Italy's Foreign Assistance Policy, 1959–1969

ELENA CALANDRI

Introduction

On 9 October 1959, the Director of Economic Affairs at the Italian Foreign Ministry, Ambassador Casto Caruso, chaired an interdepartmental meeting to discuss ways and means of promoting economic and technical assistance to developing countries.[1] It was the first time that senior officials from virtually all branches of the Italian civil service had discussed foreign aid, and the meeting was indeed overdue, given that since the mid – 1950s development had been a core issue on the international agenda and Italy, as one of the fastest-growing European countries, had been urged to contribute. The meeting was primarily a response to the ongoing debate in Western circles on setting up institutions and rules for a co-ordinated development policy within the framework of competitive coexistence during the Cold War era. The August 1959 US plan for an International Development Agency (IDA) was to be followed by the establishment, under the auspices of the Organisation for European Economic Co-operation (OEEC), of the Development Assistance Group (later Committee, DAG/DAC). In July 1960, the OEEC would be reshaped to become the Organisation for Economic Co-operation and Development (OECD), and development aid would be placed at the top of its priorities. The newly established European Economic Community (EEC), in trying to find a role of its own in the international system, considered development assistance to be a natural field of action. Thus the 1960s were to be the decade of development.

As a middle-ranking country that had been compelled to end its experience as a colonial *Madrepatria* at the end of the Second World War, Italy could neither politically nor economically be a major actor in international aid policies. Nonetheless, politically it intended to play a visible international role, both in the West and in the wider international community in which the Third World was fast becoming important. Economically, since the 1950s Italy had engaged to a growing extent with the international economy, and its exports had since increasingly contributed to

[1] Archivio centrale dello stato, Rome (hereafter ACS), Ministero del Bilancio e della Programmazione economica, Gabinetto (hereafter MBPEG), b. 19 fasc. 72, Ministero Affari Esteri (MAE), Direzione Generale Affari Economici (DGAE), Uff. IV to various, Telespresso 44/17391, urgentissimo, per motociclista, 2 Oct. 1959.

Contemporary European History, **12**, 4 (2003), pp. 509–525 © 2003 Cambridge University Press
DOI: 10.1017/S0960777303001395 Printed in the United Kingdom

domestic growth. There were therefore a number of reasons for a role in development aid. Available figures show that Italian foreign assistance grew from about 0.2 per cent of gross national product (GNP) in the early 1960s to 0.76 per cent in 1968, reaching 1.03 per cent in 1969.[2] Notwithstanding this, existing literature places the effective emergence of Italy as a donor country in the 1970s, referring to Law n.1222 of 15 December 1971.[3] And it is true that throughout the previous decade Italy had been in the dock in international circles for its poor and reluctant record in aid policy.

This study examines the facts and reasons behind these contradictory elements. It argues that the major difficulties regarding Italy's foreign aid policy in the 1960s were not the amount of resources distributed to developing countries, but rather the disorganised and reluctant way in which these resources were handled and the divergence from US-supported forms of foreign aid. Available documentary sources reveal that Italy, as a contributor to development aid, assumed a reactive, not to say a defensive, attitude vis-à-vis its Western partners. As Ambassador Ortona pointed out, Italy lacked the attitude of a 'rich country', and the growth of a 'donor' identity would touch psychological, economic and political nerves at home. As Italy was undergoing a radical and costly transformation from an impoverished, mostly agrarian society into an advanced industrialised power, its policy was heavily conditioned by domestic considerations. Moreover, the many political and economic authorities involved in foreign assistance decisions were also involved in the domestic debate over growth strategy, which was particularly heated owing to the volatility of the domestic economy.

This study is based on the files from the Cabinet of the Ministero del bilancio e della pianificazione economica (Finance and Economic Planning Ministry). As the Ministry drafted the Annual Report for the OEEC, it offered a privileged insight into what was going on; it was also the core of the CIR (Comitato interministeriale per la Ricostruzione), a central point for economic decisions and, at times, the stronghold of Italian 'planners'. It also received a constant flow of information from the Foreign Ministry. The unavailability of other sources, particularly the papers of the Foreign Ministry, which played a leading role in all international negotiations, means that these findings cannot be conclusive, but they are valid.

Italy as a beneficiary

During the immediate postwar decade, Italy was a beneficiary, not a provider of international aid. In the early 1950s, US assistance fuelled the recovery of the war-ravaged country and allowed the reconstruction of its defences. But, apart from the catastrophe of war, the Italian economy was acknowledged as being weakened by structural flaws. Therefore, after reconstruction, Italian postwar governments put

[2] G. S., 'L'aiuto italiano ai paesi in via di sviluppo', *Affari Esteri*, 11, 8 (Oct. 1970), 157–72, here 161.

[3] See for example L. V. Ferraris, 'La politica italiana di cooperazione allo sviluppo', in L. Tosi, ed., *L'Italia e le organizzazioni internazionali* (Padova: Cedam, 1999); L. Paganetto and P. L. Scandizzo, *La Banca Mondiale e l'Italia: dalla ricostruzione allo sviluppo* (Bologna: Il Mulino, 2000), 170; S. Alessandrini, ed., *La politica italiana di cooperazione allo sviluppo* (Milan: Giuffré, 1983).

economic growth as a national priority and tried to tackle the internal north – south divide, which was seen as a major economic, political and social problem. While the prevailing economic culture stuck to the traditional idea of a balanced budget and refrained from Keynesian-style economics, the leading political and economic circles feared the scarcity of domestic capital that had hampered Italian industrialisation and modernisation, but hoped to overcome it thanks to international co-operation and foreign investments. The technocracy responsible for the *Mezzogiorno* closely interacted with some World Bank circles, which saw southern Italy as a laboratory for testing development theories.[4] European integration appeared as a means by which to obtain foreign capital: even the defence community as the Western European Union (WEU) arms pool had, in fact, promised investments in under-developed and non-industrialised Italian regions.[5] It was hoped in 1957 that the Common Market would be the turning point: the five partners appeared to agree with this. With the establishment of the Social Fund and the European Investment Bank (EIB), the member states agreed to help Italy to overcome its specific economic problems and allowed it to contribute a smaller share to the European Development Fund (EDF);[6] the same concession was made in the financial protocol of the Greek association agreement in 1961.

This 'beneficiary' profile and mentality was altered neither by plans nor random measures of foreign assistance. In 1957 the Pella Plan was the first Italian initiative in the field of development aid: it proposed to redirect the Marshall Plan reimbursements, which the Europeans were to return to the United States, via the OEEC to the Mediterranean and Middle Eastern countries.[7] In the same period Guido Carli proposed a stabilisation fund to encourage exports of primary goods from developing countries, in order to establish a mutually profitable exchange of raw materials and technology between Europe and the Third Word, which would also preserve the sterling and franc zones.[8] Italy contributed to the UN programmes for development ($600,000 to the Special Fund and $400,000 to the Expanded Programme of Technical Assistance, EPTA, in 1959) and subscribed to the prospective increase in the International Monetary Fund (IMF) and World Bank quotas. It donated to the Libyan and Somali national budgets, and set up scholarships for students and technicians from a large number of developing countries. The first ever bilateral economic and technical co-operation agreement was signed with the United Arab Republic (UAR) in April 1959. The total flow of public and private resources channelled to developing countries went from $134 million in 1956 to $209

[4] Paganetto and Scandizzo, *La Banca Mondiale e l'Italia*, 113–46.

[5] Rome wanted the common armaments industries to be located in southern Italy, at least before they were settled in French north Africa.

[6] 40 million UC (*unità di conto* – accounting units), about 7 per cent, against 200 million for France and Germany, 70 million for Belgium and for the Netherlands.

[7] A. Brogi, *L'Italia e l'egemonia americana nel Mediterraneo* (Florence: La Nuova Italia, 1996); see also G. Carli, *Cinquant'anni di vita italiana* (Rome and Bari: Laterza, 1996), 166–71.

[8] Carli, *Cinquant'anni di vita italiana*, 174.

million in 1957, $155 million in 1958 and $149 million in 1959.[9] Economic relations with developing countries, however, were engineered to support Italian exports, as in Law n.955 of December 1953 and Law n.1198 of 1957, which regulated export credit guarantees for special products, and the re-negotiations of old debts with Latin American countries.

These single initiatives related to different departments, and did not amount to a foreign assistance policy, as a reading of a Foreign Ministry paper circulated before the October 1959 meeting demonstrates.[10] It cobbled together incomplete data and some tentative suggestions which contrasted with the few sections to be properly worked out,[11] and its gaps and oversights mirrored the department's limited competence in the matter. It also acknowledged the weakness of existing legal instruments and financial capabilities, arguing that the export credit insurance regulations needed to be revised in order to help developing countries, and stressing that Italy should direct aid towards countries of political and economic interest. But the conclusion intimated that no financial commitment could be made before the economic effects of Common Market aid for the *Mezzogiorno* had been quantified.[12]

The 9 October meeting was not memorable. The Foreign Trade Ministry delegate explained the limited purpose of export credits, the Foreign Ministry's director of cultural affairs illustrated technical assistance, other delegates voiced general remarks and questions. The meeting recommended only an increase in Italian exports,[13] since new legislation in export credit guarantees was still being drafted and was to be revised so as to include provisions tailored to the needs of developing countries.

Italy's debut in foreign assistance took place under a centre-right coalition government headed by Antonio Segni, who was keen to dispel the suspicions raised by the so-called 'neo-atlantismo' associated with Giovanni Gronchi and Amintore Fanfani. The latter, during his first tenure as President of the Council in 1958–9, had proposed Italy as a candidate for a stronger regional role in the Mediterranean, as a bridge with the Arab world and the non-aligned countries. Segni proclaimed himself a champion of Atlantic orthodoxy, but under his government the 'Mediterranean policy' was not to be put aside, although he did nothing quite so shocking as Fanfani's visit to Nasser. After all, the 'Mediterranean policy' was firmly embedded in Atlantic policy, and assumed US hegemony as the framework. But it also witnessed

[9] *Annuario di politica internazionale* (1965), 602.

[10] ACS, MBPEG, b. 19 fasc. 72, MAE, DGAE, Uff. IV to various, telespresso 44/17391, urgentissimo, per motociclista, 2 Oct. 1959, '*Possibilità e limiti di una partecipazione dell'Italia ai piani multilaterali e bilaterali di cooperazione economica e tecnica a favore dei paesi sottosviluppati*'.

[11] On the EEC, the Foreign Ministry took up an articulate and coherent position; it recommended a comprehensive role for the Community, both in co-ordinating the national policies of the Six vis-à-vis other international organisations, and in implementing a structured and far-reaching policy towards both associated and non-associated developing countries. Accordingly, it subjected EEC participation in the IDA to several important conditions: the IDA should comprise a number of regional agencies; the initial capital should be no more than $1 billion; loans, not gifts; loans to be repaid in the national currency of the recipient; admission for EEC associated countries.

[12] ACS, MBPEG, b. 19 fasc. 72, MAE, DGAE, Uff. IV to various, telespresso 44/17391, urgentissimo, per motociclista, 2 Oct. 1959.

[13] ACS, MBPEG, b. 19 fasc. 72, Appunto, 12 Oct. 1959.

a widespread aspiration to upgrade Italy's international role, sometimes echoing past nationalist and populist slogans, and to maintain the dynamism of the booming Italian economy.[14] Therefore, in the Foreign Ministry's treatment of foreign assistance themes, the response to the US invitation illustrates two points: the desire not to remain outside a Western collective initiative and the need to cultivate national interests, that is to increase Italian exports and to cultivate relations with other Mediterranean countries and those of the Middle East.[15]

Becoming a donor: the Development Assistance Group

In March 1960 Egidio Ortona, at the time Italian ambassador to the United Nations, was called to chair the first DAG meeting in Washington. In his memoirs he stresses the widely divergent positions of the delegates and his own role as a mediator anxious to mend fences with the developing countries which were irritated by the establishment of a purely Western body.[16] He was acutely conscious of US intentions not only to isolate Western assistance from the Eastern bloc, but also to encourage its allies to adopt its own vision and to set up a framework in which the Europeans would be forced to shoulder a greater share of the costs of foreign assistance. As one of the least generous European countries, Italy was subject to a steady flow of entreaties. Although its economic capability did not place Italy among the major potential donors, its gold reserves had been growing throughout the 1950s and its balance of payments had become active by 1958. The rest of the year went by without a consensus being reached in the DAG. However, when John F. Kennedy took office, US policy became more stringent and Washington was determined to set a tighter agenda for DAG activities. The joint aid programme sketched in George Ball's note for the DAG London meeting of March 1961 reaffirmed the US view that Europe should assume its fair share of the development aid burden.

Although Italian diplomacy coveted a mediating role between the United States and major European donors, it soon found itself cornered into a defensive attitude. Virtually all the US proposals – to allocate 1 per cent of GNP to foreign aid, and to consider official grants and long-term soft loans as being the best and perhaps the only 'real' instruments for aid – were incompatible with Italian capabilities and intentions. So the Italians, sheltering behind tight-lipped caution, favoured restricting the objectives and powers of the DAG: it was to be a forum for mutual information and co-ordination, not an executive body or a source of binding rules and

[14] A. Brogi, *L'Italia e l'egemonia americana*; see also E. Calandri, 'Il Mediterraneo nella politica estera italiana', in Comitato Nazionale 'Bilancio dell'esperienza repubblicana all'inizio del nuovo secolo', ed., *L'Italia repubblicana nella crisi degli anni settanta. Atti del ciclo di convegni, Roma, novembre e dicembre 2001*, Vol. 1: *Tra guerra fredda e distensione* (Soveria Mannelli: Rubbettino, 2003).

[15] The Treasury, always trying to fend off new burdens from the state budget, such as export incentives which were financed through the public bank *Mediocredito*, was also acutely aware of this; thus the IDA – considered an unnecessary duplicate of the World Bank – became acceptable if it financed European exports to developing countries. ACS, MBPEG, b. 19 fasc. 72, Appunto per il sig. Direttore generale, 11 Sept. 1959.

[16] E. Ortona, *Anni d'America. La diplomazia: 1953–1961* (Bologna: Il Mulino, 1986), 371–6.

commitments. Italy argued that it was impossible to give a theoretical definition of aid, and that both the donor's and the recipient's economic structures should be taken into consideration. Italy could not abandon its policy of privileging export credit guarantees, which helped its own domestic growth as well as transferring resources to developing countries.[17] At the March 1961 London meeting under-secretary Mario Ferrari Aggradi, who pushed forward the idea of regionalising DAG activities, did not fail to bring up Italy's structural flaws and limited capabilities.[18] However, the visit of Ambassador James Riddleberger in June 1961 and the impending DAG meeting in Tokyo demonstrated that international pressures would not be relaxed. An interdepartmental meeting chaired by Ambassador Ortona, now back in Rome as director for economic affairs at the Foreign Ministry, examined the US claims with great concern and urged that a clearer position be taken at the Tokyo meeting.

Meanwhile, the 1959 legislation had been completely updated. On 5 July 1961, Parliament passed Law n.635, the so-called Martinelli Law,[19] designed to allow an all-round foreign assistance policy.[20] Titles I and II broadened export credit guarantees. They provided for government-insured medium-term credits for (i) all kind of goods and services (not only 'special goods' as in the 1953 law); (ii) works carried out abroad, including studies and surveys; and (iii) sales of national products stocked abroad. The state guarantee was extended to five years for (i), four years for (ii) and two years for (iii), but the Treasury could otherwise authorise derogation on a case-by-case basis. Title III created the instruments for financial assistance: long-term credits (ten years) were to be granted to foreign importers purchasing Italian goods and services, and long-term loans (ten years) to foreign governments and banks. Every operation under Title III, which was 100 per cent guaranteed by the state, was to be individually authorised, and case-by-case derogation up to a ten-year ceiling could be jointly decided by the Ministry of Foreign Trade and the Treasury, after consultation with the Foreign Ministry. So the system of medium-term credits was completed by a system of long-term credits, partly tied to the purchasing of Italian goods, partly untied. This increased flexibility in the use of available resources and rendered them more suitable for the needs of developing countries in terms of time and conditions. Funds were to be raised in the capital market which would automatically determine the real capabilities of a country like Italy, which had limited financial resources for overseas commitments. However, 'the new law . . . allows both longer credits, . . . and lower interest rates vis-à-vis the market rates thanks to the intervention of *Mediocredito*, that is the State, which shoulders a part of the money cost and

[17] At the end of 1960, 588 guarantees were granted to developing countries (85. 4 per cent of the total): ACS, MBPEG, b. 20, Crediti all'esportazione per forniture speciali ai paesi sottosviluppati. Situazione al 31 Dec. 60.

[18] Docs. 101, 102 in *Foreign Relations of the United States* (FRUS) (1961–3), Vol. IX, 220–31.

[19] 'Insurance and financing of long-term credits for exports of goods and services and realisation of works abroad, and for assistance to developing countries.'

[20] B. C., 'L'assistenza dell'Italia ai paesi in via di sviluppo', *Relazioni Internazionali* (March 1961), 673–4.

the risks of insurance guarantees.'[21] On 27 November, further implementation rules and regulations for the Martinelli Law were defined. But no money had as yet been set aside for implementing the new measures.

On the same 5 July, Fanfani issued a mandate to a restricted committee, which included representatives of the ministries of Finance, Foreign Affairs and Foreign Trade, and the Treasury, and the governor of the Banca d'Italia and under-secretary Ferrari Aggradi, to draw up concrete measures. These included a report of what Italy had done so far; an analysis of what the country could do globally in the light of economic and financial feasibility as well as of its plans for domestic development; a list of criteria both political (countries or group of countries) and economic (forms of assistance, contributions, loans, facilities, technical assistance etc); and the formulation of a national position for international circles.[22] A working group, chaired by the Finance under-secretary, would help to complete this task.[23]

The political choice was quickly and officially made: Italy was to focus on Mediterranean and Middle Eastern countries. It was more difficult to find an answer to the economic side of the question. The group 'agreed that the increase in Italy's effort – in view of available resources as expressed in the national economic budget through the balance of payments . . . and the situation of the financial market currently involved in important domestic development programmes – will have to be modest [*modesto*] . . . At this point in time, however, the issue can be seen as two separate problems: (1) to implement Law n.635 (a) by increasing the insurance ceiling, (b) through a direct or indirect government contribution to allow long-term credits with an interest rate . . . lower than the market one . . . (2) to consider . . . the possibility of adopting financial means to reduce interest rates further in operations of particular political interest . . . '.[24] The working group recommended that the ceiling be raised to $100 million. This would also be the maximum amount allocated for non-tied financial credits, which would take resources away from the domestic development programme. Long-term (20–25 years) low-interest (2/3 per cent) loans might drive developing countries away from export credits, and damage Italian trade. It was therefore recommended that their use be tightly restricted to, for example, bilateral agreements and participation in consortia for financing development programmes. The working group excluded using official reserves for long-term commitments.

In late 1961, the Comitato dei Ministri per il coordinamento per la politica economica internazionale[25] decided to increase the ceiling for export credit guarantees

[21] ACS, MBPEG, b. 20, Conclusioni del Gruppo di lavoro sulle possibilità e modalità di assistenza ai Paesi in via di sviluppo, 21 Sept. 1961 (all translations by the author).

[22] ACS, MBPEG, b. 20, Appunti per S. E. il Ministro del Bilancio A. Mandato fissato dall'On. Presidente del Consiglio per la riunione interministeriale per gli aiuti ai paesi sottosviluppati, 8 Aug. 1961.

[23] ACS, MBPEG, b. 20, Appunto, 6 Sept. 1961.

[24] See note 21.

[25] In October 1960 a *Comitato dei Ministri per il coordinamento dell'azione internazionale in materia di politica economica* was established under the chairmanship of the Foreign Minister to 'co-ordinate international action in economic policy and [to] examine the best ways to implement programmes of economic international co-operation' (Art. 3). So far, international economic co-operation had been dealt with

from 150 to 240 billion lire ($241.5 to $386.5 million) for the period 1961–2. It also authorised untied special loans with low interest rates under Title III of the Martinelli Law for up to thirty billion lire ($48.3 million). Turning the decision into law, however, took time. A draft bill stalled for weeks owing to lack of resources. The Foreign and Foreign Trade ministries put pressure on President Fanfani and on the Finance Ministry. At the end of February 1962, the bill had not yet been approved and the existing 150 billion lire ($241.5 million) ceiling had been reached. In the meantime, the Foreign Ministry had opened loan negotiations with Ethiopia and Tunisia.[26]

In February 1962 Fanfani became the head of the first centre-left coalition government in Italian history.[27] Foreign policy required a carefully balanced approach. Fanfani had to show the allies, the United States in particular, that the '*apertura a sinistra*' did not affect Italy's international position, and the nomination of Antonio Segni as Foreign Minister had this 'pro-Atlantic' connotation. But Fanfani needed to counterbalance his 'Atlanticism' in order to keep the coalition together, since the left wing demanded a policy which was less subordinate to the Western alliance and more sympathetic to Third World neutralism and non-alignment. Hence foreign aid policies would need to satisfy both aims. At home, the government was anxious to tackle the enormous task of transforming Italy both socially and economically, involving regional devolution, the reform of public administration, education, agrarian law, and so on.[28] This was a gigantic commitment, which raised a number of technical, economic and political problems. Ugo La Malfa, as Finance Minister, was a key figure in government, the leading 'mind' behind the approach to modernisation through planning, and was strongly committed to bridging the north – south divide.[29] La Malfa thus supported prioritising of domestic commitments: as he declared to John Tuthill, US delegate to the OECD, in Italy 'the average income is still much lower than in many other Western countries and there are huge disparities in income. The new government faces serious commitments, and is approaching them with a responsible and firm attitude. This means establishing a code of priorities in which domestic needs are taken into special account.' La Malfa, like Ortona and Ferrari Aggradi, intimated that an increase in Italian aid was unlikely, but promised 'to improve the quality of [Italian] aid in a manner more suited to [Italy's] economic structure'.[30] In early May a draft law setting the ceiling for the Martinelli Law was

especially by the Comitato Interministeriale per la Ricostruzione (CIR), depending on who held the presidency of the Council of Ministries, and by the Finance Ministry. The Committee included representatives of the Treasury and of the ministries of Foreign Affairs, Finance, Agriculture, Industry and Trade, Foreign Trade, and the Under-secretary for Foreign Affairs.

[26] ACS, MBPEG, b. 22 fasc. 86, MAE, DGAE, Uff. I to C. I. R., Telespresso 41/2440, urgentissimo, 3 Feb. 1962; Appunto per S. E. Il Ministro del Bilancio, 28 Feb. 1962.

[27] A DC-PSDI-PRI coalition, supported by the PSI; it would last until April 1963.

[28] See P. Craveri, *La repubblica dal 1958 al 1992* (Turin: Utet, 1995).

[29] Pasquale Saraceno was named head of the Commissione nazionale per la Programmazione economica.

[30] ACS, MBPEG, b. 21 fasc. 78, DGAE, Uff. I, Visita a Roma dell'Ambasciatore Tuthill, 13 Mar. 1962.

given the finishing touches by La Malfa, along with the Foreign Trade Minister, Luigi Preti, and the Treasury Minister, Roberto Tremelloni.[31] Law n.1834 of 31 December 1962 allocated 925 million lire ($1.49 million). The following year Law n.1532 of 10 November 1963 appropriated a further 2 billion lire ($3.2 million) to Title III. In October 1962, Law n.1534 regulated bilateral technical co-operation, by financing studies and the drafting of development plans over a five-year time span. Italy was thus endowed with new legal instruments for increasing development aid.

A difficult take-off

In 1960 Italy's resources channelled to developing countries increased to $303 million,[32] concentrating on a few countries including Argentina, Brazil, Egypt, Greece, Yugoslavia and Turkey. The following year, the total flow of financial resources fell to $253 million.[33] In 1962, however, contributions increased again:

> the gifts . . . amounted to $53.4 million or 42 per cent of net public sector government spending. This total can be broken down as follows: $20.2 million to Greece and Yugoslavia under the reparation agreement; $5.4 million for technical co-operation . . . , $8.9 million to Somalia and Libya as a contribution to general development and $18.9 million in gifts and capital subscriptions to multilateral bodies, including the EDF. Net government export credits . . . amounted to $13.5 million (56.4 million gross). All these credits were subject to interest at commercial rates and were payable over a maximum of five years. Other net public sector loans in 1962 totalled $31.2 million (48.7 million gross); these were mostly short-term loans to stabilise the balance of payments of the national banks of Venezuela ($26 million under a refinancing agreement) and Brazil ($6.3 million), plus a project finance loan to Yugoslavia ($8.9 million). Further payments were made under these loan agreements in 1963 and subsequently. Moreover, in 1962 the Italian government pledged its first long-term loans (for up to twelve years), including a $16 million loan to Tunisia and one of $4.8 million to Somalia.[34]

The year 1962 registered the highest contribution for the first half of the decade. Italy entered the consortia which had been established to sustain the development of Greece and Turkey. In December an increase in capital for the IDA was discussed, and in August 1963 Italy agreed to contribute $30 million. So the Italian share, $3,495,800 in November 1963 and November 1964, became $10 million for three years from 1965. As well as the countries of the Mediterranean and Middle East, those of Latin America were subsequently acknowledged as areas of special interest to Italy. The Yaoundé Convention of the European Community confirmed Italy's commitment to Africa south of the Sahara, and Italy's share in the EDF was slightly increased.

In 1963, however, the trend of increasing contributions was interrupted. 'The net public sector contribution . . . rose from $78 million in 1962 to $109 million in 1963,

[31] Law n.1834 of 31 Dec. 1962, to be followed by law n.1532 of 10 Nov. 1963.

[32] *Annuario di politica internazionale* (1965), 602.

[33] Net official disbursements declined from $103 million in 1960 to $85 million in 1961: ACS, MBPEG, b. 21 fasc. 77, DAC/AR (62)41, 32.

[34] ACS, MBPEG, b. 25, D. 33. 538.

an increase of over 38 per cent.'[35] The state fulfilled the financial commitments of 1962, complied with recommendations for softer, long-term loans[36] and reduced tied aid: 28 per cent of loans were untied, against 11 per cent in 1962. Public aid was channelled towards seven countries – Yugoslavia ($39.4 million), Egypt ($31.3 million), Argentina ($23 million), Ethiopia ($14.1 million), Turkey ($10.9 million), Somalia ($9 million) and Greece ($6.1 million). These received $130.8 million altogether out of a total of $154.3 million. Of three bilateral grants two went to Somalia, while of five loans of more than five years four went to Mediterranean countries. 'In comparison with the 1962 commitments', commented the DAC secretariat, 'the most striking changes are the reduction in aid to Somalia and in loans to Latin American countries, along with increased loans to Mediterranean countries.' To the Pakistan and India consortia Italy pledged respectively $20 and $45 million for 1963–4 in state guarantees on export credits, so that conditions were not 'soft'.[37] Multilateral aid was reduced, mainly owing to the delayed ratification of the Yaoundé Convention.[38] But the really bad news was that the total amount of resources channelled to developing countries decreased by 12 per cent, from $463 to $405 million: the private sector had drastically reduced its commitments, by 84 per cent. The 'miracolo' was coming to an end and the Italian economy was entering a very uneasy period.

By 1962, the Italian economy was out of control; prices and salaries had increased and the trade balance had become passive. Things went from bad to worse in the next two years. Deflationary measures were adopted in September 1963 in order to limit expanding demand and to reduce the state deficit. In early 1964, this policy became a credit squeeze, coupled with cuts in the state budget: one-third of the planned spending investments were curtailed, and a stabilisation plan was adopted in February. In March, Guido Carli negotiated a loan of $1 billion from Washington.[39] In the light of this, the 1963–4 crisis meant that structural conditions were being affected and that Italy's stance towards foreign assistance had been weakened. There was also a crisis in the private sector which led to two-fold damage: not only was private economic activity involving developing countries reduced, but financial aid was also jeopardised, since the loans were financed by the market, albeit with state contributions. Lacking private capital, the state had nonetheless to fulfil its 1964

[35] ACS, MBPEG, b. 38 fasc. 166, Assistence aux pays en voie de développement. Memorandum de l'Italie sur l'aide fourni et sur la politique suivie en matière d'assistence aux pays en voie de développement. Réponse italienne pour l'examen annuel 1964 (doc. DAC/AR(63)5Final).

[36] '50 per cent of the loans are for over five years and more than 28 per cent for over ten years, whereas in 1962, 63 per cent of commitments were for loans over less than five years . . . As regards interest rates, progress, as called for in the CAD Resolutions, was also remarkable between 1962 and 1963 . . . Whereas in 1962 over 48 per cent of commitments were for loans at an interest rate of over 7 per cent, in 1963 more than 62 per cent of loans bore interest of 5–6 per cent, being financed from market funds but with a public sector contribution on the interest', *ibid*.

[37] Ten years, market interest rate.

[38] ACS, MBPEG, b. 41, DAC/AR(64)2/12, 22 May 1964.

[39] See A. Graziani, *L'economia italiana dal 1945 ad oggi* (Bologna: Il Mulino, 1979); see also Carli, *Cinquant'anni di politica italiana*, 266–7; for a critical view see F. Spinelli and M. Fraitani, *Storia monetaria dell'Italia. L'evoluzione del sistema monetario e bancario* (Milan: Mondadori, 1991).

commitments, and that year Italy replaced Canada as the country with the lowest bilateral public aid. On the other hand, the balance of payments deficit spurred greater efforts to increase exports, and led to the participation in initiatives which might facilitate entry into new markets. The Comitato dei Ministri considered three measures:

(a) using the insurance ceiling and government finance for export credits (Mediocredito) so as to take due account of the requirements of our system of production, particularly sectors that are unbalanced or in surplus; (b) ways of participating . . . in international consortia not only through credits for particular commodities (projects) but also by financing a continual flow of current commodities; (c) prioritising participation in finance where the support of international bodies such as the World Bank is already committed (e.g. the Niger Dam).[40]

Italy and the DAC codes

Italy's economic difficulties favoured a more diversified and deeper rooting of Italian assistance policy in the flow of international aid, for example through its membership of the India and Pakistan consortia. Italy's economic difficulties, nevertheless, put the country more and more at odds with the DAC and the US government. Conditions of financial aid, 'budgetisation' of aid, and export credits and their role in the debts of developing countries were as much a matter of discussion as was the total amount of aid itself.

Concerning the conditions of financial aid, Italy lagged behind other European countries from the very beginning. Even the best conditions for financial loans authorised under Title III of the Martinelli Law were well behind those put forward by the most 'virtuous' DAC members. When the first draft document on the conditions of aid was circulated in January 1963, the various Italian government departments agreed 'on the need to ensure that the document . . . contains no recommendations and suggestions that could have no concrete application on the Italian side'.[41] A note was drafted, to reiterate that

the capacity to provide aid was tied to the *economic structure* and not to the institutional situation, i.e. to existing laws that could be readily modified. . . . The notorious income disparity between developed and under-developed regions, [and] the State budget conditions . . . do not allow us to modify our forms of assistance . . . , in particular, do not allow us to provide loans that are in fact contributions. It is impossible in any case to provide bilateral financial assistance to foreign countries under more favourable conditions than that offered to domestic under-developed regions (financial facilities for the Mezzogiorno never exceed eleven years and the interest rate is about 4 per cent).[42]

The Ministry of Finance argued that the active balance of payments over the previous few years, mostly owing to invisible transactions, was not the result of a

[40] ACS, MBPEG, b. 38 fasc. 166, Assistence aux pays en voie de developpement. Memorandum de l'Italie sur l'aide fourni et sur la politique suiviée en matière d'assistence aux pays en voie de développment. Réponse italienne pour l'examen annuel 1964 (doc. DAC/AR(63)5Final).

[41] ACS, MBPEG, b. 21 fasc. 77, Appunto per S. E. Il Ministro per il bilancio, Riunione presso il Ministero degli Esteri (5 febbraio 1963), 6 Feb. 1963.

[42] *Ibid.*, Bozza di eventuale comunicazione alla rappresentanza sul 'Rapporto' relativo alle condizioni dell'aiuto, 31 Jan. 1963.

structural modification of the Italian economy, and that the state budget, constantly in deficit, had to shoulder new burdens. 'The structure of the Italian economy does not permit the disbursement of more contributions and long-term soft loans than in the past, but the surplus of production capacity and workforce would enable Italy to help developing countries through the export of goods and services with delayed payments or through medium-term loans for specific projects.' To impose tighter conditions, and to deny Italian efforts over the last few years, would lead to a further reduction in the resources made available to developing countries.

During the discussion of Italy's Annual Review for 1962, in July 1963, the Italian delegation was subjected to a genuine inquisition. The 'examiners' argued that cyclical fluctuations should have no bearing on foreign assistance, which ought to remain separate from the instability of the capital market but at the same time an integral part of the state budget.[43] Even when, later on, Italy's troubles were acknowledged to be serious, the DAC Secretariat still affirmed that 'the difficulty of expanding the Italian aid programme resides more in the current mechanisms for planning and financing aid than in the impact of this aid on the Italian economy'. As soon as its economic situation improved, Italy was to create a legal framework from which to re-launch aid through public funds. During DAC president Willard L. Thorp's visit to Rome in May 1964, Italy was offered a barrage of advice on how to improve its aid record. The Finance Ministry resentfully retorted that 'it is not the way, but truly the weight that the Italian economy cannot stand', and that it was likely that, if all public assistance were to go through the state budget, contributions would decrease instead of increasing. In addition, in the 1964 Annual Report, another point was put forward by this ministry with reference to the UN Conference on Trade and Development (UNCTAD): Italy's trade deficit towards developing countries ($500 million) was as much a help to those same countries as any financial aid. At the DAC high-level meeting in July, Italy requested an examination of the visible and invisible trade with developing countries by means of a comparative evaluation of donor performance.

At last, however, the question of 'budgetisation' gained ground in Italian administration,[44] as delegates to the DAC warned that Italy was becoming increasingly isolated, and the Foreign Ministry feared that this would jeopardise Italy's political aims. At the end of 1964, Minister Giovanni Pieraccini announced at the OECD Council of Ministers that the five-year programme for 1966–70 would include provisions for foreign assistance,[45] and the programme did in fact assign $1.6 billion to development aid. Nevertheless, the atmosphere hardly improved, as was clear at the annual review examination in May 1965. Everybody was disappointed to find that 'the total of $1.6 billion is a measure of the effort which the government thinks ought to be made over the next five years . . . based on Italy's aid contributions over the last

[43] ACS, MBPEG, b. 23 fasc. 87, DAC/AR/M(63)11(Prev.) 29 July 1963; b. 25, Ortona (DGAE, CINT-VIII) to Ministry of Finance, Fonogramma n. 272, 19 Jan. 1963, reported that the State Department wanted to discuss this with La Malfa during his impending visit to the United States.

[44] See e.g. ACS, MBPEG, b. 42 fasc. 183, MAE, D.G.A.E., Uff. VIII, Appunto, 28 July 1964.

[45] ACS, MBPEG, b. 26, MAE, DGAE, Uff. VIII to Finance Min., Telespresso 48/23640/C, 5 Dec. 1964.

three years'. The US delegate remarked that 'circumstances never seem to favour the budgetisation of Italy's aid', and the president closed the session 'by expressing the hope that at the next audit Italian aid would merit fewer "sermons" and more congratulations'.[46]

Unsurprisingly, Italy was increasingly worried by the consensus which emerged in spring 1965 on the new DAC recommendation concerning the conditions of aid. At first, West Germany's and Japan's opposition to the March draft also offered refuge to Italy, but in May both the Treasury and the Finance Ministry voiced strong and alarmed reservations concerning the subsequent draft, DAC(65)14. Italy could not accept the proposed targets regarding the percentage of grants on public aid or interest rates, for the duration of the loans either before the proposed three-year deadline or beyond it. Commitment to 'budgetisation' was also unacceptable.[47] By the end of June, Bonn and Tokyo had almost been persuaded to accept the amended draft. Instructions to the Italian delegation for the DAC meeting on 1 July 1965 were: '1. to keep to the principle of the special conditions for Italy, especially on per capita income; 2. if all other countries are ready to accept the resolution and only Italy risks remaining isolated, to husband Italian intervention until after the Japanese proposal [to cancel the three-year deadline for the implementation of better conditions]; 3. in any case, to postpone final decisions that cannot be taken until the DAC ministerial meeting on 22–23 July'.[48] At that meeting, for fear of isolation, Italy fell into line: Mario Zagari, under-secretary for Foreign Affairs, declared that Italy would be able to accept the recommendation, while echoing the Japanese position on the need to consider donor per capita income as well as capital availability, and he asked that his view be minuted.[49] In the following years, Italy, like many other DAC members, failed to comply. In 1968, along with West Germany and Japan, Italy opposed any further revision of aid conditions involving additional obligations.[50]

Around the middle of the decade, however, Italy to all appearances accepted a wider use of financial loans. In 1964 Italy still held that export credits were 'the basic instrument' of Italian aid policy and criticised the restrictive definition of aid and the conditions of aid: 'Export credits, loans for current purchases, medium- and long-term financial or commercial loans are different instruments, but can all be used in the appropriate circumstances for a variety of development needs.'[51] During 1965, a clear change took place. In January 1966, the chief of cabinet of the Ministry of Finance, wrote in support of refinancing Title III of the Martinelli Law:

> Assistance to developing countries, whatever the form, also means supporting our exports. This is evident when assistance takes the form of export credits, but it is also true, and *in fact more true*, when it takes the form of financial loans conceded to the State or to the central banks of developing countries. This is because such loans are usually tied to our works and supplies. . . . These countries,

[46] ACS, MBPEG, b. 41, OECE, DAC/M(65)14(Prov.), 22 Oct. 1965.

[47] ACS, MBPEG, b. 32, G. Stammati (Treasury) to MAE, Fonogramma urgente 486844, 24 May 1965 and Melito (Finance Min.) to MAE, DGAE, Uff. VIII, Fonogramma 27348, 22 May 1965.

[48] ACS, MBPEG, b. 32, Ortona to Finance Min. Cabinet, n. 93042, 25 June 1965.

[49] *FRUS* (1964–8), Vol. IX, Doc. 110, 326.

[50] *Ibid.*, Doc. 147, 444.

[51] ACS, MBPEG, b. 42, MAE, DGAE, Uff. VIII, Telespresso 48/14886/c, 30 July 1964.

owing to their notorious liquidity problems, pay special attention to payment conditions . . . so that . . . *competition tends to shift more and more from the price towards the financial conditions of payment*.[52]

As it became clear that tied aid was not a temporary anomaly, but a permanent feature of many North – South financial relations, Italy gave up granting concession of untied aid. In 1963, after having conceded a $6 million untied loan to Greece in 1962, the Foreign Ministry began extended negotiations to 'tie' the actual release of the money, in particular selling a television system to Greece. In 1966 the new loan to Greece was tied, and in 1965 the government tried to tie as far as possible a loan to Turkey for the building of the Keban Dam.

In principle, however, Italy argued that bilateral tied loans produced distortions in international economic relations and continued to support the role of multilateral organisations.

As for the oft-repeated recommendation that loans should be made on more favourable terms [said, for example, in the 1964 Annual Report] . . . these are operations with social or structural aims and therefore take no account of economic criteria. From Italy's point of view, it would be preferable for these loans to be allocated, in principle, through multilateral channels and via appropriate international bodies such as the IDA . . . [This] also offers significant advantages, both because it automatically permits use on a multilateral scale and because it is easy to monitor how the funds are used without provoking unfavourable reactions from the assisted country.[53]

From 1965, Italy channelled an ever-increasing share of its financial aid via multilateral agencies.

Once again, however, the Annual Report for 1966, in which Italy claimed that aid had surpassed the target 1 per cent of net national income, was criticised by the DAC President, who censured the purchase of bonds from financial institutions and questioned the relevance of Italian exports in the economic development of the recipients. This provoked a resentful response from the Finance Ministry, which accused Thorp of disseminating a 'less than benevolent view' of Italy by quoting incorrect data for bilateral public assistance, stressing bonds purchase (institutionally the main source of finance for the institutions concerned), overlooking all other forms of support to multilateral institutions and ignoring the fact that more than 60 per cent of Italian supplies and work were delivered under contracts by major financial international institutions and usually included in the national development plans of the recipients.[54] Whether or not the criticism was merited, such a strong reaction suggested that the examination procedure was increasingly resented, while the original Italian requests for greater political co-ordination and co-operation in technical assistance fell on deaf ears.

The need for reappraisal

Even in the earlier stages of the DAG, Caruso regretted the position taken by the United States 'that the DAG, by its nature and objectives, was not the suitable place

52 ACS, MBPEG, b. 41, Appunto per l'On. Sig. Ministro, 24 Jan. 1966 (emphasis in original).
53 *Ibid.*, Appunto per l'On. Sig. Ministro, 1 Apr. 1965.
54 *Ibid.*, Under-secretary for Finance to MAE, DGAE, Uff. VIII, n. 27022, 14 Jan. 1967.

Table 1. *Assistance to developing countries, 1965–1966*

	1965				1966			
	Outgoings	Reimbursements	Net	As per cent of NNP	Outgoings	Reimbursements	Net	As per cent of NNP
	US$000				US$000			
Public bilateral sector								
grants	25.5	–	25.5		23.5	–	23.5	
financial loans	61.8	53.9	7.9		77.8	54.2	23.6	
Mediocredito	84.0	63.9	20.1		59.3	75.9	−16.6	
Total	171.3	117.8	53.5	0.12	160.6	130.1	30.5	0.06
Private bilateral sector								
direct investment	89.1	34.7	54.4		79.7	54.3	25.4	
reinvestments	14.0	–	14.0		–	–	–	
other loans	24.1	15.2	8.9		66.4	21.9	44.5	
guaranteed export credits	133.2	48.0	85.2		433.9	72.8	361.1	
non-guaranteed export credits	15.0	–	15.0		–	–	–	
Total	275.4	97.9	177.5	0.39	680.0	149.0	431.0	0.88
Multilateral aid								
grants	1.6	–	1.6		8.5	–	8.5	
EDF, IBRD, IDA, ADB[a]	30.7	–	30.7		22.9	–	22.9	
purchased bonds of financial international or regional bodies	7.7	0.1	7.6		60.0	–	60.0	
same purchased by banks	0.3	–	0.3		–	–	–	
Total	40.3	0.1	40.2	0.09	91.4	–	91.4	0.19
Overall total	487.0	215.8	271.2	0.60	832.0	279.1	552.9	1.13[b]

[a]EDF – European Development fund; IBRD – International Bank for Reconstruction and Development (World Bank); IDA – International Development Association; ADB – Asian Development Bank.

[b]Percentage in relation to NNI (net national income).

Source: ASC, MBPEG, b. 41, Assistenza ai paesi in via di sviluppo. Memorandum dell'Italia all'O.C.S.E. sugli aiuti concessi e sulla politica di assistenza ai paesi in via di sviluppo nel 1966.

for political co-ordination'.[55] He had told Tuthill that 'the stumbling-block lies in the difficulty of reconciling legitimate US expectations on financial efforts with the equally legitimate interest of other countries. The latter do not want to be discriminated against owing to their [lesser] capabilities and wish to be present in all geographical areas, even when their interests are political rather than economic.'[56] So, while convinced that assistance often disguised competition for economic and commercial penetration of new markets, the Foreign Ministry never forgot Italy's political aims vis-à-vis both the Western allies and the Third World. In the second half of the decade, however, it became more and more difficult to find common political grounds for a Western development policy. The Mediterranean and the Middle East, sub-Saharan Africa and Latin America remained the main object of Italian money and political attention. However, the Six-Day War and the closure of the Suez Canal deeply affected one of the linchpins of Italy's international political and economic environment, and produced the first open disagreement between Rome and Washington.[57] From the late 1960s, Italy would be increasingly trapped by the volatility of its regional setting.

By the second half of the 1960s, it was felt that Italy needed a new start in foreign assistance policy, a simplification and rationalisation of procedures, a broader approach to technical assistance, and more financial resources. In March 1966, the Società Italiana per l'Organizzazione Internazionale and the Istituto Studi di Politica Internazionale (ISPI) convened a round table on foreign assistance, and the latter, together with the other established national 'think tank' Centro Studi Investimenti Sociali (CENSIS), launched a comprehensive updating of what Italy could do in the field of international co-operation and assistance, modelled on the 1963 Jeanneney Report and British White Book. In the autumn of 1967, prior to the New Delhi UNCTAD conference, Finance Minister Pieraccini and Foreign Minister Fanfani asked Prime Minister Aldo Moro to launch a global reappraisal of the foreign assistance policy. Its role, in the five-year economic programme, was substantial and somewhat problematic: the Foreign Economic Policy Co-ordinating Committee was to reconsider basic orientations, priorities and choices in relation to different geographic areas, market sectors and other criteria, and to situate them in the framework of the whole foreign financial policy.[58] In February 1968, during the New Delhi conference, under-secretary Zagari and Fanfani put forward the idea of a 'global strategy' for development: a shared responsibility for world development was to replace the concept of 'aid', the multilateral channels of the United Nations, the UN Food and Agriculture Organisation (FAO) and the World Bank were to play the

[55] ACS, MBPEG, b. 19 fasc. 71, C. Caruso (OECD Paris) to MAE, DGAE-Servizio CEI, Uff. I and to Finance Ministry, Cabinet, Telespresso 3932, 4 Dec. 1961.

[56] ACS, MBPEG, b. 26, C. Caruso (OECD Paris) to MAE, DGAE, Uff. VIII and Gabinetto Bilancio, Telespresso urgente, 12 Jun. 1962, riservato.

[57] See Calandri, 'Il Mediterraneo nella politica estera italiana'.

[58] ACS, MBPEG, b. 41, Letter A. Fanfani (MAE) to A. Moro, n. 148/22778, 20 Oct. 1967.

Table 2. *Comparison of aid granted in 1968 and 1969*

	1968	1969
	US$ million	
Private bilateral aid		
export credits	270.2	450.1
investments and loans	130.7	236.4
purchase of bonds	–	24.0
Total	400.9 (72.9 per cent)	710.5 (83.8 per cent)
Public bilateral aid		
grants	33.6	35.6
loans and others	108.0	71.9
Total	141.6 (25.7 per cent)	107.5 (12.6 per cent)
Public multilateral aid	7.9 (1.4 per cent)	32.2 (3.8 per cent)
Overall total	550.4 (100 per cent)	850.2 (100 per cent)

Source: G.S., 'L'aiuto italiano ai paesi in via di sviluppo', *Affari esteri*, 11, 8 (Oct. 1970), 157–72.

key roles, and a new fund was to be established for financing medium- and long-term development plans.[59]

As it turned out, only a few, technical, steps were ever taken: legislation to allow 'framework agreements' was under consideration, preparation for the new appropriations law under Art. 21 of the Martinelli Law and a lowering of interest rates was sought by the government. The law for technical co-operation for the years 1968–71 increased the annual contribution from 1 to 1.5 billion lire ($1.6 to $2.4 million) per year, and in 1971 a new, extensive law attempted a 'global approach' to technical assistance.[60] But no comprehensive framework for an integrated development policy was to become a reality before the end of the 1970s.[61]

So by the end of the decade of development, the basic features of Italy's assistance policy had not really altered. Under the influence of more advanced economies, Italy had endowed itself with new juridical instruments, and a dynamic private sector drove the country within the flows of international co-operation. Yet the fluctuations in the domestic economy and political unrest still sapped determination and diverted the attention of the political leadership from many facets of the foreign assistance policy. Officially, Italy's point of view remained essentially the same: the internal north – south divide and the scarcity of capital did not allow the country to commit any significant resources to foreign aid. The 1966–70 economic programme and further economic choices in the late 1960s indicated that social expenditure and domestic consumption, rather than foreign economic relations, were singled out to form the driving force for domestic growth.

[59] Atti Parlamentari, Camera dei deputati, Vol. IV (1968), 4406; see also M. Zagari, 'Una strategia globale per lo sviluppo', *Relazioni Internazionali*, 11 (1968), 262.

[60] 'Principi e norme della Legge sulla cooperazione dell'Italia con i paesi in via di sviluppo', *Relazioni internazionali*, 51 (1971), 1256–8.

[61] Law n.38 of 1979.