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"Cohesion Policy and future challenges in the Mezzogiorno"  
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Onorevole Ministro, Presidenti, Autorità, Signore e Signori

It is a great pleasure to be here with you. I would like to thank all those who have reacted so positively to my proposal to hold this conference. The speed with which the idea to talk about Mezzogiorno's challenges and opportunities, and to bring all of us here – regions, government and the European Commission – can only be admired.

I would like to share with you some comments from the European perspective.

I have been to most of the regions of the South, and Molise and Abruzzo are in my agenda for early next year. I have seen excellent investments, I have met great people with ideas and vision, actively combating problems and weaknesses and exploiting opportunities wisely. So, yes, a lot of good things have been achieved here.

Good things don't always appear in the media, but the Mezzogiorno is working. I fully agree with President Vendola of Puglia: there are not only shadows, there are also lights. Of course every region is different. And of course there is both reality and perception. There are stereotypes. These are difficult to change and they do not help. Regions must really work together to achieve a critical mass of change.

It is true that economic performance of the regions in Southern Italy has been below expectations in recent years. Indeed all the regions have lost ground compared to the EU average – from about 76% of EU average EU GDP per head in 2000 to 68% in 2000-05. This is disappointing.

But in the same 2000-2005 period disparities in GDP per head between the Centre-North of Italy and the "Objective 1" regions narrowed. In other words, in terms of growth rates, most of the regions in the South were able to perform better than the regions of the Centre-North in a national context of very slow economic growth. Part of the problem has been the whole Italian economy.

This takes me to the issue of productivity. A steady decline in productivity rates was the main factor underlying the poor performance both of the Mezzogiorno and the Italian economy. Indeed, productivity trends are the main factor behind the progress enjoyed by Spanish and German Objective 1 regions compared to the Italian ones in the current decade. Yet, the level of productivity is still slightly higher in the Southern Italy than in German and Spanish convergence regions.

Productivity depends on many factors - they were presented here by the Bank of Italy. Infrastructure, quality of public services, innovation and human capital are important factors for productivity. The endowment of infrastructure and quality of basic public services, such as justice and education, are still lagging behind in the South compared to the other Italian regions. This is partly due to the shortfall of public policies implemented at national level to achieve the objectives planned beforehand for the Mezzogiorno.

The 2007 Annual Report of the Dipartimento per lo Sviluppo Economico, confirms that the objective enshrined in a national law to allocate

Southern Italy with 30% of ordinary capital expenditure was not reached over the period 2000-2006. Furthermore, the report underlines that public capital expenditure per head was systematically higher in the Centre-North than in Southern Italy over the same period. So compared with other countries, such as Germany or Spain, public expenditure in Italian Objective 1 regions was comparatively low and declining. This means that the distributive dimension of Italian public policies for regional development was rather weak over this period.

European Cohesion Policy financial resources in Italian Objective 1 regions (about EUR 21 billion of structural funds over the period 2000-2006) played an important role in offsetting, at least partially, the concentration of Italian public policies in favour of the regions in the Centre-North. Moreover, ex-post evaluations of European cohesion policy programmes for the period 2000-2006 indicate that Structural Funds were a factor in the slight "catching-up" of the Mezzogiorno GDP per head with respect to the national average.

But we all agree that the Mezzogiorno still has a long way to go in moving from traditional sectors to advanced services and knowledge intensive sectors; in investing in its people, and particularly its young people; in ensuring genuine competition in the delivery of public services; in ensuring that its administrations respond to the highest international standards; in giving full sense to the notion of partnership and consensus-building; in strengthening its capacity for innovation; in ensuring that its companies are plugged into global supply networks; in striking the right balance between the public and private sector.

Finally, we should not forget the importance of the quality of the institutions. It is widely recognised that the positive results achieved in

combating organised crime over the last decade were positive for the economic activity of the Mezzogiorno in terms of creation of firms, new external markets and development of the tourist sector. Good governance attracts new investments, expands economic activity and, therefore, creates new opportunities for employment in the regions.

I am convinced there is still room for improvement in better coordinating policies between the Centre and the regions and improving the strategic design of public policies for regional development.

But we must think today about the future. There are many challenges. Reflecting on the best ways to respond to them is essential. The Mezzogiorno, no doubt, has its own challenges, but it also shares common challenges with all other European regions. In particular the global economic processes are increasingly affecting regional and local growth potential and will most likely alter the traditional map of economic disparities in Europe, resulting in new patterns of winners and losers. The European Commission's new Working Paper on the regional impact of global challenges with a 2020 horizon suggests that the Mezzogiorno is one of the areas of Europe which are most exposed to these challenges.

Let me start with globalisation.

Global competition is more intense than ever. Comparative advantages of low-cost (and low-wage) production methods continue to shift to emerging economies. This has a stronger impact on the traditional sectors in the South than in the rest of Italy, reflecting the greater incidence of medium-low quality products in their product mix. Regions lacking the ingredients of a knowledge-based growth are likely to be more exposed to competitive pressures from emerging economies. For this reason, there is an urgent need not only to overcome the deficit of

basic infrastructures and public services in the Mezzogiorno but also to strengthen its endowment of human capital and its capacity for innovation.

These problems risk compromising future productivity gains and, therefore, the competitiveness of the Mezzogiorno. In this context let me emphasise that paradoxically the response to globalisation is more openness. Openness is also a way to respond to Mezzogiorno's specific barriers to growth. Quality of education, increased participation of universities in European cooperation networks, measuring their strength against the best is essential. Helping SMEs to go out of local markets, towards European and global markets is key.

Maintaining the focus of public policy interventions on knowledge-related investment is indeed crucial, particularly for economies like the Mezzogiorno which are characterised by the widespread presence of SMEs. These lack the resources and the size to internalise key competitiveness factors. They need to find them not only on the local or regional level, but increasingly on international markets. One of the main problems faced by SMEs is the focus on local markets. They will not become competitive and will not grow without policies aimed at connecting them to global supply chains, and at improving their degree of openness to the discipline of international competition and collaboration. This is the quickest way to modernise and diversify regional economies toward high value-added, knowledge intensive economic activities.

Let me next turn to changes in demographic dynamics.

Most of the Southern Italian regions (all except Campania) seem to be vulnerable to demographic change. Stagnating population is indeed a

current feature: the population of the Mezzogiorno has not grown over the period 2000-2006 due principally to migration to the regions in the Centre-North or abroad; transfers of residence from the South to the Centre or North consistently surpass flows in the opposite direction. Most internal migrants are between 25 and 35 years of age and move for work-related reasons, with a growing proportion of highly-educated persons. The loss of young skilled people forced to leave to find good jobs is a serious threat for the development of a competitive economy. Making the South of Italy more attractive for young people is a must. Supporting the development of creative industry can be one way to go.

The economic performance of a region is founded not only on productivity but also on employment. Despite the fairly positive progress observed in combating unemployment and increasing the labour force, Southern Italy is still suffering from a very significant underutilisation of human resources (the employment rate barely attains 45%), especially of women (in 2007, the female employment rate was 31% in the South, compared with 55.3 per cent in the Centre-North). This adds to the migration challenges and hinders growth and improvements in the standard of living.

Our 2020 projections also show that the Mezzogiorno is more vulnerable to climate change (temperature will increase and precipitations will change) and to the energy challenge than other regions in the European Union. The challenge is not only to protect ourselves against climate and energy market problems. The real challenge is to fully use the opportunities generated by technical progress, to participate in the new industrial revolution, clearly triggered by climate and energy joined challenges.

Many peripheral regions in Southern Europe appear to be vulnerable to the energy challenge as well, in view of internal and external security of supply, energy efficiency of the economy and environmental sustainability. Some regions will however potentially benefit from the production of renewable energies, including some rural regions (biomass) and coastal areas (offshore, wind, solar energy).

### **Financial crisis and Commission's recovery measures**

We are not talking about Mezzogiorno's future in a vacuum. We have entered a protracted period of slow growth in Europe. It is a combination of three processes: the financial crisis with its impact on the real economy, the cyclical contraction and structural weakness of our economies.

So investment is key now. Public investments must boost demand in the short term and help economies to restructure in the medium term. And it can bring back confidence, so badly needed to attract private investments.

In this context, the Commission adopted on 26 November a recovery package as a European response to cushion the adverse effects of the economic downturn for growth and employment. European cohesion policy is one the cornerstones of this initiative as the main investment mechanism at the European level.

The package represents an opportunity that the Mezzogiorno should use and introduces changes with a view to accelerating planned investment projects, which in turn will contribute to maintaining economic activity, improving economic growth prospects, and preserving jobs.

We propose to frontload part of the available funding through additional advance payments and simplification of procedures. But also to extend until June 2009 eligibility for 2000-06 expenditure. We are also proposing to use cohesion investments to co-finance energy efficiency in housing.

Yet, this package can only be effective if our partners in the Member States and in the regions use these resources in the most effective and efficient manner.

Furthermore, we must not forget that European cohesion policy operates in an integrated context alongside national investment policies. We must operate with aims, which reinforce the overall impact of public intervention in the Mezzogiorno. But we will not make it without private sectors.

Yes, it is the last call for Mezzogiorno. The European Commission wants to be more involved, and to accompany you in opening up to more European cooperation. The challenge is not only to do more but also to do things differently. Let's respond to this last call together, by working closely between Europe, government, regions, cities and all partners, between social partners, academics. The programme for the future for all of us is not just to avoid mistakes, the challenge is to use all opportunities.

Grazie per la vostra attenzione.