

FIFTH REPORT  
OF THE DEPARTMENT  
FOR DEVELOPMENT POLICIES  
2001-2002

*Summary*

*Presented to the Parliament by the Deputy Minister of Economy and Finance,  
Gianfranco Micciché  
as an attachment to the 2003 Forecasting and Planning Report*

*The Report – from which this summary is taken – has been drafted by the Department of Development Policies (DPS) of the Ministry of Economy and Finance. It gives an outline of the economic trends, capital financial resources and development policies at a territorial level.*

*The Report is the outcome of a collaborative effort of all the DPS units. In response to changes in the European institutional framework, these have been restructured in order to strengthen their system-, project-, and analysis-oriented actions, as well as their interaction with similar organizations in other European Countries. The draft of this document was made possible through the cooperation of the Territorial Development Policies and Agreements Service, headed by Paolo Signorini; the Projects, Research and Statistics Service, headed by Letizia Ravoni; the Structural Funds Policies Service, headed by Paola De Cesare; the Central Secretarial Service of CIPE (Interdepartmental Committee for Economic Planning), headed by Patrizia Bitetti; the Public Investment Evaluation Unit, headed by Silvio Pancheri; and the Public Investment Verification Unit, headed by Nunzio Amato.*

*The Report was coordinated by the Head of Department, Fabrizio Barca, together with Letizia Ravoni and Paola Casavola.*

*In addition to those named above, the following also contributed to the Report: Carlo Amati, Iolanda Anselmo, Francisco Barbaro, Laura Bonifazio, Monica Brezzi, Paola Casavola, Pasqualino Castaldi, Raffaello Cervigni, Angela Corbo, Oriana Cuccu, Silvio D'Amico, Michele D'Ercole, Sabina De Luca, Patrizia Di Giuseppe, Simona De Luca, Vincenzo Gazerro, Federico Lasco, Luca Manieri Elia, Giampiero Marchesi, Nicola Masi, Saverio Massari, Mauro Masselli, Giuseppe Mattiozzi, Guido Pellegrini, Silvio Pancheri, Giorgio Pugliese, Laura Raimondo, Federico Risi, Rosanna Romano, Tiziana Rosolin, Piero Rubino, Francesco Stella, Benedetta Stratta, Laura Tagle, Flavia Terribile, Francesca Utili, Mario Vella, Mariella Volpe, and Piero Volpicelli.*

*A number of sections relate to development policies implemented by Central and Regional Administrations. The Report made the most of both their contribution and their verification activity.*

*The Appendix was edited by Paola Casavola and Letizia Ravoni, and was drafted by Attilio Turri Bruzzese, Angela Corbo, Leopoldo Cozzolino, Rita Crescione, Simona De Luca, Michele D'Ercole, Patrizia Di Giuseppe, Barbara Majano, Giuseppe Mattiozzi, Nicola Paragona, Pasquale Patella, Giorgio Pugliese, Federico Risi, Antonio Sferrazzo, Alessandra Tancredi, Francesca Utili, Mario Vella, and Mariella Volpe.*

*The texts were revised by Luca Celi and Emanuela Poli, while Loredana Buffoni, Marina Bugamelli, Alma Conti, Fausto Gasbarri, Simona Panei, and Concetta Ricottone were responsible for the compilation, presentation and dissemination of the Report.*

*Special thanks go to all the personnel involved in the preparation of the document for their dedication and care.*

## PREMISE

*by the Deputy-Minister, Gianfranco Micciché*

The Fifth DPS Report draws on original and exclusive data, the result of the significant research activity carried out within the Department.

The data gathered give us a clear picture, highlighting both the positive and the negative trends.

The Italian Mezzogiorno has continued to grow more than the country as a whole, but still too little to hope that, in the short or medium-term, it might succeed in bridging the considerable economic gap with the rest of Italy. This goal can no longer be postponed if we are to achieve, in addition to the expected social and political results, the EU growth targets to which we are committed.

One positive fact is that the GDP in southern Italy increased by half a percentage point more than in the country as a whole in both 2001 (2.2 percent compared to 1.6 percent) and 2002 (1 percent and perhaps a little more, compared to 0.5 percent). This growth differential took place over two quite different years: in 2001 there was considerable growth, while 2002 was characterised by a stagnation of the economy.

A further and unequivocally positive fact relates to employment, which is growing at a rate of two percentage points a year in southern areas, causing the unemployment rate to drop to 18 percent (youth unemployment dropped from the 57.3 percent reported in October 1997 to 48.9 percent in October 2002).

These trends are positive, but the South is still a long way from the potential growth rate that could reasonably be expected from an area with such a wealth of under-utilised resources. The unemployment rate, particularly among the young, moreover, continues to be unacceptable.

Why is this so?

One explanation could be the fact that entrepreneurial energy in the southern regions – released only after the old intervention scheme, based on direct subsidies and government handouts to debt-ridden state-controlled enterprises, was closed down – has had to cope with an economy heavily conditioned by two penalising contextual factors. The difficulty of access to credit and the considerable gap in both infrastructure development and the supply of essential public services (water and transport networks) still lag intolerably behind the national average.

These factors lay even greater responsibilities on the State, which has taken too long to adjust the quality of its interventions and services.

If public investments as a whole, and target investments in particular, are to succeed in bridging this infrastructure and public service gap, a few decisions taken in the past must be reviewed.

The share of capital expenditure earmarked for infrastructure – still at around 50 percent in the year 2000 – is too small compared to the share appropriated for direct incentives to businesses and households. Administrations still lack the abil-

ity to determine the infrastructure-related priorities of the territory. Moreover, when an intervention is selected, planning is often either inexistent or inadequate. Interventions that are actually implemented are frequently financed with insufficient ordinary resources. In the past, these were often diverted towards different areas of the country. It is clear that only a considerable coordination of all the available resources will make it possible to complete priority infrastructure.

Furthermore, incentives to businesses should be combined in an appropriate fashion with infrastructure investments. Separate financing and a bureaucratic division between incentives and infrastructure-related investments make it more difficult to adjust the forms of capital expenditure for the South to the requirements of a highly volatile economic cycle. To this end, a significant territorial marketing strategy has been devised, involving, among others, *Sviluppo Italia*.

This is where we need to step in, gaining an insight into the responsibilities and the limits of all the parties involved in the revival of the South. It is clear that our social and economic partners – who shared our commitment and shouldered responsibility by signing a ‘Pact for Italy’ with the government, and who continue to stimulate and monitor the activities of the administrations – are fully aware of the importance of what is at stake.

Thanks to the premium-reserve mechanisms introduced in the planning of national resources for under-utilised areas, much greater attention than in the past is now being paid to the timing of expenditure and the strategic quality and implementation of the interventions financed in particular by regional administrations. Nonetheless, the progress witnessed by southern regions on all these fronts is far from being uniform. Some regions have undeniably taken the opportunity to change their step to a greater extent than others, and to lag behind in an enlarged and increasingly competitive Europe is extremely risky.

We need to follow the example set by some other nations, as well as by other areas in Italy such as the Northeast: we need to keep growth equal throughout the country. This is one of the Department’s top priorities: as the leading administration for the coordination of national development policies we must see that no territory lags behind any other. However great our commitment to this cause, we are nonetheless no substitute for the regions’ and central administration’s determination to trigger and accelerate change.

The Report focuses on the results attained in the implementation of the EU Support Framework and the Institutional Planning Agreements.

In this respect, we can only express our satisfaction with the overall results of the 1994-1999 Agenda. Thanks also to the extremely strong acceleration imparted at the end of last year, nearly all the available resources have been used. We are also pleased with the quantitative results attained by the new 2000-2006 Agenda.

We are less pleased with the overall quality of the investments that still prove to be insufficiently driven by specific territorial strategies and priorities. We are currently engaged in tackling this problem, and, in this respect, it is essential not to miss the opportunity afforded by the renegotiation of the Regional Operational Programs (ROP) that should take place soon and that already calls for continuous

meetings with regional administrations in order to identify the best possible solutions.

In conclusion, the picture is neither simple nor dramatic – there is light at the end of the tunnel. One way to reach it seems quite clear: to speed up as far as possible the implementation of infrastructure with the specific commitment of all the subjects involved.

Either we are ready for EU enlargement or we risk being marginalised. The commitment of a few is not enough. Each of us, according to our institutional role and specific competence, must play a part.

The most important task falls on this Department: to stimulate, check, monitor – in short, to be at the forefront in shouldering these responsibilities.

The task of this Department is to show that the future is the development of the South.



## INTRODUCTION AND SYNTHESIS

The *Fifth Report of the Department of Development and Cohesion Policies (DPS)* of the Ministry of Economy and Finance reviews the development of various territories of the country, with special regard to Southern Italy and its “under-utilised areas”<sup>1</sup>.

Original and exclusive data have contributed to the Report’s documentation and interpretation of the short- and medium-term economic trends of the various territories, the public capital financial resources used for their development, as well as the state of implementation of the policies being adopted and the processes of modernisation of the public administrations that are indispensable to the implementation of these policies. A number of innovative methodological analyses have been adopted for the first time, particularly when examining the gaps between different areas concerning infrastructure services, the completeness of local public accounts, and the information available about the state of implementation of the policies.

With reference to the Italian Mezzogiorno, the Report pays special attention to the targets set by the Government in the 2003-2006 Economic and Financial Planning Document (DPEF) and confirmed in the ‘Pact for Italy’. These are to support growth in Southern Italy, allowing it to exceed permanently the average European rate; to bring the activity rate of its citizens up to 60 percent by 2008, ensuring that, by that date, Southern Italy gets an average of 45 percent of total capital resources; to bridge the gap with the rest of the country in terms of infrastructure and services. These targets take on particular significance in view of EU enlargement.

The extensive statistical Appendix demonstrates the level of articulation achieved by the DPS’s territorial database, which is at the disposal of Parliament and local bodies.

The following paragraphs summarise and comment upon some of the most significant results of the Report.

\* \* \*

### *Economic and Social Trends in the Territories*

The years 2001-2002 confirmed the most significant (and most neglected) news in Italy’s recent economic development: in a context of generally limited growth, Southern Italy has developed more than other areas in the country.

---

<sup>1</sup> In keeping with the 2003 financial bill, the term “under-utilised areas” means all the areas that, owing to conditions of economic and social lag or to an inadequate utilization of their resources, are deemed worthy of development interventions over and above the ordinary interventions, through recourse to EU (and national co-financing) resources – objectives 1 and 2 areas of the 2000-2006 Agenda – or national resources (cf. the fifth section of Article 119 of the Constitution). For a description of the way in which these areas – previously called “depressed” areas – may be singled out, refer to the Synthesis and Par. III.1.2 of the Third DPS Report. For a map of these areas, refer to the Appendix attached to this Report.

All the available data converge in indicating that development in Southern Italy is based on a revival of local entrepreneurial capacity, a strengthening of the productive clusters of small and medium enterprises, a new ability to seize the opportunities afforded by foreign demand (for goods and tourism), and a greater efficiency in the labour market that promotes considerable employment growth. As years go by, the per capita income gap with respect to the rest of the country – which had begun to widen in the early Nineties – is narrowing.

And yet these trends are limited: the pickup in exports and in tourist demand appears to have slumped, while growth in productivity is stunted. Although gross domestic product is backed by increasing demand for public investments (more building yards, more constructions), it continues to be far less than it should be (with an oscillation close to 2 percent). The figures do not reflect what one would expect of an area that is taking-off (4-5 percent). In short, we are dealing with a case of “hindered growth”.

The Report clearly identifies the reasons for this situation. Hindering growth are the contextual conditions in which the “animal spirit” of Southern Italy has made its comeback: the low quality of the public services available to households and businesses. Households and businesses work and invest under conditions – of water and electricity supply, communications and telecommunications, access to local resources and administrative services – that are worse than in the rest of the country. The Report documents that, leaving aside relevant exceptions such as law and order these conditions failed to improve, at least before 2000-2001.

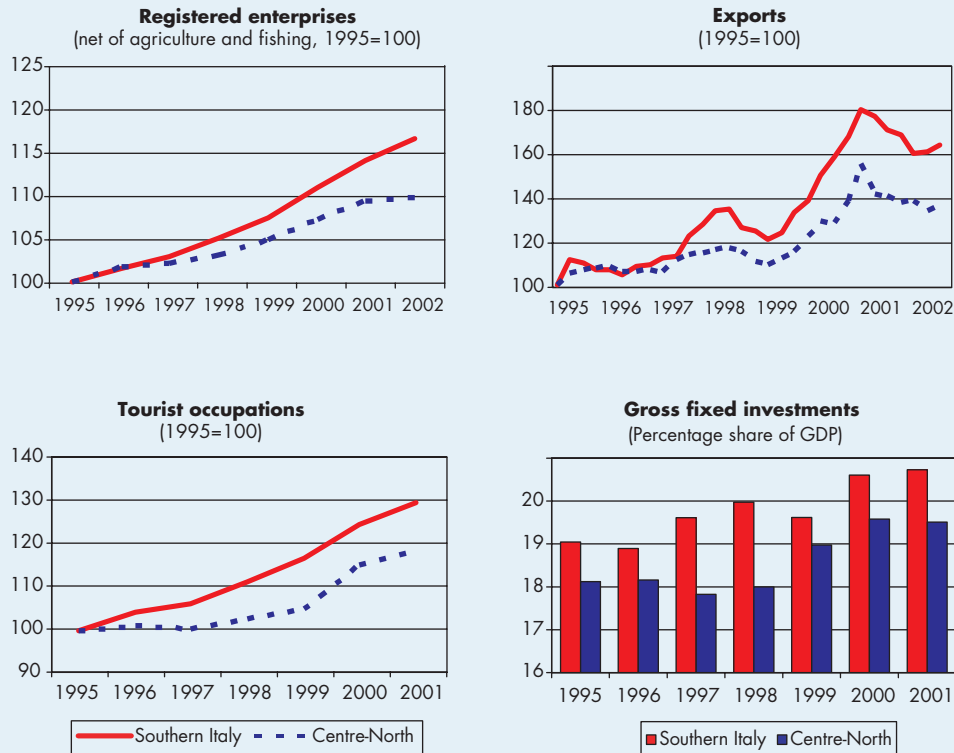
This confirms the fact that the top priority for economic policy for the South is to reduce drastically its infrastructure and public service gap with the rest of the country.

There are no short cuts. Incentives and subsidies provide inevitable transitional compensation, as long as they are both limited and targeted. However, the only hope of removing that which is hindering the development of the South rests on massive, high-quality public investments, more efficient markets in local public services, and modernised local public administrations.

The economic indicators of territorial development reviewed by the Report also relate to the birth rate of enterprises, exports, tourism, and investments. All of these have grown more in Southern Italy than in the rest of the country (cf. Figure 1).

The trend of exports and tourism reflects the extremely low starting points of the area, but the continuous increase in the number of its enterprises is a sign of the transformation of the southern entrepreneurial system. Its former concentration in large capital-intensive industrial plants (subject to a high risk of employment-related crises) is now making way in the South to clusters of small and medium enterprises, at times pivoting around larger enterprises with considerable process or product innovations.

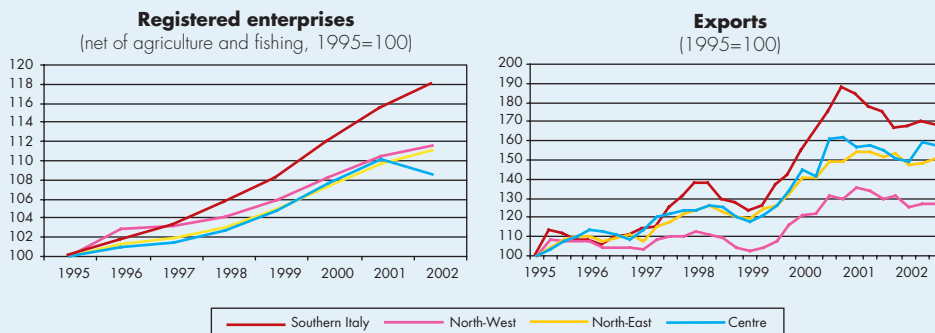
**Figure 1 – TREND OF THE MAIN VARIABLES IN SOUTHERN ITALY**



Source: ISTAT and Unioncamere.

As for the other macro-areas, it may be noted that only the Northeast keeps the pace with Southern Italy, even though their pace is slowing down as the stimulus to the growth of productivity seems to be declining. By contrast, Northwest exports appear in difficulty. (cf. Figure 2).

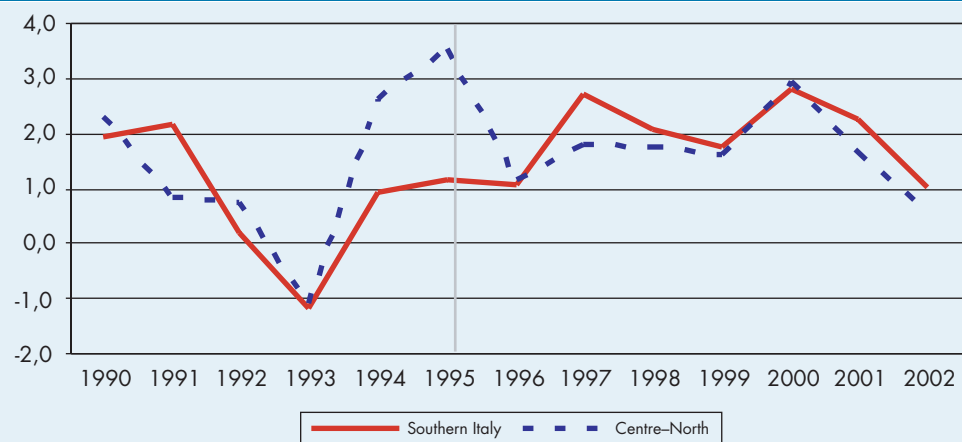
**Figure 2 – TREND OF ENTERPRISES AND EXPORTS IN THE MACRO AREAS**



Source: ISTAT and Unioncamere.

As for GDP growth, on the basis of the information available for the 2001-2002 period, the growth rate in Southern Italy may be temporarily estimated as being 2.2 and nearly 1 percent, respectively, pointing to values that are higher than in the Centre-North (1.6 percent, and nearly 0.5 percent). The difference in favour of the South exceeds the figure reported in the preceding five-year period. On the whole, during the 1995-2002 period, it would seem that the average yearly rate of growth of the GDP in Southern Italy approximated 1.9 percent, that is 3 tenths of a percentage point above the rate reported in the rest of the country (1.6 percent) (cf. Figure 3).

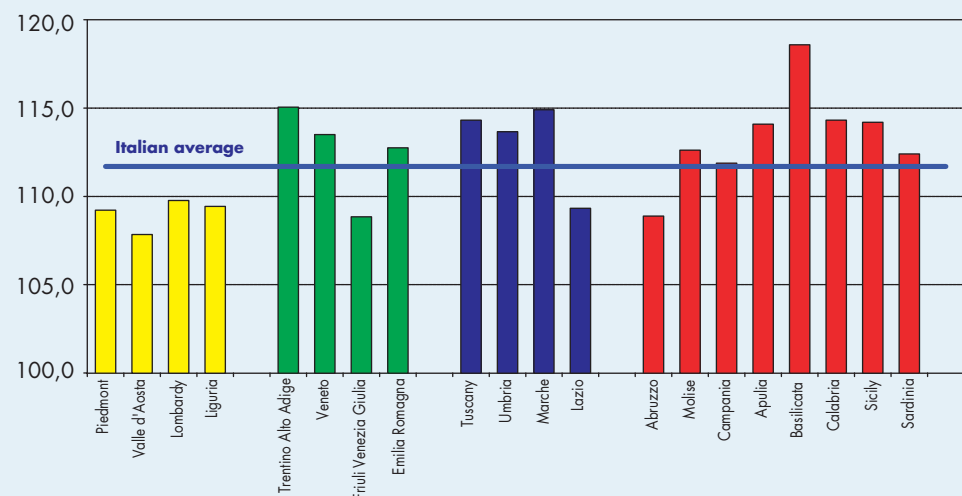
**Figure 3 – 1990-2002 GDP GROWTH: SOUTHERN ITALY** (percentage variations at constant prices)



Source: Estimates and processing of ISTAT data – Territorial Economic Accounts (the 1990-95 data are retroplated).

Data at a regional level confirm that only a few regions in the Centre and the Northeast have reached the rates reported in the Southern Regions (cf. Figure 4). At a province level, recent Unioncamere estimates confirm this phenomenon, pointing to a considerable narrowing of territorial gaps.

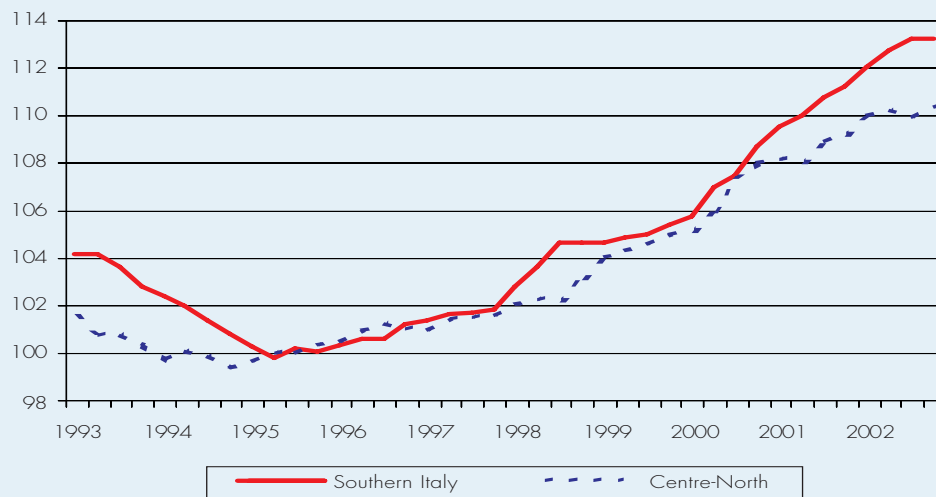
**Figure 4 – CUMULATED GDP GROWTH BY REGION: 1996-2001** (constant prices; 1995=100)



Source: ISTAT, Territorial Economic Accounts.

Intensified growth, a productive re-balance in favour of more labour-intensive sectors and enterprises, and a greater efficiency of the labour market incremented the increase in employment levels in Southern Italy. This development reached its peak during 2001 and continued, to a more limited extent (1.9 percent in the year average), even in 2002. The number of employed in Southern Italy increased steadily, particularly during the first half of the year, at a rate constantly higher than the rate reported in the Centre. In October, after a twelve-month period, the growth rate was 1.6 percent compared to 0.9 percent in the rest of the country (cf. Figure 5). Highly positive trends have characterised industry in a strict sense (4.1 percent in Southern Italy compared to 0.3 percent in the Centre-North) and services (2.3 percent in Southern Italy compared to 1.7 percent in the Centre-North).

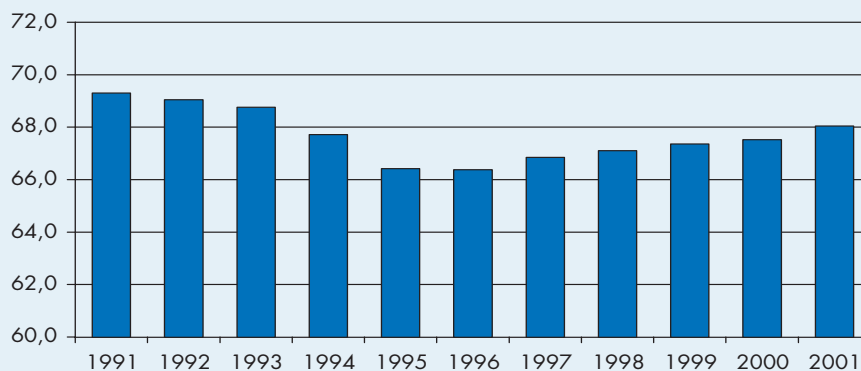
**Figure 5 – THE EMPLOYED, OTHER THAN AGRICULTURAL WORKERS** (de-seasonalised data; 1995=100)



Source: ISTAT.

While in 2001 Southern Italy still stood 32 percentage points below the average Italian figure in terms of per capita income, the difference continues to narrow, though at a limited pace (cf. Figure 6).

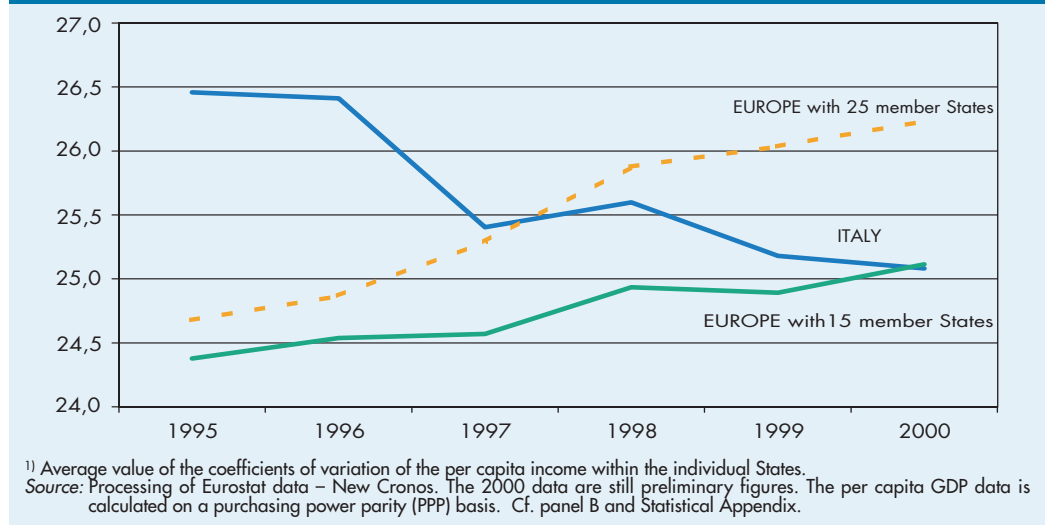
**Figure 6 – PER CAPITA INCOME IN SOUTHERN ITALY** (Italy = 100)



Source: ISTAT – Territorial Economic Accounts (the 1990-95 data are retropolated).

The narrowing of the domestic gap takes on particular significance when Italian data are compared with those concerning the rest of Europe, given that Italy appears to be moving in the reverse direction. In fact, the domestic regional gaps in both the 15-member European Union and the ten candidate countries (in the presence, however, of an extremely high growth rate) are on the increase rather than on the decrease (cf. Figure 7).

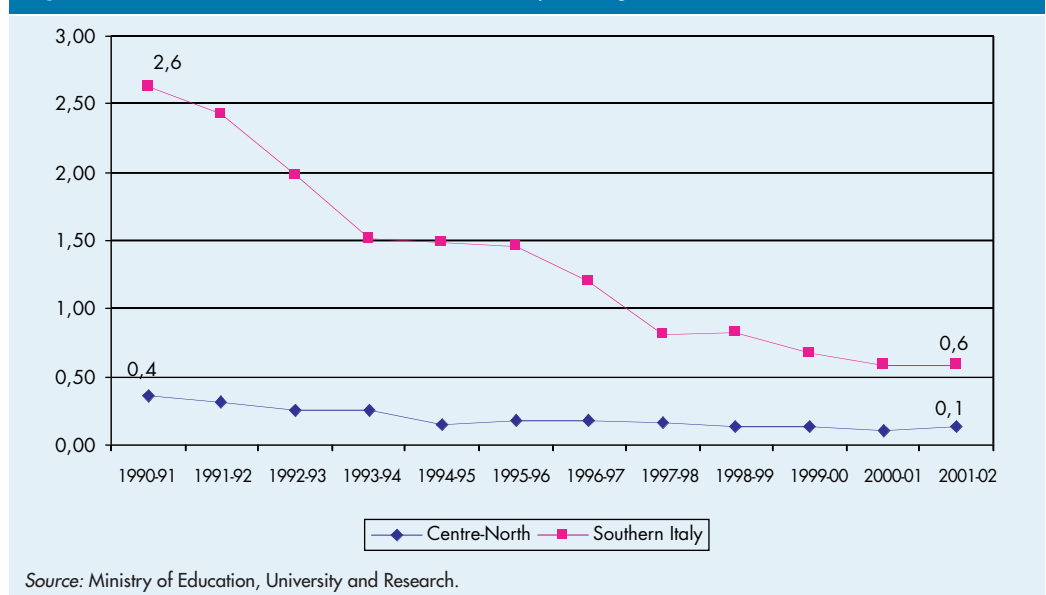
**Figure 7 – REGIONAL PER CAPITA GDP GAPS WITHIN THE STATES** (coefficient of variation of the EU index = 100)



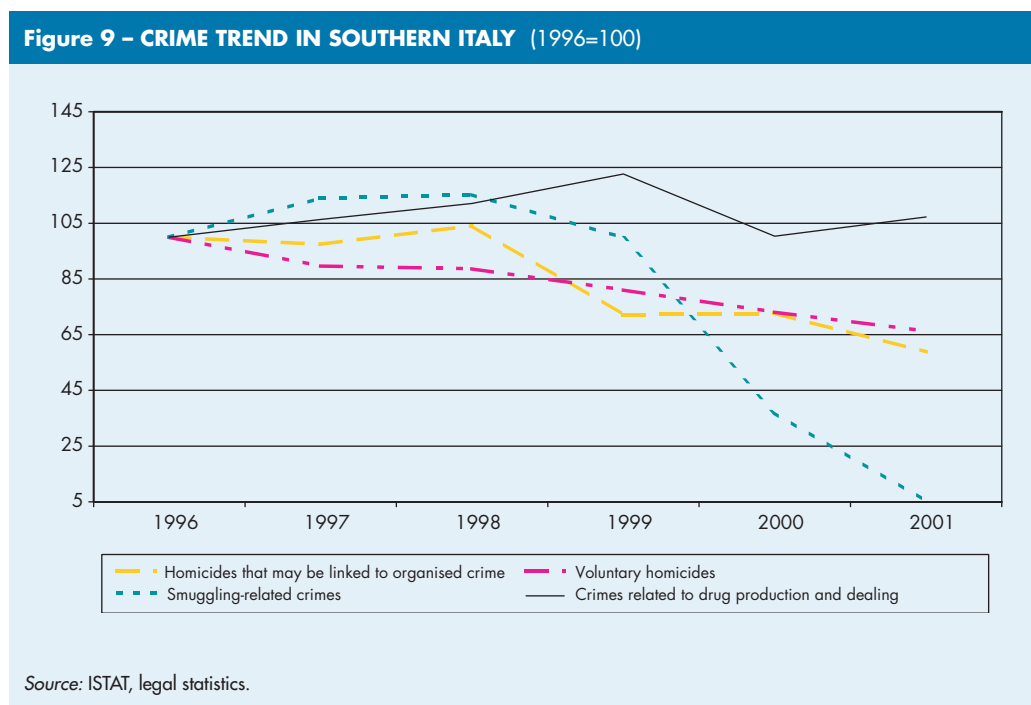
Signs of convergence may also be detected in the social field.

With reference to school dropouts, territorial diversification is limited to junior high school, with a percentage incidence of school dropouts during the 2001-2002 school year that was 0.6 percent in Southern Italy compared to 0.1 percent in the Centre-North (cf. Figure 8).

**Figure 8 – JUNIOR HIGH SCHOOL DROPOUTS** (percentage values)



As far as law and order – an essential aspect of household and business choices – is concerned, with a generalized nation-wide reduction in crime, considerable results have been achieved in Southern Italy. Action has been particularly effective in combating organized crime, which continues to be an important factor hindering local economic activity. An emblematic significance should be attached to the sharp decrease in smuggling-related crimes (with an 80 percent drop in 2001), which was also achieved through interventions planned with the support of EU resources, in particularly with the technological and operational renewal of prevention and control equipment (cf. Figure 9).



These results, taken as a whole, are not matched by a corresponding reduction – indeed, at times the opposite trend has been noted – in the gap concerning infrastructure and public services in Southern Italy, which continues to affect the quality of life of households, while discouraging investments by enterprises.

Failure to make up for delayed or inexistent services has been detected in such sectors as water supply (in Southern Italy, 32 households out of 100 reported irregularities in the water supply in 2001, as against an Italian average of 16), the electricity supply (in 2001, accidental interruptions to the electricity supply were 5.3 per user, as against an Italian average of 3.6 per user), transport services, with special reference to train services (in 2001, the share of the population that used trains was 24.3 per cent, as against 30.6 in Italy as a whole) (cf. Table 1).

**Table 1 – INFRASTRUCTURE-RELATED GAP AND INADEQUATE SERVICES: THE LAG IS STILL THERE**

Indicators	Type of services					
	Wastes subject to separate collection (percentage of total wastes)	Coasts where bathing is prohibited (percentage of total coasts)	Desultory water supply (percentage of total households)	Interruptions to the electricity supply <sup>1</sup> (number by user)	Use of trains <sup>2</sup> (percentage of total population)	Use of <sup>3</sup> aeroplanes (standardized)
Situation in 2000-2001 <sup>4</sup> :						
Italy	14.4	5.4	16.3	3.6	30.6	157.1
Southern Italy	2.4	5.9	32.0	5.3	24.3	91.1
2008 targets:						
Southern Italy	10.0	4.5	13.5	-	31.5	130.0

<sup>1</sup> Average absolute number of long accidental interruptions per user.  
<sup>2</sup> Share of the population that used the train at least once during the year.  
<sup>3</sup> Number of passengers boarding an airplane and landing per 100 inhabitants.  
<sup>4</sup> The reference year is 2001, except for waste data that refer to 2000.

Source: DPS processing of data from a variety of sources.

The situation relative to the waste sector seems to be improving, even though it is still quite backward (particularly for an area that is endeavouring to become a tourist attraction).

These and additional results illustrated in the Report confirm that Southern Italy's weak point – the weak point that hinders its development – is represented by the gap in the quality and quantity of its infrastructure.

The 2003-2006 DPEF lays down that this gap must be bridged through the commitment of the public sector. To achieve this goal, many different features must be addressed together: appropriate public resources, intervention tools that are likely to ensure the promptness and quality of expenditure, the rapid modernisation of the public administrations responsible for spending, with special regard to the regions. The rest of the Report is devoted to the results attained in these three areas by the economic policies for Southern Italy and other under-utilized areas.

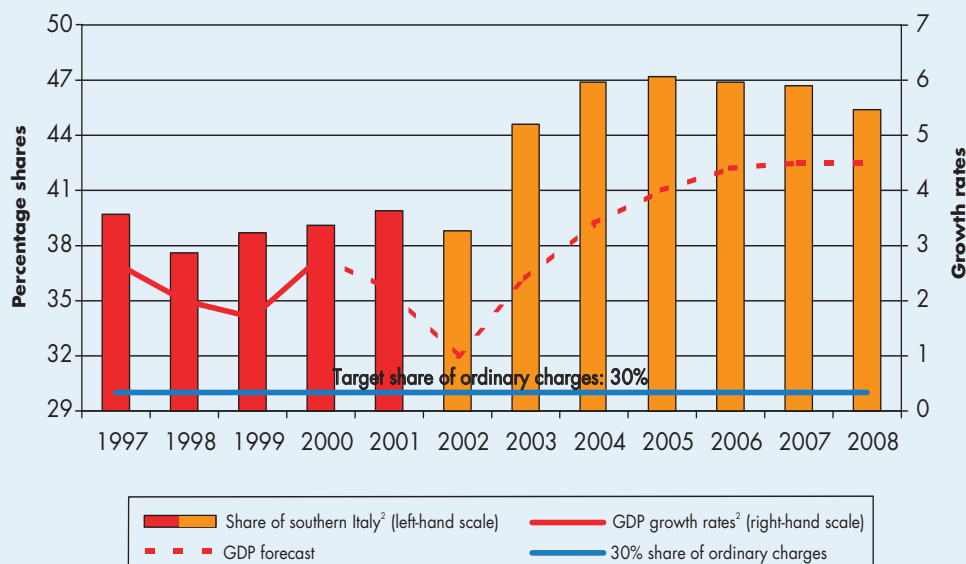
### *Public Financial Capital Resources*

The planning commitments included in the Agreements with the EU and laid down in the 2003-2006 DPEF, provide that a growing share of the capital expenditure of the country be appropriated for Southern Italy, guaranteeing over the 2001-2008 period an average 45 percent of the country's spending. For the time being, the Territorial Public Accounts databank supplies reliable information up to the year 2000 on the trend of this development policy target. This information is backed up by estimates for the year 2001.

The available data show that, following a considerable shrinkage in 1998, the measures being implemented have driven capital expenditure in Southern Italy upwards. Within the context of a considerable increase in the total public capital expenditure of the country (5 percent a year in real terms during the last three-year

period), Southern Italy's share increased and indeed exceeded 40 percent in 2001, driven also by the closure of the 1994-1999 Agenda (which came to an end with the utilisation of over 95 percent of its funds). After what may be presumed to have been a pause for reflection in 2002, due to the cessation of this temporary phenomenon and the extremely gradual take-off of the 2000-2006 Agenda, a new acceleration may be anticipated in 2003 (cf. Figure 10). In any event, this result is subordinated to the full utilisation of both EU funds and additional national resources, and a definite increase – approaching the 30 percent target laid down in the 2003-2006 DPEF – in the share of the ordinary capital expenditure appropriated for Southern Italy.

**Figure 10 – SHARE OF THE CAPITAL EXPENDITURE OF PUBLIC ADMINISTRATION APPROPRIATED FOR SOUTHERN ITALY**<sup>1</sup> (1997-2000 aggregate figures and 2002-2008 programmatic values)



<sup>1</sup> Disbursement flows.

<sup>2</sup> Aggregate data and programmatic values.

Source: DPS.

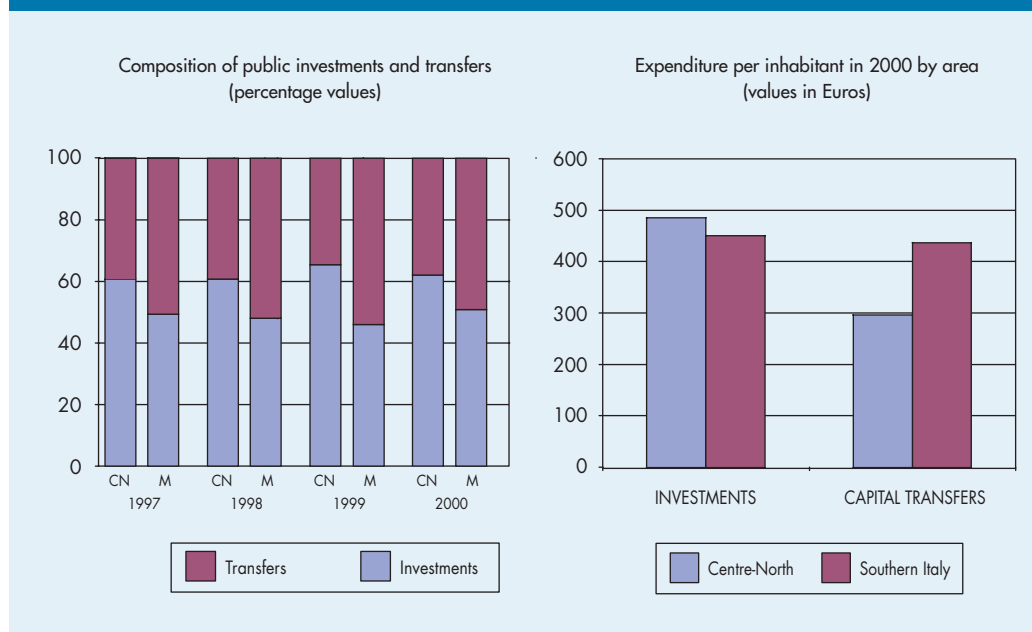
The attainment of the growth and employment goals laid down in the 2003-2006 DPEF for Southern Italy depends on achieving the above financial results and actually using the resources earmarked for quality material and immaterial infrastructure (mobility, education, research, environment, energy, administration etc.), as well as on increasing the efficiency of local services and labour markets.

Should the conclusion be reached that one or more of these conditions may not be met in full, or that their implementation time exceeds the anticipated time, appropriate decisions would have to be made with regard to planned growth scenarios.

With reference to the breakdown of capital expenditure by transfers and public investments, Southern Italy still presents a considerable imbalance in favour of direct capital transfers to households and businesses (incentives, subsidies), as the latter represent nearly half of total capital expenditure (a little more than one third in the Centre-North). On the other hand, it would seem that the financial commitment for public investments in material and immaterial infrastructure in Southern Italy is still inadequate.

In the year 2000, the public investment share of capital expenditure in Southern Italy has increased, reaching 50.8 percent of total capital expenditure (45.9 percent in 1999). However, viewed in per capita terms, the financial commitment for public investments still seems limited, particularly in the light of the gap in infrastructure that needs to be bridged. Again in 2000, the per capita expenditure in material and immaterial infrastructure amounted to nearly 451 Euros in Southern Italy, as against 486 Euros in the Centre-North. There would seem to be an extremely high imbalance concerning transfers: in 2000 they amounted to 437 Euros per inhabitant in Southern Italy and 297 Euros in the Centre-North (cf. Figure 11).

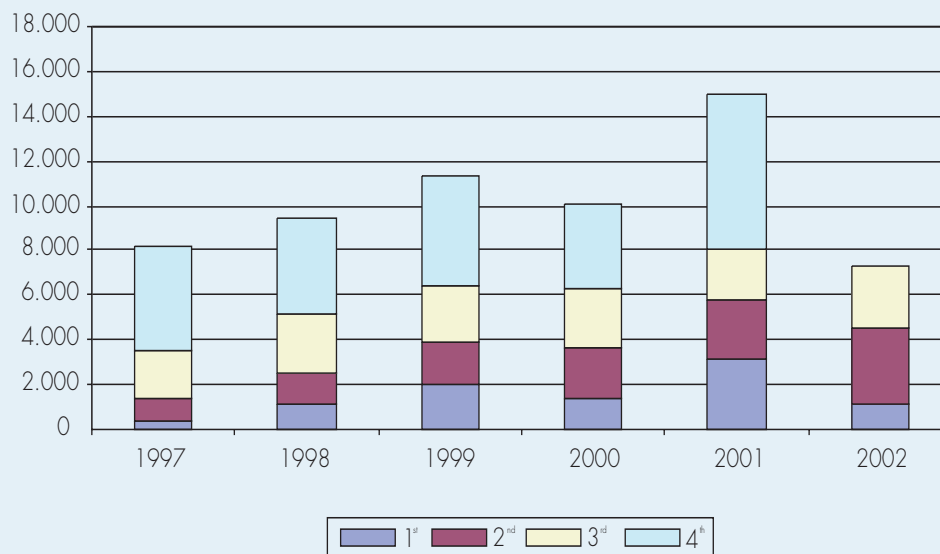
**Figure 11 – PUBLIC INVESTMENTS AND TRANSFERS, BY AREAS OF THE COUNTRY**



The latest quarterly data relative to 2002 and concerning the total additional capital expenditure (intended for both Southern Italy and the other under-utilised areas) show that, following a considerable acceleration in the last quarter of 2001 linked to the finalisation of the 1994-1999 Agenda, the total disbursements for public investments and transfers from additional resources reached a standstill during the first quarter of 2002, while in the second and third quarter of that year

they started growing once again. A much lower figure may be easily anticipated for the fourth quarter when compared to the same period in 2001, given that the latter had been characterised by an unusual situation (cf. Figure 12).

**Figure 12 – ADDITIONAL CAPITAL EXPENDITURES SPECIFICALLY APPROPRIATED FOR THE UNDER-UTILISED AREAS (million Euros)**

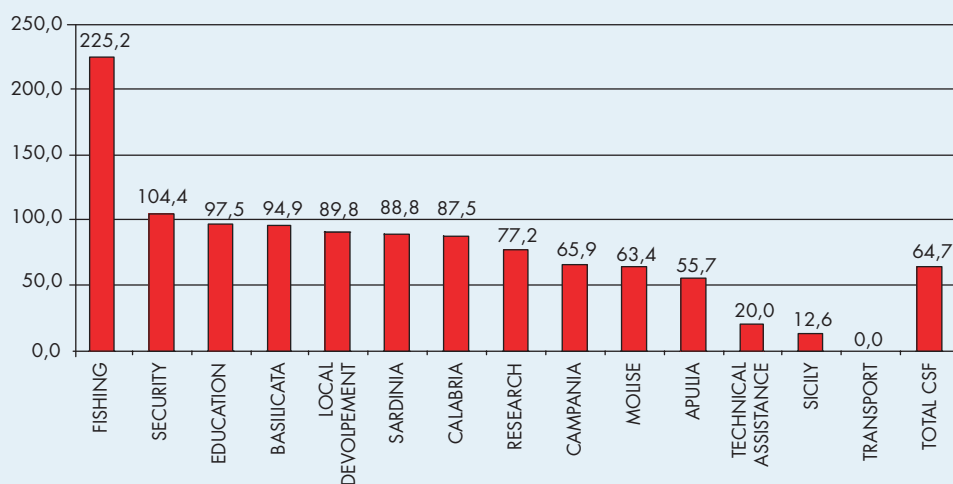


Source: Ministry of Economy and Finance.

The pickup in disbursements during the second half of the year is confirmed by data relative to EU spending alone. The period from June to October witnessed a drop from 1,035 to 140 million Euros in the volume of the residual EU payments that had to be requested by 2002 to avoid running during that year into the “automatic disengagement” provided for by EU regulations.

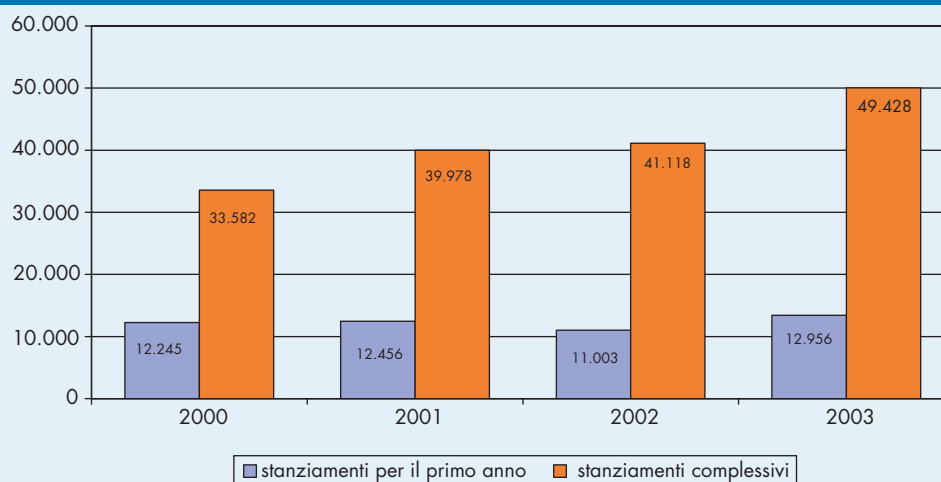
In any event, the general picture of the progress made with EU spending seems to vary to a considerable extent depending on the administrations involved (seven regions in Southern Italy and six central administrations). Based on the results relative to the total expenditure (including national co-financing) until June, seven programmes – including the regional programmes in Basilicata, Sardinia and Calabria – present a rate of implementation that is close to or exceeds 100 percent of the planned values. Four programmes – including the regional programmes in Campania, Molise and Apulia – present values close to the average 65 percent value. The rates relative to other programmes are lower. The decision to spend funds gradually came about because the public administrations responsible for these interventions needed to modernise and to set up quality projects. In a few cases, the difficult situation they had to cope with at the beginning of this process is now calling for a start-up time that is longer than expected (cf. Figure 13).

**Figure 13 – 2000-2006 EU SUPPORT FRAMEWORK: DEGREE OF IMPLEMENTATION OF EXPENDITURE TARGETS BY PROGRAMME, AS OF JUNE 30, 2001** (programmed expenditure of each program = 100, provisional figures)



The attainment of the 45 percent target is also linked to the allocation and utilisation of additional national funds (those for the under-utilised areas referred to in Article 119 of the Constitution). The current Budget provides for new funds amounting to 9 billion Euros earmarked for these areas. As a GDP percentage, this figure exceeds the average value of the appropriations made in recent years. Cumulating this amount with the still unused appropriations of the preceding budgets and the already available or new resources for the national co-financing of EU policies, the total available funds (apart from EU funds) for the years starting from 2003 should reach nearly 49.4 billion Euros (of which close to 13 billion in 2003) (cf. Figure 14).

**Figure 14 – TOTAL APPROPRIATIONS FOR THE UNDER-UTILISED AREAS – TABLE F OF THE 2003 BUDGET<sup>1</sup>** (million Euros)



<sup>1</sup> Table "F", suitably supplemented by all the resources flowing into the Funds.  
Source: Ministry of Economy and Finance.

According to the provisions of the 2003 Budget, the total amount of the additional national resources (85 percent of which is intended for Southern Italy, based on the allocation guidelines laid down by CIPE and the State-Regions Conference), is to flow into two Funds, set up within the Ministry of Economy and Finance and the Ministry of Productive Activities respectively. CIPE is entrusted with the task of seeing to a timely allocation of the resources among the various intervention tools on the basis of criteria including spending speed and quality.

### *Territorial Development Tools*

The actual disbursement of the significant additional State and EU resources at the disposal of Southern Italy, and other under-utilised areas, as well as their quality utilisation, depend on the success of the territorial development tools implemented. These should guarantee both an acceleration and a re-qualification of public investments aimed at both improving the context and using direct incentives to private investments appropriately.

Throughout 2002, particular attention was paid to public investment policy, with the objective of narrowing the gap in infrastructure and services.

The reference point for public interventions is represented by the 2000-2006 Agenda, owing to the rules (in the matter of premiums, evaluation, partnership) that it imposes Southern Italy and the Centre-North.

On the basis of the financial results referred to above, an evaluation of the state of progress of the plan was undertaken mid-year. This aimed, in particular, to ascertain to what extent the institutional and procedural conditions fail to guarantee the quality of the investments. The results will allow systemic support measures to be introduced and any necessary changes to be made.

As far as EU regional policy is concerned, a Memorandum was drafted and sent to the EU and all Member States with a view to: (i) ensuring that Southern Italy and the under-utilised areas in the Centre-North receive the maximum amount of EU resources even after 2006; (ii) streamlining the expenditure-related provisions and actually enforcing the principle of subsidiarity; (iii) guaranteeing that the interventions in enlargement countries are concentrated on infrastructure rather than subsidies since, otherwise, there is the risk of engendering forms of destructive competition in Europe among states and regions.

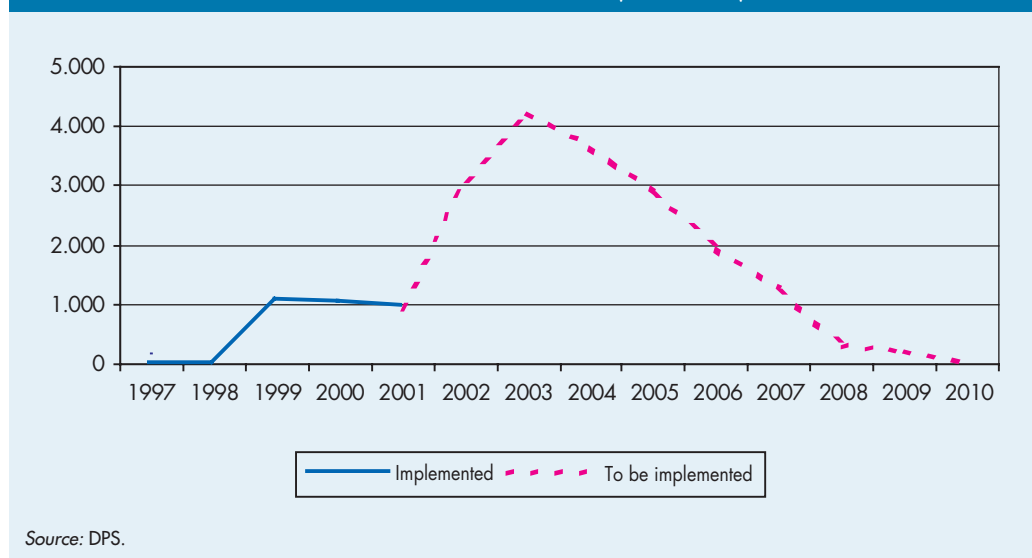
With reference to 2002, with a view to enforcing the provisions of Article 73 of the 2002 Budget, the "EU method" was extended to all the additional resources through the introduction of a new system allowing regions to have access to investment funds. This initiative was accompanied by a measure designed to re-qualify the Institutional Plan Agreements and accelerate the Outline Programme Agreements. In order to accelerate the selection of interventions with definite project-related contents, premium and sanction mechanisms have been adopted and the monitoring function has been strengthened, while sanctions have been pro-

vided for the administrations that fail to plan 60 percent of their resources by December 31, 2002 (and 100 percent by the end of 2003).

Out of the 81 Outline Programme Agreements stipulated by September 30, 2002 and amounting to a total of 31 billion Euros in planned resources, 37 Agreements (for a total of 16 billion Euros) have been stipulated in the regions of Southern Italy.

An analysis of the Agreements with up-dated monitoring data points to a relatively constant value of the actual expenditure over the last three years that approximates 1 billion Euros a year. Based on increasingly accurate financial planning, and in view of the incentives that are going to be introduced in the next three-year period, we expect significant progress in the implementation of interventions.

**Figure 15 – YEARLY (ACTUAL AND PROGRAMMED) DISTRIBUTION OF EXPENDITURE UNDER THE OUTLINE PROGRAMME AGREEMENTS (million Euros)**



The results that may be attained paying greater attention to the projects, at both a planning stage and a monitoring stage, are confirmed by the “Project of Completions” currently used to finalise incomplete works that are sound but not yet usable (or only partially usable). The Project is being implemented for nearly 89 percent of the planned works, while it would seem that nearly a quarter of the works has already been finalised.

While context policies are endeavouring to do away with structural factors that hinder the development of under-utilised areas, the incentive policies may make up for the profitability differential among the areas and promote the formation of positive localisation-related externalities. In particular, the 2003-2006 DPEF lays down three priority goals to be achieved.

The measures stimulating entrepreneurial investments provided for by law 488/92 were drafted with a view to making up for those relevant and persistent inefficiencies of the credit market that hinder the development of small and medium enterprises. Such measures were strengthened by the introduction of lists of regional priorities. The 2001-2002 period witnessed the disbursement of aid amounting to 6 billion Euros (93 percent in Southern Italy) compared to 24 billion Euros in investments.

Recourse to the tool of investment tax credits aimed to make up for the negative profitability differential of investments in Southern Italy. Over 2.2 billion Euros were used in the 2001-2002 period through tax compensation. Tax credits were subjected to application-related changes with a view to guaranteeing the financial commitment resulting from this tool and ensuring that enterprises used the funds within specified time periods.

After a phase of institutional uncertainty, there has been a resumption of disbursements for both territorial pacts (a total of 949 million Euros disbursed by September 2002), and loans based on trust, as well as for other tools that address, at least in part, the difficulty or the impossibility for autonomous entrepreneurs to gain access to the capital market. It would seem that territorial pacts, which at times have only worked as a means to allow member enterprises to have easier access to capital incentives, have in other cases achieved their original purpose: to promote cooperative efforts among local producers in order to plan and implement territorial interventions designed to improve the context. The experience of the Integrated Territorial Projects, gained through different methods and with different results by all the regions in Southern Italy, is moving in the latter direction.

### *Modernisation of the Administrations in Charge*

The Report sketches an outline of the state of the art of initiatives designed to modernise the administrations responsible for expenditure, modernisation being a definite requirement to ensure the quality of public capital expenditure. In the case of Southern Italy, the modernisation of regional administrations takes on special relevance, given that they are responsible for selecting projects for nearly two thirds of all the capital resources available for that area.

The implementation of EU regulations has had considerable leverage on the renewal of regional public administrations regarding budget and control rules, the evaluation of projects, recourse to monitoring systems and market methods, and the adoption of methods based on partnerships with other public bodies, including central administrations.

The “reinforced premium reserve approach” (4+6 percent) mechanism adopted by Italy – the only one to do so among all the EU member Countries - contributed to the results that have been achieved. Thanks to this approach, nearly five billion Euros are due to be allocated in 2003 on the basis of compliance with a broad band of “modernisation indicators”. This mechanism has promoted some particularly significant results, notwithstanding considerable regional differences.

It is enough to mention the setting up of a one-stop-shop for businesses, state-run job centres, and, with reference to water supply, the identification of Optimal Territorial Areas and the implementation of Water master Plans that are a pre-requisite for the improvement of water supply services to households and businesses.

Relevant results have also been attained in the setting up (even in the Centre-North regions and in a few central administrations) of Evaluation and Verification Units. Quite a few have become operational, and often play a very active role in project evaluation or promotion. They are soon expected to start operating in a network, in what is a new experiment of federal relations between the centre and the periphery, State and regions, on an equal footing.

The modernisation process has also affected the project cycle. The nearly 300 feasibility studies launched by CIPE at the beginning of 2000 in order to accelerate and qualify the decisions concerning public investment priorities has led to the completion of nearly 230 studies. Many of them are now a part of the project-related decisions of the regions and have contributed to the adoption of a method that, while lengthening at times the initial phases of the project cycle, accelerates to a considerable extent the subsequent phases and its completion, guaranteeing the effectiveness of the interventions.

Sviluppo Italia will now be able to contribute to the attainment of the objectives for Southern Italy and for the under-utilised areas of the Centre-North, working towards the improvement of both the context and the attractiveness of the territories. Following a difficult restructuring of this complex corporate group, leading to a management shake-up and reorganisation, Sviluppo Italia will finally be able to implement the three intervention guidelines that CIPE entrusted it with on December 19, 2002. Accordingly, it will back up the regions in turning major feasibility studies into bids for preliminary engineering designs; it will give general support to the regions in the implementation of development measures through regional companies falling under regional control (by the end of 2004); it will see to territorial marketing and investment inducement initiatives and, upon proposal of the Ministry of Productive Activities and the Ministry of Economy and Finance, it will also contribute to bringing about “localisation contracts” among private and public parties.

The planned interventions drafted for under-utilised areas by the Public Function Department in a cooperative effort with DPS, will contribute to strengthening public administrations in their development-oriented activities and to new and more productive forms of technical cooperation among central administrations and regions.

### *Labour Policies*

Labour policies are an integral part of the development strategy in Southern Italy, owing to the volume of resources they absorb and the number of beneficiaries involved.

The total expenditure for active labour policies in 2001 is temporarily estimated at 8.3 billion Euros, with a 10.7 percent increase compared to 2000. This rise is due to the increased spending for incentives for hiring and self-employment schemes, while there is a persistent and significant downward trend in the contribution-related cuts conceived especially for Southern Italy.

An important contribution to the development of regular employment in Southern Italy should result from policies aimed at bringing out into the open and declaring the underground economy. These policies have been backed up by new and more incisive instruments over the last two-year period.

We gratefully thank the “Achille Bertarelli” Print Collection of the Milan Municipal Museum for authorisation to reproduce the etching by Filippo Conti portraying the European States in 1788.