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## Effects of Local Specialization of Investment Subsidies in Italy

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## EFFECTS OF LOCAL SPECIALIZATION OF INVESTMENT SUBSIDIES IN ITALY<sup>1</sup>

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### Abstract

In Italy we currently have a lot of national and regional instruments for financial aids to enterprises. Most of them are not specialized, as synthesized in the following points:

1. they are referred to the whole Italian territory;
2. they have generic objects (increase of GNP, reduction of growth differences among regions, employment);
3. they are applied to all the sectors of production;
4. they have common methods of application (automatic, discretionary, negotiated).

This means that we establish general purposes without further specialization even if we fall into particular purposes.

In addition to this types of subsidies, there are anymore that are specialized both at territorial and at sectorial level. Among these, the most important are distributed by the Territorial Pacts that are one of the instruments of *concerted planning*.

In this paper we firstly define the specialization of some forms of subsidies; then we analyze the performance of two samples of enterprises, that are located in the Apulia Region (NUTS III), the first of which has been benefiting from the state support provided by law n.488/92 (Financial support of the productive activities in depressed zones), and the second one that has been benefiting from the support provided by Territorial Pacts.

The enterprises performance have been assessed through quantitative index measured by three main relations:

1. Sales / Assets, that is an indicator measuring the firms efficiency. So it indicates if the total value of sales they've carried out, can account for the effectuated investments.
2. Profit / Sales, that estimate the enterprise ability to obtain profits, aging in the market, and let us having indications about prospects of success.
3. Profit / Assets, that assess, in a better way, the capacity in terms of global income of the enterprise.

Comparing the average of the three indicators considered, related to supported enterprises, with the same indexes of Mediobanca sample about not-supported enterprises, we obtain interesting results.

They have proved that:

- A. the enterprises having supports are, generally, less efficient than those having no support;
- B. the firms subsidized by Territorial Pacts are more efficient than the other ones subsidized by law n.488/92.

From the investigation it emerges that the subsidies territorially oriented are more efficient than the general support, referred to the same area. So, if we privilege efficiency results, putting the effectiveness ones in a secondary position, we probably should prefer an automatic but specialized aid system, at least from the territorial, dimensional and productive point of view according to preference scales. But, if we want to obtain effectiveness standards too, it is necessary to specialize the interventions and determine specific goals and result indicators.

## **1 Introduction**

Italian firms can potentially benefit from 460 financial aid schemes for investments, but those operative are about 90 (Ministry of Industry 2000; Ministry of Economic Activities 2002). Such a number is anyway high, and it would allow for the specialization of schemes, in terms of aims, criteria, sectional and territorial target, evaluation modalities. The reality is a bit different, since the vast majority of these schemes are not specialized because:

1. they are referred to the whole Italian territory (70% of all types of the instruments actually aging);
2. they have generic objectives (60% of them concerns generic objectives as to lead the growth of production, to improve population welfare, to increase the internationalisation of business, etc.);
3. they are applied to all sectors of production (50%)
4. they subsidize both SMEs and big enterprises (72%)
5. they have common methods of application (discretionary evaluation is adopted by 86% of all instruments).

This means that we establish general purposes without further specialization even if we fall into particular purposes. In such a situation the only exception is represented by a few instruments, among which Territorial Pacts can be found. These provide specialized incentives on the sector (industry, tourism and instrumental infrastructures, agriculture and fishery), territory (areas constrained to the municipalities/province boundaries associated in the Pact) and size (SMEs) ground, they also adopt specific objectives in terms of evaluation indicators (although they are not always consistent and complete) and finally they couple firms aid schemes with those for infrastructures, that are functional both to entrepreneurial undertakings and to the general aims of the Pact.

Such a specialization is due to the fact that, within a constrained territorial dimension, firms' sector and dimensional diversification are contained, collective expectations and objectives are less generic and, most importantly, the interests of each party are less in conflict than in greater territorial contexts.

Many surveys have been carried out about Territorial Pacts. Each of them was based upon macro-qualitative indicators of tendency, or indicators stemming from indirect information provided by local experts, involved in the organisation and management of

the Pact. Such a way of investigation has something of apodictic. Actually, it is unlikely that organisations involved in the management of the Pact can state their own inefficiency, since they'd lose the rationale for their role in the Pact, and hence for having financial resources (Ministry of Economy and Treasury 1988, 2000, 2001, 2002, 2003; Ministry of Industry 2000). Moreover, such a methodology has given rise to an over-reaction, in terms of unjustified both optimism and scepticism. We argue this is due to the misunderstanding of the quantitative objectives as well as the very features of Territorial Pacts.

The former are easily understandable, since it is evident that in areas which are affected by high structural unemployment, the main aims are represented by the widening of the production system and employment increase. But these aims to all development policies targeted to areas characterised by labour supply exceeding demand. The Pacts' innovative element consists of the ex-ante identification of the conditions able to lower the dynamic uncertainty intrinsic to production investments within specific territorial areas, also in exception to norms and market conditions. All subjects adhering to the Pact fix such conditions, acknowledging agreements and constraints, and elaborate a local action plan which represents a real integrated development plan. Within this framework, the main purpose of the evaluation is to understand to what extent results have been pursued (effectiveness), and whether the involved subjects have been coherent with their commitment (efficiency), that is represented by the following points:

- 1) *Labour market flexibility*, in order to increase the employment rate;
- 2) *Rate of interest reduction*, in order to lower the risk and rise the amount of investments (firms-banks pact): did banks lower rates of interest and, mainly, extend this reduction to all the market?
- 3) *Shortening of Administrations decision time, adaptation of infrastructures to production needs and local taxation reduction* (firms-administration pact).

Once firms' needs have been identified, it is natural to wonder:

- a) Are the involved organisations the most indicate to stipulate such kinds of agreements and to pursue the mentioned results, within a globalisation context of economic systems and of currency unification?
- b) Does the proliferation of Pacts make them less specialised, and the Italian local development policy less effective?

It doesn't seem that the mentioned surveys have attempted to quantify the expected results, as above specified, and provided useful data to evaluate the real specialisation of

the pact as local development instrument. We argue that this is due to the neglecting of firm's expectations and performance in previous research projects. On the contrary, firms are the main subjects intervening in all the Pact's constitutive agreements. Moreover, firms are the most critical and sceptical subjects with respect to Administrations capabilities in local development planning. This is a task more complex than in the generic policies for growth and employment, since local development plans attract the attention to the planning activity rather than to the funds provision. Hence they ask for a deep knowledge of the socio-economic context of intervention, an ability to propose and plan, and the specialisation of the different measures according to local needs.

For these reasons, we preferred to focus the attention upon firms, provided that such a kind of analysis is long and complex, and that it calls for the availability of a large amount of data, many of which are accessible just through the direct interaction with entrepreneurs.

In fact, the evaluation of Pacts' efficiency depends, in our opinion, on their ability to produce the expect additional results, with respect to the results that would have been reached without the existence of the Pacts, and the effects upon firms' performance, in terms of returns. It seems evident that such kinds of evaluation have major difficulties, since they try to face the evaluation problem from both a macro- and micro-quantitative point of view.

In this paper we report partial results, stemming for a more complex and articulated research project, in which we adopt firms' performance as a proxy of the specific objectives of Territorial Pacts. If such performance indicators reveal positive results, it is likely that the Pact has realized its mission, at least partially. If this is not the case, it is almost certain that the Pact failed. However, before evaluating efficiency, it seems necessary to investigate Pacts' effectiveness. Although still limited, it allow us to understand if they are specialised local development instruments, and if the selected organisations for their implementation, are the most able to pursue their objectives.

## **2 Is the Pact a specialised instrument? A normative interpretation**

Territorial Pacts were born in the early 90s, within the broader revision process of the regional policy model in Italy, as suggested by the European Union, and based upon the two principles of bottom-up planning and the social partnership.

The first principle is due to the need of creating local managers able to autonomously plan and manage their own development, on the basis of a model shared by the different local actors. These employ the collective decision-making as working method, in order to allow for a self-propelling development.

Actually, the term “Pact” is referred to a negotiated procedure, that allows for the involvement of the whole community into actions aimed at creating common interests and a higher awareness climate. The term “Territorial” emphasizes the choose of valorising the endogenous resources of the area, its “vocations”, actualising local potentialities.

The body of legislation ruling Territorial Pacts is the result of a long-lasting process of elaboration and revision, characterized by the reiterate change of rules, and that has finally defined three different typologies of Pact, each with different implementation and financing modalities:

- *Generic*<sup>2</sup>, i.e. opened to every sector specialisation, whose maximum subsidized amount is 51,64 million Euros
- *Specialised*<sup>3</sup>, i.e. targeted to fishery and agriculture, whose maximum amount is 25,82 million Euros;
- *European or for employment*, belonging to the pilot project of Community initiative, aimed at creating employment in objective-areas exposed to territorial and market changes.

All Territorial Pacts also fund the realization of infrastructures functional to production activities, within the 30% of the maximum eligible amount. Likewise, the share of the entrepreneurs’ financial capital should exceed 30% of the specific investment. Other Community, national and regional resources can be added, but the intensity of the aid can’t restrict the force of normative limits and constraints ruling the aid scheme.

Actually, there are 230 Territorial Pacts at the national level, of which 220 are national initiatives and 10 for employment. However, these figures characterize the Pact as instrument rather as institution. This is to say that to the Pact-as-institution can belong to a generic pact, or pact for employment, or to one or more specific pacts.

If a classification ought to be carried out of the pact as an institution, and hence on the basis of the territory rather than the instrument, the Pacts would reduced to 170, of which 97 comprehensive of specialized pacts.

Although the Pacts have been extend on the whole National territory (while the original formulation was only targeted to objective-1 regions), at the state of the art more than 2/3 of the 220 national Pacts are localised in objective-1 regions.

**Tab. 1 – National Territorial Pacts (€\*000)**

Pacts Types	Regions			Total Investments	Public Investments
	Objective 1	Others	Total		
Not specialized	82	47	129	8.354.005,9	3.718.969,1
Specialized in agriculture and fishing	67	24	91	2.188.394,2	1.385.765,2
<b>Total</b>	<b>149</b>	<b>71</b>	<b>220</b>	<b>10.542.400,1</b>	<b>5.104.734,3</b>

Source: Ministerio del Tesoro. Author's calculations

As a preliminary conclusion, hence, it could be stated that the instrument is not jeopardized by the territorial diffusion, nor it lowers the effectiveness of local development policies. This because it is an instrument specialised in terms of sectors, areas and size. Moreover, other surveys has proved that the involvement of local actors and the amount of induced investments are so high that the pact can be considered a successful instrument.

In fact, active Pacts, that is those Pacts who received at a least a public contribution, were 200 at May 2003, in addition to the 10 European Pacts. But they as a whole have absorbed about 1,1 billions Euros, that is the 22,5% of the available funds (Table 2)

The analysis of the ratio between active Pacts and provided funds (30<sup>th</sup> May, 2003), disentangling generic and specialised Pacts, provide some relevant insights. Within the non-specialised Pacts, 88% of existing Pacts is active, since 11 Pacts are still waiting for the Decreet, while some first generation pacts are now finished. Within the specialized Pacts, 94,5% of those existing is active, even if they have obtained a lower share of funds (20,6% vs. 23,3%, see Fig. 1). This evidence confirms the observations relative to the age of the pacts and to the delays, and hence, it could be a temporary waste of resources.

Further relevant implications can be extracted by the territorial distribution of provided funds, with regard to involved firms and the solidity of the conditions at the foundations of the Pact. Actually Objective 1 regions have absorbed 43,6% of financial aids, albeit they represent the 63,5% of national active instrument-Pacts.

This may be related to the higher strength of the coalitions involving non-Objective 1 regions and/or to the higher concentration in other regions of specialised pacts.

However, the number of entrepreneurial projects shows a similar trend, since some of them haven't been realised, albeit considered eligible to financial aids. This aspect



should be deeply analysed because of the case of renounce, as the following analysis will prove.

These delays in the implementation plans prove a general inefficiency that, anyway, it doesn't seem to lower Pacts' specificity and their territorial, sectional and dimensional specificity.

**Tab. 2 - Pacts situation per type at 05/30/2003 (€\*000).**

Pacts Types	Existing	Operative	Public Investments	Founds provided
Not specialized	129	114	3.718.969,10	867.212,91
Specialized	91	86	1.385.765,20	284.760,79
<b>Total</b>	<b>220</b>	<b>200</b>	<b>5.104.734,30</b>	<b>1.151.973,69</b>

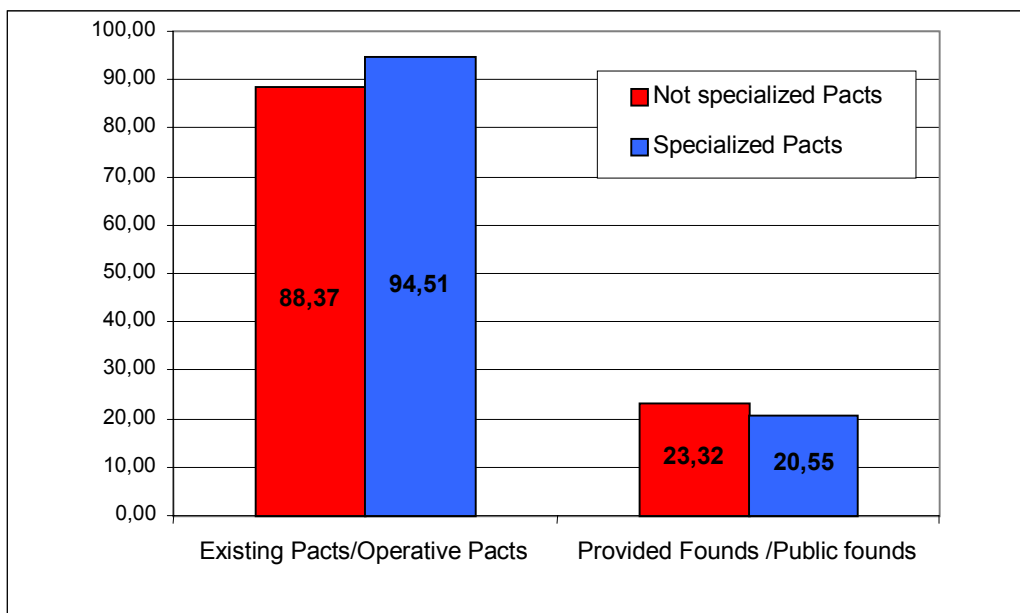
Source: Ministry of Economy and Treasury (2003)

**Tab. 3 - Pacts situation per regions at 05/30/2003 (€\*000).**

Regions	Existing Pacts	Provided Founds
Objective 1	127	501.800,25
Others	73	650.173,44
<b>Total</b>	<b>200</b>	<b>1.151.973,69</b>

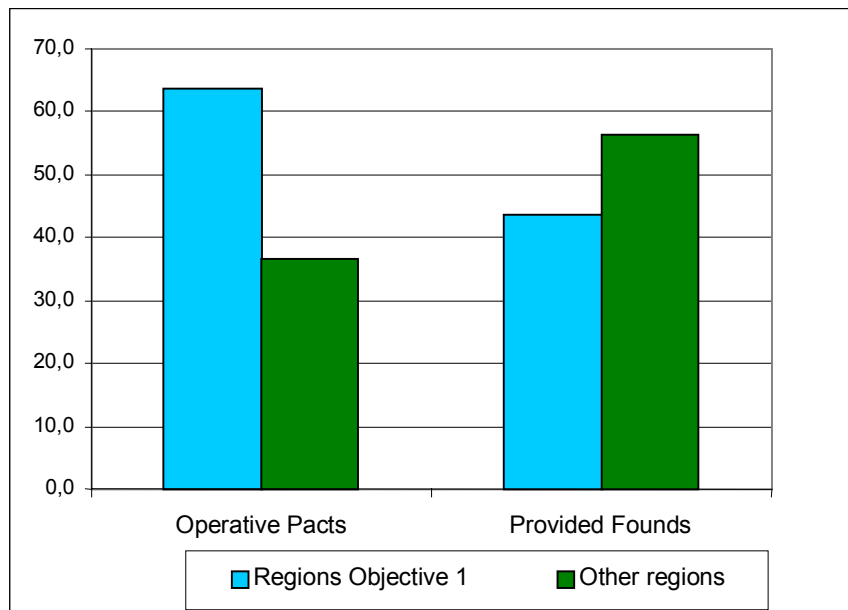
Source: Ministry of Economy and Treasury (2003)

**Fig. 1 - Pacts situation per type at 05/30/2003.**



Source: Ministry of Economy and Treasury (2003). Author's calculations

**Fig. 2 - Pacts situation per regions at 05/30/2003**



Source: Ministry of Economy and Treasury (2003). Author's calculations

### **3 Is the Pact a specialised instrument? A suggested interpretation by a regional survey**

The previous conclusion doesn't seem to be acceptable if you shift the viewpoint from the national to the regional level. We carried out a research on the territorial articulation of Territorial Pacts operating in Apulian region, in order in order both to better understand the way in which Pacts are used, and to shed a light upon the intensity of their use.

Apulian municipalities involved into the Pacts actually are 239, distributed among 27 instrument-Pacts, whose leaders totally are 14. Five of these manage 3 Pacts, each belonging to a different typology, while three lead 2 pacts of different typologies too.

Generally a coincidence between the subject in charge and the territorial domain can be found, since the subject represents the whole actors which negotiate and pursue the development plan of a particular area. In these cases it is usual the existence of a sole institution-Pact, which is the guarantor in the planning-table in which the consensus and the involvement of the whole interests are formed.

In Apulian region such kinds of situation are all situated in the Bari province, and they are the following:

- Area Metropolitana di Bari, that is articulated in three instrument-Pacts (generic, agricultural, tourism), having the same organisation in charge for the whole territory;
- Patto Conca Barese, consisting of two instrument-Pacts (generic, agricultural), managed by just an organisation;
- Patto Nord-Barese Ofantino, operating through 2 instrument-Pacts (EU-employment, agricultural), in charge to the same organisation, and both comprehensive of the same area;
- Sistema Murgiano, that consists of 3 instrument-Pacts (generic, agricultural, generic additive protocol), led by one organisation, in charge of the whole area.

Conversely, there also are situations in which one organisation manages Pacts belonging to the same typology, but covering different geographical areas. This is the case of the Società Patto di Foggia SCPA, which is an organisation in charge of the generic Patto di Foggia, and of the fishery-specialized Patto di Foggia, both covering the same territorial area. Moreover, the generic Patto Ascoli Satriano-Candela-Sant'Agata di Puglia overlaps with the previous one in the municipality of Ascoli Satriano.

Likewise, the Chamber of Commerce of Taranto is in charge of two different generic Pacts and one agriculture-specialized, since it is manager of the Patto di Taranto (which just involve the chief municipality), but also the Patto of Castellaneta-Crispiano-Ginosa-Martina Franca and the Patto Agricolo della Fascia Orientale Provincia di Taranto, involving a wider territorial basis.

As a conclusion, it can be observed that, within the 239 Apulian municipalities involved in the Pacts, 27 have taken part in more than a institution-Pact, i.e are interested by different Pacts, in terms of typology, territory and responsible organisation. Finally, and more importantly, in many cases such different Pacts are competitors, both in terms of resources and objectives.

In our opinion such examples represent worst-practices. Firstly since the managing organisation of a Pact should represent the collective interests aimed at fostering the local development of a specific territory, which in turn has different paths due to the different resources endowment. Secondly, every institution-Pact compete with the others for accessing development resources, that of course are scarce. Hence, the managing of different Pacts by a singular organisation appears to be a non-sense.

Moreover, the creation of new organisations specifically tailored for managing many institution Pacts may lead to a higher bureaucracy, while such instruments are to be linked to local specificities and to the market. At the same time, assigning the management to pre-existing organisations, that represent the interests of particular groups rather than the whole community, doesn't seem to be coherent with Pact's institutional mission<sup>4</sup>.

#### **4 Is the Pact a specialised instrument? A suggested interpretation on the basis of firms' performance**

The evidence of Territorial Pacts appears to be difficult enough to be evaluated, within the context of their normative and real evolution, as previously described. Drawing upon the available data, an evaluation can be proposed, with respect to two different aspects:

1. the efficiency of the instrument, measured as the ratio between the mission and the results actually pursued;
2. the effectiveness of the instrument, conceived as the ratio between the employed resources and the pursued results.

The first aspect stems from the five points stressed in the introduction, which synthesize Pacts' mission; the second one is based on the following indicators:

- Time to implementation of the Pact;
- Ratio between the number of initiatives actually started and those funded;
- Ratio between the amount of public funds provided and the planned one;
- Time to funds provision with regard to the manager's receipt.

At the state of the art, we don't have a sufficient data amount in order to make such a complex evaluation. This obstacle can be overcome through resorting to proxy, although partial, variables, in terms of both effectiveness and efficiency. In this direction some firm's performance indicators can be used, with regard to firms operating within the context of some Apulian Pacts.

For this intermediate and instrumental purpose, four Territorial Pacts have been individuated (Area Metropolitana Bari, Conca Barese, Sud-Est Barese, Sistema Murgiano), that are homogenous according to the following features:

- *Typology*, since they all are generic;
- *Generation*, that is of 2<sup>nd</sup> generation;

- *Localisation*, i.e. all belonging to the Bari province;
- *Advancement*, i.e. all being operative since 1999, and being consistent with the minimum thresholds of return, as expressed by the provided resources and the implemented initiatives.

**Tab. 4 - Identificative information about the investigated Pacts (€\*000)**

Pact name	Type	Approved by		Municipality	Territorial extension kmq	Population**
		Decree n.	date			
Area metropolitana Bari	Not specialized	991	29/01/99	12	459,52	513.136
Conca barese	Not specialized	1060	31/05/99	7	713,00	263.006
Sud-Est barese Polis	Not specialized	1062	31/05/99	11	910,61	226.394
Sistema Murgiano	Not specialized	976	29/01/99	10	1.737,00	213.792*
<b>Total</b>				<b>40</b>	<b>3.820,13</b>	<b>1.216.328*</b>
<b>Bari district remaining</b>				<b>9</b>	<b>1.477,87</b>	<b>328.347</b>

\* Including Laterza municipality in Taranto district

\*\*Censimento generale della Popolazione 1991, Istat. Basic data from Pacts original agreement.

**Tab. 5 - Investigated Pacts' Firms (€\*000)**

Pacts name	Firms	Firms' total investments	Public Funds
Area metropolitana di Bari	57	49.995,09	22.235,02
Conca barese	27	19.064,44	9.116,13
Sud-Est barese Polis	58	60.954,83	25.570,30
Sistema Murgiano	21	25.482,71	12.447,13
<b>Total</b>	<b>163</b>	<b>155.497,07</b>	<b>69.368,58</b>

Source: Direct Pacts' investigation

The total number of aided firms within the four Pacts are 163 (see Table 5). Among these, we just interviews joint stock firms within the manufacturing sector, that are 72. The direct survey and the features of the requested information give still rise to diffidence and unwillingness to cooperate, causing delays in the research work.

Among the sampled firms, 13 have refused to benefit of the funds for different reasons, generally linked to delays in the provision stage. For this reason, some entrepreneurs preferred to resort to funds provided within the context of the national law 488/92 and within the so-called “credito di imposta”, more rapid and with fixed deadlines. In some cases firms refused the obtained funds because the unavailability of own capital, while in other cases firms applied for financial aids after the deadlines. At the moment, valid firms' responses are 20, and are referred to restructuring or widening works. In no cases, anyway, new undertakings can be found. The realised investments will be operative by the end of 2003.

The fact that new firms have not provided information can be due to many factors, such as technical constraints, the choice to limit the analysis to operative firms, the unwillingness of innovative entrepreneurs to provide information about their own activity. Such reasons don't allow for concluding that Territorial Pacts favoured restructuring or widening interventions, which in turn are the main aims of other financial aid schemes.

In this first stage of the research work, we try to provide an evaluation of the Pacts' efficiency through the use of three investments return indexes:

$$(1) \text{ Capital turnover} = \text{Sales} / \text{Assets}$$

Such ratio is a synthetic indicator of firms' profitability, since provide the marginal product of each € of return. Provided that assets also comprehend fixed capital, such indicator tells us also whether the amount of sales gives the investment economic profitability. It is likely that low levels of such an index mean an excess of investments with respect to market penetration.

$$(2) \text{ Return on sales} = \text{Ebit} / \text{Sales}$$

This ratio (ROS) allows for the evaluation of firm's ability to operate in the market and the quantification of the amount sales becoming operative income. This indicator provide a synthetic link among prices, sales amount and operative costs, provided the turnover.

$$(3) \text{ Returns on assets} = \text{Ebit} / \text{Assets}$$

The ROA represents an indicator of the profitability of firm's management. It synthesizes the previous indexes, allowing for the assessment of firm's ability to gain profits from the whole activity, employing a specific amount of capital.

Such indexes have been calculated with respect to the period 2000-2002, so that modifications between the starting and the operative stages can be analysed. Each, per se, index suggests often negative conclusions. As a whole, indeed, they provide a more positive framework. Let us consider each of them.

Capital turnover, in the considered period, is higher than 1, but has a decreasing trend. Such a dynamic could be explained by the contingent economic conditions and with the decrease of internal demand, together with the loss of competitiveness of Apulian firms during the 2002. By reducing the amount of sales, it appears to be evident a disequilibrium between investment levels and sales. This is to say that investments which are planned in a positive expectations context, are likely to suffer of an hypertrophy when the economic cycle change its direction. If we compare the index

with that calculated for a sample of firms that benefited of the law 488/92 and with the Mediobanca sample, our sample seems to have clearly better performances (Gurrieri, Lorizio, Losurdo 2000). This can be explained by the higher flexibility of firms participating to the Pacts, since they are above all small firms, as well as by the tendency to hypertrophy of firms funded by the law 488/92.

The ROS increases as investments that are funded by Pacts become operative. This means that the proximity to the maximum production capacity implies better operative costs when prices are stable a slightly fluctuant, as in the considered period. Actually, the return on sales seems to be positive, if we compare firms aided by Pacts (10,2%), with the sample of firms aided by the law 488/92 and the Mediobanca sample (both at 6%).

The ROA also has a positive trend in during the period 2000-2002, confirming the increasing profitability if firms belonging to Pacts, and has an average value of 10%, which is in turn higher than the values for 488/92 firms (4%) and Mediobanca sample (5%).

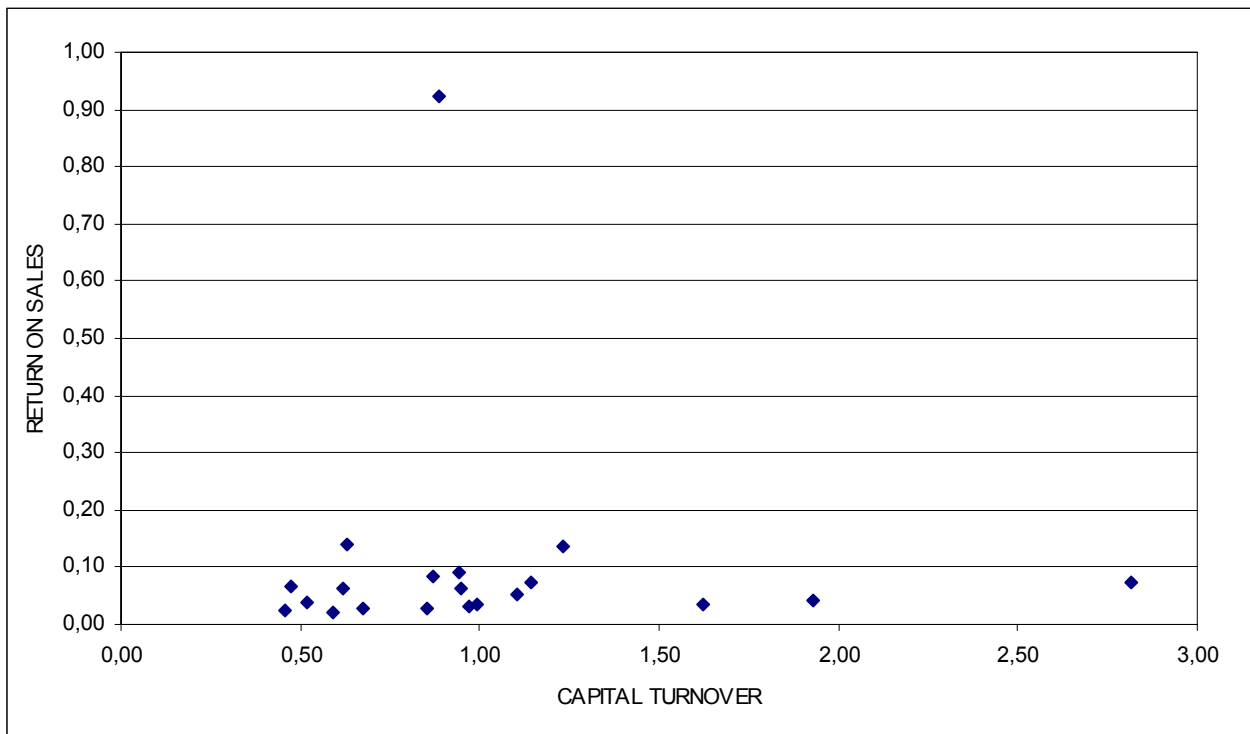
The joint analysis of the three indexes provides a picture of funded firms as inclined to sales rather than to investments. This is understandable by considering that they are small firms, accustomed to operate in the market, and that have restructured or widened their facilities by means of Pacts' funds. This also explains why the performance is better than in the two comparing samples, in which funding schemes favour initiatives at over-dimensioned investments, with a scarce knowledge of the market (Scalera, Zazzaro 2000).

**Tab. 6 - Firms' Balance indexes Average**

	<b>CAPITAL TURNOVER</b>	<b>ROS</b>	<b>ROA</b>
2000	1,057	0,094	0,092
2001	1,080	0,101	0,104
2002	0,907	0,112	0,104
<b>Average 2000-2002</b>	<b>1,015</b>	<b>0,102</b>	<b>0,100</b>

Author's calculations

**Fig. 3 - Firms' profitability. Average distribution 2000 - 2002.**



Author's calculations

## **5 Suggestions for regional policy**

The experience of Pacts, even if it's still unfolding, is enough rich to give important indications for regional and local development policies. These are so much necessities as much concerted planning and its instruments are managing by Regions. The study of four pacts localized in the Bari district showed that the business subsidized by pacts have had a better performance than those subsidized by L. 488/92 or not financially supported. If this conclusion was confirmed even into different territorial areas and so it excludes the influence of general context conditions about the business performance, could be concluded that local coalitions made around pacts as institutions are working and obtaining the main objectives of local development policy, that are the production enlargement and the employment increasing.

There are different considerations about other missions that, in our opinion, are improperly charged on the Pact. First suggestion given by Pacts experience is that programmes and the instruments for concerted planning have to be specialised and designed on local communities real expectations because these are actors of economic policy, especially, in the field of development policies.



In E.U. we can recognise four economic policy levels, having specific missions and instruments of intervention. First and the second one are over-national and national levels, by which are depending general economic policies (monetary, fiscal, balance, change) and general rules, that influence successfully perspectives of development policies at regional and local levels (political economy third and fourth levels). In E.U. the enforcement of over-national government of economy marks an increasing reinforcement of regional and sub-regional government levels (Camagni 2002).

Pacts demonstrate the action capacity of sub-regional government, on condition that are defined its missions. The ambition of giving to this government degree the capacity of following labour market flexibility is a non-sense for all kinds of economic law and real demonstration, at least in Italy. Firstly because the added costs of labour are established by collective contracts that cannot be modify at local level. Secondly because even a high decrease of labour direct costs cannot change the range of disadvantage comparative to low labour cost countries; and than because labour flexibility is only a part of system flexibility which cannot be obtained just through the decrease of salary and the variability of labour organization, but through the administrative proceedings simplification, fix times of decision making, of procedures and of public administration obligations, of questioner clear identification too.

At the same way, the imposition by law or by agreements of interest rates ratios during monetary union, means forget a basic economic rule that established how in an open market savings try to find the most advantage business, instead local business, being smaller, are charged to a higher risk (Giannola, Sarno 1998). In addition the decrease of local taxes, without fiscal federalism, cannot be applied at local level and however it might fall into a strict taxable income.

Finally, the planning of big infrastructures cannot be put in practice by regional and sub-regional governments capacity of planning and financing. Differently , a specific work of these governments, is promote and realise, even with local resources participation, infrastructures of local and regional value (as pacts are doing), and built local knowledge coalitions for research and training programs realization about human capital, whose technical and financial dimension cannot renounce to the regional, national and over-national financial support.

Such policies should be designed at the super-national and national level of governance, while the regional and sub-regional levels should have different aims. Regions should perform activities of orientation and choice of strategies and organisational models for

the management of resources both of European and national origin. Unfortunately, regions use to carry out executive activities and to distribute resources, with the probability of jeopardize useful instruments such as the Pacts.

Hence it appears to be risky to charge the management of Pacts on Regions, which in turn have fostered the self-determination of local subjects and their ability to cooperate. The overlapping of Pacts with local development plans, which have ex-ante objectives and allow local administrations just the task of reporting, is likely to repress the self-organising capacities of local cooperating subjects.

The regionalisation process of Pacts should have the following aims:

- a) Strengthening of institution-Pacts, implementation of a permanent local development agency (aimed ad fostering both inward and outward foreign direct investments, information, training, etc.), and implementation of the instrument-pact through programs like specialised integrated programs.
- b) Widening of elaboration capacity of technical and planning instruments, of selection, orientation and assistance in terms of regional economic policy and local development, also through the introduction of new organisational models.
- c) The adoption of innovative instruments for credit access, allowing for the lowering of bank dependence (Busetta, Sacco 2001).
- d) Inserting institution-Pacts among proceedings of the regional planning itself.

## **6 Conclusions**

The territorial pact has proved to be a specialised planning instrument, for the financing of local development programs, above all with regard to sectional, territorial and dimensional specialisation. Local coalitions have given rise to a governance level of economy, that is the local one, which has been usually neglected. Such a result is due to a new protagonist role of involved subjects into coalitions. These are proving to be the most able to give local policies a vitality, provided they are not over-charged of tasks.

One of the relevant effects of Pacts' specificities is that firms operate within an environment increasingly oriented to production. This fact explains because the firms subsidized by Pacts are more efficient than the other ones.

Although the success cases in Pacts experience are frequent, there are many indications that demonstrate how the centrality of local coalitions within the institutional context is less shared by regional governments and so Pacts experience should be considered

closed. If this is the destiny of the Pacts, at least positive results should be emphasized, trying to save local development policies from the introduction of great instruments with small results. Of course local communities should have a management function, and then they should represent collective interests and mobilize local resources. According to this view, the extension of the Pact to Objective 2 and 5b regions should not be considered as an expression of instrument's inflation. On the contrary, it proves the Pact's flexibility and the adaptability to local needs and to specificity of local expectations, that are sources of its specialisation.

The main fear is that regionalisation of concerted planning is a solution theoretically correct but practically risky for the possibility of local coalitions to manage their own development. New planning instruments at the regional level don't provide a great autonomy to local coalitions, since they fix objectives, field and instruments of intervention, trying to re-propose orientation and control functions, which Regions usually miss in the management of regional economic policies.

## NOTES

- 1.The work is the result of the authors' common research. Francesco Losurdo supervised par. 1, 4, 5, 6; Annamaria Stramaglia supervised par. 2 and 3.
- 2.CIPE Decision 21 marzo 1997, "Disciplina della Programmazione Negoziata", published in G.U. n.105 dell'8 maggio 1997.
- 3.CIPE Decision 11 novembre 1998, "Estensione degli strumenti previsti dalla programmazione negoziata all'agricoltura ed alla pesca", published in G.U. del 7/1/1999 acting title n. 10 of Law Decree 30/04/1998.
- 4.Agreement between the Ministry of Economy and Treasury, the Ministry of Industry, the Regions , ANCI, UPI, UNCEM according to title n. 9, 2, c) of Law Decree 28 August 1997, n. 281, published in G.U. 19 May 2003 n.114.

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