

THE EU REGIONAL POLICY AND ITS IMPACT ON TWO MEDITERRANEAN MEMBER STATES (ITALY AND SPAIN)

by

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A thesis submitted to the University of Birmingham for the
degree of DOCTOR OF PHILOSOPHY

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April 2011

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ABSTRACT

The aim of EU Regional Policy is to intervene effectively in regions that “lag behind” in economic terms and to finance development programmes through the allocation of Structural Funds which operate in accordance with the principles of subsidiarity, additionality and partnership. This policy should allow regions to converge with EU averages in terms of income and employment. Italy and Spain provide very good examples within the EU as a whole, of significant economic disparities between regions that still appear to be present. We argue and provide substantial evidence of the fact that the persistence of such disparities is mainly due to inefficient administrative and institutional capacity at the regional level. Although some regions have brought themselves towards the average, in Italy and Spain, there is evidence that certain administrative, institutional and implementation problems have tended to appear, hampering the opportunities of regions to converge in the required way. Because of this, regional economic convergence and thereby socio-economic cohesion are still beyond reach. Two decades after the 1988 Reform of the Structural Funds, EU Regional Policy has only partially succeeded in reducing regional economic divergence within Italy and Spain, where regional economic inequalities still exist. Although we demonstrate that some regions have been able to move forward in the requisite way, it is questionable whether all of the support for these regions can actually be eliminated completely in the near future with the challenges that the EU faces, particularly in relation to the latest round of Enlargement.

ACKNOWLEDGEMENTS

I would like to acknowledge my deepest gratitude to:

My supervisors: Professor John Redmond, Professor David Bailey and Dr Lisa De Propriis

My translators: Maria Lucia Donati and Marian Hernandez

My proof readers: Liz Broomfield and Dr Monica Borg

Dr Edward Newman for his priceless assistance

All the interviewees who were kind enough to share their deep knowledge with me

This thesis would not have been possible without their wisdom and support.

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CHAPTER 1

INTRODUCTION

1.1-AIM AND OBJECTIVES

The main aim of this thesis is to critically examine the impact of the European Union (EU) Regional “Cohesion” Policy¹ on Italy and Spain in order to increase our understanding of the reasons behind an economic divergence amongst the NUTS (*Nomenclature des Unités Territoriales Statistiques*²) 2 regions of these two countries which is still present. It also attempts to explore whether EU Regional Policy, according to its four fundamental principles of subsidiarity, additionality, partnership, and programming, has contributed positively to regional economic convergence, towards the cohesion target. The analysis relies on three performance indicators: employment rates, unemployment rates and Gross Domestic Product (GDP) per capita. In very simplified terms, the argument underpinning this thesis can be synthesised in the following flow-chart.



Institutional capacity is the basis for regional economic convergence to take place and the comparative element in the examination of the Italian and Spanish case studies

¹ The meaning of “Regional” Policy is the same as that of “Cohesion” Policy. The main aim of EU Regional Policy is the establishment of economic cohesion amongst its Member States, so throughout the thesis, the EU Regional Policy is sometimes referred as “Cohesion” one.

² Nomenclature of Territorial Units for Statistics. In our thesis, NUTS 2 regions include EU regions with a population between 800,000 and 3 million inhabitants (Europa, 2008a).

will be strengthened by a framework focused on institutional capacity building. Institutional capacity includes all the actions, programmes and projects needed in order for an institution to function properly and according to the specific needs for which it has been established. In the case of the thesis, this term is applied to regional institutions. Institutional capacity building means the establishment of regional administrations capable of putting the regional policy into practice and, hence, satisfactory regional institutional capacity building involves making the regional institutions that comprise the regional administrations competent to a) identify the regional problems and needs, b) become familiarised with the EU Regional Policy framework and basic principles, c) cooperate efficiently with the EU institutions for EU Regional Policy [European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund, European Agricultural Guidance and Guarantee Fund (EAGGF) and Financial Instrument for Fisheries Guidance (FIFG)] and d) find solutions to those regional problems that hamper development.

Institutional capacity is closely linked with administrative capacity. Regional administrative capacity includes all the actions and management conducted by the regional governments in order for regional development to take place. Such actions include not only the management of the Structural Funds (SFs), but also the entire range of responsibility of the regional governments. The responsibilities of the Italian NUTS 2 regions include a) community and social services, b) planning, c) economic development, d) health and e) police. The responsibilities of the Spanish NUTS 2 regions include a) urban planning, b) regional development, c) housing, d) public works, e) environment, f) social services, g) culture, h) tourism, i) agriculture and j)

communications (Russell Barter, 2000). Administrative capacity is linked to the efficient absorption of the SFs and thus it is linked with the term “spending capacity”.

Spending capacity is the ability of regions to absorb the SFs (allocated to them by the EU in the context of EU Regional Policy) in the best possible way in order for regional development to take place. Spending capacity is the ability of regions to invest the SFs in certain sectors and areas which have potential for future economic growth and development. Spending capacity can be measured as a percentage of the funds already “spent” compared to those initially allocated. In the context of the SFs expenditures, there is a two-step procedure. The first step includes the initial allocation of SFs, where it is necessary for SFs to be committed to specific expenditures in terms of individual programmes-projects, or a set of projects. This first step requires the need to exactly identify where the allocated SFs can be spent (invested) in order for regional development to take place. The second step includes the expenditures that have to take place in order to pay for the actual realisation of the programmes, or projects. Spending capacity is expressed by the percentage of the executed payments over the committed ones (Glusman, 2010; Leonardi, 2003 and 2005; Milio, 2007 and 2010; Mota and Noferini, 2010).

Regional economic convergence in general means the elimination of economic disparities that exist between regions. Convergence is here intended in economic terms and it is measured in terms of per capita GDP (relative to the EU average). Convergence is understood as a process of regional growth that permits low performing regions to experience increasing GDP per capita, which ultimately tends to converge to the EU-27 average. For Convergence Regions this means aspiring to reach a GDP per capita above 75% of the EU-27 average, thereby exiting the Convergence Objective.

Measuring the process of convergence is complex, and calls for the combination of two factors: a) it is necessary to refer to a temporal framework, as convergence implies an action of approximation, and this requires development to be measured over a period of time, b) it is necessary to compare the evolution of the region's economy with that of its immediate areas of reference (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009). For example, we can compare the convergence of the regions with that of the countries of which they are part, or the EU as a whole.

The concept of convergence is closely related to the concept of cohesion. Cohesion is the related political objective. It is a political science term meaning the harmonisation of socio-economic disparities, in order for a region to function more appropriately towards progress, socio-economic stability and development. Income convergence is the means by which in part economic cohesion is achieved (Leonardi, 2005). This close relation between cohesion and convergence is indicative of the close relation of the fields of economics and political science in this thesis. If economic convergence does not take place, then the political objective of socio-economic cohesion cannot take place either. Cohesion is the outcome of convergence.

Regional economic divergence is the exact opposite of convergence and means the continuous existence of economic disparities between regions. Regional economic disparities are the economic differences between regions in the context of specific economic variables, such as GDP, income, employment and unemployment.

The Convergence Objective *“aims to help the least developed Member States and regions that are lagging behind to close the gap more quickly in relation to the EU average by improving conditions for growth and development”* (Regional Policy

Inforegio/Convergence Objective, 2010:1) and its main areas of action include infrastructure, employment, information and communication technologies and administrative efficiency in public services and administration (Regional Policy Inforegio/Convergence Objective, 2010). Overall, the Convergence Objective aims to create growth-enhancing factors and conditions, which can deliver real convergence for the least-favoured EU regions (Regional Policy Inforegio/Key Objectives, 2009). The sources of funding are the ERDF, the ESF and the Cohesion Fund, although the latter does not apply to Italy.

The key question we aim to address is whether EU Regional Policy, through the allocation of the SFs, has indeed resulted in a reduction in unemployment and an increase in GDP per capita and employment in the four Italian (Campania, Calabria, Puglia and Basilicata) and four Spanish (Castilla y León, Comunidad Valenciana, Andalucía and Extremadura) case studies of the thesis³. We would argue that satisfactory institutional capacity building depends on the efficiency of the structural adjustments that should take place within the regional administrations, in order for the Community Support Framework (CSF) to be put in practice in a more adequate way. This would lead to a better utilisation of EU funds, which would then be likely to have a more visible impact on regional economic development. In order for a satisfactory regional economic performance to take place to work towards the target of economic convergence, spending capacity must be successfully associated with adequate institutional capacity. In the EU context, the mark of a satisfactory regional economic performance for a region would be its exclusion of a region from the Convergence Objective, as its GDP per head had grown above the 75% threshold.

³ Note: All NUTS 2 regions referred in this thesis are cited exactly as they are referred at the official documents by Eurostat.

So far, we can argue that in the cases of Sardegna, Basilicata, Castilla y León and Comunidad Valenciana, the results of the combination of spending and institutional capacity have been encouraging, with the result that these four regions have been able to be excluded from the Convergence Objective. In the remaining four regions selected in the thesis, despite the fact that the allocation of the EU SFs was more than generous, the results are less than encouraging, as these regions are still included in the Convergence Objective for the current CSF Cycle (2007-13). Regional economic development has indeed taken place in these regions as well, but to a lesser extent. We would argue that one of the main reasons for this is their institutional problems. The following sections clarify the methodology on which this thesis is based, as well as the design of the structure.

1.2-METHODOLOGY

The methodology of the thesis is based on the collection of primary and secondary data. Primary data are collected through conducting interviews with regional and national policy-makers for the eight case study regions chosen for the analysis, as well as representatives of the EU Commission. The interviewees at the regional, national and EU level were carefully chosen according to their knowledge, experience and the specific positions they hold. The interviewees at the regional level were regional ministers, regional presidents, directors, managers, administrative members and university professors involved with EU Regional Policy. The interviewees at the national level were general directors, sub-directors, economic analysts and members of evaluation units at the Italian and Spanish Ministries in charge of regional policies. The

interviewees at the EU level were programme managers in charge of EU Regional Policy in Italy and Spain, working for the European Commission in Brussels.

Secondary data have been gathered from a critical survey of the current relevant literature, as well as statistical data, reports and statistics databases mainly provided by Eurostat and the Spanish and Italian national and regional statistical institutes in charge of regional policies.

The chapters on “*Regionalism, Structuralism and Regional Development*” and “*European Union Regional Policy and Policy Evaluation*” tend to include mainly secondary data and information, whereas those detailing the “*Profile of Regional Policy in Italy and Spain*”, the “*Analysis of the four Italian regions*” and the “*Analysis of the four Spanish regions*” include a combination of primary and secondary data. All primary data are included and presented in Appendix 2, where a summary of the transcript of the interviews can be found.

The reason for following such a methodological approach is the fact that primary directly reported data can offer more direct opinions and comments regarding the specific research questions of the thesis and can interact with the main arguments of the thesis more efficiently. Primary data are complementary to secondary ones and establish a more coherent evaluation of the regional divergence patterns that have taken place in both Spain and Italy. The methodology used is further explained in the following paragraphs, where the structure of the thesis is briefly presented.

1.3-STRUCTURE OF THE THESIS

The thesis includes six chapters and three appendices. Chapter 2 is on “*Regionalism, Structuralism and Regional Development*” and presents the conceptual theoretical

framework encasing the research; this is essential for a better understanding of the thesis' arguments. We draw on the following theories: a) region-regionalism, b) structuralism-dependency theory and c) theories of regional development ("top-down" and "bottom-up" approaches). The first section of the first part of the chapter concerns the clarification of the term "region". It is essential to analyse the characteristics and limitations of this term thanks to a critical and comparative literature scrutiny that mainly draws on the contributions of Tavares (2004), Evans, (2002), Schmitt-Egner (2002) and Downs (2002).

An analysis of the term "regionalism" follows in order to define the "regional scale" at which this study is based. We then link regionalism with region for a better understanding of the foundations of EU Regional Policy. Indeed, regionalism is the main theoretical and methodological tool on which EU Regional Policy is based, and it is important for analysing the regional policy of Italy and Spain. We also present the clash between the intergovernmentalist and supranationalist approaches at the EU level and adapt it in the context of the implementation of the SFs by the regions. This section of the chapter is mainly based on the work of Allen (2000), Katzenstein (1996), Acharya (1999), Ghica (2008), Lerro and Schiuma (2009), Leonardi (2005), Wyatt-Walter (1995), Tavares (2004), Strecker (1994), Wallis (2002), Hurrell (1995), Bache (1999), Bache and Flinders (2004), Bailey and De Propriis (2006) Mansfield and Milner (1999) and Cable (1994).

The second part of this theoretical chapter presents an analysis of "dependency theory", an introduction to the terms "core", "periphery" and "semi-periphery" and an examination of the theory of "structuralism", as a predecessor of dependency theory. It is essential to examine dependency theory, since it can be efficiently linked to regional

policy. It is related to Marxist theory, and highlights the uneven development that takes place in the two countries of our study and sets the criteria according to which adequate structural development can become a reality. This part is mainly based on the work of Callinicos (1983), Seers (1983), Levitas (1974), Austin (1990), Bailey and Driffield (2002), Hymer (Hymer, 1975 in Bailey and Driffield, 2002), Kurzwell (1996), Rice and Waugh (1992), Brookfield (1975), Palma (1981) and Frank (Frank, 1967 in Palma, 1981).

In the third part, we look at the theory of “regional development” (mainly based on the work of Bergman, Maier and Todtling (1991), Harrop (2000), Martin and Sunley (1996), Krugman (1991 and 1994), Krugman and Obstfeld (1997), Krugman and Venables (1995), Friedmann (1991), Chatterji and Dewhurst (1996), Stohr and Taylor (1981), Hirshman (1958), Myrdal (1957), Pedersen (1991), Comtois (1986), Mittelman (1996), Hansen (1981), Williamson (Williamson, 1965 in Hansen, 1981), Darwent (1969), Perroux (Perroux, 1950 in Darwent, 1969), Buck (2006) and Illeris (Illeris, 1993 in Buck, 2006), which argues that regional convergence and regional divergence are fundamental processes not only for identifying the problems of regional development⁴, but more broadly also for measuring the extent of a country’s uneven development. The last part reviews the “top-down/centre down” and “bottom-up” approaches. We critically compare them and use such concepts to trace how policy has changed over time in both Spain and Italy.

Chapter 3 is on “*EU Regional Policy and Policy Evaluation*” and discusses how EU Regional Policy has been conducted from the establishment of the EEC up to the current CSF Cycle (2007-13), with an emphasis on the most important debates and

⁴ Such as those in Italy and Spain.

decisions concerning the impact of EU Regional Policy on Italy and Spain. This chapter not only concentrates on the 1988 Regional Policy reforms and the following CSF Cycles, but also provides a background to the regional policy of the European Economic Community (EEC) since its establishment. In this chapter, we also refer to the Economic and Monetary Union (EMU), as well as to EU Enlargement, as these are factors that have clearly had a serious impact (mainly budgetary) on EU Regional Policy. This section is mainly based on the work of Leonardi (2005), Allen (2000), Dinan (1999), Gillingham (2003), Armstrong (2004), Bache (1998) and Barry and Begg (2003).

It further presents a critical survey of the literature on policy evaluation with an emphasis on issues such as the ex-ante, intermediate and ex-post evaluations and the monitoring procedures. In the final section, an evaluation framework is established in order to attempt to estimate the impact of EU Regional Policy in the context of regional economic development in Italy and Spain, towards the target of regional economic convergence. The evaluation sections are mainly based on the work of Bachtler and Mendez (2010a and 2010b), Bachtler, Mendez and Wishlade (2009 and 2010), Bachtler and Gorzelak (2007), Polverari and Bachtler (2004), Mirwaldt, McMaster and Bachtler (2009), Milio (2007 and 2010), Kearney (1997), Nicita (2008), Feinstein and Zapico-Goni (2010) and on EU evaluation reports.

In the “*Profile of Regional Policy in Italy and Spain*” chapter, an analytical and comparative profile of regional policy and regions in the two EU Member States of the thesis is presented. The aim of this chapter is to offer a coherent view of the regional economic situation in Italy and Spain, through the use of GDP per capita, employment and unemployment rates. A wealth of data is relied upon in order to ascertain whether

EU Regional Policy has had a positive impact on these countries and their regions in particular. The tables and figures included in this chapter are intended to offer a quantitative view of the economic situation, whereas the further analysis based on the literature review offers a more qualitative view.

In the “*Analysis of the four Italian regions*” chapter, there is an attempt to critically present the four Italian case studies in order to understand why some Italian NUTS 2 regions have experienced a high degree of regional economic development, whilst some others have not. The case studies examined in this chapter are four regions - Basilicata, Calabria, Puglia and Campania - which were eligible for Objective 1 funding during the third CSF Cycle (2000-2006). The reason for choosing them is that Basilicata has exited the Convergence Objective, even as a “Phasing-Out” Region, which means it has exited because of the EU Enlargement, while the other three, despite the fact that they also received significant amounts of funds, have not significantly reduced divergence and are still included in the Convergence Objective, mainly due to problems regarding their institutional capacity. We compare the economic performance of these four regions to find out the reasons for this outcome with a special emphasis on the management of the funds. Regions such as Sardegna and Sicilia are excluded from further study since their economy is mainly based on tourism and the inputs and outputs are not clearly presented in official statistics.

The main variables considered are the GDP per capita and the unemployment and employment rates, in addition to a critical observation of regional spending, administrative capacity and implementation problems. In this chapter, the analysis of secondary data is integrated with primary data extracted from the interviews we conducted with key regional authorities.

In the “*Analysis of the four Spanish regions*” chapter, we present the four Spanish case studies – Castilla y León, Comunidad Valenciana, Andalucía and Extremadura - in order to understand the effects of EU Regional Policy on the regions and to measure their degree of convergence. These regions have been chosen due to the fact that during the third CSF Cycle (2000-2006) they were all included in Objective 1, but during the current CSF Cycle (2007-2013) Castilla y León and Comunidad Valenciana have been excluded from the Convergence Objective (both as “Phasing-In” Regions, which means they have exited the Convergence Objective due to their significant regional economic development), while the other two regions are still included in the Convergence Objective despite the fact that they have all received significant SFs.

Our analysis critically compares the management of funds and the institutional capacity amongst the regions and sheds light on whether EU Regional Policy, through the SFs, has indeed helped such regions reach the target of achieving regional development and thereby decreasing their extent of their economic divergence. Again here a combination of primary and secondary data is essential. Primary data are extracted from the interviews we conducted with key regional authorities.

Finally, the “*Concluding remarks and policy recommendations*” chapter summarises the main findings of our analysis, offering an evaluation of the convergence level reached within the two countries. The main conclusions are three: a) the evident regional divergence (clear distinction between core and periphery) that exists in Italy and Spain can be effectively analysed and explained by the use of dependency theory, which emerges from structuralism, b) the terms new and soft regionalism, as well as MLG can be effectively adapted to the case of EU Regional Policy and c) the less-centralised, “bottom-up” approach seems to be more effective than the “top-down” one,

in order for regional development to take place. The currently existing regional economic divergence in our eight EU regions used as case studies has its roots in the high degree of centralisation of the national regional policies, the inadequate cooperation between EU, national and regional authorities, and the lack of respect for the principles of additionality, subsidiarity and partnership.

Also, in this chapter there is a critical discussion about EU Enlargement and the challenges it poses to EU Regional Policy, with the main emphasis given to budgetary constraints and more specifically to whether or not (after 2013) the EU can actually afford to fund underperforming regions, which have not shown significant traces of regional economic convergence and development for the last 20 years. This issue is closely related to the question of whether the EU should continue using the bottom-up approach after 2013. We feel that this study helps estimate and evaluate the impact of regional policy not only in the eight Italian and Spanish case studies, but more generally in the cases of the new EU Member States of the currently significantly enlarged EU.

The academic contribution of this thesis is mainly applied. The novelty lies in the collection of the secondary data and the results that can be drawn from them in the context of EU Regional Policy and the adaptation of the aforementioned theoretical models to the cases of Italy and Spain. It should be mentioned that the aim of this thesis is not to produce a new theory, but to adapt existing theoretical models to the case studies in a slightly different way to the studies existing in the current bibliography. The combination of primary and secondary data and their analytical presentation in order to measure the impact of EU Regional Policy on Italy and Spain are the main contributions of the thesis.

CHAPTER 2

REGIONALISM, STRUCTURALISM AND REGIONAL DEVELOPMENT

In this section the theoretical framework of the thesis will be presented. It will clarify the definition of terms extensively used throughout the thesis and it will critically discuss the relevant academic and policy-related contributions. Firstly, it is important to clearly define and explain the exact meaning of the term “region”. This survey is about regions, so it is necessary to stress clearly what is meant by them. Secondly and related to the above, we introduce the term “regionalism” as the main theoretical and methodological tool, on which EU Regional Policy is based.

Thirdly, we critically analyse “dependency theory” (which highlights the uneven development that takes place within Italy and Spain), introducing terms such as “core”, “periphery” and “semi-periphery” and examining the theory of “structuralism”, which preceded dependency theory. Finally, we analyse the theories of “regional development”, which will be the main theoretical instrument used throughout my study. The reason for choosing this theory is the fact that its basic elements, which are “regional convergence” and “regional divergence”, are fundamental, not only in order to identify the problems of regional development in Italy and Spain, but also in order to measure this uneven development and come up with adequate explanations for its existence. Related to this, the concepts of “top-down/centre down” and “bottom-up” policy approaches will be introduced and compared with relevance to the specific characteristics and problems of Italy and Spain.

The main concern of EU Regional Policy is the regional economic divergence that exists within the EU. Regional disparities and inequalities may result in a real threat to the solidarity and the targets of the EU and may have a negative impact on the Single

Market and the EMU. The question that needs to be addressed is whether EU Regional Policy has had a positive impact in the EU Member States. This section attempts to present and critically discuss the main academic work that has been done on EU Regional Policy in general, from the beginning of the EEC in the late 1950s up until the current decade. It is well accepted that inequalities create economic gaps that may lead not only to economic instability, but also to socio-political tensions, overall threatening the European vision. Hence, an effective Regional “Cohesion” Policy is undoubtedly one of the main concerns of the EU.

There are four main bodies of literature that deal with EU Regional Policy. The first is economics literature, mainly focused on how public policy can affect growth, job creation and unemployment reduction (Krugman, 1991 and 1994; Krugman and Obstfeld, 1997; Krugman and Venables, 1995). This body of literature mainly concentrates on the economic outcomes of EU Regional Policy (Combes and Overman, 2004) and tries to estimate how EU Regional Policy will make the peripheral⁵ Member States more competitive in terms of the Single Market and the EMU (Leonardi, 2005).

The second body of literature is that of regional science (Milio, 2007 and 2010; Evans, 2002; Schmitt-Egner, 2002; Downs, 2002), mainly focused on the policy process⁶. The main question this body attempts to answer is how EU Cohesion Policy influences a) the efficiency of development efforts and b) the distribution of well-being throughout the national territory (Leonardi, 2005). This literature is more interested in the outcomes of the policy, than in the decision-making process.

The third stream of literature is concerned with political science, and in particular the field of Europeanisation studies, mainly interested in how EU Regional Policy can

⁵ In terms of income GDP per capita, employment and unemployment.

⁶ Outputs and outcomes.

affect a) domestic administration and b) internal politics at both a national and regional level-context. Unlike regional science, the political science is interested in both the decision-making and the implementation process. This body concentrates on how institutional interactions⁷ affect a) the implementation of the Regional Policy guidelines and b) the stakeholders who must be the main beneficiaries of policy outputs (Allen, 2000), (Armstrong, 2004). One of the main characteristics of the political science analysis is the Multi-Level Governance (MLG) pattern (Milio, 2010), as it is based on a critical comparison and evaluation between the regional, the national and (up to a certain extent, especially in the field of Europeanisation Studies) the EU level (Leonardi, 2005).

The fourth body of literature is international relations (IR), mainly focused on how policies emerge and function, as well as on the role of actors (Allen, 2000; Harrop, 1996 and 2000; Gillingham, 2003). This body is not particularly interested either in economic outcomes, or decision-making processes, since their main interest is whether the EU fits into the model of an international regime. Some IR scientists argue that the EU looks like a supranational confederation, others like a loose federation and others like an intergovernmental union. We would argue that given the scope of this study, this literature is probably the least relevant.

The methodological approach of this study is a combination of the first three bodies of literature: -economics, regional science and political science-. Studies in economics are important because this study is based on the analysis of economic variables, and the issues of growth, job creation and unemployment reduction are of main importance. The regional science research is also important because one of the most significant attempts

⁷ Dealing with Regional Policy.

of this study is to evaluate the efficiency of development efforts throughout the national territory of the Member States examined, namely Italy and Spain. The political science research is important since this study is heavily based on MLG patterns and on the simultaneous comparison of the regional, national and the EU levels. This body of work is focused on the decision making process, which is very important in understanding the nature, meaning and implementation of national as well as EU decisions in relation to EU Regional Policy.

In an attempt to link the main theories used in this thesis (regionalism, structuralism, dependency theory and theories of regional development) with the aforementioned bodies of literature, we can argue that regionalism is linked with the body of regional science research. Structuralism and dependency theory are both mainly linked with the body of economic research, because, as we will see after examining these theories, the regions are divided in core, semi-periphery and periphery categories according to their economic development, which includes income level, investments, employment and unemployment. The theories of regional development are linked with both economics and political science research, as they deal not only with the economic interactions between the developed and less developed regions, but also with the kind of policy that should be used in order for regional economic development to take place within the less developed regions. As we will see, the top-down and bottom-up approaches are linked with the policy-making process (in order to decide which is more efficient for regional development), whilst the issue of convergence is clearly associated with economics.

2.1-REGION AND REGIONALISM AND THE LINK BETWEEN THEM

2.1.1-REGION: A CONCEPTUAL CLARIFICATION

The issues of region and regionalism are linked with the body of literature in regional science and the reason for analysing the term “region” is simply the fact that this study is about EU Regional Policy, where regions play the most important part (Evans, 2002) (Schmitt-Egner, 2002) (Downs, 2002). In practice, it is very difficult to find an exact definition of the word “region”, especially due to the broadness and complexity of the area of regional studies (Evans, 2002). Thus, it is important to define what a region is, not only in a political and economic sense, but also in a linguistic and historical one.

The word “region” originates from the Latin word “*regio*” which means a geographical, or administrative area “*distinguished by similar features*” (Tavares, 2004:4). To be more precise in linguistic terms (Schmitt-Egner, 2002), it is essential to mention that the word “*regio*” derives from the verb “*regere*” which means “to direct, to rule”.

The word “region” has more meanings than just a geographical one. It is associated with politics, economics, sociology and anthropology. According to Russet (Russet, 1967 in Tavares, 2004), a region is defined by historical and cultural characteristics, the operation of political institutions and economic interdependence. Lagenhove (Lagenhove 2003 in Tavares, 2004) argues that in order to clarify the word region it is important to make a distinction between “regions” and “non-regions”. According to Lagenhove (Lagenhove, 2003 in Tavares, 2004), this distinction becomes possible if we consider the region as a) a system of international actions in both a national and an international context (Evans, 2002; Schmitt-Egner, 2002; Downs, 2002), b) a system

characterised by statehood properties, c) a reciprocal achievement and d) a producer of a specific identity (Tavares, 2004).

At this point a distinction will be made between the terms “state” and “region”. A state is a set of institutions that possess the authority (Evans, 2002; Schmitt-Egner, 2002; Downs, 2002) to make the rules that govern the people in one or more societies and have sovereignty over a certain territory. The state includes institutions like the armed forces, civil service, state bureaucracy, courts and police. On the other hand, a region can be any considerable and connected part of a space, or surface. It may also be an administrative sub-division of a city (Evans, 2002; Schmitt-Egner, 2002; Downs, 2002), a territory, or an EU Member State. The difference between a state and a region depends on the existing degree of sovereignty.

In relation to regions and regionalism, it is important to analyse the meaning of the “regional scale” and to clarify whether we are using the term regionalism on the sub-national, or the EU level. Regionalism in general can be used when examining the emergence of sub-national regionalist movements and economies⁸, as well as when examining broader trends of regional integration⁹.

A first level of regionalism refers to countries that are part of a political, or economic regional project¹⁰. In such a context, countries like the USA-Canada-Mexico¹¹, Spain-Italy¹² and China-Japan-Australia¹³ can be characterised as regions. A second level of regionalism refers to independent states within countries¹⁴. A third level

⁸ Such as Scotland, Cataluña and País Vasco.

⁹ Such as the EU.

¹⁰ Such as the EU, the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Cooperation (APEC).

¹¹ In the case of NAFTA.

¹² In the case of the EU.

¹³ In the case of APEC.

¹⁴ Such as England, Scotland, Wales and Northern Ireland, which can be characterised as regions within the UK.

of regionalism refers to states that have a high degree of independence and sovereignty (without being totally independent)¹⁵. A fourth level refers to regions with a lower independence and degree of sovereignty¹⁶. In this study, the level of regionalism that will be used will be the fourth one.

In the cases of Italy and Spain, we define regions as administrative areas having boundaries assigned according to sub-national and international agreements, characterised by a certain independence and degree of sovereignty. In both Italy and Spain regional administrations have a high degree of independence and sovereignty. In particular, this study concentrates on the Objective 1 and Convergence Objective Regions, according to the EU NUTS classification. In every EU Member State, a three-level hierarchy of regions in terms of administrative boundaries has been encouraged. Geographical NUTS 1 level units are large sub-national units, such as North-West, North-East and Centre in both Spain and Italy. NUTS 2 regions correspond for instance with “*Comunidades y Ciudades Autónomas*” in Spain and “*Regioni*” in Italy. The NUTS 2 regions consist of a number of NUTS 3 regions¹⁷. Objective 1/Convergence Objective applies to NUTS 2 regions.

2.2-REGIONAL SCALE AND REGIONALISATION: THE THEORETICAL FRAMEWORK TO STUDY “REGIONS”

Regionalism is the most important theoretical concept in the area of regional studies and particularly in the case of the EU. It is closely related to the word “regionalisation” and that is why it is important to make a distinction between them (Katzenstein, 1996). Regionalism is “*the set of ideas and principles that highlight the enmeshing of units in a*

¹⁵ Such as California, Michigan and Ohio in the USA.

¹⁶ Such as Molise in Italy and Principado de Asturias in Spain.

¹⁷ Such as the Greek “*Nomoi*”, the Spanish “*Provincias*” and the Italian “*Provincie*”.

regional context” (Tavares, 2004:6). Regionalisation on the other hand is the regional interaction process (Tavares, 2004).

According to Wyatt-Walter (1995), regionalisation refers to the undirected process of economic and social interaction within a certain region and often takes the name “soft regionalism”, which is likely to result in high economic interdependence within that particular area, rather than between that area and the rest of the world. According to Strecker (1994), regional development could become a reality only under the condition that there is adequate consultation with the regional and local authorities and an effective “*understanding of the intrinsic value of specific localities and habitats*” (Strecker, 1994:2).

Soft regionalism (Acharya, 1999; Hurrell, 1995; Ghica, 2008) was an answer to the approach of “internationalism” dominating many European countries, especially in the 1970s¹⁸. The reason for this was the argument that in order for effective regional development to take place it was important “*to have one’s own individual place with its distinctive features and ways of living*” (Strecker, 1994:1).

Another reason for rejecting internationalism was the fact that shortly after World War 2, people were more than eager to invite all kinds of international entrepreneurs into their regions, hoping that they would contribute to the desirable regional development. Nevertheless, after all those development plans were put into practice, the majority of the regions’ inhabitants discovered that not only did these plans not lead to development, but that they also resulted in environmental pollution, noise and traffic. Hence, they rejected all these “modernist” plans and started supporting more regional

¹⁸ Particularly in Germany, when the need for efficient regional development became more intense, people started rejecting the idea of “internationalism” and “narrow provincialism”.

approaches. That is why soft regionalism also became known as “post-modernism” (Strecker, 1994).

Soft regionalism is the main type of regionalism (Ghica, 2008; Hurrell, 1995) on which the EU is based. It is mostly driven by markets, private trade, investment flows and the policies of companies, rather than state policies. It is totally different from “hard regionalism”. Hard regionalism is linked with Communism and could be found in the former Soviet Union and the former Yugoslavia. It is based on the argument that, despite the fact that different regions within those two countries¹⁹ wanted to be on their own and have higher degrees of independence, the central government wanted them to remain part of the whole (Strecker, 1994).

The fundamental difference between the two concepts is that, whilst in the case of hard regionalism, central governments are reluctant to offer much power and authority to their regions, in the case of soft regionalism, central governments are indeed willing to offer power and authority to their regions (Ghica, 2008). Hard regionalism is an inadequate theory for regional development, as it is totally contrary to the fundamental principle of subsidiarity. Soft regionalism is exactly the opposite.

Soft regionalism is embraced in advanced industrialised states/countries/regions, whereas hard regionalism can be found in highly centralised countries, characterised by an imperial conquest history. It is the response to internationalism and modernism (Strecker, 1994). This study is based on soft regionalism (Acharya, 1999; Ghica, 2008) and not hard since it is the approach EU Regional Policy is based on and it clarifies why consultancy with regional-local partners, local acceptance and understanding of the

¹⁹ Such as Croatia and Slovenia in former Yugoslavia and Ukraine and Byelorussia in the former USSR.

value of specific localities and habitats are necessary for successful regional development.

Soft regionalism is important for one more reason. As a concept, it is critical of the idea of “modernist functionalism” (Strecker, 1994), which supported the idea that the world was moving towards a global community, where everybody would be able to converse with everybody else, learn an artificial language (Esperanto) and abolish all their specific traditions, languages, dialects and special regional characteristics. Soft regionalism, on the other hand, favours the view that each and every region is different from every other and that effective regional development can become a reality only if those in charge understand and estimate its specific economic and socio-political needs (Strecker, 1994).

The term “new regionalism” is also important for this study, as in the following paragraphs it will be linked with the bottom-up approach of regional development. New regionalism is a form of regionalism, created due to the contemporary globalisation of the economy. One of the main targets of the EU establishment was the decrease of economic competitiveness on a country-by-country basis and the increase of competitiveness on a region-by-region basis (Wallis, 2002). According to new regionalism, regional competitiveness is a fundamental factor in order to analyse and assess regional economic development (Lerro and Schiuma, 2009). What is more, new regionalism emerged in order to achieve and maintain sustainable development.

Wallis (2002) argues that in order for economic growth to be balanced with environmental protection and social equity, regional action is necessary. The reason for using the term new regionalism in this study is the fact that it highlights the importance

of the regions, and as a consequence the importance and necessity of regional development (Wallis, 2002).

New regionalism concentrates mostly on process and not on structure. Whilst old regionalism was searching for structural alternatives, such as city/county consolidations and the creation of special purpose and multi-purpose authorities, new regionalism establishes a structural alternative as a strategy, but its main concern is the processes, such as strategic planning, visioning, consensus building and the resolution of conflicts (Wallis, 2002).

The new regionalism is a more active and perhaps a more systematic approach towards regional development, since it focuses mainly on what has to be done within the region in order for regional convergence to be a reality. The new regionalism uses process, not as the trail through structure, but as an instrument to form structure (Wyatt-Walter, 1995).

Since the EU Regional Policy target is regional cohesion, Leonardi (2005) argues that the main question is how Cohesion Policy can influence the competitiveness and growth of the peripheral regions in the context of the Single Market.

At this point a conceptual clarification of the MLG will be made and this will be more coherent if a brief historical background is provided. Ever since the official establishment of the European Economic Community (EEC), there has been a debate between the realists-intergovernmentalists and the pluralists-neofunctionalists. Intergovernmentalists argued that the national governments were mainly in charge of the nature of integration and their major responsibility was to be the gatekeepers between supranational developments and their domestic systems. Intergovernmental co-

operation at an EU context did not have important differences from that in other international regimes (Bache, 1999).

On the other hand, neofunctionalists supported the fact that EU governments would not be able to resist the pressures for further EU integration (Bache, 1999). The disagreement between them was on the degree of independence of the Commission when moving towards further integration.

The concept of MLG was initially introduced by the pluralists-neofunctionalists shortly after the creation of the Single Market. Marks, Hooghe and Blank (Marks et al, 1996 in Bache, 1999), when referring to MLG stressed the fact that European integration is a procedure of policy-creation, where policy-making decisions are shared across supranational, national and sub-national levels. Allen (2000) argues that the MLG started being used as an analytical tool when the SFs were introduced, mainly in order to explain their implementation by the EU Member States. On the other hand, realists-intergovernmentalists, continued to argue that national governments were of the main importance when decisions on European integration were to be taken.

The reason for mentioning these two different approaches is the fact that they will then be linked to EU Regional Policy. Ever since 1961, there have been disagreements between the Commission and member states on how far the Commission should go independently. In the 1970s, EEC Regional Policy was mainly controlled by the national governments of the Member States. With the establishment of the ERDF, the principle of additionality was introduced. The Commission encouraged Member States not to reduce their spending for regional development, but to increase it²⁰. As a

²⁰ Increased governmental spending meant that these Member States would receive more funds from the EU.

consequence, the principle of additionality was supposed to lead to a supranational regional policy, but it didn't, at least not until 1988.

The reason for mentioning additionality and putting it in a supranational context is because of its false interpretation by many Member States, and particularly Italy and Spain²¹. The Commission did not succeed in putting the principle of additionality into practice the correct way, and perhaps this was caused by national governments' resistance to doing so.

After the 1988 SFs reform, there was a lively debate on the increased role the Commission was going to play in relation with Regional Policy²². Discussions revolved also around the new role sub-national players were due to play, especially during implementation, as the principle of partnership was introduced. The latter meant that regional policy had to involve partnership and cooperation between national governments, subnational authorities and the Commission, in order for policies to be successfully implemented. However, according to Bache (1999), and Bache and Flinders (2004), in the context of regional partnerships, which were created for an efficient SF administration after 1988, the EU national governments²³ were in position to dominate implementation networks in order to influence important policy decisions and outcomes (Bache, 1999).

Governments had an authority in the stage of implementation but did not use it in the correct way and this means that they did not put into practice the principles of additionality and partnership adequately, and this is often claimed to have contributed to regional divergence (Bache and Flinders, 2004).

²¹ In some Italian and Spanish NUTS 2 regions EU funds not only were not additional, but also they were much higher than the national ones.

²² At the EU level if we want to define the regional scale.

²³ Which were mainly in charge of implementation.

When the principle of subsidiarity was introduced in combination with partnership, this should have offered regions the chance to clearly express their local problems and needs and to promote a more decentralised, “bottom-up”, policy making strategy (Bailey and De Propriis, 2006). However, neither was properly implemented in Italy and Spain and this had an impact on their ability to reap the benefits of the Reform. To some extent, the problem with the implementation of EU Regional Policy has not been with the tension between intergovernmentalism and neofunctionalism within the EU, but rather that the principles of additionality, subsidiarity and partnership have been violated. The blame is held mainly by the national governments. In purely theoretical terms, the contemporary theoretical background concerning EU Regional Policy is a combination of intergovernmentalism and neofunctionalism-supranationalism. It is a combination of realism and pluralism.

Hurrell (1995) argues that regionalist activity involves the creation of interstate agreements, or regimes which should help the members of the region respond to external challenges and promote common values, offer solutions to common problems and establish a regional balance of power.

Throughout this study, the EU-level scale will be mostly referred to even if sometimes there will also be considerations at the sub-national scale. The main regional scale this thesis is based on is the EU scale. The reason for this choice is the fact that this study is focused on regional policy and it is obvious that the categorisation of the EU Objectives is based on the contemporary economic situation of each region at an EU level and not a subnational one. If a region is considered to be developed in the sub-national level of Italy for example, it does not necessarily mean that it is regarded as developed at the EU scale.

Overall, the EU has been experiencing a process of deepening integration. Deep integration exists when the member countries of a “regional structure” reach formal agreements that concern not only low politics (such as economics), but also high politics (such as security). EU Regional Policy is somewhere in the middle of the scale between low and high politics. However, at a regional project-structure with a shallow integration (only low politics), an efficient regional policy is impossible.

The EU has an “open” regional arrangement. This means that there is no protectionism in its policies, with the possible exception of the Common Agricultural Policy (CAP). In fact, the EU Regional Policy is not protectionist and can be linked with the “new regionalism” approach and the openness and flexibility of boundaries. The importance of such distinctive EU features is the fact that they reveal the EU’s identity and how it operates at a supranational level

EU institutions and particularly the Commission are in a position firstly to identify the problems the EU regions face and secondly to provide them with adequate funding so as to improve their infrastructure and resolve problems such as unemployment, industrial decline and low standards of living (Mansfield and Milner, 1999) Funds such as the ERDF, the ESF, the EAGGF, the Financial Instrument for Fisheries Guidance (FIFG), and the Cohesion Fund are managed by the DG REGIO and are responsible for this attempt at improvement.

In conclusion, we argue that the concepts of soft regionalism and new regionalism contribute to define a framework for examining EU regional development, with MLG being an important component of understanding the relations between the different levels of government. The EU also embraces an open regionalism.

2.3. DEPENDENCY THEORY AND STRUCTURALISM: CORE VS. PERIPHERY

Structuralism and dependency theory are mainly linked with the body of literature within the area of economics, because, as we can observe in the following paragraphs, regions are categorised according to economic variables and characteristics. The reason for using both theories in this study is the fact that they can offer a satisfactory theoretical background for the contemporary regional disparities that exist within several EU Member States²⁴, at both a sub-national and an EU level.

Dependency theory originates in Marxist theory (Callinicos, 1983) and assumes that underdevelopment or limited development can be attributed to exogenous reasons (Economy Point, 2006), such as the way countries, or regions are integrated into the overall economic system, either global, or EU-wide. According to the dependency theory, the countries of the world can be divided into three main categories: the most powerful and advanced industrialised states are the so-called “core” countries; middle-income states are the “semi-peripheral”, and low income states are the “peripheral” ones (Levitas, 1974; Seers, 1983). Drawing upon this classification, we adapt it to describe EU regions. In order for peripheral, or semi-peripheral regions to achieve economic development, it is necessary for them to reduce their connectedness with the core. This sounds difficult and perhaps a little counter-intuitive, especially given the efforts of the EU to complete the Internal Market with the free movement of people, goods, services and capital (European Commission, 2010). The argument here is that peripheral development can only be achieved through a reduction of imports, the development of domestic industry and the careful selection of inward foreign investment.

²⁴ And in this thesis Italy and Spain.

Such a line of argument within the EU is practically impossible, and we believe, also undesirable. We would argue that economic isolation would not necessarily trigger faster and more effective economic development and deliver narrower regional economic disparities. On the contrary, at times of intensified globalisation, if a periphery region was to close its boundaries, this would reduce the chances of regional development even further.

The argument of this thesis is that the core-periphery structures should not (and practically cannot) be eliminated, as they are an expression of a regional division of labour, but that in order for regional development to take place within the peripheral regions it is necessary for the core regions to design a policy that will actually create wealth within the peripheral regions, but this wealth will remain in the regions and will not return back to the core.

Practically, this means that if foreign investments are established and if they are profitable, then a certain amount of the profit should remain in the peripheral regions and be invested within them, in order for development to continue. For example, if the owners of an industry created at a core region, such as Piemonte deciding to establish a plant in a peripheral region of Italy, some business profits should return to the central industry in Piemonte (which means that the central industry will be economically benefited), but a certain amount should remain within the peripheral region, to be used for business expansion within the region (establishment of more industry plants, updating of technology, education of labour force and in general any investment that can intensify regional economic development). Core-periphery structures cannot be eliminated, but an efficient synergy between core and peripheral regions can result in

economic growth within the periphery, which will also have a positive impact on the core.

Within the EU, we can observe a wealthy core of regions characterised by high GDP per capita and are close to one another and a less wealthy and advanced set of peripheral and semi-peripheral regions, which are located away from the core (Combes and Overman, 2004). Despite the fact that at an EU level the core-periphery pattern has slightly decreased since the mid-1980s (mainly due to the income convergence of the EU Member States), within the EU Member States it has remained stable (ibid). This is the case with Italy and Spain. In Italy, the peripheral regions (Campania, Calabria, Puglia and Sicilia) are all concentrated in the South and are indeed very far away from the core regions, such as Lombardia, Piemonte, Veneto and Emilia-Romagna. In Spain, peripheral regions (Castilla-la Mancha, Extremadura, Andalucía and Galicia) are located in the Central and Southern areas²⁵ and are also located far away from the core. They are all far from Cataluña and País Vasco, although Castilla-la Mancha and Extremadura are not far from Comunidad de Madrid.

The income level is not the only criterion relied upon to conclude whether a region belongs to the core, the periphery, or the semi-periphery. Instead, other economic indicators are also looked at such as the level of investment, the quality of the infrastructure, and unemployment (Austin, 1990). Hymer (Hymer, 1975 in Bailey and Driffield, 2002) put forward the argument that transnational corporations can be a reason for the existence of uneven development across countries, because they search for low costs and market access in certain countries and regions, as the need for skilled workers is evident. Top management, in charge of the goal determination and planning

²⁵ With the exception of Galicia.

is concentrated in capital cities, which tend to be the core of the core. Such cities turn to be the most important centres in terms of strategic planning. This means that the majority of the cities located in peripheral or semi-peripheral regions²⁶ *“would be organized on a hierarchical basis ranging from bases for regional head-quarters down to sites dealing with merely day-to-day operations”* (Bailey and Driffield, 2002:57).

The result would be that *“income, status, authority, and consumption patterns would radiate out from these centers along a declining curve, and the existing pattern of inequality and dependency would be perpetuated”* (Bailey and Driffield, 2002:57). This is how transnationals’ activities exacerbate inequalities. Hymer (Hymer, 1975 in Bailey and Driffield, 2002) analyses the resulting “trickle down” system, where select groups in the capital or the most important cities in the core regions become familiarised with innovations long before the inhabitants of the peripheral and semi-peripheral regions. Then, through an “international demonstration effect” and the transnationals’ control over the media and marketing channels, such innovations are introduced to peripheral regions. However, this is not beneficial to peripheral regions, as it *“has the effect of reinforcing patterns of authority and control by creating the illusion of upward mobility for workers outside the core even though their relative status remains unchanged”* (Bailey and Driffield, 2002:57).

Examples of core regions in pure economic terms would be Lombardia in Italy and Cataluña in Spain due to the fact that a) they are far less dependent on agriculture than the others, b) they are far more industrialised than the others and their industries are characterised by higher technology, and c) they are characterised by a skilled labour force, a higher level of income, GDP per capita and employment, accompanied by a

²⁶ Taking always into account the GDP per capita and employment.

lower level of unemployment, compared to the others. The semi-peripheral regions are Cantabria in Spain and Abruzzo in Italy, due to the fact that they have already managed to exit the Convergence Objective. Examples of peripheral regions are Extremadura in Spain and Sicilia in Italy, as, despite the fact that they have been receiving SFs for more than 20 years, they still have not managed to reach 75% of the EU-27 GDP in order to exit the Convergence Objective. Furthermore, their unemployment rates are particularly high, whilst their employment rates are low compared to the core and semi-peripheral regions. Finally, these regions are characterised as peripheral because of their distance from the core regions and the lack of competitiveness of their companies.

Dependency theory also has its roots in the theory of structuralism. Structuralism does not examine isolated material elements (Kurzwell, 1996) and in the context of this thesis it means that it does not examine the development of countries, or regions in absolute terms. Every element of the system is important only if it plays a significant part in a set of structural connections (Rice and Waugh, 1992). In the context of this thesis, it means that the development of the NUTS 2 regions plays an important part in terms of the entire EU Regional Policy and the outcomes of the development in one region have a certain impact on the EU as a whole. Structuralism, most importantly through the work of Levi-Strauss, Barthes, Foucault (Kurzwell, 1996) and Derrida (Callinicos, 1983) examines the inter-relationships between elements on which mental, linguistic, social and cultural structures are based.

We can argue that structuralists tried to adapt structuralism to a regional context, arguing that developed, advanced industrialised core states²⁷ were mainly responsible for the economic problems and the poor development of the peripheral ones. This

²⁷ When speaking about states they mean both countries and regions.

underdevelopment of the peripheral regions has led to new forms of dependency (not only economic, but also political) and this is one of the reasons for the transformation of structuralism into dependency theory. Dependency theory can be applied to all peripheral and semi-peripheral countries and regions (Brookfield, 1975), including Italy and Spain.

According to Frank's model of underdevelopment, the majority of the countries with capitalist economies have established a "metropolis-satellite" chain (Brookfield, 1975), (Palma, 1981) and in these countries we can include Italy and Spain. Frank (Frank, 1967 in Palma, 1981) argues that if the main reason for underdevelopment is a region's satellite status, then regional development might become a reality through a weaker degree of metropolis-satellite relationships between the core and the periphery (Palma, 1981).

The satellite economies/regions are the peripheral and semi-peripheral ones and if they establish a lower degree of metropolis-satellite relations, then this may result in a certain degree of regional and local development (Palma, 1981). If the core regions offer more power and responsibilities to the peripheral ones, according also to the EU Regional Policy principle of subsidiarity²⁸, then the latter will be able to identify more clearly their particular problems and needs, as regional authorities have a deeper knowledge of the exact problems of their region and are better aware of the specific sectors²⁹ which may have the potential to lead to regional economic development³⁰, in order for development to start inside the peripheral region. The metropolis-satellite relationship can be linked with the "bottom-up" regional development approach, which is critically presented in the following section.

²⁸ Which is one of the main concerns of this thesis.

²⁹ Within the particular region.

³⁰ If they are efficiently managed.

2.4-THEORY OF REGIONAL DEVELOPMENT: REGIONAL CONVERGENCE AND DIVERGENCE

The theory of regional development (Bergman et al, 1991) is linked with the bodies of literature in both economics and political science. As we can observe in the following paragraphs, the models of economic geography presented, as well as the terms “convergence” and “divergence” are linked with economics. The bottom-up and top-down approaches are linked not only with economics (as they draw conclusions about regional economic development), but also with political science, as they cover issues of decision-making on the level of centralisation of the regional policies. These two approaches are clearly linked with MLG, as they reveal the level and type of cooperation and coordination between the national and the regional level in the context of EU Regional Policy.

The theory of regional development is essential for the study of EU Regional Policy as it provides us with the most appropriate theoretical background, in order to understand why some EU NUTS 2 regions are lagging behind, always in terms of GDP per capita and employment. The main element of this theory is the tension between regional convergence and divergence (Harrop, 2000).

In terms of regional development, the study of the capitalist economy is traditionally dominated by two opposing views. The first is an outcome of neoclassical equilibrium economics and supports the fact that if there are no important barriers to the operation of market processes in terms of an integrated national spaced economy, there are pressures towards the general convergence of regional incomes over time. Regional inequalities can only be short-run incidents, especially due to the fact that such inequalities are highly likely to put into practice self-correcting movements in prices,

wages, capital and labour, which will push towards the desirable regional convergence (Martin and Sunley, 1996).

The second view is in favour of the fact that there are no necessary reasons why regional growth and incomes must converge and states that regional divergence is the most probable result. In the 1970s and 1980s, Marxist theories advocated uneven regional development. In the 1990s, the interest shifted in favour of the “new industrial spaces” and, as a consequence, Marxist approaches were substituted by neo-Marshallian and transaction cost theories of regional economic growth (Martin and Sunley, 1996).

Krugman (1991) considers the interregional migration of workers in order to make sense of regional convergence and divergence. His economic geography model shows how core-periphery structures can be created through externalities among economic agents. Krugman (1991) links regional integration with increased or decreased inequalities.

There are two economic models based on economic geography and they both come up with interesting results about whether or not economic integration leads to uneven development. The first model is that of Krugman (1991) and the second that of Krugman and Venables (1995).

According to the first model, labour is mobile and it is necessary for an industrial firm to have a unit of worker in order to produce a satisfactory output. When the firm moves to a place/region, in that place the labour demand is increased and this leads to a raise in the wage rate. This increased wage is highly likely to attract workers to that area/region (Krugman, 1991). This means that a lot of skilled workers will move to that area and it is highly likely that development will take place in that area. As a result, the regions from where those (skilled) workers will leave are going to suffer a decline in

development, due to the fact that the workers that will remain there will either be unskilled, or old. The regions with the skilled workers will be the core ones, whereas the others will be the peripheral and semi-peripheral ones.

However, in the second model, labour is assumed to be immobile, which means that the firm, besides being a final good supplier to consumers, also becomes an intermediate demander and supplier of goods. Thus, when such a firm moves to another place/region, there is an increase in demand for the intermediate goods in that region. As a result, there is a rise in price. This higher price (of the goods) is likely to attract more intermediate firms to move to that area (Krugman and Venables, 1995). For that reason, that area or region will experience greater development, whereas the regions from which such firms have departed will suffer a decline (Krugman and Obstfeld, 1997). The regions with the intermediate firms will be the core ones, whereas the others will again be the peripheral and semi-peripheral ones. Moving becomes easier with integration. The conclusion from both models is that increased economic integration leads to regional divergence and creates core-periphery economic structures.

Armstrong (Armstrong, 1995 in Martin and Sunley, 1996) after examining regional convergence firstly within 62 and afterwards within 169 European regions between 1975 and 1993, concluded that the absolute convergence rate of the NUTS 2 regions was 0.4% per year and argued that the speed of regional convergence varied along the economic cycle and was faster in periods of economic booms than during recession. On the contrary, the research (on UK counties) carried out by Chatterji and Dewhurst (1996) reaches the opposite result; convergence is more evident during slow national growth periods (Martin and Sunley, 1996).

Later, “endogenous growth theory”³¹ identified as endogenous all the factors that the neoclassical growth model identified as exogenous (Krugman, 1994). According to this theory, economic growth can become a reality within a country, or region through internal processes, including an efficient management of human capital and the establishment of updated forms of technology and production. On the contrary, the neoclassical theory argues that growth can take place mainly due to external factors, such as trade. The aim of this theory is to argue in favour of regional convergence, even taking into account the fact that it has certain limitations when applied to a regional context.

The classical development theory includes the top-down/bottom-up development theory, mainly used to analyse regional policy. Its main argument is that few investments can be made in certain sectors of the economy or in specific geographical areas-regions without the benefits being felt by other areas as well (Stohr, 1981).

According to the classical “top-down/centre-down” theory, also known as the centre-down development paradigm, development begins in a few dynamic sectors and can hopefully be extended to the entire spatial system (Hansen, 1981). There are four main characteristics of the top-down approach: a) capital flows from the core to the periphery and resources flow back to the core (e.g. investments in oil field flow from the city to a region and oil flows to the city for power production), b) development starts in a few dynamic sectors or geographical areas and spreads to others, c) there is an emphasis on urban industrial, capital-intensive development, the highest level available of technology and the maximum use of external and scale economies and d) development involves large scale investment projects, increases of functional/territorial

³¹ Which was an evolution of the conventional neoclassical theory.

integration, increasing scale of private and public organisations to transmit development through these integrated units, large redistribution mechanisms and a decrease of economic, social, cultural and institutional barriers that may obstruct transmission effects with/between these units (Buck, 2006).

Examples of this theory include resource development projects in petroleum, mineral, or forestry resources, infrastructure projects³², office and retail development in urban areas and investments in science.

A top-down approach would on the other hand imply that decisions are normally taken by governments without consultation with local people and partners and this is totally contrary to the principle of subsidiarity, which is fundamental for an effective regional policy. According to Hirschman (1958), the top-down approach can sometimes result into “polarisation” and “trickle down”. High centralisation of national-domestic regional policies increased the core-periphery division and led to higher economic divergence.

Hirschman (Hirschman, 1958, in Hansen, 1981) also argues that development strategies must concentrate on a few sectors³³ and argues that growth begins at the main (leading) economic sectors and is transferred to the others through firms (Hansen, 1981). According to Hansen (1981), *“the actual effects of the growth points on the hinterlands depend on the balance between favourable effects that trickle down to the hinterlands from the progress of the growth points and the unfavourable, or polarization, effects on the hinterlands as a consequence of the attractiveness of the growth poles”* (Hansen, 1981:17). Trickle down effects occur due to investments placed in the hinterlands by the growth points. Polarisation occurs because competition from the growth points may

³² Such as roads, airports and public transport.

³³ Rather than on widely dispersed projects.

depress manufacturing and export activities in the hinterlands. The growth points might create a brain drain from the hinterlands, instead of creating opportunities for their disguised unemployment (Hansen, 1981).

A significant problem is the risk of the “back-wash” and “spread” effects, which may appear when capital and resources invested eventually flow from the periphery³⁴ back to the core (Stohr and Taylor, 1981). This is completely opposite to the targets of a regional development programme. Myrdal (Myrdal 1957 and Myrdal in Hansen, 1981) argues that they look like the polarisation and trickling-down effects of Hirschman.

Hansen (1981) argues that the dominant industries have the capacity of turning the towns or cities in which they are located into the main poles of development of their regions. Regional inequalities and national levels of development are strongly related. Williamson (Williamson, 1965 in Hansen, 1981) argues that high disparities in terms of regional income can be identified in the early development stages, whilst regional economic convergence can take place in the latest stages of national growth and economic development. Regional convergence can take place when national economic growth appears. Elimination of regional disparities and effective regional development can lead to regional cohesion.

Having studied the Italian regional policy of the 1960s, Stohr (Stohr, 1981 in Buck, 2006) reached the conclusion that the national government invested enormous financial resources in a centralised top-down regional policy. However, top-down strategies resulted in an increase of disparities (Buck, 2006). Stohr (1981) concludes that a decentralised approach must be the basis for an efficient government policy (Buck, 2006).

³⁴ Or semi-periphery.

The alternative decentralised regional development approach is called the “bottom-up” approach and is based on the argument that *“decisions and power should be as close to the bottom as possible with coming from a region rather than being imposed from outside. Self-directed and self-generated economic growth and development will occur with greater success than a potentially risky project imposed from above”* (Buck, 2006:3).

In general, the bottom-up approach is based on the assumption that decisions regarding regional policy should be taken through cooperation between national and regional authorities, due to the fact that regional authorities are in general more aware of the specific needs and problems of their region. This approach is linked with MLG, as it requires efficient coordination between the national and the regional level. In order for the bottom-up approach to be successful, there is a need for a) controlling the back-wash effects created by the top-down approach and b) establishing dynamic impulses within the underdeveloped areas. Back-wash effects can be eliminated with interaction changes between regions/countries and the dynamic impulses can be created by identifying the endogenous factors that will lead to regional development (Stohr, 1981). According to Ghica (2008), the bottom-up approach is closely linked with soft regionalism, as both approaches aim to produce development “within” the region.

Stohr (1981) is in favour of the bottom-up approach because of four reasons: a) regional disparities in living standards hamper regional development and a population distribution according to the long-term resource potential of individual regions must take place; b) the specific cultural/institutional conditions³⁵ should not be ignored; c) decisions on the development objectives and tools must come from within the

³⁵ Within the natural and social environment of different communities.

respective communities³⁶ and d) a higher degree of both regional and national self-determination regarding the desirable territorial interaction should take place. Also, there is a need for selective spatial closure (Stohr, 1981), which means the reduction of transfers to and from regions/countries which decrease their potential for self-reliant development.

According to Mittelman (1996), the reason for introducing the bottom-up approach is to better understand the new regionalism, which is more advanced than other versions of integration theory (such as functionalism, neofunctionalism, institutionalism and neoinstitutionalism), as it emphasises more on power relations, production and structural transformations.

Between new and old regionalism there are issues in understanding power versus empowerment, as well as using these terms to link them with the new regionalism and the bottom-up approach. The old regionalism was traditionally focused on “*drawing its powers from units of the government above and below it. Power was viewed as a zero-sum game, so the power to govern had to be taken from somewhere. Local jurisdictions often felt threatened that their powers would be diminished*” (Wallis, 2002:3). This is contrary to the efficient development of a peripheral/semi-peripheral region and opposed to the fundamental principle of subsidiarity.

Instead, new regionalism is mainly based on “empowerment”, the aim of which is which is to include communities and neighbourhoods in local and regional decision-making processes (Wallis, 2002). Empowerment includes nonprofits and for-profits in the decisions and actions of the central government and does not consider these actions to be a zero-sum game, contrary to old regionalism. Empowerment is based on the

³⁶ Regional communities must gain more power/responsibility, which is the target of EU Cohesion Policy.

argument that new interests result in new authority and energy, leading to policies in the context of a regional agenda (Wallis, 2002). That is why we can link the new regionalism with the bottom-up approach, as it supports the fact that in order for regional development to take place, all actions must start within the region and not outside it.

The structural composition of the economy of each region plays a very important role to its development. The possibilities for a region to enter the road of progress and gain advantages depend on local conditions, such as the actions of political institutions, regional policy assistance, infrastructure, labour supply, social qualifications, factor prices and population density (Illeris, 1993 in Buck, 2006). However, growth factors are also important for efficient regional development. Such factors include geographical location, accessibility, the endowment of the region with labour and capital, agglomerations and infrastructure.

Illeris (Illeris, 1993 in Buck, 2006) makes a distinction between the top-down and the bottom-up approaches and argues that the bottom-up approach is more likely to result in regional development. He states that “*regional development patterns in western Europe in recent decades exhibit a mosaic like pattern of dynamic and declining regions with no uniform core/periphery polarization. This has replaced the former uniform concentration of economic growth in the national core areas. The lack of a regional development pattern exhibiting the core-periphery pattern is used to cast doubts on the success of the traditional models and a reason put forward to support the need for a bottom-up approach*” (Illeris, 1993 in Buck, 2006:3).

Friedmann (1991) also supports the bottom-up approach and argues that the cultural, the political, the physical, the economic and the institutional environment of the regions

determine whether the establishment of new forms of production, based on updated technology, will result in regional development. Illeris (Illeris 1993, in Buck, 2006) argues that regions which are most likely to perform well are those that have economies with expanding sectors (oil production, high tech industries, producer services, international organisations) whereas regions unlikely to perform well are those where declining industries dominate the economy (agriculture, coal mining, steel, shipyards and port functions).

In the case of Italy and Spain, those regions whose economy is based on services, high tech industries and tourism are indeed on a growth path, which means low unemployment, higher GDP per capita and less interregional migration³⁷. There are examples in Italy (Sardinia) and Spain (Canarias), where peripheral regions have gained significant profit due to their tourist sector. On the other hand, regions based on agriculture are in steady decline (Calabria and Puglia in Italy/Galicia and Extremadura in Spain).

2.5-CONCLUSIONS

In order to create an adequate theoretical background for the thesis, our conclusion is that the most appropriate theory to explain the regional divergence that exists within the EU and in the context of this thesis within Italy and Spain is dependency theory and particularly the terms “core”, “semi-periphery” and “periphery”. The regional scale used in this thesis is mainly the EU scale, but in some cases, the use of the sub-national scale will be necessary. We can argue that the terms new and soft regionalism can efficiently be adapted to the case of the EU. In the context of EU Regional Policy, there is a clash between intergovernmentalism and supranationalism, particularly in terms of the

³⁷ Less departure of the region's skilled workers to other regions.

allocation and implementation of the SFs. This issue is both supranationalist, as the EU as a whole decides about critical issues regarding the regional policy and its principles, and intergovernmentalism, because there are certain differences in the adaptation of the CSF by the several national governments of the EU Member States.

Another important issue raised in this chapter is whether the top-down, or the bottom-up approach of regional development is more appropriate when moving towards the target of regional convergence. In our view, the bottom-up approach is more adequate, due to the fact that it takes into consideration the knowledge and opinions of regional and local authorities. This way, it is easier to identify the exact problems and needs of each region. In the top-down context, there is limited, or no consulting with regional authorities and development starts outside the region rather than inside. However, as we will see in the following chapters, it is difficult to find pure bottom-up approaches and the prevailing formula is a more decentralised combination of both.

CHAPTER 3

EUROPEAN UNION REGIONAL POLICY AND POLICY EVALUATION

This chapter discusses how EU Regional Policy has developed from its establishment in 1988 to the current CSF Cycle (2007-13) and then establishes an evaluation framework in order to attempt to estimate the impact of EU Regional Policy in the context of regional economic development in Italy and Spain, towards the target of regional economic convergence.

3.1-REGIONAL POLICY BEFORE 1988

Since the establishment of the EEC, there has been a need for an efficient regional policy. According to the preamble of the Treaty of Rome (1957), Member States were certain that in order for the EEC to achieve economic progress, solidarity and socio-political stability, it was necessary to eliminate regional economic disparities. The “common market” target made that need more evident, despite the fact that *“most of the relevant activity involved the negative process of removing barriers to the free operation of the market, provision was also made for positive intervention”* (Allen, 2000:247). There was a plan for the establishment of ESF (established in 1960) (Milio, 2010) and a European Investment Bank (EIB), but there was absolutely no provision for a cohesion policy, or fund, even though the Commission was always in favour of such an action. The EAGGF started financing the common agricultural policy of the EEC in 1962 (Milio, 2010).

The main reasons for the lack of policy instruments in the hands of the European Commission for the conduct of an efficient EEC Regional Policy during these first decades were two: a) national governments and not the EEC were in charge of regional

development policies and b) regional policy rested on the incorrect assumption that the Common Market would eliminate regional economic disparities (Leonardi, 2005).

The target of the EU Regional Policy has always been cohesion³⁸. Economic cohesion is fundamental for the EU as it is the most important cornerstone for the achievement of European integration and the spillover from low (such as economics) to high politics (such as security and political integration). Cohesion is related not only to economic progress, but also to issues such as political integration, democratisation and security.

The concepts of cohesion and convergence are related to the concept of integration. Integration is a process parallel to cohesion and is based on the establishment of supranational (or intergovernmental) institutions which will deal with decision-making, implementation processes and compliance with EU regulations (Armstrong, 2004). In terms of the EU, it is impossible to achieve convergence and cohesion without the effective operation of the EU-level institutions. Cohesion is possible if supranational institutions come up with the appropriate decisions to make it possible. Also, cohesion can act as a stimulus for the necessary political decisions in order for convergence and integration to take place. Nevertheless, according to Leonardi (2005), if the policy could return to the national level, it would not result in cohesion and political integration for the wider EU (Leonardi, 2005). The recipe for an efficient regional convergence would be a successful cooperation between institutions at the EU, national and regional levels.

In 1975, the ERDF was established (Milio, 2010) and its target was for the Commission to start eliminating regional disparities (Allen, 2000). Nevertheless, the main reason for the ERDF's establishment was to facilitate Member States achieve a

³⁸ Which is related to the concept of convergence.

deal on a much broader set of objectives. This deal was the outcome of the 1969 Hague Summit, where Member States agreed on two important long term targets: EU Enlargement and a move towards EMU (Allen, 2000). In this context, a regional policy would not only result in the economic progress of individual member states, but would enable all EU Member States to benefit from the establishment of a Single Market and the gradual removal of all trade barriers.

The main characteristics of the EEC Regional Policy that started in 1975 were a) the predominance of sectorial objectives and programmes in close coordination with those established by national-domestic policies, b) the focus on the entire national territory with expectations that there would be positive spillovers for the less developed (peripheral) regions, c) the formulation of programmes and projects with single objectives, d) the articulation of interventions over the span of a single year, e) the definition of policies by using an inter-governmental process linking national governments and f) the EEC's responsibility for compensating national governments for what they achieve in terms of regional policy (Leonardi, 2005).

During that period, there was a minimal involvement of the Commission in the implementation of EEC Regional Policy. National governments were mainly in charge of regional policy (Armstrong, 2004), a system of quotas was imposed in the Member States' bargaining process and there was an annual allocation of EEC resources, seen as reimbursements, according to Member States' quotas (Leonardi, 2005).

According to Allen (2000), between 1975 and 1999 there was a close relation between the decrease in agricultural market expenditure through the Guarantee Section of the EAGGF and the increase in SFs expenditure. Together they amounted to approximately 80% of the EU budget. This shift mirrored the growing priority that was

given to socio-economic cohesion. As the Common Agriculture Policy (CAP) was thought to increase regional economic disparities, by offering funds to the EU core areas, the EU Regional Policy was thought to be the exact opposite and therefore between 1988 and 1999 there was an increase in SFs, accompanied by a decrease of CAP expenditure (Allen, 2000).

Besides the ERDF establishment, the 1975 deal was important for two more reasons; a) 1.3 billion ECUs (European Currency Unit) were agreed for the period 1975-1978 and b) national quotas were set out for the allocation of the fund. There was also an emphasis on the principle of additionality.

The Directorate General XVI, which was in charge of Regional Policy made several attempts to convince Member States that ERDF funds should not be substituted for national expenditure. ERDF funds were supposed to be additional to national-governmental ones and should have been used for investment. The first problem appeared when national governments refused to limit their project applications' value according to their agreed quotas (Allen, 2000). The financial information they were providing did not show if the EU SFs were additional to those allocated by the national governments.

A Regional Policy Committee was established to discuss and develop the notions that would then become the principles of additionality, partnership and concentration. In 1979 and 1984, more reforms took place, but still *"the Commission and most regional authorities found themselves marginalized in a policy process that rapidly became an instrument of national policy making"* (Allen, 2000:248). In 1979, the Council agreed with the Commission's proposal on a small non-quota section, whereas in 1984 these quotas were *"relaxed into indicative ranges"* (Allen, 2000:254), which offered the

Commission discretion over approximately 11% of the ERDF budget. In the same year, the Council declared that 20% of the ERDF would apply to programmes and not to individual projects. Some of these programmes would be carried out by Member States, others by the Commission. Measures were taken for better coordination between the ESF, the ERDF and the guidance sectors of the EAGGF (Allen, 2000).

The Commission attempted to conduct the Regional Policy at a supranational context, whereas Member States were more interested in an intergovernmental context. A significant obstacle in the Commission's attempts to reform the ERDF rules was that it required the European Council's unanimity. Moreover, the ERDF expenditure was a non-compulsory item in the EU budget, and for that reason it was subject to the European Parliament members' endorsement. Any increase in the ERDF (if combined with greater Commission autonomy vis-à-vis member states) would result in more influence for the Parliament (Allen, 2000). During the 1970s and 1980s, Member States showed themselves to be more interested in pursuing their own interests³⁹, than in working together to reduce regional disparities. National and intergovernmental interests were first on the list, whereas EU supranational concerns fell last.

The Single European Act (SEA) (1986) and the Integrated Mediterranean Programmes (IMPs) gave a boost to attempts to put in place an efficient EU Regional Policy (Allen, 2000). According to the SEA, Member States on the periphery would have access to the financial resources necessary to deal with the economic shock the Single Market was expected to create. Armstrong (2004) believed that, unless the EU Cohesion Policy is capable of eliminating the current regional economic disparities in

³⁹ Concerning influence and political power.

the Mediterranean Member States, the divergence may be higher and this may have a negative impact not only on these countries, but also on the EU as a whole.

Dinan (1999) argued that the accession of Greece (in 1981) and Spain and Portugal (both in 1986) emphasised the inability of the EC to effectively deal with regional disparities. The main question in the mid-1980s was whether or not the IMPs would be successfully put into practice, given the regional inequalities that existed in Italy and Spain. Dinan (1999) argued that the then newly nominated Commission President Jacques Delors stressed the importance of and necessity for a Regional Policy. Indeed, it was argued that the inclusion of Greece and Spain had “*revealed a tension in Europe which is a tension between north and south. It stems not only from financial problems but from a lack of understanding, from a clash of culture, which seems to be promoting certain countries to turn their backs on the solidarity pact that should be one of the cornerstones of the Community*” (Dinan, 1999:432). This was therefore evidence of a basic core/periphery problem within the EU.

Tondl (2004) also expressed some doubts on EU Cohesion Policy in the 1980s and questioned whether the EU was in a position to deal with the increased regional divergence, whereas Armstrong and Taylor (1985) argued that regional economic divergence, taking place mostly in the Mediterranean Member States, could put the solidarity of the EU in serious danger.

According to the Title V⁴⁰, included in the Treaty of Rome by the SEA, there was a plan to reduce the disparities between core and periphery regions and to give special attention to the rural areas. According to Article 130b, economic cohesion was supposed to become a reality through EIB loans and common Community policies -with

⁴⁰ Articles 130a-e, now 158-162.

an emphasis on SFs and the efficient coordination of the Member States' economic policies. Article 130c was also of great importance since it was the first that finally provided a direct Treaty base for the ERDF, whereas the equally important Article 130d stressed the need for an effective implementation of the SFs. The target of the Delors-1 package was for the SFs to be doubled so that by 1993 they would account for approximately 25% of the EU budget.

3.2-CSF CYCLES

3.2.1-FIRST CSF CYCLE (1989-93)

In terms of the 1988 reforms, the Commission established the principles of subsidiarity, additionality, partnership and programming. The principle of subsidiarity states that decisions regarding regional policy at the EU level *“should not be taken unless it is more effective than action taken at national, regional and local level”* (Regional Policy Info regio/Subsidiarity, 2010:1). This principle aims to encourage the functioning of the EU Regional Policy at a more decentralised context, under which, regions will have a greater degree of power and responsibility, always in terms of regional policy.

According to the principle of additionality, SFs must not replace *“public or equivalent structural expenditure by a member state in the regions concerned by this principle”* (Regional Policy Info regio/Additionality, 2010:1). This means that SF allocations will not necessarily result in a decrease in national structural expenditure in the regions concerned. The principle of partnership requires cooperation between the EU and the Member States in terms of regional policy and SF allocation, from the preparatory stages to the implementation, evaluation and assessment of the outcomes (Regional Policy Info regio/Partnership, 2010). The principle of programming includes

the administrative mechanism under which the Regional Policy is conducted and more specifically the multi annual Operational Programmes (OPs). The aim of this principle is to identify the main strategic priorities and manage financial allocations (Regional Policy Info regio/Programming, 2010).

The Commission's target was the establishment of a common policy and a more autonomous role for itself, being less dependent on the interests of the national governments, and acting at a more supranational level (Allen, 2000).

The need to redefine the EU Regional Policy came from the evaluation of economic risks that would appear with the launch of the Single Market and the 1988 EU Regional Policy reform took place in order to efficiently accompany the establishment of the Single Market (Armstrong, 2004). Either at an intergovernmental, or a supranational level, an effective regional policy was necessary to help Member States, and in particular regional economies, adjust to the open-market competition, to support their competitiveness so as to minimise the possibility of economic divergence and to reduce regional economic disparities, which would otherwise be evident between core and peripheral regions (Allen, 2000; Bache, 1998).

In March 1988, the European Council decided the allocation of 64 billion ECU to the SFs, which practically meant the doubling of annual resources for the first CSF Cycle (1989-93). On 24 June 1988, the Council adopted the first regulation according to which, SFs would be placed in the context of Cohesion Policy. This reform concentrated funds on the poorest regions, and introduced multi-annual programming, strategic orientation regarding investments and the active participation of regional and local partners (Info regio Panorama, 2008). The involvement of regional and local partners means precisely a shift towards a bottom-up approach to regional development.

The main characteristics of the new EU Regional Policy (from 1989 onwards) were a) the prevalence of multi-sectorial objectives and interventions for regions that are lagging behind in economic terms and for those that had experienced de-industrialization as specified in every Member State's Community Support Framework (CSF), b) the identification of the specific regions and localities where interventions should take place, c) the creation of a formal programme with an integrated approach to planning, simultaneously pursuing multiple development objectives, d) the articulation of programmes over a number of years based on a five, six, or seven year budgetary and programming cycle, e) definition of CSFs through the direct participation of representatives from regions, localities and civil society and f) the search for synergy in the funding projects outside the CSF (Leonardi, 2005). The shift from a sectoral to a territorial approach was a reality.

The concept of "territorial dimension" was important in a) finding the place where the policy was to be implemented, b) identifying the level of implementation and c) acknowledging the role of regional and local governments in regional projects. The identification of the territorial dimension offered the Commission a chance to shift the policy objectives from individual economic sectors to individual regions. The new ERDF Regulation meant that responsibilities for rule making and resource allocation were transferred to Brussels, but this did not mean that national policies would be eliminated. The target of the EU Regional Policy was to add an EU dimension to the existing national regional policies.

A significant budgetary shift took place. Annual payments increased from approximately 6.4 billion ECU in 1988 to 20.5 billion ECU in 1993, whilst their relative share increased from 16% to almost 31% of the entire EU budget. It can be argued that

the ERDF, the ESF and the EAGGF were favoured by this budgetary shift, as a re-funding projects system was established. In the context of this system, the projects were chosen and presented by the EU Member States (Info regio Panorama, 2008).

Five objectives were established in terms of the first CSF Cycle: a) Objective 1 for the structural development of regions lagging behind, b) Objective 2 for regions suffering industrial decline, c) Objective 3 to reduce long term unemployment, d) Objective 4 towards the occupational integration of young people (Info regio Panorama, 2008) and e) Objective 5 for the development of agricultural structures and rural areas. Under Objective 1, Spain was allocated 10.2 billion ECU, as 57.7% of its population was living in Objective 1 Regions. Italy was allocated 8.5 billion ECU, as 36.4% of its population was living in Objective 1 Regions. Spain and Italy were the major beneficiary Member States in the first CSF Cycle under Objective 1 (Info regio Panorama, 2008).

The Treaty on European Union (TEU) (December 1991) and the Delors-2 package, known also as the “Maastricht bill”-an agreement reached in line with the Edinburgh European Council (December 1992)- also provided a stimulus for the EU Regional Policy.

According to Article B of title 1 (Common Provisions), one of the main EU targets would be socio-economic progress and development through the establishment of an area without internal frontiers, through socio-economic cohesion and the creation of EMU (Allen, 2000). Also, Article 3 stressed the importance of the creation of Trans-European Networks (TENs), while Article 130d spoke about the objectives and implementation of the SFs, emphasizing the need for the establishment of a new

Cohesion Fund in order to a) provide funds for Greece, Spain, Portugal and Ireland, and b) support the creation of TENs, as well as environmental projects.

The debate on the TEU was about whether national governments would agree on the financing and implementation of the objectives. Some of the governments required a Protocol on Economic and Social Cohesion⁴¹, in order for an interim agreement between them to become a reality. This Protocol included the alterations that were supposed to be agreed in Edinburgh (in December 1992) and stressed that: a) *“the doubling of the Structural Funds between 1988 and 1993 implies large transfers, especially as a proportion of GDP of the less prosperous member states”* and b) the EIB *“was lending large and increasing amounts for the benefit of the poorer regions”*. Also, there was *“a desire for greater flexibility in the arrangements for allocations from the structural funds”* (Allen, 2000:250).

The Protocol stressed that the Cohesion Fund would be supposed to help the Member States with a Gross National Product (GNP) per capita less than 90% of the EU average. Another target of the Fund would be to assist these countries in order to achieve the economic convergence criteria for the EMU. These targets clearly showed the close relation between the EU Cohesion Policy and the Single Market (Allen, 2000).

At the Edinburgh European Council (1992), there was an agreement, according to which, national governments were supposed to increase SFs from 18.6 billion ECU in 1992 to 30 billion ECU in 1999 (1992 prices). Also, the European Council allocated 15 billion ECU to the Cohesion Fund with an increase in annual spending from 1.5 billion ECU in 1993 to 2.6 billion ECU in 1999. Up to 1996, Spain would receive between 52% and 58% (Allen, 2000).

⁴¹ Finally annexed to the TEU.

Gillingham (2003) agrees with Dinan (1999) in stressing the social impact of EU Regional Policy, and by assessing the budgetary constraints concerning the EU Regional Policy and the importance of a functional redistribution. He mentioned that the purpose of the SFs was to ease accommodation to the Single Market and never substitute for it.

The reform of EU Regional Policy introduced in 1989 changed the way EU Regional Policy pursued regional economic development. Until then, Regional Policy focused mainly on the role and responsibilities of the national systems of administration, or specialised development agencies in the context of project implementation. The reform, on the other hand, introduced the active involvement of numerous administrative levels and socio-economic groups in policy establishment and implementation (Leonardi, 2005).

3.2.2-SECOND CSF CYCLE (1994-1999)

In terms of the second CSF Cycle, a sixth Objective was added towards the assistance of regions with low population density. Again the funding under Objective 1 was significant (94 billion ECU by the ERDF, the ESF and the EAGGF and 14.45 billions by the Cohesion Fund, 68% of its total funds available), covering 24.6% of approximately 97.7 million EU inhabitants. In 1994, the FIG was also established (Milio, 2010). Always under Objective 1, 41% of the investment was spent on enterprises, 29.8% on infrastructure (half on transport and a quarter on environment) and 24.5% on human resources. The total SF budget was 69 billion ECU, which equalled 25% of the EU budget and 0.3% of the entire EU GDP. 64% was destined for Objective 1 Regions. Spain received 14.2 billion ECU and Italy 11.4 billions. The entire SFs and Cohesion Funds budget was 168 billion ECU, which equalled one third of the

EU budget and 0.4% of the entire EU GDP. 68% was destined for Objective 1 Regions. Spain received 42.4 billion ECU and Italy 21.7 billions (Inforegio Panorama, 2008).

In 1993, the Commission proposed to simplify the implementation of the Regional Policy by reducing the number of Objectives from five to three, and by reducing the SF coverage from over 50% of the EU population to 35%-40%. As a result, the amount of resources devoted to the SFs between 2000 and 2006 would drop from 275 billion euros (1999 prices) to 258 billion euros.

3.2.3-THIRD CSF CYCLE (2000-2006)

In the third CSF Cycle, the SFs Objectives were reduced to three and the Community Initiatives from 13 to four. Under Objective 1, funding by the ERDF, the ESF, the EAGGF, and the FIFG amounted to 149.2 billion euros. The Cohesion Fund funding amounted to 25.4 billion euros, covering 37% of the EU-25 population (169.4 million inhabitants). Under Objective 1, 41% of the investment was spent on infrastructure⁴², 33.8% on enterprises and 24.5% on human resources. Spain received 56.3 billion euros and Italy 29.6 billions. However, the main concern in terms of this Cycle was the EU Enlargement and on 1 May 2004, the EU officially included 25 Member States. The total amount of SFs and Cohesion Funds was 213 billion euros for EU-15 during the third Cycle and 21.7 billion euros between 2004 and 2006 for the ten new Member States. The entire amount equalled approximately one third of the EU budget and 0.4% of the entire EU GDP. 71.6% of it was destined for Objective 1 Regions (Inforegio Panorama, 2008).

The EU Enlargement, working towards the target of deeper integration, was based on the fact that any European country, which respected human rights, liberty and

⁴² Almost half on transport and a third on environment.

democracy could apply for an EU membership. This application was submitted to the European Council and the European Commission set a formal opinion regarding the applicant country. Then the Council had to unanimously agree the negotiating mandate, which was the first step for the negotiation procedure between the applicant country and the other EU Member States. The conditions for Enlargement were included in the “Copenhagen criteria” (December 1993), according to which, a candidate country was supposed to have institutions that could guarantee democracy, respect of the law, human rights and the protection of minorities, a well-functioning market economy and an ability to follow all membership obligations efficiently and to show adherence to the objectives of political, economic and monetary union (Europa, 2010d).

In 1995, the Madrid European Council emphasised the need for an adjustment of the administrative structures of every candidate country, in order for the country to be ready to put the EU guidelines, rules and procedures into effect successfully, moving towards a faster integration. Moreover, the EU had to make sure that both the institutional capacity and the decision-making processes in the candidate countries were effective enough in order for EU policy implementations to take place without problems (Europa, 2010d).

A pre-accession strategy was created for the candidate countries and included Europe Agreements, Association Agreements, Stabilisation and Association Agreements, Accession Partnerships, European Partnerships, Pre-Accession assistance (including co-financing from International Financing Institutions, participation in EU programmes, agencies and committees and national programmes) and Progress Reports. The role of this strategy was to prepare the candidate countries sufficiently in order for them not to have difficulties when adopting the EU framework (Europa, 2010b).

At this point it should be mentioned that in the cases of Spain and Italy, no pre-accession strategies took place to prepare them for the Reform of the SFs and thereby a move to a bottom-up regional policy before their inclusion in the EEC. This means that there were no satisfactory structural, or institutional adjustments within the national, or the regional context of those two countries in order for them to be able to implement EU rules and procedures more effectively towards a faster and more efficient integration. If such pre-accession criteria and mechanisms had taken place in Italy and Spain, it is highly likely that neither of the two countries would have faced implementation problems and perhaps all the Spanish and *Mezzogiorno* NUTS 2 regions would be nowadays excluded from the Convergence Objective.

The Enlargement posed a challenge to the EU budget, in terms of both the SFs and the CAP. All the regions of the new Central and Eastern European Member States were eligible for Objective 1 funding, which means they were to receive the highest rates of SFs assistance and, in terms of the CAP, a challenge was raised as the majority of these countries, in particular Poland and Hungary are significant agricultural producers and specialise in dairy products and cereals which are subject to high intervention levels by the EU (Armstrong, 2004). According to estimations in the early 1990s, it would be very difficult for the EU-15 to deal with such additional demands, and therefore, at the discussion on the 2000-2006 budget allocation that took place at the Berlin meeting of March 1999, it was decided that the candidate countries were to receive less money, allocated during a much longer period of time (Armstrong, 2004).

In terms of implementation, two new factors appeared during the third CSF Cycle. The first was the “n+2” rule (Bachtler and Mendez, 2010a), according to which, OPs received 7% of their budget out front by the EU and were obliged to spend it by the end

of the second year. Otherwise, the anticipated funding for the following year would be significantly decreased and the funding which was not spent would automatically return to the EU. The second factor was the “4% performance reserve”, according to which the EU withheld from Member States 4% of their overall SFs allocation for the 2000-2007 period. In order for this reserve to be allocated to the Member States, the latter had to satisfy certain requirements, including the assessment of the results of programmes on a yearly basis, the monitoring of projects and the measurement of the amount of money spent after the third year. A mid-term evaluation report carried-out by outside evaluators would then inform the Commission about the economic progress of the regions in order to decide how the reserve should be allocated (Leonardi, 2005).

Another important issue was how EU Regional Policy would be affected by the establishment of the EMU. Ever since the EU Treaty of 1992, it was believed that the attempts of the EU Member States to meet the convergence criteria would increase regional divergence. In particular, the need to decrease the deficits of the public sector was supposed to affect the peripheral regions significantly in a negative way. Therefore, during the second CSF Cycle, it was decided by the EU to significantly increase the SFs, and the establishment of the Cohesion Fund in 1994 took place in order to provide assistance, particularly to the less advantaged EU regions towards the EMU. After the introduction of the euro in 2002, the Stability and Growth Pact (SGP) was another factor putting significant pressure on EU Member States’ budgets, making it difficult for the Member States to spend more on their peripheral regions. The fact that the EU is not an optimum currency area and certainly lacks interstate mechanisms for fiscal transfers makes the future of EU Regional Policy uncertain (Armstrong, 2004).

Barry and Begg (2003) also connect the launch of the EMU with EU regional cohesion. Their main argument is that regional convergence is necessary for a satisfactory functioning of the EMU and there are clear implications, particularly for the Mediterranean countries, where regional disparities are more evident.

Allen (2000), just like Gillingham (2003), admits that the principles of additionality and partnership were violated, especially by the Mediterranean Member States. According to Allen (2000), there were difficulties in monitoring the financial practices of some national governments effectively and therefore it was almost impossible for the EU to conclude if EU funds were actually additional to national funds.

In assessing the implementation of the partnership principle, partnership provided stimulus not only for regionalisation, but also for regionalism (Allen, 2000). Allen (2000) argued that it was natural for highly centralised EU Member States to have disagreements regarding the functioning of the partnership principle. Spain and Italy were highly centralised countries and for that reason partnership implementation was problematic.

The Berlin agreement left the EU member governments⁴³ in a stronger position than before. Its most important outcomes are the regionalisation of the control of SFs expenditure and the weakening of the basic EU principles concerning Regional Policy⁴⁴. According to Bache (1998), the Berlin agreement managed to take the policy process away from the MLG and close to a modified intergovernmentalism, known as “extended gatekeeping”.

Between 1989 and 2006, the most common concept associated with EU Regional Policy was “Europeanisation”. According to Radaelli (Radaelli, 2003 in Leonardi,

⁴³ Particularly the core ones.

⁴⁴ Additionality, partnership, programming and concentration.

2005), Europeanisation is the process leading to the establishment and institutionalisation of rules, policy decisions and procedures, which are initially consolidated in the context of the EU policy procedures and then included in the context of national and sub-national public policies (Leonardi, 2005). The regional policy was firstly formulated at an EU level and then it was transferred to the national level for incorporation with all three levels (EU, national and regional) working in close cooperation.

The current EU Regional Policy does not fit into any national model, since it is in addition to existing national regional policies rather than a substitute for them. EU Regional Policy between 1989 and 2006 was a combination of inputs from the Commission, national governments and regional authorities. Before 1988, national governments were exclusively in charge of decision-making and the implementation of regional policy in their territory. However, after 1989, regions have been involved in policy-making processes. This cooperation explains the term Europeanisation in the sense that the Commission is the Member States' agent.

From 1989 onwards, the management, control and evaluation functions have become more organised. The implementation policy has been much more efficient, mostly due to the effective organisation of the EU institutions. Agenda 2000 contained an organised outline of objectives and policies for the 2000-2006 period. This progress is also shown by the improvement in the regional economic performance of the peripheral regions, especially within Italy and Spain.

The 1989-2006 EU Regional Policy was concentrated on the allocation of resources from the European to the national and regional level through a planning programme, specific interventions, monitoring and reporting of expenditures, calculation of outputs

and evaluation of incomes (Leonardi, 2005). The concept of convergence emphasised the need for solidarity between the core and periphery in the EU. Also, EU Regional Policy after 1989 helped Member States which had problems financing their own regional policy. Before 1989, such Member States were forced to either increase their government spending, or decrease their domestic expenditures in order to finance their regional economic policies. Those budgetary constraints created many difficulties. The EU with its multi-level and multi-actor governance contributed to national regional policies with the first positive results at a regional level soon visible.

3.2.4-FOURTH CSF CYCLE (2007-2013)

The Commission stated that after 2006, within the EU-25, Objective 1 Regions would be restricted to 25% of the population. The previous Objectives 2 and 3 are merged (Info regio Panorama, 2008). During the current CSF Cycle (2007-2013), what was Objective 1 (including regions with GDP less than 75% of the Community average) is now re-labelled as the Convergence Objective. Also, the Commission stated that Member States with Gross National Income (GNI) below 90% of the EU average would benefit from the Cohesion Fund. Furthermore, a “Phasing-Out” system was approved to Member States which *“would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the EU at 15 and not at 25. This only concerns Spain”* (Europa, 2009c:1).

Besides the Convergence Objective, the other two Objectives are: a) the Regional Competitiveness and Employment Objective and b) the European Territorial Cooperation Objective, based on the INTERREG initiative on transnational, cross-border and interregional cooperation. The entire SFs and Cohesion Funds available are 347 billion euros, equal to 35.7% of the EU budget and 0.38% of the entire EU GDP.

81.5% is available for Objective 1 Regions. Spain receives 35.2 billion euros and Italy 28.8 billion (Inforegio Panorama, 2008).

During the current CSF Cycle, the EU will spend 308 billion euros⁴⁵ more for regional convergence (Bachtler and Gorzelak, 2007:309) and “*a phasing-out system is granted to those regions which would have been eligible for funding under the Convergence objective if the threshold of 75% of GDP had been calculated for the EU at 15 and not at 25*” (Europa, 2009c:1) (Basilicata in Italy and Ciudad Autónoma de Ceuta, Ciudad Autónoma de Melilla, Principado de Asturias and Región de Murcia in Spain).

3.3-THEORY ON POLICY EVALUATION

Since the beginning of the CSF Cycles, the evaluation process (Bachtler and Mendez, 2010b) has gained further importance due to the fact that it is linked to the crucial issues of the allocation of SFs and satisfactory implementation according to the basic EU Regional Policy principles. Evaluation is the process of “*assessing and providing judgements and feedback on the design, delivery and impact of each programme*” (Kearney, 1997:313). According to Milio (2007) evaluation is the means through which an assessment can be made, regarding whether the programme implementation has been conducted as initially anticipated. Evaluation is an integral process towards regional development, as it can critically assess, estimate and calculate the problems, difficulties, future potential and impact of a specific programme.

The main aims of evaluation include accountability, support in decision-making, mainly in the context of the allocation of resources, clear policy targets, recognition of policy needs, efficient assessment of impacts at project, programme and policy level,

⁴⁵ In 2004 prices.

cost-effectiveness of policies and learning and lesson drawing, particularly in the context of procedures (Polverari and Bachtler, 2004). There is an emphasis on “*qualitative research on processes; case studies of best practice; quantitative investigations of effectiveness (impacts), efficiency (cost per job), additionality, deadweight and displacement; and macroeconomic modelling*” (Polverari and Bachtler, 2004:6).

Diez (Diez, 2002 in Polverari and Bachtler, 2004) summarises the challenges for the evaluation of the EU Regional Policy of the past twenty years in five categories: a) adopting a holistic approach to contemporary regional policy, since contemporary regional policy tends to comprise a plurality of targets, b) the importance of using specific knowledge, skills and methods, c) a multiplicity of issues, meaning that the evaluation procedure has to assess a complex set of interactions in the context of regional policy, d) the involvement of a great number of actors, such as stakeholders, partners and beneficiaries and e) a bottom-up procedure through which policy is in close agreement with the principle of subsidiarity, where evaluation can be an instrument for both capacity building and learning. According to Bachtler, Mendez and Wishlade (2009), Cohesion Policy has not only been a simple redistributive mechanism, but also (and more importantly) an efficient “tool” in order for the combination of solidarity, competitiveness and sustainable development to become a reality amongst the EU Member States.

Evaluation is characterised by a multiplicity of targets, such as the promotion of socio-economic progress, high employment levels, sustainable development and the achievement of socio-economic cohesion (Treaty of Amsterdam, Article B, 1997 in Synthesis Report, 2010).

The evaluation process is related to the monitoring process (Bachtler and Mendez, 2010b), as they both aim to measure the efficiency of Regional Policy. However, these two processes, despite the fact that they work towards the same target, are not identical and it is important to make a distinction between them. Evaluation (Bachtler and Mendez, 2010b) is meant a) to estimate and assess the efficiency of policy, b) to support the implementation of policy instruments and programmes and c) to conduct the design of new policies (Polverari and Bachtler, 2004). The monitoring system *“harnesses strict certification, control and correction mechanisms. Member States have to carry out checks and audits of projects that receive funding, and the Commission itself can make on-the-spot inspections”* (Regional Policy Inforegio/Monitoring, 2010:1). Also, EU Member States are required to assess the implementation of the OPs through a) a certification body, b) an auditing body and c) a monitoring committee (Regional Policy Inforegio/Monitoring, 2010). Monitoring committees oversee programmes and, according to Kearney (1997), *“in practice, monitoring has ranged from supplementing information on the actual expenditure of a programme with minimal information on the consequences of that expenditure to sophisticated systems which make later payments conditional on managers providing detailed information on the outputs which have actually been achieved from preceding payments”* (Kearney, 1997:314).

We would therefore argue that the main difference between evaluation and monitoring is that while monitoring is used to be aware of the ongoing progress and status of the programme, evaluation measures the impact of the programme on the economy and society. Besides, the information gathered from the monitoring process can be used to change or update the programme in question, whereas the information gathered for the evaluation process can be used for future programmes.

Quantitative evidence concerning the impact of EU Cohesion Policy is carried out by DG REGIO (the Directorate-General of the EU Commission in charge of EU Regional Policy), as part of a research project, using the HERMIN (Bachtler, Mendez and Wishlade, 2010) and QUEST econometric models (Bachtler and Gorzelak, 2007). The QUEST model is the Commission's own macroeconomic model. The HERMIN model⁴⁶ concentrates less on GDP growth rates and more on the increase of the GDP level in the Objective 1 Regions and their countries. This model focuses on three expenditure types: physical infrastructure, human capital and support to enterprises. According to Bachtler and Gorzelak (2007), *"in the short term, such (aforementioned) outlays tend to stimulate demand which, in Keynesian theory will lead to the emergence of multiplier effects. In the medium and long run, such outlays should generate supply effects owing to increased effectiveness of the production factors and will also foster the inflow of exogenous capital, attracted by better conditions for business. The intensity of such processes is determined by elasticities inserted into the model on the basis of external evaluation"* (Bachtler and Gorzelak, 2007:322).

The evaluation process includes three stages: the ex-ante stage, an intermediate and the ex-post one. Ex-ante evaluation takes place when a programme, or project, are being designed and agreed. Prior appraisals and assessments regarding individual measures of every programme, or project, take place, in order to make the first estimations about the future outcomes of that programme and possibly to evaluate whether or not it will be successful. However, the technical difficulties of making correct and accurate prior appraisals result in a series of different estimations and approaches not only between EU Member States, but also amongst the different plans submitted by individual EU

⁴⁶ Planned and actual expenditure data as part of ex-post evaluations.

Member States. In many cases, the main problem has been the lack of specification of baseline data, which was necessary in order to estimate and calculate the impact. In other words, ex-ante evaluation in general can be regarded as imperfect (Kearney, 1997).

Ex-ante evaluation can also be linked with SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis either for a specified sector, or a member state. It is also linked with knowledge about labour market trends, environmental situations, sustainable development issues and production development impacts (*Ministero dello Sviluppo Economico-Dipartimento per lo Sviluppo e la Coesione Economica*, 2011).

The aim of intermediate evaluation, on the other hand, is to identify problems, or weaknesses in the context of the programme management information that might exist after the programme begins. It also aims at providing guidance and information for re-programming actions, or decisions that may be necessary either because of alterations in policy design and priorities, or because of the fact that the programme is actually not evolving as planned. Intermediate evaluation is also very important as it creates a solid framework for the ex-post evaluation where the impact of the programme will be estimated and calculated. In the past, intermediate evaluation was regarded as a formal bureaucratic procedure with limited scope, but mainly since the beginning of the second CSF Cycle, it has been acknowledged as a basic element of efficient programme management (Kearney, 1997).

Ex-post evaluation is expected to notify not only the re-definition of programmes in certain programming periods, but also the entire reforming of structural policies. This can be performed by the provision of information regarding the actual effects of the current policies. Nevertheless, ex-post evaluation suffers from two important problems. The first is the fact that in most cases the latest available information corresponds to the

programme situation not as it is at that specific moment, but as it was two or three years ago. The only method that can solve this problem is the utilisation of customised surveys according to monitoring information. The second problem is, in some cases, a difficulty in actually identifying all of the factors that can influence a certain policy. If some factors are not taken into consideration, then this might lead to incorrect decisions regarding the future of that policy and might have a negative impact in the short, or long run. A possible solution to this problem can be to exploit and apply the entire range of existing evaluation methodologies, updating and developing them wherever possible. It should be mentioned that important contributions regarding evaluation methodology have been made by the Commission DGs, the Technical Working Group on Evaluation, including evaluation experts from both the Commission and EU Member States and the MEANS programme, the target of which was the discovery of best practices at all evaluation levels within the EU (Kearney, 1997).

It can be argued that, whilst in the mid-1980s, perhaps the only effective regional policy evaluation system was that of the United Kingdom (UK), nowadays there is practically no EU Member State where systematic evaluation of regional policies, programmes, projects and instruments does not take place in order to comply with EU guidelines and requirements. The third CSF Cycle marked the beginning of the complete evaluation procedure (ex-ante, intermediate and ex-post ones) in all EU-funded regional development programmes and it is worth mentioning that between 2000 and 2003, the complete cycle (ex-ante, intermediate, ex-post) took place in all of the aforementioned EU programmes (Polverari and Bachtler, 2004).

The evaluation of EU Regional (Cohesion) Policy is conducted in accordance with the partnership principle (Regional Policy Info regio/Evaluation, 2010). The ex-ante

evaluation is conducted by the EU Member States, whereas the ex-post one is implemented by the Commission. EU Member States are mainly in charge of the ongoing evaluations, but the Commission is also entitled to intervene when necessary (when EU evaluations are considered to be more effective than those undertaken by Member States), always in partnership with the Member States (Regional Policy InfoREGIO/Evaluation, 2010).

Polverari and Bachtler (2004) argue that different evaluation cultures can be identified, drawing on national systems of law and administration. In particular, they divide the EU Member States into three categories, based on the use of evaluation in the context of regional policy. The first category includes countries where evaluation was regarded as a very important and integral part of process of policy-making; these include Germany, the UK, Netherlands, Sweden, and recently Ireland and Austria. In such countries, the domestic regional policy evaluation has been actually *“embedded in the policy-making process, reflecting national evaluation cultures and the development of an evaluation practice which largely pre-dates the Structural Funds or that can be considered as mainly independent from Structural Funds rules”* (Polverari and Bachtler, 2004:14).

The second category includes countries where evaluation has taken place on an *ad hoc*, or intermittent basis, such as France, Luxemburg and Finland, whilst the third category includes the remaining Member States where evaluation of regional policies was not as common, and in fact was introduced and established because of the SF obligations. Italy, and to a lesser extent Spain, are included in this category. Historically, Italy in particular had a weak evaluation culture (Polverari and Bachtler, 2004) in the context of regional economic development and before the beginning of the first CSF

Cycle, evaluation was ex-ante and project-related (Polverari and Bachtler, 2004). Ex-post and programme-wide (Polverari and Bachtler, 2004) evaluations mainly started taking place due to the SF principles and regulations.

In Italy, the National Evaluation System includes the Evaluation Unit of Public Investments (*UVAL*) of the Ministry of Economic Development, which acts as the general coordinator of the National Evaluation System and the evaluation of the National Strategic Reference Framework, of the Ministry for Agricultural and Rural Policies (*INEA*), the ESF Evaluation Unit at the Ministry of Labour (*ISFOL*) and the Managing Authorities' Evaluation Units (Nicita, 2008). *UVAL* can be characterised as the most important agency for evaluation and its main responsibilities include the promotion of information, data and knowledge for public policies, support to administrators in order to innovate public action, programme evaluation and the ex-ante evaluation of projects (Nicita, 2008).

In Spain, the evaluation of EU co-funded projects and programmes is conducted and coordinated by various entities, according to the nature of the programmes and the policy sector. The evaluation of regional development programmes is carried-out by the Ministry of Economy and Finance (*MEH*) and mainly the Directorate General of European Community Funds (*DGFC*). We can argue that within the *DGFC*, the most important evaluation unit is the General Sub-Direction of Territorial Programming and Evaluation of the European Community Programmes. Social policy evaluation is conducted by the Labour Ministry (Feinstein and Zapico-Goni, 2010).

Evaluation has undoubtedly had an important influence on policy within the entire EU. Both administrators and policy-makers regard now evaluation as a crucial part of the policy-making process and there has been an emphasis on the development of the

capacity for evaluation through studies of evaluation and investment in evaluation skills and techniques. Evaluation studies are now conducted and assessed in a more systematic way through the establishment of specific evaluation units, guidance on best practice and the creation of evaluation handbooks (Polverari and Bachtler, 2004).

3.4-RESULTS AND ADAPTATION TO ITALY AND SPAIN

3.4.1-FIRST CSF CYCLE (1989-1993)

The results of the first CSF Cycle could be characterised as encouraging. EU Objective 1 Regions managed to reduce the GDP per head divergence with the EU average by 3%. Around 600,000 jobs were created through the SFs in Spain, Greece, Ireland and Portugal and the average GDP per head of these Member States was raised from 68.3% to 74.5% of the EU average. Also, 917,000 persons were trained by the ESF and 470,000 Small and Medium-sized Enterprises (SMEs) received significant assistance in the EU Objective 2 Regions (Inforegio Panorama, 2008).

3.4.2-SECOND CSF CYCLE (1994-1999)

The results of the second CSF Cycle were also encouraging. The effect of the intervention of SFs on GDP (real terms) resulted in the creation of an additional 4.7% in Portugal, 2.8% in Ireland, 2.2% in Greece and 1.4% in Spain. In Objective 1 Regions, 700,000 net jobs were established, resulting in an employment addition of approximately 4% in Portugal, 2.5% in Greece and between 1% and 2% in Spain and the Italian *Mezzogiorno*. 800,000 SMEs (500,000 in Objective 1 Regions) received direct investment assistance, 4,104 km of motorway and 31,844 km of other roads were created, or modernised, rail infrastructure was updated and in Objective 2 Regions approximately 567,000 gross additional jobs were established, unemployment fell from

11.3% to 8.7% and 3.2 billion ERDF funding resulted in the creation of 115.1 million square metres of “*new sites and premises*” (Info regio Panorama, 2008:17).

Bachtler and Gorzelak (2007) refer to quantitative evidence concerning the impact of the EU Cohesion Policy in the *Mezzogiorno*. This is the result of modelling research carried out by DG REGIO, using certain macroeconomic models. According to Beutel (Beutel 1993, 1995 and 2002 in Bachtler and Gorzelak, 2007), the Funds increased the GDP growth rate by 2.4% within the *Mezzogiorno* by the end of the second CSF Cycle. Between 1994 and 2001, the Commission concluded that GDP growth in Spain had been 1% per year higher than the EU average, and employment rates had increased to a higher degree than the EU average. Furthermore, GDP per capita in the Objective 1 Regions had grown faster than in the rest of the EU (Bachtler and Gorzelak, 2007). According to Beutel (Beutel, 1993, 1995 and 2002 in Bachtler and Gorzelak, 2007), the Funds increased the GDP growth rate by between 0.5% and 1% per year in Spain during the 1989-1999 period⁴⁷ (Bachtler and Gorzelak, 2007). In Spain, the additional GDP at the end of the 1994-1999 period, in per cent relative to a baseline scenario without regional programme was 4.3 according to the HERMIN model, 1.2 according to the QUEST model and 4.2 according to Beutel (Bachtler and Gorzelak, 2007).

According to the HERMIN model, during the second CSF Cycle, the effects of structural interventions were expected to lead to a 4%-9% higher GDP level in Spain. For the second CSF Cycle, the QUEST model estimated an increase in GDP of 1%-3% in Spain (Bachtler and Gorzelak, 2007).

⁴⁷ The first and second CSF Cycles.

3.4.3-THIRD CSF CYCLE (2000-2006)

The results of the third CSF Cycle were exemplary. Objective 1 spending resulted in the establishment of approximately 570,000 net jobs, around 160,000 of which were in new Member States. In Spain, there was approximately four billion euros of SF investment in research, technology and innovation, for more than 13,000 research projects, involving almost 100,000 researchers and co-financing the majority of the present 64 Spanish technology parks. Also in Spain, investments in roads saved almost 1.2 million hours of travel time per year. In all EU Objective 2 regions, approximately 730,000 jobs were created (Inforegio Panorama, 2008). According to EU statistics, the Cohesion Policy produced an increase of 1.1% in the GDP of the *Mezzogiorno* (Europa, 2009a).

According to Commission data, during the third CSF Cycle in Spain, for every euro contributed in terms of the EU Regional Policy, an extra 0.9 euro was generated on average in the Objective 1 Regions, reaching as high as three euros in the Objective 2 Regions (Bachtler and Gorzelak, 2007). According to Beutel (Beutel, 1993, 1995 and 2002 in Bachtler and Gorzelak, 2007), the Funds increased the GDP growth rate in Spain by between 0.03% and 0.4% during the third CSF Cycle (Bachtler and Gorzelak, 2007). In Spain the additional GDP at the end of the 2000-2006 period, in per cent relative to a baseline scenario without regional programmes was 2.2 according to HERMIN and 0.9 according to QUEST (Bachtler and Gorzelak, 2007). According to the HERMIN model, the effects of the third CSF Cycle were estimated to lead to increases of 1.8%-6.1% in Spain. The QUEST model estimated an increase in GDP of 0.5%-2.4% in Spain (Bachtler and Gorzelak, 2007).

According to the EU (2009), between 2000 and 2006, the EU Cohesion Policy had a very significant impact in both Italy and Spain. More specifically, in Italy, Cohesion

Policy supported 20,000 businesses, including 200 start-ups. Funding for industrial research projects was beneficial to 770 businesses and there was a significant rise in a) the number of businesses connected to the Internet from 25% to 70% and b) the number of families connected to the Internet from 11% to 32%. Furthermore, 690 km of new roads were constructed and 350 km of railways were significantly modernised. The railway line linking Rome and Naples was finally completed and this resulted in the reduction of the journey time by approximately 33 minutes. New airport terminals were created in Cagliari, Bari and Catania and there was a significant updating of air traffic control systems within the entire *Mezzogiorno* (Europa, 2009a).

Also, an additional number of approximately nine million people gained access to sorted household collection of waste and 63 new plants for waste treatment were introduced. 530 projects were established in order to improve the cultural heritage of the *Mezzogiorno* and this partially led to an increase in the number of foreign tourists to the *Mezzogiorno* by 20% (always between 2000 and 2006). Due to the Cohesion Policy, there was one computer for every ten students within the *Mezzogiorno*, up from one for every 33 students in 2001. This partially led to an increase in the number of young people attending compulsory education from 80% in 1999 to 93% in 2007. Lastly, 15,000 SMEs in 14 Italian regions received a significant amount of EU aid. The impact of the Cohesion Policy, according always to the EU statistics, is more than evident (Europa, 2009a).

In the case of Spain, EU Cohesion Policy had an equally significant impact. Between 1995 and 2007, in terms of GDP, Spain increased its disparity with the rest of the EU-27 from 92% to 106.8% of the EU GDP per capita average and between 1995 and 2006, the average growth in GDP per capita was 0.5 percentage points a year higher

than the EU average. Between 2000 and 2005, more than 377,000 people received support regarding issues such as self-employment, training, skills development, housing and childcare and approximately 2.5 million people received support in terms of continuous training. Also, between 1995 and 2004, more than 1,200 km of motorways and roads were co-financed by the Cohesion Policy. Between 2000 and 2006, the Spanish high-speed train network was updated and extended with new connections between Lleida-Tarragona-Barcelona, Cordoba-Malaga and Madrid-Valladolid (approximately 850 km in total). Furthermore, between 2000 and 2006, 2,000 km of water pipelines were upgraded and 600 km of new pipelines created, serving almost 6% of the Spanish population (2.6 million people) (Europa, 2009b).

Between 1999 and 2005, 57 plants for water treatment were constructed, upgraded, or enlarged. Between 2000 and 2006, the SFs invested approximately four billion euros into R&D, innovation and the information society and this led to the creation of more than 21,000 R&D and innovation projects with the participation of almost 10,000 researchers. More than 500 research and technology centres were supported and the majority of the current 64 Spanish technology parks were co-financed. There was also significant support for technology activities in almost 100,000 SMEs and an investment of approximately one billion euros into the infrastructure of information and communications technologies (Europa, 2009b).

Also, very important national programmes have started, due to SF support. The most significant of these include the *Programa AGUA* (2004-2008) for water reserves management, the *Plan AVANZ@* (2005-2010) for decreasing the digital divide between Spain and the EU and the *Torres Quevedo* for research and technology support for SMEs. It is also worth mentioning that Cohesion Policy funding resulted in the

attraction of foreign investment, which rose from 11% of total investment in 1998 to approximately 18% by the end of the third CSF Cycle. Multi-annual programming encouraged longer-term planning in Spain and the partnership requirement led a greater number and range of organisations to get involved in development projects (Synthesis Report, 2010). The impact of Cohesion Policy, according to the EU, has been evident both in Italy and in Spain.

According to the Synthesis Report (2010), EU-15 Objective 1 Regions that received SFs between 2000 and 2006 experienced a higher economic growth rate than those receiving no EU funds. This was true in the case of Spain, but not in the case of Italy, where the growth performance of its Objective 1 Regions was inferior to that of the non-assisted EU-15 regions (Synthesis Report, 2010).

Between 2000 and 2006, the employment rate in the Objective 1 Regions of Spain increased by 8.7 percentage points (from 52.5% in 2000 to 61.2% in 2006), whereas in Italy it increased by 4.4 percentage points (from 41.5% in 2000 to 45.9% in 2006). According to field research on more than 250 firms in Italy, more than 69% of projects were between a high and a medium-to-high tech nature (Synthesis Report, 2010), approximately 83% of research activities had their results commercialised (Synthesis Report, 2010), and 19% led to the establishment of patents (26% in the context of the SMEs). Around 92% of firms reported that the effect on jobs was positive (average increase of 15%) and 87% of the projects strengthened public-private collaboration with an emphasis on the link between universities, public research centres and businesses (Synthesis Report, 2010).

3.4.4-FOURTH CSF CYCLE (2007-2013)

The expected results for the fourth CSF Cycle are also positive. Cohesion Policy investment is likely to increase the GDP of the new Member States by around 6% on average and the GDP of Spain and the *Mezzogiorno* by approximately 1-1.5%. By 2015, SFs and Cohesion Funds are likely to have established around two million new jobs and the focus on research and innovation will possibly create 40,000 additional jobs. Also, EU Regional Policy will invest in 25,000 km of new, or reconstructed, roads and 7,700 km of railways will be created (Inforegio, Panorama, 2008).

The main priority of EU Cohesion Policy in Italy between 2007 and 2013 is the creation of 473,000 new jobs in the four Convergence Objective Regions. The transport infrastructure will receive 4.1 billion euros from the EU. The EU will also invest 2.7 billion euros into entrepreneurship promotion and support of SMEs and 1.6 billion euros into information and communication technologies (Europa, 2009a). In Spain, still between 2007 and 2013, 45.5% of the ESF funds (3.6 billion euros) will be invested in raising labour participation, whilst electronic services and applications for citizens (in the form of e-government, e-health, e-learning and e-inclusion) will be supported by the ERDF with approximately 741 million euros under the Information Society priority. 10.6% of the entire ESF funding in Spain (860 million euros) will be invested in the adaptability of workers and enterprises, 218 million euros (by the ESF) will be invested in the integration of migrants and 6.65% of the ESF funds will finance issues such as poverty and social inclusion (Europa, 2009b).

It must be made clear that regional development is not only determined by EU Regional “Cohesion” Policy. Other factors, such as national governmental policies and regional authorities’ actions in terms of institutional capacity building, spending capacity and investments have to be taken into account and it is worth mentioning that

according to the EU Synthesis Report⁴⁸, there are certain “*difficulties of tracing a direct link between the expenditure supported and economic performance*” (Synthesis Report, 2010:15), and macroeconomic models such as QUEST and HERMIN (used in the evaluation process) “*represent the only practical means of estimating the effects of cohesion policy*” (Synthesis Report, 2010:15). Also, “*these models attempt to represent the behaviour of economies as best as they can, but there, of course, remains uncertainty, and debate, about how economies work in practice*” (Synthesis Report, 2010:112) and “*the estimates of the effect of cohesion policy produced by the two models are not necessarily an accurate reflection of reality. Indeed, both cannot be correct*” (Synthesis Report, 2010:119).

In other words, the EU recognises that the combination of public expenditure financed by EU funding and economic performance can sometimes be problematic and thus satisfactory economic performance cannot always be linked to the SFs allocations. Regional economic performance and development are not always an outcome of EU Regional Policy.

3.5-CONCLUSIONS

The conclusions that can be drawn after examining how the EU Regional Policy has been conducted from the establishment of the EEC up to the current CSF Cycle (2007-13) are manifold. Ever since the establishment of the EEC, there has been a need for an effective regional policy in order to reduce such disparities, but the first major step was made in 1975 with the establishment of the ERDF. The 1988 Regional Policy reforms and the beginning of the CSF Cycles the following year were the cornerstones, on which a new, less-centralised EU Regional Policy would begin, in order for regional

⁴⁸ Ex-post evaluation of the ERDF actions between 2000 and 2006.

economic divergence between the EU Member States to be narrowed. Since 1989, the EU Regional Policy has indeed been orientated towards cohesion, but for cohesion to become a reality, regional convergence is essential. Economic convergence strongly contributes to socio-economic cohesion and thereby a more harmonious integration. In this spirit, the regional economic disparities that are still present work to hamper cohesion.

During the four CSF Cycles, the EU faced several problems and difficulties when conducting its regional policy. These difficulties were linked with a) budget allocations, b) implementation problems and c) violation of fundamental regional policy principles, such as additionality, subsidiarity and partnership. Such difficulties were mainly evident in the Southern Member States, and in particular Spain and Italy. Despite the fact that it was difficult for the EU to allocate huge amounts of SFs to these two countries, mainly because of budgetary restraints due to the EMU, or the Enlargement, it can be argued that during all the CSF Cycles, both countries received respectable amounts of SFs. However, both Spain and the Italian *Mezzogiorno*, suffering an inefficient institutional capacity, were not adequately prepared to immediately adopt the CSF framework and the EU Regional Policy rules and procedures. Therefore, during the first two CSF Cycles the results were not particularly satisfactory, but during the last two CSF Cycles, the results, not only in Italy and Spain, but in the entire EU, have been more encouraging.

The evaluation framework required by the Commission shows that in both Italy and Spain, systematic evaluation became a reality only after the beginning of the CSF Cycles. Both countries were characterised by weak evaluation cultures, which, before the CSF were mainly ex-ante and more project-related than programme-wide. However,

particularly since the beginning of the third CSF Cycle, both Member States started undertaking the complete evaluation process, which includes ex-ante, intermediate and ex-post evaluations.

Although it is necessary to argue that a) regional economic development is not always an outcome of the EU Cohesion Policy and b) the EU econometric models offer estimations that do not necessarily reflect the reality, we cannot deny that the EU Cohesion Policy has undoubtedly had a positive impact on both Italy and Spain, especially from the third CSF Cycle onwards, and particularly on issues such as infrastructure, industrial development (particularly in the context of SMEs), training and skills development and investment in research and development. These, however, somehow do not reflect sustained regional growth.

The positive impact of the EU Cohesion Policy on Italy and Spain presented here suggests that there is room for optimism that further regional economic progress can take place and regional disparities can be eliminated, despite the fact that regional divergence still exists. The current CSF Cycle (2007-13) remains pivotal regarding the future of EU Regional Policy and its outcomes will reveal the degree of effectiveness of the EU Regional Policy in an already significantly enlarged EU.

CHAPTER 4

THE PROFILE OF REGIONAL POLICY IN ITALY AND SPAIN

4.1-INTRODUCTION

The aim of this chapter is to offer a coherent view of the regional economic situation in Italy and Spain by means of key economic indicators⁴⁹, but also relying on data and figures provided by the interviewees in the two countries. The data discussed will include national level data, as well as regional data for the Objective 1 Regions in both countries. The analysis will shed some light on whether EU Regional Policy has been having a positive impact on these countries. In chapter 5, we will focus only on Basilicata, Calabria, Puglia and Campania, whilst in chapter 6 we will focus only on Castilla y León, Comunidad Valenciana, Andalucía and Extremadura. Chapters 5 and 6 integrate this focus with a more qualitative discussion drawing on the interviews carried out with key regional policy-makers.

In this chapter, the economic profiles of Italy and Spain will be presented with an emphasis on the regional dimension, in particular looking at those regions that were eligible for Objective 1 SFs⁵⁰, during the third (2000-2006) CSF Cycle. The regions this study is based on are the Italian and Spanish NUTS 2 regions which were part of the Objective 1 between 2000 and 2006. The target of this survey is to provide statistical evidence as to whether there has been any progress in terms of regional economic convergence. Both Spain and Italy are characterised by the existence of core and periphery economic structures amongst their NUTS 2 regions, according to the dependency theory. This metropolis-satellite relation established between rich and poor

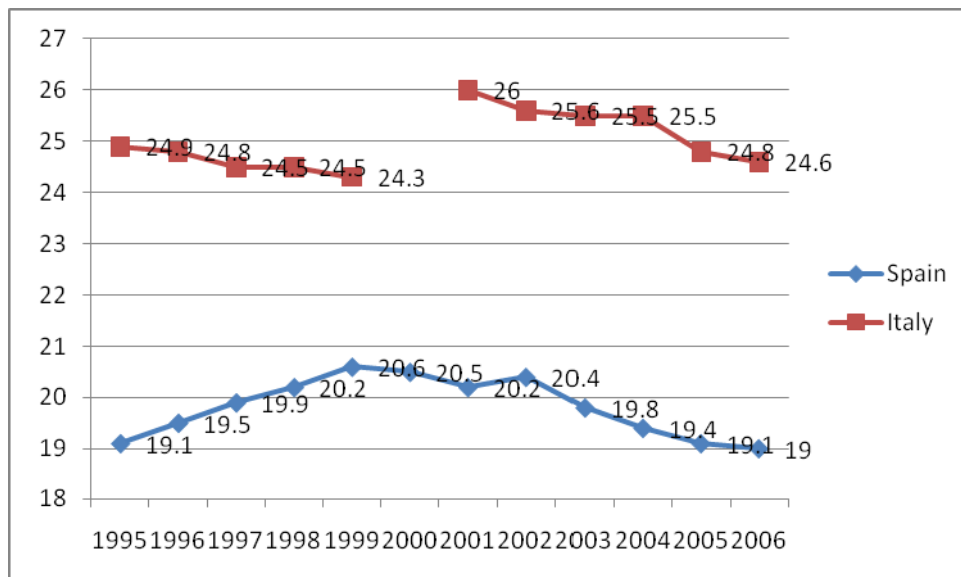
⁴⁹ GDP per capita, employment and unemployment rates.

⁵⁰ Regions with a GDP per capita below 75% of the EU-15 average.

regions results in economic divergence, which has been narrowing down, but not eliminated.

Figure 4.1 below shows the dispersion of regional GDP per inhabitant⁵¹ in both Spain and Italy from 1995 to 2006. This dispersion is calculated at NUTS 3 level and is measured by the sum of the absolute differences between the national and the regional GDP per inhabitant, weighted with the population share. It is expressed in percentage of the national GDP per inhabitant (Eurostat, 2010a). It is indicative of the difference that exists between these two countries. The conclusion is that between 1995 and 2006, the dispersion of regional GDP per head across the Italian regions remained higher than that across the Spanish regions. However, from 2002 to 2006, both countries experienced a gradual decrease (with the exception of the period 2003-04 for Italy, when no decrease took place), so that both display in 2006 lower dispersion than in 1995.

Figure 4.1
Dispersion of regional GDP per inhabitant in Spain and Italy (in % of the national GDP per inhabitant)



Source: Eurostat, 2010a.

⁵¹ In % of the national GDP per inhabitant.

4.2 THE CASE OF ITALY

4.2.1-A BRIEF ECONOMIC PROFILE

Italy is made up of 20 NUTS 2 regions, of which the Objective 1 Regions⁵² included were Puglia, Calabria, Campania, Basilicata, Sicilia and Sardegna. In the 2007-2013 CSF Cycle, Basilicata⁵³ and Sardegna⁵⁴ exited the Convergence Objective. Calabria, Campania, Puglia and Sicilia are still included in the Convergence Objective. Dependency theory is useful to explain economic development in the case of Italy, where core, semi-periphery and periphery structures⁵⁵ are evident. We argue that the 12 northern regions⁵⁶ are the core ones, due to the fact that a) they are far less dependent on agriculture than the others, b) they are far more industrialised than the others and their industries are characterised by higher technology, c) the labour force occupied in the northern regions is more skilled than in the others, d) in the northern regions there is a higher level of income, GDP per capita and employment, accompanied by a lower level of unemployment, compared to the others.

Abruzzo, Molise, Basilicata and Sardegna are the semi-peripheral regions, due to the fact that they have already managed to exit the Convergence Objective. We also include Basilicata in the semi-periphery, despite the fact that it is a “Phasing-Out” Region, as in terms of GDP per capita, employment and unemployment, its performance is more successful compared to that of the Convergence Regions. The four Convergence

⁵² During the third CSF Cycle.

⁵³ Basilicata is a “Phasing-Out” Region and a Phasing-Out system “is granted to those regions which would have been eligible for funding under the Convergence Objective if the threshold of 75% of GDP had been calculated for the EU at 15 and not at 25” (Europa, 2009c:1).

⁵⁴ Sardegna is a “Phasing-In” Region and a Phasing-In system “is granted until 2013 to NUTS 2 regions which were covered by the former Objective 1 but whose GDP exceed 75% of the average GDP of the EU-15” (Europa, 2009c:1).

⁵⁵ According to economic variables such as GDP per capita, employment and unemployment.

⁵⁶ Lombardia, Piemonte, Veneto, Emilia-Romagna, Val D’Aosta, Friuli-Venezia Giulia, Lazio, Liguria, Marche, Trentino-Alto Adige, Toscana and Umbria.

Regions⁵⁷ form the periphery, as, despite the fact that they have been receiving SFs for more than 20 years, they still have not managed to reach the 75% of the EU-27 GDP in order to exit the Convergence Objective. Furthermore, the unemployment rates are particularly high, whilst their employment rates are low compared to the other Italian regions. Calabria, Campania, Puglia and Sicilia can be regarded as peripheral regions also because of their distance from the core regions and the lack of competitiveness of their companies. The thesis is based on this division between the developed industrial, core North, which is dominated by the dynamic manufacturing and service sectors, and the more agricultural and public sector dependent, peripheral *Mezzogiorno*⁵⁸.

In the context of macro data, in 2009 (the latest year available), the Italian GDP (in Purchasing Power Parity-PPP) was \$1.76 trillion (country comparison to the world: 11), the GDP real growth rate was -4.8% (country comparison to the world: 187) and the GDP per capita (PPP) \$30,300 (country comparison to the world: 44). In 2009, the unemployment rate was 7.7% (country comparison to the world: 79) and the inflation rate 0.8% (country comparison to the world: 41). In 2009, the labour force was 24.97 million (country comparison to the world: 23) (CIA Factbook/Italy, 2009a).

In the context of micro data, in 2009, the GDP composition per sector was such that agriculture⁵⁹ accounted for 1.8%, industry⁶⁰ for 25% and services for 73.1% (CIA Factbook/Italy, 2009a). In the beginning of the CSF Cycles (in 1989), all of the *Mezzogiorno* NUTS 2 regions⁶¹ were included in Objective 1⁶². The semi-peripheral

⁵⁷ Calabria, Campania, Puglia and Sicilia.

⁵⁸ Meaning the Italian South.

⁵⁹ Italy's most important agricultural products are fruits, vegetables, grain, fish, dairy products, olives, potatoes, sugar beets and soybeans.

⁶⁰ Italy's most important industries are tourism, machinery, chemicals, motor vehicles, iron and steel, food processing and clothing.

⁶¹ Abruzzo, Molise, Basilicata, Campania, Calabria, Puglia, Sicilia and Sardegna.

⁶² It should be mentioned that the *Mezzogiorno* NUTS 2 regions were the only Italian NUTS 2 regions included in Objective 1.

Abruzzo managed to exit Objective 1 during the second CSF Cycle and the semi-peripheral Molise during the third and this is a sign of regional economic development and convergence.

4.2.2-ITALY AND SFs

According to Piazzzi (2009), analysis of whether EU SFs⁶³ have had positive results in terms of economic and social convergence in Italy shows that over the period considered the regions of the *Mezzogiorno* have gradually diverged⁶⁴. This is a feature common to the whole Italian economy. In fact, within this negative trend, the *Mezzogiorno* regions were able to perform better than the other Italian regions. The reason for this national level divergence has been the significant deterioration in productivity rates, particularly in the Northern and Central Italian regions. Even though the losses of productivity of the regions of the *Mezzogiorno* were less severe than of the Centre-North, the performance was worse than the EU-27 average. The trends observed in the labour market in the *Mezzogiorno* were fairly positive. In most cases, employment rates and unemployment rates improved compared to both the EU and the Italian average. Yet, they were not able to fully offset the bad performance in terms of productivity over the period 2000-2005.

The analysis also suggests that the role of the public sector in Italy in addressing internal disparities was rather weak. Over the period 2000-2006, both current and capital expenditure per head was persistently higher in the regions of the Centre-North. The objective of allocating 30% of the ordinary capital expenditure to the regions of the *Mezzogiorno* each year, enshrined in national Law, was not respected throughout the

⁶³ Despite some initial implementation difficulties.

⁶⁴ In terms of GDP per capita compared to the EU-27 average.

reference period. Figures suggest that the distributive role of the public sector was more evident in Spain (interview with Piazzzi, 2009).

Tables 4.1 and 4.2 below reveal the combination of national and EU contributions during the first and second CSF Cycles in Italy⁶⁵. According to Table 4.3, the SFs distribution for Objective 1 Regions between 2000 and 2006 of Italy was 21,935 MEUR⁶⁶.

Table 4.1

Total allocations for 1989-1993 CSFs in terms of SF, EIB, private and national contributions (MECU in 2005 prices)

Member state	Total SFs	SFs for Ob.1	National contribution	Private contribution	EIB loans	Total	Annual impact on GDP
Italy	11872	8504	11310	4243	10283	37708	0.87%

Source: Leonardi, 2005, pp. 51 and 55.

Table 4.2

Total allocations for 1994-1999 CSFs in terms of SF, EIB, private and national contributions (MECU in 2005 prices)

Member state	Total SFs	SFs for Ob.1	National contribution	Private contribution	EIB loans	Total	Annual impact on GDP
Italy	21651	14860	19240	17442	1732	60065	1.76%

Source: Leonardi, 2005, pp. 57 and 59.

Table 4.3

Overall distribution of the SFs 2000-2006 (MEUR in 1999 prices)

Member state	Objective 1	Transition ex Obj. 1	Total
Italy	21935	187	29656

Source: Leonardi, 2005, p. 63.

According to the EU, implementation is “*the operational process needed to produce expected outputs*” (Milio, 2007:430), which can be divided into two main categories; quantitative⁶⁷ and qualitative⁶⁸ implementation.

During the third CSF Cycle, the CSF financial assistance had a budget of around 46 billion euros and included six thematical areas⁶⁹, as well as technical assistance. Seven National Operational Programmes (NOPs) and seven Regional Operational Programmes

⁶⁵ As we can see the total SFs for the second CSF Cycle were practically doubled, compared to the first Cycle.

⁶⁶ In 1999 prices.

⁶⁷ Investing allocated resources within the “due time span”.

⁶⁸ Investing resources in projects that will possibly lead to regional economic development.

⁶⁹ Natural resources, cultural resources, human resources, local development systems, cities and services.

(ROPs) took place. Between 2000 and 2008, approximately 269,000 projects in Italy were identified as admissible for financing by the OPs. The CSF provided funds not only for infrastructural projects, but also for projects of a non-material nature⁷⁰. Around 50.9% of the resources for about 34,000 infrastructural projects were spent on natural resources and services. Finally, 19.3% was spent on transport infrastructure⁷¹ and 23.3% was spent on industrial investment⁷² (*Rapporto DPS*, 2008). For the current CSF Cycle (2007-2013), Italy will receive 28.8 billion euros from the EU as table 4.4 shows. Such 21.5 billion euros will be allocated to the Convergence Objective Regions (Europa, 2009a).

Table 4.4
Funds for Italy in billion euros 2007-2013⁷³

OBJECTIVE	FUND	EU	NATIONAL PUBLIC	TOTAL
Convergence	ERDF	17.8	18	35.8
Convergence	ESF	3.7	3.9	7.6
Total Convergence		21.5		
Regional Competitiveness and Employment	ERDF	3.1	5	8.1
Regional Competitiveness and Employment	ESF	3.2	4.4	7.6
Total Regional Competitiveness and Employment		6.3		
Total European Territorial Cooperation	ERDF	1		1
TOTAL		28.8	31.3	60.1

Source: Europa, 2009a.

Note: Figures have been rounded up.

In terms of the third CSF Cycle (2000-2006), Italian national policy makers decided to complement the EU performance reserve mechanism⁷⁴ with an additional (separate) national performance reserve. This additional reserve amounted to 6% of the third CSF Cycle SFs for Objective 1 Regions and applied only to Objective 1 Regions' OPs. All

⁷⁰ Such as interventions in research areas, education-training and industrial services.

⁷¹ Approximately 5,450 projects.

⁷² Approximately 104,000 projects.

⁷³ Each Territorial Cooperation programme includes a minimum of 15% co-financing from each participating Member State.

⁷⁴ According to which, 4% of the committed SFs would be set aside and then distributed to programmes that met certain targets.

Italian NUTS 2 third CSF Cycle Objective 1 Regions would be benefited by this additional reserve, the distribution of which would take place according to their performance towards meeting specific targets associated with more effective public spending quality and improved public administration. The national performance reserve mechanism was a procedure introduced to ensure more efficient management of funds at a regional level and to assess the performance of the regions. It was based on 12 indicators⁷⁵, which were applied to NUTS 2 regions (Public Governance and Territorial Development Directorate, 2008).

A weighting system was used in order to determine the relative importance of each indicator in the measurement of the entire performance on which the financial reward depended. Institutional enhancement represented 58%, integration 25% and concentration 17% of the total. The target of the procedure was to find out which regions could actually achieve the target, which was to reach these indicators. The regions with the highest levels of success would receive a higher amount of funds. The main actors in this process were the Department for Development Policies (*DPS*) at the Ministry of Economy, the Evaluation Unit within the DPS (*UVAL*) and various regional Managing Authorities (Public Governance and Territorial Development Directorate, 2008).

The administrations involved in the national performance reserve together achieved approximately 60% of total targets by September 2002, which was the first deadline. Basilicata received approximately 140% of its initial endowment, Campania, Sicilia and Puglia received between 79-98% of the reserve, whereas Sardegna and Calabria received approximately 40%. The important fact, though, is that all these regions

⁷⁵ Divided into three categories: a) institutional enhancement, b) integration and c) concentration.

satisfied at least one indicator (see figure 4.2 below). The EU was informed of the process, but was involved only when the Italian authorities submitted documentation containing indicators and rules; when this was approved as a part of the CSF, the programme started in August 2000. This 6% national performance reserve represented 2.6 billion euros for Objective 1 Regions (Public Governance and Territorial Development Directorate, 2008).

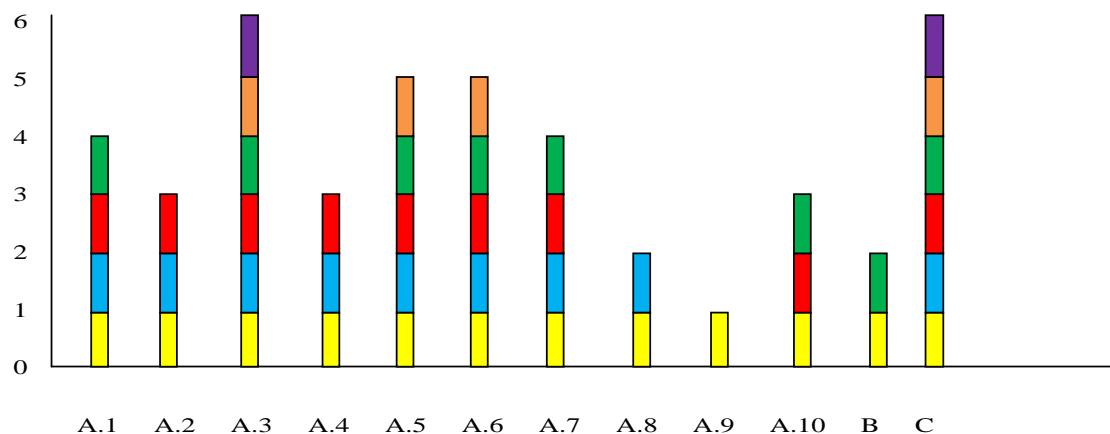
Figure 4.2

RESULTS:

NATIONAL PERFORMANCE RESERVE INDICATORS ACHIEVED BY REGIONS AS OF SEPTEMBER 2002

BASILICATA, PUGLIA, SICILIA, CAMPANIA, CALABRIA, SARDEGNA

(Number of regions satisfying the indicator)



- A.1: Delegation of managerial responsibilities to officials
- A.2: Set up and implementation of internal control management unit
- A.3: Set up of regional and central administration evaluation units
- A.4: Development of information society in Public Administration
- A.5: Implementation of one back-stop shop
- A.6: Implementation of Public Employment Services
- A.7: Preparation and approval of territorial and landscape programming documents
- A.8: Management of integrated water services
- A.9: Management of urban solid waste within optimal service areas
- A.10: Set up and operational performance of regional environmental agencies
- B: Implementation of territorial integrated projects
- C: Concentration of financial resources

Source: Public Governance and Territorial Development Directorate, 2008, p. 93.

Table 4.5 below shows the distribution of the national performance reserve. In 2002, the OP for Sicilia received the highest amount of EU co-financing, compared to the OPs concerning the other third CSF Cycle Objective 1 Regions. The OP for local development was also the highest one compared to the OPs concerning the other categories.

Table 4.5
Distribution of the national performance reserve in 2002 (in EUR)

OPERATIONAL PROGRAMME	EU co-financing	Percent resource total CSF (%)	Maximum 6% performance reserve (EUR million)	Actual performance reserve distributed (EUR million)
Basilicata	742,778	3.46	45,480	69,887
Calabria	1,994,246	9.49	122,106	79,357
Campania	3,824,933	17.83	234,198	272,523
Puglia	2,639,488	12.30	161,614	174,924
Sardegna	1,946,229	9.07	119,166	79,884
Sicilia	3,857,946	17.98	236,219	234,234
Research	1,191,485	5.55	72,718	60,592
School	472,558	2.20	28,841	30,426
Security	573,108	2.67	34,978	29,076
Local Development	1,978,939	9.22	120,778	170,350
Transport	1,801,313	8.39	109,937	61,949
Fishing	122,000	0.57	7,446	4,814
Technical Assistance	312,428	1.46	19,068	44,533
Total CSF	21,457,451	100.00	1,312,549	1,312,549

Source: Public Governance and Territorial Development Directorate, 2008, p. 94.

The third CSF Cycle was very successful in terms of the promotion of a performance measurement in Italy, as very little was undertaken before the establishment of the performance reserve (1999/2000). Mechanisms such as the de-commitment rule, the EU performance reserve and the mid-term evaluation process were fundamental for an efficient Regional Policy. Furthermore, Italy implemented context indicators and breakthrough variables. The objectives of the national performance reserve were not just about the successful implementation of the SFs, but aimed to improve administrative capacity significantly and promote important reforms and more complex projects (Public Governance and Territorial Development Directorate, 2008).

4.2.3-ABRUZZO AND MOLISE: COMPETITIVENESS AND EMPLOYMENT REGIONS. SUCCESSFUL REGIONAL ECONOMIC DEVELOPMENT AND EXIT FROM OBJECTIVE 1

The economic performance of Abruzzo and Molise show significant regional economic development. In 1989, both regions were included in Objective 1. However, during the second CSF Cycle, Abruzzo became the first Italian and EU region to exit the Objective 1. During the third CSF Cycle, Molise also entered a “Phasing-Out” period (Leonardi, 2003:1).

In Abruzzo, the employment rate in 2008 was 45.2%⁷⁶. In 1999, its employment rate was again the highest amongst the Italian Objective 1 Regions (40.4%) and close to the national average (42.6%). Between 1999 and 2008, the regional employment rate was increased by 4.8% (Eurostat, 2010d). The economy of Abruzzo has changed dramatically since the 1950s (Europa 2004b). In 1951, 60% of the population was employed in the agricultural sector, 22% in industry and only 17% in the service sector. By 1971, industry’s share was already bigger than that of agriculture, while in 1981, the service sector’s share grew bigger than that of industry. Industry was the main driving force that created economic development within the region. In 2001, 61% of employment was in the service sector⁷⁷, 33% in industry⁷⁸ and only 6% in agriculture⁷⁹ (Europa, 2004b).

The unemployment rate in 2008 was 6.6%⁸⁰. In 1999, Abruzzo’s unemployment rate was 10.1%⁸¹ (Eurostat, 2010i). In the province of Teramo, the unemployment rate

⁷⁶ This is by far the highest amongst NUTS 2 Italian Objective 1 Regions and it is almost in line with the national average (45.9%), but a bit lower than the average for the EU-27 (53.7%), the EU-25 (53.9%) and the EU-15 (54.3%), always for 2008.

⁷⁷ Slightly lower than the national average.

⁷⁸ Slightly higher than the national average.

⁷⁹ Slightly higher than the national average.

⁸⁰ By far the lowest amongst the other Italian Objective 1 Regions and lower than both the national (6.7%) and the EU-27 average (7%) for 2008.

⁸¹ By far the lowest amongst the Italian Objective 1 Regions and lower than the national average (11.4%) for 1999.

was one of the lowest in Italy, reaching only 4.1% in 2001 (Europa, 2004b). In 2007, Abruzzo's GDP per capita represented 85.3% of the EU-27 average⁸², by far the highest amongst the Italian Objective 1 Regions. In 1996, its GDP per capita was also the highest (103.4% of the EU-27 average) (Eurostat, 2010g).

The agriculture sector, which mainly consists of smallholdings, is modernised and now offers high-quality products⁸³. Industry is also much developed. There are a few large businesses and many small and medium-sized ones. The increasing role of pure and applied research carried out in the region is significant, particularly in the fields of pharmaceuticals, biomedicine, electronics, aerospace and nuclear physics; this is associated with these sectors anchoring themselves in the region. The most important industrial zones are *Val Pescara*, *Val Sangro*, *Val Trigno*, *Val Vibrata* and *Conca del Fucino*. Some major private, or state-controlled companies are located in these zones, although their head offices might be outside the region. A lot of important companies have located in these zones, such as *SIV* (glass) and *Magneti Marelli* (car batteries and starter motors) in *Val Trigno*; *Honda* (motorcycles) and *Sevel* (vans) in *Val Sangro*; *Montefluos* (chlorine), *Italcementi* (cement), *Fater* (pharmaceuticals) and *Pirelli* (transmission belts) in *Val Pescara*; *Italtel* (telephones) and *Selenia* (electronics and aerospace) in *L'Aquila*; *Texas Instruments* (digital circuits) in *Avezzano* and *Fiat* (car components) in *Sulmona*. Advanced services can be observed in Pescara. Tourism is also important for the region's economic development. This successful industrialisation occurred in conjunction with a significant infrastructural development all over the region (Europa, 2004a).

⁸² PPS per inhabitant in % of the EU-27 average.

⁸³ The most important are wine, cereals, sugar beet, potatoes, olives, vegetables, fruit and dairy products.

During the 1970s and 1980s, Abruzzo experienced significant regional development (Garofoli, 1994). L'Aquila experienced industrialisation from above⁸⁴, whereas Teramo experienced industrialisation from below⁸⁵ (Piattoni, 1997). In the late 1960s, the Italian government decided that the best way for L'Aquila to embark on a development path was to use a top-down approach. The objective of that strategy was to “*stimulate the emergence of local firms through the presence of outside companies*” (Piattoni, 1997:323).

The problem was that it was almost impossible to find a productive connection between local industrial enterprises and public companies. This led to a shortage of the former and in the early 1980s, the deep economic crisis that took place in the public company *Italtel* uncovered the need for restructuring. The restructuring process was based on a complete alteration of the relations between the state company and subcontracting firms and on the firing of half of the work-force. This process indeed restored profitability (Garofoli, 1994), but only for a short time. Economic problems appeared again and with no actual development actually taking place.

The economic crisis of the 1980s had a negative impact on local enterprises in Abruzzo. Hence, local authorities decided to intervene so as to restructure the local economy and their main target was to attract investment from outside the region. Within L'Aquila, the restructuring of *Italtel* was the most difficult task. Firstly, they managed to convince *SIP*⁸⁶ and *Alenia*⁸⁷ to invest in the area. Secondly, they made sure that 2,000 workers were hired back and only 500 were handed over to the employment redundancy fund. Thirdly, the Department of Engineering of the University of L'Aquila

⁸⁴ Linked to the top-down approach.

⁸⁵ Linked to the bottom-up approach.

⁸⁶ A public telephone services company.

⁸⁷ A public company specialising in civic and military satellite communication systems.

created a specialised degree in Electronic Engineering to supply locally skilled engineers. Fourthly, scholarships for research in communications technology were created and joint research projects between the university and the companies were established. This led to the arrival of many new firms in the area. Lastly, a technology park was created in L'Aquila. Its aim was to combine the current public and private research facilities of Abruzzo, as well as to promote the development of local high-tech firms. It can be argued that the bottom-up approach achieved better results in terms of sustainable local development than the top-down one had done before (Piattoni, 1997).

On the other hand, in the area of Teramo, a bottom-up strategy, or an industrialisation from below was followed from the very beginning (early 1970s). In 2001, the unemployment rate in Teramo was one of the lowest in Italy, 4.1%. In the 1970s and 1980s, Teramo experienced huge growth in industrial production and firm creation and this helped in the establishment of industrial districts within the *Mezzogiorno* (Piattoni, 1997).

Teramo mainly owes its development and industrial growth to the decentralisation process, which took place because of the crisis in the early 1970s. In the 1980s, there was an autonomous evolution in the manufacturing activities based on local artisanal traditions, which made them enter national and international markets. What is more, foreign and northern firms established a “*steady flow of subcontracting traffic which induced local entrepreneurs to start up new activities*” (Piattoni, 1997:326).

These new enterprises were concentrated in traditional manufacturing sectors, such as clothes, leather goods and furniture. They succeeded mainly because of the low production costs that the client firms acquired by subcontracting part of the production to southern firms. During the late 1980s, most southern entrepreneurs moved to

independent production⁸⁸, in order to face problems concerning the price of products, the skills of the labour force and the competition from developing countries (Piattoni, 1997). Regional and local authorities were mainly in charge of regional economic development (Morgan, 1997). Abruzzo's political class played a very important role by a) supporting the attempts of the local entrepreneurs to upgrade their production, b) simplifying the transition to a new industrial relations system and c) providing incentives for the regional economy's expansion.

To sum-up, in Abruzzo, the bottom-up approach was successfully put into practice⁸⁹ (Morgan, 1997). The reasons for this include a) social institutions and governmental authorities operated in a clear and transparent way, with very few traces of corruption, b) less received investment was spent on consumption goods and c) there was a significant infrastructure development, which led to a rapid increase in manufacturing productivity. In 2006, Abruzzo was the only region within the *Mezzogiorno* with an unemployment rate lower than the national average.

In Molise, the employment rate in 2008 was 41%⁹⁰. Between 1999 and 2008, the employment rate increased by 2.9% (Eurostat, 2010d). Despite its industrial development, agriculture is still important to Molise's economy: in 2002, 10% of employment was in agriculture, against a national average of only 5%. The importance of this sector can also be observed by the fact that almost all of the 136 municipalities of the region are rural. However, between 1995 and 2002, the agricultural sector shed 5,600 jobs⁹¹. In 2002, the share of employment in the industrial sector was 29.1%⁹²,

⁸⁸ Either individually, or through cooperation.

⁸⁹ Stohr (1981) is proved correct when arguing that bottom-up approaches and development from below result in regional economic development.

⁹⁰ Lower than the national (45.9%) average and the EU-27 (53.7%), the EU-25 (53.9%) and the EU-15 (54.3%) figures in 2008.

⁹¹ Which is more than one third of the total number of the existing jobs in 1995.

whereas the share in the service sector was 60.9%⁹³. Molise has the highest share of regional employment in the public sector than any other Italian NUTS 2 region (Europa, 2004j).

In 2008, the unemployment rate of Molise was 9.1%⁹⁴, the lowest of all the third CSF Cycle Italian Objective 1 Regions. Between 1999 and 2008, the unemployment rate of Molise dropped by 7.1%, which is an evident sign of development (Eurostat, 2010i). A great emphasis on training led to an increasing supply of skilled workers being able to meet the local demand. Several technical and vocational schools within the region were able to prepare young people to enter the local labour market⁹⁵. A major problem was that academic education was, and still is, only available in a few centres. University education has only been available for a very short time in the faculties of agriculture, economics, law, mathematics, physical and natural science. However, there is a strong link between the university and the local industry and this has indeed been promoting the bottom-up strategy (Europa, 2004j).

In 2007, Molise's GDP per capita was 77.9% of the EU-27 average⁹⁶ (Eurostat, 2010g). In 2001, the region produced 0.4% of Italy's GVA. In the same year, the agricultural GVA share was 4.5%, the industrial share 24.9% and the service share 70.6%. Molise's industrial sector is mainly dominated by the building industry. There are many small and medium-sized firms within the region. There is also a large Fiat plant in Termoli, set up in 1973⁹⁷, and agro-food industry in the area of Campobasso-Bojano. One of the biggest and most important Italian firms is involved in poultry

⁹² 3,100 jobs more than 1995 and national average at 31.8%.

⁹³ 9,100 jobs more than 1995 and national average at 63.2%.

⁹⁴ Higher than both the national (6.7%) and the EU average (7%) in 2008.

⁹⁵ In 2002, Molise provided 177 vocational courses with 2,720 students.

⁹⁶ PPS per inhabitant in % of the EU-27 average.

⁹⁷ This firm carries out large investment in technological innovation and is in close cooperation with the regional chemical and engineering firms, leading to significant regional development.

production and processing in that area. Another important food sector is pasta manufacturing, the share of which is steadily increasing both in the domestic and international market. In the province of Isernia, a very profitable clothing industry has been set up over the last few years. The service sector includes small firms dealing with distribution, transport, banking and insurance. The shift from agriculture to technological innovation in industry is the main reason for the regional economic development of Molise (Europa, 2004i). The employment rate has increased and the unemployment rate has significantly decreased. The development of a diverse manufacturing sector with intense technological innovation is one of the main reasons that led Molise to exit the Objective 1 priority.

Abruzzo and Molise are examples supporting the argument that a bottom-up approach can lead to the “promotion” of a region from peripheral to semi-peripheral.

4.2.4-ITALIAN OBJECTIVE 1 REGIONS OF THE THIRD CSF CYCLE (2000-2006) IN TERMS OF GDP, UNEMPLOYMENT AND EMPLOYMENT

Table 4.6 below shows GDP expressed in euro per inhabitant in all the third CSF Cycle Italian Objective 1 Regions, plus Abruzzo and Molise.

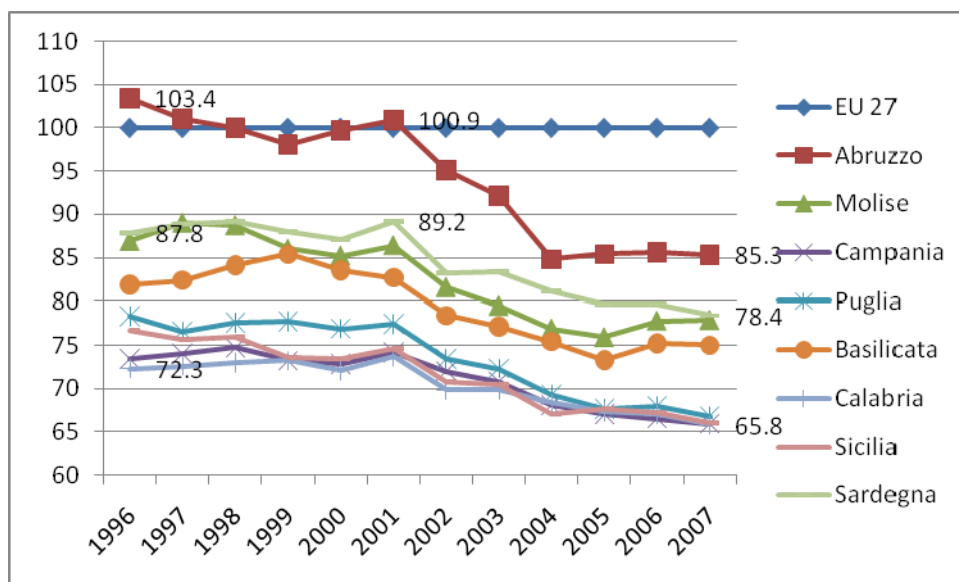
Table 4.6
GDP at current market prices at NUTS level 2 (Euro per inhabitant)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU 27	15400	16200	17000	17800	19100	19800	20500	20700	21700	22500	23600	24900
Italy	17400	18500	19100	19800	20900	21900	22700	23200	23900	24400	25200	26000
Campania	10700	11500	11900	12300	13000	13800	14600	14800	15300	15600	16100	16600
Puglia	11400	11900	12400	13100	13800	14400	14900	15100	15500	15700	16400	16800
Basilicata	11900	12800	13400	14400	15000	15400	15900	16200	16900	17100	18200	18900
Calabria	10500	11300	11700	12300	12900	13700	14100	14600	15300	15700	16200	16600
Sicilia	11100	11800	12100	12400	13100	13900	14300	14700	15000	15700	16300	16600
Sardegna	12700	13800	14200	14800	15600	16600	16900	17500	18200	18500	19300	19700
Abruzzo	15000	15700	16000	16500	17800	18800	19300	19300	19000	19900	20700	21400
Molise	12600	13800	14200	14500	15300	16100	16500	16700	17300	17700	18800	19600

Source: Eurostat, 2010e.

A significant divergence between the EU-27 and the Italian GDP and that of the third CSF Cycle Objective 1 Regions can be observed. This means that the latter were underperforming with respect to the core Italian Objective 2 and 3 Regions. In 2007, semi-peripheral Sardegna produced the highest GDP per inhabitant amongst the third CSF Cycle Italian Objective 1 Regions, whereas peripheral Campania, Calabria and Sicilia the lowest. Table 4.6 shows that the four current Convergence Objective Regions have the lowest performance. Figure 4.3 below shows the regional per capita GDP in PPS, compared to the EU average.

Figure 4.3
Regional GDP (PPS per inhabitant in % of the EU-27 average), by NUTS 2 regions



Source: Eurostat, 2010g.

There is an evident drop in GDP over the period for all regions, except Basilicata and Molise after 2005 and Abruzzo after 2004, if we compare it to the EU-27 average. In 1996, 1997 and 2001, Abruzzo managed to achieve a higher percentage in terms of GDP compared to that of the EU-27 (in % of the EU-27 average). In 2007, Campania and Calabria (the *Mezzogiorno* periphery) had the lowest GDP per capita amongst the

third CSF Cycle Objective 1 Regions, whereas Sardegna and Basilicata had the highest. This GDP drop is in contrast to the Spanish Objective 1 Regions. It is clear from Figure 4.3 that the four current Convergence Objective Regions have the lowest performance.

The most significant change in GDP per head between 2000 and 2005 took place in Abruzzo, whereas the least significant took place in Calabria and Campania. Between 2000 and 2005, GDP per head in PPS in the Italian Objective 1 Regions diverged from the EU average about seven percentage points (from 75.8 to 68.9). This trend can be observed in all Southern Italian regions compared to the EU-27 average. The decline was more significant in the relatively more developed regions (Abruzzo, Molise and Basilicata) and lower (less than six percentage points) in regions such as Campania and Calabria (interview with Piazzzi, 2009).

The negative trend observed in Italian Objective 1 Regions (and also in Abruzzo) reflected a general trend of the whole Italian economy. Indeed the Italian GDP average in PPS declined from 117.1% to 104.8% of the EU-27 average over the period 2000-2005. Moreover, this downturn was markedly more important in Italian Non-Objective 1 Regions which are located in the Centre-North (-15.8 percentage points) than in the Italian Objective 1 Regions of the Southern part of the country (-6.9 percentage points). Five out of eight regions of the *Mezzogiorno* enjoyed growth rates of GDP per head (PPS) higher than the Italian average (interview with Piazzzi, 2009).

In both Italian Objective 1 and Non-Objective 1 Regions, the GDP per capita dropped between 2000 and 2005 with the drop in the Non-Objective 1 Regions being much more significant than in the Objective 1 ones. Between 2000 and 2005, there was a significant decrease in terms of the GDP per capita in Abruzzo. Nevertheless, the important feature, which truly reveals regional economic development, is the fact that in

Campania, Calabria and Sicilia, which are considered to be by far the worst performing *Mezzogiorno* regions, there was an evident increase in terms of GDP per capita (normalised for Italy equal to 100). This is a sign of significant progress and a proof that regional economic development has indeed taken place within the peripheral Italian Convergence Regions.

The comparison of the evolution of GDP per head in PPS of the regions of the *Mezzogiorno* with the Italian average (Italy=100) shows that overall these regions slightly converged with the national average over the period 2000-2005. Objective 1 Regions evolved on average from 64.7% to 65.7% of the Italian average (Italy=100): Calabria (+2.2 percentage points), Sardegna (+2.0 percentage points) and Campania (+1.6 percentage points) stand out in terms of "catching-up" with the national average (Italy=100). Amongst the Objective 1 Regions, only Puglia (-0.6 percentage points) and Basilicata (-0.5 percentage points) diverged in respect to the Italian average (Italy=100). GDP per head plummeted in Abruzzo (-5.3 percentage points), the only region of the *Mezzogiorno* not eligible under Objective 1. Comparing the evolution of the Italian Objective 1 Regions with their equivalents in Spain shows that these regions significantly underperformed over the period: whereas Italian Objective 1 Regions lost almost seven percentage points in relation to the EU-27 average, Objective 1 Regions in Spain (from 80.6% to 87% of the EU-27 average) converged towards the EU average (interview with Piazzì, 2009).

Within Italy, in both Objective 1 and Non-Objective 1 Regions, the GDP per person employed dropped between 2000 and 2005 and, given that this is a measure of labour

productivity, this had a negative impact on regional economic development⁹⁸ (interview with Piazzzi, 2009).

In 2005, the GDP per person employed in the *Mezzogiorno* was slightly below the EU-27 average (98% of the EU-27 average) and more than 15 percentage points below the Italian one (114.6% of the EU-27 average). Over the period 2000-2005, the GDP per person employed decreased both in Italian Objective 1 Regions (from 101% to 98% of the EU-27 average) and in the whole of Italy (from 118.3% to 114.6% of the EU average). This decline was however (slightly) less significant in the Objective 1 Regions (-3 as against -4 percentage points). When looking at each region in the *Mezzogiorno*, the decline of productivity in relation to the EU average was particularly intense in Calabria (from 101.9% to 91.5%). The decrease in all the other regions of the *Mezzogiorno* remained below the Italian average except for Abruzzo (-4.5 percentage points) and Campania (-4.0 percentage points) (interview with Piazzzi, 2009).

Once again, this underperformance of the regions of *Mezzogiorno* must be seen in the broader context of the unsatisfactory performance of the whole Italian economy over the period 2000-2005. Moreover, most of the *Mezzogiorno* regions⁹⁹ experienced lower declines in their productivity rates than the Italian average. Trends in productivity observed in the Italian Objective 1 Regions compared to the equivalent regions in Spain worsened over the period. Spanish Objective 1 Regions enjoyed gains of productivity of over five percentage points. However, it is important to recall that productivity rates in the Italian Objective 1 Regions were still above those of their equivalents in Spain in 2005 (interview with Piazzzi, 2009).

⁹⁸ Nevertheless, despite this negative feature, Italy currently has only four Convergence Objective Regions, as opposed to six in the previous CSF Cycle.

⁹⁹ Especially Puglia, Basilicata, Molise, Sardegn and Sicilia.

Losses of productivity in the Italian Objective 1 Regions (-3 percentage points) were below the losses in the Italian economy (-3.7 percentage points) in relation to the EU-27 average. In Spain, gains of productivity of Objective 1 Regions (+5.5 percentage points) exceeded those of Non-Objective 1 ones, in relation to the EU-27 average.

It is worth looking at the trends observed at national level to assess whether or not there is a correlation with the performance of the Objective 1 Regions. In fact, this correlation exists. The performance of the whole Italian economy was overall significantly poorer than that of Spain. Moreover, the decline of Italian Objective 1 Regions was not so significant compared to the whole Italian economy. Southern Italian regions were able to cushion to some extent the process of decline of the Italian economy compared to the EU-27 average. Objective 1 Regions in Spain also performed better than their respective national economies. In conclusion, there seems to be evidence that the underperformance of the Italian Objective 1 Regions must be interpreted within a context in which the national economy suffered from slow growth rates over the reference period and performed much worse than the EU-27 average (interview with Piazzzi, 2009).

Labour cost is another important factor that can be linked with regional economic development, as it is closely related to the competitiveness of industries. In 2004, the hourly labour cost, excluding apprentices, in the *Mezzogiorno*¹⁰⁰ accounted for 17 to 23 euros per employee in full time units in industry and services. At the same time, in Spain, in the North-West, the Centre, the South, the East and the Canarias, where all the

¹⁰⁰ South Italy and Islands where all the peripheral and semi-peripheral 2000-2006 Objective 1 Regions are located.

peripheral and semi-peripheral 2000-2006 Objective 1 Regions are located¹⁰¹, the labour costs accounted for 12 to 17 euros per employee¹⁰² in full time units in industry and services. This means that labour cost in the Italian Objective 1 Regions was significantly higher compared to the Spanish ones and this difference can partly explain the difficulties the companies located in the *Mezzogiorno* experienced when trying to become more competitive. It is worth noting that labour costs in the peripheral *Mezzogiorno* were similar to those of the core Spanish Comunidad de Madrid and North East, which includes the País Vasco, Comunidad Foral de Navarra, La Rioja and Aragón, which (in 2004) had a GDP per capita much higher than all the *Mezzogiorno* Objective 1 Regions and neither of them was included in Objective 1 (Eurostat, 2008). Busillo (2010) clearly argues that one of the main thorns hampering development in the *Mezzogiorno* is indeed the high labour cost per production unit that has increased in Italy by 24 percentage points between 1998 and 2008 (Busillo, 2010).

However, high labour costs are not the only reason for lack of competitiveness in the Objective 1 and Convergence Objective Regions of the *Mezzogiorno*. Organisational problems, industrial agglomeration problems and a lack of adequate infrastructure in order to support economic activity are also major reasons behind the lack of competitiveness of industries. Other important factors include the fact that the productive structure is mainly based on SMEs and this makes product introductions and innovation processes difficult, there is lack of development in terms of human capital, mainly involving education, and there are certain difficulties on the part of the Italian national government into keeping the public debt under control, which practically

¹⁰¹ Galicia and Principado de Asturias in the North-West, Castilla y León, Castilla-la Mancha and Extremadura in the Centre, Andalucía and Región de Murcia in the South, Comunidad Valenciana in the East.

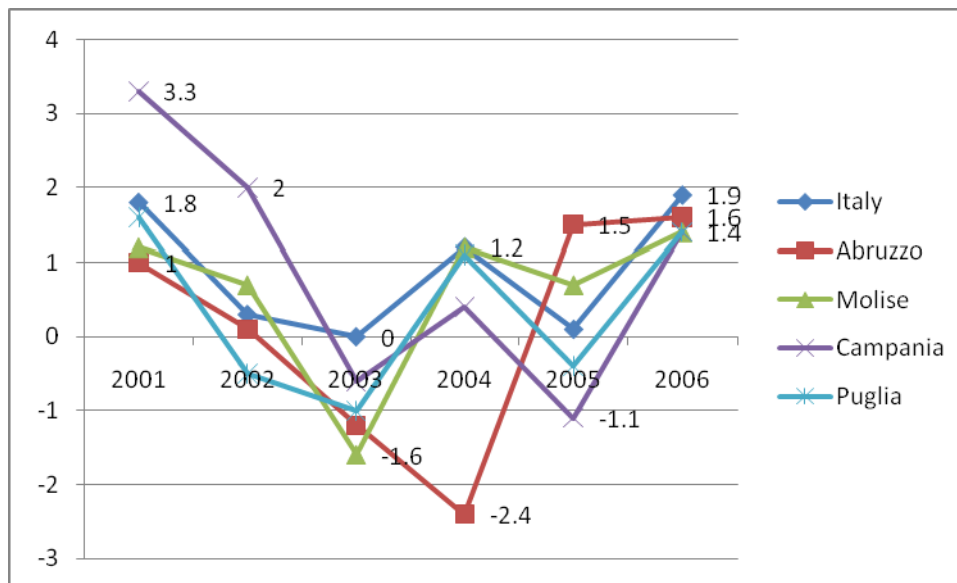
¹⁰² Data non available for Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla.

reduces the economic funds that the national government is able to allocate to the peripheral regions (Busillo, 2010).

Figures 4.4 and 4.5 below show the real growth rate of regional GDP in the *Mezzogiorno* NUTS 2 regions.

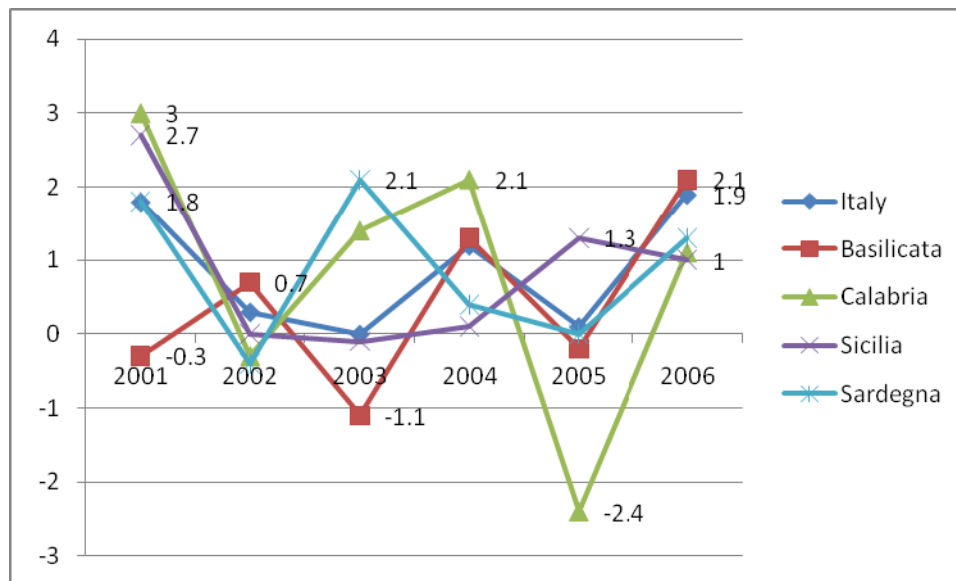
Figure 4.4

Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year



Source: Eurostat 2009.

Figure 4.5
Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year

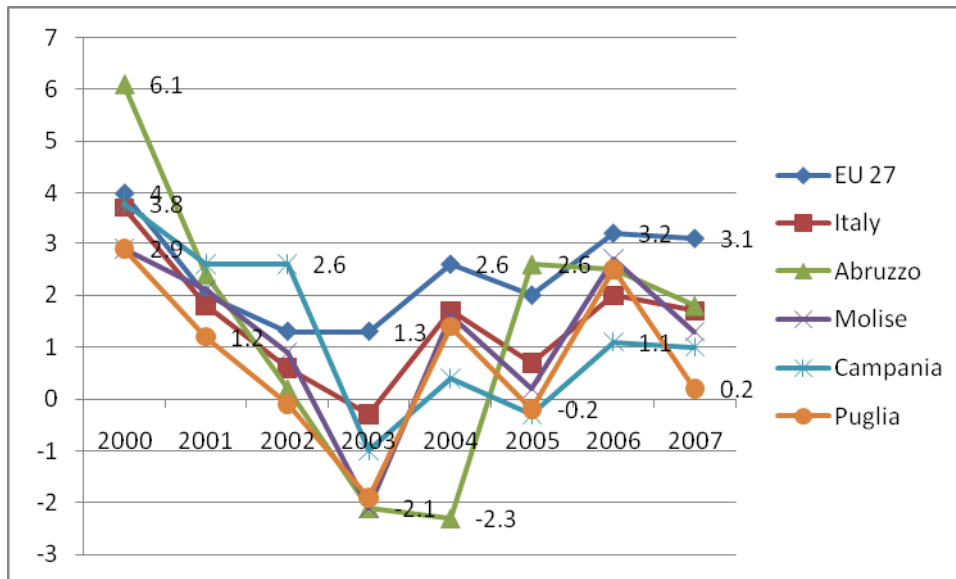


Source: Eurostat 2009.

In 2006 Basilicata experienced the highest growth rate in regional GDP (2.1%), which was higher than the national average (1.9%) and also higher than the average of Abruzzo and Molise. The performance of Basilicata and Sardegna also shows economic progress and development. On the contrary, Sicilia and Calabria experienced the lowest growth rate (1% and 1.1% respectively). Figures 4.6 and 4.7 below show the real growth of the regional gross value added (GVA) in the *Mezzogiorno* regions. The Italian and EU-27 rates are also included.

Figure 4.6

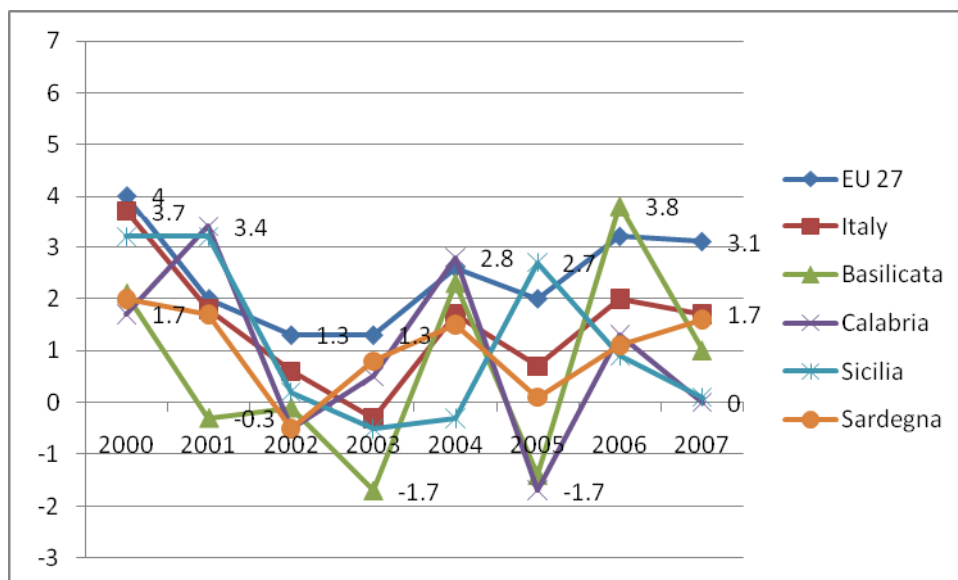
Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year



Source: Eurostat, 2010f.

Figure 4.7

Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year



Source: Eurostat, 2010f.

From 2003 to 2007 (with the exceptions of Calabria in 2004, Sicilia and Abruzzo in 2005 and Basilicata in 2006), the real growth rate of GVA of all the *Mezzogiorno* regions and the national GVA growth rate of Italy were lower than the GVA growth rate of the EU-27. This is indeed another sign of regional economic divergence, not only amongst the *Mezzogiorno* regions, but also between Italy and the EU. Table 4.7 below shows the economically active population in the *Mezzogiorno* regions, in Italy and the EU-27. Both in 1999 and 2008, Campania had the highest number of economically active people in the *Mezzogiorno*, but between 1999 and 2008 this number slightly decreased.

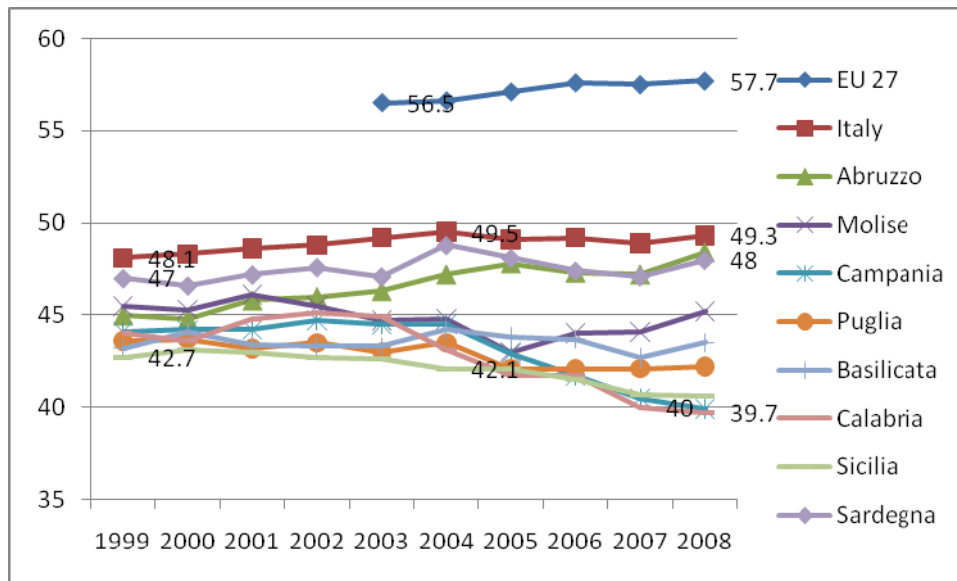
Table 4.7
Economically active population at NUTS level 2 (1000)/Age: 15 years and over/Sex: Total

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	226375.1	228154.6	232038.5	234582	236615.6	239080.2
Italy	23360.9	23574.7	23778.8	23989.9	24148.2	24364.8	24451.4	24661.6	24727.9	25096.6
Abruzzo	484.9	485.1	497.9	503.1	505.5	520.5	534.1	533	535.4	554.3
Molise	125.9	125.3	127.5	126.2	124	123.3	119	121.8	122.4	125.6
Campania	2030.9	2043.8	2055.1	2084.4	2073.1	2087.6	2029.3	1986.6	1936.6	1922.5
Puglia	1449.2	1462.3	1448.7	1463.5	1446.2	1461.5	1430.7	1439.8	1444.9	1455.3
Basilicata	215.6	221.1	217.5	217.8	218	222.4	219.6	220.3	215.6	220.2
Calabria	738.2	731.2	751.4	757.8	753.9	723.5	704.8	705.4	678.5	677.2
Sicilia	1755.7	1776.5	1776.2	1760.7	1759.7	1738.7	1755.7	1737.3	1710	1716.9
Sardegna	650.9	649.3	660	666.1	659.3	689.2	685.5	681.3	680.2	696

Source: Eurostat, 2010c.

Figure 4.8

Economic activity rates at NUTS level 2 (%) / Sex: Total / Age: 15 years and over

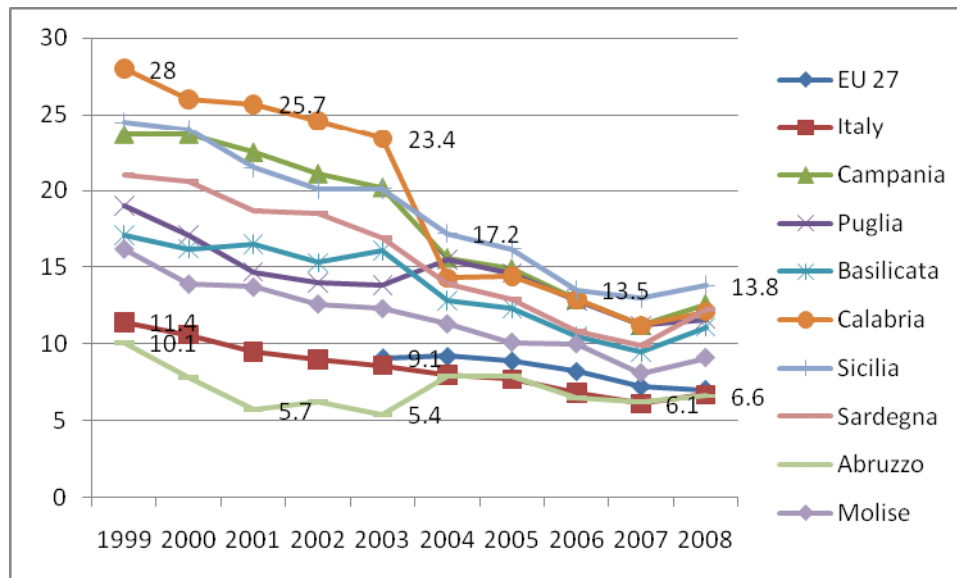


Source: Eurostat, 2010b.

In 2008 Sardegna had the highest activity rate amongst the third CSF Cycle Objective 1 Regions, whereas Calabria had the lowest. The low performance of the four current Convergence regions is evident from Figure 4.8. On the contrary, Abruzzo experienced a gradual increase. Molise also experienced an increase, despite the decrease that took place between 2002 and 2005, whereas Basilicata did not experience any significant alterations. However, it is worth mentioning that the distance of all the regions presented on Figure 4.8 from the EU-27 average is indeed significant. Figure 4.9 below presents the unemployment rates within the *Mezzogiorno*.

Figure 4.9

Unemployment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over



Source: Eurostat, 2010i.

Figure 4.9 shows that all the third CSF Cycle Italian Objective 1 Regions suffer much higher unemployment if we compare them both to the national and the EU average. In 2008, Sicilia had the highest unemployment rate (13.8%) amongst the Convergence Regions, whereas Puglia had the lowest (11.6%). The national average, though, is lower than that of the EU and this again shows the huge economic disparities that exist in Italy and result in the appearance of core, semi-periphery and periphery structures according to dependency theory.

Between 2000 and 2005 unemployment rates fell dramatically from 21.9% to 12.7% in the Italian Objective 1 Regions. The reduction was also significant in the whole of Italy, from 10.6% to 6.8% of the labour force. Therefore, the positive trends observed in employment rates took place in parallel with a gradual reduction of the unemployment rates: while more persons were incorporated to the labour market, the number of people who were effectively working soared as well. The reduction of the

unemployment rates in the *Mezzogiorno* regions evolved even better than the average of the EU-25¹⁰³ over the reference period. Yet it is important to recall that those rates were particularly high in the *Mezzogiorno* regions and, therefore, there was more room for improvement (Piazzini, 2009, interview).

Comparing the trends observed in Objective 1 Regions in Italy with the Objective 1 Regions in Spain shows that the results are encouraging in Italy. The Spanish regions also enjoyed a very substantial fall in their unemployment rates. The trends present once again very significant correlations with the evolution observed at national level. Another conclusion that can be drawn is that between 2000 and 2006, the fall in unemployment within Italian Objective 1 Regions was more significant than that within the Non-Objective 1 ones (interview with Piazzini, 2009). Table 4.8 below shows the drop in long-term unemployment across the regions of the *Mezzogiorno* between 1999 and 2008.

Table 4.8
Share of long-term unemployment (12 months and more), by NUTS 2 regions (Percentage of total unemployment)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Abruzzo	6.31	4.85	2.92	3.27	2.99	3.44	3.57	3	2.89	2.85
Molise	10.7	9.23	8.89	7.62	7.75	5.88	5.22	5.4	3.97	4.65
Campania	17.67	17.67	17.26	15.49	14.92	8.17	8.61	7.36	6.02	7.07
Puglia	12.08	10.59	9.3	9.15	8.62	8.9	7.85	7.15	5.81	5.81
Basilicata	9.74	9.81	10.48	9.16	9.41	7.09	6.58	5.85	5.17	6.02
Calabria	18.23	17.41	16.98	15.18	13.57	7.99	8.46	7.10	6.18	6.11
Sicilia	16.48	16.65	15.1	13.85	13.4	10.03	9.41	7.77	7.55	7.69
Sardegna	13.06	13.31	11.67	10.69	9.42	6.94	6.93	5.56	4.57	5.94

Source: Eurostat, 2010h.

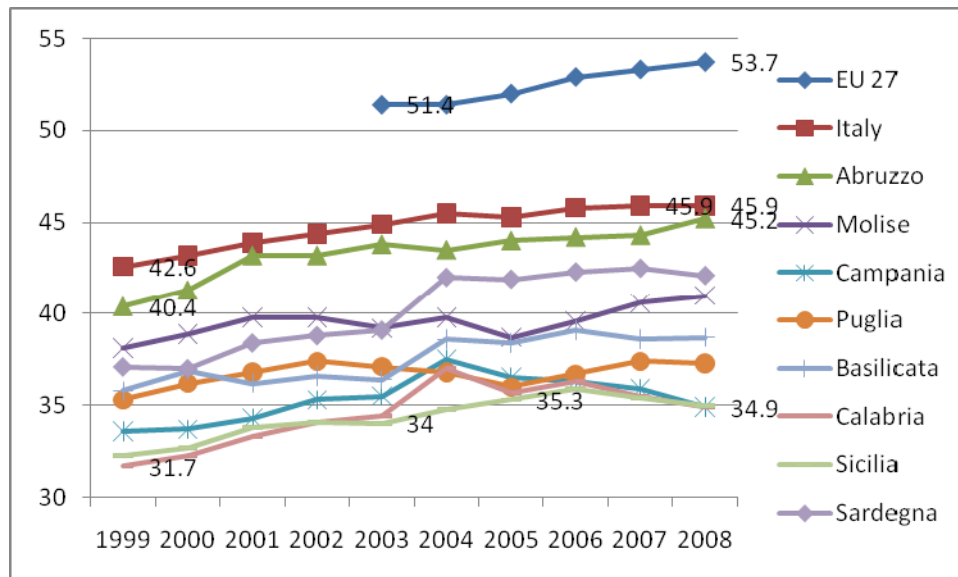
In 2008, Sicilia suffered the highest share of long-term unemployment amongst the current Convergence Regions, whereas Puglia had the lowest. Between 2000 and 2006, there was an evident fall in unemployment rates a) in all the *Mezzogiorno* NUTS 2 regions, b) in both Italian Objective 1 and Non-Objective 1 Regions and c) in the

¹⁰³ Data at EU-27 for 2000 are not available.

Spanish Objective 1 Regions. Figure 4.10 below, shows the regional employment rate within the *Mezzogiorno* regions.

Figure 4.10

Employment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over



Source: Eurostat, 2010d.

The employment rate of the Italian Objective 1 Regions was lower, compared with both the Italian and the EU average. In 2008, the Convergence Regions with the lowest employment rate were Calabria and Campania (34.9%) and that with the highest, Puglia (37.3%). The fact that all the third CSF Cycle Italian Objective 1 Regions had a significantly lower employment rate than the national average shows again the regional divergence that exists in Italy. Besides Abruzzo, all the other *Mezzogiorno* regions have had employment rates below 42.1% up until 2005. Between the core North and the periphery South, there was a 20% gap in employment rates (Leonardi, 2005).

Between 2000 and 2005, Sardegna and Calabria experienced the most significant increase in employment rates¹⁰⁴, whereas Molise¹⁰⁵ and Puglia experienced the opposite results.

Between 2000 and 2005, both Italy and Spain experienced increases in terms of employment. This proves again that Italy and to a greater degree Spain experienced significant regional economic progress and development, particularly within their Objective 1 Regions. The average employment rate in the Italian Objective 1 Regions was 45.2% of the total working age population in 2005. This rate is 63.4% of the EU-27 average and 71.3% of the Italian average. In any case, there was a relatively significant progress of the employment rates in Italy (+4.4 percentage points) both in Non-Objective 1 and Objective 1 Regions in relation to the EU-27 average employment growth rate. This improvement was slightly more important in Italian Objective 1 Regions (+4.5 percentage points) than in the rest of the country (+4.2 percentage points) (interview with Piazzzi, 2009).

At regional level, between 2000 and 2005, all the regions in the *Mezzogiorno*, except Molise, enjoyed positive trends in terms of employment rates compared to the EU-27 average. In particular, they significantly rose in Sardegna (+9.9 percentage points) and Calabria (+6.4 percentage points) in relation to the EU-27 average. In general, the *Mezzogiorno* regions performed better than the Italian average. Only Puglia, Molise, and Basilicata to a much lesser extent, witnessed worse results than the Italian average (interview with Piazzzi, 2009).

Between 2000 and 2005, Italian Objective 1 Regions were able to reduce by almost four percentage points the gap compared to the EU-27 average. Conversely, the process

¹⁰⁴ Relative to both the Italian and EU-27 average.

¹⁰⁵ Despite the fact that it was experiencing better economic progress in terms of GDP per capita, employment and unemployment, compared to Sardegna and Calabria.

of convergence in terms of employment rates was faster in Spanish Objective 1 Regions (interview with Piazzzi, 2009).

4.2.5-CONCLUSION

The overall conclusion that can be drawn after examining the case of Italy is that since the beginning of the CSF Cycles, its economic divergence has been narrowed and regional economic development has indeed taken place and the proof is that four regions (Abruzzo, Molise, Sardegna and Basilicata¹⁰⁶) managed to exit Objective 1 and the Convergence Objective. Dependency theory helps understand Italy's regional economic development, as the core-periphery structures and the metropolis-satellite relations are evident, not only if we compare the *Mezzogiorno* with the North, but also if we compare the *Mezzogiorno* regions amongst themselves¹⁰⁷. If we compare Italy with Spain, Italy is the only country where a steady decline¹⁰⁸ in terms of GDP per capita in its third CSF Cycle Objective 1 Regions can be observed. In all its third CSF Cycle Objective 1 Regions the unemployment rate was much higher than both the national and the EU average. Another less encouraging feature is that between 2003 and 2007¹⁰⁹, the real growth rate of GVA of all the *Mezzogiorno* regions and the national GVA growth rate of Italy were lower than the GVA growth rate of the EU-27. This is indeed another sign of regional economic divergence, not only amongst the *Mezzogiorno* regions, but also between Italy and the EU.

¹⁰⁶ Basilicata has exited Objective 1 as a "Phasing-Out" Region, which means it has actually exited because of the EU Enlargement and not due to its significant regional economic development.

¹⁰⁷ For example Abruzzo, Molise, Basilicata and Sardegna are much more developed than Calabria, Campania, Puglia and Basilicata. This means that the four former regions form the core of the *Mezzogiorno*, whilst the four latter (Convergence Regions) form the periphery.

¹⁰⁸ Relative to the EU average.

¹⁰⁹ With very few exceptions.

The encouraging feature in the case of Italy is the fact that, in almost all its third CSF Cycle Objective 1 Regions¹¹⁰, from 1999 to 2004, there was a steady increase in employment rates, relative to the EU average, although from 2004 to 2005, a slight decrease was observed. Nevertheless, a drop in unemployment can lead to regional economic convergence only if it is accompanied by an evident GDP per capita increase. The *Mezzogiorno* so far has failed to display this.

Limited economic activity, a certain lack of investment and low GDP per capita rates explain the current regional economic disparities between the *Mezzogiorno* and the rest of the country. Despite evidence of regional economic development, a metropolis-satellite relationship between the *Mezzogiorno* and the rest of Italy still exists.

4.3 THE CASE OF SPAIN

4.3.1-A BRIEF ECONOMIC PROFILE

Spain consists of 17 NUTS 2 regions and two autonomous cities. Nine¹¹¹ of these regions and the two autonomous cities¹¹² were included in Objective 1 during the third CSF Cycle. We argue that in Spain, the seven regions¹¹³ which have never been part of Objective 1 form the core of Spain, according to dependency theory. As in the case of the 12 core northern Italian regions, these seven Spanish ones a) are far less dependent on agriculture than the others, b) they are far more industrialised than the others and their industries are characterised by higher technology, c) the labour force occupied in these seven regions is more skilled than in the others, d) in these seven regions there is a higher level of income, GDP per capita and employment, accompanied by a lower level

¹¹⁰ With the exception of Puglia.

¹¹¹ Andalucía, Principado de Asturias, Castilla-la Mancha, Castilla y León, Extremadura, Galicia, Canarias, Región de Murcia and Comunidad Valenciana.

¹¹² Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla.

¹¹³ Aragón, País Vasco, Illes Balears, Cataluña, La Rioja, Comunidad Foral de Navarra and Comunidad de Madrid.

of unemployment, compared to the others. Cantabria, Principado de Asturias, Castilla y León, Canarias, Región de Murcia, Comunidad Valenciana, Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla are the semi-peripheral regions, due to the fact that they have already managed to exit the Convergence Objective.

Andalucía, Extremadura, Galicia and Castilla-la Mancha form the periphery, as, despite the fact that they have been receiving SFs for more than 20 years, they still have not managed to reach the 75% of the EU-27 GDP in order to exit the Convergence Objective. Furthermore, unemployment rates are particularly high, whilst their employment rates are low compared to the other Spanish regions. Andalucía, Extremadura, Galicia and Castilla-la Mancha can be regarded as peripheral regions also because of their distance from the core regions and the lack of competitiveness of their companies.

In the macro data context, Spain's GDP (in PPP) in 2009 (the latest year available) was \$1.368 trillion (country comparison to the world: 13) with a real growth rate of -3.6% (country comparison to the world: 173). In 2009 the unemployment rate was 18% (country comparison to the world: 162) and the inflation rate (consumer prices) -0.8% (country comparison to the world: 10) (CIA Factbook/Spain, 2010a).

In the micro data context, in 2009, the GDP composition by sector was such that agriculture¹¹⁴ accounted for 3.3%, industry¹¹⁵ for 26.8% and services for 70%. Spain's labour force for 2009 was 23.04 million (country comparison to the world: 27) (CIA Factbook/Spain, 2010a).

¹¹⁴ The most important agricultural products of Spain are grain, fish, dairy products, vegetables, olives, pork, beef, citrus and wine grapes.

¹¹⁵ The most important industries of Spain are those of textiles and apparel, food and beverages, automobiles, metals, chemicals, shipbuilding, machine tools, pharmaceuticals and medical equipment.

4.3.2-SPAIN AND SFs

Between 1994 and 1999, Spain was the first EU Member State in terms of structural contribution for the Objective 1 Regions (26,300 millions of ECU at 1994 price) (Bianchi, 1998:151). From 1990 to 1992, Spain received (in millions of ECU) 2990.4 from the EAGGF Guarantee, 450.4 from the EAGGF Guidance, 867.8 from the ESF, 216.8 from the ERDF and 10.5 from the R&D DG XII. The total amount received was 4535.9 million ECU, which put Spain 4th in the list of the EU Member States (Bianchi, 1998:154). Spain was also a Cohesion country, whereas Italy was not.

The evolution of Spanish regional policy has indeed been influenced by the development of EU Regional Policy. The Spanish regions gradually became more decentralised, but the main problem was the identification of the regional endogenous potentials not being aligned with the ERDF pre-requisites. The ERDF's target was the establishment of a business environment that could help the creation of new SMEs and support their growth and economic performance. Another problem was that Spain has failed to fit EU SFs into its existing governmental intervention for regional policy, indeed the ERDF has been supposed to top up domestic regional funding and not to substitute it.

Regional economic development is not only a matter of EU SFs and governmental funds, but also of efficient management. During the first three CSF Cycles, the EU spent approximately 550 billion euros to support regional economic development, particularly in Spain, Portugal, Greece and Ireland. In terms of the current CSF Cycle¹¹⁶, the EU will spend 308 billion euros more¹¹⁷ (Bachtler and Gorzelak, 2007:309). Tables 4.9 and 4.10 below reveal the combination of national and EU contributions during the

¹¹⁶ 2007-2013.

¹¹⁷ In 2004 prices.

first and second CSF Cycles in Spain. Figures show that the SFs for the second CSF Cycle practically tripled compared to those for the first one. In terms of the third CSF Cycle, the SFs distribution for the Spanish Objective 1 Regions was 37,744 MEUR¹¹⁸, according to Table 4.11.

Table 4.9

Total allocations for 1989-1993 CSFs in terms of SF, EIB, private and national contributions (MECU in 2005 prices)

Member state	Total SFs	SFs for Ob.1	National contribution	Private contribution	EIB loans	Total	Annual impact on GDP
Spain	15086	10171	11317	5275	10510	42188	2.09%

Source: Leonardi, 2005, pp. 53 and 55.

Table 4.10

Total allocations for 1994-1999 CSFs in terms of SF, EIB, private and national contributions (MECU in 2005 prices)

Member state	Total SFs	SFs for Ob.1	National contribution	Private contribution	EIB loans	Total	Annual impact on GDP
Spain	42400	26300	21504	18576	9000	91480	4.14%

Source: Leonardi, 2005, pp. 57 and 59.

Table 4.11

Overall distribution of the SFs 2000-2006 (MEUR in 1999 prices)

Member state	Objective 1	Transition ex Obj. 1	Total
Spain	37744	352	56205

Source: Leonardi, 2005, p. 63.

In terms of the current CSF Cycle (2007-2013), Spain will receive 36 billion euros from the EU, 26 billion of which will be allocated to the Convergence Objective Regions (Europa, 2009b), as Table 4.12 below shows.

¹¹⁸ In 1999 prices.

Table 4.12
Funds for Spain in billion euros 2007-2013¹¹⁹

OBJECTIVE	FUND	EU	NATIONAL PUBLIC	TOTAL
Convergence	CF	4	1	5
Convergence	ERDF	17	7	24
Convergence	ESF	5	1	6
Total Convergence		26		
Regional Competitiveness and Employment	ERDF	6	4	10
Regional Competitiveness and Employment	ESF	3	2	5
Total Regional Competitiveness and Employment		9		
Total European Territorial Cooperation	ERDF	1		1
TOTAL		36	15	51

Source: Europa, 2009b.

Note: Figures have been rounded up.

During the current CSF Cycle, the ERDF is providing funding for a) the Convergence Objective Regions, b) the “Phasing-Out” and “Phasing-In” Regions, c) the Competitiveness Regions, d) the Cross-border Regions and e) the Cohesion-ERDF Programme (*Ministerio de Economía y Hacienda*, 2009d).

The objective of the ESF is to prevent unemployment, to develop human resources and to promote labour market integration. For the current CSF Cycle, its main priorities are: a) “Promote employability, social inclusion and equality” (51% of the total funds to be spent) and b) “Promote the spirit of business enterprise and adaptability in workers, companies and business people” (49% of the total funds to be spent) (*Ministerio de Economía y Hacienda*, 2009e).

The European Territorial Cooperation Objective is very important for the economic development of Spain. This objective is based on the INTERREG initiative (Mirwaldt, McMaster and Bachtler, 2009) and Spain has received approximately 559 million euros, 249 million of which are allocated to Transborder Cooperation Programmes, 149

¹¹⁹ Each Territorial Cooperation programme includes a minimum of 15% co-financing from each participating Member State.

million to Transnational Cooperation Programmes and 111 million to European Neighbourhood Programmes. The corresponding funding for the Interregional Cooperation and Networks Programme is not distributed by individual countries. The Transborder Cooperation Programmes include a) Spain-Portugal and b) Spain-France-Andorra. The Transnational Cooperational Programmes include a) The Atlantic Space, b) Southeast Europe, c) the Mediterranean and d) Madeira-Azores-Canarias. The Interregional Cooperation and Networks scheme is based on just one programme for the entire EU (INTERREG IV C) and three Networks (ESPON, URBACT and INTERACT II). The European Neighbourhood and Partnership Instrument includes the Programmes: a) Spain-External Borders and b) Mediterranean Basin Transborder Cooperation Programme (*Ministerio de Economía y Hacienda*, 2009f).

In terms of the third CSF Cycle, the Cohesion Fund offered 12,146 million euros to Spain. In terms of the current CSF Cycle, Spain will receive 3,543 million euros. During the current CSF Cycle, the Spanish Competitiveness and Employment Regions will receive 3,126 million euros in the form of SFs (*Ministerio de Economía y Hacienda*, 2010b). For its “Phasing-In” Regions, Spain will receive 3,856 million euros between 2007 and 2013, which represents 37.1% of the total amount of the Objective¹²⁰. Furthermore, Spain will receive 44% of the Ultra-Peripheral Regions (UPR) Fund in order to invest it in the development of the Canarias. This funding is offered for extremely decentralised regions. 981 million euros are destined for them, and the Canarias will receive 436 million euros (*Ministerio de Economía y Hacienda*, 2010g).

Between 2007 and 2013, Spain will also receive 1,419 million euros for its “Phasing-Out” Regions, which equals 11.3% of the total amount for the Objective, and

¹²⁰ Always in terms of the fourth (2007-2013) CSF Cycle.

18,752 million euros for its Convergence Regions, which equals 10.7% of the total amount assigned to the Convergence Objective (*Ministerio de Economía y Hacienda*, 2010c).

The Convergence Objective Regions still underperform and have a GDP per capita below 58% of the EU average, whilst the performance of the regions receiving transitional assistance are continuously approaching the EU average. Between 2000 and 2005, both categories decreased their difference with the EU average by approximately 5%. Employment rates in Galicia, Castilla-la Mancha, Andalucía and Extremadura did not reach 58%, whereas the rates of the regions included in the Competitiveness and Employment Objective reached 68% (interview with Peroulakis, 2009).

The transitional regions perform better, even if their employment rate is significantly lower than that of the Competitiveness Regions (approximately 63%). The unemployment rates in the Convergence Regions are 4% higher, compared to those of the transitional regions, despite the fact that the difference was twice higher in 2000. This again shows significant regional development, but at the same time reveals that there is quite a distance between the transitional period and the Competitiveness and Employment Objective (interview with Peroulakis, 2009).

4.3.3-CANTABRIA: COMPETITIVENESS AND EMPLOYMENT REGION. SUCCESSFUL REGIONAL ECONOMIC DEVELOPMENT AND EXIT FROM OBJECTIVE 1

Cantabria has experienced significant regional economic development during the last decade and this has led to its exit from Objective 1. It is now a Competitiveness and Employment Region. During the third CSF Cycle, Cantabria was in a “Phasing-Out” stage, just like Molise in Italy. The reasons for this economic progress include a) a high level of education, b) a large increase in the employment rate, c) a significant drop in

the unemployment rate, d) an important increase in wages and e) a successful restructuring of the industrial sector.

The primary sector is mainly based on fishing and livestock-raising. It can be said that the 2008 recession negatively affected the industrial, construction and services' sectors. 80% of enterprises in Cantabria employ fewer than six workers and approximately 1.5% more than 50 and "*sole trader and limited liability companies are the most common legal forms of enterprises*" (EURES/Cantabria, 2009:1). The most important economic activities in Cantabria include construction, trade, company services, hotels and restaurants and land transport. These activities represent approximately 53% of all companies and 47% of jobs. According to the Active Population Survey of the National Statistics Office of Spain, during the fourth quarter of 2008, the activity rate of Cantabria was 56.9% and the unemployment rate 8.9%. 16% of the working population is employed in industry, 12% in construction, 4% in agriculture and approximately two thirds in the services' sector. Also, "*geographical mobility in hiring continues to be negative, with more contracts going out than coming in*" (EURES/Cantabria, 2009:2).

In 2008, the regional employment rate was 52.4%¹²¹. Between 1999 and 2008, the employment rate increased by 13.3% and this shows significant economic progress (Eurostat, 2010d). Between 1999 and 2008, the unemployment rate dropped by 8.2% and this was indeed a clear sign of economic development. In 2008, Cantabria's unemployment rate was 7.2%¹²² (Eurostat, 2010i). During the last few years there has

¹²¹ Similar to the national (52.4%) average and a little lower than the EU 27 (53.7%), the EU 25 (53.9%) and the EU 15 (54.3%) ones for 2008.

¹²² Lower than all the third CSF Cycle Spanish Objective 1 Regions and the national average (11.3%), but not the EU-27 average (7%) for 2008.

been a steady increase in wages per person employed in both the industrial and the service sectors.

In 2007, Cantabria's GDP per capita represented 105.4% of the EU 27 average¹²³ (Eurostat, 2010g), the highest amongst all the third CSF Cycle Spanish Objective 1 Regions. In terms of the service sector, transport, banks and insurance are experiencing significant growth and are much better represented than the national average.

The most important factor that led to progress and economic development in Cantabria was the presence of a skilled workforce thanks to significant industrial specialisation and high investment in education. Cantabria is characterised as “a region of knowledge” and its University is regarded as one of the best in Spain. The Cantabria International Campus project is one of the most important in Spain in the move towards regional economic development and knowledge transmission, as it is based on the commitment of 18 institutions (amongst which are two Universities). The regional administration of Cantabria closely cooperates with the University, mainly in the area of Research and Development (R&D). The Society for the Regional Development of Cantabria, the Science and Technology Park, the Centre for Technological Development in the University of Cantabria and the Technological Component Centre significantly promote knowledge. Cooperation between the University of Cantabria, the Society for the Regional Development of Cantabria and the Spanish government, particularly in the field of energy, has led to the establishment of important alliances with Siemens and IBM (Cantabria Campus Internacional, 2009).

Moreover, there is a close collaboration between the Marques de Valdecilla University Hospital, the Santander Bank and some of the most important universities

¹²³ PPS per inhabitant in % of the EU-27 average.

worldwide, such as Harvard, Cornell and Wharton Business School (Cantabria Campus Internacional, 2009). This collaboration promotes knowledge in the fields of Economics, Medicine and Biotechnology (Cantabria Campus Internacional, 2009). Cantabria is an example of economic progress and development, which should be followed by the four remaining Spanish Convergence Objective Regions. It can be characterised as a semi-peripheral region.

4.3.4-SPANISH OBJECTIVE 1 REGIONS OF THE THIRD CSF CYCLE (2000-2006) IN TERMS OF GDP, UNEMPLOYMENT AND EMPLOYMENT

Table 4.13 below shows the GDP expressed in euro per inhabitant in all the third CSF Cycle Spanish Objective 1 Regions plus Cantabria.

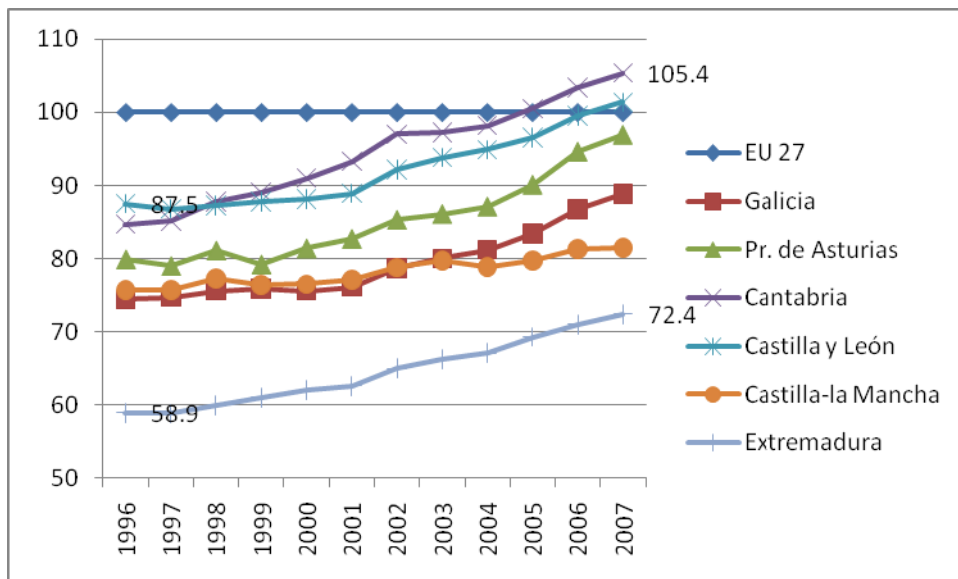
Table 4.13
GDP at current market prices at NUTS level 2 (Euro per inhabitant)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU 27	15400	16200	17000	17800	19100	19800	20500	20700	21700	22500	23600	24900
Spain	12400	12800	13500	14500	15700	16700	17700	18600	19700	20900	22300	23500
Galicia	10000	10200	10700	11500	12200	13000	13800	14800	15800	17100	18500	19800
Pr. de Asturias	10800	10800	11500	12000	13100	14100	15000	15900	17000	18500	20200	21700
Cantabria	11400	11700	12500	13400	14600	15900	17000	18000	19200	20600	22100	23500
Castilla y León	11800	11900	12400	13300	14200	15100	16200	17300	18500	19800	21200	22600
Castilla-la Mancha	10200	10400	11000	11500	12300	13100	13900	14700	15400	16400	17400	18200
Extremadura	7900	8000	8500	9200	10000	10700	11400	12200	13100	14200	15200	16200
Comunidad Valenciana	11800	12300	13100	14000	15100	16200	16900	17600	18400	19300	20500	21300
Andalucía	9300	9500	9900	10600	11500	12400	13200	14200	15200	16300	17300	18100
Región de Murcia	10200	10700	11300	12000	13100	14000	14900	15800	16500	17700	18700	19400
C.A. de Ceuta	10200	10500	11300	12300	13300	14100	15100	16500	17700	18900	20400	21700
C.A. de Melilla	10700	10800	11600	12400	13200	13900	14700	15900	17200	18600	20200	21100
Canarias	11900	12200	12900	14200	14800	15800	16500	17400	18100	19000	19900	20700

Source: Eurostat, 2010e.

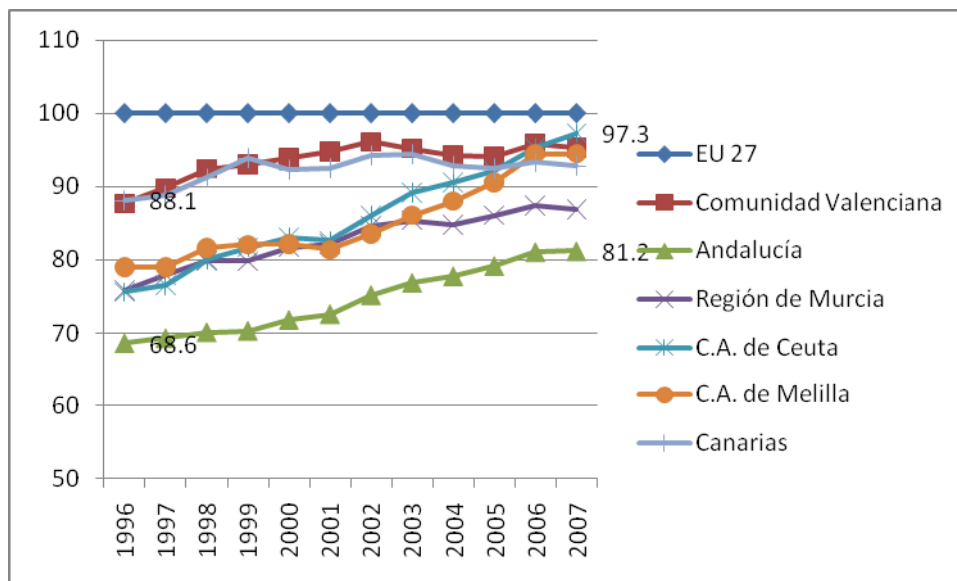
Table 4.13 reveals a steady increase in the GDP per inhabitant in all the Spanish regions presented. The fact that the Convergence Regions also experience this increase is a clear sign of regional development, relative to EU-27. Figures 4.11 and 4.12 below show the regional per capita GDP in PPS within the Spanish third CSF Cycle Objective 1 Regions plus Cantabria.

Figure 4.11
Regional GDP (PPS per inhabitant in % of the EU-27 average), by NUTS 2 regions



Source: Eurostat, 2010g.

Figure 4.12
Regional GDP (PPS per inhabitant in % of the EU-27 average), by NUTS 2 regions

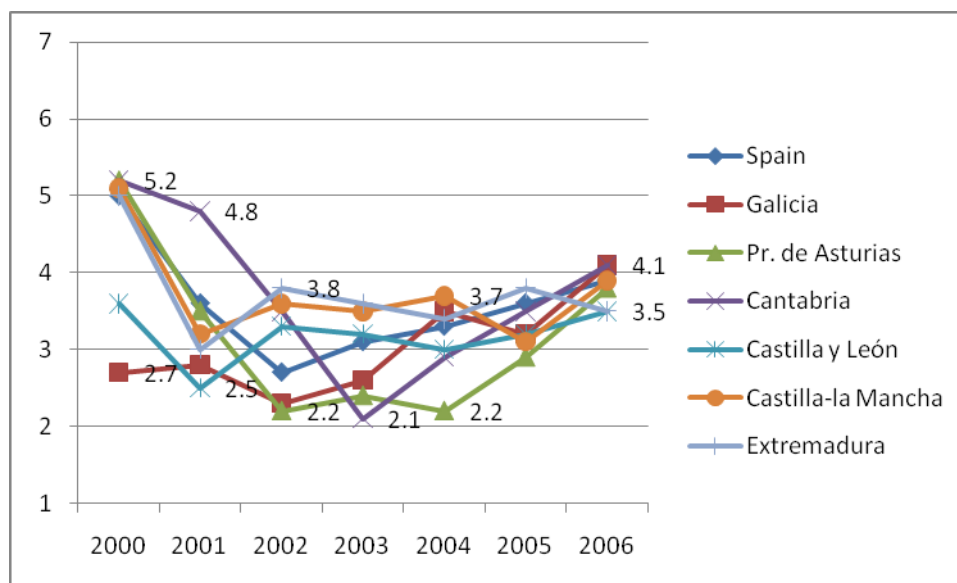


Source: Eurostat, 2010g.

Figures 4.11 and 4.12 show that, contrary to the Italian Objective 1 Regions, between 1996 and 2007 there has been an evident increase in the GDP per capita in the Spanish regions, if we compare them with the EU average, with only a few exceptions,

such as Comunidad Valenciana in 2002 and 2006, Castilla-la Mancha in 2003 and Canarias in 1999 and 2003. This is indeed a sign of progress and development and shows an attempt at narrowing regional divergence. In 2007, the highest GDP per capita rate¹²⁴ amongst the current Convergence Regions could be observed in Galicia, whereas the lowest one was in Extremadura. Nevertheless, the important fact is that in all the Spanish peripheral regions there has been an obvious GDP per capita increase, in comparison with the EU average. Figures 4.13 and 4.14 below show the real growth rate of regional GDP within the Spanish third CSF Cycle Objective 1 Regions plus Cantabria.

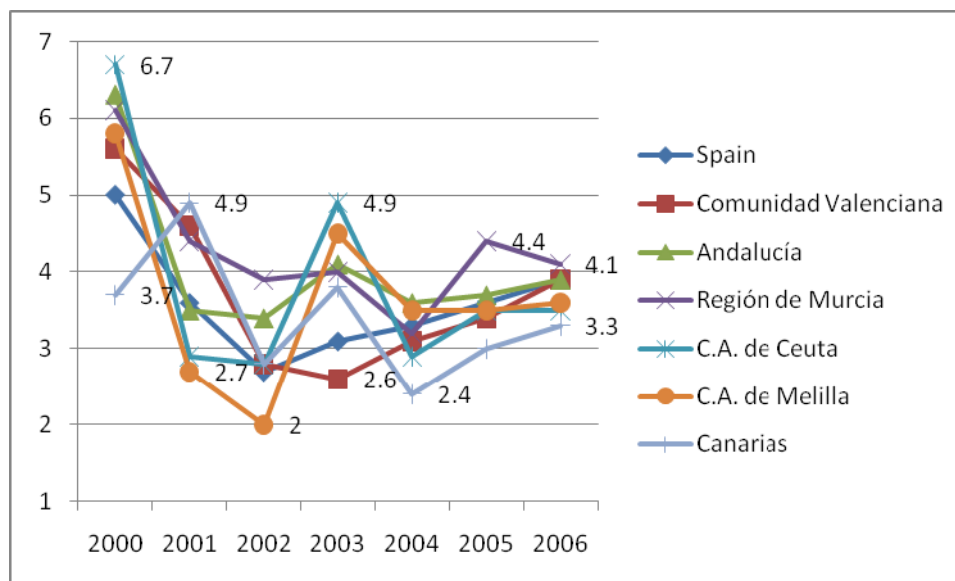
Figure 4.13
Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year



Source: Eurostat 2009.

¹²⁴ In % of the EU-27.

Figure 4.14
Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year

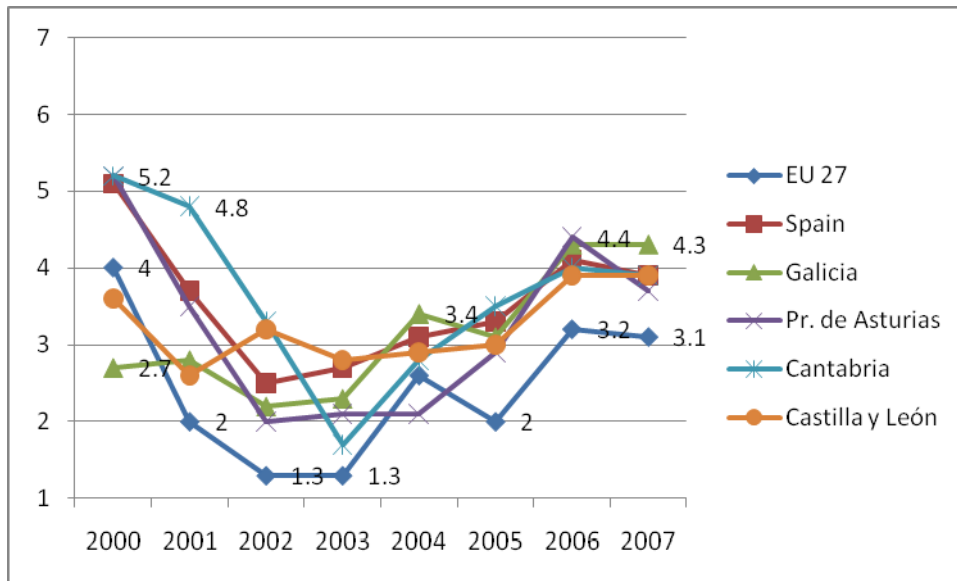


Source: Eurostat 2009.

Figures 4.13 and 4.14 show the real growth rate of regional GDP. In 2006, Galicia, Cantabria and Región de Murcia experienced the highest real growth rate (4.1%), which was even higher than the national average (3.9%). Canarias experienced the lowest growth rate (3.3%). Figures 4.15-4.17 below show the real growth of the regional GVA in the Spanish Objective 1 Regions of the third CSF Cycle, including Cantabria. The Spanish and EU-27 rates are also included.

Figure 4.15

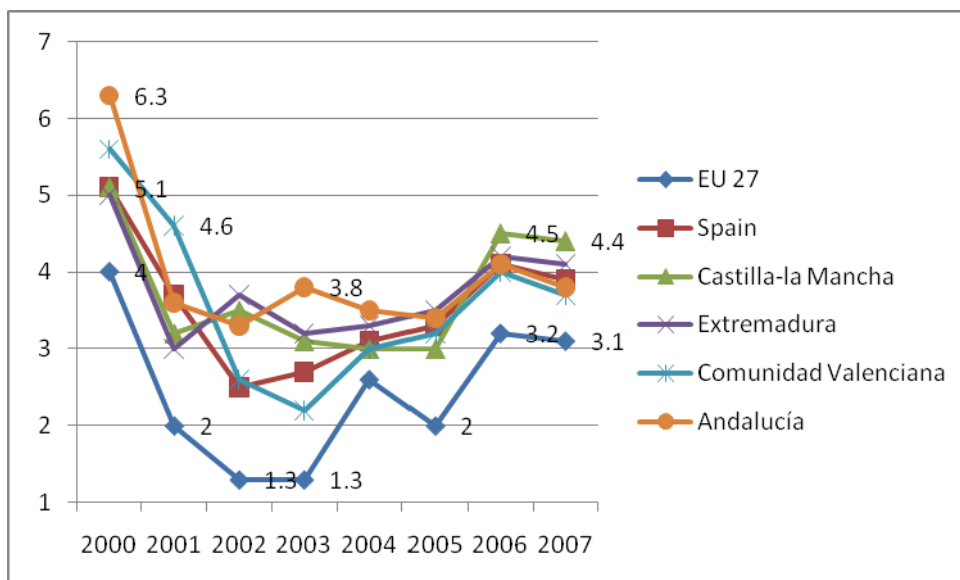
Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year



Source: Eurostat, 2010f.

Figure 4.16

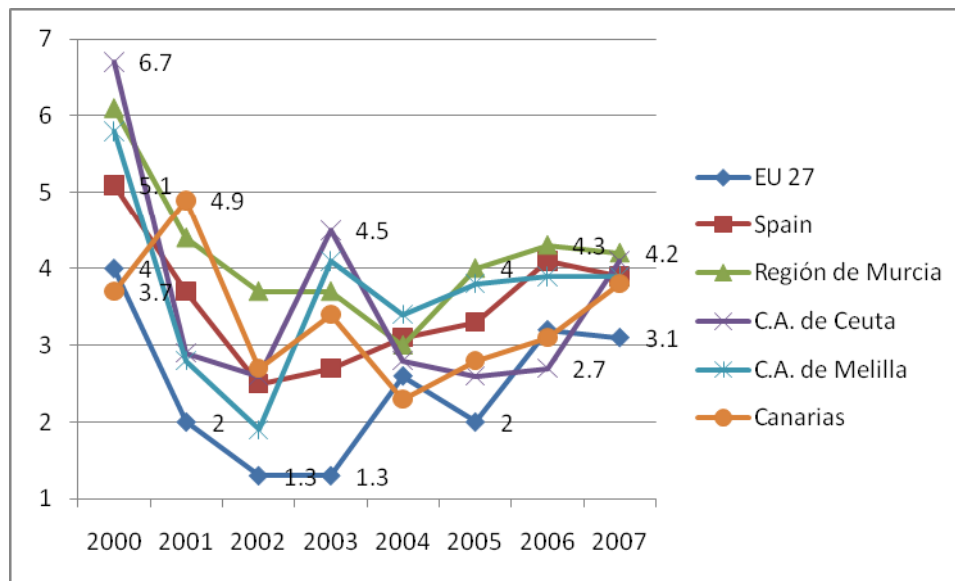
Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year



Source: Eurostat, 2010f.

Figure 4.17

Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year



Source: Eurostat, 2010f.

From 2000 to 2007 (with the exceptions of Galicia in 2000, Canarias in 2000 and 2006, and Principado de Asturias in 2004), the real growth rate of GVA of all the Spanish third CSF Cycle Objective 1 Regions (including Cantabria) and the national GVA growth rate of Spain were higher than the GVA growth rate of the EU-27. This is indeed a sign of significant regional economic convergence and development. Table 4.14 below shows the economically active population within the third CSF Cycle Objective 1 Regions of Spain, plus Cantabria, within Spain and the EU-27. Both in 1999 and 2008, Andalucía had the highest number of economically active people in the Spanish Objective 1 Regions and between 1999 and 2008 this number slightly increased.

Table 4.14

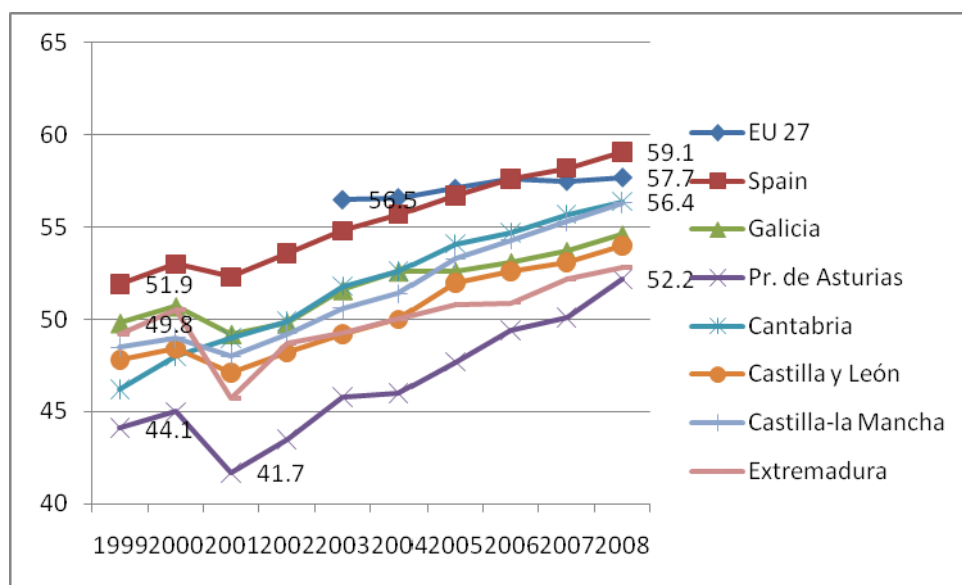
Economically active population by sex and age, at NUTS level 2 (1000)/Age: 15 years and over/Sex: Total

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	226375.1	228154.6	232038.5	234582	236615.6	239080.2
Spain	17425.7	18012.2	18050.3	18785.5	19538.1	20184.4	20885.7	21584.8	22189.9	22848.2
Galicia	1159.4	1189.3	1158.6	1178.6	1225.2	1254.2	1254.8	1272.1	1292	1314.8
Asturias	414.4	423.6	395.1	412.3	433.3	435.6	451.4	467.1	473.5	493.2
Cantabria	211	221.2	227	233.5	245	251.4	261.4	267.2	274.7	280.7
Castilla y León	1016	1026.6	1003.8	1029.5	1053.8	1074.2	1120.5	1137.9	1156	1180.3
Castilla-la Mancha	689.4	703.9	699.4	729.3	765	793	840.8	875.2	912.6	953.5
Extremadura	426.2	440.3	401.5	430.2	438.3	448.1	458	460.2	474.5	482.6
Comunidad Valenciana	1768.4	1845.4	1901.8	1985.3	2081	2178.2	2251.4	2348.9	2433.7	2533.4
Andalucía	2946	3012.2	2966.8	3129.8	3227.1	3331.5	3435.2	3562.2	3690.3	3833.3
Región de Murcia	478.2	508.9	516.8	547.4	576.6	607.2	619.3	648.5	684.6	718.4
C.A. de Ceuta	28.3	32	25.5	25.2	27.6	27	32.4	29.5	29	31.5
C.A. de Melilla	25.7	25.5	22.9	23.8	24.6	28.3	25.6	26.3	27.8	27.9
Canarias	734.2	778.7	798.4	844.4	889.2	915.8	947.1	996.8	1022.1	1042.8

Source: Eurostat, 2010c.

Figure 4.18

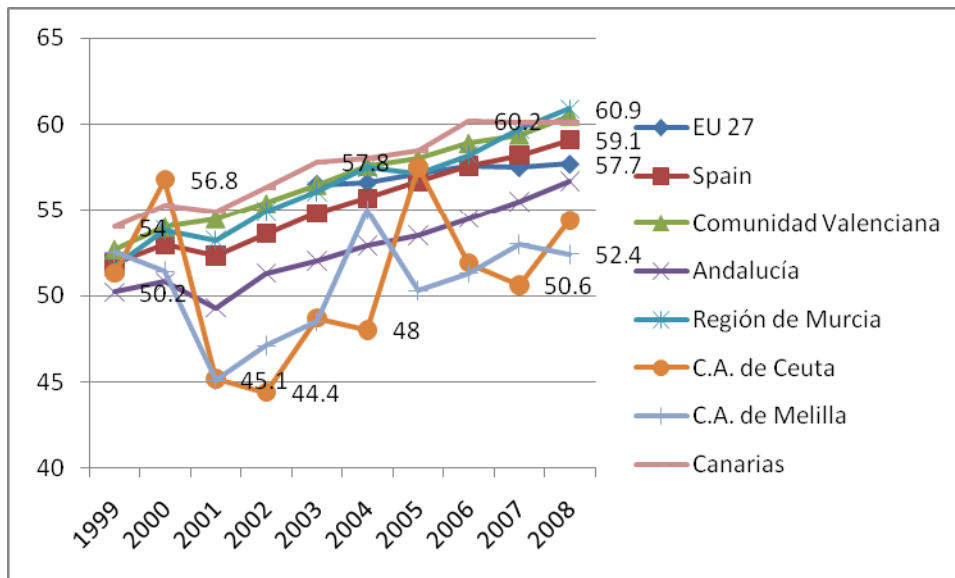
Economic activity rates by sex and age, at NUTS level 2 (%)/Sex: Total/Age: 15 years and over



Source: Eurostat, 2010b.

Figure 4.19

Economic activity rates by sex and age, at NUTS level 2 (%)/Sex: Total/Age: 15 years and over

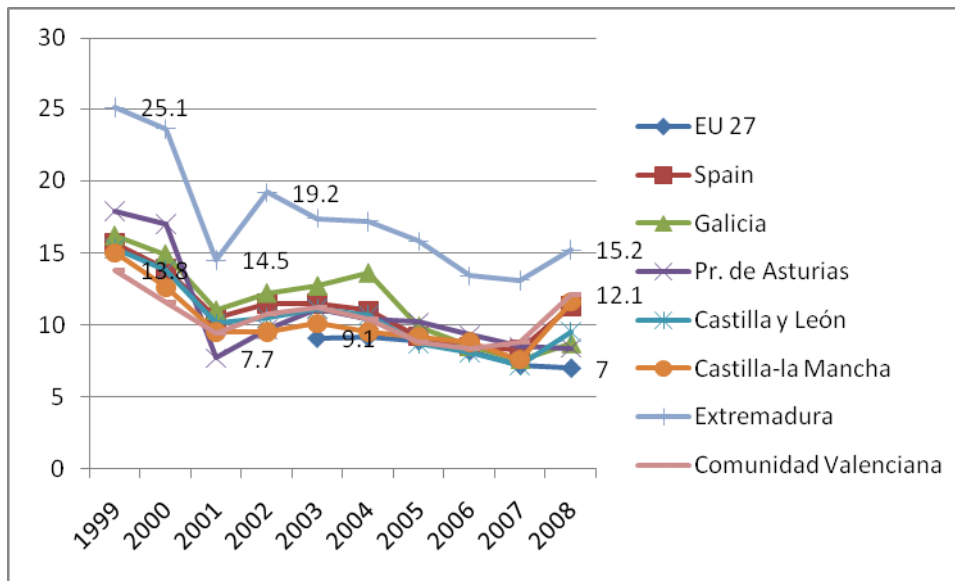


Source: Eurostat, 2010b.

According to Figures 4.18 and 4.19, in 2008, amongst the current Convergence Regions, Andalucía had the highest economic activity rate, whereas Extremadura the lowest one. Figures 4.20 and 4.21 below show the unemployment rates of all the third CSF Cycle Spanish Objective 1 Regions plus Cantabria.

Figure 4.20

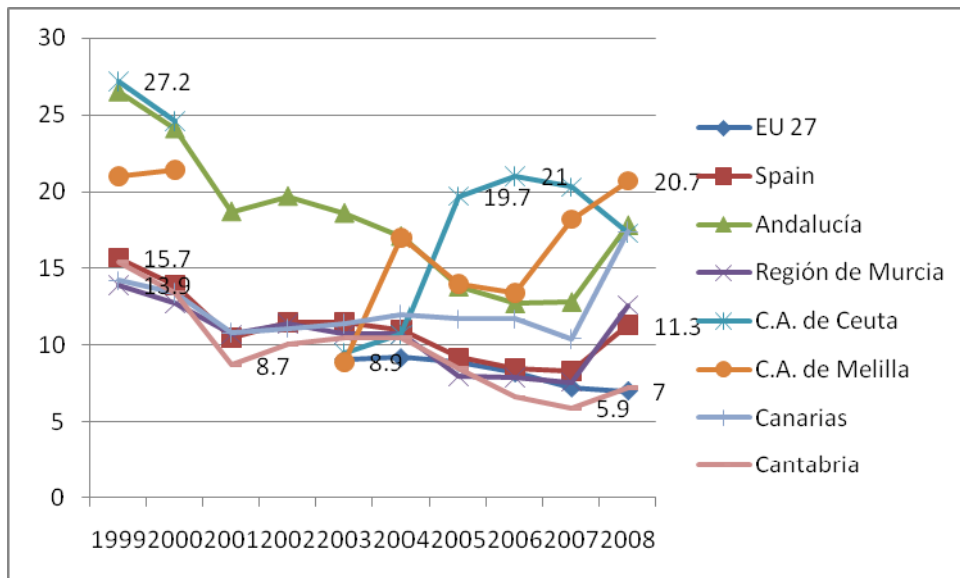
Unemployment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over



Source: Eurostat, 2010i.

Figure 4.21

Unemployment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over



Source: Eurostat, 2010i.

Comparing the unemployment rates of the third CSF Cycle Spanish Objective 1 Regions with the national average for 2008 (11.3%), it can be observed that Castilla y León (9.5%), Principado de Asturias (8.4%) and Galicia (8.7%) had a lower unemployment rate. This achievement becomes even more important taking into account that Galicia is still a Convergence Objective Region. In 2006, Región de Murcia and Castilla y León also had a lower unemployment rate compared to the EU average (8.2%), whereas in 2007, Castilla y León had the same percentage as the EU as a whole. These are clear signs of economic progress and show that regional economic divergence in terms of unemployment in Spain is lower than that of Italy¹²⁵.

Table 4.15
Share of long-term unemployment (12 months and more), by NUTS 2 regions (Percentage of total unemployment)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Galicia	8.61	7.38	4.97	4.91	5.29	5.82	3.18	2.29	1.95	1.94
Pr. de Asturias	10.47	9.67	3.35	4.58	4.92	4.44	4.07	2.94	2.59	2.32
Cantabria	8.86	7.4	4.71	5	5.29	4.37	2.41	1.65	1.19	1.08
Castilla y León	7.48	6.33	4.15	3.9	4.35	3.91	2.18	1.89	1.61	1.93
Castilla-la Mancha	5.88	4.64	2.99	2.86	2.91	3.01	2.33	1.88	1.47	1.93
Extremadura	8.72	7.57	4.07	5.84	4.66	4.93	4.42	3.35	3.28	3.52
Comunidad Valenciana	5.38	4.01	2.78	2.56	2.69	2.40	1.98	1.43	1.41	1.74
Andalucía	11.39	9.28	6.54	6.48	6.12	5.13	3.5	3	2.76	3.5
Región de Murcia	5.17	3.9	2.72	2.99	2.75	2.51	1.47	1.32	1.09	1.7
C.A de Ceuta	16.58	12.97	2.89	2.27	3.07	2.19	10.13	7.95	9.39	6.86
C.A. de Melilla	12.25	13.14	1.3	2.25	4.3	9.83	5.13	5.46	7.3	9.27
Canarias	5.86	5.37	3.39	3.55	3.61	3.39	3.06	2.52	2.28	3.42

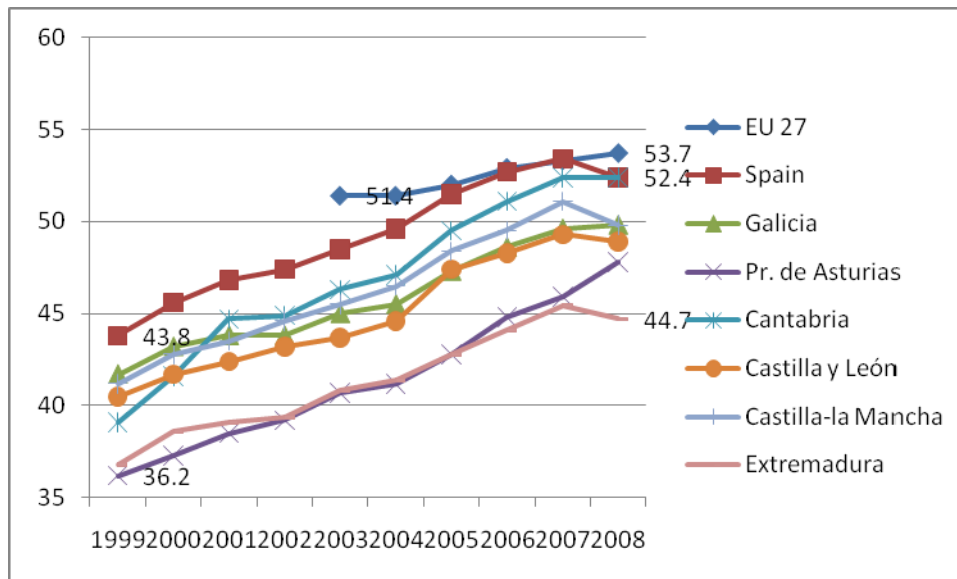
Source: Eurostat, 2010h.

Amongst the current Spanish Convergence Regions, in 2008, Castilla-la Mancha had the lowest share of long-term unemployment, according to Table 4.15, whereas Extremadura the highest. Figures 4.22 and 4.23 below show the regional employment rate of all the third CSF Cycle Spanish Objective 1 Regions plus Cantabria, compared to the national and EU average.

¹²⁵ In 2008, there was no third CSF Cycle Italian Objective 1 Region with a lower unemployment rate than the national, or the EU average.

Figure 4.22

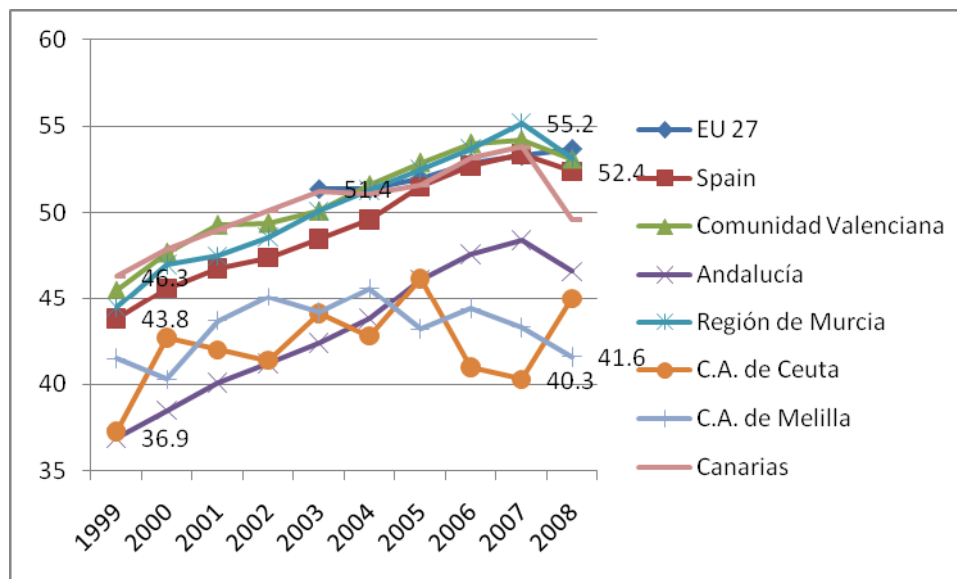
Employment rates by sex and age, at NUTS level 2 (%) / Sex: Total / Age 15 years and over



Source: Eurostat, 2010d.

Figure 4.23

Employment rates by sex and age, at NUTS level 2 (%) / Sex: Total / Age 15 years and over



Source: Eurostat, 2010d.

According to Figures 4.22 and 4.23, up until 2007, there was a steady increase in the employment rate in all the third CSF Cycle Spanish Objective 1 Regions, with the

exception of Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla¹²⁶. Amongst the current Convergence Regions, in 2008, Galicia and Castilla-la Mancha had the highest employment rates, whereas Extremadura had the lowest.

4.3.5-CONCLUSION

The overall conclusion that can be drawn after examining the case of Spain is the fact that in terms of regional GDP per capita, there has been a steady increase¹²⁷ in all the Objective 1 Regions, whereas in Italy the situation is totally the opposite. The economic development differences between core and peripheral Spanish regions are narrower than those of the Italian ones. In 2006, in three third CSF Cycle Spanish Objective 1 Regions (Castilla y León, Comunidad Valenciana and Región de Murcia), the unemployment rate was lower than the national average and in the cases of Castilla y León and Región de Murcia, it was even lower than the EU-27 average. Galicia, which is considered to be a peripheral Objective 1 Region, has managed to reduce its unemployment rate and in 2006 to reach the national average. This shows significant reduction of regional disparities and economic progress, despite the fact that that Galicia is still included in the Convergence Objective.

Cantabria, a semi-peripheral region, managed to exit Objective 1 before the end of the third CSF Cycle and that was a sign of regional development. On the other hand, in all of the Italian third CSF Cycle NUTS 2 Objective 1 Regions, the unemployment rate was higher than both the national and the EU average. This means that in Spain the regional disparities during the third CSF Cycle were lower than those existing in Italy. Seven Spanish NUTS 2 regions which were included in Objective 1 during the third

¹²⁶ If compared with both the national and the EU average.

¹²⁷ Relative to the EU average.

CSF Cycle¹²⁸ have now exited the Convergence Objective, contrary to only two Italian regions¹²⁹.

Another encouraging feature is the fact that in all the third CSF Cycle Spanish Objective 1 Regions, just like in Italy, from 1999 to 2004, there was a steady increase¹³⁰ in the employment rate. However, in the Spanish Objective 1 Regions there was an additional increase from 2004 to 2005, contrary to the Italian ones. This means that in all those regions there was a drop in unemployment and thus a positive start to regional development. It can be argued that during the third CSF Cycle, the Spanish Objective 1 Regions were in a better economic situation than the Italian ones, due to the fact that there was an increase in both the GDP per capita and the employment rates. In Italy there was an increase in the employment rates, but also a decrease in the GDP per capita. Between 2000 and 2006, the unemployment rates in most of the third CSF Cycle Spanish Objective 1 Regions were lower than those of the Italian ones. Moreover, from 2000 to 2007¹³¹, the real growth rate of GVA of all the Spanish third CSF Cycle Objective 1 Regions and the national GVA growth rate of Spain were higher than the GVA growth rate of the EU-27.

In Spain, regional economic development is more evident than in Italy and the target of economic convergence is closer and this is proved by the fact that seven NUTS 2 regions that were part of Objective 1 have successfully managed to exit the Convergence Objective. The peripheral Spanish regions are approaching the core ones at a higher speed, compared to the Italian ones.

¹²⁸ Castilla y León, Comunidad Valenciana, Principado de Asturias, Canarias, Región de Murcia, Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla.

¹²⁹ Basilicata and Sardegna.

¹³⁰ Relative to the EU average.

¹³¹ With very few exceptions.

4.4-CONCLUSIONS

The main conclusion we can draw is that the regional economic disparities still identified in Italy during the third CSF Cycle (2000-06) were more pronounced than in Spain and the economic differences between core and peripheral regions were much more evident. Dependency theory helps understand the regional economic convergence in both countries, where the NUTS 2 regions can be divided in core, semi-peripheral and peripheral.

Core regions are those which have never been part of Objective 1, or the Convergence Objective and are characterised by a) high GDP and employment rates compared to the other regions of the country, b) low unemployment rates¹³², c) lower agricultural dependency, d) a higher level of industrialisation, e) a more skilled labour force and f) higher industrial competitiveness. Semi-peripheral regions are those that used to be part of Objective 1 but have currently been excluded (either “Phasing-Out”, or “Phasing-In” Regions, although in the case of “Phasing-In” Regions, development is more evident). Peripheral regions are those still included in the Convergence Objective and are characterised by a) low levels of GDP and employment compared to the core and semi-peripheral regions, b) high levels of unemployment again compared to the core and semi-peripheral regions, c) high agricultural dependency, d) low competitiveness of their companies and e) distance from the core regions.

We can argue that dependency theory suits Italy better. In Italy there is still a clear distinction between core and periphery since the North is one of the best performing areas of the EU, whereas the *Mezzogiorno* is still one of the worst performing. However, the encouraging fact about Italy is that the semi-peripheral regions of Basilicata and Sardegna, despite the fact that were both included in Objective 1 during the third CSF

¹³² Again compared to the other regions of the country.

Cycle, are currently out of the Convergence Objective, even if Basilicata is a “Phasing-Out” (Statistic Effect) Region, which means that it has exited the Convergence Objective because of the EU Enlargement.

In Spain it can be argued that regional development is more evident. Compared to Italy, we can argue that the developed “core” Spanish regions¹³³ are (still) less developed than most of those which form the Italian North¹³⁴. This means that regional disparities are lower.

In terms of GDP per capita and employment rate, during the third CSF Cycle, there was a steady increase¹³⁵ in all the Spanish Objective 1 Regions. This proves that satisfactory regional economic development¹³⁶ has indeed taken place in Spain. Between 2003 and 2006, there was a decrease in the unemployment rate in both the Spanish and the Italian Objective 1 Regions¹³⁷.

If we compare the real growth rate of GVA in Italy and Spain we can reach a very interesting conclusion about the different degree of regional economic development that exists in these two countries. In Italy, from 2003 to 2007, the real growth rate of GVA of almost all the *Mezzogiorno* regions and the national GVA growth rate were lower than the GVA growth rate of the EU-27. On the contrary, in Spain, between 2000 and 2007, the real growth rate of GVA of almost all the Spanish third CSF Cycle Objective 1 Regions and the national GVA growth rate were higher than the GVA growth rate of the EU-27. This means that so far in Spain regional divergence is decreasing at a faster pace than in Italy.

¹³³ Comunidad de Madrid, Cataluña, País Vasco.

¹³⁴ Particularly Lombardia, Piemonte and Emilia-Romagna.

¹³⁵ Relative to the EU average.

¹³⁶ In terms of GDP per capita, employment and unemployment.

¹³⁷ With a few exceptions.

To sum up, in both countries a) there is evident regional difference and b) there is a clear distinction between core and periphery, which makes the dependency theory perfectly applicable, leading to a “metropolis-satellite” relationship and making regional convergence difficult. Currently only four Italian¹³⁸ and four Spanish¹³⁹ NUTS 2 regions are included in the Convergence Objective¹⁴⁰. This shows that regional development has indeed taken place in both countries and regional disparities have clearly been reduced.

There is certain optimism that some of the current peripheral Convergence Objective Regions in Italy and Spain will be in position to exit this Objective by 2013, despite the financial crisis and the current recession, which inevitably has had a negative impact not only at a national, but also at a regional level, with a significant unemployment increase especially within the core NUTS 2 regions. An efficient regional policy can become an important “weapon” against the trickle down of the recession to regions. EU Regional Policy can facilitate the establishment of more efficient training and educational regimes, as a certain amount of SFs are destined exactly for this purpose. An efficiently qualified labour force means better quality in production and might be a solution to the gross problem of unemployment.

The next two chapters will present an analysis that draws on a research methodology to link EU SFs and economic performance. In particular, it will present a comparison between four NUTS 2 regions of Italy (Basilicata, Campania, Calabria and Puglia) and four NUTS 2 regions of Spain (Castilla y León, Comunidad Valenciana, Andalucía and Extremadura).

¹³⁸ Calabria, Campania, Puglia and Sicilia.

¹³⁹ Castilla-la Mancha, Galicia, Andalucía and Extremadura.

¹⁴⁰ Whilst during the third CSF Cycle 11 Spanish and six Italian NUTS 2 regions were included in Objective 1.

CHAPTER 5

ANALYSIS OF THE FOUR ITALIAN REGIONS

5.1-INTRODUCTION

In this chapter, there is an attempt to critically present the four Italian case studies in order to understand why some Italian NUTS 2 regions experience high degree of regional economic development, whilst some others do not. The case studies examined in this chapter are four Italian regions; Basilicata, Calabria, Puglia and Campania. The reason for choosing these four regions is that Basilicata has exited the Convergence Objective, even as a “Phasing-Out” Region, while the other three, despite the fact that they also received significant amounts of funds, are still included in the Convergence Objective. Sardegna, which is the only other Italian third CSF Cycle Objective 1 Region (besides Basilicata) to have exited the Convergence Objective has been excluded from further research, since its economy is mainly based on tourism, the impact of which is not clearly presented in the official statistics. Such comparison enables us to explore the main reasons behind their different trends, in view of better understanding the regional policy with the theoretical framework of MLG.

In addition to the main variables¹⁴¹ used, a critical observation of regional spending, administrative capacity and implementation problems is used. An attempt for the creation of an elaborate framework with a clear focus on institutional capacity building takes place not only in this chapter, but also in the following one in order to strengthen the comparative element in the presentation, analysis and critical examination of the case studies.

¹⁴¹ GDP per capita, employment and unemployment rates.

This chapter on the four Italian regions, and the following one on the Spanish regions are framed in the theoretical set-up presented in Chapter 2. There is an attempt to link the Italian and Spanish case studies (in the context of EU Cohesion Policy) with the concepts of soft and new regionalism, to show they can indeed be used as analytical tools in order to explain the arguments of the thesis.

In terms of dependency theory, Basilicata can be regarded as a semi-peripheral region, despite the fact that it is a “Phasing-Out” Region, which means that it has exited the Convergence Objective due to the EU Enlargement. Basilicata is characterised as a semi-peripheral region due to the fact that a) its GDP per capita and employment are higher and b) its unemployment is lower than those of the peripheral Convergence regions. Calabria, Campania and Puglia are peripheral regions, according to dependency theory, and this distinction does not only take place due to their relatively low GDP per capita compared to the other Italian and EU regions, but also due to their high unemployment, low employment, distance from the core regions, the lack of competitiveness of their companies, and the lack of skill in their labour force.

5.2-THE EVOLUTION OF REGIONAL POLICY WITH REFERENCE TO ITALY

5.2.1-REGIONAL POLICY FROM THE 1950s TO THE 1970s (CASMEZ IN ACTION)

According to Paci and Pigliaru (1998), between 1951 and 1960 there was limited economic convergence across Italian regions and divergence was rather more evident. Dependency theory can satisfactorily explain this situation, as the core-periphery structures created amongst northern and southern Italian regions revealed the increased dependency of the *Mezzogiorno* on the North. This dependency led to the current economic divergence, and was in part the result of the Second World War, which was

catastrophic for Italy and particularly for several underdeveloped peripheral southern regions¹⁴².

To address uneven development and regional divergence between North and South, the “*Cassa per il Mezzogiorno*”, or “*Cassa per opera straordinarie di pubblico interesse nell’Italia meridionale*” (*CASMEZ*) (Leonardi, 2005:107) was established in 1950. The *CASMEZ* establishment was an outcome of the thought that effective institutional capacity building would result in regional economic development. Its targets were to improve the infrastructure in the southern regions, to contribute to industrial development projects, to reduce dependency on agriculture and to create more employment opportunities within the *Mezzogiorno* (Leonardi, 2005).

In the 15 years that followed, the importance of *CASMEZ* became fundamental for the *Mezzogiorno*’s development, as it created significant infrastructure projects and offered incentives to the industrial sectors. It can be argued that the significantly positive results and the high growth rates of that era became a reality thanks to *CASMEZ* (interview with De Luca, Cuccu and Tagle, 2009).

The intervention policy of *CASMEZ* was meant to contribute to achieving the expected development objectives, by acting on transport infrastructures and by encouraging a process of industrialisation with direct interventions and incentives. However, coordination problems between central government and the local authorities, and a public administration lacking efficiency due to poor monitoring procedures concerning the spending of funds, hampered regional development (interview with De Luca, Cuccu and Tagle, 2009).

¹⁴² Such as Calabria, Basilicata and Puglia.

CASMEZ followed a top-down, centralised approach, where central government decided on the financial interventions. The result was that the local ruling class in all the *Mezzogiorno* regions, who were acting as mediators with the decision-makers in Rome, soon became delegitimised as providers of public services. This was a serious obstacle to regional economic progress and development (Barca, 2001). The strategy was for the core North to design interventions and allocate assistance to southern regions, without consultation with local and regional authorities, with the inevitable backwash effects as a result.

Success was indeed limited, particularly in the 1960s, as both the GDP per capita and employment remained very low across the *Mezzogiorno*. During the second half of the 1960s more problems became evident. The lack of accountability created many difficulties in allocating resources efficiently. Also there were negative economic effects, for instance in relation to income transfers to compensate for the income gap; ex-post-compensatory transfers began to cause a diminishing propensity to save (interview with De Luca, Cuccu and Tagle, 2009; Barca, 2001).

According to Bianchi (1998), economic crises in the peripheral areas are linked with weak local administrations, which, instead of resolving regional problems themselves, almost always ask the national governments for support and solutions (Bianchi, 1998). The existence of weak regional administrations was the problem in the *Mezzogiorno*. Good prospects for regional development and lower regional divergence were linked to the establishment of stronger local administrations in order to encourage development to begin from “inside” the regions. *CASMEZ* expenditures were increased from 0.75% of Italian GDP in the mid-1950s to 1.14% in the mid-1970s. In the 1950s, fixed gross industrial investment paid by *CASMEZ* was meant to tackle problems of limited

production capacity and unemployment. More than 86% of this investment was made in the North, where industrial employment increased from 10% to 12%, whereas in the *Mezzogiorno* it remained at approximately 3.5%.

During the late 1950s and early 1960s, the Italian government set up state-owned firms and insisted that they located 40% of their investment and 60% of their new plants in the *Mezzogiorno*. This generated a certain increase in employment in manufacturing, construction and services, accompanied by a contraction in agricultural employment (Acconcia and Del Monte, 2000; Boldrin and Canova, 2001). However, such policy provisions missed achieving the expected results since they should have been coupled with investment in education and training to upgrade the skill base of the labour force. For this reason, despite the top-down efforts from the central government, the *Mezzogiorno* remained significantly marginalised from the rest of Italy, which for instance caused a huge migration of young people to the North in search for better prospects (2.2 million people moved to the North from 1962 to 1974). Regional divergence was more than evident and a metropolis-satellite relationship¹⁴³ became crystallised.

From the late 1960s to the mid-1970s, there was a noteworthy convergence process, mainly based on the top-down approach, but for the following 20 years, there was significant economic divergence, with the exception of one short period in the mid-1980s, when there was an attempt at sustained industrialisation in the *Mezzogiorno* (Paci and Saba, 1997).

The main reason for the failure to achieve economic convergence was the fact that infrastructural improvements in regions such as Sicilia, Puglia and Calabria amounted

¹⁴³ One of the main characteristics of dependency theory.

to next to nothing. The Italian government was willing to invest huge amounts of money in order to trigger economic development in the South, but again it did not take into account that the most important factor was to activate forces inside the regions, rather than imposing initiatives from the outside. In addition to this, it was still difficult to monitor and control clearly how the national funds were being invested. Infrastructural problems and the lack of procedural transparency forced the Italian government to continue to adopt a top-down approach. During the 1970s, the oil-shocks hit the *Mezzogiorno* more harshly than the rest of the country, with industrial investment dropping by 15% per year together with per capita income.

5.2.2-REGIONAL POLICY IN THE 1980s AND 1990s (AGENSUD FOR CASMEZ)

CASMEZ was closed in 1986 and in the same year the Agency for the South (*Agensud*) was established (Leonardi, 2003). *Agensud* clearly stated that regional development could only take place if there was adequate consultation with regional authorities and if these authorities could gain more power and responsibility in regional and local affairs. This corresponded to a drastic change of approach to regional policy and implied that MLG was not taking place correctly, as there was limited cooperation between the national and the regional level. The main problems *Agensud* had to address in the *Mezzogiorno* included: a) insufficient education and training standards coupled with an ageing and unskilled labour force; b) a continuous decline in industrial development and a failure to attract new dynamic industries; and c) a still strong agricultural dependence. However, despite initial intentions, it soon became clear that *Agensud* was also favouring a centralised top-down approach, which could not reduce

the significant dependency of the *Mezzogiorno* on the core North and included no provisions for exploiting regional potentials for endogenous development¹⁴⁴.

In the early 1990s a new regional plan was developed to assist Italian peripheral regions. The result for the *Mezzogiorno* was a contraction of the public spending it received which led to slower economic growth. In many regions¹⁴⁵, the high population growth rate also led to lower income per capita. The *Mezzogiorno* was again marginalised and the metropolis-satellite relation became more evident, even though some regions¹⁴⁶ benefited from an increase in exports (Gerson and Rowland, 2004). In 1992, the *Agensud* was unexpectedly closed down when the first Amato government decided to integrate all the national programmes for the *Mezzogiorno* economic development into the SF context. This meant that national intervention in terms of regional policy would actually be the co-finance of the SF actions and programmes (Leonardi, 2003).

Despite the initial allocation of 600 million euros for *CASMEZ* and 43 billion euros for *Agensud*¹⁴⁷, the divergence between the southern and the northern regions remained the same. In 1950 GDP per capita in the northern regions was 3.81 times higher than in the southern ones. In the mid-1980s, it was 3.78 times higher. Neither *CASMEZ* nor *Agensud* succeeded in achieving regional convergence in Italy, mainly due to the lack of investment in human capital and infrastructure.

Neither *CASMEZ*, nor *Agensud* could be characterised as successful institutional capacity building examples, as they did not actually convince the Italian government to invest within the regions. There were limited attempts by the Italian government to

¹⁴⁴ Or to identify each region's specific problems.

¹⁴⁵ In particular Calabria, Puglia and Sicilia.

¹⁴⁶ For example Campania.

¹⁴⁷ Both allocations were worth an annual GDP increase of 3% for the South.

identify the specific areas and sectors within the regions that would result in regional development and then invest funds in more advanced education in order to create a knowledgeable labour force that would be capable of taking advantage of these sectors. Moreover, the Italian government did not offer any significant stimulus in order to keep the educated labour force within the peripheral regions (such as the creation of new working positions). Such an action would be beneficial to the peripheral regions, as the skilled labour force would be in a position to exploit all possibilities for regional development, improve regional administrative capacity, eliminate unwanted bureaucracy and attract private investors. The Italian government in the context of both *CASMEZ* and *Agensud* made few attempts to a) connect the universities of the peripheral regions with the labour market and b) discourage skilled labour force from migrating towards the core Northern regions.

Attempts to put in place a regional institutional capacity (creating MLG) did not realise in either the case of *CASMEZ*, or *Agensud*. In both cases there was a lack of cooperation between the national and the regional level, practically no cooperation between the regional and the EU level and problematic, as well as limited cooperation between the national and the EU level.

The shift in regional policy from a centralised (under *CASMEZ* and *Agensud*) top-down approach to the EU bottom-up approach was problematic and it is dubious whether this change benefited the *Mezzogiorno* regions¹⁴⁸ in the first CSF Cycle. The question is whether or not sufficient training programmes actually took place in order for the administrative personnel to familiarise with the EU Cohesion Policy rules and principles (Leonardi 2003). If such programmes had taken place and the personnel had

¹⁴⁸ By the end of the third CSF Cycle, the dependency of the peripheral *Mezzogiorno* on the core North was decreased, but during the first two CSF Cycles this was not evident.

been well-qualified, then the shift from the former approach to the latter would have been successful. However, no systematic training programme took place in order to help personnel make the transition from the *CASMEZ* approach to EU Cohesion Policy during the first CSF Cycle. There was an evident need for such training in view of the second CSF Cycle, which led Italy to engage in a range of programmes¹⁴⁹ aimed at training national, regional and local civil servants to participate in the EU SFs programmes. These programmes were, however, voluntary and no incentives were given by the funding authority¹⁵⁰ to create interest, such an increase in pay, or career progression. Inefficient Italian bureaucracy was also an important reason behind the unsatisfactory preparation of administrators (at both national and regional level) to be familiarised with the new regulations of the EU Regional Policy (Leonardi, 2003).

The *Intervento Straordinario per il Mezzogiorno*¹⁵¹ and the *CASMEZ* both followed top-down policies, which could not be regarded as successful since the economic divergence between the North and the *Mezzogiorno* was steadily increasing.

Between 1984¹⁵² and 1988¹⁵³, there was a transitional period, which would end the strict top-down regional policy. Several administrative, institutional and organisational changes took place and the new approach was a more bottom-up, multi-level one, according to which a) regional and local governments gained importance, b) they were formally identified as equal actors in terms of the new system and c) they became responsible for the planning and management of funds and resources (Milio, 2007).

Nevertheless, this shift was more problematic than expected, as *CASMEZ* had covered a lack of territorial institutional capacities. The result was a “*consolidation of a*

¹⁴⁹ Such as the PASS or Sub-Programme for the Formation of Personnel of the Public Administration.

¹⁵⁰ Department for Public Administration of the Presidency of the Council of Ministers.

¹⁵¹ Extraordinary Interventions for the *Mezzogiorno*, established in 1950.

¹⁵² *CASMEZ* closure, though its true dismantling took place in 1992.

¹⁵³ Beginning of the SFs.

policy environment that can be defined as if the whole of the activities related to local development could be conceived and realised outside the administrations” (Milio, 2007:433). Lack of regional administrative capacity means lack of regional development, regardless of the degree of centralisation of the approach followed. In order for this transformation to be successful, the winding down of the national regional policy and the implementation of the new EU Cohesion Policy required not only a shift in certain rules and procedures, but most importantly, a shift of administrative responsibilities from the national to the regional level. That shift did not take place successfully and as a result there was confusion in the operational programmes.

In the 1990s, a progressive decentralisation in terms of regional policy in Italy nevertheless took place. There was a significant transformation from a highly top-down approach to a combination of top-down and bottom-up ones. There was a decentralisation of competences in favour of lower governmental levels, which were considered to be the best positioned in order to mobilise and motivate regional and local actors. Multi-level governmental relations in regard to regional policies were characterised by competition and partnership. The main actors included; a) EU institutions, which set rules and objectives, b) central government, which adapted EU rules to the national context and monitored implementation, c) regional institutions, which received most of the funds and were in charge of designing and implementing projects and d) local administrations, which brought together local actors in the context of the projects (Barca, 2001).

Leonardi (2003) identifies five main differences between the two approaches in relation to Italy; a) EU Cohesion Policy was multi-level in both its inputs and management, whereas the national regional policy involved only the nation state; b) the

decisions on what to invest in were not a part of a comprehensive programme, but a result of “piecemeal” decisions by local authorities; c) until the first CSF cycle, regions did not play any part in regional development policies, since only national governments were in charge; d) policy evaluations were not part of the decision-making process, or of the implementation process, since all controls were internal to the national government; e) the interventions were “*conceived as one-off or extraordinary actions rather than being part of a normal programme of interventions*” (Leonardi, 2003:5).

The problem with regional policy in Italy was that it clashed with EU requirements for regional policy. The Italian national government (until the first CSF Cycle) was opposed to MLG and held a monopoly in the decision-making context, without conceding any significant policy-making responsibility to regional or local authorities. We can argue that this centralised regional policy is in accordance with intergovernmentalism and totally opposed to the more supranational EU Cohesion Policy (Milio, 2010). The EU was mainly encouraging industrial investment support and infrastructure development in the disadvantaged regions and the creation of regional endogenous potentials, which involved the creation of a business environment that could have led to the success of the SMEs. The target of the ERDF was to support domestic regional policies and not to become a second pillar of regional aid¹⁵⁴. However, the *Agensud* neither encouraged the creation of SMEs, nor moved towards the exploitation of regional potentials for endogenous growth.

This means that the regions were not encouraged to achieve regional economic development through internal processes, including an efficient management of human

¹⁵⁴ Member States were supposed to add EU money to support existing national regional projects, according to the principles of subsidiarity, additionality and partnership.

capital and the establishment of updated forms of technology and production. Hence, regional development could not take place “inside” the regions.

Regional economic development is not only a matter of EU SFs and governmental funds, but is also linked to efficient management (Aiello and Pupo, 2008). The problem in Italy has been twofold: a) there have been several macro-territorial and economic differences between the core North and the peripheral *Mezzogiorno* and b) the Italian government has always treated the *Mezzogiorno* NUTS 2 regions as a single territory with similar problems and needs, without trying to search deeper for their specific regional needs (Milio, 2007).

Within the *Mezzogiorno*, several regions had never before been involved in European policies and were not aware of the requirements of a potential cooperation with EU institutions, and others did not even exist as geographical, administrative, or political entities (Bailey and De Propris, 2002). Therefore, there was a need for changes at both national and regional level (Allen, 2000). It was necessary for the institutions in charge of regional policy to establish a vertical and horizontal distribution of powers and responsibilities, in addition to sufficient strategic planning, organisation, programming, cooperation, coordination and monitoring capacities (Milio, 2007).

The Italian government, however, was incapable of delegating powers to regions in the South, mainly because of the lack of institutional capacity and experience within regional governments and the presence of a black economy that was gripping the *Mezzogiorno*. We can argue that the top-down approach adopted by the Italian government was an instrument to control the amounts of funds the Southern regions were receiving; however, it did not make any effort to involve regional stakeholders in the process of identifying needs and problems at the regional level.

The change from a top-down to a more bottom-up regional development approach was forced on Italy and justified by the assumption that regional development can only be effective if it starts within the region and in consultancy with regional authorities¹⁵⁵.

5.2.3-REGIONAL POLICY DURING THE CSF CYCLES

Between 1992 and 2001, despite several institutional and policy-making changes that took place within the *Mezzogiorno*, there was still an unemployment rate of approximately 21%, a black economy of 1/3 of the total and a high degree of organised crime (Barca, 2001). At the beginning of the third CSF Cycle, the Cohesion Policy Department¹⁵⁶ began stressing the importance of effective administrative capacity and clarified that the SFs can be efficient only if they are combined with a well-performing, modernised public administration (Milio, 2007).

The positive feature at the beginning of the CSF Cycles was the fact that the Italian government started realising that efficient institutional capacity building would be fundamental for regional development, as it would be the basis for efficient spending capacity. Indeed, the first serious attempts to put in place an effective MLG started taking place, as more powers and responsibilities were passed to the regional governments and there was a closer cooperation between national and regional governments with the aim of regional development taking place. Moreover, the EU participated actively in terms of Regional Policy and this led to a more intense coordination not only with the national government, but with the regional ones as well. Active cooperation at all three levels (EU, national and regional) was gradually

¹⁵⁵ This shift can be regarded as positive, and evidence of this is the fact that since 1989, four NUTS 2 Italian regions have already exited Objective 1/Convergence Objective.

¹⁵⁶ Established in 1988.

becoming a reality, despite the fact that there were still problems and disagreements about the amount of power and responsibilities that would be attributed to each level.

At this point we can link soft and new regionalism with the allocation of the SFs to Italy. Soft regionalism argues that regional development can become a reality only under the condition that there is adequate consultation with the regional and local authorities (Acharya, 1999; Hurrell, 1995; Ghica, 2008) and an effective understanding of the values of specific localities, as well as habitats (Strecker, 1994).

In the case of soft regionalism, central governments are indeed willing to offer power and authority to their regions, according to the principle of subsidiarity. This is exactly what the Italian government has started doing since the abolishment of the *Agensud*. Neither *CASMEZ*, nor *Agensud* were eager to offer much power to regional authorities who had better knowledge of the specific problems and needs of the peripheral Objective 1 Regions, in order for development to start inside these regions. New regionalism supports the increase of economic competitiveness not on a country-by-country basis, but on a region-by-region basis and highlights the importance of the regions, and as a consequence the importance and necessity of regional development, based on processes such as visioning and strategic planning (Wallis, 2002). In other words, new regionalism favours the bottom-up approach of the EU Cohesion Policy. Thus, we can argue that till 1992 (closure of *Agensud*), regional policy in Italy was opposite to both soft and new regionalism. Since then, we can argue that regional policy in Italy has been conducted according to the principles of both soft and new regionalism.

According to Lizza (2009), there are four main reasons for the different spending capacity amongst the Italian NUTS 2 regions. Firstly, the internal organisation of the regions differs, as only some regions have established specialised structures for

satisfactory SF programming and spending. Secondly, regions and provinces have different institutional capacities in utilising the resources at their disposal in the best possible way. Thirdly, mistakes in the selection of the financial interventions can actually have a negative impact, or even cause problems (interview with Lizza, 2009). Finally, political pressure can lead to an excessive fragmentation of resources, too many interventions being pursued, and possible inappropriate spending and investment of SFs (interview with Lizza, 2009).

In Italy the top-down approach proved to be a failure. Within the *Mezzogiorno*, for many years, this centralised strategy had the practical effect of diminishing local energies, competences and potentials for endogenous growth. Development inside the *Mezzogiorno* regions was not possible, as decisions on development were taken without adequate consultation with regional authorities, resulting into a metropolis-satellite, dependence culture, which gave rise to the opposite results to its initial targets (Baccaro, 2004).

Only in the early 1990s did the Italian government realise that, in order for the South to stop lagging behind, there was a need for area-based operational investment and spending programmes that would be based on the principle of partnership (Baccaro, 2004). Issues such as cooperation, coordination and partnership were innovative for the *Mezzogiorno* (Gambaro, 2004). The development of the *Mezzogiorno* was necessary for the development of Italy and the EU as a whole and for that reason, the increase of territorial competitiveness was of vital significance (Barca, 2001).

The lack of an agency in Italy specifically in charge of the development of the South is due to the fact that in Italy the perception is that development policies should be conducted by ordinary institutions. This fact, on the one hand, has significantly

improved the capacity of the regional institutions in terms of the programming of development policies. On the other hand, in many cases, the additional funds are used in order to satisfy needs which are not covered by ordinary funds. This inevitably leads to difficulties concerning the economic balance. The Regional Operational Programmes (ROPs) have mainly contributed to the increase in the quality of regional programming, due to the fact that they introduce rules concerning operating procedures and processes to the regional organisations. Furthermore, another objective of these programmes is to sustain the innovation capacity of the businesses and firms and to create important infrastructure works. The SFs have significantly contributed to improving the regional administration, but there are still many delays caused by bureaucracy. Therefore, it would be necessary for further modernisation and updating of the administrative instruments to take place. Only recently has there been an increase in cooperation amongst the *Mezzogiorno* NUTS 2 regions. In the past, a competition regime was more evident, but it can be said that a degree of “conflict” still exists (interview with Moro, 2009).

According to De Grandis (2009), there are three main factors that affect expenditure on SFs. SFs spending is mostly linked to a) infrastructures and b) state aids. The former is linked to national and regional sectoral planning, and may differ strongly from one region to another, due also to the plans of the implementing body¹⁵⁷, as well as in the involvement of the private sector, for instance, in the environmental and transport field. It is important to mention that OPs often have a strong incentive in the implementation of projects, if they are well designed. The latter is linked to the potential intake of the productive sector and the habit of local SMEs to apply for grants in order to develop

¹⁵⁷ Such as a national railway company.

projects. Administrative capacity, which can be regarded as a non-bureaucratic approach, is mainly based on the fact that the support given to potential beneficiaries comes from the central body, which can be a management authority, technical assistance, or other horizontal service of the Regional Administration. Administrative capacity plays a key role in developing programmes, notably on the implementation of horizontal aids, or integrated projects, which require an ex-ante involvement of stakeholders in order to be successful (interview with De Grandis, 2009).

Furthermore, efficient control mechanisms¹⁵⁸ are needed so as to deliver satisfactory levels of expenditure. Usually, a strong structure of departments, reporting directly to the President of the regional administration, with a clear political endorsement, are able to act pro-actively and to make the most efficient choices on the ground. Since 2000, the distributive dimension of public expenditure in Italy has been weak and ensured by the SFs (and the Fund for the Underperforming Areas (*FAS*)), whilst the ordinary expenditure has been biased towards the Centre-North. Annual public capital expenditure per capita was systematically lower in the Objective 1 Regions (1.198 euros/year per head), than in the Objective 2 Regions (1.322 euros/year per head), over the period 2000-2005 (interview with De Grandis, 2009).

Notwithstanding the necessary caution when comparing public expenditure across countries, figures suggest that public investment policies were more distributive in Spain, where Objective 1 Regions were characterised by a higher public capital expenditure than the others. According to the latest national data¹⁵⁹, public capital expenditure in the *Mezzogiorno*¹⁶⁰ has declined over the last 10 years (from 38.3% of the total in 1998 to 35.3% in 2007) representing now just about the demographic weight

¹⁵⁸ Such as sample checks, quick cleaning of non-eligible expenditure and recovery.

¹⁵⁹ By SVIMEZ.

¹⁶⁰ Objective 1 + Abruzzo.

of the *Mezzogiorno* and well below the initial target of 45%¹⁶¹. The evolution of the resources devoted to the Cohesion Policy (national + EU, from 73.9% to 78.1%) just balanced out the decrease (from 28.4% to 21.4%) in ordinary public capital expenditure (interview with De Grandis, 2009).

In Italy, the responsibility for spending SFs is mainly carried by the Public Administrations. For the OPs of the Regional Competitiveness and Employment Objective there is an OP for every NUTS 2 region. For the Convergence Objective OPs, besides the NUTS 2 regions, various territorial intervention programmes can be observed, which are carried out by the Ministries. The total amount of the financial resources allocated for each programme depends on the economic situation of each NUTS 2 region. Each administration has a specific political and management system for the realisation of each intervention, which results in different levels of efficiency between regions (interview with Piazzzi, 2009). This difficulty that the *Mezzogiorno* regions faced in spending EU funds had already been identified for the Integrated Mediterranean Programmes (IMPs) in the period 1986-91 (Leonardi, 2005).

During the first two CSF Cycles, there were three SFs (ERDF, ESF and EAGGF). In the third CSF Cycle, the FIFG was added and in the current CSF Cycle the SFs are the ERDF and the ESF. The Funds' intervention areas have been established according to EU rules and principles (interview with Piazzzi, 2009).

In general, there is a high degree of integration amongst the policies of the ERDF and the ESF in the Convergence Objective Regions. In the fourth CSF Cycle, there is a process of stabilisation in terms of the elaboration of the "unified regional policy"¹⁶², in order to facilitate the efficient functioning of a system concerning all interventions in

¹⁶¹ Target in the context of Objective 1/CSF/2000-2006.

¹⁶² *Politica regionale unitaria*.

the same region, which can be of EU, national, or regional nature. This way, the CSF contributes to the integration and the complementarity amongst the various Funds and not only between ERDF and ESF. Policies can be integrated thanks to the realisation of the unified regional policy (interview with Piazzzi, 2009). According to De Luca, Cuccu and Tagle (2009), each of the Funds is managed by a different General Direction within the Commission. This factor partially explains the differences between their intervention policies (interview with De Luca, Cuccu and Tagle, 2009). So far, the first achievements obtained in Italy's Objective 1 Regions¹⁶³ can be observed in the macroeconomic data on employment, water, waste and risk prevention and the creation of an information society¹⁶⁴. Results from territorial actions¹⁶⁵ and major infrastructures, such as transport, are likely to become visible at the end of this implementation period, or in the next couple of years due to a longer implementation period.

In Italy, most of the ESF interventions concentrate on educational activities. Whilst in the Convergence Objective context, the ERDF intervenes in order to create new jobs, and the ESF intervenes in coordination with the ERDF, in the Competitiveness and Employment Objective, the ESF is independent of the ERDF and intervenes for the “therapy” of the categories at risk¹⁶⁶ in order to offer occupations to those who have prematurely abandoned their studies, continuing training of workers and employees and the financing of research scholarships. Even in cases within the Convergence Objective, the ESF has intervened with such actions, similar to those that can be observed and identified in the Competitiveness and Employment Objective context (interview with Piazzzi, 2009).

¹⁶³ In terms of results and not merely output.

¹⁶⁴ For example access to internet and broadband for enterprises, municipalities and households + e-government.

¹⁶⁵ Integrated projects.

¹⁶⁶ For example people who have abandoned their studies, ex-prisoners, etc.

Within the Convergence Objective, besides the ROPs, an Operational Programme (OP) managed by the Ministry of Public Education and Training will take place, including ESF interventions in order to improve the teaching in schools and academic institutions and ERDF interventions for laboratory modernisation and improvements in information technology for classes. Between 1988 and 1993, approximately 90% of the resources offered were invested. Between 1994 and 1999, the percentage was increased, reaching 94%. Between 2000 and 2006, there was a prolongation in terms of the realisation of the ROPs and multi-year integrated programmes until 30 June 2009, due to the economic crisis. By 30 June 2009 the majority of the programmes were carried out by means of the full utilisation of the available resources (interview with Piazzzi, 2009)¹⁶⁷.

De Grandis (2009) argues that the NOPs, the ROPs and the training programmes have indeed contributed to the adequate implementation of the CSF at the national level in Italy. Training was important for ESF and the most successful NOP for the third CSF Cycle was the one on local development, which provided investments for local enterprises. In the second CSF Cycle, the most important NOP was the global grant for the Gioia Tauro port development, necessary in order to build up the most successful and strategic infrastructure possible for Southern Italy in terms of logistics. It is difficult to draw a single conclusion on the whole set of ROPs, as this is a specific subject for evaluation activities. However, certainly the ROPs have shown a strong coherence with the CSF, sharing the same priorities and a common set of indicators (interview with De Grandis, 2009).

¹⁶⁷ The aim of Piazzzi is to analyse in detail the complicated role of ERDF and ESF in combination with the role of the NOPs and ROPs in the context of Regional Policy in Italy and particularly in the problematic fields of education, training and job creation.

Both during the third CSF Cycle and the current programming period, the level of responsibility for the management of SFs is based on the capacities and competence attributed to the State and the Regional Administrations by the Italian Constitution. In the Competitiveness and Employment Regions¹⁶⁸, 100% of the resources is allocated to the regions, whilst in the Convergence Objective territory, approximately 70% of the resources are being managed by the Regional Administrations and 30% by the Ministries¹⁶⁹. Once the resources are determined on a competence basis, the operational programmes are elaborated through an open process based on partnership. According to Piazzì (2009), the fact that the institutional and socio-economic partnership participates in the elaboration of the OPs makes us argue that the programmes follow a more bottom-up, decentralised regional development approach. Once the programmes are adopted by the Commission and the programme surveillance committees, decisions concerning the projects' selections are taken by consensus. This method permits the following of the criteria of admission and evaluation, which are coherent with the needs of the civil society (interview with Piazzì, 2009).

De Grandis (2009) argues that a mix of bottom-up¹⁷⁰ and top-down¹⁷¹ approaches has been ensured by integrated projects in the ROPs (interview with De Grandis, 2009). Lizza (2009) argues that the programming for regional development substantially follows the bottom-up approach, despite the fact that some politicians and authorities in charge of the development policy favour a return to the top-down approach¹⁷². The economic gap amongst the Italian NUTS 2 regions certainly continues to exist despite

¹⁶⁸ ERDF and ESF intervention areas.

¹⁶⁹ Particularly those in charge of Transport, Internal Affairs, Research and University, Public Education and Training.

¹⁷⁰ Partnership/needs/specific projects.

¹⁷¹ Regulatory framework/scoping.

¹⁷² Where the national government would again play a significant role in the programming and management of funds.

the SF allocations. According to Lizza (2009), in order for the gap to close, it is necessary to create the right combination of help for the business sector¹⁷³ and territorial investments¹⁷⁴. During recent years the tendency of the policy makers has been to decrease assistance and increase investments (interview with Lizza, 2009)¹⁷⁵.

Table 5.1 below measures the administrative capacity of Sicilia and Basilicata. This is defined by a) management¹⁷⁶, b) programming¹⁷⁷, c) monitoring¹⁷⁸ and d) evaluation. Regional governments measure capacities in order to gain knowledge about the output¹⁷⁹. As soon as the resources are implemented they must produce a result¹⁸⁰ that can be measured in GDP growth terms¹⁸¹ (Milio, 2007). Administrative capacity is closely linked to both impact outcome and GDP growth.

Sicilia and Basilicata were chosen because Sicilia is an example of low fund implementation, whilst Basilicata is totally the opposite. Sicilia is a peripheral region, whereas Basilicata is a semi-peripheral one¹⁸². Data collection was based on document analysis, interview data and direct observation (Milio, 2007).

Table 5.1
Regional Administrative Capacity (2000-2006)

Administrative capacity	Sicilia	Basilicata
1. Management	1	3
2. Programming	1	3
3. Monitoring	1	2
4. Evaluation	2	3
Total Average	1.25 (Starting)	2.75 (Consolidated)

Note: There are four identified progressive stages of administrative capacity (with their scoring band): a) Absent (0-0.5), b) Starting (0.6-1.5), c) Developing (1.6-2.5) and d) Consolidated (2.6-3).

Source: Milio, 2007, p. 439.

¹⁷³ Tax credit and occupation incentives.

¹⁷⁴ Public works, infrastructure, environment, research and innovation.

¹⁷⁵ Lizza, Piazzì and De Grandis refer to these details in order to link the role of the NOPs and ROPs with the target of the decentralisation of Regional Policy in Italy.

¹⁷⁶ According to the managing authority.

¹⁷⁷ According to the ROPs and the identification of priorities and measures for converting certain objectives into interventions in which to invest the available funds.

¹⁷⁸ According to a system of coherent and adequate information gathering.

¹⁷⁹ The quantitative implementation of resources measured by the expenditure rate.

¹⁸⁰ Institutional outcomes.

¹⁸¹ This is the second relationship.

¹⁸² According always to dependency theory and taking into account only economic variables.

In Sicilia, management, programming¹⁸³ and monitoring are still weak. A lack of funding requests created several difficulties in the definition and implementation of projects, which made the spending of resources very difficult. Evaluation is developing, but the ex-ante evaluation in Sicilia covers just a few intervention areas (Milio, 2007). By contrast, in Basilicata¹⁸⁴ management, programming and evaluation are consolidated, whilst monitoring is developing. The establishment of the central coordination body in order to ensure more effective cooperation amongst the administrative departments, the absence of delays in programme approval and the fact that between 1994 and 1999, Basilicata was the only *Mezzogiorno* region to spend its entire SFs allocation justify its high level of development and administrative capacity (Milio, 2007).

The semi-peripheral regions of Abruzzo, Molise and Basilicata prove that the bottom-up approach can be successful, due to efficient three-level cooperation. Nevertheless, in peripheral regions such as Campania, Calabria and Puglia, the bottom-up approach has also been put into practice with less encouraging results. The OPs in Italy are divided between those implemented by regions and those by the Italian government. During the first two CSF Cycles, the division between regional and national OPs was 50%-50%. In the third Cycle, 70% of funds were transferred to the regional level (Leonardi, 2003). This shift reveals the attempts at the decentralisation of the regional policies in Italy.

In Italy, the annual average impact of the 1994-1999¹⁸⁵ support on growth was calculated as an additional 0.45%-1.69% for six Objective 1 Regions during 1999-2005, with an increasing impact of 3.96%-6.13% (Percoco, 2005). Increases in GDP of up to 1.8% were calculated in the *Mezzogiorno* (Bachtler and Gorzelak, 2007). The EU

¹⁸³ Both programme design and programme approval.

¹⁸⁴ The first case study of the thesis.

¹⁸⁵ Second CSF Cycle.

Cohesion Policy has indeed had a positive impact, but without national and private contributions, regional economic development would have been impossible.

Introduced in early 2000, Territorial Employment Pacts (TEPs) were a step forward towards regional economic convergence and development in the *Mezzogiorno*. These were selected and monitored by the Commission, according to a standard set of rules. They were good examples of development programmes based on the principle of partnership and favoured a less centralised, bottom-up approach. Their target was the reduction of unemployment and the increase of employment (Milio and Simoni, 2004). The TEPs were the EU-funded version of the *Patti Territoriali* (early 1990s), which were local partnerships between private and public actors that took place in peripheral areas of the *Mezzogiorno* and were funded by the central government (Baccaro, 2004:V).

Furthermore, the introduction of the TEPs facilitated EU Regional Policy for two more reasons; firstly, the Commission provided significant resources and valuable technical support in order for the TEPs rules and regulations to be followed easily and efficiently; and secondly, financial resources for TEPs “*were set aside in bulk, thus each TEP only had to follow the set procedural rules*” (Gambaro, 2004:21) in order to receive funds. The TEPs procedure was efficient mainly due to its transparency in both rules and funding.

There were nine TEPs¹⁸⁶ concerning the Objective 1 Regions¹⁸⁷. In their study, Milio and Simoni (2004) interviewed national actors, such as trade unions and employers’ organisations officials and they all argued that the TEPs were indeed successful. Table 5.2 below shows the TEPs in Italy for Objective 1 Regions. The

¹⁸⁶ They took place in the regions of Campania, Sicilia, Sardegna, Puglia, Abruzzo and Molise.

¹⁸⁷ There was one more for an Objective 2 Region.

unemployment rate in all the areas with the exception of Sangro Aventino is higher than 18%.

**Table 5.2: Territorial employment pacts in Italy (Objective 1)
Descriptive Data and Unemployment Rates**

Pact	Inhabitants	No. Municipalities	Unemployment Rate
Napoli Nord Est (Campania)	274,330	9	28.85%
Agro Nocerino Sarnese (Campania)	252,084	11	40%
Alto Belice Corleonese (Sicily)	121,855	20	19%
Calatino Sud Simeto (Sicily)	151,971	15	38.83%
Catania Sud (Sicily)	333,075	1	33.50%
Matese (Molise)	137,829	57	20%
Nord Barese Ofantino (Puglia)	358,427	9	25.80%
Oristano (Sardegna)	158,043	78	26.91%
Sangro Aventino (Obj.1 and 2) (Abruzzo) ¹⁸⁸	133,000	59	9.40%

Sources: Gambaro, 2004, p. 40.

Table 5.3 below is very important in order to explain regional institutional and administrative capacity problems in Italy. Regional institutional and administrative capacities are closely linked with the ability to spend the SFs allocated. Inability to spend SFs means lack of regional institutional capacity. Table 5.3 reveals the percentage of SFs expenditure in the Objective 1 context as expenditure/total allocation and we can observe that during the first CSF Cycle the percentage of the Italian Objective 1 Regions was extremely low (73%) and in the second CSF Cycle it was even lower (67%). The situation became worse during the third CSF Cycle (60% until December 2006) (Milio, 2010). This information makes us argue that administrative capacity in the Italian Objective 1 Regions has been ineffective and has remained incomplete, as Italian regions suffered important implementation difficulties in the CSF context.

¹⁸⁸ Sangro Aventino was not co-financed by EU funds because, at that time, Abruzzo had exited Objective 1. Nevertheless, it benefited from EU technical assistance.

Table 5.3
Percentage of SF Expenditure (% of expenditure is calculated
as expenditure/total allocation)-EU Objective 1

First CSF Cycle (1989-1993)	
Member states	%
Ireland	95
Portugal	91
Spain	87
Greece	84
France	84
UK	83
Italy	73
Second CSF Cycle (1994-1999)	
Member states	%
Portugal	89
Ireland	87
Spain	82
Denmark	81
Austria	77
Greece	73
Belgium	72
France	67
Netherlands	67
UK	67
Italy	67
Third CSF Cycle (2000-2006) (until December 2006)	
Member states	%
Ireland	82
Sweden	79
Germany	77
Spain	75
Portugal	75
Austria	74
Finland	72
Netherlands	72
Belgium	66
UK	66
France	64
Italy	60
Greece	53

Source: Milio, 2010, p. 27.

Table 5.4 below provides information on the SF expenditures within the *Mezzogiorno*. Sicilia received the highest amount during all three CSF Cycles, but is still included in the Convergence Objective.

Table 5.4
Total SFs in the Italian Objective 1 Regions (in millions of euros)

Region	First CSF Cycle (1989-93)	Second CSF Cycle (1994-99)	Third CSF Cycle (2000-06)
Molise	344	616	618
Abruzzo	593	-	-
Campania	1,617	3,091	9,247
Puglia	1,027	2,645	6,695
Basilicata	768	1,272	1,614
Calabria	1,156	1,911	5,302
Sardegna	1,087	1,816	4,671
Sicilia	1,687	3,194	10,279

Source: Leonardi, 2005, pp. 131-132.

Table 5.5 below summarises the spending capacity of the Italian Objective 1 Regions. Basilicata had the highest expenditure rate during the first two CSF Cycles and reached 100% during the second one. Abruzzo also reached 100% during the second Cycle. Basilicata is currently a “Phasing-Out” Region, whilst Abruzzo officially exited Objective 1 in the end of 1996. However, during the third CSF Cycle, the percentage of SFs expenditure was lower for all Italian Objective 1 Regions, compared to the previous Cycles, and this shows difficulties in the implementation of the CSF framework, which reveals institutional capacity problems of the regional administrations.

Table 5.5
Percentage of SFs Expenditure-Italian Objective 1 Regions (in %)

First CSF Cycle (1989-93)	Second CSF Cycle (1994-99)	Third CSF Cycle (2000-06) until December 2006
Basilicata 92	Basilicata 100	Basilicata 64
Abruzzo 80	Abruzzo 100	Abruzzo -
Molise 77	Molise 99	Molise 73
Sardegna 77	Sardegna 92	Sardegna 63
Calabria 80	Calabria 84	Calabria 64
Campania 62	Campania 80	Campania 51
Puglia 64	Puglia 77	Puglia 55
Sicilia 57	Sicilia 75	Sicilia 46

Note: Abruzzo exited Objective 1 at the end of 1996 and Molise at the end of 2003.

Source: Milio, 2010, p. 28.

The evidence above shows that the Italian regions under spent the SFs they had been allocated with the exception of Basilicata and Sardegna in the second Cycle. In

terms of the first Cycle ¹⁸⁹, the Commission prolonged the period allocated for expenditure, firstly to 1996, then to the end of 1996 and then to 31st December 1997.

One of the most important actions for regional economic development was the OP for Education and Training “*La scuola per lo sviluppo*” that took place in the Italian *Mezzogiorno* during the third CSF Cycle. The Commission co-financed this multiregional programme for education and training. Two thirds of the amount was covered by the EU and the remaining third by the Italian public sector. The ERDF and the ESF were in charge of funding (Info regio Europa, 2009i).

The OP for Education and Training concentrated on seven sub-areas; a) the adaptation of the education system (ESF), b) new technologies in order to aid teaching methods (ERDF), c) measures in order to reduce the number of pupils leaving school early and to rehabilitate those who had already abandoned school (ESF), d) infrastructure in support of educational and social inclusion (ERDF), e) higher level training (ESF), f) life-long learning (ESF), g) the support and promotion of educational and training choices in order to facilitate the access of females into the labour market (ESF) (Info regio Europa, 2009i).

Table 5.6
Breakdown of Finances by Priority Area and Funds in the *Mezzogiorno* (2000-2006)

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)
Improving the quality of education and development of the knowledge-based, information society	812,214,384	524,623,969
Technical assistance	17,800,187	12,460,031
Total	830,014,571	537,084,000 [ERDF contribution 109,816,000 (20.45%) and ESF contribution 427,268,000 (79.55%)]

Source: Info regio Europa, 2009i.

In the following sections there is a critical analysis a) of the economic profile of each of the four regions and b) of the regional plans and projects that have so far taken

¹⁸⁹ 1989-1993.

place, with comments on their efficiency. According to dependency theory and based only on economic variables, we can argue that Basilicata is a semi-peripheral region, whilst the other three are peripheral ones. The question is whether EU Regional Policy has so far had a positive impact in the economies of such regions. The answer is that the SFs have indeed had a positive impact on all four regions, but it was not possible for all the 2000-2006 Objective 1 Regions to be excluded from the Convergence Objective. This progress may be evident by the end of the current Cycle (2007-13), when the remaining peripheral Convergence Regions¹⁹⁰ may exit the Convergence Objective.

5.3-REGIONAL ANALYSIS

5.3.1-BASILICATA (Part of Objective 1 till 2006. “Phasing-Out” Region for the 2007-2013 Cycle)

The fact that Basilicata is a “Phasing-Out” Region means that it has exited the Convergence Objective due to the statistic effects of the EU Enlargement and not necessarily due to its significant economic development. However, we can argue that in terms of spending capacity and economic performance according to GDP, employment and unemployment rates, it is in a better position compared to the current Italian Convergence Objective Regions. Therefore we will characterise Basilicata as a semi-peripheral region. In 2009, the population of Basilicata was 588,879 people (ISTAT, 2011).

In order to justify that the state of “regions in balance” offers opportunities, we assume a medium-term prospective: during the 1990s in fact, the macro-economic profile of Basilicata shows that there was a significant reduction in its dependency on external transfers and consuming incidence in terms of the GDP. At the same time, there was a steady increase in its capacity to create internal reserves and capital

¹⁹⁰ Calabria, Campania, Puglia and Sicilia.

accumulation. Everything took place in a wider context of relations with the external markets, characterised by a substantial closure of international investments¹⁹¹. This economic strategy was also combined with strong exports, mainly in the automotive sector¹⁹² (interview with Lavieri, 2009).

The economic development improvements of the 1990s were followed by a relative decrease, mainly due to the negative economic situation at both national and global levels. At the regional level, there was a significant slow down in the manufacturing sector¹⁹³ and an unsatisfactory diversification and in some cases a contraction of the tertiary sector, in particular new professions and advanced technology. This slowing down of economic growth in the 2000s was caused by: a) the interruption of the process of convergence in terms of per capita GDP and b) the insufficient dynamics of the labour market. The GDP increase, in association with a population decrease, led to a sustainable GDP increase during the 1990s. This evolution undoubtedly underlined a positive economic aspect, which was visible in the improvements in the quality of life of the inhabitants of Basilicata. Nevertheless, this evolution resulted in an impoverishment of human resources, due to the outward flow of the labour force from Basilicata towards other core regions (interview with Lavieri, 2009).

Labour market dynamics in Basilicata are not sufficiently vibrant; of particular concern is the women's rate. There has been a very slow increase in the employment rate. Within the "grey" universe of unemployment and part-time employment, the situation is worse for the older groups within the labour force, which are considered to be the tough base of long-term unemployment. The recourse towards atypical

¹⁹¹ Basilicata is an attractive region for international investments.

¹⁹² Automotive districts.

¹⁹³ Processes of significant de-industrialisation and closure of the productive installations after the earthquake and numerous difficulties in the departments in charge of the production of cars.

employment remains stable, but incidences of “illegal” employment are still increasing. In the end, this situation confirms the fact that the economic system of Basilicata is going through a rather difficult phase in terms of absorbing the qualified and “professionalised” labour supply, which is provided every year¹⁹⁴ by the regional system of education (interview with Lavieri, 2009).

-Regional economic statistics

The activity rate in 2008 was 43.5% (Eurostat, 2010b). The male activity rate was 57.3% in 2002, the lowest in Italy, whereas the female activity rate was almost the lowest, slightly higher than that of Puglia and Campania (Europa, 2004d). The employment rate was also one of the lowest in Italy (38.7% in 2008) and (35.8% in 1999), but the second highest after Sardegna amongst the third CSF Cycle Italian Objective 1 Regions. It was also much lower than both the national (45.9%) and the EU average (53.7%). The 2.9% increase between 1999 and 2008, though, shows development (Eurostat, 2010d).

During the last decade there has been a significant decrease in employment in the agricultural sector. In 2002, employment in the agricultural sector was 10.4%, still much higher than the national average (5%) and this showed that Basilicata was still highly dependent on agriculture. At the same year, the employment rate in the industry sector was 33.5%, higher than the national average (31.8%). One third of this percentage was employed in the building sector (national average 16.6%). In the same year, the employment rate in the service sector was 56.5%, lower than the national average (63.2%) and the sector included 104,000 jobs (Europa, 2004d).

¹⁹⁴ To the labour market.

The unemployment rate in 2008 was 11.1%, (17.1% in 1999), higher than both the national (6.7%) and the EU average (7%). However unemployment dropped by 6 percentage points between 1999 and 2008, which is a sign of development (Eurostat, 2010i). In 2008, the regional GDP per capita of Basilicata represented 75% of the EU 27 average (81.9% in 1996) (Eurostat, 2010g).

In 2000, Basilicata's contribution to Italy's GVA was below 1%. In the same year, the share of GVA generated by agriculture¹⁹⁵ was indeed the highest in the country (6.8%) and this shows again the importance of this sector for the regional economy. In 2000, the share of GVA generated by industry was 27.1% (Europa, 2004c).

The manufacturing sector contributes to the secondary sector GVA with approximately 64% of the total, whereas the building sector contributes 24%. The main activities of the service sector (GVA) include business activities, distributive trade, education and public administration. In recent years, new sectors, such as manufacture, transport equipment, furnishing and oil extraction have been developed. Basilicata has many natural attractions, but tourism is underdeveloped mainly due to poor transport facilities (Europa, 2004c).

In Basilicata, agricultural processing¹⁹⁶ has created more jobs than the industrial or service sectors. The local manufacturing system includes large companies with a core of SMEs, mainly focused on agro-food, furniture and automotive (Info regio Europa, 2009c; Info regio Europa, 2009k).

During 2005, the economy of Basilicata was characterised by a slow growth of domestic demand, mainly because of a decrease in its households' consumption capacity. There was an increase in agricultural output and a slight increase in

¹⁹⁵ Sowables and particularly wheat represent 46% of the total land. Potatoes, maize, olives and wines are the most important agricultural products of the region.

¹⁹⁶ Fruit, vegetables and zoo-technical products.

manufacturing input. Exports of cars and furniture, which are the main industries of Basilicata abroad, were reduced. The construction sector, and more specifically the branch in charge of public works suffered difficulties. The services sector performance could be characterised as positive, retail sales were decreased, but tourism was increased. Employment fell, mainly because of a decrease in self-employed workers and the unemployment rate decreased, even though it remained above the national average (Bank of Italy/Basilicata 2005, 2010).

In 2006, regional economic activity increased compared to 2005 due to the domestic demand recovery in terms of consumer expenditure and investments in building. The region's exports also increased after three years as a result of an upturn in the transport equipment industry. Industrial input was similar to that of 2005, but the construction industry was characterised by significant performance in the property market and the recovery of public works. Retail sales increased, but tourism fell. Agriculture value added also dropped and there was a 2.3 percentage points increase in employment due to the service sector and building industry. Unemployment contracted due to migration to the Central and Northern areas (Bank of Italy/Basilicata 2006, 2010).

The Commission co-financed the 2000-2006 ROP for Basilicata through the ERDF (mainly), the ESF and the EAGGF (Info regio Europa, 2009c).

Table 5.7
ROP for Basilicata (2000/06)
Breakdown of Finances by priority area in Basilicata

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Natural resources	297,028,000	148,514,000	297,028,000
Cultural resources	68,170,000	34,085,000	68,170,000
Human resources	481,490,000	240,745,000	481,490,000
Local development systems	560,850,000	280,425,000	560,850,000
Cities	86,368,000	43,184,000	86,368,000
Networks and service hubs	186,518,000	93,259,000	186,518,000
Technical Assistance	15,646,000	7,823,000	15,646,000
Total	1,696,070,000	848,035,000 [ERDF contribution 433,885,000 (51.16%), ESF contribution 220,900,000 (26.05%) and EAGGF contribution 193,250,000 (22.79%)]	1,696,070,000

Source: Info regio Europa, 2009c.

The highest total cost (560,850,000 euros) can be observed in the context of local development systems (promotion in specific areas and districts to new companies and enterprises, and support for the demand for qualified services). The second highest (481,490,000 euros) can be seen in terms of human resources (Info regio Europa, 2009c).

On 7/12/07, the Commission adopted the operational programme for Community assistance (2007-2013) (ERDF) as a transitional support for the Convergence Objective for Basilicata, with a total cost of 752.18 million euros (EU contribution 300.87 million euros) (Info regio Europa, 2009k).

Table 5.8
Community assistance from the ERDF under the Convergence Objective/OP Basilicata (2007/13)

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Accessibility	46,400,000	69,600,000	116,000,000
Knowledge society	35,200,000	52,800,000	88,000,000
Competitiveness of production	31,800,000	47,700,000	79,500,000
Exploitation of cultural and natural assets	32,800,000	49,200,000	82,000,000
Urban systems	29,800,000	44,700,000	74,500,000
Social inclusion	39,200,000	58,800,000	98,000,000
Energy and sustainable development	74,400,000	111,600,000	186,000,000
Governance and technical assistance	11,274,549	16,911,824	28,186,373
Total	300,874,549	451,311,824	752,186,373

Source: Info regio Europa, 2009k.

Around 57% of the funding for this Programme will be in line with the objectives of the Lisbon Strategy. The programme aims to improve research, technology transfer¹⁹⁷, innovation and entrepreneurship. Special attention will be given to manufacturing and agri-foods. Relations between SMEs and the banking system are expected to be improved and tourism should be supported. The estimated impact of the Programme is the creation of 8,000 jobs, an increase in expenditure by public and private enterprises in the R&D sector (from 0.20% to 0.35% of the Local Industrial Product) and an increase in the number of patents registered with the European Patent Office (from 9.3 to 38 per million inhabitants). The exact number of enterprises with broadband access is expected to increase from 50 to 85 and the proportion of electricity consumption from renewable energy sources to increase from 15.9% to 18% (Inforegio Europa, 2009k). In Basilicata, one of the main agents for economic development is the establishment of a central coordination body in charge of optimising collaboration between different departments and clarifying certain individual roles. This creation is part of the regional administration policy and facilitated the implementation of the EU SFs guidelines (Milio, 2007).

-Institutional capacity

The regional administration of Basilicata is divided into seven main administrative departments in charge of a) Presidency, b) Health and Security, c) Infrastructure and Public Works, d) Training and Employment, e) Productive Activity, f) Environment and g) Agriculture and Rural Development (Regione Basilicata, 2011a). The department of Presidency is mainly responsible for the coordination and management of the EU policies (Regione Basilicata, 2011b). Also, the department of Training and Employment

¹⁹⁷ Particularly between university public research centres and enterprises.

is in charge of the cooperation between the EU and the Mediterranean area (Regione Basilicata, 2011c).

The spending capacity of Basilicata (in percentage of SFs expenditure) was 92% during the first CSF Cycle, 100% during the second CSF Cycle, but only 64% during the third CSF Cycle (until December 2006) (Milio, 2010). Basilicata had the highest spending capacity amongst all the Italian Objective 1 Regions during the first two CSF Cycles (matched only by Abruzzo during the second Cycle), but its low spending capacity during the third CSF Cycle, compared to the previous two CSF Cycles, shows that there were regional institutional capacity problems regarding the CSF implementation (Milio, 2010).

The fact that between 1994 and 1999 the expenditure rate was 100% is evidence of Basilicata's indeed had a satisfactory institutional capacity building. Institutional capacity is closely linked with spending (or absorption) capacity due to the fact that the latter is an instrument for measuring the degree of implementation of the CSF by the regions. So we can argue that a high spending capacity, expressed in a high percentage of SF expenditure, is an indicator of satisfactory regional institutional capacity.

The regional administration of Basilicata has established significant competencies in the areas of professional and vocational training, education, life-long training, labour policies, cultural activities and services and the Euro-Mediterranean cooperation. The regional administration of Basilicata is a partner of the National Employment Services and has created Regional Employment Centres within the region. It has also successfully implemented numerous ESF projects towards the updating and improvement of employment services. The Employment Information Network (*Basilicata Lavoro*) of the Regional Employment Centres contributes to research

activities in terms of education in the area of linguistics. The effective implementation of regional policies in the context of linguistic training is important, due to the fact that linguistics can be linked with important labour fields for the regional economy of Basilicata, such as tourism (Lilama Network, 2011).

During the third CSF Cycle, it can be said that in terms of sustainable development, the institutional and programming objectives, particularly concerning water, refuse and protected areas, have in general been followed. The human capital evaluation policies can be regarded as very successful, but the active labour policies have not generated new occupational opportunities (interview with Lavieri, 2009).

The national policies for the *Mezzogiorno* before the reform of the SFs can be categorised into two main sub-periods. The first was the period before the institution of the regional administrations. It essentially concentrated on investments in public infrastructures, planned and implemented by an ad-hoc body, *CASMEZ*, which was supposed to be in charge not only of the strategic planning functions and the additional resources, but also of the adequate technical and practical competence. The second period was the one that began after the institution of the regional administrations. Problems and difficulties soon appeared mainly due to two reasons; a) there were several difficulties concerning industrial and infrastructure policies and b) there was a fundamental problem in terms of cooperation and coordination amongst regional administrations and *CASMEZ*. The beginning of the multifunded ROPs temporarily coincided with the “Phasing-Out” of the ad-hoc intervention in the *Mezzogiorno* undertaken by *CASMEZ* (interview with Lavieri, 2009).

The financial dimension of the mobility of resources, the plurality of the productive and economic sectors where intervention took place, the long¹⁹⁸ nature and implementation of the programme, and the need to introduce innovations in management and operations and a dedicated administrative system, are all factors, which during the years have contributed to increase the significance and incidence of the programmes which were co-financed by EU resources in the context of regional development policies. Within the SFs, Basilicata has carried out significant a) sectorial programmes¹⁹⁹, b) sectorial integrated projects²⁰⁰ and c) territorial integrated projects²⁰¹. The SFs have acted as a significant assistance in various intervention cases, such as information society, research and innovation and local development (interview with Lavieri, 2009).

During recent years and due to the negative economic situation, Basilicata, just like the other *Mezzogiorno* regions, is reviewing its migration trends towards the more advanced regions. The innovative characteristic of this migratory tendency, in comparison with that of the 1950s and the 1960s is that the labour force migrating from Basilicata is young and qualified (interview with Lavieri, 2009)²⁰².

In order to contest this process of decreasing regional human capital, the regional administration of Basilicata, during recent years has established an ambitious project, which includes a variety of actions, such as training, occupational and experience opportunities. The aim of this project is to keep the new generations in the region. The

¹⁹⁸ In a time context.

¹⁹⁹ Programmes covering the areas of productive competitiveness, water integration cycle, urban refuse elimination, rural development, forestation, occupation training, research and building of schools.

²⁰⁰ In the areas of internationalisation and information society.

²⁰¹ Local development and urban systems.

²⁰² This outflow is causing a loss of precious human capital, both of a professional nature (better work and training prospects) and concerning life style. It is not surprising that young people who are registered in Universities in more attractive cities wish to stay in environments that offer more job prospects.

efficiency of the administrative organisations is in direct relation to the implementation policies. A good example is the SFs. There have been several complications in terms of passing from multi to mono-funding, and it has also been difficult to simplify the management of the community programmes, since this would lead to an increase in negative externalities, such as administrative, organisational, procedural and realisation costs. An efficient ad-hoc monitoring and controlling system and satisfactory management of both internal and external governance are necessary in order for programmes co-financed by EU resources to take place without problems (interview with Lavieri, 2009).

The monitoring procedure is an important instrument of policy evaluation. The necessary condition for it to work is the establishment and diffusion of an evaluation culture, which has to take into account not only the traditional issues of monitoring²⁰³, but also issues related to strategic and programming monitoring, such as the monitoring of objectives. The evaluation process should function in a repetitive and periodical manner in order to guide the programme efficiently towards achieving the programmed results (interview with Lavieri, 2009).

Monitoring activity²⁰⁴ is in close relation with the evaluation activity. Both ex-ante/itinere and ex-post evaluation is very important in the surveillance system of a programme. In the final course of the ROP 2000-2006, there was confusion in the monitoring process, due to insufficient evaluation procedures. This confusion led to the establishment of a complex grading system for the originally formulated programme and resulted in the elimination of many intervention measures, the introduction of other

²⁰³ Such as financial, physical and procedural monitoring.

²⁰⁴ Both ordinary and strategic.

measures and the alteration and re-establishment of others (interview with Lavieri, 2009).

All that was required for years was action to reinforce the administrative capacity of the public sector. This strategy should be concentrated on the following objectives; a) inclusion of the institutional capacity of regional entities in activities concerning the programming and strategies of the unified regional policy within the EU, national and regional components, b) reinforcement of the administrative capacity of the regional entities in management and implementation of the policies benefited by the SFs, including increasing the professional competences of the personnel involved, c) increase of the institutional and administrative capacity of the territorial and functional autonomies, including extension to details of the technical and professional competences²⁰⁵, d) activation of evolutionary forms of public-public and public-private partnership, by promoting and accompanying the partnership management of projects and interventions, and e) evaluation of the bringing of private operators into the design and realisation of a unified regional policy²⁰⁶ (interview with Lavieri, 2009).

In Basilicata, administrative capacity has become a strategic resource by which a great deal of the activation and realisation of the EU programme is based. For that reason, the more recent OPs have included interventions of technical assistance for the administration systems (interview with Lavieri, 2009).

We have to be cautious and critical when assessing the opinions of Lavieri regarding both the economic situation and the future prospects of Basilicata. It is acceptable that several attempts for regional economic development have indeed taken

²⁰⁵ In the context of EU resources management.

²⁰⁶ This application is based on the principle of horizontal subsidiarity through processes of responsibility taking by the private operators and the promotion of innovative forms of auto-organisation of consumers/receivers.

place and Basilicata has exited the Convergence Objective, but we should not forget that this exclusion was a statistic effect result. Basilicata exited the Convergence Objective as a “Phasing-Out” Region, meaning this happened because of the EU Enlargement and not necessarily due to its significant regional economic development. We have to admit that Lavieri is more descriptive than over-optimistic about the economic situation in Basilicata, and we have to acknowledge that in terms of spending capacity Basilicata is in a much better position compared to the other three Italian case studies of our thesis (Calabria, Puglia and Campania).

Between 1994 and 1999, Basilicata was the only region to spend its entire allocation and this success can also be attributed to the efficiency of the monitoring system which has offered important data that have enabled the regional administration to keep expenditure under control and correct any problems through intervention (Milio, 2007). The semi-peripheral region of Basilicata is familiar with the practice of evaluation and the regional administration of Basilicata bases many of its actions on the evaluation results (Milio, 2007). Administrative capacity in Basilicata is satisfactory, unlike in peripheral Calabria, Campania, or Puglia.

The conclusion is that Basilicata, despite exiting the Convergence Objective as a “Phasing-Out” Region, has the potential to become one of the most prosperous NUTS 2 regions in the *Mezzogiorno* due to its efficient local manufacturing system, the satisfactory operation of the SMEs and its opening up to the outside world, alongside the effective practice of the ROPs.

5.3.2-CALABRIA (Convergence Objective Region for the 2007-2013 Cycle)

Calabria can be regarded as a peripheral region. It has indeed received a significant amount of funds from both the EU (SFs) and the Italian government (interview with

D'Orio, 2009). In 2009, the population of Calabria was 2,009,330 people (ISTAT, 2011). Between 2006 and 2007, Calabria was the poorest NUTS 2 region in Italy and it is worth mentioning that the income of an inhabitant of the richest region (Valley D'Aosta) was on average 2.6 times higher than that of an inhabitant of Calabria (interview with Pupo, 2010).

-Regional economic statistics

In 2008, the activity rate of Calabria was 39.7%, the lowest in the *Mezzogiorno* (Eurostat, 2010b). The male activity rate (2002) was 58.6%, whilst the female one was 32.3% (Europa, 2004f). The employment rate in 2008 was 34.9%, (31.7% in 1999), the lowest in Italy and much lower than both the national (45.9%) and the EU average (53.7%), however its 3.2% increase between 1999 and 2008 shows development (Eurostat, 2010d).

The female employment rate (2002) was approximately 12% lower than the national average (20.8% in Calabria, whilst the national average was 44.4%). In 2002, the share of employment in agriculture was 12.3%, twice the national average. This shows that Calabria is highly dependent on agriculture. Calabria is the region with the highest number of employees in agriculture in Italy, despite the fact that the share has dropped (by 5.3%), from 105,000 persons in 1993 to 71,000 persons in 2002. In Calabria there has been a shift from agriculture to the industrial and service sectors, but still the share of employees in agriculture is very high. In 2002, the industrial sector share was the lowest in Italy (19.9%). In the service sector, the share in 2002 was 67.7%, higher than the national average (63.2%) (Europa, 2004f).

In 2008, the unemployment rate of Calabria was 12.1%, (28% in 1999), higher than both the national (6.7%) and the EU 27 average (7%), but the 15.9% drop that occurred

between 1999 and 2008 shows development (Eurostat, 2010i). In 2002, youth unemployment (below 29 years) was the highest in Italy (48.4%). The same year, the male unemployment rate was 18.1%, higher than the national average (7%) and the female unemployment rate was 35.7%, again much higher than the national average (12.2%), and the highest in Italy. In 2002, approximately 61.8% of unemployed persons were in long-term unemployment²⁰⁷ and almost 50% of the young people currently searching for a job had only a secondary school education level. In 2002, fixed term employment in Calabria accounted for 522,000 persons, whereas part-time employment accounted 49,000 persons. The fixed term and part-time employment share in Calabria was similar to the national average (91.4% and 8.6% respectively in 2002) (Europa, 2004f).

In 2007, Calabria's regional GDP per capita represented 65.8% of the EU 27 average (72.3% in 1996) (Eurostat, 2010g). In 2001, Calabria's contribution to the GVA of Italy was approximately 2.2% of the national total. In 2001, the GVA share generated by agriculture²⁰⁸ was 5.8%, by industry 16.4% and by the service sector 77.8%. The main characteristic of Calabria is the high fragmentation of the farm structure. In 2000, holdings of less than two hectares amounted to 69% of the total. In 2001, the GVA contribution of the manufacturing²⁰⁹ sector reached approximately 7.2%. The building sector GVA contribution (2001) was approximately 6.3%. The service sector GVA contribution (2001) was 28.8%. Education and public administration are this sector's main activities. In 2001, tourism²¹⁰ contributed 3.3% to the GVA. Between 1995 and

²⁰⁷ More than 12 consecutive months.

²⁰⁸ Olives and seed crops (wheat/citrus fruit) are Calabria's most important agricultural products.

²⁰⁹ The most important branches of the manufacturing sector are foodstuffs, beverages and tobacco.

²¹⁰ Tourism is a potential resource for development in Calabria, but Calabria's economy is not heavily based on tourism.

2001, there was a 40.6% increase in the tourism sector GVA and the tourist structure has been developing (Europa, 2004e).

The regional administration of Calabria pursues a policy of encouraging Calabrian emigrants living abroad to either return and stay permanently in the region, or to make investments in the region. Business activities in Calabria are mostly small-scale industry or firms. Large firms are limited and industrial development is mainly stimulated by governmental intervention. The main economic strength of Calabria is in the agro-food industry potential, the development of IT activities, particularly during the last 10-12 years, the creation of a container port in Gioia Tauro, and tourism²¹¹ (IRE Network/Calabria, 2010).

Calabria's economy is characterised by a high level of unemployment and a cultural heritage in need of improvement (Inforegion Europa, 2009d). Calabria is considered to have great economic and manufacturing development potential, but its high unemployment and its decrease in gross production, particularly between 2003 and 2004, are the main obstacles to regional economic development and convergence. It can be argued that *“as a whole, innovation remains scarce since the regional system is characterised by marginal and specialised enterprises, typical of a predominantly local market economy”* (IRE Network/Calabria, 2010:1).

Between 2005 and 2007, the construction industry gave a significant boost to the economy of Calabria due to an increase in public works (Bank of Italy/Calabria 2007, 2010) and more specifically the Salerno-Reggio Calabria motorway (Bank of Italy/Calabria 2005, 2010), but between 2008 and 2009, this sector suffered heavily from a decrease in public works. The manufacturing sector was characterised by an

²¹¹ 800 kms of coastline and beaches.

output decrease in 2005, there was an increase in 2006, but between 2007 and 2009 there was again a decrease. Utilisation of plant capacity was significantly reduced and there was also a decrease in investment. As far as the labour force is concerned, in 2005 there was a reduction due to a decrease of the number of job-seekers and persons in work (Bank of Italy/Calabria 2005, 2010). In 2006, the labour force increased (Bank of Italy/Calabria 2006, 2010) and in 2008 there was an increase in the number of job-seekers with previous work experience and a decrease in first-job seekers (Bank of Italy/Calabria 2008, 2010).

In 2008, the decrease in the number of workers was focused on payroll employment (Bank of Italy/Calabria 2008, 2010) and in 2009, there was a decrease in the number of job-seekers, accompanied though with an increase in the rate of exit from the labour market. We must emphasise that there is a significantly negative gap between Calabria and the Italian average in terms of labour market participation for people aged from 25 to 34 and women and also that Calabria is the region with the highest proportion of undeclared work in Italy (Bank of Italy/Calabria 2009, 2010).

The Commission part-financed the ROP/Objective 1 Programme for Calabria for 2000-2006 through the ERDF (mainly), the ESF, the EAGGF and the FIFG (Inforegio Europa, 2009d).

Table 5.9
ROP for Calabria (2000-06)
Breakdown of Finances by priority area in Calabria

PRIORITY AREAS	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Natural resources	1,081,230,000	540,615,000	1,081,230,000
Cultural resources	128,290,000	64,145,000	128,290,000
Human resources	671,318,000	457,054,000	671,318,000
Local development systems	1,405,372,002	694,135,000	1,388,269,000
Towns and cities	314,052,000	157,026,000	314,052,000
Service networks and hubs	396,252,000	198,126,000	396,252,000
Technical Assistance	39,884,000	19,942,000	39,884,000
Total	4,036,398,002	2,131,043,000 [ERDF contribution 1,258,742,000 (59.07%), ESF contribution 424,883,000 (19.94%), EAGGF contribution 426,458,000 (20.01%) and FIG contribution 20,960,000 (0.98%)]	4,019,295,000

Source: Inforegio Europa, 2009d.

The highest total cost (1,405,372,002 euros) can be observed in the context of local development systems (promoting industrial districts, export systems, new businesses and tourism), whereas the second highest (1,081,230,000 euros) can be seen in terms of natural resources with an emphasis on renewable energy sources and distribution networks (Inforegio Europa, 2009d). On 7/12/07 the Commission approved the Calabria ROP (2007-2013), under the Convergence Objective, with a total budget of approximately 3 billion euros. The aid provided by the EU (ERDF) amounts to some 1.5 billion euros²¹². This figure represents 5.2% of the EU's total investment in Italy for the 2007-2013 period (Inforegio Europa, 2009l).

²¹² Half of the entire Programme.

Table 5.10**Programme under the Convergence Objective co-funded by the ERDF/OP Calabria (2007-13)**

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
R&D, innovation and information society (10% of total funding)	149,912,003	149,912,003	299,824,006
Energy (7% of total funding)	104,938,402	104,938,402	209,876,804
Environment (12% of total funding)	179,894,403	179,894,403	359,788,806
Quality of life and social inclusion (9% of total funding)	134,920,802	134,920,802	269,841,604
Natural and cultural resources and sustainable tourism (12% of total funding)	179,894,404	179,894,404	359,788,808
Networks for mobility (16% of total funding)	239,859,204	239,859,204	479,718,408
Productive systems (14% of total funding)	209,876,804	209,876,804	419,753,608
Cities, urban areas and territorial systems (17% of total funding)	254,850,404	254,850,404	509,700,808
Technical assistance and interregional cooperation (3% of total funding)	44,973,600	44,973,600	89,947,200
Total	1,499,120,026	1,499,120,026	2,998,240,052

Source: Inforegio Europa, 2009l.

More than 58% of the Programme funding is destined to be used for investments concerning sustainable growth and jobs according to the Lisbon and Gothenburg Agendas²¹³. The expected impact of the Programme is an additional regional GDP annual increase of 1.6% till 2015, as well as an additional annual increase of 0.3% in employment growth. By 2015, 43,500 new jobs are supposed to be created and female employment rates are expected to increase to 40.2% (35% in 2005). 16,500 jobs for women are expected to be created (Inforegio Europa, 2009l).

-Institutional capacity

The regional administration of Calabria is divided into 13 main administrative departments in charge of a) Presidency, b) National and EU Programming (mainly responsible for the management of EU policies), c) Budget, d) Productive Activity, e) Agriculture and Forests, f) Organisation and Personnel, g) Urban Development and

²¹³ R&D and innovation projects, information society, renewable, education and entrepreneurship.

Territorial Governance, h) Infrastructure, Public Works and Water, i) Employment, Policies for Families, Professional Education and Cooperation, j) Culture, Education, Universities, Research and Information Technology, k) Tourism, Cultural Heritage, Policies for Young People and Sports, l) Health and m) Environment (Regione Calabria, 2011).

The spending capacity of Calabria (in percentage of SF expenditure) was 80% during the first CSF Cycle, 84% during the second CSF Cycle and 64% during the third CSF Cycle (until December 2006) (Milio, 2010). Calabria's spending capacity during the third CSF Cycle was much lower compared to that of the previous CSF Cycles and this reveals institutional capacity problems regarding the CSF framework implementation (Milio, 2010). Calabria had the fourth lowest spending capacity amongst all the Italian Objective 1 Regions during the first two CSF Cycles and the second highest (alongside Basilicata) compared to the other Objective 1 Regions during the third CSF Cycle.

Calabria has participated in three innovation projects; the Regional Innovation Strategy (RIS), the RIS+ and the SCONE (IRE Network/Calabria, 2010). According to the RIS report, other problems that hamper regional economic development and increase divergence within the region include: a) lack of efficient cooperation between firms, b) lack of entrepreneurial spirit, c) low export performance, which is linked to a lack of ambition or culture of growth and d) poor links between SMEs and the R&D and the higher education system of the region. There is also a need for improvement in terms of regional infrastructure, whilst another discouraging fact is the illiteracy rate of the population, which is as high as 25% (IRE Network/Calabria, 2010).

The main targets of the RIS Calabria were three; a) to enable the most disadvantaged sectors to organise and conduct collaborative behaviour, b) to identify the innovation potential in the universities and R&D centres of Calabria that could lead to new technology based business and c) to create a culture of risk and innovation within the region. The Steering Committee gave priority to the agro-food and tourism sectors. In the agro-food sector, two main working groups were established²¹⁴. The first deals with sector development in Piana di Sibari, which is the largest regional agro-food area and covers 15 small companies, cooperatives and their consortia. The second deals with marketing and internationalisation and includes the leading companies in the regional agro-food sector, which have already created a consortium for the joint promotion of their products. In both cases, the main planning tool is a Goal Oriented Project Planning (GOPP) procedure, specifically designed for the problems and needs of the region (RIS Calabria, 2010).

During the last ten years, many attempts at bottom-up regional development have taken place in Calabria. The Local Action Groups were promoted all over Calabria, the LEADER programme for rural areas was put into practice, new national and European programmes for employment and local development, such as *PIC Adapt*, *PIC Occupazione*, *Patti Territoriali*, *Contratti D'Area* were introduced, and local actors, such as SMEs and local administrations and governments supported and organised these attempts (RIS Calabria, 2010).

The Calabrian university system includes the University of Calabria in Rende, the University of Reggio Calabria and the Faculty of Medicine in Catanzaro. Furthermore, the Science and Technology Park of Calabria²¹⁵ hosts approximately 60 organisations.

²¹⁴ Joint work with an Adapt project.

²¹⁵ Calpark SpA.

Several research centres exist, mainly promoted by the National Research Council and the universities, the scientific Informatics-Telematics pool, the Network of Chambers of Commerce, the *BIC* Calabria and the *InnovaReggio* consortium (IRE Network/Calabria, 2010).

Calabria is a region where the bottom-up approach was not effectively put into practice, or at least not as effectively as in the cases of Basilicata, Sardegna, Abruzzo and Molise. Several bottom-up actions took place, such as the Local Action Groups, the LEADER Programme, the ITENET Observatory and the Regional Innovation Strategy. The aim of these policies was to trigger economic development from within the region, rather than imposed from the outside. A certain degree of regional economic development took place, but much less than expected.

The inefficient cooperation between regional and national authorities was evident. Bottom-up policies in general are highly unlikely to lead to regional economic development unless there is a) adequate infrastructure in the region, b) an identification of the exact problems, c) effective training regimes and d) an amount of skilled workers motivated to remain in the region. In Calabria, skilled workers are steadily migrating out towards Northern regions and the infrastructure and training regimes are still insufficient. Therefore, the bottom-up policies have not yet had the expected results. The development of a vertical and horizontal differentiated distribution of powers and responsibilities is still problematic and there are also many implementation problems, which do not seem likely to be resolved soon.

The conclusion is that Calabria is one of the worst performing Convergence Regions in terms of regional economic development. Its very high unemployment, its decrease in gross production and the reluctance of the regional economic players to pursue a

sufficient network development strategy, leaving aside all forms of entrepreneurial individualism, make regional economic development very difficult. Furthermore the infrastructure problems alongside the inability of the region to enter foreign markets and to attract investment create more difficulties. The agro-food sector, if managed correctly, has great potential for regional economic development.

5.3.3-PUGLIA (Convergence Objective Region for the 2007-2013 Cycle)

Puglia can be regarded as a peripheral region. In 2009, the population of Puglia was 4,084,035 people (ISTAT, 2011). Its synthetic indicator of regional development was 2.16 in 1994, which is 30% higher than *Mezzogiorno* (1.67) and 50% lower than Central-Northern Italy. The economy of Puglia is mainly based on cost/price-related, and not on innovation-related, competitiveness. In Puglia, the percentage of innovative companies is 18.5%, lower than both that of the *Mezzogiorno* (21.7%) and that of Central-Northern Italy (33.8%) (RIS Puglia, 2009).

R&D expenditure as a percentage of GDP in Puglia is 0.46%, lower than both that of the *Mezzogiorno* (0.87%) and that of Central-Northern Italy (1.1%). SMEs in Puglia are more interested in fixed investment in technology (84%) than in R&D design and marketing (16%). In the *Mezzogiorno*, the percentage of fixed investment in technology reaches 77%, whereas that of R&D design and marketing is 23%. In Central-Northern Italy, the percentage of fixed investment in technology is 42%, whilst that of R&D design and marketing is 58% (RIS Puglia, 2009). In Puglia a number of sectors, such as basic engineering, construction, steel, chemicals and textiles, are experiencing problems. The provinces mainly affected by industrial decline are Taranto, Brindisi and Foggia. Bari and Lecce suffer less, although this decline has had a certain negative impact on them as well.

In Puglia, there is a need for improvement in the procedures around programming and evaluation. Also, one of the main problems of Puglia has been the continuous emigration of the qualified labour force from the region. The internal departments in the regional administration of Puglia have decreased. Also, the systematic monitoring of data is fundamental. Until recently, there was an evaluation report within Puglia in the regional network of the public administrations²¹⁶. This specific report gave a revision and examination of the policies of television services in the following programming cycle. It is still too early to conclude whether Puglia will be in position to exit the Convergence Objective by 2013 (interview with Moro, 2009).

We have to be cautious when assessing the opinions of Moro regarding both the economic situation and the future prospects of Puglia. It is acceptable that several attempts for regional economic development have indeed taken place, but Puglia, despite receiving SFs for more than 20 years is still included in the Convergence Objective and it is still unclear whether or not it will be excluded in 2013. The current economic situation in Puglia is not particularly encouraging and we must admit that Moro is not over-optimistic. Certainly, since the beginning of the CSF Cycles, Puglia has been less dependent in agriculture and more industrialised, but only its exit from the Convergence Objective in 2013 will prove that regional economic development has indeed taken place.

-Regional economic statistics

In 2008, the activity rate of Puglia was 42.2%, much lower than the national average (49.3%) (Eurostat, 2010b). In 2001, the male activity rate was 60.1%, whereas the female rate was 27%, the lowest in Italy. The young people's activity rate (under the

²¹⁶ RUPAR.

age of 25) was 32.6% (national average 36.3%), whilst in 1990, it was 49.6% (Europa, 2004l). In 2008, the employment rate was 37.3%, (35.3% in 1999), lower than the national (45.9%) and the EU-27 average (53.7%), but the 2% increase between 1999-2008 shows development (Eurostat, 2010d). The unemployment rate in 2008 was 11.6%, (19% in 1999), higher than both the national (6.7%) and the EU 27 average (7%), but the 7.4% drop between 1999 and 2008 shows development (Eurostat, 2010i). There has also been a significant decrease in agricultural employment and a growth in the industrial sector. In 2001, the agricultural sector share was 11.7%, higher than the national average (5.2%), but in 1995, it had reached 24.7%. Despite this drop, Puglia still remains highly dependent on agriculture (Europa, 2004l).

In 2001, the industrial sector employment share was 26.1%, lower than the national average (31.8%). The employment level in industry in 1990 was the same as in 1951, but in 1951 employment was characteristically in traditional small-scale craft industries, whereas in 1990, it was in high-tech engineering and electronics. In the service sector, the employment share in 2001 was 62.2%, similar to the national average. Also, in 2001, 54% of unemployed people were searching for their first job (Europa, 2004l).

Between 2003 and 2005, industry had declined considerably, but in 2006, a significant output growth was observed in all industrial sectors with the exception of construction, due to a) higher domestic demand for intermediate and capital goods and b) a rise in sales of traditional Italian products. A great number of firms tried to innovate the range of their products in order to respond to competition and gain market power, whilst a limited number of firms located production abroad. However at the end of 2006 this positive trend in demand and industrial production was terminated. The profitability

of the regional industrial firms has been decreasing during the last decade and in general, industry in Puglia suffers structural problems (Bank of Italy/Puglia 2006, 2010).

In 2008, “*industrial activity fell by 4 per cent in real terms after stagnating in 2007*” (Bank of Italy/Puglia 2008, 2010:1). There was practically no expansion in investment and a drop in both the fashion and the auto-industry supply sectors (Bank of Italy/Puglia 2008, 2010). In early 2009, there was a further production decline, firms started to cut costs, particularly for staff, decreased profit margins and put off planned investments (Bank of Italy/Puglia 2008, 2010). In 2009, industrial investment fell by more than one third, as there was a decrease in demand and firms had significant problems regarding self-financing (Bank of Italy/Puglia 2009, 2010).

Disposable income is much higher than earned income because of the high level of income transfers that account for 10% of earned income. Also, household consumption accounts for a greater share of disposable income than investment. The expenditure of disposable income in Puglia can be characterised by a greater share of household consumption and a share of investment compared to the majority of the Italian regions (Europa, 2004l).

In 2007, the regional GDP per capita of Puglia represented 66.8% of the EU 27 average (78.3% in 1996) (Eurostat, 2010g). In 2000, Puglia’s contribution to Italy’s GVA was 4.6%. Within the last 20 years, besides highly capital-intensive large scale plants, like *ILVA* (steel-making) in Taranto and Enichem (petrochemicals) in Brindisi and Manfredonia, many small and medium-sized firms have also been developed in the region. Almost all these firms are being financed by local capital and provide approximately 70% of the jobs within the region. Such industrial development has led to the development of highly specialised areas, of both domestic and international

significance. The most important areas are a) food processing and vehicles in Foggia, b) footwear, textiles, wood and furniture in Barletta, c) wood and furniture in Murge, d) engineering, rubber, wood, furniture and computer software in Bari, e) textiles and clothing in Monopoli-Putignano and f) footwear and textiles in Casarano (Europa, 2004k).

Several important research and development centres have been created, the most important of which are the *Tecnopolis-CSATA* and the new software development centres near Bari, as well as the “*Citadella Della Ricerca*” in Brindisi (Europa, 2004k). The university system of Puglia includes the University of Bari, the University of Lecce and the Polytechnic of Bari (IRE Network/Puglia, 2009).

The economy of Puglia is mainly based on agriculture and services. Industry has played an important role in income generation, but services have increased growth in jobs. In 2000, the GVA share generated by the agricultural and service sectors was above the national average, whilst the industrial sector share was below average. Labour productivity is generally lower in agriculture and higher in the service sector (Europa, 2004k). Productivity in the manufacturing sector is 20% below the national average and at the service sectors 13% below the national average. Furthermore, the manufacturing sector is characterised by small firms’ size, as approximately 95% of the firms within the region have fewer than 20 employees (IRE Network/Puglia, 2009).

The positive features of the productive system of Puglia are a) the relatively high productivity of the agriculture sector, b) the relatively high productivity of sectors such as agro-food, sofas, chemicals and non-metallic minerals, c) the important role of the private sector, as approximately 97% of firms are privately owned and d) tourism. The

negative economic features are the weak business services, and a lack of development in terms of intermediate industries and exporting firms (IRE Network/Puglia, 2009).

The Commission part-financed the ROP/Objective 1 Programme for the 2000-2006 period, co-financed by the ERDF (mainly), the ESF, the EAGGF and the FIGF (Inforegio Europa, 2009b).

Table 5.11
ROP for Puglia (2000/06)
Breakdown of Finances by priority area in Puglia

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Natural resources	1,239,697,000	672,500,000	1,239,697,000
Cultural resources	254,327,000	138,350,000	254,327,000
Human resources	799,385,000	511,950,000	799,385,000
Local development systems	2,060,322,000	1,146,891,000	2,037,680,000
Towns and cities	366,784,000	188,238,000	366,784,000
Service networks and hubs	538,046,000	277,100,000	538,046,000
Technical Assistance	22,976,000	11,488,000	22,976,000
Total	5,281,537,000	2,946,517,000 [ERDF contribution 1,721,827,000 (58.44%), ESF contribution 604,090,000 (20.50%), EAGGF contribution 587,600,000 (19.94%) and FIGF contribution 33,000,000 (1.12%)]	5,258,895,000

Source: Inforegio Europa, 2009b.

The highest total cost (2,060,322,000 euros) can be observed in the context of local development systems (promoting industrial districts, export systems, new businesses and tourism), whilst the second highest (1,239,697,000 euros) can be seen in terms of energy management and renewable sources (Inforegio Europa, 2009b). On 20/11/07, the Commission approved an OP for Puglia (for the 2007-13 Cycle), under the Convergence Objective framework, with a total budget of around 5.2 billion euros. EU assistance (ERDF) amounted to approximately 2.6 billion euros (Inforegio Europa, 2009p).

Table 5.12**Programme under the Convergence Objective co-funded by the ERDF/OP Puglia (2007-13)**

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Promotion and dissemination of research and innovation for competitiveness	290,500,000	290,500,000	581,000,000
Sustainable and efficient use of environmental and energy resources for development	454,000,000	454,000,000	908,000,000
Social inclusion and services to enhance the quality of life and the attractiveness of the region	285,000,000	285,000,000	570,000,000
Promoting the potential of natural and cultural resources to improve the attractiveness and development of the region	196,000,000	196,000,000	392,000,000
Networks and mobility links	525,000,000	525,000,000	1,050,000,000
Competitiveness of productive systems and employment	551,000,000	551,000,000	1,102,000,000
Competitiveness and attractiveness of cities and urban systems	260,000,000	260,000,000	520,000,000
Governance, institutional capacity and competitive and efficient markets	57,521,978	57,521,978	115,043,956
Total	2,619,021,978	2,619,021,978	5,238,043,956

Source: Inforegio Europa, 2009p.

The OP's main targets are sustainable development, equal opportunities, development of the knowledge economy, promotion of innovation and entrepreneurship and an increase in renewable energy production. The expected impact of the Programme is a growth rate between 2.4% and 3.1%, a growth rate in employment between 48.6% and 50% and a decrease of greenhouse gases of approximately 6.5%, due to new and improved public transport and the use of renewable energy (Inforegio Europa, 2009p).

-Institutional capacity

The regional administration of Puglia is divided into 15 main administrative departments in charge of a) Presidency, Legislative Policies, Strategic Control, Management Control of Internal Affairs, Internal Auditing, International Politics, b)

Economic Development, Research and Competitiveness, Economic Activity, Industry, Energy, Infrastructure for Development and Cooperation, c) Public Works and Civil Protection, Natural Resources and Water, d) Territorial Quality, Protected Areas, Cultural Goods, Urban Areas, Libraries and Museums, e) Human Resources, Administrative Simplification, Organisation and Personnel, Sports, f) South and Federalism, Policies for the *Mezzogiorno*, Cooperation with the EU, Inter-institutional Conferences' Systems, Local Entities, General Affairs, g) Health, Programming for Territorial Assistance and Prevention, h) Policies for Young People and Innovation, Policies for Immigrants, Transparency and Institutional Communication, i) Welfare, Occupation, Policies of Social Well-Being, Equal Opportunities, Social Programming and Integration, Puglian People Across the World j) Mediterranean Issues, Culture, Tourism and International Relations, k) Strategic Infrastructure and Mobility, Transports and Communication, l) Environment, Ecology, Energy Policies, Refuse, Maritime Issues and Forests, m) Finance, Budget, Fiscal Issues and Federalism, SFs agenda 2007-13 (mainly responsible for the EU Cohesion Policy), *FAS* Funds, n) Education, Schools, Universities and Research, Professional Education and o) Agro-Food Resources, Agriculture, Animal Hunting and Fishing (Regione Puglia, 2011).

The spending capacity of Puglia (in percentage of SFs expenditure) was 64% during the first CSF Cycle, 77% during the second CSF Cycle and 55% during the third CSF Cycle (until December 2006) (Milio, 2010). Puglia's spending capacity during the third CSF Cycle was much lower compared to that of the previous CSF Cycles and this reveals institutional capacity problems regarding the CSF framework implementation. Puglia had the second lowest spending capacity amongst all the Italian Objective 1 Regions during the first two CSF Cycles and the third lowest compared to the other

Objective 1 Regions until September 2003 (Milio, 2010). The institutional capacity of Puglia during the first two Cycles has been more efficient only compared to that of Sicilia and more efficient than those of both Campania and Sicilia during the third CSF Cycle (Milio, 2010).

One of the programmes aimed at helping regional economic development to take place in Puglia, was the Regional Innovation Strategy (RIS), which would be based on “*the economic fabric represented by its sub-regional and sectoral specificities*” (RIS Puglia, 2009:1²¹⁷). At the same time, the technology-adoption-dominated innovation process should be focused on a) applied and industrial research, b) technology transfer and c) innovation services. The target of the RIS partnership was a) to improve the regional innovation infrastructure through better involvement of business in management²¹⁸, through an increased focus on industrial districts, specialised local manufacturing systems and public support to local sectoral Technology Centres²¹⁹, and through close monitoring; b) to support the demand/supply match of Innovation services and c) to support North-South and Euro-Mediterranean Partnerships.

The Regional Innovation Partnership (RIP) was created upon a) already existing partnerships in the regional innovation infrastructure, such as *Tecnopolis-Finpuglia-PASTIS* Science Park-CISI²²⁰ Puglia and b) sub-regional Territorial Pacts for Brindisi, Lecce, Nord Barese Ofantino. The RIS Puglia *INNOVA* was the strategic plan, according to which new jobs would be created within the region. It would be based on the strategic partnership of the aforementioned actors. This plan was supposed to be

²¹⁷ When downloaded, page 1 of the article corresponds to page 62.

²¹⁸ Private participation to Technology Centres, Science Parks, and Local Innovation Agencies.

²¹⁹ Managed by SMEs.

²²⁰ Centre for Innovation and Enterprise Development.

complementary to the Territorial Pacts, as it was the only initiative ensuring a region-wide coordination of local initiatives (RIS Puglia, 2009).

Puglia has participated in the previous article ten ERDF Innovative Actions, since a pre-pilot programme called REPORTING was implemented during 1995 and 1996. That project, just like the RIS initiative, was co-funded, organised and supervised by the regional authorities of Puglia and was managed by *Tecnopolis* and the *IRIDE* Innovation Relay Centre. According to that strategy, there would be a close cooperation and coordination between a) associations, b) local partnerships, such as Territorial Pacts and consortia and c) sectoral leaders. The RIS process included representatives of the Regional Government and local authorities who were chosen according to their role in their Steering Committee. Their target would be to promote local partnerships and indeed they succeeded. These attempts revealed a shift from a top-down to a more bottom-up approach. The regional and local governments and authorities have played a central role in all these attempts and initiatives (RIS Puglia, 2009).

According to the pre-pilot project REPORTING there was an attempt to encourage technology transfer to modernise industry in less developed areas. There was a methodology test in order for EU research results to be transferred to the SMEs. Seven local SMEs were chosen²²¹ with know-how concerning innovation in products and processes. The results were positive; eight jobs were directly created and 33 were induced at a cost of 12,200 ECU per new employee (RIS Puglia, 2009).

Puglia, just like Calabria, is a region where new bottom-up policies²²² did not have the expected results, due again to poor infrastructure, interregional migration of skilled workers and inefficient training regimes. The main problems that hamper regional

²²¹ In the fields of biotech diagnostics, software production, electro-mechanical equipment, railway diagnostics, publishing, knitwear and clothing.

²²² Such as RIS Puglia INNOVA, ITENET and REPORTING projects.

convergence are inefficient spending and problematic administrative capacity. The differences in the structure and functioning of local governance are many, despite several attempts to eliminate them, and this makes regional economic development difficult. Moreover, many parts of Puglia²²³ had never before been involved in European policies and therefore had never developed cooperation with European institutions. Also some of these parts did not even exist as geographical, administrative and political entities. The development of a vertical and horizontal differentiated distribution of powers and responsibilities is still problematic and there are also many implementation problems, which do not seem likely to be resolved soon, although several bottom-up projects that have recently taken place can be characterised as quite successful.

The conclusion is that Puglia is still a long way from efficient regional economic development, but several attempts, in the form of regional plans and projects, are being made. Regional economic development in Puglia is mainly based on the sectors of textiles, clothing, footwear, building construction, food, agriculture, metal and mechanical work. Furthermore, the so far efficient implementation of innovative policies, alongside with the attempts at the internationalisation of local and regional production systems are important steps towards regional development. Several programmes for the education of the labour force are currently taking place, due to the fact that knowledge and research are key drivers of development. Lastly, the role of the Puglia's emigrants abroad is fundamental in both the improvement of the regional economy and the region's strategy towards both economic and cultural internationalisation.

²²³ Just like Calabria.

5.3.4-CAMPANIA (Convergence Objective Region for the 2007-2013 Cycle)

Campania can be regarded as a peripheral region. In 2009, the population of Campania was 5,824,662 people (ISTAT, 2011). One of the most important reasons for the lack of economic development in Campania is the crisis in heavy industry, which remained the same even after several new investments took place within the region. The building sector also faced a serious crisis after the end of the special reconstruction assistance. The public sector still has a disproportionate impact on the production structure of Campania. The tourism sector remains underdeveloped, despite the natural beauty of the region. The profitability of agriculture declined in the 1990s, despite the fact that in the majority of the *Mezzogiorno* areas and at a national level it had increased. Such decline had its roots in the small size of farms²²⁴ (Inforegio Europa, 2009e).

-Regional economic statistics

In 2008, the activity rate of Campania was 39.9%, one of the lowest in the *Mezzogiorno* (Eurostat, 2010b). In 2002, the male activity rate was similar to the national average (36.2%), whereas the female one (28.8%) was below it (Europa, 2004h). In 2008, the employment rate was 34.9% (33.6% in 1999), the lowest in Italy and lower than both the national (45.9%) and the EU 27 average (53.7%), but the 1.3% increase between 1999 and 2008 shows development (Eurostat, 2010d). In 2008, the unemployment rate was 12.6% (23.7% in 1999), lower than both the national (6.7%) and the EU 27 (7%) average, but the 11.1% drop between 1999 and 2008 shows development (Eurostat, 2010i).

²²⁴ 50% less than one hectare and 90% less than five hectares.

The female employment rate is extremely low. In 2002, it reached 24.1%, whereas the national average was 40.9%. In 2002, the employment share in the agricultural sector was 6.4% (national average 5.2%), in the industrial sector 24.4% (national average 31.8%) and in the service sector 69.2% (national average 63%). In 2002, part-time and temporary jobs accounted for 13.2% of total jobs²²⁵. In 2002, female unemployment was extremely high (30.6%) (national average 12.9%). Also, in 2002, youth unemployment rate was 59.6%, much higher than the national average (27.2%). In the same year, 73.3% of the unemployed suffered long term unemployment, although there had been a slight decrease since 2001, when the share reached 76.8%. In 2002, the regional administration invested approximately 100 million euros in projects to increase the employment level. In 2001, the total income from salaries in the agricultural sector was 751 million euros, in the industrial sector 5.6 billion euros and in the service sector 26.3 billion euros. In 2002, household expenditure was broken down as follows: 24.3% on food and drink, 1.3% on tobacco, 7.9% on clothing and footwear, 20.7% on housing, 8% on furniture, 2.9% on health, 13.1% on transport and 1.5% on education. The rest was spent on other goods and services. Campania is one of the lowest regions in Italy in terms of wage levels. In 2001, the average salary was 10% lower than the national average (Europa, 2004h).

Between 2002 and 2005 the annual growth in output was never higher than 0.5 percentage points and in 2005 output levels were very low in all the main regional economic sectors (Bank of Italy/Campania 2005, 2010). However, between 2000 and 2005, there was a significant growth in terms of the economic size of farms and this led to a certain productivity improvement. Between 2006 and the first months of 2007,

²²⁵ A small decrease since 2001.

output increased in all the regional economic sectors and during 2006, there was a rise in household consumption and investment (Bank of Italy/Campania 2006, 2010). In 2008, value added increased only in the agriculture sector, but decreased by 5 percentage points in industry and 1 percentage point in services. In the same year, the construction sector suffered from a significant drop in terms of public investment (Bank of Italy/Campania 2008, 2010). The local government debt of Campania increased from 12.1 billion euros at the end of 2008 to 13.1 billion euros at the end of 2009 (Bank of Italy/Campania 2009, 2010).

In 2007, Campania's regional GDP per capita represented 65.9% of the EU 27 average (73.4% in 1996) (Eurostat, 2010g). In 2001, Campania created 6.4% of the Italian GDP and the service sector makes up approximately 78% of the region's GDP.

The most important industrial sector is the agro-food industry and its main products are fruit, vegetables²²⁶, nuts²²⁷ and greenhouse flowers. The agriculture sector GVA accounted for approximately 6.5% of the total regional VA (213.7 billion euros in 2002). Animal breeding is also important (70,278 farms in 2000); *mozzarella* cheese is a typical regional product, whilst olive trees cover more than 74,604 hectares of land and, alongside fruit production, add more than 620.6 billion euros to the agricultural VA. A problem, nevertheless, is the small size of farms (3.53 hectares on average). In terms of trade, the retail trade is pivotal in the service sector and the number of supermarkets is steadily increasing. In 2002, the value of exports was decreased by 6.5%, mainly due to the fall in exports in a) the car sector and b) the textile and clothing sectors (Europa, 2004g).

²²⁶ Especially tomatoes, 1.5 million tonnes a year.

²²⁷ More than 50% of the total production of Italy.

According to Rinaldi (2009), the framework that emerges through the *ISTAT* analysis data, creates an image of Italy characterised by significant economic and social differences amongst the different territorial areas. The Convergence Objective 2007-2013 is being represented by an increase in both economic and occupational terms. In terms of socio-economic differences, according to the latest available data, it can be argued that Campania is currently in a situation of significant delay with respect to the main parameters agreed at the European Councils of Lisbon and Goteborg, as well as the main development indicators. Between 1988 and 1998, the GDP per capita, according to the ROP 2000-2006 for Campania, dropped significantly from 66.8% to 61.5%, with respect to the national average. Between 2000 and 2003, according to the data of the ROP ESF 2007-2013 for Campania, there was a media average increase at a much higher level compared to the other *Mezzogiorno* regions. However, this increase still remained inferior compared to both the Convergence Regions and the national level. The GDP per capita drop in Campania can probably be related to the state of emergency concerning refuse and the economic and financial crisis, which affected the whole of Europe. These situations resulted in a negative impact on the production system, as well as a significant reduction in the speed of the economic cycle (interview with Rinaldi, 2009).

Campania used to be one of the ten European regions with the highest unemployment levels²²⁸. This substantially marginalised the region, with respect to the targets of the Lisbon strategy. The situation of Campania, on the basis of the statistical indicators, shows employment and unemployment levels to be out of line with national

²²⁸ 26.1% in 1998, according to the ROP/ESF 2007/2013.

levels and the objectives of the European Councils of Lisbon and Goteborg (interview with Rinaldi, 2009).

In comparison with the reported data in the diverse OPs 2007-2013 of the Convergence Objective, it emerges that Sicilia is amongst the regions that presented the highest unemployment level in 2005 (16.2%), followed by Campania (14.9%). Calabria is amongst the NUTS 2 regions that were praised in 2005, as it had a higher rate of employment (44.5%) and a lower rate of unemployment (14.4%). In contrast, in 2005, Sicilia had the lowest employment rate (44%) and the highest unemployment rate (16.2%) with respect to the other Convergence Regions. Structural policies can offer a very important opportunity to Campania, in order to activate territorial development and help the region express its appropriate endogenous potential and benefit significantly from the challenges of the enlargement of world markets. Furthermore, the structural policies give Campania the chance to be more efficiently protected from negative effects caused by local, or general crises (interview with Rinaldi, 2009).

The ROP for Campania (2000-2006) was co-financed by the EU (the ERDF mainly, the ESF, the EAGGF and the FIFG) (Inforegio Europa, 2009e).

Table 5.13
ROP for Campania (2000-06)
Breakdown of Finances by priority area in Campania

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Natural resources	1,999,025,989	1,089,314,210	1,998,378,851
Cultural resources	656,596,337	331,920,695	655,690,923
Human resources	1,357,994,078	857,675,572	1,345,769,543
Local development systems	2,154,614,832	1,199,469,365	2,103,348,843
Cities	436,668,945	221,439,288	436,668,945
Networks and service hubs	1,076,300,599	547,255,870	1,071,748,102
Technical Assistance	66,972,000	33,486,000	66,972,000
Total	7,748,172,780	4,280,561,000 [ERDF contribution 2,775,703,660 (64.84%), ESF contribution 702,462,340 (16.41%), EAGGF contribution 764,146,000 (17.85%) and FIFG contribution 38,249,000]	7,678,577,207

		(0.89%)	
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Source: Inforegio Europa, 2009e.

The highest total cost (2,154,614,832 euros) can be observed in the context of local development systems (promoting industrial districts, export systems, new businesses and tourism), whereas the second highest (1,999,025,989 euros) can be seen in terms of natural and water resources and energy management. On 11/09/07 the Commission approved an OP for Campania for 2007-2013, under the Convergence Objective, with a total budget of 6.9 billion euros. The financing provided by the EU (ERDF) amounted to some 3.4 billion euros, representing about 11.8% of Community aid to Italy as part of Cohesion Policy for 2007-2013 (Inforegio Europa, 2009m).

Table 5.14

Programme co-financed by the ERDF under the Convergence Objective/OP Campania (2007-13)

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Environmental sustainability and cultural and tourism appeal (29.5% of total investment)	1,012,500,000	1,012,500,000	2,025,000,000
Competitiveness of the region's productive economy (17.7% of total investment)	607,500,000	607,500,000	1,215,000,000
Energy (4.4% of total investment)	150,000,000	150,000,000	300,000,000
Accessibility and transport (17.5% of total investment)	600,000,000	600,000,000	1,200,000,000
Information society (5.8% of total investment)	197,500,000	197,500,000	395,000,000
Urban development and quality of life (2.2% of total investment)	752,500,000	752,500,000	1,505,000,000
Technical assistance and cooperation (3.3% of total investment)	112,397,599	112,397,599	224,795,198
Total	3,432,397,599	3,432,397,599	6,864,795,198

Source: Inforegio Europa, 2009m.

The main aim of the Programme is to increase employment and regional competitiveness in the national, European and Mediterranean context. 54% of expenditure will target the Lisbon Strategy with emphasis on R&D and technology innovation. More than 52.55% of ERDF funds are destined for the Lisbon priorities.

The expected impact of the Programme is the creation of 105,000 jobs²²⁹, the cutting of greenhouse gas emissions by 2.8 tonnes of CO₂²³⁰, an urban waste proportion²³¹ increase from 10% to 18%, a broadband coverage increase from 89% to 99%, a Renewable Energy Sources (RES) share increase²³² from 3.3% to 20% and the construction of 22 km of regional light railway (Inforegio Europa, 2009m).

-Institutional capacity

The regional government of Campania is divided into 13 main administrative departments in charge of a) Health, International Relations of the Regional Administration of Campania, Relations between the Regional Administration of Campania and the EU (mainly responsible for the management of EU policies), Relations between the Regional Administration of Campania and the National Government and with the instruments of coordination between State and Regions, b) Development, Tourism, Cultural Heritage and Marketing Research, c) Agriculture, Rural Development, Forestry, Animal Hunting and Fisheries, d) Public Works and Territorial Protection, e) Budget, Treasury and Finance, f) Education, Cultural Promotion, Museums and Libraries, g) Employment, Emigration and Immigration Policies, h) Ecology, Environment, Refuse and Water, i) Social Activities and Social Assistance, j) General Affairs, Management and Education of Personnel and Relations of the Regional Administration with Provinces and Municipalities, k) Urban Development, Territorial Governance and Constructions, l) Transports and Productive

²²⁹ 69,000 for males and 36,000 for females.

²³⁰ 2.3 tonnes per inhabitant.

²³¹ Sorted for collection.

²³² Electric power generation.

Activity and m) Universities, Scientific Research, Statistics and Information Systems (Regione Campania, 2011a).

The spending capacity of Campania (in percentage of SFs expenditure) was 62% during the first CSF Cycle, 80% during the second CSF Cycle and 51% during the third CSF Cycle (until December 2006) (Milio, 2010). Campania's spending capacity during the third CSF Cycle was much lower compared to that of the previous CSF Cycles and this reveals institutional capacity problems regarding the CSF framework implementation. Campania had the third lowest spending capacity amongst all the Italian Objective 1 Regions during the first two CSF Cycles and the second lowest compared to the other Objective 1 Regions during the third CSF Cycle (Milio, 2010). Hence, we can argue that, measuring the spending capacity, the institutional capacity of Campania during the first two Cycles has been more efficient only compared to those of Puglia and Sicilia and more efficient than only that of Sicilia during the third CSF Cycle.

During the last 15 years, Campania has set the bases for regional development in a clear way in the context of setting priority areas for intervention. Amongst these, tourism, transport, research and innovation are the most important. The first two CSF Cycles have de-provincialised the region and put it in a position to confront Europe in both programming and organisation. The third CSF Cycle was actually the most articulate, since a) the first positive results of the previous programming periods became evident and b) significant problems of management, administration, conservation and sustainability were set in the context and procedure of interventions (interview with Mazzocca, 2009).

The ROPs' contribution has been fundamental, due to the fact that their resources have replaced national interventions. The funds for research, innovation and transport,

rather than being additional and complementary to the national funds for development, have actually replaced the latter. This issue inevitably led to a reduction in a) the capacity concerning the projects for sustainability and b) the continuation of actions concerning regional development that had already started²³³ (interview with Mazzocca, 2009).

A significant managerial and administrative capacity has to be developed around a vision and programming capacity. The actual administrative organisation, despite its improvements, has difficulty in moving forward towards efficient regional economic progress and development. This problem of public administration has been combined with an inefficient system concerning the evaluation of competences. The EU Regional Policy period has taught Campania that a managerial/administrative class, regardless of the age of its members, has to be culturally young and ready to receive, adopt and govern change. In order to have such a class, it is necessary to establish training programmes and territorial and intersectorial mobility. Furthermore, there is a need to rethink the recruitment system, which has little background of having complex knowledge about management (interview with Mazzocca, 2009).

The increase of managerial capacity is directly combined with the capacity of professional improvement and motivation increase, which require a normative and procedural simplification. A normative fragmentation can be observed in the procedures regarding regional development, which inevitably complicates the life of not only the consumers, but also the administrators. Therefore, it is important to learn how to use the new information technology effectively, since it can lead to a cultural revolution, which will a) reform organisation and procedures, b) introduce elements of efficient evaluation

²³³ These interruptions created significant problems in Campania, the most important of which were the blocking of shipyards and the closure of advanced research centres and structures.

and c) establish a fair evaluation, which will be as objective as possible. It would be necessary to introduce sabbatical years, or semesters, for Public Administrators, in order for them to work within an EU administration. In fact this would be the best training programme for them, as they would familiarise themselves with the EU rules and best practices concerning administration. For all these reasons, the emerging of an Administration autonomous from political guidance is necessary. Such a separation is likely to give both national and regional authorities the potential to increase their capacity, authority, efficacy and credibility (interview with Mazzocca, 2009).

We have to be cautious when assessing the opinions of the interviewees regarding both the economic situation and the future prospects of Campania. It is acceptable that several attempts for regional economic development have indeed taken place, but Campania, despite receiving SFs for more than 20 years is still included in the Convergence Objective and it is still unclear whether or not it will be excluded in 2013. The current economic situation in Campania is not particularly encouraging. Certainly, since the beginning of the CSF Cycles Campania has been less dependent on agriculture, more de-provincialised and more industrialised, but only its exit from the Convergence Objective in 2013 will prove that regional economic development has indeed taken place.

-Policies towards innovation

In terms of the fourth CSF Cycle, Campania is the Italian NUTS 2 region with the highest amount of public resources, in absolute value 1,349 million euros, which represents four times the level of the third CSF Cycle in research and innovation. There are nine strategic areas for priority intervention; three basic sectors (New Technologies; Information and Communication Technology; and Advanced Biology), three territorial

sectors (Health and Agriculture; Tourism and Culture; and Territorial Security and Observation) and three industrial sectors (Energy; Aerospace; and Automotive, Transport and Logistics) (Regione Campania, 2011b; Mazzocca, 2008).

The Regional Centres of Competence²³⁴, which have aggregated the principal entities of Scientific Research in Campania, such as the University, Laboratories, Research Centres, Scientific and Technological Parks, have been financed with approximately 230 million euros, which is the value of the resources of the 2000-2006 ERDF ROP for Campania. The mission of these centres is to identify and put in practice the conditions for technology-based development in the business system in every strategic area of intervention. The *CRdCs* establish an autonomous model which systemises the competence of the participants, due to the fact that they act as a bridge between the offers of research applied in seven strategic areas²³⁵ (Mazzocca, 2008). The main target of the regional administration of Campania has been the improvement of its capacities for scientific research and innovations in technology (Regione Campania, 2011b).

During the first two years of the *CRdCs*, 80 new projects of research²³⁶ were presented. The total value of these programmes was approximately 50 million euros. Around 60% of these projects have already been approved for a total value of approximately 22 million euros. The financing originates as following: 6% from the EU and extra-EU programmes, 37% from national and extra-Campania resources and approximately 57% from the regional administration of Campania in addition to its provinces and communities. The priorities of the projects include the Advanced Biology

²³⁴ *Centri Regionali di Competenza (CRdC)*.

²³⁵ New Technologies for Productive Activity, Information and Communication Technology, Advanced Biology, Analysis and Monitoring of Environmental Risk, Conservation, Development and Use of the Cultural and Environmental Goods, Agricultural Production and Transportation.

²³⁶ Financed by EU, national and regional programmes.

sector (34%), the Information and Communication Technology sector (27%) and the Cultural and Environmental Goods sector (26%). If we want to estimate the results of the *CRdCs* in their first two years of activity, we can argue that in total approximately 30 new patents have been registered, four new industries have been established²³⁷, 36 new innovative market products have been created and approximately 70 projects of cooperation between Italian and foreign industries and Public Administration²³⁸ have been realised²³⁹ (Mazzocca, 2008).

Research and Innovation are the principal competitive assets of Campania towards the target of regional economic progress and development. The number of graduates in scientific and technological education fields²⁴⁰ has been increased by approximately 1.5 times, from 4.2 to 10.2 between 2000 and 2006. In terms of expenditures on R&D²⁴¹ in 2005, the percentage of Campania was 1.12%, the highest amongst all the Italian Objective 1 Regions and the seventh highest in Italy. In terms of expenditure in R&D in the industrial sector²⁴² in 2005, the percentage of Campania was 0.42%, higher than that of all the third CSF Cycle Italian Objective 1 Regions. Finally, in terms of employees in R&D²⁴³ in 2005, the percentage of Campania was 6.6%, the highest of all Italian Objective 1 Regions and the sixth highest in Italy (Mazzocca, 2008).

The conclusion is that Campania is another example of the fact that regional bottom-up policies cannot be effective unless there is an efficient cooperation between regional, national and EU authorities. Just like in Calabria and Puglia several bottom-up

²³⁷ Two of them from spin-off.

²³⁸ Of approximately 11 million euros value.

²³⁹ Other significant applications of the *CRdCs* include: a) Innovative packaging based on food grade gel, b) bio-systems of water purification, c) a laboratory for earthquake detection, d) advanced technology in terms of visual reality, chemistry and medicine and e) bio-sensors used in animal experiments.

²⁴⁰ Per thousand inhabitants.

²⁴¹ In percentage of GDP.

²⁴² In percentage of GDP.

²⁴³ As a percentage of total employees.

projects took place²⁴⁴. Despite these projects and despite the importance of the region²⁴⁵ for the entire *Mezzogiorno*, the results concerning regional economic development are not very encouraging. Unsatisfactory fund management made it impossible for the bottom-up approach to have the desired effects.

The main obstacles towards regional economic convergence and development in Campania are similar to those in Puglia and Calabria: namely inefficient spending capacity and poor administrative capacity. Again, there are several differences in the structure and functioning of local governance and this makes regional economic development difficult. The most important advantages for the economic development of Campania are its strategic geopolitical position and its natural environment. The main problems of the region are the delay in internationalisation, the decrease in consumption and investments and the inadequate infrastructure.

The following tables offer a more comparative view in the examination of our four Italian case studies. Table 5.15 below summarises the main industrial types and sectors of each case study.

Table 5.15
First comparative table of the four Italian case studies

Region	Type of Industries	Main Sectors of Specialisation of Industry
Basilicata	Mainly SMEs	Agro-food, Furniture, Automotive
Calabria	Mainly SMEs	Agro-food, Information Technology, Tourism
Puglia	Mainly SMEs; some large firms (e.g. ILVA and Enichem)	Food Processing, Vehicles, Footwear, Textiles, Wood, Furniture, Engineering, Rubber, Computer Software, Clothing
Campania	Mainly SMEs	Advanced Biology, Information and Communication Technology, Earthquake Detection Systems, Chemistry, Medicine, Visual Reality, Aerospace, Energy, Automotive, Logistics

Source: Europa, 2004c; Europa, 2004f; Europa, 2004e; Europa, 2004l; Europa, 2004k; Europa, 2004h; Europa, 2004g; Mazzocca, 2008; Inforegio Europa, 2009c; Inforegio Europa, 2009k.

²⁴⁴ Particularly the Observatory and the ROPs.

²⁴⁵ Mainly due to the City of Naples.

Tables 5.16 and 5.17 below summarise the funds our four Italian case studies have received during the third and fourth CSF Cycles compared to their population.

Table 5.16
Second comparative table of the four Italian case studies

Region	Population 2000	Population 2006	EU Contribution for ROP 2000-2006 (in euros)	Total Public Contribution for ROP 2000-2006 (in euros)	Priority Area with the Highest EU Contribution (in euros)	Priority Area with the Highest Public Contribution (in euros)
Basilicata (Objective 1 between 2000-2006)	599,404	591,338	848,035,000	1,696,070,000	Local Development Systems (280,425,000)	Local Development Systems (560,850,000)
Calabria (Objective 1 between 2000-2006)	2,018,722	1,998,052	2,131,043,000	4,019,295,000	Local Development Systems (694,135,000)	Local Development Systems (1,388,269,000)
Puglia (Objective 1 between 2000-2006)	4,026,054	4,069,869	2,946,517,000	5,258,895,000	Local Development Systems (1,146,891,000)	Local Development Systems (2,037,680,000)
Campania (Objective 1 between 2000-2006)	5,708,137	5,790,187	4,280,561,000	7,678,577,207	Local Development Systems (1,199,469,365)	Local Development Systems (2,103,348,843)

Source: Inforegio Europa, 2009c; Inforegio Europa, 2009d; Inforegio Europa, 2009b; Inforegio Europa, 2009e; ISTAT, 2011.

Table 5.17
Third comparative table of the four Italian case studies

Region	Population in 2009 (latest data available)	EU Contribution for ROP 2007-2013 (in euros)	Total Public Contribution for ROP 2007-2013 (in euros)	Priority Area with the Highest EU Contribution (in euros)	Priority Area with the Highest Public Contribution (in euros)
Basilicata (Phasing-Out between 2007-2013)	588,879	300,874,549	752,186,373	Energy and Sustainable Development (74,400,000)	Energy and Sustainable Development (186,000,000)
Calabria (Convergence Objective between 2007-2013)	2,009,330	1,499,120,026	2,998,240,052	Cities, Urban Areas and Territorial Systems (254,850,404)	Cities, Urban Areas and Territorial Systems (509,700,808)
Puglia (Convergence Objective between 2007-2013)	4,084,035	2,619,021,978	5,238,043,956	Competitiveness of Productive Systems and Employment (551,000,000)	Competitiveness of Productive Systems and Employment (1,102,000,000)
Campania (Convergence Objective between 2007-2013)	5,824,662	3,432,397,599	6,864,795,198	Environmental Sustainability and Cultural and Tourism Appeal (1,012,500,000)	Environmental Sustainability and Cultural and Tourism Appeal (2,025,000,000)

Source: Inforegio Europa, 2009k; Inforegio Europa, 2009l; Inforegio Europa, 2009p; Inforegio Europa, 2009m; ISTAT, 2011.

5.4-CONCLUSIONS

The main conclusion that can be drawn from this chapter is that in some NUTS 2 regions in Italy, efficient regional economic development has indeed taken place and in some others it has not. According to dependency theory, Basilicata can be regarded as a semi-peripheral region, whereas the other three case studies can be regarded as peripheral. Metropolis-satellite relations still exist between the core and peripheral regions. We argue that both the MLG and the theories of soft and new regionalism can be used as analytical tools in order to describe and critically examine regional policy in Italy. The MLG framework is used to critically understand the cooperation amongst the three levels (EU, national and regional) in the context of the EU Cohesion Policy.

Soft regionalism is used as it is based on the fact that regional development can become a reality only under the condition that there is adequate consultation with the regional and local authorities and if central governments are willing to offer power and authority to their regions, according to the principle of subsidiarity. New regionalism is used as it supports the increase of economic competitiveness on a region-by-region basis and highlights the importance of the regions, and as a consequence the importance and necessity of regional development, based on processes such as visioning and strategic planning.

In all four regions examined in this chapter, there has been significant funding from both the EU and the national governments to encourage regional economic development to begin. In all four regions, there are traces of regional development, but some of them

show greater economic progress than others. This can be explained by the fact that in some regions the problems of inefficient spending and administrative-institutional capacity, accompanied by implementation difficulties, infrastructure problems, low industrial competitiveness and limited investments are more evident than in others.

A comparison between the four case studies in terms of industrial development and labour market shows that in all four Italian case studies, the main reasons for limited development were structural problems, competition with other countries and a slowdown in lending by the banks, as a result of the international financial crisis and the recession. Calabria experienced a certain degree of development in the construction industry due to an increase in public works, but this was practically terminated in 2008, simply because no more public works could take place, mainly due to the economic crisis. Puglia made several attempts to change business strategies in order to face external competition and gain market power, particularly in the fashion and auto-industry supply chain, but unfortunately development was limited, as there was a drop in sales in these sectors.

In Puglia, also, in 2006 there was a significant output growth in industry, which was a result of higher domestic demand for intermediate and capital goods and a rise in sales of traditional Italian products. However, such growth started declining from the following year. The lack of competitiveness in all four case studies should not be attributed to high labour costs, but to structural, internal organisational problems, competition with external markets and the economic crisis and recession.

One of the most important problems that hamper regional economic development is the inefficient spending capacity of some of the regions, in our case Calabria, Campania and Puglia. According to EU Cohesion Policy Guidelines, it is the responsibility of the

member countries to spend their allocated EU funds. If these funds are not spent within the CSF Cycle deadlines, then during the following Cycle, these regions will receive fewer or no funds for regional development. A satisfactory spending capacity is a condition according to which the EU offers SFs to the current Convergence regions, as the regions are actually not in position to adequately implement the CSF. Basilicata, was the only region of our four case studies that managed to spend its entire allocation during the second CSF Cycle.

Problems with spending capacity are closely linked with a problematic administrative and institutional capacity. Differences in the structure and functioning of local governance in some Convergence Regions (in our case Calabria, Campania and Puglia), in addition to confusion over the administrative roles dealing with regional economic development, are the root of the problem. Some regions had never before been involved in European policies and this means that they did not have the chance to adapt their administrative systems to the basic guidelines of EU Cohesion Policy. There was confusion in the cooperation of the regional governments with the EU institutions and in some cases regions did not even exist as geographical, administrative and political entities. The establishment of a vertical and horizontal differentiated distribution of powers and responsibilities, in addition to effective planning, programming, coordination and monitoring capacities was a fundamental responsibility as far as the EU institutions were concerned. In Basilicata, more or less, this target has become a reality. In the other three regions examined in this chapter, the results are less encouraging.

Problems in spending and administrative capacity unavoidably lead to problems in implementation as the regions are actually not in position to adequately implement the

CSF. In 1989, the SFs started financing the ROPs. The question was whether the implementation would take place according to the basic guidelines and principles of EU Regional Policy²⁴⁶. Two kinds of implementation existed, the quantitative and the qualitative. In order for implementation problems to be resolved the Commission stopped placing both the decision-making and implementation decisions exclusively within the responsibility of the national authorities. This shift of regional policy made regional institutions become important policy actors and increased their significance in the attempts for regional economic convergence and development. This shift was followed by another, from the exclusive top-down regional policies to a combination of top-down and bottom-up, and in some cases purely bottom-up, approaches. The implementation of the CSF at a national level became a reality through the NOPs and at a regional level through the ROPs.

We have to remain critical when assessing the opinions of the interviewees. In some cases they are just describing the regional economic situation and in others they present the methods and processes, by which regional economic development can take place within their particular regions. However, in some cases they are being over-optimistic not only regarding future prospects, but also regarding the current impact of regional policies since the beginning of the CSF Cycles. We must bear in mind that three out of our four Italian case studies (Calabria, Puglia and Campania) are still included in the Convergence Objective despite receiving SFs for more than 20 years and Basilicata has been excluded due to the statistic effect of the EU Enlargement. Indeed, several attempts for development have taken place in the four Italian case studies of this

²⁴⁶ Additionality, subsidiarity, partnership and strategic planning.

thesis, but the results so far do not allow a great degree of optimism either for the current situation, or for the future.

The question in every case of regional economic development is whether or not the traditional top-down, or the contemporary bottom-up, approach is more effective. The answer is not simple. Since the beginning of the SFs, there has been a shift from exclusively top-down regional policies to a combination of top-down with bottom-up ones and in some cases the bottom-up approach is dominant. The bottom-up approach seems to be more efficient due to the fact that it is concentrated on individual regions and localities. However, in order for this approach to lead to regional economic development there is a need for a more sufficient cooperation between the regional, national and EU authorities.

CHAPTER 6

ANALYSIS OF THE FOUR SPANISH REGIONS

6.1-INTRODUCTION

In this chapter we analyse the four Spanish case studies, in order to explain why and how some Spanish NUTS 2 regions experienced a high degree of regional economic development, whilst others did not. In Spain, just like in Italy, there is a clear distinction between core, semi-periphery and periphery amongst NUTS 2 regions. The case studies examined in this chapter are Castilla y León, Comunidad Valenciana, Extremadura and Andalucía. The reason for choosing these regions is twofold: a) to critically present the regional economic divergence that still exists in Spain by means of dependency theory and b) to underline that, despite the huge amounts of funds they have received from both the EU and the national governments, Castilla y León and Comunidad Valenciana have already exited the Convergence Objective (“Phasing-In” Regions), whilst Andalucía and Extremadura are still included in the Convergence Objective.

As in the case of Italy, there is an attempt to use the MLG framework, soft and new regionalism as analytical tools for a critical presentation of EU Regional Policy in the context of Spain. There is also a clear focus on institutional capacity. According to dependency theory, Castilla y León and Comunidad Valenciana can be regarded as semi-peripheral regions, as they are both out of the Convergence Objective and at a “Phasing-In” stage, which means that they have exited due to significant regional economic development and not because of the EU Enlargement. Andalucía and

Extremadura are peripheral regions, due to the fact that despite receiving SFs for more than 20 years, they still have not managed to exit the Convergence Objective.

Castilla y León and Comunidad Valenciana have managed to reduce their economic disparities and exited the Convergence Objective, while Andalucía and Extremadura have not experienced similar convergence. A comparison between the four regions will reveal the main reasons for this pattern.

The main variables that determined our choice are the GDP per capita, and the unemployment and employment rates, in addition to a critical observation of the regional spending and administrative capacity, as well as implementation problems. Castilla y León and Comunidad Valenciana can be regarded as semi-peripheral regions, whereas Andalucía and Extremadura are peripheral ones, according to dependency theory.

6.2-THE EVOLUTION OF REGIONAL POLICY WITH REFERENCE TO SPAIN

6.2.1-REGIONAL POLICY IN THE 1980s AND 1990s

In practice, regional policy in Spain started in the early 1960s, when the “*Planes de Desarrollo*”²⁴⁷ was established. According to Garcia-Mila and Marimon (1999), until the mid-1960s a clear convergence process took place, but with limited success. Productivity, average wages and income differentials were and still are the main reasons for regional divergence across Spain.

In the 1980s, the “*Comunidades Autónomas*” were set up as autonomous regional governments enjoying devolved political powers from Madrid to the regional and local authorities. The “*Fondo de Compensación Interterritorial*” (*FCI*) was established in

²⁴⁷ This was a regional development strategy.

1978, according to the 1978 Constitution of Spain (article 158.2) and its main target was the decrease of regional disparities across the entire Spanish territory (Rodriguez, 1987).

Both initiatives marked a first major step towards a bottom-up approach because, until then, Spanish regional policy was mostly based on a top-down/centre-down approach, which meant that decisions were taken from Madrid, without consultation with local and regional authorities (Stohr, 1981). Until 1975, Spain was under the military regime of Franco and this made the offer of power and responsibilities to regional authorities even more difficult. The top-down approach adopted in Spain was stricter than the one in Italy. This meant that, while in Italy there was at least a small degree of consultation with regional authorities, in Spain there was no consultation at all and decisions were taken only by Madrid. During that period, the over-concentration of industrial development in the core Madrid-Basque Country-Catalan triangle occurred (Rodenas Calatayud, 1994).

This led to a highly centralised policy which practically eliminated any attempt to put in place a bottom-up approach (Harrop, 1996; Pinder, 1983; Rodenas Calatayud, 1994). This highly centralised regional policy was totally contrary to MLG, because there was limited, or no cooperation, or coordination between the national and the regional level. The Spanish national government (before 1980) held a monopoly in the decision-making context (Rodenas Calatayud, 1994), acting in an intergovernmentalist way, which is opposed to the more supranational EU Cohesion Policy.

Also, according to Lamo (2000), interregional migration from the peripheral to the core Spanish regions played a certain part in the convergence process, especially during the period 1955 to 1984²⁴⁸, but it was not the most important factor determining income

²⁴⁸ Particularly in Andalucía and Extremadura.

dynamics. During the 1980s and particularly after 1986, when Spain joined the EEC, there was already a better understanding of the principle of subsidiarity, namely, the decentralisation of regional policies to regional actors. However, the principle of additionality was not correctly followed as discussed by Garcia-Mila and McGuire (2001). In their view, the amount of EU economic assistance to the Spanish regions was much larger than that of the Spanish Government. This meant that EU funding was not additional to governmental spending, but greatly expanded initiatives for the low performing regions of Spain.

Between 1986 and 1991, the top recipients of the *FCI* were Extremadura (2.55%), Castilla-la Mancha (1.22%) and Galicia (1.16%). On the other hand, the top recipients of ERDF funds during the same period were Castilla-la Mancha (0.89%), Extremadura (0.83%) and Andalucía (0.72%). The ESF funds' top recipients were Extremadura (0.33%), Castilla y León (0.20%) and Castilla-la Mancha (0.18%). In total, Castilla-la Mancha received 4.32% (only 1.22% from the Spanish government), Extremadura 6.64% (only 2.55% from the Spanish government), Andalucía 3.53% (only 1.26% from the Spanish government), Castilla y León 2.91% (only 0.90% from the Spanish government) and Asturias 1.64% (only 0.52% from the Spanish government). As we can see, the principle of additionality was not followed and the question remains whether these grants really helped those peripheral regions (Gerson and Rowland, 2004; Garcia-Mila and McGuire, 2001).

Within these peripheral regions of Spain and particularly in Extremadura and Castilla-la Mancha, there were (just like in the *Mezzogiorno*) problems of industrial location, failure to attract new dynamic industries, as well as an unskilled and aging labour force (Harrop, 1996). Nevertheless, in some other regions, such as Andalucía, a

number of new industries have started appearing and this is encouraging for the future as a sign of a desirable regional convergence. Youth unemployment in Spanish peripheral regions²⁴⁹ dropped from 48% in 1985 to 32% in 1990, with the highest drop in Andalucía (45.8%), Principado de Asturias (45.5%) and Extremadura (43.3%) (Tondl, 1998).

Despite the aforementioned failures in the low performing regions of Spain, the growth measured as income per head between joining the EU in 1986 and 1990 was much greater than that of the *Mezzogiorno*. During the 1990s and the early 2000s, Spanish growth was again greater than the *Mezzogiorno*'s, so the gap narrowed and divergence tended to be smaller. This proves that there was indeed some progress in the regional development in Spain in comparison with the 1980s, when it was noted that, at that time, Spanish regions suffered significant economic disparities in terms of per capita income (IMF/Spain, 2005).

6.2.2-REGIONAL POLICY DURING THE CSF CYCLES

The evolution of Spanish regional policy has indeed been influenced by the development of EU Regional Policy. The Spanish government's regional policy gradually became more decentralised, but the main problem was the identification of the regional endogenous potentials not being aligned with the ERDF pre-requisites. The ERDF's target was the establishment of a business environment that could help the creation of new SMEs and support their growth and economic performance. Another problem was that Spain has failed to fit EU SFs into its existing national regional

²⁴⁹ Such as Galicia, Castilla y León, Extremadura, Andalucía, Castilla-La Mancha, Región de Murcia and Canarias.

scheme; indeed the ERDF was supposed to top up domestic regional funding rather than substitute them.

The gradual decentralisation of regional policy in Spain and the cooperation with the EU in terms of the Cohesion Policy was synonymous with the MLG, as there was clear coordination between the regional, national and EU levels. Furthermore, Regional Policy in Spain during the CSF Cycles has been conducted (just like in Italy) in accordance with the principles of soft and new regionalism. According to soft regionalism, regional development takes place only if there is adequate consultation with the regional and local authorities (Acharya, 1999; Hurrell, 1995; Ghica, 2008) and an effective understanding of the values of specific localities and habitats and only if central governments are willing to follow subsidiarity (Strecker, 1994). In Spain this started taking place slowly with the establishment of the *Comunidades Autónomas* and the *FCI*, but became more evident with the beginning of the CSF Cycles.

New regionalism, which supports the increase of economic competitiveness on a region-by-region basis and highlights the importance of the regions, and as a consequence the importance and necessity of regional development, based on processes such as visioning and strategic planning (Wallis, 2002) could also be adapted in the case of Spain since the establishment of the *Comunidades Autónomas* and the *FCI*, but was followed more intensely with the beginning of the CSF Cycles, when a more bottom-up approach towards regional development was adopted. We can argue that decentralisation in the regional policies in Spain started about 15 years earlier than in Italy. In Spain decentralisation started taking place in 1978 (*FCI* establishment), but in Italy it started in 1992, after the closure of *Agensud*.

According to Conzelmann (1998), all southern EU Member States²⁵⁰ have “*often found it difficult to accommodate the growing resources of the Structural Funds within the relatively narrow realm of traditional regional policy*” (Conzelmann, 1998:3).

Just like in Italy, several Spanish regions had never been involved in EU policies before the 1990s and thus had never functioned under an EU framework, whilst others did not exist as administrative, geographical, or even political entities (Bailey and De Propriis, 2002). Also, regional institutions in charge of regional policy had to establish vertical and horizontal powers and distribution of responsibilities, as well as effective and considerable organising, planning, programming, cooperation, coordination, evaluation and monitoring capacities (Milio, 2007).

That is why a new more flexible ERDF approach was introduced in order to facilitate the release of all the available financial resources from Brussels. Nevertheless, in some cases the bottom-up policies of the ERDF led to disagreements with member states on the degree of autonomy of the regional and local authorities in the context of regional policy (Conzelmann, 1998).

The Spanish Convergence Regions can be characterised by significant territorial extension, mainly agricultural, and their population is dispersed in scattered nuclei. Traditionally in these regions, agriculture has been very important and the employment is concentrated on the aforementioned agricultural sector, which has a seasonal character, in tourism, particularly in the cases of Andalucía and Galicia and in industry, particularly in the case of Galicia, even if this region has experienced significant transformation processes during these years. Between 2000 and 2008, an important increase in income and employment took place in these regions, mainly due to the

²⁵⁰ Including Spain and Italy.

development of the building and construction sector (interview with Kaiser Moreiras, 2009).

The role of the SFs in the development of the Spanish regions since 1989 has been more than obvious. The EU transfers resulted in a great volume in relation to the national GDP. Generally, there has been cooperation and complementarity in the policies of the ERDF, the EAGGF and the Cohesion Fund. The ESF actions were mainly directed towards labour formation, education and training. The OPs framed the implementation of the CSF in Spain. That is why their contribution can be characterised as absolute and tautological. The management capacity of the autonomous administrations has significantly increased in the context of economic planning and the programming of interventions (interview with Kaiser Moreiras, 2009).

The regional development approach that has been taking place in Spain in recent years has stopped being strictly top-down. The fact that the regional administrations are gaining importance in decision-making leads to the conclusion that there is a shift from a strict top-down approach to a combination of top-down and bottom-up (interview with Kaiser Moreiras, 2009). Spain has implemented a less centralised domestic regional policy in comparison with Italy.

The level of decentralisation in Spain is very high and there is a certain degree of competitiveness between Autonomous Communities. Traditionally in Spain the geographical mobility of the labour force has been low. The exceptions are movements towards Comunidad de Madrid²⁵¹ and Barcelona²⁵². Such movements became very difficult, mainly due to three reasons: a) difficult access to the rented house market, b)

²⁵¹ Due to the fact that besides being the capital city of Spain, Madrid is also the location of numerous multinational companies and industries.

²⁵² Capital city of Cataluña - one of the most developed NUTS 2 regions within the entire EU - and the second economic centre of Spain.

different legislation in different Spanish NUTS 2 regions and c) Spanish family roots. Regions welcoming an increased labour force are those with higher chances of finding jobs, and as a result they are the wealthiest in purely economic terms. On the other hand, regions exporting their labour force suffer a decapitalisation process of their human resources. This inevitably worsens their potential possibilities for economic progress and development (interview with Kaiser Moreiras, 2009).

In the context of systematically available dates and monitoring systems, *FONDOS* 2000 is the most important operational instrument. The central database of this system supposes basic support for the management, administration and monitoring of the interventions. It is the source of formal documentation for the European Commission concerning the physical and economic situation and its role increased significantly during the third CSF Cycle. The successor to *FONDOS* 2000, for the current CSF Cycle, is the *FONDOS* 2007 system, which is characterised by even more capabilities and capacities, such as digital signatures on documents. The main target of *FONDOS* 2007 is the establishment and management of an “administration without paperwork” type system. Evaluation reports are indeed necessary, but certainly not enough to achieve significant improvement in the management of plans and studies and even more so in the case of more complicated interventions, such as the OPs, unless they are followed by other measures in a wider context of regional policy (interview with Kaiser Moreiras, 2009).

An efficient regional economic performance depends not only on the regional development approach followed, but also on regional administrative capacity. The latter can be regarded as one of the main factors determining economic differences across regional performances (Milio, 2007). Cantabria, Castilla y León and Comunidad

Valenciana prove that the bottom-up approach was successful, due to efficient three-level cooperation. Nevertheless, in Extremadura and Andalucía a bottom-up approach has also been put into practice, but with less encouraging results.

Spain is one of the EU Member States that have most benefited from the EU Regional Policy, including the SFs and the CSFs. SFs have contributed to a satisfactory increase of economic growth, as well as job and wealth creation. The investment programmes that took place between 1989 and 2006 resulted in an average gain of approximately 0.56 points in the context of growth rates of the regions benefited by these programmes, compared with the situation that would have existed without this aid. This gain would lead to an average raise of approximately 425 euros (1999 prices) in terms of income per capita (Sosvilla-Rivero, 2005).

This is a clear sign of how much the EU Cohesion Policy has contributed to the regional economic convergence and economic development in the Objective 1 and Convergence Objective Regions; however, without national contribution, regional development would have been unattainable. However, the increase of per capita income is not the only benefit in the case of Spain. Sosvilla-Rivero (2005) estimated that between 1989 and 2006, the CSF total effects would result in an employment increase of 1.46 percentage points accompanied by an unemployment decrease of 0.74 percentage points, compared to the situation that would have prevailed without the aid.

In Spain, SFs during the second CSF Cycle added approximately 1% per year to output growth and 0.4% per year in employment growth. Nevertheless, due to the fact that not all the Spanish Objective 1 Regions had the same level of development, this additional effect took place with “*wide regional variation*” (Bachtler and Gorzelak, 2007:314). During the 2007-2013 period, Spain is receiving less aid in the form of SFs

than in the past (Sosvilla-Rivero, 2005). Between 2000 and 2006, Spain received 54,000 million euros, whereas between 2007 and 2013, it will receive only 27,300 million euros; almost half of the amount (Gomez et al., 2005). This reduction in the allocation of funds takes place not because the Spanish Convergence Regions show poor spending capacity, but because many of them have managed to achieve significant regional development. Spain will receive fewer funds because it does not actually need them any more.

Table 6.1 below, as in the case of Italy explains regional institutional and administrative capacity in Spain, which is closely linked to the ability to spend the SFs allocated. Inability to spend SFs indicates lack of regional institutional capacity. Table 6.1 reveals the percentage of SFs expenditure in the Objective 1 context as expenditure/total allocation and we can observe that during the first CSF Cycle the percentage of the Spanish Objective 1 Regions was satisfactory (87%). In the second CSF Cycle it a bit lower (82%), whereas in the third it was 75% until December 2006 (Milio, 2010). This information makes us argue that administrative capacity in the Spanish Objective 1 Regions has been more sufficient than in the Italian Objective 1 Regions. Spanish regions experience fewer implementation difficulties in terms of the CSF, as during the first three CSF Cycles, they had the third highest implementation rates²⁵³.

²⁵³ Payments compared to commitments.

Table 6.1
Percentage of SF Expenditure (% of expenditure is calculated
as expenditure/total allocation)-EU Objective 1

First CSF Cycle (1989-1993)	
Member states	%
Ireland	95
Portugal	91
Spain	87
Greece	84
France	84
UK	83
Italy	73
Second CSF Cycle (1994-1999)	
Member states	%
Portugal	89
Ireland	87
Spain	82
Denmark	81
Austria	77
Greece	73
Belgium	72
France	67
Netherlands	67
UK	67
Italy	67
Third CSF Cycle (2000-2006) (until December 2006)	
Member states	%
Ireland	82
Sweden	79
Germany	77
Spain	75
Portugal	75
Austria	74
Finland	72
Netherlands	72
Belgium	66
UK	66
France	64
Italy	60
Greece	53

Source: Milio, 2010, p. 27.

Table 6.2 below presents the SF allocation²⁵⁴ within the Spanish Objective 1 Regions. During all three Cycles, Andalucia received the highest amounts, but is still included in the Convergence Objective.

²⁵⁴ In millions of euros.

Table 6.2**Total SFs in the Spanish Objective 1 Regions (in millions of euros)**

Region	First CSF Cycle (1989-93) ²⁵⁵	Second CSF Cycle (1994-99) ²⁵⁶	Third CSF Cycle (2000-2006)
Andalucía	1816.45	4204.54	12470
Principado de Asturias	398.75	851.88	1921
Canarias	531.03	1334.28	2862
Cantabria	92	499.65	-
Castilla y León	906.15	2164.68	4906
Castilla-la Mancha	741.61	1481.24	3271
Comunidad Valenciana	575.72	1766.09	4579
Extremadura	525.35	1124.91	3230
Galicia	805.07	2745.39	5642
Región de Murcia	221.43	706.36	1758

Source: Pardo Garcia, 2003, pp. 6-7 and Cancelo de la Torre, Faina and Lopez-Rodriguez, 2005, p. 5.

Table 6.3 below summarises the spending capacity of the Spanish Objective 1 Regions. During the first CSF Cycle, Región de Murcia had the highest spending capacity. Castilla y León was first during the second Cycle, whilst Cantabria boasted the highest spending capacity between 2000 and 2006. The high percentages of SF expenditure in the majority of the Spanish Objective 1 Regions during all three CSF Cycles (with the exceptions of Extremadura and Principado de Asturias during the second CSF Cycle and Canarias and Comunidad Valenciana during the third CSF Cycle) reveal a satisfactory institutional capacity in terms of implementation of the CSF framework.

Table 6.3**Percentage of SFs Expenditure-Spanish Objective 1 Regions (in %)**

First CSF Cycle (1989-93)	Second CSF Cycle (1994-99)	Third CSF Cycle (2000-06)
Andalucía 94	Andalucía 82.69	Andalucía 77.68
Principado de Asturias 106.5	Principado de Asturias 71.77	Principado de Asturias 90.01
Canarias 102.6	Canarias 87.26	Canarias 76.45
Cantabria -	Cantabria 78.95	Cantabria 112.01
Castilla-la Mancha 101.7	Castilla-la Mancha 89.16	Castilla-la Mancha 93.62
Castilla y León 110.3	Castilla y León 92.18	Castilla y León 102.67
Extremadura 100	Extremadura 61.54	Extremadura 87.70
Galicia 107.2	Galicia 91.84	Galicia 82.20
Región de Murcia 110.4	Región de Murcia 83.03	Región de Murcia 77.81
Comunidad Valenciana 102.9	Comunidad Valenciana 85.69	Comunidad Valenciana 74.98

Note: During the first CSF Cycle, Cantabria was an Objective 2 Region.

Source: Milio, 2010, p. 28.

²⁵⁵ Funding by the ERDF, the ESF and the EAGGF.

²⁵⁶ Funding by the ERDF, the ESF and the EAGGF.

In the following sub-sections there is an analysis of a) the economic profile of each of the four regions and b) the regional plans and projects that have so far taken place, with comments on their efficiency. Whilst Castilla y León and Comunidad Valenciana are chosen for further study because of their significant development, Extremadura and Andalucía are chosen due to their very low growth rates, their poor spending and administrative capacity and their implementation problems. The issue addressed here is to understand how and why EU Regional Policy has so far had a positive impact on the economies of some regions, and the exact role of the regional institutional framework.

6.3-REGIONAL ANALYSIS

6.3.1-CASTILLA Y LEÓN (Part of Objective 1 till 2006. “Phasing-In” Region for the 2007-2013 Cycle)

Castilla y León can be characterised as a semi-peripheral region due to the fact that it is a “Phasing-In” Region, which means it has exited the Convergence Objective because of its significant economic development and not because of the EU Enlargement. It is the largest NUTS 2 region in Spain and the third largest in Europe. However, it is characterised by low population density, since its urban areas are geographically scattered. On 1st January 2010, the population of Castilla y León was 2,559,515 people (INE, 2011d). Low population density adds a great deal to the cost of investment in basic infrastructure (EURES/Castilla y León, 2009; Inforegio Europa, 2009f). More specifically in Castilla y León, there are 2,248 towns; approximately 98% of them have a population of fewer than 5,000 inhabitants and 71% of fewer than 300 (Inforegio Europa, 2009f). Castilla y León has been losing population for a century in favour of other regions. Since 2001, there has been a slight increase in population, mainly thanks to the contribution of foreign immigrants. The still relatively high unemployment rate hampers development and social welfare. There is also a need to

improve social services, especially in rural areas (Info regio Europa, 2009f). The main problems of Castilla y León are related to infrastructure, and the population dispersion. Furthermore, there is a certain degree of lagging behind in innovation, research, labour force qualification, education and training, in addition to a significant ageing of the population (interview with Valverde Gomez, 2009).

The enlargement of the EU-15 to the EU-27 resulted into a drop in the EU average used to normalise regional GDP per head, and many NUTS 2 regions included in Objective 1 became eligible to exit Objective 1 due to a simple statistic effect. However, this was not the case for Castilla y León, which managed to exit Objective 1 because of the specific development policies that took place over the last few years. Significant development has been taking place in Castilla y León since 1986. Castilla y León has managed to reach the average EU income from having 66% in 1986 to 94.5% in 2004. Provinces of Castilla y León, such as Burgos, Segovia, Soria and Valladolid have GDP per head above Spain's average (100.7%). Between 2000 and 2004, all the region's provinces experienced development clearly above the national average (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

In order for the *FCI* actions to be successful, there is a need to accompany such measures with a pro-active national government. Without the cooperation and assistance of the central government, both the *FCI* and EU funds are significantly less effective. The provision of public services is far more difficult in the NUTS 2 regions that are characterised by dispersed or ageing population. The EU tries to prioritise environmental sustainability across its policies; however, the environmental protection cost in some regions is not sufficiently evaluated. The convergence level of Castilla y León during recent years is very encouraging. The NUTS 2 regions are in charge of the

management of health, education, social services and active employment policies (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

Castilla y León has been an Autonomous Community since the approval of its autonomy enactment in 1983. Significant training courses for civil servants in the regional public administration have taken place, including some focused on SFs management; this guarantees the rotation of fund managers within the region. Regional employees' capacity in the context of EU issues has improved since 1989 (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

A problematic issue for civil servants is the language and terminology used in EU documents. The utilisation of phrases "made in the EU", complicates the comprehension of the documents. Some examples are the terms "partnership" and "subsidiarity". Such terms, despite the fact that they are very common in the context of EU institutions, are not common in Spain; their use in the Commission's documents makes their comprehension somewhat difficult (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

In relation to the distribution of resources, the Spanish Constitution guarantees solidarity amongst the territories and the current model of financing regulates the existence of funds and compensatory mechanisms, thus monitoring the realisation of the solidarity principle. Regarding competitiveness amongst territories, it is necessary to argue that the autonomy of Spanish regions is still very young, as it has been in place for only 30 years. During this time the aspiration of each region has been to reclaim competencies from the Spanish government together with the related budget to manage them (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

The most nationalistic regions and territories continue requesting competencies, but there are discussions concerning the need to enforce the coordinational and cohesional role of the State. Until now, cooperation amongst the Spanish NUTS 2 regions has been important. The priority of the regions has been to take charge of the competencies anticipated by the Commission and the respective Autonomy Statutes, and to deal with them effectively (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

The improvement of education is one of the fundamental pillars on which regional development should be based. The education provided within Castilla y León is of a high level. According to the results of the most recent Programme for International Student Assessment (PISA) report conducted by the OECD, Castilla Leon is the best performing NUTS 2 Spanish region in terms of results concerning science and maths. It is also one of the first regions in text comprehension. The quality of education in Castilla y León is significantly above the national average. Nevertheless, these results are not enough to boost regional development; there is in fact a problem retaining skilled young labour. After students finish their studies, they look for job opportunities and these mainly occur in Madrid, which is the destination of the largest portion of the students of Castilla y León. The high level of the universities of Castilla y León indeed attracts students from outside the region; young people therefore enter the universities of Castilla y León, but leave the region after they finish their studies. It is obvious that regional authorities would welcome the labour force from other regions to move to Castilla y León to support per capita income increases. That is why it is necessary for the regional authorities to put in place initiatives aimed at retaining the students educated within Castilla y León (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

EU policies have contributed positively to sustaining employment in Spain. According to Eurostat data, during the third CSF Cycle, the GDP per head in Castilla y León rose from 88.1% to 99.2%. It was the fourth Spanish NUTS 2 region in terms of convergence (4.3 points above the national average). Other NUTS 2 Spanish regions, which used to be in a much better economic situation, have shown slight or no progress in terms of the convergence level. According to the *Funcas* institute (2007), Castilla y León was the first amongst all the Spanish NUTS 2 regions in terms of convergence with the EU, showing during the 2000-2007 period an increase of 15 points, six more than the Spanish average. Comparing the “Statistic Effect” Regions with Castilla y León, it emerges that, in terms of convergence level, the former have not shown any development over the past nine years. On the contrary, according to the 2007 *Funcas* data, Castilla y León’s income has been converging to the EU-27 average, so that it qualifies for the ESF as a “Plain Competitiveness” Region (103.03%). Employment growth is one of the main objectives of Castilla y León, and during the last decade, its unemployment rate trends²⁵⁷ have fallen when compared to the national average. In the following years, the target of Castilla y León will be to continue increasing its convergence with the EU in line with the Lisbon Strategy, focusing on competitiveness, productivity, stronger innovation and human capital (interview with Barrios Garcia, 2009).

Despite its economic development, Castilla y León²⁵⁸ requested to be included in the Convergence priority, rather than the Competitiveness and Employment priority. When a NUTS 2 region is eligible to exit the Convergence Objective²⁵⁹, this does not mean that its convergence trend is adequate to immediately enter the Competitiveness

²⁵⁷ For all categories of employment.

²⁵⁸ Already a “Natural Effect” Region.

²⁵⁹ In this case being a “Phasing-In” Region.

and Employment Objective. The distance between the “Phasing-In” period and the Competitiveness and Employment Objective is quite long and in some cases there is a difference of approximately 5% in terms of employment-unemployment levels, or GDP per capita levels between the two (interview with Valverde Gomez, 2009). Therefore, Castilla y León has practically asked for development guidelines, measures and interventions as if it still was part of the Convergence Objective. In this way, when exiting the Convergence Objective, it hopes to be much more competitive and to have a smoother inclusion into the Competitiveness and Employment Objective with a shorter transitional period.

-Regional economic statistics

Castilla y León is the region with the highest capital equity level in Spain (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009). In Castilla y León, the activity rate in 2001 was lower than both the EU and the Spanish average. The main characteristic of this region is the huge out-migration to other regions, especially Comunidad de Madrid, Cataluña and País Vasco. The employment rate in 2008 was 48.9% (40.5% in 1999), lower than both the national (52.4%) and the EU-27 average (53.7%). Castilla y León has the highest percentage of self-employed labour (interview with Barrios Garcia, 2009). Between 1999 and 2008, the employment rate increased by 8.4% and this can be read as a sign of development (Eurostat, 2010d). In 2008, 19.5% were employed in the industrial sector, 10.2% in construction, 65% in the service sector and 5.3% in the agricultural sector (EURES/ Castilla y León, 2009).

The unemployment rate of Castilla y León was 9.5% in 2008 (15.3% in 1999), lower than the national average (11.3%), but higher than the EU-27 average (7%). This is an encouraging fact for regional economic development. Between 1999 and 2008, the

unemployment rate fell by 5.8%, the sign of a small economic progress (Eurostat, 2010i). Approximately one million inhabitants in Castilla y León are employed and approximately 63.8% of males and 45.8% of females are economically active (EURES/ Castilla y León, 2009).

Using macro-economic models based on the HERMIN model, Sosvilla-Rivero (2005) argues that the income per capita of Castilla y León (PPP) in 1993 was 73 (EU-15=100) with CSF, but it would have been 72 (EU-15=100) without CSF. Likewise, in 1999, the income per capita was 76 (EU-15=100) with CSF, but would have been 72 (EU-15=100) without it. In 2002, the income per capita was 80 (EU-15=100) with CSF, but would have been just 67 (EU-15=100) without CSF. The convergence between 1993 and 1999 was 3% with CSF, but would have been 0 without CSF. The convergence between 1993 and 2002 was 7% with CSF, but would have been -5% without CSF (Sosvilla-Rivero, 2005). In 2007, the regional GDP per capita of Castilla y León represented 101.4% of the EU-27 (87.5% in 1996). The 13.9% increase between 1996 and 2007 shows economic development and thereby convergence (Eurostat, 2010g).

The main industries in Castilla y León include automotive, energy, chemicals, pharmaceuticals, agro-food and recently aeronautics and biotechnology (IRE Network/ Castilla y León, 2009). The companies having more than 1,000 employees are Renault Espana, G. Antolin, Michelin, Nissa M. Iberica, Iveco and Bridgestone H. (automotive and components), Ebro Puleva, Campofrio, Pascual and Siro (agri-food), G. Norte, Viajes Halcon (tourism), El Arbol (distribution) and G.Anton (cleaning), Begar and MRS (construction), Antibioticos and Europac (chemicals) and G. Indal (metal). In 2008, all activity sectors in Castilla y León were negatively affected by the world

financial crisis, most importantly the sectors of industry and construction. In the same year, net employment in the region dropped by 3.5% (EURES/ Castilla y León, 2009).

In 2008, 700,000 work contracts were signed in Castilla y León and this percentage is 9% lower than in 2007. 75% of these were in the service sector²⁶⁰. 9% of these contracts were in the industrial sector and more specifically in agri-food industries and the metal and motor vehicle manufacturing sector. 11.2% of the contracts were in the construction sector²⁶¹ and finally 4.8% of the contracts were in agriculture²⁶² (EURES/ Castilla y León, 2009).

The Commission co-financed the 2000-2006 ROP/Objective 1 Programme for Castilla y León, which was co-financed by the ERDF (mainly), the ESF and the EAGGF (Inforegio Europa, 2009f).

²⁶⁰ General services, health, and hotels and restaurants.

²⁶¹ Bricklayers, electricians, cement workers and labourers.

²⁶² Labourers, livestock raisers, or forestry workers.

Table 6.4
Objective 1 Programme for Castilla y León (2000-06)
Breakdown of Finances by priority area in Castilla y León

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Improved competitiveness and developing the productive fabric	395,712,000	286,278,344	395,712,000
Knowledge-based society	133,587,842	93,511,489	133,587,842
Environment, nature and water resources	836,836,566	565,759,857	836,836,566
Education infrastructure and reinforcement of professional, technical education and training	421,572,963	266,987,447	421,572,963
Integrating and bringing the unemployed back into the workforce	94,091,352	61,159,377	94,091,352
Reinforcement of stability in employment and adaptability	71,098,842	49,769,190	71,098,842
Insertion of people with particular difficulties in the labour market	65,562,781	45,893,947	65,562,781
Participation of women in the labour market	22,618,436	16,963,829	22,618,436
Local and urban development	394,141,688	258,406,259	394,141,688
Transport and energy networks	2,043,022,621	1,267,483,460	2,043,022,621
Agriculture and rural development	536,355,355	369,050,392	536,355,355
Technical Assistance	17,859,097	13,394,323	17,859,097
Total	5,032,459,553	3,294,657,914 [ERDF contribution 2,301,773,395 (69.86%), ESF contribution 322,368,866 (9.78%) and EAGGF contribution 670,515,653 (20.35%)]	5,032,459,553

Source: Inforegio Europa, 2009f.

The highest total cost (2,043,022,621 euros) can be observed in the context of transport and energy networks with an emphasis on gas and electricity generation and distribution infrastructure. The second highest (836,836,566 euros) can be seen in terms of environment, nature and water resources with an emphasis on the improvement of the public water supply to homes and industry (Inforegio Europa, 2009f).

On 28/11/07, the Commission approved the ERDF OP for Castilla y León under the Competitiveness Objective for the 2007-2013 Cycle, with a budget of about 1.2 billion euros, including EU investment from the ERDF (around 818 million euros), which corresponds to approximately 3.5% of the ERDF that would be invested in Spain during the 2007-2013 Cycle (Inforegio Europa, 2009n).

Table 6.5**Programme under the Competitiveness Objective, co-funded by the ERDF/OP Castilla y León (2007-13)**

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Development of the Knowledge Economy (Information Society and ITCs) (9.6% of total funding)	90,247,232	22,561,813	112,809,045
Entrepreneurial Development and Innovation (26.6% of total funding)	218,968,294	93,843,555	312,811,849
Environment, Natural Surroundings, Water Resources and Risk Prevention (22.8% of total funding)	187,354,760	80,294,898	267,649,658
Transport and Energy (30.4% of total funding)	233,696,267	123,429,312	357,125,579
Local and Urban Sustainable Development (10.1% of total funding)	82,797,064	35,484,458	118,281,522
Technical Assistance and Reinforcement of Institutional Capacity (0.5% of total funding)	5,130,820	1,282,705	6,413,525
Total	818,194,437	356,896,741	1,175,091,178

Source: Info regio Europa, 2009n.

The main aim of the OP, in line with the Lisbon Strategy, is to improve regional competitiveness, to create new jobs, to enhance innovation in businesses, to support SMEs, R&D investment and improvements in the technology and education infrastructure. The target is for the region to be presented as an ideal location for business. According to the Programme, technology-based new enterprises will be supported, the use of Renewable Energy Sources will be encouraged and approximately 7,000 jobs will be created. More than two billion euros of private investment is expected to be stimulated, as well as the co-finance of projects linking science and business (Info regio Europa, 2009n).

The Objective 1 funding for Castilla y León for the 2000-2006 period was 4.6 billion euros, which represents 12.1% of the entire Objective 1 funding for Spain. In 2004, Castilla y León received from the *FCI* 70.06 million euros, which amounts to 7.04% of the entire *FCI* funds for regional economic development in Spain (Salmon, 2004).

Between 1989 and 2006, 50% of the average percentage CSF distribution according to investment categories was invested in infrastructure, 18% as a business aid and 32% in human capital. These figures clearly show the important role that the CSFs placed on the move towards regional economic convergence (Sosvilla-Rivero, 2005).

-Institutional capacity

The regional government of Castilla y León is divided into 12 main administrative departments in charge of a) Presidency, b) Autonomous Administration, c) Internal Affairs and Justice, d) Finance/Treasury (*Hacienda*), e) Economy and Employment, f) Development, g) Agriculture and Livestock, h) Environment, i) Health, j) Family and Equal Opportunities, k) Education and l) Culture and Tourism (Junta de Castilla y León, 2011a). The department of Finance/Treasury (*Hacienda*) is mainly in charge of the management of the EU policies and funds, in particular through the Directorate General for Budget and European Community Funds (Junta de Castilla y León, 2011b). The department of Economy and Employment also plays an important role in terms of the management of the EU policies, through the Directorate General for Economy, Financial Policy and European Issues (Junta de Castilla y León, 2011c).

The spending capacity of Castilla y León (in percentage of SFs expenditure) was 110.3% during the first CSF Cycle, 92.18% during the second CSF Cycle and 102.67% during the third CSF Cycle (Milio, 2010). Castilla y León had the second highest spending capacity of all the Spanish Objective 1 Regions during the first CSF Cycle, the highest during the second CSF Cycle and the second highest during the third CSF Cycle, when Cantabria which was a “Phasing-Out” Region was on top of the list (Milio, 2010). High absorption capacity means high implementation capacity and is a crucial factor that makes us argue that Castilla y León experiences an effective institutional capacity.

The regional administration of Castilla y León shows (through the high level of absorption capacity) that it has few problems in implementing the CSF.

In Castilla y León, bottom-up projects, such as the RTP, the RIS+ and the TRIP, can be argued to have been successful. Crucial for innovation across the manufacturing sector was the set up of a technology park near Valladolid, which focused on telecommunications and housed the R&D divisions of Spain's Telefonica, Vodafone and other international telecoms firms. This technology park was created in the early 1990s by the regional administration of Castilla y León in order to stimulate innovation in technology within the following years. The presence of Spain's Telefonica and Vodafone, with their updated technology and skilled labour force, encouraged advanced telecommunications' research and design. It can be argued that this park was the main reason behind the progress in the R&D context in Castilla y León. In 1997, these attempts were further stimulated by the 1997-2000 Regional Technology Plan (RTP), the aim of which was the development of technology and innovation within Castilla y Leon (Cordis/ITT, 2002).

The RTP of Castilla y León was co-financed by the EU, more specifically, the ERDF. Its total budget was 600,000 ECU and the ERDF contribution was 200,000 ECU. The RTP concentrated on the identification of strategic action plans in the context of regional innovation. The targets of the RTP were a) the reorganisation of technological supply, b) the clarification of business problems and needs, c) the establishment of more efficient cooperation and collaboration at all levels, d) the better utilisation and management of human resources, e) the promotion of innovation and updating of technology and f) a better evaluation system (RIS/ Castilla y León, 2010). The action lines of the RTP concentrated on five main programmes: infrastructure, innovation,

vocational training, awareness raising and structuring of the business demand. The first positive results became evident in 1997, when many actions were implemented through a call for plans and projects by the *Agencia de Desarrollo Economico (ADE)* (RIS/Castilla y León, 2010).

The RTP gained credibility and fulfilled the expected outcomes, so much so that more funding was made available, including a) the ERDF, b) the ESF, c) a Global Grant ERDF-*ADE*, d) a cooperation agreement between *ADE* and the Ministry of Economy and Finance, e) several private sources and f) the RTD Framework Programme. Around 447 million ECU was pledged for the first four years of implementation (1997-2000) and the targets were twofold: a) to increase the technological effort (R&D expenditure over GDP at factor costs) to reach 1% by 2001 (in 1997, it was 0.8%), and b) to increase business R&D expenditure to reach 50% of total expenditure (in 1997, it was 40%). Both targets were achieved (RIS/Castilla y León, 2010).

In order to put the RTP strategy into practice, a Regional Innovation Strategy (RIS+) project was also launched from 1999 to 2001 in three of the region's nine provinces²⁶³. This project included 12 actions, the most important being the technology audits of 20 SMEs in the machinery, textiles, metal-working and stone sectors. SMEs were introduced to the technology equipment and facilities located in regional universities. 20 companies received training on information technologies and several others on marketing, and the management of research and innovation. The Transregional Innovation (TRIP) project Autochain, which linked the car industry of Castilla y León with those of Aragon and Wales also took place (Cordis/ITT, 2002). This project led to the creation of a Regional Automotive Forum in Castilla y León.

²⁶³ Avila, Salamanca and Zamora.

In October 1997, the Regional Government of Castilla y León and the Federation of Savings Banks agreed to set up an investment company, which was to gather funds from local banks (80% of their own funds). The target of the Regional Government was to make funding available to facilitate the development of strategic economic sectors for the region of Castilla y León and to generate employment in a region with a long tradition of emigration. An important objective of that programme was to promote the food industry, sugar production and transport network. The agreement was based on a consensus between the Regional Government and the savings banks. Rural savings banks would take part only in the investments of the agriculture and the agri-business sector and a joint commission was established to define the strategic sectors and determine the amounts that should be invested. This programme indeed helped the agriculture sector in Castilla y León (Artiles, 1997).

Besides the regional universities, there are many research centres covering almost the entire complex of industrial activities, such as the Centre for R&D in the Automotive Sector, the Centre for Automation and Robotics and the Centre for Biotechnology. The Agency of Investments and Services of Castilla y León is responsible for most of the public funding for innovation and technology development (IRE Network/ Castilla y León, 2009).

The existence of an increased number of internal departments in the regional administration tends to lead to a fragmentation of the management of interrelated areas. This would inevitably lead to an inefficient assignment of resources. Despite its significant territorial extension, the number of departments in the region is currently 12, much lower than other NUTS 2 regions with a lower territorial extension. A deep knowledge of the region is necessary in order for adequate planning to become a reality.

That is why the existence of databases and statistics which evaluate public policies and allow comparisons of the results of the different Spanish NUTS 2 regions is necessary for the development of the regions (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

Predictions for the future of the Castilla y León economy mainly depend on the depth and length of the current economic crisis. According to the most recent facts on *HISPALINK*, there was going to be a growth rate increase of 0.4 percentage points for 2009, whereas the increase for Spain was supposed to be 0.7 percentage points. For 2010²⁶⁴ the expected growth rate increase for Castilla y León will reach 0.6 percentage points, whereas the national average is supposed to increase by 0.2 percentage points (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

Despite the fact that all the Spanish Objective 1 Regions have received significant amounts of SFs, they have not achieved similar results to Castilla y León. This proves that EU funds on their own cannot increase a regional economy's competitiveness level. Other factors should contribute, such as additional funds, satisfactory management of funds, a clear policy leading to competitiveness, an emphasis on productive activities, R&D investment, enforcement of exports and the updating of agricultural exploitation. It is necessary for the regional governments²⁶⁵ to ensure that interventions are efficiently combined with regional policies. They must also be complementary to the other financial instruments of the region²⁶⁶. The priorities of the EU Funds are significantly different, but efficient programming amongst them allows positive cooperations, which benefit regional economic development, even when some issues

²⁶⁴ When the economic crisis will be less intense.

²⁶⁵ Receiving SFs.

²⁶⁶ According to the article nine of the EC Rule 1083/2006 of the general dispositions for this new programming period.

are not being covered by the SFs. Nevertheless, in order for the different funds to achieve their targets, it is necessary for the regions to play an important role in deciding key priorities and actions for their region (interview with Lopez de la Cuesta and Lopez de la Cuesta, 2009).

Again we have to be cautious and critical when assessing the opinions of the interviewees regarding both the economic situation and the future prospects of Castilla y León, but in this case a certain degree of optimism is justified due to the fact that Castilla y León is a “Phasing-In”, “Natural Effect” Region. This means that, unlike Basilicata, it has exited the Convergence Objective only due to its significant economic development and not due to the EU Enlargement. Several attempts at regional economic development have indeed taken place and most of them have been successful. We can argue that the current economic situation in Castilla y León can be regarded as encouraging.

The conclusion is that Castilla y León is indeed on the way to effective regional development. The fact that it has already exited the Convergence Objective shows the high degree of economic progress and development that has already taken place. In our view, the case of Castilla y León shows that a bottom-up regional development approach can indeed positively impact on regional economic convergence.

6.3.2-COMUNIDAD VALENCIANA (Part of Objective 1 till 2006. “Phasing-In” Region for the 2007-2013 Cycle)

Comunidad Valenciana can be characterised as a semi-peripheral region, due to the fact that (just like Castilla y León) it is a “Phasing-In” Region, which means it has exited the Convergence Objective because of its significant economic development and not because of the EU Enlargement. However, the main problem that still hampers

regional economic development is that, despite the fact that employment is increasing, productivity growth remains low ²⁶⁷, mainly due to the regional economy's specialisation in traditional, and low-value added activities. On 1st January 2010, the population of Comunidad Valenciana was 5,111,706 people (INE, 2011d).

Comunidad Valenciana²⁶⁸ is a “Natural” and not a “Statistic Effect” Region, which means that it has exited the Convergence Objective because of its actual economic development and not because of the EU Enlargement. Comunidad Valenciana, like Castilla y León, also requested support measures in line with the fact that it finds itself between the “Phasing-In” and the Competitiveness Objective status. Indeed, the economic growth and competitiveness improvements that are taking place in the “Natural Effect” Regions are still vulnerable and uncertain. There is an actual danger for the “Natural Effect” Regions to step back even to levels below 75% of the EU-15 GDP average, unless the EU takes specific measures concerning convergence. The main problem is the fact that Comunidad Valenciana²⁶⁹ still has structural and infrastructural problems, such as industrial restructuring, and is lagging behind in economic performance in the mountain zones, islands, periphery and frontier areas. The main problems of “Natural Effect” Regions include weak innovation, low activity in R&D, industrial delocalisation, low productivity, weak transport infrastructure, excessive barriers to entering the labour market, population ageing and lack of qualifications of labour force. Besides improving its basic infrastructure, Comunidad Valenciana has to improve its social infrastructure (interview with Revuelta, 2009).

The financing of the “Phasing-In” and “Phasing-Out” Regions could be conducted more efficiently if the EU mechanisms more clearly identified the exact needs of these

²⁶⁷ Lower than both the national and the EU average.

²⁶⁸ Like Castilla y León.

²⁶⁹ Alongside the other “Natural Effect” Regions.

regions. There is a need for a more bottom-up approach to be adopted. “Phasing-In” Regions remain within the Convergence Objective since this division will require a more simple adjustment of the indicative funding percentages offered to each Objective. Approximately 78% of the EU funds are being offered to the Convergence Objective and only 18% to the Competitiveness and Employment Objective. In Comunidad Valenciana, the initial level of gradual decrease of financing should be estimated to take into account the funds the region received between 2004 and 2006 (when the region was included in Objective 1) (interview with Revuelta, 2009).

Whichever fund has not been “used” as a consequence of the application of the absorption limits, should remain at the disposal of the region to be used when needed. The “Phasing-In” Regions should also benefit from a completely separate fund, which would improve their competitiveness and increase their convergence levels. A certain transformation in the financing context of regions receiving such transitional assistance should take place in order for these regions to be sooner and more efficiently included in the Competitiveness and Employment Objective (interview with Revuelta, 2009).

As in the case of Castilla y León, we have to be critical when assessing the opinions of Revuelta regarding the economic situation of Comunidad Valenciana, but again we have to admit that a certain degree of optimism is justified due to the fact that Comunidad Valenciana is a “Phasing-In”, “Natural Effect” Region. This means that it has exited the Convergence Objective only due to its significant economic development and not due to the EU Enlargement. Revuelta is being more descriptive than over-optimistic, but in any case we can argue that the current economic situation in Comunidad Valenciana can be regarded as encouraging.

-Regional economic statistics

The regional employment rate of Comunidad Valenciana in 2008 was 53.1% (45.5% in 1999), higher than the national average (52.4%), but just lower than the EU-27 one (53.7%). Between 1999 and 2008, the employment rate increased by 7.6%, a sign of economic development (Eurostat, 2010d). 62% of the territory of Comunidad Valenciana is covered by rural areas. In 1996, the population density was 172 inhabitants per square km, whereas by 2006, it had increased to 206 inhabitants per square km. There is higher population density along the coastline and lower in the majority of the rural areas inside the region. In 2006, the regional GDP per capita was 18,977 euros, accounting for 90.8% of the Spanish average (Europa Press Releases, 2008).

The 1959 stabilisation plan and the simultaneous move towards liberalisation led to a huge cross-regional migration of labour force from the other Spanish Objective 1 Regions to Comunidad Valenciana and in particular Valencia (Jerez, 1992; Tascon 2001).

In 2008, the unemployment rate of Comunidad Valenciana was 12.1% (13.8% in 1999), higher than both the national (11.3%) and the EU-27 average (7%). Between 1999 and 2008, the unemployment rate dropped by 1.7% (Eurostat, 2010i). In 1995, the unemployment rate reached 22.43% (Europa Press Releases, 2008). During the last four months of 2008, there was an increase in employment of 61,000 employees compared to the same period in 2007. By the end of 2008, the employed active population of Comunidad Valenciana was 2,188,100, of whom approximately 57% were males. In 2008, the service sector accounted for approximately 68% of the regional GDP, focusing mainly on real estate and business services, trade and repairs, hotels and restaurants, transport, communication, health and veterinary activities. Industry is

mainly based on non-metal mineral products, tobacco, food and beverage, footwear, textiles, leather, metallurgy, metal products manufacturing, and other manufacturing industries (EURES/Comunidad Valenciana, 2009).

SMEs tend to characterise the region's manufacturing sector and they mainly specialise in footwear, furniture, textiles and toys. Large firms, such as IBM and Ford are present and export-oriented. One of the main problems in the region is the water resources' scarcity (Atlas/Spain, 2004).

In the construction sector, the most important occupations are those requiring specialisation, like electricians, plumbers, bricklayers, plasterers and painters. In the service sector context, the most important occupations are in the retail and wholesale trade, hotels, restaurants, health, culture and land transport (EURES/Comunidad Valenciana, 2009).

Using macro-economic models based on the HERMIN model, Sosvilla-Rivero (2005) argues that the the income per capita of Comunidad Valenciana (PPP), in 1993 was 75 (EU-15=100) with CSF, but would be 72 (EU-15=100) without CSF. In 1999, it was 79 (EU-15=100) with CSF, but would have been 75 (EU-15=100) without CSF. Likewise, in 2002, it was 82 (EU-15=100) with CSF, but would have been just 71 (EU-15=100) without CSF. The convergence between 1993 and 1999 was 4% with CSF, but would have been 3% without CSF. The convergence between 1993 and 2002 was 7% with CSF, but would have been only -1% without CSF (Sosvilla-Rivero, 2005). In 2006, the GDP per capita of Comunidad Valenciana represented 95.4% of the EU average (96.2% in 2002). In Comunidad Valenciana, during the first three CSF Cycles (1989-2006), 39% of the SFs were invested in infrastructure, 20% as business aid and 41% in human capital (Sosvilla-Rivero, 2005).

In the last decade, Comunidad Valenciana has taken advantage of its potential as a tourist destination to attract private investment. Tourism has been unevenly developed and this creates pressure on the infrastructure of some municipalities. Nevertheless, due to a rise in public provision, there has been an improvement in the transport network. During the last decade, there has been a focus on improved sewage treatment (Inforegio Europa, 2009h).

The Commission co-financed the ROP for Comunidad Valenciana for 2000-2006. This programme was co-financed by the ERDF (mainly), the ESF and the EAGGF (Inforegio Europa, 2009h).

Table 6.6
Objective 1 Programme for Comunidad Valenciana (2000-06)
Breakdown of Finances by priority area in Comunidad Valenciana

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Improvement of competitiveness and development of productive base	374,600,557	256,154,610	374,600,557
Knowledge society	421,852,844	295,296,992	421,852,844
Environment, natural surroundings and water resources	1,344,040,822	826,989,130	1,344,040,822
Education infrastructure and reinforcement of professional, technical education and training	359,270,600	225,954,467	359,270,600
Insertion and professional reinsertion of unemployed people	181,497,032	117,973,072	181,497,032
Support for job stability and adaptability	158,919,761	111,243,833	158,919,761
Integration in the labour market of people with special difficulties	56,565,963	39,596,173	56,565,963
Participation of women in the labour market	30,429,185	22,821,888	30,429,185
Local and urban development	267,856,513	183,796,821	267,856,513
Transport and energy networks	1,183,423,303	688,722,412	1,183,423,303
Agriculture and rural development	141,604,331	87,166,811	141,604,331
Technical Assistance	13,007,744	9,755,808	13,007,744
Total	4,533,068,655	2,865,472,017 [ERDF contribution 2,145,792,712 (74.88%), ESF contribution 497,504,245 (17.36%) and EAGGF contribution 222,175,060 (7.75%)]	4,533,068,655

Source: Inforegio Europa, 2009h.

The highest total cost (1,344,040,822 euros) can be observed in the context of environment, natural surroundings and water resources with an emphasis on a) the rational use of water, b) sewage treatment and purification, c) waste minimisation and d) conservation of natural spaces and coastal areas, whilst the second highest (1,183,423,303 euros) can be seen in terms of transport and energy networks with an emphasis on railways and the natural gas network, extended to provinces and counties that lacked it (Info regio Europa, 2009h). On 29/11/07, the Commission approved an OP for Comunidad Valenciana (2007-2013), under the Regional Competitiveness and Employment Objective (2.2 billion euros budget). The financing provided by the EU (ERDF) was approximately 1.3 billion euros, representing 3.8% of total EU contributions to Spain between 2007 and 2013 (Info regio Europa, 2009q).

Table 6.7

Programme under the “Regional Competitiveness and Employment” Objective, co-financed by the ERDF/Operational Programme Comunidad Valenciana (2007-13)

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Development of the knowledge-based economy (R&D&i, information society and ICT) (17% of total investment)	190,248,850	190,248,850	380,497,700
Business development and innovation (24% of total investment)	305,315,929	232,493,011	537,808,940
Environment, water resources and risk prevention (27% of total investment)	391,902,925	211,824,140	603,727,065
Transport and energy (22% of total investment)	297,957,693	199,686,453	497,644,146
Sustainable local and urban development (8.5% of total investment)	116,543,900	72,942,472	189,486,372
Technical assistance (1.5% of total investment)	24,371,250	6,092,814	30,464,064
Total	1,326,340,547	913,287,740	2,239,628,287

Source: Info regio Europa, 2009q.

The aim of the Programme is the improvement of regional competitiveness, integration, environmental protection and the increase of productivity and diversification of production structures according to the EU strategic guidelines and the national strategic framework. Special attention will be given to issues such as

emigration, infrastructure needs and the promotion of sustainable development in both urban and mountainous areas of the region. The expected impact of the Programme is the creation of approximately 22,865 jobs, a 264% increase in R&D expenditure/GDP (from 0.99% to 2.61% in 2013), four billion euros of private investment and a 160% increase in businesses benefiting from environmentally friendly systems of management (from 442 to 711 in 2013) (Inforegio Europa, 2009q). The Objective 1 funding for Comunidad Valenciana for the 2000-2006 period was four billion euros, which represents 10.5% of the entire Objective 1 funding for Spain. Also, in 2004, Comunidad Valenciana received from the *FCI* 61.99 million euros, which represents 6.23% of the entire *FCI* funds for regional economic development in Spain (Salmon, 2004).

-Institutional capacity

The regional government of Comunidad Valenciana is divided into 13 main administrative departments in charge of a) Industry, Commerce and Innovation, b) Economy, Finance/Treasury (*Hacienda*) and Employment, c) Environment, Water, Urban Development and Housing, d) Infrastructure and Transport, e) Education, f) Culture and Sports, g) Health, h) Agriculture, Fishing and Food, i) Social Welfare, j) Justice and Public Administration, k) Government, l) Tourism and m) Immigration, Solidarity and Citizenship (Generalitat Valenciana, 2011a). The department of Economy, Finance/Treasury (*Hacienda*) and Employment is mainly in charge of the management of the EU policies and funds, through a specific unit responsible for EU funds and the EU Regional Cohesion Policy (Generalitat Valenciana, 2011b).

The spending capacity of Comunidad Valenciana (in percentage of SFs expenditure) was 102.9% during the first CSF Cycle, 85.69% during the second CSF Cycle and 74.98% during the third CSF Cycle (Milio, 2010). Comunidad Valenciana had the fifth

highest absorption capacity of all the Spanish Objective 1 Regions during the first and the second CSF Cycles and the lowest during the third CSF Cycle (Milio, 2010). This means that in terms of absorption and implementation capacities, the relatively low percentages compared to the other Spanish Objective 1 Regions show that Comunidad Valenciana suffered some problems regarding the CSF implementation. This makes us argue that the regional institutional capacity of Comunidad Valenciana was less effective than that of Castilla y León, our previous case study.

The Regional Plan on Scientific Research, Technological Development and Innovation (*PVIDI*) 2001-2006 gave a boost to the regional economic development of the region. It was focused on two main areas: a) the improvement of scientific knowledge and technological innovation and b) the improvement of the competitive capacity of the economic sectors (CORDIS/Valencia, 2002). The target of the *PVIDI* was to link science and society and to combine research and innovation activities with the specific needs of Comunidad Valenciana (European Commission/CORDIS, 2009)

The main objectives of the plan were to increase the competitiveness of the Valencian Science-Technology-Enterprise system, increase public and private global resources, which would be used in research and development and innovation in the region towards reaching 2% of regional GDP by 2006, improve vertical integration and collaboration between all agents of the Science, Technological Development and Innovation System²⁷⁰, help increase the participation and contribution of the private sector in innovation activities as a main actor in Valencian enterprises and as a key factor of research and technological development, establish a more efficient mechanism

²⁷⁰ University institutes and departments, research and technology centres, and enterprises.

in the context of transferring research results and stimulating scientific development within Comunidad Valenciana (European Commission/CORDIS, 2009).

This plan shaped actions able to create new jobs, to increase competitiveness and to underline the importance of the private sector in promoting regional economic development (European Commission/CORDIS, 2009). Furthermore, the System of Science-Technology-Enterprise of the region is being significantly developed. In 2002, it included six Universities²⁷¹, 32 University Institutes, 16 Technology Centres and seven regional Research Centres (CORDIS/Valencia, 2002).

Comunidad Valenciana has been taking part in two INTERREG 3 B cross-border cooperation and collaboration projects. The first is the “South West Europe”²⁷² and “Western Mediterranean”²⁷³ and the second is the “South” zone of the INTERREG 3 C interregional cooperation programme. These programmes focus on issues such as competitiveness, knowledge society, environment, energy, local and urban development (Atlas/Spain, 2004). Another important project is the expansion of the port of Valencia²⁷⁴, which requires a new infrastructure able to accommodate the increasing number of containers going through it. The aim of this project is to underline the importance of Valencia as an inter-oceanic port and to maintain *“the supply of services at a time when the Spanish economy and thus maritime trade was undergoing major expansion”* (Atlas/Spain, 2004:2).

In Comunidad Valenciana an effective collaboration between national and regional authorities made it the most developed Spanish third CSF Cycle Objective 1 Region.

²⁷¹ 51 Faculties, 7,000 professors, and 143,000 students.

²⁷² With the participation of Spain, Portugal, France and Great Britain.

²⁷³ With the participation of Spain, Italy, Portugal, France and Great Britain.

²⁷⁴ The project, which is mainly concentrated in the southern area of the port includes the construction of a dam 3km long and a 1,500 metre long quay with a depth of 16 metres. This plan offers the opportunity to regional and local enterprises a) to come closer to international markets and b) to strengthen their economic competitiveness by decreasing the transport costs of exported and imported goods and products.

Bottom-up regional projects, such as *PVIDI* and INTERREG 3 B can be regarded as successful, and regional economic divergence is steadily decreasing. The conclusion is that Comunidad Valenciana has actually achieved efficient regional economic development and the result is that it has exited the Convergence Objective.

6.3.3-ANDALUCÍA (Convergence Objective Region for the 2007-2013 Cycle)

Andalucía can be characterised as a peripheral region. On 1st January 2010, the population of Andalucía was 8,370,975 people (INE, 2011d). Its main problems are inefficient spending capacity²⁷⁵ and poor administrative capacity. The differences in the structure and functioning of local governance are several and this makes progress in regional economic development difficult. Moreover, many parts of Andalucía had never before been involved in European policies and therefore had never developed cooperation with European institutions²⁷⁶. Concerns in relation to the economic context include high unemployment, low GDP per capita, desertification issues and lack of modernisation and openness in the regional manufacturing sector.

Ever since the beginning of its State of Autonomy, and in particular since Spain joined the EU, a process of structural reform has taken place in numerous parts of the socio-economic system of Andalucía. Due to these reforms, there has been a significant correction and improvement in economic, demographic and social inequalities within the region. These reforms are reflected in three features: a) the productive structure is more balanced and efficient, b) there have been improvements in the infrastructure and c) there has been a higher degree of internationalisation in the economy (interview with Lavezzi, 2009).

²⁷⁵ One of the lowest in Spain, alongside Extremadura.

²⁷⁶ Some of these parts did not even exist as geographical, administrative, or political entities.

In Andalucía, the SFs have not only created financial support and multi-annual basis, but have also created a potential effect of resource mobility in both the public and private sector, which has been actually translated into pursuing continuous increases to surpass the average growth of both Spain and EU. The SFs' impact in Andalucía can be seen in the planning and programming capacity, in terms of infrastructure, human capital, environment, R&D, industries and rural development. Besides their quantitative importance, which has been a feature of all the programming periods, EU funds have contributed to the adoption and maintenance of important compromises between distinct governmental sectors²⁷⁷, which promoted partnership amongst them (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

-Regional economic statistics

Officials at the General Direction of European Funds and Planning of Andalucía (2009) commented on the process of Andalucía's convergence with respect to Spain and the EU in terms of GDP growth, employment and productivity. In relation to the temporal framework, the analysis refers to the comparative development of Andalucía since Spain joined the EU in 1986, and specifically evaluates the situation and details of the contribution in the last financial year, 2006. In 2006, the GDP at market prices for Andalucía grew by 3.9% in real terms, according to the Quarterly Accounts for Andalucía published by the AIS, an equal percentage to the Spanish economy, and higher than both the EU-15 (2.9%), and the EU-25 (2.9%). In production terms, this result represents an advance in the process of real convergence in relation to the reference economies for Andalucía, as the growth in the GDP was 1 and 0.9 points higher respectively for the EU-15 and EU-25, according to Eurostat. Also, it means that

²⁷⁷ Central government, regional administration of Andalucía and city halls.

for the thirteenth consecutive year, the Andalusian economy continued along a growth cycle that began in 1994, allowing it to experience a process of real convergence with the EU. The results obtained by the Andalusian economy in 2006 are even more relevant if we consider their effect on employment, where the available indicators reveal that on the one hand, the process of creating employment recorded since the 1990s has continued, and on the other, this process is more intense in Andalucía than in Spain as a whole, and particularly, than in Europe (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

Since 1986 and according to the latest official information available, up to 2006, the population has grown by 16.8%, 2.5 points more than Spain, and twice that of the EU-15 (8.7%). According to the Active Population Survey of the Spanish National Institute of Statistics (NIS), employment in 2006 rose to 3,110,400, representing an increase of 5.1% and 150,800 more jobs than the previous financial year. This considerable advance in employment represents an important contribution to the process of creating employment for Spain and the EU. Andalucía contributed to 19.5% of the total increase in employment in Spain in 2006, 4.9% of the EU-15, and 3.9% of the EU-25. These figures demonstrate the strong employment dynamic in Andalucía, which according to the NIS is one point higher than for the Spanish economy as a whole (4.1%), and according to the European Workforce Survey, three points higher than that for the EU-15 and EU-25 (1.8% and 2% respectively) (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

This real convergence process is making it possible for the level of employment and wealth per person in the region to draw progressively closer to average EU levels. In 2006, considering the GDP per capita, this stood at 71.5% of the level for the EU-15

(with Spain at 90.5%). According to the NIS, in 2005 Andalucía's GDP per capita in relation to the EU-25 stood at 76% (Spain at 98%). In terms of the employment rate, in 2006 this stood at 90.4% of the EU-15 (Spain at 102.2%), and 91.4% of the rate for the EU-25 (with Spain at 103.3%). In terms of productivity, this represents 79.1% of the average for the EU-15 (with Spain at 88.5%), and 84.4% of the EU-25 (Spain: 94.4%). The results achieved by the Andalusian economy in 2006 demonstrate the trajectory of convergence that Andalucía and Spain have undergone, with similar intensity, since joining the EU. Since then, there has been a notable advance in real and nominal convergence with the EU, with visible economic growth and job creation (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

Again since 1986 and according to the latest official information available, up to 2006: a) the growth of the real accumulated GDP of the Andalusian economy was 116.9%, 54.3 points more than the EU-15 (62.6%) and 17 points more than Spain (99.9%), b) growth in the nominal PPS GDP per capita was 210.55% in Andalucía, 64.5 points higher than the EU-15 (146%) and 8.8 points higher than Spain (201.7%) and c) employment has grown in Andalucía by 104.8%, representing an advance of 82.3 percentage points in relation to the growth registered for the EU-15 (22.5%) and 25.3 points with respect to Spain (79.5%). It may be seen from these results that Andalucía's economy has continued to advance towards the average levels of wealth per inhabitant of the EU-15. Real convergence, according to the GDP PPS per capita in relation to the EU-15, increased by 14.9 points over the period 1986-2006. The Andalusian economy has experienced a growth in GDP per capita based on a strategy focused on employment. For each point of economic growth, employment has grown in Andalucía by 0.9 points,

compared to the 0.36 points of the EU-15 (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

In relative terms, the SFs' contribution in terms of the Andalusian GDP increase has been important. On average, there has been a 1.3% increase in terms of the GDP over the 16 years. This is indeed an important volume in terms of income through transfers. In order to explain the rapid process and increase in terms of income and employment levels that have taken place in Andalucía, we must say that it has taken place, not only thanks to the funds received, but also due to important decisions and actions that have been taken by the regional authorities of Andalucía. The increase in gross savings which has been taking place in Andalucía has been ten times higher than the expected increase of European funds. The financial autonomy of Andalucía has increased with this intensity during the last years (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

Since 2006, Andalucía has received more than 54,000 million euros and for the period 2007-2013, it will also receive more than 25,000 million. Of these 79,000 million, almost 45,000 million of euros are being managed by the regional administration of Andalucía. The percentage is 56.7%. The other 34,000 million correspond to the General Administration of State, and the percentage is 43.3% of the total. More than 40,000 million (51.2%) correspond to structural actions, whilst almost 39,000 million (48.8%) correspond to the EAGGF-Guarantee and for that reason the balance between the Cohesion Policy and the CAP can be characterised as equilibrated in the context of Andalucía. This balance has been observed in Andalucía over the entire period of Spanish membership (interview with officials at the General Direction of European Funds and Planning of Andalucía, 2009).

In relation to the regional productive structure, the balance and efficiency of the economy is manifested in: a) a lower dependency on the primary sector; in 2007²⁷⁸, employment in Andalucía in the primary sector was 7.8%, against 23% in 1981, b) a manufacturing more oriented towards higher technological content sectors; between 1987 and 2006, investment in R&D grew by 11.4% against a national growth of 8.5%, c) a significant improvement of the tertiary sector of the economy, with a services sector much more balanced in the context of its internal composition; in 2007²⁷⁹ 66.8% of the occupied population was working in services. This percentage is approximately 18 points higher than that of 1981 (49.1%). In addition to important activities, such as commerce and tourism (hotels and restaurants), there is a strong emphasis on business and knowledge-intensive sectors, such as education, health, recreation, culture and sport activities. In the context of the business sector, within Andalucía, more than half a million businesses (511,728) existed as of 1st January 2007. This number means that Andalucía is the second NUTS 2 region in terms of business sector development in Spain after Cataluña (interview with Lavezzi, 2009).

Speaking about infrastructural improvement and occupation in the infrastructure sector, the number of kilometres of highway within the region of Andalucía actually multiplied by 12.2% between 1981 and 2006, more than double the national average (5.7%)²⁸⁰ (interview with Lavezzi, 2009).

As far as the internationalisation of the economy is concerned, the degree of the Andalusian economy's openness, in the relation between external commerce and GDP,

²⁷⁸ Average January-September.

²⁷⁹ Average January-September.

²⁸⁰ Highways were significantly improved in order to serve the region better internally, and to connect the region with external areas. The High Velocity highway that connects Sevilla, Cordoba and Malaga with Madrid and the recently terminated highway of the Plata can be regarded as emblematic. In this sector, EU support to Andalucía has been more than obvious.

which was 13.5% in 1981, was actually 27% between January and September 2007. This means that in 26 years, this has practically doubled. In addition to that, a higher dynamic in business initiatives can be observed. This is manifested by the fact that the creation of “mercantile societies” has been more than ten times higher than that of 1981, placing the business capacity of the Andalusian population at a similar level to the national average²⁸¹. As far as international economic relations are concerned, the economy of Andalucía keeps winning in terms of competitiveness and this fact reflects an increase of exports by 40.4% between 2004 and 2007. This percentage is almost double the Spanish average (23%). The result was an increase of the region’s market share in global trade, which has been evident during the last 10 years. During this period, Andalucía’s increased by 158.3%, much more than the global average (133.6%), the German average (112.5%), the EU average (77.4%) and the Japanese average (46%) (interview with Lavezzi, 2009).

Here, the socio-economic impact of the different and numerous subsidies has been significant. These subsidies were financed by the ERDF and resulted in a strategy around SMEs (*PYMES*) in Andalucía. Andalucía used to be a region people migrated from, whilst nowadays, it is a region that welcomes emigrants from other regions. Between 1981 and 2007, the Andalusian population increased to 1,598,414 inhabitants, coinciding with a 24.8% increase, five points higher than the national average and more than three times higher than the increase of the EU 27 population (7.8%). Lastly, from a social perspective, structural reforms have also resulted in the incorporation of women into the labour market and a significant increase in the level of qualifications of the labour force. The female activity rate in 2007²⁸² was 44.3%, more than double than in

²⁸¹ 30 and 33 societies created for every 10,000 inhabitants respectively in 2006.

²⁸² January-September.

1981 (19.6%). The qualified active population with secondary or university studies was 36.5% in 1981, whilst in 2007²⁸³ it reached 80.3% (interview with Lavezzi, 2009).

All these structural economic, demographic and social changes have permitted Andalucía to have a demographic dimension of eight million people with a GDP of 150,000 million euros. This superior performance has so far led the Andalusian GDP to surpass 75% of the average of the EU-25 and the 80% of the EU-27. According to Eurostat, in 2006, Andalusia was situated at an 80.8% GDP per inhabitant compared to the EU-27. Thus, despite the fact that Andalucía is currently included in the Convergence Regions, technically it stops being a region eligible for the Convergence Objective, surpassing for the third consecutive year the lowest level of 75% of GDP per capita with respect not only to EU-25, but also to EU-27. That is why it is necessary for Andalucía to design policies in line with the Regional Competitiveness and Employment Objective (interview with Lavezzi, 2009).

The notable development of the Andalusian economy between 2004 and 2007 was accompanied by strong “employment generation”. 591,500 new jobs were created and Andalucía actually became the NUTS 2 region with the highest amount of job creation in absolute terms in Spain. This process of employment creation was based on equity terms, as more than half of the new jobs created corresponded to women²⁸⁴. Andalucía became the NUTS 2 region with the highest female employment in absolute and relative terms in Spain (interview with Lavezzi, 2009).

In 2008, the regional employment rate was 46.6% (36.9% in 1999), the fourth lowest in Spain after Ciudad Autónoma de Ceuta, Extremadura and Ciudad Autónoma de Melilla. It was lower than both the national (52.4%) and the EU average (53.7%).

²⁸³ Average January-September.

²⁸⁴ 305,700 female new jobs created between 2004 and 2007.

Between 1999 and 2008, the employment rate was increased by 9.7 percentage points (Eurostat, 2010d).

In 2008, the unemployment rate of Andalucía was 17.8% (26.5% in 1999), much higher than both the national (11.3%) and the EU-27 average (7%). Between 1999 and 2008, unemployment rate dropped by 8.7% (Eurostat, 2010i).

In the agricultural sector, there are several problems, mainly concerning the processing and marketing of the products. It can be said that the agricultural sector is clearly orientated towards exportation and it must be mentioned that Andalucía is the top world producer in olive oil and has a tradition as an important exporter of fruit and vegetables, particularly in the European market. Many rural areas within the region have not yet adopted contemporary farming technologies. As a result, these areas have fallen behind and there is a need of economic diversification (Inforegio Europa, 2009a).

Andalucía can mainly be characterised as an agricultural area, but during recent years there has been an increase in the importance of the service sector and most importantly tourism, transport and retail. The recession of 2008 led to a decline in the construction and industrial sectors and it can also be argued that in Andalucía the industrial sector is less developed compared to the other regions. The service sector is the most important in Andalucía, in terms of recruitment levels (EURES/Andalucía, 2009).

The Andalusian aerospace industry is also of significant importance and it is worth mentioning that the regional administration of Andalucía is interested in developing this industrial sector by introducing training courses. In October 2002, a Masters degree course in the technology and management of the aeronautic industry commenced at the University of Sevilla and also several forums, talks and trade fairs on the aerospace

sector have been organised. In 2004, the regional government of Andalucía put into practice the “*Plan Director del Sector Aeronautico*” in order to develop the aerospace industry (Andalucía.com, 2011).

The most important agriculture companies in Andalucía are located in the province of Almeria. Other important economic activities include construction, hotels, restaurants, retail trade, health and veterinary activities, education, public administration and wholesale trade. It can be argued that the labour force in Andalucía lacks skill, and, therefore, the majority of jobs in the regions can be characterised as low-skilled. Another important fact is that in Andalucía 88.8% of enterprises employ between one and ten people and just 0.1% have more than 500 employees. These enterprises are mainly situated in Cadiz, Seville and Malaga. During the last few years, a high number of foreign workers have been integrated into the labour market of Andalusia, mainly arriving from Romania, Poland, Morocco, Ecuador and Colombia (EURES/Andalucía, 2009).

Using macro-economic models based on the HERMIN model, Sosvilla-Rivero (2005) argues that the the income per capita of Andalucía (PPP) in 1993 was 58 (EU-15=100) with CSF, but would have been 57 (EU-15=100) without CSF. Likewise, in 1999, it was 61 (EU-15=100) with CSF, but would have been 58 (EU-15=100) without CSF. In 2002, it was 65 (EU-15=100) with CSF, but would have been just 57 (EU-15=100) without CSF. The convergence between 1993 and 1999 was 3% with CSF, but would have been 1% without CSF. The convergence between 1993 and 2002 was 7% with CSF, but would have been just 0 without CSF (Sosvilla-Rivero, 2005).

Many new businesses tend to be set up, but they are short lived, due to two reasons: a) their initial capitalisation is too small and b) there is an evident lack of cooperation,

innovation and efficient management systems. The manufacturing sector still remains marginalised and the tourist sector lacks development (Info regio Europa, 2009a).

The ROP 2000-2006 for Andalucía was co-financed by the Commission and part-financed by the ERDF (mainly), the ESF and the EAGGF (Info regio Europa, 2009a).

Table 6.8
Objective 1 Programme for Andalucía (2000-06)
Breakdown of Finances by priority area in Andalucía

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Improvement of competitiveness and employment, and development of production structures	1,279,308,890	947,223,424	1,279,308,890
Knowledge-based society	358,016,703	268,512,527	358,016,703
Environment, natural habitats and water resources	3,244,714,329	2,183,708,781	3,244,714,329
Educational infrastructures and strengthening of technical and vocational teaching	807,818,420	545,548,529	807,818,420
Vocational insertion and reinsertion of the unemployed	306,098,935	214,269,256	306,098,935
Stabilisation of jobs and adaptability	150,890,809	113,168,109	150,890,809
Insertion of people with particular difficulties in the labour market	80,920,035	60,690,027	80,920,035
Participation of women on the labour market	122,673,892	98,139,108	122,673,892
Local and urban development	623,978,470	454,006,833	623,978,470
Transport and energy networks	4,647,801,235	2,938,311,691	4,647,801,235
Farming and rural development	438,051,084	318,415,168	438,051,084
Technical Assistance	55,035,076	44,028,056	55,035,076
Total	12,115,307,878	8,186,021,509 [ERDF contribution 6,427,411,070 (78.52%), ESF contribution 971,354,167 (11.87%) and EAGGF contribution 787,256,272 (9.62%)]	12,115,307,878

Source: Info regio Europa, 2009a.

The highest total cost (4,647,801,235 euros) can be observed in the context of transport and energy networks, with an emphasis on the improvement of energy distribution networks and forms of renewable energy, whilst the second highest (3,244,714,329 euros) can be seen in terms of the environment, natural habitats and water resources, with an emphasis on fire protection, urban waste, coastal ecosystems, reforestation and water cycle management (Info regio Europa, 2009a). On 3/12/07, the

Commission approved an OP for Andalucía (2007-2013), under the Convergence Objective (Inforegio Europa, 2009j).

Table 6.9

Programme under the Convergence Objective, co-financed by the ERDF/OP Andalucía (2007-13)

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Knowledge economy (R+D, information society, ICT) (4.6% of total investment)	361,778,076	90,444,530	452,222,606
Entrepreneurial development and innovation (19% of total investment)	1,312,835,531	562,643,798	1,875,479,329
Environment, natural surroundings, water resources and risk prevention (29.7% of total investment)	2,047,767,906	877,614,820	2,925,382,726
Transport and energy (31% of total investment)	1,985,878,770	300,347,995	2,286,226,765
Local and urban sustainable development (10.1% of total investment)	388,190,972	97,047,745	485,238,717
Social infrastructure (5% of total investment)	388,190,972	97,047,745	485,238,717
Technical assistance (0.6% of total investment)	46,666,107	11,666,530	58,332,637
Total	6,531,308,334	2,036,813,163	8,568,121,497

Source: Inforegio Europa, 2009j.

The target of the Programme is to increase regional GDP per capita, regional productivity and activity/employment rates, particularly for females. Around 71.29% of funds allocated to the Programme and 92% of the funds allocated to all ERDF and ESF operational programmes are oriented towards the Lisbon strategy (Inforegio Europa, 2009j).

According to the Programme, between 2007 and 2013, the real regional GDP will be increased by 2.4%, 53,000 jobs will be created and the investment generated will be 12 billion euros. 165 research, development and information centres should benefit; 695 research projects and 1703 information society projects should take place. Expenditure on R&D will increase from 0.84% to 2% of regional GDP. Female employment should be increased from 34% to 43% and the percentage of the population and businesses connected to the internet should be increased from 43% to 75% and from 87% to 93% respectively. 92,000 companies should benefit from entrepreneurial development, the

innovation intensity rate should be increased from 0.59% to 1.15% and the rate of new business creation will also increase (from 4.85% to 5.15%) (Inforegio Europa, 2009j).

Environmental activities should affect 118 waste-processing projects, 480 km of water supply network (access for 3.3 million inhabitants), 124 km of waste-water network (access for 1.5 million inhabitants) and 445 projects over 71 square km in NATURA 2000 zones. Transport initiatives should benefit from 128 km of the Trans-European Rail Freight Network and 14 km of road network. Renewable Energy Sources should increase their input to power outputs from 7.45% to 21% of the total with about 60,000 projects. Lastly, more than 942 regeneration projects and 3,000 tourism/culture projects should be carried out (Inforegio Europa, 2009j).

The Objective 1 funding for Andalucía for the 2000-2006 period was 11.3 billion euros, again the highest in Spain, which represents 30% of the entire Objective 1 funding for Spain. Also, in 2004, Andalucía received from the *FCI* 398.82 million euros²⁸⁵, which means 40.06% of the entire *FCI* funds for regional economic development in Spain. Almost half of the *FCI* funds for regional economic development in Spain were offered to Andalucía (Salmon, 2004).

Speaking about the average percentage distribution according to investment categories in Andalucía (CSFs 1989-2006), 45% was invested in infrastructure, 19% as a business aid and 36% in human capital (Sosvilla-Rivero, 2005).

-Institutional capacity

The regional administration of Andalucía is divided into 13 main administrative departments in charge of a) Presidency, b) Governance and Justice, c) Finance/Treasury (*Hacienda*) and Public Administration, d) Education, e) Economy, Innovation and

²⁸⁵ Again the highest in Spain.

Science, f) Public Works and Housing, g) Employment, h) Health, i) Agriculture and Fisheries, j) Tourism, Commerce and Sports, k) Equality and Social Welfare, l) Culture and m) Environment (Junta de Andalucía, 2011a). The department of Economy, Innovation and Science is mainly in charge of the management of EU policies and funds through its specific unit for EU funds (Junta de Andalucía, 2011b).

The spending capacity of Andalucía (in percentage of SFs expenditure) was 94% during the first CSF Cycle, 82.69% during the second CSF Cycle and 77.68% during the third CSF Cycle (Milio, 2010). Andalucía had the lowest spending capacity of all the Spanish Objective 1 Regions during the first CSF Cycle, the fourth lowest during the second CSF Cycle and the third lowest during the third CSF Cycle (Milio, 2010). This means that in terms of absorption and implementation capacities, the relatively low percentages compared to the other Spanish Objective 1 Regions show that Andalucía suffered some problems regarding CSF implementation. This makes us argue that the regional institutional capacity of Andalucía was one of the least effective amongst the Spanish Objective 1 Regions between 1989 and 2006.

One of the most important agencies for regional development in Andalucía is the *Agencia de Innovación y Desarrollo de Andalucía (IDEA)*, which is the Regional Development Agency responsible for the implementation of economic and social development. Its aim is the promotion of innovation, entrepreneurship, technological cooperation, competitiveness and business activity in Andalucía (IDEA, 2005).

The international economic crisis has affected Andalucía, but thanks to the evolution and development of the region, especially during the previous years, and thanks to EU support, the impact of the crisis is gradually becoming less intense. EU Regional Policy in terms of the fourth CSF Cycle will continue playing an important

part in Andalucía, with an assignment of 14,024.22 million euros, in order for Andalusian productivity and competitiveness to be increased. Towards that target, 77.95% of the resources have been assigned to the priorities recognised by the Lisbon Strategy and this connection of the intervention instruments with the objectives of the Lisbon Strategy has been extended to Andalucía as a general economic policy plan for the following years, and included in the General Plan “Strategy for the Competitiveness of Andalucía 2007-2013”. Also, Andalucía has been developing financing instruments, such as JEREMIE and JESSICA for the more effective use of the SFs. The majority of the 54,000 million euros invested by the EU to Andalucía from 1986 to 2006²⁸⁶ have contributed to the production of a radical transformation of Andalucía, bringing the region day by day up to the European standards with which the region wishes to converge (interview with Lavezzi, 2009).

We have to be critical when assessing the views of the interviewees regarding both the economic situation and the future prospects of Andalucía. It is acceptable that several attempts for regional economic development have indeed taken place, but Andalucía, despite receiving SFs for more than 20 years is still included in the Convergence Objective and it is still unclear whether or not it will be excluded in 2013. The current economic situation in Andalucía is not particularly encouraging and we would argue that over-optimism in some crucial issues, such as the catching-up of Andalucía with the core Spanish, or EU regions in terms of economic growth cannot so far be completely justified. As a conclusion, we can argue that it is not yet clear whether Andalucía will be in a position to exit the Convergence Objective by 2013, but certain economic progress towards convergence has indeed been achieved.

²⁸⁶ Taking into account the Structural Actions and the PAC.

6.3.4-EXTREMADURA (Convergence Objective Region for the 2007-2013 Cycle)

Extremadura is characterised as a peripheral region that is still included in the Convergence Objective. On 1st January 2010, the population of Extremadura was 1,107,220 people (INE, 2011d). Extremadura has a very low population density and the manufacturing sector accounts for only 10.6% of employment²⁸⁷. Innovation activity is limited despite the fact that over the last ten years, several sector technological centres have been created.

One of the characteristics of Extremadura that explains the limited economic development is its sparse population, which amounts to approximately 26 inhabitants per sq. km, one third of the average for Spain and one fifth of the European average. The population is spread around the region in small agglomerations and a real regional capital does not exist. Also, there is a very low birth rate and the population is ageing. This means that internal demand is not sufficient to stimulate production activities. A lack of production activities inevitably means slow economic development. Moreover, farming productivity is weak due to a) the small size of the farms, b) the low level of the farmers' training and c) the very high level of indebtedness amongst the farming population. Also, energy and water represent 60% of the industrial sector, which is neither developed, nor oriented towards new technologies (Inforegio Europa, 2009g).

When referring to the GDP per capita, during the current CSF Cycle, according to Cruz (2009), Extremadura will surpass 75% of the average EU income. Towards the end of the third CSF Cycle, the income of Extremadura was approximately 70%. This means that within Extremadura regional development indeed took place during the third CSF Cycle, but the target of 75% was narrowly missed and that is why Extremadura is

²⁸⁷ Including mainly small, family businesses.

still included in the Convergence Objective. Some of the economic facts mainly published by the Spanish *FUNCAS* Foundation make a special reference to the region's income increases; in fact since 2000, it has reduced its distance from the EU average by approximately 20%. When Spain entered the EU (in 1986), Extremadura's income represented approximately 35% of the EU average. During the current CSF Cycle, Extremadura will receive 3.400 million euros through different social programmes²⁸⁸. Cruz (2009) argues that in the context of R&D, Extremadura has been so far greatly benefited from the SFs (interview with Cruz, 2009).

The allocation and management of the SFs has allowed the balanced development of the region with its related income convergence. There are several other factors besides the SFs that have helped and the most important is the fact that within Spain there is a certain system of cooperation and solidarity in both economic and social terms amongst the NUTS 2 regions (interview with Cruz, 2009).

According to Sabido Martin (2009), the economic development of Extremadura during recent years has undoubtedly been much higher than the national average as well as that of the EU. This regional development was mainly based on an optimal management of EU funds (interview with Sabido Martin, 2009). In Extremadura, the use of FIFG funds is minimal, since there are no shores of beaches in the region; nevertheless, the management of these funds helped in the development of agriculture within the region. On the other hand, the ERDF helped strengthen the competitiveness of Extremadura businesses, mainly by focusing on investments in R&D and innovation, and by supporting their internationalisation. Moreover, thanks to the ESF, Extremadura's labour market managed to improve its performance significantly. The

²⁸⁸ ERDF, ESF, *Cooperación Transfronteriza*, EAFRD and FEP.

employment, unemployment and activity rates have all improved across all sectors of the labour market through training programmes, up-skilling and professional development (interview with Sabido Martin, 2009).

In Extremadura the primary sector accounts for more than 7% of the GDP. For that reason, the EAGGF has played a very important role and will continue to play one in the future in terms of regional progress and development. Finally, thanks to the Cohesion Fund, there has been an evident development in the infrastructure plans of Extremadura. This development has been crucial for the region to a) continue increasing its economic power, b) attract investments and c) improve its inhabitants' quality of life. Socio-economic convergence for Extremadura could not have been a reality without the help of the SFs. In terms of the *FCI*, Sabido Martin (2009) argues that it can provide a lower level of funds, compared to EU funds, and more specifically less than 1/10. That is why the *FCI* impact on the regional economy has been much lower than that of the EU funds. The management of the *FCI* funds by the regional administration of Extremadura²⁸⁹ is being conducted according to specific EU guidelines (interview with Sabido Martin, 2009).

The Spanish Constitution guarantees the principle of solidarity, in terms of fiscal transfer, in the financing of the NUTS 2 regions and for this reason, it is compulsory for the more developed core regions to offer adequate resources in order for the less developed periphery ones to enter the road of economic progress. This is why the autonomous Spanish economic system is based on the principle of cooperation and not that of competition, where the regions offer their resources in order for national development to become a reality. Since the 1990s, Extremadura has been a region of

²⁸⁹ Always according to the specific regional needs in a more bottom-up approach.

emigrants. With the offering of the different competences from the Central Administration to Regional Administration, including the University, this situation has significantly changed. The labour market of Extremadura suffers an important lack of education and training. A noteworthy increase in textile production is gradually taking place in the region. The satisfactory management of the EU funds has helped in the creation of new jobs and has decreased the number of youngsters who are forced to emigrate from Extremadura in order to find occupation in other regions (interview with Sabido Martin, 2009).

-Regional economic statistics

In the context of the economic structure of Extremadura, agriculture accounts for 18.4%, industry for 23.2% and services for 58.2%. This means that Extremadura is still highly dependent on agriculture (Zanetti, 2008). The most important industrial sectors are food industries, construction materials and the wood, cork and furniture industries. The most important services are those linked with education and health. It can be argued that within Extremadura there is an extremely low level of efficiency and competitiveness. There is a significant technological backwardness that hampers regional economic development. This can be seen by the very low level of investment in R&D amongst the region's firms. In general, technology and innovation activities can be regarded as not being efficient, due to the fact that commercial and financial structures are relatively poor. However, there is progress and development in terms of mining and hydroelectric resources and a significant tourism potential. Energy is also important for the regional development of Extremadura and many hydroelectric and nuclear energy plants can be observed in the region, despite the fact that "*there is no real industrial fabric in these fields*" (IRE Network/Extremadura, 2009:1).

In 2008, the unemployment rate of Extremadura was 15.2% (25.1% in 1999). It was higher than both the national (11.3%) and the EU-27 average (7%). However, between 1999 and 2008, the unemployment rate decreased by 9.9 percentage points (Eurostat, 2010i). From mid-2008, till 2009, there was a steady increase of unemployment, which mainly affected the construction sector and another interesting feature is that the number of employees registered with the Social Security in Extremadura is steadily decreasing. The amount of foreigners officially registered with Social Security in Extremadura by the end of the third quarter of 2009 was 3.36% (EURES/Extremadura, 2009).

According to the Active Population Survey of the National Statistics Office, during the first quarter of 2009, 382,400 people were employed, whereas 106,300 were unemployed. Moreover, Extremadura's activity rate was 54.07%, much lower than the Spanish average (60.15%). Male activity rates accounted for 64.64%, female for 43.77%. The unemployment rate was 21.75%, higher than the national average (17.36%). The male unemployment rate was 19.84% (Spanish average 16.86%) and the female one 25.02% (Spanish average 18.01%) (EURES/Extremadura, 2009).

During the end of the first quarter of 2009, 108,664 unemployed persons were registered with the Extremadura Public employment Service and this reveals a 38.06% increase compared to the first quarter of 2008. At the same time, 3,323 foreigners were out of work and 52.78% of them originated from the EU. 53.82% of the total unemployed were males and 46.18% females. 5,170 unemployed people were occupied in agriculture (amongst whom 179 were from the EU), 9,690 in industry (116 from the EU), 20,694 in construction (275 from the EU) and 60,294 in services (517 from the EU). 12,916 people from the entire number (517 from the EU) had not been previously employed. Also, there was a significant decrease in the number of both temporary and

permanent contracts signed in all the economic sectors, but the encouraging feature was that in some a) industrial branches and in particular textiles, tobacco, metal products manufacturing, recycling and energy production and b) services branches and mainly auxiliary activities, financial intermediation, information technology, R&D, public health, sport, cultural and recreational activities, there was an increase in hiring in 2008 (EURES/Extremadura, 2009).

In 2008, the regional employment rate was 44.7% (36.8% in 1999), the second lowest in Spain, after Melilla. It was much lower than both the national (52.4%) and the EU average (53.7%). Nevertheless, between 1999 and 2008, the employment rate increased by 7.9%, which is a sign of regional economic development (Eurostat, 2010d). Extremadura mainly comprises small enterprises and most of them are in the services sector and in particular in trade, construction, hotels and restaurants. In Extremadura, the iron, steel and metallurgy sectors are also of great importance (EURES/Extremadura, 2009).

During the recent 25 years, the GDP of Extremadura has increased by 690%, which represents 15 points above the increase at the national level (interview with Sabido Martin, 2009).

Using macro-economic models based on the HERMIN model, Sosvilla-Rivero (2005) argues that the the income per capita of Extremadura (PPP) in 1993 was 56 (EU-15=100) with CSF, but would have been 52 (EU-15=100) without CSF. In 1999, it was 53 (EU-15=100) with CSF, but would have been just 48 (EU-15=100) without CSF. In 2002, it was 56 (EU-15=100) with CSF, but would have been just 44 (EU-15=100) without CSF. The convergence between 1993 and 1999 was -3% with CSF, but would have been -4% without CSF. The convergence between 1993 and 2002 was 0 with CSF,

but it would have been -8% without CSF (Sosvilla-Rivero, 2005). Speaking about the average percentage distribution according to investment categories in Extremadura (CSFs 1989-2006), 42% was invested in infrastructure, 19% as an aid to business and 39% in human capital (Sosvilla-Rivero, 2005). These figures prove again the importance of the CSFs for the regional economic convergence and the regional economic development.

In terms of GDP per capita, Extremadura was positioned at 59% of the EU-27 and in 2008, it was expected to surpass 75% of the EU average (interview with Sabido Martin, 2009). In 2007, the GDP per capita of Extremadura represented 72.4% of the EU 27 average (58.9% in 1996) and was the lowest in Spain, but this 13.5% increase shows development (Eurostat, 2010g). The Regional Administration of Extremadura has recently been convinced that after the “Irish miracle” and then the “Spanish miracle”, the following years will witness the “Extremadura miracle” (interview with Sabido Martin, 2009).

From a critical understanding of the economic situation and the future prospects of Extremadura, it seems reasonable to accept that several attempts for regional economic development have indeed taken place. Despite receiving SFs for more than 20 years, Extremadura is still included in the Convergence Objective and it is still unclear whether or not it will be excluded in 2013. The current economic situation in Extremadura is not particularly encouraging.

The ROP 2000-2006 for Extremadura was co-financed by the Commission and part-financed by the ERDF (mainly), the ESF and the EAGGF (Inforegio Europa, 2009g).

Table 6.10
Objective 1 Programme for Extremadura (2000-06)
Breakdown of Finances by priority area in Extremadura

PRIORITY AREA	TOTAL COST (in euros)	EU CONTRIBUTION (in euros)	PUBLIC AID (EC AND OTHERS) (in euros)
Improvement of competitiveness and development of the production structures	330,142,475	244,361,395	330,142,475
Knowledge-based society	139,166,113	95,351,204	139,166,113
Environment, natural habitats and water resources	688,116,815	501,325,647	688,116,815
Education infrastructure and reinforcement of professional, technical education and training	297,432,790	199,123,687	297,432,790
Insertion and professional reinsertion of unemployed people	124,540,146	87,178,102	124,540,146
Stabilisation of employment and adaptability	47,931,899	35,948,925	47,931,899
Integration on to the labour market of people with specific difficulties	24,941,517	18,706,138	24,941,517
Participation of women in the labour market	7,940,573	6,352,457	7,940,573
Local and urban development	268,733,583	195,212,758	268,733,583
Transport and energy networks	1,045,318,644	690,976,212	1,045,318,644
Farming and rural development	206,710,315	144,971,137	206,710,315
Technical Assistance	7,087,011	5,669,605	7,087,011
Total	3,188,061,881	2,225,177,267 [ERDF contribution 1,579,118,955 (70.97%), ESF contribution 363,573,000 (16.34%) and EAGGF contribution 282,485,312 (12.69%)]	3,188,061,881

Source: Info regio Europa, 2009g.

The highest total cost (1,045,318,644 euros) can be observed in the context of transport and energy networks with an emphasis on multiple transport systems, transport centres and energy distribution networks, whereas the second highest (688,116,815 euros) can be seen in terms of environmental protection, with an emphasis on forestry (Info regio Europa, 2009g). On 28/11/07, the Commission approved a ROP for Extremadura (2007-13 cycle), within the Convergence Objective framework (around 2.3 billion euros budget). EU assistance (ERDF) amounted to approximately 1.6 billion euros, around 4.5% of the total EU investment for Spain for the 2007-13 Cycle (Info regio Europa, 2009o).

Table 6.11**Programme under the Convergence Objective, co-funded by the ERDF/OP Extremadura (2007-13)**

PRIORITY AXIS	EU CONTRIBUTION (in euros)	NATIONAL PUBLIC CONTRIBUTION (in euros)	TOTAL PUBLIC CONTRIBUTION (in euros)
Development of the Knowledge Economy (Information Society and ICTs) (5.4% of total funding)	97,758,537	24,439,645	122,198,182
Entrepreneurial Development and Innovation (18.1% of total funding)	286,583,659	122,821,564	409,405,223
Environment, Natural Surroundings, Water Resources and Risk Prevention (26.7% of total funding)	423,856,251	181,652,677	605,508,928
Transport and Energy (30.5% of total funding)	450,211,311	240,561,588	690,772,899
Local and Urban Sustainable Development (11.7% of total funding)	185,156,279	79,352,692	264,508,971
Social Infrastructures (7.5% of total funding)	135,346,434	33,836,610	169,183,044
Technical Assistance (0.1% of total funding)	1,275,438	318,860	1,594,298
Total	1,580,187,909	682,983,636	2,263,171,545

Source: Inforegio Europa, 2009o.

According to the Programme, several investments in research and development are due to take place. Furthermore, the use of information and communication technology will be encouraged. Transport infrastructure and territorial accessibility will be improved, the environment will be protected (in particular ecosystem and environmental diversity) and the management of water resources and waste treatment will be enforced. By the end of the current CSF Cycle (2007-13), GNP is expected to increase to 84.5% of the EU-27 average and productivity by one-third. An important aim of this Programme is the creation of approximately 15,700 jobs, a 0.3% unemployment rate decrease and a mobilisation of about 1.7 billion euros of private investments. It is believed that the Programme will result in a Gross Regional Product increase of about 0.4% (Inforegio Europa, 2009o).

The Objective 1 funding for Extremadura between 2000 and 2006 was 3.1 billion euros, which represents 8.1% of the entire Objective 1 funding for Spain. Also, in 2004, Extremadura received from the FCI 81.27 million euros, which represents 8.16% of the entire FCI funds for regional economic development in Spain (Salmon, 2004).

-Institutional capacity

The regional administration of Extremadura is divided into 10 main administrative departments in charge of a) Economy, Commerce and Innovation, b) Public Administration and Finance/Treasury (*Hacienda*), c) Development, d) Industry, Energy and Environment, e) Agriculture and Rural Development, f) Equality and Employment, g) Education, h) Health, i) Culture and Tourism and j) Young People and Sports (Junta de Extremadura, 2011a). The department of Public Administration and Finance/Treasury (*Hacienda*) is mainly responsible for the management of the EU policies and funds, through the Directorate General of Autonomous Financing and EU funds (Junta de Extremadura, 2011b).

The spending capacity of Extremadura (in percentage of SFs expenditure) was 100% during the first CSF Cycle, 61.54% during the second CSF Cycle and 87.70% during the third CSF Cycle (Milio, 2010). Extremadura reached 100% in terms of its spending capacity during the first CSF Cycle, but had the lowest spending capacity during the second CSF Cycle and the fifth lowest during the third CSF Cycle (Milio, 2010). This means that in terms of absorption and implementation capacities, the relatively low percentages compared to the other Spanish Objective 1 Regions show that Extremadura suffered some problems regarding CSF implementation. This makes us argue that the regional institutional capacity of Extremadura was one of the least effective amongst the Spanish Objective 1 Regions between 1989 and 2006.

Between 1994 and 1999, there were attempts to a) improve communications within the region by modernising transport, b) improve telecommunications and energy networks and c) resolve environmental problems, such as reforestation and waste management. Between 2000 and 2006, Extremadura received approximately 2.1 billion

euros from the EU²⁹⁰, which were invested in two main targets: a) the building up of the economic base and b) the unemployment rate decrease.

An urgent need for innovation was felt, in order for Extremadura to reduce unemployment. Therefore, a RIS was set up with the target to create more employment mainly in industry. The objectives of the RIS project were three; a) to improve the ability of regional actors to develop policies according to the business sector needs and the capabilities of Extremadura in innovation and R&D, b) to encourage and support innovation within the regional industries and c) to create an adequate framework for policy decisions in the context of innovation and investments in order for regional economic development to take place in Extremadura. Also, the RIS project intended to focus on the identification of the innovation needs of the major industrial sectors in Extremadura so as to adapt the regional technology supply and innovation infrastructure to demand. The target of the project was to establish a higher degree of participation of regional technology centres in the creation and development of projects for business innovation (RIS Extremadura, 2010).

The Extremadura RIS project created new forms of cooperation amongst the main regional actors in innovation. Working groups formed by firms covering six different strategic sectors²⁹¹ were established. The main results were two: a) there was a clear identification of the role of those sectors and their potential for the regional economic development of Extremadura and b) there was a clear plan which determined how these sectors could cooperate in order for regional economic divergence to be decreased within the region. In 1997, the “*Extremadura IT*” project was launched. It focused on the IT and telecommunications sectors (*NICT*) and the target was to eliminate the

²⁹⁰ In the form of SFs.

²⁹¹ Agro-food, metal-mechanical, cork-wood-vegetal coal, textile, ornamental stones-building materials, and cross-sectoral.

disadvantages inherent in the peripheral location of Extremadura. The aims of that project were four: a) to modernise the manufacturing base, b) to improve regional and local services, c) to decrease inequalities between rural and urban areas and d) to lead to further integration between Spain and Portugal (Extremadura IT/Docgener, 2010).

The project began with the establishment of Infodex, an organization financed equally by both the regional government and the EU SFs under *RISI*²⁹². The aim of *Infodex* was to examine the situation and provide a framework on which the IT strategy would be created. The target of the project was the establishment of the “*Extremadura intranet*”, “*a regional network with which secondary networks can be bundled and which will eventually provide access for end-users via a total of 1478 terminals across the entire region*” (Extremadura IT/Docgener, 2010:2).

The most important structures working towards regional innovation (IRE Network/Extremadura, 2009) in Extremadura are the industrial promotion services of the regional administration, such as the Technological Centre *ICMC* for Cork, Wood and Vegetal Carbon, the Department of Agro-alimentary Technology for Food Industry Firms (*INTAEX*) and the Technological Centre *INTROMAC* for Ornamental Minerals and Construction Materials. Moreover, the Minimally Invasive Surgery Centre (*CCMI*) is very important for the supply of surgical and medical specialists from all around the world. Other important institutes are the Office for Research Results Transfer from the University of Extremadura, the *FUNDECYT* (FUNDECYT, 2008), which encourages cooperation and coordination amongst universities, firms and public administration, *SODIEX* for industrial development, *SOFIEX* for industrial support and *CEX* for the establishment of new firms (IRE Network/Extremadura, 2009).

²⁹² Which is the regional IT initiative.

The regional administration of Extremadura wishes to further develop the Information Society in the region and had developed several important projects, such as a Centre for the Promotion of New Initiatives, (which is in charge of the Free Software Project GNU/LinEx and of the Extremadura Regional Programme of Innovative Actions, eExtremadura), the Vivernet which comprises Business Centres for the New Era and the Educational Technological Network²⁹³. In Extremadura there are 11 university faculties, including electronics, chemistry, biotechnology and construction engineering, and numerous university institutes. Extremadura has also benefited from an URBAN II programme, the INTERREG Initiative and several Cohesion Fund Projects (IRE Network/Extremadura, 2009).

The conclusion is that Extremadura is still far from significant regional economic development, despite the fact that some regional authorities are optimistic about the future. However, it is fair to argue that certain economic progress has indeed taken place. The main problems are the high unemployment rate, the low employment rate and the low GDP per capita²⁹⁴, compared always to the other Spanish NUTS 2 regions. The high dependency on agriculture and the sparse population are two more obstacles hampering convergence. It is not yet clear whether Extremadura will be in position to exit the Convergence Objective by 2013.

The following tables offer a more comparative view in the examination of our four Spanish case studies. Table 6.12 below summarises the main industrial types and sectors of each case study.

²⁹³ *Red Tecnológica Educativa.*

²⁹⁴ The lowest in Spain in 2003.

Table 6.12
First comparative table of the four Spanish case studies

Region	Type of Industries	Main Sectors of Specialisation of Industry
Castilla y León	Mainly SMEs but also large ones such as Renault, Michelin, Bridgestone H., El Arbol, Iveco, Nissa M., Iberica, Ebro Puleva, Campofrio, Pascual and Siro, G. Norte, Viajes Halcon, G. Anton, Begar and MRS, Antibioticos and Europac, G. Indal	Automotive, Energy, Chemicals, Pharmaceuticals, Agro-Food, Aeronautics, Biotechnology
Comunidad Valenciana	Mainly SMEs but also large ones such as IBM and Ford	Computer Software, Automotive, Non-metal Mineral Products, Tobacco, Food and Beverage, Footwear, Textiles, Leather, Metallurgy, Metal Products Manufacturing
Andalucía	Mainly SMEs but also an Aerospace Industry	Textiles, Tobacco, Aerospace Technology
Extremadura	Mainly SMEs	Textiles, Tobacco, Metal Products Manufacturing, Energy Production, Information Technology

Source: EURES/Castilla y León, 2009; EURES/Comunidad Valenciana, 2009; Atlas/Spain, 2004 ; Info regio Europa, 2009a; EURES/Andalucía, 2009; Andalucía.com, 2011; IRE Network/Extremadura, 2009; EURES/Extremadura, 2009.

Tables 6.13 and 6.14 below summarise the funds our four Spanish case studies have received during the third and fourth CSF Cycles compared to their population.

Table 6.13
Second comparative table of the four Spanish case studies

Region	Population on 1/1/2000	Population on 1/1/2006	EU Contribution for ROP 2000-2006 (in euros)	Total Public Contribution for ROP 2000-2006 (in euros)	Priority Area with the Highest Contribution (in euros)	Priority Area with the Highest Public Contribution (in euros)
Castilla y León (Objective 1 between 2000-2006)	2,479,118	2,523,020	3,294,657,914	5,032,459,553	Transport and Energy (1,267,483,460)	Transport and Energy (2,043,022,621)
Comunidad Valenciana (Objective 1 between 2000-2006)	4,120,729	4,806,908	2,865,472,017	4,533,068,655	Environment, Nature and Water (826,989,130)	Environment, Nature and Water (1,344,040,822)
Andalucía (Objective 1 between 2000-2006)	7,340,052	7,975,672	8,186,021,509	12,115,307,878	Transport and Energy (2,938,311,691)	Transport and Energy (4,647,801,235)
Extremadura (Objective 1 between 2000-2006)	1,069,420	1,086,373	2,225,177,267	3,188,061,881	Transport and Energy (690,976,212)	Transport and Energy (1,045,318,644)

Source: Info regio Europa, 2009f; Info regio Europa, 2009h; Info regio Europa, 2009a; Info regio Europa, 2009g; INE, 2011a; INE, 2011b.

Table 6.14
Third comparative table of the four Spanish case studies

Region	Population on 1/1/2010 (latest data available)	EU Contribution for ROP 2007-2013 (in euros)	Total Public Contribution for ROP 2007-2013 (in euros)	Priority Area with the Highest Contribution (in euros)	Priority Area with the Highest Public Contribution (in euros)
Castilla y León (Phasing-In between 2007-2013)	2,559,515	818,194,437	1,175,091,178	Transport and Energy (233,696,267)	Transport and Energy (357,125,579)
Comunidad Valenciana (Phasing-In between 2007-2013)	5,111,706	1,326,340,547	2,239,628,287	Environment, Water Resources and Risk Prevention (391,902,925)	Environment, Water Resources and Risk Prevention (603,727,065)
Andalucía (Convergence Objective between 2007-2013)	8,370,975	6,531,308,334	8,568,121,497	Environment, Natural Surroundings, Water Resources and Risk Prevention (2,047,767,906)	Environment, Natural Surroundings, Water Resources and Risk Prevention (2,925,382,726)
Extremadura (Convergence Objective between 2007-2013)	1,107,220	1,580,187,909	2,263,171,545	Transport and Energy (450,211,311)	Transport and Energy (690,772,899)

Source: Inforegio Europa, 2009n; Inforegio Europa, 2009q; Inforegio Europa, 2009j; Inforegio Europa, 2009o; INE, 2011d.

6.4-CONCLUSIONS

The main conclusion that can be drawn from this chapter is that in some Spanish NUTS 2 regions, efficient regional economic development has indeed taken place and in some others has not. According to dependency theory, Castilla y León and Comunidad Valenciana can be regarded as semi-peripheral regions, whereas Andalucía and Extremadura can be regarded as peripheral. Just like in Italy, metropolis-satellite relations still exist between the core and peripheral regions.

As in Italy, we again argue that both the MLG and the theories of soft and new regionalism can be used as analytical tools in order to describe and critically examine regional policy in Spain. MLG is used in order to critically present the cooperation amongst the three levels (EU, national and regional) in the context of the EU Cohesion Policy. Soft regionalism helps understand that regional development can become a

reality only under the condition that there is adequate consultation with the regional and local authorities and if central governments are willing to offer power and authority to their regions, according to the principle of subsidiarity. New regionalism explains the increase of economic competitiveness on a region-by-region basis and highlights the importance of the regions, and as a consequence the importance and necessity of regional development, based on processes such as visioning and strategic planning.

In all four NUTS 2 regions examined in this chapter, there was adequate funding from both the EU and the national governments in order for regional economic development to begin. In all four regions there are traces of regional development, but some of them show much better economic progress than others. This can be explained by the fact that in some regions, socio-economic problems, such as high unemployment, lack of education and poor infrastructure could not have been better resolved by the SFs.

One of the most important problems that hamper regional economic development is the inefficient spending capacity of some of the peripheral regions, in our case Extremadura and Andalucía. According to the EU Cohesion Policy Guidelines, all the allocation funds (in the form of SFs) must be spent and invested in order for regional economic convergence to become a reality. It is the responsibility of the member countries to spend their allocated funds according to their specific needs and problems. If these funds are not spent within the deadlines of the specific CSF Cycle, then during the next Cycle, these regions will receive fewer or no funds for regional development. In our case, the semi-peripheral regions of Castilla y León and Comunidad Valenciana have already exited the Convergence Objective, partly due to their satisfactory²⁹⁵ spending capacity. Spending (or absorption) capacity is closely linked with institutional

²⁹⁵ Compared to the other third CSF Cycle Objective 1 Regions.

capacity, so we can argue that inefficient spending capacity is proof of inefficient institutional capacity.

Also, in terms of institutional capacity, noticeable differences between the structure and functioning of local governance in some NUTS 2 Convergence Objective Regions - in our case the peripheral Extremadura and Andalucía- in addition to confusion around the administrative roles dealing with regional economic development are at the root of the problem. Some regions had never before been involved in European policies and this means that they did not have the chance to adapt their administrative systems to the guidelines of the EU Cohesion Policy. There was confusion in the cooperation of the regional governments with EU institutions and in some cases regions did not even initially exist as geographical, administrative and political entities.

Problems in spending and administrative capacities, unavoidably lead to problems with implementation, as regions find difficulties in implementing the CSF. In 1989, the SFs started financing the ROPs. The question was whether implementation would take place according to the basic guidelines and principles of EU Regional Policy. In order to resolve implementation problems, the Commission stopped placing both the decision-making and implementation decisions exclusively within the responsibility of the national authorities. This shift in regional policy made regional institutions become important policy actors and increased their significance in the attempts at regional economic convergence and development. This shift was followed by another, from the exclusive top-down regional policies to a combination of top-down and bottom-up ones, and in some cases purely bottom-up ones. The implementation of the CSF at a national level became a reality through the NOPs and at a regional level through the ROPs. In

Castilla y León and Comunidad Valenciana, this shift was successful. In the other two regions examined in this study it was problematic.

As in the case of Italy, we have to remain critical when assessing the opinions of the interviewees regarding the four Spanish case studies of the thesis. Sometimes they are just describing the regional economic situation and in others they present the methods and processes by which regional economic development can take place within their particular regions. However, in some cases they are being over-optimistic not only regarding future prospects, but also regarding the current impact of the regional policies since the beginning of the CSF Cycles, particularly in the cases of Andalucía and Extremadura. We must bear in mind that whilst Castilla y León and Comunidad Valenciana have exited the Convergence Objective as “Phasing-In” Regions (which means they have been excluded as “Natural Effect” Regions due to their significant regional development and not due to the EU Enlargement), Andalucía and Extremadura, despite receiving SFs for more than 20 years are still included in the Convergence Objective.

In the cases of Castilla y León and Comunidad Valenciana, a certain amount of optimism is justified, but when speaking about Andalucía and Extremadura we can argue that so far there is no room for over-optimism. Indeed, several attempts at development have taken place in both regions, but the results so far are not particularly encouraging either for the current situation, or for the future.

The question in every case of regional economic development is whether the traditional top-down, or bottom-up approach is more effective. Since the beginning of the SFs, there has been a shift from exclusively top-down regional policies to a combination of top-down with bottom-up ones and in some cases the bottom-up

approach is the dominant. The bottom-up approach²⁹⁶ seems to be more efficient due to the fact that it is concentrated on individual regions and localities. However, in order for this approach to lead to regional economic development there is a need for sufficient cooperation between regional, national and EU authorities. In Spain, the semi-peripheral regions of Castilla y León and Comunidad Valenciana are the most prosperous of the third CSF Cycle Objective 1 Regions, whereas peripheral Andalucía and Extremadura are totally the opposite, still suffering from high unemployment, low employment, low GDP per capita and other infrastructure, environmental and education problems. Regional development indeed takes place in Castilla y León and Comunidad Valenciana, but in the other two regions it is not sufficient.

We can also argue that the *Comunidades Autónomas* and the *FCI* have indeed helped decentralisation to take place²⁹⁷ and development to begin inside the less advantaged regions and not outside them.

²⁹⁶ Which can be linked to the horizontal/territorial one.

²⁹⁷ Use of the bottom-up approach.

CHAPTER 7

CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

This research has produced two sets of academic findings. On the one hand, with respect to the current theories, three main conclusions can be drawn: a) the evident regional divergence (clear distinction between core and periphery) that exists in Italy and Spain can be effectively analysed and explained by the use of dependency theory, which emerges from structuralism, b) the terms new and soft regionalism, as well as MLG can be effectively adapted to the case of the EU Regional Policy and c) the less-centralised, “bottom-up” approach seems to be more effective than the “top-down” one, in order for regional development to take place. This can be mainly observed at the former Objective 1 Regions of Italy (namely Abruzzo, Molise, Sardegna and Basilicata) and Spain (such as Cantabria, Castilla y León and Comunidad Valenciana), which have managed to exit either Objective 1, or the Convergence Objective.

On the other hand, the evidence gathered in our empirical research on the eight EU regions shows that the main reasons for the persistent regional economic divergence can be traced back to the historical centralisation of national regional policies, inadequate cooperation between EU, national and regional authorities, and the violation of the additionality, subsidiarity and partnership principles, and that the bottom-up approach is more likely to result in regional development.

Since 1989, EU Regional Policy has been orientated towards socio-economic cohesion, but for this to become a reality, economic regional convergence is essential, i.e. the convergence of regional economic indicators like GDP per capita towards the EU average. Core-periphery structures and regional disparities hamper cohesion. Certain optimism can be observed regarding the fact that regional disparities have

indeed narrowed and that regional economic development is progressing, but at the same time there are still doubts about whether or not domestic regional policies are being conducted according to the basic EU guidelines and principles.

In both Italy and Spain, evident regional economic progress, which can indeed lead to the reduction of regional disparities in the near future, can be observed. Since 1989, four Italian and eight Spanish NUTS 2 regions have exited Objective 1. Comparing the results of the EU Regional Policy before and after 1989, it can be argued that, after 1989, regional economic divergence has been narrower. The target of convergence is gradually becoming a reality, even though core-periphery economic structures still exist. In both countries, until 2000, there was a high degree of centralisation within domestic regional development policies, accompanied by problems around cooperation between the ERDF and the national authorities, particularly in terms of the exploitation of regional potential for endogenous growth.

However, since the beginning of the third CSF Cycle, regional policies have become more decentralised and regional economic development in both Spain and Italy (through the practice of bottom-up policies) has become more evident. Currently only four Italian and four Spanish NUTS 2 regions are included in the Convergence Objective. This shows that regional development has indeed taken place in both countries and regional disparities have been significantly reduced.

In Italy, the region of Basilicata is more prosperous compared to the other third CSF Cycle Objective 1 regions (with the exception of Sardegna). Basilicata is a “Phasing-Out” Region, which means it exited the Convergence Objective due to the EU Enlargement, whereas Sardegna is a “Phasing-In” Region, meaning that it has exited the Convergence Objective because of significant economic development. The regions of

Campania, Puglia and more evidently Calabria suffer from high unemployment, low employment, low GDP per capita, lack of basic infrastructure and many more economic and environmental problems.

In Spain, the regions of Castilla y León and Comunidad Valenciana are the most prosperous of the third CSF Cycle Objective 1 Regions (both “Phasing-In”), whereas Andalucía and Extremadura are still suffering from high unemployment, low employment, low GDP per capita and other infrastructure, environmental and education problems.

The regional economic divergence identified in Italy during the third CSF Cycle was more pronounced than in Spain. In Italy there is still a clear distinction between core and periphery, since the North is one of the best performing areas of the EU, whereas the *Mezzogiorno* is still one of the worst performing, except for Abruzzo and Molise. However, the encouraging feature about Italy is that the regions of Basilicata and Sardegna, despite the fact that were both included in Objective 1 during the third CSF Cycle, are currently out of the Convergence Objective.

In Italy, the central government, at least until the beginning of the third CSF Cycle, seemed not eager to offer power and responsibilities to regional and local authorities, again with the exceptions of Abruzzo and Molise, where the bottom-up approach (even as a combination with the top-down approach) took place. Nevertheless, during the third CSF Cycle, bottom-up policies were used more often and the successful development of Basilicata and Sardegna is mainly a result of the correct practice of this approach.

In Spain, it can be argued that regional development is more evident. Compared to Italy, there are two main differences. The first is the fact that the developed “core” regions of Spain (namely Comunidad de Madrid, Cataluña and País Vasco) are (still)

less developed than some of those which form the Italian North (and particularly Lombardia, Piemonte and Emilia-Romagna). This means that the overall regional divergence is narrower.

The second difference is the fact that in Spain the principle of subsidiarity is being followed in a more appropriate way, compared to Italy, despite the fact that in both countries (and perhaps more significantly in Spain), the principle of additionality has been violated several times. Regions such as Castilla-la Mancha, Extremadura, Castilla y León, Andalucía and Principado de Asturias have indeed received higher amounts of funding from the EU than from the Spanish government.

Spain and Spanish regions have also received respectable amounts in the form of Cohesion Funds, whilst Italy has not. We have to mention that Cohesion Funds have been distributed at a national level. This means that their absorption has not suffered from regional spending capacity problems, widely observed in the context of SFs, particularly in the current Convergence Objective Regions. Lack of difficulties in spending capacity, in terms of Cohesion Funds, means more effective absorption and better regional economic development prospects. In that sense, Spain has benefited more than Italy.

GDP per capita and the employment rate (again during the third CSF Cycle), steadily increased (relative to the EU average) in all the Spanish Objective 1 Regions, without a single exception. This is very encouraging and proves that satisfactory regional economic development (at least in terms of these variables) has indeed taken place in Spain. There was a decrease in the unemployment rate in both the Spanish and the Italian Objective 1 Regions, but in Spain the regional unemployment rates in the majority of the Objective 1 Regions were much lower. The fact that in the third CSF

Cycle, as many as seven previous Objective 1 Regions have managed to exit the Convergence Objective (namely Castilla y León, Comunidad Valenciana, Principado de Asturias, Canarias, Región de Murcia, Ciudad Autónoma de Ceuta and Ciudad Autónoma de Melilla), contrary to only two regions in Italy (Basilicata and Sardegna) is a clear sign that regional development in Spain has been more successful than in Italy.

Another positive feature in the case of Spain is the fact that the “*Comunidades Autónomas*” and the *FCI* have positively contributed to a real process of decentralisation taking place (use of the bottom-up approach) and for development to begin inside the peripheral regions and not outside them.

In all eight Italian and Spanish case studies, there was adequate funding from both the EU and the national governments, earmarked for regional economic development. In all regions, there are traces of regional development, but some of them show further economic progress than others. This can be explained by the fact that in some regions the problems of poor spending and administrative capacity, implementation difficulties, insufficient education and infrastructure, lack of cooperation between economic players and regional authorities and lack of investments are more evident than in others.

Another obstacle comes in the form of problems with administrative and institutional capacities. Several differences in the structure and functioning of local governance in some Convergence Regions (in our case Calabria, Campania, Puglia, Extremadura and Andalucía), in addition to a confusion within the administrative roles dealing with regional economic development, are the root of the problem. Some regions had never before been involved in European policies and this means that they did not have the chance to adapt their administrative systems to the basic guidelines of EU Cohesion Policy. There was confusion in the cooperation of the regional governments

with the EU institutions and in some cases regions did not even already exist as geographical, administrative and political entities.

The establishment of a vertical and horizontal differentiated distribution of powers and responsibilities, in addition to effective planning, programming, coordination and monitoring capacities, was seen as a fundamental responsibility by the EU institutions. In Basilicata, Castilla y León and Comunidad Valenciana this target has, more or less become a reality. In the other case studies the results are not very encouraging.

Administrative and institutional capacity problems are linked with spending capacity problems, hence we can argue that the inefficient spending capacity of some of the regions (in our case Calabria, Campania, Puglia, Extremadura and Andalucía) has created difficulties that hamper regional economic development. According to EU Cohesion Policy Guidelines (Leonardi, 2003 and 2005; Milio, 2010), all of the allocation of SFs must be spent and invested in order for regional economic convergence to become a reality. It is the responsibility of the member states to spend their allocated funds according to their specific needs and problems. If these funds are not spent within the deadlines of the specific CSF Cycle, then these regions will receive fewer or no funds for regional development during the following and future Cycles. In the case of Italy, Basilicata (which managed to spend its entire allocation during the second CSF Cycle), has been excluded from the Convergence Objective, even as a “Phasing-Out” Region, partly due to its efficient (compared to the other third CSF Cycle Objective 1 Regions) spending capacity. More significant progress has taken place in the Spanish regions of Castilla y León and Comunidad Valenciana, which have exited the Convergence Objective as “Phasing-In” Regions.

If we compare the percentages of SFs expenditure of the Italian and Spanish Objective 1 Regions during the third CSF Cycle, we find that in all Spanish regions, percentages are higher compared to those of Italian regions. Also, the percentages of Italian Objective 1 Regions during the third CSF Cycle are much lower compared to those of the first and second CSF Cycles. This leads us to two conclusions: a) the spending and institutional capacity of the Spanish Objective 1 Regions during the third CSF Cycle has been much more efficient compared to those of the Italian Objective 1 Regions and b) disappointedly, the spending capacity of the Italian Objective 1 Regions during the third CSF Cycle has been less efficient compared to that of the previous two CSF Cycles and this reveals problems and difficulties regarding the implementation of the CSF framework. The institutional capacity of the Italian Objective 1 Regions during the third CSF Cycle was less efficient compared to the previous two CSF Cycles.

If we also compare the spending capacity between Italy and Spain in their Objective 1 Regions, we can argue that during all three CSF Cycles Spain had higher percentages of SFs expenditure compared to total allocation. This means that Spain could actually implement the CSF framework much more efficiently than Italy.

Problems in spending and administrative capacity have unavoidably led to implementation problems. In 1989, SFs started financing the ROPs. The question was whether or not the implementation would take place according to the basic principles of the EU Regional Policy²⁹⁸. Two kinds of implementation exist: the quantitative and the qualitative. In order for implementation problems to be resolved, the Commission stopped placing both the decision-making and implementation decisions exclusively within the responsibility of the national authorities. This shift of regional policy enabled

²⁹⁸ Additionality, subsidiarity, partnership and programming.

regional institutions to become important policy actors and empowered them to shape and implement initiatives aimed at regional economic convergence and development. This shift was followed by another, from the exclusive top-down regional policies to a combination of top-down and bottom-up, and in some cases purely bottom-up, ones. The implementation of the CSF at a national level became a reality through the NOPs and at a regional level through the ROPs. In Basilicata, Castilla y León and Comunidad Valenciana, this shift was successful. In the other case studies, it was more problematic.

The less successful features of cohesion policy (mainly observed in the Convergence Regions) are that a) the principle of strategic planning is not being correctly followed, b) implementation problems have appeared in terms of the desirable place-based territorial approach, c) there have been problems in differentiating between efficiency and social inclusion, d) there have been difficulties in the context of contractual arrangements and in their attempt to influence both the Commission and the Member States so as to establish institutional alterations according to specific problems and needs, and e) there is insufficient policy debate concerning the results at a regional and EU level, as both the regions and the EU are mainly concentrated on issues such as financial absorption and irregularities (Barca, 2009a).

The question in every case of regional economic development is whether or not the traditional top-down, or the contemporary bottom-up approach is more effective. The answer is not simple. Since the beginning, EU Cohesion Policy has experienced a shift from exclusively top-down regional policies to a combination of top-down with bottom-up ones, and in some cases the bottom-up approach is the dominant. The bottom-up approach²⁹⁹ is argued to be more effective, due to the fact that it is concentrated on

²⁹⁹ Which is linked to a horizontal and territorial approach.

individual regions and localities. However, a condition for this approach to lead to regional economic development, is that sufficient cooperation between the regional, national and EU authorities needs to take place. Without national contributions and efficient three-level cooperation, it is unlikely to achieve the desired objectives.

The economic convergence of the EU-27 has been further undermined by the recent global economic recession that has hit EU regions. This global financial crisis had a certain impact on both Italy and Spain. Italy is currently suffering its tenth economic set-back in the last 50 years. In Italy, the latest recession (meaning in general a period of sustained GDP contraction) began during the second quarter of 2008 and lasted for about one year. It is considered to be as severe as that of the 1930s. GDP fell because of a sharp reduction in industrial activity, combined with a simultaneous reduction in the service sector activity (Credit-Agricole, 2009).

Italy was the first euro-zone member to experience negative growth in 2008. The economic crisis firstly hit the northern regions, which are more exposed to international trade and further specialised in investment goods. In 2009, Convergence Regions experienced a GDP contraction of 5.2%, whilst Competitiveness and Employment a drop of 5.3%. The degree of the impact of the crisis on the various regions depended on their product specialisation and their degree of openness to international trade. According to estimations, the core Italian Competitiveness and Employment Regions were expected to exit the crisis before the Convergence ones because of two reasons: a) they have a greater amount of resources to mobilise to exit the economic crisis, including the appropriate use of SFs and b) they actually own the major source of financing for recovery measures (regional discretionary resources). Indeed, from the

summer of 2009, the first signs of recovery in the core Northern regions were evident (Fabbris and Michelin, 2010).

Busillo (2010) carefully notes that the Italian economy was hit by the international financial crisis with a drop of approximately five percentage points at the GDP level, but certain factors hampering economic development, especially in the *Mezzogiorno* were pre-existent; these include high labour costs, low productivity growth (3 percentage points between 1998 and 2008), low employment rates compared to the EU average, lack of development in terms of human capital and difficulties in keeping the public debt under control (Busillo, 2010). The financial crisis worsened an already difficult economic situation and led to a slower and more problematic economic recovery than expected (Credit-Agricole, 2009).

Between 2000 and 2007, productivity in Italy declined and this led to an increase in unit labour costs. The crisis worsened Italy's loss of competitiveness on global markets and its trade balance began steadily deteriorating. In the short term, limited or no improvement is expected on the labour market and according to analysts, it is highly unlikely for Italy to reach the level of its previous cyclical peak³⁰⁰ before the end of 2011 (Credit-Agricole, 2009).

Also, Spain entered the recession during the second quarter of 2008, after a slow growth in 2007. Between 2007 and December 2009, unemployment increased by more than 11 percentage points (from 8% to more than 19%, the highest in the EU in 2009) and its fiscal deficit increased by 4.1 percentage points between 2008 and 2009 (in 2008 it was 3.8% of GDP and in 2009 it reached 7.9% of GDP), which is practically double the EMU limit. The crisis had a significant impact on the economy from the

³⁰⁰ A phase when activity reaches a high point.

construction's sector decline, to the oversupply of housing, to a decrease in consumer spending and to reduction of exports. The main actions of the Spanish government to compensate for the economic contraction were mainly focused on unemployment benefits and loan guarantees (CIA Factbook/Spain, 2010b).

In Spain, banks were exposed to the collapsed domestic construction sector and the real estate market dangers. That explains why the government's intervention to rescue the banking sector was necessary (CIA Factbook/Spain, 2010b). The economic crisis caused a huge drop in labour demand, as key labour-intensive sectors shrunk. According to experts, economic recovery should create approximately 2% to 2.5% per year new jobs to stimulate growth. However, the high budget deficit, the still negative GDP growth, high unemployment rates, and higher financing costs for industries and companies make it very difficult for the economy to embark on a recovery path. Particularly, in the case of savings' banks faced several problems due to the fact that their loans could actually not be repaid because of high unemployment (Wharton Universia, 2010).

In this context, the Commission is also exploring ways to review Regional Policy beyond 2014. The findings of this work shed light on some of the crucial concerns of the Commission, namely the sustained underperformance of some of the old EU-15 less favoured regions. In the current debate, Commissioner Danuta Hubner (2009) argues that Cohesion Policy can be regarded as one of the main impetuses towards the target of European Integration and Fabrizio Barca (2009) mentions that there is a need for a socio-economic policy tailored to the exact problems and needs of the regions, according always with efficient multilevel governance. Barca favours the bottom-up approach. Moreover, the principle of additionality should be strengthened by the

Commission, in order to be ensured that national expenditure is not substituted with EU expenditure. Hence, a direct link with the Stability and Growth Pact should be established. The “territorial” development approach, despite difficulties, is still going to be followed until 2013 (Barca, 2009a). Cohesion Policy has undoubtedly contributed positively towards the establishment of a common strategic approach regarding regional policy across the EU, but in some cases, the implementation of parallel EU and national policies has been problematic, resulting in an *“inadequate internal policy coherence between cohesion policy and domestic regional development policies/strategies and limited exploitation of the scope for strategic synergies”* (Barca 2009a:92).

From our research, it can be argued that in order for Cohesion Policy to become more efficient in Italy and Spain, there is a need for a) the concentration of resources on three or maximum four core priorities, b) a clearer and more coherent identification of objectives, c) the establishment of an annual reporting system regarding results and indicators, d) more efficient training regimes to be introduced, particularly in order for civil servants to become better informed on how to adapt the CSF framework to domestic regional policies towards regional economic convergence, e) strengthening of role of the Commission, in particular the Directorates-General³⁰¹ and f) the active participation of both the European Parliament and the Council on implementation issues, so as to evaluate the actions of both the EU Member States and the Commission (Barca, 2009a). An efficient EU Regional Policy can become an important tool to overcome the crisis and the recession, since it can contribute to the creation of new jobs and the establishment of more efficient training and educational regimes.

³⁰¹ Which are considered to be the headquarters of the EU Regional Policy and have the power to set Regional Policy guidelines and monitor implementation issues in order to make sure that the EU Regional Policy is efficiently being conducted according to basic principles, such as additionality, subsidiarity and partnership and towards the economic development of the regions lagging behind.

In both Italy and Spain, regional and local employment rates and efficiency can be increased, and the effective transferring of knowledge can be established and updated, if sufficient links amongst local suppliers and foreign companies and firms take place. Educational and training regimes must be improved in all the case studies and particularly the Convergence ones, in order for higher productivity growth to be established through new ideas and practices. “Phasing-In” and “Phasing-Out” Regions must modernise and improve their business environments and also carry out more investment in education, training, R&D and creative skills in order for regional development to actually take place. It is true that they have significantly reduced the economic distance from the Competitiveness and Employment Regions, but in order to enter this Objective, both “Phasing-In” and “Phasing-Out” Regions should increase productivity and employment, with special attention to R&D, patents and human capital (Sixth Progress Report, 2009).

The question of whether or not the EU should continue following a bottom-up regional policy is an issue synonymous with the implementation of subsidiarity. The bottom-up approach has significantly helped some regions in Italy and Spain to achieve important regional development and exit the Convergence Objective. However, four Italian and four Spanish NUTS 2 regions are still included in the Convergence Objective and it is still unclear whether or not they will exit by 2013. Their prospects of convergence need to be considered in the context of the Convergence Regions also including the 12 new Member States.

The current discussion of what EU Cohesion Policy will look like after 2013 will actually depend on the decision on whether to continue or abandon the bottom-up approach. From our work, it can be suggested that there should be a rethinking of

whether EU Cohesion Policy should return to a combination of top-down and bottom-up approaches, or, in other words, to a more centralised regional policy model. Such a model will probably offer regional authorities less freedom in their decision-making process, but will definitely strengthen the role of the Commission and the national governments. This shift of power and responsibility from regional to national and EU authorities could well be the solution of the problems of the underperforming regions, as perhaps the regional administrations in the Convergence Regions are not yet sufficiently experienced, or organised, to bear the heavy burden of responsibility regarding their regional policy decision-making.

Another important fact worth mentioning is that the new Member States had to prepare before joining by building their institutional capacity, especially in relation to policy design and implementation, as part of the conditions to membership. This means that by the time of their actual entry into the EU, these countries had already established an adequate regime in order for the CSF to be adapted without significant problems. This was not the case for Italy and Spain, where there was actually limited, or no preparation when the Reform of SFs took place in 1989 to allow EU guidelines and regulations to be absorbed and followed in a more satisfactory way in order to move towards economic convergence.

A crucial issue that will definitely play an important part in the context of EU Regional Policy in the following years is whether the EU can actually afford to continue funding regions such as the four Convergence Italian and Spanish ones, which, despite receiving funds for 20 years, are still included in the Convergence Objective. It is almost certain that, due to budgetary constraints that will appear mainly because of the

enlargement, the funds that will be received by underperforming regions in the near future will be far lower compared to current funding.

The latest enlargement poses new challenges to the EU, and, without an efficient Cohesion Policy mechanism, convergence may be troublesome. Ever since the beginning of the enlargement process, there have been concerns as how the EU would manage fundings both for the new Member States' NUTS 2 regions and for the old Convergence ones. The fact that the old Convergence Regions started receiving far fewer SFs than in the past, due to the enlargement, raised a question on how the old Convergence Regions would actually be in position to exit the Objective 1, or the Convergence Objective while receiving limited SFs. If the current Convergence Regions of the EU-15 do not manage to exit the Convergence Objective by 2013, then this will indeed be a serious problem for the EU Cohesion Policy and an important obstacle to regional economic convergence in the EU.

The key finding of this work is further confirmation that in order for regional economic convergence to become a reality, a key condition should be an effective institutional capacity building, in order for the CSF to be adapted and properly followed according to the specific regional problems and needs and according to the EU Regional Policy guidelines and principles. An adequate institutional capacity will lead to an effective spending capacity and as a result to a positive economic impact of the SFs. This impact is highly likely to result in a significant regional economic performance, which is the key to regional economic convergence. The causality across these factors has to be born in mind when EU institutions review Cohesion Policy for the 2014 round. Indeed such findings are reference points for the future of an EU Cohesion Policy still

characterised by bottom-up regional development, not only for Italy and Spain, but for the EU as a whole.

The findings from this research also highlight areas and issues for which further research would be valuable. Drawing on our research, an area that merits further investigation is to further study how EU Cohesion Policy will look like after 2013; how the new Member States will be able to efficiently adapt to that; and how the old Convergence Regions will also adapt to that. The debate on whether or not a less-centralised, bottom-up, EU Cohesion Policy can produce effective results for the EU-15 underperforming regions is still open and is clearly linked with inevitable budgetary constraints posed by a concurrence of factors, including the euro, the current financial crisis and the more severe need of the new Member States.

Further research on the possibility of a new more centralised EU Regional Policy after 2013 might be valuable, as, for instance, by comparing the impact of Cohesion Funds and SFs on regional economic growth. The funding to the new Member States after 2013 will depend on whether the current EU-15 Convergence Objective Regions will exit the Convergence Objective by 2013. If not, a new design of the EU Cohesion Policy will have to take place and further investigation would be valuable in order to find out a) how the SFs will be divided between old and new member states and b) if these funds will actually be enough in order to result in regional economic development for the old and new Member States.

Finally, further research would be worthwhile, in order to discover whether or not the pre-accession aids and strategies, imposed on the new Member States in order to facilitate their entrance in the EU by helping them learn how to effectively implement

the CSF, could be efficiently adapted to the current EU-15 underperforming Convergence Regions, in order for the latter to improve their spending capacity.

Unlike the 12 new EU Member States, the EU-15 ones did not receive either lessons, or aids before their entrance in the EU, in order to gain further knowledge on how to effectively absorb the SFs. This lack of knowledge could be a reason behind their current regional economic underperformance, so it would be interesting to investigate if the pre-accession strategies applied to the new EU Member States can actually have a positive impact on the EU-15 Convergence Regions. Improvement of spending capacity means better institutional capacity and increases the possibilities for regional economic convergence. Further research on the impact of such strategies on the underperforming Convergence Regions can lead to interesting conclusions about the future of the EU Regional “Cohesion” Policy towards the convergence target in an already significantly enlarged EU.

APPENDIX 1

QUESTIONNAIRE AND LIST OF INTERVIEWEES

QUESTIONNAIRES

The following questionnaires were administered to officials and representatives of a) national government in Italy and Spain (civil servants), b) regional authorities within the Italian and Spanish NUTS 2 Objective 1 Regions and c) EU authorities in charge of EU Regional Policy within the NUTS 2 Objective 1 Regions of Italy and Spain. Interviewees responded to the questionnaires in writing through e-mails. In some cases, the answers emerged from a team effort. The interviewees at a regional, national and EU level were carefully chosen according to their knowledge, experience and specific positions they hold. The interviewees at a regional level are regional ministers, regional presidents, directors, managers, administrative members and Professors in charge of Regional Policy. The interviewees at a national level are general directors, sub-directors, economic analysts, members of evaluation units at the Italian and Spanish Ministries in charge of regional policies. The interviewees at an EU level are programme managers in charge of EU Regional Policy in Italy and Spain, working for the European Commission in Brussels.

EU COMMISSION QUESTIONNAIRE

The first questionnaire was designed for officials of the EU Commission. It comprises eight questions:

1. After 15 years of receiving SFs, why do some NUTS 2 Italian and Spanish regions spend more of their allocated resources than others? In other words why is the regional response level, in terms of spending the available resources, significantly different between some current Italian (e.g. Basilicata and Calabria) (or) Spanish (e.g. Comunidad Valenciana and Extremadura) NUTS 2 Objective 1 Regions? What reasons would you give for the different take-up in different regions?

2. Despite the fact that there are evident signs of regional economic progress within Italy and Spain, some of the Italian and Spanish NUTS 2 Objective 1 Regions have a lower GDP per capita level, higher level of unemployment and lower level of employment compared to other Italian and Spanish NUTS 2 regions, as well as compared to other EU NUTS 2 regions. In your opinion, why is convergence in Italian and Spanish NUTS 2 regions proceeding at different speeds? Could you please identify the main reasons for this, focusing mainly on GDP per capita, employment and unemployment rates? Do you think that within the next five and ten years divergence across Italian and Spanish regions is likely to increase, or decrease? On what evidence do you base your answer?

3. In your opinion, what is the relative importance of the ERDF, the ESF, the FIFG and the EAGGF towards meeting the objective of regional convergence and regional development in Italy and Spain? Do these funds have different approaches towards the objective of regional development?

4. Can we argue that, despite some implementation difficulties, EU Structural Policy (through its aforementioned funds) has so far had beneficial effects towards the target of economic and social cohesion in Italy and Spain?

5. In your opinion, are there any significant differences in terms of a) economic policies and b) economic performance (in terms of GDP per capita, employment and unemployment) between the NUTS 2 regions within Italy and Spain? If so, what are those differences?

6. In your opinion, how have the National Operational Programmes so far contributed to the adequate implementation of the Community Support Framework at the national level in Italy and Spain, and which are the most important training programmes that have taken place within the Objective 1 Regions of Italy and Spain since 1989?

7. In your opinion, how have the Regional Operational Programmes and the multi-year integrated programmes (particularly since 1989) so far contributed to the adequate implementation of the Community Support Framework at the regional level in Italy and Spain and to regional development (within the Italian and Spanish Objective 1 Regions)?

8. Would you say that in Italy and Spain, policies of regional development have been transformed from exclusively “top-down” (highly centralised) to a combination of “top-down” and “bottom-up” (more decentralised) ones? According to many authors/economists/political scientists, a top-down approach takes place when decisions regarding regional policy are taken from the central government without consultation with regional-local authorities. Thus, regional development begins “outside” the region. In terms of the bottom-up approach, there is efficient cooperation between national and regional authorities in order for regional development to start “inside” the region. Do you agree with this definition/meaning of the “top-down” and “bottom-up” approaches, or do you define them in another way? Can we argue that this transformation has mainly taken place during the current (2007-2013) and the previous (2000-2006) CSF Cycle? Are there any cases where a pure “bottom-up” approach has taken place?

ITALY QUESTIONNAIRE

A second questionnaire was administered to Italian national and regional officials. It comprises 12 questions to national government officials (eight main and four supplementary ones) and 11 to regional government officials (six main and five supplementary ones).

NATIONAL GOVERNMENT

MAIN QUESTIONS

1. After 15 years of receiving SFs, why do some NUTS 2 Italian regions spend more of their allocated resources than others? In other words why is the regional response level, in terms of spending the available resources, significantly different between some current Italian (e.g. Basilicata and Calabria) NUTS 2 Objective 1 Regions? What reasons would you give for the different take-up in different regions?
2. Despite the fact that there are evident signs of regional economic progress within Italy, some of the Italian NUTS 2 Objective 1 Regions have a lower GDP per capita level, higher level of unemployment and lower level of employment compared to other Italian NUTS 2 regions, as well as compared to other EU NUTS 2 regions. In your opinion, why is convergence in Italian NUTS 2 regions proceeding at different speeds? Could you please identify the main reasons for this, focusing mainly on GDP per capita, employment and unemployment rates? Do you think that within the next five and ten years divergence across Italian regions is likely to increase, or decrease?

3. In your opinion, what is the relative importance of the ERDF, the ESF, the FIFG and the EAGGF towards meeting the objective of regional convergence and regional development in Italy? Do these funds have different approaches towards the objective of regional development?

4. Can we argue that, despite some implementation difficulties, EU Structural Policy (through its aforementioned funds) has so far had beneficial effects towards the target of economic and social cohesion in Italy?

5. In your opinion, are there any significant differences in terms of a) economic policies and b) economic performance (in terms of GDP per capita, employment and unemployment) between the NUTS 2 regions within Italy? If so, what are those differences?

6. How have the *CASMEZ*, the Department for the *Mezzogiorno* and the *Agensud* contributed to regional development in the regions of Basilicata, Campania, Calabria and Puglia? Do you believe that they have contributed in a positive way towards the target of regional economic convergence in these regions? Would you suggest that they have pursued policies that are consistent with those of the EU, national government and regional authorities, or do you think that the EU policies and principles (additionality, subsidiarity, partnership, strategic planning) have been bypassed?

7. How have the National Operational Programmes so far contributed to the adequate implementation of the Community Support Framework at a national level in Italy, and

which are the most important training programmes (in your opinion) that have taken place within the Objective 1 Regions of Italy since 1989?

8. Would you say that in Italy, policies of regional development have been transformed from exclusively “top-down” (highly centralised) to a combination of “top-down” and “bottom-up” (more decentralised) ones? According to many authors/economists/political scientists, a top-down approach takes place when decisions regarding regional policy are taken from the central government without consultation with regional-local authorities. Thus, regional development begins “outside” the region. In terms of the bottom-up approach, there is an efficient cooperation between national and regional authorities in order for regional development to start “inside” the region. Do you agree with this definition/meaning of the “top-down” and “bottom-up” approaches, or do you define them in another way? Can we argue that this transformation has mainly taken place during the current (2007-2013) and the previous (2000-2006) CSF Cycle? Are there any cases where a pure “bottom-up” approach has taken place in Italy?

SUPPLEMENTARY QUESTIONS

1. Within the *Mezzogiorno*, two NUTS 2 regions (Abruzzo and Molise) have already exited Objective 1, two others (Basilicata and Sardegna) are highly likely to exit Objective 1 by 2013 (according to the EU), whereas the remaining regions, despite the fact that they have made obvious progress, are not likely to exit Objective 1 by 2013. In your opinion, and taking into account the differences in terms of regional development, would you suggest that the *Mezzogiorno* regions are cooperative, or competitive? Would you argue that the more “advanced” regions (those with higher GDP per capita

and lower unemployment) offer a substantial degree of assistance to pursue regional economic convergence within Italy?

2. How has inter-regional migration so far affected regional development within the NUTS 2 Objective 1 Regions of Italy? Would you say that if an educated and experienced labour force leaves a specific region, then this slows down or hampers progress and development within this region? Would you say that the region that welcomes an educated and experienced labour force is highly likely to experience development (in the form of GDP per capita increase, creation of new jobs, technological progress, new knowledge and updating/modernisation of production and administration systems)? On what evidence do you base your answer?

3. In your opinion, how important is an advanced monitoring system (with systematically available data) for regional development within the NUTS 2 Objective 1 Regions of Italy?

4. How have the ex-ante, itinere or ex-post evaluation reports helped in the promotion of regional development in the NUTS 2 Objective 1 Regions of Italy? Could you possibly give me some specific examples where such reports have led to policy improvement (and/or regional development)?

REGIONAL GOVERNMENT

MAIN QUESTIONS

1. Please comment on the progress (in terms of regional convergence and development, focusing mainly on variables such as GDP per capita, employment-unemployment

rates) in your region that has so far taken place during the last three CSF Cycles as well as the current one. How would you rate the progress of your region compared to that of the other Italian regions and how do you think your region is going to perform in the next five and ten years compared to the other NUTS 2 regions in Italy?

2. In your opinion, what is the relative importance of the ERDF, the ESF, the FIFG and the EAGGF towards meeting the objective of regional convergence and regional development in your region? Do these funds have different approaches towards the objective of regional development?

3. Can we argue that, despite some implementation difficulties, EU Structural Policy (through its aforementioned funds) has so far had beneficial effects towards the target of economic and social cohesion in your region?

4. How have the *CASMEZ*, the Department for the *Mezzogiorno* and the *Agensud* contributed to regional development in your region? Do you believe that they have contributed in a positive way? Would you suggest that they have pursued policies that are consistent with those of the EU, national government and regional authorities, or do you think that the EU policies and principles (additionality, subsidiarity, partnership, strategic planning) have been bypassed?

5. How have the Regional Operational Programmes and the multi-year integrated programmes (particularly since 1989) so far contributed to the adequate implementation of the Community Support Framework at a regional level in Italy and to regional

development (within the Objective 1 Regions)? Please also refer to the impact of these programmes on your region.

6. In terms of regional policy, implementation difficulties are strongly related to the degree of regional administrative capacity. According to many authors/economists/political scientists, regional administrative capacity includes the degree of the ability of regional authorities and employees to successfully deal with regional policies and effectively carry out plans for regional economic development. This ability is necessary for the sufficient implementation of funds, according to existing rules and regulations and according to the basic EU Regional Policy principles (subsidiarity, additionality, partnership, strategic planning). How do you define the term “administrative capacity” and how do you assess administrative capacity in your region, particularly since 1989? What measures are needed (if any) to a) increase the effectiveness of administrative capacity building and b) to complement EU Regional Policy, or to contribute to EU Regional Policy efficiently?

SUPPLEMENTARY QUESTIONS

1. Within the *Mezzogiorno*, two NUTS 2 regions (Abruzzo and Molise) have already exited Objective 1, two others (Basilicata and Sardegna) are highly likely to exit Objective 1 by 2013 (according to the EU), whereas the remaining regions, despite the fact that they have made obvious progress, are not likely to exit Objective 1 by 2013. In your opinion, and taking into account the differences in terms of regional development, would you suggest that the *Mezzogiorno* regions are cooperative, or competitive? Would you argue that the more “advanced” regions (those with higher GDP per capita

and lower unemployment) offer a substantial degree of assistance to the others to pursue regional economic convergence?

2. How has inter-regional migration so far affected regional development within your region? Would you say that if an educated and experienced labour force leaves a specific region, then this slows down, or hampers progress and development within this region? Would you say that the region that welcomes an educated and experienced labour force is highly likely to experience development (in the form of GDP per capita increase, creation of new jobs, technological progress, new knowledge and updating/modernisation of production and administration systems)? On what evidence do you base your answer?

3. This question is about the administrative personnel within your region in the context of the Cohesion Policy. In your opinion, can a small or a large number of internal departments lead to a more effective coordination of actions and to an increased overall efficiency? On what evidence do you base your answer?

4. In your opinion, how important is an advanced monitoring system (with systematically available data) for regional development within your region?

5. How have the ex-ante, itinere or ex-post evaluation reports helped in the promotion of regional development in your region? Could you possibly give me some specific examples where such reports have led to policy improvement (and/or regional development)?

SPAIN QUESTIONNAIRE

A third questionnaire was administered to Spanish national and regional officials. It comprises 12 questions to national government officials (eight main and four supplementary) and 11 to regional government officials (six main and five supplementary).

NATIONAL GOVERNMENT

MAIN QUESTIONS

1. After 15 years of receiving SFs, why do some NUTS 2 Spanish regions spend more of their allocated resources than others? In other words why is the regional response level, in terms of spending the available resources, significantly different between some current Spanish (e.g. Comunidad Valenciana and Extremadura) NUTS 2 Objective 1 Regions? What reasons would you give for the different take-up in different regions?
2. Despite the fact that there are evident signs of regional economic progress within Spain, some of the Spanish NUTS 2 Objective 1 Regions have a lower GDP per capita level, higher level of unemployment and lower level of employment compared to other Spanish NUTS 2 regions, as well as compared to other EU NUTS 2 regions. In your opinion, why is convergence in Spanish NUTS 2 regions proceeding at different speeds? Could you please identify the main reasons for this, focusing mainly on GDP per capita, employment and unemployment rates? Do you think that within the next five and ten years divergence across Spanish regions is likely to increase, or decrease?

3. In your opinion, what is the relative importance of the ERDF, the ESF, the FIFG and the EAGGF towards meeting the objective of regional convergence and regional development in Spain? Do these funds have different approaches towards the objective of regional development?

4. Can we argue that, despite some implementation difficulties, EU Structural Policy (through its aforementioned funds) has so far had beneficial effects towards the target of economic and social cohesion in Spain?

5. In your opinion, are there any significant differences in terms of a) economic policies and b) economic performance (in terms of GDP per capita, employment and unemployment) between the NUTS 2 regions within Spain? If so, what are those differences?

6. How has the *FCI* contributed to regional development in the regions of Castilla y León, Comunidad Valenciana, Andalucía and Extremadura? Do you believe that it has contributed in a positive way towards the target of regional economic convergence in your region? Would you suggest that it has pursued policies that are consistent with those of the EU, national government and regional authorities, or do you think that the EU policies and principles (additionality, subsidiarity, partnership, strategic planning) have been bypassed?

7. How have the National Operational Programmes so far contributed to the adequate implementation of the Community Support Framework at a national level in Spain, and

which are the most important training programmes (in your opinion) that have taken place within the Objective 1 Regions of Spain since 1989?

8. Would you say that in Spain, policies of regional development have been transformed from exclusively “top-down” (highly centralised) to a combination of “top-down” and “bottom-up” (more decentralised) ones? According to many authors/economists/political scientists, a top-down approach takes place when decisions regarding regional policy are taken from the central government without consultation with regional-local authorities. Thus, regional development begins “outside” the region. In terms of the bottom-up approach, there is an efficient cooperation between national and regional authorities in order for regional development to start “inside” the region. Do you agree with this definition/meaning of the “top-down” and “bottom-up” approaches, or do you define them in another way? Can we argue that this transformation has mainly taken place during the current (2007-2013) and the previous (2000-2006) CSF Cycle? Are there any cases where a pure “bottom-up” approach has taken place in Spain?

SUPPLEMENTARY QUESTIONS

1. Within Spain, one NUTS 2 region that used to be part of the Objective 1 (Cantabria), has already exited, five others (Castilla y León, Comunidad Valenciana, Asturias, Canarias and Murcia) are highly likely to exit Objective 1 by 2013 (according to the EU), whereas the remaining regions, despite the fact that they have made obvious progress, are not likely to exit Objective 1 by 2013. In your opinion, and taking into account the differences in terms of regional economic development, would you suggest that the Spanish NUTS 2 regions are cooperative, or competitive? Would you argue that

the more “advanced” regions (those with higher GDP per capita and lower unemployment) offer a substantial degree of assistance to pursue regional economic convergence within Spain?

2. How has inter-regional migration so far affected regional development within the NUTS 2 Objective 1 Regions of Spain? Would you say that if an educated and experienced labour force leaves a specific region, then this slows down, or hampers progress and development within this region? Would you say that the region that welcomes an educated and experienced labour force is highly likely to experience development (in the form of GDP per capita increase, creation of new jobs, technological progress, new knowledge and updating/modernisation of production and administration systems)? On what evidence do you base your answer?

3. In your opinion, how important is an advanced monitoring system (with systematically available data) for regional development within the NUTS 2 Objective 1 Regions of Spain?

4. How have the ex-ante, itinere or ex-post evaluation reports helped in the promotion of regional development in the NUTS 2 Objective 1 Regions of Spain? Could you possibly give me some specific examples where such reports have led to policy improvement (and/or regional development)?

REGIONAL GOVERNMENT

MAIN QUESTIONS

1. Please comment on the progress (in terms of regional convergence and development, focusing mainly on variables such as GDP per capita, employment-unemployment rates) in your region that has so far taken place during the last three CSF Cycles as well as the current one. How would you rate the progress of your region compared to that of the other Spanish regions and how do you think your region is going to do in the next five and ten years compared to the other NUTS 2 regions in Spain?

2. In your opinion, what is the relative importance of the ERDF, the ESF, the FIFG and the EAGGF towards meeting the objective of regional convergence and regional development in your region? Do these funds have different approaches towards the objective of regional development?

3. Can we argue that, despite some implementation difficulties, EU Structural Policy (through its aforementioned funds) has so far had beneficial effects towards the target of economic and social cohesion in your region?

4. How has the *FCI* contributed to regional development in your region? Do you believe that it has contributed in a positive way? Would you suggest that it has pursued policies that are consistent with those of the EU, national government and regional authorities, or do you think that the EU policies and principles (additionality, subsidiarity, partnership, strategic planning) have been bypassed?

5. How have the Regional Operational Programmes and the multi-year integrated programmes (particularly since 1989) so far contributed to the adequate implementation of the Community Support Framework at a regional level in Spain and to regional development (within the Objective 1 Regions)? Please also refer to the impact of these programmes on your region.

6. In terms of regional policy, implementation difficulties are strongly related to the degree of regional administrative capacity. According to many authors/economists/political scientists, regional administrative capacity includes the degree of the ability of regional authorities and employees to successfully deal with regional policies and effectively carry out plans for regional economic development. This ability is necessary for the sufficient implementation of funds, according to existing rules and regulations and according to the basic EU Regional Policy principles (subsidiarity, additionality, partnership, strategic planning). How do you define the term “administrative capacity” and how do you assess administrative capacity in your region, particularly since 1989? What measures are needed (if any) in order a) to increase effectiveness of administrative capacity building and b) to complement EU Regional Policy, or to contribute to EU Regional Policy efficiently?

SUPPLEMENTARY QUESTIONS

1. Within Spain, one NUTS 2 region that used to be part of the Objective 1 (Cantabria), has already exited, five others (Castilla y León, Comunidad Valenciana, Asturias, Canarias and Murcia) are highly likely to exit Objective 1 by 2013 (according to the EU), whereas the remaining regions, despite the fact that they have made obvious progress, are not likely to exit Objective 1 by 2013. In your opinion, and taking into

account the differences in terms of regional economic development, would you suggest that the Spanish NUTS 2 regions are cooperative, or competitive? Would you argue that the more “advanced” regions (those with higher GDP per capita and lower unemployment) offer a substantial degree of assistance to the others in order to pursue regional economic convergence?

2. How has inter-regional migration so far affected regional development within your region? Would you say that if an educated and experienced labour force leaves a specific region, then this slows down, or hampers progress and development within this region? Would you say that the region that welcomes an educated and experienced labour force is highly likely to experience development (in the form of GDP per capita increase, creation of new jobs, technological progress, new knowledge and updating/modernisation of production and administration systems)? On what evidence do you base your answer?

3. This question is about the administrative personnel within your region in the context of the Cohesion Policy. In your opinion, can a small or a large number of internal departments lead to a more effective coordination of actions and to an increased overall efficiency? On what evidence do you base your answer?

4. In your opinion, how important is an advanced monitoring system (with systematically available data) for regional development within your region?

5. How have the ex-ante, itinere or ex-post evaluation reports helped in the promotion of regional development in your region? Could you possibly give me some specific examples where such reports have led to policy improvement (and/or regional development)?

RESEARCH ISSUES AND OBJECTIVES EMERGING FROM THE QUESTIONNAIRES

The next step is the creation of a synthesising table, which can be used as a guide to point out how the research questions lead us to conclusions on Regional Policy objectives. Also the table summarises the issues that are included in the questionnaires in order to a) ensure that the majority of important issues regarding regional policy have indeed been covered, and b) clearly distinguish which issues are covered at each of the three levels: EU, national and regional.

A1: POLICY-History and changes over time

A2: POLICY-Actual policy (general direction)

A3: POLICY-Actual policy (specific issues)

A4: POLICY-Compatibility with policies at other levels (EU-national-regional)

A5: POLICY-Comparison with policies at other levels (EU-national-regional)

A6: POLICY-Comparison with policies in other NUTS 2 regions of the same country

A7: POLICY-Comparison with policies in the other country of the study

A8: POLICY-Comparison with policies in other EU Member States

A9: POLICY-Governance/institutional issues

B1: OUTCOMES-Evaluation/assessment/conclusions regarding past policy

B2: OUTCOMES-Evaluation/assessment/conclusions regarding current policy

B3: OUTCOMES-Possible alterations required in order to improve outcomes/future policy towards efficient regional development

B4: OUTCOMES-Comparison with outcomes in other NUTS 2 regions of the same country

B5: OUTCOMES-Comparison with outcomes in the other country of the study

B6: OUTCOMES-Comparison with outcomes in other EU Member States

C1: OTHER ISSUES-Migration

SYNTHESISING TABLE

	EU level	National level	Regional level
A1	1, 2, 4, 6, 7, 8	I.M.1, I.M.2, I.M.4, I.M.6, I.M.7, I.M.8, I.S.1, S.M.1, S.M.2, S.M.4, S.M.6, S.M.7, S.M.8, S.S.1	I.M.1, I.M.3, I.M.4, I.M.5, I.M.6, I.S.1, S.M.1, S.M.3, S.M.4, S.M.5, S.M.6, S.S.1
A2	5	I.M.5, S.M.5	
A3	3, 6, 7, 8	I.M.3, I.M.6, I.M.7, I.M.8, S.M.3, S.M.6, S.M.7, S.M.8	I.M.2, I.M.4, I.M.5, I.M.6, I.S.1, S.M.2, S.M.4, S.M.5, S.M.6, S.S.1
A4	3, 6, 7	I.M.3, I.M.6, I.M.7, S.M.3, S.M.6, S.M.7	I.M.2, I.M.4, S.M.2, S.M.4
A5	4, 5, 8	I.M.4, I.M.5, I.M.8, S.M.4, S.M.5, S.M.8	I.M.2, I.M.4, S.M.2, S.M.4
A6	3, 4, 5, 6, 7, 8	I.M.3, I.M.4, I.M.5, I.M.6, I.M.7, I.M.8, I.S.1, S.M.3, S.M.4, S.M.5, S.M.6, S.M.7, S.M.8, S.S.1	I.M.5, I.M.6, I.S.1, S.M.5, S.M.6, S.S.1
A7	3, 4, 5, 6, 7, 8		
A8	4		
A9	3, 6, 7, 8	I.M.3, I.M.6, I.M.7, I.M.8, I.S.3, I.S.4, S.M.3, S.M.6, S.M.7, S.M.8, S.S.3, S.S.4	I.M.2, I.M.4, I.M.5, I.M.6, I.S.3, I.S.4, I.S.5, S.M.2, S.M.4, S.M.5, S.M.6, S.S.3, S.S.4, S.S.5
B1	1, 2, 4, 5, 6, 7, 8	I.M.1, I.M.2, I.M.4, I.M.5, I.M.6, I.M.7, I.M.8, S.M.1, S.M.2, S.M.4, S.M.5, S.M.6, S.M.7, S.M.8	I.M.1, I.M.3, I.M.4, I.M.5, I.M.6, S.M.1, S.M.3, S.M.4, S.M.5, S.M.6
B2	1, 2, 3, 5, 6, 7, 8	I.M.3, I.M.5, I.M.7, I.M.8, I.S.1, S.M.3, S.M.5, S.M.7, S.M.8, S.S.1	I.M.1, I.M.3, I.M.5, I.M.6, I.S.1, S.M.1, S.M.3, S.M.5, S.M.6, S.S.1
B3	8	I.M.8, S.M.8	I.M.6, S.M.6
B4	1, 2, 3, 4, 5, 6, 7	I.M.1, I.M.2, I.M.3, I.M.4, I.M.5, I.M.6, I.M.7, I.S.1, S.M.1, S.M.2, S.M.3, S.M.4, S.M.5, S.M.6, S.M.7, S.S.1	I.M.1, I.M.5, I.M.6, I.S.1, S.M.1, S.M.5, S.M.6, S.S.1
B5	1, 2, 3, 4, 5, 6, 7	I.M.2, S.M.2	
B6	2	I.M.2, S.M.2	
C1		I.S.2, S.S.2	I.S.2, S.S.2

Note: I.M.: Italian questionnaire main questions, I.S.: Italian questionnaire supplementary questions, S.M.: Spanish questionnaire main questions, S.S.: Spanish questionnaire supplementary questions

INTERVIEWEES

EUROPEAN COMMISSION

[Not available in the digital version of this thesis]

ITALY

NATIONAL GOVERNMENT

[Not available in the digital version of this thesis]

REGIONAL GOVERNMENT

[Not available in the digital version of this thesis]

SPAIN

NATIONAL GOVERNMENT

[Not available in the digital version of this thesis]

REGIONAL GOVERNMENT

[Not available in the digital version of this thesis]

APPENDIX 2

SUMMARY OF THE FINDINGS OF INTERVIEWS WITH KEY STAKEHOLDERS

This is a summary of interviews with Regional Policy makers. Interviews have been conducted with regional, national and EU authorities, in a) all the Italian (Campania, Calabria, Puglia, Basilicata) and Spanish NUTS 2 regions (Castilla y León, Comunidad Valenciana, Andalucía, Extremadura) included in the thesis, b) the Ministries of Economics and Development of Italy and Spain and c) the European Commission.

As already mentioned in the main part of the thesis, the reason for choosing the aforementioned regions is the fact that they are representative of different levels of economic development, according to the three main variables (GDP, employment and unemployment levels) on which the thesis is based. The findings concerning these regions are indicative of those I would gather about the regions that were not chosen and, therefore, it will be possible to generalise my results for the Italian and Spanish NUTS 2 regions for the whole of Italy and Spain respectively

The interviews conducted with National and EU authorities are also indicative of my attempt to offer a more “complete” result regarding the current economic situation. The findings originate from all three levels of government (EU, national and regional), not only from the regional level. The interviewees were specifically chosen due to their knowledge of the subject. This knowledge can be observed by the details they have provided me with, in the context of regional policy, at all three aforementioned levels.

The process of finding these interviewees was troublesome. There were two main difficulties; the first was the unsatisfactory guidance provided by the regions' websites, which actually did not provide adequate information, either on the qualifications of the potential interviewees, or their contact details. The second was the language problem.

Personally, I speak English, French and a little Italian. However, it was difficult to communicate in either English or French, even with some of the interviewees working in the European Commission. This is why I relied on two translators (one Spanish and one Italian), teacher of Spanish Marian Hernandez and teacher of Italian Maria Lucia Donati, and their help was priceless. The interviews were conducted by phone and by e-mail. After several difficulties and delays the interviews were successfully conducted. My objective (through the interviews) is to estimate the degree of economic divergence that currently exists in Italy and Spain and to search for the deeper reasons behind this regional divergence.

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APPENDIX 3

ECONOMIC TABLES CORRESPONDING TO CHAPTER 4

Appendix 3 includes all the economic tables that correspond to the figures presented on chapter 4. The reason for placing the tables on this appendix is to avoid duplication of data.

Table 1 corresponding to Figure 4.1
Dispersion of regional GDP per inhabitant in Spain and Italy (in % of the national GDP per inhabitant)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Spain	19.1	19.5	19.9	20.2	20.6	20.5	20.2	20.4	19.8	19.4	19.1	19
Italy	24.9	24.8	24.5	24.5	24.3	NA	26	25.6	25.5	25.5	24.8	24.6

Source: Eurostat, 2010a.

-Tables referring to Italy

Table 2 corresponding to Figure 4.3
Regional GDP (PPS per inhabitant in % of the EU-27 average), by NUTS 2 regions

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Abruzzo	103.4	101	100	98.1	99.7	100.9	95.1	92.1	84.8	85.4	85.6	85.3
Molise	86.9	89	88.7	86	85.2	86.4	81.6	79.5	76.9	75.9	77.8	77.9
Campania	73.4	74	74.7	73.2	72.8	74.2	72	70.8	68.1	67	66.5	65.9
Puglia	78.3	76.6	77.6	77.7	76.9	77.4	73.4	72.3	69.3	67.6	68	66.8
Basilicata	81.9	82.4	84.1	85.4	83.5	82.7	78.4	77.1	75.4	73.3	75.2	75
Calabria	72.3	72.6	73	73.2	72.1	73.7	69.8	69.8	68.3	67.3	67	65.8
Sicilia	76.7	75.7	76	73.6	73.4	74.6	70.7	70.4	67.1	67.6	67.2	66
Sardegna	87.8	88.9	89.1	88	87.1	89.2	83.2	83.4	81.1	79.7	79.6	78.4

Source: Eurostat, 2010g.

Table 3 corresponding to Figures 4.4-4.5
Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year

	2001	2002	2003	2004	2005	2006
Italy	1.8	0.3	0	1.2	0.1	1.9
Abruzzo	1	0.1	-1.2	-2.4	1.5	1.6
Molise	1.2	0.7	-1.6	1.2	0.7	1.4
Campania	3.3	2	-0.6	0.4	-1.1	1.4
Puglia	1.6	-0.5	-1	1.1	-0.4	1.4
Basilicata	-0.3	0.7	-1.1	1.3	-0.2	2.1
Calabria	3	-0.3	1.4	2.1	-2.4	1.1
Sicilia	2.7	0	-0.1	0.1	1.3	1
Sardegna	1.8	-0.4	2.1	0.4	0	1.3

Source: Eurostat 2009.

Table 4 corresponding to Figures 4.6-4.7**Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year**

	2000	2001	2002	2003	2004	2005	2006	2007
EU 27	4	2	1.3	1.3	2.6	2	3.2	3.1
Italy	3.7	1.8	0.6	-0.3	1.7	0.7	2	1.7
Abruzzo	6.1	2.4	0.2	-2.1	-2.3	2.6	2.5	1.8
Molise	2.9	2.1	0.9	-2.1	1.6	0.2	2.7	1.3
Campania	3.8	2.6	2.6	-1	0.4	-0.3	1.1	1
Puglia	2.9	1.2	-0.1	-1.9	1.4	-0.2	2.5	0.2
Basilicata	2.1	-0.3	-0.1	-1.7	2.3	-1.4	3.8	1
Calabria	1.7	3.4	-0.5	0.5	2.8	-1.7	1.3	0
Sicilia	3.2	3.2	0.2	-0.5	-0.3	2.7	0.9	0.1
Sardegna	2	1.7	-0.5	0.8	1.5	0.1	1.1	1.6

Source: Eurostat, 2010f.

Table 5 corresponding to Figure 4.8**Economic activity rates at NUTS level 2 (%)/Sex: Total/Age: 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	56.5	56.6	57.1	57.6	57.5	57.7
Italy	48.1	48.3	48.6	48.8	49.2	49.5	49.1	49.2	48.9	49.3
Abruzzo	45	44.8	45.8	46	46.3	47.2	47.8	47.3	47.2	48.4
Molise	45.5	45.3	46.1	45.5	44.7	44.8	43	44	44.1	45.2
Campania	44.1	44.2	44.2	44.7	44.5	44.5	42.9	41.7	40.5	39.9
Puglia	43.6	43.7	43.2	43.5	43	43.5	42.1	42.1	42.1	42.2
Basilicata	43.2	44.1	43.4	43.3	43.3	44.2	43.8	43.7	42.7	43.5
Calabria	44	43.6	44.8	45.1	44.9	43.1	41.7	41.7	40	39.7
Sicilia	42.7	43.1	43	42.7	42.6	42.1	42.1	41.5	40.7	40.6
Sardegna	47	46.6	47.2	47.6	47.1	48.8	48.1	47.4	47.1	48

Source: Eurostat, 2010b.

Table 6 corresponding to Figure 4.9**Unemployment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	9.1	9.2	8.9	8.2	7.2	7
Italy	11.4	10.6	9.5	9	8.6	8	7.7	6.8	6.1	6.7
Campania	23.7	23.7	22.5	21.1	20.2	15.6	14.9	12.9	11.2	12.6
Puglia	19	17.1	14.7	14	13.8	15.5	14.6	12.8	11.2	11.6
Basilicata	17.1	16.2	16.5	15.3	16.1	12.8	12.3	10.5	9.5	11.1
Calabria	28	26	25.7	24.6	23.4	14.3	14.4	12.9	11.2	12.1
Sicilia	24.5	24	21.5	20.1	20.1	17.2	16.2	13.5	13	13.8
Sardegna	21	20.6	18.7	18.5	16.9	13.9	12.9	10.8	9.9	12.2
Abruzzo	10.1	7.8	5.7	6.2	5.4	7.9	7.9	6.5	6.2	6.6
Molise	16.2	13.9	13.7	12.6	12.3	11.3	10.1	10	8.1	9.1

Source: Eurostat, 2010i.

Table 7 corresponding to Figure 4.10**Employment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	51.4	51.4	52	52.9	53.3	53.7
Italy	42.6	43.2	43.9	44.4	44.9	45.5	45.3	45.8	45.9	45.9
Abruzzo	40.4	41.3	43.2	43.2	43.8	43.5	44	44.2	44.3	45.2
Molise	38.1	38.9	39.8	39.8	39.2	39.8	38.7	39.6	40.6	41
Campania	33.6	33.7	34.3	35.3	35.5	37.5	36.5	36.3	35.9	34.9
Puglia	35.3	36.2	36.8	37.4	37.1	36.8	36	36.7	37.4	37.3
Basilicata	35.8	36.9	36.2	36.6	36.4	38.6	38.4	39.1	38.6	38.7
Calabria	31.7	32.3	33.3	34.1	34.4	37	35.7	36.3	35.5	34.9
Sicilia	32.3	32.7	33.8	34.1	34	34.8	35.3	35.9	35.4	35
Sardegna	37.1	37	38.4	38.8	39.1	42	41.9	42.3	42.5	42.1

Source: Eurostat, 2010d.

-Tables referring to Spain**Table 8 corresponding to Figures 4.11-4.12****Regional GDP (PPS per inhabitant in % of the EU-27 average), by NUTS 2 regions**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Galicia	74.4	74.7	75.6	75.9	75.6	76.1	78.7	80	81.2	83.4	86.7	88.8
Pr. de Asturias	79.9	79	81.1	79.2	81.4	82.7	85.3	86.1	87.1	90.1	94.6	96.9
Cantabria	84.7	85.2	87.8	89.1	91	93.3	97	97.3	98.2	100.5	103.4	105.4
Castilla y León	87.5	86.8	87.3	87.8	88.1	88.9	92.2	93.8	94.9	96.6	99.5	101.4
Castilla-la Mancha	75.7	75.7	77.3	76.4	76.5	77.1	78.8	79.7	78.9	79.7	81.3	81.5
Extremadura	58.9	58.8	59.9	61	62	62.6	65	66.2	67.1	69.3	71	72.4
Comunidad Valenciana	87.7	89.8	92.4	93	93.9	94.8	96.1	95.2	94.2	94.1	95.9	95.3
Andalucía	68.6	69.3	70.1	70.3	71.8	72.6	75.2	76.9	77.8	79.2	81.1	81.2
Región de Murcia	75.9	78	79.8	79.8	81.7	82.2	84.6	85.4	84.8	86.1	87.4	86.9
C.A. de Ceuta	75.6	76.6	80	81.7	83	82.6	86	89.2	90.6	92.1	95.3	97.3
C.A. de Melilla	79	79	81.6	82.1	82.2	81.4	83.6	86.1	88	90.6	94.5	94.5
Canarias	88.1	88.8	91.2	93.9	92.3	92.5	94.2	94.4	92.9	92.5	93.3	92.8

Source: Eurostat, 2010g.

Table 9 corresponding to Figures 4.13-4.14**Real growth rate of regional GDP at market prices at NUTS level 2- percentage change on previous year**

	2000	2001	2002	2003	2004	2005	2006
Spain	5	3.6	2.7	3.1	3.3	3.6	3.9
Galicia	2.7	2.8	2.3	2.6	3.5	3.2	4.1
Pr. de Asturias	5.2	3.5	2.2	2.4	2.2	2.9	3.8
Cantabria	5.2	4.8	3.5	2.1	2.9	3.5	4.1
Castilla y León	3.6	2.5	3.3	3.2	3	3.2	3.5
Castilla-la Mancha	5.1	3.2	3.6	3.5	3.7	3.1	3.9
Extremadura	5	3	3.8	3.6	3.4	3.8	3.5
Comunidad Valenciana	5.6	4.6	2.8	2.6	3.1	3.4	3.9
Andalucía	6.3	3.5	3.4	4.1	3.6	3.7	3.9
Región de Murcia	6.1	4.4	3.9	4	3.2	4.4	4.1
C.A. de Ceuta	6.7	2.9	2.8	4.9	2.9	3.5	3.5
C.A. de Melilla	5.8	2.7	2	4.5	3.5	3.5	3.6
Canarias	3.7	4.9	2.8	3.8	2.4	3	3.3

Source: Eurostat 2009.

Table 10 corresponding to Figures 4.15-4.17**Real growth of regional gross value added (GVA) at basic prices at NUTS 2 level-percentage change on previous year**

	2000	2001	2002	2003	2004	2005	2006	2007
EU 27	4	2	1.3	1.3	2.6	2	3.2	3.1
Spain	5.1	3.7	2.5	2.7	3.1	3.3	4.1	3.9
Galicia	2.7	2.8	2.2	2.3	3.4	3.1	4.3	4.3
Pr. de Asturias	5.2	3.5	2	2.1	2.1	2.9	4.4	3.7
Cantabria	5.2	4.8	3.3	1.7	2.8	3.5	4	3.9
Castilla y León	3.6	2.6	3.2	2.8	2.9	3	3.9	3.9
Castilla-la Mancha	5.1	3.2	3.5	3.1	3	3	4.5	4.4
Extremadura	5	3	3.7	3.2	3.3	3.5	4.2	4.1
Comunidad Valenciana	5.6	4.6	2.6	2.2	3	3.2	4	3.7
Andalucía	6.3	3.6	3.3	3.8	3.5	3.4	4.1	3.8
Región de Murcia	6.1	4.4	3.7	3.7	3	4	4.3	4.2
C.A. de Ceuta	6.7	2.9	2.6	4.5	2.8	2.6	2.7	4.1
C.A. de Melilla	5.8	2.8	1.9	4.1	3.4	3.8	3.9	3.9
Canarias	3.7	4.9	2.7	3.4	2.3	2.8	3.1	3.8

Source: Eurostat, 2010f.

Table 11 corresponding to Figures 4.18-4.19**Economic activity rates by sex and age, at NUTS level 2 (%)/Sex: Total/Age: 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	56.5	56.6	57.1	57.6	57.5	57.7
Spain	51.9	53	52.3	53.6	54.8	55.7	56.7	57.6	58.2	59.1
Galicia	49.8	50.7	49.2	49.8	51.6	52.6	52.6	53.1	53.7	54.6
Pr. de Asturias	44.1	45	41.7	43.5	45.8	46	47.7	49.4	50.1	52.2
Cantabria	46.2	48	49	49.9	51.8	52.6	54.1	54.7	55.7	56.4
Castilla y León	47.8	48.4	47.1	48.2	49.2	50	52	52.6	53.1	54
Castilla-la Mancha	48.5	49	48	49.2	50.6	51.4	53.3	54.3	55.3	56.3
Extremadura	49.2	50.5	45.7	48.7	49.3	50	50.8	50.9	52.2	52.8
Comunidad Valenciana	52.7	54	54.5	55.4	56.5	57.6	58	58.9	59.4	60.5
Andalucía	50.2	50.8	49.3	51.3	52	52.9	53.5	54.5	55.5	56.7
Región de Murcia	51.7	53.8	53.2	54.9	56.1	57.5	57.1	58.2	59.7	60.9
C.A. de Ceuta	51.3	56.8	45.2	44.4	48.7	48	57.5	51.9	50.6	54.4
C.A. de Melilla	52.5	51.4	45.1	47.1	48.5	55	50.3	51.3	53	52.4
Canarias	54	55.3	54.9	56.3	57.8	58	58.5	60.2	60.1	60.1

Source: Eurostat, 2010b.

Table 12 corresponding to Figures 4.20-4.21**Unemployment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	9.1	9.2	8.9	8.2	7.2	7
Spain	15.7	13.9	10.5	11.5	11.5	11	9.2	8.5	8.3	11.3
Galicia	16.2	14.9	11	12.2	12.7	13.6	9.9	8.5	7.6	8.7
Pr. de Asturias	17.9	17	7.7	9.7	11.1	10.4	10.2	9.3	8.5	8.4
Castilla y León	15.3	13.8	10.1	10.5	11.1	10.7	8.7	8.1	7.2	9.5
Castilla-la Mancha	15	12.6	9.5	9.5	10.1	9.5	9.2	8.8	7.6	11.6
Extremadura	25.1	23.6	14.5	19.2	17.4	17.2	15.8	13.4	13.1	15.2
Comunidad Valenciana	13.8	11.6	9.4	10.8	11.2	10.4	8.8	8.4	8.8	12.1
Andalucía	26.5	24.1	18.7	19.7	18.6	17.1	13.8	12.7	12.8	17.8
Región de Murcia	13.9	12.7	10.7	11.4	10.7	10.7	8	7.9	7.6	12.6
C.A. de Ceuta	27.2	24.6	NA	NA	9.5	10.7	19.7	21	20.3	17.3
C.A. de Melilla	21	21.4	NA	NA	8.9	17	14	13.4	18.2	20.7
Canarias	14.2	13.4	10.8	11.1	11.4	12	11.7	11.7	10.4	17.4
Cantabria	15.4	13.4	8.7	10.1	10.5	10.5	8.5	6.6	5.9	7.2

Source: Eurostat, 2010i.

Table 13 corresponding to Figures 4.22-4.23**Employment rates by sex and age, at NUTS level 2 (%)/Sex: Total/ Age 15 years and over**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU 27	NA	NA	NA	NA	51.4	51.4	52	52.9	53.3	53.7
Spain	43.8	45.6	46.8	47.4	48.5	49.6	51.5	52.7	53.4	52.4
Galicia	41.7	43.2	43.8	43.8	45	45.5	47.3	48.6	49.6	49.8
Pr. de Asturias	36.2	37.3	38.5	39.2	40.7	41.2	42.8	44.8	45.9	47.8
Cantabria	39.1	41.6	44.7	44.9	46.3	47.1	49.5	51.1	52.4	52.4
Castilla y León	40.5	41.7	42.4	43.2	43.7	44.6	47.4	48.3	49.3	48.9
Castilla-la Mancha	41.2	42.8	43.5	44.6	45.5	46.5	48.4	49.5	51.1	49.8
Extremadura	36.8	38.6	39.1	39.4	40.8	41.4	42.8	44.1	45.4	44.7
Comunidad Valenciana	45.5	47.7	49.3	49.4	50.1	51.6	52.9	54	54.2	53.1
Andalucía	36.9	38.5	40.1	41.2	42.4	43.8	46.1	47.6	48.4	46.6
Región de Murcia	44.5	47	47.5	48.6	50.1	51.3	52.5	53.7	55.2	53.2
C.A. de Ceuta	37.3	42.7	42	41.4	44.1	42.8	46.2	41	40.3	45
C.A. de Melilla	41.5	40.3	43.7	45.1	44.2	45.6	43.2	44.4	43.3	41.6
Canarias	46.3	47.9	49	50.1	51.2	51.1	51.6	53.2	53.8	49.6

Source: Eurostat, 2010d.

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