

Policy Department on Budgetary Affairs

FINANCIAL INSTITUTIONS AND STRUCTURAL FUNDS IMPLEMENTATION IN SOUTHERN ITALY

BUDGETARY AFFAIRS

This study was requested by the European Parliament's Committee on Budgetary Control. Committee Member Bill Newton Dunn was designated to follow the study.

Abstract:

This study focuses on the period 2000-2006, giving an overall evaluation of the role and actions of the financial institutions in the implementation of the structural funds in Southern Italy and especially in Calabria and Sicily. In general what lessons can be drawn from the role of financial institutions in this part of Italy?

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Contents

Executive summary	1
Résumé	2
Zusammenfassung	3
Introductory Note	4
Objectives	4
Approach	4
Report structure	5
Section 1 - Financial institutions and Structural Funds implementation	6
1.1 ERDF implementation via financial institutions	6
1.1.1 Which ERDF measures are concerned?	6
1.1.2 How is the financial institutions' involvement organised?	9
1.2 The financial institutions	11
1.2.1 Financial institutions involved in ERDF delivery	11
1.2.2 Advantages and disadvantages of involving financial institutions	12
1.3 Effectiveness	14
1.3.1 Calabria	14
1.3.2 Sicily	15
Section 2 - Irregularities	17
2.1 Irregularities	17
2.1.1 Feedback from DG Regio audits / Italian Court of Audit	17
2.1.2 Comparative data on irregularities	19
2.2 Organised crime	22
2.2.1 Organised Crime - modus operandi in relation to public funds	22
2.2.1 Organised Crime and the ERDF	24
Section 3 - Conclusions and recommendations	27
3.1 Conclusions	27
3.2 Recommendations	28
Annex 1 - Bibliography	31
Annex 2 - Stakeholder consultations	33

Abbreviations

DG Regio	Directorate General Regional Policy
EC	European Commission
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUROPOL	European Police Office
GdF	Guardia di Finanza (Italy's financial police)
OLAF	European Anti-Fraud Office
ROP	Regional Operational Programme
SF	Structural Funds
SME	Small- and medium-sized enterprise
TA	Technical Assistance
00-06	Programming period 2000-2006
07-13	Programming period 2007-2013

Executive summary

The present assessment has been prepared during January to February 2009 for the European Parliament's Committee on Budgetary Control, and focuses on the role of financial institutions in delivering European Regional Development Fund (ERDF) support for the two Italian regions of Calabria and Sicily during the programming period 2000-2006.¹

ERDF measures implemented via financial institutions account for nearly €0.7 billion in the two regions, representing some 17% of total ERDF resources during the programming period 2000-2006. ERDF support is delivered with a view to strengthening competitiveness. Delivery is organised via a delegation of management and control from the regional authorities to the financial institutions.

Existing insights point to the limited effectiveness of ERDF measures implemented via financial institutions. This experience has led to a reduction of general SME support tools with a stronger focus on specific enterprise support in areas such as innovation, research and development as well as the environment in the 2007-2013 programmes.

Irregularities have seriously affected ERDF support for Calabria and Sicily, with the two regions accounting for 26% of all ERDF irregularities in Italy (number of irregularities), affecting ERDF resources worth €47 million. Stakeholder feedback confirms that ERDF measures implemented via financial institutions were particularly affected (especially in Calabria). Moreover, organised crime affects the use of public funds in Southern Italy, with the situation being particularly serious in Calabria.

The design of the 2007-2013 programmes has improved (reducing general support for competitiveness via financial institutions), and the ERDF authorities' control mechanisms have been strengthened. However the continuing staff constraints, and the threat posed by organised crime, suggest that future ERDF implementation will not fare much better than in the past.

The assessment recommends more systematic capacity building at all levels, an intensification of audit activity, a further promotion of the EU institutions' presence on the ground, as well as a more in-depth reflection on the design of future EU support in regions where the legality of EU support is threatened.

¹ The assessment is based on an earlier more general analysis of the implementation of the Structural Funds in Southern Italy, and a related European Parliament mission to Italy during April 2008.

Résumé

La présente étude a été élaborée pendant les mois de janvier à février 2009 à la demande de la Commission du contrôle budgétaire du Parlement européen, et analyse le rôle des banques dans la mise en oeuvre du Fonds européen de développement régional (FEDER) dans les deux régions italiennes de la Calabre et la Sicile tout au long de la période 2000-2006.²

Le soutien du FEDER à travers des banques représente presque €0.7 milliards dans les deux régions, environ 17% du soutien total du FEDER dans la période 2000-2006. Le FEDER vise à renforcer la compétitivité et le soutien est organisé à travers une délégation des compétences de mise en oeuvre et contrôle financier des autorités régionales aux banques.

L'expérience à ce jour montre l'effectivité limitée du soutien à travers des banques. Cette expérience a mené, dans la période 2007-2013, à une réduction du soutien général aux PME et à une reorientation du soutien aux entreprises dans les domaines de l'innovation, la recherche et le développement et l'environnement.

Les irrégularités sont un sérieux problème pour la mise en oeuvre du FEDER dans les deux régions. 26% du chiffre total des irrégularités concernant le FEDER en Italie ont été rencontrées dans les deux régions (fonds FEDER pour une valeur de €47 million). Les informations fournies par les différentes parties concernées confirment que le soutien FEDER géré par les banques a été spécialement touché (notamment en Calabre). En plus, le crime organisé affecte l'utilisation des Fonds Structurels dans les régions du Sud, surtout en Calabre.

La configuration des programmes 2007-2013 a été améliorée (en diminuant le soutien à la compétitivité à travers les institutions financières). De même les mécanismes de contrôle de la part des autorités FEDER ont été renforcés. Cependant, les limitations concernant le personnel et la menace du crime organisé suggèrent que la future application du FEDER ne sera pas trop améliorée par rapport au présent.

Les recommandations suivantes visent à contribuer à l'amélioration de la mise en oeuvre du FEDER pour les périodes de programmation 2007-2013 et suivantes: renforcement systématique des capacités de mise en oeuvre, une activité de contrôle financier plus intense, une présence plus forte des institutions européennes dans les deux régions, et une réflexion approfondie sur la future configuration des fonds européens dans les régions où la légalité de la mise en oeuvre n'est pas garantie.

² L'étude fait suite à une analyse plus générale de la mise en oeuvre des fonds structurels en Italie ainsi qu'une visite du Parlement européen en Italie en avril 2008.

Zusammenfassung

Die vorliegende Studie ist in der Zeit Januar bis Februar 2009 im Auftrag des Ausschusses für Haushaltskontrolle des Europäischen Parlaments angefertigt worden, und behandelt das Thema der Rolle der Banken bei der Umsetzung des Europäischen Fonds für regionale Entwicklung (EFRE) in den italienischen Regionen Kalabrien und Sizilien im Zeitraum 2000-2006.³ Die durch Banken umgesetzte EFRE Förderung in den zwei Regionen beträgt beinahe €0.7 Milliarden, 17% der EFRE Förderung im Zeitraum 2000-2006.

Diese EFRE Förderung bezweckt die Stärkung der Wettbewerbsfähigkeit. Die Umsetzung wird hierbei durch die Delegation von Management- und Kontrollfunktionen der regionalen Behörden an die Banken organisiert.

Bisherige Erfahrungen weisen auf die beschränkte Wirksamkeit der durch Banken umgesetzten EFRE Maßnahmen hin. Für 2007-2013 haben diese Erfahrungen zu einer Reduzierung genereller KMU Förderung, und einer stärkeren Ausrichtung der Wirtschaftsförderung auf die Bereiche Innovation, Forschung und Entwicklung sowie Umwelt geführt.

Die EFRE Förderung in Kalabrien und Sizilien ist stark durch Unregelmäßigkeiten beeinträchtigt worden. Unregelmäßigkeiten in den zwei Regionen machen 26% aller EFRE Unregelmäßigkeiten in Italien aus (Anzahl der Unregelmäßigkeiten) mit einem betroffenen Fördervolumen von €47 Millionen. In diesem Zusammenhang, deuten Interviews auf eine besondere Beeinträchtigung der durch Banken umgesetzten Maßnahmen hin (insbesondere in Kalabrien). Die Umsetzung der Strukturfonds wird durch die Organisierte Kriminalität beeinträchtigt, wobei die Situation in Kalabrien besonders besorgniserregend ist.

Die Gestaltung der 2007-2013 Programme weist zahlreiche Verbesserungen auf (Umsetzung durch Banken eingeschränkt), und die Kontrollmechanismen der EFRE Behörden sind verstärkt worden. Die nach wie vor bestehenden Mängel bei der Personalausstattung der EFRE Behörden und die Bedrohung durch die Organisierte Kriminalität legen jedoch nahe, dass die EFRE Umsetzung auch in der Zukunft nur bedingt wirksamer sein wird.

Daher die folgenden Empfehlungen: systematischer Ausbau der Umsetzungskapazitäten auf allen Ebenen, stärkere Finanzkontrollen, stärkere Präsenz der EU Institutionen in den zwei Regionen, sowie eine grundlegende Überlegung zur Gestaltung zukünftiger EU Förderung in Regionen in denen die Rechtmäßigkeit der Umsetzung nicht gewährleistet ist.

³ Die Studie folgt auf eine frühere generelle Analyse der Umsetzung der Strukturfonds in Süditalien, sowie eines Besuchs des Europäischen Parlaments in Italien im April 2008.

Introductory Note

The Introductory Note briefly presents the assessment's objectives, the approach as well as the report structure.

Objectives

The present assessment has been prepared during January to February 2009 by Blomeyer & Sanz. The assessment was carried out in the framework of Specific Contract No IP/D/BUDG/CONT/FWC/2006-072/lot2/C1/SC3 implementing Framework Service Contract IP/D/BUDG/CONT/FWC/2006-072/lot2/C1 for external expertise in the area of Cohesion Policy for the European Parliament's Committee on Budgetary Control.

The assessment is set in the framework of the Committee's contribution to the implementation of the European Union's (EU) policy for economic and social cohesion, commonly known as Cohesion policy.



More specifically, the assessment aims to understand the performance of the main instrument supporting Cohesion policy, i.e. the Structural Funds (SF), with a particular focus on the role of financial institutions (banks) in delivering European Regional Development Fund (ERDF) support for the two Southern Italian regions of Calabria and Sicily during the programming period 2000-2006 (00-06). The assessment is based on an earlier more general analysis of the implementation of the SF in Southern Italy,⁴ and a related European Parliament mission to Italy during April 2008. This mission revealed the requirement for specific information on the role of financial institutions in relation to ERDF implementation in Southern Italy.

Approach

The approach adopted for delivering the assessment combines desk research with stakeholder consultations, in a two-step approach. First, desk research helped to identify the key issues in relation to the role of financial institutions in ERDF delivery in Calabria and Sicily. The key issues




⁴ European Parliament, The Structural Funds in Southern Italy - Focus on Calabria and Sicily, March 2008

were then discussed with relevant stakeholders, and feedback from stakeholder consultations is included in the study for illustration purposes. The approach and study objectives have been discussed at a meeting with the European Parliament on 12 January 2009.

-  **Desk research:** Desk research aimed to identify the main issues in relation to the role of financial institutions in delivering ERDF support in Calabria and Sicily. Desk research included a review of existing documentation on SF support for Calabria and Sicily in the two programming periods 00-06 and 2007-2013 (07-13). This comprises the Operational Programmes, annual reports on the implementation of the SF and evaluation reports (Mid-Term Evaluations / Mid-Term Evaluation Updates for 00-06; Ex-Ante Evaluations for 07-13). A bibliography is presented in Annex 1.
-  **Stakeholder consultations:** Stakeholder consultations were conducted in February 2009, and aimed to discuss the role of financial institutions in ERDF implementation with relevant stakeholders. Feedback from stakeholder consultations is presented throughout the report in order to illustrate desk research findings, and support the report's conclusions and recommendations. The following stakeholders were consulted: the Italian Ministry of Economic Development, Italy's Financial Police (Guardia di Finanza / GDF), the European Commission's DG Regio (EC), the European Anti-Fraud Office (OLAF), as well as the Italian bank Mediocredito Centrale (MCC)⁵. The list of consulted stakeholders is included in Annex 2.⁶

Report structure

The report comprises three sections:

-  Section 1 presents the ERDF measures implemented via financial institutions, provides an introduction to the banks involved, and discusses the effectiveness of implementing ERDF measures via financial institutions.
-  Section 2 presents information on irregularities / fraud affecting ERDF implementation involving financial institutions as well as the implication of organised crime.
-  Section 3 presents the assessment's overall conclusions and recommendations.

⁵ Mediocredito Centrale is the bank with the most important involvement in SF implementation in Calabria and Sicily. Mediocredito Centrale is part of the Unicredit Group. See section 1.2.1 below.

⁶ Whilst contacted in December 2008, the regional authorities in Calabria and Sicily did not provide any inputs for the assessment (since the European Parliament Delegation's mission to Southern Italy, the head of the Sicilian SF administration was changed twice).

Section 1 - Financial institutions and Structural Funds implementation

This section presents the ERDF resources implemented via financial institutions in the two regions during the 00-06 programming period (1.1), as well as the financial institutions involved and their capacities to deal with ERDF implementation (1.2). Finally, the section discusses the overall effectiveness of the measures implemented via financial institutions (1.3).

1.1 ERDF implementation via financial institutions

This section notes the main ERDF measures involving implementation via financial institutions (1.1.1), and presents the organisation of the financial institutions' involvement (1.1.2).

1.1.1 Which ERDF measures are concerned?

In the framework of the two regions' Regional Operational Programmes (ROP), implementation via financial institutions focuses on a series of ERDF measures. These measures aim to strengthen competitiveness (e.g. SMEs, handicraft businesses, tourism businesses etc.), and are organised in the framework of the two ROPs' Priority Axis 4 'Local Development Systems' (*Sistemi Locali di Sviluppo*).

ERDF support is implemented via the co-financing of Italian SME support tools, including Law 1329/65, Law 488/92 and Law 598/94.



Law 1329/65 applies to SMEs and supports the acquisition or lease of machinery by subsidising interest rates (i.e. the buyer pays for the machinery in installments at lower-than-market interest rates). The seller recovers the entire amount from the authorised

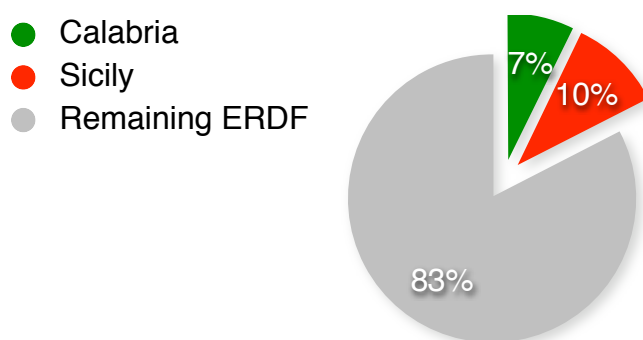
intermediary bank. The authorised intermediary bank recovers the difference between the applied (lower) interest rate and the market rate.⁷

- Law 488/92 facilitates SME access to capital for investments e.g. to acquire land, support construction / modernisation works, infrastructure works as well as the purchase of machinery, equipment, software and patents.
- Law 598/94 provides for grants to allow SMEs to invest in industrial research, pre-development and technology transfer. Eligible expenses include staff costs, consultancy, materials, equipment and general expenses.

ERDF measures implemented via financial institutions account for a total of €662.67 million (€273.4 million for Calabria and €389.27 million for Sicily).⁸ ERDF support in this area represents some 17% of total ERDF resources during the programming period 2000-2006 (the Calabria and Sicily ROPs are worth, respectively, €1.3 billion and €2.5 billion).⁹

The following figure presents the share of ERDF measures implemented via financial institutions out of total ERDF support in the two regions during 00-06.

Figure 1 - ERDF measures implemented via financial institutions out of total ERDF



⁷ For a detailed description and analysis of Law 1329/65, see UNIDO, The Italian SME experience and possible lessons for emerging countries, March 1997, pages 17-18

⁸ Figures are taken from the Programme Complement, Operational Programme Calabria 2000-2006, and Programme Complement, Operational Programme Sicily 2000-2006, both documents in their version of August 2008.

⁹ Total ERDF support for Italy in 00-06 amounted to some €18.8 billion, i.e. ERDF support for the two regions represents 20% of the total ERDF allocation for Italy.

The following two figures note the ERDF measures implemented via financial institutions:

Figure 2 - ERDF measures implemented via financial institutions in Calabria

Measure	ERDF in million €	Financial institution involved
4.1a Potenziamento e sviluppo della competitività delle piccole e medie imprese industriali, artigiane e dei servizi	115.2	Mediocredito Centrale, Artigiancassa e/o altri soggetti convenzionati, Banche regionali
4.1b Paschetti Integrati di Agevolazioni (PIA) per la creazione e lo sviluppo delle PMI industriali, artigiane e dei servizi		Mediocredito Centrale
4.1c Commercio		'Soggetti specializzati'
4.1d Servizi alle imprese		
4.1e Servizi di ingegneria finanziaria alle imprese		
4.2a Potenziamento e valorizzazione delle infrastrutture per la localizzazione delle attività produttive	70.15	
4.2b Rafforzamento dei sistemi produttivi esistenti ed in via di formazione localizzati sul territorio regionale e sostegno all'integrazione e al potenziamento delle filiere produttive regionali		
4.2.c Attrazione di iniziative imprenditoriali strategiche per lo sviluppo regionale e sviluppo della cooperazione produttiva interregionale		
4.2.d Sostegno ai processi di internazionalizzazione delle imprese		
4.4.a Progetti integrati di qualificazione della ricettività turistica esistente	88.05	Mediocredito Centrale
4.4.b Creazione di nuova ricettività di qualità all'interno delle reti e dei sistemi locali di offerta turistica		
4.4.c Creazione di grandi attrattori all'interno delle reti e dei sistemi locali di offerta turistica		
4.4.d Servizi per la valorizzazione e l'integrazione nei prodotti turistici del patrimonio ambientale culturale locale		
4.4.e Realizzazione di nuovi pacchetti / prodotti turistici per le reti e i sistemi locali di offerta turistica		
4.4.f Servizi informativi e interventi di qualificazione ambientale per l'accoglienza dei turisti nelle località di soggiorno e visita		
4.4.g Infrastrutture e servizi per lo sport e il tempo libero nei sistemi locali di offerta turistica		
4.4.h Interventi integrati per l'emersione e la qualificazione della ricettività turistica sommersa		
4.4.i Interventi portuali per la nautica di diporto		

Figure 3 - ERDF measures implemented via financial institutions in Sicily

Measure	ERDF in million €	Financial institution involved
4.01.b Potenziamento PMI	129.26	4.01.b1: 'soggetto convenzionato' 4.01.b2: IRFIS-Mediocredito della Sicilia (IRFIS)
4.01.c Nuovi investimenti campo del riuso e riciclaggio dei rifiuti	50.4	'soggetto convenzionato'
4.01.d Imprenditoria giovanile, femminile e del terzo settore	68.05	
4.01.e Servizi innovativi di rete	6.35	Istituto Regionale per per il Credito alla Cooperazione (IRCAC)
4.02b Aiuti all'artigianato	135.21	Cassa Regionale per il Credito alle Imprese Artigiane (CRIAS)

1.1.2 How is the financial institutions' involvement organised?

The implementation of the above-noted ERDF measures (Figures 2 and 3 above) is organised on the basis of agreements between the two regions' Managing Authorities and the financial institutions.

This comprises a delegation of implementation functions. The Managing Authority delegates implementation and (first-level) control functions to the financial institution. The financial institution organises project selection (assessment of applications and control of relevant documentation) and controls the final recipients' implementation (including the processing of payment requests). The financial institution reports regularly on implementation to the Managing Authority.

Section summary

ERDF measures implemented via financial institutions account for a total of €662.67 million (€273.4 million for Calabria and €389.27 million for Sicily). ERDF support in this area represents some 17% of total ERDF resources during the programming period 2000-2006 (the Calabria and Sicily ROPs are worth, respectively, €1.3 billion and €2.5 billion).

ERDF support is delivered with a view to strengthening competitiveness, and is organised in the framework of the two ROPs' Priority Axis 4 'Local Development Systems'. Delivery is organised via a delegation of management and control from the regional authorities to the financial institutions.

1.2 The financial institutions

This section briefly presents the financial institutions involved in ERDF implementation (1.2.1) and notes some of the advantages and disadvantages in implementing ERDF support via financial institutions (1.2.2).

1.2.1 Financial institutions involved in ERDF delivery

The financial institutions with the most important involvement in ERDF delivery include Mediocredito Centrale and Artigiancassa in Calabria, as well as IRFIS-Mediocredito della Sicilia, Istituto Regionale per il Credito alla Cooperazione and Cassa Regionale per il Credito alle Imprese Artigiane in Sicily (see figures 2 and 3 above).

- Mediocredito Centrale S.p.A (MCC) is part of the Unicredit Group and is specialised in facilitating public sector support for SMEs across all of Italy.¹⁰
- Artigiancassa S.p.A (AC) is part of the BNP Paribas Group and focuses on facilitating private and public sector support for craftsmen via its headquarters in Rome and 19 regional centres.¹¹
- IRFIS-Mediocredito della Sicilia S.p.A (IRFIS) is part of the Unicredit Group and is specialised in facilitating public sector support for SMEs with a specific focus on Sicily.¹²
- Istituto Regionale per per il Credito alla Cooperazione (IRCAC) is a regional public financial institution focussing on providing public sector support for enterprises in Sicily (with a specific focus on supporting internationalisation).¹³
- Cassa Regionale per il Credito alle Imprese Artigiane (CRIAS) is a regional financial institution focussing on providing public sector support for craftsmen in Sicily.¹⁴

¹⁰ <http://www.mcc.it>

¹¹ <http://www.artigiancassa.it>

¹² <http://www.irfis.it>

¹³ <http://www.ircac.it>

¹⁴ <http://www.crias.it>

1.2.2 Advantages and disadvantages of involving financial institutions

Further to the presentation of the involved financial institutions, the question arises as to the regional authorities' motivation in using financial institutions to deliver ERDF support.

Stakeholder feedback indicates that the financial institutions are considered to be well experienced with the implementation of the above-mentioned SME support instruments (Laws 1329/65, 488/92 and 598/94), thus facilitating efficient implementation. Moreover, not all Italian regions have their own 'in house' financial institutions (e.g. IRCAC or CRIAS in Sicily).

In this context, the Italian Court of Audit notes the financial institutions' familiarity with the regional socio-economic situation, and resulting capacity to evaluate the viability of proposed projects, as the main reasons for involving financial institutions.¹⁵

Interview feedback from Mediocredito Centrale emphasises the importance of involving local banks, as outside financial institutions often fail to establish the required 'proximity' to small local businesses. Note in this context that in Calabria, business are mainly small local family-run enterprises with a very limited presence of regional/national medium-sized enterprises; in Sicily, there is a more balanced presence of small- as well as medium and large enterprises.

Looking at the downside of involving financial institutions in ERDF delivery, EC and Italian Court of Audit controls have revealed a series of important shortcomings:

In general terms, stakeholder feedback indicates that the financial institutions' staff are not sufficiently aware of the ROPs' overall objectives and priorities. Project selection therefore ignores possible synergies with wider programme objectives. Mid-term evaluation feedback indicates that the financial institutions provide over limited experience with implementing innovation support, and generally, prefer to support more traditional economic activities (e.g. the construction sector).¹⁶ Moreover, feedback from DG Regio audit missions in 2005 indicates that the regional authorities failed to provide sufficient training to the financial institutions (e.g. on first-level control).

Recent investigations by the Italian Court of Audit have revealed a series of weaknesses in relation to the organisation of the financial institutions' involvement, noting mainly the agreements' limited detail in terms of the financial institutions' control activities (e.g. no detail on the frequency and types of controls, the size of control samples etc. in the implementation agreements between the region and the bank), and weak reporting requirements (including final

¹⁵ *'In verità il concessionario che è più vicino al territorio e conosce la realtà socio-economica locale, dovrebbe essere in grado di valutare, in modo più significativo, la fattibilità dei progetti presentati e la solidità delle imprese richiedenti i finanziamenti.'* Corte Dei Conti, Irregolarità e frodi in materia di fondi strutturali con particolare riguardo al FESR nelle regioni obiettivo 1, 20 February 2007, page 39

¹⁶ Update of the mid term evaluation Calabria, Thematic report 4, page 5

beneficiary reporting to the financial institution, and the financial institutions' reporting to the Managing Authority).¹⁷

The Court's audit work also suggests that the financial institutions' involvement is affected by an important conflict of interest between the financial institutions' interest to maximise client numbers and grant volume on the one hand, and on the other, the need for grants to comply with ERDF regulatory requirements, whilst supported activities address ERDF priorities.

The regional authorities' limited oversight over the financial institutions, the financial institutions' staff constraints, and conflict of interest issues, all contribute to weak control over final beneficiaries, e.g. at the application or payment stages.¹⁸

Section summary

The financial institutions with the most important involvement in ERDF delivery include Mediocredito Centrale and Artigiancassa in Calabria, as well as IRFIS-Mediocredito della Sicilia, Istituto Regionale per per il Credito alla Cooperazione and Cassa Regionale per il Credito alle Imprese Artigiane in Sicily.

The regions' decision to implement the ERDF via financial institutions is explained by the banks proximity to local businesses and their experience in dealing with SME support tools. The downside of involving banks is their often limited knowledge of the wider ROP priorities as well as limited experience in dealing with innovation support. Moreover, a conflict of interest can exist between increasing client numbers via grants and ensuring sufficiently thorough control of grant applications.

¹⁷ Corte Dei Conti, Irregolarita' e frodi in materia di fondi strutturali con particolare riguardo al FESR nelle regioni obiettivo 1, 20 February 2007, pages 41-43

¹⁸ *'carenze di approfondimento nelle fasi dell'istruttoria, delle domande di aiuto o dei pagamenti degli stati di avanzamento'* Ibid, page 16

1.3 Effectiveness

This section focuses on the effectiveness of the financial institutions' ERDF implementation with regard to the achievement of the measures' overall objectives in Calabria (1.3.1) and Sicily (1.3.2).

Before looking at the specific situation in the two regions, it is worth noting overall feedback by Italy's Ministry for Economic Development. Feedback indicates that there were only limited expectations as to the effectiveness of ERDF measures implemented via financial institutions due to the rather un-focused nature of this type of support (e.g. support not specifically geared towards ROP objectives such as innovation). However, despite the limited expectations as to effectiveness, it was felt that the Objective 1 regions' specific socio-economic characteristics justified a continuation of general SME support, whilst limiting this to some 18% of ERDF support in 00-06.

For the 07-13 programming period, the general SME support tools were no longer included in the Operational Programmes for the Competitiveness regions, and significantly reduced for the Convergence regions. SME support is now strongly oriented towards innovation, research and development and the environment. Note, however, that the current economic crisis might lead to a re-orientation of SME support from supporting specific areas such as innovation or the environment to more general support as provided in the past. This mainly aims to provide short-term solutions to SME needs for finance, but is not expected to help addressing the Convergence regions' structural deficiencies.¹⁹

1.3.1 Calabria

The effectiveness of ERDF measures involving implementation via financial institutions has been evaluated in the framework of a thematic mid-term evaluation report. Feedback on effectiveness is also included in the Managing Authority's annual implementation report for 2007, and in the ex-ante evaluation for the 07-13 programme.

- ☉ In Calabria, the 2005 update of the mid-term evaluation (of the ROP) includes a specific thematic focus on SME support under Priority Axis 4 (measures 4.1 and 4.2). The evaluation notes that ERDF support has only triggered limited investment, and has mainly benefited traditional activities (e.g. construction sector) thus failing to contribute to the

¹⁹ The Ministry of Economic Development noted that it is currently engaged in discussions with DG Regio in order to gear Structural Funds support to address the economic crisis.

measure's innovation and competitiveness objectives.²⁰ The evaluation criticises the design of ERDF measures for limited added-value in stimulating innovation (support not focussing on specific thematic areas), and it is suggested that their main 'added value' is rapid financial absorption.²¹

- The annual report on implementation in 2007 fails to provide any detailed feedback on results under the various SME measures.²² However, the important decommitments under the SME measures provide an indicator for the measures' limited success (€7 million under measure 4.1b, €4.6 million under measure 4.1c, €1.6 million under measure 4.1d).
- Finally, the ex-ante evaluation for the ERDF Operational Programme 2007-2013 confirms the above findings.²³

1.3.2 Sicily

In Sicily the effectiveness of ERDF measures involving implementation via financial institutions has been evaluated in the framework of the regular mid-term evaluation. Feedback on effectiveness is also included in the Managing Authority's annual implementation report for 2007, and in the ex-ante evaluation for the 07-13 programme.

- In Sicily, the mid-term evaluation and its update did not include a specific focus on SF support for SMEs, and there is no in-depth analysis of the concerned measures. Evaluation results are generally positive, however, they do not allow for any firm conclusions on the measures' effectiveness (the evaluation notes difficulties over the use of indicators, as these do not allow to differentiate between support for existing and new enterprises).²⁴

²⁰ *'...gli investimenti medi attivati sono stati medio-bassi e soprattutto hanno riguardato un settore produttivo - quelle delle costruzioni - che è considerato tradizionale e pertanto poco rilevante in termini di sviluppo dell'innovazione e della capacità competitiva, intesa come capacità di affrontare mercati non solo locali.'* Update of the mid term evaluation Calabria, Thematic report 4, page 5

²¹ *'Tali tipologie di intervento, piuttosto semplici e conosciute, sono in grado di garantire un'apprezzabile velocità di spesa...'* Ibid, page 10

²² *'Allo stato attuale non è possibile esprimere un commento sui risultati raggiunti dal momento che una quota significativa dei progetti finanziati è in via di conclusione. La Regione provvederà nei prossimi mesi ad integrare tempestivamente le informazioni mancanti.'* Annual report on Structural Funds implementation in Calabria, page 157

²³ ERDF Operational Programme Calabria 2007-2013, Chapter 1.4 (*Lezioni del periodo di programmazione 2000-2006*)

²⁴ Update of the mid term evaluation Sicily, Final report, page 85-94

- Feedback from the Managing Authority's annual implementation report for 2007 indicates that complete data on effectiveness (results) will only be available by the end of 2008 (to be reported in the annual report on implementation in 2008, due for June 2009). Only one result indicator is reported on: With regard to the expected creation of 65 new businesses, only two new businesses have been established by the reporting deadline of June 2008.
- Finally, the ERDF Operational Programme 07-13 notes that the 00-06 programme only experienced limited success with regard to improved SME competitiveness.²⁵

Section summary

Existing insights point to the limited effectiveness of ERDF measures implemented via financial institutions. It appears that instead of increasing competitiveness by supporting innovative SME projects, ERDF support was mainly used to address short-term needs for finance in rather traditional areas such as the construction sector. This experience (00-06) has led to a reduction of general SME support tools with a stronger focus on specific SME support in areas such as innovation, research and development as well as the environment (in the 07-13 programmes).

²⁵ *'...limitata efficacia dell'intervento del POR a sostegno del sistema produttivo manifatturiero e dei servizi...'* ERDF Operational Programme Sicily 2007-2013, Chapter 1.4 (*Lezioni dalla esperienza della precedente programmazione*)

Section 2 - Irregularities

This section presents details on irregularities affecting the ERDF measures implemented via financial institutions (2.1) as well as related information on organised crime (2.2).

2.1 Irregularities

Section 2.1.1 asks whether the ERDF measures implemented via financial institutions have been implemented in compliance with the SF regulations (focus on the regularity of spending). Section 2.1.2 asks whether irregularities affect the measures implemented via financial institutions to a more important extent than other measures.

2.1.1 Feedback from DG Regio audits / Italian Court of Audit

DG Regio audit work in **Calabria** notes serious weaknesses with regard to first level control.²⁶ Moreover, shortcomings are noted in relation to measure 4.1 (implementation via financial institutions). Shortcomings include Infringements of eligibility rules (beneficiaries without residence in Calabria, ineligible costs supported);²⁷ Mediocredito Centrale's failure to perform systematic first level control (measure 4.1a (responsibility for first level control delegated from the regional authority to Mediocredito Centrale));²⁸ Infringements of publicity requirements.²⁹

A related DG Regio follow-up mission confirms the identified weaknesses, and requests the Italian authorities to carry out exhaustive first level control for measure 4.1a.³⁰ The follow-up mission also reveals irregularities over the payment mechanisms established for measure

²⁶ DG Regio audit report of 8 June 2005, page 4

²⁷ Ibid, page 4

²⁸ Ibid, page 10

²⁹ Ibid, page 16

³⁰ *'Le autorità italiane effettueranno ulteriori controlli su un campione significativo di progetti. Le spese relative a questa misura saranno "congelate" sino al termine dei controlli complementari da effettuare. L'OLAF è stato informato della serietà degli accertamenti realizzati.'* DG Regio audit report of 10 November 2005, page 3

4.1.a.³¹ Irregular spending under measure 4.1 is subsequently investigated by OLAF, and irregularities are confirmed.

In this context, MCC feedback notes that fraud mainly concerned one applicant who submitted some 20 different applications for a value of about €10 million (activities were declared to take place in Calabria, however, equipment purchased with EU support was subsequently moved outside of Calabria). In this context, it is worth noting that MCC only experienced fraudulent activity in Calabria, whilst other regions receiving support under the same mechanisms were not affected.

A DG Regio mission in 2005 confirms that the Italian authorities have adopted the necessary corrective actions to address identified weaknesses (e.g. exhaustive controls of measures 4.1a and 4.1b; recovery measures for irregular costs / activities).³² The annual report on SF implementation in Calabria in 2007 notes that corrective actions for measures 4.1a and 4.1c revealed irregularities leading to the recovery of €34 million,³³ and Ministry of Economic Development feedback indicates that control over ERDF measures involving financial institutions has improved significantly. MCC reports that it is now dedicating increased attention to controlling SME support in Calabria, e.g. by ensuring that control missions are led by inspectors based in Rome (thus not subject to the same pressure as local inspectors).

For **Sicily**, DG Regio audits confirm the generally satisfactory financial control systems, however, improvements are required with regard to the measures implemented by financial institutions (4.01b).³⁴ Weaknesses noted by the audit report include the following (in relation to

³¹ *'Inoltre per la misura 4.1 a) i pagamenti sono stati effettuati con cambiali esigibili mensilmente o trimestralmente per periodi che possono superare la data di ammissibilità. Questo mezzo di pagamento non ha quindi l'effetto immediato di far sostenere la spesa al destinatario finale. La spesa diventa realmente sostenuta solo alla data del pagamento della cambiale e nei limiti dell'importo effettivamente corrisposto. Dal momento che per i fondi strutturali la data di ammissibilità delle spese dipende da quella in cui le spese sono state effettivamente sostenute dal beneficiario/destinatario finale, i pagamenti con cambiali non ancora esigibili devono essere considerati inammissibili. Dato che questa modalità di pagamento è stata utilizzata per tutte le pratiche della misura 4.1 a), cofinanziate nell'ambito della legge 1329/65 (legge Sabatini), la presente considerazione assume carattere sistemico e riguarda tutti i fascicoli per, cui è stata adottata tale forma di pagamento. Le autorità italiane dovranno riesaminare e, all'occorrenza, correggere tutti i progetti di quest'azione.'* Ibid, page 3

³² DG Regio audit report of 23 December 2005, page 3. MCC notes that fraud was only confirmed for the above noted cases. Exhaustive controls (covering all supported SMEs) only revealed minor irregularities (formalities).

³³ Annual report on Structural Funds implementation in Calabria, page 157

³⁴ *'Si auspica tuttavia un'armonizzazione della presentazione e del contenuto delle relazioni di controllo, in particolare per quanto riguarda le misure la cui gestione viene delegata agli organismi intermediari (Banco di Sicilia / IRFIS).'* DG Regio audit report of 13 June 2007, page 4

4.01b): Limited control of whether a final beneficiary satisfies the SME criteria;³⁵ Weak first-level control;³⁶ Audit track to be improved for measure 4.01.

Ministry of Economic Development as well as MCC feedback indicates that in comparison with Calabria, there have been no significant problems over the implementation of ERDF measures via financial institutions in Sicily.

Finally, the Italian Court of Audit notes the following issues (in relation to all Objective 1 regions):³⁷ At the regional level, the required financial control structures were established late (the structures required for the 00-06 programming period only started to function in 2004). Moreover, the regional authorities and financial institutions lacked sufficient human resources (in terms of staff numbers and qualification) in order to ensure effective control. Note in this context that irregularities / fraud most often occur at the stage of project selection as well as in relation to payment requests, e.g. submission of falsified documentation to support eligibility. Staff constraints at these stages 'contribute' to falsified documentation not being detected. These problems were exacerbated by the failure to adopt preventive measures (financial control interventions generally come too late to allow for the recovery of irregular / fraudulent spending).

In this context, MCC notes an important systemic problem affecting the existing support mechanisms delivered via financial institutions. The local banks' assessment of applications for support and payment requests is often not sufficiently thorough as the banks' own resources are not involved (i.e. the bank is only the intermediary for regional, national or EU funds).

2.1.2 Comparative data on irregularities

This section aims to answer the question as to whether ERDF measures implemented via financial institutions are more seriously affected by irregularities than other ERDF measures.

Before looking at the specific question on irregularities affecting ERDF measures implemented via financial institutions, what is the general situation with the regularity of ERDF spending in the 00-06 programming period? OLAF data shows that ERDF spending for the the two regions is

³⁵ *'I controlli del servizio fornito, effettuati dall'organismo intermediario Banco di Sicilia/IRFIS per la misura 4.01.b1 non sono sufficientemente dettagliati in merito alla verifica dei criteri PMI.'* Ibid, page 11

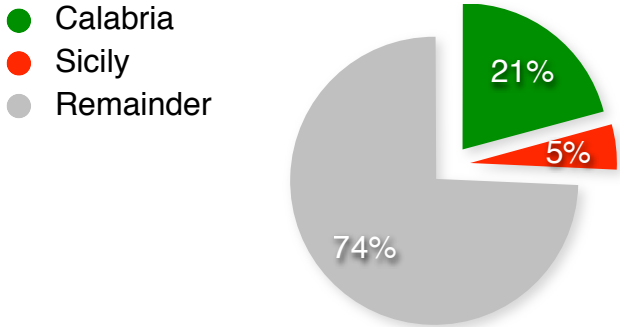
³⁶ *'Quando l'autorità di gestione delega la gestione di alcune misure a organismi intermediari (Banco di Sicilia / IRFIS), la responsabilità finale di verificare l'esecuzione dei controlli di primo livello rimane sempre dell'autorità di gestione. Se le verifiche fisiche o amministrative non sono esaustive, ma sono state effettuate su un campionamento devono essere oggetto di verifica da parte del responsabile della misura / responsabile dell'azione.'* Ibid, page 12

³⁷ Corte Dei Conti, Irregolarità e frodi in materia di fondi strutturali con particolare riguardo al FESR nelle regioni obiettivo 1, 20 February 2007, page 13

seriously affected by irregularities (see figures 4 and 5 below).³⁸ A total of 52 irregularities are reported for Sicily and 227 for Calabria (out of a total of 1089 for Italy). Irregularities correspond to ERDF resources worth €16.79 million in Sicily, €29.84 million in Calabria and €276.05 million in Italy. Note in this context that ERDF support for the two regions represents some 20% of the total ERDF allocation for Italy, however, the number of irregularities account for 26% whilst the amounts affected account for 17%.

Coming to the question as to whether the ERDF measures implemented via financial institutions are more affected than other ERDF support, OLAF feedback indicates that a breakdown of irregularities by measure is *'not currently available'*. However, the DG Regio audit reports and Ministry of Economic Development feedback confirm that irregularities are of particular concern for the ERDF measures implemented via financial institutions (to a stronger extent in Calabria than in Sicily).

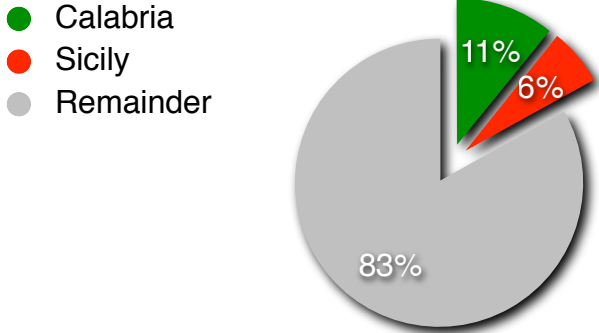
Figure 4 - OLAF data on the number of irregularities affecting the ERDF in Calabria and Sicily (Regional Operational Programmes Sicily and Calabria) as percentage of total ERDF (Italy)



Public funds

³⁸ OLAF data were sent to the author on 13 February 2009. Note that data are given up to and including the third quarter of 2008 only, and data concerning 2008 are still not validated with the Member States. Note that Member States only report irregularities involving an amount of over €10000

Figure 5 - OLAF data on irregular amounts affecting the ERDF in Calabria and Sicily (Regional Operational Programmes Sicily and Calabria) as percentage of total ERDF (Italy)



Section summary

Irregularities have seriously affected ERDF support for Calabria and Sicily, with the two regions accounting for 26% of all ERDF irregularities in Italy (number of irregularities), affecting ERDF resources worth €47 million. Whilst specific data on irregularities affecting ERDF measures implemented via financial institutions is not available, stakeholder feedback confirms that these measures were particularly affected (especially in Calabria).

2.2 Organised crime

This section asks whether organised crime is affecting the ERDF measures implemented via financial institutions. Before considering any data on organised crime affecting the ERDF (2.2.2), it is helpful to reflect briefly on how organised crime affects public funds in Southern Italy in a more general way (2.2.1).

The section draws mainly on a recent report by the Italian Parliament's anti-mafia commission.³⁹ Where available, data is provided for Calabria and Sicily, however, most data relates to Calabria, as justified by the comparatively higher rate of ERDF irregularities in this region (see OLAF data in Section 2.1.2 above).

2.2.1 Organised Crime - modus operandi in relation to public funds

Organised crime mainly affects public funds:

- by corrupting public administration,
- by participating in public contracts or applying for public funds (direct access via its own enterprises),
- by exerting 'influence' on enterprises implementing public contracts or benefiting from public funds (indirect access via sub-contracting services or supplies)
- or by a combination of these methods.

The following figures shows the different ways allowing organised crime to access public funds.

Figure 6 - Organised Crime modus operandi

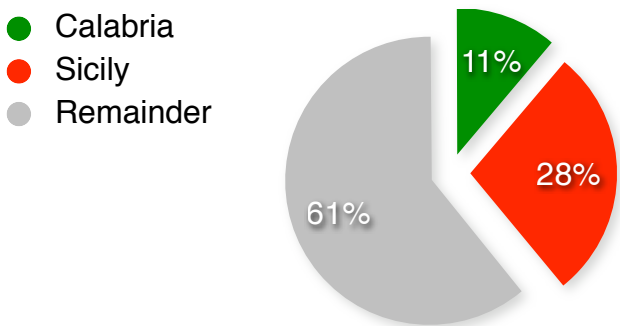


³⁹ Commissione Parlamentare di inchiesta sul fenomeno della criminalità organizzata mafiosa o similare, Relazione annuale sulla 'Ndrangheta, 19 February 2008

The ‘ease of access’ to public funding is supported by wide-spread corruption. The Italian High Commissioner for the prevention of corruption provides the following data on corruption in Calabria and Sicily: 39% of corruption investigations,⁴⁰ 19% of committed corruption offenses and 28% of persons arrested in relation to corruption offenses in Italy relate to the two regions.⁴¹ Note in this context that the two regions of Calabria and Sicily account for about 12% of Italy’s total population (2.01 million in Calabria and 5.01 million in Sicily).

The particularly serious situation with corruption in Calabria is also underlined by the Italian Parliament’s anti-mafia commission (*‘sistema di connivenze con gli apparati politico amministrativi’*) which points out that whilst organised crime is mostly active at the local level, the regional level is not exempt of this involvement (noting the example of the arrest of a former regional minister for tourism and industry).⁴² In this context, the national anti-mafia prosecutor notes several criminal procedures in relation to regional administration.⁴³

Figure 7 - Corruption in Calabria and Sicily - anti-mafia investigations as percentage of total cases Italy, 2005⁴⁴



⁴⁰ Investigations by the Ministry of Justice anti-mafia authority (Direzione Nazionale Antimafia)

⁴¹ Alto Commissario per la prevenzione e il contrasto della corruzione e delle altre forme di illecito nella pubblica amministrazione, Studio su i pericoli di condizionamento della pubblica amministrazione da parte della criminalità organizzata, June 2006

⁴² Commissione Parlamentare di inchiesta sul fenomeno della criminalità organizzata mafiosa o similare, Relazione annuale sulla ‘Ndrangheta, 19 February 2008, pages 87 and 110

⁴³ ‘per quanto riguarda la procura di Reggio Calabria, il dato registra 5 procedimenti penali a carico di consiglieri regionali per violazione della legge n. 488 del 1992 e 5 procedimenti penali a carico di consiglieri regionali per reati comuni, comunque diversi dai reati di mafia.’ Ibid, page 123

⁴⁴ Alto Commissario per la prevenzione e il contrasto della corruzione e delle altre forme di illecito nella pubblica amministrazione, Studio su i pericoli di condizionamento della pubblica amministrazione da parte della criminalità organizzata, June 2006

Figure 8 - Corruption in Calabria and Sicily - corruption offenses as percentage of total cases Italy, 2005⁴⁵

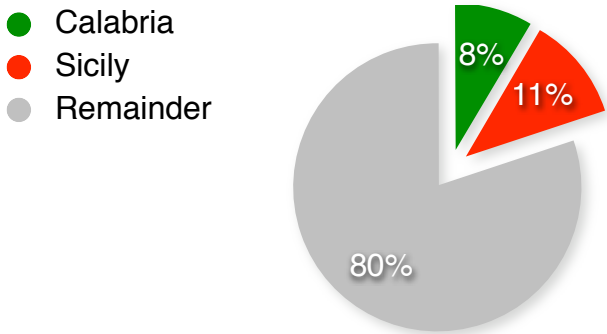
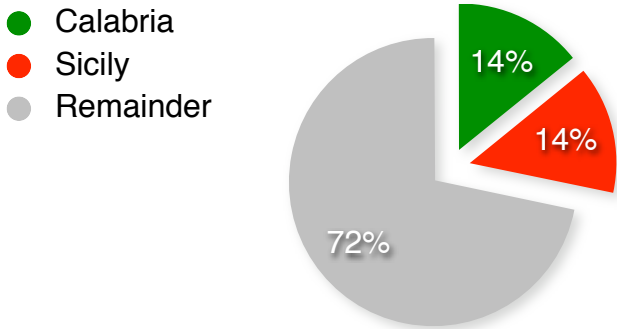


Figure 9 - Corruption in Calabria and Sicily - persons arrested as percentage of total arrests Italy, 2005⁴⁶



2.2.1 Organised Crime and the ERDF

Coming now to the question of whether organised crime affects ERDF measures implemented via financial institutions, there is no comprehensive data on how many of the irregularities identified in Section 2.1.2 above are related to organised crime.

However, recent investigations by Italy’s parliamentary anti-mafia commission suggest that ERDF measures implemented via financial institutions are just as affected by organised crime as

⁴⁵ Ibid

⁴⁶ Ibid

any other public funds (more so in Calabria than in Sicily).⁴⁷ The following arguments support this point:

- Between 50% (Calabria) and 80% (Sicily) of the region's enterprises are blackmailed by organised crime. The lower percentage in Calabria is explained by the higher number of enterprises directly controlled by organised crime.⁴⁸ Nearly all enterprises in Calabria's capital district of Catanzaro are considered to be affected by organised crime leading the anti-mafia commission to conclude that there are no enterprises which are not affected by organised crime.⁴⁹
- Organised crime has taken a specific interest in Law 488/1992, co-financed by the ERDF and implemented via financial institutions. For the year 2005 alone, the anti-mafia commission notes seven cases in relation to Law 488/192 worth over €25 million. A recent case in January 2008 led the courts to authorise confiscations worth nearly €6 million.⁵⁰ GdF data indicates that out of a total of irregular grants of €208 million, €49 million are related to Calabria (24%).⁵¹
- Data on irregularities and fraud in the years 2004-2006 suggest an increase in organised crime activity focussing on public funds.⁵²
- There is no cooperation between local enterprises and police / judiciary (Calabria).⁵³

Note, however, that whilst there is significant organised crime interest in European Union funding for enterprises, the main interests remain drugs as well as public works (including ERDF-supported infrastructure), the latter attracting organised crime due to the significant amounts of funding available (see Figure 10 below on the share of infrastructure in SF support). As noted above, in relation to public works, organised crime is involved via influencing public procurement or by forcing contractors to subcontract organised crime to provide services or

⁴⁷ Commissione Parlamentare di inchiesta sul fenomeno della criminalità organizzata mafiosa o similare, Relazione annuale sulla 'Ndrangheta, 19 February 2008

⁴⁸ Ibid, page 108 - 109

⁴⁹ '*...non c'è impresa nella o sulla quale la 'ndrangheta non eserciti un sup ruolo ed una sua funzione di intermediazione quando non di gestion diretta*' Ibid, page 118

⁵⁰ Ibid, page 118

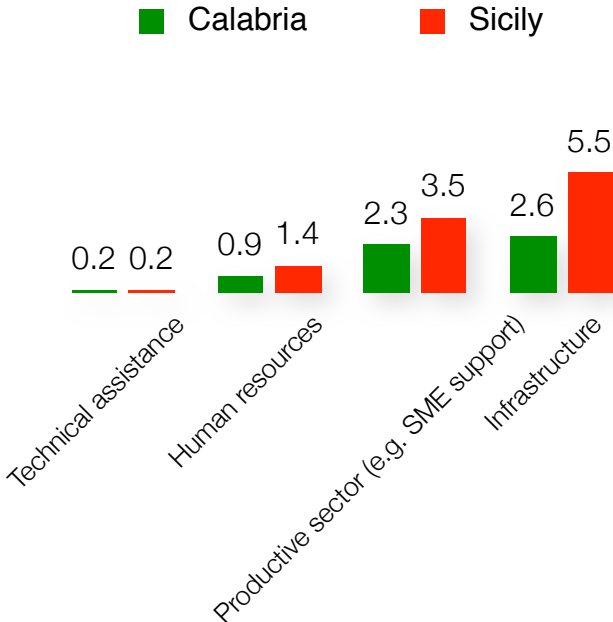
⁵¹ This data does not differentiate between national and EU funds. Ibid, page 129

⁵² Ibid, page 122

⁵³ Ibid, page 120

supplies. In this context, Italy's parliamentary anti-mafia commission notes its concerns over the use of financial engineering for the 07-13 programmes.⁵⁴

Figure 12 - SF support by thematic area in Calabria and Sicily (total project costs in € billion, as on 31 December 2007)⁵⁵



Section summary

Existing evidence shows that organised crime affects the use of public funds in Southern Italy. The situation is particularly serious in Calabria, where organised crime is present in all economic sectors. Wide-spread corruption, organised crime's hold over local businesses in Calabria and existing investigations suggest that this also affects ERDF measures implemented via financial institutions.

⁵⁴ Commissione Parlamentare di inchiesta sul fenomeno della criminalità organizzata mafiosa o similare, Relazione annuale sulla 'Ndrangheta, 19 February 2008, page 99

⁵⁵ IGRUE, Le politiche strutturali dell'Unione Europea, 2008, pages 92 and 120

Section 3 - Conclusions and recommendations

This final section presents the assessment's conclusions (3.1) as well as recommendations (3.2).

3.1 Conclusions

ERDF measures implemented via financial institutions in Calabria and Sicily account for some €663 million. This represents some 17% of total ERDF resources in 00-06. ERDF support in this area aims to strengthen competitiveness, and is organised in the framework of the two ROPs' Priority Axis 4 'Local Development Systems'. Delivery is organised via a delegation of management and control from the regional authorities to the financial institutions.

The financial institutions with the most important involvement in ERDF delivery include Mediocredito Centrale and Artigiancassa in Calabria, as well as IRFIS-Mediocredito della Sicilia, Istituto Regionale per per il Credito alla Cooperazione and Cassa Regionale per il Credito alle Imprese Artigiane in Sicily.

The regions' decision to implement the ERDF via financial institutions is explained by the banks' proximity to local businesses and their experience in dealing with SME support tools. The downside of involving banks is their often limited knowledge of the wider ROP priorities as well as limited experience in dealing with innovation support. Moreover, a conflict of interest can exist between increasing client numbers via grants and ensuring sufficiently thorough control of grant applications.

Existing insights point to the limited effectiveness of ERDF measures implemented via financial institutions. It appears that instead of increasing competitiveness by supporting innovative SME projects, ERDF support was mainly used to address short-term needs for finance in rather traditional areas such as the construction sector. This experience (00-06) has led to a reduction of general SME support tools with a stronger focus on specific SME support in areas such as innovation, research and development as well as the environment (in the 07-13 programmes).

Irregularities have seriously affected ERDF support for Calabria and Sicily, with the two regions accounting for 26% of all ERDF irregularities in Italy (number of irregularities), affecting ERDF

resources worth €47 million. Whilst specific data on irregularities affecting ERDF measures implemented via financial institutions is not available, stakeholder feedback confirms that these measures were particularly affected (especially in Calabria).

Existing evidence shows that organised crime affects the use of public funds in Southern Italy. The situation is particularly serious in Calabria, where organised crime is present in all economic sectors. Wide-spread corruption, organised crime's hold over local businesses in Calabria and existing investigations suggest that this also affects ERDF measures implemented via financial institutions.

What are the implications for 07-13? The 07-13 programmes have introduced important improvements with regard to programme design. There is no more general support for competitiveness via financial institutions as during 00-06. The focus is now on specialist support supporting SMEs in the areas of innovation and the environment, as well as financial engineering (e.g. the 'Jeremie' initiative).⁵⁶ Moreover, the SF authorities' control mechanisms have improved.⁵⁷ However, considering the continuing staff constraints,⁵⁸ and the threat posed by organised crime, it must be doubted whether future SF implementation will fare any better than in the past (with the situation more serious in Calabria than in Sicily).

3.2 Recommendations

Note that recommendations are valid to varying extent (e.g. more for Calabria than for Sicily) for all the Italian Convergence regions.

Capacities - Ensure systematic capacity building at all levels

As already noted in the previous assessment in early 2008, Calabria and Sicily have addressed human resource constraints, and besides improved cooperation / coordination mechanisms, an impressive series of capacity building measures has been launched (e.g. to strengthen the areas of monitoring and financial control). It is now required to maintain the capacity building effort

⁵⁶ Jeremie stands for Joint European Resources for micro to medium enterprises and is implemented in cooperation between the EC and the European Investment Bank

⁵⁷ Blomeyer & Sanz, The Structural Funds in Southern Italy - Focus on Calabria and Sicily, March 2008, page 25. However, the final assessment for 07-13 is still due: DG Regio feedback of 26 January indicates that the compliance assessment is still outstanding (Sicily has submitted its system descriptions in September 2008 and Calabria has not yet submitted the description).

⁵⁸ *Whilst feedback from Sicily indicates that staff levels are now adequate (in 00-06, TA resources were used to develop staff capacities), the ERDF administration in Calabria continues to experience human resources constraints (with significantly lower ERDF administration staff numbers than in other regions), and the Ministry of Economic Development notes that this is likely to threaten performance in 07-13.* Ibid, page 21

throughout the 07-13 period, and also ensure that capacity building benefits not only public administration but also the final beneficiaries. In this context, the comparatively low allocations for Technical Assistance might limit the extent of capacity building (2% of ERDF resources in Calabria and 1.14% of resources in Sicily; this compares with 2.8% for Italy and 3% for EU27).⁵⁹

Control - Intensify the auditing of EU support

In 00-06, Calabria and Sicily have experienced weaknesses in relation to ERDF monitoring and financial control, and the scope of SF-related irregularities / frauds is a serious concern. In this context it is recommended that the two regions are audited more intensively (more frequent audits / larger control samples). In relation to the handling of irregularities / frauds, OLAF recommends a further strengthening of the cooperation mechanisms between the relevant Member State actors and their counterparts in the EC DG Regio and OLAF.⁶⁰ In this context, the monitoring of the situation in Calabria and Sicily would benefit from a more detailed presentation of data on irregularities in the OLAF annual reports (breakdown of irregularities by Member State, fund concerned, region etc.).

Cooperation - Promote the presence of EU support

The EU institutions' relations with the SF authorities in Calabria and Sicily should not only centre around control issues. The significant efforts underway in both regions should be promoted via a stronger presence of the EU institutions in the regions, e.g. by organising DG Regio events in the regional capitals of Catanzaro and Palermo. Showing presence on the ground can only contribute to raising the profile of the regional SF administration and show that the administration does not stand alone in its efforts to enhance legality. In this context, particular support should be provided to civil society efforts against organised crime.

Consequences - reflect on the future design of EU support

One specific comment: The financial institutions' 'commitment' to thorough control of applications and payment requests is related to their own stake in the concerned operation. Future SME support mechanisms should always foresee that public funds are 'accompanied' by the banks' own funds.

⁵⁹ Blomeyer & Sanz, *The Structural Funds in Southern Italy - Focus on Calabria and Sicily*, March 2008, page 30

⁶⁰ The European Parliament Committee on Budgetary Control report on 'Protection of the Communities' financial interests – Fight against fraud – Annual reports 2005 and 2006' of 25 January 2008, also notes the need for closer cooperation, e.g. *'between the European Court of Auditors and the national and regional audit bodies with a view to increasing the use of their reports to monitor the utilisation of EU funds in the Member States'*. Note however, that GdF feedback indicates that cooperation with OLAF is very well developed.

In more general terms, when considering the limited effectiveness of ERDF-funded SME support to date (00-06), and the continuing constraints on effectiveness in the ongoing programming period (limited regional administration resources to guarantee the legality of ERDF support in the face of organised crime),⁶¹ the question arises as to whether ERDF support (and EU support in general) can continue to be delivered in its 'traditional' form. The present assessment can only point to the need for a more in-depth reflection involving all regional (public administration and socio-economic partners), national and EU stakeholders.

The need to reconsider the delivery of ERDF support is all the more urgent in the light of the economic crisis. First tendencies of moving back from the emphasis on innovation to more traditional SME support might ease economic hardship in the short-term, but are unlikely to address any of the structural problems the South Italian regions are facing.

⁶¹ Organised crime is considered to be particularly 'skillful' in adapting to changing environments, and there is first evidence of organised crime taking an interest in energy, one of the priority areas under the 07-13 ERDF programmes. Commissione Parlamentare di inchiesta sul fenomeno della criminalità organizzata mafiosa o similare, Relazione annuale sulla 'Ndrangheta, 19 February 2008, page 110

Annex 1 - Bibliography

This annex includes references for the literature used in preparing the present assessment (chronological order).

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Annex 2 - Stakeholder consultations

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