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(Occasional papers)

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of Italian foreign aid

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ASSESSING THE ALLOCATION OF ITALIAN FOREIGN AID

by Claudia Maurini* and Riccardo Settimo*

Abstract

This paper provides an assessment of Italian aid policy during the period 1983-2006. In comparison with other donors (DAC and G-7), the main stylized facts are: persistently lower aid/GDP ratio, greater recourse to multilateral channels, a higher percentage of “tied” flows and relatively greater recourse to debt relief. Drawing on the empirical literature on aid allocation, we estimate the determinants of Italy’s bilateral aid. We use three groups of explanatory variables, reflecting national-interest, humanitarian and selectivity-related motivations. We find that the distribution of Italian bilateral resources is significantly affected by both national-interest (like foreign policy or trade) and humanitarian motives, related to recipients’ needs; the latter’s role, in particular, seems to have strengthened over time. There is ample room for improving selectivity, i.e., the capacity to direct ODA flows to “deserving” countries, where better policies and institutions are likely to increase aid effectiveness.

JEL Classification: F35, O1.

Keywords: Italian foreign aid, aid allocation, donor motives, economic development.

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Introduction

In recent years donor countries have striven – with limited success – to honour the aid commitments made in Monterrey (2002) and Glenagles (2005). Aid from the DAC countries actually declined in 2006 and 2007, weakening the chances of achieving the promised \$ 50 billion increase between 2004 and 2010, with 50 percent of the increase destined for Sub-Saharan Africa.

Against this backdrop, the issue of aid allocation and effectiveness has naturally become central. Given the difficulty of scaling-up aid volumes, donors and multilateral development institutions have focused increasingly on how to make aid more effective in fostering economic growth and reducing poverty in developing countries.

Yet, poverty reduction is not the only reason for foreign aid. Geopolitical or trade interests and colonial ties play a significant, and in some cases even predominant, role. The long-standing theoretical dispute on “altruistic” vs. “egoistic” objectives is now reconciled in the view that both kinds of factor need to be considered in empirical models of aid allocation.

Here we analyse the aid policy pursued by Italy in the period 1983-2006. The paper is organized as follows. Section I provides a descriptive overview of total Italian aid trends and identifies the major stylized facts. Section II briefly reviews the theoretical and empirical literature on the determinants of bilateral aid allocation and its effectiveness. Drawing on this literature, we estimate the motivations of Italian bilateral aid and test for policy changes over time. Data and methodologies are presented in Section III, and Section IV features the main results. Section V concludes.

I. Italian aid: main trends and stylized facts

Italy plays a major role in development cooperation, though decreasing in recent years. On average, Italy's net Official Development Assistance (ODA) flows were \$ 3.7 billion a year in the period 2004-06, about 3.8 percent of OECD Development Assistance Committee (DAC) aggregate. Though considerable in absolute terms (the eighth largest donor in 2006), our contribution has been diminished significantly, especially during the 1990s, and is now around 10 percent lower than in 1990 (fig.1).

According to many, the global decline in ODA during the nineties is largely attributable to the general review of development policies that followed the end of the Cold War. In the case of Italy, the reduction was both sharper and longer-lasting, due to at least four additional country-specific factors: (i) the currency crisis of 1992, (ii) a collapse of public confidence in ODA during the political upheavals and corruption turmoil of the early 1990s, (iii) the budget austerity required to join the European monetary union and (iv) the country's prolonged failure to approve long-awaited development cooperation reforms. As a result, in the last decade Italy recorded ODA/GDP ratios persistently lower (by 0.10 percentage points) than the DAC average (fig.2).

Given these premises, it will be particularly challenging for Italy to honour the pledges of aid scale-up made at Monterrey (ODA/GDP at 0.7 percent by 2015). According to a recent DAC Secretariat simulation, achieving the intermediate target of 0.51 percent of GDP by 2010 (announced at Gleneagles) means almost tripling the amount of resources allocated in 2007.

We now proceed with a brief descriptive exploration of the data in the 24 years covered by our subsequent econometric analysis, bringing out some stylized facts in the composition of Italian ODA, and compare it with other

donors. In what follows the data are for disbursements rather than commitments, because they better reflect the actual transfer of resources.

Historically, Italian development cooperation is characterised by a relatively modest resort to the bilateral channel. As is evident from fig.3, the percentage of aid delivered directly to beneficiaries has always been lower than the DAC and G7 average, and the gap has widened over time. Preference for multilateral institutions (like the World Bank or the IMF) is consistent with the long-standing deficiencies, both strategic and operational, of the DCGS¹, as the DAC has noted repeatedly (see OECD 1996, 2000 and 2004).

Another distinctive feature of Italian development assistance, in recent years, has been the high percentage of aid consisting in debt relief. On average, during the period 1999-2006, this accounted for over 18 percent of total bilateral aid, against 10 percent for DAC countries as a whole (fig.4). The higher incidence of debt relief is consistent with Italy's budget difficulties, given that debt cancellation does not require the commitment of new resources. Obviously, this implies further challenges in the future, when the progressive fading-out of large-scale international debt relief initiatives will make it harder for Italy to honour its scale-up pledges.

A look at "tied aid", as a percentage of total bilateral resources, gives a preliminary idea on the importance of the national interest in Italian aid allocation. On average, for Italy, such transfers have held stable at around 45 per cent of total bilateral flows, while for other donors their incidence is smaller and has been decreasing over time (fig.5).

On the positive side, Italy allocates a higher percentage of aid to the neediest countries (fig.6). However, support for human development projects should be increased, as a lower-than-average percentage of aid goes to education, health and other types of social spending (fig.7).

¹ Direzione Generale per la Cooperazione allo Sviluppo: the Foreign Ministry department in charge of managing bilateral aid flows.

Finally, in Italy's case the incidence of administrative costs is low² (fig.8). However, these data should be interpreted with great caution, given the considerable international differences in administrative structures. A lower incidence of costs, for instance, is not necessarily an indicator of efficiency in disbursing aid or, conversely, of understaffing. The Italian data reflect a number of country-specific factors, such as: (i) the high share of multilateral contributions, which are less labour-intensive than most bilateral programmes; (ii) frequent resort to outsourcing, in which case administrative costs are part of program budgets; (iii) a relatively modest involvement in technical assistance, which is usually labour-intensive; (iv) the modalities of cost reporting, as the ODA budget forms part of many different government departments, whose expenses may not all be included in the data collected by the DAC.

² Those not already included in project budgets.

II. The literature on foreign aid: effectiveness versus determinants

Since the early 1970s, there have been two main strands in the literature on development assistance: one assesses aid effectiveness with respect to its official goal (poverty reduction); the other explores the actual motivations of foreign aid, analysing the *ex-post* geographical allocations by donors. The first group of studies attempts to answer the question “Does aid help fostering recipient countries’ growth?”; the second addresses the question “Which donor gives to which recipients and why?”.

As noted by the World Bank (1998), “Foreign aid has at times been a spectacular success and an unmitigated failure”. Consistent with this observation, work on the impact of aid on growth and poverty in recipient countries has reached contrasting conclusions. The earlier literature found no significant effects of foreign assistance on investment and growth in developing economies – see Jepma (1997) for a survey – but more recent research has shown that recipient countries’ needs (e.g. poverty level) and merits (quality of economic policies and institutional context) are necessary preconditions for successful aid (Burnside and Dollar, 2000; Collier and Dollar 2002). Boone (1994) links aid impact of aid to the political regimes of recipient countries. In other words, aid *is* effective, but only under specific favourable circumstances.

These findings paved the way for a new generation of studies designed to assess aid “selectivity”. This concept, bearing on “quality” rather than quantity, refers to the ability of a donor country to identify good borrowers that can maximize the effectiveness of the aid received (see Dollar and Levine, 2004). For a review of this literature, as well as for some criticism of Burnside and Dollar’s approach, see Amprou et al. (2007).

The literature on aid determinants comprises both theoretical and empirical studies. Papers also differ in their approach, which can be

descriptive or normative, as well as in the set of explanatory variables³. On the choice of variables, there was an early clash between those sustaining an altruistic view (donors help for humanitarian reasons) and those taking an egoistic view (donors allocate aid according to their commercial or political interest) (Dudley and Montmarquette, 1976; McKinlay and Little, 1977). But recent empirical works have overcome this split, allowing for both motivations to influence ODA allocation, together with other variables, in “hybrid” models.

Alesina and Dollar (2000) concentrate on bilateral aid from different donors, averaging flows over five-year periods from 1970 to 1994. They factor in the beneficiary countries’ per capita income, the quality of their institutions and policies, and variables capturing the strategic interests of donors⁴, including colonial links. They find that the most important factors explaining aid allocation are colonial past and political alliances.

Berthélemy and Tichit (2004) focus on the change in donor behaviour over time and conclude that colonial bias has weakened since the end of the Cold War in favour of commercial factors and reward for sound economic policies (since 1990).

Canavire et al. (2005) compare the determinants of multilateral bilateral aid, for nine major donors. Unlike Dollar and Levine (2004), they do not find that multilateral aid is better targeted (i.e., directed predominantly to poor countries with good governance); overall, they conclude that the distribution of aid still leaves much to be desired, owing to its dependence on the commercial and political interests of the donor countries.

Berthélemy (2006) uses a very large three-dimensional panel dataset (donor, recipient, time) to estimate a two-step model that accounts for the decision on which country to give to (the first step: a Probit model), and how

³ For a clear taxonomy of studies on aid determinants see Mc Gillivray and White (1993) and Mc Gillivray (2004).

⁴ They build a “friendship” variable to assess the strategic interest of donors, using the correlation between donor’s and recipient’s voting pattern in the UN General Assembly.

much (the second step: a linear model based only on strictly positive observations)⁵. More normatively, he seeks to compare donors by degree of altruism in aid allocation, finding that most donors, including Italy, behave in a self-interested way.

We contribute to this literature by studying the determinants of Italian foreign aid; to this end we introduce a variable designed to capture Italy's self-interested motives for aid. Then, building on the findings of Burnside and Dollar (2000) and Collier and Dollar (2002), on aid selectivity, we also try to derive some conclusions on the effectiveness of Italian development assistance.

⁵ See Berthélemy (2006) for a useful explanation of the methodological issues involved in censored variables and a description of an alternative model for treating them.

III. Methodology and data

We intend to explain the motivations for Italian aid as revealed by the *ex-post* allocation of resources to a cross section of recipient countries. Our dataset covers annual bilateral ODA flows from Italy to 156 recipient countries over 24 years (1983-2006), as reported by the OECD Development Assistance Committee (DAC).⁶ In principle, two alternative measures of ODA can be used: commitments or disbursements. Our choice is net disbursements, which more accurately reflect actual resource transfers (Canavire et al., 2005). Given the presence of a number of observations at the value of zero aid, we opt for a Tobit modelling framework, to avoid the selection bias linked to the censored nature of our dependent variable. In a few cases, net flows were negative, due to reimbursements being larger than concessions; here ODA was constrained to be equal to zero.

Ideally, we would want panel estimates, which remove unobserved cross-country heterogeneity by simply introducing fixed effects. Unfortunately, this approach is unattractive in non-linear models because of the incidental parameters' problem. Basically, the problem is that the estimator of each fixed effect uses only information from the corresponding group. When the number of observations for each country is limited and small (as it is the case in our panel) the variance of the estimator of both the intercepts and the slope does not converge asymptotically to 0 (see, for instance, Greene 2004).

For this reason, we decided instead to work with country averages and remove cross-country heterogeneity by including a wide array of explanatory variables. In particular, we chose to average annual data and reduced the time dimension by splitting the sample into three eight-years periods, 1983-1990, 1991-1998 and 1999-2006. Years 1991 and 1999 were chosen as watersheds, the former as the first after the Cold War period, the latter because of the

⁶ See Table 4 for data description.

Parliament's approval of a statement that made poverty reduction a central priority of Italian development cooperation (OECD, 2000). Comparing the results for the three sub-periods, which contain only cross-sectional data, also allows us to test for actual changes in allocation behaviour over time. Table 1 reports the top aid recipients of Italian ODA in each period.

Another reason why we decided to work with averages is that we do not have a balanced panel, due to lack of yearly data for some variables (for instance, data on life expectancy are not updated yearly and the series for developing countries typically have a number of missing values). Moreover, some of our explanatory variables do not change over time, and most of the others present little variability within each eight-year sub-period.

Finally, averages help to smooth Italy's erratic ODA flows to many recipients, mainly because of the lack of a clear development policy and the complexity and unpredictability of aid decision making (OECD, 2004).

For each of our three sub-periods, average annual aid to the i^{th} beneficiary is specified as the higher between zero and a linear function of the set of explanatory variables \mathbf{X} , in order to assure that predicted flows cannot become negative.

$$Aid_i = \max(\beta X_i + \varepsilon_i, 0)$$

Following McGillivray and Oczkowski (1992), we employ the log of total and not per-capita ODA, in the belief that a donor country makes its policy choice on a country rather than per-capita basis⁷. In order to neutralize the effect of inflation, aid flows are in constant 2005 USD.

We chose explanatory variables to capture both the interests of donors and the needs/merits of recipients, in line with the assumptions of the recent literature that development aid cannot be entirely explained by only one category of factors.

⁷ For a different view, see Berthelemy and Tichit (2004).

As to the self-interested objectives, many observers have stressed the role of geopolitical factors in aid allocation. Political alliances at the United Nations (Alesina and Dollar, 2000) and colonial past have been used extensively as explanatory variables, with considerable statistical success. But, applying this framework to Italy would be of little help given the absence of strong geopolitical interests and of a noteworthy colonial past.

Instead, we use a proxy of foreign policy interests as discernible from official documents and statements. In particular, since the end of the Cold War, Italy has sought to strengthen political and economic ties with the Mediterranean, Southeast Europe, the Middle East and the Horn of Africa. Apart from economic interests, the other factors helping to determine these priorities are security, the need to control illegal immigration, cultural proximity, the presence of Italians and historical ties (see Appendix I). So, we believe that in the case of Italy a dummy variable (ITAFPOL) to pick out recipient countries in these regions is more appropriate than colonial past or UN voting⁸.

ODA flows might be used also to promote trade with the recipient countries. Trade motives may be measured in any number of ways. Berthelémy and Tichit (2004) use bilateral trade (exports + imports) as a percentage of the donor's GDP; Berthelémy (2006) uses bilateral exports only. We take this latter approach (LNEXP), but scale bilateral exports by total exports to recipient countries, not donor GDP. An important caveat is needed here: a simultaneity bias might arise in the case of tied aid, when grants entail more imports from the donor.

We turn now to poverty alleviation, which is after all the official purpose of ODA. Following the selectivity concept, if donors want to maximise the impact of aid on poverty they should direct resources to

⁸ The dummy ITAFPOL is equal to 1 for the following recipients. **Mediterranean:** Algeria, Egypt, Libya, Morocco, Tunisia. **Middle East:** Jordan, Palestinian adm. areas, Lebanon and Syria. **Horn of Africa:** Eritrea, Ethiopia, Somalia. **Southeast Europe:** Albania, Bosnia-Herzegovina, Serbia. See Appendix I for a detailed description.

countries that are not only among the neediest ones, but also have sound institutional contexts and good economic policies. As to the needs of recipients, we use the log of GDP per capita (LNINC) in PPP terms (constant 2000 international USD), as reported by the World Bank's World Development Indicators (WDI), and an indicator of life expectancy at birth (LNLIFEXP), as reported by the same WDI.

For the quality of institutions, we use the civil liberty index produced by Freedom House – which ranges from 1 (top) to 7 (bottom) – and covers a sufficiently large number of countries and years⁹. Following Berthelémy (2006) we regroup countries into two categories and create a dummy variable (DCL) equal to 1 for countries with an index up to 4, and 0 for those with 5-7.

As to quality of policies, we follow the same author and gauge it by aid granted by multilateral donors as an indirect proxy (LNMULT). This is in line with the idea of the “superiority” of multilateral aid (with respect to bilateral flows), since, at least in theory, it should be allocated to countries that conduct good policies (Burnside and Dollar, 2000).

We also add a final group of control variables: geographical distance of the recipient from Italy (LNDIST), aggregate bilateral aid from other DAC donors (LNDAC)¹⁰ and beneficiary's population (LNPOP).

All variables, excluding the two dummies (ITAFPOL and DCL), are in logarithms.

⁹ The *Freedom in the World* survey provides an annual evaluation of the state of global freedom as experienced by individuals. The survey measures freedom—the opportunity to act spontaneously in a variety of fields outside the control of the government and other centers of potential domination—according to two broad dimensions: political rights and civil liberties. Political rights enable people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state.

¹⁰ In addition, this would test for the inclination to act in conformity with fellow donors, a sort of international ‘band-wagon’ effect. As Trumbull and Wall (1994) observe, “donors do make their decisions with knowledge of what the others are doing, and may act cooperatively”.

IV. Results

The estimation outcomes by sub-period are reported in table 2. We separate the explanatory variables into three conceptual groups, associated respectively with self-interested (ITAFPOL, LNEXP), humanitarian (LNINC, LNLIFEXP) and governance-related (DCL, LNMULT) motivations. Columns (a), (b) and (c) give the estimates obtained by regressing aid on each group of variables individually plus the controls. Column (d) reports the results of regressions that include the whole set of explanatory variables.

In line with the results of most empirical works, self-interest matters for Italian aid. As for other major bilateral donors, trade interests are correlated with ODA allocations; when the full set of explanatory variables is included, the exports variable (LNEXP) is significant in all periods. The dummy ITAFPOL, which identifies “strategic” countries by explicit foreign policy lines, is strongly significant in the intermediate period (1991-98). The lack of explanatory power pre-1990 is consistent with national interests being presumably steered by Cold-War schemes, whereas from 1999 on, foreign policy objectives may have been obscured by the growing importance of humanitarian factors (see below).

As to recipients’ needs, income per capita (LNINC) explains aid flows in the first period and life expectancy (LNLIFEXP) in the second; these variables both become strongly significant after 1999, providing some evidence in favour of the shift towards poverty reduction, officially declared by our development policy authorities in that year. This is also consistent with the claim made by all major donors that aid has increasingly privileged poor and deserving countries in recent years¹¹.

On the governance side we find that on average in the last 24 years, Italian aid decisions have not taken into account the quality of institutions and policies. As an alternative to the civil liberty index, we also considered the

¹¹ See Nunnenkamp and Thiele (2006) for an opposing view.

Freedom House political rights index as a measure of institutional quality. The results are unchanged.

Finally, some brief comments on the controls. First, aid granted by other bilateral donors is always positively and significantly correlated with Italian aid; this is consistent with Italy's traditional alignment the international community and the major European donors. Second, the coefficient of population (LNPOP) becomes negative and significant in the last period, suggesting a "small-country bias", that directs more aid per capita to small then to large countries.

Conclusions

A number of stylized facts concerning Italy's ODA flows emerge in comparison with other donors, namely: (i) persistently lower ODA/GDP ratio, (ii) a higher share of debt relief in total aid flows, (iii) a higher percentage of "tied" aid and (iv) more intense recourse to multilateral channels.

On fact (i), this may be attributed to country-specific political and economic circumstances in the 1990s. However, now it is time to honour the aid pledges made in Monterrey (2002) and Gleneagles (2005), in order not to weaken Italy's influence in the international development cooperation arena. Scaling up aid will prove exceptionally difficult though, given the diminished scope for debt forgiveness, whose incidence on Italy's total ODA has been substantial and increasing over the past decade. In fact, the possibility of exploiting debt relief to sustain ODA flows will vanish 2006, as major cancellation operations will be concluded.

A decrease in the share of tied resources would be most desirable to enhance the development impact of Italian aid. This would enable Italy to comply with the recommendations of the Paris Declaration on Aid Effectiveness (2005), which called for a reduction of tied aid and better alignment with country-specific priorities.

Broad resort to multilateral channels is consistent with recognition of the organisational and management shortcomings that plague bilateral transfers, which have been repeatedly highlighted by the DAC. In view of the promised doubling (or tripling) of Italian ODA, and with the prospect of a larger share of bilateral aid, reforming the organisation of the bilateral system is especially urgent.

The last DAC Peer Review (2004) pointed to the lack of a clear national vision for Italian development policy, saying this might ultimately detract from effectiveness. Drawing on the empirical literature, we have estimated the determinants of Italian aid, finding that in the past the

distribution of resources was significantly shaped by both self interest (foreign policy or trade) and by recipients' needs. The importance of the latter, in particular, appears to have strengthened over time. There is room for improvement in "aid selectivity", i.e. the capacity to direct ODA flows to "deserving" countries, where better policies and institutions are likely to make aid more effective.

Italian development cooperation is currently undergoing a long-awaited process of reform. Our findings strongly suggest the need for a clear development strategy focusing primarily on poverty reduction and an operational framework that enhances selectivity (hence, effectiveness).

Appendix I

The ITAFPOL dummy variable is based on three sources: the Foreign Affairs Ministry's website, foreign policy documents and independent reviews (DAC). The idea was to capture the strategic priorities of Italian foreign policy from official statements. In what follows we report a selection of excerpts from the above.

*Italy's major development challenges consist in "formulating effective programmes in countries with strong political and economic ties to Italy in the **Mediterranean, Southeastern Europe, and Horn of Africa**" regions.*
(DAC Peer Review 2000)

*Our country considers **Egypt, Lebanon, and the Palestinian Territories** priority beneficiaries of interventions on economic reform support, modernization, small and medium enterprise development (in particular in the primary sector), as well as on education, health and water supply. Regarding migrations, after the cooperation agreement for migration flows from **Egypt**, Italy seeks to enhance collaboration with **Syria and Lebanon** to reach specific agreements against clandestine migration.*
(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Mediterr_MO/Rapporti_bilaterali.htm)

*Priorities on regional security will be set in the following areas: i) the **Balkans and South-eastern Europe**; ii) **North Africa/Mediterranean and Middle East**. Stability in western Balkans represents a strategic priority for Italy.*
(Ministry for Foreign Affairs, 2007 – "2020 Report, Foreign policy choices")

*In North Africa, **Egypt** plays a special role – for its size and its traditional political activism - as a political and economic reference point for Italy [...] Another crucial sub-region for Italy is **Lebanon**, where the Israeli question and all other security issues of the Middle East converge.*
(Ministry for Foreign Affairs, 2007 – "2020 Report, Foreign policy choices")

*Relationships with individual **Middle-East** countries maintain a very high level of priority, both in a political and in an economic, cultural sense.*
(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Mediterr_MO/Rapporti_bilaterali.htm)

*Italian engagement for normalization in the bilateral relationship with **Libya** continues. At the same time Italy plans to enhance collaboration in sectors of common interest, with special attention to **Mediterranean area** security issues.*
(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Mediterr_MO/Rapporti_bilaterali.htm)

*In those countries (among them **Egypt, Libya and Algeria**) with which we are more closely connected for energy issues, we have to build political, economic and commercial links to enhance interdependence; we also have to develop investments in these countries in strategic areas, like the financial system, high technology, infrastructures and electricity market.*

(Ministry for Foreign Affairs, 2007 – “2020 Report, Foreign policy choices”)

*Geographical, historical, political and cultural reasons confer relationships with **Tunisia and Morocco** a strategic importance in Italian foreign policy.* (http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Mediterr_MO/Rapporti_bilaterali.htm)

*The Italian government, consistently with its engagement in supporting peace-keeping in the **Horn of Africa**, seeks to carry on its action for normalization in the relationship among those countries. This aims also at consolidating stability in that area, which plays a junction role between African and Arabic countries.*

(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Africa/Processi_di_pacesicurezza.htm)

*Relations with **Balkan** countries represent a “natural” priority in Italian foreign policy--for political tradition, geographical proximity and cultural similarity. What happens in that area immediately reflects both on our internal security and external relations.*

(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Europa/Balcani/)

*In 2000 Italy, together with **Albania, Bosnia-Herzegovina, Croatia, Greece and Slovenia**, signed the Ancona Declaration. It claims that strengthening regional cooperation contributes towards promoting political and economic stability, establishing therefore solid foundations for the European integration process.*

(http://www.esteri.it/MAE/IT/Politica_Estera/Aree_Geografiche/Europa/Balcani/IAI.htm)

*“[...] our country already play a strong influence in **Middle East**, not only for the linkages I mentioned above, but also for our equilibrium policy aimed at the right for the two peoples to live together in peace and safety[.]”*

F. Frattini (Ministry for Foreign Affairs, 29 September 2003)

*“[...] I mentioned **Macedonia and Bosnia** because the **Balkans** clearly reflect a strategic interest for Italy [.]”*

*“[...] Italy firmly believes in a balanced Europe, which should be focussed on its **Mediterranean** dimension [.]”*

*“[...] that is the attention to the stability and development of **Balkans and Mediterranean area**. As you know [...] such issues will represent two real priorities [.]”*

F. Frattini (Ministry for Foreign Affairs, 6 February 2003)

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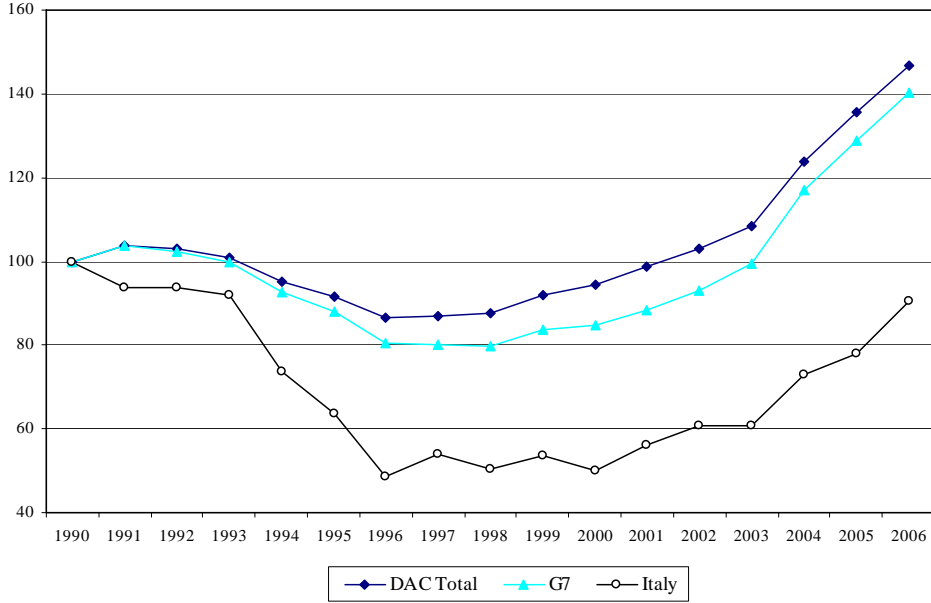
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_____, 2004, “Italy DAC Peer Review”.

TRUMBULL, WILLIAM AND HOWARD WALL, 1994, “Estimating Aid Allocation with Panel Data”, *The Economic Journal*, vol. 104, no. 425, 876-882.

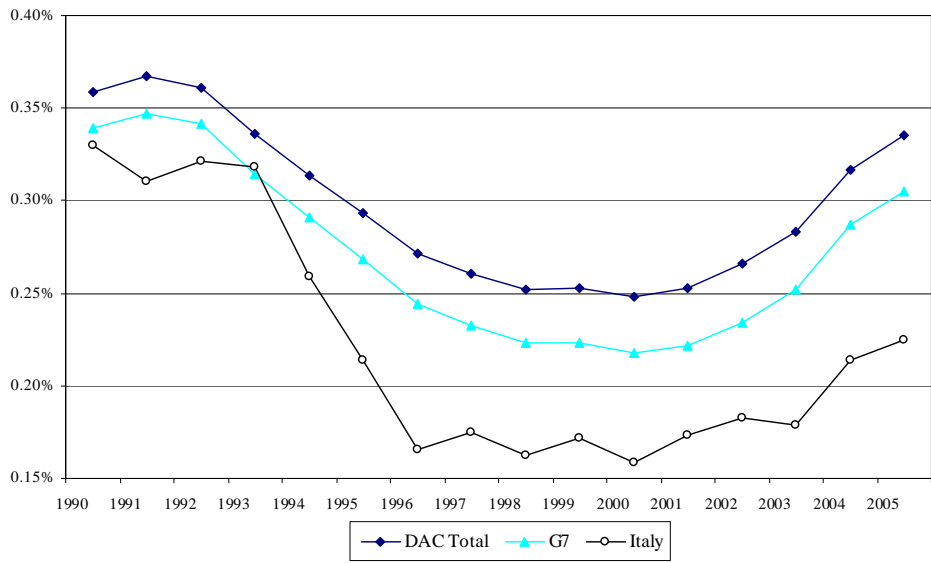
WORLD BANK, 1998, “Assessing Aid”, *Policy Research Report*.

Fig. 1: Total ODA flows
 (net disbursements; constant 2005 USD; moving averages(3); 1990 = 100)

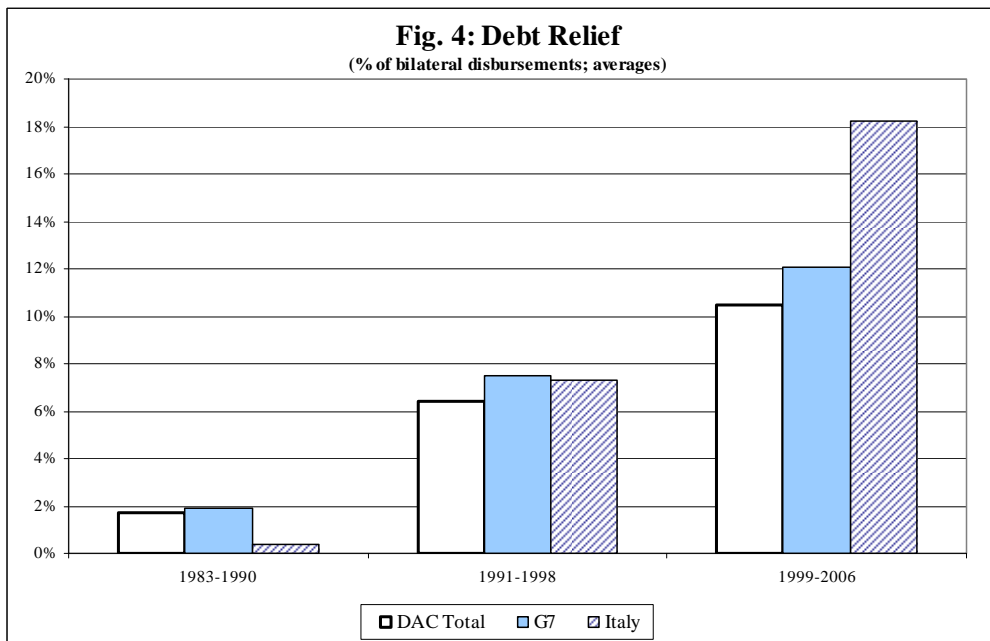
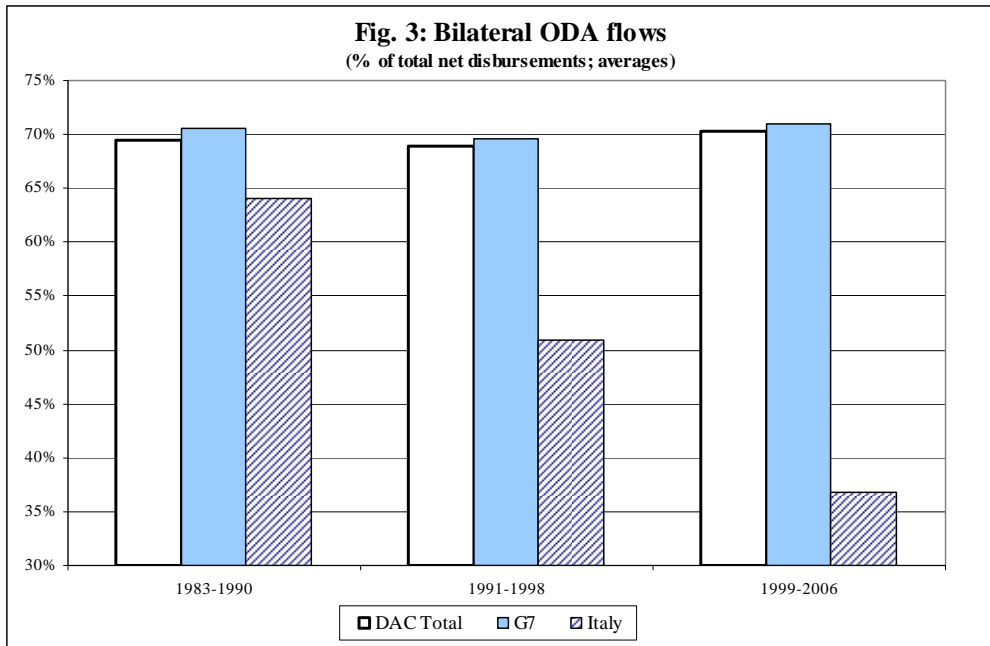


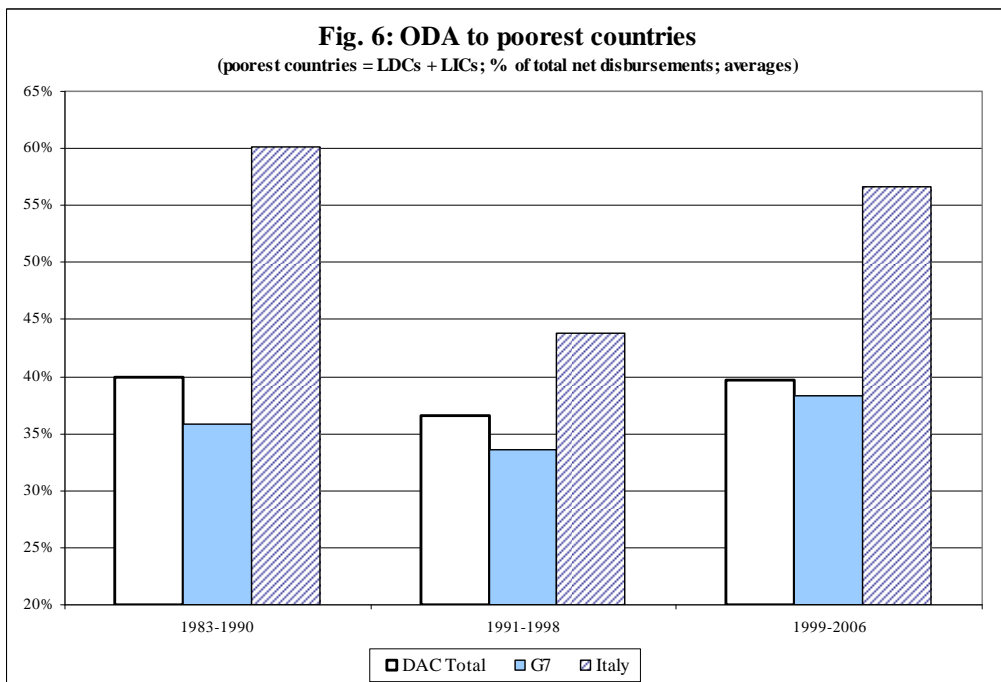
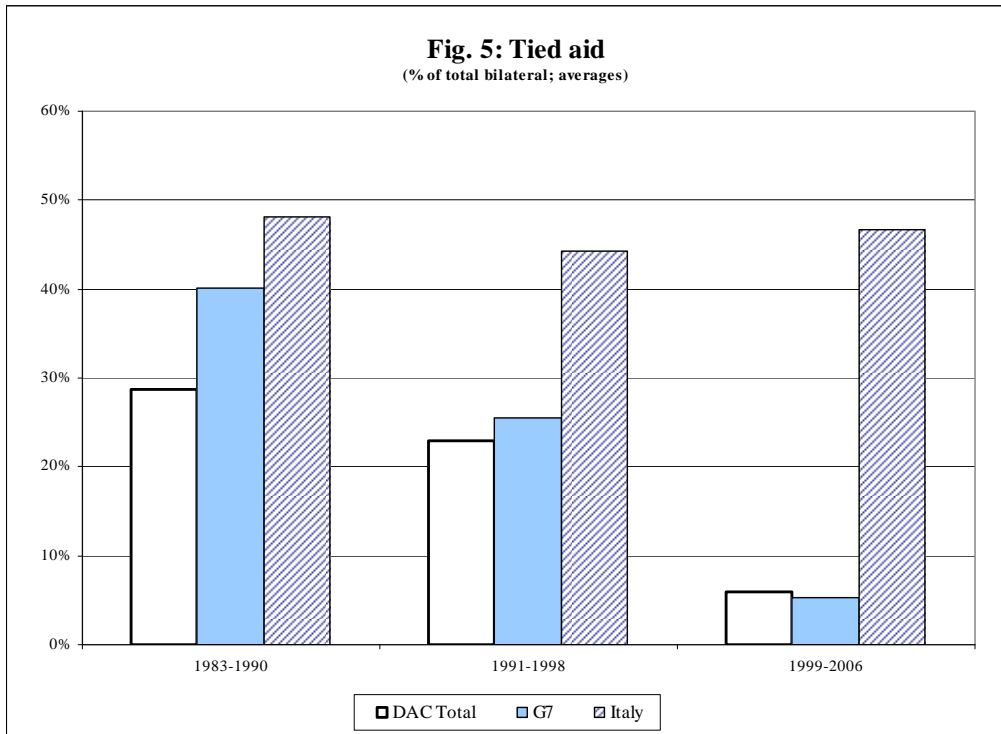
—◆— DAC Total —▲— G7 —○— Italy

Fig. 2: ODA/GDP
 (Net disbursements, moving averages (3))



—◆— DAC Total —▲— G7 —○— Italy





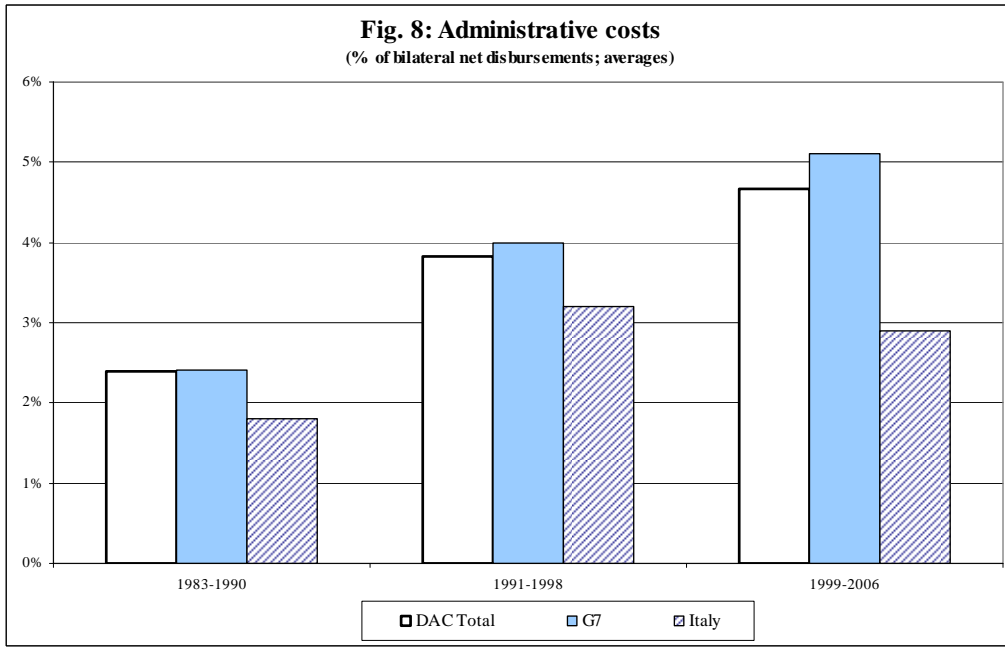
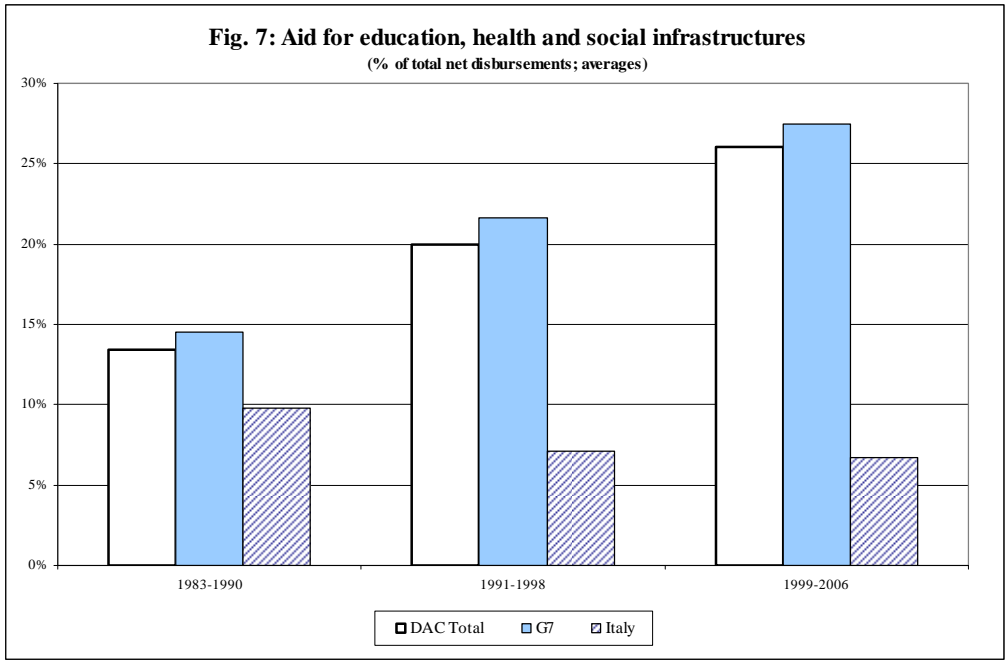


Table 1: Number of times among top ten recipients of Italian aid, by period

| Recipient | 1983-90 | Recipient | 1991-98 | Recipient | 1999-06 |
|------------------|----------------|------------------|----------------|-----------------------|----------------|
| Mozambique | 8 | Mozambique | 7 | Albania | 7 |
| Somalia | 8 | Albania | 5 | Ethiopia | 6 |
| Ethiopia | 7 | Ethiopia | 5 | Afghanistan | 5 |
| Tunisia | 7 | Egypt | 4 | Palestinian adm.areas | 5 |
| China | 6 | Argentina | 3 | Angola | 4 |
| Sudan | 4 | China | 3 | China | 4 |
| Tanzania | 4 | Jordan | 3 | Eritrea | 4 |
| Argentina | 3 | Malta | 3 | Cameroon | 3 |
| Congo Dem.Rep. | 3 | Morocco | 3 | Iraq | 3 |
| India | 3 | Somalia | 3 | Serbia | 3 |
| Senegal | 3 | | | Tunisia | 3 |

Table 2: Estimation results

| | | (a) | | | (b) | | | (c) | | | (d) | | |
|---------------------------|----------|---------------------|----------------------|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|--------------------|--------------------|---------------------|
| | | 1983-90 | 1991-98 | 1999-06 | 1983-90 | 1991-98 | 1999-06 | 1983-90 | 1991-98 | 1999-06 | 1983-90 | 1991-98 | 1999-06 |
| Italian for. policy | ITAFPOL | -0.866 (1.04) | 3.051*** (.943) | 1.687 (1.35) | | | | | | | -0.567 (1.04) | 3.119*** (1.01) | 2.205 (1.45) |
| Exports | LNEXP | 0.081 (.148) | -0.149 (.154) | -0.424* (.224) | | | | | | | 0.521** (.200) | 0.676** (.278) | 0.746** (.327) |
| Income | LNINC | | | | -0.290 (.449) | 0.141 (.492) | -1.327** (.623) | | | | -1.162** (.516) | -0.788 (.611) | -2.093*** (.719) |
| Life expectancy | LNLIFEXP | | | | -2.366 (2.17) | -4.020* (2.23) | -5.761** (2.24) | | | | -2.661 (2.17) | -4.119** (2.04) | -6.019*** (2.11) |
| Civil liberty | DCL | | | | | | | 0.569 (.552) | -0.018 (.541) | -1.945*** (.722) | 0.485 (.570) | -0.044 (.554) | -1.203 (.758) |
| Multilateral aid | LNMULT | | | | | | | 0.219 (.144) | 0.402*** (.142) | 0.444** (.194) | -0.127 (.147) | 0.208 (.142) | 0.029 (.219) |
| Distance | LNDIST | -2.113*** (.501) | -0.014 (.407) | -1.802*** (.633) | -1.808*** (.353) | -0.818** (.375) | -2.080*** (.519) | -2.252*** (.390) | -0.989*** (.352) | -1.598*** (.500) | -1.158** (.559) | 1.056** (.451) | 0.148 (.740) |
| Other DAC aid | LNDAC | 1.212*** (.184) | 0.734*** (.116) | 1.385*** (.321) | 1.192*** (.146) | 0.716*** (.128) | 0.733** (.284) | 1.130*** (.180) | 0.584*** (.136) | 1.011*** (.293) | 1.217*** (.228) | 0.601*** (.131) | 0.998** (.398) |
| Population | LNPOP | 0.600*** (.178) | 0.871*** (.179) | 0.094 (.351) | 0.424*** (.136) | 0.729*** (.148) | -0.099 (.242) | 0.599*** (.135) | 0.762*** (.148) | -0.261 (.230) | 0.060 (.209) | 0.008 (.275) | -1.029** (.398) |
| Intercept | CONST | 6.860 (4.51) | -10.574*** (3.86) | 0.081 (5.64) | 17.476** (6.93) | 14.508* (7.71) | 48.96*** (9.34) | 5.922* (3.34) | -2.592 (3.33) | 5.257 (4.74) | 27.34*** (8.38) | 15.977* (9.11) | 47.72*** (11.1) |
| Observations | | 129 | 144 | 145 | 131 | 134 | 134 | 153 | 152 | 154 | 114 | 128 | 129 |
| <i>of which censored:</i> | | 21 | 24 | 45 | 30 | 23 | 44 | 42 | 30 | 50 | 16 | 19 | 41 |
| Chi-squared | | 132.44 | 117.46 | 81.13 | 194.56 | 101.33 | 86.19 | 216.29 | 125.46 | 90.71 | 138.77 | 122.75 | 99.11 |

Notes: Tobit regression. *, ** and *** denote rejection of the null hypothesis of the coefficient being equal to 0 at 10%, 5% and 1% significance level, respectively. Standard errors in parenthesis.

Table 3: Correlation matrices and summary statistics

1983-90

| | LNAID | ITAFPOL | LNEXP | LNINC | LNLIFEXP | DCL | LNMULT | LNDIST | LNDAC | LNPOP |
|---------------------------|-------|---------|--------|-------|----------|-------|--------|--------|-------|-------|
| LNAID | 1 | | | | | | | | | |
| ITAFPOL | 0.09 | 1 | | | | | | | | |
| LNEXP | 0.46 | 0.32 | 1 | | | | | | | |
| LNINC | -0.49 | -0.01 | 0.20 | 1 | | | | | | |
| LNLIFEXP | -0.41 | 0.04 | 0.17 | 0.79 | 1 | | | | | |
| DCL | -0.01 | -0.20 | -0.21 | 0.27 | 0.30 | 1 | | | | |
| LNMULT | 0.70 | -0.08 | 0.01 | -0.48 | -0.42 | 0.14 | 1 | | | |
| LNDIST | -0.08 | -0.52 | -0.44 | -0.08 | -0.03 | 0.36 | 0.24 | 1 | | |
| LNDAC | 0.70 | -0.09 | 0.21 | -0.38 | -0.32 | 0.18 | 0.92 | 0.31 | 1 | |
| LNPOP | 0.52 | 0.12 | 0.63 | -0.29 | -0.18 | -0.22 | 0.20 | -0.19 | 0.22 | 1 |
| <i>Summary statistics</i> | | | | | | | | | | |
| Obs | 156 | 155 | 129 | 132 | 151 | 156 | 156 | 155 | 156 | 153 |
| Mean | 5.82 | 0.10 | -6.64 | 8.02 | 4.10 | 0.27 | 8.90 | 8.60 | 9.82 | 8.19 |
| Std dev. | 4.30 | 0.30 | 2.32 | 0.88 | 0.17 | 0.44 | 4.06 | 0.76 | 4.24 | 2.03 |
| Min | 0 | 0 | -17.02 | 6.23 | 3.66 | 0 | 0 | 6.20 | 0 | 3.69 |
| Max | 12.44 | 1 | -2.33 | 10.21 | 4.34 | 1 | 14.33 | 9.78 | 14.79 | 13.89 |

1991-98

| | LNAID | ITAFPOL | LNEXP | LNINC | LNLIFEXP | DCL | LNMULT | LNDIST | LNDAC | LNPOP |
|---------------------------|-------|---------|--------|-------|----------|-------|--------|--------|-------|-------|
| LNAID | 1 | | | | | | | | | |
| ITAFPOL | 0.32 | 1 | | | | | | | | |
| LNEXP | 0.22 | 0.24 | 1 | | | | | | | |
| LNINC | -0.45 | -0.03 | 0.41 | 1 | | | | | | |
| LNLIFEXP | -0.37 | 0.08 | 0.31 | 0.79 | 1 | | | | | |
| DCL | -0.20 | -0.21 | -0.10 | 0.31 | 0.34 | 1 | | | | |
| LNMULT | 0.60 | 0.15 | -0.05 | -0.57 | -0.44 | -0.14 | 1 | | | |
| LNDIST | -0.24 | -0.52 | -0.31 | 0.02 | -0.02 | 0.28 | -0.11 | 1 | | |
| LNDAC | 0.58 | 0.13 | -0.02 | -0.50 | -0.35 | -0.07 | 0.65 | 0.07 | 1 | |
| LNPOP | 0.60 | 0.12 | 0.59 | -0.31 | -0.20 | -0.29 | 0.41 | -0.18 | 0.38 | 1 |
| <i>Summary statistics</i> | | | | | | | | | | |
| Obs. | 156 | 155 | 145 | 134 | 152 | 156 | 156 | 155 | 156 | 152 |
| Mean | 6.06 | 0.10 | -6.79 | 8.04 | 4.12 | 0.44 | 10.18 | 8.60 | 10.95 | 8.34 |
| Std dev. | 3.85 | 0.30 | 2.13 | 0.94 | 0.19 | 0.50 | 2.61 | 0.76 | 2.65 | 2.04 |
| Min | 0 | 0 | -12.27 | 6.20 | 3.43 | 0 | 0 | 6.20 | 0 | 3.72 |
| Max | 12.11 | 1 | -2.63 | 10.05 | 4.37 | 1 | 13.85 | 9.78 | 14.75 | 14.00 |

1999-2006

| | LNAID | ITAFPOL | LNEXP | LNINC | LNLIFEXP | DCL | LNMULT | LNDIST | LNDAC | LNPOP |
|---------------------------|-------|---------|--------|-------|----------|-------|--------|--------|-------|-------|
| LNAID | 1 | | | | | | | | | |
| ITAFPOL | 0.33 | 1 | | | | | | | | |
| LNEXP | -0.02 | 0.23 | 1 | | | | | | | |
| LNINC | -0.61 | -0.02 | 0.41 | 1 | | | | | | |
| LNLIFEXP | -0.49 | 0.11 | 0.34 | 0.71 | 1 | | | | | |
| DCL | -0.21 | -0.22 | -0.13 | 0.13 | 0.15 | 1 | | | | |
| LNMULT | 0.55 | 0.19 | -0.12 | -0.68 | -0.44 | 0.06 | 1 | | | |
| LNDIST | -0.32 | -0.52 | -0.41 | 0.00 | -0.05 | 0.21 | -0.22 | 1 | | |
| LNDAC | 0.50 | 0.16 | -0.09 | -0.68 | -0.40 | 0.06 | 0.81 | -0.03 | 1 | |
| LNPOP | 0.37 | 0.12 | 0.56 | -0.30 | -0.18 | -0.19 | 0.47 | -0.20 | 0.47 | 1 |
| <i>Summary statistics</i> | | | | | | | | | | |
| Obs | 156 | 155 | 146 | 134 | 151 | 156 | 156 | 155 | 156 | 155 |
| Mean | 4.77 | 0.10 | -6.98 | 8.15 | 4.13 | 0.53 | 9.74 | 8.60 | 10.74 | 8.39 |
| Std. dev. | 3.94 | 0.30 | 2.47 | 0.97 | 0.21 | 0.50 | 3.50 | 0.76 | 3.23 | 2.12 |
| Min | 0 | 0 | -19.09 | 6.35 | 3.62 | 0 | 0 | 6.20 | 0 | 3.00 |
| Max | 12.12 | 1 | -2.45 | 10.21 | 4.40 | 1 | 13.64 | 9.78 | 15.32 | 14.06 |

Table 4: Data description

| Variable | Code | Definition | Source |
|------------------------|-------------|---|--|
| Italian aid | AID | Bilateral disbursements by Italy (constant 2005 USD, thousands) | DAC-OECD |
| Italian foreign policy | ITAFPOL | Dummy variable accounting for countries of strategic importance for Italian foreign policy | See Appendix I |
| Exports | EXP | Bilateral Italian exports to recipient countries | Direction of Trade Statistics (IMF) |
| Income per capita | INC | Per capita GDP at purchasing power parities (constant 2000 international dollars) | World Development Indicators (World Bank) |
| Life expectancy | LIFEXP | Life expectancy at birth (years) | World Development Indicators (World Bank) |
| Civil liberties | DCL | Dummy variable given by regrouping Civil Liberty index | Freedom House (2007) |
| Multilateral aid | MULT | Aggregate disbursements by multilateral institutions (constant 2005 USD, thousands) | DAC-OECD |
| Geographical distance | DIST | Recipient country's distance from Italy (Km) | Centre d'Etudes Prospectives et d'Informations Internationales - CEPII |
| Other DAC donors' aid | DAC | Aggregate bilateral disbursements by DAC donors, excluding Italy (constant 2005 USD, thousands) | DAC-OECD |
| Population | POP | Population (thousands) | World Development Indicators (World Bank) |

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