2003 ANNUAL REPORT
on Actions in Under-Utilised Areas

Executive Summary

Submitted to the Italian Parliament by the Hon. Deputy Minister of Economy
Mr Gianfranco Micciché
January 31, 2004
The Report – from which this Executive Summary is taken – is published by the Department for Development and Cohesion Policies (DPS) of the Ministry of Economy and Finance and provides an outline of the economic trends, capital financial resources and development policies at a territorial level.

It is the outcome of the collaborative effort of the DPS units under the responsibility of the Projects, Research and Statistics Service headed by Letizia Ravoni. These include the Territorial Development Policy Service headed by Paolo Signorini, the Structural Funds Policy Service headed by Paola De Cesare, the CIPE (Interdepartmental Committee for Economic Planning) Central Secretarial Service headed by Patrizia Bitetti, the Relationships with Third countries on Territorial Development Policies Service, the Public Investment Evaluation Unit co-ordinated by Laura Raimondo, the Public Investment Verification Unit co-ordinated by Aldo Mancurti.

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Oriana Blasi, Chiara Bocchino, Roberta Guerrieri and Alessandro Arrigo of the Office for Communication and External Relations were in charge of the presentation and distribution of this Report.

Special thanks go to all the staff involved in the preparation of this Document for their dedication and care.
The 2003 Annual Report of the Development and Cohesion Policies Department (DPS) was drafted halfway through the life of the present legislature. I believe that two years and a half are enough to outline the results achieved by Government and to consider the prospects for the future. At the beginning of this legislature we adopted a clear strategy for developing the Country’s under-utilised areas, trying to abandon the idea of non-stop emergency and resorting to longer lasting methods with rules that are, at the same time, more precise and more flexible.

Therefore, a system was implemented to transfer management duties to the Italian Regions, the new protagonists of the European institutional order, while reinforcing direction and co-ordination at central level by permanently monitoring the local administrations’ actions.

The Government’s goal was to enhance and supervise the governance of the whole planning and implementation process of public investments in the South of Italy and in the other under-utilised areas; to increase the public share of capital spending allocated to the South of Italy, by preferring investment in infrastructure over incentives; to accelerate expenditure for investment by streamlining the bureaucratic adoption and monitoring procedures required by large public works projects and by unifying the financial management of the funds pertaining to the various backing measures in favour of the Southern Regions of Italy; to make the premium and sanction system more efficient as far as the Administrations’ performance is concerned.

On these fronts we have achieved positive results, as witnessed by recent reports from the International Monetary Fund and the OECD on policy for the South of Italy.

For several years the South has shown greater signs of economic vivacity than the Centre-North. Unemployment has now decreased to 17 percent (the lowest rate since 1993); the birth rate of new firms is still increasing at a considerable pace, chiefly in industry and business services; tourism, specially form abroad, is on the rise.

We are on the right path, yet we are far from bridging the gap with Europe as far as development is concerned.

Development policies exert important leverage in any economic policy that aims to accelerate a narrowing of the gap, but it is clear that, even in a system with efficient rules, there is a need for sufficient resources.

The 2004 Budget awarded the Fund for under-utilised areas additional financing amounting to 0.8 percent of the GDP, compared to the average of 0.63 percent of the 1998-2002 period.
The public capital expenditure earmarked for the South of Italy has increased at an accelerating rate, thus exceeding 21 billion Euros in 2003 compared to 15.4 billion Euros in 1999. So the inaction experienced between 1999 and 2001 has been virtually overcome. In those years the ratio between planned and allocated national resources for the under-utilised areas had dropped to about 30 percent.

As far as the implementation of investment is concerned the resources for the pending road transport contracts increased in 2002 and went on increasing in 2003. Moreover, there has been an improvement in the services related to water supply and waste disposal traditionally considered sectors hard to manage in the South of Italy.

This year too, Italy is ready to spend its European Structural Funds to the full, thus avoiding automatic disengagement. This is an unprecedented result in the fifteen-year history of EU resource planning.

In March and December 2003 the proposals for the allocation of premium reserves respectively of 4 and 6 percent, were adopted in favour of National and Regional Operational Programmes, thanks to the attainment of the performance standards envisaged by the system, which - I am pleased to remind you – is the strictest among all EU Member States.

Our efforts in the years to come will be directed at targeting 45 percent of Italian public spending for the South of Italy, and at redressing the imbalance in favour of transfers for State-Aid rather than investment. It is essential to respect this approach suggested by the EU in order to reduce those compensation measures which keep the infrastructure gap unchanged. Attracting investment is more and more evidently caused by context factors rather than by the quantity of incentives offered. With EU enlargement approaching, the infrastructure gap will be less and less acceptable and, if not firmly rectified, could lead the country’s weak areas to face unsustainable competition.

These are the guidelines of the development policy implemented by the Italian Government. If the general economic situation were to improve the performance of the South of Italy might enjoy that additional acceleration which would enable us to play our role in Europe and in the world, taking advantage of a country that is economically both stronger and more uniform and, even free from emergency.
INTRODUCTION AND EXECUTIVE SUMMARY

This Report – Summary of the actions implemented and the results attained in under-utilised areas1 - is part of the planning financial documents required under the Italian Law for the reform of State Accounts (Law no. 468/78, Article 15). Prepared by the Development and Cohesion Policy Department (DPS) of the Ministry of Economy and Finance as an Attachment to the Forecasting and Planning Report2 it reports to Parliament on the territorial economic trends of the South and Centre-North of Italy, on the resources appropriated for development, especially in under-utilised areas, and on the implementation of the major tools of regional policy.

As far as the South of Italy is concerned, the Report shows the persistence in 2003 of the main developing features of the area: a high birth rate of enterprises; growing opening to external markets; the “normalisation” of the production structure, with stronger sectors in which Italian industry is specialised; a growth of private investment more significant than in the Centre-North. These structural factors positively characterise this phase. But the macroeconomic convergence that they bring about – a GDP growth rate higher than that in the Centre-North, continuing drop in the unemployment rate, decrease of the poverty index - albeit notable, is still slow.

The development of the Southern Regions (the so-called “Mezzogiorno”) is taking place. It has no precedent. But it is “hindered”, as already observed last year3.

And yet 2003 brings something new. The public system, on which the quality of the collective services and, therefore, to a large extent, the competitiveness of the area and the possibility to accelerate development depend, has started to change significantly.

In several cases, conditions were created to make the quantity and quality of services increase in a short time: innovations and modernisation within the Administrations, especially at regional level, or in the adjustment of fundamental sectors (water, waste, environment); diffusion of premium and sanction mechanisms that encourage them “to act”; acceleration in resource planning (in particular, the Framework Program Agreements) or in project-related activity; increasing recourse to public procedures to assign the provision of local services; progressive re-balancing of capital spending from incentives to infrastructure investment (material and immaterial), greater recourse to evaluation criteria to select projects.

In other cases, more progress was achieved and the results already affect the citizens’ welfare and the costs of the enterprises: improvement in quantity and quality of the services rendered; acceleration in fund spending (EU funds, mainly); start-up of the implementation of territory-integrated projects; increase of the expenditure appropriated for research.

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1 According to the 2003 Budget, “under-utilised areas” are meant to be all the areas that, due to conditions of economic and social lag or to an inadequate utilisation of their resources, are deemed worthy of development intervention over and above the ordinary intervention, through recourse to EU (and national co-financing) resources – objectives 1 and 2 of the 2000-2006 Agenda – or national resources (cf. the Fifth Section of Article 119 of the Italian Constitution). For a description of the way in which these areas – previously called “depressed” areas – may be singled out, refer to the Executive Summary and Para. III.1.2 of the Third DPS Report. For a map of these areas, refer to the Appendix attached to this Report.

2 According to Article 51 of the Italian Law no. 326 of November 24, 2003.

3 Cfr. the Fifth DPS Report, Executive Summary, p. 8.
This progress was consolidated by creating and immediately implementing, through the 2003 Budget, a sole Fund for under-utilised areas. These steps accelerated the convergence between resources and national and EU planning aiming at social and economic re-balancing, notably in the South of Italy.

Besides the recent changes, the Report also deals with the remaining areas that still need to improve. Among others, those related to the ability to rapidly implement the project cycle; the ability to carry out network projects; the level of competition in the service market; the services supply able to exploit the cultural and natural heritage as far as development is concerned; the provision of services to citizens, especially to those who are weaker.

Moreover there is a great difference in performance among the various Southern Regions. On the one hand this proves the soundness of the objectives fixed - since some Regions do attain them - on the other hand it also suggests carrying out differentiated measures which may take into consideration different social, administrative and political contexts. The creation of excessive gaps within the South must be avoided without, nevertheless, affecting the new competitive spirit of this phase.

Consolidating the results taking place, and overcoming the remaining under-development: these are the measures on which the rise expected to occur in the development of the South of Italy depends. The public "hinderance" blocking the development of the area has begun to fade. It is time now to insist resolutely on the choices already made.

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The Economic Outline

In 2003, in a situation of a reduced international and domestic economic cycle, the birth rate of enterprises during the last years in the South of Italy confirmed its trend with greater growth than in the Centre-North in the industrial sector, as well as in the business services and in the tourism sector.

**Figure 1 - REGISTERED ENTERPRISES, NET OF AGRICULTURE AND FISHING: 1999-2003**

(1995=100)

* III quarter
Source: processing of Unioncamere data, Movimprese
Special momentum to the production activity in the South was given by the extra-agricultural sectors, particularly by industry, which shows a notably positive trend in employment rates and a slightly recovering confidence of manufacturing enterprises.

Considering the increasing general dynamics of exports from mid 2003, the progressive opening to external markets of the Southern economy is witnessed by tourism which has increased the positive differential of the last years compared to the remaining Italian Regions.
Even in a context of decreasing employment as a whole, in 2003 the unemployment rate has recorded a significant drop, reaching a yearly average of 17.7 percent, the lowest rate since 1993.

Though we are facing an adverse economic phase, all these indicators confirm the trend – in progress for several years – of growth in the South of Italy higher than that in the remaining Italian Regions.

In the last eight years every year the GDP dynamics has recorded an average of nearly 3 tenths higher than that of the Centre-North and of about 5 tenths per year in 2001 and 2002. It is the first time in the post-war period that this has occurred over an extended period of time, together with a significant narrowing of the gap in per capita GDP. In the Sixties, when the gap in per capita income between these two areas of the Country was reduced, this was accompanied by lower growth in the South and was only due to migrations. Today, the narrowing of the gap in per capita income is chiefly brought about by the higher increase of the GDP.
The difference between higher growth in the South and the average growth in Italy as a whole is not large, but at this stage domestic convergence is a particularly Italian phenomenon. The comparison concerning the evolution of domestic gaps in EU Member States shows that our Country is moving in the reverse direction. In particular, the domestic gap is considerably widening in Germany and is steady in Spain (Fig. 6).

Comparison with previous economic cycles shows that the present growth in the South is driven by the strong dynamics of fixed gross investment, with a yearly average increase of 4 percent, higher than that in the Centre-North. It is the first time since the Sixties that capital accumulation, which is the essential basis for development, is favourable to the South of Italy (Fig. 7).
In the Southern Regions, more than in the Centre-North, the increase of investment in machinery and equipment is particularly dynamic. These indicators give a stronger sign of the vivacity of private enterprises than other components. (Fig. 8)

**Figure 8 - INVESTMENTS IN MACHINERY AND EQUIPMENT**

(annual percentage changes at constant prices)

Territorial development shows great differences in growth and productivity of inter-province areas. Considering, in particular, local employment Systems – 784 areas of the Country where residence and working place usually coincide – it was observed that 56 percent of local Systems in the South has a higher increase in productivity (income per each employed) in the period 1996-2000 than the national average increase – in most cases starting from a lower level than that of the national average. Only 46 percent of the local Systems in the Centre-North is characterised by this very feature.
Figure 9 - PRODUCTIVITY\(^1\) IN LOCAL EMPLOYMENT SYSTEMS: ABSOLUTE VALUES AND GROWTH (ANNUAL AVERAGE PERCENTAGE CHANGES WITH RESPECT TO NATIONAL AVERAGE, 1996-2000)

Value added per employee:
- High value and high growth
- High value and low growth
- Low value and high growth
- Low value and low growth

\(^1\) Value added per employee at current prices
Source: processing of Istat data
Social Condition and Quality of Collective Services

The inclusion in the analysis of the social condition and the quality of collective services confirms the lag of the South and shows the extent of present progress. It also provides information for the economic policy.

In Southern Regions the quality of human resources is improving: in recent years a rise in higher education levels has been recorded (high school, university, doctorate) which nevertheless does not yet close the gap with the remaining Italian Regions. On the contrary, for all other educational levels the gap was almost eliminated.

As for social exclusion there are also hints of improvement. Their reduction, together with GDP growth, represents one of the targets of the policy now applied to the South.

Indeed, the number of poor households compared to the overall number of households in the South has dropped by 2 points in 2002. As shown in an innovative analysis by Istat, which has considered households’ assessment of some essential features of the quality of life (condition of residence, area of residence, health services), such monetary measure of poverty actually turns out to be a reasonable measure of households’ well-being. On the other hand, the knowledge of specific features for every Region (available in the Report) enables political or administrative authorities to adopt the most adequate policy.
As to law and order, in 2002 the South went on experiencing the reduction of cases of apparent organised crime, within a general framework of substantially unchanged crime as a whole.

Table 1 – POVERTY AND SOCIAL INDICATORS (percentage values)

<table>
<thead>
<tr>
<th>Geographical area and size of Municipalities (number of inhabitants)</th>
<th>Poor households</th>
<th>Other households</th>
<th>Poor households</th>
<th>Other households</th>
<th>Poor households</th>
<th>Other households</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>24.5</td>
<td>13.7</td>
<td>25.8</td>
<td>27.4</td>
<td>15.0</td>
<td>8.6</td>
</tr>
<tr>
<td>Centre</td>
<td>21.9</td>
<td>14.4</td>
<td>27.2</td>
<td>35.1</td>
<td>10.9</td>
<td>9.8</td>
</tr>
<tr>
<td>Southern Italy</td>
<td>26.9</td>
<td>18.2</td>
<td>38.3</td>
<td>35.3</td>
<td>18.9</td>
<td>13.7</td>
</tr>
</tbody>
</table>

**Italy**

<table>
<thead>
<tr>
<th></th>
<th>At least one problem in the house¹</th>
<th>At least one problem in the area of residence²</th>
<th>Difficulties in accessing health services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>at least one</td>
<td>Difficulties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>problem in the house¹</td>
<td>in the area of residence²</td>
<td>in accessing health services</td>
</tr>
<tr>
<td>Poor households</td>
<td>25.8</td>
<td>15.1</td>
<td>34.2</td>
</tr>
<tr>
<td>Other households</td>
<td>26.0</td>
<td>16.3</td>
<td>34.2</td>
</tr>
<tr>
<td>Poor households</td>
<td>23.4</td>
<td>13.4</td>
<td>51.6</td>
</tr>
<tr>
<td>Other households</td>
<td>28.1</td>
<td>14.8</td>
<td>55.3</td>
</tr>
</tbody>
</table>

¹ Lack of light in the house, seepages of water, crumbling door and window frames or floor.
² Street dirt, crime and violence, presence of drunks, drug-addicts or prostitutes.
Source: processing of Istat data

Figure 11 - CRIME TREND IN SOUTHERN ITALY: 1996-2002 (1996=100)

Source: processing of Istat data
A great deal of the South’s ability to consolidate development depends on the improvement of collective services. In some sectors there have been positive signals.

In the case of cultural resources, a higher level of access is necessary to deal with increasing tourism, both domestic and international, which involves the Southern Regions in a very different way.

![Figure 12 - AVERAGE NUMBER OF VISITORS PER MUSEUM (thousands)](image)

In the case of the natural heritage of national parks, which attracts tourism in a massive way, even more in the South than in the Centre-North, the capability to meet the demand through a proper supply of tourist services seems to be still limited in the South.

![Table 2 - NATIONAL PARKS: SELECTED INDICATORS, 2001](table)

Significant improvement has been recorded for water- and waste-related services. The quality of water service, measured by the irregular distribution of water to households, improved in 2002, thus reducing the domestic gap in the South.
Taking into account the major progress achieved in the institutions of this sector, where Southern Regions, compared to almost all the Optimal Territorial Areas (27 out of 28), have established the respective administrations and laid down and passed the plans, some overall improvement of the major related services is likely to take place. Progressive steps forward are also being recorded in the case of the differentiated collection of solid urban waste, always along with relevant institutional improvement.

**Figure 13 - QUALITY OF WATER - AND WASTE-RELATED SERVICES**

Households complaining about the irregular distribution of water (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Centre-North</th>
<th>Southern Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>2000</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>2001</td>
<td>25</td>
<td>15</td>
</tr>
<tr>
<td>2002</td>
<td>30</td>
<td>20</td>
</tr>
</tbody>
</table>

Percentage of differentiated collection of solid urban waste (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abruzzo</td>
<td>5</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Molise</td>
<td>15</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Campania</td>
<td>20</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Puglia</td>
<td>25</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Basilicata</td>
<td>30</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Calabria</td>
<td>35</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Sicilia</td>
<td>40</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Sardegna</td>
<td>45</td>
<td>50</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: processing of Istat data, context indicators

**Financial Resources for Development**

The attainment of the planned objectives of development and reduction of the gap in infrastructure and services in the Southern Regions needs a continuous growth in public capital expenditure allocated to the South, with the aim of directing 45 percent of Italian capital public spending to this area, while improving its quality.
The reconstruction of territorial spending, now feasible and timely, shows first of all that capital expenditure in the South has considerably increased in recent years: according to absolutely preliminary estimates this increase accelerated in 2003, with expenditure exceeding 21 billion Euros.

Despite such dynamics, spending for the South is still far from the 45 percent target, if considered as a share of national expenditure. In 2002, according to the Report’s estimates, the share dropped to about 38 percent due to the expenditure of the 1994-1999 EU Plan and to the difficulties faced by central Administrations and important spending Authorities in implementing objective territorial allocation. In 2003 the share was expected to be back on the rise. As of 2004, the acceleration estimated for the spending of the EU Plan, the present acceleration for the Framework Program Agreements and the commitments of important Institutions to implement the budget targets for under-utilised areas, determined by means of the 2004 Budget, should ensure the gradual attainment of the 45 per cent targeted share.

If a spending plan of this kind, together with a strong impact on the quality of services, and the resumption of a positive domestic and international cycle were to take place, the GDP of Southern Regions should guarantee the attainment of the Government’s goal of growth higher than the European average, reaching 3 percent in 2005-2006, and then rising even more.
Among the conditions necessary to achieve this aim there is also the attainment of a new balance between the two spending components: investment, in material and immaterial infrastructure, and transfers for State-Aid, at present still unbalanced in favour of transfers. The relevant data show how the investment share of total capital expenditure for the South has been growing thanks to the policy implemented, thus largely approaching the values of the Centre-North. The 2003 CIPE decisions, which brought the new resources of the under-utilised area Fund – earmarked for public investment – from nearly 40 to nearly 60 percent, are expected to accelerate this trend (Fig. 16).

The capital expenditure level of the South is supported by three different financial sources: ordinary resources; UE additional resources and corresponding national co-financing; national additional resources.

The overall expenditure for additional resources, to be measured for all underutilised areas (85–90 percent in the South), has continued to record some middle-term increasing trend (about 10 percent as yearly average), also through important cyclical changes due to incentives to enterprises and the timing of the EU cycles.
The decrease of the overall flow of disbursement for under-utilised areas in 2002, as shown by the data of the “resources and investment account”, appears to be temporary and caused by the above-mentioned factors.
For the year 2003, the first information available on the trend in the last quarter suggests that, thanks also to some acceleration of spending of EU funds, the additional spending as a whole has reached a peak.

In order to support the development targets of the Southern Regions, in addition to the Central Northern under-utilised areas, the 2004 Budget, implementing the provisions of the 2004-2007 Economic and Financial Planning Document (DPEF), has appropriated to the Under-Utilised Area Fund additional national financing amounting to 10 billion 761 million Euros, corresponding to 0.80 percent of the GDP. It is a GDP share higher than that of the previous 2003 Budget (0.69 percent) and the average share recorded for the 1998-2002 period (0.63 percent). For this year further 15 billion 604 million Euros deriving from the residual liabilities and the extra-budget funds are available for under-utilised areas, in addition to the 7 billion 976 million Euros, stemming from allocations of the various Budgets, until 2004.

Tools for Development

The year 2003 was characterised by significant progress in the implementation of development tools, both at EU and domestic level, and in the creation of a unitary framework for planning development actions by means of a new Under-utilised Area Fund.

The new tool of the Under-Utilised Area Fund, created by the 2003 Budget, was applied several times. The Fund unifies the types of financing for infrastructure and incentives managed by the Ministry of Economy and those for the incentives of the Ministry of Productive Activities. For all Administrations it allows recourse to uniform criteria, similar to those in the EU (planning consistency, project selection and premium criteria), by enhancing the role played by CIPE, and the flexible management of the resources allocated in accordance with the requirements.

Through the CIPE decisions of May and November 2003, resources amounting to 11 billion 565 million Euros (included those for tax credits) were appropriated. The 2003 Budget fixed their destination for the under-utilised areas. There are several new aspects: the considerable increase of allocations to Southern Regions to be planned by means of Framework Program Agreements, which were raised from 1 billion 768 million Euros to 2 billion 665 million Euros; the implementation of a new competitive method for allocating resources (900 million Euros) to central Administrations to carry out projects, if possible, together with the Regions; the allocation of nearly 11 percent of all resources to research and Information Technology (IT) in order to meet the Government’s strategic priority.

In its July decision, the CIPE decisively implemented another new feature of the Fund: the opportunity to re-modulate resources in favour of actions with a more rapid implementing capability. It was thus possible to transfer funds equal
to 1 billion 148 million Euros from incentives, still waiting to be implemented, in favour of a tax credit for investment, where there was, on the contrary, an unmet demand. Further re-modulation possibilities in view of accelerating the implementation of infrastructure-related projects are offered by the 2004 Budget and will be carried out at the beginning of 2004.

As far as EU action is concerned, for the second year running the South attained the target of respecting the European mechanism of automatic disengagement thanks to very strong acceleration. This confirmed the planned and administrative consolidation obtained by the management of these funds. After more than 15 years of EU regional development policy in Italy we are clearly facing an unprecedented change.

The commitment concerning the spending quality to be implemented in the remaining part of the EU Plan is still demanding. The formal start-up, at the beginning of 2004, of the halfway reviewing phase of Community Support Framework 2000-2006 benefits from the intense evaluation activity undertaken in 2003 at central and regional level. Hence the QCS strategic approach was confirmed, as well as the need to further strengthen institutional capability, increase the premium criteria; enhance priority sectors such as research, IT, networks and cities; tackle the criticalities of some sectors of action (personal services, ecological networks, culture); as well as to guarantee the actual implementation of priority integrated projects.

Along with the confirmed ability to spend the EU funds in 2003 there was a new and sound ability to plan the Framework Program Agreements.
Thanks to the incentive represented by a strong sanction mechanism, the planned share of resources allocated in the 1999-2001 period rose to 60 percent by March 2003 and reached 100 percent in December. Altogether, taking into account all the resources allocated (also in recent times) the share of planned resources increased from 32 percent in 2001 to nearly 76 percent at the end of 2003. At the moment when this Report was finalised, in the Framework Program Agreements nearly 8 billion Euros were earmarked as under-utilised area resources. Of this figure, 85 percent is for the South. The efficiency of the new methods introduced through the 2002 and 2003 CIPE decisions is proved by the fact that over two thirds of the resources allocated in 2002 and about one third of the resources allocated in 2003 have already been planned.

![Figure 19 - RESOURCES FOR UNDER-UTILISED AREAS ALLOCATED TO INSTITUTIONAL AGREEMENTS](image)

In order to attain the 45 percent target of the overall national capital spending addressed to Southern Italy, funds for actions financed through the central Administrations’ ordinary budget must be added to the contribution represented by the additional resources, especially in the vital sectors of roads and railways, research, IT. The results recorded by important companies (Ferrovie and ANAS), which concentrate a large part of the public investment task respectively on railways and road networks, are very different. In 2002 the overall share invested by Ferrovie in Southern Regions amounted to 19.5 percent. The share invested by ANAS exceeded 43 percent (but the share drops to 37.7 percent if coupled with Autostrade which mainly operates in the Centre-North). The acceleration recorded in 2002 and 2003 in ANAS calls for bids – with a very high increase of the share for the South from 29.7 to 54.5 percent.
– will affect the data relating to spending for the next years. The results of the railway sector, still minor despite the 2002-2003 improvement, depend both on the prevalence of the financial effort for high speed, mainly concentrated in the Centre-North and on the lag in the planning of the actions in the South (only 23 percent of the investment is supported by a preliminary project). This delay is being recovered through the commitments of the Ferrovie’s Priority Plan adopted (for the year 2003) by CIPE.

As to incentives, the year 2003 was characterised by some new features: a new procedure for tax credits which was reformed in order to limit misuse; the regionalisation of territorial pacts; the start-up of a reform process of the Law no. 488/92; the first application of the new tool of the “localisation contract” to attract investment from abroad assigned to Sviluppo Italia as its first mission.

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Figure 20 – ANAS AND RAILWAY GROUP INVESTMENTS AND CALLS FOR BIDS
(million Euros, percentage share in Southern Italy)

As to incentives, the year 2003 was characterised by some new features: a new procedure for tax credits which was reformed in order to limit misuse; the regionalisation of territorial pacts; the start-up of a reform process of the Law no. 488/92; the first application of the new tool of the “localisation contract” to attract investment from abroad assigned to Sviluppo Italia as its first mission.

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1 January-October data for each year
Source: Territorial Public Account, Railway Group and Anas Spa
Modernisation and Capability-Building in Public Administrations

An essential condition for the present Italian economic policy for social economic re-balancing is the capability of public Administrations to implement it.

In order to carry out projects for improving collective services there is a need for a Government that is able to identify, through its own central regional and local organisations, the service requirements of citizens and enterprises; to plan and let those services be planned; to entrust the private sector with the building of material and immaterial infrastructure and its management (in a competitive way); to draft calls for tender, to write down rules and have them complied with, to verify results, to rapidly propose decisions. Competitive markets for public services are needed for Government action to attain the utmost efficiency.

The Report outlines the state of implementation of the modernisation process of Southern Regions triggered by the new development policy. It is a silent change, but without it results, previously mentioned in relation to the efficiency and effectiveness of capital spending, cannot be achieved. It is the awareness of this change and the ensuing cultural and political debate that can strengthen it and make it irreversible.

As far as the capability to efficiently and reasonably rule is concerned, considerable progress in the reform of water, waste and, partly, environmental sectors has accompanied a remarkable strengthening of the planning structures, the functioning of internal management control and management evaluation systems, and the access of new professional resources to Administrations. The success of two EU premium-reserve mechanisms of 6 percent and 4 percent, amounting to 4 billion 500 million Euros, has contributed significantly to these results. While it is true that in all Regions the mechanisms have led to important progress, it is also true that there are great differences in the results: in both cases Basilicata, Campania, Apulia and Sicily recorded excellent or good results and were also granted new resources; Calabria was heavily sanctioned in both cases and thus lost significant resources. Central Administrations also demonstrate significant diversity.

The success of this premium-reserve mechanism suggested its utilisation, already with significant results, in the case of the Framework Program Agreements. And now it suggests its application to the relationship between Regions, on the one hand and Municipalities and Provinces, on the other.

As to the Administrations’ capability to co-operate, a new practice of institutional administrative and political co-operation was successfully experienced both in the EU Support Framework and within the Framework Program Agreements. Yet, for several central Administrations it is hard to change their role from a managing model to one that addresses the problem, then promotes and verifies: the evidence thereof is the significant delay with which they created and used the Evaluation and Verification Units established by the Law no. 144/99. Difficulties in co-operation also concern the relationship between Regions and other local Entities.
Referring to the capability to plan and let projects be planned and carried out, progress can be observed in the participation of organised private entities (especially in the form of trade associations) in the working-out of objectives and rules. Far less progress is registered in the projects’ implementation stage, owing to the Administrations’ denial of communication and access and the technical preparation of the parties which is often inadequate. Recourse to feasibility surveys seems almost unheard of, although there are planning proposals for 85 of the about 270 studies carried out by the Administrations within a big project launched by the Department. Actions are now in progress in view of enhancing this project, also with the assistance of Sviluppo Italia.

With regard to the capability to measure, evaluate and learn, a significant step forward has been made for measuring (perfecting and accelerating the Territorial Public Accounts by two years, new regional indicators of poverty and social dis-

Table 3 - PREMIUM-RESERVE MECHANISM OF 6% AND 4%

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Regions</th>
<th>Premium-reserve mechanism of 6%</th>
<th>Premium-reserve mechanism of 4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Basilicata</td>
<td>134,9</td>
<td>Puglia 106,6</td>
</tr>
<tr>
<td>2</td>
<td>Campania</td>
<td>98,2</td>
<td>Sicilia 105,4</td>
</tr>
<tr>
<td>3</td>
<td>Puglia</td>
<td>88,9</td>
<td>Campania 101,9</td>
</tr>
<tr>
<td>4</td>
<td>Sicilia</td>
<td>79,5</td>
<td>Basilicata 101,7</td>
</tr>
<tr>
<td>5</td>
<td>Sardegna</td>
<td>40,9</td>
<td>Sardegna 101,4</td>
</tr>
<tr>
<td>6</td>
<td>Calabria</td>
<td>38,6</td>
<td>Calabria 75,0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Central Administrations</th>
<th>Premium-reserve mechanism of 6%</th>
<th>Premium-reserve mechanism of 4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Local development</td>
<td>129,8</td>
<td>Education 157,1</td>
</tr>
<tr>
<td>2</td>
<td>Education</td>
<td>77,0</td>
<td>Research 130,0</td>
</tr>
<tr>
<td>3</td>
<td>Research</td>
<td>70,6</td>
<td>Fisheries 109,5</td>
</tr>
<tr>
<td>4</td>
<td>Security</td>
<td>57,8</td>
<td>Local development 109,5</td>
</tr>
<tr>
<td>5</td>
<td>Fisheries</td>
<td>51,4</td>
<td>Technical assistance 108,9</td>
</tr>
<tr>
<td>6</td>
<td>Transports</td>
<td>49,2</td>
<td>Security 107,9</td>
</tr>
<tr>
<td>7</td>
<td>Transports</td>
<td>—</td>
<td>Transports 50,0</td>
</tr>
</tbody>
</table>

1 Data referred to proposal of the National Monitoring Committee, December 2003.
2 Potential resources: resources that would have been assigned through fixed mechanism of the Community Support Framework if the premium-reserve mechanism hadn’t been applied.
3 The Technical assistance programme takes part only in the 4% premium-reserve mechanism.

Source: DPS
advantage; anticipation by two years of the GDP estimate for the South; new regional context indicators, etc.), though its use is still limited. The implementation of the intermediate evaluation of the QCS 2000-2006 national and regional Plan offered a new opportunity for Italy to carry out an evaluation process with established deadlines and to use it in the decision-making process for re-planning resources: in this case too, the Regions achieved a higher level of performance. The start-up of the activities of the Units Network is a unique chance to consolidate and develop this new trend.

Finally, the capability to create competition on the public assets market is a requirement complementary to the previous ones. There still exist two critical features in the South, though an important change is also taking place. In addition to a share of the total public participation in local collective service enterprises that amounts to 83 percent compared to 62 percent in the North (in 2002), there are less widespread quality protection mechanisms for the provision of local services than in the Centre-North (i.e., in 2001 the quality certification concerns only 6 percent of all cases, compared to nearly 50 percent in the Centre-North). On the contrary, a strong trend to assign works through public procedures was recorded (78.4 percent in 2001 compared to 67.4 percent of the Italian average), with strong acceleration compared to the previous period.

It is essential that these institutional reforms, already carried out in some sectors of collective service production, speed up the process aiming at increasing competition, which is the basis for the quality of services and therefore for the efficiency of the whole public investment policy.
We gratefully thank the “Achille Bertarelli” Print Collection of the Milan Municipal Museum for the authorisation to reproduce the etching by Filippo Conti portraying the European States in 1788.