Stories of Municipal Innovation:
Implementation of EC Policies in Southern Italian Cities

by
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Submitted to the Department of Urban Studies and Planning
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Abstract
Policies and programs funded by the European Commission (EC) provide an important
development opportunity for less developed European regions. In Southern Italy however,
regional and local governments face significant problems in planning and executing EC-funded
development programs. Historical and current analyses show that these problems are a result of
political, strategic, and technical capacity constraints.
This study examines how Southern Italian municipalities are taking advantage of the first EC-
funded program initiative specifically targeted for urban areas. The analysis focuses on the
municipal capacity to introduce innovation to: 1) expand the scope of municipal tasks to
implement economic development projects, and 2) adjust their organizational and bureaucratic
practices to comply with the administrative procedures and performance standards required
by the EC. The study primarily draws on one case study, a municipality that has successfully
managed the program, with additional empirical evidence from three other Southern Italian
municipalities. Based on my findings, I argue that the implementation of EC programs can
improve municipal efficiency, partially explained by the EC’s capacity building processes. What
is more central, however, is that developmental outcomes and institutional learning success is a
function of a municipality’s ability to: a) build the EC-funded program on former municipal
development initiatives; b) balance the innovation content within project schemes (e.g. in terms
of targeting, integration with other program components, and participatory implementation) with
the municipal capacity to implement them; c) comprehensively manage and coordinate the
program, limiting sub-contracting of program activities to external consultants; and d) build the
necessary political support to actively negotiate with the EC and the Italian national government.

Thesis Supervisor: Meenu Tewari
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Many people in Italy, in the United States, in Guatemala, and in other parts of the world have taught me how to look and understand what happens around me. Particularly, one among them, has recently transmitted me the habit to obsessively ask myself *why* something happened, *why* it is important, *why* should we care: I am especially grateful to Meenu Tewari, my thesis advisor, not only for her faith and fundamental guidance, but also for this attention that, I believe, will go with me. I also thank my reader, Richard Locke, for his insightful comments and honest encouragement. I also thank the Department of Urban Studies and Planning at MIT for funding field research in Southern Italy.

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CHAPTER 1

DO EC POLICIES IMPROVE LOCAL INSTITUTIONAL CAPACITY? AN ANSWER FROM SOUTHERN ITALIAN MUNICIPALITIES

Centralized policies and local institutional efficiency. A brief introduction to Southern Italian governance.

Conventional wisdom describes Southern Italian local governments\(^1\) as ineffective in managing their public finances, defaulting in delivering public services, innovation-averse, and reluctant to change. Robert Putnam finds Southern Italy’s regional and local government ineffectiveness to be highly related to and defined by the lack of social capital or ‘uncivicness’, otherwise known as a vicious cycle of mutual distrust between public and private actors, of institutional dependence on the central government, and of economic stagnation (1992:181).

The prevalent explanation for institutional weakness in the South, however, focuses on the perverse effects of a half century of centralized policies on the public-private relationships at the local level. Leonardi (1995) stresses that the state patronage has enhanced the development of

\(^1\) The Italian constitution refers to three levels of local governance: the 20 regions; the 95 provinces that form an intermediate level and have certain powers assigned them by law; and the 8067 municipalities, the lowest level, which is responsible for tasks concerning the local utilities, the maintenance of primary and secondary schools, cultural and leisure activities and social affairs. The activities of the regions are monitored by central government; those of the provinces and municipalities by the regions. An EU study categorize Italy as a ‘regionalized state’, even though central government’s power to enact outline legislation severely restricts the regions’ ability to pass their own legislation and to be administratively autonomous (Wiheler and Thomas Stumm 1995:239).
personal, clientelistic practices, and that the dysfunction of local institutions has ultimately prevented economic development:

The relationship between the market and political institutions has not been regulated by a system of distinct functions where every component of society has its role and autonomy from the rest. Rather, there has been a mix of private and public functions that has served to create dependent relationship between the market and the state (Leonardi 1995:163).

In other words, dependency has sprung from the excessive intervention of the central state that—even though has achieved increases in the income and consumption levels—has shaped a socioeconomic and institutional environment that is detrimental for endogenous economic development and for the autonomy of local governments.

Furthermore, Nanetti (1993:118) describes the role of local governments in Southern Italy as being focused on alleviating unemployment by creating (often useless) positions in the public sector, rather than to provide efficient services to the citizens. Based on the figure that Southern population accounts for 34 per cent of total Italian population but for about 70 per cent of civil servants, Cassese (1993:322) stresses that the Italian public sector carries the burden of essential ‘goods’, such as social peace and work for unskilled, mostly Southern workers.

The authors cited above emphasize the self-reinforcing nature of the vicious cycle between political, social and economic institutions, and they seem to have little confidence in the inversion of these dynamics. Other scholars of Southern Italy take the debate further and identify a possible path of change in the pattern of development in the South. In his insightful analysis of socioeconomic dynamics in the South, Trigilia (1992, 1995) stresses that central intervention has failed to foster an autonomous development and has caused political and economic dependence of local governments and society from the center.
The author identifies an increased local autonomy as the main tool to spur the mobilization of local society. This path does not imply renouncing to central intervention. Rather, the key point is to ‘reconcile’ redistributive central intervention and local efficiency in both the private and the public sectors:

A new equilibrium between [central intervention and local efficiency] is needed. This seems to require difficult innovations: a stronger civic society, a responsibilization of the local political class, an increase in decentralized governance capacities (1992:9).

These innovations pass through the reconstruction of local governance by improving both the willingness of local political élites to commit themselves to the production of collective goods and the capability of peripheral bureaucracy to implement such policies (Trigilia 1995:21).

By documenting cases of good governance in Southern Italy, my research proofs that central development policies and local governments’ efficiency are not characterized by an ‘either/or’ relationship. The analysis of the local implementation of the Urban program –a development initiative program promoted and co-financed by two central institutions –namely the European Commission (EC) with the support of the Italian central government– in Southern Italian cities shows that this centrally promoted policy initiative is improving the programmatic and implementing capacity of municipal governments. Specifically, field research on program-related processes in four Southern Italian cities (i.e. Cosenza, Naples, Bari, and Salerno) has revealed that:

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2 Bu focusing on a specific EC program, this study does not consider similar centrally-promoted and locally-implemented policy initiatives (such as the so-called ‘territorial pacts’) currently promoted by the Italian central government that link the availability of central funds to the local capacity of planning customized development strategies and raising matching resources within public/private partnerships.
• Extensive municipal responsibility in the management and implementation of the *Urban* program is directly and indirectly improving municipal strategic and technical performance.

• The relationship between central institutions (i.e. the EC and the Italian central government) and local actors in Southern Italy is not necessarily one of paternalism and idle dependence. Rather –under given political, strategic and procedural conditions– local governments act autonomously and proactively in negotiating locally-selected development strategies with central institutions, which, in turn, can be flexible and incremental rather than rigid and formalistic in taking funding decisions and in helping local governments to overcome their institutional and technical constraints.

This first chapter provides an overview of EC’s development policies and outlines some of the impacts on the local governments implementing these policies as described in the literature. Further in the chapter, the *Urban* program, the policy initiative considered for the case study analysis, is described in detail.

**EC policies and institutional empowerment: explaining the connection**

Since the mid-1980s, the European Commission (EC) has progressively increased its commitment to reduce socioeconomic disparities between European countries and regions. EC regional policies are intended to redistribute financial resources made available by member-states
toward regions characterized by structural or contingent development deficits, such as high unemployment, low per-capita income, or industrial decline.\(^3\)

Resources for these policies come from the Structural Funds\(^4\), particularly from the European Regional Development Fund (ERDF), which—created in the mid-1980s—at the EC level is administrated by the General Directorate for Regional Policies and Cohesion (DG XVI).

At the national and regional level, despite central governments retain a considerable gatekeeping role\(^5\) in the decision-making processes related to EC development policies (Anderson 1990:418), regional authorities (hereafter referred to as the ‘regions’) have a key responsibility in shaping the success or failure of ERDF programs. The regions, indeed, choose the operative guidelines; allocate funds to sub-regional governments and nongovernment actors; and select the tools, the localities, and the project objectives of the EC-funded development programs.

In the ERDF management, the regions must comply with the EC standards in terms of procedural, administrative, and evaluation requirements. Their hardest task, however, is mobilizing and ensuring that the additional matching funds (which generally amount to 50% of the total program or project investment) are actually invested and disbursed by the local partners.

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\(^3\) EC regional policies concentrate the most significant amount of resources in two target areas. First, the Objective I regions (“regions in development delay”), whose income level is below 75% of the EU average. For the 1994-1999 period these regions received 67% of the total Structural Funds. Objective 2 regions (“declining industrial regions”), whose unemployment rate and industrial employment rate are above the EU average. These regions are granted 11% of the total Structural Funds (EC 1998). Other EC objectives are long-term and youth unemployment (3), industrial change and adaptation (4), rural development (5b).

The Community Support Framework (CSF) establishes the time horizon and the program elements of EC regional policies. After having experimented with the first 1989-1993 CSF, European regions are currently implementing the second framework that covers the 1994-1999 period.

\(^4\) During the 1994-1999 CSF, the Structural Funds amount to ECU 154.5 billion, or 0.3% of European GDP.

\(^5\) The Italian central government—besides directly leading some sector-specific or interregional programs—participates in different phases of the regional planning and process. For instance, depending on the type of program and on the regions’ need for assistance, central government provides general strategic guidelines, coordinates regional and national policies, intermediates the funds transfers from the EC, and controls the conformity of regional routines to EC procedures.
These features highlight that, on the one hand, EC financing and policy schemes represent a dramatic development opportunity for less developed regions. On the other hand, their implementation requires political commitment, technical and administrative skills, effective information dissemination, and the institutional capacity to build partnerships with private actors based on performance standards and development goals. If we embed these conditions in the institutionally weak reality of Southern Italy, it can be stressed that productively using EC resources implies undertaking the ‘difficult innovations’ advocated by Trigilia, namely an autonomous, bottom-up and proactive attitude of local governments. Given that Italian local governments –particularly in Southern Italy– lack the stock of skills and experience needed to implement EC policy schemes, the question becomes whether or not they acquire them throughout the implementation process. In other words, what institutional and socioeconomic factors must be in place for learning by doing to occur?

There are different ways to analyze the direct and indirect effects of the implementation of EC development schemes on local governments. One (e.g. Anderson 1990, Putnam 1992, Leonardi and Nanetti 1993, Nanetti 1994) focuses on local governments that are already responsive to the public, are cooperating with the private sector, are relatively independent from the central government’s financial transfers, and are efficient and innovative in service delivery. Based on their high stock of existing capacity, these local governments have successfully implemented EC-funded programs and have utilized them to nurture the already self-sustained processes of socioeconomic development and institutional empowerment. Some of the scholars
(e.g. Leonardi 1995) that focus on the achievements of resource-rich local governments also stress that, in less developed areas such as Southern Italy, the historically poor performance of local institutions and their widespread clientelism, will prevent EC policies from shaking the public and private sectors, keeping them locked into their perverse interactions. By interpreting change in a quite deterministic reading, this vision condemns regions with weak institutions and socioeconomic structures to a path-dependently doomed bad government (Tendler 1997:145).

A different perspective is aimed at pinpointing the dynamic effects of the limited but significant exogenous shock induced by planning and implementing EC policies in these less developed local realities. For instance, Sabel (1996) highlights the virtuous sequences of policy innovation that EC initiatives have triggered in underdeveloped rural and urban areas in Ireland. Two insights from this study are particularly meaningful when examining the role of local governments in the implementation of these successful development initiatives:

Throughout the 80s, Ireland had, by any measure, a centralized system both of social welfare provision and of disbursing funds for economic development. As a result of this centralization, local government atrophied (Sabel 1996:8).

This argument of strong central intervention driving to local efficiency has a strong resonance with the Southern Italian one described above. As a response to this local institutional weakness, Sabel continues by mentioning how, to fully unbind their experimental power, Irish local partnerships were implemented outside of local governments: they were launched under unusually flexible institutional and economic conditions, and EC funding allowed them to be

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6 The author considers the implementation during the 1990s of 38 EC-funded local partnerships aimed at economic and employment growth. The partnerships received funding from EC programs called “Community Program Initiatives”, which account for about 10% of Structural Funds. Three distinctive features characterize the Initiatives. First, they foster the adoption of innovative technologies or organizational modalities in targeting economic sectors, social groups, or organizational modes. Second, to ease innovation they are characterized by more flexible administrative and institutional schemes. Third, in most cases the implementing actors (local authorities, and/or private actors) have a direct relationship with Brussels, by-passing the regional layer of government that usually
autonomous from all layers of government. Even while mentioning local governments as important actors, Sabel stresses that the relative independence of the EC-funded partnerships from local governments was beneficial because,

Local government is too limited in scope, constrained in its capacities, and characterized by traditional approaches to oversee within its jurisdiction the effective redeployment of resources provided by the center (Sabel 1996:96).

These limitations in local governance also exist in Southern Italy. Nevertheless, by considering policy schemes where local governments are at the center of the local experimentation process, the study of the Urban program traces a different sequence of local innovation that, when successful, starts within local governments and then involves nongovernment actors. Success—as I will define better later in the thesis—has occurred when the adoption of EC policies has facilitated a process of change and innovation of local governance that goes beyond the program implementation (i.e. empowerment).

Through which channels can policy implementation facilitate institutional empowerment? New policies or program imply the adoption of tools that induce executing agents to act in certain ways rather than others. Thus, the guidelines, regulations and performance standards attached to the use of EC resources, impact the implementing local governments by obliging them to act differently. Even though EC policies usually apply to selected public functions, the revision of static and ineffective praxis makes a broader change possible. For instance, the

mediates between the sub-regional reality and the EC. The Urban Pilot Project that is considered in this research is a Community Program Initiative too.

7 Decisions, indeed, were taken by coordinating boards that included all actors (nongovernment, plus those from central public agencies) with a specific stake in the partnership.
8 Generally inspired by the French Public Administration system.
9 In certain sense, a macroscopic example of institutional reform spurred by EU performance standards is the deep restructuring that has characterized the Italian public sector and economic policies as a consequence of the effort to match the macroeconomic criteria needed to be part of the European Monetary Union (EMU). During the 1990s, by implementing the EMU-driven restrictive fiscal and monetary policies, the Italian central government has leveraged
adoption of EC evaluation requirements, or the mandatory compliance with EC regulations of transparency and fair competition in public bids and tenders, are decreasing the room for decisions on public projects merely driven by political or clientelistic motivations.

Under what conditions did the pressures derived from adopting of EC policies improve agency, accountability, and capacity of Italian local governments? Some scholars have directly addressed this question by considering the different performances of Italian regions in implementing EC-funded development initiatives\textsuperscript{10}. Regional institutional performance is generally measured as the regions' capacity to: a) access and use a high portion of EC funds, and b) undertake initiatives that provide strategic and operational tools that benefit local development beyond the implementation of the EC policies themselves.

For example, by carrying out a six-region comparison (two regions in Italy, and four in France), Smyrl (1997) highlights two decisive factors to explain the variations in regional performance. The first one is 'political entrepreneurship', which defines a strong regional leadership that decides to invest considerable political, informational, and administrative resources in the implementation of the EC funds. The second condition is the existence of 'nested networks' formed by local interest groups. These nested networks are characterized by a high degree of consensus among participants, an even distribution of both concrete resources and self-perceived power, and the ability of leaders to commit to their constituencies. In the cases

\textsuperscript{10} Regional performance is measured according to the amount of EU funds that are mobilized and to the institutional reforms that, though introduced as a consequence of the implementation of EU regional policy, have a broader and long term positive impact on the functioning of the institution and on its relations with the socioeconomic actors.
considered by the author, the simultaneous presence of political entrepreneurship and nested networks has allowed some regions: a) reducing their financial dependence from the central government by accessing a large amount of EC funds and mobilizing private resources, and b) increasing their assets in terms of economic planning capacity. The lack of either of these conditions would decrease regional performance. However, it is interesting to note that Smyrl’s Italian success case is Tuscany, a region whose merits and virtuous have been emphasized, if not idolized, by the whole stream of the ‘Third Italy’ literature. This finding, therefore, might represent the path-dependency problem hinted before, namely that only the regions that are already well functioning, autonomous, and “socially-capitalized”, seem able to fully benefit from the development opportunities offered by EC policies.

In a related study, Smyrl and Piattoni (1998) conducted a similar comparison to explain the different levels of financial efficiency achieved by four Italian regions – two in North-Central and two in Southern Italy – in the implementation of the 1985-1989 Integrated Mediterranean Program, the first EC experiment of integrated (i.e. multi-sectoral and geographically focused) regional policy. The results of this cross-regional comparison somewhat confirms the importance of political leadership:

While institutional capacities provided only the opportunity for action, the political will to use European development funds for the good of the region (and their political

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11 Brittany in France and Tuscany in Italy.
12 For instance, the Tuscany region, pushed by ERDF implementation’s needs, has set up a regional information system for business partnerships and a regional revolving fund for development initiatives that has been widely utilized tools by local actors for development purposes for and beyond the execution of EC programs.
14 The author himself recognizes this problem: “Those [regions that] are better-organized at the outset are now [i.e. after the implementation of EC regional policies] positioned even more advantageously than before to take advantage of the next opportunity for empowerment, whatever form it may take (Smyrl 1997:304).” However, the fact that the Italian “loser” in his comparison is Liguria, a region that is also included in the “civic” Italy, leaves room for the assumption that different factors other than “civicness” are important in defining success.
15 Measured as the portions of the available EU resources that the regions accomplish to commit and disburse.
16 Liguria and Tuscany in the North-Central Italy, Abruzzo and Puglia in Southern Italy.
representatives) was the determining variable. In other words, high institutional capacities may lie dormant in the absence of a clear development will, while a strong political will to develop a region may not only activate existing capacities, but even create them (Piattoni and Smyrl 1998:1).

When confronted with the Smyrl’s previous six-region comparison, this study does provide an alternative to the path-dependency dilemma. By identifying and examining a dynamic regional institution in Southern Italy (i.e. the Abruzzo region), this analysis shows that successful use of EU policies, though related, is not entirely dependent on the stock of local government capacity and on already-in-place efficient networks. Rather, the study highlights that regional cohesion —defined as both clientelistic and/or civic “orderly patterns of political interaction”– can facilitate the liberation of hidden capacities and the creation of new ones.

My study of the Urban program implementation in Southern Italian municipalities contrasts with the above arguments in different ways. First, unlike the findings of the Irish partnerships’ experience, municipal governments are comprehensively managing program implementation in the cities where the Urban program is performing well and facilitating institutional innovation. Second, those municipal governments that are fruitfully using the EC resources, at the time that the program started, could not count on the presence of the nested local networks that Smyrl defines as necessary to fully take advantage of EC funds. Third, even though confirming the importance of political entrepreneurship, this study identifies other decisive factors in creating room for success. For example, two important variables that influence successful implementation of the Urban program are: a) significant municipal involvement in program implementation as opposed to extensive contracting of non-municipal agents, and b) balancing program strategies and operational tools with the existing municipal capacity, avoiding articulated and innovative but unfeasible strategies.
While we will examine these factors in the next chapter, the last sections of this chapter introduce the *Urban* program and set the strategic and institutional stage for the case study analysis in Southern Italy.

**EC policies at the municipal level: the *Urban* program**

None of the European Union fundamental Treaties\(^{17}\) directs a specific mandate for urban policies to the EC. Nonetheless, during the 1990s, the European debate has increasingly emphasized issues of urban development. This attention is justified by the acknowledgment that cities –where nearly 80% of the total European population lives– are the places where social exclusion is more exacerbated, but are also locations of some of the most innovative economic actions in the European Union (EC 1997:45).

Consequently, several EC-related bodies started advocating for a Treaties’ modification in order to launch a new and more systematic EU strategy for urban areas\(^{18}\). In the meantime, the EC –supported by most of European national governments and pushed by several ‘urban lobbies’\(^{19}\)– decided to take action already in the existing regulatory framework\(^{20}\). Therefore, it has instituted a reserve equivalent to 1% of the 1994-1999 Structural Funds resources for innovative urban initiatives. Even though several new EC target programs have indirect spin-offs on cities\(^{21}\), the *Urban* program is the first comprehensive initiative directly aimed at cities, and where municipalities are the implementing actors. The design of the 1994-1999 *Urban* program

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\(^{17}\) The 1957 Rome Treaty followed by the 1991 Maastricht Treaty.

\(^{18}\) For instance, see the Opinion of the Economic and Social Committee on the “Role of the EU in urban matters”, *Official Journal of the EC*, No.C30/97.

\(^{19}\) For instance, *Eurocities* that, formed in 1989, includes about 60 medium-large cities, and *Quartiers en Crise* (i.e. Neighborhood in Crises) that, formed also in 1989, has a network of 33 cities.

\(^{20}\) According to the Commission, the reason why urban policies should have a European dimension is the need to facilitate the framing and dissemination (experience-swapping through European networks) about integrated development strategies (EC OJ 30/97:47).
is based on a pilot experience initiated in 1989 in thirty European cities\textsuperscript{22}. The 1994-1999 program includes 66 cities selected from an application pool of more than five hundred. The program was later enlarged in 1996 to include 94 cities. The allocation of the ECU 885 million allotted by the EU has followed the redistributive pattern of the Structural Funds: ECU 564 million were designated to cities located within regions in ‘development delay’ (i.e. where the per-capita income level is below 75\% of the EU average), and the rest to other regions\textsuperscript{23}. By considering the national, regional, municipal, and private funds that, to a variable extent\textsuperscript{24}, match EC funds, the total financial resources reach ECU 1,544 billions\textsuperscript{25}.

With regard to its strategic guidelines, \textit{Urban} focuses on target neighborhoods within the program cities where socioeconomic exclusion –measured through indicators such as unemployment rate, income level, school dropouts, and percentage of people on public welfare– is particularly sharp. The EU also requires the applying municipalities to prepare integrated plans that overlap and pursue synergies between projects in different operative fields, such as urban infrastructure and environment, business development, training and employment, and social welfare. The emphasis on the integrated approach has a strategic rationale, namely the simultaneous pursuit of economic growth and social equity. However, as the EU itself underlines (EC 1997:50), where local governments’ planning and implementation capacity is good, these two potentially-conflicting objectives can be reconciled by taking in hand and exploiting the direct and indirect effects of the development projects (management of externalities). Where

\textsuperscript{21}For example, programs targeted on employment and vocational training such as Horizon and Now.

\textsuperscript{22}The program is a \textit{Community Initiative Program}, label that indicates those EU programs that complement the EU-funded actions that the national and regional governments implement through the CSF. The main feature of the \textit{Community Initiatives} is in that the EU has a more proactive role in promoting and design the program, and a direct contact with the implementing bodies.

\textsuperscript{23}With a preference for regions in industrial decline (Objective 2), where the indicators referring to the level of unemployment and to the percentage of industrial employment are above the EU average.

\textsuperscript{24}From a minimum of 25\% in the case of Ireland, to a maximum of 70\%.
local institutional capacity to define and implement integrated strategies is poor, the two objectives tend to be mutually exclusive. The EU program guidelines also emphasize that the planning and implementation stages of the programs should be participatory-based.

These guidelines imply that, to successfully implement the program, Southern Italian municipalities must break a series of institutional bottlenecks. For example, unlike other European local governments that have a longer history in adopting integrated and participatory approaches to program implementation, Southern Italian municipalities completely lack this experience. Furthermore, with regard to the integrated approach, Italian local governments are structured along rigid functional lines, where the departments responsible for planning and implementation in different sectors hardly coordinate with each other 26. The case study analysis included in this thesis, therefore, will identify municipal efforts to overcome strategic, administrative, organizational rigidities in program implementation as indicators of municipal learning and innovation.

25 Equal to $1.8 billions.
26 Since the 1960s, some regional, provincial and municipal governments in the so-called Third Italy took initiative to overcome this functionalistic and fragmented approach to regional and urban planning. For an exhaustive story of their important achievements and on the impact of this experimentation process on local socioeconomic development, see R. Nanetti works (1989, 1993, and 1998).
The specific features of the Italian *Urban* program

The *Urban* program in Italy is currently being implemented in 16 cities: 12 in Southern and 4 in Northern and Central Italy. The total resources consist of ECU 337.5 million, of which 41% is represented by EC funds, 50.5% being national and local government contributions, and 8.5% of private sector matching funds. The implementation phase started in 1996 and is anticipated to continue into 1999.

For several reasons, *Urban* represents a new challenge for Italian municipal governments. On the one hand, the program grants them the opportunity to concentrate resources and intervene on different strategic levels in distressed neighborhoods. On the other hand, several program features characterize the program as a novelty with respect to the ordinary municipal responsibilities and procedures, and thereby imply an adaptive behavior on behalf of the municipalities.

For example, innovation concerns strategic aspects (i.e. the integrated and participatory approach) and administrative routines (monitoring, reporting, and evaluating the spending of EC resources). Furthermore, whereas municipal policies were previously limited to urban infrastructure as the social policies consisted in aid given to people and not in priority given to a neighborhood or an area (Le Gales and Harding 1998:140), the *Urban* program includes initiatives of socioeconomic development that represent an absolute new tasks for most of the implementing municipalities. Table 1 schematizes the main program-driven innovations and the municipal changes required to effectively undertake them.

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27 The original number of cities was 13. Three more cities were added as a result of the 1996 program enlargement.
28 All Southern Italian regions are considered Objective 1 regions.
Table 1. Modifications in municipal behavior: the influence of the *Urban* program.

<table>
<thead>
<tr>
<th>Specific <em>Urban program</em> asks</th>
<th>Strategic, organizational, and administrative changes that municipalities are initiating to successfully implement the program</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Complete application to enter the program</td>
<td>Municipalities have prepared their program proposals, which have been revised by EC. This has improved the content quality and the formal aspects of project programming.</td>
</tr>
<tr>
<td>• Conduct technical planning of projects within the program</td>
<td>Even though municipalities autonomously select specific projects, the EC must now approve the technical feasibility of such projects. This external auditing is technically more demanding relative to the projects that were exclusively designed and approved by the municipal. Prior to this auditing, political elements often induced the approval of projects whose technical features and socioeconomic benefits were only superficially assessed.</td>
</tr>
<tr>
<td>• Complete public tenders and bids in compliance with EC regulations</td>
<td>Unlike in the past (when the recourse to clientelistic, non-competitive and cost-inefficient private negotiations was widely used) tenders and bids for the hiring of external contractors must take place according to the strict EC parameters of transparency and fair competition.</td>
</tr>
<tr>
<td>• Financially manage EC funds</td>
<td>Municipalities have adjusted accounting, reporting, and ex-post assessment procedures according to EC requirements. Municipalities are now required to monitor spending allocations to continue EC financial support and to ensure consistent implementation of projects. This imply change and improve the municipal administrative and documenting standards.</td>
</tr>
<tr>
<td>• Establish stable communication channels with the EU</td>
<td>Effective communication with the EC is central to: receive prompt feedbacks and opinions on implementing the <em>Urban</em> program; learn of other EC-promoted programs; participate in the networks that lobby the EC and disseminate “best practices” across Europe; and facilitate the information flow about European Union opportunities to the citizenry. In recognition of these benefits, some municipalities have created specific bureaus whose only function is communicating with the EC. Certain municipalities also opened European Union-orientation counters for the public to acquire information.</td>
</tr>
<tr>
<td>• Integration of programs</td>
<td>This requires revising the rigid functional division for sectoral competencies that characterize the municipal structure, and the establishment of procedures to facilitate strategic, operative and technical coordination between different municipal departments.</td>
</tr>
<tr>
<td>• Participatory planning</td>
<td>Municipalities have to activate and involve the existing socioeconomic networks (composed by actors such as unions, chambers of commerce, and grassroot, neighborhood, or producer organizations). In their absence, some municipalities have had to encourage the creation of organizations, particularly at the neighborhood level.</td>
</tr>
</tbody>
</table>

29 The 1999 deadline determines the possibility to commit funds. Year 2001 is instead the ultimate deadline for executing payments relative to funds committed by 1999.
Plan and implement economic development and vocational training policies

Before Urban, municipalities had never undertaken development initiatives for business creation and assistance, nor for employment and skill creation. With Urban, municipalities are now determining strategic and operative goals and the specific tools to implement these policies. They are also identifying the municipal offices or non-municipal actors to implement the programmed economic development initiatives.

The institutional and financial features of the Urban program in Italy were established in 1995 with a multi-party negotiation between the two central institutions (the EC and the Italian central government) and the municipalities. The decisions reached in this preliminary stage tried to anticipate the problems that were expected to occur during program implementation.

On the financial side, the Italian government and the EC agreed to minimize the portion of municipal contribution to the overall program budget. Municipal limitations in: taxing autonomy, collection capacity (particularly in the South), latitude to divert resources from one budget item to another, and, ability in mobilizing private resources, are the factors that have prevented central institutions to require a larger municipal financial commitment. Accordingly, national contributions to match EC funds (41% of total funds) are mostly represented by transfers from the Italian central government, which provides municipalities with over 35.5% of program’s total funds. The local governments (15%) and private sector (8.5%) contributions, moreover, are often nominal financial values that hardly represent newly mobilized cash resources. For instance, municipal contributions are generally obtained by formally re-naming funds already dedicated to the program neighborhoods as Urban resources.

On the institutional and organizational side, the 16 municipal sub-programs are formally combined in a single national program, called Urban/Italy. Unlike other European governments that opted for the complete decentralization of the program and formal separation of the single
municipal initiatives, the Italian central government decided to keep the Ministry of Public Works (MPW) responsible for Urban/Italy. This decision was an attempt to avoid what had happened in the recent past, when Southern Italian regional authorities left Structural Funds unused, and thereby lost them as a consequence of EC regulations. The central government was concerned that Southern Italian municipalities lacked the capacity to implement the new technical standards and administrative procedures that are required to manage and spend EC funds. In the case of the separated municipal programs, municipalities would have responded directly to Brussels for their inefficient spending and, in the instance of financial cuts to low-spending cities, the redistribution of unused funds would likely be diverted from Italy to more financially-efficient European cities.

The institutional framework established for Urban/Italy, instead, allows the MPW to serve as an interface with the EC. The MPW coordinates the technical assistance provided by private consultants to the implementing municipalities; jointly with the EC, it controls, sanctions and eventually requires modifications to the strategic, operational, and administrative program decisions made by the municipalities; and, being formally responsible for Urban/Italy toward the EC, it manages the transfers of EC funds between Brussels and the program municipalities. With respect to this last point, the EC evaluates the financial efficiency of Urban/Italy according to indicators that aggregate the expenditure performance of the 16 Urban cities. Thus, this program

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30 Germany, United Kingdom, and France. Interestingly, the same more centralized is used in two other Mediterranean countries, Spain and Greece.

31 The Italian government appointed the MPW as the Urban/Italy coordinator and supervisor in the beginning of 1997. Until 1997, the Presidency of the Council of the Ministries has been the Italian government’s bureau that followed the Urban program application, selection, and start-up phases.

32 For instance, in the case of the Integrated Mediterranean Programs (IMP), Southern Italian regions such as Sicily, Campania and Calabria have lost a large part of their allocations to areas in France due to their inability to spend the money in the manner and time dictated by the EU (Leonardi 1995:164). The overall figures for the IMP show that only 28% of total resources have been used (Piattoni and Smyrl 1998). Furthermore, at the end of the 1989-1993 Community Support Framework, only 73% of the committed funds were actually spent (Bodo and Viesti 1997:62).
design also allows the MPW to re-allocate funds from municipalities that are unable to spend the allotted resources to those municipalities that are spending fast and want to broaden the range of program activities.

In sum, despite the significant degrees of municipal strategic freedom, the structure of central-municipal relationships in the *Urban/Italy* program reserves to the central government (through the MPW) the role of a gatekeeper that undertakes critical intermediations between municipal governments and the EC. The central government’s control and supervision on program processes at the municipal level, however, does not mean that *Urban* program’s innovation in terms the of decentralized decision-making is nullified. This study does not interpret power distribution between central and decentralized actors as zero-sum game, where, to each increase in central government attribution, correspond a decrease in local autonomy or viceversa. Rather, as shown by other European experiences (e.g. the UK case, in Anderson 1990:433), successful cases of decentralized implementation of EC policies are often based on considerable central governments’ efforts to compensate for local governments’ administrative and information weaknesses, and to make sure that they are able to take advantage of the EC system. True, to a certain extent the interventionism of the MPW in the local implementation of the *Urban* program springs from its mistrust in municipal capacities. Nevertheless, as demonstrated in Tendler’s studies on Brazilian decentralized policies (1997:149), it can happen that precisely *because* central government is on the scene as a mistrustful actor that the local content of decentralized development programs can do better and expand. Moreover, the results of the first three years of program implementation have confirmed the concerns of central institutions for the *Urban* municipalities did not seem at their ease in using EC resources.
The 1998 program scene: implementation problems and positive exceptions

Central institutions have not overstated their pre-implementation emphasis and negative expectations on municipal financial efficiency. Figures from the first years of program implementation have confirmed the concerns of the EU and of the Italian central government on the programmatic and expenditure ability of the Urban municipalities. Table 2 compares the 1998 financial indicators as programmed in 1995 to the actual figures for committed and disbursed funds after three years of program implementation:

Table 2. 1998 Expenditure delay after three years of program implementation of Urban/Italy

<table>
<thead>
<tr>
<th>1998 Committed Funds</th>
<th>As Programmed in 1995</th>
<th>Actual*</th>
<th>Expenditure Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Thousands of ECU</td>
<td>253,788</td>
<td>131,809</td>
<td>-121,979</td>
</tr>
<tr>
<td>- As a % of total funds</td>
<td>75.2%</td>
<td>39.5%</td>
<td>-35.7%</td>
</tr>
</tbody>
</table>

*The 1998 actual figures are updated at September 1998.

Table 3. 1998 Payments pace after three year of program implementation

<table>
<thead>
<tr>
<th>Actual Level of Payments (i.e. disbursed funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Thousand of ECU</td>
</tr>
<tr>
<td>- As a % of total funds</td>
</tr>
<tr>
<td>- As a % of committed funds</td>
</tr>
</tbody>
</table>


These financial figures show that, in average at the end of 1998, the municipalities were failing to meet the programmed expenditure levels, which, in turns, means that they were lagging

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Committed funds reflects the capacity of the program municipalities to identify projects and break them down into detailed expenditure items. The payment level refers the portion of committed funds that is actually disbursed, and
behind with their project implementation timetable. To spur spending, the Urban Surveillance Committee (composed by the MPW and the EC) implemented policy modifications that did three things: 1) established minimum thresholds for program payments; 2) cut funds to very-low-spending cities; and 3) re-allocated funds to cities that spend above the programmed pace, and which thereby are rewarded with additional resources. In 1998, two cities (Rome and Catania) experienced cuts, whereas Cosenza –the case study municipality– was granted additional funds.

Indicators of low spending by municipalities may reflect different kinds of difficulties related to program implementation. Problems can spring from different type of constraints: internal to the municipality (e.g. administrative or bureaucratic inefficiencies), strategic and technical (e.g. municipal inability to carry out complex projects), coordination (e.g. municipal difficulties in coordinating with contractors or central institutions), related to central institutions’ decision-making process (e.g. EC’s or MPW’s delays in fund transfers), or simply induced by a particularly difficult territorial and socioeconomic reality in the program neighborhoods (e.g. heavy infrastructure decay; diffused illegal and criminal presence; or mistrust of program beneficiaries toward the municipal calls for participation in development projects).

Particularly, some municipalities are experiencing a mismatch between the technical complexity implied by the selected projects and their capacity to carry them out. For instance, when one municipality prepared an underground parking project. The EC required a cost-benefit analysis. The city modified the analysis and did not include the demand-side analysis, which was not accepted by the EC. The city then decided to set the project aside, after a significant waste of time and resources. The difficulty in matching the technical capacity available at the municipal

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1 The minimum threshold for 1998 establish that payments must overcome 11% of committed funds.
level and the difficulties of complex and/or innovative projects within the short deadlines established by the EC are leit-motif of the Urban program in Italy (Laino 1998:111). As shown in the study analysis included in the next chapter, a balance between these elements can be achieved through a careful sequencing in project interventions, where complex and innovative features increase as technical and institutional capacities in the municipal body improve.

Other delays in the spending of program resources arise from the usual problems lack of coordination and fluidity in the municipal decision-making process. For instance, the municipality of Naples drafted a call for bids to receive investment grants and loans for the artisan sector. After the municipal council approved it, the municipal program officers then learned that the announcement should have been preceded by a former competition to identify the bank that would manage the revolving fund. After the bank had been properly identified and appointed, the artisan incentive bid were forced to wait for several more months before obtaining the council’s re-approval, with the total procedure taking sixteen months. As explained by program practitioners, during this delay the small informal artisans lost trust and availability that Urban field officers had gained for the program (which, however, was later regained even though with considerable efforts).

These two cases exemplify some circumstances that have slowed spending of Urban funds, and that are related deficiencies of local governments that the decentralization literature has talked about for a long, long time. There are other factors however, that drive expenditure performance. For instance, cities that have concentrated their projects in program areas where they possess significant experience (e.g. urban infrastructure or historical building restoration) are spending funds faster than those that have allocated more resources on innovative projects, such as business and employment creation.
Moreover, the EC and the MPW are everything but a perfectly functioning bureaucracy: delays in its decision-making have also impacted the expenditure performance of Urban/Italy municipalities.\footnote{For instance, in November 1998 the EC's DG XVI had not yet released an opinion requested by Urban/Italy in June on the anticipation to private contractors on the payments for construction works. In the absence of this information, the municipalities cannot pay contractors, and thereby their spending indicators are lower than they would be if EC's decision were taken promptly.}

From the analysis of the 1998 Urban indicators of financial efficiency, we might be left with the impression that Southern Italian municipalities fit the negative stereotypes that stress their inability to foster innovation and improve the range and quality of their planning and implementation skills.

Nonetheless, based on the information presented in this and in the next chapter, there are several factors that illustrate why such generalizations are inaccurate:

- Not all Southern Italian municipalities are the same. While figures shown in this chapter present aggregate data, some municipalities (such as Cosenza and Palermo) are exceeding EC’s expenditure requirements.
- Four of the 16 Italian program municipalities are from Central and Northern Italy, and their expenditure performance is around if not below the Italian average, which implies that the difficulties in the Urban implementation cannot be simply explained with the usual dualistic model that emphasizes the efficiency of North-Central Italian local governments and that equates Southern Italian ones with institutional inefficiency.
- The mere analysis of financial indicators –even though used extensively by the EC for performance assessment and decision making– misses important qualitative signals of municipal effectiveness, learning and innovation, such as the capacity to target and hit
development goals, to activate civic networks, to create the basis for future policy initiatives, or to disseminate information about EU-related opportunities for individuals and firms.

The next chapter addresses these questions through case studies in Southern Italy. The analysis is aimed at understanding under what circumstances and through what processes municipalities are performing well from both a financial and developmental perspective, and have increased their institutional capacity beyond the management of the Urban program. The story of the program in Cosenza municipality – integrated with comparative examples from other three program cities, Naples, Bari, and Salemo – will highlight cases where the implementation process has not only hit important development goals, but has also increased municipal effectiveness. Cosenza represents a punctual but significant example of how an increasingly autonomous and proactive local government, and flexible and understanding central institutions, can cooperate to successfully implement development policies in Southern Italy.
CHAPTER 2

MUNICIPAL INNOVATION IN THE URBAN PROGRAM IMPLEMENTATION:
THE EXPERIENCE OF COSENZA

What are the preconditions for institutional effectiveness in Southern Italy?
General assumptions and unexpected surprises

The experience of the implementation of the Urban program in Cosenza challenges the stereotypes of Southern Italian local governments as being ineffective, idle, and clientelistic. Moreover, this unexpected result takes place in a municipality that is located in Calabria, the most deprived region in Italy: the region has the highest unemployment (25.3%) and the lowest industrialization and per-capita income rates. Some selected figures of Cosenza’s province included in Table 1 reflect this grim regional reality. These indicators highlight development deficits that range from infrastructure to education.

Table 1. Selected Development Indicators in Cosenza’s Province (1996)

<table>
<thead>
<tr>
<th></th>
<th>Province of Cosenza</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>24.7%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Illiteracy Rate</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>General Infrastructure Index</td>
<td>69.3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Istituto Tagliacarne (1998); Bodo and Viesti (1997).
Studies have consistently showed Cosenza as one of the lowest performing municipalities in Italy. Figure 1 presents Putnam’s measurement of ‘Regional and local government performance in Italy’, which ranked the Calabria region and its three main municipal governments –among which Cosenza– the lowest performing of all local governments in Italy. Thus, according to Putnam’s definition of institutional performance (1992:9) and to the variables included in the below correlation (1992:202), Calabria’s municipal governments are guiltily defective, among other things, in implementing school transport, water systems, libraries, trash collection, municipal urban planning policies, or administrative training.

**Figure 1. The institutional performance of Calabria region and Cosenza municipality as reported in Putnam’s analysis.**

![Regional and Local Government Performance Diagram]

- Regional and Local Government Performance
- Em
- Um
- Pi To
- Fr
- Tr Ve Lo Li
- La
- Va
- Ma
- Ab
- Ba
- Pu
- Sa
- Si
- Cm
- *Calabria (Cosenza)*

Local Government Performance
Correlation: $r = .89$

Source: Putnam (1992)
Public finance indicators also underscore weak municipal management of Cosenza’s local tax base. The comparison of fiscal figures of Cosenza and Bologna\(^{36}\) show Cosenza’s high degree (relative and absolute) of dependence on central government transfers and the municipality’s ineffectiveness in enforcing collection of local revenues and fees.

<table>
<thead>
<tr>
<th>Fiscal Indicators</th>
<th>Cosenza</th>
<th>Bologna</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial autonomy</td>
<td>35</td>
<td>68.6</td>
</tr>
<tr>
<td>(local revenues as % of municipal current budget)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial dependence from central govt.</td>
<td>65</td>
<td>31.4</td>
</tr>
<tr>
<td>(central govt. transfers as % of current budget)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency in local revenue collection</td>
<td>44.4</td>
<td>71.7</td>
</tr>
<tr>
<td>(collected local rev. as a % of local revenue base)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ANCI, Associazione Nazionale Comuni Italiani (1998)

According to the literature (e.g. Cassese 1993:320, Trigilia 1995:21, Le Galles and Harding 1998:137, Bird et alii 1998:11), fiscal weakness on the local revenue side implies other capacity constraints on the expenditure side (i.e. ineffectiveness in providing good public services and low propensity to strategic innovation). In other words, this perspective would assume that if Cosenza municipality is unable and/or unwilling to manage its local taxes effectively, it also lacks the capacity to be granted more autonomy in deciding how to spend its resources.

Cosenza’s dependence on public transfers is also underscored by its labor market, which is heavily based on the public sector that provides jobs for 42 percent of the active population (Cosenza Municipality 1995:4). This employment structure fits with the prevalent argument that local government in Southern Italy serves the purpose of alleviating unemployment, and

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\(^{36}\) The figures from the virtuous municipality of Bologna are here listed only to provide a positive yardstick in interpreting Cosenza’s fiscal indicators.
concentrates its efforts to maximize the number of posts rather than emphasize efficiency (Cassese 1993:320)

Thus, the evidence presented so far portrays a picture of inefficient and static local government, and of a fragile and underdeveloped private sector. One would therefore expect Cosenza municipality to be the least likely candidate to adopt the necessary institutional behavior to take advantage of EC opportunities; moreover, given these conditions, one would not expect the municipality to act proactively and creatively to foster urban socioeconomic development. Surprisingly, the processes of the Urban program in Cosenza tells an opposite story of successful implementation. In contrast to these expectations, indeed, I found that in implementing the Urban program Cosenza has succeeded to a surprising degree in:

- Minimizing information bottlenecks to access European-wide information networks.
- Disseminating information to its citizenry about the EC, and as a result creating awareness of the education, work, and financing opportunities in the unified Europe.
- Acquiring approval from the EC to participate in the Urban program, overcoming eligibility and institutional constraints.
- Modifying municipal organization and procedures to maximize program process and outcomes.
- Building program activities on previous municipal plans and policies, rather than merely creating and assembling single projects aimed at justifying the spending of EC resources but with little foundation with respect to a comprehensive vision of urban development.
- Committing and disbursing EC funds well above the average of the other Italian program cities, and therefore being rewarded with additional EC funds.
- Learning by testing, and trying to ‘tinker’ with EC and regulations in order to use an incremental, sustainable approach in adopting the new and demanding strategic, administrative, and monitoring requirements.
- Implement a business creation policy that has financed a total of more than 140 small businesses in the historical center, being capable to step up from the traditional role of the municipality that in the past had never directly dealt with business development policies.
- Integrating infrastructure and social projects within the program period.
- Activating the existing networks of community, cultural, and socioeconomic organizations, and involving them in municipal policy-making beyond the Urban program.

These achievements contradict the portrait of a municipal unresponsiveness provided by the literature and illustrated above. This chapter analyzes Cosenza’s success story in implementing the Urban program. I do it by organizing the relevant points in thematic sections, but also unfolding the chronological sequence that has produced them. To reinforce and clarify the findings from Cosenza’s story, I use evidence from three other cities in Southern Italy that are also implementing the Urban program: Naples, Bari, and Salerno. The analysis will single out the factors conducive to this case of effective local governance in the face of what one would expect due to the difficult socioeconomic and institutional environment.
Breaking bottlenecks: overcoming information constraints

Southern Italian local governments have commonly experienced difficulties in building direct relationships with the EC bureaucracy and programs for their lack of institutional capacity and of political will to invest their resources in EC lobbying. In the early 1990s, Cosenza municipality represented an exception in this scenario: its engagement at the European level shows how the returns to informational and lobbying investments can reward local institutions and communities in terms not only of development resources, but also of opportunities for policy innovation.

Information about the Urban program did not reach Cosenza through formal communication channels from the European Union or the Italian central government. Instead, the municipal staff learned about the Urban program through an European network, called Neighborhoods in Crises. This network –independent by the EC– links 33 European large and medium cities with the aim of creating exchanges and cooperation. In the mid 1990s, these semi-formal inter-municipal networks were very important in disseminating information on urban matters to municipal governments, since the latter were completely disconnected from EC initiatives (which almost exclusively applied to regional authorities). Cosenza was the only Southern Italian member of this continental-wide network, who actively participated in its initiatives.

The participation of Cosenza in Neighborhoods in Crises sprang from the initiative of the municipal agency for public housing, which, with the official agreement of the municipal council, in 1994 applied to enter the network. Then, Neighborhoods in Crises selected Cosenza among a pool of Italian applicants for the quality of two public housing projects focused on decayed suburban neighborhoods that the municipality included as part of the competitive application. The participation of Cosenza in a transnational network is quite singular because
isolation is considered a main cause of poor local governance in the South. Particularly, Calabrian municipalities are also characterized by a peripheral location with respect to the heart of Europe, and, supposedly, by a sort of cultural and economic closure and provincialism. In Cosenza’s case, instead, committed municipal planners of this middle-sized municipality moved (with the municipality sustaining the travel and communication costs) beyond national borders to look for best practices, obtain information to improve their urban policies, and seat as lobbyist-observers in European bargaining tables. Participation in the Neighborhoods in Crises network prompted communication about the openings in the Urban program, as well as support and guidance on how to successfully compete against other cities who also wanted to participate.

Access to horizontal (with other local governments in Italy and abroad) and vertical (with central institutions, such as the Italian government and the EC) information and communication is a key factor for local development for it, first, creates the conditions for inter-municipal partnership and cooperation independently from the state, and, second, it increases the municipalities’ voice and political legitimacy in the national and European milieux where main urban policy decisions are taken. Nevertheless, in 1994, the lack of institutionalized and efficient information channels with the EC was quite common throughout Italy. Many Italian Urban municipalities learned about the program through semi-formal channels. For instance, in two large Southern Italian cities, Naples and Bari, program information reached the municipalities respectively through a high-school principal and a local research center, while the municipality of Salerno received the program information only ten days before the application deadline. Since 1995, after and partly because of the Urban program experience, the situation has changed. Many

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37 Besides Naples, the largest city in Southern Italy.
municipal governments are increasingly investing in human and financial resources (for example, by training people in languages or investing municipal funds to periodically send delegations to Brussels or to international workshops) to ensure a steady informational flow with EC institutions, and to connect not only their staff but also the citizenry to the EC opportunities.

Cosenza is at the forefront in this attempt to tighten relationships with the EC. While I will talk later of issues concerning the changes induced by this effort on municipal organization and practices, it is worth anticipating that Cosenza has created a municipal department with the exclusive task of managing relationships with European institutions on, and beyond, the Urban program. Cosenza is also the first³⁸ city in Southern Italy to have experimented with Info Points Europa. This is a public counter placed in a strategic urban location (beyond the city hall) where the citizenry can obtain documents and bulletins published by EC institutions, and access information on the broad range of EC support and financing (such as enterprise development incentives, education abroad, vocational training, employment networks, etc.).

This effort to overcome informational bottlenecks assumes a special value in public information and education, since is being experimented for the first time throughout Italy in Cosenza, known to be located in the “least civic of Italian regions (Putnam 1992:114).”

The inclusion of Cosenza in the Urban program: an ‘exceptional case’

The Neighborhoods in Crises networking allowed Cosenza to get the Urban program guidelines well in advance to the application deadline. Nonetheless, the municipality did not have an easy task in entering the Urban program. The way in which Cosenza joined the pool of the

³⁸ Also another Urban municipality, Salerno, has implemented this initiative in early times.
Italian municipalities selected for the program does not fit the stereotype of passivity that too often accompanies Southern Italian local governments.

A main criteria for program eligibility, according to the EC, was a municipal population above 100,000; Cosenza, with its 85,000 inhabitants, did not qualify. The other two main cities in the region, Reggio Calabria and Catanzaro (seat of the Calabria’s regional government) were well above this threshold and intended to enter the program.

In spite of its lack of fit with the population criterion, Cosenza’s mayor pushed his political and technical staff to prepare for the program application. The municipality was betting on a clause in the EC official program framework that stated that “in exceptional cases urban areas in smaller cities could be taken into consideration (EC 1996:2).” Thus, to take part in Urban, Cosenza had to present some special problems concerning its historical center (i.e. the selected program neighborhood) and/or particular features in the programmed interventions that would justify this ‘exceptionality.’

While this problem of eligibility was explicitly stated in the program technical requirements, the application procedure hid a political obstacle. The municipality had to submit the program proposal to the Calabria regional government that, after a formal control, was expected to send it to central authorities in Brussels and Rome who would then make the final decision. Cosenza municipality feared this institutional pattern because the municipality of Catanzaro – which Cosenza was competing against for the limited spots in the Urban program – is the seat of the regional government, and was always favored in resource allocation. This apprehension was not misplaced: the regional government transmitted only Catanzaro’s and Reggio Calabria’s
program proposals to the EC, while retaining Cosenza’s\textsuperscript{39}. Cosenza, however, skipped the formal procedure, by-passed the region, and submitted its proposal directly to the EC and to the Italian Ministry of Public Works (MPW). Annoyed by the region’s omission, the two central institutions recognized, first, that Cosenza’s historical center’s indisputable needs presented the “exceptional circumstances” that allowed it to overcome the population criterion; second, the EC also positively evaluated Cosenza’s commitment to urban development issues as witnessed by its participation in the \textit{Neighborhoods in Crises} network. The decisive element for Cosenza’s inclusion in the program, however, was the internal coherence of the proposal prepared by the municipal staff. The quality of the strategic and operative plan included in the Cosenza’s \textit{Urban} application has been later endorsed by the EC and MPW. \textit{Urban}/Cosenza, indeed, was the only program proposal amidst the 16 Italian programs that was not modified by the EC during its strategic and technical conformity control process. After considering all these elements, the EC and MPW decided to include Cosenza and exclude Catanzaro\textsuperscript{40} in the \textit{Urban}/Italy program.

As cited earlier in the analysis, some empirically-based literature as well as a grounded common place stigmatize Calabrian local governments as unable to produce anything close to a well-designed development plan. Differently from what one might expect, Cosenza has instead achieved a high-quality program proposal. What are the factors and processes that made it possible?

The answer is that, unlike in most \textit{Urban} cities, the proposal did not merely consisted in a pool of disjointed project-ideas hurriedly put together to meet the deadlines and enter the \textit{Urban}

\footnote{According to a municipal officer in Cosenza, the omission was due to the fact that Catanzaro was afraid of the high qualitative level of Cosenza’s proposal.}
program. Rather, it was the product of a two-year long planning process based on political commitments that the municipal government had taken in the course of the electoral campaign for the mayor election in 1993: its focus on the city’s historical center, the main intervention guidelines, and in some cases even the single projects were previously outlined in detail. Moreover, when Urban activities started, the municipality was already implementing several projects (e.g. in the housing, public safety, and economic development sectors) some of which were later incorporated in the Urban program.41

Urban/Cosenza has therefore benefited by previous political decisions that had already given rise to a project planning process. The political commitment to implement the development initiatives included in the electoral platform was made more compelling by the fact that in 1993 Italian mayors have been directly elected by voters for the first time. This change in the national electoral rules has given to this new generation of mayors more power for policy implementation, making them more autonomous from political parties’ veto powers and from traditional clientelistic ties (Trigilia 1995:23). This reform also increased the relationship between the mayors’ achievements in terms of local governance and their chances for re-election. This helps to understand why Cosenza’s mayor42 was so eager to implement its political agenda, in doing which Urban was an terrific vehicle to do more. The need to be more accountable to voters in order to increase the chances for re-election produced the political leadership that Piattoni and Smyrl (1998) mention as a fundamental precondition to a successful use of EC funds.

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40 Catanzaro, as well as three other Italian cities, entered the program in 1997 (only two years from the program closure), when the EU decided to include in Urban 30 more European cities.

41 The EC allowed municipalities to place under the Urban umbrella project initiated before November 1994. Accordingly, the municipal expenses relative to such projects disbursed after this date could have been retrospectively incorporated in the Urban budget. As I will explain later, this circumstance has rewarded Cosenza.

42 Cosenza’s mayor was a prominent (although controversial) “father constituent” of the Italian Republic. The “father constituents” are those persons that, in 1947, contributed to discuss, wrote, and approve the Italian Republican Constitution.
Skilled urban planners placed in key positions converted the mayor’s agenda in a politically and technically feasible plan. The city councilor for city planning, managed the political lobbying and promoted the plan in Rome and Brussels. The director of the planning office wrote the plan, also based on its former experience in drafting EC program proposals for he had previously managed, as president of a cultural association, the implementation of an EC-funded Leader program during the 1989-94 period.

In sum, three elements supported Cosenza’s efforts to overcome eligibility and institutional constraints in order to access the Urban program:

- The learning on urban development strategies, prompt information on the Urban program, and lobbying achieved through the participation in the Neighborhood in Crises network have been key in pressuring a favorable decision at the EC level.

- The autonomous behavior of Cosenza’s mayor and municipal staff led to bypassing the Calabria region and directly negotiate with the Italian central government, which, in turn, rather than referring the municipality to the formal bureaucratic procedure, has been flexible to discuss the contents and then accept Cosenza’s program proposal.

- The building of the Urban proposal on a development plan for the historical center that had already gathered political consensus, and whose socioeconomic justification and technical feasibility had already been examined in detail, has increased the strength of Cosenza’s candidature relative to other applicants in spite of the eligibility problem.

As I will point out by examining other aspects of program implementation, the fact that Urban/Cosenza was based on a former political and technical process has allowed advantages in
terms of financial, strategic, and operative efficiency\textsuperscript{43}. Furthermore, because the program was already rooted in local government naturally induced another important decision: to keep program management completely within the municipal body. The next two sections examine the issue of the Urban program management, first, by analyzing the main organizational options adopted in Italy and documenting some of their side-effects, second, by pointing out the results of Cosenza’s choice.

**Who manages what? The role and effects of program organization**

The management of a time-limited initiative such as the Urban program can be undertaken according to various organizational choices. The EC has not identified specific management or organizational guidelines. There are three main organizational models in the Urban experience across Europe (Sampaolo 1998:34). First, the assignment of program management to an existing structure within the municipal body (such as the offices of city planning or social policies). Second, the creation of a special office within the municipality with the exclusive task of managing, coordinating and implementing program activities. Third, the assignment to external local agencies that may be preexisting or new, provided with functional and financial autonomy. This third option –adopted in most of the Irish partnerships described by Sabel (1996), who identifies it as a factor of the partnerships’ success– has been widely embraced by European Urban cities. However, in Italy, the local and central governments –perhaps reluctant to give up some control on program resources– have excluded it this as a reasonable option, and have chosen to assign the program leadership to an office within the municipal body.

\textsuperscript{43}E.g. it has spurred expenditure and facilitated the integrated approach.
Since Urban/Cosenza was the continuation and development of a former municipal policy design on which several municipal departments were already working, Cosenza adopted the first option and appointed the municipal councilor from city planning as well as the city planning office for the managing and implementing the program. Most Italian Urban municipalities shared this organizational choice. Unlike other municipalities, Cosenza did not contract out any of the program components (I will examine the implications for Cosenza in the next section). Several program municipalities, instead, hired non-municipal actors to carry out program components. The rationale behind choosing to contract research centers, consulting firms, grassroots associations, and universities, is to fill a capacity gap: Italian municipalities have a very limited (or even no) experiences in planning for and implementing some activities included in the program. For instance, business and job creation or vocational training components are often contracted out by the municipalities to more qualified actors such as research centers or producer associations.

Contracting out is expected to increase the quality of project implementation. Nevertheless, the Urban process in other cities reveals the negative side-effects of sub-contracting. First, due to the proliferation of implementing subjects external to the municipal body, the program can become fragmented and dispersed. In Naples, where Urban is being implemented in two different neighborhoods, the municipality has contracted out most of the socioeconomic program interventions (such as business creation or vocational training) to a number of external actors, i.e. universities, several artisan and grassroot associations, and private training centers. In doing so, the municipality has failed to establish clear vertical and horizontal procedures of coordination and communication between the different actors, and with the offices responsible at the municipal level. As a result of this coordination shortcoming, for example, the person in charge
for training in the Quartieri Spagnoli program neighborhood is basically unaware of what are doing the training person in the Sanità neighborhood or even the business creation person in his same neighborhood. Therefore, outsourcing can increase program fragmentation by isolating the implementation patterns of program activities that, in the integrated approach, are conceptually connected to each other.

Second, contracting out can have a considerable impact on overhead costs. For example, the business assistance component of Urban/Naples has paid over $100,000 to eight consultants from the four national artisan associations, without having them producing any work that could closely justify the sum. Moreover, in some instances the consultants – lacking engagement to the program and municipal supervision – have also assumed free-riding behaviors that have damaged the program’s credibility among the small artisans in the program neighborhoods. For instance, some consultants only tried to get the artisans to become member of their organization, whereas one of them even presented the Urban incentives as an initiative from its own association. These are very specific cases however, and cannot be generalized (in Naples itself, other grassroot organizations involved in the program are strongly committed to development goals). Nevertheless, they show that involving and paying external actors does not always increase the quality of the service, and can negatively affect the unity and shared goals of program practitioners.

Third, contracting out program activities to external actors reduces capacity building within the municipal body for it prevents civil servants to implement in first person the new strategic, technical, and administrative tasks included the Urban program, and thereby to undertake the trial and error learning process that improves the municipal long-term assets in terms of human resources.
Municipal program management as source of commitment to development goals

Unlike Naples, Cosenza kept the entire planning and execution of the Urban program within the municipality. The effects of the Urban program—and, more in general, of the relationship with the EC—in terms organizational restructuring of municipal offices have increased overtime.

In 1995, a city council deliberation proposed by the mayor’s office set up a coordination body which included the directors of four municipal sectoral departments (the offices for city planning, social services, public works, and financial programming). The city planning office—which has the main responsibility for the Urban program—has then instituted a staff of three people working exclusively on the program. According to the categories pointed out in the previous section, we could therefore say that Cosenza has gradually moved from the first organizational option (assigning Urban to an existing municipal office) to the second one (creating a special office within the municipality). The municipal attempt to coordinate the implementation and institutional aspects for the Urban program further increased in 1997. After the mayor was re-elected, the municipal government has added an Assessorato (a functional councilorship, a sort of ‘municipal ministry’) for the Relations with the EC. This sequence shows that Cosenza municipality has progressively expanded both the political and technical human resources assigned to the implementation of EC programs, and thereby that it acted differently from those municipalities that responded to the increased needs by contracting out tasks to non-municipal actors.

When compared to the contracting out option, the choice to internally-manage all program functions and components (hereafter referred to as the “all municipal” option) presents some comparative advantages. First, as the program staff is already on the municipal payroll, the
program’s overhead costs are significantly lower with respect to hiring external organizations as consultants or contractors for the Urban implementation. Second, since the municipal civil servants that are responsible for different program components work in the same place, this increases opportunities for coordination and synergy. Third, civil servants, by dealing with new tasks and problems, undertake a learning process comparable to what at the firm level is defined as job enlargement. As I will describe better in the next sections, they are learning, for example, how to report expenditures of EC funds, how to prepare public tenders according to EC regulations, and how to think about business creation policies.

This type of learning process—which occurs by implementing EC policies—provides the municipal staff with skills that represent a long-term (i.e. beyond the needs of the Urban program execution) asset for the municipality, and is often leveraged by the increases in individual dedication. Where does this dedication come from? To find an answer, we must first briefly outline what is the usual, consolidated attitude of Southern Italian civil servants toward public office. In the Southern Italy, as a consequence of the relative weakness of the economy, the public sector often represents the only possibility for employment. The first reaction of those looking for a job in the South is to try to enter the civil service. However,

A young civil servant, while happy to have found a ‘place’, will soon become unhappy because he/she is part of a machine that does not work [...] One of the most characteristic traits of Italian civil servants is their high degree of dissatisfaction with the job, organization and the public administration they are working for (Cassese 1993:324).

As a consequence, civil servants’ attitude toward the office is merely a ‘possessive’ one: even though their job is held in very low esteem by society, it provides life-long employment in regions characterized by very high unemployment rates. Many of them have a second job due not
only to the attempt to increase their income, but also to obtain the intellectual satisfaction that is hard to find in the civil service.

The implementation of the Urban program, instead, benefits from two related elements that are enhancing the productivity of civil servants. First, the change in the electoral rules has induced a series of other reforms of the rules that govern local governance. Differently from the past, the mayor has now the power to chose new municipal executive officers, whose contracts are time-limited. The fact that the confirmation of municipal executives depends on their accomplishments in a given time period represents a fundamental incentive to be productive.

Second, the features of EC programs allow municipal executives and lower rank civil servants to obtain professional satisfaction from planning and implementing projects without the frustrations of the past, when underground political games or bureaucratic impediments—by the words of a municipal senior planner—decreed the untimely death of 90% of programs and projects, independently by their quality or by the social need they were expected to respond to.

Instead, the certainty and the decentralized and transparent handling that characterizes EC resources, jointly with the degrees of strategic freedom provided by the Urban program, are engaging municipal executives civil servants in a development process where they feel protagonists of change. Moreover, the European dimension of the program is letting some municipal officers travel to Brussels or to other countries, and spurring some to learn English to be able to communicate with colleagues from other European cities implementing the Urban program.44 The fact that Urban municipal practitioners do extended overtimes, or take personal

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44 As a consequence of this growing commitment, despite the widespread stigma on Calabria’s provincialism, Cosenza organized a three-day long transnational conference in 1997, where representatives from other European Urban cities exchanged their experiences.
responsibilities by breaking the administrative rule to speed the procedures and get things done, all witness the increased care toward development results.

By involving a larger number of municipal executives and other civil servants, Cosenza’s “all municipal” option has had more significant effect in terms of individual engagement to a new way of implementing municipal policies with respect to the municipalities that chose to contract out program activities. I also argue that the choice not to contract out program activities has been central in furthering municipal learning (I will illustrate the sequences and specific cases of the learning process in the next sections).

In sum, while the contracting out option hasn’t always increased the quality of the Urban program and has given rise unintended negative effects, the “all municipal option” has enhanced the quality of municipal human resources.

Why did Cosenza (but also Salerno) dedicate so much political attention and human resources to the program and choose the “all municipal” option? And why Naples contracted out all its socioeconomic program components?

The person responsible for the Urban program in Naples explained the different organizational choices as a result of the size of the municipality, highlighting the very different political and financial relevance of the Urban program in the various cities. Chart 1 highlights this difference in terms of the program’s financial relevance on the municipal budget in three Urban municipalities.

45 Another Urban city, Salerno, has undertaken the “all municipal” organizational choice, and the effects, in terms of civil servants’ engagement, are very similar to those observed in Cosenza.
This argument—basically based on the size of municipalities that receive the same amount of program resources—stresses that a high Urban financial incidence on the municipal budget (Salerno and Cosenza) implies a higher political stake for the local leaders, which may explain a sound municipal control over the program. In turn, this political control gives rise to changes in the municipal internal organization, such as the creation of inter-office coordination bodies for the Urban program implementation, or of specific councilorships for the relations with the EC. On the contrary, a low incidence of the program resources on the municipal budget does not justify re-shuffling municipal departments that have many other priorities, and also create the case for contracting out program activities.

Even though this argument is certainly a reasonable one, it only partially explains the causes of the different organizational choices, and their subsequent impact on the public employees’ engagement in the program’s development. An explanation merely related to budget size, indeed,
does not take into account that, in Cosenza and Salerno, the mayors had put the revitalization of the program neighborhoods in their election program, and that the political and technical staff had already designed and, to some extent, implemented, projects in the area. In other words, differently from Naples, Cosenza’s and Salerno’s municipalities had already undertaken a development challenge with very high potential political returns.

These points are also supported by Smyrl’s findings of regional implementation of EC policies. In the regions that failed to take advantage of EC policies,\textsuperscript{46}

Regional political leaders were described (in some cases by their own administrative services) as “disengaged” or frankly absent. This was reflected by the allotment of administrative resources. Individuals (not offices) responsible for various aspects of European programs in these regions where isolated from each other and perceived themselves as having little influence within the regional administration itself, let alone with outside actors. The priorities of regional leaders lay elsewhere (Smyrl 1997:299).

To conclude, based on the examples from Cosenza, Salerno and Naples, the “all municipal” management of the \textit{Urban} program:

- Springs from the mayor’s political will to comprehensively control the effective implementation of the \textit{Urban} program that, particularly if based on his/her electoral platform, increases the chances for re-election.

- Involves a large number of municipal executives and civil servants that, due to a combination of new incentives and of strategic and operative flexibility, have a professional and intellectual interest in getting things done.

- Facilitates, within the municipal body, a) the learning of civil servants –through their undertaking new tasks and procedures, and through interacting with EC institutions; b) the
coordination in the implementation of different *Urban* program components – through the daily interactions of municipal program practitioners responsible for projects in different sectors.

So far I have described Cosenza’s achievements in accessing and disseminating EC-related information, and in engaging and winning a competition to enter the *Urban* program in the first place. Then, I have analyzed how the municipal organizational structure responsible for program implementation is increasing the case for learning and engagement within the municipal staff. I have also stressed how building on previous policies has facilitated these process outcomes. The next section focuses on expenditure indicators, which represent another measure of Cosenza’s success.

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46 I.e. Provence region in France, and Liguria region in Italy.
The surprising expenditure performance of Cosenza

The European and national institutions consider financial efficiency (measured as levels of committed resources and of subsequent payments within the program period) as major indicator when deciding future resources allocation.

The importance of these financial indicators is not overstated. In their analysis of EC regional policies, Piattoni and Smyrl observe:

[Expenditure indicators] are a more informative source than it might appear at first glance since getting credit for spending program funds is only possible after projects have been designed, approved and implemented, and after the Commission’s auditors have been satisfied that correct accounting procedures were followed (according to EC rules, that do not necessarily match the national practice of a given member state). While low rates of financial efficiency might be attributable to any number of factors, therefore, high rated (relative or absolute) should be seen as fairly strong evidence of a generally well-functioning process (1998:4).

The former chapter mentions the considerable amounts of EC resources that Southern Italian local governments (particularly regions) have left unused since the late 1980s as a consequence of their inability to identify and select investments, to plan projects according to EC standard requirements, and to leverage the necessary matching funds. As highlighted before, the concern that Southern Italian municipalities would perform even worse than regional authorities has induced a relatively strong central control on the implementation of the Urban program. This concern was not misplaced: the end-1998 average figures for committed and disbursed EC funds show that all municipalities lag behind in program implementation. Nevertheless, average figures hide the positive financial performance of a small group of cities. Contrary to what one would expect according to its low public finance efficiency, Cosenza stands out as the municipality that has committed and disbursed more money than any other Italian municipality.
Table 3 shows to which extent Cosenza has committed and disbursed the EC funds during the
1995-1998 period. These figures are compared to the averages from all the Italian Urban cities.

Table 3. 1995-1998 Expenditure Indicators of the Urban program in Cosenza and in the rest of Italy.

<table>
<thead>
<tr>
<th>Expenditure Indicator</th>
<th>Cosenza</th>
<th>All Urban Cities</th>
<th>Cosenza’s Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>-All Program Components</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>34.1%</td>
<td>+65.9%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>36.6%</td>
<td>10.8%</td>
<td>+25.8</td>
</tr>
<tr>
<td><strong>-Business Creation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>17.7%</td>
<td>+82.3%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>77.4%</td>
<td>3.4%</td>
<td>+74</td>
</tr>
<tr>
<td><strong>-Vocational Training and Employment Promotion</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>30.4%</td>
<td>+69.6%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>0%</td>
<td>4.9%</td>
<td>-4.9%</td>
</tr>
<tr>
<td><strong>-Social and Health and Services, and Public Order</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>30.1%</td>
<td>+69.9%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>23%</td>
<td>11.7%</td>
<td>+11.3%</td>
</tr>
<tr>
<td><strong>-Primary Infrastructure and Environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>45.7%</td>
<td>+54.3%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>45.1%</td>
<td>15.5%</td>
<td>+29.6%</td>
</tr>
<tr>
<td><strong>-Implementation and Communication</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Funds / Total Funds</td>
<td>100%</td>
<td>27.6%</td>
<td>+72.4%</td>
</tr>
<tr>
<td>Payments/Total Funds</td>
<td>18.2%</td>
<td>12%</td>
<td>+6.2%</td>
</tr>
</tbody>
</table>


With the exception of the payments in the ‘vocational training’ component, the figures in
Table 3 underscore financial indicators well above the national averages. For all program
components, Cosenza has committed all of its program resources, which means that the planning
and implementation process has been successful in identifying projects, and breaking them down
into detailed expenditure items. The payment level is also relatively high, which implies a good

47 In the EU jargon, the expression “disbursed funds” represents the payments of committed funds. In this paper,
according to the context, I use the expressions “disbursed funds” and “payments” meaning the same thing.
procedural and administrative follow-up to the former and more strategic phase of fund commitment. Table 4 considers payment efficiency indicators for Cosenza and three other Urban cities:

Table 4. Payment efficiency in the Urban program (9/1998) and in the municipal ordinary budget of 1995. Four-city comparison.

<table>
<thead>
<tr>
<th></th>
<th>Payment Efficiency in the 1995 Municipal Budget (%)</th>
<th>Payment Efficiency in the Urban program (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosenza</td>
<td>69.0</td>
<td>36.6</td>
</tr>
<tr>
<td>Salerno</td>
<td>72.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Bari</td>
<td>70.7</td>
<td>7.17</td>
</tr>
<tr>
<td>Naples</td>
<td>78.8</td>
<td>6.17</td>
</tr>
</tbody>
</table>

Sources: ANCI (1998); CERTET at the Bocconi University (1998).

* Actual payments as a % of the expenditure programmed in the 1995 municipal budget.
** End-1998 Payments as a % of total 1995-1999 Urban program funds.

While the first column reports payment efficiency in the 1995 municipal budget, the second refers to payment efficiency in the Urban program updated to September 1998. Ranked last in the 1995 budget payment efficiency performance, Cosenza overturned these results in the Urban payment indicator.

The leading expenditure performance of Cosenza does not necessarily imply that projects have been carried out in a cost-effective way, or that they have reached the intended beneficiaries. Yet it reflects that the projects included in the program have developed close to the plan programmed in 1995, a sound exception in the Urban/Italy scenario, where the poor expenditure performance of most municipalities reflects all kinds of inefficiencies and implementation problems. If for no other reason, Cosenza’s efficiency in spending the allotted resources within the program period can be considered an accomplishment since it has allowed

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48 The implementation of the training component has been quite arduous for all municipalities. The difficulties spring not only from the novelty of the task, but also from the meticulous procedures attached to the European Social Fund that, unlike the rest of the EC funding for the Urban program financed by the EDRF.
the municipality receiving additional funds. At the end of 1998, the EC and the MPW diverted one million ECU, which was cut by the funds of two financially inefficient (i.e. very-low-spending) cities to Urban/Cosenza\(^{30}\).

However, with regard to issues of municipal performance, pointing out the causes of this efficient financial pace can be more telling with respect to its positive effects. In other words, how did the municipality achieve high levels of program financial efficiency?

A possible explanation is that municipal expenditure efficiency has increased, due to EC regulations, as implementation deadlines have become more rigorous and administrative standards more demanding. Considering Piattoni and Smyrl’s observations on the capacity implications of expenditure efficiency, this explanation might imply that EC policies have empowered Cosenza municipality. Still, why has this been the case? And why would this EC-triggered beneficial dynamic unfold in Cosenza and not in other Urban cities?

Once again, the decisive element that made the difference is that Cosenza incorporated the Urban program in a previous development policy implemented in the historical center. With respect to financial efficiency, this circumstance has had two distinct and related effects. First, when implementation started in November 1995, the EC allowed all the Italian Urban cities to consider as program expenditures the payments made after November 1994 on projects that the cities have later included in the Urban program. Hence, since Cosenza had already started to intervene in the historical center (for instance, with the business creation grants), the municipality was entitled to report as Urban expenditures all the commitments and payments relative to

\(^{30}\) The other three cities are those visited during filed research and here used has benchmarks for Cosenza

\(^{30}\) Rome and Catania.
projects already in progress. The retrospective inclusion in the *Urban* budget of previously disbursed municipal funds instantaneously boosted Cosenza’s financial indicators.

The second effect is a spin off of the immediately high financial indicators. The EC transferred to Cosenza the funds relative to the expenditures that the municipality already sustained. Instead of diverting these funds to other activities, the municipality used them as a sort of reserve for the *Urban* implementation when, for different reasons, the MPW or the EC delayed their fund transfers. Therefore, whereas the majority of the other *Urban* cities experienced temporary liquidity difficulties, Cosenza has been able to guarantee financial certainty to its projects that has facilitated the *Urban* strategic continuum and integrated approach, and to avoid costly legal conflicts with building contractors due to late payments. Overcoming liquidity bottlenecks, too, is therefore a further indirect effect of building *Urban* on a former policy design.

In sum, nesting the *Urban* program in a previously identified (and in some cases planned in detail, or even in the implementation stage) urban development policy has:

a) Helped the municipality to achieve high financial indicators that, in turn, recently allowed Cosenza to access additional EC funds;

b) Increased the *Urban* degree of financial freedom that, in turn, has improved the sustained pace of program implementation avoiding bottlenecks and potential conflicts with building contractors.

So far, in documenting Cosenza’s experience, I have mostly expanded dynamics concerning program inputs (e.g. information, access, and organization) and some process outcomes (e.g. financial efficiency). I have emphasized the relevance of building on a previous policy, whereas
issues specifically related to capacity building have surfaced in several points but have not received a exclusive analysis. By focusing on the strategy for business creation in the historical center, the next section examines more closely how municipal learning and innovation have developed during the implementation of this program component. Then, the following and concluding chapter, by underscoring processes of municipal improvements and adjustments in the fields of policy design and administration, validates the words contained in the old Neapolitan proverb, "Nisciuno nasce imparato" – nobody is born "taught."

51 On the positive effect on the integration of different program components, I have an example from Cosenza and a negative counterexample one from Salerno]
CHAPTER 3

PROCESSES OF STRATEGIC AND ADMINISTRATIVE CAPACITY BUILDING

Innovation and municipal capacity. Sequencing in Cosenza’s business creation program

In the division of functions between the central and the different layers of local governments, national laws did not give to Italian municipalities a direct role in designing and implementing business assistance and creation policies. Even the proactive municipalities in the “Third Italy” regions could only promote local economic development through indirect (though sometimes powerful) tools, such as zoning, or through decreasing transaction costs for business operators (e.g. efficient and prompt release of licenses, permits, etc.). Given the weaker institutional and socioeconomic conditions, Southern Italian municipalities have hardly used these limited instruments effectively and creatively.

By allowing municipalities to design and implement initiatives directly aimed at business creation in the target neighborhoods, the Urban program represented a profound innovation with respect to their past experience. The question now becomes whether or not the municipalities have been able to take advantage of this opportunity.
After three years of program implementation, many Urban municipalities were experiencing significant difficulties in promoting the Urban component for business creation (BC). By mid-1998, not only had most cities not started the BC implementation, but also many among them were still struggling to design the operational features of their programs. Planning offices (and the technical assistance organizations contracted by the municipalities) were still trying to identify the appropriate strategic and procedural tools to customize their policy by targeting specific sectors (e.g. artisan, tourist, retail commerce, etc.), and addressing specific problems (e.g. high unemployment, economic informality, limited access to investment and working capital, etc.). The lack of past experience in dealing with economic development policies contributed to the difficulties of managing EC resources. These difficulties are reflected in the average low level of committed (17%) and disbursed funds (3.42%) for the BC component by the end of 1998.

Cosenza’s numbers on BC implementation represent an outstanding exception in this scenario. In contrast to the cited average, by the end of 1997, Urban/Cosenza had committed all available funds, and had proceeded to disburse 77.5% of the relative payments. In end-1998, the municipality had financed more than 140 (half with municipal and half with Urban funds) businesses in the historical center area, approximately 65% of which are new businesses.\(^{52}\)

\(^{52}\) The sectoral distribution of the businesses shows a predominance of bars and restaurants (I join them in the definition “night entertainment”). From a developmental point of view, this sectoral pattern has some advantages. First, night entertainment businesses are often promoted by young people, and thereby foster youth employment and entrepreneurship. Second, they contribute to attract citizens from other neighborhoods and from the city’s outskirts in the historical center, and not only the few tourists that reach Cosenza. The increase in leisure and recreational activities is improving the portrayal of the area. Besides the direct economic value represented by their consumption, the growing presence of citizens is replacing the image of the historical center as a dangerous and decayed place. This process is challenging the misperceptions and biases about Southern Italian historical centers that are often wrong or exaggerated, and –as Porter observes with regard to American inner-cities– severely retard investment and business development in areas with obvious market opportunities (Porter 1997:17).
Moreover, Cosenza is the only *Urban* city that has raised private co-financing for BC. According to official data, the contribution of the private sector represents 39% of BC investments (Bocconi University 1998).

How can we explain this different implementation pace and preliminary outcomes? A first explanation is that Cosenza did not need to plan any new BC intervention for the *Urban* program for it already had one. A year before *Urban* start-up, the city introduced financial incentives for the creation of new businesses in the historical center. While Putnam’s analysis classifies the Calabria region at the bottom of its “legislative innovation” ranking ladder (1992:69), Cosenza is the only among the 16 *Urban* municipalities that had a former policy for BC. In 1994, Cosenza’s mayor decided to use municipal funds to provide financial grants for premises renovation and/or purchase to existing and new businesses located in the designated area. When the municipality incorporated its BC program in the *Urban* program in 1995, it decided not to change the strategy nor the incentive structure of its formerly planned BC initiative.

The features of Cosenza’s BC program are quite simple. The municipality provides grants up to the equivalent of $13,000 for premise renovation. This ceiling increases to $19,000 in the case of premise acquisition. In both cases, the grant can cover up to 60% of the total investment53.

With respect to targeting, the policy only focused on location and pertained to all businesses in the historical center, with the only clause that the grant beneficiaries commit to keep their economic activity in the center for at least five years. The location target, however, was initially very restrictive since the only businesses eligible for grants were those placed on the historical center’s main street (i.e. *Corso Telesio*), which the municipality believed having the highest

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53 However, as we will see in the next section, a series of interesting issues concern the monitoring of the business investment with respect to both private co-financing and use of the municipal grant.
market potential. Nevertheless, for the high number of applying businesses, the municipality first extended the location target to the alleys that flowed into the main street, and then it included the whole historical center area. The policy does not consider other possible targeting criteria, such as employment effects, business viability, sectoral linkages, and resident ownership, income level or past experience in the business. Therefore, beyond the location target\textsuperscript{54}, the Urban/Cosenza BC program is completely untargeted. This is confirmed by how the grant-releasing decision is taken: the municipality does not use any selection criterion except for the most classic ‘first come, first served’\textsuperscript{55}.

Another feature of the BC is that the municipality carried it out without involving non-municipal organizations: municipal politicians and planners did not look for the direct participation of other relevant actors, such as the unions, Chamber of Commerce, or the major artisan association, the National Artisan Confederation \textit{(Confederazione Nazionale Artigianato-CNA)}. Particularly, the CNA could have contributed to increase the artisans’ participation in the BC and thereby their presence in the historical center, an objective that the Urban/Cosenza declared as highly desirable\textsuperscript{56}. Nevertheless, this collaboration did not take place because of

\textsuperscript{54} In some sense, the location target itself becomes quite redundant: the funds from the Urban program must be spent in the historical center.

\textsuperscript{55} An obvious risk attached to the absence of transparent selection criteria is that of clientelistic practices: the bias in a grant decision cannot be proved. Clientelism in the BC program, however, did not seem to be an issue. Probably for a very trivial reason (but not so trivial for replicability): due to the relatively small amount of the incentive, so far the policy has not experienced a shortage of resources. This circumstance has essentially transformed a discretionary (and potentially discriminatory) policy in an automatic one, where whoever applies receives the grant. Nevertheless, Cosenza is not an island of purity in the quite corrupted and politicized Calabria region. During the very last interview I conducted in the city, a high-level local technocrat and former politician (who has had a tremendous stake in the Urban program’s design) told me that strong clientelistic practices have characterized the assignment to private contractors of the program’s public infrastructure and housing-related projects. Unfortunately, I have not had the chance to verify this information, and thereby I do not feel confident to divulge the details of this story. However, if it does happen, these dishonest practices, jointed with the efficiency demonstrated by Urban/Cosenza implementation, may create the empirical combination that Piattoni and Smyrl (1998) have theoretically labeled as “virtuous clientelism.”

\textsuperscript{56} In the program documents and in the municipal rhetoric, the BC program component is called “Program for the recovery of artisan activities”, and is supposedly focused on the ability to “re-locate micro artisan activities in the
information gaps: the municipality never thought of, and looked for, the CNA, nor –despite its developmental activism in Cosenza provincial area– did CNA propose itself as a potential partner for BC implementation.

A further characteristic of the BC program is its functional separation from other Urban program components. For instance, the municipality did not combine its business creation goals with the “vocational training” program component, even though the latter shares with the former obvious strategic linkages. In this case the municipality has not pursued the synergetic effects of the Urban integrated approach.

Cosenza’s BC program, therefore, is almost completely untargeted, non-participatory, and disconnected by other program components. A comparison of these features with those of Urban BC programs in other municipalities sets the stage to analyze the implications of Cosenza’s BC strategic choices. Unlike Cosenza, other Urban municipalities have crafted their BC programs to have:

- **Very specific and innovative program goals.** For instance, the formalization of informal artisan producers in Urban/Naples;

- **Sophisticated targeting criteria.** For instance: a) the sectoral targeting Urban/Bari that anticipates the proportional distribution of the business grants among identified business sectors (artisan, retail, and restoration); or b) the selection criteria for the Urban/Naples’ artisan grants that include factors of employment creation, technological innovation, and inter-firm cooperation, in the grant-release decision;

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*historical center." According to these documents, artisan presence in the historical center is desirable because it would use local productive knowledge to "reconstitute the complex of traditional economic functions that in the past characterized the historical center" (Municipality of Cosenza 1995:41-43)
• **Integration with other program components.** For instance: a) the continuum between the training and BC components planned in Urban/Bari and Urban/Salerno, where the program will first train young people, and then provide them with grants and loans to start-up their business; or b) the connection between the purchase and restoration of a building (infrastructure component) and the creation of a business incubator (BC component) in Urban/Naples.

• **Participatory implementation.** For instance, in Urban/Naples, the municipality has involved the four major artisan association and the artisan bank, two grassroots organizations, and the university.

By comparing it with the BC strategies adopted by other Urban municipalities, Cosenza’s BC program stands out as a the low-profile one. Its lack in targeting specific business sectors, involving external actors, and integrating with other Urban components, could legitimately be interpreted as inability or unwillingness to innovate and take strategic risks. Nevertheless, beyond the pioneering strategic plans, the difficulties of the other Urban cities in implementing their BC projects provide a different reading key. The inefficiencies in capacity and coordination are basic reasons for which, at the end of 1998, the three mentioned cities –Naples, Bari and Salerno– have not financed any businesses yet. For instance:

a) **The implementation of complex targeting and selection criteria can be beyond municipal capacity.**

b) **The integration with different program components can induce huge delay and possibly, jeopardize the BC implementation.** In Salerno and Bari, the difficulties in initiating the vocational training component might compromise the continuum with business creation. In Naples, the negotiation to purchase the building for an incubator is taking considerable time,
and at this point, it is very unlikely that it will be implemented by the Urban ultimate deadline.

c) Participation can become a costly and fragmented co-optation based on political reasons. For instance, in Naples the high number of actors hired to carry out program activities turned out being very expensive for the program and produced limited benefits; it has also given rise to free-riding behaviors on behalf of some non-municipal contractors that used the program to promote their organization’s interests. Ultimately, when participation simply means contracting out program activities giving up the leading role in the implementation process, the municipality also renounces to an important occasion for learning how to undertake new functions by implementing them.

Therefore, innovative and complex BC program schemes –beyond conflicting with the deadlines, the expenditure and administrative standards established by the EC and the MPW– discount the inexperience of municipalities in carrying out these socioeconomic initiatives (Laino 1998:111). In other words, the Urban BC experience witness the downside of policy innovations that overreach the existing capacity.

Rather then shooting for an articulated and targeted plan, Cosenza has instead undertaken a simple BC scheme that allowed the city to implement the policy by the program period and to achieve the important quantitative results mentioned in the beginning of this section. But is it appropriate to argue that this policy has produced these results because of its ‘low-innovation’ content? How do we define and measure policy innovation in this context? To help answer these questions, I must briefly summarize the policy implementation process since 1994.

In 1994, Cosenza municipality has started its own BC program focused on only one street of the historical center. In 1995, it was incorporated in the Urban program and gradually extended.
the location focus to the whole historical center area. The BC has triggered a market process that has brought many different type of economic activities (even though with a concentration of bars and restaurants) to the area. By including all type of businesses as potential BC beneficiaries, the unlimited sectoral focus has allowed the municipality to gather a broader consensus base for its program. The relative simplicity of the policy scheme consented to the municipality to manage it directly. In 1998, (as we will see) the municipality has improved the BC in monitoring and administrative aspects. At the end of 1998, the EC granted additional BC funds the municipality. However, beyond the Urban program, the municipality also decided to expand its engagement in the historical center’s economic development, and applied for a program sponsored by the central government, called the ‘Neighborhood Contract’. Interestingly, the proposal prepared for this application focuses on the most deprived and inaccessible area in the historical center, targets exclusively the artisan sector, integrates building infrastructure and business creation, and has been drafted in joint participation with several non-municipal actors ⁵⁷.

This chronological pattern traces an interesting sequence:

1. As part of the platform proposed to voters by the municipal government directly elected in 1993, the municipality promotes a BC policy before the Urban start-up →

2. The municipality includes the former BC policy in the Urban program →

3. Untargeted and non-participatory policy scheme has allowed easy implementation →

4. Easy implementation contributed to direct municipal responsibility →

5. Direct municipal responsibility lead to institutional learning and empowerment →

6. The municipality now designs targeted and participatory intervention strategies outside the Urban program.

⁵⁷ i.e. the chamber of commerce, the unions, the Committee for the protection of the historical center, and three other
Beyond the BC effectiveness in terms of number of financed business, expenditure of EC funds, and leveraged private capital, this sequence reveals a scaling-up process that is characterizing municipal initiatives for local economic development. In Cosenza’s BC experience policy innovation did not consist in customized and elaborated plans (which unfortunately often risk remaining paper documents). Innovation in Cosenza is based on a sequence that uncovers municipal autonomous initiative, careful assessment of technical feasibility, successful implementation, municipal learning and adjustment of minor features, and, finally, development of new and more elaborated policy initiatives. Sequencing, in other words, has allowed Cosenza municipality to size the policy features not only on the needs of the target area, but also on the availability of local institutional capacity. Since 1994, this balance has improved, and today a more capable municipality is designing more complex interventions to tackle more engaging local economic development challenges. This sequence has entitled the municipality to maximize its learning by doing.

The next two sections are also focused on the learning process related to the Urban implementation in Cosenza. The first one shed light on the changes in the administrative and bureaucratic procedures related to program implementation. The second and concluding section considers civic organization, and describes how the municipality has increased its participatory practices in policy-making.
Learning by applying (and “by tinkering” with) EC standards

An important argument of this study is that the new responsibilities entangled in the Urban program foster municipal learning, and thereby improve municipal capacity.

The last section has documented the sequence that characterized the strategic processes and outcomes of Cosenza’s BC program, and has explained the differences with respect to more ambitious but less effective Urban municipalities. This section provides a different perspective on the BC experience, and describes how the municipalities have coped with the bureaucratic and administrative adjustments needed to ease implementation. In Cosenza, the adjustment has not always been immediate, and in some instances it has occurred after tinkering with EC standards.

The vertical and horizontal fragmentation of political and bureaucratic decision-making—which tends to increase in larger municipalities—complicates the harmonization of municipal practices with the Urban program’s strategic and administrative needs. While the features and the deadlines of the Urban program and, generally, of EC-funded projects require a quick and flexible public decision making, the over-regulation of the Italian administrative system tend to transform any little decision into a state affair. For example, until the first 1990s, a mayor’s or a councilor’s signature was needed even to buy a notebook. The abundance of laws and regulations,

Requiring operational offices to get approval from one authority, advice from another, consultations from a third, guidelines fixed by yet another, and so on. This

58 As widely recognized, bureaucratic obstacles can represent a major element in business start-up decisions: the transaction costs to obtain the necessary permits and licenses can indeed be high enough to discourage entrepreneurship. These costs increase where—like in Southern Italy—local institutions are inefficient. Red tapes are not only often disproportionate, but often contradictory, sometimes schizophrenic, when not corruption-driven. A set of laws recently approved by the central government (the “Bassanini Laws”, after the name of the Minister of Public Function) is aimed at increasing the efficiency of municipalities in their interaction with businesses.

59 In those years the law n. 142—which has separated responsibilities of political programming (attributed to mayors and councilors) from those concerning daily management (attributed to municipal executives)—has allowed a more balanced and decentralized distribution of duties within the municipal body.
distribution of power in the administrative apparatus maximizes the number of interventions and the veto rights of each office on the others, and transforms the decision process into an uphill struggle to implement any decision (Cassese 1993:321).

Moreover,

All policies that [cannot] be easily divided among politicians to enlarge their clientelistic ties [are] difficult to pursue and tend to generate non-decisions, because it [is] not easy to find agreement on how to allocate resources (Trigilia 1995:17).

A program like Urban—which is geographically concentrated in a single urban area, and is characterized by a tight implementation and monitoring pace and by the transparency rules set by the EC—represents a non-easily-divisible policies. As a consequence, it risks hindrances at any decision that has to be taken by politicians, or by high and low rank local administrators.

An effective implementation pace, therefore, entails an effective attempt to remove the obstacles rooted in the Italian political and administration system. According to the source of pressure toward change, I identify two different types of bureaucratic and administrative adjustments.

1) Internal coherence between “new” program needs and “old” municipal praxis

Municipalities must adjust the existing routines and procedures with the “new” administrative and bureaucratic needs induced by the Urban program. In other words, this type of adjustment is aimed at avoiding that program strategies and operative tools chosen by the municipality conflict with other municipal laws, praxis, and general routines.

The mismatch between old (and often ineffective) municipal laws and routines, and the program strategies can produce perverse outcomes. In Urban/Bari, for example, the BC program explicitly targeted the creation of bars and cellars in Bari Vecchia (Old Bari) to improve the
neighborhood’s considerable tourist potential. Some residents have told me that, under suggestion of program officers, they have anticipated business grants (hoping to get them retrospectively) and started to borrow money to purchase and renovate the bar premises. In this case, the bid for the program incentives was being delayed, and some residents tried to open their new business in order to repay their loans. Unfortunately, despite the fact that the program explicitly targets this type of business, municipal laws fix the number of alcohol sale licenses at one thousand, and there were none available. The municipal commission that could eventually derogate to this regulation in order to ease the Urban strategy hardly meets once an year. On top of this, corruption and clientelistic practices dominate the reassignment and trade of existing licenses. This example shows how implementation is affected when the municipality does not pursue an internal coherence between its existing laws/routines and program needs.

In implementing the BC program, also Cosenza has encountered obstacles that might have jeopardized program implementation. In 1994, when the municipality created its own incentive policy, one of the requirements for grant eligibility was the registration to the chamber of commerce, which in Italy is mandatory to obtain a business legal status. Nevertheless, The time lag between the application at the chamber and the release of the registration is uncertain, and it can take more than a year. Having identified the obstacle, the municipality negotiated with the chamber of commerce a solution to overcome it. Based on a sort of municipal endorsement, the chamber declared new businesses that had applied for, but had not yet received the registration, to be eligible for the grants. In this case, thanks to the municipal accounting officer who invented

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60 Urban/Naples provides another example of these adjustment problems: the public tender for the artisan grants has gone back and forth for 16 months between municipal offices and commissions, and the voted twice in the city council. These process—that has significantly delayed the implementation of the BC component—was due to the necessity to match the EU standards for transparency and fair competition in public tenders.

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how to go around the law, the municipality acted promptly and coordinated with the chamber to be more flexible and thereby avoiding negative delays on its policy.

Another bureaucratic obstacle however, was hidden in the folds of the municipal resolution that instituted the BC initiative. The resolution stated that, to be eligible for the grants, entrepreneurs were required to have a certificate of ‘started business operations’, released by the municipality itself. Even though this condition made sense for existing businesses, how could operations have been started in the case of new businesses? This requirement was also promptly removed and the grants started to be successfully released.

These small examples might look as straightforward, even be considered insignificant, bureaucratic decisions. Nevertheless, in the Southern Italian context, institutional fragmentation, lack of coordination, and a tendency to delay decisions can transform a silly question into a unsolved problem. As shown in the Bari case, these inefficiencies might ultimately jeopardize the developmental effort. Despite the stigma of inefficiency attached to Calabria’s local governments, Cosenza municipality was effective in removing these obstacles to policy effectiveness.

2) Adjustment of municipal practices to EC requirements and standards

The second (and usually more emphasized) type of adjustment concerns the municipalities’ compliance with EC requirements. As pointed out in the first chapter, the capacity to carry out this adjustment (which applies to all aspects of program implementation) often makes the difference between those local governments that are able to take advantage from EC funding and those that are not.
The EC standards can concern technical issues. For instance, the EC required Salerno municipality to undertake a cost/benefit analysis prior to start the implementation of an Urban project: an underground parking in the historical center. The municipality did not carry out the analysis properly and the EC suspended the project that then the municipality set definitively aside.

Major adjustments also concern the adoption of the standards aimed at insuring transparency and fair competition in public tenders, and of the procedures to insure an accountable monitoring and reporting of EC funds. In Urban/Naples, the bids and the public tenders related to artisan grants in Naples’ BC program have gone back and forth for 16 months between municipal offices, commissions, and city council before finding the right fit with EC requirements. This process has significantly delayed the implementation of the BC component inducing a series of negative cascade effects, including the disillusion of the artisans, and the inefficient use of the external human resources hired by the program and left inactive while the administrative adjustment was taking place.

Urban/Cosenza, too, encountered problems in adjusting the administrative features of its BC, but responded to the EC pressures and requirements in a quite singular and slightly two-faced way. As already mentioned, when the program started Cosenza already had its own BC program consisting in grants for the renovation and, eventually, the purchase of the business premises in the historical center. The public grant covered 60% of the investment, while the entrepreneur was expected to match it with 40% of its own resources. Nevertheless, the lack of municipal monitoring had transformed these quantities, and co-financing itself, in merely nominal figures. When the policy started, its administration proceeded as follows. The entrepreneur submitted a
plan of renovation that identified the investment’s financial needs. Then, after a deliberation from the city council, the municipality released the grant. From this point on, the relationship between the municipality and the beneficiaries loosened up. The municipality did not require any voucher or invoice to document the grant use, and the entrepreneurs did not have to proof that the private investment had actually matched the grant. It is highly likely that, in most cases, the entrepreneur carried out the renovation works by self-employment and self-construction with the help of family members, and by off the book contracting of neighborhood people. The use of the grant, therefore, was undocumented and, in many cases, the 60% provided by the municipality has likely represented the whole investment. This (mis)reporting dynamic also implies that the high figure relative to private co-financing in Cosenza’s BC program was at best overestimated.

When the municipality of Cosenza asked to the EC the green line to incorporate this policy in the Urban activities, the EC refused to accept it as such. This procedure, indeed, did not guarantee accountability: the municipal BC was distributing hundreds million Liras without gathering a single invoice and with no proofs that grants where actually going into investment expenses. The EC required the municipality, first, to adjust the investment monitoring and, then, to make the application process more public and transparent through public announcements and competitive bids. In spite of the EC denial and request for modifications, the municipality did not followed it up and included the BC program in the range of Urban activities without introducing the required changes. I found it hard to get specific information on how and why the municipality did not immediately complied and decided to “tinker” with EC requirements. A likely hypothesis is that the municipality kept the BC program in an ambiguous administrative limbo between the “municipal” and the “Urban program” accounting domains. They might did so because—probably acknowledging that the program was working well with its simple features— they
wanted to maintain the administrative procedures as simple as they were, and to keep the flexibility that this grant scheme granted to small businesses with respect to private co-financing.

When the EC and the MPW found out the trick, and threatened to block the Urban BC program financing. Having its back on the wall, the municipal staff moved quickly and came up with a “creative accounting” proposal to fulfill the monitoring gap, and to document and measure the monetary value of self-employment and self-construction. The proposal identified that the financial value of the labor and materials utilized for the investment would be measured according to the official price list adopted by the Calabria region. The municipality has then predisposed a set of cross-controls aimed at supervising the price congruity of the investment, monitoring the start and the end of the renovation work, and assessing that the entrepreneur has all the needed documents and authorizations. The implementation of this procedure requires a significant degree of coordination between different municipal technical, administrative and police offices.

Given that the grants were well below an EC-established threshold of 100m Liras (beyond which EC requirements become very strict), and acknowledging that Cosenza BC program was financing tens of new businesses and having a significant development impact, the EC and the MPW decided to accept the municipality’s proposal.

In this case, rather than immediately comply with the to EC requirements, Cosenza municipality gave priority to an initiative that was being very effective with respect to developmental goals. The adjustment in the BC’s administration and procedures has occurred only after that the municipality has tinkered with the EC. By tinkering with the EC standards, the municipality achieved to give continuity to its BC program, and to keep flexibility in the private co-financing. Cosenza’s achieved to keep this flexibility even with the new monitoring
procedure that achieved satisfying the EC standards without sacrificing the cost-saving self-employment option for the small businesses.

In this experience, the application of EC standards has not been a linear process where the EC decides and the municipality complies. It rather looks as very dynamic central-local negotiation, where the center has ultimately spurred the administrative accountability and correctness but avoiding being too rigid and formalistic. The local government, on the other hand, demonstrated a significant degree of autonomy in taking its decision on how to support a local development process.

This last example provides interesting insights on how Cosenza municipality has improved its administrative practices responding to EC pressures. The adjustment toward a more accountable administrative system traces a sequence similar to the one that characterized the BC program strategic step-up highlighted in the previous section. Supported by EC’s understanding attitude, Cosenza municipality achieved handling the shift from a simple and easily manageable procedure to a more complex, but more correct one. This occurred through an incremental, sustainable process, avoiding sudden changes that could have compromised the balance between the need for adjustment, the existing municipal procedures and capabilities, and the economic development process that was successfully taking place in the historical center.

After having examined aspects of the administrative and procedural change internal to municipal body, the next section considers the mutual learning process that has brought together Cosenza municipality and a civic society that was lying dormant in absence of institutional interest and support in civic participation.
Public action and social capital: the growth of civic participation in the historical center

One of the most common arguments in favor of policy decentralization is that it supposedly increases the advocacy and decisional role of civil society; this involvement, in turn, should improve the quality of local governance and lead to better policy decisions. Putnam’s analysis of local development dynamics brings this argument one step further by stressing that a strong civil society—which appears throughout secular processes—is a prerequisite to good government. His analysis ultimately links less ‘civic’ regions (which lack a history and a stock of visible, organized and active network of civic organizations) to poor local governance.

Differently from this deterministic interpretation, the recent stories of civic participation in Cosenza and in other Urban municipalities highlight complex and iterative patterns of interaction between the municipal government and civil society. The experience of the Urban program shows that municipalities can attract or even create civic organizations in the program neighborhoods in a relatively short time, and that they can end up serving different, longer-term purposes.

As it usually happens in EC-funded development initiatives, the Urban program encourages partnerships and cooperation between public and private actors, the latter belonging to both for-profit and non-profit sectors. The EC guidelines emphasize the involvement of private actors in the early planning stage of projects. Nonetheless, this guiding principle is based on a main assumption, namely that civil society is already there, represented in formal or semi-formal civic (neighborhood, cultural, corporative, etc.) organizations that, autonomous from the local government, can be involved as legitimated counterparts in any moment of the planning process.
In Cosenza (like in many other Urban municipalities in Southern Italy) this was not the case and, in 1995, the historical center lacked forms of structured civic networks. According to Putnam’s theory, this absence would reflect an irreversibly low social capital. Nevertheless, after three years of Urban implementation Cosenza’s historical center is experiencing dynamics of cultural and civic effervescence unthinkable only few years ago.

The Cosenza municipality used two main levers to strengthen, attract, and create civic networks: public procurement, and the provision of formal housing and assistance to local civic organizations for cultural, educational, and social activities.

Public procurement initially involved a group of neighborhood residents gathered in the Committee for the Protection of the Historical Center (hereafter referred to as ‘the Committee’), which –as the Urban program begun– proposed themselves for the management of the main parking area located near the historical center. The municipality accepted this proposal, not only because it seemed a useful to involve citizens in service management, but also because the Committee represented an opportunity to establish contacts with less visible situations of social exclusion in the neighborhood. These expectations were actually met when, knowing who they were and how to reach and talk to them, the Committee proposed an approach to spur the economic emancipation of unemployed and ‘at risk’ young residents in the historical center. In doing so, the municipal staff uncovered an old law that allowed the municipality to contract, without a public bid, social cooperatives to carry out tasks of public relevance. Through this direct public procurement, the municipality and the Committee encouraged youngsters from the neighborhood to form a cooperative to manage street cleaning in the historical center. The formula was successful and 25 young people—all unemployed and most of them with past crime

61 Amidst the four Urban municipalities that visited during field research, only Naples had richer, though somewhat
convictions—created the Cooperative Historical Center, which, in 1997, started working regularly in the neighborhood\textsuperscript{62}. Following this positive experience, eleven other cooperatives for public services were formed in the city; four of which currently operate in the historical center maintaining public lighting, green spaces, and \textit{La Casa delle Culture}, i.e. the House of Cultures.

While public procurement can be considered a spillover of the \textit{Urban} program, since it has been financed with municipal funds, the House of Cultures is a project that is directly financed by the \textit{Urban} program, and that represents the leverage that the municipality has used to foster cultural, educational, and social revitalization in the neighborhood.

This project included a two-step integration of the infrastructure and social services program components: first, the heavily decayed historical building of the old city hall had to be completely renovated and equipped, second, the planned cultural and educational services had to be initiated. While the three other \textit{Urban} municipalities considered in this study are all experiencing significant difficulties and delays in projects that renovate buildings to then use them as centers for socioeconomic or cultural services\textsuperscript{63}, Cosenza, in 1997, inaugurated the House of Cultures.

When asked how \textit{Urban}/Cosenza has been able to execute so smoothly and timely the continuum between the infrastructure and the social services components, the current director of the House of Cultures mentioned two key points. First, he underlined the high competence of municipal architects, planners and technicians, and their ability to interpret correctly the EC laws and procedures. Second, and quite surprisingly, from the beginning of the renovation works, the conflictual, neighborhood networks.

\textsuperscript{62} The aim of this operation was not only to create jobs, but also to create a pattern of social and economic emancipation for marginalized young people. In spite of the constructive approach used in building up the organization, the concrete case of the re-arrest of a coop member induced the introduction of an element of deterrence: who gets again in trouble with law is excluded by the coop.

\textsuperscript{63} For example, due to problems and delays in building acquisition and renovation it is very likely that, at the end of 1999, Naples' business incubator and Salerno's social services center will not yet be open to the public.
municipality has involved a group of young activists from semi-formal leftist grassroot organizations. Understanding that the municipality was making an effort to create a space for cultural and artistic expression and for education open to all social classes, this group not only agreed to volunteer in the renovation works, but also exerted a considerable pressure on the municipality.

Post renovation, the city’s cultural and civic associations that are freely using the conference, theatrical and exhibition facilities that are equipped with audiovisual technology. In turn, they participate in the management and maintenance of the premises. In terms of number of organizations involved, of the scope of its activities, and of the quantity and extremely varied composition of its clients\(^{64}\), the House of Culture is a striking example of how a one-stop-shop for cultural and educational purposes can uncover an unsatisfied public demand, and trigger the awakening of the existing, though hidden, social capital.

The Committee, the social cooperatives, and the groups, associations, and individual citizens involved in the House of Cultures, are all civic, socioeconomic, and cultural realities that, in 1995, either did not exist, or they had nothing to do with the historical center. Today they are increasingly involved in municipal policies and support the municipality in the production of collective goods. For instance, the Committee has an important stake in the already mentioned

\(^{64}\) For example, in its three-story multifunctional space, besides the numerous cultural events, it provides: a) free Internet access and children not only from low-income families in the historical center but also from the rest of the city, stand in line and waiting for their turn to surf the web; b) free computer courses. The number of applicants for the first three-month long course was triple with respect to the number of places available, and spots were assigned according to a household-income criterion, favoring low-income people; and c) having recently made a public call for volunteer teachers to teach Italian language to immigrants, and in only two weeks the House gathered 40 adhesions, it provides free classes of Italian to nearly an hundred of extra-EC immigrants.
Neighborhood Contract\textsuperscript{65} since it has formally committed to promote and implement a center for wood, icons, pottery and copper artisan workshops. The Contract’s planning stage has also involved other social and economic actors. The Chamber of Commerce has committed to guarantee soft loans to the artisans and other economic actors that might decide to locate in the Contract’s target-area, and the labor unions have engaged to open a counter for employment-related information. The inclusion in the Contract of other non-municipal actors formerly ignored in the \textit{Urban} planning stage has also revealed that the municipal openness toward participatory strategies (and the capacity to implement them) has increased\textsuperscript{66}.

Cosenza is not the only case in which the municipality –on the wave of the \textit{Urban} program and within a relatively short time– has supported the development of forms of civic organization in the program neighborhoods. In Salerno and Bari, the municipalities have promoted and sustained some of the start-up costs for the creation of neighborhood associations and committees that cooperate in the \textit{Urban} program implementation. These processes of municipally-triggered civic organization could be seen as a municipal attempt to reinforce political consensus by co-opting civil society. Nevertheless, this is not necessarily the case. For example, in Bari, the historical center committee –whose creation was favored by the municipality– has immediately underlined its autonomy by opposing the municipal strategies for the \textit{Urban} program.

\textsuperscript{65} The initiative is mostly focused on housing issues, but it also allows economic development projects related to the housing renovation projects.

\textsuperscript{66} This sequence has some resonance with what Sabel calls “democratic experimentalism”. Based on the positive Irish experience in implementing decentralized and participatory development partnerships financed by the EC, the author suggests that the exceptional and time limited status of EC programs must put in motion a process through which public authorities can learn by the innovations they have spurred (Sabel 1996:16).
By the words that Tendler uses to document experiences civic participation in Brazil,

Government was causing civil society to form, then, at the same time, civil society was acting “independently” from outside government to challenge its wisdom and its actions (Tendler 1997:146).

The conventional templates of civic participation (that Tendler calls the ‘decentralization and participation (D&P)’ model) assume that local government and civil society belong to two distinct, autonomous social and institutional domains that, in some blessed areas (i.e. the ‘civic regions’), may choose to cooperate in order to fill central government-failures and match local preferences for collective goods. Whereas this dualistic reading might explain correctly the dynamics of civic participation in North-Central Italy, in the cited Southern Italian cases the two domains are blurred, and the interactions between local institutions and civic organizations follow different paths.

It would be hard, indeed, to define the cited civic organizations as actors separated and autonomous from the municipal government. On the contrary, their growth (or even their birth) is significantly based on the new openness of the municipalities in involving external actors in the production of collective goods. In turn, this shift in the municipal attitude also springs from policy decisions taken at the central level, i.e. the participatory tools of EC program schemes, which the Italian central government reproduced in a series of new development policy schemes (e.g. the ‘territorial pacts’, or the Neighborhood Contract itself). Central institutions, therefore, have also played an important role in favoring civic organization and participation at the local level, which contrasts with the usual D&P model where central government is usually absent (Tendler 1997:156). The centrally-promoted program schemes might have fallen short in producing immediately the expected outcome of involving the civic organizations in participatory planning for a given program (i.e. none the Urban program documents produced by
four cities considered in this study and approved by the EC had been discussed with non-municipal organizations). Nevertheless (as shown in the case of Cosenza's Neighborhood Contract), they have planted the seed for future civic involvement in local policy design.

In the first chapter (p. 6), I have quoted the case made by Trigilia (1992, 1995) for a series of innovations and changes that could allow Southern Italian local governments to break their dependence from the central government and to increase their effectiveness in local policy making. The *Urban* program implementation in Cosenza as described in this analysis has contributed to produce processes that favor these changes, as the local political class is more responsive to the public; the strategic and bureaucratic capacity is increasing in local governance; and civic networks are today stronger than before.
CHAPTER 4

CONCLUSIONS

Policy makers, theorists, and government officials in the developed and developing nations alike have all struggled with the question of how best to foster the effectiveness of local governance institutions. They have also wrestled with the problem of how to define standardized criteria for success and competence such that the performance of local governments in different settings could be evaluated and compared.

In my research, I focused on two yardsticks for success that have emerged from these debates. The first of these is one that has a lot of currency in project evaluation circles and states that the more targeted and articulated an economic development scheme is, the more likely it is to be effective. Based on these criteria, I chose the cities of Naples and Bari because both municipalities had embarked on ambitious and detailed business creation program schemes.

The second measure of success is one specific to European Commission programs: the EC, as well as the Italian central government, uses the level of expenditure of EC funds as a measure of municipal performance. Because of how compelling this criterion seemed as an indicator of municipal capacity, I choose to study the cities of Salerno and Cosenza.
As I started to conduct interviews and to analyze the four cases, however, I realized that the assumptions behind these selection criteria are not always correct. First, targeted and complex economic development schemes can turn out to be a poor fit with respect to the local socioeconomic environment. They can also prove to be too technically and/or politically complicated local actors to implement. On the other hand, untargeted and “low-key” project schemes that policy designers have dismissed as banal or simplistic can actually facilitate market-led local development processes and increase municipal capacity building.

The second issue that I encountered was the vulnerability of a performance measure based on the levels of municipal expenditure of EC funds. In my research, I found that this standard was often subject to manipulation by local governments. Municipalities use a variety of tricks ranging from implementing high-cost projects with little developmental impact to paving roads right outside the designated program area to increase expenditure indicators of EC funds. As a result, these indicators do not necessarily identify interesting and successful cases of EC programs’ implementation.

The progressive acknowledgement that best practices often are not where we expect to find them drove me to restructure the case study part of this study from a four-city comparison to a one-case story. After a brief outline of the main research focus and questions, I lay out the lessons that I have distilled from the research findings.
The story

There are some grains of truth in the stereotypes of Southern Italian local governments. These characterizations portray local governments as inefficient and ineffective in managing resources and delivering services to their citizenry. This stigma has significantly lowered expectations about these governments’ ability to successfully take advantage of EC development funding.

Despite the failings of Southern Italian local governments, this research highlights that there are opportunities for change. The analysis of the municipally-lead implementation of the EC-funded Urban program in Southern Italy shows that municipal action can achieve important and innovative results even in regions whose local institutions are described as the most inefficient, passive, and clientelistic on the Italian peninsula.

Particularly, the hypothesis I intended to test is whether or not the pressures and the opportunities contained in the Urban program scheme have empowered municipal governance through a capacity building process beyond program implementation itself. I also attempted to identify what particular elements contribute to efficient and effective program implementation.

This study is principally based on the Urban implementation in the city of Cosenza. The empirical base, however, also includes evidence from the cities of Naples, Bari, and Salerno. The analysis particularly emphasizes the program initiatives aimed at business creation, because they represent a considerable innovation for municipal governments that have not provided the type of direct firm support that grants, loans or other incentives for business development represent.
Based on research findings, Cosenza municipality is one of the most successful cities in implementing the *Urban* program. I define success as a municipality’s ability to:

- Overcome bottlenecks in program implementation, specifically with respect to information access, administrative and bureaucratic impediments, liquidity problems, and technical capacity limitations.
- Plan, commit and disburse EC funds;
- Modify its organizational structure and bureaucratic procedures to maximize direct and indirect program outcomes;
- Undertake new tasks, such as business creation policies;
- Effectively negotiate with central institutions, namely the EC and the Italian central government.

**The argument and policy implications**

Some scholars (e.g. Leonardi 1995:166) stress that the internalization of EC policy criteria by local governments would in and of itself save Southern Italian regions and cities from a socioeconomic and institutional drift. Instead, the variance in the program processes, and in the preliminary program outcomes of Cosenza (and of the other three cities) provide substantive evidence that EC policies *do not act as an exogenous shock* that automatically triggers municipal performance. I argue however, that they can significantly facilitate effectiveness and innovation where the local environment already presents some favorable elements, which differ from those often emphasized in the development literature on North-Central Italy or in the fiscal federalism model. My study documents that Southern Italian local governments can efficiently take advantage of EC policies even when lacking preconditions identified as necessary by the above
bodies of literature, such as strong and organized local interest groups and civic networks, a consolidate history of good governance and independence from the central government, or an efficient management of the local tax base. Cosenza municipality’s accomplishments in the implementation of the *Urban* program are instead based on a mix of political and socioeconomic conditions, and of program-related strategic and organizational choices:

1) **Political accountability of local leaders to the EC program.**

The *Urban* program started only two years after the change in national electoral rules that instituted the direct election of city mayors. Having announced the plan to revitalize the historical center as part of the 1993 electoral platform, Cosenza’s first elected mayor has considered the *Urban* program as a vehicle to demonstrate that he intended to be accountable to his constituencies. It was also used to increase his chances for re-election, which actually occurred with a large electoral majority in 1997. The program’s development goals, therefore, overlapped with strong political engagement, which has furthered program implementation in different ways. For example, it has fostered municipal lobbying at the EC and central government levels that solved various institutional and operational problems; it has also provided a constant political control over the municipal staff in the attempt to speed the execution pace of the projects included in the *Urban* program. The positive experience of the *Urban* program in a different municipality, Salerno, also benefited for a similar political engagement.

However, the processes observed in Cosenza and Salerno do not imply that the direct election of mayors automatically creates accountability. In different *Urban* municipality, the elected mayor apparently has used the program to support clientelistic and personal interests. In other cases, instead, the elected mayor is barely acquainted about the program’s existence. In Naples,
for example, high-ranking politicians did not follow the implementation of the program, and practitioners found themselves without the political backing to deal with politically sensitive or contentious aspects of the projects.

A possible explanation for this lack of political interest in a city such as Naples (i.e. the largest city in Southern Italy) is the proportion of the municipal budget that the Urban program funds represent. In a city the size of Naples, the monies are a drop in the expenditure bucket. In smaller municipalities, on the other hand, these funds make up a large portion of the resources available for local development, and therefore, politicians are more likely to be invested in the program processes and outcomes. My research suggests that relatively smaller municipalities have a relatively higher propensity for (and expect higher returns from): a) investing political and human resources in the Urban program, and b) introducing strategic and organizational restructuring in the municipal body to facilitate access and implementation of EC programs. This study has not directly addressed this issue and should be a topic of further research.

2) Building the EU program on previous policies.

Some scholars (e.g. Piattoni and Smyrl 1998:6) and, in general, European and Italian policy makers tend to underscore as self-defeating the practice of Southern Italian governments of assembling previously planned projects under the EC label. This interpretation is based on the assumption that ‘old’ projects are characterized by a conservative and ultimately ineffective

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67 Municipal population size might also help to explain the different results of the municipal attempts to implement participatory planning strategies, since some studies on Southern Italy (Nanetti 1988:152) suggest that citizens’ participation in the management and delivery of public services occurs more easily in smaller cities.

68 The cited study examines EC regional policies. The territorial unit of analysis is therefore different from the EC Urban municipal initiative. However, the authors’ negative reading of the inclusion of previously identified projects for EC-funded regional policies was shared by practitioners and municipal executives in some Urban municipalities (usually experiencing a difficult program implementation) who tended to belittle Cosenza’s Urban program as a crafty operation with little qualitative and innovation contents.
development approach, whereas the resources and the tools provided by EC programs should deserve a brand new and innovative set of strategic ideas for local development.

Instead, the implementation of an EC program in Cosenza shows that the opposite can also be true: the municipal decision of nesting the new EC program into a former urban development plan is a major factor of its success. In the two years preceding the *Urban* implementation, the municipality had identified policy initiatives aimed at historical center revitalization. The previous piloting and experimentation of projects (some of which later incorporated in *Urban*) allowed the municipality to design a consistent and internally coherent plan for the EC program. Previous policies have also facilitated the program start-up phase since some initiatives were already operative or ready to be implemented. This dynamic has also had significant positive effects on the pace of spending EC funds.

Unlike Cosenza, other municipalities, after having quickly drafted and packaged the ‘new’ set of projects to be included in *Urban*, have later experienced their unfeasibility. This case has caused delays and time-consuming adjustments in the start-up phase, which have negatively affected the whole pace of program implementation.

According to this finding, in examining locally planned proposals and in taking future decisions on resource allocation, central institutions can improve their selection process by considering to what extent the proposed initiatives are grounded in the local political, institutional, and socioeconomic reality. What initiatives has the municipality undertaken in the former years in the target area? Has the program proposal been drafted right before applying for central funding, or is it based on a longer planning and experimentation process? Do other municipally-funded and -implemented projects complement the centrally-funded program (besides co-financing for the program itself)? Answering these questions will help funding
institutions to identify to what extent a program proposal is the product of an actual assessment of the socioeconomic needs in the target area, and of its political and technical feasibility.

3) **Comprehensive municipal responsibility for program implementation (limited sub-contracting).**

The literature (e.g. Hirschman 1967; Sabel 1996; Laino 1998) and the practitioners’ experience documented that when local governments comprehensively manage development programs they can increase inefficiency in project implementation by “politicizing” technical decisions, or by falling short in guaranteeing the needed technical competence and bureaucratic timing in the decision-making process.

This study, instead, shows that the comprehensive municipal program management can also have beneficial effects. In Cosenza, indeed, the former political and technocratic engagement to the historical center revitalization continued when the municipality decided to manage all program components within the municipal body. This organizational strategy produced positive outcomes such as: a) facilitating the intra-municipal coordination between project interventions in different sectoral areas; b) lowering overhead costs (whereas sub-contracting to consultants can significantly increase costs without necessarily improving project quality and effectiveness); and c) encouraging municipal civil servants to plan strategies, implement actions, and apply procedures that differed considerably from what they did in the past. This, in turn, has increased the permanent stock of capacity and skills within the municipal body (and avoided the dispersion of learning among a series of external sub-contractors), and civil servants’ commitment to office.
With respect to program organization, the case study analysis, therefore, highlights the importance of the direct and indirect advantages of the (usually stigmatized) comprehensive municipal management. My findings suggest to central institutions, where appropriated, to:

- Promote comprehensive municipal management, especially for those program components that enlarge the scope of municipal tasks and maximize capacity building within the municipal body;
- Encourage, through the program guidelines and requirements, effective strategies of municipal supervision and coordination between municipal departments and non-municipal organizations (e.g. grassroot organizations, universities, etc.) that are cooperating in program implementation. Effective coordination tools and procedures become an imperative in the case of development initiatives that –like the Urban program- pursue an integrated approach to local development, and thereby involve a large number of different public and private sectoral institutions.

4) **Achieving and sequencing a balance between project complexity and municipal capacity.**

Cosenza municipality effectively balanced the technical complexity of the policy initiatives with the technical capacity to implement them. As demonstrated by the business creation experience, the simplicity of the grant scheme allowed a smooth and well-paced implementation. Three years of implementing a ‘simple’ (i.e. untargeted, non-participatory, and not directly linked to other program components) business creation policy included in the Urban program, the municipality was then able to plan a more complex intervention (i.e. the ‘Neighborhood Contract’) that is targeted on the artisan sector, more participatory in nature, and integrated with
urban infrastructure projects. Besides program outcomes, this pattern of step-by-step strategic innovation (i.e. sequencing) will likely have more long-term effects in terms of consolidated municipal capacity, than the very innovative but hard-to-implement (and often sub-contracted) business creation project schemes other Urban municipalities are struggling with.

These findings do not intend to instruct Urban municipalities to minimize their policy innovation. Hirschman (1967) insightfully described how innovation discloses hidden resources in the implementing agents, who remove unexpected obstacles to project implementation by using as their unexpected and creative problem-solving capabilities. Nor does my argument prescribe municipalities to have concentrated EC funds in program components where they already possessed significant experience (such as urban infrastructure or historical restoration), and should have put aside projects in new tasks69, such as business creation or vocational training. Rather, in implementing the new socioeconomic development tasks, the municipalities should try to anticipate the mismatch between extremely innovative project ideas and the municipal capacities to implement and coordinate them.

The analysis, thus, has shed light on the drawbacks of very targeted and articulated, and on the comparative advantage of untargeted and simple, business creation schemes. As a consequence, central institutions ought to be cautious, in their funding decisions, in rewarding highly complex (though innovative) program initiatives that go beyond the reach of the local government. Similarly, guidelines and requirements on citizen participation might not fit the institutional or socioeconomic conditions when the program is in its early stages.

Rather than necessarily expecting strategic innovation in the program proposal, central institutions should instead try to consider how an initially simple program scheme could become

69 These tasks are ‘new’ with respect to the past policy experience of Italian municipalities.
more articulated and innovative over time, as —in an incremental sequence— municipal implementing capacity and the operational interactions with civic organizations increase.

Lastly, Cosenza’s accomplishments are also a derivative of the municipality’s positive relationship with central authorities (i.e. the EC and the Italian central government). At least in two key turning points of the Urban/Cosenza experience, central authorities displayed a flexible understanding and non-formalistic behavior that benefited Cosenza. The municipality, on the other hand, has often demonstrated an autonomous — almost defiant— attitude in negotiating with central authorities. This experience of central-local dynamics in Southern Italy demonstrates that relatively decentralized policy schemes can modify the “central paternalism-idle local dependence” model.
Methodology

This study, focused on the implementation of the Urban program in Southern Italian municipalities, is primarily based on the information gathered during ten weeks of filed research in Southern Italy in 1998. There where two sequences of research in Italy: first, in January 1998, relevant actors were contacted to help shaping the principal research question; second, during the summer 1998, data was collected through interviews, reports, and other bibliographic material. During the Fall 1998 semester at MIT, I have organized the information and written the thesis.

After having interviewed people from the central agencies involved in the Urban program (i.e. the Ministry of Public Works, and the Bocconi University of Milan that is co-responsible for the Urban program technical assistance), I focused on four of the 12 Southern Italian municipalities involved in the Urban program: Naples, Bari, Cosenza, and Salerno. In the selection, I adopted two main criteria to identify case studies that could have presented improvements in municipal performance: 1) innovative program strategies and, 2) high financial efficiency in spending EC funds. First, I singled out two municipalities – Naples and Bari– whose Urban programs were characterized by articulated and targeted strategies, particularly with respect to the ‘business creation’ program component. Second, I considered two municipalities –Cosenza and Salerno– whose expenditure efficiency (i.e. measured by the pace of the spending of EC funds within the program period) was well above the average of the 16 Italian municipalities implementing the Urban program.

38 personal interviews were conducted in the four cities. Many of these one-on-one interview meetings continued further in informal settings. The interviewed actors included: various bodies and bureaus within the four case study municipalities; research centers and universities; non
governmental organizations such as neighborhood and civic organizations, and artisan, commerce or cooperative associations; and small artisan firms and other types of businesses, such as retail shops, bars and restaurants. I also attended two public initiatives organized by the Urban program in Salerno and Bari, that implemented strategies of public involvement.

I gathered the Urban municipal plans, preliminary studies, and up-to-date reports from the municipalities, the Italian central government, the European Commission, and the Center of Regional Economics, Transportation, and Tourism at the Bocconi University.

I also collected municipal data beyond the issues related to the Urban program, such as municipal budgets, other development plans and reports on municipal policies. I gathered fiscal statistics and figures on relevant social aspects of the observed areas.

The methodological difficulties in building a structured and balanced comparison between the four municipalities lead me to develop a case study analysis, focusing almost exclusively on the case of Cosenza. The Urban program experience in the other three cities is unsystematically used to provide supplementary evidence to support specific points.

It is important to recognize that a formal evaluation of the Urban program (in the conventional sense of attempting to estimate its influence on intended beneficiaries) was not included in the scope of this research. Instead, process indicators (outcomes indicators are not available since the program is not completed) were often used to explore the research question that addresses the relationships between development programs financed by the European Commission (EC) and the increases in the capacity, efficiency and innovation possibly experienced by the implementing municipal governments.
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