Public Investment across Levels of Government: The Case of Basilicata, Italy

Authors*: Daniela Venanzi and Cathérine Gamper, OECD Secretariat

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Key messages

- Basilicata benefits from a rather strong and active regional government, which provides a clear strategy for regional development, and from a willingness to co-operate and to institutionalise sub-regional governments’ involvement in policy making. Close relationships among different regional stakeholders and low levels of crime and corruption have contributed positively to this dynamic.

- The region provides successful examples of inter-regional co-operation projects proposed by different levels of government, notably for water management with neighbouring Puglia.

- The rather small size of public institutions in the region drove them to look for innovative public procurement procedures. Basilicata was among the first regions to use a dynamic purchasing system for drugs, for example, to provide centralised insurance against clinical risks and to set up a central purchasing body for electricity.

- Monitoring and evaluation are key to assessing public investment strategies. Basilicata was one of the first regions in Italy to set up a unit for the evaluation of public investments and is one of the few regions in Italy, the only one in the Mezzogiorno, to take part in the national centralised system for monitoring public investment.
1. Regional overview

1.1. Political context

Originally called Lucania, Basilicata is part of the Mezzogiorno, the meta-region encompassing the southern part of the Italian mainland (Abruzzo, Molise, Basilicata, Campania, Puglia, Calabria) and the two major islands of Sicily and Sardinia. Basilicata borders Campania, Calabria and Puglia, as well as two seas (Ionian and Tyrrenian). It is the third-smallest region in Italy, after Valle d’Aosta and Molise, covering 3.3% of the national territory and hosting almost 1% (579,251 inhabitants) of the population. Hilly mountain areas make up over 90% of its territory, rendering it one of the least accessible regions of Italy and also one of the most sparsely populated, with about 58 inhabitants per km² against a national average of 202. This peculiarity is reflected in its administrative structure. Basilicata only has two provinces (Potenza and Matera), both of which are predominantly rural. Together, they encompass a large number (131) of small municipalities.

1.2. Institutional background

The Italian system of public governance comprises the central government, the region, the province and the municipality. A fifth layer, metropolitan cities, is foreseen in the Constitution but has not yet been put in place. Basilicata is one of 15 “ordinary-statute regions,” with statutory, legislative, regulatory, administrative and financial autonomy. According to the Constitution, the legislative powers of the region are residual and exclusive, meaning that powers not assigned to the state or designated as joint responsibilities of the state and the regions (concurrent legislation) rest with the regions. Legislative powers lie in the hands of an elected council (Consiglio regionale), and executive powers are vested in the regional government (Giunta) with its directly elected president (Presidente della Giunta). Since the early 1990s, there have been a number of changes to the status of the regions, including the introduction of direct election of regional leaders and the expansion of their direct spending and revenue responsibilities. In addition, state control over regional statutes and laws was relaxed, no longer subject to ex ante state control on statues and regional laws.

Nevertheless, today regional autonomy is still limited by fiscal reform. According to the Constitution, regions, provinces, municipalities and metropolitan areas should have financial autonomy over revenues and expenditures through own taxes and revenues, a share of the proceeds of state taxes levied on their territories, and transfers from an equalisation fund (not earmarked) for those regions with low fiscal capacity per inhabitant. In reality, though, except for some taxes (see Section 2) the regions still depend heavily on central government transfers.

The regional administration acts as the main public body in the territory. Its task is to co-ordinate institutional activities, support regional development, and programme and implement policies in health care, social assistance, education, local development (industry, commerce, agriculture), innovation, energy, regional transport and environment. Health care is by far the most relevant in terms of regulatory and spending powers: the majority of the current regional expenditures are absorbed by health services.

The provinces of Potenza and Matera likewise have elected councils and presidents. Their responsibilities overlap with those of the region and local governments, inter alia, in the area of social services (labour policies, education and vocational training, and culture), transport (roads), territorial management (waste, water, energy, urban development, security), and overarching local public functions. In practice, though, education and transport absorb the greatest shares of their capital spending.

Municipalities have mostly administrative functions. With their elected mayors, municipalities are mainly responsible for providing social services to citizens, for childcare (kindergartens), for waste collection and for the management of local roads. They also have a regulatory role in specific fields (i.e. energy).
1.3. Socio-economic background

Basilicata’s GDP per capita was only about 71.2% of the national average in 2011. It grew by 2% from the previous year, compared to a stagnating average in the overall Mezzogiornio region. The region has also experienced rising and above-average unemployment rates (12% compared to 8.4% nationally in 2011, and an estimated 16.6% in Basilicata and 10.9% nationally, for the first quarter of 2012), even though this figure is downward distorted by the strong use of a Wage Guarantee Fund. During temporary labour surpluses, companies use this fund to pay workers instead of firing them (Cassa Integrazione), making up the pay of employees affected by suspension of work or short-time working. Again, compared to the Mezzogiornio average of 13.6%, Basilicata’s rate remains lower. Demographic trends show an ageing and shrinking population, with out-migration of the labour force, mainly to Lombardy and Emilia-Romagna as well as a within-region migration towards more urbanised areas.

Historically weak, Basilicata’s economy picked up significantly during the 1990s. Like the Mezzogiorno in general, Basilicata has historically been characterised by high unemployment rates, a weak industrial base and reliance on external transfers. The region lacked significant infrastructure (in particular in transport) and important university centres, and it attracted little direct investment from abroad. During the 1990s, the arrival of multinational companies, the discovery and exploitation of oil and gas (see Box 1) and the emergence of a trend towards more dynamic entrepreneurship led to a marked change in performance. Regional GDP per capita grew at a stable rate, placing Basilicata among the richest southern regions and enabling it to move from the “convergence” category into the new category of “phasing-out regions” as defined under EU Cohesion Policy. Progress slowed somewhat in the early 2000s, as Basilicata’s progress in convergence towards national per capita income levels stalled. Apart from the local economic hotspots of the Val d’Agri and Melfi, the economy is mainly characterised by agriculture, food-processing fibre industries and some services such as tourism (Magna Grecia; UNESCO World Heritage Site Matera; beach resorts).

It has been known since the end of the 19th century that oil exists in Basilicata. However, it was not until a few years ago that adequate technology was developed to extract it efficiently from difficult to access mountainous terrain.

Agip first discovered oilfields in Val d’Agri in 1926. Exploitation activities lasted from 1936 to 1945 when operations were dismantled. It was only in the 1970s, with the peak of oil prices and the availability of digital seismic prospecting technology, that research and drilling activities started again. Basilicata has the biggest European onshore oilfield, although the oil is more than 4000 metres deep. In 1998, the regional government signed an agreement with ENI (a partly state-owned oil company) for exploitation in Val d’Agri. At present, production has peaked and agreements with the region proliferate. Nowadays about 90% of the regional area is covered by research and drilling permits, and the region fulfils 7% of the national demand. The oil produced is exported to the Taranto refinery through 136 kilometres of pipelines. For on-shore sites, royalties are set by national law to 10% of production value, 30% of which goes to the state, 55% to regions and 15% to municipalities involved. As it is an underdeveloped area, the state transfers its share to Basilicata. Prior to 2010, more than half of the revenues were earmarked to finance a programme for local development in 30 municipalities of the Val d’Agri. The programme began in 2003 with a budget of EUR 350 million and was targeted to four priorities (environment, basic infrastructures, quality of life and SMEs); the remaining part was transferred to citizens (through discounts in oil and gas tariffs and in health fees) and was used to finance universities and to build infrastructures. After 2010, however, royalties (that average about EUR 60-90 million a year) were no longer earmarked and served to compensate for the reduction of state transfers. In 2010, revenues amounted to about EUR 120 million, matching the cut in state transfers; thus helping the region to recoup spending power and keep the budget in balance.

Basilicata’s economy began to slow in 2007 and was hit hard when the crisis erupted in 2008. In 2011, gross value added (GVA) shrunk in real terms for the fifth year running. Exports were severely hit by the crisis (-13.6% million EUR in 2009/2010) and were never able to recoup to 2007 levels, despite the 27% export growth of the Mezzogiorno as a whole (ISTAT, 2010). This was mainly due to the crisis of the...
automotive sector, which alone accounts for more than 60% of the value of Basilicata exports, compared to 10% in the Mezzogiorno. The recession hit all sectors, with a general decline in GVA, albeit with a less sharp decline in services than in goods-producing sectors and a shift towards services. Furthermore, in a period of restrictive fiscal policy and public spending reviews implemented in response to the sovereign-debt crisis, Basilicata’s reliance on government spending might further hinder future economic growth.

Several policies have been put in place to ameliorate the situation. Labour market policies have been concentrating on jobs in high-end occupations of innovative sectors. In agriculture there has been an effort to promote associations of producers and to stimulate the agro-industry. Beyond extracting oil and gas, the authorities emphasise the management of water resources. Infrastructure investments have so far focused on internal road construction, but are now shifting priority to linking economic growth centres and building inter-regional road networks. To cut costs, the public administration has been increasingly going digital through e-government, the centralisation of services, greater vertical co-operation and consolidation of functions, and inter-municipal co-operation.

1.4. Main strengths and challenges for Basilicata

Although attentive to heterogeneous needs, Basilicata has good reasons for having a fairly centralised decision-making system. The regional context offers a good balance between centralisation and polycentrism, which is probably also favoured by its relatively small size. First, proximity to stakeholders allows the region to have a strategic mission and priorities that reach the whole network of public, private and civil society actors, and facilitates the exchange of views. In addition, it helps diffuse its ideas and provides egalitarian opportunities for advancing policy ideas. Secondly, with only 12 municipalities with more than 10,000 inhabitants, Basilicata has no natural urban catalyser and is confronted with a substantial fragmentation. The combination of those two elements is an issue that can be addressed by centralising policy making; but they also nurture horizontal co-operation among sub-regional levels of government.

The region has efficient structures for managing EU structural funds, with an annual average absorption of EU funds of around 34%, which is relatively high compared to other regional averages. Strongly integrated programming allows the region to react promptly to external shocks, to rationalise the use of resources and focus interventions on fewer priority areas. For instance, Basilicata easily and rapidly aligned its goals to those set out in newly approved national programmes (i.e. on transport) with the purpose of creating a multiplier effect on investments in the territory. Compared to other regions in the Mezzogiorno, an absence of organised crime and low levels of red tape and corruption of public administration have favoured these results.

Economically speaking, royalties from oil and gas represent a key source of revenues. They provide financial autonomy to the region and reduce dependence on state transfers. They were also a valuable buffer against the negative impacts of the reduction of central government transfers, and, somehow related, the economic crisis. However, this freedom is still constrained, since royalties are set by national law, which can create uncertainties (Box 1).

Basilicata also faces many longer term structural challenges. First, the feeble industrial system results in a small tax base outside the oil and gas sector. Secondly, a weak business environment – with little infrastructure to support businesses – does not attract foreign investments or companies, and hinders the economic development of the region. Thirdly, heavy reliance on public spending might not be sustainable in the long run, since the restrictive fiscal policy and public spending reviews might hit the revenue position of the region. Finally, demographic out-migration towards richer regions or intra-migration towards more urbanised areas within the region are critical.

Strategically speaking, the regional strategy hinges on the European programming timeframe. There is a lack of longer term investment planning with a horizon beyond the EU programming periods.
2. Public investment in the region

2.1. Key priorities for Basilicata

The crisis has affected the revenue position of Basilicata less than that of the central government. Basilicata’s smaller industrial base, from which it draws a business tax, meant that one of the most cyclically sensitive revenue sources simply played a smaller role in the region. In addition, the impact of the crisis on the transfer of tax-sharing revenues (VAT) was delayed, while royalties from the extraction of oil and gas provided a further cushion. In addition, a continuous flow of central, earmarked transfers; the protection of certain spending categories, in particular health care; one-off payments; and capital grants from the European Union helped mitigate the crisis’ impact.

Given the rigidities in the recurrent budget, the impact of the crisis on the spending side was initially felt through a reduction in capital spending programmes. Adjustment of current spending, owing to its nature, takes longer, but Basilicata has been reducing the cost of public spending and enhancing the efficiency of public service delivery. Examples include an incentive package to reduce public payrolls and cost savings in the health sector.

Although public investment formed an important part of the initial adjustment, the regional government was able to maintain its investments in inter-sectoral activities that were supported by EU programmes. Basilicata’s use of EU funds is spread across a number of regional policy axes stressing, inter alia, accessibility, productivity and competitiveness, social inclusion, energy, water and sustainable development, and issues of public governance.

Although Basilicata’s budget deficit increased significantly during the crisis, this did not entail unsustainable levels of debt, which amounted to about 20% of recurrent revenues in 2010. Debt service stood at 3.2% of current revenues. Basilicata is generally perceived as a credit-worthy region. Moody’s stresses, in particular, the prudent financial management of the region’s budget; surpluses in the current account; financial autonomy with unexploited tax potential; the region’s participation in state royalties (oil and gas); good cash management; moderate levels of public debt (EUR 265 million in 2010 or 18.4% of recurrent revenues); and organisational efforts to reduce administrative costs (Moody’s Investors Service, 2011). It must be stressed, however, that Basilicata’s financial autonomy, as for other regional governments, is severely hampered at present through constraints imposed by the central government. Practically all transfers from the central government budget are still earmarked. Even tax revenue is typically assigned to specific purposes, except for small portions of libera destinatione. This must entail serious inefficiencies in spending and does not correspond to the European Charter of Local Self-government. Such weaknesses are to be addressed by the national government’s ongoing fiscal federalism strategy. The earmarking of central government grants, combined with provisions in financial legislation, means that much of the debt related to sub-national activities may impact on the level of central government debt. The Internal Stability Pact prescribes that regions’ and municipalities’ deficits must be counted in the national debt thresholds that Italy has to respect for the EU Stability Pact. Therefore, the Internal Stability Pact fixes spending limits on lower levels of government.

2.2. Evolution of Basilicata’s financial capacity

Basilicata has struggled to keep up even with the lacklustre performance of the Italian economy as a whole since the crisis, but, as noted above, local finances have been rather less volatile than output and have in some respects been less affected by the crisis than national level public budgets have. There has, nevertheless, been a significant increase in the size of the regional budget deficit (Figure 1). As is clear from the figure, the initial impact was muted compared to what one might have expected in the context of the severe contraction of 2009, when regional GVA fell by 4.3% in real terms, but became more evident in 2010. This reflects, in part, the fact that Italian regions did not benefit from any deliberate national level counter-cyclical stimulus policy in 2009-2010. When reflecting on the adjustment, one should note that the
stability of the capital balance reflects the greater ease with which capital spending could be cut: both capital revenues and capital expenditures fell.

Figure 1. Development of the budget, current and capital balance of Basilicata during the crisis

The revenue of Basilicata’s budget (Figure 2) consists of own taxes, of which the regional business tax (Imposta Regionale sulle Attività Produttive – IRAP) is by far the most important. Other taxes are on motor vehicles and the region levies surcharges on the national oil tax and on personal income tax (Addizionale regionale – IRPEF). These surcharges, whose rates can be modified by regional legislation, have remained constant over the years\(^{10}\) and appear to exhibit unexploited tax potential (Moody’s Investors Service, 2011).

The national government also assigns a share of local VAT collection to the regional budget. Moreover, Basilicata and its local governments benefit from a share of the national royalties on the production of oil and gas in their territory as well as from IRAP on these activities (see Box 1). The royalty is 10% of the value of the product, which is shared by the region, affected local governments and the central government proportionately: 55/15/30%.

As noted above, the allocation of tax revenue, surcharges and tax sharing occurs with a lag, which is why the region’s income rose by 1.9% in 2009, despite the downturn. A substantial drop was experienced in 2010 (-7.5%), when revenues from royalties collapsed.

In addition to grants for recurrent spending, the regional budget is supported by capital grants, again mainly from the central government. A smaller amount of the regional capital budget is financed from resources from the European Social Fund and the European Regional Development Fund.\(^{11}\) Capital revenue fell by 5.6% in 2009 and 14.5 % in 2010.

Local governments are financed from own revenue sources such as taxes on real estate, a tax on garbage collection and smaller local taxes; communal surcharges on national taxes (IRPEF); and transfers from both the central and regional governments. The former property tax, which still existed during the early years of the crisis and had a stabilising influence on local budgets, has recently been replaced by a new municipal tax paid to the central government, comprising a national share and a municipal share. Municipalities set the surcharge tax, but they will receive what they used to receive from the previous property tax (ICI). It forms the major revenue-raising measure within the government’s “Save Italy” budget finalised in December 2011. From 2012 on, this tax has been levied on the increased value of the property, at a standard rate of 0.4% for primary residences, with all other residences being subject to a rate of 0.76%. The revenue from this tax is shared by the central and local governments.
The expenditure structure of Basilicata’s budget reflects its main policy responsibilities according to law (Table 1), with health care accounting for almost half of the total.

**Table 1. Regional spending in Basilicata by function (2011)**

<table>
<thead>
<tr>
<th>Category</th>
<th>EUR millions</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General administration</td>
<td>150.4</td>
<td>6.8%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>57.9</td>
<td>2.6%</td>
</tr>
<tr>
<td>SMEs, tourism</td>
<td>34.2</td>
<td>1.5%</td>
</tr>
<tr>
<td>Public transport</td>
<td>127.4</td>
<td>5.7%</td>
</tr>
<tr>
<td>Health</td>
<td>1 056.6</td>
<td>47.4%</td>
</tr>
<tr>
<td>Education, culture, sports</td>
<td>20.0</td>
<td>0.9%</td>
</tr>
<tr>
<td>Social, labour market</td>
<td>49.9</td>
<td>2.2%</td>
</tr>
<tr>
<td>Energy, environment</td>
<td>40.5</td>
<td>1.8%</td>
</tr>
<tr>
<td>Water</td>
<td>25.8</td>
<td>1.2%</td>
</tr>
<tr>
<td>Infrastructure, urban development</td>
<td>190.0</td>
<td>8.5%</td>
</tr>
<tr>
<td>Other</td>
<td>474.6</td>
<td>21.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 227.4</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Based on data provided by the Ufficio Risorse Finanziarie e Bilancio, Basilicata.

The structure of expenditures according to economic classification is depicted in Figure 3. The main spending blocks are capital expenditures and transfers to local public agencies – local governments and provinces – but mainly to the two provincial health units and the two hospitals. These health units are local public entities that form part of the National Health Service, but they are legal persons in their own right and enjoy a large degree of autonomy. After a reform in 1993, the previous local public health units were transformed into public companies with organisational, managerial, technical, administrative, financial and accounting autonomy.
Personnel expenditures were cut sharply (-6.1% in 2009) during the crisis. This reflected the outcome of a three-year programme to reduce employment in public administration. From 2012 on, public employment in Basilicata is expected to more or less stabilise at its long-term sustainable level. Purchases of goods and services were also affected by the crisis in 2009, but recovered quickly thereafter. Overall, this spending item has contributed little to consolidate regional finances during this period. Debt service declined due to reduced interest payments because the regional debt was mainly short term and could benefit from falling interest rates.

The transfers to other public entities in Basilicata’s budget increased by 9.1% in 2009 only to fall back slightly the following year (-1.1%). This is explained by compensating transfers from the central government to secure the minimum service requirements in the provision of health services (Livelli Essenziali di Assistenza – LEA), which are ring-fenced and hence less sensitive to cutbacks in public revenues during a recession.

Capital spending is supported by the central government and EU funding. The regional government of Basilicata makes effective use of EU funds focusing on axes of regional policy: accessibility, viability and logistics; knowledge-based economy; productivity and competitiveness; development of cultural and natural resources; urban systems; social inclusion; energy and sustainable development; and governance and technical assistance.

While the decline of spending on capital was moderate in 2009 (-1.3%), the fall was rather steep in 2010 (-8.2%). The result is also partly explained by the new financial constraints imposed by the Internal Stability Pact. The government now has the cash (mainly from royalties), but is not allowed to spend it due to the imposition of expenditure limits. Overall, state transfers for capital spending and the EU funds were able to somewhat, although not entirely, cushion adverse shocks on local budgets.

The development of Basilicata’s capital spending during the crisis years is shown in Table 2.
Table 2. Capital spending in Basilicata

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Increase in %</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General services</td>
<td>3</td>
<td>10</td>
<td>18</td>
<td>233.3%</td>
<td>3%</td>
</tr>
<tr>
<td>Defence</td>
<td>62</td>
<td>54</td>
<td>45</td>
<td>-12.9%</td>
<td>7%</td>
</tr>
<tr>
<td>Economic affairs</td>
<td>220</td>
<td>188</td>
<td>197</td>
<td>-14.5%</td>
<td>33%</td>
</tr>
<tr>
<td>Environment</td>
<td>20</td>
<td>12</td>
<td>7</td>
<td>-40.0%</td>
<td>1%</td>
</tr>
<tr>
<td>Housing and territory</td>
<td>116</td>
<td>71</td>
<td>54</td>
<td>-38.8%</td>
<td>9%</td>
</tr>
<tr>
<td>Health and social protection</td>
<td>86</td>
<td>130</td>
<td>90</td>
<td>-30.8%</td>
<td>15%</td>
</tr>
<tr>
<td>Education and vocational training</td>
<td>44</td>
<td>27</td>
<td>13</td>
<td>-38.6%</td>
<td>2%</td>
</tr>
<tr>
<td>Inter-sectoral activities</td>
<td>108</td>
<td>161</td>
<td>176</td>
<td>49.1%</td>
<td>29%</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>7</td>
<td>6</td>
<td>-30.0%</td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>669</td>
<td>660</td>
<td>606</td>
<td>-1.3%</td>
<td>100%</td>
</tr>
</tbody>
</table>


The only sectors of capital spending that did not suffer from the crisis were general services, inter-sectoral activities and the health sector. The stability of spending for inter-sectoral activities is explained by the use of about EUR 110 million of European structural funds (ESF) assistance and EUR 50 million for infrastructure investments in the Val d’Agri that were supported by theESF.

2.3. Borrowing capacity

Basilicata’s budget deficit doubled from 2008 to 2010, increasing the level of public debt from EUR 290.4 million to EUR 295.8 million during this period (Moody’s Investors Service, 2011). This represents about 20% of Basilicata’s current revenue, which is extremely small. Debt service was a small 3.2% of recurrent revenue. However, given that the regional budget is largely earmarked to certain local spending categories, which are supported by state transfers and for which the state assumes the financing, it is likely that these expenditures correspond to public debt concealed in the national budget. This is likely to change with the implementation of the federalismo fiscale strategy, which will give local governments more discretion in spending.

With the exception of the regional bond in 2004, the regional government makes exclusive use of bank loans to finance its debt. The emphasis is on short-term lending with variable rates, from which Basilicata could benefit as interest rates have recently declined. It was also able to swap contracted loans with fixed to variable interest rates in 2006. In 2010, about 26% of the debt was subject to fixed-rate agreements, 54% to loans with variable rates, and the remaining 20% with optional agreements. More recently, the regional government has contracted its debt at fixed rates to conserve the low interest rates, but generally it has been reluctant to incur new debt, as it hopes to redeem existing debentures within nine to ten years (Moody’s Investors Service, 2011).

The budget law of Basilicata does not allow guarantees in favour of third parties. However, there are mounting contingent claims as regards the financing of local government activities. Although local autonomy is extremely low in Italy, municipalities have the right to enter into commitments whenever they act as implementing agencies for the region. Yet the region is constrained by the Internal Stability Pact, not on the level of its debt or debt service, but on the level of spending, which is typically earmarked. The region is hence not able to honour the commitments made by its municipalities. Over the past two years, this has led to mounting payment arrears to the private sector, which are estimated to have reached about EUR 100 million. Instead, the region issues warrants (certificazioni di credito), which private suppliers can use for refinancing. This practice is, however, unsustainable and likely to undermine trust in sub-national government operations.
3. Co-ordination for public investment across levels of government

3.1. Overview of co-ordination for public investment

At present, national territorial development policies rest on a two-tier system: ordinary policy and regional policy. Ordinary policy targets broader objectives nationwide and is financed through the ordinary expenditure of central budget. Regional policy addresses territorial disparities and is financed through European structural funds (SF), national/regional co-financing of SF and the National Underutilised Areas Fund (FAS, recently renamed the Fund for Development and Cohesion). Hence, ordinary policy and regional policy have a mixed governance structure. They are implemented by the central government together with regions. Public investment is planned by line ministries for sectoral policies, and by the Ministry of Economic Development together with regions as managing authorities for structural funds and regionally allocated FAS funds.

Co-ordination in the national public investment strategy is ensured through the Inter-ministerial Committee for Economic Planning (CIPE). The CIPE is a political decision-making body headed by the Prime Minister and composed of 11 ministers. CIPE (Figure 4) examines the national socio-economic context to identify guidelines and actions for economic policy; it allocates financial resources for development programmes and projects (FAS), and it approves national public investment plans, including examining the strategic infrastructure programme and the investment plans of the main national public concessionaries. CIPE also oversees the implementation of public investment in regional policy by co-financing regional action plans and approving framework agreements. Co-ordination between the national public investments financed with SF and regional ones is ensured by the Department for Development.

![Figure 4. Public investment policies in Italy, funds available and institutional bodies in charge](image)

In Basilicata, the responsibility for public investment implementation is split among different departments in the region or publicly owned enterprises (i.e. for water and energy). For specific sectors, e.g. transport, the regional strategy mirrors the national investment strategy, the rationale being for the region to leverage on larger scale investments. There is also a regional Public Investment Evaluation Unit which will be described in the following section.

The recent crisis led to a degree of re-centralisation in a system that was about to complete the devolution process, with central government’s share of total expenses of the public sector at large that, from 1996 to 2009, had decreased from 62% to 45% (more than 55% of which is committed to pay welfare and retirement benefits, exclusively the competence of the central government), together with a reduction in state transfers that in late 1999 represented more than 80% of regional revenues, and are now only...
Nevertheless, when the Monti’s technical government took office in 2011, the impact of the crisis, together with alarmingly low EU fund spending levels in almost all southern regions, called for co-ordinated central interventions. Unused EU structural funds and state co-financing of southern regional programmes where gathered to finance only a few priorities through national programmes. Thus, first decision making was re-centralised in favour of top-down interventions for broader strategic projects. Second, stricter reward mechanisms and monitoring systems were set up to influence local interventions and support the effectiveness of public investment at the local level, albeit leaving room for a flexible implementation of the set priorities. The decrease in state transfers, together with the effects of the financial crisis, left the region with little financial autonomy, which particularly affected public investment.

3.2. Vertical co-ordination between the region and higher levels of government

Vertical co-ordination between the regional and national governments

Political dialogue is ensured through the State-Regions Conference, a permanent negotiating arena (see Box 2). At the national level, co-ordination between regional policy priorities and ordinary policy (that set sectoral priorities) is ensured by the CIPE; co-ordination on regional policies financed with European, national and regional resources is ensured by the Department for Development and Economic Cohesion of the Ministry of Economic Development (MISE), and more specifically by the Committee for Co-ordination and Surveillance of the National Strategic Framework.

Synergies and co-ordination are ensured through multi-step programming phases. The Basilicata Regional Strategy for 2007-2013 identifies six priorities based on the assessment of previous years’ programmes. An integrated programming document (DUP) then details priorities in sub-objectives and defines a multi-source financial plan for each. Both documents are approved by the Regional Council and are conveyed to the MISE. Basilicata then draws up a Regional Implementation Plan (PAR) detailing specific programmes. To ensure coherence between the regional strategy and the national one and effective use of public resources, the regional plan is subject to ex ante evaluation by the MISE. Receipt of the regional share of FAS funds is conditional on MISE approval.

Box 2. State-Regions Conference

Set up in 1997, the conference, which brings together Italy’s regions as well as the autonomous provinces of Trent and Bolzano, provides an opportunity for dialogue and political co-operation between central and regional authorities. The objective of the conference is twofold: to involve regions in decision making on activities related to the regional context (on matters that are of the exclusive competence of the central government as well as on those where concurring legislation applies), and to guarantee the harmonisation of regional laws (where concurring legislation applies or matters that are of the exclusive competence of the regions). The conference has advisory, decision-making, informative, reviewing and designating roles. It convenes at least twice a year, with an ad hoc session for EU policy matters. Both political and technical tables are organised along specific themes, with a leading region for each.

As an example, throughout the years many regions, including Basilicata, had legislated in favour of setting limits on the production of electricity from renewable sources. The Constitutional Court twice declared those limits an infringement of the freedom of competition and had them removed. In 2011, before the government implemented EU Directive 2009/28/EC on the promotion of the use of energy from renewable sources, the conference reached agreement on this matter. All regions agreed to increase the limits, and the central government legislated in line with the decision. Thus, the conference effectively smoothed the political debate, reducing litigation and hence the costs related to it, in a country where litigation rates are abnormally high.


Funds transferred for public investments from the supra-national and national levels usually have explicit requirements. These include reporting requirements, timeframes, matching requirements, additionality requirements, environmental impact assessments and earmarking. Indeed, for regional policy,
most EU requirements attached to funds have been extended to the national sources. However, even if effectively enforced, those requirements do not always, in the view of the central government, improve the quality/efficiency of public investment. The region recognises that conditionalities facilitate co-ordination with the central level and rapid design of investment projects; but it also sees them as limiting their freedom to undertake investment projects. To reduce the north-south divide, the government has a more flexible system of incentives focused on final results rather than outputs (Box 3). The goal is to merge resources to select higher quality projects, increase the ownership of lower levels of government, leave room for flexibility and increase transparency through strong monitoring activities.

**Box 3. Objectives for public services provision (Obiettivi di Servizio)**

*Obiettivi di servizio* represent final objectives for performance management and reward. They are a result-based programming practice that aims at rewarding those regions that meet well-defined results in specific policy areas. Within the 2007-2013 NSRF budget for the Mezzogiorno, Italy set aside a performance reserve of EUR 3 billion, almost 3% of the overall budget, to reward well-performing regions, assigning it per authority, objective and indicator. The intent was to create incentives for authorities to achieve quantified targets by 2013 in order to receive the reserve share previously assigned to a specific indicator. If a region missed a target, its well-performing municipalities could receive up to 50% of the resources assigned to the indicator, while the remaining resources would go to better performing regional authorities. This would reduce competition among authorities and transfer incentives to sub-regional levels.

This practice has different advantages. First, it introduced a programming approach based on results within all levels of governance, thus shifting the logical sequence of programming from expected results to needed actions rather than the other way around. Second, it encouraged decision makers to co-ordinate financial resources, contextual conditions and responsibilities. Third, it strengthened the role of monitoring and evaluation practices. Last, it provided rules for transparency and accountability.

Monitoring on this new incentive mechanism is ongoing. An assessment forecasts that by 2013 Basilicata might only miss three targets out of ten (two on child care and one on waste treatment) which would lead to a premium of EUR 146.40 million. This system works better for some objectives than for others, as it works better for certain managing authorities over others. The lack of binding obligations on the allocation of national funding represents one of its weakest parts. In a country like Italy, where political will is highly unpredictable, this tool is therefore extremely vulnerable.

Note: 1. Education, child and elderly care, urban waste management, and water services were the four objectives. Two to three indicators were designed for each objective.

Italy has a strong tradition of contractual arrangements to commit public administrations to a common framework of interventions. The primary instruments are institutional programme agreements and their operational instrument, programme framework agreements (APQ, see Box 4), and the more recent institutional contracts for development. These are multi-year sectoral agreements tied to a defined budget; they foster reward/sanction mechanisms and define arbitration mechanisms. The degree of flexibility and of private sector involvement depends on the type of agreement.

In Basilicata, almost 86% of framework agreement resources were used to finance public investments, mainly for networks (58.7%), environment (15.7%) and urban development (11.7%). Each APQ finances different interventions agreed within the APQ’s framework. The above-average value\(^1\) of agreements in these three sectors shows how effective the region has been in creating synergies. APQ effectiveness indeed depends on the public administration’s capacity to programme and build partnerships. A high economic euro completion rate and a high ratio of programmed/available resources place Basilicata among the best performing regions in the Mezzogiorno.

APQs are quite a flexible tool that adjust to evolving priorities. The region often used addenda to renegotiate contracts over time. Interestingly enough, there seems to be a pattern on the number of renegotiations. APQs on investments that require a long execution time (i.e. transport and water facilities),
were signed in 2000 and 2002, and only re-negotiated once four and five years later respectively. Those on viability and information society have been amended yearly for a total of four times each.

**Box 4. Framework agreements**

I nstitutional programme agreements are preliminary, strategically oriented acts signed by the central government and regions for the “definition of objectives, sectors, and areas where (material and immaterial) infrastructure essential to the territory should be built”. They provide an outline of general principles for developing specific sectors. Framework agreements (APQ) are their operational tool. APQs are signed by the region and the involved central administration/s, according to the nature and sector of intervention. The general purpose is to plan several interventions, to speed up programming (by defining a clear schedule and well-defined reciprocal commitments), to enhance co-ordination of interventions over time and to ensure coherence between the actions of public and private actors. The contract comprises two sections: an implementation section (sezione attuativa), which plans interventions for which multi-source financial resources are already available, and a programming section (sezione programmatica), which aims at defining interventions that meet the general criteria but for which financial and technical conditions are not yet fulfilled. APQs focus on six priorities, with networks (transport, mobility, ICT) and natural resources (water management) recording the greatest share of public investments.


Institutional contracts are a new tool for planning interventions in meta-areas. They have a longer horizon, involve the business sector, are results-oriented and introduce a stricter sanction system. In August 2012, Basilicata signed the first national institutional contract for development for the construction of a high-capacity railway between Basilicata, Puglia and Campania. The contract was signed by the central government (Ministry of Territorial Cohesion, Infrastructure and Transport), the regional governments (Basilicata, Puglia and Campania), as well as the transport providers (Ferrovie dello Stato and Rete Ferroviaria Italiana). It has a budget of almost EUR 7 billion and includes a ten-year programme. The contract defines procedures, interventions and the timeframe, with clear and strict sanctions in case of delays. It also defines Basilicata’s commitments in terms of regulatory support. It is a commonly agreed top-down intervention that does not foresee regional co-financing; it is financed by the central government budget (83.3%) and by national programmes’ structural funds (16.6%).

Despite this, both the central government and the sub-regional level perceive there are major challenges that hinder vertical co-operation for public investments. The central level finds there is a lack of information on central government investment priorities and on existing regional projects and needs (an observation confirmed by the regional level); a lack of engagement by the region in the priority setting process for public investment (which the regional level identifies as a lack of incentives to co-ordinate with the central level); insufficient regional co-financing of investments (that the regional level defines as “un-reasonable co-financing requirements”). Moreover, there is uncertainty at the political level about the commitment of central government funds. For instance, after the 2008 election, the government unexpectedly reduced Basilicata’s FAS funds by 5% (EUR 45.85 million).

**Vertical co-ordination between the regional and lower levels of government**

Basilicata seems to have a fairly centralised decision-making system that leveraged on the involvement of sub-regional levels of government and institutionalised it within specific programmes. The region has a long tradition of broader territorial agreements aimed at grouping adjoining municipalities together. The objective was to facilitate vertical co-operation by increasing the contracting power of municipalities in order to foster interventions that are more attentive to local needs, and to nurture horizontal co-operation. Previously called integrated territorial pacts (PIT), recent programming areas (that soon will become *Unioni di Comuni*) represent the intermediate body between the region and municipalities.
Each programming area co-ordinates municipalities’ actions along their competences (local transport, social services, environment, economic development and overarching local public functions). The Conference of Mayors, in which provincial representatives participate as well as the mayors themselves, is the political body in charge of strategic programming. It approves strategies and discusses them with the regional level. In order to strengthen the role of programming areas and to foster their effectiveness, the regional government has structured some programmes along this scheme. For instance, the priority for social inclusion within the ERDF programme finances programming areas’ plans for the integrated provision of services (POIS). The major challenge is that competences on programming and the design of public investment projects are lacking, especially at the local level.

3.3. Vertical co-ordination across levels of sub-national government

Co-ordination between the region and other regions

The government has always been aware of the need for co-ordinated actions between regions to implement broader projects in meta-areas. The structural difficulties of the Mezzogiorno called for strong central government intervention. A multi-year strategic document and a more detailed programming plan were drawn up by DPS/MISE together with the involved regions. The strategy foresaw interventions in favour of intra-regional infrastructure development (i.e. transport and energy), education and legality, mainly implemented by the central government. The above-mentioned contract for the construction of a high-capacity railway connecting Puglia, Campania and Basilicata is a good example. Inter-regional co-ordination, however, can stem from the central government’s as well as regional initiatives.

The Inter-regional Programme Agreement on Water, signed in 1999, is a 15-year agreement on water resources management between Puglia, Basilicata and the Ministry of Public Works. Its objective was to common plan the use of water, define tariffs and agree on investment strategies. The agreement has been extremely successful in increasing the quality and effectiveness of water provision in both regions. It set common standards for water provision within the territory and guaranteed sound priority settings. A clear governance structure in each region supported the establishment of a powerful, thin, flexible and responsive managing authority (Box 5). The major challenge for this type of agreement rests in ownership. Indeed, the main infrastructure is in Basilicata. Investments were financed through the central government budget but will soon be paid out of both regions’ budgets (water resources have become an exclusive competence of regions). The critical question is who will retain ownership of an investment paid for by Puglia but realised in Basilicata. In 2012, the agreement wobbled for the first time when Basilicata stopped a EUR 300 million FAS investment by Puglia for this reason.

Box 5. Governance of the Inter-regional Programme Agreement on Water

Water provision is provided through locally owned enterprises, with the province playing a regulatory role. Basilicata and Puglia are characterised by an interplay of a variety of actors: river basin authorities, authorities for optimal territorial areas (AATO), regions, provinces, local communities and service providers. Each region has a regional basin authority and both belong to the Southern Apennines River Basin District. For water supply and sanitation, each of the regions is organised into a single territorial optimal area (ATO) with a similar organisational structure for water management. Since 1994, Acquedotto Lucano, a publicly owned enterprise, has been the sole service provider for Basilicata, and Acqua Spa, a public enterprise, has been responsible for infrastructure maintenance and management. Co-operation between both regions has emerged because they are geographically inter-twined, rather than based on planned schemes, and was eased by governance choices. The Water Agreement set up a managing authority alternatively chaired by each of the two regional presidents, which rotate annually, with the Minister of Infrastructure and Basilicata and Puglia ATO representatives supported by a technical board. Any decision on public investment is approved by the managing authority and implemented by the service provider.

Source: Basilicata Regional Basin Authority and Programme Agreement on Water (1999).
Co-ordination among sub-regional levels of government

Sub-regional levels of government are responsible for local transport, social services, environment, economic development and overarching local public functions. Public investments mainly focus on transport, the environment and urban development. Given the small scale of sub-regional levels of government in Basilicata, horizontal co-operation arose quite naturally as a tool to reach critical mass, improve public governance and increase the contracting power of local authorities.

The main instrument for co-operation among sub-regional levels is the above-mentioned programming area. Municipalities are grouped in seven adjoining areas. A convention signed by all municipalities defines the mission and duration of the agreement, identifies a leading office and delineates clear roles and responsibilities. Staff is seconded from municipalities. The governance structure comprises a leading municipality, a president, and advisory and technical boards (usually organised by sector and attended by municipal councillors). Decisions are taken by majority vote. As a consequence, every municipality is counted with equal weight, regardless of its size.

With the success of this organisational structure in mind, Basilicata has institutionalised inter-municipal co-operation instruments within some operational programmes. They are set up mainly to finance joint provision of services, tourism and sustainable urban development.

4. Selecting and monitoring public investment projects

4.1. Strategic planning and horizontal co-ordination mechanisms

Regional investment priorities are defined in the Basilicata Development Plan for 2007-2013, which is then further detailed in an action plan. Annual economic and financial plans are fostered to support the implementation of the multi-annual documents, which result from a concerted action between the central government and the region. Yearly plans are concerted actions among different actors within the region. All bodies responsible for decision making and investment planning contribute to strategic planning. They also have units for evaluating and assessing public investments. These units support decision making by performing environmental impact assessments and feasibility studies. Neither financial institutions nor private actors are directly involved in this priority-setting process.

Public procurement

The region does not have a centralised office for public procurement. Each division is responsible for its own procurement. Many initiatives to improve public performance were mentioned specifically on public procurement, particularly in health care, which is the region’s major spending area and is also a procurement-intensive policy domain (Box 6). Those, however, focused mostly on reaching aggregate demand values that allowed reaping economies of scale (see Box 7).
Box 6. Cost savings in health expenditures

Basilicata was successful in containing health expenditures by creating a single general health fund, which manages a budget of roughly EUR 1 billion per year. The fund serves four health service units, two territorial agencies (Aziende sanitarie provinciali) and two hospitals. More importantly, the fund has rationalised regional spending on health through harmonised procedures that respect both EU and national rules. Cost benefits resulted not only from centralised management, but also from co-ordinating the procurement of pharmaceuticals (25% of all hospital costs) through a dynamic purchasing system. Italy was one of the first European countries to set up a regulatory framework for e-procurement allowing purchases above the EU threshold to occur online. This serves to enhance the efficiency of public spending and to simplify purchasing processes, in particular by reducing delays, increasing transparency through standardised documentation and fostering competitiveness. It also supports innovation in the public administration more generally. As a side effect, greater transparency and standardisation reduce the risk of litigations, and hence contribute to reducing uncertainty and contingent claims. Basilicata was successful in exploiting these advantages by purchasing pharmaceuticals needed for its health services through e-procurement, with savings of about 10-15% for the purchase of drugs using CONSIP, a public stock company owned by the Italian Ministry of the Economy and Finance, which specialises in e-government and can act on behalf of regional governments. Another avenue for cost savings in health expenditures is being explored by providing centralised insurance against clinical risks. Basilicata is one of seven regions (and the only one in Mezzogiorno) to take part in a national pilot to cut back on costs in this area. In 2011, the regional government paid about EUR 10 million to insurers and another EUR 10 million for damages. It expects to cut these costs in half through the centralised provisioning of insurance.

Box 7. Electric Service of Basilicata as a central purchasing body for electricity

Servizio Elettrico Lucano (SEL) acts as a central purchasing body of electricity for public administrations. In Basilicata only half of the electricity demand is produced regionally (two-thirds from gas and one-third from renewable energies) with the other half being imported from neighbouring regions. SEL, a new ten-person agency, is responsible for the central purchasing of electricity for public administrations. Currently the region spends EUR 0.8 million to finance SEL’s operating costs. The company has provided an 8% discount rate on CONSIP’s national price on energy. Currently, with only half of the public administrations involved, the company recorded yearly savings of more than EUR 0.8 million that could increase considering that most winning bids include an option to apply the same price to citizens as well.

Role of private sector

Although the majority of regional policy funds have conditionalities linked to private co-financing, the private sector plays a minor role in setting public investment strategies in Basilicata. The regional government has always limited the involvement of private actors in public matters, a choice that was supported by popular referendum in 2011 that repealed the rules that allowed the management of local public services to be entrusted to the private sector. At present, the private sector has little say in the design and implementation of public investment in the region, and when it does, it is more a matter of ad hoc situations, meaning in those sectors where national public enterprises operating regionally play a key role (transport, telecommunications, energy). Local public enterprises (i.e. Acquedotto Lucano, Servizio Elettrico Lucano, etc.), on the other hand, also play an important role. They have sectoral specialisations (water, energy, electricity) and technical competences that make them essential partners for regional and sub-national governments, in addition to access to budget to support the designing and planning of public investments.

4.2. Administrative capacity

Basilicata has a reputation for having a higher quality of government than other Mezzogiorno regions, with a strong rule of law, lower levels of corruption and a competent public administration. However, both the regional and local levels face administrative capacity challenges when it comes to managing public investments. For the staff currently in force, there is a mismatch between civil servants’ skills and
institutions’ needs, which hinders the implementation of some activities. Civil servants are perceived to be engaged in administrative tasks most of the time. Competences for programming and project design are lacking, especially at the local level. This not only weakens the role of municipalities in the programming phase, but it also has a negative impact when municipalities are called upon to approve and realise projects along the set priorities. Moreover, provided that there is no unified structure responsible for public investment, and that there is lack of communication between different regional divisions, synergies are rare.

Rigid national regulations hinder regional and local authorities’ capacity to renew their staff and to hire short-term consultants on an ad hoc basis. On the one hand, the Stability Pact and overstaffing make it difficult for the region to hire new employees. It is also a challenge to attract qualified workers, since salaries and benefits are not competitive with those of the private sector. On the other hand, current legislation foresees that when a public administration unit is abolished, the staff should be absorbed by other units. This leaves little scope for hiring new staff, especially if one considers that in 2008 the Comunità Montane were abolished and that the province of Matera might soon follow.  

The region has recently launched a project to map competences with the ultimate goal of reducing the mismatch between skills and needs. It also provides training courses for specific sectors and skills (e.g. on new regulations, and public procurement, among others.). Moreover, the region is engaged in renewing the performance-based evaluation system for public employees. The current system rewards three-fourths of public employees, with half of the resources committed to the top 25% performers and the other half committed to the following two-fourths. This system discourages out-performance by rewarding almost all employees, whereas the new one should be more selective and transparent.

### 4.3. Monitoring and evaluating public investment projects

Since 1998, the government has emphasised the role of monitoring and evaluation to support policy making. In addition to national M&E institutions (such as the line ministries and the inter-ministerial committee, which have their own evaluation units), the regional level has a Public Investment Evaluation Unit (NVVIP) under the Department for Structural Funds, which is responsible for monitoring and evaluating all public investments in the region and for checking the consistency of strategic projects with respect to the regional development plan and the annual financial plan. The unit also performs impact evaluations of public investment projects on employment and production. Basilicata has invested heavily in monitoring and evaluation to support decision makers; compared to other regions, NVVIP is extremely active.

For building technical capacity for M&E, the Department for Development and Cohesion Policies of the Ministry of Economic Development, responsible at national level for regional policy, set up a Public Investment Evaluation Unit (UVAL) to provide technical support to the government for developing methods for ex ante, mid-term and ex post evaluation of public investment projects. The unit has played a significant role in designing incentive mechanisms to enhance the effectiveness of public interventions; it conducts ad hoc evaluations of economic policies requested by CIPE. UVAL also set up a network of central and regional evaluation units to promote the use of evaluation as a tool for decision makers at lower levels of government and to encourage regions to share methodologies and best practices. It organises workshops and training on programming and evaluation nationwide.

Data on public investments are gathered through a centralised System for Monitoring Public Investments. This system aims at collecting timely data on the implementation of all public investment projects financed by multiple resources. Through a unified codification system (see Box 8), it gathers data on procedural, physical and financial aspects. The system is also fed by the Information System on Operations of Government Bodies (SIOPE), a system for the online collection of data on cash transactions, payment and collections made by every public administration. The system is being tested in five pilot regions since 2007; Basilicata is the only one in the Mezzogiorno. Recently, the Ministry of
Territorial Cohesion set up a public open data system for monitoring expenditures of territorial cohesion policy (both structural funds and FAS), with the aim of increasing the capacity of end users and policy makers to understand and use such information and ultimately improve the way funds are used.

A regional Monitoring Public Investments (SIMIP) System collects data on all investments implemented in the region, whether financed with ERDF, FAS and/or regional resources (both own budget and central transfers). There is a separate system to collect information on ESF-financed projects. Both systems can communicate with each other and with the regional accounting system (SIC).

**Box 8. Project-unified ID code for public investments**

The project-unified ID code is a 15-digit label that identifies a public investment project throughout its life cycle. It is mandatory for projects financed by public or publicly controlled enterprises, for public works, for incentives for services and productive activities, and for local development projects. The code carries information on the: nature and type of project (i.e. public works, acquisition of assets, incentives for productive activities, etc.), sector, location, budget, beneficiary name and main sector of activity. This system feeds two databases: a project registry and a beneficiary registry. Banks and institutions, responsible for payment on behalf of public administrations, cannot issue payments without the provision of this ID code. This type of system simplifies administrative tasks, harmonises procedures among different public administrations in charge of public investments and reduces the costs of monitoring systems. Moreover, it reduces the degree of error.


Despite the strong emphasis on monitoring and evaluation as a tool to support decision making, *ex post* evaluation is still fairly weak at both the national and regional level; it hinges on the European programming timeframe, hence long-term *ex post* evaluation is usually performed close to the a new EU programming cycle.

**5. Lessons and good practices**

Thanks to the active involvement of the regional government, Basilicata has a clearly defined strategy for regional development. Close relationships with stakeholders and a willingness to co-operate have contributed to this dynamic.

To compensate for the small size of its institutions, the region has developed innovative procedures for public procurement. Examples of this include a dynamic purchasing system for medications and the creation of a central purchasing body for electricity.

Basilicata is a role model for monitoring and evaluating public investment, and was among one of the first Italian regions to create such a unit. It is the only region in the Mezzogiorno to take part in the nationally centralised system for monitoring public investment.
NOTES


2. The remaining five regions are constitutionally given a broader autonomy through special statutes. After the end of World War II, these regions were provided greater autonomy to prevent secession from Italy and to take into account linguistic and cultural differences.

3. According to INPS, the number of authorised hours increased by 25.2% in 2010 and by 4.5% in 2011. Cassa Integrazione Guadagni (CIG) is a special public fund used to protect workers’ income. In cases laid down by law, CIG makes up the pay of employees affected by suspension of work or short-time working, up to 80% of lost pay. The fund operates through ordinary and special interventions. The former is guaranteed by INPS when circumstances cannot be blamed either on the employer or the employees, or because of temporary market situations. The latter is guaranteed by the Ministry of Labour when a company’s reorganisation, restructuring or economic difficulties are of particular social importance. CIG originally applied to industry, but since 1992 special interventions were extended to commercial enterprises (with more than 50 employees), artisanal enterprises, agriculture co-operatives, construction, and catering and restaurant enterprises. From a tool to temporarily protect employees’ income in the expectation that the company would eventually resume normal activity, the fund extended its requirements (time-limit and eligibility for special interventions) and in reality it became a welfare instrument for managing labour surpluses.

4. Barilla established a plant in Melfi in 1986 that created 400 jobs and Fiat in 1991-1993, which created 7,000 jobs.

5. One, however, needs to control for the effect of the EU enlargement on zoning. Indeed, after 2007, the EU average GDP per capita fell sharply. For 2007-2013, “phasing-out regions” are those that used to be eligible for funding under the convergence objective within the EU-15 but are now above the EU-25 75% threshold.

6. The government owns 30.3% of ENI (3.93% through the Treasury and 26.37% through Cassa Depositi e Prestiti).

7. Government spending represents 32% of regional GDP in Basilicata against the Italian average of 21.3% and the average in the north of Italy of 17.1% (ISTAT, 2009).

8. See the European Charter of Local Self-government, Article 9 (1) for taxes and (7) for grants.

9. Regions have long argued that the Internal Stability Pact has become too rigid; in particular, they claim that the thresholds should not include capital expenditures but only current ones.

10. Recently local tax rates have been frozen by national legislation, a blockage that will only be relinquished from 2013 on (“new technique”). The regional government does not have any power to levy contributions for public works (tasse di scopo per opere) either, which severely restricts its financial autonomy.

11. The total funding under the ERDF until 2013 is EUR 752 million, 34.2 % of which were spent before 2012, which is relatively high. The annual amount to spend in 2012 is about EUR 114 million (Regione Basilicata, 2012).

12. During the first five years of the ERDF, Basilicata has spent 34.2% of the funding, by far the highest in the Mezzogiorno. However, the performance is still below the European average of 37.5% (Regione Basilicata, 2012).

13. The Financial Law of 2010 ties regional debt exclusively to capital spending, but sets the limit at 100 of recurrent revenues (addendum to Article 74).
14. The region no longer (since 2005) accounts public borrowing for certain investments as own capital revenue (Title V), but as an earmarked transfer for capital purposes from the state (Title IV) where the latter assumes the borrowing risk according to Article 76 of the 2005 Financial Law. The debt service is carried directly by the state without going through sub-national budgets.

15. Central government funds allocated by CIPE on a fixed ratio between the Mezzogiorno and northern Italy are 85-15%. FAS finances projects of national, inter-regional and regional interest; resources are clearly allocated to each purpose on a seven-year basis that coincide with the EU structural funding programming timeline.

16. Among others the Railway Network (RFI), the National Road Agency (ANAS), the National Civil Aviation Authority (ENAC), the Italian Company for Air Navigation Services (ENAV) and the major private concessionaires for motorways, airports, railways, water and ports.

17. For 2009, moreover, more than 56% of the central government’s share of total expenses were for welfare and retirement benefits (Ministry for Economic Development (DPS), UVAL: regional public accounts).


19. Regional Law 33/2010 defines seven areas: Alto Basento, Vulture Alto Bradano, Metaponitno Collina Materana, Lagonegrese Pollino, Bradanica Medio Basento, Marmo Platano Melandro, Val d’Agri from the previously eight PIT.

20. Basilicata ranks 16th out of 21 regions, with all other southern regions behind (Charron et al., 2010).

21. Recent legislation (Law Decree 201 and 214/2011) foresees the revision of provinces to harmonise same-level public government institutions nationwide and limit excessive proliferation. From 1974 to 2004, the number of provinces grew from 95 to 110. The reform follows three criteria: population, size of territory and number of municipalities. Matera does not respect two of them, thus it might be abolished. Until 2012, the reorganisation is by regional legislation, if not forthcoming, by state law.

22. www.dps.tesoro.it/uval_eng/evaluation_unit_network.asp.

23. Full implementation has been underway since 1999. Currently MIP only covers public works and incentives.

24. SIOPE is managed by the General Accounting Department, the Bank of Italy and the National Institute of Statistics.

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