

## Structural Funds Implementation and Administrative Capacity: the case of Italian Objective 1 Regions

Milio, Simona

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**Structural Funds Implementation and Administrative Capacity. The case of Italian Objective 1 Regions**

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Manuscripts

1  
2 Can Administrative capacity explain differences in regional performances?  
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5 Evidence from Structural Funds implementation in Southern Italy.  
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10 *Abstract*  
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14 *Why do some regions after 15 years of receiving Structural Funds still have*  
15 *difficulties in spending their allocated resources? Empirical evidence shows that*  
16 *Fund implementation rates have been very poor in Italy. However, by investigating*  
17 *individual Italian Objective 1 regions, it appears that not all follow this general trend.*  
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22 *We identify the administrative capacity of regional governments as an*  
23 *independent variable accounting for Structural Funds implementation variation. We*  
24 *introduce a novel definition of administrative capacity and using two regions as case*  
25 *studies we measure the degree of the existing capacity. The investigation provides*  
26 *evidence to suggest that administrative capacity is positively correlated to*  
27 *implementation. Furthermore, we indicate the factors that might account for the*  
28 *different degree of capacity between these regions.*  
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39 Key words: Structural Funds; Administrative capacity; Regional policy;  
40 Cohesion Policy; Objective 1 Regions; Italy  
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43 JEL codes:  
44 O2 - Development Planning and Policy  
45 R5 – Regional Government Analysis  
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48 INTRODUCTION  
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50 The Structural Funds<sup>1</sup> (SFs) as the instrument for the European Union's (EU)  
51 cohesion policy were redefined in terms of their rules and regulations in 1988 and  
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2 began financing the Regional Operational Programmes (ROP) in 1989. SFs' main  
3 target is Objective 1 regions, defined as those whose development is lagging behind –  
4 i.e. where the GDP per capita is at or below 75% of the Community average. From  
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9 the beginning there have been significant differences between regions in  
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11 implementing their funds allocation.

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13 The European Commission (EC) defines implementation as “the operational  
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15 process needed to produce expected outputs” (EC, 1999b: 55). Implementation  
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17 therefore is that part of the cycle where inputs are converted into outputs. The outputs  
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19 produced can be of two kinds: 1) quantitative implementation, i.e. spending allocated  
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21 resources within the due time span; 2) qualitative implementation, i.e. investing  
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23 resources in “good” projects. This paper scrutinizes the first aspect, by asking why do  
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25 some regions spend more of their funds than others? This question is relevant for two  
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27 main reasons. First, resources not spent are lost and can have an impact on society,  
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29 which sees it as a failure of government; secondly, the future allocation of SFs is  
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31 determined, among other factors, on the basis of spending capacity. Therefore, a  
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33 Member State, which does not spend its allocation, risks losing funding and  
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35 opportunities to foster regional development. The qualitative implementation aspect is  
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37 also relevant, but has to be tackled separately, since it requires a different  
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39 methodology and the identification of indicators for assessing the quality of a project,  
40  
41 a somewhat contentious process, in comparison to the relative objectivity of resource  
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43 expenditure.

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45 Empirical evidence on SFs expenditure rate in Objective 1 regions shows that  
46  
47 the overall performance of Italian regions has consistently lagged behind other  
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49 countries. Table 1a shows that in the first period (1989-93) of EU cohesion policy,  
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51 Italian regions had the lowest implementation rate (73%) in terms of how much they  
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2 spent (Payments) compared to total allocations (Commitments). In the second period,  
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4 1994-99 (Table 1b), Italy still remained last, and it appears that there has been no  
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6 improvement in the current period (Table 1c).  
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11 Insert Table 1a, 1b, 1c  
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15 However, when analysing individual Italian Objective 1 regions, all located in  
16 the South of the country, it is clear that not all follow the same general trend.  
17 Retrospective data suggests that Funds implementation over the first two planning  
18 periods has been markedly different among these regions (Table 2). Indeed, since  
19 1988 two of the eight Italian Objective 1 regions – i.e. Abruzzo and Molise - have lost  
20 this status, and two more - Basilicata and Sardinia - are set to lose it in the 2007-2013  
21 period, in all cases due to rising GDP per capita levels.  
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29 Insert Table 2  
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33 Thus, while in a national context where there has been a lower than average  
34 national ability to implement allocated funds, there has in contrast been a higher than  
35 average ability on the part of some southern Italian regions to spend the resources.  
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38 Why is this the case?  
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41 This paper explores these differences and identifies potential variables that  
42 may account for such variation. The first and second sections provide an analysis of  
43 the main institutional and administrative challenges faced by regional governments in  
44 implementing SFs, focusing on the specific case of Italy. This is structured as an  
45 interpretative framework for the purposes of supporting our hypothesis. We strongly  
46 believe that in 1988 many Member States and regions did not have the adequate  
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2 administrative capacity to be able to play the role they were asked to fulfil. The  
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4 implementation of an integrated regional development policy represented a novel task  
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6 for many regional authorities, given that prior to 1988 regional development policies  
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8 were highly centralised in most countries.  
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10 The third section reviews the existing literature on SFs implementation and  
11 highlights the limitations of current explanations. The existing arguments on  
12 resources implementation do not fully explain the variation observed. Furthermore,  
13 the literature that analyses Italian regions focuses on explaining different regional  
14 economic development (final stage) rather than looking at the implementation stage.  
15 The social and political explanations provided by this branch of the literature, when  
16 applied to our case studies, do not fully answer our initial question. Therefore, our  
17 search for an alternative explanation seems appropriate since it can contribute to the  
18 still limited literature on resource implementation.  
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28 The fourth section introduces our central hypothesis, namely that differences  
29 in implementation are strongly connected with the degree of administrative capacity  
30 existing in a regional government. We expect to find that administrative capacity is  
31 positively correlated to SFs implementation. Due to the deficiency in the existing  
32 literature of a clear definition of administrative capacity, we attempt to fill this gap by  
33 introducing a novel characterization, which allows us to operationalize and measure  
34 the concept.  
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43 The fifth section presents the methodology for the investigation of the two  
44 contrasting case studies, Sicily and Basilicata, and the operationalization of the  
45 variable. The sixth section presents the results of the empirical analysis – i.e.  
46 administrative capacity degree is low in Sicily and high in Basilicata. We also suggest  
47 the factors that might account for the different degree of capacity between these  
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2 regions, namely regional organization structure/size and political stability. The  
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4 conclusion draws some lessons and gives indication for future research.  
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6 The originality of this paper is based on the investigation of whether the  
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8 regions of the EU-15 Member States did possess an adequate level of administrative  
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10 capacity to implement the funds according to the stipulated rules and regulations.  
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12 While there is a rich case study literature, which looks at the Central and Eastern  
13  
14 European Countries (CEECs), there is a lack of systematic comparative research that  
15  
16 has tested the administrative capacity explanations among the EU-15. This paper  
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18 attempts to fill this research lacuna.  
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## 21 22 23 1. THE REGIONAL CHALLENGE OF IMPLEMENTING STRUCTURAL FUNDS

24 The creation of the SFs and the strengthening of an EU regional development  
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26 policy<sup>ii</sup> created a completely new approach, based on multi-year integrated  
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28 programmes that were no longer centred exclusively on the national level. Instead, the  
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30 new regulations required the participation of a multiplicity of levels—i.e., the  
31  
32 Community, national, and regional/local levels (LEONARDI, 2005). This approach  
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34 significantly changed the nature of relations between institutions and led to the  
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36 emergence for the first time of regional institutions as significant policy actors.  
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38 Policies moved from being exclusively top-down, to combine both bottom-up as well  
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40 as top-down characteristics. Indeed, the Community Support Framework (CSF) is  
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42 implemented at the national and regional level through National (NOP) and Regional  
43  
44 (ROP) Operational Programmes respectively<sup>iii</sup>.  
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47 The implementation of the new decision-making mechanisms associated with  
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49 multi-level governance proved to be far more complex and difficult than was initially  
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51 expected. Adaptation to the new EU rules and regulations was not automatic or  
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3 simple. Several authors (BAILEY and DE PROPRIS, 2002; KEATING, 1995) argue  
4 that differences in the forms and structures of local governance throughout the EU  
5 have weakened the aim of structural policies in achieving economic and social  
6 cohesion. As Hooghe (1998) points out, while the 1988 Reform showed an obvious  
7 intent to change the role of regional government within the EU, not all regions were  
8 able to become active partners, because of the differences in their administrative roles,  
9 their decision making autonomy and their policy-making capacity. As Bailey and De  
10 Propris (2002: 416) put it: "Some regions had never before been involved in European  
11 policies and thus had never started or developed a dialogue with European  
12 institutions, in other cases regions did not even exist as geographical, administrative  
13 and political entities." The most profound effect of the new approach was the  
14 reconfiguration of linkages among national, regional and local levels within the  
15 Member States. Since then, there have been some dramatic changes in the internal  
16 structure of nation-states. Where regions did not exist (e.g. Greece), they were created  
17 in order to allow for the operationalization of the CSF. Where they already existed  
18 (e.g., Spain, Italy and France), but with varying responsibilities for regional policy,  
19 regions adjusted their institutional setting to respond to European regulation. "In both  
20 cases a process of institutional adjustment was set in motion, with institutional  
21 frameworks converging toward a two or more multi-tier system of governance"  
22 (BAILEY and DE PROPRIS, 2002:421).  
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43 The new EU approach to regional policy required political and administrative  
44 changes at both national and sub-national levels. In order to create a modern and  
45 efficient form of governmental activities, the institutions involved needed to develop a  
46 vertical and horizontal differentiated distribution of powers and responsibilities; and  
47 considerable planning, programming, coordination and monitoring capacities.  
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The SFs' policy cycle is similar to any public policy cycle. It begins with the identification of the problem and the formulation of possible solutions; it progresses through the selection of a solution by allocating financial resources to the implementation or actualisation phase and concludes with the evaluation of the results as a basis for beginning the cycle again (Figure 1).

Insert Figure 1

Public policy and planning are little more than statements of intent without successful adoption (GERSTON, 1997:97). Indeed, as much as implementation constitutes the last major component of a policy cycle, it is important to understand those factors that encourage or prevent its occurrence.

## 2. THE ITALIAN CASE

It seems clear that the success of EU cohesion policy is heavily dependent on both national and regional administrative bodies conforming to the Community's framework conditions if they want to benefit from the available financial aid.

Italy provides some pertinent examples for investigating the administrative capacity of the regional level. First, it had adopted a centralized approach to regional policy prior to the intervention of the SFs, so in 1988 the regional governments were all starting from the same (low) level. Secondly the Italian case is characterized by very different responses to the reform, which give the possibility of conducting a comparative analysis between the best and worse performances and singling out the intervening variables.

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In Italy the evolution of regional and cohesion policies have been deeply influenced by the presence of continuing macro territorial differences between the North and South. The national authorities have always treated southern Italian regions –often known as the Mezzogiorno – as a single territory with the same difficulties, cultural problems and political obstacles. In 1950 a special fund, the “Intervento Straordinario per il Mezzogiorno” (Extraordinary Interventions for the Mezzogiorno), was created to provide a “massive intervention of public support in those regions which were lagging behind” (CAFIERO, 2000). The fund’s management was assigned to a newly created and highly centralized state agency, the “Cassa per il Mezzogiorno” (Fund for the South). This acted as an autonomous entity, having complete independence to implement the country’s regional policy from 1950-1992. During this period various reforms gave the regions broad legal powers in territorial planning and economic intervention, but as Smyrl (1997:293) notes: “the means to carry out these policies were generally lacking”.

Therefore, until 1992 the southern regions were the beneficiaries of a national regional policy that was basically a sectorial development policy. It did not contain many features that had been built into the EU’s cohesion policy approach – i.e. there was no long-term planning; lack of individual regional knowledge led to a generalized distribution of expenditures over southern Italy rather than in target areas; monitoring or evaluation procedures were deficient (TRIGILIA, 1992).

This highlights a clear overlap between the first cycle of SFs 1988-93 and the end of the *Intervento Straordinario*. This transitional phase began with the closing of the *Cassa* in 1984, and was characterized by the progressive ending of central governmental intervention and a shift-back to ordinary regional and local government procedure. However, a full transition was delayed until 1992 by a controversial

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2 attempt to reform and revitalize the *Intervento*. The *Cassa* was replaced by two new  
3 entities, the Department for the Mezzogiorno, which was entrusted with the financial  
4 evaluation of the projects, and the Agensud, which promoted development in the  
5 Mezzogiorno (GUALINI, 2004: 81-103). Also, in 1987, the Department for  
6 Community Policies was created to manage the forthcoming SFs<sup>iv</sup>.  
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12 These transitional years also saw the reorganisation of the central management  
13 of development policies and structural actions. Institutional, administrative and  
14 organizational adjustments were undertaken in order to move from a centralized  
15 management approach to a multi-level, decentralised approach. Regional governments  
16 were formally recognized as equal actors in this new system and were called upon to  
17 contribute to the planning and eventual management of resources. The  
18 operationalization of these changes proved to be far more difficult than expected,  
19 confirming that the *Cassa* had covered a lack of territorial institutional capacities. The  
20 result has been a consolidation of a policy environment that can be defined: “as if the  
21 whole of the activities related to local development could be conceived and realised  
22 outside of the administrations” (BARCA 1998, as cited in GUALINI, 2004:95).  
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34 The changes took time to produce results. As shown by the SFs ex-post  
35 evaluation 1994/1999 (ISMERI, 2002: 220) “these instruments faced a series of  
36 obstacles in their implementation mostly due to the ongoing inadequacy of their  
37 administrative management...the increasing efficiency required by the new structural  
38 policies, the break-up of the traditional relationship between national and local  
39 government, and progressive devolution highlighted the necessity in some regions of  
40 re-designing and building new capacities”.  
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49 Therefore, with the beginning of the CSF 2000/2006 the Department for  
50 cohesion policy, set up in 1998, has launched a campaign to promote regional  
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2 administrative capacity: “The success of SFs implementation requires a general  
3 upgrading of Public Administration. Complex programming requires a deep  
4 modernization of the Regions’ administrative structure. In order to guarantee the  
5 actual implementation of Funds at the regional level, it is necessary to set the  
6 conditions for the use of resources, to build the required capacity.” (MINISTERO  
7 DEL TESORO, 2003: 207)  
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14 The level of regional response, in terms of spending the resources available, has  
15 been extremely different, from the consistently strong performance of Basilicata to the  
16 consistently weak one of Sicily (Table 2). How does the literature explain such a  
17 variation?  
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### 22 23 24 3. LIMITATIONS OF EXISTING LITERATURE 25

26 SFs literature can be classified under two main headings. The first focuses on  
27 the design of decision-making process and is dominated by intergovernmentalist  
28 theory (MORAVCSIK 1993, 1995) and multilevel governance (HOOGHE, 1996;  
29 JEFFERY, 1996). The former theory argues that national governments perform  
30 “gatekeepers” role between supranational institutions and their domestic system. The  
31 latter suggests that a new form of policy-making is developing in the EU, with central  
32 governments losing their monopoly and sharing policy-making with actors at  
33 European and sub-national levels. The second area of study investigates the  
34 economic impact of SFs and is divided between authors who suggest the Funds fail to  
35 stimulate economic growth (RODRIGUEZ POSE, 1998) and those who see regional  
36 convergence taking place since 1988 (LEONARDI 1995, 2005).  
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49 Throughout the literature little attention has been paid to the implementation  
50 of the resources. Therefore, we suggest there is a significant need to change the focus  
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2 of the analysis. Indeed, previous authors confirm that Funds mismanagement or lack  
3 of implementation leads to no economic impact (EDERVEEN, DE GROOT and  
4 NASHUIS, 2002). They argue that without implementation problems, the EU's  
5 Structural Policy has beneficial effects regarding economic and social cohesion. This  
6 assumption, in the case of the Mezzogiorno, is supported by the fact that before SFs  
7 implementation in 1989, GDP per capita in Basilicata was lower than in Sicily. A  
8 situation which has now changed dramatically (Table 3).  
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Insert Table 3

Two studies (NEI, 2002; NOETZEL,1997) highlight factors such as 'absorption capacity' and infrastructure deficits in accounting for regional implementation differences. However, since they do not fully explain the variation we observe, we reason the need to search for an alternative variable.

Absorption capacity refers to a country's/region's ability to spend its allocated resources to meet the programme requirements, within the timeframe (EC, 1999b: 74). These studies ask whether countries/regions are in a position to spend their funds allocation. Their argument justifies poor implementation by suggesting that the volume of resources exceeds what can be spent, given the economic structures in place. These studies seemed to be based on the incorrect notion that SFs are distributed equally among countries. Instead, in calculating each country allocation, the EC follows objective statistical criteria. These include: "eligible population, regional prosperity, national prosperity and the relative severity of the Structural problems, especially the level of unemployment" (EC, 1999a). In the case of Italy, in order to capture the complexity of underdeveloped areas, the Ministry of the Treasury

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has taken into account additional criteria including regional infrastructure deficits, insularity, and size<sup>v</sup>. This suggests that funds assignment have been meticulously calculated to avoid excessive or deficient allocation. Furthermore, if we look at regional distribution per capita (Table 4), it clearly emerges that Basilicata receives more than Sicily. Therefore, absorption capacity would suggest that Sicily, since it receives a smaller allocation of funds, should be able to spend more, but this is not the case.

Insert Table 4

The second study (NOETZEL, 1997) hypothesised a positive correlation between the expenditure rate and both infrastructure indicators and regional competitiveness: if the latter two were low, then the region's need would be greater and hence more expenditure (and vice versa). The author concedes "...this condition is by no means a sufficient one to explain regional implementation" (NOETZEL, 1997:9). The case of Sicily confirms the limitation of the above study: although the region's competitiveness and infrastructure grid are low<sup>vi</sup>, there is still a low level of resource implementation.

Moving from the general literature to publications more focused on Italy, we find that social/cultural and political factors are often used to explain differences among southern Italian regions.

The social/cultural arguments relate to the level of social capital present in certain areas of the country (PUTNAM *et al*, 1993). Putnam's analysis shows that civic tradition over the period 1860-1920 and civic community in the 1970s in Sicily

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2 and Basilicata were similar (PUTNAM *et al.*, 1993:150-151). Therefore, social capital  
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4 does not appear to account for the variation in implementation in these two regions.  
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6 In contrast, Piattoni (1997) uses political explanations to account for the  
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8 economic success of some southern regions. Piattoni's study of Abruzzo and Puglia  
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10 clearly reveals how the economic development of the former has depended on the  
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12 "ability of the political class to help local economies tackle the necessary  
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14 restructuring." (PIATTONI, 1997:308). Likewise, Smyrl (1997) suggested that the  
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16 success of some Italian regions in implementing cohesion policy was due to the  
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18 "entrepreneurial" approach of regional elected authorities: "in successful regions,  
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20 political leaders gave public priority and invested administrative and political  
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22 resources to European programs in the hope of reaping future political gain (SMYRL,  
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24 1997:289). These claims have been supported in further work (PIATTONI and  
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26 SMYRL, 2002) comparing two northern regions, Tuscany and Liguria, alongside  
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28 Puglia and Abruzzo.  
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31 Clearly, in the current debate on regional development, political factors,  
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33 especially the role of leadership, have gained importance relative to overly  
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35 deterministic cultural and economic approaches (STOLZ, 2001). We do not dismiss  
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37 the relevance of these factors, but argue that political factors need to be analysed  
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39 within the context of the administrative capacity of the regional machinery. Indeed, it  
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41 is for the political level to make the right choices, but it is up to the administration to  
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43 undertake actions correctly. The lack of administrative capacity in performing actions  
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45 cannot be substituted by the willingness of the political class to do well. Research  
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47 suggests that most instances of non-compliance with international agreements are not  
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49 intentional but are due to lack of state capacity (BROWN WEISS and JACOBSON,  
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51 1998).  
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#### 4. REGIONAL ADMINISTRATIVE CAPACITY

The above literature review demonstrates the necessity to find alternative explanations for the observed variation. Our search begins by analysing a new trend of thought, which focuses on building administrative capacity in order to improve SFs implementation in the CEECs. Studies on the EU-15 are rare, something that seems unfair, given that administrative capacity is an issue for all EU countries.

It was during the negotiations with the CEECs for EU accession that interest in administrative capacity first came about (BOLLEN, 2001). In many of the countries it clearly emerged that “states with weak administrative capacity at the regional and local levels were more likely to have serious problems with the mismanagement of funds, or even with accessing them” (HUGHES *et al*, 2004a:532-533).

The EC recognized that SFs allocation to new Member States had to be underpinned by a capacity building programme, in order for these countries to develop adequate administrative and management skills (EC, 1999a). Chapter 21 of the *acquis communautaire* states: “The candidate countries have to define clear tasks and responsibilities of all the bodies and institutions involved in SFs preparation and implementation, and have to ensure appropriate administrative capacity” (EC, 2004:68). As enlargement progressed, administrative capacity requirements grew in importance and complexity – from ‘administrative capacity’ to ‘institution-building’ (DIMITROVA, 2002; HUGHES *et al*, 2004b: 85-118). To help achieve these goals the CEECs were supported by the Phare<sup>vii</sup> programme whose first priority, Institution Building, is defined as the process of helping candidate countries to develop the structures, strategies, human resources and management skills needed to strengthen



1  
2 economic, social, regulatory and administrative capacity (PAPANTONIADOU,  
3 2004). However neither a clear definition of administrative capacity nor a strong and  
4 coherent assessment model can be found in the existing literature (DIMITROVA,  
5 2002; HUGHES *et al*, 2004a: 534).  
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10 Generally, capacity has been defined as “the ability to perform functions, solve  
11 problems, set and achieve objectives” (FUKUDA-PARR *et al*, 2002:3; JÄNICKE,  
12 2001). What makes a country able to perform these actions? This appears to be  
13 country-specific, since a nation’s approach to a particular problem will be embedded  
14 in its history, institutional setting and social fabric. With this in mind, Hilderbrand and  
15 Grindle (1994:15) define capacity as “the ability to perform and sustain appropriate  
16 tasks effectively and efficiently.” Other authors (MENTZ, 1997; NORTH, 1992)  
17 argue that administrative capacity relates to personal capacity, as any administration is  
18 staffed with civil servants, and therefore it is their capacity, which ultimately  
19 determines service delivery.  
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30 However, such definitions are too general and do not indicate specific actions  
31 that the institutions need to perform. For SFs, as for any other policy area, reaching a  
32 definition of administrative capacity requires an understanding of what is it that we  
33 are trying to achieve. Bearing this in mind should allow us to have a definition that is  
34 narrower, more operational and more oriented to problem solving. Indeed, as Honadle  
35 points out, “definitions of capacity vary in the extent to which they specify the  
36 activities that should be performed versus the results that are sought. It is unlikely that  
37 a consensus definition of “capacity” will ever be reached. Nevertheless, a reasonably  
38 integrated framework for pursuing this holy grail would help capacity builders map a  
39 sensible course” (HONADLE, 1981: 575-576)  
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In pursuing such goal we suggest that administrative capacity relates to the ability of the institutions to manage SFs policy according to their rules and procedures. Hence, we advocate that administrative capacity is defined by four key actions: 1.Management; 2.Programming; 3.Monitoring; 4.Evaluating. This is based on a thorough scrutiny of SFs principles and structures, and also supported by an analysis carried out by Boijmans (2003). The four actions are defined as follow:

1) Management relies on the Managing Authority (MA) and entails the correct implementation of the entire programme by ensuring clarity of roles among personnel and coordination of actions in order to avoid duplication of work or uncoordinated interventions which would slow the implementation process;

2) Programming is conducted on a multi-annual basis beginning with the approval of the ROP. The latest it begins the less time there is to spend the resources. It involves the determination of objectives against the background of an analysis of the socio-economic context - i.e. Strengths, Weaknesses, Opportunities and Threats analysis (SWOT) -, and the identification of priorities and measures capable of converting these objectives into interventions in which to invest the available funds. If the identification of the priorities is incorrect, it would be difficult to spend the available resources;

3) Monitoring refers to an exhaustive and regular examination of the resources, outputs and results of public interventions, based on a system of coherent information gathering. Correct monitoring informs the MA of the state of spending, allowing for eventual intervention where problems appear;

4) Evaluation assesses whether the programme implementation is carried out as initially foreseen. Evaluation activities are relevant at three different stages in the process: ex-ante, carried out by the region, clarifies the needs of the territory and

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quantifies the expected outputs and outcomes; in *itinere*, performed by an external evaluator, identifies bottlenecks that need adjustment before the end of the programme; ex-post, performed by the Commission, examines whether the objectives of the programme have been achieved and indicates what needs to be adjusted in subsequent programmatic cycles (EC, 1999b: 17). This process reinforces success stories and prevents the recurrence of failures.

Based on these definitions, each of these four key components are measured by the indicators shown in Table 5 (section 5).

Our characterization of administrative capacity, which is applicable to any public policy, encompasses both the activities that regional governments should perform and the results they should achieve. Taken as a whole, these actions create a system where the key components are closely interrelated (Figure 2). This creates a loop where, when every action is performed correctly, a high level of SFs implementation occurs. A phenomenon that cannot be achieved by any one component alone.

Insert Figure 2

Our hypothesis regarding the relevance of administrative capacity as the determinant variable is based upon the positive relationship outlined in Figure 3: regional government has a set of capacities and the degree to which they exist determines output (the quantitative implementation of resources measured by the expenditure rate). In order to improve output, existing capacity need to be strengthened (first relationship). Consequently, once the resources are implemented they should produce a result (institutional outcomes<sup>viii</sup>) measured in terms of GDP growth (second relationship).

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Insert Figure 3

This model emphasizes the importance of capacity in explaining the policy output (expenditure rate) and ultimately the outcomes (GDP growth.). Therefore, investigating what causes variation in both quantitative (spending of the allocated resources) and qualitative (type of project in which the resources are invested) implementation becomes the unit of analysis. Indeed, the fact that a region has an allocation of extra resources does not necessarily lead to any economic impact. If resources are not spent or are spent badly they will not produce positive results.

## 5. METHOD OF ANALYSIS AND CASE STUDIES

The core of our methodology is an in-depth case study of two regions. The selection of these regions was done to ensure that two contrasting performances were represented: Sicily as an example of low fund implementation; Basilicata as one of high implementation.

Data collection was based upon three techniques to ensure reliability of findings: 1) document analysis<sup>ix</sup>; 2) interview data – i.e. questionnaires<sup>x</sup>, semi-structured interviews; 3) direct observation (JOHNSON, 2005: 185-304).

This process was supplemented by data from two projects in which the author had been involved, namely: “the ex-post evaluation of the Plurifound Operative Programme in Sicily 1994/99<sup>xi</sup>” and “the intermediate evaluation of the CSF Objective 1, Italy 2000/2006<sup>xii</sup>”.

The method chosen for measuring each key component performance, based on the selected indicators, is by progressive stages, an adaptation of the Institutional

1  
2 Development Framework (IDF) Method used by the Centre for Development and  
3 Evaluation of USAID (2000). There are four identified progressive stages of  
4 administrative capacity: Absent; Starting; Developing; Consolidated. The criteria for  
5 each progressive stage have been adjusted to the expectation for each phase (Table 5).  
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12 Insert Table 5  
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16 They will be rated on a scale from 0 to 3, as follows: 0 = absent; 1 = starting; 2 =  
17 developing; 3 = consolidated. Consequently, all components can be averaged together  
18 to provide a summary score for the administrative area (Table 6).  
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## 28 6. RESULTS

### 29 *Assessing the degree of administrative capacity*

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31 We have investigated the key components of administrative capacity mainly  
32 during the first four years of the 2000-2006 cycle<sup>xiii</sup>, but with constant reference to the  
33 past programming periods. As the following analysis reveals, the administrative  
34 capacity components were fully present in Basilicata, whereas in Sicily many were  
35 lacking.  
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43 Management has improved in Sicily only in recent years. However, it still  
44 appears to be weak according to both indicators illustrated in table 5. First, the role of  
45 administrative personnel is not yet clearly defined, and this often creates a duplication  
46 of workloads. Secondly, each administrative department acts in an uncoordinated  
47 fashion. Indeed, each *assessorate* acts as an independent unit, and tries to keep its  
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autonomy from “interference” by other regional administration branches, even though this is at the cost of overall efficiency. By contrast, in Basilicata the driving factor has been the creation of a central coordination body responsible for optimising collaboration among different departments and clarifying individual roles. This collaborative attitude based both on formal and informal channels “is part of the regional administration policy, which since 1980 has always worked together towards implementing actions which were perceived as beneficial, such as SFs<sup>xiv</sup>”.

The second key component of administrative capacity is programming. The ROP should include a description of the most appropriate strategy for achieving the stated objectives based on a SWOT analysis tied to the budget allocation. Furthermore, it is important that the time-lag between the beginning of the European programming period and the approval of the regional document is as short as possible to avoid losing time in starting and ending funding.

According to our analysis, both programme design and programme approval are still weak in Sicily. Here the programme appears to be extremely fragmented, although progress has been made in the use of the SWOT analysis, in order to give consistency to the development strategy. Indeed, over the first two periods of planning, the region’s specific characteristics were overlooked. Due to the lack of correspondence between planned interventions and real territorial needs, very few projects were presented requesting funds. Consequently, a lack of funding requests led to a difficulty in defining and implementing projects, making it almost impossible to spend resources. Although there has been some improvement, the independent evaluator of the Sicilian ROP reported that: “mistakes committed in planning the interventions were a crucial problem in the start up of the programme. There were too many interventions spread over the entire region” (ERNST & YOUNG, 2003a: 130).

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2 Regarding the second indicator, programme approval has consistently been delayed  
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4 by at least two years. In contrast, the programme presented by Basilicata closely  
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6 adhered to the necessities of the region, and focussed on actions that corresponded to  
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8 subsequent requests and the investment of resources by private firms (ERNST  
9  
10 &YOUNG, 2003b). Furthermore, no delays in programme approval arose.

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12 Monitoring is the third relevant element within administrative capacity. As  
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14 stated in the Intermediate Evaluation Report, the monitoring system introduced in  
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16 Sicily is not efficient mainly because the indicators are not adequate to measure  
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18 programme results (ERNST & YOUNG, 2003a: 118). Furthermore, the necessary  
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20 data has only recently become systematically available. Sicily still has a split between  
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22 gathering of data for monitoring purposes and programme management – i.e.  
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24 monitoring systems satisfy accountability needs but fail to feedback into the  
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26 management process. Conversely, the same independent evaluator defined the  
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28 monitoring system set up in Basilicata as being “efficient” and “effective” based on a  
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30 complete and exhaustive set of indicators (ERNST&YOUNG, 2003b:215). Over the  
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32 1994-99 period Basilicata was the sole southern region to spend its entire SFs  
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34 allocation: “Among other factors, the achievement of such a successful result has  
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36 been possible due to the existence of a complete and efficient monitoring system. The  
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38 system has guaranteed the availability of both financial and physical data that has  
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40 allowed the Regional administration to keep the evolution of expenditure under  
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42 constant control and to promptly intervene to correct any problems that arose”  
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44 (ECOSFERA *et al*, 2002: 144).

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46 Finally, as far as concerns the assessment of evaluation activities, when  
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48 investigating the first indicator it emerges that both an ex-ante and an itinere  
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50 evaluation have been carried out in both regions. This said, the ex-ante evaluation  
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2 report produced by the Basilicata region appears to be more thorough and extensive.  
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4 Indeed, it scrutinizes all areas of intervention and quantifies possible results, whereas  
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6 the ex-ante evaluation in Sicily considers only a few areas of intervention. Focusing  
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8 on the second indicator, interviews with some civil servants in Sicily have revealed  
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10 that “only until a few years ago the evaluation process was merely considered as an  
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12 extra workload whose beneficial effects were not understood. Recently, the perceived  
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14 value of evaluation has improved, although it is still far from becoming an instrument  
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16 not only for the enhancement of SFs expenditures but also of the overall public policy  
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18 sphere”. This view has been supported by the independent evaluator: “the regional  
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20 administration has definitely understood the utility of evaluation activities, compared  
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22 to previous planning periods; evaluation results are actually taken into account by the  
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24 administration. Furthermore, every member of the staff has been collaborative in  
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26 providing information and material essential for the evaluation to be performed”. The  
27  
28 same independent evaluator has carried out studies in Basilicata: “The region is  
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30 already familiar with the practice of evaluation and this culture has spread within the  
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32 organization. Both the administrative and political spheres pay great attention to the  
33  
34 results that have emerged from the assessment in order to improve future  
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36 performances”.

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38 In order to summarize the research findings presented above, Table 7 shows  
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40 the results of each key component ranking, according to the progressive stages  
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42 previously identified. The conclusion is that in Sicily, administrative capacity is still  
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44 at a starting level, whereas in Basilicata it is consolidated.

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*Explaining administrative capacity variation*

A related question to these findings arises: why are the management, programming, monitoring and evaluation activities not performed as efficiently as in Basilicata? i.e. why does administrative capacity vary at the regional level?

The fieldwork carried out brought to our attention two main factors, which could explain varying degree of capacity, namely regional organizational structure and size, and political stability<sup>xv</sup>. Indeed, the organization of the Sicilian regional administration is characterized by a strong vertical and compartmentalized administrative hierarchy, which does not favor exchanges between different *assessorates* and makes management, planning and implementing an individual concern. As confirmed by our interviews, this lack of collaboration has always been part of the administrative culture in Sicily and it is very persistent. Each department has always had its own decisional, political and organizational autonomy, therefore it is hard to dismantle. There is a tendency to keep each department activity within the boundaries of the department itself and avoid any knowledge- or information sharing. Furthermore, the region has the drawback of being divided into 12 *assessorates* and 22 departments, which appears to be a further obstacle when it comes to overall coordination of activities, a situation aggravated until recently by the absence of a central coordination structure.

In Basilicata the vertical hierarchy is weaker and this has facilitated a horizontal coordination of the activities, which has eased management and programming activities. Moreover, the region has the advantage of being divided only into 6 *assessorates*. It appears that the reduced number of internal departments encourages a more effective coordination of actions.

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The second element that seems to have an influence on administrative performance is government stability<sup>xvi</sup>. In Sicily governments have been highly unstable – i.e. there has been a different cabinet almost every year – whereas in Basilicata each cabinet has lasted for the entire legislative period. Regional governments that change constantly have more difficulty in maintaining a strong commitment to multi-annual programmes. Also unstable governments are more likely to witness change not only in the political class, but also in the civil servants responsible for sustaining development programme. This is likely to cause a significant amount of discontinuity and delay in the overall administrative system. A multi-annual programme takes years to deliver results while a cabinet that lasts less than a year can only deal with short-term matters. Furthermore, such a government would not invest in monitoring or evaluation activities, since a one-year lifespan does not allow for any adequate review of implementation performance or any opportunity to learn about how to improve the programme for the subsequent programming cycle.

## 7. CONCLUSION

This paper focuses on the implementation stage of EU SFs, and aims to explain the variation in expenditure among regions. As suggested by Gerston (1997: 97), “the implementation process is not an automatic one that occurs as a result of decisions taken, systems created and processes designed”. This paper provides evidence to suggest that implementation depends upon the level of administrative capacity of the regional bureaucracy. The implications of this finding are twofold: on one hand, they emphasize the importance of administrative efficiency, and not only of political or social factors; on the other hand, they put into perspective issues of

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2 absorption capacity and economic factors by suggesting that the reasons for the lack  
3 of expenditure can be found within the regional administration.  
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6 Moreover, this study provides a definition of administrative capacity that can  
7 be replicated in other countries to test their own capacity degree. Indeed, as other  
8 authors have noted, the existing literature fails to provide either a clear definition or a  
9 strong and coherent model of administrative capacity. Our study aims to fill this gap.  
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13 The model we suggest is based on a four-action loop, where if every action is  
14 implemented correctly, a higher level of performance will be achieved. The case study  
15 analysis indicates that in regions where such capacity is low, the whole process of  
16 implementation is slowed down, as evidenced by a quantifiably low level of  
17 expenditure.  
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21 This scenario is exemplified by the case of Sicily. The management,  
22 programming, monitoring and evaluation capacity for implementing structural  
23 instruments appears to be, after 15 years, still at a “starting” level. This is mainly due  
24 to inadequate strategic direction, poor communication and coordination between  
25 levels of the administration, delays in establishing monitoring systems, and weak  
26 evaluation activities. In contrast a significantly different situation exists in Basilicata,  
27 where the administrative capacity key components are all in place and have achieved  
28 a considerable level of consolidation. The overall result is a different pace of  
29 expenditure, lower in Sicily and higher in Basilicata.  
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33 Testing our initial hypothesis, however, has stimulated a further question: if it  
34 is true that the variation in resources implementation among regions can be explained  
35 by differing regional administrative capacity, then, what is the determining factor of  
36 administrative capacity across regions?  
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Two main causes can be identified here. Firstly, it appears that where a strong hierarchical organizational structure exists, it is more difficult to carry out coordinated management and programming activities. These activities are also influenced by the size of the regional administration – i.e. the more sub-divisions present, the more difficult it becomes to control and ensure they work in a coordinated manner. The second factor that might determine variation in administrative capacity appears to be government stability. Indeed, it has emerged that where government instability is high, as in Sicily, there are strong repercussions on management continuity, programming punctuality, and the development and improvement of monitoring and evaluation activities.

It is hoped that this model may in the future be used to further explore SFs or any public policy implementation in other developing regions/countries.

Table 1. Percentage of Structural Funds Expenditure\* - EU Objective 1

*Source: EC - Annual report on Structural Funds*

\* % of expenditure is calculated as expenditure/total allocation

\*\*The expenditure are calculated until December 2004

a. Period 1989-1993		b. Period 1994-1999		c. Period 2000-2006**	
	%		%		%
Ireland	95	Portugal	89	Portugal	48
Portugal	91	Ireland	87	Ireland	44
Spain	87	Spain	82	Spain	41
Greece	84	Denmark	81	Austria	38
France	84	Austria	77	Germany	38
UK	83	Greece	73	Finland	34
Italy	73	Belgium	72	Sweden	34
		France	67	France	29
		Netherlands	67	Belgium	27
		UK	67	Greece	27
		Italy	67	UK	25
				Italy	26
				Netherlands	16

Table 2. Percentage of Structural Funds Expenditure - Italian Objective 1

a. Period 1989-1993		b. Period 1994-1999		c. Period 2000-2006**	
	%		%		%
Basilicata	92	Basilicata	100	Basilicata	24
Abruzzo	80	Abruzzo*	100	Sardinia	21
Molise	77	Molise	99	Calabria	20
Sardinia	77	Sardinia	92	Molise***	17
Calabria	80	Calabria	84	Puglia	15
Campania	62	Campania	80	Campania	14
Puglia	64	Puglia	77	Sicily	9
Sicily	57	Sicily	75		

Source: Author elaboration on data of Italian Ministry of Treasure

\*Abruzzo is in "Phasing-out" - i.e. it exits ob. 1 status at the end of 1996

\*\* The data of this period are updated at September 2003, because this is the period of our analysis and it coincide with the intermediate evaluation moment

\*\*\* Molise is in "Phasing-out"- i.e. it exits ob. 1 status at the end of 2003

Table 3: Comparison of GDP per capita (PPS) in Italian Objective 1 Regions\*

	1989	1995	1998	2000
Abruzzo	89	88.3	84	83.7
Molise	77	77.4	79	78.8
Sardinia	73	76.0	76	75.5
Basilicata	63	70.4	72	73.4
Puglia	73	66.7	65	67.1
Campania	69	65.3	64	65.3
Sicily	65	65.9	65	65.3
Calabria	60	61.2	61	62.1

Source: Istat

\*Note: for GDP growth data of all the EU Objective 1 regions, see Leonardi, 2005:110

Table 4. Structural Funds allocation

	1989-93		1994-99		2000-06	
	Overall allocation in Meuro	Per capita allocation in Meuro	Overall allocation in Meuro	Per capita allocation in Meuro	Overall allocation in Meuro	Per capita allocation in Meuro
Basilicata	257	413	599	958	743	1,227
Sardinia	265	160	967	576	1946	1,180
Calabria	430	200	871	404	1994	974
Sicily	759	147	1,557	294	3,858	759
Campania	836	144	1,542	258	3,825	662
Puglia	586	144	1,223	296	2,639	646
Molise	120	359	292	864	181	552
Abruzzo	167	132	234	182		

Source: Author's elaboration on data IGRUE



Table 5. Indicators and Progressive stage to benchmark Administrative Capacity.

Key components	Indicators	Absent	Starting	Developing	Consolidate
1. Management	a) Clarity in the definition of role	Staff roles and responsibilities unclear and changeable.	Staff roles and responsibilities vaguely defined.	Staff roles and responsibilities is defined.	The role among personnel is well defined. Staff increasingly able to shape the way in which they participate in management.
	b) Coordination and cooperation among departments	Poor intra-staff and intra-department communications. Lack of formal and informal channels.	Modest amounts of staff and department communications. The emergence of formal channels for dialogue and decision making	Communications are open and interhierarchical. Formal and informal channels established and utilized.	Organization periodically reviews communication flow to ensure free flow of information through both formal and informal channels.
2. Programming	a) Program design: SWOT Analysis	Absence of a SWOT analysis	Introduction of a SWOT analysis. But important territorial problems are still overlooked.	The SWOT analysis is supportive of the programme, although the intervention selected are still not fully targeted.	The SWOT analysis is thorough. It allows a fully correspondence between the budget and territorial needs to be targeted.
	b) Programme approval: time laps between the beginning of the CSF and approval of the ROP.	The approval of the ROP is strongly delayed (over two years)	The approval of the ROP is delayed of two years.	The delay of the ROP approval is contained to 1 year	The ROP starts within six months.
3. Monitoring	a) Introduction of a system of indicators and of monitoring procedures responding to national/European agreed standards.	There is no monitoring system	The system has been introduced but the indicators and procedure are not functioning properly.	The indicators and procedure are coherent with the national/European guidelines but still not fully operating	The indicators and procedure are coherent with the national/European guidelines and fully operating.
	b) Guaranteeing the availability of financial, physical and procedural data	There are no data available	The data available are partial	The data are available with no much delay	The data are available and used as support for the policy process
4. Evaluation	a) Production of the evaluation reports	No report are produced	The ex-ante report is produced but no itinere or ex-post report	One report is still not produced	The three report are produced

	b) Integration of the evaluation method and culture in the system	The evaluation method is considered not useful and time consuming	Although considered important it is too difficult to be performed	The evaluation is performed as thorough as possible	The evaluation is considered a fundamental tool to improve policy implementation.
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Table 6. Band of Score for overall Administrative Capacity degree

Score	0 – 0.5	0.6 – 1.5	1.6 – 2.5	2.6 - 3
Stage	Absent	Starting	Developing	Consolidate

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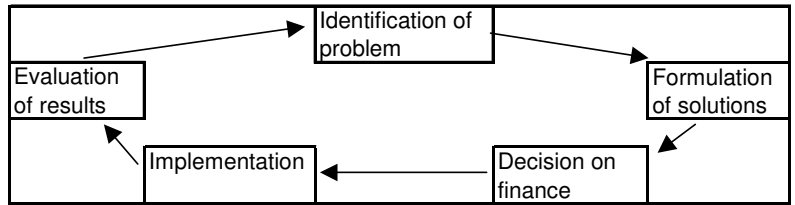
Table 7. Regional Administrative Capacity during the period 2000-2006

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

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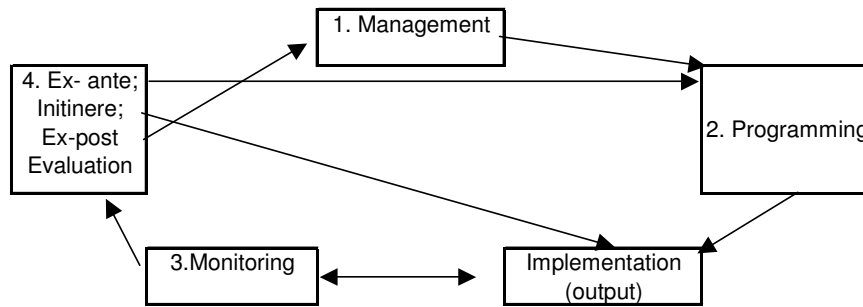
Figure 1. Public Policy cycle



Source: OIR, 2003

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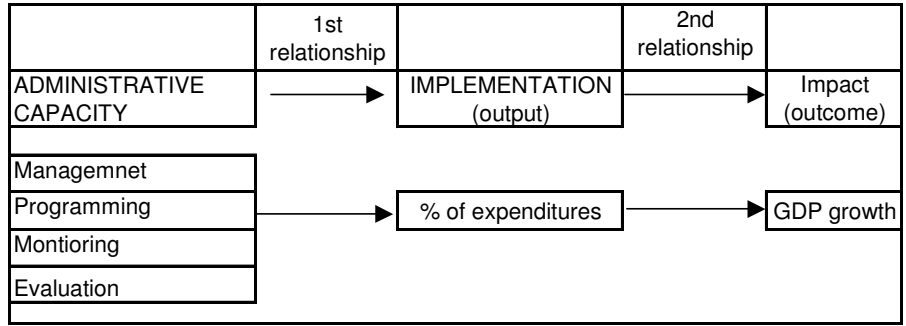
Figure 2. Model of analysis - Administrative Capacity loop



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Figure 3. Relationship Administrative Capacity - Output – Outcome



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37 **Note**

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39 <sup>i</sup> There are four Structural Funds: the European Regional Development Fund (ERDF), created in 1975  
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41 to help reduce imbalances between regions of the Community; the European Social Fund (ESF),  
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43 established in 1960, it is the main instrument of Community social policy; the European Agricultural  
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45 Guidance and Guarantee Fund-Guidance (EAGGF-Guidance), 1962, finances the EU's common  
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47 agricultural policy; and the Financial Instrument for Fisheries Guidance (FIFG), is the last one to be  
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49 created in 1994, and it grouped together the Community instruments for fisheries.

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51 <sup>ii</sup> The major reform adopted in 1988 radically changed the largely isolated way in which the Structural  
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53 Funds had previously operated in favour of a more overall system of integration of their respective

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roles and working together towards the achievement of the goal of economic and social cohesion (BACHE, 1998).

<sup>iii</sup> Each OP describes in detail the priorities selected from the CSF and elaborates any additional priorities which may arise at National and Regional level. The operational interventions foreseen by the OP are implemented through multi-annual measures and funding.

<sup>iv</sup> At the end of the transition period and with the beginning of the second cycle of Structural Funds, all the matters concerning their programming were transferred to the Ministry of Budgeting, assigning related tasks to the Central division for Cohesion Policy, which, after the unification of the Ministries of Budgeting and of the Treasury, became a Department.

<sup>v</sup> The dimension of the area is calculated in terms of the size of the population and the size of the territory (MINISTERO DEL TESORO, 1999: 174).

<sup>vi</sup> In 1995, accordingly with Confindustria data, the average index of infrastructure endowment was 66.3 in Sicily; 70.5 in Basilicata; against a figure of 100 for Italy as a whole.

<sup>vii</sup> Phare is the main financial instrument created for the pre-accession strategy for the ten CEECs, which have applied for membership of the European Union.

<sup>viii</sup> What we need to distinguish in this context, though, is the difference between outputs and outcomes. Putnam (1993:65) clearly explains this difference: "...While our evaluation of government must measure actions, not just words, we must be careful not to give governments credit (or blame) for matters beyond their control. In the language of policy analysis, we want to measure "outputs" rather than "outcomes" – implementation of programs rather than business profits. Profits are surely important but the reason for excluding them from our evaluation of government performance is simple: many things besides government influence socio-economic outcomes – i.e. profits represent entrepreneurial skill, worker diligence, world economic conditions and so on, that are beyond the control of any government".

<sup>ix</sup> These documents are: the CSF 2000-06 Intermediate Evaluation, each of the ROP and their intermediate evaluations which were carried out by the same external evaluator, namely, Ernst & Young, the EU ex-post evaluation of the 1994-99 programmes.

<sup>x</sup> The questionnaire is designed in order to assess regional administrative capacity on the basis of the established indicators. It is divided into sections on management, programming and monitoring and

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evaluation. The questionnaire was also used to generate an interview guide to support semi-structured interviews with key actors within the regional government.

<sup>xi</sup>The project lasted one year and focused on analysing nine projects financed by the Structural Funds in Sicily between 1994 and 1999. The aim of the research was to single out administrative and political bottleneck in the implementation of those projects. The findings of the research were integrated in the ex-post evaluation report finalized by CENSIS (Center for Social Studies and Policies) in 2001.

<sup>xii</sup> The project led by the Economic and Social Cohesion Laboratory lasted 3 years. The fieldwork and investigation carried out over the period 2002-2005 scrutinized the degree of administrative capacity of seven southern Italian regions, by focusing on specific sectors of interventions – transport, rural development, research, tourism, professional training and territorial integrated projects. The results of the study have been published in the final report, which has been presented to the European Commission in December 2005.

<sup>xiii</sup> The choice of the period is based on the assumption that administrative capacity building is a cumulative process, what we observe in the latest period is the result of what has happened over the previous cycles.

<sup>xiv</sup> Questionnaire and telephone interviews with civil servants, Region Basilicata (Potenza: 11<sup>th</sup> July 2005)

<sup>xv</sup> Other authors argue education may also influence administrative capacity variation. However, in our study no significant differences in educational level were observed.

<sup>xvi</sup> We define a government stable when on average it has had one or two cabinets for each of the five-year legislative tenures. Contrary to this, a government is defined as being unstable if it has witnessed more than three cabinets for each five-year period.