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**Implementation of community cohesion policy in Italy and its role  
in elimination of regional disparities**

**Abstract**

*The objective of this paper is to present the contribution of Community regional policy funds to achieving socio-economic cohesion of Italian regions eligible under Objective 1, as well as to discuss future development barriers and opportunities of these regions. The paper also provides a description of Italy's adjustment to the Community policy, the funds exploited by cohesive regions during the 2000-2006 programming period and their efficiency in the elimination of regional disparities.*

**1. Introduction**

Italy is a country with regions diversified in economic and civilization terms. The gap between the industrialized, affluent North and the poor, agricultural South, called Mezzogiorno<sup>1</sup>, is evident and persistent despite substantial financial transfers designed to boost the socio-economic development of this part of Italy. The funds are provided by the national budget and by the Community structural funds.

In the late 1980s and early 1990s the Italian cohesion policy changed dramatically. The policy of extraordinary interventions in the South was

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<sup>1</sup> Mezzogiorno (Italian South) denotes the area comprising the following regions in the South of Italy: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily.

abandoned and the area of interventions was expanded, as they were no longer limited to the South but covered all problem areas in Italy. This change was brought about by the reform of the Community structural funds in 1988. Due to the inconsistency between Italian and Community policies, the objectives, principles, instruments and procedures were adjusted through neutralisation of pressure groups and activation of a coalition of participants, comprising of representatives of the government and regional administration. These were the factors which enabled the policy change.

## **2. Italy's adjustment to the Community regional policy**

Italy's attempts to adjust the organization of Community initiatives to its own administration (and not vice-versa) is a unique practice among EU member countries (SVIMEZ 1996,p.254) Despite the huge funds obtained, Italy was the only country whose actions were qualified as inconsistent with Community policies. Analysis concerning the first (1988-1993) and the second (1994-1999) programming periods revealed a number of problems related to the timing and procedures of implementation of the operational plans, which testified to Italy's little interest in international structural policy (Moffa 2005, p.139).

In the 1980s, after *La Cassa per il Mezzogiorno* (Fund for the South) had been terminated, the Italians debated the option to abandon extraordinary intervention and considered how to replace the discontinued fund, which had been engaged in the management of public assistance addressed to the most impoverished regions of the South. Little attention was paid to the possibility of making use of Community financial instruments, while the key role was still to be played by special instruments, primarily including government initiatives.

This disinterest was in opposition to the modifications in the Community Cohesion Policy and to a substantial increase in funding, allowing the Community policy to play a significant role in national programming for underdeveloped areas (in the South of Italy). On the one hand, it is true that the funds in the Community budget allocated to the regional policy remained disproportionately small, given the ambitious objectives, until the late 1980s, and the cohesion policy was mainly financed by *La Cassa per il Mezzogiorno*. On the other hand, it should be noted that country-level initiatives at that time could be supported by Community funds, and the member states tended to increase their budget funding to enhance regional development.

Presumably, Italy underestimated the methodology promoted by the Community rather than the funds allocated to the regional policy. Otherwise, it

would be difficult to explain why during the reform of the cohesion policy (with substantially increased outlays) a member state characterized by considerable regional disparities should not actively participate in the European cohesion policy. Indeed, before the third programming period the Italian government had been only marginally involved in negotiations between the member states and the European Commission, and it owes the substantial subsidies it was granted to other, more negotiation-oriented member states, such as Spain.

### 2.1. Underlying causes of policy inconsistency

Analysis of the inconsistency of Italy's policies with the European Union cohesion policy should consider the fact that when the member states decided to reform the structural funds, Italy predominantly used extraordinary interventions due to their simplicity.

To understand the unique position of Italy, it is necessary to compare essential elements of the Italian cohesion policy pursued before and after the liquidation of *La Cassa per il Mezzogiorno*. The turning point was the reform of structural funds in 1988, which introduced four primary principles presented in Delor's packet: concentration, additionality, programming and partnership.

The first criterion was the **principle of concentration** with a key role of the methodology used to define underdeveloped areas over both periods (Cafiero 2000,p.84). Prior to the reform of the structural funds, the government's extraordinary interventions were based on territorial concentration and aimed to attain sustainable "economic and social development of southern Italy" (Article 1 of Act No 646/1950). This priority was not, however, accompanied by any programme documents outlining rigorous objectives in relation to territorial (selection of areas) or quantitative factors (GDP, employment rates, etc.). It was not until 1990 when, under the influence of Delor's reform, Italy finally identified the most backward regions based on standard indices.

The first important effect of this change was the definition of objectives to be accomplished, measured by the degree to which the gap was bridged. For example, as regards areas eligible under Objective 1, with GDP per capita of below 75% of the Community average, the primary goal was to attain average Community GDP per capita. Application of specific indices for areas requiring support was a breakthrough in the Italian cohesion policy, which led to two kinds of implications.

Firstly, the measures aimed to equalize living standards in underdeveloped areas ceased to be of extraordinary nature, that is, they became

regular interventions aimed to accomplish specific quantitative objectives. Secondly, the measures should be focused on underdeveloped areas or those affected by the problems revealed by official data from other regions (unemployment rates, declining production output, etc.).

The other effect of the European policy was the extension of interventions to all areas meeting the criteria, including a number of regions in the north or centre of Italy. They faced a different set of problems, but they were also affected by the restructuring of the industry (Chiri, Pellegrini 1995).

The remaining principles (additionality, programming and partnership) introduced innovative solutions to the programming of extraordinary interventions and therefore were difficult to apply.

**The principle of additionality** was generally not applied in the period of extraordinary interventions in the Italian cohesion policy, as the available funds were national and managed by the government or institutions established for that purpose (*La Cassa per il Mezzogiorno*, Agency for the South), and not by intermediary-level institutions.

The first modification introduced by the principle of subsidiarity was Community supervision, as the Community's financial participation in initiatives provided for control based on standard and repeatable criteria. The most important consequence was the development of "external bonds", which contravened the national policy pursued in the 1950s.

The principle of additionality was not appropriately implemented in Italy, which was the subject of a debate in the European Parliament in 1991. While reporting Community actions aimed at regional development in Italy, Gutierrez Diaz critically assessed the application of principles of the 1988 structural funds reform. While discussing the principle of subsidiarity, the Spanish Member of Parliament emphasized that: "The Community may not be indifferent to the utilization of funds in the member states, as it may happen, and it did actually happen in Italy, that the amount to be financed by jointly by the government and the regions, was almost entirely shifted to the disadvantage of the latter, which is inconsistent with the principle of solidarity" (Moffa 2005,p.145). Actually, during the first programming period (1989-1993), the Italian government deceitfully avoided the provision of co-financing. In that period the Community planned to support initiatives in Mezzogiorno amounting to Ecu 16 billion, half of which was supposed to be contributed by the Community budget and the rest by the country's public (40%) and private sectors (10%). As regards the public sector, nearly 22% of funds were supposed to be contributed by the government, while the regional share was 19%.

Taking advantage of its privileged position in relationships with community partners and its power to control financial flows, the Italian

government was able to reduce its share to as little as 4.1%, while the rest was covered by the regions. This led to significant consequences, as in a great number of cases the regions were not able to raise sufficient funds and the European Commission was forced to stop its share of financing. Thus, placing an added financial burden on the regional budgets, the Italian government blocked the possibility to obtain the funds that had been officially granted.

A number of Italian authors go as far as to assert that the principle was not at all applied. During the public finance crises and poor political interest in the situation of the less developed regions, European funds nearly entirely substituted government expenditures. Actually in the South of Italy critical infrastructure investments including electrification, gasification, the road and telecommunication network were not financed under ordinary (like in the North) but extraordinary interventions, which, in turn, were gradually integrated with Community funds (Viesti 2001).

**The principle of programming** constitutes the basis of the Community cohesion policy and was also provided for in the Italian legal system (Act no 717/1965), but did not apply to extraordinary interventions (Cafiero 1996, pp. 188 – 192). Actually, the national support policy was considerably dispersed and frequently incoherent (Cafiero 2000,p.80). Many authors emphasize that in its last stage of operation *La Cassa per il Mezzogiorno* employed a logic whereby public investments were used as instruments of demand rather than supply. Such an expenditure pattern resulted in a great number of projects that were unfinished, useless or used only for political purposes (Trigilia 1992).

The Community programming introduced in the late 1980s met with a specific context in Italy, as the Italian government did not implement any global programming that would determine priorities and directions for economic governance (Di Palma 1996). Moreover, the programming enforced verification and monitoring procedures, which were unknown in the period of extraordinary interventions.

A number of studies prove that procedures of concentration and co-deciding by different institutional levels or different instances of the same level were foreign to the Italian administration, also with respect to the last principle under analysis. Actually, the **principle of vertical partnership** (introduced along with the reform of 1988) and **horizontal partnership** (introduced in 1993) was brought to a national and sub-national environment that was not accustomed to such practices, as in Italy planning for regional development was within the competence of the Ministry for the South (*Ministero per il Mezzogiorno*). The Ministry determined directions of action and had exclusive competence with respect to working with Community institutions, while the regions, deprived of organizational and operational capacity, were unable to

prepare expert opinions concerning their development requirements and priorities.

Despite the introduction of the above principle, initially the regions' role in planning was marginal, as they did not have sufficient experience in Community programmes management, which required constant coordination between the Commission, the state, the regions and local units or between various offices and departments of the same institution. Moreover, it was observed that in the phases of planning and implementation of operational programmes and plans (national and regional), business and social organizations rarely cooperated, which was against Community recommendations. Empirical studies reveal that only entrepreneur organizations, trade unions and some associations participated in consultations, but never in a concerted manner to utilize available funds.

Generally, during the first programming periods the low institutional efficiency of the Italian public administration, particularly in the South, persisted, which translated into poor performance in the European cohesion policy and the "Italization" of the Community principles.

## **2.2. Italian institutions and Community programming**

Practice proves that the public administration responsible for Community programming issues undertakes tasks crucial for the efficient implementation of programming. An excessive dispersion of government institutions engaged in structural funds management largely contributed to the weakness of the Italian policy manifested by the inability to effectively develop programme priorities and objectives for spending funds.

Initially, the institutions designated to implement Community policies were the various ministries responsible for investment sectors (Ministry of Agriculture, Ministry of the Budget, Ministry of Industry), while the Department for Community Policies (*il Dipartimento per le Politiche comunitarie*) was established as late as in 1987. Its responsibilities encompassed legal tasks, orientation and promotion of initiatives as well as verification of actions aimed to implement community policies. The management of national community funds and the formulation of the Community cohesion policy came within the competence of the Ministry of the Budget, subsequently supported by the Regional Policy Observatory (*L'Osservatorio per le politiche regionali*) and then by the National Central Office (*Cabina di regia nazionale*).

The Observatory, established as an instrument for monitoring the course and efficiency of interventions in the less developed areas and Community policies, operated only for a short time. Two years after it had been established, it was replaced by the National Central Office, whose tasks included the coordination of different entities responsible for programming and management of Community interventions and public (national and Community) resources allocated to the development of the less developed areas. This institution, however, played a marginal role as it faded into insignificance soon after its statute had been formulated and the Department for Development and Cohesion Policies (*Il Dipartimento per le politiche di sviluppo e coesione, Dps*) took over its functions. These sweeping organization changes resulted in disorganized cohesion policy.

It was not until 1995 when coordination in the formulation of the cohesion policy became homogenous in terms of organization, following the establishment of a unit for cohesion policy (*Servizio per le politiche di coesione*) within the Ministry of the Budget. This development proved to be functional and accelerated the implementation of the 1994-1999 Community Support Framework. The role adopted by the Dps turned out to be crucial for the Europeanization of the cohesion policy, as this institution performed a central function in defining the intermediate and final objectives of programming and the modes of cooperation between regional and national institutions (Graziano 2004, pp. 88 – 94).

### **3. Cohesion Policy in the 2000-2006 programming period**

This programming period was marked by considerable changes in the cohesion policy, which strengthened the position of particular regions and of the Committee of the Regions. The adoption of the new Community Support Framework for the years 2000-2006 initiated the constant process of financial management regionalization, as the regions were granted over 70% of the funds available, which is 20 percentage points more than in the previous periods.

As compared to 1998, the Italian policy was modified, which involved institutional changes (establishment of the Department for Development and Cohesion Policy), increased decentralization of funds and programming competence to the advantage of the regions, long-term programming, interest in enhanced quality of public investments and their evaluation, reform of public administration along with the redefinition of new institutional cooperation rules.

Generally, direct regional management of a large portion of the funds was the most innovative but also problematic aspect as regards the 2000-2006 programming period, because the regions were granted considerable powers in terms of the regional policy.

In the 2000-2006 programming period, EUR 28.8 billion were allocated to Italy from Community funds, at 2004 prices. Together with the national funds designated for co-financing projects, the total funds available amounted to EUR 63.3 billion, of which 45.9 billion were designed for Objective 1 regions. Community funds were to be spent until the end of 2008, but due to the financial crisis that period was prolonged until 30 June 2009.

The data obtained from the *Ragioneria dello Stato* monitoring revealed that until the end of 2008 more funds were contracted than initially programmed. As regards expenditures under Objective 1, EUR 55 billion were contracted at the end of February, which accounted for 120% of the funds granted, and effective spending was as high as 93.6%. As regards national operational programmes (PON), the average volume of liabilities and expenditures was 117% and 98.2% respectively. As regards regional operational programmes (POR) this value amounted to 92.3%, but in Campania only to 86.8% (SVIMEZ 2009, p.15).

In the 2000-2006 programming period so-called boundary projects (*progetti sponda*) were frequently implemented in Italy. Originally, they were financed from different funds and then included in Community programming projects due to their cohesion. This was the effect of strict time guidelines imposed by the Community to implement projects and the government was concerned that implementation of a number of projects might fail. In late 2008 the share of such projects was nearly 44.5% in the funds spent under Objective 1 (SVIMEZ 2009, p.13).

**Table 1. Utilization of Community funds under Objective 1 by the priority axes as of 31.08.2009 (EUR)**

Priority axis	Total contribution 2000 – 2006 A	Funds contracted B	Payments effected C	B/A %	C/A %
Natural resources	7 658 273 320	10 270 959 589	8 217 051 208	134.1	107.3
Cultural resources	2 516 942 608	2 887 570 629	2 448 777 323	114.7	97.3
Human resources	8 284 924 451	9 565 982 556	8 263 254 076	115.5	99.7
Local development systems	14 742 174 130	18 663 929 860	14 995 295 740	126.6	101.7
Towns	2 040 500 957	3 012 345 928	2 166 021 909	147.6	106.2
Service networks and hubs	9 775 078 228	12 002 536 867	10 737 371 484	122.8	109.8
Technical assistance	883 139 495	898 596 784	868 269 410	101.8	98.3
<b>TOTAL</b>	<b>45 901 033 190</b>	<b>57 301 922 212</b>	<b>47 696 041 150</b>	<b>124.8</b>	<b>103.9</b>

Source: Ministero dell'Economia e delle Finanze, 2009, p. 11.

Table 1 reveals that the most substantial resources were allocated to implementing measures under Axis 4: Local Development Systems (*Sistemi locali di sviluppo*) and Axis 6: Service Networks and Hubs. The measures under Axis 4 encompassed local development programmes aimed to promote local development including support for local production systems, enhancement of competitiveness, improvement of product quality, innovativeness and support for exports.

The objective of the measures under Axis 6: Service Networks and Hubs (*Reti e nodi di servizio*) encompassed the enhancement of competitive conditions for business development and the location of new initiatives to boost the competitiveness and efficiency of territorial economic systems. This was to be attained through actions improving the effectiveness of interventions and ensuring positive external effects, as well as through promotion of the sustainable development of the transport networks, ensuring the required level of national and international telecommunication networks, the participation of citizens and businesses in new economic, political and cultural processes favourable to their development, and restoration of social trust. Under this Axis, activities were undertaken in three sectors: transport, information and communications technology (information society), and safety.

The most efficient utilization of funds was observed under Axis 6 and 1 (natural resources) and 5 (towns). As regards the remaining three axes (cultural resources, human resources and technical assistance), the available funds were not fully utilized.

**Table 2. Utilization of Community funds under Objective 1, by fund, as of 31.08.2009 (EUR)**

Fund	Total contribution 2000 – 2006 A	Funds contracted B	Payments effected C	B/A	C/A
ERDF	32 934 841 958	42 456 542 201	34 515 083 122	128.90%	104.80%
ESF	6 717 807 093	7 644 319 169	6 667 924 111	113.80%	99.30%
FGF	710 358 361	718 290 893	651 513 275	101.10%	91.70%
EAGGF	5 538 025 778	6 482 769 949	5 861 520 643	117.10%	105.80%
<b>TOTAL</b>	<b>45 901 033 190</b>	<b>57 301 922 212</b>	<b>47 696 041 151</b>	<b>124.80%</b>	<b>103.90%</b>

Source: Ministero dell'Economia e delle Finanze, 2009, p. 11.

Table 2 demonstrates that in the 2000-2006 programming period, the European Regional Development Fund (72.4%) provided the largest allocations for the attainment of Objective 1, while assistance provided by the European Social Fund (14%) and the European Agricultural Guidance and Guarantee Fund (12.3%) was less substantial. The resources allocated by the Fisheries Guidance Fund were of marginal importance (1.3%).

**Table 3. Utilization of Community funds under Objective 1 by the operational programmes as of 31.08.2009**

Operational programme	Total contribution A	Funds contracted B	Payments effected C	B/A %	C/A %
NOP Research	2 267 330 812	2 648 281.555	2 290 805 112	116.8	101.0
NOP Safety	1 225 836 571	1 225 692 953	1 215 044 455	100.0	99.1
NOP Technical assistance and system actions	517 101 147	514 571 832	504 519 032	99.5	97.6
NOP Development	4 452 842 857	6 429 719 955	4 852 916 848	144.4	109.0
NOP Fisheries	277 383 357	247 657 164	233 380 541	89.3	84.1
NOP School for Development	830 014 571	898 033 649	819 267 984	108.2	98.7
NOP Transport	4 520 161 290	5 302 202 380	5 008 036 338	117.3	110.8
<b>NOP Total</b>	<b>14 090 670 605</b>	<b>17 266 159 488</b>	<b>14 923 970 310</b>	<b>122.5</b>	<b>105.9</b>
ROP Apulia	5 222 991 220	7 293 025 923	5 827 786 923	139.6	111.6
ROP Basilicata	1 696 070 000	2 132 594 889	1 780 154 766	125.7	105.0
ROP Calabria	4 034 497 392	5 144 952 184	4 094 553 753	127.5	101.5
ROP Campania	7 748 172 780	9 792 568 333	7 820 002 006	126.4	100.9
ROP Molise	467 997 190	552 085 599	477 705 735	118.0	102.1
ROP Sardinia	4 180 724 685	4 928 422 641	4 352 174 141	117.9	104.1
ROP Sicily	8 459 909 318	10 192 113 156	8 419 693 517	120.5	99.5
<b>ROP Total</b>	<b>31 810 362 585</b>	<b>40 035 762 724</b>	<b>32 772 070 841</b>	<b>125.9</b>	<b>103.0</b>
<b>Objective 1 Total</b>	<b>45 901 033 190</b>	<b>57 301 922 212</b>	<b>47 696 041 151</b>	<b>124.8</b>	<b>103.9</b>

Source: Ministero dell'Economia e delle Finanze, 2009, p. 11.

The above data reveal that in the 2000-2006 programming period the two most important national operational programmes, Development and Transport, represented the highest rates of funds utilization, as they accounted for two thirds of total expenditures of the national programmes. On the other hand, the allocations granted under the national Operational Programme Fisheries were not used in full. As regards regional operational programmes, practically all regions spent the funds allocated to them or even more (except Sicily). Apulia and Basilicata were the most efficient.

#### 4. The effects of the cohesion policy in Italy in the years 2000-2006

Analysis of data concerning the seven Italian Objective 1 regions demonstrates that over that period GDP per capita (being the most significant indicator) increased merely by 1.2% annually, which means that it was considerably lower than assumed (3.9%), and even fell below the EU-15 average (2%). Therefore, one could argue that despite the allocation of over EUR 48 billion, convergence has not been achieved in this area.

The results are even more disappointing given that Community funds accounted for nearly 3% of GDP in this part of Italy, which should theoretically considerably accelerate economic development.

Similarly, convergence was not observed in the labour market. The employment rate in the South (45.9% in 2005) was among the lowest in the European Union, including new member states. This rate was by 20 percentage points short of employment rate in other parts of Italy, and 25 percentage points short of the guidelines stipulated by the European Union in the Lisbon Strategy.

In the 2000-2006 programming period, the gap between the South and other Italian regions continued to widen. Although due to the liberalization of the labour market the employment rate in the South increased by nearly 3 percentage points, the increase in northern and central parts was as much as 6 percentage points.

Moreover, the employability rate decreased in absolute terms, which meant an increased number of persons who gave up looking for a job. The expectations that Community funds would reverse this disadvantageous trend did not come true.

**Table 4. Employment rates in 1999 and 2006**

Area	1999	2006
Mezzogiorno (Objective 1 regions)	43.0	45.9
Centre-North	59.4	65.0
EU 15	62.2	65.1
Lisbon Strategy Objective		70.0

Source: EU Structural Funds and Economic Development of Southern Italy, Vision & Value, London School of Economics, October 2007.

The above data lead to the conclusion that the structural programmes in southern Italy did not bring about the expected results. This concerns in particular Calabria, Campania, Apulia and Sicily, the regions with the largest population and economic potential (in terms of generated GDP) in the South.

What is noteworthy, as regards Objective 1 regions, those that despite making expenditures remain below 75% of the Community average were granted a bonus in the form of European Union support for the next 7 years, which was actually awarded to four large regions in southern Italy. Given the facts below, this paradox seems even more dramatic.

1/ The threshold of 75% of the Community average considerably dropped when new members joined the European Union, but the four Italian regions retained their status of underdeveloped areas.

2/ The problem of the 2000-2006 programming period is not the first failure as regards these regions. In Europe, they are a unique example of regions that remain underdeveloped despite huge public investments of public funds.

3/ Research suggests that public expenditure and structural funds may largely be embezzled and captured by organized crime.

## **5. Possibilities of development**

A great number of studies on Mezzogiorno development opportunities report several factors which could contribute to larger convergence. They primarily include development of tourism, increased research expenditures, attraction of foreign investment and organized crime prevention.

Tourism – about two thirds of the coastal line and nearly 50% of Italian cultural heritage (Italy can boast the largest number of historic buildings on the UNESCO list) are located in the southern regions. This fact predestines these regions to become European leaders in tourism.

In the programming period, the opportunity to develop tourism was not used. The number of tourists per capita increased from 2.9 in 1999 to 3.3 in 2005, but it is still less than half of that recorded in northern and central Italy. In 2004, the South attracted 20.6% of Italian tourist traffic, 25% of domestic tourism and 14.2% of foreign tourism flows (SVIMEZ 2005, p. 453).

**Table 5. Tourists per head**

<b>Region</b>	<b>1999</b>	<b>2005</b>
Apulia	1.9	2.7
Basilicata	2.0	3.3
Calabria	3.1	3.9
Campania	3.4	3.3
Molise	1.7	2.3
Sardinia	5.6	6.2
Sicily	2.4	2.7
Objective 1 regions	2.9	3.3
Centre – North	6.8	7.5

Source: Vision & Value. LSE, p. 7.

Although climate conditions in the South ensure tourist activities throughout the year, 70% of visits are reported between June and September. Moreover, despite impressive natural and cultural resources, the region is perceived only as a holiday area, while business and conference tourism is practically non-existent. This may be caused by the insufficient transport and service infrastructure, including the small number of flight connections with European cities, the underdeveloped public transport and railway network (*e.g.* there are no electrified railways in Sardinia) and the underdeveloped motorway network (SVIMEZ 2009, p. 7).

**Research and development** – attempts to improve the share of R&D outlays in GDP failed in the programming period under analysis. In 2005, it was 0.77 for Objective 1 regions, below the average for Italy (1.1%) and considerably smaller than the value assumed for Italian Objective 1 regions (1.25% for 2006) or the objectives stipulated in the Lisbon Strategy (3% for 2010).

Interestingly, public outlays on R&D were more substantial in the South (0.55% of GDP) than in the North (0.51%). On the other hand, three of seven Objective 1 regions did not record any private R&D investments, and only in Campania business R&D expenditures exceeded 0.2% of GDP. This means that in the South, public R&D expenditures turned out to be inefficient subsidies.

**Foreign direct investments** – Objective 1 regions also falter in terms of attracting foreign direct investments. Although they are inhabited by over 30% of the Italian population, only 3.5% of foreign investments in Italy are located there, despite the factors which could potentially attract investors: substantial available labour force (including skilled labour), a large market, lower labour

costs compared to other regions or the possibility of participation in community programmes designed for Objective 1 regions.

This situation hardly changed in the programming period 2000-2006. Foreign investments were primarily located in northern Italy. While Lombardy absorbed 69% and Piedmont 13% of foreign direct investments, southern regions absorbed as little as 1%. In the years 2000-2005, foreign direct investments accounted for 1.6% of GDP in north-western regions, 0.6% in central regions and 0.1% in the South.

**Table 6. Direct foreign investments in selected Italian regions (in EUR thousands)**

Region	FDI inflows in 2006	Share in total national
Apulia	247269	0.2
Basilicata	246100	0.2
Calabria	29963	0.0
Campania	245991	0.2
Sardinia	97674	0.1
Sicily	30135	0.0
Lombardy	104464729	68.9
Centre-South	152124329	99.3
Mezzogiorno	1016606	0.7
Italy	153140935	100

Source: Own work based on: Daniele, Marani 2008, p. 193.

Table 6 reveals a gap between northern and southern regions with respect to foreign direct investment inflows. These investments could considerably accelerate the development of Objective 1 regions, but so far foreign investors have shows little interest in the South. Their presence in those regions is not much better, as only 371 of 7100 foreign enterprises operating in Italy (5%) have their registered offices in the South.

### **Crime**

Many economic, sociological and historical studies claim that organized crime is a substantial barrier to the development of the South (Catanzaro 1991, Centorino, La Spina, Signorino 1999, Fiorentini, Peltzman 1995). This is also often thought to be the underlying cause of the small interest of national and foreign investors in Objective 1 regions. In 1985, Sylos Labini, the renowned Italian economist, reported that money extortions result in moving production to other regions and discourage investment in the South (Sylos Labini 1985). Crime organizations influence the economy in various ways. Money extortions from entrepreneurs are the most visible example. The funds raised are used to finance other crime activities and control legal businesses. Moreover, crime

organizations force entrepreneurs to purchase goods or raw materials from specific suppliers, employ members of the crime world, or impose restrictions on sales.

In general terms, organized crime increases investment risk and costs, and consequently has a depressive effect on the whole economy. Apart from extortions and protection money, the protection provided by crime organizations leads to a situation where inefficient businesses are operated as a cover for illegal activity (Becchi, Rey 1994). By violence or corruption, crime organizations influence the functioning of the market and the institutional system through distorted allocation of resources and capturing of a portion of public funds, including Community funds. This undermines the functional capacity of the market and institutions, as well as the capacity for development of the local economy (Centorrino, Signorino 1993).

In the 2000-2006 programming period, the crime rate in Objective 1 regions remained high. Its measurement involved different categories of crime but primarily extortions, assassinations, arsons and participation in crime groups.

**Table 7. Crimes reported in 2002-2005 in selected Italian regions per population; Indices (Italy=100)**

Region	Extortions	Organized crime groups	Assassinations	Arsons
Apulia	150	119	200	146
Basilicata	87	222	29	94
Calabria	185	196	717	346
Campania	162	155	99	107
Sardinia	74	36	429	149
Sicily	143	177	186	166
Centre-North	76	74	34	71
Mezzogiorno	144	147	220	153

Source: Own work based on V. Daniele, U. Marini, 2008, p. 202.

Table 7 shows that in regions under Objective 1 the number of crimes analyzed is relatively larger compared to other regions but represents considerable diversity. The crime indices are extremely high in Campania, Sicily, Apulia and in particular in Calabria.

According to estimates, nearly 160 000 of entrepreneurs in Italy faced extortions, predominantly in the South. The number of entrepreneurs paying "protection money" is estimated at 70% in Sicily, 50% in Calabria, 40% in Campania and 40% in Apulia, which means that over 120 000 entrepreneurs are faced with this practice. If the protection money is not paid, crime organizations

strike by intimidation, property damage or even attempts on entrepreneurs' lives (Daniele, Marini 2008, p. 203).

Although organized crime changes over time and its expansion into the centre and north of Italy is under way, regional differences are still observed. The majority of Objective 1 regions are affected by crime to a substantial degree, which constitutes a peculiar type of comparative cost that may have a far-reaching, negative effect on the development of these areas.

## 6. Conclusions

Italy provides an interesting example of cohesion policy implementation. Despite its long tradition in conducting policies aimed at eliminating regional disparities (dating back to the 1950s) and huge expenditures, Italy's performance has been very poor.

In the 2000-2006 programming period, considerable progress in Italy's adjustment to the Community cohesion policy was observed and satisfactory results in the exploitation of EU funds were achieved. However, these actions did not translate into improved performance of the poorest Italian regions, which is an extremely unusual situation that has never occurred anywhere else in the European Union.

The underlying causes of the failure are complex. The analysis offered in this paper reveals poor results in acquiring direct foreign investments and developing tourism and modern technologies, which are prerequisites for economic success in many regions. Organized crime has also considerably hindered development and is largely responsible for deterring investment activities in the south of Italy.

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## Streszczenie

### **REALIZACJA WSPÓLNOTOWEJ POLITYKI SPÓJNOŚCI WE WŁOSZACH I JEJ ZNACZENIE W WYRÓWNYWANIU DYSPROPORCJI REGIONALNYCH**

*Celem artykułu jest przedstawienie znaczenia, jakie środki wspólnotowej polityki regionalnej odegrały w osiągnięciu spójności społeczno – gospodarczej przez włoskie regiony Celu 1 oraz pokazanie barier i szans rozwojowych dla tych terytoriów*

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*w przyszłości. W części pierwszej przedstawiony został proces dostosowawczy Włoch do polityki wspólnotowej, głównie pod względem zgodności prowadzonej polityki z zasadami polityki regionalnej oraz dostosowań instytucjonalnych. W części drugiej przedstawiona została analiza porównawcza wielkości funduszy wykorzystanych przez regiony kohezyjne w okresie programowania 2000 – 2006 z założonymi wielkościami, a także próba odpowiedzi na pytanie, czy środki te w istotnej mierze wpłynęły na zmniejszenie się różnic między biedniejszymi regionami Południa a bogatszymi Północy – Centrum. W ostatniej części pokazano możliwości i bariery rozwojowe, przed którymi stoją włoskie regiony kohezyjne.*