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Abstract

Italy has drastically reduced its aid levels in the past decade. Aid cuts might have negative effects not only on the recipient but also on the donor side: aid is granted in order to upgrade the donor international position, and reductions in aid might have an impact also on the donor international standing. The paper attempts to verify whether reductions in aid levels operated by Italy in the last decade have hampered the country international standing, measured as a proxy of the number of Italian officials in international organizations. The paper finds a correlation between reductions in aid levels and reduction in the Italian presence in international organizations. The cost of a reduction in aid is calculated in terms of a reduction in Italian officials in international organizations.

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(*) The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI.

Effects of the decline in Italian aid and Italy's position in the international organizations

Lia Quartapelle

Introduction

The selection for the UN Young Professional Program for Italy will take place On the 7th of December 2011. The unusual call for professionals, in fact, has been motivated with the fact that Italy, usually over-represented among the UN family professionals, has actually lost ground in the last years and is now under-represented in the organizations belonging to the UN family. The under-representation comes at a time of a decrease in aid funding from Italy. It is not clear whether there is a relationship between the two: does a reduction in aid imply also a subsequent reduction in the presence of Italian officials? Or rather, does the reduction in Italian officials imply a reduction in aid? Alternatively, are both the decreases caused by a third change, that is for example by a fall in the effectiveness of aid in Italy?

Certainly, the reduced presence of Italy, both in financial terms and in human resources, might imply a decline in Italy's relevance within international organizations. The present paper intends to understand whether the reduction in aid has implied also a reduction in human resources, in order to verify whether Italy, reducing aid, is also hampering its international standing.

1. An overview of the literature

Aid can be motivated with solidaristic as well as with selfish motives. The literature suggests that donors grant aid out of solidarity if their policies are strongly orientated by political ideals or by an idea of international relations in which the national interest of each State is subordinated to the general interest of the international community (Dudley and Montmarquette, 1971; Griffin and Enos, 1970). Donors however may happen to grant aid in order to sustain the recipient's economic growth (seen as a factor of international stability) and its trade potential, or in order to generate employment opportunities for their own citizens (this practice originates what is called as "tied aid"). Equally, aid can be offered in order to gain political influence over recipient countries or in international organizations. Aid accounting shows that this way of proceeding was particularly prominent during the Cold War.

Since the beginning of the history of development aid, most of the economic literature explained aid as the instrument to consolidate a relationship between donors and the recipient: be it in terms of self-interest – intended as a way to increase trade relations, political influence or the production of global public goods – or as an answer to recipient needs (McKinlay and Little, 1979; Maizels and Nissanke, 1984; Trumbull and Wall, 1994). The economic literature has not concentrated much, instead, on trying to understand whether donors grant aid *per se*, that is independently of their relationship with recipients.

The fact that aid can be granted also out of the donor's need to project itself internationally has been tackled by the political science literature. In a 1962 article, for example, Hans Morgenthau suggested that "the problem of foreign aid [that is, the reason why richer nations grant aid] is insoluble if it is considered as a self-sufficient technical enterprise of a primarily economic nature". Morgenthau seems to propose that aid is granted (and it is received) because it has effects upon the national prestige of giving nations, independently of the posture of the recipients.

This issue has not been tackled extensively by the empirical literature, which has not measured how aid might influence a recipient international position. However, the issue seems to have acquired an increasing importance after the end of the Cold War: some donor nations have used aid in order to position themselves at the heart of the world's leading international organizations (Niblett, 2010) and in order to acquire an international standing as a key donor (Watkins, 2010). International summits, and especially the G8 summits, have reinforced the perception that, in order to belong to a selected group of "leading" nations, a State has to behave as a munificent international benefactor.

In the face of the reduction in aid that some donor countries are implementing, due to the fiscal constraints entailed by the financial crisis, it is important to understand what this reduction implies not only for the recipients but also for the donor country. In fact, if one assumes that aid is granted for a mix of solidaristic and selfish reasons, a reduction in aid will affect both beneficiaries and donors in their interests. While the scientific literature and the policy and advocacy documents have focused on estimating the costs of a reduction in aid for the beneficiaries in the context of the financial crisis (Brookings 2009; IMF, 2009), the same cannot be said for what concerns an estimation of the costs of a decrease in disbursements for the donors. It should be underlined, however, that the costs of a decrease in aid have to be weighed against the relative easiness of a cut in this area of public finance versus other, more politically costly, areas.

This paper intends to analyze how variations in aid volumes affect international prestige of the donor nation. The focus of the paper is intended in order to give an account of how a reduction in aid actually doesn't affect only the recipient country, but also the giving country.

2. Italy: the context

Italy is one of the donors where aid cuts before and during the financial crisis have hit the hardest. In 2010, Italy alone is responsible for over 40% of the gap between the level of aid the EU-15 committed to reach by 2010 and the amount it actually managed to achieve. The future doesn't seem any brighter: the Budget Law for 2011 cut spending for development aid by 40-45%, so that development aid is the area which bears one of the highest level of cuts in the overall budget, and it is the chapter that bears most of the cuts for the spending of the Ministry of Foreign Affairs. Some multilateral organizations (UNEP, WFP, UNFPA, OIM and UNDP) see their contributions from Italy to be halved in 2011 (Viciani, 2010).

The problems for Italy don't concern only its budget: Italy also lays well behind some commitment it took, both at the international level (chiefly in the Millennium Declaration) and in terms of the funds it pledged to give to international organizations. For what concerns international organizations, Italy has outstanding debts with the IDA, the African and the Asian Development Funds, IFAD, GEF, the GFATM. These debts could account for over a billion euro.

It must be stressed that the issue of reductions in Italian aid is a long-standing one, which doesn't have to do exclusively with the financial crisis, but it must be imputed

more to the state of Italian public finances. Italian aid flows in fact have suffered very high volatility in the past 15-20 years, depending both on a mixture of political cycles, political majorities, and the state of Italian public finances. Overall, it seems that Italy is giving development aid a very low level of priority: to a certain extent one can wonder whether aid is still seen as an effective tool to be used for foreign policy aims¹. This perception is reinforced by the fact that, according to the 2011 Budget Law, development aid bore most of the cuts of the Ministry of Foreign Affairs.

Besides attempts to “name and shame”² Italy in international fora, carried out by national and international NGOs, little has been achieved and little attempted in order to estimate the costs on Italy for disinvesting in development cooperation. Therefore, this analysis seems to be particularly promising since it attempts to point out what are the consequences of a cut in aid in Italy’s position in international organizations. The other issue connected with national prestige, that is the international perception of Italy following its lack of commitment over aid, is not measured in the present study but nonetheless represents an important part of the damage the cuts in aid levels are doing to Italy’s image abroad and within the international community.

3. The analysis

The present analysis will concentrate on Italy’s position in international organizations in the face of variations in the volume of aid. Italy’s international prestige and influence will be measured by the presence of Italian officials in international organizations. This choice is two-folded: on the one side, the presence of Italian officials in international organizations helps Italy project its standing internationally. In fact, even if officials of international organizations are required to be impartial and to act neutrally regardless of their nationality, they are perceived as belonging to a nation and the result of their work can be associated also with their nationality.

Equally, Italian officials in international organizations, while formally neutral, might help orientate the organization closer to Italian interests and to a so-called “Italian way of working” or to Italian values. Both these reasons partially explain why, for example, it is prestigious for a country to host the headquarters of an international organization.

For the present study, the Italian presence in international organizations is measured using the data from the *Annuario Statistico* of the Italian Ministry of Foreign Affairs. The data concern organizations of the UN system, the EU and the international financial institutions (see appendix for the complete list). The analysis concentrates on the years between 1999 and 2009 (referring to which there are the latest available data). Data on aid are taken from the *International Statics for Development* by the DAC-OECD and are referred to the same years (including 1998, for computational reasons).

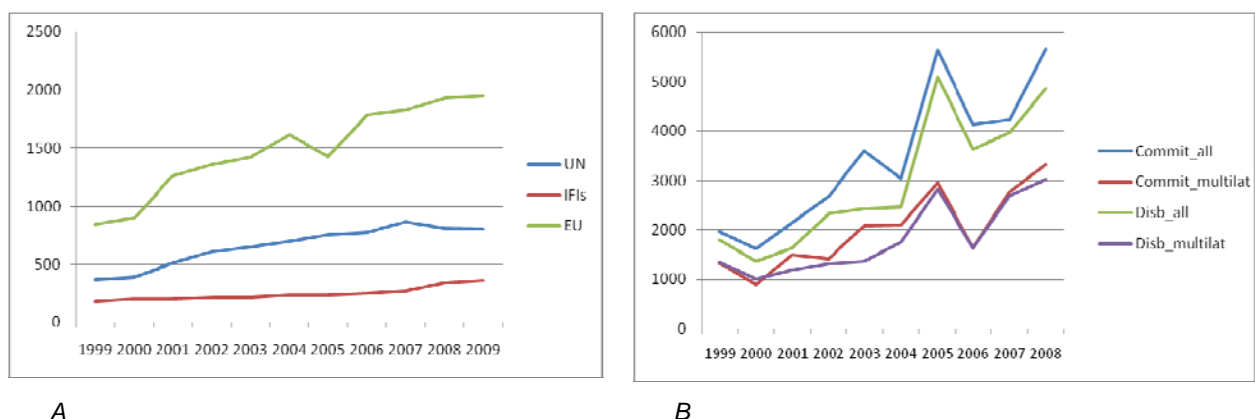
¹ According to the Law 49/87 which in Italy regulates development cooperation, Overseas Development Assistance is seen as an instrument of foreign policy. While this statement has been at the heart of various controversies over the role of development cooperation, it must be stressed that its full meaning has been put into question by the annual and devastating cuts to ODA levels.

² One can consider under the frame of “naming and shaming” donors initiatives aimed at raking donors according to the quality of their aid, such as the attempts at creating an index for aid quality (Birsall and Kharas, 2010).

The effects of a variation in aid on Italy's presence in international organization is measured in two ways: first of all, it is represented graphically. Secondly, it is measured through the correlation coefficient, which is a measure of the existing relationship between two variables. While correlation doesn't imply causality, through the use of lagged variables we attempt to capture also how the variations in aid levels might affect variations in the increase of Italian presence in international organizations.

4. Results

First of all, the Italian presence in international organizations between 1999 and 2009 should be analyzed. Figure 1A below shows the absolute number of officials in international organizations, holding an Italian citizenship. Officials are grouped according to the family of organizations they belong to: the United Nations, the European Union, the International Financial Institutions. The other organizations coded in the *Annuario Statistico* are not represented, since their mandate is not connected closely with the issue of international development.



A

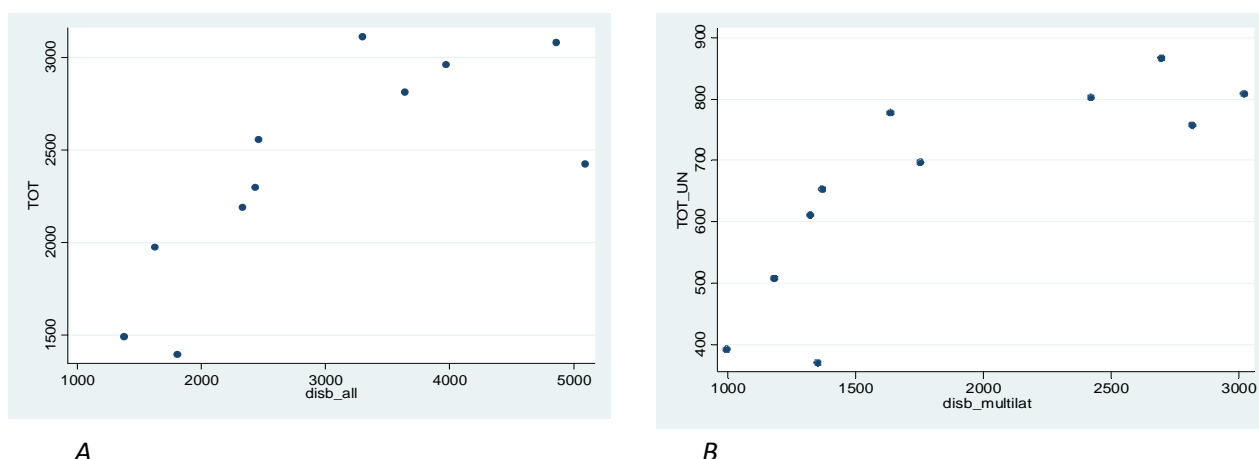
B

Source: Ministero degli Esteri, *Annuario Statistico*. Author's elaboration; OECD-DAC, *International Development Statistics*. Author's elaboration.

FIGURE 1 - Italian officials in international organizations (A) and Italian ODA commitments and disbursements (B) (1999-2009) – absolute values

Figure 1B shows Italian aid commitments and disbursements between 1999 and 2009. Commitments and disbursements are classified according to the type of recipients: on the one side all recipients are grouped (commit_all and disb_all), that is organizations, bilateral recipients and NGO funding, while on the other side – red and purple lines – only multilateral recipients (that is, international organizations) are analyzed together. As it can be seen from the graph, the level of overall commitments and disbursements, as well as the level of multilateral commitments and disbursements tend to follow the same pattern, especially in the since 2005. Since 2005, moreover, it seems that there is a reduction in the share of multilateral commitments and disbursements: the distance between the blue and the red lines and between the green and the purple line increases.

It is therefore interesting to analyze how a variation in the presence of Italian officials in all international organizations correlates with overall aid disbursements. As it can be seen from Figure 2A, the relationship between aid levels and officials is upward: an increase in aid levels is connected with an increase in the level of Italian officials in international organizations. The correlation coefficient for the relationship between these two variables is 0.75.



Source: OECD-DAC, *International Development Statistics* and *Annuario Statistico*. Author's elaboration.

FIGURE 2 - Scatter between overall ODA disbursements and Italian officials in international organizations (A) and between ODA disbursements to multilateral organizations and Italian officials in the UN family (B) (1999-2009)

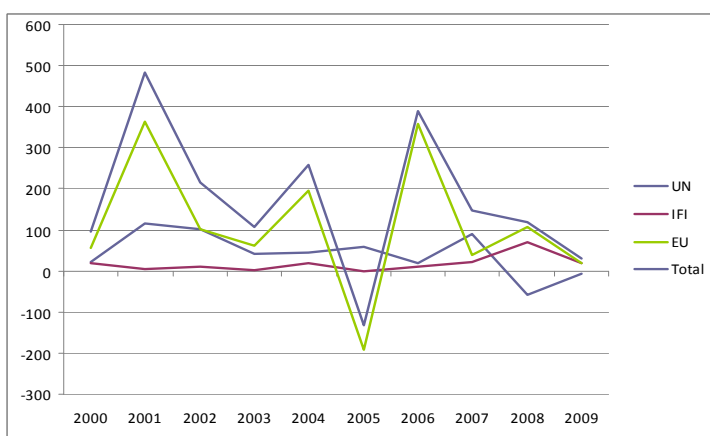
The analysis can be restricted to the presence of Italian officials in the UN system and multilateral aid commitments. This restriction is motivated with the fact that the EU family includes also a significant number of officials that do not operate in the field of international development, while the entry in the international financial institutions is regulated by more specific rules that concern also national quotas. The correlation coefficient is higher, and it is equal to 0.80.

These data have to be taken into consideration with great care: there might be a problem of autocorrelation within each series. Figure 3A, which shows the absolute number of Italians in international organizations, as well as the yearly increase in Italian presence in international organizations suggest to be careful with the numbers. While the trend is upwards – that is, the number of Italian officials in the UN tends to increase over the years – the blue line suggests that there are variations over yearly increases. That is: the Italian presence in international organizations increases every year because the newcomers are added to the officials already employed by the international organizations. The blue line shows, however, that there is a great difference between years: for example in 2005 the number of newcomers was actually negative, while in the following year it was one of the highest in the period under study.

The variations differ according to organizations, as it can be shown in Figure 3B. While the variations in the level of IFIs officials is little, and that of the officials in the European Union mirrors the total variation, the variation of the number of officials entering each year the UN system follows its own pattern.



A



B

Source: *Annuario Statistico*, Ministero degli Esteri. Author's elaboration.

FIGURE 3 - Italian officials in international organizations 1999-2009

A. absolute values and yearly increases

B. yearly increases according to "family"



Source: *International Development Statistics*, OECD-DAC, Author's elaboration.

FIGURE 4 - Italian aid commitments 1999-2009 – absolute values and yearly differences

A similar incremental logic is used for aid spending. Aid budgets are decided taking into account commitments made in the preceding years. Therefore, while the trend in absolute aid commitments³, as shown in Figure 4, is increasing, there is no similar trend in the difference between aid levels over the years: the difference between 2008 and 2009 is clearly negative, while that between 2007 and 2008 is positive.

The fact that changes in aid levels – and changes in personnel levels – have to be weighted against the obvious inertia of the budgeting and recruitment process should be taken into account in the empirical analysis. The analysis carried out up to this point, in fact, underlines that there is a strong correlation between aid commitments (and aid spending) and the presence of Italian personnel in international organizations. For the UN this correlation is stronger than for other organizations. However, the analysis needs to be refined in order to take into account two issues:

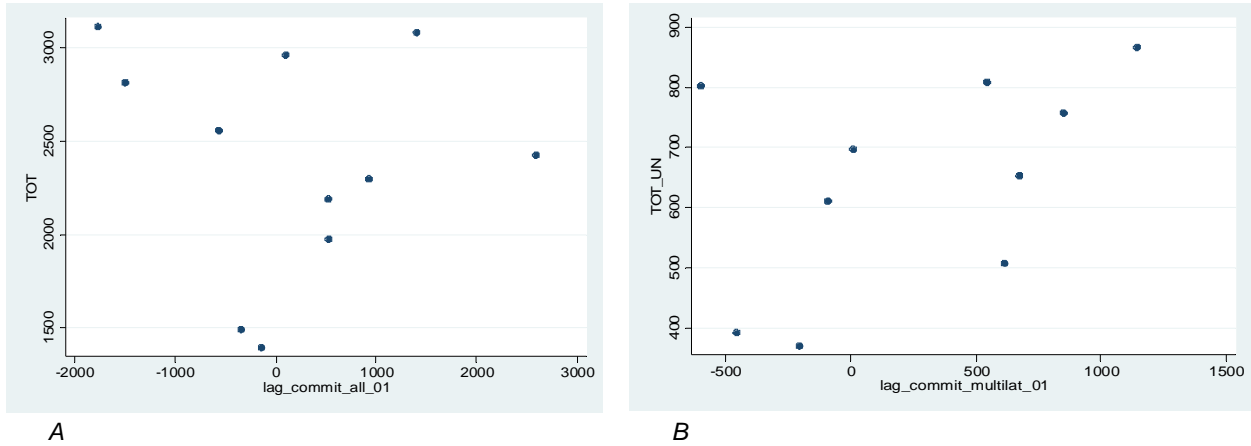
- ◆ both personnel and aid levels exhibit an upward trend: the correlation index might actually show the link between these two trends, without the two underlying variables being in any way related;
- ◆ correlation doesn't mean causation: even if two variables are correlated, this is no necessary condition for one causing the other.

Therefore, the analysis gets refined in order to take into account the two observations above. We now consider changes in aid commitments between each year (y_1) and the previous one (y_0) and we try to analyze how this affects the level of Italian presence in international organization in that year (y_1). By doing this, we solve the two problems above: on the one side, we eliminate the effect of the correlation between two upward trends. On the other side, using a lagged variable, we try to infer a causal relationship between the difference in aid levels and number of Italian officials in international organizations.

Graphically, as shown in Figure 5A, it seems that there is an upward trend linking the two variables. There are however two outliers, referring to the years 2009 (where the level of Italian officials are highest and the decreases in aid is similarly very high) and to the year 2006. The presence of outliers might explain the negative correlation coefficient of -0.11. If one takes out these two outliers, the correlation coefficient is positive and high, that is 0.37. This means that 37% of the change in the number of Italian officials between 2000 and 2008 is due to changes in aid.

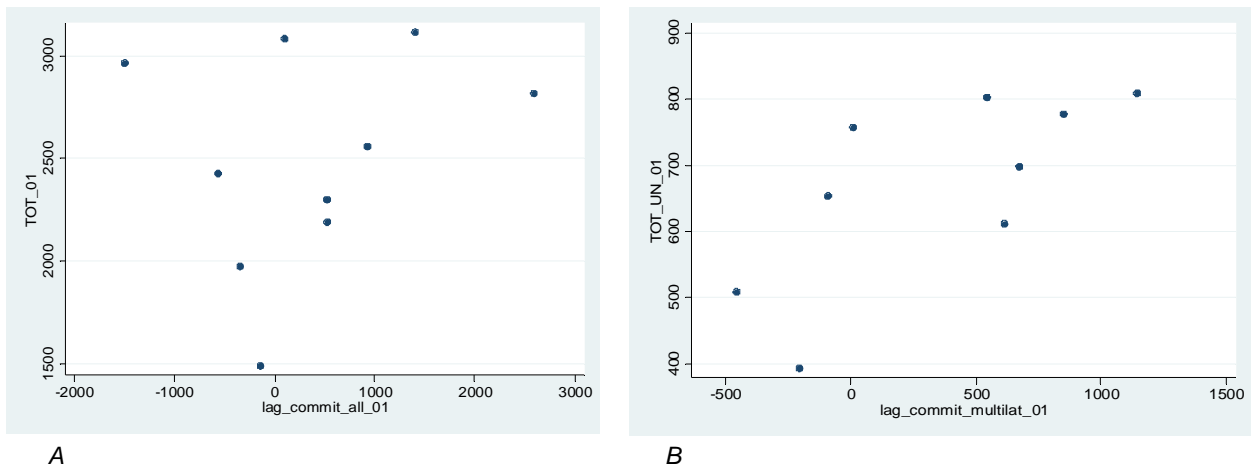
The same analysis can be carried out in order to see how presence of Italian officials in the UN system in year y_1 is affected by a change in multilateral aid commitments between y_0 and y_1 . The correlation coefficient for the relationship depicted in Figure 5B shows that the effect of a change in multilateral aid commitments explains over 40% of the change in Italian personnel. The correlation coefficient in fact amounts to 0.47. This means that almost 50% of the changes in personnel in the aid organizations is due to changes in the aid level the year before.

³ Here we taken into account commitments rather than disbursements because changes in disbursements over the years can be due to factors that go beyond the political weight assigned to aid (that is, actual spending can be impeded by other factors, while aid commitments give an idea of political priority assigned to aid).



Source: OECD-DAC, *International Development Statistics* and *Annuario Statistico*. Author's elaboration.

FIGURE 5 - The presence of Italian officials in international organizations and overall aid (A) and in the UN system and multilateral aid commitments (B): how a change between y_0 and y_1 affects the change of officials in y_1



Source: OECD-DAC, *International Development Statistics* and *Annuario Statistico*. Author's elaboration.

FIGURE 6 - The presence of Italian officials in international organizations and overall aid commitments (A) and in the UN system and multilateral aid commitments (B): how a change between y_0 and y_1 affects the change of officials in y_2

We can investigate whether this kind of relationship is persistent over the level of Italian officials in the years subsequent to the first (for example, for y_2). The analysis is carried out both for Italian presence in international organizations and for Italian presence in the UN system (Figure 6B). The correlation coefficients for the overall relationship (0.23 – including the outlier for 2006, or 0.53 excluding the outlier) and for the relationship of the UN system (which amounts to 0.72) underline that the effect of a change in aid over subsequent levels of Italian officials in international organizations increases with time.

The two figures below show that the variation in Italian presence for the year after the variation in aid depends for 23% by a variation in aid commitments. For the UN system this relationship is stronger (72%).

Conclusion

Aid giving over the years consolidated in something more than a mere donation from a richer to a poorer nation. Issues of donors' motives, benefits accruing to the recipients, as well as issues of a donor's position within the aid community have come to explain why nations grant aid. Reductions in aid, therefore, should matter not only to recipients but also to donors, that see their ability to pursue their aims reduced.

In particular, aid granting seems to have given donors benefits in terms of national prestige on the international stage. Reductions in aid, therefore, might affect the standing of international donors. This paper assesses how the reductions in aid decided by Italian policy makers over the last ten years could have affected the country's international position. It should further be stressed that Italy, compared to other bilateral donors, uses extensively the multilateral channel and therefore a reduction in aid affects Italy's position in the international organizations comparatively more than what would happen for other donors.

The paper measures whether reductions in aid have implied reductions in Italian presence – and thus ability to influence – in international organizations. There are two major findings:

- ◆ variations in aid commitments – but similar conclusions can be drawn using aid disbursement levels – could explain between 20 and 70 percent of the variations of Italian presence in international organizations. The correlation relationship seems to be stronger for the link between multilateral aid commitments and the presence in organizations belonging to the UN family;
- ◆ these correlations tend to be reinforced with time: the effect of a reduction in aid over Italian presence in international organizations doubles after one year. This is particularly worrying if one considers the reiterated cuts in the aid budget Italy has experimented over the past 15 years.

In policy terms, the study shows that a reduction of aid commitments between year y_0 and year y_1 – that is halving aid commitments – could explain a negative variation in the Italian presence in international organizations (IFIs, EC and the UN system). 20% of the decrease in Italian presence in year y_1 could be explained by the decrease in aid. The effect is strengthened in the following year: a reduction of 50% of aid commitments between year y_0 and year y_1 could explain 50% of the decrease in Italian personnel in the international organizations in year y_2 .

This effect seems to be stronger for the UN family: halving aid commitments could explain a reduction in Italian personnel in the UN. Almost 50% of the variation in y_1 could be explained by aid variations between y_0 and y_1 while in y_2 the variation in aid could motivate over 70% of the variation in personnel.

Assuming that the correlation between the decrease in aid explains entirely the decrease in officials in the international organizations, we could calculate the cost of

the decrease in aid in concrete terms. In 2009 the number of Italian officials in the UN decreased by 6 units. This was partially due to a decrease in aid commitments to multilateral institutions. Specifically, 50% of the reduction in officials had possibly to do with the reduction in aid commitments, that is that the reduction in aid cost to Italy 3 officials in the UN. The same reasoning can be applied to the previous year: Italian presence in the UN in 2008 decreased by 58 units. Half of the decrease (that is 29 officials) could be explained with the reduction in aid. Moreover, the reduction in aid between 2007 and 2008 could explain 70% of the reduction of officials in 2009 (that is, the reduction in aid between 2007 and 2008 cost to Italy a reduction in the presence of more than 4 officials in 2009).

It is hoped that the issue of the effects of a reduction in aid levels keeps being considered also under the double light of the effects for the recipients as well as for the donors. In this way, in fact, a true partnership over the more appropriate aid levels could be possibly reached.

Appendix

List of the international organizations considered in the study

N system

Organizations considered in the study

| | |
|--------|--|
| FAO | Food and Agriculture Organization |
| IAEA | International Atomic Energy Agency |
| ILO | International Labour Organization |
| OPCW | Organisation for the Prohibition of Chemical Weapons |
| UN | United Nations |
| UNDP | United Nations Development Program |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |
| UNHCR | United Nations High Commissioner for Refugees |
| UNICEF | United Nations International Children's Emergency Fund |
| UNIDO | United Nations Industrial Development Organization |
| WHO | World Health Organization |

Organizations included in the *Annuario Statistico*, but not considered in the study since the collection of data concerning people employed in them is not referred to the entire 1999-2009 period.

| | |
|--------|---|
| IFAD | International Fund for Agricultural and Development |
| UNCTAD | United Nations Conference on Trade and Development |
| UNEP | United Nations Environment Programme |

| | |
|----------|--|
| UN-ICTY | United Nations - International Criminal Tribunal for the former Yugoslavia |
| UNODC | United Nations Office on Drugs and Crime |
| UN-OHCHR | United Nations Office of the High Commission for Human Rights |
| WFP | World Food Programme |

International financial institutions

| | |
|------|--|
| ADB | Asian Development Bank |
| AfDB | African Development Bank |
| BIS | Bank of International Settlements |
| EBRD | European Bank for Reconstruction and Development |
| IDB | Inter-American Development Bank |
| IMF | International Monetary Fund |
| WB | World Bank |

European Union (EU)

| | |
|---|--------------------------|
| ECB | European Central Bank |
| EIB | European Investment Bank |
| EU – Committee of the Regions | |
| EU – Economic and Social Committee (EESC) | |
| EU – Commission (EC) | |
| EU – Court of Auditors | |
| EU – Court of Justice (CJEU) | |
| EU – European Parliament (EP) | |
| EU – European Council General Secretariat | |

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