

## Chapter 3

### **The Case of Italy<sup>1</sup>**

*This chapter examines the use of Accordo di Programma Quadro (APQ), a multi-faceted instrument for regional policy in Italy. After providing an overview of the decentralisation context in Italy, the chapter describes the policies, institutions, and instruments associated with regional development policy. It offers a detailed summary of the APQ and the co-ordination context in which it operates, followed by an assessment of this mechanism using the analytic framework provided in Chapter 1. The chapter concludes with a series of policy recommendations for enhancing the APQ.*

## 1. Introduction

This paper analyses one instrument of multi-level governance employed in the context of Italian regional development using the economic theory of contracts and, in particular, the analytical framework proposed in this volume. The contractual tool that constitutes the object of this case study – the *Accordo di Programma Quadro* (Framework Programme Agreement, APQ) – can be considered one of the most relevant instruments through which the state and regions interact in the context of Italian regional development policies.<sup>2</sup> The distinctive element of the APQ is that it is a complex, multi-purpose instrument targeted at a single development goal. It is meant to achieve simplification and greater co-ordination in a policy context that has traditionally been highly fragmented and bureaucratically cumbersome. In order to provide a context for understanding the APQ, the paper begins by providing a general overview of Italian decentralisation and regional development policies, with a view at placing the APQ in a broader policy framework. It then proceeds, in Section 4 to introduced and analyse the APQ using the framework proposed in this volume. Finally, after providing policy recommendations regarding the APQ, the paper concludes with a summary of the analysis presented in this case study.

## 2. An overview of Italian decentralisation policy

### 2.1. Levels of government

#### 2.1.1. Structure

The structure of the Italian sub-national government is laid out in Title V of the Italian Constitution. According to Article 114, “The Republic is composed of the Municipalities, the Provinces, the Metropolitan Cities, the Regions and the State.” While modifications to the structure of sub-national government require lengthy procedures to amend the constitution, in fact, the current formulation of Article 114 is the outcome of such constitutional modifications introduced in 2001. Until 2001, the system of sub-national government was three-tiered: Regions, Provinces and Municipalities. Thus, while these three layers of territorial government have been in place for a while, the structure of metropolitan cities is still in the process of being implemented.

Italy is divided into 8 104 municipalities, 103 provinces and 20 regions. The latter, in turn, can be divided into 15 “ordinary” regions and five “special

statute” regions; i.e., regions traditionally enjoying wider legislative and administrative powers. One special statute region, Trentino-Alto Adige, is further divided into the two Autonomous Provinces (AP) of Trento and Bolzano that are in many ways akin to regions.

### 2.1.2. Functions and powers

The legitimacy of the various sub-national levels of government rests on the provisions contained in Title V of the Italian Constitution. Article 114 states: “[M]unicipalities, Provinces, Metropolitan Cities, and Regions are autonomous entities having their own statutes, powers and functions in accordance with the principles laid down in the Constitution.” Italy has long been a rather centralised state. As a result, the path to instituting the regional layer of government has been long and convoluted. The process started in 1948 with the introduction of constitutional provisions which aimed to introduce a mild form of devolution. However, important steps towards decentralisation were made during the 1990s, including:

- Reform of public administration which transferred powers from the center to the periphery and simplified procedures;
- Fiscal reform aimed at conferring financial autonomy to regions and AP through participation in national tax revenues, the possibility to impose an additional rate on top of the national rate in some cases, and the imposition of their own taxes;
- Budget reform aimed at simplifying and at making clearer the territorial distribution of funding and expenses; and
- Reforms which enhanced the powers of town mayors and province presidents with respect to local development and introduced a system of direct election for those offices.

The decentralisation process set in motion during the 1990s culminated in the 2001 constitutional reform that considerably augmented the powers attributed to the regions, rendering the structure of the Italian Republic more similar to that of a federal state. Most importantly, the powers of the central state are expressly indicated; powers not expressly reserved for the central government by the constitution are now attributed to regions – a notable departure from the past. Moreover, according to the reformed constitution, regional laws are no longer subject to *ex-ante* central state control. Nevertheless, important differences persist. The first difference concerns the matters over which regions can legislate. Indeed, the greatest part of ordinary legislation is reserved to the central state, including civil laws, criminal laws and procedural laws. The second important difference concerns the fact that the regional layer of government does not enjoy a privileged position in terms of normative powers with respect to the statutes defining the principles of

organisation and functioning of territorial authorities *vis-à-vis* the lower levels of government (provinces, municipalities and metropolitan areas).

Legislative powers are distributed between the national and regional layers of government according to a three-fold categorisation that distinguishes matters on which only the state is entitled to legislate, matters on which the state and the regions enjoy concurring legislative powers, and matters on which only regions may legislate (It. Const., Article 117; see Table 3.1).<sup>3</sup> The distribution of regulatory powers is coherent with the distribution of legislative powers; i.e., regulatory powers are vested in the state “with respect to the subject matters of exclusive legislation, subject to any delegations of such powers to the Regions” and they are “vested in the Regions in all other subject matters”. Moreover, as mentioned above, “Municipalities, Provinces and Metropolitan Cities have regulatory powers as to the organisation and implementation of the functions attributed to them.” (It. Const., Article 117). As for administrative functions, these are attributed according to the principles of subsidiary, differentiation and proportionality; i.e., they tend to be attributed to municipalities unless their uniform implementation requires attribution to a higher level of sub-national government.

It is important to stress that the current distribution of legislative functions between the state and the regions has posed many problems of interpretation which have been brought to the attention of the Constitutional Court and are problematic in many ways. On one hand, some uncertainties and inconsistencies exist regarding the allocation of competencies across layers of government. Some competences for which having 20 different regional laws would seem impractical have been allocated to the concurring competence at the state level (transport and navigation networks; energy, foreign trade, R&D, etc.). Other competences, arguably calling for a national framework, have been attributed to the exclusive competence of the regions (e.g., local development in the industrial, commerce, handicraft and tourist sectors). Moreover, in some instances, the functional repartition of competences is somewhat odd. This is true particularly of the attribution to the exclusive competence of the state the *protection* of cultural and environmental assets, to the concurring competence the *enhancement* of cultural and environmental assets, and to the exclusive competence of the regions the management of museums and libraries. On the other hand, the central state enjoys legislative powers in matters that have a highly “transversal” nature (e.g., competition policy, environment, equalisation of financial resources) and may exercise substitutive powers with respect to regions and local bodies. Most importantly, the new distribution of functions and powers makes it crucial to define the distribution of financial resources across the different layers of government, which has not yet been established

**Table 3.1. Most relevant distribution of legislative competencies between the state and the regions**

State	Regions
S.1) Exclusive legislative and executive competencies on:	R.1) Exclusive legislative and executive competencies on:
Foreign Policy	Local development (industry, commerce, handcraft, tourism)
Immigration	Agriculture
Religion	Mining
Defence and armed forces	Labour policies
Competition policy	Water resources
Money and savings	Hunting
Central administration	Housing and city planning
Public order and security	Harbours and airports
Justice	Regional networks of transport
Jurisdiction and procedural law; civil and criminal law; administrative judicial system	Public transport
Fixation of the minimal levels of service inherent to social and civil rights to be guaranteed on the national territory	Vocational training
Equalization of financial resources	Regional administration
General provisions on education	Regional public order and safety
Social security	Social services
Customs	
Electoral legislation, governing bodies and fundamental functions of the municipalities, provinces and metropolitan cities	
Protection of the environment, the ecosystem and cultural heritage	
S.2) Power to set the basic legislation on:	R.2) Competencies subject to basic State legislation:
International and EU relations of the regions	All the subjects indicated under S2
Foreign trade	
Safeguard and work security	
Education, subject to the autonomy of educational institutions and with the exception of vocational education and training	
Research and development (R&D)	
Health protection	
Civil protection	
Territory government	
Ports and airports	
Transport networks	
Infrastructures	
Harmonisation of public accounts and co-ordination of public finance and the taxation system	
Energy	
Social security	
Enhancement of cultural and environmental assets	
Local credit institutions	

to a satisfactory degree. Finally, the current institutional framework of decentralisation is likely to undergo additional modifications in the near future.

### **2.1.3. Financial aspects**

The recent evolution of the institutional framework of decentralisation creates a need for a parallel evolution of the institutions of fiscal federalism. Indeed, the shift of functions from the central to sub-national layers of government being implemented according to the reformed constitution calls for a clarification regarding repartition of the sources of funding across layers of government that could ensure the effective performance of functions recently attributed to regions and to local authorities. While specific provisions in this regard are included in the text of the reformed Italian Constitution, operational clarity remains lacking.

The text of the constitution explicitly states that municipalities, provinces, metropolitan cities and regions enjoy revenue and expenditure autonomy (It. Const., Article 119). All layers of sub-national government might thus set and levy taxes and collect revenues of their own, as well as share in the tax revenues of their respective territories. This stands in contrast to the pre-2001 constitution that allowed financial autonomy of sub-national layers of government only within the limits set by a national law. However, there is a distinction in this regard between regions and other local authorities. Regions can levy taxes through their own legislative powers “in compliance with the Constitution and according to the principles of co-ordination of State finances and the tax system” (It. Const., Article 119). By contrast, in line with the Constitution, other local authorities can levy taxes only within the framework of a national or regional law.

In addition to local taxes and to the sharing in national tax revenues, sub-national layers of government might have access to two further sources of revenue: an equalisation fund with no allocation constraints (It. Const., Article 119, paragraph 3) and “additional resources” and “special interventions” (It. Const., Article 119, paragraph 5). The equalisation fund is designed to finance ordinary activities in areas with lower per capita taxable capacity so as to ensure homogeneous levels of service across territories. The second form of financing is aimed at promoting economic development and other social cohesion objectives so as to address structural imbalances across territories. It constitutes the only form of financial transfer with allocation constraints allowed after the 2001 constitutional reform.<sup>4</sup>

## **2.2. Regional development policies**

### **2.2.1. Overview**

Italian regional development policies have undergone a process of substantial change over time. Between 1950 and 1992, the primary objective of Italian regional development policies was the reduction of the long-standing disparities between the northern and the southern regions (*Mezzogiorno*)

Table 3.2. **Total expenditure (current and capital) distribution by sector and government level, 2003 (in EUR millions)**

	Central administrations	Regional administrations	Local administrations	Authorities of the enlarged public sector	Total
General administration	54 163.80	6 942.60	25 151.60	39.30	86 297.22
Defence	16 141.18	0.54	0.00	0.00	16 141.72
Public order and safety	14 177.12	30.61	2 524.12	0.00	16 731.85
Justice	6 643.66	0.31	445.36	0.00	7 089.33
Education	42 884.24	1 308.67	17 027.95	25.62	61 246.48
Training	422.06	1 406.64	674.76	89.21	2 592.68
Research and development	2 581.82	14.46	418.42	180.48	3 195.18
Culture	8 067.44	1 033.97	4 162.79	263.95	13 528.14
Housing	697.58	882.99	3 562.93	2 821.67	7 965.17
Health	1 131.75	85 604.40	87.10	620.87	87 444.13
Social services	22 150.67	917.91	6 427.97	304.84	29 801.39
Water cycle	209.73	445.46	259.57	2 916.51	3 831.27
Drainage and depuration	39.26	31.93	2 656.66	548.44	3 276.30
Environment	941.73	753.65	4 029.47	2 139.98	7 864.82
Waste disposal	11.96	5.72	5 598.68	1 905.81	7 522.16
Other health interventions	0.00	67.93	1 021.78	76.31	1 166.01
Employment	0.00	683.94	53.67	62.59	800.20
Social Security	251 186.89	26.46	0.00	0.00	251 213.35
Roads	2 367.19	397.43	8 122.41	1 091.73	11 978.75
Other transportation	8 810.75	2 083.93	3 637.89	27 851.49	42 384.07
Telecommunications	1 834.27	0.13	19.24	12 166.50	14 020.14
Agriculture	1 221.95	1 925.83	887.27	1 391.22	5 426.26
Fishing	0.00	13.42	2.15	0.47	16.04
Tourism	34.36	594.73	841.98	178.98	1 650.05
Commerce	81.12	202.86	997.50	417.73	1 699.21
Industry	6 783.74	1 463.30	1 336.27	32 171.41	41 754.73
Energy	19.49	101.58	0.00	72 893.20	73 014.27
Other public works	0.00	1 434.42	0.00	47.64	1 482.07
Other economic affairs	17 998.85	348.50	1 580.78	16 526.25	36 454.37
Other functions	36 133.32	4 736.32	0.00	80.09	40 949.73
<b>TOTAL</b>	<b>496 735.94</b>	<b>113 460.60</b>	<b>91 528.33</b>	<b>176 812.24</b>	<b>878 537.10</b>

Note: The data in the database Conti Pubblici Territoriali (CPT) are cash data and capture not only the Public Administration but also the firms and authorities that belong to the Enlarged Public Sector, namely Ferrovie dello Stato, ENEL, Poste Italiane, ENI, IRI, ETI, Monopoli di Stato and ENAV (since 2001).

Source: Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance) (2005a), "Conti Pubblici Territoriali".

through interventions mostly aimed at industrialising the south (in popular parlance, the *Intervento Straordinario*). Many of these interventions were devised by a central entity, the *Cassa per il Mezzogiorno*. As of 1992 a process of radical change in Italian regional policies has been in progress, partly

reflecting the influence of EU economic and social cohesion policies. This process has resulted in:

- an extension of the targeted areas to less developed areas of the centre-north;
- a shift of responsibility from the *Cassa per il Mezzogiorno* (abolished in 1984) to a multiplicity of institutions, including central ministries and territorial authorities (regions, provinces and municipalities), often operating in a system of multi-level governance;
- an attempt to increase targeting, co-ordination, monitoring of territorial needs; and
- a shift from top-down policies to contractual and concerted forms of planning.

At present, the implementation of national territorial development policies rests on a two-tiered system that emphasises *regional policy* and *ordinary policy*. Regional policy is specifically aimed at addressing structural socio-economic imbalances across territories and is financed through additional resources that originate both from the EU budget (structural funds) and from the national budget (the fund of national co-financing to the structural funds and the fund for underdeveloped areas – *Fondo Aree Sottoutilizzate*, FAS). Ordinary policy draws on ordinary financial resources coming from the state budget and addresses broader development objectives that are not related to specific territories. Both policies are implemented at various levels by the central government, by the regions, and by the local authorities.

### 2.2.2. Institutions

The Italian framework of regional development policies encompasses, in addition to the sub-national layers of government, the following relevant institutions (since mid-2006):

- Ministry of Economic Development (which has recently assumed a previous competence of the Ministry of Economy and Finance) is responsible for:
  - ❖ Planning, co-ordinating and monitoring of EU cohesion policies and for the implementation of interventions for territorial development. Territorial development policies are based on a negotiated programming approach with regions and other competent central ministers. These functions are exercised by the *Dipartimento per le Politiche di Sviluppo* (Department for development policies, DPS) that, in turn, includes an institution devoted to the monitoring of state-financed investments called the *Nucleo tecnico di valutazione e verifica degli investimenti pubblici* (Technical Unit of evaluation and control of public investments).



- ❖ Developing the productive system and granting direct financial incentives to firms.
- *Comitato Interministeriale Programmazione Economica* (Inter-ministerial Committee on Economic Planning, CIPE) co-ordinates and directs economic planning by providing a space for the co-ordination of a number of economic and financial activities not only among relevant ministries but also among the other stakeholders involved. Within the CIPE operates the *Unità Tecnica finanza di progetto* (Technical Unit of Project Finance, Ufp), aimed at increasing the participation of private funds in the building and management of infrastructure and the system of *Monitoraggio degli investimenti pubblici* (System of Monitoring of State-financed Investments, Mip).
- The national agency *Sviluppo Italia* is responsible for a variety of functions, including supporting activities of central and local administrations, promoting innovative activities, and managing national and EU funds.

### 2.2.3. Instruments

The tools of Italian regional development policy have a rather marked contractual and concerted nature. The emphasis placed on participatory forms of territorial development planning and on the recourse to contractual forms of multi-level governance can be considered the outcome of at least three factors: 1) the influence of foreign experiences; 2) a country-specific need for procedural and decision-making simplification; and 3) a strong influence of EU territorial development policies. Indeed, the shift towards instruments of a predominantly contractual nature is part of a process that dates back to the mid-1980s and is partially modeled on foreign experiences (in particular, the British culture of public-private partnership and the French State-Regions Planning Contract of the early 1980s). This influence, combined with the need for simplification, were the basis of the first experiences with “contractualisation” of public policies, notably the *accordi di programma* (program agreement – likely modeled on the French *contrats de plan*) and the *conferenza dei servizi* (service conference). These contractual tools were aimed primarily at overcoming bureaucratic inertia and veto powers and thus speeding up the decision process. The use of contractual instruments as a strategy of co-ordination of development policies that involve multiple public and private actors, complex decision making, and the unified management of financial resources, dates back to the mid-1990s. It is generally referred to as “negotiated programming” (law No. 662/1996).

The choice of the tools of development policy was also influenced by EU policies, not least because they have helped to render politically acceptable deep policy changes. Indeed, the national funds devoted to economic and social cohesion are currently allocated using objectives and rules analogous to

those employed for EU structural funds. In particular, the “national additional resources” for regional development policies (see above, Section 2.1.3), attributed to the Ministry of Economy and Finance and to the Ministry of Productive Activities were unified in 2003. They are two related funds, managed by the CIPE as a joint fund used to address the needs of less developed areas, called the *Fondo per le Aree Sottoutilizzate* (Fund for Underdeveloped Areas, FAS). The resources were unified in order to ensure predictability regarding the amount of resources devoted to development and to facilitate their management according to criteria akin to those adopted for EU funds. Specifically, the rules for using FAS resources include:

- monitoring provisions to ensure respect of expenditure commitments and flexibility in the allocation of funds;
- *ex ante* evaluation of the effectiveness of public investments in achieving their stated socio-economic objectives;<sup>5</sup>
- a system of bonuses to speed up expenditures and to promote the co-operation of the various actors involved;
- a principle of co-operation among the various levels of government according to which the central government is responsible for elaborating the general strategy of development, regional governments decide on the territorial allocation of resources, and local governments elaborate the concrete design of projects and stipulate alliances with the relevant local actors.

The primary instruments through which the above criteria find concrete application are the *Intese Istituzionali di Programma* and the *Accordi di Programma Quadro*. Both have a rather marked contractual nature, represent a type of “negotiated programming,” and constitute instruments of multi-level governance. *Intese Istituzionali di Programma* represents a preliminary and strategically-oriented act, while *Accordi di Programma Quadro* is its implementation tool. Other instruments of “negotiated programming” are the *Patti Territoriali* (Territorial Pacts), the *Contratti di Programma* (Programme Contracts) and the *Contratti d’Area* (Area Contracts). In contrast to the first two instruments, the latter may (and do) involve private parties. All of the instruments of “negotiated programming” are regulated by the CIPE, which is also responsible for approving each contract. It is worth mentioning other cases, for which policy aims at explicit targets in terms of institution building, which led to a “hard use” of indicators by conditioning financial sanctions and rewards on the attainment of quantified targets. However, from the beginning of the process, indicators were not completely known. In this circumstance, the contracts played the role of “knowledge revealing mechanisms”, based on partnership and interim monitoring (from a less complete to a more complete

type). The interim monitoring was entrusted to a technical group made up of two members of the Central Evaluation Unit and two members appointed by Regions participating in the incentive scheme (Barca, *et al.*, 2004).

#### **2.2.4. Recent developments and trends**

Since February 2005, all layers of sub-national government have been involved in the definition of the Strategic National Framework 2007-2013 (*Quadro Strategico Nazionale*) that Italy is required to submit to the EU Commission in order to direct the resources that the EU cohesion policy will make available. Defining the document is meant to be highly collaborative across levels of government and to involve additional stakeholders. For the purposes of this study, at least three aspects of this process are relevant. The first is the goal set for the planning of territorial policies, namely that they unify the process of planning of development policies at the EU level (financed through EU funds and co-financing), national level (financed through the FAS), and the regional level and that this process is co-ordinated with the national planning of ordinary resources. The second important aspect of the Framework planning process is the preference accorded to planning instruments with a contractual nature. The third important aspect is the choice to enhance the role of the *Accordi di Programma Quadro*, while improving their governance.

### **3. The *Accordi di Programma Quadro***

#### **3.1. Brief description**

The *Accordi di Programma Quadro* (APQ) constitute one of the most relevant contractual instruments through which territorial development policies are practically implemented. As mentioned, the APQ operationalise the *Intesa Istituzionale di Programma* (IIP), a broad agreement reached by the central government and the regions or Autonomous Provinces on the definition of the objectives, the sectors, and the areas where the (material and immaterial) infrastructure essential to territorial development should be built. The APQ is signed by the interested region, by the Ministry of Economics and Finance, and by one or more central administrations, depending on the nature and the sector of intervention. In cases where negotiations preceding the signing of the IIP are sufficiently mature, the IIP and the APQ might be signed simultaneously.

The APQ's primary purpose is to co-ordinate the actions of the many public and private agents (vertically or functionally specialised) that are involved in the definition of territorial development policies in order to achieve greater coherence, quality and speed of intervention. Co-ordination is sought through an *ex-ante* process of negotiation of the objectives and the

instruments of multi-year territorial policies, as well as of the definition of reciprocal commitments and of a clear schedule. The co-ordination objective is reflected also in the duration of most APQ that stipulate commitments by their subscribers over a multi-year period. Indeed, many of the APQ signed thus far envisage commitments through 2015. Each APQ specifies:

- actions to be taken, their schedule, and the form that they should take;
- agents responsible for the implementation of each action;
- financial coverage and the sources of financing;
- monitoring and verification procedures and the agents responsible for them;
- commitments of each contractual partner and the distribution of substitutive powers in case of delay or lack of respect of contractual provisions; and
- conciliation or conflict resolution procedures.

Previous to 2006, any decision concerning the APQ needed to be taken by the *Comitato Istituzionale di Gestione* (Institutional Management Committee), composed by representatives of the Government and of the *Giunta* of the region (the executive organ) or of the Autonomous Province that collaborated with the *Comitato Paritetico di Attuazione* (Egalitarian Implementation Committee), composed of representatives of the central and local administrations involved in the implementation of the IIP. Following reform in 2005, each IIP and APQ includes a *Comitato Intesa Paritetico* (Egalitarian Committee of the Agreement), composed of political representatives or high-level administrative representatives and a *Tavolo dei Sottoscrittori* (Table of the Signatories), composed of the signatories of the APQ or their delegates. These two organs each have different responsibilities.

Since the 2005 reform, the APQ is composed of two sections: an implementation section (*sezione attuativa*) and a programming section (*sezione programmatica*). The first section includes the interventions for which financial coverage is already available and which are to be activated immediately after signing the APQ. The second section includes interventions which meet the general objectives of the APQ, but for which the required technical and/or financial conditions are not completely satisfied. This two-fold organisation of the APQ is meant to speed up the programming process and to enhance co-ordination of interventions over time. Consensus on the interventions in the programming section is achieved at the signing of the APQ so that their implementation can take place with no further negotiation. The region proposes their implementation to the “Table of the Signatories” and the Ministry of Economics and Finance then gathers the approval of the

signatories within 15 days. The APQ are utilised in all the major sectors of interventions, namely:

- natural resources: improvement and promotion of environmental and natural heritage through initiatives targeting water resources, garbage, energy, contaminated sites and natural resources;
- cultural resources: improvement and promotion of cultural and historical heritage;
- human resources: support of employment, education, training and R&D;
- local systems of development: promotion of complex initiatives such as the improvement of the industrial environment, support to districts and export systems, improvement of enterprises' product and processes, and technological innovation;
- cities: improvement of cities and social services within cities, support to communities and local institutions;
- networks and service junctions: enhancement of transport, telecommunications, innovation and security.

The greatest proportion of APQ signed as of December 2004, both in terms of numbers and of monetary value, fall in the “networks and service junctions” and “natural resources” sectors (see Table 3.3). More generally, every regional APQ involving substantial resources has been signed in the principal infrastructure sectors. In other sectors, particularly natural resources or cultural resources, APQ tend to be of smaller monetary value. This heterogeneity points to the flexibility of the APQ, an instrument whose

**Table 3.3. APQ by EU structural funds priorities and macro-areas, 2005  
(in EUR millions)**

Priorities CFS	Centre-north		South		Italy	
	Values	%	Values	%	Values	%
Natural resources	4 025	17	8 306	26	12 331	22
Cultural resources	1 036	4	1 280	4	2 316	4
Human resources	194	1	549	2	743	1
Local development	1 036	4	6 381	20	7 416	13
Urban development	2 122	9	982	3	3 104	5
Material and information networks	15 756	65	15 043	46	30 799	54
Total	24 168	100	32 542	100	56 710	100

Source: Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies) (2006b), *Rapporto annuale 2005* (Annual Report 2005).

precise content varies according to the object of the agreement. Moreover, the number of sectors in which APQ are utilised also suggests that these instruments are not only heterogeneous in terms of the amount of resources they mobilise, but also in other respects, such as the complexity of the object of the agreement. This results, in part, from the fact that APQ are meant to allow region-specific flexibility in the design of policies but also from an explicit choice of a complex instrument to pursue a single development goal through the co-ordination of multiple policies. With regard to flexibility, it is also worth noting that the monetary value of APQ signed in the centre-north has long exceeded the value of APQ signed in the south (see Table 3.4). The discrepancies exist because the APQ is used to direct a variety of financial resources devoted to development of both depressed areas of the south and less-developed territories of the centre-north, as well as from a greater amount of programming in the centre-north relative to the south.

**Table 3.4. Number and value of APQ signed by year by macro-areas  
(in EUR millions)**

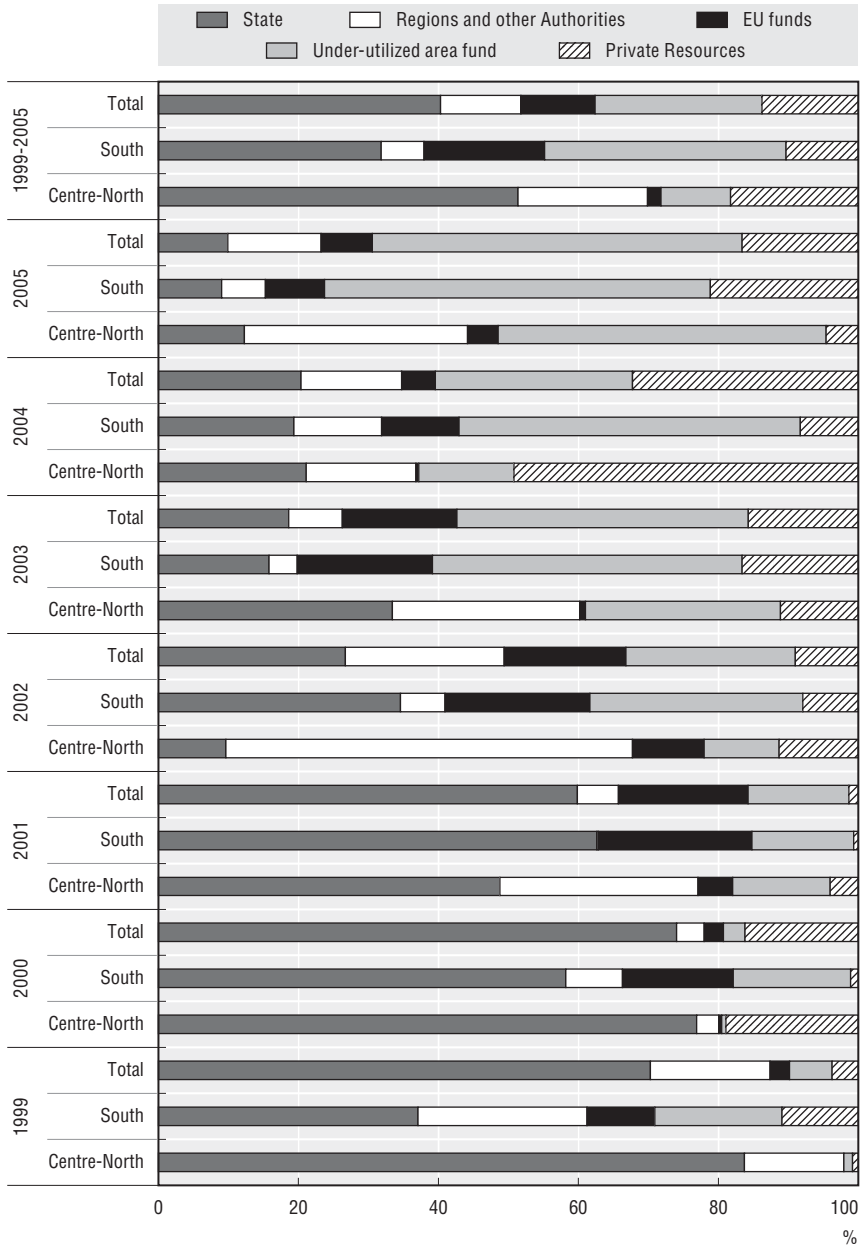
	Centre-north		South		Total	
	Value	Number	Value	Number	Value	Number
1999	4 476	10	1 680	4	6 156	14
2000	7 423	9	1 342	9	8 765	18
2001	1 704	13	6 770	11	8 474	24
2002	2 439	22	5 246	13	7 685	35
2003	1 680	36	8 846	32	10 527	68
2004	4 702	60	3 260	52	7 962	112
2005	1 743	77	5 398	69	7 141	146
Total	24 168	227	32 542	190	56 710	417

Source: Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies) (2006b), *Rapporto annuale 2005* (Annual Report 2005).

APQ were originally conceived as the instrument through which the financial resources destined to territorial development policies by the annual finance law (*Legge Finanziaria*) were attributed. The scope of application of the APQ has extended with time so that the sources of financing flowing through the APQ are now multiple and include ordinary resources, national additional resources for the depressed areas, EU funding, and private resources (see Figure 3.1).

Ordinary resources may originate from the central state budget,<sup>6</sup> the region's budget, or the local budgets. They are relatively more important for the financing of the APQ signed in the centre-north because only 15% of the national additional resources belonging to the *Fondo Aree Sottoutilizzate* (FAS)

Figure 3.1. APQ sources of financing over time



Source: Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies) (2006b), *Rapporto annuale 2005* (Annual Report 2005).

are directed towards interventions in this area of the country. The amount of national additional resource is defined in the annual finance law (*Legge Finanziaria*) and managed by the *Comitato Interministeriale di Programmazione Economica* (CIPE) to achieve territorial development, reduction of disparities and social cohesion as expressed in paragraph 5 of Article 119 of the Italian Constitution. APQ also draw on the EU resources administrated through the *Quadro comunitario di sostegno* (QCS), the *Programmi Operativi* in the south, and the *Documenti Unici di programmazione* in the north. Finally, private financing is particularly relevant in those sectors where the projects defined through the APQ might be expected to produce revenues, such that private actors might have an interest in participating in the financing of those interventions from which they may later obtain benefits in the form of revenue sharing.

It is important to note that the APQ ensures a substantial degree of coordination in the definition of the financial coverage of projects. In turn, this enhances the stability of expectations of the parties to the agreement and facilitates the planning of investments in infrastructure in each time period. However, expanded planning and coordination of the APQ over multiple periods still offers room for improvement. Each year the CIPE deliberates on the repartition among regions the fraction of the FAS destined to the APQ. As mentioned, 15% of these funds are allocated to regions of the centre-north and 85% to regions of the south. Within the geographical macro-areas, funds are allocated on the basis of three indices: 1) an index of size (size and population); 2) an index expressing the structural problems (inverse of the GDP, unemployment rate, infrastructure deficit); and 3) an index expressing the negative factors affecting the region (e.g., being an island, or having a particularly small size). Each region then selects the sectors for intervention through APQ and shares the choice with the competent central administrations and with the *Dipartimento per le Politiche di Sviluppo* (Department for development policies, DPS).

### **3.2. Co-ordination context**

In this section, the characteristics of the environment within which APQ operate will be briefly described according to the typology proposed in this volume. As a general matter, APQ signed in different sectors vary greatly along the four relevant dimensions proposed in the analytical typology. As such, it is not possible to describe this instrument as fitting squarely within a single category for each dimension. This is a consequence of the very design of the APQ which is meant to simplify procedures, promote coordination, and speed up the pace of intervention in a wide variety of sectors and through a wide variety of forms of intervention. In addition, although IIP and APQ have been in place for some time and can be considered, to some extent, a mature instrument, it should be noted that the use of this form of negotiated



programming occurs at a time of profound changes in the institutional framework of decentralisation. While the increased recourse to negotiated programming, and the APQ in particular, appears to reinforce the trend towards decentralisation, new needs and policy issues emerge as the process of decentralisation advances, which in turn requires modifications to the instrument itself. The evaluation of both the characteristics and the effectiveness of this instrument should therefore take into account the parallel evolution of Italian institutions.

### **3.2.1. Knowledge distribution**

Knowledge distribution varies greatly according to the specific object of the APQ. As mentioned, APQ are employed in a variety of sectors and in the pursuit of diverse development objectives, ranging from the building of infrastructures to the implementation of education and training policies or local development policies. The distribution of knowledge may thus take any of the four forms of the typology proposed in this volume.

When the object of the agreement is given by a plan devoted to the development of transport or water infrastructure, as it is the case for the majority of the APQ signed up to this point, knowledge distribution tends to be symmetrical, with both the central government and the regions being similarly skilled and informed. This calls for rather complete contracting. The asymmetric distribution characterised by the presence of a scarcely skilled and scarcely informed central government and highly informed regions seems to be less prevalent. This might be considered a partial consequence of the tradition of centralisation of public policies that has long dominated the Italian landscape and has hindered the development, at the sub-national level, of the skills required both to acquire the relevant information and to manage local policies. For analogous reasons, many of the interventions agreed upon through APQ are characterised by a knowledge distribution such that the sub-national layer of government is scarcely skilled or informed, while the central government might be either highly or scarcely informed. This is the case, in particular, of the APQ aimed at implementing complex policy objectives such as the promotion of the cultural heritage, the improvement of education and training policies, and the support of employment policies. Note, however, that saying that regions possess a low degree of knowledge of local conditions does not preclude the possibility that they might be in the best position to acquire local knowledge. In other words, the typology used in this paper is meant to reflect the current state of affairs regarding knowledge distribution, and not the potential for knowledge acquisition.

Some of the co-ordination issues arising from the distribution of knowledge are connected to the specificities of the Italian institutional

framework. This is common to many APQ in so far as they are characterised by the presence of scarcely informed local authorities, independent of the amount of knowledge possessed by the central government. This refers, in particular, to the lack of informal norms able to frame the interaction between the various levels of government. Decentralisation is a relatively recent process in Italy and mutual distrust has long characterised the interactions among the various layers of government. This, in turn, makes it difficult to adopt a logic of incomplete or relational contracting because it is difficult to co-ordinate expectations on the outcomes of joint project and both parties need to learn how to interact effectively (and eventually cooperate). The culture of co-operation across levels of government is still underdeveloped.

### **3.2.2. Complexity**

APQ are also very heterogeneous as regards the complexity of the projects they are meant to implement. On one side there are projects that, although technically complex, can be fairly well specified *ex ante* and whose realisation can be subject to *ex post* verification. This is the case, in particular, of infrastructure projects for the transport, water, telecommunication and energy sectors, for example. On the other side, there are projects that integrate many forms of intervention related to the same development goal. This implies that the number of instruments to be mobilised and the number of the agents involved in policy implementation are large. This is particularly the case for projects related to the quality of education, training or employment policies, those aimed at improving the innovation environment or the ability of firms to innovate, or those projects aimed at promoting the cultural or artistic heritage. In the latter case, the exact nature of the tasks necessary to realise the project cannot be univocally determined *ex ante* and critical issues exist that relate to the management of knowledge exchange among partners and the ability of parties to learn and to adjust to changing circumstances.

### **3.2.3. Vertical inter-dependencies**

Although the characteristics of the APQ vary greatly according to the sector to which they relate, the degree of inter-dependence among partners tends to be high for most APQ. Inter-dependency arises as a consequence of many factors that, in some cases may, depend on the degree of complexity of the underlying policy.

First, as a general matter, the historical development of the Italian institutional framework of decentralisation policies has favored the emergence of a situation of scarce accountability of the sub-national levels of government that is hard to modify. In other words, although the Italian institutional framework is progressing toward a more decentralised model relative to the past, citizens display some inertia in attributing responsibility

for policy failure to the sub-national levels of government. As a result, the pressure for efficiency and accountability at the regional level is much reduced. This combines with the inexperience of regions in the management of most territorial policies and gives rise to long-term inter-dependencies between the central government and the regions.

A second aspect to be considered is that the nature of the policy to be implemented through some APQ (e.g., employment or education policy) may generate inter-dependencies because other policies managed by the government influence the policy implemented through the APQ. This is particularly the case for complex policies.

Third, the implementation of complex policies generally involves specific bilateral investments on the part of both the central government and the regions. In this circumstance, the APQ deals with the problems of credibility of commitments and opportunism because it provides a mechanism for clarifying *ex ante* reciprocal commitments. This is particularly true for the financial commitment on the part of the central government. Indeed, the APQ aim to reinforce the new management rules of the FAS and of the other sources of funding in order to improve regions' ability to plan long-term policies through more stable expectations.

Finally, the very structure of the APQ is characterised to an important extent by an *ex ante* specification of obligations, indicators of performance, and monitoring mechanisms and thus tends towards a logic of complete contracting. This, in turn, tends to go hand in hand with a continued involvement of the central government in policy implementation and thus with a high degree of inter-dependence. In other words, the degree of inter-dependence is, to some extent, endogenous to the choice of the contractual mechanism.

### 3.2.4. Enforcement context

Internal control mechanisms play the most relevant role in the enforcement of the APQ. The precise nature of these mechanisms will be specified in the next section. For the time being, however, it is worth noting that this might be partly attributed to the fact that many APQ are meant to be agreements of a relational nature, whose primary objective is to stimulate the creation of a co-operative attitude. The limited reliance on external enforcement might thus be consistent with theoretical predictions. Another possible explanation for the crucial role played by internal control mechanisms may be the relative weakness of the other two possible methods of enforcement; i.e., external enforcement and political accountability. The effectiveness of external enforcement of the APQ might be reduced by the lack of a specialised court experienced in the enforcement of contractual

agreements between various levels of government, due to the very recent and incomplete nature of the decentralisation process in Italy. Moreover, as of yet there is no clear provision for the regulation of the APQ through arbitration.

As for political accountability, it should be recalled that, historically, the degree of political accountability of sub-national layers of government has been rather low. In addition, despite efforts made to improve the transparency of the various APQ through monitoring and the construction of a database that is, in principle, accessible to the public, citizens still possess scarce information on the concrete functioning of the APQ. This scarcity of information on APQ might combine negatively with a culture of skepticism toward negotiation because of a prejudice instilled by the diffusion of less open negotiating practices (Bobbio, 2000). In combination, this might generate a lack of interest in the exercise of control over the APQ. Finally, direct mechanisms for improving accountability of the agents involved in the implementation of the APQ are scarcely exploited. At present the only role for private parties is the role of financing. So far, other forms of direct or indirect participation in the APQ by relevant private actors (associations, trade unions, etc.) are not expressly foreseen.

### **3.3. Contractual mechanisms**

The APQ includes both mechanisms associated with a logic of complete contracting and mechanisms associated with a logic of relational contracting. In what follows, they will be presented distinguishing between *ex ante* and *ex post* mechanisms.

#### **3.3.1. Ex ante mechanisms**

The relational nature of the APQ is most evident in the *ex ante* phase. Indeed, the APQ is not meant to be an instrument to delegate tasks from the central government to the regions, but rather the process of contracting into the APQ is meant to allow for a co-operative fixing of policy objectives and means of implementation by the central government, the regions and the other local and central authorities. Co-operation takes place on the basis of the four-fold process described in Table 3.5.

The CIPE evaluates the APQ on the basis of two principal criteria: 1) coherence of the APQ with the criteria and objectives set in the other instruments of territorial development (regional, national, and EU); and 2) the degree of specification of the projects it includes. This is a consequence of the fact that one of the main objectives of the APQ is to ensure the co-ordination of policies that have traditionally been rather fragmented. One important aspect of the *ex ante* procedure is that it includes an *ex ante* evaluation of the proposed APQ with respect to the quality of programming which still seems to

**Table 3.5. Procedure leading to the signing of the APQ after the coming into force of the annual *Legge Finanziaria* (1 January each year)**

Phase	Action	Deadline
Phase 1	Central Administrations send to the regions and the Autonomous Provinces information concerning the programming of the ordinary and additional resources destined to their respective territories.	7 months after the coming into force of the annual <i>Legge Finanziaria</i> (31 July)
Phase 2	Regions and Autonomous Provinces communicate to the CIPE their choice of the sectoral repartition of FAS resources.	9 months after the coming into force of the annual <i>Legge Finanziaria</i> (30 September)
Phase 3	Regions, Autonomous Provinces, and central administrations sign the <i>Quadro Strategico dell'APQ</i> (Strategic Framework of the APQ) that determines, among other things, the deadline for the signing of the APQ. The strategic framework is transmitted to the CIPE and to the service for the policies of territorial development and the agreements instituted at the Department for development policies (DPS).	13 months after the coming into force of the annual <i>Legge Finanziaria</i> (31 January)
Phase 4	Central and local administrations propose the interventions to be included in both the implementation section and the programming section of the APQ 30 days before the deadline. The APQ is written down and the relevant information transferred through a computerised system to the Ministry of Economics and Finance.	Date fixed in Phase 3

Source: Based on information provided by the Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies).

offer room for improvement. Indeed, in order to ease the assessment process by the CIPE of the fulfillment of the two criteria, the laws regulating the APQ envisage, since 2004, an *ex ante* evaluation performed by the *Nucleo di Valutazione* (Evaluation Unit) instituted at the competent central or regional administration, which must then submit a report on the proposed APQ to the CIPE. The monitoring report includes: 1) assessment of the internal coherence of the proposed APQ; 2) assessment of the coherence of the APQ with respect to the other development instruments employed by the concerned administration; 3) assessment of the possible socio-economic impact of the proposal; 4) evaluation of the available feasibility studies on the proposed interventions; and 5) identification of the interventions with a cost exceeding EUR 10 million that require further analysis in order to ensure their adequate implementation.

More in line with a logic of complete contracting and delegation is the *ex ante* specification: 1) by the central government of the financial resources destined to the project; and 2) by all the actors concerned, of their commitments as regards each of the projects included in the APQ and the time period within which they expect to respect their commitments.

### 3.3.2. Ex post mechanisms

**3.3.2.1. The mechanism of information transmission.** In order to ensure a smooth flow of information between the center and the periphery, the actions required as part of the implementation plan of the APQ are detailed in specific documents that are sent to the Ministry of Economics and Finance both on paper and via computerised system. The agent responsible for the APQ is required to submit every six months to the *Comitato Paritetico di Attuazione dell'Intesa* (Egalitarian Implementation Committee) a monitoring report specifying the state of implementation of the agreement, any technical or financial difficulties, changes in the quantification of the costs or in the definition of the timeframe for the interventions, and changes in the legal and regulatory framework likely to impact on the implementation of the project. In order to do so, the agent responsible for the APQ relies on the information transmitted by the agents responsible for each of the interventions, who also perform a coordination role for each of the interventions.

**3.3.2.2. The mechanism through which commitments are renegotiated and modified over time.** It is possible to modify both the type of projects proposed and the schedule for their implementation (CIPE decision n.36/2002). Following the reform of December 2005, the responsibility for all implementation decisions concerning the APQ rests with the Table of Signatories. The organ composed of high-level administrative and political representatives (the *Comitato Intesa Paritetico*) is responsible for higher-level decisions and evaluations, such as the control over the performance of the IIP and the evaluation of the trend of regional development. This division of responsibilities, which resulted from the reform process, is intended to increase the speed at which modifications to the APQ can be made by requiring a lower level of consensus for the implementation of lower-level decisions.

**3.3.2.3. The incentive mechanism (*premia*lità).** An important aspect of each APQ is the system of bonuses and sanctions akin to the EU performance reserve fund. Indeed, Italy has chosen to reinforce this aspect of the EU system by implementing a similar system of bonuses and sanctions for the national financial resources destined to territorial development. As a result, incentive mechanisms relate to EU funds (4% of the funds are allocated on the basis of the ability to respect criteria such as speed of programming and spending and quality of monitoring, control and evaluation), to national funds associated to the EU structural funds (6% of the funds are allocated on the basis of the respect of administrative performance criteria), and to national additional resources for territorial development. The latter system of bonuses/sanctions is meant to stimulate the achievement of intermediate objectives regarding management procedures (CIPE decisions No. 36/2002; 17/2003 and 20/2004) such as increasing

the speed of programming activity, increasing the pace of spending, the respect of the timetables, and the improvement of the monitoring procedures (see Table 3.6). Thus, the incentive scheme is not meant to promote quality standards

**Table 3.6. The APQ incentive system concerning national additional resources introduced with CIPE decisions 36/2002 and 17/2003**

Objective	Indicator	Bonus/sanction
Increasing the speed of programming activity and of signing of the APQ.	<ul style="list-style-type: none"> <li>Programming by 31 December 2002 and by 31 December 2003, respectively, of 60% and 100% of the resources attributed up to 2000 (by CIPE decisions 142/99, 84/00 and 138/00).</li> <li>Submission to the CIPE, by 31 December 2002, of the list of projects to be planned using resources assigned with the Finance Laws 2002 and 2003 (CIPE decisions 36/2002 and 17/2003) and of the spending plan.</li> <li>Indication of the foreseen date of signing of the APQ by 31 December 2003.</li> </ul>	<ul style="list-style-type: none"> <li>Complete loss of the resources attributed up to 2000 not programmed by 31 December 2003.</li> <li>Loss of 5% of the resources assigned by CIPE decisions 36/2002 and 17/2003 for each month of delay in meeting any of the indicators (up to EUR 2 617 million + EUR 4 200 million).</li> </ul>
Increasing the speed of the use of resources attributed with the Finance Laws 2002 and 2003.	<ul style="list-style-type: none"> <li>Use of the resources assigned through CIPE decisions 36/2002 and 17/2003 in the context of binding commitments towards third parties, respectively, by 31 December 2004 and 31 December 2005.</li> </ul>	<ul style="list-style-type: none"> <li>Loss of the resources not utilised in binding commitments (up to EUR 2 744 million + EUR 5 200 million).</li> </ul>
Increasing the speed of spending of the resources attributed with the Finance Laws 2002 and 2003.	<p><i>CIPE decision 36/02:</i></p> <ul style="list-style-type: none"> <li>Regions and Central Administrations: 1) respect of the programming schedule presented to the CIPE by 31 December 2002; 2) submission to the CIPE of a report on the state of advancement of the projects.</li> </ul> <p><i>CIPE decision 17/2003:</i></p> <ul style="list-style-type: none"> <li>Regions: 1) respect of the spending schedule submitted to the CIPE by 31 December 2003; 2) agreement on the date of signing of the APQ with Central Administration by 31 December 2003; 3) respect of an expenditure target of 25% for each APQ signed by 31 December 2002.</li> <li>Central administrations: respect of the spending schedule submitted to the CIPE by 31 December 2003.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus of 10% of the resources assigned by CIPE decisions 36/2002 and 17/2003.</li> </ul>
Improvement of the monitoring functions of the APQ.	<ul style="list-style-type: none"> <li>Modification to the planning of the assigned resources not superior to 30% of the cost of all the interventions planned in the APQ.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus of EUR 60 million.</li> </ul>

Source: Based on information provided by the Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies).

across APQ projects, but rather to stimulate the respect of a few technical requirements. Given the relative straightforwardness of these requirements, monitoring of the incentive system related to the national additional resources is not performed by a specific technical evaluation committee (although, monitoring is still essential to the active functioning of the system).<sup>7</sup>

With the mentioned 2005 reform of the APQ, the system of bonuses and sanctions has been modified along the lines synthesised in Table 3.7.

**Table 3.7. The APQ incentive system concerning national additional resources following the 2005 reform**

Objective	Indicator	Bonus/sanction
Increasing the speed of programming by central administrations.	<ul style="list-style-type: none"> <li>Submission, by 31 July of each year, to the Regions and Autonomous Provinces of the information concerning the programming of the ordinary and additional resources destined to their respective territories.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus of 20% of the resources destined to the incentive system.</li> </ul>
Increasing the speed of programming by regions and AP.	<ul style="list-style-type: none"> <li>Communication by 30 September of each year to the CIPE of the choice of the sectoral repartition of FAS resources.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus of 20% of the resources destined to the incentive system.</li> </ul>
Increasing the speed of the design of the APQ by central administrations, regions and autonomous provinces.	<ul style="list-style-type: none"> <li>Submission of the strategic framework of the APQ to the CIPE and to the Service for the policies of territorial development and the Agreements instituted at the Department for development policies (DPS) by 31 January of the 2nd year after the coming into force of the <i>Legge Finanziaria</i> that assigns resources to the APQ.</li> </ul>	<ul style="list-style-type: none"> <li>Central administrations: bonus of 40% of the resources destined to the incentive system.</li> <li>Regions and AP: bonus of 20% of the resources destined to the incentive system.</li> </ul>
Increasing the speed of programming by central administrations and regions.	<ul style="list-style-type: none"> <li>Ability to program the destination of the resources assigned in the preceding year by 31 July of the following year.</li> </ul>	<ul style="list-style-type: none"> <li>Central administrations: bonus of 40% of the resources destined to the incentive system</li> <li>Regions and AP: bonus of 20% of the resources destined to the incentive system</li> </ul>
Increasing the speed of realisation of interventions by regions.	<ul style="list-style-type: none"> <li>Attribution through tender of the contract for the realisation of the interventions included in the APQ by 31 December of the 3rd year following the CIPE decision through which the relative resources have been allocated</li> </ul>	<p><i>Bonus:</i></p> <ul style="list-style-type: none"> <li>40% of the resources destined to the incentive system</li> </ul> <p><i>Sanctions:</i></p> <ul style="list-style-type: none"> <li>For the interventions for which the tender is open the sanction concerns the further funds attributed to the Region or the AP</li> <li>For the interventions for which the tender has not yet been opened, loss of the entire amount of FAS resources.</li> </ul>

Source: Based on information provided by the Ministero Dell'Economia e delle Finanze (Ministry of Economy and Finance), Dipartimento per le Politiche di Sviluppo e Coesione (DPS) (Department for Development Policies).



#### **3.3.2.4. The mechanisms meant to support learning by the concerned administrations.**

Multiple initiatives have been devised by the central government in the context of the APQ in order to improve the learning process of the concerned administrations. One such initiative is the “Monitoring Project” (*Progetto Monitoraggio*, CIPE decision No. 17/2003), which is intended to improve the ability of public administrations to acquire and elaborate information concerning the progress of their projects. A second initiative addresses the opportunity for local administrations to receive support from *Sviluppo Italia* for the improvement of public procurement, especially in the field of local development and urban areas and from SOGESID (*società per azioni a capitale interamente pubblico*) for the improvement of the implementation of policies in the water sector.

**3.3.2.5. The enforcement mechanism.** With respect to enforcement, two aspects are worth emphasising. The first, the mechanism of bonuses/sanctions described above constitutes an essential component of the enforcement mechanism. This is not only because regions’ access to available resources is conditional on achieving performance standards, but also because the bonus/sanctions system envisages a certain degree of competition for funds among the regions that limits the scope for collusive behaviors and races-to-the-bottom.<sup>8</sup> An aspect worth stressing is the threefold role played by the Ministry of Economics and Finance (and particularly by the Department for development policies) that is party to the APQ, is responsible for supporting regions’ ability to program activities through the APQ, and is responsible for monitoring performance standards. Such threefold role may be considered consistent with the incomplete and relational nature of the APQ, especially in light of the fact that the indicators of performance adopted as part of the incentive system tend to be objective and easily verifiable. Thus, the scope for moral hazard on the part of the Ministry of Economics and Finance is greatly reduced.

The second aspect of enforcement concerns the conciliation or conflict resolution procedures that apply to the agreement. The details of the procedures are established by each APQ but it is the agent responsible for the APQ, expressly indicated in the contract, which performs the role of arbitrator and attempts a co-operative conciliation procedure. In the event this procedure does not work, controversies are solved in the competent legal fora. In this regard, a relevant and controversial question concerns the juridical nature of the APQ. While a few experts consider the APQ a contract in the strict sense of the term (so that the APQ would be disciplined by private law), most deem the APQ a peculiar form, namely a conventional act with a public nature that is different from both the private law contract and from an administrative act. According to this view, controversies over the formation,

the conclusion, and the execution of the contract are solved by the administrative judge (the Council of State).

### **3.4. Performance assessment**

#### **3.4.1. Evaluation by the Ministry of Economics and Finance**

In its most recent report, the Department for Development and Cohesion Policies of the Ministry of Economics and Finance evaluates the APQ along five principal dimensions:

1. **Programming:** 95% of the resources allocated by the CIPE to the IIP were programmed by December 2005 in APQ (EUR 12.5 billion programmed out of EUR 15.9 billion allocated).
2. **Number of signed APQ:** the number of APQ signed increased steadily over time, with a particularly marked increase in 2004 and in 2005.
3. **Use of resources in binding commitments:**<sup>9</sup> sensible increase over time of the amount of resources allocated to the APQ that have been used in binding commitments, which amount to the 42% of the total value of the APQ.
4. **Expenditure:** the last monitoring of the IIP of June 2005 reveals that the average ratio between realised expenditure and total value of the APQ amounts to 24.5%. In evaluating this data, however, it should be considered that various factors contribute to lower it, including the fact that the total value of the APQ increases each year and that many APQ involve interventions whose completion is foreseen by 2015. Thus, it would be odd that most of the expenditures were realised in their first years of existence.
5. **Private financial resources programmed in APQ:** the amount of private resources in APQ increased from 13.4% to 14.0% between 2004 and 2005.

In summary, the information provided by the Ministry of Economy and Finance suggests positive conclusions as regards the ability of the APQ to achieve a few important indicators of performance, which further suggests the effectiveness of the incentive system in disciplining the APQ so as to achieve its proposed objectives. Another positive aspect of the APQ, considered by the Department for development policies in the 2004 report, is its long-term nature. Many IIP stipulate that they will last until objectives have been achieved. This constituted an important departure from the past. It contributes to stabilising expectations regarding the availability of financial resources destined to territorial policies and to creating a framework conducive to co-operation. Indeed, IIP and APQ have created the expectation of repeat-play and may make it more convenient to invest co-operation.

### 3.4.2. Insights from contract theory

The framework adopted in this volume may suggest that the fact that APQ are conceived of as an all-purpose instrument that is meant to deal with situations diverging along the four key dimensions might be problematic at least for two reasons. First, the fact that the same instrument is used in very different contexts along the four dimensions considered raises the question of whether the instrument is flexible enough to accommodate such heterogeneity. The second is that each of the four dimensions might suggest the optimality of the recourse to contractual mechanisms that might be at odds one with the other. These two aspects will be considered in turn.

Let us reconsider the implications of the analysis of each of the four dimensions considered above. In considering the dimension “knowledge distribution” a first element of tension arises. Indeed, it has been highlighted that APQ are predominantly used in situations in which the local authorities possess limited knowledge/skills that might, however, diverge from the amount of knowledge possessed by the central government; *i.e.*, the central government might be highly or scarcely informed as regards particular aspects of the implementation of given APQ. These two situations may call for the implementation of different contractual mechanisms. In particular, contract theory suggests that in the first case more complete contracting with structured monitoring mechanisms might help to solve the crucial issue of learning by the sub-national administration, while in the second case relational contracting might better suit the objective of promoting a co-operative attitude between equally uninformed parties and monitoring procedures might be counter-productive.

A similar tension emerges when considering the degree of complexity. The economic theory of contracts predicts that, in cases in which a high degree of complexity renders central the question of facilitating parties’ learning and flexible adaptation, the adoption of contractual mechanisms of a predominantly relational nature should be observed. In other words, rather than fixing obligations *ex ante* in a complete contract and implementing a strict monitoring mechanism, parties will tend to predispose through a relational contract a governance mechanism that allows them to ameliorate their co-operation. This is to some extent the case for APQ, in that the two-step process that leads from the signing of the IIP to the signing of the APQ is characterised by negotiation and co-operation across levels of government both as regards the definition of the general objectives and framework of the policy to be implemented (through the IIP) and as regards the implementation of the policy (through the APQ). The choice of a two-step process supports the relational nature of the agreement in so far as it ensures that agreement reached on the broad framework of policy co-operation across levels of

government is not subject to renegotiation at the stage of implementation, so that the latter may occur at a more rapid pace.

However, in contrast with the predictions of contract theory, the APQ signed for the implementation of complex projects use, as any other APQ, a system of monitoring and reporting and a system of incentives that confer to the APQ some aspects of a complete transactional contract. Observation of the degree of complexity of the objects of the APQ thus suggests that there is a potential misalignment between the observed degree of complexity and the shape of the APQ. There exists a risk, in particular, that problems of multi-tasking may arise. Regions might be induced by the contractual structure of the APQ to focus on the fulfillment of those tasks that can more easily be monitored by the central government, at the expenses of some “core” task that is harder to measure.

Another issue that is raised by the heterogeneity of the APQ along the dimension of complexity relates to the nature of the distribution of decision rights within the agreement and to the degree of delegation of authority. Again, it might be possible that the heterogeneous nature of the projects implemented through APQ might pose some problem to the smooth functioning of this instrument. Different degrees of complexity call, indeed, for different distributions of decision rights and of authority (more complex projects calling for increased delegation of authority and vice-versa) and it is relevant to ask whether the APQ is a flexible enough instrument in this regard.

The high degree of inter-dependency involved in most APQ suggests the possibility that the current structure of the APQ might be partly unsuitable to implement some of the policies to which it is relevant, especially in light of the other characteristics of the coordination environment (notably in circumstances characterised by a low level of knowledge on the part of both the central government and the regions and a high degree of complexity). The question is whether the logic of complete contracting that permeates the APQ to some extent, might conflict with the long term objective of the reduction of inter-dependencies that seems implicit in the fact that APQ are also meant to promote learning and the gradual shift of responsibilities from the center to the periphery that is associated to processes of decentralisation.

Finally, in regard to enforcement, the mechanisms currently envisaged by the APQ seem to suffer from substantial weaknesses. This is due to the traditionally low level of accountability of local administrations *vis-à-vis* citizens and to the lack of uniform provisions concerning the involvement of external arbitrators.

Consider now the second problem raised above, namely that each of the four dimensions might suggest the optimality of the recourse to contractual mechanisms that might be at odds one with the other. This is the case, for

instance, of the tension between the high degree of complexity of many APQ – which calls for a high degree of delegation of authority and decision rights – and the persistent inter-dependence across the actions of the different layers of government that calls for reducing the degree of delegation. Similarly, there exists a tension around the fact that many APQ involving complex projects are implemented in situations where the central government is skilled and the sub-national authority is not skilled, so that a high degree of delegation conflicts with the lack of skills of sub-national layers of government.

In summary, the economic theory of contracts suggests that a number of tensions might be detected in connection with two crucial characteristics of the APQ, namely the all-purpose nature of the instrument (that is not differentiated according to the characteristics of the co-ordination environment) and the fact that the APQ combines elements of a transactional and elements of a relational contract. Therefore, it becomes important to ask at least two questions: what is, in actual fact, the extent of the tension between the transactional and the relational elements of the APQ? And what should be the optimal degree of differentiation of the APQ?

As for the first question, a number of aspects of the practical implementation of the APQ might suggest that, to some extent, this tension is more apparent than real. This holds, in particular, for the monitoring and the incentive mechanisms. The monitoring and incentive schemes implemented in the APQ might not actually contradict the rationale of a relational contract insofar as they serve the purpose of clarifying to the concerned administrations expectations regarding their behavior and in so far as they help to build mutual trust. Similarly, the adoption of a monitoring system and of a system of bonuses/sanctions based on simple indicators might have helped to overcome the risk of collusion among the concerned administrations aimed at weakening the established rules.

From both of these perspectives, what is relevant is that the adoption of contractual mechanisms associated with a logic of complete contracting might be an intermediate step necessary to create the conditions for the sustainability of relational contracts. Indeed, this might be an indispensable step in light of the fact that both the process of decentralisation and the institutions of fiscal federalism are still relatively immature, and as a result that there is a real lack of informal norms and established practice on which relational contracting may rely. However, as the decentralisation process matures, it is possible that the characteristics of all of the dimensions that have been considered (and especially the degree of inter-dependence) will change with time. Therefore, a first conclusion that may be drawn from this analysis is that it is important for the APQ to evolve in response to changes along the four dimensions so as to allow an efficient response to the changing interaction among them.

The only clear tension that may be detected in connection with the operation of the monitoring and the incentive systems embodied in the APQ concerns the distortions that a system of bonuses/penalties based on simple and easily verifiable indicators may induce when agents are required to perform multiple tasks – i.e., the multi-tasking problem. Indeed, this is frequently indicated as a real concern and it is widely reported that many administrations still display a rather passive attitude towards negotiation, i.e., they tend to “fulfill obligations” rather than to co-operate, although the quality of multi-level co-operation varies greatly from region to region.

Turning now to the second question – what should be the optimal degree of differentiation of the APQ – it is proposed that the peculiar characteristics of the Italian institutional environment may render preferable a strategy of adoption of an undifferentiated instrument such as the APQ to a strategy of differentiation of the contractual mechanisms in relation to the characteristics of the co-ordination context. Indeed, while this differentiation may turn out to be very useful to tune instruments to specific situations, a “second level of ignorance” may be rather pervasive in the economy: that concerning the “meta-knowledge” of the very distribution of knowledge across the various relevant actors. In other words, the characteristics of the distributions of knowledge across actors might not be clear enough *ex ante* to allow the tailoring of contractual forms to the specific characteristics of knowledge distribution. If this is the case, differentiation may turn out to be rather problematic and it may be better to have instruments that are flexible enough to cope with a variety of distributions of knowledge among various levels of government and private agents. Moreover, the distributions of knowledge do not only depend on the (often “*a priori*” unknown) characteristics of the problem to be studied but are partially endogenous.<sup>10</sup> They are path-dependent characteristics that are often inherited from the past history and decision-making traditions of a particular country or region.<sup>11</sup> This adds another element of unpredictability to the specific characteristics of the relevant distribution of knowledge and makes the future distribution of knowledge an endogenous result of the process. Within the limits of present knowledge, the future distribution of knowledge may itself become an additional objective of economic policy.

### 3.5. Policy recommendations

- **Simplify procedures:** although the APQ have helped to speed up the planning process, they remain very complex to manage. This may have negative consequences not only on the effectiveness of the interaction between the different levels of government, but it may also have the undesirable consequence of favoring “capture” of this instrument by bureaucratically skilled private agents. In other words, complex

bureaucratic procedures might deter efficient private parties from participating in APQ, leaving the floor to less efficient but more bureaucratically skilled agents.

- **Enhance flexibility:** given that most APQ are meant to deal with complex matters it is important for the internal governance structure of the agreement to adjust in response to learning and experience accumulated. Co-operation does not exist in a vacuum and it is thus important to build up the pre-requisites for it, which includes informal norms of interaction and a common knowledge base. In its first years of existence, the APQ has shown an ability to evolve over time. Indeed, the monitoring and incentive schemes that might seem rather rigid contractual instruments, useful in a preliminary phase of co-ordination in order to overcome the consequences of a longstanding attitude of mutual distrust and of the scarce alignment of expectations, have been progressively associated to more mature forms of governance. It is thus important for this evolutionary process to continue smoothly and consciously. Moreover, it is important to improve the internal mechanisms for *in itinere* modification of commitments, although important steps have been made also in this regard with the recent reform of 2005.
- **Increase accountability of local administrations:** in Section 3.2.3 it was mentioned that even though the Italian institutional framework is progressing towards a more decentralised model relative to the past, citizens' expectations display some inertia in attributing responsibility for policy failure to the sub-national levels of government. As a result, the pressure towards efficiency imposed on regions by accountability is much reduced. Increased accountability of sub-national levels of government might have a host of beneficial effects, including an increase in their intrinsic motivation that may help sustaining relational contracting.
- **Increase transparency and participation of civil society:** this might not only contribute to increasing accountability, but it may also help the administrations involved in the signing of the APQ to make more informed choices concerning the selection and the implementation of the projects included in the APQ.

#### 4. Conclusion

The primary contractual instrument of multi-level governance adopted in the context of Italian regional development policies – the *Accordo di Programma Quadro* (APQ) – has been presented in this chapter. The APQ frames the interaction between the regions, the Ministry of Economic Development (before June 2006 it was the Ministry of Economy and Finance), and one or more competent central administrations and may involve the participation of

private parties. The distinctive characteristic of the APQ is that it is conceived of as a complex, multi-purpose instrument meant to achieve simplification and greater co-ordination in a policy context that has traditionally been highly fragmented and bureaucratically cumbersome. The analysis proposed in this chapter has shown, on one side, that this very characteristic of the APQ might be problematic in light of the economic theory of contracts. That theory, and the framework proposed in this volume in particular, suggests the need for a differentiation of the contractual instruments adopted according to the characteristics of the co-ordination context in terms of knowledge distribution, complexity, vertical inter-dependencies, and enforcement context. On the other side, it has been proposed that, on closer inspection, the limited differentiation of the APQ turns out to be less problematic than it may first appear. This is for a number of reasons, and in particular because the nature of the Italian institutional environment suggests that a “second level of ignorance” may be rather pervasive in the economy: that concerning the “true” distribution of knowledge itself. Under such circumstances, foregoing the benefits from fine-tuning of policies through differentiation might be more than compensated by the flexibility that the APQ offers in coping with a variety of distributions of knowledge among various levels of government and private agents.

As a final note, consider that the analysis proposed in this chapter underscores the need for the APQ to be able to evolve over time in response to changing circumstances and to the progressive gathering of second-order knowledge on the distribution of knowledge and competences among parties. Due precisely to its nature as a complex and scarcely differentiated contractual instrument, the effectiveness of the APQ depends on its flexibility.<sup>12</sup> In this regard, the recent reform of the APQ, with the associated modification to the governance structure and to the incentive system, should be valued positively as an attempt to ensure the prompt adaptation of the APQ to the new second-order knowledge accumulated through experience and to the new competencies that are endogenously created by the co-operation of different levels of government.

## Notes

1. This chapter draws on the contributions of Maria Alessandra Rossi, Siena University and EconomiX, University of Paris X and Ugo Pagano, Siena University and Central European University, Budapest. They thank Fabrizio Barca and Federica Busillo for their useful comments.
2. Its central role is confirmed by the documents prepared for the Strategic National Framework 2007-2013 that Italy must submit to the EU Commission in order to direct the resources that the EU cohesion policy will attribute to the country.



3. The state is responsible for establishing basic principles and regions are responsible for the definition of the practical implementation.
4. The 2001 constitutional reform has forbidden the use of earmarked grants, with the exception of those indicated in the paragraph 5 of Article 119 of the constitution. Note also that the same section of the constitution constitutes the legislative basis upon which interventions complementary to those funded through the EU cohesion fund can be financed.
5. There is not yet *in itinere* and *ex post* evaluation, as is the case for EU funds. Note that forms of *in itinere* and *ex post* evaluation are in place for the procedural objectives set by the incentive system (*premierialità*), but no *in itinere* and *ex post* evaluation is envisaged for substantial socio-economic objectives.
6. Including funds managed by the agencies responsible for transport networks such as Agenzia Nazionale Autonoma Strade Statali (ANAS) and Rete Ferroviaria Italiana (RFI)
7. By contrast, the 4% EU performance reserve envisages monitoring by a committee including experts nominated by the EU Commission and the 6% national reserve envisages monitoring by an independent technical group composed by members of the Evaluation Unit of the DPS and members of the Regional Evaluation Units.
8. The system of bonuses (*premierialità*) includes provisions implying a shift of a fraction of the available resources from non-performing to performing Regions.
9. Taking into consideration the project's life cycle, the expression "binding commitment" refers to that stage in which financial resources, already programmed by the Administration, are utilised by means of commitments having juridical obligations for each part involved in a formal contract, for example by means of tenders or direct form of contracting out.
10. In much economic theory, the information asymmetries arising from alternative distributions of knowledge are the basis to redistribute ownership of assets, power to take decisions and all sorts of incentives. However, the asymmetric distribution of information is itself endogenous and depends on these very factors that it can influence (Pagano, 1998).
11. This uncertainty is particularly pervasive because it does not only concern the instrument by which a goal may be achieved but also the goal itself. In this respect, market failure in the provision of local public goods may be twofold. Not only, as standard economic theory predicts, because of the free-rider problem, but also because individuals fail to provide them. Often, they fail also to be aware that they (collectively) need these goods and the role of public policy must also be favour political and negotiation processes by which the individuals can become aware of their collective needs. On this point, see Barca, 2006, p. 66.
12. In turn, the flexibility of the instrument allows also the application of a criterion of "institutional parsimony" according to which the instrument is commensurate to the institutional complexity involved by the policy objective. On this point see DPS (2006), *Quadro Strategico Nazionale per la Politica Regionale di Sviluppo 2007-2013*, p. 17.

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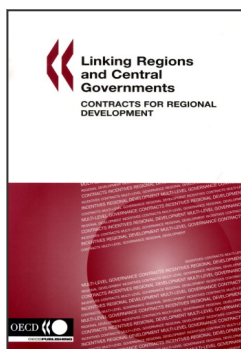
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**From:**  
**Linking Regions and Central Governments**  
Contracts for Regional Development

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264008755-en>

**Please cite this chapter as:**

OECD (2007), "The Case of Italy", in *Linking Regions and Central Governments: Contracts for Regional Development*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264008755-5-en>

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