under the Council of Ministers) is the most important actor. The amount it disburses varies depending on Italy's humanitarian assistance response to emergency situations. It represented 11% of Italian ODA in 2001 and 7% in 2012. ODA reported by Italian local authorities is limited (less than EUR 10 million in 2012).

Figure 3.2 Italy's ODA by government department, 2011-12



Source: Based on data in the Memorandum submitted by Italy (OECD, 2013a).

Italy is reporting forward- looking information

In recent years Italy has worked jointly with the OECD Secretariat to improve its ODA reporting. The dialogue has helped to solve many reporting issues, but further efforts are needed so that Italy can report in full accordance with the DAC statistical reporting directives starting in 2014. Italy is encouraged to streamline its reporting mechanism further by setting up a platform common to all Italian ODA providers.

Italy has also taken steps to establish an open-data electronic platform with a view to meeting the Busan commitment to provide timely, comprehensive and forward-looking information by 2015. It regularly contributes to the survey on aid allocations and indicative forward spending plans. Italy agreed in 2012 to make its forward spending publicly available through the OECD website. However, in its response to the 2012 survey it did not provide information on its efforts to provide partner countries with three- to five-year spending plans – one of the commitments made in Busan (OECD, 2012a).

Bilateral ODA allocations

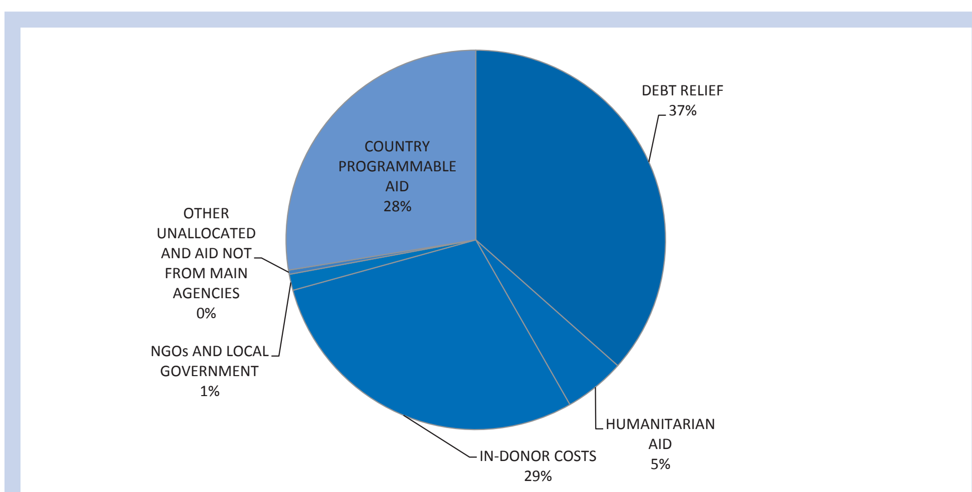
Indicator: Aid is allocated according to the statement of intent and international commitments

Italy has concentrated its aid programme around a smaller number of priority countries, where it focuses on sectors consistent with the priorities defined in the triennial guidelines. The limited share of Italy's country programmable aid, combined with the fact that the bulk of Italian aid is spent through the multilateral channel, leaves little room for direct bilateral funding. This calls for keeping the bilateral programme focused. Italy also needs to carefully manage its exit from countries that are no longer among its priority countries. In 2011 it met its commitment to allocate 50% of its bilateral ODA to Africa. However, this was mainly due to large debt relief operations. Italy therefore needs to plan how it will maintain a high level of engagement in Africa.

Country programmable aid is limited

Italy's share of country programmable aid is limited: a little over one-quarter of its gross bilateral ODA in 2011 (27%), far below the DAC members' average of 55% for the same year. This results from the high level of debt relief (38%) and in-donor country refugee costs (19%), while humanitarian and food aid accounted for 5% of gross bilateral ODA in that year (Figure 3.3).

Figure 3.3 Composition of Italy's gross bilateral aid programme (2011)



Source: OECD/DAC statistics

Keep the aid programme focused on a few countries

Italy acted on the 2009 recommendation to strengthen its geographic focus, having decided to reduce the number of priority partner countries from 35 to 24 (Figure 3.4). At the March 2014 DAC peer review meeting, members were informed that Italy intended to reduce this number even further, to 20 countries. This increased geographic concentration was not yet reflected in the 2011 figures since large debt relief operations were conducted in four non priority Highly Indebted Poor Countries (HIPC).[7] However, Italy was a significant donor in 17 of its 24 priority countries in 2011, and the share of its significant aid relations increased from 35% in 2007 to 41% in 2011.[8]

The limited share of country programmable aid, combined with the importance of the multilateral channel for Italian aid, leaves little room for bilateral transfers of funding to partner countries. Italy's bilateral ODA allocable by region amounted to USD 1 385 million in 2011, of which USD 810 million was debt relief operations, leaving USD 575 million for programmes in partner countries compared with USD 1 063 million in 2008 (Tables B.2 and B.3).[9] This calls for keeping the aid programme focused on a few countries.

Of Italy's current 24 priority countries, 21 were on the previous list of 35 priority countries. Three new countries have been given priority: Cuba, South Sudan and Sudan. This means Italy has to phase out progressively from 14 countries. It would profit by learning from other donors' experiences how to establish exit strategies for these countries.

More than two-thirds of Italy's bilateral ODA allocable by country (71% or USD 958 million) went to Least Developed Countries (LDCs) in 2011. This is far above the level in 2008, when only 25% of its bilateral ODA went to LDCs. Similarly, 69% of Italian aid allocable went to Sub-Saharan Africa in 2011 against 20% in 2008. Therefore, Italy implemented in 2011 the recommendation of the previous review to allocate 50% of its bilateral aid to Sub-Saharan Africa. However, large debt relief operations in the Democratic Republic of the Congo and the Republic of the Congo contributed to a very large extent to this high level of ODA.

Italy plans to maintain a priority focus on Sub-Saharan Africa, where 10 of its 24 priority partner countries are located. According to the 2013-15 programming guidelines, 42% of bilateral ODA will be allocated to this region in 2013. Thus, Italy needs to plan how it will sustain this focus on Africa in a longer term, especially in light of diminishing debt relief operations in the coming years.

Figure 3.4 Italy's 24 priority partner countries and top 20 recipients of its ODA (2011-12)

Source: Memorandum submitted by Italy (OECD, 2013a) and OECD/DAC statistics.

Sector allocations are broadly consistent with Italy's priorities

The bulk of Italian bilateral programmes implemented in partner countries supported social infrastructure and services and production sectors in 2010-11 average (Table B.5). These allocations are broadly consistent with the sector priorities defined in the triennial guidelines (Chapter 2). Debt relief operations were important until 2011, but their importance is expected to decrease in coming years. If the volume of Italian ODA is to increase as planned, larger amounts of funding should be made available for programmes in partner countries.

Multilateral ODA channel

Indicator: The member uses the multilateral aid channel effectively

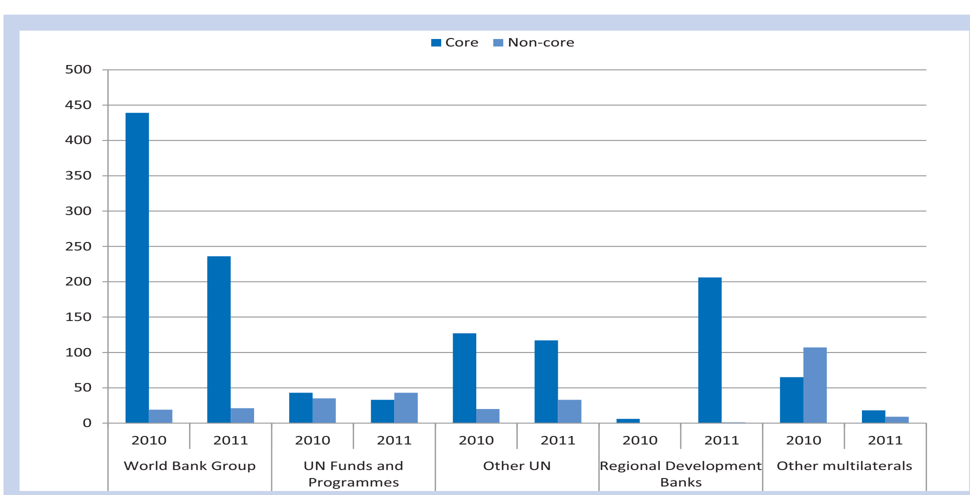
Despite the high share of Italian ODA going through the multilateral channel and Italy's efforts to be more strategic in using multilateral aid, fluctuations in the funds allocated and the lack of a strategic framework weaken its capacity to engage with key international partners over the long-term – with the exception of Rome-based institutions. Elaborating an overall strategy for multilateral assistance and participating in joint multilateral assessment frameworks would help Italy to focus on fewer partners (based on their performance and its own priorities) and encourage synergies between multilateral and bilateral activities. Collaborating with fewer partners would also increase Italy's leverage in these organisations.

Italy could strengthen its strategic approach to further synergies with the bilateral aid programme

A large share of Italy's ODA is channelled to the multilateral system. However, this share fluctuated widely in recent years: it fell from 70% in 2009 and 2010 to 57% in 2011, and then rose in 2012 to 81% (USD 2.14 billion).

The EU Institutions are the main channel by far: they received 42% of Italy's gross ODA disbursements in 2011[10] compared with 5% going through the World Bank, 4% through the regional development banks and 3% through UN agencies (Table B.2). While funds going through the EU remained stable, funds provided to other multilateral organisations decreased dramatically since 2009. This decrease affected mostly core contributions (Figure 3.5). Italy provided no core contribution to UNDP, the UN Population Fund (UNFPA) and the UN Children's Fund (UNICEF) in 2012.[11]

Figure 3.5 Italy's core and non-core contributions to multilateral agencies, 2011 (USD million)



Source: OECD, 2012b.

The year 2013 marked a change, with Italy re-establishing core contributions to UN organisations (a total of about EUR 48 million) and contributing EUR 465 million to international banks and funds in order to respect its international commitments and solve arrears issues (MFA, 2013). The latter was made possible by the budget Law 228 of 24 December 2012, which indicates the amounts Italy can commit until 2022 to contribute to the replenishment of multilateral development banks and funds. This positive signal helps to restore Italy's credibility[12] and could also pave the way to refining its overall strategic approach to multilateral institutions.

With the exception of IFAD (Box 3.1), Italy does not make multi-year commitments to UN organisations. Combined with the uncertainty of the fiscal situation, this weakens the predictability of its funding and hence its credibility. As noted by multilateral organisations, fluctuations in Italy's contributions also undermine its ability to engage with a long-term perspective. This can be detrimental to innovative, well-performing programmes such as the ART Global Initiative (Articulation of Territorial and Thematic Networks of Cooperation for Human Development), which is led by UNDP with strong Italian support.

Consistent with a recommendation of the 2009 peer review, Italy has reduced by 20% the number of institutions receiving Italian voluntary funding between 2009 and 2011. It further reduced their number in 2012 due to budgetary constraints. However, in 2013 Italy was considering providing voluntary contributions of EUR 42.3 million to an additional select group of bodies chosen according to "criteria such as maximisation of impact and effectiveness, their having a base in Italy, the need for a gradual return, and the role of and benefit to System Italy" (MFA, 2013). While Italy is clearly looking at building synergies between the bilateral and multilateral channels, it needs to keep in mind the need to concentrate its funding strategically on fewer organisations (Chapter 2).

Doing so within a strategic, clearly communicated framework would provide its multilateral partners with more clarity and predictability. It would also give Italy more leverage in these organisations, including the Italian-based multilateral institutions. This would help Italy to use multilateral aid in accordance with its overall development co-operation strategy, factoring potential synergies into the decision-making process.

Box 3.1 Strong links with Italian-based multilateral institutions

Italy enjoys close relations with the international organisations based in Rome. Excluding humanitarian aid, agriculture and food security are the major sectors that receive its multilateral assistance. This support is provided through Rome-based institutions (FAO, IFAD and the World Food Programme, WFP), to which Italy is an important contributor. It is coupled with Italy's long-standing support to agriculture, provided either through the bilateral programme or at the international level, as shown in 2009 when the L'Aquila Food Security Initiative was adopted during the Italian Presidency of the G8.

Rome-based institutions appreciate this long-standing close relationship with the Italian government. In particular, Italy has a five-year framework agreement with IFAD, which was renewed in 2011. Italian ODA channeled through IFAD doubled following the L'Aquila summit in 2009 and then increased steadily. A slight increase is planned over 2013-15 despite the economic crisis.

Source: Interviews in Rome, October 2013.

DGCS has elaborated guidelines on its multilateral co-operation, which emphasize co-operation with the UN. This is a positive step, as it could become DGCS's strategic framework for engaging with UN agencies, funds and programmes, outlining clearly the objectives of Italian multilateral aid over the medium-term and ways to monitor and assess the use of Italian contributions. This should then facilitate the establishment of a broader strategy covering the entire Italian engagement with multilateral organisations, in close collaboration with the Ministry of Economy and Finance.

Active support for innovative mechanisms to finance the health sector and food security at the global level

Italy actively promotes international innovative financing for development in the health sector: in 2006-12 it was the third largest contributor to innovative finance mechanisms, particularly through global funds such as the GAVI Alliance (DI, 2013). Italy also contributes to market-based mechanisms such as the International Finance Facility for Immunisation and the Advanced Market Commitment, which was officially launched in Lecce, Italy, in 2009 (Chapter 1).

Italy plays a special role *vis-à-vis* the international organisations it hosts. It attaches particular importance to "supporting and building on the work of the United Nations 'hubs' in Rome and Turin. The aim here is to strengthen their expertise and central role in the system, in both the food security and training sectors" (MFA, 2013).

Notes

1. As observed in Table B.1, Italy's ODA/GNI ratio has never been above 0.22% in the last fifteen years.
2. According to the 2013-15 budget law adopted in December 2012 and the 2014 budget law adopted in December 2013, Italian ODA increased from EUR 2.133 billion in 2012 to EUR 2.591 billion in 2013 and to EUR 2.618 billion in 2014.
3. EUR 335 million was available in 2013.
4. While these soft loans may temporarily boost Italy's ODA in the short-term, they will generate negative flows of ODA once the loans are repaid.
5. In particular, the GAVI Alliance and the International Finance Facility for Immunisation (IFFIm).
6. Mainly consisting of EUR 277 million from the regular budget law, some EUR 60 million from the International Mission Decree set up to support peace-keeping missions with a development co-operation component, and a carry-over of EUR 9 million from 2012 (figures provided to the mission in Rome, October 2013).
7. The Democratic Republic of the Congo, the Republic of the Congo and Haiti were among the top ten recipient countries in 2010-11 for this reason. As a result of these debt relief operations, Italy's top ten recipients received 48% of its gross bilateral ODA on average in 2010-11, compared with 62% on average in 2005-09 (Table B.4).
8. Italy is a significant donor in countries where it provides more than its global share of country programmable aid (CPA) and/or is among the top donors that cumulatively provide 90% of CPA to those countries.
9. With an amount of bilateral ODA allocable by region of USD 1 964 million and USD 901 million of debt relief operations.
10. 57% in 2012, according to the Memorandum submitted by Italy (OECD, 2013).
11. Similarly, Italy did not participate in the second and third replenishment of the Global Fund to Fight AIDS, Tuberculosis and Malaria (2008-10 and 2011-13). However, it participated in the fourth replenishment in 2013 and pledged a total of EUR 100 million over three years.
12. As of the end of 2013, Italy has no arrears *vis-à-vis* multilateral development banks and funds.

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