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Italian Aid Policies for Poverty Reduction

Jose Luis Riu-Sausi and Marco Zupi

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ITALIAN AID POLICIES FOR POVERTY REDUCTION

José Luis Rhi-Sausi and Marco Zuppi

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Foreword

This paper is one of a series on the experiences of European donors with the use of aid for poverty reduction and is the product of a major research programme involving ten European development research institutes. This programme breaks new ground in its intention to compare and to draw from the collective experience of donors of the European Union and also perhaps in the degree of collaboration involved by European development research centres. Each Institute is funding its own participation, with ODI playing a co-ordinating role. The institutes involved are:

Asociación de Investigación y Especialización sobre Temas Iberoamericanos (AIETI), Madrid;

Centre for Development Research (CDR), Copenhagen;

Centro Studi di Politica Internazionale (CeSPI), Rome;

Deutsches Institut für Entwicklungspolitik/German Development Institute, Berlin;

Développement et insertion internationale (DIAL), Paris;

European Centre for Development Policy Management (ECDPM), Maastricht;

Institute of Development Studies (IDS), Helsinki;

Nordiska Afrikainstitutet/Nordic Africa Institute, Uppsala;

Overseas Development Institute, London;

Third World Centre, Catholic University of Nijmegen.

The objective of the first stage of this research programme is to describe and assess each donor's goals as they relate to bringing the benefits of aid to poor people, and to review each donor's organisation and management to implement this objective. The ten donor agencies are those of Denmark, the European Commission, Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the UK. A matrix summarising the comparative donor positions will appear later in this series and will include some observations from the donor studies on the differences and similarities of the various approaches.

The other papers in this series published to date are:

Danish Aid Policies for Poverty Reduction by Lars Udsholt (WP 100, May 1997);
German Aid Policies for Poverty Reduction by Eva Weidnitzer (WP 101, June 1997);
French Aid Policies for Poverty Reduction by Lionel de Boisdeffre (WP 103, September 1997); and
Spanish Aid Policies for Poverty Reduction by Christian Freres and Jesús Corral (WP 104, September 1997).

The second stage of the research consists of a series of seven in-country studies to examine the operations of the European donors in pursuit of poverty reduction in Bolivia, Burkina Faso, India, Nepal, Tanzania, Zambia and Zimbabwe. An important part of this work will be to evaluate the effectiveness of different types of poverty-related donor interventions. Special attention will be paid to the nature of the processes involved. Collective and comparative experience of poverty reduction effectiveness will be explored, including any 'best practices', and the main determinants of effectiveness will be examined. These studies will be undertaken during 1997/98 and will also be published as ODI *Working Papers*.

I am most grateful for the co-operation of each Institute in this endeavour and for the help of all those donor officials and advisers who have responded to enquiries and interviews by the collaborating researchers. I would like to acknowledge the financial support provided by the Department for International Development in the UK which has made possible ODI's contribution to the programme. However, neither they nor any others who have assisted in this programme necessarily agree with the facts presented and the inferences drawn.

John Healey
Overseas Development Institute

Summary

The purpose of this report is to analyse and summarise the poverty reduction policy of Italian official development assistance (oda). Among the different and changing motives of Italian aid, the greatest importance is attached to those that involve Italian interests: security objectives, commercial interests and the international prestige of Italy. Commercial policy helped to prevent the emergence of a coherent poverty reduction policy. Even when humanitarian interests were important, as in the 1980s, Italy made the needs of beneficiary countries conditional on its own interests: an extremely high proportion of tied aid and investment was in economic infrastructure constructed by Italian enterprises, as well as seeking political support from friendly governments.

Poverty reduction became more important in Italian oda during the 1990s. This has been connected to a crisis in the commercial approach to bilateral aid and to the international community's interest in poverty reduction.

The report tries to reconstruct the history – in both quantitative and qualitative terms – of Italian aid devoted to poverty reduction. It consists of three parts:

- The first part provides an analysis of Italian poverty reduction policies and objectives in the 1980s. In the early years of Italian development co-operation, from 1981 to 1989, altruistic/humanitarian motivation was very important. Legislation, including that of 1979, 1985 (struggle against famine), and the 49/1987 law still in force today, was strongly rooted in humanitarian concerns. In fact, the large increase in oda funding in the mid-1980s had the same kind of motivation. Using the allocation of funds to the poorest countries as a rough indicator of altruistic/humanitarian motivation, 50–60% of Italian oda was earmarked for these countries in the period 1981–9. It was the African period of Italian oda, the importance of which started to decrease in 1989.
- The second part provides an analysis of Italian poverty reduction policies and objectives in the 1990s. A well conceived and carefully structured poverty reduction policy has been set up in the last few years. It is closely related to the experience of the PRODERE programme, a human development programme for refugees, displaced and repatriated persons in Central America which began in 1990 under the leadership of the UNDP. The importance of collaboration with UNDP and the World Bank is spelt out. The PRODERE programme is described, as well as the nature of the new poverty reduction concepts and strategies and the programmes which implement them.

- The third part provides the statistical data profile of Italian oda devoted to poverty reduction. This covers allocations to poor countries, financing of non-governmental organisations, and sectoral and project interventions which have poverty-reduction characteristics.

We wish to acknowledge with gratitude the co-operation received from the General Directorate for Development Co-operation of the Ministry of Foreign Affairs, in the person of the Director General Paolo Bruni, in preparing this preliminary report. The Ministry was generous in providing access to data from its database, and Claudio Spinedi, Chief of Planning and Information, supported and facilitated our work. Gianfranco Petruzzella, Giuliano Papi and Carla Graziani gave us accurate and generous help. We especially wish to thank Antonio Bandini, Head of the Albanian aid programme and Luciano Carrino and Massimo Tommasoli, experts in the Ministry's Central Technical Unit. Our thanks also go to Silvia Petta for her statistical support and Steve Armstrong who made our editing work easier. None of these is responsible for any of the views expressed here.

José Luis Rhi-Sausi
Marco Zupi

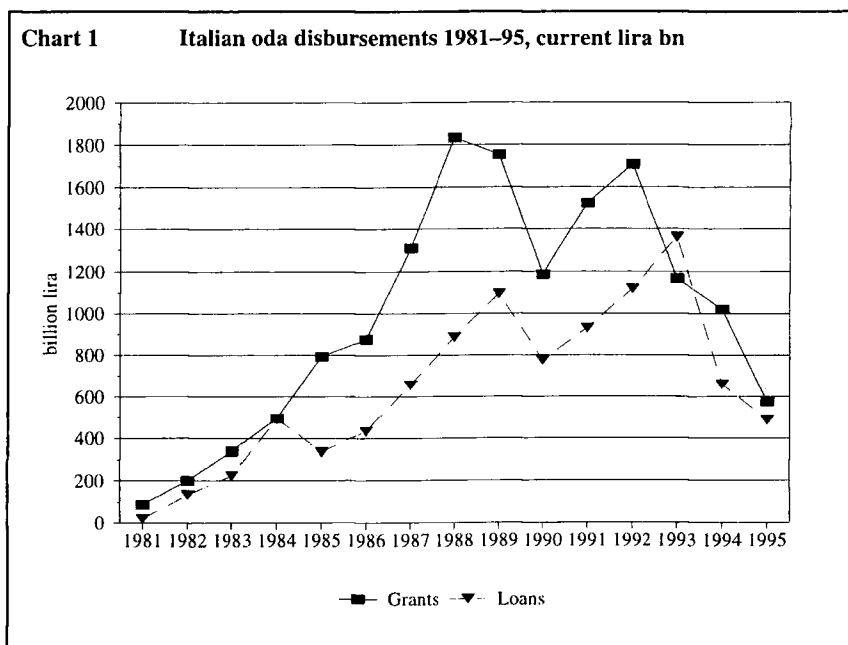
Acronyms

bn	billion (1,000 million)
CIPE	Interministerial Committee for Economic Planning
CTU	Central Technical Unit (in the Italian Ministry of Foreign Affairs)
DAC	Development Assistance Committee (of the OECD)
DGCS	General Directorate for Development Co-operation
ECRF	Eritrean Community Rehabilitation Fund
FAI	Fondo Aiuti Italiano/Italian Aid Fund
FAO	Food and Agriculture Organization
ICE	Istituto per il Commercio Estero/Foreign Trade Institute
IDA	International Development Association
ISTAT	Istituto Nazionale di Statistica/National Statistical Institute
LLDCs	Least Developed Countries (with less than US\$1 a day GNP per capita)
MFA	Ministry of Foreign Affairs
NGO	Non-Governmental Organisation
oda	official development assistance
OECD	Organisation for Economic Co-operation and Development
PRODERE	Programme for Refugees, Displaced and Repatriated Persons in Central America
SMALP	Salud, Medio Ambiente, Lucha contra la Pobreza/ Health, Environment, Fight against Poverty
STATIS	Structuration des Tableaux à Trois Indices de la Statistique
UNOPS	United Nations Office for Project Services

1. Poverty reduction concepts and strategies during the 1980s

1.1 The absence of a specific poverty reduction objective

Starting from the 1980s, the influence of Italian official development assistance (oda) grew in conjunction with the introduction of new Italian laws defining poverty reduction policy. In terms of resources devoted to oda, the growing interest is clear. Italy's aid increased from 0.08% (1979) to 0.19% (1981), 0.35% (1984), and 0.42% (1989) of GNP, making the country one of the foremost donors among DAC members. Since 1990 this trend has been reversed (from 0.32% in 1990 to 0.14% in 1995). Italian oda disbursement figures for the period 1981–95, in current lira, are summarised in Chart 1.



The extent to which Italian oda was focused on the reduction of poverty is not known, however. The fight against poverty was not recognised as a separate sector for Italian oda; rather, in the 1980s it was considered part of emergency programmes, food aid and aid for the social sector (mainly health programmes).

For many years the specific objective of poverty reduction has been excluded as an explicit aim. The general idea was that broad-based economic and infrastructure growth would help the poor by virtue of its spillover benefits. Some groups, the non-governmental organisations (NGOs) in particular, adopted a more focused approach targeted on poverty reduction; they were sceptical of the advantages the poor would derive from the trickle-down of growth benefits. Their interventions targeted on vulnerable groups comprised a number of micro-projects.

The most relevant theoretical and methodological approach of Italian oda towards poverty problems during the 1980s was defined by the politics of the 'Mezzogiorno' question and the so-called 'Cassa per il Mezzogiorno' approach. It placed a high priority on introducing capital and economic infrastructure into depressed areas as a way of creating the conditions for development and of eradicating poverty.

The basic motivation of Italian oda seemed to be at one and the same time altruistic/humanitarian, economic/commercial (*vide* the importance of tied aid), and strategic/geo-political (the idea of Africa as a specific area of Italian interest). A risky fragmentation developed from such a mixture of motives which implied a watered-down sense of direction resulting in opportunism; a lack of country programmes; a swing between sectoral and geographical priorities; an extreme fragmentation of interventions; and a lack of consistency between the declared objectives of 'fighting famine' and the results realised.

1.2 FAI experience: oda targeted towards the least developed countries¹

The FAI (Fondo Aiuti Italiano or Italian Aid Fund) gained crucial experience in this difficult context. In 1985 Law No.79 was passed after a period of intense debate on the problems of famine in the world and the urgency of the situation. Public opinion was mobilised on issues of humanitarian aid and in criticism of the sluggish management of Italian development co-operation. The resulting law created the FAI (Rhi-Sausi and Dassù, 1994: 45).

The objective of the Law was to disburse 1,900 billion lira in 20 months on programmes aimed at alleviating world hunger, endemic poverty and infant mortality. One of its main purposes was to intervene in emergency situations and to launch processes of sustainable development.

Negative features of the FAI operation were the following:

¹ Defined as those with less than US\$1 GNP per capita per day.

- Given the urgency of disbursement, the programmes were inadequately studied and prepared. No possible alternatives were defined or assessed, and all the planning was done during the implementation itself. As the result of pressure from various interest groups, the programmes proved totally incapable of meeting needs. In the end, the FAI operation cost Italian oda 5,000 billion lira and not 1,900 bn as planned.
- Most of the programmes were worked out and set up without the involvement of the beneficiaries.
- The enormous pressure brought to bear on the government and agencies to carry out the projects as quickly as possible led to a divergence between the administrative direction taken and real needs. It also led to the emergence of corruption and specific interests.
- The programmes turned out to be composed almost exclusively of physical investments in structures and infrastructure, with no consideration for their future use and no economic or social co-ordination.
- With regard to emergency aid, only a part of the resources allocated was actually directed at alleviating the suffering which had been the original reason for the intervention.
- Most of the programmes undertaken failed to achieve the objective of the law (i.e. to start up sustainable development processes in a very short time).

In 1989 the Ministry of Foreign Affairs (MFA) presented its report for the final year of FAI activities (see Table 1). Unfortunately, by that time only the emergency aid part of the programme was completed, and it was not possible to obtain any information on its success or failure. The need for speed provided an adequate alibi, avoiding any clear monitoring process (Fanciullacci, 1989).

Table 1 **FAI report, 1989 (bn lira)**

	<i>Allocation</i>	<i>Disbursement</i>
Emergency aid	502.2	503.9
Bilateral aid	953.4	390.6
Multi/bilateral aid	261.0	198.6
NGO programmes	167.1	65.0

Source: MFA/DGCS, 1989

Apart from the emergency aid, the integrated multi-sectoral programmes represented the core of the bilateral intervention. In total, there were 47 programmes in 20 countries with an average of around 24.5 bn lira per programme (55% of the programmes exceeded 50 bn lira). Most of the programmes were infrastructure-oriented.

An important feature to be noted about the programmes is that they all cost approximately twice what was originally appropriated. In particular, the Tana Beles Project, in Ethiopia, cost 370 bn lira instead of the projected 150 bn, and the river-transport programme in Mali cost 5.5 bn lira instead of the projected 1 bn. The need to step up expenditure without any clear definition of schedules and objectives opened up a black hole.

No responsibility was laid down during the formulation of the projects, and the cost-plus procedure (the greater the cost, the more the mark-up for the operator) created serious problems in the absence of any monitoring and control. The costs rose and the ineffectual results of the goods and services procured achieved no positive impact because of the lack of any proactive approach. No sustainable evaluations of the projects were undertaken. No efforts were made to take account of the organisational and management aspects that infrastructure-building requires.

On the whole, the FAI experience in its fight against famine and poverty constitutes an important lesson in the relevance of the risks of failure based on unfocused actions. The source of these failures derives from the mixture of motives, the combination of emotions and interests, the idea of charity as a policy, and the preference for alleviating rather than eradicating poverty.

1.3 Aid allocation to the poorest countries and social sectors

Because of the generic concept of fighting famine and the mixture of altruistic, commercial and political approaches, it is difficult to estimate the amount of financial resources that were devoted to the fight against poverty in the 1980s. Some estimates indicate that 1–2% of total Italian oda was earmarked for social priority areas of human development (basic education, basic health, nutrition, water, family planning) (Rhi-Sausi and Dassù, 1994: 45).

One indicator of a poverty reduction orientation is the concentration of Italian aid towards the poorest countries. Data on disbursements indicate that nearly 710,500 million lira (in grants) and 476,800 m. (in loans) were disbursed annually within 23 of the poorest least developed countries (LLDCs) in the 1980s (see Table 2).

Table 2 1981-9 annual average disbursements to LLDCs (m. lira)

	<i>Grants</i>	<i>Loans</i>	<i>GNP per capita</i>
Ethiopia	133,386	64,668	120
Burkina Faso	24,926	—	150
Chad	17,947	—	150
Bangladesh	1,092	—	160
Zaire	17,487	39,840	160
Guinea-Bissau	11,053	—	180
Mali	26,622	1,481	180
Gambia, The	6,762	—	190
Vietnam	20	2,597	210
Mozambique	97,245	36,819	210
Madagascar	6,609	—	230
Uganda	19,434	5,711	230
Burundi	5,736	701	240
Tanzania	43,720	64,988	250
Niger	25,459	—	260
Somalia	186,956	38,613	280
India	10,218	55,353	290
Rwanda	2,765	—	290
China	30,006	79,752	300
Kenya	16,097	16,119	300
Zambia	13,047	18,783	300
Sierra Leone	2,536	8,576	310
Pakistan	11,377	42,801	350

Source: MFA/DGCS, 1992; CeSPI processing

These figures are quite significant, demonstrating as they do that, in spite of an absence of any idea of poverty reduction and of any well-defined strategy, Italy concentrated its aid interventions in the poorest African countries in terms of both grants and loans. These activities peaked during the FAI period. The twenty-three LLDCs took up 33% of the total disbursements of Italian oda during the 1980s. During the period 1984-7, no less than 60% of total oda was devoted to the LLDCs, while it decreased to around 30% during 1988-9.

In terms of geographical priorities, the following points emerge:

- With respect to a regional approach, sub-Saharan Africa was the first priority area during the period 1981-90 (receiving between 47% and 63% of total

disbursements). This was particularly important during the period 1984–8, when the FAI was in operation and Italian oda resources were increasing (see Table 3).

- With respect to countries in sub-Saharan Africa, Somalia, Ethiopia, Kenya and Djibouti received around 20–25% of total oda. Mozambique and Tanzania were two other important recipients. In the Near and Middle East, Egypt and Tunisia represented the most important countries. In the Asian region, China was the only relevant country with a percentage that remained quite low. Latin America was a marginal region until 1988; since then it has become relevant because of an increase in the ratio of aid to Argentina (ibid.).

Table 3 Bilateral co-operation by regional destination 1981–90 (%)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
SSA	50.1	49.0	50.9	58.6	56.9	63.5	60.9	56.5	46.7	51.2
Som/Ethiopia/ Kenya/Djibouti	25.5	19.6	15.2	24.4	18.6	24.1	20.4	20.1	17.0	16.7
Sahel	1.5	3.1	6.9	5.5	10.9	14.6	7.3	8.3	8.2	6.5
Near/Mid. East	24.2	22.6	18.9	14.7	12.8	8.2	9.3	10.5	5.6	14.0
Medit. Africa	2.5	6.7	6.5	8.5	4.9	4.3	7.0	8.9	4.6	9.6
Latin America	7.8	7.2	7.0	8.5	9.3	7.8	7.2	11.0	19.0	16.3
Asia	0.3	3.2	4.3	4.3	4.9	10.1	10.8	10.1	12.2	5.1

Source: MFA/DGCS, 1992; CeSPI processing

In terms of the least developed countries which can be considered a high priority objective for general poverty reduction, Italian priorities have taken note of the UN classification of LLDCs (Ethiopia, Somalia, Tanzania, Mozambique, Pakistan). The sub-Saharan orientation of Italian oda highlighted this choice, which became quantitatively relevant with the increasing flow of oda resources during the FAI period.

The average LLDCs/all developing countries aid ratio from DAC members was around 20% during the 1980s. The Italian ratio was around 50%, and reached 56% in 1986. This difference should be seen as a product of the Italian geo-political orientation and not as a specific strategy. In fact, a great many LLDCs were excluded, such as many of the Asian countries, Nepal, Bangladesh, Cambodia, Bhutan and Laos. In absolute terms the top five recipients of Italian bilateral aid during the period were Somalia, Ethiopia, Mozambique, Tanzania and Sudan. Malta figured prominently in 1981–3 in view of Italy's guarantee of its neutrality against the threat of Libyan interference. Italian co-operation is governed today by a special Italian–Maltese protocol.

1.4 Declining interest in LLDCs in 1989–91

Italy registered a sharp drop in interest in the poorest countries (those we have classified as LLDCs) in the period 1989–91. Data on disbursements indicate that nearly 504,600 million lira (in grants) and 195,300 m. (in loans) were disbursed annually among 20 LLDCs during this period. From the peak of 60% of total oda devoted to the LLDCs during the FAI period, it declined to 29% in 1989–91 (48% in grant terms and 21% in loans). Regional distribution showed a decline for the sub-Saharan area (from 25% in 1986 – the peak year of FAI management – to 17% in 1989) and an increase for Latin America (from 8% to 19%). The growing economic interests in oda policy are well represented by the shift of loans after 1989 towards a greater correlation with trade integration instruments. If Somalia and Ethiopia represented the symbol of Italian oda intervention during the FAI period, then Argentina (with an Italian/DAC ratio of 53.37%) must be considered the symbol of the 1989–91 interregnum.

Poverty ceased to be regarded as a question of *chronic starvation* which required emergency interventions – as it was in 1985–7 – and began to appear as a temporary problem which affected vulnerable groups in the economic integration process. This view justified action in Argentina as well as in Ethiopia.

Another useful index of Italian poverty-reduction-oriented oda is the proportion allocated to human development expenditures. The DAC cross-sector concept of 'social priority areas' is defined as 'basic health and education, family planning, water provision'. It is possible to measure the Italian oda ratios of (a) social expenditure/total oda, (b) social priority areas/social expenditure, and (c) social priority areas/total oda. The results, even if only a rough approximation, show a lower average (c) ratio for Italian oda compared with the DAC average (see Table 4). The work of CENSIS on Italian oda during the 1980s stated that 'the expenditure on human development has been poor' and that comparisons of interventions in priority areas for human development showed only the USA to be worse than Italy during the decade (CENSIS, 1993).

This means that, in spite of high geographical priority for the African LLDCs, Italy did not follow a specific poverty-reduction-oriented oda line. During the 1980s production activities and infrastructure were the focal targets of Italian oda (in particular, production of goods and services and economic infrastructure) amounting to 75–80% of total aid. The sectoral priorities in bilateral oda gave the highest priority to the agro-food sector and an important role to training and health, industry, energy and infrastructure. Similarly Italy's contribution to the UN system concentrated on the UNDP, UNICEF, World Food Programme, FAO and the International Fund for

Agricultural Development, reflecting the importance of the agriculture/food and social health sectors.

From the mid-1980s, increasing prosperity and a growing awareness of its international role encouraged Italy to expand its aid. Since 1986 it has become the fifth highest DAC donor (it was eleventh in 1979) and a member of the enlarged G7. The year 1989 marked a period of transition, representing the peak when Italian oda disbursement reached its maximum and also defining the beginning of a period characterised by a progressive decline in disbursed resources. In this 1989–91 period, Italy not only wanted to consolidate the importance of its role in the international political arena but above all to use development co-operation as a tool for the globalisation of competition, a vehicle for serving its foreign economic policy interests. This implied a growing interest in the Asian and Latin American countries.

Table 4**Italian social priority oda**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
(a) ratio	10.5	26.5	14.1	17.6	17.9	20.2	21.4	27.9	15.4	21.7
(b) ratio	78.9	87.5	82.3	84.8	72.2	68.7	84.5	82.0	84.5	76.6
(c) ratio	8.3	23.1	11.6	14.9	12.9	13.9	18.1	22.9	13.0	16.6
DAC (c)	20.1	18.9	19.5	19.6	18.4	17.5	19.1	18.3	19.4	16.2

Source: CENSIS, 1993

1.5 Conclusion

The recent history of the FAI programmes demonstrated that money could not buy success. The volume of aid grew impressively, but performance was extremely weak in the recipients' development results. The inadequacy of this approach derives from several factors: its ineffectiveness in guaranteeing sustainable development; the necessity of competing in the economic international arena as a great power; the absence of a strong conceptualisation of poverty-reduction-oriented oda; and a waning of public interest in the famine emergency in Africa.

This resulted in a stream of political criticism directed at the FAI management, coupled with scepticism and suspicion of corruption and interference by industrial groups. All these factors contributed to a significant shift in favour of political and commercial interests. The least developed countries ceased to be the priority countries for Italian oda. No clear decision was incorporated in official policy documents. All the developing regions were included as priorities: sub-Saharan Africa, the

Mediterranean basin, Latin America, Asia, and since 1989, Eastern and Central Europe – Poland, Hungary, Yugoslavia and Albania.

This change had direct implications in terms of poverty reduction behaviour. The adoption of the 'Cassa per il Mezzogiorno' approach during the FAI period was coupled with the use of a World Bank 'safety-net' approach. Once again, this was a *de facto* result, an implicit but never theoretically conceptualised decision. The idea was that oda could help to design programmes to protect the most vulnerable members of society: those unable to take advantage of the opportunities presented by growth (such as the sick, the disabled or the elderly), or those suffering temporary setbacks owing to famine or macroeconomic shocks. Oda was considered a way of complementing the international economic strategy, by undertaking – in terms of poverty reduction – targeted interventions which would provide temporary income support through public works or other subsidies and emergency aid.

This approach also stressed the primary responsibility of developing countries in the fight against poverty: it accepts that oda is crucial, but it emphasises that oda will have a greater impact if it is integrated into national and local policies pursued by the developing countries themselves. Changing the balance of responsibility between the central government and the local agencies, including local enterprises, played a prominent part in this approach.

2. Poverty reduction concepts and strategies during the 1990s

The years 1992–5 when Francesco Aloisi de Larderel was Director General of the Directorate for Development Co-operation in the Ministry of Foreign Affairs was a period devoted to the reorganisation of the administrative structure of Italian development co-operation. In particular, the main effort was directed towards the rationalisation and improvement of aid management. Tasks involved defining sectoral and geographical priorities, tools, channels, and priorities, and the introduction of new country programmes and project cycle methodologies.

In June 1995, the Interministerial Committee for Economic Planning (CIPE) formally approved the guidelines for a new development co-operation policy. There was a shift from strictly economic policy interests (tied aid, commercial penetration) to a more general foreign and humanitarian focus as the principal motivation for Italian aid. This is no novelty in Italy, as the sectoral and geographical priorities have changed over time; but the recent guidelines reflect a more mature view of the role of oda. Corrupt political management of public affairs (known as ‘Tangentopoli’) risks losing people’s confidence in the value of development co-operation completely. Coupled with the emergence of a regional crisis close to the national frontiers – in former Yugoslavia and the Mediterranean basin – and some peace-keeping and rehabilitation processes – in Mozambique, Somalia, Ethiopia and Eritrea – the new policy reflects the end of the bipolar international system.

Following this review, Italian oda is attempting to pursue two broad political objectives: to strengthen its traditional multilateral orientation and to promote via bilateral channels political, economic and social stability in developing countries whose situations are crucial in terms of Italian national security (MFA/DGCS, 1995c). The direct consequence is to concentrate oda on a limited number of recipients. Also linked to this change in policy is the emergence of poverty reduction as a priority objective of aid.

The current Italian idea of aid oriented towards poverty reduction originates from practical experience, particularly as implemented in Latin America: initially the SMALP programme (health, environment and the fight against poverty), and more fundamentally the PRODERE programme (for Refugees, Displaced and Repatriated Persons in Central America). The poverty policy owes much of its character to new guidelines of multilateral co-operation, basically devised by the World Bank and UNDP. The growing importance of poverty reduction in Italian aid policy can be attributed to the search for an improved reputation as well as a response to emergencies that have occurred in countries known internationally as within the Italian sphere of influence: i.e. those which rely on Italy such as Albania (migration

problems), or where there is, or has been, a conflict, such as Mozambique, Somalia, Ethiopia, Eritrea and former Yugoslavia.

2.1 The concept of poverty-reduction-oriented oda

Italian strategy towards poverty reduction reflects diverse notions of the role of such assistance, ranging from some recent international influences to more specifically Italian strategies. Among the former are the World Bank's attempts to ameliorate its structural adjustment policies by drawing up some country poverty assessments in conjunction with a 'safety net' approach. However, the UNDP 'human development approach' represents the most notable influence. The European debate on international co-operation has had only a marginal impact – no more than the Lomé guidelines in the past. More important has been the debate on internal poverty, social exclusion and regional imbalances during the 1970s. From an initial conception of socially diffused interventions (1976–7) it evolved into a global strategy, as DG V of the European Commission shows.

This is not to say that the international conception of poverty reduction was without influence. However, the social and health approach which was adopted locally in Italy to deal with internal social exclusion problems, resulted in basic methodologies for intervention in developing countries.¹ In Italy, the attention given to the 'social exclusion' problem came to focus on mental hospitals and the medical profession. The movement against the segregation of insane persons was particularly important in political and cultural terms during the 1970s. The 'Gorizia school', promoted by the charismatic Franco Basaglia, held its first Congress in 1977 in Arezza, and published the Democratic Psychiatry Manifesto to reform mental hospitals, which resulted in Law 180, which is still in force today. With respect to poverty reduction aid strategies, the movement led by Franco Basaglia is relevant because it promoted an innovative methodology to deal with health and social problems.

Italian oda reflected this 'new culture' because a significant number of the staff of the Central Technical Unit (CTU) in the Ministry of Foreign Affairs consisted of physicians, directly or indirectly involved in the domestic experience concerned with social exclusion. This particular composition of CTU staff derives from inter-Ministry recruitment practices which have led to a preponderance of physicians and engineers (the professions that abound in the civil service) and thus, as a consequence, to a lack of economists and social scientists.

¹ Interview with Luciano Carrino, a Health Adviser in the Central Technical Unit, MFA/DGCS.

It was not by chance that the health projects, even if based on the infrastructural character of aid in the 1980s, gradually became health and social projects. They were not strictly poverty reduction aid projects, but it was due to them that Italian aid has been characterised by a multi-sectoral approach.

2.2 The importance of the social health sector²

From 1982 to 1989 total annual aid disbursements on health grew from 20.5 billion lira to 144 bn lira, representing 7.4% and 5.8% of total oda respectively. This amount has decreased progressively since 1989. From 1986 onwards, investment in physical infrastructure (mainly hospitals) made up a large share (up to 44%) of this aid. Since 1990, the emphasis has been on what is defined in Italy as 'social and community development' at a time when aid is falling in volume. General policy in the health sector has been adjusted since 1992 to reflect human development principles. Its main objectives now are to integrate the social, economic and health aspects of development, to promote a decentralised and widespread health system, and to abandon the 'donor interest approach', frequently based on the supply of inputs originating in the donor country. Italian oda guidelines for the sector can be summarised as follows:

- **Integration:** in keeping with the human development principles established by the UN, the various aspects of a population's well-being must be pursued in an integrated manner along with improvement of economic conditions, and with special regard to vulnerable groups.
- **Decentralisation:** priority is given to action at the local community level and to the enhancement of local health services which must be co-ordinated at the central level. This system of organisation follows the Italian Local Health Units model introduced in 1978 to decentralise the national health system.
- **Different kinds of action:** support for the organisation and management of local health services, preparation for emergencies, prevention and treatment of contagious diseases, mother and child health care and social work (primary health care, basic environmental information, rehabilitation and protection of vulnerable groups).

Initially Italian aid to the health sector was devoted mainly to interventions during emergencies such as drought, flooding, war or the influx of refugees and was carried out almost entirely by Italian teams who set up field hospitals. At a later stage during the FAI period, health aid was characterised by the supply of equipment, medicines

² See Rhi-Sausi and Dassù, 1994: 1–4.

and physical infrastructure manufactured in Italy or by Italian firms. Since 1992 there has been a drastic change in priorities and guiding principles. This follows a reorganisation of the CTU and DGCS (General Directorate for Development Co-operation) by geographical areas instead of by sectors, as previously, and coincides with a dramatic reduction in the financial resources available.

Bilateral programmes in the health sector are often implemented directly by the DGCS, which sends out personnel, equipment and materials and provides overall management. Programmes carried out in collaboration with multilateral organisations via direct management of a component or input into the programme (the so-called multi/bilateral approach) have generally been implemented directly by the DGCS or by some non-profit-making organisation. Satisfactory results have been reported in all cases where co-ordination and management have been established jointly with a multilateral institution and Italian aid has exercised some kind of controlling influence.

2.3 The PRODERE experience

The first relevant example of such a successful programme was the SMALP programme, undertaken during the late 1980s in Latin America in co-ordination with the World Health Organisation in 11 countries from the region. It was the first financed Italian programme which explicitly took poverty reduction as an objective.

The Programme for Refugees, Displaced and Repatriated Persons in Central America (PRODERE) promoted the social and economic reintegration of almost 2 million uprooted people. PRODERE was specifically oriented towards 'co-operating in reducing conflicts, in safeguarding the democratisation process and in promoting human development in the Central American countries' (PRODERE, 1996: 13). It was set up in 1989/90, after the Esquipulas' peace agreement, and was extended to the end of July 1995. The Italian government financed this five-year, US\$115 million relief, rehabilitation and development programme, which operated regionwide, but with an emphasis on conflict zones in countries where refugees had been expelled. Implemented by the UNDP's Office for Project Services (UNOPS) with collaboration from the International Labour Organisation, Pan-American Health Organization and UNHCR, PRODERE was originally part of the International Conference on Central American Refugees, whose framework was provided by the UN's Special Economic Co-operation Plan, but soon evolved into an independent programme.

In 1992 its annual budget reached around US\$35 m., with over 500 employees, including international staff, local experts, UN volunteers and administrative staff. The cost per beneficiary was around US\$200 (an average of US\$40 per year).

to strengthen local government, to create opportunities for consensus with regard to public programmes, to achieve effective participation in the management, execution and social audit of the social investment programmes, and to generate a process of decentralisation which would translate into the building of democracies which would allow the poor to participate fully in every process affecting their lives.

PRODERE was the first major multilateral development programme to include human rights as a central component. Italy had previously only funded human rights work through NGOs. The Italian Government and UNOPS recognised that the programme 'must give the highest priority to the promotion of human rights, as an indispensable component of the process of development, peace and democracy in Central America, which must establish links with other similar initiatives in the region' (Joint declaration on PRODERE by the Italian Government Delegation and UNDP, Guatemala City, 19 November 1991). Basic activities were: the provision of identity papers; recognition of land rights; legal recognition of grass roots and community-based organisations; municipal support; support for indigenous populations and vulnerable groups; support for the local administration of justice and local human rights attorneys; promotion of human rights programmes; and the creation of Local Human Rights Protection Systems.

PRODERE provided a convergence between the Italian DGCS/MFA social health approach and the UNDP vision of reducing inequalities, preserving social links, strengthening the productive capacities of the poor through employment generation, and improving their access to productive assets. Particularly important was the focus on investment in human resources and increasing the poor's assets (through education, health, credit and land reform), and the provision of complementary resources linked to labour productivity such as access to credit, water supplies, infrastructure and technology.

Another crucial convergence was on the need to shift the balance of responsibility between the public at central and local level, including local NGOs, trade unions, other associations, and small and medium-sized enterprises, and on the increased importance of the participation of local institutions. Emphasis on 'development of the people, for the people, by the people' leads to the promotion of political democracy and decentralisation, as well as to the participation of the poor in the decision-making process.

The implementation of the programme was undertaken by the UNDP, at the request of the Italian Government,³ and a cost-sharing system was adopted, which improved 'the "multilateral" profile of the project as the management participation of the

³ The government preferred to adopt a multilateral profile, in view of the delicate political situation in Central America.

bilateral donors was restricted to a few specified aspects' (PRODERE, 1996: 34). At the same time, the government and the UNDP negotiated a special structure for the programme which ensured that Italy would supervise all its phases. This Italian-UN initiative was implemented by means of four organically interrelated programmes co-ordinated by a joint technical secretariat. Initially a three-year programme, PRODERE was extended for another two years up to 1995 at the request of the Central American governments.

At present, a locally based regional human development programme called PDHL/CA is in operation with Italian Government participation limited to 3 billion lira. This programme is being carried out by an innovative decentralised process involving the participation of seven Italian local authorities (the municipalities of Venice, Milan, Turin, Rome, Naples, Genoa and Bolzano).

The role played by PRODERE in terms of Italian aid policy is important. The Special Commission, appointed by Foreign Minister Colombo in 1993 to reform Italian oda policy, wrote:

The UNDP human development approach should be adopted as a way of overcoming a too rigid opposition between social and economic development, infrastructure and poverty reduction strategy: decentralised and participatory development, sustainable development, basic needs and respect for human rights (CNEL, 1994: 8-9).

Even more important, the DGCS adopted PRODERE as a test case, an operational and methodological model capable of reproducing a global system of participatory social development. The DGCS set poverty alleviation as one of the priorities of Italian oda.

Another important aspect to be considered is that, as the new guidelines for Italian oda gave the first priority to international stability and security, it was necessary for Italy to show greater activism in regional conflicts. Not only did Italy participate in international peace-keeping and peace enforcement actions, but it could also offer an oda 'model' capable of linking emergency aid, social and economic rehabilitation and development, as in the PRODERE programme. The idea was that Italian aid could represent a model of co-operation in Special Situations. Indirectly, these joint Italian-UN initiatives could also serve to win international support for the Italian proposal to reform the UN Security Council.

2.4 PRODERE and the concept of oda

PRODERE had an effect on the MFA's concept of oda.⁴ First of all, the multi-sectoral approach adopted in the 1990s made it possible to appoint social development advisers in the CTU.⁵ The women/gender and vulnerable groups themes, even if limited to a sectoral approach and a safety net strategy, encouraged the recognition of the social development dimensions of Italian oda.

The Italian debate on poverty-reduction-oriented aid shows differences of view among universities, intellectuals and professional aid workers (officials, NGOs and experts).⁶ The DGCS concept involved a limited number of people. Economists, for example, did not participate,⁷ and this is probably the reason why the PRODERE model is so little known and has been so rarely quoted. Sociologists and anthropologists,⁸ especially those involved in NGO activities, have played a more significant role.

Probably the key concept in Italian aid for poverty reduction is that of 'popular participation'. The UNDP's definition has been adopted:

participation means that people are closely involved in economic, social, cultural and political processes that affect their lives ... The important thing is that people have constant access to decision-making and power (UNDP, 1993: 23).

What is important is to adapt the concept of popular participation to specific contexts, particularly situations of post-conflict recovery and local culture and traditions.

This kind of programme encompasses a wide range of activities designed to address the causes of vulnerability and of poverty. An aid strategy oriented to poverty reduction cannot be a simple matter of building physical infrastructure and supporting the growth of productive capacity. A human development strategy must operate through policies that support the consolidation of community ties and through

⁴ The PRODERE concept stressed the importance of specifically oriented indicators to evaluate the impact of projects in social development. Some preliminary measures were presented during the Copenhagen World Summit on Social Development in 1995.

⁵ Interview with Massimo Tommasoli, a CTU social development adviser. See Tommasoli, 1995.

⁶ One of the few common initiatives was the World Bank-CeSPI Conference, held in Rome, 11 May 1994, whose proceedings were published in 1995 (World Bank-CeSPI, 1995).

⁷ The Turin 'Luca D'Agliano' Centre is an exception, but poverty did not receive particular attention and its relation with oda has been barely analysed.

⁸ The Italian Association of Ethno-Anthropology and Prof. Antonino Colajanni have published interesting works.

institutions that create the social network critical for development. For example, factors which affected the participation strategy in Ethiopia and Eritrea were the following:

the need to attribute new meanings to grass roots associations, in a context which for more than eighteen years has known models of the planned organisation of production activities on the basis of a rigid co-operative structure;

the practical experience of local government gained during the war by the liberation fronts in those areas of the two countries that had already come under their military control;

the underlying process of administrative decentralisation and the role played in its implementation by the work and structuring of local NGOs;

the donors' policies (including those of international NGOs) which support the economic rehabilitation and recovery efforts of the two countries, in particular as far as participatory development and good governance are concerned;

the dynamics of change in traditional associations, particularly after the end of a policy orientation which for years denied their role and functions in social and economic development (Tommasoli, 1995: 3).

Starting from a popular participation approach, one arrives at an integrated approach: oda should take income, health, education, the environment and human rights into consideration simultaneously as inseparable elements of development. These basic needs are not isolated but intimately connected (they are political, economic and social needs) and they cannot be promoted through sectoral or vertical activities. This means not only a horizontal relationship among corresponding local authorities and professional components, but also relations within certain geographical areas to which everybody can contribute – NGOs, active citizens' groups, social partners, scientific institutes (see Ianni, 1995). It results in contributing to a new partnership process. The development must be balanced and durable. The process leading to local public and private institution building is also crucial.

Decentralised co-operation implies that the internal political situation is in transition towards a more federal form (see Pasquino, 1995). The local authorities are particularly interested in promoting economic globalisation, managing development co-operation as a tool for co-ordinating the civil society's actions of solidarity and for controlling migration flows (see Rhi-Sausi, 1995).

The important origins of this approach lie in the attempt to promote both emergency and development objectives, as compared with the old methods and techniques of emergency intervention. It results in broadening people's capabilities to participate effectively in the reintegration process without duplicating existing institutions or

creating new emergency institutions through aimless experiments in institutional engineering (PRODERE, 1996: 21).

2.5 PRODERE: is it a replicable model?

There is an abundant literature on the PRODERE experience, but it is basically descriptive and lacks qualitative analysis and measurements of impact. Criticism of the PRODERE system is rare.

Two of the principal criticisms come from CTU experts. Though a 'people-centred' approach was an important innovation, it was only later that local representative organisations achieved legitimacy. Much of the scepticism and suspicion – rumours going around about the real extent of participation and the excessive expenditures – might have been avoided if more open channels of communication had been established from the start. Similarly, the European experience of decentralised co-operation, as evidenced in the Lomé Conventions since 1988 (Bossuyt, 1994) was poorly understood.

One of the few independent criticisms states that

NGOs were not involved in the selection of priority regions where PRODERE chose to focus its activities, with the result that, rather than see the complementarity between its own and NGOs' activities, PRODERE tended to ignore the contributions of NGOs familiar with its priority regions. Initial NGO participation was largely confined to subcontracting as executing agents, but not as partners with a view to enhancing NGOs' capacity and establishing project sustainability (Sollis, 1995: 534).

One has to admit, however, that

PRODERE has effectively helped to broker agreements between repatriated refugees in Guatemala and El Salvador and the respective education ministries to address long-standing grievances and incorporate teachers formed in the refugee camps into official education systems. New opportunities for participation also emerge from PRODERE's territorial planning approach (ibid.).

Moreover, the creation of local health, education and human rights protection institutions allowed 'many popular sector grass roots organisations to gain unprecedented legitimacy' (ibid.).

The Copenhagen World Summit on Social Development in 1995 offered the opportunity to launch the PRODERE model of decentralised co-operation internationally. At the summit the Technical Secretariat of the Regional Commission on Social Affairs for Central America stated that:

the programme demonstrated that international co-operation can effectively accompany peace and reconciliation processes, by promoting local development of particularly depressed and conflict-prone areas through methods that favour the creation of consensus between different actors in political and socio-economic life ... PRODERE transformed an emergency situation into a local development programme (AAVV, 1995).

It has become increasingly apparent that there is a vital connection between social and participatory development and its ownership by the recipient countries. Following the successful experience of PRODERE, these new approaches are intended to be central concerns in the allocation and design of Italian development assistance. As Paolo Bruni, current Director General of MFA/DGCS, stated on 13 December 1995 in a speech on 'Human development and Italian oda' at La Sapienza University in Rome:

social development is not a new sector for Italian oda, but it is a change of culture ... Development does not just mean economic growth, but it should be qualified as human development which is sustainable, participatory and decentralised ... Some new emergent concepts such as the participatory approach, governance, poverty reduction, gender, sustainability ... have become crucial ... CIPE recognises social and human development as the focal point of oda activities.

2.6 Poverty reduction and World Bank co-financed programmes

Though the PRODERE model is the preferred approach for Italian poverty-reduction-oriented aid, Italy is also working with the World Bank to develop a poverty reduction strategy. It currently participates in the Ethiopian and Eritrean Development Fund programmes in sub-Saharan Africa led by the World Bank as well as in the Albanian Development Fund in the Balkans.

Initially, this participation was not prominent, but just a contribution to the structures for co-ordination in the Special Programme for Africa and the 'Round Table' arrangements, with the possibility of making the most of the World Bank's framework. The inadequacy of the tools of bilateral aid management and the search for international agreement have led to important financial support through all the multilateral channels.

The Italian Government has tried to establish a new form of collaboration with the multilateral organisations, as the Italian aid authorities wanted to make a major contribution other than of capital. The government is seeking a multi/bilateral *modus operandi* in which the donor's contribution is qualitative, in terms of capacity to design and implement programmes, and to actively support them. Experience of PRODERE suggests that the bilateral donor should be more of a protagonist, as this

helps define guidelines⁹ as well as in the monitoring phase. Clearly aid policy and aid management capacity as well as strong diplomatic ability are necessary to support such a role actively.

Though it is still too early to judge whether the poverty-reduction-oriented aid programmes work, some brief conclusions can be drawn:

- Italian oda has no preference for any particular multilateral channel, and when Italy is working with the recipient governments and the World Bank to develop a country programme, it brings in, if at all possible, other UN agencies such as UNDP and FAO (as has happened in Albania).
- Italian oda does not plan to set up close co-ordination with the European Commission and the EU member donors in poverty-reduction-oriented aid policies. When such co-ordination has happened, it has been the result of a request from a recipient government or from the multilateral agencies. Italy appears to be looking for pragmatic co-ordination directly in the field and for a division of tasks according to the donors' geographical priorities.
- Without going into detail, the Italian-funded World Bank poverty reduction initiative has generally lacked a substantial Italian contribution compared with that for the UNDP. In the World Bank-led Albanian initiative, the Italian contribution was focused on migration. In this case the World Bank had a strong political authority while the Italian contribution was relatively minor. In the Ethiopian and Eritrean cases, the Italian role has been more active in designing the objectives, methodologies and phases. In the Ethiopian case, for example, an earlier comprehensive Italian rehabilitation programme, the Regional Socio-economic Rehabilitation Programme, funded with a total allocation of US\$32 million, allowed Italian oda to play an important role in the Economic Recovery and Reconstruction Programme led by the World Bank (Tommasoli, 1995).
- Italian oda seeks a synthesis in poverty reduction conceptualisation, between PRODERE and the UNDP human development approach, with some more specifically economic features (such as the promotion of local entrepreneurship) and the World Bank's structural adjustment framework, popular participation, poverty assessments and safety net measures.
- As the MFA seeks to become more involved in the policy discussion leading up to funding decisions, aid management presents problems. Up to now the creation of UNOPS as an autonomous international agency and the promotion of a Trust Fund for Sustainable Social Development, Peace and Support to Countries in Special

⁹ Even if the administrative management is clearly multilateral, as in cost-sharing.

Situations, launched at the Copenhagen Summit, have clearly articulated Italian proposals in the international arena. The UNOPS management structure would seem best fitted to the Italian case for the following reasons: Italy can exercise a lot of influence via it and the trust fund mechanism allows assured financing for aid programmes and projects which extend over several years, in contrast to Italy's existing annual budget provisions.

2.7 The major Italian-funded World Bank interventions in poverty reduction

Albania, Rural Poverty Alleviation, a co-financed World Bank–Italian programme, 1993–5. Other supporters: the European Union, UNDP, IDA. Italian support: US\$3 million. After the 1990–2 emergency relief operation by the Italian military, assistance shifted on to a development basis, to improve the quality of life of people in the marginal areas, by supporting local rural infrastructure (roads, water, irrigation, schools, health care), promoting a system of village credit for local entrepreneurship and setting up village veterinary services. A semi-private fund, the Albanian Development Fund, has been created within the Prime Minister's office.

The village credit system, based on social group solidarity, pressure and control, has been a success. Sixty-three village credit funds have been set up, corresponding to the mobilisation of some 3,000 loans in 18 municipalities in seven Albanian districts (MFA/DGCS, 1995a).¹⁰ Italy worked with the Albanian authorities and the World Bank, the IMF and the UNDP to develop a country programme based on thorough economic and social analysis. This was the Italian aid authorities' first ever country programme and it provided the basis for a new triennial agreement signed by the Albanian and Italian governments and the World Bank in October 1995 (see DAC/OECD, 1996: 14).

Ethiopia. The Social Rehabilitation Fund, a specific component of the Economic Recovery and Reconstruction Programme, was launched under the co-ordination of the World Bank in 1992. The general objective is the reconstruction of basic social and economic infrastructure at the community level by means of a participatory approach. After a pilot phase carried out in Tigray, Southern Shoa and Addis Ababa, in which Italian participation was marginal, the Fund is being reassessed with a view to its expansion nationwide. The Italian contribution is linked to the strengthening of the decentralisation process, and the devolution to regional levels of the responsibility for the fund management. The demand-driven approach of the Social Rehabilitation Fund, whose micro-projects must be proposed by local communities, is coupled with a capacity-building activity that should increase the effectiveness of technical

¹⁰ Regarding Italian oda policy in Albania, see MFA/DGCS, 1995b.

assistance supplied by local expertise (Tommasoli, 1995: 27). At national level the Fund amounts to US\$150 m., and Italian support is 21 bn lira.

Eritrea. The Eritrean Community Rehabilitation Fund (ECRF), which was the social fund of the Recovery and Rehabilitation Project for Eritrea, was co-ordinated by the World Bank and financed by the Italian Government, among others. Italy's support for the first and second phases of the ECRF amounted to US\$4.6 million. The Recovery and Rehabilitation Project for Eritrea was the preparatory phase for the Italian bilateral country programme of 1994–6, in which Italy had a crucial diplomatic role to play.

The main aim of the ECRF was to support the rehabilitation of basic social and economic infrastructures, especially in the rural and war-devastated areas of Eritrea. The ECRF focused on community-level services, and stressed the importance of decentralisation in the process of building a new state. Fields of activity included the rehabilitation and provision of primary schools, health centres and stations and water supplies; the rehabilitation of rural feeder roads; the development of reservoirs and irrigation schemes by the construction of micro dams; and the promotion of employment opportunities, by financing job- and income-generating activities (ibid: 35–6). There was an institution-building component and support for popular participation.

2.8 The Italian-funded UNDP intervention in human development

In 1996 four human development programmes were due to be implemented in Mozambique, Tunisia, Bosnia and Central America (Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), as economic, social and political reconstruction programmes.

In **Mozambique**, for example, Italy pledged support for the Promotion of Human Development at the Local Level programme, through a financial contribution to the Trust Fund for Sustainable Social Development, Peace and Support to Countries in Special Situations. During the first phase (fiscal year 1995) the Italian contribution was US\$20.6 million. The programme was due to start at the end of 1996 and was to be implemented by UNOPS.

Objectives include: strengthening local development at provincial and district level, and benefiting individuals and groups such as returnees, displaced populations, demobilised combatants, victims of war and other vulnerable groups; facilitating the efficient co-ordination of international activities, by promoting the joint participation of various actors such as state institutions and local organisations, civil society organisations, international organisations, bilateral donors and NGOs; improving, at

the local level, the institutional and physical conditions which can sustain the local administration and provide basic services to the population, in terms of employment, health, education, human rights, the environment, and the overall improvement of living conditions in the provinces of Manica, Maputo and Sofala. In each province, priority districts are to be identified, focusing on vulnerable groups. At the national level, the aim is to improve planning information, training and monitoring capacities for the promotion of social development at the local level, and to strengthen Mozambican democratic institutions.

3. The measurement of Italian poverty-reduction-oriented oda

3.1 Exploration of measurement methods

At present, the absence of an agreed definition or measurement of aid to the poorest means that, in lieu of proper statistics, a variety of proxies have to be used: geographical distribution, sectoral allocation and such comparisons as aid for basic needs or aid for social priorities. None of these measures is a very reliable estimate of aid expenditure on poverty reduction.

The least developed countries

To evaluate the evolution of oda in the 1980s and 1990s we analysed the flows to the least developed countries (LLDCs). This could be considered a poverty reduction proxy (see Table 6).

Table 6 **Percentage of Italian oda to LLDCs**

	<i>Grants</i>	<i>Loans</i>
1981–9	59	56
1989–91	48	21
1992	36	8
1993	52	10
1994	52	7
1995	49	8

Source: MFA/DGCS (various years)

These data demonstrate that Italian oda changed from an approach of both grants and loans oriented towards LLDCs into one of grants oriented towards LLDCs, with loans shifting to a more commercial orientation. This shift has been justified by the inability of LLDCs to repay their debts and the risk that loans could burden them with major debt problems.¹ However, the grants to LLDCs have also been reduced. During the 1980s they received around 60% of total grants (during the 1985–7 FAI period it

¹ An increasing share of Italy's aid arises from the rescheduling on concessional terms of loans originally made for commercial purposes (see DAC/OECD, 1996).

reached a peak of no less than 65%). Then the proportion decreased and in the first half of the 1990s they received around 50%.

The poverty reduction sectoral proxy

A poverty reduction proxy can also be based on the sectoral classification of aid. To consider oda for poverty reduction simply on the basis of the broad sectors involved reflects the sectoral approach to poverty reduction which found favour in the 1980s (following the basic needs approach, education, health and food were considered the targeted sectors), but it does not pick up the multi-dimensional meaning of poverty that the integrated human development concept introduced. Strategies to reduce poverty are cross-sectoral experiences which include the production sector and (micro-) entrepreneurial support as well. That is why such a broad classification of interventions related to poverty reduction was more fitting for the 1980s and has been progressively abandoned.

Nevertheless, an attempt has been made to identify 22 sectors which have been relevant to poverty reduction. On this sectoral classification, the proportion of poverty-oriented Italian grants to recipient countries was estimated for the period 1981–95. Table 7 shows the results. The figures, which range between 3% and 11%, are probably on the low side.

Table 7

Poverty-reduction-oriented grants

	<i>No. of recipient developing countries</i>	<i>Poverty-reduction-oriented grants as % of total grants</i>
1981–9	49	11
1989–91	41	7
1992	28	5
1993	26	3
1994	30	5
1995	20	7

Source: MFA/DGCS (various years), CeSPI processing

The type of implementing institutions: NGO projects

Another proxy for poverty orientation is support for NGOs,² which are private, voluntary, non-profit-making organisations, as implementing institutions. In fact a 1993 Special Commission Report (Bottai and De Rita, 1993) proposed separating the poverty reduction objective from the economic development one, giving the enterprises the implementing role for the latter, while NGOs are limited to ensuring solidarity and assistance. Interventions to reduce poverty are classified as those designed to ensure that the most vulnerable groups have access to the means to meet their basic needs. The Italian MFA recognised the importance of NGOs' own motives and a 'NGO window' has been established.

In four selected countries, two of them major recipients of Italian grants – Ethiopia and Mozambique – and two major recipients of NGO activities – Brazil and Argentina – information is provided in Table 8 on the absolute amount of finance for NGOs and its percentage of grant aid to the countries. Some general conclusions can be drawn from this.

Table 8

NGO projects (m. lira)

	<i>Argentina</i>		<i>Brazil</i>		<i>Ethiopia</i>		<i>Mozambique</i>	
	<i>NGO</i>	<i>%</i>	<i>NGO</i>	<i>%</i>	<i>NGO</i>	<i>%</i>	<i>NGO</i>	<i>%</i>
	<i>total</i>	<i>grant</i>	<i>total</i>	<i>grant</i>	<i>total</i>	<i>grant</i>	<i>total</i>	<i>grant</i>
1981–9 ^a	4,292	21.4	9,303	52.5	1,185	0.9	6,662	6.9
1989–91 ^a	7,706	17.9	13,150	83.4	2,100	1.6	5,816	6.8
1992	2,654	12.2	10,052	60.8	1,695	3.6	3,048	3.6
1993	2,421	26.2	7,835	84.4	343	2.7	1,758	1.4
1994	1,234	21.0	4,472	75.4	796	1.5	450	0.4
1995	0	0.0	370	33.4	445	1.3	0	0.0

Note: ^a 1981–9 and 1989–91 represent the annual average value.

Source: MFA/DGCS (various years), CeSPI processing

First, it is clear that the paralysis in Italian oda and the sharp decline in grants disbursement mostly hit NGO projects in the 1990s. Second, NGOs do not seem to be completely dependent on the government priorities. Geographical priorities are

² Referring to those recognised by the MFA as competent to operate in developing countries. See Ianni, 1994b.

different:³ the NGOs' motivations are cultural, political, religious, linguistic ones rather than based on the MFA's directives. Heavy NGO involvement in Brazil has not been driven by government priorities. It is true that a middle-income country like Brazil has not solved its appalling poverty and that the possibility of interventions to reduce poverty is great everywhere, so that most NGO projects are able to succeed in fulfilling their goals. The NGO approach looks like a complex model of poverty reduction activities, incorporating social and institutional dimensions: it could help to explain the priority attached to countries like Brazil – where the distribution of income and assets is unequal and there are processes of democratisation (see Ianni, 1994b).

On the basis of our available data, it is not possible to carry out a broad and comprehensive evaluation of NGO involvement in poverty reduction.

Four country case studies: projects and sectors

In view of the limited database for Italian aid, it could be useful to classify projects one by one in poverty reduction terms. But this requires time, and we therefore confined this analysis to four major recipients of Italian oda during the 1990s: Ethiopia and Mozambique (two major recipients of grants) and Egypt and China (two major recipients of loans). We selected the projects oriented to poverty reduction by inspecting the title, a brief description, and the sectors involved; the targeted area of intervention; the implementing institution; and, as far as possible, the targeted population. As the unit of measurement is the project, which has a multi-year life, we could not obtain the yearly amount of disbursement. This was estimated on the basis of an annual average of the project's total disbursement. The 1996 estimate is on the high side, as in some cases this year was allocated the whole of the project's disbursement.

The results shown in Table 9 confirm the absence of any coherent and broad poverty reduction policy for Italian oda, though one is emerging. The outline of oda policy remains undecided, and the transitional features are too numerous for us to draw any final conclusions.

The picture for Ethiopia shows clear attention to poverty concerns. A significant statistic is the high percentage of grants devoted to poverty reduction projects. The crucial point is the quality of the Italian poverty reduction intervention. In the 1980s Italian oda to Ethiopia was exposed to criticism; the MFA/DGCS therefore relies on the current country programme to make the new poverty reduction guidelines known.

³ On the geographical priorities, see Ianni, 1994a; on the partnership component, see Ianni, 1996.

Table 9 Poverty reduction relevance in Italian oda: four case studies (m. lira)

<i>China</i>	<i>1985-90</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996^a</i>
Loans	72,308.0	57,076.0	228,041.0	214,611.0	109,887.0	12,920.0	
Grants	23,203.0	13,600.0	23,809.0	4,082.0	6,678.0	1,145.0	
PR proxy ^b	1,688.5	518.1	513.9	513.9	0.0	0.0	1,050.0
(% grants)	7.3	3.8	2.2	12.6	0.0	0.0	
<i>Egypt</i>	<i>1985-90</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996^a</i>
Loans	31,682.0	43,005.0	107,668.0	184,964.0	46,731.0	5,770.0	
Grants	36,482.0	40,848.0	63,655.0	27,970.0	17,638.0	17,457.0	
PR proxy ^b	2,187.2	3,769.9	4,503.2	6,139.7	2,376.6	2,081.2	439.5
(% grants)	6.0	9.2	7.1	22.0	13.5	11.9	
<i>Ethiopia</i>	<i>1985-90</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996^a</i>
Loans	49,719.0	7,605.0	2,230.0	212.0	315.0	116.0	
Grants	130,626.0	83,215.0	47,716.0	12,938.0	51,943.0	34,180.0	
PR proxy ^b	21,722.4	21,147.4	12,306.6	11,642.6	7,615.6	12,317.1	4,977.7
(% grants)	16.6	25.4	25.8	90.0	14.7	36.0	
<i>Mozambique</i>	<i>1985-90</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996^a</i>
Loans	23,316.0	2,119.0	913.0	1,296.0	0.0	21.0	
Grants	87,234.0	58,956.0	84,263.0	122,115.0	111,738.0	33,004.0	
PR proxy ^b	4,488.4	6,923.2	8,987.3	4,816.1	3,384.0	2,440.0	34,253.9
(% grants)	5.1	11.7	10.7	3.9	3.0	7.4	

Notes: ^a First semester. ^b PR = poverty reduction.

Source: MFA/DGCS (various years), CeSPI processing

In China, on the other hand, Italian oda does not pay attention to the poverty reduction objective. Quite the contrary, although it paid a little more attention during the 1980s, when 7.3% of total grants were devoted to poverty reduction. In the first half of the 1990s, Italian oda projects devoted to poverty reduction seem an erratic and marginal component, and commercial and technological projects are the core features. The large amount of loans compared with the small amount of grants corroborates this thesis.

Italian oda to Egypt seems to be an intermediate case. While poverty reduction projects are much more significant than in China, they do not on the other hand show a growing trend. Apart from the peak in 1993 (22%), the percentage of grants devoted to poverty reduction remained steady at around 10%. Moreover, there is a decline in grants, both in absolute terms and relative to loans. In terms of qualitative features,

the interventions show a steady vision of reducing poverty. Recent Italian oda rethinking on poverty does not seem to have included Egypt, which is surprising given the importance of this country in terms of Mediterranean security and stability.

Finally, in Mozambique the projects for poverty reduction have two important features: they are relatively smaller than in Ethiopia and they mainly include NGOs. In the past, no evident commitment to poverty reduction has emerged. However, there has been the beginning of the Human Development programme in 1996,⁴ which can be considered as the first example of the application of the PRODERE model and a benchmark in Italian poverty-reduction-oriented oda.

A broad sectoral analysis of projects confirms that the basic health sector is the crucial one in any Italian poverty reduction initiative. Other relevant sectors in the projects targeted on poverty reduction are those classified as production, integrated multisectoral and food (see Table 10).

Table 10 Sectoral distribution in major recipient countries
(% of total poverty reduction initiatives)

	<i>China</i>	<i>Egypt</i>	<i>Ethiopia</i>	<i>Mozambique</i>
Basic health	42	56	60	75
Production	—	44	2	14
Integrated multisectoral	57	—	33	4
Food	1	—	5	7

Source: MFA/DGCS (various years)

3.2 Statistical analysis of Italian aid trends and patterns

The use of the STATIS method

To seek some underlying explanation of Italian aid flows we used a recent development of multivariate analysis, the so-called multiway analysis which enables us to compare countries, variables and their interrelations over time (see Coppi, 1994; Coppi and Di Ciaccio, 1994).

⁴ UNDP/UNOPS local human development programme (Italian 1996 contribution disbursed: 32 billion lira) and the WHO social health intervention (Italian 1996 contribution disbursed: 1.5 bn lira).

STATIS (Structuration des Tableaux à Trois Indices de la Statistique) is the method of multiway analysis we adopted. It is based on the ICI (inter-structure, compromise, intra-structure) analysis, which enables us to find a stable latent structure going to the basic characteristic of the elements. The idea is to look for countries' common and diverse features in respect of Italian policy motives and for relationships between countries over different periods of time.

We have considered five periods: 1985–9, which is the 'abundance' period, characterised by increasing oda resources; 1989–91, the 'sudden stop' period, with a decline in oda resources; 1992, the 'crisis' year, with the decreasing flow of resources becoming a phase of paralysis; 1993, representing a year of 'lack of means' and the 'search for new ends'; while 1994 is a 'reorganisation and rethinking' phase.

We collected, for each period, 15 variables relating to the 67 major beneficiary countries receiving Italian oda in the 1980s and 1990s.⁵ These variables cover the economic and social development indicators of the recipient countries, their level of external debt and some sub-groups of Italian oda and trade integration.⁶ Proxies for the poverty orientation of Italian aid are drawn from section 3.1.

The general problem of data quality has to be taken into account as a qualification on the results of our analysis. In fact, the unreliability of data concerning developing countries and a not yet completely trustworthy aid database are strong constraints on any analysis.

Summary results

Chart 2 shows how clustered the variables are for the trajectories of major recipients of Italian aid. Chart 3 shows the correlation of all the variables in four quadrants:

⁵ The original 71 countries were reduced to 67, as Bosnia, Croatia, Eritrea and the Palestinian Territories – which are some of the most important recipients of Italian grants in the 1990s – lack data for the 1980s.

⁶ The sources of these variables are the MFA, DAC, ISTAT, ICE, the World Bank, the UNDP and FAO. Relative to Italy, the variables are: the amount of Italian loans disbursed (ILOA), the amount of Italian grants disbursed (IGRA), grants channelled through Italian NGOs (INGO), grants spent in some 22 selected poverty-reduction-oriented sectors (IPRO), Italian food aid initiatives disbursement (IFAI), total net disbursements from DAC and multilateral organisations (Woda), and Italian exports (IEXP) and imports (IIMP). Relative to the recipient countries, the variables are: per caput gross national product (CGNP), total external debt (TEDE), the human development index (HDIN), daily K/calories per caput as a poverty capabilities measure (1981–95 average: PCMI), total population (POPU), rural population (RPOP), per caput food production index (CAFP). Most of the variables are current value ones and all of them have been standardised.

- Quadrant I: indicates areas of high Italian commercial integration, a high level of total external debt, low development and a high flow of oda.
- Quadrant II: represents high Italian commercial integration, a high level of total external debt, with high development and absence of oda.
- Quadrant III: represents lack of Italian commercial integration, low debt, high development and absence of oda.
- Quadrant IV: indicates areas/periods of lack of Italian commercial integration, low debt, low development and a high flow of oda.

The compromise analysis gives us the following indications.

- A first element to be stressed is that, by using different sets of variables,⁷ as well as considering single or multiple periods (from the first, second or third period onward), there is an absence of any significant meaning for the flows of Italian poverty reduction proxies (NGO activities, food aid, poverty-reduction-oriented sectors) in relation to the dynamics of the other variables.⁸
- Italian poverty reduction strategy has not been closely related to any specific objective (such as trade integration – represented by export–import flows) or to the oda flows of other donors. Moreover, it has not been connected to any specific situation in the recipient countries, such as the level of economic welfare, social development, national poverty indicators, the size of population or the amount of foreign debt. The randomness of the Italian poverty reduction strategy seems to be confirmed, as suggested by the continuous changes in priorities practised by Italian oda over the years.
- Italian commercial integration with developing countries is coupled with a high level of total external debt on their part. This is not surprising. The level of total debt, in absolute terms, reflects a country's international creditworthiness and Italy has preferred to trade with outward-oriented developing countries. Countries with a high external debt and more integrated into international financial and trade dynamics are those which explain the greater part of Italian exports and imports;

⁷ We used all the 15 variables, and then, in order to test the possible disturbance effect of some variables, we selected different combinations of 14, 11, 9, 7, or 4 variables.

⁸ The best fitted set of variables we used, avoiding duplications, included nine variables: IFAI, IGRA, ILOA, IIMP, IEXP, TEDE, POPU, Woda, HDIN. That is the set of variables we are considering here.

Chart 2

The trajectories of some major recipient countries of Italian oda

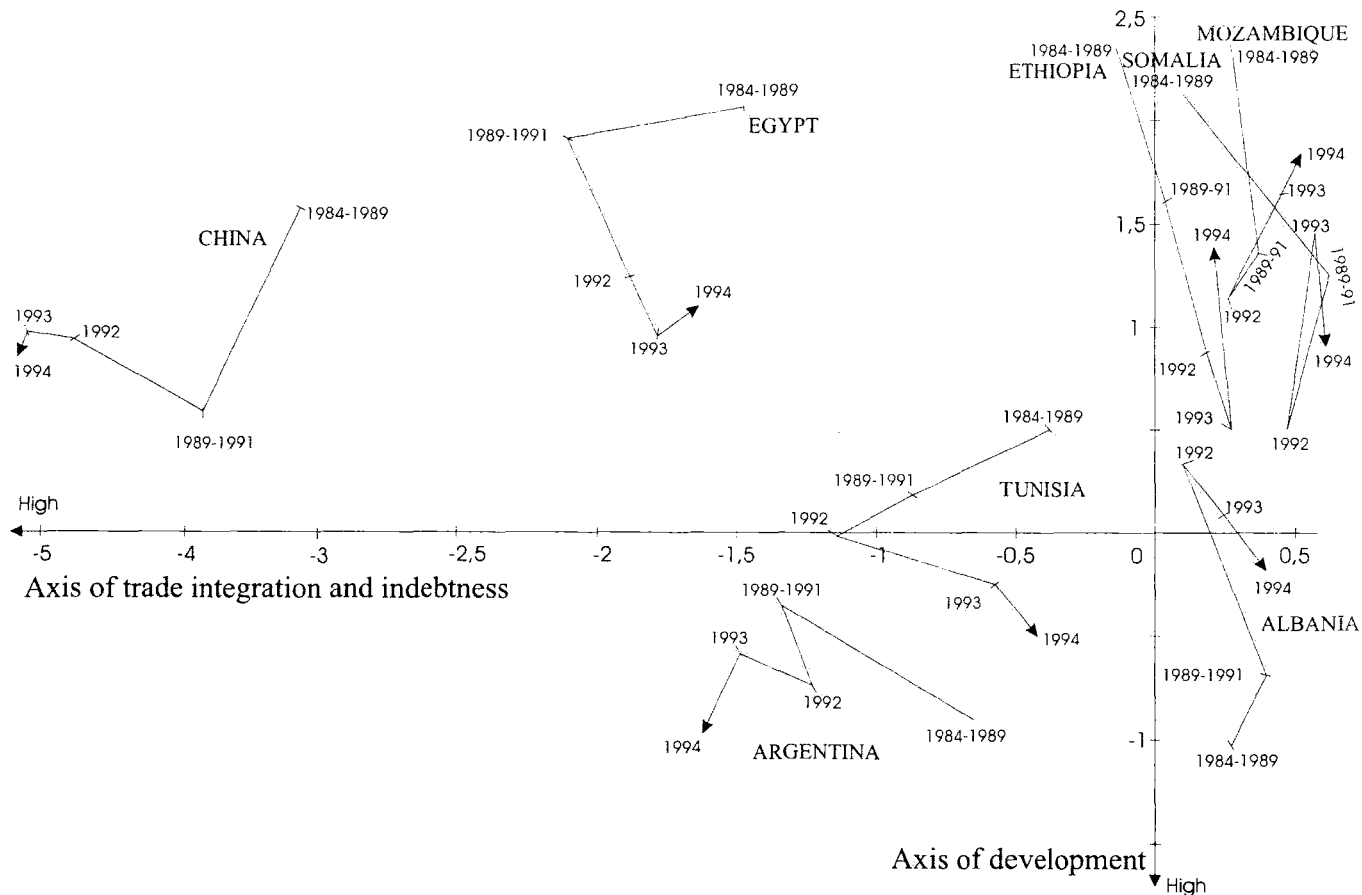
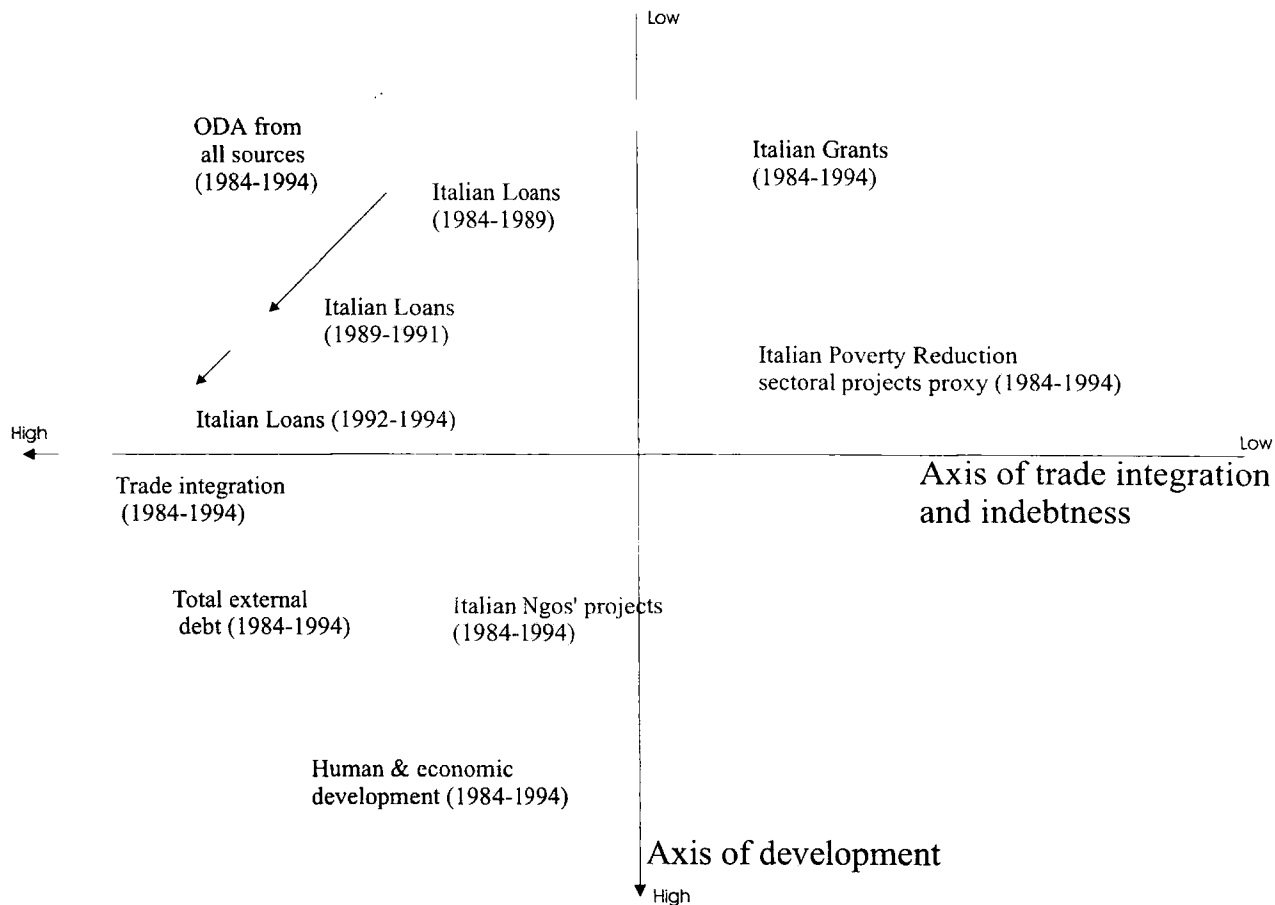


Chart 3

Correlation table of all the variables on the plane



they are usually middle- and low-income countries rather than LLDCs. Moreover, in the absence of any other effective incentive policy in terms of export promotion, Italy has largely had recourse to debt as the tool to facilitate commercial integration.

- The trend of Italian loans shows a shift away from the pattern of total net disbursements from DAC and the multilateral organisations towards a position closer to the commercial integration proxies. From the end of the 1980s – with De Michelis as Minister of Foreign Affairs – the loan instrument ceased to be used as a generic oda instrument and has become a tool in foreign economic policy. This important conclusion confirms what many qualitative and political analyses of Italian oda have affirmed (see Rhi-Sausi, 1994).
- Italian grants have been directed towards the LLDCs.

As indicated by the cluster analysis, Ethiopia, Mozambique and Somalia (apart from 1994, because of domestic crises) present strong similarities in terms of position and trajectory. Argentina and Brazil are becoming increasingly important in commercial terms, while losing their relative importance as aid recipients. Egypt, and above all China, are typical LLDCs which have found the way to becoming commercially integrated.

The discrepancy between foreign policy (the Mediterranean vocation, with oda as a component) and international economic policy (the Asian and Latin American interests, with trade being the focus) emerges clearly.

Appendix A: Lira/US\$ exchange rates

<i>Year</i>	<i>Exchange rate</i>
1981	1,208
1982	1,364
1983	1,659
1984	1,936
1985	1,678
1986	1,351
1987	1,169
1988	1,305
1989	1,270
1990	1,130
1991	1,151
1992	1,141
1993	1,704
1994	1,630
1995	1,652

Source: MFA/DGCS, 1996

Appendix B: The existing reporting system

A statistical reporting system on oda policy objectives does not evaluate the impact of aid; it will, however, provide an important tool for impact analysis. In fact, a reporting system which indicates how much aid is *ex ante* devoted specifically to the poverty reduction objective is a useful tool for assessing the effect of oda on poverty reduction, by analysing what was targeted in relation to poverty.

The Italian ‘policy marker’ system has not yet been completed, but current MFA efforts are well-targeted towards stronger co-ordination into a DAC members’ system. Any initiative to develop project databases in such a standard way facilitates the comparability of donors’ statistics.

The MFA data bank, established by Law No.49 of 1987, collects data on around 12,300 grant projects,¹ which are grouped into about 5,000 initiatives, beginning from 1985. All the projects are labelled in respect of the recipient country, insertion number, title, administrative status, implementing institution, origin of funds (bilateral or multi/bilateral), sector, starting data, and amount of committed and disbursed funds. Table 11 gives an example. Supplementary information concerns the regional geographical area (Europe and the Mediterranean, Central Africa, Southern Africa, etc.) and the type of intervention (Normal, Extraordinary, Emergency).

The Italian database lacks a high level of detail – the system applies the 0–1 scoring approach: a score is classified as In/Out in a considered record or field – without any identifiable qualification or differentiation of scores. The categories used also address the administrative objectives rather than describing the cross-sectoral and policy aspects of projects, which poverty reduction is.

Because of the absence of any priority poverty-focused indicator or ‘cross-key descriptor’, we used the following approach:

¹ The project cycle management means, in Italian administrative procedures, that we can consider a project in terms of the first stage of appropriation or allocation (when the Directive Committee or the DGCS Director decides), the second stage of commitment (when the Treasury decrees and the Accounting Department approves) and the final stage of disbursement (when resources are disbursed). In this context the last is the phase we are interested in. So-called ‘emergency and relief assistance’, i.e. food aid for humanitarian and emergency purposes, is not included in our research since it does not count as development co-operation.

Table 11 Available information on single projects

<i>Country</i>	Albania	Tunisia
<i>AID number</i>	004710	000327
<i>Title</i>	Rural poverty alleviation	Poverty eradication: family production
<i>Status</i>	disbursed	disbursed
<i>Institution</i>	IDA	srl. ^a
<i>Channel</i>	multi/bilateral	bilateral
<i>Sector</i>	agriculture	services planning
<i>Start date</i>	04/11/1993	04/03/1985
<i>Commitments</i>	4 bn lira	7.7 bn lira
<i>Disbursements</i>	4 bn lira	7.7 bn lira

Note: ^a srl. = private limited company.

Source: MFA/DGCS, 1996

- a query by title, e.g. selecting projects with the presence of the words 'poverty', 'reduction', 'alleviation' and 'basic human needs'. The MFA's database includes so few projects and such ridiculous expenditure in monetary terms that it confirms the inability of the title field to address the theme of poverty reduction.
- a query by sector selection. A sectoral focus can be a preliminary tool for finding projects with principal or significant poverty reduction objectives. There is no possibility of selecting targeted interventions which received a higher poverty reduction priority.

We selected 22 sectors and sub-sectors, in the last ten years, in a 106 sectors/sub-sectors universe (see Table 12). As regards the sectoral distribution of Italian oda, these 22 sectors have been chosen as those best fitted to identify projects that have been significantly influenced by the poverty reduction objective. We used this group of sectors to create a proxy variable of Italian oda oriented to poverty reduction needed in our statistical analysis; however, these sectors remain just a preliminary, insufficient and arbitrary step towards the identification of specifically poverty reduction targeted projects. The approach was as follows:

- a query by country. This is a useful way of comparing the geographical concentration of oda and the eventual concentration of poverty-reduction-oriented projects in the priority countries or the LLDCs. Another useful way would be to

Table 12 **Major poverty-reduction-oriented oda sectors**

<i>Sectors</i>		<i>Sub-sectors</i>
Agriculture		
	of which:	soil conservation aqua-culture irrigation small-scale fishing livestock production vegetable production forestry and environment agro-food agro-food management veterinary
Social services and infrastructure		
Health and population		
	of which:	basic health water supply and sanitation rural water supply basic health mother-child sanitation rural and marginal remedies transmissible diseases
Education		basic education
Development services		
Urban development		
Rural development		

verify the existence of some homogeneous group of recipient countries and to explore their similarities.

- a query by executing institution. As the literature as well as political documents suggest that NGO projects have usually reached the poor and that their activities have had an impact on poverty, we have considered all the NGO projects as another preliminary proxy of poverty-reduction-oriented aid.
- one by one project consultation. This method should be considered a sort of quality control of the data and is the most appropriate method, because database markers do not serve poverty-reduction-oriented statistical purposes. Obviously, the manual check of all projects carried out in a country and the classification into 'poverty-oriented' and 'non-poverty-oriented' requires time: we confined this analysis to four major countries.

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